

October 26, 2010

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs3287	Rs 3762
EPS change FY11E/12E (%)	+10/+10
Target Price change (%)	22
Nifty	6,106
Sensex	20,303

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(2)	19	59	141
Rel. to Nifty	(3)	6	39	98

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Retail
Bloomberg	TTAN@IN
Equity Capital (Rs mn)	444
Face Value(Rs)	10
No of shares o/s (mn)	44
52 Week H/L	3,460/1,214
Market Cap (Rs bn/USD mn)	146/3,291
Daily Avg Volume (No of sh)	186449
Daily Avg Turnover (US\$m)	12.9

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	53.3	53.3	53.1
FII/NRI	11.0	11.0	10.8
Institutions	8.9	8.9	8.9
Private Corp	3.4	3.4	3.6
Public	23.4	23.4	23.6

Source: Capitaline

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- **Titan reported good performance in 'Watches' and 'Jewellery' largely propelled by volume growth**
- **Q2FY11 headline numbers - revenue growth 33.9% yoy to Rs15.4 bn, Operating Profit growth 60% yoy to Rs1.7 bn and APAT growth of 64.6% yoy to Rs1.3 bn**
- **Key segments posted robust performance – 'Watches' grew 19.7% yoy to Rs3.6 bn and Jewellery grew 36.7% yoy to Rs11.2 bn**
- **10% earnings upgrade to FY11E (Rs87/Share) and FY12E (Rs112/Share) – Maintain 'ACCUMULATE' rating with revised target price of Rs3762/Share**

Q2FY11 performance exceeds expectations – 30% ahead of expectations

Titan reported 33.9% yoy growth in net revenues to Rs15.4 bn – ahead of our expectations. Revenue growth was led by (1) 36.7% yoy growth in 'Jewellery' business to Rs11.2 bn (2) 19.7% yoy growth in 'Watch' business to Rs3.5 bn and (3) 80.6% yoy growth in 'Other' business to Rs560 mn. Titan recorded healthy volume growth in Jewellery (approximately 8%) and Watches (approximately 10%) and gains from operating leverage. Consequently, Titan reported 190 bps expansion in operating margins and 60.0% yoy growth in operating profit to Rs1.7 bn. Even, APAT grew by 64.6% yoy to Rs1.3 bn – mirroring growth in operating profit.

Backed by strong volume growth- all business segments posted robust performance

All business segments reported strong performance on back of healthy volume growth and benefits from operating leverage.

- 'Watches' segment reported 19.7% yoy growth in revenues to Rs3.6 bn & 31.0% yoy growth in EBIT to Rs763 mn. EBIT margins expanded 190 bps yoy to 21.6%.
- 'Jewellery' segment reported 36.7% yoy growth in revenues to Rs11.2 bn & 73.0% yoy growth in EBIT to Rs998 mn. EBIT margins expanded 190 bps yoy to 8.9%.
- 'Others' segment that includes 'Eyewear' and 'Precision Engineering' grew 80.6% yoy growth in revenues to Rs560 mn. But, posted EBIT loss of Rs47 mn- on expected lines.

Factor higher margins and volume growth, earnings upgrade of 10% for FY11E and FY12E, Maintain 'ACCUMULATE' rating

Factoring (1) better than expected volume growth in Watches and Jewellery and (2) benefits of operating leverage – we have upgraded our FY11E and FY12E earnings by 10% to Rs87/Share and Rs116/Share respectively. We continue to maintain 'Titan' as our preferred proxy-consumer play. We maintain 'ACCUMULATE' rating with revised target price of Rs3762/Share.

Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	RoE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	38,034	3,371	8.9	2,100	47.3	31.1	42.5	69.7	43.8	26.6
FY10	46,744	3,988	8.5	2,565	57.8	22.1	40.2	57.1	36.4	20.2
FY11E	59,857	5,730	9.6	3,864	87.0	50.6	42.8	37.9	25.4	13.6
FY12E	77,891	7,541	9.7	5,157	116.2	33.5	39.3	28.4	19.0	9.5

Quarterly Results

	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY Gr	QoQ Gr	YTD'11	YTD'10	Gr (%)
Net Sales	11468.8	13338.1	13115.1	12528.3	15360.5	33.9	22.6	27888.8	20296.8	37.4
Expenditure	10386.8	12263.5	11943.2	11415.0	13624.1	31.2	19.4	25039.1	18722.0	33.7
Material Cost	8469.6	10169.5	9671.1	9202.9	11147.5	31.6	21.1	20350.4	14787.4	37.6
% of Sales	73.8	76.2	73.7	73.5	72.6	-130 bps	-90 bps	73.0	72.9	10 bps
Employee Expenses	651.8	678.8	797.9	778.9	823.9	26.4	5.8	1602.8	1268.2	26.4
% of Sales	5.7	5.1	6.1	6.2	5.4	-30 bps	-90 bps	5.7	6.2	-50 bps
Selling & Marketing Expenses	515.6	604.7	546.5	630.1	615.0	19.3	-2.4	1245.1	960.3	29.7
% of Sales	4.5	4.5	4.2	5.0	4.0	-50 bps	-100 bps	4.5	4.7	-30 bps
Other Expenses	749.8	810.5	927.7	803.1	1037.7	38.4	29.2	1840.8	1706.1	7.9
% of Sales	6.5	6.1	7.1	6.4	6.8	20 bps	30 bps	6.6	8.4	-180 bps
Operating Profit	1082.0	1074.6	1171.9	1113.3	1736.4	60.5	56.0	2849.7	1574.8	81.0
EBIDTA (%)	9.4	8.1	8.9	8.9	11.3	190 bps	240 bps	10.2	7.8	250 bps
Other Income	30.9	28.3	43.6	80.2	80.6	160.8	0.5	160.8	40.9	293.2
Interest	50.3	29.0	99.0	25.3	23.8	-52.7	-5.9	49.1	126.2	-61.1
Depreciation	89.0	91.1	331.1	81.9	85.9	-3.5	4.9	167.8	178.6	-6.0
PBT	973.6	982.8	785.4	1086.3	1707.3	75.4	57.2	2793.6	1310.9	113.1
Tax	197.6	199.3	107.0	273.5	429.7	117.5	57.1	703.2	374.5	87.8
APAT (Before Exceptional Items)	776.0	783.5	678.4	812.8	1277.6	64.6	57.2	2090.4	936.4	123.2
APAT (%)	6.8	5.9	5.2	6.5	8.3	160 bps	180 bps	7.5	4.6	290 bps
EPS (Before Exceptional Items)	17.5	17.7	15.3	18.3	28.8	64.6	57.2	47.1	21.1	123.2
EPS (After Exceptional Items)	17.5	17.7	11.5	18.3	28.8	64.6	57.2	47.1	27.9	69.1

Margins (%)	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	(bps)	(bps)	YTD'11	YTD'10	(bps)
EBIDTA	9.4	8.1	8.9	8.9	11.3	190	240	10.2	7.8	250
EBIT	8.9	7.6	6.7	8.9	11.3	230	240	10.2	7.1	310
EBT	8.5	7.4	6.0	8.7	11.1	260	240	10.0	6.5	360
PAT	6.8	5.9	5.2	6.5	8.3	160	180	7.5	4.6	290
Effective Tax rate	20.3	20.3	13.6	25.2	25.2	490	0	25.2	28.6	-340

Segment Revenue	Q2FY11	Q2FY10	Q1FY11	YoY Gr (%)	QoQ Gr (%)	YTD'11	YTD'10	Gr (%)
Watch	3538.6	2955.2	2540.2	19.7	39.3	6078.8	5040.9	20.6
Jewellery	11245.6	8226.2	9505.4	36.7	18.3	20751.0	14582.8	42.3
Others	560.3	310.3	538.0	80.6	4.1	1098.3	701.7	56.5

Segment EBIT	Q2FY11	Q2FY10	Q1FY11	YoY Gr (%)	QoQ Gr (%)	YTD'11	YTD'10	Gr (%)
Watch	763.5	582.7	416.4	31.0	83.4	1179.9	866.1	36.2
Jewellery	998.4	577.2	582.6	73.0	71.4	1581.0	791.5	99.7
Others	-46.7	-110.7	16.7	-57.8	-379.6	-30.0	-189.3	-84.2

Segment Margin	Q2FY11	Q2FY10	Q1FY11	YoY Gr (%)	QoQ Gr (%)	YTD'11	YTD'10	Gr (%)
Watch	21.6	19.7	16.4	190 bps	520 bps	19.4	17.2	220 bps
Jewellery	8.9	7.0	6.1	190 bps	270 bps	7.6	5.4	220 bps
Others	-8.3	-35.7	3.1	2730 bps	-1140 bps	-2.7	-27.0	2420 bps

Capital Employed	Q2FY11	Q2FY10	Q1FY11	YoY Gr (%)	QoQ Gr (%)	YTD'11	YTD'10	Gr (%)
Watch	2,831.5	2,858.0	2,687.6	-0.9	5.4	2,831.5	2,858.0	-0.9
Jewellery	2,179.1	3,525.3	2,763.0	-38.2	-21.1	2,179.1	3,525.3	-38.2
Others	986.5	902.5	956.8	9.3	3.1	986.5	902.5	9.3
Corporate(Unallocated)	4,079.9	393.0	2,413.7	938.1	69.0	4,079.9	393.0	938.1

Financials**Income Statement**

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12E
Net Sales	38,034	46,744	59,857	77,891
Growth	27.0	22.9	28.1	30.1
Expenses	34,663	42,756	54,127	70,350
Growth	25.8	23.3	26.6	30.0
Raw Materials	26,917	33,879	43,174	56,204
% Of Sales	70.8	72.5	72.1	72.2
Employee Cost	2,334	2,745	2,994	3,351
% Of Sales	6.1	5.9	5.0	4.3
Manufacturing Expenses	969	860	1,527	2,376
% Of Sales	2.5	1.8	2.6	3.1
Admin Expenses	1,039	1,151	1,240	1,336
% Of Sales	2.7	2.5	2.1	1.7
Selling & Distribn Expenses	3,623	3,727	5,192	7,084
% Of Sales	9.5	8.0	8.7	9.1
Ebidta	3,371	3,988	5,730	7,541
Growth	41.0	18.3	43.7	31.6
Ebidta%	0.1	0.1	0.1	0.1
Other Income	53	119	285	270
Interest	294	254	52	41
Depreciation	418	601	635	669
PBT	2,707	3,246	5,328	7,101
Tax	607	681	1,464	1,944
PAT (Before EO Item)	2,100	2,565	3,864	5,157
Growth	31.1	22.1	50.6	33.5
Net Margin%	0.1	0.1	0.1	0.1
E/O Item	511	62	0	0
Reported PAT	1,590	2,503	3,864	5,157

CashFlow Statement

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12E
Pre-Tax Profit	2,306	3,213	5,328	7,101
Depreciation & Non Cash	426	586	635	669
Interest & others	1,372	180	52	41
Chg in W Cap	-909	780	-4,040	-2,617
Tax Paid	-593	-1,340	-1,464	-1,944
Operating CashFlow	2,601	3,420	511	3,250
Capex	-656	-423	-356	-356
Free Cash Flow	1,945	2,997	155	2,894
Investments	7	1	0	0
Equity Capital	0	0	0	0
Loans	-383	-1,000	0	-528
Dividend	-353	-442	-519	-519
Others	217	-232	-52	-41
Net Change in Cash	1,433	1,323	-416	1,806
Opening Cash Position	519	547	1,876	1,460
Closing Cash Position	547	1,876	1,460	3,265

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10E	FY11E	FY12E
Equity Share Capital	444	444	444	444
Reserves	5,069	6,800	10,359	14,997
Networth	5,512	7,244	10,803	15,441
Suecured Loans	1,168	728	728	200
Unsecured Loans	587	0	0	0
Loan Funds	1,754	728	728	200
Total Liabilities	7,266	7,972	11,531	15,640
Gross Block	5,930	6,243	6,599	6,955
Less: Accmulated Depreciation	3,186	3,617	4,252	4,921
Net Block	2,745	2,626	2,347	2,034
Capital Work In Progress	195	123	123	123
Investments	77	76	76	76
Current Assets	14,777	18,037	23,540	31,969
Inventories	12,027	13,403	18,578	24,146
Debtors	1,062	936	1,706	2,221
Cash&Bank	547	1,867	1,460	3,265
Loans&Advances	1,141	1,831	1,796	2,337
Current Liabilities & Prov	10,346	12,843	14,714	18,720
Net Current Assets	4,432	5,194	8,826	13,249
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	-182	-48	-48	-48
Total Assets	7,266	7,972	11,325	15,434

Key Ratios

Y/E, Mar	FY09	FY10E	FY11E	FY12E
Profitability %				
Ebidta Mgn	8.9	8.5	9.6	9.7
PAT Mgn	5.5	5.5	6.5	6.6
ROCE	41.6	44.5	52.2	50.6
ROE	42.5	40.2	42.8	39.3
Per Share Data (Rs/share)				
EPS	47.3	57.8	87.0	116.2
CEPS	56.7	71.3	101.3	131.3
BVPS	124.2	163.2	243.4	347.8
DVPS	10.0	10.0	10.0	10.0
Valuations (X)				
PER	69.7	57.1	37.9	28.4
CPER	58.2	46.3	32.6	25.1
P/BV	26.6	20.2	13.6	9.5
Ev/Sales	3.9	3.1	2.4	1.8
Ev/Ebidta	43.8	36.4	25.4	19.0
Dividend Yield	0.5	0.5	0.5	0.5
Turnover (X Days)				
Debtor TO	9.7	10.4	10.4	10.4
Inventory TO	117.1	125.3	125.3	125.3
Gearing Ratio (X)				
Net Debt/Equity	0.2	-0.2	-0.1	-0.2
Total Debt/Equity	0.3	0.1	0.1	0.0

Recommendation History: Titan Industries Ltd – TTAN IN

Date	Reports	Reco	CMP	Target
30/07/2010	Titan Industries Q1FY11 Result Update	Accumulate	2,813	3,074
03/05/2010	Titan Q4FY10 Result Update	Accumulate	2,129	2,483
06/04/2010	Titan Management Meet Update	Accumulate	1,871	2,080
01/02/2010	Titan Q3FY10 Result Update	Hold	1,499	1,763

Recent Research Reports

Date	Reports	Reco	CMP	Target
25/10/2010	Hindustan Unilever Q2FY11 Result Update	Reduce	306	275
27/08/2010	Hindustan Unilever Event Update	Hold	265	271
29/07/2010	Marico Q1FY11 Result Update	Hold	126	128
29/07/2010	Hindustan Unilever Q1FY11 Result Update	Hold	252	257

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