

August 08, 2017

Titan Company Limited

Summary of rated instrument

| Instrument* | Rated Amount (Rs. crore) | Rating Action |
|-------------------------|-----------------------------|--------------------------------|
| Fund-based facility | 200.0 | [ICRA]AA+ (Stable); Reaffirmed |
| Non-fund based facility | 1,000.0 | [ICRA]A1+; Reaffirmed |
| Fixed deposit programme | 1,500.0 | MAAA (Stable); Reaffirmed |
| Total | 2,700.0 | |

* Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the rating assigned to the Rs. 200 crore fund based limits of Titan Company Limited (Titan) at [ICRA]AA+ (pronounced as ICRA double A plus) and also reaffirmed the [ICRA]A1+ (pronounced as ICRA A one plus) rating assigned to the Rs. 1000 crore non fund based limits of Titan. ICRA has also reaffirmed the rating of MAAA (pronounced as M triple A) assigned to the Rs. 1500 crore fixed deposit programme of Titan. The outlook on the long and medium term ratings is *stable*.

Rationale

The rating reaffirmation continues to factor in Titan's leadership in the organised watches and jewellery segments. Wide distribution and service networks, diversified product portfolio 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's strong parentage and robust financials in the form of high profitability, healthy cash generation, low debt levels and strong liquidity are other factors that support the rating. Titan continues to face growth and margin pressures in the watches division given the increasing competitive intensity and the presence of mobile phones as alternative time-keeping devices. The ratings also factor in the regulatory risks and high competition in the domestic jewellery retail space with all major players expanding across markets. However, ICRA draws comfort from the large size of the jewellery industry in India which, combined with the brand strength and market shift towards organized players, translate into strong long-term growth prospects. The ratings continue to be constrained by the cyclicity of demand for Titan's products, the vulnerability of jewellery demand to gold price fluctuations and the working capital intensive nature of its operations. Nevertheless, Titan's financial profile is expected to continue to remain consistent with the rated category.

Going forward, ability of the company to improve scale and profitability, extent of capital expenditure and maintenance of low leverage levels will be the key rating sensitivity factors.

Key rating drivers

Credit strengths

- **Continued leadership in the organised watches and branded jewellery segments** - Titan is the world's fifth largest watch manufacturer and India's dominant watch manufacturer with over 60% share of the organized market. The company is also India's largest jewellery retailer with 286 exclusive stores spread all over the country apart from three jewellery manufacturing sites and four karigar centers which help the company in capturing value across the supply chain. Titan has also been ramping up its eyewear business. 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.
- **Favourable near to medium term outlook for gold jewellery industry; advantage organized retailers** - Over the medium to long term, the demand will remain supported by the cultural underpinnings, evolving lifestyle, growing disposable income, favourable demographic dividend and the growing penetration of organised sector. Increasing regulatory restrictions aimed towards greater transparency and higher compliance costs are expected to result in a sizeable churn in the unorganised segment thus benefiting the organised players like Titan.
- **Strong financial profile** – Healthy profitability and cash accruals coupled with low leverage levels as seen from 'Total Outside Liabilities/Tangible Net Worth' ratio of 0.98 times as on March 31, 2017 result in high financial flexibility. Titan has a strong liquidity profile with substantial liquid investments and cash reserves amounting to Rs 1,072 crore and undrawn credit lines amounting to Rs 2,400 crore as on March 31, 2017.
- **Strong parentage** – Titan is a part of the TATA Group of Companies, which is India's largest business conglomerate.

Credit weaknesses

- **Growing competitive pressures in the segments of operations** - Alternatives for time-keeping devices in the form of mobile phones apart from e-commerce boom and steep discounts by online retailers has been constraining revenue growth and margins in the watches segment. While in the jewellery segment muted domestic demand and competition from other organised jewellery retailers have been impediments for revenue and margin expansion.
- **Exposed to regulatory risks in the jewellery segment** - Certain adverse regulatory developments have adversely impacted the domestic gold jewellery industry in the past. Restrictions on bullion imports, metal loan funding and mandatory PAN disclosure on transactions along with imposition of excise duty and increase in customs duty are some of the adverse regulatory developments over the last three years.
- **Exposed to cyclicity in demand** - ICRA notes the cyclicity of demand for Titan's products, the vulnerability of jewellery demand to gold price fluctuations and the working capital intensive nature of its operations. However, gold inventory hedging practices followed by Titan protect its earnings against volatility in gold prices.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Rating Methodology for Gold Jewellery Retail Industry](#)
[Corporate Credit Ratings: A Note on Methodology](#)

About the company

Titan Company Limited (Titan), formerly Titan Industries Limited, was incorporated in 1984 as a joint venture between the Tata Group and Tamil Nadu Industrial Development Corporation Limited (TIDCO). Tata Group and TIDCO currently hold 25.17% and 27.88% respectively in Titan with the rest 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 domestic branded jewellery markets (‘Tanishq’ ‘Zoya’ and ‘Mia’ brands). In FY2017, Titan’s jewellery division contributed 77% of its revenues; sales of watches contributed to 17% with the balance coming from sale of eye-wear and precision engineering components.

Key Financial Indicators

| | FY2016 | FY2017 |
|------------------------------|----------|----------|
| Operating Income (Rs. crore) | 11,275.9 | 12,978.9 |
| PAT (Rs. crore) | 676.5 | 699.1 |
| OPBDIT/ OI (%) | 8.3% | 8.9% |
| RoCE (%) | 27.4% | 26.5% |
| | | |
| Total Debt/ TNW (times) | 0.0 | 0.0 |
| Total Debt/ OPBDIT (times) | 0.1 | 0.0 |
| Interest coverage (times) | 22.1 | 30.6 |
| NWC/ OI (%) | 21% | 12% |

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:
Table:

| S. No. | Instrument | Current rating (FY2018) | | | Chronology of rating history | | | |
|--------|-------------------------|-------------------------|--------------------------|--------------------|------------------------------|--------------------|----------------|--------------------|
| | | Type | Amount Rated (Rs. crore) | Aug 2017 | FY2017 | FY2016 | FY2015 | |
| | | | | | October 2016 | September 2015 | September 2014 | July 2014 |
| 1 | Fund-based facility | Long Term | 200.0 | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | - | [ICRA]AA+ (Stable) |
| 2 | Non-fund based facility | Short Term | 1000.0 | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ | - | [ICRA]A1+ |
| 3 | Fixed deposit programme | Medium Term | 1500.0 | MAAA (Stable) | MAAA (Stable) | MAAA (Stable) | MAAA (Stable) | NA |
| 4 | Commercial Paper | Short Term | - | - | - | - | - | [ICRA]A1+withdrawn |

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 | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|----------------|-------------------------|------------------------------------|--------------------|----------------------|---------------------------------|-----------------------------------|
| NA | Fund-based facility | - | - | - | 200.0 | [ICRA]AA+ (Stable) |
| NA | Non-fund based facility | - | - | - | 1000.0 | [ICRA]A1+ |
| NA | Fixed deposit programme | - | - | - | 1500.0 | MAAA (Stable) |

Source: Titan Company Limited

Contact Details

Analyst Contacts

K. Ravichandran

+91 44 45964301

ravichandran@icraindia.com

Shubham Jain

+91 124 4545306

shuhamj@icraindia.com

Mathew Eranat

080-4332-6415

mathew.eranat@icraindia.com

Adarsh Reddy

080-4332-6405

adarsh.reddy@icraindia.com

Relationship Contact

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

About ICRA Limited:

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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.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500