

# Titan Industries

## 2Q FY10 results: Not on expected lines

Titan's jewellery volume sales showed sequential improvement as volumes declined ~8% in 2Q FY10 against ~15% volume decline in 1Q FY10. But still, the higher base of 2Q FY09 weighed on the company's performance in both watches and jewellery. Factoring in lower-than-expected results, we reduce our rating from Outperformer to Neutral.

- Results lower than estimates though jewellery revenues in line**  
 Revenues grew by 5.4% (our expectation: 10.4%), primarily disappointed by the 2.6% decline in watch revenues. Jewellery revenue growth was in line with our estimates of 9.4%, with volume declining by about 7-8%—a sharp improvement from the 15% volume decline in 1Q FY10. Precision engineering revenues also declined, contributing to the lower revenue growth.
- High base effect contributes to disappointment**  
 Revenues from watches were impacted by lower Sonata volume and by two weeks less of the usual exchange offer. Gold jewellery could not match 2Q FY09's margin of 9%, due to lower volume and a higher gold lease cost (3% in 2Q FY10 versus 1.5% in 2Q FY09). It is also a function of the high base effect as 2Q FY09 saw 18% revenue growth in watches with launch of Sonata SF and jewellery volume was higher due to stable prices during July-August 2008.
- Reduce rating to Neutral; reduce target price to Rs 1,299**  
 Factoring in the 2Q FY10 results, we have revised our EPS downwards by 3% to Rs 44 for FY10E and Rs 54.4 for FY11E. Maintaining our weighted average metric of three valuations: P/E (23x FY11 earnings: Rs 1,250), DCF (WACC of 11.6% and terminal growth rate of 4%: Rs 1,343), and EV/EBITDA (15x FY11: Rs 1,258)—our average value is reduced to Rs 1,299 from Rs 1,345. We reduce our rating to **Neutral** from Outperform.

**Figure 1: Key financials**

Rs million (unless stated otherwise), year-end March					
	2Q FY10A	2Q FY09A	2Q FY10E	Variation (actual/est.,%)	2Q FY10 Consensus
Revenue	11,469	10,888	12,018	-4.6%	11,332
% growth	5.3%	53.0%	10.4%		4.1%
EBITDA	1,082	1,263	1,450	-25.4%	1,296
Margin (%)	9.4%	11.6%	12.1%		11.4%
Net profit	776	871	929	-16.4%	710
EPS (Rs)	17.5	19.6	20.9	-16.4%	16.0
% growth	-10.9%	77.9%	6.6%		-18.5%

Source: Company data, Bloomberg, Reliance Equities estimates.

## Outperform

Rs 1,361

Target price: Rs 1,299

FMCG

**Anand Mour**

anand.mour@relianceada.com  
+9122 3954 1553

**Mihir P. Shah**

mihir.p.shah@relianceada.com  
+9122 3954 1554

Bloomberg code	TTAN IN
Reuters code	TITN.BO
3m avg. traded value (Rs mn)	117
52-wk H/L (Rs)	1509/666.9
Sensex	16810.9
Mcap (US\$ mn/Rs bn)	1297.3/60.5

### Shareholding (%)

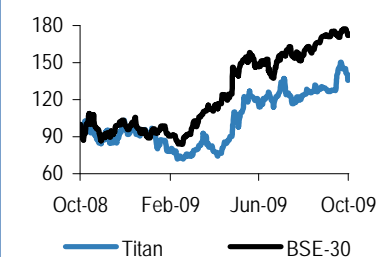
	Jun-09	Mar-09
Promoters	53.1	53.1
MFs, FIs, banks	9.0	7.1
FIs	10.2	12.3
Others	27.8	27.5

### Stock performance (%)

	1m	6m	1yr
Absolute	8.5	78.6	39.2
BSE 30 Index	0.5	51.0	72.0

### Share price performance

Base=100



Source: Bloomberg, Capitaline.

**Figure 2: Quarterly results**

Rs million (unless stated otherwise), year-end March							
	2Q FY10	2Q FY09	YoY gr.	1Q FY10	1H FY10	1H FY09	YoY gr.
<b>Net sales</b>	<b>11,468</b>	<b>10,885</b>	<b>5.4%</b>	<b>8,828</b>	<b>20,296</b>	<b>18,988</b>	<b>6.9%</b>
Other op. income	1	2	-65.2%	1	2	4	-45.9%
<b>Total op. income</b>	<b>11,469</b>	<b>10,888</b>	<b>5.3%</b>	<b>8,829</b>	<b>20,298</b>	<b>18,992</b>	<b>6.9%</b>
<b>Expenditure</b>							
Raw mat consumed	8,470	7,774	9.0%	6,018	14,487	13,689	5.8%
<i>% of op. inc.</i>	<i>73.8%</i>	<i>71.4%</i>		<i>68.2%</i>	<i>71.4%</i>	<i>72.1%</i>	
Employees cost	652	557	17.0%	616	1,268	1,076	17.8%
<i>% of op. inc.</i>	<i>5.7%</i>	<i>5.1%</i>		<i>7.0%</i>	<i>6.2%</i>	<i>5.7%</i>	
Advertising	516	541	-4.7%	445	960	948	1.3%
<i>% of op. inc.</i>	<i>4.5%</i>	<i>5.0%</i>		<i>5.0%</i>	<i>4.7%</i>	<i>5.0%</i>	
Other expenditure	750	753	-0.4%	956	1,706	1,454	17.3%
<i>% of op. inc.</i>	<i>6.5%</i>	<i>6.9%</i>		<i>10.8%</i>	<i>8.4%</i>	<i>7.7%</i>	
Total expenditure	10,387	9,624	7.9%	8,035	18,422	17,168	7.3%
<b>EBITDA</b>	<b>1,082</b>	<b>1,263</b>	<b>-14.3%</b>	<b>794</b>	<b>1,876</b>	<b>1,824</b>	<b>2.8%</b>
<i>EBITDA margin</i>	<i>9.4%</i>	<i>11.6%</i>		<i>9.0%</i>	<i>9.2%</i>	<i>9.6%</i>	
Other income	31	10	205.9%	9	40	19	114.6%
PBDIT	1,113	1,273	-12.6%	803	1,916	1,843	4.0%
Depreciation	89	79	13.2%	90	179	156	14.6%
PBIT	1,024	1,195	-14.3%	713	1,737	1,687	3.0%
Interest	50	62	-18.9%	76	126	108	17.4%
PBT	974	1,133	-14.0%	637	1,611	1,579	2.0%
Prov for tax	198	261	-24.4%	177	375	381	-1.8%
<i>% of PBT</i>	<i>20.3%</i>	<i>23.1%</i>		<i>27.8%</i>	<i>23.2%</i>	<i>24.1%</i>	
<b>PAT</b>	<b>776</b>	<b>871</b>	<b>-10.9%</b>	<b>460</b>	<b>1,236</b>	<b>1,198</b>	<b>3.2%</b>

Source: Company data, Reliance Equities research.

**Figure 3: Segmental breakdown**

Rs million (unless stated otherwise), year-end March							
	2Q FY10	2Q FY09	YoY gr.	1Q FY10	1H FY10	1H FY09	YoY gr.
<b>Segmental sales</b>							
Watches	2,955	3,035	-2.6%	2,086	5,041	4,753	6.0%
Jewellery	8,226	7,522	9.4%	6,356	14,582	13,679	6.6%
Others	310	341	-9.1%	391	702	576	21.8%
<b>Total</b>	<b>11,492</b>	<b>10,898</b>	<b>5.5%</b>	<b>8,833</b>	<b>20,324</b>	<b>19,009</b>	<b>6.9%</b>
<b>Sales mix</b>							
Watches	25.7%	27.8%	(213)	23.6%	24.8%	25.0%	(20)
Jewellery	71.6%	69.0%	256	72.0%	71.7%	72.0%	(22)
Others	2.7%	3.1%	(43)	4.4%	3.5%	3.0%	42
<b>PBIT</b>							
Watches	583	603	-3.3%	293	876	772	13.5%
Jewellery	577	676	-14.6%	514	1,092	1,031	5.8%
Others	(111)	(51)	115.8%	(89)	(199)	(71)	179.9%
<b>Total</b>	<b>1,049</b>	<b>1,227</b>	<b>-14.5%</b>	<b>719</b>	<b>1,768</b>	<b>1,732</b>	<b>2.1%</b>
<b>PBIT margins</b>							
Watches	19.7%	19.9%	(14)	14.1%	17.4%	16.2%	113
Jewellery	7.0%	9.0%	(197)	8.1%	7.5%	7.5%	(5)
Others	-35.7%	-15.0%	(2,064)	-22.6%	-28.4%	-12.4%	(1,605)
<b>Total</b>	<b>9.1%</b>	<b>11.3%</b>	<b>(213)</b>	<b>8.1%</b>	<b>8.7%</b>	<b>9.1%</b>	<b>(41)</b>
<b>PBIT mix</b>							
Watches	55.5%	49.1%	645	40.8%	49.5%	44.6%	497
Jewellery	55.0%	55.1%	(8)	71.5%	61.7%	59.5%	219
Others	-10.6%	-4.2%	(637)	-12.3%	-11.3%	-4.1%	(716)

Source: Company data, Reliance Equities research.

**Figure 4: Summary financials**

Rs million (unless stated otherwise), year-end March				
Income statement	FY08	FY09	FY10E	FY11E
<b>Sales</b>	<b>29,937</b>	<b>38,034</b>	<b>43,519</b>	<b>49,231</b>
Raw material	(21,811)	(25,913)	(29,506)	(32,520)
Employee expenses	(1,934)	(2,334)	(2,677)	(3,189)
SG&A expenses	(1,516)	(1,814)	(1,832)	(2,161)
Other operating expenses	(2,173)	(5,008)	(6,326)	(7,523)
Other op. income	6	9	-	-
<b>EBITDA</b>	<b>2,510</b>	<b>2,974</b>	<b>3,178</b>	<b>3,838</b>
Deprn and amort.	(297)	(418)	(390)	(437)
<b>EBIT</b>	<b>2,213</b>	<b>2,556</b>	<b>2,788</b>	<b>3,401</b>
Net int. income/exp.	(201)	(294)	(210)	(207)
Inc./loss from assoc.	-	-	-	-
Other non-op inc./exp.	12	44	63	68
PBT	2,023	2,306	2,640	3,261
Provision for taxes	(440)	(607)	(686)	(848)
Minority interest	-	-	-	-
Preference dividend	-	-	-	-
Reported net profit	1,503	1,590	1,954	2,413
<b>REIPL net income</b>	<b>1,583</b>	<b>1,699</b>	<b>1,954</b>	<b>2,413</b>
Wtd avg # of shares	44.4	44.4	44.4	44.4
EPS (basic, rep) (Rs)	33.9	35.8	44.0	54.4
EPS (dil., rep.) (Rs)	33.9	35.8	44.0	54.4
<b>EPS (dil., adj.) (Rs)</b>	<b>35.7</b>	<b>38.3</b>	<b>44.0</b>	<b>54.4</b>
DPS (Rs)	8.0	10.0	13.0	16.0
Divid payout ratio (%)	22.4	26.1	29.5	29.4
Balance sheet	FY08	FY09	FY10E	FY11E
Cash and equiv.	519	547	1,289	2,021
A/c.s receivable	965	1,062	1,215	1,375
Loans and adv.	992	1,141	1,306	1,477
Inventory	10,211	12,027	13,761	15,568
Other current assets	-	-	-	-
<b>Total curr. assets</b>	<b>12,686</b>	<b>14,777</b>	<b>17,572</b>	<b>20,441</b>
Accounts payable	6,576	7,009	8,201	9,128
Short-term debt	-	-	-	-
Other curr. liab.	2,221	3,337	3,833	4,319
<b>Total curr. liab.</b>	<b>8,797</b>	<b>10,346</b>	<b>12,034</b>	<b>13,447</b>
<b>Net curr. assets</b>	<b>3,889</b>	<b>4,432</b>	<b>5,538</b>	<b>6,994</b>
Net fixed assets	2,825	2,940	3,112	3,211
Net intangibles	-	-	-	-
Investments	474	77	77	77
Other long-term assets	0	(0)	0	(0)
<b>Total assets</b>	<b>7,188</b>	<b>7,448</b>	<b>8,727</b>	<b>10,281</b>
Total loans	2,579	1,754	1,754	1,726
Other long-term liab.	247	182	182	182
Shareholders' funds	4,362	5,512	6,791	8,373
Pref. shrs/other equity	-	-	-	-
Minority interest	-	-	-	-
<b>Total liab. and equity</b>	<b>7,188</b>	<b>7,448</b>	<b>8,727</b>	<b>10,281</b>
<b>BVPS (Rs)</b>	<b>98.3</b>	<b>124.2</b>	<b>153.0</b>	<b>188.6</b>
DuPont analysis	FY08	FY09	FY10E	FY11E
Margin (%)	5.3	4.5	4.5	4.9
Asset turnover (x)	2.2	2.3	2.3	2.2
Leverage (x)	3.7	3.4	3.1	2.9
ROE (%)	41.7	34.4	31.8	31.8
Cash Flow Statement	FY08	FY09	FY10E	FY11E
PBT	2,023	2,306	2,640	3,261
D&A add back	(297)	(418)	(390)	(437)
Taxes paid	(367)	(672)	(686)	(848)
(Inc)/dec in w. cap	954	542	1,106	1,456
Other op. cash flow	(1,058)	73	(481)	(1,098)
<b>Cash flow from op. (A)</b>	<b>1,254</b>	<b>1,831</b>	<b>2,190</b>	<b>2,334</b>
Cap exp. (B)	(451)	(533)	(562)	(535)
Acquisitions	-	-	-	-
Divestitures	-	-	-	-
Others	(204)	397	-	-
<b>Cash flow from investing</b>	<b>(654)</b>	<b>(136)</b>	<b>(562)</b>	<b>(535)</b>
FCF (A+B)	804	1,298	1,628	1,799
Divids pd (com. and pref.)	(415)	(519)	(675)	(831)
Inc. in equity	-	-	-	-
Inc./(dec.) in debt	109	(825)	-	(28)
Other financing cash flows	(282)	(323)	(210)	(207)
<b>Cash flow from financing</b>	<b>(588)</b>	<b>(1,667)</b>	<b>(886)</b>	<b>(1,066)</b>
<b>Total cash flow</b>	<b>12</b>	<b>28</b>	<b>742</b>	<b>732</b>
Capital management	FY08	FY09	FY10E	FY11E
Inventory days	103.5	106.7	108.1	108.7
Receivable days	11.5	9.7	9.6	9.6
Growth and margins (%)	FY08	FY09	FY10E	FY11E
Sales growth	43.2	27.0	14.4	13.1
EBITDA growth	43.9	18.5	6.9	20.8
EPS growth	68.5	7.3	15.0	23.5
EBITDA margin	8.4	7.8	7.3	7.8
EBIT margin	7.4	6.7	6.4	6.9
Net margin	5.3	4.5	4.5	4.9
Rev. growth – peers	-	-	-	-
EBITDA growth – peers	-	-	-	-
EBITDA margin – peers	-	-	-	-
EPS growth – peers	-	-	-	-
Noplat	1,731	1,884	2,063	2,517
Invested capital	6,714	7,372	8,650	10,204
ROIC (%)	28.1	26.7	25.8	26.7
ROIC/WACC (x)	2.4	2.3	2.2	2.3
ROIC – peers (%)	-	-	-	-
Valuations	FY08	FY09	FY10E	FY11E
P/E (x)	38.2	35.6	30.9	25.0
P/E (peers) (x)	-	-	-	-
EV/sales (x)	2.1	1.6	1.4	1.2
EV/sales – peers (x)	-	-	-	-
EV/EBITDA (x)	24.9	20.7	19.2	15.7
EV/EBITDA (peer group)	-	-	-	-
P/B (x)	13.9	11.0	8.9	7.2
P/B peer group (x)	-	-	-	-
Div yield (%)	0.6	0.7	1.0	1.2
Free cash flow yield (%)	1.3	2.1	2.7	3.0
Quality of earnings	FY08	FY09	FY10E	FY11E
Op. cash flow/net income (x)	0.8	1.1	1.1	1.0
Capex/Deprn (x)	1.5	1.3	1.4	1.2
Tax charge/pre-tax income (x)	21.8	26.3	26.0	26.0
Net debt/equity (%)	0.5	0.2	0.1	(0.0)
Interest cover (x)	11.0	8.7	13.2	16.4

Source: Company data, Reliance Equities estimates.

**Reliance Equities International: Contact sheet**

Name		Mobile	Direct No.	E-mail
Keshav Sanghi	CEO	+91 93219 25703	+91 22 3954 1515	keshav.sanghi@relianceada.com
Shirin Mehta	Head – CRM	+91 93243 12119	+91 22 3954 1575	shirin.mehta@relianceada.com
Nina Nariman	Head – Events & Marketing	+91 93219 25715	+91 22 3954 1565	nina.nariman@relianceada.com
<b>Research Sector</b>				
Ajay Mathrani	Head of Research & Emerging Companies	+91 93239 57546	+91 22 3954 1571	ajay.mathrani@relianceada.com
Atsi Sheth	Economics	+91 93226 55261	+91 22 3954 1551	atsi.sheth@relianceada.com
Ketaki Sharma		+91 93224 44680	+91 22 3954 1572	ketaki.sharma@relianceada.com
Hitesh Goel	Autos	+91 93209 81115	+91 22 3954 1548	hitesh.goel@relianceada.com
Arun Baid	Emerging Companies	+91 93246 27929	+91 22 3954 1559	arun.baid@relianceada.com
Nilesh Parikh	Financial Services	+91 93246 27907	+91 22 3954 1552	nilesh.parikh@relianceada.com
Gautam Mehta		+91 93235 65269	+91 22 3954 1549	gautam.mehta@relianceada.com
Anand Mour	FMCG & Retail	+91 93243 12116	+91 22 3954 1553	anand.mour@relianceada.com
Mihir P. Shah		+91 93209 81116	+91 22 3954 1554	mihir.p.shah@relianceada.com
Urmik Chhaya	Infrastructure	+91 93249 15136	+91 22 3954 1558	urmik.chhaya@relianceada.com
Harish Bihani	Power Utilities & Capital Goods	+91 93224 43416	+91 22 3954 1578	harish.bihani@relianceada.com
Naveen Jain	Construction	+91 93242 67096	+91 22 3954 1579	naveen.h.jain@relianceada.com
Ganesh Duvvuri	IT & Media	+91 93243 12202	+91 22 3954 1557	ganesh.duvvuri@relianceada.com
Amresh Kumar	Metals & Mining	+91 93243 12156	+91 22 39541563	amresh.g.kumar@relianceada.com
Varatharajan Sivasankaran	Oil & Gas	+91 93246 27970	+91 22 3954 1561	varatharajan.sivasankaran@relianceada.com
Avishek Datta		+91 93246 27967	+91 22 3954 1562	avishek.datta@relianceada.com
Jai Bala	Technicals	+91 93243 12113	+91 22 3954 1502	jai.bala@relianceada.com
Gaurav Jaitly	Telecom	+91 93243 12086	+91 22 3954 1574	gaurav.jaitly@relianceada.com
Abhishek Gupta		+91 93228 35577	+91 22 3954 1556	abhishek.x.gupta@relianceada.com
Dharmendra Sahu	Database	+91 93224 44656	+91 22 3954 1569	dharmendra.sahu@relianceada.com
Mrinalini Bhosle	Co-ordinator	+91 93224 43382	+91 22 3954 1568	mrinalini.bhosle@relianceada.com
<b>Sales</b>				
Sudhanshu Bhuwarka	Co-head	+91 93219 51903	+91 22 3954 1511	sudhanshu.bhuwarka@relianceada.com
Varun Pardiwalla	Co-head	+91 93219 51902	+91 22 3954 1522	varun.pardiwalla@relianceada.com
Nirbhay Singh		+91 93224 44631	+91 22 3954 1507	nirbhay.singh@relianceada.com
Nityanand Singh		+91 93246 27932	+91 22 3954 1503	nityanand.singh@relianceada.com
<b>Salestrading</b>				
S. Chandra Sekaran	Head	+91 93246 27447	+91 22 3954 1525	chandra.s.sekaran@relianceada.com
Jaykrishna Gandhi		+91 93234 31359	+91 22 3954 1512	jaykrishna.gandhi@relianceada.com
Sanjay Kulkarni		+91 93243 12234	+91 22 3954 1513	sanjay.kulkarni@relianceada.com
<b>Trading</b>				
Manish Bhatia	Head	+91 93246 27469	+91 22 3954 1505	manish.j.bhatia@relianceada.com
P. Guruprasad Iyer		+91 93209 81125	+91 22 3954 1516	guruprasad.iyer@relianceada.com
Paras Shah		+91 93207 68338	+91 22 3954 1509	paras.j.shah@relianceada.com
Rajesh Menon		+91 93239 03529	+91 22 3954 1508	rajesh.menon@relianceada.com

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#### **Key to REIPL recommendations**

**Outperform** = Expected total return is more than the hurdle rate.

**Neutral** = Expected total return is less than the hurdle rate but more than zero.

**Underperform** = Expected total return is negative.

**Expected total return** is defined as expected price appreciation over the next 12 months plus our dividend yield forecast for the stock.

**Hurdle rate** is defined as the ten-year government securities yield + our market risk premium assumption.

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#### **DISCLOSURES**

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