"TCNS Clothing Company Limited
Q4 FY2020 Earnings Conference Call"

June 22, 2020

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Moderator: Ladies and gentlemen, good day and welcome to TCNS Clothing Company Limited Q4 FY2020 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 the 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 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, please signal an 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: Thanks, Nirav. Good morning and welcome to our Q4 FY2020 Earnings Conference Call to discuss operational and financial performance for the quarter and the year. I am joined by Venkat - our group CFO and SGA our Investor Relations Advisors. I hope you and your near ones are safe and healthy. The last few days have been tough for everyone. I am sure all of us both in our work and personal life have discovered a whole new way of living.

We started seeing the impact of COVID-19 on our business starting early March, which kept intensifying till the lockdown, was initiated. Business since then has been at a complete standstill till partial opening starting mid May. Last few weeks have seen staggered opening of different facilities and point of sales across different geographies.. As on date, we have around 375 EBOs, about 1300 large format store and about two third of our MBO counter are operational. While footfalls have been low, we are seeing higher basket size and bill values. The stores sales continue to develop and as of now we are tracking around 40% of pre-COVID days in our high street stores on normalized operational period. Stores in malls have just started opening and with malls operating without multiplexes and with limited retail opening, we are seeing little traction there.

We have commenced our own website and e-commerce market place operations and are serving most of the PIN codes. Same goes for all our partner sites. As of now, we are tracking around 100% of pre-COVID period sales and this is on a progressive growth curve. Our office, warehouses, third party sourcing and manufacturing units are all operational now and are gradually scaling up.

Talking about the COVID response plan, the first priority was to ensure business continuity while ensuring employee safety. Seeing the first hand impact in our stores early, we were able to take proactive steps to facilitate seamless work from home facility for all our staff starting early second week of March itself. Given the pandemic, our approach towards FY2021 is clearly cut out. We aim to have FY2021 exit run rate metrics similar to pre-COVID levels while preserving the strength of our balance sheet. The objective is to minimize cash burn and yet not lose the ability to scale up at an opportunity time. We have a five pronged approach to navigate the situation to achieve this goal. We have focused on controlling costs, conserving cash, engaging our consumers building organizational resilience and seizing potential opportunities.

Let me take you through some key areas in each of these buckets. The first is cost controls. The two main items here are rents and salaries. We have taken swift action on both these fronts. Given our strong relationship with landlords we have been able to get part or full waivers or concessions in majority of our stores. Most of the high street deals have been struck while mall negotiations have gathered steam in last two weeks. We are moving progressively in our discussion and hope to get reasonable concessions in most of the balance stores as well. We see this as not just a one-time exercise but a continuous dialogue depending upon evolving situation. Apart from re-negotiation on leases, we are also looking at shutting down bottom performing stores with unsustainable rentals. We will also be clubbing all our brands in the same store in select locations optimizing rental and operational cost. On staff cost, we have taken a graded salary cut across the organization which will be reassessed as per evolving situation. We are rationalizing front end sales staff strength to ensure safety norms, optimizing common resources to manage large format counters for W and Aurelia and combining reserve staff for multiple locations.

We have stopped all discretionary spends, optimized marketing by using social media platform and direct engagement tools and spends backing online and offline sales. All cost heads are being scrutinized through a zero-based budgeting approach and the flexibilities in our cost structures are to be fully optimized.

Second bucket is cash conservation. Even after three months of lockdown as on date we have over 150 Crores in cash and 35 Crores in unutilized bank limits. Given the flexibility in the cost structure and limited buys going forward, this positions us strongly to tide over the current crisis. We want to further build on this by realizing cash invested in working capital and the key focus area here is inventory. The demand situation could be very erratic and one needs to be prepared for all eventualities. This is where the flexibilities in our range architecture and inventory constituency can be a huge advantage. Given the relatively season agnostic nature of our products and a healthy mix of casual and festive styles across the year, most of the SS20 merchandize will be redeployed in the coming seasons.

As we saw the impact of COVID starting early March, we have proactively held back bulk of our next season orders that we usually place by mid of March. Since supply chains will take time to come back to normalcy and in the interim period cost could also be a challenge, we believe the quality inventory in hand could be a big asset in the coming seasons. With strong redeployment plan and limited buys in the future, we are confident of significantly reducing absolute inventory levels by end of the year.

Another liquidity lever we have is supplier credit. We have been paying our suppliers ahead of time which can be reviewed as per current situation. However, we will continue to be equitable partners and will continue to support our vendors. We will also be restricting our capex to existing stores and ongoing projects in pipeline till situation improves.

Third area is consumer engagement. While we stopped all mainstream marketing, we must continue to be top of mind recall to our customers and engage meaningfully with them. Health and safety of our customers and our staff comes first and we have put in place necessary safety protocols before and on reopening of our stores. We are leveraging our social media presence and direct marketing capabilities to continuously engage our consumers through relevant content and enabling them shopping with us from safety and convenience of home. As mainstream sales channels continue to be affected; we explored alternate routes like virtual stores visits by taking consumer through a live video tour of our stores, catalog selling, assisted online selling and home deliveries. All these will build on existing strong brand equity built over years of consistent investment.

Fourth bucket is organizational resilience and leveraging technology. The lockdown has given us an opportunity to take a fresh look at the business model, various work streams and accelerate key initiatives already underway. One such area has been supply chain. We have always had a strong supply chain and vendor network, but speed of response could have always been better. We had already started building a quick three-week replenishment cycle for meaningful part of the range which got stabilized in last couple of months before COVID. This will now become a much larger part of the business and will have a huge impact on driving full priced sales and reducing inventory risks. Along with this, we are also shortening our “thought to shelf” product cycle and moving away from strictly two to seasonal approach. This will bring us closer specific seasonal requirements and hence reduce business risk.

A key agenda over the last 18 months has been building best in class Omni channel business, market place operations and data analytics capabilities. As on date we have all our stores covered under endless aisle capability. We already have market place operations across all major portals and orders are fulfilled from stores. We had the highest rating with the leading portals matching their exacting standards for services. This should give us an edge in times to come as it enables swifter scaling up of online business and providing multiple buying options to our consumers.

Coming to new initiatives like Elleven - the coordinates brand, footwear and Aurelia girls wear range; we have already invested in working capital for SS20 launch which will now be used over the next season. We had signed three stores for Elleven which will open. No further expansion is planned till situation stabilizes. However, we will use this time to continue on building on these initiatives and will be launching these products in large format doors and online platforms and the focus would be getting deeper insights and sharpening the consumer proposition.

Fifth bucket is that of opportunities. While we understand that this pandemic has forced all of us to focus on short term priorities and manage immediate risk and challenges. Yet one needs to balance this with the long term objectives and possible opportunities which this adversity throws up. Let me talk of such opportunities.

First, our industry is extremely fragmented with multiple small players with limited financial resources. There is bound to be consolidation in the market and there could be both short term and long term opportunities. We see our brands playing a bigger role in partner portfolios in next seasons. Second, there definitely will be rental corrections, which could throw up good real estate at attractive long term lease deals. Third, one of the stated objectives for us has been inorganic growth; we see many small brands with tremendous potential which due to reasons of managerial bandwidth or probably risk appetite or financial constraints could not scale up. While we have seen multiple attractive assets in the past, we could not align on the right pricing. We see possibility of such assets coming at the right price now. Right assets, limited down side risks and minimal short term cash flow impact are something that we will keep in mind but deals at this time could be really, really attractive from a long term perspective.

Now to summarize, given our financial stability and response strategy, we feel confident of emerging stronger from this pandemic and have a plan clearly laid out to make most of the opportunities this might throw up. Our approach will be to remain cautious in the short term, yet continue building for the long term. I will now request Venkat to take you through the numbers, post which we can open the floor for questions.

Venkatesh Tarakkad: Good morning everyone. As Anant mentioned, we started seeing the impact of COVID-19 from March first week, which affected our Q4 and FY2020 performance significantly. Our reported Q4 revenues were at 219 Crores versus 291 Crores for Q4 last year. As all of you know, our business has an element of both B2B and B2C operations and March saw a significant disruption in both these areas. On the B2C front, we were tracking at a positive 4% SSSG in our stores and LFS business for the month of January and February. However, March saw degrowth with -57% SSSG. On the B2B front, March historically has been an important billing month for the launch of spring-summer season. However, from second week of March, most of our partners stopped taking deliveries due to COVID disruptions. Between B2B and B2C, we lost an estimated 103 Crores in revenue. Our estimated normalized sales for Q4 this year would otherwise have been 322 Crores representing a growth of 11% over Q4 last year.

Our reported EBITDA for Q4 FY2020 was at 4 Crores versus last year Q4 EBITDA of 42 Crores. Comparable EBITDA adjusted for Ind-AS 116 was at -27 Crores versus last year EBITDA of 42 Crores. There are two key factors resulting in lower EBITDA numbers. First is the impact of margin loss on potential sales, which is to a tune of about 59 Crores. March being the only full price sales month in the quarter had a negative impact on both relative and absolute margin levels. Second were COVID-19 related provisions on account of possible store closures, impairment of assets, bad debt, which put together is about 13 Crores. We have taken a conservative approach here, so as to minimize any major negative impact going forward. Normalized for the above our comparable EBITDA for Q4 this year would have been 45 Crores, an 8% increase against the previous year Q4 EBITDA of 42 Crores.

Our reported Q4 PAT was at -24 Crores versus last year Q4 PAT of 33 Crores. Our normalized PAT including the EBITDA impact and constant tax rate both years would have been plus 27 Crores for Q4 this year versus 26 Crores Q4 last year. Our gross margin in Q4 was at 58% versus 62% last year Q4. Direct product costs were in line but higher dormancy and lower full priced sales has adversely affected the margins.

Our EBOs store count was at 595 at the end of Q4. We opened nine stores this quarter and we were on course to opening another seven before year end. These are subsequently getting opened post lockdown. Overall we have opened 54 stores in FY2020. We are seeing strong large format store doors expansion this year and also opened 55 doors in Q4 taking total LFS door count to 1944 as on March 31.

Despite COVID impact, our net working capital stands at 122 days as on March 31, 2020 this year versus 120 days as on September end.

Talking of full year numbers, our revenues were at 1,149 Crores where at same level at last year. Normalized for COVID impact, our estimated revenue for this year would have been 1252 Crores, a growth of 9% over last year. This year's numbers include onetime MBO rationalization exercise.

Our reported EBITDA for FY2020 was at Rs.207 Crores versus Rs.184 Crores in FY2019. Adjusted for Ind-AS 116 on normalized basis, our comparable EBITDA for full year FY2020 was at 171 Crores versus 184 Crores in FY2019. Our reported full year PAT was Rs.69 Crores for this year versus Rs.131 Crores last year. Adjusted for Ind-AS 116 and tax rates normalized comparable PAT for this year would be Rs.108 Crores versus Rs.121 Crores last year.

Thank you. We are now open to questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Nihal Jham from Edelweiss. Please go ahead.

Nihal Jham: Thank you so much and good morning Anant and Venkat, hope both of you are doing safe. My first question was on the cost control initiatives you mentioned, you did say that on rent and salaries, we are talking steps, and I am sure on all the other also. If you could just give a sense of on an average on our material cost of around 550 Crores, so what is the quantum that we are targeting to bring this down by in the coming year?

Anant Daga: So thanks Nihal and hope you are also keeping safe. See, at this point in time, there are various scenarios that we are working on and most important is agility to adapt to evolving realities in the business, so while we would not fix the number right now, but I will just tell you broadly how we are thinking about various cost structures and the extent of reduction that can come in. So in rentals, see most of the stores we have been able to get significant waivers for the lockdown period. The idea is to make rentals as linear to sales in the coming months, but having said that is not always what the deal structures emerge to be. A lot of our landlords are also as on date anxious about the future and they are taking limited time period at a particular time. So lot of deals, discussions would continue to happen over the rest of the year and these numbers will keep building on, but rental clearly even with whatever savings we have been able to get till date on our contracted 2021 numbers, we are already in the savings range of 20 to 25% that should see an improvement in coming months.

In salaries we have taken a graded cut for the first four months of the year which will again be reassessed by July end, there also we are already tracking at a double digit savings over last year but will see how much that can build more on.

In terms of marketing, right now discretionary spends in any big ticket ATL is completely controlled. So there the savings could be much more, but having said that as a company we have to keep long term in mind and while we will not do probably big ATL item, will continue to invest in social media, direct engagement activity and there the savings could be significant but that again we will take a fresh call around such time when we believe the demand should come back. And finally on our overhead item, see we have been building capability. So lot of those items are on an increasing curve, so despite those, we are already tracking with whatever our initiatives has been in a double digit range over last year but again as I said there are many more costs initiatives, which will keep continue taking throughout the year so these will keep building on. So these are four buckets and this is how you should think about rather than just one number. The idea is to minimize all discretionary cost, variablise as much cost as possible, still not losing the ability to scale up and not cutting good cost which probably will help us from mid to long term perspective.

Nihal Jham: That is helpful Anant. Anant, my second question was on the inventory as you mentioned, so as I understand obviously this current inventory that they are holding on to can definitely do us still pre-Diwali season and potentially you may launch your fresh collections for Diwali or the winter that comes post that, so I just wanted to understand in terms of the discounting what is the thought, do you think it is going to be more market driven, that if other brands and the last format stores decide to discount and we will also go that way or we are going to be sticking to the fact of not wanting to discount majority of our inventory.

Anant Daga: So see Nihal there are both these forces as you rightly said in your statement itself, so there will be market forces and discounting for a vanilla brand like us will always depend upon a lot on what channel partners do, right now at least from whatever we have seen in the market in our conservation with our partners, the inclination towards a very heavy end of season sale clearly does not exist. There are safety norms, there are malls which are still opening, so I do not know whether there is any merit in going for a big discount because at the end of the day you need bigger footfalls to justify that extent of discounting. Having said that, there would be promotions, there would be end of season sales, which to my mind at least as on date does not seem to be more severe than any of the previous EoSS. Second thing coming to the market dynamics we will have to wait and see. Last year frankly around this time end of season sale started, this time it has not started and it has been already delayed. Now coming to company specific you are right if you look at our inventory compositions most of it is less than two seasons old since circulation, our spring summer inventories have seen very little light of the day so lot of that will be carried onto monsoon festive, but there is just one difference, which I would like to highlight here, unlike many other players with very limited working capital funding available they will be forced to carry everything blindly to next season, we are carrying lot of these up to next season and may be a part of it to next spring summer also while filling the shelves with slightly more relevant product also that we think the customer would want in monsoon festive. Similarly for winter, see our business is one wherein our inventory is relatively seasonal agnostic and winter is a very, very small part and we already have a feeler from all our partners that lot of guys would not be able to supply winter wear, so we will be taking some calls there and still putting in the right merchandise. So, having confidence on the fungibility of our inventory and the redeployment plan that we have, so as a company we are not pressurized more on end of season sale, we are comfortable as far as inventory constitution is there and our working capital fund that is available to us and then we will have to wait and see how the market reacts, but my hunch at this point in time is probably we would not see a very severe end of season sale, but that can change depending upon how other players react.

Nihal Jham: Just a last followup on that, that on the online channel currently are we then trying to give some more of a fresh material and using that also as a channel to increase our sales or online still remains a channel where we try and sell older stock?

Anant Daga: Over the last few seasons full price sales, fresh season sale on online has been increasing and that is the trend even today. Right now, I think it is a great opportunity to move fresh season products also online because of nonavailability of physical stores and to my mind this will be a turning point as far as full price online sales goes. One of the limitations that we have had on our business in the past was that we were always dependent on B2B business for a partner site sales so if suppose I have to sell something from a partner site the only thing I could do is they were storing the stocks and typically we have seen that will be very, very conservative on fresh season. Now with the market place capability that we have been able to build over the last six months we have been able to expose our entire catalogue and we are already seeing an upward swing. Why I do not want to comment on a number right now is because it is a very early day, but probably you will know in the next couple of months we will be able to give you directionally a much better idea. But as we see, the online full price sales will go up and it is a great opportunity for brands like us to fully optimize our Omni market place model to push that.

Nihal Jham: That is helpful. I will come back in the queue. Thank you so much.

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

Avi Mehta: I just had two clarifications that I wanted to check with you, one was in the presentation you have shared towards very healthy growth in the online channel, just if you would give the nature of the reasons, what kind of products are moving, is it more lower price, is it lower gross margin and second a bit about the higher discounting part that you know, what are your plans to counter this because you were kind of trying to do that, that was my first question, if you could answer these two parts, please?

Anant Daga: Coming to the first point if you look at the sales our overall sales has been on a very, very progressive growth curve, so when the business started opening the sales are about 30%, 35% of pre-COVID level, which kept on building week after week. As on date we are tracking about 100%. Over this, the biggest swing that we have seen is in our own market place and our own channel, which is a very healthy sign, which is growing at about 1.5X. Our partner sites basically we have three big partners and then multiple small partners - there we have seen businesses in the range of anywhere between 40% and 150% depending upon what that partner is I would not like to name them, but one thing is consistent that all of them are seeing a progressive recovery curve. Coming to the kind of product that we are selling, frankly what we see today is higher bill values, higher basket price and as far as average pricing of product goes we are not seeing any such kind of people down-trading or something. One trend that we have seen is a slight shift to a more casual range. So if you recall, our ranges are made up of ethnic - the way we think about ranges is in terms of casual and work wear, light occasions wear and heavy occasions wear. Heavy occasions wear anyway is very limited in our range and only part of Wishful caters to that. Balance is light occasion wear and casual, so we have seen some shift towards casual wear. To start with, that is the only significant shift apart from the fact that people are not compromising on the pricing at least in our brands and they are shopping more. Coming to discounting part, discounting is a result of two things. One is the channel mix that we have and second is the kind of discounting that we do in terms of quantum and overall volumes so I think as far as channel mix goes if suppose online becomes a bigger share then of course you will see an impact of discounting and again there we end up selling lot of old season stocks, which are partly written off, so lot of times this additional cost gets covered. Essentially, online is not a low margin channel for us. Of course it is not as high margin as MBO, but it is not definitely not very low margins, so I think there we should not see a huge impact and with us driving our full prices sales if that ratio continues to improve then probably you will see a lesser discount. Coming to offline channels, see again as I said things are evolving for us, malls have just started opening, large format has started operating at least, departmental stores only for the last two weeks, we will have to take their considerations into arriving at a discounting, and EoSS strategy which I think we will be in a better position in the next couple of weeks.

Avi Mehta: What I am saying is that I understand the online being back to almost 1x, 1.5x, but overall online is just like about 7% or 10% out of our sales how would we be on an overall basis right now pre-COVID?

Anant Daga: See again there is unfortunately not one answer to this because every channel has started operating at different timelines so if you look at our EBO network and LFS or MBOs in high street they are usually tracking at 40% on the like-to-like basis period, but having said that there are lot of markets where still stores are not opened, there are alternate days, there are limited timing, so overall that number would fall to mid 30s. The malls, which have started opening in the last two weeks we are yet to see any significant traction where the sales are below 20% that is also because half the malls are not operational right now, the food court is very, very constrained right now, multiplexes are not there so we will have to see how that evolves. Airport definitely is being slower to pickup and that is what we were expecting any which ways. So, unfortunately any numbers that I give right now or hold good even next week will not be correct. All I can give you right now is the perspective that given the staggered opening I think one should just factor in low sales I think the real test would be starting in July. One more point I would like to share out here from our experience of this lockdown upliftment, see the markets which were initially not impacted by COVID massively they are recovering much faster, markets like Goa, our offline sales are also back to 75%, 80% level already, lot of towns in East India are doing extremely well, so we just hope that if you know the pandemic comes under control then the recovery could be slightly swifter this is our feeling.

Avi Mehta: Okay and last bookkeeping if I may, you shared the expectation of exiting FY2021 rate at pre-COVID levels of margin would that be a 15% kind of level that you are getting and what is the expectation of sales that is all from my side?

Anant Daga: When we mentioned this, the idea was to just be clear about the way we are thinking of the year. So as far as we keep building on the strength of the sale and as far as P&L goes what we are aiming is starting spring summer 2021, if the pandemic comes under control and given the market dynamics, if we are able to hit that and scale that on the same trajectory that we had pre-COVID, this is what you said about 14% to 16% range I think that is what we are building towards and we have started aiming towards.

Avi Mehta: Okay, perfect, thank you very much.

Moderator: Thank you very much. The next question is from the line of Manish Poddar from Nippon AIF. Please go ahead.

Manish Poddar: Hi this is Manish here from Nippon AIF. I just have a question, just wanted to understand on the online channel if I am right you have brand sites, right, you do not have a consolidated company site is that the right way?

Anant Daga: Yes so we have different sites for W and Aurelia and Wishful would be on soon, so we sell through individual brand sites.

Manish Poddar: So is there any thought process that you get on to one website and try to cross sell to your existing customers or you want to run individual websites only?

Anant Daga: See we want to run individual websites, but we are also taking about a corporate website at a corporate level that would be on very soon, but our idea always so far at least has been on promoting individual brand separately because they cater to a different consumer type, they need a different communication strategy, but I think linking two sites somewhere could be an interesting idea and we will definitely evaluate the same.

Manish Poddar: Great, just one thing on this provision amount can you explain the rationale when you are taking Rs.13 Crores, is this it or do we expect another round to come across, just wanted to understand the rationale behind it?

Anant Daga: Rationale behind?

Manish Poddar: As in this provision amount, we have taken Rs.13 Crores provision.

Anant Daga: There are two parts to the provision one is the regular business cycles, so for example for the last many, many years we have been following very consistent stock provisioning and bad debt provisioning norms so anything that falls under that cycle of regular business would continue, so for example even in Q1 and Q2 because the sales would be slightly limited there would be cyclical provisions, which will need to be given, but that is just a regular business phenomenon. The provision that we have taken additionally are on the conservative side as from today's view point we think that we are reasonably covered given those provisions and hopefully that should not throw up any surprises in the future, but regular provisioning will keep continuing as it continues in every quarter.

Manish Poddar: What is the split between the two for this Rs.13 Crores?

Anant Daga: This Rs.13 Crores is additional provision apart from the regular provision. So if you look at a number we have been very conservative on inventory valuation and overall the provisions are much higher. Now the good part about it is if you see the inventory risk going forward and if we are able to usually write back whenever we sell those inventories so that is separate, this is purely additional provision, which we had to take because of the current situation.

Manish Poddar: Got it, thanks.

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

Varun: Venkat Sir, what is the SSG for FY2020 and for Q4 on consolidated basis?

Venkatesh Tarakkad: Q4 as we mentioned earlier the January-February was 4% and minus 57% for March that comes to about minus 15% for Q4.

Varun: Okay and for full year?

Venkatesh Tarakkad: Full year would be about -2%.

Varun: Secondly Sir why gross margin has declined so significantly?

Obviously we would not have discounted significantly during the month of March post the lockdown that we were not just able to sell, decline looks very, very steep if we compare last few quarters.

Anant Daga: If you look at our gross margin history as you rightly pointed out we have been very consistent, see actually there are some positives for gross margins. First is the input cost there we are extremely comfortable and in fact we have been improving there. Unfortunately in Q4 the reduction is on two accounts, one is additional dormancy that almost took off 2.5% of the gross margins and apart from that as Venkat explained sometimes back, March is the only full price month for us in the first quarter and as a result of March getting washed out our overall margins have got impacted so these are the two impacts, on the cost we are still very good.

Varun: Are you saying the inventory provision Rs.13 Crores we have booked in the COGS or where exactly that item has been recorded in P&L?

Anant Daga: Yes first of all this Rs.13 Crores is not just the dormancy of stocks it is also impairment, accelerated provisioning on bad debt as well and we always book our dormancy even regular ones in calculating gross margins so it is all included.

Varun: Sure Sir. Thank you very much and Sir just last question if I may, Sir during the month of January and February same store sales growth has been 4% and we understand 90% of our revenue come from EBO and LFS for which we are kind of projecting this number, Sir any comment would you like to make that why SSG is not improving even before the crisis got stuck?

Anant Daga: If you look at the full year SSSG what we would have finally landed on if the March continued similar to Jan and Feb would have been about 3% odd. We explained this in earlier calls also that during the July-August EoSS last year we had a double digit degrowth in SSSGs, which impacted the SSSG to about some percentage. Second, airport stores for us this year though it contributes about 10% of EBOs sales have de-grown in high double digit number because of all the reasons there in, so these two things put together probably took off 2%, 2.5% of our SSSGs. Having said that that would still be a mid single digit and we are taking a lot of initiatives now to improve that further, but at least that would have been the case.

Varun: Thank you very much.

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

Vikas Jain: Sir my first question would since you described a lot about cutting the cost and everything would want to dwell on the capex front as you said Elleven stores will be opened So any plans for W and Aurelia and if you can quantify the capex in FY2021?

Anant Daga: So when I said Elleven, it was the brand stores, Elleven is the new brand that we launch we have three stores for that, overall we had 20 odd stores in the pipeline that were not opened till March a lot of them were anyways scheduled to open in April and May so those 20 stores will be putting in capex. Beyond that we have some IT upgrade projects, which are on, but overall if you look at last year also our capex was very, very limited our business is not very capex led and this year I think the number would be even lower than that unless we start seeing green shoots and in second half of the year where we see lot of real good real estate opportunities coming up I think till the time situation stabilizes that number would be even lower than last year.

Vikas Jain: Right Sir and just one more clarification that I wanted on this Rs.13 Crores provision that you have taken so this is our best guess estimates currently so do we expect any further next round two to be taken or it would be like one off a kind of thing for this quarter itself?

Anant Daga: You are right, actually it our estimation more than our guesstimation frankly and we have been conservative in estimating this, so as on date the way we see things happening, there should not be major one off risks. But again, see it is very important for all of us to understand that there are few provisions, which we take on regular basis, which is dormancy on stock basis season so what we do is anything that is three seasons old and older we starts automatically taking provisions in our books and now with one season going forward and probably no sales we have been slightly lower in the first quarter there will be an impact on that count, we will figure out whether in this extraordinary situation one needs to provide anything more or not, but that is the only regular provision that we see. At this point of time we have been very, very conservative and hopefully we should be able to do much within these levels.

Vikas Jain: Right Sir. That is it. Thank you.

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

Vijay Dhanuka: What I wanted to ask was when I look at your numbers so one gross margin has come down that you have explained in case of let us say items like rent and employee cost whatever benefits you are saying, which will happen in the form of renegotiation during lockdown period and reduction in the employee cost that we are planning to do, will all that start happening from the month of April because if I see your rental outgo for example has been in the range of Rs.30 Crores, Rs.31 Crores, similarly your employee cost usually is in the range of Rs.40 Crores?

Anant Daga: On the rental buckets you will see significant savings in first quarter itself because there were a lot of places where we have got waivers for the lockdown period and all. So rental you will see significant savings starting April itself because there were lot of lockdown waivers deals which were done. On employee cost the real significant savings will only start flowing from second half of the year because all that we have done in terms of rationalizing the count and all would have a bigger impact going forward, but some reflection of those will start seeing from Q1 as well there also.

Vijay Dhanuka: Okay but these rentals provided why it is not showing the impact of say first 20 days of March also just curious about that?

Anant Daga: The discussions on rentals frankly the reduction and all that has been taken into account from the lockdown date, so as of now the conversation with everyone is since the date of lockdown let us just renegotiate and take waivers, so as official lockdown came on March 23, 2020 most of the things are there for that first week and some of that positive effect has already been taken in March, but that is not much, so most of the guys we are getting rental deals renegotiation from April only.

Vijay Dhanuka: My second question is on the selling and distribution expenses so usually selling and distribution expenses in the range of 21%, 22% and I am assuming that this is one part of the expense, which is fully variable, but in the fourth quarter this has gone up to as high as 27% so is it not fully variable or why has it gone up?

Anant Daga: What happens is it has gone up because most of the selling and distribution expenses are linked to end of season sale discounting and all and unfortunately in that quarter we saw the entire period of that January and February what is normally compensated by the fact that March being a full price sale that gets normalized and unfortunately in March we could do not enough sales so while you are understanding is absolutely right I think it is just a mix of the March sale versus January and February sales, which explains a rise like this, in March we would have incurred very little selling and distribution expense, most of it is discounts and all, which already got incurred in Jan-Feb.

Vijay Dhanuka: Okay so basically your full price sales of March have not come along that is why this number looks higher?

Anant Daga: Correct.

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

Vaishnavi Mandhaniya: Sir the other income and depreciation right on a comparable basis the other income is higher by almost 2x and the depreciation is higher on a Y-o-Y basis almost 40% plus so any reason for this?

Venkatesh Tarakkad: So first is let us talking of a simpler one that is depreciation part. While Anant also mentioned about the additional provisions, which we have taken in this quarter that is all above EBITDA, what we have also done in depreciation is we have taken addition depreciation for stores, which we are planning to close down we have taken accelerated depreciation. That is why this quarter you will find the numbers to be higher than earlier.

Vaishnavi Mandhaniya: Will this continue in Q1 & Q2 and how do we see this planning out?

Venkatesh Tarakkad: So that will depend on how we evaluate each of the stores. As of now for the stores, which are closed already accelerated depreciation has taken, the subsequent one will depend on as and when we take decisions on further closures. Only then if we accelerate to do that, but in the first two quarters it should not be high as what has happened in Q4.

Anant Daga: Vaishnavi just to add on what Venkat said see this is what we have done is, there are few stores where we have not been able to get desired rental deals and what we are doing is taking an aggressive stance and we are giving them notices for store closure. In our experience so far at least in 30% to 40% such cases we are getting the deals again from the landlords, so we have taken a more conservative number as of now and we hope that you know a few more stores could be recovered so we do not see a risk of more accelerated depreciation, now again lot of deals, provisions, depreciation whatever we have taken is all account of how we see recovery happening right.

Venkatesh Tarakkad: The other income if you look at it in absolute terms is not that significant. In terms of the percentage wise yes it looks big, what has happened is compared to the previous quarter the base on which, okay so the other income majority is what we get in terms of interest dividend, etc., on our investments primarily, so the base on it Q4 this year is higher than Q4 last year and we actually got pretty decent rates in the overnight liquid market for the Q4 of this year and that is what is reflected there. Percentage it looks big but in terms of amount it is not that huge.

Vaishnavi Mandhaniya: I happened to see that a lot of our competitors basically have launched new lines like loungewear, etc., like woman loungewear, etc., like more on the casual side of it, so any thoughts on that or are we going to do something similar or are we going to stick to the ethnic only?

Anant Daga: So Vaishnavi if you look at our product range already in W and Aurelia, we are not purely an ethnic brand and if you today see a lot of the things that other brands are selling under loungewear and work from home category are simple, easy bottoms or slightly versatile top wear, which we already have a range in our stores, so most of our products are actually versatile and that can cater to a very, very easy day wear kind of stuff. Having said that we would be adding a range of shorter tops and all because that is what we think we can beef up the range. Another thing is we are beefing up our range is we are trying to launch some products, which would be a day wear and at a slightly lower price point, but simpler product with very, very minimal details, which could add to the versatility of work from home and lounge wear kind of stuff, but apart from that most of our products are either day wear, work wear or light festive, which anyway caters to the segment.

Vaishnavi Mandhaniya: Okay alright. Thank you.

Moderator: Thank you very much. The next question is from the line of Mohit Agarwal**,** from Dolat Capital. Please go ahead.

Mohit Agarwal: Thank you for taking my question. I wanted to delve a little bit on your thought process on the inorganic side, what kind of segment or areas are you actively or trying to pursue on a thought process perspective and secondly in terms of what amount of capital would you be comfortable in deploying at this point in time?

Anant Daga: In past also we have interested on this and we have also shared our broad strategy on how we think about M&A. Let me just take a minute to explain that. See we are very clear that there are three fundamental strengths as an organization we have and whatever space we look at will need to be closer to these three pillars. So one is our understanding of women customer, second is our understanding of apparel and accessories category and third is our Omni channel play, so whatever we are looking at has to be within these broad lines. Now we have been looking at these for the last few months and unfortunately we have not been able to close anything and that is because we have always been very, very cautious and we were in no rush to pay not the right price or something. It could be very accretive for a long term, so we have seen good assets and right assets but unfortunately we could not get the right pricing in the past, now we think there would be an opportunity for us to get good assets again at a much better pricing, at a real good pricing and from a long-term perspective that is something that we are keeping our eyes open on. However, as you again said so these are not the time when one takes an adventurous call or one really exposes the existing business strength. We have a very strong balance sheet, but we want to preserve it and will not be doing anything, which can have pressure on the same. So the kind of deals we will be looking at could be not very big size deals number one. Number two something that will have very limited cash flow impact from 12 to 18 months period and third something we can clearly lay out the downside risk and depending upon the risk reward we feel it to be a stronger proposition so that is how we are thinking about it, we will continue to be very, very cautious, but again it is our firm belief that you know something that you can get today probably would not be available a year from now and definitely not available six months back.

Unknown Speaker: Sure thank you.

Moderator: Thank you very much. The next question is from the line of Garima Mishra from Kotak Securities Limited. Please go ahead.

Garima Mishra: Of your total EBO count could you please give us a split between the number of stores that are in the high street and malls?

Anant Daga: So of the total count about 50% odd is high street, about 46% are malls and the balance are airport, so we have about 26-27 airport stores and the balance count is divided like that.

Garima Mishra: Got it and Anant is there chance that FY2021 end you are at a lower number of EBOs than what you were at end of FY2020?

Anant Daga: It will depend upon what is the market situation looks like at the end of the year. I tell you what the focus right now is in the next six months we have job clearly cut out, as of now we are optimizing on store economics and all the focus is on renegotiating rent and closing loss making stores. Now there are lot of stores, there written down value is very, very small and there is no point continuing those stores so I was explaining just sometime back we have almost a list of 45 stores, which we are willing to shut if we do not get a very attractive rental deal. Having said that 20 odd stores are planned to open so if we just look at today scenario yes our count could come by 20 to 25, but we also believe that once market starts improving probably by late this year we will also get very good opportunities to get on real estate and build on the lost that is yet to be seen.

Garima Mishra: One followup on this new store opening also your Aurelia brand has been growing faster than let us say W, so do you think as a conscious strategy you would open more Aurelia stores or it would still be evenly split between the two brands?

Anant Daga: Original plan we had slightly more Aurelia, but not materially very different, what we do is when we plan we have different teams and everyone optimizes their own brands so there was a plan to open at least 40% new stores would have been Aurelia. We also had plan of opening about 20 Elleven brand stores, but that would be on hold right now and given the situation I do not know how things will be, but my sense is W would also have meaningful share. We have identified quite a few locations.

Garima Mishra: Got it, thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Philip Capital. Please go ahead**.**

Ankit: I just wanted to talk on the downtrading part. Are we seeing Aurelia brand get higher traction in the market right now compared to W and what is a strategy if we are witnessing some down trade?

Anant Daga: This is one thing, which always comes up in such a situation. Let me tell you what my experience in last 20 years has been, what we have seen is brand is just not about a logo, it is also about in women's wear it is also about fit, it is also about the design sensibility, the quality, comfort and the trust factor that you have. What we have seen, are people now down trading brands significantly, yes it is possible that they want the same brand at a better price or they lose their purchases. Now to that extent one has to take new positions to manage that risk so what we are doing is as I was explaining to Vaishnavi sometime back we understand that there could be a concern in the consumers mind given the limited purchasing power, experience the same brand at a better price and for that we are launching our new range of day wear classics, which are solid products, which could be never on discount, which would be slightly lower price, a simpler product, but having the brand premise intact so that is what we are catering to. Beyond that what we also believe is these are the times when the consumers would also stick to more trusted brands. Today when a consumer has to enter W store or unorganized market player store there is a huge trust difference in kind of products and kind of ability to service to get into the safety needs. I think those things will also count so that is one part. Second, as of now W is tracking better, be it offline or online across each and every partner that we have. So we have not seen this downtrading trend at all between the two brands, Aurelia of course has jumped up a few notches in every partner account ranking, but W continues to be the top performing brand and even in our stores within our brands as I was mentioning sometime earlier our average selling prices have not dropped at all. Yes we have seen drop in footfall, but we are seeing customers come in, buying more and buying more value products so that is something that we are still very active.

Ankit: Second question is on the airport stores, are you seeing lower footballs continue for the next six to eight months as travel would reduce so it is time to rationalize airport stores or will continue to invest in these 26 odd airport stores going forward as well?

Anant Daga: Ankit a very pertinent question and after every call we keep explaining airport stores and frankly last three quarters they were on a recovery path, but now given COVID, I do not think this is going to be in recovery path anymore and we are taking a very, very fresh call on airport store. Out of these 26, it is not that all were making losses. Even at lower sales quite many of them were profitable so we continue with them on new lease rental deals. To be fair to the airport people at least the bigger airports a couple of them have been very, very fair partners and they have given us complete variable deals for some time, which will help those stores. Where we struggle was lot of smaller airport stores where the dependency on jet airways also very high and the cost structure was also slightly higher, so out of these 25, 26 stores we have already are in discussion with 12 of such stores for closure. As the landlords have come back and said pure revenue deals that they are looking at offering, if something like that happens we will continue, otherwise you might see half of airport stores that is closed and this count is included in our count of 40 stores. And we have already provisioned for lot of those closures in the fourth quarter itself. Now suppose if we get deals, which are at least profitability neutral or minor cost even then we would continue with the stores because one has to look beyond this loss and profit and deals. These are great brand building tools and given limited spends in ATL I think they can be a huge vehicle of brand building, but anything that will have significant losses will be shutting down, as of now 12 places are under consideration.

Ankit: Sir my last question is on the fixed cost reduction do you see some part of it is sustainable going into FY2022 or do you think will come back to the normal cost in FY2022 what we saw in FY2020?

Anant Daga: So all intent is to capitalize on this to streamline long-term cost. There are lot of things that I spoke about variablising. Some of the fixed costs that would probably last longer, maybe lot of rental deals depending upon how things improve in the next few months could again reset at the base level, which could be again 6 to 9 year contract going forward. ERC again there are some fundamental calls that we have taken in terms of rationalizing and merging of staff, which again could last very long, so a lot of these costs actually could have long-term impact, but yes the focus right now is just managing short-term, but still a few of these facilities have been worked on.

Ankit: All the best and thank you so much Sir.

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

Anant Daga: Thanks and we take this opportunity to thank everyone for joining on the call. We hope we have been able to answer your queries. For any further information kindly get in touch with us or SGA. Please keep safe, take care and thank you all once again.

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 the lines.