

May 01, 2012

Gautam Duggad  
gautamduggad@plindia.com  
+91-22-66322233

Rating	<b>BUY</b>
Price	Rs233
Target Price	Rs290
Implied Upside	24.5%
Sensex	17,319
Nifty	5,248

(Prices as on April 30, 2012)

### Trading data

Market Cap. (Rs bn)	206.9
Shares o/s (m)	887.8
3M Avg. Daily value (Rs m)	984.5

### Major shareholders

Promoters	53.05%
Foreign	14.96%
Domestic Inst.	4.86%
Public & Other	27.13%

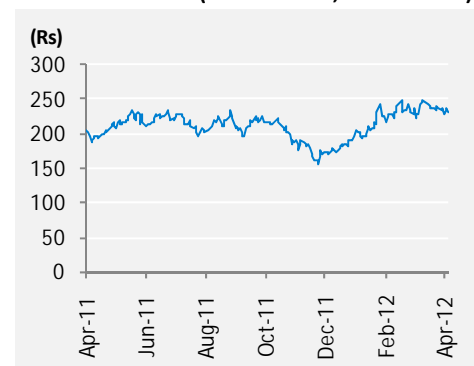
### Stock Performance

(%)	1M	6M	12M
Absolute	1.9	7.2	15.6
Relative	2.4	9.4	25.1

### How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	8.5	6.6	27.8
2014	10.3	8.3	24.5

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



Source: Bloomberg

■ **Jewellery volumes de-grow 7%, Watches up 14%:** Titan's Q4FY12 Sales, EBITDA and PAT came in at Rs22.8bn (up 28%), Rs2.07bn (up 96%) and Rs1.44bn (up 72%) against our expectations of Rs21.7bn, Rs1.78bn and Rs1.39bn, respectively. Watches volumes were up a robust 14% for Q4 and 15% for FY12, whereas Jewellery volumes declined 7% for Q4 but for the full year it was up 5%. Titan added 41 stores during the quarter, taking the total count to 827 stores with more than 1m sq.ft of operational space. Management in the con-call indicated a pick-up in demand in the last two-three weeks in Jewellery sales though Coins sales remained subdued. Eyewear and Precision Engineering posted 17% sales growth (Eyewear revenue growth of 26% for FY12). Strong volume growth in Watches division remained the key highlight of the quarter.

■ **Gold margins flat; Watches EBIT improve QoQ:** Jewellery EBIT posted 29% YoY growth, while margins remained flat at 10.1%. Studded Jewellery mix improved to 32% for the quarter even though for FY12 it came in at 26%. Titan has started promoting affordable diamond jewellery under the price point of Rs10-25k to attract new customers into the segment. Watches margins improved 40bps QoQ led by price increases. Nonetheless, entire benefit of pricing improvement (13%) did not reflect in margins owing to hedging strategy.

■ **Con-call takeaways:** a) Titan is focussing on customer growth in Jewellery segment rather than grammage. b) Aggressive expansion plans ahead in Jewellery – 50 stores and 2.5 lakh sq.ft of space addition in FY13e vs. 1.2 lakh in FY12 c) Clarity yet to emerge on direct gold imports facility – Titan is planning to apply for the licence. d) Though the Gold on Lease model will continue, some savings in intermediary cost is expected owing to direct import mechanism.

■ **Maintain 'BUY'; raise TP to Rs 290:** We like Titan's strategy of expanding its presence in Lifestyle segments, essentially categories where demographic dividend can be most leveraged. We reiterate Titan as our top pick in the Retail space and maintain our 'BUY' rating, with a one-year forward TP of Rs290 (28x FY14e). Price volatility in Gold can act as a deterrent for volume growth.

Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	65,330	88,483	107,939	129,253
Growth (%)	39.7	35.4	22.0	19.7
EBITDA (Rs m)	5,895	8,352	10,256	12,531
PAT (Rs m)	4,331	6,012	7,527	9,185
EPS (Rs)	4.9	6.8	8.5	10.3
Growth (%)	72.4	38.8	25.2	22.0
Net DPS (Rs)	1.3	1.7	2.2	2.7

### Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	9.0	9.4	9.5	9.7
RoE (%)	49.0	47.4	42.6	39.0
RoCE (%)	46.0	47.3	43.3	40.1
EV / sales (x)	3.0	2.2	1.7	1.4
EV / EBITDA (x)	33.3	23.1	18.4	14.6
PE (x)	47.8	34.4	27.5	22.5
P / BV (x)	20.0	13.8	10.2	7.7
Net dividend yield (%)	0.5	0.7	0.9	1.1

Source: Company Data; PL Research

**Exhibit 1: Q4FY12 Result Overview (Rs m)**

	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
<b>Net Sales</b>	<b>22,814</b>	<b>17,776</b>	<b>28.3</b>	<b>24,401</b>	<b>88,384</b>	<b>65,210</b>	<b>35.5</b>
Expenditure	(20,744)	(16,649)		(22,152)	(80,218)	(59,284)	
<b>EBITDA</b>	<b>2,071</b>	<b>1,057</b>	<b>95.8</b>	<b>2,249</b>	<b>8,166</b>	<b>5,856</b>	<b>39.4</b>
<i>EBITDA margins (%)</i>	<i>9.1</i>	<i>5.9</i>		<i>9.2</i>	<i>9.2</i>	<i>9.0</i>	
Depreciation	(125)	(91)		(119)	(449)	(345)	
Other Income	255	244		247	935	560	
<b>EBIT</b>	<b>2,201</b>	<b>1,210</b>		<b>2,377</b>	<b>8,652</b>	<b>6,072</b>	
<i>EBIT margins (%)</i>	<i>9.6</i>	<i>6.8</i>		<i>9.7</i>	<i>9.8</i>	<i>9.3</i>	
Interest	(131)	(82)		(129)	(274)	(151)	
<b>PBT</b>	<b>2,070</b>	<b>1,198</b>		<b>2,247</b>	<b>8,379</b>	<b>5,990</b>	
PBT (excl. exceptional items)	2,070	1,198	72.8	2,247	8,379	5,990	39.9
Tax	(627)	(360)		(608)	(2,334)	(1,654)	
					0		
<b>PAT (recurring)</b>	<b>1,443</b>	<b>838</b>	<b>72.2</b>	<b>1,639</b>	<b>6,044</b>	<b>4,336</b>	<b>39.4</b>
<b>PAT (reported)</b>	<b>1,443</b>	<b>838</b>		<b>1,639</b>	<b>5,998</b>	<b>4,304</b>	<b>39.3</b>

Source: Company Data, PL Research

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

	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
<b>Segment revenues</b>							
Watches	4,138	3,312	24.9	3,831	15,274	12,698	20.3
Jewellery	17,997	13,892	29.5	19,859	70,505	50,460	39.7
Others	920	788	16.8	942	3,288	2,439	34.8
Corporate(unallocated)	15	27	(45.0)	16	252	174	45.1
<b>Total</b>	<b>23,070</b>	<b>18,019</b>	<b>28.0</b>	<b>24,648</b>	<b>89,319</b>	<b>65,770</b>	<b>35.8</b>
<b>Segment EBIT</b>							
Watches	534	120	345.7	480	2,144	1,896	13.1
Jewellery	1,823	1,418	28.5	1,904	6,676	4,548	46.8
Others	(47)	(99)	NA	51	(45)	(181)	NA
<b>Total</b>	<b>2,310</b>	<b>1,439</b>	<b>60.6</b>	<b>2,436</b>	<b>8,775</b>	<b>6,262</b>	<b>40.1</b>
<b>EBIT Margins</b>							
Watches	12.9	3.6		12.5	14.0	14.9	
Jewellery	10.1	10.2		9.6	9.5	9.0	
Others	-5.1	-12.6		5.4	-1.4	-7.4	
<b>Total</b>	<b>10.0</b>	<b>8.0</b>		<b>9.9</b>	<b>9.8</b>	<b>9.5</b>	

Source: Company Data, PL Research

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

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

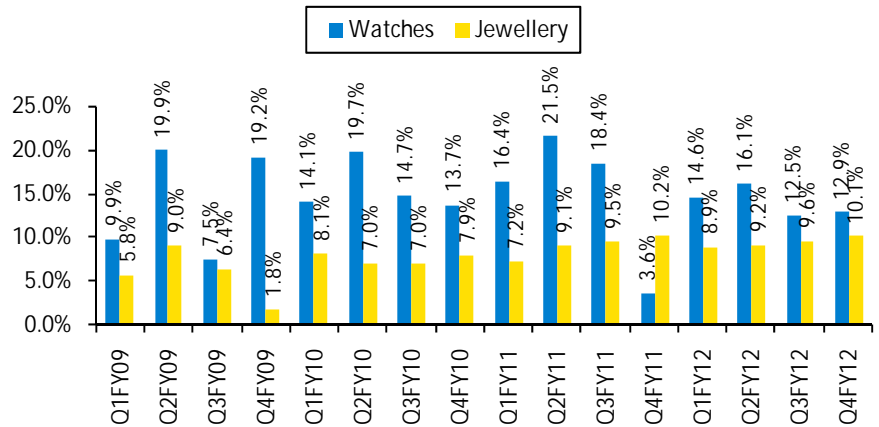
Source: Company Data, PL Research

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

Brand	4QFY12	3QFY12	2QFY12	1QFY12
World of Titan	332	326	317	311
Tanishq	129	129	125	121
Goldplus	32	32	30	29
Helios	25	21	14	9
Fastrack	102	85	64	55
Zoya	2	2	2	2
Titan Eye+	205	191	185	169
<b>Total</b>	<b>827</b>	<b>786</b>	<b>737</b>	<b>696</b>

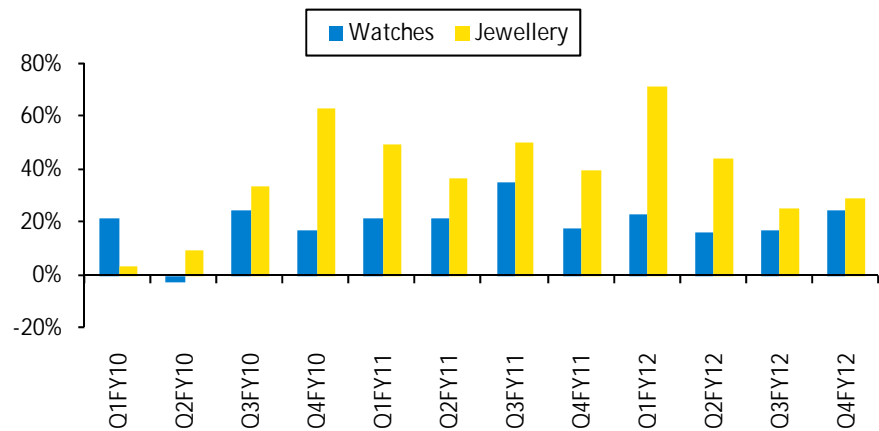
Source: Company Data, PL Research

**Exhibit 5: Watches margins expand 40bps QoQ**



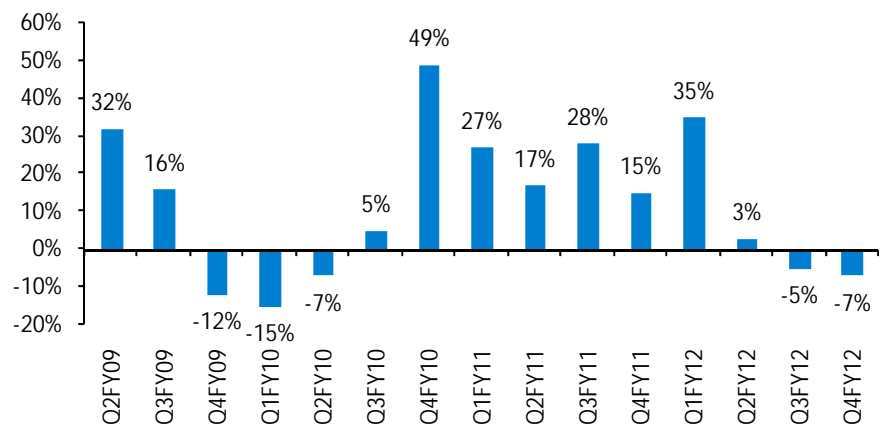
Source: Company Data, PL Research

**Exhibit 6: Jewellery revenues grow 30% in Q4FY12**



Source: Company Data, PL Research

**Exhibit 7: Gold volumes decline 7% on higher base; elevated prices impact demand**



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>88,483</b>	<b>107,939</b>	<b>129,253</b>
Raw Material Expenses	48,037	65,488	79,657	95,007
Gross Profit	17,293	22,996	28,282	34,246
Employee Cost	3,974	3,982	5,181	6,463
Other Expenses	7,424	10,662	12,845	15,252
<b>EBITDA</b>	<b>5,895</b>	<b>8,352</b>	<b>10,256</b>	<b>12,531</b>
Depr. & Amortization	351	452	629	648
Net Interest	82	437	522	624
Other Income	538	946	1,066	1,155
<b>Profit before Tax</b>	<b>6,000</b>	<b>8,409</b>	<b>10,172</b>	<b>12,414</b>
Total Tax	1,668	2,397	2,645	3,228
<b>Profit after Tax</b>	<b>4,331</b>	<b>6,012</b>	<b>7,527</b>	<b>9,186</b>
Ex-Od items / Min. Int.	—	—	—	(1)
<b>Adj. PAT</b>	<b>4,331</b>	<b>6,012</b>	<b>7,527</b>	<b>9,185</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>6.8</b>	<b>8.5</b>	<b>10.3</b>

### Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	10,444	4,674	6,673	9,306
C/F from Investing	9	58	(61)	(205)
C/F from Financing	(1,344)	(1,446)	(2,341)	(2,836)
Inc. / Dec. in Cash	9,110	3,286	4,271	6,264
Opening Cash	1,974	11,084	14,370	18,640
Closing Cash	11,084	14,370	18,640	24,905
FCFF	10,643	4,779	6,664	9,164
FCFE	10,593	4,679	6,564	9,064

### Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
<b>Growth</b>				
Revenue (%)	39.7	35.4	22.0	19.7
EBITDA (%)	48.9	41.7	22.8	22.2
PAT (%)	72.4	38.8	25.2	22.0
EPS (%)	72.4	38.8	25.2	22.0
<b>Profitability</b>				
EBITDA Margin (%)	9.0	9.4	9.5	9.7
PAT Margin (%)	6.6	6.8	7.0	7.1
RoCE (%)	46.0	47.3	43.3	40.1
RoE (%)	49.0	47.4	42.6	39.0
<b>Balance Sheet</b>				
Net Debt : Equity	(1.0)	(0.9)	(0.9)	(0.9)
Net Wrkng Cap. (days)	25	31	33	31
<b>Valuation</b>				
PER (x)	47.8	34.4	27.5	22.5
P / B (x)	20.0	13.8	10.2	7.7
EV / EBITDA (x)	33.3	23.1	18.4	14.6
EV / Sales (x)	3.0	2.2	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	10.5	9.3
Eff. Depr. Rate (%)	5.1	5.8	7.1	6.3
FCFE / PAT	244.6	77.8	87.2	98.7

Source: Company Data, PL Research.

### Balance Sheet Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	10,356	15,022	20,308	26,757
Total Debt	680	580	480	380
Other Liabilities	21	(26)	(77)	(140)
<b>Total Liabilities</b>	<b>11,057</b>	<b>15,576</b>	<b>20,710</b>	<b>26,997</b>
Net Fixed Assets	3,078	3,514	4,012	4,725
Goodwill	—	—	—	—
Investments	26	26	26	26
Net Current Assets	7,953	12,037	16,672	22,246
<i>Cash &amp; Equivalents</i>	<i>11,083</i>	<i>14,369</i>	<i>18,639</i>	<i>24,904</i>
<i>Other Current Assets</i>	<i>23,382</i>	<i>31,696</i>	<i>38,177</i>	<i>45,630</i>
<i>Current Liabilities</i>	<i>26,512</i>	<i>34,028</i>	<i>40,144</i>	<i>48,287</i>
Other Assets	—	—	—	—
<b>Total Assets</b>	<b>11,057</b>	<b>15,576</b>	<b>20,710</b>	<b>26,997</b>

### Quarterly Financials (Rs m)

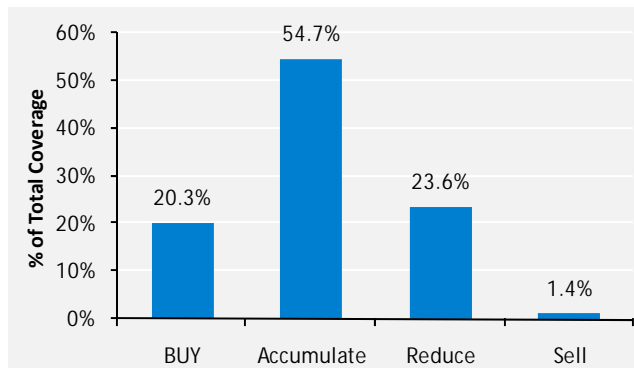
Y/e March	Q1FY12	Q2FY12	Q3FY12	Q4FY12
<b>Net Revenue</b>	<b>20,205</b>	<b>20,963</b>	<b>24,401</b>	<b>22,814</b>
<b>EBITDA</b>	<b>1,845</b>	<b>2,002</b>	<b>2,249</b>	<b>2,071</b>
<i>% of revenue</i>	<i>9.1</i>	<i>9.6</i>	<i>9.2</i>	<i>9.1</i>
Depr. & Amortization	99	106	119	125
Net Interest	11	2	129	131
Other Income	231	201	247	255
<b>Profit before Tax</b>	<b>1,966</b>	<b>2,096</b>	<b>2,247</b>	<b>2,070</b>
Total Tax	532	567	608	627
<b>Profit after Tax</b>	<b>1,434</b>	<b>1,529</b>	<b>1,639</b>	<b>1,443</b>
<b>Adj. PAT</b>	<b>1,434</b>	<b>1,482</b>	<b>1,639</b>	<b>1,443</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	43.1	22.5	19.5
Gold Vol. Gr.	9.2	10.0	15.0	12.0
Watches Vol. Gr.	23.2	17.3	12.4	13.5
Gold EBIT Margin	8.6	9.8	8.8	8.9
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

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.