

Titan Industries

₹ 224

*The Right Time***Accumulate**

Jun 14, 2013

Company Background

Titan industries Ltd. (Titan) a Tata Group company started from a scratch in 1984 with a joint venture between the Tata Group and TIDCO. It brought about a paradigm shift in the Indian watch market when it introduced its futuristic quartz technology, complemented by international styling. Today the watch segment has some of the India's top brands like Raga, Sonata, Fastrack, Trendy and Chic in its portfolio. It has sold 150 mn watches world over & manufactures over 15 million watches every year. Entering the largely fragmented Indian jewellery market with no known brands in 1995, Titan Industries launched Tanishq, India's most trusted and fastest growing jewellery brand. Gold Plus, the later addition, focuses on the preferences of semi-urban and rural India. Completing the jewellery portfolio is Zoya, the latest retail chain in the luxury segment. Titan Industries has also made its foray into eyewear, offering a variety of differentiated products to the end consumer consisting of frames, lenses, contact lenses and accessories. Frames are available in both international brands & many in-house brands.

Key Highlights

- ➔ Titan has posted a very good rise in net profit for the QE March 13. The Watch business recorded an growth in income of 9.6%, whereas The income from Jewellery segment grew by 14.8%, crossing the Rs 80 bn mark. Net Sales and PAT of the company are expected to grow at a CAGR of 12 percent and 14 percent over 2012 to 2015E respectively. Titan has also recommended a dividend of 210% this year.
- ➔ Titan's net profit jumped to Rs 1.85 bn against Rs 1.442 bn in the corresponding quarter of FY 2012, an rise of 28.20%. Revenue for the quarter rose 14.53% to Rs 26.13 bn from Rs 22.81 bn, compared with the prior year period. Reported earnings per share of the company stood at Rs 2.08 a share during the quarter, registering 28.20 % increase over previous year period. PBDIT stood at Rs 2.96 bn against Rs 2.32 bn in corresponding previous year.
- ➔ On the demand side, the management remained upbeat citing that last 2 months have been strong driven by fall in gold prices . Rise in gold import duty would be a pass through to the customer.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	47,679.4	65,553.8	88,808.2
Rev. growth (%)	23.01	37.49	35.47
EBITDA (INR mn)	4,485.4	6,699.6	8,959.6
Net profit (INR mn)	2,503.2	4,304.2	6,001.6
Shares outstanding (mn)	44.4	44.4	887.8
EPS (INR)	56.4	97.0	6.8
EPS growth (%)	57.47	71.95	(93.03)
P/E (x)	1.6	2.0	33.8
RONW (%)	39.5	46.3	48.5
ROCE (%)	33.0	42.9	47.0

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: TITN.BO
Bloomberg	: TTAN@IN
NSE	: TITAN
BSE	: 500114

Market Data

52 Wk Range (₹)	: 214 - 300
Shares in Issue (mn)	: 887.8
Mkt. Cap (₹ bn)	: 199.56
BSE 2 Wk Avg Vol	: 766000

Share Holding Pattern (%)

Promoters	: 53.05
DII's	: 2.81
FII's	: 19.08
Others	: 25.06

Investment Theme

Depreciation of the INR vs. the USD is a negative for the watches segment, as it increases the cost of some components which are imported by Titan. However, for Titan, a larger share of revenue and profit is accounted for by jewellery segment, which benefits from INR depreciation as the landed cost of gold increases & hence the rate at which the company will sell to the consumer also increases. This, we believe, will likely help improve realisations and is hence a positive from a revenue growth perspective. Its watches segment also had a weak FY13, but should recover from the low base and deliver a stronger performance in FY14F, we believe. We expect revenue growth of high-teens over the next few years, as both organised jewellery & watches are underpenetrated segments in the consumer discretionary basket. Looking at all the above, We suggest an Accumulate rating on Titan.

Benefiting from the Gold Fall

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	47986.5	65708.6	36.93	89708.7	36.53
Other Income	104.1	836.1	703.17	964.0	15.30
Change in Stocks	1116.7	5002.8	348.00	7518.4	50.28
Raw Material Con.	31489.0	44283.4	40.63	62249.7	40.57
Employee Exp.	2744.9	3651.4	33.02	3923.4	7.45
Indirect Taxes	719.8	1411.7	96.12	2507.4	77.62
Other Exp.	9794.3	15533.5	58.60	20611.0	32.69
Operating Exp.	43631.3	59877.2	37.23	81773.1	36.57
Operating Profit	4355.2	5831.4	33.90	7935.6	36.08
Total Interest	647.1	93.5	(85.55)	84.4	(9.73)
Gross Profit	3812.2	6574.0	72.45	8815.2	34.09
Net Dep.	628.2	616.2	(1.91)	477.5	(22.51)
Total Taxation	680.8	1653.6	142.89	2336.1	41.27
Net Profit/Loss	2503.2	4304.2	71.95	6001.6	39.44

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	7,266.4	7,971.8	10,930.8	14,612.2
Equity Share capital	443.9	443.9	443.9	887.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	5,068.5	6,799.9	9,809.9	13,611.3
Long Term Loans	1,201.7	728.0	148.7	113.1
Short Term Loans	552.3	0.0	528.3	0.0
USES OF FUNDS	7,266.4	7,971.8	10,930.8	14,612.2
Gross Block	5,930.3	6,243.4	6,721.4	7,903.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	3,185.5	3,617.1	3,890.8	4,216.0
Net Block	2,744.8	2,626.3	2,830.6	3,687.4
Capital Work in Progress	195.2	122.9	193.6	306.2
Investments	76.5	76.2	91.2	160.5
Current Assets	14,997.0	18,292.5	34,534.6	43,094.1
Less : Current Liabilities	10,747.1	13,146.1	26,719.2	32,636.0
Total Net Current Assets	4,249.9	5,146.4	7,815.4	10,458.1
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	75.5	75.2	90.3	159.6
Mkt Val. Quoted Investments	1.0	2.5	2.4	2.2
Contingent Liabilities	654.6	1,361.1	1,569.8	2,113.3
Dividend (%)	150	125	175	210

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 12	Sep 12	Dec 12	Mar 13
Net Sales	22,056.50	22,759.80	30,178.00	26,132.40
Cost Of Sales	19,936.90	20,265.70	27,350.50	23,467.30
Operating Profit	2,119.60	2,494.10	2,827.50	2,665.10
Recurring Income	251.80	238.20	222.00	295.10
Adjusted PBDIT	2,371.40	2,732.30	3,049.50	2,960.20
Financial Expenses	126.00	121.40	116.90	142.10
Depreciation	123.20	130.30	141.90	149.50
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	2,122.20	2,480.60	2,790.70	2,668.60
Tax Charges	561.30	679.20	751.50	818.90
Adjusted PAT	1,560.90	1,801.40	2,039.20	1,849.70
Non Recurring Items	0.00	0.00	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	1,560.90	1,801.40	2,039.20	1,849.70

52 Week Index Relative Percentage Appreciation



Titan vs SENSEX vs Consumer Durables

Risks Associated

- With regard to RBI's notification on 04/06/2013 on changes to the terms governing gold imports, Titan post discussion with RBI has obtained clarification to few aspects: i) Gold import for domestic consumption either through banks, nominated agencies or directly can be made only with 100% cash margin and ii) Prohibited any credit from suppliers or bullion banks for gold import for domestic use including all non consignment routes like gold on lease / loan. These notifications would change Titan's financial model as its gold on lease model would cease and it would have to entirely self fund its gold requirements.
- With own cash being utilized towards funding gold requirements, Titan's other income may reduce significantly. Titan may also resort to debt to fund its gold requirements, which in turn may increase interest cost. All this may lead to earnings cut in FY14E/FY15E. Subsequently, it may also reduce the return ratios.
- Titan's working capital cycle may undergo a change post ceasing of gold on lease model. The payables would reduce significantly in FY14E, thereby impacting operating cash flows and free cash flows in FY14E.
- Till now, Titan's model was perfectly hedged due to gold on lease; however now, It would no more enjoy perfect hedge as it would source gold on cash and even with best hedging mechanism, it would carry some risk on gold exposure.
- Titan, runs a gold harvest scheme for its customers, holds about Rs 10bn in current liabilities as advances from customers. Although most of the regulatory concerns seem to have been addressed, there are chances that RBI may intervene and target restricting promotion of gold savings scheme, which might further impact cash flows.

Titan

In a Nutshell

Titan Industries is a Tata Group company which has proved its presence and growth over the years. Starting from a scratch it has India's two most recognized and loved brands Titan and Tanishq to its credit, Titan Industries is the fifth largest integrated own brand watch manufacturer in the world. Titan watches has been in all customer segments with its own brands and also has a license for premium fashion watches of global brands like Tommy Hilfiger, FCUK, Timberland & Police. The company has leveraged its manufacturing competencies and branched into precision engineering components & sub-assemblies, machine building & automation solutions, tooling solutions and electronic sub-assemblies. With over 1,026 retail stores across a carpet area of over 1.3 million sq. ft. Titan Industries has India's largest retail network spanning over 204 towns. The company has over 364 exclusive 'World of Titan' showrooms and over 140 Fastrack stores. It also has a large network of over 742 after-sales-service centres. Titan Industries is also the largest jewellery retailer in India with over 145 Tanishq boutiques and 2 Zoya stores, over 31 Gold Plus stores. It also sports over 220 Titan Eye+ stores. Backed by over 7,000 employees, two exclusive design studios for watches and jewellery, 10 manufacturing units, and innumerable admirers' world over, Titan Industries continues to grow and set new standards for innovation and quality. The organization is all geared to repeat the Titan and Tanishq success story with each new offering.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	Tel : +91-22-22656812 Fax : +91-22-22656985 Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018
	Tel : +91-731-2566361 Fax : +91-731-2562117 Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	Tel : +91-22-30080675 Fax : +91-22-23870767 Email : ie@indiratrade.com

Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

Disclaimer

This document has been prepared by Indira Group of Companies (Indira). Indira and its associate companies are a full fledged retail and institutional broking group. Our research analysts and sales persons provide important input into our investment broking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Indira or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Indira and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Indira reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Indira is under no obligation to update or keep the information current. Nevertheless, Indira is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Indira nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. The Analyst does not have any holding in this stock.

