



## Titan Industries

STOCK INFO.	BLOOMBERG
BSE SENSEX: 19,784	TTAN IN
	REUTERS CODE
S&P CNX: 5,869	TITN.BO

30 October 2007

Neutral

Previous Recommendation: Neutral

Rs1,713

Equity Shares (m)	42.3
52-Week Range	1,795/660
1,6,12 Rel. Perf. (%)	4/30/67
M.Cap. (Rs b)	72.4
M.Cap. (US\$ b)	1.8

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	20,902	1,158	26.5	21.0	64.6	31.6	35.4	29.7	3.6	35.7
03/08E	28,536	1,666	37.5	41.5	45.6	22.1	36.4	33.6	2.6	26.4
03/09E	36,215	2,426	54.7	45.6	31.4	11.4	38.1	44.3	2.0	19.1

- ✦ Titan Industries' 2QFY08 numbers are marginally higher than our estimates. Sales at Rs7.1b are lower than our estimate of Rs7.3b. However, EBITDA at Rs797m is higher than our estimate of Rs700m. Margins have expanded 80bp as against our estimate of a decline of 80bp. Strong volume growth in jewelry, higher realizations (due to consumer upgrading) in watches, and benefits of rupee appreciation aided margin expansion. Adjusted PAT for the quarter was Rs463m.
- ✦ Jewelry division revenue grew 46% YoY to Rs4.3b and PBIT increased 54% YoY to Rs338m as PBIT margins expanded 40bp. Watch business reported 22% YoY increase in revenue to Rs2.7b; PBIT increased 45% to Rs438m as margins expanded 250bp.
- ✦ The company added five *World of Titan* stores taking the number to 222 stores. Management has indicated limiting company managed stores to 40-45 v/s earlier plans of 80-85. Rest of the stores would be either franchisees or management agents; this would boost margins, as the gestation period for stores is very long. *Gold Plus* has entered the second stage of expansion – the company is currently opening pilots in Andhra Pradesh, Maharashtra and Punjab; plans include increasing the stores to 28 by FY08.
- ✦ We are revising our EPS estimates from Rs36.1 to Rs37.5 for FY08 and from Rs53.8 to Rs54.7 for FY09. We believe that Titan would be one of the biggest beneficiaries of the growing consumerism due to strong brands and dominating market leadership. The stock trades at 46x FY08E and 31x FY09E earnings. While we expect the company to report 44% CAGR in PAT over FY07-09, we maintain **Neutral** due to rich valuations.

QUARTERLY PERFORMANCE									(Rs Million)	
Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
<b>Net Sales</b>	<b>4,410</b>	<b>5,235</b>	<b>5,291</b>	<b>5,966</b>	<b>6,575</b>	<b>7,114</b>	<b>7,200</b>	<b>7,647</b>	<b>20,902</b>	<b>28,536</b>
YoY Change (%)	54.1	47.9	42.9	41.0	49.1	35.9	36.1	28.2	45.5	36.5
Total Exp	4,245	4,690	4,711	5,273	6,206	6,318	6,475	6,768	18,918	25,766
<b>EBITDA</b>	<b>165</b>	<b>546</b>	<b>581</b>	<b>693</b>	<b>369</b>	<b>797</b>	<b>725</b>	<b>880</b>	<b>1,984</b>	<b>2,770</b>
Margins (%)	3.7	10.4	11.0	11.6	5.6	11.2	10.1	11.5	9.5	9.7
Depreciation	49	66	70	72	72	72	85	89	256	319
Interest	49	43	47	66	48	39	55	64	204	206
Other Income	14	5	9	4	5	4	11	17	32	38
<b>PBT</b>	<b>81</b>	<b>442</b>	<b>473</b>	<b>560</b>	<b>254</b>	<b>689</b>	<b>596</b>	<b>744</b>	<b>1,556</b>	<b>2,283</b>
Tax	12	100	177	85	127	226	155	108	398	616
Rate (%)	14.4	22.6	37.4	15.1	50.2	32.8	26.0	14.5	25.6	27.0
<b>PAT</b>	<b>70</b>	<b>342</b>	<b>296</b>	<b>475</b>	<b>126</b>	<b>463</b>	<b>441</b>	<b>636</b>	<b>1,158</b>	<b>1,666</b>
YoY Change (%)	-7.4	-7.1	122.9	13.5	81.6	35.3	49.0	33.8	20.3	43.9
Extraordinary Items	29	21	17	172	0	0	20	25	240	45
<b>Reported PAT</b>	<b>41</b>	<b>322</b>	<b>279</b>	<b>303</b>	<b>126</b>	<b>463</b>	<b>421</b>	<b>611</b>	<b>918</b>	<b>1,621</b>

E: M0St Estimates

## SEGMENTAL PERFORMANCE (RS M)

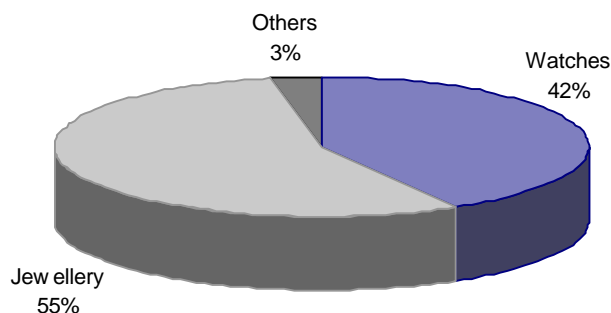
	2QFY08	2QFY07	1HFY08	1HFY07
<b>Sales</b>				
<b>Watches</b>	2,748	2,249	4,457	3,735
Growth (%)	22	22	19	20
<b>Jewellery</b>	4,324	2,969	9,053	5,852
Growth (%)	46	72	55	72
<b>Others</b>	183	170	416	170
Growth (%)	66	103	36	103
<b>PBIT</b>				
<b>Watches</b>	438	301	548	301
Growth (%)	45	-32	27	-16
PBIT Margin (%)	15.9	13.4	12.3	11.5
<b>Jewellery</b>	338	219	585	275
Growth (%)	54	124	112	44
PBIT Margin (%)	7.8	7.4	6.5	4.7
<b>Others</b>	(32)	(13)	(59)	(44)

Source: Company/Motilal Oswal Securities

### Strong growth momentum continues

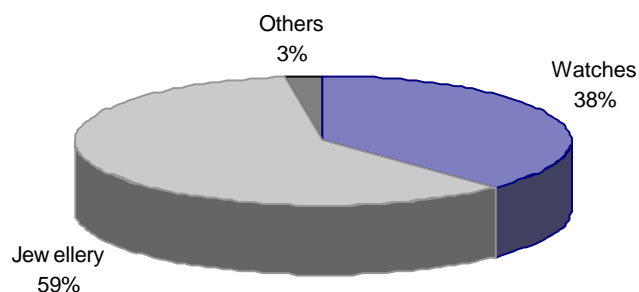
Titan maintained strong growth momentum across business segments, posting 36% YoY growth in net sales during 2QFY08. Jewelry expanded at a faster pace, resulting in its share in sales mix rising to 59% from 53%, a year ago. Gross margins expanded 10bp despite sales mix changing in favor of low margin jewelry business. Advertising expense declined 70bp, which indicates the benefits of scale. 8% decline in interest cost enabled 55.8% increase in PBT. Tax increased by 43.9%, despite 620bp increase in tax rates to 28.9%. The company has provided Rs16.8m for VRS and Rs26m for prior period taxes, while the write-offs for overseas associated companies are over.

## SALES MIX - 2QFY07



Source: Company/Motilal Oswal Securities

## SALES MIX - 2QFY08



Source: Company/Motilal Oswal Securities

### Watches – from own store to franchisee/agent model

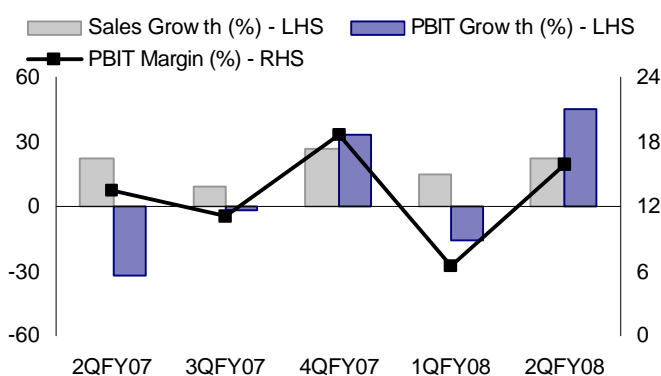
Titan's watch division reported 22% YoY growth in sales for 2QFY08 to Rs2.7b, led by consumer upgrading and launch of new *Heritage* collection. In addition, the earlier launched *Aviator* series for men and the *Raga* collection for ladies continued to generate good response. The company achieved double-digit volume growth, with *Sonata* growing in volumes while the *Titan* brand provided good value growth. The company expanded volumes in double-digits in comparison to sub double-digit volume growth for the industry. Further, low component cost aided by appreciation in rupee and consumer upgrading aided margin expansion. PBIT margin for the division improved from 13.4% in 1QFY08 to 15.9% in 2QFY08. PBIT at Rs438m was up 45% YoY.

Management has attributed increase in sales of *Titan* brand watches to rising frequency of launching new collections. New collections create excitement around the brand and help consumer upgradation. The company has launched the *Aviator* series and *Heritage* collection in the current year. Plans include increasing the number of new collections to 3-4 every year, which would provide increased brand salience and higher value growth.

The company added five *World of Titan* stores in 2QFY08, taking the total number to 222. Management has indicated change in strategy of its retail expansion, whereby the

number of company managed stores will be confined to 40-45 v/s earlier plans of 80-85, and rest will be either franchisee or management agents operating stores in malls. This will reduce the hassle of having higher overheads in the company, as the gestation period of such stores is longer. We expect the new strategy to boost profitability, while having control on the store layout and consumer ambience.

WATCH BUSINESS PERFORMANCE



Source: Company/Motilal Oswal Securities

**Jewelry – Gold Plus to accelerate growth**

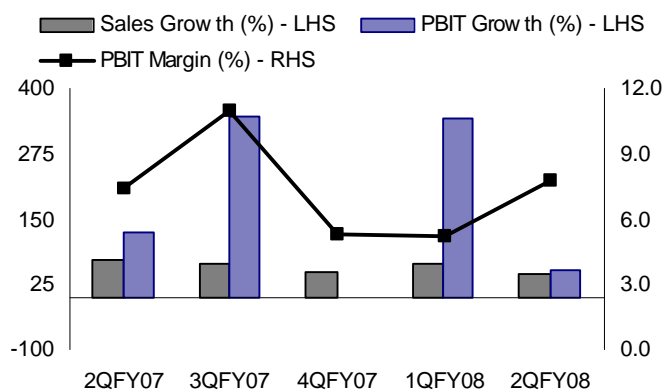
Jewelry business reported 46% increase in sales and 54% increase in PBIT. Volume growth (35%) was the key driver, as the price impact was just 5-6%. Strong rupee kept the prices below psychological level of Rs1,000/gm, which boosted demand. PBIT margins have increased 40bp due to benefits of leverage. Ratio of diamond studded to gold jewelry in *Tanishq* stood at 33:67.

*Gold Plus* achieved sales of Rs550m during 2QFY08 and Rs1b during 1HFY08. The company has started expanding *Gold Plus* stores scope, as it has entered Andhra Pradesh, Maharashtra, Punjab, etc and plans to customize the stores according to local requirements. The company has increased the number of *Gold Plus* stores from 10 in FY07 to 17. Plans include increasing the number to 28 by the end of FY08. Our estimates factor in sales of Rs2.7b in FY08 and Rs4b in FY09 from *Gold Plus*.

The number of *Tanishq* outlets has been increased to 100 (7 added in 2QFY08). The company has started expanding its store size and consumer offering in leading towns, which will improve consumer affinity with the brand. The company has commissioned a new 6,000sqft store in New Delhi and the response has been positive. Management aims at taking more such initiatives, depending upon the availability of real estate. Although *Tanishq* is the largest jewelry brand, the company is not a leading player in any of the cities it is currently operating in. *Tanishq* has competitive advantage in most of the large cities, as it has presence in premium high street locations. This indicates scope for sustained sales growth in coming years.

The company is increasing its retail presence at a steady pace. The number of *Tanishq Boutiques* was increased from 81 in FY06 to 88 by the end of FY07; the company has added five more stores during 1QFY08 and is expected to end FY08 with 100 *Tanishq* stores. The number is expected to increase to 120-125 in another couple of years.

JEWELRY BUSINESS PERFORMANCE



Source: Company/Motilal Oswal Securities

**Precision Engineering & Eyewear – seeding future growth potential**

Other business such as PE and accessories grew 8% in topline to Rs183m, with a loss of Rs32m for 2QFY08 in comparison to a loss of Rs13m in 2QFY07. Sales growth seems sedate as these initiatives were likely to ramp up a fast pace. Management expects PE to turn around by the end of FY08.

The company is currently operating five stores under *Titan Eye+* and the sixth store is likely to be launched this week. The results of the pilot have been very encouraging and the ramp up is according to plans. The business vertical offers huge growth opportunity as:

- ✍ 30% of population typically needs correction in vision ~ 300m
- ✍ Market size of 25-35m units per annum as consumers change their glasses/ frames once in 3-4 years, leading to market size of Rs15-18b
- ✍ Market has been growing in double-digits ~15-20% per annum
- ✍ Market growth to sustain due to increasing urbanization, literacy, penetration of TV & computers, poor eye health due to lifestyle/improper diet, etc.
- ✍ Lack of large national retailers in this line of business

We believe that the eyewear market offers huge opportunity for the company. Management seems quite upbeat about the initial response and plans to go full throttle after the pilot is a success. We believe that this SBU has the potential to emerge as one of the growth drivers 2-3 years down the line.

### Revising estimates; maintain **Neutral**

We are revising our EPS estimates from Rs36.1 to Rs37.5 for FY08 and from Rs53.8 to Rs54.7 for FY09. We believe that Titan would be one of the biggest beneficiaries of the growing consumerism due to strong brands and dominating market leadership. The stock trades at 46x FY08E and 31x FY09E earnings. While we expect the company to report 44% CAGR in PAT over FY07-09, we maintain **Neutral** due to rich valuations.

## Titan Industries: an investment profile

### Company description

Titan Inds is a Joint venture between Tata Group and TIDCO (Tamilnadu Industrial Development Corporation). The company is the largest specialty retailer and market leader in branded watches and jewellery products in India. The company has also been able to tap the fast growing demand for accessories and precision engineering components. Major brands of the company include Titan, Tanishq, Sonata, and Fastrack.

### Key investment arguments

- ✍ Titan Inds has a 50% market share in branded jewellery market. Strong growth and low penetration of branded jewellery will result in rising profit margins.
- ✍ Watches are expected to report steady growth due to strong brands and huge success in mass market brand Sonata.
- ✍ Only company in the retail sector generating free cash flows.

### Key investment risks

- ✍ Slower than expected ramp up in the precision engineering business.
- ✍ Longer than expected breakeven time for new retail stores.

### Recent developments

- ✍ Titan plans to open 10 'Gold Plus' stores in FY08 in Tier-II cities.
- ✍ Opened its first prescription eye-wear store during the quarter.
- ✍ Enhanced equity at Rs44.39m consequent to allotment of rights shares.

### Valuation and view

- ✍ We have reduced our adjusted EPS estimates to Rs37.5 for FY08 and Rs54.7 for FY09.
- ✍ The stock trades at 46x FY08E and 31x FY09E earnings. We maintain **Neutral**.

### Sector view

- ✍ We have a positive view on the sector. We expect the sector to clock revenue growth of 30%-35% CAGR over the next five years.
- ✍ Players with a strong hypermarket format and presence in a larger number of categories are likely to be winners; specialty retailers with strong brands will have steady growth ahead.
- ✍ Ability to increase private labels, squeeze costs and extract higher margins from branded players will be a key factor in maintaining margins in the long term.

#### COMPARATIVE VALUATIONS

		TITAN	PANTALOON	SHOPPERS
P/E (x)	FY08E	45.6	80.4	43.4
	FY09E	31.4	49.3	31.2
EV/EBITDA (x)	FY08E	26.4	29.0	19.2
	FY09E	19.1	19.9	14.2
EV/Sales (x)	FY08E	2.6	1.8	1.5
	FY09E	2.0	1.2	1.1
P/BV (x)	FY08E	22.1	6.9	5.7
	FY09E	11.4	5.5	5.2

#### SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	53.1	53.1	53.1
Domestic Inst	1.4	1.5	3.8
Foreign	12.3	12.9	13.7
Others	33.2	32.5	29.5

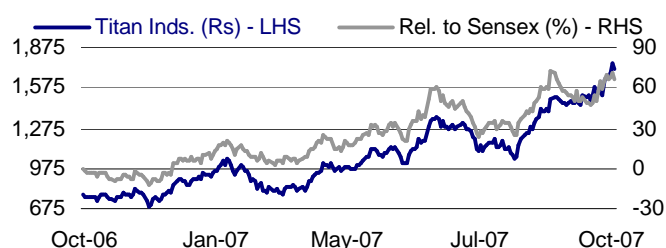
#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	37.5	33.0	13.8
FY09	54.7	45.6	19.8

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,713	-	-	Neutral

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007	2008E	2009E	
<b>Net Sales</b>	<b>10,967</b>	<b>14,369</b>	<b>20,902</b>	<b>28,536</b>	<b>36,215</b>	
Change (%)	22.6	31.0	45.5	36.5	26.9	
Total Expenditure	-9,689	-12,761	-18,817	-25,724	-32,422	
<b>EBITDA</b>	<b>1,278</b>	<b>1,608</b>	<b>2,085</b>	<b>2,812</b>	<b>3,794</b>	
Change (%)	16.6	25.8	29.7	34.8	34.9	
Margin (%)	11.7	11.2	10.0	9.9	10.5	
Depreciation	-196	-197	-256	-319	-344	
Int. and Fin. Charges	-309	-248	-204	-206	-138	
Other Income - Recurring	27	24	32	38	40	
Deferred Revenue Expenc	-142	-101	-101	-42	0	
<b>Profit before Taxes</b>	<b>658</b>	<b>1,086</b>	<b>1,556</b>	<b>2,283</b>	<b>3,352</b>	
Change (%)	68.7	65.0	43.3	46.7	46.8	
Margin (%)	6.0	7.6	7.4	8.0	9.3	
Tax	-108	-179	-370	-709	-1,065	
Deferred Tax	58	56	-29	92	139	
Tax Rate (%)	-7.6	-11.4	-25.6	-27.0	-27.6	
<b>Profit after Taxes</b>	<b>608</b>	<b>963</b>	<b>1,158</b>	<b>1,666</b>	<b>2,426</b>	
Change (%)	66.6	58.3	20.3	43.9	45.6	
Margin (%)	5.5	6.7	5.5	5.8	6.7	
Extraordinary Items	-335	-250	-240	-45	-45	
<b>Reported PAT</b>	<b>274</b>	<b>713</b>	<b>918</b>	<b>1,621</b>	<b>2,381</b>	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Share Capital	423	423	444	444	444	
Preference Share Capital	400	400	0	0	0	
Reserves	950	1,470	2,831	4,129	5,928	
<b>Net Worth</b>	<b>1,772</b>	<b>2,293</b>	<b>3,274</b>	<b>4,573</b>	<b>6,372</b>	
Loans	3,182	2,679	2,470	2,559	1,108	
Deferred Tax	293	238	174	267	406	
<b>Capital Employed</b>	<b>5,248</b>	<b>5,210</b>	<b>5,919</b>	<b>7,398</b>	<b>7,886</b>	
Gross Block	4,001	4,204	5,155	5,721	6,247	
Less: Accum. Depn.	-2,349	-2,440	-2,643	-2,899	-3,180	
<b>Net Fixed Assets</b>	<b>1,651</b>	<b>1,765</b>	<b>2,511</b>	<b>2,822</b>	<b>3,067</b>	
<b>Intangibles</b>			<b>588</b>	<b>525</b>	<b>462</b>	
Capital WIP	98	196	160	30	30	
Investments	270	270	270	270	270	
<b>Curr. Assets, L&amp;A</b>	<b>5,645</b>	<b>6,468</b>	<b>8,858</b>	<b>11,257</b>	<b>13,522</b>	
Inventory	2,716	3,744	6,775	8,153	9,657	
Account Receivables	771	901	921	1,592	2,018	
Cash and Bank Balance	442	383	507	791	1,026	
Others	1,716	1,440	655	720	820	
<b>Curr. Liab. and Prov.</b>	<b>2,661</b>	<b>3,599</b>	<b>5,923</b>	<b>7,507</b>	<b>9,465</b>	
Account Payables	2,047	2,932	4,586	6,210	7,870	
Other Liabilities	437	426	864	518	524	
Provisions	177	241	472	778	1,071	
<b>Net Current Assets</b>	<b>2,984</b>	<b>2,869</b>	<b>2,935</b>	<b>3,751</b>	<b>4,057</b>	
Miscellaneous Expenditur	244	143	42	0	0	
<b>Application of Funds</b>	<b>5,248</b>	<b>5,243</b>	<b>5,919</b>	<b>7,398</b>	<b>7,886</b>	

E: M OSt Estimates

RATIOS		2005	2006	2007E	2008E	2009E
<b>Basic (Rs)</b>						
<b>EPS</b>		<b>13.2</b>	<b>21.9</b>	<b>26.5</b>	<b>37.5</b>	<b>54.7</b>
Cash EPS		17.8	26.6	32.9	45.5	64.0
BV/Share		41.9	54.2	77.5	108.2	150.7
DPS		2.5	4.0	7.4	8.4	12.3
Payout %		19.0	18.3	27.8	22.5	22.5
<b>Valuation (x)</b>						
P/E			78.2	64.6	45.6	31.4
Cash P/E			64.5	52.1	37.7	26.8
EV/Sales			5.2	3.6	2.6	2.0
EV/EBITDA			46.5	35.7	26.4	19.1
P/BV			316	22.1	15.8	11.4
Dividend Yield (%)			0.2	0.4	0.5	0.7
<b>Return Ratios (%)</b>						
RoE		34.3	42.0	35.4	36.4	38.1
RoCE		18.4	25.6	29.7	33.6	44.3
<b>Working Capital Ratios</b>						
Debtor (Days)		26	23	16	20	20
Asset Turnover (x)		2.1	2.8	3.5	3.9	4.6
<b>Leverage Ratio</b>						
Debt/Equity (x)		18	12	0.8	0.6	0.2

CASH FLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
OP/(loss) before Tax	1,082	1,411	1,830	2,493	3,449	
Int./Div. Received	27	24	32	38	40	
Depreciation and Amort.	196	197	256	319	344	
Interest Paid	-309	-248	-204	-206	-138	
Direct Taxes Paid	-108	-179	-370	-709	-1,065	
(Incr)/Decr in WC	876	56	58	-531	-71	
<b>CF from Operations</b>	<b>1,764</b>	<b>1,261</b>	<b>1,602</b>	<b>1,404</b>	<b>2,560</b>	
Extraordinary Items	-335	-250	-240	-45	-45	
(Incr)/Decr in FA	-124	-301	-915	-437	-526	
(Pur)/Sale of Investments	6	0	0	0	0	
<b>CF from Invest.</b>	<b>-453</b>	<b>-551</b>	<b>-1,155</b>	<b>-482</b>	<b>-571</b>	
Issue of Shares	0	0	21	0	0	
Incr/(Decr) in Debt	-888	-503	-209	89	-1,450	
Dividend Paid	-106	-169	-311	-357	-520	
Others	-147	-97	176	-370	216	
<b>CF from Fin. Activity</b>	<b>-1,141</b>	<b>-769</b>	<b>-323</b>	<b>-638</b>	<b>-1,754</b>	
<b>Incr/Decr of Cash</b>	<b>171</b>	<b>-59</b>	<b>124</b>	<b>283</b>	<b>235</b>	
Add: Opening Balance	271	442	383	507	791	
<b>Closing Balance</b>	<b>442</b>	<b>383</b>	<b>507</b>	<b>791</b>	<b>1,026</b>	

**N O T E S**



For more copies or other information, contact

**Institutional:** Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

**Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021**

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

**Disclosure of Interest Statement**

**Titan Industries**

- |   |    |
|---|----|
| 1. Analyst ownership of the stock                       | No |
| 2. Group/Directors ownership of the stock               | No |
| 3. Broking relationship with company covered            | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.