

Titan Industries Ltd.

Titan Industries has reported subdued performance for Q3 FY2009. Net Sales grew @ 27.6% to Rs.1023.8 crore (Rs.802.4 crore) led by 33.4% increase in jewelry business to Rs.788.7 crore, which in turn was driven by 24% rise in gold prices. Growth in watches business was subdued at 4% to Rs.193.1 crore. OPM% declined to 5.8% (6.2%) due to rise in raw material costs (on back of rising gold prices) and increase in Staff cost. to 7.4% of Net Sales (5.6%). Staff cost was higher as company has provided Rs.12.8 crore on account of reduction in discount rate used for actuarial valuation of gratuity. Consequently, PBT was up by 23.1% to Rs.46.8 crore. A higher tax rate of 35.1% (17.2%) led to decline in PAT to Rs.29.4 crore (Rs.30.8 crore)

For 9 months ended December 2008, Net Sales grew at 34.60% to Rs.2922.7 crore (Rs.2171.2 crore) led by 9.6% rise in Watches business and 44.1% growth in Jewelry business. OPM% improved marginally to 8.3% (7.9%). Consequently, PBT (after extraordinary items) grew @ 54.2% to Rs.46.8 crore (Rs.38.1 crore). A lower tax rate of 25.5% (30%) led to 65.6% growth in PAT to Rs.148.7 crore.

Titan, has four business divisions-Watches, Jewelry, Prescription eyewear and precision engineering. Titan dominates the domestic watch and organized jewelry market with a market share of 60% and 40% respectively. In watches, Titan has a strong retail presence with a network of 260 'World of Titan' showrooms and nearly 750 service centres. Company covers the entire price spectrum from Rs.250 to Rs.50,000. Titan expects this segment to grow 12-15% going forward.

After its successful foray into organized jewelry market with Tanishq, the company has recently forayed into mass jewelry thru 'Gold Plus' brand that sells plain gold jewelry. As 70% of the business is in gold jewelry, rise in raw material costs can be passed on as customers are aware of gold prices. Diamond jewelry business, which has good margins, is growing too.

Titan has diversified into high margin fashion eyewear by launching Fastrack eye-gear, sunglasses as well as prescription eyewear, sold through its 50 stores under Titan Eye+ brand. Eyewear is in its early investment phase and will break even in next 2-3 years. Company had even ventured into precision engineering which supplies precision components to the avionics and the automotive industries. This business has achieved a break even and is now making profits.

The present economic slowdown has had some impact on the company's operations during the quarter. The watch division has seen lesser walk-in's in malls and large format stores in big cities resulting in lower growth. However, customers have continued the momentum of purchasing jewelry from Tanishq and Gold plus outlets and the jewelry division has grown at a robust pace. The coming months would see a number of new product offerings from all the watches and jewelry divisions, to stimulate walk-ins and sales at retail outlets.

Thus, though slowdown in discretionary spend especially as 50-60% of total revenues are from high-end products is likely to affect Titan's performance, company with strong branding and wide retail presence, is a good play on India's income and demographic story. Going forward, increased contribution from eyewear and precision engineering business will also augur well for the company.

At CMP of Rs.785, share is trading at 17.8 times FY 2009 expected EPS of Rs.44 and 14.2 times FY 2010 expected EPS of Rs.54. We recommend to "BUY the share at CMP with a long term view.

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