"TCNS Clothing Company Limited Q2 & H1 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to TCNS Clothing Limited Q2 & H1 FY20 Earnings Conference Call. As a reminder, all participant 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 and operator by pressing * 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 of TCNS Clothing Company Limited. Thank you and over to you Sir.

Anant Daga: Thank you. Good evening and welcome to our Q2 FY20 Earnings Call to discuss Financial and Operational Performance for the quarter. I am joined by Venkat – our CFO and SGA – our Investor Relation Advisors. Our first AGM as a listed company was held on 26th August. Thank you all for the support extended to us.

Coming to business update:

We have had on time new season launch and the range is well accepted by trade and consumers. However, the quarter has seen challenges on different fronts. Macro consumer demand continued to be tepid. This was despite aggressive sales promotions and offers from market at large. We controlled our discounting and kept it lower than the market, which broadly protected our gross margins but had an adverse impact on our overall sales. There have been few channel and customer specific issues this quarter. The MBO channel continues to be under liquidity stress, we have taken a cautious approach and now taking this opportunity to rationalize the network. Airport stores are showing continuous improvement. However, has still de-grown over last year. We expect it to stabilize in next couple of quarters.

Secondary sales and online channel continues to grow at a healthy double-digit rate. However, due to one-off logistics issue at a major customer, we could not take the required supplies and hence had a meaningful loss sales opportunity there. Apart from ongoing business projects, last few months has kept us all extremely busy with plethora of exciting initiatives. We see huge untapped opportunities in the marketplace and are excited with the possibilities. Today, I would like to talk about three such new organic growth initiatives and also take this opportunity to share our emerging merger and acquisition strategic framework.

First on the organic initiatives front:

The first initiative I would like to talk about is how we plan to realize our ambition to build W into a lifestyle brand and not just an apparel brand. The former business head of Steve Madden India joined us last quarter and we have now set up our footwear and accessories team. Globally, many apparel brands have a meaningful share of the revenues coming from footwear accessories and these categories have delivered consistent contribution. We see our customers looking for top to toe look and believe accessories could be a great add on. Our first comprehensive pilot footwear range will be launched in SS20.

The second organic initiative we are actively working on is adding ethnic wear for girls under Aurelia. This is another category wherein we have seen tremendous market traction in recent times. And our existing customers have been actively asking for these products. We will be launching a capsule range of girls' ethnic in Aurelia in SS20. We have presented same in our Spring Summer 20 trade show in September 2019 two months back and have got an encouraging response for the same.

The third initiative relates to a new brand we plan to launch in Q4 FY20. We have always seen ourselves as a fashion platform with ability to add newer brands and businesses. So apart from category expansion in existing brands, we are also working towards launching our fourth brand. It will be a coordinates-wear brand which would exclusively sell bottom wear and drape wear. This market has a huge potential and is still relatively unorganized with very few brands having scaled up operations. Given the DNA and consumer perception of existing portfolio of brands, we believe this opportunity can be best harnessed through a focused new brand, we have the domain expertise and given our product supply chain and retail operation strength. We see this business as a natural extension that lends very well for rapid scaling up with marginal additional organizational bandwidth. We are targeting Q4 of 2020 for the brand launch.

Apart from these organic initiatives, we are also actively evaluating M&A opportunities. Towards this goal we would like to articulate our strategy for our shareholders. This strategy is underpinned by organizational capabilities and a risk management framework. There are five points that underpin our M&A strategy;

1. TCNS has three pillars of organizational capabilities, deep understanding of women consumer, Omni channel retail and distribution and apparel and adjacent categories. Any target we look at needs to fit at least two of these three pillars.
2. Steady state metrics of the target must be similar or superior to our existing business.
3. Larger the deal size, closer it should be to the core business.
4. People capability must be within TCNS or must come with the target.
5. Any deal price must be accretive taking into account future potential upside.

So while we navigate the short term slowdown issues, we are taking this opportunity to create growth runways for future. We are committed to a long-term strategy and continue to invest in people, brands and businesses despite economic cycles.

Now, I would request Venkat to please take you through some of the numbers of the quarterly performance.

Venkatesh Tarakkad: Thanks Anant. Good evening everybody. Our Q2 revenues at 321 crore was at the same level of revenue as last year. Our Q2 EBITDA was at 68 crore versus last year Q2 EBITDA of 59 crore. Adjusted for IndAS impact our EBITDA in Q2 was at 42 crore. As Anant mentioned, we continue to invest in people and the business. The flat sales has resulted in an EBITDA drop. Our Q2 PAT was at 18 crore. Adjusted for Ind AS 116 impact this year, adjustment for one time deferred tax impact due to tax rate and normalizing the tax rate for both years, our comparable PAT was 27 crore versus 40 crore last year. Our SSSG was flat compared to previous year. The market experienced deep discounting and we attempted to maintain gross margins by limiting discounts. This had a negative impact on SSSG.

Our EBOs store count continues to develop. Our EBO store count was at 568 at the end of Q2 with addition of 16 new EBOs this quarter. We also opened 116 LFS stores this quarter, taking LFS store count to 1774. We have also rationalized the MBO network. We manage to maintain our gross margin in Q2 at 64.9% versus 65.8% in previous year, in spite of the high discounting in the market.

Our net working capital at 120 days was within expected range. There is some built up due to festive which we should see easing out in the coming quarters. Inventory was at 91 days versus 87 days as at March. Payables were at 36 days compared to 37 days as of March. Debtors were at 65 days versus 57 days as at March.

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 could 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. Please go ahead.

Avi Mehta: Anant and Venkat I wanted to first understand this coordinates brand. Could you clarify this as you said it's targeted at economy prices? So is this going to be A) one level lower than what currently Aurelia is? And B) when you say bottom wear and drape wear, what exactly does it cover, is it more ethnic in nature, is it more fusion? If you could just give some details on this please?

Anant Daga: Sure. So, we'll just give you few more ideas to form a structure around the brand and more details we will share later. But when we say economic prices, it will be on similar lines to what we do in Aurelia. So there is no way we are saying value or even lower segment. So, it will be Aurelia kind of pricing. So see, what we have seen in the market today is coordinates has emerged as an independent category, unlike just a pure ancillary product, what it used to be about three to four years back and today when you look at the market at any coordinate wear brand that is selling today they are more like matching centers and they are more like basic core stuff. So what we plan to intend with a coordinate brand is something that will sell bottom wear and drape wear both in ethnic and fusion space, in core and fashion categories. And all this would be at economic price.

Avi Mehta: Is this like Go Colors just kind of get an understanding I'm sorry?

Anant Daga: So there are a few brands. Yes, Go Colors is an example. Go Colors again has only bottom wear and that also to a large extent - core. That is my understanding. So what we are looking at is both bottom and drape, and both fashion and core and ethnic and fusion. But yes, we think the consumer is warmed up to an idea of an exclusive coordinate's brand. And our current brands probably can't do justice within the same space and the same DNA. So that's what we are looking to launch. The name of the brand would be shared shortly. It's just that the word coordinates we are using for describing the brand.

Avi Mehta: Okay fair enough. The second is, you have seen first half EBITDA decline by 15% while as you highlighted there were certain one-off issues. One was this logistics issue, which I am not very clear what exactly it was, and the second was the MBO rationalization, so how do we look at the FY 20 EBITDA because we typically look at a mid-15% kind of growth in operating profits is what we target given what is, where we are, would you be able to give any guidance on that?

Anant Daga: Avi we have always mentioned that we will shy away from giving any guidance, but see what's happening in the market and Q2 aggravated the issues., See, there were couple of things which we believe will take slightly longer to correct so for example there the continued slowdown in the market, which had led to channel stress and higher discounting. Now, we don't think this is going to go away very quickly. So there would be challenges on this front. Now, discounting and sales growth is something which I think most of the players are trying to balance out. And so far we have taken a route of slightly protecting our gross margins. We will have to see how things materialize in future. Having said that, we feel confident of our product range for SS20, which we showcased in our trade show two months back and got great response on. Our supply chain is bang on target. We also think there is the marriage season and the winters are setting in well so those should do well. But a lot will also depend on how these things span out, what kind of discounting and what kind of response other brands other retailers give in the market. So at this point in time, it's slightly difficult to comment on any number, any figure. All I can say is, as an organization we have taken lot of steps in improving our organizational efficiency building new capabilities, all our initiatives like Omni channel, low cost sourcing, 75 days turnaround cycle, they all are up and running on the ground. We are seeing benefits. I am sure if the consumer sentiment just picks up, these initiatives will place in a good position. But frankly, difficult to give any guidance on any of these.

Avi Mehta: Are we seeing pick up in 3Q?

Anant Daga: So good thing in festive what we saw was consumer turned up and consumer was buying. Unfortunately, there were things like some of the big days seeing rainfall, some of the important regions seeing flooding. If it was not, then I think festive would have turned out to be great. It is still better than last year, but as we have said earlier also we have seen uptake around occasions even in Q1 and Q2. I think the real test would be now with all those occasions gone, how does consumer behave in the normal period. So that's something which will get clear over next few weeks.

Avi Mehta: Okay, and lastly Venkat just a tax guidance for the full year, how should we look at this? Is this going to 25.17 for the entire for the year is that the safe number to end up building?

Venkatesh Tarakkad: Yes, our range would be between 25 to 27%. That is what we should build in, because we have this deferred tax impact, etc. So it's better to build in 25 to 27% range.

Moderator: Thank you very much. Next question is from the line of Arvind Krishna from Allegro Capital Advisors. Please go ahead.

Arvind Krishna: The first question is you mentioned deep discounting just wanted to understand if you could just elaborate a bit, was this discounting by other standalone brands, was it from the LFS brands or are we seeing kind of the unorganized segment being aggressive and see a possible shift back to wholesale probably especially in the women category.

Anant Daga: When we say deep discounting, it was market wide. If you look at brands, if you look at private labels, if you look at large format stores, standalone brand stores, I think it was prevalent across including MBO channel. There were some players who are able to offer lower discounts, but I really don't know what happened to their sales. So this is something which was industry wide. And frankly, the kind of discounting we have seen both in terms of duration and extent, has been more than what we have ever seen in the past. Especially this July, August period.

Arvind Krishna: And is that discounting still continuing or have you seen this reduced say around post festive season?

Anant Daga: Post EOSS even then, there were lot of brands and there were retailers who were running offers. Even if you look at the market today there are people who are running offers on some part of the range or complete range or whatever it is. So, I won't say the extent is to that level but we have just come out of festive and market has already started putting in offers so I really don't know how it will span out. The good part as I was mentioning to Avi also was, festive has been better for most of the players over last year and with a very strong marriage calendar and winter setting in hopefully we should see some respite but we will have to wait and see.

Arvind Krishna: Okay. Secondly, with relation to your inorganic strategy, the first point you mention that the three pillars women, apparels and Omni channel and you need two, or if I am just reading between the lines then if you were to get a strong brand which is men Omni channel is that something we could potentially look at? If it would meet two of your three pillars?

Anant Daga: See while men's would couple of the criteria, but that's not an area where we are very inclined to move on. Because somewhere we have a belief that inherently the matrix and the sustainability is far higher in women's wear. So there are other criteria also that we saw, so probably men's is not something which is higher focus for us, in fact that is not even on the radar to be upfront.

Arwind Krishna: Okay excellent. Just one last question, with relation to our design team just wanted to understand is all of our design in-house or do we also outsource certain amount of our design requirement?

Anant Daga: So all our designs are produced in-house in fact, all our textile designs are also created in house. So we don't do any market sourcing. And that's one of the biggest strengths which differentiates our design from the market. 100% in-house.

Moderator: Thank you very much. Next question is from the line of Nihar Shah from Edelweiss. Please go ahead.

Nihar Shah: My first question was just on the online channel if I look at the growth over the last two quarters and H1 I know we had a high base, but just looking at the way the overall online channel has been growing. Is that something that seeing a slowdown or any market share or specifically in that segment?

Anant Daga: See first of all it's not about a very high base, because online has been going very well for us and still going very well for us. See, what has happened is, as far as secondary consumer sales goes, it's still a very-very robust double digit growth number. Unfortunately, what happened was, and this happened especially in case of W. September 2nd fortnight is when we were to make some supplies to a very large customer who had some big event coming up. And because of some capacity constraints issues at their end, we couldn't connect the product at the right time, which is something that has taken a toll on the online business numbers in Q2. Now, if that was not the case, I think we would have seen a different picture because it was a material amount. So that's something which has hit us, but as far as secondary traction, goes online is growing at a very solid pace. And we have not seen any slowdown whatsoever. I think in the coming quarter, you will see the requisite uptake. It was one off case in Q2, and hopefully that should not get repeated in next quarters.

Nihar Shah: Absolutely. So, I think a lot of the discounting ways which may be you were mentioning for which we were shipping in September happened in October. So were you able to re-benefits of some of them as they happened in October?

Anant Daga: No. We can't recoup the entire thing because some of them was meant for the big day, when the consumer sales peak. I think the consumer sales could have been even stronger, which would have fueled even more demand in future. So some part of sale is lost forever frankly, and some part of that would be carry forward in the normal course of business.

Nihar Shah: Fair enough. Anant, on the MBO channel, we see that there has been a liquidity issue probably because of which we are culling our exposure. But this is a segment which has traditionally been quite a big revenue contributor. So, in case if this is a temporary liquidity situation are we comfortable with loosing this channel, a big chunk of it say if the liquidity improves in the coming time?

Anant Daga: So Nihar the point is when we talk about MBO channel, see I think whenever in the past we would have discussed we have said there is stress in this channel. Somehow this particular end of season sale and post that the problem in the channel has aggravated more. And what we have done is, frankly we have tried to rationalize our distributor network and dealer network and some of this is also temporary. What we have also tried to do is, we have been very-very cautious in taking a credit risk because billing is simple but once billed it has to sell and the money's have to come. So the question is whether they would be more cuts and all, I am not very sure but we'll keep taking these rational decisions. Now I am sure with the market uptake, whenever that happens most of these guys would again be back in the loop. So there could be a couple of quarter issue on this channel but at least most of our big account they should be fine in some time.

Nihar Shah: Absolutely in fact Anant the other way of asking would be that, say if the liquidity situation improves on the next 6 to 12 months, is there a possibility of these MBOs coming back or you believe it will be difficult to reenter the segment again?

Anant Daga: No, they can come back. So see what happens is some of the smaller MBOs you might lose, but all major customers, there could be one or two issues here and there, but I think lot of that can come back. But again, what I would request is don't look at absolute number of those because there's a long tail which is there. So I am not saying whether in terms of point of sale we will be able to make up this but in terms of business volumes, I think that is something which can come back on sheet.

Nihar Shah: Fair enough. Just one last question on, the new initiative mentioned especially on the category extensions. First of all, maybe it may be too premature, but I am guessing we will be realigning the collection or reducing the collection in the existing stores to make way for the footwear and secondly, in the future say in the next three to five years what are we envisaging what could be the contribution of the extensions versus the co-category.

Anant Daga: So first point, we are not reducing our apparel collection in any stores. We are trying to create new fixtures which can accommodate footwear in the same store space. So in the first launch we are not going ahead with all W stores, will be selective about it, will be about 70 to 80 stores. So most of these stores have some space specially the mid floor spaces which as an apparel brand we are not being able to use in the best possible manner. So that is how we are going to sell it, so there's no reduction in the regular apparel merchandise. The idea is to use the same network, same rental, same staff cost to sell another category, which complements very well with our existing product line. So that's the number one part. Number two, see, I think it will be extremely premature for me also to answer on a particular number, but if I have to take a gut call in three year's time, this number could be 10% very easily. In fact we have launched jewelry couple of years back and for the stores where it is present. It's already contributing to 2 to 3% of the sales, being a low price item. Footwear again if you look at it, the kind of range we will be coming up it will be very unique. It will be very fusion and ethnic and something that goes very well with our product and it will be quality footwear which really can make a dent and we completely believe in this category and that's the reason we are taking the senior resource, we have built a team around him to take this initiative in the most serious manner.

Nihar Shah: Sure just one last follow up. So in addition to jewelry and footwear idly what could be other category extension that are possible, some of the global examples have you have seen?

Anant Daga: So, what we have seen is things like bags, handbag, could be an extension, things like fragrances, things like cosmetics, again, stuffs like eyewear, watches, so lot of these fashion categories can be added. But as a company will always want to put our best foot forward in whatever we do. So we will take these initiative one on one, and we'll have our own pecking order, but all these are possible in a women's fashion wear business. In fact, cosmetics also could be a category if you think a really long term vision. Obviously all these will require, different brand, it will require more spaces. So we'll have to figure out all those, but there's a lot of scope for fashion brand.

Moderator: Thank you very much. The next question is from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.

Pritesh Chedda: Sir. I am just trying to comprehend the IndAS, the adjusted IndAS P&L number, where you have shown the EBITDA at about 42 crore versus 59 crore in same quarter last year. So I am just trying to comprehend what are the cost heads which would have gone up. So, what explains this, you said the gross margin is flat. So I am just trying to understand that 20 crore dip in EBITDA?

Venkatesh Tarakkad: Yes, so there are a few things. First is gross margin. There is a slight drop in gross margin compared to previous year. So our gross margin is near about 64.9 versus 65.8 so the first drop in the EBITDA comes from there. Second is, when you talk about IndAS there is a quarter wise impact which is periodic which will happen. So, what happens is in terms of purely the shift between rentals to finance costs and depreciation that has led to another 4 crore on a half year basis and 2 crore on a quarterly basis. So, these are the two ones which are coming purely in Ind AS. Second is what Anant said about the cost part, we continue to invest and that has led to the drop in EBITDA.

Pritesh Chedda: So there is a 17 crore swing so 17 crore swing in EBITDA, is it that it comes from Gross margins, 3 crore comes from employee, 3 crore odd comes from rent and 3-4 crore comes from other expense. That's how the interpretation is?

Venkatesh Tarakkad: Yes, that is approximately.

Pritesh Chedda: And these are all expansion driven expenses, right?

Venkatesh Tarakkad: There are few things. Yes, you're right. So for example, expenses for new teams. We continue with our marketing expenses for example, with the festive season, etc., that will continue. Store expenses of course we continue to increase number of stores, so that will have an increase. Yes, so these are all in part with business growth only.

Pritesh Chedda: And do you think that, this time around there is this postponement of season and we have seen for lot of apparel companies the first half being flat and not so great growth number. Do you think that the marriage seasons will be the pickup and the season would be postponed to H2?

Anant Daga: That is what we were just talking about sometime back. See there are opportunities in H2 with marriage season coming in, with also winter setting in well, but having said that see we have got this phase in the past is that around occasions we have seen an uptake. And the real challenge comes in a non-occasion period so that's something which we'll have to wait and see. So can't be very sure but yes probably next four to five weeks will set the tone for the H2 also. I think brands were ready with their lines so higher supply chain and fresh especially winter wear should see growth in good markets, but that's something which we will have to wait and see.

Pritesh Chedda: And how is the channel inventory. As the channel inventory gone down in this first half or there is channel inventory post the discounts and everything also?

Anant Daga: So, see when you look at our business, more than half of our business is where inventory is sitting on our books. So we are just not a B2B business, so if you look at all the large format, if you look at own stores, they all are there in our books. MBO we have rationalized the channels obviously we would have got the inventory down. Unfortunately, we don't have ready access to all the numbers across. Online secondary sales have been higher than primary so obviously there would be a down stocking there.

Pritesh Chedda: So in your case also in your EBOs the inventory though it's on your book but, at the end of the season discount season was there a lower number versus what you usually would have in the past?

Anant Daga: See how our stores works is, when the end of season sale happens, we refresh the store so anyway that inventory is in our books. So when you look at our company inventory, which is 91 days versus 87 days, it's there. At festive time, usually there's a stocking up so the stores are stacked up. And this is something which we think in next six months will definitely come down. So there we see an easing out of inventory days if that is what your questions is.

Moderator: Thank you very much. Next question is from the line of Tripty Agrawal from White Oak Capital. Please go ahead.

Tripty Agrawal: I just have a few questions. Number one, I think to Avi's question where he was asking about what could be the margin for the second half. Just want to know that, while you said that the first half you resisted the discounting and protected your gross margin, but it's very difficult to take a call in the second half. So do you anticipate that the second half margin could actually be at the same level or even lower. If you would have to resort to discounting or do some aggressive promotions, etc. So last year, like we did about 15.5% - 16% kind of a margin and I think that was your guidance from medium to long term. We are at 12.9% in the first half, so second half do you see it below the first half numbers or at least you see the full year guidance. I mean, at least a 16% or somewhere there would be maintained in the second half?

Anant Daga: So see Tripty there are two parts to maintaining the margins first is in terms of our COGS and cost. So see out there we are on a very-very solid platform. All of that is under control, all our initiatives in terms of lower costs is working extremely well. So there we don't see any surprises. Coming to the cost of sales and coming to discounting. See, it's also a function of the kind of inventories we are holding, the kind of market reaction what is there. So that's something which will depend a lot on how these full price sale month goes. Now, as our company even in spring summer in terms of inventory, we were in an okayish position, so we didn't have to discount aggressively we were able to maintain our margins. I think a lot will depend on how this season goes and at this point in time it's very difficult to say that.

Tripty Agrawal: But I think some drop of margin, Anant do you think may have happened because of loss of sale, the sales being flattish. Do you think, like you said for example the airport stores you incur rent but there was probably lower sales there. So if there is a recovery, and then this account you said there was some logistics problem in some account and that's where you lost some sales. So if some of these things if there's no loss of sale would the margin recover?

Anant Daga: Tripty I was exactly coming to that. Now coming to revenue, see this quarter Q2 we had a very-very particular issue with one of the online partners. And there were other such smaller issues. So hopefully there are one off issues. So in Q3 and Q4 on that area, we should see growth. Even if in Q2 the market would have been so subdued and if even those orders were serviced, I think we would have shown some growth. So there we believe that it should be better, but again to the extent is difficult to comment. But if the idea is to ask whether H2 could be better yes, I think at this point in time we believe it would be better in terms of revenues. But let's see how things shape up in next couple of months.

Tripty Agrawal: Sure.

Anant Daga: Another thing sorry. See unlike last time what probably could work this time better is the winter setting in early and last time, also we were not 100% on with our stocks in time for the season, this time our MF stock is in stores, it's being appreciated, it's being liked, it's being accepted. And similarly, SS20 is also bang on. Apart from this all the initiatives that we would have spoken earlier about like Omni channel, like inter store transfer they all are full-fledged on so hopefully things should look good.

Tripty Agrawal: Okay. And this issue Anant that you spoke that some customer there was some event so this was actually an online customer only which had an internal issue and then you also suffered because of is that how it happened? Was it like some other like offline customer and it was an online customer only?

Anant Daga: There was an online customer and in fact, this is not something which is just specific to our brand. This is something that happened with many, many partners. So there are lot of brands, there are lot of companies who face the same issue. So it's not something which is very specific to us. But unfortunately for us the timing happened in such a manner. But that was one off, I don't think that should get repeated.

Tripty Agrawal: Sure. And Anant on this new extension of coordinates just want to understand what's your thought on the distribution strategy. Would this be again like the EBO, LFS and online lead? How do you plan to do this?

Anant Daga: So see, what interest us out here is, that it's actually an Omni channel play and apart from one other brand/one of the players, no one is doing that right now. And are not doing it well enough. So in the long term, the business will be very similar to what we do with our existing brands, it will go across channel has potential. To start with, we will be experimenting with our EBOs. Once we have perfected the model in first couple of months/three months, then we'll gradually move to other channels LFS and MBO.

Tripty Agrawal: This could be a separate EBO?

Anant Daga: Separate EBO. And sorry Tripty just to add, what excites us more about this opportunity, this is something which is scalable very fast. So we have the expertise in terms of product domain, supply chain, retail operations, we just have to get the model right in the retail and consumers mind and then the scaling up could be really fast.

Tripty Agrawal: Sure. And this acquisition strategy that you are talking Anant, have you identified anything, if anything close by to materialize?

Anant Daga: So see we are actively evaluating options. There are few options as we speak we are evaluating but see any M&A given all the tight framework that we have made, it's very difficult to put a time to that. So, all I can say is we are actively working on this. There is a lot of work which has been done but frankly in terms of timeline, I don't know because there are a lot of things till the time you'll see deals but you don't do it. So one thing we are very clear whenever we do something it has to fit the bill completely and we just won't do anything in a hurry or just to do that, so timing I am sorry, but yes we are seriously evaluating options.

Moderator: Thank you very much. Next question is from the line of Varun Singh from IDBI Capital. Please go ahead.

Varun Singh: Sir in first half we have so far added 27 EBOs store. So how many more store can we expect in the second half to add? Can we expect around 40, 45 story additions?

Anant Daga: So I think, 60 to 65 stores for the full year one can take into account.

Varun Singh: Sure sir and secondly on the coordinate brand, what kind of margins should we expect in the bottom and drapes and in footwear's and accessories higher than what we are making in apparels?

Anant Daga: See in a steady state scenario coordinates brand would be similar metrics business. In terms of footwear and kids wears see essentially they are slightly lower margin business. But given the fact that we will be utilizing lot of our existing infrastructure all this should be accretive.

Varun Singh: Sure. And sir by when do we expect the revenue to start flowing from this coordinate brands, any timelines for that?

Anant Daga: We are targeting launch in Q4, will take probably few months or a season to fine tune the model. And once you have been able to do that, then I think you will see gradual scale up of stores and channel. So probably it will take at least starting FY22 you should see some real action there. But as I mentioned this is something which can be scaled up very fast.

Varun Singh: And sir like we have added the highest number of large format store, the number of store addition 113 store compared to hardly to 50 to 60 stores over the last three quarters. So, sir most of the story addition in large format store would have happened for which brand W, Aurelia?

Anant Daga: Sorry, I didn't get your question. So we have opened even this year we are now close to 150 new stores. So, our LFS expansion is going better than plan in fact, Aurelia of late has been doing extremely well across lot of formats and lot and lot many doors are now being opened where Aurelia was not there. So we have already crossed the number of probably 150 odd in LFS. So, LFS those don't seem to be a challenge because relatively even in a tougher market and especially in a non EOSS season, I think our brands continue to do well.

Varun Singh: I am sorry sir, my question is we have opened 113 more LFS stores in Q2 FY20 compared to Q1. Sir my question is, how many of that would be W store and how many would be Aurelia?

Anant Daga: So see we have not shared specific details of that, but a bulk of these are Aurelia stores and that's because of two reasons. One, an Aurelia heavy account has been opening stores at a very aggressive rate. Second, there were also accounts where in existing stores had W but Aurelia was not present. So we have got even those kind of locations. So bulk of these expansion is coming in Aurelia.

Varun Singh: Understood sir. And sir my last question is on MBO, so like as we are saying that we are rationalizing the number of store counts so which is absolutely fine sir but our revenue is also declining from the MBO channel. So how should we read this and what's your outlook on this channel going forward? Do you expect the channel to remain strong or you expect the channel to become weak?

Anant Daga: See as of now we think MBO will take some time to recover. And for next couple of quarters that channel will remain soft and depending upon the liquidity situation of our partners we will continue to streamline add or delete accounts. But overall MBO channel won't be very strong compared to that all other channels should do much better.

Moderator: Thank Very much. Next question is from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Sir my first question will be as you have been stepping up on your marketing spend. So can you quantify how much was the marketing or advertisement spend for 2Q and any guidance for the full year?

Anant Daga: See, if you look at the first half of this year we have actually stepped up our marketing because one festive was here and second we have also launched the first TV commercial for Aurelia. So as of now it's on a slightly higher end, but for the full year we believe it would be about in the same range of 3.5% - 4% of the revenues.

Vikas Jain: Okay, sir. And previously you were explaining that you believe that H2 will be better than H1. But given the bare case scenario and expect and if the situation remains the same, do we stick to our strategy of protecting our gross margins even at the cost of sales?

Anant Daga: See as I was explaining, there are a lot of considerations when you decide to go one path or other and often at the end of the exercise you get the clear picture, the right the final edit of what happens. So, as a company we are focused on gross margins because we believe that in the long term that is what protects the brand integrity. Also, rather than just gaining revenue share in the short term by selling stuff on discount, which is not anyway great for margins, it's better to control inventory and try to increase your full price sales. So lot of the efforts that the company is taking is on these lines, we have a rethink on the way we are creating the merchandise mix we are rethinking the way we are thinking of supply chain. So, for example today lot of our products are getting delivered in 60 days/in less than 60 days, which was not the case earlier. So, we are taking lots of those steps. I think margin protection is something which we believe is better from a long term perspective. Having said that, we will have to figure the give and take between margins and revenues and take a more informed call closer to the season.

Vikas Jain: Right sir. Sir in this could quantify how much would be a CAPEX for our coordinates brand if any for maybe for the next year because it will be heavily on next year part?

Anant Daga: See, there the CAPEX would be on similar lines of an existing business so what we are looking at is probably say around 12 to 15, 18 lakh of CAPEX per store. So, if we end up opening five stores and if all five are our own stores then there would be a CAPEX about 75 lakh which will come in this year. Next year depending upon how quickly we scale up and what will be the franchisee and own mix it will vary but see anyways this number won't be very high even for FY 21 & 22 because there always be a mix of franchise and owned stores. And typically these would be slightly smart smaller stores, so that the number won't be very material.

Vikas Jain: Right sir. And sir my last question would be like we have mentioned H1 we have gone heavy on our LFS store addition and also primarily on our EBO part we have been quite robust in adding our Aurelia stores. So can we deduce from here on that W has reached at a stage of autopilot mode where it can drive its own revenues and we are growing aggressive on our Aurelia brand? So means is that a fair assumption?

Anant Daga: No, I think even if you look at this quarter, we have opened more W stores than Aurelia. So, see what has happened is let's just divide this into two parts W EBO and LFS. In LFS our growth is dependent on the growth of our LFS partners. So for example, if a W partner opens 5 stores and we get presence in those 5 stores, of late what we have seen is Aurelia heavy accounts have been growing at a faster rate, maybe because of the economic cycle or whatever the reason is, and that's where the additions are happening. In terms EBO, I don't think you see a marked difference in the kind of numbers because W also we believe lot of markets are there to open the store. So you should see a healthy mix.

Moderator: Thank you very much. The next question is from the line of Aditya Bapat from Research & Ranking. Please go ahead.

Aditya Bapat: My first question is basically I wanted to ask you like, if you can comment on the outlook, the demand outlook. As far as the larger cities and as far as the smaller cities are concerned, so, is there a difference, where is it that it is better or worse, if you can?

Anant Daga: When we do slicing and dicing of our data, frankly we have not seen any great city or region or territory wise differences. What we have seen is in Q2 this year, there were some specific regions which got affected because of rains and floods or because of some political unrest. So those are the markets where we have seen a decline in sales higher than anywhere else, but otherwise typically not too much of a difference between East, West, North, South of Tier I or Tier III.

Aditya Bapat: Yes, sir you were mentioning about some specific regions that got affected?

Anant Daga: Yes, and that was mostly because of the rains on the big days or floods and those kind of situations or some kind of political unrest, but barring that we have not seen a very strong trend.

Aditya Bapat: Okay. So basically, you can say weak all throughout, weaker than previous?

Anant Daga: Yes, that is what we are saying.

Aditya Bapat: Sir and if I can have the ballpark gross margins for each of these brands. I don't think you give out these in the annual report or so?

Venkatesh Tarakkad: Yes, actually we have not shared the brand wise margin, what we can say is they are within a tight range, with W being the most profitable. This is what we have shared earlier also.

Aditya Bapat: Okay. Sir one last question, I am sorry if you have already answered this because I got disconnected your CAPEX number for FY20 and 21?

Anant Daga: So, typically what happens is on an annualized basis we have about 30 to 40 crore of CAPEX. This time, what has happened is thatH1 is slightly lower because of two things our EBOs - we have been slightly more careful in opening and second is the mix of franchise stores has been higher, but when you are doing any modeling you should assume about 40 crore for the ongoing business.

Aditya Bapat: Okay, so this 40 crore is like a ballpark figure but then given that we will be introducing new brands and all I guess it would be higher, right?

Venkatesh Tarakkad: Yes, but right now see, these are at the initial stage as Anant mentioned right now you can assume for this year and next year you can assume that it will be in that range itself.

Moderator: Thank you very much. The next question is from the line of Avi Mehta from IIFL. Please go ahead.

Avi Mehta: What was the growth number, sales growth number like in the festive period, would you be able to share any numbers on that?

Anant Daga: See, festive growth SSSG was a low single digit, there were few markets which got affected with rains and floods. So that's where there was additional hit, but overall festive was low single digit SSSG.

Avi Mehta: And this is in the third quarter you are saying?

Anant Daga: Without any significant promotion. Yes, so there was no promotions.

Avi Mehta: Okay. And second bit was that, I wanted to understand in the earlier part you were highlighting that when we sliced the data geographically you don't see any material change except obviously whenever there is an impact, being sliced this data based on average realizations is there anything that comes across?

Anant Daga: Average realization?

Avi Mehta: As in are the units with a lower realization seeing a divergence in growth rates versus units with higher or is there anything that you can see over there?

Anant Daga: No Avi, so generally what we have seen is in recent past somewhere, probably value retailers have done slightly better, even for us today Aurelia has done slightly better, but when it was around festive and occasion, we don't see people holding back much. So if you look at Wishful which is our most premium product that also got sold pretty okay. So barring those occasions, there could be a shift but during festive, we were actually happy to see consumer back in stores buying stuff and not really holding back a lot.

Avi Mehta: Okay and the last point is, if I notice in yours the theme that emerges very clearly is enough focus on cash, whether it's cash conversion or cash inflows. In that sense, that kind of explains that part but what I was not clear on is, we are traditionally focused on design, then hence our realizations kind of command that design premium. Would you revisit or kind of in your SS20 have you tried to kind of change the mix towards value as well or no, you are still focusing more on the design aspect and trying to get the customer to pay for that. Is that how I should see?

Anant Daga: No, I think whatever we are talking is quarter specific thing or a temporary slowdown. I think as far as the brand positioning and the ability to command that premium goes, is completely intact. So that's not something that we are rethinking off. As we mentioned earlier also they have a few particular ranges, which we have started doing like slightly lower price cotton Kurta, that we have introduced but not because of pricing it is because people want those basic cotton Kurtas. So, that is where we have sharpened the things but otherwise, between all three brands, we really don't see any issue of pricing whatsoever.

Avi Mehta: Okay, fair enough. I think that kind of clarifies. That's all from my end.

Moderator: Thank you very much. The next question is from the line of Hemant Patel from Alder Capital. Please go ahead.

Hemant Patel: Anant I just have a question on the inorganic strategy that you are outlined, I just want to understand this, that the framework that you have laid out right now is on the annual that we will look at opportunities as we go along, or we are set this frame out because we have something on plate at the moment and you are calling it out saying that this is what we are going to do?

Anant Daga: No, so Hemant we are evaluating options, but we have nothing on plate as on date. We are looking at opportunities, which follow this framework. Actually, this framework is something which we have made earlier we just thought we'll share now because there is active work happening on this front. So far we were busy and we were tied up with our ERP implementation issues post listing, integrations and all those stuff. But now since we are doing some work, we just thought it will be a good idea to share how we think about acquisitions, how we think about mergers and just give a heads up to the market in terms of how we are thinking. But as of now, we have nothing very-very good, yes, but we are looking at opportunities. So, we are in discussions.

Hemant Patel: And just one quick thing on this, could you share with us in terms of the size of appetite that we are looking at and when you look at something like this, are you open to raising the level of debt or how are you intending to fund it?

Anant Daga: So, see as of now we are not looking at really big very big ticket sizes. Something we are looking at are things which probably our balance sheet today can comfortably absorb. So, we will have to see finalize all these deal contours depending upon the kind of opportunity, but most of them would not be an extremely big ticket size. So but we'll see how it goes on.

Hemant Patel: Okay. And Venkat just have one question for you in terms of lease liability. I am just trying to understand this that if I look at the last quarter to this quarter the lease liability has actually come down. What I am trying to understand is how we are structuring rental agreements now on the EBOs. Has that changed given the fact that we have got 116 in terms of how we are contracting with the landlords?

Venkatesh Tarakkad: No, because unless we are changing it into short term leases which are less than a year and then you do that, anyway 116 will be applicable so we don't see any point in doing it artificially trying to manage 116 and trying to get into complications of making the lease as eleven months and making a new lease every month, so that continues as it is.

Hemant Patel: And just in terms of an accounting question. Given the fact I guess that lease rentals are mainly for the EBOs, are we going to be seeing a decline in this given the base at where we are. So should we be accounting for a lower level at the end of the year or would it be an increment typically?

Venkatesh Tarakkad: Sorry, lower level of what?

Hemant Patel: Lease liability?

Venkatesh Tarakkad: No, actually, this will increase as and when we expand, more and more stores actually will come into the way. So it will be an ongoing basis, we will have some of the older leases expiring but as long as our store network is increasing, this number will only increase.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint that was the last question for today. I will now hand the conference over to the management for closing comments.

Anant Daga: Thank you, everyone. We take this opportunity to thank you for joining on 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, our Investor Relations Advisors. Thank you all once again, have a nice evening.

Moderator: Thank you very much. On behalf of TCNS Clothing Company Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.