VISIT NOTE

TCNS CLOTHING

The 'W'ow factor

India Equity Research| Midcap Textiles

Edelweiss
Ideas create, values protect

Key takeaways from our recent interaction with Mr. Anant Daga, MD, TCNS Clothing (TCNS), are: 1) the company, through its three brands—*W, Aurelia* and *Wishful*—has gained leadership in the high-growth women's branded ethnic apparel segment (to clock ~30% CAGR over FY17-20E); and 2) institutionalised design process along with an efficient procurement & supply chain remain key differentiators. Consequently, TCNS has outstripped ethnic apparel peers and has among the highest margin and RoCE in the larger branded apparel segment too (40% versus peers' average of ~29%). The stock currently trades at 41x FY18 P/E and 26x FY18 EV/EBITDA. It is 'NOT RATED'.

Leadership in concentrated and among fastest-growing segments

Nearly a decade ago, major domestic brands (*BIBA, W, Global Desi, FabIndia,* etc.) drove the transition in the ethnic wear market from bespoke clothing to branded outlets. Their focus on design, fit and expanding presence helped drive the shift. Sustenance of this trend along with rising share of organised retail is estimated to drive 30% CAGR in the branded ethnic apparel market. In addition, a few national brands (~5-6) dominate the market, with TCNS being the leader via three brands—*W, Aurelia* and *Wishful*—with clear positioning across price points.

Institutionalised designing, efficient supply chain: Key catalysts

Unlike traditional brands in ethnic wear, TCNS' design process is data-centric, supported by an institutionalised design process (strong feedback loop) and an experienced design team. This is amply reflected in the company's growth and successful design launches (last poor season in FY12). Moreover, TCNS refreshes its products every two–three weeks. Also, women's ethnic wear is among the most complicated supply chains and the company has managed to build an outsourced and capital-efficient procurement network which is also scalable.

Outlook and valuation: Stitching a growth story; 'NOT RATED'

TCNS is targeting addition of 75-80 EBOs (~80 stores p.a. added over the past three years) over the next two–three years. It also has clocked the highest growth among women's ethic apparel players and has among the highest margin and RoCE in the larger branded apparel segment. The stock currently trades at 41x FY18 P/E and 26x FY18 EV/EBITDA. The stock is **'NOT RATED'**.

Financials

Year to March	FY15	FY16	FY17	FY18
Net revenues (INR mn)	3,010	4,854	7,009	8,385
EBITDA (INR mn)	511	(39)	763	1,554
Adj. profit (INR mn)*	263	(415)	158	981
Adj. diluted EPS (INR)	2.9	(4.5)	1.4	17.4
Diluted P/E (x)	NM	NM	NM	41.3
RoAE (%)	27.1	(52.3)	9.6	28.5

*Restated PAT, From FY16 employee expenses includes ESOP charges

EDELWEISS RATINGS

Absolute Rating	**NOT RATED**

MARKET DATA *(R: NA.BO, B: NA IN)*

CMP	: INR 719
Target Price	: NA
52-week range (INR)	: 743 / 515
Share in issue (mn)	: 61.3
M cap (INR bn/USD mn)	: 44 / 620
Avg. Daily Vol.BSE ('000)	: 217.2

SHARE HOLDING PATTERN (%)

	Current	Q1Y19	Q4FY18
Promoters %	32.4	NA	NA
MF's, FI's &	39.3	NA	NA
FII's	10.6	NA	NA
Others	17.7	NA	NA
** Promoters pledged shares (% of share in issue)*	:		*NIL*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(0.3)	3.1	3.4
3 months	2.8	24.1	21.3
12 months	2.9	NA	NA

Nihal Mahesh Jham
+91 22 6623 3352
nihal.jham@edelweissfin.com

January 15, 2019

Leadership in concentrated and among fastest-growing segments

Women's apparel share in India lags global peers, but outstripping men's segment

Apparel in India is a USD51bn category (FY17), to which women's segment contributes mere ~40%, unlike other geographies where its share stands at 55-60%. However, the domestic women's apparel market is growing at a faster clip than men's largely due to increase in the number of working women, a shift towards aspiration- rather than need-based buying and emergence of home-grown national brands.

Fig. 1: Break-up of India's apparel market

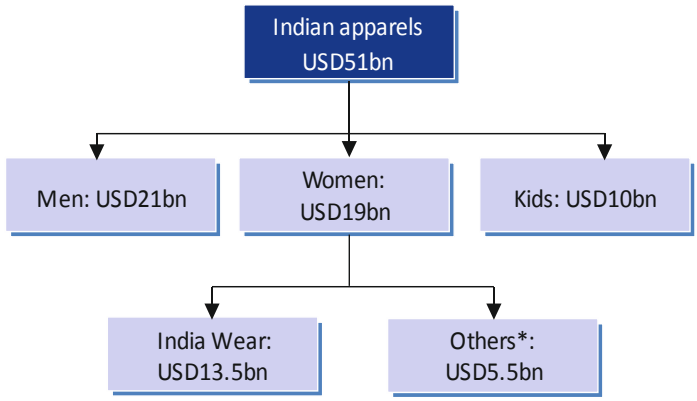
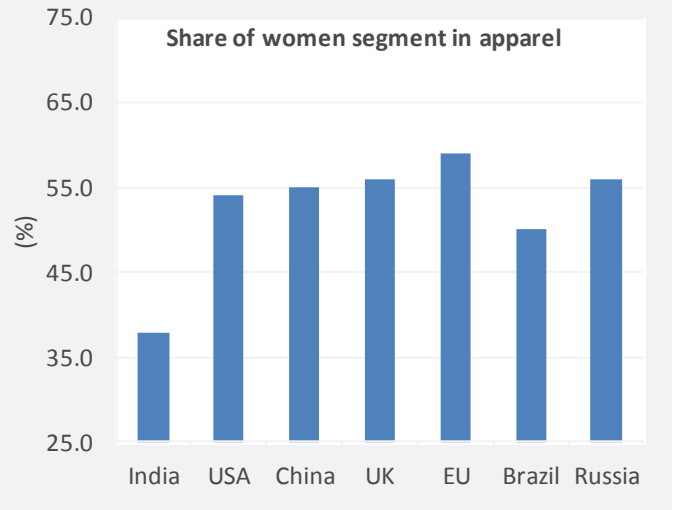


Chart 1: Women's apparel share is significanlty lower



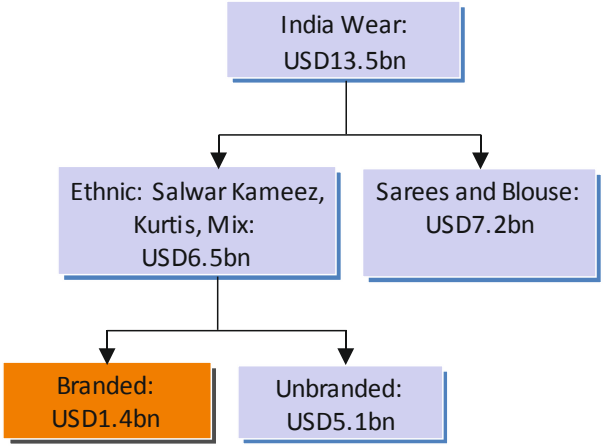
Source: Company, Note: As of FY17, others includes innerwear, winterwear and sleepwear

While Fab India was the first brand to start out, BIBA is considered to be the pioneer of ethnic fashion branding

Women's branded ethnic apparel: Among the fastest-growing categories

Indian apparel accounts for ~71% of the USD19bn women's apparel market in India. This is in contrast to other major global apparel markets, where western wear makes up the entire share. Further, ethnic fashion has succeeded in retaining its mainstream appeal for daily wear. While among women in India, ethnic and Indian fashion have succeeded in retaining their mainstream appeal for daily wear (in addition to occasion apparel), among men it is currently restricted to occasion apparel.

Fig. 2: Branded ethnic wear makes up only ~10% of the women's Indian wear market



Source: TCNS Clothing DRHP, Edelweiss research

Burgeoning disposable incomes, better design, quality & fit assurance, rising aspiration levels and growing acceptance of ethnic wear as work wear are triggereing a shift from traditional apparel such as sarees to ethnic wear like salwar kameez & kurtas, leading to an estimated 14% CAGR in women's ethnic apparel market.

Rise of organised ethnic wear players

Indian wear, initially largely restricted to the older age segment, now finds acceptance among younger consumers as well. That's because most companies now sell fusion clothing—a mix of modern and traditional wear—instead of just ethnic, which is reserved for special occasions.

Until a decade ago, ethnic wear was more or less restricted to bespoke clothing, which was the domain of neighborhood tailors. However, this changed with brands entering the market. Gradually, not only formal and festive wear, but casual Indian wear also found standalone stores—branded and non-branded. During initial days of the mall revolution, exclusive ethnic wear brand outlets were hard to find. However, things have changed rapidly since. Leading the game were brands like *BIBA, W, Global Desi, Soch, FabIndia,* among others.

While *Biba* was the pioneer, over the past decade, industry leaders have invested significantly in building capability around: 1) design & fit; 2) sourcing; and 3) channel presence, to ensure that their distinct positioning translates in to retail connect with consumers. This has fuelled demand shift towards organised from the unorganised segment, which is a mere aggregator based on trade label with no curation of designs. Also, deepening reach of organised retailing formats (mainly LFS stores) has enhanced the presence of organised players. Therefore, the shift fom unorganised/unbranded to the organised/branded is expected to drive a ~30% CAGR over FY17-20E in the branded ethnic apparel segment .

Women today do get their salwar suits, kurtis, kurtas, patialas, etc., tailored. However, with the advent of ethnic wear brands with wider designs and better fits (majority of the brands have increased the number of sizes on offer), tailoring has taken a back seat. Now, it is far more easy and reasonable to shop for a ready-made outfit.

Chart 2: Increasing organized retail share will aid growth

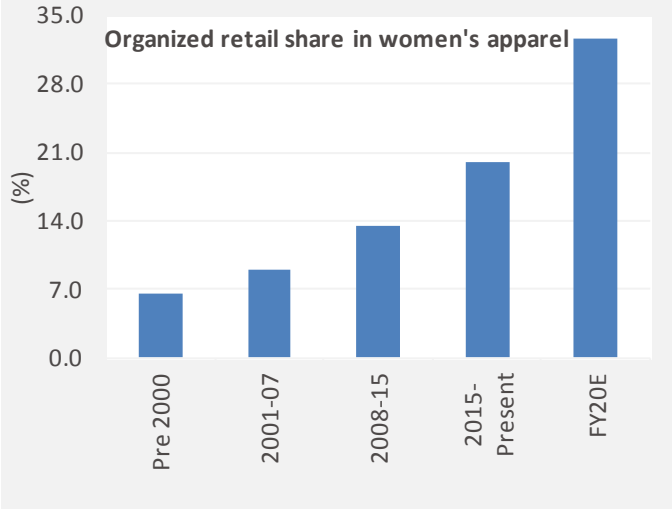
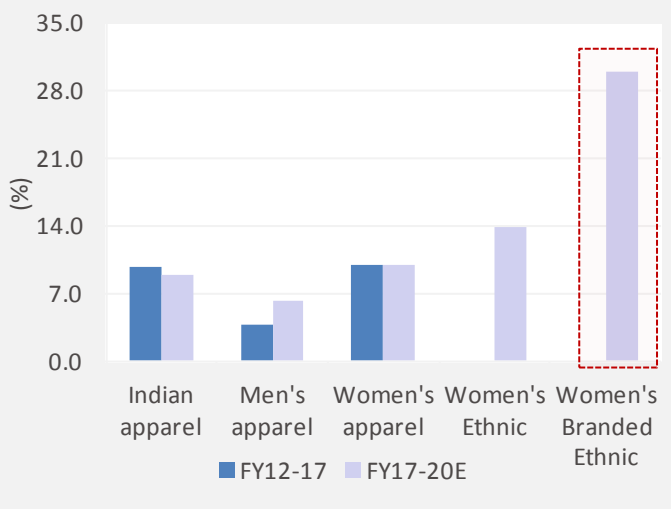


Chart 3: Branded ethnic to be among the fastest growing



Source: Company, Edelweiss research

Branded apparel ethnic wear market dominated by domestic players

While the Indian ethnic wear segment has presence of a large number of brands and formats, a few national brands dominate along with popular regional players. The ethnic wear segment is dominated by large national players like TCNS (*W, Aurelia* and *Wishful*), *BIBA, Global Desi* and *Fabindia,* as well as a few regional players like *Neeru's* and *Soch*. Competition from global fashion brands is expected to remain muted due to: a) limited size offerings; 2) localised design trends; and 3) manufacturing & supply chain complexity.

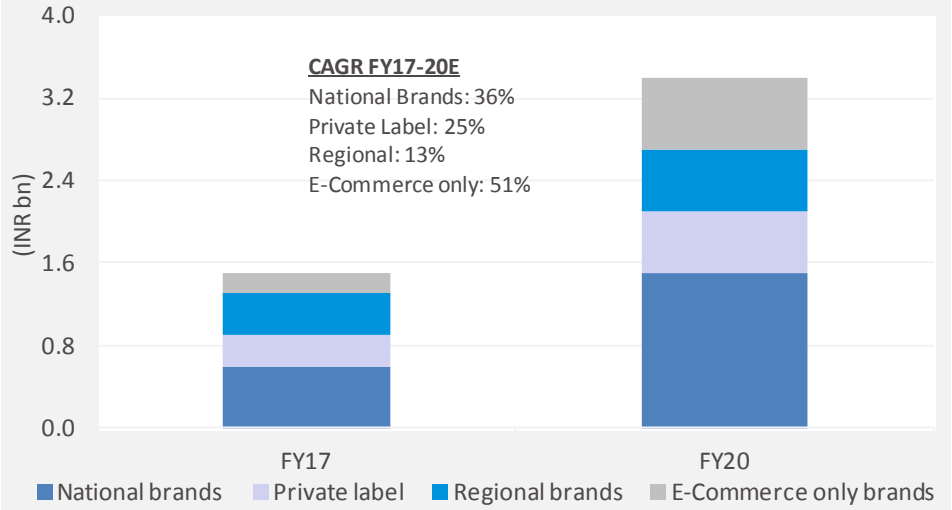
Table 1: Brands in the Indian women's ethnic market

National Players		Regional Player	Private Label	Local Players
Ethnic Lifestyle and Fashion Retailers	**Ethnic Apparel led Retail Brands**	**Ethnic Apparel led Retail Brands**	**In-Store Ethnic Apparel brands of Multi-brand Retailers**	**Neighbourhood stores / Boutique Shops**
FabIndia, Anokhi	W, Aurelia, BIBA, Global Desi	Kiara, Ibadat, Harra	Stop, Melange, Rangmanch	

Source: Company, Edelweiss research

According to Technopak, in FY17 national retail brands like *W, Aurelia, BIBA, Global Desi* and *Fabindia* accounted for ~39% of the total organised women's ethnic apparel retail market. Market dominance of national brands is expected to increase further as they have built capabilities to scale businesses, which remains a key expansion barrier for other players. E-commerce's share too is expected to rise to 21% in FY20 from 15% in FY17, clocking 51% CAGR. Both these factors are likely to result in shrinking of private label and regional brands' share.

Chart 4: National brands are expected to increase their share further



Source: TCNS Clothing DRHP, Edelweiss research

Diversified portfolio & price points strategy bolster TCNS' pole position

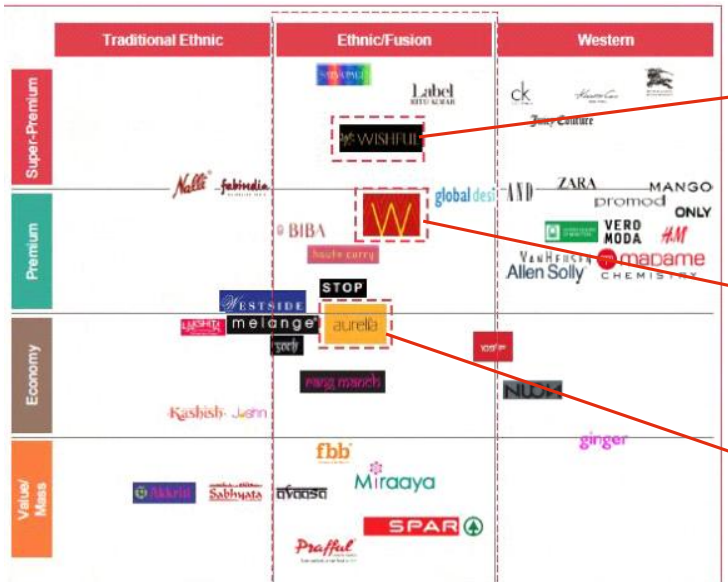
In India, most players focus on a specific women's apparel category and single price positioning. TCNS, on the other hand, has differentiated itself via a multi-brand platform strategy straddling price points and consumer segments to capture a larger share of the market. A portfolio of brands (*W, Auerlia* and *Wishful)* helps the company cater to the needs of customers via higher range and diversity of products, leading to enhnaced brand loyalty

and repeat customers. It has a track record of developing home-grown brands by leveraging its understanding and market research of consumers' needs.

- *W* was the first and currently TCNS' biggest brand (58% of revenue). It is a premium fusion wear brand, which melds Indian and western sensibilities with an emphasis on distinctive design and styling. The brand primarily caters to the modern Indian woman's work and casual wear requirements.
- *Aurelia* (34% of revenue) is a contemporary ethnic wear brand targeted at women looking for great design, fit and quality in their casual and work wear.
- *Wishful* (~9% of revenue) is a premium occasion wear brand, with designs catering to women's requirements for evening wear and occasions such as weddings, events and festivals.

Brand pull, product sensibility, fit and quality are TCNS' key differentiators, enabling it to charge a premium.

Fig. 3: In Ethnic fashion, TCNS's brands are present across majority of the market



- Occasion wear
- 25-45 age range
- Price starts at INR2,799

- Premium fusion: Mix of western and Indian
- Targeted at the 25-35 age range
- Focus on working women
- Price range of INR1,299-2,000

- Contemporary ethnic: Staple design brand
- Simpler styles compared to 'W'
- Much wider age range: 35-50
- Price point starts at INR799

Source: TCNS Clothing DRHP, Edelweiss research

TCNS has the largest reach in India (via *W* and *Aurelia*) compared to any other player. Also, it is well spread across the country and other than Fab India, BIBA, AND, Global Desi, all the other brands are region focused or concentrated.

Chart 5: Reach of W and Aurelia is higher than any other brand

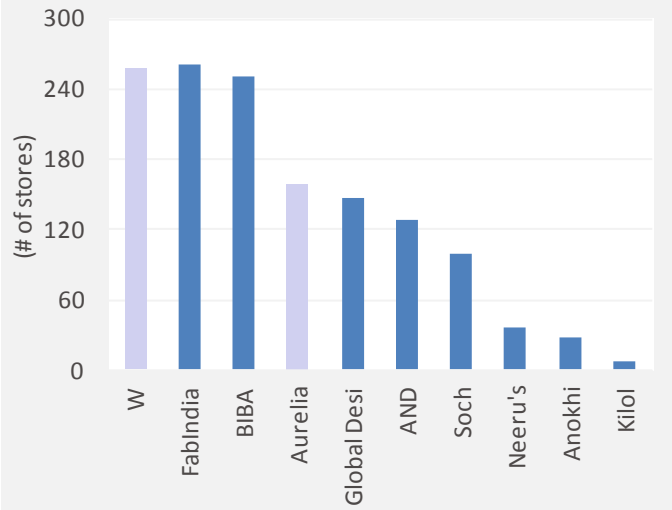
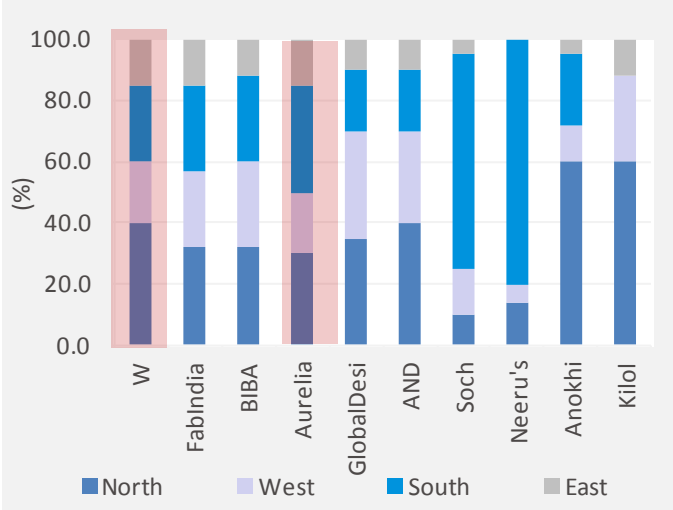


Chart 6: Presence across the country



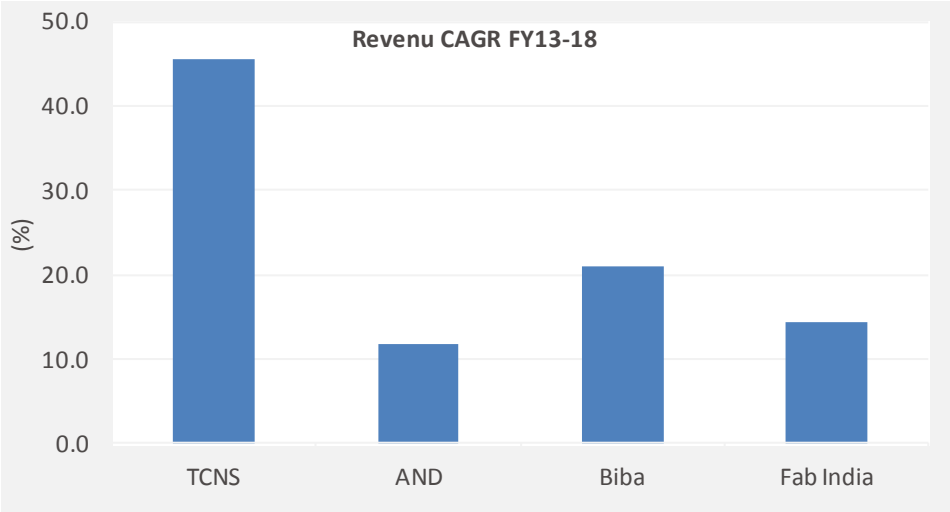
Source: Company, Edelweiss research

First to launch the Mix and Match concept via the W brand.

In the last seven years, once it has faced a collection failure

As a result, **TCNS has significantly outstripped branded ethnic apparel peers and gained leadership in the category. Its current market share amongst national players stands at ~45%.**

Chart 7: TCNS has outstripped competition



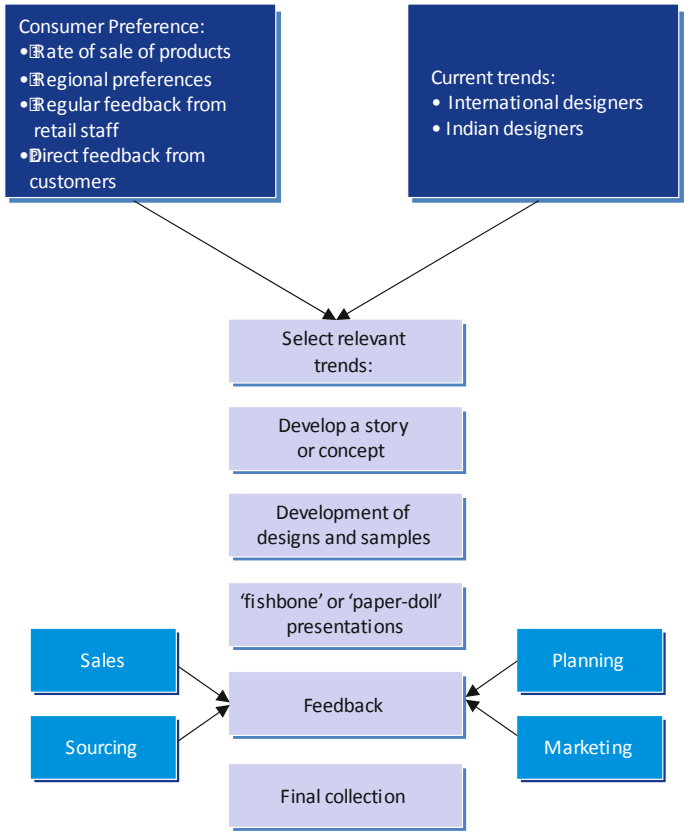
Source: Ace Equity, Edelweiss research

Designing & supply chain: Key differentiators and drivers

Designing: Institutionalised product development strategy

TCNS relies on its design team comprising designers and craftsmen for fabric print designs as well as styling. To avoid brand overlap or dilution, the company uses differentiated designs & patterns, fabrics, textiles and styles across its brands and has design teams dedicated exclusively to either *Aurelia* or *W* (along with *Wishful*). Of its design team of 37, 11 employees are exclusively dedicated to *Aurelia* and 26 to *W* & *Wishful.*

Fig. 4: Design process for TCNS



Source: Edelweiss research

W interplays traditional and fusion-wear designs to introduce new fashion styles such as the 'Mughal gown', 'pant robes' and 'stiletto kurtas

Across two seasons in 12 months, TCNS' design team along with its sourcing team, prepared ~3,000 preliminary fabric print designs and ~1,750 preliminary products to launch ~2,700 fabric print designs for ~1,600 products in various sizes across product categories. The company refreshes its offerings at an average interval of two-three weeks.

TCNS achieves these parameters through an institutionalised product development process which relies on team work across functions and includes research & trend forecasting, concept or story development, fabric & textile design, clothes styling, sample development and presentations to members of sales, sourcing, planning and marketing teams for review & inputs. It also regularly conducts meetings and roadshows for sales partners to solicit product feedback and reviews.

Also, the company utilises in-depth market research and data analysis to develop different sizes across its brands and products. For example, TCNS has commissioned anthropometric studies of Indian women in the past to assess apparel size.

Design philosophy

Table 2: Design philosphy of various brands

Brand	Design Philosophy
W	Fusion of western sensibilities with Indian ethos giving innovative silhouettes and prints
Aurelia	Contemporary Indian apparel with great fit / quality at sharp prices
Fabindia	Centred around Indian weaves, looms, fabrics and crafts focusing on indigenous products
Biba	Hybrid mix of tradition and fashion
Global Desi	Westernized casual silhouettes; design inspired by Indian colours, texture and prints having an international appeal

Source:Company, Edelweiss research

Manufacturing: Stability in managing a wide vendor base with various SKUs

Women's ethic wear supply chain is much more complicated than traditional men's wear or women's formal collection, which has simple and limited designs and sizes. Ethnic wear requires a combination of many fabrics and also intricate work. For example, an ethnic top-wear garment generally requires eight different fabrics and trim materials.

TCNS has etablished and manages an extensive sourcing network to support the requirements of its product development teams. It has forged long-standing relationships with its vendors to ensure delivery of products to customers in an efficient and cost-effective manner. The company sources raw material such as printed fabrics, unprocessed fabrics and trim materials from **~180 suppliers**, located across India. Of its top 10 suppliers, TCNS has not faced any attrition in the past three years. It does not enter into long-term agreements with suppliers and instead issues purchase orders in line with sourcing requirements. The company works closely with **~78 job workers** for manufacturing products, with a significant majority located in NCR and having worked with the company for more than three years.

To maintain quality, TCNS regularly supervises manufacturing operations at the facilities of job workers through its personnel who are either stationed at such facilities or periodically visit them for inspections. Further, it regularly analyses existing vendors' capacity and output to ensure they have back-up arrangements in place, pre-book capacity based on projections and work with vendors to develop infrastructure and increase productivity to ensure adequate production capacity and timely procurement and delivery.

Expansion plans: Targeting addition of 75-85 EBOs p.a.

In addition to strengthening and expanding the reach of and strengthening its brands *W* and *Aurelia*, TCNS intends to: (i) continue to grow *Wishful* targeting the premium occasion wear market; (ii) launch new brands; and (iii) acquire other brands opportunistically.

While the company has scaled up *W*, it is now targetting to grow *Aurelia* (has appointed a brand ambassador as well) and *Wishful*, which despite being around since 2006 has failed to gain significant scale. The company has started focussing on wishful since last two years only.

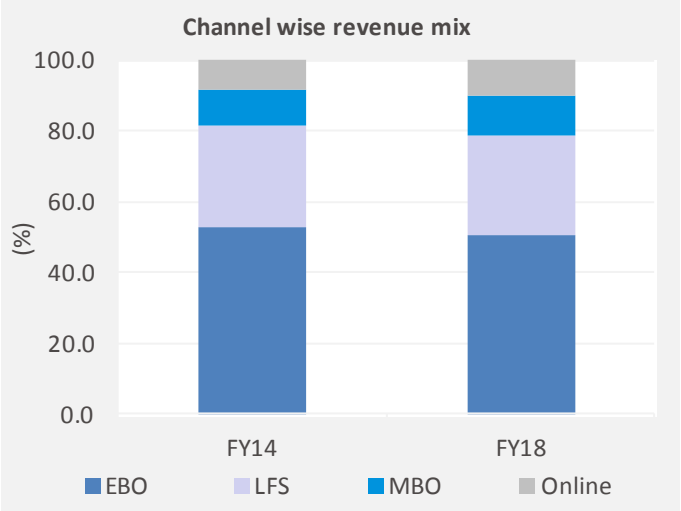
Across its three brands, TCNS is planning to open ~75-85 EBOs p.a. in India during FY19 and FY20, and increase the size and visibility of existing EBOs where possible. The company intends to boost *Wishful* sales by growing the number of EBOs and is palnning to add up to 10 EBOs/shop in shop p.a. over the next three fiscal years. TCNS also intends to increasingly utilise modern trade channels such as large format stores and online platforms to boost sales in India as well as international markets, where it is already present.

TCNS is also planning to expand its revenue base via product extentions and selectively target the women's accessories market with footwear and fragrances. Recently, it launched a jewellery range at its outlets.

Table 3: TCNS distribution expansion

	FY15	FY16	FY17	FY18	*CAGR (%)*
W					
EBO	166	202	233	281	*19.2*
LFS	302	426	535	717	*33.4*
Aurelia					
EBO	69	103	148	183	*38.4*
LFS	263	368	456	752	*41.9*
Wishful					
EBO	0	0	0	1	
LFS	0	0	0	0	
Total					
EBO	235	305	381	465	*25.5*
LFS	565	794	991	1,469	*37.5*
MBO	748	960	1,109	1,522	*26.7*
Total POS	**1,548**	**2,061**	**2,487**	**3,462**	***30.8***
SSG (%)	17.5	27.3	8.5	8.0	

Chart 8: EBO's key channel, revenue mix has been constant



Source: Company, Edelweiss research

Chart 9: EBO addition guidance remains on course

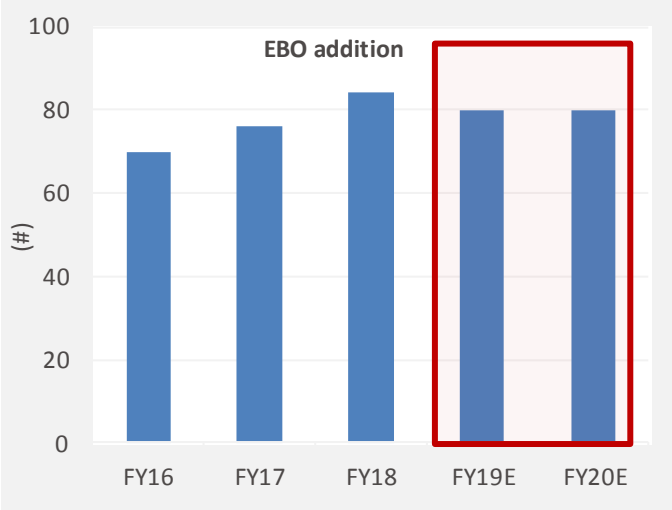
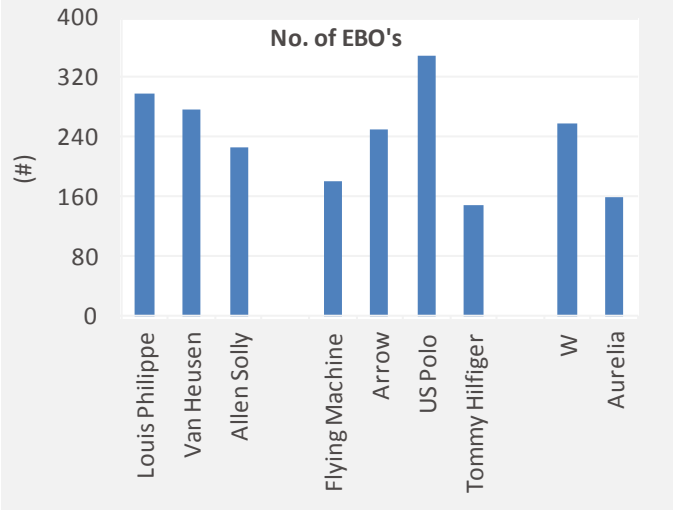


Chart 10: W seems to be close to optimum



Source: Company, Edelweiss research

Company Description

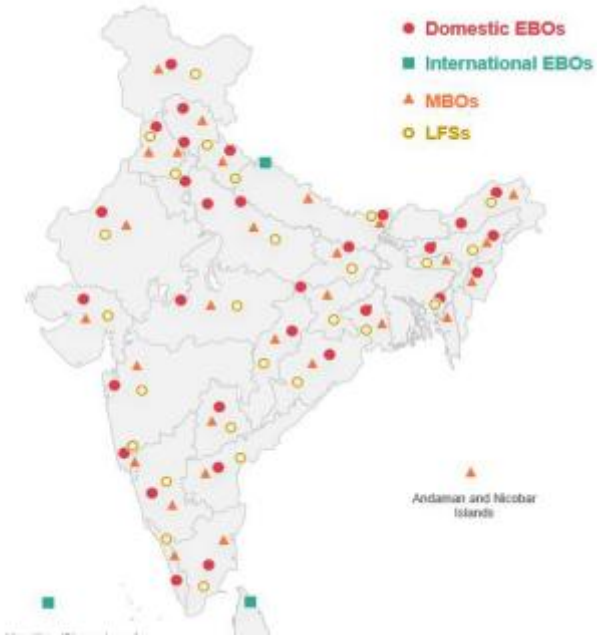
TCNS is India's leading women's branded apparel company in terms of total number of EBOs, according to Technopak. The company designs, manufactures, markets and retails a portfolio of women's branded apparel across multiple brands. It sells its products via multiple distribution channels across India. Its product portfolio includes top-wear, bottom-wear, drapes, combination-sets and accessories that cater to a variety of wardrobe requirements of the Indian woman, including every-day wear, casual wear, work wear and occasion wear. Over the years, TCNS has expanded its portfolio to three brands—*W, Aurelia* and *Wishful*.

Table 4: Company milestones

Year	Description
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

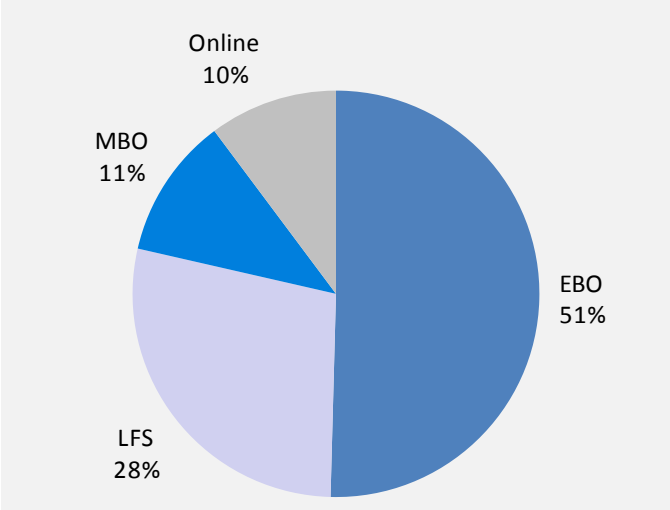
Source: Company, Edelweiss research

Reach



EBO	465
LFS	1,469
MBO	1,522

Chart 11: Channel wise revenue split



Source: Company, Edelweiss research

Brands:

Table 5: Product portfolio

Brand	Launch year	Product Portfolio	Top wear range	EBO	LFS	MBO	Revenue (INR mn)
W	2002	Top-wear, bottom-wear, drapes	INR 1299-1899	258	676	1,361	4,342
Aurelia	2009	Top-wear, bottom-wear, drapes, combination-sets	INR 799-1499; *combination sets: INR 1,999-4,499*	159	629	1,361	2,164
Wishful	2006	Top-wear, bottom-wear, drapes	INR 2,999 to INR 4,999	1	0	0	605

Source: Company, Edelweiss research

***W**: W* is a premium fusion-wear brand melding Indian and western sensibilities with an emphasis on distinctive design and styling. This brand caters primarily to the modern Indian woman's work and casual wear requirements.

Growth in W revenues

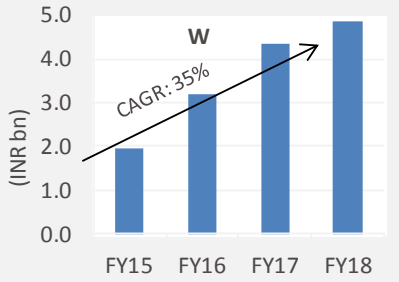


Table 6: W outlet growth

Store Format	FY15	FY16	FY17	FY18
Exclusive brand outlets	166	202	233	281
Large format store outlets	302	426	535	717
International Outlets	0	2	5	5

***Aurelia:** Aurelia* is a contemporary ethnic wear brand targeting women looking for great design, fit and quality for their casual and work wear requirements.

Growth in Aurelia revenues

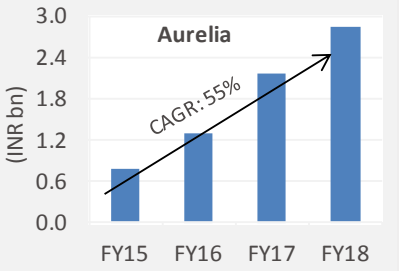


Table 7: Aurelia outlet growth

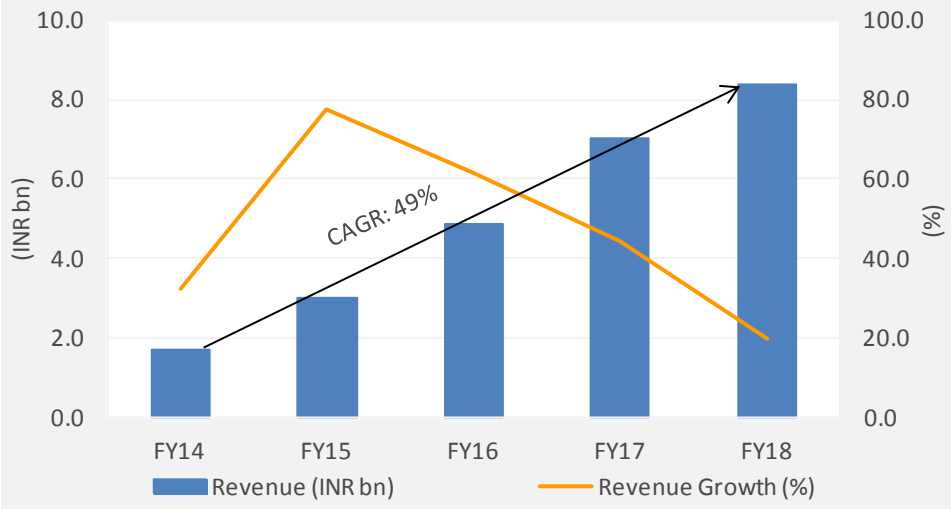
Store Format	FY15	FY16	FY17	FY18
Exclusive brand outlets	69	103	148	183
Large format store outlets	263	368	456	752
International Outlets	0	0	1	1

Source: Company, Edelweiss research

***Wishful:** Wishful* is a premium occasion wear brand, with elegant designs catering to women's apparel requirements for evening wear and occasions such as weddings, events and festivals. TCNS has been leveraging its *W* store network to sell *Wishful* products. However, in September 2017 it launched the first *Wishful* EBO.

Financial Highlights

Chart 12: Revenue growth and CAGR



TCNS' stupendous growth kicked off in FY15. Over FY14-17 it clocked revenue CAGR of 60%.

Chart 13: Brand wise revenue mix evolution

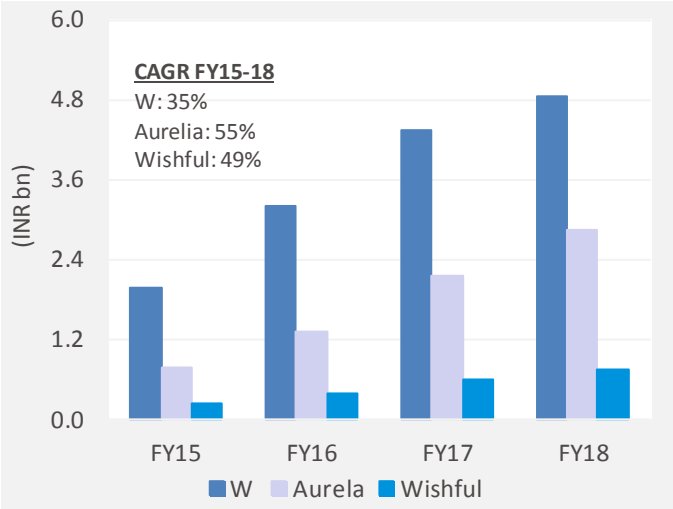
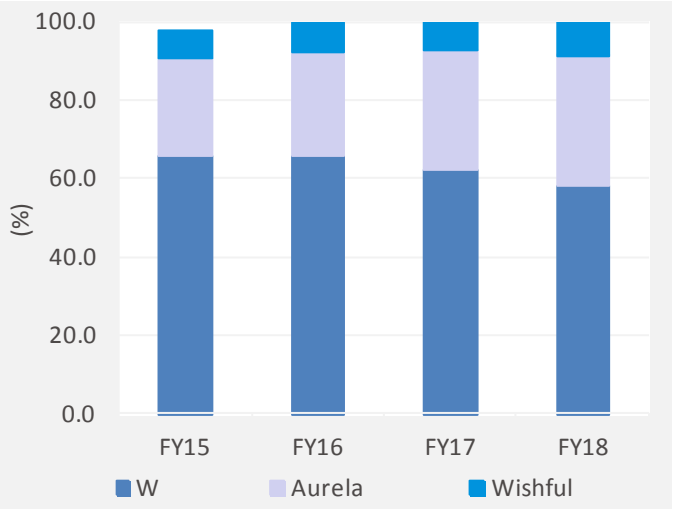


Chart 14: Brand wise revenue mix evolution



Source: Company, Edelweiss research

At the brand level, *W* has clocked 35% revenue CAGR over FY15-18 with its reach (EBO+LFS) increasing at 29% CAGR over the same period. *Aurelia*, coming off a smaller base, has reported 55% revenue growth with 41% increase in reach. *Wishful's* revenue has also jumped from INR221mn to INR731mn in FY18, CAGR of 49%. As a result, *W's* share has dipped from 65% in FY15 to 58% currently and *Aurelia's* has increased from 25% to 34%.

Chart 15: Improvement driven by scale and automisation

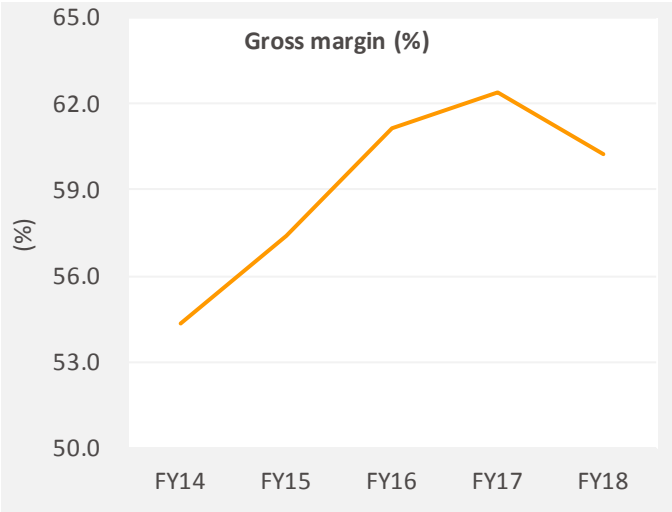
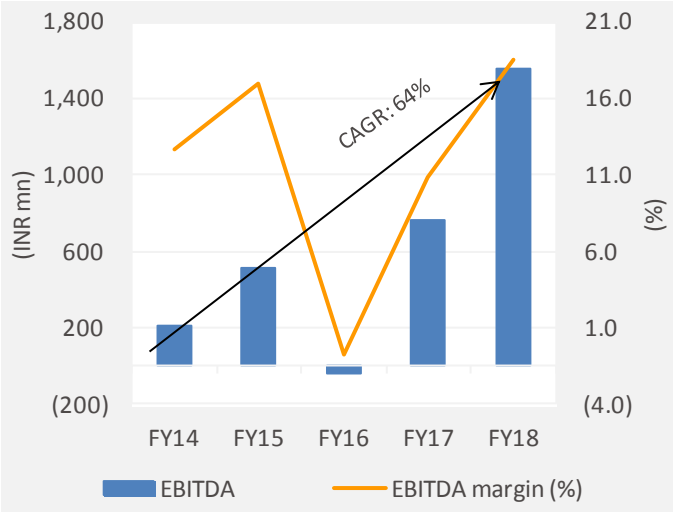


Chart 16: EBITDA margin has also seen an improvement



Note: Gross margins after considering processing charges

TCNS' EBITDA margins were flat till FY15, post which they spiked driven by gross margin improvement. The latter was a combination of scale benefits (lower per unit charges from vendors) and also automisation. Moreover, the strong revenue growth drove operating leverage and sales & marketing spends as a % also reduced.

FY16 would have also seen an improvement in EBITDA margin, but for the change in accounting related to employee expenses. While gross margin contracted in FY18, driven by a dip in employee expenses to normal level of 13-15% and a cut in advertising spends, EBITDA margin jumped to 18.5%.

Chart 17: Employee expenses increase driven by accounting

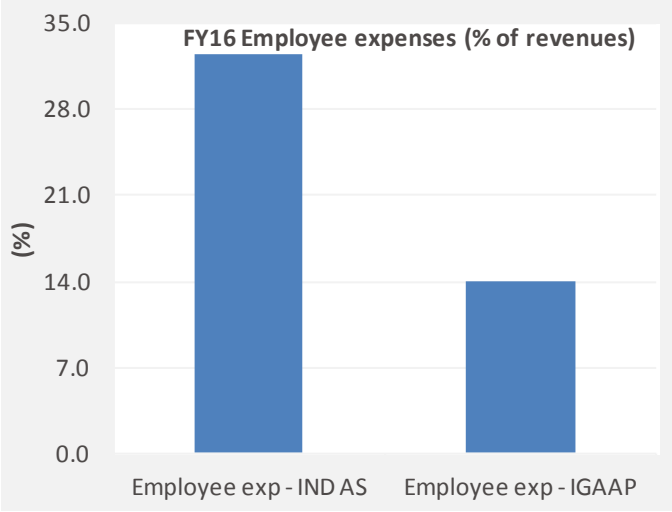
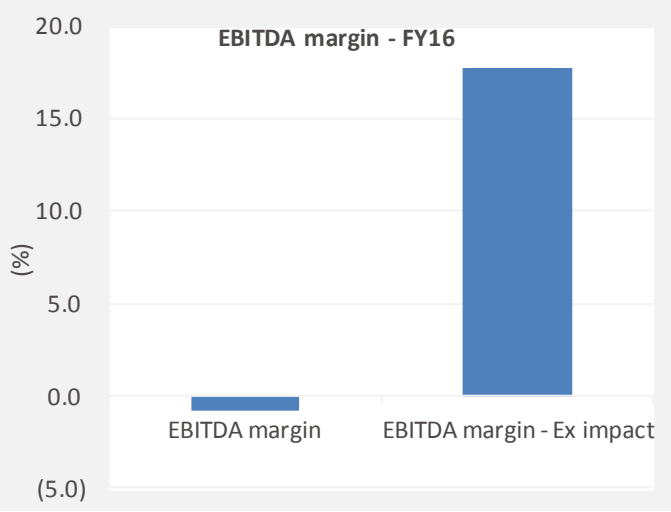


Chart 18: Margin trends were in-line, excluding the impact



Source: Company, Edelweiss research

The impact of ESOP grants was particularly high during FY16 and FY17, which took a toll on TCNS' finances. For FY18, FY17 and FY16, employee benefit expenses excluding share based payments to employees were INR1,021, INR798 and INR678 or 12.1%, 11.2% and 14.0% of revenue from operations, respectively. Share-based payments to employees in

relation to ESOPs granted for FY18, FY17 and FY16 were INR215mn, INR736mn and INR898mn or 2.6%, 10.4% and 18.5% of revenue from operations, respectively.

TCNS expects employee benefit expenses (other than share-based payments to employees) to increase in line with growth of operations , while share-based payments are expected to reduce compared to payments during FY18.

Chart 19: Reported a strong growth in PAT

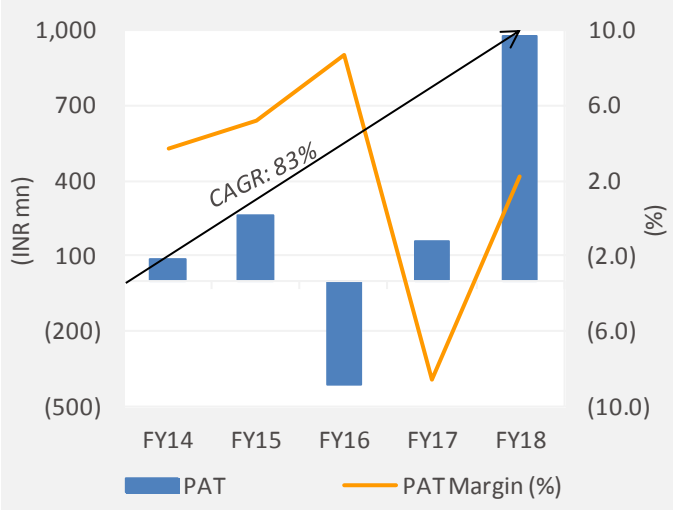


Chart 20: With industry leading RoE and RoCE's

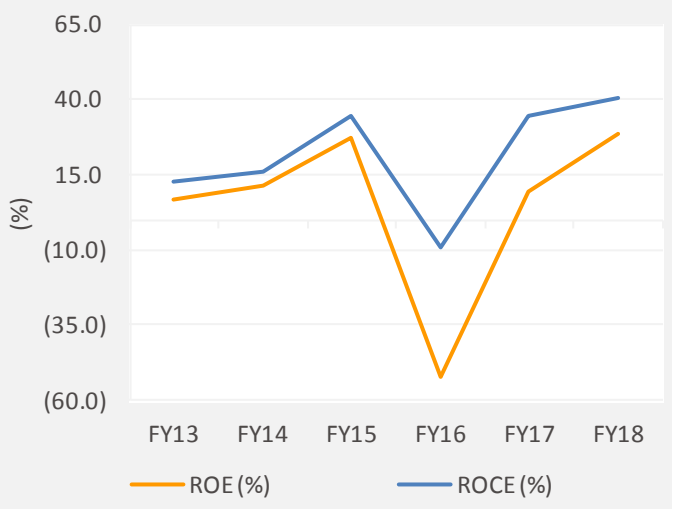


Chart 21: Capex spends have been stable

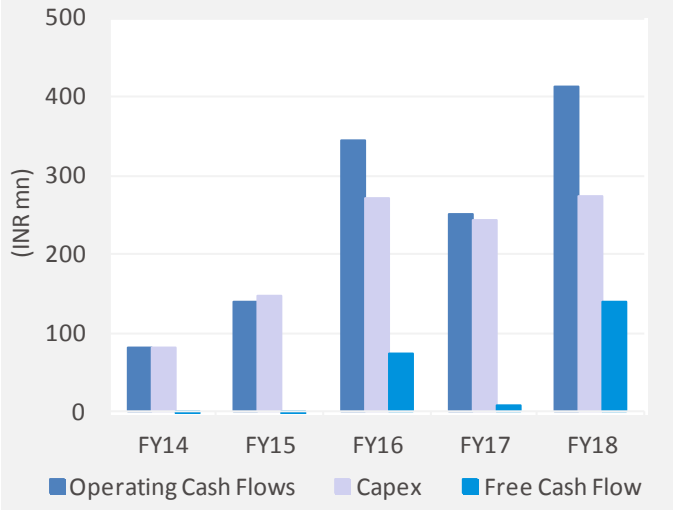
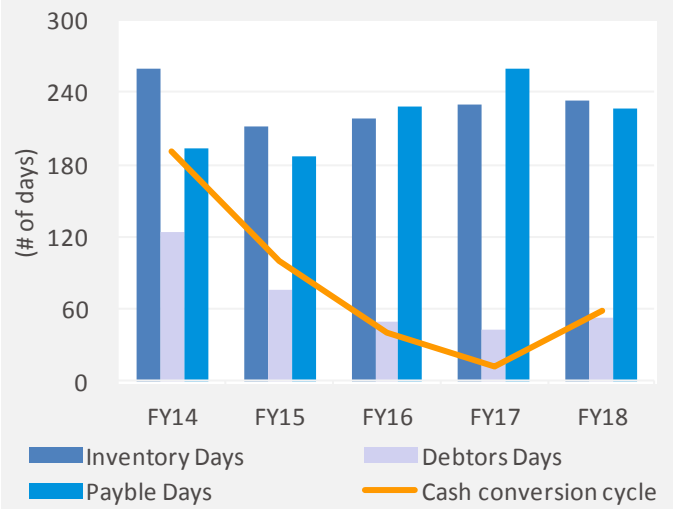


Chart 22: WC cycle increased driven by lower payable days



Source: Company, Edelweiss research

TCNS has seen an increase in capex since FY16, post which it has been constant at ~INR270mn. However, investment in working capital has increased in FY17 and FY18 primarily driven by lower payables.

Valuation & peer comparison

Table 8: Peer comparison

	Revenue CAGR (FY15-18)	FY18 EBITDA margin (%)	FY18 RoCE (%)
Apparel players			
Madura	6.2	11.5	42.9
Arvind - Brand & Retail	19.6	6.2	3.0
Indian Terrain	11.4	12.5	19.9
Kewal Kiran	3.5	25.8	26.3
Page Industries	18.2	22.1	64.1
Lux Industries	7.8	13.8	24.9
Dollar Industries	10.7	12.9	24.3
Average	**11.1**	**15.0**	**29.3**
Women focused Apparel players			
AND	14.3	9.8	7.3
Biba	1.7	18.7	23.1
Fab India	11.9	19.6	16.9
Average	**9.3**	**16.0**	**15.8**
TCNS Clothing	29.0	18.5	40.3

Source: Ace Equity, Edelweiss research

Table 9: Valuation of branded apparel players

Company Name	M Cap (USD bn)	FY18-20E Sales CAGR (%)	FY18-20E PAT CAGR (%)	P/E (x)			EV/EBITDA (x)			EV/Sales (x)			Pre Tax RoCE-FY18	Avg 5 Yr RoCE
				FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E		
Branded Apparel														
Page Industries Ltd	3.7	18.7	23.3	75.1	60.5	49.4	47.7	39.0	32.0	10.3	8.7	7.3	64.1	62.7
Aditya Birla Fashion and Retail Ltd	2.3	14.7	56.8	135.8	88.1	55.2	37.8	27.8	22.2	2.5	2.2	1.9	8.8	2.7
Kewal Kiran Clothing Ltd	0.2	8.2	9.8	20.6	18.5	17.1	14.3	12.0	11.1	3.1	2.8	2.6	26.3	39.1
Indian Terrain Fashions Ltd	0.1	NA	NA	20.3	NA	NA	10.5	NA	NA	1.2	NA	NA	19.9	22.4
Lux Industries Ltd	0.4	18.7	28.8	36.0	28.2	21.7	20.2	16.6	13.2	2.8	2.4	2.0	24.9	22.2
Dollar Industries Ltd	0.2	11.8	17.0	27.0	23.0	19.7	NA	NA	NA	NA	NA	NA	24.3	19.5
Average		**14.4**	**27.1**	**52.5**	**43.7**	**32.6**	**26.1**	**23.8**	**19.6**	**4.0**	**4.0**	**3.4**	**28.0**	**28.1**
Median		**14.7**	**23.3**	**31.5**	**28.2**	**21.7**	**20.2**	**22.2**	**17.7**	**2.8**	**2.6**	**2.3**	**24.6**	**22.3**

Source: Bloomberg, as of 11 Jan 2019

TCNS has managed to significantly outstrip ethnic apparel peers. Even compared to the larger branded apparel segment, the company's growth has been the highest. It has among the highest margins and its RoCE is way higher than the average (40% versus peer average of ~29%), only behind Page Industries, in the larger branded apparel segment.

While the company's core market entails the highest growth potential, the business profile is riskier compared to peers as it is single category focused. The stock currently trades at 41x FY18 P/E and 26x FY18 EV/EBITDA.

Key personnel

Mr. Onkar Singh Pasricha, Chairman & Executive Director

Mr. Onkar Singh Pasricha is the Chairman, Executive Director and one of the promoters of TCNS. He holds a bachelor's degree in technology in electrical engineering from the Indian Institute of Technology, Delhi. He has been on the company's board since December 3, 1997, and was last reappointed on January 5, 2018. Mr. Pasricha has more than 40 years of experience in the apparel industry.

Mr. Anant Kumar Daga, Managing Director

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

Mr. Naresh Patwari, Non-executive nominee Director

Mr. Naresh Patwari is a non-executive nominee Director of TCNS. He holds a bachelor's degree in technology in mechanical engineering from the Indian Institute of Technology, Kharagpur, and a master's in business administration from the Tuck School of Business at Dartmouth College, US. He has been on the company's board since August 18, 2016. Mr. Patwari is currently employed with TA Associates Advisory as Director. He was previously employed with Schlumberger, McKinsey & Company and ICICI Venture.

Ms. Neeru Abrol, Independent Director

Ms. Neeru Abrol was appointed as an independent Director of TCNS on December 14, 2017. She holds a bachelor's of science degree from Aligarh Muslim University, Aligarh, and is an associate member of the Institute of Chartered Accountants of India. Ms. Abrol has worked with Steel Authority of India holding various management positions and with National Fertilizers as its Chairperson and Managing Director.

Ms. Sangeeta Talwar, Independent Director

Ms. Sangeeta Talwar was appointed as an independent Director of TCNS on December 14, 2017. She holds a post-graduate diploma in management from the Indian Institute of Management, Kolkata. She is currently a partner at Flyvision Consulting LLP. Ms. Talwar has worked with Nestle India as Executive Vice President, marketing; Mattel Inc., India, as its Managing Director; Tata Tea as an Executive Director, marketing; and NDDB Dairy Services as Managing Director.

Mr. Bhaskar Pramanik, Independent Director

Mr. Pramanik was appointed as an independent Director of TCNS on December 14, 2017. He holds a bachelor's degree in technology from Indian Institute of Technology, Kanpur. He has served as the chairman of Sun Microsystems India, managing director of Oracle India and as chairman of Microsoft India.

Financial Statements

Income statement				(INR mn)
Year to March	FY15	FY16	FY17	FY18
Net revenues	**3,010**	**4,854**	**7,009**	**8,385**
Raw material costs	714	1,043	1,359	1,807
Employee Benefits Expense	354	1,576	1,534	1,236
Other expenses	1,431	2,274	3,353	3,787
Total expenses	2,499	4,893	6,246	6,831
EBITDA	**511**	**(39)**	**763**	**1,554**
Depreciation & amortization	62	89	134	167
EBIT	449	(128)	629	1,388
Less: Interest Expense	49	29	25	7
Add: Other income	10	21	19	67
Add: Exceptional items	0	0	0	0
Profit Before Tax	410	(136)	624	1,448
Less: Provision for Tax	147	279	466	467
Reported Profit	263	(415)	158	981
Less: Excep. Items (Net of Tax)	0	0	0	0
Adjusted Profit*	**263**	**(415)**	**158**	**981**
No. of Shares outstanding (mn)	92	92	111	56
Adjusted Basic EPS	2.9	(4.5)	1.4	17.4
No. of dil. shares outstand. (mn)	92	92	111	56
Adjusted Diluted EPS	**2.9**	**(4.5)**	**1.4**	**17.4**
Adjusted Cash EPS	4	(4)	3	20
Dividend per share	0.0	0.0	1.4	2.0
Dividend Payout Ratio (%)	0.0	0.0	1.0	0.1

**Restated PAT, From FY16 employee expenses includes ESOP charges*

Common size metrics - as % of revenues				
Year to March	FY15	FY16	FY17	FY18
Materials costs	23.7	21.5	19.4	21.6
Staff costs	11.8	32.5	21.9	14.7
S G & A expenses	47.5	46.8	47.8	45.2
Depreciation	2.1	1.8	1.9	2.0
Interest Expense	1.6	0.6	0.4	0.1
EBITDA margins	**17.0**	**(0.8)**	**10.9**	**18.5**
Net Profit margins	8.7	(8.5)	2.3	11.7

Growth metrics (%)				
Year to March	FY15	FY16	FY17	FY18
Revenues	77.5	61.3	44.4	19.6
EBITDA	137.8	NM	NM	103.7
PBT	208.3	NM	NM	132.2
Adjusted Profit	200.4	NM	NM	521.0
EPS	200.4	NM	NM	NM

Balance sheet				(INR mn)
As on 31st March	FY15	FY16	FY17	FY18
Share capital	104	92	111	113
Other Equity	1,000	392	2,708	3,960
Total shareholders funds	**1,104**	**483**	**2,819**	**4,072**
Long term Borrowings	65	78	3	244
Short term Borrowings	334	304	86	1
Total Borrowings	**398**	**382**	**88**	**245**
Long Term Liabilities & Prov.	65	73	487	1,009
Deferred Tax Liability (net)	(50)	(155)	(97)	(115)
Sources of funds	**1,516**	**783**	**3,298**	**5,211**
Net Block	203	379	458	506
Capital work in progress	1	2	8	25
Intangible Assets	8	14	35	69
Total Fixed Assets	212	395	502	600
Non current investments	9	13	17	0
Cash & bank balances	69	103	132	512
Inventories	892	1,371	1,940	2,312
Sundry Debtors	652	642	997	1,396
Loans & Advances	377	564	907	1,591
Other Current Assets	13	137	72	128
Total Current Assets (Ex Cash)	1,934	2,715	3,916	5,427
Trade payable	454	846	1,093	1,144
Other Current Liab. & ST Prov.	253	1,597	176	183
Total Current Liab. & Provisions	707	2,443	1,269	1,327
Net Current Assets (ex cash)	1,227	272	2,647	4,100
Uses of funds	**1,516**	**783**	**3,298**	**5,211**
Book value per share (BV) (INR)	12	5	25	72

Free cash flow				
Year to March	FY15	FY16	FY17	FY18
Reported Profit	263	(415)	158	981
Add: Depreciation	62	89	134	167
Interest (Net of Tax)	31	90	6	5
Others	18	792	599	233
Less:Changes in WC	234	212	646	971
Operating cash flow	140	344	251	413
Less: Capex	147	271	242	274
Free cash flow	**(7)**	**74**	**9**	**140**

Cash flow statement

Year to March	FY15	FY16	FY17	FY18
Operating cash flow	140	344	251	413
Investments cashflow	(145)	(279)	(271)	(276)
Financing cash flow	7	(45)	12	210
Net cash Flow	2	20	(8)	347
Capex	(147)	(271)	(242)	(274)

Profitability & liquidity ratios

Year to March	FY15	FY16	FY17	FY18
RoAE (%)	27.1	(52.3)	9.6	28.5
RoACE (%)	34.2	(9.0)	34.4	40.3
Inventory Days	211	219	229	233
Debtors Days	77	49	43	52
Payble Days	187	228	260	226
Cash conversion cycle (days)	101	40	12	59
Current Ratio	2.8	1.2	3.2	4.5
Gross Debt/EBITDA	0.8	(9.9)	0.1	0.2
Gross Debt/Equity	0.4	0.8	0.0	0.1
Net Debt/Equity	0.3	0.6	(0.0)	(0.1)
Interest Coverage Ratio	9.2	(4.3)	25.5	206.8

Operating ratios

Year to March	FY15	FY16	FY17	FY18
Total asset turnover(x)	2.2	4.2	3.4	2.0
Fixed asset turnover(x)	18.0	16.1	15.8	15.7
Equity turnover(x)	3.1	6.1	4.2	2.4

Valuation parameters

Year to March	FY15	FY16	FY17	FY18
Adjusted Diluted EPS (INR)	2.9	(4.5)	1.4	17.4
Y-o-Y growth (%)	*200.4*	*NM*	*NM*	*NM*
Adjusted Cash EPS (INR)	3.5	(3.6)	2.6	20.4
Diluted P/E (x)	251.0	NM	506.4	41.3
Price/BV (x)	59.8	136.5	28.4	10.0
EV/Sales (x)	22.0	13.6	11.4	4.8
EV/EBITDA (x)	129.7	NM	104.8	25.9
Dividend yield (%)	0.0	0.0	0.2	0.3

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400**,** Email*: research@edelweissfin.com*

Aditya Narain
Head of Research
aditya.narain@edelweissfin.com

ADITYA NARAIN

Digitally signed by ADITYA NARAIN
DN: c=IN, o=EDELWEISS SECURITIES LIMITED, ou=HEAD RESEARCH, cn=ADITYA NARAIN, serialNumber=e0576796072ad1a3266c27990f20bf0213f69235fc3f1bcd0fa1c30092792c20, postalCode=400005, 2.5.4.20=3dc92af943d52d778c99d69c48a8e0c89e548e5001b4f8141cf423fd58c07b02, st=Maharashtra
Date: 2019.01.15 21:31:39 +05'30'

Coverage group(s) of stocks by primary analyst(s): Midcap Textiles

Arvind, Himatsingka Seide, Welspun India

Recent Research

Date	Company	Title	Price (INR)	Recos
27-Nov-18	**Arvind**	Demerger due, what's the potential?; *Company Update*	308	Buy
13-Aug-18	**Himatsingka Seide**	Thumbs up to growth; margin yet to gain traction; *Visit Note*	286	Buy
30-Jul-18	**Welspun India**	Strong quarter despite industry headwinds; *Result Update*	56	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240

* 1stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

DISCLAIMER

Edelweiss Securities Limited ("ESL" or "Research Entity") is regulated by the Securities and Exchange Board of India ("SEBI") and is licensed to carry on the business of broking, depository services and related activities. The business of ESL and its Associates (list available on www.edelweissfin.com) are organized around five broad business groups – Credit including Housing and SME Finance, Commodities, Financial Markets, Asset Management and Life Insurance.

This Report has been prepared by Edelweiss Securities Limited in the capacity of a Research Analyst having SEBI Registration No.INH200000121 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Securities as defined in clause (h) of section 2 of the Securities Contracts (Regulation) Act, 1956 includes Financial Instruments and Currency Derivatives. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in Securities referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ESL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. ESL reserves the right to make modifications and alterations to this statement as may be required from time to time. ESL or any of its associates / 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. ESL is committed to providing independent and transparent recommendation to its clients. Neither ESL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance .The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. The information provided in these reports remains, unless otherwise stated, the copyright of ESL. All layout, design, original artwork, concepts and other Intellectual Properties, remains the property and copyright of ESL and may not be used in any form or for any purpose whatsoever by any party without the express written permission of the copyright holders.

ESL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of the ESL to present the data. In no event shall ESL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by the ESL through this report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

ESL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the Securities, mentioned herein or (b) be engaged in any other transaction involving such Securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance. ESL may have proprietary long/short position in the above mentioned scrip(s) and therefore should be considered as interested. The views provided herein are general in nature and do not consider risk appetite or investment objective of any particular investor; readers are requested to take independent professional advice before investing. This should not be construed as invitation or solicitation to do business with ESL.

ESL or its associates may have received compensation from the subject company in the past 12 months. ESL or its associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. ESL or its associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. ESL or its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research analyst or his/her relative or ESL's associates may have financial interest in the subject company. ESL and/or its Group Companies, their Directors, affiliates and/or employees may have interests/ positions, financial or otherwise in the Securities/Currencies and other investment products mentioned in this report. ESL, its associates, research analyst and his/her relative may have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Participants in foreign exchange transactions may incur risks arising from several factors, including the following: (i) exchange rates can be volatile and are subject to large fluctuations; (ii) the value of currencies may be affected by numerous market factors, including world and national economic, political and regulatory events, events in equity and debt markets and changes in interest rates; and (iii) currencies may be subject to devaluation or government imposed exchange controls which could affect the value of the currency. Investors in securities such as ADRs and Currency Derivatives, whose values are affected by the currency of an underlying security, effectively assume currency risk.

Research analyst has served as an officer, director or employee of subject Company: No

ESL has financial interest in the subject companies: No

ESL's Associates may have actual / beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report.

Research analyst or his/her relative has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

ESL has actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of research report: No

Subject company may have been client during twelve months preceding the date of distribution of the research report.

There were no instances of non-compliance by ESL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years except that ESL had submitted an offer of settlement with Securities and Exchange commission, USA (SEC) and the same has been accepted by SEC without admitting or denying the findings in relation to their charges of non registration as a broker dealer.

A graph of daily closing prices of the securities is also available at www.nseindia.com

Analyst Certification:

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Additional Disclaimers

Disclaimer for U.S. Persons

This research report is a product of Edelweiss Securities Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Edelweiss Securities Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Edelweiss Securities Limited has entered into an agreement with a U.S. registered broker-dealer, Edelweiss Financial Services Inc. ("EFSI"). Transactions in securities discussed in this research report should be effected through Edelweiss Financial Services Inc.

Disclaimer for U.K. Persons

The contents of this research report have not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 ("FSMA").

In the United Kingdom, this research report is being distributed only to and is directed only at (a) persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 (the "Order"); (b) persons falling within Article 49(2)(a) to (d) of the Order (including high net worth companies and unincorporated associations); and (c) any other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons").

This research report must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this research report relates is available only to relevant persons and will be engaged in only with relevant persons. Any person who is not a relevant person should not act or rely on this research report or any of its contents. This research report must not be distributed, published, reproduced or disclosed (in whole or in part) by recipients to any other person.

Disclaimer for Canadian Persons

This research report is a product of Edelweiss Securities Limited ("ESL"), which is the employer of the research analysts who have prepared the research report. The research analysts preparing the research report are resident outside the Canada and are not associated persons of any Canadian registered adviser and/or dealer and, therefore, the analysts are not subject to supervision by a Canadian registered adviser and/or dealer, and are not required to satisfy the regulatory licensing requirements of the Ontario Securities Commission, other Canadian provincial securities regulators, the Investment Industry Regulatory Organization of Canada and are not required to otherwise comply with Canadian rules or regulations regarding, among other things, the research analysts' business or relationship with a subject company or trading of securities by a research analyst.

This report is intended for distribution by ESL only to "Permitted Clients" (as defined in National Instrument 31-103 ("NI 31-103")) who are resident in the Province of Ontario, Canada (an "Ontario Permitted Client"). If the recipient of this report is not an Ontario Permitted Client, as specified above, then the recipient should not act upon this report and should return the report to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any Canadian person.

ESL is relying on an exemption from the adviser and/or dealer registration requirements under NI 31-103 available to certain international advisers and/or dealers. Please be advised that (i) ESL is not registered in the Province of Ontario to trade in securities nor is it registered in the Province of Ontario to provide advice with respect to securities; (ii) ESL's head office or principal place of business is located in India; (iii) all or substantially all of ESL's assets may be situated outside of Canada; (iv) there may be difficulty enforcing legal rights against ESL because of the above; and (v) the name and address of the ESL's agent for service of process in the Province of Ontario is: Bamac Services Inc., 181 Bay Street, Suite 2100, Toronto, Ontario M5J 2T3 Canada.

Disclaimer for Singapore Persons

In Singapore, this report is being distributed by Edelweiss Investment Advisors Private Limited ("EIAPL") (Co. Reg. No. 201016306H) which is a holder of a capital markets services license and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore ("the SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations ("FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to EIAPL when providing any financial advisory services to an accredited investor (as defined in regulation 36 of the FAR. Persons in Singapore should contact EIAPL in respect of any matter arising from, or in connection with this publication/communication. This report is not suitable for private investors.

Copyright 2009 Edelweiss Research (Edelweiss Securities Ltd). All rights reserved

Access the entire repository of Edelweiss Research on www.edelresearch.com