

## TIMEX INDIA

Rating

Conviction Rating

**BUY**


Price: 160

**TIMEX**

### Surge Capital Focuses on Six Key Attributes of Long-Term Earnings Growth



Strong Business Model



Innovation &amp; Pivot



Change &amp; External Trend ✓



Optionalities



Leadership &amp; Edge



Stellar Management Execution ✓

Investment Bucket: Resilient

Industry:	Watches
Market Cap:	Rs 1620 Crores
Revenues:	Rs 495 Crores
Net Profits:	Rs 29 Crores
Net Debt:	-

✓ Indicates attributes present in the stock

### Brief Thesis

Timex India is the Indian subsidiary of America's oldest watchmaker- Timex Group.

Historically, Timex India's performance has been poor with no profitability. But in Mar'22, Mr. Deepak Chhabra joined Timex India as CEO and has brought the needed focus into the business across brand portfolio, distribution and brand investments.

Mr. Chhabra's stellar execution has led to material turnaround in company's performance both on revenues and profitability over the last few years and we are betting on such execution sustaining going ahead as well.

TIMEX

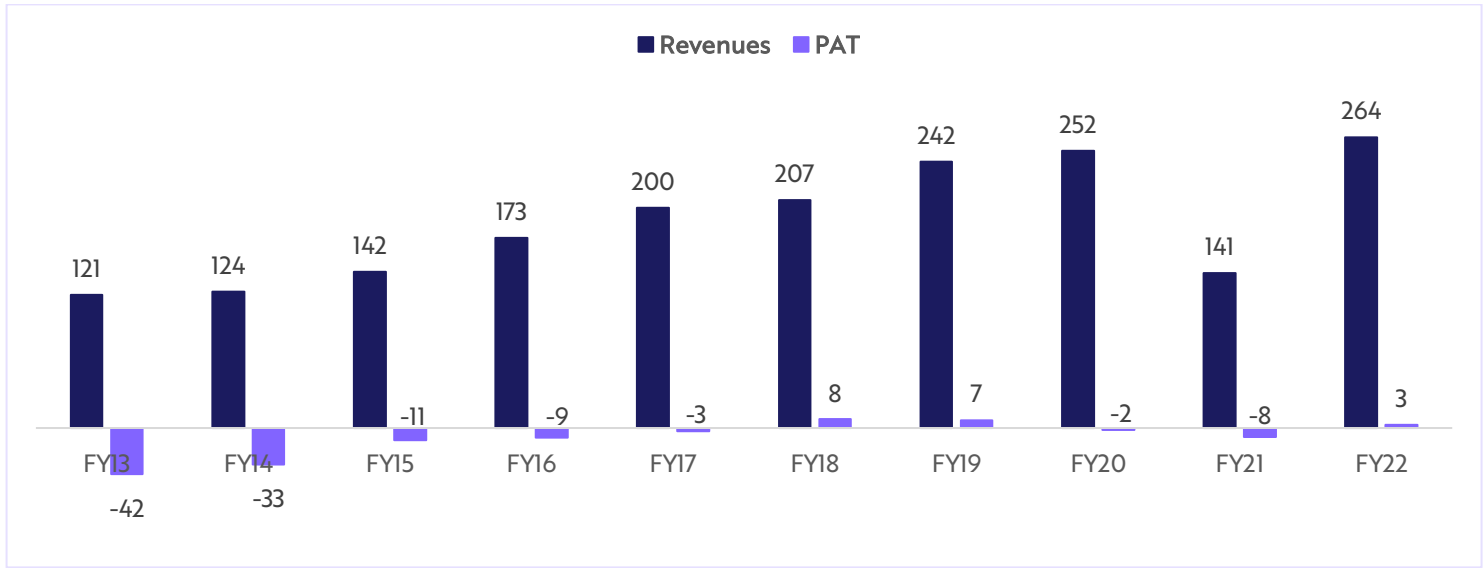
Timex India is a part of Timex Group which is the oldest watchmaker in America and one of the largest watch makers globally. The group was established in 1854 and currently has a portfolio over 15+ brands.

TIMEX GROUP



Timex India was established in 1988 as a JV between Timex Group and Titan to sell Timex watches in India. The JV was eventually terminated in 2000.

Historically the performance of Timex India has been poor; both in terms of growth & profitability;



However, there has been marked improvement in performance over last 3-years led by change in management.

Management Change & Strong Execution

In Mar’22, Timex appointed Mr. Deepak Chhabra as its CEO who has had a vast experience in retail across multiple brands.



Deepak Chhabra

Mr. Deepak Chhabra has a vast experience in Indian retail space across multiple brands & companies-

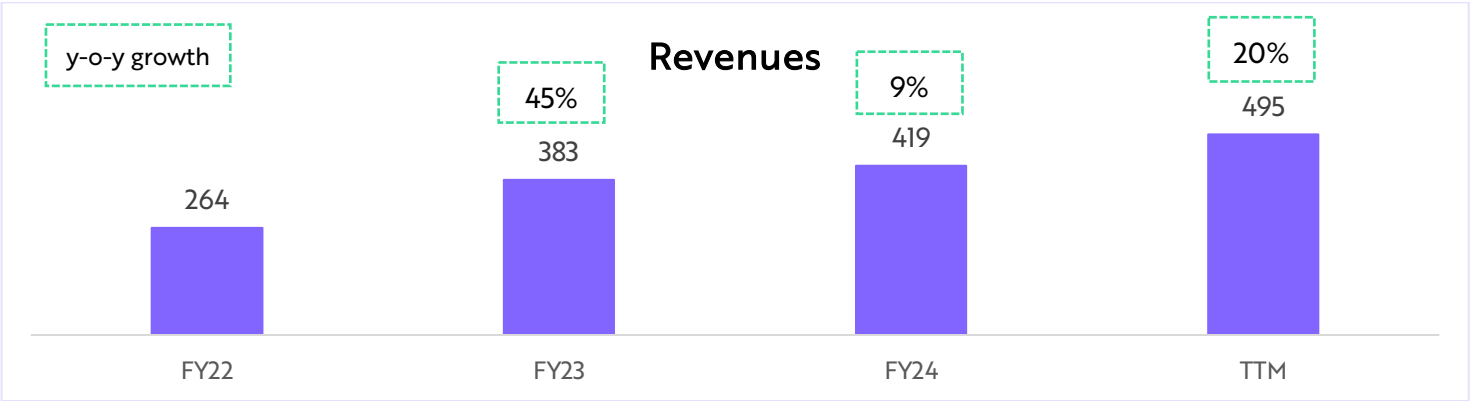
2007-2016: VP Reliance Retail

2016-2019: CEO of Crocs India

2019-2022: Managing Director at Tupperware India

Mar’22 Onwards: Managing Director at Timex Group India

Post Mr. Chhabra taking over, there has been clear improvement in company’s performance;



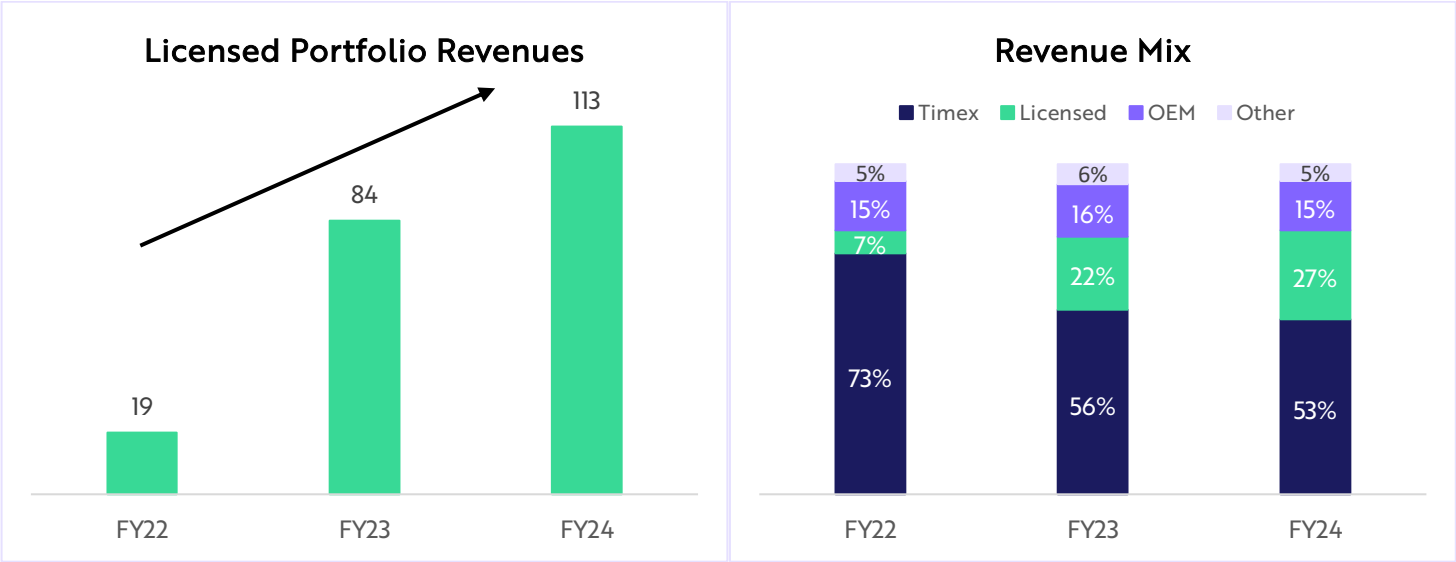
The primary work done by Mr. Chhabra was to bring focus into the business across brand portfolio, distribution and brand investments.

Timex India operates with a large portfolio of 15+ brands across multiple price points with ASP being as low as few thousand rupees in a brand like Helix to as high as >Rs1 lakh in Versace.



Mr. Chhabra brought back growth in the company by essentially focusing on three key aspects;

A. Launching & increasing share of licensed brands, all of which have much higher ASP than the core Timex brand

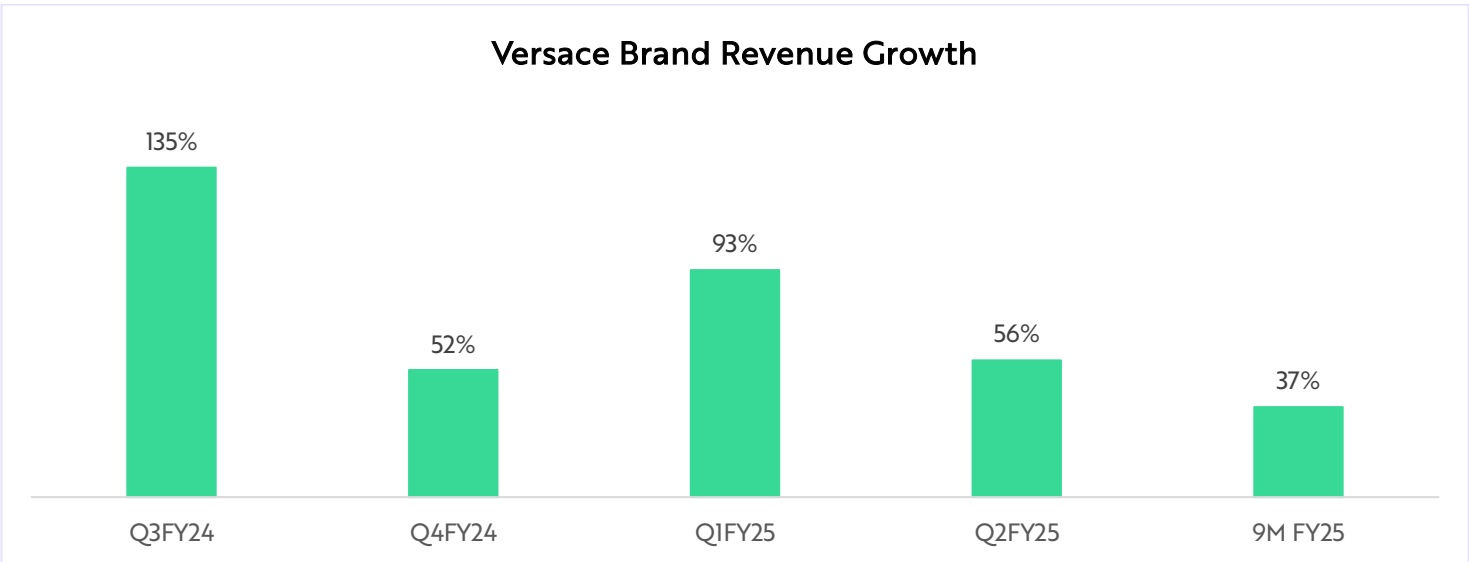


Note: Timex segment includes Timex, TMX & Helix brands and rest brands together are segmented as licensed brands.

“Guess and GC brands added to the company's portfolio during the last quarter of FY22 have added significantly to top line and bottom line during FY23”- **Q4FY23 Presentation**

“Guess grew by 3x, Versace grew by 84% during the quarter”- **Press Release Q1FY24**

“The company continues the expansion of its wide array of licensed brands with Philipp Plein and Plein Sport being the latest addition to the portfolio”- **Press Release Q3FY24**





## B. Increased investments in Timex brand to revive it and bring it back to growth

The core brand of Timex used to contribute >75% of business but had lacked growth due to reducing relevance over the past decade.

Mr. Chhabra increased marketing spends in Timex by bringing in Ananya Pandey as a brand ambassador and also invested in sponsoring IPL teams. Further, product portfolio was also revamped with the launch of global collections in India including revamping of sub-brands like Helix.

IPL Sponsorship from Q4FY23...



Ananya Pandey appointed as brand ambassador in Q3FY24...



Helix Brand revamped in Q3FY24....

Helix Brand New Avatar

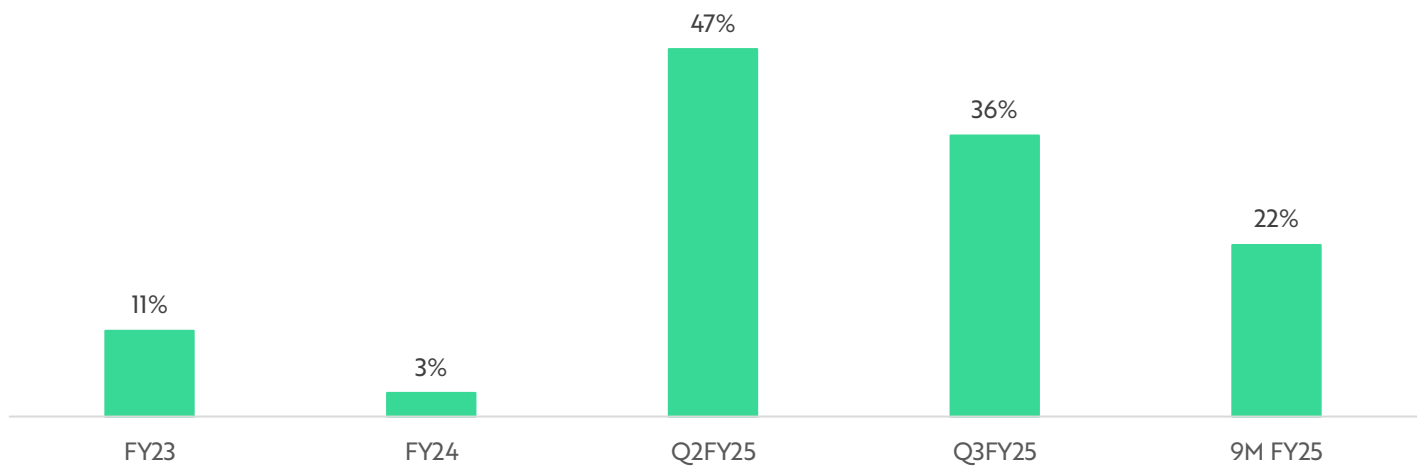
Introduction of a brand-new creative look to our youth brand Helix



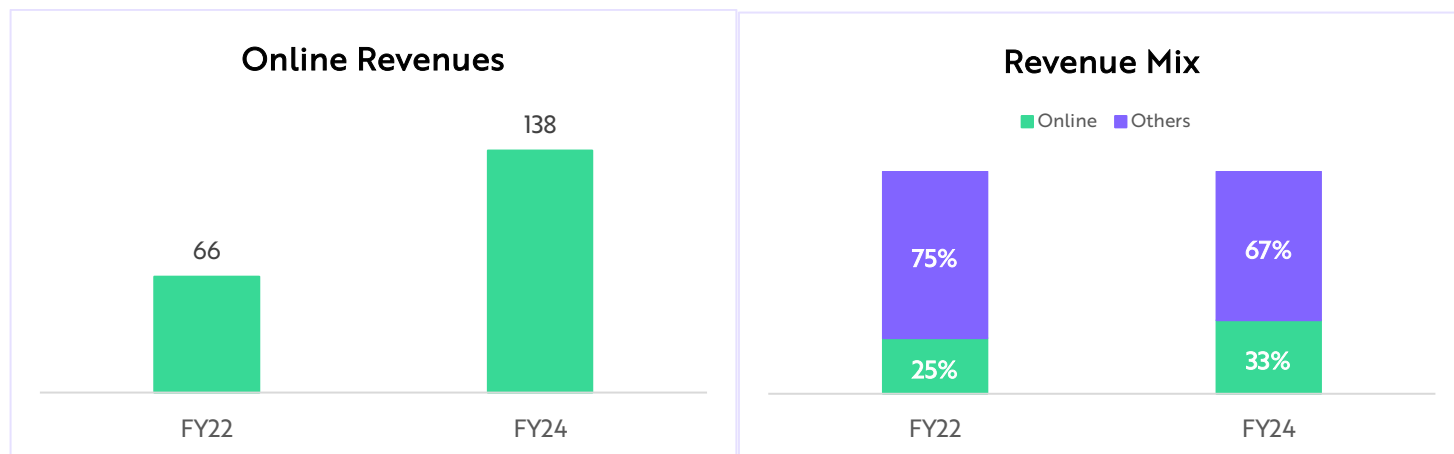
“This year launched Timex global portfolio in India. Till now were selling what we developed & manufactured in India”- AGM 2024

Outcome of these initiatives is visible in FY25 wherein the Timex brand has grown strongly after many years;

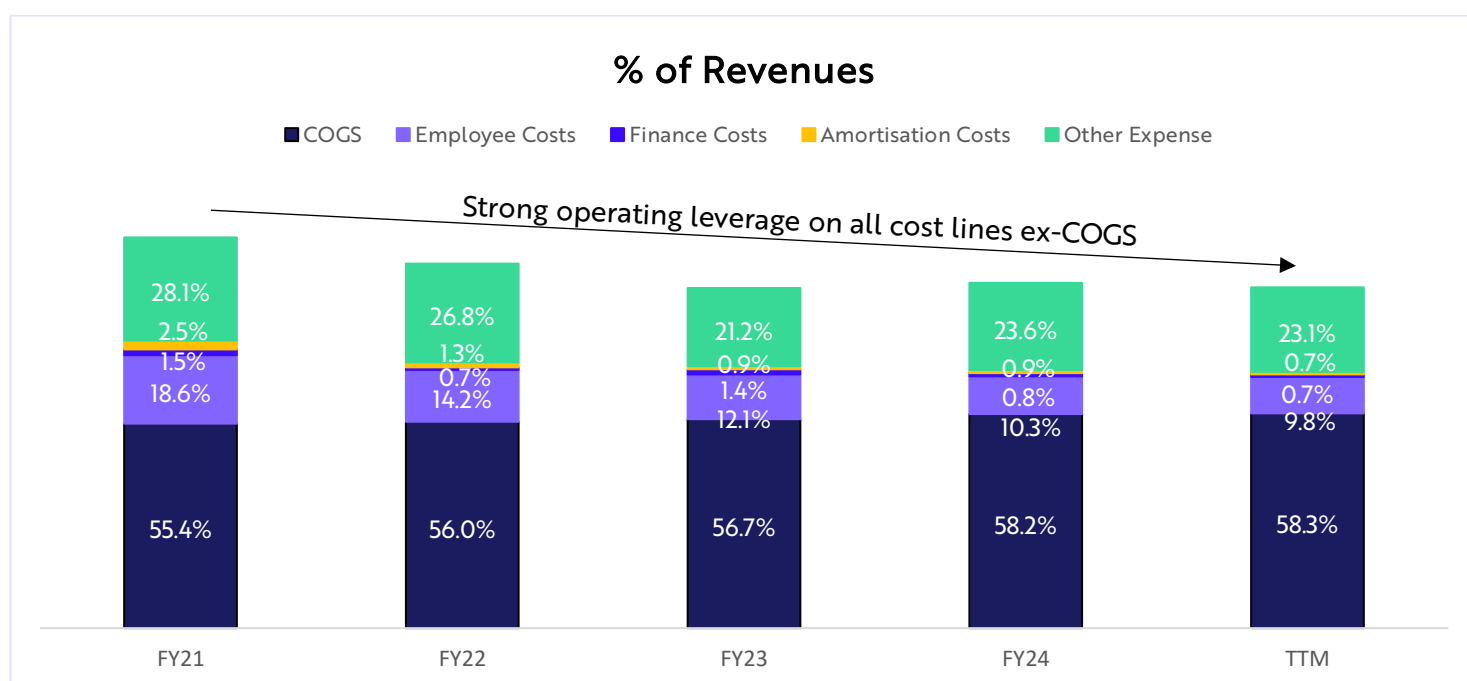
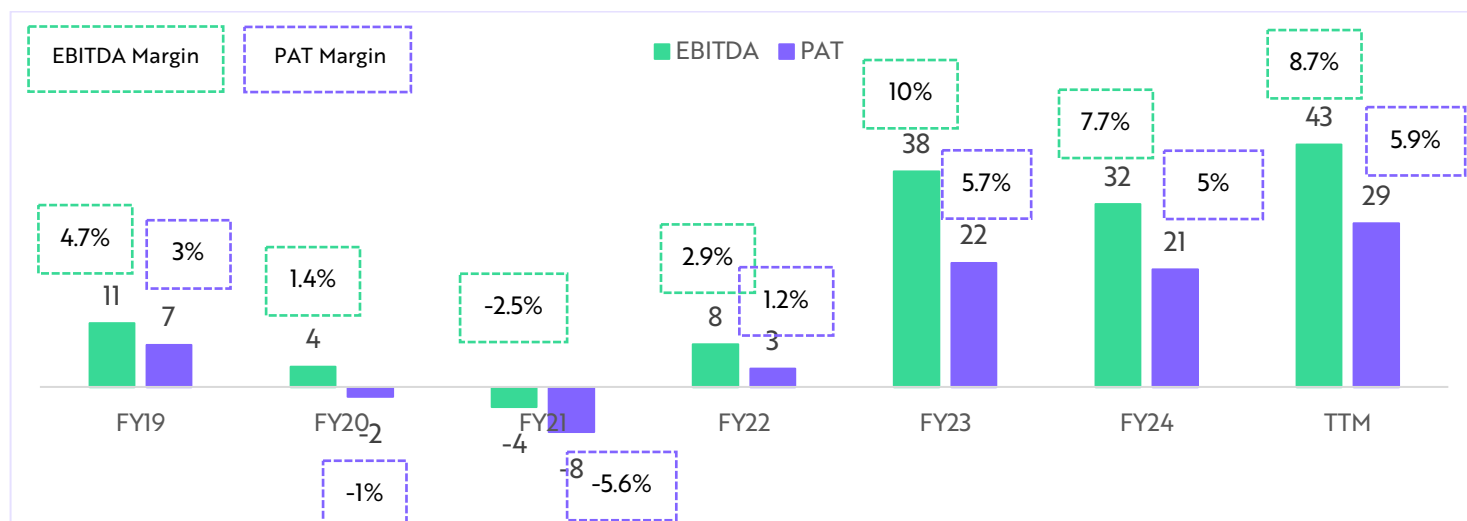
Timex Brand Revenue Growth



## C. Increasing share of Online as a channel

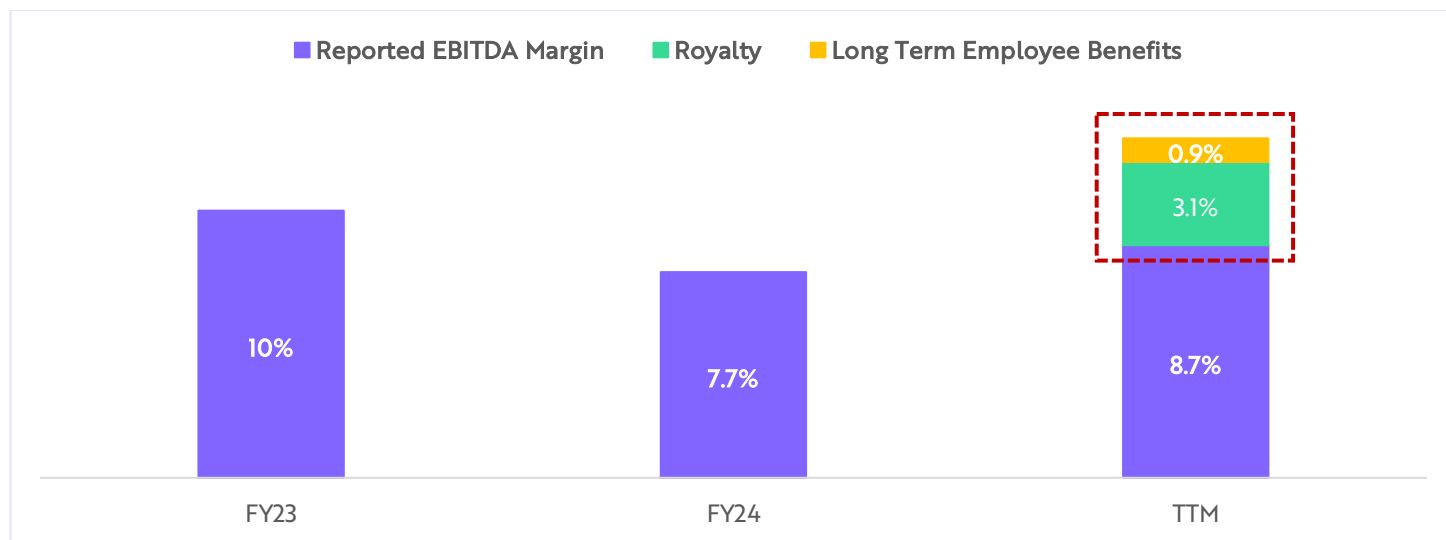


This improved growth in revenues has led to massive improvement in company's profitability; primarily on the back of operating leverage.



Note: COGS has increased over the years due to increasing share of licensed brands wherein gross margins are lower as these products are directly imported from parent company and not manufactured by Timex India.

The profitability would have further improved in FY25; but due to royalty payments (discussed later) from April'24 onwards and some long-term employee incentives, overall reported profitability has not seen significant improvement in FY25.



We believe going ahead there is still significant room for margin expansion for the company.

## EXPECTATIONS GOING AHEAD

We believe that Timex can continue to grow revenues at 20-25% rates over the medium term on the back of continued execution by Mr. Chhabra.

**With our expanded product portfolio and strategic retail initiatives, we are confident in our ability to maintain this growth trajectory for years ahead- [Press Release Q2FY25](#)**

Further, such revenue growth should lead to continued improvement in profitability and thus result in a very strong growth in profits over the medium term.

We are buying the stock at ~55x its TTM profits which we believe is reasonable for the kind of non-linear growth in profits that can happen here on the back of improved profitability.

We are starting with 2 conviction rating here and would look to increase the same to 3 in coming quarters with sustained execution.



## RISKS

Though MNCs have a good track record of wealth creation in Indian markets, they have also been notorious for their poor corporate governance when it comes to pulling out money from Indian subsidiaries.

The primary tool for MNCs to do so have been charging royalty in some form or the other. In some cases, setting up of multiple unlisted private subsidiaries and diversion of business from listed entity has also been a tool and most recently we have seen how change in transfer pricing had impacted our thesis on Astrazeneca Pharma.

In Timex as well, the parent has recently started imposing royalty. Beginning Apr'24, Timex India has to pay royalty equal to 6% of revenues from broadly everything manufactured in India, which is roughly 2/3<sup>rd</sup> of revenues (ie. everything excluding licensed brands wherein products are imported).

This has clearly curtailed margin expansion in FY25 as highlighted earlier.

So, this governance issue that is there with MNCs is a key risk here. But given that royalty has been imposed beginning this financial year, the probability of the same increasing over say next 3-4 years is low and thus medium term we should not see any incremental impact atleast on the royalty side.

Further, Timex India currently has an outstanding preference shares of ~Rs120 crores which consists of ~Rs90 crores of principle value and ~Rs30 crores of accumulated & unpaid cumulative dividend on these preference shares.

These preference shares had been issued to the parent entity over the last many years to raise funds and sustain company's operations. Since the company was hardly making any profits; as & when these shares came up for redemption, the company issued new preference shares for the original principle plus the unpaid dividends, with coupon rate being lower in newer shares.

Timex India currently has an annual liability of ~Rs8 crores in the form of dividends on these preference shares.

Given the improved growth & profitability, we believe that Timex can easily clear this entire liability in next 3-years;

- The company generated CFO of ~Rs32 crores in FY24 and has already generated CFO of ~Rs22 crores in H1FY25.
- The company's TTM EBITDA is ~Rs44 crores and company has very minimal capex needs and low working capital requirement, which means most of EBITDA will flow to free cashflows.

Company has a manufacturing unit in Himachal Pradesh with a current annual capacity of ~3 million units.

Manufacturing unit can be expanded by 3x without much capex. Existing unit is entirely depreciated and a new line of a capacity of 1 million units does not cost more than 60-70 lakhs- **AGM 2024**

**Ratings Explanation:**

**Buy:** Expected total return (price appreciation plus dividend yield) of more than 10% over next 12 months.

**Hold:** Expected total return (price appreciation plus dividend yield) of +/- 10% over next 12 months.

**Exit:** No Further Coverage/Update on the stock.

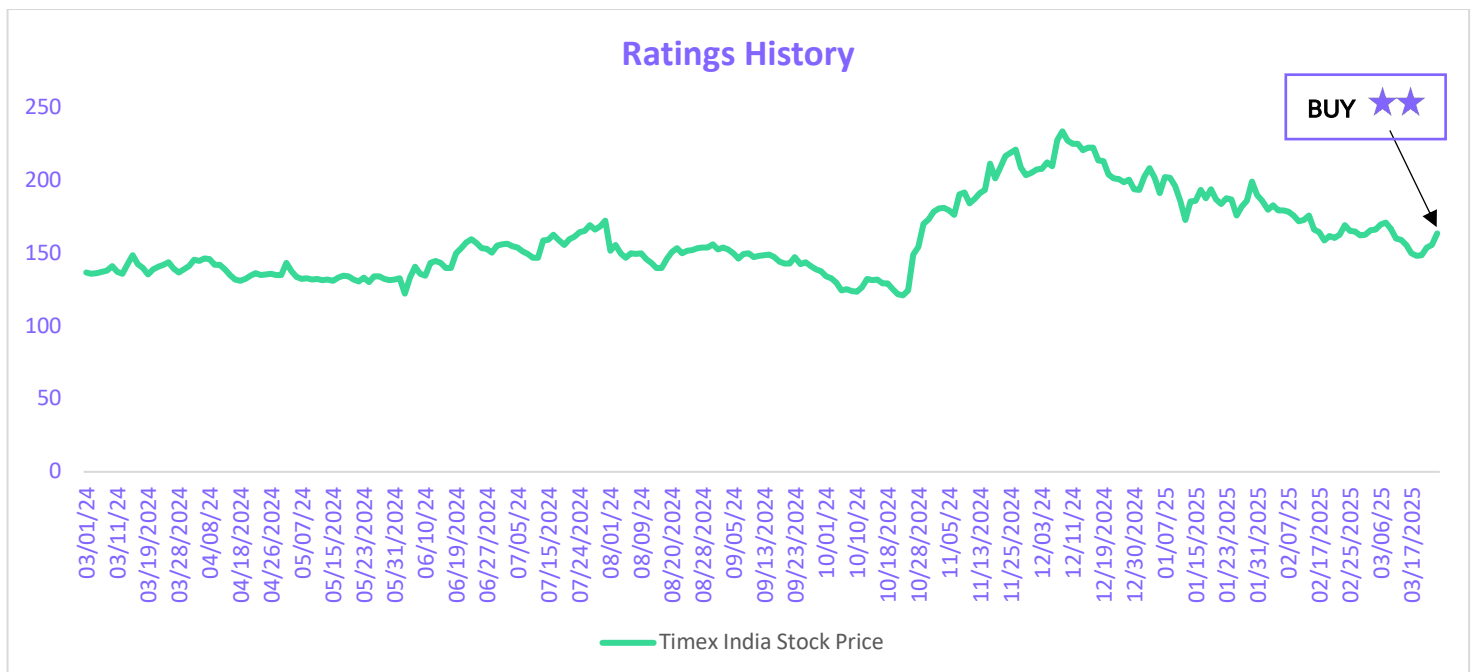
**Conviction Rating:**

Conviction rating reflects our understanding of return:risk ratio of the underlying stock for next 12 months. The rating is given within a range of 1-5 stars, wherein each higher star reflects a higher return:risk ratio; so, 1 star indicates a low return:risk ratio and 5 star indicates a high return:risk ratio.

The rating is based on our qualitative understanding of how the four factors of- Price Action, Earnings Growth, Valuations & Perception will play out over next 12 months for the stock.

Conviction ratings are to be read along with Buy & Hold ratings and no conviction rating is assigned for stocks with Exit rating.

**Note: Ratings are valid till changed.**



Note: Above chart indicates ratings assigned (including changes) over the period of coverage of stock.

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No associates

**Analyst Certification****Analyst: Ankush Agrawal****Email: [ankush@surgecapital.in](mailto:ankush@surgecapital.in)****Analyst Ownership of Stock: No**

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