

We expect a stronger H2 FY12

■ Event: Q2 FY12 revenue growth of 36.5%; EBITDA up 15.4%

Q2 FY12 revenue grew 36.5%, underlying watch revenue rose 16% (volume growth of 19%) and jewellery revenue was up 45% (same-store-sales growth of 31%). The eyewear division registered sales growth of 36%. EBITDA was Rs2bn, up 15.4% YoY, and PAT grew 16% (in line with our estimate).

■ Impact: Watch margin down YoY; jewellery margin flat YoY

The margin for watches was 16.1% (21.5% in Q2 FY11). The decline was due to: 1) Rs depreciation that affected the price of raw materials; and 2) the cost of gold plating watches. The company raised watch prices 5% on 1 October 2011, which should support the margin in H2. Jewellery margin was flat at 9.2%, despite the gold price correcting sequentially, due to an increase in the proportion of sales of diamond jewellery. Volume growth for gold jewellery was muted in August on high gold prices. We expect volume growth in Q3 to be robust due to the festive season.

■ Action: We are positive on company's luxury strategy

Titan's watch division is investing in more Helios stores; it plans to open 40 Helios stores in FY12 (it had 14 stores at end-Q2) and will also test-market leather accessories at Titan stores. Titan's strategy involves preparing for the upgrade of consumer aspirations across its watch, jewellery and optics divisions. We believe this is a bold strategy catering to the top-end as well as other segments of the consumer market.

■ Valuation: Price target of Rs250.00

We derive our price target from a DCF methodology, assuming a WACC of 11.2% and an intermediate growth rate of 17%.

Highlights (Rsm)	03/10	03/11	03/12E	03/13E	03/14E
Revenues	46,744	65,209	88,084	96,408	112,777
EBIT (UBS)	3,349	5,511	7,770	9,295	11,051
Net Income (UBS)	2,503	4,304	6,303	7,529	8,897
EPS (UBS, Rs)	2.82	4.85	7.10	8.48	10.02
Net DPS (UBS, Rs)	0.75	1.25	2.13	2.54	3.01

Profitability & Valuation	5-yr hist av.	03/11	03/12E	03/13E	03/14E
EBIT margin %	7.6	8.5	8.8	9.6	9.8
ROIC (EBIT) %	59.7	186.2	159.2	87.8	90.3
EV/EBITDA (core) x	20.0	23.5	24.3	20.1	16.9
PE (UBS) x	29.7	31.0	31.8	26.6	22.5
Net dividend yield %	0.9	0.8	0.9	1.1	1.3

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs225.65 on 24 Oct 2011 23:55 HKT

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India

Retailers, Specialty

12-month rating **Buy**
Unchanged

12m price target **Rs250.00/US\$5.02**
Unchanged

Price **Rs225.65/US\$4.53**

RIC: TITN.BO BBG: TTAN IB

25 October 2011

Trading data (local/US\$)

52-wk range	Rs235.75-154.30/US\$5.25-3.38
Market cap.	Rs200bn/US\$4.02bn
Shares o/s	888m (ORD)
Free float	39%
Avg. daily volume ('000)	3,881
Avg. daily value (m)	Rs833.9

Balance sheet data 03/12E

Shareholders' equity	Rs14.3bn
P/BV (UBS)	14.0x
Net Cash (debt)	Rs4.38bn

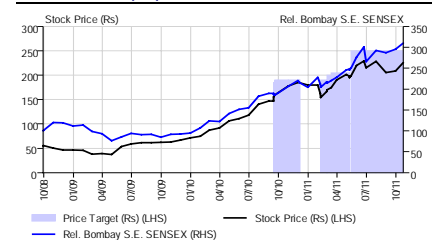
Forecast returns

Forecast price appreciation	+10.8%
Forecast dividend yield	0.9%
Forecast stock return	+11.7%
Market return assumption	13.3%
Forecast excess return	-1.6%

EPS (UBS, Rs)

	03/12E		03/11
	UBS	Cons.	Actual
Q1E	1.61	1.23	0.92
Q2E	1.65	1.65	1.44
Q3E	1.63	1.63	1.55
Q4E	2.20	2.20	0.94
03/12E	7.10	7.10	
03/13E	8.48	8.48	

Performance (Rs)



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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 6.

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Table 1: Titan's Q2FY12 results summary

Rs mn	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Gr YoY%
Net Sales	12,528	15,360	19,546	17,897	20,205	20,963	36.5%
Raw materials cost	9,203	11,148	14,753	12,934	15,087	15,590	39.9%
Staff cost	779	824	852	1,519	1,022	987	19.8%
Advertising	630	615	894	894	902	907	47.5%
Other expenditure	803	1,038	1,098	1,453	1,351	1,476	42.3%
Total expenditure	11,415	13,624	17,596	16,800	18,361	18,961	39.2%
EBITDA	1,113	1,736	1,950	1,097	1,845	2,002	15.4%
EBITDA margin, %	8.9%	11.3%	10.0%	6.1%	9.1%	9.6%	
Profit before tax	1,086	1,707	1,999	1,240	1,966	2,096	22.7%
Net profit(adjusted)	813	1,278	1,376	898	1,434	1,482	16.0%

Source: Company data

Table 2: Segmental revenues

Rs mn.	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Watches	2,540	3,594	3,251	3,290	3,131	4,174
Jewellery	9,505	11,274	15,788	13,733	16,337	16,312
Others	538	560	553	788	775	652
Corporate/(Unallocated)	25	13	109	209	194	27

Source: Company data

Table 3: Segmental profits

Rs mn.	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Watches	416	764	585	97	458	672
Jewellery	683	998	1,421	1,189	1,450	1,499
Others	17	(47)	(52)	(99)	(36)	(14)
Unallocated exp(net of inc)	(4)	16	65	62	105	(59)
Less: Interest	25	24	20	13	11	2
PAT	1,086	1,707	1,999	1,236	1,966	2,096

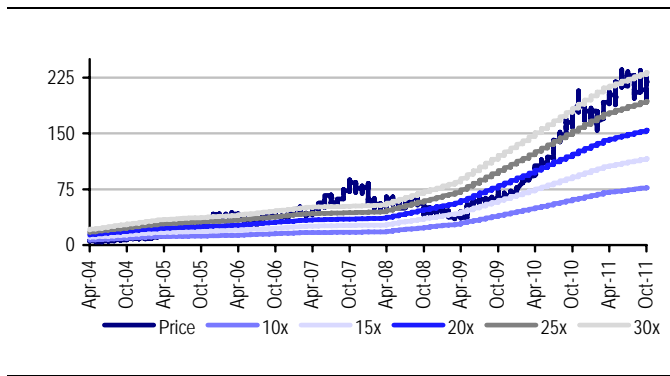
Source: Company data

Table 4: Segmental Margins

Rs mn.	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12
Watches	16.4%	21.5%	18.0%	3.0%	14.6%	16.1%
Jewellery	7.2%	9.1%	9.0%	8.7%	8.9%	9.2%
Others	3.1%	-8.3%	-9.3%	-12.6%	-4.6%	-2.1%

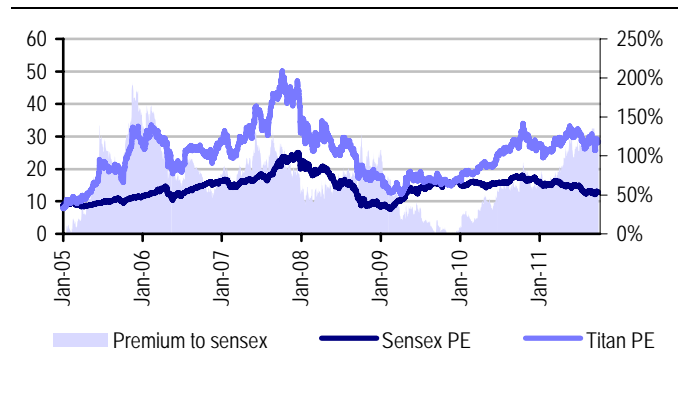
Source: Company data

Chart 1: Titan Industries 1-yr fwd PE band chart



Source: Reuters, UBS estimates

Chart 2: Titan Industries prem/(disc) to Sensex



Source: Reuters, UBS estimates

Titan Industries

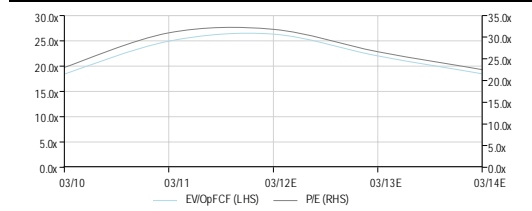
Income statement (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Revenues	20,902	29,937	38,034	46,744	65,209	88,084	35.1	96,408	9.4	112,777	17.0
Operating expenses (ex dephn)	(18,918)	(27,433)	(35,069)	(42,795)	(59,353)	(79,686)	34.3	(86,265)	8.3	(100,708)	16.7
EBITDA (UBS)	1,984	2,504	2,965	3,950	5,856	8,398	43.4	10,142	20.8	12,069	19.0
Depreciation	(256)	(297)	(418)	(601)	(345)	(628)	82.0	(848)	35.0	(1,018)	20.1
Operating income (EBIT, UBS)	1,729	2,207	2,547	3,349	5,511	7,770	41.0	9,295	19.6	11,051	18.9
Other income & associates	32	18	53	119	561	783	39.6	846	8.0	913	8.0
Net interest	(204)	(201)	(294)	(254)	(82)	(95)	15.4	(102)	7.1	(102)	0.0
Abnormal items (pre-tax)	0	0	0	0	0	0	-	0	-	0	-
Profit before tax	1,557	2,023	2,306	3,213	5,990	8,458	41.2	10,039	18.7	11,863	18.2
Tax	(375)	(520)	(716)	(710)	(1,686)	(2,155)	27.8	(2,510)	16.5	(2,966)	18.2
Profit after tax	1,181	1,503	1,590	2,503	4,304	6,303	46.4	7,529	19.4	8,897	18.2
Abnormal items (post-tax)	240	0	0	0	0	0	-	0	-	0	-
Minorities / pref dividends	(4)	0	0	0	0	0	-	0	-	0	-
Net income (local GAAP)	1,417	1,503	1,590	2,503	4,304	6,303	46.4	7,529	19.4	8,897	18.2
Net Income (UBS)	1,177	1,503	1,590	2,503	4,304	6,303	46.4	7,529	19.4	8,897	18.2
Tax rate (%)	24	26	31	22	28	25	-9.5	25	-1.9	25	0.0
Pre-abnormal tax rate (%)	24	26	31	22	28	25	-9.5	25	-1.9	25	0.0
Per share (Rs)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
EPS (local GAAP)	1.60	1.69	1.79	2.82	4.85	7.10	46.4	8.48	19.4	10.02	18.2
EPS (UBS)	1.33	1.69	1.79	2.82	4.85	7.10	46.4	8.48	19.4	10.02	18.2
Net DPS	0.25	0.40	0.50	0.75	1.25	2.13	70.4	2.54	19.4	3.01	18.2
Cash EPS	1.61	2.03	2.26	3.50	5.24	7.81	49.1	9.44	20.9	11.17	18.4
BVPS	3.69	4.91	6.21	8.16	11.55	16.16	39.9	21.66	34.1	28.17	30.0
Balance sheet (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Net tangible fixed assets	2,671	2,825	2,940	2,749	3,024	4,647	53.6	5,799	24.8	6,781	16.9
Net intangible fixed assets	0	0	0	0	0	0	-	0	-	0	-
Net working capital (incl. other assets)	2,470	3,366	3,885	3,327	(3,118)	5,239	-	5,520	5.4	6,420	16.3
Other liabilities	(174)	(247)	(182)	(48)	(15)	(15)	0.0	(15)	0.0	(15)	0.0
Operating invested capital	4,967	5,943	6,643	6,028	(109)	9,870	-	11,304	14.5	13,186	16.6
Investments	270	474	77	76	91	91	0.0	91	0.0	91	0.0
Total capital employed	5,237	6,417	6,720	6,105	(18)	9,961	-	11,395	14.4	13,277	16.5
Shareholders' equity	3,274	4,362	5,512	7,244	10,254	14,345	39.9	19,231	34.1	25,005	30.0
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	3,274	4,362	5,512	7,244	10,254	14,345	39.9	19,231	34.1	25,005	30.0
Net debt / (cash)	1,963	2,056	1,207	(1,139)	(10,272)	(4,383)	-57.3	(7,836)	78.8	(11,728)	49.7
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	5,237	6,417	6,720	6,105	(18)	9,961	-	11,395	14.4	13,277	16.5
Cash flow (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Operating income (EBIT, UBS)	1,729	2,207	2,547	3,349	5,511	7,770	41.0	9,295	19.6	11,051	18.9
Depreciation	256	297	418	601	345	628	82.0	848	35.0	1,018	20.1
Net change in working capital	58	(938)	(519)	558	6,445	(8,357)	-	(281)	-96.6	(900)	219.8
Other (operating)	(208)	18	53	119	561	783	39.6	846	8.0	913	8.0
Operating cash flow (pre tax/interest)	1,835	1,584	2,499	4,626	12,862	824	-93.6	10,707	1199.8	12,083	12.9
Net interest received / (paid)	(204)	(201)	(294)	(254)	(82)	(95)	15.4	(102)	7.1	(102)	0.0
Dividends paid	(226)	(355)	(444)	(666)	(1,110)	(1,891)	70.40	(2,259)	19.45	(2,669)	18.17
Tax paid	(438)	(448)	(781)	(844)	(1,718)	(2,155)	25.4	(2,510)	16.5	(2,966)	18.2
Capital expenditure	(967)	(451)	(533)	(410)	(549)	(2,250)	309.7	(2,000)	-11.1	(2,000)	0.0
Net (acquisitions) / disposals	0	0	0	0	0	0	-	0	-	0	-
Other	63	(222)	322	(110)	(195)	(321)	64.8	(384)	19.4	(454)	18.2
Share issues	272	0	80	5	(4)	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	334	(93)	849	2,346	9,203	(5,889)	-	3,453	-	3,892	12.7
FX / non cash items	0	0	0	0	(71)	0	-100.0	0	-	0	460.0
Balance sheet (inc)/dec in net debt	334	(93)	849	2,346	9,133	(5,889)	-	3,453	-	3,892	12.7
Core EBITDA	1,984	2,504	2,965	3,950	5,856	8,398	43.4	10,142	20.8	12,069	19.0
Maintenance capital expenditure	(256)	(297)	(418)	(601)	(345)	(628)	82.0	(848)	35.0	(1,018)	20.1
Maintenance net working capital	0	0	0	0	0	0	-	0	-	0	-
Operating free cash flow, pre-tax	1,729	2,207	2,547	3,349	5,511	7,770	41.0	9,295	19.6	11,051	18.9

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

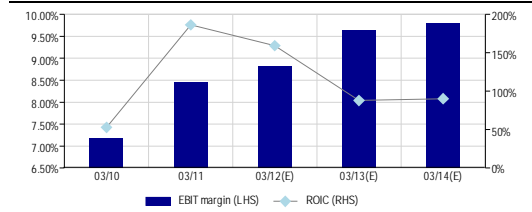
Company profile

Titan Industries is a diversified specialty retailer in India with exposure to the watch, jewellery and eyewear segments. It began operations as a watch company, diversifying into the jewellery business in 1995, and the eyewear business in 2007. Watches contributed 22%, jewellery 75%, and eyewear 2% of its revenue in FY10. The company operates around 0.7m sqf of retail space. Its brands include Sonata, Titan, Fastrack, Xylus in watches; Tanishq, GoldPlus and Zoya in jewellery; and Titan Eye+ in its eyewear division

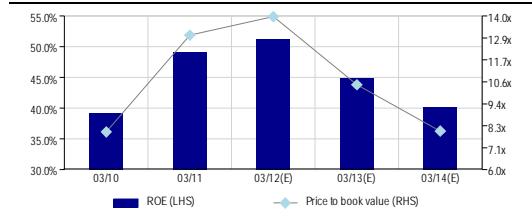
Value (EV/OpFCF & P/E)



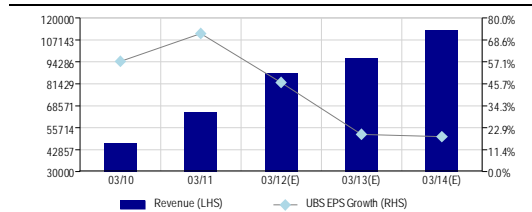
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
P/E (local GAAP)	28.7	23.0	31.0	31.8	26.6	22.5
P/E (UBS)	29.7	23.0	31.0	31.8	26.6	22.5
P/CEPS	24.9	18.6	28.7	28.9	23.9	20.2
Net dividend yield (%)	0.9	1.2	0.8	0.9	1.1	1.3
P/BV	10.5	8.0	13.0	14.0	10.4	8.0
EV/revenue (core)	1.7	1.3	2.1	2.3	2.1	1.8
EV/EBITDA (core)	20.0	15.6	23.5	24.3	20.1	16.9
EV/EBIT (core)	22.5	18.4	24.9	26.3	22.0	18.5
EV/OpFCF (core)	22.5	18.4	24.9	26.3	22.0	18.5
EV/op. invested capital	NM	9.7	NM	NM	NM	NM

Enterprise value (Rsm)	03/10	03/11	03/12E	03/13E	03/14E
Average market cap	57,691	133,390	200,330	200,330	200,330
+ minority interests	0	0	0	0	0
+ average net debt (cash)	4,115	4,115	4,115	4,115	4,115
+ pension obligations and other	0	0	0	0	0
- non-core asset value	(76)	(91)	(91)	(91)	(91)
Core enterprise value	61,729	137,414	204,353	204,353	204,353

Growth (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Revenue	32.9	22.9	39.5	35.1	9.4	17.0
EBITDA (UBS)	31.1	33.2	48.3	43.4	20.8	19.0
EBIT (UBS)	33.6	31.5	64.6	41.0	19.6	18.9
EPS (UBS)	38.3	57.5	71.9	46.4	19.4	18.2
Cash EPS	34.2	54.6	49.8	49.1	20.9	18.4
Net DPS	49.5	50.0	66.7	70.4	19.4	18.2
BVPS	33.0	31.4	41.6	39.9	34.1	30.0

Margins (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBITDA / revenue	8.6	8.4	9.0	9.5	10.5	10.7
EBIT / revenue	7.6	7.2	8.5	8.8	9.6	9.8
Net profit (UBS) / revenue	5.4	5.4	6.6	7.2	7.8	7.9

Return on capital (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBIT ROIC (UBS)	59.7	52.9	NM	NM	NM	NM
ROIC post tax	-	41.2	NM	NM	65.8	67.7
Net ROE	40.4	39.2	49.2	51.2	44.8	40.2

Coverage ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBIT / net interest	23.2	13.6	NM	NM	NM	NM
Dividend cover (UBS EPS)	4.2	3.8	3.9	3.3	3.3	3.3
Div. payout ratio (% , UBS EPS)	24.6	26.6	25.8	30.0	30.0	30.0
Net debt / EBITDA	NM	NM	NM	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Revenue / op. invested capital	7.8	7.4	22.0	18.0	9.1	9.2
Revenue / fixed assets	14.7	16.4	22.6	23.0	18.5	17.9
Revenue / net working capital	15.8	13.0	NM	83.1	17.9	18.9

Investment ratios (x)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
OpFCF / EBIT	1.0	1.0	1.0	1.0	1.0	1.0
Capex / revenue (%)	1.4	0.9	0.8	2.6	2.1	1.8
Capex / depreciation	1.5	0.7	1.6	3.6	2.4	2.0

Capital structure (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Net debt / total equity	(20.2)	(15.7)	NM	(30.6)	(40.7)	(46.9)
Net debt / (net debt + equity)	(25.3)	(18.7)	NM	(44.0)	(68.8)	(88.3)
Net debt (core) / EV	6.0	6.7	3.0	2.0	2.0	2.0

Source: Company accounts, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs225.65 on 24 Oct 2011 23:55 HKT Market cap(E) may include forecast share issues/buybacks.

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■ Statement of Risk

We believe the key risks affecting the sector include continued upward movement of downstream petrochemical products and higher agri-commodity based raw material costs and the inability of branded consumer companies to pass on price increases in an increasingly competitive market. The sector enjoys low corporate tax rates because of factory locations in areas that are designated tax benefit zones; any change in the law could affect earnings

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UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	0%
Sell	Sell	less than 1%	20%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 30 September 2011.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.

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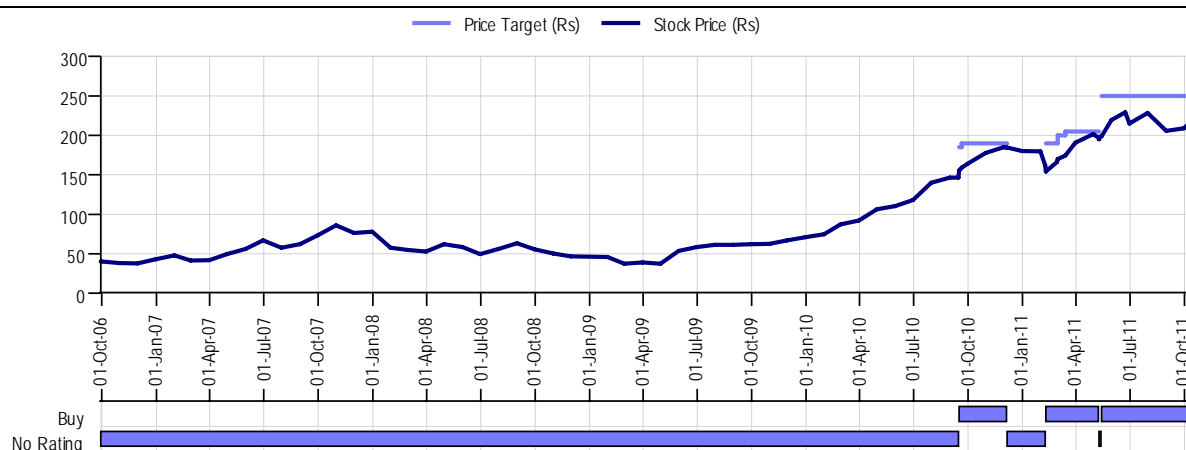
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Titan Industries	TITN.BO	Buy	N/A	Rs225.65	24 Oct 2011

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Titan Industries (Rs)



Source: UBS; as of 24 Oct 2011

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