

Titan Industries

Bloomberg: **TTAN IN EQUITY**
Reuters: **TITN.BO**

BUY

RESULT UPDATE

Earnings outlook remains encouraging

Titan Industries continued to positively surprise us with Q3FY11 earnings coming in nearly 33% ahead of expectations. With continuing favourable macro and mix trends, we expect earnings CAGR of 30% over FY11-13E. We believe this together with the recent share price correction (decline of 10% in the last one month) offers an attractive opportunity to the investors. We retain our BUY rating on the stock.

Titan's Q3 FY11 results were significantly ahead of our expectations particularly on the margin performance. The company posted a topline of Rs19.5 bn (up 47% YoY), operating profit of Rs2 bn (up 82% YoY) and adjusted net earnings of Rs1.4 bn (up 80% YoY). Operating and net earnings were about 23% and 33% ahead of our expectations. Both jewellery and watches segments recorded strong improvement in margins with EBIT margins improving 196bps and 331 bps YoY respectively.

Consumer sentiment particularly in the metros and responses to the company's new collection launches have been encouraging as demonstrated by strong revenue growth seen in both watches (up 35% YoY) and jewellery (up 50% YoY) for Q3 FY11. Going forward, we expect this positive consumer sentiment to help the company maintain healthy same-store sales growth. This together with continued store expansion and huge penetration opportunities should support revenue CAGR of 26% over FY11-13.

Mix trends across businesses continue to be positive as seen in significant margin improvement in both jewellery (higher mix of studded jewellery) and watches segments (higher mix of premium watches). We expect this trend to sustain as a result of both consumer preference as well as the company's efforts in supporting and gaining from these trends. Overall, we expect margins to expand 64bps over FY11-13 after reporting a gain of nearly 150bps in FY11.

Although in nominal terms gold prices have realized new highs, in real and relative terms it is still not overvalued, and considering the diversification it offers from other assets, suggest that the **quasi-savings demand for jewellery should continue.**

Valuation & Recommendation

Our revised earnings estimates imply 30% CAGR in operating and net earnings over FY11-13. Considering the above-stated growth, return on capital trends and upward bias to consensus estimates (our FY12 earnings estimates is 12% above consensus), we have **retained our BUY recommendation** on the stock with a target price of Rs4,000 implying a one-year forward P/E multiple of 26x. Distinct changes in consumer confidence and/or demand for jewellery are key risks to our rating.

Exhibit 1: Key financials

Year to March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Operating income	38,034	46,744	65,094	83,586	102,611
Operating profit	3,128	3,960	6,485	8,531	10,876
Operating profit (%)	8.2%	8.5%	10.0%	10.2%	10.6%
EPS (Rs)	41.9	57.3	105.2	138.4	172.1
RoE (%)	37	39	51	46	42
RoCE (%)	43	53	92	97	103
P/E (x)	78.3	57.4	31.2	23.7	19.1

Source: Company, Ambit Capital research

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Recommendation

CMP:	Rs3,294
Target Price (1 year):	Rs4,000
Previous TP:	R4,000
Upside (%)	21
EPS (FY12):	Rs138.4
Change from previous (%)	10
Variance from consensus (%)	12

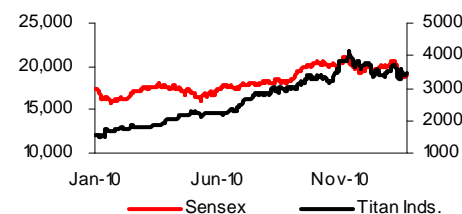
Stock Information

Mkt cap:	Rs146bn/US\$3,213mn
52-wk H/L:	Rs4,244/1,700
3M Avg. daily vol.:	Rs1,536mn/US\$34mn
Beta:	0.8x
BSE Sensex:	18,507
Nifty:	5,546

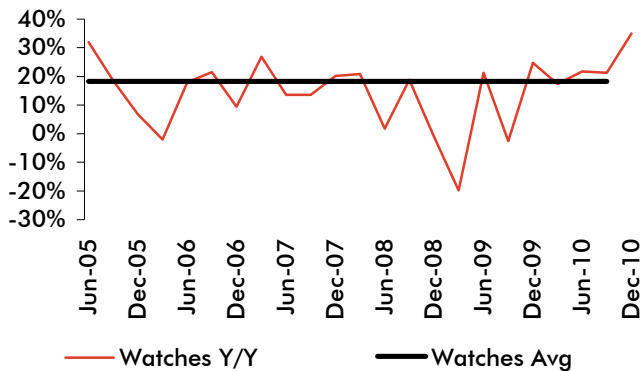
Stock Performance (%)

	1M	3M	12M	YTD
Absolute	-3.8	-13.1	83.3	-8.4
Rel. to Sensex	-1.8	-6.3	70.6	1.4

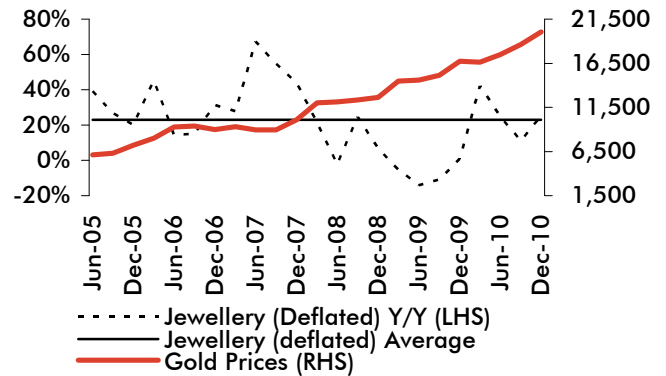
Performance (%)



Source: Bloomberg, Ambit Capital research

Exhibit 2: Quarterly growth trends (Watches)


Source: Company, Ambit Capital research

Exhibit 3: Quarterly growth trends (Jewellery)


Source: Company, Ambit Capital research

Exhibit 4: Quarterly trends in aggregate performance

(Rsmn)	Sep'08	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10	Jun'10	Sep'10	Dec'10
Aggregate										
Sales	10,885	10,238	8,816	8,828	11,468	13,338	13,110	12,528	15,360	19,546
EBIDTA	1,131	722	723	793	1,081	1,075	1,000	1,113	1,736	1,952
EBIT	1,065	654	551	712	1,023	1,012	714	1,112	1,730	2,019
Net Profit	741	423	374	459	775	784	510	813	1,277	1,408
Margins										
EBIDTA	10.4%	7.1%	8.2%	9.0%	9.4%	8.1%	7.6%	8.9%	11.3%	10.0%
EBIT	9.8%	6.4%	6.3%	8.1%	8.9%	7.6%	5.4%	8.9%	11.3%	10.3%
Net Profit	6.8%	4.1%	4.2%	5.2%	6.8%	5.9%	3.9%	6.5%	8.3%	7.2%
Growth										
Sales	53%	28%	7%	9%	5%	30%	49%	42%	34%	47%
EBIDTA	39%	44%	-14%	41%	-4%	49%	38%	40%	61%	82%
EBIT	43%	52%	-28%	45%	-4%	55%	30%	56%	69%	100%
Net Profit	46%	37%	-38%	43%	5%	85%	36%	77%	65%	80%

Source: Company, Ambit Capital research

Exhibit 5: Quarterly trends in segmental performance

Segmental performance (Rsmn)	Sep'08	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10	Jun'10	Sep'10	Dec'10
Segment Sales										
Watches	3,035	1,931	2,400	2,086	2,955	2,409	2,818	2,540	3,584	3,251
Jewellery	7,522	7,887	6,066	6,356	8,226	10,545	9,915	9,505	11,246	15,788
Others	341	432	354	391	310	403	413	538	560	553
Total	10,898	10,250	8,820	8,833	11,492	13,357	13,146	12,584	15,390	19,592
Segment EBIT										
Watches	603	145	462	293	583	354	217	416	764	585
Jewellery	546	506	236	514	577	742	714	683	998	1,421
Others	-51	-69	-101	-89	-111	-61	-128	17	-47	-52
Total	1,097	582	597	719	1,049	1,035	803	1,116	1,715	1,954
Segment Margin										
Watches	19.9%	7.5%	19.2%	14.1%	19.7%	14.7%	7.7%	16.4%	21.3%	18.0%
Jewellery	7.3%	6.4%	3.9%	8.1%	7.0%	7.0%	7.2%	7.2%	8.9%	9.0%
Others	-15.0%	-16.0%	-28.5%	-22.6%	-35.7%	-15.0%	-31.0%	3.1%	-8.3%	-9.4%
Total	10.1%	5.7%	6.8%	8.1%	9.1%	7.8%	6.1%	8.9%	11.1%	10.0%
Segment Sales Growth										
Watches	19%	-1%	-20%	21%	-3%	25%	17%	22%	21%	35%
Jewellery	71%	33%	14%	3%	9%	34%	63%	50%	37%	50%
Others	94%	58%	24%	67%	-9%	-7%	17%	37%	81%	37%
Total	53%	26%	3%	9%	5%	30%	49%	42%	34%	47%
Segment EBIT Growth										
Watches	38%	-29%	-23%	73%	-3%	145%	-53%	42%	31%	65%
Jewellery	62%	119%	-13%	45%	6%	47%	202%	33%	73%	92%
Others	62%	1991%	24%	345%	116%	-12%	27%	-119%	-58%	-14%
Total	47%	35%	-24%	42%	-4%	78%	34%	55%	63%	89%

Source: Company, Ambit Capital research

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Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	>15%
Hold	5% to 15%
Sell	<5%

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