Titan Industries

Jewellery glitters, watches suffer online onslaught

Q3FY15 Result Update

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Rating	**Accumulate**
Price	Rs401
Target Price	Rs424
Implied Upside	5.7%
Sensex	29,571
Nifty	8,911

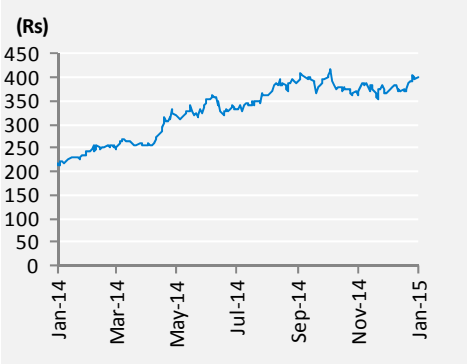
(Prices as on January 27, 2015)

Trading data	
Market Cap. (Rs bn)	355.7
Shares o/s (m)	887.8
3M Avg. Daily value (Rs m)	830.4
Major shareholders	
Promoters	53.05%
Foreign	21.57%
Domestic Inst.	2.92%
Public & Other	22.46%

Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	9.1	20.6	85.6
Relative	0.5	7.4	45.7

How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2016	12.2	12.0	*1.6*
2017	15.0	14.5	*3.5*

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



Source: Bloomberg

TTAN's Q3FY15 Adj PAT is inline due to better than expected performance in Jewellery business and 600bps decline in tax rates even as watch business reported poor numbers after consistent growth of past 2 quarters. We believe strong sales growth in Tanishq excluding GHS scheme gives us confidence on the ability of TTAN to gain from uptick in demand due to 1) store expansion in downturn and 2) pickup in Goldplus brand. We expect margins to improve as benefits of hedging are realised in coming quarters. Implementation of gold on lease scheme can provide further upside to our estimates. Watch business looks jittery given rising competition and huge discounts from global brands on online platform. We are increasing FY16 and FY17 EPS by 3-6% mainly due to 400bps lower tax rate. TTAN remains a compelling play on demand recovery in Jewellery, Watches, Eyewear and Accessories. Retain 'Accumulate' rating on the stock.

- **Q3 sales up 9.2% as jewellery sales up 11%; lower tax rate enables 15% PAT growth:** TTAN's Q3 sales jumped by 9.2% to Rs29.2bn led by jewellery business. EBITDA increased 12.5% to Rs2.76bn as margins expanded by 20bps due to 110bps decline in adspend. Other income declined by 55%, PBT increased by 6.5%, increase in benefits from pantnagar jewellery unit lowered tax rate by 600bps enabling 15.2% Adj PAT growth to Rs1.9bn.

- **Watch sales decline 1.9%; Volumes decline 4%:** Watch business reported 1.9% decline in sales and 9.2% in EBIT. Margins declined by 70bps YoY to 9.7% as 4% volume decline provided negative operating leverage. Poor festival season and online retailers impacted the sales.

- **Jewellery grammage up 25%; EBIT up 12.5%:** Jewellery sales increased by 9.2% to Rs23.4b, while EBIT increased 12.5% at Rs2.26bn as sales mix deterioration capped margin expansion. Sales excluding coins were up 3%, grammage increased 25% (11% excluding coins).

Key financials (Y/e March)	**2014**	**2015E**	**2016E**	**2017E**
Revenues (Rs m)	109,165	126,447	154,073	182,897
Growth (%)	*7.9*	*15.8*	*21.8*	*18.7*
EBITDA (Rs m)	10,492	12,404	15,472	18,916
PAT (Rs m)	7,411	8,576	10,823	13,329
EPS (Rs)	8.3	9.7	12.2	15.0
Growth (%)	*2.2*	*15.7*	*26.2*	*23.2*
Net DPS (Rs)	2.1	2.5	3.4	4.5

Profitability & Valuation	**2014**	**2015E**	**2016E**	**2017E**
EBITDA margin (%)	*9.6*	*9.8*	*10.0*	*10.3*
RoE (%)	*33.0*	*30.4*	*31.2*	*31.3*
RoCE (%)	*30.2*	*22.2*	*22.1*	*24.5*
EV / sales (x)	3.2	2.8	2.3	1.9
EV / EBITDA (x)	33.6	28.9	22.7	18.0
PE (x)	48.0	41.5	32.9	26.7
P / BV (x)	14.1	11.4	9.3	7.6
Net dividend yield (%)	*0.5*	*0.6*	*0.9*	*1.1*

Source: Company Data; PL Research

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Exhibit 1: Q3FY15 Results (Rs m); Sales up 9.2% driven by jewellery segment; lower tax rate boosts Adj.PAT by 15.2%

Y/e March	Q3FY15	Q3FY14	YoY gr. (%)	Q2FY15	9MFY15	9MFY14	YoY gr. (%)
Net Sales	**29,225**	**26,758**	***9.2***	**35,931**	**94,070**	**81,124**	***16.0***
Gross Profit	**7,585**	**7,092**	***7.0***	**8,818**	**23,725**	**21,249**	***11.7***
% of NS	*26.0*	*26.5*		*24.5*	*25.2*	*26.2*	
Adv & Sales Pro	968	1180	*(18.0)*	1058	3018	3171	*(4.8)*
% of NS	*3.3*	*4.4*		*2.9*	*3.2*	*3.9*	
Total Expenses	**26,467**	**24,306**	***8.9***	**32,600**	**85,238**	**73,606**	***15.8***
% of NS	*90.6*	*90.8*		*90.7*	*90.6*	*90.7*	
EBITDA	**2,758**	**2,452**	***12.5***	**3,331**	**8,833**	**7,519**	***17.5***
Margins %	*9.4*	*9.2*		*9.3*	*9.4*	*9.3*	
Depreciation	232	157	*48.2*	199	674	452	*49.3*
Interest	211	274	*(23.0)*	109	669	644	*4.0*
Other Income	115	261	*(55.8)*	178	547	947	*(42.2)*
PBT	**2,431**	**2,282**	***6.5***	**3,201**	**8,036**	**7,370**	***9.0***
Tax	523	627	*(16.5)*	801	1,957	2,023	*(3.3)*
Tax rate %	*21.5*	*27.5*		*25.0*	*24.3*	*27.5*	
Adjusted PAT	**1,907**	**1,656**	***15.2***	**2,400**	**6,080**	**5,347**	***13.7***

Source: Company Data, PL Research

Exhibit 2: Segmental: Jewellery EBIT up 12.5% as sales excluding GHS up 37%; poor festival season impacts watch sales and margins

(Rs m)	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15
Total Sales	26,419	31,085	23,545	26,987	28,053	28,931	35,947	29,237
Watches	4,199	3,987	4,424	4,555	5,018	4,400	5,275	4,426
YoY Growth	*1.5%*	*10.5%*	*-6.2%*	*7.5%*	*19.5%*	*10.4%*	*20.1%*	*-1.9%*
Jewellery	20,933	25,866	17,981	21,267	21,573	23,253	29,294	23,474
YoY Growth	*16.3%*	*45.7%*	*4.3%*	*-15.4%*	*3.1%*	*-10.1%*	*64.8%*	*11.2%*
Others	1,288	1,232	1,141	1,165	1,462	1,278	1,379	1,337
YoY Growth	*40.0%*	*37.4%*	*17.2%*	*18.6%*	*13.5%*	*3.8%*	*15.0%*	*14.8%*
Total EBIT	2,955	2,443	2,871	2,665	2,927	2,665	3,356	2,691
Watches	456	385	464	513	602	482	666	428
YoY Growth	*-14.6%*	*-23.7%*	*-15.1%*	*0.3%*	*32.0%*	*25.4%*	*54.3%*	*-9.2%*
EBIT Margin	*10.9%*	*9.6%*	*10.5%*	*11.3%*	*12.0%*	*11.0%*	*12.6%*	*9.7%*
Jewellery	2,487	2,030	2,409	2,169	2,294	2,178	2,682	2,261
YoY Growth	*36.5%*	*12.5%*	*12.0%*	*-12.0%*	*-7.8%*	*7.2%*	*21.8%*	*12.5%*
EBIT Margin	*11.9%*	*7.8%*	*13.4%*	*10.2%*	*10.6%*	*9.4%*	*9.2%*	*9.6%*
Others	11	28	(3)	(17)	31	5	8	2

Source: Company Data, PL Research

Q3 sales up 9.2% as jewellery sales up 11%; lower tax rate enables 15% PAT growth: TTAN's Q3 sales jumped by 9.2% to Rs29.2bn as jewellery sales excluding GHS increased by 37%. EBITDA increased 12.5% to Rs2.76bn as margins expanded by 20bps due to 110bps decline in adspend even as sales mix deteriorated. Other income declined by 55%, PBT increased by 6.5%, however increased benefits from pantnagar jewellery unit lowered tax rate by 600bps and enabled 15.2% Adj Pat growth to rs1.9bn.

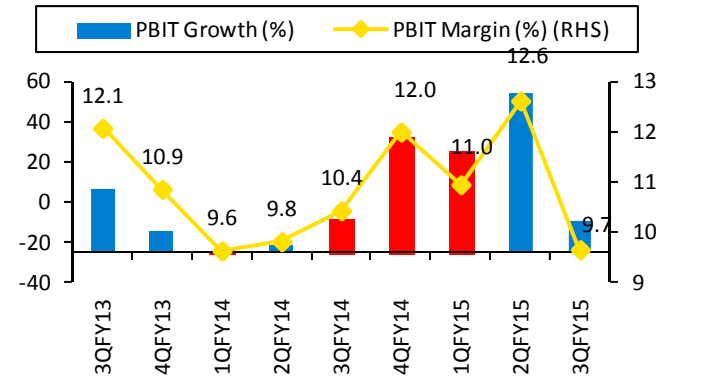
Watch sales decline 1.9%; Volumes decline 4%: Watch business reported 1.9% decline in sales and 9.2% in EBIT. Margins declined by 70bps YoY to 9.7% due to negative operating leverage. .

- Volumes declined by 4% due to poor festival season. World of Titan reported flat sales growth and 3% decline in LTL sales. Helios and Fastrack reported LTL growth of 4% and -6%. LFS reported 5% decline in LTL sales. In addition to tepid demand, aggressive discounts by online retailers have also impacted the sales.
- EBIT margin declined due to negative operating leverage. Although we expect sales to recover, rising clout of online retail in watches can pose a medium term risk to growth rates and TTAN may have to re-jig its business model.

(PE, Eyewear and Accessories) reported 14.8% increase in sales to Rs1.33bn; EBIT was Rs2m. Eyewear and PE reported strong growth while accessories reported subdued performance.

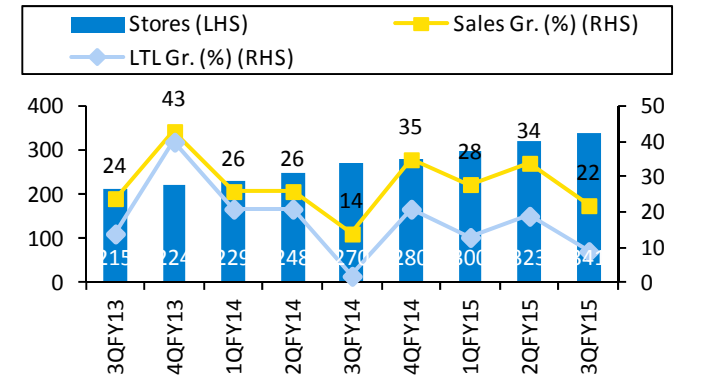
- Eyewear sales increased 22% and the business remains profitable.
- PE revenues increased 23% even as some customers delayed the delivery of orders.

Exhibit 3: Watches margins decline 70bps to 9.7%



Source: Company Data, PL Research

Exhibit 4: Titan eye sales up 22%, strong momentum sustained

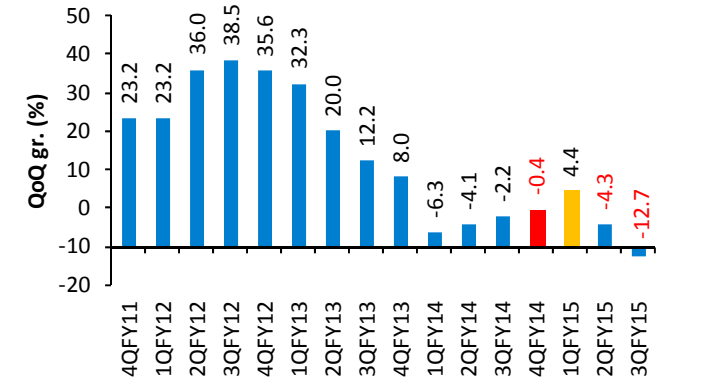


Source: Company Data, PL Research

Jewellery grammage up 25%; EBIT up 12.5% as margins expand 10bps: Jewellery sales increased by 9.2% to Rs23.4b, while EBIT was up 12.5% at Rs2.26bn as deterioration in sales mix capped margin expansion. Sales excluding coins were up 3%, grammage increased 25% (11% excluding coins). Excluding the impact of GHS in base quarter, sales increased by 37%.

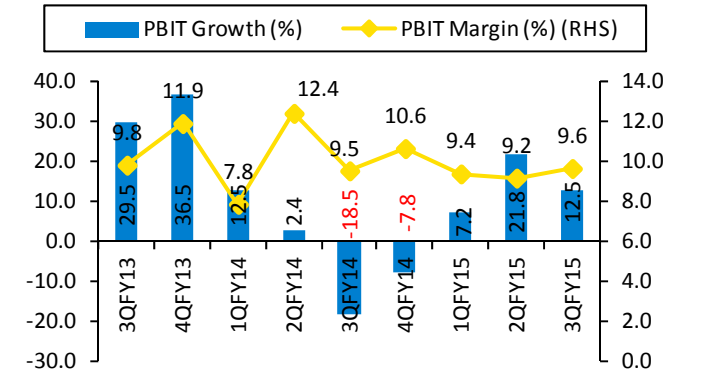
- Tanishq reported 4% decline in sales and 8% decline in LTL sales due to the impact of GHS closure. Excluding the GHS in base quarter, sales were strong at 37%. Studded share declined by 100bps to 26%.
- Goldplus sales increased by 30% during the quarter thus sustaining the growth momentum. Near term outlook seems intact as the benefit of transformation is visible clearly.
- TTAN continues to source gold by cash payment. Despite reintroduction of Gold on lease scheme under 80:20 rule, the modalities of the credit availability is still uncertain. Consequently TTAN has been able to avail of GOL for only the gold sourced from SBI's Gold deposit scheme. TTAN seems inclined to switch fully to gold on lease as when the regulations permit it to do so.
- TTAN is yet to get the benefits of hedging of physical gold in a major way; more than 75% of the gains will accrue in 4Q, which will boost the profit margins.
- TTAN has been able to increase the production at tax exempt Pantnagar facility, higher production of studded jewellery has been instrumental in 600bps reduction in tax rate for the quarter. Similar trend is likely to prevail in 4Q also. .

Exhibit 5: Gold Prices down 12.7% YoY, TTAN realisation down 6%



Source: Bloomberg, PL Research

Exhibit 6: Jewellery: Margins down 320bps on GHS and gold premium



Source: Company Data, PL Research

Exhibit 7: Coin sales and GoldPlus boost volumes, studded share down 100bps at 26%

	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15
Jewellery							
Volume Gr %	67	-4	-21	-2	-24	75	25
Customer Gr %	49	-3	-10	3	-16	97	8
Studded Share %	16	37	26	37	25	35	26
Sales Gr %	47	4.3	-15	10	-4	60	11.2
Tanishq							
Sales Gr %	42	1	-8	13	-8	75	-4
LTL Growth %	29	-7	-15	6	-13	68	-8
Stores	153	157	160	163	165	167	172
Area (sq Ft)	565000	586000	616000	639000	674000	695000	710000
GoldPlus							
Sales Gr %	36	-20	-25	-14	-21	84	30
LTL Growth %	37	-21	-30	-18	-24	81	30
Stores	31	33	33	33	33	33	33
Area (sq Ft)	75000	81000	81000	81000	81000	81000	81000

Source: Company Data/ PL Research

Exhibit 8: Watches: All formats suffer due to poor festival season and online retailers

	1QFY14	2QFY14	3QFY14	4QFY14	1QFY15	2QFY15	3QFY15
Watches							
Sales Growth %	11	-6	7.5	20	10.4	20.1	-1.9
Volume Growth %	3	-22	-10	11	9	9	-4
World Of Titan							
Sales Growth %	4	-6	0	12	8	15	0
LTL Sales growth %	-1	-11	-5	8	2	10	-3
Stores	368	367	373	401	406	417	426
Helios							
Sales Growth %	52	35	33	27	23	4	-3
LTL Sales growth %	5	-1	10	5	20	9	4
Stores	48	48	50	49	45	43	43
Fastrack							
Sales Growth %	46	30	12	11	16	8	3
LTL Sales growth %	8	1	-9	0	9	1	-6
Stores	139	147	151	150	148	150	157
LFS							
Sales Growth %	12	7	6	2	2	3	2
LTL Sales growth %	-2	-5	7	1	5	1	-5

Source: Company Data, PL Research

Exhibit 9: Profit margins to perk up in both watches and jewellery

(Rs m)	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E
Jewellery							
Sales	50,120	69,898	80,324	86,274	100,531	123,895	147,714
Growth %	*43.3*	*39.5*	*14.9*	*7.4*	*16.5*	*23.2*	*19.2*
EBIDTA	4,565	6,675	8,360	8,728	10,639	13,398	16,272
Growth %	*82.0*	*46.2*	*25.2*	*4.4*	*21.9*	*25.9*	*21.5*
EBIDTA Margin %	*9.1*	*9.5*	*10.4*	*10.1*	*10.6*	*10.8*	*11.0*
Watches							
Sales	12,652	15,201	16,668	17,889	19,859	22,824	26,460
Growth %	*23.4*	*20.1*	*9.7*	*7.3*	*11.0*	*14.9*	*15.9*
EBIDTA	2,006	2,265	2,178	2,112	2,582	3,127	3,704
Growth %	*23.0*	*12.9*	*(3.8)*	*(3.1)*	*22.3*	*21.1*	*18.5*
EBIDTA Margin %	*15.9*	*14.9*	*13.1*	*11.8*	*13.0*	*13.7*	*14.0*
Others							
Sales	2,437	3,285	4,306	5,062	6,116	7,426	8,808
Growth %	*60.8*	*34.8*	*31.1*	*17.5*	*20.8*	*21.4*	*18.6*
EBIDTA	(105)	47	63	167	229	371	528
Growth %	*67.2*	*144.3*	*34.7*	*166.2*	*37.4*	*61.9*	*42.3*
EBIDTA Margin %	*(4.3)*	*1.4*	*1.5*	*3.3*	*3.8*	*5.0*	*6.0*

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2014	2015E	2016E	2017E
Net Revenue	**109,165**	**126,447**	**154,073**	**182,897**
Raw Material Expenses	80,506	92,632	113,230	133,485
Gross Profit	28,659	33,816	40,843	49,412
Employee Cost	5,345	5,966	7,268	8,443
Other Expenses	12,822	15,446	18,104	22,052
EBITDA	**10,492**	**12,404**	**15,472**	**18,916**
Depr. & Amortization	631	916	1,080	1,230
Net Interest	(323)	212	(65)	(92)
Other Income	1,220	739	1,235	1,402
Profit before Tax	**10,210**	**11,302**	**14,482**	**17,786**
Total Tax	2,748	2,675	3,608	4,441
Profit after Tax	**7,462**	**8,627**	**10,873**	**13,345**
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	**7,411**	**8,576**	**10,823**	**13,329**
Avg. Shares O/S (m)	**887.8**	**887.8**	**887.8**	**887.8**
EPS (Rs.)	**8.3**	**9.7**	**12.2**	**15.0**

Cash Flow Abstract (Rs m)

Y/e March	2014	2015E	2016E	2017E
C/F from Operations	(5,502)	(412)	13,054	16,723
C/F from Investing	(1,887)	(1,896)	(1,985)	1,712
C/F from Financing	5,813	7,822	(3,921)	(10,984)
Inc. / Dec. in Cash	(1,576)	5,514	7,149	7,451
Opening Cash	12,365	10,789	16,009	22,290
Closing Cash	10,790	16,304	23,158	29,741
FCFF	(7,565)	(2,522)	11,052	15,044
FCFE	438	7,693	9,970	11,235

Key Financial Metrics

Y/e March	2014	2015E	2016E	2017E
Growth				
Revenue (%)	7.9	15.8	21.8	18.7
EBITDA (%)	3.7	18.2	24.7	22.3
PAT (%)	2.2	15.7	26.2	23.2
EPS (%)	2.2	15.7	26.2	23.2
Profitability				
EBITDA Margin (%)	9.6	9.8	10.0	10.3
PAT Margin (%)	6.8	6.8	7.0	7.3
RoCE (%)	30.2	22.2	22.1	24.5
RoE (%)	33.0	30.4	31.2	31.3
Balance Sheet				
Net Debt : Equity	(0.1)	0.1	(0.1)	(0.3)
Net Wrkng Cap. (days)	—	—	177	177
Valuation				
PER (x)	48.0	41.5	32.9	26.7
P / B (x)	14.1	11.4	9.3	7.6
EV / EBITDA (x)	33.6	28.9	22.7	18.0
EV / Sales (x)	3.2	2.8	2.3	1.9
Earnings Quality				
Eff. Tax Rate	27.0	23.8	25.0	25.0
Other Inc / PBT	11.8	6.3	8.4	7.8
Eff. Depr. Rate (%)	6.1	7.3	7.4	7.6
FCFE / PAT	5.9	89.7	92.1	84.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2014	2015E	2016E	2017E
Shareholder's Funds	25,240	31,166	38,310	46,838
Total Debt	8,063	18,278	17,196	13,386
Other Liabilities	(93)	(120)	(156)	(201)
Total Liabilities	**33,209**	**49,323**	**55,350**	**60,023**
Net Fixed Assets	6,232	7,238	8,167	8,658
Goodwill	59	34	8	—
Investments	266	266	266	266
Net Current Assets	26,652	41,786	46,908	51,100
Cash & Equivalents	*10,789*	*16,009*	*22,290*	*28,687*
Other Current Assets	*43,631*	*49,925*	*60,365*	*71,080*
Current Liabilities	*27,768*	*24,148*	*35,747*	*48,668*
Other Assets	—	—	—	—
Total Assets	**33,209**	**49,323**	**55,350**	**60,023**

Quarterly Financials (Rs m)

Y/e March	Q4FY14	Q1FY15	Q2FY15	Q3FY15
Net Revenue	**28,034**	**28,914**	**35,931**	**29,225**
EBITDA	**2,966**	**2,744**	**3,331**	**2,758**
% of revenue	*10.6*	*9.5*	*9.3*	*9.4*
Depr. & Amortization	204	243	199	232
Net Interest	227	350	109	211
Other Income	255	254	178	115
Profit before Tax	**2,789**	**2,405**	**3,201**	**2,431**
Total Tax	725	632	801	523
Profit after Tax	**2,064**	**1,773**	**2,400**	**1,907**
Adj. PAT	**2,064**	**1,773**	**2,400**	**1,907**

Key Operating Metrics

Y/e March	2014	2015E	2016E	2017E
Watch sales Growth	7.3	11.0	14.9	15.9
Watch EBIT Growth %	(3.1)	22.3	21.1	18.5
Watch Margins	11.8	13.0	13.7	14.0
Jewelry Sales Growth	7.4	16.5	23.2	19.2
Jewellery EBIT Growth %	4.4	21.9	25.9	21.5

Source: Company Data, PL Research.

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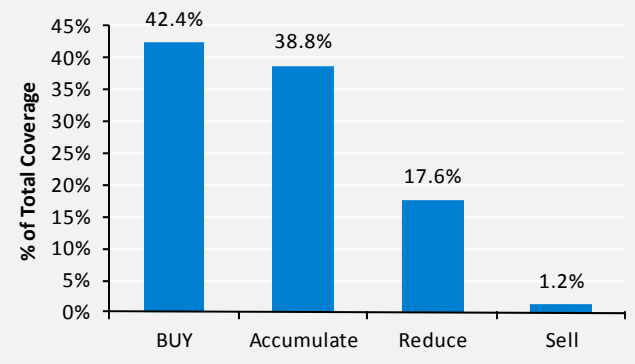
Rating Distribution of Research Coverage



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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