Titan Company Limited

September 13, 2024

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

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities and commercial paper (CP) of Titan Company Limited (Titan) continue to derive strength from its leadership position in organised jewellery and watches segments. Ratings also factor the strong operating efficiency, favourable product mix, effective hedging policy, state-of-the-art manufacturing facilities, and stable industry outlook. Ratings are underpinned by the company's well-planned expansion of its stores and its pan-India presence. Additionally, 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. CARE Ratings Limited (CARE Ratings) notes that the company's capital structure moderated in FY24 considering partly debt-funded acquisition of an additional 27.56% stake in its subsidiary, CaratLane Trading Private Limited (CaratLane), from founder shareholders. CARE Ratings expects capital structure to improve going forward. 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 considering changes in regulatory policies or supply-related issues.
- Deteriorating financial risk profile considering aggressive debt-funded expansion impacting liquidity and earning capacity of the company such that its net debt/profit before interest, lease rentals, depreciation, and taxation (PBILDT) goes beyond 2.80x-3.00x on a sustained basis.

Analytical approach: Consolidated

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.

Detailed description of key rating drivers:

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 watches segments with over 900 exclusive brand outlets (PY: 792 stores) in jewellery segment having presence over 280 towns PAN India, commanding ~8% market share in jewellery segment with over 1,100 exclusive brand outlets (PY: 1,031 store) with 8,000+ multi-brand outlets) stores with presence in 330 towns for

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

watches as on June 30,2024. In the jewellery segment, the company has well-known brands such as Tanishq, Mia, CaratLane, and Zoya, and in the watch segment, the company's brand portfolio includes Titan, Sonata, Fastrack, Raga, and Xylys.

Part of Tata group, driven by established and experienced management
Titan is a part of the Tata Group of companies, among India's largest and reputed business groups. As on June 30, 2024, 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, which 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 augurs 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 watches 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 segment with jewellery and watches contributing highest share in revenue
Titan derives its revenues from its six business verticals. These six segments are jewellery, watches & wearables, eyecare, fragrances, Indian dress wear, and fashion accessories. In FY24, the company's business segments have witnessed healthy growth. In FY24, the company derived 88% (PY: 88%) of its revenue from jewellery segment followed by ~8% (PY: ~8%) revenue from watches, and the balance from other segments. The jewellery business has been the major revenue contributor and growth driver for the company historically. The revenue from the jewellery segment has grown from ₹16,390 crore in FY19 to ₹45,524 crore in FY24, ~23% compounded annual growth rate (CAGR) growth.

The company witnessed growth of about 10% over the same period in the watches segment, in which the revenue increased from ₹2,447 crore in FY19 to ₹3,930 crore in FY24. This growth in the watches segment was fuelled by brand and product innovation, retail expansion, smart watches, premiumisation, and resurgence of weddings, office-work, travel, and gifting.

The eye care segment also witnessed healthy growth in CAGR of ~7% over FY19-FY24. Its revenue increased from ₹509 crore in FY19 to ₹726 crore in FY24. The other peripheral segment, including fashion accessories, Indian dress wear, and fragrances also reported healthy growth in CAGR of ~18%, from ₹615 crore in FY19 to ₹1,437 crore in FY24.

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 in other peripheral segments, contribution from the jewellery segment is expected to be between 80% and 85%.

Healthy growth in revenue with stable operating margins
The company witnessed healthy growth in its revenue and operating margins (except FY21 due to COVID-19) over FY19-FY24. Its revenue from operation improved at CAGR of ~21% from ₹19,778 crore in FY19 to ₹51,084 crore in FY24.

The company's revenue saw a robust growth of ~26% to ₹51,084 crore from ₹40,575 crore in FY23, which was driven by double digit buyer growth resulting in market share growth across most markets. Continued formalisation of the jewellery industry has also resulted in increasing the market share of the company which currently is about 8% (improved from 5% over time). For Q1FY25, the company registered revenue of ₹13,266 crore (Q1FY24: ₹11,897 crore), improved by ~12% Y-o-Y.
The company's operating margins have remained stable at about over 10-11%. Owing to its superior craftmanship 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 time.

Prudent expansion of stores with PAN India presence
Titan's gradual expansion has been characterised by a thoughtful and strategic approach. By carefully evaluating market needs, exploring regional potential, and optimising operational practices, Titan has achieved a well-balanced and efficient growth trajectory across diverse locations. As of June 2024, Titan has presence in over 280 towns with over 900 exclusive brand outlets

with brands Tanishq, Mia, and Zoya in the jewellery segment. In watches segment, it has 1,137 exclusive brand outlets with more than 8,000 multi-brand outlets, with presence across 330 towns with brands including Titan World, Fastrack, and Helios. The EyeCare division has 900 plus stores spread across 353 towns with brands, Titan EyePlus and Fastrack. The Indian Dress Wear division has over 75 exclusive brand outlets spread across 39 towns with brand, Taneira. In fragrance division, the company has more than 3,000 multi-brand outlets.

Well-planned effective hedging policy in place

Bullion, the main material for making jewellery, is subject to market fluctuation. To protect itself from adverse movements in the gold prices, Titan follows a well-defined hedging policy, ensuring it remains fully hedged at all times. Titan procures gold from three primary sources: through gold metal loan from banks, customer's exchange, 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, which acts as a natural hedge for the company. For the gold procured through spot buying, the company enters future contracts in the commodity exchange based on expected sale. The hedging policy protects the company against price fluctuations.

Comfortable despite moderated financial risk profile

The company's capital structure witnessed moderation in FY24. Overall gearing and debt to equity moderated to 1.73x (PY: 0.81x) and 0.65x (PY: 0.16). In Q3FY24, the company has acquired an additional stake of 27.56% from the founder shareholders of CaratLane for ₹4,621 crore. To fund the above acquisition, the company has issued NCD to the tune of ₹2,579 crore. The company has also availed term loan to the extent of about ₹900 crore for capex reimbursement. This apart, with the expansion of outlets, lease liabilities increased by ~25% to ₹2,349 crore as on March 31, 2024, against ₹1,873 crore reported in FY22. Additionally, the consideration paid over and above the carrying value of non-controlling stake, in CaratLane, amounting to ₹4,572 crore, was deducted from retained earnings leading to reduction in the same and moderation in the capital structure.

Other debt coverage metrics also witnessed moderation, its term debt/gross cash accruals (GCA) deteriorated to 1.42x (against 0.50x in FY23), total debt/GCA, and interest coverage remained at 3.78x and 8.56x in FY22 (against 2.50x and 16.31x in FY23), respectively. However, the company has robust liquidity position with cash and liquid investments to the tune of about ₹2,608 crore (excluding margin money) as on March 31, 2024. The company has been generating healthy cash accruals over time, and the same was at ₹4,106 crore in FY24 (PY: ₹3751 crore). On the back of the said acquisition and growing level of operations, CARE Ratings expects the overall gearing to be between 1.20x and 1.40x in the short term.

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, imposition of excise duty, and custom duty cut. 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

Titan's jewellery division 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 company's liquidity is strong marked by healthy cash accruals and cash and liquid investments. In FY24, the company generated cash accruals of over ₹4,000 crore against the debt payment of ₹2 crore. The company had negligible term loan of ₹2 crore in its books as on March 31, 2023. However, as on March 31, 2024, the same including NCDs (₹2,579 crore) have increased to ₹3,477 crore, primarily for funding the additional stake acquired of CaratLane. The company has repayment obligation of term loan of ₹175 crore in FY25 and of ₹2,752 crore (including full NCDs) in FY26. Given that the company has been generating healthy cash accruals of over ₹4,000 crore every year, CARE Rating expects it to comfortably meet its debt obligations. The company has robust liquidity position marked by cash and liquid investments (excluding margin money) of over ₹2,600 crore as on March 31, 2024, which provides additional support. Average utilisation of fund/non-fund-based limits in last 12 months ending June 2024 stood at ~40%. These unutilised lines provide the additional cushion to the company's overall liquidity. The current ratio of the company stood comfortable at 1.52x as on March 31, 2024.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Titan operates primarily in the retail sector, which is known for low emission. At Titan, several initiatives have been taken 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 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 fresh water consumption in all its operations by creation of rain water 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. For the less privileged, skill development in the field of arts and crafts and Indian heritage has been adopted.

Applicable criteria

Consolidation
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

About the company and industry

Industry classification

Macroeconomic 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 Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25(UA)
Total operating income	40,575.00	51,084.00	13,266.00
PBILDT	4,892.00	5,298.00	1,267.00
PAT	3,274.00	3,496	715.00
Overall gearing (times)	0.81	0.88	-
Interest coverage (times)	12.06	10.47	9.39

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: 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 and Rating Outlook
Commercial paper-Commercial paper (Standalone)	INE280A14351	15/07/2024	7.05	13/09/2024	600.00	CARE A1+
Commercial paper-Commercial paper (standalone)	Proposed	-	-	7-365 days	1900.00	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 2024-2025	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
1	Fund-based/Non-fund-based-Long term	LT	2305.00	CARE AAA; Stable	-	1)CARE AAA; Stable (14-Mar-24) 2)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+ (14-Mar-24) 2)CARE A1+ (17-Aug-23)	1)CARE A1+ (09-Jan-23)	-
3	Gold metal loan	ST	7695.00	CARE A1+	-	1)CARE A1+ (14-Mar-24) 2)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 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 Ltd Hongkong	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

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

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About us:
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