

Festive fervour to aid revenue recovery trajectory....

Post relaxation of lockdown restrictions, TCNS witnessed a healthy sequential recovery but sales continue to be below pre-Covid levels. Revenue recovery rate is on an upward trajectory with sales reaching 45% of pre-Covid levels in Q2FY21 and ~70% in October. Online sales continue to grow swiftly with October registering highest ever sales. Around 95% of the stores are operational as on end of Q2FY21. Emphasis on minimising cash burns are on track with TCNS securing full year rental savings of ~30% YoY, and potential annualised savings of 15-20% for employee expenses in FY21E. It continues to have healthy cash reserves worth ₹ 110 crore (₹ 170 crore in FY20) and additional unutilised bank limits as on H1FY21. Furthermore, it is looking to optimise working capital and freeing up cash through significantly reducing fresh buys and reverting to utilising full credit periods (expects positive operational cashflows from Q3FY21 onwards).

E-com continues to outpace other distribution channels...

Revenue for Q2FY21 declined 55% YoY to ₹ 144.1 crore. Online sales have grown rapidly and reached 2x pre-Covid levels while the brand's website is growing higher at 3x (share of online channels spiked up sharply to ~37% in Q2FY21). EBOs, LFS broadly are witnessing similar sales recovery along with strong run up in festive season. MBO secondary sales are gradually recovering although primary billing is yet to resume (from Q4FY21 onwards). Provision for dormancy on unsold inventory and change in channel mix (higher share of e-commerce) resulted in gross margins contraction of 1330 bps YoY to 51.6% in Q2FY21. Though higher share of e-commerce may exert pressure on margins in the near term, with stabilisation of other retail channels, gross margin is expected to revert back to its prior run-rate (64-65%). Sustained reduction in operating overheads led PBT losses to narrow down QoQ to ₹ 38.1 crore (Q1FY21: ₹ 60.4 crore). The management indicated that cash burns have declined materially to ~₹ 15 crore in the last three months (had cash burns of ₹ 50 crore till August).

Valuation & Outlook

TCNS will be redeploying SS20 merchandise over next season, significantly reducing fresh buys. Working capital release coupled with reduction in cash burns will translate into positive operating cashflows from Q3FY21E onwards. TCNS has secured significant fixed cost reduction for the year through rationalising unviable stores (shut 21 stores in H1FY21), rental waivers, rationalising staff overheads and curbing discretionary spending (ad-spends). We expect cost saving initiatives to have long-term positive impact post the pandemic as well. Being a net cash positive company (₹ 110 crore cash & investment), TCNS would be better positioned to tide over the current turbulent market scenario. We are positive on the long term outlook, considering the company's strong brand franchise and healthy operating metrics. We introduce FY23E estimates, and pencil in earnings CAGR of 27% in FY20-23E (on a comparatively low base) with higher RoIC of ~ 25% in FY23E. We reiterate **BUY** rating on the stock with a revised TP of ₹ 475 (27x FY23E EPS, previous TP: ₹ 410).

Key Financial Summary (Adjusted for Ind-AS 116)

₹ crore	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1,148.7	676.3	1,193.3	1,361.4	5.8%
EBITDA	81.2	-75.0	146.7	174.0	28.9%
Net Profit	53.8	-68.8	95.8	111.4	27.5%
P/E (x)	45.4	-	26.1	22.4	
EV/Sales (x)	2.0	3.4	1.9	1.7	
EV/EBITDA (x)	27.9	-	15.7	12.9	
RoCE (%)	10.6	-14.6	17.8	17.8	
RoE (%)	7.9	-11.0	13.2	13.3	

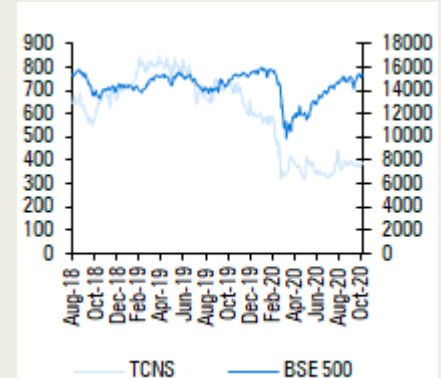
Source: ICICI Direct Research, Company



Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,440.6
Total Debt (FY20) (₹ crore)	-
Cash & Investments (FY20) (₹ crore)	171.3
EV (₹ crore)	2,269.3
52 Week H / L	749 / 300
Equity Capital (₹ crore)	12.3
Face Value (₹)	2.0

Price Chart



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Key conference call takeaways

- On regional customer trends, Tier II & Tier III towns have seen better traction than Tier I cities. Also high street stores have performed better than stores in malls. Airport stores continues to be hardest hit (5-6% of EBO revenues) with recovery rate of mere 15%
- On the profitability front, gross margins have been negatively impacted owing to inventory dormancy and adverse channel mix. The management indicated that if sales recover, gross margins should reach normal levels
- The company continues to focus on cost reduction and has been able to secure rent waivers to the tune of ₹ 14 crore in Q2FY21. Cash conservation is the key focus area and the management expects the company to be cash positive in Q3FY21
- TCNS is investing in upgrading warehouse and expects to spend around ₹ 7 crore over the next two to three quarters on the same
- On the store rationalisation front, the management continued to close unviable stores or stores where they are not getting rent waivers. In Q2FY21, TCNS closed 21 stores (opened eight new) and is aiming to close 10-15 more stores by the end of FY21
- Brand wise, the company is planning to build a product range for wishful brand and sell the same from 'W' stores rather than adding more 'Wishful' stores. The festive season has begun well for the Wishful brand while October and November sales have been encouraging
- W footwear launched in select pilot stores, Aurelia ethnic wear for girls introduced and opened four Elleven EBO stores with launch planned with select LFS and online partners
- Both inventory and receivables have been higher than usual. The management expects inventory levels to reduce by Q4FY21 and the inventory days to come down by 10-12 days from Q2FY21 levels. On the receivables front, the management indicated that collections have been slower but started picking up gradually. By Q4FY21 it expects the receivable levels to normalise
- It moved away from a strict two season calendar. This will bring inventory closer to the season specific requirements

Financial Summary (pre IND-AS 116)

Exhibit 1: Profit & Loss Statement (₹ crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	1,148.7	676.3	1,193.3	1,361.4
Growth (%)	0.1	(41.1)	76.4	14.1
Total Raw Material Cost	402.3	311.1	441.5	496.9
Gross Margins (%)	65.0	54.0	63.0	63.5
Employee Expenses	157.6	129.7	151.6	166.4
Other Expenses	507.6	310.5	453.4	524.1
Total Operating Expenditure	1,067.5	751.3	1,046.5	1,187.4
EBITDA	81.2	(75.0)	146.7	174.0
EBITDA Margin (%)	7.1	(11.1)	12.3	12.8
Adjusted EBITDA	89.9	(67.0)	152.7	177.0
Adjusted EBITDA Margin	7.8	(9.9)	12.8	13.0
Interest	0.7	1.0	0.9	0.9
Depreciation	26.1	28.9	33.7	42.1
Other Income	17.6	13.0	16.0	18.0
Exceptional Expense	-	-	-	-
PBT	71.9	(92.0)	128.1	149.0
Total Tax	18.1	(23.2)	32.3	37.5
Profit After Tax	53.8	(68.8)	95.8	111.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	53.8	-68.8	95.8	111.4
Add: Depreciation	26.1	28.9	33.7	42.1
Add: Share based payments	8.7	8.0	6.0	3.0
Net Increase in Current Assets	-58.3	83.4	-106.3	-80.7
Net Increase in Current Liabilities	7.8	-44.2	46.7	17.8
CF from operating activities	38.1	7.3	76.0	93.6
(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	-9.5	36.2	53.6
Opening Cash	23.1	53.2	43.8	79.9
Closing Cash	53.2	43.8	79.9	133.5

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	611.8	713.7	828.1
Total Shareholders funds	684.9	624.2	726.3	840.7
Total Debt	-	-	-	-
Non Current Liabilities	7.1	7.1	7.1	7.1
Source of Funds	692.0	631.4	733.4	847.8
Gross block	102.6	120.6	160.6	200.6
Less: Accum depreciation	62.8	91.8	125.5	167.6
Net Fixed Assets	39.7	28.8	35.1	33.0
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	268.7	326.9	373.0
Cash	53.2	43.8	79.9	133.5
Debtors	175.6	148.2	189.6	216.3
Loans & Advances & Other CA	27.6	33.1	39.8	47.7
Total Current Assets	586.7	493.8	636.2	770.5
Creditors	122.3	77.8	124.2	141.7
Provisions & Other CL	46.2	46.4	46.7	47.0
Total Current Liabilities	168.5	124.3	170.9	188.7
Net Current Assets	418.2	369.5	465.3	581.8
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	631.4	733.4	847.8

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	8.8	-11.1	15.2	17.7
EPS (Adjusted)	10.2	-9.8	16.2	18.2
Cash EPS	13.0	-6.4	20.6	24.4
BV	111.4	100.7	115.3	133.4
Cash Per Share	8.7	7.1	12.7	21.2
Operating Ratios (%)				
EBITDA margins	7.1	-11.1	12.3	12.8
PBT margins	6.3	-13.6	10.7	10.9
Net Profit margins	4.7	-10.2	8.0	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	-11.0	13.2	13.3
RoCE	10.6	-14.6	17.8	17.8
RoIC	14.1	-19.7	24.4	25.4
Valuation Ratios (x)				
P/E	45.4	-35.8	26.1	22.4
EV / EBITDA	27.9	-30.7	15.7	12.9
EV / Sales	2.0	3.4	1.9	1.7
Market Cap / Revenues	2.1	3.6	2.1	1.8
Price to Book Value	3.6	3.9	3.4	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

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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