June 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^	320.00	341.00	[ICRA]A1+; reaffirmed/assigned
Total	**320.00**	**341.00**	

**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. 1,250 crore. Commercial paper borrowing to be capped at Rs. 341 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 the latter's strategic importance to Titan, substantial operational and managerial linkages between them and out of the need to protect its reputation.

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 with Titan holding a 72.08% equity stake in the company as on March 31, 2023. CTPL recorded a healthy revenue growth of ~73% YoY in FY2023, albeit on a low base impacted by the pandemic, due to healthy demand, aggressive store expansion (CTPL added 84 stores in FY2023) and a steady increase in gold and diamond prices. Its operating margin improved by ~260 bps YoY to 9.3% in FY2023, partly due to higher gross margin and economies of scale. 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 young consumers. CTPL also benefits from managerial synergies with Titan, with the latter holding ~72% 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 open ~80 new stores (mainly through the franchisee model to reduce capex requirements) over the next 12-18 months, driving healthy revenue growth.

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. 450 crore as on March 31, 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 75% for the 12-month period till March 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	Corporate Credit Rating Methodology Rating Methodology – Gems & Jewellery (Retail)
Parent/Group support	**Parent: Titan Company Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+** 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 has 222 stores across 88 cities in India as on March 31, 2023. Titan Company Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+) holds a 72.08% equity stake in CTPL, as on March 31, 2023.

Key financial indicators (audited)

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

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. Crore
Note: All ratios 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 Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Jun 05, 2023	Jun 06, 2022	Feb 04, 2022	Feb 05, 2021	Jun 12, 2020
1	**Commercial Paper**	Short-term	341.00	212.62	[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
INE015Y14427	**Commercial Paper**	Mar 03, 2023	7.93%	May 31, 2023	35.00	[ICRA]A1+
INE015Y14435	**Commercial Paper**	Mar 10, 2023	8.35%	Jun 08, 2023	55.00	[ICRA]A1+
INE015Y14443	**Commercial Paper**	Mar 16, 2023	8.25%	Jun 14, 2023	55.00	[ICRA]A1+
INE015Y14450	**Commercial Paper**	Apr 11, 2023	7.65%	Jul 07, 2023	60.00	[ICRA]A1+
N.A.*	**Commercial Paper**	-	-	-	136.00	[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. 1,250 crore. Commercial paper borrowing to be capped at Rs. 341 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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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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