

Titan Industries

BUY

Bold and beautiful

Rs2,054

Retail

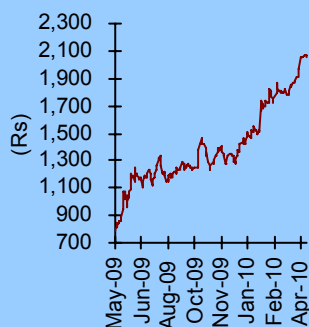
Target price Rs2,576

Shareholding pattern

	Sep '09	Dec '09	Mar '10
Promoters	53.0	53.0	53.1
Institutional investors			
MFs and UTI	19.4	19.9	19.7
Insurance, FIs	8.3	8.4	8.6
FII	0.5	0.3	0.3
FII	10.6	11.2	10.8
Others	27.6	27.1	27.2

Source: www.bseindia.com

Price chart



Reason for report: Initiating coverage

Titan's bold moves to enter uncharted waters have played out beautifully – its revenues & profits have reported a CAGR of 23% & 29% through FY00-10E making it one of the dream stocks of this decade. Titan's unparalleled brand equity, extensive reach, excellent design capabilities and strong management will help it further strengthen its leadership position in largely unorganised businesses. With improving consumer sentiment & economic outlook, we expect revenues to report a robust CAGR of 26% over FY10E-12E. On the back of improving margins, we expect recurring PAT to register 35% CAGR over the same period. We initiate coverage with BUY and target price of Rs2,576 (valuing it at FY12E P/E of 27x).

- ▶ **Jewellery business – Marching ahead.** Unparalleled brand equity and excellence in execution & strategy has enabled Titan to grow at a phenomenal pace (10-year sales CAGR of 40%) in a largely unorganised US\$22bn jewellery market in India. Improving consumer sentiment will enable Titan's jewellery business to post strong sales CAGR of 29% over FY10E-12E. Moreover, increased focus on high-margin studded jewellery and higher operating leverage are expected to improve margins – we expect PBIT in jewellery to report a strong 39% CAGR over FY10E-12E.
- ▶ **Watches – Holding guard.** Dominated by the unorganised sector, the ~Rs35bn Indian watch industry continues to grow at a steady pace. Titan, on the back of its exceptional brand equity, comprehensive product portfolio, strong distribution & service network and strength in innovation & design continues to dominate the organised market with 60% share. Increase in penetration and shift from the unorganised market to branded watches will ensure at least 6-8% volume growth in the next few years. We expect the watch segment to report sales & PBIT CAGR of 15.6% & 16.6% through FY10E-12E.
- ▶ **Eyewear – Another winner in the making?** Increase in usage & higher realisations have helped the >95% unorganised eyewear industry grow at 15-20%. Titan has rapidly expanded its eyewear stores – we expect it to post >40% sales CAGR over FY10E-12E. Management expects the eyewear business to breakeven in FY12.
- ▶ **Initiate with BUY; we introduce Titan as a top pick in our consumer space.** We expect Titan to post strong earnings CAGR of ~35% over FY10E-12E. Currently, it trades at FY11E P/E of 29x – at 16% premium to its five-year median P/E of 25x. The premium is in line with various FMCG players, who are currently trading at 10-15% premium to historical valuations. We value Titan at FY12E P/E of 27x (~10% premium to its historical P/E) & thus arrive at a 12-month target price of Rs2,576, implying 26% upside from current levels. Initiate coverage with a BUY.

Market Cap	Rs91.2 bn/US\$2.0bn
Reuters/Bloomberg	TITN.BO/TTAN IN
Shares Outstanding (mn)	44.4
52-week Range (Rs)	2069/790
Free Float (%)	46.9
FII (%)	10.8
Daily Volume (US\$/'000)	5,950
Absolute Return 3m (%)	36.5
Absolute Return 12m (%)	174.4
Sensex Return 3m (%)	6.2
Sensex Return 12m (%)	52.4

Year to March	FY09	FY10E	FY11E	FY12E
Revenue (Rs mn)	38,034	44,802	56,455	71,421
Net Income (Rs mn)	1,781	2,317	3,146	4,235
EPS (Rs)	40.1	52.2	70.9	95.4
% Chg YoY	10.6	30.1	35.8	34.6
P/E (x)	51.2	39.4	29.0	21.5
FCF per share	27.8	36.6	12.3	60.4
EV/E (x)	30.0	26.3	19.8	15.0
Dividend Yield (%)	0.5	0.7	1.0	1.3
RoCE (%)	27.3	29.8	32.5	36.0
RoE (%)	36.1	36.3	37.9	39.4

Please refer to important disclosures at the end of this report

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Investment rationale

Leader in segments with significant growth potential

Titan has successfully established leadership in segments which were primarily controlled by the unorganised sector and in many instances lacked consumer trust & transparency. Despite Titan gaining share in these segments, the lion's share is still in the hands of unorganised players and hence, there still remains a tremendous growth opportunity. In the past five years (FY04-09), Titan's revenues and recurring profits have reported a CAGR of 34% & 41% respectively.

Table 1: Higher unorganised market offers significant potential

Businesses	Total market size (in Rs bn)	Unorganised Share (%)	Titan's five-year performance FY04-09 CAGR	
			Sales (%)	PBIT (%)
Jewellery	1,000	90	45.4	51.5
Watch	35	60	14.1	19.9
Eyewear	15	>95	Entered in FY07	
Precision Engineering*	1,350	NM	39.6	NA

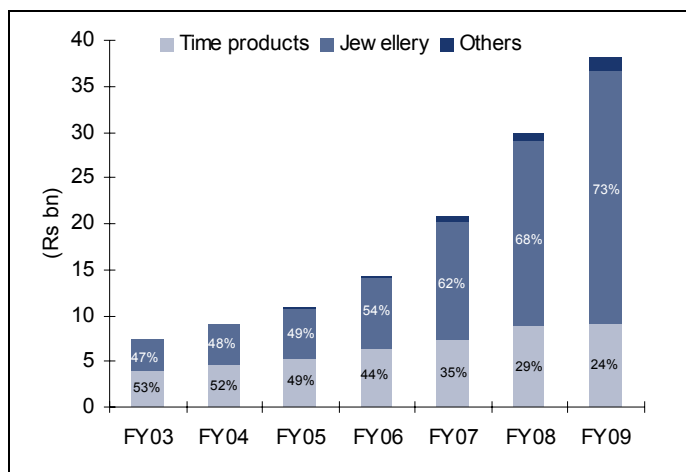
Source: Company data, Industry

*CAGR over FY05-09

Strong brand equity, steady expansion of retail network and excellent designing skills has helped Titan post jewellery revenue CAGR of 45% over FY04-09, with contribution to overall sales increasing to 73% from 48%. Robust economic growth leading to rise in disposable income, higher percentage of working women and changing perception of jewellery will make Titan the natural beneficiary – we expect Titan to post 29% sales CAGR in jewellery through FY10E-12E.

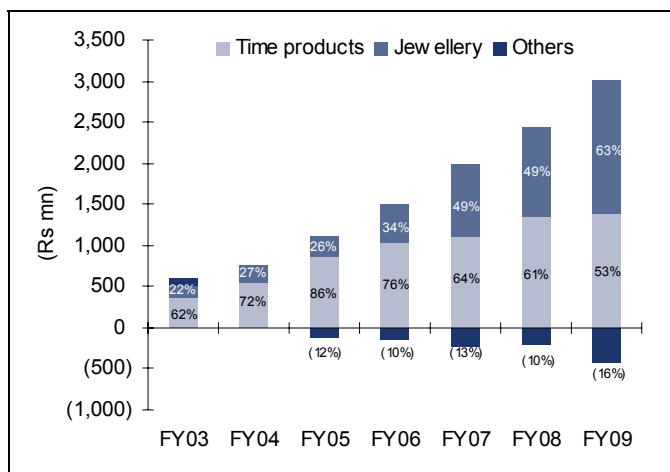
Titan's watch business has grown at 14% CAGR in the past five years and has a dominant 60% market share in the organised market. Increase in penetration, shift from unorganised market and changing perception of watches will ensure watch volume growth of 6-8% for Titan. With increase in realisation due to uptrading, we expect sales from watches to register CAGR of 15.6% over FY10E-12E. Precision Engineering and Eyewear contribute marginally to overall sales, but offer promising business prospects.

Chart 1: Sales by businesses



Source: Company data, I-Sec Research

Chart 2: PBIT by businesses



Source: Company data, I-Sec Research

Table 2: Growth in past five years

	Five years before	Currently
Products	Watches Jewellery	Watches Jewellery Sunglasses Eyewear Precision parts
Brands	Titan Sonata Tanishq	Titan Sonata Tanishq Fastrack Xylys GoldPlus Titan Eye+
Reach	200 stores Present in 17 countries	>500 stores Present in 26 countries
Units	2 divisions 3 Plants 2500 people	10 SBUs 9 Plants 4500 people

Source: Company presentation

Unparalleled brand equity with extensive reach

Titan, with the backing of the TATA brand, high focus on service and quality, comprehensive product offerings, innovation in designs and steady roll-out of retail stores (from 200 to >500 in the past five years) has been able to capture the consumer's imagination – it has won various awards for being one of India's most admired brands. This unparalleled brand equity has helped it capture a leading share of 40% & 60% in the organised jewellery & watch markets respectively.

In watches, Titan has an extensive & unparalleled distribution reach covering more than 11,000 watch dealers. Its flagship exclusive outlets – 'World of Titan' and 'Tanishq' have witnessed a steady ramp-up and have a significantly higher presence than competitors. For its exclusive retail outlets, Titan till now has mainly targeted towns with population >500,000 – hence, we see significant potential for growth both in existing and in new markets.

Excellent design capabilities

There has been a significant change in consumer perception – jewellery is not an investment and watches are no longer functional but are seen as fashion accessories. The changing consumer perception necessitates regular launch of new, trendy and diverse designs. Titan's focus on developing an excellent designing team has helped it introduce a new range of jewellery and watches in contemporary designs or based on various themes. This not only helps Titan offer consumers a 'reason to buy' an additional jewellery piece or a second watch, but also strengthens its brand equity.

Strong management with rich experience

Titan is jointly held by the Tata Group and Tamil Nadu Industrial Development Corporation (TIDCO), holding 25.2% and 27.9% respectively. Titan's senior management team has extensive experience in sales & marketing and have been associated with Titan/ Tata group for more than two decades. The company has 12 directors, with three nominees each from both the promoters and six independent directors. Mr. Bhaskar Bhat, Managing Director has been at the helm of affairs since '02 and has a rich pedigree – He is an engineering graduate from IIT Chennai and Post Graduate in management from IIM Ahmedabad and has been associated with Titan since 1986.

Table 3: Senior management profile

Name	Designation	Profile
Bhaskar Bhat	Managing Director	Associated with Titan since 1986 and has more than 26 years of experience in sales & marketing. He is the MD since '02
Harish Bhat	COO - Time Products	Leads the watch businesses of Titan and has held several senior portfolios in Tata Group
C K Venkataraman	COO - Jewellery	Working with Titan since past 20 years and has headed watch business previously. He is heading Jewellery business since '05
S Ravi Kant	COO - Eyewear Business & Sr. VP Corporate Communications	Associated with Titan since 1988 and has managed various businesses of the company

Source: Company data

Table 4: Board of Directors

Name of the Director	Designation	No. of directorships in other boards	
Mr. M F Farooqui	Chairman	10	Nominee of TIDCO
Mr. Bhaskar Bhat	Managing Director	4	Nominee of Tata group
Mr. N N Tata	Director	10	Nominee of Tata group
Mr. Ishaat Hussain	Director	15	Nominee of Tata group
Mr. T K Balaji	Independent Director	10	Ex-Director of TVS Motors
Dr. C G Krishnadas Nair	Independent Director	8	Former Chairman of HAL
Mr. Nihal Kaviratne	Independent Director	6	Spent 40 yrs with Unilever group in several senior positions
Ms. Vinita Bali	Independent Director	4	MD of Britannia Industries
Mr. V Parthasarathy	Director	6	Nominee of TIDCO
Ms. Hema Ravichandar	Additional Independent Director	3	Expert in Human Resource Development & ex-Sr.VP of Infosys
Mr. R Poornalingam	Additional Independent Director	3	Retired IAS officer
Mrs. Anita Praveen	Additional Director	NA	Nominee of TIDCO

Source: Company data

Improving margin outlook

The Watches business is Titan's most profitable business and has maintained PBIT margin in a narrow range of 15-17%. However, better cost management through outsourcing non-critical tasks of manufacturing and improving realisations through continuous uptrading is expected to improve margin slightly going forward.

Jewellery segment margins have been in the range 4-6.7% in the period FY03-10E. Till FY08, Titan used to charge making costs based on volume of gold – decision of linking the making charges to gold rate will ensure that Titan does not lose out on profitability due to sharp rise in gold prices, which typically leads to decline in volumes. Increasing operating leverage and higher proportion of sales from high-margin studded jewellery will improve margins to 7% in FY12E from 6% in FY10E.

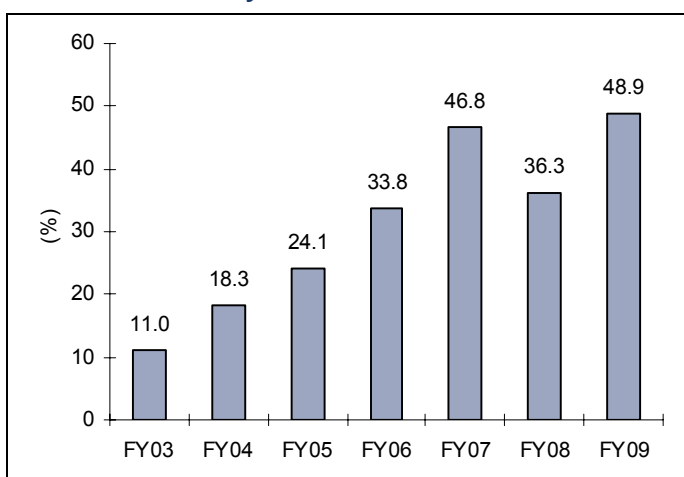
We expect overall PBIT CAGR to be 35% over FY10E-12E, with margin improving to 8.2% in FY12E from 7.2% in FY10E.

Robust financials

Titan has consistently improved its returns in both its key segments. High investments required for business expansion kept RoCE low till FY03. Excellent working capital management (working capital cycle has reduced to 49 days in FY09 from 124 days in FY04) and higher focus on sweating of assets (gross block has increased only 50% since FY04, while sales increased 3x in the same period) have helped Titan consistently deliver >25% RoCE on an overall basis.

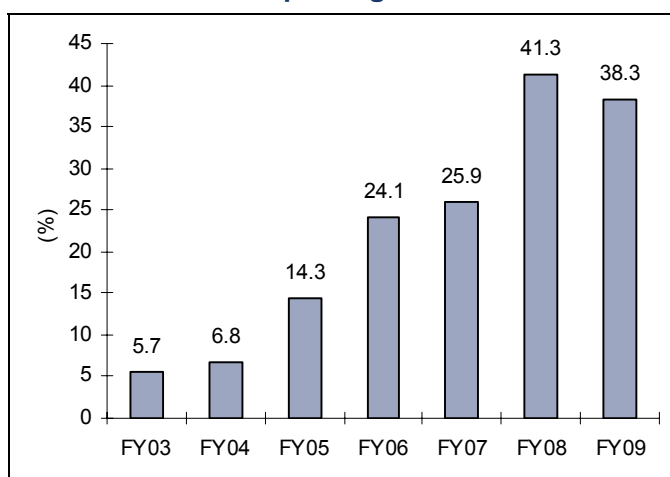
It has consistently maintained healthy cashflows – total operating cashflows have been 96% of the total reported profits through FY07-09. This has enabled the company reduce its debt equity ratio from 3.35x in FY04 to 0.35x in FY09. It has met its working capital and capital expenditure needs mostly through internal accruals. Low leverage and strong cashflows gives Titan the muscle to fund its future capital needs.

Chart 3: Jewellery – RoCE



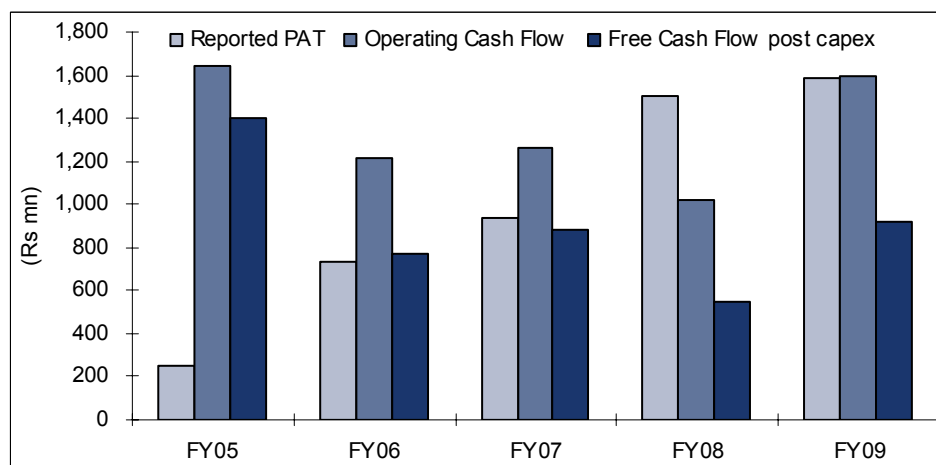
Source: Company data, I-Sec Research

Chart 4: Watch – Improving RoCE



Source: Company data, I-Sec Research

Chart 5: Strong cashflows



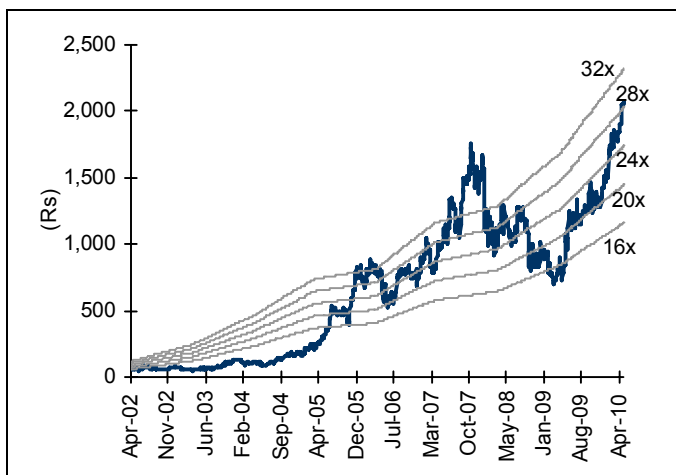
Source: Company data, I-Sec Research

Valuations – Strong earnings growth potential; initiate with BUY

We expect Titan to post strong ~35% earnings CAGR over FY10E-12E. Robust earnings growth and scarcity of quality retail plays in India will ensure that Titan commands a premium valuation. At present, it trades at FY11E P/E of 29x – at 16% premium to its five-year median P/E of 25x. The premium is in line with various FMCG companies that are currently trading at 10-15% premium to historical valuations.

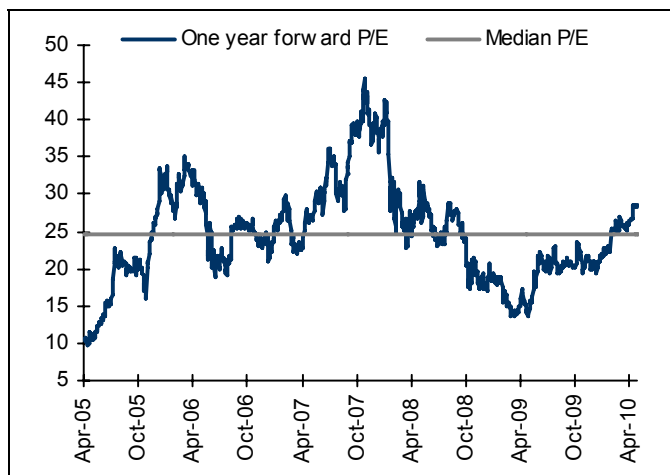
We value Titan at FY12E P/E of 27x (~10% premium to historical levels) and thus arrive at a 12-month target price of Rs2,576, implying 26% upside from the current levels. We introduce Titan as our 'top pick' in the consumer space (our other top picks are ITC & Asian Paints). We initiate coverage on Titan with a BUY.

Chart 6: P/E bands



Source: Company data, I-Sec Research

Chart 7: One-year forward P/E



Source: Company data, I-Sec Research

Jewellery business – Marching ahead

Titan's jewellery business has delivered robust 10-year sales CAGR of 40% in a largely unorganised US\$22bn jewellery market in India. Unparalleled brand equity and excellence in execution & strategy – rapid expansion of store network, differentiated formats (*Tanishq, GoldPlus and Zoya*) for various segments and strategies tuned to geographical needs (focus on gold in South India and studded jewellery in North & West India) – has enabled Titan to grow at a superlative pace and make it the undisputed leader in the branded jewellery segment. Improving consumer sentiment due to a robust economic outlook will enable Titan's jewellery business to post strong sales CAGR of 29% over FY10E-12E. Moreover, increased focus on high-margin studded jewellery and higher operating leverage is expected to improve margins – we expect PBIT in jewellery to report a strong 39% CAGR over FY10E-12E.

Indian Jewellery market – Deep-rooted fascination for gold

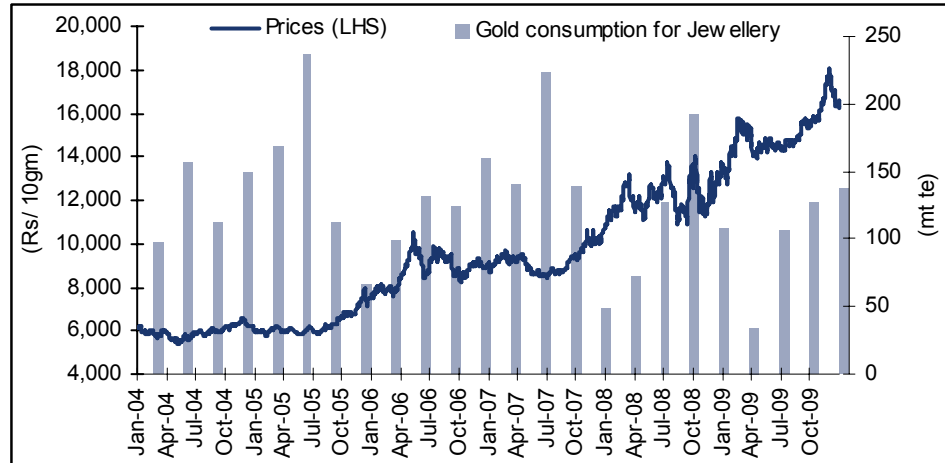
Indian gems and jewellery industry is one of the world's fastest growing market with an annual growth rate of ~16%. The domestic market is estimated at ~US\$22bn with gold jewellery accounting for ~80% of the total jewellery market compared with 42% globally. Traditional importance, auspicious reasons and investment value of gold makes it the most preferred form of jewellery in India. This makes India the leading gold consumer with a share of 20-25% of global consumption.

The jewellery retail market is largely unorganised and led by neighbourhood 'family jeweller' whom consumers trust and associate with from a long time. This is due to lack of means for a consumer to assure himself of the quality promised by the retailer, as 'under-karatage' of gold is highly prevalent in the industry. According to the Bureau of Indian Standards, over 80% of the jewellers sell gold of low purity than stated. Organised retailing of branded jewellery forms less than 10% of the total market, but is increasingly gaining share (it was ~2% of overall jewellery market in '06) as it is growing at double the pace of the overall jewellery market.

The demand for jewellery is driven by: i) festivals & special occasions – half of the market comprises wedding jewellery dominated by the unorganised segment and local designs, ii) rising disposal income and iii) changing buyer perception of jewellery – now seen as a fashion accessory & not just an investment option. However, the volume offtake of jewellery is sensitive to volatility in gold prices. Consumers prefer stability in prices than absolute price levels to make gold purchases (Chart 8). Sharp price increases (as witnessed in '09) brings down the overall consumption of gold.

Diamond sales have reported 20% CAGR through FY05-09 and form ~13% of the total jewellery market in India, whereas globally diamond-studded jewellery is the largest segment contributing over 45% to the total jewellery consumption.

Chart 8: Gold volumes have increased at stable prices



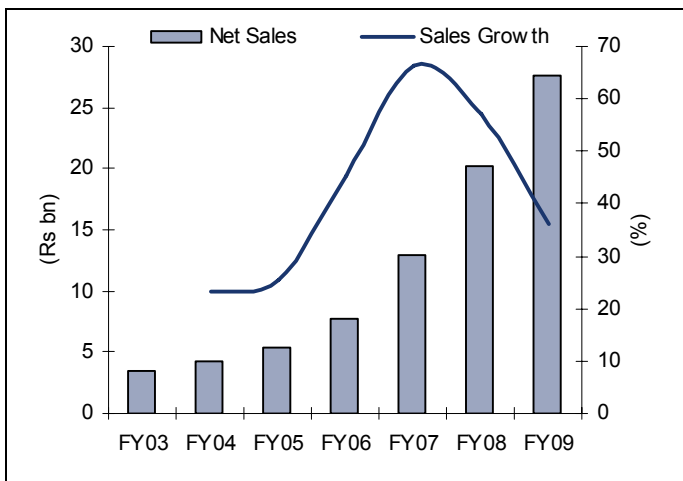
Source: WGC

Secular growth in jewellery to continue

Titan’s jewellery segment has witnessed phenomenal growth since its inception in 1996 and the company currently enjoys 40% market share in the branded jewellery segment. In the past 10 years (FY99-09), its jewellery sales & volume of gold consumed have reported a phenomenal CAGR of ~40% & 28% respectively, with contribution to overall revenues rising to 73% from 21% during the same period. While the strong industry growth can be attributed to rise in disposable income, increasing percentage of women working and changing perception of jewellery, Titan’s secular, above-industry growth can be attributed to the sheer presence of a trustworthy player in an industry plagued with fraudulent practices, strong brand equity, steady expansion of retail network and excellent design capabilities.

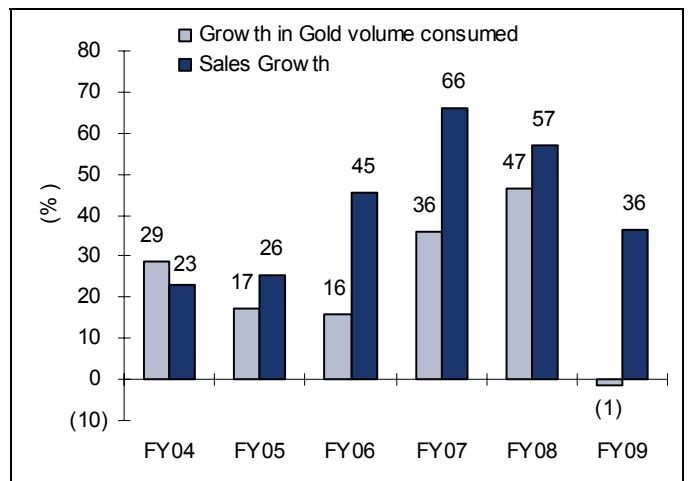
We expect ~29% sales CAGR from Titan’s jewellery segment over FY10E-12E. Our sales growth estimate is based on same store sales (SSS) growth of 15-18% and the number of stores going up from 152 in FY10E to 193 in FY12E.

Chart 9: Robust sales growth



Source: Company data, I-Sec Research

Chart 10: Growth in volume of gold consumed



Source: Company data, I-Sec Research

Excellent strategy surpassed by unparalleled execution

Steady roll-out of jewellery stores – Tapping new markets & formats

Over the years, Titan has steadily increased store network of 'Tanishq' – it currently has 119 stores across India (Chart 13), primarily in tier 1 & 2 cities. Despite the impressive scale-up, we see significant potential in increasing the number of stores – currently ~65% of stores are in cities with population greater than 1mn and there is minimal presence in towns with population less than 0.5mn (Table 5). We expect the company to increase its 'Tanishq' network from 119 stores at present to 150 by FY12E. Interestingly, despite impressive scale up, especially in non-metro cities, SSS has increased strongly to Rs216mn in FY09 from Rs89mn per store in FY05.

Titan launched its no frills store 'GoldPlus' in '05 to tap demand in semi-urban and rural areas, which forms ~60% of the total gems & jewellery market. Titan has been steadily scaling up its 'GoldPlus' operations – it currently has 30 'GoldPlus' stores and has successfully increased its turnover four times since FY07. Sales from 'GoldPlus' stood at Rs3.9bn in FY09, contributing 14% to total jewellery sales. However, since 'GoldPlus' is primarily engaged in selling plain vanilla gold jewellery, its operating margin is much lower.

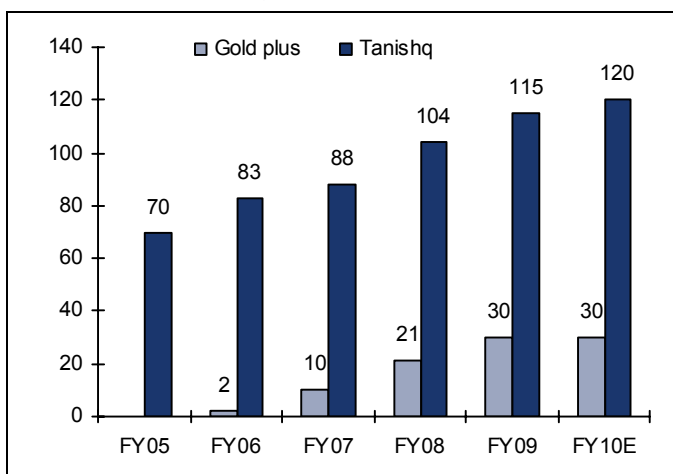
Titan has recently opened its luxury jewellery boutique – Zoya in Delhi & Mumbai to tap the fast growing Rs25bn luxury jewellery segment. The Zoya product portfolio is available in the price range of Rs0.2-2.5mn. The company plans to open at least six Zoya boutiques by FY13.

Table 5: Low presence in cities with less than 1mn population

Towns by population group	No. of towns		No. of 'Tanishq' stores
	in India	Presence of 'Tanishq'	
>1,000,000	35	33	75
>500,000 & <1,000,000	38	23	24
>100,000 & <500,000	320	17	17
>50,000 & <100,000	401	3	3

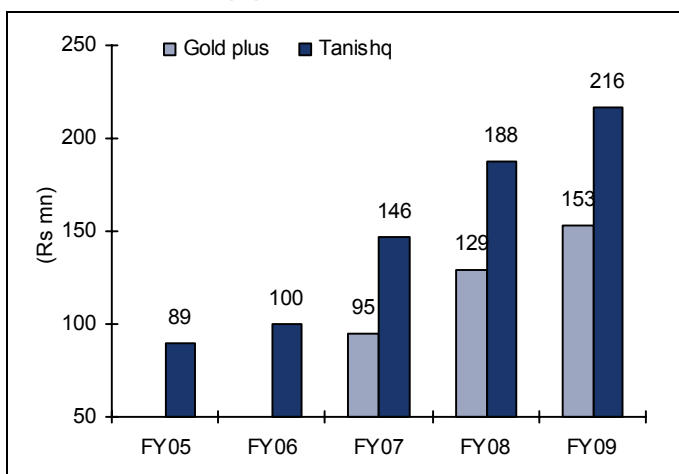
Source: Census '01, Company website

Chart 11: Jewellery store expansion



Source: Company data, I-Sec Research

Chart 12: Strong growth in revenue per store



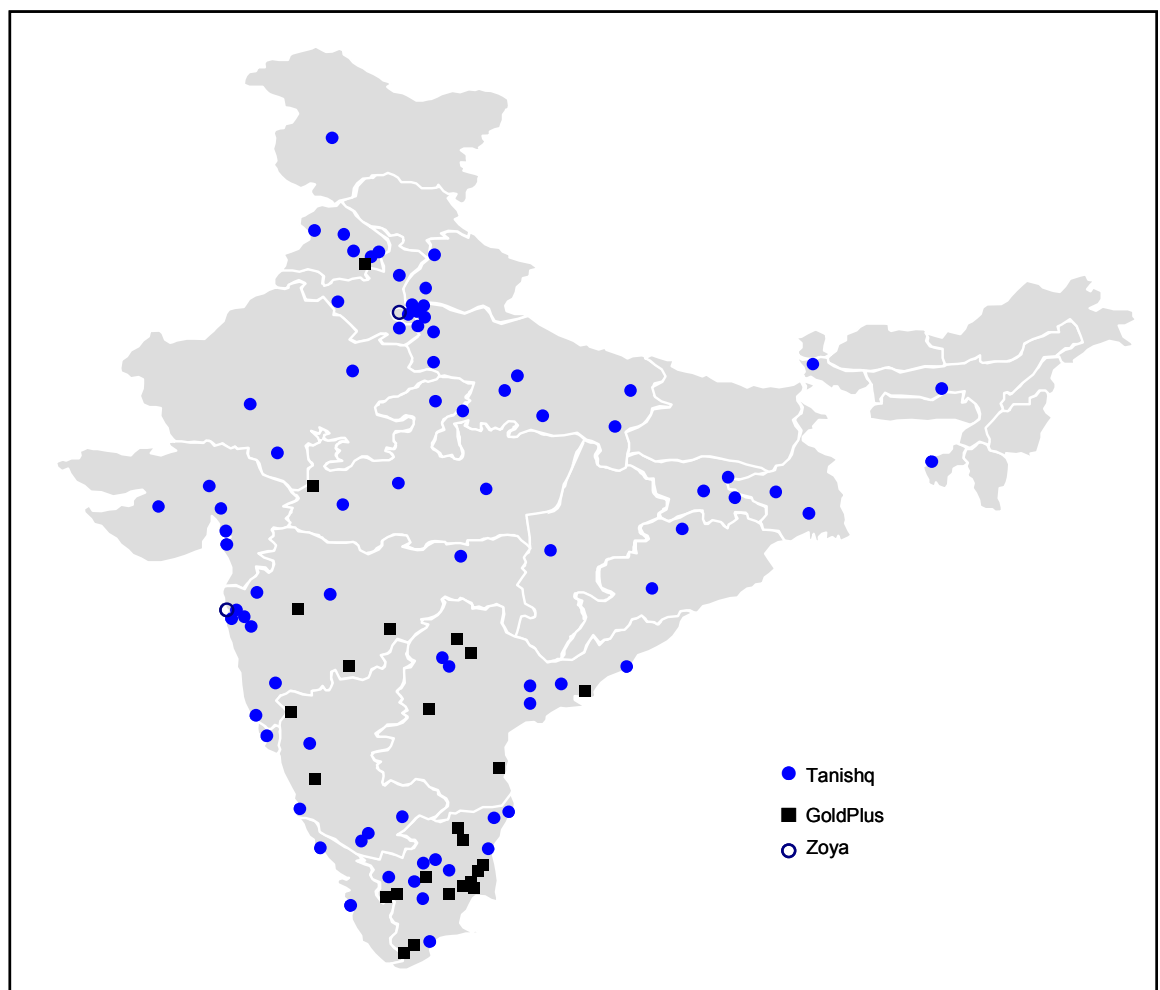
Source: Company data, I-Sec Research

Expanding strategically – High exposure to South India

Traditionally, South India has been the largest gold consumer in India. Titan has leveraged this strategically – 39% of its jewellery stores are in the South Zone. According to our estimates, over 40% of Titan's jewellery revenues are from South India. Titan operates 24 out of 29 stores of *GoldPlus* in southern states.

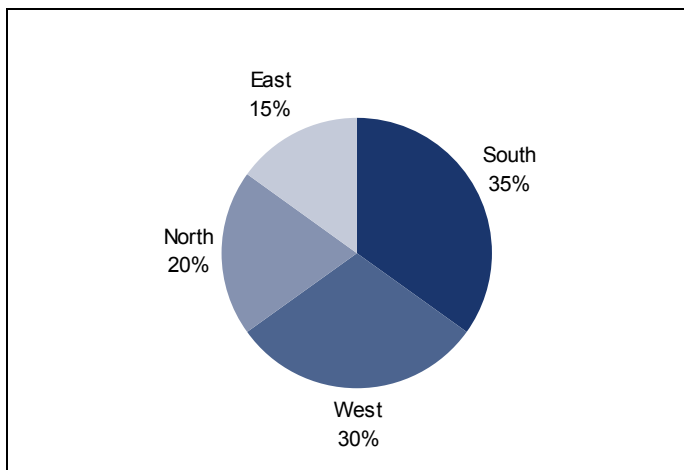
Unlike gold, where the epicentre of demand is in South India, West and North India dominate diamond jewellery sales, contributing 38% and 30% to the total diamond demand respectively. Titan has opened its luxury jewellery boutique *Zoya*, which mainly focusses on diamond and studded designer jewellery in Delhi and Mumbai to tap this opportunity.

Chart 13: Jewellery store network of Titan



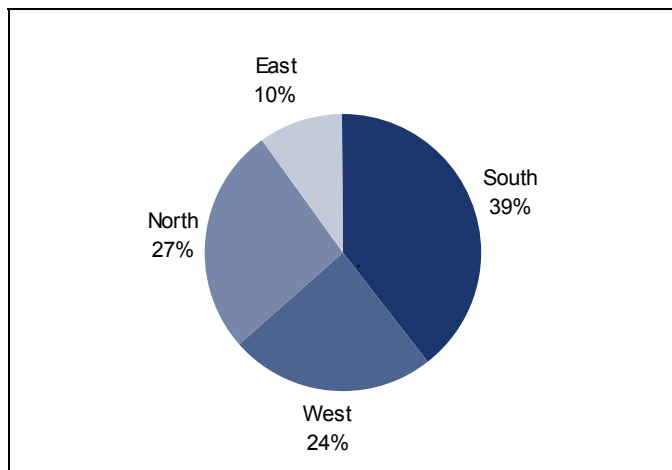
Source: Company website

Chart 14: Regional gold demand in India



Source: WGC

Chart 15: Jewellery store network of Titan



Source: Company data, I-Sec Research

Differentiating through design excellence

Tanishq Design studio's strong and diverse designing team has helped Titan win many awards. In '09, it won the Best Retail Chain by Retail Jeweller India, Gold Vivaha Jewellery for its *Jodha Akbar* series and CNBC Awaaz Award for most preferred brand. Apart from the 'trust' factor, *Tanishq's* unique and diverse designs have become its key USP. *Tanishq's* regular launch of jewellery in various thematic designs not only adds to its product variety but also induces fresh buying. Some of Titan's recent jewellery designs launched are shown in Exhibit 1.

Exhibit 1: Launch of new designs

April '10 – Launch of jewellery in regional designs: Titan launched the wedding collection in Punjab, Gujarat, Bihar, Rajasthan and South India, to target wedding market which comprises 50% of the total market and predominantly sold in regional designs.

April '09 – Titan launched world's smallest Bhagvad Gita in a 1sq cm pendant, which can be read under 200x magnification.

February '08 – Titan launched *Jodhaa Akbar* jewellery collection inspired by *Tanishq's* creations for the movie 'Jodhaa Akbar' and consisting traditional Rajput and Mughal jewellery of the sixteenth century.

July '05 – Titan launched Paheli collection: The collection consists of Rajasthani Kundan and Meena Kari artistry work targeting women. It was first created for bollywood movie *Paheli*.

Jodha Akbar collection***Paheli collection******Bhagvad Gita pendant******Punjabi wedding***

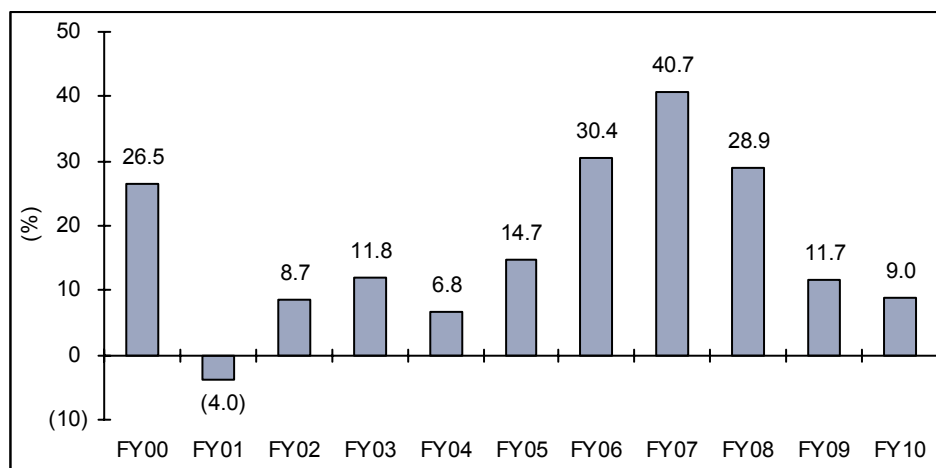
Source: Company website

Strong SSS growth – Linked to economic growth

SSS growth in Titan's jewellery segment has been strong and is closely linked to the level of economic growth in India. Slowdown in '00-01 due to IT meltdown led to SSS declining 4% in FY01. Economic improvement post the IT slowdown led to SSS growth ranging within 7-15% over FY02-05. Strong GDP growth in the following years of FY06-08 helped Titan post a >25% growth in SSS.

With the economic crisis in H2FY09, SSS growth was lower at 11.7% in FY09. We expect it to remain slightly lower at 9% in FY10 due to weak H1FY10. However, as economic recovery sets in, we expect >15% SSS growth in FY11 and FY12.

Chart 16: SSS growth strong but volatile



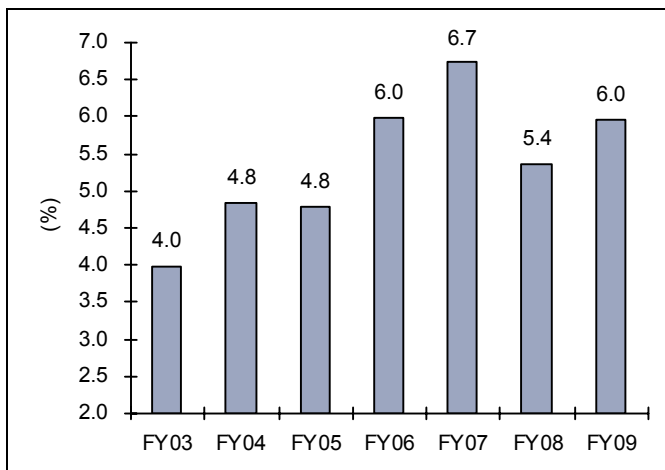
Source: I-Sec Research

Margins expected to improve going forward

Gold jewellery is usually sold at rates prevailing on the day of purchase plus fixed making costs charged on the basis of per gram gold. Till March '08, Titan used to follow a similar pricing model, but in April '08, the company changed its pricing strategy from fixed making charges to linking them partly with gold prices. This has enabled it to maintain stable operating margins, especially when gold price rises and volumes drop. Interestingly, despite fixed making charges, Titan's profit per gram of gold sold has improved consistently (Chart 18) due to improving product mix and higher operating leverage as SSS growth has been robust. The proportion of high-margin diamond and studded jewellery has been increasing consistently.

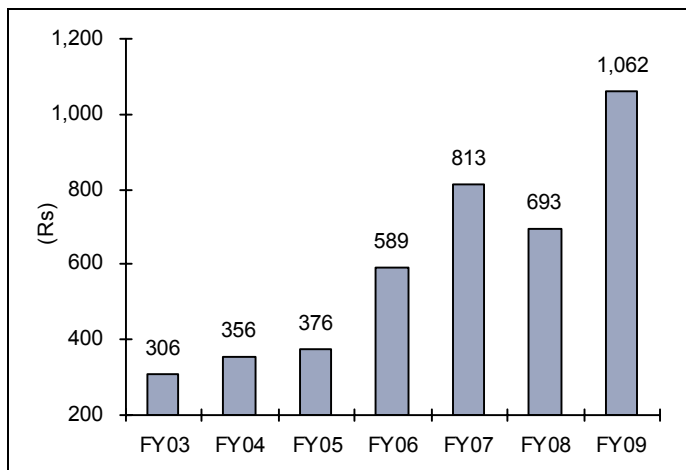
Operating margin has ranged within 4-6.7% in the past seven years. Post implementation of new pricing strategy in FY09, the margins stood at 6% (~7% excluding losses from closure of stores in the US). Decline in overall jewellery volumes sold in FY10 due to sharp increase in gold prices (gold prices reached an all-time high this year at Rs18,000 per 10gm) will keep margins muted at 6% in FY10E. However, with stabilisation in gold price, increasing operating leverage and continuous focus on increasing sales from diamond & studded jewellery, margin will improve to 6.5% & 7% in FY11E & FY12E respectively.

Chart 17: Jewellery – Margins



Source: Company data, I-Sec Research

Chart 18: PBIT per 10g of gold sold



Source: Company data, I-Sec Research

Calculated using PBIT of jewellery business by volume of gold consumed (does not include gold in outsourced jewellery, which is <10%)

Exhibit 2: Is *Tanishq* expensive?

Making charges for gold bangles with simple designs

Company name	Gold rate (per gm)	Quoted making charges	Effective making charges per gm
Tanishq	1,687	16-19%*	270-321
Tribhovandas Bhimji Zaveri	1,621	200-225 per gm	200-225

Making charges for rings with simple designs

Company name	Gold rate (per gm)	Quoted making charges	Effective making charges per gm
Tanishq	1,687	19-22%*	321-371
Tribhovandas Bhimji Zaveri	1,621	300-325 per gm	300-325

Source: I-Sec Research; gold rates of 22k purity as on April 14, '10 in Mumbai

*Making charges quoted as a percentage of gold rate per gm

Watch business – Holding guard

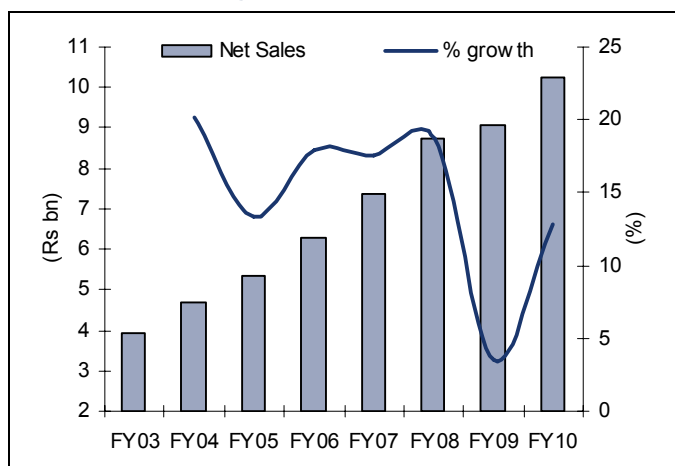
The ~Rs35bn Indian watch industry continues to grow at a steady pace. However, most of the watch market is dominated by the unorganised sector. Titan continues to dominate the organised market with 60% share – its strong brand equity, comprehensive product portfolio, strong distribution & service network and innovation & design strength will ensure that Titan maintains its dominance. Increase in penetration and shift from the unorganised market to branded watches will ensure that watch volumes for Titan will grow at least 6-8% in the next few years. Also, uptrading from mass end will aid realisation growth. We expect the watch segment to report sales & EBIT CAGR of 15.6% & 16.6% through FY10-12E.

Rise in penetration, uptrading & shift to branded market to drive growth

The market size for the watch industry in India is ~Rs35bn with total volume of 44mn units. Majority of the watch market (~60% by volume) is dominated by the unorganised sector comprising cheap Chinese imports, Indian Made Foreign Quartz (IMFQ) and low quality domestic products. Penetration of watches stands at a lowly 27%. Increase in penetration and shift from the huge unorganised market to branded watches will ensure that watch volumes for Titan will grow at least 6-8% in the next few years.

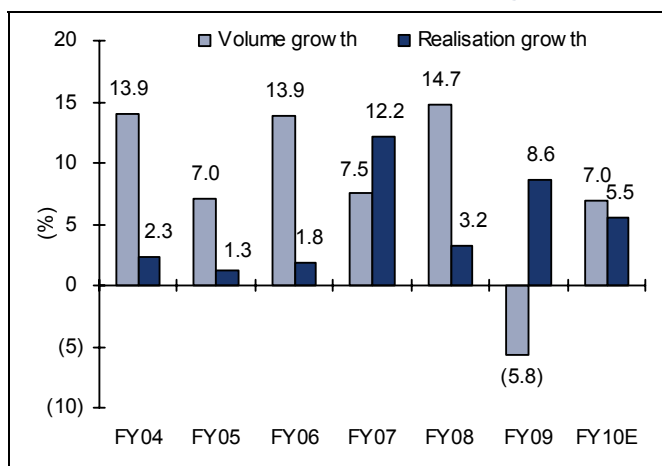
The mass segment (< Rs500 watches) forms a major chunk of the watch market – 65% of the overall market by volume & 24% by value. This segment is largely catered by the unorganised market. About 50% of the watches sold by Titan are from its mass segment brand, *Sonata*. High disposable income and changing perception of watches (from a functional time device to a fashion accessory) will drive consumers to upgrade from the mass market to economy and mid-premium segments. Hence, while increase in penetration and shift from unorganised to branded segment will aid volume growth, uptrading in the category will ensure healthy realisation growth.

Chart 19: Sales growth in watches



Source: Company data, I-Sec Research

Chart 20: Volume versus realisation growth



Source: Company data, I-Sec Research

Can Indian watch industry deliver steady growth? Is there a risk of obsolescence?

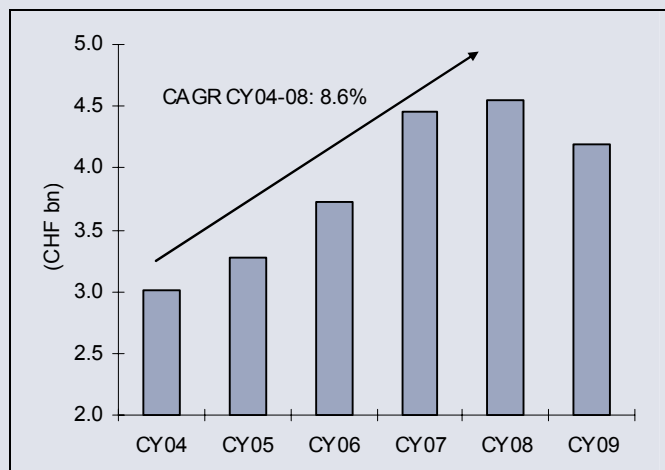
Despite high penetration in developed markets, wherein 250 watches per 1,000 people are sold annually, the Swatch group has reported 6.8% sales CAGR through CY04-09. The economic crisis in '09 led to a decline in CY09.

The Indian watch market has reported stable 6.6% volume growth through CY03-09, with Titan's watch segment reporting 8.3% volume growth through FY03-09.

We believe Titan's watch sales will keep growing at a steady 12-14% based on:

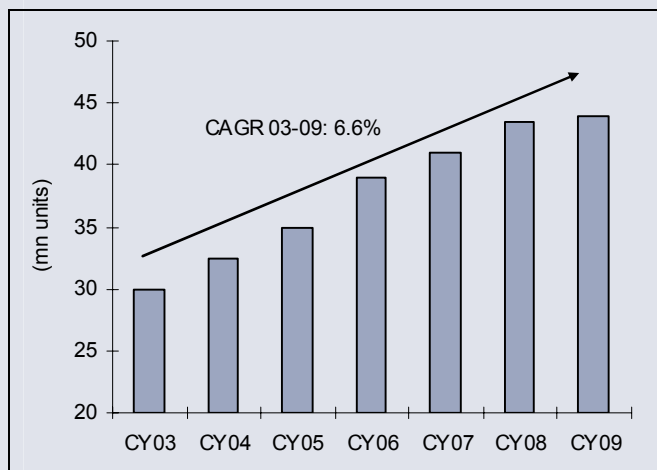
- Low penetration in India – annual sale of 40 watches per 1,000 people – offers enough room for growth
- Shift from unorganised segment to branded watches
- Continuous uptrading from mass segment to economy and mid-premium segments
- Change in perception of watches – to a fashion accessory from a functional device

Chart 21: Sales growth – Swatch group



Source: Company data, I-Sec Research

Chart 22: Stable volume growth in Indian watch industry



Source: Company data, I-Sec Research

Dominant market leader with strong brand equity

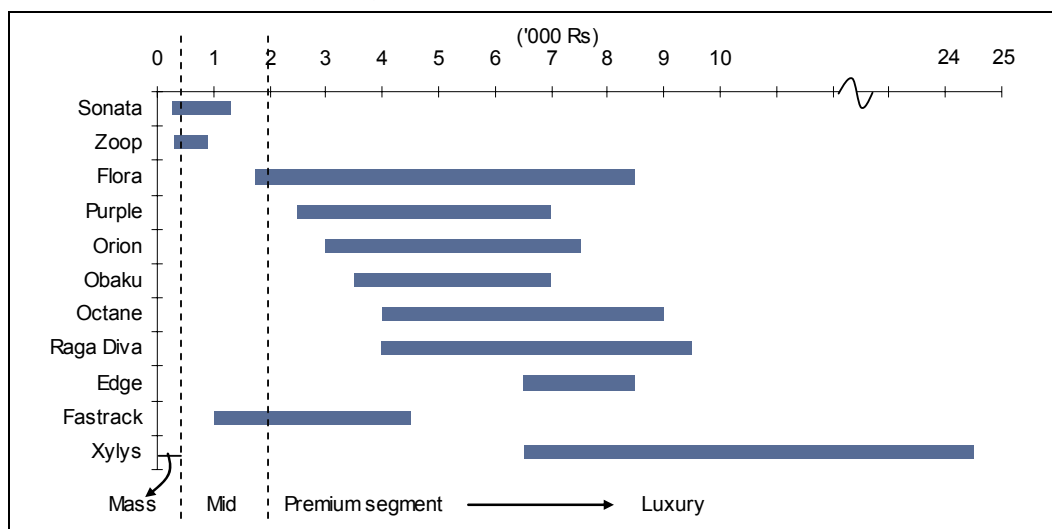
Titan is the leading timewear player in the domestic market with an overall share of 40% by value and 22% by volume. Among the organised players, Titan has a dominating share of over 60%. *Titan* has been consistently voted as one of India's most admired brands in the consumer durables category – a position it has achieved through creativity (collections such as the *Aviator* series, use of Mozart's 25th symphony as its signature tune), innovation (collections such as the *Edge* series), trust (through the TATA brand and consistent product delivery), distribution (through the ubiquitous '*World of Titan*' chain) and impeccable service (via its innumerable watch care centres). We believe that 'emotional connect' and 'trust' associated with the brand is unparalleled and is a significant competitive advantage for Titan.

Comprehensive product portfolio across segments

Titan has a strong product portfolio straddling various price points and consumer segments. It straddles the watch category with its portfolio of six brands – flagship brand *Titan*, *Titan Raga* for women, *Titan Zoop* for children, *Fastrack* for youth, *Sonata* for the economy segment and *Xylys* for the premium segment.

Sonata, its brand in the mass segment, is the #1 branded watch in India by volumes and contributes ~35% to its watch revenues (and ~50% to total watch volumes). *Titan* has established itself as a strong brand in the economy & mid upper segment. While the company launched *Xylys* in February '06 to ensure its presence in the fast-growing premium segment, it has also entered into a licensing agreement to sell *Tommy Hilfiger*, *Hugo Boss* & *FCUK* watches in order to bolster its presence in the premium segment.

Chart 23: Price points of key brands



Source: Company website

Table 6: Key watch brands of Titan

Brand	Target segment	Price range (Rs)	Description
Sonata	Economy	275 - 1,300	Largest watch brand in India by volumes. Fight unorganised grey market & increase penetration in rural areas
Titan		1,000 - 9,500	Includes various sub-brands
Zoop		300 - 900	Targeting children segment
Flora		1,750 - 8,495	Targeting ladies segment
Purple	Mid and Premium	2,495 -6,995	Recently introduced with innovative designs for women
Orion		2,995 -7,500	Watches for men inspired by astronomy
Obaku		3,495 - 6,995	Recently introduced with 21 different styles
Octane		3,995 - 8,995	Chronographs and multi-function watch for men
Raga Diva		4,000 - 9,500	Stylish designs targeting women in urban areas
Edge		6,500 - 8,495	Slimmest watch
Fastrack	Youth	1,000 - 3,500	Targeting youth with modern designs
Xylys	Luxury	6,500 - 24,000	Premium swiss-made watch
Nebula	Luxury	33,000 - 95,000	Gold plated watches

Source: Company website

Competitive advantage through innovation & design

Titan has been focussing on building competitive advantage through innovation and design. It has a team called Innovedge, which targets breakthrough technology innovation in watches – some of the breakthrough innovations by the company include the *Edge* series, which has been popularised as the world's slimmest watch. Titan's design team, The Titan Design Studio has been recognised as one of India's finest centres for design excellence. The team is focussing on regular introduction of watch designs with innovative concepts that not only differentiates it from the competition but more importantly gives a 'reason to purchase' for the consumer. Some of its design innovations are described below.

Exhibit 3: Watch collections launched in the past three years – Creating excellence through design

March '07 – Aviator series: A unique collection of watches inspired by World War II fighter aircraft, targeted at the up-market, global Indian.

October '07 – Heritage collection: Inspired by Indian art and culture; the designs are based on stories of ancient monuments and Indian mythology.

January '08 – Octane collection: These are chronograph, multifunction and retrograde watches with international styling. The sporty and urban look is targeted at the independent man.

September '08 – WWF Collection: The WWF collection is a unique range of watches inspired by some of India's endangered species. The collection was launched in partnership with WWF India and is inspired by six endangered species, the tiger, rhino, dolphin, red panda, whale shark and turtle.

January '09 – Fastrack Army collection: This collection used army equipment as its design inspiration. The watch variants come in unusual case shapes inspired by the grenade, the sniper and tanks.

September '09 – Raga Flora: An exquisite range of watches for women inspired by exotic flower designs.

January '10 – Purple: A stylish watch brand targeting modern women. Its bold designs are available in multiple dial colours with options in all steel, gold, rose gold and a combination of steel and leather look.

January '10 – Sonata SF Blue: A range of waterproof, sturdy & sporty looking watches inspired by Indian sports. The new Sonata Super Fibre Blue watches are available in many shades of blue, the colour of Indian sports.

March '10 – Obaku series: This collection is based on the Scandinavian design principles of minimalism, inspired by Zen philosophy. It is available in 21 different styles and is in partnership with Obaku, an international brand rooted in Denmark.

Purple



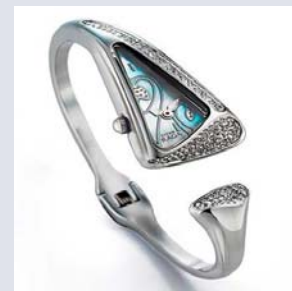
Obaku



Octane



Raga Flora



Source: Company website

Strong distribution network – Tapping all channels

Apart from ramping up its exclusive 'World of Titan' outlets, Titan has been increasing its presence in multi-brand outlets and also extending its reach through initiatives such as Fastrack kiosks, ITC's e-choupal network, etc.

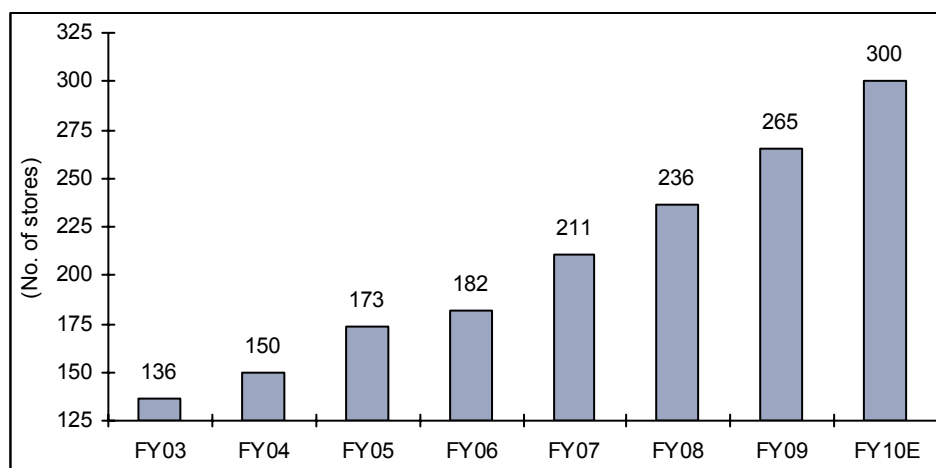
'**World of Titan**' channel contributes ~45-50% to total watch sales. At present, the company has a network of 283 stores, with total retail space of 275,000 sqft. The company has been steadily increasing its retail network – it has added 75 stores in the past three years. Our analysis reveals that there is enough scope for Titan to double its network of 'World of Titan' stores in the next 7-8 years. The current store format at ~1,000 sqft per outlet and franchisee investment of Rs5mn is suited for large towns; the company till now has mainly targeted towns with population greater than 500,000. We believe that going forward the company will tweak its current format to increase penetration in smaller towns.

Multi-brand outlets include sales through watch dealers and modern retail formats. Dealer network of 11,000 enables Titan to penetrate in most urban and semi-urban locations. Sales through dealer network tend to be volatile as dealers stock up inventory during promotional offers. Also, it affects sales of 'World of Titan' outlets as dealers tend to give discount on promotional stock. Hence, the company has stopped/limited such promotional offers and prefers investing in brand building.

Modern retail formats currently contribute <10% to total watch sales. Titan is increasingly forging tie-ups with various modern retailers. The company has also launched its own multi-brand outlet 'Helios' to retail various premium and luxury watch brands. To penetrate rural markets, Titan has forged an alliance with ITC e-choupal to sell its economy segment brands.

Titan watch care centres differentiate Titan from other brands by providing readily accessible after sales services and spares & accessories through 725 centres across India. This huge service network built over the years adds significantly to the brand equity and has become an unparalleled source of competitive advantage.

Chart 24: Strong ramp-up in 'World of Titan' store network



Source: Company website

Table 7: Significant scope of retail network expansion

Towns by population group	No. of towns		No. of 'World of Titan' stores
	in India	Titan's presence	
>1,000,000	35	34	170
>500,000 & <1,000,000	38	27	41
>100,000 & <500,000	320	52	57
>50,000 & <100,000	401	6	6

Source: Census 2001, Company website

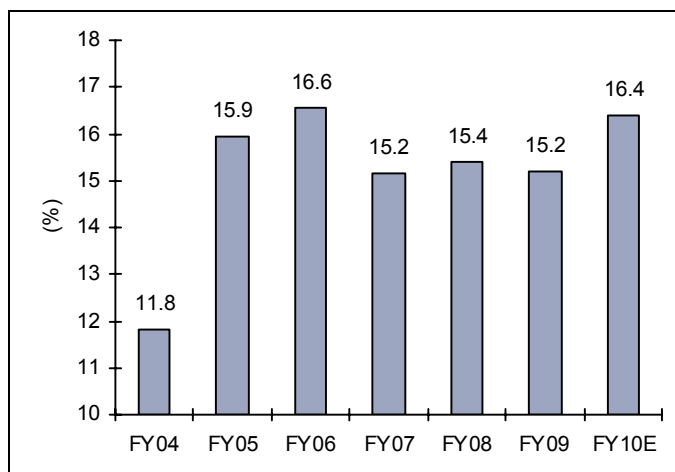
International business – Focus on Asian markets

Titan sells over 0.7mn watches in 26 countries. The company has focussed more on domestic growth – in the past five years contribution of sales from international markets has declined from 9% in FY04 to 3.5% in FY09.

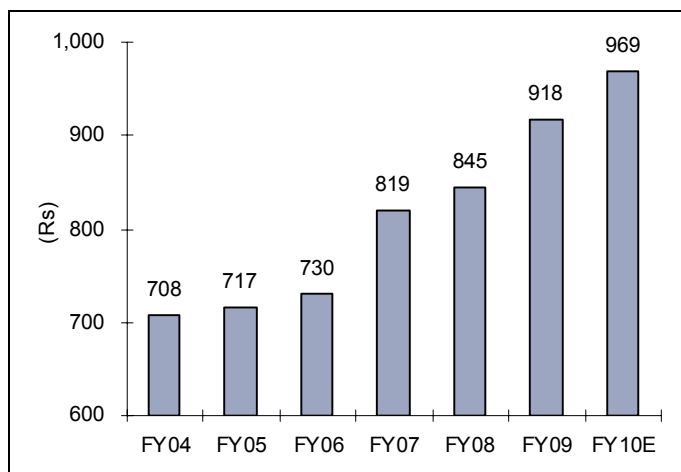
After failed attempts in the western markets, Titan now plans to focus on profitable growth in Asian markets. It has presence in countries such as Singapore, Malaysia, Vietnam, Saudi Arabia, Dubai, etc. and plans to enter other markets such as Philippines, Thailand and South Africa. We do not expect the contribution from international sales to change and estimate it to remain at the current levels going forward.

Margins expected to improve marginally

The watch segment is the most profitable business of Titan with EBIT margin being maintained in the narrow band of 15 -17% for the past five years. We not only expect Titan to maintain these margins, but also anticipate a marginal improvement on the back of: i) increase in outsourcing of components from the current high cost structure of captive manufacturing facilities, ii) sourcing from vendors across the globe, iii) economies of scale and iv) improved product mix as growth in the brand Titan is expected to be higher than that of *Sonata*. Our estimate of EBIT margin for FY11E & FY12E stands at 16.6% and 16.7% respectively.

Chart 25: Watch – Stable margin

Source: Company data, I-Sec Research

Chart 26: Watch – Improving realisation

Source: Company data, I-Sec Research

Other businesses – Promising prospects

Eyewear business – Another winner in the making?

Indian eyewear market at a nascent stage

The eyewear market in India is largely unorganised with only a few regional branded players. The organised market is still at a nascent stage and forms <5% of the overall market. According to Titan, ~30% of the population needs eye correction but only 25% uses eyewear to correct vision. Increasing incidence of usage has helped the industry grow at 15-20% annually to ~Rs15bn or 25-35mn units.

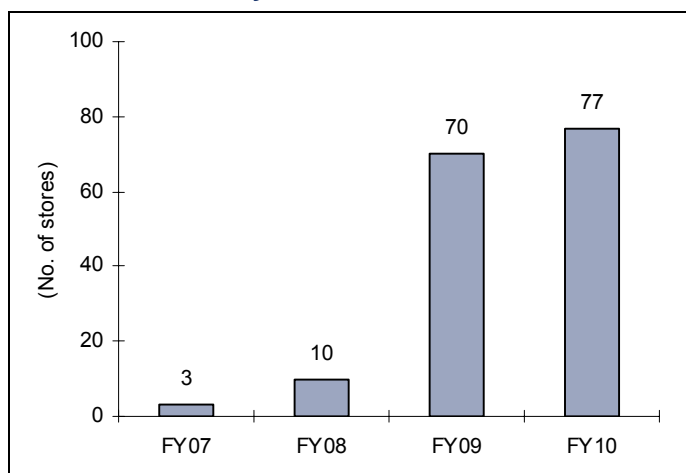
We expect the category to grow in excess of 15% with increase in urbanisation, improvement in literacy rate, rise in usage of computers & televisions and rise in importance of aesthetics, leading to uptrading. The mid-market segment is growing faster than the overall market and is expected to become thrice the current size in the next 5-6 years.

Titan Eye+ – Scaling up presence but profitability may take time

After launching sunglasses under *Fastrack* in FY05, Titan entered prescription eyewear business in March '07, selling both in-house and international brands. Titan Eye+ offers frames, sunglasses, branded lenses, contact lenses and other eyewear accessories, mostly in the mid-market segment. According to the company, initial response from consumers is positive and Titan continues to rapidly scale up the business.

Titan Eye+ store has rapidly scaled up its presence by opening ~77 stores in less than three years with Rs280mn revenues in FY09. We expect Titan to post >40% sales CAGR over FY10E-12E, largely on the back of roll out of new stores. While the management expects the eyewear business to break even by FY12, we believe that the company may need to fine tune its business model and increase SSS to start reporting profits.

Chart 27: 'Titan Eye+' stores



Source: Company data, I-Sec Research

Table 8: Store network of competitors

Company	Store count
Titan Eye+	76
Lawrence & Mayo	54
GKB Opticals	42
Himalaya Opticals	40

↓

Titan has rapidly increased its store network in a short span of time. However, none of the regional players, present in the market for decades, have been able to scale up at this pace

Source: I-Sec Research

Significant scope for store expansion

At present, most of Titan Eye+ stores are in towns with greater than 1mn population. Most of the towns with >500,000 population are still not penetrated. Moreover, 11 towns with >1mn population do not have an Eye+ store, indicating that there is significant scope for Titan to expand its eyewear stores.

Table 9: Significant scope for store expansion in Titan Eye+

Towns by population group	No. of towns		No. of 'Titan Eye+' stores
	in India	Presence of Eye+ stores	
>1,000,000	35	24	62
>500,000 & <1,000,000	38	9	9
>100,000 & <500,000	320	4	4
>50,000 & <100,000	401	1	1

Source: Census 2001, company website

Differentiating by offering diverse range and value-added services

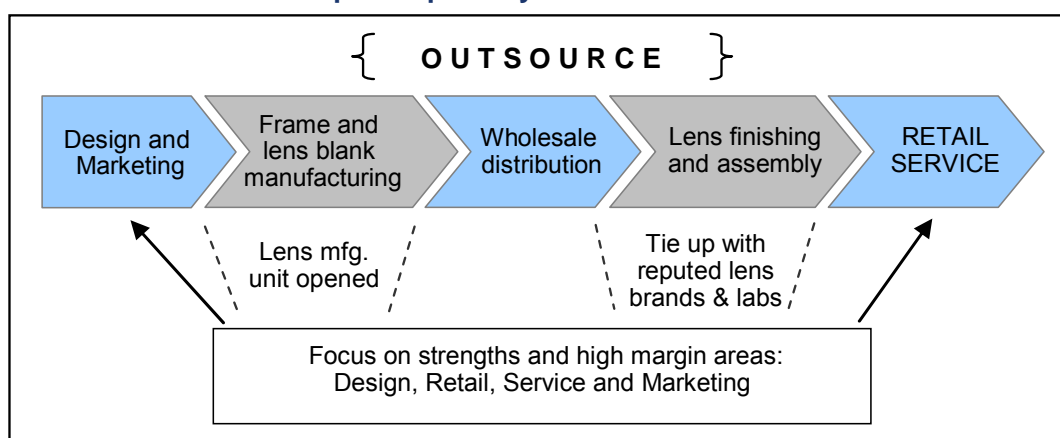
Unlike traditional optical stores, which offer only prescription eyewear products, Titan offers services such as style consultancy and free of cost optometric check-ups that differentiates it from the competition. It offers self-branded products and international brands such as *Gucci*, *Armani*, *Essilor*, *Bausch & Lomb*, etc. in varied prices range of Rs400-15,000.

Focussing on its strengths in eyewear value chain

Titan focusses on its core strengths of designing and retailing in the entire value chain and outsources other functions such as frame manufacturing, lens finishing and assembly.

It has recently started producing lenses in a manufacturing facility near Bangalore. Though the eyewear business is currently in investment stage and does not churn profits, manufacturing lenses will help save costs as lens manufacturers typically charge gross margins of >40%.

Chart 28: Value chain in prescription eyewear business

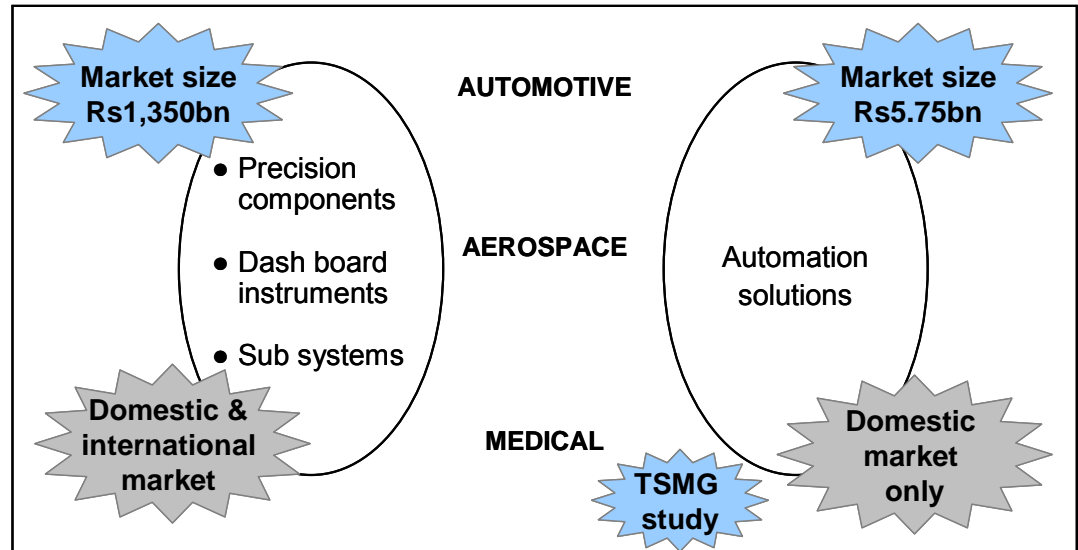


Source: Company presentation

Precision Engineering

The global market for precision engineering products is Rs1,350bn and is growing steadily. Titan has entered this business to leverage its engineering capabilities and balance the risk from its B2C businesses. It manufactures products catering to automotive, aerospace and medical industries. Its turnover has increased nearly four times to Rs760mn in FY09 from Rs200mn in FY05. It has a strong list of international and domestic clients such as Bosch, Tata Motors, Schlumberger, Ford, Tyco Electronics, etc.

Chart 29: Precision Engineering



Source: Company presentation

Risks

Economic slowdown. Since jewellery and watch spends are largely discretionary in nature, their growth is strongly linked to consumer sentiment, which in turn is largely linked to the overall economic growth. Severe economic slowdown, as seen in FY09, will lead to decline in consumer sentiment and can impact Titan's revenue growth.

Sharp movement in gold prices. Titan procures all its gold on lease from banks and hence, is not vulnerable to inventory losses or gains due to fluctuating gold prices. Adverse price rise results in volume decline and thus hurts margins (as witnessed in H1FY10). We also believe that in the event of sharp correction in gold prices, the quantum of volume increase might not be significant to aid a double-digit industry growth. Historically, overall gold volume consumed in India has been more or less stable and growth of industry has been largely price-led. Stable increase in gold prices augurs well for Titan's growth.

Sharp rise in real estate prices. Though rental costs are borne by franchisees, any sharp increase in real estate prices will require Titan to compensate them by covering their increased expenses so that franchisee owner can maintain their return on investments. This can hurt margins of Titan.

Financial summary

Table 10: Profit and Loss Statement
(Rs mn, year ending Mar 31)

	FY07	FY08	FY09	FY10E	FY11E	FY12E
Gross Sales	21,365	30,411	38,477	45,112	56,880	71,946
Less: Excise Duty	462	473	443	310	425	525
Net Sales	20,902	29,937	38,034	44,802	56,455	71,421
<i>Time Products division</i>	7,379	8,759	9,070	10,238	11,885	13,670
<i>Jewellery division</i>	12,898	20,263	27,602	33,073	42,550	55,087
<i>Others</i>	625	916	1,362	1,490	2,020	2,664
Raw Material Consumed	13,744	21,339	27,622	32,904	41,492	52,557
Gross Profit	7,158	8,598	10,412	11,897	14,963	18,864
<i>% margin</i>	34.2	28.7	27.4	26.6	26.5	26.4
Other operating expenses	5,161	6,058	7,335	8,380	10,297	12,695
Other Manufacturing Expenses	69	75	104	113	129	147
Power and Fuel	115	139	161	185	213	245
Personnel Expenses	1,671	1,934	2,334	2,521	3,025	3,630
Selling and Distribution Expenses	2,444	2,597	3,588	3,952	5,008	6,367
Other Expenses	861	1,314	1,149	1,609	1,923	2,307
EBITDA	1,997	2,540	3,077	3,517	4,666	6,170
<i>% margin</i>	9.6	8.5	8.1	7.9	8.3	8.6
Less: Depreciation & Amortisation	256	297	418	374	402	436
Add: Other Income	32	18	53	90	105	125
EBIT	1,774	2,260	2,712	3,233	4,369	5,859
<i>Time Products division</i>	1,119	1,350	1,379	1,679	1,973	2,283
<i>Jewellery division</i>	870	1,087	1,644	1,984	2,766	3,856
<i>Others</i>	(215)	(177)	(311)	(430)	(370)	(280)
Less: Gross Interest	204	201	294	185	146	97
Recurring Pre-tax Income	1,570	2,059	2,417	3,048	4,222	5,762
Add: Extraordinary income	-	-	-	300	-	-
Less: Extraordinary Expenses	253	36	112	-	-	-
Less: Taxation	373	440	607	804	1,077	1,527
--Current Tax	402	367	672	804	1,077	1,527
--Deferred Tax	(29)	73	(65)	-	-	-
Net Income (Reported)	941	1,503	1,590	2,516	3,146	4,235
Recurring Net Income	1,125	1,611	1,781	2,317	3,146	4,235

Source: Company data, I-Sec Research

Table 11: Balance Sheet*(Rs mn, year ending Mar 31)*

	FY07	FY08	FY09	FY10E	FY11E	FY12E
ASSETS						
Current Assets, Loans & Advances						
Cash & Bank balance	507	519	547	1,895	1,616	2,507
Inventory	6,775	10,211	12,027	14,977	19,051	23,997
Sundry Debtors	921	965	1,062	1,270	1,669	2,049
Loans and Advances	655	992	1,141	1,312	1,509	1,736
Other Current Assets	-	-	-	-	-	-
Total Current Assets	8,858	12,686	14,777	19,454	23,845	30,289
Current Liabilities & Provisions						
Current Liabilities	5,369	8,019	9,411	12,410	14,910	19,418
Sundry Creditors	4,586	6,538	6,967	9,481	11,400	15,212
Other Current Liabilities	782	1,481	2,444	2,929	3,510	4,206
Provisions	554	782	934	1,256	1,588	2,060
Total Current Liabilities and Provisions	5,923	8,801	10,346	13,666	16,498	21,477
Net Current Assets	2,935	3,885	4,432	5,788	7,347	8,811
Investments						
Strategic & Group Investments	263	466	76	76	76	76
Other Marketable Investments	7	7	0	10	10	10
Total Investments	270	474	77	86	86	86
Fixed Assets						
Gross Block	5,155	5,581	5,930	6,530	7,330	8,230
Less Accumulated Depreciation	2,643	2,856	3,186	3,559	3,961	4,397
Net Block	2,511	2,725	2,745	2,971	3,369	3,833
Add: Capital Work in Progress	160	100	195	200	200	200
Less: Revaluation Reserve	-	-	-	-	-	-
Total Fixed Assets	2,671	2,825	2,940	3,171	3,569	4,033
Total Assets	5,877	7,184	7,448	9,046	11,003	12,931
LIABILITIES AND SHAREHOLDERS' EQUITY						
Borrowings						
Short Term Debt	1,596	1,497	893	737	687	437
Non-Convertible Preference Shares	528	528	528	528	528	-
Long Term Debt	346	550	333	350	250	150
Total Borrowings	2,470	2,575	1,754	1,615	1,465	587
Deferred Tax Liability	174	247	182	182	182	182
Share Capital						
Paid up Equity Share Capital	444	444	444	444	444	444
<i>No. of Shares outstanding (mn)</i>	<i>44.4</i>	<i>44.4</i>	<i>44.4</i>	<i>44.4</i>	<i>44.4</i>	<i>44.4</i>
<i>No. of Warrants outstanding* (mn)</i>						
<i>Face Value per share (Rs)</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>	<i>10</i>
Preference Share Capital (convertible)	-	-	-	-	-	-
Reserves & Surplus	2,873	3,918	5,069	6,805	8,912	11,719
Share Premium	1,336	1,336	1,389	1,389	1,389	1,389
General & Other Reserve	1,495	2,582	3,680	5,416	7,523	10,330
Less: Misc. Exp. not written off	42	-	-	-	-	-
Less: Revaluation Reserve	-	-	-	-	-	-
Net Worth	3,232	4,362	5,512	7,249	9,356	12,163
Total Liabilities & Shareholders' Equity	5,877	7,184	7,448	9,046	11,003	12,931

Source: Company data, I-Sec Research

Table 12: Cash Flow Statement*(Rs mn, year ending Mar 31)*

	FY07	FY08	FY09	FY10E	FY11E	FY12E
Cash Flow from Operating Activities						
Reported Net Income	941	1,503	1,590	2,516	3,146	4,235
Add:						
Depreciation & Amortisation	204	213	329	374	402	436
Provisions	-	-	-	-	-	-
Deferred Taxes	(29)	73	(65)	-	-	-
Less:						
Other income	32	18	53	90	105	125
Net Extra-ordinary income	(253)	(36)	(112)	300	-	-
Operating Cash Flow before Working Capital change (a)	1,337	1,806	1,913	2,499	3,443	4,545
Changes in Working Capital						
(Increase) / Decrease in Inventories	(3,031)	(3,436)	(1,816)	(2,950)	(4,074)	(4,946)
(Increase) / Decrease in Sundry Debtors	(19)	(44)	(98)	(208)	(399)	(380)
(Increase) / Decrease in Operational Loans & Adv.	784	(336)	(150)	(171)	(197)	(226)
(Increase) / Decrease in Other Current Assets	-	-	-	-	-	-
Increase / (Decrease) in Sundry Creditors	1,654	1,951	430	2,514	1,919	3,812
Increase / (Decrease) in Other Current Liabilities	562	771	1,011	547	653	779
Working Capital Inflow / (Outflow) (b)	(50)	(1,094)	(622)	(268)	(2,098)	(963)
Net Cash flow from Operating Activities (a) + (b)	1,287	713	1,290	2,231	1,345	3,583
Cash Flow from Capital commitments						
Purchase of Fixed Assets	(915)	(366)	(445)	(605)	(800)	(900)
Purchase of Investments	0	(204)	390	-	-	-
Cash Inflow/(outflow) from capital commitments (c)	(915)	(570)	(55)	(605)	(800)	(900)
Free Cash flow after capital commitments	373	143	1,235	1,627	545	2,683
Cash Flow from Investing Activities						
Purchase of Marketable Investments	(0)	0	7	(10)	-	-
Other Income	32	18	53	90	105	125
Net Cash flow from Investing Activities (d)	32	18	60	80	105	125
Cash Flow from Financing Activities						
Issue of Share Capital during the year	21	-	-	-	-	-
Issue of Pref capital	(400)	-	-	-	-	-
Net Borrowings	(209)	105	(821)	(139)	(150)	(878)
Dividend paid including tax	(156)	(260)	(415)	(519)	(779)	(1,039)
Others	717	42	80	0	(0)	(0)
Net Cash flow from Financing Activities (e)	(27)	(113)	(1,156)	(659)	(929)	(1,917)
Net Extra-ordinary Income (f)	(253)	(36)	(112)	300	-	-
Total Increase / (Decrease) in Cash	124	12	28	1,348	(279)	891
(a) + (b) + (c) + (d) + (e) + (f)						
Opening Cash and Bank balance	383	507	519	547	1,895	1,616
Closing Cash and Bank balance	507	519	547	1,895	1,616	2,507
Increase/(Decrease) in Cash and Bank balance	124	12	28	1,348	(279)	891

Source: Company data, I-Sec Research

Table 13: Key Ratios*(Year ending Mar 31)*

	FY07	FY08	FY09	FY10E	FY11E	FY12E
Per Share Data (Rs)						
Recurring EPS	25.3	36.3	40.1	52.2	70.9	95.4
Reported EPS	21.2	33.9	35.8	56.7	70.9	95.4
Dividend per share (DPS)	5.0	8.0	10.0	15.0	20.0	27.5
Book Value per share (BV)	72.8	98.3	124.2	163.3	210.8	274.0
FCF per share	8.4	3.2	27.8	36.6	12.3	60.4
Valuation Ratios (x)						
P/E	81.1	56.6	51.2	39.4	29.0	21.5
P/BV	28.2	20.9	16.5	12.6	9.7	7.5
P/FCF	244.7	638.0	73.8	56.1	167.4	34.0
EV / EBITDA	46.3	36.4	30.0	26.3	19.8	15.0
EV / Net Sales	4.4	3.1	2.4	2.1	1.6	1.3
Growth Ratios (% YoY)						
Net sales	45.1	43.2	27.0	17.8	26.0	26.5
EBITDA	28.5	27.2	21.1	14.3	32.6	32.2
Recurring Net Income	15.6	43.3	10.6	30.1	35.8	34.6
Recurring EPS	10.1	43.3	10.6	30.1	35.8	34.6
Operating Ratios (%)						
Raw Material/Sales	65.8	71.3	72.6	73.4	73.5	73.6
SG&A/Sales	11.7	8.7	9.4	8.8	8.9	8.9
Effective Tax Rate	28.4	21.8	26.3	24.0	25.5	26.5
NWC / Total Assets	41.3	46.9	52.2	43.0	52.1	48.8
Inventory Turnover (days)	91.8	103.5	106.7	110.0	110.0	110.0
Receivables (days)	15.9	11.5	9.7	9.5	9.5	9.5
Payables (days)	65.6	67.8	64.8	67.0	67.5	68.0
D/E Ratio (x)	0.82	0.65	0.35	0.25	0.18	0.06
Return / Profitability Ratios (%)						
EBITDA Margins	9.6	8.5	8.1	7.9	8.3	8.6
Rec. Net Income Margins	5.4	5.4	4.7	5.2	5.6	5.9
RoCE	23.2	27.1	27.3	29.8	32.5	36.0
RoNW	44.8	42.4	36.1	36.3	37.9	39.4
Dividend Payout Ratio	27.6	27.6	32.7	31.0	33.0	33.7
Dividend Yield	0.2	0.4	0.5	0.7	1.0	1.3

Source: Company data, I-Sec Research

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I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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