Rating Rationale

Titan Company Limited

03 Jun 2019

Brickwork Ratings assigns "BWR AAA/A1+" for the bank loan facilities aggregating Rs.5000 Crs of Titan Company Limited ('Titan' or the Company)

Particulars

Facility*	Amount (Rs. Crs)	Tenure	Rating[1]
Fund Based			
Proposed Cash Credit	**1000.00**	**Long Term**	**BWR AAA** (Pronounced as BWR Triple A) **Outlook: Stable**
Gold Metal Loan/Gold Loan (Clean)	**4000.00**	**Short Term**	**BWR A1+** (Pronounced as BWR A One Plus)
Total	**5000.00 (Rupees Five Thousand Crores Only)**		

[1] *Please refer to BWR website www.brickworkratings.com for definition of the ratings*
* *Annexure I provide bank-wise details of facilities*

Ratings assigned

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the company upto FY19, publicly available information and information/clarifications provided by the management.

The rating draws strength from the strong parentage and support of the TATA group & TIDCO, strategic importance of the company to the TATA group, established brand equity, experienced and professional management with strong governance structure, robust financial risk profile supported by the company's consistent performance, comfortable liquidity, sound capital structure and absence of long term debt, strong financial flexibility and prudent financial and risk management practices. The rating further positively factors the healthy performance of the company in all its business segments, in line with guidance, strong business model aiding sustained profitable growth and the leadership position of the company in the organised jewellery, watches and eyewear segments. FY19 jewellery segment revenue growth was ~ 23% yoy, revenue growth in watches and eyewear segments was healthy at 15% and 23% respectively, Caratlane registered ~44% growth on the back of aggressive omnichannel push and the new businesses (Fragrances(SKINN), Taneira etc) showed good momentum with increasing market shares. These rating strengths are partially offset by the 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.

Going forward, the ability of the company to maintain its robust credit profile, strengthen its business risk profile with sustained performance across all divisions, improve and consolidate its market share in its new businesses to ensure revenue diversity and manage its working capital efficiently would be the key rating sensitivities.

Rating Outlook: Stable

The outlook reflects Titan Company Limited's strong business risk profile which is expected to be maintained over the medium term supported by its competitive position across its business segments and strong growth expectations while maintaining its healthy financial risk profile. The outlook may be revised to negative in the event of deterioration in the business/financial risk profile due to regulatory changes, higher than anticipated debt funded capex leading to weakening of capital structure or debt metrics, significantly lower cash flows, lower than expected performance of the subsidiaries/associates impacting overall profitability or any adverse impact on its financial flexibility due to higher-than-expected borrowings .

Key rating drivers

Credit Strengths

- **Strong parentage and professional management:** Titan is part of the TATA Group of Companies, which is one of India's reputed and largest business groups. Tata Group holds 25.20% (including stake of Ewart Investments and Piem Hotels) equity stake in Titan with Tata Sons Private Limited having 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.

- **Healthy and Steady improvement in performance**: Titan has continued its growth momentum across all its business segments and is one of the most profitable and desirable franchises in India. Overall, the Company has registered a revenue growth of ~22% to Rs.19,069.97 crores for FY19 as against Rs.15655.85crs in FY18, with a CAGR growth of ~20% during fiscal 2017 to fiscal 2019.
    - **Jewellery** - FY19 was a challenging year for the jewellery industry owing to; a) tightening of credit policy, b) surge in gold prices and c) lower number of wedding dates. Despite headwinds, Tanishq continued to gain market share with jewellery division growing 22% in FY19 led by strong Same Store Sales Growth(SSG). Collections like Diamond Treats, Gulnaaz, Utsava and Preen received good response. The new collections are in line with Titan's strategy to scale up its share of high value studded jewellery segment to 50% by FY23. Net 34 stores were added with retail space addition of 87000 sq ft in FY19. **CaratLane** grew ~44% in FY19 on the back of aggressive retail stores opening in-line with its Omni-channel strategy and increased brand awareness. The company expects to gain a market share of 8% (from the present ~6% share) by

FY21 by expanding footprint, enhancing product relevance and building Brand Consideration through the Tanishq Promises Campaign and establishing regional connect.

- **Watches** division reported double digit volume growth for the first time in 7 years and a highest ever volume of 16.8 Mn pieces. Revenues grew by ~15% in FY19 led by new product launches across brands and growth in the e-commerce channel (biggest growth driver during the year). Smart products including wearables (introduced 2 years ago) grew by more than 80% in FY19. Smart products and accessories both crossed the milestone of Rs 1bn sales (at consumer price) in FY19. Helios continued to be the fastest growing offline channel for the division. The division added 30 World of Titan (WOT) stores and closed 24, added 22 FastTrack stores and closed 14, and added 12 Helios stores and closed 4 during FY19. Titan has emerged as the 2nd largest wearables company in India.
- In the **Eye Wear** segment, revenues grew by 23% in FY19 with number of customers increasing from 2.5mn to 3.5mn. Eyewear division witnessed new assortments and brand building campaigns for its brands – Titan Eyeplus, Titan Eyewear, Fastrack Eyewear and also transformed into an integrated division with the addition of own frames and lens. Frame sales contributed mid-single digit to the sales of the division in its first year itself. The division added net 37 stores in FY19 with a net increase of ~28,000 sq.ft. of retail space. Multiple new products were launched under FastTrack, Titan and Dash brands.
- **New Businesses - Fragrances:** Skinn (Fragrances) continued to gain market share and emerged as the best seller in its category in departmental chain stores. As a Rs 120 Cr (at consumer price) brand, Skinn crossed the 1-million-unit volume landmark and sales of Rs 1bn in FY19. It is reported to be the largest distributed perfume with 3,000 points of sale, including 32 exclusive kiosks .
- **New Businesses - 'Taneira':** Launched in 2017 as a 'Special Occasion Ethnic Wear' brand, Taneira is reported to be receiving good response. .Presently, there are 5 stores across Delhi, Bangalore, Hyderabad with an addressable market expected to grow from ~ Rs35-40k cr to ~70k cr by 2023. Titan plans to expand this segment in FY20 by building scale and deepening category expertise.

■ **Strong business model and financial profile, with risk mitigants in place:** The Company generates revenues mainly from 3 segments viz. Watches (13%), Branded Jewellery (83%) and Eyewear (2.65%) with the balance from other accessories and products. Titan has consistently displayed its ability to gain market share amid a tough industry scenario. Its robust balance sheet (25%+ RoCE and virtually debt free status) and asset light distribution model has enabled it to outpace peers in terms of store addition. Enriched jewellery portfolio with launch of new collections in both plain jewellery (including wedding jewellery) and studded jewelry and sustained investment in brand building is enabling better than industry revenue growth. Tanishq has surpassed the peers in higher margin studded segment, even when the industry is going through flat to negative growth, by maintaining positive growth trajectory through trendy designs, strategic geographical presence and wide product range. The company's financial profile is strong, supported by healthy return indicators and debt coverage indicators Tangible Net worth (excluding intangible assets) was strong at Rs. 6142.91 crs as on 31 March 2019. As on March 31 2019, the company had gold on loan of ~ Rs 2353 Crore. Debt:equity was comfortable at 0.37 times as on 31 Mar 2019. Debt metrics were strong as reflected by ISCR of 45.04 times as on 31 Mar 2019. Operating efficiency is strong reflected in an operating margin of ~10.50% aided by inhouse design excellence centres, integrated eyewear division manufacturing facilities, good cost control measures, efficient working capital management and well managed karigar centres. Prudent hedging strategies and business practices ensure that risks are managed well. Improving diversification, strong brand and asset-light business model insulates Titan from business-related risks and support its long-term outlook.

- **Leadership position in watches and jewellery with good brand positioning :** Titan is the world's fifth largest watch manufacturer with 6 major in-house brands & 7 licensed brands and the largest network of exclusive service centers with 730 watch care centers in 277 towns. Titan has a strong jewellery store network of 287 Tanishq, 50 Mia, 55 Caratlane and 3 Zoya stores augmenting the company's market position in India. Further , GST transition was smooth and the Company is a major beneficiary with significant market share gains in jewellery.Tanishq as a brand of Titan, has been the major beneficiary due to its stringent business policies, transparent exchange value and gold quality. Wedding jewellery and high value studded being the focus, success of gold exchange programmes and focus on "hero" markets are expected to help Tanishq gain significant market share. Approx ~40% of the revenue from jewellery in FY 2017-18 is from Gold Exchange scheme which is expected to increase to 50% in FY 2022-23. Titan has increased ~83 stores (in Jewellery, watches and Eyewear) during FY19 alongwith expansion of new business like Taneira(Sarees) and Skinn (fragrances). Titan's brand portfolio includes Titan, Sonata, Fastrack, Raga, Xylys, Helios, Favre Leuba and Nebula for watches, Tanishq, Mia, Carat Lane and Zoya for jewellery and Titania, Eyeplus, Fastrack and Flipon in Eyewear, SKINN(perfumes) and Taneira(Ethnic wear) across Luxury/Premium/Mid/Mass segments. With many players under demand and cash flow pressure and local jewellers/independents struggling, the potential for growth of the company appears positive.

- **Favourable demand outlook for organised jewellery retailers over the medium term -** Jewellery consumption in India has been traditionally driven by the strong cultural affinity for gold, with gold being the preferred form of jewellery. Stable wedding and festive demand are likely to keep the demand sentiments strong. While the demand-supply metrics remain vulnerable to any policy initiatives of the Government, these regulations have resulted in faster formalisation of the sector, thus supporting organised retailers like Titan. Titan targets to achieve 20% revenue growth on the back of 22% sales growth in jewellery business led by higher number of wedding dates, 71 stores additions, increased share of wedding jewellery and high value diamond jewellery, steady growth in watch division and benefits from backward integration in the eyewear business.

Credit Challenges:

- **Regulatory risks in the jewellery industry:** The jewellery retail industry has been witnessing increased regulatory intervention, which impacted the operating environment and consequently the performance of jewellers. Measures like limited access to gold metal loans, mandatory Permanent Account Number disclosure requirement for purchases, limitation on jewellery saving schemes, demonetization, implementation of Goods and Service Tax, etc., had its effect on both demand and supply in the past. Increasing supervision and the cautious lending environment has affected the fund flows to the sector. BWR expects the domestic jewellery industry to continue to shift favourably towards the larger organised jewellery companies like Titan, driven by a change in consumer preference stemming from increased awareness about branded jewellery.

- **Competition from organised and unorganised players in jewellery :** Jewellery in India is highly fragmented with the presence of numerous unorganized players in addition to the large integrated manufacturers leading to a high level of competition. BWR believes that the company with its unique differentiators of Tanishq purity and Tata Trust, design and collections, brand pull with spontaneous recall, customer preference, store experience and market leadership position in the organised jewellery retailing segment would be able to weather any downtrends in the industry, even though it will be susceptible to regulatory risks.
- **Gold price fluctuations** The Company is exposed to fluctuations in gold price (including fluctuations in foreign currency) arising on purchase/ sale of gold. However the Company enters into derivative financial instruments to manage the risk associated with gold price fluctuations.: The company's gold sourcing strategy is primarily by way of gold metal loans (GMLs), which reduce the adverse impact of gold price and forex volatility to some extent. About 40% of the sales are exchange sales and the company's working capital cycle is fairly comfortable. While intense competition and limited value addition is likely to keep operating margins range-bound, increased proportion of GML, which attract a lower interest rate, are expected to support overall cash flows going forward.

Liquidity - Comfortable: Titan has strong cash accruals and ample liquidity in the form of cash and cash equivalents of over Rs.1000 crores as on March 31, 2019. The Company mainly relies on gold on loan facilities for its working capital and inventory needs and has an average bank limit utilization of below 60% for these facilities, providing adequate liquidity in the form of undrawn bank lines. Usage of GML results in interest cost savings. Titan has no term debt repayment obligations and capex plans over medium term of Rs 200-400 Cr annually are funded through internal cash accruals.

Analytical approach - Consolidated

Titan Company Limited has 5 subsidiaries, 1 associate company and 1 joint venture, namely Titan Engineering & Automation Ltd, Carat Lane Trading Pvt Ltd, Favre Leuba AG, Titan Time Products Ltd, Titan Watch Company Ltd, Green Infra Wind Power Theni Ltd and Montblanc India Retail Pvt Ltd. The list of such entities is provided in Annexure II. 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.

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 located at Bengaluru and the manufacturing and assembly plants are located at Hosur (Tamil Nadu), Dehradun, Roorkee, Pantnagar (Uttarakhand) and Chikkaballapur (Karnataka). The Company is structured into four verticals viz., Watches, Jewellery, Eyewear and Others, where 'Others' include Aerospace & Defence, Automation Solutions, Accessories, Fragrances, Indian Dress Wear and Accessories. Titan is listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE). Titan is the 6th 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 Bhaskar Bhat is the Managing Director. The Board of Directors comprises seasoned and professional industry veterans.

Financial Performance :

Key Financial Indicators - Standalone

Particulars		31 March 2018	31 March 2019
		Audited	Audited
Revenue	Rs. Crs	15655.85	19069.97
EBITDA	Rs. Crs	1735.51	2002.21
PAT	Rs. Crs	1162.87	1374.36
Tangible Net worth^	Rs. Crs	5163.53	6142.91
Total Debt/ TNW *	Times	0.31	0.37
Current Ratio	Times	1.78	1.76

**Considering Gold on Loan as debt;^After excluding intangible assets of Rs. 30.46 crs in FY18 & Rs. 38.81crs in FY19*

On a standalone basis, the company recorded a topline growth of 21.80% with a standalone PBT growth of 22.70% and PAT growth of 18.20%.

As part of its treasury operations, the Group had invested in intercorporate deposits aggregating Rs.145 crores with Infrastructure Leasing & Financial Services Ltd (IL&FS) and its subsidiary (IL&FS Group), which were due for maturity in November 2018 and December 2018. As the amounts and interest thereon were not received on the due dates and considering the uncertainty & credit risk associated with the recoverability of such amounts, the company has provided for impairment of the entire amount of Rs 145 Crs. In addition, the company has also provided for impairment of investment in its Swiss subsidiary Favre Leuba, amounting to Rs. 70 crores (exceptional item), temporary inventory valuation hit in Jewellery(Rs 37 crores) and ex gratia for employees (Rs 34 crores).

Financial Performance : Consolidated

Key Financial Indicators

Particulars		31 March 2018	31 March 2019
		Audited	Audited
Revenue	Rs. Crs	16155.95	19778.52
EBITDA	Rs. Crs	1646.97	1991.49
PAT	Rs. Crs	1101.91	1388.65
Tangible Net worth	Rs. Crs	4738.60	5721.11
Total Debt/ TNW	Times	0.36	0.42
Current Ratio	Times	1.76	1.76

**Considering Gold on Loan as debt;;^After excluding intangible assets of Rs. 349.45 crs in FY18 & Rs. 363.12 crs in FY19.*

During FY19, Titan has disposed off its entire shareholding in Titan Time Products Limited to Danlaw Technologies India Limited on 18 June 2018 at a consideration of~ Rs. 18.50 crs. Consequently, the Company has recognised profit on sale of investment amounting to ~ 4.87 Crs Titan has invested Rs 100 crores in CaratLane by subscribing to 30,48,780 additional shares to increase its stake from 66.39% to 69.74%. Titan Engineering and Automation Ltd has registered strong performance with revenues of ~Rs. 358 Crs and PAT of ~Rs. 43 Crs during FY19 and is expected to show good growth.

Rating History for the last three years:

<table>
<tr><th rowspan="2">Sl No</th><th rowspan="2">Facility</th><th colspan="3">Current Rating (May 2019)</th><th colspan="3">Rating History</th></tr>
<tr><th>Type</th><th>Amount (Rs. Crs)</th><th>Rating</th><th>2018</th><th>2017</th><th>2016</th></tr>
<tr><td>1.</td><td>Proposed Cash Credit</td><td>Long Term</td><td>1000.00</td><td>BWR AAA
(Pronounced as BWR Triple A)
(Outlook : Stable)</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>2.</td><td>Gold Metal Loan/Gold Loan (Clean)</td><td>Short Term</td><td>4000.00</td><td>BWR A1+
(Pronounced as BWR A One Plus)</td></tr>
<tr><td colspan="3">Total</td><td>5000.00</td><td colspan="4">Rupees Five Thousand Crores Only</td></tr>
</table>

Status of non-cooperation with previous CRA:NA

Any other information: Not applicable

Hyperlink/Reference to applicable Criteria:

- General Criteria
- Approach to Financial Ratios
- Consolidation of Companies
- Manufacturing Companies
- Short Term Debt

Analytical Contacts	Investor Contacts
Rajee R Senior Director - Ratings B :+91 80 4040 9940 rajee.r@brickworkratings.com **Sunilkumar B Ijarad** Ratings Analyst B :+91 80 4040 9940 Ext :344 sunilkumar@brickworkratings.com	**Satish Nair** Director - Global Market Development & Investor Relations M : +91 7738875550 B : +91 80 6745 6666 satish.n@brickworkratings.com
1-860-425-2742	

Annexure I : Bank Loan Facilities

Bank	Facilities	Tenure	Amount (Rs Crores)
Proposed	Proposed Cash Credit	Long Term	1000.00
HDFC Bank	Gold Metal Loan/ Gold Loan (Clean)	Short Term	600.00
ICICI Bank			1250.00
Kotak Mahindra Bank			350.00
YES Bank			300.00
Proposed	Proposed Gold Metal Loan/ Gold Loan (Clean)		1500.00
Total			**5000.00**

Annexure II : Subsidiaries and Associates included in the Consolidated Annual Financial results:

Sl No	Name	Relationship	Ownership
1	Titan Engineering & Automation Ltd	Subsidiary	100%
2	Carat Lane Trading Pvt Ltd	Subsidiary	69.47%
3	Favre Leuba AG, Switzerland	Subsidiary	100%
4	Titan Time Products Ltd*	Subsidiary*	100%
5	Titan Watch Company Ltd, Hongkong	100% Subsidiary of Favre Leuba AG, Switzerland	100%
6	Green Infra Wind Power Theni Ltd	Associate	26.79%
7	Montblanc India Retail Pvt Ltd	Jointly Controlled Entity	49%

***Until 18 June 2018.**

For print and digital media
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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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