

Building levers for sustainable growth...

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 ₹ 160 crore

Rationale:

- Revenue recovery rate improved gradually to ~75% of pre-Covid levels in Q2FY22. Festive season witnessed healthy 100% revenue recovery rate
- On the new product launches, the footwear range has seen strong traction and is already contributing ~10% in selected 'W' stores. TCNS is planning a full-scale rollout of footwear in SS22 with presence in more than 150 EBOs
- 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 20-25% contribution from non-apparel segment

What should investors do? Since our initiation report, the stock price has appreciated ~2.2x (from ₹ 400 in April 2020 to ₹ 885 in November 2021).

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

Target Price and Valuation: We value TCNS at ₹ 1120 i.e. 4x FY24E EV/Sales (earlier TP: ₹ 860)

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 (~1.4 lakh sq ft) to enhance supply chain and scale up its B2C delivery efficiency
- 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

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 target price of ₹ 350/share

Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY15-FY20)	FY22E	FY23E	FY24E	4 year CAGR (FY20-FY24E)
Net Sales	1,148.0	1,148.7	635.5	30.7%	1,029.7	1,426.1	1,731.3	10.8%
EBITDA	177.0	81.2	-62.1	10.0%	69.1	195.2	244.1	31.7%
Net Profit	131.6	53.8	-51.5		36.3	127.8	158.0	30.9%
P/E (x)	41.2	101.1	-		153.5	43.6	35.3	
EV/Sales (x)	4.6	4.6	8.3		5.2	3.7	3.0	
EV/EBITDA (x)	29.8	64.9	-		77.5	27.3	21.5	
RoCE (%)	26.2	10.6	-10.8		7.3	21.2	21.9	
RoE (%)	21.3	7.9	-8.1		5.3	15.8	16.3	



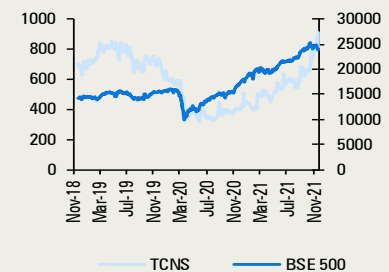
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	5,440.5
Total Debt (FY21) (₹ crore)	5.4
Cash & Investments (FY21) (₹ crore)	187.3
EV (₹ crore)	5,258.6
52 Week H / L	932 / 354
Equity Capital (₹ crore)	12.3
Face Value (₹)	2.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	32.3	32.3	32.3	32.3	32.3
FII	16.4	17.0	19.5	17.8	17.9
DII	7.1	7.6	4.4	5.9	6.1
Others	44.2	43.1	43.8	43.9	43.7

Price Chart



Key risks

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

Research Analyst

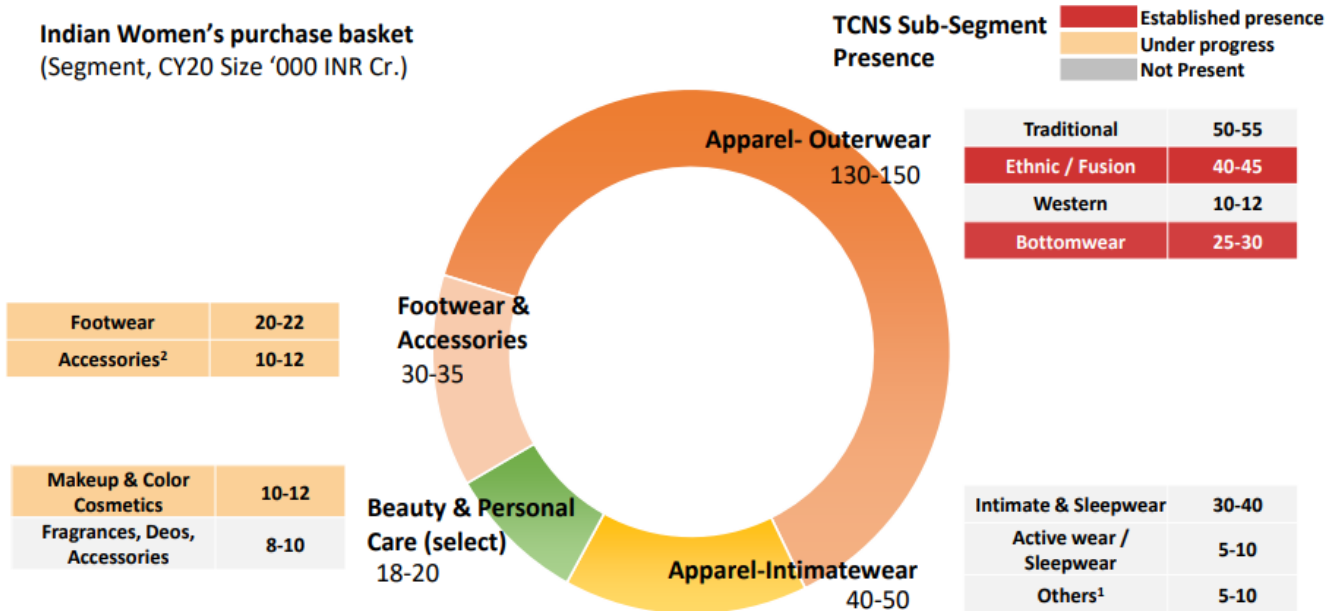
Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Other highlights

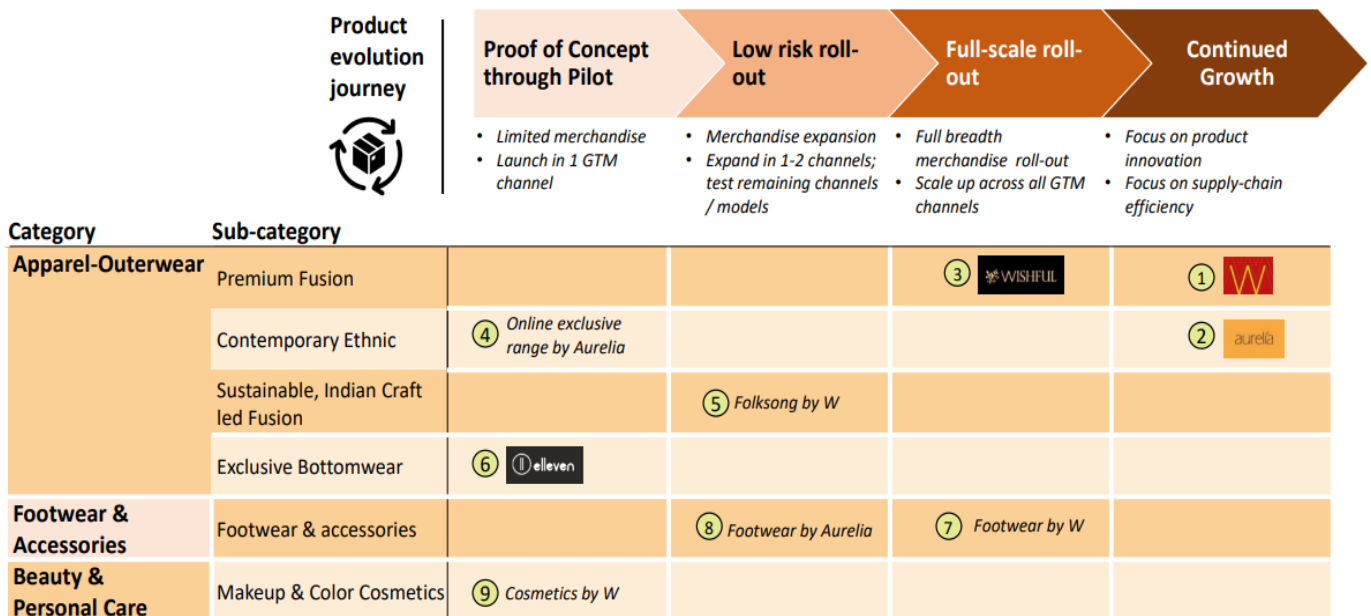
- The company is planning accelerated store expansion in the remainder of FY22. It is aiming to add 60-plus EBOs in FY22 with an aggressive store opening pipeline in place. The company is on track to open one new store every third day in H2FY22. This will take the total EBO count to over 600 for the first time
- The management expects the online sales contribution to remain higher than pre-Covid levels even after easing of restrictions and opening up of most of the physical stores. The management indicated that online sales could continue to contribute around 20-25% of revenues on a sustainable basis
- On cost front, the company expects to have at least 20% reduction against its regular rent commitment. The full impact of the same has not been considered in H1FY22 as many of the deals are still in process of getting signed. Some of savings are expected to be visible in Q3FY22 as well. However, the management indicated that as it was preparing for next level of growth, it continues to invest in people, processes and infrastructure. Hence, there may not be major savings on various cost heads on a sustainable basis over the longer term
- On the new product and brand launches, the management indicated that its footwear range has found good acceptance with the customers. Despite Covid disruption the footwear range is already contributing close to double-digit numbers in a select EBO stores. The company is also planning a full-scale rollout of footwear in Spring Summer 22 (SS22) with presence across more than 150 EBOs, select LFS counters and online portals. Among other launches, 'Folksongs' is a new addition, which is a slow fashion, authentic craft inspired fusion wear range. It has been piloted through 20 W stores. The category is witnessing good traction and it is planned to be rolled out in 70-plus W stores, select LFS counters and leading online marketplaces in SS22. Currently it is a part of W stores but the management believes that it certainly has the potential to be an independent identity in the long term
- Elleven, its bottom wear brand had got launched one month before the pandemic started. Now with expansion plans back in focus, the company is planning to add 15 stores for Elleven by SS22. The company is also testing the same in select LFS stores. The management expects the full-scale pilot in SS22 to pave the path for future growth strategy to take effect
- The management had reduced focus on its occasion and wedding wear brand 'Wishful' in last few quarters due to impact of pandemic but it has started to scale up the business again. The sales of the brand 'Wishful' saw good traction in October. With the ensuing wedding season from December the management is expecting the sales of 'Wishful' to further pick from Q3FY22 onwards
- For top 50 stores where the company has rolled out its footwear and other new products, non-apparel currently contributes around 10% of the total revenues. Over the longer term, the management is aiming to increase the share of non-apparels to ~ 20-25%

Exhibit 1: TCNS presence and opportunity 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 (pre-Ind AS 116)

Exhibit 3: Profit and loss statement		₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
Net Sales	635.5	1,029.7	1,426.1	1,731.3	
Growth (%)	(44.7)	62.0	38.5	21.4	
Total Raw Material Cost	272.4	408.8	520.5	631.9	
Gross Margins (%)	57.1	60.3	63.5	63.5	
Employee Expenses	121.4	144.1	174.1	207.8	
Other Expenses	303.7	407.7	536.2	647.5	
Total Operating Expenditure	697.6	960.6	1,230.8	1,487.2	
EBITDA	(62.1)	69.1	195.2	244.1	
EBITDA Margin (%)	(9.8)	6.7	13.7	14.1	
Adjusted EBITDA	(56.0)	72.1	198.2	244.1	
Adjusted EBITDA Margin	(8.8)	7.0	13.9	14.1	
Interest	2.5	1.0	0.9	0.9	
Depreciation	24.0	31.5	41.5	52.0	
Other Income	16.5	12.0	18.0	20.0	
Exceptional Expense	-	-	-	-	
PBT	(72.1)	48.6	170.8	211.2	
Total Tax	(20.6)	12.2	43.0	53.2	
Profit After Tax	(51.5)	36.3	127.8	158.0	
Adjusted PAT	(45.4)	39.3	130.8	158.0	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement		₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
Profit/(Loss) after taxation	-51.5	36.3	127.8	158.0	
Add: Depreciation	24.0	31.5	41.5	52.0	
Add: Share based payments	6.1	3.0	3.0	0.0	
Net Increase in Current Assets	87.8	-9.0	-140.5	-119.1	
Net Increase in Current Liabilities	-42.5	16.3	41.5	32.0	
CF from operating activities	23.8	78.1	73.3	122.9	
(Inc)/dec in Investments	-54.3	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-11.9	-40.5	-40.0	-50.0	
Others	0.0	0.0	0.0	0.0	
CF from investing activities	-66.2	-40.5	-40.0	-50.0	
Inc / (Dec) in Equity Capital	0.0	0.3	0.0	0.0	
Inc / (Dec) in Loan	5.4	-5.4	0.0	0.0	
Others	-1.3	0.0	0.0	0.0	
CF from financing activities	4.0	-5.1	0.0	0.0	
Net Cash flow	-38.3	32.6	33.3	72.9	
Opening Cash	53.2	14.9	47.5	80.8	
Closing Cash	14.9	47.5	80.8	153.8	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet		₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
Equity Capital	12.3	12.6	12.6	12.6	
Other equity instruments	-	-	-	-	
Reserve and Surplus	627.2	666.5	797.3	955.3	
Total Shareholders funds	639.5	679.1	809.9	967.9	
Total Debt	5.4	-	-	-	
Non Current Liabilities	5.8	5.8	5.8	5.8	
Source of Funds	650.7	684.9	815.7	973.7	
Gross block	117.6	157.6	197.6	247.6	
Less: Accum depreciation	86.8	118.3	159.8	211.8	
Net Fixed Assets	30.7	39.2	37.7	35.7	
Capital WIP	0.5	1.0	1.0	1.0	
Intangible assets	2.1	2.1	2.1	2.1	
Investments	172.4	172.4	172.4	172.4	
Inventory	278.5	282.1	363.4	436.4	
Cash	14.9	47.5	80.8	153.8	
Debtors	164.8	163.6	214.9	251.4	
Loans & Advances & Other CA	33.1	39.8	47.7	57.3	
Total Current Assets	491.4	533.0	706.8	898.8	
Creditors	91.2	107.2	148.5	180.2	
Provisions & Other CL	34.8	35.0	35.3	35.5	
Total Current Liabilities	126.0	142.2	183.7	215.8	
Net Current Assets	365.5	390.8	523.0	683.0	
LT L& A, Other Assets	79.5	79.5	79.5	79.5	
Other Assets	0.0	0.0	0.0	0.0	
Application of Funds	650.7	684.9	815.7	973.7	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
Per share data (₹)					
EPS	-8.4	5.8	20.3	25.1	
EPS (Adjusted)	-7.4	6.2	20.8	25.1	
Cash EPS	-4.5	10.8	26.9	33.3	
BV	103.9	107.8	128.6	153.6	
Cash Per Share	2.4	7.5	12.8	24.4	
Operating Ratios (%)					
EBITDA margins	-9.8	6.7	13.7	14.1	
PBT margins	-11.3	4.7	12.0	12.2	
Net Profit margins	-8.1	3.5	9.0	9.1	
Inventory days	160.0	100.0	93.0	92.0	
Debtor days	94.7	58.0	55.0	53.0	
Creditor days	52.4	38.0	38.0	38.0	
Return Ratios (%)					
RoE	-8.1	5.3	15.8	16.3	
RoCE	-10.8	7.3	21.2	21.9	
RoIC	-15.2	10.8	30.8	33.1	
Valuation Ratios (x)					
P/E	-105.8	153.5	43.6	35.3	
EV / EBITDA	-84.8	77.5	27.3	21.5	
EV / Sales	8.3	5.2	3.7	3.0	
Market Cap / Revenues	8.6	5.4	3.9	3.2	
Price to Book Value	8.5	8.2	6.9	5.8	
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	
Debt/EBITDA	-0.1	0.0	0.0	0.0	
Current Ratio	3.8	3.4	3.4	3.5	
Quick Ratio	1.6	1.4	1.4	1.4	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours 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 – INH00000990. 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 did 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.