

TCNS Clothing Ltd.

Recommendation	Subscribe	
Price Band	Rs 714 -716	
Bidding Date	18 - 20 July	
Book Running Lead Manager	Kotak Mahindra, Citigroup	
Registrar	Karvy Computershare	
Sector	Retail	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	20	
Minimum Application Money	Rs 14320	
Discount to retail	NA	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	FY17	FY18
Total Income	701	839
Adj EBITDA	150	177
PAT	15.8	98.1
Valuations	Lower Band	Upper Band
Market Cap (Rs Cr)	4378.1	4390.4
EPS	16.0	16.0
P/E Ratio	44.6	44.8
EV/ EBITDA	27.8	27.9
Enterprise Value (Rs Cr)	4327.2	4339.4
Post Issue Shareholding Pattern		
Promoters	32.42%	
Institutions	12.81%	
Bodies Corporates & Public	54.77%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50%	
Non-Institutional	15%	
Retail	35%	
Post Issue Equity (Rs. in cr)	12.2	
Issue Size (Rs in cr)	Rs 1122- Rs 1125	
Face Value (Rs)	2	
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BACKGROUND

TCNS, India's leading women's branded apparel company which design, manufacture, market and retail a wide portfolio of women's branded apparel across multiple brands. Over the years, the company has expanded its brand portfolio to 3 brands - W, Auerlia, Wishful; each positioned to cater to well-defined needs of their respective target consumers. As of March 2018, TCNS sold its 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, six exclusive brand outlets are in Nepal, Mauritius and Sri Lanka

Objects and Details of the Issue

The public issue of TCNS Clothing Ltd consists of offer for sale of equity shares of Rs 495 cr by the promoter group and selling shareholders of Rs 630 cr (includes Wagner)

Investment Rationale:

- Growth in industry would lead to growth of the company
- Expansion of Distribution channels
- Expansion of Product & Brand portfolio
- Strong financials

Valuation and Recommendation

Over FY16-18, TCNS sales, EBITDA, PAT has grown at a CAGR of 31.4%, 43.5% & 57.3%. Going forward, branded ethnic market which was valued at \$1.5 bn in 2017, is expected to reach \$3.4 bn in 2020(CAGR growth of 31%). We believe with addition of new stores, expansion of product and brand portfolio, TCNS clothing, who enjoys a good brand name and has a strong distribution network accompanied with a shift from unorganized to organized sector, will be able to capture the rising opportunity in the industry. As per IND AS, the company has recorded Share based payment to employees (ESOP) (non cash) which has impacted the operating profit of the company. Share based payment to employee has come down from Rs 90 cr in FY16 to Rs21.5 cr FY18. Adjusting to this, Operating margins of the company has improved from 17.7% in FY16 to 21.1% in FY18. TCNS is a debt free company. FCF of the company stands at Rs 17.3 cr in FY18. Higher PAT margin, with high asset turnover has helped the company to enjoy higher ROE and RoCE for FY18 which stands at 22.3% and 22.7% respectively. On the valuation front, at the given upper price band of issue of Rs 716, TCNS clothing is offered at PE of 44.8x its FY18 EPS of Rs 16 and EV / Ebitda of 27.9 x which is fairly priced in comparison to its competitor. **We recommend subscribing to the issue with long term view.**

Financial Snapshot	FY16	FY17	FY18
Revenues	485.4	700.9	838.5
Adj EBITDA	86.0	149.9	177.0
% Adj margins	17.7%	21.4%	21.1%
PAT	-41.5	15.8	98.1
EV/ EBITDA @ Rs 716			27.9
P/E @ Rs 716			44.8

Source: RHP, Company data, NB Research

TCNS Clothing Ltd.

Business

TCNS, is India's leading women's branded Apparel Company which design, manufacture, market and retail a wide portfolio of women's branded apparel across multiple brands. TCNS product portfolio includes top-wear such as kurtas, tops and gilets; bottom-wear such as churidars, trousers, skirts, slim pants, palazzos and tights; drapes such as dupattas, stoles and scarfs; combination-sets of salwar, kameez and dupatta; 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. Over the years, the company has expanded its brand portfolio to three brands, each positioned to cater to well-defined needs of their respective target consumers:

Brand	Year	Portfolio	Target Market	Typical Range of offering: MRP
W	2002	Premium fusion wear brand which merges Indian and western sensibilities with an emphasis on distinctive design and styling(top-wear, bottom-wear, drapes)	Modern Indian woman's work and casual wear requirements	Top-wear from RS 1,299 to Rs 1,899
Aurelia	2009	Contemporary ethnic wear (top-wear, bottom-wear, drapes, combination-sets)	Women looking for great design fit and quality for their casual and work wear requirements.	Top-wear from Rs 799 to Rs 1,499; combination-sets from Rs 1,999 to Rs 4,499
Wishful	2006	Premium occasion wear brand, with elegant designs(top-wear, bottom-wear, drapes)	Women's apparel requirements for evening wear and occasions such as weddings, events and festivals	Top-wear from Rs 2,999 to Rs 4,999

Source: RHP, Nirmal Bang Retail Research

The company sells its products across India, through multiple distribution channels, its own website and online retailers.

	2015	2016	2017	2018
Exclusive brand outlet	235	305	381	465
Large format store outlet	565	794	991	1469
International outlet	0	2	6	6
Multi Brand Outlet	748	960	1109	1522
Total Point of sales	1548	2061	2487	3462
Online Sales	13.17%	6.77%	10.11%	10.05%

Source: RHP, Nirmal Bang Retail Research

TCNS focus is on creating innovative designs and optimizing fit and sizing, while emphasizing higher quality. TCNS source the raw material from others, as on, March 2018, the company has sourced raw materials from approximately 181 suppliers, located across India. For manufacturing product TCNS works closely with job workers for manufacturing products, with a significant majority located in the National Capital Region.

As on March 31, 2018, TCNS design team consist of 37 employees, together with its sourcing team, prepared approximately 3,000 preliminary fabric print designs and approximately 1,750 preliminary products, in order to launch approximately 2,700 fabric print designs for approximately 1,600 products in various sizes across product categories

TCNS Clothing Ltd.

Investment Rationale

Growth in industry would lead to growth to the company

The women's ethnic apparel market in India was US\$ 6.5 billion for the Fiscal 2017, and is expected to grow at a CAGR of 13.5% & reach US\$ 9.5 billion by Fiscal 2020. Of this, branded ethnic market is valued at \$1.5 bn in 2017 is expected to reach \$3.4 bn in 2020(CAGR growth of 31%), i.e. Branded ethnic market is expected to grow at a higher rate. Of this national brands, like W, Biba, Anokhi etc is expected to grow at a CAGR of 35.7% to \$0.6bn in FY20

Brand	Year of Inception	Number of EBOs	Focus Geography
W	2002	258	Pan India
Aurelia	2009	159	Pan India
Wishful Stores	2006	Sold through W stores	Pan India
BIBA	1988	250	North, South and West
Global Desi	2007	147	North & West
Fabindia	1960	261	Pan India
Soch	2005	99	South

Source: Company data, Nirmal Bang Retail Research

We believe, TCNS, having strong distribution network with good product portfolio and strong brand recognition will be able to grab the rising opportunity from the industry

Expansion of Distribution channels

TCNS has developed strong distribution network over the years. Over FY15-18 the total point of sales has grown at a CAGR of 30.85% and stands at 3462 in FY18. Other than this, the company has also developed its online sales which has grown at a CAGR of 56.45% over FY14-18 and now contributes 10.05% to the revenue in FY18

		2015	2016	2017	2018
W	Exclusive brand outlet	166	202	233	281
	Large format store outlet	302	426	535	717
	International outlet		2	5	5
Aurelia	Exclusive brand outlet	69	103	148	183
	Large format store outlet	263	368	456	752
	International outlet	0		1	1
Wishful	Exclusive brand outlet	0	0	0	1
	Exclusive brand outlet	235	305	381	465
	Large format store outlet	565	794	991	1469
	International outlet	0	2	6	6
	Multi Brand Outlet	748	960	1109	1522
	Total Point of sales	1548	2061	2487	3462
	Online Sales	13.17%	6.77%	10.11%	10.05%

Source: Company data, Nirmal Bang Retail Research

Going ahead, management expects to add approximately 75 to 85 exclusive brand outlets in India during Fiscal 2019 and 2020 across 3 brands. TCNS plans to grow the sales of products under Wishful by growing the number of exclusive brand outlets, and intend to add up to 10 exclusive brand outlets each year for the next 3 fiscal years. Other than this, leveraging the experience from stores in Nepal, Sri Lanka and Mauritius, TCNS plans to open stores in other Asian countries such as Saudi Arabia, Kuwait, the UAE, Bahrain and Oman, which have a significant Indian diaspora. We believe, growth in the distribution channel with expansion in different geographies would lead to growth for the company

TCNS Clothing Ltd.

Expansion of Product & Brand portfolio

Since inception, the company has developed 3 brands which have helped TCNS to not only grow but also diversify its brand portfolio.

	2015	%	2016	%	2017	%	2018	%
W	196.7	66.6%	318.8	65.6%	434.2	61.1%	485.6	57.6%
Aurelia	76.5	25.9%	129.9	26.7%	216.4	30.4%	283.7	33.7%
Wishful	22.1	7.5%	37.4	7.7%	60.5	8.5%	73.1	8.7%
	295.3		486.1		711.1		842.4	

Source: Company data, Nirmal Bang Retail Research

Going ahead, TCNS further plans to expand its brand portfolio by launching new brands which cover additional women's apparel categories, offer products at different price points, or target new customer categories such as teenage and young adult women. TCNS also plans to selectively target the women's accessories market with products such as footwear and fragrances. The company may also look out for inorganic growth by acquiring different brands. Expansion of product portfolio and adding new brands would help the company to further diversify the company's business and grow

Strong financials

Over FY16-18, TCNS sales, EBITDA, PAT has grown at a CAGR of 31.4%, 43.5% & 57.3%. Asset turnover ratio of the company stands at 1.45 for FY 18, which indicates the efficiency with which a company is deploying its assets in generating revenue. As per INDAS, the company has recorded Share based payment to employees (ESOP) (non cash) which has impacted the operating profit of the company. Share based payment to employee has come down from Rs 90 cr in FY16 to Rs21.5 cr FY18. Adjusting to this, TCNS although being a retail company, it enjoys Ebitda Margin of around 21%. PAT margin of the company stands at 11.7% in FY18. Higher PAT margin, with high asset turnover has helped the company to enjoy higher return ratios ROE and RoCE for FY18 stands at 22.3% and 22.7% respectively. FCF of the company stands at Rs 17.3 cr in FY18. With no debt on books, accompanied with positive FCF and High ROE and ROCE are the key indicators of the strong financials of the company.

	FY16	FY17	FY18	
Asset Turnover	1.57	1.65	1.45	
Working capital	2.92	3.20	3.72	<i>Inventory days remaining same working capital has increased due to Higher Receivable days and lower payable days</i>
Capex	-27.1	-19.9	-24.5	
FCF	5.3	3.9	17.3	
ROE			22.3%	
ROCE			22.7%	

Source: Company data, Nirmal Bang Retail Research

Risks

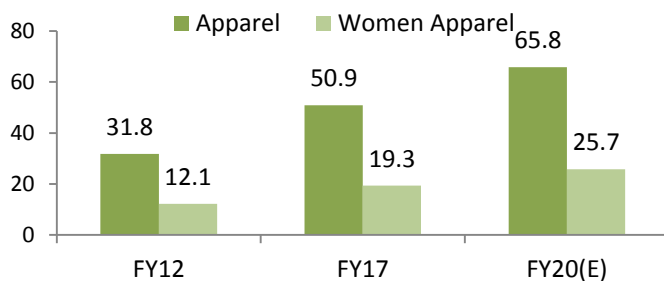
- TCNS is yet to obtain registration for 'Aurelia' (word), 'Aurelia' (logo), 'W Women's Wear' (logo), 'Free Spirit' (word and logo), under several classes, among others
- TCNS application for registration of 'W' brand, under classes 25 (Clothing and Garments) and 18 (Leather Goods) has been opposed by 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. While the pleadings in relation to this matter were concluded in 2012, the final hearing has not been conducted so far.
- Any disruption in operations at the manufacturing facilities of job workers or raw material suppliers may have an adverse effect on our business
- Any delay in coping up to the current fashion will impact the company
- Delay in opening the stores will impact the company

TCNS Clothing Ltd.

Industry

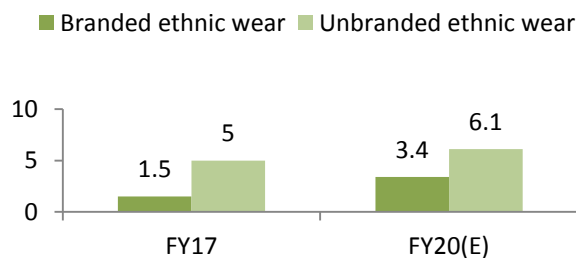
The apparel & accessories market in India was estimated to be US\$ 56.1 billion in Fiscal 2017 and is expected to reach US\$ 77.2 billion by Fiscal 2020, growing at a CAGR of 11.3%. Of this, the apparel segment was estimated to be US\$ 50.9 billion in Fiscal 2017 and is expected to grow on the back of 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.

Market Size (in \$bn)



Over FY12-17 apparel market and women apparel market has grown at a CAGR of 9.9% & 9.8% respectively. Over FY17 -20, apparel market and women apparel market is expected to grow at a CAGR of 8.9% & 10% respectively. Indian wear constitutes approximately

Ethnic Wear Market Size (\$ bn)



Women's Ethnic wear market in India is approximately 47% of the women's Indian wear market. Branded ethnic wear is expected to grow at a higher rate i.e. at a CAGR of 31.4% over FY17-20 and would constitute 35% of women's Ethnic wear market

Diversification of ethnic market brand wise

			Market Size (\$ bn)			National brands and E-commerce together would account for 64% of the market resulting in a decline of the share of private label and regional brands, whose combined share is expected to decrease from 46% in Fiscal 2017 to 36% by Fiscal 2020.
			FY17	FY20	CAGR	
National Brands	Ethnic Lifestyle Led Fashion Retailers (retail stores selling multiple Ethnic Fashion ethos based categories)	FabIndia, Anokhi	0.6	1.5	35.7%	
	Ethnic Apparel Led Retail Brands (predominantly (>85%) sell women's Ethnic wear)	W, Aurelia, BIBA, Global Desi				
Private Labels	In-Store Ethnic Apparel brands of Multi-brand Retailers	Stop, Melange, Rangmanch	0.3	0.6	26.0%	
Regional Brands	Ethnic Apparel led Retail Brands	Kiara, Ibadat, Harra	0.4	0.6	14.5%	
Ecommerce only brands			0.2	0.7	51.8%	
Total			1.5	3.4	31.4%	

TCNS Clothing Ltd.

Valuation and Recommendation

Looking upon the size and the business of the company we have compared TCNS clothing with Page Industries, Aditya Birla Fashion & Retail, Future Lifestyle Fashion, Kewal Kiran Clothing.

Peer Comparison

FY18	Page Industries	Aditya Birla Fashion & Retail	Future Lifestyle Fashion	Kewal Kiran Clothing	TCNS Clothing
Sales	2552.0	7181.4	4498.2	462.0	838.5
CAGR (FY16-18)	19.2%	9.1%	59.5%	2.7%	31.4%
EBITDA	540.7	468.3	408.7	98.2	177.0*
EBITDA margin	21.2%	6.5%	9.1%	21.3%	21.1%*
PAT	347.0	117.8	126.1	73.2	98.1
PAT margin	13.6%	1.6%	2.8%	15.8%	11.7%
Asset Turnover	1.81	1.25	1.18	0.81	1.45
ROE	41.0%	10.8%	8.2%	18.3%	22.7%
ROCE	40.7%	10.1%	10.2%	17.5%	22.3%
PE	90.77	91.76	61.04	22.23	44.8
EV/EBITDA	57.82	26.68	20.39	15.48	27.9
EV/Sales	12.25	1.74	1.85	3.29	5.2

Source: Company Data, Nirmal Bang Research

* indicated Adjusted to Share based payment to employees (ESOP) (non cash)

Over FY16-18, TCNS sales, EBITDA, PAT has grown at a CAGR of 31.4%, 43.5% & 57.3%. Going forward, branded ethnic market which was valued at \$1.5 bn in 2017, is expected to reach \$3.4 bn in 2020 (CAGR growth of 31%). We believe with addition of new stores, expansion of product and brand portfolio, TCNS clothing, who enjoys a good brand name and has a strong distribution network accompanied with a shift from unorganized to organized sector, will be able to capture the rising opportunity in the industry. As per IND AS, the company has recorded Share based payment to employees (ESOP) (non cash) which has impacted the operating profit of the company. Share based payment to employee has come down from Rs 90 cr in FY16 to Rs21.5 cr FY18. Adjusting to this, Operating margins of the company has improved from 17.7% in FY16 to 21.1% in FY18. TCNS is a debt free company. FCF of the company stands at Rs 17.3 cr in FY18. Higher PAT margin, with high asset turnover has helped the company to enjoy higher ROE and RoCE for FY18 which stands at 22.3% and 22.7% respectively. On the valuation front, at the given upper price band of issue of Rs 716, TCNS clothing is offered at PE of 44.8x its FY18 EPS of Rs 16 and EV / Ebitda of 27.9 x which is fairly priced in comparison to its competitor. **We recommend subscribing to the issue with long term view.**

TCNS Clothing Ltd.

Financials (Nos are in INDAS)

Profit & Loss (Rs cr)	FY16	FY17	FY18
Net Sales	485.4	700.9	838.49
YoY Growth (%)	61.3%	44.4%	19.6%
Cost of raw material consumed	103.8	132.4	184.7
Gross margin (%)	21.4%	18.9%	22.0%
Employee Cost	67.8	79.8	102.1
Share based payment to employees(ESOP)	89.8	73.6	21.5
Other Expense	227.8	338.8	374.7
Total Expenditure	489.3	624.6	683.1
EBIDTA	(3.9)	76.3	155.4
EBIDTA Margins (%)	-0.8%	10.9%	18.5%
ADJ EBIDTA Margins (%)*	17.7%	21.4%	21.1%
Interest	2.9	2.5	0.7
Depreciation	8.9	13.4	16.7
Other Income	2.1	1.9	6.7
Profit Before Tax	(13.6)	62.4	144.8
Extraordinary			
PBT After Exception	(13.6)	62.4	144.8
Current Tax	27.9	46.6	46.7
Tax Rate (%)	-204%	75%	32%
PAT	-41.5	15.8	98.1
Minority interest	-	-	-
PAT	-41.5	15.8	98.1
PAT Margins (%)	-8.5%	2.3%	11.7%
Other comprehensive income	(0.11)	(0.15)	(0.33)
Total comprehensive income	-41.6	15.7	97.8
EPS Rs. (Post Issue)	(6.8)	2.6	16.0
P/E - @ Rs*716	(105.8)	277.9	44.8
B.V Per share	7.9	46.0	70.4
P/BV - @ Rs 716	90.8	15.6	10.2
Debt/Equity (x)	0.7	0.0	0.0
EV/Sales	9.1	6.3	5.2
EV/EBIDTA	(1,138.7)	57.5	27.9
ROCE %	-60.7%	6.3%	22.3%
ROE %	-85.9%	5.6%	22.7%

* Adj For Share based payment to employees

Source: RHP, Company data, Nirmal Bang Research

TCNS Clothing Ltd.

Balance sheet	FY16	FY17	FY18
Equity & Liabilities			
Equity share capital	9.2	11.1	11.3
Instrument entirely equity in nature	-	-	24.2
Reserves Total	39.2	270.8	396.0
Total Shareholders Funds	48.3	281.9	431.5
Total Non-current Liabilities			
Short term borrowings	27.8	8.3	0.0
Trade payable	84.6	109.3	114.4
Other Current Liabilities & provision	14.7	8.8	11.5
Total Current Liabilities	245.3	135.5	132.8
Total Equity & Liabilities	308.8	425.8	576.4
Assets			
Fixed Assets	39.5	50.2	60.0
- Tangible assets	37.9	45.8	50.6
- Intangible assets	1.4	1.1	1.3
- Capital work in progress	0.2	0.8	2.5
- Intangible assets under development		2.5	5.6
Other non current asset	47.1	63.0	67.5
Tota Non-current Assets	86.6	113.2	127.4
Investments	-	-	2.1
Inventories	137.1	194.0	231.2
Trade receivables	64.2	99.7	139.6
Cash & Bank balance	10.3	13.2	49.1
Other financial asset	1.5	1.0	0.6
Other Current asset	9.1	4.6	26.4
Total Current Assets	222.2	312.6	448.9
Total Assets	308.8	425.8	576.4

Source: RHP, Company data, Nirmal Bang Research

TCNS Clothing Ltd.

Cash Flow	FY16	FY17	FY18
EBITDA	-3.9	76.3	155.4
Share based employee expense	89.8	73.6	21.5
Exceptional item and forex			
Change in working capital	-21.2	-64.6	-97.1
Less: Tax (Including FBT)	-32.5	-62.8	-45.2
Cash flow from operations	32.3	22.5	34.6
Change in fixed assets	-27.1	-24.2	-27.4
Change in investments	-1.8	-4.0	-1.4
Other income	0.9	1.2	1.2
Cash flow from investments	-27.9	-27.1	-27.6
Dividends paid (incl. tax)	-	-	-
Shares issued due to ESOP	-	33.1	6.0
Interest paid	-2.9	-2.5	-0.7
Change in borrowings	-1.6	-29.4	-8.6
Proceeds from Non convertible debenture	-	-	24.2
Others	27.0	-4.5	-11.1
Cash flow from financing	22.4	-3.3	10.0
Net cash flow	26.8	-7.9	16.9
Add: opening cash as per Bal Sheet	0.8	27.6	19.8
Closing cash balance	27.6	19.8	36.7

Source: RHP, Company data, Nirmal Bang Research

TCNS Clothing Ltd.

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