

## Strong recovery expected in festive season...

**About the stock:** Given its multi-distribution channel approach and robust supply chain infrastructure, TCNS has emerged as the market leader in women's ethnic space through its three popular home grown brands.

- TCNS follows an asset light business model, with production outsourced on a job work basis. This enables the company to generate high RoIC
- Healthy balance sheet with cash reserves worth ₹ 150+ crore

### Key highlights:

- TCNS' revenue recovery has been sluggish with sales reaching 100% of pre-Covid levels vs. other lifestyle retailers posting 120-140% recovery rate in Q1FY23. It mainly caters to office, festive ethnic wear for women that was slow to pick up post economy re-opening vs. other segments (western wear)
- We envisage a material improvement in operating metrics, going ahead, on the back of a gradual recovery in SSSG (double digit growth) during festive season. Also, after muted store addition pace in the past two years, TCNS has embarked on an aggressive store addition with plan to open 100+ stores in FY23 (54 stores added in FY20)
- Over the past two years, key agenda of TCNS was conserving balance sheet strength with a conservative approach on the working capital front (down 5% vs. pre-Covid levels). This may have led to revenue loss but with robust cash on the books (₹ 150 crore), the company is now well geared up to accelerate its growth trajectory. It has advanced its inventory purchases by two months to launch the season and is maintaining a healthy inventory

**What should investors do?** Since our initiation report, the stock has appreciated ~65% (from ₹ 400 in April 2020 to ₹ 660 in September 2022). With normalisation of business scenario and renewed impetus on growth by the company, the financial performance is expected to improve in ensuing quarters.

- We maintain **BUY** recommendation on the stock

**Target Price & Valuation:** We value TCNS at ₹ 800 i.e. 3x FY24E EV/sales (earlier TP: ₹ 940).

### Key triggers for future price performance:

- Undertaking category expansion (beyond its core ethnic wear) in a bid to tap opportunities across non-apparel categories. Foraying into make-up, colour cosmetics under brand 'Aurelia'. Over longer term, the management aspires to achieve ~20% contribution from the non-apparel segment
- Continues to scale up its omni distribution channel with new business models via third party market place & creating 'online-first' product ranges
- Has set up a new integrated warehouse (~1.4 lakh sq ft) to enhance supply chain and scale up its B2C delivery efficiency

**Alternate Stock Idea:** Apart from TCNS, in our retail coverage we also like ABFRL.

- ABFRL has charted out growth strategies to become a ~US\$2.8 billion entity (₹ 21000 crore) by FY26E, translating to 15% CAGR in FY20-25. BUY with a target price of ₹ 370/share

### Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY17-FY22)	FY22E	FY23E	FY24E	2 year CAGR (FY22-FY24E)
Net Sales	1,148.0	1,148.7	635.5	5.0%	896.0	1,315.3	1,564.0	32.1%
EBITDA	177.0	186.3	2.4		89.6	237.7	311.2	
Net Profit	131.6	69.4	-56.4		-5.8	83.3	125.4	
P/E (x)	30.8	58.5	-		-	49.9	33.2	
EV/Sales (x)	3.4	3.4	6.1		4.4	3.0	2.5	
EV/EBITDA (x)	22.0	20.9	-		43.6	16.8	12.7	
RoCE (%)	26.2	15.8	-6.6		4.8	21.7	25.7	
RoE (%)	21.3	10.5	-9.2		-0.9	11.8	15.1	



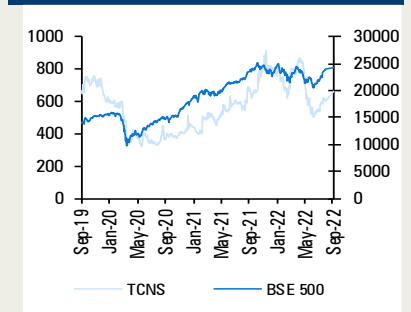
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	4,057.4
Total Debt (FY22) (₹ crore)	-
Cash & Investments (FY22) (₹ crore)	156.3
EV (₹ crore)	3,901.1
52 Week H / L	932 / 493
Equity Capital (₹ crore)	12.3
Face Value (₹)	2.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	32.3	32.3	32.3	32.3	32.3
FII	17.8	17.9	17.6	17.0	16.7
DII	5.9	6.1	6.6	7.2	7.2
Others	43.9	43.7	43.5	43.5	43.9

### Price Chart



### Key risks

**Key Risk:** (i) Slow ramp up of store network, (ii) Higher level of discounting can impact gross margins

### Research Analyst

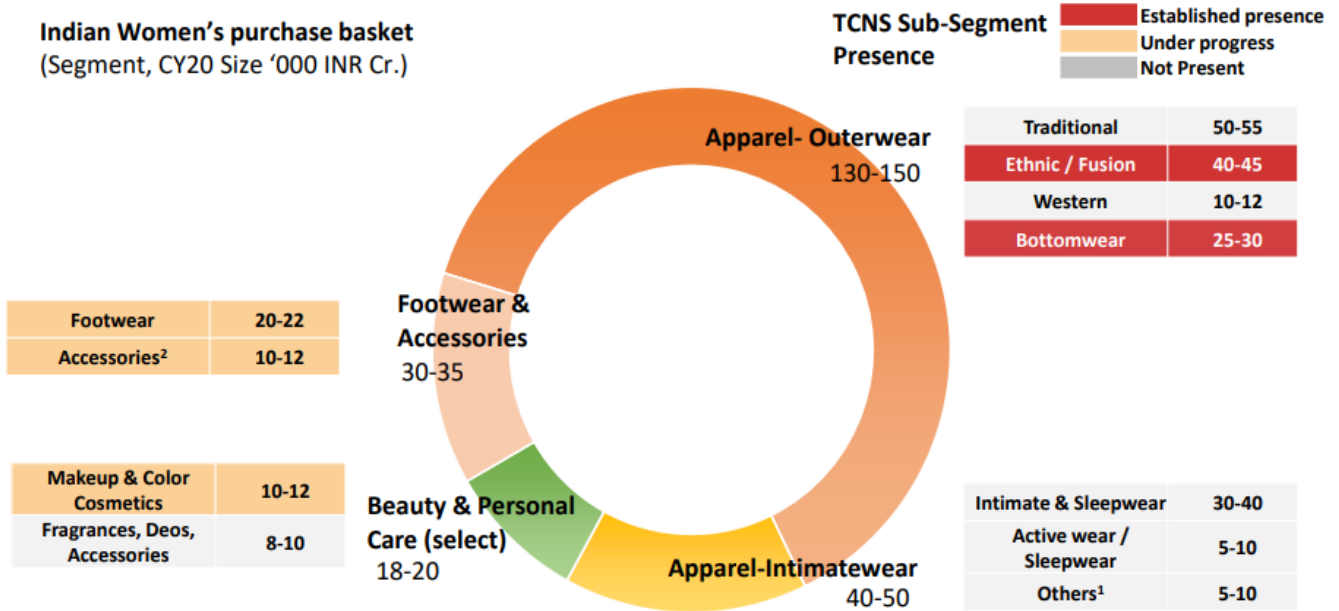
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## Key Highlights

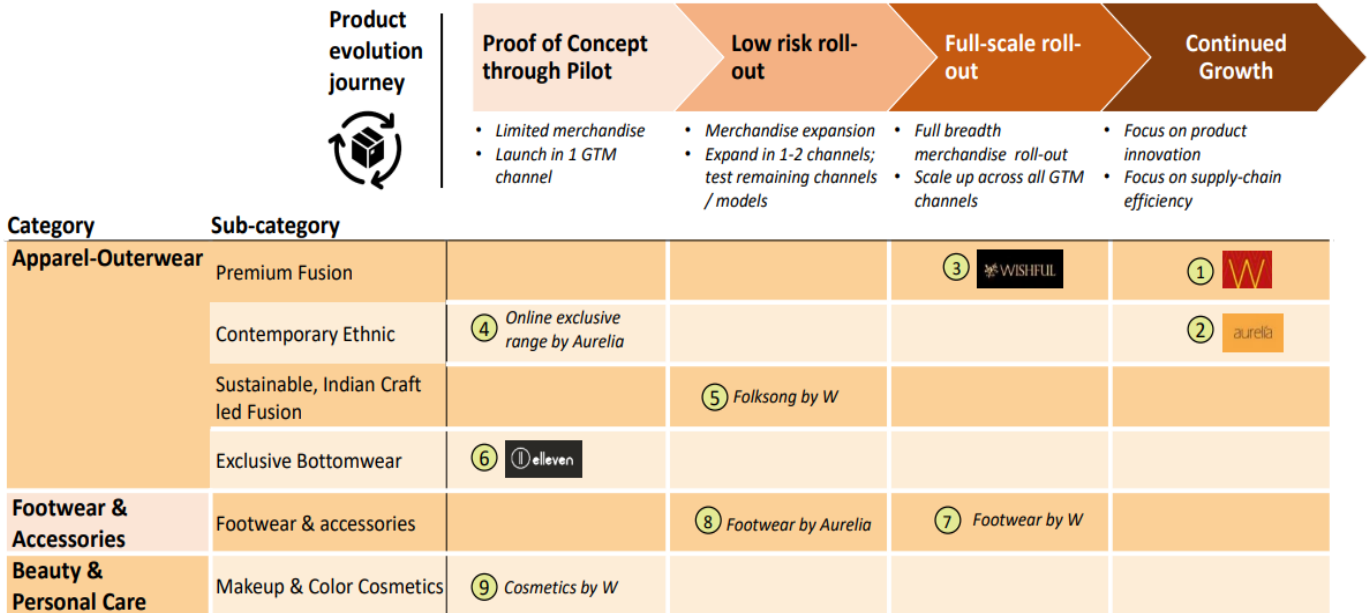
- TCNS has accelerated its store expansion plans and added 17 stores in Q1FY23. It plans to add 25 more stores in Q2FY23 and has 50 stores in the pipeline. It expects to add 100+ stores annually. Also, the company has added six Project Rise stores with 20 stores currently
- On the demand front, the same store sales growth of some stores were below pre Covid levels while some were above pre Covid levels with regional demand spikes visible in many locations. The ethnic wear category has witnessed a slow recovery till now compared to other apparel categories. However, the management is hopeful that the onset of festivities and wardrobe refresh for the category would lead to improved sales with expectations of the best festive season till now
- On the online sales front, online secondary sales continued to grow in Q1FY23 on a large base. Brand websites, which contribute more than 20% of online revenues, accelerated further to grow at ~35% over Q1FY22
- The company's MBO business has continued to build up with strong monsoon festive order book
- On the pricing front, TCNS has taken a single digit price hike across products
- On the inventory front, the management highlighted that it had adopted a conservative approach during the pandemic. However, now the company is building up inventory levels to cater to the expected festive demand. TCNS has also added a comprehensive product range to cater to consumer demand
- On the end of season sales (EOSS) trends, the management highlighted that discounting levels were lower than the past year. Also, the company has not lost any market share due to its low discounting policy as had happened in the previous year
- On the advertisement and brand promotion front, TCNS launched a digital first campaigns to capture the festive demand for its brands 'W' and 'Aurelia'. The Festive'22 collection offers unique fusion styles for the contemporary Indian woman
- The company is planning to enter into tie ups with channel partners to promote the brand and new launches. The company is also looking to focus on airports and high street advertisement to enhance the visibility of its brands

Exhibit 1: TCNS' presence and opportunities areas across Indian women's purchasing basket categories



Source: Company, ICICI Direct Research

Exhibit 2: TCNS expanding beyond core strength areas of apparel-outerwear



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Net Sales</b>	<b>635.5</b>	<b>896.0</b>	<b>1,315.3</b>	<b>1,564.0</b>	
Growth (%)	(44.7)	41.0	46.8	18.9	
Total Raw Material Cost	272.4	309.6	447.2	531.8	
Gross Margins (%)	57.1	65.4	66.0	66.0	
Employee Expenses	121.4	150.2	168.7	190.8	
Other Expenses	239.3	346.6	461.7	530.2	
Total Operating Expenditure	633.1	806.4	1,077.6	1,252.8	
<b>EBITDA</b>	<b>2.4</b>	<b>89.6</b>	<b>237.7</b>	<b>311.2</b>	
EBITDA Margin (%)	0.4	10.0	18.1	19.9	
<b>Adjusted EBITDA</b>	<b>8.5</b>	<b>99.2</b>	<b>240.7</b>	<b>311.2</b>	
Adjusted EBITDA Margin	1.3	11.1	18.3	19.9	
Interest	36.4	37.2	42.3	46.4	
Depreciation	91.9	94.4	106.1	119.2	
Other Income	49.0	34.7	22.0	22.0	
Exceptional Expense	-	-	-	-	
PBT	(77.0)	(7.3)	111.3	167.6	
Total Tax	(20.6)	(1.5)	28.0	42.2	
<b>Profit After Tax</b>	<b>(56.4)</b>	<b>(5.8)</b>	<b>83.3</b>	<b>125.4</b>	
<b>Adjusted PAT</b>	<b>(50.3)</b>	<b>3.8</b>	<b>86.3</b>	<b>125.4</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit/(Loss) after taxation	-56.4	-5.8	83.3	125.4	
Add: Depreciation	91.9	94.4	106.1	119.2	
Add: Share based payments	6.1	9.6	3.0	0.0	
Net Increase in Current Assets	68.8	-102.4	-68.0	-70.6	
Net Increase in Current Liabilities	-42.5	89.1	9.0	12.9	
Others	16.1	-15.6	0.0	0.0	
<b>CF from operating activities</b>	<b>84.0</b>	<b>69.3</b>	<b>133.3</b>	<b>186.9</b>	
(Inc)/dec in Investments	-54.3	26.8	0.0	0.0	
(Inc)/dec in Fixed Assets	-10.1	-30.0	-40.0	-40.0	
Others	0.0	0.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-64.4</b>	<b>-3.2</b>	<b>-40.0</b>	<b>-40.0</b>	
Inc / (Dec) in Equity Capital	0.0	0.0	0.3	0.0	
Inc / (Dec) in Loan	5.4	-5.4	0.0	0.0	
Others	-63.3	-64.9	-85.6	-92.7	
<b>CF from financing activities</b>	<b>-57.9</b>	<b>-70.3</b>	<b>-85.3</b>	<b>-92.7</b>	
Net Cash flow	-38.3	-4.2	8.0	54.2	
Opening Cash	53.2	14.9	10.7	18.7	
<b>Closing Cash</b>	<b>14.9</b>	<b>10.7</b>	<b>18.7</b>	<b>72.9</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Equity Capital	12.3	12.3	12.6	12.6	
Other equity instruments	-	-	-	-	
Reserve and Surplus	599.7	607.5	693.8	819.1	
Total Shareholders funds	612.0	619.9	706.4	831.7	
Total Debt	5.4	-	-	-	
Non Current Liabilities	330.9	425.6	425.6	425.6	
<b>Source of Funds</b>	<b>948.3</b>	<b>1,045.5</b>	<b>1,132.0</b>	<b>1,257.4</b>	
Gross block	78.6	96.7	136.7	176.7	
Less: Accum depreciation	47.8	53.2	73.7	100.2	
Net Fixed Assets	30.8	43.5	63.0	76.5	
Capital WIP	0.5	1.6	1.6	1.6	
Intangible assets	2.1	3.1	3.1	3.1	
Investments	172.4	145.6	145.6	145.6	
Inventory	278.5	360.8	396.4	428.5	
Cash	14.9	10.7	18.7	72.9	
Debtors	164.8	173.8	198.2	227.1	
Loans & Advances & Other CA	28.9	40.1	48.1	57.7	
Total Current Assets	487.2	585.4	661.4	786.2	
Creditors	91.2	171.5	180.2	192.8	
Provisions & Other CL	34.8	43.6	43.9	44.2	
Total Current Liabilities	126.0	215.1	224.0	237.0	
Net Current Assets	361.2	370.3	437.3	549.2	
LT L& A, Other Assets	381.3	481.4	481.4	481.4	
Other Assets	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>948.3</b>	<b>1,045.5</b>	<b>1,132.0</b>	<b>1,257.4</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	-9.2	-0.9	13.2	19.9	
EPS (Adjusted)	-8.2	0.6	13.7	19.9	
Cash EPS	5.8	14.4	30.1	38.8	
BV	99.5	100.6	112.1	132.0	
Cash Per Share	2.4	1.7	3.0	11.6	
<b>Operating Ratios (%)</b>					
EBITDA margins	0.4	10.0	18.1	19.9	
PBT margins	-12.1	-0.8	8.5	10.7	
Net Profit margins	-8.9	-0.6	6.3	8.0	
Inventory days	160.0	147.0	110.0	100.0	
Debtor days	94.7	70.8	55.0	53.0	
Creditor days	52.4	69.9	50.0	45.0	
<b>Return Ratios (%)</b>					
RoE	-9.2	-0.9	11.8	15.1	
RoCE	-6.6	4.8	21.7	25.7	
RoIC	-9.4	6.4	28.3	34.9	
<b>Valuation Ratios (x)</b>					
P/E	-	-	49.9	33.2	
EV / EBITDA	1,618.2	43.6	16.8	12.7	
EV / Sales	6.1	4.4	3.0	2.5	
Market Cap / Revenues	6.4	4.5	3.2	2.7	
Price to Book Value	6.6	6.6	5.9	5.0	
<b>Solvency Ratios</b>					
Debt / Equity	0.0	0.0	0.0	0.0	
Debt/EBITDA	2.2	0.0	0.0	0.0	
Current Ratio	3.7	2.7	2.9	3.0	
Quick Ratio	1.5	1.0	1.1	1.2	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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