

Titan Company Limited

January 09, 2023

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	3,555.00	CARE AAA; Stable (Triple A; Outlook: Stable)	Assigned
Short-term bank facilities	6,445.00	CARE A1+ (A One Plus)	Assigned
Total bank facilities	10,000.00 (₹ Ten thousand crore only)		
Commercial Paper	1,500.00	CARE A1+ (A One Plus)	Assigned
Total Short-term Instruments	1,500.00 (₹ One thousand five hundred crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and commercial paper of Titan Company Limited (Titan) derives strength from its being a part of the Tata group, established brand equity with leadership position in organised jewellery and watches segment. The ratings also take into account the strong operating efficiency, favourable product mix, improving all round performance y-o-y, healthy financial risk profile with superior liquidity position and stable industry outlook. Furthermore, the ratings are underpinned by the company's well-planned expansion of its stores, pan-India presence and agility to adopt to customers' needs. The ratings however are constrained by exposure to regulatory risk in jewellery division and high competition from the unorganised segment.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Not Applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in business risk profile on account of changes in regulatory policies or supply related issues.
- Deterioration in financial risk profile on account of aggressive debt funded expansion impacting liquidity and earning capacity of the company.

Detailed description of the key rating drivers

Key rating strengths

Part of the Tata group with strong leadership team:

The Tata group, established by Jamshedji Tata in 1868, is a global enterprise, headquartered in India, comprising 30 companies across 10 verticals. The group operates in more than 100 countries across six continents. As on September 30, 2022, Tata Sons Private Limited, the principal investment-holding company and promoter of the Tata group, together with other Tata group companies (including Ewart Investments Limited and Piem Hotels Limited), holds 25.02% share in Titan, and Tamil Nadu Industrial Development Corporation Limited (TIDCO) holds 27.88% stake in Titan.

The day-to-day operations of the company are taken care by the Tata group whose board comprises of six independent directors, three directors (out of which two are representation by TIDCO) and one managing director. S Krishnan, who is additional chief secretary, Industries department of Tamil Nadu Government is Chairman of the board with Noel Naval Tata, who is the chairman of Trent and Tata Investment Corporation, being a Vice-chairman of Titan.

Leadership position in jewellery and watches segments with strong brand recall:

Titan is the market leader in the organised jewellery and watches segments. The company's market leadership in these segments is supported by its brand equity, association of trust with the Tata group, continuous and prudent store additions, and its pan-India distribution network. Titan has a strong store network in jewellery and watch segments with 645 stores in

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

jewellery segment having presence over 240 towns Pan India, and 905 exclusive brand outlets (8,500+ multi brand outlets) stores for watches as on September 30, 2022.

In the jewellery segment the company has well-known brands like Tanishq, Mia, Carat Lane and Zoya and in watch segment the company's brand portfolio includes names like Titan, Sonata, Fastrak, Raga, Xyllys.

State-of-the-art manufacturing facilities:

Titan's manufacturing competence provides the company a significant competitive edge. The company's policy of being agile in adoption to the ever-changing market situation has helped it retain its leadership position. Titan leverages technology in its manufacturing process. For jewellery, the company has two manufacturing facilities each in Hosur and Pantnagar with four additional karigar centres. For its watch segments the company has manufacturing facilities in Hosur and Coimbatore and three assembly facilities each in Roorkee, Pantnagar and Sikkim. Furthermore, for eyecare segment the company has one manufacturing plant at Chikkaballapur (Karnataka) and two lens lab facilities at Noida and Kolkata.

Healthy revenue growth with improving operating margins:

The company has witnessed healthy growth in its revenue and operating margins (except FY21 due to COVID-19) over FY17-FY22. Its revenue has improved at a CAGR of 17% from ₹13,244 crore in FY17 to Rs 28,799 in FY22. Further for H1FY23 the company has registered revenue of Rs 18,606 crore vis-à-vis Rs 10,966 crore registered in H1FY22 viz. growth of around 72%. Its operating margins have improved from 8.78% in FY17 to 11.67% in FY22 and further to around 13% in H1FY23. On account of its superior craftsmanship in jewellery, in-house design in watches segment, strong and efficient control over its operations and benefits accruing from operating leverage have helped the company garner healthy margins consistently over a period of time. CARE Ratings Limited (CARE Ratings) expects Titan to continue report operating margins in the range of 12-14% going forward.

Jewellery and Watches segment contributing highest share in revenue and profit:

Titan has four business verticals from where it derives its revenue. The four segments are jewellery, watches, eyecare and fashion accessories. In FY22 the company has derived 91% of its revenue from Jewellery segment followed by around 5% revenue from watches and the balance from other two segments. It is the jewellery business which has been the major revenue contributor and growth driver for the company historically. The revenue from the jewellery segment has grown from ₹13,257 crore in FY18 to ₹25,523 crore in FY22 viz. growth of CAGR 17.79%. While the jewellery segment has witnessed healthy growth the watches segment remained stagnant and grew marginally by about CAGR of 2% over the same period. The revenue from watches segment improved from ₹2,132 crore in FY18 to ₹2,317 crore in FY22. The eye care segment has shown moderate growth of about 6% over FY18-FY22. Its revenue grew from Rs 415 crore in FY18 to Rs 517 crore in FY22. The other peripheral segment which includes fashion accessories also showed healthy growth of CAGR 11%, from ₹441 crore in FY18 to ₹676 crore. Though it registered healthy growth however its contribution in the overall revenue remains very low.

In terms of profitability also the jewellery business has been generating highest profit with consistent EBIT margin of about 11-12% and constitutes 90%+ of total EBIT. The profitability (EBIT) of watch segment has been on declining trend as it has declined from 9.78% in FY18 to 3.19% in FY22, while in FY21 it also registered losses.

Comfortable financial risk profile:

Capital structure of Titan remains comfortable as on March 31, 2022. The overall gearing as on March 31, 2022 stood at 0.81x as against 0.79x as on March 31, 2021. The debt risk metrics such as term debt/GCA stood at 0.54x in FY22 (against 0.95x in FY21) and total debt/GCA and interest coverage stood at 2.89x and 15.42x in FY22 (against 4.20x and 8.67x in FY21) respectively. The company has robust liquidity position with cash and liquid investments (including margin money) to the tune of about ₹1,400 crore as on September 30, 2022. The company has been generating healthy cash accruals over time and in FY22 the same was at ₹2,516 crore. As on September 30, 2022, the company does not have any term debt and the long-term loan represents liability on account finance lease.

Prudent expansion of stores with Pan-India presence:

As on September 30, 2022, Titan has presence in 244 towns with 645 retail stores network with brands Tanishq, Mia and Zoya. In watches segment it has 905 exclusive brand outlets with 8,500 multi brand outlets and with presence across 274 towns with brands like Titan, Fastrack, Sonata and Xyllys. The EyeCare division has a total of 827 stores spread across 335 towns with brands Titan EyePlus and Fastrack. The Indian Dress Wear division has a total of 31 stores spread across 14 towns with brand Taneira.

The company has expanded its stores prudently with a mix of company-owned company-operated, company-owned franchise-operated and franchise-owned and franchise-operated model. On account of franchise model the retail space addition does not require large capex.

Well planned effective hedging policy in place:

Bullion being the main material for making jewellery is subject to market fluctuation. In order to protect itself from any adverse movements in the prices of gold, Titan follows a well-defined hedging policy. It remains fully hedged all the time. Titan procures gold from two primary sources viz. through gold metal loan from banks and from spot buying. For gold metal loan inventory, which is sourced from banks, the company fixes the quantity, however, liability is fixed on the date of utilisation which is

normally sale of gold to customers. This acts as a natural hedge for the company and for the gold procured through spot buying the company enters into futures contract in the commodity exchange based on expected sale. The hedging policy protects the company against price fluctuations.

Growth plans:

The company has been planning to foray into international business. For its jewellery business the company is positioning itself in Dubai and USA. For reviving its watches segment the company has created separate vertical with special focus on smart watches. In dress wear segment the company is attempting to develop its brand Taneira. In fashion, the company has recently launched its brand "Irth" for women handbag.

Environmental, social and governance (ESG) risk

The credit risk profile of Titan is supported by its ESG profile. The company strives to minimise the negative impact of its operations including from the manufacturing units, karigar centres and office spaces. The company has initiated various steps to reduce energy and water consumption across its all-manufacturing locations. The company has adopted a focused strategy towards waste management through waste minimisation and conservation of resources. It has created many self-help groups for empowering women. The company also engages with different sections of the society through its various corporate social responsibility (CSR) program. In term of governance, Titan has well-qualified and independent board with well-governed internal financial control.

Key rating weaknesses

Exposed to regulatory risk

The jewellery segment which contributes the majority of the revenue for Titan is exposed to changes in regulatory policies. In the past the industry was negatively impacted by regulatory actions such as 80:20 rule, restrictions on bullion imports, mandatory PAN disclosure requirement on purchase and imposition of excise duty. Furthermore, by introducing sovereign gold bond government has been attempting to shift the focus of consumers from physical gold. Titan will continue to remain exposed for any future regulatory action which may impact its business profile.

Competition from unorganised segment

The jewellery division of Titan is also exposed to high competitiveness from organised and unorganised players. Unorganised players dominate the market with many regional players. CARE Ratings however expects that on account of Titan's strong brand recall it will continue to enjoy a dominant position in the segment.

Liquidity: Strong

Liquidity is marked by strong accruals of ₹2,516 crore during FY22 against repayment obligations of around ₹220 crore for lease liabilities during FY23. The company does not have any term loan outstanding as on September 30, 2022. The company had cash and liquid investment of about ₹1,400 crore (including margin money) as on September 30, 2022. The average utilization of fund/non fund-based limits during the last 12 months stood at around 55%. With overall gearing at 0.81x as on March 31, 2022, the company has sufficient gearing headroom to raise additional debt for its capex. The current ratio of the company stood comfortable at 1.58x as on March 31, 2022.

Analytical approach: Consolidated. The subsidiaries of Titan which have been consolidated are mentioned in Annexure-6

Applicable criteria

[Policy on default recognition](#)

[Consolidation](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Retail](#)

[Policy on Withdrawal of Ratings](#)

[Manufacturing](#)

About the company

Titan was incorporated in 1984 as a joint venture between the Tata group and Tamil Nadu Industrial Development Corporation Ltd (TIDCO). It is headquartered in Bengaluru, Karnataka. It was incorporated as Titan Watches Limited in 1984; the company changed its name to Titan Industries Limited in September 1993 and later in 2013, the name was changed to Titan Company Limited. The company has four primary business verticals, namely- jewellery, watches & wearables, eyecare and fashion accessories. The company is market leader in jewellery and wristwatch segment. It has well-known brand in jewellery space like Tanshiq, Carat Lane, Mia and Zoya. Similarly, in wristwatch segment its product portfolio includes brands such as Titan, Fastrack, Sonata, Xylys, Helios etc. Titan is the fifth-largest integrated own-brand watch manufacturer in the world.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (P)
Total operating income	21644.00	28799.00	18606.00
PBILDT	1761.00	3361.00	2443.00
PAT	974.00	2197.00	1625.00
Overall gearing (times)	0.79	0.81	-
Interest coverage (times)	8.67	15.42	19.54

A: Audited, P: Provisional

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not Applicable**Rating history for the last three years:** Please refer Annexure-2**Covenants of the rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3**Complexity level of various instruments rated for this company:** Annexure-4**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Standalone)*	-	-	-	-	1500.00	CARE A1+
Fund-based - LT-Term Loan*	-	-	-	-	500.00	CARE AAA; Stable
Fund-based/Non-fund-based-Long Term	-	-	-	-	3055.00	CARE AAA; Stable
Gold Metal Loan	-	-	-	-	6445.00	CARE A1+

*Commercial Paper and Term Loan is proposed

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-Long Term	LT	3055.00	CARE AAA; Stable				
2	Commercial Paper-Commercial Paper (Standalone)	ST	1500.00	CARE A1+				
3	Gold Metal Loan	ST	6445.00	CARE A1+				
4	Fund-based - LT-Term Loan	LT	500.00	CARE AAA; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-Long Term	Simple
4	Gold Metal Loan	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of bank facilities please [click here](#)

Annexure-6: List of subsidiaries

Name of companies	% of holding
Favre Leuba Ag	100
Titan Watch Company Ltd	100
Titan Holdings International FZCO	100
Titan Global Retail LLC	100
TCL North America Inc	100
Titan Engineering & Automation Ltd	100
TEAL USA Inc	100
Caratlane Trading Pvt Ltd	72.31
StudioC Inc	72.31
Titan Commodity Trading Ltd	100

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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