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Issue Details	
Price Band (Rs)	714 - 716
Face Value (Rs)	2
Issue Size (Rs)	1125.13 Cr
Issue Type	Book Building
Minimum lot	20 Shares
Issue Opens	July 18, 2018
Issue Closes	July 20, 2018
Listing on	BSE, NSE

Indicative Timeline	On or before
Finalization of Basis of Allotment	July 25, 2018
Unblocking of Funds	July 26, 2018
Credit of shares to Demat Account	July 27, 2018
Listing on exchange	July 30, 2018

Other Detail	
Book Running Lead Managers	Kotak Mahindra Capital Company Limited, Citigroup Global Markets India Private Limited
Registrar	Karvy Computershare Private Limited

TCNS Clothing Co. Limited

Company Background

Incorporated in 1997, TCNS Clothing Co. Limited (TCNS) is a known name in Indian apparel business with its brands "W", "Aurelia", and "Wishful". TCNS designs, manufactures, markets, and retails a wide product portfolio of women's apparel with forte in ethnic wears. Product portfolio includes a variety for every occasion be it regular wear, casuals, work formals, or festive collection. In revenue terms, TCNS holds ~9% of the organized woman ethnic wear market in India.

Headquartered in New Delhi, TCNS has a strong presence across the country through multiple distribution channels comprising 465 exclusive brand outlets, 1,469 large format store outlets, and 1,522 multi-brand outlets. The company has presence in other South East Asian countries with total six outlets in Nepal, Mauritius, and Sri Lanka.

Issue Details

IPO offers 1.57Cr shares of face value Rs.2 each amounting to Rs.1,125.13 Cr on the upper price band, which is 25.63% of post issue paid-up capital. It is an offer for sale issue and the company would not receive anything from the proceeds. Objective of the issue is to provide liquidity to existing shareholders and enjoy the benefits of listing along with enhanced brand image and visibility.

Share selling Shareholders

Name	Shares offered for sale	Pre offer Holding %
Promoter		
Onkar Singh Pasricha	27,64,841	15.52
Arvinder Singh Pasricha	30,39,118	20.4
Investor		
Wagner	69,11,684	40.66
Employees		
Anant Kumar Daga	12,56,670	7.93
Saranpreet Pasricha	6,91,001	1.86
Angad Pasricha	4,16,724	0.68
Vijay Kumar Misra	4,58,022	1.22
Amit Chand	1,75,978	1.15

Source: Company RHP, ACMIL

IPO share allotment pattern

Category	Allocation	Number of Shares	Issue Size (Rs.Cr) at	
			Lower Band (Rs.714)	Upper Band (Rs.716)
QIB	50%	78,57,018	560.99	562.56
Non-Institutional	15%	23,57,106	168.30	168.77
Retail	35%	54,99,914	392.69	393.79
Total	100%	1,57,14,038	1121.98	1125.13

Source: Company RHP, ACMIL

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Outlook and Valuations

TCNS Clothing Co. Limited is one of the leading players in the Indian women apparels market. Its brands W, Aurelia, and Wishful have a strong presence across segments. TCNS' splendid revenue growth and pervasive presence place it well to benefit from the flourishing Indian women apparels market, outperforming the industry growth of 10% CAGR. At the upper price band of Rs.716, the asking price is at a P/E of 44X at FY18 EPS of Rs. 16.12 making it fairly priced. We recommend to **SUBSCRIBE** the issue from a long-term perspective.

Business Overview

TCNS is the leader among the known labels of organised women ethnic wear in India. They have three home grown brands called 'W', 'Aurelia', and 'Wishful', which cater to varied women wear having top-wear, bottom-wear, drapes, combination-sets, and accessories in their product portfolio.

- **W** is the premium brand of TCNS offering fusion wear with a perfect blend of Indian and western styling. First store was opened in 2001 at Delhi and as of now W is present across 157 cities with 281 exclusive brand outlets and 717 large format store outlets. They also have exclusive brand outlets in Mauritius, Sri Lanka, and Kathmandu. This brand is the major revenue generator for TCNS with ~57.65% of total revenue, which has grown at a CAGR of 23.43% in last three fiscals.
- **Aurelia** was launched in 2009 to offer contemporary ethnic wear in affordable range. The brand is targeted at women's casual and work wear segment. Currently, Aurelia has 183 exclusive brand outlets and 752 large format store outlets located across 184 cities in India and one outlet in Sri Lanka. This brand constitutes ~33.68% of TCNS' operating revenue and has grown at a CAGR of 47.8% during FY16-18.
- **Wishful** was launched in 2006 and is a premium occasion wear brand of TCNS with exclusive collection of evening wears and for special occasions. The brand is available through W store network. In September 2017, first exclusive brand outlet for Wishful was launched. Revenue from sales under this brand is ~8.68% of the total revenue and has grown at a CAGR of 39.73% in the past three years.

Investment Rationale

Extensive Presence across India

TCNS has Pan-India presence across distribution channels with 3,456 sales points. They operate through 465 exclusive brand outlets (EBOs), 1,469 large format store outlets (LFSOs), and 1,522 multi-brand outlets (MBOs). Outlets are either taken on lease for 3- 9 years on renewable basis; or are on franchise agreement basis. EBOs accounts for 49.67% of operating revenue and as of March 31, 2018, TCNS had 289 leased EBOs and 176 EBOs through franchise agreements located across 108 cities. Under the LFSOs, the company has agreement with retailers for 3-5 years on renewable basis. They currently have tied up with Pantaloons, Shoppers Stop, and Lifestyle, covering 1,469 outlets across 203 cities. LFSOs accounts for ~27.73% of operating revenue. Moving ahead, they plan to add 75-80 stores every year across cities to enhance their presence.

Distribution Channel	FY18	FY17	FY16
W			
Exclusive brand outlets	281	233	202
Large format store outlets	717	535	426
International Outlets	5	5	2
Aurelia			
Exclusive brand outlets	183	148	103
Large format store outlets	752	456	368
International Outlets	1	1	0
Wishful			
Exclusive brand outlets	1	0	0
Total			
Exclusive brand outlets	465	381	305
Large format store outlets 2	1,469	991	794
Multi-brand outlets ³	1,522	1,109	960
International Outlets	6	6	2
Total points of sale	3,462	2,487	2,061
Same store sales growth	8.00%	8.50%	27.30%

Source: Company RHP, ACMIIL

Online Sales

E-commerce is booming and retail is the major beneficiary from this online sales format. TCNS has own websites for W and Aurelia for online channel and besides have tie up with online retailers such as Myntra, Jabong, and Amazon. Online sales accounts for ~10% of the company's revenue.

International

TCNS is present in Nepal, Sri Lanka, and Mauritius with total six EOBs. They intend to further expand their geographical footprint across Asia with countries such as Saudi Arabia, Kuwait, the UAE, Bahrain, and Oman. Although sales from the international segment are not significant, the management believes expansion will enhance their market share leading to profitability in long run.

Strong network of suppliers and designers

TCNS operates on asset light model with a strong network of material suppliers and job workers. Supply chain comprises 181 suppliers across the country. They have not faced any attrition from their top ten suppliers in last three years. They prefer to purchase fabric directly from mills and weavers to ensure quality and escape dependency on suppliers.

TCNS have a team of 37 designers to offer creative products, 11 designers for Aurelia and 26 designers for W and Wishful. During FY18, company launched ~ 2,700 fabric print designs for ~1,600 products in various sizes across product categories. On an average, they try to refresh products at an interval of 2-3 weeks post launch. Strong R&D provides them an edge over their peers. TCNS does not own any manufacturing facility and manufacturing is outsourced. Currently, they have 78 job workers for manufacturing mostly based in NCR region

Strong Financials

TCNS' revenue has grown to Rs. 8491mn in FY18 at a CAGR of 50% during FY14-18 backed by strong growth of its brand 'W'. Operating and net profit grew at a CAGR of 65% and 83% during FY14-18 to Rs. 1622mn and Rs.980mn respectively maintaining a double-digit margin. The company is virtually debt-free and for further expansions is relying on its cash reserves. The management believes they will be able to maintain their growth with innovative products, outperforming the estimated industry CAGR of 10% by 2020.

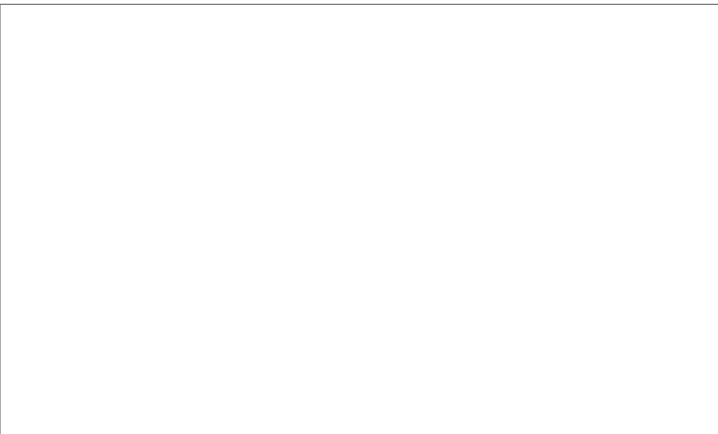
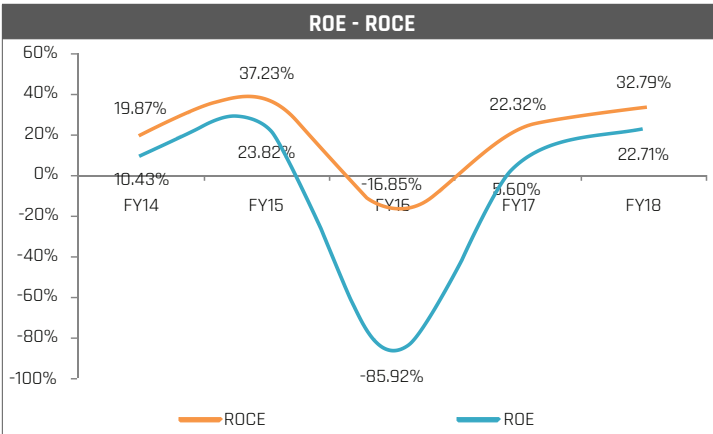
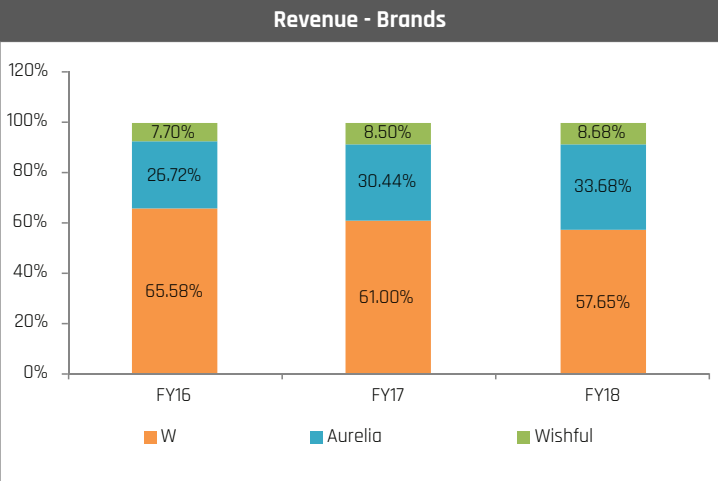
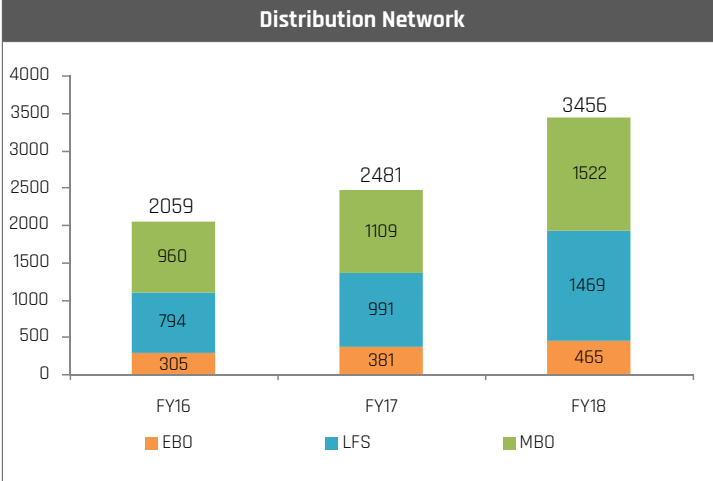
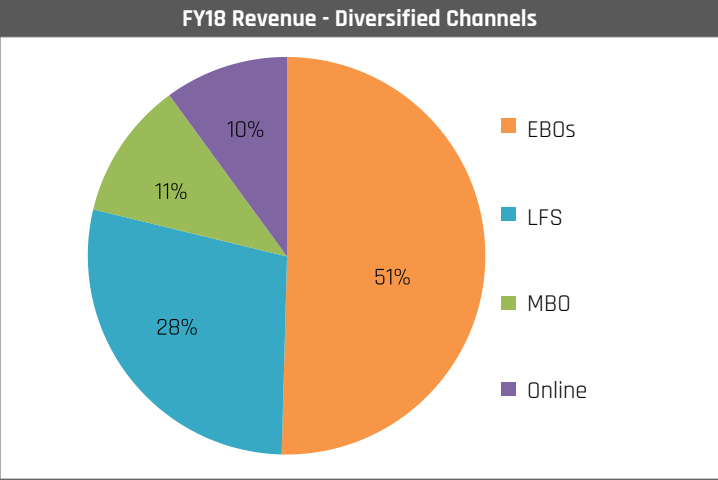
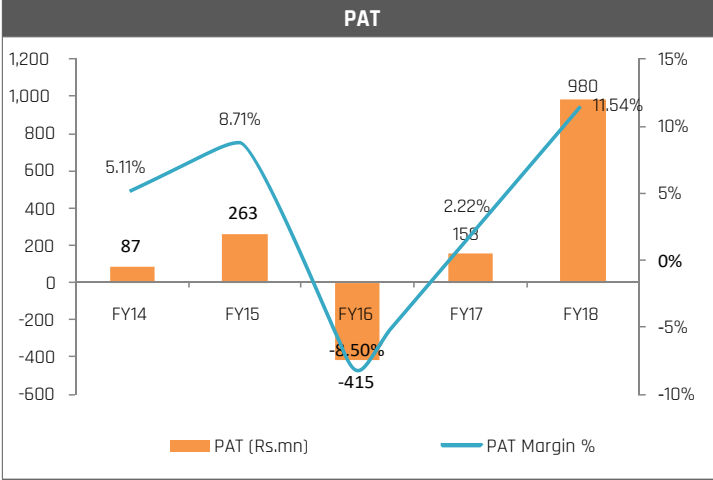
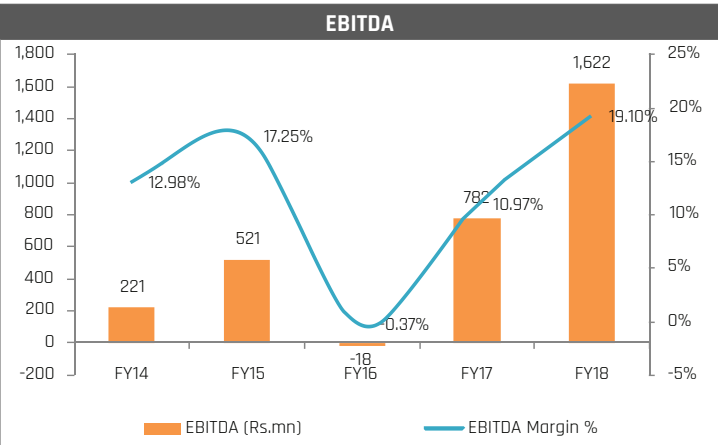
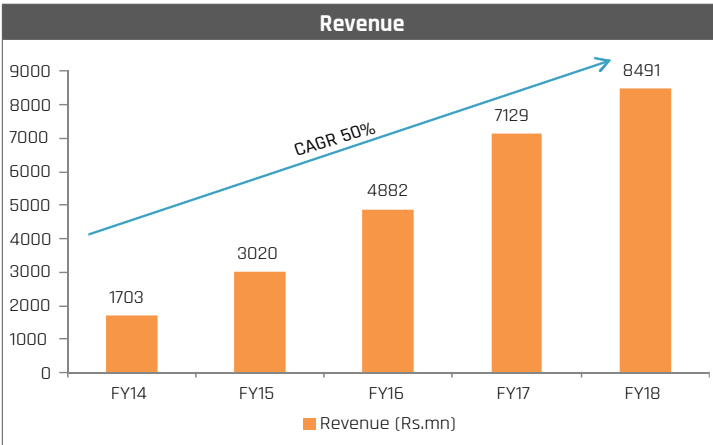
Risk Factors

- **Dependence on suppliers:** TCNS is highly dependent on its supplier network for the inputs and job workers for the manufacturing part. Any kind of disparity might impact the operations adversely.
- **Industry Trend:** Apparel fashion changes frequently and to maintain its market share, the company has to be innovative otherwise it might be impacted adversely.

Peer Comparison

Name of Company	Face value (Rs.)	EPS (Rs.)	P/E (x)	RoNW (%)	NAV (Rs.)
TCNS Clothing Co. Limited	2	16.12	44	22.74	76.54
Page Industries	10	311.08	81	41	759.65
Aditya Birla Fashion and Retail	10	1.52	98	11	14.17
Future Lifestyle Fashions	2	6.61	67.59	8	80.33
Kewal Kiran Clothing Limited	10	59.38	25.26	18.33	323.89

* Data as on March 31st 2018
Source: Company RHP, ACMIIL



Source: Company RHP, ACMIIL

Financials

Income statement

Particulars (Rs.mn)	FY14	FY15	FY16	FY17	FY18
Revenue from Operations	1696	3010	4861	7110	8424
Other Income	7	10	21	19	67
Total Revenue	1703	3020	4882	7129	8491
COGS					
Cost of materials consumed	520	989	1,438	1,804	2,198
Purchase of stock in trade	6	3	6	6	0
Changes in inventories	-80	-278	-405	-486	-351
Excise duty			7	101	39
Total COGS	446	714	1,046	1,425	1,886
Gross Profit	1257	2306	3836	5704	6605
Gross Profit %	73.81%	76.36%	78.57%	80.01%	77.79%
SG&A Expenses					
Employee expenses	220	354	1,576	1,534	1,236
Other Expenses	816	1,431	2,278	3,388	3,747
Total SG&A Expenses	1,036	1,785	3,854	4,922	4,983
EBIDTA	221	521	-18	782	1,622
EBITDA Margin %	12.98%	17.25%	-0.37%	10.97%	19.10%
Depreciation expenses	40	62	89	134	167
EBIT	181	459	-107	648	1,455
EBIT Margin %	10.63%	15.20%	-2.19%	9.09%	17.14%
Finance Cost	49	49	29	25	7
Profit before Tax	132	410	-136	623	1,448
Tax Expenses					
Current tax	52	161	390	406	484
Deferred tax	-7	-14	-111	59	-16
Total tax expenses	45	147	279	465	468
Net Profits	87	263	-415	158	980
Net Profit margin %	5.11%	8.71%	-8.50%	2.22%	11.54%
EPS					
Basics	2	5	-8.09	2.67	16.12
Diluted	2	5	-7.90	2.61	15.36

Source: Company RHP, ACMIIL

Balance sheet

Particulars (Rs mn)	FY14	FY15	FY16	FY17	FY18
Assets					
Non current assets					
Plant and equipments	118	203	379	458	506
Capital work in progress	0	1	2	8	25
Intangible assets	6	8	14	11	13
Intangible assets under development	0	0	0	25	56
Investments	6	9	13	17	0
Other financial assets	149	233	201	347	393
Deferred tax assets	36	50	155	97	115
Non current tax assets	0	0	0	126	95
Other non current assets	0	0	101	43	72
Total non current assets	315	504	866	1,132	1,274
Current Assets					
Inventories	593	892	1371	1940	2311
Investments	0	0	0	0	21
Trade Receivables	610	652	642	997	1396
Cash & Cash equivalents	70	69	28	20	367
Bank balance	0	0	76	113	124
Other financial assets	16	17	15	10	6
Other current assets	5	10	91	46	264
Total current assets	1295	1640	2222	3126	4489
Total Assets	1610	2144	3088	4258	5764
Equity & Liabilities					
Equity					
Equity Share Capital	104	104	92	111	113
Instruments entirely equity in nature	0	0	0	0	242
Other equity	730	1000	392	2708	3960
Total equity	834	1104	483	2819	4315
Liabilities					
Non Current liabilities					
Borrowings	24	65	78	3	2
Other financial liabilities	43	51	45	38	59
Provisions	10	14	25	37	56
Other non current liabilities	0	0	4	5	4
Total Non current liabilities	77	130	151	84	121
Current Liabilities					
Borrowings	304	309	278	83	0
Trade Payables	279	454	846	1093	1144
Other Financial liabilities	0	0	1182	91	68
Provisions	21	39	1	0.99	1
Current tax liabilities	0	0	95	0	0
Other current liabilities	95	108	50	87	114
Total current liabilities	699	911	2453	1355	1327
Total equity and liabilities	1610	2144	3088	4258	5764

Source: Company RHP, ACMIIL

Asit C. Mehta

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