

# TCNS Clothing Co.

## SELL

Below expected

### Summary

TCNS reported below expected result for 1QFY22. TCNS could operate for 48% trading days during 1QFY22 as a consequence there was 44% recovery in the overall business. Online channel grew 1% QoQ and contributed c. 50% to revenue. EBO and LFS channels were more impacted due to lockdown. Gross margin expanded during the quarter due to channel mix. TCNS added 1 W while closed 3 Aurelia stores during the quarter. Positively, Omni Channel initiative has been rolled out in 100 stores with on-boarding of 3 major channel partners. This should help in improving contribution and business economics from online. We expect slower recovery and pressure on operating profit in existing business. Accordingly, we have cut our EPS estimate by 52% in FY22E. Our revised TP stands at Rs 469. We maintain SELL.

### Key Highlights and Investment Rationale

#### Revenue stood at 44% pre-covid aided by online channel

Revenue grew 189%YoY (vs -88%YoY in 1QFY21). Overall business remains at c. 44% pre-covid impacted by restricted number of trading days (at 48% 1QFY22). Revenue from online channel stood at Rs 470mn (+1% QoQ). Online contributes 50% to revenue. However, revenue from other channels (EBO and LFS) stood at 24-30% of 4QFY21. On brands; W and Aurelia revenue stood at 43-45% of 4QFY21. During the quarter; TCNS added 1 W store while shut down 3 Aurelia stores..

#### Operating loss due to negative operating leverage; cash reserve remains strong

Gross margin expanded 506bp YoY to 56% driven by channel mix. EBITDA loss stood at Rs 234mn (vs loss of Rs 427mn in 1QFY21). Cash reserve stands at Rs 1.4 bn (vs Rs.1.2bn in 1QFY21) primarily driven by cost rationalization and working capital reduction.

#### Maintain SELL

As per revised business outlook; we have cut our EPS estimates by 52% in FY22E and 2% in FY23E. We expect slower recovery in revenue and pressure on operating profit margins. Our revised TP stands at Rs 469 (previous TP Rs 476) with SELL rating.

TP	Rs469	
CMP	Rs568	
Potential upside / downside	-17%	

#### V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	6.5	15.6
Consensus	6.6	19.1
% difference	(1.7)	(18.5)

#### Shareholding Pattern (%)

Promoters	32.3
FII	17.8
DII	3.6
Public	46.3

#### Price Performance (%)

	-1m	-3m	-12m
Absolute	(6.2)	12.0	64.1
Rel to Sensex	(10.2)	(0.7)	20.9

#### Key Stock Data

Bloomberg / Reuters	TCNSBR IN
Sector	Retail
Shares o/s (mn)	62
Market cap. (Rs mn)	34,929
Market cap. (US\$ mn)	504
3-m daily average value (Rs mn)	--
52-week high / low	Rs652 / 399
Sensex / Nifty	55,437 / 16,529

#### Relative to Sensex (%)



#### Financial snapshot

	(Rs mn)				
Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	11,480	11,487	6,354	9,405	13,162
EBITDA	1,932	1,863	24	1,456	2,811
EBITDA (%)	16.8	16.2	0.4	15.5	21.4
Adj. PAT	1,478	694	(564)	432	1,039
EPS (Rs)	24.1	11.3	(9.2)	6.5	15.6
EPS Growth (%)	28.7	(53.2)	(181.3)	(170.8)	140.5
PE (x)	24.1	51.5	(63.3)	89.5	37.2
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	18.3	18.9	1,487.6	23.9	11.6
RoE (%)	28.2	10.9	(8.9)	7.2	17.4
RoCE (%)	31.8	10.3	(9.5)	4.2	11.3

Source: IDBI Capital Research;

## Exhibit 1: Quarterly Snapshot

(INR m)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Revenues</b>	<b>938</b>	<b>324</b>	<b>189.4</b>	<b>2,210</b>	<b>-57.5</b>	<b>6,354</b>	<b>11,487</b>	<b>-44.7</b>
COGS	415	160	159.7	941	-55.9	2,723	4,023	-32.3
Gross profit	524	165	218.3	1,269	-58.8	3,631	7,463	-51.4
<b>Gross Margin (%)</b>	<b>55.8</b>	<b>50.7</b>	<b>506 bps</b>	<b>57.4</b>	<b>-164 bps</b>	<b>57.1</b>	<b>65.0</b>	<b>-783 bps</b>
Employee expenses	311	328	-5.1	319	-2.4	1,214	1,576	-23.0
% of net sales	33.1	101.0	-6788 bps	14.4	1872 bps	19.1	13.7	538 bps
Rent expenses	32	0		0		17	226	-92.6
% of net sales	3.4	0.0	340 bps	0.0	340 bps	0.3	2.0	-170 bps
Other Expenses	415	264	57.1	722	-42.6	2,376	3,799	-37.4
% of net sales	44.2	81.4	-3719 bps	32.7	1150 bps	37.4	33.1	432 bps
<b>EBITDA</b>	<b>-233.76</b>	<b>-427</b>	<b>-45.2</b>	<b>228</b>	<b>-202.3</b>	<b>24</b>	<b>1,863</b>	<b>-98.7</b>
<b>EBITDA Margin (%)</b>	<b>(24.9)</b>	<b>(131.6)</b>	<b>10673 bps</b>	<b>10.3</b>	<b>-3525 bps</b>	<b>0.4</b>	<b>16.2</b>	<b>-1584 bps</b>
Depreciation	206	252	-18.1	249	-17.2	919	1,032	-10.9
EBIT	-440	-679	-35.1	-21	2005.93	-895	831	-207.7
Other Income	30	166	-82.1	181.10	-83.6	489.70	211	131.7
Interest Expenses	80	91	-12.6	114	-30.1	364.27	382	-4.6
<b>PBT</b>	<b>-490</b>	<b>-604</b>	<b>-18.9</b>	<b>46</b>	<b>-1165.1</b>	<b>-769.67</b>	<b>660.6</b>	<b>-216.5</b>
Taxes	-130	-151		8		-205	-34	
<b>Adjusted PAT</b>	<b>-361</b>	<b>-453</b>	<b>-20.4</b>	<b>38</b>	<b>-1,052.2</b>	<b>-564</b>	<b>694</b>	<b>-181.3</b>
Extra-ordinary items	0	0		0		0	0	
Reported PAT	-361	-453	-20.4	38	-1,052.2	-564.2	694.2	-181.3
<b>EPS</b>	<b>-5.4</b>	<b>-7.4</b>	<b>-26.4</b>	<b>0.6</b>	<b>-980.3</b>	<b>-9.2</b>	<b>11.3</b>	<b>-181.0</b>

Source: Company; IDBI Capital Research

**Exhibit 2: Brand wise and channel wise quarterly trend**

Particular	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Brand wise revenue growth (% YoY)</b>					
W	(89)	(57)	(27)	(2)	211
Aurelia	(87)	(51)	(23)	11	184
Wishful	(91)	(65)	(51)	(23)	59
<b>Revenue share (%)</b>					
W	55	56	55	56	57
Aurelia	40	39	39	38	40
Wishful	5	5	6	6	3
<b>Revenue share (%)</b>					
MBO	4	0	1	3	0
LFS	31	35	39	42	30
EBOs	8	27	37	35	20
Online and others	57	38	23	21	50
<b>Store count</b>					
EBO store count	587	574	561	551	549
LFS store count	1952	1987	2065	2123	2154
MBO store count	1064	1012	1048	1011	1008

Source: Company; IDBI Capital Research

**Exhibit 3: Actual vs. Estimates (Rs mn)**

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	938	861	8.9
EBITDA (comparable basis)	-234	-184	NA
Margin (%)	-24.9	-21.3	
APAT (comparable basis)	-361	-303	NA

Source: Company; IDBI Capital Research

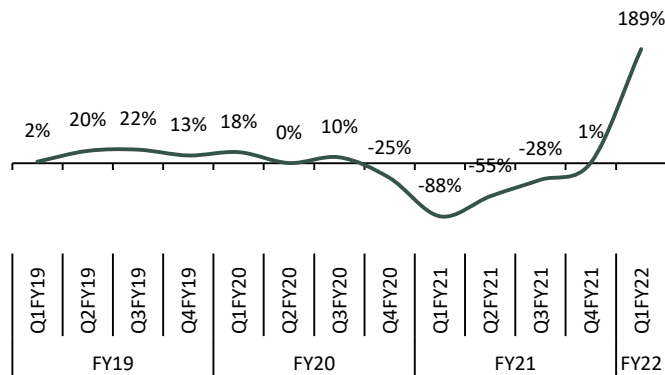
**Exhibit 4: Change in estimates**

	FY22E			FY23E		
	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	9,405	10,819	-13.1%	13,162	13,615	-3.3%
EBITDA (Rs mn)	1,456	2,075	-29.8%	2,811	2,835	-0.8%
EBITDA margin (%)	15.5%	19.2%	-369 bps	21.4%	20.8%	54 bps
Net profit (Rs mn)	432	896	-51.8%	1,039	1,057	-1.7%
EPS (Rs)	6.5	13.5	-51.8%	15.6	15.9	-1.7%

Source: Company; IDBI Capital Research

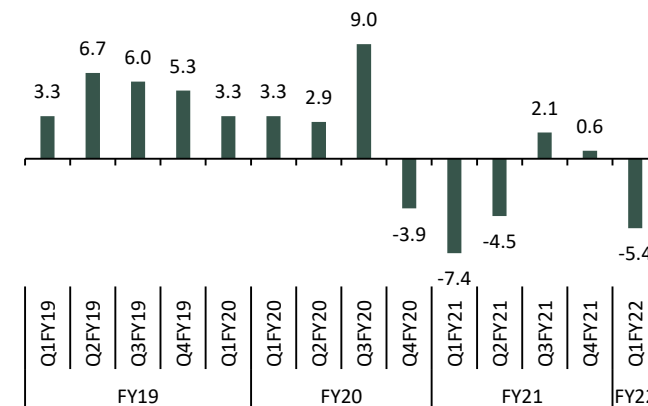
<div><b>Exhibit 5: Brand wise revenue share (1QFY22)</b></div> <div><table><tr><th>Brand</th><th>Share (%)</th></tr><tr><td>W</td><td>57%</td></tr><tr><td>Aurelia</td><td>40%</td></tr><tr><td>Wishful</td><td>3%</td></tr></table></div> <div><i>Source: Company; IDBI Capital Research</i></div>	Brand	Share (%)	W	57%	Aurelia	40%	Wishful	3%	<div><b>Exhibit 6: Brand wise revenue growth (% YoY)</b></div> <div><table><tr><th>Brand</th><th>Q1FY21</th><th>Q2FY21</th><th>Q3FY21</th><th>Q4FY21</th><th>Q1FY22</th></tr><tr><td>W</td><td>-87%</td><td>-57%</td><td>-27%</td><td>-2%</td><td>211%</td></tr><tr><td>Aurelia</td><td>-89%</td><td>-65%</td><td>-51%</td><td>11%</td><td>184%</td></tr><tr><td>Wishful</td><td>-91%</td><td>-65%</td><td>-51%</td><td>-23%</td><td>59%</td></tr></table></div> <div><i>Source: Company; IDBI Capital Research</i></div>	Brand	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	W	-87%	-57%	-27%	-2%	211%	Aurelia	-89%	-65%	-51%	11%	184%	Wishful	-91%	-65%	-51%	-23%	59%
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<div><b>Exhibit 7: Channel wise revenue share (1QFY22)</b></div> <div><table><tr><th>Channel</th><th>Share (%)</th></tr><tr><td>Online and others</td><td>50%</td></tr><tr><td>LFS</td><td>30%</td></tr><tr><td>EBOs</td><td>20%</td></tr></table></div> <div><i>Source: Company; IDBI Capital Research</i></div>	Channel	Share (%)	Online and others	50%	LFS	30%	EBOs	20%	<div><b>Exhibit 8: No. of stores (1QFY22)</b></div> <div><table><tr><th>Period</th><th>EBO</th><th>LFS</th><th>MBO</th></tr><tr><td>Q3FY21</td><td>561</td><td>2065</td><td>1048</td></tr><tr><td>Q4FY21</td><td>551</td><td>2123</td><td>1011</td></tr><tr><td>Q1FY22</td><td>549</td><td>2154</td><td>1008</td></tr></table></div> <div><i>Source: Company; IDBI Capital Research</i></div>	Period	EBO	LFS	MBO	Q3FY21	561	2065	1048	Q4FY21	551	2123	1011	Q1FY22	549	2154	1008								
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**Exhibit 9: Revenue growth (YoY%)**



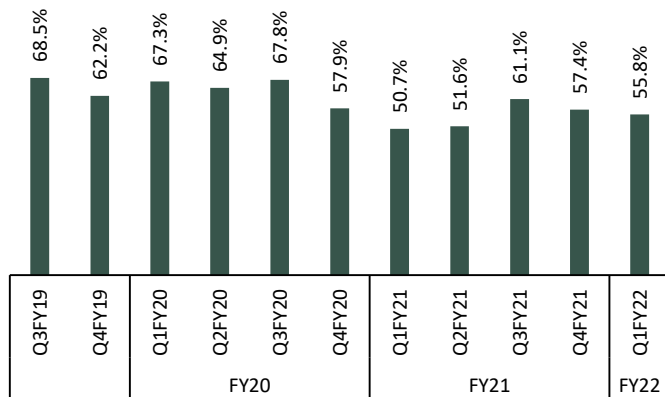
Source: Company; IDBI Capital Research

**Exhibit 10: EPS Trend**



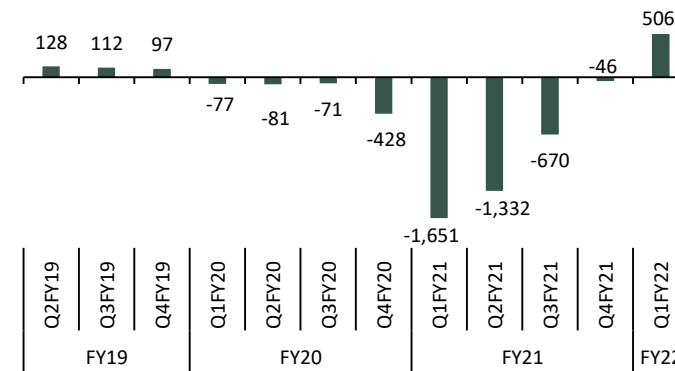
Source: Company; IDBI Capital Research

**Exhibit 11: Gross margin (%)**



Source: Company; IDBI Capital Research

**Exhibit 12: Change in gross margin (YoY in bps)**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
<b>Net sales</b>	<b>11,487</b>	<b>6,354</b>	<b>9,405</b>	<b>13,162</b>
<i>Growth (%)</i>	<i>0.1</i>	<i>(44.7)</i>	<i>48.0</i>	<i>40.0</i>
Operating expenses	(9,624)	(6,330)	(7,948)	(10,351)
<b>EBITDA</b>	<b>1,863</b>	<b>24</b>	<b>1,456</b>	<b>2,811</b>
<i>Growth (%)</i>	<i>-3.6</i>	<i>-98.7</i>	<i>5,981.0</i>	<i>93.0</i>
Depreciation	(1,032)	(919)	(1,026)	(1,280)
<b>EBIT</b>	<b>831</b>	<b>(895)</b>	<b>430</b>	<b>1,531</b>
Interest paid	(382)	(364)	(344)	(388)
Other income	211	490	490	243
<b>Pre-tax profit</b>	<b>661</b>	<b>(770)</b>	<b>576</b>	<b>1,385</b>
Tax	34	205	(144)	(346)
<i>Effective tax rate (%)</i>	<i>(5.1)</i>	<i>26.7</i>	<i>25.0</i>	<i>25.0</i>
Minority Interest	-	-	-	-
<b>Net profit</b>	<b>694</b>	<b>(564)</b>	<b>432</b>	<b>1,039</b>
Exceptional items	-	-	-	-
<b>Adjusted net profit</b>	<b>694</b>	<b>(564)</b>	<b>432</b>	<b>1,039</b>
<i>Growth (%)</i>	<i>(53.0)</i>	<i>(181.3)</i>	<i>(176.6)</i>	<i>140.5</i>
<i>Shares o/s (mn nos)</i>	<i>61</i>	<i>61</i>	<i>67</i>	<i>67</i>

### Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	661	(770)	576	1,385
Depreciation	1,031	919	1,026	1,280
Tax paid	(266)	337	(144)	(346)
Chg in working capital	(452)	122	759	(1,102)
Other operating activities	336	525	344	388
<b>Cash flow from operations (a)</b>	<b>1,310</b>	<b>1,134</b>	<b>2,561</b>	<b>1,606</b>
Capital expenditure	(324)	(148)	(204)	(306)
Chg in investments	299	(408)	(520)	(694)
Other investing activities	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(25)</b>	<b>(556)</b>	<b>(724)</b>	<b>(1,000)</b>
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	-	-	(54)	-
Dividend (incl. tax)	-	-	-	-
Chg in minorities	-	54	-	-
Other financing activities	(971)	(1,014)	1,971	1,510
<b>Cash flow from financing (c)</b>	<b>(971)</b>	<b>(960)</b>	<b>1,918</b>	<b>1,510</b>
<b>Net chg in cash (a+b+c)</b>	<b>314</b>	<b>(382)</b>	<b>3,755</b>	<b>2,115</b>

## Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	455	333	402	539
Investments	480	444	444	444
Other non-curr assets	3,917	3,369	2,998	3,373
<b>Current assets</b>	<b>7,124</b>	<b>6,594</b>	<b>9,647</b>	<b>13,251</b>
Inventories	3,302	2,781	2,293	3,210
Sundry Debtors	1,756	1,648	1,434	2,007
Cash and Bank	532	149	3,904	6,019
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
<b>Total assets</b>	<b>11,976</b>	<b>10,741</b>	<b>13,492</b>	<b>17,608</b>
<b>Shareholders' funds</b>	<b>6,600</b>	<b>6,120</b>	<b>5,875</b>	<b>6,072</b>
Share capital	123	123	123	123
Reserves & surplus	6,477	5,997	5,752	5,949
<b>Total Debt</b>	<b>-</b>	<b>54</b>	<b>-</b>	<b>-</b>
Secured loans	-	54	-	-
Unsecured loans	-	-	-	-
Other liabilities	3,188	2,814	5,806	9,337
<b>Curr Liab &amp; prov</b>	<b>2,188</b>	<b>1,754</b>	<b>1,811</b>	<b>2,198</b>
Current liabilities	2,184	1,750	1,807	2,194
Provisions	3	4	4	4
<b>Total liabilities</b>	<b>5,376</b>	<b>4,622</b>	<b>7,617</b>	<b>11,535</b>
<b>Total equity &amp; liabilities</b>	<b>11,976</b>	<b>10,741</b>	<b>13,492</b>	<b>17,608</b>
<b>Book Value (Rs)</b>	<b>107</b>	<b>100</b>	<b>88</b>	<b>91</b>

Source: Company; IDBI Capital Research

## Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	14.6	16.8	18.8	21.3
Adj. EPS growth (%)	(36.1)	15.0	11.6	13.4
EBITDA margin (%)	21.6	21.7	22.9	23.7
Pre-tax margin (%)	18.6	19.3	21.0	22.1
ROE (%)	19.7	19.9	19.5	20.4
ROCE (%)	18.1	20.5	23.9	24.8
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	0.7	0.8	0.8	0.8
Leverage factor (x)	1.9	1.7	1.5	1.5
Net margin (%)	15.1	15.6	15.7	16.5
Net Debt/Equity (x)	0.2	0.0	(0.1)	(0.1)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	63	57	57	57
Receivable days	43	33	33	33
Payable days	117	91	93	94

## Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	51.5	-63.3	89.5	37.2
Price / Book value (x)	5.4	5.8	6.6	6.4
PCE (x)	20.7	100.7	26.5	16.7
EV / Net sales (x)	3.1	5.6	3.7	2.5
EV / EBITDA (x)	18.9	1,487.6	23.9	11.6
Dividend Yield (%)	0.0	0.0	0.0	0.0



# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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