

October 09, 2019

Carat Lane Trading Pvt Ltd: [ICRA]A1+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	[ICRA]A1+; Assigned
Total	100.00	

*Instrument details are provided in Annexure-1

Rationale

The rating assigned draws comfort from the strong parentage of Carat Lane 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. During FY2019, CLTPL contributed around 3% of the consolidated jewellery segment revenues of Titan. The revenue of the company has grown at a cumulative annual growth rate of 53% over the past two years. In H1 FY2020, the revenue grew by 67% on a year-on-year basis, despite the slowdown in the jewellery market due to increase in price of gold. At present, CLTPL is expanding its retail outlets to capture new markets which is expected to provide further growth in the scale of business. Given the strong revenue growth rate expected and the complementary nature of the Carat Lane 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 is expected to break-even at the operating level in 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.

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 Carat Lane 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 Carat Lane 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 the last two years at a cumulative annual growth rate of 53%. In H1 FY2020, the revenue grew by 67% on a year-on-year basis, despite the slowdown in the jewellery market due to increase in price of gold. CLTPL has increased its scale of business through expansion of its store network and organic growth in its online business. The growing trend in revenue is expected to continue in the near to medium term as the company is increasing its retail stores as well as continuing its impetus in building up the Carat Lane brand.

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 is expected to breakeven its operations in the current year. CLTPL’s financial profile is also supported by the expected support from Titan, which had brought in equity of Rs 100 crore in FY2019.

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 is expected to break-even at OPBITDA level in FY2020, the working capital requirements will be high on account of the expansion plans. The utilization of the fund-based limits was 59% of the sanctioned limits (Rs 180 crore) as on March 2019 along with cash and bank balances of Rs 47 crore, which provides adequate liquidity buffer. The company has term debt repayments of Rs 8.3 crore in FY2020, which are also guaranteed by Titan. 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 – ICRA has assigned the highest rating to the CP programme of CLTPL in the short-term scale. Hence, there are no positive triggers for the rating upgrade.

Negative triggers – ICRA might downgrade the rating assigned to CLTPL, if the company’s Debt / OPBITDA ratio remains high on a sustained basis. Negative pressure may also arise on the rating in case of any downgrade in the rating of the parent entity or if there is any change in ICRA’s expectation of need based funding support from the parent.

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	<p>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.</p>
Consolidation/Standalone	The rating is based on the standalone financial statements of CLTPL

About the company

Carat Lane Trading Private Limited (CLTPL) is a jewellery retail company that operates the Carat Lane 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. CLTPL has 67 outlet stores across multiple cities in India as on date.

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	FY2019	FY2018	FY2017
					9-Oct-2019			
1	Commercial Paper	Short Term	100.00	-	[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	-	-	-	100.00	[ICRA]A1+

Source: Carat Lane Trading Private Limited

Annexure-2: List of entities considered for consolidated analysis

Not applicable

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