

August 07, 2012

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Rating	BUY
Price	Rs228
Target Price	Rs255
Implied Upside	11.8%
Sensex	17,602
Nifty	5,337

(Prices as on August 07, 2012)

Trading data

Market Cap. (Rs bn)	202.1
Shares o/s (m)	887.8
3M Avg. Daily value (Rs m)	666

Major shareholders

Promoters	53.05%
Foreign	16.15%
Domestic Inst.	3.83%
Public & Other	26.97%

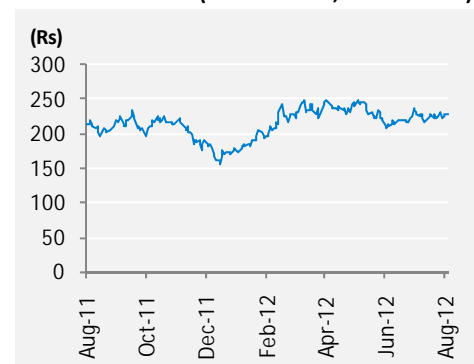
Stock Performance

(%)	1M	6M	12M
Absolute	(1.0)	13.7	6.4
Relative	(1.4)	13.8	4.7

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	8.0	8.5	-4.9
2014	9.8	10.6	-7.5

Price Performance (RIC: TITN.BO, BB: TTAN IN)



Source: Bloomberg

We interacted with the senior management of Titan Industries (TTAN). While conceding the near-term challenges, management is persisting with its medium-term expansion plans and focussing on **bottom-line growth for FY13e**.

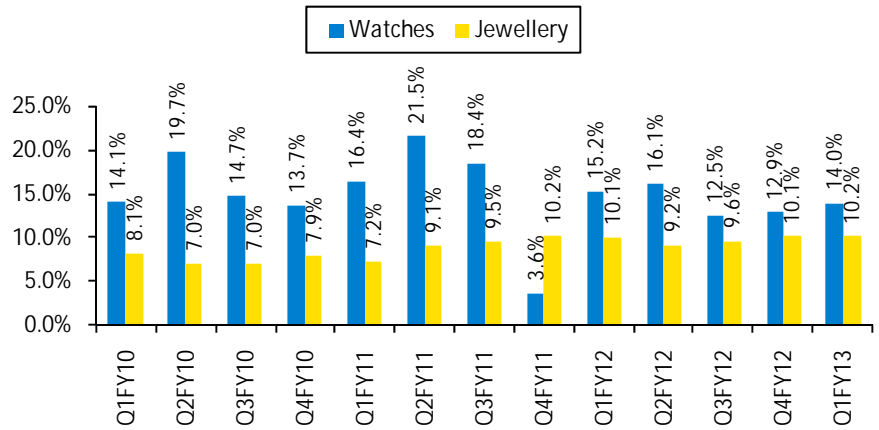
- Policy actions impacting; though not significantly:** Government policy actions (customs duty, PAN card restriction) have started impacting TTAN, though not significantly. However, it is moderating the pace of shift from unorganised to organized segment, of which, Titan has been a key beneficiary so far. According to the management, absence of consumer demand in grammage terms, particularly in the last six months, has been slightly surprising despite the prevailing weak consumer sentiment.
- Various plans to induce demand:** On its part, in order to induce consumer jewellery demand, TTAN is experimenting with an exchange scheme in some states and intends to roll it out on a bigger scale soon. Currently, exchange forms just 15% of the business and in the new scheme, it will accept even Jewellery from other retailers with some carratage correction. As per management, it will help achieve twin objectives: a) restrict cash outflow for consumer and b) reduce overall Gold imports for the country. It may also contemplate a cut in labour charge to drive jewellery demand.
- Watches – expanding selectively:** TTAN will concentrate its efforts around *Fastrack* and *Helios* and will go easy on *World of Titan* expansion as it already has a geographically strong 350 store presence.
- Confident of achieving medium-term target (US\$3bn turnover by FY15e):** Focus for FY13e has shifted to bottom-line growth by cost containment (wherever possible) and margin enhancement (direct Gold import will save 70bps). We maintain 'BUY' with TP of Rs255.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	65,330	88,473	103,864	124,323
Growth (%)	39.7	35.4	17.4	19.7
EBITDA (Rs m)	5,895	8,307	9,736	11,874
PAT (Rs m)	4,331	5,980	7,145	8,703
EPS (Rs)	4.9	6.7	8.0	9.8
Growth (%)	72.4	38.1	19.5	21.8
Net DPS (Rs)	1.3	1.7	2.1	2.5

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	9.0	9.4	9.4	9.6
RoE (%)	49.0	47.2	40.8	37.7
RoCE (%)	46.0	47.1	41.5	38.7
EV / sales (x)	2.9	2.1	1.8	1.4
EV / EBITDA (x)	32.5	22.7	18.9	15.0
PE (x)	46.7	33.8	28.3	23.2
P / BV (x)	19.5	13.5	10.1	7.7
Net dividend yield (%)	0.5	0.8	0.9	1.1

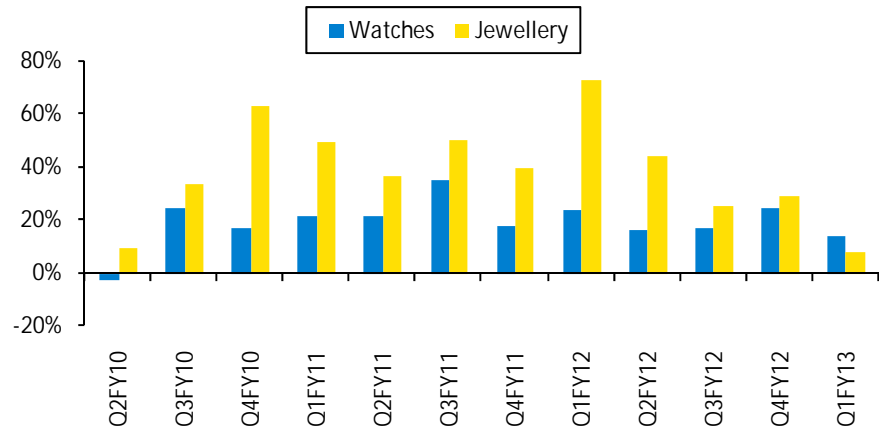
Source: Company Data; PL Research

Exhibit 1: Jewellery EBIT margins stay flat YoY



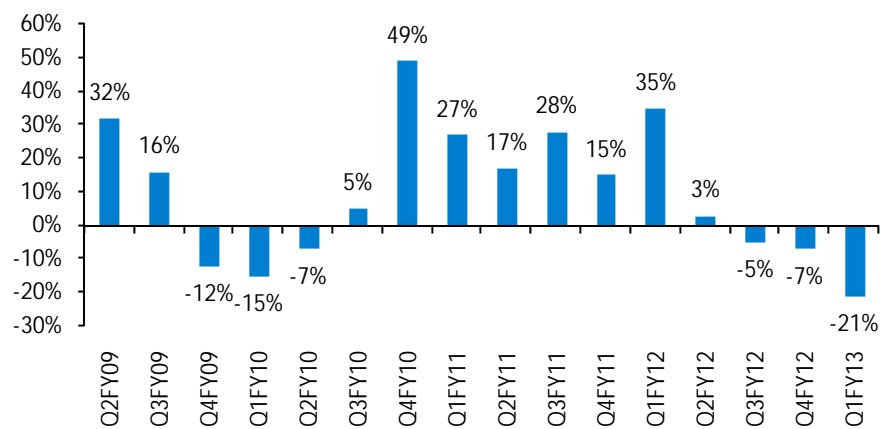
Source: Company Data, PL Research

Exhibit 2: Jewellery revenues grow mere 8% in Q1FY13; lowest in 11 quarters



Source: Company Data, PL Research

Exhibit 3: Gold volumes decline 21% on higher base and lower wedding days



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	65,330	88,473	103,864	124,323
Raw Material Expenses	48,037	65,524	76,264	90,941
Gross Profit	17,293	22,949	27,601	33,382
Employee Cost	3,974	3,981	5,089	6,216
Other Expenses	7,424	10,661	12,775	15,292
EBITDA	5,895	8,307	9,736	11,874
Depr. & Amortization	351	452	628	648
Net Interest	82	437	498	594
Other Income	538	946	1,046	1,131
Profit before Tax	6,000	8,364	9,656	11,762
Total Tax	1,668	2,384	2,511	3,058
Profit after Tax	4,331	5,980	7,145	8,704
Ex-Od items / Min. Int.	—	—	—	(1)
Adj. PAT	4,331	5,980	7,145	8,703
Avg. Shares O/S (m)	887.8	887.8	887.8	887.8
EPS (Rs.)	4.9	6.7	8.0	9.8

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	10,444	4,660	6,192	8,843
C/F from Investing	9	58	(61)	(205)
C/F from Financing	(1,344)	(1,437)	(2,228)	(2,693)
Inc. / Dec. in Cash	9,110	3,282	3,904	5,945
Opening Cash	1,974	11,084	14,365	18,269
Closing Cash	11,084	14,365	18,269	24,214
FCFF	10,643	4,765	6,181	8,697
FCFE	10,593	4,665	6,081	8,597

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	39.7	35.4	17.4	19.7
EBITDA (%)	48.9	40.9	17.2	22.0
PAT (%)	72.4	38.1	19.5	21.8
EPS (%)	72.4	38.1	19.5	21.8
Profitability				
EBITDA Margin (%)	9.0	9.4	9.4	9.6
PAT Margin (%)	6.6	6.8	6.9	7.0
RoCE (%)	46.0	47.1	41.5	38.7
RoE (%)	49.0	47.2	40.8	37.7
Balance Sheet				
Net Debt : Equity	(1.0)	(0.9)	(0.9)	(0.9)
Net Wrkng Cap. (days)	25	31	36	33
Valuation				
PER (x)	46.7	33.8	28.3	23.2
P / B (x)	19.5	13.5	10.1	7.7
EV / EBITDA (x)	32.5	22.7	18.9	15.0
EV / Sales (x)	2.9	2.1	1.8	1.4
Earnings Quality				
Eff. Tax Rate	27.8	28.5	26.0	26.0
Other Inc / PBT	9.5	11.3	10.8	9.6
Eff. Depr. Rate (%)	5.1	5.8	7.1	6.4
FCFE / PAT	244.6	78.0	85.1	98.8

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	10,356	15,000	20,017	26,128
Total Debt	680	580	480	380
Other Liabilities	21	(26)	(75)	(134)
Total Liabilities	11,057	15,554	20,423	26,374
Net Fixed Assets	3,078	3,514	3,992	4,680
Goodwill	—	—	—	—
Investments	26	26	26	26
Net Current Assets	7,953	12,014	16,405	21,668
<i>Cash & Equivalents</i>	<i>11,083</i>	<i>14,365</i>	<i>18,268</i>	<i>24,213</i>
<i>Other Current Assets</i>	<i>23,382</i>	<i>31,693</i>	<i>36,819</i>	<i>43,974</i>
<i>Current Liabilities</i>	<i>26,512</i>	<i>34,043</i>	<i>38,683</i>	<i>46,520</i>
Other Assets	—	—	—	—
Total Assets	11,057	15,554	20,423	26,374

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Net Revenue	20,963	24,401	22,814	22,057
EBITDA	2,002	2,249	2,071	2,120
<i>% of revenue</i>	<i>9.6</i>	<i>9.2</i>	<i>9.1</i>	<i>9.6</i>
Depr. & Amortization	106	119	125	123
Net Interest	2	129	131	126
Other Income	201	247	255	252
Profit before Tax	2,096	2,247	2,070	2,122
Total Tax	567	608	627	561
Profit after Tax	1,529	1,639	1,443	1,561
Adj. PAT	1,482	1,639	1,443	1,561

Key Operating Metrics

Y/e March	2011	2012	2013E	2014E
Watches Rev. Gr.	25.0	23.5	16.6	17.7
Jewellery Rev. Gr.	42.2	43.0	16.7	19.5
Gold Vol. Gr.	9.2	5.0	6.0	12.0
Watches Vol. Gr.	23.2	17.3	12.4	13.5
Gold EBIT Margin	8.6	9.7	9.0	9.1
Watches EBIT Margin	15.1	14.8	14.8	15.2

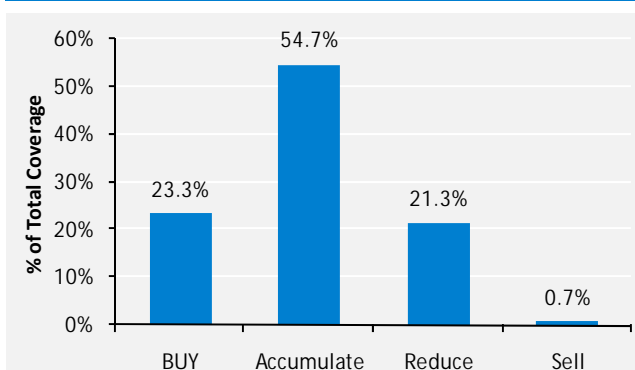
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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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