Company Report
Industry: Retail

Titan Industries

'Watch' as this glitters

Gautam Duggad (GautamDuggad@PLIndia.com)
+91-22-6632 2233

Contents

Prabhudas Lilladher

Company Report
July 12, 2010

Titan Industries

Rating	**BUY**
Price	Rs2,501
Target Price	Rs3,000
Implied Upside	19.9%
Sensex	17,834

(Prices as on July 9, 2010)

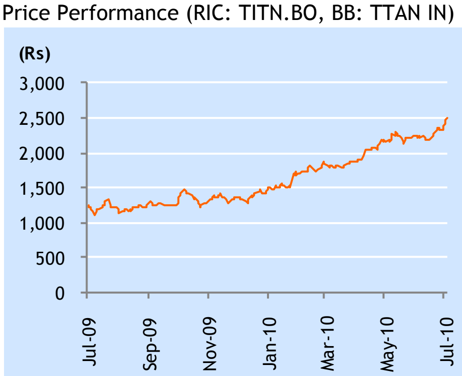
Trading Data	
Market Cap. (Rs bn)	111.0
Shares o/s (m)	44.4
Free Float	46.88%
3M Avg. Daily Vol ('000)	105.4
3M Avg. Daily Value (Rs m)	229.5

Major Shareholders	
Promoters	53.12%
Foreign	10.83%
Domestic Inst.	8.88%
Public & Others	27.17%

Stock Performance

(%)	1M	6M	12M
Absolute	12.3	67.3	111.5
Relative	5.2	65.6	81.9

Price Performance (RIC: TITN.BO, BB: TTAN IN)



Source: Bloomberg

We initiate coverage on Titan Industries, with a '**BUY**' rating and a target price of Rs3,000, an upside of 20%. Pick-up in urban discretionary demand, favourable demographics for the long-term consumption pattern, strong franchise in *Watches* and *Jewellery* segments with robust brand and distribution leadership and expected 35% earnings CAGR, predicate our bullish thesis on the company.

- **Healthy volume growth to drive exciting 28% earnings CAGR:** Volume growth in Gold has recovered since H1FY10 and registered nearly 45% volume growth in Q4FY10. We expect a healthy 14% volume CAGR driven by stable gold prices and pick-up in consumer discretionary demand. In Watches, we expect improving penetration, expansion in distribution footprint and aggressive new launches to lead to 8% volume CAGR for FY10-12E. Consequentially, we expect an attractive sales and earnings CAGR of 20% and 25 %, respectively for FY10-12E.
- **Moderate margin expansion and robust free cash generation:** Improving realisations and product mix, operating leverage derived from the higher volume growth in both, Jewellery and Watches, along with improved profitability of other businesses, will lead to moderate 80bps margin expansion in the next two years, in our view. We expect Titan to sustain the RoE's at around 40% and witness a 3x increase in free cash flows in FY10-12E.
- **Direct play on the Indian consumption story:** We believe Titan is a direct play on the rising affluence as well as aspirations of the Indian consumer and favourable long-term demand demographics of the Indian consumer market. Also, we expect the urban discretionary demand, which has started recovering in H2FY10, to continue to remain healthy, given the expectations of robust economic growth for India in the medium term. We believe Titan will be the significant beneficiary of this demand momentum.
- **Valuation and Outlook:** We value Titan at a PER of 30x (1.1x PEG) FY12E EPS to arrive at our target price of Rs3,000. Attractive earnings CAGR of 28%, leadership in branded jewellery and watches space, lower leverage levels compared to peers in retail sector, high quality management and healthy capital efficiency ratios should help Titan sustain premium valuations, going forward, in our view. We initiate with '**BUY**'. Severe volatility in gold prices and slowdown in discretionary consumption remains the key risk.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	38,326	46,773	56,658	67,804
Growth (%)	*27.9*	*22.0*	*21.1*	*19.7*
EBITDA (Rs m)	3,039	3,973	5,107	6,287
PAT (Rs m)	1,748	2,713	3,490	4,442
EPS (Rs)	39.4	61.1	78.6	100.1
Growth (%)	*18.5*	*55.2*	*28.7*	*27.3*
Net DPS (Rs)	10.0	15.3	21.3	27.1

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	*7.9*	*8.5*	*9.0*	*9.3*
RoE (%)	*34.8*	*42.2*	*41.2*	*39.7*
RoCE (%)	*37.5*	*42.9*	*46.9*	*46.9*
EV / sales (x)	2.8	2.3	1.9	1.6
EV / EBITDA (x)	35.6	27.2	21.2	17.2
PE (x)	63.5	40.9	31.8	25.0
P / BV (x)	19.9	15.2	11.5	8.7
Net dividend yield (%)	*0.4*	*0.6*	*0.9*	*1.1*

Source: Company Data; PL Research

Investment thesis

Jewellery segment: It's glittering!

India's Gold jewellery market, estimated at Rs800bn (US$16bn), is largely unorganised and fragmented, dominated by traditional neighbourhood jewellers. Rural market forms ~62% of the base and share of Branded jewellery is <10% of the overall market. However, currently it is growing at a brisk pace. Prevalence of under-karatage in the unorganised segment is high and hence, presence of a player like Titan, with strong corporate heritage (Tata group) and enviable consumer trust can set the stage for increasing conversion from unbranded to branded jewellery segment.

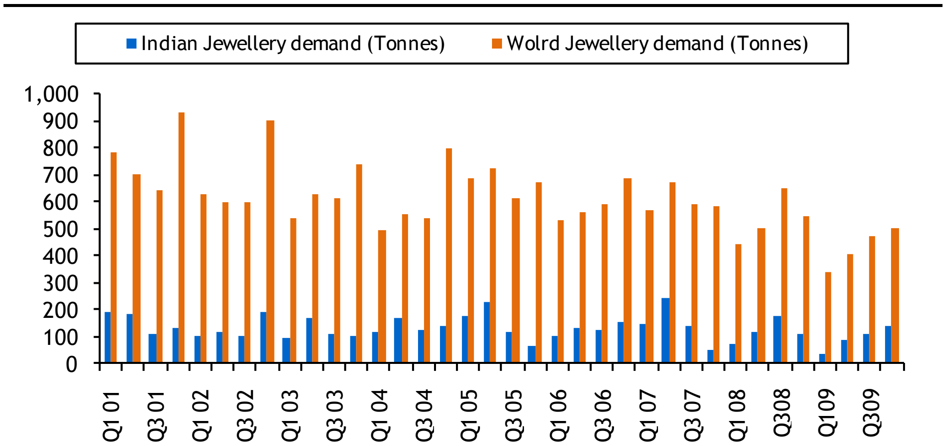
India constitutes nearly 25-27% of the world demand for Gold as per the data from World Gold Council (WGC). Some of the key demand drivers for jewellery in India are as follows:

1) **Wedding and other special occasions**: Wedding is estimated to contribute to nearly half of the jewellery demand.

2) **Investment vehicle**: Value-conscious Indian consumer perceives Gold as an investment product and Gold, along with bank fixed deposits, is the key investment avenue for the typical middle class Indian family.

3) **Rising aspiration levels**: Rising disposable income is changing the perception of jewellery, especially designer jewellery, as a fashion accessory.

India constitute 26% of World Jewellery demand



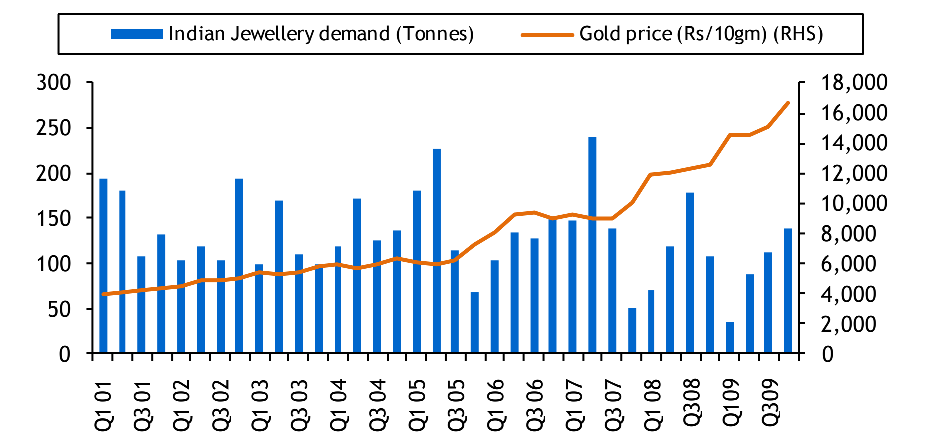
Source: World Gold Council, PL Research

Stable/falling Gold prices benefits Jewellery consumption

Gold demand in India continues to remain robust during stable/falling Gold price regime as demonstrated by the recovery in volume growth post Q3FY10. Typically, consumers tend to postpone jewellery purchases when the prices are moving upwards.

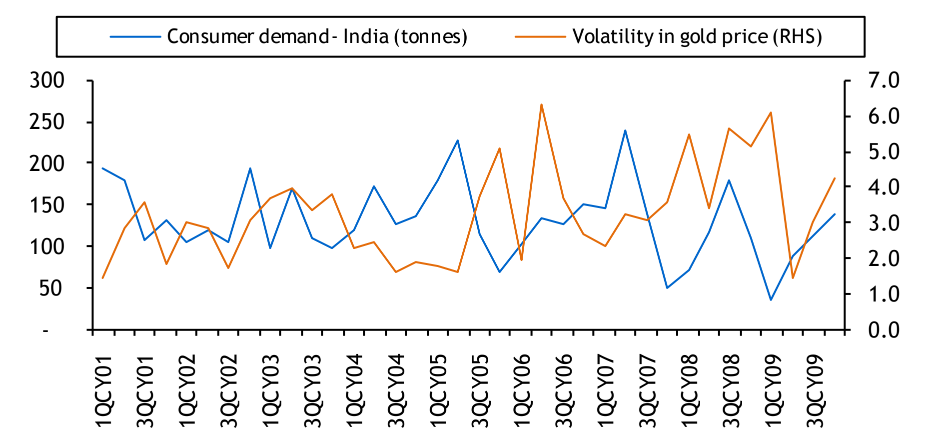
Higher volatility is also a key deterrent for Gold purchase, especially for investment buyers.

Stable Gold prices acts as catalyst for Jewellery demand



Source: WCG, Bloomberg, PL Research

Price volatility is a key deterrent for Gold demand



Source: WCG, Bloomberg, PL Research
Volatility = Standard deviation of the quarterly sample/average of the sample

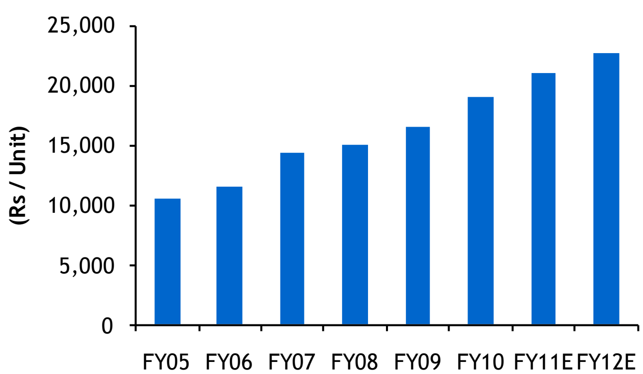
Also, Titan does not benefit/suffer significantly from any inventory gains/losses. Titan avails the 'Gold on Lease' facility and pays rent on gold till it is consumed. It closes the gold contracts at the time of product sale and not at the time of purchase. According to the management, this strategy ensures hedging of almost 90-95% and the company doesn't need to carry any naked inventory on its balance sheet, thus, preventing it from any mark-to-market loss/gains.

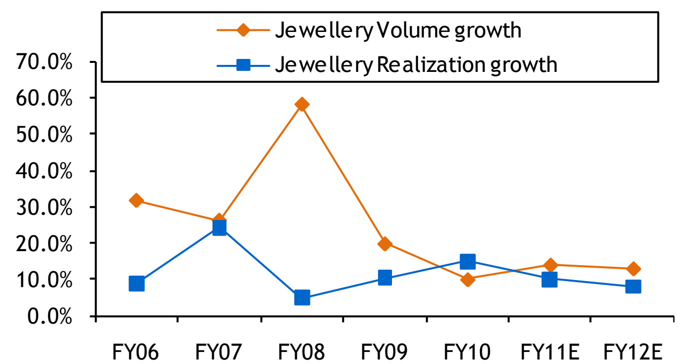
Linking of making charges to Gold price brought stability to margins

Prior to April 1, 2008, Titan used to apply fixed making charges on per gram basis, thus, exposing itself to margin volatility in an environment of rising gold prices. However starting April 1, 2008, Titan has linked making charges to gold prices and now charges anywhere between 16-20% of Gold price. This has resulted in stable operating margins for Titan's jewellery segment.

This strategy, in a way, dismisses the myth that Titan is a play on rising gold prices.

Steady improvement in jewellery realization





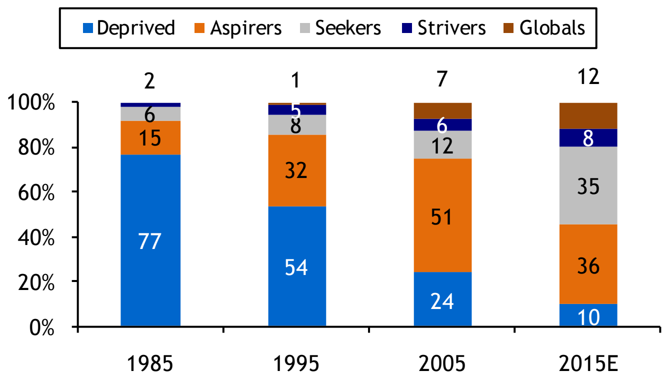
Source: Company Data, PL Research

Direct play on the growing Indian domestic consumption story

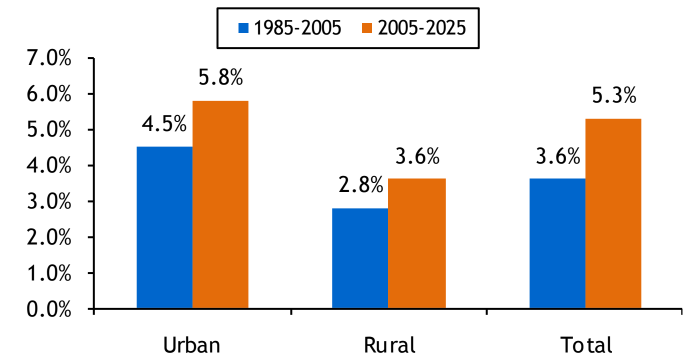
We believe that Titan Industries, the largest speciality retailer in India, is a pure-play on the growing India consumption story. Growing disposable incomes, rising aspiration levels of Indian consumer and enhanced exposure to media are the key demand drivers for products of discretionary consumption like jewellery, watches, liquor, paints and other consumer durables.

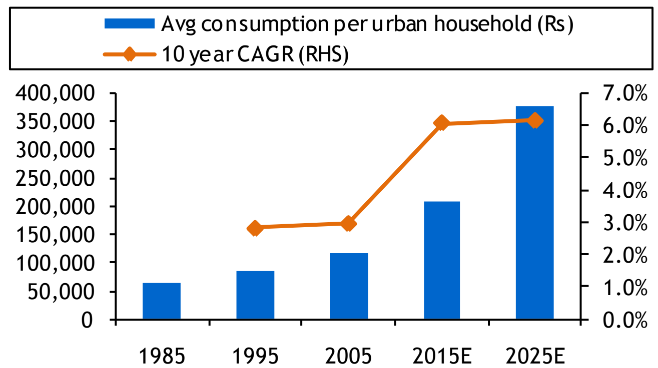
With increasing disposable incomes, both in rural as well as urban India, we believe that the share of wallet will favourably tilt towards discretionary items.

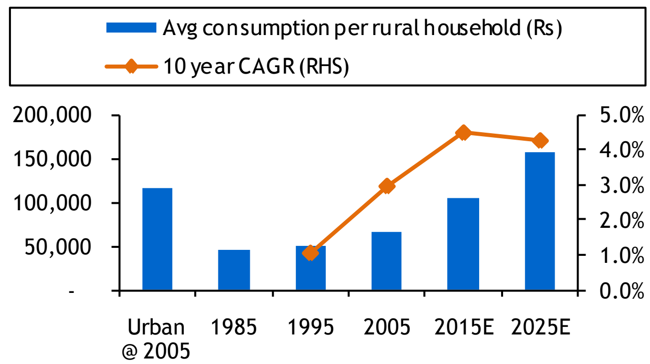
Share of total consumption by income bracket



Average household disposable income





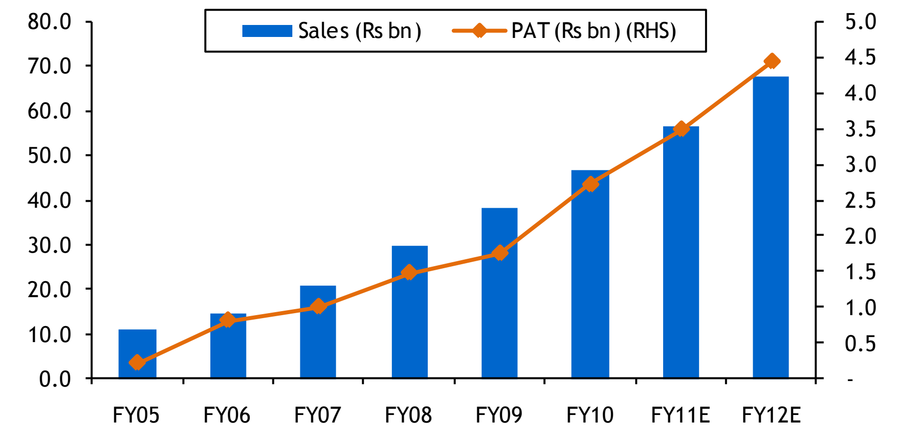


Source: McKinsey, PL Research

Titan, with its well entrenched leadership position in the branded watch and jewellery segment, is well poised to benefit from the growing demand for discretionary items. Comprehensive product portfolio in Watches as well as Jewellery, excellent design capabilities, largest distribution foot print and strong brand equity bestows significant competitive advantages on Titan. Increasing disposable income and rising aspiration levels will fuel the transition from unbranded to branded products in both the key segments of Titan’s business.

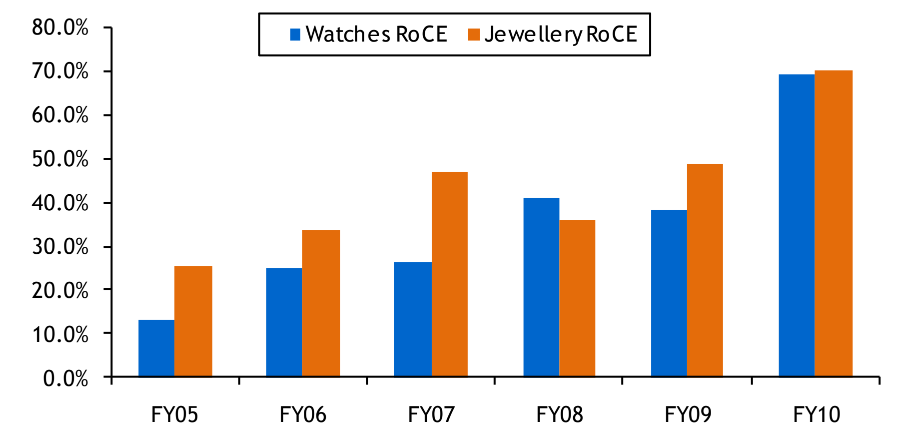
Titan’s revenue and earnings CAGR of 33% and 66%, respectively since FY05-10 is a reflection of the inherent growth potential in Titan’s key business categories as well as its own ability to tap the growing opportunity with best-in-class execution on virtually every front i.e. design innovation, continuous introduction of new collections, expanding distribution reach, building strong brand equity and enjoying unparalleled consumer trust, especially in jewellery (part of Tata group).

Rapid sales and profit growth



Source: Company Data, PL Research

Improving return ratios for both divisions



Source: Company Data, PL Research

Rising urban discretionary demand

After witnessing a weak 2009, urban discretionary demand has picked up Q2FY10 onwards owing to a slowdown in the economic growth in 2008-09, job uncertainty and weak consumer sentiment demand for discretionary items like Watches, Paints etc. witnessed moderation. Titan, for example, registered a volume decline of 12% in its Watches segment in FY09, partly attributable to inventory correction in its mass brand, '*Sonata*' in Q4FY09.

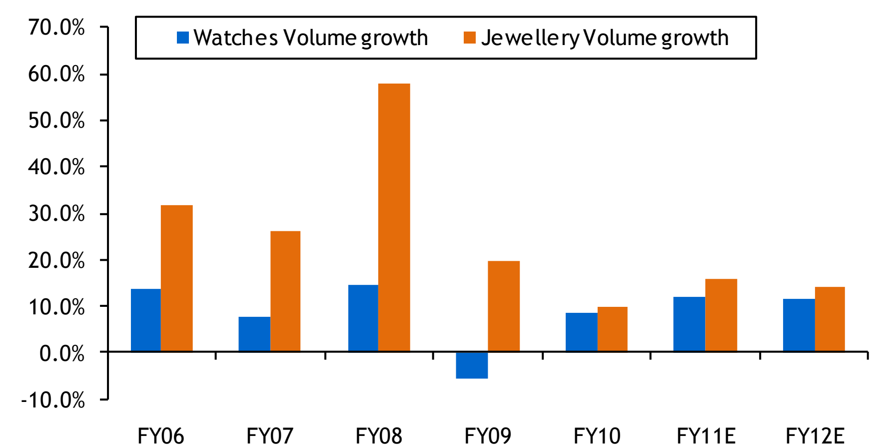
Demand in consumer discretionary goods started recovering in the second half of FY09-10, post the recovery in industrial growth, return of consumer confidence and job security. Key examples being: a) *Asian Paints*, which posted robust volume growth b) *Pantaloon* and *Shoppers Stop*, with strong recovery in same store sales growth.

However, Titan witnessed volume decline in jewellery sales in Q1 and Q2FY10 to the extent of 15% and 10%, respectively. This is attributable to higher gold prices which kept the consumer away. However, with stability in Gold prices, onset of festival season and consumer acceptance of Gold prices, demand posted a recovery with 5% volume growth in Jewellery in Q3FY10. Demand acquired momentum, with a 45% volume growth in Q4FY10.

We expect the urban discretionary demand momentum to continue and believe that Titan will be the key beneficiary of the same, with its dominating presence in Jewellery and Watches segments.

We forecast 8% and 7% volume growth in Titan's Watches segment and 14% and 13% volume growth in Jewellery division, for FY11E and FY12E, respectively.

Healthy volume performance in Watches and Jewellery



Source: Company Data, PL Research

Design and innovation capabilities: significant competitive advantage

Titan's ability to offer innovative designs in Jewellery acts as a significant competitive advantage as it is then able to tap new consumers regularly. Given *Tanishq's* strong brand equity, consumer trust gets reinforced with regular new launches and offerings. This, we believe, acts as a significant advantage even vis-a-vis other branded family jewellers like *Waman Hari Pethe*, *Tribhuvandas Bhimzi Zhaveri*, *Rajmal Lakhichand* etc. Recently, Titan was awarded the '*Most admired brand*' and '*Retailer of the year*' by *Images Fashion*.

Going forward, we expect strong market share gains in favour of organised branded players, especially *Tanishq*, owing to its:

a) **Corporate lineage:** It is a part of the Tata group which is considered as reliable and trusted brand for the past many years.

b) **Organised players offer hallmarking/certificates of authenticity**: For example, one can check the purity of gold at *Tanishq* outlets from the "Caratometer" which is installed in all their outlets.

c) Fragmented nature of competition which deprives them of scale benefits.

Titan charges relatively higher making charges when compared to the above branded jewellery players on account of its strong brand equity and depth in its product portfolio. Following table tries to capture the making charges of various branded players in Mumbai:

Comparison of making charges for various jewellery retailers (22 Karat, Plain Gold Necklace on April 24, 2010)

Outlet	Making charges (Rs/Gram)	Gold Rate on the day (24-4-2010)	*% of gold price*
Tribhovandas Bhimzi Zhaveri	230	1,645	*14.0%*
Rajmal Lakhichand	225	1,641	*13.7%*
Waman Hari Pethe	200-210	1,661	*12-12.6%*
Tanishq	257	1,714	*15.0%*

Source: PL Research

Even though on a percentage basis, Tanishq's making charges are relatively higher, purity of the product, in this case - a plain gold necklace, is better than the stated 22 karats. On checking the same on the Caratometer installed in Tanishq outlet, it came in at 22.2 karats.

Expanding distribution footprint

Titan's revenue growth in the jewellery segment is partly driven by strong distribution expansion. Number of Tanishq outlets has gone up from 70 in 2005 to nearly 120 at present. Most of its outlets are based in Tier 1 and Tier 2 cities. Expanding distribution reach remains the key cornerstone of Jewellery strategy for Titan, going forward. Management has guided for 15 store additions for FY11e. It is also experimenting with large format stores and wants to focus on such stores. In Chennai, Tanishq has opened a 20,000 sq.ft store, which as per its management, has exceeded internal benchmarks. Titan plans to open big format stores in all the metros and mini-metros in the next two years.

Fragmented nature of the market in rural and semi-urban areas, along with the prevalence of under-karatage, provided Titan an ideal opportunity to benefit from its strong brand equity. In order to leverage the demand from rural and semi-urban market, Titan launched "*Gold Plus*" outlets in these areas and benefited significantly from them. Number of *Gold Plus* outlets has increased from 2 in FY06 to 30 in FY10. Revenues from *Gold Plus* have increased nearly 4x from Rs950m in FY06-07 to Rs4.4bn in FY10. *Gold Plus* now accounts for 14.1% of Titan's Jewellery sales. We expect contribution of *Gold Plus* to increase, going forward, as Titan ramps up its distribution network in semi-urban and rural areas.

Titan also has its presence in the fast growing luxury jewellery segment through its luxury offering '*Zoya*' in Delhi and Mumbai.

Expanding distribution footprint

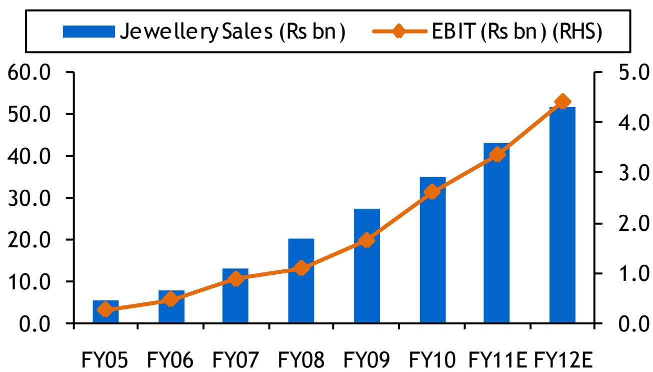
Business Segment	No of stores
Jewellery	
Tanishq	114
Gold Plus	29
Zoya	2
Watches	
World of Titan	295
Fastrack	24
Helios	2
Dealers	11,000
Service Centres	745
Eyewear	
Titan Eye+	85

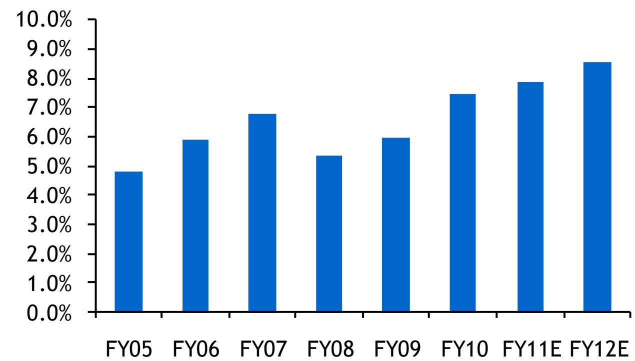
Source: Company Data, PL Research

Product mix to drive operating margin expansion

We expect Titan's Jewellery EBIT margins to improve, led by product mix improvement, as contribution of studded and diamond jewellery in overall sales improves. Studded jewellery enjoys 2.5x the margin of plain jewellery which inturn is 2.5x of coins. Also, Titan will benefit from operating leverage as volumes grow in healthy double digits. We forecast jewellery EBIT margins to remain stable at 7.5%.

We expect stable Jewellery margins at 7.5%



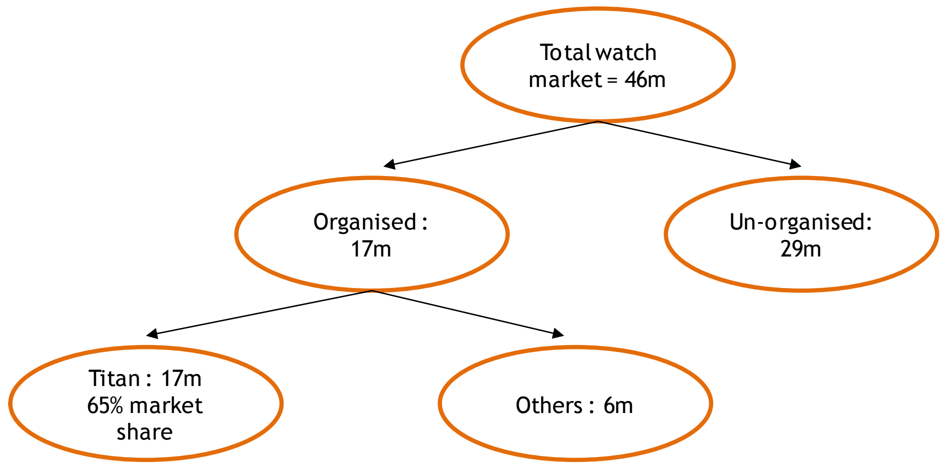


Source: Company Data, PL Research

Watches: Not just a timepiece

Titan's watch segment contributes to 22% of revenues and 46% of EBIT. It is the most profitable business in Titan's stable. Indian watch industry is estimated to be worth Rs35bn and 46m pieces. Like jewellery, watches too are dominated by unorganised players, Chinese imports etc.

Titan enjoys dominant 65% market share in organised Watch industry



Source: Company Data, PL Research

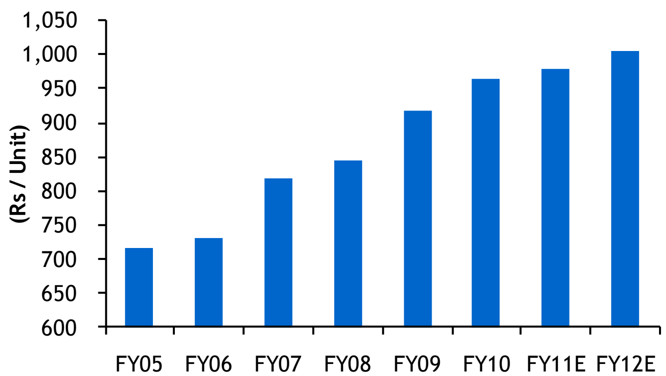
Penetration of Watches in India is a meagre 27% and 65% of this market is constituted by Rs500 sub-segment. It contributes 24% of the value sales.

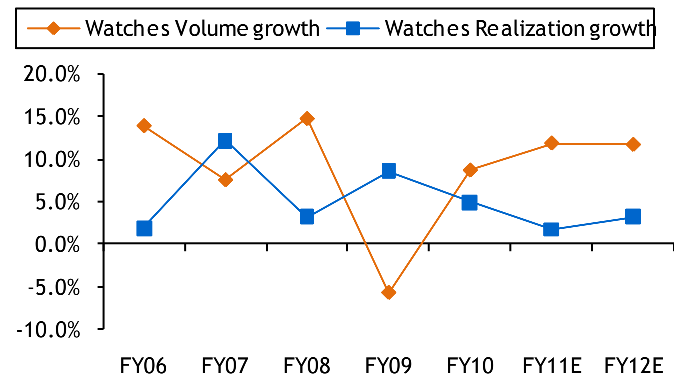
Titan enjoys nearly 65% market share in the branded space. It enjoys significant competitive advantage like strong distribution reach through its '*World of Titan*' outlets. Presence across the price spectrum and excellent design and innovation strengths are the other key competitive advantages.

Higher penetration, up-trading will drive volumes and margins

Given the low penetration of watches in India, Titan aims to grow by expanding the branded watch market. Aggressive launches of new products, designs and collections, both in high-end as well as cheaper segments, will be the key growth driver as watches are now perceived as a fashion accessory rather than just a time-keeping device.

Consistent realization improvement in Watches



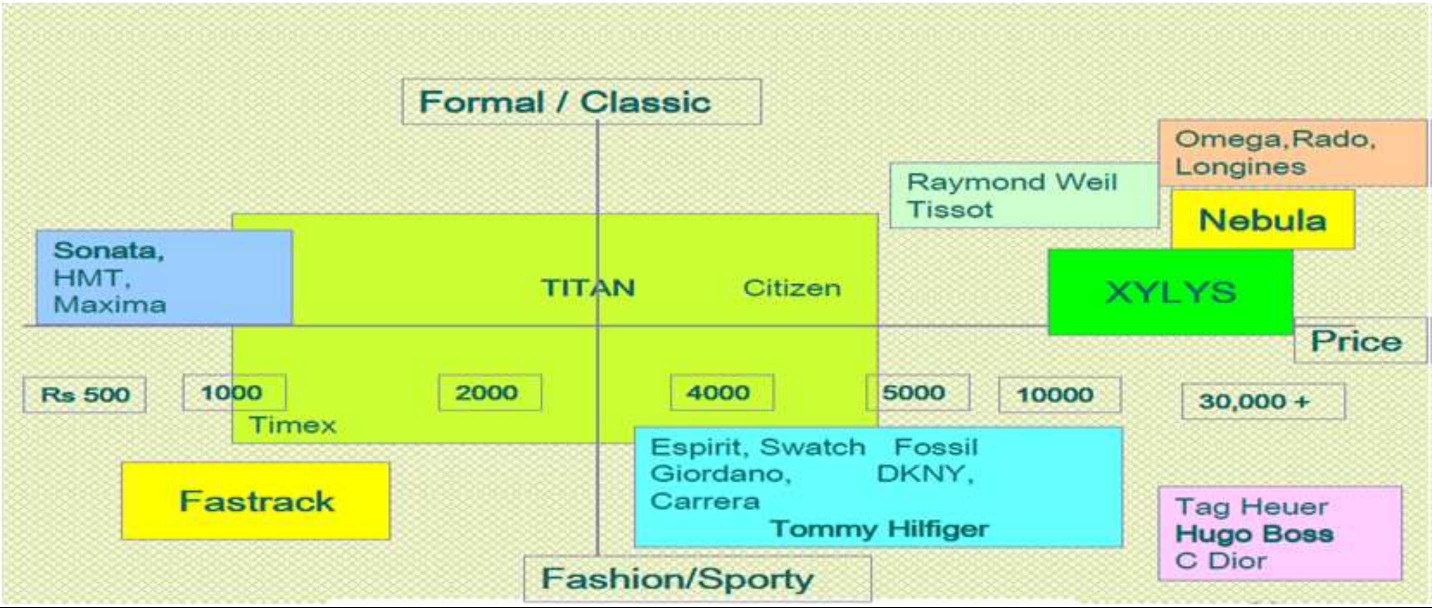


Source: Company Data, PL Research

Shift from unbranded to branded segment will also aid volume growth for Titan in our view. Currently, *Sonata* forms nearly 50% of revenue from the Watches segment. However, Titan is continuously expanding its premium product offering inorder to encourage uptrading and increase realisations. Some of the recent launches in the premium segment include '*Titan Raga Diva', 'Octane', 'Nebula', 'Xylys', 'Heritage' and 'Aviator*'.

Titan has brands across the price spectrum viz. *Sonata* at the mass end, *Titan* at economy, *Xylys* at the premium end, *Titan Raga* for women, *Fastrack* for youth etc. as shown in the figure below.

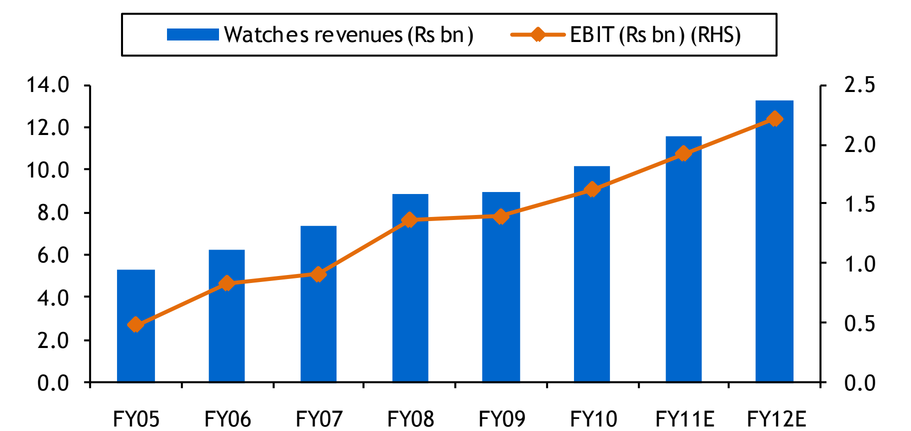
Titan is present across the Watches price pyramid



Source: Company Data, PL Research

We expect Titan to post a revenue growth of 14% in watches led by 7.5% volume growth for FY10-12E. We also expect EBIT margins to witness gradual improvement owing to operating leverage and improved product mix as proportion of Sonata in overall sales is likely to come down on account of higher growth in other brands.

Expect 14% revenue CAGR in watches



Source: Company Data, PL Research

Eyewear business: aggressive expansion on the cards

Indian Eyewear industry is Rs15-18bn market, with growth rates in the region of 15-20%. Titan expects the growth rates to sustain. According to Titan, 30% of the population needs correction in vision i.e. nearly 320m and currently only 84m users are present, providing significant opportunity for growth.

Key demand drivers are:

1) Urbanisation

2) Increasing literacy levels

3) Penetration of TV and Computers

4) Poor eye health on account of improper diet/lifestyles

It entered the eyewear business by launching sunglasses under the '*Fastrack*' brand in FY05.

In 2007, Titan entered the growing prescription eyewear business. It offers eye checking, optometry, Titan and other licensed frames, branded lenses, sunglasses, contact lenses etc. Currently, Titan operates nearly 80 Eye+ stores.

Titan focuses on its strength of design, marketing and retailing in the value chain, while outsourcing frame and lens manufacturing and lens assembly functions.

Eyewear business is currently in the investment mode. Management expects it to achieve a breakeven by FY12E. Mark-ups between retail and landed price are as high as 3x, as per management. This clearly indicates attractive return ratios in the business once the scale is achieved.

We expect Titan to ramp up presence in this segment, with aggressive new store openings.

Eyewear Value-Chain: Titan focuses on value-added activities

Source: Company Data, PL Research

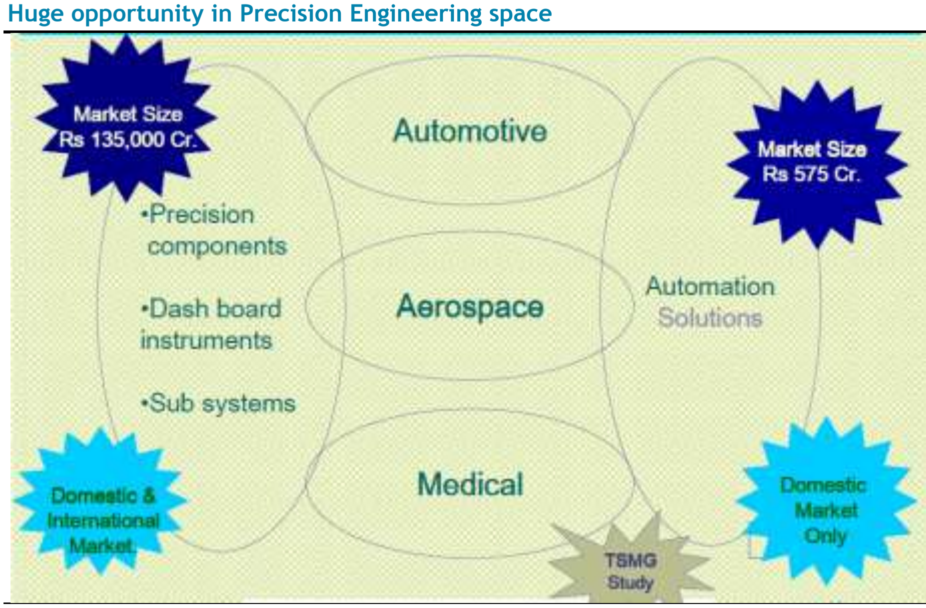
Precision Engineering: a laggard

With a view to leverage its engineering capabilities and balance the risk of B2C business with B2B business, Titan entered the precision engineering business. According to Titan, it is a large and growing market and the size of the pie addressable by Titan is Rs1,35,000 crore.

It manufactures Precision components, Dash board instruments, Sub-systems for Automotive, Aerospace and Medical industries.

It has reached a turnover of Rs760m in FY09 and does business with a host of domestic as well as international customers.

Huge opportunity in Precision Engineering space

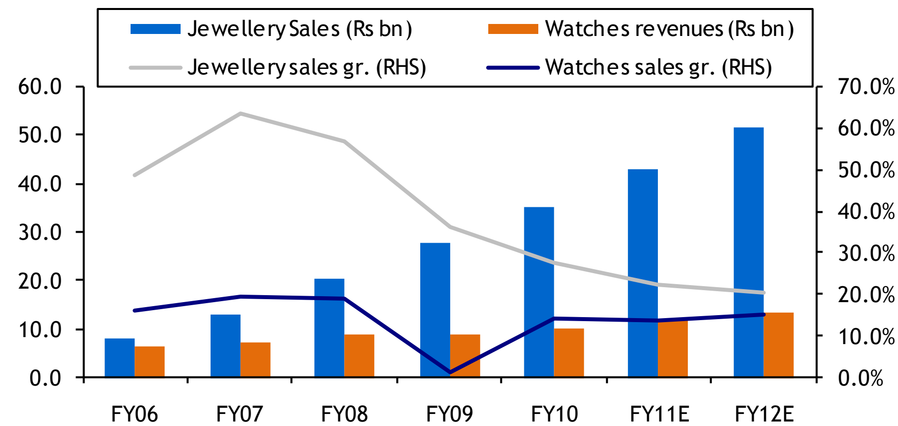


Source: Company Data, PL Research

Financials

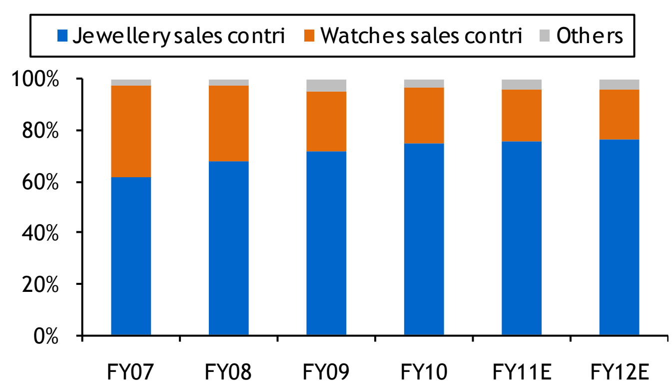
We expect Titan to post a 21% CAGR in sales and reach Rs68bn by FY12E. We don't expect any significant improvement in return ratios but believe that Titan can maintain the current ratios as it does not need any significant capex in the medium term.

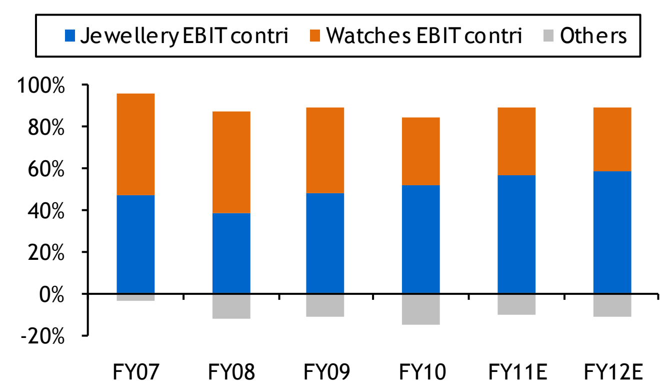
Expect volume driven 21% sales CAGR



Source: Company Data, PL Research

Salience of mainstay Jewellery and Watches division to remain stable

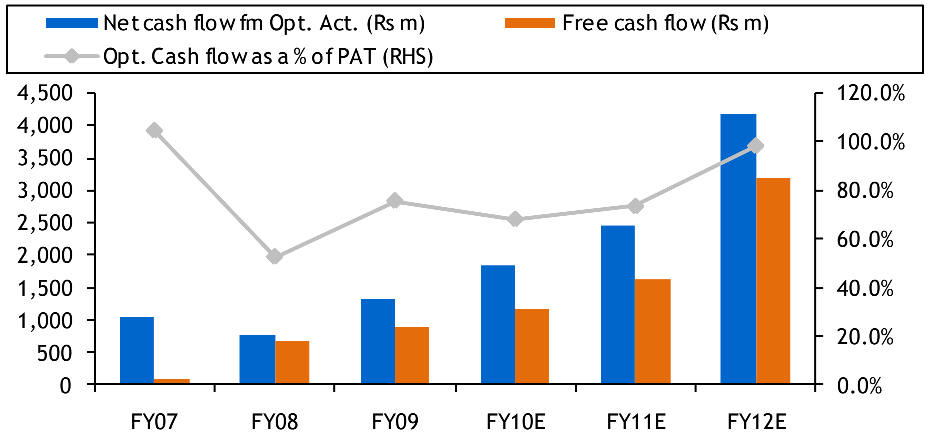




Source: Company Data, PL Research

Titan's capex requirements will be met largely by internal accruals. Despite sales increasing nearly 4.2x since FY05, Titan's capital employed has gone up by 1.55x. Titan was also able to generate positive cash flow from operations despite rapid revenue growth. This in our view is commendable and demonstrates Titan's ability of managing business growth without deterioration in capital ratios. Titan's working capital cycle has reduced from 107 days in FY05 to 42 days in FY10e.

Strong improvement in free cash generation

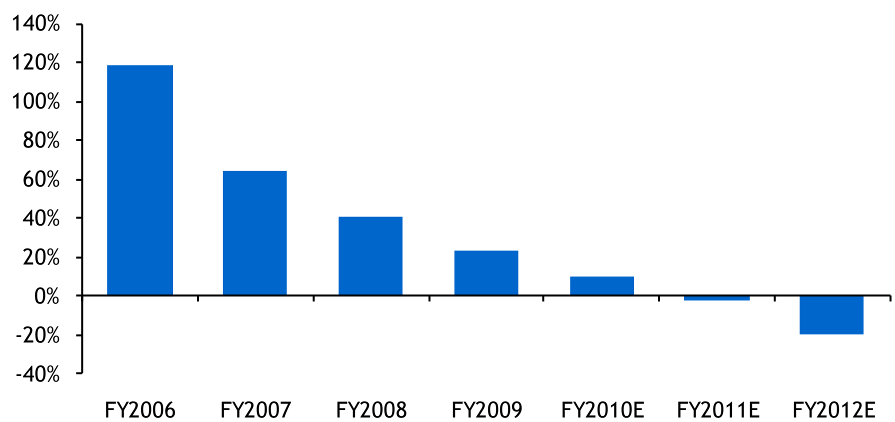


Source: Company Data, PL Research

Titan has used cash generated from operations to pay off the debt over the years. Consequently, Titan's debt-to-equity ratio has gone down from 3.7x in FY04 to 0.3x in FY10.

Titan's RoE too has improved mainly on account of an increase in asset turnover ratios which has moved up from 1.2x in FY04 to 2.4x in FY10e.

Strong profit growth results in improving leverage ratio



Source: Company Data, PL Research

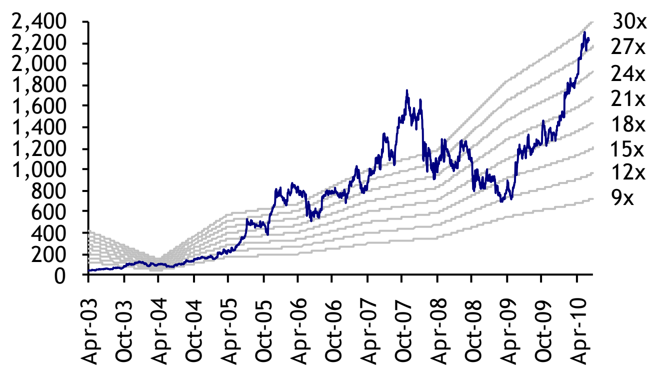
Valuations

Given Titan's expected earnings growth CAGR of 28%, its superior brand franchise in both, watches and jewellery segments, and its leadership position in the respective businesses, we expect Titan to sustain premium valuations.

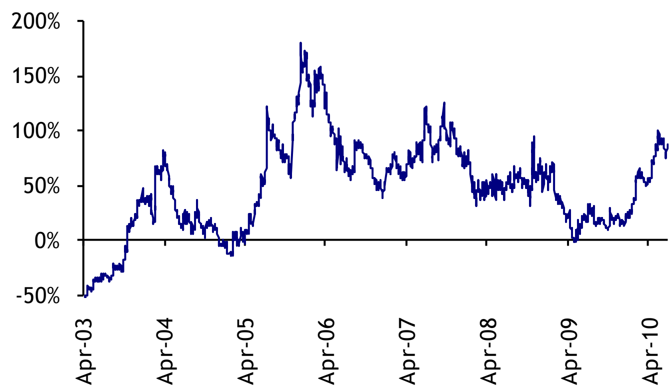
There are no direct domestic comparables in India and overseas peers operate in an environment where consumption and demand dynamics are very different. Retailers like *Pantaloon* and *Shoppers Stop* constantly need capital to support growth. However, Titan, with its robust cash flows and low leverage levels, is able to fund growth from its internal accruals.

We value Titan at a PER of 30x FY12E(1.1x PEG) to arrive at our March 2011 target price of Rs3,000, an upside of 20%. We will view every correction in the stock as a buying opportunity as we believe Titan has the potential to spring upside surprise on earnings growth front.

P/E band chart of Titan



3 year average premium to Sensex: 51%



Source: Bloomberg, PL Research

Investment Risks

Sharp fluctuation in Gold prices: Stable/falling gold price, with low volatility, is the key demand driver for jewellery demand. Any sharp fluctuation or an upward trend in Gold prices tends to lead to postponement of jewellery purchases.

Slowdown in discretionary consumption: Slowdown in economic growth can mar consumer sentiment and lead to a slowdown in discretionary consumption, impacting the demand for Jewellery and Watches.

Profitability in new businesses may be delayed: Delay in breakeven of new businesses like Eye wear and Precision engineering can impact the overall profitability of Titan.

Financial Tables

Income Statement (Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Net sales	**14,398**	**20,907**	**29,969**	**38,326**	**46,773**	**56,658**	**67,804**
Raw material consumed	9,033	13,687	21,293	27,785	34,419	41,466	49,449
Operating expenses	3,851	5,313	6,277	7,502	8,382	10,085	12,069
Rates & Taxes	448	605	581	554	608	737	881
Employee cost	1,218	1,697	1,971	2,365	2,783	3,399	4,068
Other operating expenses	407	698	1,262	1,159	1,263	1,530	1,831
Selling and administration expenses	1,264	1,682	1,918	2,299	2,526	3,003	3,594
Other expenses	515	631	545	1,125	1,202	1,416	1,695
Total operating expenses	12,884	19,000	27,570	35,287	42,800	51,551	61,518
EBITDA	**1,515**	**1,906**	**2,399**	**3,039**	**3,973**	**5,107**	**6,287**
Depreciation & amortisation	200	260	333	423	607	585	624
Other income	57	60	34	53	127	151	179
EBIT	**1,371**	**1,706**	**2,100**	**2,669**	**3,493**	**4,673**	**5,842**
Interest and finance charges	248	212	208	288	254	198	184
Recurring pre-tax income	**1,123**	**1,494**	**1,892**	**2,381**	**3,239**	**4,474**	**5,658**
Taxation	128	379	526	632	706	984	1,216
Net income (Reported)	**809**	**993**	**1,400**	**1,639**	**2,504**	**3,490**	**4,442**
Recurring net income	**809**	**999**	**1,476**	**1,748**	**2,713**	**3,490**	**4,442**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
ASSETS							
Current assets, loans & advances							
Cash & bank balance	386	510	554	564	864	1,607	3,698
Inventory	3,764	6,793	10,440	12,048	15,377	18,938	22,663
Sundry debtors	901	974	993	1,060	1,294	1,568	1,876
Other current assets	1,377	635	1,049	1,150	1,150	1,150	1,150
Total current assets	6,428	8,912	13,035	14,823	18,686	23,262	29,387
Current liabilities & provisions							
Current liabilities							
Sundry creditors	2,946	4,608	6,810	6,966	8,963	11,100	14,278
Other current liabilities	412	787	1,526	2,490	2,990	3,490	3,990
Provisions	274	563	791	946	946	946	946
Total current liabilities and provisions	**3,632**	**5,958**	**9,127**	**10,402**	**12,899**	**15,536**	**19,214**
Net current assets	2,796	2,954	3,908	4,421	5,787	7,726	10,173
Total investments	280	316	23	16	16	16	16
Fixed assets							
Net block	1,807	2,553	2,777	2,800	2,871	3,115	3,477
Add: Capital work in progress	200	164	100	195	195	195	195
Total fixed assets	2,007	2,717	2,877	2,995	3,066	3,310	3,672
Total assets	**5,083**	**5,987**	**6,809**	**7,432**	**8,869**	**11,052**	**13,861**
LIABILITIES							
Total borrowings	2,694	2,478	2,099	1,666	1,466	1,366	1,266
Deferred tax liability	243	181	252	187	114	13	(112)
Paid up equity share capital	423	444	444	444	444	444	444
Reserves & surplus							
Share premium	617	1,336	1,336	1,389	1,389	1,389	1,389
General & other reserve	926	1,592	2,678	3,746	5,456	7,841	10,875
Net worth	2,146	3,329	4,458	5,579	7,289	9,673	12,708
Total liabilities & shareholders' equity	**5,083**	**5,987**	**6,809**	**7,432**	**8,869**	**11,052**	**13,861**

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Cash Flow bf Working Capital	790	1,078	1,686	1,826	2,911	3,823	4,761
Net Cash from Operations	776	1,044	776	1,323	1,845	2,626	4,405
Net Cash from Investments	57	60	34	53	127	151	179
Net Cash from Financing	(560)	(26)	(649)	(951)	(993)	(1,206)	(1,507)
Opening Cash Balance	455	394	518	562	565	865	1,608
Closing Cash Balance	394	518	562	565	865	1,608	3,699
Inc / (Dec) in Cash Balance	(61)	124	45	3	300	743	2,091

Source: Company Data, PL Research

Key Ratios

Y/e March	FY06	FY07	FY08	FY09	FY10	FY11E	FY12E
Return Ratio (%)							
RoCE	27.5	30.8	32.8	37.5	42.9	46.9	46.9
RoE	57.1	39.2	37.9	34.8	42.2	41.2	39.7
Growth (%)							
Sales	31.4	45.2	43.3	27.9	22.0	21.1	19.7
EBITDA	32.2	25.9	25.9	26.7	30.7	28.5	23.1
PAT	286.2	23.4	47.8	18.5	55.2	28.7	27.3
EPS	286.2	17.6	47.8	18.5	55.2	28.7	27.3
Liquidity							
Current Ratio	1.3	1.3	1.4	1.5	1.5	1.5	1.6
Balance Sheet Ratio							
Debtors Days	23	17	12	10	10	10	10
Creditor Days	119	123	117	92	95	98	105
Debt-Equity (x)	1.4	0.8	0.5	0.3	0.2	0.1	0.1
Per Share Ratio (Rs)							
EPS	19.1	22.5	33.2	39.4	61.1	78.6	100.1
BV	41.3	75.0	100.4	125.7	164.2	217.9	286.3
CEPS	23.9	28.4	40.7	48.9	74.8	91.8	114.1
DPS	3.2	5.0	8.0	10.0	15.3	21.3	27.1
FCPS	10.5	2.0	14.9	20.3	26.3	40.5	77.0
Margins (%)							
EBITDA	10.5	9.1	8.0	7.9	8.5	9.0	9.3
PAT	5.6	4.7	4.7	4.3	5.4	6.2	6.6
Tax Rate	8.5	23.1	22.5	26.0	22.0	22.0	21.5
Valuations (x)							
PER	130.7	111.2	75.2	63.5	40.9	31.8	25.0
P/CEPS	104.7	88.2	61.4	51.1	33.4	27.2	21.9
P/BV	60.6	33.4	24.9	19.9	15.2	11.5	8.7
EV/EBITDA	71.3	56.7	45.0	35.6	27.2	21.2	17.2
EV/Sales	7.5	5.2	3.6	2.8	2.3	1.9	1.6
Market Cap/Sales	7.7	5.3	3.7	2.9	2.4	2.0	1.6

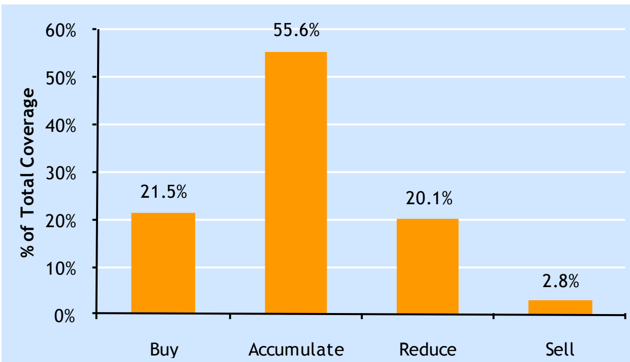
THIS PAGE IS INTENTIONALLY LEFT BLANK

THIS PAGE IS INTENTIONALLY LEFT BLANK

THIS PAGE IS INTENTIONALLY LEFT BLANK

Prabhudas Lilladher Pvt. Ltd.
3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India
Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly