"TCNS Clothing Company Limited Q1 FY '21 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the TCNS Clothing Company Limited Q1 FY '21 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anant Daga, Managing Director, TCNS Clothing Company Limited. Thank you and over to you, Sir.

Anant Daga: Thank you. Good Evening and Welcome to our Q1 FY '21 earnings conference call to discuss operational and financial performance for the quarter. I am joined by Venkat, our CFO, and SGA, our Investor Relations advisors. First of all, I hope you and your near ones are safe and healthy. It has been a long fight against the pandemic that has impacted all of us in one way or other. In terms of business too, it has been unprecedented times. Operations remain highly impacted with complete lockdown in April followed by staggered unlocking with continuous disruptions for rest of the quarter. As such, the first quarter has been a clear aberration for the entire industry. While Venkat will take you through key financial highlights for the quarter, let me share the emerging scenario and key focus areas updates. As on date, we have about 85% of our EBOs, LFS, and MBO counters functioning with restricted operational days and timings. We have seen gradual opening of stores starting May and hope to have all of them operational in next three to four weeks. Talking specifically of first quarter, we had about 65% of our stores opened by June end, but in terms of like-to-like operational days for the entire quarter, the number was just around 20%. Planned periodic lockdowns and ad hoc closures across geographies have prevented all these stores from being fully operational. Stores sales are currently tracking around 40% of the Pre-COVID levels on normalized operational period basis. High streets are seeing better traction than malls and airports.

Areas with limited COVID impact are seeing much faster recovery with many of these clocking 70% to 80% of pre-COVID numbers already. We had seen some spike in sales in last three weeks on back of Eid, Raksha Bandhan, and Independence Day. This clearly shows continued appetite for the category among consumers. However, the situation remains uncertain and pandemic is still not in control and it will not be right to draw any trend lines basis these green shoots.

Online has seen sharp growth and as of now it is tracking about 1.25x against pre-COVID levels. Our own brand.com is doing 2x of pre-COVID levels and is accelerating. Apart from general shift of consumers to online sales in given circumstances, what has really worked for us is also our readiness in terms of robust marketplace presence backed by best-in-class certified operation. This is a journey which we had set ourselves 18 months back and we believe this would be a key differentiator for us both in short and long term. Talking of backend operations, our offices, warehouses, our manufacturing partners are now operational and gradually scaling. As mentioned in the last call also, we had drawn a comprehensive COVID response plan. Given the pandemic, our approach towards FY '21 is clearly cut out. The key goal is to preserve the strength of our balance sheet. The objective is to minimize cash burn and yet not lose the ability to scale up at an opportune time and strike to reach pre-COVID metrics by FY '21 exit.

We have set a five-pronged approach to navigate the situation to achieve this goal. We are focusing on controlling costs, conserving cash, engaging our consumers, building organizational resilience, and seizing potential opportunities. There are multiple initiatives underway in each of these areas and I am happy to share that we have made rapid progress on all these fronts. Let me give a quick update on the same. The first bucket is cost control. The two main items here are rent and salary. We have taken swift action on both these fronts. Given our positive relationships with landlords, we have been able to get significant concessions and waivers across majority of our store network. As on date, our projected annual savings against last year is already at 25% plus levels whereas compared to contracted rates, that includes escalation clauses and new store full period rentals, this number would come close to 30%. We have accounted for savings of Rs. 19 crores in Q1, this does not include potential savings from ongoing negotiations yet to be signed off. We are confident of building meaningfully on these savings as we move forward. Now, apart from renegotiation leases, we have decided on shutting down bottom performing stores with unsustainable rentals. We have closed 16 such stores in Q1 and have about 25 additional stores under consideration. We are also consolidating our brand presence in select locations in the same store to optimize rental and operational cost. As of now, we have identified about 10 such stores.

On staff cost, we have taken a graded salary cut in the organization which will be reassessed as per evolving situations. We are also rationalizing front-end sales staff strength to ensure safety norms, optimize common resources to manage large format counters for W and Aurelia and combining reserve staff for multiple locations. Overall, we are targeting a potential 20% plus annualized savings on this front as well. Since most of the initiatives have been taken May onwards, the bigger impact would be seen in coming quarters. Here, I would like to specially call out the zeal and passion the entire team has shown in these tough conditions is exemplary and instills tremendous confidence in our ability to emerge stronger from this crisis, a big thank you to all our employees. Concrete steps have been taken in minimizing all discretionary spends, marketing is being optimized by using social media platform and direct engagement tools and spends have been limited to backing online and offline sales. Meaningful savings have been planned in travel cost, retainers and multiple corporate overheads. All cost heads are being scrutinized with a zero-based budgeting approach and flexibilities in our cost structures are being optimized.

Coming to second bucket, it is all about cash conservation. Even after five months of lockdown and hopefully with the worst behind us, as on date, we have around Rs.125 crores in cash and additional unutilized bank limits over and above the same. Given the cost controls and limited inventories by going forward, this positions us strongly to tide over the current crisis. The focus is now to release cash invested in working capital especially in inventory. Since our last call, multiple steps have been taken on this front. Existing SS 20 stocks have been redeployed in the coming seasons, sharply reducing new purchase requirement. Given the season agnostic and versatile occasion usage range architecture covering over 90% of our products line, we will have a comprehensive festive appropriate offering for our consumers. To add to this, most of the new capsule ranges that are needed to plug the gaps in the products offering are being majorly created out of existing range and leftover fabrics of earlier seasons, further limiting new fabric purchases.

Another liquidity lever for us has been vendor credit, we have been paying our suppliers ahead of time which will be paused for now. However, we will continue to be equitable partners and support our vendors. CAPEX is being restricted to existing stores and select key ongoing projects till situation improves. Third area for us is consumer engagement. One very clear and interesting learning through our consumer interactions is that there is untapped demand that is currently not being serviced due to limited accessibility to stores. We are addressing this through both online and non-conventional offline approaches. Our Omni capabilities are now being extended to third-party marketplaces as well, bringing us a step closer to being a truly single inventory view business. With the highest rating with leading portals matching their exacting standards for services and extended product catalogue through marketplaces, we are now in a position to service our online customers with a complete range of products. The rising share of marketplace operation is a clear indicator of the efficacy of this capability. On the offline side, we have launched multiple direct to consumer non-conventional initiatives, we have taken a hyper local approach setting up pop-up stores at residential societies across regions. As of now, we have already done the piloted the concept across 50 plus locations and are looking at an accelerated scale up. We have also been offering our customers a virtual store tour and shopping experience. On this front, we have got really encouraging response.

Fourth bucket is organizational resilience and leveraging technology. We had talked about the lockdown giving us an opportunity to take a fresh look at the business model, various work streams and accelerate key initiatives already underway. Our quick replenishment module, reducing thought to shelf cycle and launch-test-scale models are all initiatives that will have high impact on product sell-throughs and inventories going forward. We continue to invest in building data sciences capability and inventory automation processes which will further strengthen business decision making.

Talking about opportunities, we have taken initiatives like "elleven", which is our new coordinate brand, W footwear, and Aurelia girls-wear range. We had invested in working capital for these initiatives before COVID, now the same would be used in the coming season. We are not committing further CAPEX on these initiatives at this time, but we will test this concept in large format stores and online platforms with clear focus on giving deeper insights and sharpening our consumer proposition. While we understand that this pandemic has forced all of us to focus on short-term priorities and manage immediate risk and challenges, we will need to balance this with long-term objectives. Our balance sheet strength and our response strategy gives us the confidence of emerging stronger from this pandemic and we remain committed to our long-term growth strategy. I will now request Venkat to take you through the numbers post which we can open the floor for questions. Thank you.

Venkatesh Tarakkad: Thanks, Anant. Good Evening everyone, hope all of you and your near ones are keeping good health. As Anant said, this has been an unprecedented quarter with significant disruptions in business and the results reflect the same. Our Q1 revenue was Rs.32 crores this quarter versus Rs. 280 crores previous year Quarter-1, down 88% versus last year. April was a zero-revenue month with staggered unlocking of stores in May and June, while having to deal with stop-start operations in multiple locations. Online has seen strong recovery starting June. Our gross margin this year Q1 was 51% versus 67% last year Q1. In line with our dormancy provisioning policy, we have taken a provision this quarter also which on the lower sales base, makes gross margin dip looked optically higher in percentage terms. Channel mix also had a role to play on this low base which will stabilize with retail coming back to full operations. There are no challenges on product cost side, and we continue to be in full control on that front.

With respect to cost, as Anant mentioned, we have secured a reduction of around 20% in our fixed cost on the full-year basis. The savings will come in phased manner over various quarters. There are multiple steps being taken and we are confident of building on these numbers as we go forward. Under Ind-AS 116 accounting, total rent concession of Rs. 19 crores have been accounted in Q1, out of which Rs. 7 crores have been reported under rent expenses, that is to the extent available and balance of Rs. 12 crores are reported under other income. This does not include potential savings from multiple negotiations underway which are not signed off yet. We are hence confident of building on this number as we move ahead. You will see a reduction of 12% in salaries this quarter versus previous year Quarter-1. We have taken a greater reduction of salaries only from May and hence bulk of the savings will start from Q2 onwards. Other expenses have reduced by around 40% versus Q1 previous year on back of various cost control measures and re-negotiations. At the current rate, the savings is even higher as some additional expenses e.g. warehousing were encountered only after Q1 last year.

Our EBITDA for this quarter was a loss of Rs. 26 crores versus last year's Q1 EBITDA profit of Rs. 60 crores. Our Q1 profit after tax was a loss of Rs. 45 crores versus a profit after tax of Rs. 50 crores last year Q1. We closed 16 stores and opened 8 new store during this period, including two Elleven stores. These stores were already in pipeline as of March end. Our working capital remains at similar level that of March. We have taken concrete steps to release cash from working capital and you will see the impact in second half of the year. The strength of our balance sheet is reflected in our cash position, which is at a healthy Rs. 125 crores as of now in mid-August. This along with unutilized cash limits keeps us in a comfortable position to fulfill obligations and provide growth.

Thank you. We are now open to questions, since we are the only listed entity in our segment, we might not be able to share granular details that might be competitive information, would request your understanding on the same.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Avi Mehta from IIFL Securities. Please go ahead.

Avi Mehta: Hi, Anant and Venkat, just three questions from my side, one if you could kind of just help understand your thoughts on the discounting level within the industry which you see while we clearly see the industry under a lot of strain, are you expecting this to result in higher discounting or lower discounting, the reason why I say lower is because there is a consumer who is clearly valuing safety and putting that in the top of the mind as of now or do you see, your thoughts on that?

Anant Daga: First of all, let me tell you that after probably at least couple of years and multiple seasons, for the first time, we have seen EOSS actually starting on a delayed date. Since last three years every season it has been advancing, so I think the industry together has already taken a step of delaying the EOSS as we speak right now. I think why this also happened was because in June and typically when the EOSS starts end June and early July, the kind of shoppers we saw in the market was all serious buyers, I do not think they were coming out due to prices as an attraction, they had a need and they wanted to consume and hence there was no point of putting up EOSS. That is why most of the retailers, in fact I would say majority of the brands, irrespective of their current situation, postponed the EOSS. Number two, see most of us would be carrying a good amount of excess inventories to next season and hence it makes no sense to offer any offers there, so that ways we believe that at least for this July-August EOSS you will see a lesser impact. You can still see comparable schemes to last year that one would have had, but overall quantum is definitely going to be lower. How it will span in the upcoming EOSS next season and onwards is something that a lot will depend upon how brands and retailers perform over next six months, but as of now we see a lower discounting trend for sure.

Avi Mehta: Okay, that is actually heartening to hear, do you see while you are extending the inventory over two seasons, are you concerned about inventory being at risk or you possibly need to do any obsolescence or provisions for inventory due to this pandemic?

Anant Daga: Avi, I think it is a very important question and I am sure many people would have this in mind, so first of all let me just tell you that over last seven-eight years, we have had a very consistent dormancy policy in place and irrespective of times and extraordinary situation, based on seasonality, on a rotational basis, we keep adding dormancies, so every season whatever S-3 and older starts getting provisioned at our historic realizations of the product. So as far as dormancy is concerned, I think we are extremely strong. In last eight years, we never had to write down any further losses whenever we sold old inventory, we have always returned back, so I do not think there is any challenge on that front, number one. Number two, when you look at our inventory, about 30% of that is fabric, so now that again will be used, so there is not a big challenge there. In finished goods also if you look at it, majority of that is less than two seasons old and fresher. This inventory as we talk about which is FG which is more than 90%, which is less than Season -3 and current, it is very, very fungible. As you know, unlike many other segments where you have a big season factor and all, our industry is mostly seasonal agnostic and also the versatile occasion usage, which is light occasion and casual, which is sold throughout the year in the country with different proportion and different season can be utilized easily season over season, so we do not see a risk in terms of obsolescence. The important question to us is if there is relevance for the consumer, I think we will have relevant inventory. The only thing is, yes, some part of this inventory we might have to carry forward more than what we like, which is fine so we are not blindly reallocating all the excess inventory to MF '20, we are also carrying a little bit of that in SS '21 which is more season appropriate, but overall we do not see too much of a challenge. We have adjusted our buys accordingly going forward, we are using our existing fabrics to create capsule ranges to strengthen that, but as of now we think we will have a much more solid offering for the consumers by still managing the sanctity of the inventory that we have.

Avi Mehta: Perfect, that is very good to hear. The last bit Anant is prior to this pandemic there was a clear focus on increasing the drops at the store making the supply chain more agile. This has, probably the pandemic has kind of made it a little more important or a focus area, but I was just trying to kind of hear your thoughts, because I hear you on the near-term focus on cash conservation and your seized opportunities, but I would love to hear what are your thoughts on this aspect of this business and how are you working on that?

Anant Daga: Yes, Avi, frankly when we started this initiative of more responsive supply chain, the pilot test scale models, I think those were at that point in time good things to do, nice things to do, but post-pandemic wherein you know it is very difficult to put your finger on one number and say with confidence that it is just 5% up and down, I think what all the companies have to be ready with is a very agile supply chain, which can seamlessly cater to different scenarios altogether and I think if this is there, this will become extremely important and if you look at the benefits of something like a responsive supply chain, I think they are so immense that once you are able to put it in the regular circulation of your business, I think that is something which will stay with you for a very, very long time and you would like to build on that. So both from short-term and long-term perspective, I think this is one key area along with Omni that we talk about which has got really accelerated because of COVID and I am glad that you know in Q3 and Q4 before COVID, we were able to pilot and reach reasonable accuracies on those supply chain mechanics, so this is an important initiative and it will come very, very handy to manage fluctuating demand situation.

Avi Mehta: Anant, any update on what have you achieved since then, what is the thought or what are the investment areas that you are looking, anything on that front, is it debt, is it different aspects, I just was hoping that if you could kind of share what are you doing and how are you going about it given the scenario we are in, a), planning becomes very difficult, and b), implementation also has become a little difficult, so I just wanted to kind of just hear your thoughts on how are you going about it?

Anant Daga: You are talking about supply chain specifically or you are talking about tech?

Avi Mehta: Supply chain.

Anant Daga: Supply chain, what we have done, we ran about 20 pilot runs even before the COVID thing came because we wanted to anyway start this whole process. The whole idea is if you have a successful product, can you really replenish it in three weeks' time for which you need dedicated suppliers, you need dedicated lines and factories, you need system internally wherein teams do not work in their functional silos but as a group between merchandising, designers, sourcing guys and see this through, so I think a lot of those pieces, we have been able to put in place even in Q1. In terms of investment, we have used some tech platforms to have better visibility and greater accountability. Beyond that, tech investment in terms of CAPEX and all is very limited out there, it is not a big deal. Now, when we talk about responsive supply chain, apart from giving us the ability to really replenish something very fast, what it also does is it helps us reduce the first outright buy quantity of our product because now with this capability, you can put a smaller run in the floor, test it out, and if it is working you can just scale it up. If it is not working, you can just discontinue that, so I think that is the benefit and in terms of investment it was a process, it was setting a few units and few people to focus on this, which we have been able to do. Also what it means is in terms of designing, you will have to be more agile, you will have to simplify the process without taking the essence from the product, that is a continuous learning, we have come a long way and we will see it building it as we go forward and it is more mindset issue than hard infrastructure frankly if you ask me.

Avi Mehta: The reason why I said is because your slide talked about technology enabled, data science-based decisions, so I was just trying to understand if you made those investments or are you planning to make those investments, I was trying to kind of get some timelines.

Anant Daga: Okay, understood.

Moderator: Thank you. The next question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Good Evening to the Management, three questions from my side, first one starting on the gross margin part, you mentioned about the specific reason why there was a contraction, now just looking for the year ahead and considering the three major factors that go into your gross margin which is say dormancy, discounting as well as channel, do you see it coming back to your earlier trends by Q4 by when you are expecting a recovery or there could be a lower gross margin in the coming time even in Q4?

Anant Daga: On cost side as of now, we do not see too many significant challenges. On dormancy percentage side, if the sales return back to normalcy, we should not see a challenge because as you know we have also taken aggressive provisioning in Q4 of last year, so we are good there, we do not see any surprise. The third part is all about channel mix which if it comes back to the similar levels would mean getting back to regular gross margins, otherwise, there could be a minor impact, but not something which is anything major frankly, so with sales and things coming back to normalcy we see no reason why gross margin should not get back to earlier levels.

Nihal Jham: Anant, the second question on that is that as earlier focusing and even now, online as a share is significantly increasing, so you know the gross margin for that channel without getting into numbers is similar to the average or it is one of the lower channels at this point in time?

Anant Daga: For us it is somewhere in the middle, it is not the most higher gross margin channel, but having said that it is also not on the lower end. If it is online significantly increasing, you could see a slight dip in gross margin, but again it will not be very significant. It also depends on how the full pricing and EBOs which is our high gross margin channel for us, so it will depend a lot there but anyway we do not think there will be a significant dip on that count.

Nihal Jham: That is helpful, last question, Anant, given some of the other retail companies have been mentioning of Q4 being a quarter where they expect things back to normal, the specific question is that is this based on specific assumption that you are building or it is more of hope that things get back to normal, just your thoughts on that?

Anant Daga: Nihal, there are two things out there, as I mentioned when we talk about Q4 exit metric also, in terms of actionable what as a company can we do, we can have the capabilities in place, we can have the flexibilities in place and we can control cost and manage cash better, so that the day when it comes when external environment stabilizes, you will be able to ramp up immediately, so I think our approach is more from an actionable point. Looking at Q4, frankly guessing right now, it is a guess at the best, because we do not know how the pandemic will pan out, we do not know what kind of stance the administration and local governments will take, so there is a lot of ifs and buts. Now, I will not say it is just a hope, it is a preparation for that. What gives us hope is probably couple of things that we have seen in the market in the recent past, for example, first of all, from our B2C experiments, they are not big sales turners, but what we realized is that the moment you reach the consumer's home they are buying so there is really demand and probably today supply side issues are as big as demand side issues, so that will get resolved with passage of time, number one. Number two, we have also seen lot of green shoots in terms of last two-three weeks sales, wherein when an occasion comes, when the reason to buy is there, people have come out, and third there are areas which were less impacted by COVID to start with and where the store has been working without interruption, I think the recovery rates are far-far better than most of the other places, so I am just trying to say that if the pandemic - there is reasonable control in next two to three months, I think you should see meaningful recovery and then one should build from there to Q4, but exact situation again is something which will depend on many, many factors, difficult to project, but readiness should be there.

Nihal Shah: Anant, that is very helpful, and I wish you all the best.

Anant Daga: Thank you.

Moderator: Thank you. The next question is from the line of Pavan Ahluwalia from Laburnum Capital. Please go ahead.

Pavan Ahluwalia: You gave us a good explanation of how you think inventory is going to evolve, on the revenue side, you obviously mentioned that some stores are going to end up getting shut down and if I look at the last couple of years revenue growth for us and the industry has not really panned out as we would have expected and this is may be partly the economy, partly people being aggressive in introducing private labels, I am not sure what it is but we have had slower growth than anyone would have expected say three years ago. Now, with this additional complication thrown in and us shutting stores down, what is the kind of normalized revenue run rate that we can realistically expect to see when the environment normalizes because it will not just be a matter of demand coming back and mobility increasing and it will also be a function of the number of stores you are willing to keep open and competition and things like that and also if you have any thoughts on kind of what revenue growth could look like over the medium term that would be very helpful? My second question is pertaining to the online piece of things, now what we have seen is online players are very aggressive in driving discounts in various product category, sometimes by creating their own white label competitors, sometimes using other tactics, is it possible that we have seen them go easy in your category for now, but there is a high likelihood that this aggression will increase making online more margin dilutive in the medium-term then we currently think?

Anant Daga: To start with the first question, I will not get into too much detail because it is something that we have discussed over past also. You are right, last couple of years for the industry overall has not been the best, but even there just keeping one-off events like MBO rationalization and all apart, we were able to grow at a double digit number which given the conditions was not very bad, protecting our gross margin, even expanding continuously with 40-50 stores a year and more than 200-300 LFS doors. My hunch is once the things become normal which might take whatever two-three-four quarters I think that growth should come back. In India, we still believe that is a very underserviced market and I do not think that demand is going to vanish forever, it has to come back, the timing could be questionable, and that is number one. Number two, while we look at the overall demand, we should also think about overall supply, so for example, if you look at our particular segment which is ethnic wear, you do not have global players out there, you do not have many scaled up national players. The industry is dotted with fragile, small, most of the times regional local players and I think there would be some consolidation there also. So I think the pie itself or as a share of the pie both will present an opportunity, how exactly this will come around is difficult to say. But given that last two-three years brands have not grown very extraordinarily and with this event happening, I am sure demand should come back to a very healthy level and I never doubt in my mind that if you look at the mid-term thing, I think lot of companies with stable balance sheets and with good execution capabilities will actually see a good runway for growth, this is what we think it should be.

Again, given COVID while our route to our final destinations could be different, our route to our strategy could slightly vary, but if you look at next five to 10 years, I think double digit growth is not something which is very difficult to achieve as a company. Even in the worst year, we have been clocking double-digit growth, so not only for us but I think for most of the good players and scaled up players, those kind of growth should be possible, so that was one. Second, when you talk about online it is not that our segment does not have competition, even today when you go to all these Amazon and Myntras of the world, you will have a lot of their own private labels, you will have their white labels, you will have people who just sell on their platforms, but see every brand finally means something to the consumers. As brands, we just do not operate on a pricing principle, we are not so sensitive, so there are people who value quality, who value a particular design and they are willing to pay that price and that is our customer. Other customers are ones who buy us on discounted and annual season sale, which is fine. Those are anyway slightly more fringy. So I do not think it will have a huge negative impact as long as we take cognizance of the fact that we are maintaining the pricing parity between online and offline and the important thing for us as brands is not to get swayed by that growth and start discounting, the mistake that most of the brands did in the early days of ecom, I think beyond that it should be fine. Over time, you will also see most of the brands coming up with specific capsules and SMUs which are special make-up lines for all these guys which will work on different dynamics, so that is another channel, discounting has been featured there. In fact, if you ask me, full price sale is increasing as we move forward and COVID has actually given a big thrust to full price sale as well online, so that should equate out to my mind.

Moderator: Thank you. The next question is from the line of Varun Singh from IDBI Capital. Please go ahead.

Varun Singh: Thank you very much for the opportunity, Anant Sir, just wanted to understand that you said that you will be maintaining low profile in terms of offering discounts, but do you not think that during current times if there is intense competition because we are saying that all our retailers cash is trapped in the form of inventory, so if people rushed to liquidate the inventory, obviously we have the advantage that we do not face the risk of inventory obsolescence, so that is the best part but still do not you think that customers migrating to value-oriented products and we also having I mean not too wide a basket to offer to customers during current times in terms of what we call as essentials, because there is a significant rise in people doing work from home, so how do you read this because also even before COVID, there was a sequential gross margin decline over last three to four quarters excluding the fourth quarter, so do not you think that private-label competition, discounting they are still going to haunt us even during current times?

Anant Daga: Varun, there are quite a few questions in what you have asked, so let me just brief you there. First, I do not know what gross margin reduction you are referring to. Q4 was an abnormal quarter, but before that I think compared to market, we held pretty good on our gross margins. So maybe I did not understand what you are saying.

Varun Singh: Year-on-year gross margin decline before fourth quarter, the first, second and third quarter of FY ’20?

Anant Daga: Maybe that is because of Ind-AS or IGAAP I do not know, but we can check on that. Our understanding is the gross margin we have been able to hold much better than rest of the market, but we can get into details no problem. Now, coming to your question about discounting, it is a question of few things. First is, there will be consumer pull. Now, in such times June and July people were scared of coming out of home. If you had bigger discount, you will not end up getting more customers, in fact you will end up giving discount to the customer who anyway was coming without looking for discounts. So I think most of the brands have been able to make that smart choice and resisted from giving offers, that is number one. Having said that, if you go to the stores today, all the brands are having offers, but again on part of the merchandise, it is not full store, so I think the trade-off is clearly visible. Second thing, the level of discounting is also determined by your desperation of cash, your ability to carry forward inventories and your ability to sell it at a better price to a different channel, this is what we have said earlier also. Beyond a particular point, I have other channels where I can make more margins, so I do not discount beyond a point in my stores. You are absolutely right, there could be players who are on the verge of shutdown, they might discount. There might be pressure on those players and that is something that we will have to see as time comes. As long as all the big players decide to move forward most of their inventory, I do not think that kind of pressure will come, but having said that situation is dynamic, it is evolving, you cannot see something happening four months down the line which is difficult to predict.

Second thing, I think you asked the question something around work from home and relevance, so I think this is again a very important point for us to understand. One of the key reasons why W and Aurelia became national brands, cutting across regional taste and preference is because our products are functional fashion, most of our lines are all about daywear, easy daywear products and light occasion wear products. We are not traditional ethnic, we are not occasion driven ethnic, so even in today's context, if you look at the fabric, the silhouettes, the kind of products we have, they lend very well to daily usage because at the end of day, it is also about functional fashion. Women want easy fitting kurtas, palazzos, easy bottoms which are all cotton, rayon that is what we make. Yes, we have some part of the line which is Wishful, which could be heavy W and heavy Aurelia of about 10% this could be relevant. That we will carry forward, but I think balance if you look at it, I think we are good and since you have raised this point, let me just add that we understand that today consumers are tilting slightly more towards casual every day, no-fuss product and we are fortifying these offerings by launching one capsule range each in W and Aurelia which will be these kind of products. It will be more cotton based, simpler products and there will be bundling offers and all for people who want to experience the brand and still want a slightly better price or offer on bulk buying, we will be doing something for them. But overall I think given this situation, our product ranges do well. In fact another point - it is too early in the day, but since this point is raised and lot of our large format retailers and also in our online channels, we are seeing W doing better than any other brands right now in ethnic category and Aurelia has also really come up. Because this kind of offering, other traditional ethnic brands do not give, so I think this is actually the strength that we can play on big time.

Varun Singh: That is very, very helpful, Anant, secondly if you can share the data in terms of what percentage of our business comes from mall and in online what percentage of business, we do from our own platforms compared to third party?

Anant Daga: In terms of our stores, in a normalized scenario it is about 50:50, slightly higher for high streets and then about say around 47-48 for malls and airports put together, malls would be about 42-43 whatever number in this range. In terms of online our own brand.com sites are now contributing to a double-digit percentage of online sales, so overall at a company level it is still not very significant, but the good news is it is growing at a very rapid rate and it is a very, very key advantage which will be built over a period.

Varun Singh: Thank you very much Anant, and just last question if I may, you said that inventory we do not see much of risk, provisioning already taken care of, but what about receivables because 55 days is roughly receivable days and roughly 50% of our revenue comes from large format stores and a long tail of MBOs, do not you see a risk over there in terms of considering the current environment?

Anant Daga: First of all, while provisioning, we err towards the side of conservatism. So while we have taken some provisions in Q4, even in Q1 we have taken additional as per our auditors suggestion and new directives from the institutes where we want ourselves to be more conservative. Frankly, all that has been taken, we do not see further impact. If you ask me at this point in time, I think a lot of them will be written back, but we can leave that aside. Second, in fact if you see one of the biggest steps that we took last year which actually had a very adverse impact on our sales number and profitability was MBO rationalization. Currently, sitting today in this situation, I think that is the best decision we have taken and we have been able to reduce our credit exposure to MBO, otherwise, we would have been sitting on a very, very significant credit exposure. So I think it is controlled, but these are times during which there is always an odd party, odd customer who can go bust. So we have been more than conservative honestly on this front and I do not think there should be any negative.

Varun Singh: Sure, that is very helpful, Rs.125 crores cash that you mentioned that is at the end of June, am I correct?

Anant Daga: That is last week.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from New Mark Capital. Please go ahead.

Mythili Balakrishnan: Thanks for the opportunity, couple of questions which I had was, one on this dormancy provision, could you just help us understand how much was made in the gross margin?

Venkatesh Tarakkad: Sorry, could you repeat.

Mythili Balakrishnan: I just want to get an understanding on the quantum of this provision which was made for dormancy in the current quarter?

Venkatesh Tarakkad: This quarter we have made about Rs. 3 crores provisioning, so if you see, on the base of Rs. 30 crores it is quite a big number.

Mythili Balakrishnan: I also wanted to check with you said about what is the airports stores doing vis-a-vis LFS players and also as season sort of comes along what is the sort of feedback that they are hearing from our LFS partners on what kind of geographies they distribute and how are they seeing the season to be evolved?

Anant Daga: Your voice was slightly weak, what I understand is you want to understand about what the feedback LFS has and how they are seeing businesses or brands are like us right, that was one question?

Mythili Balakrishnan: And also about the airports store, just wanted to get a sense of what the airport stores are sort of doing currently?

Anant Daga: Airport stores have been the slowest to pick up and barring one particular airport, all the other airports stores are really struggling. Now, in most of the airport stores, where we decided to continue, we have been able to get very attractive lease deals. In fact lot of them are revenue share and wherever we think you know with minimal operational losses we can run, we might still decide to run because apart from a sales channel it is an excellent brand building channel as well and it is very difficult to get the space. There are few airports where we might not get the right rental deals, which we will decide to shut, in fact in Q1 itself we have shut about four airport stores, so that is on airport. I think that channel will struggle for some time, it will be some time before it picks. Second, if you look at LFS, it is early in the day, the kind of feelers we are getting, one is our brands are doing relatively better than other brands especially Aurelia. W was always among the best among best performing brands across. Aurelia has really come up notches and what they see there was clear gap in the ethnic category where very few brands are making daywear and Aurelia being a daywear brand has really gained traction. Second, from couple of large format guys, the sense we are also getting is they want brands like us to play a slightly bigger role in upcoming seasons especially winter and beyond because they see lot of their smaller partners and with one or two large format even their private labels might not be able to scale up the production that they would require for those seasons. So in all probability we might get some additional space and slightly bigger shelf share going forward, but these are early days. So I think we will have a better hold of the situation in the next month or so.

Mythili Balakrishnan: Got it and my last question is on the cash spend for the quarter, I just wanted to confirm my understanding that over the period from June to August, our cash spend has been Rs. 25 crores or is that something on the limit that we have also utilized?

Anant Daga: What, Mythili, we have given is as on date which is like couple of days back, Rs.125, as we started with Rs. 175, so it has been around 50. But there also, April our collections in stores were all shut, May also only started trickling down. The real collections and all started happening only in June. Also what we have done is, where we have taken the buys, we have also paid our vendors, so hopefully the trajectory now onwards would be much, much stronger and in Q3 we should have a cash surplus month for sure, that is how things are looking right now.

Mythili Balakrishnan: The cash burn over these four months have been Rs. 50 crores odd?

Anant Daga: About five months, slightly more than that.

Moderator: Thank you. The next question is from the line of Vaishnavi Mandhaniya from Anand Rathi. Please go ahead.

Vaishnavi Mandhaniya: Thanks for taking my question, I actually wanted to understand basically if I look at the pre-Ind-AS quarterly run rate of rent that we have, it is somewhere around Rs. 30 crores, so on that basis how much reduction have we got in because I just want to get like a little bit more understanding on the rental part?

Venkatesh Tarakkad: Vaishnavi, I think you are right to look at the pre Ind-AS numbers. Ind-AS 116 which was supposed to be for the benefit of analyst I think has not exactly worked out very well. So pre-Ind-AS yes, right now what we have communicated is that around 25% for the full year basis we should be able to get.

Vaishnavi Mandhaniya: So the Rs. 122 crores of rent what we reported in FY '21 on a full-year basis should be 25% less compared to that?

Venkatesh Tarakkad: Yes, you will have to factor in one thing of course, there are also escalation, etc., but for this year's rental you can take it as a ball park figure. .

Vaishnavi Mandhaniya: For this quarter if I may ask what is that Rs. 30 crores of rent like a quarterly run rate that we have like versus that what reduction or like how much?

Venkatesh Tarakkad: This quarter in the P&L actually we have taken Rs. 19 crores savings actually, so in this we have taken Rs. 7 crores in rentals and Rs. 12 crores in other income. There are Rs. 2 crores in this which is for the subsequent quarters which have been considered in this quarter itself because those have been signed off.

Vaishnavi Mandhaniya: Okay, so approximately if I do the Math it is a 60% reduction in the rent for Q1?

Venkatesh Tarakkad: Yes.

Anant Daga: Vaishnavi, one thing to remember is as I mentioned earlier also, what is happening is we are not being able to, the entire market is not being able to get very long-term concession. Landlords are okay assessing the situation again and again, so all these numbers will be built upon as we move forward and you might see more savings getting built in subsequent quarters.

Moderator: Thank you. The next question is from the line of Vijay Dhanuka from Motilal Oswal Financial Services. Please go ahead.

Vijay Dhanuka: Anant and Venkatesh, what I wanted to understand is we have looked at your Quarter-1 results based on the trends that you are expecting for rest of the year or for the month of July and August, would it be right to say that at a full-year level we will be able to at least achieve 60% to 70% of our business that we did last year, that is one question and depending on what the estimation that you have based on trends that you see, would you think that we will be able to maintain an EBITDA level or a PAT level breakeven for this business for the full year?

Anant Daga: First of all as a company, we really do not want to give a guidance and as we were saying, right now to give one number is really, really difficult. Looking at current trends, there is some positivity and green shoots that we are seeing. I think in next two months with festive sitting in, we will be in a much more clearer position to see how this thing happens because there are lot of factors which are beyond our control, so that is one. Your second question was about profitability, if you see the way we are looking at it this are very different times, so rather than looking at an annual thing, we are just taking a season at a time from a business perspective as our traction over quarters start to come back to life. Also the focus of the company right now is frankly much more on cash and to preserve cash without losing the ability to scale up. So I think, that focus is much sharper right now. More than profits, we are focusing there and frankly building capabilities. Cash on a monthly basis I think we should be able to start seeing positive flows in Q3 that is given the cost control measures and improving operations, we feel fairly confident about and as far as full-year profitability and all, I think we just need to sit and watch it out for next few months before forming some opinion.

Moderator: Thank you. The next question is from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Thank you Anant Sir, thank you Venkat Sir for opportunity, my first question is on the MBO channel rationalization that we did even in this quarter, so what I wanted to ask is should we expect this to continue further going ahead in the quarter or we have largely taken all the closures on the MBO front?

Anant Daga: There is no rationalization which has been done this quarter, it is just that businesses started opening in May and June and there was very little that you could do with MBOs. Having said that, while we were comfortable by end of Q4 post rationalization, COVID has now again posed a new challenge wherein on different scale, again they are having liquidity issues and all. At this point in time, we are prioritizing credit exposure over sales, and I think we will wait it out. We will be supplying to MBOs who would be paying on time, otherwise we will not be pushing sales with credit exposure. My sense is that this channel will take the longest and I do not think one should expect too much from this channel this year, but rationalization exercise was almost done, so I do not think there may not be any continuous rationalization, whatever we have left it is all good to build at the right time.

Vikas Jain: Sir, in terms of as you mentioned that we will be further looking at some store closures going ahead and we are considering the same, can you guide on the CAPEX, how much will you be incurring the CAPEX in terms of any new additions like we did in first quarter also?

Anant Daga: Two things. First of all when we are saying we will be reducing few stores, frankly that would have a positive impact on P&L, because those were anyways not the best or most profitable stores or more often than not they were not making money for us, so this lockdown has just expedited that process for us, so that is number one. Number two, in terms of opening we had few stores in pipeline which we could not open in March, so we had 20 plus stores out of which we have already opened eight, we are still negotiating for five and we are not sure whether we will be able to open them or not, it depends upon the rental. But beyond that, for time being, unless we get a store which we were looking for about getting for long time or some very good deals, I do not think the focus would be on expansion. Right now, the entire focus is on making the existing lease rental deals far more sustainable.

Moderator: Thank you. The next question is from the line of Ritik Shah from JM Financial Limited. Please go ahead.

Ritik Shah: Sir, I just had one question regarding the supply side, so how do you see your fabric units and the contractors being able to furnish the supplies to you and I know that you mentioned that you have sufficient inventory, but still some sense on that would be helpful like how much time are they taking to provide supplies and are there any delivery issues on that front?

Anant Daga: If you look at our supply chain, I think depending upon the regions and geographies, most of them are at different degrees of scaling up. I do not know whether you are aware of this or not, but about three years back, we started a big program wherein we started moving lot of our manufacturing facilities to rural areas. It was done with a view to derisk the big city production hub and also it gave us lot of cost benefits vis-a-vis a big city production, so those all are doing well, those all are scaling very fast and I think that is turned out to be a very, very big asset for us. In these times, some of the city units are struggling slightly more. Similarly, in fabric side also, you have lot of mills which are operational. Frankly most of them are running below capacity, so I do not think capacity is an issue at all. If you look at our inventory situation, we have very limited buys over next four-five months and we do not intend to buy anything right now. So given our utilization capacity, it is fine. I do not think there is a challenge in terms of scalability issue. I think by January-February when next season starts picking up, it is six months from now, five months from now I think lot of those will get stabilized, so from that point of view we do not see a risk. There could be one or two particular items or particular kind of stuff, which might get into a bigger loop because at times we source something from very specific clusters, but those again will come back to life and those are not significant by any means for us.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the Management for closing comments.

Anant Daga: Thank you. We take this opportunity to thank all of you for joining the call. We hope we have been able to address all your queries. For any further information, please do get in touch with us or SGA. Thank you once again, have a nice evening, take care, and stay safe.

Moderator: Thank you. On behalf of TCNS Clothing Company Limited, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.