

Sensex 17,679      Nifty 5,350      Price: INR 3,366      Target Price: INR 3,674      **OUTPERFORMER**

**Background:** TTKPT broadly operates under 3 major segments - Pressure Cooker & Pans, Non-stick cookware and kitchen electric appliances. TTKPT enjoys high brand recall and they spend ~7.2% of their annual sales for brand building and promotional activity, which enables them to dominate most of the segments in which they operate. In the pressure cooker segment, TTKPT has a market share of ~40% within the organised market and in Induction cook-top space they enjoy a market share of about ~25%. 80% of sales are from products introduced in the last 3 years. TTKPT has network of 30,000 dealers in India. They compete with major players like Bajaj Electricals, Hawkins, Preethi, Philips, Sunflame, Faber, Elica etc.

52 Week High/Low      INR 3,954/2151  
 Bloomberg code      TTKPT IN  
 Reuters code      TTKL BO  
 Issued Equity (shares in mn)      11.32  
 Mkt. Cap in mn      INR 38,110  
 Mkt. Cap in mn USD      \$ 688.64  
 Avg. Daily Vol. ('000)      157.3  
 Avg. Daily Vol. (mn)      INR 529/\$ 9.6

## 'Play on the consumption story with plenty of steam left'

TTK Prestige (TTKPT) has grown at ~29% CAGR between FY04-12, primarily because of product and geographic diversification. From a single product company (Outer lid pressure cooker), TTKPT turned into a one stop kitchen appliances company and from a totally south focused company into a Pan-India player. At present the non-south market contributes ~35% of TTKPT's revenue.

Will this historical growth sustain in the near future? We have analyzed the growth levers and the demand drivers; we feel that TTKPT is a **play on the consumption story with plenty of steam left**. We believe TTKPT will continue to grow above the industry average primarily driven by new product addition, gaining market share and will continue to dominate in the respective segments. We expect TTKPT's top line and bottom line to grow at a CAGR of ~21.1% and ~22.2% between FY13E-16E respectively.

Shareholding	Jun11	Mar12	Jun12
Promoters(%)	74.91	74.91	74.91
FII (%)	6.84	8.89	11.84
DII (%)	5.76	5.31	3.37
Others (%)	12.49	10.89	9.88
Pledge (% of promoter holding)	0.00	0.00	0.00

### Revenue to grow ~30% CAGR over FY12-14

We expect TTKPT revenue to grow at 30.3% CAGR over FY12-14 driven by strong growth across the segments with the introduction of new products. We expect Kitchen electric appliances to grow ~40%, cookware to grow at ~30%, gas stoves to grow at ~25% and pressure cookers to grow at ~24% CAGR between FY12-FY14.

### Pricing power lead to stable Operating margin

It's worth mentioning that despite volatile currency movement and rising raw material prices, TTKPT's operating margin expanded from 8.8% in FY06 to 15.5% in FY12; the margin expansion was largely led by economies of scale, operating leverage and brand power to pass on cost increase to the consumers. We expect TTKPT's operating margin to remain stable in the range of 15-16% during FY13 & FY14.

Performance %	1M	3M	12M
TTKPT	-1.9	16.7	32.5
Sensex	5.1	9.6	9.2

### Valuation

We have valued TTKPT using SOTP based valuation, where its kitchenware business was valued using 3 stage DCF model and Real estate based on NPV to arrive a target price of INR 3,674 per share. We Initiate coverage on TTKPT with "OUTPERFORMER" rating and we recommend a **BUY on declines**. Risks to our recommendation include slowdown in the economy leading to a slowdown in discretionary spending; difficulty in passing on cost increases due to adverse currency movement and raw material price increase due to competitive pressures.

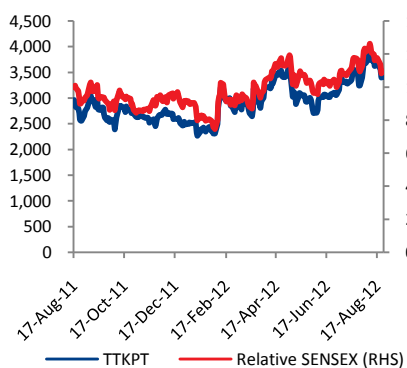


Table 1: Valuation Summary

Y/E March ( INRmn)	FY11	FY12	FY13E	FY14E
<b>Revenue</b>	7,635.7	11,034.3	14,716.0	18,745.0
<b>EBIDTA</b>	1,216.7	1,713.3	2,290.6	2,923.1
<b>PAT</b>	837.5	1,133.6	1,501.6	1,969.7
<b>EPS</b>	74.0	100.1	132.6	174.0
<b>EPS growth (%)</b>	59.7	35.4	32.5	31.2
<b>FCF / Share</b>	37.6	61.5	161.3	199.6
<b>PE</b>	45.5	33.6	25.4	19.3
<b>P/ BV</b>	19.9	13.4	9.3	6.7
<b>EV / EBIDTA</b>	30.9	22.5	16.4	12.3
<b>EV / Sales</b>	4.9	3.5	2.6	1.9
<b>Dividend Yield (%)</b>	0.4	0.4	0.6	0.8
<b>ROCE (%)</b>	74.0	62.1	53.9	53.9
<b>ROE (%)</b>	53.1	47.6	43.4	40.3
<b>Net Debt / Equity</b>	-0.3	-0.3	0.1	-0.1

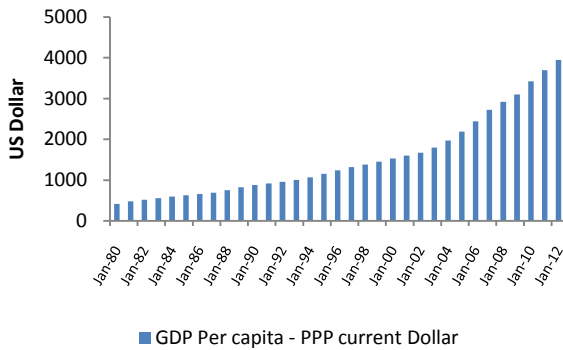
### Analyst:

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## Industry Overview:

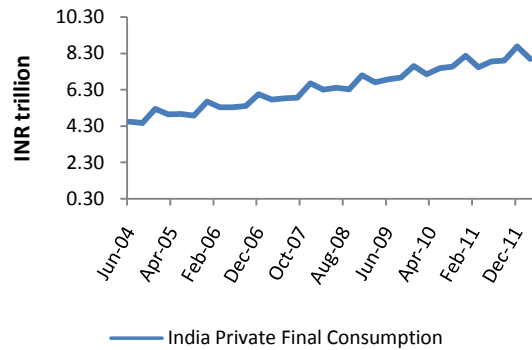
Brown goods (domestic kitchen electric appliances) sector constitutes products like pressure cookers, cookwares, mixers, grinders, irons, microwave ovens, electric rice cookers, geysers, microwave pressure cookers etc. During the last decade brown goods space witnessed a rapid growth supported by rising income levels, under penetrated market, growing urbanization and few government initiatives like cutting down the excise duties on products and in the near future, we expect momentum to continue.

**Chart 1: Rising income level**



Source: Bloomberg, CSEC Research

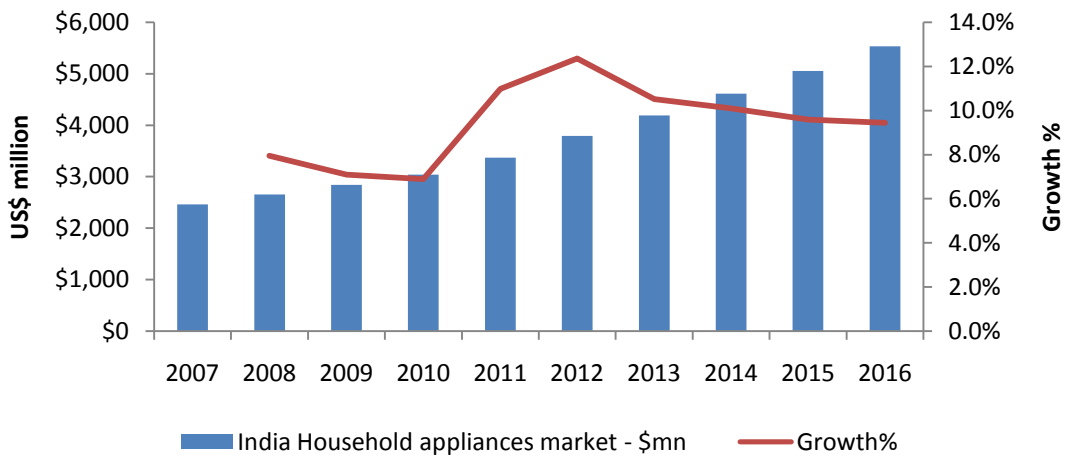
**Chart 2: Growing Private consumption**



Source: Bloomberg, CSEC Research

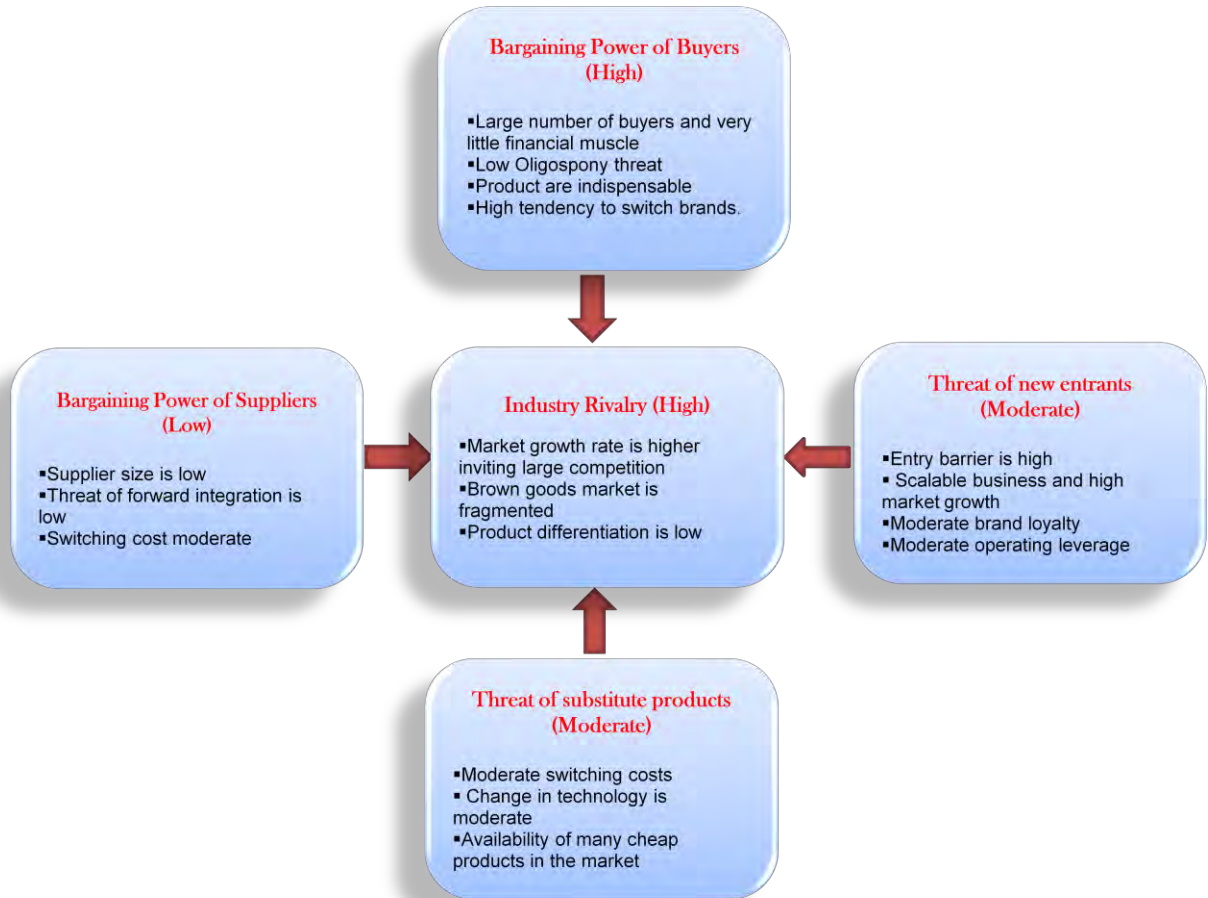
Stupendous growth in the industry has invited stiff competition from unorganized, regional and international players. In India, this industry has always been fragmented with large share being dominated by unorganized and regional players. According to Marketline - Indian household appliances market was valued at \$3.37bn in CY11 and it is expected to grow at a CAGR of 10.4% to reach \$5.53bn by 2016.

**Chart 3: Indian Household appliances market**



Source: Marketline

## Porters Five Force Model:



Source: CSEC Research

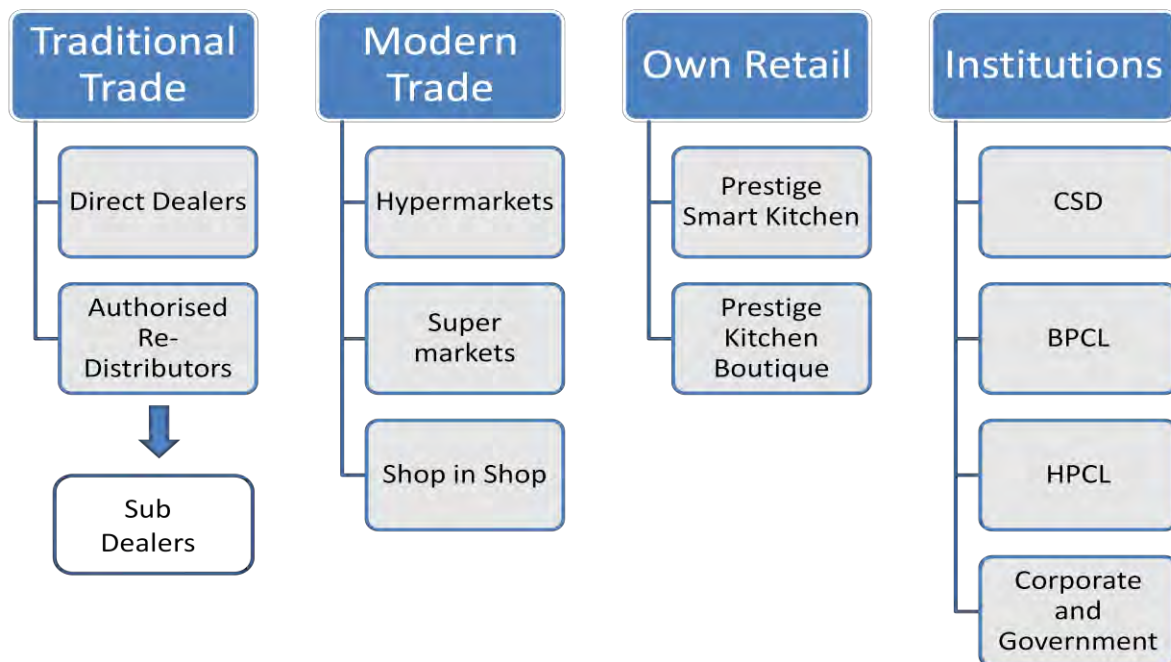
## Company Overview:

TTK Prestige (TTKPT) was incorporated in 1955 and remained a single product company till 1990. The company went through a turbulent phase in the initial part of the 21<sup>st</sup> century; however it regained its ground through diversification (product & geography) and brand building initiatives; coupled with government support (reduction in excise duty rates) has brought TTKPT on the growth track.

TTKPT broadly operates under 3 major segments such as pressure cooker & pans, non-stick cookware and electric kitchen appliances. TTKPT enjoys high brand recall and they spend ~7.2% of its annual sales for brand building and promotional activity; which enables it to dominate most of the segment in which it operates. In the pressure cooker segment, TTKPT has market share of ~40% (organized) and in induction cook-top space it enjoys a market share of ~25%.

TTKPT distributes its product through traditional dealers, Prestige Smart Kitchen (PSK), modern retail, and canteen, which contributes 63%, 15%, 10% and 12% of sales respectively. TTKPT has network of 30,000 dealers in India and company's product has got a presence in 85% of the outlets which sell pressure cookers throughout the country.

**Chart 4: Distribution Structure of TTKPT**



Source: Company, CSEC Research

## Investment Rationale

### **'Play on the consumption story with plenty of steam left'**

Revenue has grown at ~29% CAGR between FY04-12, primarily because of product and geographic diversification. From a single product company (Outer lid pressure cooker) they turned into a one stop kitchen appliances company and from a totally south focused company into a Pan-India player. At present the non-south market contributes ~35% of TTKPT's revenue.

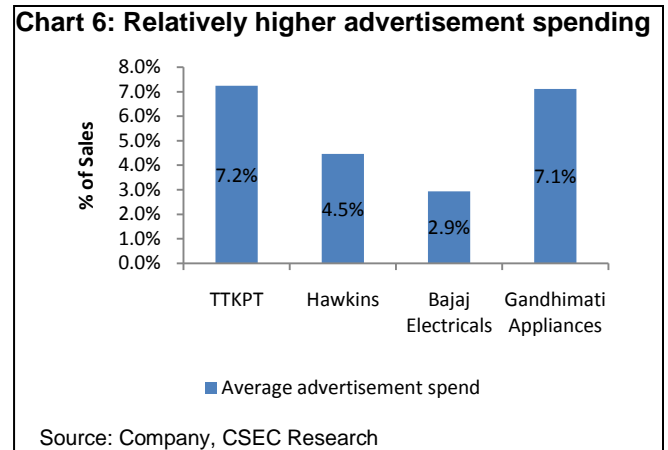
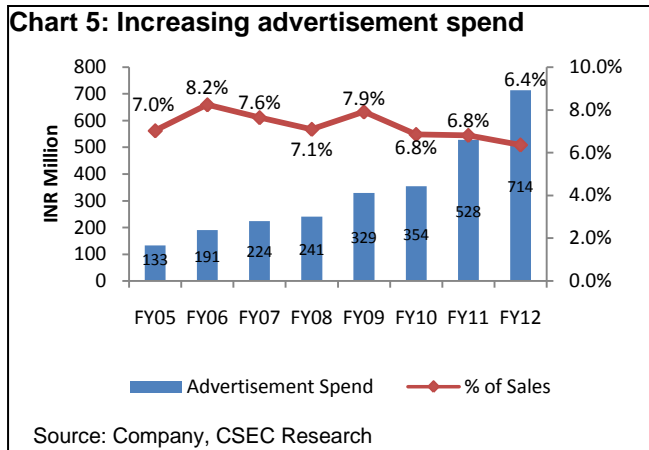
Will this historical growth sustain in the near future? We have analyzed the growth levers and the demand drivers; we feel that TTKPT is a **play on the consumption story with plenty of steam left**. TTKPT achieves 80% of its sales from products introduced in the last 3 years and we believe TTKPT will continue to grow above the industry average primarily driven by new product addition, gaining market share and will continue to dominate in the respective segments. We expect TTKPT's top line and bottom line to grow at a CAGR of ~21.1% and ~22.2% between FY13E-16E respectively.

### **Organized market growth + gaining market share = Growth above Industrial average**

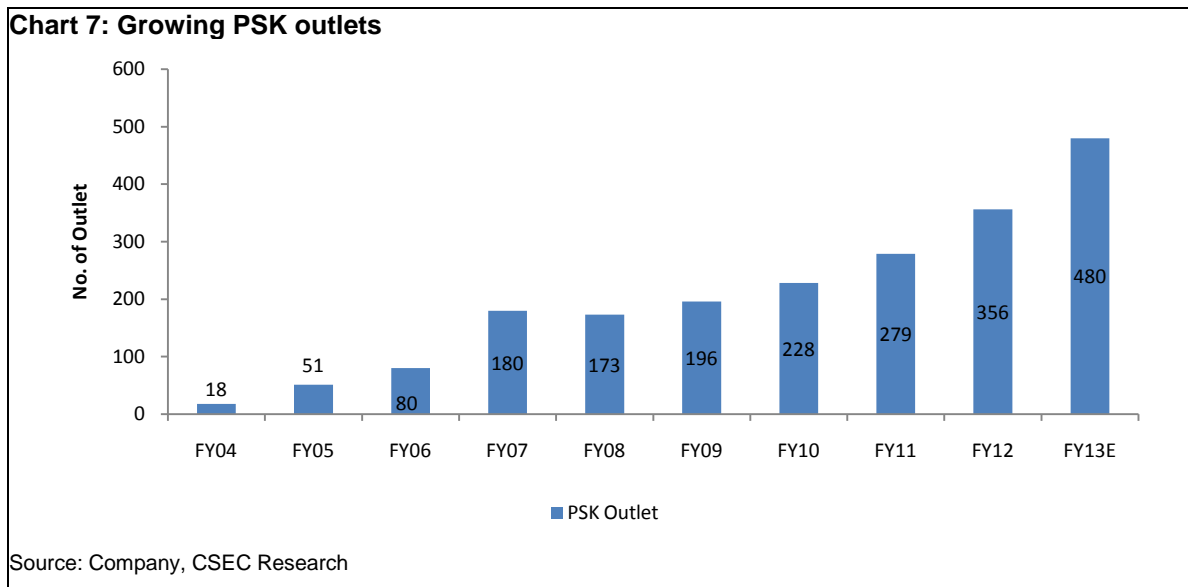
Volumes in the organized market for brown goods in India are currently growing at a rate of 16-18% per year and management expects industry volume to grow at 14-15% CAGR for the next three years due to a combination of following factors; a) increasing share of the organized vs. unorganized market due to a sharp increase in the purchasing power of rural and semi-urban consumers; b) increasing number of nuclear households in India; c) upgrade in lifestyle with an increase in the number of cookers/cookware per household and d) replacement demand. Company expects pressure cooker market to grow at ~20% due to shift from unorganized market to organized players.

Strong brand recall, deeper distribution channel, diversified product offering and constantly updating & innovating to changing demand has enabled TTKPT to gain market share from both organized and unorganized players.

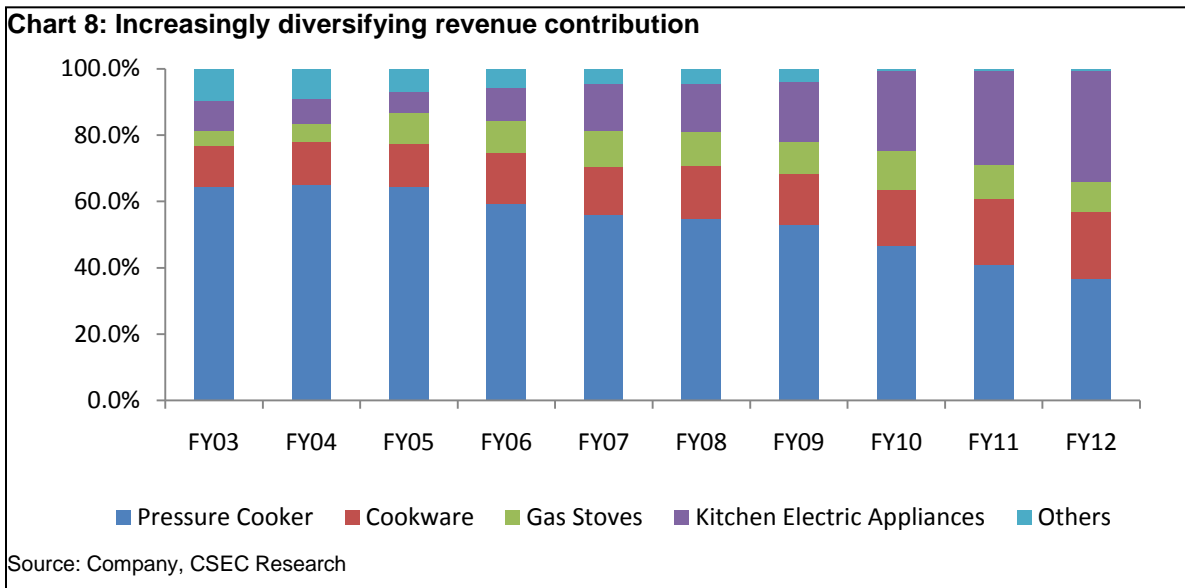
**Strong Brand recall:** TTKPT has been spending on an average ~7.2% of their sales in advertisement, promotion and brand building in the past few years, which are relatively higher than their peers. Higher spending has enabled them to create a strong brand recall with their consumers and they enjoy a market leader position in most of the segments they operate. We expect the company will continue to spend on brand building activity as in the past.



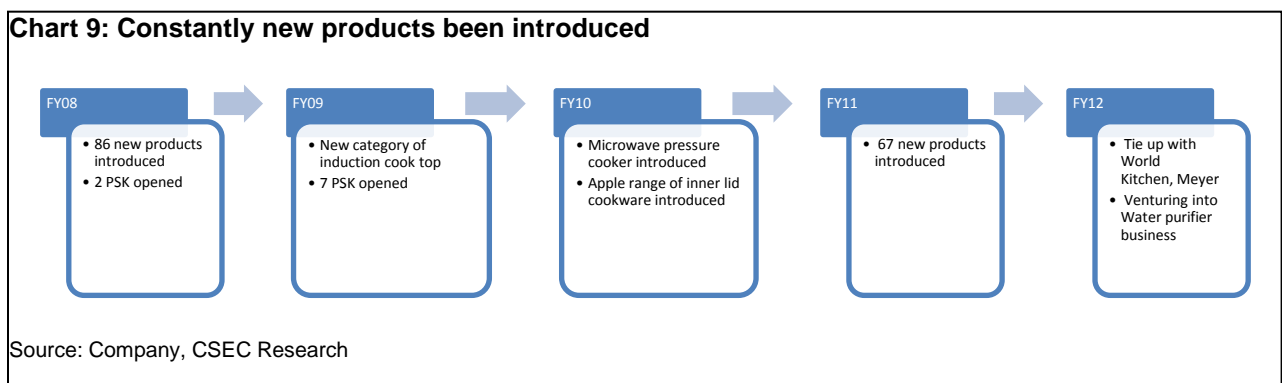
**Nationwide distribution channel:** Currently TTKPT has ~ 30,000 dealers and presence in 85% of the outlets which sells pressure cookers throughout the country. PSK which are exclusive outlets for Prestige products is a brand building initiative to portray Prestige as a Kitchen appliance brand, to showcase the wide product range, model range under one roof and to dispel the impression as a mere pressure cooker manufacturer. Currently it has 356 stores (franchisee owned), a network which covers 21 states and 179 towns and it plans to take the number to ~480 – 500 by end of FY 13.



**Diversified Product offering:** From single product company, TTKPT has transformed in to a kitchen appliances company, to realize its vision “A Prestige in every Indian Kitchen”. Company was able to grow faster than the Industry because of its diversified product offering and constant innovation and introduction of new products. In FY03, revenue contribution from pressure cooker accounted for ~65% which dropped to ~ 37% in FY12, even though the revenue from pressure cooker grew 21% CAGR to INR 4,132mn from FY 03 to FY12. During the same period revenue contribution from other products expanded, notably kitchen electric appliances (KEA) which grew from 9.3% to 33.6% and revenue from KEA grew at a ~49% CAGR to INR 3,775mn.



**New Product:** TTKPT has been constantly innovating and introducing new products, which is one of the strategies, the company follows to sustain and grow above the industry average; to name a few are microwave pressure cooker (Microchef), Apple range of inner-lid pressure cooker and induction cook-top. In FY13, TTKPT plans to add ~ 1,000 Stock Keeping Units (SKU) which includes World Kitchen product range. According the management approximately **80% sales comes from new products introduced in the last 3 years.**



### Changing along with the demand curve:

Along the lines of increasing traction for Induction cook tops; TTKPT is realigning its cookware products compatible for induction cooking. In FY12, induction cook tops accounted for 40% of total appliances sales and in FY11, it stood at ~25%. In FY12, induction cookers as a percentage of total cooker sales stood at 50% and in FY13 it is likely to be at 75%. Moreover, they are also moving their cookware to induction compatible ones, which offer higher margins and going forward they will sell only induction based cookware.

With these traits, we believe TTKPT will grow above industry average by gaining market share from the competitors and new product offering (through organic and joint ventures).

### Venturing into new categories through JV

Company is entering into three new categories such as glassware, high-end cookware and water purifier.

**Table 2: Partnership details and timeline**

Product	Partnership	Brand	Timeline - launch	Note
Glassware	World Kitchen	Corelle, Corning, Pyrex and Visions	May'12	Manufacture in USA; import and distribute in India
High end Cookware	Meyer		June'12	Both aluminium and stainless steel. Import from Thailand and distribute, once the economic level is achieved it plans to manufacture in India
Water Filter			End of this financial year	The products will be manufactured / assembled from Gujarat Plant and it will market and distribute across India.

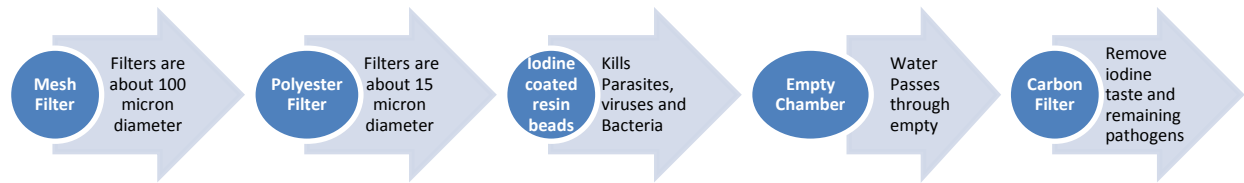
Source: Company, CSEC Research

**Partnership with World Kitchen & Meyer Corp:** TTKPT has entered into a distribution agreement with World Kitchen, USA and Meyer Corp., USA which enables it to enter the high-end tableware/cookware and storeware sub-segments. Under the agreement TTKPT will offer shelf space to showcase international brands such as Corelle, Corning, Pyrex, Vision and Snap of World Kitchen. It will also offer Circulon, Anolon, Farberware, Rachael Ray, Paula Deen, SilverStone and KitchenAid of Meyer Corp. Company expects distribution income of INR 60mn in FY13 and 110mn in FY14. Initially the products will be displayed in ~20% of PSK stores.



**Foray into Water Filter Market:** The collaboration agreement with the Vestergaard Frandsen Group of Switzerland enables TTKPT to enter the fast-growing domestic water-filter segment by leveraging LifeStraw technology. TTKPT will assemble products at their unit coming up in Gujarat, India, and expects to start marketing them in early FY14. Domestic water filter market is estimated to be ~ INR 10bn and growing at 30%YoY. Vestergaard distributes LifeStraw water filters in US and Canada through online retailers and it is priced around US\$19.95 and US\$30.47 a piece in Australia.

**LifeStraw® Technology:**



**Product:**

LifeStraw® and LifeStraw® Family are both point-of-use water interventions – truly unique offering from Vestergaard Frandsen that address the concern for affordably obtaining safe drinking water at home and outside. The LifeStraw personal water filter was named as “Best Invention of 2005” by Time magazine. LifeStraw and LifeStraw filter’s up to 1,000 and 18,000 liters of water respectively. Products comply with US Environmental Protection Agency 1987 Guide Standard and Protocol for testing microbiological water purifiers. It removes minimum 99.99% of bacteria (>LOG 6 reduction), viruses (>LOG4 reduction) and protozoan parasites (>LOG3 reduction). It reduces turbidity, filtering down to 0.2 microns.



**Awards and Accolades:**

- 2008 Saatchi & Saatchi Award (for World Changing Ideas)
- Index: 2005 (International Design Award)
- Well-Tech 2006 (Innovation Technology Award)
- Best Invention of 2005 (Time Magazine – Nov’05)
- Europe’s Best invention (Reader’s Digest – Jul’06)
- Innovation of the Year (Esquire Magazine Dec’05)
- Invention of the century (Gizmag – Dec’05)
- Tools for Better living (Fortune Magazine)
- Design for the rest of the world (The New York Sun – May 07)

**Table 3: Advantages and Disadvantages of various water filters:**

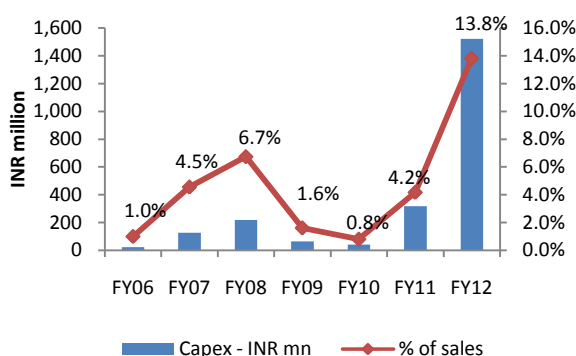
Filter Type	Advantages	Disadvantages
<b>Ultraviolet</b>	<ul style="list-style-type: none"> <li>• Inactivates bacteria</li> </ul>	<ul style="list-style-type: none"> <li>• Requires electrical power</li> <li>• Should not be used alone since it only inactivates bacteria</li> <li>• Expensive</li> </ul>
<b>Reverse Osmosis</b>	<ul style="list-style-type: none"> <li>• Filters most contaminants out of all other filter types</li> </ul>	<ul style="list-style-type: none"> <li>• Higher amount of water goes waste during the filtration process</li> </ul>
<b>Slow Sand</b>	<ul style="list-style-type: none"> <li>• Does not need electric power or chemicals</li> <li>• Materials easily obtained</li> </ul>	<ul style="list-style-type: none"> <li>• Large in volume</li> <li>• Heavy</li> <li>• Slow filtration ratio</li> </ul>
<b>Activated Carbon</b>	<ul style="list-style-type: none"> <li>• Cheap</li> <li>• Usually used as pre filter for other filtration system</li> </ul>	<ul style="list-style-type: none"> <li>• Does not remove bacteria</li> <li>• Not very good at removing heavy metal</li> </ul>
<b>Ceramic</b>	<ul style="list-style-type: none"> <li>• Cheap</li> <li>• Can be combined with activated carbon</li> <li>• No advanced technology required</li> </ul>	<ul style="list-style-type: none"> <li>• High maintenance</li> </ul>
<b>LifeStraw</b>	<ul style="list-style-type: none"> <li>• Portable</li> <li>• Can drink water direct from contaminated water source</li> <li>• Easy to maintain</li> <li>• <b><u>No electricity required</u></b></li> </ul>	<ul style="list-style-type: none"> <li>• Cannot be shared (LifeStraw)</li> <li>• Relatively small reservoir (Lifestraw Family)</li> </ul>

LifeStraw Family is priced US\$77.08 and US\$91.35 in New Zealand and Australia respectively. Even at US\$91 it translated into ~ INR 5,000 and RO systems are priced at least double the price. We believe **LifeStraw Family to do exceedingly well if it is priced right and well supported by advertising and distribution, as both the initial cost and running costs will be substantially cheaper.**

**Acquisition to grow its export share:** TTKPT is looking at Europe for acquiring global brands to strengthen its export share, which is currently at 3% of total sales. The size of acquisition would be in the range of INR 2-3bn.

**Capital Expenditure to Fuel growth and to curb import dependency:** TTKPT initiated an ambitious plan for capacity building, primarily in cookware and appliances. The overall capex plan for the 3yrs commencing April 2010 was pegged at ~INR 3,000mn of which around INR 1,900mn has been incurred till March 2012. The balance INR 1,100mn will be incurred in FY13. The capex investment has resulted in enhancing capacity from current level; pressure cooker capacity has been increased from 4.8mn to 8mn, non-stick cookware is being increased from 2mn to 12mn and 1mn capacity for induction cook-top is yet to come in Vadodra which is likely to get commissioned by November 2012. Capex is being funded by debt and internal accrual.

**Chart 10: Historical Capex**



Source: Company, CSEC Research

**Table 4: Plant-wise Capex**

Place	Capex – INR Mn	Completion Date
Uttaranchal		Dec-11
Coimbatore	1,500	Mar-12
Hosur		Dec-11
Gujarat	1,200	Nov-12
Maharashtra	400-500	N/A

Source: Company, CSEC Research

TTK Prestige has completed most of capex investment in Uttarakhand, Coimbatore and Hosur units. All these expansions have started commercial production. Company has completed most of the formalities relating to the acquisition of land in Gujarat and the construction of the factory has commenced. Most machines have arrived and the first phase of this project is expected to be in place before the end of FY13.

Given the strong underlying growth scenario, we believe these capacity additions are enough to meet the demand for next 3-5years, which will curb import dependency to meet demand. In FY12, imported products contributed 38% of the sales (~ INR 4,266mn). Going forward management expects imports to be down by INR 300mn ~ 400mn in FY13 and INR 700mn ~ 800mn in FY14 and the contribution from imported product is likely to come down to 25% and 20% of sales in FY13 and FY14 respectively.

## Induction cooktop - another growth engine

The Country, particularly South India is facing shortage of LPG, something that the state-owned oil marketing companies attribute to a combination of factors including financial constraints in the backdrop of their mounting under-recoveries. With limited supply of LPG cylinder and high demand for LPG fuel has augured well for induction cook-top as an alternative. Moreover the drive by oil marketing companies (OMCs) to withdraw multiple cylinders to cut down subsidy is likely to drive demand for induction stoves. Though the drive was started around May 2010, the momentum picked up from the beginning of FY12. The three OMCs have blocked 3.8mn LPG connections by March 2012 of which South Indian states (Andhra Pradesh, Tamil Nadu and Karnataka) account for ~31% of cancellation which we believe will favor TTKPT given its strong presence in South India.

**Table 5: State-wise cancellation of LPG Connection**

State	No. of Connections blocked	Percentage
Andhra Pradesh	488,000	13%
Tamil Nadu	470,000	12%
Maharashtra	326,000	9%
Uttar Pradesh	220,000	6%
Karnataka	209,000	6%
Gujarat	158,000	4%
Rajasthan	145,000	4%
West Bengal	106,000	3%
Other States	1,678,000	44%
<b>Total</b>	<b>3,800,000</b>	<b>100%</b>

Source: Business Standard

**Table 6: Comparison between different modes of cooking**

Fuel / System	Calorific Value (MJ/ Kg)	Cost (INR / Kg)	Thermal Efficiency %	Price of using heat energy (INR / MJ)
Fuel wood	12.54	4.00	8	3.99
Kerosene	43.12	25.00	60	0.97
LPG	45.84	29.30	68	0.94
Induction cooker*	3.60	3.00	89	0.94

\* cost (INR/Kwh) Source: KEMC, CSEC Research

Induction cooking is more popular in South than other parts of India. In India, the induction market is estimated to be around 3.5mn pieces or ~INR6bn by value in FY12. Company expects the industry wide demand for induction cook-top to increase significantly to ~16mn units by 2016 at a CAGR of ~46% and ~INR34bn by market value.

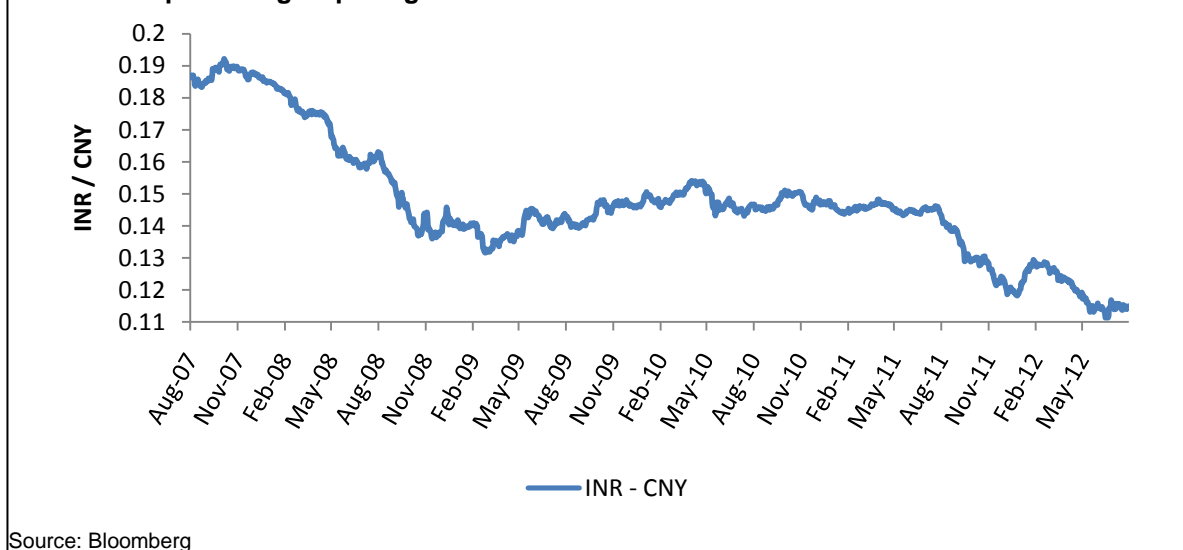
**Table 7: Induction Cooktop Market:**

Induction Cooktop	FY12	FY13E	FY14E	FY15E	FY16E	CAGR
<b>Sales Quantity</b>						
Total Market - million units	3.5	7.4	9.5	12.3	16.0	46%
TTKPT - million units	0.9	2.0	2.5	3.2	4.0	44%
<b>Sales Value</b>						
Market size – INR mn	6,181.0	13,721.8	18,496.5	25,146.1	34,345.6	54%
TTKPT - Market share	26.9%	27.0%	26.5%	26.0%	25.0%	
TTKPT Sales - INR mn	1,660.0	3,708.6	4,867.5	6,542.1	8,586.4	51%
Average Realization – INR	1,766.0	1,854.3	1,947.0	2,044.4	2,146.6	5%
Realization Growth		5%	5%	5%	5%	
Induction % of Total sales	14.8%	24.7%	25.4%	27.6%	30.3%	
Induction sales growth	137%	123%	31%	34%	31%	

Source: Company, CSEC Research

In FY12, TTKPT has sold 0.93mn Induction cook-tops and it accounts for approximately over 40% of total appliances sales. In FY12 TTKPT sales from induction cook-top has increased by 137% from INR 700mn to INR 1,660mn and it accounted ~28% of TTKPT incremental sales. Management indicated that in FY13 it expects to sell 2mn units of induction cook-tops and we expect the TTKPT's revenue from induction cook-top to grow at a CAGR of 51% between FY13-FY16. TTKPT, which used to import induction cook-top, will now manufacture the same at Roorkee plant with an initial capacity of 1 mn units. This will partially mitigate the import dependency. The production has started in June 2012 with a production of 10,000 pieces a month.

**Chart 11: Depreciating Rupee against Chinese Yuan**



Source: Bloomberg

Being a lucrative market there are around 40 competitors, which include domestic (regional & unorganized players) and MNC's. TTKPT has a market share of over 25-27% and the second biggest competitor Bajaj Electrical which commands a market share of ~20%. We believe competition will intensify further, but feel price war is unlikely given that most regional and unorganized players largely import induction cook-tops from China and the rupee depreciation against Chinese Yuan will curtail predatory pricing.

Though competition would remain intense, we believe TTKPT will be able to hold its market share with a variation of +/- 2%; given its high brand recall, higher spend in advertising and promotional activity and strategic tie up with Schott will help the company to maintain its market share.

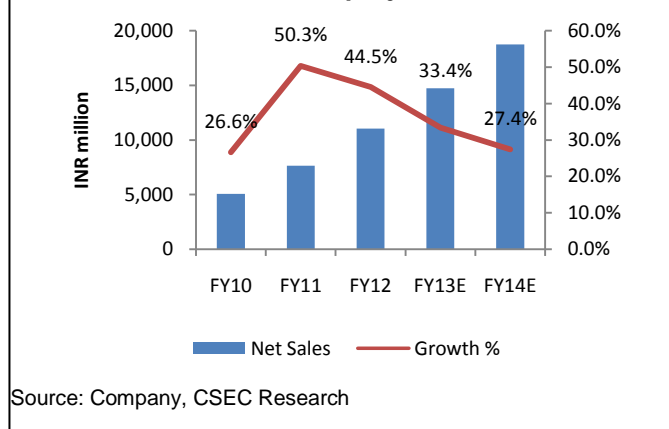
**Strategic partnership with Schott:** TTKPT has announced an alliance with Germany's specialty glass producer and technology company Schott AG, to jointly launch high-end induction cook-tops and gas stoves made up of high-end Schott Ceran glass ceramic panels, under the brand Prestige Premia, positioned as premium products with prices ranging from INR 5,000 to INR 15,000.

## Financials

### Revenue to grow ~30% CAGR over FY12-14

During the last decade (FY03-12), TTKPT revenue grew at a CAGR of ~29% and a large portion of the growth came from Kitchen electric appliances, cookware and gas stoves grew by a CAGR of~ 49%, 39% and 36% respectively during the same period. Going forward, we expect TTKPT revenue to grow at 30.3% CAGR over FY12-14 driven by strong growth across the segments, introduction of new products. We expect Kitchen electric appliances to grow ~40%, cookware to grow at ~30%, gas stoves to grow at ~25% and pressure cookers to grow at ~24% CAGR between FY12-FY14.

**Chart 12: TTKPT Revenue projections**



**Table 8: Segment wise growth projections**

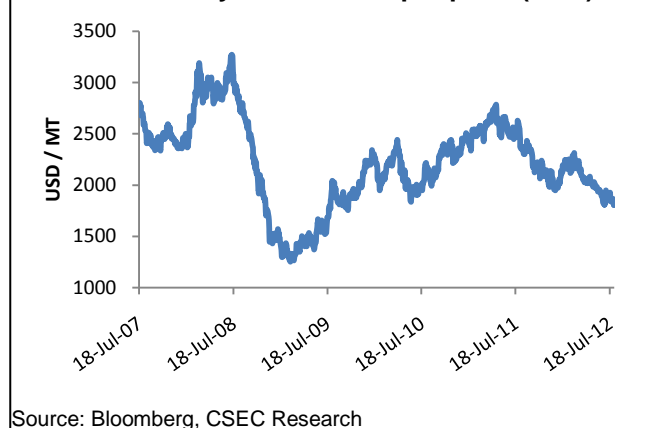
Segment wise Growth (CAGR)	FY03-11	FY12-14E
Pressure Cookers & Pans	20.1%	23.6%
Cookware	35.0%	30.0%
Gas Stoves	41.3%	25.0%
Kitchen Electric Appliances	46.2%	39.6%

Source: Company, CSEC Research

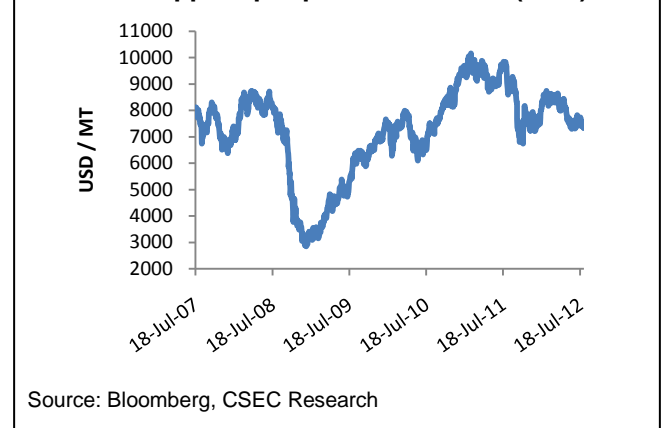
### Pricing power lead to stable Operating margin

It's worth mentioning that despite volatile currency movement and rising raw material prices, TTKPT's operating margin expanded from 8.8% in FY06 to 15.5% in FY12; the margin expansion was largely led by economies of scale, operating leverage and brand power to pass on cost increase to the consumers.

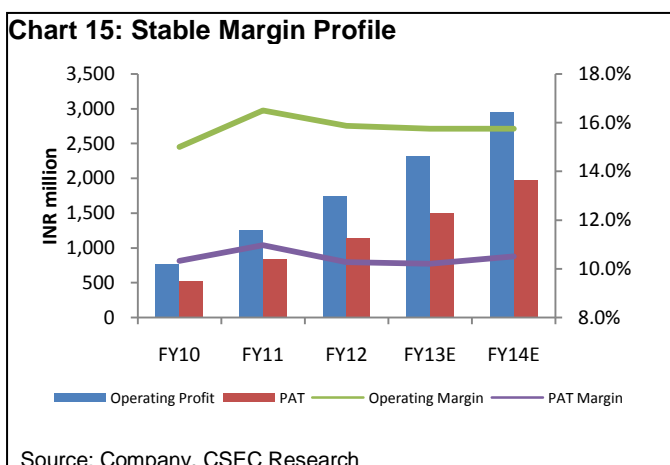
**Chart 13: Primary Aluminium spot price (LME)**



**Chart 14: Copper spot price movement (LME)**



To tackle the effect of unfavorable currency movement, during this calendar year (CY12), company has increased the price twice; In January 2012 it has increased the prices of all imported appliances by 4% and in April 2012, it has increased the prices of all goods by 6%. Management believes this price increase will be good enough to cover the rupee depreciation up to INR60/US\$.



**Table 9: Segment wise gross Margin**

Particulars*	FY09	FY10	FY11
Non stick cookware	41.0%	44.1%	49.9%
Gas Stove	30.6%	31.0%	36.4%
KEA	35.0%	35.8%	33.6%

\*Traded products, Source: Company, CSEC Research

Further TTKPT has margin levers like higher advertisement spending, which accounts ~7.2% of sales or ~22% of operational expenditure. Given the discretionary nature of the cost and company ad spend being one of the highest amongst its peers, it gives comfort for a cut of 50-100bps on this expenditure to protect margins, if required. We expect TTKPT's operating margin to remain stable in the range of 15-16% during FY13 & FY14.

PAT is expected to grow at a CAGR of 32% between FY12-14 to INR 1,969.65mn, driven by volume growth and stable margin. We expect PAT margins to remain stable in the range of 10.3-10.5%.

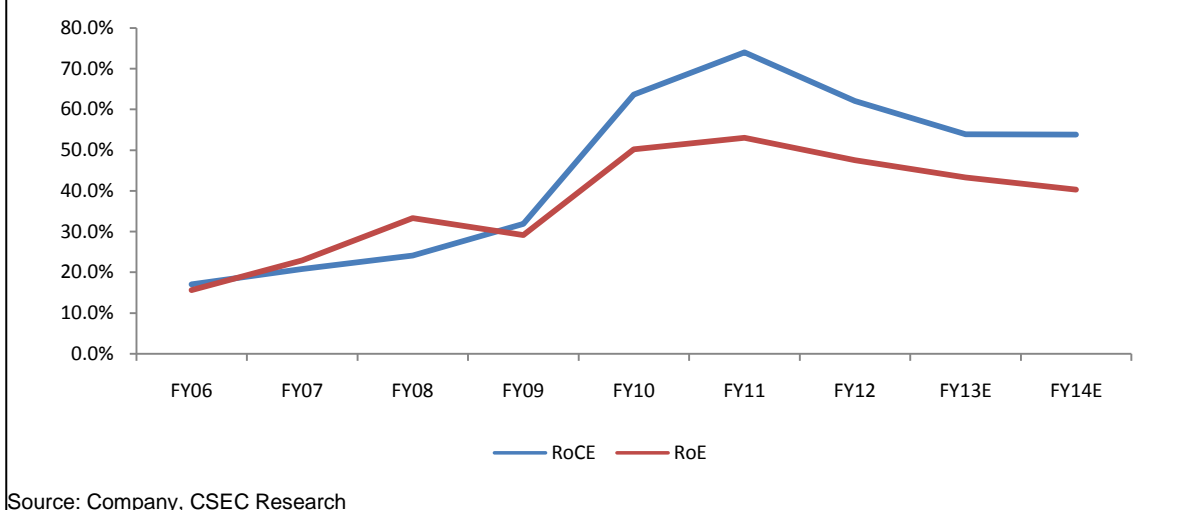
### Strong Balance sheet & superior return ratios

TTKPT has got a strong balance sheet with, net debt to equity in FY12 at 0.13X as compared to -0.27X in FY11. The increase in debt level was to fund the ambitious ~ INR 3,000mn capex plan due to which the debt increased to INR 597mn in FY12 of which INR 423mn will be paid in FY13 and the rest would be paid off in FY14. Moreover company has an interest cover of 33.25X in FY12 as compared to 30X in FY11.

Due to capacity constraints, TTKPT used to import cookware and Kitchen electric appliances from China, however, recent capacity additions would reduce import dependency, which will have a positive impact on working capital cycle (reduces to 3 months from 6 months).



**Chart 16: Return ratio to moderate due to Capex**



TTKPT's return ratio has been improved considerably; RoCE has increased from 17.1% in FY06 to 62.1% in FY12, owing to better asset turnover and improved profit margin, RoE has increased from 15.6% in FY06 to 47.6% in FY12. Going forward in the near term, we expect the RoCE and RoE to moderate in the range to 40-50% and 30-40% respectively due to the recent capital expenditure and higher competitive pressures.

## Valuations:

We have valued TTKPT using SOTP based valuation, where its kitchenware business was valued using 3 stage DCF model and Real estate based on NPV to arrive a target price of INR 3,674 per share.

### Valuations - Kitchenware business:

In stage 1 (FY13-18) we have modeled a sales growth of ~18% CAGR, in stage 2 we have modeled a growth of 14% CAGR for the further 5 years and then stage 3 as a stable terminal growth phase with a perpetual growth of 4%.

**Table 10: The discount rate assumption used in DCF model is as follows;**

Particulars	Value
Beta	0.83
Risk free rate (Rf %)	8.20
Equity risk premium (ERP %)	7.00
Cost of Debt %	10.00
Cost of Equity %(CAPM)	14.00
WACC %	13.10
Tax Rate %	30.00

We have discounted the future cash flows at the rate of 13.1% to arrive a target price of INR 3,639 per share for the kitchenware business, which is 27.4X and 20.9X of FY13 and FY14 EPS of INR 132.64 and INR 174 respectively.

**Table 11: DCF matrix**

		WACC				
		12.1%	12.6%	13.1%	13.6%	14.1%
Terminal Growth %	3.50%	4,062	3,779	3,527	3,302	3,099
	4%	4,215	3,909	<b>3,639</b>	3,398	3,182
	4.50%	4,388	4,056	3,763	3,505	3,274
	5%	4,586	4,221	3,904	3,624	3,377
	5.50%	4,813	4,410	4,062	3,758	3,491
	6%	5,078	4,628	4,243	3,910	3,619

### Monetization of Land

TTKPT has entered into a JV with Salarpuria Builders during 2008 to develop the land at their unit in Dooravaninagar, Bangalore, which has been shifted. Initially the company had plans to develop a mall, but later chose to construct an office cum residential complex and this project is expected to be

completed in FY15. As a part of the agreement TTKPT will hold 43% share in the salable area which is ~0.68mn sq.ft. and will not share any development cost.

Once the project is completed, TTKPT will sell its share in the residential portion which is approximately 0.1mn sq.ft and we have estimated the onetime cash realization will be ~ INR307mn (pre-tax) and will lease out the commercial portion. The NPV of cash flow from this project is estimated be INR395mn or INR 35 per share.

<b>Particulars</b>	
Saleable area	680,000
TTK Share	43%
TTKPT - Saleable area	292,400
Residential	102,340
Commercial	190,060
Project completion	FY15
<b>Assumptions</b>	
Average rate of residential Plot (INR / Sq.ft)	3,000
Commercial rate for lease (INR/sq. ft/ month)	25
Cash flow from residential - INR mn (Pre-tax)	307
Cash flow from Commerce - INR mn (Pre-tax)	51
WACC	13.1%
Terminal Growth rate	5%
Occupancy	90%
Tax Rate	30%
<b>Valuation</b>	
Present value of Residential cash flow (post tax) - INR mn	149
Present value of Commercial cash flow (post tax) - INR mn	247
<b>Total Value –INR</b>	<b>395</b>
Value Per share – INR	35

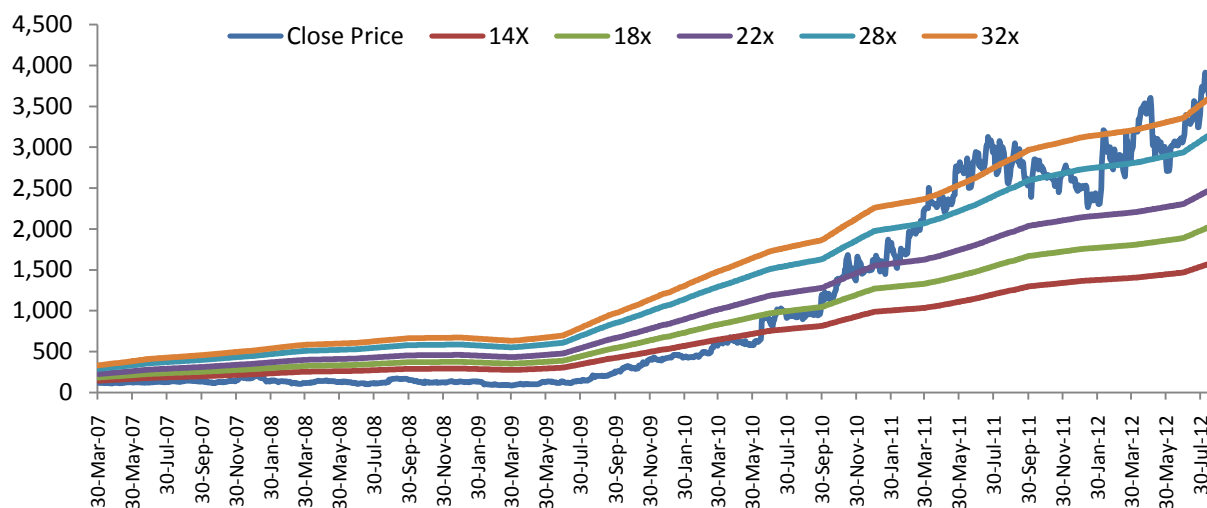
#### Relative Valuation:

TTKPT scores better on all profitability metrics while trading cheaper as compared to one of its listed peers, Hawkins.

Company	OPM	NPM	P/E	P/BV	EV/EBIDTA	EV/Sales	ROE	Div Yield (%)
TTK Prestige*	15.6%	10.2%	26.9	9.9	17.4	2.7	43.4	0.6
Hawkins	9.3%	6.4%	35.0	14.1	23.1	2.1	42.3	-

Source: Bloomberg, CSEC Research\* (FY13)

**Chart 17: P/E band chart**



Source: CSEC Research

**Key Risks:**

- As most of the products are durables and there is a huge element of discretionary spending, purchases could get deferred due to uncertainty in the Economy and job environment. Down trading to cheaper brands is also a distinct possibility.
- Monsoon failure could lead to a slowdown in rural discretionary spending in the short term
- Adverse currency movement and increase in raw material price could affect margin, if company fails to pass on the cost increase.
- As competition intensifies by the entry of foreign player could lead to price war, thus affecting profitability and competition also means the risk of losing market share.

## Financial Statements

Income Statement (Abstract)				
INR(million)				
Particulars	FY11	FY12	FY13E	FY14E
Net Revenue	7,636	11,034	14,716	18,745
Growth (%)	50.3	44.5	33.4	27.4
Operating Exp.	6,419	9,321	12,425	15,822
EBIDTA	1,217	1,713	2,291	2,923
Growth (%)	62.2	40.8	33.7	27.6
Depreciation	43	62	104	133
Other Income	43	38	28	28
Interest	8	56	67	0
Exceptional Items	-6	0	0	0
Tax Paid	366	499	646	848
Tax Rate (%)	30.4	30.6	30.1	30.1
Reported PAT	837	1,134	1,502	1,970
Adjusted PAT	837	1,134	1,502	1,970
Growth (%)	59.7	35.4	32.5	31.2

Balance Sheet (Abstract)				
INR(million)				
Particulars	FY11	FY12	FY13E	FY14E
Share Capital	113	113	113	113
Reserves & Surplus	1,801	2,738	3,963	5,578
<b>Net worth</b>	<b>1,915</b>	<b>2,851</b>	<b>4,076</b>	<b>5,691</b>
Current Liabilities	2,176	3,605	4,866	6,168
Non-Current Liab	163	379	840	306
<b>Total Liabilities</b>	<b>4,255</b>	<b>6,836</b>	<b>9,783</b>	<b>12,165</b>
Net Fixed Assets	810	2,300	3,296	3,257
Other Non-Current Assets	123	101	104	104
Cash & marketable securities	535	223	1,110	2,088
Other Current Assets	2,786	4,212	5,272	6,716
<b>Total Assets</b>	<b>4,255</b>	<b>6,836</b>	<b>9,783</b>	<b>12,165</b>

Cash Flow statement (Abstract)				
INR(million)				
Particulars	FY11	FY12	FY13E	FY14E
Cash flow from operations	743	611	1,796	1,920
Cash flow from investing	-509	-1,277	-1,072	-66
Cash flow from financing	-145	360	163	-876
Free cash flow	425	-928	696	1,826
Net change in cash	89	-305	887	978

Per Share Ratios				
Particulars	FY11	FY12	FY13E	FY14E
Adjusted EPS (Rs.)	74.0	100.1	132.6	174.0
Cash EPS	77.7	105.6	141.8	185.8
BV/Share (Rs.)	169.1	251.8	360.1	502.7
FCF/Share(Rs.)	37.6	61.5	161.3	199.6
DPS (Rs.)	12.5	15.0	21.0	27.0

Key Ratios				
Particulars	FY11	FY12	FY13E	FY14E
Dividend payout (%)	16.9	15.0	15.8	15.5
EBIDTA margin (%)	15.9	15.5	15.6	15.6
PBT Margin	15.8	14.8	14.6	15.0
RoCE (%)	74.0	62.1	53.9	53.9
RoE (%)	53.1	47.6	43.4	40.3
Current Ratio	1.53	1.23	1.31	1.43
Debt/Equity	0.02	0.01	0.21	0.15
Inventory Days	50	58	50	50
Debtor Days	36	35	35	35
Creditor Days	42	40	40	40
CCC*	44	53	45	45
Interest Cover Ratio	160.1	29.9	33.3	0.0

DuPont Analysis				
Particulars	FY11	FY12	FY13E	FY14E
Net Profit Margin (%)	11.0	10.3	10.2	10.5
Asset Turnover	2.19	1.99	1.77	1.71
Leverage factor	2.21	2.33	2.40	2.25
RoE (%)	53.1	47.6	43.4	40.3

Valuation Ratios				
Particulars	FY11	FY12	FY13E	FY14E
P/E	45.5	33.6	25.4	19.3
P/BV	19.9	13.4	9.3	6.7
EV/Sales	4.9	3.5	2.6	1.9
EV/EBIDTA	30.9	22.5	16.4	12.3
Div Yield (%)	0.4	0.4	0.6	0.8

\*CCC – Cash Conversion Cycle



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