

August 9, 2010

Rating	BUY
Price	Rs2,782
Target Price	Rs3,000
Implied Upside	7.8%
Sensex	18,173

(Prices as on August 6, 2010)

Trading Data

Market Cap. (Rs bn)	123.5
Shares o/s (m)	44.4
Free Float	46.67%
3M Avg. Daily Vol ('000)	111.2
3M Avg. Daily Value (Rs m)	274.5

Major Shareholders

Promoters	53.33%
Foreign	11.00%
Domestic Inst.	8.87%
Public & Others	26.80%

Stock Performance

(%)	1M	6M	12M
Absolute	12.2	65.0	145.3
Relative	10.3	51.9	125.6

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


Source: Bloomberg

We hosted Mr. Bhaskar Bhat, MD, Titan Industries for a series of investor meetings. Continued robust outlook on Gold and Watches backed by strong consumer demand, urban as well as rural and healthy expansion plans in all the three verticals were the key takeaways.

- Targets Rs10,000cr revenues, 10% EBIT, 25% market share in Gold in next 4 years:** Titan aspires to reach Rs10k crore of Gold revenues, 25% market share in branded jewellery and 10% Gold EBIT margins from its current levels of Rs35bn revenues, 4% market share and 7.5% EBIT margins, respectively, by FY14. Addition of 12-15 stores per year (200 stores by FY15) and increasing proportion of studded jewellery (from 27% now to targeted 40% in FY14) should facilitate the above goals. Efforts at improvement in stock turns, in both Gold and Diamond (which enjoys similar RoCE), shall also help drive margins.
- Watches and Eye-wear to benefit from shift towards branded products:** In Watches, Titan targets to reach 3x its current revenues in 5 years driven by network expansion as well as shift towards branded segment. In Eye-wear, it's already making money in the first 25 stores and targets to reduce the store level break-even to 1 year from 3 years. Overall thrust of Titan remains on quality of execution rather than aggressive expansion.
- Maintain our 'BUY' rating:** We continue to view Titan as a quality play on booming Indian consumerism backed by unmatched brand lineage and strong management. Continued uptick in discretionary urban consumption will act as a key catalyst. Maintain 'BUY' with TP of Rs3,000.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	38,326	46,772	56,658	67,804
Growth (%)	27.9	22.0	19.0	19.7
EBITDA (Rs m)	3,039	3,960	5,107	6,287
PAT (Rs m)	1,748	2,702	3,490	4,442
EPS (Rs)	39.4	60.9	78.6	100.1
Growth (%)	1.8	5.5	2.9	2.7
Net DPS (Rs)	10.0	15.0	21.3	27.1

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	7.9	8.5	9.0	9.3
RoE (%)	34.8	41.9	41.2	39.7
RoCE (%)	37.5	44.8	46.9	46.9
EV / sales (x)	3.1	2.6	2.1	1.8
EV / EBITDA (x)	39.5	30.3	23.5	19.1
PE (x)	70.6	45.7	35.4	27.8
P / BV (x)	22.1	16.9	12.8	9.7
Net dividend yield (%)	0.4	0.5	0.8	1.0

Source: Company Data; PL Research

Gautam Duggad
 GautamDuggad@PLIndia.com
 +91-22-6632 2233



Key takeaways

Jewellery

- In 5 years, Indian Jewellery market to be a Rs135bn size from its current Rs90bn size.
- As the involvement at the time of purchase is highest in Jewellery, quality of execution is far more important to Titan than aggressive store roll-outs. More emphasis given on staff training, design and merchandising aspect as well as brand perception.
- Titan's focus will be on adding large format stores. Targets 200 stores by 2015. At least 12 stores of 20,000 sq.ft.
- Recent research of Titan indicates a slightly counter-intuitive trend, i.e. *demand and Gold price volatility has very little correlation. Demand is more impacted by continual drop in Gold price.* This is at variance with our earlier analysis of past 40 quarters data on volatility and Gold demand off-take which led us to conclude that demand is impacted by severe volatility.
- Competitive intensity is increasing from traditional jewellers but opportunity is big. Despite 7x growth in Titan's Gold revenues from FY05 to FY10, it commands just 4% market share. Intends to take it to 25% in 5 years.
- RoCE similar for both Gold and Diamond. Stock turnover for Gold is <4, for Diamond its <2 and for Jewellery division its 2.3. It believes there is a scope for improvement in stock turn for both Gold as well as Diamond.
- No plans to enter international markets in Jewellery. Management believes though the concept was right, timing was bad in its previous international venture in USA.



Watches

- Indian Watch is Rs30bn market. Titan aims to reach 3x its current revenue size in the next 5 years.
- Undeterred by competitive intensity. Presence of foreign players not new.
- To capture premium end demand via aggressive expansion in 'Helios'.
- From its current network of 2 Helios stores (Bangalore and Chandigarh), it aims to reach 50 and 100 stores in 3 and 5 years, respectively.
- World of Titan contributes 40% of Watches revenues. Multi-brand stores contribute 45%.
- Demand for mid-priced watches stronger in semi-urban localities during downturn. Metros now catching up.
- Without excise benefits at Baddi and Pantnagar, Titan aims to achieve 15% margins in Watches (in-line with Swatch).
- No plans to combine Gold and Watch in one format.

Eye-wear and others

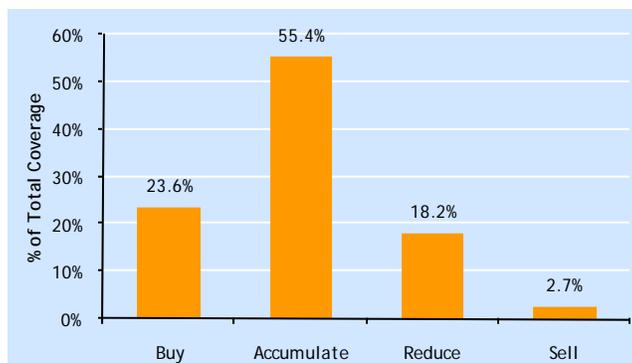
- Vision is to establish Eyewear as "Function + Style" product.
- 25m pieces market growing at 20-25% per annum. Unbranded market constitutes sizable chunk of the opportunity.
- Key objective is to garner 25% market share.
- At steady-state level, single store should do Rs1.5 crore per annum.
- Management aims to reduce the store level break-even to 1 year from existing 3 years.
- Gross margins are higher than Watches (30-40% on customer price).
- As a unit, FY13 break-even is achievable as per management.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

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

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