June 28, 2021

Titan Company Limited: Ratings reaffirmed; rated limits enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed deposit programme	2,500.0	3,000.0	MAAA(Stable); assigned/reaffirmed
Fund Based/Non-fund based limits	1,700.0	1,700.0	[ICRA]AAA(Stable)/[ICRA]A1+; reaffirmed
Commercial Paper programme	1,500.0	1,500.0	[ICRA]A1+; reaffirmed
Total	**5,700.0**	**6,200.0**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reflect ICRA's expectations that Titan Company Limited's (Titan) strong performance will continue in the coming fiscals on the back of its leadership position in the organised jewellery, watches and eyewear segments, and its robust financial profile. Despite the pandemic-induced disruptions faced in the beginning of FY2021, Titan's revenues remained largely stable owing to a healthy growth in the jewellery segment in the subsequent quarters. While there could be some pressure on revenue growth in the first half of FY2022 on the back of Covid-19 related lockdown in various states and related demand disruptions, ICRA expects the demand scenario to improve gradually in the coming quarters after easing of lockdown restrictions, as seen in the recent weeks. Further, revenue growth over the medium term would be supported by continued expansion in store network as well as opportunities presented by a large share of unorganised sector in the industry. Titan's operating margins had moderated in FY2021 because of lower earnings generated in the beginning of the fiscal and a shift in the product profile, entailing relatively lower gross margins in the second half of the fiscal. Though near-term margin expansion could be limited, ICRA expects Titan's operating margins to improve to 12% over the medium term, backed by its strong operating efficiencies, prudent hedging practices and expected improvement in volumes of higher-margin studded jewellery over the coming fiscals.

The ratings continue to derive comfort from Titan's strong financial profile driven by healthy cash accruals generated over the years, resulting in comfortable credit metrics and a strong liquidity position. With likely steady earnings and moderate capital expenditure requirements, ICRA expects Titan's leverage indicators and coverage metrics to remain at healthy levels over the medium term, with the net total outside liabilities-to-tangible net worth expected to remain below 1 times over the medium term. Titan also enjoys strong financial flexibility for being a part of the TATA Group of Companies, also supporting its brand equity and customer acceptance of new product launches. The ratings continue to factor in the company's exposure to 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 from 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. Titan also faces margin pressure in the eyewear segment because of intense competition, and in the relatively newer segments such as perfumes and clothing (Taneira).

The Stable outlook on the medium-term and long-term ratings reflects ICRA's opinion that Titan will continue to benefit from its strong brand, diversified business profile (both in terms of geography and products) and growth prospects in the jewellery segment presented by a large share of unorganised sector in the industry.

Key rating drivers and their description

Credit strengths

Leadership position in branded jewellery and organised watches segments – Titan is India's largest jewellery retailer, with 514 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. The same is reflected in Titan's strong operating margins and healthy revenue increase in the jewellery segment at a CAGR of 14% between FY2017 and FY2021, aided by an improvement in the market share as well as additions to the store network. Titan is also the world's fifth largest 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 position 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 organised players such as Titan. The company'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 net Total Outside Liabilities/Tangible Net Worth ratio stood at 0.7 times as on March 31, 2021. Titan's borrowings are largely towards working capital requirements through the gold on lease scheme. The company's capital expenditure requirements are expected to be moderate in relation to the cash accruals going forward due to adoption of franchisee-based expansion model. 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. In the jewellery segment, competition from other organised jewellery retailers that are expanding geographical 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, and imposition of excise duty are some of the adverse regulatory developments that have taken place over the last four years. Titan will remain exposed to the risks of any such future regulatory actions that may impact its business profile.

Exposure to seasonality in demand – ICRA notes the seasonality of demand for Titan's products, vulnerability of the jewellery segment to gold price fluctuations and the working capital-intensive operations. In the recent quarters, Titan has faced demand headwinds due to the Covid-19 pandemic-related shutdown of stores and lower discretionary spending by customers. The revenue decline in Q1 FY2021 was particularly steep (a decline of 71% in jewellery, net of bullion sales) on account of the shutdown of stores. Notwithstanding a healthy recovery in sales in the subsequent quarters, Titan's margins were impacted in FY2021, with the operating margin moderating to 8.0% from 11.7% in FY2020.

Liquidity position: Superior

Titan's liquidity profile is superior with healthy cash accruals from operations, moderate capital expenditure and negligible long-term debt repayment obligations. In addition, Titan had unencumbered cash, bank balances and liquid investments of ~Rs. 2,986 crore as on March 31, 2021 and large unutilised lines of credit. Titan's working capital funding requirements have largely been met through a mix of customer advances (through deposit schemes) and gold on lease financing, resulting in limited utilisation of its fund-based limits. 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 – Pressure on Titan's ratings could arise if there is a significant impact on its operating performance because of regulatory changes or sustained pressure on demand. Other triggers could include 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	Corporate Credit Rating Methodology Rating Methodology for Entities in 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 (with Tanishq, Caratlane, Zoya and Mia brands). In FY2021, Titan's jewellery division contributed 89% and the watches division contributed 7% to the consolidated revenues, while the remaining came from sale of eyewear and other segments.

Key financial indicators

Titan Consolidated	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	19,779	21,052	21,644
PAT (Rs. crore)	1,391	1,497	979
OPBDIT/OI (%)	10.8%	11.7%	8.0%
PAT/OI (%)	7.0%	7.1%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	0.9	1.0	1.2
Total Debt/OPBDIT (times)	1.1	1.4	3.2
Interest Coverage (times)	40.7	14.8	8.5

Source: Company; P – Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Titan

Status of non-cooperation with previous CRA – Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) As on Mar 31, 2021	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019	
					Jun 28, 2021	Mar 15, 2021	Jul 16, 2020 Jul 6, 2020 May 13, 2020	Sep 5, 2019	Feb 22, 2019	Oct 29, 2018
1	Fixed deposit	MT	3,000.0	-	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]AAA (Stable) / [ICRA]A1+	[ICRA]AA+ (Positive) / [ICRA]A1+	[ICRA]AA+ (Positive) / [ICRA]A1+	[ICRA]AA+ (Positive) / [ICRA]A1+	[ICRA]AA+ (Stable) / [ICRA]A1+
3	Commercial Paper	ST	1,500.0	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+		

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

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fixed deposit	Very Simple
Fund based / Non-fund based	Simple
Commercial Paper	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 analyzing 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, is available on ICRA's 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	Fixed deposit programme	-	-	-	3,000.0	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 – Not Applicable

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.*

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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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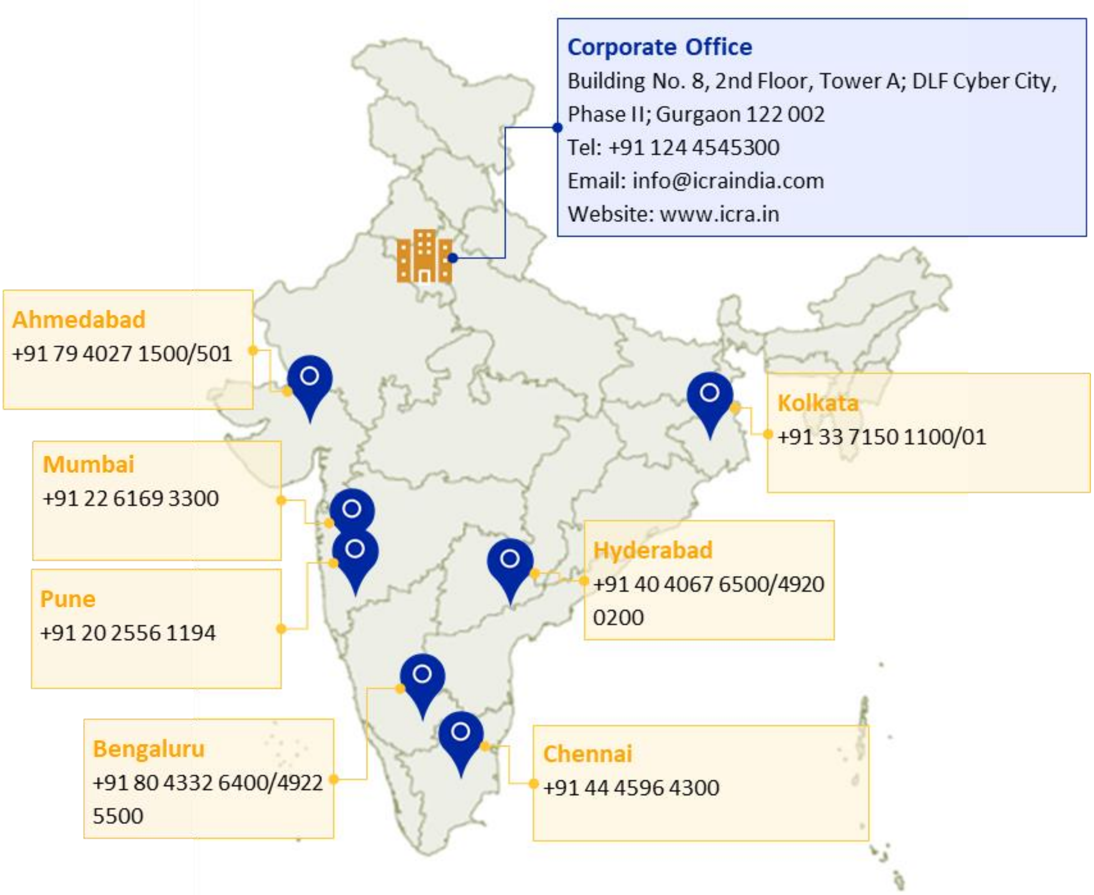

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