

Prioritising cost control amid gradual recovery

As expected, Q1FY21 was a washout quarter for TCNS Clothing marred by store closures for a major period during the quarter. The main emphasis in Q1 was on sharp rationalisation of operating overhead. Revenue for the quarter fell 88% YoY to ₹ 32.4 crore. For offline sales, normalcy levels reached 40% of pre-Covid sales with strong traction in e-commerce channel (1.3x of pre-Covid levels). Provision for dormancy on unsold inventory (~₹ 3 crore) and change in channel mix (higher share of e-commerce) led gross margins to contract to 50.7% vs. 67.2% in Q1FY20. In a bid to minimise cash burn, the company rationalised operating overheads through a reduction in rental expenses (secured full year savings of ~25% over last year with ₹ 19 crore savings accounted in Q1) and employee expenses down 12% YoY to ₹ 33.0 crore (full benefit to flow in Q2). Hence, EBITDA losses were curtailed, to a certain extent, to ₹ 43.0 crore. PBT losses were at ₹ 60.4 crore with net loss at ₹ 45.3 crore (tax write back: ₹ 15.1 crore). TCNS continues to have a healthy b/s with debt free status and ₹ 125.0 crore cash and investments.

Focus on e-commerce channel, closure of unviable stores

As on date, 475 (80%) exclusive brand outlets (EBO), 1500 (~77%) large format stores (LFS) and 67% multi brand outlets (MBO) are operational. High street stores are performing better vs. mall stores (50% proportion) with sales tracking at 40% of pre-Covid levels. The management indicated that last three weeks saw a spike in sales owing to festivals like Eid, Raksha Bandhan, Independence Day. Among distribution channels, e-commerce has been the fastest growing channel for the company (~12% of sales). Online sales are currently tracking at 125%+ of pre-Covid levels, with TCNS' own website tracking at 2x pre-Covid sales. Subsequently, share of online channels spiked up sharply to 57% in Q1FY21. During the quarter, the company shut 16 unprofitable stores (four airport stores) with 25 unviable stores under consideration for closures. On store addition front, TCNS is likely to open stores that were in the pipeline in March-April (~20 stores).

Valuation & Outlook

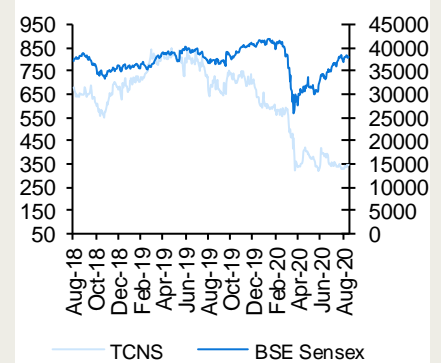
The key focus areas for remainder of the year is on optimising working capital to release cash and minimise cash burn with stringent cost control measures. Given the nature of the products (functional fashion), TCNS will be redeploying SS20 merchandise in the next two seasons, significantly reducing fresh buys. As per the company, current RM inventory (fabrics) is sufficient for remainder of the year, while it will be reusing certain fabrics to create capsule ranges (cotton range). On the cost front, TCNS has secured 20%+ fixed cost reduction for the year through rationalising unviable stores, staff overheads (20%+ savings), rental waivers, curbing discretionary spending (ad-spends). We expect certain reduction in expenses to be structural in nature. Being a net cash positive company (₹ 125.0 crore cash & investment, unutilised bank limit), TCNS would be better positioned to tide over the current turbulent market scenario vs. small peers. On a moderate base of FY20, we bake in 28% earnings CAGR in FY20-22E. We reiterate **BUY** on the stock with a revised TP of ₹ 410 (25x FY22E EPS, previous TP: ₹ 445).



Particulars

Particulars	Amount
Market Capitalisation (₹crore)	2,151.6
Total Debt (FY 20) (₹crore)	-
Cash & Investments (FY 20) (₹crore)	171.3
EV (₹crore)	1,980.3
52 Week H / L	865 / 300
Equity Capital (₹crore)	12.3
Face Value (₹)	2.0

Price Chart



Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary (Adjusted for IND-AS 116)

₹ crore	FY19	FY20A	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,148.0	1,148.7	837.9	1,198.8	2.2%
Adjusted EBITDA	193.4	89.9	40.2	153.5	30.7%
Adjusted PAT	148.0	62.5	19.4	102.4	28.0%
P/E (x)	14.5	34.4	111.7	21.5	
EV/Sales (x)	1.7	1.7	2.3	1.6	
EV/EBITDA (x)	10.3	22.0	48.2	12.5	
RoCE (%)	27.7	9.3	1.6	14.7	
RoE (%)	23.9	9.1	2.8	12.6	

Key conference call takeaways

- Around 80% of EBOs (475 stores) and 77% LFS touch points (1500) are currently operational. The stores are generating revenues at ~ 40% of pre-Covid level. The company expects all stores to be open in the next three to four weeks
- On demand trend, the management indicated that the last three weeks saw a spike in sales owing to festivals with Eid, Raksha Bandhan and Independence Day experiencing good revenue traction
- The management expects the level of discounting to be lower as customer buying appears to be need based and they are stepping out to buy what they need. Also, many retailers have postponed the end of season sales, which would keep overall discounting levels low in the industry
- On the profitability front, gross margins have been negatively impacted owing to inventory dormancy and adverse channel mix. The management indicated that if sales recover, gross margins should reach normal levels
- The impact of Covid19 has been severe on airport stores as they are witnessing the slowest pickup and most stores are struggling in terms of revenues. The company shut four airport stores during Q1FY21 and may shut some more stores if rentals of these stores are not reduced
- The management indicated that large format stores have hinted at providing more shelf space to the company's brand and such negotiation is at an initial phase
- Overall, 50% of exclusive stores are in high street and 46% in malls, while remaining are airport stores
- The MBO channel continued to face liquidity issues. The management is not looking at further rationalising the MBO channel. However, the focus would be on limited credit exposure rather than higher sales from MBO channel
- On the supply chain front, the company does not anticipate any major concern. TCNS already has inventory for the next four to five months and is not looking to make fresh purchases before January 2021
- The management indicated that markets, which have not been severely impacted by Covid-19 (non-metro cities) are recovering faster than highly impacted regions

Financial Summary

Exhibit 1: Profit & Loss Statement (₹ crore)				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Net Sales	1,148.0	1,148.7	837.9	1,198.8
Growth (%)	15.1	0.1	(27.1)	43.1
Total Raw Material Cost	389.9	402.3	343.6	431.6
Gross Margins (%)	66.0	65.0	59.0	64.0
Employee Expenses	143.6	157.6	125.3	155.9
Other Expenses	437.4	507.6	336.8	464.0
Total Operating Expenditure	970.9	1,067.5	805.7	1,051.4
EBITDA	177.0	81.2	32.2	147.5
EBITDA Margin (%)	15.4	7.1	3.8	12.3
Adjusted EBITDA	193.4	89.9	40.2	153.5
Adjusted EBITDA Margin	16.8	7.8	4.8	12.8
Interest	0.5	0.7	1.0	0.9
Depreciation	22.2	26.1	28.9	33.7
Other Income	7.5	17.6	13.0	16.0
Exceptional Expense	-	-	-	-
PBT	161.8	71.9	15.3	128.8
Total Tax	30.2	18.1	3.9	32.5
Profit After Tax	131.6	53.8	11.4	96.4
Adjusted PAT	148.0	62.5	19.4	102.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit/(Loss) after taxation	131.6	53.8	11.4	96.4
Add: Depreciation	22.2	26.1	28.9	33.7
Add: Share based payments	16.4	8.7	8.0	6.0
Net Increase in Current Assets	-90.1	-58.3	52.6	-77.9
Net Increase in Current Liabilities	12.2	7.8	-25.6	28.6
CF from operating activities	92.3	38.1	75.4	86.8
(Inc)/dec in Investments	-135.7	19.7	0.0	0.0
(Inc)/dec in Fixed Assets	-21.7	-32.0	-16.9	-40.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-157.4	-12.3	-16.9	-40.0
Inc / (Dec) in Equity Capital	1.0	0.0	0.1	0.2
Inc / (Dec) in Loan	-0.2	0.0	0.0	0.0
Others	38.4	4.3	2.0	4.0
CF from financing activities	39.1	4.4	2.1	4.2
Net Cash flow	-26.0	30.1	60.6	51.0
Opening Cash	49.1	23.1	53.2	113.8
Closing Cash	23.1	53.2	113.8	164.8

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Equity Capital	12.3	12.3	12.4	12.6
Other equity instruments	-	-	-	-
Reserve and Surplus	606.3	672.6	694.0	800.4
Total Shareholders funds	618.6	684.9	706.4	813.0
Total Debt	-	-	-	-
Non Current Liabilities	6.6	7.1	7.1	7.1
Source of Funds	625.2	692.0	713.6	820.2
Gross block	90.3	102.6	120.6	160.6
Less: Accum depreciation	36.7	62.8	91.8	125.5
Net Fixed Assets	53.6	39.7	28.8	35.1
Capital WIP	0.3	2.1	1.0	1.0
Intangible assets	5.6	3.6	3.6	3.6
Investments	137.8	118.1	118.1	118.1
Inventory	274.1	330.2	287.0	328.4
Cash	23.1	53.2	113.8	164.8
Debtors	180.7	175.6	160.7	190.5
Loans & Advances & Other C	23.0	27.6	33.1	39.8
Total Current Assets	500.9	586.7	594.6	723.6
Creditors	115.0	122.3	96.4	124.8
Provisions & Other CL	45.7	46.2	46.4	46.7
Total Current Liabilities	160.7	168.5	142.9	171.5
Net Current Assets	340.2	418.2	451.8	552.0
LT L&A, Other Assets	87.7	110.3	110.3	110.3
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	625.2	692.1	713.6	820.2

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	21.5	8.8	1.8	15.3
EPS (Adjusted)*	24.1	10.2	3.1	16.2
Cash EPS	25.1	13.0	6.5	20.6
BV	100.9	111.4	113.9	129.1
Cash Per Share	3.8	8.7	18.4	26.2
Operating Ratios (%)				
EBITDA margins	15.4	7.1	3.8	12.3
PBT margins	14.1	6.3	1.8	10.7
Net Profit margins	11.5	4.7	1.4	8.0
Inventory days	87.1	104.9	125.0	100.0
Debtor days	57.5	55.8	70.0	58.0
Creditor days	36.6	38.9	42.0	38.0
Return Ratios (%)				
RoE	23.9	9.1	2.8	12.6
RoCE	27.7	9.3	1.6	14.7
RoIC	39.8	13.1	2.4	21.6
Valuation Ratios (x)				
P/E	14.5	34.4	111.7	21.5
EV / EBITDA	10.3	22.0	48.2	12.5
EV / Sales	1.7	1.7	2.3	1.6
Market Cap / Revenues	1.9	1.9	2.6	1.8
Price to Book Value	3.5	3.1	3.1	2.7
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	3.0	3.2	3.4	3.3
Quick Ratio	1.3	1.2	1.4	1.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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