



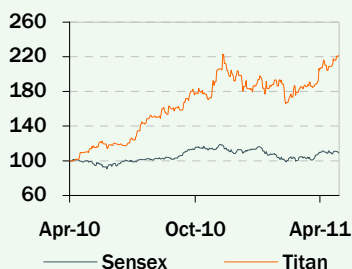
# Titan Industries

 Relative to sector: **Underperformer**
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**Relative Performance**


Source: Bloomberg, ENAM Research

**Stock data**

No. of shares	: 44.4 mn
Market cap	: Rs 188 bn
52 week high/low	: Rs 4378/Rs 2108
Avg. daily vol. (6 mth)	: 411,900 shares
Bloomberg code	: TTAN IB
Reuters code	: TITN.BO

Shareholding (%)	Mar-11	QoQ chg
Promoters	: 53.5	0.1
FIs	: 9.7	(0.7)
MFs / UTI	: 8.3	0.3
Banks / FIs	: 1.1	0.5
Others	: 27.4	(0.2)

**Financial summary (Standalone)**

Y/E Mar	Net Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs)	EPS# (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2010	46,744	2,536	-	57.1	27	-	39.8	45.9	-	15.0
2011	65,209	4,305	-	97.0	70	-	49.2	64.2	-	25.0
2012E	88,988	5,943	129.2	133.9	38	31.6	48.0	62.3	22.7	32.0
2013E	115,538	8,102	161.9	182.5	36	23.2	46.2	60.4	16.5	40.0

Source: \*Consensus broker estimates, Company, ENAM estimates; #Note: Company has announced 1:1 bonus issue and stock split from face value of Rs 10 to Rs1. This has not been adjusted in our EPS estimate.

**IMPROVING GROWTH VISIBILITY**

Titan Industries Ltd (TIL) has outperformed the Sensex by 27% YTD2011. This was led by better-than-expected earnings growth (70% YoY in FY11), inclusion in the MSCI index & robust jewellery off-take during the “Akshaya Tritiya” season. In our recent meeting, the co. highlighted its focus on aggressively expanding its retail network for watches and Jewellery mainly through larger format stores over next 2 years. This will be supported by one of its largest budgeted capital expenditure plan of Rs 2,000 mn in FY12E (vs. Rs 650 mn in FY11). We expect rev to grow by 32% CAGR & earnings by 37% CAGR over FY11-13E. Despite rising gold price (up 8% QoQ in Q1FY12) & improving sales mix towards studded jewellery & premium watches, we believe operating margin expansion will be unlikely due to aggressive rollout plan and 1% excise duty imposed on branded Jewellery. TIL trades at 29x 1-yr fwd EPS, above to its 5-yr upper quartile range. We maintain our BUY rating & 1-yr target price of Rs 4,750 (12% upside) based on 26x FY13E earnings.

**Key Highlights:**

- ❑ **Goal to be among the top 3 jewellery players in all key markets.** Despite the pan-India presence and market leadership, “Tanishq” as a premium jewellery brand has been unable to occupy a dominant position in Tier-I cities. Thus transition to large format stores are a means to improve visibility and reach in key gold consuming regions.
- ❑ **Retail space to grow by 22% CAGR** over next 2 years – from 0.8 mn to 1.2mn sq ft.
- ❑ **Ample headroom for growth:** Competitive intensity among organized players in Tier-I cities remains low. In addition, there is huge potential to gain share from unorganized players
- ❑ **New initiatives to drive same-store sales:** Launch of new collections in watches and jewellery is expected to drive incremental footfalls and improve conversions.
- ❑ **Eyewear business is expected to break-even in 2 years.** The current focus is on increasing scale. Mgt intends to add 100+ stores in FY12 alone on a base of 125 stores.

### Jewellery segment (77% of sales, 67% of EBITDA)

- **Improving execution via. large format stores:** From an average store size of 2,000 sq ft, the company has clearly embarked in rolling out larger format stores of ~20,000 sq ft over the next few years in Tier-I cities. TIL has 3 large format stores – Delhi (7,500 sq ft), Chennai (21,000 sq ft) and the recently launched Mumbai store (20,500 sq ft). Large format stores will aid Titan to achieve: (1) better inventory turn compared to smaller format due to wider design assortments; (2) improve visibility & reach of the Tanishq brand; and (3) increase market share in key cities, especially for wedding purchases. In addition, “GoldPlus” stores – an initiative for semi-urban and rural Indian consumers will be expanded by 2-3 stores p.a. from current base of 29 stores. **Mgmt has intimated a retail expansion of 60,000-70,000 sq ft in FY12** i.e. 20% YoY increase on a base of 0.32 mn sq ft in FY11. We expect jewellery segment revenue to grow by 36% CAGR over FY11-FY13E led by 18% CAGR increase in retail space, 8% Same-store sales growth & 10% gold inflation.
- **New initiatives:** The management is working on new collections for working women. This will be casual jewellery with low ticket sizes for impulse purchases. While this is a small but fast growing market, we believe this initiative will drive more footfalls and improve conversions. The company has also launched new high-end collection “Taj” to keep the consumers involved with Tanishq brand and to drive margin improvement
- **EBIT margin to remain stable despite increase in excise duty & aggressive rollouts:** As per the mgmt, imposition of excise duty on branded jewellery can reduce operating margins by 100 bps (given no price increases). The management has not yet taken a decision to pass on the tax increase to consumers. In our opinion, margin impact will be minimal as the company intends to improve studded jewellery contribution (from 30% currently to 40% in the next 2-3 years) and increase in-house jewellery manufacturing (over 75% outsourced currently). Further, there is a margin benefit from rising gold prices on making charges. We expect the EBIT margin (before other income) of jewellery to remain in the range of 7.2% - 7.5% over the next 2 years.
- **Competitive intensity amongst organised players still low:** The industry is witnessing a prominent shift from unorganized to organized sector. The management has no concerns on rising competitive intensity from organized players in metros and believes ample headroom is available to sustain double digit growth.

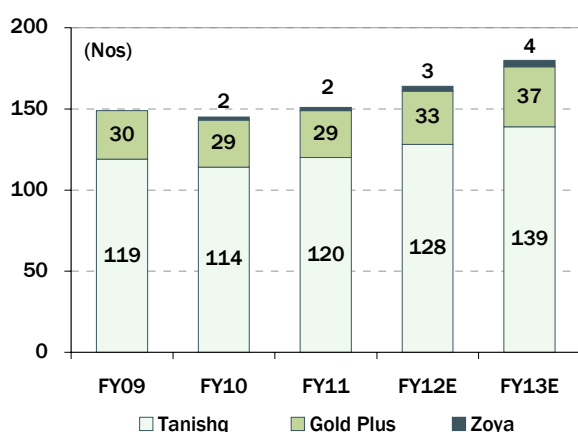
### Watch segment (20% of sales, 33% of EBITDA)

- **Volume growth of 25% YoY in FY11 was the highest in a decade.** Though the volume growth came on the back of lower base in FY10, the management expects the current pace of growth to continue over the next 2 years. Introduction of low-end “Sonata” watches at Rs 275 price point is driving new users into the category and improving market share over the unorganized segment. At the same time, the company intends to increase presence in the premium category by aggressively adding 30+ Helios stores in FY12 (total of 3 in FY11). It also plans to add 150+ stores between World of Titan (291 in FY11) & Fastrack (43 in FY11). On a conservative basis, we expect growth in

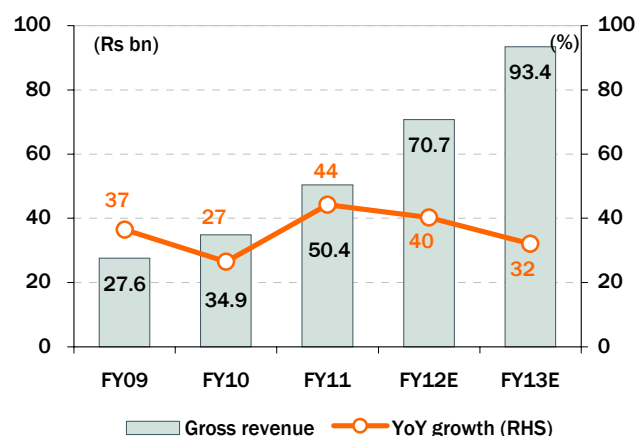
retail space for watch segment at ~20% CAGR will drive revenue at 23% CAGR over next 2 years.

- **Increased localization:** Titan currently outsources 30% of watch components (primarily for Sonata & Fastrack) from China. But rising labor costs and declining cost advantage has prompted the mgmt to re-locate some of this sourcing to its Indian facility. They also intend to develop a local vendor base. However both these initiatives are at early stages. We expect EBIT margin to decline to 15% level over next 2 years due to the aggressive rollout plan vs. 16.5% in FY11 (i.e. excluding Rs 250 mn one-time employee benefit expense).

### Jewellery: Store rollout

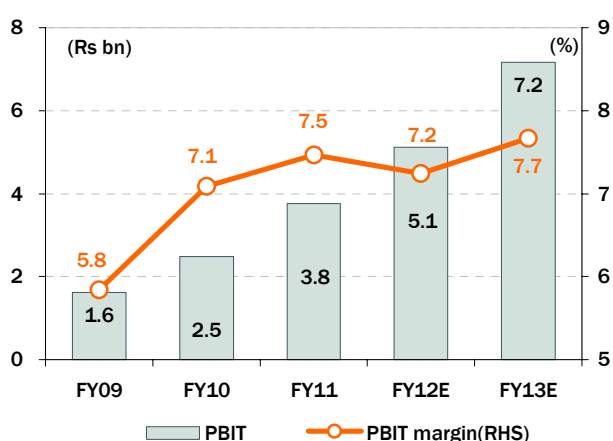


### Jewellery: Revenue & growth

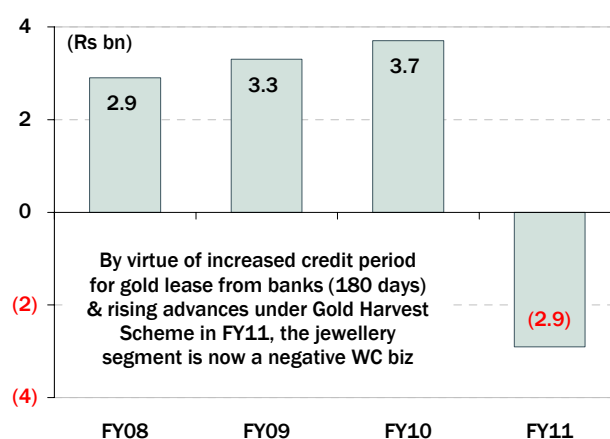


Source: Company, ENAM research

### Jewellery: PBIT & margin

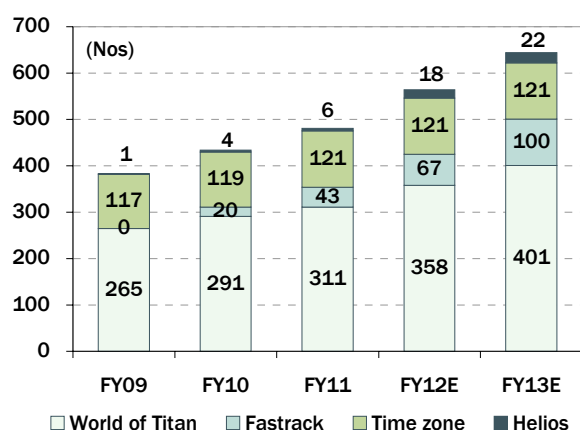


### Jewellery: Capital employed

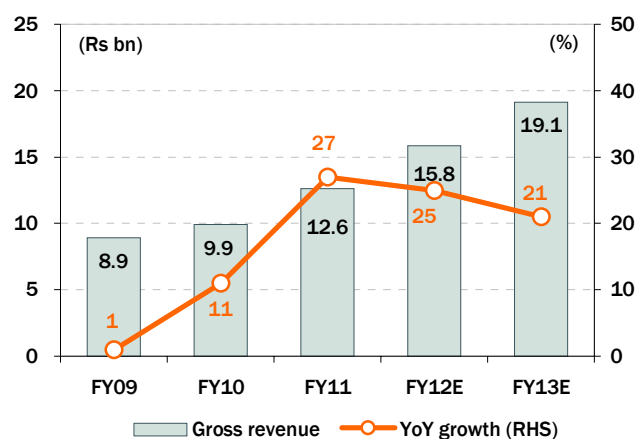


Source: Company, ENAM research

## Watches: Store rollout

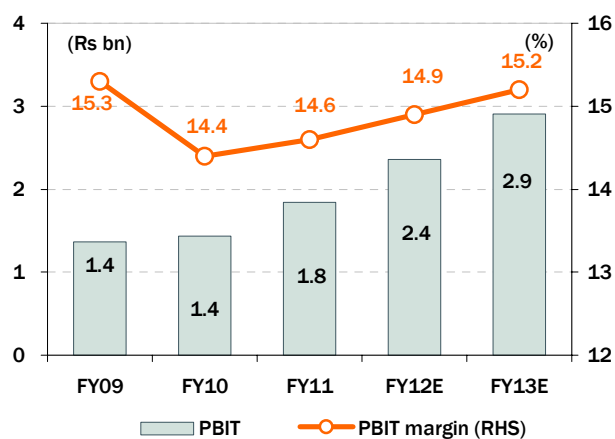


## Watches: Revenue &amp; growth

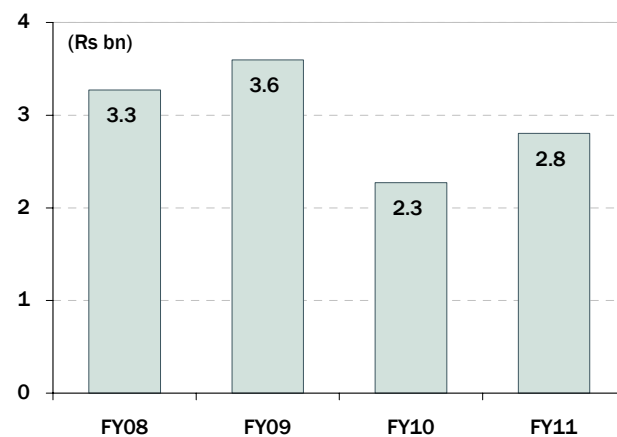


Source: Company, ENAM research

## Watches: PBIT &amp; margin

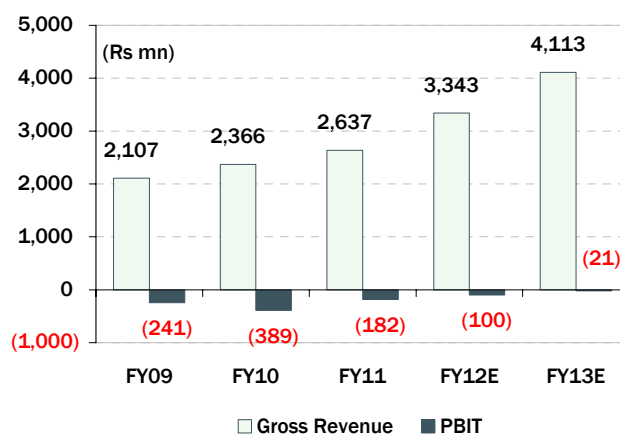


## Watches: Capital employed



Source: Company, ENAM research

## Other business: Revenue &amp; PBIT



Source: Company, ENAM research

**Retail sales growth (9m FY11)**

Retail channel	Total growth	LTL growth
World of titan	21	13
Tanishq	47	44
Titan eye+	67	47
Fastrack	400	200
Gold plus	13	13
Helios	300	45
Zoya	46	46
Large format stores in watches	66	38

Source: Company

**Tanishq 'Andheri' Store: Largest Jewellery Store in Mumbai**

Source: Company

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