



Titan Industries

BSE SENSEX 16,939	S&P CNX 5,098	CMP: INR226	TP: INR191	Neutral								
Bloomberg Equity Shares (m)	TTAN IN 887.8	YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BY	ROE	ROCE	EY/	EY/
52-Week Range (INR)	238/147	END	(INR M)	(INR M)	(INR)	GR. (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
1,6,12 Rel. Perf. (%)	-4/26/57	03/10A	46,744	2,615	2.9	24.7	-	-	41.0	53.6	-	-
M.Cap. (INR b)	200.6	03/11A	65,209	4,336	4.9	65.8	46.3	19.6	49.6	61.8	2.9	32.5
M.Cap. (USD b)	4.0	03/12E	89,691	6,069	6.8	40.0	33.1	13.9	49.2	63.3	2.1	23.8
		03/13E	107,821	7,689	8.7	26.7	26.1	10.2	45.1	57.3	1.7	18.2

Titan Industries (TTAN) posted lower than expected results for 2QFY12. Adjusted PAT was INR1,529m (lower than our estimate of INR1,812m), impacted by a sharp 540bp decline in watch margins and muted 3% volume growth in jewelry business.

- Jewelry sales grew 45% YoY and EBIT grew 46% YoY. Volume growth was muted due to sharp increase in gold prices and general slowdown in consumer demand. Margins increased 10bp YoY to 9.2%, led by higher gold and diamond prices. The management expects 40-45% sales growth and higher margins.
- Watch sales grew 16% YoY (volume growth of 19% YoY), with 13% decline in EBIT, as margins contracted 540bp owing to input cost pressures, higher A&P and retail store expansion. Sales mix deteriorated, as *Zoop* and *Sonata Super Fibre* posted stronger growth; *Titan* volumes grew 10% YoY. A 6-7% price increase across most brands and up to 27% increase in solid gold *Nebula* brand is likely to neutralize input cost pressures. However, higher A&P and aggressive store expansion will keep medium-term EBIT margin at ~15%.
- Eyewear sales grew 36% YoY; however, LTL sales declined 19% YoY due to timing difference in promotions. The company added 35 stores in 1HFY12.
- PE (Precision Engineering) business revenue declined on account of delay in execution of a INR100m order; the management expects 35-40% revenue growth in FY12.

We are lowering our FY12/FY13 EPS estimates by 5-7% on the back of (1) lower margins in the watch business, (2) lower volume growth but flat margins in jewelry, and (3) lower growth in eyewear. We expect growth to improve QoQ in 3QFY12 due to recent price increase in watches and expect high growth in 4QFY12 due to one-time bonus payment of INR350-400m for FY11, which was reflected in 4QFY11. The stock currently trades at 33.1x FY12E EPS of INR6.8 and 26.1x FY13E EPS of INR8.7, with PAT CAGR of 33%. Maintain **Neutral**.

Quarterly Performance

Y/E March	(INR Million)									
	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Jewelry Volume Gr %	28	17	28	15	40	3	7	7	22	12
Net Sales	12,528	15,360	19,546	17,776	20,205	20,963	25,801	22,722	65,209	89,691
YoY Change (%)	41.9	33.9	46.6	35.6	61.3	36.5	32.0	27.8	39.5	37.5
Total Exp	11,415	13,624	17,596	16,718	18,361	18,961	23,375	20,992	59,353	81,689
EBITDA	1,113	1,736	1,950	1,058	1,845	2,002	2,425	1,730	5,856	8,002
EBITDA Growth %	126	61	82	-9	66	15	24	63	53	37
Margins (%)	8.9	11.3	10.0	6.0	9.1	9.6	9.4	7.6	9.0	8.9
Depreciation	82	86	86	91	99	106	120	125	345	450
Interest	26	24	20	12	11	2	12	19	82	44
Other Income	81	82	155	243	231	201	210	279	561	922
PBT	1,085	1,707	1,999	1,198	1,966	2,096	2,503	1,865	5,990	8,430
Tax	274	430	591	360	532	567	751	510	1,654	2,360
Rate (%)	25.2	25.2	29.6	30.0	27.1	27.1	30.0	27.4	27.6	28.0
Adjusted PAT	812	1,278	1,408	839	1,434	1,529	1,752	1,355	4,336	6,069
YoY Change (%)	258.9	64.7	79.7	1.2	76.6	19.7	24.4	61.5	65.8	40.0
Extraordinary Income	0	0	0	0	0	0	0	0	-32	
Reported PAT	812	1278	1408	839	1,434	1,529	1752	1,355	4,304	6,069

E: MOSL Estimates

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2QFY12 results lower than expected

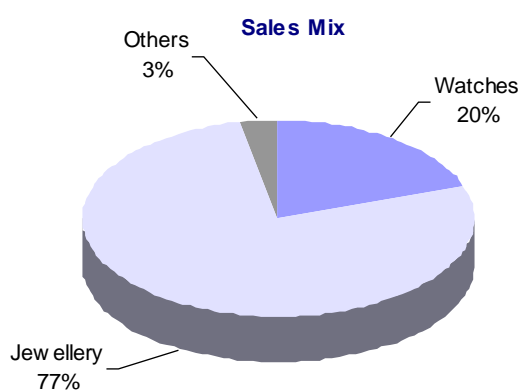
- Titan Industries (TTAN) posted lower than expected results for 2QFY12. Adjusted PAT was INR1,529m (lower than our estimate of INR1,812m), impacted by a sharp 540bp decline in watch margins and muted 3% volume growth in jewelry business.
- TTAN is expanding the *Helios* format in watches aggressively; it has also launched leather accessories in select stores in Bangalore and might look at a national launch. Scale up in *Helios* and leather accessories will impact near-term margins.
- Jewelry demand growth has slowed down due to 15% QoQ price increase in 2Q. Though gold prices have softened by 7-8% from the peak, it will take some time for the demand to show vibrancy. We are factoring in 12% grammage increase for FY12; 1HFY12 grammage increased 21% YoY.
- We are lowering our FY12/FY13 EPS estimates by 5-7% on the back of (1) lower margins in the watch business, (2) lower volume growth but flat margins in jewelry, and (3) lower growth in eyewear. We expect growth to improve QoQ in 3QFY12 due to recent price increase in watches and expect high growth in 4QFY12 due to one-time bonus payment of INR350-400m for FY11, which was reflected in 4QFY11.

Segmental analysis: Growth impacted by 540bp decline in watch margins (INR m)

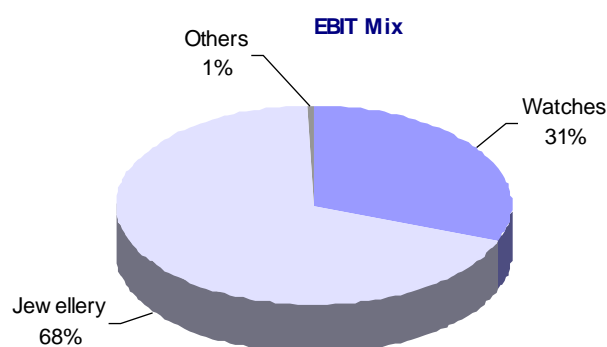
	1QFY12	1QFY11	2QFY12	2QFY11	1HFY12	1HFY11
Sales	20,243	12,584	21,138	15,428	41,381	28,012
Watches	3131	2,540	4174	3,594	7305	6,135
YoY Growth (%)	23.2	21.8	16.1	21.6	19.1	21.7
Jewellery	16,337	9,505	16,312	11,274	32,650	20,779
YoY Growth (%)	71.9	49.6	44.7	37.0	57.1	42.5
Others	775	538	652	560	1,426	1,098
YoY Growth (%)	44.0	37.5	16.3	80.6	29.9	56.5
EBIT	1,872	1,116	2,157	1,754	4,029	2,870
Watches	458	416	672	774	1,130	1,191
YoY Growth (%)	9.9	46.9	-13.2	32.9	-5.1	37.5
EBIT Margin (%)	14.6	16.4	16.1	21.5	15.5	19.4
Jewellery	1,450	683	1,499	1,026	2,949	1,709
YoY Growth (%)	112.4	223.0	46.0	77.8	72.6	116.7
EBIT Margin (%)	8.9	7.2	9.2	9.1	9.0	8.2
Others	(36)	17	(14)	(47)	(50)	(30)

Source: Company/MOSL

2QFY12 sales mix



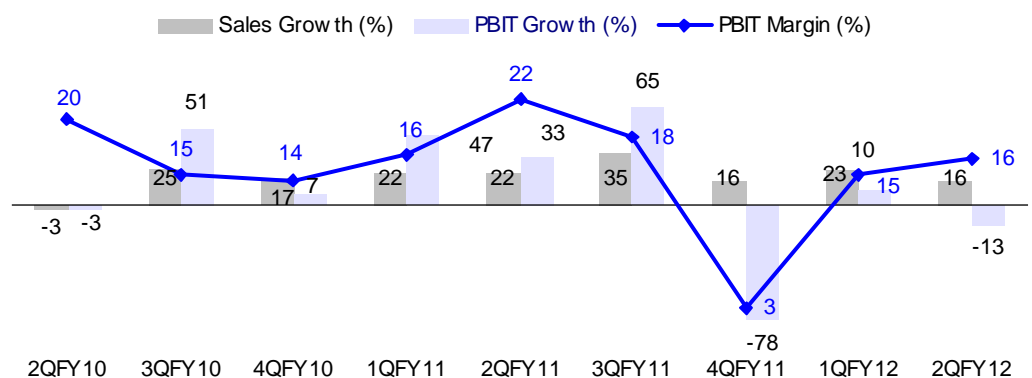
2QFY12 EBIT mix



Source: Company/MOSL

Watches: Margins decline 540bp due to store expansion, input cost pressure

- Watch sales grew 16.1% YoY to INR4.2b in 2QFY12; volume growth for the quarter was higher at 19% YoY, as sales of lower value products like *Zoop* and *Sonata Super Fibre* grew faster, adversely impacting the product mix.
- In terms of store formats, *World of Titan* sales increased 20% YoY, *Fastrack* sales doubled and *Helios* sales increased 4x. Like-to-like growth was lower at 16% for *World of Titan*, at 10% for *Helios* and at 72% for *Fastrack*. Large format watch stores posted 24% LTL sales growth.
- EBIT margin declined 540bp YoY to 16.1% due to (1) 400bp contraction in gross margin due to rupee depreciation and higher gold prices, (2) investments in A&P and retail store expansion.
- During 1H, the company added 6 *World of Titan*, 17 *Fastrack* and 8 *Helios* stores. In October, TTAN took a price increase of 6-7% across its portfolio and up to 27% price increase in the *Nebula* brand; the impact will be reflected in 3Q.
- Though the management is cautious on the demand scenario, festive season demand is likely to be healthy. With heightened investments in brand building and continuing aggression in store expansion, TTAN expects EBIT margin to stay around ~15% in the medium term.

Watches: Strong sales growth of 16%; 540bp margin decline

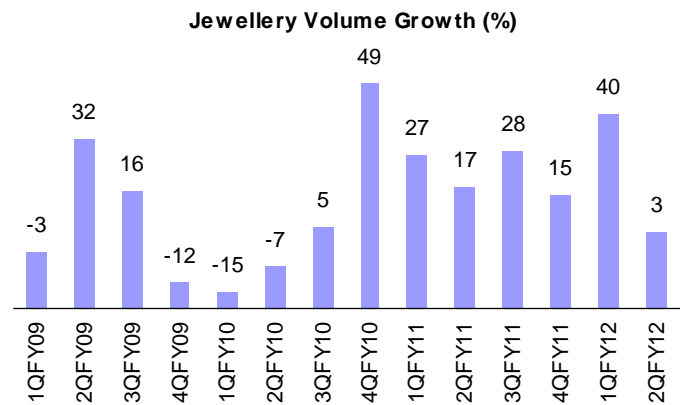
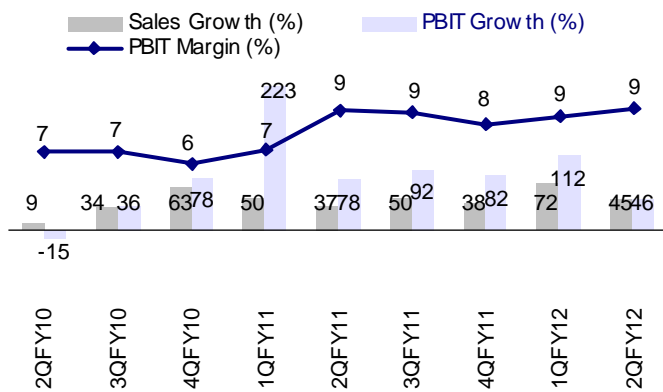
Source: Company/MOSL

Jewelry: 45% sales growth led by realizations; volume growth muted

- Jewelry sales increased 45% YoY to INR16.3b. EBIT grew 46% YoY to INR1.5b; EBIT margin expanded 10bp YoY to 9.2% despite the proportion of studded jewelry being lower at 28% (on a QoQ basis, the proportion of studded jewelry improved from 24% in 1QFY12).
- Jewelry volume growth was muted at 3% YoY (LTL volume growth declined 3%), led by volatility and sharp increase in gold prices, which kept customers away. Volume growth is disappointing. The festive season demand has thus far been moderate with some improvement being witnessed in the last one week, aided by some stability in gold prices.
- During 1H, the company added 5 *Tanishq* stores and 4 *Gold Plus* stores. *Tanishq* reported 39% sales growth, with 31% LTL growth. *Gold Plus* reported 44% sales growth, with 49% LTL growth. *Zoya* sales and LTL growth was at 45%. The management believes that it can achieve a full year revenue growth of 40-45%, with margin expansion in jewelry.

Jewelry volume growth declines sharply to 3%

Higher realizations boost revenue growth and margins



Source: Company/MOSL

Eyewear sales up 36%; PE business declines

- Precision Engineering (PE) and Eyewear reported 16.3% YoY increase in sales to INR652m, with EBIT loss reducing to INR14m.
- Eyewear reported a 36% sales growth; however LTL sales growth declined 19% due to seasonal promotion that was part of 1Q rather than 2Q in FY11. The company added 35 Eyewear stores during 1HFY12.
- Precision Engineering sales declined in the quarter due to an order of INR100m, which was not executed and which will come through in 3QFY11. Growth in PE is likely to improve, owing to a healthy order book; the management expects 35-40% growth in PE during FY12.

Valuation and view

- TTAN is expanding the *Helios* format in watches aggressively; it has also launched leather accessories in select stores in Bangalore and might look at a national launch. Scale up in *Helios* and leather accessories will impact near-term margins.
- Jewelry demand growth has slowed down due to 15% QoQ price increase in 2Q. Though gold prices have softened by 7-8% from the peak, it will take some time for the demand to show vibrancy. We are factoring in 12% grammage increase for FY12; 1HFY12 grammage increased 21% YoY.
- We are lowering our FY12/FY13 EPS estimates by 5-7% on the back of (1) lower margins in the watch business, (2) lower volume growth but flat margins in jewelry, and (3) lower growth in eyewear. We expect growth to improve QoQ in 3QFY12 due to recent price increase in watches and expect high growth in 4QFY12 due to one-time bonus payment of INR350-400m for FY11, which was reflected in 4QFY11.
- The stock currently trades at 33.1x FY12E EPS of INR6.8 and 26.1x FY13E EPS of INR8.7, with PAT CAGR of 33%. **Neutral.**

Titan Industries: an investment profile

Company description

Titan Industries (TTAN) is one of the largest specialty retailers in India. It is a market leader in watches and a pioneer in branded jewelry. The company's economy segment watch, *Sonata* is the largest selling watch in India. Titan entered the branded jewelry segment in 1996, with the *Tanishq* brand and continues to be the largest player in this segment.

Key investment arguments

- Titan is the leader in the organized segment of the domestic watch industry, with ~60% market share. The branded watch retailing segment should report strong growth given that 60% of the watch retailing industry is dominated by the unorganized segment.
- *Tanishq*, Titan's branded jewelry brand, is the largest player in the INR70b branded jewelry market in India. Branded jewelry accounts for less than 10% of the total jewelry market in India and is expected to report 40% CAGR over the next five years.
- We expect operating margins to expand, as fiscal benefits from units in backward areas and aggressive cost cutting initiatives undertaken by the company yield results.

Key investment risks

- Rise in gold prices would impact volume growth in the Jewelry division, impacting margins.
- Longer than expected breakeven period for *Titan Eye+* could strain profitability.

Recent developments

- During the quarter, the company added 31 watch stores and 35 eyewear stores.

Valuation and view

- We are cutting our EPS estimates by 5-7% to INR6.8 for FY12 and INR8.7 for FY13.
- The stock trades at 33.1x FY12E and 26.1x FY13E EPS. Maintain **Neutral**.

Sector view

- We believe specialty retailers are better placed to ward off the impact of the current slowdown. Ability to generate cash flows to adequately finance expansion plans puts them in a better position.

Comparative valuations

		Titan	Pantaloon	Shoppers Stop
P/E (x)	FY12E	33.1	14.5	31.1
	FY13E	26.1	11.2	23.3
EV/EBITDA (x)	FY12E	23.8	5.6	15.3
	FY13E	18.2	4.8	11.6
EV/Sales (x)	FY12E	2.1	0.5	1.3
	FY13E	1.7	0.4	1.0
P/BV (x)	FY12E	13.9	1.1	4.3
	FY13E	10.2	1.0	3.7

Shareholding Pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	53.4	53.3	53.4
Domestic Inst	5.5	6.2	8.4
Foreign	13.3	12.5	11.2
Others	27.9	28.0	27.1

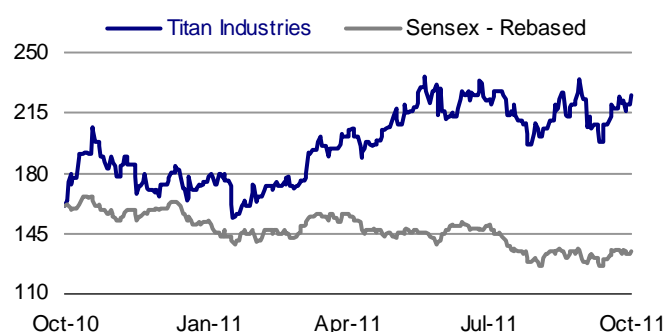
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	6.8	6.6	2.7
FY13	8.7	8.2	6.2

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
226	191	-15.7	Neutral

Stock performance (1 year)



Financials and valuations

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Net Sales	38,034	46,744	65,209	89,691	107,821	
Change (%)	27.0	22.9	39.5	37.5	20.2	
Total Expenditure	34,779	42,929	59,353	81,689	97,553	
EBITDA	3,255	3,815	5,856	8,002	10,268	
Change (%)	27.8	17.2	53.5	36.6	28.3	
Margin (%)	8.6	8.2	9.0	8.9	9.5	
Depreciation	418	360	345	450	457	
Int. and Fin. Charges	228	254	82	44	20	
Other Income - Recurrir	53	119	561	922	963	
Profit before Taxes	2,662	3,320	5,990	8,430	10,754	
Change (%)	31.6	24.7	80.4	40.7	27.6	
Margin (%)	7.0	7.1	9.2	9.4	10.0	
Tax	630	838	1,686	2,549	3,310	
Deferred Tax	65	134	32	189	245	
Tax Rate (%)	21.2	21.2	27.6	28.0	28.5	
Profit after Taxes	2,097	2,615	4,336	6,069	7,689	
Change (%)	29.4	24.7	65.8	40.0	26.7	
Margin (%)	5.5	5.6	6.7	6.8	7.1	
Reported PAT	1,631	2,503	4,336	6,069	7,689	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Share Capital	444	444	444	888	888	
Preference Share Capit	0	0	0	0	0	
Reserves	5,069	6,800	9,810	13,513	18,843	
Net Worth	5,512	7,244	10,254	14,401	19,731	
Loans	1,754	728	677	200	200	
Deferred Tax	182	48	15	204	449	
Capital Employed	7,448	8,019	10,946	14,805	20,380	
Gross Block	5,298	5,611	6,089	7,614	8,989	
Less: Accum. Deprn.	3,017	3,145	3,393	3,818	4,250	
Net Fixed Assets	2,281	2,466	2,696	3,796	4,739	
Intangibles	464	160	135	110	84	
Capital WIP	195	123	194	150	150	
Investments	77	76	91	91	91	
Curr. Assets, L&A	14,777	18,037	34,224	43,337	54,634	
Inventory	12,027	13,403	19,938	29,067	36,124	
Account Receivables	1,062	936	1,137	1,489	1,789	
Cash and Bank Balance	547	1,867	10,949	10,017	13,370	
Others	1,141	1,831	2,200	2,764	3,351	
Curr. Liab. and Prov.	10,346	12,843	26,394	32,679	39,319	
Current Liabilities	9,411	11,496	24,193	29,775	35,763	
Provisions	934	1,347	2,201	2,904	3,556	
Net Current Assets	4,432	5,194	7,830	10,658	15,315	
Miscellaneous Expendit	0	0	0	0	0	
Application of Funds	7,448	8,019	10,946	14,805	20,380	

E: MOSL Estimates

Ratios						
Y/E March	2009	2010	2011	2012E	2013E	
Basic (INR)						
EPS	2.4	2.9	4.9	6.8	8.7	
Cash EPS	2.7	3.3	5.2	7.3	9.1	
BV/Share	6.2	8.2	11.5	16.2	22.2	
DPS	0.8	0.9	1.5	2.1	2.6	
Payout %	32.7	31.0	30.0	30.0	30.0	
Valuation (x)						
P/E			46.3	33.1	26.1	
Cash P/E			43.4	30.9	24.7	
EV/Sales			2.9	2.1	1.7	
EV/EBITDA			32.5	23.8	18.2	
P/BV			19.6	13.9	10.2	
Dividend Yield (%)			0.6	0.9	1.1	
Return Ratios (%)						
RoE	42.5	41.0	49.6	49.2	45.1	
Operating RoE	41.1	44.2	128.1	192.4	106.3	
RoCE	50.0	53.6	61.8	63.3	57.3	
Working Capital Ratios						
Debtor (Days)	10	7	6	6	6	
Asset Turnover (x)	5.1	5.8	6.0	6.1	5.3	
Leverage Ratio						
Debt/Equity (x)	0.3	0.1	0.1	0.0	0.0	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
OP/(loss) before Tax	2,662	3,320	5,990	8,430	10,754	
Int./Div. Received	53	119	561	922	963	
Deferred Revenue Exp	0	0	0	0	0	
Depreciation and Amort	418	360	345	450	457	
Interest Paid	228	254	82	44	20	
Direct Taxes Paid	630	838	1,686	2,549	3,310	
Incr in WVC	519	-558	-6,445	3,760	1,304	
CF from Operations	1,755	3,264	11,573	3,449	7,540	
Extraordinary Income	-466	-112	0	0	0	
Incr in FA	382	-63	524	1,456	1,350	
Investments	-397	0	15	0	0	
CF from Invest.	-450	-49	-539	-1,456	-1,350	
Issue of Shares	53	0	0	0	0	
Incr in Debt	-821	-1,026	-51	-477	0	
Dividend Paid	415	519	776	1,290	1,821	
Others	94	350	1,125	1,158	1,017	
CF from Fin. Activity	-1,277	-1,895	-1,952	-2,925	-2,838	
Incr/Decr of Cash	28	1,320	9,082	-932	3,352	
Add: Opening Balance	519	547	1,867	10,949	10,017	
Closing Balance	547	1,867	10,949	10,017	13,369	

N O T E S

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Titan Industries

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No
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