

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

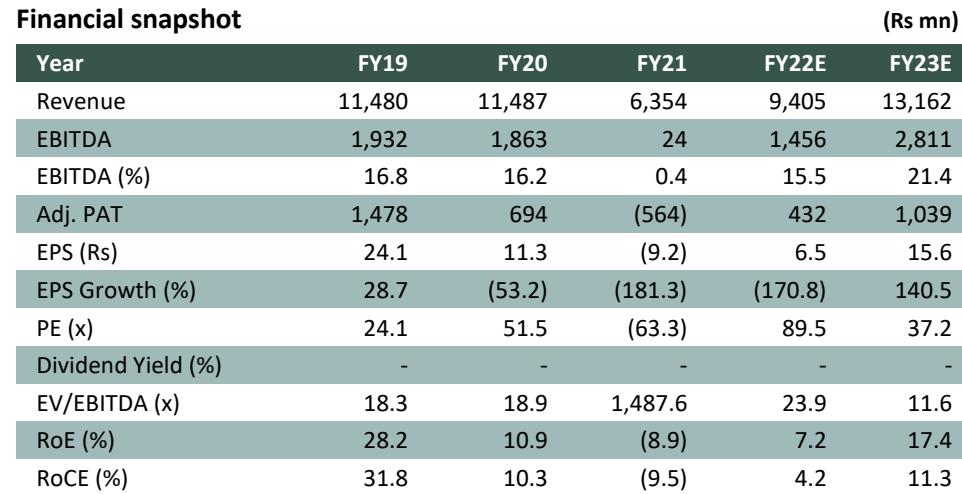
As per revised business outlook; we have cut our EPS estimates by 52% in FY22E and 2% in FY23E. We expect slower recovery in revenue and pressure on operating profit margins. Our revised TP stands at Rs 469 (previous TP Rs 476) with SELL rating.

TP CMP	Rs469 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



Source: IDBI Capital Research;

Exhibit 1: Quarterly Snapshot

(INR m)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues	938	324	189.4	2,210	-57.5	6,354	11,487	-44.7
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
Gross Margin (%)	55.8	50.7	506 bps	57.4	-164 bps	57.1	65.0	-783 bps
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
EBITDA	-233.76	-427	-45.2	228	-202.3	24	1,863	-98.7
EBITDA Margin (%)	(24.9)	(131.6)	10673 bps	10.3	-3525 bps	0.4	16.2	-1584 bps
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
PBT	-490	-604	-18.9	46	-1165.1	-769.67	660.6	-216.5
Taxes	-130	-151		8		-205	-34	
Adjusted PAT	-361	-453	-20.4	38	-1,052.2	-564	694	-181.3
Extra-ordinary items	0	0		0		0	0	
Reported PAT	-361	-453	-20.4	38	-1,052.2	-564.2	694.2	-181.3
EPS	-5.4	-7.4	-26.4	0.6	-980.3	-9.2	11.3	-181.0

Source: Company; IDBI Capital Research

Exhibit 2: Brand wise and channel wise quarterly trend

Particular	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Brand wise revenue growth (% YoY)					
W	(89)	(57)	(27)	(2)	211
Aurelia	(87)	(51)	(23)	11	184
Wishful	(91)	(65)	(51)	(23)	59
Revenue share (%)					
W	55	56	55	56	57
Aurelia	40	39	39	38	40
Wishful	5	5	6	6	3
Revenue share (%)					
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
EBO store count					
LFS store count	587	574	561	551	549
MBO store count	1952	1987	2065	2123	2154
	1064	1012	1048	1011	1008
<i>Source: Company; IDBI Capital Research</i>					

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

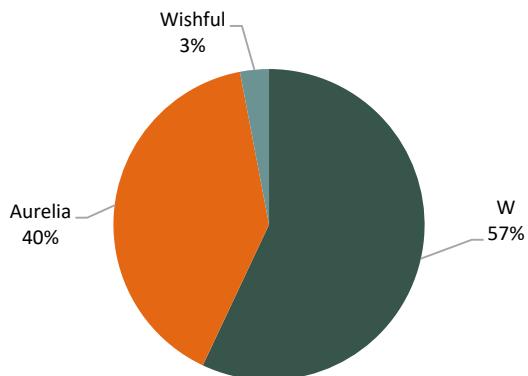
Source: Company; IDBI Capital Research

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%

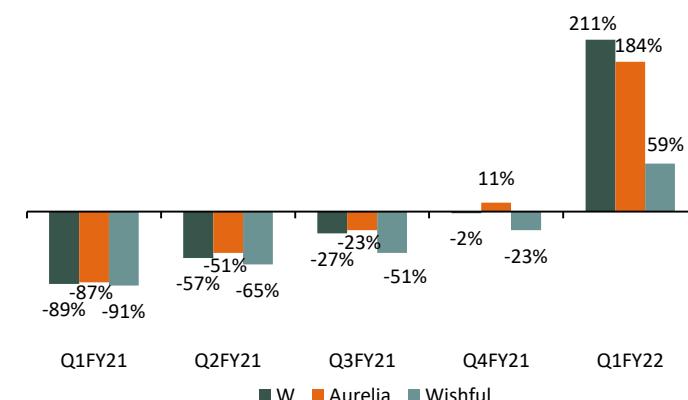
Source: Company; IDBI Capital Research

Exhibit 5: Brand wise revenue share (1QFY22)



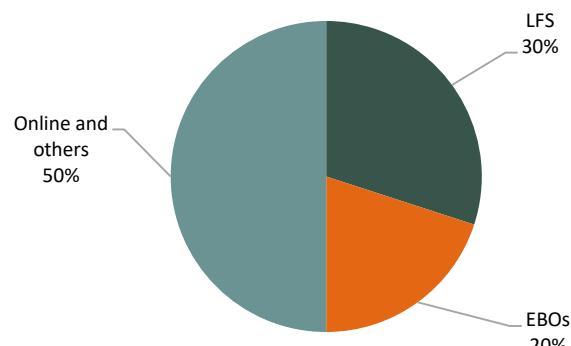
Source: Company; IDBI Capital Research

Exhibit 6: Brand wise revenue growth (% YoY)



Source: Company; IDBI Capital Research

Exhibit 7: Channel wise revenue share (1QFY22)



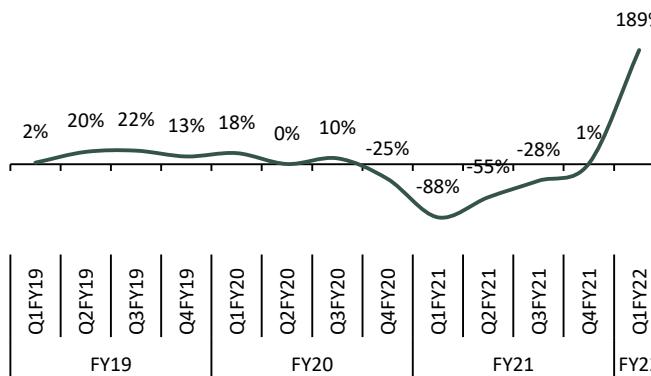
Source: Company; IDBI Capital Research

Exhibit 8: No. of stores (1QFY22)



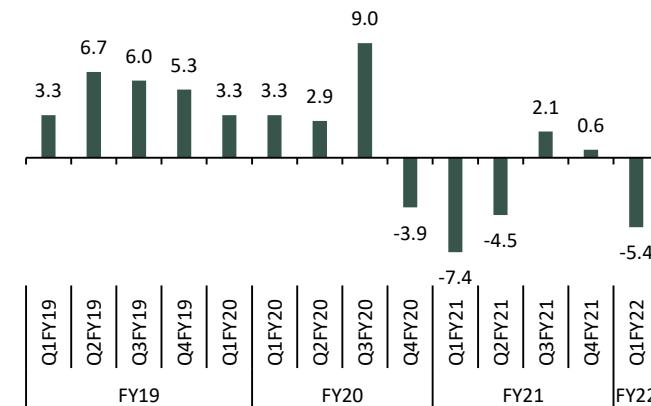
Source: Company; IDBI Capital Research

Exhibit 9: Revenue growth (YoY%)



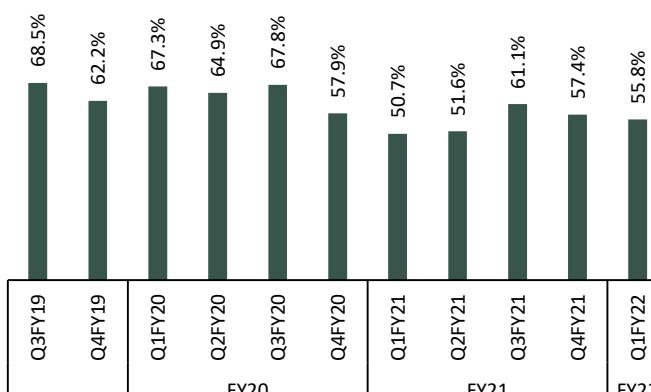
Source: Company; IDBI Capital Research

Exhibit 10: EPS Trend



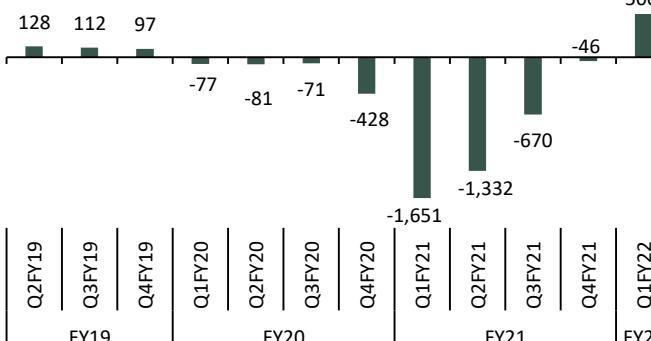
Source: Company; IDBI Capital Research

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)			Cash Flow Statement		(Rs mn)		
Year-end: March		FY20	FY21	FY22E	Year-end: March		FY20	FY21	FY22E
Net sales		11,487	6,354	9,405	13,162				
<i>Growth (%)</i>		0.1	(44.7)	48.0	40.0				
Operating expenses		(9,624)	(6,330)	(7,948)	(10,351)				
EBITDA		1,863	24	1,456	2,811				
<i>Growth (%)</i>		-3.6	-98.7	5,981.0	93.0				
Depreciation		(1,032)	(919)	(1,026)	(1,280)				
EBIT		831	(895)	430	1,531				
Interest paid		(382)	(364)	(344)	(388)				
Other income		211	490	490	243				
Pre-tax profit		661	(770)	576	1,385				
Tax		34	205	(144)	(346)				
<i>Effective tax rate (%)</i>		(5.1)	26.7	25.0	25.0				
Minority Interest		-	-	-	-				
Net profit		694	(564)	432	1,039				
Exceptional items		-	-	-	-				
Adjusted net profit		694	(564)	432	1,039				
<i>Growth (%)</i>		(53.0)	(181.3)	(176.6)	140.5				
Shares o/s (mn nos)		61	61	67	67				
						Net chg in cash (a+b+c)		314	(382)
								3,755	2,115

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	
Current assets	7,124	6,594	9,647	13,251	
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	-	-	-	-	
Total assets	11,976	10,741	13,492	17,608	
Shareholders' funds	6,600	6,120	5,875	6,072	
Share capital	123	123	123	123	
Reserves & surplus	6,477	5,997	5,752	5,949	
Total Debt	-	54	-	-	
Secured loans	-	54	-	-	
Unsecured loans	-	-	-	-	
Other liabilities	3,188	2,814	5,806	9,337	
Curr Liab & prov	2,188	1,754	1,811	2,198	
Current liabilities	2,184	1,750	1,807	2,194	
Provisions	3	4	4	4	
Total liabilities	5,376	4,622	7,617	11,535	
Total equity & liabilities	11,976	10,741	13,492	17,608	
Book Value (Rs)	107	100	88	91	

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
Turnover & Leverage ratios (x)				
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)
Working Capital & Liquidity ratio				
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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