

## Revenue recovery reaches 100% of pre-Covid levels...

**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 ₹ 180 crore

**Q3FY22 Results:** Reported strong recovery with revenues matching pre-Covid levels (100% vs. 75% in Q2FY22).

- On a favourable base revenue grew 38% YoY to ₹ 328.5 crore
- Key positive during the quarter was the company reverting back to its strong gross margin levels of 67.8% in Q3FY22 (Q3FY21: 61.1%, Q3FY20: 67.8%)
- EBITDA grew 64% YoY to ₹ 63.0 crore (93% of pre-Covid levels) with EBITDA margins expanding 300 bps YoY to 19.2% (Q3FY20: 20.6%)

**What should investors do?** Since our initiation report, the stock has appreciated ~71% (from ₹ 400 in April 2020 to ₹ 685 in February 2022). We believe the recent stock price correction (~18% from our last update) offers a good entry point

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

**Target Price and Valuation:** We value TCNS at ₹ 970 i.e. 3.5x FY24E EV/sales.

### Key triggers for future price performance:

- TCNS has accelerated its store expansion plans and added 18 stores in Q3FY22. It plans to add 25 more stores in Q4FY22 and exit FY22 with 600+ stores. Expects to add 100+ stores annually (vs. earlier guidance of 60+)
- Higher focus on expanding network in tier III/IV cities mainly through franchisee led model
- 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
- 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 target price of ₹ 360/share



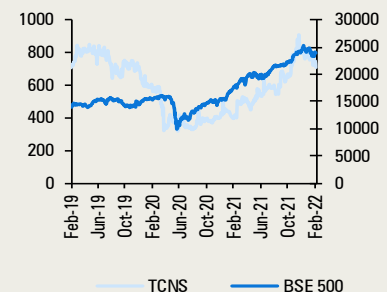
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	4,211.0
Total Debt (FY21) (₹ crore)	5.4
Cash & Investments (FY21) (₹ crore)	187.3
EV (₹ crore)	4,029.1
52 Week H / L	932 / 398
Equity Capital (₹ crore)	12.3
Face Value (₹)	2.0

### Shareholding pattern

	Dec-21	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	32.3	32.3	32.3	32.3	32.3
FII	17.0	19.5	17.8	17.9	17.6
DII	7.6	4.4	5.9	6.1	6.6
Others	43.1	43.8	43.9	43.7	43.5

### Price Chart



### Key risks

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

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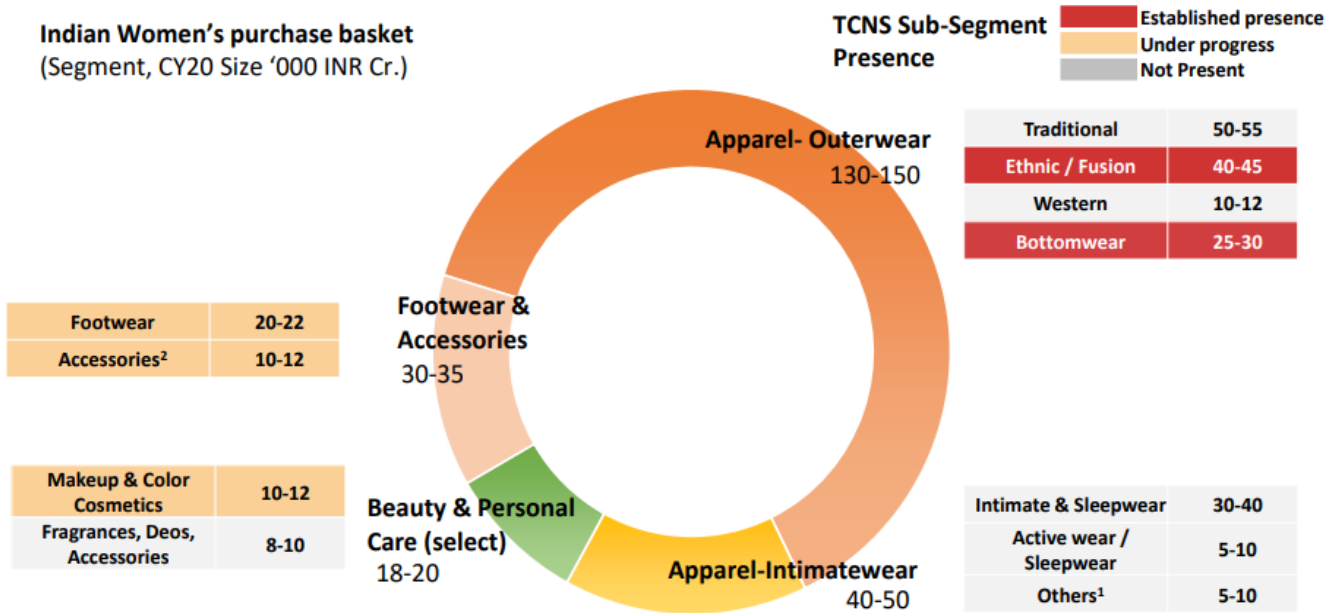
### Key Financial Summary

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%	962.4	1,345.3	1,607.3	8.8%
EBITDA	177.0	81.2	-62.1	10.0%	50.8	180.0	225.0	29.0%
Net Profit	131.6	53.8	-51.5	-	22.6	116.4	143.7	27.8%
P/E (x)	31.9	78.3	-	-	190.6	37.1	30.0	-
EV/Sales (x)	3.5	3.5	6.3	-	4.3	3.0	2.5	-
EV/EBITDA (x)	22.8	49.8	-	-	80.9	22.7	17.8	-
RoCE (%)	26.2	10.6	-10.8	-	4.7	19.9	20.7	-
RoE (%)	21.3	7.9	-8.1	-	3.4	14.8	15.4	-

## Key Conference call takeaways

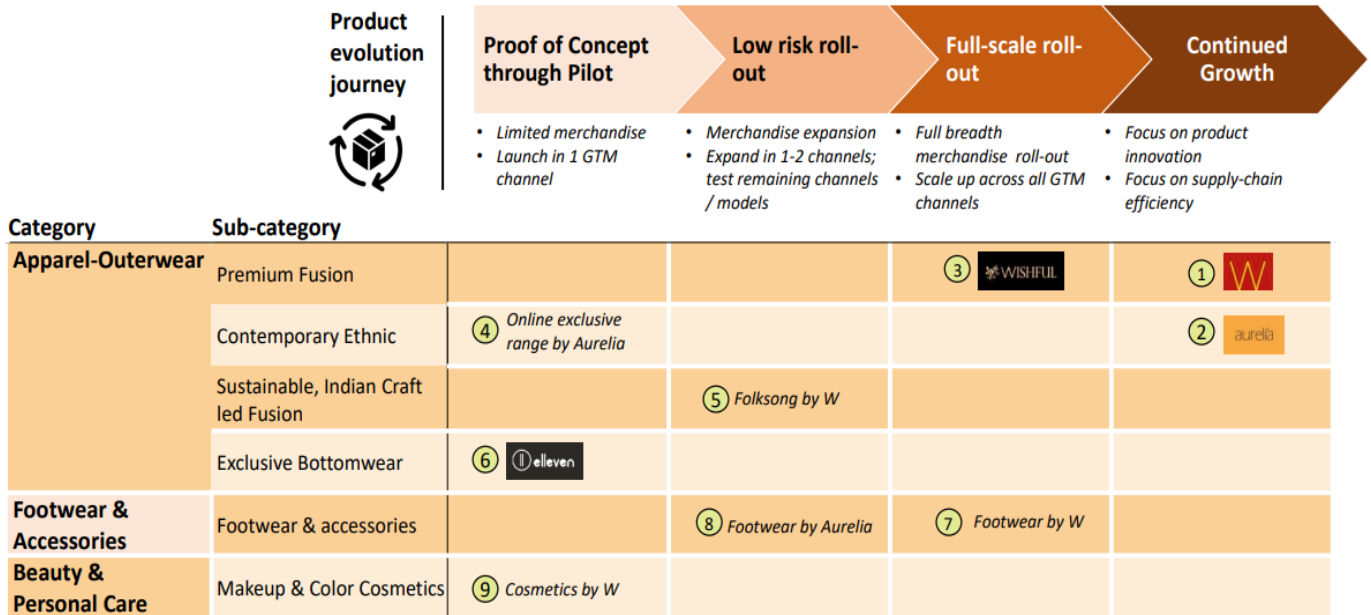
- Q3FY22 revenues has matched the highest ever sales recorded by the company in Q3FY20 in spite of Covid led disruption towards end of December in Q3FY22. The recovery has been more evenly distributed across cities and small towns and various store types. While online sustained its growth momentum (30% higher than pre-Covid levels), recovery of the offline channels to ~90% augurs well for the company. Though the market for ethnic wear saw sharp recovery during the quarter, it still lags some other consumption categories owing to restrictions on offices
- The company focused on optimising working capital compared to September 2021. TCNS has working capital days in range of 115-120 days and is targeting to bring it down to 110 days. The quality of inventory improved as currently only 6% of the inventory is three season old compared to 10% earlier
- The company has remained cash accretive in four out of last five quarters driven by continued recovery, cost mitigation & working capital reduction and current cash reserves at ~ ₹ 180 crore that is higher than pre-Covid levels
- The company continued to invest in project Bharat, which is a low investment model focused on expanding network in small towns. TCNS has opened five stores of brands 'W' and 'Aurelia'. The store size is in the range of 500-1000 square feet. Also, the company is expanding presence through Project rise, which focuses on important tier I markets. The outlets in project rise are in range of 1700-3500 square feet and stores are company owned
- The company has some stores in international destinations like Sri Lanka, Mauritius and Nepal. TCNS is exploring options to open stores in Gulf countries and also create online capabilities for serving these regions
- The management believes that its bottom wear brand Elleven has good potential as it is a utility product. They are looking to add 15 stores and 50+ large format store doors for the Elleven brand. The management indicated that if the pilot was successful it could add 50-60 stores. The revenue potential could be around ₹ 75 - 100 crore over the next two years
- On the store network front, the company currently has 575 stores (18 added in Q3FY22) and is planning to add 25 stores in Q4FY22 and exit FY22 with 600+ stores. On an annual basis, TCNS is looking to add ~100 stores per year.
- On the new product and brand launches, the management indicated that its footwear range has found good acceptance with the customers. Footprint has expanded to ~150 EBOs. Footwear currently contributes high single digit of store sales
- The total bill cuts during the quarter were slightly lower than pre Covid level but average transaction value was higher
- The management expects 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

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 (pre-IND AS 116)

Exhibit 3: Profit and loss statement		₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
<b>Net Sales</b>	<b>635.5</b>	<b>962.4</b>	<b>1,345.3</b>	<b>1,607.3</b>	
Growth (%)	(44.7)	51.4	39.8	19.5	
Total Raw Material Cost	272.4	351.3	470.9	562.5	
Gross Margins (%)	57.1	63.5	65.0	65.0	
Employee Expenses	121.4	150.4	169.8	194.5	
Other Expenses	303.7	410.0	524.7	625.2	
Total Operating Expenditure	697.6	911.6	1,165.4	1,382.2	
<b>EBITDA</b>	<b>(62.1)</b>	<b>50.8</b>	<b>180.0</b>	<b>225.0</b>	
EBITDA Margin (%)	(9.8)	5.3	13.4	14.0	
<b>Adjusted EBITDA</b>	<b>(56.0)</b>	<b>56.8</b>	<b>183.0</b>	<b>225.0</b>	
Adjusted EBITDA Margin	(8.8)	5.9	13.6	14.0	
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)	30.3	155.6	192.1	
Total Tax	(20.6)	7.6	39.2	48.4	
<b>Profit After Tax</b>	<b>(51.5)</b>	<b>22.6</b>	<b>116.4</b>	<b>143.7</b>	
<b>Adjusted PAT</b>	<b>(45.4)</b>	<b>28.6</b>	<b>119.4</b>	<b>143.7</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement		₹ crore			
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
Profit/(Loss) after taxation	-51.5	22.6	116.4	143.7	
Add: Depreciation	24.0	31.5	41.5	52.0	
Add: Share based payments	6.1	6.0	3.0	0.0	
Net Increase in Current Assets	87.8	-6.2	-136.3	-94.4	
Net Increase in Current Liabilities	-42.5	9.2	40.1	27.5	
<b>CF from operating activities</b>	<b>23.8</b>	<b>63.2</b>	<b>64.7</b>	<b>128.9</b>	
(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	
<b>CF from investing activities</b>	<b>-66.2</b>	<b>-40.5</b>	<b>-40.0</b>	<b>-50.0</b>	
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	
<b>CF from financing activities</b>	<b>4.0</b>	<b>-5.1</b>	<b>0.0</b>	<b>0.0</b>	
Net Cash flow	-38.3	17.6	24.7	78.9	
Opening Cash	53.2	14.9	32.6	57.3	
<b>Closing Cash</b>	<b>14.9</b>	<b>32.6</b>	<b>57.3</b>	<b>136.1</b>	

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	655.8	775.2	918.9	
Total Shareholders funds	639.5	668.4	787.8	931.5	
Total Debt	5.4	-	-	-	
Non Current Liabilities	5.8	5.8	5.8	5.8	
<b>Source of Funds</b>	<b>650.7</b>	<b>674.2</b>	<b>793.6</b>	<b>937.3</b>	
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	290.0	368.6	422.7	
Cash	14.9	32.6	57.3	136.1	
Debtors	164.8	152.9	202.7	233.4	
Loans & Advances & Other CA	33.1	39.8	47.7	57.3	
Total Current Assets	491.4	515.3	676.3	849.5	
Creditors	91.2	100.2	140.1	167.3	
Provisions & Other CL	34.8	35.0	35.3	35.5	
Total Current Liabilities	126.0	135.2	175.3	202.9	
Net Current Assets	365.5	380.1	500.9	646.6	
LT L& A, Other Assets	79.5	79.5	79.5	79.5	
Other Assets	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>650.7</b>	<b>674.2</b>	<b>793.6</b>	<b>937.3</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
(Year-end March)	FY21A	FY22E	FY23E	FY24E	
<b>Per share data (₹)</b>					
EPS	-8.4	3.6	18.5	22.8	
EPS (Adjusted)	-7.4	4.5	18.9	22.8	
Cash EPS	-4.5	8.6	25.1	31.1	
BV	103.9	106.1	125.0	147.9	
Cash Per Share	2.4	5.2	9.1	21.6	
<b>Operating Ratios (%)</b>					
EBITDA margins	-9.8	5.3	13.4	14.0	
PBT margins	-11.3	3.1	11.6	12.0	
Net Profit margins	-8.1	2.4	8.6	8.9	
Inventory days	160.0	110.0	100.0	96.0	
Debtor days	94.7	58.0	55.0	53.0	
Creditor days	52.4	38.0	38.0	38.0	
<b>Return Ratios (%)</b>					
RoE	-8.1	3.4	14.8	15.4	
RoCE	-10.8	4.7	19.9	20.7	
RoC	-15.2	6.7	28.0	31.0	
<b>Valuation Ratios (x)</b>					
P/E	-81.9	190.6	37.1	30.0	
EV / EBITDA	-65.0	80.9	22.7	17.8	
EV / Sales	6.3	4.3	3.0	2.5	
Market Cap / Revenues	6.6	4.5	3.2	2.7	
Price to Book Value	6.6	6.5	5.5	4.6	
<b>Solvency Ratios</b>					
Debt / Equity	0.0	0.0	0.0	0.0	
Debt/EBITDA	-0.1	0.0	0.0	0.0	
Current Ratio	3.8	3.6	3.5	3.5	
Quick Ratio	1.6	1.4	1.4	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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