Titan Company Limited

August 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,555.00 (Enhanced from 3,055.00)	CARE AAA; Stable	Reaffirmed
Short-term bank facilities	6,445.00	CARE A1+	Reaffirmed
Long-term bank facilities (Term loan)*	-	-	Withdrawn
Commercial paper	2,500.00 (Enhanced from 1,500.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

*The long-term bank facilities (term loan) are withdrawn at the request of the company as the proposed facility was not availed by the company.

Rationale and key rating drivers

The ratings assigned to the bank facilities and commercial paper (CP) of Titan Company Limited (Titan) continue to derive strength from its leadership position in the organised jewellery and watches segment. The ratings also take into account the strong and improved operating efficiency, favourable product mix, effective hedging policy, state-of-the-art manufacturing facilities and stable industry outlook. The ratings are, further, underpinned by the company's well-planned expansion of its stores and its PAN India presence. CARE Ratings Limited (CARE Ratings) expects Titan to maintain its leadership position in jewellery and watches segment with operating margin in the range of 12%-13% over the medium term.

The ratings continue to derive comfort from Titan's healthy financial risk profile with superior liquidity position that is driven by healthy cash flow from the operations generated over the years, resulting in comfortable credit metrics. The overall gearing has remained stable at about 0.80x during three fiscal years ending March 31, 2023, due to increase in the working capital borrowings (in the form of gold metal loans and cash credit) towards higher investment in inventory which is in tandem with growth of its jewellery business, and the same is expected to normalise over the coming quarters. The ratings also factor strong brand equity that the company enjoys by being part of the Tata group along with favourable customer acceptance for its new product launches. The ratings are, however, constrained by exposure to regulatory risk in the jewellery segment and high competition from the unorganised segment.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Not Applicable

Negative factors

- 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 such that its net debt/PBILDT goes beyond 2.80x-3.00x on a sustained basis.

Analytical approach: CARE Ratings has taken the consolidated view on the financial and business risk profile of Titan and its subsidiaries. The list of subsidiaries considered is given in Annexure-6

Outlook: Stable

The stable outlook reflects that the rated entity is likely to maintain its leadership position in jewellery and watches segment, maintain healthy liquidity profile along with generating industry superior margins.

Detailed description of the key rating drivers:

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

Key strengths

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 distinct brand, association of trust with Tata group, continuous store additions, and its PAN-India distribution network. Titan has a strong store network in jewellery and watch segments, commanding 7% market share in the jewellery segment. The company's brand portfolio includes well-known brands like Tanishq, Mia, CaratLane and Zoya in the jewellery segment, and names like Titan, Sonata, Fastrack, Raga, and Xylys in the watch segment. CARE Ratings expects Titan to maintain its leadership position going forward while exhibiting consistent growth of about 10% Y-o-Y going forward.

Part of the Tata group driven by established and experienced management

Titan is a part of Tata Group of Companies, which is one of India's largest and reputed business groups. As on June 30, 2023, Tata Group holds a 25.02% equity stake in Titan, with Tata Sons Private Limited having a 20.84% stake. Furthermore, Tamilnadu Industrial Development Corporation Limited (TIDCO) holds 27.88% stake in Titan. The company has strong corporate governance and transparency standards with professional management team. Further, strong brand equity that the company enjoys by being part of Tata group along with favourable customer acceptance for its new product launches augurs well with its future growth prospects.

State-of-the-art manufacturing facilities

Titan's manufacturing competence provides company a significant competitive edge. The Company's policy of being agile in adoption the ever-changing market situation has helped the company 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 segment, 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 got one manufacturing plant at Chikkaballapur (Karnataka) and two lens lab facilities at Noida and Kolkata. With in-house manufacturing facilities coupled with the production of products matching ever-changing needs of customers, CARE Ratings expects that Titan would command superior margins as compared to its peers in the industry.

Growth across all the business segment with jewellery and watches contributing highest share in revenue

Titan derives its revenue from its six business verticals. The six segments are jewellery, watches & wearables, eyecare, fragrances, Indian dress wear, and fashion accessories. All the business segments of the company witnessed healthy growth in FY23, during which, the company has derived 88% (PY:91%) of its revenue from jewellery segment followed by around 8% (PY: 5%) revenue from watches, and the balance from other segments. Historically, the jewellery business has been the major revenue contributor and growth driver for the company. The revenue from the jewellery segment has grown from ₹13,257 crore in FY18 to ₹35,914 crore in FY23, viz., growth of compounded annual growth rate (CAGR) around 22.00%. Furthermore, the company witnessed growth of about 9% over the same period in the watch segment, with improvement in the revenue from ₹2,132 crore in FY18 to ₹3,310 crore in FY23. Brand and product innovation, retail expansion, smart watches and premiumisation had fuelled the growth in this segment. Further, resurgence of weddings, office-work, travel and gifting also supported growth in the watch segment. The eye care segment has also witnessed healthy growth of CAGR 11% over FY18-FY23, with growth in the revenue from ₹415 crore in FY18 to ₹689 crore in FY23. The other peripheral segment which includes fashion accessories, Indian dress wear and fragrances also shown healthy growth of CAGR 14%, from ₹441 crore in FY18 to ₹805 crore. Though there is growth across all the segments of the company, the revenue contribution from eyecare, fragrances, Indian dress wear and fashion accessories in the overall revenue remains very low. CARE Ratings expects that the jewellery segment will continue to maintain its dominant position among all the segments of Titan, however, going forward with the growth of other peripheral segments, the contribution from jewellery segment is expected to be in the range of 80%-85%.

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 FY18-FY23. Its revenue from operation has improved at CAGR of around 20% from ₹16,120 crore in FY18 to ₹40,575 crore in FY23. Furthermore, the company registered healthy revenue growth of about 41% to ₹40,575 crore during FY23 improved from ₹28,799 crore reported in FY22. The growth was on the back of a softer base in omicron-impacted quarter one of FY22. Further, continued formalisation of the jewellery industry has also resulted in increasing the market share of the company which is about 7% currently (improved from 5% over time). For Q1FY24, the company registered revenue of ₹11,897 crore (Q1FY23: ₹9,443 crore) improved by around 26% Y-o-Y. Its operating margins have improved from 10.19% in FY18 to 12.06% in FY23. On account of its superior craftmanship in jewellery, in-house design in the watch 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. In terms of profitability, the jewellery business has been generating highest profit with consistent earning before interest and tax (EBIT) margin of about 12%-13% and constitutes 90%+ of EBIT. During FY23, Titan has generated about ₹45 crore revenue per store improved from ₹40 crore generated during FY22. The profitability (EBIT) of the watch segment has been on a declining trend till FY22 where the EBIT margin stood at about 3%. However, during FY23, the profitability from watch segment improved to about 12%. With the increasing formalisation of the jewellery sector, CARE Ratings expects that the Titan's share in jewellery segment will improve going forward.

Prudent expansion of stores with PAN India presence

As of June 2023, Titan has presence in 258 towns with 792 exclusive brand outlets with brands Tanishq, Mia, CaratLane and Zoya in the jewellery segment. In the watch segment, it has 1031 exclusive brand outlets with more than 8000 multi brand outlets and with presence across 314 towns with brands like Titan World, Fastrack and Helios. The EyeCare division has a total of 908 stores spread across 357 towns with brands, Titan EyePlus and Fastrack. The Indian Dress Wear division has a total of 47 exclusive brand outlets spread across 25 towns with brand Taneira. In fragrance division, the company has more than 2200 multi brand outlet. The company has expanded its stores prudently with a mix of the company owned company operated (L1), company owned franchise operated (L2), and franchise owned and franchise operated (L3) models. The income generated by way of stores falling under L1 and L2 models is directly reported in Titan. In L1 and L2 models, the inventory is owned by the company, whereas L3 model is completely franchise based, where the franchise buys the goods from Titan. Franchise models are operated on commission basis. On account of the franchise model, the retail space addition does not require large capex. Currently, the share of stores falling under L1, L2 and L3 models in the jewellery segment is near about equal.

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 three primary sources, viz., through gold metal loan from banks, gold exchange which takes place at its outlets, and from spot buying. During FY23, around 40%-50% gold was procured via gold exchange policy. 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 future contracts in the commodity exchange based on expected sale. The hedging policy protects the company against price fluctuations.

Comfortable financial risk profile

The capital structure of Titan remains comfortable represented by comfortable debt to equity and overall gearing as on March 31, 2023. The overall gearing as on March 31, 2023, remained at the same level as on March 31, 2022, and stood at 0.81x. The debt-to-equity ratio as on March 31, 2023, stood at 0.16x (PY: 0.15x). The other debt risk metrics have marginally improved. Its term debt/gross cash accruals (GCA) stood at 0.50x in FY23 (against 0.54x in FY22) and total debt/GCA and interest coverage stood at 2.50x and 16.31x in FY22 (against 2.89x and 15.42x in FY21), respectively. The company has robust liquidity position with cash and liquid investments to the tune of over ₹3,700 crore (including margin money) as on March 31, 2023. The company has been generating healthy cash accruals over time and in FY23 the same was at ₹3,751 crore (PY: ₹2,516 crore). CARE Ratings notes that the company does not have any term debt, and the long-term loan represents liability on account finance lease.

Key weaknesses

Exposed to regulatory risk

The jewellery segment which contributes the majority of the revenue for Titan is exposed to the 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 on transaction above ₹2 lakh and imposition of excise duty. Furthermore, by introducing sovereign gold bond, the Government is attempting to shift the focus of consumers from physical gold. CARE Ratings notes that Titan will continue to remain exposed for any future regulatory action which may impact its business profile and continues to monitor the same.

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. However, on account of Titan's strong brand recall it continues to enjoy a dominant position in the segment.

Liquidity: Strong

The liquidity is marked by strong accruals of ₹3,751 crore during FY23 against repayment obligations for finance lease of ₹228 crore. The company does not have any term loan outstanding as on June 30, 2023. Furthermore, on the same date, the company had cash and liquid investments of over ₹3,700 crore (including margin money). Average utilisation of fund/non-fund-based limits during the last 12 months ending July 2023 stood at around 47%. With overall gearing at 0.81x as on March 31, 2023, and with the unutilised lines providing the additional cushion, CARE Ratings expects Titan to have comfortable liquidity position. The current ratio of the company also stood comfortable at 1.64x as on March 31, 2023.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Titan operates primarily in the retail sector which is known for low emission. Titan has taken several initiatives to reduce power consumption by adopting efficient energy management approaches which includes usage of power through renewable sources. The company has been consciously making efforts for reducing carbon footprint which includes large-scale tree plantation on a continuous basis through creation of Miyawaki forests in Hosur and also plantations of trees in public areas. The company has put in place environmentally sustainable processes for raw material acquisition, vendor management, manufacturing, and recycling. The company has also been pursuing efforts to ensure conservation and reduction of freshwater consumption in all its operations by creation of rainwater harvesting systems including ground recharge options and large-scale cisterns that collect rainwater in the premises. The company also focuses on education of under privileged girl child. Furthermore, for the less privileged section, skill development in the field of arts and crafts and Indian heritage has been adopted.

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
Manufacturing Companies
Retail
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Gems, Jewellery And Watches

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. Incorporated as Titan Watches Limited in 1984, the company changed its name to Titan Industries Limited in September 1993 and later to Titan Company Limited (present name) in 2013. The company operates in six primary business verticals, namely, jewellery, watches & wearables, eyecare, fragrances, Indian dress wear, and fashion accessories.

Brief Financials Consolidated (₹ crore)*	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	28,799.00	40,575.00	11,897.00
PBILDT	3,361.00	4,892.00	1,239.00
PAT	2,197.00	3,284.00	756.00
Overall gearing (times)	0.81	0.81	-
Interest coverage (times)	11.67	12.06	11.37

A: Audited, UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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)	Proposed	-	-	7-365 days	2500.00	CARE A1+
Fund-based - LT-Term Loan*	-	-	-	-	0.00	Withdrawn
Fund-based/Non-fund-based-Long Term	-	-	-	-	3555.00	CARE AAA; Stable
Gold Metal Loan	-	-	-	-	6445.00	CARE A1+

*Term loan was proposed, and the same has been withdrawn at the request of the company as the proposed facility was not availed.

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 2023-2024	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
1	Fund-based/Non-fund-based-Long Term	LT	3555.00	CARE AAA; Stable	-	1)CARE AAA; Stable (09-Jan-23)	-	-
2	Commercial Paper-Commercial Paper (Standalone)	ST	2500.00	CARE A1+	-	1)CARE A1+ (09-Jan-23)	-	-
3	Gold Metal Loan	ST	6445.00	CARE A1+	-	1)CARE A1+ (09-Jan-23)	-	-
4	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AAA; Stable (09-Jan-23)	-	-

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the 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: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of subsidiaries and Associate company

Name of companies	% of holding
Titan Engineering & Automation Ltd	100
Caratlane Trading Pvt Ltd	72.31
Titan Commodity Trading Ltd	100
TCL Watches Switzerland AG	100
Titan Watch Company Hongkong Ltd	100
StudioC Inc	100
Titan Holdings International FZCO	100
Titan Global Retail LLC	100
Titan International QZFC	100
TCL North America Inc	100
TEAL USA Inc	100
Green Infra WindPower Theni Limited	26.79

Note on the 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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