May 13, 2020

Titan Company Limited: Rated amount enhanced for commercial paper programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	900.0	1,500.0	[ICRA]A1+ assigned / outstanding
Fund based / Non-fund based limits	1,700.0	1,700.0	[ICRA]AA+ (Positive) / [ICRA]A1+ outstanding
Fixed deposit programme	1,500.0	1,500.0	MAAA (Stable) outstanding
Total	**4,100.0**	**4,700.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings for Titan Company Limited (Titan) reflect the company's leadership position in the organised jewellery, watches and eyewear segments, supported by its strong brand name, integrated manufacturing capability, wide distribution and service networks and diversified product portfolio in terms of price points and styles. Titan's jewellery segment has witnessed healthy revenue growth and margin expansion in FY2018 and FY2019, aided by improvement in market share as well as additions to the store network. Titan's jewellery segment grew at 9% on a year on year basis during 9MFY2020, higher than the industry average growth. Titan has a robust financial profile with strong cash accruals, moderate capital expenditure requirements, comfortable leverage metrics and strong liquidity. Titan is a part of the TATA Group of Companies, which lends it strong financial flexibility while also supporting its brand equity and customer acceptance of new product launches.

The ratings, however, continue to be constrained by the regulatory risks and the competition in the domestic jewellery retail space, especially from regional players. Regulatory actions in the jewellery segment have impacted Titan in the past, both on the demand front through enhanced disclosure norms for customers, limits on cash transactions, etc, and on the supply side through curbs on imports, restrictions on gold on lease financing, etc. However, ICRA draws comfort from the large size of the Indian jewellery industry, which combined with Titan's brand strength and the market shift towards organised players, translate into strong long-term growth prospects for the company. The company also faces margin pressures in segments such as eyewear because of high competition, as well as in nascent segments such as perfumes and clothing (Taneira). The ratings continue to be constrained by the vulnerability of jewellery demand to gold price fluctuations, as witnessed in the first half of FY2020.

In FY2021, Titan's revenue and profitability is expected to be negatively impacted by the Covid-19 pandemic-related shutdown of its stores in April 2020. Though some of its stores have resumed operations from May 2020, measures to contain Covid-19 may result in some of the stores remaining closed for longer periods. Moreover, there could be moderation in demand for gold jewellery because of reduction in discretionary spending by customers amidst high gold prices. These near-term challenges notwithstanding, Titan's strong brand and expansion plans will support its ability to grow faster than the overall industry.

Key rating drivers

Credit strengths

Leadership position in organised watches and branded jewellery segments – Titan is India's largest jewellery retailer, with 461 exclusive stores (including Tanishq, Zoya, Mia and Caratlane brands) 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. Titan is also the world's fifth largest watch manufacturer and India's dominant watch manufacturer, with over 60% market share in the organised segment. 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.

Growth prospects in jewellery segment underpinned by large industry size and fragmented market shares – Increasing regulatory restrictions in the jewellery segment, aimed towards greater transparency and higher compliance costs have been resulting in a sizeable churn in the unorganised segment, thus benefiting the organised players such as Titan. Titan's jewellery business has been consistently gaining market share on the back of its 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 Golden Harvest scheme and gold exchange programme have increased its revenue base.

Strong financial profile – Titan has a strong financial risk profile with healthy cash accruals and low leverage levels. Titan's 'Total Debt/Tangible Net Worth' ratio was 0.39 times as on March 31, 2019. Titan has a strong liquidity profile with cash and bank balances of Rs 406 crore as on September 30, 2019. Titan's borrowings are primarily towards working capital requirements through the gold on lease scheme. The company's capital expenditure requirements going forward are expected to be moderate in relation to the cash accruals due to the franchisee based expansion model adopted. Also, the gold inventory hedging practices followed by Titan protect its earnings against volatility in gold prices.

Part of TATA Group – Titan is a part of the TATA Group of Companies, which is one of India's largest business conglomerates. This lends the company strong financial flexibility while also supporting its brand equity and customer acceptance of new product launches.

Credit challenges

Increase in competitive pressures – Alternatives for time-keeping devices such as mobile phones along with the discounts by competitors and online retailers may potentially constrain revenue growth and margins in the watches segment. While in the jewellery segment, competition from other organised jewellery retailers who are expanding their geographic presence could pose competition to Titan in the long term. In the eyewear segment, the margins of the company have been modest despite its leadership position due to intense competition from local as well as online retailers.

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. Titan will remain exposed to the risk of any such future regulatory actions that impact its business profile.

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. In FY2021, Titan could face demand headwinds due to the Covid-19 pandemic-related shutdown of stores, higher gold prices and lower discretionary spending by customers.

Liquidity position: Superior

Titan's liquidity profile is **superior** with healthy cash from operations, moderate capital expenditure spend and negligible long-term debt repayment obligations. In addition, Titan had healthy cash and bank balances of Rs 406 crore as on September 30, 2019. Titan's working capital funding requirements are met through a mix of customer advances (through deposit schemes) and gold on lease financing. Due to higher procurement of gold through exchange schemes, the mix of working capital borrowings in the funding mix has increased in recent quarters. Given the strong capital structure and financial flexibility, Titan's access to such working capital finance is expected to be comfortable.

Rating sensitivities

Positive triggers – Titan's performance in FY2021 will be negatively impacted by the store closures due to government mandated lockdown as well as the potential demand impact due to lower discretionary spending by customers. Nonetheless, ICRA could upgrade Titan's rating if the company demonstrates high revenue resilience in its key operating segments such as jewellery, watches and eyewear with improved revenue diversification. Additionally, lower than expected impact on the company's financial profile due to Covid-19 pandemic could be a credit positive.

Negative triggers – Negative pressure on Titan's rating could arise if there is any moderation in business profile because of reasons such as regulatory actions in the jewellery segment and/or higher than expected impact of the Covid-19 pandemic on the revenues and profitability. Other triggers could include any weakening of the financial risk profile such that the Total Outside Liabilities to Tangible Net Worth is higher than 1.25 times on a sustained basis.

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 FY2019, Titan's jewellery division contributed 82.1%; and the watches division contributed 12.3% to the consolidated revenues, while the remaining came from sale of eyewear and other segments.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	16,120	19,779
PAT (Rs. crore)	1,105	1,391
OPBDIT/OI (%)	10.2%	10.8%
RoCE (%)	25.0%	26.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.86	0.91
Total Debt/OPBDIT (times)	1.03	1.12
Interest Coverage (times)	29.96	38.29
DSCR	23.94	29.63

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding	Ratings	FY2020	FY2019	FY2019	FY2018
					13-May-2020	5-Sep-2019	22-Feb-2019	29-Oct-2018	08-Aug-2017
1	Commercial Paper	Short Term	1,500.0	500.0	[ICRA]A1+	[ICRA]A1+	-	-	-
2	Fund based / Non-fund based limits	Long Term / Short Term	1,700.0	n.a.	[ICRA]AA+ (Positive) / [ICRA]A1+	[ICRA]AA+ (Positive) / [ICRA]A1+	[ICRA]AA+ (Positive) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+
3	Fixed deposit programme	Medium Term	1,500.0	n.a.	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)

Amount in Rs. crore

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 No	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)
NA	Commercial paper	-	-	60-90 days	1,500.0	[ICRA]A1+

Source: Titan Company Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership*	Consolidation Approach
Favre Leuba AG Switzerland	100.00%	Full Consolidation
Titan Engineering & Automation Limited	100.00%	Full Consolidation
Titan Watch Company Hong Kong Limited	100.00%	Full Consolidation
Carat Lane Trading Private Limited	69.47%	Full Consolidation
Montblanc India Retail Private Limited	49.00%	Equity Method
Green Infra Wind Power Theni Limited	26.79%	Equity Method

** as on March 31, 2019*

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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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For more information, visit www.icra.in

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