



# TITAN INDUSTRIES

## Cabinet nod to new BIS norms to add sheen

India Equity Research | Retail

The Cabinet has approved amendment to Bureau of Indian Standards (BIS) Act making hallmarking compulsory for all jewellery items. Increase in transparency of gold quality on back of the amendment will deter the unorganized market due to associated costs and unavailability of authorized centres beyond large cities. Though the amendment awaits Parliament nod, we believe it to be positive for large branded players like Titan Industries (Titan) which will be able to play big on quality card. Maintain 'BUY'.

### Quality assurance to consumers

The Cabinet has approved an amendment that makes hallmarking of all gold jewellery mandatory. This is a significant step by the government to increase transparency in jewellery sales, guaranteeing quality of gold to buyers. Smaller players (~90% of market) are likely to be adversely impacted as they will find it difficult and expensive to get this certification, while for a large player like Titan (which already has ISO 9001:2000 certification, large size and strong brand) will be much easier.

### Implementation of new norm debatable

A major hurdle to implementation of the amendment is the inadequacy of government centres authorized to hallmark jewellery. These centres are present only in large cities which make hallmarking complicated for small town jewellers. Also, the cost associated with licence fee for hallmarking makes it unpopular with traders. For these reasons a similar proposal had been deferred three years ago. Unless stringent penalty is imposed on offenders and recognized centres are established across the country, the purpose of providing uniformity in gold may be defeated.

### Outlook and valuations: Cautious in medium term; maintain 'BUY'

We believe this legislative step is a big positive for Titan. However as per our channel checks, the company's jewellery segment is likely to face medium-term slowdown due to tremendous volatility in gold prices. Recent correction in stock price factors this slowdown and we remain positive on long term growth potential. At CMP, the stock is trading at 28.1x FY 12E and 22.0x FY13E. We maintain 'BUY/Sector Outperformer'.

#### Financials

Year to March	FY10	FY11	FY12E	FY13E
Revenues (INR mn)	46,786	65,342	87,272	106,329
Rev. growth (%)	22.0	39.7	33.6	21.8
EBITDA (INR mn)	3,974	5,907	7,636	9,570
Net profit (INR mn)	2,513	4,331	5,608	7,191
Shares outstanding (mn)	888	888	888	888
Diluted EPS (INR)	2.8	4.9	6.3	8.1
EPS growth (%)	53.3	72.4	29.5	28.2
Diluted P/E (x)	62.8	36.4	28.1	22.0
EV/EBITDA (x)	39.4	25.0	18.7	14.4
ROAE (%)	39.0	49.0	45.4	42.6

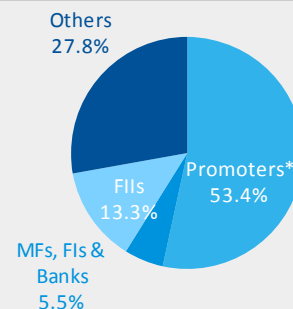
#### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Low
Sector Relative to market	Overweight

#### MARKET DATA (R: TITN. BO, B: TTAN IN)

CMP	: INR 179
Target Price	: INR 230
52-week range (INR)	: 238 / 147
Share in issue (mn)	: 887.8
M cap (INR bn/USD mn)	: 159 / 2,987
Avg. Daily Vol. BSE/NSE ('000)	: 6,822.9

#### SHARE HOLDING PATTERN (%)



\* Promoters pledged shares : Nil  
(% of share in issue)

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Retail Index
1 month	(7.5)	0.9	(6.0)
3 months	(18.2)	(4.4)	(15.5)
12 months	0.5	(20.8)	(23.8)

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