TITAN
COMPANY

SEC 51 / 2020-21

19th August 2020

The General Manager, DCS – CRD
BSE Limited
Corporate Relationship Department
1st Floor, New Trading Ring
Rotunda Building, P J Towers
Dalal Street, Fort,
MUMBAI - 400 001
Scrip Code: **500114**

The General Manager, DCS – CRD
National Stock Exchange of India Ltd
Exchange Plaza,
Bandra-Kurla Complex,
Bandra (East),
MUMBAI - 400 051
Symbol: **TITAN**

Dear Sirs,

Sub: Additional Information - Note on Accounting of Bullion Hedge

We are enclosing herewith additional information in the form of a presentation in respect of "Bullion Hedge Impact - Note with Illustrations" for the benefit of the investors and other stakeholders.

The above information is also available on the website of the Company: www.titancompany.in

We request you to kindly take the above on record.

Thank you.

Yours truly,
For TITAN COMPANY LIMITED

Dinesh Shetty
General Counsel & Company Secretary

Encl. As stated

Titan Company Limited

Bullion Hedge Impact – Note with Illustrations

19th August, 2020

Disclaimer: *This additional information is mainly to explain the accounting of Bullion Hedges in line with Company's current accounting policies and current provisions of Ind AS 109 for the benefit of the various stake holders. The numbers are for illustration purpose only. The accounting standards and policies could change in future. The numbers do not reflect the actual accounting impact.*

Index

Accounting of Gold Purchases

Source	Hedging	Accounting
Gold on Lease (GOL)	• Bought upfront from banks and liability fixed on date of utilisation (normally sale of gold to customers). • **Acts as natural hedge.**	• Initial inventory recorded @ gold rate on the date of purchase and inventory is marked to market on a monthly basis • The utilisation of GOL contract and fixing of liability will happen in 5-6 months being our inventory conversion cycle
Gold Bought on Spot (Mainly gold exchange from customers at the stores, finished goods buying and bullion bought in the spot market, etc)	• Hedging through Futures contract in the commodity exchange based on expected sale • Futures contract is normally equal to or above Inventory Cost • **Ensures Nil Loss** • **Need to hedge is explained in the next slide**	• Hedge accounting with futures contract being marked to market on a monthly basis and gain/loss on unexpired contract carried forward to Other Comprehensive Income (OCI) • Futures matched to period of sale and based on difference in gold rate on date of sale and futures price, loss or gain recognised in the month of sale/ utilisation

Why and how do we hedge ?

Gold on Lease (GOL)

- In case of GOL, gold is procured from banks on an unfixed basis on day 1 and gets priced whenever the gold gets sold to customers, which could be 5-6 months from the date of purchase.
- Thus, the pricing of gold is matched with the sale price from customers and hence acts as a natural hedge and there is no impact on P&L of Titan

Non gold on lease purchases(Spot buying which includes Gold exchange, spot purchases)

- Titan procures 100 Kgs gold on 1st October and pays the vendor based on the price that day, say Rs 4000/Gm and Rs 40 Crs gets paid.
- It takes 5 months to convert the raw gold to finished goods and get cash from the customer. Lets assume that this is expected to happen on 1st March.
- Now, between 1st October and 1st March, the gold price could go up or come down.
- If the gold price goes down to Rs 3,000, then on 1st March, we receive Rs 30 Cr from the customer resulting in a loss of Rs 10 Cr. If the gold price goes up to Rs 5,000, then on 1st March, we receive Rs 50 Cr from the customer, resulting in a gain of Rs 10 Cr.
- Currently, Titan is fully hedged and therefore protected against the vagaries of the gold price movement
- Thus, on 1st October, Titan enters into buying a sell futures contract for 1st March, effectively locking itself into a Rs 4,000 price to be received on 1st March.
- Thus, the buying price of Rs 4,000 is matched by a sell futures contract of Rs 4,000 and hence, there is no impact on the P & L of Titan

Accounting of Gold Purchases - illustrations

Gold on Lease (GOL) purchase

Date	GOL		Kg	Gold Price/Gm	Rs Cr
1st Oct 2019	GOL from bank	A	100	4000	40
1st Mar 2020	Sale to Customer	B	100	5000	50
	GOL Repayment	C	100	5000	50
	Gain on sale to customers	D=B-A			10
	Loss on GOL payable to bank	E=A-B			-10
	Total P&L Impact				**0**

Gold purchased on Spot – Effective Hedge

Date	Gold Bought on Spot		Kg	Gold Price/Gm	Rs Cr
1st Oct 2019	Gold procured from market	A	100	4000	40
1st Oct 2019	Gold hedged in commodity futures (bought sell futures) for maturity 5 months	B	100	4000	40
1st Mar 2020	Gold sold to Customers	C	100	5000	50
1st Mar 2020	Gold futures bought back in Commodity Exchange	D	100	5000	50
	Gain on sale to customers – Stock gain	E=C-A			10
	Loss on hedge cancelled with Commodity Exchange – Hedge loss	F=B-D			-10
	Total P&L Impact				**0**

Detailed example of Hedge Accounting

Details of transaction
Month wise explanation
Movement of Inventory, Hedge and Gold on Lease

Details of transaction (1/3)

Transactions	Illustration		
Procurement on Spot	Period 1 - 100Kgs Period 2 - 80 Kgs		
Hedging of Forecast Sales by taking sell futures contract in commodity exchange	Futures for sale in Period 3 (100 Kgs) Period 4 (80 Kgs)		
Gold on Lease Procurement	200 KGs procured in Period 3 for utilisation in Period 4 against sales.		
	Sales plan and actual sales (Kgs)		
	Period 3	**Period 4**	**Period 5**
Sale Plan	100	280	0
Actual Sales	150	180	50
	Hedge / GOL Utilisation		
Hedge Utilisation	100 Kgs from hedge taken for Period 1	30 Kgs from hedge taken for Period 4 and balance 50 Kgs rolled over to Period 5	50 Kgs from hedge taken for Period 4
GOL Utilisation	50 Kgs of GOL advanced from Period 4 and fixed	150 Kgs GOL Fixed	Nil
Cost of Sales (Cost of Gold)	Accounted on FIFO basis as per Company's accounting policy		

Period wise Impact (2/3)

Blue – Transaction, Green – Inventory Impact,

Brown- Sale / Mat Cost, Purple – P&L

								150 Kgs sold, out of which 100 Kgs of hedge taken in period 1 Utilised and balance 50 Kgs from GOL taken in Period 3			180 Kgs sold, out of which 30 Kgs utilised against hedge taken of 80 Kgs in Period 2 and balance 150 Kgs of balance GOL utilised. Gain due to FIFO valuation			50 Kgs sold, but hedge taken in Period 2 and designated for period 4 utilised for this.		
								Effective Hedge			Ineffective Hedge			Ineffective Hedge		
		Period 1			Period 2			Period 3			Period 4			Period 5		
		Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.
Gold Procurement – Spot		100	4,000	40	80	4,200	34									
Gold Procurement - GOL								200	4,400	88						
Hedge in MCX (Futures)		100	4,000	40	80	4,200	34									
Hedge designation against forecast sales		Designation for Period 3 Sale			Designation for Period 4 Sale			100	4,000	40	80	4,200	34			
Actual Sales	(A)							150	4,400	66	180	4,500	81	50	4,500	22.5
Utilisation of Hedge	(B)							100	4,000	40	30	4,200	13	50	4,200 *	21.0
GOL Fixing (utilisation against sale)								50	4,400	22	150	4,500	68			
Closing Inventory (Explained in next slide)		100	4,000	40	180	4,089	74	230	4,374	101	50	4,400	22	-		-
Closing GOL (Explained in next slide)								150	4,400	66						
Closing Hedge (Explained in next slide)		100	4,000	40	180	4,089	74	80	4,200	34	50	4,200	21	-		-
Sales as per Spot Gold Rate	(A)							150	4,400	66	180	4,500	81	50	4,500	23
Settlement of MTM	C= (B) - (A)							100	-400	-4	30	-300	-1	50	-300	-2
Material Cost – Explained in next slide	(D)							150	4,067	61	180	4,450	80	50	4,400	22
Profit/ (Loss) on Sale	(A) - (C) – (D)									1.00			0.0			(1.00)
Ineffective Hedge Loss													(1.50)			
Reversal of Hedge Loss of Period 3																1.50
Net Impact to P&L (Rs Cr)										1.00			(1.50)			0.50

* Rate used for showing impact on P&L

Movement of Inventory, Hedge and GOL (3/3)

Movement of Inventory

		Period 1			Period 2			Period 3			Period 4			Period 5		
		Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.
Opening	A	0	0	0	100	4,000	40	180	4,089	74	230	4,374	101	50	4,400	22
Add : Purchases - Spot Gold	B	100	4,000	40	80	4,200	34	-	-	-	-	-	-	-	-	-
Add : Purchases - Gold on Lease	C	-	-	-	-	-	-	200	4,400	88	-	-	-	-	-	-
Add : Gold Loading on GOL	D												2			-
Total Purchases	E=B+C+D	100	4,000	40	80	4,200	34	200	4,400	88			102	50		22
Less : COGS (FIFO)- Period 3 100 Kg of Period 1 *4000+50Kgs of Period 2 *4200	F							150	4,067	61						
Less : COGS (FIFO)- Period 4 30 Kg of Period 2 *4200+150Kgs of Period 3 *4500	G										180	4,450	80			
Less : COGS - Period 5 (FIFO)-balance stock	H													50	4,400	22
Closing Stock	I=E-F-G-H	100	4,000	40	180	4,089	74	230	4,374	101	50	4,400	22	-		-

Movement of Hedge

		Period 1			Period 2			Period 3			Period 4			Period 5		
		Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.
Opening hedge	A				100	4,000	40	180	4,089	74	80	4,200	34	50	4,200	21
Add : Hedge taken	B	100	4,000	40	80	4,200	34	-	-	-	-	-	-	-	-	-
Less : Hedge utilised	C	-	-	-	-	-	-	100	4,000	40	30	4,200	13	50	4,200	21
Closing hedge	D=A+B-C	100	4,000	40	180	4,089	74	80	4,200	34	50	4,200	21	-		-
MTM - Closing Balance	E	100	4,000	40	180	4,200	76	80	4,400	35	50	4,500	23			
Gain / Loss -OCI							-2.0			-1.6			-1.5			
Gain/loss - Trfd to ineffective													-1.5			

Movement of Gold on Loan

		Period 1			Period 2			Period 3			Period 4			Period 5		
		Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.	Qty	Rate per Gm	Cr.
Opening GOL	A				-	-	-	-		-	150	4,400	66	-	-	-
Add : GOL Taken	B	-	-	-	-	-	-	200	4,400	88	-	-	-	-	-	-
Add : Loading of increase of GOL liability (4500-4400*150)	C												2			
Less : GOL Utilised	D=B+C	-	-	-	-	-	-	50	4,400	22	150	4500	68	-	-	-
Closing GOL	E=A-D	-	-	-	-	-	-	150	4,400	66	-			-		-

Hedge Accounting - Timing difference & Q1 FY21 Impact

In Q1 FY 21, we had scenarios which were effective and Ineffective and the treatment of the same is explained below :

Scenario	Conditions	Effective / Ineffective	Treatment in P & L
Actual Sales in line with projections	Futures contract utilisation against sales as per plan	Effective hedge	Loss on hedge reduced from Sales
Sales not line with projections	<u>Mismatch in utilisation of contract</u>. Contracts from subsequent periods utilised against current period sales	Ineffective	Loss on hedge added to other expenses
	<u>Mismatch in Sales Quantity</u> due to lower sales than the projections. Shift of futures contracts to subsequent quarters for utilisation. Break in hedge relationship in Q1 & unrealised loss on such contracts to be recognised in Q1.	Ineffective	Loss on hedge added to other expenses

The ineffective hedge loss due to mismatch in Sales quantity will be reversed subsequently with a corresponding reversal of stock gain accrued in Q1'21

Thank You

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