



## Rating Rationale

12 May 2022

### Titan Company Limited

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities and Commercial Papers of Titan Company Limited amounting to Rs. 7500 Crs.**

#### Particulars

Facility/Instrument	Amount (Rs. Crs.)		Tenure	Ratings	
	Previous	Present		Previous (23 Apr 2021)	Present
<b>Fund Based</b>					
Cash Credit (Proposed)	550.00	<b>550.00</b>	Long Term	BWR AAA/ Stable	<b>BWR AAA/ Stable Reaffirmed</b>
WCDL	450.00	<b>450.00</b>	Short Term	BWR A1+	
Gold Metal Loan/ Gold On Loan	3935.00	<b>4490.00</b>	Short Term	BWR A1+	<b>BWR A1+ Reaffirmed</b>
Gold Metal Loan/ Gold On Loan (Proposed)	65.00	<b>510.00</b>			
Commercial Paper	1500.00	<b>1500.00</b>			
<b>Total</b>	6500.00	<b>7500.00</b>	<b>Rupees Seven Thousand Five Hundred Crores Only</b>		

Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings;

The details of Commercial Papers are provided in Annexure-I, and the details of Bank Facilities are provided in Annexure-II

#### Rating Action/Outlook:

Brickworks Ratings (BWR) reaffirms the rating of Titan Company Ltd (TCL or the company), drawing comfort from the strong parentage and support from the Tata group and TIDCO, strategic importance of TCL to the Tata group, established brand equity, experienced and professional management, and robust financial risk profile, supported by the company's consistent performance despite the disruptions due to Covid-19 and its variants. The ratings also factor in the strong liquidity, sound capital structure and absence of long-term debt, strong financial flexibility, and prudent financial and risk management practices. The rating strengths are partially offset by exposure to regulatory interventions and gold price volatility, which impact the demand-supply scenario in the intensely competitive retail jewellery industry and pressure on the margins in the watches segment.

The company's business was impacted during Q1FY22 on account of Covid-19-related disruptions and during Q4FY22 on account of the same, along with volatility in gold prices due to geopolitical tensions in Europe. However, BWR notes the company's strong recovery in



Q2FY22 and Q3FY22. The significant improvement in revenue was primarily on account of growth in the jewellery division and an improvement in recovery rates in most of the others.

The Stable outlook reflects the expectation that Titan Company Limited's strong business risk profile will be maintained over the medium term, supported by its wide distribution network, steady demand and healthy margins. The outlook may be revised to Negative in the event of a deterioration in the business/financial risk profile due to the possible Covid-19-related restrictions being reimposed, high gold price volatility in the event of an unexpected deterioration in the geopolitical situation in Europe, regulatory changes affecting performance, lower-than-expected performance of subsidiaries/associates that would impact overall profitability or any adverse impact on its financial flexibility due to higher-than-expected borrowings.

TCL proposes to use the available limits under Commercial Paper (CP) to manage its working capital requirements and also to benefit from interest rate arbitrage. The CP issues are proposed to be unsecured and are expected to have a tenure of 7-365 days. As on date, the CP utilisation is nil. The rating assigned to the CP issue is subject to the company's compliance with relevant guidelines/instructions issued by the RBI with regard to the issuance of CPs.

## Key rating drivers

### Credit Strengths:-

#### ■ **Strong parentage and professional management:**

TCL is part of Tata Group of Companies, one of India's largest and reputed business groups. Tata Group holds a 25.02% (including the stake of Ewart Investments and Piem Hotels) equity stake in TCL, with Tata Sons Private Limited having a 20.84% stake. TIDCO has a 27.88% stake in Titan. The company has an experienced board of directors with strong corporate governance and transparency standards and a professional management team.

#### ■ **Leadership position in watches and jewellery with good brand positioning:**

TCL is the world's fifth largest watch manufacturer, with six major in-house brands and five licensed brands, along with the largest network of exclusive service centres. In addition, the company had a strong jewellery store network of 389 Tanishq, 50 Mia, 138 Caratlane and 5 Zoya stores as on 31 March 2022, augmenting the company's dominant market position in India. The company added 36 Tanishq stores on a net basis in FY22. In the backdrop of higher regulatory requirements, Tanishq, as a brand of Titan, continues to be a major beneficiary due to its stringent business policies to comply with government regulations, transparent exchange value and gold quality. The company is expected to benefit from the favourable demographics, growing penetration of the organised sector, higher churn in the unorganised sector due to credit unavailability and higher compliance costs.

#### ■ **Strong business model and steady improvement in performance:**

The company has exhibited strong and steady performance despite Covid-19-led disruptions. The company generates revenues mainly from three segments, viz. Branded Jewellery (~88%), Watches (~8%) and Eye Wear (~2%), with the balance from the Other Accessories,

Fragrances and Ethnic Wear segments, as in FY22. TCL has consistently displayed its ability to gain market share in jewellery amid a tough and competitive industry scenario through strategic store expansions, focus on semi-urban markets or 'Bharat' markets and a diversified product mix at various price points catering to all age groups. The company was able to maintain its business profile with its manufacturing and assembly capabilities, differentiated jewellery collections and digital initiatives. BWR also notes the company's recent opening of its first store in the US in FY22 after the successful opening of its first store in Dubai.

- **Strong financial profile with risk mitigants in place:** The company's overall financial profile remains steady, as reflected in the sub-unity gearing (Total debt/ TNW), strong liquidity and comfortable debt coverage metrics. The company has achieved Rs. 27210 Crs. (consol. Rs. 28799 Crs.) in FY22 against Rs. 20602 Crs. (consol. Rs. 21644 Crs.) in FY21. On a standalone basis, the tangible net worth (excluding intangible assets) was strong at Rs. 9327 Crs. as on 31 March 2022. The debt:equity was comfortable at 0.69 time as on 31 March 2022. The debt coverage metrics were strong, as reflected by an ISCR of 16.82 times as on 31 March 2022. The operating efficiency is strong, as reflected in an operating margin of ~12%. Improving diversification and a strong brand and asset-light business model insulates TCL from business-related risks and supports its long-term outlook.

#### **Credit Challenges-:**

- **Regulatory risks in the jewellery industry:**  
The regulatory environment of the retail jewellery industry is evolving, which impacts the operating environment and consequently, the performance of jewellers. Measures such as limited access to gold metal loans, mandatory permanent account number disclosure requirement for purchases, limitation on jewellery saving schemes, demonetisation and the implementation of the Goods and Service Tax affected both demand and supply in the past, and mandatory hallmarking from June 2021 is likely to continue impacting the jewellery industry further.
- **Competition from organised and unorganised players in jewellery:**  
Jewellery in India is highly fragmented, with the presence of numerous unorganised players in addition to the large integrated manufacturers, leading to a high level of competition. BWR, however, expects that with the greater and increasing acceptance of the organised sector and branded jewellery, TCL, with its unique strengths, would be able to weather any downtrend in the industry.
- **Gold price fluctuations:** The company is exposed to fluctuations in gold prices (including fluctuations in foreign currency) arising on the purchase/sale of gold. However, the company enters derivative financial instruments to manage the risks associated with gold price fluctuations and sources a large part of its requirements by way of GMLs, which reduces the adverse impact of gold price and forex volatility to some extent. However, the business profile remains moderately vulnerable to the gold price volatility. Any further escalation of

the recent geopolitical tensions is expected to lead to an increase in the volatility of the international gold prices with a likely impact on domestic demand for gold.

■ **Impact of Covid-19:**

The company's business was impacted in FY22 due to the Covid-19 pandemic. The company made a strong recovery in Q2FY22 and Q3FY22 after the second Covid-19 wave in Q1FY22. However, the recovery was again disrupted by the Omicron variant of the pandemic in Q4FY22. BWR believes that TCL's competitive position across its business segments and robust financial risk profile would help TCL minimise any adverse impact on its business risk profile.

**Liquidity - Strong:** TCL continues to have strong liquidity driven by healthy cash accruals, with cash and cash equivalents of Rs. 1573 Crs. as on 31 March 2022. The company mainly relies on gold on loan facilities (50-60%), along with the Golden Harvest Scheme (GHS), for its working capital and inventory needs. Modest working capital borrowings in the range of 60-70%, offer a considerable undrawn working capital line of credit, as on 31 March 2022. Additionally, undrawn CPs of Rs. 1500 Crs. further support the company's liquidity in the near term. TCL has no term debt repayment obligations, and the capex plans of Rs.300-400 Crs. over the short to medium term are funded through internal cash accruals.

**Analytical approach - Consolidated**

Titan Company Limited has six subsidiaries, four step down subsidiaries and one associate company, namely Titan Engineering & Automation Ltd (TEAL), CaratLane Trading Pvt Ltd, Favre Leuba AG, Titan Holdings International FZCO, Titan Global Retail L.L.C, Tata Commodity Trading Limited, TCL North India Inc., TEAL USA Inc., Titan Watch Company Ltd, StudioC Inc. USA and Green Infra Wind Power Theni Ltd. The details of these entities are provided in Annexure III. The ratings assigned by BWR are based on the consolidated financial profile of the company, duly applying the rating methodology as detailed in the Rating Criteria provided at the end of this rationale.

**Rating Sensitivities**

Going forward, the company's ability to maintain its credit profile, strengthen its business risk profile, improve and consolidate its market share in its new businesses to ensure revenue diversity and manage its working capital efficiently would be key rating sensitivities. BWR notes the impact on the business on account of Covid-19 in Q1FY22 and Q4FY22. Any additional waves of the Covid-19 pandemic and fresh curtailment measures on a prolonged basis may have an adverse impact on the business, and the company's ability to manage its business profile shall remain a key monitorable.

**Positive: NA**

**Negative :**

- Weakening of business performance due to a significant drop in revenue or profitability, thereby impacting cash accruals and liquidity on a sustained basis

- Specific credit metrics that may result in a rating downgrade, include EBITDA<8% and the Total Debt/TNW exceeding one time on a sustained basis

### About the Company

Titan Company Limited was incorporated in 1984 at Hosur, Tamil Nadu, as a joint venture between the Tata Group (25.02%) and Tamil Nadu Industrial Development Corporation Limited (TIDCO) (27.88%). Initially incorporated as Titan Watches Limited in 1984, the company changed its name to Titan Industries Ltd. in September 1993 and subsequently in 2013, the name was changed to Titan Company Limited. The corporate office is in Bengaluru, and the manufacturing and assembly plants are in Hosur, Coimbatore (Tamil Nadu), Dehradun, Roorkee, Pantnagar (Uttarakhand), Chikkaballapur (Karnataka) and Sikkim. The company is structured into the four verticals of Watches, Jewellery, Eye Wear and Others, wherein Others includes Aerospace & Defence, Automation Solutions (part of subsidiary - TEAL), Accessories, Fragrances, Indian Dress Wear and Accessories. TCL is listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The BSE included Titan Company Limited in its benchmark stock index SENSEX with effect from 23 December 2019.

Mr. S. Krishnan (Additional Chief Secretary, Industries Department, Tamil Nadu Government) is the chairman. Mr. Noel Naval Tata (Managing Director of Tata International) is the Vice Chairman, and Mr C K Venkataraman is the Managing Director. The board of directors includes seasoned and professional industry veterans.

### Financial Performance:

#### Key Financial Indicators: Standalone

Particulars	Unit	31 March 2021	31 March 2022
		Audited	Audited
Revenue	Rs. Crs.	20602.00	27210.00
EBITDA	Rs. Crs.	1706.00	3279.00
PAT	Rs. Crs.	877.00	2180.00
Tangible Net worth <sup>^</sup>	Rs. Crs.	7490.00	9327.00
Total Debt/ TNW *	Times	0.68	0.69
Current Ratio	Times	1.74	1.71

*\*Considering Gold on Loan as debt; ^After excluding intangible assets of Rs. 63 Crs. in FY21 and Rs. 46 Crs. in FY22*

#### Key Financial Indicators: Consolidated

Particulars	Unit	31 March 2021	31 March 2022
		Audited	Audited
Revenue	Rs. Crs.	21644.00	28799.00
EBITDA	Rs. Crs.	1730.00	3341.00
PAT	Rs. Crs.	974.00	2198.00
Tangible Net worth <sup>^</sup>	Rs. Crs.	7123.00	8965.00
Total Debt/ TNW *	Times	0.76	0.79
Current Ratio	Times	1.71	1.66

*\*Considering Gold on Loan as debt; ^After excluding intangible assets of Rs.379 Crs. in FY21 and Rs.368 Crs. in FY22*

Status of non-cooperation with previous CRA: NA

Any other information: Not applicable

**Rating History for the last three years [including withdrawal and suspended]:**

Sl. No.	Facility/ Instrument	Rating (May 2022)			Rating History			
		Type	Amount (Rs. Crs.)	Rating	2022	2021 23Apr2021	2020	2019 03 Jun 2019
<b>Bank Loan Facilities</b>								
1	Cash Credit (Proposed)	Long Term	550.00	BWR AAA/ Stable Reaffirmed	NA	BWR AAA/ Stable	24 Apr 2020 BWR AAA/ Stable 06 May 2020 BWR AAA/ Stable	BWR AAA/ Stable
2	WCDL	Short Term	450.00	BWR A1+ Reaffirmed	NA	BWR A1+	-	-
3	Gold Metal Loan/Gold On Loan	Short Term	4490.00		NA	BWR A1+	24 Apr 2020 BWR A1+	BWR A1+
4	Gold Metal Loan/Gold On Loan (Proposed)		510.00		NA	BWR A1+	06 May 2020 BWR A1+	
<b>Commercial Paper</b>								
5	Commercial Paper	Short Term	1500.00	BWR A1+ Reaffirmed	NA	BWR A1+	24 Apr 2020 BWR A1+ 06 May 2020 BWR A1+	-
<b>Total</b>			<b>7500.00</b>	<b>Rupees Seven Thousand and Five Hundred Crores Only</b>				

**Initial Rating:** BWR AAA/Stable/A1+ for Rs. 1000 Crs. of Proposed Cash Credit and Rs. 4000 Crs. of Gold Metal Loan/Gold On Loan on 03Jun2019

Amount rated on 24Apr2020: Rs. 900 Crs. of Proposed Commercial Paper and Rs. 5000 Crs. of bank loan facilities

Amount rated on 06May2020: Rs. 600 Crs. of Proposed Commercial Paper, Rs. 900 Crs. of Commercial Paper and Rs. 5000 Crs. of bank loan facilities

Amount rated on 23Apr2021: Rs. 1500 Crs. of Proposed Commercial Paper and Rs. 5000 Crs. of bank loan facilities

**Complexity Levels of the Instruments: Simple**

For more information, visit

<https://www.brickworkratings.com/download/ComplexityLevels.pdf>

**Hyperlink/Reference to applicable Criteria:**

• <a href="#">General Criteria</a>	• <a href="#">Manufacturing Companies</a>
• <a href="#">Approach to Financial Ratios</a>	• <a href="#">Short Term Debt</a>
• <a href="#">Consolidation of Companies</a>	• <a href="#">Commercial Paper</a>

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**Titan Company Limited**  
**Annexure I : Instrument Details**

Instrument	Issue Date	Amount (Rs. Crs.)	Coupon	Tenure	Maturity	ISIN
Proposed Commercial Paper	NA	1500.00	NA	7-365 days	NA	NA
<b>Total</b>		<b>1500.00</b>	<b>Rupees One Thousand Five Hundred Crores Only</b>			

**Titan Company Limited**  
**Annexure II : Bank Loan Facilities**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs.)	Short Term (Rs. Crs.)	Total (Rs. Crs.)
1	Proposed	Cash Credit	550.00	-	550.00
2	HDFC Bank	WCDL	-	450.00	450.00
3		Gold Metal Loan/Gold on Loan	-	1500.00	1500.00
4	ICICI Bank	Gold Metal Loan/Gold on Loan	-	2490.00	2490.00
5	Axis Bank	Gold Metal Loan/Gold on Loan	-	500.00	500.00
6	Proposed	Gold Metal Loan/Gold on Loan	-	510.00	510.00
<b>TOTAL - Rupees Six Thousand Crores Only</b>					<b>6000.00</b>

**Titan Company Limited**  
**Annexure III : Subsidiaries and Associates included in the Consolidated Annual Financial results as on 31 Mar 2022**

Sl. No	Name	Holding (%)	Extent of consolidation	Subsidiary/Associate/JV
1	Titan Engineering & Automation Ltd	100.00	Full	Subsidiary
2	CaratLane Trading Pvt Ltd	72.31	Full	Subsidiary
3	Favre Leuba AG, Switzerland	100.00	Full	Subsidiary
4	Titan Holdings International FZCO	100.00	Full	Subsidiary
5	Titan Commodity Trading Limited	100.00	Full	Subsidiary
6	TCL North America Inc.	100.00	Full	Subsidiary
7	Titan Global Retail LLC	100.00	Full	Subsidiary of Titan Holdings International FZCO
8	TEAL USA Inc.	100.00	Full	Subsidiary of Titan Engineering & Automation Limited
9	StudioC Inc.	100.00	Full	Subsidiary of Caratlane Trading Private Limited
10	Titan Watch Company Limited, Hong Kong	100.00	Full	Subsidiary of Favre Leuba AG, Switzerland
11	Green Infra Wind Power Theni Ltd	26.79	Equity Method	Associate



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