

## EARNINGS REVIEW

## Titan Industries (TITN.BO)

Neutral

Equity Research

## In line with expectations: Higher margins offset lower Tanishq sales

## What surprised us

Titan Industries reported 4QFY13 PAT of Rs1.85 bn (28% yoy, -2% vs. GSe) and sales of Rs25.9 bn (+14% yoy, -9% vs. GSe). Key highlights of the earnings release and conference call include: (1) SSSG remained sluggish at 8%. Mgmt indicated that some of the older stores are reporting low growth or declines in a like-for-like sales basis; (2) Jewelry sales growth was 16%, vs. 3QFY13 27% despite similar SSSG due to lower primary sales to franchisees; (3) Watch sales were flattish yoy, with World of Titan like-for-like growth down 2% yoy; (4) Higher-than-expected jewelry margins due to a higher studded share (32%) and lower advertising spend. Management expects advertising spend to grow at a slower rate than revenue as the brand is already well-established; (5) FY14 jewelry store addition guidance of 0.1 mn sqft vs. FY13 guidance of 0.2 mn sqft (the company achieved 0.15 mn sqft in FY13), as management expects to roll out smaller stores in newer cities; (6) New businesses like-for-like yoy growth is robust with Titan Eye+ and Fastrack growing 40% and 15%, respectively; (7) Dividend payout ratio was not increased due to regulatory risks in the jewelry business.

## What to do with the stock

We retain our **Neutral** rating. We make minor adjustments to our FY14-15E EPS as we our lower revenue assumptions, offset by higher margins. Our 12m P/E-based TP is unchanged at Rs298. We expect margins for the jewelry business will remain at 10+% due to operating leverage partly driven by advertising spend. We remain positive on Titan's ability to create brands and expand its retail footprint, but we believe current valuation adequately reflects this potential. **Key risks:** Higher jewelry SSSG and margins (upside); lower credit period for gold leases and a lower studded share (downside).

## Titan Industries – 4QFY13 results summary

Rs mn	4QFY13 Actual	4QFY13 GSe	var	4QFY12 Actual	yoy	3QFY13 Actual	qoq
Net sales	25,931	28,493	-9%	22,814	14%	29,829	-13%
EBIT	2,673	2,672	0%	2,065	29%	2,773	-4%
PAT	1,850	1,889	-2%	1,443	28%	2,037	-9%

Source: Company data, Goldman Sachs Research estimates.

## INVESTMENT LIST MEMBERSHIP

Neutral

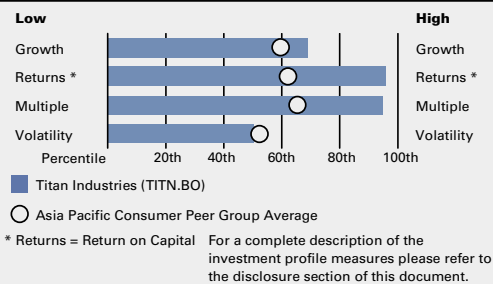
## Coverage View: Neutral

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## Investment Profile

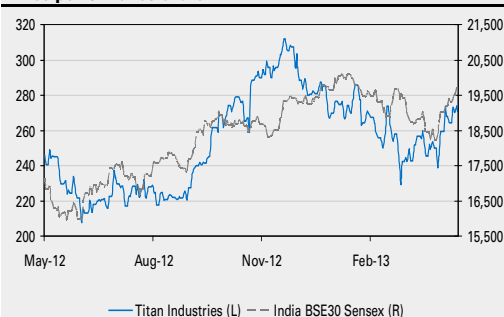


## Key data

	Current
Price (Rs)	270.60
12 month price target (Rs)	298.00
Market cap (Rs mn / US\$ mn)	240,234.9 / 4,460.8
Foreign ownership (%)	13.1

	3/12	3/13	3/14E	3/15E
EPS (Rs) New	6.76	8.17	9.84	11.45
EPS revision (%)	0.0	(0.5)	0.9	(0.2)
EPS growth (%)	39.4	20.8	20.5	16.3
EPS (dil) (Rs) New	6.76	8.17	9.84	11.45
P/E (X)	30.9	30.9	27.5	23.6
P/B (X)	12.8	11.4	9.3	7.3
EV/EBITDA (X)	20.9	21.5	18.7	15.7
Dividend yield (%)	0.8	0.8	1.0	1.3
ROE (%)	48.5	42.5	38.3	34.5
CROCI (%)	46.5	31.6	34.7	37.0

## Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(5.3)	(6.2)	10.2
Rel. to India BSE30 Sensex	(4.3)	(10.1)	(3.5)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 5/03/2013 close.

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# Titan Industries: Summary Financials

Profit model (Rs mn)	3/12	3/13	3/14E	3/15E	Balance sheet (Rs mn)	3/12	3/13	3/14E	3/15E
<b>Total revenue</b>	<b>89,212.5</b>	<b>101,977.3</b>	<b>119,806.4</b>	<b>139,083.5</b>	Cash & equivalents	9,605.3	11,365.5	17,799.4	21,116.3
Cost of goods sold	(67,510.0)	(76,151.2)	(90,464.2)	(105,020.1)	Accounts receivable	1,631.1	1,637.9	2,625.9	3,048.4
SG&A	(8,637.6)	(10,096.5)	(11,621.2)	(13,491.1)	Inventory	28,786.7	36,779.4	37,177.1	43,159.0
R&D	--	--	--	--	Other current assets	2,838.2	3,796.6	3,796.6	3,796.6
Other operating profit/(expense)	(4,775.8)	(5,772.6)	(5,733.2)	(6,476.7)	<b>Total current assets</b>	<b>42,861.3</b>	<b>53,579.4</b>	<b>61,399.0</b>	<b>71,120.3</b>
<b>EBITDA</b>	<b>8,738.1</b>	<b>10,501.9</b>	<b>12,586.8</b>	<b>14,791.1</b>	Net PP&E	3,826.1	4,793.3	5,751.7	6,864.4
Depreciation & amortization	(449.0)	(544.9)	(599.0)	(695.4)	Net intangibles	109.7	109.7	109.7	109.7
<b>EBIT</b>	<b>8,289.1</b>	<b>9,957.0</b>	<b>11,987.7</b>	<b>14,095.6</b>	Total investments	160.5	185.1	185.1	185.1
Interest income	71.3	71.3	200.0	200.0	Other long-term assets	37.7	80.4	80.4	80.4
Interest expense	(17.1)	(51.4)	(50.0)	(50.0)	<b>Total assets</b>	<b>46,995.3</b>	<b>58,747.9</b>	<b>67,525.9</b>	<b>78,359.9</b>
Income/(loss) from uncons. subs.	0.0	0.0	0.0	0.0	Accounts payable	22,501.5	20,972.6	23,452.3	27,225.8
Others	41.1	85.8	68.6	54.9	Short-term debt	6,682.6	13,119.8	13,119.8	13,119.8
<b>Pretax profits</b>	<b>8,384.4</b>	<b>10,062.7</b>	<b>12,206.4</b>	<b>14,300.6</b>	Other current liabilities	2,563.4	4,377.8	4,377.8	4,377.8
Income tax	(2,336.1)	(2,810.9)	(3,466.6)	(4,132.9)	<b>Total current liabilities</b>	<b>31,747.5</b>	<b>38,470.2</b>	<b>40,949.9</b>	<b>44,723.4</b>
Minorities	0.0	0.0	0.0	0.0	Long-term debt	173.3	0.0	0.0	0.0
<b>Net income pre-preferred dividends</b>	<b>6,048.3</b>	<b>7,251.8</b>	<b>8,739.8</b>	<b>10,167.7</b>	Other long-term liabilities	575.5	629.0	629.0	629.0
Preferred dividends	0.0	0.0	0.0	0.0	Total long-term liabilities	748.8	629.0	629.0	629.0
<b>Net income (pre-exceptionals)</b>	<b>6,048.3</b>	<b>7,251.8</b>	<b>8,739.8</b>	<b>10,167.7</b>	<b>Total liabilities</b>	<b>32,496.3</b>	<b>39,099.2</b>	<b>41,578.9</b>	<b>45,352.4</b>
Post-tax exceptionals	(46.8)	0.0	0.0	0.0	<b>Preferred shares</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net income</b>	<b>6,001.5</b>	<b>7,251.8</b>	<b>8,739.8</b>	<b>10,167.7</b>	<b>Total common equity</b>	<b>14,499.0</b>	<b>19,648.7</b>	<b>25,947.0</b>	<b>33,007.5</b>
EPS (basic, pre-exception) (Rs)	6.81	8.17	9.84	11.45	Minority interest	0.0	0.0	0.0	0.0
EPS (basic, post-exception) (Rs)	6.76	8.17	9.84	11.45	<b>Total liabilities &amp; equity</b>	<b>46,995.3</b>	<b>58,747.9</b>	<b>67,525.9</b>	<b>78,359.9</b>
EPS (diluted, post-exception) (Rs)	6.76	8.17	9.84	11.45	<b>BVPS (Rs)</b>	<b>16.33</b>	<b>22.13</b>	<b>29.23</b>	<b>37.18</b>
DPS (Rs)	1.75	2.10	2.75	3.50					
Dividend payout ratio (%)	25.9	25.7	27.9	30.6					
Free cash flow yield (%)	0.1	0.4	3.7	2.7					
Growth & margins (%)	3/12	3/13	3/14E	3/15E	Ratios	3/12	3/13	3/14E	3/15E
Sales growth	36.8	14.3	17.5	16.1	CROCI (%)	46.5	31.6	34.7	37.0
EBITDA growth	49.2	20.2	19.9	17.5	ROE (%)	48.5	42.5	38.3	34.5
EBIT growth	50.4	20.1	20.4	17.6	ROA (%)	14.2	13.7	13.8	13.9
Net income growth	39.4	20.8	20.5	16.3	ROACE (%)	65.3	43.7	40.5	43.5
EPS growth	39.4	20.8	20.5	16.3	Inventory days	131.7	157.1	149.2	139.6
Gross margin	24.3	25.3	24.5	24.5	Receivables days	5.7	5.9	6.5	7.4
EBITDA margin	9.8	10.3	10.5	10.6	Payable days	108.0	104.2	89.6	88.1
EBIT margin	9.3	9.8	10.0	10.1	Net debt/equity (%)	(19.0)	8.9	(18.0)	(24.2)
					Interest cover - EBIT (X)	NM	NM	NM	NM
Cash flow statement (Rs mn)	3/12	3/13	3/14E	3/15E	Valuation	3/12	3/13	3/14E	3/15E
Net income pre-preferred dividends	6,048.3	7,251.8	8,739.8	10,167.7	P/E (analyst) (X)	30.9	30.9	27.5	23.6
D&A add-back	449.0	544.9	599.0	695.4	P/B (X)	12.8	11.4	9.3	7.3
Minorities interests add-back	0.0	0.0	0.0	0.0	EV/EBITDA (X)	20.9	21.5	18.7	15.7
Net (inc)/dec working capital	(4,754.2)	(4,528.4)	1,094.0	(2,630.9)	EV/GCI (X)	10.9	8.4	8.6	7.3
Other operating cash flow	(100.4)	(947.5)	0.0	0.0	Dividend yield (%)	0.8	0.8	1.0	1.3
<b>Cash flow from operations</b>	<b>1,595.9</b>	<b>2,320.7</b>	<b>10,432.8</b>	<b>8,232.2</b>					
Capital expenditures	(1,385.9)	(1,325.7)	(1,557.5)	(1,808.1)					
Acquisitions	0.0	0.0	0.0	0.0					
Divestitures	0.0	0.0	0.0	0.0					
Others	0.0	0.0	0.0	0.0					
<b>Cash flow from investments</b>	<b>(1,385.9)</b>	<b>(1,325.7)</b>	<b>(1,557.5)</b>	<b>(1,808.1)</b>					
Dividends paid (common & pref)	(1,553.6)	(1,864.4)	(2,441.4)	(3,107.3)					
Inc/(dec) in debt	0.0	0.0	0.0	0.0					
Common stock issuance (repurchase)	0.0	0.0	0.0	0.0					
Other financing cash flows	0.0	2,629.5	0.0	0.0					
<b>Cash flow from financing</b>	<b>(1,553.6)</b>	<b>765.2</b>	<b>(2,441.4)</b>	<b>(3,107.3)</b>					
<b>Total cash flow</b>	<b>(1,343.6)</b>	<b>1,760.2</b>	<b>6,433.9</b>	<b>3,316.9</b>					

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

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**Exhibit 1: Lower sales were offset by higher margins**

Titan Industries – 3QFY13 results summary

Rs mn	4QFY13 Actual	4QFY13 GSe	var	4QFY12 Actual	yoy	3QFY13 Actual	qoq
<b>Net sales</b>	<b>25,931</b>	<b>28,493</b>	<b>-9%</b>	<b>22,814</b>	<b>14%</b>	<b>29,829</b>	<b>-13%</b>
Other Operating Income	201	-		4		349	
Other income	287	276		237		192	
COGS	19,481	21,922		17,085		23,312	
<b>Gross Profit</b>	<b>6,938</b>	<b>6,847</b>	<b>1%</b>	<b>5,970</b>	<b>16%</b>	<b>7,058</b>	<b>-2%</b>
Staff Cost	1,476	1,222		1,088		1,169	
Advertising	666	1,173		800		1,088	
Other expenditure	1,973	1,654		1,891		1,887	
<b>EBITDA</b>	<b>2,822</b>	<b>2,799</b>	<b>1%</b>	<b>2,190</b>	<b>29%</b>	<b>2,915</b>	<b>-3%</b>
Depreciation	150	126		125		142	
<b>EBIT</b>	<b>2,673</b>	<b>2,672</b>	<b>0%</b>	<b>2,065</b>	<b>29%</b>	<b>2,773</b>	<b>-4%</b>
Other income	8	61		15		28	
Interest	12	16		10		12	
<b>PBT</b>	<b>2,669</b>	<b>2,717</b>	<b>-2%</b>	<b>2,070</b>	<b>29%</b>	<b>2,789</b>	<b>-4%</b>
Tax	819	828		627		752	
<b>PAT</b>	<b>1,850</b>	<b>1,889</b>	<b>-2%</b>	<b>1,443</b>	<b>28%</b>	<b>2,037</b>	<b>-9%</b>
<b>Segment sales - gross</b>							
Watches	4,199	4,661	-10%	4,138	1%	4,235	-1%
Jewellery	20,933	22,942	-9%	17,997	16%	25,152	-17%
Others	1,288	1,166	10%	920	40%	983	31%
<b>Segment PBIT</b>							
Watches	456	590	-23%	534	-15%	512	-11%
Jewellery	2,345	2,169	8%	1,691	39%	2,349	0%
Others	11	23	NA	(47)	NA	17	NA
<b>Segment PBIT margins</b>							
Watches	10.9%	12.7%	(180)	12.9%	(204)	12.1%	(121)
Jewellery	11.2%	9.5%	175	9.4%	181	9.3%	187
Others	0.9%	1.9%	(105)	-5.1%	594	1.7%	(84)

Source: Company data, Goldman Sachs Research estimates.

# Disclosure Appendix

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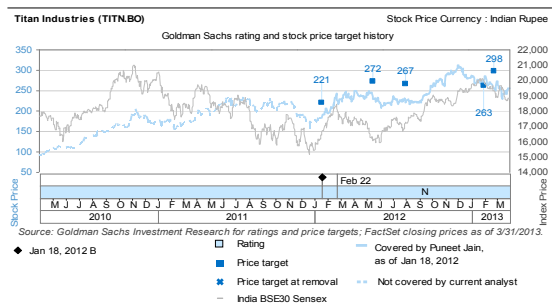
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