

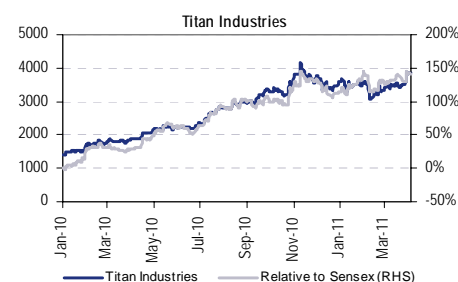
Management Call Highlights

- Positive consumer sentiments, premiumisation continues to lead growth:** Titan's businesses continue to benefit from positive consumer sentiments. As per management, food-price inflation has had a negligible negative impact on offtakes in the higher-end *Tanishq* and *Titan* segments of the jewellery and watches businesses. The company is working on their business plan for the year ahead on the premise that consumer sentiments would remain buoyant and is, therefore, proceeding with its plans for retail-expansion and new collections launches in both jewellery and watches. New collections not only drive demand, especially during lean-season but also lend pricing flexibility, as a new collection is typically priced higher vs the brand's average. Importantly, management sounded upbeat on premiumisation as a trend and is looking at accessorisation and designs as pillars for driving growth of its businesses (including watches).
- Quality of growth suggests prevalence of structural mix-improvement:** Both *Tanishq* and *Zoya* formats (mid to high-end) have been major drivers of sales growth in the jewellery division; *Gold Plus* (mass segment, lower margins) lagged (*refer Exhibit 1 inside*). *Tanishq* stores delivered c.44% YoY increase in like-to-like sales between Apr-Dec'10 vs a mere 13% increase in *Gold Plus*. Management remains upbeat on premiumisation potential and believes that its target of achieving 40% share of studded-jewellery sales could be achieved sooner than the earlier target of FY15. The company's plans are premised on a 10% YoY growth in gold prices. On the flipside, while Titan maintains that the recent 1% ad-valorem excise duty on 'branded jewellery' is not payable by the company, it would now start providing for it in its books, as a matter of abundant caution. This might hamper margin to a certain extent, we believe. As per management, the stores are not recovering the levy from consumers, as it would weaken their legal position.
- Watches demand driven by designs, functional characteristics are now secondary:** Titan's management remains confident of maintaining watches growth rate. On product obsolescence/substitution risks, management opined that watches demand is now driven based on their appeal as a fashion accessory and their time-keeping function has, over time, become secondary. The business is looking at raising the store size from an average 1,500-1,800sq ft presently to c.2,500sq ft to enable better display of its collections. Like jewellery, watches business is also witnessing mix improvement with growth in the higher-end watches outpacing that of lower-end *Sonata*.
- Eyewear expansion plan in full steam, targeting FY13 break-even:** Eyewear business has nearly doubled the store-count from 82 in the beginning of the year to c.150 now. Titan continues to focus its attention on aspects like designing, marketing and retailing part of the value-chain and has outsourced rest of the activities. The business is targeting 100 new store-additions in FY12 and business break-even in FY13.

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Daily Performance



%	1M	3M	12M
Absolute	14.8	8.6	111.3
Relative	8.3	11.7	101.6

* To the BSE Sensex

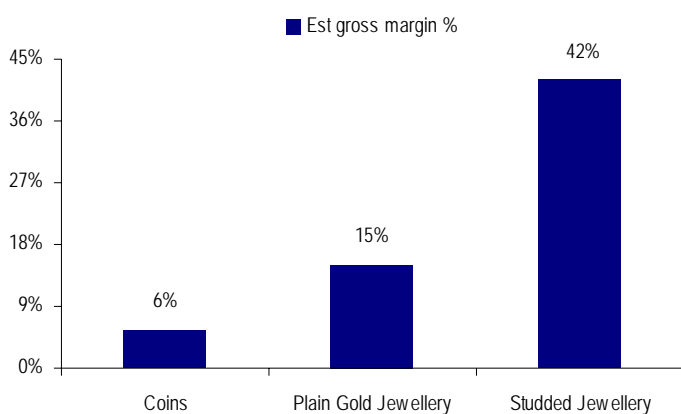
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Exhibit 1: Channel-wise retail sales growth in Apr-Dec'10

	Total growth %	LTL growth %
Watches formats		
World of Titan	21%	13%
Fastrack	4x	2x
Helios	3x	45%
Large-format watches stores	66%	38%
Jewellery formats		
Zoya	46%	46%
Tanishq	47%	44%
Gold Plus	13%	13%
Titan Eye+	67%	47%

Source: Company data, JM Financial

Exhibit 2: Studded jewellery gross margin 2.5-3x that of plain gold (%)

Source: JM Financial

Financial Tables (Consolidated)

Profit & Loss						(₹ mn)
Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E	
Net sales (Net of excise)	38,326	46,772	63,794	76,539	91,744	
Growth (%)	27.9	22.0	36.4	20.0	19.9	
Other operational income	0	0	0	0	0	
Raw material (or COGS)	27,785	34,429	46,526	55,651	66,559	
Personnel cost	2,365	2,779	3,790	4,516	5,367	
Other expenses (or SG&A)	5,138	5,604	7,243	8,683	10,331	
EBITDA	3,039	3,960	6,235	7,689	9,487	
EBITDA (%)	7.9	8.5	9.8	10.0	10.3	
Growth (%)	26.7	30.3	57.5	23.3	23.4	
Other non-op. income	53	127	398	598	846	
Depreciation and amort.	423	607	403	458	516	
EBIT	2,669	3,480	6,229	7,829	9,818	
Add: Net interest income	-288	-254	-107	-94	-90	
Pre tax profit	2,381	3,226	6,122	7,735	9,728	
Taxes	741	713	1,655	2,092	2,630	
Add: Extraordinary items	0	0	0	0	0	
Less: Minority interest	0	0	0	0	0	
Reported net profit	1,639	2,513	4,467	5,643	7,097	
Adjusted net profit	2,105	2,633	4,467	5,643	7,097	
Margin (%)	5.5	5.6	7.0	7.4	7.7	
Diluted share cap. (mn)	44	44	44	44	44	
Diluted EPS (₹)	47.4	59.3	100.6	127.1	159.9	
Growth (%)	51.3	25.1	69.7	26.3	25.8	
Total Dividend + Tax	519	776	1,380	1,744	2,193	

Source: Company, JM Financial

Cash flow statement						(₹ mn)
Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E	
Reported net profit	1,639	2,513	4,467	5,643	7,097	
Depreciation and amort.	305	437	403	458	516	
-Inc/dec in working cap.	-557	842	-1,249	-645	-1,009	
Others	0	0	0	0	0	
Cash from operations (a)	1,387	3,793	3,621	5,457	6,605	
-Inc/dec in investments	7	0	0	0	0	
Capex	-422	-243	-917	-950	-996	
Others	54	-298	418	151	207	
Cash flow from inv. (b)	-361	-542	-499	-799	-790	
Inc/-dec in capital	1	4	0	0	0	
Dividend+Tax thereon	-519	-776	-1,380	-1,744	-2,193	
Inc/-dec in loans	-433	-936	-73	-99	-84	
Others	-65	-134	64	80	101	
Financial cash flow (c)	-1,017	-1,842	-1,389	-1,762	-2,175	
Inc/-dec in cash (a+b+c)	10	1,409	1,733	2,896	3,640	
Opening cash balance	554	564	1,973	3,706	6,602	
Closing cash balance	564	1,973	3,706	6,602	10,242	

Source: Company, JM Financial

Key Ratios					
Y/E March	FY09A	FY10A	FY11E	FY12E	FY13E
BV/Share (₹)	125.7	164.9	234.4	322.3	432.8
ROCE (%)	34.5	44.4	67.7	73.1	80.9
ROE (%)	37.7	40.8	50.4	45.7	42.4
Net Debt/equity ratio (x)	0.2	-0.2	-0.3	-0.4	-0.5
Valuation ratios (x)					
PER	83.4	66.7	39.3	31.1	24.7
PBV	31.5	24.0	16.9	12.3	9.1
EV/EBITDA	58.1	44.0	27.7	22.0	17.5
EV/Sales	4.6	3.7	2.7	2.2	1.8
Turnover ratios (no.)					
Debtor days	10	7	7	7	7
Inventory days	115	105	105	105	105
Creditor days	124	123	122	124	124

Source: Company, JM Financial

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