

Titan Industries

Rs3467

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs154bn; US\$3.4bn

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Result: Q3FY11

Comment: Earnings upgrade of 11%

Key valuation metrics

Year end Mar 31	Net Sales	yoy chg (%)	Net profit	EPS (Rs)	yoy chg (%)	EV / E	PER (x)
FY08	29,969	43.3	1,470	33.1	49.7	67.8	104.7
FY09	38,327	27.9	1,748	39.4	18.9	51.0	88.1
FY10	46,772	22.0	2,513	56.6	43.8	38.5	61.2
FY11E	63,933	36.7	4,582	103.2	82.3	23.9	33.6
FY12E	80,243	25.5	5,789	130.4	26.3	19.1	26.6

Key highlights Q3FY11 results and interaction with the management

- Titan (TTAN) continues to surprise on positive with revenues growing by 47% to Rs19.5bn (estimates of Rs16.4bn), EBITDA of Rs1.95bn (estimates of Rs1.6bn) and PAT growth of 76% to Rs1.37bn (estimates of Rs1.1bn)
- Upbeat consumer sentiments, retail network expansion (624 outlets now), higher gold prices and festive season have contributed to such a high growth momentum
- While watches business has grown by 35% to Rs3.25bn, jewelry business has grown by 50% to Rs15.8bn. Other businesses (including precision engineering and Titan Eye+) reported 37% growth to Rs553m.
- Jewelry business revenue growth has come on the back of 20% higher gold prices, higher contribution from studded jewelry and ~20% volume growth. Gold prices at over Rs2000/ gram during the quarter has really not impacted the volume offtake,
- Watches business growth came on the back of 25% underlying volume growth. While this volume growth was helped by festive season, we expect the volume growth to normalize at 15-17%.
- Segmental EBIT during the quarter stood at Rs1.95bn – 220bp of margin expansion with watches business margins improving by 330bp to 18% and jewelry business margins improving by 200bp to 9%.
- EBITDA margins during the quarter came in at 10% (improvement by 200bp) with gross margins improving by 80bp (helped by price led and mix led growth), employee cost improving by 70bp and other overhead savings of 50bp.

Segmental performance - Quarterly

	Revenues -Rs m			EBIT Margin %		
	Q3FY11	Q3FY10	% growth	Q3FY11	Q3FY10	Change (bp)
Watches	3,251.2	2,409.4	34.9	18.0	14.7	331.4
Jewelry	15,788.3	10,545.2	49.7	9.0	7.0	196.4
Others	552.7	402.5	37.3	(9.3)	(15.0)	569.5
Total	19,592.2	13,357.1	46.7	11.1	9.1	201.5

Source: Company

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Segmental performance – YTD December

	Revenues -Rs m			EBIT Margin %		
	9MFY11	9MFY10	% growth	9MFY11	9MFY10	Change (bp)
Watches	9,375.0	7,450.2	25.8	18.8	16.4	245.3
Jewelry	36,539.3	25,126.9	45.4	8.5	7.3	119.3
Others	1,651.0	1,104.2	49.5	(4.9)	(22.6)	1768.0
Total	47,565.3	33,681.3	41.2	10.1	8.3	173.7

Source: Company

- We believe that growth led by continuing stores has also played a critical role in margin improvement. Current year margins in watches as well as jewelry business are best ever for TTAN
- Other income during the quarter has risen sharply to Rs153m. TTAN currently has cash and cash equivalent of Rs8bn on its books.
- TTAN has added 44 stores during the quarter to reach 624 outlets and currently pans across 0.77m sq. ft. of retail space. TTAN is expected to incur annual capex of Rs800m to add 80-100 stores annually.

□ Growth and margin outlook

TTAN has seen a sharp recovery in the current year after discretionary spending had taken a back seat in FY09 and FY10. TTAN has also achieved its best ever segmental margins on the back of favourable product mix within watches as well as jewelry business, value led growth in jewelry business and operating leverage. With festive season behind us, we expect the growth to stabilize at 30% in Q4FY11 and we upgrade our FY11E earnings estimates by 11% to EPS of Rs103. Going into FY12, we expect TTAN to grow at 26% with watches business growing at 15% (ahead of industry growth of 10-11%) and jewelry business growing at 30% (predominantly volume led) on the back of retail space expansion (80-100 new stores). TTAN is expected to add 4-5 more large format Tanishq stores after strong success of Delhi and Chennai store. However, as we expect the growth to be led by retail space expansion and jewelry business growing faster, we expect the margins to remain flat. Overall earnings growth would also be helped by higher non operating income on the back of Rs8bn of cash and free cash generation. After a long run up, gold prices have corrected by 5% in the past few weeks to Rs1967/gram. We believe that such short term correction in gold prices would bode well for jewelry business volume offtake. It is only if the correction is prolonged that the margins would get impacted (making charges linked to gold prices), though largely offset by higher volumes. We expect 25% earnings growth in FY12 and revise our EPS estimates upward by 11% to Rs130.

Valuations and View

TTAN has been our most preferred retail and lifestyle play with network of over 600 outlets, presence in businesses with low organized penetration (penetration of <30% in watches and <10% in jewelry) and strong consumer brands like Titan, Sonata, Fastrack, Xylys, Tanishq, Titan Eye+. Superiority of TTAN's business model is reflecting in its 35% revenue CAGR and 42% earnings CAGR over the past five years (19% earnings growth even in the toughest year – FY09). High growth, strong balance sheet (free cash flow generation of over Rs5bn annually), low dependence on retail infrastructure development (low presence in mall), low inventory risks and RoCE of 50%+ makes a case for premium valuations. Trading at 27x FY12E earnings, we maintain our Outperformer call with price target of Rs3912. **Maintain Outperformer.**

Quarterly results

(Rs Mn)	Q3FY10	Q4FY10	FY10	Q1FY11	Q2FY11	Q3FY11	FY11E	FY12E
Net Sales	13336	13118	46772	12528.3	15361	19548	63933	80243
% yoy	30	49	22.0	42	34	47	36.7	25.5
EBITDA	1072.5	1010.9	3960	1113.3	1736	1952.1	6297	7864
EBITDA	8.0	7.7	8.5	8.9	11.3	10.0	9.9	9.8
Net interest	29	99	142	25.3	23.8	20.3	(80)	(165)
Depreciation	91.1	331.1	607	81.9	85.9	85.7	350	406
Other Income	28.3	42.8	15	80.2	80.6	152.8	250	417
Profit before Tax	980.7	623.6	3226.6	1086.3	1706.5	1998.9	6277.0	8039.9
Tax	199.3	84.8	713	273.5	429.3	623.72	1695	2221
Share of Profit/ Loss from associate			0				0	0
Profit After Tax	781.4	538.8	2513.5	812.8	1277.2	1375.2	4582.2	5788.8
% yoy	85	545	43.8	77	65	76	82.3	26.3

Source : IDFC Securities Research

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2. Neutral: Within 0-5% to Index (upside or downside)
3. Underperformer: Less than 5% to Index

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