Morning Insight

JULY 13, 2018

Equity	12-Jul	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Indian Indices				
SENSEX Index	36,548	0.8	2.4	7.2
NIFTY Index	11,023	0.7	1.7	5.4
NSEBANK Index	27,027	0.8	1.6	7.3
NIFTY 500 Index	9,381	0.4	(0.1)	1.4
CNXMcap Index	18,474	(0.4)	(2.7)	(5.6)
BSESMCAP Index	16,420	(0.1)	(3.8)	(8.4)
World Indices				
Dow Jones	24,925	0.9	(1.1)	2.3
Nasdaq	7,824	1.4	1.7	10.1
FTSE	7,651	0.8	(0.7)	5.3
NIKKEI	22,188	1.2	(2.1)	3.2
Hangseng	22,188	1.2	(2.1)	3.2
Shanghai	28,481	0.6	(6.9)	(7.2)

Value traded (Rs cr)	12-Jul	% Chg Day
Cash BSE	2,609	(3.8)
Cash NSE	30,464	0.6
Derivatives	1,706,179	115.8

Net inflows (Rs cr)	11-Jul	MTD	YTD
FII	920	(244)	(5,084)
Mutual Fund	14	1,395	69,998

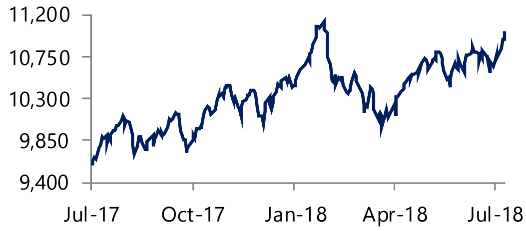
Nifty Gainers & Losers 12-Jul	Price (Rs)	Chg (%)	Vol (mn)
Gainers			
Reliance Ind	1,082	4.2	24.1
BPCL	377	3.0	6.0
Wipro	279	2.7	4.5
Losers			
UPL	582	(3.6)	3.8
Vedanta	211	(3.1)	16.4
Bajaj Auto	3,097	(2.1)	0.9

Advances / Declines (BSE) 12-Jul	A	B	T	Total	% total
Advances	155	455	68	678	100
Declines	231	603	69	903	133
Unchanged	3	25	16	44	6

Commodity	12-Jul	% Chg 1 Day	% Chg 1 Mth	% Chg 3 Mths
Crude (US$/BBL)	74.1	(0.5)	(3.5)	2.1
Gold (US$/OZ)	1,247	0.4	(4.0)	(7.3)
Silver (US$/OZ)	15.9	0.9	(6.3)	(4.2)

Debt / forex market	12-Jul	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.8	7.9	8.0	7.5
Re/US$	68.6	68.8	67.5	65.3

Nifty



Source: Bloomberg

News Highlights

- Pay revisions, interest payments and farm loan waivers are stressing state government finances yet again, the Reserve Bank of India (RBI) said in a report. (Mint)
- India's factory output growth slowed to a seven-month low in May while retail inflation quickened to a five-month high in June, signaling a worsening macro-economic environment. (Mint)
- The government has sharply increased the monetary threshold for filing appeals in tax disputes in various courts and decided to withdraw many pending appeals to cut down litigation and improve ease of doing business. (Mint)
- The Board of Directors of **Fortis Healthcare Limited** has selected the binding investment proposal from Malaysia's IHH Healthcare Berhad to invest Rs 40 bn by way of preferential allotment at a price per share of Rs 170/share as the winning bid. (ET)
- **Tata Steel** is planning to sell some of its businesses in South-East Asia as part of its strategy to exit non-scalable businesses and turn focus to domestic market (ET)
- **HCL Tech** board approves the buyback of up to 3.63 crore fully paid-up equity shares with a face value of Rs 2, each, at a price of Rs 1,100 per equity share payable in cash for an aggregate amount not exceeding Rs 40 bn.(Mint)
- **Reliance Communications** has alleged DoT of adopting a discriminatory approach by demanding bank guarantee from the company for one-time spectrum charges, while approving the Vodafone-Idea Cellular merger without making a similar demand. (Mint)
- **ICICI Bank Ltd** is preparing to submit details of at least 1,000 loan accounts that turned bad since April 2010 to an independent panel, as part of a board-instituted probe into alleged wrongdoings by the lender's top executive. (Mint)
- The National Company Law Appellate Tribunal (NCLAT) on Thursday rejected an appeal of UK-based Liberty House to temporarily halt the bankruptcy resolution process of **Bhushan Power and Steel Ltd.** (Mint)
- **Varroc Engineering Limited** has proposed to set up new facilities at Chennai (India) and Poland for manufacturing exterior lighting components. (ET)
- **Allahabad Bank** plans to divest stake in joint ventures, associates and sell some immovable properties. (BS)
- **Vakrangee** entered into alliance with Reliance Nippon Life Asset Management to offer mutual fund distribution. (BS)
- **Glenmark Pharmaceuticals** has launched Akynzeo, a drug used for the prevention of chemotherapy-induced nausea and vomiting, in India and Nepal under an exclusive licensing pact with Swiss pharma group Helsinm. (BL)

What's Inside

- **Result Update:** Cyient Ltd
- **IPO Note:** TCNS Clothing Co Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Result Update

CYIENT LTD

PRICE RS.745 TARGET RS.790 ACCUMULATE

Cyient 1QFY19 revenues de grew by 2.3% QoQ in USD term, largely due to utility vertical within the service business and expected de growth within DLM business due to seasonality. The company expects to maintain EBIT margins in FY19 as 100bps improvement due to operational efficiencies which will be offset by investments in new solutions.

Stock Details

Market cap (Rs mn)	:	83535
52-wk Hi/Lo (Rs)	:	887 / 474
Face Value (Rs)	:	5
3M Avg. daily volume (m	:	4,70,409
Shares o/s (m)	:	113

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Revenue	39,177	45,786	51,912
Growth (%)	8.8	16.9	13.4
EBITDA	5,494	6,341	7,550
EBITDA margin (%)	14.0	13.8	14.5
PAT	4,286	4,840	5,930
EPS	38.0	43.0	52.6
EPS Growth (%)	13.0	12.9	22.5
BV (Rs/share)	208	245	291
Dividend/share (Rs)	13.0	6.0	6.0
RONW (%)	19.2	19.0	19.6
ROCE (%)	24.4	23.1	23.8
P/E (x)	17.0	15.1	12.3
EV/EBITDA (x)	11.5	9.2	9.7
P/BV (x)	3.1	2.6	2.2

Source: Company

Shareholding Pattern (%)

(%)	Mar-18	Dec-17	Sep-17
Promoters	22.2	22.2	22.2
FII	40.4	41.4	57.0
DII	27.4	20.3	7.3
Others	9.9	16.1	13.6

Source: Company

Price Performance (%)

(%)	1M	3M	6M
Cyient Ltd	(2.4)	16.2	28.5
Nifty	1.7	5.4	3.2

Source: Bloomberg

Price chart

Source: Bloomberg

Key Highlights

- Cyient revenue de grew by 2.3% sequentially in dollar terms v/s our estimate of decline of 1.5%. Revenue from services business declined by about 1% in USD terms sequentially excluding $1.7mn revenue from acquisition of AnSem. On YoY basis services business reported a growth of about 11% driven by increases in SIA, A&D and Transportation.
- Margins at 12.2% were about 100bps below our estimates. Overall decline in margins on sequential basis was on expected line except for the impact due to lower offshore mix and utilization (~120bps). Currency tailwinds of about 60bps were negated by one off expenses like M&A (40bps) and higher SG&A (~30bps). We expect margins to remain flat for the full year due to higher investments to be made which would offset the operational improvements and currency tailwinds.
- The total order intake during the quarter stood at USD 169mn, which is constituted of USD 153mn in services and USD 17mn in DLM. Healthy order wins and growth in non Top 10 clients reaffirm strong growth momentum, in our view.

Quarterly performance table

(Rs mn)	4QFY18	1QFY19	QoQ (%)	1QFY18	YoY (%)
Income in USD	**165**	**161**	**-2.3**	**141**	**14.3**
Income	10,618	10,802	1.7	9,070	19.1
Expenditure	9,126	9,486		7,910	
EBDITA	**1,492**	**1,316**	**-11.8**	**1,160**	**13.4**
Depreciation	257	285		261	
EBIT	**1,235**	**1,031**	**-16.5**	**899**	
Interest	67	82		52	
Other income	408	170		351	
PBT	**1,576**	**1,119**	**-29.0**	**1,198**	**-6.6**
Tax	336	304		373	
PAT	**1,240**	**815**	**-34.3**	**825**	**-1.2**
Sh of profit	0.0	1.0		25.5	
MI & Exp items	-28.0	9.0		27.5	
Adj PAT	**1,212**	**825**	**-31.9**	**878**	**-6.0**
EPS (Rs)	10.8	7.3		7.8	
Margins (%)					
EBDITA	14.1	12.2		12.8	
EBIT	11.6	9.5		9.9	
PAT	11.7	7.5		9.1	

Source : Company

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Valuation & outlook

- We believe Cyient is well placed to address opportunity in ER&D over long term and expect a CAGR of 12% revenue growth in USD terms and 15% in earnings over FY18-20. We believe Cyient's performance in FY19 will be better than that of its peers, and execution of its strategy of design plus manufacturing should be reflected in FY19. We value stock at 15x FY20E earnings. We recommend ACCUMULATE with a revised target price of Rs.790 (Rs.729 earlier).

Guidance for FY19 maintained

Cyient guided for double digit growth in its service business and 20% growth in DLM. Including the integration of acquired B&F, DLM business is expected to grow by 35%. DLM margins will improve slightly but are expected to remain in low single digit due to backlog of low margin business. Tax rate which was unexpectedly higher during the quarter is expected to be lower for the full year by ~200bps because of movement of resources to SEZ and changes in the US tax rate. DLM is expected to remain value dilutive and burn cash given the significant investment required to be made.

Verticalwise Performance

Amongst verticals, aerospace and defense (37.2% of revenue) grew by 4.7% QoQ driven by new business from existing and new clients. Company completed a acquisition of a small facility in North America to strengthen its manufacturing capabilities in line with its S3 strategy. Outlook for FY19 remains positive with demand from key clients expected to drive growth. The communication vertical (22.4% of revenue) degrew by 3.2% QoQ largely due to lower work volumes from clients in Europe and ramping down of a program in APAC. Utilities and Geospatial (12.6% of revenue) degrew by 12.5% sequentially due to delay in project commitment particularly in utilities and cyclicality in geospatial. The outlook for this vertical for FY19 continues to remain challenging with emphasis on cost reduction strategy adopted by clients. IE&NR (~9.5% of revenue) degrew by 3% sequentially. The outlook for FY19 continues to be positive with strong growth in key accounts and manufacturing segment.

Verticalwise Growth QoQ in % (ex- Rangson) in dollar terms

Particulars	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19
Aerospace	1.70	2.90	4.10	-1.80	4.70
Communication	9.90	6.50	1.60	10.80	-3.20
Utiliites	-7.00	-0.50	8.80	-2.20	12.50
Transportation	11.70	11.80	8.40	8.40	4.50
Industrial energy and natural resourcers	0.10	6.10	4.30	-0.20	-3.00
Semi conductor	11.00	10.20	-6.10	-1.60	39.10
Medical consumer electronics	6.90	13.60	-2.80	1.00	-17.00

Source: Company

Takeaways from Management Commentary

- Acquired Belgium based AnSem N.V a leading fabless custom analog and mixed signal ASIC design company. AnSem is a $10mn and 20%+ operating margin business. Company also added three new Cyient digital centers.
- Other income was by Rs.238mn sequentially mainly due to one offs on subsidies, interest on government refunds, other non operating items from Q4 FY18 and losses on forward contracts and forex restatement.
- Tax rate at 27.1% was higher during the quarter due to one offs due to adverse shift in profit mix. Tax rate is likely to be lower by ~200bps for the full year.
- Overall DSO for the quarter was 88 days. It should have been lower by 6 days without one offs i.e, forex impact of 3 days and collection spill over of 3days.
- Cash generation continues to remain key focus. Cash balance at Rs.11bn was highest ever.
- Outlook remains positive with strong traction across verticals and improving situation in problem areas. Aerospace & Defense, Communication, Transportation and Semi conductor are expected to be the key growth areas for the company.

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Net Sales	**36,023**	**39,177**	**45,786**	**51,912**
% Growth	16.4	8.8	16.9	13.4
Cost of Goods sold/ Op Exp	31,173	33,683	39,445	44,362
% of Net Sales	86.5	86.0	86.2	85.5
EBITDA	**4,850**	**5,494**	**6,341**	**7,550**
EBITDA Margin (%)	13.5	14.0	13.8	14.5
Depreciation	953	1,051	1,050	1,085
EBIT	**3,897**	**4,443**	**5,291**	**6,465**
Interest Exps.	189	232	302	290
EBT	**3,708**	**4,211**	**4,989**	**6,175**
Other Income	874	1,438	1,070	1,180
PBT	**4,583**	**5,649**	**6,059**	**7,355**
Tax-Total	1,047	1,387	1,407	1,664
Profit after tax	**3,701**	**4,286**	**4,840**	**5,930**
PAT Margin (%)	10	11	11	11

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end March)	FY17	FY18	FY19E	FY20E
Sources of Funds				
Equity Capital	562	563	563	563
Reserves and Surplus	20,637	22,877	27,021	32,255
Shareholders' Funds	21,199	23,440	27,585	32,819
Total Loan Funds	1,572	1,907	2,057	1,807
Total Liabilities	**22,771**	**25,347**	**29,642**	**34,626**
Appl. Of Funds				
Gross Block	11,798	13,293	14,493	15,693
Accumulated Depn.	7,301	8,352	9,402	10,487
Net Fixed Assets	4,497	4,941	5,091	5,206
Capital WIP	0	0	70	70
Goodwill	3,278	3,549	3,549	3,549
Investment	1,032	298	498	698
Inventories	935	1,312	1,598	1,888
Sundry Debtors	6,496	6,913	7,706	8,435
Cash and Bank Bal	8,781	9,806	14,495	16,169
Other Current Asset	6,245	7,185	6,236	8,241
Total Current Assets	22,457	25,216	30,035	34,733
Current Liabilities	8,493	8,656	9,600	9,629
Net Current Assets	13,964	16,560	20,435	25,104
Total assets	**22,771**	**25,347**	**29,642**	**34,626**

Source: Company, Kotak Securities – Private Client Research;

Cash flow Statement

(Year-end March)	FY17	FY18	FY19E	FY20E
Net profit before tax	4,583	5,649	6,059	7,355
Depreciation	953	1,051	1,050	1,085
Interest	189	232	302	290
Other Income	(874)	(1,438)	(1,070)	(1,180)
Opt Profit before WC Changes	4,850	5,494	6,341	7,550
WC Changes	43	(1,295)	1,138	(2,844)
Cash Gene from Op.	4,893	4,199	7,479	4,706
Direct Taxes Paid	(1,047)	(1,387)	(1,407)	(1,664)
Cash from Ope act	**3,846**	**2,812**	**6,071**	**3,041**
Purchases of F.A /CWIP	(1,366)	(1,495)	(1,270)	(1,200)
Investment	(234)	734	(200)	(200)
Others	934	1,030	1,074	1,269
Cash from Inv Act	**(667)**	**269**	**(396)**	**(131)**
Proc from Issue of Eq Shares	(612)	(536)	0	0
Net loans	147	335	150	(250)
Interest paid	(189)	(232)	(302)	(290)
Dividend paid & Others	(695)	(1,623)	(835)	(696)
Other Income	0	0	0	0
Cash from Fin Act	**(1,349)**	**(2,056)**	**(987)**	**(1,236)**
Net Increase in Cash	1,830	1,025	4,688	1,674
Cash at Beginning	6,951	8,781	9,806	14,495
Cash at End	8,781	9,806	14,494	16,169

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end March)	FY17	FY18	FY19E	FY20E
Per Share (Rs)				
EPS	32.9	38.0	43.0	52.6
Cash EPS	41.4	47.4	52.3	62.3
Book value	188.5	208.0	244.8	291.3
Margin (%)				
EBITDA	13.5	14.0	13.8	14.5
EBIT	10.8	11.3	11.6	12.5
PAT	10.3	10.9	10.6	11.4
Balance sheet Ratios				
Receivable (days)	65.8	64.4	61.4	59.3
Inventories (days)	9.5	12.2	12.7	13.3
Payables (days)	39.7	35.5	33.4	29.7
Return ratios (%)				
RONW	18.3	19.2	19.0	19.6
RoCE	22.0	24.4	23.1	23.8
Valuation (x)				
P/E	19.7	17.0	15.1	12.3
Price/Book value	3.4	3.1	2.6	2.2
EV/EBITDA	13.2	11.5	9.2	9.7
EV/Sales	1.8	1.6	1.3	1.4

Source: Company, Kotak Securities – Private Client Research

IPO Note

TCNS CLOTHING CO LTD

NOT RATED

Company Background

TCNS Clothing Co Ltd (TCCL) is India's leading women's branded apparel company in terms of total number of exclusive brand outlets as of May 2018, according to Technopak. It designs, manufactures, markets and retails a wide portfolio of women's branded apparel across multiple brands. Its product portfolio includes top-wear, bottom-wear, drapes, combination-sets and accessories that caters to a wide variety of the wardrobe requirements of the Indian woman, including every-day wear, casual wear, work wear and occasion wear. It has a track record of developing home-grown brands. Over the years, it has expanded its brand portfolio to three brands; W, Aurelia and Wishful, each positioned to cater to well-defined needs of their respective target consumers. It sells its products across India and through multiple distribution channels which includes 465 exclusive brand outlets, 1,469 large format store outlets and 1,522 multi-brand outlets, located in 31 states and union territories in India (as on 31 March 2018). It also sold its products through six exclusive brand outlets in Nepal, Mauritius and Sri Lanka and also sold its products through its own website and online retailers.

TCCL sources raw materials, such as printed fabrics, unprocessed fabrics and trim materials from approximately 181 suppliers, located across India. TCCL manufactures its products through agreements with job workers of whom a significant majority are located in the National Capital Region. It exercises control and regular supervision over the manufacturing of its products at the facilities of such job workers through its personnel.

Details of the offer

Particulars	Details
Price band (Rs/share)	**714-716**
Offer for Sale (nos. million)	15.7
Issue size (Rs million)	
Offer for sale (Rs million) At Upper level	11251
Offer for sale (Rs million) At Lower level	11220
Date of the issue	**July 18, 2018 - July 20, 2018**
No. of shares pre-issue (nos. million)	61.3
No. of shares post-issue (nos. million)	61.3
Book Building	
QIBs	50%
Non-Institutional	15%
Retail	35%
Lead managers	Kotak Mahindra Capital Company Limited and Citigroup Global Markets India Private Limited

Source: Company RHP

Shareholding pattern

	Pre issue	Post issue
Promoter & Promoter Group (%)	43.68	32.42
Public & Others (%)	56.32	67.58
Total (%)	100.00	100.00

Source: Company RHP

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TCCL's promoters, Mr. Onkar Singh Pasricha and Mr. Arvinder Singh Pasricha, have over 40 years of experience in the apparel industry, and its Managing Director, Anant Kumar Daga, leads an experienced and professional management team. Its management team, including Anant Kumar Daga currently has a significant ownership stake in the company.

TCCL's total income grew at a CAGR of 31.89% between FY16-FY18 to Rs 8491.57 million, with comprehensive income and adjusted EBITDA at Rs 977.67 million and Rs 1,837.18 million, respectively, in FY18. Revenue from sales of products under W, Aurelia and Wishful grew at a CAGR of 23.43%, 47.80% and 39.73%, respectively, during FY16 to FY18 and contributed 57.65%, 33.68% and 8.68%, respectively, of its FY18 revenue from operations.

Objects of the offer

To achieve the benefits of listing the Equity Shares on the Stock Exchanges
The sale of up to 15.7 mn Equity Shares by the Selling Shareholders

Source: Company RHP

Board of Directors

Name	Age	Designation
Onkar Singh Pasricha	67	Chairman and executive Director
Anant Kumar Daga	41	Managing Director
Naresh Patwari	40	Non-executive Director
Neeru Abrol	63	Independent Director
Sangeeta Talwar	62	Independent Director
Bhaskar Pramanik	67	Independent Director

Source: Company IPO RHP

TCCL's Brands

W: W is a premium fusion wear brand, which merges Indian and western sensibilities with an emphasis on distinctive design and styling. This brand is targeted primarily at the modern Indian woman's work and casual wear requirements. As on 31st March 2018, W had 281 exclusive brand outlets and 717 large format store outlets located across 157 cities in India and five outlets outside India. W grew at a CAGR of 23.43% during FY16 to FY18 and accounted for Rs 4,856.30 million, or 57.65% of its FY18 revenue from operations.

Aurelia: Aurelia is a contemporary ethnic wear brand targeted at women looking for great design, fit and quality for their casual and work wear requirements. As of March 31, 2018, Aurelia had 183 exclusive brand outlets and 752 large format store outlets located across 184 cities in India and one outlet outside India. Revenue from sales of products under brand Aurelia grew at a CAGR of 47.80% during FY16 to FY18 and accounted for Rs 2,837.13 million, or 33.68% of its FY18 revenue from operations.

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. TCCL has been leveraging its W store network for selling Wishful products and launched its first exclusive brand outlet for Wishful, in September 2017. Revenue from sales of products under brand Wishful grew at a CAGR of 39.73% during FY16 to FY18 and accounted for Rs 730.82 million, or 8.68% of its FY18 revenue from operations.

Key Strengths

Strongly positioned to leverage growth in the women's apparel industry in India: The women's apparel market in India was estimated at US$ 19 billion for FY17 and is expected to grow at a rate of approx 10% per annum to reach US$ 42 billion by FY25, according to Technopak. The women's ethnic apparel market in India was US$ 6.5 billion for the FY17, i.e., 47% of the women's Indian apparel market, and is projected to reach US$ 9.5 billion by FY20 (13.5% CAGR) according to Technopak. TCCL believes that by leveraging its existing market position in India, recognition of its portfolio of brands, geographical spread of its distribution and retail network, experience and expertise of its design team and long-standing relationships with its raw material suppliers and job workers, it is well placed to benefit from the expected growth in the women's branded apparel industry in India.

Leading women's apparel company in India with a portfolio of established brands: TCCL is leading women's branded apparel company in terms of total number of exclusive brand outlets as of May 2018, according to Technopak. It believe that its portfolio of leading and differentiated brands enables it to better cater to the needs of its customers, leading to increased brand loyalty and repeat customers.

Innovative and institutionalized product design process: In order to offer new and varied products to its customers, it focus on creating innovative designs and optimizing fit and sizing combined with an emphasis on quality. As of March 31, 2018, its design team consisted of 37 employees, with 11 employees exclusively dedicated to designs for Aurelia and 26 employees exclusively dedicated to designs for W and Wishful. The members of its design team have significant years of experience in the relevant fields.

Widespread distribution network and presence across a variety of retail channels: As of March 31, 2018, TCCL sold its products through 3,456 points of sale comprising exclusive brand outlets, large format stores and multi-brand outlets located across cities in 31 states and union territories in India. It also sells its products through online retailers, Myntra, Jabong and Amazon, among others and through its websites, wforwoman.com and shopforaurelia.com. Exclusive brand outlets, large format stores, multi-brand outlets and online retailers, accounted for 49.67%, 27.73%, 11.05% and 10.05%, respectively, of its revenue from operations for FY18. During FY14 to FY18, its revenue from operations through sales at exclusive brand outlet stores grew at a CAGR of 47.71%, large format stores grew at a CAGR of 48.61%, multi-brand outlets grew at a CAGR of 53.10% and through online retailers grew at a CAGR of 56.45%.

Longstanding relationships with suppliers and job workers: TCCL has established long-standing relationships with its vendors in order to ensure the delivery of quality products to its customers in an efficient and cost-effective manner. In FY18, it sourced raw materials, such as printed fabrics, unprocessed fabrics and trim materials from approximately 181 suppliers, located across India. In addition, it manufactures its products through agreements with job workers, and a majority of them have been working with it for over three years.

Capital efficient and scalable business model: TCCL enters into leases or franchise agreements for its exclusive brand outlets which requires lower upfront capital expenditure as compared to acquisition of real estate or properties for setting up its outlets. Further, manufacturing its products through agreements with job workers allows it to increase production capacity as required and without incurring additional capital expenditure. This business model allows it to be capital efficient.

Experienced, aligned and professional management team with strong organizational culture: TCCL is a professionally managed company with an experienced management team that is led by its Managing Director, Anant Kumar Daga, who has been associated with the company for over seven years and has 16 years of work experience, including 13 years of experience in the apparel and retail industry.

Strategies

Expand its physical retail and online presence: In FY18, FY17, and FY16, TCCL added 84, 76 and 70 new exclusive brand outlets (net of closures), respectively. Across its three brands, it plans to annually open approximately 75 to 85 exclusive brand outlets in India during FY19 and FY20. It also intends to increasingly utilize modern trade channels such as large format stores and online platforms to increase its sales in India as well as international markets.

Leverage marketing initiatives to increase brand recognition: TCCL intends to continue to enhance the brand recall of its products through expansion of footprint of its exclusive brand outlet stores as well as the use of targeted marketing initiatives such as digital and print advertisements, email communications, and public relations initiatives, as well as marketing through traditional channels. For FY18 and the FY17, its advertising and sales promotion were Rs 334.55 million and Rs395.06 million, respectively, or, 3.97% and 5.56% of its revenue from operations, respectively. The company intends to increase this proportion in the future with focus on Aurelia and Wishful.

Expand and strengthen its brand portfolio: In addition to strengthening and expanding the reach and strengthening, its brands W and Aurelia, the company intends to (i) continue to grow its brand Wishful targeting the premium occasion wear market; (ii) launch new brands; and (iii) acquire other brands opportunistically. The company intends 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 three fiscal years.

Increase the range of its products under existing brands: In order to enhance and diversify its product offerings and cater to a larger proportion of Indian women's wardrobe requirements, the company intends to continue to develop and launch additional. For example, it recently launched a jewellery range at its outlets. The company also plans to selectively target the women's accessories market with products such as footwear and fragrances.

Improve operational efficiencies: The company intends to continue to actively manage its operating costs to improve margins through,

- leverage technology to grow its sales and ensure customer satisfaction
- strengthening its manufacturing and logistics (by diversifying its manufacturing to states which offer lower costs and tax benefits arrangements)
- maintain low up-front costs to set up and expand its retail network by continuing to enter into leases or franchise agreements for its exclusive brand outlets

Risk factors

- Unable to anticipate and respond to changes in fashion trends and changing customer preferences in a timely and effective manner, the demand for its products may decline, which may have an adverse effect on its business, results of operations and prospects.
- Its business and prospects may be adversely affected if it is unable to maintain and grow the image of its brands.
- Unable to identify customer demand accurately and maintain an optimal level of inventory in its stores, its business, results of operations and financial condition may be adversely affected.
- Inability to effectively manage or expand its retail network may have an adverse effect on its business, results of operations and financial condition
- Unable to obtain sufficient quantities or desired quality of products from job workers in a timely manner or at acceptable prices, may adversely affect its business, financial condition and results of operations.
- Business is subject to seasonality. Lower revenues in the festive period of any Fiscal may adversely affect its business, financial condition, results of operations.
- Significant portion of its revenues is derived from the sale of products under brand 'W' and any reduction in sales under this brand may adversely affect its revenues and results of operations.

Financials

Restated Statement of Profit and Loss (Rs mn)

(March ending)	FY16	FY17	FY18
Gross Revenue from Operations (exl other income)	**4,861**	**7,110**	**8,424**
Excise Duty	7	101	39
Net Revenue from operations (exl other income)	4,854	7,009	8,385
YoY Growth%	-	44	20
Cost of materials consumed	1,438	1,804	2,199
Purchase of traded goods	6	6	0
Changes in inventories of work-in-progress	(405)	(486)	(351)
Employee benefits expense	1,576	1,534	1,236
Other expenses	2,278	3,388	3,747
Total operating expenses	4,893	6,246	6,831
EBITDA (excl other income)	**(39)**	**763**	**1,554**
EBITDA Margins%	(0.8)	10.9	18.5
Depreciation and amortization expense	89	134	167
EBIT	**(128)**	**629**	**1,388**
Finance costs	29	25	7
Other income	21	19	67
Restated Profit/(loss) before tax	**(136)**	**624**	**1,448**
Tax expense	279	466	467
Restated Profit/(loss) for the year	**(415)**	**158**	**981**
PAT margin %	(8.5)	2.3	11.7
YoY Growth %	-	-	32.3

Source: Company RHP

Restated Statement of Assets and Liabilities (Rs mn)

(March ending)	FY16	FY17	FY18
LIABILITIES			
Equity			
Equity Share Capital	92	111	113
Instruments entirely equity in nature	0	0	242
other equity	392	2708	3960
Total equity	**483**	**2819**	**4315**
Non-current liabilities			
Financial liabilities	123	41	61
Borrowing	78	3	2
Other Financial Liabilities	45	38	59
Provisions	25	37	56
Other non-current liabilities	4	5	4
Total non-current liabilities	**151**	**84**	**121**
Current liabilities			
Financial Liabilities	2306	1267	1213
Borrowing	278	83	0
Trade payables	846	1093	1144
Other financial Liabilities	1182	91	69
Provisions	1	1	1
Current Tax Liabilities	96	0	0
Other current liabilities	50	87	114
Total current liabilities	**2453**	**1355**	**1328**
TOTAL LIABILITIES	**3088**	**4258**	**5764**
ASSETS			
Non-current assets			
Plant And Equipment	379	458	506
Capital Work - In - Progress	2	8	25
Intangible assets	14	11	13
Intangible assets under development	0	25	56
Financial Assets	214	365	393
Investments	13	17	0
Other Financial Assets	201	347	393
Deferred Tax Assets (net)	155	97	115
Non-Current Tax Assets (net)	0	126	95
Other non-current assets	101	43	72
Total non-current assets	**866**	**1132**	**1274**
Current Assets			
Inventories	1371	1940	2312
Financial Assets	759	1140	1914
Investments	0	0	21
Trade receivables	642	997	1396
Cash and equivalents	28	20	367
Bank balances	76	113	124
Other Financial Assets	15	10	6
Other current assets	91	46	264
Total current assets	**2222**	**3126**	**4489**
TOTAL ASSETS	**3088**	**4258**	**5764**

Source: Company RHP

Restated Statement of Cash Flow (Rs mn)

(March ending)	FY16	FY17	FY18
Net Cash from Operating Activities	344	251	413
Net Cash Used in Investing Activities	(279)	(271)	(276)
Net Cash Used in Financing Activities	(45)	12	210
Net Inc/(Dec) in Cash and Cash Equivalent	20	(8)	347
Cash and Cash Equivalents at End of the year	28	20	367

Source: Company RHP

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	**Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	-	We advise investor to subscribe to the IPO.
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NA	–	**Not Available or Not Applicable.** The information is not available for display or is not applicable
NM	–	**Not Meaningful.** The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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