



Titan Industries

DOLAT CAPITAL

CMP: ₹ 275

TP: ₹ 347

Buy

Net Sales at ₹ 30bn up 17% v/s our estimate of ₹ 28.7bn. Gross margin declined by 40bps YoY to 23.1%. EBITDA at ₹ 2.8bn up 32.8% as EBITDA margins expanded by 64bps to 9.4% (our estimate of 10.2%). Advertising cost to sales ratio stood at 3.6% down 133bps YoY and down 70bps QoQ. PAT at ₹ 2bn up 24% v/s our estimate of ₹ 2bn.

Key Takeaways of the conference call

- Gold volume growth stood at 12% which was negative in Q1 and Q2 at (-21%) and (-11%) respectively. Revenue grew by 27% on back of festive, marriage season and space addition. Space addition during the quarter stood at 55000 sq ft and total space at the end of quarter was 504,000 sq ft across 143 stores.
- Studded share declined during the quarter to 22% v/s 32% in Q2FY13 mainly on account of marriage season. It has initiated the discount scheme of upto 20% off in diamond jewellery from Jan 2013 which would improve the mix for Q4FY13. The company has a target to improve the share of diamond jewellery to 40% in the coming years.
- Watches segment margin is expected to improve in the coming quarters. The margin impact was largely on account of rupee depreciation.
- The company has presented its response with respect to the linking of gold on loan with the base rate and believes that they have a strong case. Only 50tons of c.900-1000tons imports is utilized for gold loan.
- Currently the company is entering into gold loan with domestic bank which has result in a 20-25bps increase in its interest cost.

High Points

- Results inline with our estimate
- Strong growth in jewellery business driven by festive & marriage season and space addition.
- Grammage growth of 12%. Studded share which declined to 22% expected to improve in Q4FY13
- View: Maintain Buy rating with a target price of ₹ 347 (25x FY15E)

Scrip Details

Equity	₹ 888mn
Face Value	₹ 1/-
Market Cap	₹ 244bn
	USD 5bn
52 week High / Low	₹ 313 / 190
Avg. Volume (no)	1,855,325
BSE Sensex	20,005
NSE Nifty	6,056
Bloomberg Code	TTAN IN
Reuters Code	TITN.BO

Q3FY13 Result (₹ mn)

Particulars	Q3FY13	Q3FY12	YoY (%)	Q2FY13	QoQ (%)	9MFY13	9MFY12	YoY (%)
Net Sales	30,178	24,401	23.7	22,760	32.6	74,996	65,570	14.4
Expenditure	27,351	22,272	22.8	20,266	35.0	67,553	59,518	13.5
Raw Materials	23,207	18,676	24.3	16,343	42.0	55,800	49,146	13.5
Staff Cost	1,169	1,070	9.2	1,161	0.7	3,369	3,008	12.0
Other Expenditure	2,974	2,526	17.7	2,763	7.7	8,384	7,364	13.9
Operating Profit	2,828	2,129	32.8	2,494	13.4	7,443	6,052	23.0
Other Income	220	247	-11.0	238	-7.6	709	681	4.0
Interest	117	10	1117.7	121	-3.7	364	99	266.9
Depreciation	142	119	19.0	130	8.9	395	324	22.0
PBT	2,789	2,248	24.1	2,481	12.4	7,392	6,310	17.1
Tax	752	607	23.7	679	10.6	1,992	1,706	16.7
Net Profit before MI	2,037	1,640	24.2	1,801	13.1	5,400	4,604	17.3
Minority Interest								
Net Profit	2,037	1,640	24.2	1,801	13.1	5,400	4,604	17.3
Gross Margin (%)	23.1	23.5	-36.5	28.2	-509.7	25.6	25.0	54.7
OPM (%)	9.4	8.7	64.4	11.0	-158.9	9.9	9.2	69.4
NPM (%)	6.8	6.7	2.9	7.9	-116.4	7.2	7.0	17.9

Financials

Year	Net Sales	% growth	EBITDA	OPM%	PAT	% growth	EPS(₹)	% growth	PER(x)	ROANW(%)	ROACE(%)
FY12	88,384	35.5	8,329	9.4	6,002	39.4	6.8	39.4	39.5	48.5	68.8
FY13E	101,583	14.9	10,187	10.0	7,102	18.3	8.0	18.3	33.4	41.8	61.3
FY14E	128,298	26.3	13,475	10.5	9,511	33.9	10.7	33.9	24.9	41.7	61.3
FY15E	159,365	24.2	17,295	10.9	12,308	29.4	13.9	29.4	19.3	40.4	59.9

Figures in ₹ mn

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Segmental performance

Particulars (₹ m)	3QFY13	3QFY12	9MFY13	9MFY12
Sales	30,370	24,632	75,560	66,173
Watches	4,235	3,831	12,560	11,159
<i>YoY Growth</i>	10.6%	17.8%	12.6%	19.0%
Jewellery	25,152	19,859	60,147	52,645
<i>YoY Growth</i>	26.7%	25.8%	14.3%	44.1%
Others	983	942	2,853	2,368
<i>YoY Growth</i>	4.3%	70.5%	20.4%	43.5%
EBIT	2,994	2,316	7,941	6,578
Watches	512	480	1,562	1,634
<i>YoY Growth</i>	6.5%	-17.9%	-4.4%	-8.5%
<i>EBIT Margin</i>	12.1%	12.5%	12.4%	14.6%
Jewellery	2,466	1,785	6,421	5,033
<i>YoY Growth</i>	38.2%	25.6%	27.6%	86.0%
<i>EBIT Margin</i>	9.8%	9.0%	10.7%	8.7%
Others	17	51	-43	(89)

Growth Rate	1QFY13		2QFY13		3QFY13	
	Growth	Like to Like	Growth	Like to Like	Growth	Like to Like
Retail channels						
World of Titan	14	9	4	-1	14	11
Tanishq	11	3	19	12	19	10
Titan Eye+	20	1	32	19	24	14
Fastrack	86	12	71	7	97	31
Gold Plus	-1	-8	-2	-8	6	12
Helios	177	19	127	19	85	18
LFS	23	3	7	-10	20	10
Total area	1080000		1130000		1200000	

Jewellery business

Segment reported strong growth driven by space addition and also festive & marriage season during the quarter. Jewellery business grew by 27% YoY to ₹ 25bn and EBIT was up 38.2% to ₹ 2.47bn. EBIT margin was at 9.8% v/s 9% in Q3FY12.

Space addition during the quarter stood at 55000 sq ft and total space at the end of quarter was 504,000 sq ft across 143 stores.

Jewellery	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Grammage	-5	-7	-21	-11	12
Cust growth	8	4	-2.4	7	12
Studded share	26.2	32	25	32	22
Revenue growth	25	31	8	6	27
PBIT growth	19	28	9	35	29

Watches business

Watches business grew by 11% YoY to ₹ 4.2bn and EBIT was up 6.5% to ₹ 512mn. EBIT margin was at 12.1% v/s 12.5% in Q3FY12. Watches segment margin is expected to improve in the coming quarters. The margin impact was largely on account of rupee depreciation.

During the quarter the company added:

- 1) 6 World of Titan store with a space addition of 8000 sq ft.
- 2) 9 Helios store with a space addition of 10000 sq ft
- 3) 10 Fastrack stores with a space addition of 8000 sq ft.

Watches	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13
Vol growth	11	14	-3	4	4
Revenue growth	17	27	14	13	11

Other business

Other business reported a modest growth of 4.3% in revenue and EBIT declined by 67%. EBIT margin was at 1.7% v/s 5.4% in Q3FY12.

Eyewear segment grew by 21% during the quarter and for 9mFY13 post a growth of 10%. Lower growth was on account of precision engineering.

Valuation

We believe that revenue growth which has been impacted in FY13 to improve FY14 onwards. We believe aggressive store expansion to drive growth and marginal profile to improve on back of improvement in watch business performance, mix improvement in jewellery and breakeven in eye wear business. Premium valuation to sustained on account of 1) strong medium term growth visibility, 2) best in class management and 3) Single stock to play multiple themes. The stock trades at 25x FY14E EPS of ₹ 10.7 and 19x FY15E EPS of ₹ 13.9. We recommend a BUY with a price target of ₹ 347 (25x FY15E – EPS of ₹ 13.9).

INCOME STATEMENT

₹ mn

Particulars	Mar12	Mar13E	Mar14E	Mar15E
Net Sales	88,384	101,583	128,298	159,365
Other income	941	901	1,203	1,731
Total Income	89,325	102,484	129,501	161,096
Total Expenditure	80,054	91,396	114,823	142,070
Operational / Direct expenses	71,254	81,029	101,913	126,200
Other Expenses	243	313	379	450
EBIDTA (Excl. Other Income)	8,329	10,187	13,475	17,295
EBIDTA (Incl. Other Income)	9,271	11,088	14,678	19,026
Interest	437	508	641	717
Gross Profit	8,833	10,580	14,036	18,309
Depreciation	449	578	640	725
Profit Before Tax & EO Items	8,384	10,002	13,396	17,584
Profit Before Tax	8,384	10,002	13,396	17,584
Tax	2,383	2,901	3,885	5,275
Net Profit	6,002	7,102	9,511	12,308

BALANCE SHEET

Particulars	Mar12	Mar13E	Mar14E	Mar15E
Sources of Funds				
Equity Capital	888	888	888	888
Other Reserves	13,611	18,576	25,233	33,850
Net Worth	14,499	19,464	26,121	34,737
Secured Loans	113	0	0	0
Unsecured Loans	114	150	150	150
Loan Funds	228	150	150	150
Deferred Tax Liability	(38)	(40)	(40)	(40)
Total Capital Employed	14,689	19,574	26,231	34,847

Applications of Funds

Gross Block	7,380	9,521	10,946	12,221
Less: Accumulated Depreciation	3,693	4,236	4,876	5,601
Net Block	3,687	5,285	6,070	6,620
Capital Work in Progress	249	150	101	102
Investments	160	4,750	6,489	13,035

Current Assets, Loans & Advances

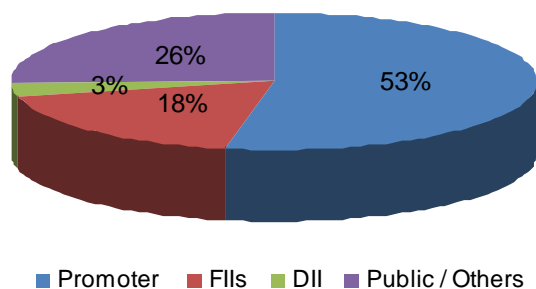
Inventories	28,787	36,280	44,241	53,122
Sundry Debtors	1,631	1,863	2,352	2,922
Cash and Bank Balance	9,605	3,644	6,757	8,043
Loans and Advances	2,512	2,700	3,400	3,700
Other Current Assets	326	300	300	300
<i>sub total</i>	<i>42,861</i>	<i>44,786</i>	<i>57,050</i>	<i>68,086</i>

Less : Current Liabilities & Provisions

Current Liabilities	29,326	31,920	38,990	47,317
Provisions	2,942	3,479	4,489	5,679
<i>sub total</i>	<i>32,269</i>	<i>35,398</i>	<i>43,479</i>	<i>52,996</i>
Net Current Assets	10,593	9,388	13,571	15,090

Total Assets
14,689 19,573 26,231 34,847

E-estimates

Shareholding Pattern as on Dec'12 (%)

CASH FLOW

Particulars	Mar12	Mar13E	Mar14E	Mar15E
Profit before tax	8,384	10,002	13,396	17,584
Depreciation & w.o.	449	578	640	725
Net Interest Exp	437	508	641	717
Direct taxes paid	(2,383)	(2,901)	(3,885)	(5,275)
Chg. in Working Capital	(4,069)	(4,757)	(1,069)	(233)
(A) CF from Oper. Activities	2,818	3,430	9,724	13,517
Capex {Inc./ (Dec.) in FA n WIP}	(1,388)	(2,076)	(1,376)	(1,276)
Free Cash Flow	1,431	1,353	8,348	12,241
Inc./ (Dec.) in Investments	(69)	(4,590)	(1,739)	(6,546)
(B) CF from Inv. Activities	(1,457)	(6,666)	(3,115)	(7,822)
Issue of Equity/ Preference	(4)	(9)	(0)	0
Inc./ (Dec.) in Debt	(475)	(78)	0	0
Interest exp net	(437)	(508)	(641)	(717)
Dividend Paid (Incl. Tax)	(1,806)	(2,130)	(2,853)	(3,693)
(C) CF from Financing	(2,721)	(2,725)	(3,495)	(4,409)
Net Change in Cash	(1,360)	(5,962)	3,113	1,286
Opening Cash balances	10,965	9,605	3,644	6,757
Closing Cash balances	9,605	3,644	6,757	8,043

E-estimates

IMPORTANT RATIOS

Particulars	Mar12	Mar13E	Mar14E	Mar15E
(A) Measures of Performance (%)				
Gross Margin	19.4	20.2	20.6	20.8
EBIDTA Margin (excl. O.I.)	9.4	10.0	10.5	10.9
EBIDTA Margin (incl. O.I.)	10.4	10.8	11.3	11.8
Interest / Sales	0.5	0.5	0.5	0.5
Gross Profit Margin	9.9	10.3	10.8	11.4
Tax/PBT	28.4	29.0	29.0	30.0
Net Profit Margin	6.7	6.9	7.3	7.6

(B) As Percentage of Net Sales

Raw Material	80.6	79.8	79.4	79.2
Employee Expenses	4.4	4.7	4.7	4.7
Selling & Administrative Expenses	5.2	5.2	5.1	5.0
Other Expenses	0.3	0.3	0.3	0.3

(C) Measures of Financial Status

Interest Coverage (x)	21.2	21.8	22.9	26.5
Average Cost Of Debt (%)	94.0	269.1	427.7	478.1
Debtors Period (days)	7	7	7	7
Closing stock (days)	119	130	126	122
Inventory Turnover Ratio (x)	3.1	2.8	2.9	3.0
Fixed Assets Turnover (x)	12.0	10.7	11.7	13.0
Working Capital Turnover (x)	8.3	10.8	9.5	10.6
Non Cash Working Capital (₹ Mn)	987	5,745	6,814	7,048

(D) Measures of Investment

EPS (₹) (Reported)	6.8	8.0	10.7	13.9
EPS (₹)	6.8	8.0	10.7	13.9
CEPS (₹)	7.3	8.6	11.4	14.7
DPS (₹)	2.0	2.4	3.2	4.2
Dividend Payout (%)	30.1	30.0	30.0	30.0
Profit Ploughback (%)	69.9	70.0	70.0	70.0
Book Value (₹)	16.3	21.9	29.4	39.1
RoANW (%)	48.5	41.8	41.7	40.4
RoACE (%)	68.8	61.3	61.3	59.9
RoAIC (%) (Excl Cash & Invest.)	357.9	130.5	116.2	136.8

(E) Valuation Ratios

CMP (₹)	275	275	275	275
P/E (x)	40.7	43.3	32.3	25.0
Market Cap. (₹ Mn.)	244,142	244,142	244,142	244,142
MCap/ Sales (x)	2.8	3.0	2.4	1.9
EV (₹ Mn.)	234,604	235,898	231,046	223,214
EV/Sales (x)	2.7	2.9	2.3	1.8
EV/EBDITA (x)	28.2	29.3	21.8	16.6
P/BV (x)	16.8	15.8	11.8	8.8
Dividend Yield (%)	0.7	0.7	0.9	1.2

E-estimates



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BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside of upto 5% or downside of upto 15%
SELL	Downside of more than 15%

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