

Titan Industries

Bloomberg: TTAN IN EQUITY

Reuters: TITN.BO

Recommendation: BUY

No Change

RESULT UPDATE

Big Leap

Titan Industries' earnings were well ahead of our and street's expectations for the second consecutive quarter. As indicated earlier because of the resilience shown in the previous slowdown, demand conditions for jewellery continues to remain attractive. We are retaining our Buy recommendation on the stock with a revised March 2011 target price of Rs2,500 after factoring in upward revision of 16% to our previous estimates.

Jewellery demand (deflated), in our opinion, for the company should remain well above its long term trend of 20% supported by somewhat moderate gold price inflation. Considering the significantly improved performance of business (**nearly 15 percentage point increase in return on capital employed to 65%**) we expect new store expansion will also see increased momentum.

Watches business performance also has been encouraging. Topline growth has been maintained well above its medium trend of 15%. EBIT performance has been below expectation and we expect this could also see improvement once the new store openings achieve critical scale.

On aggregate basis we expect topline growth of 30% (about 4 percentage points lower than its recent long term performance of 34%) but earnings growth of 32% (at least 5 percentage points higher v/s its long term performance of 27%) for FY11-12.

Considering the above growth and return on capital trends and upward bias to consensus and our estimates, we maintain our Buy recommendation on the stock. Our target price reflects a forward P/E multiple of 25x and is consistent with its significantly improved growth outlook and enhanced return on capital. A sharp change in consumer confidence and/or demand for jewellery are key risks to our rating.

Exhibit 2: Key financials

Y/E March (rsmn)	FY09	FY10E	FY11E	FY12E
Net Sales	37,409	46,504	61,682	78,135
EBIDTA	3,128	4,066	5,418	6,838
Net Profit	1,862	2,524	3,481	4,422
EPS	42.0	56.9	78.4	99.6
EPS Growth %	16.2	35.5	37.9	27.1
P/E (x)	50.8	37.5	27.2	21.4
EV/EBIDTA (x)	30.6	22.9	17.3	13.7
Dividend Yield %	0.6	0.7	0.8	1.0
ROE %	37.1	39.8	43.4	44.8
ROCE %	39.5	45.2	51.8	54.2

Source: Company, Ambit Capital research

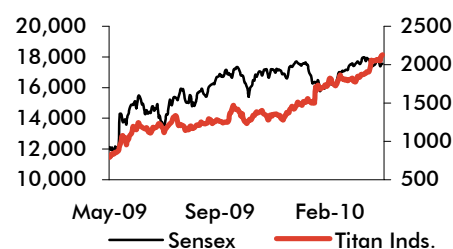
Recommendation

CMP:	Rs2,129
Target Price:	Rs2,500
Previous TP:	Rs2,000
Upside (%)	15
EPS (FY11E):	Rs78.4
% change from previous	13
Variance from consensus (%)	12

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	15.7	41.9	185.6	49.6
Rel. to Sensex	15.5	32.2	85.5	48.8

Performance (%)



Stock Information

Mkt cap:	Rs94,515mn/US\$2,123mn
52-wk H/L:	2,158 / 754
Avg. daily vol. BSE (mn):	0
Beta:	0.9
BSE Sensex:	17,559
Nifty:	5,278

Source: Company, Ambit Capital research

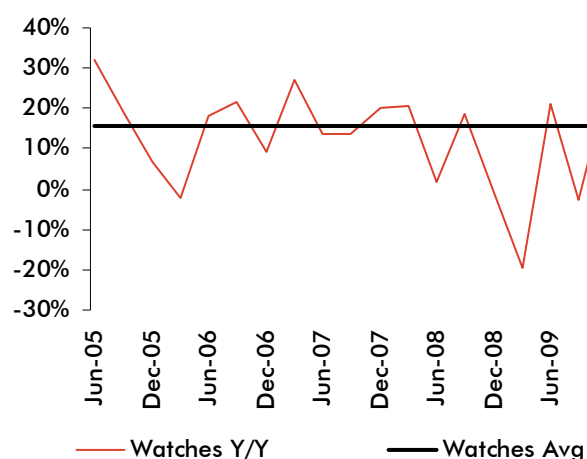
Analyst contact

Vijay Chugh

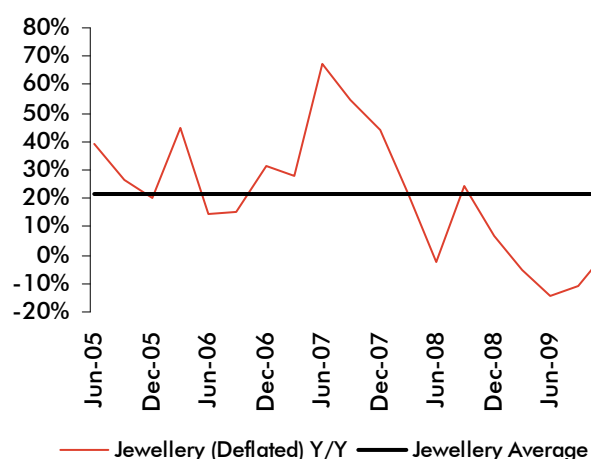
Tel.: + 91-(022) 3043 3054
vijaychugh@ambitcapital.com

Gaurav Jain

Tel.: +91-22-30433206
gauravjain@ambitcapital.com

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 (Rs mn)

	Jun'08	Sep'08	Dec'08	Mar'09	Jun'09	Sep'09	Dec'09	Mar'10
Aggregate								
Sales	8,103	10,885	10,238	8,816	8,828	11,468	13,336	13,112
EBIDTA	561	1,131	722	723	793	1,081	1,073	1,003
EBIT	492	1,065	654	551	712	1,023	1,010	716
Net Profit	322	741	423	374	459	775	781	512
Margins								
EBIDTA	6.9%	10.4%	7.1%	8.2%	9.0%	9.4%	8.0%	7.6%
EBIT	6.1%	9.8%	6.4%	6.3%	8.1%	8.9%	7.6%	5.5%
Net Profit	4.0%	6.8%	4.1%	4.2%	5.2%	6.8%	5.9%	3.9%
Growth								
Sales	23%	53%	28%	7%	9%	5%	30%	49%
EBIDTA	42%	39%	44%	-14%	41%	-4%	49%	39%
EBIT	50%	43%	52%	-28%	45%	-4%	54%	30%
Net Profit	57%	46%	37%	-38%	43%	5%	85%	37%

Source: Company, Ambit Capital research

Exhibit 5: Quarterly trends in segmental performance (Rs mn)**Segment Sales**

Watches	1,719	3,035	1,931	2,400	2,086	2,955	2,409	2,818
Jewellery	6,157	7,522	7,887	6,066	6,356	8,226	10,545	9,915
Others	235	341	432	354	391	310	403	413
Total	8,111	10,898	10,250	8,820	8,833	11,492	13,357	13,146

Segment EBIT

Watches	170	603	145	462	293	583	354	217
Jewellery	355	546	506	236	514	577	742	714
Others	-20	-51	-69	-101	-89	-111	-61	-128
Total	505	1,097	582	597	719	1,049	1,035	803

Segment Margin

Watches	9.9%	19.9%	7.5%	19.2%	14.1%	19.7%	14.7%	7.7%
Jewellery	5.8%	7.3%	6.4%	3.9%	8.1%	7.0%	7.0%	7.2%
Others	-8.5%	-15.0%	-16.0%	-28.5%	-22.6%	-35.7%	-15.0%	-31.0%
Total	6.2%	10.1%	5.7%	6.8%	8.1%	9.1%	7.8%	6.1%

Segment Sales Growth

Watches	2%	19%	-1%	-20%	21%	-3%	25%	17%
Jewellery	32%	71%	33%	14%	3%	9%	34%	63%
Others	4%	94%	58%	24%	67%	-9%	-7%	17%
Total	23%	53%	26%	3%	9%	5%	30%	49%

Segment EBIT Growth

Watches	55%	38%	-29%	-23%	73%	-3%	145%	-53%
Jewellery	44%	62%	119%	-13%	45%	6%	47%	202%
Others	NM	NM	NM	NM	NM	NM	NM	NM
Total	53%	47%	35%	-24%	42%	-4%	78%	34%

Source: Company, Ambit Capital research

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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Ambit Capital Pvt. Ltd.

Ambit House, 3rd Floor
449, Senapati Bapat Marg, Lower
Parel, Mumbai 400 013, India.
Phone : +91-22-3043 3000
Fax : +91-22-3043 3100