



**NEUTRAL**

|                   |       |
|-------------------|-------|
| Price             | Rs790 |
| Target Price      | -     |
| Investment Period | -     |

**Stock Info**

|                    |          |
|--------------------|----------|
| Sector             | Retail   |
| Market Cap (Rs cr) | 3,507    |
| Beta               | 0.7      |
| 52 WK High / Low   | 1325/668 |
| Avg. Daily Volume  | 38,992   |
| Face Value (Rs)    | 10       |
| BSE Sensex         | 12,135   |
| Nifty              | 3,654    |
| BSE Code           | 500114   |
| NSE Code           | TITAN    |
| Reuters Code       | TITN.BO  |
| Bloomberg Code     | TTAN@IN  |

**Shareholding Pattern (%)**

|                      |      |
|----------------------|------|
| Promoters            | 53.1 |
| MF/Banks/Indian FIs  | 11.3 |
| FII/ NRIs/ OCBs      | 12.3 |
| Indian Public/others | 23.3 |

| Abs.           | 3m    | 1yr    | 3yr   |
|----------------|-------|--------|-------|
| Sensex (%)     | 31.9  | (31.1) | (1.7) |
| Titan Ind. (%) | (1.7) | (35.7) | (1.9) |

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**Performance Highlights**

- **Top-line growth in line with estimates:** Titan Industries (Consolidated) posted a Net Sales growth of 10.6% on a yoy basis, but registered de-growth of 11% on a qoq basis to Rs910cr for 4QFY2009. For FY2009, Titan Industries posted a Net Sales growth of 27.9% to Rs3,832.6cr (Rs2,996.9), which was in line with our expectation.
- **Jewellery Sales soar, Watch Segment sluggish in FY2009:** Titan's Jewellery sales registered a yoy growth of 14% in 4QFY2009 to Rs607cr on account of a 24% increase in gold prices during the same period which signifies a drop in sales volume by about 9%. Titan's Jewellery Sales grew a healthy 36.3% yoy in FY2009 to Rs2,763cr and accounted for around 72% of its FY2009 Top-line. The Watches division, on the other hand, remained flat at 1.7% yoy growth in 4QFY2009 to Rs240cr and posted a sluggish growth of 3.6% to Rs908.5cr in FY2009. The company's other businesses including Eyewear, Accessories and Precision Engineering Components registered a yoy growth of 56% in 4QFY2009 to Rs35.5cr. For FY2009, company's other businesses including Eyewear, Accessories and Precision Engineering components rose by 48.8% to Rs136.3cr.
- **Operating Margins sustain at 7.9% for FY2009:** On the Operating front, the company reported a 310bp decline in Margins to 7.1% (10.2%) yoy primarily on the back of a 300bp increase in Other Expenses that comprised loss of Rs29cr following exit of *Tanishq* from the US market in 4QFY2009. However, Titan was able to sustain its FY2009 OPM at 7.9% (8%) levels due to savings accruing from the decline in Employee and Raw Material costs.
- **Bottom-line grows at meager 11% in FY2009:** Net Profit fell by a substantial 57% yoy in 4QFY2009 to Rs26.2 (Rs60.5) on the back of the sharp increase in Interest and Depreciation costs by 88% and 138% yoy, respectively. For FY2009, the company registered a mere 11.2% yoy growth in Net Profit to Rs163.9cr (Rs147.4cr). Interest cost that increased by around 270bp in FY2009 was primarily responsible for the below-par Net Profit growth.

**Key Financials (Consolidated)**

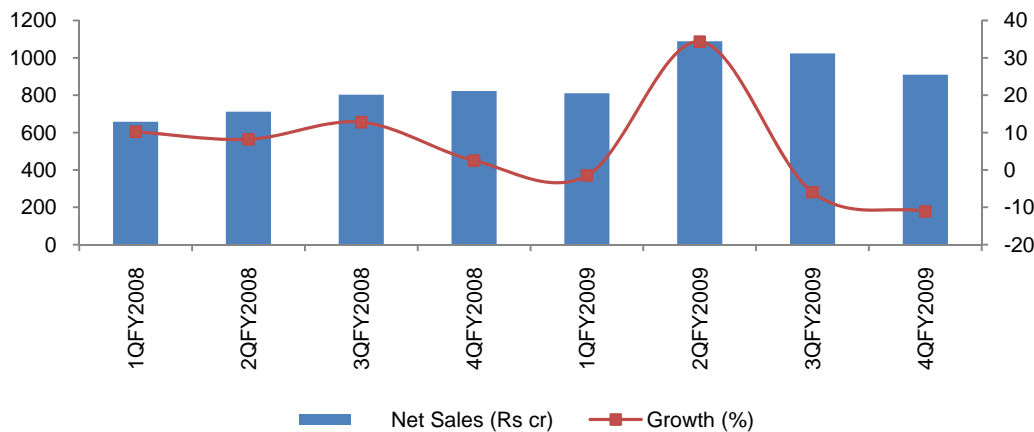
| Y/E March (Rs cr) | FY2008       | FY2009       | FY2010E      | FY2011E      |
|-------------------|--------------|--------------|--------------|--------------|
| <b>Net Sales</b>  | <b>2997</b>  | <b>3833</b>  | <b>4391</b>  | <b>5254</b>  |
| % chg             | 43.3         | 27.9         | 14.6         | 19.6         |
| <b>PAT</b>        | <b>147.3</b> | <b>163.9</b> | <b>186.3</b> | <b>224.1</b> |
| % chg             | 47.7         | 11.2         | 13.7         | 20.2         |
| EBITDA Margin (%) | 8.0          | 7.9          | 7.3          | 7.3          |
| <b>EPS (Rs)</b>   | <b>33.2</b>  | <b>36.9</b>  | <b>42.0</b>  | <b>50.5</b>  |
| P/E               | 23.8         | 21.4         | 18.8         | 15.7         |
| P/BV              | 7.9          | 6.3          | 5.1          | 4.1          |
| RoE               | 37.6         | 32.7         | 29.8         | 25.9         |
| RoCE              | 32.7         | 36.3         | 30.2         | 28.8         |
| EV / Sales        | 1.2          | 0.9          | 0.9          | 0.7          |
| EV / EBITDA       | 15.3         | 12.1         | 11.8         | 9.6          |

Source: Company, Angel Research; Note: Price as on May 4, 2009

**Top-line growth in line with estimates**

Titan posted Net Sales growth of 10.6% on a yoy basis while it registered de-growth of 11% on a qoq basis to Rs910cr during 4QFY2009. For FY2009, Titan posted Net Sales growth of 27.9% to Rs3,832.6cr (Rs2,996.9), which was in line with our expectation.

**Exhibit 1: Net Sales Trend**



Source: Company, Angel Research

Titan added 135 stores in FY2009, taking its total number of stores to 489.

**Jewellery Sales dip in 4QFY2009 but posts a healthy 36% growth in FY2009**

Titan's Jewellery sales registered a yoy growth of 14% by posted a de-growth of 23% on qoq basis in 4QFY2009 to Rs607cr. The main reason for the yoy growth in 4QFY2009 was an increase in gold prices by about 24% during the same period which signifies a drop in sales volume and reinforcing our view that consumers are being cautious when it comes to spending on discretionary items.

The Watches division, on the other hand, remained flat at 1.7% yoy growth in 4QFY2009 to Rs240cr. However, on qoq basis, the Watches division grew by 24%. The company's other businesses including Eyewear, Accessories and Precision Engineering Components registered a yoy growth of 56% but a de-growth of 18% on qoq basis in 4QFY2009 to Rs35.5cr.

**Exhibit 2: Jewellery sales dip in 4QFY2009**



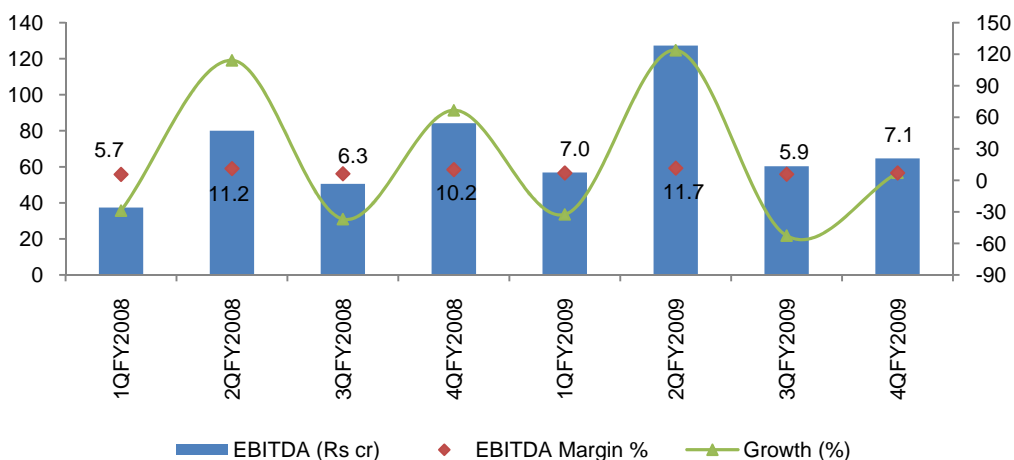
Source: Company, Angel Research

For FY2009, Titan's Jewellery Sales grew a healthy 36.3% to Rs2,763cr and accounted for around 72% of its FY2009 Top-line. Meanwhile, the Watch Segment posted sluggish growth of 3.6% to Rs909cr for FY2009 and constituted about 24% of Titan's Top-line. The remaining 4% was contributed by company's other businesses that grew 48.8% to Rs136.3cr. It is to be noted that the share of Jewellery division in Top-line has been constantly on the rise, increasing from about 47% in FY2005 to 72% in FY2009.

**Operating Margins sustain at 7.9% for FY2009**

On the Operating front, Titan reported a 310bp decline in Margins to 7.1% (10.2%) yoy in 4QFY2009, primarily on the back of the 300bp increase in Other Expenses that comprised loss of Rs29cr following *Tanishq* exiting the US market. However, for FY2009, Titan was able to sustain its OPM at 7.9% (8%) levels on the back of declining Employee and Raw Material costs.

**Exhibit 3: Quarterly EBITDA Margins for Titan Industries**

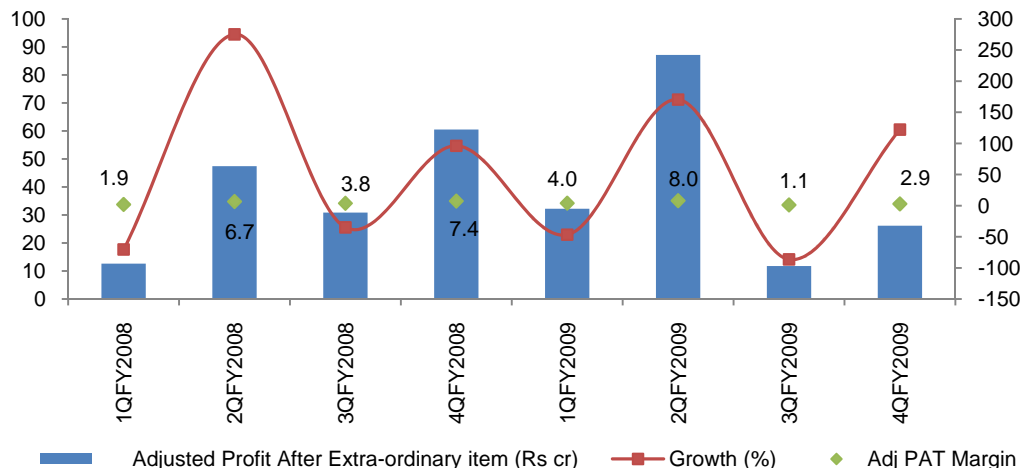


Source: Company, Angel Research

**Bottom-line grows at meager 11% in FY2009**

Titan's Net Profit de-grew 57% yoy in 4QFY2009 to Rs26.2 (Rs60.5) on the back of the substantial increase in Interest and Depreciation costs by 88% and 138% yoy, respectively. Even though Titan witnessed a Margin expansion on qoq basis in Net Profit to 2.9% from 1.1% in 3QFY2009, on yoy basis, the Margins shrunk by 450bp from 7.4% in 4QFY2008

**Exhibit 4: PAT Margins on a decline**



Source: Company, Angel Research

For FY2009, the company's Net Profit grew by a mere 11.2% yoy to Rs163.9cr (Rs147.4cr). Net Profit Margin for the firm declined by about 60bp to 4.3% (4.9%) on account of a significant 270bp increase in the Interest costs.

### Outlook and Valuation

We believe that the niche segments in which Titan Industries operates, viz., Watches, Jewellery and Eyewear have tremendous growth potential. However, the current sluggish macro environment has resulted in consumers deferring their purchase of discretionary items such as Jewellery and watches. Hence, we expect temporary slowdown in the respective segments that the company operates. We estimate Titan to post a CAGR of 17.1% both in its Top-line and Bottom-line over FY2009-11E to Rs5254cr and Rs224cr, respectively.

On the bourses, the stock consistently outperformed the Sensex over the past two years. Although we are positive on the company's future growth prospects owing to its scalable business model that would deliver robust Return Ratios, we believe that at 18.8x FY2010E Earnings and 5.1x FY2010E P/BV, it discounts the same fairly well. On a comparative basis also, Titan is richly valued. **Hence, we remain Neutral on the stock.**

#### Exhibit 5: 4QFY2009 & FY2009 Performance

| Y/E March (Rs cr)                   | 4QFY2009     | 4QFY2008     | % chg         | FY2009       | FY2008       | % chg       |
|-------------------------------------|--------------|--------------|---------------|--------------|--------------|-------------|
| <b>Net Sales</b>                    | <b>910.1</b> | <b>822.5</b> | <b>10.6</b>   | <b>3,833</b> | <b>2,997</b> | <b>27.9</b> |
| Other Income                        | 2.0          | 0.4          | 431.6         | 5.3          | 3.4          | 56.8        |
| <b>Total Revenue</b>                | <b>912.1</b> | <b>822.9</b> | <b>10.8</b>   | <b>3,838</b> | <b>3,000</b> | <b>27.9</b> |
| <b>Total Expenditure</b>            | <b>847.4</b> | <b>738.7</b> | <b>14.7</b>   | <b>3,529</b> | <b>2,757</b> | <b>28.0</b> |
| As % of Net Sales                   | 93.1         | 89.8         |               | 92.1         | 92.0         |             |
| EBITDA                              | 64.7         | 84.2         | (23.2)        | 309.2        | 243.3        | 27.1        |
| EBITDA Margin (%)                   | 7.1          | 10.2         |               | 8.1          | 8.1          |             |
| Depreciation                        | 11.8         | 6.3          | 87.7          | 28.8         | 20.8         | 38.4        |
| Interest                            | 18.9         | 7.9          | 138.0         | 42.4         | 33.3         | 27.1        |
| <b>PBT</b>                          | <b>34.0</b>  | <b>70.0</b>  | <b>(51.4)</b> | <b>238.1</b> | <b>189.2</b> | <b>25.8</b> |
| Tax                                 | 7.9          | 9.5          | (17.2)        | 63.2         | 44.9         | 41.0        |
| <b>PAT</b>                          | <b>26.2</b>  | <b>60.5</b>  | <b>(56.8)</b> | <b>174.9</b> | <b>144.4</b> | <b>21.1</b> |
| PAT Margin (%)                      | 2.9          | 7.4          |               | 4.6          | 4.8          |             |
| Net Extra-Ordinary Income/(Expense) | 0            | 0            |               | 10.9         | (3.0)        |             |
| <b>Adj. PAT</b>                     | <b>26.2</b>  | <b>60.5</b>  | <b>(56.8)</b> | <b>164.0</b> | <b>147.4</b> | <b>11.3</b> |
| Adj. PAT Margin (%)                 | 2.9          | 7.4          |               | 4.3          | 4.9          |             |

Source: Company, Angel Research


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|                            |                                   |                                     |                           |
|----------------------------|-----------------------------------|-------------------------------------|---------------------------|
| <b>Ratings (Returns) :</b> | <b>Buy (Upside &gt; 15%)</b>      | <b>Accumulate (Upside upto 15%)</b> | <b>Neutral (5 to -5%)</b> |
|                            | <b>Reduce (Downside upto 15%)</b> | <b>Sell (Downside &gt; 15%)</b>     |                           |