CRISIL
Ratings

Rating Rationale

September 08, 2023 | Mumbai

Titan Company Limited

Ratings reaffirmed at 'CRISIL AAA/Stable/CRISIL A1+'; 'CRISIL AAA/Stable' assigned to Non Convertible Debentures

Â

Rating Action

Total Bank Loan Facilities Rated	**Rs.2850 Crore**
Long Term Rating	**CRISIL AAA/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Â

Rs.3000 Crore Non Convertible Debentures	**CRISIL AAA/Stable (Assigned)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its **â€˜CRISIL AAA/Stableâ€™** rating to the Rs 3000 crore non-convertible debenture of Titan Company Ltd (Titan), and reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the companyâ€™s bank facilities.
Â
The ratings continue to reflect the leadership position of Titan in the jewellery and watch segments, healthy operating efficiency, and strong financial risk profile, including robust liquidity. These strengths are partially offset by exposure to regulatory risks in the jewellery division and high competitive intensity in the sector.
Â
Titan is expected to sustain its healthy operating performance, supported by strong market position across products. Operating revenue grew 41% in fiscal 2023, driven by robust growth in all the three segments (jewellery, watches and eyewear) supported by store expansion. Operating margin is likely to sustain at ~12% over the medium term, driven by operating leverage, favourable product mix, and expectation of sustained healthy margin for all segments such as eyewear, watches and CaratLane Trading Pvt Ltd (CaratLane; â€˜CRISIL AA+/Stableâ€™).
Â
CRISIL RatingsÂ hasÂ notedÂ theÂ announcement by TitanÂ on August 19, 2023,Â that it has entered into an agreementÂ to acquire the entire share (27.18% of the total paid-up equity share capital) of the founder of CaratLane Trading Pvt Ltd (CaratLane; â€˜CRISIL AA+/Stableâ€™), Mr Mithun Sacheti (and his family members), on a fully diluted basis for Rs 4,621 crore. The proposed acquisition would further increase the stake of Titan in CaratLane to 98.28% on a fully diluted basis; the acquisition will be funded through a combination of debt and internal accrual.

Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Titan and its subsidiaries, which are strategically important to Titan. Also, all the entities have significant operational integration.
Â
Gold on loan has been considered as short-term debt for the analysis.
Â
Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Leadership position in major business segments:** Titan is the market leader in the organised jewellery retailing and watches segments, driven by its strong brands, healthy store additions, association of trust with the Tata brand, and a pan-India distribution network. The company had a strong store network in both jewellery and watch segments with 559 stores in the jewellery segment (Tanishq, Zoya and Mia), 233 CaratLane stores and 1,031 stores for watches as on June 30, 2023. Titan will leverage its brands to expand and maintain its leadership position over the medium term. Tanishq opened its first international boutique in New Jersey (USA) in December 2022.

Â

- **Healthy operating efficiency:** Healthy operating efficiency is reflected in industry-leading operating margin of 10-12% over fiscals 2018 to 2023 (fiscal 2021, being an exception due to disruptions caused by the Covid-19 pandemic). The robust operating efficiency stems from strong control over operations, outsourcing of jewellery-making to *karigar* parks, in-house design and expertise in manufacturing processes of watches, efficient working capital management, and prudent hedging policies. Robust operating efficiency will enable the company to maintain strong operating profitability over the medium term.

Â

- **Strong financial risk profile:** The financial risk profile is supported by healthy gearing and ample liquidity. As on March 31, 2023, the company has gold on loan and other bank debt liabilities of over Rs 7,494 crore (Rs 5,916 crore in fiscal 2022) and liquidity of over Rs 3,500 crore. Increase in debt during fiscal 2023 is attributed to increased inventory for festivities (Akshaya Tritiya). The capital structure is expected to remain comfortable despite the acquisition of an incremental 27.18% stake in CaratLane (expected to be funded through debt and internal accruals).Â Total outside liabilities to tangible networth (TOL/TNW) ratio was ~1.2 times as on March 31, 2023. Furthermore, expansions are prudently managed through a mix of company-owned, company-managed (inventory owned by company and franchisee operated), and franchisee stores with increasing focus on franchise stores going forward. Hence, large-scale retail space additions do not result in heavy capital expenditure.

Â
Weaknesses:

- **Exposure to regulatory risks in the jewellery division:** Titan remains exposed to regulatory risks in the jewellery division. This sector has seen heightened regulatory action in the past. For instance, during fiscal 2014, to curb the import of gold, the government introduced the 80:20 rule, discontinued gold on lease scheme and modified the gold deposit scheme. Subsequently, in fiscal 2015, the gold on loan scheme was restarted and the 80:20 rule was scrapped. Furthermore, since January 2016, the government has mandated jewellers to collect PAN card for all purchases beyond Rs 2 lakh. The government has also introduced the sovereign gold bond scheme, to shift consumer preferences away from physical gold. Import duty on gold was increased 2.5% in fiscal 2020 and later reduced by over 2% to 10.75% in fiscal 2021. Some of these regulatory changes have moderated operating performance in the past. CRISIL Ratings believes that Titan will remain susceptible to changing regulatory norms.

Â

- **Intense competition in the jewellery segment:** Titan is exposed to intense competition in the jewellery retailing segment. Jewellery retailing in India is largely dominated by unorganised players, which have a stronghold in their regions. Besides, organised players have also been expanding rapidly in select regions, posing stiff competition. As Titan expands into newer geographies and cities, it will face severe competition from these local players. However, increasing consumer awareness about branded jewellery and purity of gold, implementation of hallmarking since June 2021 and the trust associated with the Titan brand will enable the company to penetrate new markets over the medium term.

Liquidity: Superior

Titan had ample liquidity in the form of cash and investments of nearly Rs 3,500 crore as on March 31, 2023, and unutilised fund and non-fund-based bank lines of over Rs 8,500 crore as of April 2023. The company has no long-term debt on its balance sheet as on March 31, 2023 and relies mainly on gold on loan facilities for funding needs. It alternates between using gold on loan or working capital bank limits, depending on the cost of funds and gold price movements. Besides, funds raised under its Golden Harvest Scheme also help fund working capital needs. The strong cash accrual (estimated at over Rs 3,000 crore per annum) supports funding of the acquisition of 27.18% stake in CaratLane. Titan is expected to maintain ample liquidity over the medium term.

Outlook: Stable

The business risk profile of Titan will continue to be supported by its dominant position in the organised jewellery segment, strong distribution network, steady demand prospects, and healthy operating capabilities. The company is also expected to sustain its leadership position in the watches and eyecare divisions. The financial risk profile will remain supported by steady cash generation, well-phased, expansion plans, and prudent working capital management.

Rating Sensitivity factors

Downward factors:

- Significant impact due to regulatory changes or supply-related issues impacting Titan, leading to deterioration in the business risk profile
- Sustained reduction in the operating profit margin to below 8%, significantly impacting cash generation
- Material weakening of credit metrics, due to aggressive debt-funded expansion plans or acquisitions

Â

Environment, social, and governance (ESG) profile

The ESG profile of Titan supports its already strong credit risk profile.

Â

The retail sector has low environmental impact, primarily in the form of low emissions and water consumption and increasing focus on the usage of sustainable packaging. The sector has moderate social impact because of its direct bearing on the health and wellbeing of its workers and customers.

Strong focus on addressing these ESG risks supports the already strong credit risk profile of Titan.

Â

Key ESG highlights

- The company and its divisions continue to harness energy from renewable sources such as solar and wind, thereby positively impacting the environment and reducing carbon emissions. The jewellery division invested in a 2-megawatt solar plant, which would ensure that the factory operates completely from renewable energy sources in the coming years.
- In terms of water recycling, 88% of the water used in fiscal 2022 is recycled.
- Titan follows multiple initiatives and policies to promote education, community improvement, community engagement, employee engagement, development and safety and responsible sourcing.
- The governance structure of Titan is characterised by 50% independent directors, a split chairperson and chief executive officer position, extensive financial disclosures, presence of an investor grievance committee and a board comprising six independent directors out of 13 members.

Â

There is growing importance of ESG among investors and lenders. Continuous commitment of the company to embed sustainability principles across the organisation and its value chain will play a key role in enhancing stakeholder confidence

About the Company

Titan was incorporated in 1984 as a joint venture between the Tata group and Tamil Nadu Industrial Development Corporation Ltd (TIDCO). It is the market leader in both its core segments, watches, and branded jewellery. The brand portfolio includes Titan, Sonata, Fastrack, Raga, Xylys, and Nebula for watches; and Tanishq, Mia, CaratLane and Zoya for jewellery. Its other business activities include precision engineering, prescription eye wear, accessories, fragrances and ethnic wear. The company has also launched a new brand, Skinn, in the perfume segment in 2013. The Tata group holds about 25% and TIDCO 28% of equity shares, with foreign institutional investors, financial institutions, banks, corporate entities, and the public holding the rest. The manufacturing and assembly plants of Titan are in Hosur and Koyampuththur (Tamil Nadu), and in Dehradun, Roorkee, and Pantnagar (all in Uttarakhand) and Sikkim.

Key Financial Indicators

As on/for the period ended March 31	Â	2023	2022
Operating income	Rs crore	40,634	28,850
Profit after tax (PAT)	Rs crore	3,274	2,198
PAT margin	%	8.1	7.6
Adjusted debt/adjusted networth*	Times	0.65	0.66
Interest coverage	Times	16.82	16.06

Reported financials
**CRISIL Ratings has adjusted gearing by considering gold on loan as debt*

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Working capital facility*	NA	NA	NA	2725	NA	CRISIL AAA/Stable
NA	Proposed letter of credit*	NA	NA	NA	125	NA	CRISIL A1+
NA	Non-convertible debentures@Â	NA	NA	NA	3000	Simple	CRISIL AAA/Stable

**Interchangeable with Import letter of credit, foreign letters of credit, standby letters of credit, bank guarantees, cash credit and working capital demand loan*
@yet to be issued

Annexure â€“ List of entities consolidated

Name of entities	Extent of consolidation	Rationale for consolidation
CaratLane	72.31%	Strategically important and have significant degree of operational integration (Titan has announced the acquisition of additional stake of 27.18% on August 19, 2023)
StudioC (100% subsidiary of CaratLane)	Full	Strategically important and have significant degree of operational integration.
Titan Engineering & Automation Ltd	Full	Strategically important and have significant degree of operational integration.
Titan Holdings International FZCO	Full	Strategically important and have significant degree of operational integration.
Titan Global Retail LLC, Dubai (Subsidiary of Titan Holdings International FZCO)	Full	Strategically important and have significant degree of operational integration.
Favre Leuba A G, Switzerland	Full	Strategically important and have significant degree of operational integration.
Titan Watch Group Ltd, Hong Kong (100% Subsidiary of Favre Leuba A G)	Full	Strategically important and have significant degree of operational integration.
Titan Commodity Trading Ltd	Full	Strategically important and have significant degree of operational integration.
Green Infra Wind Power Theni Ltd	26.79%	Strategically important and have significant degree of operational integration.
TCL North America Inc	Full	Strategically important and have significant degree of operational integration
TEAL USA Inc	Full	Strategically important and have significant degree of operational integration

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	2725.0	CRISIL AAA/Stable	28-08-23	CRISIL AAA/Stable	22-12-22	CRISIL AAA/Stable	16-07-21	CRISIL AAA/Stable	03-07-20	CRISIL AAA/Stable	CRISIL AAA/Stable
Â	Â	Â	--	13-07-23	CRISIL AAA/Stable	10-11-22	CRISIL AAA/Stable	Â	--	Â	--	--
Â	Â	Â	--	11-07-23	CRISIL AAA/Stable	02-05-22	CRISIL AAA/Stable	Â	--	Â	--	--
Non-Fund Based Facilities	ST	125.0	CRISIL A1+	28-08-23	CRISIL A1+	22-12-22	CRISIL A1+	16-07-21	CRISIL A1+	03-07-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	13-07-23	CRISIL A1+	10-11-22	CRISIL A1+	Â	--	Â	--	--
Â	Â	Â	--	11-07-23	CRISIL A1+	02-05-22	CRISIL A1+	Â	--	Â	--	--
Commercial Paper	ST	Â	--	Â	--	Â	--	Â	--	03-07-20	Withdrawn	CRISIL A1+
Non Convertible Debentures	LT	3000.0	CRISIL AAA/Stable	Â	--	Â	--	Â	--	Â	--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Proposed Letter of Credit[&]	**125**	**Not Applicable**	**CRISIL A1+**
Working Capital Facility[&]	**225**	**RBL Bank Limited**	**CRISIL AAA/Stable**
Working Capital Facility[&]	**300**	**IDFC FIRST Bank Limited**	**CRISIL AAA/Stable**
Working Capital Facility[&]	**250**	**Bank of Baroda**	**CRISIL AAA/Stable**
Working Capital Facility[&]	**1000**	**IDBI Bank Limited**	**CRISIL AAA/Stable**
Working Capital Facility[&]	**950**	**Canara Bank**	**CRISIL AAA/Stable**

& - Interchangeable with Import letter of credit, foreign letters of credit, standby letters of credit, bank guarantees, CC and WCDL.

Criteria Details

Links to related criteria
[CRISILs Approach to Financial Ratios]
[Rating criteria for manufaturing and service sector companies]
[CRISILs Bank Loan Ratings - process, scale and default recognition]
[Rating Criteria for Retailing Industry]
[CRISILs Criteria for rating short term debt]
[CRISILs Criteria for Consolidation]

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations **CRISIL Limited** M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com **Prakruti Jani** Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja GaikwadÂ** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Anuj Sethi Senior Director **CRISIL Ratings Limited** B:+91 44 6656 3100 anuj.sethi@crisil.com Aditya Jhaver Director **CRISIL Ratings Limited** B:+91 22 3342 3000 aditya.jhaver@crisil.com Latika Shyam Lala Senior Rating Analyst **CRISIL Ratings Limited** B:+91 22 3342 3000 Latika.Lala@crisil.com	Timings: 10.00 amÂ to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com Â For Analytical queries: ratingsinvestordesk@crisil.com

Note for Media:
This rating rationale is transmitted to you for the sole purpose of dissemination through your newspaper/magazine/agency. The rating rationale may be used by you in full or in part without changing the meaning or context thereof but with due credit to CRISIL Ratings. However, CRISIL Ratings alone has the sole right of distribution (whether directly or indirectly) of its rationales for consideration or otherwise through any media including websites andÂ portals.

About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

CRISIL Ratings pioneered the concept of credit rating in India in 1987. With a tradition of independence, analytical rigour and innovation, we set the standards in the credit rating business. We rate the entire range of debt instruments, such asÂ bank loans, certificates of deposit, commercial paper, non-convertible/convertible/partially convertible bonds and debentures, perpetual bonds, bank hybrid capital instruments, asset-backed and mortgage-backed securities, partial guarantees and other structured debt instruments. We have rated over 33,000 large and mid-scale corporates and financial institutions. We have also instituted several innovations in India in the rating business, including ratings for municipal bonds, partially guaranteed instruments and infrastructure investment trusts (InvITs).
Â
CRISIL Ratings Limited ('CRISIL Ratings') is a wholly-owned subsidiary of CRISIL Limited ('CRISIL'). CRISIL Ratings Limited is registered in India as a credit rating agency with the Securities and Exchange Board of India ("SEBI").
Â
For more information, visitÂ www.crisilratings.comÂ
Â

About CRISIL Limited

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better.Â

It is Indiaâ€™s foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

It is majority owned by S&P Global Inc, a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

For more information, visitÂ www.crisil.com

Connect with us: TWITTER | LINKEDIN | YOUTUBE | FACEBOOK

CRISIL PRIVACY NOTICE
Â
CRISIL respects your privacy. We may use your contact information, such as your name, addressÂ and email id to fulfil your request and service your account and to provide you with additional information from CRISIL. For further information on CRISIL's privacy policy please visit www.crisil.com.

DISCLAIMER

This disclaimer is part of and applies to each credit rating report and/or credit rating rationale ('report') that is provided by CRISIL Ratings Limited ('CRISIL Ratings'). To avoid doubt, the term 'report'Â includes the information, ratings and other content forming part of the report. The report is intended for the jurisdiction of India only. This report does not constitute an offer of services. Without limiting the generality of the foregoing, nothing in the report is to be construed as CRISIL Ratings providing or intending to provide any services in jurisdictions where CRISIL Ratings does not have the necessary licenses and/or registration to carry out its business activities referred to above. Access or use of this report does not create a client relationship between CRISIL Ratings and the user.

We are not aware that any user intends to rely on the report or of the manner in which a user intends to use the report. In preparing our report we have not taken into consideration the objectives or particular needs of any particular user. It is made abundantly clear that the report is not intended to and does not constitute an investment advice. The report is not an offer to sell or an offer to purchase or subscribe for any investment in any securities, instruments, facilities or solicitation of any kind to enter into any deal or transaction with the entity to which the report pertains. The report should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in the US).

Ratings from CRISIL Ratings are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold or sell any securities/instruments or to make any investment decisions. Any opinions expressed here are in good faith, are subject to change without notice, and are only current as of the stated date of their issue. CRISIL Ratings assumes no obligation to update its opinions following publication in any form or format although CRISIL Ratings may disseminate its opinions and analysis. The rating contained in the report is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment or other business decisions. The recipients of the report should rely on their own judgment and take their own professional advice before acting on the report in any way. CRISIL Ratings or its associates may have other commercial transactions with the entity to which the report pertains.

Neither CRISIL Ratings nor its affiliates, third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively, 'CRISIL Ratings Parties') guarantee the accuracy, Â

Â

CRISIL Ratings uses the prefix 'PP-MLD'Â for the ratings of principal-protected market-linked debentures (PPMLD) with effect from November 1, 2011, to comply with the SEBI circular, "Guidelines for Issue and Listing of Structured Products/Market Linked Debentures". The revision in rating symbols for PPMLDs should not be construed as a change in the rating of the subject instrument. For details on CRISIL Ratings' use of 'PP-MLD' please refer to the notes to Rating scale for Debt Instruments and Structured Finance Instruments at the following link:Â https://www.crisil.com/en/home/our-businesses/ratings/credit-ratings-scale.html