TCNS CLOTHING

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	580
12 month price target (INR)	885
Market cap (INR bn/USD bn)	36/0.5
Free float/Foreign ownership (%)	67.7/17.6
What's Changed	
Target Price	↓
Rating/Risk Rating	–

QUICK TAKE

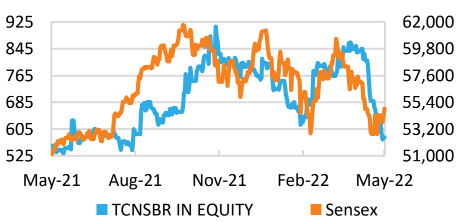
	Above	In line	Below
Profit			•
Margins			•
Revenue Growth			•
Overall			•

FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	6,355	8,922	13,760	15,313
EBITDA	24	965	2,486	2,936
Adjusted profit	(564)	(145)	869	1,130
Diluted EPS (INR)	(9.0)	(2.3)	13.5	17.5
EPS growth (%)	nm	(74.7)	nm	30.0
RoAE (%)	(8.9)	(2.3)	12.6	14.4
P/E (x)	nm	nm	43.0	33.1
EV/EBITDA (x)	1,262.4	31.3	12.0	10.0
Dividend yield (%)	0	(0.1)	0.6	0.8

PRICE PERFORMANCE



Explore:

Financial model

Podcast

Corporate access

Video

Muted recovery; stepping up expansion

TCNS Clothing (TCNS) reported slower-than-expected recovery (107% of Q4FY20), which was partially compensated for by an uptick in gross margin (to 69%, highest in Q4 period). At present, majority of its network is tracking ahead of pre-covid. Store addition continued, with the company adding 24 this quarter (Q3FY22: 18, FY22: 48). For FY23, it has set an aggressive target of 100-plus stores. Also, with *Elleven*, TCNS is past learning and looking at scaling up this format.

Factoring in higher cost expectations, we are trimming FY23/24E EBITDA by 7%/3% with our revised DCF based TP coming to INR885 (INR959 earlier). Maintain 'BUY'. At 12x FY24E EBITDA, the stock looks reasonable, offering re-rating potential as growth makes a comeback.

Muted recovery; inflation driving costs higher

TCNS reported a weaker-than-expected result with 6% YoY growth (107%/81% of Q4FY20/Q4FY19). By channel, EBO/LFS touched 90%/97% recovery. Online revenue reported a 37% QoQ dip to INR0.35bn, whereas MBO channel improved further after the pick-up in Q3FY22. TCNS highlighted that business from the MBO channel is back on track and has received a strong order book for their monsoon festive season. By brand, W/Aurelia clocked a recovery of 105%/116%. Gross margin improved further (up ~110bp QoQ) to 69% and is significantly higher than pre covid. EBITDA margin at 8% is ~200bp lower versus Q4FY20 due to lower revenue and inflationary pressure. Overall, the company reported EBIDTA of INR198mn versus INR229mn in Q4FY21.

Expansion continues; Elleven to see scale-up ahead

TCNS's D2C channel reported a strong performance and now contributes ~20% to online. It opened 84 stores in FY22 and currently has 14 Project Rise and 15 Project Bharat stores. For FY23, it has set an aggressive target of 100-plus stores. TCNS opened seven new Elleven stores in Q4FY22, taking the total to 17 stores. Also, with Elleven, TCNS is past learning and looking at scaling up this format going forward. The company is seeing good traction in footwear and plans to it scale up.

Outlook and valuation: Extensions and option value; maintain 'BUY'

Factoring in higher costs expectations, we are trimming FY23/24E EBITDA by 7%/3% with our revised DCF based TP coming to INR885. Retain **'BUY'**. At 12x FY24E EBITDA, the stock is reasonable and offers a re-rating potential as growth comes back. TCNS has multiple extensions (footwear, Elleven), which provide an option value.

Financials

Year to March	Q4FY22	Q4FY21	% Change	Q3FY22	% Change
Net Revenue	2,343	2,211	6.0	3,285	(28.7)
EBITDA	197	229	(14.2)	630	(68.8)
Adjusted Profit	(59)	39	NM	251	NM
Diluted EPS (INR)	(1.0)	0.6	NM	4.1	NM

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Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	6,355	8,922	13,760	15,313
Gross profit	3,632	5,800	8,944	9,953
Employee costs	1,214	1,533	1,712	1,822
Other expenses	2,393	3,302	4,746	5,196
EBITDA	24	965	2,486	2,936
Depreciation	919	941	1,159	1,342
Less: Interest expense	365	415	421	439
Add: Other income	490	198	253	352
Profit before tax	(769)	(193)	1,159	1,507
Prov for tax	(206)	(48)	290	377
Less: Other adj	0	0	0	0
Reported profit	(564)	(145)	869	1,130
Less: Excp.item (net)	0	0	0	0
Adjusted profit	(564)	(145)	869	1,130
Diluted shares o/s	63	64	65	65
Adjusted diluted EPS	(9.0)	(2.3)	13.5	17.5
DPS (INR)	0	(0.6)	3.4	4.4
Tax rate (%)	26.7	25.0	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	123	127	129	129
Reserves	5,997	6,294	7,280	8,128
Shareholders funds	6,120	6,422	7,409	8,257
Minority interest	0	0	0	0
Borrowings	54	0	0	0
Trade payables	912	949	1,464	1,629
Other liabs & prov	(4)	119	482	599
Total liabilities	11,585	11,471	13,948	15,668
Net block	307	392	471	527
Intangible assets	2,707	3,123	3,535	3,950
Capital WIP	5	5	5	5
Total fixed assets	3,020	3,521	4,011	4,482
Non current inv	0	0	0	0
Cash/cash equivalent	1,873	2,390	2,823	3,271
Sundry debtors	1,648	1,338	2,064	2,297
Loans & advances	2,187	892	1,376	1,531
Other assets	2,857	3,329	3,674	4,086
Total assets	11,585	11,471	13,948	15,668

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
EBO addition (#)	(44.0)	60.0	60.0	60.0
LFS addition (#)	179.0	150.0	150.0	100.0
Revenue EBO (% YoY)	(58.9)	153.0	151.8	3.0
EBITDA margin (%)	0.4	10.8	18.1	19.2
Net profit margin (%)	(8.9)	(1.6)	6.3	7.4
Revenue growth (% YoY)	(44.7)	40.4	54.2	11.3
EBITDA growth (% YoY)	(98.7)	3,853.6	157.7	18.1
Adj. profit growth (%)	nm	(74.3)	nm	30.0

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	(564)	(145)	869	1,130
Add: Depreciation	919	941	1,159	1,342
Interest (net of tax)	267	311	316	329
Others	298	(94)	(147)	(242)
Less: Changes in WC	(207)	(195)	625	502
Operating cash flow	1,127	1,208	1,571	2,057
Less: Capex	(106)	(300)	(400)	(450)
Free cash flow	1,021	908	1,171	1,607

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(6.0)	7.0	6.0	6.0
Repo rate (%)	3.5	3.5	4.0	4.0
USD/INR (average)	75.0	73.0	72.0	72.0
Gross Margin (%)	57.1	65.0	65.0	65.0
Inventory (% of RM)	102.1	100.0	70.0	70.0
Receivables (% of Rev)	25.9	15.0	15.0	15.0
Capex (INR mn)	109.8	300.0	400.0	450.0

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	(8.9)	(2.3)	12.6	14.4
RoCE (%)	(6.3)	3.5	22.8	24.8
Inventory days	408	345	246	243
Receivable days	98	61	45	52
Payable days	143	109	91	105
Working cap (% sales)	82.4	44.2	33.6	33.5
Gross debt/equity (x)	0	0	0	0

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	nm	nm	43.0	33.1
Price/BV (x)	5.9	5.7	5.0	4.5
EV/EBITDA (x)	1,262.4	31.3	12.0	10.0
Dividend yield (%)	0	(0.1)	0.6	0.8

Source: Company and Edelweiss estimates

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	nm	(74.7)	nm	30.0
RoE (%)	(8.9)	(2.3)	12.6	14.4
EBITDA growth (%)	(98.7)	3,853.6	157.7	18.1
Payout ratio (%)	nm	nm	25.0	25.0

Q4FY22 conference call: Key highlights

Q4FY22

- Gradual return to normalcy and some offline stores are above pre pandemic
- MBO business has come back on track, received strong order book in the same.
- Have taken a significant realignment of inventory as they are moving more towards D2C business.
- Seeing strong resurgence from consumer and strong revival in MBOs.
- The online channel will help show case their entire inventory.
- As of now most of the stores are tracking above 90% of pre pandemic well, south and west are above pre covid levels, north and east are still lagging behind.
- As we move across towards monsoon seasonal the inventory will be fresh only about 2-3% will be the older inventory.
- In the last 3-4 seasons they have left a little growth to manage the working capital but going forward they will be focusing on growth.
- The demand from their brand folk song is strong and the demand for the same has outpaced supply. The brand at least need 100-150 sq ft to be launched in a store.
- Footwear is getting placed in every single store other than a project Bharat stores due to the space crunch.
- Secondary sales continue to grow well; website now contributing 1/5th of overall online sales

Cost and margins

- Have taken various efforts on to mitigate inflation mainly by price hikes and change of designs and use of different mix of fabrics.
- The product mix will determine the gross margin going forward and margin would be between 64-68% depending on the product mix.
- Rental has been about 1.3x and most of the expenses have increased about 1.5x. New stores they feel that will have a payback period of 12-15 months.

Elleven

- Have opened 7 stores this quarter which have witnessed a strong traction.
- Expect the numbers for here to be 2x in the next year as they will scale up the same.
- Have learnt from the initial stores and are ready to scale up the same, by the end of monsoon they will start the scale up for the brand.
- Footwear and elleven are the new forays that have been contributing cosmetics is still in the pilot phase.

Outlook

- Focus for FY23 is accelerated growth.
- Targeting to open 100 stores in a 12m period.
- Expansion will come both from existing markets as well as expansion via project Bharat in T3 T4 cities.

Exhibit 1: Key highlights

	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Key Financials (INR mn)											
Revenue	3,208	3,290	2,192	324	1,441	2,379	2,211	938	2,393	3,285	2,344
EBITDA	651	679	-48	-427	-163	385	229	-234	302	630	198
PAT	177	550	-238	-453	-276	127	39	-361	111	251	-58
Key Metrics											
Revenue Growth (% YoY)	0	10	-25	-88	-55	-28	1	189	66	38	6
Gross Margin (%)	65	68	58	51	52	61	57	56	63	68	69
EBITDA Margin (%)	20	21	-2	-132	-11	16	10	-25	13	19	8
Brand Wise Growth (% YoY)											
W	-6	2	-25	-89	-57	-27	-2	211	63	33	6
Aurelia	10	25	-31	-87	-51	-23	11	184	70	42	6
Wishful	15	2	-22	-91	-65	-51	-23	59	66	61	6
Store Count (#)											
EBO	568	586	595	587	574	561	551	549	557	575	599
LFS	1,774	1,889	1,944	1,952	1,987	2,065	2,123	2,154	2,178	2,204	2,298
Online	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
MBO	1,273	1,134	1,114	1,064	1,012	1,048	1,011	1,008	1,021	1,058	1,098
Channel Wise Growth (% YoY)											
EBO	6	9	-23	-98	-72	-36	-22	624	140	42	15
LFS	4	19	-14	-91	-60	-33	1	180	71	42	-4
Online	1	33	-52	-45	147	28	253	144	11	2	-24
MBO	-40	-58	-45	-94	-83	-76	-57	45	0	590	218
SSSG (%)	0.1	2	-15	NA	NA	NA	NA	NA	NA	NA	NA

Source: Company, Edelweiss Research

Exhibit 2: Quarterly summary

Year to March	Q4FY22	Q4FY21	% YoY	Q3FY22	% QoQ	FY21	FY22E	FY23E
Revenue	2,344	2,211	6.0	3,285	(28.6)	6,355	8,922	13,760
Raw material costs	730	941	(22.4)	1,058	(31.0)	2,724	3,123	4,816
Gross profit	1,615	1,270	27.1	2,227	(27.5)	3,632	5,800	8,944
Employee costs	408	319	27.9	422	(3.4)	1,214	1,533	1,712
Other expenses	1,009	722	39.7	1,175	(14.1)	2,393	3,302	4,746
Total operating expenses	1,417	1,041	36.1	1,597	(11.3)	3,607	4,835	6,458
EBITDA	198	229	(13.8)	630	(68.6)	24	965	2,486
Depreciation	287	249	15.2	229	25.4	919	941	1,159
EBIT	-90	-20	NM	401	NM	-895	24	1,327
Less: Interest Expense	108	114	(5.2)	95	14.1	365	415	421
Add: Other income	122	181	(32.8)	47	159.2	490	198	253
Profit Before Tax	-76	47	NM	353	NM	-769	-193	1,159
Less: Provision for Tax	-18	8	NM	103	NM	-206	-48	290
Add: Exceptional items	0	0		0		0	0	0
Reported Profit	-58	39	NM	251	NM	-564	-145	869
Adjusted Profit	-58	39	NM	251	NM	-564	-145	869
NOSH	62	62		62		63	64	65
Adjusted EPS	(0.9)	0.6	NM	4.1	NM	(9.0)	(2.3)	13.5
P/E (x)						-86	-340	57.57763
EV/EBITDA (x)						NM	48.7	19.0
ROAE (%)						-9	-2	13
As % of revenues								
COGS	31.1	42.5		32.2		42.9	35.0	35.0
Gross profit	68.9	57.5		67.8		57.1	65.0	65.0
Employee costs	17.4	14.4		12.8		19.1	17.2	12.4
Other expenses	43.1	32.7		35.8		37.7	37.0	34.5
Total operating expenses	60.4	47.1		48.6		56.8	54.2	46.9
EBITDA	8.4	10.4		19.2		0.4	10.8	18.1
Net profit	(2.5)	1.8		7.6		(8.9)	(1.6)	6.3

Source: Company, Edelweiss Research

Company Description

TCNS is India's leading women's branded apparel company in terms of total number of EBOs, according to Technopak. The company designs, manufactures, markets and retails a portfolio of women's branded apparel across multiple brands. It sells its products via multiple distribution channels across India. TCNS's product portfolio includes topwear, bottomwear, drapes, combinationsets and accessories that cater to a variety of wardrobe requirements of the Indian woman, including everyday wear, casual wear, work wear and occasion wear. Over the years, TCNS has expanded itsportfolio to three brands—*W, Aurelia* and *Wishful*. In FY20, it has also launched a co-ordinate brand *Elleven.*

Investment Thesis

Leadership, outperformance in one of fastest-growing segments

The branded ethnic apparel market has been one of the fastest-growing segments (top 3: ~30% CAGR over FY12-18) and has remained a concentrated industry with 8-10 players. TCNS is the leader of the pack via three brands—*W, Aurelia* and *Wishful*—with clear positioning across price points. Driven by its multiple brands, distribution heft and efficient supply chain, the company has significantly outstripped ethnic apparel peers across parameters (growth, margins, ROCE) to gain primacy in the segment.

Long-run growth opportunity; online presence added lever

Despite its affordable positioning, benchmarking TCNS to other leading apparel and ancillary category peers on EBO count and city presence indicates its reach is much lower. With ~50% EBOs in top-8 cities (~20% of market), we perceive huge expansion potential. The company has already identified ~500-700 additional EBOs (current: 590) and is planning to open ~50 EBOs p.a. post normalisation. Also, with the online channel expected to be a potent growth driver (~3x industry growth), especially post covid-19, TCNS's strong online presence (in channel share and SKUs) will be an additional lever.

Key Risks

Failure in design process and single category concentration

Rising competitive intensity

Continued weakness in SSSG

Additional Data

Management

CEO & MD	Anant Daga
CFO	Amit Chand
COO	
Other	
Auditor	Deloitte

Holdings – Top 10*

	% Holding		% Holding
Nalanda IEF	7.02	PGIM	0.40
Elevation Cap	5.39	Sundaram AMC	0.29
Axis AMC	3.00	FMR	0.26
Steinberg	2.32	Edelweiss AMC	0.20
Auburn Ltd	1.60		

**Latest public data*

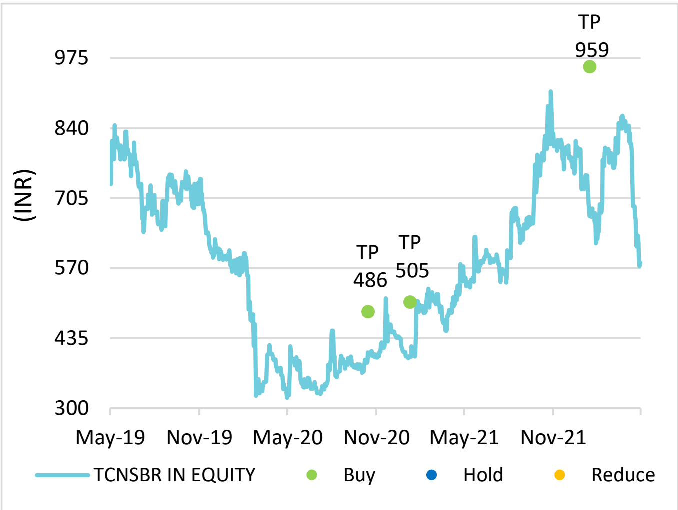
Recent Company Research

Date	Title	Price	Reco
11-Feb-22	Stable recovery; margins improve too; *Result Update*	669	Buy
12-Nov-21	Stable showing; expanding horizons; *Result Update*	821	Buy
13-Aug-21	Stable showing; store expansion intact; *Result Update*	568	Buy

Recent Sector Research

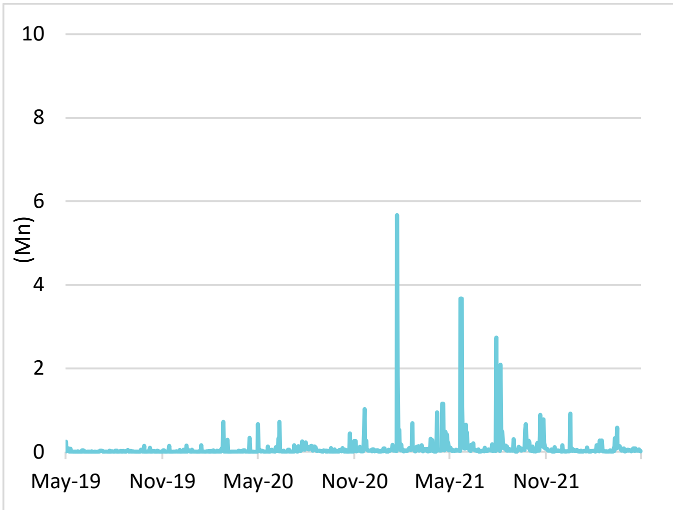
Date	Name of Co./Sector	Title
26-May-22	Page Industries	Strong showing but pricing-in a lot more; *Result Update*
10-Feb-22	Page Industries	Sustains growth across segments; *Result Update*
11-Nov-21	Page Industries	Strong showing; sustenance key; *Result Update*

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	196	55	18	271
	>50bn	**>10bn and <50bn**	**<10bn**	**Total**
Market Cap (INR)	237	43	5	285

**2 stocks under review*

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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