

Store addition, online thrust to aid faster recovery...

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 ₹ 140 crore

Q1FY22 Results: Covid induced lockdowns weighed on the performance with revenue recovery rate declining from ~76% in Q4FY21 to ~35% in Q1FY22.

- On a low base, revenue grew 189% YoY to ₹ 93.8 crore (down 58% QoQ)
- Reported EBITDA loss of ₹ 23.5 crore in Q1FY22 (Q1FY21: (-) ₹ 42.7 crore)
- Reported a net loss of ₹ 36 crore (Q1FY21: (-) ₹ 45 crore)

What should investors do? Since our initiation report, the stock price has appreciated by ~38% (from ₹ 400 in April 2020 to ₹ 570 in August 2021).

- We maintain **BUY** rating on the stock with an unchanged target price

Target Price and Valuation: We value TCNS at ₹ 700 i.e. 35x FY23E EPS

Key triggers for future price performance:

- Healthy store addition pipeline for FY22 with opening of 60+ new stores on a net basis (40+ stores already signed)
- Continues to scale up its omni distribution channel with new business models through third party market place and creating 'online-first' product ranges
- Setting up a new integrated warehouse to enhance supply chain and scale up its B2C delivery efficiency (to be set up by December 2021)
- Upgraded and expanded ~15 existing stores across key malls and high streets at attractive long term leases
- Higher focus on expanding network in tier III/IV cities mainly through franchisee led model
- Implemented phase 1 of automated inventory management system and expects to rationalise working capital days by ~15-20 days

Alternate Stock Idea: Apart from TCNS, in our retail coverage we also like Aditya Birla Fashion & Retail (ABFRL)

- ABFRL has charted out growth strategies to become a ~US\$2.8 billion entity (₹ 21000 crore) by FY26E, translating to 15% CAGR in FY20-26E
- It has enhanced focus on ethnic wear (through its recent acquisitions)
- BUY with a target price of ₹ 265/share

Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY15-FY20)	FY22E	FY23E	3 year CAGR (FY20-FY23E)
Net Sales	1,148.0	1,148.7	635.5	30.7%	1,029.7	1,401.9	6.9%
EBITDA	177.0	81.2	-62.1	10.0%	85.6	191.9	33.2%
Net Profit	131.6	53.8	-51.5		48.7	125.3	32.5%
P/E (x)	25.8	63.2	-		71.5	27.8	
EV/Sales (x)	2.8	2.8	5.1		3.2	2.3	
EV/EBITDA (x)	18.2	39.8	-		37.9	16.7	
RoCE (%)	26.2	10.6	-10.8		9.5	20.5	
RoE (%)	21.3	7.9	-8.1		7.0	15.2	

Source: Company, ICICI Direct Research



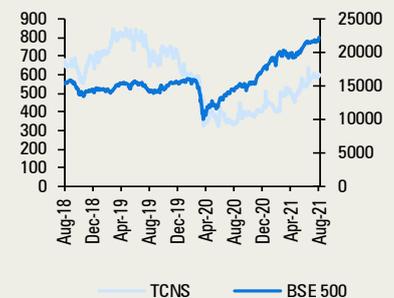
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	3,399.6
Total Debt (FY21) (₹ crore)	5.4
Cash & Investments (FY21) (₹ crore)	187.3
EV (₹ crore)	3,217.6
52 Week H / L	651 / 322
Equity Capital (₹ crore)	12.3
Face Value (₹)	2.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	32.3	32.3	32.3	32.3	32.3
FII	13.8	16.4	17.0	19.5	17.8
DII	10.4	7.1	7.6	4.4	5.9
Others	43.5	44.2	43.1	43.8	43.9

Price Chart



Key risks

Key Risk: (i) Delay in ramp up of store network (ii) Higher level of discounting can impact margins

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Key takeaways of recent quarter & conference call highlights

- Owing to Covid induced lockdowns operational days were significantly impacted with ~48% operational days in Q1FY22. As on date, most offline network is operational though with multiple restrictions on working hours
- With a gradual re-opening of stores, recovery rate has been sharper compared to previous years. Recovery rate in August (for stores operational) was ~70%
- The recovery is broad based with green shoots witnessed in metro and non-tier I cities. End of season sale (EOSS) started in the third week of July but proportion of full priced sales is higher than previous years
- Online sales were up 1.5x YoY and remained resilient on a sequential basis with marginal revenue growth. Online channel contributed ~50% to overall sales in Q1FY22 (~57% in Q1FY21). The company is launching 'online-first' product ranges, which will be priced +/- 10% of the current range
- Currently, ~100 stores are omni enabled. The management expects to cover 150+ stores in the near term
- Rental concessions of ~20% expected for full year. Savings of ₹ 3 crore accounted in Q1 as many of the deals are in the process of getting signed
- During the quarter, the company added seven new exclusive stores and shut nine. Of total 60 stores that are expected to be added, 35-45% will be expanded through franchise route. It is also focusing on enhancing its large format stores (LFS) touchpoints through addition of 200-250 touchpoints
- Over the last three years, the company had taken a strategic decision to exit certain long credit cycle customers through rationalisation of MBO outlets (down from 1522 in FY18 to 1011 in FY21). The rationalisation is now complete and the company has resumed primary sales through MBO route
- Gross margins improved YoY by 500 bps to 55.7% but is still significantly below its normal run-rate (62%+). This was mainly due to higher proportion of online sales in the channel mix and inventory dormancy provisioning

Financial Summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Net Sales	1,148.7	635.5	1,029.7	1,401.9	
Growth (%)	0.1	(44.7)	62.0	36.2	
Total Raw Material Cost	402.3	272.4	401.6	511.7	
Gross Margins (%)	65.0	57.1	61.0	63.5	
Employee Expenses	157.6	121.4	145.0	171.2	
Other Expenses	507.6	303.7	397.4	527.1	
Total Operating Expenditure	1,067.5	697.6	944.0	1,210.0	
EBITDA	81.2	(62.1)	85.6	191.9	
EBITDA Margin (%)	7.1	(9.8)	8.3	13.7	
Adjusted EBITDA	89.9	(56.0)	91.6	194.9	
Adjusted EBITDA Margin	7.8	(8.8)	8.9	13.9	
Interest	0.7	2.5	1.0	0.9	
Depreciation	26.1	24.0	31.5	41.5	
Other Income	17.6	16.5	12.0	18.0	
Exceptional Expense	-	-	-	-	
PBT	71.9	(72.1)	65.1	167.5	
Total Tax	18.1	(20.6)	16.4	42.2	
Profit After Tax	53.8	(51.5)	48.7	125.3	
Adjusted PAT	62.5	(45.4)	54.7	128.3	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit/(Loss) after taxation	53.8	-51.5	48.7	125.3	
Add: Depreciation	26.1	24.0	31.5	41.5	
Add: Share based payments	8.7	6.1	6.0	3.0	
Net Increase in Current Assets	-58.3	87.8	-9.0	-130.7	
Net Increase in Current Liabilities	7.8	-42.5	16.3	39.0	
CF from operating activities	38.1	23.8	93.5	78.1	
(Inc)/dec in Investments	19.7	-54.3	0.0	0.0	
(Inc)/dec in Fixed Assets	-32.0	-11.9	-40.5	-40.0	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	-12.3	-66.2	-40.5	-40.0	
Inc / (Dec) in Equity Capital	0.0	0.0	0.3	0.0	
Inc / (Dec) in Loan	0.0	5.4	-5.4	0.0	
Others	4.3	-1.3	0.0	0.0	
CF from financing activities	4.4	4.0	-5.1	0.0	
Net Cash flow	30.1	-38.3	48.0	38.1	
Opening Cash	23.1	53.2	14.9	62.9	
Closing Cash	53.2	14.9	62.9	101.0	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Equity Capital	12.3	12.3	12.6	12.6	
Other equity instruments	-	-	-	-	
Reserve and Surplus	672.6	627.2	681.9	810.2	
Total Shareholders funds	684.9	639.5	694.5	822.8	
Total Debt	-	5.4	-	-	
Non Current Liabilities	7.1	5.8	5.8	5.8	
Source of Funds	692.0	650.7	700.3	828.6	
Gross block	102.6	117.6	157.6	197.6	
Less: Accum depreciation	62.8	86.8	118.3	159.8	
Net Fixed Assets	39.7	30.7	39.2	37.7	
Capital WIP	2.1	0.5	1.0	1.0	
Intangible assets	3.6	2.1	2.1	2.1	
Investments	118.1	172.4	172.4	172.4	
Inventory	330.2	278.5	282.1	357.2	
Cash	53.2	14.9	62.9	101.0	
Debtors	175.6	164.8	163.6	211.2	
Loans & Advances & Other CA	27.6	33.1	39.8	47.7	
Total Current Assets	586.7	491.4	548.4	717.1	
Creditors	122.3	91.2	107.2	146.0	
Provisions & Other CL	46.2	34.8	35.0	35.3	
Total Current Liabilities	168.5	126.0	142.2	181.2	
Net Current Assets	418.2	365.5	406.2	535.9	
LT L& A, Other Assets	110.3	79.5	79.5	79.5	
Other Assets	0.0	0.0	0.0	0.0	
Application of Funds	692.1	650.7	700.3	828.6	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		FY20	FY21E	FY22E	FY23E
(Year-end March)					
Per share data (₹)					
EPS		8.8	-8.4	7.7	19.9
EPS (Adjusted)		10.2	-7.4	8.7	20.4
Cash EPS		13.0	-4.5	12.7	26.5
BV		111.4	103.9	110.2	130.6
Cash Per Share		8.7	2.4	10.0	16.0
Operating Ratios (%)					
EBITDA margins		7.1	-9.8	8.3	13.7
PBT margins		6.3	-11.3	6.3	11.9
Net Profit margins		4.7	-8.1	4.7	8.9
Inventory days		104.9	160.0	100.0	93.0
Debtor days		55.8	94.7	58.0	55.0
Creditor days		38.9	52.4	38.0	38.0
Return Ratios (%)					
RoE		7.9	-8.1	7.0	15.2
RoCE		10.6	-10.8	9.5	20.5
RoIC		14.1	-15.2	14.4	30.6
Valuation Ratios (x)					
P/E		63.2	-66.1	71.5	27.8
EV / EBITDA		39.8	-51.9	37.9	16.7
EV / Sales		2.8	5.1	3.2	2.3
Market Cap / Revenues		3.0	5.4	3.4	2.5
Price to Book Value		5.0	5.3	5.0	4.2
Solvency Ratios					
Debt / Equity		0.0	0.0	0.0	0.0
Debt/EBITDA		0.0	-0.1	0.0	0.0
Current Ratio		3.2	3.8	3.4	3.4
Quick Ratio		1.2	1.6	1.4	1.4

Source: Company, ICICI Direct Research

Exhibit 5: ICICI Direct coverage universe (Retail)

Sector / Company	CMP		M Cap	Rating	EV/Sales (x)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
	(₹)	TP(₹)			(₹ Cr)	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E	FY23E	FY20	FY21E	FY22E
Trent	900	1,100	Buy	31,993	9.5	12.8	8.6	6.0	274.2	-	280.5	108.6	60.9	193.2	59.4	39.4	15.9	4.3	15.0	22.6	5.1	-6.3	5.0	11.8
ABFRL	205	265	Buy	17,431	2.3	4.2	2.8	2.1	-	-	-	66.1	16.4	-	22.4	13.2	10.2	-8.9	3.2	17.8	-15.3	-25.5	-2.9	10.2
TCNS Clothing	553	700	Buy	3,400	2.8	5.1	3.2	2.3	63.2	-	71.5	27.8	39.8	-	37.9	16.7	10.6	-10.8	9.5	20.5	7.9	-8.1	7.0	15.2
Shoppers Stop	248	310	Buy	2,717	1.3	2.8	2.0	1.3	-	-	-	37.4	7.9	89.8	16.5	7.0	4.7	-14.8	-4.7	13.0	-103.1	-151.5	-477.9	71.1
Bata India	1,675	1,925	Buy	21,240	6.3	11.3	6.9	5.2	62.1	-	77.4	39.5	23.3	119.3	28.2	18.3	28.2	-5.9	20.4	32.7	17.2	-5.1	13.5	23.0
Titan Company	1,823	2,110	Buy	1,61,000	7.6	7.2	6.1	4.9	106.4	164.2	82.3	58.8	64.9	90.8	52.3	38.5	28.7	17.6	28.5	32.0	22.5	13.0	21.4	24.1
Relaxo Footwear	1,165	1,330	Buy	28,904	12.0	12.1	10.2	8.4	127.8	99.3	90.0	69.5	70.7	57.7	53.5	42.9	23.9	26.0	25.1	28.0	17.8	18.5	18.0	20.3
TTK Prestige	9,110	10,675	Buy	12,639	6.1	5.8	5.0	4.3	69.0	52.5	45.8	37.9	48.2	38.6	32.4	27.0	17.1	18.6	20.0	21.5	14.1	16.1	16.5	17.7
Page Industries	32,453	35,175	Hold	36,198	12.3	12.6	10.4	8.4	105.5	106.3	81.2	57.4	67.8	67.9	53.3	38.6	55.7	52.4	55.4	65.0	41.9	38.5	42.8	50.0
Avenue Supermarts	3,592	3,720	Hold	2,32,000	8.6	8.9	6.7	4.8	166.3	196.8	135.9	85.1	100.1	122.7	84.0	54.3	16.4	12.5	15.8	21.2	11.7	9.0	11.6	15.6
V-Mart	3,600	4,100	Buy	7,160	3.8	6.0	3.7	2.4	127.6	NA	174.1	58.9	29.4	48.8	30.1	18.5	27.0	6.0	13.6	23.6	10.7	-0.8	4.5	11.9

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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