



Amended Rating Rationale

Titan Company Limited

26 April 2021

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities and Commercial Papers of Titan Company Limited amounting to Rs.6500 Crs.

Particulars

Facility	Amount (Rs Crs)		Tenure	Ratings	
	Previous	Present		Previous (06 May 2020)	Present
Fund Based					
Cash Credit (Proposed)	1000.00	550.00	Long Term	BWR AAA/ Stable	BWR AAA/ Stable Reaffirmed
WCDL	-	450.00	Short Term	-	BWR A1+ Assigned
Gold Metal Loan/ Gold On Loan	2735.00	3935.00	Short Term	BWR A1+	BWR A1+ Reaffirmed
Gold Metal Loan/ Gold On Loan (Proposed)	1265.00	65.00			
Commercial Papers	1500.00	1500.00			
Total	6,500.00	6,500.00	Rupees Six Thousand Five Hundred Crores Only		

Please refer to BWR website 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 of 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. The ratings also factor in the comfortable 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 the pressure on margins in the watches segment.

The company's business was impacted during H1FY21 on account of COVID-19-related disruptions. However, BWR notes the company's ability to negotiate unprecedented challenges faced, as reflected by the sharp recovery in Q3FY21 and Q4FY21. The significant improvement in revenues was primarily on account of growth in the Jewellery division and an improvement in recovery rates in most of the others. BWR expects the company's FY21 revenue to be marginally better than FY20.

The 'Stable' outlook reflects the expectation that Titan Company Limited's strong business risk profile will be maintained over the medium term. 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, regulatory changes affecting performance or other actions by the company's management that could lead to a dilution of the risk profile.

TCL proposes to use the available limits under Commercial Paper (CP), to manage its working capital requirements and also to benefit from interest rates arbitrage. As on date, the CP utilisation is nil.

Key rating drivers

Credit Strengths

■ **Strong parentage and professional management:**

Titan is part of the Tata Group of Companies, one of India's reputed and largest business groups. Tata Group holds a 25.03% (including the stake of Ewart Investments and Piem Hotels) equity stake in Titan, 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 centers. In addition, the company had a strong jewellery store network of 327 Tanishq, 38 Mia, 92 Caratlane and 4 Zoya stores as on 31 March 2020, augmenting the company's dominant market position in India. The company has added 26 Tanishq stores on a net basis in FY21. 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. As per the Q4FY21 update, the jewellery division's hero market (increase market share of Tanishq) strategy of making various local market specific interventions, has helped the company grow in the regional market of Tamil Nadu. 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 (83%), Watches (13%) & Eye Wear (2.65%), with the balance from Other Accessories, Fragrances and Ethnic Wear segments, as on 31 March 2020. Titan has consistently displayed its ability to gain market share amid a tough and competitive industry scenario. The company was able to maintain its business profile with its manufacturing and assembly capabilities, differentiated jewellery collections & digital initiatives. BWR also notes the company's recent opening of its first store in Dubai through its International Business division.

As per the Q4FY21 update provided by the company:

- The jewellery division has registered growth in Q4FY21 and is likely to surpass the previous year's sales. The margins are likely to be impacted on account of a higher share of gold coins, lower studded ratio and impact of the change in custom duty in February '21, wherein the procurement of gold was on a higher custom duty rate than at the time of the sale. 26 Tanishq stores were added on a net basis, with the retail space addition being ~123K Sq. ft.
- The Watches & Wearables division achieved a recovery rate of 90% during January / February'21. Metros and mall stores have seen better recovery during the quarter compared with the last quarter. Titan launched the 'Edge Mechanical', which marks Titan's entry into the rarefied world of luxury mechanical watches. In FY'21, the division added 13 WOT stores, 11 Helios stores and closed 13 Fastrack stores, on a net basis, adding 1.5 K sq. ft. of retail space.
- The Eye Wear division's revenue grew by 20% during Q4FY21, led by strong growth in the Titan Eye Plus channel. The division launched the first 'Fastrack' branded eyewear store. In FY'21, the division added 15 stores on a net basis, with addition of about 1.8 K sq. feet of retail space.
- Other Businesses
 - Taneira: Taneira registered a recovery rate of 93% in January and February '21. Taneira operated out of fourteen stores during the quarter, covering six cities.
 - Fragrances: Sales have witnessed a recovery rate ~80%, with better traction in Feb and March 2021.
 - Accessories: The Other business division's recovery was offset by slower recovery rates (~50%) in accessories.
- Subsidiaries and Joint Ventures
 - Titan Engineering and Automation Limited (100% owned) (TEAL): The company operates in the aerospace and automation industry. Revenues have witnessed 26% decline in Q4 on account of macroeconomic headwinds being faced by the industry.
 - CaratLane (72.3% owned): Despite the headwinds faced in Q1FY21, the B2C business of Caratlane grew by 26% in FY21. On a quarterly basis, business grew by 60%. As on FY21, the total number of stores across 44 cities in India were 117, post the addition of 25 new stores.

■ **Strong financial profile with risk mitigants in place:**

The company's overall financial profile remains steady, as reflected in the gearing (Total debt/ TNW), which has remained within unity, and comfortable debt protection metrics. The company achieved Rs. 20009 Crs (Consol Rs.21052 Crs) in FY20 against Rs. 19,069.97 Crs (consol Rs. 19778.52 Crs) for FY19. For 9MFY21, the company has achieved ~Rs. 13467 Crs (consol Rs. 14151 Crs). On a standalone basis, the tangible net worth (excluding intangible assets) was strong at Rs. 6757.27 Crs as on 31 March 2020. Debt:equity was comfortable at 0.48 times, considering the GML as loan as on 31 March 2020. Debt metrics were strong, as reflected by an ISCR of 16.17 times as on 31 March 2020. 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 Titan from business-related risks and supports its long-term outlook.

Credit Challenges:

■ **Regulatory risks in jewellery industry:**

The regulatory environment of the retail jewellery industry is evolving, which impacted 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 impact 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 into 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 reduce the adverse impact of gold price and forex volatility to some extent.

■ **Impact of COVID-19:**

The company faced minimal impact of COVID-19 in Q4FY20. However, due to the country-wide lockdown in Q1FY21, the company's operations were impacted significantly, with ~70% decline in sales and an EBITDA loss in Q1FY21. The operations recovered from Q2FY21 onwards. The company has been able to offset lower H1FY21 revenue by strong recovery in H2FY21, which is generally considered the festive and wedding season. BWR believes that Titan Company Limited'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: Titan has strong liquidity in the form of cash and cash equivalents of over ~Rs.514 Crs and investments of Rs.330 Crs as on 30 September 2020 (Unaudited). BWR expects that as on 31 March 2021, a similar position would have been maintained by the company. The company mainly relies on gold on loan facilities, along with the Golden Harvest Scheme (GHS) for its working capital and inventory needs. The average utilisation of approx 60-70% for these facilities, minimal utilisation of working capital borrowings and undrawn CPs of Rs.1500 Crs provide more than adequate liquidity in the form of undrawn credit lines. Titan has no term debt repayment obligations, and capex plans over the medium term are funded through internal cash accruals.



Analytical approach - Consolidated

Titan Company Limited has six subsidiaries, one associate company and one joint venture, namely Titan Engineering & Automation Ltd (TEAL), CaratLane Trading Pvt Ltd, Favre Leuba AG, Titan Holdings International FZCO, Titan Global Retail L.L.C, Titan Watch Company Ltd, Green Infra Wind Power Theni Ltd and Montblanc India Retail Pvt 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 H1FY21. Further developments considering the recent rise in COVID-19 cases 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
- Specific credit metrics that may result in a rating downgrade, include EBITDA<8%, 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 (25.20%) 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 (Tamil Nadu), Dehradun, Roorkee, Pantnagar (Uttarakhand) and Chikkaballapur (Karnataka). 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. Titan is listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). The BSE has included Titan Company in its benchmark stock index, SENSEX, with effect from 23 December 2019. Titan is the sixth in the country to get both LEED Platinum and GRIHA 5 Star rating. The company has won several awards and recognitions across its brands and for its business practices.

Mr N Muruganadam (Principal Secretary, Industries Department, Tamil Nadu) 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		31 March 2019	31 March 2020
		Audited	Audited
Revenue	Rs. Crs	19069.97	20009.64
EBITDA	Rs. Crs	2002.21	2417.73
PAT	Rs. Crs	1374.36	1517.63
Tangible Net worth [^]	Rs. Crs	6142.91	6757.27
Total Debt/ TNW *	Times	0.37	0.48
Current Ratio	Times	1.76	1.82

**Considering Gold on Loan as debt; ^After excluding intangible assets of Rs. 38.81 Crs in FY19 and Rs.67.59 Crs*

On a standalone basis, the company recorded a topline of Rs. 13467 Crs for 9M FY21. EBITDA and net profit were Rs.903 Crs and Rs.348 Crs, respectively, in 9M FY21.

Key Financial Indicators : Consolidated

Particulars		31 March 2019	31 March 2020
		Audited	Audited
Revenue	Rs. Crs	19778.52	21051.54
EBITDA	Rs. Crs	1991.49	2466.58
PAT	Rs. Crs	1388.65	1492.66
Tangible Net worth	Rs. Crs	5721.11	6277.14
Total Debt/ TNW	Times	0.42	0.57
Current Ratio	Times	1.76	1.80

**Considering Gold on Loan as debt; ; ^After excluding intangible assets of Rs. 363.12 Crs in FY19 and Rs.396.01 Crs in FY20*

On a Consolidated basis, the company recorded a top line of Rs. 14151 Crs for 9M FY21. The company has reported EBITDA and net profit of Rs.908 Crs and Rs.406 Crs, respectively in 9M FY21.

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 (April 2021)			Rating History		
		Type	Amount (Rs. Crs)	Rating	2020	2019 03 Jun 2019	2018
Bank Loan Facilities							
1.	Cash Credit (Proposed)	Long Term	550.00	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+	-		
3.	Gold Metal Loan/Gold Loan	Short Term	3935.00	BWR A1+	24 Apr 2020 BWR A1+	BWR A1+	-
4.	Gold Metal Loan/Gold Loan - Proposed		65.00		06 May 2020 BWR A1+		
Commercial Paper							
5.	Commercial Paper	Short Term	1500.00	BWR A1+	24 Apr 2020^ BWR A1+ 06 May 2020^^ BWR A1+	-	
Total			6500.00	Rupees Five Thousand and Nine Crores only			

Amount rated was Rs.1000.00 Crs

^ Amount rated Rs.900.0 Crs ; ^^ CP Amount enhanced to Rs.1500.00 Crs.

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

• General Criteria	• Manufacturing Companies
• Approach to Financial Ratios	• Short Term Debt
• Consolidation of Companies	• Commercial Paper

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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
Total		1500.00	Rupees One Thousand Five Hundred Crores Only			

Titan Company Limited
Annexure II : Bank Loan Facilities

Facilities	Long Term Rs Crs	Short Term Rs Crs	Total amount (Rs Crs)
Proposed Cash Credit	550.00	-	550.00
WCDL	-	450.00	450.00
Gold Metal Loan/ Gold Loan (Clean/ Secured)	-	3935.00	3935.00
Proposed Gold Metal Loan/ Gold Loan (Clean/ Secured)	-	65.00	65.00
	550.00	4450.00	5000.00

Titan Company Limited
Annexure III : Subsidiaries and Associates included in the Consolidated Annual Financial results as on 31 Mar 2020

SI No	Name	Holding(%)	Extent of consolidation	Subsidiaries/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 Global Retail L.L.C.	100.00	Full	Subsidiary of Titan Holdings International FZCO
6	Titan Watch Company Limited, Hong Kong	100.00	Full	Subsidiary of Favre Leuba AG, Switzerland
7	Green Infra Wind Power Theni Ltd	26.79	Full	Associate
8	Montblanc India Retail Pvt Ltd	49.00	Full	Jointly Controlled Entity



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