

TCNS CLOTHING

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	473
12 month price target (INR)	520
Market cap (INR bn/USD bn)	29/0.4
Free float/Foreign ownership (%)	67.7/17.6
What's Changed	
Target Price	↓
Rating/Risk Rating	↓

QUICK TAKE

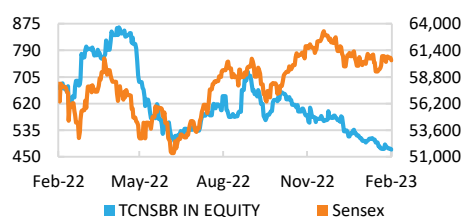
	Above	In line	Below
Profit			•
Margins			•
Revenue Growth			•
Overall			•

FINANCIALS

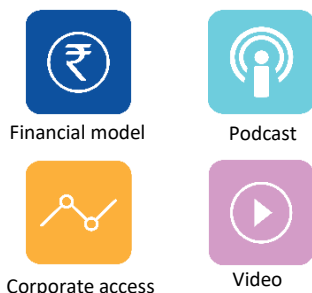
(INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Revenue	8,961	12,409	13,899	15,275
EBITDA	890	1,580	2,286	2,567
Adjusted profit	(57)	183	627	723
Diluted EPS (INR)	(0.9)	2.9	9.9	11.4
EPS growth (%)	(89.9)	nm	242.9	15.2
RoAE (%)	(0.9)	2.8	8.9	9.4
P/E (x)	nm	162.0	47.2	41.0
EV/EBITDA (x)	27.8	15.4	10.5	9.2
Dividend yield (%)	0	0	0	0

PRICE PERFORMANCE



Explore:



Underdressed: Muted showing all over

We are downgrading TCNS Clothing (TCNS) to 'HOLD' following its persistent underperformance vis-a-vis peers. In addition, the recent issues with the collection at W raises a question on execution, calling for sustenance of growth to re-inspire comfort. Q3FY23 was another disappointing quarter with a revenue decreasing 7% YoY (18% miss)

Factoring in the underperformance, we are cutting FY24E EBITDA by 17%. We are also increasing our cost of capital assumption given uncertainty around execution. This yields a revised TP of INR520 (INR786 earlier), implying 14x FY25E EV/EBITDA. Only growth revival and normalisation of performance vis-à-vis peers can trigger improvement in valuations.

Growth contracts across channels – ex-EBO – and brands

TCNS reported revenue contraction of 7% YoY (93% of Q3FY20). Management attributed this to: i) overall muted demand environment; ii) delayed winter onset; iii) collection failure in W; and iv) recognition impact in online (~7% impact). W/Aurelia reported contraction of 9%/4%. By channel, EBO was the only channel to report an uptick in growth, up 10% YoY, driven by store addition. The LFS channel contracted 9% YoY. The online channel continued to disappoint, contracting 34% YoY. Management attributed this to the shift in business model from B2B to D2C, which was delaying revenue recognition. Gross margin improved YoY by 51bp to 67.3%. However, the sales contraction dragged EBITDA margin to 13%, down 620bp YoY. EBITDA slid 37% YoY. Overall, the company reported marginal PAT of INR5mn versus INR251mn in Q3FY22. TCNS is not expecting any major impact on Q4 performance from the leftover inventory in W.

Expansion on course; non-apparel share improving in select stores

The company has opened 16 stores (32 on a net basis) in Q3FY23. TCNS at present has not scaled down its plans to add stores and will look at adding 80-100 stores forward. TCNS also highlighted that in large stores (Project Rise) non-apparel is contributing 15% of revenues. Target is to take it to 25%.

Outlook and valuation: Growth revival lacking; downgrade to 'HOLD'

Factoring in the miss in performance, we are cutting FY24E EBITDA by 17%. We are also increasing our cost of capital assumptions given uncertainty around execution. This yields a revised TP of INR520 (INR748 earlier), implying 14x FY25E EV/EBITDA.

Financials

Year to March	Q3FY23	Q3FY22	% Change	Q2FY23	% Change
Net Revenue	3,061	3,285	(6.8)	3,505	(12.7)
EBITDA	397	630	(37.0)	461	(13.9)
Adjusted Profit	5	251	(98.0)	76	(93.4)
Diluted EPS (INR)	0.1	4.1	(98.0)	1.2	(93.4)

Financial Statements

Income Statement (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Total operating income	8,961	12,409	13,899	15,275
Gross profit	5,865	8,438	9,451	10,387
Employee costs	1,502	1,833	2,014	2,158
Other expenses	3,472	5,025	5,150	5,661
EBITDA	890	1,580	2,286	2,567
Depreciation	944	1,090	1,278	1,372
Less: Interest expense	372	455	524	596
Add: Other income	353	209	352	365
Profit before tax	(72)	244	836	963
Prov for tax	(15)	61	209	241
Less: Other adj	0	0	0	0
Reported profit	(57)	183	627	723
Less: Excp.item (net)	0	0	0	0
Adjusted profit	(57)	183	627	723
Diluted shares o/s	62	64	64	64
Adjusted diluted EPS	(0.9)	2.9	9.9	11.4
DPS (INR)	0	0	0	0
Tax rate (%)	20.6	25.0	25.0	25.0

Important Ratios (%)

Year to March	FY22A	FY23E	FY24E	FY25E
EBO addition (#)	48.0	60.0	60.0	60.0
LFS addition (#)	175.0	150.0	100.0	50.0
Revenue per EBO (%) YoY)	57.5	50.0	3.0	3.0
EBITDA margin (%)	9.9	12.7	16.5	16.8
Net profit margin (%)	(0.6)	1.5	4.5	4.7
Revenue growth (% YoY)	41.0	38.5	12.0	9.9
EBITDA growth (% YoY)	3,549.0	77.4	44.7	12.3
Adj. profit growth (%)	(89.8)	nm	242.9	15.2

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	68.0	68.0	68.0
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

Valuation Metrics

Year to March	FY22A	FY23E	FY24E	FY25E
Diluted P/E (x)	nm	162.0	47.2	41.0
Price/BV (x)	4.6	4.4	4.0	3.7
EV/EBITDA (x)	27.8	15.4	10.5	9.2
Dividend yield (%)	0	0	0	0

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Share capital	123	125	125	125
Reserves	6,075	6,593	7,220	7,942
Shareholders funds	6,199	6,718	7,345	8,067
Minority interest	0	0	0	0
Borrowings	0	0	0	0
Trade payables	1,716	1,390	1,557	1,711
Other liabs & prov	58	390	504	609
Total liabilities	13,034	15,062	17,679	20,333
Net block	436	637	832	997
Intangible assets	3,597	4,682	5,818	7,125
Capital WIP	16	16	16	16
Total fixed assets	4,049	5,336	6,666	8,138
Non current inv	0	0	0	0
Cash/cash equivalent	1,563	1,920	2,365	2,696
Sundry debtors	1,738	1,861	2,085	2,291
Loans & advances	1,963	2,792	3,127	3,437
Other assets	3,720	3,152	3,435	3,771
Total assets	13,034	15,062	17,679	20,333

Free Cash Flow (INR mn)

Year to March	FY22A	FY23E	FY24E	FY25E
Reported profit	(57)	183	627	723
Add: Depreciation	944	1,090	1,278	1,372
Interest (net of tax)	295	341	393	447
Others	(129)	(95)	(221)	(215)
Less: Changes in WC	0	562	487	523
Operating cash flow	1,053	957	1,591	1,804
Less: Capex	(317)	(400)	(450)	(495)
Free cash flow	736	557	1,141	1,309

Key Ratios

Year to March	FY22A	FY23E	FY24E	FY25E
RoE (%)	(0.9)	2.8	8.9	9.4
RoCE (%)	4.8	10.8	19.3	20.2
Inventory days	377	303	255	254
Receivable days	69	53	52	52
Payable days	155	143	121	122
Working cap (% sales)	56.8	44.0	43.4	43.3
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.3)	(0.3)	(0.3)	(0.3)
Interest coverage (x)	(0.1)	1.1	1.9	2.0

Valuation Drivers

Year to March	FY22A	FY23E	FY24E	FY25E
EPS growth (%)	(89.9)	nm	242.9	15.2
RoE (%)	(0.9)	2.8	8.9	9.4
EBITDA growth (%)	3,549.0	77.4	44.7	12.3
Payout ratio (%)	nm	0	0	0

Q3FY23 conference call: Key highlights

Q3FY23

- Company had a collection launch failure in previous quarter. This was the first failure launch in a decade
- Company had rental concession of INR77mn in Q3FY22. There were no rental concessions this year
- Company has been in bottom quartile in performance this season
- EOSS started in second week of December and just concluded. It extended for 7-10 days extra than normal.
- There we no abnormal inventory write-off this quarter

Brand wise

- Aurelia was impacted due value retail format, a large channel for Aurelia, seeing a larger impact from slowdown. B2B billing also affected Aurelia more than others.
- In relation to the collection failure in W: When company was designing range in W, fabric prices were at an all-time high. Company went for Polyester and print driven designs. However, when the market improved, premium segment revived faster and the collection was found lacking. There is still a small portion of stock there. Only 10-15% of the collection is left
- In large stores, (Project Rise) non-apparel is contributing 15% of revenues. Target is to take it to 25%.

Channel/Online

- The shift in B2B to D2C in online will have an impact on the growth in the online business. Lower B2B billing impacted revenues by INR200-250mn
- At present, D2C is 2/3rd of revenues
- Historically not everyone had a B2B model. Pre Covid majority of online companies had B2B model. There is a shift towards B2C post covid by these platforms
- Own website was 25% of total online sales
- There is 100% price parity on fresh collections
- The large account in LFS channel which has stopped operations contributed 10% of LFS business, 3-4% of overall business

Outlook

- In January: Delayed winter has helped but this has happened at discounted prices
- Meaningful growth should be seen as the range has been resorted. Post Pujo, company is seeing an improvement in ethnic wear category
- Store addition will remain strong despite any slowdown
- Target of mid to high single digit SSSG and 80-100 stores per annum
- Company is not carrying any high cost inventory which could impact gross margins in the future
- SS'23 should be launched by end of February

Exhibit 1: Summary of key parameters

	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
<u>Key Financials (INR mn)</u>													
Revenue	3,290	2,192	324	1,441	2,379	2,211	938	2,393	3,285	2,344	2,764	3,505	3,061
EBITDA	679	-48	-427	-163	385	229	-234	302	630	198	313	461	397
PAT	550	-238	-453	-276	127	39	-361	111	251	-58	24	76	5
<u>Key Metrics</u>													
Revenue Growth (% YoY)	10	-25	-88	-55	-28	1	189	66	38	6	195	46	-7
Gross Margin (%)	68	58	51	52	61	57	56	63	68	69	69	67	68
EBITDA Margin (%)	21	-2	-132	-11	16	10	-25	13	19	8	11	13	13
<u>Brand Wise Growth (% YoY)</u>													
W	2	-25	-89	-57	-27	-2	211	63	33	6	179	38	-9
Aurelia	25	-31	-87	-51	-23	11	184	70	42	6	195	50	-4
Wishful	2	-22	-91	-65	-51	-23	59	66	61	6	489	105	-7
<u>Store Count (#)</u>													
EBO	586	595	587	574	561	551	549	557	575	599	616	648	664
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	2,502
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	1,128
<u>Channel Wise Growth (% YoY)</u>													
EBO	9	-23	-98	-72	-36	-22	624	140	42	15	548	54	10
LFS	19	-14	-91	-60	-33	1	180	71	42	-4	312	51	-9
Online	33	-52	-45	147	28	253	144	11	2	-24	-26	7	-34
MBO	-58	-45	-94	-83	-76	-57	45	0	590	218	195	193	-25
SSSG (%)	2	-15	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

Source: Company, Nuvama Research

Exhibit 2: Financial snapshot

Year to March	Q3FY23	Q3FY22	% YoY	Q2FY23	% QoQ	FY22	FY23E	FY24E
Revenue	3,061	3,285	(6.8)	3,505	(12.7)	8,961	12,409	13,899
Raw material costs	970	1,058	(8.3)	1,148	(15.5)	3,096	3,971	4,448
Gross profit	2,091	2,227	(6.1)	2,357	(11.3)	5,865	8,438	9,451
Employee costs	455	422	7.9	475	(4.2)	1,502	1,833	2,014
Other expenses	1,239	1,175	5.4	1,421	(12.8)	3,472	5,025	5,150
Total operating expenses	1,694	1,597	6.1	1,896	(10.7)	4,975	6,859	7,165
EBITDA	397	630	(37.0)	461	(13.9)	890	1,580	2,286
Depreciation	294	229	28.4	271	8.5	944	1,090	1,278
EBIT	103	401	NM	190	NM	(53)	490	1,008
Less: Interest Expense	134	95	40.9	108	24.2	372	455	524
Add: Other income	38	47	(19.1)	18	112.8	353	209	352
Profit Before Tax	7	353	NM	101	NM	(72)	244	836
Less: Provision for Tax	2	103	NM	24	NM	(15)	61	209
Add: Exceptional items	0	0		0		0	0	0
Reported Profit	5	251	NM	76	NM	(57)	183	627
Adjusted Profit	5	251	NM	76	NM	(57)	183	627
NOSH	62	62		62		62	64	64
Adjusted EPS	0.1	4.1	NM	1.2	NM	(0.9)	2.9	9.9
P/E (x)						(502)	162	47
EV/EBITDA (x)						35.2	21.2	15.2
ROAE (%)						(1)	3	9
As % of revenues								
COGS	31.7	32.2		32.7		34.5	32.0	32.0
Gross profit	68.3	67.8		67.3		65.5	68.0	68.0
Employee costs	14.9	12.8		13.6		16.8	14.8	14.5
Other expenses	40.5	35.8		40.5		38.8	40.5	37.1
Total operating expenses	55.3	48.6		54.1		55.5	55.3	51.5
EBITDA	13.0	19.2		13.2		9.9	12.7	16.5
Net profit	0.2	7.6		2.2		(0.6)	1.5	4.5

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 its portfolio 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

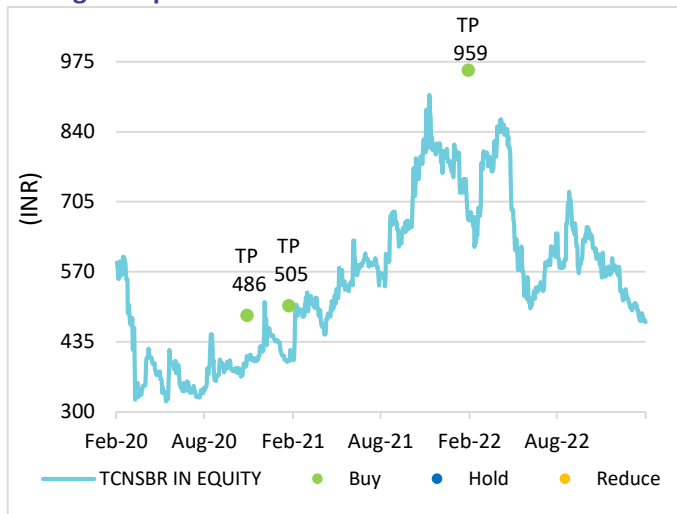
Recent Company Research

Date	Title	Price	Reco
11-Nov-22	Stable showing; still lagging peers; <i>Result Update</i>	584	Buy
12-Aug-22	Awaiting full blown recovery; <i>Result Update</i>	644	Buy
27-May-22	Muted recovery; stepping up expansion; <i>Result Update</i>	579	Buy

Recent Sector Research

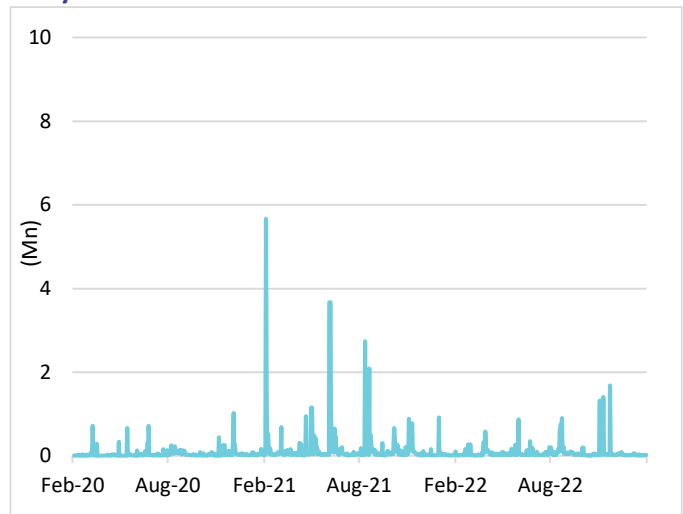
Date	Name of Co./Sector	Title
10-Feb-23	Page Industries	Margin hit; normalising pent up growth ; <i>Result Update</i>
10-Nov-22	Page Industries	Stable showing; growth under a cloud; <i>Result Update</i>
11-Aug-22	Page Industries	Strong showing; pricing in a lot more; <i>Result Update</i>

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

*1 stocks under review

Rating Rationale

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

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