

Management Discussion and Analysis

Performance during the year 2020-21

The financial year 2020-21 was the most challenging year for the corporate world in living memory. In one sense, it was even more challenging for the Company, given the kind of products it makes, which are by and large discretionary in nature. However, some other factors kicked in and helped deliver an exceptional sales and financial performance for the year.

- The store-of-value aspect of the jewellery category as well as its share of wallet gained from within the wedding spends and other categories like travel
- The substantial innovation capability of Titan that accelerated significantly and drove up desire for all products even in these times
- The PhyGital capability of Titan that combined deep and extensive understanding of customers, their needs and preferences and used the relationships with the Company's 15,000+ sales staff to connect one-on-one
- The obsessive focus on 'total-safety-in-the-store' that eliminated customer anxiety about shopping
- A slew of digital initiatives that helped the Company leapfrog
- The impressive war-on-waste programme and the asset management effort that helped exceed profit and cash targets handsomely
- The deep commitment of all Titanians and all retail, distribution and vendor partners

As a result of all these, all the businesses did better than plan and also laid the foundations for a very good Financial Year 2021-22. Unfortunately, the second wave of COVID-19 struck in April 2021 and created a temporary setback to the operations of the Company.

WATCHES & WEARABLES DIVISION

Watches

The Management is convinced that the opportunity for "Watch as an Accessory" is timeless and is committed to capitalize on it. While the investment in design and new product development has happened consistently over the last 3-4 years, considerable focus is now being given to re-imagining the World of Titan channel, transformation of the Multi-Brand watch outlet, marketing communication investments and ratcheting up the omni-channel play.

The very good work done through the War-on-Waste programme is also being continued.

Wearables

The Company significantly increased its capability for this domain through the acquisition of HUG Innovations in Financial Year 2019-20, while simultaneously improving its product and app design capabilities as well. The result is a steady pipeline of exciting new products, services and ecosystems starting as early as in 2021. Reflex 3, the Fastrack wrist band launched in February 2021 on the Company's own proprietary platform, is a sign of things to come.

The Management is confident that Titan will establish itself as a prominent player in the Wearables market within the next 18 months through its product/service/ecosystem efforts as well as the distribution expansion into mobile phone outlets and considerable marketing investments.

International Business

The recovery of the Watches category in Titan's international market has been a bit slow. But, the newly created business division (now 2 years old) is focusing on the intrinsic opportunity for the Company's brands and is currently building a customer-up strategy for growing in sales, profits and prestige in the next 5 years and a good addition to the domestic Watches and Wearables business.

JEWELLERY DIVISION

The opportunity for the Jewellery Division during Financial Year 2022-23 as well as in the medium term is excellent. Apart from the low market share and the increasing competitive advantage and brand preference, the Division is continuing to

push many levers for growth. Multi-pronged efforts within the wedding market (including a new Engagement Rings focus), a “Many Indias” programme to increase state-level relevance, keeping the momentum behind the Gold Exchange and Golden Harvest opportunities, keeping the “Middle India” network expansion effort going.

The Zoya and Mia brands will also be riding firm on the momentum generated during Financial Year 2021-22 towards their exciting future.

The Division has also created a well-oiled process to keep the total inventory and capital employed in check, which has become embedded and sustainable.

CaratLane has had a scorching growth in Financial Year 2021-22 and reported a profit for the first time. The powerful omni-channel approach, very high technology capability, innovative product lines and the new-age employee culture have combined exceptionally well. The Company is very confident that CaratLane has all the ingredients for creating history and substantial stakeholder value in the next few years.

Responsible Sourcing - Progressing definitively towards a sustainable future:

- a) A robust rollout of a formal ‘Responsible Sourcing’ program to all vendors, to upgrade their units to the “Standard” level (Cottage, Basic, Standard and World Class, being the 4 increasing levels of evolution) across People, Process, Place and Planet parameters.
- b) Very good progress achieved on the integrated 3-year program for diamond sourcing, ensuring pipeline integrity by eliminating any mixing up of synthetics, and sourcing stones from sight holders / international mines having the right labour practices and conditions in their supply chains.
- c) 100% of fresh gold procured from banks is London Bullion Market Association (LBMA) certified ensuring highest purity, quality and mined from ethical sources. The rest of the gold is recycled exchanged gold from customers.

A revised and formal Titan Supplier Engagement Protocol (TSEP ver 2.0) was also rolled out to all suppliers on these counts.

International Business

The much-awaited launch of Tanishq in Dubai has been very successful, with customers giving a big thumbs-up for the excellent products and collections, the exquisite store and the superlative customer experience. The expansion into more

stores in the UAE and the GCC countries is on the cards. The NRI/PIO jewellery opportunity is very large and the Company is committed to making this a meaningful part of its portfolio in the next 5 years.

EYEWEAR DIVISION

The Eyewear Division transformed itself during Financial Year 2021-22 by unlocking substantial value from its operations: discount reduction, channel-mix improvement, product-mix improvement, in-house production enhancement, store and lab closures, other fixed cost management, all of these have contributed to a new platform of profitability that is quite sustainable. The Division is now all poised to grow in sales in the medium term and leverage this foundation.

The Division has also worked substantially on product innovations in lenses (Antifog, ClearSight, Neo progressives) and frames (Indifit, Signature, Glam, etc.) as well as channels (Ecolight low cost stores), all of which significantly improved the Division’s competitive advantage.

The overall opportunity in this market is vast on account of three things. The low market share that the Division has, the millions of people in the country with unaddressed refractive error and the new lifestyle (excessive screen time) that is accelerating the need for vision correction among the youth.

FRAGRANCE DIVISION

The Division has succeeded in creating a wide range of “Exceptional Quality, Affordable Price” Eau de Parfum variants: ‘Tales’ at ₹ 1595 to ‘Amalfi Bleu’ at ₹ 2495 and many in between, and through this created a broad aspirational category for millions of aspiring Indians who find international choices out of their reach. This platform will come in very handy in the next few years as India’s per capita GDP jumps significantly making this business start contributing meaningfully to the Company’s revenues and profits.

INDIAN DRESS WEAR DIVISION

Ethnic Wear

The market for sarees is very large. While lifestyle changes are influencing the frequency of saree wearing, the opportunity for special occasion sarees, where the Company has chosen to play, is significant and growing. The Division has succeeded in establishing a very strong customer value proposition, a systematic product and store assortment creation process, a healthy gross contribution profile and a unique and special store experience. The next couple of years will see the Division scale up its efforts in network expansion and franchising as

well as building a good sourcing and supply chain foundation. The huge advantage that this Division has is the ready member base of the Company's Encircle loyalty program and the franchise network.

DESIGN EXCELLENCE CENTRE

Without doubt, Design is at the centre of the Company's competitive advantage. The manufacturing backbone then takes over and delivers finely engineered products with exceptional detailing with very high performance parameters and durability. This overall approach has helped the Company become a category expert in every business it is into.

The Design strategy at Titan systematically and seamlessly blends consumer insights, deep design stories, the right aesthetics and fine ergonomics to convert the best of materials into lifestyle products of sophisticated style and exquisite beauty.

DIGITAL

The Company started investing in digital about five years back, in CRM, Analytics, e-commerce and m-commerce technologies. Through Financial Year 2020-21, a transformation took place resulting in a wholesale embracing of all these technologies by all employees and the willingness of customers to try new ways of engagement with the Company. The combined effect of these was an explosive growth in sales through new ways: video calling, try-at-home, appointment shopping, omni channel, chatbots, endless aisle, etc.

Apart from these, multiple Company processes have seen the effect of various Digital interventions that have ended up reducing costs, improving speed, and increasing accuracy: Artificial Intelligence in Design, Industrial Internet of Things in gold plating, Robotic Process Automation in invoice processing, Persuasive Technology in sales force management and many more.

HUMAN RESOURCES (HR)

The Company had 7,235 employees on rolls of which 1,917 were women as on 31st March 2021. Of the total head-count, 3,036 employees were engaged in manufacturing, 3,213 in retail and 986 in corporate and support functions. Of the total base, 150 employees are differently abled.

Employee Safety: The Company's approach to dealing with the unprecedented change the pandemic brought was steeped in the core value of Unconditional Positive Regard for People. The first and foremost step to deal with the pandemic also was to ensure that all employees in every part of the organization were safe and healthy. People over business is the approach that was adopted, be it in regards to resumption of services, opening of stores or people coming back to work. Utmost care and precaution was taken when resuming services. Leading by example is the other principle followed. From working from home when it was prescribed to following the social distancing norms once offices resumed, leaders walked the talk.

Employee Development: The last year has accelerated the adoption of technology and automation by leaps and bounds. In adopting digital media to attract and converting new consumers as well as connect with loyal customers, the Company has made a big shift. On the employees' front, this has translated to developing new capabilities on digital quotient such as online marketing, phygital selling, virtual customer connect. For non-retail and manufacturing employees, plethora of programs were introduced on digital platforms enabling self-paced and bite-sized learning.

Employee Connect & Employee Wellness

A big area of impact for HR in the year has been the positive shift created in employee experience. Holistic approach to Wellness: Will It, Well It, a wellness program, was introduced in Financial Year 2020-21; which saw organization-wide participation in the offerings of the program. The programs offered covered all aspects of wellness: physical, mental and financial.

RISKS AND CONCERNS

The Company has a robust process for managing the top risks, overseen by the Risk Management Committee (RMC) of the Board. As part of this process, the Company has identified the risks with the highest impact and then assigned them a likely probability of occurrence. Mitigation plans for each risk have also been put in place and are reviewed by the Management every six months before presenting to the RMC.

These risk types span Technological, Geo-political and Regulatory. To illustrate:

Technological: Disruption in operations due to cyber-attacks or hardware/software failure; Impact of Wearables technology on the Watch category

Geo-political: Dependence of the Watches & Wearables division on China as a source

Regulatory: Compliance needs and challenges in the Jewellery industry

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company during the year has reviewed its Internal Financial Control (IFC) systems and has continually contributed to establishment of a more robust and effective IFC framework, prescribed under the ambit of Section 134(5) of Companies Act, 2013. The preparation and presentation of the financial statements is pursuant to the control criteria

defined considering the essential components of Internal Control – as stated in the “Guidance Note on Audit of Internal Financial Controls over Financial Reporting” issued by the Institute of Chartered Accountants of India (ICAI).

The control criteria ensures the orderly and efficient conduct of the Company’s business, including adherence to its policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

Based on the assessment carried out by the Management and the evaluation of the results of the assessment, the Board of Directors are of the opinion that the Company has an adequate Internal Financial Controls system that is operating effectively as at 31st March 2021.

The Company has a robust internal audit function consisting of professionally qualified chartered accountants who cover the business operations as well as support functions and provide quarterly reports to the Audit Committee.

SEGMENT WISE PERFORMANCE

(₹ in crore)

Segment Revenue	Year Ended 31 st March 2021 (Audited)	Year Ended 31 st March 2020 (Audited)
Net Sales/Income from Operations		
Watches	1,580	2,616
Jewellery	18,631	16,738
Eyewear	375	544
Others	98	171
Corporate (Unallocated)	99	87
Total	20,783	20,156

(₹ in crore)

	Year Ended 31 st March 2021 (Audited)	Year Ended 31 st March 2020 (Audited)
Profit/(Loss) from segments before finance costs and taxes and after share of profit/(losses) of associate		
Watches	(65)	365
Jewellery	1,686	2,061
Eyewear	23	(14)
Others	(45)	(58)
Total	1,599	2,354
Less: Finance costs	181	149
Corporate (unallocated)	(185)	(100)
Profit before taxes	1,233	2,105

(₹ in crore)

Capital Employed	Year Ended 31 st March 2021 (Audited)	Year Ended 31 st March 2020 (Audited)
Watches	1,254	1,368
Jewellery	1,516	3,776
Eyewear	193	261
Others	80	126
Corporate (unallocated)	4,510	1,294
Total	7,553	6,825

HOW THE COMPANY FARED

Some of the key financial indicators are as below:

	FY 2020-21	FY 2019-20	FY 2018-19
Sales to Net fixed assets (No. of times)	20	18	18
Sales to Debtors (No. of times)*	71	93	53
Sales to Inventory (No. of times)	3	3	3
Retained Earnings - Rupees in crore	4,279	3,758	2,876
Return on Capital Employed (EBIT)	22%	35%	36%
Return on Net worth*	12%	23%	24%
Interest Coverage Ratio*	57	143	1,198
Current Ratio	2	2	2
Debt equity ratio	NA	0.09	NA
Operating Profit Margin %*	7%	11%	10%
Net Profit Margin	4%	8%	7%

SIGNIFICANT CHANGES IN KEY FINANCIAL RATIOS

During the year, following are the key financial ratios of the Company where there was a change of 25% or more as compared to the immediate previous financial year

	FY 2020-21	FY 2019-20	% change
Interest Coverage Ratio*	57	143	-60
Operating Profit Margin*	7%	11%	-37
Net Profit Margin*	4%	7%	-41

CHANGE IN RETURN ON NET WORTH

The details of change in Return on Net Worth of the Company as compared to the previous year is given below:

Ratios	FY 2020-21	FY 2019-20	% change
Return on Net worth*	12%	23%	-48

* Note: With the declaration of the COVID-19 as a pandemic in mid-March 2020, the performance of various Divisions were affected due to store closures consequent upon declaration of national lockdown by the Government. This has resulted in the profit before tax being lower by 41%, which in turn impacted the respective ratios having a variance of more than 25%



DISCLOSURE OF ACCOUNTING TREATMENT

The financial statements of the Company have been prepared in accordance with the Indian Accounting Standards (Ind-AS) notified under the Companies (Indian Accounting Standards) Rules, 2015 and Companies (Indian Accounting Standards) (Amendment) Rules, 2016 read with Section 133 of the Companies Act, 2013.

OUTLOOK FOR FY 2021-22

At an overall level, the circumstances of FY 2021-22 are somewhat better than FY 2020-21.

- The economic circumstances of the Company's customers (the Upper Middle Class) are expected to be as good as in FY 2021-22 or perhaps even better, given that virtually all companies are giving out raises to their employees, with its cascading effects on other segments of the population
- The rural economy is also likely to be good, given the rains that we have had, and it will also have its cascading positive effect on other consuming segments
- During FY 2020-21, the brands of the Company have improved their competitive positions in each of the categories they operate in
- The Management of the Company has emerged intellectually and emotionally stronger and is going into FY 2021-22 with a set of proven initiatives for customer

acquisition, cost and cash management as well as a well-developed agility

It is based on this understanding that the business plans for FY 2021-22 were made with a high level of ambition and substantial excitement and passion. The second wave of COVID-19 has come and caused a setback to those plans, but without taking away the medium-term opportunities and the advantages that those plans represented. Also, by September 2021, much of the country is likely to be vaccinated, paving the way for some kind of normalcy.

The Management is approaching the new FY 2021-22 with the same calmness and composure like in FY 2020-21 and is confident that it will be able to overcome all the challenges that come its way.

CAUTIONARY STATEMENT

Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates and expectations may be forward-looking statements within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include, among others, economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which it operates, changes in the Government regulations, tax laws and other statutes, any epidemic or pandemic, natural calamities over which we do not have any direct/indirect control.
