"TCNS Clothing Company Limited Q1 FY-22 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the TCNS Clothing Company Limited Q1 FY22 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risk and uncertainties that are difficult to predict.

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I now hand the conference over to Mr. Anant Daga, Managing Director. Thank you and over to you Mr. Daga.

Anant Daga: Thank you so much. Good evening and welcome to our Q1 FY22 Earnings Conference Call to discuss operational and financial performance for the quarter. I am joined by Amit our CFO and SGA our Investor Relations Advisors. First of all, I hope you and your near ones are safe and healthy. While the number of cases has sharply declined, we must keep up the guard and continue to remain disciplined and take all necessary steps to contain the pandemic. While Amit will share detail financials, let me share some key highlights of Q1. Our perspective on the emerging situation and progress on key focus areas for FY22 as shared in the last call.

It's happening that in Q1 despite being a severely impacted quarter, it saw an all-round sharper sustained recovery vis-à-vis last year Q1. Overall, the Q1 revenue grew to almost 3x compared to same quarter last year though on a lower base but with both online and offline showing strong traction. What's encouraging about this growth is that it's more evenly spread out across Tiers of cities and types of stores. Overall, in offline Q1 saw operational days of close to 48%. And for these operational days the recovery was about 44% against pre-COVID levels. Our online business continues to see robust growth on a significant base that we have already achieved. Our online business more than doubled in Q1 with both own website and third-party marketplaces going similarly. A key milestone this quarter is that our D2C contributed more than half of the revenue for the first time on secondary sales basis. As on date most of the network is operational and the sales traction in the last couple of weeks have been extremely encouraging being around two-third of pre-COVID numbers for like-to-like operational days. Though we continue to see disruptions across multiple markets from all closures to time and day restrictions, the momentum from Q1 continues to build further. The reduction of cases, gradual unlocking of the country and increase in vaccinated population; we expect a strong festive season ahead.

Now coming to key focus areas for FY22. The first area for us is growth of online business. As shared above the business continued to expand at a rapid pace while we have continued to build on avenues of future growth. One of the key objectives of the last quarter was launch of omni channel fulfillment model from our stores. It is now fully integrated live and stable. In addition to the website omni-channel capabilities launched last year now we are able to use EBO store inventory across multiple marketplaces including Myntra, Flipkart, Amazon. This is a key step towards our strategy of single view of inventory across all online channels. On the product side, we are now creating digital first products which will go live on our website and marketplaces in next couple of months. This should further add to the D2C business growth.

Second focus area this year is an accelerated store expansion plan and we are looking to add another (60+) stores this year. Our expansion program will be driven along two key initiatives. Project Rise which is upgrading our flagship stores and Project Bharat which is entering into Tier III-IV markets through franchisee route. I am happy to share that we have already signed (40+) stores to be opened in the coming months. I am particularly excited to share that we have signed (15+) stores for Project Rise at very attractive long-term leases. These would massively increase our brand presence and consumer experience across some of the most important retail markets across the country. Third focus area is cash conservation and cost control. Here again we have cash reserves of about Rs 140 crores compared to Rs 125 crores in the same period last year. On cost front we continue to engage with our landlord partners and a finalizing lease reduction for the year. The full impact of the same has not been considered in Q1 as many of the deals are in process of getting signed. From a full year perspective, we see at least 20% savings against our regular rent commitment and most of them will flow in the coming quarters. As we prepare for next level of growth, we continue to invest in people, processes and infrastructure and hence there will be limited savings on employees and overhead cost. On the focused area swifter thought to shelf, I am happy to share that we are making the targeted progress on all fronts. Our automated inventory management system Phase 1 has been implemented and now we are rolling out the planning and allocation functionality of the same. With regards to our initiative on consolidating our warehousing operations into a single warehouse; we have already consolidated all the finished goods warehouses and are on track to amalgamating fabric warehouse as well. The impact of this consolidation will be visible starting end of the year both in terms of costs and much more efficiencies. Other initiatives of express replenishment, incubation cell are also fully operational. Overall, quickly implementing our learning from the last year. We have mainly navigated the pandemic this year while embarking on investing in key levers for future growth. I will now request Amit to take you through key financial highlights for the quarter.

Amit Chand: Thanks, Anant. Good evening everyone. I will be giving you an update on our financial performance in Q1. Our Q1 revenue was Rs. 94 crores which is a growth of 189% over last year Q1. Our gross margin has improved by 500 basis points from 50.7% in Q1 last year to 55.8% this quarter. However, it continues to be significantly impacted because of skewed channel mix an impact of inventory dormancy on a lower sales base. With offline sales expected to recover in future, gross margins should gradually rise back to normalized levels. We have accounted for rent concessions of Rs. 3 crores under Ind-As 116 accounting in Q1. Many of the rent concession deals are in various stages of discussion and we expect 20% in saving in rent expense for the full year FY22. Employee cost and other expenses are in line with what we spend in a quarter. As Anant already mentioned we expect limited savings on these heads for the full year. The company incurred a loss of Rs. 20 crores at EBITDA level in Q1 vis-à-vis loss of the Rs. 26 crores in similar period last year. At PBT level the loss was Rs. 49 crores in Q1 versus Rs. 60 crores last year and at PAT level the loss was Rs. 36 crores in Q1 versus Rs. 45 crores last year. We need to look at these numbers in reference to the point that the rent savings accounted for in Q1 this year was only Rs. 3 crores versus Rs. 19.3 crores in Q1 of last year. As and when we conclude the rent concession deals, further rent savings would be accounted for in subsequent periods. During the quarter we opened seven new stores while we shut down nine stores. We continue to remain focused and committed to the accelerated store expansion plan and for the full year FY22 we expect to open (60+) new stores on a net basis. Our cash reserves as on date is Rs. 140 crores. This is in addition to the unutilized bank limits. Thank you. We are now open to questions. Since we are the only listed entity now 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-answer session. The first question is from the line of Manish Poddar from Nippon India.

Manish Poddar: First is, if you could probably help me understand how is now the demand environment is looking around given that the discount season has started. Just wanted to get some, if you could give some qualitative thing that will be helpful?

Anant Daga: Manish, as I just mentioned, we started End of season sales slightly late this year compared to FY20 and '21. It started only in third week of July. In the last 3 weeks what we are seeing in the operational stores a recovery close to 70% against pre-COVID levels. Now this is a kind of recovery last year we saw somewhere around October so the response is extremely encouraging and if I had to give you some qualitative inputs on that. We are seeing very interesting trends. One, after a long-time consumer is moving away strictly from a need-based shopping and there is a lot of impulse shopping which is happening. Second, we have never seen such high proportion of full price sales in an End of season sale which we have seen in the last 3 weeks. And third is very even kind of recovery so the malls recovery is also very encouraging which was missing last time. These are some of the top things that we are seeing right now and with constant vaccination and opening if God forbid there's no other major wave or something I think this is a precursor to a strong festive, this is what we see.

Manish Poddar: This 70% is like-to-like for those 3 weeks of discount which would have in FY20. Is that how it is?

Anant Daga: That's right, for the operational days.

Manish Poddar: This is for July versus July?

Anant Daga: No, this is July. This is a last 3 weeks of this year versus last 3 weeks. Probably third week July onwards, fourth week July onwards.

Manish Poddar: I am just trying to understand you have given you all End of season like to mention, End of season sales was earlier this year. Are you comparing the same End of season sale this year versus FY20 or you are comparing just July versus July '20?

Anant Daga: No, we said End of season sale started late this year, not early. And we started it say somewhere around 19th of July. So, I am giving you a number of 19th of July till say about yesterday versus the same period in FY20.

Manish Poddar: I believe in lot of the mall operators when they had given you the concession holidays, they had a clawback clause saying that in FY22 and '23 they will clawback some amount of rent in terms of let's say revenue share. Just wanted to understand when they had this clause did, they kept the hurdle as Rs. 100 sale itself or did they get the hurdle to let's say Rs. 80 sales. 100 is the normalized mandate?

Anant Daga: Manish, right now all kinds of deals have been negotiated. I don't want to speak out of turn out here but a lot of the clauses which malls have given are also not acceptable. Hence, we have not signed many of the deals yet. All kind of models from revenue share to clawback to long-term sales related, graded sales, slabs-based rentals all of that negotiated, depending upon their location and the business that brands and malls are doing. That's all variable.

Manish Poddar: Would it be right understanding if you had a rent concession holiday in FY21 some amount of that, I am not sure if that gets covered the operating leverage but some amount of that will get increased because of all this and let's say key properties would increase on a YOY basis, is that a fair understanding?

Anant Daga: It's not so prevalent, it's not that prevalent.

Moderator: The next question is from the line of Nihal Jham from Edelweiss.

Nihal Jham: First is, on the e-com side is definitely an impressive performance that we have seen a growth in over last year but only thing is that if I look at some of the other peers that I have some numbers available they have still managed to achieve what they did in the pre-COVID era or maybe close to the run rate that they were doing even till the fourth quarter of last year, that is say till 3 months back. I just wanted to understand that was it that it is the restrictions that maybe were there or some certain fulfillment issues because of this channel was not able to reach potential or anything else you may want to highlight?

Anant Daga: No. So, I really couldn't understand the question fully because I think even on year-on-year basis and all we have been growing at a very good rate and my understanding online we are performing as, our performance has been better barring couple of weeks in July that we didn't go on aggressive discounting. So, I don't know what number exactly you are comparing Nihal if you could help me with it.

Nihal Jham: If I look at online business, it is around I think approximately Rs 20 crores for this quarter and if I look at the same corresponding number even in say the Q1 of FY20 it was around Rs 34 crores. It is around 60% of the normalized level. If you have to say it and we were doing around 45-50 crores on a quarterly basis last year. So, my question was coming from that, was there a possibility that this e-com revenues could have been closer to the Rs 30 to Rs 40 crores range? E-com revenues could have been closer to the Rs 30 to Rs 40 crores range or is it that this is the best that could be achieved in the current situation given the restrictions?

Amit Chand: For the current quarter the share of online channels that we've also kind of mentioned in the presentation is 50%, so if our revenue is odd 93 crores 50% of that has come from online channel.

Anant Daga: We have grown well and this is despite the fact that for a few days there were ban on all non-essential item, so I think despite that we have been able to grow meaningfully well.

Nihal Jham: What I wanted to also check on was that when you speak of the Omni initiative that we are making an effort toward, ideally Anant how is it that will end up helping drive sales for the specially in terms of the fact you mentioned that now you will be able to deliver even via your stores that you have got that also empaneled, so just a sense of that.

Anant Daga: So, what happens is see lot of times consumers see lot of products online but you know especially in the fresh sales lot of the portals don't carry the entire inventory because their models still slightly more old seasoned merchandised. So, what it does is it doesn't expose the catalog only to the consumers. Now suppose if someone looks at Amazon site or a Myntra site and they like a product even if they don't have a stock my store can ship it. So, we don't lose on those sales at all, that's one. Second, what also we have seen is else the time to delivery reduces your returns rate also come down. So, wherever we have a localized inventory and we can reduce our time to delivery that also will help metrics in terms of sales. That's the second thing and third is overall the same inventory pool irrespective of the location can be used for multiple customers, multiple portals that's in a way enhancing its scalability. So, all this really helps in when you have a strong Omni roll out.

Nihal Jham: Just one last question from my side, currently of the 60 stores that we have planning to add what is the proportion you think where we franchise based and if I understand right out of the total store count of 550 approximately 30%-35% to be franchise is that the right number?

Anant Daga: Ye, so I'll give you a ballpark number but all this can change depending upon which final locations we are able to open. The idea right now is to have about 35% to 45% of franchise stores and balance owned stores.

Moderator: The next question is from the line of Varun Singh from IDBI Capital.

Varun Singh: On the online channel I think the previous participant has asked regarding, why we are not going as fast as compared to other companies. I can put that question in a more conduction form 50% of the Rs 93 crores is roughly odd Rs 47 crores revenue that we are enjoying from online channel and we reached the peak of the revenue from online close to Rs 55 crores and it is only in Q2 and Q3 of the last financial year. So, I mean from 55 crores during current quarter only Rs 47 crores it's a lower number, so if you can help us understand that during the lockdown period wherein ideally customer should be shopping more and even if I look at your Q1 FY20 numbers that it also closed to Rs 40 crores. So, reducing the seasonality I mean the quarter on quarter we still don't see a significant amount of growth compared to competition. So, if you can help us understand how do you think about online channels the number that you are clocking?

Anant Daga: So, two parts to your question. First is as I just explained to Nihal also this quarter even from online perspective was not operational for the full 90 days. There were restrictions in many of the pin codes for not delivering non-essentials and that is where you know some sales were lost. This I think is a phenomenon which everyone in the industry has faced. There were lots of pin codes especially in the month of later part of April and May wherein things were disrupted. Second coming to your point about growth rates see so growth rate is one that will also consider the base, at a base level probably say I'm not very sure which other players you are talking about but compared to wider industry I think our base is also far higher and stronger. So, we invested in this capability probably ahead of many of the other players. I think if you take that also into place. Online at least for the operational period we thought we saw very strong traction and good growth.

Varun Singh: My second question is on MBO channel, so this is a channel wherein we drive this scale this business up to a significant level and we were enjoying kind of Rs 40 crores of revenue historically, but that Rs 40 crores has now kind of vanished and now I mean in presentation I could not find relevant continuity of MBO it must have been clubbed with online and others because of over last 3-4 quarters it contributed hardly 0 to 3%. But how do you explain the kind of revenue that we were drawing earlier and why we are not able to revive this channel and how do you think about milking this channel going forward?

Anant Daga: I think this is something which we have discussed over the last few calls also but let me just reiterate, see MBO we started with a rationalization exercise wherein you know we change the business model, we change the approach to the business and if you look at it subsequently entire industry most of the players have rationalize this channel. Now when this COVID hit, COVID's Wave happened the most impacted channel was MBO and we didn't want to take aggressive credit call and hence we get simply down stop that channel. There were a lot of secondary sales happening but we were not booking any family sale. The billing against target this year the spring-summer where in Q4 you would see some built up. Having said that wave two hit and typically first quarter is not a very big MBO billing month or so because there is a seasonal billing, so for festive you should see some numbers coming back in Q2. From a long-term perspective I don't think MBO channel would hit the same run-rate that they were earlier because of this movement from unbranded to branded and unorganized to organize and this channel continues to be in stress right now, but you should see some good traction starting Q2 for the festive built-up. So, earlier MBO used to do probably 8% to 10 % of the business, we have earlier also mentioned probably this channel won't be at those levels this could be at 4%-5% levels, but at that level it will come back provided we get a good 6 months no disruption run-rate.

Varun Singh: Just one last question on store closure. So, on a net basis as we observe over the last four quarters, we have been closing constantly for example in Q1 FY21 we closed 8 stores then 13 and then 10 and this quarter on net basis we closed 2 stores. We don't see this much amount of store closure in case of other competition. So, how do explain these store closures and how as an analyst we should be getting confident in terms of store addition that we are doing going forward. I mean the 60 stores addition guidance that you have given if you can help us understand this store closure compared to competition that's all from my side.

Anant Daga: I don't know whom you're comparing us with as competition because as far as I know in my trade most of the guys have really curtain down the store count over last five quarters and I think it was a very-very logical thing to do because see we took a very aggressive step both in terms of what real estate you can get at what price now. Our stores typically are not the high CAPEX stores; unlike you know lot of the big boxes. So, our cost of shutting down the store and then opportunity gain that we didn't get from locking and better real estate at lower prices makes sense for us to go very aggressive on this. This is what we have been telling last year also. So, now we have just a rental store, there would be few closes 20-25 closes which will happen every year. Apart from that COVID wave two would make it another stores register, so those kinds of closes will continue in future on the confidence on new stores so as on date I can see they have already sent (40+) stores. By Q2 net addition you won't see very big number but from Q3 you should see a (20+) store addition every quarter, so all those are point all those are in pipeline and I think we will start to see the impact very soon.

Moderator: The next question is from the line of Jaspreet Valiya from New Mark Capital.

Jaspreet Valiya: In your presentation you mentioned that you will be introducing online first collection pretty soon. So, could you please explain that how would this collection be different from your usual collection? Are you trying to address different price points and different kinds of styles?

Anant Daga: That's a very nice question, see what happens is we are a mix and match brand wherein consumers come to stores, they look at various tops various bottoms and they mix and match and create looks. This is one thing which is killer slightly a challenging online and what we have seen is there is a consumer base which is one two by six maybe a two piece or three piece, so what we are doing is we are creating those on songs which are easier to pick because we don't have this big challenge in the stores we are not replicating the same thing out here.

But this is essentially what we are doing on online so some two pieces set some slightly more entry price point dresses and those kinds of stuff that we look at being a missing part in our collection offline this is not also required in offline but probably online could do more justice to the consumers that come.

Jaspreet Valiya: And how would the price points be different from your usual price points which you have at a physical retail?

Anant Daga: See it's a different product category essentially so like to like comparison won't be possible but yes, the prices could be in the range of (+/-10%). There's the kind of thing, we are not going down the line of a very low price point or anything like that. It's more about the product is constructed.

Jaspreet Valiya: As far as your omni-initiative is concerned so what's the status right now on the execution front, what has already been achieved and what is left and whatever is left by when will the full initiative be rolled out?

Anant Daga: We have rolled out an omni-initiative in close to odd 100 stores now. In the phase 1 we have that website our own website attached. Now we have three major partners also who are on board and next 6 months you'll find more and more marketplaces getting integrated into the Omni and the Omni store count also will increase from a 100 to probably odd 150-175 stores.

Jaspreet Valiya: When would all your stores be covered under this initiative or that is not required?

Anant Daga: All the stores are not required because every city or every geography not all the stores are required. So, we will be slightly selective because it's an initiative which is good to talk about but it takes a lot of effort on the ground. The staff training, the packaging and it's a very different thing to execute. So, I think we will cover all the major geographies with required number of stores but then tend to is not too allotted to 100% stores in near future.

Jaspreet Valiya: You said three major fashion portals have already been on boarded on your Omni initiative and six are left?

Anant Daga: No, I said few others are left so there are smaller marketplaces also and one or two major place those are left.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: I have two questions so assuming COVID impact to be restricted to FY22 only, by when do we expect returning to our per store revenue run rate?

Anant Daga: I think last year sales are building up if there's no major disruption this year itself you should see that coming back because it's been much better than last year and I believe post-festive if the momentum continues then probably, you're looking at even a smart pre COVID moving ahead pre COVID this year itself.

Devanshu Bansal: My question was you know can expansion into Tier-II, III, IV cities through franchisee route delay per store revenue recovery?

Anant Daga: See if you look at it, it's a two-pronged strategy, one, we have getting into Tier-III, Tier-IV whether revenues could be slightly lower per store but at the same time we are having our target is to have at least (30+) project price stores. Which are all the biggest markets, for example one of the leading malls in Mumbai or the leading high street in Delhi where we are all increase of stores by 2 times. So, I think that will more than compensate for you know lower probably stores in Tier-II or Tier-III for markets. If at all I think at least for this year it should increase once all these stores are rolled out.

Devanshu Bansal: Secondly larger players like ABFRL also have indicated aggressive plan with entry at similar price point and secondly the focus also remains on increasing share of private labels in their stores. I wanted to pick your thoughts on how are we guarding ourselves from these threats?

Anant Daga: See out there as we always say is Acme one of the most attractive spaces right now and the moment that we expect to see post this phase would excite all major players. So, we are not very surprised that many other players would also want to enter the segment. Private labels again as many as are rising on the street they have always been focusing on private label, but see brands play a role and private labels play a role. And this is what I always said unless you have a strategy of 100% private business typically, you'll have the strongest brands. That's whereas a brand irrespective of whoever is coming into the fray or adding to it you have to ensure that your brand pool you are differentiated product bouquet and your return metrics on the shop floor all works in your favor. I think we'll be investing in all these things and brand building and strengthening the product portfolio in the way we are reaching our consumers are backing efficiently so I think this is how the brand competes.

Moderator: The next question is from the line of Varun Singh from IDBI Capital.

Varun Singh: Just one book keeping question and other income there has been a significant decline. Currently it's only Rs 3 crores as compared to run-rate of Rs 17-18 crores that it was reflected in the book over the last 2-3 quarters. If you can give us some comment on why it has declined so significantly and what kind of number, we should expect going forward given we have more cash balances I was quite confused in terms of if we have some of the liquid funds then why other income has declined so much if you can help us with that?

Amit Chand: I will draw your attention to the note number 5A we have mentioned that last year for this quarter we recorded rental concessions under other income. That was to the tune of Rs 12 crores you know for first whatever rental concessions we got we adjusted it against the rental expenses for that quarter and we had disclosed under other income. So, if you remove the 12 crores from the last year's number so it was about Rs 4 crores against which this quarter we have recognized under other income. So, it is fairly comparable if you count it the rental concessions.

Moderator: The next question is from the line of Devanshu Bansal from Emkay Global.

Devanshu Bansal: This is question is for Elleven, so GoColors has been expanding by about a 100-150 stores per year in today's filing DRHP filings. Can we also see such a pace of expansion in this category once we achieve that desired unit metrics?

Anant Daga: See this is a category where expansion could be very fast because typically, they are like high street, local markets and malls and again the model is pretty standard. The product lines being very standard, and the store box is very standard. So, you are right once we have the proof of concept, once we have one season going the scale up could be meaningfully faster if everything works well then you can open 30-40-50 stores of this every year like only Elleven.

Devanshu Bansal: This 50 would be still lower than what we are opening?

Anant Daga: When you start scaling up from the pilot phase to the first scale-up I think you also need to take into account the kind of entire supply chain and entire coordinates. So, I was just mentioned to you this is the least a brand like this can have obviously the numbers could be far higher.

Devanshu Bansal: And do the store closures that we have been doing. Do they have a bias towards any of a company owned the franchisee owned the model or it is similar across both?

Anant Daga: No, it's not biased to with anything. It's a mix between the brands within the models.

Devanshu Bansal: Lastly just on a competitive positioning only peers be it on the men's wear side or on the women wear side have been raising capital to either fund losses or maybe to expand and several others have also filed DRHB like Manyavar, GoColors, so we being having a stronger balance sheet, so how do you see these competitive moves or we also there might arise a need as in we may also go for a capital raise to expand aggressively going ahead?

Anant Daga: We have a model which in normal time generate cash, so I don't think for rental expenses you need cash. Again, in terms of losses and all we have a strong balance-sheet we can sustain it. I think that worst is behind any which ways and even last year you were seeing despite the losses without any fundraise we've been able to deliver on a higher cash than what we started with. I think we have some long-term opportunity in working capital and we should be able to manage with that. The only time probably when we might need a fundraiser or something is it supposes that an inorganic opportunity, so that I can't comment on right now but for organic growth and lost funding I think we have well covered right now. We again we don't need to look at a fund raiser at this point of time.

Moderator: The next question is from the line of Raj Joshi from Ace Securities Limited.

Raj Joshi: The first question is on our rental part, are we still negotiating with our vendors for the rental cut down?

Anant Daga: Yes, there are lots of negotiations which are still happening. There are discussions which are going on.

Raj Joshi: As you have said in Maharashtra there are still malls has shut and the Maharashtra government has given the guidelines to open the mall, but the thing is that they have given the instruction that only both vaccine who has taken they can only go. How we are thinking about our current quarter in subsequent quarter will perform?

Anant Daga: There are two things when you specifically spoke about Maharashtra malls and second question is about overall performance is that are they related?

Raj Joshi: Both are related.

Anant Daga: See most of the country is being operational though are there have been weekend lockdown and timing restriction. I think Maharashtra malls were the last to open and you're absolutely right with such kind of conditions you know it's very difficult to do meaningful sales out there. We all in discussions with the various agencies to figure out how this can be made slightly easier and more favorable for consumers to come to the malls. Apart from some of these areas the restrictions are, in other places we have seen a much healthy recovery and especially last few months as I was mentioning, things are looking much more positive. So, we are very hopeful that if this trend continues and there's no significant third wave or something like that festive could be a very strong season see unlike many other categories which have gone through lockdown and then think pent up demand and then people have been able to come and shop and take that out. I think in the ethnic it is not happened yet. A lot of business and ethnic happens because of occasions just for last 1.5 years there's no opening up of that. I believe there is huge pent-up demand and as in when things open up, I think we'll get to what's necessary.

Moderator: The next question is from the line of Ankit Kedia from PhillipCapital.

Ankit Kedia: A couple of questions I have, first is on Nykaa Fashion, in 1 year or 2 years they have been able to garner around Rs 600-700 crores of GMV and I see we are also present on Nykaa Fashion. Could you just share your experience? How is Nykaa Fashion compared to Myntra as a marketplace model and is their business model similar to some of the others?

Anant Daga: Ankit, I won't be able to share too much granular data because it's also about the business model with these people, but we have also seen a very rapid scaling up in Nykaa. Having said that a Myntra based and Nykaa based are just not comparable. So, Myntra even out of very large base is still growing at a very attractive rate. So, I guess Nykaa right now higher growth rate is also because of very low base compared to Myntra but our experience so far has been very encouraging on Nykaa as well.

Ankit Kedia: My second question is on the gross margins, while this quarter gross margins have been the second best in last 4-5 quarters, do you think with the online share in increasing it is incrementally getting tough for us to go back to the old margins while I know in the past con-calls you have always said that you should look at EBITDA margins on online and not at gross margins because they would be lower. So, from our perspective should we look at declining gross margins compared to FY20 while the EBITDA margin would be similar? Would that be a good guesstimate for us?

Anant Daga: Ankit your understanding is bang on, with online because of the way structurally the costs are your gross margins will get slightly impacted. Now it will also depend upon what kind of share website has, what kind of share third party market places have, so all that will evolve. But yes historically we have been delivering X obviously with the channel increased share of online, it we come down slightly. And again at the PBT levels I think all this gets equated so probably that would be the best metrics if you ask me, taking into consideration all the below the line items cost items, so that should be a more fair comparison.

Ankit Kedia: Are you seeing the any change in the delivery cost for online with omni coming in now from more and more stores coming in, so are we seeing the unit economics for online moving steadily over the last 1-2 years or it's pretty much remains the same?

Anant Daga: We are seeing an improvement. If you look at our own website also I think all these parameters are improving because as I just mentioned with omni, the returns rate also drop and the moment return rates drop even at the same cost per delivery your delivery cost comes down. We are also seeing high number of repeat customers coming and much more repeat purchases happening. This has better ROI on our marketing inputs. So, we're definitely seeing an improvement in the profitability on the online channel side also.

Moderator: The next question is from the Rana Shivaji Mehta, an Individual Investor.

Shivaji Mehta: With competition heating up and a lot of listed players now announcing entry into the ethnic wear space and also some of the private equity backed unlisted players announcing plans to list in the next 1 to 2 years, do you feel that margins could be under pressure going ahead?

Anant Daga: The thing is if you asked me the one impact of this is discounting, you know how it manifesting discounting? If you ask me the peak, we have seen was last year. This year onwards there is some more rationalization in that. Having said that I don't think too many players are coming in the same area where we are. Competition definitely heating up much more in the online value segment which is where we don't play. There probably it is much sharper. The ranges where we play is about having a differentiated product at a slightly maximum premium pricing, out there is still very limited. And I guess whichever player comes in, given our supply chain standard, given our product cost to MRP metrices. I think we would be in advantageous position to my mind because scale and all also will help. So, while there could be some players coming and discounting and all is getting more serious but I think it will be restricted to some part of the business that's our feeling right now.

Shivaji Mehta: Makes sense. Final question from my side is basically on the yarn and the cotton prices which have been on a rise. So, what could be the impact of this in terms of the price hike that we may need to take going ahead, if they stay at these levels?

Anant Daga: That's a question that we grapple every day with and so far, because we do lot of job work of our fabrics and then we have been able to do some reverse engineering on our products. We have been able to mitigate the risk to a large extent for monsoon and festive season, next spring-summer '22 we are yet to place orders. I think because as a brand we use multiple fabrics and it's not that the yarn prices have increased across. We are still able to substitute a lot of fabrics with slightly more reasonable fabric. Some parts would be impacted, for that probably in those specific product categories we might have to take a slight price increase. So, that you will see when we are placing orders for spring-summer.

Moderator: Thank you. As there are no further questions, I will now hand the conference order Mr. Anant Daga 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 your queries. For any further information please do get in touch with us or SGA. Have a nice evening. Take care. Stay safe.

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