Titan Industries

Performance Highlights

Y/E March (Rs cr)	1QFY2011	1QFY2010	% chg (yoy)	4QFY2010	% chg (qoq)
Net Sales	1253	883	*41.9*	1,311	*(4.5)*
Operating Profit	111.3	79.4	*40.2*	100.5	*10.8*
OPM (%)	8.9	9.0		7.7	
Net profit	81.3	46.0	*76.5*	75.2	*8.0*

For 1QFY2011, Titan Industries (Titan) reported stellar performance, which was above our expectations. The company reported top-line growth of 41.9% yoy to Rs1,253cr backed by robust performance by the jewellery and watches segment, which grew by 49.6% yoy and 21.8% yoy, respectively. For the quarter, EBITDA and PAT registered yoy growth of 40.2% to Rs111.3cr (Rs79.4cr) and 76.5% to Rs81.3cr (Rs46cr), respectively. Operating margins stood at 8.9% (9%) during the quarter. Owing to expensive valuations, **we maintain a Neutral on the stock.**

Healthy growth in jewellery and watches segment improves performance: During the quarter, Titan's jewellery segment witnessed a stellar growth of 49.6% yoy in revenues to Rs951cr (Rs636cr). Higher off-take of studded jewellery resulted in volumes surging up by ~30%. The jewellery segment also witnessed a surge in EBIT margins by ~380bp yoy to 7.2%. The watches segment revenues witnessed a growth of 21.8% yoy to Rs254cr (Rs208.6cr) on improved sales of high-margin medium/high end watches. EBIT margins of the watches segment improved by 230bp yoy to 16.4% (14.1%). The growth in jewellery and watches segment was driven by a good wedding season in 1QFY2011. Revenue of the company's other businesses: eyeware and precision engineering grew by 37.5% yoy and reported EBIT of Rs1.7cr in 1QFY2011 as compared to a loss of Rs6.7cr in 1QFY2010.

Outlook and Valuation: Although we remain positive on the company's growth prospects, we believe that at 30.4x FY2012E earnings, it discounts the same fairly well. Hence, we maintain our Neutral rating on the stock.

Key Financials

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	3,833	4,678	5,716	7,031
% chg	27.9	22.1	22.2	23.0
Net Profit	163.9	251.0	322.0	408.6
% chg	13.3	53.1	28.3	26.9
EBITDA Margin (%)	7.9	8.5	8.6	8.7
EPS (Rs)	36.9	56.5	72.5	92.0
P/E (x)	75.9	49.6	38.6	30.4
P/BV (x)	22.3	17.0	13.1	10.1
RoE (%)	32.7	38.9	38.3	37.5
RoCE (%)	36.7	39.1	42.3	44.4
EV / Sales (x)	3.3	2.7	2.2	1.8
EV/EBITDA (x)	41.3	31.6	25.4	20.4

Source: Company, Angel Research

NEUTRAL

CMP	Rs2,802
Target Price	-
Investment Period	-

Stock Info	
Sector	Retail
Market Cap (Rs cr)	12,439
Beta	0.9
52 Week High / Low	2,887/1,125
Avg. Daily Volume	20,744
Face Value (Rs)	10
BSE Sensex	17,868
Nifty	5,368
Reuters Code	TITN.BO
Bloomberg Code	TTAN@IN

Shareholding Pattern (%)	
Promoters	53.3
MF / Banks / Indian FIs	12.3
FII / NRIs / OCBs	11.0
Indian Public / Others	23.4

Abs. (%)	3m	1yr	3yr
Sensex	1.8	16.1	17.1
Titan Ind.	31.6	131.3	155.3

Viraj Nadkarni
022-40403800
virajm.nadkarni@angeltrade.com

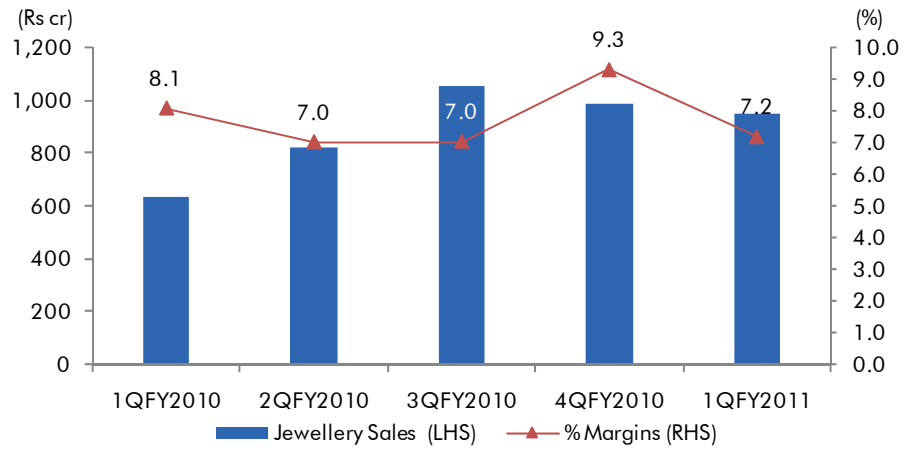
Exhibit 1: 1QFY2011 Performance

Y/E March (Rs cr)	1QFY11	1QFY10	% chg	FY2010	FY2009	% chg
Net Sales	**1,253**	**883**	**41.9**	**4,678**	**3,833**	**22.1**
Consumption of RM	741.9	517.3	43.4	3,030.8	2,429.0	24.8
(% of sales)	59.2	58.6		64.8	63.4	
Staff Costs	77.9	61.6	26.4	277.9	236.5	17.5
(% to sales)	6.2	7.0		5.9	6.2	
Finished Goods purchased	178.4	84.5	111.0	412.2	349.6	17.9
(% to sales)	14.2	9.6		8.8	9.1	
Selling and Admin Exp	63.0	44.5	41.7	211.2	181.4	16.4
(% to sales)	5.0	5.0		4.5	4.7	
Other expenses	80.3	95.6	(16.0)	349.2	332.4	5.1
(% to sales)	6.4	10.8		7.5	8.7	
Total Expenditure	**1,141.5**	**803.5**	**42.1**	**4,281.2**	**3,528.8**	**21.3**
Operating Profit	**111.3**	**79.4**	**40.2**	**396.7**	**303.9**	**30.5**
OPM (%)	8.9	9.0		8.5	7.9	
Interest	2.5	7.6	(66.7)	25.4	28.8	(11.8)
Depreciation	8.2	9.0	(8.6)	60.7	42.4	43.3
Other Income	8.0	0.9	811.4	12.0	5.3	126.6
PBT (excl. Extr. Items)	**108.6**	**63.7**	**70.5**	**322.6**	**238.0**	**35.5**
Extr. Income/(Expense)	-	-		24.0	46.6	
PBT (incl. Extr. Items)	**108.6**	**63.7**	**70.5**	**346.6**	**284.6**	**21.8**
(% of Sales)	8.7	7.2		7.4	7.4	
Provision for Taxation	27.4	17.7	54.6	71.6	74.1	(3.4)
(% of PBT)	25.2	27.8		22.2	31.1	
Reported PAT	**81.3**	**46.0**	**76.5**	**275.0**	**210.5**	**30.6**
Adjusted PAT	**81.3**	**46.0**	**76.5**	**251.0**	**163.9**	**53.1**
PATM (%)	6.5	5.2		5.9	5.5	
Equity shares (cr)	44.4	44.4		44.4	44.4	
EPS (Rs)	**18.3**	**10.4**	**76.5**	**56.5**	**36.9**	**53.1**

Source: Company, Angel Research

Jewellery segment witnesses volume growth, Sales up 49.6%: Titan's jewellery segment witnessed a rise of 49.6% yoy in revenues during the quarter on the back of higher off-take of studded jewellery and 22% rise in gold prices yoy. Volumes are estimated to have grown by ~30% during the quarter. The continuation of growth in volumes provides a clear indication of consumers adapting to the higher gold prices. Moreover, a good wedding season in 1QFY2011 also contributed to the volume growth during the quarter. The EBIT margins have also improved by 380bp yoy to 7.2% during 1QFY2011 post adjustment of the inventory valuation method last year

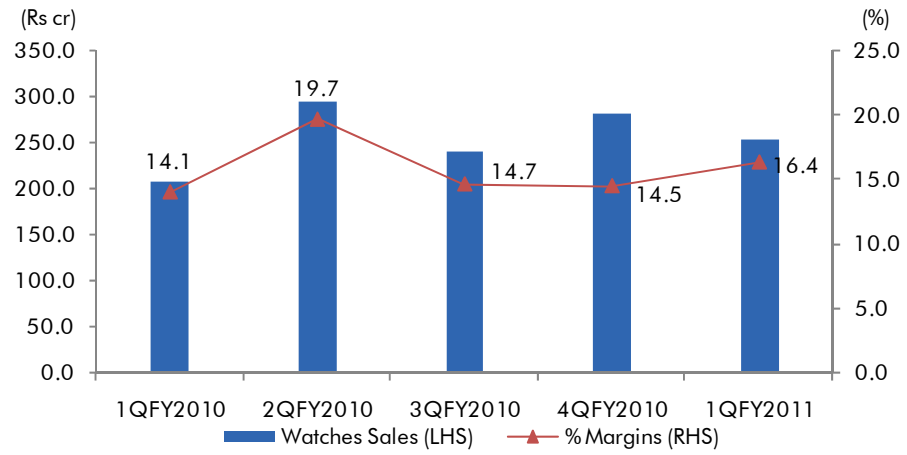
Exhibit 2: Jewellery segment - Sales growth trend and margins



Source: Company, Angel Research

Watches segment revenues up 21.8%, margins improve: The watches segment posted a decent growth of 21.8% on a yoy basis to Rs254cr (Rs208.6cr). Factors like good wedding season during 1QFY2011 and higher off-take of high-margin medium/high-end watches resulted in revenue growth and margin expansion. On the EBIT front, the company witnessed a growth of 41.9% yoy, with margins improving by 230bp to 16.4% (14.1%) in 1QFY2011.

Exhibit 3: Watches segment - Sales growth Trend and margins



Source: Company, Angel Research

Other businesses (eyewear and precision engineering combined) report marginal profit at EBIT level: The other businesses segment comprising eyewear and precision engineering reported sales growth of 37.5% to Rs53.8c (Rs39.1cr) during the quarter. The new eyewear business has grown its retail presence through Titan Eye+ stores to over 40 towns and introduced many innovative products in frames, lenses and sunglasses. The precision engineering division recorded a growth of 59% in sales income as overseas orders showed signs of revival. On the back of improving dynamics, the segment witnessed EBIT of Rs1.7cr during 1QFY2011 as compared to a loss of Rs6.7cr in 1QFY2010. We expect the performance of the segment to improve in the ensuing quarters.

Investment Arguments

Organised national player in watch and jewellery segment

Titan Watches enjoys more than 65% market share in the organised watch segment and 41% market share in organised jewellery retailing. Titan's leadership position enables it to bargain hard with its vendors for bulk discounts resulting in lower cost structure as compared to other regional players. We estimate that this bargaining power of Titan, coupled with its pan-India presence, will enable it to expand its EBITDA margins to 8.7% in FY2012E from 8.5% in FY2008 and PAT margins to 5.8% in FY2012E from 5.4% in FY2010.

Easily scalable franchisee model

Titan operates 85-90% of its stores through the franchisee model, which provides scalability to its business. Titan's strong positioning in the respective segments has aided it to attract and scale up its business through the franchisee model. It also has built a strong retailing network (nearly 500 own stores besides dealers/franchisee arrangements) which is unmatched in the area of specialty retailing. On the back of its further expansion plans and strong demand outlook, we estimate Titan's top-line, EBITDA and adjusted PAT to witness a CAGR of 22.6%, 24.3% and 27.6% over FY2010-12E, respectively.

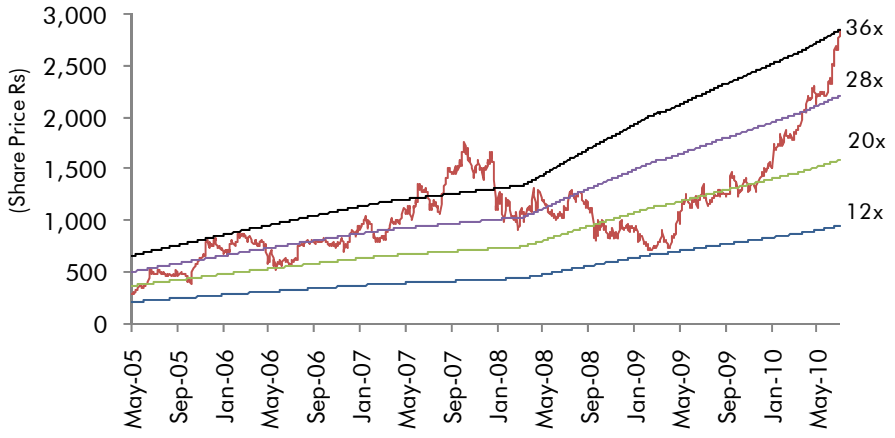
Robust return ratios

Over the years, Titan has consistently posted robust RoE and RoCE, which has also been the highest in industry. Titan has consistently delivered RoE of 35% and above, and we estimate it to maintain RoE of 38.3% and 37.5% in FY2011E and FY2012E respectively, as well on account of high asset-turnover ratio. Titan has a history of operating at a leverage below 1, which has given it high RoCE. We estimate Titan to deliver RoCE of 42.3% and 44.4% in FY2011E and FY2012E, respectively.

Outlook and Valuation

Considering the improving volume trend in the jewellery and watches segments coupled with the company's expansion plans, we expect the company to witness better times going ahead. Although we remain positive on the company's growth prospects, we believe that at 30.4x FY2012E earnings, it discounts the same fairly well. **Hence, we maintain our Neutral rating on the stock.**

Exhibit 4: One-year forward P/E band



Source: Company, Angel Research

Exhibit 5: Key Assumptions- Jewellery Segment

Jewellery Division	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
No. of pieces sold ('000)	8961	10289	10125	10810	11720	12716
Price per piece (Rs)	14325	15032	17903	16850	16754	16203
No. of coins sold ('000)	1,925	1,017	920	1,012	1,113	1,225
Price per piece (Rs)	1343	3080	3660	3,445	3,425	3,312

Source: Company, Angel research

Exhibit 6: Key Assumptions- Watches Segment

Watches Division	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Watches sold ('000)	8964	10286	10110	10680	11720	12657.6
Avg Price/piece(Rs)	819	845	897	928	961	995

Source: Company, Angel Research

Exhibit 7: Peer Valuation

	Mcap	P/E (x)		P/B (x)		EV/Sales (x)		EV/EBITDA (x)		RoE (%)		RoCE (%)	
	(Rs cr)	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Pantaloon Retail	9,456	29.5	22.5	2.9	2.6	1.3	1.0	12.1	10.2	10.4	12.2	13.2	14.7
Shoppers Stop	2,270	37.5	31.8	7.2	5.0	1.4	1.1	17.0	12.9	20.9	19.4	20.9	22.8
Titan Ind	12,439	38.8	30.4	13.1	10.1	2.2	1.8	25.4	20.4	38.3	37.5	42.3	44.4

Source: Company, Angel Research

Profit & Loss Statement

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**2,091**	**2,997**	**3,833**	**4,678**	**5,716**	**7,031**
Other operating income	-	-	-	-	-	-
Total operating income	**2,091**	**2,997**	**3,833**	**4,678**	**5,716**	**7,031**
% chg	*11.9*	*43.3*	*27.9*	*22.1*	*22.2*	*23.0*
Total Expenditure	1,900.0	2,756.9	3,528.8	4,281.2	5,223.1	6,418.0
Net Raw Materials	1,368.7	2,129.3	2,778.5	3,443.0	4,101.4	5,030.6
Other Mfg costs	361.6	430.6	513.8	560.4	775.2	953.5
Personnel	169.7	197.1	236.5	277.9	346.5	434.0
Other	-	-	-	-	-	-
EBITDA	**190.7**	**240.0**	**303.9**	**396.7**	**493.1**	**612.9**
% chg	*30.0*	*25.9*	*26.6*	*30.5*	*24.3*	*24.3*
(% of Net Sales)	*9.1*	*8.0*	*7.9*	*8.5*	*8.6*	*8.7*
Depreciation& Amortisation	26.0	33.3	42.4	60.7	42.0	47.0
EBIT	**164.7**	**206.6**	**261.5**	**336.0**	**451.1**	**565.9**
% chg	*44.2*	*25.5*	*26.6*	*28.5*	*34.3*	*25.4*
(% of Net Sales)	*7.9*	*6.9*	*6.8*	*7.2*	*7.9*	*8.0*
Interest & other Charges	21.2	20.8	28.8	25.4	15.3	11.5
Other Income	6.0	3.4	5.3	12.0	5.3	5.3
(% of PBT)	4.0	1.8	2.2	3.7	1.2	0.9
Recurring PBT	**149.4**	**189.2**	**238.0**	**322.6**	**441.1**	**559.7**
% chg	*86.2*	*26.6*	*25.8*	*35.5*	*36.7*	*26.9*
Extraordinary Income/(Exp.)	-	-	46.60	24.00		
PBT (reported)	**149.4**	**189.2**	**284.6**	**346.6**	**441.1**	**559.7**
Tax	37.7	44.6	74.1	71.6	119.1	151.1
(% of PBT)	*25.2*	*23.6*	*26.0*	*20.7*	*27.0*	*27.0*
PAT (reported)	**111.7**	**144.6**	**210.5**	**275.0**	**322.0**	**408.6**
ADJ. PAT	**111.7**	**144.6**	**163.9**	**251.0**	**322.0**	**408.6**
% chg	*115.8*	*29.5*	*13.3*	*53.1*	*28.3*	*26.9*
(% of Net Sales)	*5.3*	*4.8*	*4.3*	*5.4*	*5.6*	*5.8*
Basic EPS (Rs)	**25.2**	**32.6**	**36.9**	**56.5**	**72.5**	**92.0**
Fully Diluted EPS (Rs)	**25.2**	**32.6**	**36.9**	**56.5**	**72.5**	**92.0**
% chg	*1,692.1*	*29.5*	*13.3*	*53.1*	*28.3*	*26.9*

Balance Sheet

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
SOURCES OF FUNDS						
Equity Share Capital	44.4	44.4	44.4	44.4	44.4	44.4
Preference Capital	-	-	-	-	-	-
Reserves& Surplus	292.7	401.4	513.5	686.8	905.0	1,183.7
Shareholders Funds	**337.1**	**445.8**	**557.9**	**731.2**	**949.4**	**1,228.1**
Total Loans	247.8	210.3	166.6	220.0	170.0	120.0
Deferred Tax Liability	18.1	25.2	18.7	25.8	35.3	44.8
Total Liabilities	**603.0**	**681.3**	**743.2**	**977.0**	**1,154.7**	**1,392.9**
APPLICATION OF FUNDS						
Gross Block	525.8	573.1	605.9	677.0	760.9	856.6
Less: Acc. Depreciation	270.5	295.4	325.9	386.6	428.6	475.6
Net Block	**255.3**	**277.7**	**280.0**	**290.5**	**332.4**	**381.0**
Capital Work-in-Progress	16.4	10.0	19.5	22.0	25.0	30.0
Goodwill	-	-	-	-	-	-
Investments	**31.6**	**2.3**	**1.6**	**1.6**	**1.6**	**1.6**
Current Assets	891.2	1,303.2	1,482.3	1,817.1	2,288.3	2,825.2
Cash	51.0	55.1	56.4	116.3	67.2	79.5
Loans & Advances	63.5	104.9	115.0	141.1	231.4	284.6
Other	776.7	1,143.3	1,310.9	1,559.7	1,989.6	2,461.1
Current liabilities	595.9	913.3	1,040.2	1,154.2	1,492.5	1,844.9
Net Current Assets	**295.4**	**389.9**	**442.1**	**663.0**	**795.7**	**980.3**
Mis. Exp. not written off	4.2	1.3	-	-	-	-
Total Assets	**603.0**	**681.3**	**743.2**	**977.0**	**1,154.7**	**1,392.9**

Cash Flow Statement

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Profit before tax	149.4	189.2	284.6	346.6	441.1	559.7
Depreciation	26.0	33.3	42.4	60.7	42.0	47.0
Change in Working Capital	(310.2)	(366.6)	(167.6)	(248.9)	(429.9)	(471.4)
Less: Other income	6.0	3.4	5.3	12.0	5.3	5.3
Direct taxes paid	37.7	44.6	74.1	71.6	119.1	151.1
Cash Flow from Operations	**(178.5)**	**(192.0)**	**80.0**	**74.8**	**(71.1)**	**(21.2)**
(Inc)./ Dec in Fixed Assets	(111.0)	(48.8)	(31.8)	(52.0)	(130.9)	(103.6)
(Inc)./ Dec in Investments	(3.6)	29.3	0.8	-	-	-
(Inc)/ Dec in loans and advances	74.2	(41.4)	(10.1)	(26.1)	(90.3)	(53.2)
Other income	6.0	3.4	5.3	12.0	5.3	5.3
Cash Flow from Investing	**(34.5)**	**(57.5)**	**(35.9)**	**(66.1)**	**(215.9)**	**(151.6)**
Issue of Equity	2.1	-	-	-	-	-
Inc./(Dec.) in loans	(21.6)	(37.5)	(43.7)	53.4	(50.0)	(50.0)
Dividend Paid (Incl. Tax)	(22.2)	(35.5)	(44.4)	(66.6)	(88.8)	(111.0)
Others	267.0	326.6	45.3	64.4	376.8	346.0
Cash Flow from Financing	**225.3**	**253.6**	**(42.8)**	**51.2**	**238.0**	**185.0**
Inc./(Dec.) in Cash	12.4	4.1	1.3	59.9	(49.1)	12.3
Opening Cash balances	**38.6**	**51.0**	**55.1**	**56.4**	**116.3**	**67.2**
Closing Cash balances	**51.0**	**55.1**	**56.4**	**116.3**	**67.2**	**79.5**

Key Ratios

Y/E March	FY2007	FY2008	FY2009	FY2010	FY2011E	FY2012E
Valuation Ratio (x)						
P/E (on FDEPS)	111.4	86.0	75.9	49.6	38.6	30.4
P/CEPS	90.3	69.9	60.3	39.9	34.2	27.3
P/BV	36.9	27.9	22.3	17.0	13.1	10.1
Dividend yield (%)	0.2	0.3	0.4	0.5	0.7	0.9
EV/Sales	6.0	4.2	3.3	2.7	2.2	1.8
EV/EBITDA	66.3	52.5	41.3	31.6	25.4	20.4
EV / Total Assets	21.0	18.5	16.9	12.8	10.9	9.0
Per Share Data (Rs)						
EPS (Basic)	25.2	32.6	36.9	56.5	72.5	92.0
EPS (fully diluted)	25.2	32.6	36.9	56.5	72.5	92.0
Cash EPS	31.0	40.1	46.5	70.2	82.0	102.6
DPS	5.0	8.0	10.0	15.0	20.0	25.0
Book Value	75.9	100.4	125.7	164.7	213.9	276.7
Dupont Analysis						
EBIT margin	7.9	6.9	6.8	7.2	7.9	8.0
Tax retention ratio	74.8	76.4	74.0	79.3	73.0	73.0
Asset turnover (x)	3.5	4.4	5.2	4.8	5.0	5.0
ROIC (Post-tax)	20.4	23.2	26.0	27.3	28.5	29.7
Cost of Debt (Post Tax)	6.1	6.9	11.3	10.4	5.7	5.8
Leverage (x)	0.7	0.4	0.3	0.2	0.1	0.1
Operating ROE	31.1	30.5	29.9	30.1	31.3	31.2
Returns (%)						
ROCE (Pre-tax)	29.1	32.2	36.7	39.1	42.3	44.4
Angel ROIC (Pre-tax)	30.7	33.5	39.2	40.1	42.5	44.1
ROE	38.9	36.9	32.7	38.9	38.3	37.5
Turnover ratios (x)						
Asset Turnover (Gross Block)	4.4	5.5	6.5	7.3	8.0	8.7
Inventory / Sales (days)	92.1	104.9	107.1	103.3	104.1	105.6
Receivables (days)	16.4	12.0	9.8	8.7	9.2	9.9
Payables (days)	92.1	99.9	101.0	93.5	92.5	94.9
Working capital cycle (ex-cash) (days)	42.4	35.3	34.3	36.4	40.7	42.3
Solvency ratios (x)						
Net debt to equity	0.6	0.3	0.2	0.1	0.1	0.0
Net debt to EBITDA	1.0	0.6	0.4	0.3	0.2	0.1
Interest Coverage (EBIT / Interest)	7.8	9.9	9.1	13.2	29.5	49.2

Research Team Tel: 022 - 4040 3800 E-mail: research@angeltrade.com Website: www.angeltrade.com

DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies 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. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.
This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Note: Please refer to the important `Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	Titan Industries
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	Sell (< -15%)	