

March 22, 2011

Reco	Previous Reco
Accumulate	Accumulate
CMP	Target Price
Rs3,431	Rs3,762
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,365
Sensex	17,839

### Price Performance

(%)	1M	3M	6M	12M
Absolute	6	1	8	88
Rel. to Nifty	8	12	20	85

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Retail
Bloomberg	TTAN@IN
Equity Capital (Rs mn)	444
Face Value(Rs)	10
No of shares o/s (mn)	44
52 Week H/L	4,244/1,765
Market Cap (Rs bn/USD mn)	152/3,375
Daily Avg Volume (No of sh)	425549
Daily Avg Turnover (US\$m)	32.3

### Shareholding Pattern (%)

	Dec'10	Sep'10	Jun'10
Promoters	53.4	53.4	53.3
FII/NRI	10.4	11.2	11.0
Institutions	8.6	8.4	8.9
Private Corp	3.8	4.0	3.4
Public	23.8	23.1	23.4

Source: Capitaline

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- **We interacted with the management of Titan Industries – though being in discretionary product- there is no evident signs for let-off in consumer demand**
- **Watches business status quo – no pressure of input costs, no signs of down trading and eyeing faster than market growth rate**
- **Jewellery business promises continuation of momentum – no signs of inventory build-up, no case for abnormal hedging gain/loss and share of studded jewellery rising continuously**
- **Retain earnings estimates of Rs87.0/Share and Rs116.2/Share for FY11E and FY12E respectively. Maintain 'ACCUMULATE' rating with target price of Rs3762/Share**

### In Watches business, targeting to grow faster than the market growth rate

- Recorded 25% value growth in 9MFY11, faster than the market rate. Robust consumer sentiment is key reason for strong performance.
- With market growth of 10% in 9MFY11, Titan has gained market share in same time period.
- Despite being discretionary category, no evident signs for drop in consumer appetite.
- No case for abnormal rise in inventory at store level. No evident signs for down-trading in watches business.
- Cost pressure are routine not exceptional, expect to mitigate the same through price increase and better product mix. Expect to retain the Ebit margins in business.
- Continue the strategy of new product launches every quarter, totalling 4 every year.

*Retain our assumptions of 14% value growth and 12% volume growth in watches business for FY12E. Retain Ebit margins of 16.5% for FY12E, equal to long term average.*

### Jewellery business promises continuation of momentum

- 45% value growth in 9MFY11 was led by 20% volume growth, 20% on account of rise in gold price and 5% led by mix change.
- Same-store sales growth is around 20% in jewellery business.
- Demand environment remains robust with no impact on consumer appetite for gold jewellery. Expect continued volume growth in ensuing quarters.
- Share of studded jewellery continues to rise- now contributes 30% of jewellery sales versus 25% in FY10. Shift is beneficial, since studded jewellery has higher margins versus gold jewellery.
- Aiming to increase the share of studded jewellery to 40% of jewellery sales in next 3 years.

### Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
Mar										
FY09	38,034	3,371	8.9	2,100	47.3	31.1	42.5	71.9	45.1	27.4
FY10	46,744	3,988	8.5	2,565	57.8	22.1	40.2	58.8	37.6	20.8
FY11E	64,102	6,373	9.9	4,284	96.5	67.0	47.6	35.2	23.6	14.0
FY12E	78,847	7,897	10.0	5,268	118.7	23.0	40.5	28.7	18.7	9.9

- No case for abnormal rise in inventory at store level. Also, income/loss from hedging transaction remains normal (equal to LTA) in 9MFY11.
- Only 5 new stores added in 9MFY11 in jewellery business. For FY11E, eyeing 10 new stores i.e. increase from 145 Nos to 155 Nos.

Expect continuation of momentum in FY12E. Retain our estimates on volume growth (23%) and value growth (25%) in jewellery business. Retain our Ebit margin assumptions of 8.6% with upward bias.

### **Precision Engineering not out of woods – would remain in red in FY11E**

- Precision Engineering remains impacted – with lower scale of business and unable to surpass FY08 peak. Most likely to record revenues of Rs0.7 bn, 22% lower than FY08 peak.
- Would not attain Ebit break-even and remain in red in FY11E. Expect Ebit loss of Rs0.1 bn for FY11E.

### **Eyewear business model stabilized, but would not turn profitable until FY13E**

- Titan has stabilized the business model – cut down store size, store locations redefined and product line regularized.
- Added 48 eyewear stores to the network- total store count increased from 82 Nos to 130 Nos.
- Aggressive store addition plan – year-end store count pegged at 150 Nos i.e. 68 new stores in FY11E.
- Growth in eyewear would be driven by (1) geographic expansion of model and (2) potential to generate robust same store sales growth.
- Owing to expansion mode, eyewear business to generate loss until FY13E.

*Our assumptions on eyewear factor 25% volume growth combined with 100 bps increase in market share in FY12E. We have forecasted value growth of 37% in eyewear with a strong case for upward bias.*

### **Gold Price continues to remain key risk owing to cost-plus percentage model**

Only risk to earnings forecasts is absolute change in Gold Prices, which has material impact on profitability of Jewellery business. Titan adopts Cost-Plus percentage model in Jewellery business, implying higher Ebitda margin in rising gold price scenario and vice versa. For example, 10% decline in gold price triggers 8-10% decline in earnings and vice versa. Similarly, 10% increase in volumes triggers 6-8% increase in earnings and vice versa.

### **Retain FY11E and FY12E estimates, Maintain ACCUMULATE rating with price target of Rs3762/Share.**

We retain earnings estimates of Rs87.0/Share and Rs116.2/Share for FY11E and FY12E respectively. We continue to maintain 'Titan' as our preferred proxy-consumer play. We maintain 'ACCUMULATE' rating with target price of Rs3762/Share.

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
<b>Net Sales</b>	<b>38,034</b>	<b>46,744</b>	<b>64,102</b>	<b>78,847</b>
Growth	27.0	22.9	37.1	23.0
<b>Expenses</b>	<b>34,663</b>	<b>42,756</b>	<b>57,729</b>	<b>70,950</b>
Growth	25.8	23.3	35.0	22.9
Raw Materials	26,917	33,879	47,483	58,918
% Of Sales	70.8	72.5	74.1	74.7
Employee Cost	2,334	2,745	3,288	3,815
% Of Sales	6.1	5.9	5.1	4.8
Manufacturing Expenses	96,942	86,033	102,804	120,141
% Of Sales	0.0	0.0	0.0	0.0
Admin Expenses	2,143	2,709	2,608	2,930
% Of Sales	5.6	5.8	4.1	3.7
Selling & Distribn Expenses	2,299	2,562	3,322	4,086
% Of Sales	6.0	5.5	5.2	5.2
<b>Ebidta</b>	<b>3,371</b>	<b>3,988</b>	<b>6,373</b>	<b>7,897</b>
Growth	41.0	18.3	59.8	23.9
Ebidta%	8.9	8.5	9.9	10.0
Other Income	53	119	356	178
Interest	294	254	104	41
Depreciation	418	601	635	669
PBT	2,707	3,246	5,990	7,365
Tax	607	681	1,706	2,097
<b>PAT (Before EO Item)</b>	<b>2,100</b>	<b>2,565</b>	<b>4,284</b>	<b>5,268</b>
Growth	31.1	22.1	67.0	23.0
Net Margin%	5.5	5.5	6.7	6.7
E/O Item	511	62	0	0
Reported PAT	1,590	2,503	4,284	5,268

## Cash Flow Statement

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
<b>Pre-Tax Profit</b>	<b>2,306</b>	<b>3,213</b>	<b>5,990</b>	<b>7,365</b>
Depreciation & Non Cash	418	601	635	669
Interest & others	255	148	104	41
Chg in W Cap	-909	780	-4,635	-2,136
Tax Paid	-593	-1,340	-1,706	-2,097
<b>Operating Cash Flow</b>	<b>2,601</b>	<b>3,420</b>	<b>388</b>	<b>3,843</b>
Capex	-656	-423	-356	-356
<b>Free Cash Flow</b>	<b>1,945</b>	<b>2,997</b>	<b>32</b>	<b>3,487</b>
Investments	7	1	0	0
Equity Capital	0	0	0	0
Loans	-383	-1,000	0	-528
Dividend	-353	-442	-776	-776
Others	-60	-75	0	0
<b>Net Change in Cash</b>	<b>1,433</b>	<b>1,323</b>	<b>-848</b>	<b>2,141</b>
<b>Opening Cash Position</b>	<b>519</b>	<b>547</b>	<b>1,876</b>	<b>1,028</b>
<b>Closing Cash Position</b>	<b>547</b>	<b>1,876</b>	<b>1,028</b>	<b>3,169</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10P	FY11E	FY12E
Equity Share Capital	444	444	444	444
Reserves	5,069	6,800	10,303	14,794
<b>Net worth</b>	<b>5,512</b>	<b>7,244</b>	<b>10,747</b>	<b>15,238</b>
Secured Loans	1,168	728	728	200
Unsecured Loans	587	0	0	0
<b>Loan Funds</b>	<b>1,754</b>	<b>728</b>	<b>728</b>	<b>200</b>
<b>Total Liabilities</b>	<b>7,266</b>	<b>7,972</b>	<b>11,475</b>	<b>15,438</b>
Gross Block	5,930	6,243	6,599	6,955
Less: Accumulated Deprcn	3,186	3,617	4,252	4,921
<b>Net Block</b>	<b>2,745</b>	<b>2,626</b>	<b>2,347</b>	<b>2,034</b>
Capital Work In Progress	195	123	123	123
<b>Investments</b>	<b>77</b>	<b>76</b>	<b>76</b>	<b>76</b>
<b>Current Assets</b>	<b>14,777</b>	<b>18,037</b>	<b>24,593</b>	<b>32,134</b>
Inventories	12,027	13,403	19,814	24,352
Debtors	1,062	936	1,827	2,248
Cash & Bank	547	1,867	1,028	3,169
Loans & Advances	1,141	1,831	1,923	2,366
<b>Current Liabilities &amp; Prov</b>	<b>10,346</b>	<b>12,843</b>	<b>15,604</b>	<b>18,868</b>
<b>Net Current Assets</b>	<b>4,432</b>	<b>5,194</b>	<b>8,989</b>	<b>13,266</b>
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	-182	-48	-48	-48
<b>Total Assets</b>	<b>7,266</b>	<b>7,972</b>	<b>11,488</b>	<b>15,451</b>

## Key Ratios

Y/E, Mar	FY09	FY10P	FY11E	FY12E
<b>Profitability %</b>				
Ebidta Margin	8.9	8.5	9.9	10.0
PAT Margin	5.5	5.5	6.7	6.7
ROCE	41.6	44.5	59.0	53.7
ROE	42.5	40.2	47.6	40.5
<b>Per Share Data (Rs/share)</b>				
EPS	47.3	57.8	96.5	118.7
CEPS	56.7	71.3	110.8	133.7
BVPS	124.2	163.2	242.1	343.3
DVPS	10.0	15.0	15.0	15.0
<b>Valuations (X)</b>				
PER	71.9	58.8	35.2	28.7
CPER	59.9	47.7	30.7	25.4
P/BV	27.4	20.8	14.0	9.9
Ev/Sales	4.0	3.2	2.4	1.9
Ev/Ebidta	45.1	37.6	23.6	18.7
Dividend Yield	0.3	0.4	0.4	0.4
<b>Turnover (X Days)</b>				
Debtor TO	9.7	10.4	10.4	10.4
Inventory TO	117.1	125.3	125.3	125.3
<b>Gearing Ratio (X)</b>				
Net Debt/Equity	0.2	-0.2	0.0	-0.2
Total Debt/Equity	0.3	0.1	0.1	0.0

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