"TCNS Clothing Company Limited Q2 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to TCNS Clothing Company Limited Q2 and H1 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 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, TCNS Clothing Company Limited. Thank you and over to you Sir!

Anant Daga: Thank you. Good evening and welcome to our maiden earnings conference call to discuss financials and operational performance for Q2 and H1 FY2019. Today, I am joined by Venkatesh our Group CFO, and SGA our Investor Relation Advisors. This being our first concall, let me take this opportunity to give you an overview of our business, followed by the key highlights of last quarter, post which we can open the floor for questions.

TCNS is India's leading women's branded Apparel Company. We design market and retail a wide portfolio of women's branded apparel across multiple brands.

The 3 Brands under TCNS are

• 'W' which 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

• 'Aurelia' is a contemporary ethnic wear brand targeted at a broader segment looking for a mix of great design, fit and quality and

• '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.

We launch more than 1600 products every year and our product portfolio includes top-wear, bottom-wear, drapes, combination-sets and accessories that cater to a wide variety of the wardrobe requirements of the 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 3000 points of sales including over 500 EBOs, leading LFS and MBOs and ecommerce portals.

Now, coming to the results, we have just wrapped up a strong second quarter; more so in the context of the fact that festive season will now be in Q3 vs Q2 last year and that we were still in ERP transition phase. We have successfully completed execution of our ERP system in Q2, and now, while we continue to optimize some parts, there is no longer any disruption to business.

Q1 was weaker on a year-on-year basis, thereby affecting overall H1 numbers. Q1 last year saw a big spike on account of GST induced EOSS, a trend that's visible across industry players resulting in an unusually high Q1 base. Additionally, the negative impact of tax rate changes and ERP implementation issues affected both top-line and bottom-line in the first quarter.

Given festive shifted to Q3, we expect a strong H2. The festive season has started on a positive note and we believe that we will continue to grow earnings at target levels.

Now, I will request Venkat to take you through the numbers

Venkatesh Tarakkad: Good evening everybody. Our Q2FY19 Revenues are at Rs.321 Crores a growth of 20% versus Rs. 266 Crores Revenue last year.

Our EBITDA was at Rs.59 Crores for Q2FY19, which grew 32% versus last year's EBITDA of Rs.45 Crores.

Our Q2 PAT at Rs.41 Crores grew at 64% over last year's PAT of Rs.25 Crores.

We had a busy store-opening calendar, which saw addition of 40 new EBOs over the last two quarters. We have a strong pipeline and are on track to open a targeted range of stores for the year. Our online business has seen sharp growth, as we have been able to build stronger businesses across all online partners.

Our SSSG has been negative 8% this year. As Anant mentioned, apart from the high base of FY2018, we had a 15% SSSG last year this same period and due the delayed festive season and the ERP transition, there was pressure on the same.

Our gross margin in Q2 continues to remain strong at 58% versus 57% last year. Our strategy of shifting our manufacturing base to low cost areas and increasing procurement of greige, which is a base fabric, has effectively mitigated the increase in input cost. We had an exceptional tax adjustment this year relating to exercising of ESOPs. Adjusted for the same, our PAT would be at Rs.33 Crores for the quarter that is a growth of 32% over last year's PAT.

Our H1FY19 revenues at Rs. 557 Crores grew at a rate of 12% versus Rs. 498 Crores last year. Our EBITDA for H1 FY19 was at Rs. 90 Crores versus Rs. 88 Crores last year. Our H1FY19 PAT at Rs. 62 Crores grew 26% over last year's PAT of Rs. 49 Crores.

Adjusted for the exceptional tax adjustment due to ESOPs and GST tax rate impact in Q1, our PAT for H1 would have been actually Rs. 51 Crores versus Rs. 49 Crores in H1 last year.

Thank you. We are now open to questions. Since we are the only listed entity in our segment, we might not be able to share granular details that could be competitive information. I would request your understanding on the same.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: Thanks. My first question is on online sales, what is the percentage of the total sales and what was the growth this quarter, have you seen any acceleration or deceleration there versus the previous year?

Anant Daga: If you look at the share of online, it has been around 15% and the growth that we have seen over Q2 last year is 83%. When we talk about online there are couple of things that we need to keep in mind. One, directionally, online as a channel which has been growing at a faster rate than other channels and second, right now apart from vertical players, you have horizontal online e-commerce players who have been able to build very strong fashion franchise and adding on a very low base of last year. I think they are registering some remarkable growth rates. So on these two parameters yes, online has seen a higher growth and online is today about 15%.

Abneesh Roy: How is the profitability there versus your overall business and could you elaborate on the horizontal and vertical players - their names if you can mention which are the bigger one for you?

Anant Daga: Typically, we would avoid giving any particular names, but by vertical I mean people who are operating only in fashion segment, people like Myntra, Jabong and horizontal would mean people like Amazon, Flipkart who are multiple category and not just fashion specific. In terms of margins again we think it is competitive information, but our online business margins fare pretty well with most of the other channels, definitely not the most profitable channel but having said that it is not on the lower end also, somewhere in the middle in terms of overall margins.

Abneesh Roy: Is Online sale from your own website that substantial and in terms of omni if you could update what is the strategy, what is the number you are looking at for longer term as a percentage of sales?

Anant Daga: Let me just talk more on the strategy that we are pushing ahead with. First of all, our own online and omni business today is very low. It is less than 1% of my total business, but this is a business which has been tracking good numbers and we have taken lot of steps to strengthen it. Given our retail base of more than 500 stores and the category that we operate in which is mix and match, we believe omni is a strategy which can really be a huge lever for growth for margin accretion and inventory optimization. So what we have done as an organization is we have built a whole new team to strengthen this channel. We have recruited a team in the last six months which has market experts and online e-commerce portal technical guys. We have already re-launched our revamped website which is showing great traction. In fact, our October numbers are almost 2x to what it was last October. Though it was a low base, I think traction is good, that too on much lower marketing spends.

What we are also doing is, when we look at this business we do not bifurcate online and offline as two buckets, I do not think consumers look at it like that, they want a seamless experience and what we are focusing is on omni. Our first step is to launch an endless aisle and immersive store concept which will happen this quarter post that we shall try to launch single inventory across store models, which will have great impact on ability to service customers and optimize inventory. I would rather shy away from giving any particular number, but this is one business, which should grow at a higher rate than any other.

Abneesh Roy: How much investment will this require, you said that you would be doing it in phases?

Anant Daga: The key investment that we are doing is in building a team. We have hired about six or seven people so that would be typically a very senior guy with a seven or eight member team at the second level. Second, one of the key reasons for implementing the new ERP was to build these new age capabilities. The ERP investment has already been made and this is on track. We have been able to launch a market place operation and other things, some of them that are already in the ERP part. Apart from it, typically in marketing we have a digital marketing budget, which is almost 20%-25% of the total budget which we can spend on building the brand.

Abneesh Roy: From Central stores, we have understood the sale season has come off versus last year, so in your case how do you see it, is it also trending downwards? Also from all these e-commerce companies there is extreme high pressure, so in your case is there some reduction versus last year?

Anant Daga: As we had the ERP issue, our new season launch also got slightly stretched and we have not seen any reduction in sale period. I think typically apart from one or two players, most of the players had six to seven weeks of End of Season Sale (EOSS) period, so as of now we have not seen any reduction, but going forward the next EOSS we are targeting around a week lower than this year.

Abneesh Roy: Why was this ERP done so late as you have been as a company fairly large for many years, why suddenly this year you did it?

Anant Daga: We always had an ERP, but the ERP that we had was Microsoft Navision which was implemented some eight to nine years ago. I think it was not equipped to cater to the new age requirements, also it had limitation in terms of managing business volumes. It is not that we have implemented the ERP for the first time, we transitioned into something better.

Abneesh Roy: So what will be the benefit and which technology is it, which platform?

Anant Daga: This platform is Microsoft AX and there are couple of benefits. One, just handling these kind of volumes and managing transactions, I think that was very difficult for the last system, so this would be faster. Second, it will enable us to have better views of inventory, it will help us get into things like omnichannel, brand loyalty programs and market places which the earlier ERP had a challenge in doing and third in terms of periodic reporting this could be much faster.

Abneesh Roy: In terms of the systems and technology most of the investment is done from the omni channel and ERP upgrade?

Anant Daga: For ERP most of the investments have been done, there are still some plug and play modules that we will be investing in. As far as our omni channel goes a part of that is built, there would be more investments, but those would not be significant in nature. I think most of the significant investments have already been made.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Congratulations on a good set of numbers for the second quarter. I just want to understand on what was SSSG in Q1 and Q2 FY2018 and similarly for Q1 and Q2 FY2019?

Anant Daga: SSSG last year Q1 was 16%, Q2 was 14%, this time we have these numbers as minus 8% and minus 8%.

Jignesh Kamani: First quarter we had ERP installation so inventory in the system might have remained low, so once inventory was running smoothly, there would have been channel filling at EBO's or may be on the MBO's also, and there would have been regular recurring revenue, so any idea out of 20% kind of revenue growth which you reported in the second quarter, what was the recurring revenue and what was the channel filling?

Anant Daga: If you look at the second quarter number, our MBO sales on a year-to-year basis has de-grown. What happened is that while ERP affected the sales in Q1 for 45 days in April and a majority part of May, we couldn't move raw materials, which affected our supplies even in July. In the first quarter we lost MBO billing because in June no one buys summer products and next quarter also it just got slightly postponed. Also because of festive shift in Q3, there is some spillover in MBO billing which would happen in Q3, so I think going forward you could see a trend which negates this.

Apart from that online billing is where we grew sales. Online grew at about 83% in Q2 and grew at a similar rate in Q1 also.

Jignesh Kamani: Just to add more colour on the SSSG part, have we changed our pricing be it increase or decrease or is it that the SSSG pretty much reflects volumes?

Anant Daga: First of all, I think even earlier whenever we had interacted with investors, we had tried to explain the kind of business we are in, so we are not in a standard product business where we sell the same thing season after season. What we sell as season-on-season same product, it is a small part of our business and yes there is no price increase that has been taken. Now what happens is, in our business at times depending upon fabric, fashion, depending upon whether you are selling one piece dress or you are selling three different pieces, your ASPs and volumes both can go in any direction, but this is something which is fashion. A person might buy three different pieces to make a combination or another person might get one dress and that is how consumers behave. So I think that comparison can never be right and none of the seasons we will be able to explain that but on a like-to-like product they have been absolutely no price increase.

Jignesh Kamani: Our festival season till now, how is the Y-o-Y growth if you compare it to last year, because of Durga Pooja and remaining days compared to last Durga Pooja?

Anant Daga: If we just compare Durga Pooja to Durga Pooja, we are positive as far as SSSG growth is concerned; it is a single digit positive so far. The festive season is also shaping up well. I think the real demand for festive is this week and is the most critical week. We have already seen great traction from last two days, hopefully this should go well. It is positive based on the last few days of festive sale, which actually reverses a lot of trajectory, as seen in earlier quarters. So we actually see some demand pickup.

Jignesh Kamani: The last question for Venkat, can you help me to understand this ESOP exchange rate for this quarter and Y-o-Y?

Venkatesh Tarakkad: On call I think we will not get into details of this, we can go offline, As we had disclosed in our RHP also, we had a lot of ESOPs being exercised this period in Q1 actually, so related to this exercise, we get a particular tax benefit. This is what has been considered in our annualized tax rate projection and that is what we have applied.

Jignesh Kamani: What is the EBITDA ex-ESOP? Just wanted to check whether it is booked in the quarter.

Venkatesh Tarakkad: So, the amount you can look at is Rs. 9 Crores for this period and this is similar to the amount booked last year, so there is no delta growth over the previous year.

Jignesh Kamani: Understood. Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Jamshed Dadabhoy from Citigroup. Please go ahead.

Jamshed Dadabhoy: Just coming back on the SSSG numbers, 16% and 14% growth last year in Q1 & Q2 and this year you had minus 8%, minus 8%?

Anant Daga: This year it has been minus 8%, minus 8%, last year about 16% and 14%.

Jamshed Dadabhoy: Okay, I thought this Q1 was supposed to be weak because of the GST transition which would have knocked off about 5% just due to the tax rate, but why is the second quarter lower, is it minus 8% just a reflection of festive moving?

Anant Daga: You are absolutely right. There are two factors, which has affected us. One is Q1, like most of the other guys even last year we had a very high SSSG. Q2 last year was a mixed bag for the industry, but for us even Q2 last year was very, very high. Number two, I think festive definitely is a reason which has taken off some SSSG from Q2 and also, unfortunately our ERP implementation issues have also impacted our sales. Typically when we launch a season, some stories gets launched early August, this time unfortunately we have not able to cater to the same till about mid or end August. So I think that was a lost opportunity, because of ERP issues we had faced.

Now while we speak about SSSG I think there are two things, which is important to understand. Apart from external reason, the key reason for the hit was ERP, which was one-off which now we are completely in control, our next season launch is well in control., In fact, we are planning to launch our next season earlier, which I think should really reflect in the numbers.

Number two, while SSSG is a very important metric, as a company we have always been more product centric and channel agnostic and any particular time when we have pressures on our stock situation, unfortunately we divert a lot of stock to our outright partners and third parties and essentially our stores do not get stocked. So I think this was one such case wherein we could still supply to all of the people but our stores really suffered.

In terms of margin we have only 30%-35% of business which is own retail. Rent, staff costs and couple of other expenses are of fixed nature and this SSSG impact on margins is limited to this. Balance business is typically with variable margin and hence it does not get affected so badly. So similarly for SSSG while this is a number, which one should push up, I think our omni strategy approach and limited impact of margin probably gets reflected in the results in seasons when we have negative SSSG and positive SSSG.

Jamshed Dadabhoy: Okay and would you have some sense of quantification how much the ERP transition has knocked off from your total sales numbers, if you can just think of a ballpark number from revenue?

Anant Daga: Jamshed, I will try to build some logic around it rather than giving a number. We have almost lost Rs.8 Crores to Rs.10 Crores of MBO order in Q1 as we had orders and we couldn't supply so that is the number we can talk about. Second, we also lost some sales to outright partners to LFS and online space which would be around Rs.7 to Rs.10 Crores for sure. Impact it actually had on SSSG is something it can be a guestimate, but I think it would have had meaningful impact, I do not know what percent to put around that, but outright business we definitely lost about Rs.12 Crores to Rs.15 Crores on net sales.

Jamshed Dadabhoy: Okay, understood that is helpful and just a query on your material costs, on a Q-on-Q basis material cost to sales has gone up from 32% to 34.2%. Why has this happened, I mean we do not have your past trends in terms of seasonality, is there some seasonal effect out here or what has happened in this case?

Anant Daga: Jamshed, with the new accounting standard 115 coming in, I think lot of these numbers are looking slightly different because of the accounting process. Typically, if you look at it at a gross margin level, I think, if you compare last September to this, I think we have improved.

Overall H1, you would see a slight drop but that is because last year our NSVs were higher, because of non-advent of GST, this year GST has made NSV look slightly lower. That is probably one reason for these numbers looking like they are now.

Jamshed Dadabhoy: That is not my question. I am asking between Q1 FY2019 and Q2 FY2019, both quarters you would have AS115 and both quarters you would have GST?

Jamshed Dadabhoy: Between Q1 and Q2 material cost to sales has gone up by 2.2%? I am just trying to understand because in your opening comments you said input costs are under control?

Anant Daga: Jamshed, typically if you look at it, our Q1 to Q2 transaction is higher because in Q2 due to EOSS impact and all, our NSV looks lower, so on NSV basis your CoGS looks higher. This is something that happens in Q2 and Q4 due to EOSS and higher discounting.

Jamshed Dadabhoy: Okay and how many weeks was the EOSS, how much of it was sold through in the second quarter?

Anant Daga: It was about seven odd weeks, it started sometime in last week June and went on till about mid-August.

Jamshed Dadabhoy: So just to clarify, you said in your opening remarks that this EOSS was seven weeks and the next one you are targeting one week less than this?

Anant Daga: Again Jamshed, I think there is general awareness in the market, last year also couple of guys tried for a lower term EOSS, As a brand we are also selling through lot of large format retailer and our issue is if suppose someone goes into a lower term EOSS and most of the guys decide to go for a seven week, we might find it difficult, in which case we will try to maximize our fresh season sales on EOSS and try to reduce the discount impact, but yes as a company our intent is to reduce it and I think, we are ready for that given our supply chain.

Jamshed Dadabhoy: Got it. Thank you. I will come back for more. Thanks.

Moderator: Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Good evening Sir. What was the full year SSSG last year?

Anant Daga: It was about 8.5%.

Madan Gopal: What was the mix of MBOs in this half-year and previous year first half?

Anant Daga: MBO contribution this year has been around 8% and last year it was about 9.5% or 10% in H1.

Madan Gopal: Okay. Thanks.

Moderator: Thank you. Next question is from the line of Tripti Agarwal from White Oak Capital. Please go ahead.

Tripti Agarwal: First I just wanted to know the revenue breakup for these three brands, which is Aurelia, W and Wishful could you be able to give me that?

Anant Daga: Sure, so the brands have come in September so first half W contributed to about 59%, Wishful was 7% and Aurelia was 34%.

Tripti Agarwal: What about new LFS doors that we must have entered in the first half like if you spoke about the EBO expansion, can you please tell me how many new large format stores that we added?

Anant Daga: In the first half we have added 35 new doors, most of our doors openings in LFS are slated for H2. We already have a clear visibility of 75 to 100 stores across multiple accounts and we will see the addition by next season.

Tripti Agarwal: Sure, Sir when you say 35, this is the LFS, which is across W, Aurelia and Wishful?

Anant Daga: Yes that is right, – so total count for LFS would be about 1500 odd across India.

Tripti Agarwal: Sure and Anant what I wanted to understand is the selling and distribution expense in this quarter actually grew faster in sales meaning the 22% growth, so can you please tell me what is the reason for the same? Is there any specific expense, any one-off or is this the run rate?

Venkatesh Tarakkad: First point to be kept in mind is selling and distribution right now what you see on the face of the P&L has the corresponding effect of IndAS 115 adjustment., In absolute term they are bigger and what would happen is also that depending on the mix of the sales composition this year versus last year that would change accordingly.

Tripti Agarwal: So in a steady state I understand this year we have got this ERP challenge like in this quarter the festival change, so all of those aside what do you think internally in your business plans, what is the EBITDA margin that you guys expect for the business on a steady state, is there any number that you work with?

Anant Daga: I think the EBITDA percentage levels is very similar to what we have for full last year and that is what we believe is sustainable. There is a possibility of gross margins also could go up depending on what brand get pushed, what category we add, but we would like to reinvest all these in new capabilities in marketing, in making our products even better, so we can assume the EBITDA margins to be in the range of about 20% odd. We are still referring to some of the numbers in terms of pre-115, so IndAS 115 will probably make it a little lower.

Tripti Agarwal: Sure, so the reason I am asking this is that as you also said in your opening remarks that there are no exact comparable peers to our company and if we typically see the EBITDA margin for other retailers, they all are at the lower side. You are also talking about a possibility of increase in our gross margin which is already comparatively higher than others in the industry. So where I am coming from is, I wish to understand if 20% is sustainable number or we under investing somewhere and this number can go down on a sustainable basis?

Anant Daga: I do not think gross margin that you have seen will increase, it is all about making your product better, depending upon, which brand you want to grow, so I think probably we will reinvest even at a product phase, so gross margins also one should not take any increase essentially while we are still in the investment mode. Number two, while you do not have too many comparables of our business in the listed space, I think if you look at unlisted space, I do not think we are at the higher end of the gross margins. So there are players who are on the higher side and there are few players who are slightly lower. I think we are still in a very sweet spot. Actually, our business is a differentiated product business, fashion business, these are sustainable margins that is how we look at it. Again, as Venkat said we are a taking lot of steps in terms of moving our production capacities to low cost areas. In fact, one thing that you note we have also supported a lot of our vendors to move to low cost area by giving them better credit terms, I think all these should give us reasonable cushion as far as margin scores on both gross and EBITDA level.

Tripti Agarwal: Thank you.

Moderator: Thank you. Next question is from the line of Nitin Gopani from Infina Finance. Please go ahead.

Nitin Gopani: I have two questions. One is just trying to calibrate between the comments that you made, one is that online grew the fastest in this quarter in terms of all the channels, EOSS was slightly more extended and the SSG levels being weak. So just trying to understand in this context how is that gross margins have improved for the company for the quarter YOY?

Anant Daga: Our online channel necessarily is not a low profitability channel, so it compares very well with the overall business. Number two, we have got some savings on CoGS in this quarter and that also get reflected in gross margins, so I think these are typically two reasons, wherein you see an improvement.

Nitin Gopani: Could you extend a little bit on the savings part as to what has and how sustainable would it be in the next few quarters?

Anant Daga: That is what I was explaining to Tripti right now, as a company we have taken three or four steps, which all are paying off in terms of lowering the cost. So first is, as a company we do a lot of greige sourcing, so instead of just buying processed fabric we start from greige stage wherein we are able to save significant margins, so I think as that proportion goes up our raw material cost on a like-to-like basis improves. Number two, so far we have mostly been a Delhi NCR manufacturing facility, so most of our manufacturing was happening here and as you know garmenting is a labor intensive area and NCR being one of the highest labor cost market that was putting a lot of pressure on cost. Now we have started moving our base from here to a lot of smaller places, still it is a low double digit number, which we have, but where we are getting a benefit in terms of manufacturing cost, so that is something, which is helping us again. Now this is definitely more sustainable and in the near future we plan to expand even more on those things. Apart from these what has also happened is we have been able to negotiate better in terms of fabric cost by giving better credit terms. We as a company are sitting on lot of cash and the kind of gross margin gain that we are able to get by relaxing the credit terms is also added to the gross margins.

Nitin Gopani: Understood, that is very helpful and the second question was if the SSSG is at -8 then effectively the 20% growth is mostly driven by network addition or online for the quarter right?

Anant Daga: That is right.

Nitin Gopani: So in terms of which network segment, because I understand MBO has de-grown from your comments, which category saw the maximum network related expansion growth other than online which I already understand is one key source?

Anant Daga: Apart from MBO everything is growing double-digit, so our EBO grew by 18%, LFS grew by 13%.

Nitin Gopani: Compared to the same quarter last year, what would be the inventory and receivables?

Anant Daga: Just to give you an idea typically if you look at our working capital days generally it is about 100 days to 120 days and this is what we have been able to maintain over seasons, so last year, this year all these are in the similar range.

Nitin Gopani: Fair enough. Thank you.

Moderator: Thank you. Next question is from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: Thank you for the opportunity. Could you comment on what kind of sales traction are you seeing in the third quarter because this should disproportionately be a larger contributor to your overall sales and if you could speak about the traction you are seeing across your various channels that would be helpful?

Anant Daga: Garima, first of all given that the festival is in Q3 we expect H2 to be stronger than H1 and that is usually the case in our business. Festival season has started on a positive note and I think given the current trajectory we should be able to post good numbers across channels. Now I think the biggest issue that we had in first half apart from all external things, was our supplies. Now we are all set. We are in complete control. We already did our Spring Summer 2019 Trade Show wherein many of our customers came. We have got excellent feedback and there is a lot of traction which all the channels MBO, online, LFS have shown. So I think going forward, given that we have a strong range coming, given that we have complete control on the supply chain, our outlook for each channel is very positive. As we already mentioned, online is getting a lot of traction, it will grow at a faster rate, but to our mind, I think we should see decent growth rate across all channels. Coming also to expansion, I think we have good pipeline of new stores both in LFS and in an EBO channel, so that should also happen.

Garima Mishra: Sure. Thanks.

Moderator: Thank you. Next question is from the line of Kunal Shah from IIFL. Please go ahead.

Kunal Shah: Thank you for the opportunity. Sir I have one question, so you said the first quarter and second quarter SSSG growth last year was around 15% odd, but the full year growth was 8%, so that would typically imply that your second half growth SSSG growth last year was practically 0, so was there any specific reason for this, am I understanding it correctly?

Anant Daga: It was not 0. It was still a single digit number. So I think there is a base effect also to the first half and the second half, so I think the kind of response that GST induced EOSS had, Q3 and Q4 relatively saw much lesser demand, so there was a tepid consumer demand in Q3 and Q4 that is what we experience. Q3 was still good, Q4 was really, really tepid. So I think that explains why our H2 SSSG looked bad and while first half was 15%.

Kunal Shah: Okay because the Q3, Q4 last year would also be on weak demonetization base right, so did that base have an impact or?

Anant Daga: So in Q3 there was demonetization, which impacted business for about better part of November and some part of December, so you are right, so in Q3 we grew at a mid-single digit number. Q4 was flat season for us.

Kunal Shah: My second question is, so typically because lot of your procurement is through fabrication to a third party, has the share of fabrication done or fabrication charges as a percentage of pure CoGS changed versus last year and this year or do they remain the same?

Anant Daga: Again while the answer is that it is in a similar zone, but again depending upon the kind of collections, fabrication and cost of material could vary season-on-season and I think it is very difficult to read into this, so just to give example we can still have a collection, which is made out of cotton with a lot of value additions wherein fabric cost would be low, similarly something on a more premium fabric like chanderi with lower value addition could reverse it, so I think one should not read too much into this, what we should see is overall CoGS number.

Kunal Shah: Okay. Thank you. That is all from my side.

Moderator: Thank you. Next question is from the line of Hemant Patel from Alder Capital. Please go ahead.

Hemant Patel: This is Hemant here, two quick questions, just maintenance, one I just wanted to understand the EBO role outs, how many EBO stores we have right now for Aurelia, Wishful and W as of H1 ended and how is the role out looking like for the full year?

Anant Daga: As on date we have about 300 W stores, 203 Aurelia stores and 2 Wishful stores, so we have opened 40 stores already in H1. We have a strong pipeline, we have already signed 25, 30 additional stores, which should open in next few months, not essentially in Q3, but yes Q3 and some part of Q4. Apart from that we are in negotiation for, many more stores, so again this is the mix of Aurelia and W so even if you look at half year I think we have opened closed to about 19, 20 stores for each of our brands. Going forward also it is a mix.

As far as store expansion goes we are super confident given the pipeline that we have, given the kind of BD that is happening. Wishful we have opened one store. Because of our supply chain issues, Wishful which is the most complicated product has suffered the most. So right now what we are experimenting also along with exclusive Wishful store is making a nice shop in shop format of Wishful within W stores. So if you are from Mumbai and if you have a chance to go to the Kemp's Corner store which we have opened just now, you will see what I am talking about, so it is a W store and a Wishful store, with two different signages. In few places we are also doing few different entrances, but from within, these are the same stores. So you might not see absolute increase in Wishful Stores, but these kind of shop in shop is also what we are experimenting.

Hemant Patel: I just had one more question in terms of full price sales, if I look at last year the way the same store sales growth trended, was there a lower full price sale in the second half of this year and what I am trying to imply is will we see something better off during this second half of this year vis-à-vis last year?

Anant Daga: So I think Hemant two things, one necessarily a lower sale or higher sale does not imply, full price sell through because it also depends on what your end of season sales SSSG look like. The last time we definitely had a bad SSSG in January, which was an EOSS month wherein we sold less of discounted stuff, so I think they can still be different. But yes we think at least given the current trajectory that we are seeing along with our readiness in terms of launching the season early and having a good feedback on the range, we think you should see a good positive trend. However, a lot will also depend on how the post festive demand firms up and they are many, many more market situation, but internally at least we feel very positive for this season.

Hemant Patel: Okay, all right. Fair enough and wish you all the best. Happy Diwali to you.

Anant Daga: Thank you.

Moderator: Thank you. Next question is from the line of Ashi Anand from Allegro Cap Advisors. Please go ahead.

Ashi Anand: I just wanted to understand what exactly was the issue that we faced and what gives us the confidence and this has now been fully addressed and going forward we would not face such an ERP issues?

Anant Daga: We transitioned into a new ERP on April 1 and typically with ERP implementations there are always hiccups. I think we put our best foot forward, but we were slightly more aggressive on our understanding of how quickly we can turn it around. Unfortunately, there were users who were not used to the new system, so for a good 45 odd days we really struggled with making the right entries and what impacted more than anything else was the movement of both FG and raw materials within the system. What it did was so for April and good part of May we could not launch the spring summer balance stories and this also impacted somewhere our season launch for monsoon festive, so this exactly was the issue.

Now six months into the ERP we have been able to stabilize it. I think there are still parts where it can be optimized and can be improved, but at least in terms of movement of raw materials and FG we are completely sorted and as we look at the new season we already have ordered raw material, we already have it in warehouse, we are making those products and that is what give us confidence of a timely season launch.

Ashi Anand: Okay, excellent. Thanks a lot. Next question I had, just wanted to understand how we deal with an inventory risk in fashion, because obviously our product is something which has high degree of fashion. How exactly do we manage inventory risk associated with this because these change season to season and we are not really seeing too much of an impact on your margin, so I just wanted to understand how we manage the risk?

Anant Daga: See I think it is a conversation, which needs to be longish to do justice. See we are in a business where the strength and the risk, both is fashion, but having said that let me just give you two-minute perspective on this. See, in the fashion business those risks exist, but I think we should understand what risks exist and what possible ways we can mitigate it, so if you look at our range architecture itself that is designed to mitigate these risk. First of all we are not an edgy fashion brand, for a slightly more fickle customers. We are a slightly more evolved fashion for an evolved consumer. Second the way we think of a range only 10%, 15% odd is something new, balance everything is something, which is tried and tested in a newer avatar, so there is not so much risk technically. Number two we also have a lot of interventions and at the final stage the final intervention is where all our large format, multi-brand, franchisees, store managers all these people come to a centralized trade show wherein they give their comments, feedback., Post this you can incorporate so many changes and it is only then that we launch the season range, so I think so many levels of scrutiny and such diverse range architecture probably lends itself to be much more stable fashion.

Moderator: Thank you. Next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: How much clothes we are outsourcing or how many in-house making?

Anant Daga: So our manufacturing is completely outsourced.

Ravi Naredi: Outsourced.

Anant Daga: 100%.

Ravi Naredi: Sir, there were no balance sheet as on March 31, 2018 is available in the public domain, so from where we can get it?

Venkatesh Tarakkad: You can get it through two sources, our RHP is available on our website and on the public domain, so there you will get it plus our submitted statements you can download from the MCA.

Ravi Naredi: Sir how much our design developers do we have which are in-house?

Anant Daga: We have a team of more than 40 designers and every print that you see every styling that you see is designed in-house. In fact this is one of the biggest strength that we have which makes our products much more differentiated than any others.

Ravi Naredi: Okay. Thank you

Moderator: Thank you. Next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: Sorry if I am my repeating my question, but I missed how the inventory levels have moved and wanted to get your comment on when do you expect them to change especially the benefits of the ERP system to flow through on the balance sheet?

Anant Daga: No. So if you look at our inventory movement I think it is about 100 odd days both in March and September 2018, so in absolute term the inventory has moved to somewhere about say from around Rs. 231 Crores to Rs. 249/ 250 Crores range, which is the growth in business. I think, currently the level that we have in inventory given that we do a lot of direct sourcing, we buy all our raw material, we buy everything. And, given the fact that our FG is mainly current season, this is not something that we are actively solving for at all. Our business always faces the challenge of getting products on time and right now the focus is just to do that., so see historically we have been growing at a very high rate and more often than not we are just struggling to get the products on time and our focus is to get products on time, we think the gain from selling it full price would be much more than whatever inventory carrying cost that we have.

Avi Mehta: Let me rephrase what I meant because essentially I thought the inventory level should have moved up in days of sales because you were essentially in the fourth quarter, you do not have a festive or you do not have to kind of stock it up for that, may be my understanding has been inaccurate if that is the case?

Anant Daga: Typically what happens is it depends upon when the season gets launched and when you order. So if your question is whether September should have been lower, is that the question, sorry?

Avi Mehta: No, should September have been higher and hence I was actually alluding that there was some benefit that was coming in and September logically would have been higher than fourth quarter because typically would stock up for the upcoming festive season, we are just looking at Q4 and how much growth has happened over Q4 level?

Anant Daga: No, so there is a growth over last September and that is the reason that you are talking about, but there is another reason since we do raw material also that also depends upon when we are planning next season launch, so as I was explaining right now we are looking at an early season launch, in fact that some of the raw material of that is also sitting here.

Avi Mehta: Okay that is fairly clear. Perfectly, I will come back in the queue for any other questions. Thank you very much Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question due to time constraints. I now hand the conference over to the management for closing comments. Over to you!

Anant Daga: Thank you all for joining us for this call. It has always been a pleasure interacting with all of you; a lot of you know we have interacted earlier. We look forward to more interactions. I know the time was short, but we will be happy to discuss whatever, whenever. Thank you so much.

Venkatesh Tarakkad: Thank you.

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 us. You may now disconnect your lines.