

Profits back in black...

Driven by festive season demand, TCNS Clothing reported strong QoQ growth with revenue recovery rate reaching 72% in Q3FY21 vs. 45% in Q2FY21. The recovery rate is broadly in line with industry revenue recovery rate (fashion retailers). Revenue for Q3FY21 fell 28% YoY to ₹ 237.9 crore (up 65% QoQ). Non-metro cities continue to recover at a swift pace with Tier I cities reaching 70% and Tier II, III cities recovering at ~80% of pre-Covid levels. Stores in metro cities are lagging behind with 55% recovery rate. Gross margins continued to stay under pressure (down 670 bps YoY to 61%) mainly due to change in channel mix (higher online sales) and provision towards inventory dormancy (~400 bps). Sharp rationalisation of operating overheads, recovery in sales led TCNS to report EBITDA of ₹ 38.5 crore (down 43% YoY) vs. EBITDA loss of ₹ 16.3 crore in Q2FY21. PAT for Q3 was at ₹ 12.7 crore (down 77% YoY) vs. net loss of ₹ 27.6 crore in Q2FY21.

Reinvigorating accelerated store expansion plans

As on YTD FY21, the company, on a net basis, shut ~34 unviable and non-performing stores (EBOs: 561 as on Q3FY21). The company has embarked on accelerated store expansion plans and is targeting 60-70 EBO stores in FY22E. Capex/sq ft expected to be in range of ₹ 2500-3000 with average store size of 800-1000 sq ft. TCNS is also focusing on enhancing its LFS touchpoints through addition of 200-250 touchpoints. We believe higher focus on offline space coupled with strengthening online sales will fuel growth from FY22E onwards. Online sales continue to dominate distribution channel with 15% growth in Q3FY21 (secondary sales tracking at 1.7x of pre-Covid levels). Its own branded website recorded robust 150% growth in Q3, with December posting highest ever sales. Share of e-commerce to overall sales was at 23% vs. 13% in Q2FY21. The management indicated that gross margins for online sales are relatively lower (~64%) but are on par at EBITDA level. During the quarter, the company has resumed primary sales through the MBO route with Spring Summer (SS) 21 season launch.

Valuation & Outlook

TCNS has redeployed SS20 merchandise to SS21 resulting in inventory reduction and working capital release. Subsequently, cash reserves increased from ₹ 110 crore in Q2FY21 to ₹ 155 crore in Q3FY21. It has secured significant fixed cost reduction for the year through rationalising unviable stores, rental waivers (secured full year saving of ~35%), rationalising staff overheads (annual salary savings at ~20%) and curbing discretionary spending (ad-spend). We expect certain cost saving initiatives to have long-term positive impact post pandemic also. Accelerated store addition plans, coupled with diversification into newer categories (footwear and Aurelia Girls) are expected to fuel growth, going forward. Being a net cash positive company, TCNS would be better positioned to tide over the current turbulent market scenario. We broadly maintain our estimates and expect TCNS to generate healthy RoIC of ~25% by FY23E. We reiterate **BUY** on the stock with an unchanged target price of ₹ 540 (29.0x FY23E EPS).



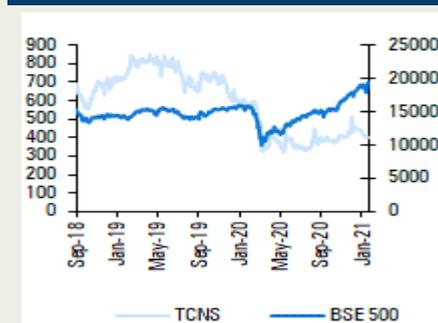
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,514.3
Total Debt (FY20) (₹ crore)	-
Cash & Investments (FY20) (₹ crore)	171.3
EV (₹ crore)	2,343.0
52 Week H / L	614 / 300
Equity Capital (₹ crore)	12.3
Face Value (₹)	2.0

Key Risks

- Higher discounting to liquidate old season inventory may pressurise gross margins
- Re-imposition of lockdown restrictions leading to store closures negatively impacting store footfalls leading to lower in-store sales of discretionary products

Price Performance



Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary (Adjusted for IND-AS 116)

₹ crore	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1,148.7	664.6	1,216.5	1,418.5	7.3%
EBITDA	81.2	-73.9	149.7	181.4	30.7%
Net Profit	53.8	-64.3	98.1	117.0	29.6%
P/E (x)	46.7	-	26.3	22.0	
EV/Sales (x)	2.0	3.6	2.0	1.6	
EV/EBITDA (x)	28.9	-	15.9	12.9	
RoCE (%)	10.6	-13.5	18.0	18.4	
RoE (%)	7.9	-10.2	13.4	13.7	

Financial Summary (pre IND-AS 116)

Exhibit 1: Profit & Loss Statement (₹ crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	1,148.7	664.6	1,216.5	1,418.5
Growth (%)	0.1	(42.1)	83.0	16.6
Total Raw Material Cost	402.3	305.7	450.1	517.7
Gross Margins (%)	65.0	54.0	63.0	63.5
Employee Expenses	157.6	127.6	154.4	173.2
Other Expenses	507.6	305.1	462.3	546.1
Total Operating Expenditure	1,067.5	738.5	1,066.8	1,237.1
EBITDA	81.2	(73.9)	149.7	181.4
EBITDA Margin (%)	7.1	(11.1)	12.3	12.8
Adjusted EBITDA	89.9	(65.9)	155.7	184.4
Adjusted EBITDA Margin	7.8	(9.9)	12.8	13.0
Interest	0.7	1.0	0.9	0.9
Depreciation	26.1	24.1	33.7	42.1
Other Income	17.6	13.0	16.0	18.0
Exceptional Expense	-	-	-	-
PBT	71.9	(86.0)	131.1	156.4
Total Tax	18.1	(21.7)	33.0	39.4
Profit After Tax	53.8	(64.3)	98.1	117.0
Adjusted PAT	62.5	(56.3)	104.1	120.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	53.8	-64.3	98.1	117.0
Add: Depreciation	26.1	24.1	33.7	42.1
Add: Share based payments	8.7	8.0	6.0	3.0
Net Increase in Current Assets	-58.3	90.6	-123.5	-95.4
Net Increase in Current Liabilities	7.8	-45.6	50.4	21.3
CF from operating activities	38.1	12.8	64.7	88.0
(Inc)/dec in Investments	19.7	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-32.0	-16.9	-40.0	-40.0
Others	0.0	0.0	0.0	0.0
CF from investing activities	-12.3	-16.9	-40.0	-40.0
Inc / (Dec) in Equity Capital	0.0	0.1	0.2	0.0
Inc / (Dec) in Loan	0.0	0.0	0.0	0.0
Others	4.3	0.0	0.0	0.0
CF from financing activities	4.4	0.1	0.2	0.0
Net Cash flow	30.1	-3.9	24.9	48.0
Opening Cash	23.1	53.2	49.3	74.1
Closing Cash	53.2	49.3	74.1	122.1

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	12.3	12.4	12.6	12.6
Other equity instruments	-	-	-	-
Reserve and Surplus	672.6	616.3	720.4	840.3
Total Shareholders funds	684.9	628.7	733.0	852.9
Total Debt	-	-	-	-
Non Current Liabilities	7.1	7.1	7.1	7.1
Source of Funds	692.0	635.8	740.1	860.1
Gross block	102.6	120.6	160.6	200.6
Less: Accum depreciation	62.8	86.9	120.7	162.8
Net Fixed Assets	39.7	33.6	39.9	37.8
Capital WIP	2.1	1.0	1.0	1.0
Intangible assets	3.6	3.6	3.6	3.6
Investments	118.1	118.1	118.1	118.1
Inventory	330.2	264.0	333.3	388.6
Cash	53.2	49.3	74.1	122.1
Debtors	175.6	145.7	193.3	225.4
Loans & Advances & Other CA	27.6	33.1	39.8	47.7
Total Current Assets	586.7	492.1	640.5	783.9
Creditors	122.3	76.5	126.7	147.7
Provisions & Other CL	46.2	46.4	46.7	47.0
Total Current Liabilities	168.5	122.9	173.4	194.6
Net Current Assets	418.2	369.2	467.2	589.3
LT L& A, Other Assets	110.3	110.3	110.3	110.3
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	692.1	635.9	740.1	860.1

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	8.8	-10.4	15.6	18.6
EPS (Adjusted)	10.2	-9.1	16.5	19.0
Cash EPS	13.0	-6.5	20.9	25.3
BV	111.4	101.4	116.3	135.4
Cash Per Share	8.7	7.9	11.8	19.4
Operating Ratios (%)				
EBITDA margins	7.1	-11.1	12.3	12.8
PBT margins	6.3	-12.9	10.8	11.0
Net Profit margins	4.7	-9.7	8.1	8.2
Inventory days	104.9	145.0	100.0	100.0
Debtor days	55.8	80.0	58.0	58.0
Creditor days	38.9	42.0	38.0	38.0
Return Ratios (%)				
RoE	7.9	-10.2	13.4	13.7
RoCE	10.6	-13.5	18.0	18.4
RoIC	14.1	-18.4	24.4	25.7
Valuation Ratios (x)				
P/E	46.7	-39.4	26.3	22.0
EV / EBITDA	28.9	-32.1	15.9	12.9
EV / Sales	2.0	3.6	2.0	1.6
Market Cap / Revenues	2.2	3.8	2.1	1.8
Price to Book Value	3.7	4.0	3.5	3.0
Solvency Ratios				
Debt / Equity	0.0	0.0	0.0	0.0
Debt/EBITDA	0.0	0.0	0.0	0.0
Current Ratio	3.2	3.6	3.3	3.4
Quick Ratio	1.2	1.5	1.3	1.4

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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**

ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA, Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number - INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts do not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.