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March 20, 2020

To,
Listing Department
BSE Limited
P.J Towers, Dalal Street,
Fort, Mumbai – 400 001

Scrip Code: **532375**

To,
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, 5th Floor, Plot No. C/1, G Block,
Bandra Kurla Complex, Bandra (E), Mumbai – 400 050

Symbol: **TIPSINDLTD**

Ref: letter dated March 4, 2020 regarding Revision in Credit Rating for Bank Facilities

Sub. : Unacceptable Credit Rating

Dear Sir/Ma'am,

This is with reference to our letter dated March 4, 2020 regarding revision in Credit Rating for Bank Facilities assigned by the CARE, we are enclosing herewith a copy of the letter for Unacceptable Credit Rating.

Kindly take a note.

Thanking you,

For **Tips Industries Limited**

Bijal R. Patel
Company Secretary

TIPS INDUSTRIES LTD. 601, Durga Chambers, 6th Floor, Linking Road, Khar (West) MUMBAI-400 052.

Encl: a/a

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Unacceptable Credit Rating

Dear Stakeholders,

CARE has recently upgraded your Company's credit rating of from BBB- to BBB. The rating rationale is available on the agency's website.

The Company finds the credit rating unacceptable and one which inadequately reflects the strong fundamentals of the business. The same has been communicated to the rating agency.

We have provided data backed rebuttals to their assumptions and requested an opportunity to represent our case. At the time of writing this letter, we are yet to receive a time for meeting / representation.

Credit ratings tend to have a significant impact on the perceived soundness of a business. Ratings also impact the cost of borrowings for any business and thus impact operating costs for a business and thus influence a business' competitiveness.

Tips does not foresee a need to borrow in the near future. Therefore the current low ratings may not impact our cost structure immediately but will affect the wider perception about our Company. Hence we feel compelled to make our data backed counter arguments public. We hope that all stake holders will be able to compare both arguments and form their own conclusions.

The aforementioned letter cites several reasons for lower ratings; we would like to explain with supporting data wherever possible.

1. **Small Size of Operations :** The quality of a business is visible from cash flow generation not merely the size of revenues. Other music companies may have larger revenues but have not delivered, positive cash flow for many years at a stretch while enjoying much higher credit ratings. Despite our smaller revenues, we have delivered better Cash Flow from Operations (CFO), in absolute as well as proportionate terms.

   Tips has consistently generated sizeable positive cash flows from operations every year, over a 5 year period. The smaller size of operations has not dented our ability to grow or to run the business efficiently or in generating positive cash flows every year.

   If the BSE 500 constituents were ranked by CFO for FY19, Tips would have stood 392nd on the list of the 500 largest companies in India. On the same metric, some companies in the music business would not find a place in that ranking, and yet enjoy a credit rating 3 to 4 notches higher than Tips.

   Clearly assuming that Tips Industries Ltd. is a small sized company purely based on its revenue is erroneous.

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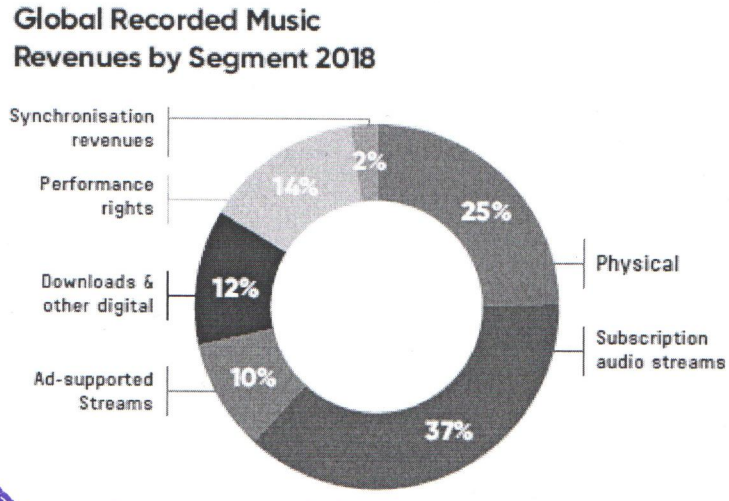
2. **Intense Competition From Other Players :** Music labels own IPR for their repertoire for 60 years as per the Copyright Act 2012. This allows them an opportunity to monetize music rights for over half a century. Other sectors like pharmaceuticals enjoy Intellectual Property Rights (IPR) protection for a period of 20 years. IPR provides longevity to the repertoire and therefore mitigates the harmful effects of competition. Although there are about 4 -5 active players in the Hindi Music business, each has a unique repertoire and follows a different content acquisition strategy and therefore there is little or no overlap in their offerings when viewed on title by title basis. Aggressive auction type situations don't exist in content acquisitions.

3. **High Obsolescence Risk Associated with Distribution Formats :** Tips is an owner of music IPR not a technology company and hence unconcerned with the listening format adopted by listeners. Our repertoire is fully digitized and can be converted to any new or existing format at negligible cost and without loss of time. Music listenership has continued to grow over decades and technological changes have improved penetration benefitting all music IPR owners. Change in technology poses no risk to our business model.

   Over the last 150 years, there have been only 5 technological changes in music listening formats. Starting with the Phonograph in 1877 which was followed by cassettes after nearly a 100 years, which in turn were followed by Compact Discs and lastly Digital Downloads and Streaming. Music streaming which is now becoming the most preferred listening format was first introduced in 1993 in the UK. You Tube was founded in 2005 for streaming videos. Spotify the largest music streaming platform was started in October 2008, a full 15 years after the technology was introduced.
   Streaming became the largest source of revenue for the global music industry only in 2015 and industry continues to derive 25% of revenues from physical formats like CDs and Vinyl records and digital downloads contribute 12%.



Source : IFPI Global Music Report 2019

The above data disproves the assumption of sudden technological disruption in distribution. In any case technological change does not impact IPR owners as they can simply change the file format and adapt to newer technologies without much loss of time or money.

Consumer's Unwillingness to Pay : According to Indian Music Industry's (IMI) – Digital Music Study 2019, paid streaming subscription revenues account for **27%** of all recorded music industry revenues in India. Subscription streaming revenues grew 33% to Rs 292.8 cr while ad-supported streaming revenues grew 43.6% to Rs 257 cr. Clearly, paid streaming has already started contributing more to the Industry. A link to the report is provided below:
http://indianmi.org/be/wp-content/uploads/2019/09/output.pdf

Globally all internet businesses have paid users in the ratio of 0.5 to 2% of total users. If paid music subscribers are a low proportion of total users, it seems to be in line with global experience.

4. **Piracy :** No doubt piracy exists. Technology has disrupted piracy the most. Free services such as You Tube and other OTT platforms also provide free music listening experiences to their users. When licensed music is available for free, and data costs are negligible, the economic incentive for piracy is miniscule.
   Furthermore, focusing on piracy, while ignoring actual growth in business is absolutely unfair.

5. **Risk from Acquisition of Content :** The argument about risk from acquisition of music rights seems to be centered on the negative outcome of content acquisition. We believe the following analogy may help to clarify our position :
   The top 5 Indian pharmaceutical companies spend 7 to 9% of their revenues on Research & Development (R&D) Expense. Most of their R&D is focused towards developing drugs for the US market. Cumulatively for these companies, US market accounts for 35% of revenues. By implication, these companies spend, 20 to 25% of their US market revenues on R&D. Every Company's R&D program covers a large number of projects and many of these projects are dropped over time due to commercial or technical infeasibility and new projects are added. Hence, the outcome of R&D is unknowable at the start, but pharmaceutical companies invest in R&D for growth. These costs are generally expensed out via the P&L statement annually since the outcomes are unknown.
   These companies are able to invest in R&D as existing products provide a steady stream of cash flow.

   Similarly music labels acquire music rights for future growth and expense acquisition costs annually since the outcome is unknown at the beginning. The existing repertoire of music provides a steady cash flow stream to purchase new rights; just as in the case with pharmaceuticals.

   Furthermore music acquisition costs are much lower as a percentage of music sales compared to the average R&D spend of pharmaceutical companies. Our historical track record shows that, our content acquisition spend has been in proportionate to the Company's cash flows and has never been disproportionately ambitious.

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Basis above, we fail to understand, what risk acquisition of content poses to our Balance sheet or our repayment capability.

It is a matter of great shame that the current rating has eschewed the Company's progress since the initiation of the rating exercise. It seems to have completely ignored the growing royalty income, better Cash Flows from operations, decline in Debt and our high ROCE and ROE, without which the repayment of debt would not be possible in normal course of operations. Most of all, it gives no credence to our impeccable credit track record of over 25 years, where, we do not have a single instance of delay, default or even a cheque bounce, through good times or bad, in the Company's history.

Our stakeholders will observe that our present performance is not from any exceptional income, instead this performance is despite accelerated write-offs of film inventory, which is a non-cash expense.

We find that most of the stated objections and weaknesses are invalidated by data or by the current state of the music industry. These objections were pertinent in a previous era which existed over 20 years ago.

At initiation of the credit rating process too, we had protested the low ratings ascribed to us, but our explanations went unheeded and we were not provided the supporting data for the agency's negative assumptions.

We understand that Credit Rating Agencies are under pressure due to historical lapses and the tough economic conditions. Any individual or organization's natural response to such conditions would be to err on the side of caution. However, undue conservatism also harms clients.

CARE is one of the most important players in the credit market. Lenders and borrowers depend on leading Credit Rating Agencies such as CARE for optimizing their assessments of risks and costs. In such a situation, CARE's opinion becomes extremely valuable. And therefore it is imperative that a rating agency must finely balance interests of lenders as well as borrowers. Just as a tilt in favour of borrowers may lead to high NPA's and credit losses, an undue tilt in favour of lenders, born out of excessive conservatism, will lead to systemically higher borrowing costs; which would slow down the economy further and certainly not be in our national interest. Our appeal to CARE and other leading rating agencies is to issue fair and unbiased ratings based upon each company's merit.

Thanking you,
Yours Sincerely,
For **Tips Industries Limited**

Kumar S. Taurani
Chairman & Managing Director

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