"TCNS Clothing Company Limited Q3 & 9M FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to TCNS Clothing Company Limited Q3 and 9M FY2019 Earnings Conference Call. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the company as on a date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anant Daga, Managing Director of TCNS Clothing Company Limited. Thank you and over to you Sir!

Anant Daga: Thank you. Good evening everyone and welcome to our Q3 FY2019 Earnings Conference Call, to discuss financial and operational performance for the quarter. I am joined by Venkat, our Group CFO, and SGA our Investor Relation Advisors. This is only our second investor call post listing so please allow us to give an overview yet again of our business model followed by key highlights of last quarter post, which we can open, the floor for questions.

TCNS today is the leading women's branded Apparel Company in the country. We design market and retail a wide portfolio of women's branded apparel across multiple brands. There are three brands under our umbrella:

W, which is the Premium Fusion Wear Brand, which merges Indian and western sensibilities with an emphasis on distinctive design and styling. This brand is primarily targeted at the modern Indian women's work and casual wear requirements.

The second brand is Aurelia, which is a contemporary ethnic wear brand targeted at a broader segment looking for a mix of great design, fit and quality.

Wishful, which is a premium occasional wear brand, with elegant designs catering to women's apparel requirement for evening wears and occasions.

We launch more than 1,600 products every year and our product portfolio includes top-wear, bottom-wear, drapes, SKDs and accessories that cater to a wide variety of the wardrobe requirement of Indian woman including every day wear, casual wear, work wear and occasion wear.

We have a proven product and retail model across geographies and channels and our products are available in over 3,000 point of sales including 500 EBOs, leading large format stores, multi-brand outlets and e-commerce portals.

Now coming to the results, we have just wrapped up a good third quarter with strong overall performance across brands and channels. I would request Venkat to take you through the key highlights and numbers, post which we can open the floor for questions. Since we are the only listed entity in our segment we might be not able to shares regular details that could be competitive information, but request you'll to understand on the same.

Venkatesh Tarakkad: Good evening everyone. As Anant mentioned we had a good quarter. Our Q3 revenues at Rs.300 Crores grew at a rate 22% versus Rs.245 Crores last year.

Our EBITDA at Rs.53 Crores grew 30% versus last year's EBITDA of Rs.41 Crores.

Our Q3 PAT at Rs.37 Crores grew at 35% over last year's PAT of Rs.27 Crores.

As mentioned in the last call, we have an exceptional tax adjustment this year relating to exercising of ESOPs though the impact for H2 is limited. Assuming same tax rate as previous year, our PAT for Q3 would be at Rs.36 Crores that is a growth of 31% over last year's PAT.

We have recorded SSSG growth of 8%. We are on schedule with our store expansion.

Our EBOs store count was at 521 at the end of Q3 with addition of 16 new EBOs in Q3 taking the YTD store addition count to 56. In addition 69 LFS doors were opened this quarter, taking the YTD LFS doors addition count to 104. We have a strong pipeline of new stores slated to open in the fourth quarter.

Our gross margin in Q3 remained strong at 68.5% versus 67.4% last year. We continue our strategy of shifting the manufacturing base to low cost areas and getting in sourcing efficiencies.

Our marketing campaign for Aurelia was launched with Disha Patani as the brand ambassador. While it is too early to comment on the impact, the initial feedback has been positive.

On the e-commerce front, we are pushing ahead with our Omni channel strategy. We have started rolling out our market place module and should have all major accounts in the fold by next quarter. We are also piloting the immersive store and endless style concepts.

This will give us the capability to display our entire product catalogue to our customers, irrespective of products being physically available at the stores and at the same time gives us the ability to suggest and show similar looks that can drive store throughputs.

On the ERP front which had significant disruption in H1, our transactional operations have stabilized.

Talking of YTD numbers our revenues at Rs.857 Crores grew at a rate of 15% versus Rs.743 Crores last year. Our EBITDA at Rs.143 Crores was 11% higher than last year's EBITDA of Rs.128 Crores.

Our YTD PAT at Rs.99 Crores grew 29% over last year's PAT of Rs.76 Crores. Adjusted for the exceptional tax adjustment due to ESOPs and GST tax impact in Q1 our PAT for YTD December would be Rs. 86 Crores versus Rs. 76 Crores last year that is a growth of 13%.

Thank you we are now open to questions.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin with the question and answer session. We have a first question from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Good evening and congratulations on the good set of numbers. I If I look at the data that you have shared, we have seen a rationalization in your MBO count. Wanted your comments on that and similarly you have seen a 65% growth in the same channel, so if you could just explain why that has happened? Is that related to the ERP implementation that happened in the last quarter?

Anant Daga: As we have explained earlier, in MBOs we always have a very, very long tail. So there are few accounts which are seasonal buyers, there are few accounts who just buy from end of season sale to end of season sale. So there always would be addition and deletion of these numbers. The way we are looking at MBO channel is essentially not in terms of increasing the door count because we are present across most of the major channels. The strategy right now is to go deeper within accounts. Suppose earlier we just used to have one shelf unit in an account, today we have wall space. Earlier we were stacking say about 100 pieces, today we are stacking probably 200 pieces. So idea is to capitalize on the depth in significant MBO's, rather than just increase the numbers, and that is what is getting reflected in terms of MBO growth being registered despite discontinuity of the long tail of MBOs. With the spillover effect of Q2 due to festive being shifted, we were able to bill some of these guys in Q3.Q2 is where we mentioned that we were not able to connect all the stocks well. Q3 we are in line with launching our new season early and we have been able to ship some part of our SS19 season launch stuff. These are the main reasons you see a 65% growth in MBO.

Nihal Jham: Online has generally grown at 35%-40% plus, but specifically for this quarter 15% growth looks little on the lower side. So any specific reason for that?

Anant Daga: In B2B businesses I think quarterly cut off will not explain the entire story. For most of the online guys, they had a lot of events during October and lot of that billing actually happened in Q2, so if we look at the Q2 growth it was extremely high. Directionally we believe this is a channel which will continue to grow at a faster rate. Even if we look at the nine month growth, I think the channel is growing faster at 40% plus over last year. So these are quarterly adjustments that tend to happen and such kind of anomalies can be seen quarter to quarter.

Nihal Jham: Sure, but on a long term basis we do believe that online would be our fastest growing channel?

Anant Daga: Yes.

Nihal Jham: If we look at this quarter or our nine months performance, W and Aurelia are still growing higher than Wishful despite Wishful having a low base. With the kind of efforts you'll are putting there, what are your thoughts on that and is there going to be further traction on this brand?

Anant Daga: The challenge today when we talk about Wishful is not in consumer traction, we are seeing very good traction. In Wishful we have faced some challenge in creating a stronger supply chain base and in H1 especially we had ERP disruptions. With Wishful being a slightly more difficult category, the real challenge lies in the supply side. The good news is that we have been able to work with couple of new factories who are now churning out good products, so we are hopeful that in a season or two you should see improvement in the supply chain. For Wishful we think that this is the thing which is holding back and we are working very hard on the back end to create a sustainable supply chain for the same.

Moderator: Thank you Sir. We have a next question is from the line of Trupti Agrawal from White Oak Capital. Please go ahead.

Trupti Agrawal: Thank you for this opportunity. I have a couple of questions. Number one. I am quite surprised with our sequential quarter on quarter degrowth in revenue considering the fact that this was a very strong quarter which we have seen across all the retail companies because of the festival shifting in this quarter but when I dissect your numbers I think Wishful actually de-grew by 20% quarter on quarter which I think is a category which is very relevant for the festival season. So, what I am trying to understand here is that you have added doors in this quarter, both in the EBOs, LFS, etc. and yet there is sales de- growth so how do we look at this?

Anant Daga: Trupti, when you look at this thing you are absolutely fair. See first of all we are not a pure retail player, we are a brand company and unlike a retail company which only has B2C business, we have both B2B and B2C businesses. In fact the last question which I answered was why our online sales grew lower than Q2 and our annual average is because lot of that billing which was festive relevant happened in Q2 to that channel so unlike a retail business where only secondary sales get recorded, only B2C sales get recorded in our business it always a mix. So traditionally if you look at our numbers over years Q2 has always been stronger than Q3 because Q2 has both end of season sale and also a new season launch. This is something that happens almost every year with us. Now coming to your second question about Wishful this was because of the ERP issues while we were able to connect W and most of the Aurelia stocks Wishful actually took a bigger toll and the entire collection could not be launched. Now that is partly because of two reasons one ERP disruption, and second, we generally have continued to see a supply chain issue in Wishful. Now with new facilities up in running we hope by next season we should be full in place for Wishful as well. In terms of consumer traction there is absolutely no challenge.

Trupti Agrawal: Sure, but Anant when I look at W and Aurelia they have also shown a revenue degrowth of 3% and 9% respectively on a sequential basis and if I look at your channel mix see online I agree that second quarter was very strong, so this quarter must be slightly soft because of the low base. Also, MBOs was okay as again there was a base effect with lower sale in second quarter, but if I look at your other channels especially EBO, LFS, which have declined quarter on quarter in spite of you adding new doors in both these channels so does that imply that SSSG was negative for us?

Anant Daga: No. In fact our SSSG was negative in Q2. In Q3 our SSSG was 8 percent plus, I think what happens in Q2 is that you have a bigger part, of end of season sale so there is lot of sales that has been recorded and in Q3 you just have a festive month, which is in and around November, so even if you look at last year figures, in Q2 you had some part of festive in it, it was not that entire festive got shifted to Q3. So probably this is the reason which is behind these numbers and has been a trend for last few years, which we see in our business and which is a result of when end of season sale happens, when your festive sales happens and when your new season launch happens so frankly this is something which we have always expected there is no surprise for us

Trupti Agrawal: So what about Q4 then because there would be EOSS for us in Q4, are you implying that Q4 would be then stronger than Q3?

Anant Daga: No see Q4 and Q3 in terms of topline is usually within a range so the raise typically is about 5-8 percent but see again all this depends on many factors, for example this year we are shutting the end of the season sale a week earlier than what we did last time, again in December we were able to launch our SS19 itself which last year probably we could not. So, because we have multiple channels and all these kind of EOSS, new season launch factors come, it is very difficult to predict but typically Q4 could be lower than Q3 or about the similar range, this is what our experience in the past has been.

Trupti Agrawal: Sure, Anant also can you just give the numbers for inventory and receivables as of December? Would it be possible for you to give this number?

Venkatesh Tarakkad: While in Q3 we are not publishing the balance sheet, our inventory and debtors are actually at the same level as of September, , but our creditor days has reduced by 4-5 days in this quarter as we paid a bit earlier , we had done some opportunistic payment to get good terms. This is also reflected in our gross margins which has seen an improvement, but debtors and inventory days are exactly at the same levels as of September.

Trupti Agrawal: Sure, Sir I have a few more questions may be I will just join the queue. Thank you.

Moderator: Thank you Sir. We have a next question is from the line of Dhaval Shah from Girik Capital. Please go ahead.

Dhaval Shah: Congratulations on good numbers. I just have one question, can you explain this 8% SSSG, how it has been calculated so do you take LFS, EBO, your own stores everything into account?

Anant Daga: So while calculating SSSG we take into account our exclusive outlets whether it is franchise or owned, we take large format accounts and our own website and Omni sales which is right now very small in number, **Dhaval Shah:** Okay. And Sir one more question what will be our total door addition for FY2019 on the LFS side?

Anant Daga: See it is slightly tricky to get this numbers because we also have broad indications from our partners, we have currently opened about 104 doors, as of now we have visibility of at least 40 to 50 doors, but we will just have to see when those get confirmed.

Dhaval Shah: Thank you.

Moderator: Thank you Sir. We have a next question is from the line of Varun Singh from Antique Stock Broking Limited. Please go ahead.

Varun Singh: Thanks for the opportunity. Sir Can you please share the same store sales growth number for nine month FY19?

Anant Daga: For nine month SSSG is -3% and for Q3FY19 it is 8% plus.

Varun Singh: Okay, and can you please explain this decline?

Anant Daga: I am not sure whether you were on the call last time, but there are couple of reasons. One, industry wide Q1 this year has been softer compared to last year because there last year there was GST induced end of season sale which went on in Q1. Second internally as an organization we were implementing our ERP and that took some toll on supply of fresh stocks to our stores, so that is the reason in the first half there was a degrowth in our SSSGs.

Varun Singh: Secondly Sir can you please explain the accounting that we have shared on slide number 9 of our investor presentation on revenue recognition, my question will this reduce gross margin if we are not adjusting previous year quarter numbers?

Venkatesh Tarakkad: Yes you are right, this is because of the Ind-AS 115 implementation which is applicable from first of April this year, so in this business, when we sell something to our customers we were recording the sales net of the margin which is given to them when we sold at sales or return basis. From April 1, with IndAS 115 coming in, sales are shown at gross levels and at the same time the same amount of margin is also added back in selling and distribution expenses so as a result both the revenue and expenses have also increased. So, your point is valid regarding the percentages going down because the denominator goes up. As in the road show, we had explained our EBITDA percentages over the last five years they were all pre-IndAS and now if you compare, directly from the P&L our percentages have obviously gone down because the revenue has come up. If you look at the pre-IndAS 115 EBITDA numbers they would be roughly around 18%-21% and if you look at EBITDA numbers right now our range would be between 16 to 18%%.

Varun Singh: Just wanted to reconfirm whether I got it correctly or not so that, product that you had sold on outright basis, now after IndAS you will be showing it net off the variable expenses so the revenue will look lesser as compared to what it was before the accounting am I correct?

Venkatesh Tarakkad: Yes, you are right. So this represents to promotions, which holds say for a Diwali which is not part of the end of season sale and which we support them subsequently these are the expenses which we will do net off.

Varun Singh: Sure, these are basically the promotional expenses?

Venkatesh Tarakkad: yes, Correct.

Varun Singh: Just last question if I may squeeze in, Sir can you just explain the economics of our inventory like after how many days of non-selling of a product will lead it to send it back to distribution centre and then again brought back for an end of season sale or do we thrash it completely saying that okay this would not be sold finally?

Anant Daga: Yes, typically how this works is every season we launch new range of products in our full price selling channels and by the end of the season, sale we get back the stocks which are unsold, what we do is, we regroup these and then we offer this to our discount channels, which could be a large format store or it could be sold online and this process continues for another two seasons or so. Now post that there is always some stock that is left and say after season five or six we try to sell this off to final scavenger deal hunters, wherein you do a bulk deal. In the meantime as and when the seasons passes we have a very conservative balance sheet policy wherein we start writing off the inventories so usually we start writing off inventory to some percentage depending upon season, post season -3 based on categories.

Varun Singh: That is very, very helpful. Thank you very much.

Moderator: Thank you Sir. We have a next question from the line of Aditya Khemka from DSP Mutual Fund. Please go ahead.

Aditya Khemka: Thank for the opportunity Sir. Sir your e-commerce sales channel that you mentioned, do you use this channel to offer more discount to customers or do you use it as a liquidation channel to sell off inventory, which has not been sold in stores or is it just like a store where you can find the same material that you find in store at the same price?

Anant Daga: See there are two channels one is third party, and one is our own sites, now all these sites sell both fresh and discounted merchandise. The idea is not to discount any in season product across e-commerce sites so anything that is in season except wherein we have decided on a joint promotion, it always gets sold at full price so that operates like a full price store, at the same time the reality of online channel is that today at least a higher proportion of sales are discounted sales which are previous season sale so there we try to liquidate our old inventory. If you ask structurally, what we have seen is our sale of full price merchandise is increasing over the years in online channel. Obviously it is a gradual process, but we believe it also gives a great chance to sell fresh merchandise to new consumer, new markets and we look at it as a very, very positive channel. Now, apart from third party sites, we are investing a lot of time and effort in creating our own Omni channel business, we believe 500 physical stores that we have and a strong online process could be a big lever for growth in future, so what Venkat was talking about in terms of immersive stores, so these are the things that we are focusing on.

Aditya Khemka: In terms of your presence across cities so do you find merit in following a clustered approach or pan India, urban approach is what you feel is more suitable for the business model that you have?

Anant Daga: Frankly these were the questions, which were very relevant for us couple of years back so wherever we have started a brand or we have started expansion we have usually taken a clustered approach because that gave us much more insight, but today if you look at our business all our brands, they are present across country we have a proven model across geographies, across tier of towns, across high street malls, so right now we are present already in 100 plus cities so clustered approach is no longer necessary, but yes wherever we have a learning in a particular retail setup we try to replicate it and grow.

Aditya Khemka: Sir in terms of aspiration on the overall revenue growth and the SSSG side what are the aspirations that we have for FY2020. Do you think given the low base of SSSG which we have created this year because of the disruptions you mentioned, the ERP implementation and so on, you think FY2020 could be a double digit SSSG growth here?

Anant Daga: We have mentioned in the earlier calls also we will slightly shy away from giving any guidance, but let me share how we think about SSSGs and what our thought process of building the business is. SSSG is a very, very important metrics, but as I was explaining we are not a pure retailer. We are a multichannel business and as a model we are slightly more product centric than channel centric. So typically SSSG is important but in our business the impact of SSSG is slightly limited, just about 30% to 35% of my business is something wherein I have fixed cost. That also to the extent of 30%, 35%. A plus SSSG or a minus SSSG essentially can only make that much dent or give that much gain to us. Having said that what we tend to do is we tried to maximize our realization from the first and there is always these tradeoffs that are made by selling to outright parties and there at times we also see lot of as these sales might not be a very accretive to SSSGs, but overall profitability is really accretive., So this is how we think about SSSG. Now given the base that we have for this year whether SSSG could be very high or single digit is something that we will see how it builds up, but we believe we will be able to deliver mid-single digit SSSGs which is what we think is possible.

Moderator: Thank you. We have a next question from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sir two questions, one, you highlighted that your MBO growth has been very great, congratulations on that, you highlighted that has driven more through depth, would it be possible for you to help us understand the opportunity for continuing this growth rate or similar growth rate, what kind of depth are we looking at across channels, If you help us understand the kind of opportunity and the broader picture?

Anant Daga: So Avi, if we talk about MBO channel, we don't think this channel has a potential to grow at a faster rate in the long run than other channels that we have because MBO per se in the market is not a channel that has been growing at a great rate. Now luckily for us what helps us is MBOs traditionally has been a channel, which was not strong for women's wear so it has always been the men's wear best channel and in the last few years there have been very, very select players who has been able to build the channel well. So it takes time to cultivate each MBO to put product, to have proof of concept and then keep building this depth. So right now in terms of coverage, in terms of doors, I think we covered most of the significant doors there is left but in terms of increasing sales, we are continuously working with MBOs to create better sections, better merchandise availability, better bouquet of products, which is helping us grow. My guess is in the long run this could grow at about double-digit number, but it certainly would not be able to outpace other channel. It would be a slightly lower growth channel for us.

Avi Mehta: So you mean low teen kind of growth rate is what we should look at it?

Anant Daga: Yes Avi, and also what happens is whenever there is a disruption in the market generally this channel gets affected the most. At times you will see a single digit, you can also see degrowth but for us in the long run we believe a high single, low double digit growth is what we should achieve .

Avi Mehta: My second question was on the steady state EBITDA margin guidance could you share the range of your steady state EBITDA margins again and whether this year also should be in that range, how should we look at it?

Anant Daga: Post-Ind-AS our EBITDA margins should be about 16%-18%.

Avi Mehta: Okay and this year would be an exception; it will be probably from the next year is that how I should look at this?

Anant Daga: Even if you look at this year we are currently in about 16.7% so we fall in that range and now how Q4 works out we will have to see.

Avi Mehta: Okay but isn't Q4 traditionally a week quarter on margins Sir?

Anant Daga: Q4 since last two years were weak because of elongated EOSS and deep discounting which has led to slightly lower margins., This year we have already reduced our end of season sale by a week and as I mentioned earlier on the SSSG part the idea essentially is not to drive high discounted sales but to drive more profitable growth so there could be some margin gains.

Avi Mehta: With your permission, could you just tell me the tax rate guidance for the year? That is all from my side.

Venkat Tarakkad: I do not want to commit on the full year tax rate guidance. We have got an advantage because of tax position we have taken in ESOPs and we expect the annual tax rate to be in that same range, as of nine month.

Avi Mehta: That is all from side. Thank you very much.

Moderator: Thank you. We have a next question from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: There are two questions. I just wanted to check what the SSSG for Q3 FY2018 just to understand the best impact.

Venkat Tarakkad: So for Q3FY18 SSSG was about 4%.

Jignesh Kamani: My second question was on the sourcing part so, right now our job work and sourcing is largely heavy on Delhi and NCR, as you mentioned that many of the states have announced, many employee policy on subsidy so do we want to explore other states like UP, Gujarat and other parts of India, any progress on that, which could help us reduce our sourcing cost?

Anant Daga: Yes, so we have made very good inroads. In fact we already have a unit with one of our partners at Mathura in UP. We have also started something at Ranchi in Jharkhand, Harur in Andhra and Ludhiana in Punjab. So what happens is these are slightly longish processes. First you have to take a place, then you have to train the tailors, and then get the pieces made and then it comes into full production facility. We have already been able to start full-fledged production in couple of these units. The other two or three units are shaping up very well, we are still looking for more units. So, on this front I think we are making a very good progress.

Jignesh Kamani: So probably one year or two year down the line what kind of percentage sourcing can come from these units?

Anant Daga: Our target within two years is to the tune of 20%.

Jignesh Kamani: Thank you.

Moderator: Thank you. We have a next question from the line of Jeet Shah from Axis Capital. Please go ahead.

Jeet Shah: Thanks for the opportunity. Most of my questions have been answered, just one question. What is the mix of B2B and B2C business on a year-on-year basis?

Anant Daga: Typically all MBO billing is B2B, bulk of large format stores billing is B2C and about 30%-35% of EBO business is B2C so if you take all this into account it might be about 30%-35% range.

Jeet Shah: Thank you Sir.

Moderator: Thank you very much Sir. We have a next question from the line of Ravi Naredi from Naredi Investment Private Limited. Please go ahead.

Ravi Naredi: Sir all these EBOs are owned by company or are we are giving franchisee?

Venkat Tarakkad: We have a mix of franchised and own stores, so about 65%-70% business comes from owned stores and the balance of franchisee.

Ravi Naredi: Sir one more thing, I am trying to get your annual report of March 2018, but I am unable to find it, would you help me knowing where will I find our annual report?

Anant Daga: Actually this is available on the MCA portal as such but what I would request you is to send a mail to investors@tcnsclothing.com and we will respond.

Moderator: Thank you. We have a next question from the line of Tapan Pokar from Life Care Agencies. Please go ahead.

Tapan Pokar: My question is what are the possible threats that you are looking forward in the coming quarter or two?

Anant Daga: If you look at the threat there was a disruption right now in the online space because of new FDI policies, but as on date whatever little disruption was there has got resolved and that business is back on track apart from that in the fashion business your new season collection is always something new that you do and that risk always comes but thankfully we have got great response even in our trade shows last time when we displayed our product to our customers, and right now the traction in the stores is good, so we think we are pretty covered there apart from that we do not see any unexpected threat or something that could come up.

Tapan Pokar: Thank you.

Moderator: Thank you. We have a next question from the line of Trupti Agrawal from White Oak Capital. Please go ahead.

Trupti Agrawal: Anant couple of questions, so just now you mentioned sometime before that even the LFS is largely a B2B business so continuing our earlier discussion I just want to know that the festival preparation by these LFS in your context happened in Q2 is that what you are trying to say?

Anant Daga: **No,** There is some miscommunication. LFS for us is a B2C business. It is only online partners, few of the multibrand outlets, and some franchises, LFS is totally B2C.

Trupti Agrawal: Actually on some of the LFS in the concalls that happened recently, they said the women's wear category has done extremely well in this season, So, just wondering that what really happened then, did we lose any kind of market share would you have any sense on it?

Anant Daga: Trupti I think maybe we can have a longer discussion offline. We think it is a very strong quarter that we have had and in terms of sales we believe we would have gained market share. If you look at our sales and try to compare it with a retailer who does 100% B2C business then obviously their Q3 would be heavier than Q2., It is possible, but for us a lot of billing is happening in Q2 so there is always a cut, that is number one. Number two the SSSG which we reported of, 8% is a mix of multiple accounts. so there are couple of accounts, partners in large format where we have recorded 20% plus SSSG, especially accounts who are stronger in East India, but having said that not all accounts have done equally well, so there are some accounts where the growth is probably a low single digit, so it is a mix of both, but within every account I do not think that we have fared most of the other guys, it is possible that there is someone who would have come with an extraordinary line and there would be a slightly higher delta but overall across accounts I think our performance has been pretty strong.

Trupti Agrawal: Anant that is very useful. Thank for the detailed explanation. One more thing is our ERP issue fully resolved if you could tell me the percentage progress that we are 70% there or 80% there?

Anant Daga: Operationally, I think, we are completely on. Obviously there could be some small hiccups here and there but we are as good as needs to be. What has now been done to ERP is plugging in new capabilities. For example we have been talking about Omni, single view of inventory, may be more business intelligence that we need to build so those are the kind of things we need to add but at least from supply side, from operation sides all disruptions are over.

Trupti Agrawal: Sure and what is the ESOP expense in this quarter can Venkat just give me that number?

Venkat Tarakkad: So it is in similar levels like last time around 4.5 Crores, same as we had shared in previous quarters.

Trupti Agrawal: Sure and for nine months that would be like 4.5 * 3 is that of how we should arrive at it?

Venkat Tarakkad: Yes.

Trupti Agrawal: Venkat, would do you able to tell me what really is the broad composition of the other expenses because I think, that line item actually is increasing significantly when compared to all others so on a quarter on quarter basis like that grew by 12% so is there any one offs there or is that the new run rate?

Anant Daga: Trupti that is because of marketing spends, in Q3 we have spent almost Rs.4 Crores more than Q2 as in this quarter major festive was there and probably because of which the number looks higher

Trupti Agrawal: Sure and just for one last question, so the broad guidance in terms of the EBOs and LFS that we were planning to open was about 75 EBOs and about 195 LFS but if I look what has been opened so far in the second half is we have opened about 40 EBOs and we opened 16 in Q3 so do you think you are on track on this guidance and would you be able to open about 24-odd EBOs in Q4 and similarly the number for LFS comes to about 91, so would do you able to open these many doors in Q4 ?

Venkat Tarakkad: First of all YTD we opened 56 stores and y by opening only 19 more we can reach 75, but as of now we have more stores lined up, so Q4 I think this number of 75 to 80 is not a challenge unless some big malls gets delayed and I do not think that is the case. There are couple of stores which were slated to open in Q3 but unfortunately those malls got slightly delayed so those will open in February and March but we are in complete control. As far as LFS is concerned we plan to open 150 to 200 stores and we are already at 104 as of now we have visibility of 40 to 50 stores, we should be ideally crossing our guidance but for that we are dependent on other parties opening the stores, we will see how it works out but as on date 75 EBO and 150LFS does not look a challenge.

Trupti Agrawal: Thank you.

Moderator: Thank you. We have a next question from the line of Hiren Dasani from Goldman Sachs Asset Management. Please go ahead.

Hiren Dasani: One question on this new FDI guidelines, do you see some changes in the behavior post implementation of the new guidelines and how do you see this thing panning out in the online sale going forward?.

Anant Daga: We deal with multiple partners and at least in a couple of big partners, we have not heard any challenge. I think they already had their structure sorted and business is normal what it used to be. In one account, there was a disruption for about a week and the products were taken off, I think it is sorted now and as far as what we have heard from them the business would be normal going forward, but this is something where new developments are happening every day. As of now, we do not see any more disruption happening, but we will have to wait and watch if some new development happens but right now, we have not heard anything adverse or we have not seen any action which is adverse.

Hiren Dasani: And have you seen any domestic platforms getting more aggressive?

Anant Daga: Last 10 days we have not seen a trend but generally talking about domestic partners, yes there is one of our partners who have been aggressive for the last few months, but nothing notable for last 10 days, not much that we have read so far.

Hiren Dasani: The ability of the online partners to influence the pricing decision would not be severely hampered with the new guidelines?

Anant Daga: See, on these things frankly my understanding is slightly limited because we do not know what would constitute of aggressive discounting and what would not because even in offline retail you have various kind of promotions and and offers. So you have all kind of offers going around. Second, luckily for us compared to lot of other players we usually are a lower discounted brand on online space and hopefully the impact should be lower but see all these thing is something which is very difficult for one to comment with full surety, we will just see how it goes. Again, as I have mentioned sometime back that in season products we do not discount at all so there should not be any hit there at least. **Hiren Dasani:** Thanks Anant.

Moderator: Thanks a lot. We have a next question from the line of Tanmay Sharma from Jefferies. Please go ahead.

Tanmay Sharma: Thanks for the opportunity. Sir my question is regarding the region wise trend on a qualitative basis like which region are you witnessing good growth, or which region you are witnessing some pressure, is it tier II, tier III cities, some qualitative comments if you can share would be helpful?

Anant Daga: We have seen good growth coming from east, northeast, northern markets have also done well, pockets of West are doing well, I think if we look at the challenging areas probably last year or probably a year-and-a-half, specific market like Bengaluru, there one has seen some kind of pressure on sales growth. Apart from that, frankly we are not seeing huge stress or huge uptake. So North, Northeast is doing slightly better, markets like Bengaluru to some extent and Pune where we have been slightly slower in last few months, in terms of peers, but overall we are seeing good response across, in fact we are surprised that all our expansion in Tier III wherein most of the stores are doing very well so Tier wise also we have not seen too much difference Tier II, Tier III all seems to be okay.

Tanmay Sharma: Sir in term of scalability, you are already present in more than 100 cities, so have you mapped any new opportunities to expand like how many more cities you can go to, as there might be some limitations on LFS that you may have so you might have to do expansion on your own and then mix might change so what is your thought on the scalability front?

Anant Daga: You are absolutely right and in fact most of the Tier III market we reach even before any other women's brands or a LFS is there, we are present in about 110 cities, 115 cities, and we believe 40-50 cities more what we can expand and this is based on our experience with similar cities in the same geographies like how they are performing. Having said that we still see huge opportunity to expand even in Tier II, Tier I markets in, alternate sales channels, so as such we are looking at all these Tier of cities, all these markets and in fact if we look at a number of stores also that we have opened they are very evenly distributed across this.

Tanmay Sharma: Sir one last question, in terms of new growth driver expansion which will be in the smaller cities do you see the price difference in ticket size or the margins being an issue because as mix might change over the longer term and as we have seen in other companies also that the lower price band brand is growing faster, so that mix for growth might get some impact due to this because you just highlighted that cities like Bengaluru and Pune which might be more saturated, more urban market are seeing some pressure so that might have some impact on growth margins, , what do you think about it.

Anant Daga: First of all Bengaluru and Pune are specific pockets. I think o we are growing fast in Tier I, Tier II cities also. So it's not that our expansion is coming only from Tier III cities, but your point about having a different range is very valid. We are not selling very expensive products, our pricing is slightly premium economy, so even in Tier III towns what we see is more than the price resistance what their need is fashion which has to be tweaked slightly more than what you do for a Tier I cities, so for example in a Tier I city if I sell a sleeveless kurta maybe when I go to a Tier II I need to add a sleeve to it, may be in Tier I if we sell much more fashionable bottoms may be I just need to give a basic chudidhar or a flex pant in Tier III so those have a kind of adjustment that we see which is slightly more relevant again what happens is while tier the market in Tier I , Tier II, Tier III based on economic data we completely miss out on the fashion quotient, which a city has. So in fact in all our study cities like Agartala or Imphal they all would be Tier III cities but if you see they sell most expensive products and most fashionable products which is sold across the country so I think when we look at the markets we choose the market basis what kind of TG is there, when we design a range, we have a much broader product range and not everything goes to every stores, We try to customize these products on the basis Tier, basis region and this is our TG.

Tanmay Sharma: That is all from my side. Thank you and all the best.

Moderator: Thank you. We have a next question from the line of Jeet Shah from Axis Capital. Please go ahead.

Jeet Shah: Continuing our earlier discussion what is the pricing differential between B2B and B2C business can you give us a ball park price range that would help?

Anant Daga: Are you asking about channel wise margins is that your question, because see B2B has multibrand and also online where the margin structures are completely different.

Jeet Shah: Okay channel wise would helpful.

Anant Daga: We do not share details of this as this is slightly more competitive in nature, but all of the channels are in a range where in multibrand would probably be at the higher end of margins for us and LFS would typically be at a lower end

Jeet Shah: No problem Sir. Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Daga for closing comments. Over to you Sir!

Anant Daga: Thank you everyone for taking time out. We take this opportunity to each of you for spending the precious moment with us. We hope we have been able to address all your queries. For any further information, please feel free to get in touch with us or SGA, our investor Relations Advisors. Look forward to interacting with you again soon.

Moderator: Thank you very much members of managements. Ladies and gentlemen, on behalf of TCNS Clothing Company Limited that concludes today's conference call. Thank you for joining with us. You may now disconnect your lines.