"TCNS Clothing Co. Limited
Q1 FY2020 Earnings Conference Call"

August 08, 2019

MANAGEMENT: **MR. ANANT KUMAR DAGA - MANAGING DIRECTOR - TCNS CLOTHING CO LIMITED**
MR. VENKATESH TARAKKAD – CHIEF FINANCIAL OFFICER - TCNS CLOTHING CO LIMITED

Moderator: Ladies and gentlemen good day and welcome to the TCNS Clothing Co Limited Q1 FY2020 Earnings Conference call. This conference call may contain forward looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve the risk 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, please signal an operator by pressing "*"then "0" on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Anant Daga, Managing Director, TCNS Clothing Co Limited. Thank you and over to you Sir!

Anant Daga: Thank you. Good evening and welcome to our Q1FY20 earnings conference call to discuss financial and operational performance for the quarter. I am joined by Venkatesh, our CFO and SGA, our investor relations advisors. It has been a year since we got listed, so first of all let me thank each one of you for your continued support and guidance. The multiple interactions have been an enriching experience and we look forward to working closely with all of you. Our AGM is scheduled for August 26, 2019 and the annual report has been published. In view of limited time for this call, we would request you to allow us to take any annual report related queries offline.

On the business update front, we have had a good Q1 despite weak market conditions. We saw strong performance across brands and channels. While Venkatesh will be sharing the detailed report, let me touch upon few business areas and status thereof.

First is, our journey of creating a truly Omni business. We have now rolled out the module across all our exclusive stores. The stores now have the capability to facilitate seamless selection, payment and collection methods across online and offline channels. We have also been able to rollout our inter-store transfer module, facilitating one common inventory across the warehouse and our company-owned stores. We are currently piloting the same in franchisee stores and plan to have the same rolled out by Q3. This is a big initiative and can have a huge impact in store throughput, inventory optimization and offering product choices to our consumers.

Second update is on our drive to create low cost non-NCR manufacturing facilities. Today we have units across Punjab, Jharkhand, Andhra Pradesh, Uttar Pradesh and Himachal Pradesh, which now contribute to about 15% of our total production. We are in the process of scaling up the same both in terms of capacities as well as handling product complexity. This is the key initiative to manage long-term cost and de-risk regional dependence.

Third is on brand marketing and sustainability front. We have an exciting marketing calendar for Aurelia with "THAT DISHA LOOK" Campaign. We have not made significant investments in Aurelia brand building in the past and now after this initial success, are looking to build on the Disha Patani celebrity connect on a large scale in this festive season. On sustainability front, we have launched LIVA ECO range of product in an exclusive association with Aditya Birla Group.

The world is moving towards sustainability and our associations like LIVA ECO and Harit Khadi are small steps in the direction. Now I would request Venkatesh to please take you through detailed quarterly performance.

Venkatesh Tarakkad: Thanks Anant. Good evening everyone. Our Q1 revenues at Rs.280 Crores grew at a rate of 18% versus Rs.237 Crores revenue last year. Our EBITDA at Rs.60 Crores grew 95% versus last year's EBITDA of Rs.31 Crores. Adjusted for Ind-AS 116 impact, our EBITDA this year at Rs.36 Crores, grew 15% versus last year. Our Q1 PAT at Rs.20 Crores was at same level as last year Q1.

Adjusted for last year's exceptional tax adjustment related to exercising of ESOPs and the Ind-AS 116 impact this year, our comparable PAT growth stood at 17%. We have recorded SSSG growth of 3%. As mentioned in the last call also, our airport stores' operations continue to be disrupted having a negative impact this quarter also on our SSSG.

Our store count continues to develop. Our EBO store count was at 552 at the end of Q1 with addition of 11 new EBOs this quarter. In addition, 38 large format stores doors were also opened this quarter taking LFS Store count to 1,661.

Our gross margin in Q1 at 67.3% versus 68% in previous year was within targeted range. We continue our strategy of shifting manufacturing base to low cost areas and getting in sourcing efficiencies as mentioned by Anant also.

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. Would request your understanding of the same.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Hi Anant, Hi Venkat, just want to check last quarter in Q1 FY2019, we had an Rs.15 or Rs.20 Crores loss due to ERP on the revenue front so if we adjust for that our 3% SSSG could have been 0 or negative?

Anant Daga: Last time, when we had the ERP execution, we mentioned in the first call also that the major impact was on MBO channel where we lost most of our sales. If you look at it this time, we have grown our MBO business by 50%.

SSSG there was minimal impact because we were able to fill our stores in March, but yes there could be an impact of 1% to 2% which one could take into account. Further, last year we had our airport stores going full guns and this time because of the airport stores as Venkat was mentioning we lost almost a similar kind of SSSG growth. So, I think those compensated for each other and this is probably a net-net reflection after taking both these things into account.

Jignesh Kamani: Secondly, how is the growth in the footfall?

Anant Daga: As a company, we have started putting footfall measurement instruments only in this quarter, so as of now we do not have a historic base, but frankly, whatever we have seen, it would be a mid-single digit to high-single digit drop in footfalls. This is not only for us, but across LFS, across other brands whoever we have spoken to, looks like a similar trend.

Jignesh Kamani: Okay. Thanks a lot. I will join the queue.

Moderator: Thank you. The next question is from the line of Aagam Shah, an Individual Investor. Please go ahead.

Aagam Shah: Thanks for taking my question. I just had two questions. I wanted to ask you the online channel we have de-grown this quarter, can you throw some light on that and second question as you mentioned that the airport store that we are opening we are not able to see the growth in the last two quarters, so can you throw some light and how we are able to manage these things?

Anant Daga: So coming to your first question on online channel, I do not know whether you are part of the earlier calls, but what we explained was online billing in any quarter is dependent on few different matrices. The first is the event calendar of our online partners. Second is their OTB (Order to buy) cycles and third is our ability to furnish the right stock at right time. So if you look at it quarter-to-quarter you would see jump or some de-growth in it, but it is just a quarterly phenomenon. If you just add it up across seasons you will find a better trend, so the quarterly numbers do not show the correct reflection. We believe online will continue to be the highest growth channel for us, we have a very strong order pipeline and probably in the coming quarters you will see all this gap getting covered. So, I think it is just a quarterly cutoff thing more than any reflection on some fundamental business changes. So that is the comment on online. Coming to airport stores, we have seen some recovery in Q1 compared to Q4, as new gates are being allotted to existing airlines and as some more solutions are forming around this issue, we believe it will keep improving. We are not sure whether it will get improved in a quarter, but I think over next couple of quarters that should improve.

Aagam Shah: Okay. Thank you. That is it from my side and all the best.

Moderator: Thank you. The next question is from the line of Pavan Kumar from IIFL. Please go ahead.

Pavan Kumar: Sir thank you for the opportunity. Two questions, one can you explain the jump in other expenses 37% growth year-on-year? Second thing is in terms of LFS addition, there were close to 38 stores, which got added, can you give little more details on that? I have one more question on the EBOs, where you are actually adding the stores in what kind of cities? Thank you.

Anant Daga: Sure. So the first question about jump in other expenses. We had a higher marketing spend in Q1 this year, so marketing expenses jumped from Rs.7 to Rs.10 Crores, which is about 44% jump. This is primarily because we have plans to launch the season early and a lot of expenses like shoot cost, POS etc. and all those got transferred to Q1 rather than Q2, so this is mostly a phasing issue. That is what reflected in the jump in other expenses which is more than 50% of the jump. Balance, there are other expenses like freight and professional fees which are in line with business in terms of the growth, so that explains the other expenses part. Second, coming to the LFS stores, we do not get into the granular details of which particular partner we have been growing. Overall we believe that in the full year we should be able to add about 100 to 150 doors between the two brands and Q1 we have seen at least 38 doors addition across multiple accounts. Coming to EBO, it has been a mix, we have opened a couple of international stores, we have opened a couple of tier 3 stores, we have also been able to add stores in places like Guwahati and all in the malls, so it is actually a mix.

Pavan Kumar: So, going forward what is the projection for EBO store addition this year and which kind of cities you are looking it, is it going to be mixed?

Anant Daga: Yes, so it is going to be a mix, it is going to be a mix of malls and high street, big cities, small cities, it will be national and international market, so it will be a mix of all these. Overall for the year we feel at least 70 to 75 new stores is what we will be able to add.

Pavan Kumar: Okay Sir, one question from the LFS perspective, where are these stores being added, are they in in tier 1 cities or tier 2, tier 3 cities?

Anant Daga: I am sorry I do not have an exact answer, but I believe this particular quarter, there are quite a few stores, which have been tier 2 and tier 3, but may be at some point in time we can get back to you with better details, I would not have that handy right now.

Pavan Kumar: Sure Sir. Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Varun Singh from IDBI Capital. Please go ahead.

Varun Singh: Yes, thanks for the opportunity. Sir if you give us more color on the airport disruption that you talked about and also if you can give us number that airport contribute to how much percentage to total revenue?

Anant Daga: Airport stores contribute to about 10% of EBO revenues for us, so it is in that zone. Now coming to airports, there are couple of things that we have noticed, one in airports like say terminal 2 of Mumbai or terminal 3 of Delhi where Jet Airways had a huge share of the passengers flow, those airports have seen absolute de-growth in footfalls. The passenger count has come down and there we are affected by the sale. While we are affected by lower footfalls in the terminals like these, whatever traffic has shifted to other terminals wherein you have other airlines like indigo operating, unfortunately the time to get through the entire check-in and security process is eating much more time than earlier days, leaving very little time for people to shop. So, at these stores today, at these terminals, consumers have a pressure in terms of time that they can spend. So, this is cutting our revenues at both ends. What we understand is that the airport authorities are in process of distributing more and more gates, which are getting added and we believe sometime over next few months this problem should get solved completely and I think till that time there would be some disruption on this account. Now while we say there is a disruption of this account, airport stores still are a great marketing and brand building tool, so we will continue to invest there.

Varun Singh: Sure and Sir just wanted to confirm the same store sales growth numbers includes both large format stores and EBO or it includes only EBO?

Anant Daga: No, it includes both EBO and large format stores.

Varun Singh: And Sir just last question, like you have mentioned in earlier call that we are open for inorganic opportunity also, so if you can give more color on that. What exactly would be the kind of opportunity that you would be looking into?

Anant Daga: We are really excited by the potential that various product categories hold in women's wear market. We see a dearth of scaled up brands. Now, we also see a lot of small businesses, which have great consumer traction but still because of either managerial bandwidth or financial bandwidth, are not being able to scale up. So, these are the kind of opportunities that we are looking out for, it could be across categories, but yes we would like to stick to woman's wear market, which is the faster growing market, so this is how we are thinking about inorganic growth.

Varun Singh: Aditya Birla Fashion has acquired Jaypore. Sir, so how significant risk do you take, this would be from a very organized player?

Anant Daga: Now frankly, I do not think I can comment much on any other players' strategic buyouts or intent. The way we see it, Jaypore is a niche player, it is a slightly more premium player and a lot will depend on how exactly Aditya Birla treats the brand and thinks about it going forward. So, at this point in time, probably I do not have much to offer on this.

Varun Singh: Product to product competition Sir, would it be a competition to W Aurelia or Wishful?

Anant Daga: No, there is no direct competition as of now. Based on our understanding, Jaypore is more on lines of Fab India and the price points are also much more premium than what a W is, so as of now in the current situation we do not see a direct competition. Having said that, we ourself have mentioned in our earlier calls that probably the market is big enough to take many more brands. So I think every brand will have their own niche to build upon, it is not that this market is not growing at a good rate, so probably they will carve a niche for them and that is fine. I think there are a lot of consumers and lot of loyalty and all these brands can co-exist.

Varun Singh: Sure Sir that is very helpful. Thank you very much.

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

Avi Mehta: Hi Anant, I am sorry, I joined a little late, just wanted to understand if you could highlight how the demand environment has behaved post the end of the quarter i.e., in second quarter till date. Have you continued to see good demand post end of season sale or how should we see it because we were getting a lot of diverse opinions, some people are arguing that things are actually gone, down the drain some are saying they will not, your comments would be appreciated.

Anant Daga: Yes, probably you guys always have a better answer on this because you see so many sectors and you see so many companies, but we will be happy to share our experience of what we have seen. So, it is not in this call, but for last few calls we have been mentioning that the demand has been sluggish. So, there has been a slowdown for quite sometime now and all the performance whatever you see across companies are in this light. So, there has been limited market support. What we have seen is that EOSS also has not been very great for most of the players, it has been lackluster. But, what we have also seen in last couple of quarters is that demand really spikes up around occasions, so with festive around the corner, we feel very positive. Last year also if you see, the best patch was the festive wherein suddenly the demand spiked up and you could see no signs of slowdown, so this time festive is slightly upfront and we believe next few weeks would be extremely crucial for the industry. As of now, frankly apart from some occasions we do not see a big spike, so festive would be very important. What also excites us frankly is as a company we are much better prepared than last year for this festive, we have strong product range, we have supply chain in place, and we have exciting marketing campaigns. So, hopefully if this festive is anything like what happened last year, I think we could see some good positive change.

Avi Mehta: Perfect and the second bit Anant is as you rightly said we are better placed, we have kept our self-ready and does that indicate that our full price sales and our margin trajectory should be superior to what it was in the last year? Is that how I should also see it, because of ability to control cost, your backend investments all of them should start to yield benefit and is there any guidance that you would give for the year on margins?

Anant Daga: We typically shy away from giving any margins, but we will just reiterate what we had said earlier. As far as the margin goes, we believe that we are in a very sweet spot. So, it will be a tight range, even this year it should be a tight range. Coming to the point of whether the margins can improve or not, I think in backend efficiencies, as far as cost goes, we have always been a company, which has tightly controlled all cost, so I do not know how much gain one can get from there. In terms of full price sale, yes we are better prepared and if the season turns to be good, then there could be gains. However, one should not account for a higher margin going forward. If it happens, it will be good.

Avi Mehta: Okay fair enough and lastly from just a competitive environment point of view, while you have alluded that the market is extremely large, now there has been a lot of attention has been given in to your category, some of it might be at a lower price point through private label, some of which is at higher price point through acquisition that you have seen. I just wanted to understand what could have driven this, how do you look at it from an industry overall perspective, are you seeing that post GST has suddenly made the industry much more attractive that is all from my end?

Anant Daga: Just to get it right your question is why we are seeing more players in this space and that GST has a role to play, is that the question sorry?

Avi Mehta: Yes, or is it the consumer behavior, anything on that light, because you have clearly highlighted that the market is very large which suggests that on an overall basis organized growth is probably very strong and the entry of competition is result of that and it does not kind of hurt our growth rate?

Anant Daga: Avi I will give you a picture about how we visualize the business in this segment. Today, a very unique opportunity for the Indian market is Indian women's ethnic wear. Nowhere in the world you have an ethnic wear market as big as we have in India. Second, as we have discussed in the past also, there are tremendous tailwinds moving into this section - Salwar Kameez, dupatta, and fusion in ethnic wear market. So that is one thing, which makes the overall market growth much more sustainable in women's ethnic compared to most of the other categories. Number two, unlike any other category, Indian ethnic wear does not have global competition, so you will see more and more Indian players taking up this because we all realize the potential, we all realize that it is for the Indian companies who can create brands out there, which could be meaningfully big. So, while we talk about addition of new brands in ethnic, there are so many brands in western wear and all, which are international, which enter every week in the market. So, I think for Indian companies whoever is serious about a long-term retail consumer play, probably this would become a thing of a choice. I really do not know whether GST has made it easy or not because frankly I do not understand the complete advantage that would have come post that, but yes, looking at success of existing ethnic companies, there are many, many more players who have tried to venture into it. Having said that it is not that everyone has been successful, for many players that have entered, there are quite a few players who are on verge of closure, so I think this market will continue to see some flux, we also believe there would be consolidation happening as it is already started and that probably is a great opportunity for existing players.

Avi Mehta: Perfect. Thanks a lot for your response.

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

Jamshed Dadabhoy: On the business and the brands I just wanted to ask you should we read anything into W's growth being relatively much lower this quarter than Aurelia and Wishful, what were you all doing which resulted in such high growth for the latter two brands compared to W?

Anant Daga: Jamshed, every quarter depending upon the channel and partner mix, you will find some of these brands doing better than others. So in the long-term trajectory probably they are not too much to read. Coming to individual brand, this time online showed a slight de-growth and that is again just a quarterly phenomenon, overall season it should equate and W compared to Aurelia has a much bigger share in online, so probably that is one reason why you would see a relatively lower growth in W. W also grew at 12%, which is not bad. Aurelia, we think has really benefited from Disha Patani marketing campaigns. Apart from that, there are some accounts and channels where in Aurelia is relatively strong and that is what has added to the growth. Wishful, last year we had supply issues, so I think Wishful has gained to some extent on rectification of that. Typically when we look at brand growth between the quarters you will find these kind of variables, probably a season is a better representation of getting a better view of how the brand performances are. As of now we are positive on all three brands to grow at a decent rate this year.

Jamshed Dadabhoy: How was the EOSS? When did you all start, how is it progressing?

Anant Daga: This EOSS in the market was marked by high discounting. We as a company has chose not to go that route, so while our overall sales number might not look very exciting, I think we have been able to do a pretty good job on margins and this is what our strategy has been throughout. One good thing that is happening right now is we have been able to launch our new season products and the response to that is very encouraging, so we are being able to sell full price in EOSS, which is a really good positive development and now EOSS is in the last leg and with festive around with all the new products in the stores we believe overall things should look much better from now on.

Jamshed Dadabhoy: What was the full price sell through rate?

Anant Daga: For the season, spring summer it was early 50s.

Jamshed Dadabhoy: Early 50s. Okay and last question if can you explain what happened with tax rate this quarter?

Anant Daga: Yes sure, I will just ask Venkat to answer the same.

Venkatesh Tarakkad: Let me start with what is the expectation that one should keep for an annualized basis. On an annualized basis, we should still keep the 33% to 34% rate. What we are doing is apart from the exceptional adjustment which we had last time, we are also looking at other tax positions, which we have taken and we will get some benefits part of it, which you see in this quarter. However, I would request you on an annualized basis right now to take at 33% to 34%. If there is a significant change, we will update everyone.

Jamshed Dadabhoy: Okay and what do these benefits pertain to?

Venkatesh Tarakkad: These are certain position which we have taken. We would not like to share on a case to case basis because we have worked hard on it to get those breaks, so we would request your understanding on this.

Jamshed Dadabhoy: Okay, all right fine. I will come back for more questions. Thank you.

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

Garima Mishra: Thanks for the opportunity. Anant, you mentioned earlier that 15% of your production has been moved to low cost locations. Do you have a one or two year target as to how much higher this number could go up to?

Anant Daga: Next three years we would like it to be at least 25% and I think the way we are making progress we probably would reach that number in a shorter time.

Garima Mishra: So, with this spread of manufacturing, what kind of benefit or negative impact do you see on supply chain because you would now need warehouse spaces in the country as opposed to a more centralized distribution earlier?

Anant Daga: So Garima see, let me tell you the pros and cons. The pros, first is two years back all our manufacturing was in NCR, which is a very dangerous situation because see labor law, regional disturbances, anything could impact this thing. So from a de-risking position it is a great strategy. Number two, in our business, manufacturing is a highly labour intensive job and NCR is one of the highest labour cost markets, so the moment you move out and go to places like UP, AP and HP wherein you have a lot of concessions, you have lower wages and there is tremendous benefit in product costing, so that is the second big advantage. Third also what happen is in these places you would not have too many factories, so whatever resources you develop becomes very captive, so that is a much more sticky asset to have. So these are few of the benefits. The only downside of this - I would not say both to be downside. The one thing, which is an investment is all the units take time to upgrade and to function. It is a slightly long gestation thing and we need to work very hard with our suppliers. The downside part is, it increases the raw material and WIP inventory by broadly five to seven days because there is a to and fro that you have to do from centralized location to these places, but barring that I think it has a lot of advantages, which would be very useful from a long-term perspective.

Garima Mishra: Okay and one question for Venkatesh is, what was the ESOP expense that you accounted in the P&L for this quarter?

Venkatesh Tarakkad: I will give you the annualized numbers. Last time was about Rs.16 Crores, this time will be overall between Rs.10 to Rs.12 Crores.

Garima Mishra: I should assume a similar run rate was booked in Q1 corresponding to this. Okay. Thank you.

Moderator: Thank you. We will move onto the next question that is from the line of Nirav Savai from JM Financial. Please go ahead.

Nirav Savai: Hi Sir, my question is regarding this EBO, so out of the total 550 odd EBOs how many would be the franchise ones, if you can just help us out of that?

Anant Daga: It would be around 35% odd, we will just tell you the exact number, but should be about 30%, 35%.

Nirav Savai: And our expansion continues to be more on the franchise side or we would have our own company operated EBOs. We have planned about 70 odd stores in FY2020, so would the ratio continue to be the same or focus is more on the company-owned stores?

Anant Daga: The first answer is, the franchise stores are about 215 out of this, so it is about 38% or 39%. Now second, coming to your question, frankly as a company we do not differentiate between a franchise and own store. What our intent always is to figure out which module can serve our customers better, so suppose if it is a big city where we have our own operations team, we always prefer our own store. Whereas if we go to a tier 2 or tier 3 market, we would like to have a franchise store. There are areas like North East, which is very difficult to manage on our own, so we open franchise stores. It actually depends on what kind of stores we get. My hunch is it could be anywhere between 50:50 to say 60:40 range, but it will actually depend on finally what kind of stores we get.

Nirav Savai: Right, so location is more important?

Anant Daga: The ability to serve the consumer better. At places, the franchises will run much better operation. At some places, we will be stronger, so the call is taken based on that and you are right, at times franchises have locations you do not have, so that could be another consideration.

Nirav Savai: Sir in terms of airport stores, how many stores would be having, which would be there in airports as it contributes 10% of EBOs revenue?

Anant Daga: I think there are some 25 to 30 odd stores.

Nirav Savai: And we have also planned to continuously expand on that side?

Anant Daga: Yes, as of now because of this issue we are not being very aggressive, but any good airport store from a long-term perspective, we would be happy to get into those.

Nirav Savai: Okay Sir. Thank you very much. That is it from my side.

Moderator: Thank you. The next question is from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Hi Anant. Thanks for the opportunity. My first question would be, can you give some color on the bifurcation as to which region has given us such good growth and probably in terms of North East, Central or any kind of things?

Anant Daga: It has been an overall performance. We do not have exceptional regional performance right now. The only region which has lagged slightly behind has been west, but that also is an effect of airport stores. But otherwise barring couple of markets here and there most of the markets have shown decent growth, so there is no such big exceptions per se. There could be a city or two, but not a regional or a much bigger zonal level.

Vikas Jain: Okay, understood. Secondly Anant, can you give some color on how has been the working capital movement for us in this quarter vis-à-vis the March quarter?

Anant Daga: Vis-a-vis March quarter if you look at debtors and creditors they are more or less in line. Inventories we have seen a slight buildup and that is because of raw materials and WIP for the festive season. We have the season slightly early this time and we wanted to be more than prepared, so that is something which you will see here and probably also in the September numbers, but barring this it is all in the line with whatever we saw in March. So there should not be much significant movement.

Vikas Jain: Okay, understood and my last question will be, so considering this Q1 number, which I adjusted for the Ind-AS 116 impact, can we fairly assume similar range of margins for the full year as well in the remaining part of the year?

Anant Daga: Your question was margins in terms of, what margins you are talking about?

Vikas Jain: In terms of accounting impact of Ind-AS 116, can we assume full year EBITDA margin of in line with what we clocked in Q1?

Anant Daga: Different quarters have different EBITDA margins, so typically that would not be the case that Q1 margin would be reflective of the year. But whatever hit you have seen on Ind-AS 116 that is the kind of hit that you see quarter-on-quarter. The additions could be the new leases and all whatever we sign into, but as far as margin goes, our full year margins are typically different than whatever the Q1 margins are.

Vikas Jain: So any range would you like to quote here means?

Anant Daga: So, we would not quote a range, but we believe whatever we have achieved last year, it is something, which is in a good range, so there could be some variations, but that is where we think we should land at. It will be a tight range to our mind right now.

Vikas Jain: Okay, got it. Thank you Anant. Thanks for the opportunity.

Moderator: Thank you. The next question is from the line of Arvind Krishna from Allegro Capital Advisors Private Limited. Please go ahead.

Ashi Anand: Thanks for the opportunity. This is Ashi Anand. Just wanted to first understand in terms of how do we define the same-stores growth and I was trying to reconcile the 3% same-store growth with a 29% growth in EBO and 16% in LFS. I know these are not really comparable numbers, but would it be fair to say that the difference is largely driven by the distribution expansion that we have seen over the last few years?

Anant Daga: There are few parts which form the growth, so first is of course SSSG that we have seen, second is expansion, so last year if you see most of our expansion happened post Q1, so that is a huge impact on our numbers in Q1 this year. Third see also our business is just not pure B2C or B2B, so it is a mix of that and depending upon your new season launches and all these things these numbers could add or get deducted from the total growth. So, you will have to take growth as a sum of all these three things. And second your question about how we calculate SSSG, it is calculated for the same store months that the stores has seen last year and this year, so all store, which have been operational exactly for whatever period. It is that comparison of sales that we take into account.

Ashi Anand: So you would be including stores that have been operational for how long as in just because we typically do not take newer stores in SSSG calculation, so what is the majority of this?

Venkatesh Tarakkad: No, it has to be same comparable months, so the store has to be operational this year and last year both.

Ashi Anand: Okay excellent, perfect and just secondly in terms of the EBO just wanted to understand how many cities would we present in terms of an EBO network and if you could share your experience in terms of the store economics that we have had in smaller cities?

Anant Daga: We would be present in about 125 to 130 cities at least with the brands and if you look at economics in the second-tier cities, typically the throughput is slightly lower and so are the rentals, so in terms of store profitability there is not a marginal difference. Again, having said that, you cannot generalize anything in our market in the country because every store is unique, every deal is unique. The only difference that we see is, compared to a bigger store with higher throughput in larger cities and larger markets, in smaller places one needs to be very cautious on the capex spends because otherwise it can really extend your payback period. We have now a different capex module wherein instead of the regular Rs. 3,000 plus per square foot capex that we spend on bigger stores, we are now spending about Rs. 2000, so that is the only difference and once you are able to crack that, then I think the store economics works pretty well.

Ashi Anand: So we believe there is a reasonable opportunity to grow in tier 2?

Anant Daga: We already have a lot of stores and they are doing very well, so it is beyond doubt.

Ashi Anand: Okay, perfect. Thanks a lot for the answer.

Moderator: Thank you. The next question is from the line of Kamal Melwani from Alpha Capital. Please go ahead.

Kamal Melwani: Just got two quick ones. One could you give us a sense of the full year impact of Ind-AS 116 in absolute terms and the second one being, have we had any store closure decisions in the last two quarters?

Venkatesh Tarakkad: We do have store closures, I will answer that first, we do have store closures every quarter, so what you see are the net numbers and the store closures every year are about 15 to 20 stores overall. So that is already included in the numbers, net of those. As far as Ind-AS 116 is concerned, I think in the financial notes what we have mentioned is the balance sheet impact and the P&L impact for this quarter. So if you look at a common base, which is there, you can annualize it and you will get a good idea of the existing base what will be the impact for the full year. The balance sheet which we have done as at the transition date, there is a Rs.400 Crore liability, which is there and a corresponding asset and debit to retained earnings and those values will come down. The opening values will come down as we progress plus new store additions will get added onto this.

Anant Daga: Just to clarify on the point of stores closing. So, these are stores that do not get upgraded and are closed forever. We also have few stores that we close when we upgrade or shift locations. So, if you take all the store closures in perspective it would be about 25 to 30, stores a year or that range. A few of them getting upgraded and few of them generally closing.

Kamal Melwani: And these would primarily be in tier 3 or tier 2?

Anant Daga: No, it is all across, so for example if you take a city like Mumbai the moment Viviana opened Forum Thane Mall started doing badly, so we had to close the store there and it could be any market. Any market which is at the end of its life or somewhere if we do not do well we are pretty non-emotional about shutting stores, so that is the call we take depending upon the market. There is no generalization about whether it is tier 3, 2 or 1 or mall or high street, it is always a mix.

Kamal Melwani: Perfect. Thank you.

Moderator: Thank you. The next question is from the line of Yash Kumar, an Individual Investor. Please go ahead.

Yash Kumar: Thanks for giving me the opportunity Sir. I wanted to understand our return policy, both in case of MBO and are own store and how it has been moving forward the few years and my second question is what action are we taking to monetize our return products and my third question is generally what is the return percentage?

Anant Daga: No Sorry, if we understand your question correctly you want to understand about the MBOs and EBOs return policy. So as far as the own stores goes we book sales only when we sell it to the end consumer, so whatever is not sold in our own store obviously it is our inventory sitting in our books and it comes back, so it is a seamless process. Coming to MBOs we have a pre-agreed limit, it is a percentage on the total sales and we take returns within that. Second what we do with old inventory is they typically get refurbished whenever required and we either sell it in our discounted sales channel or these are redeployed in our regular channel during next end of season sale and this is a process, which keeps going on season after season. We also make very conservative dormancy provisions wherein we start writing off inventory based on historic realization basis timeframe and category of products. So this is how we treat the old inventory and I am sorry I am not very clear about your third question, is it return percentage ?

Moderator: The line for the current participant has dropped off. Ladies and gentlemen, due to time constraints that was our last question. I will now hand the conference to the management for their closing comments.

Venkatesh Tarakkad: Thank you. We will take this opportunity to thank everyone for joining the call. We hope we have been able to address all your queries. For any further information kindly get in touch with us or SGA, our investor relations advisors. Thank you all once again.

Moderator: Thank you. Ladies and gentlemen on behalf of TCNS Clothing Co. Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.