Titan Company Limited

March 14, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,305.00 (Reduced from 3,555.00)	CARE AAA; Stable	Reaffirmed
Short-term bank facilities	7,695.00 (Enhanced from 6,445.00)	CARE A1+	Reaffirmed
Commercial paper	2,500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Titan Company Limited (Titan) has informed CARE Ratings Limited (CARE Ratings) regarding the reallocation of its bank facilities, resulting in a decline in the fund based/non-fund based limits rated by CARE Ratings by ₹1,250 crore and increase in the gold metal loan facility by ₹1,250 crore.

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

Ratings continue deriving comfort from Titan's healthy financial risk profile with superior liquidity position, driven by healthy cashflow from operations generated over the years, resulting in comfortable credit metrics. The overall gearing was stable at about 0.80x in last three fiscal years ending March 31, 2023; however, it is expected to deteriorate due to the partly debt-funded acquisition of an additional 27.56% stake in its subsidiary, CaratLane Trading Private Limited (CaratLane), from founder-shareholders. Ratings also factor the strong brand equity that the company enjoys as part of the Tata group, with favourable customer acceptance for its new product launches.

However, ratings are 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

- Deteriorating business risk profile on the back of changes in regulatory policies or supply-related issues.
- Deteriorating financial risk profile due to aggressive debt-funded expansion, impacting the company's liquidity and earning capacity such that its net debt/profit before interest, lease rentals, depreciation, and taxation (PBILDT) goes beyond 2.80-3.00x on a sustained basis.

Analytical approach

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

Outlook: Stable

The stable outlook reflects CARE Ratings' expectations of Titan maintaining its leadership position in jewellery and watches segments, maintaining a healthy liquidity profile, and generating industry-superior margins.

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

Detailed description of key rating drivers

Key strengths

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

Titan is the market leader in organised jewellery and watches segments. The company's market leadership in these segments is supported by its distinct brand, association of trust with the 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 such as Tanishq, Mia, CaratLane, and Zoya in the jewellery segment, and names such as Titan, Sonata, Fastrack, Raga, and Xylys in the watch segment. CARE Ratings expects Titan to maintain its leadership position going forward, while consistently growing at about 10% y-o-y.

Part of the Tata group, driven by established and experienced management

Titan is part of the Tata Group of Companies, among India's largest and reputed business groups. As on December 31, 2023, the Tata Group holds a 25.02% equity stake in Titan, with Tata Sons Private Limited (TSPL) having a 20.84% stake. Tamilnadu Industrial Development Corporation Limited (TIDCO) holds 27.88% stake in Titan. Titan has strong corporate governance and transparency standards with a professional management team. The strong brand equity that Titan enjoys as part of the Tata group with favourable customer acceptance for its new product launches augur well for the company's growth prospects.

State-of-the-art manufacturing facilities

Titan's manufacturing competence provides it a significant competitive edge. The company's policy of being agile in adopting 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 segment, Titan has manufacturing facilities in Hosur and Coimbatore and three assembly facilities each in Roorkee, Pantnagar, and Sikkim. For the eyecare segment, it has a manufacturing plant at Chikkaballapur, Karnataka, and two lens lab facilities at Noida and Kolkata. With in-house manufacturing facilities and manufacturing products matching ever-changing needs of customers, CARE Ratings expects Titan to command superior margins as compared to its industry peers.

Growth across business segments, with jewellery and watches contributing highest revenue share

Titan derives its revenue from its six business verticals – jewellery, watches and wearables, eyecare, fragrances, Indian dress wear, and fashion accessories. All business segments of Titan grew healthy in FY23, during which the company derived 88% (PY: 88%) of its revenue from the jewellery segment, followed by about 8% (PY:8%) revenue from watches, and the balance from other segments. Historically, the jewellery business has been the major revenue contributor and growth driver for Titan; revenue from this segment grew from ₹13,257 crore in FY18 to ₹35,914 crore in FY23 with a compounded annual growth rate (CAGR) of about 22.00%.

In the watch segment, the company grew by about 9% over the same period, with revenue improving from ₹2,132 crore in FY18 to ₹3,310 crore in FY23. Brand and product innovation, retail expansion, smart watches, and premiumisation fuelled growth in this segment. Resurgence of weddings, office-work, travel, and gifting also supported growth.

The eyecare segment also grew at a healthy CAGR of ~11% over FY18-FY23, with revenue growing from ₹415 crore in FY18 to ₹689 crore in FY23.

The other peripheral segment which includes fashion accessories, Indian dress wear, and fragrances grew at a healthy CAGR of 14%, from ₹441 crore in FY18 to ₹805 crore in FY23.

Although growth is visible across all segments, the revenue contribution from eyecare, fragrances, Indian dress wear, and fashion accessories in the overall revenue is still low. CARE Ratings expects the jewellery segment to continue maintaining its dominant position among all segments of Titan. However, going forward, with growth of other peripheral segments, contribution from the jewellery segment is expected to be in the range of 80-85%.

Healthy revenue growth with improving operating margins

The company's revenue and operating margins grew healthy between FY18 and FY23 (except for FY21 due to COVID-19). Its revenue from operations has improved at a CAGR of about 20% from ₹16,120 crore in FY18 to ₹40,575 crore in FY23.

The company's revenue grew by a healthy 41% to ₹40,575 crore in FY23, improved from ₹28,799 crore in FY22, on the back of a softer base in the Omicron-impacted first quarter of FY22. Continued formalisation of the jewellery industry has also resulted in increasing Titan's market share, currently at about 7% (improved from 5% over time). The company's operating margins have improved from 10.19% in FY18 to 12.06% in FY23. In 9MFY24, Titan's revenue stood at ₹38,590 crore (9MFY23: ₹30,215 crore).

Titan's 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 it garner consistent healthy margins over time. In terms of profitability, the jewellery business has been generating highest profit with consistent earnings-before-interest-and-tax (EBIT) margin of about 12-13%, constituting 90%+ of EBIT. In FY23, Titan generated about ₹45 crore revenue per store, improved from ₹40 crore generated in FY22. Profitability (EBIT) of the watch segment has been on a declining trend up to FY22, where the EBIT margin stood at about 3%. However, in FY23, profitability from the watch segment improved to about 12%. With increasing formalisation of the jewellery sector, CARE Ratings expects Titan's share in the jewellery segment to improve, going forward.

Prudent expansion of stores with pan-India presence

As on December 31, 2023, Titan has presence in 275 towns with 898 exclusive brand outlets, with brands such as Tanishq, Mia, CaratLane, and Zoya in the jewellery segment. In the watch segment, it has 1,076 exclusive brand outlets with more than 8,000 multi-brand outlets and presence across 321 towns with brands such as Titan World, Fastrack, and Helios. The eyecare division has a total of 913 stores spread across 359 towns with brands such as Titan EyePlus and Fastrack. The Indian dresswear division has a total of 62 exclusive brand outlets spread across 29 towns with brand Taneira. In the fragrance division, the company has more than 3,000 multi-brand outlets.

Titan has expanded its stores prudently with a mix of company-owned-company-operated (L1), company-owned-franchise-operated (L2), and franchise-owned-and-franchise-operated (L3) models. The income generated by stores falling under L1 and L2 models are directly reported in Titan. In L1 and L2 models, the company owns the inventory, whereas the L3 model is completely franchise based, where the franchise buys goods from Titan. Franchise models are operated on a commission basis. Due to the franchise model, the retail space addition does not require large capex. Currently, the shares of stores falling under L1, L2, and L3 models in the jewellery segment are near about equal.

Well-planned effective hedging policy in place

Bullion being the main material for making jewellery is subject to market fluctuations. To protect itself from adverse movements in prices of gold, Titan follows a well-defined hedging policy. It remains fully hedged all times. Titan procures gold from three primary sources – through gold metal loan from banks, gold exchange which takes place at its outlets, and from spot buying. In FY23, about 40-50% gold was procured via the 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 the sale of gold to customers. This acts as a natural hedge for the company, and for the gold procured through spot buying, the company signs future contracts in the commodity exchange based on expected sale. The hedging policy protects Titan against price fluctuations.

Comfortable financial risk profile

Titan's capital structure is comfortable, represented by a 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). 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 (TD)/GCA and interest coverage stood at 2.50x and 16.31x, respectively, in FY22 (against 2.89x and 15.42x, respectively, in FY21). The company has robust liquidity position with cash and liquid investments of more than ₹3,700 crore (including margin money) as on March 31, 2023. Titan has been generating healthy cash accruals over time, with the same at ₹3,751 crore in FY23 (PY: ₹2,516 crore).

In H1FY24, due to higher procurement of inventory by utilising bank limits, the total outstanding debt (including lease liabilities) increased to ₹14,254 crore (H1FY23: ₹7,663 crore); however, the company had healthy cash and liquid investments of ₹5,494 crore (H1FY23: ₹1,622 crore). Hence, the net debt remained at ₹8,760 crore (H1FY23: ₹6,041 crore). In Q3FY24, Titan has acquired additional 27.56% stake in its subsidiary, CaratLane, for ₹4,621 crore. For funding the acquisition, the company has issued non-convertible debentures (NCD) of ₹2,500 crore and consideration paid over the carrying value of non-controlling stake amounting to ₹4572 crore is adjusted through net worth. On the back of this acquisition and growing level of operations, CARE Ratings expects the overall gearing to be in the range of 1.20x-1.40x.

Key weaknesses

Exposed to regulatory risk

The jewellery segment, which contributes 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 on transactions above ₹2 lakh, and imposition of excise duty. By introducing sovereign gold bonds, the government is attempting to shift the focus of consumers from physical gold. CARE Ratings notes that Titan will continue to remain exposed for 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 several regional players. However, due to 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 in FY23 against repayment obligations for finance lease of ₹228 crore. As on September 30, 2023, the company has ₹28 crore of term loan. For funding the additional acquisition of 27.56% shares in CaratLane, the company has issued NCDs of ₹2,500 crore, the repayment of which will be in two tranches, each of ₹1,250 crore in May 2025 and November 2025. As on September 30, 2023, Titan had cash and liquid investments of more than ₹5,400 crore. The average utilisation of fund and non-fund-based limits in last 12 months ending January 31, 2024, stood at about 46%. With overall gearing at 0.81x as on March 31, 2023, and with unutilised lines providing additional cushion, CARE Ratings expects Titan to have a 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. The company has taken several initiatives to reduce power consumption by adopting efficient energy management approaches, including usage of power through renewable sources. The company has been consciously making efforts for reducing the carbon footprint, including large-scale tree plantation on a continuous basis through creation of Miyawaki forests in Hosur and plantations of trees in public areas. The company has put in place environmentally sustainable processes for raw material acquisition, vendor management, manufacturing, and recycling. It has also been pursuing efforts to ensure conservation and reduction of freshwater consumption in all its operations by creating rainwater harvesting systems, including ground recharge options and large-scale cisterns that collect rainwater in premises. The company also focuses on educating under-privileged girl children. For the less privileged section, the company has adopted skill development in the field of arts and crafts and Indian heritage.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Retail
Short Term Instruments
Consolidation

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 (JV) between the Tata group and 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 – jewellery, watches and wearables, eyecare, fragrances, Indian dresswear, and fashion accessories.

Brief Financials Consolidated (₹ crore)*	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	28,799.00	40,575.00	38,590.00
PBILDT	3,361.00	4,892.00	4,475.00
PAT	2,197.00	3,274.00	2,725.00
Overall gearing (times)	0.81	0.81	-
Interest coverage (times)	11.67	12.06	10.71

A: Audited; UA: Unaudited. Note: The above 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 to Annexure-2

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

Complexity level of 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/Non-fund-based-Long term	-	-	-	-	2305.00	CARE AAA; Stable
Gold metal loan	-	-	-	-	7695.00	CARE A1+

Annexure-2: Rating history for 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	2305.00	CARE AAA; Stable	1)CARE AAA; Stable (17-Aug-23)	1)CARE AAA; Stable (09-Jan-23)	-	-
2	Commercial paper-Commercial paper (standalone)	ST	2500.00	CARE A1+	1)CARE A1+ (17-Aug-23)	1)CARE A1+ (09-Jan-23)	-	-
3	Gold metal loan	ST	7695.00	CARE A1+	1)CARE A1+ (17-Aug-23)	1)CARE A1+ (09-Jan-23)	-	-
4	Fund-based - LT-Term loan	LT	-	-	1)Withdrawn (17-Aug-23)	1)CARE AAA; Stable (09-Jan-23)	-	-

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (standalone)	Simple
2	Fund-based/Non-fund-based-Long term	Simple
3	Gold metal loan	Simple

Annexure-5: Lender details

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

Annexure-6: List of entities consolidated

Sr No	Name of Entity	Extent of Consolidation	Rationale for Consolidation
1	Titan Engineering & Automation Ltd	Full	Subsidiary
2	Caratlane Trading Pvt Ltd*	Full	Subsidiary
3	Titan Commodity Trading Ltd	Full	Subsidiary
4	TCL Watches Switzerland AG	Full	Subsidiary
5	Titan Watch Company Hongkong Ltd	Full	Subsidiary
6	StudioC Inc	Full	Subsidiary
7	Titan Holdings International FZCO	Full	Subsidiary
8	Titan Global Retail LLC	Full	Subsidiary
9	Titan International QZFC	Full	Subsidiary

10	TCL North America Inc	Full	Subsidiary
11	TEAL USA Inc	Full	Subsidiary
12	Green Infra WindPower Theni Limited	Equity method (26.79%)	Associate

**During Q3FY24 company has acquired additional stake of 27.56%*

Note on complexity levels of 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in