

December 05, 2023

## Caratlane Trading Pvt Ltd: Rating reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme^	341.00	500.00	[ICRA]A1+; reaffirmed/assigned
<b>Total</b>	<b>341.00</b>	<b>500.00</b>	

\*Instrument details are provided in Annexure-I

^Total borrowing under commercial paper and working capital bank limits to remain within an overall limit of Rs. 1,500 crore. Commercial paper borrowing to be capped at Rs.500 crore

### Rationale

While arriving at the rating, ICRA has taken a consolidated view of Caratlane Trading Private Limited (CTPL) along with its subsidiary, given the common management and significant operational and financial linkages between them. The rating continues to factor in the high likelihood of CTPL's parent, Titan Company Limited (Titan, rated [ICRA]AAA(Stable)/[ICRA]A1+), extending need-based financial support to CTPL owing to its strategic importance to Titan, substantial operational and managerial linkages between them and out of the need to protect its reputation. ICRA has noted the acquisition of 91,90,327 equity shares, representing 27.18% of the paid-up equity share capital of CTPL, by Titan from the promoters of CTPL for a cash consideration of Rs. 4,621 crore on November 28, 2023, resulting in an increase in Titan's shareholding in CTPL to 98.28% (on a fully diluted basis), which is likely to further strengthen the operational and managerial linkages between the entities.

The rating reaffirmation reflects ICRA's expectations that CTPL's operating performance will continue to remain healthy over the coming quarters on the back of its established online presence in the jewellery industry, planned expansion of physical retail presence and its strong parentage as a subsidiary of Titan. CTPL recorded a healthy revenue growth of ~73% YoY in FY2023 and 45% YoY in H1 FY2024 owing to healthy demand, aggressive store expansion (CTPL added 84 stores in FY2023 and 24 stores in H1 FY2024) and a steady increase in gold prices. Its operating margin improved by ~260 bps YoY to 9.3% in FY2023, partly due to higher gross margin and economies of scale. The margin, however, moderated to ~7.0% in H1 FY2024 on account of front-loading of operating expenses on new stores and a correction in diamond prices. ICRA expects CTPL's revenue to grow at a healthy rate of more than 30% YoY over the next 12-24 months on the back of planned store expansion with its operating margin stabilising in the range of 8-9% p.a. over the medium term. ICRA expects CTPL to continue to remain strategically important to Titan and benefit from it in the form of marketing, branding and management synergies, as well as financial support.

The rating continues to factor in the average-but-improving financial risk profile of CTPL, as reflected in an improvement in interest cover and TOL/TNW to 3.7 times and 6.9 times, respectively, in FY2023 from 1.6 times and 25.7 times, respectively, in FY2021, on the back of an improvement in earnings from operations in the recent years. The leverage indicators remain constrained by the low net worth base owing to sizeable accumulated losses in the past. ICRA expects CTPL's debt protection metrics to witness a gradual improvement over the coming years, driven by improving scale of operations. The rating also considers the regulatory risks and intense competition in the jewellery retail industry, which limits pricing flexibility and margins to an extent.

### Key rating drivers and their description

#### Credit strengths

**Strength derived from being a Titan Group company and association with the Tanishq brand** – CTPL enjoys strong financial flexibility owing to its parentage and strategic importance to Titan and expectations of continued strong operational and

financial support to be received from Titan. The association with Titan, which operates the Tanishq brand, provides marketing and branding benefits as CTPL's stores are branded as 'A Tanishq Partnership'. The Caratlane brand complements Tanishq's business, which focusses on the higher ticket-size gold and diamond jewellery, whereas CTPL operates in the lower ticket-size segment of studded jewellery aimed to appeal to the young consumers. CTPL also benefits from managerial synergies with Titan, with the latter holding ~98% equity stake in CTPL and having substantial representation on CTPL's board. Titan has also provided corporate guarantee for the long-term borrowing of CTPL.

**Steady improvement in performance driven by new store additions; likely to sustain over the medium term** – CTPL recorded a substantial improvement in its performance in FY2023 with a revenue growth of ~73% YoY and a YoY improvement of ~220 bps in its operating margin. The company maintains a healthy market position in the online jewellery retail segment (which contributes 20-25% of CTPL's annual revenue) complemented by a wide and expanding network of physical stores. A large part of its revenue growth in FY2023 is attributable to the addition of 84 new stores to its network, taking the total store count to 222 as on March 31, 2023. ICRA expects the company to continue to add new stores (mainly through the franchisee model to reduce capex requirements), driving healthy revenue growth over the coming quarters.

**Favourable long-term growth prospects for organised jewellery retailers** – Increasing regulations in the jewellery retail industry, aimed at improving transparency and standardisation, over the recent years have accelerated the shift in market share from unorganised players. The industry tailwinds are expected to benefit the organised jewellery retailers like CTPL over the medium term, supported by its expanding retail presence.

### Credit challenges

**Average but improving financial risk profile** – CTPL's financial risk profile remains average, compared with the benchmarks corresponding to its rating category, largely due to a low net worth base attributable to accumulated losses over the years, which also put pressure on its debt protection metrics. Since achieving EBITDA breakeven in FY2021, CTPL's operating margin has successively improved to 9.3% in FY2023, translating into a substantial improvement in its interest cover and TOL/TNW metrics. ICRA expects CTPL's financial risk profile to continue to improve on the back of growing scale of operations and sustainable profitability of its business, going forward. ICRA derives comfort from CTPL's close operational, financial and managerial linkages with Titan, which mitigate the risks to a large extent.

**Intense competition and exposure to regulatory risks** – The domestic jewellery retail industry remains exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact of CTPL's business. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold limit, imposition of excise duty and GST and demonetisation are some regulatory developments that have impacted demand and supply in the past. Further, the jewellery retail industry is highly fragmented and exposed to intense competition from other organised and unorganised players, which limits the pricing power to an extent. Nonetheless, CTPL has demonstrated its ability to improve its market position over the last few years, which coupled with its close linkages with Titan, provide comfort.

### Liquidity position: Adequate

CTPL's standalone liquidity remains adequate, characterised by free cash and bank balances and buffer from unutilised sanctioned working capital limits worth more than Rs. 400 crore as on September 30, 2023. The company is expected to generate cash accruals of Rs. 150-200 crore p.a. over the next two years, which together with the available liquidity buffer, is expected to be sufficient to meet the business requirements. The average utilisation of sanctioned working capital limits remained at 71% for the 12-month period till October 31, 2023. CTPL is estimated to have a capex requirement of Rs. 40-50 crore p.a. and debt repayment obligation of Rs. 248 crore in FY2024 (including commercial papers and lease liabilities). ICRA also derives comfort from the strong financial flexibility of CTPL owing to its close linkages with Titan, which is likely to support CTPL's ability to borrow from the market at favourable rates. ICRA expects Titan to provide need-based financial support to CTPL, going forward.

## Rating sensitivities

**Positive factors** – Not applicable

**Negative factors** – Pressure on the rating could arise in case of sustained pressure on CTPL's operating performance or a significant deterioration in its working capital cycle, adversely impacting its coverage metrics and liquidity position. The rating may also be downgraded if there is any weakness in CTPL's linkages with its parent, Titan Company Limited, or upon any deterioration in the credit profile of its parent entity.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology – Gems &amp; Jewellery (Retail)</a>
Parent/Group support	<b>Parent: Titan Company Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+)</b> The rating assigned to CTPL factors in the high likelihood of its parent, Titan Company Limited, extending need-based financial support to CTPL, given its strategic importance to Titan, strong business linkages between them and out of the need to protect its reputation from the consequences of a Group entity's distress.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of CTPL, including its subsidiary, as detailed in Annexure II.

## About the company

Caratlane Trading Private Limited (CTPL), incorporated in 2007, is a jewellery retail company that operates the Caratlane brand with the major portion of its business coming from the studded jewellery segment. CTPL operates through online as well as offline retail channels. It had 246 stores across 97 cities in India as on September 30, 2023. Titan Company Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+) holds a 98.28% (on a fully diluted basis) equity stake in CTPL, as on November 30, 2023.

## Key financial indicators

CTPL Consolidated	FY2022 (audited)	FY2023 (audited)	H1 FY2024 (unaudited)
Operating income	1,256	2,169	1,342
PAT	89	82	11
OPBDIT/OI	6.7%	9.3%	7.0%
PAT/OI	7.1%	3.8%	0.9%
Total outside liabilities/Tangible net worth (times)	6.8	6.9	7.9
Total debt/OPBDIT (times)	6.4	5.2	6.4
Interest coverage (times)	3.1	3.7	2.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore

Note: All ratios are as per ICRA's calculations

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

## Rating history for past three years

Instrument	Current rating (FY2024)						Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of Nov 29, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Dec 05, 2023	Aug 29, 2023	Jun 05, 2023			Feb 04, 2022	Feb 05, 2021
1 Commercial Paper	Short-term	500.00	170.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE015Y14518	Commercial Paper	Sep 06, 2023	7.30%	Nov 30, 2023	50.00	[ICRA]A1+
INE015Y14526	Commercial Paper	Sep 12, 2023	7.24%	Dec 08, 2023	60.00	[ICRA]A1+
INE015Y14534	Commercial Paper	Oct 04, 2023	7.33%	Dec 15, 2023	60.00	[ICRA]A1+
N.A.*	Commercial Paper	-	-	-	330.00	[ICRA]A1+

Source: Company, as on November 30, 2023; \* Yet to be placed

Note: Total borrowing under commercial paper and working capital bank limits to remain within an overall limit of Rs. 1,500 crore. Commercial paper borrowing to be capped at Rs. 500 crore.

#### Annexure II: List of entities considered for consolidated analysis

Company Name	CTPL's Ownership	Consolidation Approach
Caratlane Trading Private Limited	-	Full Consolidation
StudioC Inc.	100.00%	Full Consolidation

Source: CTPL annual report FY2023

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### Branches



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