

January 31, 2012

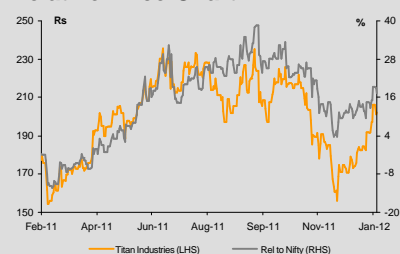
Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 202	Rs 197
EPS change FY12E/13E (%)	-0.3/0.4
Target Price change (%)	-13%
Nifty	5,199
Sensex	17,194

Price Performance

(%)	1M	3M	6M	12M
Absolute	18	(7)	(11)	13
Rel. to Nifty	5	(5)	(7)	19

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Consumers
Bloomberg	TTAN@IN
Equity Capital (Rs mn)	888
Face Value(Rs)	1
No of shares o/s (mn)	888
52 Week H/L	238/147
Market Cap (Rs bn/USD mn)	180/3,641
Daily Avg Volume (No of sh)	4731269
Daily Avg Turnover (US\$m)	17.6

Shareholding Pattern (%)

	Dec-11	Sep-11	Jun-11
Promoters	53.5	53.4	53.3
FII/NRI	13.2	13.3	12.5
Institutions	5.9	5.5	6.2
Private Corp	2.3	3.1	3.2
Public	25.2	24.8	24.8

Source: Capitaline

Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com
+91 22 6612 1273

Prashant Kutty

prashant.kutty@emkayglobal.com
+91 22 6624 2479

- Titan Q3FY12 performance, revenues meets expectations at Rs 24.4 bn, growth of 25% yoy, but PAT below estimates at Rs 1.6bn, growth of 19.2% yoy
- As expected, jewellery volumes de-grew 5% yoy – growth largely driven by high gold prices, jewellery posted 25% yoy growth to Rs 19.9 bn; PBIT margins fell 50bps yoy to 9%
- Watches segment reported 17.2% yoy revenue growth to Rs 3.8 bn, led by 11% volume growth. However, PBIT margins continued its decline to 12.5%, down 590bps yoy
- Titan has multiple challenges, (1) sagging volume growth in jewellery (2) lower margins in watches and jewellery business ... Retain Negative bias with HOLD rating

Highlighting 'Quantity' and 'Quality', Jewellery volume decline 5% yoy but APAT grows of 19.2% yoy

Titan Q3FY12 performance clearly showcased the 'Quantity' and 'Quality' aspect – with volume decline of 5% yoy in Jewellery business and APAT growth of 19.2% yoy. Overall, revenues were in line with estimates, but fell short at EBIDTA and PAT level. Revenues grew 24.8% to Rs 24.4 bn driven by 25% growth in jewellery segment and 17% growth in watches segment. EBITDA margins contracted 130 bps to 8.7% (our expectation of 9.4%) led by higher input costs and adverse forex movement, which impacted watches performance (margins decline of 590 bps yoy). Increase in other income of 60% yoy aided PAT growth of 19.2% yoy to Rs 1.6bn.

Jewellery volumes were impacted by high gold prices; On expected lines

- Jewellery segment revenues grew 25% yoy, largely driven by high gold prices, which increased 37% yoy.
- Store wise Tanishq posted 33% yoy growth, with Like-to-Like (L-T-L) growth at 26% yoy. Goldplus grew 24% yoy, while L-T-L growth was 13%. Store addition continued with Tanishq adding 4 stores and Gold plus adding 2 stores in Q3FY12.
- Volumes declined by 5% yoy mainly attributed by high and volatile gold prices. Customer growth for the quarter was 8% yoy.
- Share of studded jewellery increased to 26.2% during the quarter.
- Launched Mia – a sub brand for working woman
- PBIT margins declined 50bps yoy to 9% for the quarter. On 9MFY12, PBIT margins improved 50 bps yoy to 9%.
- We have revised our volume growth estimates downwards to 8.6% for FY12E and 13.4% for FY13E.

Watches volumes growth steady, but high RM cost and rupee depreciation impacted margins

- Revenues grew 17% yoy to Rs 3.8 bn led by 11% volume growth. Growth was aided by Fastrack, which grew 77% yoy, with L-T-L sales growth at 21% yoy. World of Titan grew 10% yoy and L-T-L sales growth was 8% yoy.

Financial snapshot

Rs mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E (x)	EV/ EBITDA (x)	P/BV (x)
Mar										
FY10	46,744	3,982	8.5	2,532	2.9	20.6	39.7	70.9	44.7	24.8
FY11	65,209	5,874	9.0	4,336	4.9	71.2	49.6	41.4	28.8	17.5
FY12E	88,717	7,916	8.9	6,016	6.8	38.7	47.7	29.9	21.4	12.0
FY13E	105,084	9,718	9.2	7,277	8.2	21.0	40.7	24.7	17.0	8.7

Quarterly results

In Rs Mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD FY12	YTD FY11	YoY (%)
Net Sales	19,548	17,773	20,206	20,965	24,404	24.8	16.4	65,575	47,436	38.2
Expenditure	17,596	16,718	18,361	18,961	22,272	26.6	17.5	59,594	42,635	39.8
Material Cost	14,753	12,936	15,087	15,590	18,676	26.6	19.8	49,353	35,103	40.6
% of Sales	75.5	72.8	74.7	74.4	76.5	106 bps	216 bps	75.3	74.0	126 bps
Employee Expenses	852	1,475	1,022	987	1,070	25.7	8.4	3,079	2,454	25.5
% of Sales	4.4	8.3	5.1	4.7	4.4	3 bps	-32 bps	4.7	5.2	-48 bps
Selling & Marketing Expenses	894	894	902	907	1,205	34.9	32.8	3,014	2,139	40.9
% of Sales	4.6	5.0	4.5	4.3	4.9	37 bps	61 bps	4.6	4.5	9 bps
Other Expenses	1,098	1,412	1,351	1,476	1,321	20.3	-10.5	4,148	2,939	41.1
% of Sales	5.6	7.9	6.7	7.0	5.4	-20 bps	-163 bps	6.3	6.2	13 bps
Ebidta	1,952	1,055	1,846	2,004	2,132	9.2	6.4	5,981	4,801	24.6
Depreciation	86	91	99	106	119	39.1	12.8	324	254	27.9
Ebit	1,866	964	1,746	1,898	2,013	7.9	6.0	5,657	4,548	24.4
Other Income	153	247	230	200	244	60.2	22.3	674	313	115.2
Interest	20	13	11	2	10	-52.7	336.4	23	69	(67.1)
PBT	1,998	1,198	1,966	2,096	2,247	12.5	7.2	6,309	4,792	31.7
Tax	623	360	532	614	608	-2.4	-0.9	1,754	1,326	32.3
Adjusted PAT	1,375	839	1,434	1,482	1,639	19.2	10.6	4,555	3,466	31.4
EPS (Rs)	1.5	0.9	1.6	1.7	1.8	19.2	10.6	5.1	3.9	31.4

Margins (%)	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD FY12	YTD FY11	YoY (%)
EBIDTA	10.0	5.9	9.1	9.6	8.7	-125 bps	-82 bps	9.1	10.1	-100 bps
EBIT	9.5	5.4	8.6	9.1	8.2	-130 bps	-81 bps	8.6	9.6	-96 bps
EBT	10.2	6.7	9.7	10.0	9.2	-101 bps	-79 bps	9.6	10.1	-48 bps
PAT	7.0	4.7	7.1	7.1	6.7	-32 bps	-35 bps	6.9	7.3	-36 bps
Effective Tax rate	31.2	30.0	27.1	29.3	27.1	-411 bps	-222 bps	27.8	27.7	13 bps

- High raw material cost, rupee depreciation and high advertising spend impacted PBIT margins, which fell 590bps yoy to 12.5%.
- To offset the impact of rupee depreciation, Titan has taken prices increases, which would be fully effective from Q4FY12.
- However, diversification into accessories under 'Titan' and 'Fastrack' brands would offset the gains from price increase and curtail Ebit margins at 14% (200 bps lower than historical margins)

'Others' was surprise package; precision engineering turns profitable

Others segment that includes Eyewear and Precision Engineering recorded revenue growth of 70.5% to Rs942 mn for Q3FY12. Eyewear revenues grew 37% yoy with like-to-like sales growth at 26% yoy mainly on account of brand activation in the quarter. The sustainable like-to-like growth in eyewear is expected to be about 10%. 'Others' segment surprised with EBIT of Rs51.2 mn largely due to precision engineering division turning profitable.

Concerns on quality of performance persist, so does the risks to business are allevated for near term

We re-iterate that continuing volatility in gold prices would keep jewellery volumes under check, as visible in Q2FY12 (+3% yoy) and Q3FY12 (-5% yoy). There remains risk to volume growth and accompanying PER rating for the company. Moreover, risk of down trading in watches portfolio coupled with expansion of large-sized Helios formats and diversification in Accessories business remains overhang on Ebit margins of Watches segment and corresponding earnings performance of the company.

Reiterate our Negative stance on Discretionary Categories, Retain HOLD with revised target price of Rs197/Share

Reiterate our Negative stance on Discretionary Categories... In-line with our report 'Slipping Fort, Holding Realm' and 'Rural Steroids Ebbing'... We believe that challenges to sustained volume and earnings performance have risen in near term for both Watches and Jewellery segments. Further, in-light of re-rated valuations at 25X FY13E earnings, there is no room for negative surprise to earnings performance. We retain HOLD rating with revised target price of Rs197/Share.

Revision in estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	86236	88717	2.9	103741	105,084	1.3
EBITDA	7944	7916	-0.3	9676	9,718	0.4
EBITDA Margin (%)	9.2	8.9	-30bps	9.3	9.2	-
APAT	5998	6016	0.3	7254	7,277	0.3
EPS	6.8	6.8	-0.3	8.2	8.2	0.4

Segmental highlights

Rs mn	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	YoY (%)	QoQ (%)	YTD FY12	YTD FY11	YoY (%)
Segment Revenue										
Watch	3,268	3,262	3,131	4,174	3,831	17.2	-8.2	11,136	9,403	18.4
Jewellery	15,868	13,625	16,337	16,312	19,859	25.2	21.7	52,508	36,647	43.3
Others	553	788	775	652	942	70.5	44.6	2,368	1,651	43.5
Segment EBIT										
Watch	602	70	458	672	480	-20.2	-28.5	1,610	1,793	(10.2)
Jewellery	1,500	1,182	1,450	1,499	1,785	18.9	19.1	4,734	3,109	52.2
Others	(52)	(99)	(36)	(14)	51	-199.2	-468.3	2	(82)	(102.1)
Segment Margin (%)										
Watch	18.4	2.1	14.6	16.1	12.5	-589 bps	-356 bps	14.5	19.1	-461 bps
Jewellery	9.5	8.7	8.9	9.2	9.0	-47 bps	-20 bps	9.0	8.5	53 bps
Others	-9.3	-12.6	-4.6	-2.1	5.4	1,477 bps	757 bps	0.1	-4.9	501 bps
Capital Employed										
Watch	3,837	2,803	2,915	4,508	4,865	26.8	7.9	4,865	3,837	26.8
Jewellery	5,510	(2,876)	(368)	6,266	7,389	34.1	17.9	7,389	5,510	34.1
Others	1,094	1,152	1,309	1,343	1,656	51.3	23.4	1,656	1,094	51.3
Corporate(Unallocated)	1,006	9,866	8,013	1,261	1,171	16.3	-7.2	1,171	1,006	16.3

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	46,744	65,209	88,717	105,084
Growth	22.9	39.5	36.1	18.4
Expenses	42,762	59,335	80,801	95,366
Growth	23.3	38.8	36.2	18.0
Raw Materials	33,879	47,205	66,600	78,990
% Of Sales	72.5	72.4	75.1	75.2
Employee Cost	2,745	3,930	4,196	4,772
% Of Sales	5.9	6.0	4.7	4.5
Manufacturing Expenses	860	1,151	1,289	1,491
% Of Sales	1.8	1.8	1.5	1.4
Admin Expenses	2,715	3,289	3,600	4,054
% Of Sales	5.8	5.0	4.1	3.9
Selling & Distribn Expenses	2,562	3,760	5,116	6,060
% Of Sales	5.5	5.8	5.8	5.8
Ebidta	3,982	5,874	7,916	9,718
Growth	18.3	47.4	34.7	22.8
Ebidta%	8.5	9.0	8.9	9.2
Other Income	86	543	895	895
Interest	254	82	39	14
Depreciation	601	345	463	547
PBT	3,213	5,990	8,310	10,052
Tax	681	1,654	2,294	2,775
PAT (Before EO Item)	2,532	4,336	6,016	7,277
Growth	20.6	71.2	38.7	21.0
Net Margin%	5.4	6.6	6.8	6.9
E/O Item	29	32	0	0
Reported PAT	2,503	4,304	6,016	7,277

Cash Flow Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Pre-Tax Profit	3,213	5,990	8,310	10,052
Depreciation & Non Cash	601	345	463	547
Interest & others	148	-469	39	14
Chg in W Cap	780	6,059	-3,471	-478
Tax Paid	-1,340	-1,722	-2,294	-2,775
Operating CashFlow	3,420	10,250	3,046	7,361
Capex	-423	-654	-1,500	-1,500
Free Cash Flow	2,997	9,596	1,546	5,861
Investments	1	-15	0	0
Equity Capital	0	0	0	0
Loans	-1,000	-54	-528	0
Dividend	-442	-662	-1,290	-1,512
Others	-75	-111	0	0
Net Change in Cash	1,324	9,071	-310	4,335
Opening Cash Position	547	1,868	10,943	10,633
Closing Cash Position	1,868	10,943	10,633	14,968

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity Share Capital	444	444	888	888
Reserves	6,800	9,810	14,092	19,858
Networth	7,244	10,254	14,980	20,745
Secured Loans	728	677	149	149
Unsecured Loans	0	0	0	0
Loan Funds	728	677	149	149
Total Liabilities	7,972	10,931	15,129	20,894
Gross Block	6,243	6,721	8,221	9,721
Less: Accumulated Depreciation	3,617	3,891	4,354	4,901
Net Block	2,626	2,831	3,868	4,820
Capital Work In Progress	123	194	194	194
Investments	76	91	91	91
Current Assets	18,037	34,224	37,488	46,681
Inventories	13,403	19,938	22,703	26,796
Debtors	936	1,137	1,410	1,670
Cash&Bank	1,867	10,949	10,633	14,968
Loans&Advances	1,831	2,200	2,742	3,248
Current Liabilities & Prov	12,843	26,394	26,502	30,883
Net Current Assets	5,194	7,830	10,986	15,799
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	-48	-15	-15	-15
Total Assets	7,972	10,931	15,123	20,889

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability %				
Ebidta Mgn	8.5	9.0	8.9	9.2
PAT Mgn	5.4	6.6	6.8	6.9
ROCE	44.5	58.5	57.2	50.9
ROE	39.7	49.6	47.7	40.7
Per Share Data (Rs/share)				
EPS	2.9	4.9	6.8	8.2
CEPS	3.5	5.3	7.3	8.8
BVPS	8.2	11.5	16.9	23.4
DVPS	0.8	1.3	1.3	1.5
Valuations (X)				
PER	70.9	41.4	29.9	24.7
CPER	57.3	38.4	27.7	23.0
P/BV	24.8	17.5	12.0	8.7
Ev/Sales	3.8	2.8	2.0	1.7
Ev/Ebidta	44.7	28.8	21.4	17.0
Dividend Yield	0.4	0.6	0.6	0.7
Turnover (X Days)				
Debtor TO	7.8	5.8	5.8	5.8
Inventory TO	108.5	102.6	102.6	102.6
Gearing Ratio (X)				
Net Debt/Equity	-0.2	-1.0	-0.7	-0.7
Total Debt/Equity	0.1	0.1	0.0	0.0

Recommendation History: Titan Industries Ltd – TTAN IN

Date	Reports	Reco	CMP	Target
24/10/2011	Titan Industries Q2FY12 Result Update	Hold	226	225
28/07/2011	Titan Industries Q1FY12 Result Update	Hold	228	225
29/04/2011	Titan Industries Q4FY11 Result Update	Accumulate	4,035	4,490
22/03/2011	Titan Industries Management Meet Update	Accumulate	3,431	3,876

Recent Research Reports

Date	Reports	Reco	CMP	Target
24/01/2012	GCPN Q3FY12 Result Update	Accumulate	419	446
23/01/2012	Asian Paints Q3FY12 Result Update	Hold	2,819	2,700
23/01/2012	Colgate-Palmolive Q3FY12 Result Update	Reduce	985	826
05/01/2012	Consumers Sector Update			

Emkay Global Financial Services Ltd.

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

DISCLAIMER: Emkay Global Financial Services Limited and its affiliates are a full-service, brokerage, investment banking, investment management, and financing group. We along with our affiliates are participants in virtually all securities trading markets in India. Our research professionals provide important input into our investment banking and other business selection processes. Investors may assume that Emkay Global Financial Services Limited and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may participate in the solicitation of such business. Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Emkay Global Financial Limited or its group companies to any registration or licensing requirement within such jurisdiction. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of Emkay. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of Emkay or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.