

## Company Overview

TCNS Clothing Co Ltd ("TCNS Clothing") is India's Leading Women's Branded Apparel Company. The company design, manufacture, market and retail a wide portfolio of women's branded apparel across multiple brands. The company sells their products across India and through multiple distribution channels. As of March 31, 2018, they sold their 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. Over the years, they have expanded their brand portfolio to 3 brands (W, Wishful and Aurelia), each positioned to cater to well-defined needs of consumers.

## Investment Rationale

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

Indian women's apparel market is estimated at US\$ 19 billion for Fiscal 2017 and is expected to grow at a rate of approximately 10% p.a. to reach US\$ 42 billion by Fiscal 2025. A combination of factors such as increasing disposable income, assurance of better design, quality and fit, rising aspiration levels and growing acceptance of ethnic wear as work wear is leading to a shift from traditional apparel such as sarees to ethnic wear such as salwar kameez and kurtas as well as a shift from unbranded to branded ethnic wear. The women's apparel market (ethnic) in India was US\$ 6.5 billion for the Fiscal 2017, i.e., 47% of the women's (sarees & ethnic) market of \$14bn, and is projected to reach US\$ 9.5 billion by Fiscal 2020. Thus, company can leverage its market position to benefit from the expected growth in the women's branded apparel industry in India.

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

Company offers wide variety and fashionable product portfolio which consists of top-wear, bottom-wear, drapes, combination-sets and accessories catering to a variety of women's wardrobe requirements, including every day wear, casual and work wear and occasion wear, sold at a range of price points. Their portfolio of leading and differentiated brands enables them to better cater to the needs of their customers and increase the range and diversity of their products, leading to increased brand loyalty and repeat customers. The company has a track record of developing home-grown brands, leveraging their deep understanding and market research of Indian women consumer's needs.

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

Company has well established pan – India and multi distribution channel retail presence. As of March 31, 2018, they sold their products through 3,456 points of sale comprising EBOs, large format stores and multi-brand outlets located across cities in 31 states and union territories in India. As of March 31, 2018, they also sold their products through 6 EBOs in Nepal, Mauritius and Sri Lanka, as well as through online retailers and their websites.

## Conclusion and Outlook

There is strong demand shift from women's traditional wear to ethnic and fusion wear which is favorable for the company. It has also achieved phenomenal growth despite of Demonetization and GST disruption. During the year FY18, sales turnover grew from Rs.4861 mn in FY16 to Rs.8424 mn in FY18 reporting CAGR of 32% whereas PAT grew from loss of -Rs.415 mn in FY16 to Rs.981 mn in profit. At one front, company's has able turnaround his business from loss to profit but on the other its business has inherit risks such as Fashion risk, limited target audience and low entry barriers which raises questions to sustainable growth. Owing to such risks, we believe company is overvalued at PE of 46.6x to FY18 earnings compared to its peer Biba (31.0x) and therefore, we recommend investors to **AVOID** this issue.

## Issue Details

Offer Period	18th - 20 July 2018
Price Band	Rs.714 to Rs.716
Bid Lot	20
Listing	BSE&NSE
Issue Size (no. of shares in mn)	15.71
Issue Size (Rs. in mn)	11250
Face Value	2

## Issue Structure

QIB	50%
Retail	15%
HNI	35%
	Kotak investment Banking
BRLM	Citigroup Global Markets India Pvt Ltd
Registrar	Karvy Compushare Pvt Ltd.

Particulars	Pre Issue %	Post Issue %
Promoter	43.7	32.4
Public	56.3	67.6
<b>Total</b>	<b>100%</b>	<b>100%</b>

(Assuming issue subscribed at higher band)

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## Morning Wealth

## Income Statement (Millions)

INR Mn	FY16	FY17	FY18
<b>Revenue</b>			
Revenue from operations	4,861	7,110	8,424
COGS	1,038	1,324	1,847
<b>Gross Profit</b>	<b>3,823</b>	<b>5,787</b>	<b>6,577</b>
Employee expenses	1,576	1,534	1,236
Other Expenses	2,285	3,489	3,787
<b>EBITDA</b>	<b>(39)</b>	<b>763</b>	<b>1,554</b>
Other income	21	19	67
Depreciation	89	134	167
<b>EBIT</b>	<b>(107)</b>	<b>648</b>	<b>1,455</b>
Interest expenses	29	25	7
<b>PBT</b>	<b>(136)</b>	<b>624</b>	<b>1,448</b>
Tax	279	466	467
<b>PAT</b>	<b>(415)</b>	<b>158</b>	<b>981</b>
<b>Basic EPS</b>	<b>(8)</b>	<b>3</b>	<b>16</b>
<b>Diluted EPS</b>	<b>(8)</b>	<b>3</b>	<b>15</b>

Source: Company, BP Equities Research

## Balancesheet (Millions)

INR Mn	FY16	FY17	FY18
<b>Equity share capital</b>	<b>91.7</b>	<b>111.2</b>	<b>112.74</b>
Net worth	392	2,708	4,202
<b>Long Term Borrowings</b>	<b>78.2</b>	<b>2.7</b>	<b>2.18</b>
Other non-current liabilities	73	81	119
<b>Equity and non-current liabilities</b>	<b>635</b>	<b>2903</b>	<b>4436</b>
<b>Fixed assets</b>	<b>382</b>	<b>467</b>	<b>531</b>
Intangible assets	13.57	35.17	69.19
Financial assets	214	365	393
Tax assets (deferred & non current)	155.48	223.02	209.74
Other non current assets	101	43	72
<b>Net current assets</b>	<b>-231.44</b>	<b>1770.83</b>	<b>3161.47</b>
<b>Total Assets</b>	<b>635</b>	<b>2,903</b>	<b>4,436</b>

Source: Company, BP Equities Research

## Cash Flow Statement (millions)

INR Mn	FY16	FY17	FY18
<b>Cash flow from operating activities</b>	<b>344.3</b>	<b>251.0</b>	<b>413.3</b>
Net cashflow from investing activities	(279)	(271)	(276)
<b>Net cash (used) generated by financing activities</b>	<b>-45.5</b>	<b>11.7</b>	<b>210.1</b>
Net increase/decrease in cash and cash equivalents	20	(8)	347
<b>Cash and cash equivalents at the beginning of the year</b>	<b>8.0</b>	<b>27.6</b>	<b>19.8</b>
Cash and cash equivalents at the end of the year	28	20	367

Source: Company, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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