June 12, 2020

Caratlane Trading Pvt Ltd: Rating assigned to enhanced limits for commercial paper programme

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Earlier Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	200.00	[ICRA]A1+; assigned / outstanding
Total	**100.00**	**200.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned draws comfort from the strong parentage of Caratlane Trading Pvt Ltd (CLTPL), which is majority owned by Titan Company Limited (Titan, rated [ICRA]AA+ (Positive) / [ICRA]A1+ / MAAA (Stable)). Titan has progressively increased its shareholding in CLTPL to 72.3% as on date, since CLTPL's acquisition in July 2016. CLTPL benefits from its association with Titan in the form of marketing, branding and management synergies, as well as financial support. The rating considers the increase in the scale of business of CLTPL through expansion of its store network and organic growth in its online business. The revenue of the company has grown at a cumulative annual growth rate of 53% over the past two years. In 9mFY2020, the revenue grew by 69% on a year-on-year basis, despite the demand slowdown in the jewellery industry. Given the complementary nature of the CaratLane brand with Titan's other jewellery brands, ICRA believes that CLTPL's business will continue to remain a strategic importance to Titan.

The rating is constrained by the weak standalone financial profile of CLTPL, characterized by operating losses till FY2019 due to high expenditure on marketing and branding, which has resulted in subdued debt coverage indicators. However, ICRA notes that the extent of losses has reduced with the increase in scale of business and the company has achieved break-even at PBIT level in Q3 of FY2020. The rating is also constrained by the regulatory risks and the competition in the domestic jewellery retail space with all major players expanding across markets. Nonetheless, ICRA draws comfort from the large size of the Indian jewellery industry, which combined with the market shift towards organised players, translate into strong long-term growth prospects for the company.

In FY2021, CLTPL'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. Nonetheless, ICRA notes that CLPTPL has significant presence in the online jewellery retailing segment, which is expected to support the revenue profile during the lockdown phase. There could be moderation in demand for jewellery because of reduction in discretionary spending by customers amidst high gold prices. These near-term challenges notwithstanding, CLTPL's association with Titan as well as the established brand are expected to support the credit profile.

Key rating drivers and their description

Credit strengths

Strength derived from being a Titan Group company and association with Tanishq brand - CLTPL derives substantial benefits from being a subsidiary of Titan. The association with Titan (which operates the Tanishq brand) provides marketing and branding benefits as the CaratLane stores are branded as a "Tanishq Partnership". The company also benefits from the management synergies.

Strategic importance to the Titan Group demonstrated through progressive stake acquisitions and equity infusion - CLTPL operates in the lower ticket segment of the jewellery segment with average ticket size of Rs 35,000. The CaratLane brand complements the business of Tanishq (Titan's flagship brand) which focuses on the higher ticket size gold and diamond jewellery. Titan had acquired a 63.6% stake in CLTPL in July 2016 and has progressively increased its shareholding in the company, including through fresh equity of Rs 100 crore infused in FY2019. At present, Titan has a 72.3% shareholding in CLTPL.

Consistent increase in the scale of business - The revenue of CLTPL has consistently increased over FY2017-19 at a cumulative annual growth rate of 53%. In 9mFY2020, the revenue grew by 68% on a year-on-year basis, despite the demand slowdown in the jewellery industry. CLTPL has increased its scale of business through expansion of its store network and organic growth in its online business.

Credit challenges

Weak standalone financial risk profile – CLTPL's standalone financial profile is constrained by the weak profitability with operating losses reported till FY2019, which has resulted in subdued debt coverage indicators. Spending on marketing and brand building activities as well as corporate overheads have impacted the profitability in the past. However, with the increase in scale of business, the operating losses have been reducing. The company achieved break-even at the PBIT level in Q3FY2020. Nonetheless, the revenue and profitability could be further constrained in FY2021 due to the Covid-19 related shutdown of stores and potential moderation in demand for discretionary purchases like jewellery.

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. The segment remains exposed to reduction in demand or supply constraints due to any regulatory developments.

Exposure to seasonality in demand - The retail jewellery segment is exposed to seasonality in demand. The segment is impacted by vulnerability of jewellery demand to gold price fluctuations and the working capital-intensive operations.

Liquidity position: Adequate

The standalone liquidity profile of CLTPL is constrained by the modest profitability. While the company has broken even at the PBIT level in the second half of FY2020, the working capital requirements will be high on account of the recent growth and higher gold prices. The utilization of fund based working capital limits (including gold on lease) was 65% as on March 31, 2020. The company has term debt repayments of Rs 8.57 crore in FY2021, which is guaranteed by Titan. The financial flexibility arising from the strong parentage has supported the company's ability to borrow through commercial paper. ICRA expects Titan to provide need based financial support to CLTPL going forward, as demonstrated through the equity infusion of Rs 100 crore in FY2019.

Rating sensitivities

Positive triggers – Not applicable.

Negative triggers – The ratings of CLTPL might be downgraded if there is any downgrade in the rating of its parent entity, Titan Company Limited or if there is any change in ICRA's expectation of need based funding support from the parent.

ICRA might also downgrade the rating, if the company's Debt / OPBITDA ratio remains high on a sustained basis due to continuing impact of Covid-19 on the revenue growth and profitability of the company.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Gold Jewellery Retail Industry Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group Support	The rating assigned to CLTPL factors in the high likelihood of its parent, Titan (rated [ICRA]AA+ (Positive) / [ICRA]A1+ / MAAA (Stable)), extending financial support to it because of close business linkages between them. We also expect Titan to be willing to extend financial support to CLTPL out of its need to protect its reputation from the consequences of a group entity's distress. There also exists a consistent track record of Titan having extended timely financial support to CLTPL in the past, whenever a need has arisen.
Consolidation/Standalone	The rating is based on the standalone financial statements of CLTPL

About the company

Caratlane Trading Pvt Ltd (CLTPL) is a jewellery retail company that operates the CaratLane brand which has majority of its business in the studded jewellery segment. CLTPL was founded by Mr. Mithun Sacheti and Mr. Srinivasa Gopalan in September 2007. The company operates both in the online as well as offline retail stores segment. Titan had acquired a majority stake of 63.6% in the company in July 2016. Titan has been progressively increasing its stake in the company. As on date, Titan has a 72.3% stake in CLTPL.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	290.0	416.4
PAT (Rs. crore)	-83.9	-46.1
OPBDIT/OI (%)	-26.6%	-8.3%
RoCE (%)	-111.5%	-34.2%
Total Outside Liabilities/Net Worth (times)	-15.4	5.1
Total Debt/OPBDIT (times)	-0.9	-3.0
Interest Coverage (times)	-17.1	-3.3
DSCR	-16.5	-2.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2020	FY2019	FY2018
					12-Jun-2020	9-Oct-2019	-	-
1	Commercial Paper	Short Term	200.00	100.00	[ICRA]A1+	[ICRA]A1+	-	-

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating
NA	Commercial Paper	-	-	-	200.00	[ICRA]A1+

Source: Caratlane Trading Pvt Ltd

Annexure-2: List of entities considered for consolidated analysis

Not applicable

Analyst Contacts

Shubham Jain
+91 124 4545306

shubhamj@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415

mathew.eranat@icraindia.com

Nishant Mishra
+91 80 4332 6408

nishant.mishra@icraindia.com

Relationship Contact

L. Shivakumar
+91 22 6169 3300

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999