

August 29, 2023

Titan Company Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit programme	4,500.00	4,500.00	[ICRA]AAA(Stable); reaffirmed
Commercial paper programme	1,500.00	1,500.00	[ICRA]A1+; reaffirmed
Long-term/short-term fund-based/ non-fund based facilities	1,700.00	1,700.00	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Total	7,700.00	7,700.00	

*Instrument details are provided in Annexure-I

Rationale

While reaffirming the ratings, ICRA notes the stock exchange filing by Titan Company Limited (Titan) on August 19, 2023 that it has entered into a share purchase agreement to acquire 91,90,327 equity shares held by the founders of Caratlane Trading Private Limited (CTPL; rated [ICRA]A1+), representing 27.18% of the paid-up equity share capital of CTPL, on a fully diluted basis, for a cash consideration of Rs. 4,621 crore. The transaction is expected to be completed by October 31, 2023, subject to receipt of the necessary approvals from the Competition Commission of India. On completion of the transaction, Titan's shareholding in CTPL is set to increase to 98.28% from the current shareholding of 71.09%. The sizeable consideration is likely to be funded through a mix of internal accruals, existing cash reserves and additional borrowings, which could result in an increase in the outstanding debt in the near term. Nevertheless, the overall financial risk profile is expected to remain comfortable owing to a sizeable net worth base and healthy cash flows.

The ratings reaffirmation reflects ICRA's expectations that Titan Company Limited's (Titan) performance will continue to remain strong over the medium term on the back of its market leadership position in the organised jewellery and wristwatch segments and strong market position in the eyecare segment, coupled with its robust financial risk profile. Titan's consolidated operating income grew by ~41% YoY to Rs. 40,575 crore in FY2023 and by ~26% YoY to Rs. 11,897 crore in Q1 FY2024. While the operating profit margin sustained at 12% in FY2023, it moderated to 9.5% in Q1 FY2024 owing to competitive pressures and initiatives by the company to gain market share in the jewellery business. ICRA expects Titan's revenue to continue to record a healthy YoY growth over the next 2-3 years, driven by accelerated formalisation of the jewellery retail industry, Titan's strong brand equity and planned expansion of its retail presence across the operating segments. Titan's operating margin is expected to remain range-bound at around 12-13% over the medium term, backed by operating leverage, prudent hedging practices and improvement in the revenue share of higher-margin studded jewellery. The ratings continue to derive comfort from Titan's strong financial risk profile, driven by healthy cash flow from operations generated over the years, resulting in comfortable credit metrics and a strong liquidity profile. The ratings also consider the high financial flexibility enjoyed by Titan for being a part of the Tata Group, which supports its brand equity and customer acceptance of new products.

The ratings, however, continue to factor in Titan's exposure to regulatory risks and intense competition in the domestic jewellery retail industry. Regulatory changes have impacted Titan's performance in the past, both on the demand side (through enhanced disclosure norms from customers, limits on cash transactions, etc.) and on the supply side (through curbs on imports, restrictions on gold-on-lease financing, etc.). Nevertheless, ICRA draws comfort from the large size of the domestic jewellery industry, Titan's brand strength and accelerated formalisation of the industry, which translate into favourable long-term growth prospects for the company.

The Stable outlook on the long-term rating reflects ICRA's opinion that Titan will continue to maintain a comfortable capital structure and healthy coverage metrics while benefitting from its market leadership position and a diversified business profile.

Key rating drivers and their description

Credit strengths

Diversified business profile with market leadership position in branded jewellery and wristwatch industries – Titan has a diversified business profile with four operating segments – jewellery, watches and wearables, eyecare and fragrances and fashion accessories. While the jewellery segment accounts for more than 85% of Titan’s consolidated operating income and EBIT, the other segments provide healthy diversification across consumer retail categories and are likely to drive business growth over the medium term. The company also maintains a geographically diversified retail presence with more than 2,700 retail stores as on March 31, 2023, including seven stores in the Gulf countries and one store in the US. Titan is India’s largest jewellery retailer by revenue with a strong brand equity across its flagship brands namely Tanishq, Mia, Zoya and Caratlane. The jewellery segment’s revenue rose at a CAGR of more than 20% between FY2018 and FY2023. Titan is also a dominant player in the Indian wristwatch industry with a wide distribution and service network, diversified product portfolio across price segments and established brands like Titan, Fastrack, Sonata and Xylys. Planned retail expansion and pipeline of new product launches, including in the smart wearables sub-segment, are likely to continue to support business growth over the medium term.

Strong financial risk profile – Titan’s financial risk profile remains healthy on the back of continued strong earnings from operations, translating into a conservative capital structure and comfortable debt protection metrics. While the net TOL/TNW has recorded some moderation owing to higher inventory levels in the light of a steep increase in gold prices and aggressive retail expansion, the same is expected to remain comfortable below 1.2 times, going forward. Titan’s borrowings towards inventory funding requirements are largely met through gold metal loans, which also aid in hedging the price volatility risk of gold. The company’s capital expenditure requirements are likely to remain moderate compared to accruals, given the franchisee-based expansion model.

Favourable long-term growth prospects for organised jewellery retailers – Increasing regulations in the jewellery retail industry, aimed at improving transparency and standardisation over the recent years have accelerated the shift in market share of unorganised players. The industry tailwinds are expected to benefit the organised jewellery retailers like Titan over the medium term, supported by its strong brand equity and increasing retail presence.

Credit challenges

Exposed to regulatory risks and seasonality in demand – The domestic jewellery retail industry remains exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on Titan’s business. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold limit, imposition of excise duty and GST and demonetisation are some regulatory developments that have impacted demand and supply in the past. Titan remains exposed to changes in regulations that may adversely impact its business. ICRA also notes the seasonality of demand for Titan’s products, vulnerability of the jewellery segment to volatility in gold prices and the working capital intensive nature of its operations.

Intense competition from organised and unorganised players – The jewellery retailing industry is intensely competitive with presence of large organised and unorganised players. Competition has increased over the last decade owing to continuous store addition by regional and national jewellers. Nonetheless, Titan’s market leadership position along with a strong recall of its Tanishq, Zoya, Mia and Caratlane brands are expected to support its operating performance in the existing and new markets. While the performance of the watches and eyecare segments has improved in the recent years, their business remains exposed to competition from local as well as e-commerce retailers.

Environmental and social risks

Environmental considerations – Exposure to environmental risks remains low for entities in the jewellery retail industry. Few concerns include episodes of excessive rainfall/flooding in the operating regions impacting its jewellery stores, as seen in the

past. Additionally, indirect risk of rural demand for jewellery moderating during periods of crop loss caused by physical climate change or otherwise also pose risks to revenue growth and profitability.

Social considerations – Exposure to social risks remains moderate for entities in the jewellery retail industry. The sector has witnessed increased focus on product quality and transparency in pricing, which supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour including, a shift towards less gold-intensive daily/fashion jewellery. Additionally, with a relatively higher requirement of workforce for store operations and jewellery manufacturing, the level of wages and associated fixed costs could weigh on margins, given the skilled nature of work.

Liquidity position: Strong

Titan’s liquidity is expected to remain healthy, backed by healthy cash flow from operations and a healthy liquidity buffer, with free cash, bank balance and liquid investments worth more than Rs. 2,800 crore as on March 31, 2023 apart from sizeable utilised bank limits. Titan’s working capital requirements have largely been met through a mix of earnings, customer advances (through deposit schemes) and gold metal loans, resulting in limited utilisation of its fund-based bank limits. Moreover, given the strong capitalisation level and financial flexibility, Titan’s access to working capital finance is expected to be comfortable.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on Titan’s ratings could arise if there is a significant impact on the company’s operating performance because of regulatory changes and/or sustained pressure on demand. Other triggers could include weakening of the financial risk profile such that Net TOL/TNW is higher than 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology – Gems & Jewellery (Retail)
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of Titan Company Limited as detailed in Annexure II

About the company

Titan Company Limited (Titan), formerly Titan Industries Limited, was incorporated in 1984 as a joint venture between the Tata Group and Tamil Nadu Industrial Development Corporation Limited (TIDCO). Titan is the market leader in the domestic branded jewellery industry (with brands like Tanishq, Zoya, Mia and Caratlane) and in the domestic wristwatches segment (with brands including Titan, Fastrack, Sonata and Xylys). In FY2023, the jewellery segment contributed more than 85% to the consolidated revenue and more than 90% to the consolidated EBIT of Titan.

As on June 30, 2023, the Tata Group and TIDCO held 25.02% and 27.88%, respectively, in Titan, while the rest is held by institutional investors and public.

Key financial indicators

Titan Consolidated	FY2022 (audited)	FY2023 (audited)	Q1 FY2024 (abridged)
Operating income	28,799	40,575	11,897
PAT	2,198	3,273	756
OPBDIT/OI	11.6%	12.0%	9.5%
PAT/OI	7.6%	8.1%	6.4%
Total outside liabilities/Tangible net worth (times)	1.3	1.3	N.A.
Total debt/OPBDIT (times)	2.2	1.9	N.A.
Interest coverage (times)	15.3	16.3	10.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; NA – Not Available

Note: All ratios as per ICRA's calculations. PAT does not include share of profit/loss from JVs and associates. Operating Income includes income from sale of bullion.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years						
				Date & rating in FY2024		Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021	
				Aug 29, 2023	Apr 28, 2023	Jun 03, 2022	Apr 29, 2022	Apr 04, 2022	Jun 28, 2021	Mar 15, 2021	Jul 16, 2020	
											Jul 06, 2020	May 13, 2020
1	Fixed deposits programme	Long term	4,500.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)
2	Commercial paper programme	Short-term	1,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund-based/ non-fund based facilities	Long-term/ short-term	1,700.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AA+ (Positive)/ [ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed deposit programme	Very Simple
Commercial paper programme	Very Simple
Long-term/short-term fund-based/ non-fund based facilities	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed deposit programme	NA	NA	NA	4,500.00	[ICRA]AAA(Stable)
NA*	Commercial paper programme	NA	NA	NA	1,500.00	[ICRA]A1+
NA	Fund-based/ non fund-based facilities	NA	NA	NA	1,700.00	[ICRA]AAA(Stable)/[ICRA]A1+

Source: Company; *yet to be placed

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
TCL Watches Switzerland AG (formerly Favre Leuba AG)	100.00%	Full consolidation
Titan Watch Company Limited	100.00%	Full consolidation
Titan Holdings International FZCO	100.00%	Full consolidation
Titan Global Retail LLC	100.00%	Full consolidation
Titan International QFZC	100.00%	Full consolidation
TCL North America Inc	100.00%	Full consolidation
Titan Engineering & Automation Limited	100.00%	Full consolidation
TEAL USA Inc	100.00%	Full consolidation
Caratlane Trading Private Limited	72.31%	Full consolidation
StudioC Inc	72.31%	Full consolidation
Titan Commodity Trading Limited	100.00%	Full consolidation
Green Infra Wind Power Theni Limited	26.79%	Equity method

Source: Titan's annual report FY2023

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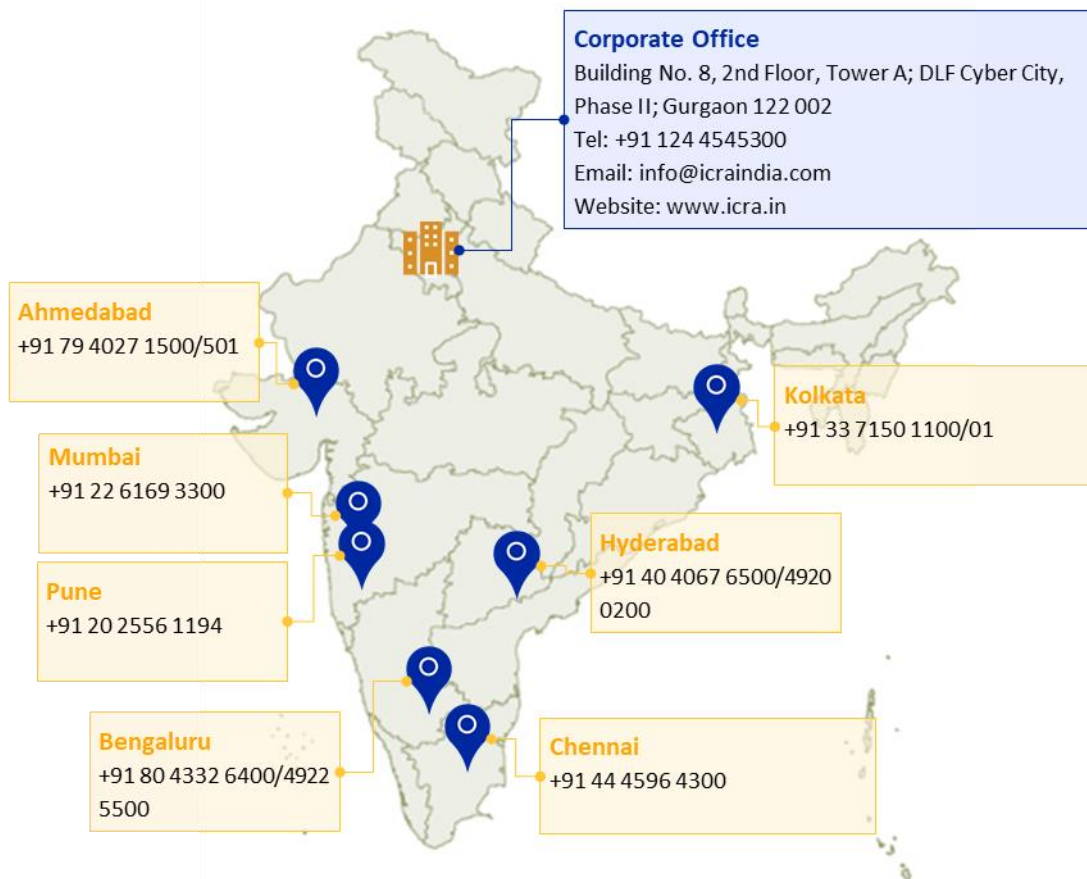
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