December 18, 2024

Caratlane Trading Pvt Ltd: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	500.00	500.00	[ICRA]A1+; reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to factor in Caratlane Trading Pvt Ltd's (CTPL) strong parentage for being a wholly-owned subsidiary of Titan Company Limited (Titan, rated [ICRA]AAA (Stable)/[ICRA]A1+), its strategic importance to Titan, high reputation sensitivity along with significant operational and managerial synergies between them. The rating reflects ICRA's expectations that CTPL's operating performance will continue to remain healthy, going forward, on the back of its established brand and increasing market presence in the jewellery industry by expanding via brick-and-mortar stores and dominance in the online segment. Besides, a favourable demand trend (despite a sharp rise in gold prices) and increasing formalisation of the jewellery industry are likely to support the revenue growth of the organised jewellers, including Caratlane. Reduction in the customs duty on gold by 9% from July 24, 2024 is also likely to support the growth of the organised jewellery sector by curbing illicit trade, notwithstanding one-time losses impacting the margin of large retailers opting for formal hedging for gold purchases.

CTPL recorded a healthy revenue growth of ~42% in FY2024 and ~38% in H1 FY2025 on a YoY basis, on the back of rising realisations and aggressive store expansion. The company added 47 stores in FY2024 and 43 stores in 8M FY2025 and has significant expansion plans in the medium term, which are likely to result in an above-average revenue growth. CTPL's operating margin declined by 74 basis points in FY2024. However, in H1 FY2025, its operating margin improved by 29 basis points to 7.0% from 6.7% in H1 FY2024 with better absorption of fixed costs due to a significant rise in revenues (despite a one-time loss of ~Rs. 15 crore in Q2 FY2025 resulting from the customs duty cut). The scale-related benefits are likely to result in further margin expansion, going forward. The company's policy to hedge the entire gold inventory would shield its profitability from any adverse movement in gold prices.

The rating continues to factor in CTPL's highly leveraged capital structure, as reflected by a gearing of 13.7 times and TOL/TNW of 17.7 times as on March 31, 2024 (considering lease liabilities as debt). The leverage indicators remain constrained by the low net worth base owing to sizeable accumulated losses in the past and significant cash settlement of ~Rs. 200 crore towards employee stock options in FY2024, a major portion of which was adjusted with retained earnings, impacting the net worth. Nevertheless, ICRA expects CTPL's leverage and debt protection metrics to witness a gradual improvement over the coming years, driven by improving earnings. The rating also considers the regulatory risks and intense competition in the jewellery retail industry, which limit 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 operational and managerial synergies between CTPL and Titan. The association with Titan, which operates the Tanishq brand, provides marketing and branding benefits to CTPL. Caratlane is branded as 'A Tata product'. 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 fashion-oriented young consumers. CTPL also benefits from managerial linkages with Titan, with the latter holding a 100% equity stake in CTPL, and having full representation on CTPL's board along with a common treasury team.

Robust growth in revenues and cash accruals in recent years driven by new store additions; likely to sustain over the medium term – CTPL achieved a compounded annual growth rate (CAGR) of ~49% in its consolidated operating income over the last five fiscals (FY2019 – FY2024). In FY2024, its revenue grew by 42% to Rs. 3,085.9 crore, after recording more than 70% growth in FY2022 and FY2023, on a YoY basis, supported by significant store expansion and rise in realisations. CTPL's net cash accrual also grew steadily to ~Rs. 197.9 crore in FY2024 from Rs. 23.4 crore in FY2021, aided by robust revenue growth. The company maintains a healthy market position in the online jewellery retail segment (which contributes ~20% to CTPL's annual revenue), complemented by a wide and expanding network of physical stores. CTPL added 84 stores in FY2023, 47 stores in FY2024 and 43 stores in 8M FY2025, taking the total store count to 312 as of November 2024. It plans to add 60-70 stores annually in the medium term and expand presence in the tier-II and tier-III cities mainly through the franchisee model, which is likely to drive healthy revenue growth. CTPL's operating margin remained comfortable at 8.4% in FY2024, though the same fell by 74 basis points on a YoY basis. In H1 FY2025, CTPL's operating margin improved by 29 basis points to 7.0% from 6.7% in H1 FY2024 with a better absorption of fixed costs due to a significant rise in revenues, despite a one-time loss of ~Rs. 15 crore in Q2 FY2025, resulting from the customs duty cut. The company is likely to register such one-time loss of ~Rs. 21 crore in Q3 FY2025 as well, however, the same is unlikely to have any significant impact on its margins in H2 FY2025. The scale-related benefits are likely to result in further margin expansion, going forward.

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 to organised players from the unorganised sector. The industry tailwinds are expected to benefit the organised jewellery retailers like CTPL, supported by their expanding retail presence. The customs duty cut by 9% in July 2024 is also expected to disincentivise illegal import, benefiting the organised players.

Credit challenges

Highly leveraged capital structure – CTPL's leverage indicators remain constrained by the low net worth base owing to sizeable accumulated losses in the past and a sizeable cash settlement of ~Rs. 200 crore towards employee stock options in FY2024, a major portion of which was adjusted with retained earnings, impacting the company's net worth. CTPL's gearing and TOL/TNW stood at 13.7 times and 17.7 times (considering lease liabilities as debt), respectively, as on March 31, 2024. The company's interest coverage remained moderate at 3.2 times in FY2024 vis-à-vis 4.3 times in FY2023. Nevertheless, with expectations of sustained momentum in business growth and earnings on the back of store expansion, the company's leverage and debt protection metrics are expected to improve gradually over the medium term.

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 on CTPL's business. Restrictions on bullion imports and metal loan funding, mandatory PAN disclosure on transactions above a threshold limit, imposition of 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 liquidity position remains adequate. The company's fund flow from operations (FFO) remained healthy at ~Rs. 178 crore in FY2024 and is likely to remain above Rs. 200 crore in the current fiscal. Its cash flow from operations, however, is likely to be negatively impacted by a significant increase in working capital requirement on the back of a robust expansion of scale. Nevertheless, healthy FFO and undrawn sanctioned working capital limits worth ~Rs. 325 crore as on November 30, 2024 are likely to provide significant liquidity buffer to meet the business growth requirements. The company has availed term loans to fund brand building expenses, giving rise to long-term debt repayment obligation of Rs. 45-50 crore per annum till FY2029. CTPL's annual capex is likely to remain at ~Rs. 40 crore per annum in the near-to-medium term. However, ICRA derives comfort from the strong financial flexibility of CTPL owing to its close linkages with its holding company, Titan, which is likely to support CTPL's ability to borrow from the market at favourable rates. The company is currently availing commercial papers, which are outside the drawing power of sanctioned bank limits, supporting the company's liquidity position.

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 on a sustained basis. 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	Corporate Credit Rating Methodology Jewellery - Retail
Parent/Group support	**Parent: Titan Company Limited (rated [ICRA]AAA (Stable)/[ICRA]A1+)** The rating assigned to CTPL factors in implicit support from its parent, Titan Company Limited, given CTPL's strategic importance to Titan, strong business linkages and managerial synergies between them and Titan's reputation sensitivity to its wholly-owned subsidiary, CTPL.
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 Pvt Ltd (CTPL), incorporated in 2007, is a jewellery retail company that operates the Caratlane brand with the major portion (~80%) of its business coming from studded jewelleries. The company mainly deals in fashion jewellery for the mid-market segment. CTPL operates through online as well as offline retail channels. It had 301 stores across 130 cities in India as on October 31, 2024. Titan Company Limited acquired a majority equity stake (66.4%) in CTPL in 2016, and holds a 100% equity stake in CTPL at present.

CTPL's wholly-owned subsidiary, StudioC Inc., incorporated in 2021 in the US, is involved in trading of jewellery in the US under the brand name, Caratlane. The company is mainly involved in online sales. However, it has opened a showroom in the US recently. Going forward, CTPL plans to route the sales of Caratlane products in the US through a subsidiary of Titan having presence in North America.

Key financial indicators (audited)

CTPL Consolidated	FY2023	FY2024	H1 FY2024*	H1 FY2025*
Operating income	2,173.7	3,085.9	1,342.1	1,853.1
PAT	82.1	78.6	11.4	36.0
OPBDIT/OI	9.1%	8.4%	6.7%	7.0%
PAT/OI	3.8%	2.5%	0.9%	1.9%
Total outside liabilities/Tangible net worth (times)	7.0	17.7	7.9	16.5
Total debt/OPBDIT (times)	5.2	5.2	6.7	6.8
Interest coverage (times)	4.3	3.2	2.2	2.9

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; *Unaudited*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs Crore)	December 18, 2024	Date	Rating	Date	Rating	Date	Rating
Commercial paper	Short Term	500	[ICRA]A1+	Dec 05, 2023	[ICRA]A1+	Jun 06, 2022	[ICRA]A1+	Feb 04, 2022	[ICRA]A1+
				Aug 29, 2023	[ICRA]A1+				
				Jun 05, 2023	[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
INE015Y14583	**Commercial Paper**	Oct 23, 2024	7.12%	Dec 20, 2024	150.00	[ICRA]A1+
INE015Y14591	**Commercial Paper**	Dec 09, 2024	7.24%	Mar 07, 2025	150.00	[ICRA]A1+
N.A.*	**Commercial Paper**	-	-	-	200.00	[ICRA]A1+

*Source: Company, * 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
StudioC Inc.	100.00%	Full Consolidation

Source: CTPL

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About ICRA Limited:

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