Jewellery business shining

Shine looks here to stay; upgrade to Buy on strong macro-driven fundamentals

October 19, 2011

Rating Up from Reduce	**Buy**
Target price Increased from 118	INR 264
Closing price October 18, 2011	INR 221
Potential upside	+19.5%

Action: Upgrading Titan to Buy with a new TP of INR264

We are upgrading Titan to Buy with a new TP of INR264 to reflect our bullish medium-term outlook on its key jewellery business. The upgrade is primarily premised on our belief that several macro drivers should continue to drive demand for jewellery in India. As consumers shift their preference to organised national level players from local jewellers, Titan is best placed to benefit from this shift, in our view. We think Titan offers the most attractive way to invest in growth of India's jewellery market. Our revised TP of INR264 reflects our estimate revisions, roll forward to 12-mo fwd EPS and a target multiple of 27x.

Catalysts: Near-term earnings likely to surprise the Street

Post its robust 1Q results, the stock has remained subdued in our view on account of cautionary statements from the company on a slowdown in volume growth. While we acknowledge that volume growth will likely see a slowdown this quarter, it is on the back of a high base. Street estimates suggest there is a significant amount of caution being built in, and the company could surprise positively, we believe. Medium-term volume growth in the jewellery business should remain strong, in our view.

Valuation: Attractive valuations vs. the sector

Titan trades at 24.1x FY13F earnings, which is a discount to the sector average of 24.6x. However, based on our estimates, Titan offers 26% earnings growth in FY13F versus a sector average of 19%. We believe given the higher growth trajectory, Titan should trade at a premium to the sector. Additionally, if volume growth sustains at FY11 levels, there could be earnings surprise in FY12F as well, in our view. Upgrade to Buy – solid long-term story at attractive valuations.

31 Mar	FY11	FY12F		FY13F		FY14F	
Currency (INR)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	65,209	68,846	89,595		111,339		138,266
Reported net profit (mn)	4,304	4,221	6,450		8,136		10,378
Normalised net profit (mn)	4,358	4,221	6,450		8,136		10,378
Normalised EPS	4.91	95.08	7.26		9.16		11.69
Norm. EPS growth (%)	68.9	25.8	48.0		26.1		27.6
Norm. P/E (x)	45.1	N/A	30.4	N/A	24.1	N/A	18.9
EV/EBITDA (x)	31.7	29.8	21.6		17.0		13.3
Price/book (x)	19.1	N/A	14.0	N/A	12.8	N/A	11.7
Dividend yield (%)	0.6	N/A	1.9	N/A	3.9	N/A	4.9
ROE (%)	48.9	37.8	53.0		55.5		64.7
Net debt/equity (%)	net cash	net cash	net cash		net cash		net cash

Source: Nomura estimates

Key company data: *See page 2 for company data and detailed price/index chart.*

Anchor themes

Titan is the best proxy to invest in the Indian jewellery market growth, in our view. Structutal demand drivers should ensure strong growth in the jewellery business in the medium term.

Nomura vs consensus

We are 10% ahead of consensus on FY13F earnings. This is primarily driven by our more bullish expectations for the jewellery business, where we expect the company to surprise the Street positively.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

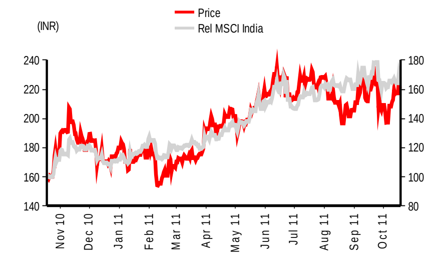
Key data on Titan Industries

Income statement (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Revenue	**46,744**	**65,209**	**89,595**	**111,339**	**138,266**
Cost of goods sold	-34,887	-48,051	-66,300	-82,168	-102,040
Gross profit	**11,857**	**17,158**	**23,295**	**29,171**	**36,226**
SG&A	-5,725	-7,695	-10,493	-13,079	-15,902
Employee share expense	-2,745	-3,930	-4,912	-6,140	-7,614
Operating profit	**3,388**	**5,533**	**7,890**	**9,951**	**12,710**
EBITDA	**3,988**	**5,878**	**8,482**	**10,715**	**13,531**
Depreciation	-601	-345	-592	-763	-821
Amortisation					
EBIT	3,388	5,533	7,890	9,951	12,710
Net interest expense	-254	-82	-61	-61	-61
Associates & JCEs	0	0	0	0	0
Other income	127	561	770	957	1,189
Earnings before tax	**3,261**	**6,012**	**8,599**	**10,848**	**13,838**
Income tax	-681	-1,654	-2,150	-2,712	-3,459
Net profit after tax	**2,580**	**4,358**	**6,450**	**8,136**	**10,378**
Minority interests					
Other items					
Preferred dividends					
Normalised NPAT	**2,580**	**4,358**	**6,450**	**8,136**	**10,378**
Extraordinary items	-68	-54	0	0	
Reported NPAT	**2,512**	**4,304**	**6,450**	**8,136**	**10,378**
Dividends	-774	-1,254	-3,773	-7,615	-9,714
Transfer to reserves	**1,737**	**3,050**	**2,677**	**521**	**664**
Valuation and ratio analysis					
FD normalised P/E (x)	76.1	45.1	30.4	24.1	18.9
FD normalised P/E at price target (x)	92.6	54.8	37.0	29.4	23.0
Reported P/E (x)	78.2	45.6	30.4	24.1	18.9
Dividend yield (%)	0.4	0.6	1.9	3.9	4.9
Price/cashflow (x)	58.4	17.9	21.8	18.9	14.4
Price/book (x)	26.9	19.1	14.0	12.8	11.7
EV/EBITDA (x)	48.9	31.7	21.6	17.0	13.3
EV/EBIT (x)	57.6	33.6	23.2	18.3	14.2
Gross margin (%)	25.4	26.3	26.0	26.2	26.2
EBITDA margin (%)	8.5	9.0	9.5	9.6	9.8
EBIT margin (%)	7.2	8.5	8.8	8.9	9.2
Net margin (%)	5.4	6.6	7.2	7.3	7.5
Effective tax rate (%)	20.9	27.5	25.0	25.0	25.0
Dividend payout (%)	30.8	29.1	58.5	93.6	93.6
Capex to sales (%)	0.5	0.8	2.9	1.8	1.2
Capex to depreciation (x)	0.4	1.6	4.4	2.6	2.1
ROE (%)	38.7	48.9	53.0	55.5	64.7
ROA (pretax %)	18.7	24.4	24.9	23.9	24.8
Growth (%)					
Revenue	22.9	39.5	37.4	24.3	24.2
EBITDA	29.5	47.4	44.3	26.3	26.3
EBIT	27.2	63.3	42.6	26.1	27.7
Normalised EPS	42.2	68.9	48.0	26.1	27.6
Normalised FDEPS	42.2	68.9	48.0	26.1	27.6
Per share					
Reported EPS (INR)	2.83	4.85	7.26	9.16	11.69
Norm EPS (INR)	2.91	4.91	7.26	9.16	11.69
Fully diluted norm EPS (INR)	2.91	4.91	7.26	9.16	11.69
Book value per share (INR)	8.21	11.60	15.79	17.23	18.90
DPS (INR)	0.87	1.41	4.25	8.58	10.94

Source: Nomura estimates

Relative performance chart (one year)



Source: ThomsonReuters, Nomura research

(%)	1M	3M	12M
Absolute (INR)	0.5	-2.9	37.5
Absolute (USD)	-3.7	-12.2	23.7
Relative to index	-0.3	5.3	55.4
Market cap (USDmn)	3,981.1		
Estimated free float (%)	47.0		
52-week range (INR)	238.25/140		
3-mth avg daily turnover (USDmn)	18.60		
Major shareholders (%)			
Tamilnadu Industrial Development	27.9		
Tata Sons	10.7		

Source: Thomson Reuters, Nomura research

Notes

Revenue growth led by jewellery business

Cashflow (INRmn)

Year-end 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
EBITDA	3,988	5,878	8,482	10,715	13,531
Change in working capital	556	6,411	1,407	819	1,652
Other operating cashflow	-1,185	-1,341	-903	-1,139	-1,536
Cashflow from operations	**3,359**	**10,948**	**8,986**	**10,394**	**13,647**
Capital expenditure	-241	-548	-2,586	-1,991	-1,718
Free cashflow	**3,118**	**10,399**	**6,400**	**8,403**	**11,929**
Reduction in investments	0	-15	0	0	0
Net acquisitions	0	0	0	0	0
Reduction in other LT assets	0	0	0	0	0
Addition in other LT liabilities	0	0	0	0	0
Adjustments	0	0	0	0	0
Cashflow after investing acts	**3,119**	**10,384**	**6,400**	**8,403**	**11,929**
Cash dividends	-774	-1,254	-3,773	-7,615	-9,714
Equity issue	0	0	444	0	0
Debt issue	-1,024	-50	0	0	0
Convertible debt issue	0	0	0	0	0
Others	0	0	0	0	0
Cashflow from financial acts	**-1,799**	**-1,303**	**-3,329**	**-7,615**	**-9,714**
Net cashflow	**1,320**	**9,081**	**3,071**	**788**	**2,215**
Beginning cash	547	1,867	10,948	14,019	14,807
Ending cash	1,867	10,948	14,019	14,807	17,022
Ending net debt	-1,137	-10,268	-13,338	-14,127	-16,341

Source: Nomura estimates

Notes

Strong FCF generation

Balance sheet (INRmn)

As at 31 Mar	FY10	FY11	FY12F	FY13F	FY14F
Cash & equivalents	1,867	10,948	14,019	14,807	17,021
Marketable securities	76	91	91	91	91
Accounts receivable	936	1,137	1,718	2,135	2,652
Inventories	13,403	19,938	27,492	34,164	42,427
Other current assets	1,831	2,200	2,700	3,400	4,000
Total current assets	**18,113**	**34,315**	**46,020**	**54,598**	**66,191**
LT investments	0	0	0	0	0
Fixed assets	2,750	3,024	5,074	6,388	7,311
Goodwill	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Other LT assets	0	0	0	0	0
Total assets	**20,863**	**37,339**	**51,094**	**60,986**	**73,502**
Short-term debt	0	0	0	0	0
Accounts payable	11,496	24,193	31,911	36,605	45,457
Other current liabilities	1,345	2,165	4,490	8,403	10,581
Total current liabilities	**12,841**	**26,358**	**36,400**	**45,008**	**56,039**
Long-term debt	730	680	680	680	680
Convertible debt					
Other LT liabilities	0	0	0	0	0
Total liabilities	**13,571**	**27,038**	**37,080**	**45,688**	**56,719**
Minority interest	0	0	0	0	0
Preferred stock	0	0	0	0	0
Common stock	444	444	888	888	888
Retained earnings	6,800	9,810	13,078	14,362	15,848
Proposed dividends					
Other equity and reserves	48	48	48	48	48
Total shareholders' equity	**7,291**	**10,301**	**14,014**	**15,298**	**16,783**
Total equity & liabilities	**20,863**	**37,339**	**51,094**	**60,986**	**73,502**
Liquidity (x)					
Current ratio	1.41	1.30	1.26	1.21	1.18
Interest cover	13.3	67.4	128.9	162.6	207.6
Leverage					
Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash
Activity (days)					
Days receivable	7.8	5.8	5.8	6.3	6.3
Days inventory	133.0	126.6	130.9	136.9	137.0
Days payable	109.4	135.5	154.9	152.2	146.8
Cash cycle	31.5	-3.1	-18.1	-8.9	-3.5

Source: Nomura estimates

Notes

Balance sheet supports increase in dividend payouts

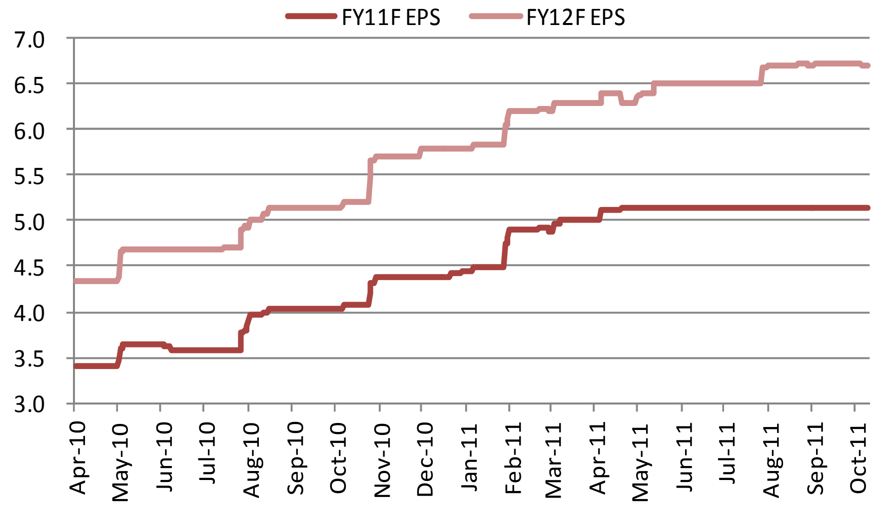
Earnings have been well ahead of our estimates…

Over the past few quarters, Titan's reported earnings have been significantly ahead of our estimates and we believe the surprise has primarily been on account of robust volume growth in the jewellery business. Given the continued strength in gold prices, our estimate was that volumes were likely to correct but we now stand corrected. There have been several structural changes in consumer behaviour which we highlight later in the report.

This surprising strength in jewellery volume growth led the company to beat our estimates by a wide margin over the past few quarters. In FY11, the company reported numbers that were c.27% ahead of our estimates.

However, we were not alone …the Street was equally surprised
If we look at how consensus earnings changed for Titan through FY11(upgrade of 42% during the year), it clearly shows an increasing trend as the company beat consensus expectations each quarter by a wide margin. The chart below shows how consensus expectations moved at the start to year to where they ended in FY11.

Fig. 1: Titan consensus earnings expectation through FY11

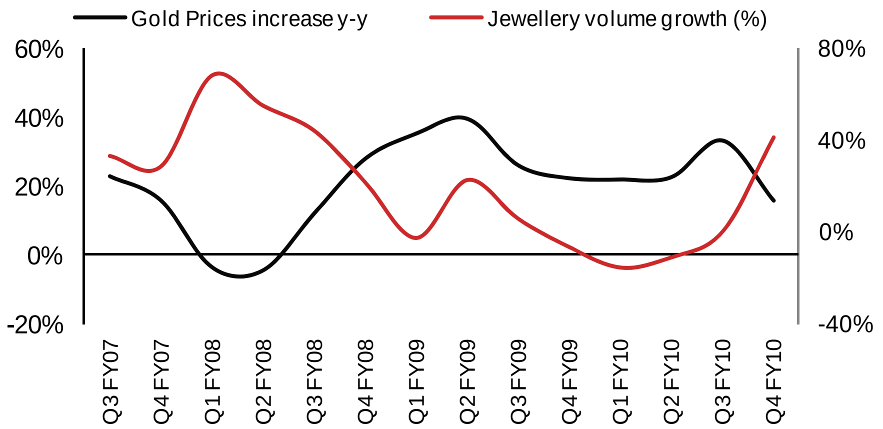


Source: Bloomberg

The key question is why we went wrong and what has changed now?
If one were to look at historical data, there always has been a strong negative correlation between gold prices and jewellery segment volume growth. Historical company data shows a high negative correlation of -0.71 or negative 71%, implying that whenever gold prices increased, volumes dropped and vice versa.

As gold prices were trending higher a year back, we believed on the evidence of historical data, that volume growth would soften considerably and this would impact earnings. We did not anticipate this disconnect earlier and that is where we went wrong in the last year or so.

Fig. 2: Gold price increase (LHS) vs. Titan Jewellery segment volume growth (RHS)

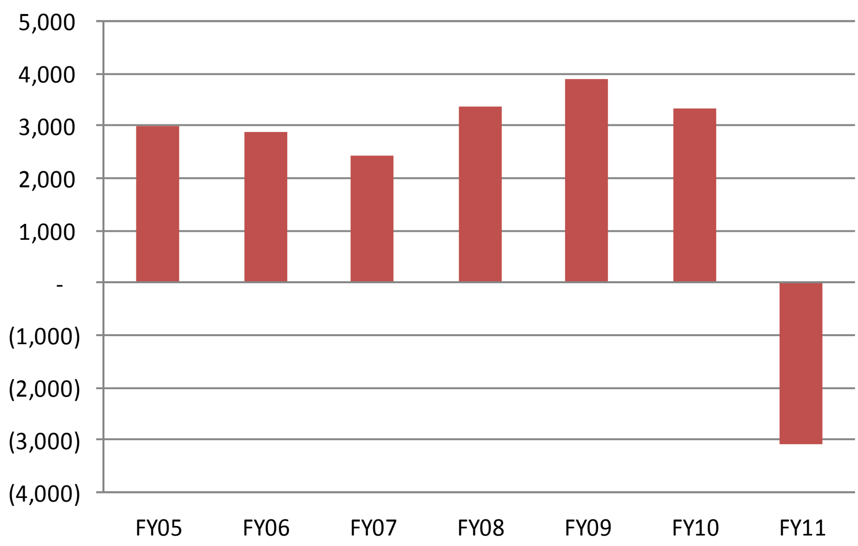


Source: Bloomberg, Company data, Nomura research

The Golden Harvest scheme has been a big success

Along with the strong volume growth in the jewellery business, the company's Golden Harvest scheme, in which consumers save-up over the course of 11 months by way of fixed monthly instalments and buy jewellery at the end of the 11 months, has proven to be a big success with consumers, according to management. The programme has not only allowed the company to build up further brand equity with consumers, but also ensured that working capital has now turned negative for the company. This is a significant advantage in a business like jewellery retailing, in our view.

Fig. 3: Working capital for Titan has turned negative on the back of the highly successful Golden Harvest saving programme



Source: Company data, Nomura research

We have now taken these factors into account and met with various players in the industry, including local jewellers, regional players and national players, to better understand the changed dynamics of the jewellery market in India. We have identified several growth drivers which we believe are more structural in nature, which will help drive jewellery segment sales growth for the next few years. In this report we highlight several of those changed dynamics and why we believe these will help drive the jewellery segment sales growth in the medium term. We also highlight why we believe consensus expectations for 2QFY12 are low and there could be an upside surprise.

Jewellery business has several long-term growth drivers

We highlight in this report several long-term growth drivers which we believe should help the company deliver low to mid-teens volume growth sustainably in the medium term. This is where the surprise vs the Street has come through over the past couple of years, in our view. Both we and the Street (based on Bloomberg consensus) have been consistently surprised by the volume growth number on a quarterly basis. We believe the business has undergone a significant change in terms of growth drivers. Key among them are:

- **Change in consumer preferences**: We see increasing consumer preference to rely on pan-Indian players for their jewellery purchases than on unorganised players. This is already reflecting in the market share of organised players (moving from 5% three years back to 11% currently). We reckon several factors can be attributed to this rising trend: a) quality assurance, b) convenience and c) 100% money back at spot prices. We believe as is the case with other players, Titan's Tanishq has been a beneficiary of the same. Our belief is that this trend will increasingly gain momentum going forward as Tanishq ramps up further in terms of store count and design offerings.
- **Working women a key segment**: Management has noted that there is a growing percentage of the female population in the workforce (especially in the top 8 cities of India), a trend that it believes has helped to ensure that there is a meaningful percentage of the population with disposable income and is looking at different avenues to spend money on. Jewellery ranks among their top preferences, according to company management. In some of these cases, while the ticket size could be low (eg, the purchase of a small ear ring), we think the number of consumers looking at this as an option helps to ensure that overall volume growth is significant. This has been consistent feedback from all our industry checks that we met across the whole value chain.
- **Golden Harvest scheme a big success**: Titan's Golden Harvest programme has been a big hit with consumers, according to management, not only helping the company to lock in consumers for their future purchases, but also helping create stronger brand loyalty. Also, based on management feedback, we gathered that consumers who come in 11 months after initiating their saving scheme tend to spend more than their aggregate savings. We think this has also helped result in revenue growth getting a fillip at the time of purchase. The other big factor is that working capital becomes negative in a business like jewellery.
- **India is a unique market**: Demand for gold is always likely to be strong in India, in our view, as traditionally there are several days which are considered 'auspicious' for buying gold. Consumers, we understand from management, have increasingly shifted their purchases to either gold coins or jewellery at Tanishq.

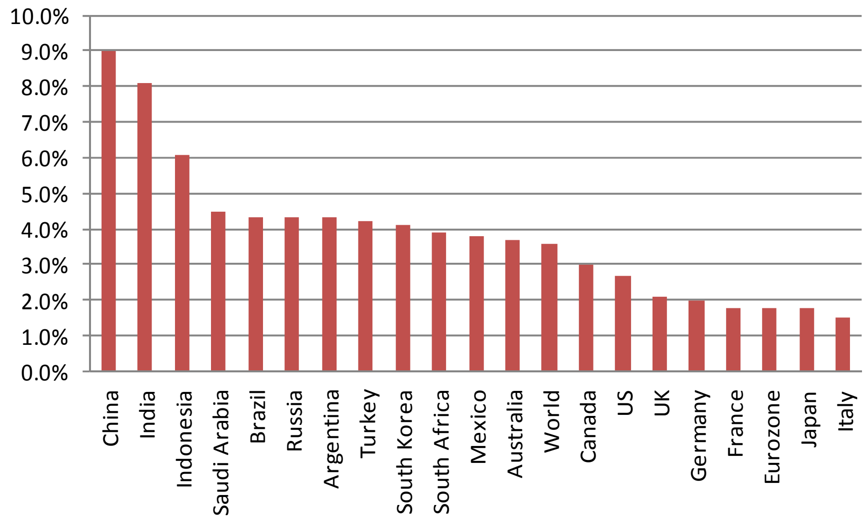
India is the world's biggest market for jewellery

India is the world's largest gold consumer market*, *accounting for nearly 15% of global gold consumption. According to the World Gold Council, India is currently a ~700te per annum gold jewellery market, growing at a CAGR of 6% in volume terms since 2006. Our calculations show that during the same period, organised players have registered a volume CAGR in excess of 15%. Incidentally, the World Gold Council forecast is for the Indian jewellery market to grow at another 8% in 2011F.

Consumers in India buy gold both in the form of jewellery as well as for investment purposes. Traditionally, gold has been viewed as a liquid tradable asset, which also provides a hedge against inflation. This, coupled with a general lack of understanding about other investment avenues among a large percentage of the population (based on our channel checks), has meant that gold has remained the preferred investment option for a majority of the population, according to company management.

This demand for investment in gold has largely been in the form of jewellery, but recently, management believes a rising percentage of consumers have taken to gold ETFs as an investment option vs. physical gold coins. The World Gold Council estimates that India and China together account for 25% of global gold demand and that number is likely to grow over the next few years. Even in 2011F, they predict the rate of growth in gold demand to be the highest in these two countries.

Fig. 4: Gold demand forecast for 2011F

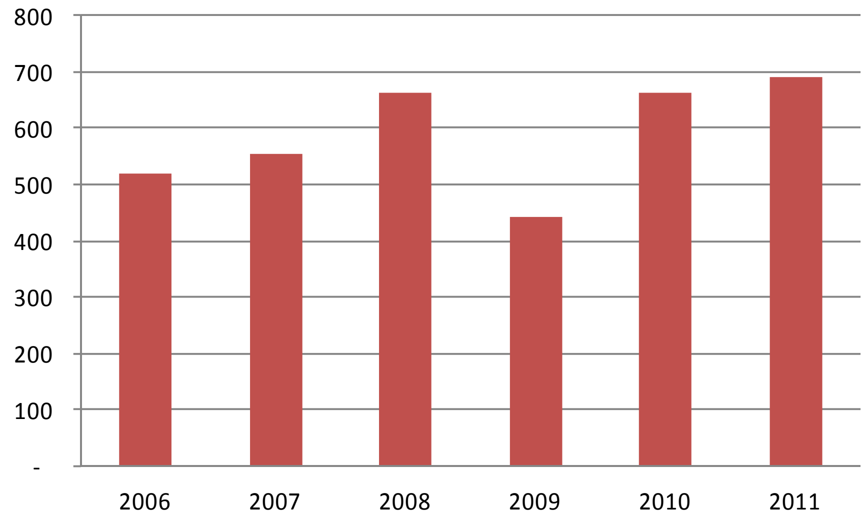


Source: World Gold Council

Gold demand has seen a strong upsurge

If we look at the data provided by the World Gold Council on gold demand in India, we see that over the past few years, demand for gold has been very strong. This is particularly true for gold jewellery, where apart from 2009 when demand dropped on account of the global recession, numbers have been strong. In our view, this trend has been helped by various factors such as a rise in disposable incomes, increasing propensity to buy jewellery for special occasions, as well as the traditional occasions of marriage and festivals. The rise in demand for jewellery has been increasing at an average 20% if we take out the year 2009, when demand fell. Moreover since 2009, jewellery demand has registered an average 27% upsurge, based on the council's data.

Fig. 5: Demand for gold jewellery has been rising in India (in tonnes)

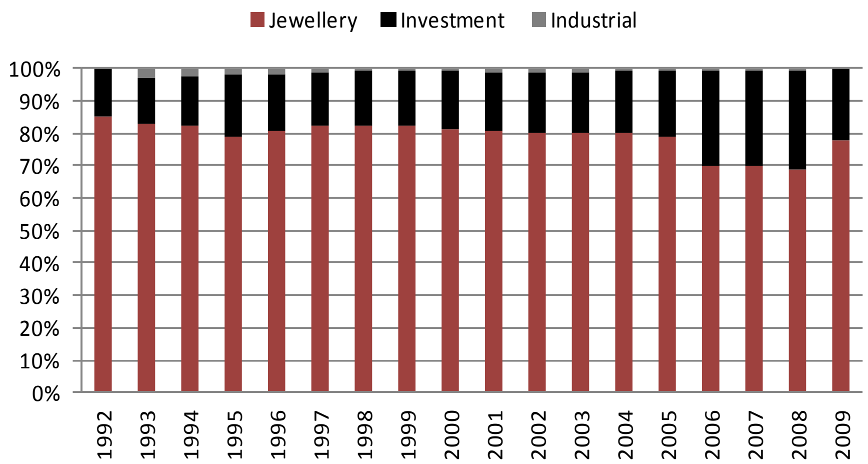


Source: World Gold Council; 2011F

Gold as an investment option is increasingly becoming more popular

The World Gold Council also provides a split between the gold demand for jewellery, investment and industrial. Here we find that demand for gold as an investment option has seen a steady increase over the last decade. While this does not have a direct bearing on Tanishq, we highlight that gold as an asset class has been gaining prominence over the past couple of years.

Fig. 6: Split of gold demand in India

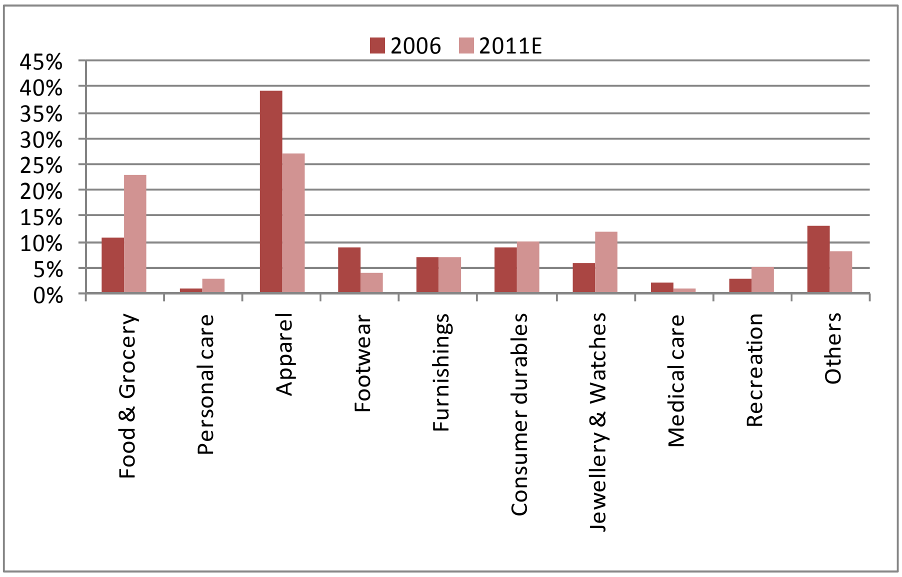


Source: World Gold Council

Modern retail phenomenon captured by Titan

Not only has the overall demand for jewellery increased, the share of organised players in the jewellery market has also gone up in the past five years (Source: World Gold Council). This in our view is one of the main reasons for Titan performing better than the overall jewellery market. As per data from Images India Retail, the share of the organised retail players in the jewellery and watches segment was less than 6% in 2006 but is now close to 11%. We have also seen the share of organised retailers move up across other consumer segments as well, which is likely to continue, in our view. Thus, apart from benefitting from the macro drivers of jewellery demand, Titan should also continue to benefit from this shift, which in our view should further help smooth out volume growth variability in the medium term.

Fig. 7: Share of organised players increasing across consumer segments

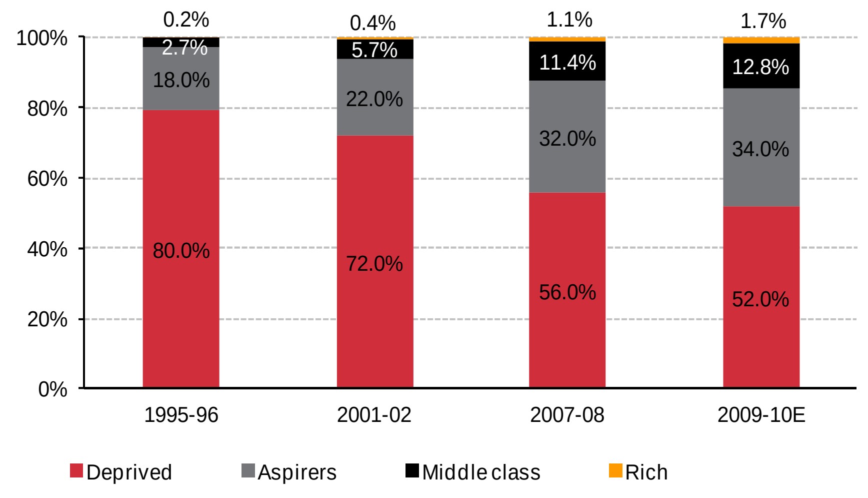


Source: Images India Retail

Rising middle class is a key driver of demand

As can be seen from the chart below, the percentage of the population classified as 'middle class' has been rising consistently over the last couple of decades, based on data from National Council for Applied Economic Research. This is likely to continue to rise in the medium term, in our view, as income growth across most sectors (such as IT services, manufacturing and retail) continues to be strong on account of a tight labour market. Although this segment has a wide range of income, increasingly people are moving to the higher end of this bracket. As incomes rise for this segment of the population, their share of spend on food and grocery is falling and hence the share of discretionary income is rising. One of the places where this discretionary spend is being spent on is jewellery, according to the company. Also spend on jewellery is thought about as an investment, so we believe consumers are likely comfortable increasing their allocation to this segment. This segment of the population is also increasingly moving to modern retail formats from traditional retail formats, management believes, which should be another medium-term driver.

Fig. 8: Rising middle class is a key driver of demand

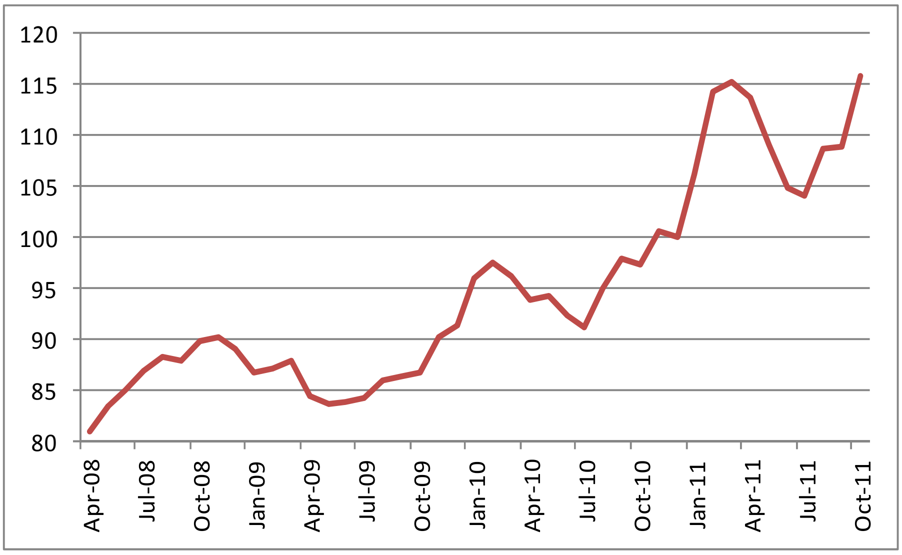


Source: Images India Retail Note: NCAER defines 'middle Class' as households earnings between INR 2.5- INR 12.5 lakh per annum.

Rural incomes have increased significantly

Apart from urban incomes increasing and urban consumers shifting to modern retail formats, rural incomes have also been a big driver of jewellery demand in the last few years according to Titan. This is largely on account of the significant increase in wages paid under the NREGA (National Rural Employment Guarantee) scheme by the central government of India. Another reason for the rise in rural incomes has been the significant increase in minimum support prices (MSP) that the government pays farmers.

Fig. 9: NREGA average daily wage in INR per person per day

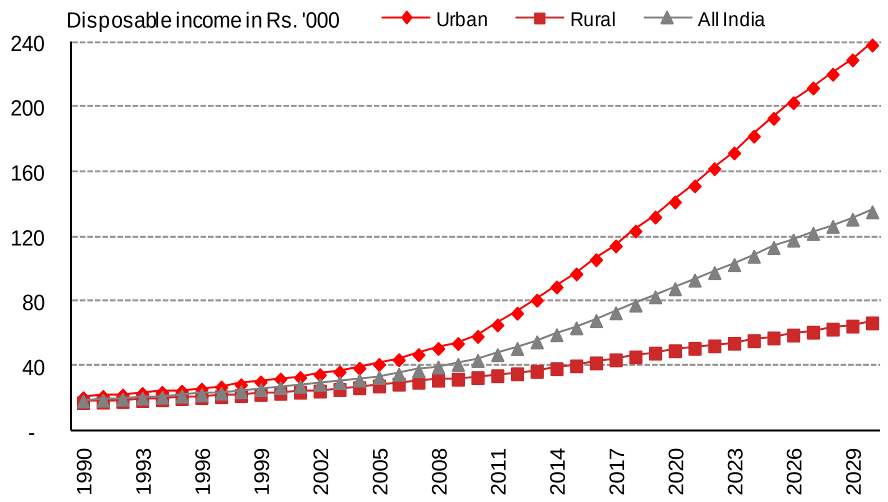


Source: Nomura economics team

Rising disposable incomes key driver of demand in the long term

Rising disposable income is a phenomenon that we expect is likely to remain a key driver of demand for discretionary items such as watches and jewellery over the next couple of decades. As per Mckinsey, both urban and rural India are likely to see a significant and sustained rise in wages and disposable incomes. The impact of this rise over the last decade is already visible in the strong demand witnessed in segments such as two wheelers, consumer durables and FMCG items, which are more discretionary in nature.

Fig. 10: Growth in disposable incomes in urban and rural India



Source: Mckinsey estimates

Organized jewellers have benefitted from the rise in demand

The share of organised jewellers has increased over the past few years, but the primary reason for the strong growth in demand has been the macro drivers of the category itself, in our view. As we highlighted above, based on data from Wold Gold Council, demand for gold jewellery has been robust in the past few years and the organised players have ridden this boom, which has also hugely benefitted them. Within the organised players, there seems to be little movement in market share, which in our view means the current bull phase in the jewellery market has been influenced to a large extent by the macro-economic drivers. These drivers we believe are likely to continue in the medium term given rising consumer incomes. We also believe organised jewellers should be able to capture a larger percentage of this growth over the next few years as they continue to gain share.

Upward earnings revisions reflect more bullish expectations on the jewellery business

We have made a number of changes to our Titan model to incorporate our more bullish medium-term outlook for the jewellery business. Key reasons for our earnings estimate upgrades are as below:

- We now believe that on a macro level, there are a number of structural drivers in place for the key jewellery business to continue to deliver an average low to mid-teens volume growth in the medium term to Titan. We have now incorporated that in our numbers, which is the primary reason for our estimate upgrade.
- We have also included Titan's audited FY11 numbers, which were significantly ahead of our estimates on account of the beat to our earnings estimates in FY11.
- As a result of the forecast strong top-line growth and the negative working capital, we believe Titan is likely to continue to see margin improvement in FY12F as well, which is another reason for our upward earnings estimate revision.

As we incorporate these changes into our model, our forecasts for FY12F see a significant 53% upward revision. Part of this increase is on account of Titan's result outperformance in FY11 vs our expectation, as the when company-reported numbers were ~28% higher than our estimates. Against the improving macro backdrop, we now believe there is a firm base in place from where we see the company delivering 48% earnings growth in FY12F, followed by a more modest, but still better-than-sector-average earnings growth of ~26% in FY13F and FY14F. Our numbers also now incorporate company guidance for sales in the region of INR90bn (*Titan looks at INR 9000 crore turnover in FY12, Economic Times, September 19, 2011*).

On margins, we expect the company to deliver another 40bp improvement in margins, largely on account of the mix improvement in the jewellery business, and some recent price increases in the watch business. Operating leverage in the business should also help the company improve margins, in our view. We are building in only a 10bp margin improvement in FY13F, which could prove to be conservative.

How does Nomura compare with consensus?

For FY12F and FY13F, we are 9-10% ahead of consensus on earnings. This primarily reflects our expectation of higher top-line growth led by the jewellery business. The key differentiation we would highlight upfront is that we believe the company will be able to deliver low to mid-teens volume growth in the medium term, despite gold prices being up 20%+ on a y-y basis, over the next 2-3 quarters. The company sounded a note of caution at the time of 1QFY12 results — that it is seeing a slowdown in footfalls as well as conversions; we believe, however, this is because it is coming off a very high base in 1QFY12. In 1QFY12, the company delivered 35%+ volume growth, which we agree is not sustainable, but mid-teens volume growth is still possible, in our view, as demand for jewellery remains robust.

Fig. 11: Nomura is ahead of consensus

	FY12F			FY13F		
Rs. mn	Nomura	Cons	Chg (%)	Nomura	Cons	Chg (%)
Sales	89,595	83,940	7%	111,339	100,173.0	11%
EBITDA	8,482	7,955	7%	10,715	9,682.0	11%
EBITDA margins (%)	9.5%	9.5%		9.6%	9.7%	
PAT	6,450	5,942	9%	8,136	7,386.0	10%
EPS	7.3	6.7	9%	9.2	8.3	10%

Source: Bloomberg, Nomura Research

Our quarterly numbers indicate why consensus numbers are conservative

If we look at our quarterly numbers, it illustrates why we are confident of the company delivering 35%+ revenue growth in FY12F. We think it will be mainly driven by the jewellery business. For 2Q, we expect the company to deliver 40% revenue growth in the jewellery business, which implies volume growth of ~5%. The increase in gold prices has been closer to 35% y-y, which means company should only need a mid-single-digit volume growth number to deliver 40% revenue growth in 2QFY12F. If we then assume the current gold price continues for the rest of the year, the price impact works out to

25% for 3Q and 4Q as well in FY12F. This would imply that to meet our expectation of 35% top-line growth in the jewellery segment, the company only needs to achieve low-double-digit volume growth.

If we look at where we differ from consensus, it is the revenue number. Consensus expectation at this time seems to be building in flat-to-negative volume growth in the jewellery business for 2HFY12, which is highly unlikely in our view, based on the structural changes discussed above in the domestic jewellery sector. We are confident the company should be able to deliver volume growth despite gold prices being up 25%+ on a y-y basis, although the pace of volume growth will likely slow from the 1QFY12 pace.

Fig. 12: Key divisional estimates for Titan

Rs. mn	Q1FY12	Q2FY12F	Q3FY12F	Q4FY12F
Jewellery	16,337	15,744	21,314	18,540
Growth (%)	72%	40%	35%	35%
Margins (%)	8.9%	9.1%	9.4%	8.5%
Watches	3,131	4,300	3,658	3,849
Growth (%)	23%	20%	13%	17%
Margins (%)	14.6%	18.0%	17.5%	7.7%

Source: Company data, Nomura estimates

If we assume volume growth to be flat to marginally negative, then our revenue estimates should be closer to consensus. To illustrate that point, the price impact, even if we assume gold prices to remain at current levels for the rest of the year, should itself contribute 25% to revenue growth in the jewellery division in 2HFY12F, in our view. Consensus earnings expectations, we believe, are assuming flat-to-negative volume growth in the jewellery business in 2HFY12F. Additionally, as volume growth remains stable in 2HFY12, as we expect it will, there should also be benefits of operating leverage flowing through to the bottom line. This would help protect margins in 2HFY12F and should help the company deliver 40bps or so margin expansion in FY12F, on our estimates.

We believe consensus earnings will see an upgrade post 2QFY12 results, when expectations change from a flat-to-negative volume growth to low-double-digit volume growth.

Valuations are not expensive

Titan's one-year forward P/E valuations have come off the highs on concerns that the strong 1QFY12 results are unlikely to be repeated and that volume growth will likely see a significant slowdown. This was also impacted by company comments, post 1Q results, that 2Q has been slower. However, the key thing to highlight here, in our view, is that although volume growth will likely see a slowdown, it is coming down from an abnormally high base. The company remains confident that the low-teens volume growth in the jewellery segment is still possible on a sustainable basis. If we look at one-year forward P/E, valuations are ~25x, which is largely in line with where the company has traded in the past four years.

Fig. 13: Titan one-year forward P/E

Source: Bloomberg, Nomura Research

Titan compares favourably with the sector on valuations

Even if we look at valuations vs. the consumer sector, Titan compares favourably. On our FY13F numbers, Titan trades at 24.1x vs. the sector average of 24.6x. Titan also offers EPS growth of 26.1**%** in FY13F, which is much higher than the consumer group average of 19.3%, based on our estimates.

Fig. 14: Sector valuations support our BUY case on Titan

Company	Ticker	Rating	Price Rs.	EPS growth FY12-FY13E %	P/E		FY13E PEG
					FY12E	FY13E	
Asian Paints	APNT IN	Buy	3,103	25.0%	28.3x	22.7x	0.9x
Colgate Palmolive	CLGT IN	Reduce	997	14.0%	30.2x	27.5x	2.0x
Dabur	DABUR IN	Buy	97	17.6%	27.8x	21.8x	1.2x
Godrej Consumer	GCPL IN	Buy	396	28.1%	21.7x	16.9x	0.6x
Hindustan Unilever	HUVR IN	Reduce	331	11.7%	30.3x	27.1x	2.3x
ITC	ITC IN	Buy	204	16.2%	27.3x	23.5x	1.4x
Marico	MRCO IN	Reduce	151	19.0%	28.4x	23.9x	1.3x
United Spirits	UNSP IN	Neutral	882	20.4%	20.9x	17.4x	0.9x
Titan Industries	TTAN IN	Buy	221	26.1%	30.4x	24.1x	0.9x
Nestle *	NEST IN	Neutral	4,151	22.5%	39.0x	31.9x	1.4x
Pantaloon Retail	PF IN	Buy	189	116.7%	11.3x	8.2x	0.1x
Jubilant Foodworks	JUBI IN	Buy	887	53.5%	51.5x	33.5x	0.6x
GSK Consumer *	SKB IN	Buy	2,320	19.2%	28.0x	23.5x	1.2x
Average				**19.3%**	**29.2x**	**24.6x**	**1.3x**

Source: Bloomberg, Nomura research; Pricing date October 18, 2011. Note: * Nestle and GSK Consumer are calendar year based valuations (CY11 and CY12)

Recent underperformance due to concerns around slowdown in jewellery business

Over the past three months, Titan has underperformed the FMCG index, despite a stellar 1QFY12 vs. in line to disappointing results for most of the other consumer companies we cover. This underperformance, in our view, has been on account of the cautious comments from the company about demand in 2Q and the rest of the year. However, the company only said that demand is likely to slowdown from the levels seen in 1QFY12, and not that they are trending into negative growth territory. The stock has underperformed the FMCG index by 5% over the time period.

Fig. 15: Underperformance over the last three months

Stock	11-Oct-11	11-Jul-10	Return 3M
Asian Paints	3,190	3,156	1%
Hindustan Unilever	331	332	0%
ITC	202	203	-1%
Colgate Palmolive	998	1,004	-1%
GSK Consumer	2,400	2,452	-2%
FMCG Index	**3,963**	**4,061**	**-2%**
Nestle India	4,203	4,309	-2%
Jubilant Foodw orks	794	847	-6%
Titan Industries	**214**	**229**	**-7%**
Dabur	101	110	-8%
Godrej Consumer	400	442	-10%
Sensex	16,715	18,721	-11%
Marico	146	166	-12%
United Spirits	838	1,068	-21%

Source: Bloomberg, Nomura research

Upgrading to Buy with a revised target price of INR264

We upgrade Titan to a Buy from Reduce and our target price moves higher to INR264 from INR118 (adjusted for bonus issue and split). This is a change of 124%, of which ~53% is on account of earnings estimate revisions, 63% is due to a roll forward to 12-month forward EPS of INR9.78 and 8% on account of an increase in our target multiple from 25x to 27x to account for Titan's higher-than-sector average earnings growth. Our increased target price of INR264 gives +19.5% upside potential from current levels

Valuation multiple changed marginally to account for the higher growth

On our estimates, Titan offers one of the strongest growth stories over the next couple of years across the consumer and retail universe in India. We have changed our valuation multiple from 25x to 27x (our P/E-based methodology is unchanged). This 8% increase in valuation multiple is to account for the forecast much higher earnings growth trajectory that the company is expected to operate on for the next couple of years. We believe this is justified as Titan offers more than 25% earnings growth over FY13F, based on our estimates, which is well above the forecast sector average of 19% earnings growth that the consumer universe is likely to deliver in the same period. This is also only a 4% premium to the long-term average multiple at which the stock has traded over the past five years.

DCF valuation also supports our increased target price

We have also back tested what our target price indicates on a DCF based model. Key inputs into our DCF model are:

- 15% medium-term growth rate to 2020F
- 10% earnings growth after that for 5 years
- Our terminal growth rate assumption is 5%
- Cost of equity assumption of 12%

DCF model suggests a valuation of INR266, although we would highlight here that given the low share of national level jewellers, the 15% earnings growth in the medium-term could prove to be conservative.

Risks to our target price

The key risk to our target price is a sharp and sudden drop in gold prices. This would have a negative impact on sales growth in the jewellery segment and a negative impact on margins.

Sensitivity of earnings high to gold prices

We have also looked at what would happen if current gold prices continue to hold for the next year or so. In our assumption we are working with 15% volume growth and 10% on account of price impact combined with mix improvement, which we estimate at ~5%.

If gold prices were to remain steady, then we believe this would drive consumers to buy more gold after the kind of rise it has seen in the past few years. This would imply a volume growth number that is much higher than the 15%. This we believe would be on account of two reasons

- First, if gold prices are stable, this encourages consumers to increase their consumption of jewellery, especially on the back of the last few years where they have seen a significant rise in gold prices.
- Second from a macro perspective, we believe that as incomes rise and consumers have more discretionary incomes, they will likely continue to increase their purchase of jewellery over the next few years.

If we assume that the price/mix benefit is only to the tune of 5-6% and volume growth also remains at our current estimates 15% in FY13F, then our sales, EBITDA and earnings would likely be lower by 3-9%. However, we do not see that as a risk, given the way demand has held up over the last few years, except for the time period when the global recession put the brakes on consumer spending worldwide.

However, if gold prices were to correct by a significant margin (ie, upward to 15-20%) then the earnings sensitivity is significant. Our forecasts are based on stable-to-marginally rising gold prices, so we can only give sensitivity as to how gold prices impact earnings. If we assume gold prices correct by 20% from current levels, it would mean a 17% correction from the average gold prices in FY12F and 28% correction from recent peak of INR28,500 on 6 September 2011. The potential impact of such a scenario on our estimates is presented in the table below.

Fig. 16: Jewellery segment presents the highest sensitivity to earnings

	FY13F			
Gold realisation movement (%)	-20%	0%	10%	20%
Volume growth movement (%)	30%	15%	15%	10%
FY13F EPS Rs.	6.3	7.7	9.2	9.9
Change vs. base case (%)	-32%	-16%	0%	8%

Source: Nomura estimates

Key drivers of jewellery demand for Titan

In our interaction with the company, management noted several key changes in consumer buying patterns which it believes have contributed to the strong growth in the jewellery business in the last 2-3 years post the recession. We highlight some of the key they noted changes below. While these changes have contributed significantly to jewellery sales growth in the last couple of years in management's view, we believe these factors are structural in nature and will continue to drive segment sales over the medium term.

Shift from local jewellers to bigger players

Titan management noted that over the past 3-4 years, there has been a marked shift from local jewellers to bigger players within many markets. Consumer preference has undergone a big change and increasingly consumers across age groups and income profiles are moving their preference to bigger players such as Tanishq. This shift is not benefitting Tanishq alone, as other large regional players such as Bhima's, Joy Alukkas and Chemmannur Jewellers in key southern states also should benefit from this trend according to management. Tanishq remains the biggest player in Delhi and is making strong strides in southern states. On a pan-India basis, the share of smaller players is declining while the bigger players, both region-specific layers and pan-Indian, are garnering market share, management noted. Market share of organised players has gone up from 6-7% 3 years back to 11-12% now. The company expects this trend to continue in the medium term, and for the bigger players to continue to gain share. This will likely be one of the key drivers of revenue growth for the jewellery business in the next 3-5 years in our view.

Increasing number of working women as consumers

The company has seen its customer profile change over a period three years, with the proportion of working women as their customers increasing, and the company expects this trend to continue in the medium term. As this number continues to rise and the purchasing power of this class of consumers continues to rise, one of the key beneficiaries should the jewellery manufacturers, according to Titan. This is already reflected in the growth in the jewellery division over the last couple of years and will likely remain a positive growth driver in the coming few years. Working women have discretionary spending power that is rising and part of that money is being spent on jewellery, according to company management. These purchases are usually smaller pieces of jewellery for everyday use and hence not big ticket items, but volumes in this segment are significant.

Introduction of carat meter at Tanishq stores

In our interactions with the company, we were told that since the company introduced carat meter at its stores, an increasing number of customers have been surprised by the amount of 'impurity' in their old pieces of jewellery bought from their traditional family jeweller. This has prompted them to shift their preference to Tanishq as the quality and purity of gold is guaranteed, according to management. Once the consumer buys a certain piece of jewellery at a Tanishq store, his preference sees a structural shift and most of the future purchases happen at a Tanishq store. The company's offer of a guarantee on the gold and full price on return has been a big motivation for consumers to keep buying gold at a Tanishq outlet, according to management. Again, this is a structural shift, which we believe should continue to help move consumers from their local jeweller to Tanishq in the medium term.

Ability to exchange on a pan-India basis

Consumers can exchange any piece of gold jewellery bought at a Tanishq store at any other Tanishq store in the country and get the current price of gold. This exchange guarantee is for 100% of the volume for gold jewellery, which gives consumers confidence that even if they were to move to another city within India, they have an option to exchange it at the prevailing gold price for another piece of jewellery. Tanishq has 120 outlets throughout the country and is adding more across cities, which will likely make this proposition appealing to an even bigger population size in the medium term.

Purchase of wedding jewellery at Tanishq stores

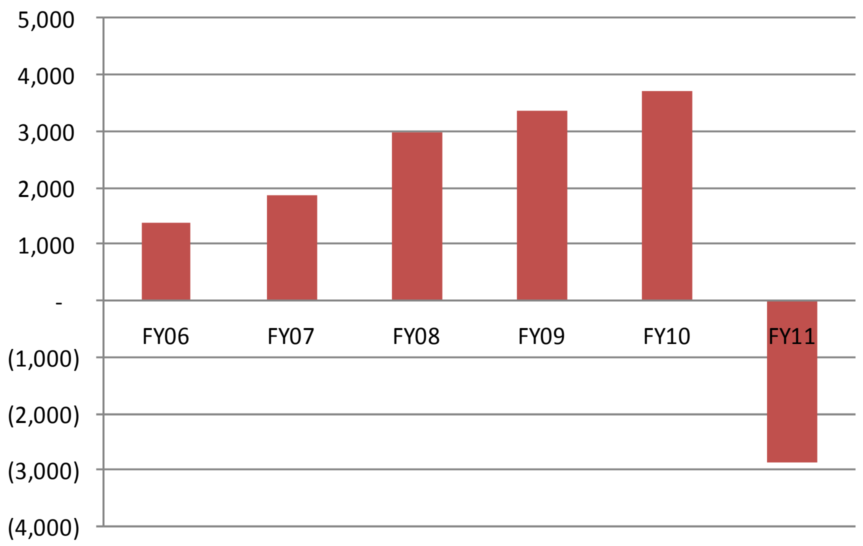
The company has seen a marked shift in consumers buying more than 75% of their jewellery requirement at Tanishq outlets now. Demand for jewellery in India is fuelled by weddings. This implies to us that large part of overall demand for jewellery may be moving to Tanishq and similar brands.

Golden Harvest scheme another key driver

The company started the Golden Harvest scheme which lets consumer pay 11 equal instalments and the company contributes the 12th instalment. The consumer can then buy jewellery worth the total of the 12 instalments at any Tanishq store of his/her choice. This has been a big success, with the company now having many consumers who pay upwards of INR30,000 as a monthly instalment, according to management. There are a reasonable number of consumers who pay upwards of INR1,00,000 per month into this scheme, according to the company.

This scheme helps to ensure that consumers are locked in for that amount of sale at the end of the year. Additionally, data from the company suggests that consumers actually trade up when they come in to purchase jewellery at the end of the year and the actual purchase is higher than the sum of their instalments. Margins on the high-end jewellery are better for the company, according to management, which ensures that it the programme is a potential win-win situation for the company and for the consumer. This scheme has already helped company collect INR6-6.5bn, ensuring that the jewellery business has become a negative working capital business for Titan. Management believes this will continue to be the case in the medium term as consumer response to this scheme is only getting better.

Fig. 17: Capital employed in jewellery business has now turned negative (in INR mn)



Source: Company, Nomura research

Competition is strong, but largely local

Management believes competition is strong in the jewellery market, but is more local in nature. There are very few players who have a national presence in India. In some pockets such as south India, Tanishq is not the market leader; however in places such as Delhi, Tanishq is the market leader in value terms. While management believes that competition will remain intense in the long term, increasingly it should become easier for players with a national presence to dominate the market. The company believes its Tanishq stores remain well positioned to benefit from being one of the few truly national players in the market at this time.

Medium-term guidance

In 1QFY12, the company delivered 35% volume growth in the jewellery division. While the company clarified during 1Q results that 35% levels were unsustainable, they see ongoing structural shifts in the sector as supportive of 15% volume growth in the medium term. We believe even if gold prices continue to move up or remain stable, guidance of 15% volume growth is achievable.

Making charges linked to gold price

"Making charges" on gold jewellery are linked to the gold price as well as the intricacy of the designs. This ensures that if gold prices move up, the making charges also move up, protecting the downside risk to margins. On average, the company charges 12-13% of the gold price as making charges. However, this varies from product to product and for specialised hand-crafted pieces can also go upwards of 20%. As an illustration, as gold prices have moved up from INR20,000 to INR25,000, making charges being linked to actual gold value have only risen for the company. This means as volume growth remains stable, the company actually should get the benefit of margins improving as a result of this, which is also reflected in their quarterly numbers over the last few quarters.

Fig. 18: Making charges linked to gold prices is a positive for margins

Gold w eight in Jew ellery (gms)	50	50
Price of Gold per 10gms	20,000	25,000
Total Gold value	100,000	125,000
Making charges (%)	10%	10%
Making charges (Rs)	10,000	12,500

Source: Company data, Nomura research

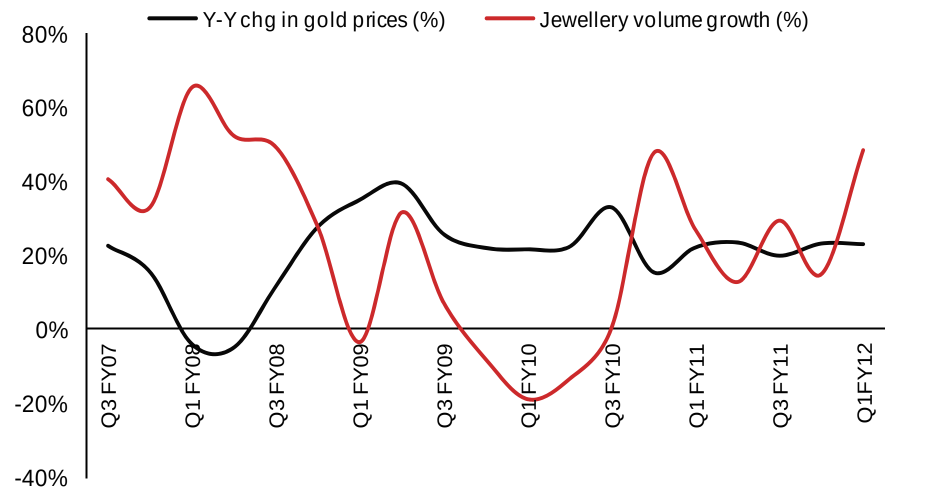
We believe many of the drivers discussed highlighted above are going to be relevant not only for the next couple of years, but for the medium term. There is a possibility for national-level players to gain further share from the current 11-12% and this should continue to favour the incumbent pan-India players, in our view. Jewellery is also frequently a high-ticket item where branding and trust are very important determinants. In our view, this should remain a key driver for Titan to gain share vs. local jewellers over the medium term.

Gold price and jewellery demand seeing a disconnect

Historically jewellery division volume growth has been impacted by rising gold prices — eg, in 1Q08 when gold prices declined 4%, volume growth was 68%, and when gold prices increased by 35% in 1Q09, volume growth came down 2%

However, of late there is somewhat of a disconnect emerging where jewellery division volume growth has remained strong despite price increases in the base commodity, as per Titan data. In our view, this was the key reason we were wrong in the past, but we now believe this was not only a seasonal issue, but a structural one. The data on this over the last few quarters corroborates our view.

Fig. 19: Movement of jewellery segment volume growth and y-y gold prices



Source: Company data, Nomura research

Feedback from competition confirms macro drivers

We also met with the senior management at Gitanjali Gems (GITJ IN, not rated). The feedback from them was also similar in terms of the macro drivers for the jewellery segment sales. We highlight some key points from our meeting below.

Growth momentum strong

Growth momentum in the domestic jewellery market has been strong, but has seen some slowdown in the recent past on account of rise in prices of both gold and diamonds. However, the company sees this as a short-term slowdown and long-term growth outlook remains robust.

Domestic business growing

Off the total turnover of the company in FY11 of INR94.56bn, jewellery business accounted for INR 50bn. Of this, India accounted for close to 60% of the business, with the Middle East 8% and the US 20%. India is the most attractive part of this business, according to management, with growth of 66% in FY11. The US is growing slowly at 4% and the company intends to focus on the domestic business where opportunity size is very attractive. Of the total diamond business of INR44.21bn, exports accounts for a major portion (82%), while domestic accounts for the rest of them.

Plans to increase contribution from the jewellery business

The company currently gets 47% of its revenues from the commodity diamond business and 53% of revenues from the jewellery retail business. The company plans to increase the contribution of the higher margin jewellery retail business in the near to medium term as it believe this will help ensure that blended margins continue to see an uptrend.

Competition with other luxury goods

As the company increases its focus on the jewellery business, it plans to market its products under the luxury goods segment. Management believes jewellery inherently has a much better appeal vs. any of the other luxury goods and this, the company believes, should help it compete against other luxury goods.

Diamond prices strong

Diamond prices have seen a large upward swing in the last year with prices of raw diamonds less than 5 cents being up close to 50%, according to the company. Prices of larger pieces of diamond (more than 10 cents) are up 25% over the last year. Demand for smaller sized diamonds is much more than larger pieces and hence price rise in the smaller pieces affects the demand situation more. The company expects diamond prices to remain firm in the medium term on expected strong demand.

Presence across major jewellery markets

The company has a reasonable presence across all the major jewellery markets across the world - US, UK, Japan and India are among the biggest jewellery markets in the world. Gitanjali has a presence across all these markets and management sees this as a major competitive advantage over most other jewellery players.

Shift from local jewellers to bigger players

Over the last 3-4 years, there has been a marked shift from local jewellers to bigger players within most markets, according to management. Consumer preference has undergone a big change, according to the company, and increasingly consumers across age groups and income profiles are moving their preference to bigger players such as Tanishq and Gitanjali Gems. The share of the organized national players has increased from 6-7% to 11-12% over the last 3-4 years and is expected to continue to increase in the medium term. This should benefit national players such as Gitanjali and Tanishq, according to Gitanjali Gems management.

Cash sales a driver of growth

As our feedback with Titan also suggested, cash sales are a big driver of growth for Gitanjali as well, according to management. In a market such as India, is expected to continue to be the case in the medium term and be one of the growth drivers of the business for the medium term.

Shift from know the jeweller to know the jewellery

Consumers increasingly now are moving from ‘knowing the jeweller’ in which case they went back to their family jeweller to ‘knowing the jewellery’, which means they are moving to national players such as Tanishq and Gitanjali who offer a much better value proposition to the consumers, according to management.

Overall feedback was positive, with the company expecting to benefit from a shift to national organized players and consistent demand for jewellery both from consumption and investment perspective driving sales growth.

Scenario analysis: What if the US and Europe slip back into recession?

As the markets have been signaling that risks to our baseline forecasts are on the downside, our global economics team have considered a bear case economic scenario, most obviously triggered by a market meltdown, but the fragile state of the advanced economies leaves them vulnerable to unforeseen shocks or policy errors. For details, see Global Weekly Economic Monitor, 12 August 2011, and Global market turbulence: Implications for Asia, 9 August 2011.

The bear case scenario assumes:

- The US and Euro area slip back into recession, with US GDP averaging -1% saar in 2H11 and Euro GDP averaging -3% before recovering to around 2% growth in 2012.
- The CRB commodity price index falls 15% between now and year-end, but starts rising back again through 2012 reaching current levels by end-2012.

If there is a market meltdown and recessions in the US and euro area, we have no doubt that initially many economies in the region would be hit hard again in an echo of the global financial crisis, as non-linear effects start to kick in, notably financial decelerator effects, multiplier effects of weakening exports on domestic capex and jobs, and capital flight. However, less disturbing this time around are the two factors that there is less leverage in the financial system (less room for capital flight) and less chance of Asian trade finance drying up, as the world's central banks have most likely learnt the need to provide ample USD liquidity through FX swap arrangements.

In this scenario, we find Hong Kong, Singapore, Malaysia and Taiwan to be among the most vulnerable. But, as in 2009, we would expect that, over time, powerful tailwinds would develop, allowing Asia to bounce back before other regions. These tailwinds include a likely further decline in commodity prices and the ample room Asia has to ease monetary and fiscal policies – more so than any other region. In our bear case scenario, we would expect the Fed to resort to further quantitative easing, which once again would likely precipitate strong net capital inflows into Asia, attracted by stronger growth, superior fundamentals and higher interest rates relative to other regions.

What if things get even worse than we foresee? Although our global economics team does not see such a situation as plausible at the moment, they have run an extreme-case scenario analysis to provide some perspective. This extreme scenario assumes:

- US GDP averaging about -4% saar in 2H11 and Euro GDP averaging -6.5% before recovering to around 1% growth in 2012.
- CRB commodity price index falls 40% between now and year-end, and stays at the lower level through 2012.

What does this mean for company Titan?

As we look at the sensitivity of Titan's earnings to a global slowdown, there are two key factors to watch out for. First, a fall in gold prices, and second, the impact on volume growth in the jewellery segment

We believe if gold prices are marginally higher, then the risk to earnings is minimal, but a sharp fall in gold prices by more than 10% is a key risk to earnings. Although we expect volume growth to offset some of the price/realization softness, the sensitivity of earnings to gold prices is higher than volume growth.

Fig. 20: Sensitivity of EPS and TP to change in realization and volume growth

	Bear case	Base case	Bull case
FY 2012F	6.7	7.3	7.8
FY 2013F	7.7	9.2	9.9
12 month TP	203	264	307

Source: Nomura estimates

Note: Base case refers to current forecasts and TP

Appendix A-1

Analyst Certification

I, Manish Jain, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

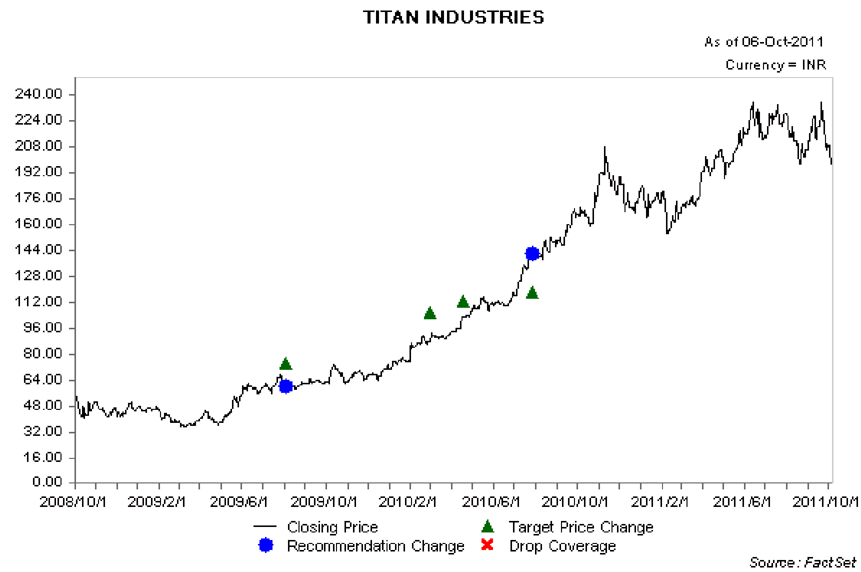
Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Titan Industries	TTAN IN	INR 221	18-Oct-2011	Buy	Not rated	

Previous Rating

Issuer name	Previous Rating	Date of change
Titan Industries	Reduce	18-Oct-2011

Titan Industries (TTAN IN) **INR 221 (18-Oct-2011)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
28-Jul-2010		118.80	141.99
28-Jul-2010	Reduce		141.99
19-Apr-2010		112.50	102.45
01-Mar-2010		105.75	87.45
03-Aug-2009		74.30	60.24
03-Aug-2009	Buy		60.24

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Titan at 27x one-year forward EPS of INR9.78, an 8% premium to other consumer companies. We believe this is justified given Titan's strong earnings growth profile. Our target price for Titan is INR264.

Risks that may impede the achievement of the target price Jewellery segment sales are sensitive to gold prices on the downside. If there is a sharp fall in gold prices, jewellery segment sales growth is likely to be at risk.

Important Disclosures

Online availability of research and additional conflict-of-interest disclosures

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STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of '**Suspended**', indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including, but not limited to, when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.
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SECTORS

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Benchmarks are as follows: **United States**: S&P 500; **Europe**: Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.
A '**Buy'** recommendation indicates that potential upside is 15% or more. A '**Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A '**Reduce'** recommendation indicates that potential downside is 5% or more. A rating of '**Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.
A '**Strong buy'** recommendation indicates that upside is more than 20%. A '**Buy'** recommendation indicates that upside is between 10% and 20%. A '**Neutral'** recommendation indicates that upside or downside is less than 10%. A '**Reduce'** recommendation indicates that downside is between 10% and 20%. A '**Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A '**Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation. A '**Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation. A '**Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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