"TCNS Clothing Company Limited
Q4 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to TCNS Clothing Company Limited Q4 and full year FY2019 Earnings 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 this 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 Mr. Daga!

Anant Daga: Thank you. Good evening and welcome to Q4 2019 and FY2019 Earnings Conference Call, to discuss financial and operational performance for the quarter and the year. I am joined by Venkat, our Group CFO, and SGA our Investor Relation Advisors.

In case some of you may be joining the call for the first time, please allow us to give an overview of our business, followed by key highlights of the 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. We have three brands under TCNS W, Aurelia and Wishful. We launch more than 2000 products every year and our product portfolio includes top-wear, bottom-wear, drapes, SKDs and accessories that caters to a wide variety of the wardrobe requirement of Indian woman including 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 3500 point of sales including 540 plus EBOs, leading LFS, MBOs and e-commerce portals.

Now coming to the results given the market context, we had a strong fourth quarter. While Venkat will take you through the numbers, let me just talk about four key operational highlights. Number one, as we mentioned in last call also, we have been able to successfully reduce the end of season sale (EOSS) duration this time. While this impacted our SSSG numbers, we were able to strengthen our margins by realizing better value for our products in alternate channels.

Number two, we are happy to share that our strategy of building low cost manufacturing setup outside NCR is faring extremely well. We now have multiple successful units across geographies ready for scaling up.

Number 3, our e-commerce business including omni capability is looking very exciting. Our pilots are omni had been successful and now we are rolling it out across stores. We are also building data sciences capability, which would have enabled better decision-making.

Number four, keeping in line with rising awareness of sustainability, we have launched an eco friendly range of products under LIVA Eco Label. The same has been received extremely well by our consumers. All in all, it has been an exciting quarter.

I would now Venkat to take you through the numbers post, which we can open, the floor for questions. Since we are the only listed entity in our segment we would not be able to share granular details that could be competitive information would request your understanding on the same. Thank you, over to Venkat!

Venkatesh Tarakkad: Thanks Anant. Good evening everybody.

Our Q4 revenues at Rs. 291 Crores grew at a rate 13% versus Rs. 258 Crores revenue last year. Our EBITDA at Rs. 42 Crores grew 22% versus last year EBITDA of Rs. 34 Crores. Our Q4 PAT at Rs. 33 Crores grew at 50% over last year's PAT of Rs. 22 Crores.

As mentioned earlier, we have an exceptional tax adjustment this year relating to exercising of ESOPs. Assuming same tax rate as previous year Q4 our PAT for Q4 this year would be at Rs. 26 Crores that is a growth of 21% over last year's PAT.

We have recorded SSSG growth of minus 4.6%. As Anant mentioned, we ended our EOSS, which is our End of Season Sales early, which also had a negative impact on SSSG. Apart from our airport stores posted a significant de-growth due to ongoing deception caused by discontinuity of one major airline. These too had a meaningful impact on our SSSG.

Our store expansion for the quarter and year is on target. Our EBO store count was at 541 at the end of Q4, with the addition of 20 new EBOs in this quarter taking the year's store count additions to 76. In addition, 50 large format store doors were opened this quarter, taking the year's LFS doors addition count to 154. Our gross margin in Q4 at 62.2% improved versus 61.2% last year. We continue our strategy of shifting, manufacturing base to low cost areas and getting sourcing efficiencies.

Talking of full year numbers, our revenues at Rs. 1,148 Crores grew at a rate 15% versus Rs. 1,001 Crores revenue last year. Our EBITDA at Rs. 184 Crores was 14% higher than last year's EBITDA of Rs. 162 Crores. Our full year PAT at Rs. 131 Crores grew 34% over last year's PAT of Rs. 98 Crores. Adjusted for the exceptional tax adjustment due to ESOPs and GST tax rate impact in Q1, our PAT for the year would be Rs. 112 Crores versus Rs. 98 Crores last year that is a growth of 14%.

Thank you, now we are open to questions.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin with the question and answer session. We have the first question from the line of Garima Mishra from Kotak Securities. Please go ahead.

Garima Mishra: Thanks for the opportunity. Could you please share your channel wise and brand wise revenues for the full year of FY2019?

Anant Daga: If you look at our brand share for the full year, Wishful was about 6%, W was about 60% and Aurelia was about 34%. In terms of channels, the full year EBO contribution was 49%, the share of online was 14%, MBO was 10% and LFS was 27%.

Garima Mishra: Right and could you explain the reason why your MBO count actually declined year-on-year?

Anant Daga: Garima, this is in fact what was discussed last time also on the call. In MBO the absolute store count does not mean much, because MBO channel has a very, very long tail. There are a lot of retailers who would buy once in a season or once in a year and those are the numbers that either get added or subtracted season after season. So these are few of the accounts who would buy really small quantities and they are very erratic, which would have been discontinued you might see them getting added again in some seasons wherein they buy, but that does not move the needle for us as far as the MBO business goes.

Garima Mishra: If I look at your Q4 channel mix and year-on-year growth numbers that you have shared, it does look like probably e-commerce and LFS have done well and EBO and MBO have trailed, so any particular reason for that and what are the trends you are seeing the current quarter?

Anant Daga: Garima, two things, one is, in the first quarter we had some disruption because of which the entire channel mix did not reflect the right picture, we had our own ERP issues along with other things. If you just look at Q2 to Q4, which is the last three quarters, all our four channels have grown at a double-digit number. Yes, online has grown at the faster rate, which directionally we believe will be the case even in future as the base is lower and the consumer traction is very high. Now, coming to Q4 specifically, if you look at the MBO channel, it had grown 65% in Q3 because we had launched the season early and in Q4 despite the billing amounts being comparable, the growth looks like 5%. LFS continues to grow at a good rate and online also grew at a decent rate in Q4. In EBOs the key reason for slower growth was due to a negative SSSG, which is because of early closure of end of season sale and as Venkat has explained in his opening remarks that our airport stores took a beating. However, if you look at a slightly longer period and take the seasonality impact into account, in the last three quarters we have had very comparable growth rates between the three channels and a higher growth rate for online.

Garima Mishra: Right, last question from my side, could you comment a little bit on your working capital management strategy because your inventory and debtor days on a like-to-like basis seem to have gone up, so how do you see this panning out over the next couple years and is there strategy to bring your working capital requirements down? Thank you.

Anant Daga: Garima, if you look at individual aspects, I do not think our debtor days have gone up, they are in line with what we had in March 2018, which is about 57 odd days. In terms of creditors, we have repeatedly said that we are trying to set up a low-cost base and we are also using cash on our balance sheet to get better rates for our products and that gain is reflected in gross margin. We are deliberately paying creditors before time, this is something that we actually can reverse any time. In terms of inventory, while overall days have increased, but the day increase in finished goods is 0, the increase is mainly because of raw material and WIP. There are two reasons for this, one is that we have launched the season early and hence raw material has been pushed ahead, second is because we are setting up low cost manufacturing base outside NCR, there is some to and fro extra time, which goes into managing that business. So it is essentially these 5 to 7 days for few locations, which would get added, otherwise I think in terms of finished goods inventory we are completely in line with the business growth.

Garima Mishra: That answers my question. Thank you.

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

Hemant Patel: Just a quick question, are we having any challenges on the primary sales that is sales for mass stores, let us say franchise partner who is part of the EBOs?

Anant Daga: No, there is no challenge in that, but as you rightly understand our business is always a B2C and B2B mix, so when you do quarterly cutoffs, unfortunately the seasons that we work on does not actually coincide with that. So there would be quarters when you see some B2B billing to be higher, there would be some quarters that would be lower. In this year because we have launched our season slightly early especially to the MBO and to some extent to EBO the franchise billing was done in Q3. Q4 the billing was lower to that extent whatever was done in Q3. Apart from that it was just the negative SSSG that has impacted the numbers, otherwise as far as franchise business grows we are growing that business, we are continuing with all the franchises, it is going as strong as our own stores.

Hemant Patel: On the secondary sales front, is there anything that you would like to share from a consumer perspective in terms of the demand because we keep hearing a lot of companies getting impacted especially in the discretionary categories because of the current environment?

Anant Daga: Honestly speaking, you guys will be in a better position to answer this question because you will have seen more and more companies across sectors. As far as our business goes, I do not think we have seen any significant uptake in the demand except what we saw in the festive period that was really encouraging. Unfortunately post that, it just continues to be at the same levels as it was earlier. We believe that while the market is not as buoyant as it should be, being in the women's wear category, which has slightly lower penetration and more headroom, we should be able to do better. So if I have to comment on Q4, I think despite early end of season sale closure, the kind of numbers we have clocked, the consumer demand seems to be in the similar range as it was before the festive season, so we have not seen any deterioration, but at the same time we have not seen any exciting uptake as well.

Hemant Patel: I have a question for Venkat, if I were to look at Ind-AS 116 have we worked out what will be the implications for debt and gross block in FY2020?

Venkatesh Tarakkad: So, actually as we speak, we got a big four firm looking at the impact analysis. So at this stage it would be too early for me to comment on the full numbers, but yes, Ind-AS 116 will have an impact. Our P&L will also look different from the current, so when we finish our analysis we should have a chat on this topic.

Hemant Patel: So, just to understand, if I look at rentals would you be capitalizing at a rate of 3X or 4X, some sort of a ballpark numbers?

Venkatesh Tarakkad: Rather than the ballpark number what it is, let us look at what is happening in Ind-AS 116. So the capitalization depends on each organizations structure of the leases. So Ind-AS 116 says you have to capitalize leases at the current value. So what we are going to do is, we are going to take the lease obligations through the course of its life and then discount it to the current value based on whatever is the discount rate, which is applicable to us and that is what we will gross up.

Hemant Patel: So, life would be considered not the option value, but existing value meaning 3X you will be accounting in the end of the year?

Venkatesh Tarakkad: See there are going to be two entries, basically our liability towards future obligations and then you also have a corresponding asset against it. Similarly, at the P&L level, your EBITDA is going to be impacted very differently. Whatever is there in rent is going to come down to depreciation and interest. What will this also do is over the life of the lease your net debit to P&L will be same, but the financial ratios that we calculate with EBITDA all that will get impacted.

Hemant Patel: Would there be an impact on reported earnings?

Venkatesh Tarakkad: There will be an impact because of the change in format. Also PBT will go up. Corresponding the impact will come in depreciation and interest so that your PAT will come back to more regular level.

Hemant Patel: Just one final question, could you share with us what would be the fully diluted equity base for FY2020?

Venkatesh Tarakkad: I would say that we should have a separate discussion because our ESOP scheme is a full structure in itself, we will get back to you on that.

Hemant Patel: Thank you. All the best.

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

Varun Singh: Thanks for the opportunity. Sir, I just wanted to understand what would be your guidance for FY2020 in terms of store addition, in all the three brands W, Aurelia and Wishful?

Anant Daga: Typically, we shy away from giving any guidance, but as far as store count goes we have shared it in the past. So between the three brands we will be looking at opening another 75 to 80 stores this year. In Wishful, we will not be opening any exclusive stores, it will be in shop-in-shop format at our W stores, the format that we find is doing better than exclusive stores. Between the two brands the mix could be about 50:50 or 60:40, it all depends, which brand properties we get on time and early, but overall as a company I think the number to go with will be 75 on the safer side.

Varun Singh: and your SSSG guidance?

Anant Daga: Since you are asking this question, I think there are many new people who are joining the call for the first time. Let me just share with all of you how we look at SSSG and then I will come to this answer, just bear with me for a minute. We are not a pure retailer, we are a multichannel business, while SSSG is a key metric it is not the only important metric for us. As a business we are much more product centric and our attempt always is to realize best value for our products hence at times we take calls, which would be SSSG detrimental also, but they are definitely margin accretive. Because we are a multi channel business, we have the flexibility unlike a retailer or a single channel business. Now having said that it is also important to understand the impact of SSSG on our business. Only 30% to 35% of our business have fixed cost rest everything is variable cost, hence the overall impact of plus or minus SSSG while it is there, but it is not as significant as a retailer would have. Hence while SSSG is something we would track very carefully and we try to maximize the same, we always will remain more focused on margin protection and realizing best value for our products. Now the way things are shaping, to my mind a mid-single digit number is what we will aspire for, what we think is possible, but having said that it all depends on how the consumer spending pans out, how various elements in the market works.

Varun Singh: Sir understood, so in that case would you like to share the revenue guidance?

Anant Daga: No, revenue guidance and earnings guidance is something which we will not be able to share. However, just to give you a normal idea of the market, I think in a segment like this, mid teens is the numbers, which should be achievable. But as far as guidance for our company we will just give it a pass.

Varun Singh: No problem and the last question, so typically how much is the capex on per square feet basis when you are setting up a new store and what is store closure expenses, for example, if the store does not work or you think that you want to close that store so typically is the rough per square feet basis would be store closure expense?

Anant Daga: See typically, India does not have a standard box size for retail, so it can vary significantly, but typically on an average it is about Rs.3000 a square foot. Now when a store gets closed, we have to see what the depreciated value is and what is the remaining useful life of the asset. So if a store gets shut in first year obviously whatever depreciation loss of 20% to 25% is the amount of loss, if it is closed after four years then it is a fully depreciated account. The answer would depend on the longevity of the store operations. The overall capex is about Rs.3000 per square foot.

Varun Singh: Just wanted a clarification on the capex side, so Rs. 3000 does not include the inventory cost, am I correct?

Anant Daga: Yes, this is a pure capex, this is a fit out. Inventory will be about 3 to 4 months of potential sales.

Varun Singh: Three to four months, got it. Thank you.

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

Jamshed Dadabhoy: Sir, thanks for the opportunity. So, one housekeeping question on the same store sales number, how much was it for Q4 FY2018 in the growth rate?

Anant Daga: It was a flat number, Jamshed. So, it was minus 0.5 or 0.6%.

Jamshed Dadabhoy: Could you share with us what was your full price sales in this quarter since you have cut down on the EOSS and how much is this number moves like on a year-on-year basis?

Anant Daga: Jamshed, the full price sales as we calculate is for seasons and not for quarters, so on our last season we recorded a low 50s number, which from earlier year is a slight improvement.

Jamshed Dadabhoy: Slight improvement on the low 50s and when you are saying season on season, you are looking at year-on-year, not like the preceding 6 months right?

Anant Daga: Yes, it is monsoon festive 2018 versus monsoon festive 2017.

Jamshed Dadabhoy: Last question from my side, this non-NCR production is what percent of your total production or sales today and where do you plan to take it like say the next 3 years?

Anant Daga: It has already become a double-digit number for us and in the next 3 years we would like it to be at least in the range of 25% odd.

Jamshed Dadabhoy: Will this help to improve margins or will it maintain margins given latent cost inflation that happens in the industry?

Anant Daga: At this point in time, I would say it is safer to assume that this will help us maintain margins because you are right, there are input costs which keeps increasing year after year.

Jamshed Dadabhoy: Just if I may on this input cost, how you are all think about material costs next year, do you expect any significant inflation?

Anant Daga: No, as of now we are not seeing any out of line increase. So, for us fabric prices over the last couple of seasons have been very stable. Again, I would like to add more on this point as it will benefit a lot of new joinees on the call. Our business is not the dependent on one raw material, so, we use multiple fabrics and lot of these styles can use alternate fabrics very easily, so even if there is a very, very negative movement on one particular fabric, we can easily switch up our proportions and manage accordingly.

Jamshed Dadabhoy: So, the overall basket is basically stable?

Anant Daga: Yes.

Jamshed Dadabhoy: Thanks. I will come in the queue.

Moderator: Thank you. The next question is from the line of Trupti Agarwal from White Oak Capital. Please go ahead.

Trupti Agarwal: Thanks Anant and Venkat for this opportunity. I have actually a few bookkeeping questions first, so I just wanted to understand what is the investments that are there in the balance sheet like about Rs.137 Crores odd?

Anant Daga: What we do is, till last year we had funds which were kept as bank deposits, what we now do is we put them in liquid and arbitrage funds and this amount is reflected under the investment.

Trupti Agarwal: Basically, these are cash equivalent?

Anant Daga: These are cash balance actually, so if you look at our cash we would need to consider this also.

Trupti Agarwal: Then I wanted the brand wise and channel wise breakup for full year FY2019?

Anant Daga: If you look at brand contribution for the full year, Wishful was 6%, W was 60% and Aurelia was 34%.

Trupti Agarwal: Sir, would you have the comparable numbers for last year also for FY2018 like brand wise?

Anant Daga: So, the only difference versus last year is Wishful used to be about 6.9% and W was 59.1%, and Aurelia was at 34%.

Trupti Agarwal: Got it, and channel wise?

Anant Daga: Channel wise full year, this year was 27% for LFS, 10% for MBO, 14% for online and 49% for EBOs.

Trupti Agarwal: Sure, and how about the last year comparable numbers?

Anant Daga: Last year, EBO was 51%, online was 10%, LFS was 28%, and MBO was 11%.

Trupti Agarwal: Anant could it be possible for you to tell me what is the full year SSSG for the EBOs?

Anant Daga: It is minus 3.4.

Trupti Agarwal: Would you be able to tell me about some other initiatives in this quarter or any other initiatives that we are suppose to be aware of in terms of marketing campaign on new product lines or any such thing?

Anant Daga: I think we spoke about few key highlights in the initials part of the call, but anyway just to highlight that again, in terms of product range, I think we have done really well by introducing an eco-friendly fabric, which is LIVA Eco it is an exclusive tie up between Aditya Birla Fabric Department and TCNS. The campaign was called the YOLO dress, we got amazing response for that and we will be building LIVA eco into a bigger franchise in times to come. Marketing campaign for W was obviously YOLO dress, for Aurelia we went ahead with Disha Patani's collection and that again saw very good response, which was called the Disha Look. Apart from that we have taken significant initiatives in the last quarter for building on our Omni technology, which we believe for a company like us could be really huge. We have more than 500 stores of our own, we are extremely strong in online and today, the consumer wants a seamless experience. We believe that, with all our initiatives, we would be ahead of the market on this. In terms of supply chain, we have already gone ahead on our long-term initiatives of shifting some production to low cost areas. I think all these initiatives are big and the full impact would be realized over the next few quarters.

Trupti Agarwal: Great and I must tell you Anant, I think the website is really improved a lot.

Anant Daga: Thank you so much, yes. Thank you also for your inputs.

Trupti Agarwal: Thank you so much. All the best.

Moderator: Thank you. The next question is from the line of Navin Reddy from Reddy Investment. Please go ahead.

Navin Reddy: Sir, what is our dividend payment policy?

Anant Daga: Sir, we as a company see ourselves as a fashion platform and we believe today we have opportunities of adding more brands to our business. Today market is very interesting and once we are through with our ERP and IPO execution, we will be looking at acquiring an asset more actively. We are waiting for the right opportunity. We believe that we will be able to get better returns for this money by investing it into the business to generate higher growth rather than paying dividend. Once we have got our acquisitions in place and we will get back on that.

Navin Reddy: Any plans to export our products to any country or open stores outside of India?

Anant Daga: Sir, we already have few stores in international market. Mauritius, Sri Lanka, Nepal, these are the places where we already are running multiple stores, we are strengthening our presence in these geographies. We are also launching our brands through e-commerce in other markets for example, we have already launched in Amazon US, we are trying for Middle East and South East Asia, so we will continue to build on the international business.

Navin Reddy: All the best.

Moderator: Thank you. The next question is from the line of Vrinda Aditya from Asit C Mehta. Please go ahead.

Vrinda Aditya: Good evening. Sir, my first question is regarding the store numbers, so can you give me a figure like how many have you opened in FY2019?

Anant Daga: We have opened a net of 76 exclusive stores.

Vrinda Aditya: Can you give your bifurcation in terms of brands?

Anant Daga: For the full year we have opened 40 stores for W, 32 for Aurelia and 4 for Wishful.

Vrinda Aditya: Thank you so much and for next year you are expecting to open around 75 to 80 stores right?

Anant Daga: Yes, that is right.

Vrinda Aditya: One more question regarding the stores is since your rent growth of around 17% for the year, so is this coming from any specific geography?

Anant Daga: So, it is not coming from any specific geographies because our expansion has been throughout the country. What is making the rent look slightly higher is that we have opened numerous airport stores this year, and airport stores tend to be slightly higher in rental cost. As a result, the rent percentage increase is higher.

Vrinda Aditya: We have opened around 76 stores and rough figure like how many stores have we closed, so to get an idea of net number of stores we have opened?

Anant Daga: So, we have closed 25 odd stores in the year, out of which about 5 to 7 stores are stores upgrades. This means we have opened a bigger store and shut a smaller store because the markets are doing very well and the balance would be regular closures.

Vrinda Aditya: Sir, another question is regarding the debt borrowings, so during the year we have repaid our long-term and short-term debt, so moving ahead what will be the plans for expansion, are we going to use the retained earnings or going to borrow?

Anant Daga: We generate cash every year, so as far as investing in capital expenditure is concerned, I think our earnings are more than enough, so there is no plan to raise debt. The possibility of raising debt is only when you desire to acquire a business or something, but for organic growth our earnings would be enough to sustain that.

Vrinda Aditya: Thank you so much. That is, it from my side.

Moderator: Thank you. The next question is from the line of Ashi Anand from Allegro Capital. Please go ahead.

Ashi Anand: Thanks for the opportunity. The first question was with relation to how much room do we really believe we have in terms of distribution expansion. We are fairly well represented across most large format stores, you did mention that MBOs have a large scale, so assuming that our brands are present across most of the larger MBOs already and we also have quite a reasonable presence of EBOs. So, just trying to understand how much further room do we believe we can have in terms of growth on existing brands from actually expanding distribution and what the key areas would be?

Anant Daga: Let me answer, the MBO and EBO questions separately. So MBO you are right. We are present in most of the outlets, so I think the width expansion would not be very significant. MBO traditionally has always been the best for branded men's apparel, branded women's apparel is relatively a new business for MBOs. Season on season as the confidence level of these MBOs increase they start giving more and more depths within the stores. For example, if we would have started by keeping 50 pieces in a shelf three years back, may be one year back we got one entire wall space from them which is now extended to say two or three flat walls. We are now creating a shop-in-shop concept within MBOs. So the growth would essentially come from the throughput of the same stores by additional space within that store or creating shop-in-shop concepts. So that is how MBO growth will come. There the number of MBOs it will be long tail, it would not matter much. Now, coming to EBOs, we have lot of opportunities in various areas, so for example, even if you look at new cities, last year we would have entered about 15 to 20 new cities, this year we have plans of entering another 15 to 20 new cities. We believe that there are at least 40 to 60 cities as on date where we can add W or Aurelia stores. In most of these cities there is a lot of demand for our products but the constraint is from the supply side which we are trying to address. Second, there are opportunities even in the bigger cities, so for example, if you take Mumbai, we have a 400 square feet store in Colaba, we have 400 square feet store in Phoenix, we have a store in Kemps corner, now that itself lends to a huge upgradation opportunity for us as a brand. Again, there are still a lot of key markets like Lokhandwala, there are suburbs like Borivali, and Thane where we do not have stores. So there are lot of markets even in cities, which we believe to be saturated. Apart from this, airports are presenting a huge opportunity and we are one of those brands who do extremely well at airports. Last year, we opened 15 airport stores. As government modernizes more and more airports there could be those kinds of opportunities. In future there are things like railway stations, which are getting very modernizing which will probably change the face of how we think of a railway station. So these alternate channels will also evolve. Apart from this, international markets also have a huge opportunity and in small countries like Sri Lanka and Mauritius we have multiple stores i.e. five to six stores. We still have GCC market to crack with itself would be a huge opportunity. So I think lot of these opportunities are there where we have visibility for at least two to three years and I am sure as time passes there would be many more opportunities that will come.

Ashi Anand: Thank you. That was very extensive and really helped. Do we also have room for the depth expansion on the LFS format similar to the MBO?

Anant Daga: So, LFS yes, of course in few accounts we are not present very extensively whereas in the other accounts we are very well represented. I do not think unless we add categories or unless we extend our product line, there would be more space, which we are also doing as a brand. There are lot of LFS stores wherein space could be increased and that is happening. Apart from depth increase, there is width increase also where a lot of LFS are expanding their doors and we being one of the largest and more successful partners with them and getting more space from them. So, width and depth both will expand.

Ashi Anand: Excellent. You had mentioned that you are looking at certain acquisitions, is it possible to share what kind of areas are we looking at? Will we remain women focus? Are we open to western wear? What the kind of areas that we looking at for the acquisition?

Anant Daga: We have not short-listed something, but the broad thinking is we will continue to remain in the women's wear segment. We would be open to looking at western wear also, we would be open to looking at ethnics, we might be okay with looking at other categories like lingerie also. I think we understand the women's market well and we have a great strength in distribution and sourcing. We also have a great understanding of consumer taste and preferences. So, within this whatever interesting comes up we will be interested to look at.

Ashi Anand: Thanks a lot and wish you all the best for the future.

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

Varun Singh: Sir can you share the number of stores which are franchise owned and franchise operated, franchise owned company operated and company owned company operated?

Anant Daga: I do not have that detail handy, but just to give you a broad idea, about 60% odd would be own, 40% odd would be franchise, this numbers could be slightly here and there.

Varun Singh: And all the franchise stores would be franchise operated?

Anant Daga: All the franchise stores would franchise operated; few of them could be company leased.

Varun Singh: Thank you very much.

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

Jamshed Dadabhoy: Sir, just one follow-up, you mentioned airport stores has impacted the SSSG growth, so how many airport stores have you opened in this fiscal year and how much do airport stores contribute now as a percent of revenues?

Anant Daga: This year we would have opened close to 15 airport stores and overall airport stores contribution to the business is a double-digit number.

Jamshed Dadabhoy: It is that significant, understood.

Anant Daga: Yes, and unfortunately what has happened is with these ongoing issues this particular store channel has given a significant double-digit de-growth, which is a temporary phenomena, but unfortunately it has come up in Q4.

Jamshed Dadabhoy: Just another question, you mentioned that you are not paying dividend and keeping the cash in thinking about in terms of acquisitions, so I would have thought that your current category has enough headroom for organic growth for the next few years, so what is the thought process behind the acquisition, or it is just adjacencies that you are looking at?

Anant Daga: Jamshed, you are right, all our brands have enough and more headroom for growth. As a company we have always try to incubate one brand while stabilizing or scaling up the other brand, so we did W scaling up, we included Aurelia, Aurelia is scaling up, we then worked on Wishful. I think by the next couple of quarters we should be good on Wishful. This will help us in creating more growth in our business in the long run. We also believe that there are lot of businesses that exist in the market today which are good and have a lot of consumer traction. However, because of either managerial bandwidth or financial strength or due to scaling up constraints they not able to ramp up. Getting something like this, I think we will be able to do a quick ramp up and it also falls in line with our overall aspiration of being a branded fashion platform for women. We can look at new categories and any other thing, which can help us fulfill this dream in the long run.

Jamshed Dadabhoy: So, if I understand let us say Wishful is today 10% of revenues, the brand that you would be probably looking to acquire would be smaller than Wishful, which you would want to scale up then into meaningful presence?

Anant Daga: Jamshed, it could be more than that also because see there are lot categories, there lot of interesting brands which are at higher thresholds who have the potential of becoming bigger. But yes, I think irrespective of the size, as a company, we will only acquire those brands which we think are really scalable or which will add value to the overall portfolio.

Jamshed Dadabhoy: Thanks.

Moderator: Thank you. The next question is from the line of Kushal Aggarwal from Locus Investments. Please go ahead.

Kushal Aggarwal: Anant, thank you for the opportunity. I just have a quick question. Can you give me brand wise count for W, Aurelia?

Anant Daga: We have not shared that so far because as we mentioned earlier there are lot key information, which is still competitive in nature and we have tried to give information to such an extent that it gives somewhat a clear picture to the investors and yet we are able to keep some data with us, let me check if we would have shared earlier may be we will get back to you offline.

Kushal Aggarwal: Just on that I have the numbers for the previous year I guess from your IPO document?

Anant Daga: Maybe we will get back to you offline.

Kushal Aggarwal: Yes, sure no problem. Thank you.

Moderator: Thank you. The next question is from the line of Hardik Bohra from Union Mutual Fund. Please go ahead.

Hardik Bohra: Thank you for the opportunity. One question on the EBOs, so how much time does it take for a newly opened stores to scale up and get the profitability of the existing store count?

Anant Daga: Unfortunately, in India there are many different formats like high street mall, airports etc. So, there is no standard answer. If I have to take an example of airport stores, the potential is reached pretty quickly because it is a captive crowd and your brand is just there to be seen. In high streets, if you get a prime space in a good high street it would take probably two seasons to reach a decent number. In terms of malls, it can really depend upon how long the mall takes, so irrespective of the brands it is the mall, which determines, but on average typically we get a good hang of a stores in the first season itself, by third, fourth season we see a decent level from the store from a long-term potential aspect.

Hardik Bohra: Just a follow up, if you look at the revenue growth in the EBO section of our business and if you look at the increasing store count, the increase in revenue from EBOs has trailed the increase of store counts, so I am just looking at revenue for EBO number and this year it has shown a decline, can you indicate what could that be?

Anant Daga: I think, first of all when we share the stores number probably again type of store does not get counted, so it will be a very guesstimate kind of calculation, which will come in terms of per store productivity, I really do not know what the answer is because frankly when we look at the business we look at each store and we have not aggregated it. Something like this could happen in the long run because of the nature of the stores that you open. For example, if we end up opening many more tier 4 stores, may be per store productivity could come down. On the contrary, the year you get 3 to 5 really high potential store it can increase. So may be that is something that the numbers show, I am sorry we do not have that ready in front of us, may be we can work on it but broadly the logic is this.

Hardik Bohra: Fair enough. That is all from side. Thank you.

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

Hemant Patel: Anant, just one follow on question regarding your supply chain, just wanted to understand can you give some insights about how we are coping up with that given that the scaling up the business out here?

Anant Daga: Hemant as far as the supply chain goes for W and Aurelia, we are extremely well set. We have more than necessary capacities available to us. We are also setting up low cost units which will give us extra cushion over and above whatever we have. In terms of fabric supply, there is very little challenge, the challenge only comes when you get into handicraft kind of fabrics wherein you have to work with the weaver who is working in an old style. Thankfully for us that is a very small part of the range. The challenge we were facing was in Wishful, because of lack of quality of suppliers, but, we have been able to develop 3 or 4 really good manufacturing units and now Wishful at least next season looks on the track. There were some issues in Q1 because of ERP, but that was because of the system implementation and not essentially due to the supplier base.

Hemant Patel: In terms of efficiencies related from the supply chain, you did mention that over a period of time because of scale we did manage to improve our gross margin for the products, are we at pretty reasonable level or you still think there is more scope for the improvement from here?

Anant Daga: See, sourcing for more grades and fabric, going to low cost manufacturing all those would give us some extra points, but I think at this time given the levels where we are we think not too much gains could come. Wishful, if it really expands very aggressively then probably that could give us some more savings, but I think that is quite some time in future right now.

Hemant Patel: Thanks a lot.

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

Jamshed Dadabhoy: Just one follow up on this brand acquisition, etc., how would you plan to acquire this, even if a brand is there, I imagine it would be at about three times, four times sales given the way evaluations are, so would you be looking to take on debt or you would be thinking about like a cash kind acquisition?

Anant Daga: Jamshed, I think lot of these answers will still have to crystallize. As of now we have not reached that stage, but if suppose the acquisition is of a small size then of course we will prefer to use cash. It all depends on what kind company we acquire, what kind structure we will be finally getting into. Hence it is slightly premature at this stage, may be at a more opportune moment we can discuss about the structure and the financing options.

Jamshed Dadabhoy: Anant, do you have any thought on in terms of what sort of IRR you would be looking at from this kind of acquisitions like any hurdle rate you have in mind?

Anant Daga: No Jamshed. Right now we have not thought any particular number, but one thing is for sure whatever we will do it should be accretive to whatever we are doing currently. Also, it has to be something, which has true potential to scale up in future. We will not go for something which is stringent and which has very limited potential.

Jamshed Dadabhoy: Understood, very helpful. Thanks a lot and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question. Due to time constraint, I will now hand the conference over to the management for closing comments.

Anant Daga: Thank you everyone for joining the call. We hope we have been able to answer all your queries. I am really sorry again because of competitive information we are not able to share too much granular detail, but we will continue to share whatever we think is something that could be shared in public forum and any of you have any doubts, please be free to connect with us or SGA. Thank you again.

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