

Titan Industries

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Shareholding (%)

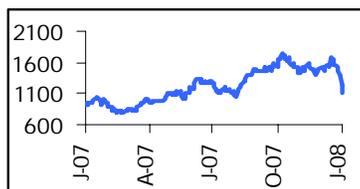
Promoters	53.7
FII's	11.8
MFs	2.1
Others	33.0

Share price performance

52-week high/low (Rs)	1790/757		
	1m	-3m	-12m
Abs (%)	-26.1	-27.7	17.6
Rel* (%)	-11.0	-22.2	-1.8

*to Nifty

Stock chart



Jewellery margins disappoint; Sharp correction in stock presents an attractive opportunity

For Q3FY08, Titan Industries posted a 50.5% growth in net sales to Rs8.02bn. The growth in the company's net profits by 11.3% to Rs308.4mn, however, was below our expectations; this growth was restricted due to the sharp increase in gold prices coupled with investments in new outlets. Titan Industries' EBITDA margins fell sharply by 430bps to 6.2% due to lower margins of the jewellery division.

We have lowered our EPS estimates by 9.6% for FY08 i.e. from Rs36.3 to Rs32.8. EPS estimates for FY09E and FY10E have also been reduced by 10% and 10.4%. In our opinion, the recent fall in the stock price is overdone and presents an attractive investment opportunity, even after taking into account the revised EPS estimates. At the current market price, the stock is trading at PE multiples of 24.8x and 18.6x FY09E and FY10E earnings respectively. We maintain our 'Buy' rating on the stock with a new price target of Rs1686 based on DCF valuation.

KEY HIGHLIGHTS

- ▲ For Q3FY08, Titan Industries' watches division, backed by improved realisations, posted a 20.1% growth in sales to Rs1.95bn. The division's EBIT margins, however, fell by 60bps to 10.4% due to higher overheads and expenses incurred in opening new outlets. The company opened 15 new 'World of Titan' outlets during the quarter taking the total number of outlets to 237.
- ▲ During the quarter, Titan Industries' jewellery division recorded a growth of 61.4% to Rs5.91bn. This increase was driven by higher throughput of 36% while the balance was accounted for by higher gold prices. Gold prices moved up sharply, by 31.4% YoY and 12.5% QoQ, postponing the purchase decision of some consumers. Moreover, amidst rising gold prices, the margins on gold coins fell significantly; this is because, making charges remained constant while higher gold prices pressurised margins.
- ▲ The others segment, that includes precision engineering, sunglasses and prescription eyewear, saw a 93.8% growth in revenues to Rs273mn in Q3FY08. While the segment's EBIT remained negative, losses came down from Rs32mn to just Rs3.3mn in the same period.

Buy

Rs1103

January 22, 2008

Market cap

Rs bn 49

US\$ mn 1,240

Avg 3m daily volume

118,230

Avg 3m daily value

USD mn 5

Shares outstanding (mn)

44

Reuters/Bloomberg

TITN.BO/TTAN IN

NSE/BSE

TITAN/500114

Sensex

16,730

Nifty

4,899

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- Though the jewellery margins were a major disappointment, we strongly believe that the division's performance is expected to improve, going forward, as new stores breakeven and share of studded jewellery to total revenues increase from the current 35%. The recent, sharp correction in the stock price, in our opinion, presents an attractive investment opportunity. While we have lowered our estimates by 10%, we maintain our 'Buy' on the stock with a revised price target of Rs1686.

Table 1. Quarterly result table

	Q3FY08	Q3FY07	YOY (%)	9MFY08	9MFY07	YOY (%)
Gross sales	8,134.5	5,422.1	50.0	22,051.5	15,306.3	44.1
Excise duty	111.0	90.3	22.9	339.3	304.4	11.5
Net sales from operations	8,023.5	5,331.8	50.5	21,712.2	15,001.9	44.7
Total Expenses	7,522.7	4,770.0	57.7	20,046.4	13,778.6	45.5
(Increase)/Decrease in stock	154.3	(216.3)		(2,478.5)	(1,283.3)	
Raw material Consumed	5,063.4	3,439.6	47.2	16,374.9	10,215.5	60.3
Purchase of traded goods	771.4	235.2	228.0	1,865.2	909.1	105.2
Employee cost	447.6	380.3	17.7	1,409.8	1,126.3	25.2
VRS	0.0	25.3	(100.0)	42.1	75.7	(44.4)
Advertisement & sales promotion	481.1	348.5	38.0	1,197.4	1,062.1	12.7
Other Expenses	604.9	538.6	12.3	1,635.5	1,605.2	1.9
Exceptional item Provision for doubtful loans and advances	0.0	18.8	(100.0)	0.0	68.0	(100.0)
EBITDA	500.8	561.8	(10.9)	1,665.8	1,223.3	36.2
Depreciation	73.5	69.9	5.2	218.0	184.4	18.2
EBIT	427.3	491.9	(13.1)	1,447.8	1,038.9	39.4
Interest	51.2	46.5	10.1	138.6	138.5	0.1
Other Income	4.5	8.7	(48.3)	13.9	28.1	(50.5)
PBT	380.6	454.1	(16.2)	1,323.1	928.5	42.5
Provision for tax (including deferred tax)	72.2	176.9	(59.2)	425.3	290.4	46.5
Net Profit	308.4	277.2	11.3	897.8	638.1	40.7
Equity	443.9	443.9		443.9	443.9	
EPS	6.9	6.2		20.2	14.4	

Source: IISL research, company

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Table 2. Key ratios

Key ratios	Q3FY08	Q3FY07	9MFY08	9MFY07
Gross margins %	35.0	39.5	36.0	40.5
A & SP to sales %	6.0	6.5	5.5	7.1
Employee cost to sales %	5.6	7.1	6.5	7.5
EBITDA %	6.2	10.5	7.7	8.2
Effective tax rate %	19.0	39.0	32.1	31.3
Excise duty to gross sales %	1.4	1.7	1.5	2.0
NPM %	3.8	5.2	4.1	4.3

Source: IISL research, company

Table 3. Segment results

Segment Result	Q3FY08	Q3FY07	YOY (%)	9MFY08	9MFY07	YOY (%)
Segment Revenues						
Watches	1,951.5	1,624.3	20.1	6,408.7	5,359.8	19.6
Jewellery	5,914.1	3,665.1	61.4	14,966.6	9,516.5	57.3
Others	273.0	140.9	93.8	688.7	445.9	54.5
Total gross sales	8,138.6	5,430.3	49.9	22,064.0	15,322.2	44.0
Segment EBIT						
Watches	202.5	177.9	13.8	750.3	609.3	23.1
Jewellery	231.5	401.6	(42.4)	816.0	676.8	20.6
Others	(3.3)	(32.0)	(89.7)	(62.2)	(75.8)	(17.9)
Total EBIT	430.7	547.5	(21.3)	1,504.1	1,210.3	24.3
Segment margins						
Watches	10.4%	11.0%		11.7%	11.4%	
Jewellery	3.9%	11.0%		5.5%	7.1%	
Others	-1.2%	-22.7%		-9.0%	-17.0%	
EBIT Margins	5.3%	10.1%		6.8%	7.9%	

Source: IISL research, company

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Table 4.: Projections

Rs mn	FY07	FY08E	FY09E	FY10E
Net sales	20902.4	29109.1	39590.7	53126.1
% Change	44.7	39.3	36.0	34.2
EBITDA	1984.5	1984.5	1984.5	1984.5
% Change	28.9	24.5	29.8	29.0
Net profit	941.3	1456.0	1969.7	2622.5
% Change	27.9	54.7	35.3	33.1
EPS (Rs)	26.6	32.8	44.4	59.1
P/E x	41.3	33.5	24.8	18.6
ROE %	42.2	38.2	38.9	38.7
ROCE %	24.7	25.0	27.1	29.1

Source: IISL research, company

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