

July 31, 2012

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Rating	<b>BUY</b>
Price	Rs222
Target Price	Rs255
Implied Upside	14.9%
Sensex	17,236
Nifty	5,229

(Prices as on July 31, 2012)

### Trading data

Market Cap. (Rs bn)	197.0
Shares o/s (m)	887.8
3M Avg. Daily value (Rs m)	674.9

### Major shareholders

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

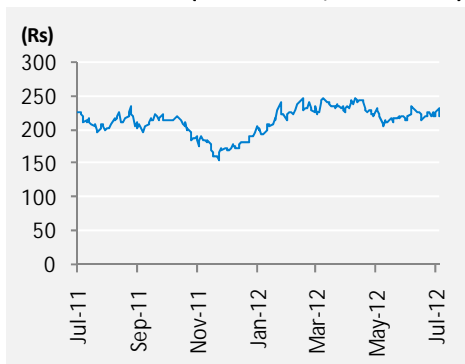
### Stock Performance

(%)	1M	6M	12M
Absolute	(0.6)	9.3	(2.8)
Relative	0.5	9.1	2.5

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	8.0	8.5	-5.3
2014	9.8	10.7	-8.0

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



Source: Bloomberg

■ **Slowdown is here; Jewellery volumes de-grow 21%, Watches down 3%:** Sales, EBITDA and PAT came in at Rs22.05 bn (up 9%), Rs 2.12bn (up 10%) and Rs 1.56bn (up 9%) as against our expectations of Rs 25.7bn, Rs2.31bn and Rs1.71bn. Revenue growth was lowest in the last 11 quarters, reflecting the weakness in consumer spends despite higher base (Jewellery revenues up 71% in base qtr), closure of some stores for ~7 days in April owing to industry strike and fewer wedding days in 1QFY13 vs. 1QFY12. Jewellery volumes declined 21% while Watches registered 3% de-growth. Customer growth, a metric used by Titan to measure the underlying strength of its franchise, posted a relatively flat 2.4% decline. While TTAN has drawn up a robust retail expansion plan to offset the slowdown in SSG, we expect next few quarters to remain subdued given the well entrenched weakness in consumer sentiments, especially in discretionary spends. Titan added 20 stores during the quarter, taking the total count to 847 stores with more than 1.08m sq.ft of operational space. Management, in the call indicated better July performance than 1QFY13 and interestingly, **maintained its 30% PAT growth guidance for FY13e.**

■ **Gold margins flat; Watches EBIT decline:** Jewellery EBIT posted 9% YoY growth, while margins remained flat at 10.2%. Studded Jewellery salience was 25% for the quarter with 1Q being a seasonally weak quarter for studded jewellery. Gold margins are expected to remain strong as savings delivered by direct imports of Gold will flow to EBIT. Watches margins declined 140bps YoY. Nonetheless, entire benefit of pricing improvement (13%) did not reflect in margins owing to hedging strategy.

■ **Revise estimates downward:** While TTAN management maintained 30% growth guidance we have revised our sales and profit estimates down by 4-5% for FY13e and FY14e, to incorporate lower than estimated volume and sales growth. Though we like Titan's strategy of expanding its presence in Lifestyle segments and its continued dominance in core categories, we see no immediate recovery in near term performance. Maintain **'BUY'** with a revised one-year forward TP of Rs255 (26x FY14e).

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	1.7	1.4
EV / EBITDA (x)	31.7	22.1	18.4	14.6
PE (x)	45.5	32.9	27.6	22.6
P / BV (x)	19.0	13.1	9.8	7.5
Net dividend yield (%)	0.6	0.8	0.9	1.1

Source: Company Data; PL Research

## Con-call takeaways

- Sales performance was worse than expected.
- Problem with lower middle class spending – inflation and other costs impacting – in turn rendering discretionary items less attractive.
- Substantially lesser number of marriage days in AP (only 2 days vs. 14 days year ago). As per management, whenever wedding dates are lower, Jewellery sales are lower.
- Store closure due to industry protest: 7 days of sales lost in some of the stores, not all.
- July performance looking better than 1QFY13.
- Not changed profit guidance of 30% YoY growth – appears aggressive in our view.
- Added 1lakh sqft space on Tanishq in FY12 – ramp up from new stores in Tanishq happens from 75k-80k per sq ft in 1st year to 1.5lakh per sq ft by 3rd year.
- FY13 store addition: 200-250k sq ft space addition for Jewellery by FY13e end.
- Space expansion is not booked in Titan's books as most of it is through franchisee route
- Competitive intensity in South is highest as far as Jewellery is concerned – and hence lower margins in South.
- Every year grams/bill has been falling by 10% annually since last 5-6 years Studded Jewellery share is higher in Q2 and Q4 because of activations.
- Other expenditure grew just 4% - no exceptional item.
- Jewellery margin increase driven by lower excise, better mix.
- Permitted to import Gold directly: won't need to pay VAT. Not a permanent license – quantity has been specified which if exhausted Titan will need to renew. Today MMTC charges 4% VAT to Titan. Imports will start soon but benefits will flow by 3Q12 as it is carrying inventory.
- Watches stores expansion: 140 World of Titan, 40 Helios and 100 FasTrack Stores at FY13e end. 2Q expansion will be >> 1QFY13.
- Difference in current slowdown vs. '09 slowdown: Jewellery mix has changed substantially; FasTrack has become a much bigger brand.
- Agility in responding to market conditions is a key strategy undertaken to avert any adverse impact of slowdown.

**Exhibit 1: Q1FY13 Result Overview (Rs m)**

	<b>Q1FY13</b>	<b>Q1FY12</b>	<b>YoY gr. (%)</b>	<b>Q4FY12</b>	<b>QoQ gr. (%)</b>
<b>Net Sales</b>	<b>22,057</b>	<b>20,205</b>	<b>9.2%</b>	<b>22,814</b>	<b>-3.3%</b>
Expenditure	(19,937)	(18,284)		(20,744)	
<b>EBITDA</b>	<b>2,120</b>	<b>1,921</b>	<b>10.3%</b>	<b>2,071</b>	<b>2.4%</b>
EBITDA margins	9.6%	9.5%		9.1%	
Depreciation	(123)	(99)		(125)	
Other Income	252	233		255	
<b>EBIT</b>	<b>2,248</b>	<b>2,055</b>		<b>2,201</b>	
EBIT margins	10.2%	10.2%		9.6%	
Interest	(126)	(88)		(131)	
<b>PBT</b>	<b>2,122</b>	<b>1,968</b>		<b>2,070</b>	
PBT (excl. exceptional items)	2,122	1,968	7.9%	2,070	2.5%
Tax	(561)	(533)		(627)	
<b>PAT (recurring)</b>	<b>1,561</b>	<b>1,435</b>	<b>8.8%</b>	<b>1,443</b>	<b>8.2%</b>
<b>PAT (reported)</b>	<b>1,561</b>	<b>1,435</b>		<b>1,443</b>	

Source: Company Data, PL Research

**Exhibit 2: Segmental Break-up (Rs m)**

	Q1FY13	Q1FY12	YoY gr. (%)	Q4FY12	QoQ gr. (%)
<b>Revenues</b>					
Watches	3,607	3,154	14.4	4,138	(12.8)
Jewellery	17,755	16,471	7.8	17,997	(1.3)
Others	896	775	15.7	920	(2.6)
Corporate(unallocated)	50	39	28.6	15	234.9
<b>Total</b>	<b>22,308</b>	<b>20,438</b>	<b>9.1</b>	<b>23,070</b>	<b>83.0</b>
<b>Segment EBIT</b>					
Watches	504	481	4.8	534	-5.6
Jewellery	1,806	1,661	8.7	1,823	-0.9
Others	(16)	(36)	NA	(47)	NA
<b>Total</b>	<b>2,293</b>	<b>2,107</b>	<b>8.9</b>	<b>2,310</b>	<b>107.0</b>
<b>EBIT Margins</b>					
Watches	14.0	15.2		12.9	
Jewellery	10.2	10.1		10.1	
Others	(1.8)	(4.6)		(5.1)	
<b>Total</b>	<b>10.3</b>	<b>10.3</b>		<b>10.0</b>	

Source: Company Data, PL Research

**Exhibit 3: Brand-wise Same-Store-Sales growth**

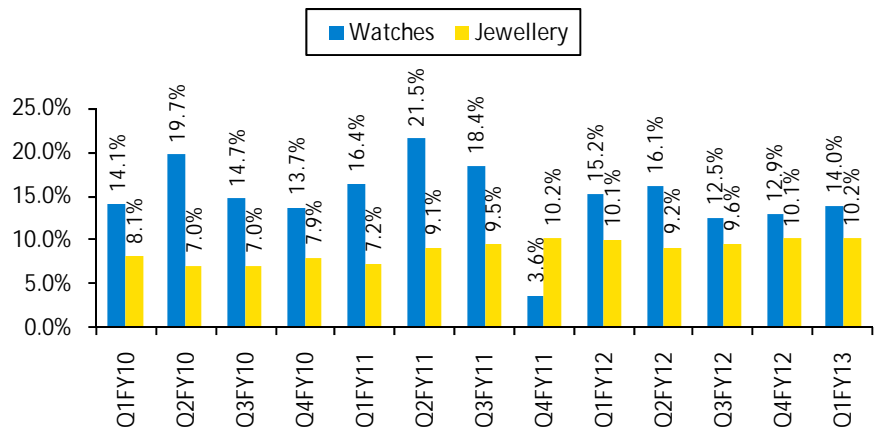
Brand	1QFY13		4QFY12		3QFY12		2QFY12		1QFY12	
	Growth	SSS growth	Growth	SSS growth	Growth	SSS growth	Growth	SSS growth	Growth	SSS growth
World of Titan	14.0%	9.0%	18.0%	14.0%	10.0%	8.0%	20.0%	16.0%	11.0%	8.0%
Tanishq	11.0%	3.0%	38.0%	25.0%	33.0%	26.0%	39.0%	31.0%	79.0%	70.0%
Goldplus	-1.0%	-8.0%	36.0%	23.0%	24.0%	13.0%	44.0%	49.0%	51.0%	49.0%
Helios	177.0%	19.0%	3.9x	-9.0%	4.7x	18.0%	4x	10.0%	5x	12.0%
Fastrack	86.0%	12.0%	95.0%	16.0%	77.0%	21.0%	2x	72.0%	1.3x	70.0%
LFS-Watches	23.0%	3.0%	34.0%	19.0%	24.0%	-1.0%	52.0%	24.0%	26.0%	26.0%
Titan Eye+	20.0%	1.0%	32.0%	-1.0%	77.0%	26.0%	16.0%	-19.0%	26.0%	-19.0%

Source: Company Data, PL Research

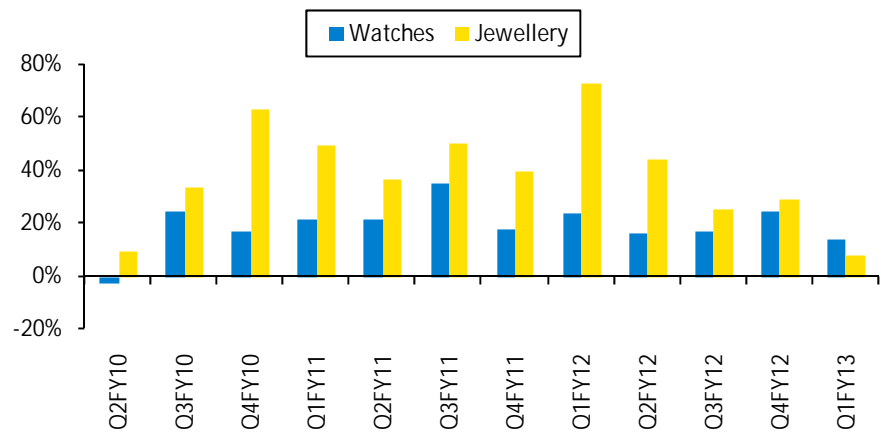
**Exhibit 4: Retail expansion across brands (No. of stores)**

	1QFY13	4QFY12	3QFY12	2QFY12	1QFY12
Brand	No of stores	No of stores	No of stores	No of stores	No of stores
World of Titan	337	332	326	317	311
Tanishq	132	129	129	125	121
Goldplus	32	32	32	30	29
Helios	25	25	21	14	9
Fastrack	110	102	85	64	55
Zoya	2	2	2	2	2
Titan Eye+	209	205	191	185	169
<b>Total</b>	<b>847</b>	<b>827</b>	<b>786</b>	<b>737</b>	<b>696</b>

Source: Company Data, PL Research

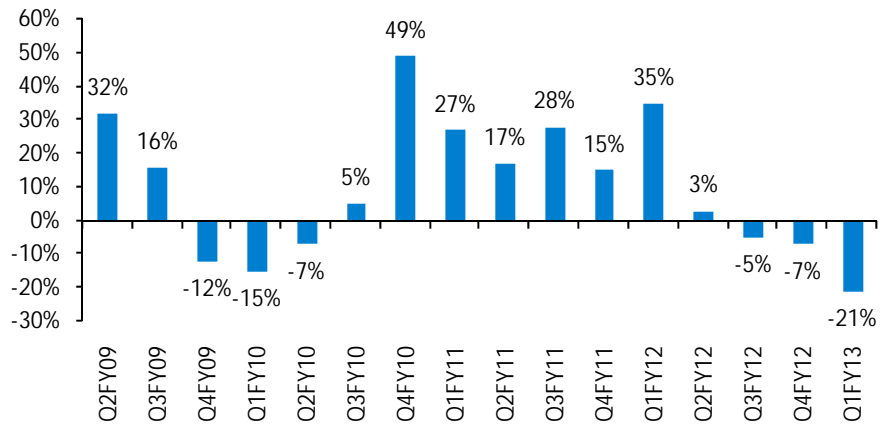
**Exhibit 5: Jewellery EBIT margins stay flat YoY**


Source: Company Data, PL Research

**Exhibit 6: Jewellery revenues grow mere 8% in Q1FY13; lowest in 11 quarters**


Source: Company Data, PL Research

**Exhibit 7: 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
<b>Net Revenue</b>	<b>65,330</b>	<b>88,473</b>	<b>103,864</b>	<b>124,323</b>
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
<b>EBITDA</b>	<b>5,895</b>	<b>8,307</b>	<b>9,736</b>	<b>11,874</b>
Depr. & Amortization	351	452	628	648
Net Interest	82	437	498	594
Other Income	538	946	1,046	1,131
<b>Profit before Tax</b>	<b>6,000</b>	<b>8,364</b>	<b>9,656</b>	<b>11,762</b>
Total Tax	1,668	2,384	2,511	3,058
<b>Profit after Tax</b>	<b>4,331</b>	<b>5,980</b>	<b>7,145</b>	<b>8,704</b>
Ex-Od items / Min. Int.	—	—	—	(1)
<b>Adj. PAT</b>	<b>4,331</b>	<b>5,980</b>	<b>7,145</b>	<b>8,703</b>
<b>Avg. Shares O/S (m)</b>	<b>887.8</b>	<b>887.8</b>	<b>887.8</b>	<b>887.8</b>
<b>EPS (Rs.)</b>	<b>4.9</b>	<b>6.7</b>	<b>8.0</b>	<b>9.8</b>

### 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
<b>Growth</b>				
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
<b>Profitability</b>				
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
<b>Balance Sheet</b>				
Net Debt : Equity	(1.0)	(0.9)	(0.9)	(0.9)
Net Wrkng Cap. (days)	25	31	36	33
<b>Valuation</b>				
PER (x)	45.5	32.9	27.6	22.6
P / B (x)	19.0	13.1	9.8	7.5
EV / EBITDA (x)	31.7	22.1	18.4	14.6
EV / Sales (x)	2.9	2.1	1.7	1.4
<b>Earnings Quality</b>				
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)
<b>Total Liabilities</b>	<b>11,057</b>	<b>15,554</b>	<b>20,423</b>	<b>26,374</b>
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 &amp; 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	—	—	—	—
<b>Total Assets</b>	<b>11,057</b>	<b>15,554</b>	<b>20,423</b>	<b>26,374</b>

### Quarterly Financials (Rs m)

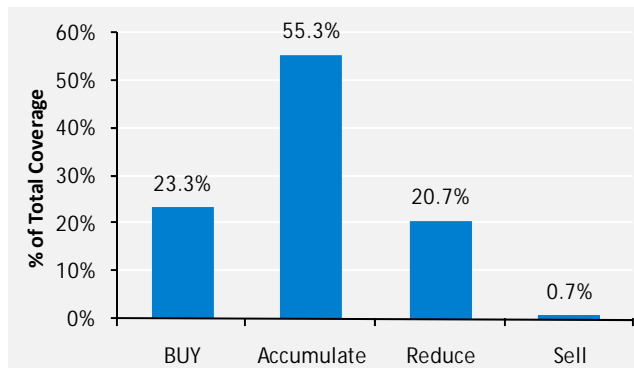
Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
<b>Net Revenue</b>	<b>20,963</b>	<b>24,401</b>	<b>22,814</b>	<b>22,057</b>
<b>EBITDA</b>	<b>2,002</b>	<b>2,249</b>	<b>2,071</b>	<b>2,120</b>
<i>% of revenue</i>	<i>9.6</i>	<i>9.2</i>	<i>9.1</i>	<i>9.6</i>
Depr. & Amortization	106	119	125	123
Net Interest	2	129	131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

### 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

Source: Company Data, PL Research.

#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

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

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