

Titan

P&L Print reasonable; Capital base inching up!

FY20 was all about soaring gold prices impacting fresh jewellery purchases. Demand unpredictability meant reliance on Gold loan reduced and focus increased on pushing sales via the capital heavy-gold exchange scheme. Note: While Jewellery biz' sales grew 5.7% to Rs. 173.2bn, its capital employed ballooned to ~1.6x YoY to Rs. ~41bn in FY20 partly led by the shift to IND-AS 116. However, core cash conversion (CC) cycle (120 to 130 days) and capex has inched up too. FY21 is likely to follow the same capital-heavy template as gold exchange is revved up to salvage jewellery demand in the COVID19 era. Ergo, Return profile is likely to shrink at a time when cost of operations is likely to inch up (as the lower cost Gold Loan sourcing reduces in mix). We have cut our DCF-based TP by 17% to Rs. 900/sh (implying 49x F22 earnings), to factor in the demand destruction and its second order impact on the balance sheet. EBITDA cuts for FY21/22 are 24/22% respectively. We downgrade the stock to a REDUCE (Earlier ADD) given the uncertainty in demand recovery.

- **Pre-COVID Print remained robust:** Consol. revenue declined 3.6% YoY to Rs. 47.1bn (in-line). Note: Revenue growth for Jan+Feb-2020 was at 16.2 YoY. Margins surprised positively across segments. GMs expanded 315bp YoY to 30.3% (HSIE: 26.5%). EBIT margins expanded 249bp YoY to 10.8% (HSIE: 7.5%) largely led by the trickle-down effect of higher-than-expected gross margins. APAT declined 1.5% YoY to Rs. 3.43bn (HSIE: Rs. 3.22bn).

- **Jewellery growth gets dearer, margins surprise:** Jewellery biz' revenue declined 5% YoY to Rs. 39bn (in-line, HSIE: Rs. 39.28bn). Note: Revenue growth for Jan+Feb-2020 was at 16.5% YoY. Grammage declined by 20% YoY in 4Q (in-line, HSIE: -20.9%) Adj. EBIT margin improved 32bp YoY to Rs. 13.6%. EBIT growth was primarily a function of 1. GM trickle-down effect, 2. Ad spend cuts. Studded ratio stood at 37% (vs 36% in 4QFY20, HSIE: 36%). Tanishq added 40 stores (net) in FY20, (Store Count: 327).

...**Capital base continues to balloon:** Despite top-line decline, the reliance on capital heavy gold exchange scheme continues to increase primarily to salvage volumes. (Jewellery net assets up 63% YoY). The jump is primarily a function of 1. Deteriorating core CC cycle, 2. Higher capex, 3. IND-AS accounting changes. This trend is likely to continue as the WC-light Gold on lease instrument is reined in given the unpredictability in demand in FY21.

- **Non-Jewellery print better-than-expected:** Non-jewellery sales were largely in-line, but surprised on the margin front. Watch/Eyewear grew 5/-16 resp. While adj. EBIT margins improved expanded 100bp for Watches to 9.7%. Eyewear hit operational profitability in 4Q.

Financial Summary – Standalone

(Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenue	47115	48888	(3.6)	65274	(27.8)	161,198	197,785	210,515	169,659	224,130
EBITDA	6124	4485	36.6	7584	(19.2)	16,447	21,365	24,666	18,035	25,764
APAT	3431	3943	(13.0)	4742	(27.7)	11,186	15,337	14,927	9,750	16,405
EPS (Rs)	3.86	3.92	(1.5)	5.34	(27.7)	12.6	17.3	16.8	11.0	18.5
P/E (x)						80.9	59.0	60.6	92.8	55.2
EV/EBITDA (x)						56.3	43.5	38.6	51.3	36.2
Core RoCE(%)						17.3	18.0	15.3	10.4	16.4

Source: Company, HSIE Research

REDUCE

CMP (as on 9 June 2020)	Rs 997
Target Price	Rs 900
NIFTY	10,047

KEY CHANGES	OLD	NEW
Rating	Add	Reduce
Price Target	Rs 1,080	Rs 900
EPS %	FY21E	FY22E
	-32.2	-25.4

KEY STOCK DATA

Bloomberg code	TTAN IN
No. of Shares (mn)	888
MCap (Rs bn) / (\$ mn)	885/11,704
6m avg traded value (Rs mn)	3,376
52 Week high / low	Rs 1,390/720

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(17.1)	(15.4)	(21.4)
Relative (%)	(12.4)	0.8	(7.1)

SHAREHOLDING PATTERN (%)

	Dec-19	Mar-20
Promoters	52.91	52.91
FIs & Local MFs	9.28	10.87
FPIs	18.31	17.74
Public & Others	19.50	19.40
Pledged Shares	0.0	0.0

Source : BSE

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Earnings Call Highlights

Jewellery Biz:

- Revenue growth for Jan+Feb-2020 was at 16.5 YoY.
- Tanishq has re-opened 271/329 stores since 1st week of May and is expected to be ~90% operational across categories by end-June.
- Recovery rates in operational stores is as high as 80%. However, this might have some pent-up GHS demand built in and hence, the next 2 quarters are key to assess the extent of demand revival. Last 5 weeks recovery rate has been >70%
- From a revenue standpoint, Apr was at near-zero sales, May at 10-15% and June is likely to be at 30-40% of the Pre-COVID revenue run-rate.
- Mgt expects Wedding-based sales to revive in 2H and it targets to recover (run-rate wise) by exit 4QFY21. Wedding contribution for FY20 stands at 23% of jewellery sales.
- There could be some excessive discounting in select geographies as peers attempt at liquidating their inventory pile up. This coupled with the higher reliance on Gold Exchange Scheme, wedding sales, lower studded ratio and higher one-time gold re-sale to weigh on GMs.
- For FY20, Gold sourcing mix stood at Gold on lease: 39%, Gold exchange: 42%, Spot purchase: 19
- Titan has managed to secure Rs. 10bn of CP at 4.42%. This coupled with the deferment permitted by RBI on gold on loan may help keep capital base in check.
- Fixed cost base in jewellery is sub-10% of costs

Watches & Wearables Biz:

- Revenue growth of Jan & Feb month was ~15.7%.
- 576/3480/32 Retail/Trade/LFS stores accounting for 74/50/11% of respective channels are now open for biz.
- Recovery rate for the above channels has been encouraging at 48/30/14% resp. E-Commerce remains the fastest growing channel (growing at 77%).
- Of the 750 odd stores, 165 stores are now omni-plays and should help in salvaging demand.

Eyewear Biz

- Growth for Jan & Feb month was flat.
- Market size pegged at Rs. 110bn.
- 1st store re-opened on 6th May 2020 and as on date 412/584 stores are operational.
- May avg. daily sales have hit 60% of Feb-2020 sales for operational stores
- For Titan Eyeplus, 50% of stores have reached Feb-2020 avg. daily sales run-rate
- Malls and LFS stores just about re-opening
- Focus will be to scale down or exit unprofitable channels.
- Titan Eyeplus and online will be key channels for growth.

Quarterly Financials (Consolidated)

Year to March (Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)	FY20P	FY19	YoY (%)
Net Revenue	47,115	48,888	(3.6)	65,274	(27.8)	210,515	197,785	6.4
Material Expenses	32,850	35,624	(7.8)	48,717	(32.6)	152,117	144,475	5.3
Employee Expenses	2,847	2,866	(0.6)	3,267	(12.9)	11,994	10,193	17.7
Other Operating Expenses	5,293	5,913	(10.5)	5,705	(7.2)	21,738	23,203	(6.3)
EBITDA	6,125	4,485	36.6	7,584	(19.2)	24,666	19,915	23.9
Depreciation	1,021	408	150.0	877	16.4	3,480	1,628	113.7
EBIT	5,104	4,077	25.2	6,707	(23.9)	21,186	18,287	15.9
Other Income	417	563	(25.9)	227	83.8	1,532	1,829	(16.2)
Interest Cost	427	125	242.2	447	(4.4)	1,662	525	216.3
PBT before exceptional	5,093	4,515	12.8	6,487	(21.5)	21,057	19,591	7.5
Exceptional	-	-	-	-	-	-	-	-
PBT	5,093	4,515	12.8	6,487	(21.5)	21,057	19,591	7.5
Tax	1,662	1,032	61.0	1,740	(4.5)	6,090	5,682	7.2
Share of Associate Earnings	1	(1)	NM	4	(78.0)	(40)	(22)	
RPAT	3,431	3,483	(1.5)	4,742	(27.7)	14,927	13,887	7.5
APAT	3,431	3,943	(13.0)	4,742	(27.7)	14,927	15,337	(2.7)
EPS	3.9	3.9	(1.5)	5.3	(27.7)	16.8	17.3	(2.7)
% of Net Revenue	4QFY20	4QFY19	YoY (bps)	3QFY20	QoQ (bps)	FY20P	FY19	YoY (bps)
Material Cost	69.7	72.9	(315)	74.6	(491)	72.3	73.0	(79)
Employee Expenses	6.0	5.9	18	5.0	104	5.7	5.2	54
Other Expenses	11.2	12.1	(86)	8.7	249	10.3	11.7	(141)
EBITDA	13.0	9.2	382	11.6	138	11.7	10.1	165
Tax Rate	32.6	22.9	976	26.8	580	28.9	29.0	(8)
APAT	7.3	8.1	(78)	7.3	2	7.1	7.8	(66)

Source: Company, HSIE Research

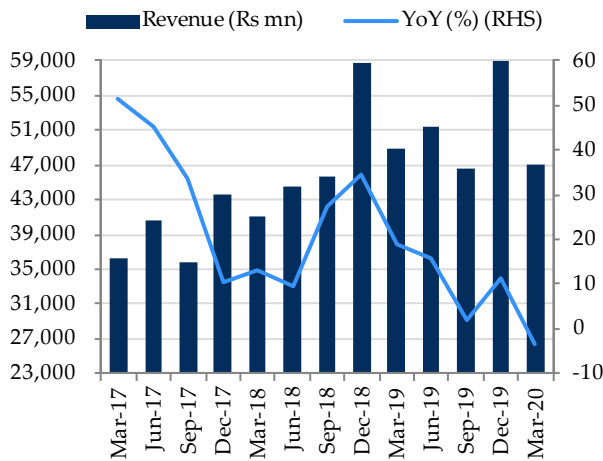
Quarterly Segmental (Reported)

Year to March (Rs mn)	4QFY20	4QFY19	YoY (%)	3QFY20	QoQ (%)	FY20P	FY19	YoY (%)
Segmental Revenues								
Jewellery	38,993	41,054	(5.0)	56,058	(30.4)	173,192	163,901	5.7
Watches	5,583	5,312	5.1	6,272	(11.0)	26,217	24,475	7.1
Eyewear	1,077	1,277	(15.7)	1,333	(19.2)	5,440	5,088	6.9
Others	1,812	1,387	30.6	1,748	3.7	6,347	4,834	31.3
Corporate (unallocated)	67	420	(84.0)	89	(24.6)	851	1,318	(35.4)
Total	47,532	49,451	(3.9)	65,501	(27.4)	212,048	199,615	6.2
Segmental EBIT								
Jewellery	5,301	4,989	6.2	7,044	(24.7)	20,508	19,080	7.5
Watches	543	123	340.1	390	39.1	3,161	2,668	18.5
Eyewear	18	(45)	NM	(67)	NM	(143)	(24)	NM
Others	(3)	22	NM	167	NM	190	13	1,422.4
Corporate (unallocated)	(338)	(450)	NM	(604)	NM	(1,038)	(1,642)	NM
Total	5,520	4,640	19.0	6,930	(20.3)	22,678	20,094	12.9
EBIT Margin (%)								
Jewellery	13.6	12.2	144	12.6	103	11.8	11.6	20
Watches	9.7	2.3	740	6.2	350	12.1	10.9	116
Eyewear	1.7	(3.5)	NM	(5.0)	NM	(2.6)	(0.5)	NM
Others	(0.2)	1.6	NM	9.5	NM	3.0	0.3	274
Corporate (unallocated)	(504.2)	(107.1)	NM	(678.5)	NM	(121.9)	(124.6)	NM
Total	11.6	9.4	223	10.6	103	10.7	10.1	63
Capital Employed								
Jewellery	40,927	25,193	62.5	33,474	22.3	40,927	25,193	
Watches	14,347	10,949	31.0	13,164	9.0	14,347	10,949	
Eyewear	2,615	2,674	(2.2)	2,490	5.0	2,615	2,674	
Others	4,687	3,706	26.5	4,817	(2.7)	4,687	3,706	
Corporate (unallocated)	4,157	18,319	(77.3)	10,438	(60.2)	4,157	18,319	
Total Capital Employed	66,732	60,842	9.7	64,382	3.6	66,732	60,842	

Source: Company, HSIE Research

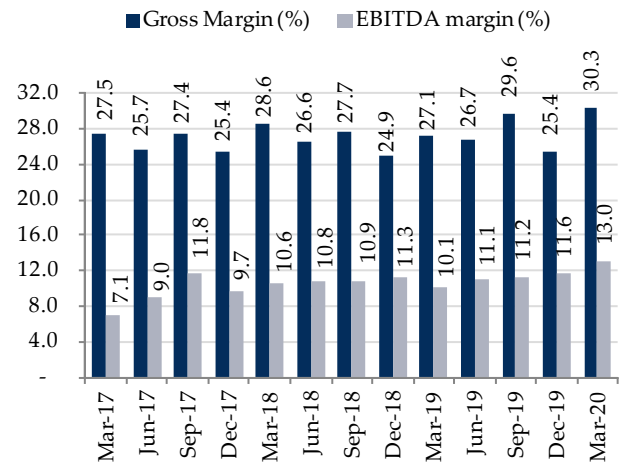
Story in Charts

Revenue and growth (Rs. mn, YoY %)



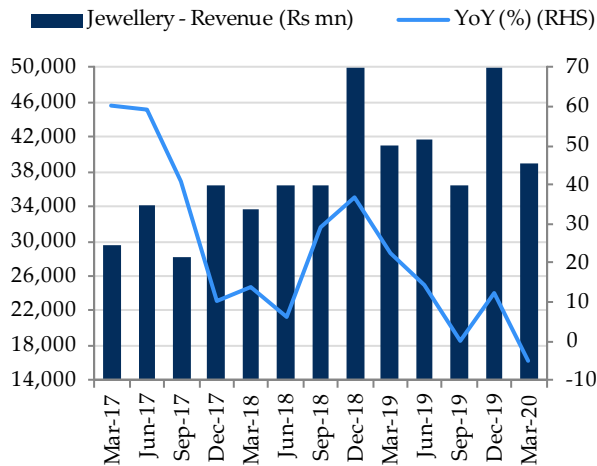
Source: Company, HSIE Research

Gross margin and EBITDA margin



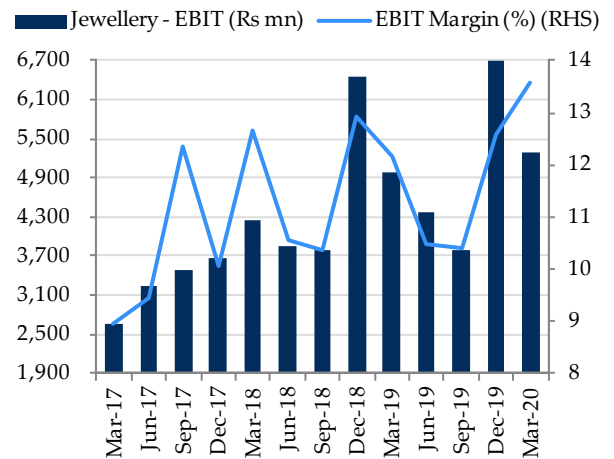
Source: Company, HSIE Research

Jewellery Biz – Revenue and growth



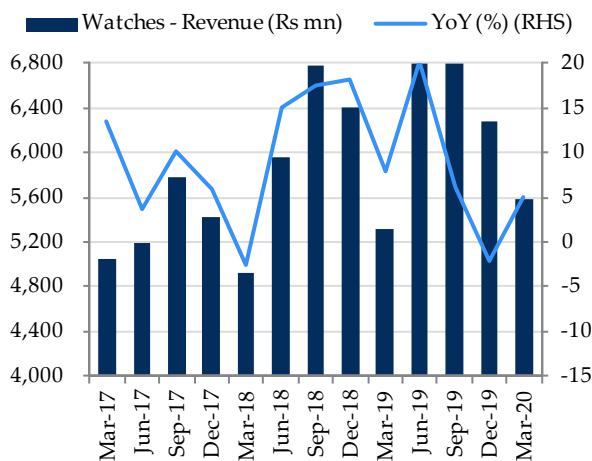
Source: Company, HSIE Research

Jewellery – EBIT and EBIT margin



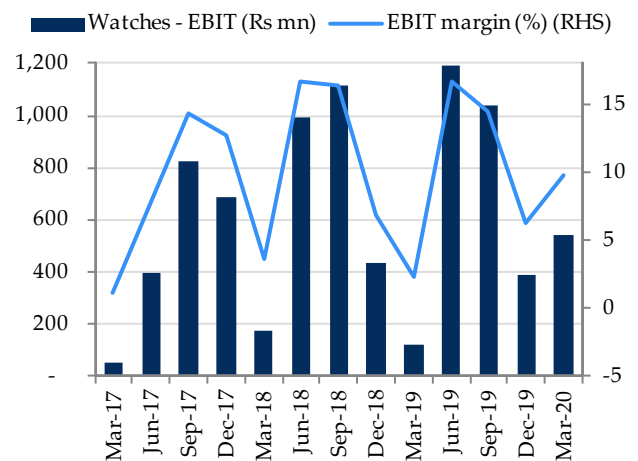
Source: Company, HSIE Research

Watches segment – Revenue and growth



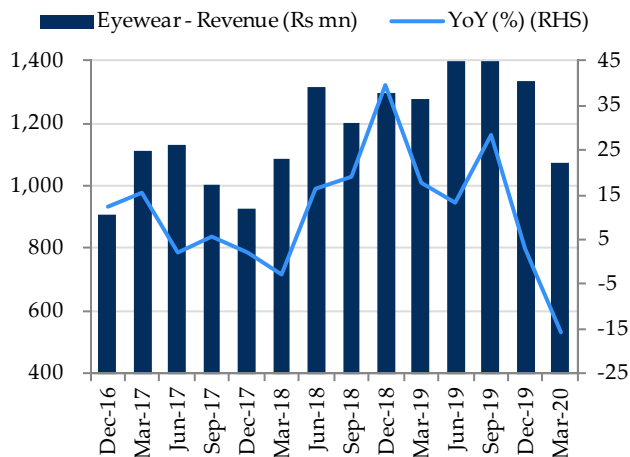
Source: Company, HSIE Research

Watches – EBIT and EBIT margin



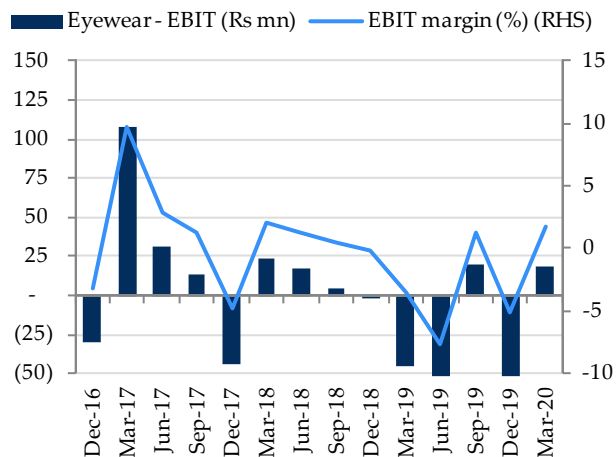
Source: Company, HSIE Research

Eyewear segment – Revenue and growth



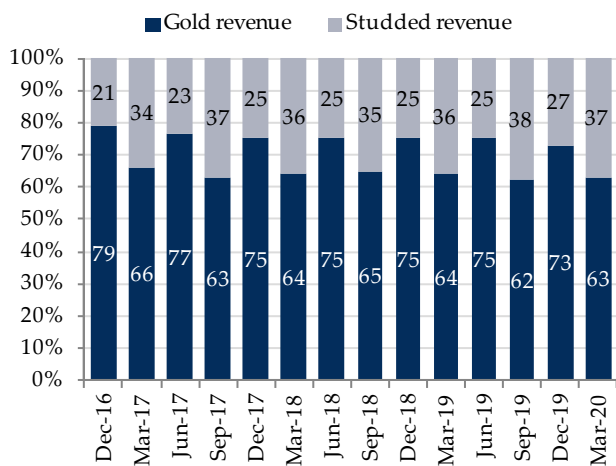
Source: Company, HSIE Research

Eyewear – EBIT and EBIT margin



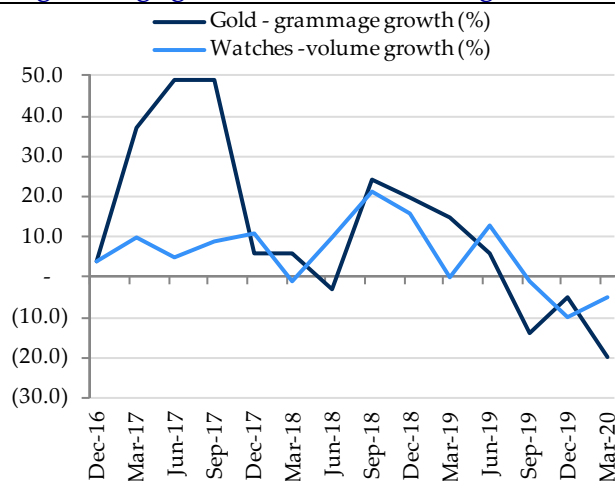
Source: Company, HSIE Research

Jewellery biz- Studded Ratio



Source: Company, HSIE Research

Gold grammage growth, Watches volume growth



Source: Company, HSIE Research

Quarterly snapshot (Actual vs HDFC estimates)

Rs. Mn	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	4QFY20E	Variance (%)
Net Revenue	48,888	65,274	47,115	(3.6)	(27.8)	47,649	(1.1)
Total COGS	35,624	48,717	32,850	(7.8)	(32.6)	35,026	(6.2)
Gross Profit	13,264	16,557	14,265	7.5	(13.8)	12,623	13.0
Gross Profit Margin (%)	27.1	25.4	30.3	315 bps	491 bps	26.5	379 bps
Total Operating expenses	8,779	8,973	8,141	(7.3)	(9.3)	8,209	(0.8)
Reported EBITDA	4,485	7,584	6,124	36.6	(19.2)	4,414	38.7
EBITDA Margin (%)	9.2	11.6	13.0	382 bps	138 bps	9.3	373 bps
Adj EBITDA	4,945	7,584	6,124	23.9	(19.2)	4,414	38.7
Adj EBITDA Margin (%)	10.1	11.6	13.0	288 bps	138 bps	9.3	373 bps
Depreciation	408	877	1,021	150.0	16.4	860	18.6
EBIT	4,077	6,707	5,104	25.2	(23.9)	3,554	43.6
EBIT Margin (%)	8.3	10.3	10.8	249 bps	56 bps	7.5	337 bps
Adj EBIT	4,077	6,707	5,104	25.2	(23.9)	3,554	43.6
Adj EBIT Margin (%)	8.3	10.3	10.8	249 bps	56 bps	7.5	337 bps
Finance cost	125	447	427	242.2	(4.4)	520	(17.7)
Other income	563	227	417	(25.9)	83.8	735	(43)
PBT	4,515	6,487	5,093	12.8	(21.5)	3,770	35.1
Exceptional Item	-	-	-			-	
Tax Expenses	1,032	1,740	1,662	61.0	(4.5)	547	204.0
Effective Tax Rate (%)	22.9	26.8	32.6	976 bps	580 bps	14.5	1813 bps
Share of associate earnings	1	(4)	(1)	NM	NM	(5)	NM
EO items	-	-	-			-	
PAT	3,483	4,742	3,431	(1.5)	(27.7)	3,218	6.6
APAT	3,483	4,742	3,431	(1.5)	(27.7)	3,218	6.6
APAT margin (%)	7.1	7.3	7.3	16 bps	2 bps	6.8	53 bps

Segment-wise performance (Actual vs HDFC estimates)

	4QFY19	3QFY20	4QFY20	YoY (%)	QoQ (%)	4QFY20E	Variance (%)
Revenue (Rs. Mn)	49,451	65,501	47,532	(3.9)	(27.4)	48,110	(1.2)
-Jewellery	41,054	56,058	38,993	(5.0)	(30.4)	39,285	(0.7)
-Watches	5,312	6,272	5,583	5.1	(11.0)	5,365	4.1
-Eyewear	1,277	1,333	1,077	(15.7)	(19.2)	1,021	5.5
-Others	1,387	1,748	1,812	30.6	3.7	1,971	(8.0)
-Unallocated	420	89	67	(84.0)	(24.6)	468	(85.6)
EBIT (incl. Other income) (Rs. Mn)	4,640	6,930	5,520	19.0	(20.3)	2,509	120.0
-Jewellery	4,989	7,044	5,301	6.2	(24.7)	4,494	18.0
-Watches	123	390	543	340.1	39.1	(114)	NM
-Eyewear	(45)	(67)	18	NM	NM	(36)	NM
-Others	22	167	(3)	NM	NM	91	NM
-Unallocated	(450)	(604)	(338)	NM	NM	(1,925)	NM
	101	490	558			(59)	
EBIT margin (%)							
-Jewellery	12.2	12.6	13.6	144 bps	103 bps	11.4	216 bps
-Watches	2.3	6.2	9.7	740 bps	350 bps	(2.1)	NM
-Eyewear	(3.5)	(5.0)	1.7	NM	NM	(3.6)	NM
-Others	1.6	9.5	(0.2)	NM	NM	4.6	NM
-Unallocated	(107.1)	(678.5)	(504.2)	NM	NM	(411.8)	NM
Operating Expenses (Rs mn)	8,779	8,973	8,141	(7.3)	(9.3)	8,209	(0.8)
Employee expenses	2,866	3,267	2,847	(0.6)	(12.9)	3,305	(13.8)
Advertising expenses	1,383	1,679	971	(29.8)	(42.2)	1,073	(9.4)
Other expenses	4,531	4,026	4,322	(4.6)	7.4	3,831	12.8
Opex (As % of Sales)							
Employee expenses	5.9	5.0	6.0	18 bps	104 bps	6.9	(89 bps)
Advertising expenses	2.8	2.6	2.1	(77 bps)	(51 bps)	2.3	(19 bps)
Other expenses	8.3	6.2	9.2	85 bps	301 bps	8.0	113 bps
Segment Assets							
Jewelry	73,151	81,065	89,037	21.7	9.8		
Watches	15,596	21,318	22,175	42.2	4.0		
Eyewear	3,945	5,050	4,952	25.5	(1.9)		
Others	5,023	6,829	7,103	41.4	4.0		
Unallocated	19,439	12,183	12,231	(37.1)	0.4		
Total	117,153	126,445	135,498	15.7	7.2		
			18,345				
Segment Liabilities							
Jewelry	47,957	47,591	48,110	0.3	1.1		
Watches	4,646	8,154	7,828	68.5	(4.0)		
Eyewear	1,271	2,560	2,337	84.0	(8.7)		
Others	1,317	2,012	2,416	83.5	20.1		
Unallocated	1,120	1,745	8,075	621.3	362.6		
Total	56,310	62,063	68,766	22.1	10.8		
Segmental Capital Employed							
Jewelry	25,193	33,474	40,927	62.5	22.3		
Watches	10,949	13,164	14,347	31.0	9.0		
Eyewear	2,674	2,490	2,615	(2.2)	5.0		
Others	3,706	4,817	4,687	26.5	(2.7)		
Unallocated	18,319	10,438	4,157	(77.3)	(60.2)		
Total	60,842	64,382	66,732	9.7	3.6		

Assumptions

	FY17	FY18	FY19	FY20E	FY21E	FY22E
Jewellery Biz						
Net Revenue (Rs mn)	105,964	132,569	163,901	173,192	137,665	185,528
YoY (%)	21.5	25.1	23.6	5.7	(20.5)	34.8
-Gold Jewellery	74,599	93,175	114,677	119,348	97,742	129,870
YoY (%)	18.8	24.9	23.1	4.1	(18.1)	32.9
-Studded Jewellery	31,365	39,393	49,223	53,844	39,923	55,659
YoY (%)	28.4	25.6	25.0	9.4	(25.9)	39.4
EBITDA (Rs mn)	10,455	15,105	19,654	20,956	14,868	22,634
YoY (%)	24.6	44.5	30.1	6.6	(29.1)	52.2
EBITDA margin (%)	9.9	11.4	12.0	12.1	10.8	12.2
Total gold sold (tonnes)	21.0	25.9	30.1	26.9	20.1	26.0
YoY (%)	5.1	23.1	16.2	(10.6)	(25.0)	29.0
Average gold price (Rs/gm)	30,862	30,708	31,936	37,684	41,453	42,696
YoY (%)	13.0	(0.5)	4.0	18.0	10.0	3.0
Studded share (%)	29.6	29.7	30.0	31.1	29.0	30.0
Total no. of stores	286	330	398	461	481	531
Revenue/store (Rs mn)	413	430	450	403	292	367
EBITDA/store (Rs mn)	41	49	54	49	32	45
Revenue per sq ft (Rs)	113,432	128,137	144,631	137,874	100,217	125,598
Watches Biz						
Net Revenue (Rs mn)	20,611	21,315	24,475	26,217	21,580	25,973
YoY (%)	4.4	3.4	14.8	7.1	(17.7)	20.4
EBITDA (Rs mn)	2,124	2,471	3,079	3,408	2,482	3,506
YoY (%)	8.7	16.4	24.6	10.7	(27.2)	41.3
EBITDA margin (%)	10.3	11.6	12.6	13.0	11.5	13.5
Watches sold (mn pieces)	14.1	15.2	17.0	18.1	15.0	17.7
YoY (%)	1.5	8.0	12.0	6.2	(17.0)	18.0
Eyewear Biz						
Net Revenue (Rs mn)	4140	4150	5088	5440	4335	5183
YoY (%)	10.5	0.2	22.6	6.9	(20.3)	19.6
EBITDA (Rs mn)	279	159	146	163	43	181
YoY (%)		(43.0)	(8.2)	11.8	(73.4)	318.5
EBITDA margin (%)	6.7	3.8	2.9	3.0	1.0	3.5
Eyewear sold (mn)	6.2	6.3	7.9	8.7	7.2	8.8
YoY (%)	5	1	26	9	(17)	22
Other Biz						
Net Revenue (Rs mn)	3,348	3,719	4,834	6,347	6,982	9,077
YoY (%)		11.1	30.0	31.3	10.0	30.0

Source: Company, HSIE Research

Change in Estimates

(Rs mn)	FY20E			FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	210,515	211,048	(0.3)	169,659	214,011	(20.7)	224,130	280,402	(20.1)
Gross Profit	58,398	56,755	2.9	45,299	56,492	(19.8)	60,750	76,555	(20.6)
Gross Profit Margin (%)	27.7	26.9	85 bps	26.7	26.4	30 bps	27.1	27.3	(20 bps)
EBITDA	24,666	22,987	7.3	18,035	23,599	(23.6)	25,764	33,064	(22.1)
EBITDA margin (%)	11.7	10.9	83 bps	10.6	11.0	(40 bps)	11.5	11.8	(30 bps)
APAT	14,927	14,768	1.1	9,750	14,390	(32.2)	16,405	21,980	(25.4)
APAT margin (%)	7.1	7.0	9 bps	5.7	6.7	(98 bps)	7.3	7.8	(52 bps)
EPS	16.8	16.6	1.1	11.0	16.2	(32.2)	18.5	24.8	(25.4)

Source: Company, HSIE Research

Peer Set Comparison

Company	CMP	M cap (Rs bn)	Reco	TP	EPS (Rs)			EV/EBITDA (x)			P/E (x)			Core RoCE(%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Avenue	2,392	1,370	SELL	1,700	21.9	22.9	34.0	74.8	72.6	49.1	109.6	104.8	70.6	19.1	15.0	19.6
ABFRL	132	101	ADD	120	(1.0)	(2.3)	(0.1)	26.8	54.2	24.7	NM	NM	NM	(8.6)	(1.1)	4.1
Shoppers Stop	200	27	RED	190	0.5	(6.4)	(0.1)	7.2	12.9	6.8	NM	NM	NM	0.3	(11.5)	(2.7)
V Mart	1,786	32	BUY	1,800	44.0	24.5	45.3	24.6	33.3	21.4	40.6	73.0	39.4	19.2	9.9	17.8
Trent	556	214	ADD	460	4.3	1.4	5.0	35.6	45.5	31.2	128.4	391.7	111.5	NM	3.9	7.0
TCNS	397	24	RED	390	13.6	11.1	16.6	20.1	24.9	15.1	29.2	35.6	23.9	15.5	11.2	18.1
Titan	997	885	RED	900	16.8	11.0	18.5	37.8	50.2	35.4	59.3	90.7	53.9	18.0	15.3	10.4
Reliance Retail			NR	375	9.8	9.7	12.5	24.5	23.7	18.8	38.2	38.8	30.0	24.3	19.1	20.4

Source: Company, HSIE Research, Note : Reliance Retail- TP, EV/EBITDA and P/E are on Fair value

Financials

Consolidated Income Statement

Year End (March)	FY15	FY16	FY17	FY18	FY19	FY20P	FY21E	FY22E
Net Revenues	119,134	112,759	132,608	161,198	197,785	210,515	169,659	224,130
<i>Growth (%)</i>	<i>9.0</i>	<i>(5.4)</i>	<i>17.6</i>	<i>21.6</i>	<i>22.7</i>	<i>6.4</i>	<i>(19.4)</i>	<i>32.1%</i>
COGS	88,574	82,891	95,530	117,425	144,475	152,117	124,360	163,379
Employee Expense	6,325	6,963	7,875	8,851	10,193	11,994	10,858	12,775
A&P Expense	3,821	4,295	4,812	4,940	5,992	5,597	2,290	5,603
S&D Expense	1,157	1,394	3,898	4,757	5,549	6,947	5,599	6,724
Rent Expense	1,769	1,854	1,954	2,170	2,274	211	204	247
Other Expenses	6,005	6,016	6,985	6,609	7,938	8,984	8,313	9,638
EBITDA	11,484	9,347	11,555	16,447	21,365	24,666	18,035	25,764
<i>EBITDA Growth (%)</i>	<i>10.0</i>	<i>(18.6)</i>	<i>23.6</i>	<i>42.3</i>	<i>29.9</i>	<i>15.5</i>	<i>(26.9)</i>	<i>42.9%</i>
<i>EBITDA Margin (%)</i>	<i>9.6</i>	<i>8.3</i>	<i>8.7</i>	<i>10.2</i>	<i>10.1</i>	<i>11.7</i>	<i>10.6</i>	<i>11.5%</i>
Depreciation	896	982	1,105	1,314	1,628	3,480	3,917	4,285
EBIT	10,588	8,365	10,450	15,133	19,737	21,186	14,118	21,479
Other Income (Including EO Items)	708	739	(322)	722	1,829	1,532	937	1,986
Interest	807	424	377	529	525	1,662	1,970	1,489
PBT	10,489	8,681	9,750	15,326	21,041	21,057	13,084	21,976
Total Tax	2,326	1,916	2,760	4,279	5,682	6,090	3,293	5,531
RPAT before associate earnings	8,163	6,765	6,991	11,047	15,358	14,967	9,790	16,445
Share of Associate earnings	0	(20)	(18)	(28)	(22)	(40)	(40)	(40)
RPAT	8,163	6,745	6,973	11,019	15,337	14,927	9,750	16,405
Exceptional Gain/(loss)	-	-	(1,027)	(167)	-	-	-	-
Adjusted PAT	8,163	6,745	8,000	11,186	15,337	14,927	9,750	16,405
<i>APAT Growth (%)</i>	<i>11.1</i>	<i>(17.4)</i>	<i>18.6</i>	<i>39.8</i>	<i>37.1</i>	<i>(2.7)</i>	<i>(34.7)</i>	<i>68.2%</i>
Adjusted EPS (Rs)	9.2	7.6	9.0	12.6	17.3	16.8	11.0	18.5
<i>EPS Growth (%)</i>	<i>11.1</i>	<i>(17.4)</i>	<i>18.6</i>	<i>39.8</i>	<i>37.1</i>	<i>(2.7)</i>	<i>(34.7)</i>	<i>68.2</i>

Consolidated Balance Sheet

Year End (March)	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
SOURCES OF FUNDS								
Share Capital - Equity	888	888	888	888	888	888	888	888
Reserves	32,634	34,175	41,436	50,011	59,814	65,800	71,266	77,498
Total Shareholders Funds	33,522	35,063	42,324	50,899	60,702	66,688	72,154	78,386
Minority Interest	-	-	264	(18)	141	44	44	44
Long Term Debt	-	-	-	-	317	170	170	170
Short Term Debt	11,212	20,688	26,066	27,295	36,346	39,096	39,084	40,498
Total Debt	11,212	20,688	26,066	27,295	36,663	51,696	51,684	53,097
Net Deferred Taxes	(632)	(894)	(861)	(1,351)	(688)	(1,528)	(1,528)	(1,528)
Other Non-current Liabilities & Provns	-	-	-	13	13	45	45	45
TOTAL SOURCES OF FUNDS	44,102	54,857	67,792	76,838	96,831	116,944	122,399	130,044
APPLICATION OF FUNDS								
Net Block	6,823	7,705	10,745	13,512	14,436	15,583	13,566	11,250
CWIP	552	1,067	1,432	430	318	115	115	115
Goodwill on Consolidation	-	-	1,230	1,230	1,230	1,230	1,230	1,230
Other Non-current Assets	955	1,040	949	1,083	2,870	13,798	13,798	13,798
Total Non-current Assets	8,329	9,812	14,356	16,255	18,854	30,726	28,710	26,394
Investments	95	279	370	344	392	444	444	444
Inventories	40,493	44,472	49,257	59,248	70,388	81,030	62,410	79,377
Debtors	1,897	1,925	2,076	2,957	4,205	3,116	2,950	3,897
Other Current Assets	4,945	4,718	5,428	8,860	11,215	13,646	10,653	14,074
Cash & Equivalents	2,138	1,189	11,727	6,195	11,357	4,947	31,073	25,679
Total Current Assets	49,473	52,304	68,488	77,261	97,164	102,738	107,087	123,027
Creditors	9,465	2,156	7,828	8,777	9,060	5,967	4,809	8,195
Other Current Liabilities & Provns	4,330	5,382	7,595	8,245	10,520	10,996	9,032	11,625
Total Current Liabilities	13,796	7,538	15,423	17,022	19,580	16,964	13,841	19,820
Net Current Assets	35,678	44,766	53,066	60,239	77,585	85,774	93,245	103,206
TOTAL APPLICATION OF FUNDS	44,102	54,857	67,792	76,838	96,831	116,944	122,399	130,044

Source: Company, HSIE Research

Consolidated Cash Flow

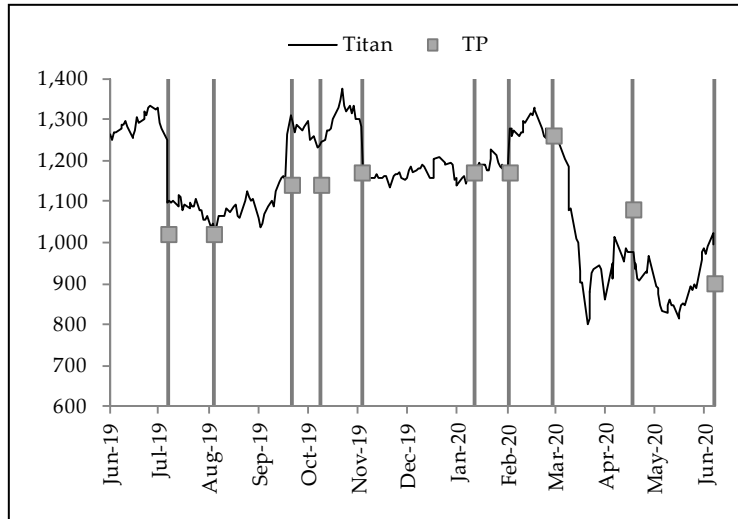
Year ending March	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
Reported PBT	10,489	8,681	9,733	15,298	19,569	21,017	13,084	21,976
Non-operating & EO Items	(565)	(670)	(483)	(723)	103	(1,340)	(977)	(2,027)
Interest Expenses	807	424	377	529	525	1,662	1,970	1,489
Depreciation	896	982	1,105	1,314	1,628	3,480	3,917	4,285
Working Capital Change	(4,152)	(1,631)	9,158	(12,365)	(3,036)	(22,715)	18,655	(15,356)
Tax Paid	(2,449)	(2,025)	(2,768)	(4,561)	(6,360)	(5,577)	(3,293)	(5,531)
OPERATING CASH FLOW (a)	5,026	5,761	17,123	(507)	12,429	(3,474)	33,357	4,837
Capex	(2,070)	(2,522)	(6,359)	(2,993)	(2,451)	(3,456)	(1,901)	(1,969)
Free Cash Flow (FCF)	2,956	3,239	10,764	(3,500)	9,978	(6,930)	31,456	2,868
Investments	118	351	(3,894)	3,316	(6,381)	4,796	-	-
Non-operating Income	766	583	409	636	849	728	937	1,986
INVESTING CASH FLOW (b)	(1,187)	(1,588)	(9,844)	960	(7,983)	2,068	(964)	17
Debt Issuance/(Repaid)	(7,071)	133	(1,243)	790	(389)	6,934	(12)	1,414
Interest Expenses	(807)	(424)	(377)	(541)	(525)	(1,662)	(1,970)	(1,489)
FCFE	(4,922)	2,948	9,144	(3,251)	9,063	(1,658)	29,473	2,792
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(2,169)	(4,757)	(36)	(2,774)	(3,974)	(5,356)	(4,283)	(10,173)
Others	-	-	-	-	-	-	(0)	0
FINANCING CASH FLOW (c)	(10,047)	(5,048)	(1,656)	(2,524)	(4,888)	(83)	(6,266)	(10,248)
NET CASH FLOW (a+b+c)	(6,207)	(876)	5,623	(2,072)	(443)	(1,490)	26,126	(5,394)
EO Items, Others	432	319	1,322	1,471	6,387	3,057	3,056	3,056
Closing Cash & Equivalents	2,138	1,164	7,789	6,179	10,665	3,811	29,938	24,543

Key Ratios

	FY15	FY16	FY17	FY18	FY19E	FY20E	FY21E	FY22E
PROFITABILITY (%)								
GPM	25.65	26.49	28.0	27.2	27.0	27.7	26.7	27.1
EBITDA Margin	9.64	8.29	8.7	10.2	10.1	11.7	10.6	11.5
EBIT Margin	8.9	7.4	7.9	9.4	10.0	10.1	8.3	9.6
APAT Margin	6.9	6.0	6.0	6.9	7.8	7.1	5.7	7.3
RoE	27.8	19.7	20.7	24.0	27.5	23.4	14.0	21.8
RoIC (or Core RoCE)	20.8	13.6	14.2	17.3	18.0	15.3	10.4	16.4
RoCE	19.5	14.3	13.5	16.0	18.1	15.1	9.4	13.9
EFFICIENCY								
Tax Rate (%)	22.2	22.1	25.6	27.6	29.0	28.9	25.2	25.2
Fixed Asset Turnover (x)	10.1	13.9	13.5	12.0	12.8	10.7	7.9	9.5
Inventory (days)	121.3	137.5	129	123	120	131	134	129
Debtors (days)	5.3	6.2	6	6	7	6	6	6
Other Current Assets (days)	15.1	15.3	15	20	21	24	23	23
Payables (days)	27.7	18.8	22	20	17	10	10	13
Other Current Liab & Provns (days)	13.3	17.4	21	19	19	19	19	19
Cash Conversion Cycle (days)	100.8	122.7	113	110	111	132	134	126
Net Debt/Equity (x)	0.3	0.6	0.3	0.4	0.4	0.7	0.3	0.3
Interest Coverage (x)	13.1	19.7	27.7	28.6	37.6	12.7	7.2	14.4
PER SHARE DATA (Rs)								
EPS	9.19	7.60	9.0	12.6	17.3	16.8	11.0	18.5
CEPS	10.20	8.70	10.3	14.1	19.1	20.7	15.4	23.3
Dividend	2.30	4.44	2.6	3.8	5.0	4.0	9.5	11.5
Book Value	37.76	39.49	47.7	57.3	68.4	75.1	81.3	88.3
VALUATION								
P/E (x)	110.88	134.18	113.1	80.9	59.0	60.6	92.8	55.2
P/BV (x)	27.00	25.81	21.4	17.8	14.9	13.6	12.5	11.5
EV/EBITDA (x)	79.60	98.91	79.6	56.3	43.5	38.6	51.3	36.2
EV/Revenues (x)	7.67	8.20	6.9	5.7	4.7	4.5	5.5	4.2
OCF/EV (%)	0.55	0.62	1.9	(0.1)	1.3	(0.4)	3.6	0.5
FCF/EV (%)	0.32	0.35	1.2	(0.4)	1.1	(0.7)	3.4	0.3
FCFE/Mkt Cap (%)	(0.54)	0.33	1.0	(0.4)	1.0	(0.2)	3.3	0.3
Dividend Yield (%)	0.23	0.44	0.3	0.4	0.5	0.4	0.9	1.1

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
9-Jul-19	1,099	NEU	1,020
7-Aug-19	1,047	NEU	1,020
22-Sep-19	1,260	NEU	1,140
11-Oct-19	1,231	NEU	1,140
6-Nov-19	1,285	NEU	1,170
12-Jan-20	1,154	NEU	1,170
5-Feb-20	1,276	NEU	1,170
2-Mar-20	1,255	ADD	1,260
18-Apr-20	968	ADD	1,080
10-Jun-20	997	REDUCE	900

From 2nd March 2020, we have moved to new rating system

Rating Criteria

- BUY: >+15% return potential
 ADD: +5% to +15% return potential
 REDUCE: -10% to +5% return potential
 SELL: >10% Downside return potential

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