April 29, 2024

Titan Company Limited: Ratings reaffirmed and rated amount enhanced for fixed deposits and commercial papers; ratings reaffirmed for bank facilities

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fixed deposit programme	4,500.00	5,300.00	[ICRA]AAA (Stable); reaffirmed and assigned for enhanced limits
Short term - Commercial paper programme	1,500.00	2,500.00	[ICRA]A1+; reaffirmed and assigned for enhanced limits
Long-term/short-term fund-based/ non-fund based facilities	5,200.00	5,200.00	[ICRA]AAA (Stable)/[ICRA]A1+; reaffirmed
Long-term - fund-based – Term Loans	1,000.00	1,000.00	[ICRA]AAA (Stable); reaffirmed
Total	**12,200.00**	**14,000.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation reflects ICRA's expectations that Titan Company Limited's (Titan) performance will continue to remain strong over the medium term on the back of its market leadership position in the organised jewellery and wrist watch segments and strong market position in the eyecare segment, coupled with its robust financial risk profile. Titan's consolidated operating income grew by ~28% on a YoY basis to Rs. 38,590 crore in 9M FY2024 on the back of healthy double-digit growth in the watches and jewellery segments, aided by rising gold prices. Its operating profit margin moderated by ~190 bps on a YoY basis to 10.6% in 9M FY2024 owing to competitive pressure and initiatives taken by the company to gain market share in the jewellery business. ICRA expects Titan's revenue to continue to record a healthy YoY growth over the next 2-3 years, driven by accelerated formalisation of the jewellery retail industry, Titan's strong brand equity and planned expansion of its retail presence across the operating segments. Titan's operating margin is expected to remain range-bound at 11-12% over the medium term, with the benefits of operating leverage, prudent hedging practices and improvement in the revenue share of higher-margin studded jewellery getting mitigated to an extent by higher selling expenses amid rising competition and front-loaded operating expenses on planned store additions. The ratings continue to derive comfort from Titan's strong financial risk profile, driven by healthy cash flow from operations generated over the years, resulting in comfortable credit metrics and a strong liquidity profile. The ratings also consider the high financial flexibility enjoyed by Titan for being a part of the Tata Group, which also supports its brand equity and customer acceptance of its products.

The ratings, however, continue to factor in Titan's exposure to regulatory risks and intense competition in the domestic jewellery retail industry. Any unanticipated regulatory changes, as witnessed in the past, could have a material adverse impact on the business profile of the company. Nevertheless, ICRA draws comfort from the large size of the domestic jewellery industry, Titan's brand strength and accelerated formalisation of the industry, which translate into favourable long-term growth prospects for the company. ICRA notes that the company's leverage, as reflected by the net total outside liabilities/tangible net worth, is likely to moderate to ~1.3 times as on March 31, 2024 owing to substantial addition to long-term borrowings during the year in the form of NCDs worth Rs. 2,500 crore (utilised to fund the acquisition of additional stake in Caratlane Trading Private Limited for a total consideration of Rs. 4,621 crore) and drawn down term loans of Rs. 700 crore. However, with expectations of healthy cash flow from operations and limited incremental borrowing requirements, the metric is expected to improve, going forward, and remains a key monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that Titan will continue to maintain a comfortable capital structure and healthy coverage metrics while benefitting from its market leadership position and a diversified business profile.

Key rating drivers and their description

Credit strengths

Diversified business profile with market leadership position in branded jewellery and wrist watch industries – Titan has a diversified business profile with four operating segments – jewellery, watches and wearables, eyecare and fragrances and fashion accessories. While the jewellery segment accounts for ~90% of Titan's consolidated operating income and EBIT, the other segments provide healthy diversification across consumer retail categories and are likely to drive business growth over the medium term. The company also maintains a geographically diversified retail presence with more than 3,000 retail stores as on March 31, 2024, including 11 stores in the Gulf countries, four stores in the US and one store in Singapore. Titan is India's largest jewellery retailer by revenue with a strong brand equity across its flagship brands namely Tanishq, Mia, Zoya and Caratlane. The jewellery segment's revenue rose at a CAGR of more than 20% between FY2018 and FY2023. Titan is also a dominant player in the Indian wrist watch industry with a wide distribution and service network, a diversified product portfolio across price segments and established brands like Titan, Fastrack, Sonata and Xylys. Planned retail expansion and pipeline of new product launches, including in the smart wearables sub-segment, are likely to continue to support business growth over the medium term.

Strong financial risk profile – Titan's financial risk profile remains strong on the back of continued healthy earnings from operations, translating into a conservative capital structure and comfortable debt protection metrics. While the capital structure is likely to record some moderation, with a likely increase in the net TOL/TNW to ~1.3 times as on March 31, 2024 from 1.0 times as on March 31, 2023 due to sizeable addition to long-term borrowings, the same is expected to improve to comfortable levels in the coming quarters, supported by healthy cash accruals. Nevertheless, the debt coverage metrics are expected to remain comfortable with an interest cover of more than 8.0 times and DSCR of more than 4.0 times over the next 1-2 years. Titan's borrowings towards inventory funding requirements are met through gold metal loans and spot purchases funded by bank lines, for which forward sale contracts are entered to hedge the price volatility risk of gold. The company's capital expenditure requirements are likely to remain moderate compared to accruals, given the franchisee-based expansion model.

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 the market share from unorganised to organised players. The industry tailwinds are expected to benefit the organised jewellery retailers like Titan over the medium term, supported by its strong brand equity and increasing retail presence.

Credit challenges

Exposed to regulatory risks and seasonality in demand – The domestic jewellery retail industry remains exposed to the risks arising from the evolving regulatory landscape, which could have an adverse impact on Titan's business. Mandatory disclosure of PAN on transactions above a threshold limit, imposition of GST and demonetisation are some regulatory developments that have impacted demand and supply in the past. Titan remains exposed to changes in regulations that may adversely impact its business. ICRA also notes the seasonality of demand for Titan's products, vulnerability of the jewellery segment to volatility in gold prices and the working capital intensive nature of its operations.

Intense competition from organised and unorganised players – The jewellery retailing industry is intensely competitive with presence of large organised and unorganised players. Competition has increased over the last decade owing to continuous store addition by regional and national jewellers. Nonetheless, Titan's market leadership position along with a strong recall of its Tanishq, Zoya, Mia and Caratlane brands are expected to support its operating performance in the existing and new markets. While the performances of the watches and eyecare segments have improved in the recent years, their business remains exposed to competition from local as well as e-commerce retailers.

Environmental and social risks

Environmental considerations – Exposure to environmental risks remains low for entities in the jewellery retail industry. Few concerns include episodes of excessive rainfall/flooding in the operating regions impacting its jewellery stores, as seen in the past. Additionally, indirect risk of rural demand for jewellery moderating during periods of crop loss caused by physical climate change or otherwise also pose risks to revenue growth and profitability.

Social considerations – Exposure to social risks remains moderate for entities in the jewellery retail industry. The sector has witnessed increased focus on product quality and transparency in pricing, which supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour including a shift towards less gold-intensive daily/fashion jewellery. Additionally, with a relatively higher requirement of workforce for store operations and jewellery manufacturing, the level of wages and associated fixed costs could weigh on the margins, given the skilled nature of work.

Liquidity position: Strong

Titan's liquidity is expected to remain strong, backed by healthy cash flow from operations and a healthy liquidity buffer, with free cash, bank balance and liquid investments worth more than Rs. 3,500 crore as on December 31, 2023 apart from sizeable untilised bank limits. Titan's working capital requirements have largely been met through a mix of earnings, customer advances (through deposit schemes) and gold metal loans, resulting in limited utilisation of its fund-based bank limits. Moreover, given the strong capitalisation level and financial flexibility, Titan's access to working capital finance is expected to be comfortable.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on Titan's ratings could arise if there is a significant impact on the company's operating performance because of regulatory changes and/or sustained pressure on demand. Other triggers could include weakening of the financial risk profile so that Net TOL/TNW is higher than 1.3 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Jewellery (Retail)
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial profile of Titan Company Limited as detailed in Annexure II

About the company

Titan Company Limited (Titan), formerly Titan Industries Limited, was incorporated in 1984 as a joint venture between the Tata Group and Tamil Nadu Industrial Development Corporation Limited (TIDCO). Titan is the market leader in the domestic branded jewellery industry (with brands like Tanishq, Zoya, Mia and Caratlane) and in the domestic wrist watches segment (with brands including Titan, Fastrack, Sonata and Xylys). In FY2023, the jewellery segment contributed more than 85% to the consolidated revenue and more than 90% to the consolidated EBIT of Titan.

As on March 31, 2024, the Tata Group and TIDCO held 25.02% and 27.88% stakes, respectively, in Titan, while the rest is held by institutional investors and public.

Key financial indicators

Titan Consolidated	FY2022 (audited)	FY2023 (audited)	9M FY2024 (unaudited)
Operating income	28,799	40,575	38,590
PAT	2,198	3,273	2,724
OPBDIT/OI	11.6%	12.0%	10.6%
PAT/OI	7.6%	8.1%	7.1%
Total outside liabilities/Tangible net worth (times)	1.3	1.3	NA
Total debt/OPBDIT (times)	2.2	1.9	NA
Interest coverage (times)	15.3	16.3	9.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore; NA – Not Available

Note: All ratios as per ICRA's calculations. PAT does not include share of profit/loss from JVs and associates. Operating Income includes income from sale of bullion.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024			Date & rating in FY2023			Date & rating in FY2022
					Apr 29, 2024	Mar 27, 2024	Aug 29, 2023	Apr 28, 2023	Jun 03, 2022	Apr 29, 2022	Apr 04, 2022	Jun 28, 2021
1	Fixed deposits programme	Long term	5,300.00	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)
2	Commercial paper programme	Short-term	2,500.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Fund-based/ non-fund based facilities	Long-term/ short-term	5,200.00	-	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+	[ICRA]AAA (Stable)/ [ICRA]A1+
4	Term Loans	Long-term	1,000.00	700.00	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed deposit programme	Very Simple
Commercial paper programme	Very Simple
Fund-based/ non-fund based facilities	Simple
Term Loans	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
NA	Fixed deposit programme	NA	NA	NA	5,300.00	[ICRA]AAA (Stable)
INE280A14328	Commercial paper programme	12-Apr-2024	7.25%	31-May-2024	500.00	[ICRA]A1+
INE280A14336	Commercial paper programme	12-Apr-2024	7.25%	16-May-2024	500.00	[ICRA]A1+
INE280A14344	Commercial paper programme	24-Apr-2024	6.90%	24-Jun-2024	500.00	[ICRA]A1+
NA*	Commercial paper programme	NA	NA	NA	1,000.00	[ICRA]A1+
NA	Fund-based/ non fund-based facilities	NA	NA	NA	5,200.00	[ICRA]AAA (Stable)/ [ICRA] A1+
NA	Term Loan – I	FY2024	7.5%	FY2027	700.00	[ICRA]AAA (Stable)
NA	Term Loan – II**	FY2024	7.5%	FY2027	300.00	[ICRA]AAA (Stable)

*Source: Company; *yet to be placed; **The term loan is undrawn*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
TCL Watches Switzerland AG (formerly Favre Leuba AG)	100.00%	Full consolidation
Titan Watch Company Limited	100.00%	Full consolidation
Titan Holdings International FZCO	100.00%	Full consolidation
Titan Global Retail LLC	100.00%	Full consolidation
Titan International QFZC	100.00%	Full consolidation
TCL North America Inc	100.00%	Full consolidation
Titan Engineering & Automation Limited	100.00%	Full consolidation
TEAL USA Inc	100.00%	Full consolidation
Caratlane Trading Private Limited	98.28%	Full consolidation
StudioC Inc	98.28%	Full consolidation
Titan Commodity Trading Limited	100.00%	Full consolidation
Green Infra Wind Power Theni Limited	26.79%	Equity method

Source: Company data

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About ICRA Limited:

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