"TCNS Clothing Company Limited Q2 & H1 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the TCNS Clothing Company Limited Q2 & H1 FY21 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risk 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 call, 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, TCNS Clothing Company Limited. Thank you and over to you sir.

Anant Daga: Thank you. Good evening and welcome to our Q2 21 Earnings Conference Call to discuss operational and financial performance for the quarter and H1. I'm joined by Venkat our CFO, Amit Chand and SGA our Investor Relations Advisors.

First of all, I hope you and your near ones are safe and healthy. The fight against COVID has been a long one and be praised for everyone's health and wellbeing. As informed to the stock exchanges on 2nd November Venkat will be moving on from TCNS. I would like to take this opportunity to thank him for his invaluable contribution to the business and wish him all the best for the future. We are happy to welcome Amit Chand who will take up the CFO role from 20th November. Amit is a Chartered Accountant and IIM Lucknow Alumni and has had more than 16 years of experience across Aditya Birla Retail, TravelTriangle Entrepreneurial stint and he has been with us earlier as a CFO of TCNS Clothing from late 2009 to late 2013. He had led our first fundraise round and played a key role in setting up the platform for future growth. We are excited to have him back and his deep understanding of the business and his varied experience will be a solid addition to our capabilities.

Now, Venkat will take you through key financial highlights for the quarter let me share the current scenario and give you an update on key focus areas. We are experienced continuous rebound in sales since the lockdown with a pronounced spike during the recent festive season. Net sales recovered from 45% of pre COVID levels in Q2 to about 70% levels in the festive period of Diwali. In the EBO channel most of the markets are seeing healthy festive built ups. However, overall recovery has been somewhat dragged down by select pockets, such as airport stores, and high COVID impacted larger cities like Mumbai and Kolkata. In LFS channel also we are experiencing similar trajectory and both in terms of absolute sales and relative recovery we continue to lead the category.

A key success for us has been certification of our investments in online channels since last year. Online seeing is a rapid growth tracking at close to 2x against pre COVID levels in Q3 with our own brand.com at about 3x of the pre COVID levels. October registered our highest ever monthly online sales. As mentioned in the last quarter our readiness in terms of robust marketplace presence, backed by best in class certified operations would be a key differentiator for us both in short and long term. MBO secondary sales are gradually recovering, though primary billing is yet to resume . As mentioned in the last one, we have set out five approach to achieve our goals for FY21 of preserving the balance sheet strength while having the ability to scale up as needed. We are focusing on controlling cost, conserving cash, engaging our consumers, building organizational resilience and seizing potential opportunities.

Let me give a quick update on the same:

Cost reduction has been a priority for us over the last couple of quarters. And I'm glad to share that we have logged in the plan reductions across all key cost items. Rent and salary are two of the largest heads. Regarding rent our projected annual savings against last year at (+30%) levels has been confirmed. We are building further on the same**.** Reviewing our bottom performing stores with unsustainable rentals. We have closed 21 stores in Q2. On staff cost we are on track for 15% to 20% annualized savings against last year. Marketing is being optimized by using social media platform and direct engagement tools. Spends have been limited to campaign directly and measurably impacting online and offline sales all other overheads have been scrutinized carefully and are being maintained at optimum levels. Cash conversation has been the key highlight for the business and we have maintained strong reserves to tight the business over the crisis. As updated in the last call, we had a net cash outflow of roughly 50 crores till August mid. Subsequently, the cash burn came down substantially to just 15 crores for the last three months. From November onwards, we are now recouping cash, we expect Q3 to be cash flow positive, as on date we have Rs.110 crores in cash. Plus additional unutilized bank limits.

Our Omni channel strategy and timely readiness therein been a huge differentiator for us. Various delivery models and alternate sales channels have given us an ability to reach consumers through all possible routes. Today, we have the capability of exposing our entire product catalog across online channels and leveraging common inventory pool to service multiple sales channels. We are now live with third party portals to drive Omni and hyper local delivery platforms. We continue to carefully incubate new categories, footwear has demonstrated good traction in the select stores where it has been launched even in the current suppress demand scenario. Aurelia girls range has been recently launched and initial response is quite encouraging. It's a very small pilot right now, and they will build on the same based on market feedback. Elleven, our new brand has now been launched in LFS doors. These are early days. We will get to see the traction over next few weeks. To prepare for future growth as well as to further enhance operational speed and efficiency, we are investing and upgrading our warehousing infrastructure. As mentioned earlier, this is something that we plan to do in the first quarter of the year, but pushed it out due to the pandemic. We will be transitioning to the new facility over next few months. All-in-all, while keeping laser sharp focus on our top priorities of maintaining strong cash position and significantly rationalizing costs, we continue to invest in strategic capabilities. Notwithstanding near-term uncertainties, we are strongly positioned to lead the growth curve at an opportune time. Now I will request Venkat to take you through key financial highlights for the quarter. Thank you.

Venkatesh Tarakkad: Thanks Anant. Good evening, everyone. As Anant mentioned, I will be moving on from TCNS shortly. I'm grateful to have had the opportunity to work with Anant and TCNS and be part of the exciting journey last few years. I also got to meet many of you, and thank you for the interactions and support. Now coming to the quarterly numbers. Our Q2 revenues was Rs.144 crores this quarter versus Rs.324 crores previous year Q2, down 55% versus last year. Our gross margin this year Q2 was 52% versus 65% last year Q2. Q2 has traditionally been a quarter with lower margins due to EOSS. Like Q1, continued regular dormancy provisioning on a lower sales base, shrewd channel mix and extended discounting period in September has temporarily impacted margin percentages this quarter. There are no structural challenges and we continue to be in full control of cost and see gross margin similar to pre-COVID levels as business returns to normalcy. Under IndAS 116 accounting, total rent concessions of Rs.14 crores have been accounted in Q2, out of which Rs.9 crores has been reported under rent expenses, that is to the extent available, and balance of Rs.5 crores is reported under other income.

We had also taken a graded deduction of salaries from May and impact of salary optimization is also visible this quarter with a 24% salary cost saving versus previous year. Other expenses also continue to be on target and have reduced by around 24% versus Q2. Our EBITDA for the quarter was a loss of Rs.7 crores versus last year's Q2 EBITDA of Rs.68 crores. Our Q2 PAT was a loss of Rs.28 crores versus PAT of Rs.18 crores last year Q2. We closed 21 stores and opened 8 new stores during this period, including 1 Elleven stores. Our FY21 H1 revenues were Rs.177 crores versus Rs.600 crores in FY20. EBITDA for the half year FY21 was a loss of Rs.33 crores against an EBITDA of Rs.128 crores last year.

Profit after tax for first half FY21 was a loss of Rs.73 crores against a profit of Rs.38 crores last year. Our working capital as of September end was at Rs.400 crores versus Rs.384 crores as of March 31. As planned, we should see meaningful reduction in inventory and will release cash in H2. The strength of our balance sheet is reflected in our cash position, which is at a healthy Rs.110 crores, as Anant mentioned. Additionally, we have unutilized bank limits. Our total cash burn for the last 3 months from mid-August when we last updated you to now has been reduced to Rs.15 crores for the whole of 3 months. We are now confident of generating positive cash flows going forward. 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 of the same.

Moderator: Thank you very much. We will now begin the question and answers session. The first question is from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: My first question, as you mentioned in your opening comments, we are incurring some CAPEX on our building our warehouse facility. Can you just elaborate on this, and can you just quantify how much of that would be towards that?

Anant Daga: See, warehouse overall CAPEX would be a tune of, say, about Rs.5 crores to Rs.7 odd crores and some part of this would be incurred in Q3 and Q4 and some part would get into next year. So, it won't be a very big material amount, could be in the range of say, about a couple of crores.

Vikas Jain: And what would that be toward. Is it like a new facility that we are taking or upgrading the existing ones?

Anant Daga: No. So we are taking up a new facility. As of now, we operate multiple warehouses, which is not as efficient. So from a long-term efficiency plus also there could be some cost benefits out there, we will be moving to a new capacity in a phased manner

Moderator: Thank you. The next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Sir, just wanted to understand the demand scenario for the outerwear segment. How is the throughput on fresh sales and how much of it would be really pushed through discounts and this year, we had definitely a stronger discount season due to inventory across brands and across categories. So, I would like to understand your outlook on that, that whether it could impact our Q3 performance also and what kind of inventory liquidation would have already seen due to the stronger sales period in the last 2 to 3 months?

Anant Daga: Sure, Prerna. So a couple of things, if you talk about offline sales, the festive run-up is not seeing any end of season sale, discounting kind of thing. Every year, there is some promotion or else which is run in the festive zone. So this year should not be any different. So far, it's not different. It's on the similar lines like last year. Post Diwali, when the end of season sale starts is difficult to predict. So as you are right, this year, we have seen extended periods of offers. Essentially, it's not like deeper offers but yes, some part of the merchandise is carried on with some offer or others. That we'll have to wait and see. But festive-to-festive the kind of promotions we are running is in-line with what we have done in the past.

Prerna Jhunjhunwala: So there is no major acceleration over there?

Anant Daga: Offline October and till date is mostly full price. Online, of course the is channel is slightly highly discounted. So there the discounts would continue like last year.

Prerna Jhunjhunwala: Okay. And a follow-up on this. What would be the contribution of online sale in our top line this quarter?

Anant Daga: No. So I wouldn't like to make any forward-looking statement out here because offline sales recovery has also been pretty encouraging in the last couple of weeks, at least. So we'll have to see how that builds up. If you look at first quarter, obviously our online share was somewhere in excess of 50%. In second quarter, it was in 30% and 40% range. So those kind of numbers it will keep getting tapered off, but difficult to pinpoint at a channel level distinction right now.

Prerna Jhunjhunwala: Okay. And if we want to understand the traction that you're getting in the Elleven brand, could you just highlight what kind of improvement or we seeing in this current scenario where that category could actually see better traction as compared to the outerwear. And the last question would be on the season shift that you were looking forward to, to move from 2 seasons to 4 seasons. What will be the update over there?

Anant Daga: So first, talking about Elleven, see we have just 4 stores so far. And frankly, the sales bases were very low, so there's not much to compare it with. In terms of recovery, we are seeing similar traction, frankly in the same markets where Aurelia and W is. So there's not much to read into that. Maybe with this festive completely getting over and maybe spring, summer we'll get much more insights. We have also launched it in some key account roles. So we'll get a better read, and I'm sure in the next call we'll be able to talk more about it. In terms of 2 to 4 seasons, see, I was explaining this, in the last call also. Earlier, we used to buy the entire season stuff in one shot. Right now, we are doing 2 or 3 multiple launches and, hence, we are buying accordingly. So that thing is perfectly on track. It can't be fully executed in SS21 because a lot of merchandise from SS20 is getting carry forward there. And that's where in H2, we are looking forward to reducing inventories and all, which is still carried in our books. But from monsoon festive, that is how it will be executed completely. So we are on track on that initiative.

Prerna Jhunjhunwala: Okay. Sir, last question if I can accommodate on working capital what kind of improvement we should expect over the next 6 months from working capital point of view?

Anant Daga: So again, without talking of a number, one should expect a meaningful reduction in inventory. Just to give you an idea, most of the stuff that we had made, will carry forward to SS21 from SS20, the fabrics were already in the warehouse. So there, we see tremendous reduction happening. So this number would not be a very small number, but I would avoid giving a broad guidance on that, but it will be meaningful.

Prerna Jhunjhunwala: Will you return to your pre-pandemic kind of level is what I was trying to understand?

Anant Daga: We are trying very, very hard and the aspiration is to hit where we started the year with in terms of cash flows and all. And most of the steps have been taken. If demand scenario is slightly supportive also, we should be starting to reach closer to those levels.

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

Garima Mishra: First question, cost reduction. How much of the various items will be sustainable in nature. My sense is can things like staff cost reduction actually come back in tandem with recovery in revenue?

Anant Daga: So Garima, see, first of all, if you just look at this year, Q3 and Q4, there will be spillover effects of all cost savings. Depending upon whether it's rental, whether it's ERC, whether it is overheads, there are more savings coming in Q3 and Q4. Overall, for the year, we had projected +30% savings for rent and about +20% for ERC. Now going beyond FY21, see we'll have to see costs in different buckets to understand what can be sustainable. So, first is the biggest bucket is rent. So in terms of rental, you are right most of these will come back to normal levels because these all are long-term contracts, and these are one-off reductions that we have got. Having said that, we are shutting a lot of our loss-making stores, which were high rental stores and probably Q4 or whenever we start again opening new stores, we might be able to lock in more favorable rates. So from a long-term perspective, that could be an improvement, but I don't know whether strictly we can call that saving, so that's one. Coming to ERC, you are right. We would like to reinstate salaries at the first opportune time. Despite the cuts, the kind of passion and compassion that the team has shown is remarkable. And we would be happy to get people back on the original salary levels. There also, there's a small part which probably is sustainable, which is we have rationalized our front-end sales staff by optimizing operations. So it's a small portion, but that is something we believe will be sustainable even in future. Coming to overheads, a lot of those are related to sales, and those all will bounce back with sales coming back to normalcy. Couple of areas where fundamentally things would change, for example, travel. There, we believe we have got used to a new way of interacting with people in remote areas. So those are the kind of things where it can come down. Warehousing probably next 6 months, there might be a slight negative impact. But in the long run, that could be beneficial. So that's another area. So some parts would be sustainable, but yes that won't be a very, very big portion of costs.

Garima Mishra: Okay, understood. Second question, if I look at your channel-wise sales mix in the second quarter, the revenue decline from LFS is much lower than what you have from EBOs. So should this be read as purely a function of the fact that you have closed a bunch of stores?

Anant Daga: So Garima, a couple of things out there. One, of course, you are absolutely right it's also that we have shut stores and in fact, if you look at LFS, the numbers have gone up. So that's one. We have been very aggressive in shutting down loss-making stores. The other reason is, even in franchisees, there is the secondary sales have been higher. On primary, we have still gone slow. So that's a gap, that's a slight gap that you see there. And finally, LFS you have a couple of accounts who have very strong Tier-II and Tier-III presence and their performance particularly we all know Tier-II and Tier-III have done better than the other markets. So there, we have gained from those people. But these are the broad reasons.

Garima Mishra: Okay, understood. Next, since in view of the store rationalization that you have undertaken, from a store count perspective, from your EBOs, where do you think you're likely to end the year at given you alluded to the fact that you will be opening some new stores in the second half of the year as well and Y-o-Y what should we expect?

Anant Daga: Correct. So if you look at the first half, there is a net closure of about 21 stores. We have closed gross of 37 and opened 16 new stores. In Q2, right now we have about 20, 25 stores. which are under discussion for a possible closure. Now a lot of these closures will depend upon whether we are able to get proper concessions or not in terms of rental. So that number but should hover about 20, 25. We already have some 7, 8 stores in pipeline to open. So another net of 16, 17 as of now looks like closures. Having said that, see if the Q3 trajectory of offline sales keep building on, we might actually start looking up at opening more stores in Q4, so then that number could be slightly higher, as the end number. Otherwise, with this 21 net reduction, we should expect another 12, 15 odd stores in H2 net closures. So about 35-odd for the year, 35, 40.

Garima Mishra: And addition of 8 to 10?

Anant Daga: No. So 21 we have done in first half, net closure in second half should be about say another 10 to 15 stores.

Garima Mishra: Okay. So net you are saying you can end the year with 35?

Anant Daga: Yes, maybe 10, 15, 18, some such number, yes. A lot will depend on how the rental negotiation goes.

Garima Mishra: Got it. Last question sorry, I have two more questions. One, dormancy provision is it possible to give us some number as to how much you wrote-off incrementally in the second quarter?

Anant Daga: So Garima, maybe we can have an offline discussion because there's a lot of understanding that will be required. But just to give you an idea, in overall absolute terms, the gross dormancy versus last year same quarter this quarter has been slightly higher, not materially higher. And on a lower sales base, the impact in terms of percentage terms have been more pronounced. So at gross dormancy levels, it would be about Rs.8 to Rs.10 crores for the two quarters last year and this year.

Garima Mishra: Okay. And lastly on your Wishful brand, what strategy are you looking at in the future build. As a brand, this is the one which has lost out on revenues more so than your other larger brands. So how do you think, are you going to push opening new stores for this brand or focus will be largely on W and Aurelia?

Anant Daga: So Garima, in fact, in the past also, we had said that opening exclusive stores for Wishful, given the limited product line and all, have not worked very well for us. So that's a pilot which we have left three quarters or four quarters back. Right now, the focus is on building this range in W stores and that we are continuing. So in fact, last 6 months unfortunately because of the lockdown and the kind of stuff people were buying, with very limited occasion, obviously was not very conducive for Wishful. Right now, in the festive run-up, we are seeing good traction for Wishful. Going forward, we would be looking for additional consumer hook, so we are also exploring some kind of designer collaboration and all those stuffs, but it's too early to say. But, Wishful historically has been a good traction story, while stand-alone EBOs have not worked very well for us. It contributes especially in the festive season significantly to W range. So that's what we'll be building on continually. And right now in the festive run-up, we are seeing a good traction in Wishful.

Moderator: Thank you. The next question is from the line of Susmit Patodia from Motilal Oswal AMC. Please go ahead.

Susmit Patodia: So a couple of questions. One, you've said that your October sales are back to 70% and you're cash breakeven. So is it fair to assume that going forward on a quarterly run rate of Rs.200 crores TCNS will breakeven cash?

Anant Daga: So Susmit, how things are again see, I hate to build caveats. But in these uncertain times, there has to be caveats, right. So the festive, the October and the November run-up has been very encouraging. We'll have to see how the post-festive demand holds up, what kind of end of season sales, what kind of promotions market come back with. Even in the last call, I was very confident that market won't go on aggressive discounting, but unfortunately, I was proven wrong. And market went on discounting, there were promotions till September, so slightly difficult to comment. But if this trajectory continues, you'll see things in the positive trajectory. Cash flow, we believe irrespective of this because of our internal initiatives on inventory should be in positive for sure. P&L we should strongly build on Q2. How close or how far above breakeven we are it will depend on these situations and all.

Susmit Patodia: Right. And Anant, second question is online B2C, if you can give us some color on how the margins are there versus other channels. How are the return issues, especially when you're doing B2C. Any details on that will be helpful?

Anant Daga: So you're saying B2C part only of online or you're talking about entire online?

Susmit Patodia: So margins were entire online and in B2C, is return management a big issue that we normally hear?

Susmit Patodia: Okay. So first of all see, when we talk about and it's a very good question you asked because that has an impact on all lines of our results. If you look at the entire online space, we are currently working on three models. So first is B2B, which is outright billing to our large partners like Myntra's and Flipkart's of the world. Second, we are working on our marketplace model where the inventory is exposed on those sites and its stocked with us. And third is our own brand.com. So the way sales and costs are accounted for is very different. For example, B2B billings, since all the cost is above MSP line, obviously it's a low gross margin business. But since it doesn't have rent, it doesn't have employee cost, et cetera on the whole, it works out fine. For brand.com, most of the selling expenses sits in the selling expenses area with discounts and all being over MSP. So it's a reasonable gross margin business, but as overall, at the profit level, again, it's fine. So if you look at these models, while it can have a negative impact, B2B especially on the gross margin at an overall level, it sits somewhere in between the profitability curve. So it is more profitable for us than a channel like LFS. And obviously, it's more profitable than MBO and an own EBO channel. So that's where it fits in between the range at the bottom line level. Does that answer your question, sorry?

Susmit Patodia: Yes. Just one more thing, in this D2C, direct-to-consumer model where you are the marketplace and we are managing it through. How is the, is returns a big problem because that requires a very different supply chain, how are you managing that?

Anant Daga: Sorry, I missed that. Yes, so see returns is a part of life in online business and 20% to 30% returns is very common in the industry. But we have all set the systems. So we have logistics partner, warehousing partners who are seamlessly being able to manage this. In fact, if you look at our operations, we are certified as highest service providers from Amazon and Flipkart group with their certification program. So we are frankly doing pretty okay on that. But you are right. These are some of the nuances of online business, and we will continue to have to improve on that.

Susmit Patodia: So when you say EBITDA margins of online is in between let's say in B2B, it's adjusted for returns?

Anant Daga: Yes, it's obviously, it's on net sales.

Susmit Patodia: Okay, got it. And the other question, the other question that I had was, when you're trying to become a direct-to-consumer brand, things like Instagram are quite important, right and in that TCNS ranks much lower than Anita Dongre, obviously but lower than Biba also which was quite a surprise to me. And if the millennial is moving towards that has influence addition making influencing, how are you thinking about that medium?

Anant Daga: So Susmit see, there are a few areas, and we take your feedback wholeheartedly. In fact, this is now going forward one of the biggest areas for us to work on. If you look at our brand.com site also, we are trying to build new engagement tool. If you look at Insta, we are looking up the team capability we are getting in better partners with us to build this whole to shout in a much better and aspirational manner. So we are taking some steps and this is a priority area and probably, hopefully you will see a lot of significant adverse movement going forward.

Susmit Patodia: And lastly Anant, M&A is how are the valuations coming down, are there more proposals on your table?

Anant Daga: So, there are definitely proposals on the table, but frankly nothing very exciting. And in terms of valuations also, honestly last 6 months the focus has been much more on managing cash, on managing the situation, on incubating our own stuff. So we have not done justice to this aspect of the business at all in the last 6 months. With next 3 months cash getting back positive and business getting back on track, probably we'll take closer look to those stuffs which are on the table. Let me put it this way.

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

Nihal Jham: Anant I'm sorry, I missed some part of the opening remark. And on the discounting you said that the discounting increased in September. So just on the gross margin side, which is still to recover, first, I wanted your thoughts that is there an element as you were describing of the online business metrics that, that has contributed to potentially the margins being a little on the lower range. And going forward, do you expect it to come back to the earlier trajectory that you were doing before COVID hit us?

Anant Daga: So see in gross margin, like in Q1 there are two biggest factors. First is, of course this channel mix and B2B online is a big share right now and on gross margin level it's a lower gross margin business. Now again, I want to reiterate at the final contribution level, it doesn't do very badly compared to other channels because, of course they are nothing like rents and salaries and all those expenses sitting here. But yes, there is a major impact on gross margin. So bulk of it is because of that. Second, the other big margin like in Q1 is the dormancy provision percentage. While absolute number it has not changed much, but on a 45% sales base obviously that gets pronounced. And to some extent, to a lower degree the third impact has been of discounting which is in September also. Now again, it's not that season-on-season we have really exceeded the discounting, it's just that last year part was in June, part was July and mid-August, this time discounting started only in July, that also end July. So it extended till September. So it's a mix of these. Some of those discounts in terms of promotion also sits in selling expenses. Now coming to your question about long-term trajectory, see on cost side we are very comfortable. As business gets back to normalcy and some level of channel firmness comes back, you should see gross margin continuously recovering. Now from a long-term perspective, as you all know even the push from the company has been to increase share of online sales. There could be marginal readjustment to gross margin, but again that should not impact the bottom line per se very negatively. But more or less, it should get back to pre-

COVID level. So we don't see challenge from a long-term perspective. While for Q3 and Q4, because of these reasons, there would be some deviation from the long-term trajectory.

Nihal Jham: That's helpful. Anant, on the e-commerce part, is it possible for you to share what was the growth specifically in e-commerce in this quarter, it would be helpful.

Anant Daga: For this quarter, Q2?

Nihal Jham: Q2, yes.

Anant Daga: Q2, we had tracked about on a quarterly basis at 1.5x, round about that. We can get back with the exact number later, it was 1.5x, about that.

Nihal Jham: I will check that later on. And last question from my side that, I would assume that the inventory which was at the end of 20 was obviously the highest inventory, and we've seen it across retailers that there has been a fall across players. In our case, the inventory is flat despite clocking, say, around Rs.160 crores of sales in H1. So just wanted to understand on that.

Anant Daga: So Nihal, even in the last past infection, we had indicated that inventories will only come down in Q3 and majorly in Q4. See, I can't comment on other companies, but what we have done is, we've not blindly shifted everything to monsoon festive from spring, summer 20. So we have bought selectively stuff for winter, for monsoon, small capsules. We also launched some forever classics and timeline classics kind of capsules in the stores. A significant part of carry forward inventory, especially in terms of fabric, which we were supposed to launch in SS20, has now been moved to SS21. And similarly, my first drop of nonspecific casual stuff of monsoon festive 20 has also moved to SS21. So with SS21 launch you should see significant reduction in inventory. My understanding is more or less, if you look at March 31st number, coming March 31st, you would probably find the down stocking inventory in-line or better than the broader market. But it's just the way we have faced our purchases. We were very clear in first half, it won't happen.

Nihal Jham: Understood. Last question from my side, you did mention that there was an impact of airport stores, which has obviously had an impact. If in October, you exclude your airport store portfolio, ideally what is the recovery like at?

Anant Daga: So airport stores now contribute to about 5%, 6% of our EBO sales, and airport recovery rate has been less than 15%. So vis-à-vis other recovery it has been very weak. Second, I just want to clarify when we say October was 70%, it was online, offline put together. Yes, festive run-up over last two weeks have been +70% even in offline sales, but October is at the company level.

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

Manish Poddar: Just had couple of questions. So, first one was when you closed on these 15 odd stores, what is the cost you incur for closure of the stores and where is it accounted?

Venkatesh Tarakkad: Okay. So it varies on an average. Typically, when we close a store, when we have to write, what happens is, we will have two types of assets there. One is the leasehold increments and one is the movable assets. If it is a movable asset, we are able to sell that and go ahead. Then the balance is a leasehold improvement, in a typical store say maybe we might have Rs.7, Rs.8 lakhs we'll have to write-off per store. If it is depending on the type of store and location, that might increase or reduce. So, if it's an airport store, slightly higher, if it is in a smaller store, it's slightly lower.

Manish Poddar: When I come across is, if I look at your depreciation and amortization it's roughly Rs.22 crores versus Rs.25 crores in the previous quarter. So where is this has been accounted. So, this 1 million of odd amount, let's say, for 20 stores, roughly Rs.2 crores?

Venkatesh Tarakkad: So what we have also done is, we have also done accelerated depreciation for stores where there might be a stress due to the impairment working. So what we have done with the auditors is in our case, even when we close our stores, the stock is ours. So we don't get that loss back. So the only loss will be in terms of the CAPEX. So we've done some accelerated depreciation also. That's why you see a higher depreciation.

Manish Poddar: Actually, the depreciation is lower on a Q-o-Q basis.

Venkatesh Tarakkad: That is because we had done in the previous year, it would then depend on quarter-to-quarter what is happening. There is one technical effect we should also know, which is also impacting our other expenses. Typically, what happens is our ERP for example would be only in the depreciation earlier it was a big amount. Now it is shifted to other expenses. So there is a combination of these numbers.

Manish Poddar: Okay. Anant, just any idea of how big is the online market for ethnic wear?

Anant Daga: I'm sorry. No, I'll be shooting off from my head right now, but we can obviously get some information and share with you.

Manish Poddar: Okay. Where I'm coming across is would your market share in online ethnic wear be similar or lower to what market share we would be having in, let's say any large format store any idea on that, sir?

Anant Daga: See, honestly, first of all what do we call this market. In online and offline, there is a particular set. So for example, when we talk even about offline, we look at all these large format guys and all we don't actually take into account all the unorganized market also. So, that comparison might become slightly difficult. My sense is online has a very, very long tail. To compare it to an LFS, obviously there the shares would be lower. Offline has limited space and most of the account you have 4, 5, 6 external brands and then the private label. So there the share would be higher. What we know is amongst all our peer brands that we track, our online-offline shares we lead the category in terms of absolute sales almost on all accounts barring one or two and last 4 months, 5 months, 6 months recovery also for us has been superior to others. But we can get more data. See, there is no syndicate data. So a lot of these we have to take with a pinch of salt on it.

Manish Poddar: Actually, Anant, what I'm coming because I thought it would be contrary because given your brand recall, your market share in online and customers would be flipping out two or three pages. So your market share there should have been higher than your offline because in offline customers would can try across a new brand. Whereas in online, because of the brand recall your share should have been higher. But, I'll get in touch offline just to get more insights of things.

Anant Daga: See, the only thing is online, that's what I was saying. Online has so many players across price points, across product categories, it becomes very difficult. So if you take major brands, our share is good. But, I thought your question is like overall brands, so there are like 100 and 1000 of people selling Rs.200 kurti, Rs.300 kurti, it becomes very difficult that way to compare. So what we track is amongst the top national brands and key online private labels and offline private labels, there we fare well.

Manish Poddar: Just one thing, if I can ask one more?

Anant Daga: Yes, please.

Manish Poddar: Yes. So let's say, on the same topic there, do these marketplaces or B2B partners, do they share data of let's say either on customers or either on the syndicated market share data in that per se to the brand?

Anant Daga: So there are some surveys, for example we get from one of the large format account ranking of brand performance. So that comes on a monthly basis. Even if you look at this is on the internet also, I believe, if you look at the Myntra and the business sales, they said that W was one of the best performing across the platform. And this is, so these kind of data's we keep getting. Like maybe we don't get exactly the brand information, which obviously, at the counter level we get and we keep tracking. So, we will keep tracking it, but unfortunately that is something that we track in an informal method, and I don't think we should, we can't share that with 100% confident. But there are accounts who give ranking report, who give relative performance to the category. So that we have.

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

Varun Singh: Most of my question has been answered. Just a couple of questions on channel. So if we look at even pre-COVID, EBO revenue growth has been on a negative trajectory for EBO, which used to contribute close to 50% earlier for us. So both EBO and even in case of MBO channels, there has been huge restructuring in terms of number of store closures that we have observed over last now close to 5 to 6 quarters. So last 6, 7 quarters, decline in revenue from EBO channels as well as from MBO channels, so whereas large-format store that has performed relatively well. So any commentary, Anant on especially on EBO channel you would like to make, also on MBO?

Venkatesh Tarakkad: Yes. Varun, Venkatesh here. Sorry, let me allow me to take this question. Actually, maybe we should take this offline, because you are talking at 7, 8 quarters, this is an impact of the IndAS 115 accounting, because otherwise the ratio has been always between 42% to 44% in terms of share between EBO and LFS. Before prior to IndAS 115 accounting, EBO was 40%. So there might be some confusion there. So maybe we can take this offline and we can take you through that.

Varun Singh: Yes, sure. But also at the same time, if you look at store closure, even if you not account for revenue growth year-on-year, so store closure has been significantly more higher in EBO and MBO channel. So, I understand in past calls, you have illustrated that MBO it's a very, very long tail, and cutting down 400 stores may not significantly contribute to revenue. But still, we have hardly ever talked about store addition in MBO channels. In EBO channel, the rate of killing stores is much, much higher. So if you can make commentary over there, structurally how should we look at it?

Anant Daga: So detailed explanation over 8 quarters. Let me tell you my understanding of the situation. First of all, EBOs has not been growing at a slower pace than LFS. Yes, it's possible LFS those additions are higher because of couple of accounts. It's also not that all the LFS are growing at a opening stores at a very tremendous rate, but there are one or two large-format partners who have been very, very aggressive in last two years. So there, you see a greater store addition. Even if you look at our EBO addition over last 2 to 3 years, every year we've been able to add 35, 40, 45, 50 odd stores. It's only in this year, when we are closing a lot of these stores, because the outlets we are incurring high rentals. Now as we shut these stores, while your top line could drop slightly, in terms of profit it would be accretive because most of them were already either loss-making or on verge of barely breakeven. So, that is a perspective on EBO count and LFS count. Now coming to the trajectory on MBO. MBO, we started the rationalize exercise last year. Now I'm missing the exit quarter, but yes, Q2, Q3 saw major rationalization. Thankfully, we were close to our decent level of inventories in the market, and we had bided out all the smaller, long-tail MBO partners. Now what has happened is, unfortunately with COVID even with more rationalized inventory level, with lower sales the inventory levels in terms of months again looks high. So last 4, 5 months while we have not done any primary billing, we have continuously been down stocking that market and we believe that by Q4, that should be in a great position to again build up. So while your observation is right, our count has come down. We have been conservative, but that's a credit call. That's a call that we have taken. Hopefully, if things go well from Q4 onwards, you should see buildup and both in terms of number of outlets and in terms of sales. So that's how we have done. Honestly speaking, if you ask me, that was one of the best thing we did last year because otherwise there would have been a credit exposure. So there we are thankfully good right now. So hopefully, you should see traction on this and EBO, the growth has been more or less in line with LFS. It's not been lower, so maybe there's a different interpretation to numbers, Venkat would be happy to take you through.

Varun Singh: Sure, sir. Although, just wanted to understand in terms of cost of servicing. So cost of servicing to the long-tail smaller player MBOs would be much, much higher. I understand that in past you have highlighted that MBO will be most profitable compared to other channels. But do you think it is too much time consuming in terms of the profit that we are trying to extract from MBO channel compared to EBO and LFS. So it is kind of too much of activity that you have to do to chase growth into this channel.

Anant Daga: So see, every channel has their own launches. Out here, we don't serve very small retailers directly. So it's all through our distribution network. So most of the challenges and the transitions are done by distributors. But you are right. There is no point in servicing accounts with a negligible amount of buys. Someone who just buy say, 100 pieces of season and that gets away. So that rationalization also has happened, but that was the earlier line obviously. That is what happened last year. Right now, whatever little movement you are seeing is because of we have taken a credit call and we have said right now, it doesn't make sense. Maybe we can start after 6 months or a 9-month period.

Varun Singh: Okay, sure. And secondly sir on Aurelia girls that you have launched, just wanted to understand the strategic canvas that you are looking at, what would be our competitive strengthen compared to competition which is already there into this market. And both footwear and Aurelia girls that we have ventured into. Just wanted to understand your selling strategy. So where will we exactly placing this product, to all the places, all the channels or only to selective market and then scaling up?

Anant Daga: So, your question was about how we will be rolling out these initiatives, so in the initial period see as a company whenever we launch something new we do a very thorough piolet, at least for two seasons. So both these are now right now being tested in select EBOs. Next season onwards, we'll try to launch these in select MBO, select large format and select online partners as well. So over next two quarters, we'll see sorry, over next season we'll see how the response gets built across channels. And then in the long term, see all these have potential of being launched through all the channels that we are present in right now. Second, you spoke about competition. So, if you actually look at ethnic girls wear, there's not too much that's happening. In the organized sector, there are hardly two or three players who are doing a decent job of it. So we believe there's a huge gap. In fact, when we do our consumer surveys, this has really come up as a strong, strong category that our consumers are wanting from us. And then initial response again has been very, very encouraging. So, that is how we guys will keep building it over season-on-season. This season, it is all about EBO test. Second season would be select LFS and online along with EBOs and then we'll bid it full-fledged.

Varun Singh: Sir, I wanted to understand more from a competitive standpoint of view in terms of like, how are we designing the product strategy or pricing strategy, are we saying that our pricing will be lower or somewhat, what are the rights to win that we are trying to create into these two categories compared to the way we have done for W and Aurelia?

Anant Daga: So, one thing fundamentally that we all should know is that, none of our products, none of our brands, none of our categories, we compete on price. Our DNA is our understanding of apparel and adjacent categories, our understanding of Omni channel players and our understanding of this women consumer and her associate needs. So that is what are the rights to win. If you look at our product, I don't know whether you've got a chance to look at a physical sample of our footwear. We are not making footwear, which any international brand does or it's a different kind of footwear. In fact, we call it foot apparel because there are a lot of embroidered stuff and all those stuff. It's very unique, it goes very well with ethnic wear. So that is what we believe the unique promise of comfort and fashion. It's something that will bring our consumers to our footwear category. In terms of girls, the basic principles remain same of designing, of quality, of kind of looks. What we need to really work hard on and that's already working for us is the fits and getting the nuances into what sizes, what age group, what kind of sensibilities work, which we'll learn over a season or two. balance, the entire back-end, the know-how, the design inputs, we have in place.

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

Pavan Ahluwalia: My question is just on return on capital targets. So, I see what you're saying about possibly shutting down less profitable stores and maybe even give up a little bit on revenue to enhance profitability. Given that you will constantly have to make these trade-offs, whether you're launching a new line, you're opening a new store, you're pushing inventory somewhere, what are the hurdle IRRs and ROIC levels that you underwrite to, and that you forget what shareholders say that you internally would like to see this business deliver?

Anant Daga: See, again, I won't like to direct answer to a number or to a range. But if you look at our past performances, barring this year and some part of the last year, where we did a lot rationalizations, we have always had very healthy ROIC, which we believe is very sustainable. If our retail business is run well, cash always can be thrown in the business, throne of the business. So we think those kind of levels are sustainable, whenever we launch any new categories, in the short term of course it's an experimentation and pilots phaseis fine. But from a long-term perspective, we want to get in businesses only those businesses, which would be accretive to all these levels. So in the long term steady rate whatever business metrics we have today, the new categories should relate to that. So that's the broad thinking that we have.

Pavan Ahluwalia: Okay. And if you were to reflect on what went wrong, I'm not talking about COVID, but the year say pre-COVID, was it the fact that basically in a desire to chase growth you potentially pushed too hard on revenue, whereas in hindsight, and obviously, hindsight is always 2020, it may have been better to kind of preserve the ROIC and sacrifice on the growth?

Anant Daga: No. First of all see, last couple of years industry-wide has not been the best of the years. Of course, there have been one or two players who have really out shown there and all kudos to them. But overall, those were not very conducive year for most of the retail businesses. Second, let me tell you, as a company we are extremely cautious of maintaining the quality of growth. So as an organization, we have never in fact pushed growth at the expense of quality. So that's not something overall the MBO rationalization which did frankly which was detrimental to growth and sales number, but it added back to the quality of business. We have taken those steps, and those were specific reasons why our performance was probably 4, 5 percentage points of then what it could have been. So that's the case. But let me tell you one thing that as a business, we are extremely conscious of the kind of quality. And even in the worst of the periods, before COVID compared to broader markets we held on our gross margins and we actually sacrificed some sales because of that. So to answer your question, we are more focused on cash and the quality.

Moderator: Thank you. The next question is from the line of Yash Mandawewala from Mandawewala Family Office. Please go ahead.

Yash Mandawewala: My first question is on the receivables. So the receivables number seems to be maintained broadly at the absolute level of March despite much lower sales in the last 6 months. Any color you can give on the receivables, is there any stress there?

Anant Daga: So two things out here. First is most of the outright sales and all have happened in September only. So obviously, that's what makes the receivables hold slightly higher than what if supposed the entire quarter had distributed sales it would have looked like. Second, see there is definitely some slowdown in collection. So most of the guys have started operating only from July, August and we are seeing cash coming in from September, October. The good news is we are getting collections from almost all counters. Wherever we have an iota of doubt, it's all provided for. We've been very, very conservative on that, but I believe this festive sales looking good and probably this end of season sale, post January you should see some serious movement in debtors. But again, a lot will depend on the phasing of sales and hence what new debtors are created. But collections are stepping up, but a clear answer is yes, there's a slowdown. So obviously, cash is getting released by our customers, but not at a rate at which we would have ideally business would give.

Yash Mandawewala: How long do we think it will take for the receivable cycle to go back to normal?

Anant Daga: See, my sense is if things keep building the way it is, Q4 is the time when a lot of normalcy should come back.

Yash Mandawewala: Got it. My second question is on customer behavior in general. So are we seeing any major changes as compared to pre-COVID times in terms of order sizes and number of items per order and things like that?

Anant Daga: So let me just give you a broader answer first. See, typically what we are seeing is Tier-III, Tier-II customers are responding and recovering much faster. They are coming to the stores, they're shopping. Tier 1, especially people, especially places like Mumbai, Kolkata these are the places which are struggling. Second, what we have seen is consumers are much more willing to come to high streets than to malls and definitely not to airports. So that's the second thing. Third, in terms of ASPs, basket size transaction value, it's all holding up. So we have not seen any of these metrics fall for us over last 5, 6 months period. So there is any of them and fourth and thing was with the pandemic setting in, most of the people said that it's only the casual wear which will do well and all. Come festive and we are now seeing people just buying festive stuff. So, it's still occasion driven, still aspirational driven. So these are some of the learning's that we have had and of course, one very important insight is, there are a lot of customers who might have latent demand, but they are not coming to stores. So whatever initiatives we have taken in terms of B2C, like assisted video call selling or putting up the society shop-in-shops, all of them have got very good response. So these are a few of the observations that we have over the last few months.

Yash Mandawewala: Great, that's good to hear. My last question is on the online business. So, I was just going through some of the engagement and traffic data on our own brand websites. And it seems to be reasonably lower than that of our competition on almost all metrics. So what explains this very broadly are we weaker in attracting traffic to our own brand websites?

Anant Daga: So see, what happens unfortunately is all these numbers can be built overnight. It's about what kind of cost you are willing to pay to get what kind of traffic. Now if you look at the bottom line profitability, our sales have been increasing and our profits have been increasing. So we are very, very focused on building a profitable business. Unfortunately, when we look at all these data in the public domain, it's very difficult to say what kind of bottom line are you making. So for example, we have a lot of online players who are burning cash and they are getting much better metrics. But finally, it's just not about top line, because for top line we also have other partners Myntra, Flipkart. So, if we look at the profitability, we would be second to none. Yes, the cognizance of the fact that how much money we want to burn, what is the customer acquisition cost that we want to put in. It's very similar to the initial days when people used to come and say, you have these many followers on Facebook. And then people realize those followers meant nothing. What mattered was engagement and what mattered was final impact. So, in terms of sale we are still ahead this is my understanding. Even on all third-party sites, we continue to lead in our peer set. But yes, individually these metrics, different businesses look at it differently.

Yash Mandawewala: Got it. And on the third-party website, any indication you can give what would be the average discount on sales that are sold through these third-party websites versus offline sales?

Anant Daga: See, their final discounting is always not shared with us, but typically, average discounts could depending upon the season and depending upon the period could vary anywhere northward of 40%. So it would be some range thereon.

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

Ankit Kedia: Sir, just a couple of questions. First is on the MBO channel. Is there a particular reason we have stopped selling inventory to the MBO channel, is the inventory in the channel very high and by what time do you think the inventory getting normalized level when we can start primary sales?

Anant Daga: See, first of all, MBO channel, we did a lot of rationalization last year. And by January, this is what we have also communicated. We have got over with almost 90% of rationalization. Now when we talk about rationalization and inventory level, it's for a particular level of sales. Now post COVID, when the recovery rate itself, overall over a 6 month period has been 30%, 35% on a cumulative basis, even what you kept as a regular time inventory starts looking like more than 2.5 times. Now as companies, we believe that the best solution is to liquidate those inventories rather than billing new ones, so that when you know the spring/summer season comes you will be in a much better position, and that's what the focus has been. So while we have not built anything fresh, which we'll be building some extent in Q3 and all for winters, first 6 months, we had enough of everything to sell and the stores were just opening. Now by building more inventory, you would only increase the credit exposure. So there is no point on that, the market has been down stock subsequently and by Q4 my hunch is by Q4, this channel would be again back on its feet. But till that time, we would give priority to credit exposure and limit this and just focus on down stocking there. Now with sales coming back, you could see probably a very strong recovery in this next year.

Ankit Kedia: And sir, my second question is on your inventory. Twice you alluded that we have fabric sitting on our inventory, but if I look at last three years annual reports, we don't have more than Rs.27 crores of fabric on our books. So if you can just talk something on do we buy the full fabric and then give it to the vendors. How is the procurement done compared to other players and if I exclude that, still the inventory seems very high. So by when do you think it can normalize?

Venkatesh Tarakkad: Ankit, let me first clarify on the numbers. Actually, you will see both RM and WIP. WIP is basically fabric. If we put both of them, they are normally in the Rs.80 to Rs.90 crores range, which is about 28% to 30% of the total inventory level. So only 70% is on the FG part. Regarding the FG level, Anant would explain?

Anant Daga: So Ankit, while this point is clarified, if you look at FG, this is what we said. A lot of SS20 carry forward inventory is right now sitting in the books, which will be launched only in SS21, which will be January onwards. So by Q4, we see a meaningful reduction coming in, and hopefully that number should bring us closer to right now before COVID on a standard term it was about 120 days. It should get it down at least by 10, 12 days, if not more. So our attempt is we always said that our inventory should move in 100, 120 days range. Our trend would be to bring it closer to 100 over time. But right now, we feel extremely confident that, in Q4 you will definitely see a good positive trajectory on this

Ankit Kedia: So do you mean to say we have taken the inventory from the contract manufacturer and kept it on our books, because most of the other players are doing is the inventory is still on the contract manufacturers books and not on the retailers books.

Anant Daga: So Ankit, you are right. So we have honored all our commitment. We have taken most of the buying. And anyway, fabric was there to be with us before we could send it for WIP and garmenting. We would have also taken all the stocks in which were getting manufactured by the vendors. So that's the process that we have carried out. In fact, we have also manufactured a lot of winter stuff and monsoon festival appropriate capsules because we see that market will see a gap there and that's a chance to build bigger portfolios with our partners. So we have done all this. You're right.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we will take that as the last question. I would now like to hand the conference over to the management for closing comments.

Anant Daga: 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. Wishing you all a very Happy Diwali and a good year ahead. Have a nice evening, take care and stay safe. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of TCNS Clothing Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.