

## TCNS Clothing Co. Limited

TCNS Clothing Co. Ltd. is the leading Indian women's branded ethnic apparel company with brands like W, Aurelia and Wishful under its portfolio. It has the widest distribution network (in woman apparel) with 465 exclusive brand outlets, 1,469 large format store outlets and 1,522 multi-brand outlets.

**Positives** – 1) Early mover in category which helped in establishing strong brands and generating industry above gross margins, 2) the widest distribution network in the category via 3400+ stores across India 3) innovative designs and optimizing fit and sizes, 4) longstanding relationships with suppliers (currently 181 suppliers across India supplying printed fabrics, unprocessed fabrics) and job workers (currently 78 which manufactures finished goods) and 5) its outsourced business model helps in generating robust return ratios (30%+).

**Negatives/risks** -1) Its above industry gross margin (55-60%) could be dented by value focused fashion retailers and the high premium enjoyed by its brands may not be sustainable, 2) consumer taste constantly keeps changing, hence any inability to keep up with the latest trends would be negative, 3) promoters' stake further coming down to ~32% post IPO from pre IPO stake of 44%.

**Outlook & Valuation:** The company has posted excellent CAGR of 49%/83% in revenue/ PAT over FY2014-18 (although on a low base), driven by increase in its product offerings and retail stores. Gross margin have been excellent at 55-60% over the same period. However, its employees cost has been high over FY2016-17 owing to the ESOPs expense which dented earnings in those years. At the upper end of the price band, the PE multiple works out be 44x FY2018 earnings (an exceptionally profitable year), which appears on the higher side when compared to large established listed retail players like Arvind (available at 34x FY2018 PE). **Hence, for its limited financial history, singular focus on ethnic woman apparel and demanding valuations, we recommend 'Neutral' on the issue.**

### Key Financials

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	FY18
<b>Net Sales</b>	170	301	485	701	838
% chg	-	77	61	44	20
<b>Net Profit</b>	9	26	-43	16	99
% chg	-	200	-263	-138	508
EBITDA (%)	12.7	17.0	-0.8	10.9	18.5
<b>EPS (Rs)</b>	1.4	4.3	-7.0	2.6	16.1
P/E (x)*	501.6	167.2	-102.9	270.4	44.5
P/BV (x)*	52.6	39.8	90.8	15.6	10.2
RoE (%)	10.5	23.8	-88.3	5.8	22.9
RoCE (%)		32.1	-10.2	32.0	37.4
EV/EBITDA*	205.5	86.6	-1,138.1	57.5	27.9
EV/Sales*	26.0	14.7	9.1	6.3	5.2

Source: RHP, \* at upper end of the price band

## Neutral

Issue Open: July 18, 2018

Issue Close: July 20, 2018

### Issue Details

Face Value: ₹2

Present Eq. Paid up Capital: ₹12.3cr

Offer for Sale: 1.6 cr shares

Fresh issue: Nil

Post Eq. Paid up Capital: ₹12.3cr

Issue size (amount): ₹1,122-1,125cr

Price Band: \*₹714-716

Lot Size: 20 shares and in multiple thereafter

Post-issue implied mkt. cap: ₹4,378 – 4,390 cr

Promoters holding Pre-Issue: 43.7%

Promoters holding Post-Issue: 32.4%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	50% of issue
Non-Institutional	15% of issue
Retail	35% of issue

### Post-Issue Shareholding Pattern

Promoters	32%
Others	68%

### Nidhi Agrawal

nidhi.agrawal@angelbroking.com

022-39357800 Ext: 6872

## Company background

The company was incorporated as 'TCNS Clothing Co. Private Limited' on December 3, 1997. Its product portfolio includes top-wear, bottom-wear, drapes, combination-sets and accessories that caters to a wide variety of the wardrobe requirements of the Indian woman, including every-day wear, casual wear, work wear and occasion wear. It sell its products through multiple distribution channels. As of March 31, 2018, it sold products through 465 exclusive brand outlets, 1,469 large format store outlets and 1,522 multi-brand outlets, located in 31 states and union territories in India. As of March 31, 2018, it also sold its products through six exclusive brand outlets in Nepal, Mauritius and Sri Lanka. In addition, it also sells sold its products through own website and online retailer.

### Exhibit 1: Company time line

Year	Major events
2002	Launched the brand 'W'
2006	Launched the brand 'Wishful'
2009	Launched the brand 'Aurelia'
2011	Investment by Matrix Holdings and Matrix India
2015	Opened W stores in Mauritius and Sri Lanka
2016	Investment by Wagner Limited
2017	Opened the first 'Wishful' store in India at New Delhi

Source: RHP

### Exhibit 2: Brand portfolio details

Brand	Typical Range of offering	Retail Price range
W	top-wear, bottom-wear, drapes Top-wear	1299-1899
Aurelia	top-wear, bottom-wear, drapes, combination-sets	799-4499
Wishful	top-wear, bottom-wear, drapes	2999-4999

Source: RHP

### Exhibit 3: Operational details for brands

Brand	Year of Launch	Retail Outlets (as of March 31, 2018)	Revenue from sale of goods (₹ million) and as a % of Revenue from Operations		
			Fiscal 2018	Fiscal 2017	Fiscal 2016
	2002	281 exclusive brand outlets, 717 large format stores and 1,522 shared multi-brand outlets	4,856.30, 57.65%	4,341.62, 61.06%	3,187.73, 65.58%
	2009	183 exclusive brand outlets, 752 large format stores and 1,522 shared multi-brand outlets	2,837.13, 33.68%	2,164.10, 30.44%	1,298.70, 26.72%
	2006	1 exclusive brand outlet <sup>1</sup>	730.82, 8.68%	604.60, 8.50%	374.31, 7.70%

Source: RHP

## Issue Details

This IPO is an offer for sale of up to 15,714,038 Equity Shares of face value of Rs2 each by the Selling Shareholders. Issue would be worth ₹1,122-1,125 cr. OFS is being offered by some of its pre-issue investors and promoters.

### Exhibit 4: Pre and post-IPO shareholding pattern

	No of shares (Pre-issue)	%	No of shares (Post-issue)	%
Promoter	26,788,441	43.7%	19,876,757	32.4%
Pre IPO Investors	34,529,683	68.9%	2,57,27,329	42.0%
Public			1,57,14,038	25.6%
<b>Total</b>	<b>61,318,124</b>	<b>100.0%</b>	<b>61,318,124</b>	<b>100.0%</b>

Source: RHP, Angel Research

### Exhibit 5: Selling shareholders details

Investors	Existing stake	Stake being sold	Post-issue stake
Wagner Limited	2,49,31,803	69,11,684	1,80,20,119
Arvinder Singh Pasricha	1,25,09,789	27,64,841	97,44,948
Onkar Singh Pasricha	95,17,522	30,39,118	64,78,404
Parmeet Pasricha	32,03,405		32,03,405
Vijay Kumar Misra	20,85,545	4,58,022	16,27,523
Anant Kumar Daga	17,59,765	12,56,670	5,03,095
Saranpreet Pasricha	11,41,001	6,91,001	4,50,000
Vijay Kumar Thadani	7,50,000		7,50,000
Amit Chand	7,03,910	1,75,978	5,27,932
Angad Pasricha	4,16,724	4,16,724	0
<b>Total</b>	<b>5,70,19,464</b>	<b>1,57,14,038</b>	<b>4,13,05,426</b>

Source: Company, Angel Research

## Objects of the offer

This IPO intends to achieve the benefits of listing the equity shares on the stock exchanges via sale of equity shares by the selling shareholders. The company also expects to enhance its visibility and brand image and provide liquidity to its shareholders.

## Key Management Personnel

**Mr. Onkar Singh Pasricha**, aged 67 years, is the Chairman, executive Director and one of the Promoters of the company. He holds a bachelor's degree in technology in electrical engineering from Indian Institute of Technology, Delhi. He has been on the Board since December 3, 1997 and was last re-appointed on January 5, 2018. He has more than 40 years of experience in the apparel industry.

**Mr. Anant Kumar Daga**, aged 41 years, is the Managing Director of the company. He holds a bachelor's degree in commerce from the University of Calcutta and a post-graduate diploma in management from Indian Institute of Management, Ahmedabad. He joined the company as a Chief Executive Officer with effect from March 16, 2010 and has been on the Board since September 7, 2016. Prior to joining TCNS, Anant Kumar Daga worked with Reebok, India as director (sales)

and with ICICI bank. He also features in the Economic Times' 40 under 40 list of India's hottest business leaders for 2017 and has been awarded the "Brand Professional of the Year Award" at the CMAI Apex Awards 2017.

**Ms. Neeru Abrol**, aged 63 years, is an independent Director of TCNS since December 14, 2017. She is an associate member of the Institute of Chartered Accountants of India. She has worked with National Fertilizers Limited ("NFL") as its chairperson and managing director. Prior to NFL, she has worked with the Steel Authority of India Limited, holding various management positions.

### Outlook & Valuation

The company has posted excellent CAGR of 49%/83% in revenue/ PAT over FY2014-18 (on a low base), driven by increase in its product offerings and retail stores. Gross margin have been excellent at 55-60% over the same period. However, its employees cost has been high over FY2016-17 owing to the ESOPs cost which dented earnings in those years.

At the upper end of the price band, the P/E multiple works out be 44x FY2018 earnings (an exceptionally profitable year), which appears on the higher side even when compared to large established listed retail players like Arvind (available at 34x FY2018 P/E). **Hence, for its limited financial history, singular focus on ethnic woman apparel and demanding valuations, we recommend 'Neutral' on the issue.**

### Exhibit 6: Peer valuation

FY2018	Revenue	OPM	EPS	P/E	ROE %	Price
	₹ cr	%	₹	x	%	₹
Arvind	10826	6.2%	11.3	34.3	8.40%	389
KKCL	460	20.0%	59.4	24.2	19.30%	1435
FLRL	4479	5.7%	6.6	59.3	7.30%	392.5
<b>Average</b>				<b>39.2</b>		
TCNS	838	18.5%	16.1	44.5	22.9%	716

Source: RHP, Bloomberg

## **Key risks**

### **Price risk**

The company is exposed to volatility in raw material prices, which forms a significant portion of expenses. Fluctuations in inflation in the country also affect the company in raw material procurement and on the sales front.

### **Credit risk**

TCNS operates in offline as well as online mode. Offline mode is operated via franchisee. The company, therefore, faces risk like uncertainty in receipts of outstanding amount. This will result in stretched receivable days. It gives credit period between 30-60 days currently.

### **Change in consumer preferences and competition**

TCNS main products are casual wear and ethnic wear Kurtis. With competition in the product line, delay in catching-up with the latest trends would give a chance to the peers to grab the company's share in market. Also, its focus only on one kind of product puts immense pressure on the company to continuously bring innovation in its products.

**Consolidated Income Statement**

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	FY18
<b>Total operating income</b>	169.6	301.0	485.4	700.9	838.5
% chg	-	77.5	61.3	44.4	19.6
<b>Total Expenditure</b>	148.1	249.9	489.3	624.7	683.1
Raw Material	45.7	73.5	107.6	137.7	191.2
Personnel	22.0	35.4	157.6	153.4	123.6
Selling and Administration Expenses	43.0	77.2	127.4	184.1	198.0
Others Expenses	37.4	63.8	96.6	149.4	170.2
<b>EBITDA</b>	21.5	51.1	-3.9	76.3	155.4
% chg	-	137.7	-107.6	-	103.8
(% of Net Sales)	12.7	17.0	-0.8	10.9	18.5
Depreciation & Amortisation	4.0	6.2	8.9	13.4	16.7
<b>EBIT</b>	17.5	44.9	-12.8	62.9	138.8
% chg	-	156.3	-128.4	-593.1	120.7
(% of Net Sales)	10.3	14.9	-2.6	9.0	16.5
Interest & other Charges	4.9	4.9	3.0	2.5	0.7
Other Income	0.7	1.0	2.1	1.9	6.7
(% of Sales)	0.4	0.3	0.4	0.3	0.8
Extraordinary Items	-	0.0	1.2	-0.5	-0.6
Share in profit of Associates	-	-	-	-	-
<b>Recurring PBT</b>	13.3	40.9	-13.6	62.3	144.8
% chg	-	208.3	-133.3	-557.0	132.3
Tax	4.5	14.7	27.9	46.6	46.7
<b>PAT (reported)</b>	8.8	26.3	-41.5	15.8	98.1
% chg	-	200.1	-258.0	-138.0	522.1
(% of Net Sales)	5.2	8.7	-8.6	2.2	11.7
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	1.4	4.3	-7.0	2.6	16.1
% chg	-	200.0	-262.5	-	508.3

Source: RHP

**Consolidated Balance Sheet**

Y/E March (₹ cr)	FY14	FY15	FY16	FY17	FY18
<b>SOURCES OF FUNDS</b>					
Equity Share Capital	10.4	10.4	9.2	11.1	35.5
Reserves & Surplus	73.1	100.0	39.2	270.8	396.0
<b>Shareholders' Funds</b>	<b>83.4</b>	<b>110.4</b>	<b>48.3</b>	<b>281.9</b>	<b>431.5</b>
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Loans</b>	<b>34.2</b>	<b>39.8</b>	<b>38.2</b>	<b>8.8</b>	<b>0.3</b>
Other Liab & Prov	5.3	6.5	7.3	8.1	11.9
<b>Total Liabilities</b>	<b>122.9</b>	<b>156.7</b>	<b>93.9</b>	<b>298.9</b>	<b>443.6</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	12.4	21.1	39.3	46.9	51.9
Capital Work-in-Progress	-	0.1	0.2	3.3	8.1
Investments	0.6	0.9	1.3	1.7	2.1
Current Assets	129.5	164.0	222.2	312.6	446.8
Inventories	59.3	89.2	137.1	194.0	231.2
Sundry Debtors	61.0	65.2	64.2	99.7	139.6
Cash	7.0	6.9	10.3	13.2	49.1
Loans & Advances	2.2	2.7	10.6	5.6	27.0
Other Assets	-	-	-	-	-
Current liabilities	38.1	57.7	214.9	127.0	132.7
<b>Net Current Assets</b>	<b>91.4</b>	<b>106.2</b>	<b>7.3</b>	<b>185.6</b>	<b>314.1</b>
Other Non Current Asset	18.5	28.4	45.8	61.3	67.5
<b>Total Assets</b>	<b>122.9</b>	<b>156.7</b>	<b>93.9</b>	<b>298.9</b>	<b>443.6</b>

Source: RHP

**Consolidated Cash Flow Statement**

Y/E March (₹cr)	FY14	FY15	FY16	FY17	FY18
Profit before tax	13.6	42.5	98.0	15.8	98.1
Depreciation	4.0	6.2	8.9	13.4	16.7
Change in Working Capital	(9.4)	(24.9)	(49.0)	(64.6)	(97.2)
Interest / Dividend (Net)	-	5.5	-	-	-
Direct taxes paid	(5.2)	(15.2)	(32.5)	(62.8)	(45.2)
Others	-	1.0	2.0	3.0	4.0
<b>Cash Flow from Operations</b>	<b>8.2</b>	<b>14.2</b>	<b>34.9</b>	<b>25.1</b>	<b>41.3</b>
(Inc.)/ Dec. in Fixed Assets	(7.7)	15.0	(27.2)	(24.2)	(27.4)
(Inc.)/ Dec. in Investments	-	-	-	(4.0)	(1.4)
<b>Cash Flow from Investing</b>	<b>(7.7)</b>	<b>15.0</b>	<b>(28.1)</b>	<b>(27.1)</b>	<b>(27.6)</b>
Issue of Equity	0.1	-	-	-	24.2
Inc./(Dec.) in loans	3.4	5.6	(1.6)	(29.4)	(8.6)
Others	(5.2)	(4.8)	(3.0)	30.6	5.3
<b>Cash Flow from Financing</b>	<b>(1.7)</b>	<b>0.8</b>	<b>(4.5)</b>	<b>1.2</b>	<b>21.0</b>
Inc./(Dec.) in Cash	(1.3)	29.9	2.3	(0.8)	34.7
<b>Opening Cash balances</b>	<b>7.9</b>	<b>(23.5)</b>	<b>0.4</b>	<b>2.8</b>	<b>2.0</b>
<b>Closing Cash balances</b>	<b>6.6</b>	<b>6.5</b>	<b>2.8</b>	<b>2.0</b>	<b>36.7</b>

Source: RHP

**Key Ratios**

Y/E March	FY14	FY15	FY16	FY17	FY18
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	501.6	167.2	-102.9	270.4	44.5
P/CEPS	344.5	135.1	-129.9	148.1	38.0
P/BV	52.6	39.8	90.8	15.6	10.2
Dividend yield (%)	-	-	-	-	-
EV/Sales	26.0	14.7	9.1	6.3	5.2
EV/EBITDA	205.5	86.6	-1,138.1	57.5	27.9
EV / Total Assets	35.9	28.2	47.0	14.7	9.8
<b>Per Share Data (Rs)</b>					
EPS (Basic)	1.4	4.3	-7.0	2.6	16.1
EPS (fully diluted)	1.4	4.3	-7.0	2.6	16.1
Cash EPS	2.1	5.3	-5.5	4.8	18.8
DPS	-	-	-	-	-
Book Value	13.6	18.0	7.9	46.0	70.4
<b>Returns (%)</b>					
ROCE	-	32.1	-10.2	32.0	37.4
Angel ROIC (Pre-tax)	15.1	30.0	-15.3	22.3	35.9
ROE	10.5	23.8	-88.3	5.8	22.9
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	6.7	7.7	7.7	12.0	10.7
Inventory / Sales (days)	128	108	103	101	101
Receivables (days)	131	79	48	52	61
Payables (days)	123	122	155	146	118
Working capital cycle (ex-cash) (days)	136	66	-4	7	43

Source: RHP, Angel Research

Research Team Tel: 022 - 39357800

 E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)

 Website: [www.angelbroking.com](http://www.angelbroking.com)
**DISCLAIMER:**

Angel Broking Private Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and Metropolitan Stock Exchange Limited. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Private Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Pvt. Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Pvt. Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Pvt. Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Pvt. Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

<b>Disclosure of Interest Statement</b>	<b>Company Name</b>
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No