

India

Retailers, Specialty

**12-month rating** **Buy**  
**Unchanged**
**12m price target** **Rs250.00/US\$5.08**  
**Unchanged**
**Price** **Rs204.30/US\$4.15**

RIC: TITN.BO BBG: TTAN IB

**4 October 2011**
**Trading data (local/US\$)**

52-wk range	Rs235.75-154.30/US\$5.25-3.38
Market cap.	Rs181bn/US\$3.68bn
Shares o/s	888m (ORD)
Free float	39%
Avg. daily volume ('000)	3,887
Avg. daily value (m)	Rs847.7

**Balance sheet data 03/12E**

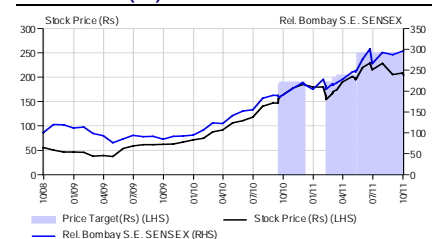
Shareholders' equity	Rs14.3bn
P/BV (UBS)	12.7x
Net Cash (debt)	Rs4.79bn

**Forecast returns**

Forecast price appreciation	+22.4%
Forecast dividend yield	1.0%
Forecast stock return	+23.4%
Market return assumption	13.3%
Forecast excess return	+10.1%

**EPS (UBS, Rs)**

	03/12E		03/11
	UBS	Cons.	Actual
Q1E	1.61	1.23	0.92
Q2E	1.55	1.55	1.44
Q3E	1.61	1.61	1.55
Q4E	2.26	2.26	0.94
03/12E	7.03	7.03	
03/13E	8.25	8.25	

**Performance (Rs)**


Source: UBS

[www.ubs.com/investmentresearch](http://www.ubs.com/investmentresearch)
**Gains from increasing affluence [EXTRACT]**
**Expect demand uptick in festive season**

We believe volume growth will be good in Q3 FY12 as festive season buying begins. After management guidance for muted volume growth in Q2 FY12 due to higher gold prices, we expect healthy growth in gold jewellery volumes in Q3 FY12. We think the key potential risk to the share price is the weakness in the underlying commodity (gold) despite Titan Industries (Titan) not having gold in its inventory, since the stock is perceived as a gold play.

**ROE improvement due to improving mix**

ROE improved from 6% in FY02 to 42% in FY11 as the company continued to expand its jewellery business and improve scale. Better asset turnover also contributed to the increase in ROE. Net margin improved from 1.4% in FY02 to 6.6% in FY11 with the high-margin jewellery business increasing in the mix. For every 1% increase in jewellery net profit margin, we estimate a 3.7% increase in PAT for the company.

**Titan's focus on the premium segment should increase margins**

With consumers upgrading, we expect Titan's strategy of focusing on the premium segment—with Helios as a pan-India premium watch retailer and Tanishq's new strategy of setting up six to eight super-premium company-owned stores—to result in better margins, as margins are higher in the premium segment.

**Valuation: maintain Buy rating with price target of Rs250.00**

We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool. We assume 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	84,326	96,006	112,959
EBIT (UBS)	3,349	5,511	7,693	9,024	10,677
Net Income (UBS)	2,503	4,304	6,245	7,326	8,616
EPS (UBS, Rs)	2.82	4.85	7.03	8.25	9.71
Net DPS (UBS, Rs)	0.75	1.25	2.11	2.48	2.91

Profitability & Valuation	5-yr hist av.	03/11	03/12E	03/13E	03/14E
EBIT margin %	7.6	8.5	9.1	9.4	9.5
ROIC (EBIT) %	59.7	186.2	165.2	87.0	86.7
EV/EBITDA (core) x	20.0	23.5	22.5	18.8	15.9
PE (UBS) x	29.7	31.0	29.0	24.8	21.1
Net dividend yield %	0.9	0.8	1.0	1.2	1.4

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill, exceptional and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs204.30 on 03 Oct 2011 23:55 SGT

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This report has been prepared by UBS Securities India Private Ltd

**ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 5.**

UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

*This is an extract from our India Consumer Sector report, published on 4 October 2011. For more detail, please refer to the full report.*

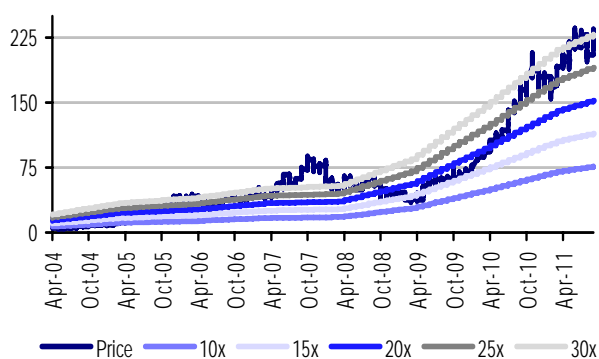
**Table 1: Titan's ROE decomposition**

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Net income margin	1.4%	1.7%	3.7%	5.3%	6.7%	5.6%	5.0%	4.2%	5.4%	6.6%	7.4%	7.6%
Asset turnover	85.5%	87.2%	115.9%	136.5%	162.9%	176.5%	187.3%	213.7%	224.1%	174.6%	226.0%	216.6%
Equity multiplier	473.0%	519.7%	467.7%	446.4%	380.1%	361.6%	366.5%	322.8%	288.0%	364.2%	260.8%	232.6%
Return on equity	5.8%	7.7%	19.9%	32.2%	41.2%	36.0%	34.5%	28.8%	34.6%	42.0%	43.7%	38.4%

Source: Company data, UBS estimates

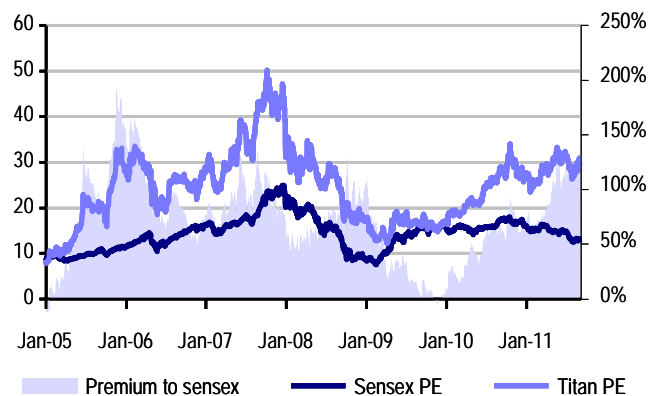
A study of the decomposition of Titan's ROE shows that ROE improved from 6% in FY02 to 42% in FY11 as the company continued to expand its jewellery business and improve scale. Improvement in asset turnover and net income margin also contributed to the increase in ROE. Net margin also improved, rising from 1.4% in FY02 to 6.6% in FY11.

**Chart 1: Titan 1-year forward PE band**



Source: Reuters, UBS estimates

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



Source: Reuters, UBS estimates

# Titan Industries

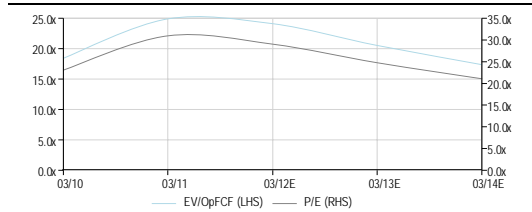
Income statement (Rsm)	03/07	03/08	03/09	03/10	03/11	03/12E	% ch	03/13E	% ch	03/14E	% ch
Revenues	20,902	29,937	38,034	46,744	65,209	84,326	29.3	96,006	13.9	112,959	17.7
Operating expenses (ex deprecn)	(18,918)	(27,433)	(35,069)	(42,795)	(59,353)	(76,084)	28.2	(86,134)	13.2	(101,265)	17.6
EBITDA (UBS)	1,984	2,504	2,965	3,950	5,856	8,242	40.7	9,872	19.8	11,694	18.5
Depreciation	(256)	(297)	(418)	(601)	(345)	(549)	59.3	(848)	54.3	(1,018)	20.1
Operating income (EBIT, UBS)	1,729	2,207	2,547	3,349	5,511	7,693	39.6	9,024	17.3	10,677	18.3
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	8,381	39.9	9,768	16.6	11,488	17.6
Tax	(375)	(520)	(716)	(710)	(1,686)	(2,136)	26.7	(2,442)	14.3	(2,872)	17.6
Profit after tax	1,181	1,503	1,590	2,503	4,304	6,245	45.1	7,326	17.3	8,616	17.6
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	6,245	45.1	7,326	17.3	8,616	17.6
Net Income (UBS)	1,177	1,503	1,590	2,503	4,304	6,245	45.1	7,326	17.3	8,616	17.6
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	7.03	45.1	8.25	17.3	9.71	17.6
EPS (UBS)	1.33	1.69	1.79	2.82	4.85	7.03	45.1	8.25	17.3	9.71	17.6
Net DPS	0.25	0.40	0.50	0.75	1.25	2.11	68.8	2.48	17.3	2.91	17.6
Cash EPS	1.61	2.03	2.26	3.50	5.24	7.65	46.1	9.21	20.3	10.85	17.9
BVPS	3.69	4.91	6.21	8.16	11.55	16.11	39.5	21.47	33.2	27.77	29.3
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	4,725	56.2	5,877	24.4	6,860	16.7
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)	4,714	-	5,466	16.0	6,443	17.9
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)	9,424	-	11,328	20.2	13,287	17.3
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)	9,515	-	11,420	20.0	13,379	17.2
Shareholders' equity	3,274	4,362	5,512	7,244	10,254	14,307	39.5	19,061	33.2	24,653	29.3
Minority interests	0	0	0	0	0	0	-	0	-	0	-
Total equity	3,274	4,362	5,512	7,244	10,254	14,307	39.5	19,061	33.2	24,653	29.3
Net debt / (cash)	1,963	2,056	1,207	(1,139)	(10,272)	(4,792)	-53.3	(7,642)	59.5	(11,275)	47.5
Other debt-deemed items	0	0	0	0	0	0	-	0	-	0	-
Total capital employed	5,237	6,417	6,720	6,105	(18)	9,515	-	11,420	20.0	13,379	17.2
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	7,693	39.6	9,024	17.3	10,677	18.3
Depreciation	256	297	418	601	345	549	59.3	848	54.3	1,018	20.1
Net change in working capital	58	(938)	(519)	558	6,445	(7,832)	-	(752)	-90.4	(976)	29.8
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	1,193	-90.7	9,965	735.6	11,631	16.7
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)	(1,874)	68.83	(2,198)	17.31	(2,585)	17.61
Tax paid	(438)	(448)	(781)	(844)	(1,718)	(2,136)	24.3	(2,442)	14.3	(2,872)	17.6
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)	(318)	63.3	(374)	17.3	(439)	17.6
Share issues	272	0	80	5	(4)	0	-	0	-	0	-
Cash flow (inc)/dec in net debt	334	(93)	849	2,346	9,203	(5,480)	-	2,850	-	3,633	27.5
FX / non cash items	0	0	0	0	(71)	0	-	0	-65.4	0	-
Balance sheet (inc)/dec in net debt	334	(93)	849	2,346	9,133	(5,480)	-	2,850	-	3,633	27.5
Core EBITDA	1,984	2,504	2,965	3,950	5,856	8,242	40.7	9,872	19.8	11,694	18.5
Maintenance capital expenditure	(256)	(297)	(418)	(601)	(345)	(549)	59.3	(848)	54.3	(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	7,693	39.6	9,024	17.3	10,677	18.3

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.

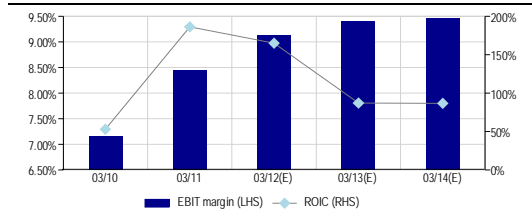
Company profile

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

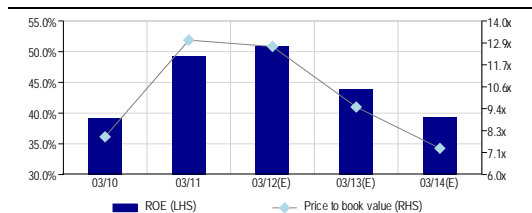
Value (EV/OpFCF & P/E)



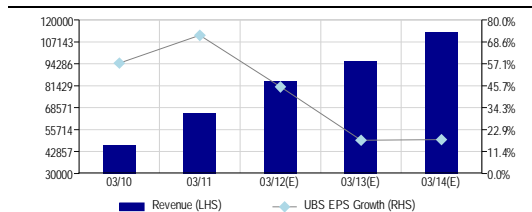
Profitability



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	29.0	24.8	21.1
P/E (UBS)	29.7	23.0	31.0	29.0	24.8	21.1
P/CEPS	24.9	18.6	28.7	26.7	22.2	18.8
Net dividend yield (%)	0.9	1.2	0.8	1.0	1.2	1.4
P/BV	10.5	8.0	13.0	12.7	9.5	7.4
EV/revenue (core)	1.7	1.3	2.1	2.2	1.9	1.6
EV/EBITDA (core)	20.0	15.6	23.5	22.5	18.8	15.9
EV/EBIT (core)	22.5	18.4	24.9	24.1	20.5	17.4
EV/OpFCF (core)	22.5	18.4	24.9	24.1	20.5	17.4
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	181,375	181,375	181,375
+ 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	185,399	185,399	185,399

Growth (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
Revenue	32.9	22.9	39.5	29.3	13.9	17.7
EBITDA (UBS)	31.1	33.2	48.3	40.7	19.8	18.5
EBIT (UBS)	33.6	31.5	64.6	39.6	17.3	18.3
EPS (UBS)	38.3	57.5	71.9	45.1	17.3	17.6
Cash EPS	34.2	54.6	49.8	46.1	20.3	17.9
Net DPS	49.5	50.0	66.7	68.8	17.3	17.6
BVPS	33.0	31.4	41.6	39.5	33.2	29.3

Margins (%)	5Yr Avg	03/10	03/11	03/12E	03/13E	03/14E
EBITDA / revenue	8.6	8.4	9.0	9.8	10.3	10.4
EBIT / revenue	7.6	7.2	8.5	9.1	9.4	9.5
Net profit (UBS) / revenue	5.4	5.4	6.6	7.4	7.6	7.6

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	65.2	65.1
Net ROE	40.4	39.2	49.2	50.9	43.9	39.4

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	18.1	9.3	9.2
Revenue / fixed assets	14.7	16.4	22.6	21.8	18.1	17.7
Revenue / net working capital	15.8	13.0	NM	NM	18.9	19.0

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	2.7	2.1	1.8
Capex / depreciation	1.5	0.7	1.6	4.1	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	(33.5)	(40.1)	(45.7)
Net debt / (net debt + equity)	(25.3)	(18.7)	NM	(50.4)	(66.9)	(84.3)
Net debt (core) / EV	6.0	6.7	3.0	2.2	2.2	2.2

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 Rs204.30 on 03 Oct 2011 23:55 SGT Market cap(E) may include forecast share issues/buybacks.

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## ■ Titan Industries

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## ■ Statement of Risk

We believe the key risks that could affect 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 as tax benefit zones; any change in this law could affect earnings.

## ■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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### UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	Buy	59%	35%
Neutral	Hold/Neutral	35%	33%
Sell	Sell	6%	14%
UBS Short-Term Rating	Rating Category	Coverage <sup>3</sup>	IB Services <sup>4</sup>
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).

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**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.

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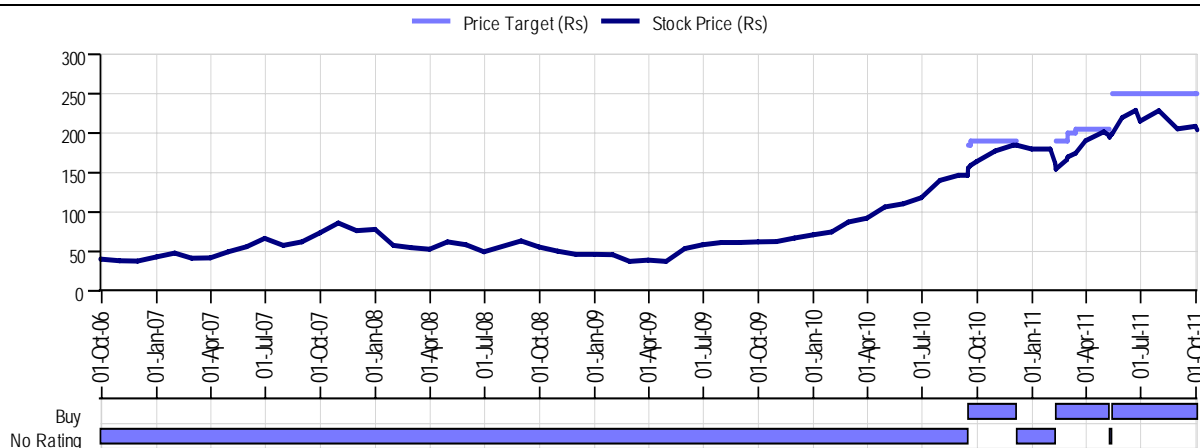
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Titan Industries	TITN.BO	Buy	N/A	Rs204.30	03 Oct 2011

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 03 Oct 2011





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