

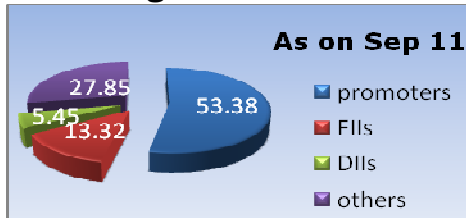
C.M.P: Rs. 182.00
Target Price: Rs. 215.00
Date: Dec 9th 2011

BUY

Stock Data:

Sector:	Retail
Face Value Rs.	10.00
52 wk. High/Low (Rs.)	238.25/147.15
Volume (2 wk. Avg.)	781000
BSE Code	500114
Market Cap (Rs.In mn)	161579.60

Share Holding Pattern



1 Year Comparative Graph



Titan Industries **BSE SENSEX**

SYNOPSIS

- ◆ Titan Industries a joint venture between the Tata group and Tamil Nadu Industrial Development Corporation in 1984 for manufacturing and marketing of watches.
- ◆ Titan Industries Ltd has signed a binding offer with VALFAMILY S. L., Spain and Maison Favre Leuba, S.A Switzerland.
- ◆ During the quarter ended, the robust growth of revenue is increased by 36.49% Rs.20965.00 million.
- ◆ Net Sales and PAT of the company are expected to grow at a CAGR of 31% and 42% over 2010 to 2013E respectively.
- ◆ ICRA Ltd have upgraded their rating of the Company's fund based working capital limit of Rs. 200 crores from LAA to {ICRA}AA+, which is rated on Long term scale.

Years	Net sales	EBITDA	Net Profit	EPS	P/E
FY 11	65216.40	6416.90	4304.20	96.96	1.88
FY 12E	88042.14	8775.39	5987.20	6.74	26.99
FY 13E	105650.57	10394.27	7177.84	8.08	22.51

Peer Group Comparison

Name of the company	CMP(Rs.)	Market Cap.(Rs.Mn.)	EPS(Rs.)	P/E(x)	P/Bv(x)	Dividend (%)
Titan Industries	182.00	161579.60	5.78	31.49	13.99	250.00
Pantaloon Retail	189.50	42360.30	3.20	59.22	1.56	45.00
Gitanjali Gems	339.45	30890.40	29.62	11.46	1.37	30.00
Timex Group	23.80	2402.60	0.51	46.67	8.01	0.00

Investment Highlights

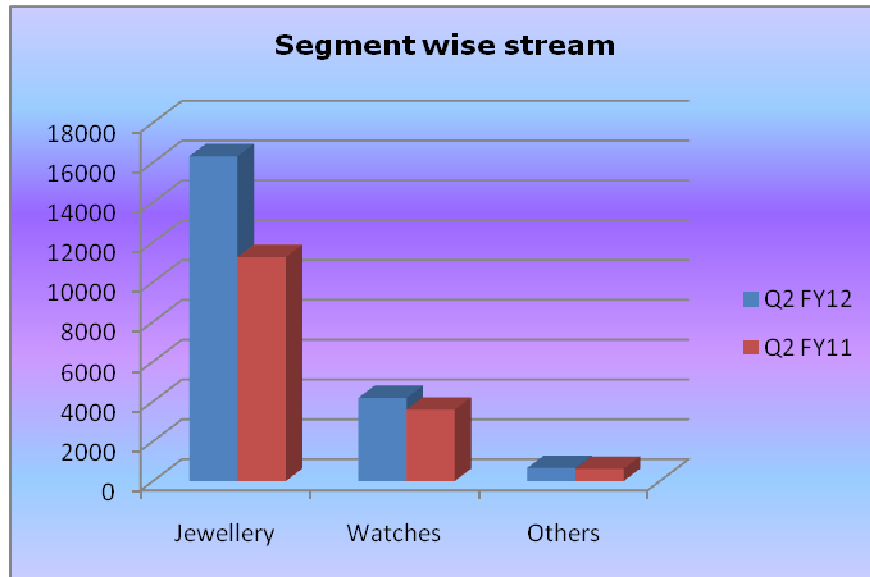
✓ Q2 FY12 Results Update

Titan Industries has posted a net profit of Rs 1528.80 million for the quarter ended Sept. 30, 2011 as compared to Rs 1277.70 million for the quarter ended Sept. 30, 2010, registering an increase of 19.65%. Net sales surged by 36.49% to Rs.20965.00 million from Rs.15360.60 million same quarter last year. Total Income has increased from Rs.15441.20 million for the quarter ended Sept. 30, 2010 to Rs 21164.80 million for the quarter ended Sept. 30, 2011, representing an increase of 37.05%. The EPS of the company is stood at Rs.1.67 for each share for the quarter ended Sep.

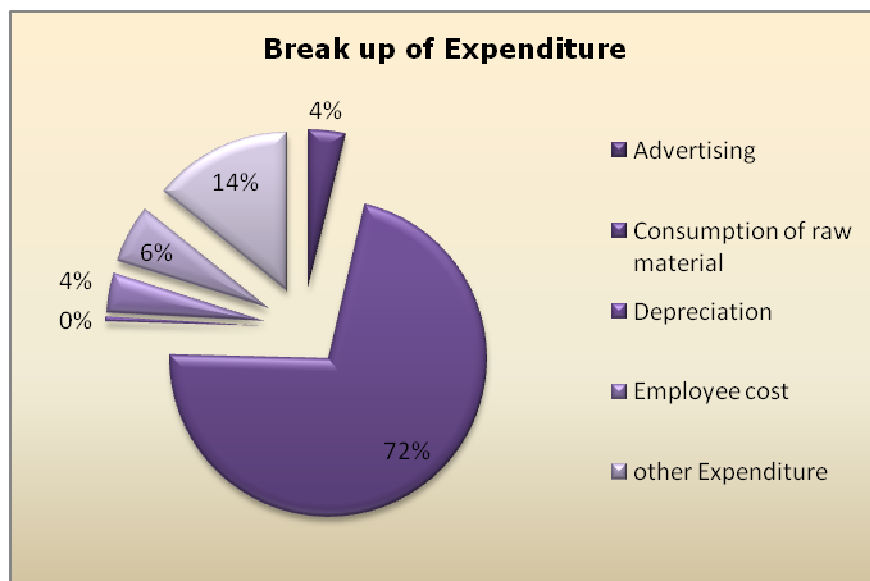
Quarterly Results - Standalone (Rs in mn)			
As At	Sep-11	Sep -10	%change
Net sales	20965.00	15360.60	36.49
PAT	1528.80	1277.70	19.65
Basic EPS	1.67	28.78	(94.20)

✓ **Segment wise revenue**

Particulars	Q2 FY12	Q2 FY11
Jewellery	16312.3	11245.6
Watches	4174.14	3583.6
Others	651.7	612
Total	21138.14	15441.2



✓ **Break up of expenditure**



✓ **Titan acquires Favre Leuba**

Titan Industries Ltd has signed a binding offer with VALFAMILY S. L., Spain and Maison Favre Leuba, S.A Switzerland, for the acquisition of brand Favre Leuba. This acquisition, when completed, will provide the Company with global rights to the trademarks of this brand. This acquisition is being pursued on an asset purchase mode, for a sum under Euro 2 million.

The strategic rationale behind the above acquisition is to complement and strengthen the existing watches brand portfolio of the Company with a Swiss heritage brand.

✓ **Rating**

ICRA Ltd have upgraded their rating of the Company's fund based working capital limit of Rs. 200 crores from LAA (pronounced as L Double A) to {ICRA}AA+ (Pronounced as ICRA Double A+), which is rated on Long term scale.

ICRA have re-affirmed their short term rating of the non-fund based limit of Rs. 2,400 crores at {ICRA} A1+ (Pronounced as ICRA A One Plus). ICRA have also re-affirmed their rating assigned to Rs. 10 crores Commercial Paper Programme at {ICRA} A1+ (Pronounced as ICRA A One Plus).

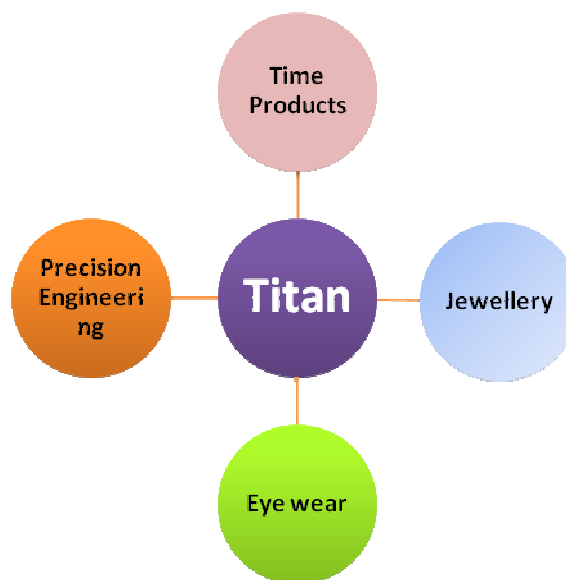
Company Profile

Titan Industries is the organization that brought about a paradigm shift in the Indian watch market when it introduced its futuristic quartz technology, complemented by international styling. With India's two most recognized and loved brands Titan and Tanishq to its credit, Titan Industries is the fifth largest integrated watch manufacturer in the world.

With over 937 retail stores across a carpet area of over 9.2 lac sq. ft. Titan Industries has India's largest retail network. The company has over 300 exclusive 'World of Titan' showrooms and over 740 after-sales-service centers. Titan Industries is also the largest jewellery retailer in India with over 113 Tanishq boutiques and Zoya stores, over 28 Gold Plus stores and over 88 Titan Eye+ stores. The company has two exclusive design studios for watches and jewellery.

Business Divisions

- ✚ Time products
- ✚ Jewellery
- ✚ Eye wear
- ✚ Precision Engineering



1. Time Products:

This division has placed Titan Industries among the world's largest retail networks and earned the company the place of fifth largest integrated watch manufacturer in the world. Its products include:



International Brands include

✚ Tommy Hilfger Watches



✚ Hugo Boss Watches



2. Jewellery Division

Tanishq is India's fastest growing jewellery brand with a premium range of jewellery, studded with diamonds or coloured gems in 18-karat gold, 22-karat pure gold and platinum jewellery.



Both brands contributed to over Rs.450 million USD, and are still flourishing. Truly a phenomenon in itself, Tanishq is our pioneering Indian brand storming a market of over 300, 000 independent jewelers.

3. Eye Wear Division

Titan Eye+, the third major venture of consumer business by Titan Industries, launched into the eyewear segment in March 2007. Titan Eye+ stores are equipped to fill prescriptions for single vision lenses, progressive no line or bifocal lenses.

4. Precision Engineering Division

Leveraging precision engineering core competencies from watch making, Titan initiated a PRECISION ENGINEERING DIVISION in 2002, catering to global majors across industry verticals like aerospace, automotive, oil & gas, engineering, hydraulics, solar and medical instruments.

Financials Results

12 Months Ended Profit & Loss Account (Standalone)

Value(Rs.in.mn)	FY10	FY11	FY12E	FY13E
Description	12m	12m	12m	12m
Net Sales	46750.00	65216.40	88042.14	105650.57
Other Income	112.80	553.30	763.55	885.72
Total Income	46862.80	65769.70	88805.69	106536.29
Expenditure	-42794.60	-59352.80	-80030.31	-96142.02
Operating Profit	4068.20	6416.90	8775.39	10394.27
Interest	-254.20	-82.10	-21.53	-20.45
Gross profit	3814.00	6334.80	8753.86	10373.82
Deprecation	-600.80	-344.80	-396.52	-432.21
Exceptional Items	0.00	0.00	0.00	0.00
Profit Before Tax	3213.20	5990.00	8357.34	9941.61
Tax	-710.00	-1685.80	-2323.34	-2763.77
Profit After Tax	2503.20	4304.20	6034.00	7177.84
Extraordinary items	0.00	0.00	-46.80	0.00
Net Profit	2503.20	4304.20	5987.20	7177.84
Equity capital	443.90	443.90	887.80	887.80
Reserves	6799.90	6799.90	12833.90	20011.74
Face value	10.00	10.00	1.00	1.00
EPS	56.39	96.96	6.74	8.08

* The EPS of the company is declined due to increase in equity capital and change of face value from Rs.10/- to Rs.1/-

Quarterly Ended Profit & Loss Account (Standalone)

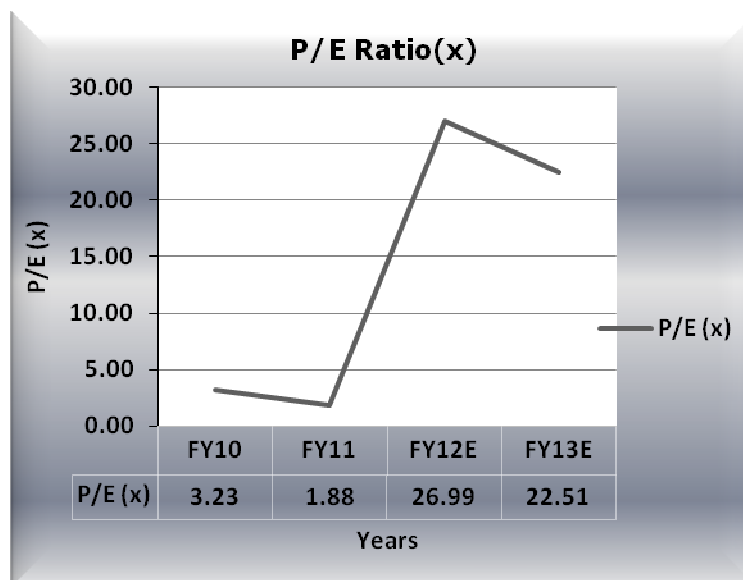
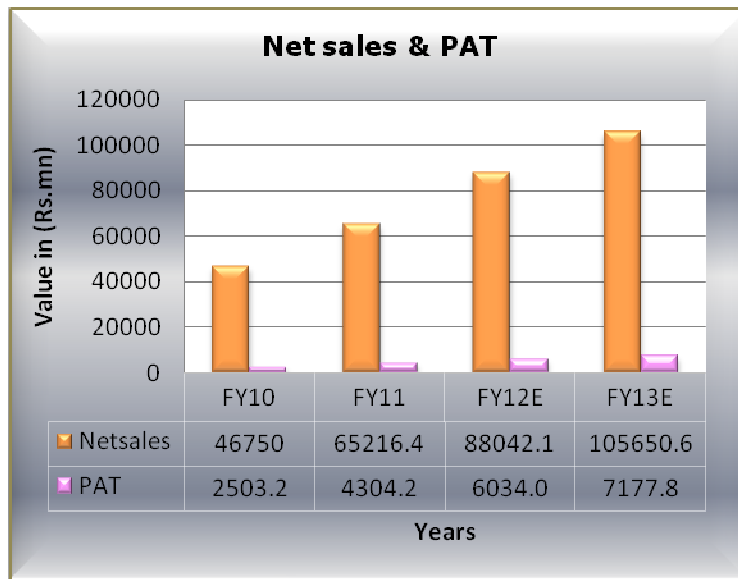
Value(Rs.in.mn)	31-Mar-11	30-Jun-11	30-Sep-11	31-Dec-11E
Description	3m	3m	3m	3m
Net sales	17779.50	20206.00	20965.00	25158.00
Other income	239.90	230.20	199.80	253.22
Total Income	18019.40	20436.20	21164.80	25411.22
Expenditure	-16717.70	-18360.50	-18961.10	-22767.99
Operating profit	1301.70	2075.70	2203.70	2643.23
Interest	-12.70	-11.00	-2.20	-2.27
Gross profit	1289.00	2064.70	2201.50	2640.96
Depreciation	-91.30	-99.20	-105.70	-112.04
Exceptional Items	0.00	0.00	0.00	0.00
Profit Before Tax	1197.70	1965.50	2095.80	2528.92
Tax	-359.60	-531.90	-567.00	-713.16
Profit After Tax	838.10	1433.60	1528.80	1815.77
Extraordinary items	0.00	0.00	-46.80	0.00
Net Profit	838.10	1433.60	1482.00	1815.77
Equity capital	443.90	887.80	887.80	887.80
Face value	10.00	1.00	1.00	1.00
EPS	18.88	1.61	1.67	2.05

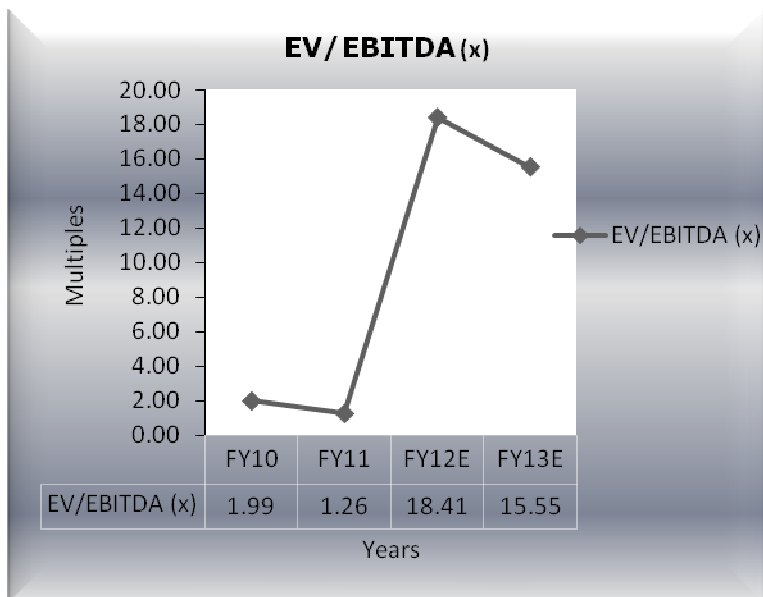
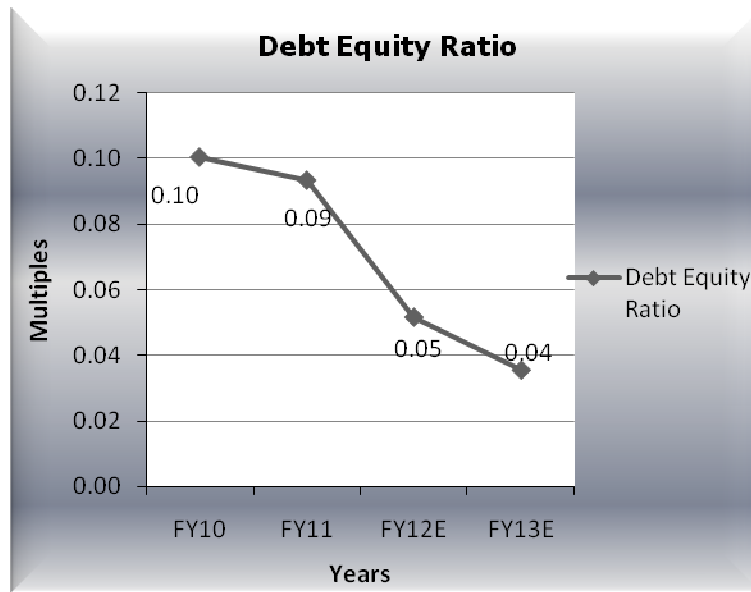
* The EPS of the company is declined due to increase in equity capital and change of face value from Rs.10/- to Rs.1/-

Key Ratios

Particulars	FY10	FY11	FY12E	FY13E
No. of Shares(In Million)	44.39	44.39	887.80	887.8
EBITDA Margin (%)	8.70%	9.84%	9.97%	9.84%
PBT Margin (%)	6.87%	9.18%	9.49%	9.41%
PAT Margin (%)	5.35%	6.60%	6.85%	6.79%
P/E Ratio (x)	3.23	1.88	26.99	22.51
ROE (%)	34.56%	59.42%	43.97%	34.34%
ROCE (%)	58.57%	85.37%	63.55%	50.02%
Debt Equity Ratio	0.10	0.09	0.05	0.04
EV/EBITDA (x)	1.99	1.26	18.41	15.55
Book Value (Rs.)	163.19	163.19	15.46	23.54
P/BV	1.12	1.12	11.78	7.73

Charts:





Outlook and Conclusion

- ✚ At the current market price of Rs.182.00, the stock is trading at 26.99 x FY12E and 22.51 x FY13E respectively.
- ✚ Earning per share (EPS) of the company for the earnings for FY12E and FY13E is seen at Rs.6.74 and Rs.8.08 respectively.
- ✚ Net Sales and PAT of the company are expected to grow at a CAGR of 31% and 42% over 2010 to 2013E respectively.
- ✚ On the basis of EV/EBITDA, the stock trades at 18.41 x for FY12E and 15.55 x for FY13E.
- ✚ Price to Book Value of the stock is expected to be at 11.78 x and 7.73 x respectively for FY12E and FY13E.
- ✚ We expect that the company will keep its growth story in the coming quarters also. We recommend 'BUY' in this particular scrip with a target price of Rs.215.00 for Medium term investment.

Industry Overview

The Indian retail industry has scaled impeccable growth over the last decade with an amiable acceptance to organised retailing formats. The industry is maturing towards modern concept of retailing, cornering the conventional unorganised family-owned businesses.

India has been ranked as the fourth most attractive nation for retail investment among 30 emerging markets by the US-based global management consulting firm, A T Kearney, in its Global Retail Development Index (GRDI) 2011.

AT Kearney has also conducted a different study which says that organised retailers should follow hypermarket concept to penetrate through India's US\$ 435 billion industry. According to the report, given the gigantic size of the Indian retail market, it is no surprise that many Middle East retailers, most recently Lulu, have announced their interests to extend their retail operations to India.

Retail in India: Market Dynamics

The Rs 18,673 billion (US\$ 401 billion) Indian retail market entails only 6 per cent of itself as organised retail segment as of 2010, according to Booz and Co (India) Pvt Ltd. Hence, there is a great potential to be explored by domestic and international players.

The Business Monitor International (BMI) India Retail Report for the fourth-quarter of 2011 forecasts that the total retail sales will grow from US\$ 411.28 billion in 2011 to US\$ 804.06 billion by 2015. The report has underlined factors like economic growth, population expansion, increasing wealth of individuals and rapid construction of organised retail infrastructure as major drivers for the optimistic forecast figures.

According to a research report named 'Retail Sector in India' by Research and Markets, Indian retail sector accounts for 22 per cent of the country's gross domestic product (GDP) and contributes to 8 per cent of the total employment. The report further highlighted that hypermarkets (currently accounting for 14 per cent of mall space) will witness immense progress in the Indian landscape.

Retail: Key Developments & Major Investments

According to a report by research firm CB Richard Ellis India, over 6 million square feet of retail mall space was added across India in the first six months of 2011; primarily due to aggressive expansion by organised retailers.

For instance, Kishore Biyani-controlled Pantaloon Retail added 2.26 million square feet (sq. ft.) of retail space during the fiscal 2011 and booked over 9 million sq. ft of retail space to fructify its expansion plans in future.

Cumulative foreign direct investment (FDI) inflows in single-brand retail trading during April 2000 to June 2011 stood at US\$ 69.26 million, according to the Department of Industrial Policy and Promotion (DIPP).

Driven by changing consumption patterns, favourable demographics, expanding middle class and greater government support, retailers are eagerly foraying into untapped avenues of Indian markets by making huge investment plans. For instance-

- Jubilant FoodWorks Ltd, which operates fast food chain of Dominos Pizza in India, will invest over Rs 70 crore (US\$ 15.03 million) in the FY12 on new stores and commissaries.
- Reliance Industries' Reliance Retail (that runs supermarket and hypermarket chains) is planning massive expansion across the country by doubling the number of stores in several specialty formats in 2011.
- The brand 'More', operated by Aditya Birla Retail, will open 12 hypermarkets and 150 supermarkets in fiscal 2012. After the expansion, its supermarket stores tally will reach 715.
- Shoppers Stop Ltd, which has 43 departmental stores and 10 hypermarkets under the brand Hypercity, plans to open four more hypermarkets and 10 departmental stores in 2011.

Along with the metros, the retailers are betting big on tier-II and tier-III cities as well.

- The Aditya Birla group firm, Madura Fashion & Lifestyle, is aiming at a turnover of Rs 1,100 crore (US\$ 236 million) for FY13, on the back of its pan-India expansion spree, including small cities and towns.
- In a bid to triple its turnover from retail segment, Shree Ganesh Jewellery has formed an alliance with Bharti Retail's 'Easy Day' market format to promote its Gaja Lites range of jewellerys. The company plans to launch 250 outlets in tier II and tier III cities under its flagship brand 'Gaja'.
- Japanese imaging technology major Nikon Corporation's subsidiary Nikon India is focusing on tier-II and tier-III cities to fuel its growth. The company is planning to extend its presence to 2,400 channel partners by March 2012 from the current 2,000 of them.

Rural Retailing

The rural market in India is attracting focus from all the major retailers in apparel, food & groceries, electronics, consumer durables, supermarkets etc. Some of the retailers looking at the rural markets are discussed below:

In a bid to enhance its rural retail operations, Coromandel International Ltd (flagship of the Chennai-based Murugappa Group), plans to open 200 rural retail stores in the hinterlands of Andhra Pradesh (125) and Karnataka (75). The company operates stores in Andhra Pradesh under the name 'Mana Gromor Centers' and in Karnataka under the name 'Namma Gromor Centers.'

Moreover, Tupperware is planning to increase its rural penetration and enhance its sales force in rural areas .

Bata India Ltd has decided to foray into rural markets for volume growth. The company has developed four new sub-branded products especially for the rural market.

Retailing over Internet

According to a latest report by a leading industry body, online retail segment in India is growing at an annual rate of 35 per cent which would take its value from Rs 2,000 crore (US\$ 429.5 million) in 2011 to Rs 7,000 crore (US\$ 1.5 billion) in 2015.

Tata Group firm Infiniti Retail, that operates consumer durables and electronics chain of stores under 'Croma' brand, is in the process of tapping net savvy consumers. The company is contemplating on options like cash-on-delivery to make online shopping easier for consumers, even for those who do not use debit or credit cards.

Similarly, the Future Group, that operates a dedicated portal Futurebazaar.com for online sales, has revealed that it is targeting at least 10 per cent of the company's total retail sales from digital medium.

Government Initiatives

The government has moved a step closer to allow FDI in multi brand retailing in India after the committee of secretaries (CoS) gave its nod to permit 51 per cent of FDI in the sector. The recommendation will now head to the cabinet committee on economic affairs, which will take a final decision on rules to be imposed and the level of FDI to be allowed.

The regulation may soon pave way for foreign players like Wal-Mart, Carrefour and Cheshunt, who have been vying for an opportunity to enter India.

Road Ahead

Global consultancy firm PricewaterhouseCoopers (PwC) expects Indian retail sector to be worth US\$ 900 billion by 2014 in its report 'Strong and Steady 2011'.

Food and groceries is considered to be the largest segment in organised retail, followed by apparel, footwear and consumer electronics. "Over the next five years, we expect organised food retail (through convenience stores, supermarkets, and hypermarkets) to grow by over four times from the current US\$ 8 billion," said Raghav Gupta, Principal, Booz and Co.

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