

March 15, 2021

## Titan Company Limited: Long-term rating upgraded to [ICRA]AAA with stable outlook; short-term rating and rating for fixed deposit programme reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit programme	2,500.0	2,500.0	MAAA(Stable) reaffirmed
Fund Based/Non-fund based limits	1,700.0	1,700.0	[ICRA]AAA(Stable) upgraded from [ICRA]AA+(Positive); [ICRA]A1+ reaffirmed
Commercial Paper programme	1,500.0	1,500.0	[ICRA]A1+ reaffirmed
<b>Total</b>	<b>5,700.0</b>	<b>5,700.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade reflects ICRA's expectation that Titan Company Limited [Titan] will be able to leverage its strong brands and market leadership position in the jewellery segment to drive sustained growth in revenues and accruals. The segment has shown high resilience to Covid-19 related disruptions and reported 16% yoy growth in Q3FY2021 (net of bullion sales). The growth trends are expected to be further supported by continued expansion in store network as well as opportunities presented by large share of unorganized sector in the industry. The ratings for Titan continue to reflect the company's leadership position in the organised jewellery, watches and eyewear segments, supported by its strong brands, 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 at a CAGR of 18.7% and margin expansion from FY2016 to FY2020, aided by improvement in market share as well as additions to store network. 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, remains exposed to 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).

ICRA expects revenues and cash accruals in FY2021 to moderate from the FY2020 levels on account of Covid-19 related lockdown and related demand disruption. Notwithstanding the significant revenue decline in H1FY2021, the company has witnessed healthy growth in the jewellery segment from Q3FY2021. The other segments such as watches and eyewear have also seen adequate recovery and are expected to exit the current financial year at the pre-Covid revenue run rates.

The stable outlook represents ICRA's expectation that Titan's revenues will continue to witness steady growth supported by strong brand presence, expansion plans and healthy demand in key product categories, especially jewellery.

## Key rating drivers and their description

### Credit strengths

**Leadership position in organized watches and branded jewellery segments** - Titan is India's largest jewellery retailer, with 503 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. Being part of the TATA Group of Companies supports its brand equity and customer acceptance of new product launches.

**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 Outside Liabilities / Tangible Net Worth' ratio was 1.01 times as on March 31, 2020. Titan's borrowings are largely 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.

### Credit challenges

**Increase in competitive pressure** - 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 segment to gold price fluctuations and the working capital-intensive operations. In FY2021, Titan faced demand headwinds due to the Covid-19 pandemic-related shutdown of stores and lower discretionary spending by customers. The revenue decline in Q1FY2021, particularly, was steep (decline of 71% in jewellery, net of bullion sales) on account of the shutdown of stores, due to which margins are expected to be constrained for the year notwithstanding the healthy recovery in sales thereafter.

## 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 cash, bank balances and liquid investments of Rs 877 crore as on September 30, 2020. Titan's working capital funding requirements have largely been met through a mix of customer advances (through deposit schemes) and gold on lease financing. Given the strong capital structure and financial flexibility, Titan's access to such working capital finance is expected to be comfortable.

## Rating sensitivities

**Positive factors** – Not Applicable

**Negative factors** – 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. Other triggers could include any weakening of the financial risk profile such that the Net Total Outside Liabilities to Tangible Net Worth is higher than 1 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Entities in Gold Jewellery - Retail Industry</a>
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', 'Caratlane', 'Zoya' and 'Mia' brands). In 9M FY2021, Titan's jewellery division contributed 88.5%; and the watches division contributed 7.2% to the consolidated revenues, while the remaining came from sale of eyewear and other segments.

## Key financial indicators (audited)

Titan Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	19,779	21,052
PAT (Rs. crore)	1,391	1,497
OPBDIT/OI (%)	10.8%	11.7%
PAT/OI (%)	7.0%	7.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.91	1.01
Total Debt/OPBDIT (times)	1.12	1.44
Interest Coverage (times)	40.66	14.84

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Financial statements for FY2020 are based on adoption of IndAS 116 and hence are not directly comparable with the financial metrics in previous years.

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

### Rating history for past three years

Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	
				Mar 15, 2021	Jul 16, 2020 Jul 6, 2020 May 13, 2020	Sep 5, 2019	Feb 22, 2019	Oct 29, 2018	Aug 8, 2017	
1 Fixed deposit	MT	2,500.0	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	
2 Fund based / Non-fund based	LT/ST	1,700.0	-	[ICRA]AAA (Stable) / [ICRA]A1+	[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 Commercial Paper	ST	1,500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+				

MT-Medium term; LT-Long Term; ST-Short Term

### 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 [click here](#)

**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	Fixed deposit programme	-	-	-	2,500.0	MAAA (Stable)
NA	Fund-based/Non-fund-based facilities	-	-	-	1,700.0	[ICRA]AAA(Stable)/ [ICRA]A1+
Not Placed	Commercial paper	-	-	30-180 days	1,500.0	[ICRA]A1+

**Source:** Company

**Annexure-2: List of entities considered for consolidated analysis**

Company Name	LTHL 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	72.29%	Full Consolidation
Montblanc India Retail Private Limited	49.00%	Equity Method
Green Infra Wind Power Theni Limited	26.79%	Equity Method
Titan Holdings International FZCO, Dubai	100.00%	Full Consolidation
Titan Global LLC, Dubai	100.00%	Full Consolidation

**Source:** Titan annual report FY2020

**Note:** ICRA has taken a consolidated view of the parent (Titan), its subsidiaries and associates while assigning the ratings.

## ANALYST CONTACTS

**Jayanta Roy**

+91 33 7150 1100

[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

**Mathew Eranat**

+91 80 4332 6415

[mathew.eranat@icraindia.com](mailto:mathew.eranat@icraindia.com)

**Kratika Rastogi**

+91 80 4332 6426

[kratika.rastogi@icraindia.com](mailto:kratika.rastogi@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

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

[info@icraindia.com](mailto: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](http://www.icra.in)

## ICRA Limited



### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50



### Branches



© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.