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19 September 2018

**India****Consumer**

Reuters TITN.BO  
Bloomberg TTAN IB

Priced on 18 September 2018  
CNX Nifty @ 11,278.9

12M hi/lo Rs998.35/575.60

12M price target Rs720.00  
±% potential -13%

Shares in issue 887.8m  
Free float (est.) 47.1%

Market cap US\$10,098m

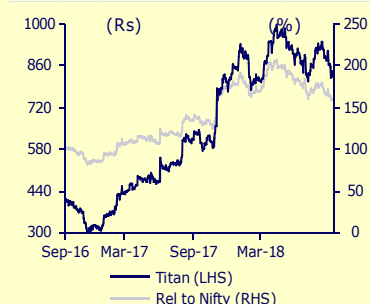
3M ADV US\$39.1m

Foreign s'hlding 21.3%

Major shareholders  
Promoters 52.9%  
FPIs 21.3%

**Stock performance (%)**

	1M	3M	12M
Absolute	(12.4)	(8.0)	27.7
Relative	(10.9)	(11.9)	14.9
Abs (US\$)	(15.3)	(13.7)	12.9



Source: Bloomberg

**Déjà vu moment?****Better fundamentals but uncertainty to weigh on the stock; SELL**

Recent rupee depreciation has prompted the government to hint at a stricter import regime and media reports indicate the possibility of a higher import duty on gold. Even if the government does not take specific action to curb gold imports in the near term the overhang would still remain as actions could be staggered. Titan's better competitive position and gold exchange plans are safeguards but the risk is from its premium valuation. Growth concerns also exist after Titan missed its jewellery growth guidance in 1QFY19 but retained its 25% guidance for the rest of FY19. We thus downgrade our rating from Outperform to SELL and lower our target price from Rs1,050 to Rs720.

**2013 was a tough period for the gold industry...**

2013 was tough for India's economy due to a sharp rally in crude oil prices, steep rupee depreciation & a widening current account deficit, ahead of general elections. Since gold was the 2<sup>nd</sup>-largest contributor to the import bill, regulators imposed a series of restrictions: higher customs duty, a ban on gold-on-lease and a 80:20 scheme (quantity restrictions) to limit gold imports. Titan's stock declined >35% between Dec 2012 and Jun 2013 led by a PE derating and earnings cuts.

**... and the current scenario raises similar concerns**

The current situation is not very different from 2013/14. Crude oil prices are on an uptrend, the rupee has depreciated 7% over the past three months to Rs71.9:US\$1 and concern is rising on a widening of the current account deficit (CAD) ahead of the 2019 national elections. Media reports already indicate the possibility of a further increase in gold import duties (from 10%). If the current situation persists, tightening cannot be ruled out as gold remains among the top three imported items and the government's actions could be staggered.

**Titan is certainly better placed than last time**

While the CAD is widening, the situation is not as grave as it was in 2013. Also, Titan has focused on increasing the salience of gold exchange which was as much as c.40% of FY18 gold procurement and the target is to take this up to c.50% by FY23. Also, unlike 2013, overall competitive intensity is benign with regional and local retailers struggling to survive post measures like demonetisation and GST. Brand metrics for Tanishq have been their strongest for the past many years.

**Downgrade to SELL**

Despite being better placed than the previous cycle we are worried of the impact of a potential hawkish stance on gold regulations which could weigh on Titan's premium valuation. Growth concern also exists after Titan missed its jewellery growth guidance in 1QFY19 though retained its 25% guidance for FY19. We cut our rating to SELL and lower our target price to Rs720 (32x Sep 20CL earnings).

**Financials**

Year to 31 March	17A	18A	19CL	20CL	21CL
Revenue (Rsm)	126,145	156,213	186,542	222,344	261,905
Ebitda (Rsm)	11,954	17,333	21,604	26,231	30,802
Net profit (Rsm)	8,329	12,512	14,927	18,186	21,393
EPS (Rs)	9.4	14.1	16.8	20.5	24.1
CL/consensus (19) (EPS%)	-	-	99	99	100
EPS growth (% YoY)	19.4	50.2	19.3	21.8	17.6
PE (x)	87.9	58.5	49.0	40.3	34.2
Dividend yield (%)	0.3	0.5	0.5	0.5	0.7
PB (x)	17.0	14.1	11.6	9.5	7.8
ROE (%)	21.2	26.3	26.0	26.0	25.1
Net debt/equity (%)	(26.6)	(11.8)	(18.1)	(21.7)	(25.8)

Source: www.clsa.com

## Financials at a glance

Year to 31 March	2017A	2018A	2019CL	(% YoY)	2020CL	2021CL
<b>Profit &amp; Loss (Rsm)</b>						
Revenue	126,145	156,213	186,542	19.4	222,344	261,905
Cogs (ex-D&A)	(92,740)	(113,857)	(139,378)		(167,334)	(198,527)
Gross Profit (ex-D&A)	33,406	42,356	47,164	11.4	55,010	63,378
SG&A and other expenses	(21,452)	(25,023)	(25,560)		(28,778)	(32,576)
Op Ebitda	11,954	17,333	21,604	24.6	26,231	30,802
Depreciation/amortisation	(932)	(1,097)	(1,450)		(1,700)	(1,950)
Op Ebit	11,022	16,237	20,154	24.1	24,531	28,852
Net interest inc/(exp)	276	387	577	49.1	726	861
Other non-Op items	0	0	-		-	-
Profit before tax	11,298	16,624	20,731	24.7	25,258	29,712
Taxation	(2,969)	(4,112)	(5,805)		(7,072)	(8,319)
Profit after tax	8,329	12,512	14,927	19.3	18,186	21,393
Minority interest	0	0	0		0	0
Net profit	8,329	12,512	14,927	19.3	18,186	21,393
Adjusted profit	8,329	12,512	14,927	19.3	18,186	21,393
<b>Cashflow (Rsm)</b>						
Operating profit	11,022	16,237	20,154	24.1	24,531	28,852
Depreciation/amortisation	932	1,097	1,450	32.2	1,700	1,950
Working capital changes	(2,318)	(9,484)	(6,896)		(8,141)	(8,995)
Other items	8,046	(4,857)	(1,998)		(5,966)	(6,939)
Net operating cashflow	17,682	2,992	12,709	324.7	12,125	14,868
Capital expenditure	(1,997)	(2,606)	(4,000)		(3,500)	(3,500)
Free cashflow	15,685	387	8,709	2,153.4	8,625	11,368
M&A/Others	(3,792)	(2,486)	952		1,051	1,161
Net investing cashflow	(5,789)	(5,092)	(3,048)		(2,449)	(2,339)
Increase in loans	(1,131)	0	0		0	0
Dividends	(36)	(2,774)	(4,007)		(4,007)	(4,808)
Net equity raised/other	(371)	(476)	(375)		(325)	(300)
Net financing cashflow	(1,537)	(3,250)	(4,382)		(4,332)	(5,108)
Incr/(decr) in net cash	10,356	(5,349)	5,280		5,344	7,420
Exch rate movements	0	0	0		0	0
<b>Balance sheet (Rsm)</b>						
Cash & equivalents	11,473	6,123	11,403	86.2	16,747	24,167
Accounts receivable	1,154	1,930	2,305	19.4	2,747	3,236
Other current assets	52,636	62,718	74,885	19.4	89,247	105,118
Fixed assets	8,552	10,150	12,700	25.1	14,500	16,050
Investments	5,116	7,338	7,338	0	7,338	7,338
Intangible assets	0	0	0		0	0
Other non-current assets	4,571	5,226	6,231	19.2	7,417	8,727
Total assets	83,502	93,484	114,860	22.9	137,996	164,635
Short-term debt	0	0	0		0	0
Accounts payable	27,526	23,902	28,542	19.4	34,020	40,073
Other current liabs	12,878	18,122	23,989	32.4	27,518	31,569
Long-term debt/CBs	0	0	0		0	0
Provisions/other LT liabs	(22)	(481)	(531)		(581)	(631)
Shareholder funds	43,120	51,940	62,860	21	77,039	93,623
Minorities/other equity	0	0	0		0	0
Total liabs & equity	83,502	93,484	114,860	22.9	137,996	164,635
<b>Ratio analysis</b>						
Revenue growth (% YoY)	13.8	23.8	19.4		19.2	17.8
Ebitda margin (%)	9.5	11.1	11.6		11.8	11.8
Ebit margin (%)	8.7	10.4	10.8		11.0	11.0
Net profit growth (%)	19.4	50.2	19.3		21.8	17.6
Op cashflow growth (% YoY)	212.0	(83.1)	324.7		(4.6)	22.6
Capex/sales (%)	1.6	1.7	2.1		1.6	1.3
Net debt/equity (%)	(26.6)	(11.8)	(18.1)		(21.7)	(25.8)
Net debt/Ebitda (x)	-	-	-		-	-
ROE (%)	21.2	26.3	26.0		26.0	25.1
ROIC (%)	26.5	37.9	35.6		36.8	36.5

Source: www.clsa.com

We would like to thank Evalueserve for its help in preparing our research reports. Bhavik Mehta (IT); Kamal Verma (Banking & Financial Services); Kushal Shah (Midcaps), Mihir Manohar (Capital Goods, Utilities, Power); and Suraj Yadav (Cement, Oil & Gas) provide research support services to CLSA.

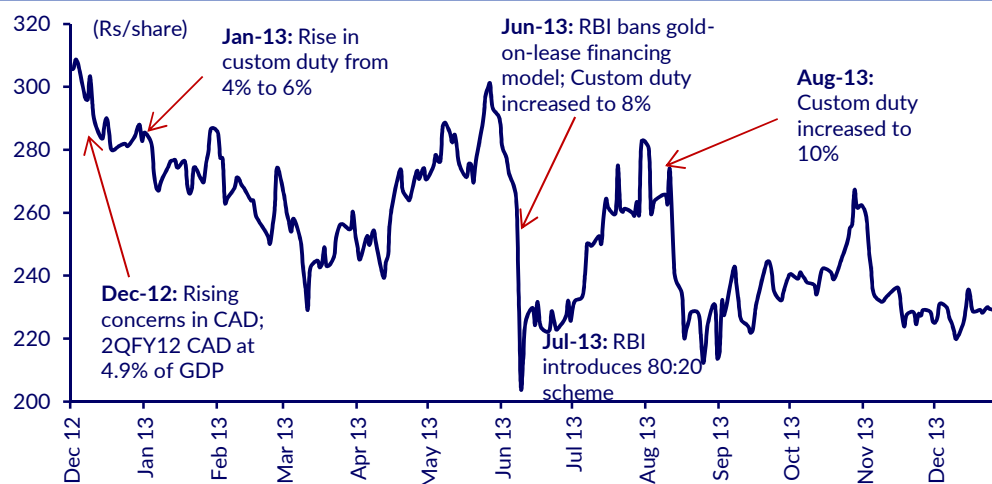
Titan stock price corrected >35% between Dec 2012 to Jun 2013 as regulators introduced a series of measures to limit gold imports

The CAD has been gradually widening and Jun 2018 number was 2.4% of GDP

### The CAD is worsening with the rise in crude and rupee depreciation

Figure 1

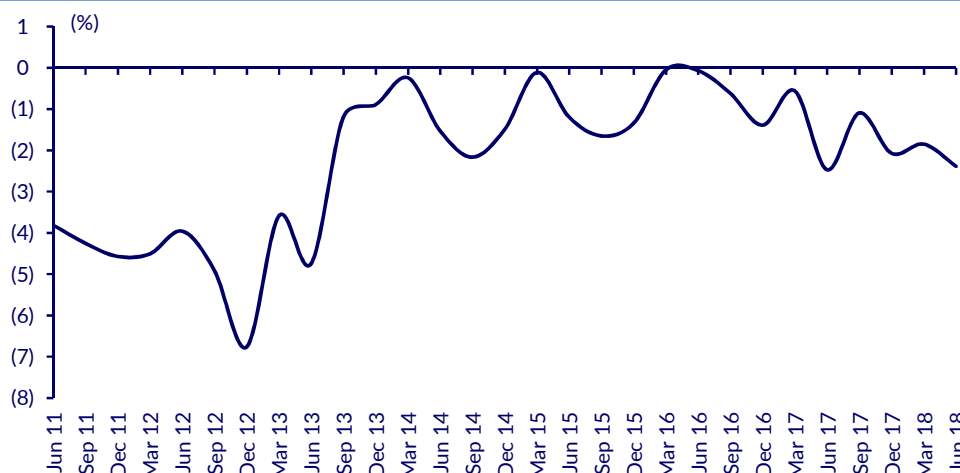
#### Titan stock price performance in 2013



Source: Bloomberg, CLSA

Figure 2

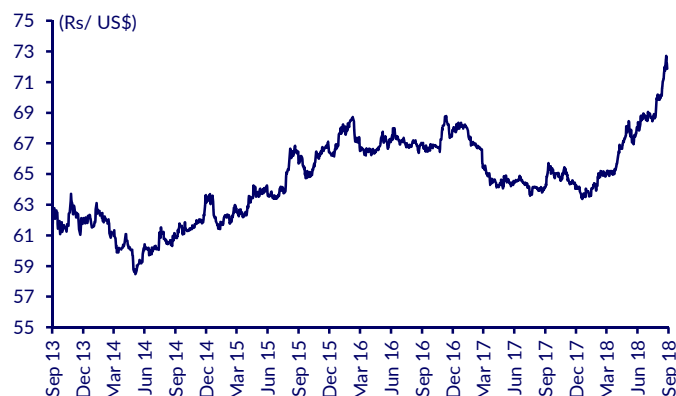
#### CAD as a percentage of GDP



Source: CMIE

Figure 3

#### Trend in Rupee



Source: Bloomberg

Figure 4

#### Trend in crude



Gold forms c.8% of the overall import basket and excluding crude oil its share is c.10%

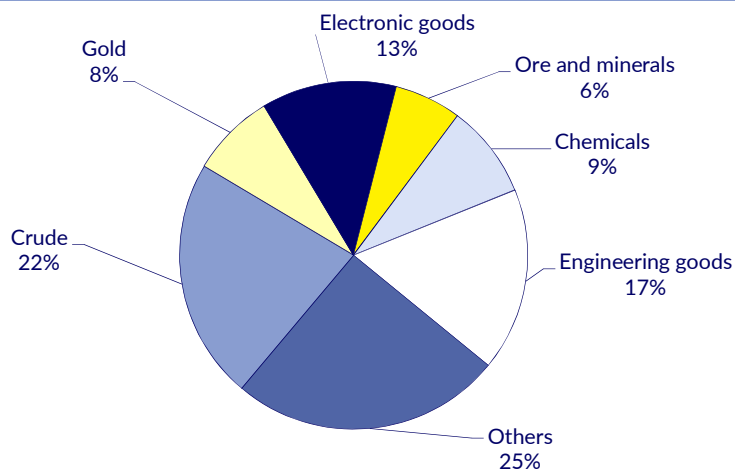
FY18 gold imports rose 17% YoY

Curbing gold imports has helped to narrow the CAD in the past

### Gold is one of the top three components in the import basket

Figure 5

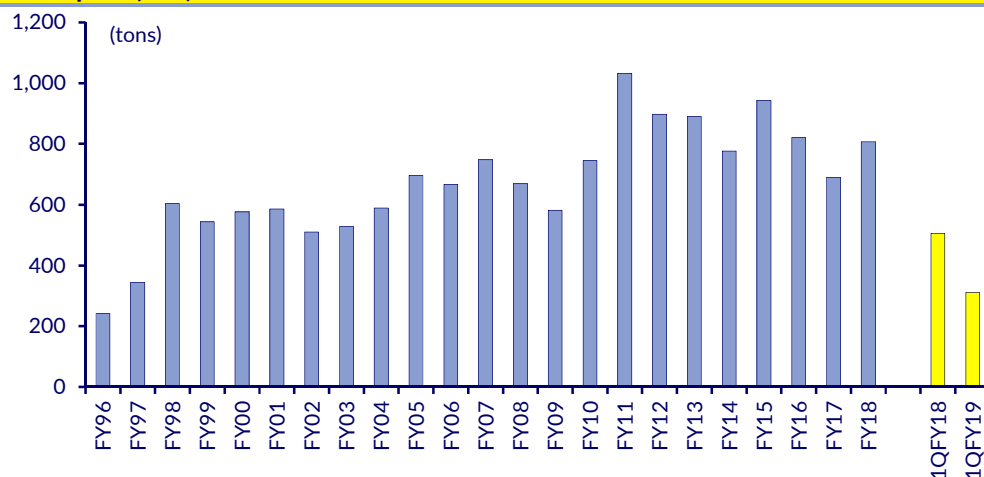
#### India's import basket



Source: CMIE

Figure 6

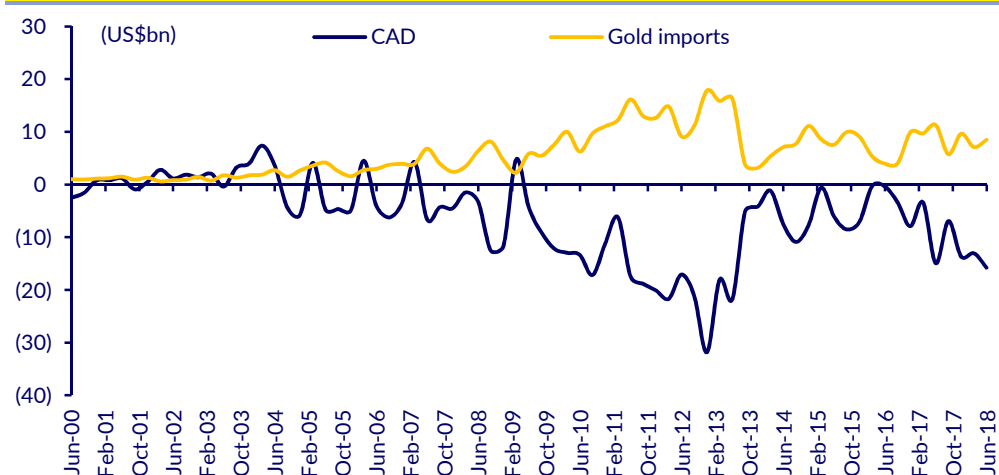
#### Gold imports (tons)



Note: Net bullion imports by India; Source: World Gold Council

Figure 7

#### Gold imports and CAD



Source: CMIE

The déjà vu moment of 2013

The Indian government raised gold custom duties from 1% in 2011 to 13% by Aug 2013

The customs duty on gold has remained steady since 2013

### A Déjà vu moment?

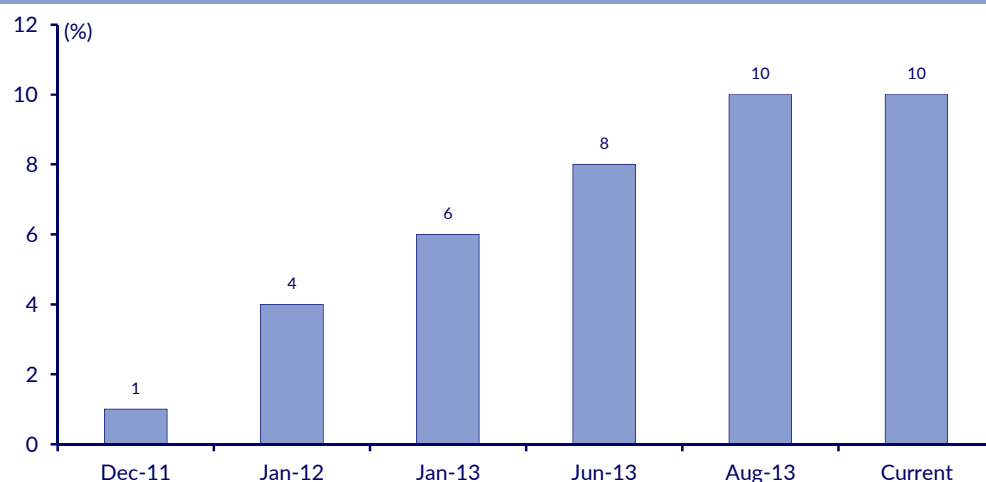
A sharp rise in crude, current account deficit and Rupee depreciation has brought back memories of 2013 when government and RBI introduced series of regulations to restrict gold imports:

#### No.1: Increase in gold customs duty

- ❑ Indian government raised custom duty on import of gold from 1% in Dec-11 to 10% in Aug-13.
- ❑ While the rates have been steady since 2013, there are media reports now speculating a possible hike in duties as one of the steps to address current concerns surrounding CAD deficit and Rupee depreciation.
- ❑ Increase in import duties raises gold prices in the domestic market which should impact its demand over the medium term.
- ❑ However, imposition of higher duties encourages smuggling and there were instances reported in the media post the duty hikes in the past. This had a much higher impact on the organised industry cf. local players.

Figure 8

#### Gold customs duty rate



Source: CLSA

Figure 9

#### Media reports on the possible hike of the customs duty on gold

In a bid to stem the free fall of Indian rupee, the government may be looking to hike tariffs on the yellow metal. An import duty on gold may help Centre to keep India's widening current account deficit (CAD) under control. The gold import bill nearly doubled to \$3.6 billion in August.

India's CAD jumped to 2.4 per cent of GDP in the first quarter of FY19, from 1.9 per cent in March 2018. The drop in value of rupee and spike in international crude oil prices may force the government to curb imports of non-essential commodities.

Surendra Mehta, national secretary, India Bullion & Jewellers Association (IBJA) told The Economic Times that the best option for government in the present scenario is to increase the import duty on gold by 2 per cent.

Source: Business Today article dated 17<sup>th</sup> September, CLSA

Figure 10

#### Past advertisements by local jewellers offering low gold rate

**Today's Gold Rate**  
**₹21790/-**  
**MAKING CHARGES ONLY 5%**  
**100% BUY BACK GUARANTEE**  
**Rama Krishna Jewellers Pvt. Ltd.**  
 D-34 MAIN ROAD CENTRAL MARKET LAJPAT NAGAR-II Ph: 47874787/29830186

**Today's Gold Rate**  
**₹21790/-**  
**No Wastage. Making Charges 5%**  
**100% BUY BACK GUARANTEE**  
**DHIRSONS JEWELLERS PVT LTD**  
**LAJPAT NAGAR-II**  
 D-32, Central Market, N D - 24, Ph: 011-47284728  
 Antique Jewellery • Patti & Kundan • Bridal Jewellery • Diamond Jewellery

The gold-on-lease scheme was banned. . .

. . . which offered retailers low-cost financing and a natural hedge

Working capital expanded for retailers post-ban on the gold-on-lease

The 80:20 rule imposed further restrictions on gold sourcing

### No.2: Discontinuation of gold-on-lease

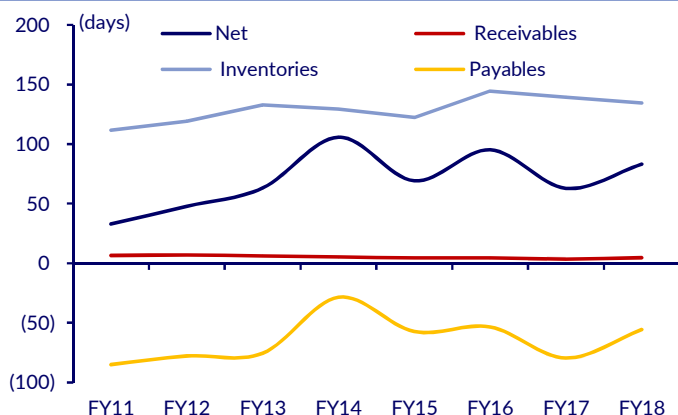
- ❑ RBI in 2013, through a notification, discontinued credit on gold imports or Gold-on-lease scheme which was popular among manufacturers and retailers.
- ❑ Under Gold-on-lease, retailers like Titan procure gold from commercial banks in return of cash margin or a letter of credit with low financing costs.
- ❑ During the lease period, Titan just pays the nominal finance charges and need not worry about the gold price volatility. The company estimates the daily gold sales and closes the contract equivalent to that quantity at the spot price. So except for a slight timing gap between Titan's buying of gold from bank and selling to consumer, there was no major risk of price volatility.
- ❑ The banks operates only as a service provider and covers such leases by a back-to-back contract with other clients, generally western financial institutions.
- ❑ In terms of accounting, Titan's gold purchased on lease were added to the inventory and the bank is shown as the supplier.
- ❑ Once the scheme was discontinued, retailers were required to purchase the gold with upfront payment which increased their borrowings to meet working capital requirements and impacted return ratios.
- ❑ However, at that time, the impact was not huge on earnings since Titan was able to

### No.3: Restrictions on the quantum of gold imports by linking to exports

- ❑ In Aug-13, Reserve Bank of India imposed a 80:20 rule on gold import procedure to limit gold imports in India.
- ❑ Under the scheme, of the every 100 units of gold imports, 20 units of gold had to be exported and only after this condition was met, further imports were be allowed. The requirement also was on a consignment basis.
- ❑ Stringent rules impacted gold availability and the scheme was finally scrapped in Nov-14.

Figure 11

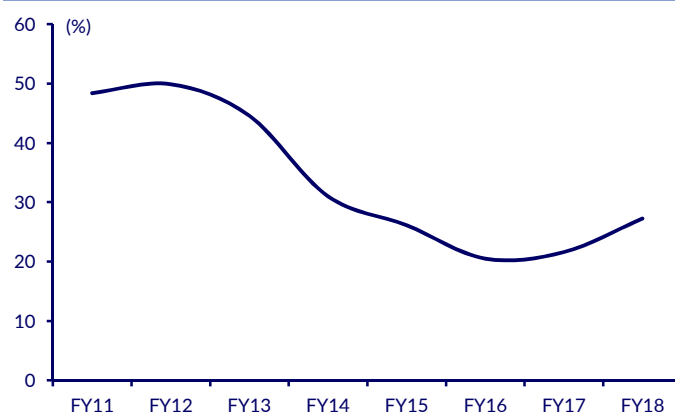
**Titan's working capital rose in FY14 with a decrease in payables . . .**



Source: Company, CLSA

Figure 12

**. . . and its RoCE also declined post-restrictions on gold imports**





The CAD is not as worrisome as in 2013

Indians have large stocks of gold and Titan sources 40% of its gold under the exchange scheme

The gold exchange formed c.40% of gold sourcing in FY18

Competitive intensity was quite high in 2013 and 2014

### Titan seems better placed today versus 2013 despite uncertainty

#### No.1: Situation is not worrisome

- ❑ While the current account deficit has been widening, things are not as worrisome they were in 2013 when deficit crossed 6.8% of GDP in Dec-12 versus 2.4% of GDP in Jun-18.
- ❑ Also, overall sentiments around gold investment were worse with Finance Minister, bureaucrats and RBI having a strong negative stance against gold.
- ❑ "I once again appeal to everyone to resist the temptation to buy gold. This will show positive impact on every aspect of Indian economy," P Chidambaram, ex Finance Minister during Jun-13 press conference.
- ❑ Also, at that time, gold was the second biggest item in import bill while currently, electronics take the second position and then comes gold.

#### No.2: Titan has a significant gold exchange scheme

- ❑ Indians have one of the largest stock of gold inventory estimated at >25k tons (annual demand of ~600-900 tons). A successful exchange program can de-risks the business from uncertainties around gold import restrictions.
- ❑ Titan, over the past few quarters, has revamped its exchanged offer which contributed ~40% to its overall gold sourcing in FY18. Plans are underway to even increase this share further to ~50% by FY23.
- ❑ This tool should be handy in the event of a tighter gold exchange regime.

Figure 13

#### Titan's gold exchange scheme



Source: Company

#### No.3: Titan's competitive positioning is much stronger

- ❑ Overall competitive intensity was quite high in 2013/14 when several regional players, backed by private equity, got aggressive on their store expansion and marketing strategy.
- ❑ "The competitive situation was also intensifying, with some south-based chains showing a high level of aggression in their store expansion and marketing campaign efforts. In an environment where customers were naturally inclined to seek value, these new options that offered more perceived functional value, made our customer acquisition efforts that much more difficult" Titan FY14 AR
- ❑ Titan's competitive positioning has substantially improved since FY14, particularly after disruptions caused by demonetization and GST implementation in FY17 and FY18.

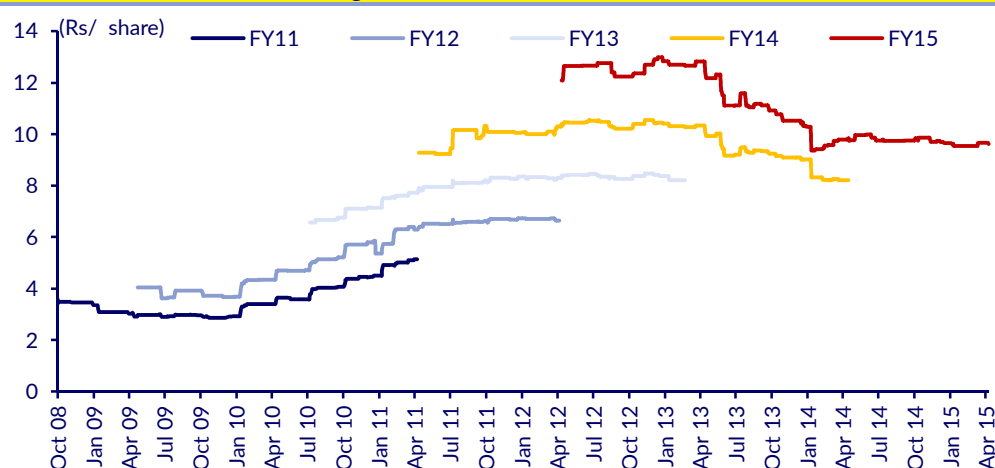
Brand metrics for Tanishq have been very strong

- ❑ Brand metrics, particularly for Tanishq has been strongest in past many years and the company is gaining shares in wedding jewellery segment as well as in the high value diamond jewellery segment.
- ❑ Overall competitive intensity for the chain is quite benign with several small regional and local retailers struggling to survive. Any potential regulatory headwind will further consolidate Titan's positioning in the sector.
- ❑ *"The business continued to capitalise on the formalization opportunity in the Indian economy created by demonetization and the implementation of GST. Brand metrics were strongest in many years"* Titan FY18 AR
- ❑ Also, despite all the restrictions on gold imports in 2013, Titan management was able to secure its gold supplies given its strong relationships and goodwill with banks and import agencies.

### Titan witnessed a sharp earning cuts and a de-rating

Figure 14

#### Titan's estimated consensus earnings for FY11-15



Source: Bloomberg

Figure 15

#### One-year forward PE on estimated consensus earnings in 2013



Source: Bloomberg

Titan witnessed sharp cuts in earnings in FY14 and FY15

Titan's stock de-rated from >30x 1-year forward PE to ~20x 1-year forward PE in 2013



We value Titan stock at 32x Sep-20 earnings and downgrade our rating to SELL

### Rising uncertainty forces us to turn negative on Titan – SELL (from O-PF)

Figure 16

#### Titan one-year forward PE



Source: CLSA

Figure 17

#### Key assumptions

	FY16	FY17	FY18	19CL	20CL	21CL
<b>Watches</b>						
Revenue (Rsm)	19,712	20,248	21,227	22,865	24,608	26,485
Revenue (% YoY)	3	3	5	8	8	8
Ebit margins (%)	8.7	10.1	12.8	15.3	15.6	15.9
Ebit (% YoY)	(17)	20	33	29	10	10
<b>Jewellery</b>						
Revenue (Rsm)	87,132	102,289	130,247	157,703	190,717	227,173
Revenue (% YoY)	(8)	17	27	21	21	19
Ebit margins (%)	9.2	10.3	11.9	12.0	12.1	11.9
Ebit (% YoY)	(15)	32	47	22	22	18
<b>Overall</b>						
Revenue (% YoY)	(7)	14	24	19	19	18
Ebitda (% YoY)	(18.1)	26.5	45.0	24.6	21.4	17.4
Ebit (% YoY)	(19.6)	28.5	47.3	24.1	21.7	17.6
PBT (% YoY)	(15.9)	27.2	47.1	24.7	21.8	17.6
Tax rate (%)	21.5	26.3	24.7	28.0	28.0	28.0
EPS (Rs/sh)	7.9	9.4	14.1	16.8	20.5	24.1
% YoY	(15)	19	50.2	19.3	21.8	17.6

Source: Company, CLSA

### Valuation details

Our target price is based on 32x Sep-20CL earnings which broadly in line with the stock's 10-year average PE multiple. We use PE as our primary valuation methodology across our universe, as we believe it better captures company growth potential and allows investors to compare stocks across sub-sectors easily.

### Investment risks

Turnaround in consumer sentiment, a sharp rise in gold prices, dovish stance on gold regulations are the key risks to our negative view.

## Detailed financials

### Profit & Loss (Rsm)

Year to 31 March	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Revenue	119,032	110,841	126,145	156,213	186,542	222,344	261,905
Cogs (ex-D&A)	(87,536)	(81,437)	(92,740)	(113,857)	(139,378)	(167,334)	(198,527)
Gross Profit (ex-D&A)	31,496	29,404	33,406	42,356	47,164	55,010	63,378
Research & development costs	-	-	-	-	-	-	-
Selling & marketing expenses	(4,974)	(5,663)	(5,862)	(6,092)	(7,521)	(9,284)	(11,433)
Other SG&A	(8,335)	(7,687)	(8,192)	(10,827)	(8,470)	(8,196)	(7,813)
Other Op Expenses ex-D&A	(6,654)	(6,608)	(7,398)	(8,103)	(9,569)	(11,298)	(13,330)
Op Ebitda	11,534	9,446	11,954	17,333	21,604	26,231	30,802
Depreciation/amortisation	(874)	(871)	(932)	(1,097)	(1,450)	(1,700)	(1,950)
Op Ebit	10,660	8,575	11,022	16,237	20,154	24,531	28,852
Interest income	706	732	648	864	952	1,051	1,161
Interest expense	(807)	(423)	(371)	(477)	(375)	(325)	(300)
Net interest inc/(exp)	(101)	309	276	387	577	726	861
Associates/investments	0	0	0	0	0	0	0
Forex/other income	0	0	0	0	0	0	0
Asset sales/other cash items	-	-	-	-	-	-	-
Provisions/other non-cash items	0	0	0	0	0	0	0
Asset revaluation/Exceptional items	0	0	0	0	0	0	0
Profit before tax	10,559	8,884	11,298	16,624	20,731	25,258	29,712
Taxation	(2,328)	(1,908)	(2,969)	(4,112)	(5,805)	(7,072)	(8,319)
Profit after tax	8,231	6,976	8,329	12,512	14,927	18,186	21,393
Preference dividends	0	0	0	0	0	0	0
Profit for period	8,231	6,976	8,329	12,512	14,927	18,186	21,393
Minority interest	0	0	0	0	0	0	0
Net profit	8,231	6,976	8,329	12,512	14,927	18,186	21,393
Extraordinaries/others	0	0	(711)	(883)	0	0	0
Profit avail to ordinary shares	8,231	6,976	7,619	11,629	14,927	18,186	21,393
Dividends	0	(4,808)	0	(2,778)	(4,007)	(4,007)	(4,808)
Retained profit	8,231	2,167	7,619	8,851	10,920	14,179	16,585
Adjusted profit	8,231	6,976	8,329	12,512	14,927	18,186	21,393
EPS (Rs)	9.3	7.9	9.4	14.1	16.8	20.5	24.1
Adj EPS [pre excep] (Rs)	9.3	7.9	9.4	14.1	16.8	20.5	24.1
Core EPS (Rs)	9.3	7.9	9.4	14.1	16.8	20.5	24.1
DPS (Rs)	2.3	2.2	2.6	3.8	3.8	4.5	5.5

### Profit & loss ratios

Year to 31 March	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
<b>Growth (%)</b>							
Revenue growth (% YoY)	9.0	(6.9)	13.8	23.8	19.4	19.2	17.8
Ebitda growth (% YoY)	10.0	(18.1)	26.5	45.0	24.6	21.4	17.4
Ebit growth (% YoY)	8.5	(19.6)	28.5	47.3	24.1	21.7	17.6
Net profit growth (%)	9.1	(15.2)	19.4	50.2	19.3	21.8	17.6
EPS growth (% YoY)	9.1	(15.2)	19.4	50.2	19.3	21.8	17.6
Adj EPS growth (% YoY)	9.1	(15.2)	19.4	50.2	19.3	21.8	17.6
DPS growth (% YoY)	9.5	(4.3)	18.2	44.2	0.0	20.0	22.2
Core EPS growth (% YoY)	9.1	(15.2)	19.4	50.2	19.3	21.8	17.6
<b>Margins (%)</b>							
Ebitda margin (%)	9.7	8.5	9.5	11.1	11.6	11.8	11.8
Ebit margin (%)	9.0	7.7	8.7	10.4	10.8	11.0	11.0
Net profit margin (%)	6.9	6.3	6.6	8.0	8.0	8.2	8.2
Core profit margin	6.9	6.3	6.6	8.0	8.0	8.2	8.2
Op cashflow margin	4.3	5.1	14.0	1.9	6.8	5.5	5.7
<b>Returns (%)</b>							
ROE (%)	28.0	20.2	21.2	26.3	26.0	26.0	25.1
ROA (%)	13.9	11.1	11.1	13.8	13.9	14.0	13.7
ROIC (%)	29.6	20.1	26.5	37.9	35.6	36.8	36.5
ROCE (%)	42.5	28.8	37.9	48.0	47.0	50.0	50.8
<b>Other key ratios (%)</b>							
Effective tax rate (%)	22.0	21.5	26.3	24.7	28.0	28.0	28.0
Ebitda/net int exp (x)	114.4	-	-	-	-	-	-
Exceptional or extraord. inc/PBT (%)	-	-	-	-	-	-	-
Dividend payout (%)	24.8	28.0	27.7	26.6	22.3	22.0	22.8

Source: www.clsa.com

## Balance sheet (Rsm)

Year to 31 March	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Cash & equivalents	2,102	1,117	11,473	6,123	11,403	16,747	24,167
Accounts receivable	1,396	1,349	1,154	1,930	2,305	2,747	3,236
Inventories	39,859	43,818	48,065	57,492	68,654	81,831	96,390
Other current assets	4,071	4,294	4,571	5,226	6,231	7,417	8,727
<b>Current assets</b>	<b>47,427</b>	<b>50,577</b>	<b>65,263</b>	<b>70,770</b>	<b>88,592</b>	<b>108,741</b>	<b>132,520</b>
Fixed assets	6,277	7,409	8,552	10,150	12,700	14,500	16,050
Investments	390	804	5,116	7,338	7,338	7,338	7,338
Goodwill	0	0	0	0	0	0	0
Other intangible assets	0	0	0	0	0	0	0
Other non-current assets	4,071	4,294	4,571	5,226	6,231	7,417	8,727
<b>Total assets</b>	<b>58,165</b>	<b>63,084</b>	<b>83,502</b>	<b>93,484</b>	<b>114,860</b>	<b>137,996</b>	<b>164,635</b>
Short term loans/OD	0	0	0	0	0	0	0
Accounts payable	18,739	16,288	27,526	23,902	28,542	34,020	40,073
Accrued expenses	0	0	0	0	0	0	0
Taxes payable	0	0	0	0	0	0	0
Other current liabs	4,764	10,155	12,878	18,122	23,989	27,518	31,569
<b>Current liabilities</b>	<b>23,503</b>	<b>26,443</b>	<b>40,404</b>	<b>42,024</b>	<b>52,531</b>	<b>61,538</b>	<b>71,642</b>
Long-term debt/leases/other	998	1,131	0	0	0	0	0
Convertible bonds	0	0	0	0	0	0	0
Provisions/other LT liabs	97	163	(22)	(481)	(531)	(581)	(631)
<b>Total liabilities</b>	<b>24,598</b>	<b>27,737</b>	<b>40,382</b>	<b>41,544</b>	<b>52,001</b>	<b>60,957</b>	<b>71,012</b>
Share capital	888	888	888	888	888	888	888
Retained earnings	32,679	34,459	42,232	51,052	61,972	76,151	92,736
Reserves/others	0	0	-	0	-	0	0
<b>Shareholder funds</b>	<b>33,567</b>	<b>35,347</b>	<b>43,120</b>	<b>51,940</b>	<b>62,860</b>	<b>77,039</b>	<b>93,623</b>
Minorities/other equity	0	0	0	0	0	0	0
<b>Total equity</b>	<b>33,567</b>	<b>35,347</b>	<b>43,120</b>	<b>51,940</b>	<b>62,860</b>	<b>77,039</b>	<b>93,623</b>
<b>Total liabs &amp; equity</b>	<b>58,165</b>	<b>63,084</b>	<b>83,502</b>	<b>93,484</b>	<b>114,860</b>	<b>137,996</b>	<b>164,635</b>
Total debt	998	1,131	0	0	0	0	0
Net debt	(1,104)	14	(11,473)	(6,123)	(11,403)	(16,747)	(24,167)
Adjusted EV	730,051	730,433	713,924	718,119	712,839	707,495	700,075
BVPS (Rs)	37.8	39.8	48.6	58.5	70.8	86.8	105.5

## Balance sheet ratios

Year to 31 March	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
<b>Key ratios</b>							
Current ratio (x)	2.0	1.9	1.6	1.7	1.7	1.8	1.8
Growth in total assets (% YoY)	(4.6)	8.5	32.4	12.0	22.9	20.1	19.3
Growth in capital employed (% YoY)	30.6	9.4	(12.8)	49.9	11.4	16.9	14.9
Net debt to operating cashflow (x)	-	0.0	-	-	-	-	-
Gross debt to operating cashflow (x)	0.2	0.2	-	-	-	-	-
Gross debt to Ebitda (x)	0.1	0.1	-	-	-	-	-
Net debt/Ebitda (x)	-	0.0	-	-	-	-	-
<b>Gearing</b>							
Net debt/equity (%)	(3.3)	0.0	(26.6)	(11.8)	(18.1)	(21.7)	(25.8)
Gross debt/equity (%)	3.0	3.2	0.0	0.0	0.0	0.0	0.0
Interest cover (x)	14.1	22.0	31.4	35.9	56.3	78.7	100.0
Debt Cover (x)	5.1	5.0	0.0	0.0	0.0	0.0	0.0
<b>Working capital analysis</b>							
Inventory days	163.7	187.5	180.8	169.2	165.2	164.1	163.8
Debtor days	4.5	4.5	3.6	3.6	4.1	4.1	4.2
Creditor days	56.9	78.5	86.2	82.4	68.7	68.2	68.1
Working capital/Sales (%)	18.3	20.8	10.6	14.5	13.2	13.7	14.0
<b>Capital employed analysis</b>							
Sales/Capital employed (%)	419.2	356.8	465.9	384.8	412.5	420.5	431.3
EV/Capital employed (%)	2,571.3	2,351.2	2,636.7	1,769.1	1,576.2	1,338.1	1,152.8
Working capital/Capital employed (%)	76.9	74.1	49.4	55.7	54.5	57.6	60.5
Fixed capital/Capital employed (%)	22.1	23.8	31.6	25.0	28.1	27.4	26.4
<b>Other ratios (%)</b>							
EV/OCF (x)	143.8	128.9	40.4	240.0	56.1	58.4	47.1
EV/FCF (x)	242.3	207.9	45.5	1,858.0	81.8	82.0	61.6
EV/Sales (x)	6.1	6.6	5.7	4.6	3.8	3.2	2.7
Capex/depreciation (%)	236.3	247.2	214.2	237.6	275.9	205.9	179.5

Source: www.clsa.com

## Cashflow (Rsm)

Year to 31 March	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
<b>Operating profit</b>	10,660	8,575	11,022	16,237	20,154	24,531	28,852
Operating adjustments	0	0	0	0	0	0	0
Depreciation/amortisation	874	871	932	1,097	1,450	1,700	1,950
Working capital changes	8,609	(6,352)	(2,318)	(9,484)	(6,896)	(8,141)	(8,995)
Interest paid / other financial expenses	807	423	371	477	375	325	300
Tax paid	(2,328)	(1,908)	(2,969)	(4,112)	(5,805)	(7,072)	(8,319)
Other non-cash operating items	(13,542)	4,059	10,643	(1,222)	3,431	781	1,081
<b>Net operating cashflow</b>	5,078	5,667	17,682	2,992	12,709	12,125	14,868
Capital expenditure	(2,065)	(2,154)	(1,997)	(2,606)	(4,000)	(3,500)	(3,500)
<b>Free cashflow</b>	3,013	3,513	15,685	387	8,709	8,625	11,368
Acq/inv/disposals	(125)	(413)	(4,312)	(2,222)	0	0	0
Int, invt & associate div	390	962	520	(265)	952	1,051	1,161
<b>Net investing cashflow</b>	(1,800)	(1,605)	(5,789)	(5,092)	(3,048)	(2,449)	(2,339)
Increase in loans	(7,065)	133	(1,131)	0	0	0	0
Dividends	(2,169)	(4,757)	(36)	(2,774)	(4,007)	(4,007)	(4,808)
Net equity raised/(buybacks)	(832)	(423)	(371)	(476)	(375)	(325)	(300)
<b>Net financing cashflow</b>	(10,066)	(5,047)	(1,537)	(3,250)	(4,382)	(4,332)	(5,108)
Incr/(decr) in net cash	(6,787)	(985)	10,356	(5,349)	5,280	5,344	7,420
Exch rate movements	0	0	0	0	0	0	0
<b>Opening cash</b>	8,889	2,102	1,117	11,472	6,123	11,403	16,747
<b>Closing cash</b>	2,102	1,117	11,472	6,123	11,403	16,747	24,167
OCF PS (Rs)	5.7	6.4	19.9	3.4	14.3	13.7	16.7
FCF PS (Rs)	3.4	4.0	17.7	0.4	9.8	9.7	12.8

## Cashflow ratio analysis

Year to 31 March	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
<b>Growth (%)</b>							
Op cashflow growth (% YoY)	nm	11.6	212.0	(83.1)	324.7	(4.6)	22.6
FCF growth (% YoY)	-	16.6	346.5	(97.5)	2,153.4	(1.0)	31.8
Capex growth (%)	(0.3)	4.3	(7.3)	30.5	53.5	(12.5)	0.0
<b>Other key ratios (%)</b>							
Capex/sales (%)	1.7	1.9	1.6	1.7	2.1	1.6	1.3
Capex/op cashflow (%)	40.7	38.0	11.3	87.1	31.5	28.9	23.5
Operating cashflow payout ratio (%)	40.2	34.5	13.1	111.3	26.2	33.0	32.8
Cashflow payout ratio (%)	0.0	84.8	0.0	92.8	31.5	33.0	32.3
Free cashflow payout ratio (%)	0.0	136.9	0.0	718.8	46.0	46.5	42.3

## DuPont analysis

Year to 31 March	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Ebit margin (%)	9.0	7.7	8.7	10.4	10.8	11.0	11.0
Asset turnover (x)	2.0	1.8	1.7	1.8	1.8	1.8	1.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Tax burden (x)	0.8	0.8	0.7	0.8	0.7	0.7	0.7
Return on assets (%)	13.9	11.1	11.1	13.8	13.9	14.0	13.7
Leverage (x)	2.0	1.8	1.9	1.9	1.8	1.8	1.8
ROE (%)	28.0	20.2	21.2	26.3	26.0	26.0	25.1

## EVA<sup>®</sup> analysis

Year to 31 March	2015A	2016A	2017A	2018A	2019CL	2020CL	2021CL
Ebit adj for tax	8,309	6,733	8,125	12,220	14,511	17,663	20,773
Average invested capital	28,112	33,445	30,615	32,254	40,794	47,981	56,931
ROIC (%)	29.6	20.1	26.5	37.9	35.6	36.8	36.5
Cost of equity (%)	14.5	14.5	14.5	14.5	14.5	14.5	14.5
Cost of debt (adj for tax)	9.4	9.4	8.8	9.0	8.6	8.6	8.6
Weighted average cost of capital (%)	14.0	14.0	14.0	14.0	14.0	14.0	14.0
EVA/IC (%)	15.5	6.1	12.6	23.9	21.6	22.8	22.5
EVA (Rsm)	4,365	2,038	3,844	7,704	8,813	10,961	12,822

Source: www.clsa.com



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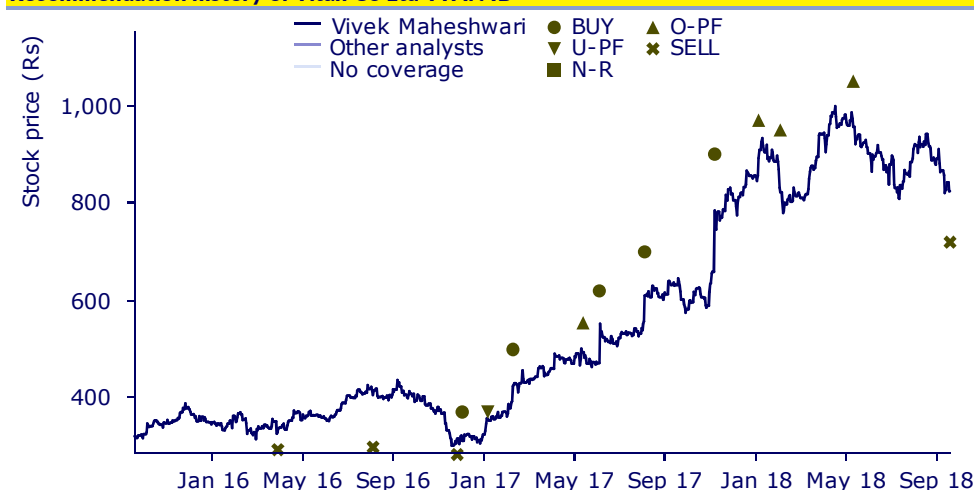
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Date	Rec	Target	Date	Rec	Target
LATEST	SELL	720.00	13 May 2017	O-PF	555.00
11 May 2018	O-PF	1,050.00	08 Feb 2017	BUY	500.00
02 Feb 2018	O-PF	950.00	05 Jan 2017	U-PF	372.00
04 Jan 2018	O-PF	970.00	02 Dec 2016	BUY	372.00
06 Nov 2017	BUY	900.00	25 Nov 2016	SELL	285.00
04 Aug 2017	BUY	700.00	04 Aug 2016	SELL	300.00
04 Jun 2017	BUY	620.00	29 Mar 2016	SELL	295.00

Source: CLSA

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