Titan Company Limited

February 22, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Working Capital Facilities	200.00	0.00	[ICRA]AA+ (Positive)/[ICRA]A1+; Reaffirmed, outlook revised from stable
Non-fund Based Facilities	1,000.00	0.00	
Fund-based/Non-fund-based facilities	0.00	1700.00	
Fixed deposit programme	1,500.00	1,500.00	MAAA (Stable); Reaffirmed
Total	**2,700.00**	**3,200.00**	

* Instrument details are provided in Annexure-1

Rationale

The revision in the rating outlook positively factors in the healthy revenue growth of 27% in 9MFY2019 on a YoY basis and the expansion in its operating profit margin to 11.1% in 9MFY2019 from 9.3% in FY2017. The revenue growth and the margin expansion have been witnessed in both the jewellery and the watches segments over the last two years. ICRA expects that Titan will continue to benefit from its leadership position in the organised jewellery, watches and eyewear segments. The company's leadership in these segments will continue to be supported by its strong brand name, integrated manufacturing capability, wide distribution and service networks, diversified product portfolio in terms of price points and styles, and wide acceptance of new product launches. Titan's strong parentage and robust financials in the form of high and consistent profitability, zero net debt and strong liquidity are other factors that support the rating. Titan is a part of the TATA Group of Companies, which is India's largest business conglomerate.

The ratings, however, continue to be constrained by the regulatory risks and the competition in the domestic jewellery retail space with all major players expanding across markets. Regulatory risks have impacted both the demand and the supply in the segment. However, ICRA draws comfort from the large size of the Indian jewellery industry, which combined with the brand strength and the market shift towards organised players, translate into strong long-term growth prospects for the company. The company has previously faced growth and margin pressures in the watches division due to the increasing competition and the use of mobile phones as alternative to time-keeping devices. The ratings continue to be constrained by the vulnerability of jewellery demand to gold price fluctuations and the working capital-intensive operations. Nevertheless, Titan's financial profile is expected to continue to remain robust.

Outlook: Positive

ICRA believes that Titan's revenues will continue to witness margin expansion and steady growth, supported by strong brand presence and steady demand. The outlook may be revised to Stable/Negative if lower-than-expected cash accruals, increase in working capital intensity or higher-than-expected capital expenditure deteriorates the coverage indicators.

Key rating drivers

Credit strengths

Leadership position in organised watches and branded jewellery segments – Titan is the world's fifth largest watch manufacturer and India's dominant watch manufacturer, with over 60% market share in the organised segment. The company is also India's largest jewellery retailer, with 308 exclusive stores spread all over the country. It also has three jewellery manufacturing sites and four karigar centres, which help the company to capture value across the supply chain. Wide distribution and service networks, diversified product coverage in terms of price points and styles, and consistency in launch of new designs are expected to continue to support Titan's market leadership in the watches and jewellery segments. Titan also has leadership position in the eyewear business.

Favourable medium-term outlook for gold jewellery industry; organised retailers at advantage – Over the medium to long term, the demand will be supported by the cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic dividend and increasing penetration of the organised sector. Increasing regulatory restrictions aimed towards greater transparency and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, thus benefiting the organised players like Titan. Titan's Jewellery business has been consistently gaining market share on the back of well-laid out strategies of increasing its revenue share from wedding and high-value studded segments. Moreover, its expanding presence in geographies with low-market share and enhancing customer value proposition through Gold harvest scheme and Gold exchange program have increased its revenue base.

Strong financial profile – Healthy profitability and cash accruals coupled with low leverage levels as seen from 'Total Debt/Tangible Net Worth' ratio of 0.33 times as on March 31, 2018, have resulted in high financial flexibility. Titan has a strong liquidity profile with substantial liquid investments and cash reserves amounting to Rs 850 crore and low working capital utilisation of Rs ~1,600 crore (largely non-fund based on the available credit lines of Rs 4,550 crore as on December 31, 2018). High sale per square feet, strong same-store growth and healthy inventory turnover ensure strong store-level profitability. These coupled with economies of scale and franchisee operations help generate adequate EBIT margins and high return on capital employed for Titan.

Strong parentage – Titan is a part of the TATA Group of Companies, which is India's largest business conglomerate. Tata Group holds 25.04% equity stake in Titan with Tata Sons Private Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+) having 20.84% stake.

Credit weaknesses

Growing competitive pressures in segments of operations – Alternatives for time-keeping devices such as mobile phones apart from discounts by competitors and online retailers has been constraining revenue growth and margins in the watches segment. While in the jewellery segment, muted domestic demand and competition from other organised jewellery retailers have impeded the revenue growth. However, the company has been able to gain considerable market share over the last two years.

Exposure to regulatory risks in jewellery segment – Certain adverse regulatory developments have impacted the domestic gold jewellery industry in the past. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions, imposition of excise duty, and increase in customs duty are some of the adverse regulatory developments over the last four years.

Exposure to seasonality in demand – ICRA notes the seasonality of demand for Titan's products, the vulnerability of jewellery demand to gold price fluctuations and the working capital-intensive operations. However, the working capital requirements are largely funded by customer advances and credit through gold metal loans with negligible borrowings on the books of the company. Also, the gold inventory hedging practices followed by Titan protect its earnings against volatility in gold prices.

Liquidity position:

The company had maintained healthy cash and investments of Rs. ~850 crore as on March 31, 2018. The company has negligible fund-based working capital limit utilisation and currently has a non-fund based utilisation of Rs ~1,600 crore of the available Rs 4,550 crore limits. With strong cash accruals and minimal capex plans, the company is expected to continue to maintain a healthy liquidity position.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Gold Jewellery Retail Industry
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on the consolidated financial profile of the company.

About the company:

Titan Company Limited (Titan), formerly Titan Industries Limited, was incorporated in 1984 as a joint venture (JV) between the Tata Group and Tamil Nadu Industrial Development Corporation Limited (TIDCO). At present, the Tata Group and TIDCO hold 25.04% and 27.88% shares, respectively, in Titan. The rest is held by institutional investors and the public. Titan is a market leader in the domestic wristwatch (with brands such as 'Titan', 'Sonata' 'Fastrack' and 'Xylys') and the domestic branded jewellery markets ('Tanishq' 'Zoya' and 'Mia' brands). In FY2018, Titan's jewellery division contributed 81.6% ; and the watches division contributed 13.1% to the consolidated revenues, while the remaining came from sale of eyewear and other segments.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	13,261	16,120
PAT (Rs. crore)	699	1,105
OPBDIT/ OI (%)	8.71%	10.20%
RoCE (%)	21.33%	24.98%
Total Debt/ TNW (times)	0.44	0.33
Total Debt/ OPBDIT (times)	1.63	1.03
Interest coverage (times)	26.84	29.96
NWC/ OI (%)	25.66%	27.12%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)					Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Feb-19	Oct-18	Aug-17	Oct-16	Sept-15
1	Fund-based-Working Capital Facilities	Long Term	0.0	-	NA	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Non-fund Based Facilities	Short Term	0.0	-	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund-based/Non-fund-based facilities	Long Term/Short Term	1,700.0	1,037.0	[ICRA]AA+ (Positive)/ [ICRA]A1+	NA	NA	NA	NA
4	Fixed deposit programme	Medium Term	1,500.0	1,220.0	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN o	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based/Non-fund-based facilities	-	-	-	1,700.0	[ICRA]AA+ (Positive)/ [ICRA]A1+
NA	Fixed deposit programme	-	-	-	1,500.0	MAAA (Stable)

Source: Titan Company Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Titan TimeProducts Limited (ownership reduced to 0% wef June 2018)	100%	Full Consolidation
Favre Leuba AG Switzerland	100%	Full Consolidation
Titan Engineering & Automation Limited	100%	Full Consolidation
Titan Watch Company Hong Kong Limited (100% subsidiary of Favre Leuba AG)	100%	Full Consolidation
Carat Lane Trading Private Limited (w.e.f. 3 August 2016)	66.59%	Full Consolidation
Montblanc India Retail Private Limited	49.00%	Equity Method
Green Infra Wind Power Theni Limited	26.79%	Equity Method

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About ICRA Limited:

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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