



Titan Industries

BSE SENSEX	S&P CNX	CMP: INR259				TP: INR300				Upgrade to Buy			
18,505	5,620												
Bloomberg	TTAN IN												
Equity Shares (m)	887.8												
52-Week Range (INR)	283/154												
1,6,12 Rel. Perf. (%)	1/0/15												
M.Cap. (INR b)	259.0												
M.Cap. (USD b)	4.8												
		Year End	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/Sales	EV/EBITDA	
		03/11A	65,209	4,336	4.9	65.8	-	-	49.6	61.8	-	-	
		03/12A	88,384	6,048	6.8	38.4	38.3	15.9	48.0	66.2	2.5	26.8	
		03/13E	101,585	7,196	8.1	19.9	32.0	11.9	42.6	58.9	2.1	21.4	
		03/14E	120,544	8,953	10.1	24.4	25.7	9.0	35.1	54.4	1.8	14.1	

- **2QFY13 results largely in-line:** Titan Industries' (TTAN) net sales grew 8.6% to INR22.8b (v/s our estimate of INR24.5b) while EBITDA margin expanded 100bp to 11% (v/s our estimate of 10.1%). Adjusted PAT grew 21% to INR1.8b (v/s our estimate of INR1.74b), led by 280bp margin expansion in Jewelry to 12.5% (all-time high), though Jewelry sales were lower than expected.
- **Jewelry sales up 6%; EBIT margin at all-time high:** Jewelry volumes declined 11% (down 21% in 1QFY13) due to high gold prices and subdued consumer sentiment. Sales grew 6% and EBIT grew 35%. EBIT margin expanded 280bp to 12.5%, led by (a) mix improvement - gold coin volumes declined 30%, (b) increase in share of studded jewelry to 32% (28% in 2QFY12), and (c) margin increase in studded jewelry. Growth in retail sales (secondary) improved from 11% in 1QFY13 to 19% in 2QFY13. Reported revenue growth was impacted by lower stocking by franchisees due to shift in festive season to 3Q (from 2Q in FY12).
- **Watch sales grow 13%; margins decline 450bp:** For Watches, sales grew 13% (volumes up 4% after 3% decline in 1Q). Margins declined 450bp to 11.6% due to higher input costs and INR depreciation.
- **Eyewear sales up 32%; breakeven likely in 4Q:** Eyewear sales grew 32%. Like-to-like (LTL) sales growth improved from 1% in 1QFY13 to 19%. The management has guided breakeven for the segment in 4QFY13.
- **Maintains full-year space addition guidance for Jewelry:** TTAN had guided 200ksf space addition in Jewelry at the beginning of year and is on track to achieve this. In 1HFY13, it added 60ksf, which has since increased to 100ksf, including the space addition in October.
- **Tweaking estimates:** We tweak our estimates marginally to incorporate higher than expected Jewelry margins. We expect improved consumer sentiment and higher number of wedding days to drive 2H13.
- **Upgrading to Buy:** The stock trades at 32.0x FY13E EPS of INR8.1 and 25.7x FY14E EPS of INR10.1, with PAT CAGR of 23%. We revise our target price to INR300 and upgrade TTAN from Neutral to **Buy**. Our upgrade is premised on expected recovery in Jewelry performance. Better than expected traction in new stores can provide upside risk to our estimates. Sharp decline in gold prices and reversal of consumer sentiment are key downside risks.

Y/E March	Quarterly Performance (INR Million)											
	FY12				FY13				FY12	FY13E	Est. 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Net Sales	20,205	20,963	24,401	22,814	22,057	22,760	29,600	27,168	88,384	101,585	24,450	-6.9
YoY Change (%)	61.3	36.5	24.8	28.3	9.2	8.6	21.3	19.1	35.5	14.9	16.6	
Total Exp	18,284	18,874	22,272	20,744	19,937	20,266	26,640	24,578	80,054	91,420	21,981	-7.8
EBITDA	1,921	2,089	2,129	2,071	2,120	2,494	2,960	2,590	8,329	10,164	2,469	1.0
EBITDA Growth %	73	20	9.2	95.7	10.3	19.4	39.0	25.1	42	22	18	
Margins (%)	9.5	10.0	8.7	9.1	9.6	11.0	10.0	9.5	9.4	10.0	10.1	
Depreciation	99	106	119	125	123	130	117	111	449	482	110	18.5
Interest	88	89	10	131	126	121	160	243	437	650	160	-24.1
Other Income	233	205	247	255	252	238	240	232	941	962	250	-4.7
PBT	1,968	2,100	2,247	2,070	2,122	2,481	2,923	2,469	8,384	9,994	2,449	1.3
Tax	532	615	608	627	561	679	818	740	2,336	2,798	686	
Rate (%)	27.0	29.3	28.5	30.3	26.4	27.4	28.0	30.0	27.9	28.0	28.0	
Adjusted PAT	1,436	1,485	1,639	1,443	1,561	1,801	2,105	1,729	6,048	7,196	1,764	2.1
YoY Change (%)	76.9	16.2	16.4	72.0	8.7	21.3	28.4	19.8	39.5	19.0	18.8	

E: MOSL Estimates

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Concall highlights

Jewelry

- Seeing change in sentiment, though not very significant as yet.
- Apart from festivals, plenty of auspicious wedding dates in 3Q should help drive jewelry sales.
- Saw good jewelry demand during Navratri and Dussera.
- Franchisees stocked up in 2Q in FY12; in FY13, stocking did not happen in 2Q, as Diwali is in November. Retail secondary sales improved for *Tanishq* from 11% in 1Q to 19% in 2Q.
- Jewelry volumes declined 11%; a sequential improvement as jewelry volumes had declined 21% in 1Q. Volumes flat in 3Q thus far.
- Plain gold jewelry volumes declined 1-2%. Gold coin volumes declined 30%, leading to improved mix and contributing to higher Jewelry margins.
- Jewelry margins expanded 280bp to 12.5%, the highest ever, driven by (1) 4% increase in proportion of studded jewelry to 32%, (2) decline in salience of gold coins, and (3) margin increase in studded jewelry by TTAN.
- Renegotiated terms of trade with franchisees - marginal savings for TTAN - sustainable.
- Benefits from direct jewelry imports have not yet flown in; only one consignment has come in so far. Expect 50bp benefit from direct imports.
- Jewelry margins could decline from current levels but sales should grow.
- Jewelry retail expansion: In 1HFY13, TTAN added 60ksf (20ksf in large format), which has since increased to 100ksf, including the space addition in October. Most of the expansion has happened in cities where it is already present. Space addition target for the full year stays at 200ksf.
- Gold Plus: Added one store in October; no stores added in 2QFY13.
- Golden Harvest Scheme: INR10b.

Watches

- 4-5% price increase in Watches (*Titan*, *Sonata* and *FasTrack*) during April-August.
- Margin outlook - should recover in 3Q - currency improved.
- Expect double-digit volume growth (based on secondary retail sales).
- *FasTrack* brand size INR6b-6.5b.
- Large number of stores (*Jew*, *FasTrack*, *Helios*) opening in 3Q. *World of Titan* may see muted store openings.

Eyewear

- Expect breakeven in 4Q.

Miscellaneous

- 20% PAT growth target maintained for FY13.

Jewelry: Volumes down 11%; margins at all-time high of 12.5%

- Jewelry sales grew 6% to INR17.2b and EBIT grew 35% to INR2.15b. EBIT margin expanded 280bp to 12.5%. The proportion of studded jewelry was 32% (25% in 1QFY13).
- Jewelry volumes declined 11% after 21% decline in 1QFY13. According to the management 3Q volumes have been flat thus far. Dussera and Navratri sales are likely to have aided the recovery. Like-to-like (LTL) sales growth was 12% (3% in 1QFY13) in *Tanishq* and -8% in *GoldPlus* (-8% in 1QFY13).
- The volume decline during the quarter was mainly due to a sharp 30% decline in volumes of gold coins, a low margin business. Plain gold jewelry volumes declined 1-2%. This coupled with an increase in the salience of studded jewelry to 32% and increase in studded jewelry margins effected by TTAN (better trade terms with franchisees) led to Jewelry margins expanding 280bp to 12.5%, an all-time high. We are surprised by the margin expansion and do not expect current margins to sustain, as volume growth recovers in plain gold jewelry.
- TTAN had guided 200ksf space addition in Jewelry at the beginning of year and is on track to achieve this. In 1HFY13, it added 60ksf, which has since increased to 100ksf, including the space addition in October. Space addition would be a major volume driver for the company.
- TTAN has not yet benefited from the direct gold import scheme, as it has just received one consignment so far. The management quantified the benefit from the scheme at 50bp.

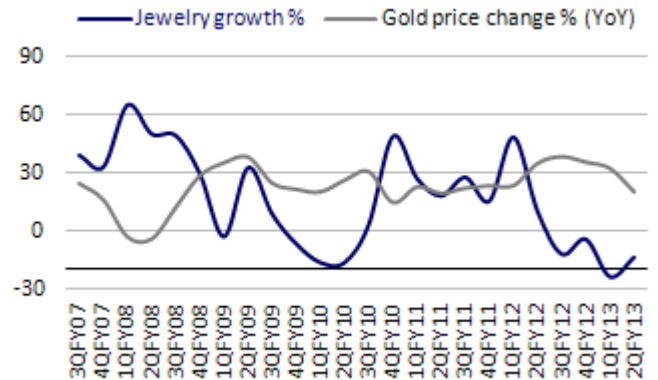
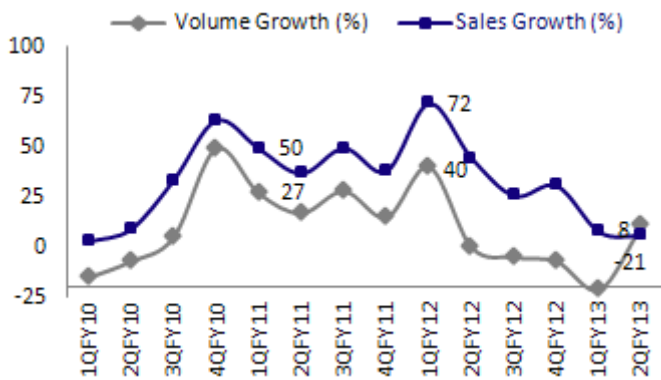
2QFY13 Jewelry margins at all-time high; Watch margins decline 450bp

INR m	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Total Sales	15,428	19,633	17,662	20,400	21,141	24,632	23,055	22,258	22,931
Watches	3,594	3,268	3,257	3,154	4,174	3,831	4,138	3,607	4,718
YoY Growth (%)	21.6	35.6	15.6	24.2	16.1	17.2	27.0	14.4	13.0
Jewellery	11,274	15,808	13,617	16,471	16,315	19,859	17,997	17,755	17,239
YoY Growth (%)	37.0	49.9	37.3	73.3	44.7	25.6	32.2	7.8	5.7
Others	560	557	788	775	652	942	920	896	974
YoY Growth (%)	80.6	38.4	90.5	44.0	16.3	69.1	16.8	15.7	49.4
Total EBIT	1,754	2,051	1,039	2,106	2,245	2,316	2,310	2,293	2,653
Watches	774	602	65	480	672	480	534	504	547
YoY Growth (%)	32.9	70.2	-83.7	15.4	-13.2	-20.2	722.8	4.9	-18.7
EBIT Margin (%)	21.5	18.4	2.0	15.2	16.1	12.5	12.9	14.0	11.6
Jewellery	1,026	1,500	1,073	1,661	1,587	1,785	1,823	1,806	2,150
YoY Growth (%)	77.8	102.3	67.8	143.4	54.6	18.9	69.9	8.7	35.5
EBIT Margin (%)	9.1	9.5	7.9	10.1	9.7	9.0	10.1	10.2	12.5
Others	-47	-52	(99)	(36)	(14)	51	(47)	(16)	(43)

Source: Company, MOSL

Jewellery volumes decline 11% YoY; Coins decline 30%

Rising gold price impacts jewelry volumes



Source: Company, MOSL

Volume growth improves sequentially in Jewelry; low base in 2H to aid further recovery

Jewelry	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
Volume Gr %	3	(5)	(7)	(21)	(11)
Customer Gr %		8	4	(2)	7
Studded Share %	28	26	32	25	32
Sales Gr %	45	25	31	8	6
Retail Gr %	NA	NA	NA	11	17

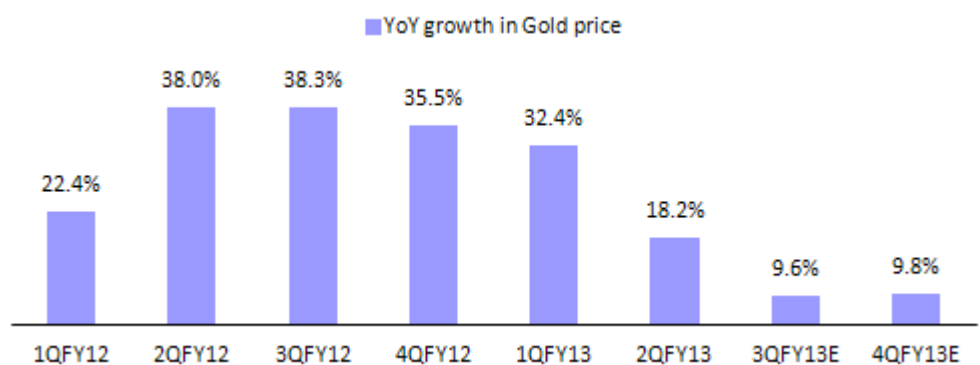
Source: Company, MOSL

LTL sales growth picks up in Tanishq

Jewelry	2QFY12		3QFY12		4QFY12		1QFY13		2QFY13	
	Tanishq	GoldPlus	Tanishq	GoldPlus	Tanishq	GoldPlus	Tanishq	GoldPlus	Tanishq	GoldPlus
Sales Gr %	39	44	33	24	38	36	11	(1)	19	(2)
LTL Growth %	31	49	26	13	25	23	3	(8)	12	(8)
Stores	125	30	129	32	129	32	132	32	134	32

Source: Company, MOSL

Pricing growth component to fade incrementally (assuming constant Gold price)



Source: Company, MOSL

Watches: Sales up 13%; margins down 450bp

- For Watches, sales grew 13%. Volumes were up 4% after 3% decline in 1Q. The management expects volume growth to improve to double-digit levels.
- *World of Titan* sales grew 14%, *Fastrack* sales increased 71% and *Helios* sales were up 127%. LTL growth was -1% (+9% in 1Q) in *World of Titan*, 19% (19% in 1Q) in *Helios*, and 7% (12% in 1Q) in *Fastrack*. Large format watch stores posted 10% decline in LTL sales (3% growth in 1Q).
- EBIT margin declined 450bp to 11.6% due to (1) INR depreciation, (2) higher input costs, and (3) investments in A&P and retail store expansion. TTAN has taken 4-5% price increase in Watches during the period April-September 2012.
- The management is positive on the demand scenario and is looking at aggressive expansion across formats like *Helios* (32) and *Fastrack* (122) in FY13. The expansion plans are likely to keep margin expansion under check. We note that watch margins have declined from 15.9% in FY10 to 14.2% in FY12. We expect delayed margin recovery, as TTAN is looking at expanding the retail business. The management has guided margin recovery in 3Q, led by sequential INR appreciation.

Watch volume growth picks up; aggressive expansion plans across formats

Watches Gr %	2QFY12			3QFY12			4QFY12			1QFY13			2QFY13		
	Sales	LTL	Stores (x)	Sales	LTL	Stores (x)	Sales	LTL	Stores (x)	Sales	LTL	Stores (x)	Sales	LTL	Stores (x)
World of Titan	20	16	317	10	8	326	18	14	332	14	9	337	4	(1)	348
Helios	400	10	14	470	18	21	390	(9)	25	177	19	25	127	19	32
Fastrack	100	72	64	77	21	85	95	16	102	86	12	110	71	7	122
LFS - Watches	52	24	NA	24	(1)	NA	34	19	NA	23	3	NA	7	(10)	NA
Sales Gr		16			17			27			14			13	
Volume Growth		19			11			14			(3)			4	

Source: Company, MOSL

Eyewear: Sales up 32%; 4Q breakeven guidance

- Other businesses reported 49% increase in sales and EBIT loss of INR43m, with losses in Accessories and Eyewear.
- Eyewear reported 32% sales growth, with LTL sales growth of 19%, a sharp improvement from 1% growth in 1QFY13. The management has guided a 4QFY13 breakeven for Eyewear.
- TTAN is incubating two new businesses: (1) *Fastrack* bags, belts and accessories, targeting the youth, and (2) *Titan* leather accessories, targeting premium consumers. The management expects these verticals to have margins in line with Watches in the coming years. We are positive on *Fastrack* accessories due to their positioning and the management's focused approach.
- *Fastrack* has now become an INR6b-6.5b brand.

Sharp improvement in Titan Eye+ LTL sales

	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
World of Titan	317	326	332	337	348
Fastrack	64	85	102	110	122
Helios	14	21	25	25	32

Source: Company, MOSL

Valuation and view: Worst behind for Jewelry volumes; upgrading to Buy

- We believe the worst is over for TTAN's Jewelry volumes. Sequential improvement in consumer sentiment, higher festive season demand, more auspicious wedding dates, improving base comparison and aggressive retail expansion plans should augment the volume recovery, in our view. We note that the pricing element in gold jewelry will fade off (assuming gold price stays constant); margins could revert to 10.5-11%, as plain gold jewelry volumes pick up.
- Our recent channel checks and discussions with the store manager indicate good footfalls and conversion for TTAN's recently-opened store in Mumbai.
- We expect delayed margin recovery in Watches though the improving volume growth trends augur well. We are positive on new businesses like *Fastrack* and *Titan* accessories, given the nascent market and lack of viable brands in these segments.
- We have tweaked our estimates marginally to incorporate the higher than expected Jewelry margins and have also revised our studded jewelry margin assumption upwards to 35% (33% earlier). Benefits of aggressive store rollout could provide upside to our sales growth estimates. Our estimates of 21% sales growth and 26% PAT growth are lower than the management's estimates of 30% sales and PAT growth in FY13.
- Our revised EPS estimates are INR8.1 (INR8 earlier) for FY13 and INR10.1 (INR10 earlier) for FY14. The stock currently trades at 32.0x FY13E EPS of INR8.2 and 25.7x FY14E EPS of INR10.2, with PAT CAGR of 23%.
- We revise our target price to INR300 (30x FY14E EPS), and upgrade TTAN from **Neutral** to **Buy** and position it as our top Retail pick. Our valuation multiple is premised on expected recovery in Jewelry performance. Net cash balance sheet (consistent free cash generation), robust capital efficiency ratios (60%+ RoCE) and leadership in its core categories justify our premium multiple. Better than expected traction in new stores can provide upside risk to our estimates. Any sharp decline in gold prices and possible reversal of consumer sentiment are key downside risks.

Titan Industries: an investment profile

Company description

Titan Industries (TTAN) is one of India's largest specialty retailers. It is the market leader in Watches and a pioneer in Branded Jewelry. The company's economy segment watch, Sonata is the largest selling watch in the country. TTAN entered the branded jewelry segment in 1996 with the *Tanishq* brand and remains the largest player in this segment.

Key investment arguments

- TTAN is the leader in the organized segment of the domestic watch industry, with ~60% market share. The branded watch retailing segment is likely to report strong growth, given that 60% of the watch retailing industry is dominated by the unorganized segment.
- Tanishq, TTAN's branded jewelry brand, is the largest player in the INR70b branded jewelry market in India. Branded jewelry accounts for less than 10% of the total jewelry market in India and is expected to report 40% CAGR over the next five years.
- Operating margins are likely to expand, as Titan benefits from rising share of Studded Jewellery. Eyewear is expected to breakeven in 4QFY13, thus driving margins further.

Key investment risks

- Sharp decline in Gold prices can impact profitability.
- Reversal in consumer sentiment.

Recent developments

- During the quarter, TTAN added 2 stores in Jewellery and 30 stores in Eyewear.

Valuation and view

- We are broadly maintaining our estimates.
- The stock trades at 32.0x FY13E EPS of INR8.1 and 25.7x FY14E EPS of INR10.1. Upgrade to Buy with a revised TP of INR 300.

Sector view

We believe specialty retailers are better placed to ward off the impact of the current slowdown. Ability to generate cash flows to adequately finance expansion plans puts them in a better position.

Comparative valuations

		Titan Inds.	Shoppers Stop
P/E (x)	FY13E	32.0	35.9
	FY14E	25.7	26.3
EV/EBITDA (x)	FY13E	21.4	16.0
	FY14E	14.1	12.5
EV/Sales (x)	FY13E	2.1	1.2
	FY14E	1.8	0.9
P/BV (x)	FY13E	11.9	4.1
	FY14E	9.0	3.6

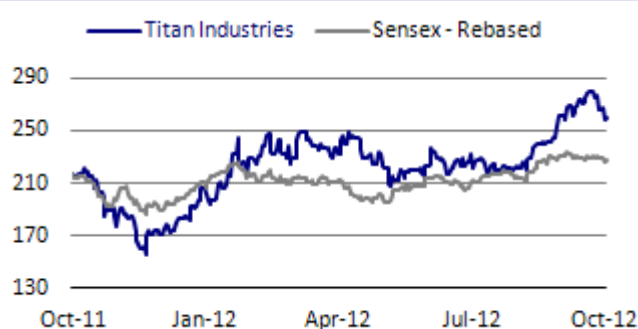
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	8.1	8.4	-3.6
FY14	10.1	10.4	-2.6

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
259	300	15.8	Buy

Stock performance (1 year)



Shareholding pattern (%)

	Sep-12	Jun-12	Sep-11
Promoter	53.1	53.1	53.4
Domestic Inst	3.4	3.8	5.5
Foreign	17.3	16.2	13.3
Others	26.2	27.0	27.9

Financials and valuations

Income Statement		(INR Million)				
Y/E March	2010	2011	2012	2013E	2014E	
Net Sales	46,744	65,209	87,775	101,585	120,544	
Change (%)	22.9	39.5	34.6	15.7	18.7	
Total Expenditure	42,929	59,353	79,565	91,420	108,104	
EBITDA	3,815	5,856	8,210	10,164	12,441	
Change (%)	17.2	53.5	40.2	23.8	22.4	
Margin (%)	8.2	9.0	9.4	10.0	10.3	
Depreciation	360	345	450	482	533	
Int. and Fin. Charges	254	82	437	650	700	
Other Income - Recur	119	561	958	962	1,279	
Profit before Taxes	3,320	5,990	8,281	9,994	12,486	
Change (%)	24.7	80.4	38.3	20.7	24.9	
Margin (%)	7.1	9.2	9.4	9.8	10.4	
Tax	838	1,686	2,523	3,022	3,816	
Deferred Tax	134	32	187	224	283	
Tax Rate (%)	21.2	27.6	28.2	28.0	32.8	
Profit after Taxes	2,615	4,336	5,945	7,196	8,953	
Change (%)	24.7	65.8	37.1	21.0	24.4	
Margin (%)	5.6	6.7	6.8	7.1	7.4	
Reported PAT	2,503	4,336	5,898	7,196	8,953	

Balance Sheet		(INR Million)				
Y/E March	2010	2011	2012	2013E	2014E	
Share Capital	444	444	888	888	888	
Preference Share Cap	0	0	0	0	0	
Reserves	6,800	9,810	13,611	18,436	24,650	
Net Worth	7,244	10,254	14,499	19,324	25,538	
Loans	728	677	48	200	200	
Deferred Tax	48	15	-38	186	469	
Capital Employed	8,019	10,946	14,510	19,710	26,207	
Gross Block	5,611	6,089	7,614	8,989	10,164	
Less: Accum. Deprn.	3,145	3,393	3,818	4,250	4,747	
Net Fixed Assets	2,466	2,696	3,796	4,739	5,416	
Intangibles	160	135	110	60	25	
Capital WIP	123	194	150	150	150	
Investments	76	91	161	161	161	
Curr. Assets, L&A	18,037	34,224	42,741	51,645	64,496	
Inventory	13,403	19,938	28,787	34,060	40,639	
Account Receivables	936	1,137	1,631	1,692	2,008	
Cash and Bank Balan	1,867	10,949	9,595	12,636	17,975	
Others	1,831	2,200	2,729	3,256	3,874	
Curr. Liab. and Prov.	12,843	26,394	32,437	37,044	44,040	
Current Liabilities	11,496	24,193	29,381	33,641	39,867	
Provisions	1,347	2,201	3,057	3,403	4,174	
Net Current Assets	5,194	7,830	10,304	14,601	20,456	
Miscellaneous Expei	0	0	0	0	0	
Application of Funds	8,019	10,946	14,510	19,710	26,207	

E: MOSL Estimates

Ratios						
Y/E March	2010	2011	2012	2013E	2014E	
Basic (INR)						
EPS	2.9	4.9	6.7	8.1	10.1	
Cash EPS	3.3	5.2	7.3	8.6	10.6	
BV/Share	8.2	11.5	16.3	21.8	28.8	
DPS	0.9	1.5	2.0	2.4	3.0	
Payout %	31.0	30.0	30.0	30.0	30.0	
Valuation (x)						
P/E			38.7	32.0	25.7	
Cash P/E			35.5	30.1	24.3	
EV/Sales			2.5	2.1	1.8	
EV/EBITDA			26.8	21.4	17.0	
P/BV			15.9	11.9	9.0	
Dividend Yield (%)			0.8	0.9	1.2	
Return Ratios (%)						
RoE	41.0	49.6	48.0	42.6	35.1	
Operating RoE	44.2	128.1	175.4	93.6	95.3	
RoCE	53.6	61.8	66.3	58.9	54.4	
Working Capital Ratios						
Debtor (Days)	7	6	7	6	6	
Asset Turnover (x)	5.8	6.0	6.0	5.2	4.6	
Leverage Ratio						
Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0	

Cash Flow Statement		(INR Million)				
Y/E March	2010	2011	2012	2013E	2014E	
OP/(loss) before Tax	3,320	5,990	8,281	9,994	12,486	
Int./Div. Received	119	561	958	962	1,279	
Deffered Revenue Ex	0	0	0	0	0	
Depreciation and An	360	345	450	482	533	
Interest Paid	254	82	437	650	700	
Direct Taxes Paid	838	1,686	2,523	3,022	3,816	
Incr in WC	-558	-6,445	3,827	1,256	516	
CF from Operations	3,264	11,573	2,902	6,510	9,266	
Extraordinary Income	-112	0	-47	0	0	
Incr in FA	-63	524	1,456	1,325	1,140	
Investments	0	15	69	0	0	
CF from Invest.	-49	-539	-1,572	-1,325	-1,140	
Issue of Shares	0	0	0	0	0	
Incr in Debt	-1,026	-51	-629	152	0	
Dividend Paid	519	776	1,290	1,818	2,159	
Others	350	1,125	765	478	2,908	
CF from Fin. Activity	-1,895	-1,952	-2,683	-2,144	-5,067	
Incr/Decr of Cash	1,320	9,082	-1,354	3,041	5,339	
Add: Opening Balance	547	1,867	10,949	9,595	12,636	
Closing Balance	1,867	10,949	9,595	12,636	17,975	

N O T E S

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