TCNS CLOTHING

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Neutral
Price (INR)	582
12 month price target (INR)	786
Market cap (INR bn/USD bn)	36/0.4
Free float/Foreign ownership (%)	67.7/17.6

What's Changed

Target Price	↓
Rating/Risk Rating	–

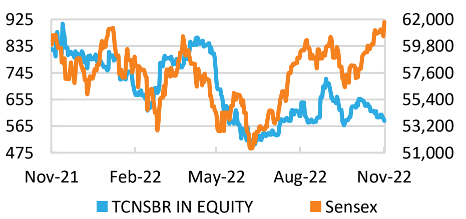
QUICK TAKE

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

FINANCIALS (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Revenue	8,961	13,758	15,423	16,949
EBITDA	890	2,284	2,739	3,109
Adjusted profit	(57)	711	967	1,042
Diluted EPS (INR)	(0.9)	11.4	15.5	16.7
EPS growth (%)	(89.9)	nm	35.9	7.8
RoAE (%)	(0.9)	10.6	12.5	11.9
P/E (x)	nm	51.3	37.7	35.0
EV/EBITDA (x)	35.2	13.6	11.1	9.5
Dividend yield (%)	0	0	0	0

PRICE PERFORMANCE



Explore:

Financial model

Podcast

Corporate access

Video

Stable showing; still lagging peers

TCNS Clothing (TCNS) reported an in-line recovery with Q2FY23 revenue touching 109% of Q2FY20—on the lower end of its peer set. On a per store basis, recovery is 92%/73% for EBO/LFS. TCNS also highlighted that the W brand saw a muted recovery due to certain product challenges specific to a range. Margins improved, but remain significantly below pre-covid (~600bp).

Factoring in margin trends, we are cutting FY23E EBITDA by 5%. This along with an uptick in our cost of capital assumption yields a revised TP of INR786 (INR857 earlier, 20x FY24E EV/EBITDA); maintain 'BUY'. TCNS's re-rating has been delayed given the muted recovery, whose pickup is critical for valuations to improve.

Revenue exceeds pre-covid; W suffers a one-off impact

TCNS reported in-line revenue, up 46% YoY (109% of Q1FY20). By channel, EBO and LFS touched 104% recovery each, whereas on a per-store-basis this stood at 92%/73%. Online revenue grew 69% QoQ (up 7% YoY) with D2C contributing 60%+ of its online sales. Gross margin dipped 180bp QoQ to 67.3%. The company has ramped up selling and distribution and also seen an increase in other expense. Despite this, EBITDA margin came in at 13.2% versus 11.3% seen in Q1FY23 on account of higher revenue. Overall, the company reported PAT of INR76mn versus INR24mn in Q1FY23. By brand, W/Aurelia clocked a recovery of 100%/128%. However, W recovery was impacted by a certain range, which did not see traction as planned. The offline channel delivered 60% YoY growth.

Expansion continues; Elleven scaling up well

The company opened 41 stores (32 on a net basis) in Q2, the highest addition seen in a quarter, and has another 40+ locations in the pipeline. It is on track to add 25-30 stores every quarter going forward. It has also opened five Project Rise stores in the quarter, taking the total to 25 stores. TCNS has also scaled up Elleven by increasing its EBO count to 32. It is currently at an annual run rate of INR250mn in consumer sales, and the company expects this to touch INR450mn by end-FY23.

Outlook and valuation: Pickup in recovery key; maintain 'BUY'

Factoring in margin trends, we are cutting FY23E EBITDA by 5%. This along with an uptick in our cost of capital assumption (increase in risk-free rate) leads to a revised TP of INR786 (from INR857 earlier). Maintain **'BUY'**. Our TP implies 20x FY24E EV/EBITDA. At CMP, the stock is trading at 15x EV/EBITDA.

Financials

Year to March	Q2FY23	Q2FY22	% Change	Q1FY23	% Change
Net Revenue	3,505	2,393	46.5	2,764	26.8
EBITDA	461	302	52.7	313	47.3
Adjusted Profit	76	111	(31.0)	24	213.3
Diluted EPS (INR)	1.2	1.8	(31.0)	0.4	213.3

Nihal Mahesh Jham
+91 (22) 6623 3352
Nihal.Jham@nuvama.com

Abneesh Roy
+91 (22) 6620 3141
Abneesh.Roy@nuvama.com

Yash Mehta
Yash.Mehta@nuvama.com

Financial Statements

Income Statement (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Total operating income	8,961	13,758	15,423	16,949
Gross profit	5,865	9,039	10,164	11,169
Employee costs	1,502	1,816	2,024	2,130
Other expenses	3,472	4,939	5,401	5,931
EBITDA	890	2,284	2,739	3,109
Depreciation	944	1,090	1,278	1,488
Less: Interest expense	372	455	524	596
Add: Other income	353	209	352	365
Profit before tax	(72)	948	1,289	1,389
Prov for tax	(15)	237	322	347
Less: Other adj	0	0	0	0
Reported profit	(57)	711	967	1,042
Less: Excp.item (net)	0	0	0	0
Adjusted profit	(57)	711	967	1,042
Diluted shares o/s	62	63	63	63
Adjusted diluted EPS	(0.9)	11.4	15.5	16.7
DPS (INR)	0	0	0	0
Tax rate (%)	20.6	25.0	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Share capital	123	125	125	125
Reserves	6,075	7,121	8,088	9,129
Shareholders funds	6,199	7,246	8,213	9,254
Minority interest	0	0	0	0
Borrowings	0	0	0	0
Trade payables	1,716	1,652	1,841	2,023
Other liabs & prov	58	493	621	737
Total liabilities	13,034	16,023	19,024	22,044
Net block	436	637	832	997
Intangible assets	3,597	4,682	5,818	7,009
Capital WIP	16	16	16	16
Total fixed assets	4,049	5,336	6,666	8,023
Non current inv	0	0	0	0
Cash/cash equivalent	1,563	1,801	2,531	3,228
Sundry debtors	1,738	2,064	2,314	2,542
Loans & advances	1,963	3,096	3,470	3,814
Other assets	3,720	3,727	4,043	4,438
Total assets	13,034	16,023	19,024	22,044

Important Ratios (%)

Year to March	FY22A	FY23E	FY24E	FY25E
EBITDA margin (%)	9.9	16.6	17.8	18.3
Net profit margin (%)	(0.6)	5.2	6.3	6.1
Revenue growth (% YoY)	41.0	53.5	12.1	9.9
EBITDA growth (% YoY)	3,549.0	156.5	19.9	13.5
Adj. profit growth (%)	(89.8)	nm	35.9	7.8

Free Cash Flow (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Reported profit	(57)	711	967	1,042
Add: Depreciation	944	1,090	1,278	1,488
Interest (net of tax)	295	341	393	447
Others	(129)	(95)	(221)	(215)
Less: Changes in WC	0	1,210	541	592
Operating cash flow	1,053	837	1,875	2,170
Less: Capex	(317)	(400)	(450)	(495)
Free cash flow	736	437	1,425	1,675

Assumptions (%)

Year to March	FY22A	FY23E	FY24E	FY25E
GDP (YoY %)	7.0	8.7	5.5	6.4
Repo rate (%)	3.5	4.0	6.0	5.0
USD/INR (average)	73.0	74.0	80.0	78.0
Gross Margin (%)	65.5	65.7	65.9	65.9
Inventory (% of RM)	116.6	75.0	73.0	73.0
Receivables (% of Rev)	19.4	15.0	15.0	15.0
Capex (INR mn)	322.4	400.0	450.0	495.0
EBO addition (#)	48.0	60.0	60.0	60.0
LFS addition (#)	175.0	150.0	100.0	50.0
Revenue EBO (% YoY)	57.5	55.0	3.0	3.0

Key Ratios

Year to March	FY22A	FY23E	FY24E	FY25E
RoE (%)	(0.9)	10.6	12.5	11.9
RoCE (%)	4.8	20.9	23.5	22.7
Inventory days	377	276	256	254
Receivable days	69	50	52	52
Payable days	155	130	121	122
Working cap (% sales)	56.8	44.9	44.1	44.1
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.3)	(0.2)	(0.3)	(0.3)
Interest coverage (x)	(0.1)	2.6	2.8	2.7

Valuation Metrics

Year to March	FY22A	FY23E	FY24E	FY25E
Diluted P/E (x)	nm	51.3	37.7	35.0
Price/BV (x)	5.8	5.0	4.4	3.9
EV/EBITDA (x)	35.2	13.6	11.1	9.5
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY22A	FY23E	FY24E	FY25E
EPS growth (%)	(89.9)	nm	35.9	7.8
RoE (%)	(0.9)	10.6	12.5	11.9
EBITDA growth (%)	3,549.0	156.5	19.9	13.5
Payout ratio (%)	nm	0	0	0

Q2FY23 conference call: Key highlights

Industry

- Discounting has increased in online channel while offline discounts remain normal.

Brands

- Aurelia has seen strong recovery and is ahead of Pre Covid, barring North region.
- W had some product challenges because of which recovery lagged. When company was building Monsoon Fest, fabric costs were at an all-time high and those calls did not go as per plans.
- In case of W, it was not an issue in design. Company used MMF fabrics and value added materials. While trials of this remained high, conversions were lower
- Express replenishment does not work during festive season
- Elleven has shown traction in LFS and SIS. It is currently at an annual run rate of INR250mn in consumer sales and company expects this to touch INR450mn by FY23 end.
- Company managed discounts well in this EOSS
- W has the highest gross margins among all the brands

Working capital

- Inventory should improve by year-end.

Online

- Lot of marketplaces are moving from B2B to B2C.
- 25% of the business is from own websites
- Company's target is to grow this channel by 20-25% YoY on secondary sales basis.
- Two years ago 100% was B2B, however last year D2C (own website + marketplaces) has increased to 60%.

Channel

- The recovery in LFS channel on LFL basis was ~90-95%.
- There is an impact of one key LFS account, which was higher throughput and is currently non-operational. Along with this, higher openings in T2/T3 cities would lead to the revenue per LFS look lower.

Other

- Secondary would be higher in Q3 while primary in Q4 would be higher.
- Current rental run rate is INR1.4bn annually.

Outlook

- For W, Q3 will also continue to be impacted till SS 2023.

Exhibit 1: Key metrics

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Key Financials (INR mn)												
Revenue	3,290	2,192	324	1,441	2,379	2,211	938	2,393	3,285	2,344	2,764	3,505
EBITDA	679	-48	-427	-163	385	229	-234	302	630	198	313	461
PAT	550	-238	-453	-276	127	39	-361	111	251	-58	24	76
Key Metrics												
Revenue Growth (% YoY)	10	-25	-88	-55	-28	1	189	66	38	6	195	46
Gross Margin (%)	68	58	51	52	61	57	56	63	68	69	69	67
EBITDA Margin (%)	21	-2	-132	-11	16	10	-25	13	19	8	11	13
Brand Wise Growth (% YoY)												
W	2	-25	-89	-57	-27	-2	211	63	33	6	179	38
Aurelia	25	-31	-87	-51	-23	11	184	70	42	6	195	50
Wishful	2	-22	-91	-65	-51	-23	59	66	61	6	489	105
Store Count (#)												
EBO	586	595	587	574	561	551	549	557	575	599	616	648
LFS	1,889	1,944	1,952	1,987	2,065	2,123	2,154	2,178	2,204	2,298	2,422	2,479
Online	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
MBO	1,134	1,114	1,064	1,012	1,048	1,011	1,008	1,021	1,058	1,098	1,098	1,123
Channel Wise Growth (% YoY)												
EBO	9	-23	-98	-72	-36	-22	624	140	42	15	548	54
LFS	19	-14	-91	-60	-33	1	180	71	42	-4	312	51
Online	33	-52	-45	147	28	253	144	11	2	-24	-26	7
MBO	-58	-45	-94	-83	-76	-57	45	0	590	218	195	193
SSSG (%)	2	-15	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: Company, Nuvama Research

Exhibit 2: Quarterly summary

Year to March	Q2FY23	Q2FY22	% YoY	Q1FY23	% QoQ	FY22	FY23E	FY24E
Revenue	3,505	2,393	46.5	2,764	26.8	8,961	13,758	15,423
Raw material costs	1,148	893	28.5	855	34.2	3,096	4,719	5,259
Gross profit	2,357	1,500	57.2	1,909	23.5	5,865	9,039	10,164
Employee costs	475	362	31.3	471	0.9	1,502	1,816	2,024
Other expenses	1,421	836	70.0	1,125	26.3	3,472	4,939	5,401
Total operating expenses	1,896	1,197	58.3	1,596	18.8	4,975	6,755	7,425
EBITDA	461	302	52.7	313	47.3	890	2,284	2,739
Depreciation	271	221	22.7	257	5.6	944	1,090	1,278
EBIT	190	81	NM	57	NM	-53	1,194	1,461
Less: Interest Expense	108	89	21.1	97	11.0	372	455	524
Add: Other income	18	149	(88.0)	66	(73.1)	353	209	352
Profit Before Tax	101	141	NM	26	NM	-72	948	1,289
Less: Provision for Tax	24	30	NM	2	NM	-15	237	322
Add: Exceptional items	0	0		0		0	0	0
Reported Profit	76	111	NM	24	NM	-57	711	967
Adjusted Profit	76	111	NM	24	NM	-57	711	967
NOSH	62	62		62		62	63	63
Adjusted EPS	1.2	1.8	NM	0.4	NM	(0.9)	11.4	15.5
P/E (x)						-628	51	38
EV/EBITDA (x)						43.3	17.7	15.1
ROAE (%)						-1	11	13
As % of revenues								
COGS	32.7	37.3		30.9		34.5	34.3	34.1
Gross profit	67.3	62.7		69.1		65.5	65.7	65.9
Employee costs	13.6	15.1		17.0		16.8	13.2	13.1
Other expenses	40.5	34.9		40.7		38.8	35.9	35.0
Total operating expenses	54.1	50.0		57.7		55.5	49.1	48.1
EBITDA	13.2	12.6		11.3		9.9	16.6	17.8
Net profit	2.2	4.6		0.9		(0.6)	5.2	6.3

Source: Company, Nuvama 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*

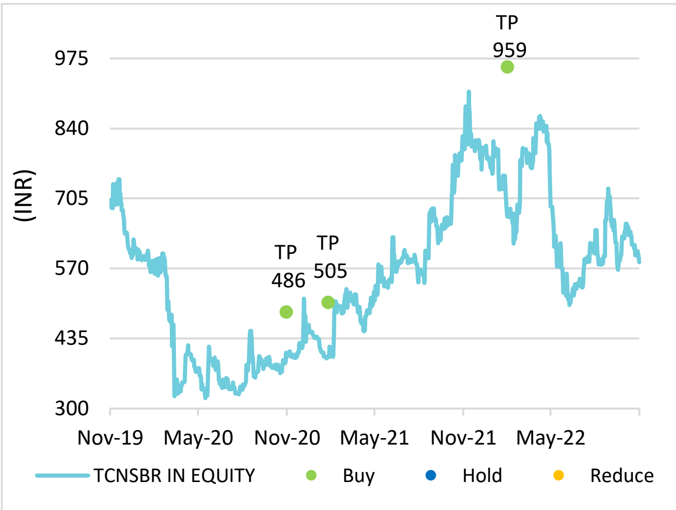
Recent Company Research

Date	Title	Price	Reco
12-Aug-22	Awaiting full blown recovery; *Result Update*	644	Buy
27-May-22	Muted recovery; stepping up expansion; *Result Update*	579	Buy
11-Feb-22	Stable recovery; margins improve too; *Result Update*	669	Buy

Recent Sector Research

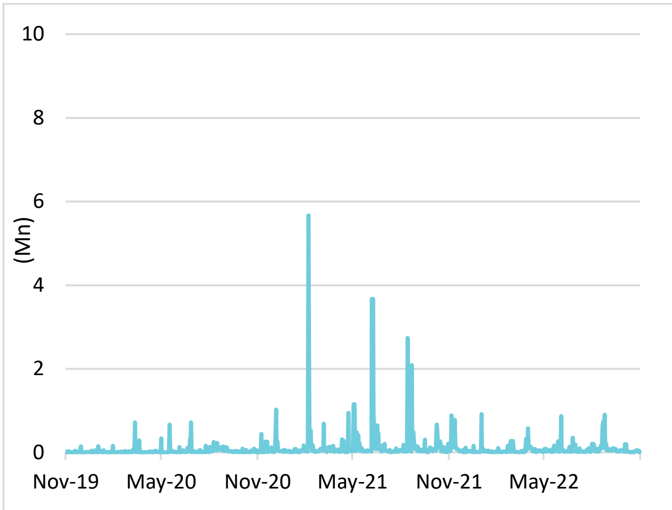
Date	Name of Co./Sector	Title
10-Nov-22	Page Industries	Stable showing; growth under a cloud; *Result Update*
11-Aug-22	Page Industries	Strong showing; pricing in a lot more; *Result Update*
26-May-22	Page Industries	Strong showing but pricing-in a lot more; *Result Update*

Rating Interpretation



Source: Bloomberg, Nuvama research

Daily Volume



Source: Bloomberg

Rating Distribution: Nuvama Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	179	62	19	260
	>50bn	**>10bn and <50bn**	**<10bn**	**Total**
Market Cap (INR)	228	31	1	260

* *stocks under review*

Rating Rationale

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

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Abneesh Roy
Head of Research Committee
Abneesh.Roy@nuvama.com

ABNEESH KUMAR ROY

Digitally signed by ABNEESH KUMAR ROY
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