



Titan Industries

BSE SENSEX	S&P CNX	CMP: INR243	TP: INR250	Neutral						
17,302	5,239									
Bloomberg	TTAN IN									
Equity Shares (m)	887.8									
52-Week Range (INR)	255/154									
1,6,12 Rel. Perf. (%)	0/14/33									
M.Cap. (Rs b)	215.7									
M.Cap. (US\$ b)	4.1									
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	49.7	-	49.6	61.8	-	-
03/12A	88,384	6,048	6.8	38.4	35.9	14.9	48.7	66.8	2.3	24.8
03/13E	107,488	7,621	8.6	27.0	28.3	11.0	44.7	60.0	1.9	19.1
03/14E	129,568	9,552	10.8	25.4	22.6	8.2	36.4	55.6	1.5	11.9

- Titan Inds 4QFY12 results are above estimates with Adj PAT of INR1.4b (est INR1.2b), led by 220bp margin expansion in jewelry and 14% volume growth in watch business even as margins in watch business remained under pressure.
- Jewelry volumes declined 7% due to high gold prices and slowdown in demand. Sales grew 32% and EBIT grew 70%; margins expanded 220bp YoY.
- Watch business reported 27% sales growth (14% volume growth); we estimate ~20% EBIT growth excluding one-time bonus payment impact in 4QFY11; margins remained under pressure as the company continued with aggressive store expansion plan.
- Eyewear sales grew 32% even as LTL sales growth remained under pressure; PE (Precision Engineering) business reported first full year of profit.
- TTAN continues to invest behind new businesses like 1) Fastrack watches and accessories targeting youth, 2) Helios multibrand watch outlets, 3) Titan Eye+ eyewear, and 4) Titan branded premium accessories. Management indicated aggressive store expansion plan in FY13 which includes 50 Tanishq and GoldPlus, 55 World of Titan, 65 Fastrack, 40Helios, 100 Titan One and 20 Titan Eye+ stores.
- Management seems confident of strong growth in key watch brands like Titan, Fastrack and Helios chain; however, higher store rollouts will likely keep margins in check.
- We are upgrading our estimates by 10-12% which is driven by 1) Higher sales growth in watches although with lower margins, and 2) 150bp higher jewelry margins. We note that our FY13 estimates of 21% sales and 26% PAT growth are lower than management estimate of 30% sales and PAT growth.
- The stock trades at 28.3x FY13E and 22.6x FY14E EPS with FY12-14E PAT CAGR of 26%. Maintain **Neutral**.

Y/E March	Quarterly Performance								(INR Million)	
	FY11				FY12				FY11	FY12
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Jewelry Volume Gr %	28	17	28	15	40	3	-5	-7	22	8
Gold Price chg YoY %	23	20	19	23	23	35	38	35	19	32
Net Sales	12,528	15,360	19,546	17,776	20,205	20,963	24,401	22,814	65,209	88,384
YoY Change (%)	41.9	33.9	46.6	35.6	61.3	36.5	24.8	28.3	39.5	35.5
Total Exp	11,415	13,624	17,596	16,718	18,361	18,961	22,272	20,744	59,353	80,054
EBITDA	1,113	1,736	1,950	1,058	1,845	2,002	2,129	2,071	5,856	8,329
EBITDA Growth %	126	61	82	-9	66	15	9.2	95.7	53	42
Margins (%)	8.9	11.3	10.0	6.0	9.1	9.6	8.7	9.1	9.0	9.4
Depreciation	82	86	86	91	99	106	119	125	345	449
Interest	26	24	20	12	11	2	10	131	82	437
Other Income	81	82	155	243	231	201	247	255	561	941
PBT	1,085	1,707	1,999	1,198	1,966	2,096	2,247	2,070	5,990	8,384
Tax	274	430	591	360	532	567	608	627	1,654	1,131
Rate (%)	25.2	25.2	29.6	30.0	27.1	27.1	28.5	30.3	27.6	13.5
Adjusted PAT	812	1,278	1,408	839	1,434	1,529	1,639	1,443	4,336	6,048
YoY Change (%)	258.9	64.7	79.7	1.2	76.6	19.7	16.4	72.0	65.8	39.5
Extraordinary Income	0	0	0	0	0	0	0	0	-32	-47
Reported PAT	812	1,278	1,408	839	1,434	1,529	1,639	1,443	4,304	6,001

Jewelry: Volumes down 7%; margins cross 10% on higher studded jewelry and gold price; store expansion to drive volume growth

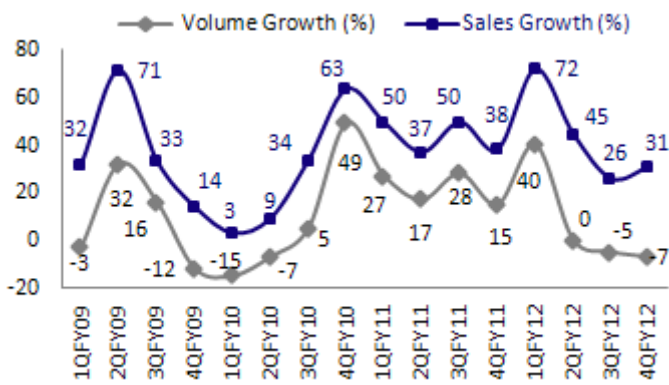
- Jewelry sales grew 32% to INR18b; EBIT grew 70% to INR1.8b; EBIT margin increased 220bp to 10.1%. Studded jewelry proportion was 32% (26.2% in 3Q). Jewelry volumes declined 7%; LTL sales growth in Tanishq was 25% (26% in 3Q) while it was 23% in GoldPlus (13% in 3Q).
- 35% YoY higher Gold prices and poor consumer sentiment impacted the demand conditions.
- TTAN plans to add 50 stores in FY13 under Tanishq and Gold Plus put together; this is expected to be one of the major volume drivers for the company.
- Management seems confident of sustaining strong growth despite regulations like TDS (1% applicable from July) and PAN card. They expect that the above steps will not have any meaningful impact on volumes even as introduction of PAN card at INR0.5m had some impact on demand in Delhi, Chandigarh and Lucknow due to higher cash purchases.
- We are surprised by the margin expansion, which indicates that increased focus on studded jewelry and brands like Mia can actually boost the margin profile of the business further.
- We believe that volume growth post 1QFY13 would be a key factor to watch out for as the pricing impact would decline significantly by that time.
- TTAN management has not quantified the benefit from direct gold import and will give some guidance as the scenario becomes clear.
- We are now factoring in 12% increase in jewelry pieces (8% earlier), 10% increase in realizations, and 150bp higher margins than earlier estimates. Faster recovery in consumer demand can provide upside to our estimates.

Segmental performance: 4QFY12 Jewelry margins cross 10%; watch sales increase 27% YoY

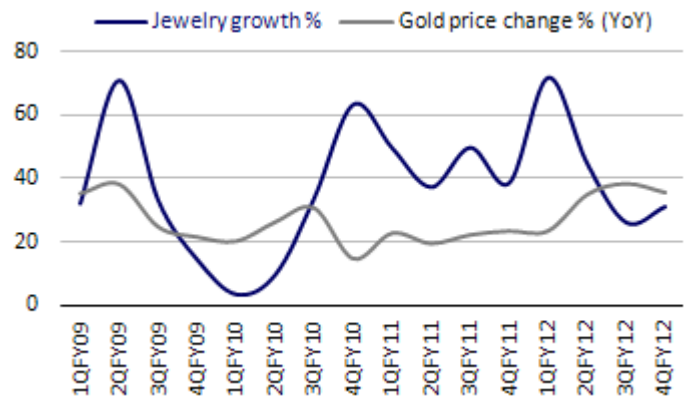
INR m	1QFY11	2QFY11	3QFY11	4QFY11	FY11	1QFY12	2QFY12	3QFY12	4QFY12	FY12
Total Sales	12,584	15,428	19,633	17,662	65,376	20,243	21,138	24,632	23,055	89,227
Watches	2,540	3,594	3,268	3,257	12,665	3,131	4,174	3,831	4,138	15,298
YoY Growth (%)	21.8	21.6	35.6	15.6	23.3	23.2	16.1	17.2	27.0	20.8
Jewellery	9,505	11,274	15,808	13,617	50,272	16,337	16,312	19,859	17,997	70,642
YoY Growth (%)	49.6	37.0	49.9	37.3	43.5	71.9	44.7	25.6	32.2	40.5
Others	538	560	557	788	2,439	775	652	942	920	3,288
YoY Growth (%)	37.5	80.6	38.4	90.5	60.7	44.0	16.3	69.1	16.8	34.8
Total EBIT	1,116	1,754	2,051	1,039	5,973	1,872	2,157	2,316	2,310	9,098
Watches	416	774	602	65	1,862	458	672	480	534	2,168
YoY Growth (%)	46.9	32.9	70.2	-83.7	14.4	9.9	-13.2	-20.2	722.8	16.4
EBIT Margin (%)	16.4	21.5	18.4	2.0	14.7	14.6	16.1	12.5	12.9	14.2
Jewellery	683	1,026	1,500	1,073	4,291	1,450	1,499	1,785	1,823	6,976
YoY Growth (%)	223.0	77.8	102.3	67.8	73.5	112.4	46.0	18.9	69.9	62.6
EBIT Margin (%)	7.2	9.1	9.5	7.9	8.5	8.9	9.2	9.0	10.1	9.9
Others	17	-47	-52	(99)	(181)	(36)	(14)	51	(47)	(45)

Source: Company, MOSL

Jewelry volumes decline 7% YoY ...



... due to volatility in gold prices



Source: Company, MOSL

LTL sales growth slows down; Gold Plus feels more heat

Jewelry	2QFY12		3QFY12		4QFY12	
	Tanishq	GoldPlus	Tanishq	GoldPlus	Tanishq	GoldPlus
Sales Gr %	39	44	33	24	38	36
LTL Growth %	31	49	26	13	25	23
Stores	125	30	129	32	129	32

Source: Company, MOSL

Jewelry volumes decline 5%

Jewelry	2QFY12	3QFY12	9mFY12	4QFY12	FY12
Volume Gr. (%)	3	-5	9	-7	5
Customer Gr. (%)		8	17	4	14
Studded Share (%)	28	26.2	26.9	32	26
Sales Gr. (%)	45	25	44	31	41

Source: Company, MOSL

Watches: 27% sales growth; volume growth at 14%; margins decline due to higher input costs and store expansion

- 4QFY12 watch sales grew 27% YoY to INR4.1b; volume growth increased to 14% (11% in 3Q); volume growth was broad based across brands.
- World of Titan and large format stores reported sharp increase in LTL sales growth; Helios and Fastrack reported decline in LTL sales growth due to store cannibalization
- World of Titan sales increased 18%, Fastrack sales increased 95% and Helios sales increased 3.9x. Like-to-like growth in World of Titan was 14% (8% in 3Q), in Helios at -9% (18% in 3Q) and in Fastrack at 16% (21% in 3Q). Large format watch stores posted a 19% increase in LTL sales growth (-1% in 3Q).
- EBIT margins declined (excluding one-time bonus payment in 4QFY11) due to 1) rupee depreciation, 2) investments in A&P, and 3) retail store expansion.
- Management is positive on the demand scenario and is looking at aggressive expansion across formats like World of Titan (55), Helios (40) and Fastrack (65) in FY13; however, the expansion plans are likely to keep margins under check. We note that EBIT margin of watches 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.

Watch sales growth picks up; aggressive expansion plans across formats

Watches	2QFY12 Gr. (%)			3QFY12 Gr. (%)			4QFY12 Gr. (%)		
	Sales	LTL	Stores (x)	Sales	LTL	Stores (x)	Sales	LTL	Stores (x)
World of Titan	20	16	317	10	8	326	18	14	332
Helios	400	10	14	470	18	21	390	-9	25
Fastrack	100	72	64	77	21	85	95	16	102
LFS - Watches	52	24	NA	24	-1	NA	34	19	NA
Sales Gr		16			17			27	
Volume Growth		19			11			14	

Source: Company, MOSL

Titan Eye+ LTL sales up due to promotions

Titan Eye+	FY12		
	2Q	3Q	4Q
Stores	185	191	205
Sales Gr %	16	77	32
LTL Gr %	-19	26	-1

Source: Company, MOSL

Eyewear sales up 32%; PE business turns first full year of profit; accessories incubated as new growth engine

- Other segments reported 17% increase in sales and EBIT of INR-47m with losses in accessories and Eyewear even as PE had first ever full year of profit.
- Eyewear reported 32% sales growth with LTL sales decline of 1% as previous quarter had impact of consumer activations. Management indicated that Eyewear business will consolidate in FY13 with focus on improving the operations and store addition will be limited to 20.
- TTAN is incubating two new businesses: (1) Fastrack bags, belts and accessories targeting youth, and (2) Titan branded leather accessories targeting premium consumers. Management expects these verticals to have margins in line with watch business in the coming years. We are very positive on Fastrack accessories due to their positioning and focused approach.

Valuation and view: Pick-up in jewelry margins and watches volumes positive; raising estimates 10-12%; Neutral

- While we have been cautious on the volume growth scenario in the Jewelry business, the store expansion strategy of TTAN to drive volumes will work in its favor due to franchisee model. We have increased our margin estimates by 150bp due to strong margins reported in 4Q and FY12. However, we hold the view that volume growth recovery post 1QFY13 would be a key factor to watch out for given that the pricing element will come off significantly.
- We expect delayed margin recovery in watches; however, sales growth momentum remain strong. We are positive on new businesses like Fastrack and Titan accessories due to nascent market and lack of viable brands in these segments.
- We are upgrading our estimates by 10-12% which is driven by 1) Higher sales growth in watches although with lower margins, and 2) Higher jewelry margins by 150bp. We are factoring in 12% increase in jewelry pieces (8% earlier) and 10% increase in realizations; recovery in consumer demand and benefits of aggressive store rollout can provide upside to our sales growth estimates. We note that our estimates of 21% sales and 26% PAT growth are lower than management estimate of 30% sales and PAT growth in FY13. FY12-14E PAT CAGR is 26%.
- Our revised EPS estimates are INR8.6 for FY13 (INR7.8 earlier) and INR 10.8 for FY14 (INR9.6 earlier). The stock trades at 28.3x FY13 and 22.6x FY14E EPS. Maintain **Neutral**.

Titan Industries: an investment profile

Company description

Titan is one of the largest specialty retailers in India. The company is a market leader in watches and a pioneer in the branded jewelry market. The company's economy segment watch 'Sonata' is the largest selling watch in the country. Titan entered the branded jewelry segment in 1996 with the Tanishq brand and continues to be the largest player in this segment.

Key investment arguments

- Titan is a market leader in the organized segment of the domestic watch industry with ~60% market share. The branded watch retailing segment is expected to report strong growth given that 60% of the watch retailing industry is dominated by the unorganized segment.
- Tanishq, Titan's branded jewelry brand, is the largest player in the Rs70b 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 5 years.
- Operating margins are expected to expand, as fiscal benefits from units in backward areas and aggressive cost cutting initiatives undertaken by the company yield results.

Key investment risks

- Rise in gold prices would impact volume growth in Jewelry division impacting the margins.
- Longer than expected break even period of Titan Eye+ is likely to strain profitability of the company.

Recent developments

- During the quarter, the company added 31 stores in watches and 35 stores in Eyewear.

Valuation and view

- Our revised EPS estimates are INR8.6 for FY13 (INR7.8 earlier) and INR 10.8 for FY14 (INR9.6 earlier).
- The stock trades at 28.3x FY13 and 22.6x FY14E EPS. Maintain **Neutral**.

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 put them in a better position.

Comparative valuations

		Titan	Pantaloon	Shoppers Stop
P/E (x)	FY13E	28.3	27.3	35.8
	FY14E	22.6	19.6	26.3
EV/EBITDA (x)	FY13E	19.1	6.7	16.0
	FY14E	11.9	6.2	12.5
EV/Sales (x)	FY13E	1.9	0.6	1.2
	FY14E	1.5	0.6	0.9
P/BV (x)	FY13E	11.0	1.3	4.1
	FY14E	8.2	1.2	3.6

Shareholding pattern (%)

	Mar-12	Dec-11	Mar-11
Promoter	53.4	53.5	53.5
Domestic Inst	4.5	5.9	9.4
Foreign	15.0	13.2	9.7
Others	27.1	27.5	27.4

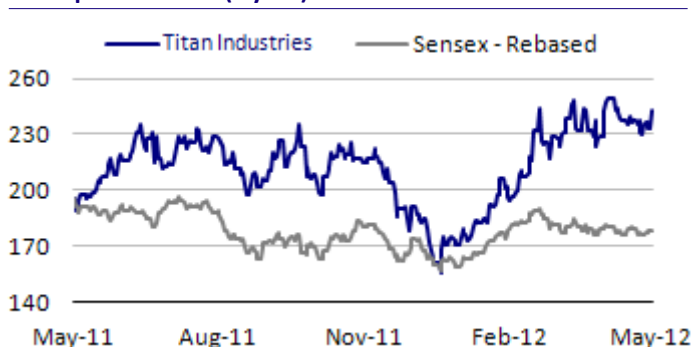
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	8.6	8.4	2.8
FY14	10.8	10.3	4.4

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
243	250	2.9	Neutral

Stock performance (1 year)



Financials and valuations

Income Statement		(INR Million)				
Y/E March	2010	2011	2012	2013E	2014E	
Net Sales	46,744	65,209	88,588	107,488	129,568	
Change (%)	22.9	39.5	35.9	21.3	20.5	
Total Expenditure	42,929	59,353	80,292	96,966	116,567	
EBITDA	3,815	5,856	8,296	10,522	13,001	
Change (%)	17.2	53.5	41.7	26.8	23.6	
Margin (%)	8.2	9.0	9.4	9.8	10.0	
Depreciation	360	345	450	457	523	
Int. and Fin. Charges	254	82	437	520	632	
Other Income - Recur	119	561	958	1,039	1,477	
Profit before Taxes	3,320	5,990	8,367	10,584	13,323	
Change (%)	24.7	80.4	39.7	26.5	25.9	
Margin (%)	7.1	9.2	9.4	9.8	10.3	
Tax	838	1,686	2,523	3,201	4,072	
Deferred Tax	134	32	187	237	302	
Tax Rate (%)	21.2	27.6	27.9	28.0	32.8	
Profit after Taxes	2,615	4,336	6,031	7,621	9,552	
Change (%)	24.7	65.8	39.1	26.4	25.4	
Margin (%)	5.6	6.7	6.8	7.1	7.4	
Reported PAT	2,503	4,336	5,984	7,621	9,552	

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	18,733	25,367	
Net Worth	7,244	10,254	14,499	19,621	26,255	
Loans	728	677	59	200	200	
Deferred Tax	48	15	-38	199	501	
Capital Employed	8,019	10,946	14,520	20,021	26,956	
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	84	59	
Capital WIP	123	194	150	150	150	
Investments	76	91	161	161	161	
Curr. Assets, L&A	18,037	34,224	42,752	54,131	68,522	
Inventory	13,403	19,938	28,787	34,684	41,534	
Account Receivables	936	1,137	1,631	1,791	2,158	
Cash and Bank Balan	1,867	10,949	9,605	14,342	20,871	
Others	1,831	2,200	2,729	3,315	3,958	
Curr. Liab. and Prov.	12,843	26,394	32,437	39,245	47,352	
Current Liabilities	11,496	24,193	29,381	35,709	42,998	
Provisions	1,347	2,201	3,057	3,536	4,354	
Net Current Assets	5,194	7,830	10,314	14,886	21,170	
Miscellaneous Expei	0	0	0	0	0	
Application of Funds	8,019	10,946	14,520	20,021	26,956	

E: MOSL Estimates

Ratios						
Y/E March	2010	2011	2012	2013E	2014E	
Basic (INR)						
EPS	2.9	4.9	6.8	8.6	10.8	
Cash EPS	3.3	5.2	7.3	9.1	11.3	
BV/Share	8.2	11.5	16.3	22.1	29.6	
DPS	0.9	1.5	2.0	2.6	3.2	
Payout %	31.0	30.0	30.0	30.0	30.0	
Valuation (x)						
P/E			35.8	28.3	22.6	
Cash P/E			33.3	26.8	21.5	
EV/Sales			2.3	1.9	1.5	
EV/EBITDA			24.8	19.1	15.0	
P/BV			14.9	11.0	8.2	
Dividend Yield (%)			0.8	1.1	1.3	
Return Ratios (%)						
RoE	41.0	49.6	48.7	44.7	36.4	
Operating RoE	44.2	128.1	175.4	109.3	125.9	
RoCE	53.6	61.8	66.8	60.0	55.6	
Working Capital Ratios						
Debtor (Days)	7	6	7	6	6	
Asset Turnover (x)	5.8	6.0	6.1	5.4	4.8	
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	8,367	10,584	13,323	
Int./Div. Received	119	561	958	1,039	1,477	
Deffered Revenue Ex	0	0	0	0	0	
Depreciation and An	360	345	450	457	523	
Interest Paid	254	82	437	520	632	
Direct Taxes Paid	838	1,686	2,523	3,201	4,072	
Incr in WC	-558	-6,445	3,827	-164	-246	
CF from Operations	3,264	11,573	2,988	8,523	10,865	
Extraordinary Income	-112	0	-47	0	0	
Incr in FA	-63	524	1,456	1,350	1,150	
Investments	0	15	69	0	0	
CF from Invest.	-49	-539	-1,572	-1,350	-1,150	
Issue of Shares	0	0	0	0	0	
Incr in Debt	-1,026	-51	-618	141	0	
Dividend Paid	519	776	1,290	1,818	2,286	
Others	350	1,125	852	761	3,199	
CF from Fin. Activity	-1,895	-1,952	-2,760	-2,438	-5,485	
Incr/Decr of Cash	1,320	9,082	-1,344	4,736	6,530	
Add: Opening Balance	547	1,867	10,949	9,605	14,342	
Closing Balance	1,867	10,949	9,605	14,341	20,871	

N O T E S

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Titan Industries

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