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Q2FY21 result review
and earnings revision

Branded Apparels

Target price: Rs430

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 23.8	↓ 3.5
EBITDA	NA	↓ 0.1
PAT	NA	↓ 9.0

Target price revision

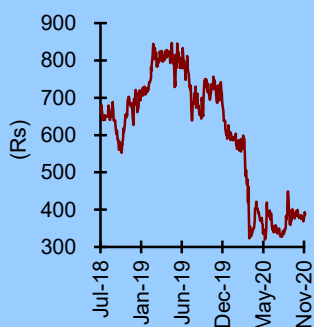
Rs430 from Rs395

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	32.3	32.3	32.3
Institutional investors	22.9	24.2	23.9
MFs and UTI	4.2	4.1	2.4
FIs and Banks	0.0	0.0	0.0
Insurance Cos.	1.5	1.4	0.2
FII	17.2	18.7	21.3
Others	44.8	43.5	43.8

Source: BSE

Price chart



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TCNS Clothing

ADD
Maintained
Rs404

Targeting positive cashflow from Q3FY21

Key takeaways from TCNS Clothing's (TCNSBR) Q2FY21 earnings: 1) Over 95% offline stores are operational as of Q2FY21-end with sales tracking ~70% of pre-Covid levels in Oct'20 with festive spike; 2) EBOs and LFS are broadly on similar recovery trajectory; primary billing in MBO channel is yet to resume, while online is growing 2x of pre-Covid levels in Q3; 3) secured ~30% reduction in fixed costs in FY21; and 4) expecting positive cashflow in Q3FY21 on the back of progressive sales recovery on lower cost and significant inventory reduction in H2FY21. We maintain our FY22E EBITDA and increase our DCF-based (Sep'22) target price to Rs430/share (earlier: Rs395) on half-yearly rollover. Maintain ADD.

- ▶ **Revenue declined 55% YoY to Rs1.4bn**, while EBITDA loss (including other income) stood at Rs117mn vs EBITDA of Rs420mn and EBITDA loss of Rs463mn in Q2FY20 and Q1FY21, respectively. W and Aurelia revenues declined by 57% YoY and 51% YoY, respectively, in Q2FY21. Gross margin sharply declined 1,334bps YoY to 51.6% owing to change in sales mix, inventory dormancy provision and higher discounting. Pre-IndAS EBITDA loss (our estimates) stood at Rs330mn vs EBITDA loss of Rs524mn in Q1FY21 and EBITDA of Rs400mn in Q2FY20.
- ▶ **EBOs and LFS broadly witnessing similar sales recovery** along with strong run up in festive season. While MBO secondary sales are gradually recovering, primary billing is yet to resume (from Q4FY21 onwards). Online sales are growing strongly at 2x pre-Covid levels in Q3FY21, while brands website are growing higher at 3x on low base and registered highest ever monthly sales in Oct'20. Accordingly, revenue share of online channel sharply increased to 38% vs 12% in Q2FY20 on low sales.
- ▶ **Incubating new categories for future growth:** W footwear launched in select pilot stores, Aurelia ethnic wear for girls introduced and opened 4 Elleven EBO stores with launch planned with select LFS and online partners.
- ▶ **Secured ~30% reduction in fixed costs in FY21.** TCNSBR has already secured full-year savings of ~35% against the contracted rentals and accounted Rs140mn (Rs330mn in H1FY21) savings in Q2FY21 with Rs86mn under rent expenses and Rs55mn under other income. Employee costs declined 24% YoY; management expects potential annualised savings of 15-20% in FY21.
- ▶ **Targeting positive OCF Q3FY21 onwards:** TCNSBR has strong balance sheet with net cash of Rs1.1bn (down from Rs1.7bn in Mar'20). Management is targeting positive OCF Q3FY21 onwards with cash burn reduced to Rs150mn per quarter on the back of progressive sales recovery on lower cost and significant inventory reduction in H2FY21 (largely in Q4FY21). TCNSBR has closed net 21 unprofitable stores in H1FY21 with 15-20 stores under consideration for closure in H2FY21.

Market Cap	Rs24.8bn/US\$335mn
Bloomberg	TCNSBR IN
Shares Outstanding (mn)	61.5
52-week Range (Rs)	742/320
Free Float (%)	67.7
FII (%)	21.3
Daily Volume (US\$'000)	255
Absolute Return 3m (%)	20.1
Absolute Return 12m (%)	(44.5)
Sensex Return 3m (%)	13.6
Sensex Return 12m (%)	8.6

Year to Mar	2020	2021E	2022E	2023E
Revenue (Rs mn)	11,487	6,528	12,274	13,855
EBITDA (Rs mn)	942	(710)	1,513	1,747
Net Income (Rs mn)	602	(663)	987	1,169
% Chg YoY	(54.2)	NA	NA	18.4
P/E (x)	43.3	NA	26.5	21.3
CEPS (Rs)	14	(6)	21	24
EV/E (x)	24.6	NA	15.2	12.9
Dividend Yield	-	-	-	-
RoCE (%)	9.1	(9.8)	14.4	14.7
RoE (%)	9.2	(10.0)	14.6	14.9

Please refer to important disclosures at the end of this report

Table 1: Q2FY21 result review - reported

(Rs mn, year ending March 31)

	Q2FY21	Q2FY20	% YoY	Q1FY21	% QoQ
Net sales	1,441	3,208	(55.1)	324	344.6
Raw materials	697	1,124	(38.0)	160	336.7
Employee cost	310	407	(23.8)	328	(5.4)
Rent	-	59	(100.0)	-	NA
Selling and distribution exps.	394	700	(43.7)	120	229.1
Others	203	267	(24.1)	144	40.6
Total Expenses	1,604	2,558	(37.3)	751	113.5
EBITDA	(163)	651	NA	(427)	NA
Interest	89	96	(7.3)	91	(3.0)
Depreciation	224	238	(6.1)	252	(11.2)
Other income	94	26	253.7	166	(43.5)
Recurring pre-tax income	(381)	344	NA	(604)	NA
Extraordinary income/(expense)	-	-	NA	-	NA
Taxation	(105)	167	NA	(151)	NA
Reported Net Income	(276)	177	NA	(453)	NA
Recurring Net Income	(276)	177	NA	(453)	NA
Ratios (%)					
Gross margin	51.6	65.0		50.7	
EBITDA margin	(11.3)	20.3		(131.7)	
Net profit margin	(19.1)	5.5		(139.8)	

Source: Company data, I-Sec research

Table 2: FCF stood at negative Rs633mn in H1FY21

Stores	H1FY20	H1FY21	% chg
Operating Cash flow	614	(391)	NA
Working Capital changes	(583)	(223)	(61.8)
Capital Commitments	(68)	(19)	(72.6)
Net Operating FCF	(38)	(633)	NA
Investing Activities	(50)	(250)	398.9
Issue of Share Capital	42	-	(100.0)
Inc(Dec) in Borrowings	-	357	NA
Chg. in Cash & Bank	(46)	(525)	NA

Source: Company data, I-Sec research

Table 3: Brand-wise sales growth

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
W	17%	12%	-6%	2%	-25%	-89%	-57%
Aurelia	13%	25%	10%	25%	-31%	-87%	-51%
Wishful	9%	38%	15%	2%	-22%	-91%	-65%

Source: Company data, I-Sec research

Table 4: Brand-wise revenue share

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
W	59%	56%	57%	55%	57%	55%	56%
Aurelia	34%	37%	35%	37%	35%	40%	39%
Wishful	7%	7%	8%	8%	8%	5%	5%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Company data, I-Sec research

Table 5: Channel-wise revenue share

	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
EBOs	49%	42%	43%	42%	45%	8%	27%
LFS	26%	43%	39%	42%	42%	31%	35%
MBOs	13%	4%	6%	3%	7%	4%	-
Online & others	12%	11%	12%	13%	6%	57%	38%
Total	100%	100%	100%	100%	100%	100%	100%

Source: Company data, I-Sec research

Table 6: Pan-India multi-channel presence

Nos.	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
MBOs	1,428	1,454	1,273	1,134	1,114	1,064	1,012
LFS	1,623	1,661	1,774	1,889	1,944	1,952	1,987
EBOs	541	552	568	586	595	587	574
Total	3,592	3,667	3,615	3,609	3,653	3,603	3,573

Source: Company data, I-Sec research

Chart 1: Continuous rebound in sales with a pronounced spike during the recent festive season



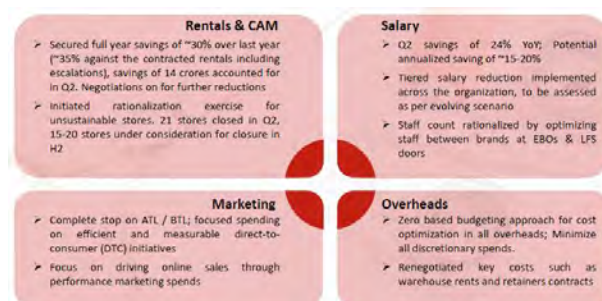
Source: Company data, I-Sec research

Chart 2: Focus areas on track



Source: Company data, I-Sec research

Chart 3: Cost controls – locked in planned cost savings across key heads



Source: Company data, I-Sec research

Chart 4: Cash conservation - targeting to reduce working capital and free-up cash in H2FY21

Finished Goods Inventory	Raw Materials Inventory	Creditors / Payables	CAPEX
<ul style="list-style-type: none"> Redeployed ₹520 stock for ₹521; reducing fresh buys going forward Responsive supply chain in place to nimbly manage demand shifts 	<ul style="list-style-type: none"> Significant portion of Spring-Summer 21 fabrics already in warehouse Limited cash outflow for additional fabric purchases for capsule ranges 	<ul style="list-style-type: none"> Reverting to utilizing full credit period; paused early payments Introduced third-party vendor financing partnership to handhold and support our vendors 	<ul style="list-style-type: none"> Selective new stores opening Continue investment in Warehousing & IT infrastructure Minimal discretionary capex

Source: Company data, I-Sec research

Chart 5: Targeting to become cash accretive Q3FY21 onwards



Source: Company data, I-Sec research

Chart 6: Incubating new categories to create long-term runways for growth

Footwear

• Contributing mid-single digits in pilot stores despite no advertising so far

Elleven

• Opened 4 EBO stores and launching with select LFS and online partners

Aurella Girls

• Range launched in MF20 with encouraging response

Source: Company data, I-Sec research

Table 7: Earnings revision

	FY21E			FY22E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	6,528	8,561	(23.8)	12,274	12,720	(3.5)
EBITDA	(710)	749	NA	1,513	1,514	(0.1)
PAT	(663)	469	NA	987	1,084	(9.0)

Source: Company data, I-Sec research

Table 8: DCF-based target price of Rs430/share

	Sep22E
10 Year EBITDA CAGR growth (%)	16%
Beta (x)	1
WACC (%)	11%
Terminal growth rate (%)	5.0%
PV (Rs mn)	6,622
PV of terminal value (Rs mn)	19,040
Net cash (Rs mn)	2,083
Equity value (Rs mn)	27,746
No. of shares	65
Target price	430

Source: Company data, I-Sec research; *our valuations factors issuance of 3.3mn shares under ESOP scheme

Table 9: Key assumptions (brand-wise)

Particulars	I-GAAP				Ind-AS					
	FY15	FY16	FY17	FY18	FY18	FY19	FY20	FY21E	FY22E	FY23E
Brand-wise Revenues										
W	2,005	3,199	4,354	4,856	5,893	6,905	6,454	3,492	6,499	7,135
Aurelia	779	1,303	2,171	2,837	3,390	3,827	4,142	2,547	4,840	5,614
Wishful	226	376	606	731	688	747	891	428	813	894
Elleven	-	-	-	-	-	-	-	61	123	213
Total	3,010	4,877	7,130	8,424	9,971	11,480	11,487	6,528	12,274	13,855
% YoY										
W		59.6	36.1	11.5		17.2	(6.5)	(45.9)	86.1	9.8
Aurelia		67.3	66.6	30.7		12.9	8.2	(38.5)	90.0	16.0
Wishful		66.4	61.4	20.6		8.6	19.3	(52.0)	90.0	10.0
Elleven		NA	NA	NA		NA	NA	NA	103.2	72.9
Total		62.1	46.2	18.1		15.1	0.1	(43.2)	88.0	12.9
% share										
W	67	66	61	58	59	60	56	53	53	51
Aurelia	26	27	30	34	34	33	36	39	39	41
Wishful	8	8	9	9	7	7	8	7	7	6
Elleven	-	-	-	-	-	-	-	1	1	2
Total	100	100	100	100	100	100	100	100	100	100

Source: I-Sec research

Table 10: Key assumptions (channel-wise)

Particulars	I-GAAP					Ind-AS				
	FY15	FY16	FY17	FY18	FY19	FY19	FY20	FY21E	FY22E	FY23E
Channel-wise Revenue										
EBOs	1,505	2,635	3,537	4,264	4,666	4,707	4,922	2,076	4,438	4,949
LFS	836	1,457	2,086	2,382	2,722	4,477	4,756	2,616	4,970	5,517
MBOs	272	455	795	931	972	918	556	83	501	551
Online	396	331	713	847	1,361	1,378	1,252	1,753	2,366	2,839
Total	3,010	4,877	7,130	8,424	9,720	11,480	11,487	6,528	12,274	13,855
% YoY										
EBOs		75.1	34.2	20.6	9.4		4.6	(57.8)	113.8	11.5
LFS		74.2	43.2	14.2	14.2		6.2	(45.0)	90.0	11.0
MBOs		67.1	74.9	17.1	4.4		(39.4)	(85.0)	500.0	10.0
Online		(16.6)	115.6	18.8	60.7		(9.1)	40.0	35.0	20.0
Total		62.1	46.2	18.1	15.4		0.1	(43.2)	88.0	12.9
% share										
EBOs	50	54	50	51	48	41	43	32	36	36
LFS	28	30	29	28	28	39	41	40	40	40
MBOs	9	9	11	11	10	8	5	1	4	4
Online	13	7	10	10	14	12	11	27	19	20
Total	100	100	100	100	100	100	100	100	100	100

Source: I-Sec research

Financial summary

Table 11: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Income (Sales)	11,487	6,528	12,274	13,855
Operating Expenses	10,545	7,238	10,762	12,109
EBITDA	942	(710)	1,513	1,747
% margin	8.2	(10.9)	12.3	12.6
Depreciation & Amortisation	261	279	300	321
Gross Interest	7	7	7	7
Other Income	176	106	118	150
Recurring PBT	849	(890)	1,324	1,569
Add: Extraordinaries	150	-	-	-
Less: Taxes	247	(227)	338	400
Net Income (Reported)	752	(663)	987	1,169
Recurring Net Income	602	(663)	987	1,169

Source: Company data, I-Sec research

Table 12: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	6,907	5,771	7,589	8,794
Current Liab. & Prov.	1,724	1,152	2,034	2,116
Net Current Assets	5,183	4,619	5,555	6,677
Deferred Tax Assets	134	134	134	134
Investments of which	1,181	1,181	1,181	1,181
Strategic/Group	-	-	-	-
Marketable	1,181	1,181	1,181	1,181
Net Fixed Assets*	455	356	407	453
Total Assets	6,952	6,289	7,276	8,445
of which cash & cash equivalents	1,713	1,394	1,791	2,379
Liabilities				
Borrowings	2	2	2	2
Equity Share Capital	123	123	123	123
Face value per share (Rs)	2	2	2	2
Reserves & Surplus	6,827	6,164	7,151	8,319
Net Worth	6,950	6,287	7,274	8,442
Total Liabilities	6,952	6,289	7,276	8,445

Source: Company data, I-Sec research

Table 14: Quarterly trend*

(Rs mn, year ending March 31)

	Dec-19	Mar-20	Jun-20	Sep-20
Net sales	3,290	2,192	324	1,441
% growth (YoY)	9.6	(24.6)	(88.4)	(55.1)
Recurring EBITDA	679	(48)	(427)	(137)
Margin (%)	20.6	(2.2)	(131.7)	(9.5)
Other income	72	91	166	20
Extraordinaries Inc / (Loss)	-	-	-	-
Recurring Net Income	550	(238)	(453)	(83)

Source: Company data; *on Ind-AS 116 basis

Table 13: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	851	(384)	1,286	1,490
Working Capital changes	(475)	246	(539)	(535)
Capital Commitments	(315)	(180)	(350)	(368)
Net Operating FCF	61	(319)	397	587
Investing Activities	210	-	-	-
Issue of Share Capital	46	-	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	(2)	-	-	-
Dividend paid	-	-	-	-
Others	-	-	-	-
Extraordinary Items	314	(319)	397	587
Chg. in Cash & Bank	851	(384)	1,286	1,490

Source: Company data, I-Sec research

Table 14: Key ratios

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (Rs)				
EPS(Basic)	12.2	(10.8)	16.1	19.0
Diluted Recurring EPS	9.3	(10.3)	15.3	19.0
Diluted Recurring CEPS	14.1	(6.3)	20.9	24.2
Dividend per share	-	-	-	-
Book Value	113	102	118	137
Growth Ratios (% YoY)				
Operating Income	0.1	(43.2)	88.0	12.9
EBITDA	(46.7)	NA	NA	15.5
Recurring Net Income	(54.2)	NA	NA	18.4
Diluted Recurring EPS	(54.2)	NA	NA	24.5
Diluted Recurring CEPS	(43.9)	NA	NA	15.8
Valuation Ratios (x)				
P/E	43.3	NA	26.5	21.3
P/CEPS	28.8	NA	19.3	16.7
P/BV	3.6	4.0	3.4	2.9
EV / EBITDA	24.6	NA	15.2	12.9
EV / Operating Income	2.0	3.6	1.9	1.6
Operating Ratios (%)				
Raw Material / Sales	33.9	42.4	36.4	37.4
SG&A expenses / Sales	3.7	1.7	3.2	3.2
Other Income / PBT	20.7	(11.9)	8.9	9.6
Effective Tax Rate	29.0	25.5	25.5	25.5
NWC / Total Assets	0.7	0.7	0.7	0.7
Inventory (x)	3.8	2.1	3.7	3.8
Receivables (days)	57	98	56	56
Payable (days)	111	136	99	114
D/E Ratio (x)	(0.2)	(0.2)	(0.2)	(0.3)
Profitability Ratios (%)				
Rec. Net Income Margins	5.2	(10.2)	8.0	8.4
RoCE	9.1	(9.8)	14.4	14.7
RoNW	9.2	(10.0)	14.6	14.9
Dividend Payout	-	-	-	-

Source: Company data, I-Sec research

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