

September 05, 2019

## Titan Company Limited: Rating assigned to commercial paper programme

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial paper	-	900.0	[ICRA]A1+ assigned
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
<b>Total</b>	<b>3,200.0</b>	<b>4,100.0</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings for Titan Company Limited (Titan) take into account 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 improving market share as well as additions to the store network. The watches segment has also reported improvement in profit margins during the last two years. 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 with all major players expanding across markets. 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 due to 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; the growth outlook in the current year is expected to be moderate on account of the sharp increase in gold prices witnessed in the first half of the year.

The Positive outlook on the [ICRA]AA+ rating reflects ICRA's opinion that Titan will be able to leverage on its established brands and strong financial risk profile to grow revenues and profits on a sustained basis.

### Key rating drivers

#### Credit strengths

**Leadership position in organised watches and branded jewellery segments** – Titan is India's largest jewellery retailer, with 397 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 the also 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 like 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 program have increased its revenue base.

**Strong financial profile** – Titan has a strong financial risk profile with healthy cash accruals coupled with 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 substantial liquid investments and cash reserves amounting to over Rs 900 crore as on March 31, 2019 (excluding restricted cash and inter-corporate deposits). 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.

**Part of the 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

**Growing competitive pressures in segments of operations** – Alternatives for time-keeping devices such as mobile phones apart from 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 impacting 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. However, the working capital requirements are largely funded by customer advances and credit through gold metal loans with negligible cash credit / overdraft utilization by the company. Also, the gold inventory hedging practices followed by Titan protect its earnings against volatility in gold prices.

## Liquidity position: Superior

Titan's liquidity profile is **superior** with healthy cash accruals of over Rs 1,000 crore, expected annual capex outlay of around Rs 300 crore and negligible long-term debt repayment obligations. In addition, Titan had healthy cash and liquid investment reserves of over Rs 900 crore as on March 31, 2019 (excluding restricted cash and inter-corporate deposit investments). Titan's working capital funding requirements are 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 triggers** – ICRA could upgrade Titan's rating if the company demonstrates sustained growth in its key operating segments such as jewellery, watches and eyewear with improved revenue diversification and margin expansion.

**Negative triggers** – Negative pressure on Titan's rating could arise if there is any moderation in business profile due to reasons such as regulatory actions in the jewellery segment which have an impact on Titan's operations. Other triggers could include any weakening of the financial risk profile such that the Total Outside Liabilities to Tangible Net Worth remains higher than 1.25 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 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 'Xyllys') 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 (FY2020)			Rating History for the Past 3 Years				
		Type	Amount Rated	Amount Outstanding	Rating	FY2019		FY2018	FY2017
					5-Sep-2019	22-Feb-2019	29-Oct-2018	08-Aug-2017	17-Oct-2016
1	Commercial Paper	Short Term	900.0	-	[ICRA]A1+	-	-	-	-
2	Fund based / Non-fund based limits	Long Term / Short Term	1,700.0	-	[ICRA]AA+ (Positive) / [ICRA]A1+	[ICRA]AA+ (Positive) / [ICRA]A1+	-	-	-
3	Fixed deposit programme	Medium Term	1,500.0	-	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)	MAAA (Stable)
4	Fund based working capital facilities	Long Term	0.0	-	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
5	Non-fund based facilities	Short Term	0.0	-	-	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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](http://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 days	900.0	[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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