

SELL

Rating Mix

CMP	Rs. 226.8
Target Price	Rs. 164.3
Investment Period	12-15months

Stock Info

Sector	Retail
Market Cap (cr.)	2,017
Beta	0.7
52 Week High/Low	238.2/131.5
Average Volume	3,538,181
Face Value (Re.)	1
BSE Sensex	226.1.
Nifty	227.5
Reuters Code	TITAN.BO
Bloomberg Code	TITAN: IN

Shareholding Pattern (%)

Promoters	53.31
MF/Banks/FIs	6.22
FII /NRI's/ OCB's	12.46
Indian Public /Others	28.01

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TITAN INDUSTRIES LIMITED(TIL)

Titan Industries Limited outperformed beyond expectations of all

The Company came up with an outstanding performance for 2010-2011 ahead of our estimates and beating expectations of all market gurus. The Sales income for the year 2010-2011 was Rs.6570.86 crores registering a growth of 39.7% over last year. Titan Industries pursued aggressive growth during 2010-2011 in all its business, protecting and wherever possible enhancing profit margins resulting a very attractive return on capital. At the same time the company invested in strategic initiatives taking into account long term & sustainable growth.

Healthy growth in watches, jewellery and other business segment provides outstanding performance

The Watches business of the Company recorded an income of Rs.1266.46 crores, a healthy growth of 23.3% and enhanced its market share by 1.8% to 45.1%. The income from jewellery segment grew by 43.5%, crossing the Rs.5000 crores mark to Rs.5027.23 crores, contributing to 76% of Company's top line. The Eyewear business expanded rapidly during the year and touched the mark of 150 stores, of Titan Eye Plus, across 48 towns. A host of innovative collections of frames and special lenses, targeting different consumer segments was successfully launched. The B2B business of Precision Engineering also performed much better than the previous year as the Aerospace, Automobile and Automation industries showed signs of recovery from the impact of global economic crisis.

Outlook and Valuation:

Although Titan's robust growth in both the watches and jewellery segment will continue going forward, also the retail expansion plans of company will further fuel growth, we believe that at 46x FY2011 earnings and 42.4x FY2012E earnings is on a very higher side than an average P/E which is 31.2x over last the stock is 8 years, which indicates that the stock is overvalued. **We initiate coverage on stock with a SELL recommendation.**

Key Financials

Y/E March	FY2009	FY2010	FY2011	FY2012E
Net Sales	3,803	4,674	6,521	7891
% chg	27	23	40	21
Net Profit	158.9	250.3	436.8	437.6
% chg	6	57	74	8
EBITDA Margin (%)	7.8	8.4	9.0	8.1
EPS(Rs)	1.8	2.8	4.9	5.3
P/E(x)	32.3	44.1	46.0	42.4
ROE (%)	28.8	34.6	42.6	38.2
ROCE (%)	23.6	32.5	36.7	33.5

Management

Name	Designation
M F Farooqui	Chairman & Director
Bhaskar Bhatt	Managing Director
N N Tata	Director
D Rajendran	Non Executive Officer
Subbu Subramanian	Chief Executive Officer
A R Rajaram	Company Secretary & Compliance

Company Profile

Titan Industries Limited engages in the manufacture and retail of watches, jewelry, and eyewear in India and internationally. Titan Industries is the organization that brought about a paradigm shift in the Indian watch market when it introduced its futuristic quartz technology, complemented by international styling. With India's two most recognized and loved brands Titan and Tanishq to its credit, Titan Industries is the fifth largest integrated watch manufacturer in the world. The success story began in 1984 with a joint venture between the Tata Group and the Tamil Nadu Industrial Development Corporation. Presenting Titan quartz watches that sported an international look, Titan Industries transformed the Indian watch market

The company provides watches under the brands of Titan Edge, Titan Raga, Nebula, Sonata, Xyllys, and Fastrack, as well as Tommy Hilfiger and Hugo Boss. It also offers jewelry under the Tanishq and Gold plus brand names, as well as operates a chain of luxury jewelry boutiques under the Zoya brand. In addition, the company provides eyewear, including frames, lenses, contact lenses, sunglasses, as well as optometric services through its optical outlets under the Titan Eye+ brand. Further, it offers precision engineering components and sub-assemblies, machine building and automation solutions, tooling solutions, and electronic sub-assemblies to the aerospace, automotive, oil and gas, engineering, hydraulics, solar, and medical instruments industries

.With over 665 retail stores across a carpet area of over 8, 10,072 sq. ft. Titan Industries has India's largest retail network. The company has over 311 exclusive 'World of Titan' showrooms and over 829 after-sales-service centers. Titan Industries is also the largest jewellery retailer in India with over 120 Tanishq boutiques and Zoya stores, over 29 Gold Plus stores and over 150 Titan Eye+ stores. The company has two exclusive design studios for watches and jewellery

	Watches	Jewellery	Eyewear
Luxury			
Premium			
Mid-Market			
Mass-Market			

“Titan Industries is the world’s fifth largest integrated watch manufacturer.

The Titan portfolio owns over 60% of the domestic market share in the organized watch market”

“Titan’s exclusive World of Titan and Fastrack showrooms and over 12,000 outlets in more than 2,554 cities in India and after sales service centre’s makes titan the market leader in watch segment”

“From Porters Five Force model we can see that Titan has a strong Bargaining Power over Suppliers & being a domestic market leader in watch segment it has also power over buyers. Titan holds a major share in Mid market & Mass market with brands like Titan, Zoop, Fast track & Sonata which indicates it has no stiff competition & threat of new entrants in Mid & Mass market.

Thus Titan has a Competitive advantage over others.”

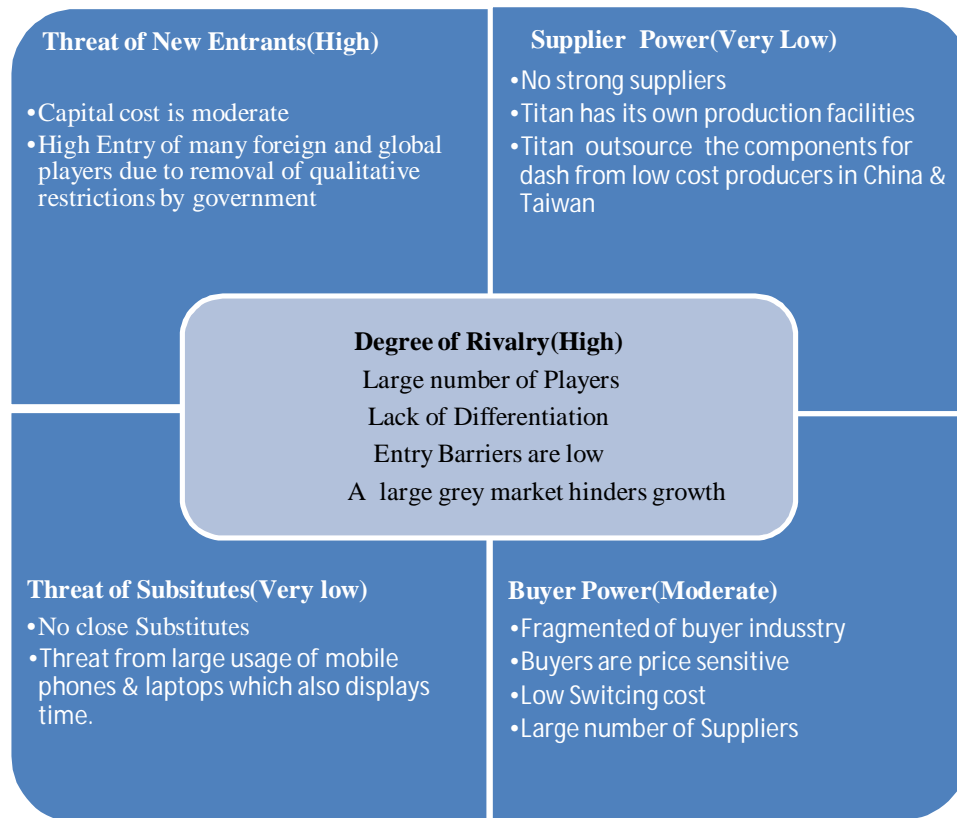
Watches:

Titan Being the world's fifth largest integrated watch manufacturer, Titan Industries has created and sold more than a 110 million pieces the world over. Capturing the important market segments and the changing fashion trends, Titan Industries has brought forth four core watch brands: Titan is designed for the mid-premium segment

- Fastrack is crafted to fit the trendy fashion space with a focus on the youth
- Sonata is created for the mass market and has emerged as India’s largest selling watch brand.
- Xyllys is fashioned for the premium market, aiming at the high-end connoisseur and new-age achiever

The Titan brand architecture comprises several sub-brands, each of which is a market leader in own space. Notable among them are: Titan Edge, Titan Raga, Nebula, Heritage and several other collections like WWF, Zoop, Orion, Purple, Obaku and the Automatic series.

Business Model Analysis



Watches segment revenues up 23.3%:

The watches segment posted a healthy growth of 23.3% ahead of our estimation and enhanced its market share by 1.8% to 45.1%. The Watches business of the Company recorded an income of Rs.1266.46 crores. This was achieved through excellent planning and execution of key initiatives.

Our Analysis:

For the FY2012E we expect the company to register a growth of 7% and sales income of 1439 crores.

Exhibit 1: Watches Segment – Sales growth trend

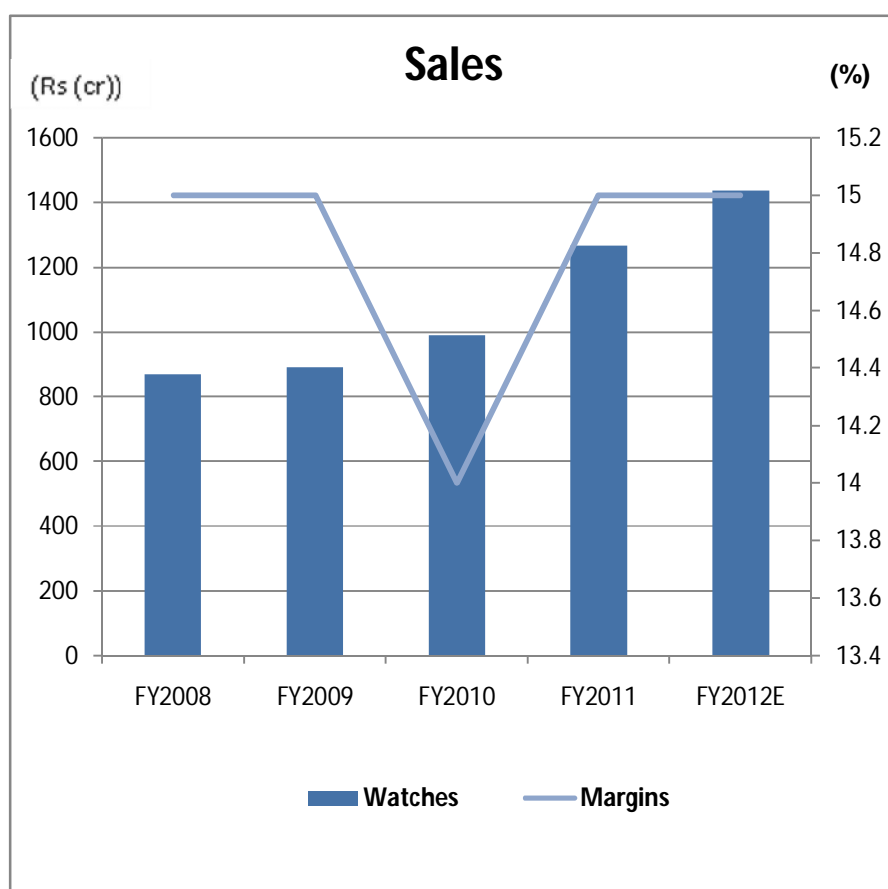


Exhibit 2: Key Assumptions – Watches Segment

Watches division	FY2008	FY2009	FY2010	FY2011	FY2012E
Watches sold('000)	86964	88999	99035	126646	143941
Avg Price/piece	845	918	897	942	989

“Tanishq is the strongest and most aspirational brand in jewellery category & enjoys a market Share of about 40% in branded jewellery segment. Tanishq is one of India's largest specialty retailers and is transforming the jewellery market in India

“Currently Market Share of Tanishq is 2.5% in volume terms”.

“Porters Five Force model indicates that Tanishq has a Strong Brand image which reduces threat of new entrants & competition from other medium players. Since Tanishq has its manufacturing facilities it has a power over suppliers. Tanishq is one of India's largest speciality retailers with 120 Tanishq boutiques, 2 Zoya & 29 Gold Plus stores in India & has innovative schemes such as GHS(Gold Harvest Scheme) and Annutara, a an installment based Jewellery buying initiative, which attracts buyers which indicates it has bargaining power over buyers”

Thus Tanishq has a competitive advantage.

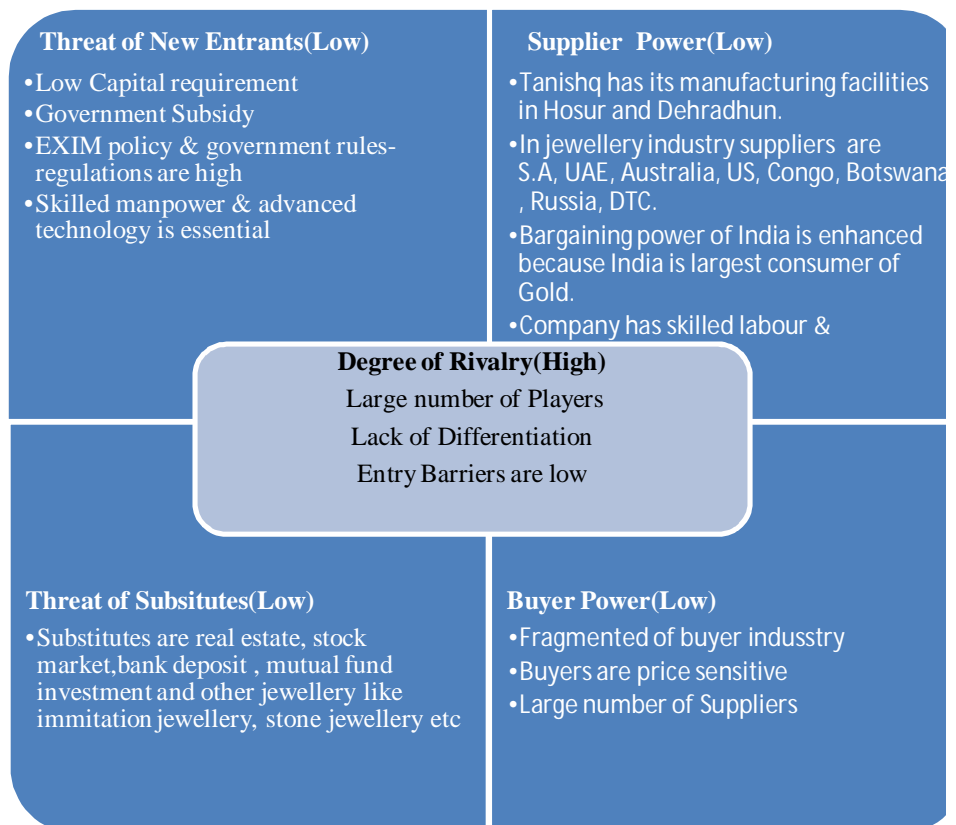
Jewellery:

Titan Industries’ Tanishq has been India’s largest, fastest growing and most popular jewellery brand.

Tanishq offers a premium range of innovatively created gold jewellery with an aesthetic use of diamonds and precious, semi-precious stones in various hues. Arresting designs in 22kt pure gold as well as platinum are among the most admired products on the company’s list. Gold Plus the recent retail plain gold jewellery offering, is specifically created for semi urban and rural Indian market. The brand offers gold jewellery, as well as unique designs crafted with diamonds, American diamonds and other precious stones.

Titan Industries boasts of 120 Tanishq boutiques, 2 Zoya stores and 29 Gold Plus stores in India. The enchanting jewellery patterns that are part of these brands originate in the well-equipped exclusive jewellery design studio of Titan Industries.

Business Model Analysis



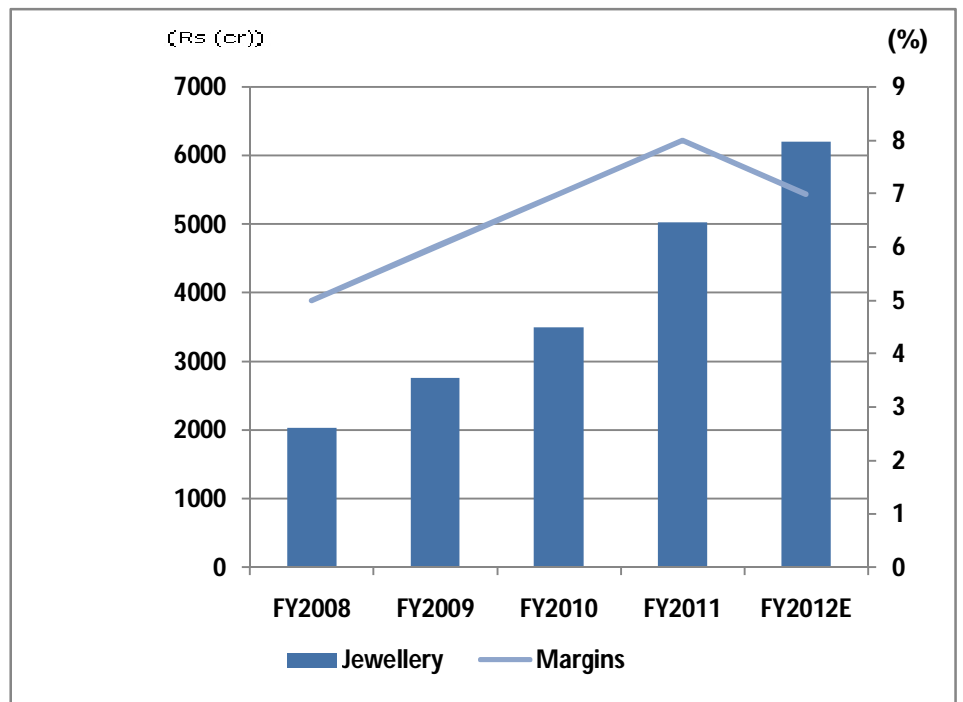
Jewellery segment revenues up 43.5%:

The income from jewellery segment for FY2011 grew by 43.5%, crossing the Rs.5000 crores mark to Rs.5027.23 crores, contributing to 76% of Company's top line ahead of our estimation.

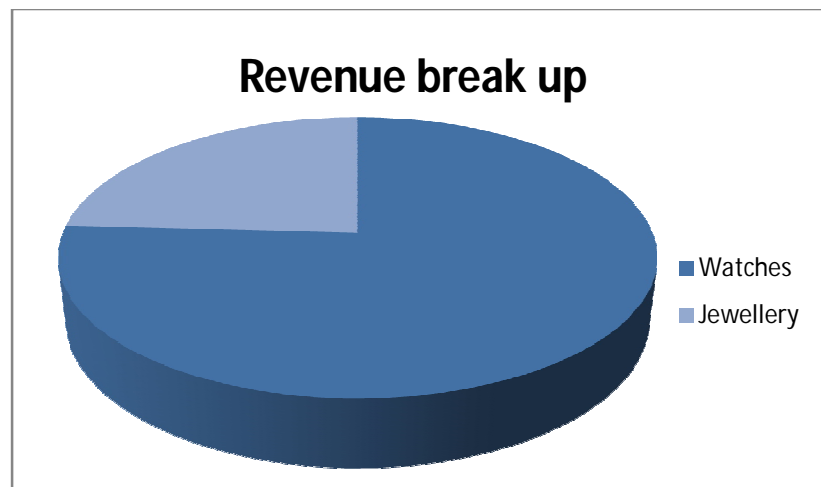
Our Analysis:

For the FY2012 we expect the company to register a growth of 25% and sales income of 6205crores.

Exhibit 3: Jewellery Segment -Sales Growth Trend



“75% of revenue is generated from Jewellery”



Eyewear:

Titan Eye+ of Titan Industries offers sunglasses under its Fastrack brand. Prescription eyewear such as lenses and contact lenses is also part of the range. Titan Eye+ offers frames, sunglasses, and accessories of Titan Industries' in-house brands as well as other premium brands.

Precision Engineering:

The Precision Engineering division of Titan Industries supplies precision components to the aviation and the automotive industry. As an Original Equipment Manufacturer (OEM), the company makes dashboard clocks for car manufacturers in Europe and America.

Equipped with best certifications such as AS 9100B for the aerospace segment, TS 16949 for the automotive segment and the coveted Ford Q1 status - the highest supplier recognition from Ford – Titan Industries also offers fully integrated automation solutions

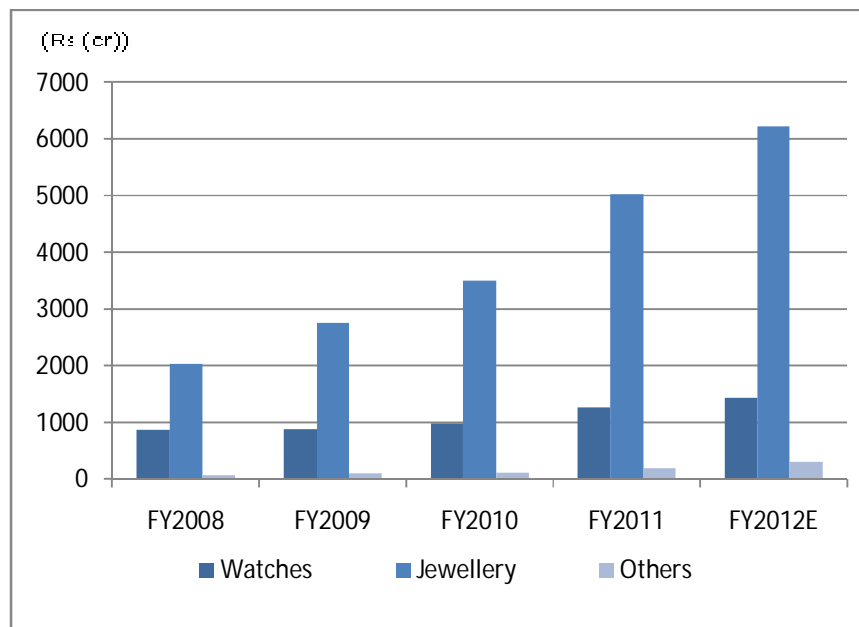
Other business (Eyewear & Precision Engineering combined) reported profit:

Eyewear businesses expanded rapidly during the year and touched the mark of 150 stores, of Titan Eye Plus, across 48 towns. A host of innovative collections of frames and special lenses, targeting different consumer segments was successfully launched. The B2B business of Precision Engineering also performed much better than the previous year as the Aerospace, Automobile and Automation industries showed signs of recovery from the impact of global economic crisis.

Our Analysis:

For the FY2012 we expect the company to register a growth of 52% (combined eyewear & PED) and sales income of 305.9 crores.

Exhibit 4: Product mix trend

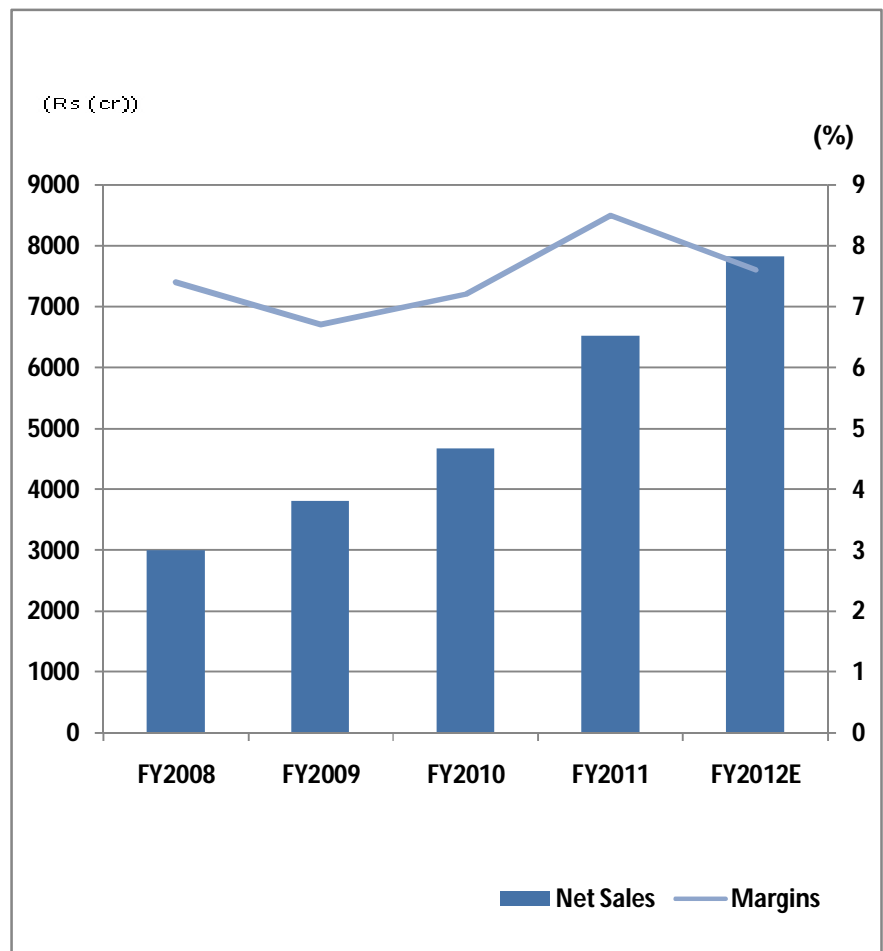


Financial Analysis:

CAGR of 30% expected in TIL's revenues in FY10-12E

We expect TIL's revenues to grow at 30% CAGR to in FY10-12E. TIL's strong growth driven by growth of 35% CAGR in revenues from the jewellery segment and growth of 12% CAGR in the watches segment and 44% growth in others i.e. from eyewear & precision engineering business due to the Eyewear business expanded rapidly during the year and touched the mark of 150 stores, of Titan Eye Plus, across 48 towns and the B2B business of Precision Engineering also performed much better than the previous year as the Aerospace, Automobile and Automation industries showed signs of recovery from the impact of global economic crisis. In our view, the jewellery segment will be the key growth driver for TIL's top line with revenue contribution of over 75% during FY10-12E.

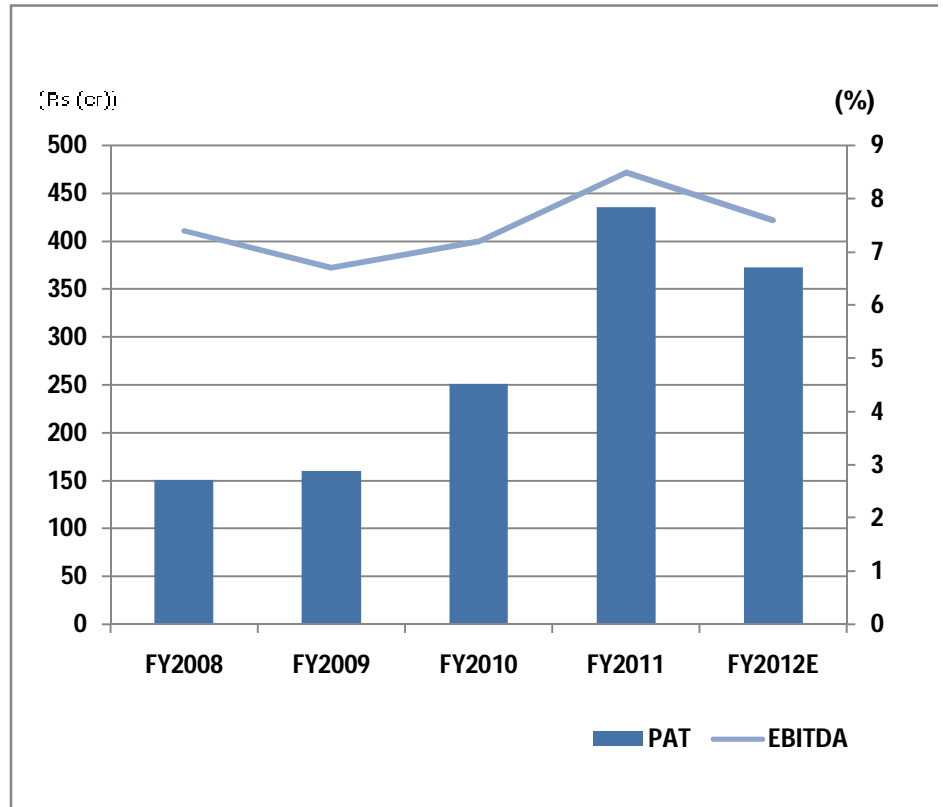
Exhibit 5: Net Sales Growth Trend



Margins Expected to Decline

We expect EBITDA margin to decline to 7.6% in FY12E compared to 8.5% in FY11 due to aggressive expansion of retail network resulting in increase in expenditure and also due to rising prices of commodities such as gold and precious stones. Due to decline in EBITDA margin PAT is expected to decline in FY12E.

Exhibit 6: Margin Movement



Working capital requirement to increase

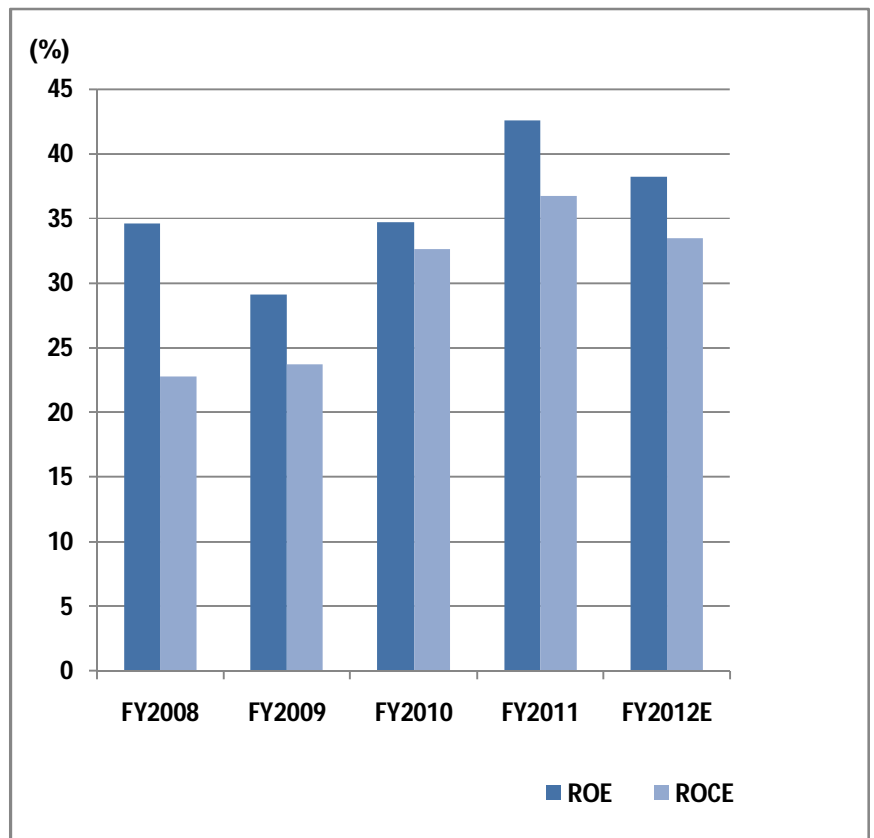
In our view, TIL' working capital will increase in FY12E. Inventory days increased in FY12E to 116 days (vs. 110days in FY2011 and 104 days in FY2010) driven by rising inventory requirements in new stores that are expected to come up in next year.

Asset turnover is increasing which is a positive sign which implies the company has huge potential for sales and its assets are being used efficiently to generate sales.

Return on ratios is expected to decline

We expect TIL's ROE to decline in FY12E at 38.2% as against 42.6% in FY11 due to decline in PAT as the company is expanding aggressively through retail expansions and the costs have increased by decreasing its profit margin. At the same time ROCE dipped to 33.5 in FY12E against 36.5% in FY11 since and the company has reduced its debt which implies that the company is using its own funds to finance its expansion plans and so ROCE has dropped.

Exhibit 7: Return on ratios



Valuations:

Our business analysis model implies that TIL's business is durable business having a competitive advantage over others.

Looking at durability of businesses we have valued TIL businesses by using a Gordon's growth model which is appropriate methodology to calculate fair P/E. Our valuation is based on assuming long term sustainable growth at 4%.

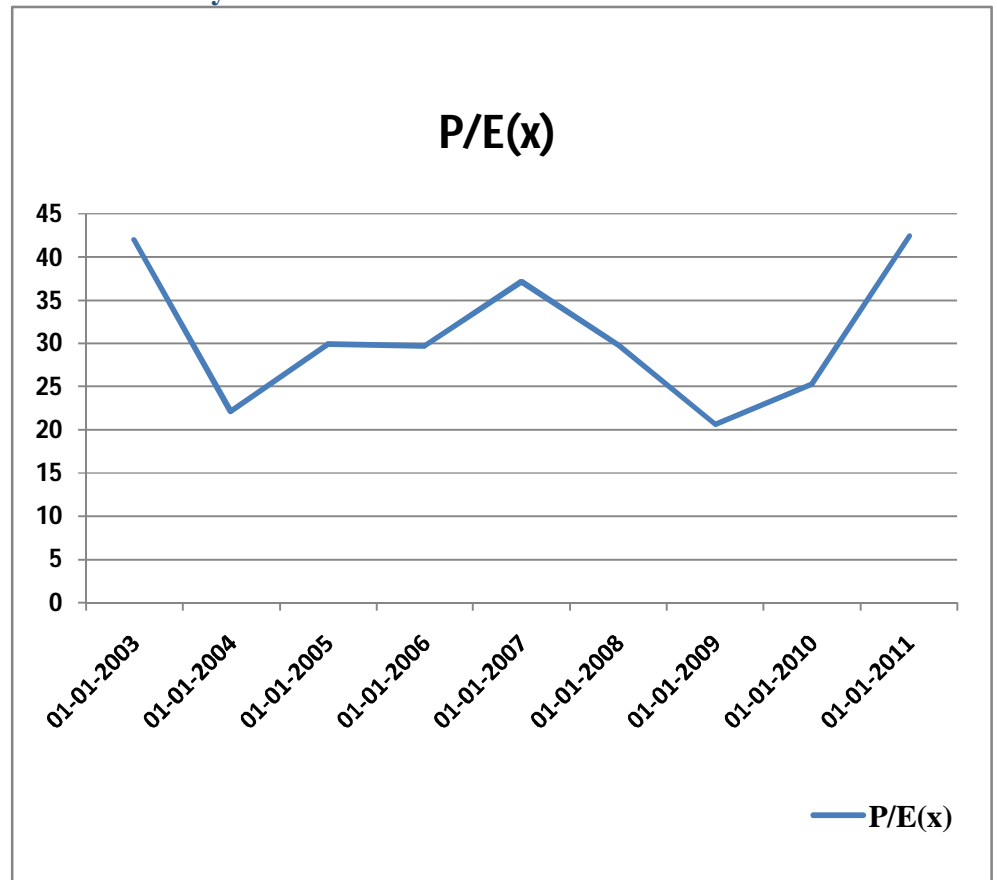
According to Gordon's growth model the fair P/E is 11.2x which implies the fair price of the stock should be Rs.59.3 and the overall historical average P/E of last eight years gives us an average of 31.2x which gives a target price of **Rs.164.3**

Therefore at CMP Rs.226.8 of the stock trading at P/E of 46x in FY11 & 42.4x in FY12E is on very higher price compared to an average P/E of 31.2x which indicates the stock is overvalued. Therefore **we initiate coverage on stock with a SELL recommendation.**

Exhibit 8: Gordon growth model assumptions

ROE (%)	38.2
Terminal growth (%)	4
Beta	0.7
Risk free rate of return (%)	7
Market Premium (Rm-Rf) (%)	7
COE (%)	12
EPS	5.3

Exhibit 9: One year Forward P/E Band



Profit & Loss Statement
Rs. (crores)

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E
Net Sales	2,994	3,803	4,674	6,521	7,891
(% chg)	-	27	23	40	21
Total Expenditure	2,743	3,507	4,279	5,935	7,255
EBITDA	250.4	296.5	394.9	585.6	635.7
(% of Net Sales)	8.4	7.8	8.4	9.0	8.1
Depreciation	29.7	41.8	60.0	34	34
EBIT	220.7	254.7	334.8	551.1	601.5
(% of Net Sales)	7.3	6.7	7.1	8.5	7.6
Interest	20.1	29.4	25.4	8.2	8.1
EBT	200.5	225.2	309.4	542.9	593.3
Other Income	1.8	5.2	11.8	56.1	56.1
PBT	202.3	230.5	321.3	599.0	649.4
(% of Net Sales)	6.7	6.8	7.5	9.2	8.2
(% chg)	-	14	39	86	8
Tax	52.0	71.3	70.9	162.0	176.0
Tax rate (%)	26	31	22	27	27
PAT	150.2	158.9	250.3	436.8	473.6
(% of Net Sales)	5.0	4.2	5.3	6.7	6.0
(% chg)	-	6	57	73	8
EPS	1.7	1.8	2.8	4.9	5.3

Balance Sheet
Rs.(crores)

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E
SOURCES OF FUNDS					
Equity Share Capital	88.8	88.8	88.8	88.8	88.8
Reserves & Surplus	347	462	636	937	1152
Shareholder's Funds	436	551	724	1025	1241
Total Loans	257.8	174.4	72.7	67.7	67.7
Deferred Tax Liability	24.7	18.7	4.7	1.5	1.5
Total Liabilities	719	745	802	1095	1310
APPLICATION OF FUNDS					
Gross Block	558.1	593.0	624.3	672.1	697.1
Less: Acc Depreciation	285.6	318.5	361.6	389.1	423.3
Net Block	272.4	294.0	274.9	283.1	273.8
Capital Work in Progress	9.9	19.5	12.3	19.4	19.4
Investments	47.3	7.6	7.6	9.1	9.1
Current Assets	1269	1478	1803	3422	4302
Current Liabilities	879	1034	1284	2639	3294
Net Current Assets	389	443	519	783	1007
Total Assets	719	745	802	1095	1310

Cash Flow Statement

Rs. (crores)

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E
Net Profit Before Tax	202.3	230.5	321.3	599.0	649.4
Depreciation	29.7	41.7	60.1	34.5	34.2
Others	24.6	37.5	16.5	(42.2)	(47.0)
Operating Profit before working capital changes	256.7	309.8	397.9	591.3	636.7
(Inc)/Dec in Working Capital	(93.8)	(90.9)	78.0	605.9	64.7
Cash generated from operations	162.8	218.8	475.9	1197.2	701.4
Direct tax paid	(60.8)	(59.2)	(13.4)	(172.2)	(175.8)
Net Cash Flow from Operating Activities	101.9	159.6	341.9	1024.9	525.6
Additions to Fixed Assets(inc WIP & advances)	(46.7)	(68.1)	(44.2)	(66.2)	(25)
Proceeds from sale of F.A	0.76	2.45	1.87	0.85	-
Purchase of Investments	(20.8)	0	0	(1.5)	-
Proceeds from sale of investments	0.2	0.7	0.1	-	-
Dividends received	0	0	0	0.01	0.01
Interest received	5.6	7.6	10.5	39.6	55.1
Net Cash Flow From Investing Activities	(61.0)	(57.4)	(31.7)	(14.4)	(30.1)
Proceeds from new Borrowings	346.7	249.1	10.4	0	-
Repayment of Borrowings	(337.0)	(287.5)	(110.5)	(5.42)	-
Dividend Paid	(22.0)	(35.3)	(44.1)	(66.2)	(222)
Tax on dividend Paid	(3.8)	(6.0)	(7.5)	(11.7)	(36)
Interest Paid	(22.9)	(20.1)	(26.2)	(8.0)	(8.1)
Net Cash Flow From Financing Activities	(39.0)	(99.7)	(177.9)	(91.3)	(266.1)
Opening Cash Balance	50.7	51.9	54.6	187.1	1094
Closing Cash Balance	51.9	54.6	187.1	1094	1384
Inc/(Dec) in Cash	1.8	2.5	132	907	289

Key Ratios

Y/E March	FY2008	FY2009	FY2010	FY2011	FY2012E
Valuation Ratios:					
EPS	1.7	1.8	2.8	4.9	5.3
P/E	31.7	32.3	44.1	46.0	42.4
Book Value	4.9	6.2	8.2	11.5	14.0
Returns %					
ROCE	22.9	23.7	32.6	36.7	33.5
ROE	34.6	29.1	34.7	42.6	38.2
Turnover Ratios:					
Asset Turnover	5.4	6.4	7.5	9.7	11.3
Inventory Days	125	115	105	112	116
Debtors Days	11.8	10.2	7.3	6.4	8.0
Creditors Days	87.0	72.5	61.6	107.4	87.8
Solvency Ratios:					
Debt to Equity	0.6	0.3	0.1	0.1	0.1
Interest Coverage	12.5	10.3	15.8	71.3	78.3
Profitability Ratios:					
EBITDA Margin	8.4	7.8	8.5	9.0	8.1
EBIT Margin %	7.4	6.7	7.2	8.5	7.6
PBT Margin %	6.8	6.1	6.9	9.2	8.2
PAT Margin %	5.0	4.2	5.4	6.7	6.0
Liquidity Ratios:					
Current Ratio	1.4	1.4	1.4	1.3	1.3
Quick Ratio	0.3	0.3	0.3	0.5	0.5
WC/Total Assets	0.5	0.6	0.6	0.7	0.8