

1 November 2013

Titan Industries

Weathering tough times; Buy

Rating: **Buy**

Target Price: ₹316

Share Price: ₹266

Key takeaways

Revenue growth slows. In 2QFY14, income from operations rose 2.3% yoy, to ₹22.9bn, and was below our expectations, due to reduced revenues from watches and lower growth in jewellery divisions. Jewellery contributed 76% to revenues and grew only 4% yoy, with grammage down 4%. Tanishq and Gold Plus registered same store sales (SSS) decline of 7% and 21%, respectively. Watches division's revenue (contribution of 19%) declined 6.3% on back of volume decline of 22% yoy (lowest ever), which, in turn, was owing to price hikes and lower footfalls. SSS for World of Titan and Helios declined, at 11% and 1%, respectively.

EBITDA margin better. EBITDA margin improved 30bps yoy and 335bps qoq, to 11.2%, against our expectation of 9.5% mainly due to write back of marked-to-market loss on inventory taken in 1QFY14 (₹341m). EBIT margin in jewellery is 13.4% in 2QFY14 against 12.5% in 2QFY13; EBIT margin in the watches division is 10.5% against 11.7% in 2QFY13 on the back of higher fixed cost absorption due to bleak volumes.

Other key highlights. In 2Q, the company added six stores of Tanishq with total area up from 0.565msf to 0.586msf. We expect the company to end this year with total area addition of 0.10msf in Tanishq. In case of Gold Plus, it added two stores, taking the tally to 33. As a fall-out of ban on lease of gold, the company has taken a working capital loan on ₹9.5bn as on October 31, 2013. Challenges on gold sourcing continue, although it has enough inventories to last till end of Nov '13, post which it expects the 80:20 scheme to become effective.

Our take. We believe area addition, along with focus on higher SSS growth and availability of gold will drive revenue growth for the company. We value the stock at one-year forward at 28xPE on FY15 EPS of ₹11.3 and target price of ₹316. **Risk.** Regulatory hurdles and volatility in gold prices.

Quarterly results (YE Mar)	2QFY13	2QFY14	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	22,583	22,900	1.4	44,330	53,778	21.3
EBITDA (₹m)	2,493	2,617	4.9	4,613	5,066	9.8
EBITDA margin (%)	11.0	11.4	39bps	10.4	9.4	(99)bps
Interest (₹m)	121	200	64.3	247	370	49.5
Depreciation (₹m)	130	149	14.4	254	295	16.4
Other income (₹m)	238	304	27.5	490	686	40.0
PBT (₹m)	2,480	2,572	3.7	4,602	5,087	10.5
Tax (₹m)	693	720	4.0	1,266	1,425	12.5
Tax rate (%)	27.9	28.0	7bps	27.5	28.0	50bps
PAT (₹m)	1,787	1,852	3.6	3,336	3,663	9.8

Source: Company

Key data	TTAN IN / TITN.BO
52-week high / low	₹313 / ₹201
Sensex / Nifty	21164 / 6299
3-m average volume	US\$10.2m
Market cap	₹236bn / US\$3.8bn
Shares outstanding	887.8

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	53.1	53.1	53.1
- of which, Pledged	-	-	-
Free Float	46.9	46.9	46.9
- Foreign Institutions	22.4	20.1	19.1
- Domestic Institutions	1.6	2.8	2.8
- Public	22.9	24.0	25.0

Estimates revision (%)	FY14e	FY15e
Sales	(1.0)	(2.8)
EBITDA	(1.0)	(2.7)
PAT	(4.6)	(7.1)

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	124,997	146,616
Net profit (₹m)	8,785	10,034
EPS (₹)	9.9	11.3
Growth (%)	21.2	14.2
PE (x)	27.8	24.3
PBV (x)	8.7	6.8
RoE (%)	38.2	33.5
RoCE (%)	21.7	18.0
Dividend yield (%)	0.8	0.9
Net gearing (x)	0.1	0.0

Source: Anand Rath Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	65,332	88,484	100,194	124,997	146,616
Revenue growth (%)	39.8	35.4	13.2	24.8	17.3
- Op. expenses	59,171	80,131	91,108	112,429	131,842
EBIDTA	6,161	8,353	9,085	12,568	14,774
EBITDA margins (%)	9.4	9.4	9.1	10.1	10.1
- Interest	345	437	506	905	1,055
- Depreciation	345	456	562	671	772
+ Other income	568	945	2,048	1,250	1,350
PBT	6,039	8,405	10,065	12,243	14,297
Income taxes	1701	2390	2816	3457	4262
Extra-ordinary items					
Min int / inc from assoc	-	-	-	-	-
Reported net income	4,338	6,015	7,248	8,785	10,034
PAT growth (%)	73	39	21	21	14
Adj. FDEPS (₹/share)	5	7	8	10	11
Adj. FDEPS growth (%)	73.3	38.7	20.5	21.2	14.2

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	444	888	888	888	888
Reserves & surplus	9,912	13,611	18,761	24,810	31,480
Net worth	10,356	14,499	19,649	25,697	32,368
Total debt	99	59	-	9,560	10,060
Minority interest	28	-	-	756	1,234
Def. tax liab. (net)	21	(38)	(80)	53	53
Capital employed	10,504	14,520	19,568	36,066	43,715
Net fixed assets	3,052	3,936	4,903	4,946	4,988
Investments	26	160	185	26	26
- of which, Liquid					
Working capital	(3,671)	821	3,115	24,347	29,288
Cash	11,099	9,605	11,365	6,747	9,413
Capital deployed	10,504	14,520	19,568	36,066	43,715
Net debt/equity (%)	(1.1)	(0.7)	(0.6)	0.1	0.0
W C turn (days)	(21)	3	11	71	73
Book value (₹/sh)	12	16	22	29	36

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PBT	6,039	8,405	10,065	12,243	14,297
+ Non-cash items	(1,562)	(2,500)	(1,790)	(1,748)	(2,435)
Cash profit	4,478	5,905	8,275	10,495	11,862
- Incr./decr. in WC	6,055	(5,182)	(4,651)	(19,230)	(5,200)
Operating cash-flow	10,532	723	3,624	(8,735)	6,662
- Capex	(250)	(547)	(1,231)	(858)	(814)
Free cash-flow	10,283	176	2,391	(9,593)	5,848
- Dividend	(772)	(1,287)	(1,839)	(2,077)	(2,337)
+ Equity raised	-	-	(0)	(0)	(0)
+ Debt raised	(53)	(41)	(59)	9,560	500
- Investments			(2)	-	-
- Misc. items	(343)	(342)	1,267	(2,508)	(1,344)
Net cash-flow	9,114	(1,494)	1,760	(4,619)	2,667
+ Op. cash & bank bal.	1,985	11,099	9,605	11,365	6,747
Cl. Cash & bank bal.	11,099	9,605	11,365	6,747	9,413

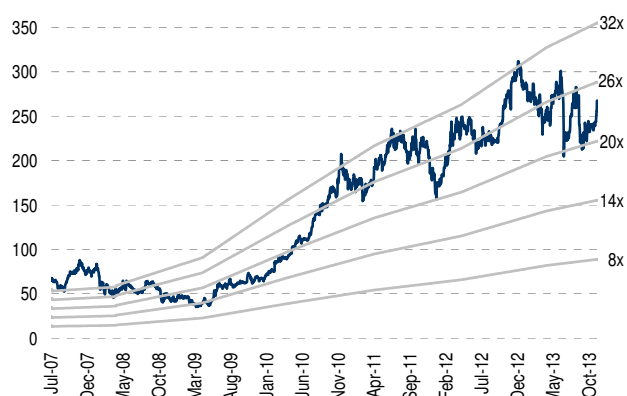
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹266

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	54.5	39.3	32.6	26.9	23.5
Cash P/E (x)	50.4	36.5	30.2	25.0	21.9
EV/EBITDA (x)	36.5	27.0	24.8	17.9	15.2
EV/sales (x)	3.4	2.5	2.2	1.8	1.5
P/B (x)	437.7	15.2	11.4	8.7	6.8
RoE (%)	41.9	48.2	42.2	38.2	33.5
RoCE (%)	31.4	31.6	24.9	21.7	18.0
Dividend yield (%)	0.5	0.7	0.8	0.8	0.9
Dividend Payout(%)	25.6	25.8	24.5	22.7	22.1
Debt to equity (x)	(1.1)	(0.7)	(0.6)	0.1	0.0
Debtor days	8.8	9.1	9.0	9.0	7.0
Inventory days	111.8	119.0	130.0	130.0	130.0
Payables days	138.9	121.3	119.8	79.9	74.9
Working capital days	(18.2)	6.8	19.2	59.1	62.1
Fixed asset T/O (x)	10.9	13.0	12.5	13.8	14.9

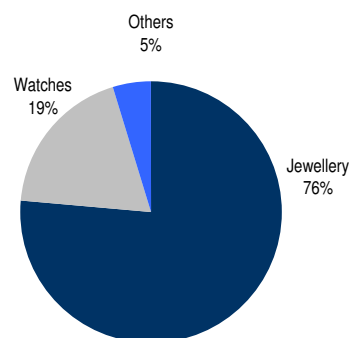
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Q2FY14 revenue break-up



Source: Company

Result highlights

Fig 7 – Estimates vs Actual

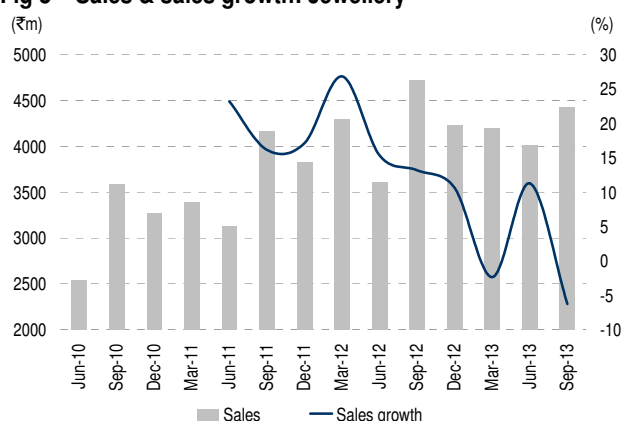
(₹m)	2QFY14e	2QFY14	Change (%)
Revenues	26,648	22,900	(14.1)
EBITDA	2,547	2,617	2.7
Margin (%)	9.6	11.4	
PAT	1,831	1,866	1.9
Margin (%)	6.9	8.1	

Source: Company, Anand Rathi Research

Revenue growth slows

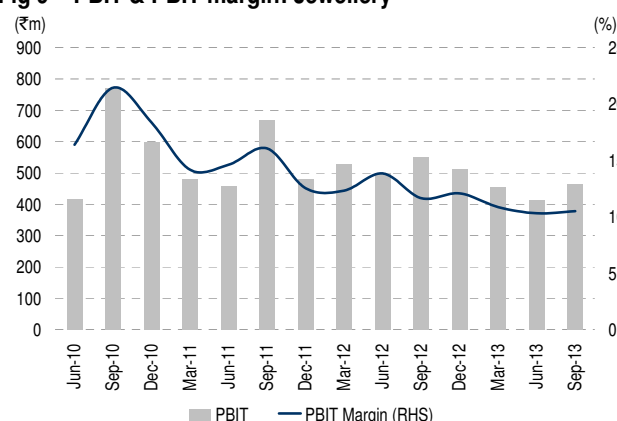
In 2QFY14, income from operations rose 2.3% yoy, to ₹22.9bn, and was below our expectations on account of decline in revenues from the watch division and lower growth from jewellery division. Jewellery contributed to 76% of revenues and grew only 4% yoy, with grammage down 4%. Tanishq and Gold Plus registered same store sales (SSS) decline of 7% and 21%, respectively. Watches division's revenue (contribution of 19%) declined 6.3% on back of volume decline of 22% yoy (lowest ever), which was impacted by price hikes and lower footfalls. SSS declined for World of Titan and Helios, at 11% and 1%, respectively.

Fig 8 – Sales & sales growth: Jewellery



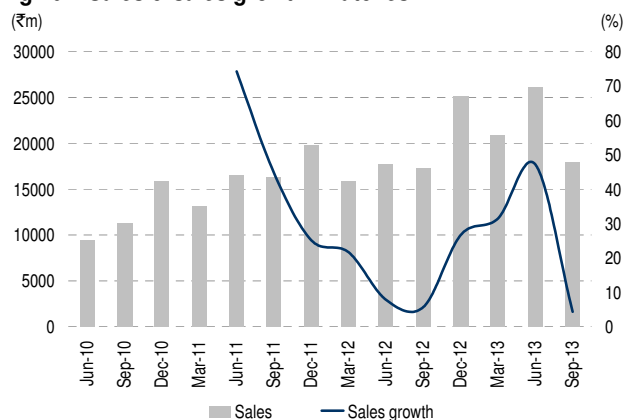
Source: Company, Anand Rathi Research

Fig 9 – PBIT & PBIT margin: Jewellery



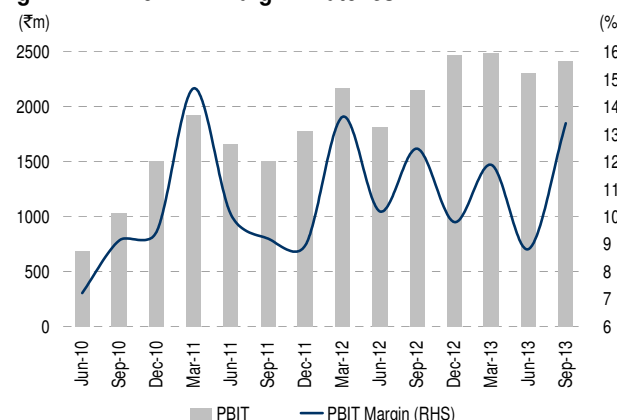
Source: Company, Anand Rathi Research

Fig 10 – Sales & sales growth: Watches

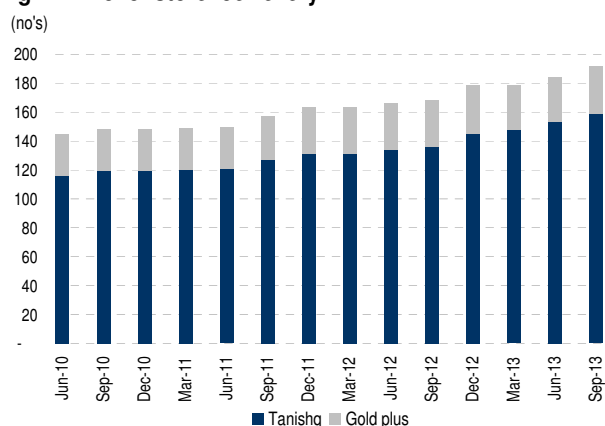


Source: Company, Anand Rathi Research

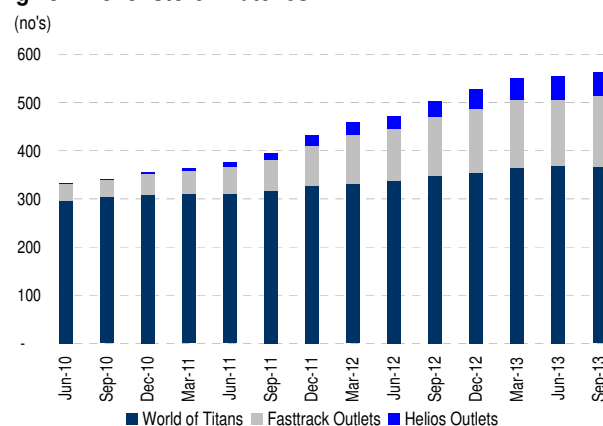
Fig 11 – PBIT & PBIT margin: Watches



Source: Company, Anand Rathi Research

Fig 12 – No. of store: Jewellery

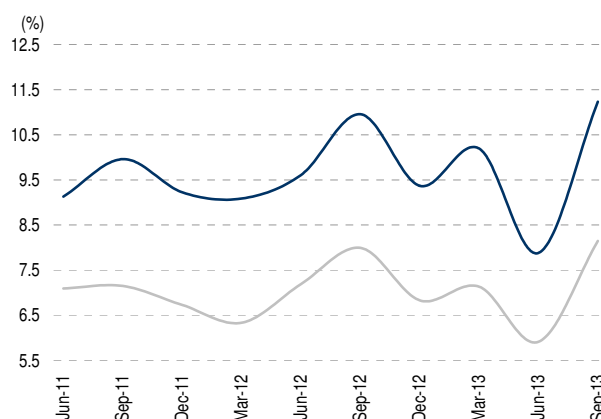
Source: Company, Anand Rath Research

Fig 13 – No. of store: Watches

Source: Company, Anand Rath Research

EBITDA margin improves

EBITDA margin improved 30bps yoy and 335bps qoq, to 11.2%, against our expectation of 9.5% mainly due to write back of the m-to-m loss on inventory taken during 1QFY14 (₹341m). EBIT margin in jewellery is 13.4% in 2QFY14 against 12.5% in 2QFY13; EBIT margin in watches division is 10.5% against 11.7% in 2QFY13 on the back of higher fixed cost absorption due to bleak volumes.

Fig 14 – OPM & NPM

Source: Company

Other highlights

In 2Q, the company added six stores of Tanishq with total area up from 0.565msf to 0.586msf. We expect the company to end this year with total area addition of 0.10msf in Tanishq. In case of Gold Plus, it added two stores taking the tally to 33.

As a fall-out of ban on lease of gold the company has taken a working capital loan on ₹9.5bn as on Oct'31. Challenges on gold sourcing continue, though it has enough inventories to last till end of Nov '13, post which it expects the 80:20 scheme to become effective. The company has managed to source gold from three sources: 1) Domestic copper producers (by-product gold); 2) bullion dealers; and 3) gold deposit schemes of banks.

The company currently hedges ~4 tons on gold on MCX, limit for which is likely to increase to 5 tons soon. The company is also in discussion with RBI to allow hedging in international markets.

Valuations

We believe area addition, along with focus on higher SSS growth and availability of gold will drive revenue growth for the company. We value the stock at one-year forward at 28xPE on FY15 EPS of ₹11.3 and target price of ₹316.

Fig 15 – 12-month forward PE: Standard deviation and mean



Source: Anand Rathi Research

Risks

- Regulatory hurdles
- Volatility in gold prices

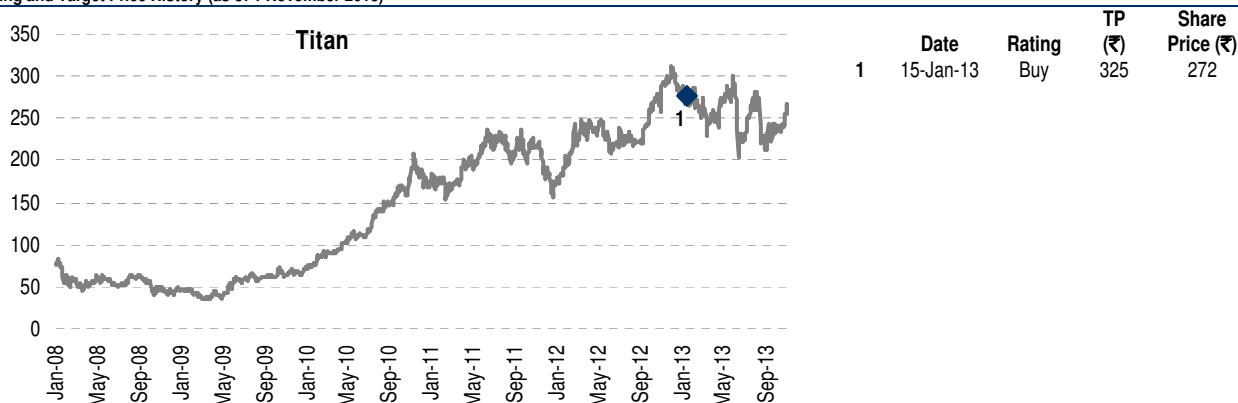
Appendix

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