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## TCNS CLOTHING CO. LIMITED

July 17, 2018

**TCNS**  
Clothing Co. Limited

**SMC Ranking**  
★ ★ ☆ ☆ ☆ (1.5/5)

### Issue Highlights

Industry	Retail
Offer for sale (Shares)	15,714,038
<b>Net Offer to the Public</b>	<b>15,714,038</b>
Issue Size (Rs. Cr.)	1121-1126
Price Band (Rs.)	714-716
Offer Date	18-Jul-18
Close Date	20-Jul-18
Face Value	2
Lot Size	20 Shares

### Issue Composition

	In shares
Total Issue for Sale	15,714,038
QIB	7,857,019
NIB	2,357,106
Retail	5,499,913

### Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	43.69%	34.22%
QIB	11.27%	12.81%
NIB	45.04%	43.99%
Retail	0.00%	8.97%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

### Objects of the Issue

- The objects of the Offer are to achieve the benefits of listing the Equity Shares on the Stock Exchanges and for the sale of up to 15,714,038 Equity Shares by the Selling Shareholders.

### Book Running Lead Manager

- Kotak Mahindra Capital Company Limited
- Citigroup Global Markets India Private Limited

Name of the registrar Karvy Computershare Pvt Ltd

### About the Company

Incorporated in 1997, Delhi based TCNS Clothing Co. Limited is India's leading women's branded apparel company in terms of the total number of exclusive brand outlets as of November 2017. The company designs, manufactures, markets, and retails a wide portfolio of women's branded apparel across multiple brands. It sells its products across India and through multiple distribution channels. As of September 30, 2017, the company sold its products through 418 exclusive brand outlets, 1,305 large format store outlets and 1,361 multi-brand outlets, located in 29 states and two union territories in India. It also sold its products through six exclusive brand outlets in Nepal, Mauritius, and Sri Lanka. In addition, it sells its products through its own website and online retailers. TCNS's product portfolio includes top-wear, bottom-wear, drapes, Combination-sets and accessories that cater to a wide variety of the wardrobe requirements of the Indian woman, including everyday wear, casual wear, work wear and occasion wear.

### Strength

#### Strongly positioned to leverage growth in the women's apparel industry in India :

The company believes that by leveraging its existing market position in India, particularly the recognition of its portfolio of brands, geographical spread of its distribution and retail network, experience and expertise of its design team and long-standing relationships with its raw material suppliers and job workers, it is well placed to benefit from the expected growth in the women's branded apparel industry in India.

#### Leading women's apparel company in India with a portfolio of established brands:

The Company believes that its portfolio of leading and differentiated brands enables it to better cater to the needs of its customers and increase the range and diversity of its products, leading to increased brand loyalty and repeat customers. The company has a track record of developing home-grown brands, leveraging its deep understanding and market research of Indian women consumer's needs. Over the years, the company has developed three distinctive brands under which it sells its products, namely W, Aurelia and Wishful.

#### Innovative and institutionalized product design process:

In order to offer new and varied products to its customers, the company focuses on creating innovative designs and optimizing fit and sizing combined with an emphasis on quality. The company also conducts meetings and roadshows for its sales partners to solicit product feedback and reviews on a periodic basis. It utilizes in-depth market research and data analysis to emphasize the fit and comfort of its products and to develop differing sizes across its brands and products.

#### Widespread distribution network and presence across a variety of retail channels:

Over the years, the company has invested in establishing processes, teams and technology to manage its pan-India and multi-distribution channel retail presence. As of March 31, 2018, it sold its products through 3,456 points of sale comprising exclusive brand outlets, large format stores and multi-brand outlets located across cities in 31 states and union territories in India. As of March 31, 2018, the company also sold its products through six exclusive brand outlets in Nepal, Mauritius and Sri Lanka, as well as through online retailers and its own websites.

#### Longstanding relationships with suppliers and job workers:

It has established long-standing relationships with its vendors in order to ensure the delivery of quality products to its customers in an efficient and cost-effective manner. The company believes that one of its competitive strengths lies in building and managing an extensive sourcing network to support the requirements of its product development teams. It regularly analyzes its

existing vendors' capacity and output to ensure that it has back-up arrangements in place, pre-book capacity based on projections and work with its vendors to develop infrastructure and increase productivity, in order to ensure adequate production capacity and timely procurement and delivery.

**Capital efficient and scalable business model:** Its business model relies on the strength of its design process, its distribution and retail network and its long standing relationships with its vendors. The company enters into leases or franchise agreements for its exclusive brand outlets which requires lower upfront capital expenditure as compared to acquisition of real estate or properties for setting up its outlets. It believes this business model allows it to be capital efficient.

## Strategies

**Expand its physical retail and online presence:** The company intends to focus its expansion efforts on markets. In Fiscals 2018, 2017, and 2016, it has added 84, 76 and 70 new exclusive brand outlets (net of closures), respectively, in new cities and cities. Across its three brands, the company plans to annually open approximately 75 to 85 exclusive brand outlets in India during Fiscal 2019 and 2020, and increase the size and visibility of its existing exclusive brand outlets, where possible. Leveraging on its experience from its stores in Nepal, Sri Lanka and Mauritius, the company intends to open stores in other Asian countries such as Saudi Arabia, Kuwait, the UAE, Bahrain and Oman, which have a significant Indian diaspora.

**Leverage marketing initiatives to increase brand recognition:** the Company's endeavour to utilize distinctive marketing, advertising and customer engagement initiatives such as creating new fashion trends which combine western and ethnic apparel and introducing products in seasonal thematic collections. The company also plans to continue to use in-store communication, store facades and store shutters for advertising its brands. For the Fiscal 2018 and the Fiscal 2017, its advertising and sales promotion were ₹ 334.55 million and ₹ 395.06 million, respectively, or, 3.97% and 5.56% of its revenue from operations, respectively and The company intends to increase this proportion in the future with focus on Aurelia and Wishful. Further it intends to continue its brand building measures by introducing strategic marketing initiatives and consumer engagement programs in the future, such as loyalty programs.

**Expand and strengthen its brand portfolio:** In addition to strengthening and expanding the reach of, and strengthening, its brands W and Aurelia, the company intends to (i) continue to grow its brand Wishful targeting the premium occasion wear market; (ii) launch new brands; and (iii) acquire other brands opportunistically. While continuing to organically grow its brand portfolio, the company intends to explore inorganic expansion as well. The company intends to evaluate growth opportunities to acquire brands which would strengthen and expand its product portfolio; enable it to consolidate its market position in existing product categories; or enable it to achieve operating leverage in existing markets by unlocking potential efficiency and synergy benefits.

**Increase the range of its products under existing brands:** The Company intends to continue to leverage on its in-depth market research and data analysis based design process to enable it to introduce a wider range of products under its existing brands based on consumer preferences and demand and to distinguish itself from its competitors. In order to enhance and diversify its product offerings and cater to a larger proportion of Indian women's wardrobe requirements, the Company intends to continue to develop and launch additional.

**Improve operational efficiencies:** The company intends to continue to actively manage its operating costs and thereby improve margins by leveraging technology to grow its sales and ensure customer satisfaction; continue to leverage its capital efficient business model by strengthening its manufacturing and logistics arrangements; and maintain low up-front costs to set up and expand its retail network by continuing to enter into leases or franchise agreements for its exclusive brand outlets and continue to carry its detailed market research to reduce the risk of unsuccessful or unprofitable stores.

## Risk Factors

- **Inability to effectively manage or expand its retail network:** The company sells its products through exclusive brand outlets, large format stores, multi-brand outlets and online channels such as online retailers and its websites. If the company fails to effectively manage or expand its

retail network, it may have an adverse effect on its business, results of operations and financial condition.

- Current locations of its exclusive brand outlets may become unattractive:** The success of any exclusive brand outlet depends in part on its location. The company cannot assure that current locations of its exclusive brand outlets will continue to be attractive or profitable as demographic patterns change.
- Derives a significant portion of its revenues from sales at franchised exclusive brand outlets, large format stores, multi-brand outlets and through online retailers:** The Company derives a significant portion of its revenues from sales at franchised exclusive brand outlets, large format stores, multi-brand outlets and through online retailers. Any failure to maintain relationships with such third parties could adversely affect its business, results of operations and financial condition.
- Do not currently own any manufacturing facilities:** The Company does not currently own any manufacturing facilities and engages job workers for manufacturing all its products. It may not be able to obtain sufficient quantities or desired quality of products from job workers in a timely manner or at acceptable prices, which may adversely affect its business, financial condition and results of operations.

### Peer comparison

Co_Name	Operating Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
Page Industries	2551.37	346.98	311.19	91.16	37.33	759.91	10	28369.3	31631.77
Aditya Birla Fashion and Retail	460.28	73.18	59.35	24.11	4.42	323.76	10	1431	1764.42
Future Lifestyle	7172.07	117.79	1.53	92.09	9.95	14.16	10	140.9	10873.57
Kewal Kiran Clothing	4497.97	126.08	6.48	61.54	5.07	78.7	2	399	7759.47
TCNS Clothing Co Limited	1123.23	98.10	16.00	44.76	10.18	70.37	2.00	716.00	4390.38

\* Financials are annualised

\*\*Peer companies financials are based on TTM

### Valuation

Considering the P/E valuation on the upper price band of Rs.716 EPS and P/E of estimated annualised FY2018 are Rs.16 and 44.76 multiple respectively and at a lower price band of Rs. 714, P/E multiple is 44.63. Looking at the P/B ratio on the upper price band of Rs.716, book value and P/BV of estimated annualised FY18 are Rs.70.37 and 10.18 multiple respectively and at a lower price band of Rs. 714 P/B multiple is 10.15. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital.

### Industry Overview

The apparel & accessories market in India was estimated to be US\$ 56.1 billion in Fiscal 2017 and is expected to reach US\$ 77.2 billion by Fiscal 2020, growing at a CAGR of 11.3%. Of this, the apparel segment was estimated to be US\$ 50.9 billion in Fiscal 2017 and is expected to grow at a CAGR of 9% between Fiscal 2017 and Fiscal 2020 to reach US\$ 65.8 billion, on the back of factors such as greater purchasing power, in turn driving growth in primary discretionary spends, better access and availability of products, higher brand consciousness, increasing urbanization and increasing digitization. The organized apparel market is expected to grow from US\$ 12.2 billion in Fiscal 2017 to US\$ 21.7 billion in Fiscal 2020 at a CAGR of 21%. The share of organized retail in the apparel segment has increased from 14% in Fiscal 2007 to 24% in Fiscal 2017 and is expected to constitute 33% in Fiscal 2020. Over the past ten years, organized retail has not only captured new and incremental demand, but has also succeeded in moving demand away from unorganized retail. The branded apparel market is expected to grow from US\$18.8 billion in Fiscal 2017 to US\$ 31.6 billion by Fiscal 2020 at CAGR of 19%. The share of branded apparel within the total apparel market is expected to increase from 37% in Fiscal 2017 to 48% in Fiscal 2020. Favorable demographics, urbanization and rapid growth of organized retailing models for apparel are the key drivers of growth of branded apparel. The women's apparel market in India, as at Fiscal 2017, is pegged at US\$ 19

billion and expected to reach US\$ 42 billion by Fiscal 2025, growing at a rate of approximately 10%. The women's wear market in India is growing faster than the men's largely due to: a) an increase in the number of working women, b) a shift towards aspiration rather than need based buying c) design innovations that appeal to Indian sensibilities and d) emergence of home grown national brands in a market where Indian wear contributes 71%.

### Outlook

The Company business is subject to seasonality. Lower revenues in the festive period of any Fiscal may adversely affect company business, financial condition, results of operations and prospects. However, the company is yet to receive the trademark for its main brand W, and earlier the same was rejected by the owners of the brand 'Wrangler' on various grounds including prior proprietorship of the 'W' stitch design, prior registration and a claim of a well-known status of their mark in India. So, in the absence of this trademark registration for the 'W' brand and in the event of misuse of the 'W' logo by a third party, the company may not be able to initiate an infringement action against such third parties. As the issue is offer for sale, fund raised will not go to the company. Also the issue price looks expensive. Considering all these aspects, investors with high risk appetite, may invest for long term.

### An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	July 18, 2018
Bid/Offer Closing Date	July 20, 2018
Finalisation of Basis of Allotment with the Designated Stock Exchange	July 25, 2018
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	July 26, 2018
Credit of Equity Shares to depository accounts of Allottees	July 27, 2018
Commencement of trading of the Equity Shares on the Stock Exchanges	July 30, 2018

## Annexure

### Consolidated Financials

#### Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Mar-18 (9 Months)	Period ended 31-Mar-17 (12 Months)	Period ended 31-Mar-16 (12 Months)
Total Operating Income	842.43	711.03	486.07
Total expenditure	686.99	634.74	489.95
<b>Operating Profit</b>	<b>155.44</b>	<b>76.29</b>	<b>-3.88</b>
OPM%	18.45	10.73	-0.80
Other Income	6.73	1.94	2.06
<b>PBDIT</b>	<b>162.17</b>	<b>78.23</b>	<b>-1.82</b>
Depreciation	16.67	13.41	8.87
<b>PBIT</b>	<b>145.50</b>	<b>64.83</b>	<b>-10.69</b>
Interest	0.67	2.47	2.95
<b>PBT</b>	<b>144.83</b>	<b>62.36</b>	<b>-13.64</b>
Tax	46.73	46.56	27.86
<b>Profit after tax</b>	<b>98.10</b>	<b>15.80</b>	<b>-41.50</b>

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-18	As on 31-Mar-17	As on 31-Mar-16
<b>Non-current Assets</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
(a) Plant And Equipment	50.57	45.82	37.93
(b) Capital Work-in-progress	2.49	0.84	0.22
(c) Intangible Assets	1.29	1.06	1.36
(d) Intangible Assets Under Development	5.63	2.46	0.00
(e) Financial Assets	0.00	0.00	0.00
(i) Investments	0.00	1.72	1.32
(ii) Other Financial Assets	39.31	34.74	20.12
(f) Deferred Tax Assets (net)	11.50	9.70	15.55
(g) Non-current Tax Assets (net)	9.47	12.60	0.00
(h) Other Non-current Assets	7.18	4.28	10.11
<b>Total Non Current Assets</b>	<b>127.44</b>	<b>1132.19</b>	<b>866.03</b>
<b>Current Assets</b>			
<b>Inventories</b>	<b>231.15</b>	<b>194.03</b>	<b>137.14</b>
(b) Financial Assets	0.00	0.00	0.00
(i) Investments	2.08	0.00	0.00
(ii) Trade Receivables	139.63	99.70	64.15
(iii) Cash And Cash Equivalentents	36.69	1.98	2.76
(iv) Bank Balances Other Than (iii) Above	12.39	11.26	7.57
(v) Other Financial Assets	0.57	1.01	1.47
(c) Other Current Assets	26.42	4.61	9.09
<b>Total Current Assets</b>	<b>448.92</b>	<b>312.59</b>	<b>222.18</b>
<b>Total Assets</b>	<b>576.36</b>	<b>1444.78</b>	<b>1088.21</b>
<b>Non Current Liabilities</b>			
(a) Financial Liabilities			
(i) Borrowings	0.22	0.27	7.82
(ii) Other Financial Liabilities	5.92	3.84	4.48
(b) Provisions	5.57	3.73	2.47
(c) Other Non-current Liabilities	0.41	0.54	0.36
<b>Total Non-current Liabilities</b>	<b>12.12</b>	<b>8.38</b>	<b>15.13</b>
<b>Current Liabilities</b>			
(a) Financial Liabilities			
(i) Borrowings	0.00	8.33	27.85
(ii) Trade Payables	114.43	109.33	84.61
(iii) Other Financial Liabilities	6.85	9.09	118.17
(b) Provisions	0.12	0.10	0.07
(c) Current Tax Liabilities (net)	0.00	0.00	9.59
(d) Other Current Liabilities	11.37	8.66	5.04
<b>Total Current Liabilities</b>	<b>132.78</b>	<b>135.50</b>	<b>245.33</b>
<b>Total Liabilities</b>	<b>144.89</b>	<b>143.88</b>	<b>260.46</b>
	<b>431.47</b>	<b>1300.90</b>	<b>827.75</b>
<b>Net Worth Represented By:</b>			
(a) Equity Share Capital	11.27	11.12	9.17
(b) Instruments Entirely Equity In Nature	24.23	0.00	0.00
(c) Other Equity	395.97	270.80	39.15
<b>Net Worth</b>	<b>431.47</b>	<b>281.93</b>	<b>48.33</b>

## RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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