"TCNS Clothing Company Limited
Q3 FY2022 Earnings Conference Call"

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MANAGEMENT:	**MR. ANANT DAGA- MANAGING DIRECTOR – TCNS CLOTHING COMPANY LIMITED** **MR. AMIT CHAND – CHIEF FINANCIAL OFFICER - TCNS CLOTHING COMPANY LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the TCNS Clothing Company Limited, Q3 FY2022 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. The statements are not the 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, everyone and welcome to our Q3 FY2022 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.

I hope you and your near ones are safe and healthy, while the overall situation is improving it is important to keep up the guard. While Amit can share detailed financials, let me share some key highlights for Q3, our perspective on the emergency emerging situation and coverage on key focus areas defined for FY2022.

I am happy to share that we matched our highest ever sales quarter despite COVID-led disruptions towards the end of December. The offline channel bounced back strongly and online channel continues to grow well on a large base. Overall, Q3 revenues grew 37% sequentially versus Q2 and 38% year-on-year over Q3 FY2021. Q3 started with encouraging festive sales though with the onset of COVID, we saw a cautious stance by consumers towards the end of quarter. In Q3 the offline channel recovered to reach close to 90% levels against pre-COVID on a like-to-like basis. Q3 also saw MBO business getting back on track and we see it scale up from here on. In online, business continues to see robust growth on a significant base that we have already achieved. Our D2C business initiative contributed to more than half of the overall online revenues and our brand websites have grown faster to reach a contribution of high teens of the total online sales.

Now, coming to the key focus areas for FY2022. First focus area this year is store footprint expansion. As shared earlier, we got on an acceleration store expansion program starting Q3 and has added 18 net stores in the quarter. We are well on track to open 30 plus stores in Q4 to take our total tally beyond 600 for the first time.

Project Rise, which is our key priority, saw opening of 9 stores till the end of Q3 and another 10 stores are in pipeline to be opened in next couple of months. As I shared project Rise is a very exciting project for us and will massively increase our brand presence and consumer experience across some of the most important retail spaces across the country and will give a chance to do justice to all the new categories and brand extensions across markets. In Project Bharat which is our attempt to penetrate tier-4 towns and beyond, we have already opened five stores and we have another 15 in pipeline.

The second area for us is the growth of online business. We have a leading presence and a strong base in the channel and as I mentioned the business has continued to grow well across both website and third-party marketplaces. A key focus area for us has been building the D2C model and it has driven the growth of business to contribute to more than 50% of online sales this quarter as well.

Our brand website continues to grow ahead of third-party channels. The omnichannel fulfillments scaled strongly this quarter and are now contributing to more than 10% of sales for select channels. It was about 5% last quarter.

Third area is cash conservation and cost controls. Q3 was also a healthy cash accretive quarter for us, and our cash reserves are around Rs.180 Crores, ahead of pre-COVID levels. We set out an ambition of saving more than 20% against our rent cost for the year and we have already achieved the same. We continue to invest in building future growth engine through additional capabilities across people, processes, and infrastructure.

In the fourth area of swifter thought to shelf, we are happy to share that all the initiatives are on track. The integrated warehouse with capability to handle multi-category and multi-channel fulfillment is operational. Our automated replenishment system is also scaling up as planned. As communicated in the last call, we are geared up in spring-summer 2022 to build on the new brand and category initiatives.

In the new co-ordinates brand-Elleven we expect to end the year with 15 stores and extend the presence to 50 plus large format doors. Basis the learning in the pilot stage, we have been able to significantly strengthen the product portfolio and get a better product–customer connect. The same has been showing encouraging results across existing stores and large format doors.

In the footwear category, the footprint has expanded to around 150 exclusive brand outlets. As a category it is already contributing to high single digits of the store sales across the stores network and contributing to double-digit in many large size stores where the category has got full representation.

In the cosmetics category: pilot is under way, and we will have more to share in the coming season. We are excited to see how these initiatives are building up and are fully committed to a fast scale up over next few quarters. We will have much more to share by the end of spring-summer 2022 season.

I will now request Amit, to take you through key financial highlights for Q3 and nine-month FY2022. Thank you.

Amit Chand: Thanks, Anant. Good evening, everyone. I will be giving you an update on our financial performance in Q3. Our Q3 revenue was Rs.328 Crores which is a growth of 38% over last year Q3 and a growth of 37% over our Q2 revenues.

Our gross margin has improved sequentially to 67.8% which is a significant improvement over Q2 gross margin of 62.7% and last year Q3 gross margin of 61.1%. In Q3 we accounted for rent concessions of Rs.7.7 Crores under Ind-AS-116 accounting. With this we have so far accounted for Rs.27.8 Crores of rent savings in the current year and have delivered on our goal of 20% savings on annual rent bill.

Our spends on employee cost and other expenses reflect the investments that we have made in people, processes, and infrastructure. As we have mentioned earlier, we expect limited savings on these heads.

In Q3 the company generated a positive EBITDA of Rs.67.7 Crores vis-à-vis an EBITDA of Rs.43.4 Crores in Q3 of last year which is an increase of 56%. PBT for the quarter was Rs.35.3 Crores, an increase of 109% over last year’s Q3 PBT of Rs.16.9 Crores. PAT for the quarter was Rs.25.1 Crores which is an increase of 98% over last year’s Q3 PAT of Rs.12.7 Crores. During the quarter we opened 18 stores on a net basis taking our store count to 575 stores. The accelerated store expansion which we started in Q3 will continue in Q4 and given the pipeline of stores that are slated to open in Q4 we are confident of closing the year with over 600 stores.

I will be talking about nine month’s financial performance now. For nine-months ending December 31, 2021, our revenues were Rs.661 Crores versus Rs.414 Crores last year. EBITDA was Rs.92.4 Crores versus Rs.10.4 Crores last year. PBT was Rs.0.4 Crores versus a loss of Rs.81.6 Crores last year and PAT was Rs. 0.1 Crores versus a loss of Rs.60.3 Crores last year.

Our cash reserves, as on date is about Rs.180 Crores. This is an addition to the un-utilized bank limits. Thank you we are now open to questions. Since we are one of few listed entities in our segment, we might not be able to share granular details that could be competitive information and request your understanding of the same.

Moderator: Thank you very much. The first question is from the line of Nihal Jham from Edelweiss Securities. Please go ahead.

Nihal Jham: Good evening. This is Nihal Jham from Edelweiss. Thanks so much. Congratulations Anant and Amit on the strong performance. Three questions from my side. First is on this quarter. If you can just give a sense of how the discounting generally go on and when did we start our EOSS. Just to get a sense of other comments based on other than the recovery that you already mentioned about?

Anant Daga: Nihal typically we go on EOSS starting December 15, mid-December essentially and first shot it is not that full store is on discounts, so it is a kind of promotion that starts and typically by mid-February is when we close this. This year we started slightly late, and we are aiming to end it next week onwards.

Nihal Jham: That is helpful. The second thing, I noticed that if you look at our e-com run rate in terms of topline which has been around Rs.50 – Rs.55 Crores per quarter, would be right to say that this is now more or less the kind of sustained run rate that this business can achieve in this channel and it can grow organically, I do not want to take some of the new brands but at least for the co-brands as this W and Aurelia that for now at least this is something that is the set base and from here you see an organic growth on the topline, how are you internally looking at it or do you see a market potential from here also this to become much larger share?

Anant Daga: Nihal, I think as we have explained in the earlier calls also, probably one should look at YTD numbers because our online business is a mix is B2B and B2C. If you look at in nine-months, we believe on consumer sales we have been growing at upwards of high teen's kind of number, so while on primary basis this is what you see on secondary basis that is the kind of growth we have registered. Now, these bases are also not stable state bases. For example, last year online got a huge fillip because of offline struggling badly. So, I guess we have to take that with a pinch of salt. Going forward my sense is we will be able to register strong growth numbers and my guess at this of time would be that growth could be in excess of 20%.

Nihal Jham: Even from the current base on this channel?

Anant Daga: Yes.

Nihal Jham: Anant, I was asking on Elleven. It is the new business as you set up that currently we obviously, gradually expanding, but the understanding of this market that I have, and I could be wrong is that given it is more of utility product and there is less of a brand element, there is a potential for a new player to come in and disrupt the incumbent is much more possible than in any other categories if we have a good product in place. So, from that background, do we also have the long-term thoughts of getting very aggressive with this business and scaling it up significantly rather than the current run rate of store card. What is the way that you are looking at this business in three years from now?

Anant Daga: Sure, Nihal. You are right. It is a more of essentials business versus a fashion business. Having said that brand relevance is still strong in this segment, there are very few bottom wear brands so obviously the market can take more players. As far as we are concerned, we already have this portfolio existing, it is just that we never thought of it as a concentrated effort, now we have put that behind this and if you would recall during the COVID seasons we said we would go slow on these because the priorities were different but now with things coming back on track we have already got on slightly more aggressive zone wherein this year itself we should see the year closing with 15 odd stores and frankly if the pilot of stores goes well, adding 50-60 stores a year for Elleven should not be a challenge at all. So, our plans will also be very, very aggressive on this particular zone. In LFS, we are already seeing good traction there also you will see bigger expansion hopefully. My sense is if you look at 18 to 24-month trajectory these could be Rs.75 to Rs.100 Crores run rate businesses easily, Elleven.

Nihal Jham: It is helpful Anant. I will come back in the queue.

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

Varun Singh: Thank you very much. Congratulations Anant Sir for such a wonderful performance. Couple of questions from my side; first is on the emerging brands. Nihal has already asked couple of questions on Elleven, so my question to you on Elleven brand is, why are we going so slow in terms of penetration in different channels. For example, we are currently present only in 40 large format stores whereas our existing presence is more than 2000 and an extended question is how many large formats stores we think we will be able to enter over and above 2200 plus stores that we are already entered. So, first question why we are slow, and this question is relevant for both Elleven brand as well as footwear brand which is currently only in 150 EBO as opposed 600 EBOs that we wish to end this financial year with, so any comment over there Anant Sir?

Anant Daga: Varun, first of all I think we would have discussed in past also, as a company we believe in doing very solid pilots before doing a full scale roll out because it is very important to take cognizance of the kind of inventories and investment that would go in these. So, in Elleven, first couple of seasons after the launch market was really disrupted, so now as we get more confidence, we are trying to build it up further. Now, the question is whether we can get into many large format doors of course we can and can we accelerate EBO's beyond 40, 50 new EBO's a year, we can do and we feel much more confident now after doing a pilot and getting the product customer fit better. I think probably you know, next season onwards when we really see couple months for these 15 odd stores and 50 odd LFS doors you will see a very, very rapid scale up, I think scale up in this segment post a successful pilot will surprise all of you. It is that we want to put a very, very solid food ahead so, that is what Elleven stores. Coming to the question on 2000 LFS doors we are also quite selective about the partners that we want to expand with and while opportunity lies in getting into many more doors, I think the store economics probably there might not be very, very attractive. So, we are selectively moving ahead. We are already present in most of the large format chains that are there which can do justice to our brands and now possibly there barring few areas where one brand is present another is not present, I think it will be more derived by their own expansion plans. So, every year we have been adding 200, 300, 400 doors I think that will continue beyond that we will have to see.

Varun Singh: Sir that is very wonderful and second question is why only Rs.75 to Rs.100 Crores is the guidance that you are giving now for the bottom wear business given 2000 large format store we are already present and not even counting revenue from EBO's that we will be maintained so, why such a low guidance?

Anant Daga: Varun, Elleven is a different brand altogether. It will not get the space in all the LFS automatically. It has to be registered as a separate brand, get a separate space. Obviously, not all the accounts we can get overnight space.

Varun Singh: Thank you very much and just last one question is, I did not understand much about difference between project Rise and project Bharat. Project Bharat, I understand targeting rural hinterlands. Sir, if you can please help us understand that how our approach towards business is different when we are opening and EBO in project Bharat and please explain what do we mean by project Rise?

Anant Daga: Varun, I must say we should have explained slightly more in detail, these are diametrical opposite projects. So, project Bharat as you rightly understood it is about getting into tier-4, tier-5, small towns taking franchisee route, low investment model. It would be the first brand experience probably in these markets for the consumers from branded ethnic players wherein in project Rise what we realize is there is a big scope in most of the important markets of the country. So for example if you look at Mumbai it could be Colaba, it could Linking Road, it could be High Street Phoenix wherein our stores size were just about 800 to 100 square feet or even lesser than that. What we realize overtime as the brand portfolio increase not into just new categories in apparel itself, all these stores were hitting a ceiling wherein it was impossible to do more business from the same area, same space. So, that is where we are now upgrading our retail presence showcasing all our categories, building bigger apparel outlays also and that is what project Rise is all about. Having flagship stores, these would be typically now 2000 square feet plus stores which will be showcasing the brand W in full glory. More of these would be company owned and most of these would be in the bigger more important markets.

Varun Singh: What would be typical store size for project Bharat Sir?

Anant Daga: Project Bharat will be very flexible it would be anywhere between 500 to 1000 square feet depending upon the market, depending upon the right partner. Project Rise typically would be at least 1700-1800 square feet and could go up to 3000-4000 square feet.

Varun Singh: Understood, sir. Thank you very, very much. All the best.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global Financial Services. Please go ahead.

Devanshu Bansal: Congratulations on a strong set of numbers and thanks for taking my question. Sir, I wanted to understand how has been the recovery in the number of bill cuts over pre-COVID levels. This is to understand the full recovery potential upon complete unlocking at stores?

Anant Daga: Devanshu, our ATVs have increased only in a low single digit number, so bill cut would be slightly lower than the total recovery that you see.

Devanshu Bansal: Okay, and because footwear is also contributing about high single digit as you mentioned, I guess that should be combined within the same bills obviously, people would not be coming to purchase only footwear at your stores, so still ATV is still in low single digits?

Anant Daga: This is at the company level. When we talk about these new initiatives like footwear and all of course it is just starting. Overall that impact would be even 2%. So, 150 store roll out has just happened starting spring-summer, earlier footwear is in much lower number of stores. That is not really moving the needle so far. Probably from spring-summer 2022 onwards you will see impact of those coming in these parameters.

Devanshu Bansal: Understood, also I wanted to understand what is the quarter end inventory level, and if you can provide any comments related to the freshness of inventory again it would be helpful?

Amit Chand: Devanshu, this is Amit, without putting a specific number we have optimised further on our working capital across different line items as of December 31, 2021 when you compare it with the numbers that we had as of September 2021. This is obviously in the business that we are in, every quarter end is different, what I am stating to as of December 31, 2021. As we are on the subject, let me also mention that we have further improved on the quality of the inventory. We have earlier quoted that historically about 10% of the inventory used to be more than 3 season old, so we have done lot of work there as on date 6% of the inventory is what would be more than 3 season old. So, these is a significant progress on that front as well.

Devanshu Bansal: Sure, that is encouraging and lastly, I wanted to understand as in EBITDA margins despite very good recovery at per store level as well, has still below pre-COVID levels which we saw in FY2019 period, so when do you expect margins to recover to those levels?

Amit Chand: looking at the EBITDA levels post Ind-AS116, right?

Devanshu Bansal: So, post Ind-AS116 I guess FY2019 numbers were not available pre-IND AS we were doing about 15%, 16% sort of margins in FY2019, so my question is at what levels of recovery would be we touching those levels?

Amit Chand: Devanshu let me comment on the PBT, because post 116 that is the number that we track internally, so Q3 obviously has been a decent quarter with 10.8% PBT percentages. What we believe as we have historically earlier mentioned as well that when you look at profitability, they are different parts to it. Even the cost has gone up since FY2019 – FY2020, so we will need some kind of a commensurate growth to even go back to those kinds of levels. Additionally, we are investing into new initiatives and at this stage where we are in obviously, we are in an investment stage where cost across people, cost across other investment that we are doing sitting is in the P&L, but the benefit is something which will come once the pilot stage is over. So, we believe that it is possible for us to go back to the kind of profitability that we used to have at a channel level, obviously there may be some variance that may come in due to different channel dynamics but with some commensurate growth, with all the initiatives where we have made investment, going back to a level where they start generating revenue contribution, that is possible for us to go back to historical levels.

Devanshu Bansal: Got it, lastly one bookkeeping question, these five stores that we have opened under project Bharat these are for which brands?

Anant Daga: Most of them are Aurelia currently, but it will be a mix of W and Aurelia.

Devanshu Bansal: Sure, that is helpful. That is it from my end.

Moderator: Thank you. The next question is from the line of Jaspreet Walia from New Mark. Please go ahead.

Jaspreet Walia: Thanks for taking my questions. I am comparing your December 2021 numbers with December 2019, what I see is that the SG&A expense have gone up significantly while all other costs are down or flattish on a year-on-year basis, but your SG&A expense in December 2019 quarter was Rs.76 Crores as same level of sales which is now Rs.85 Crores. Can you elaborate the reasons why we are seeing such a trend?

Anant Daga: These kind of discrepancies or differences variation will keep coming quarter-on quarter, because what has happened is in the new accounting standards, the cost of sales gets divided between what comes above the line before net sales and what goes into selling and distribution. This quarter we had a higher D2C sales and own website sales and LFS. Basis that lot of these expenses come into selling and distribution otherwise there is no additional extra item that is there. It is a channel mix and within channel, customer mix.

Jaspreet Walia: Thanks. That is all from my side.

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

Vikas: Good evening, Sir. Thanks for the opportunity. My first question is with respect to our gross margins. What explains the rise of the gross margins given the fact that online segment also continues to grow even on a sequential basis, some comments there?

Anant Daga: Again, in online channel, we have three parts, B2B, B2C and website. B2C third party marketplaces and website sales. So, while B2B online is low on gross margin, in D2C and website the way accounting is done gross margins are higher. So, unfortunately again that mix. So, despite online growing since it is more driven by B2C and website in this quarter rather than B2B you are seeing that increase and some part of that is sitting in sales and distribution as an expense that you would find to be higher.

Anant Daga: Also, since we are on this gross margin topic, this quarter again because of better inventory management and aging improving, obviously the dormancy benefit also sits out here, so that is the reason.

Vikas: Second thing I was looking at recovery of the offline channels whereas comparing our EBO revenues and LFS revenues with that of Q3'20 revenues where if we compare the store count wise our EBO count has marginally declined but obviously the quality of the stores in terms of the higher throughput and higher profitability stores have increased and secondly on the LFS front also we have added almost around 300 plus LFS doors when you compare it with that of a Q3 FY20 levels. So, given this backdrop would you just comment in terms of why recovery was almost nearer to around 90% then why it was not probably higher than that, any factor that has played the role here?

Anant Daga: 90% is for like-to-like stores. Overall obviously, the recoveries are higher for offline. So, we were to comment on like-to-like. Between LFS and EBO, EBO recovery has been sharper. Does that answer your question?

Vikas: Yes. The last question Anant, with respect to our market would you comment with respect to how has the competition performed in this quarter and any comments with respect to market share gained or steady or anything market share loss, probably if any?

Anant Daga: I think in all our past interactions we have said unfortunately there is no syndicate data available.

Vikas: If you could comment for a top four to five branded players?

Anant Daga: I will share what information we have but the request is always do your own research because unfortunate this is what we get from ground. So, if you look at third quarter, I think between the brands we guys have in fact gained share marginally in offline. In the first fortnight October obviously, there was some operational challenges because of which we were probably lower, but we recovered more than our share by the end of the quarter. So, there we think we have done well. In terms of market performance overall, ethnic saw a sharp recovery compared to Q2 also but having said that obviously with occasion usage restriction even now, especially for ethnic which is like office being shut or large scale social events not happening, casual social events being lower, obviously this category is still lagging somewhat but catching up. So, that is the overall our interactions with our partners what we see of the brands that we track, this is what we see.

Vikas: Correct, and lastly any guidance with respect to stores addition for FY2023?

Anant Daga: We typically shy away from giving too much guidance but, we believe a number like upward of 25 to 30 per quarter for next few quarters is something that the minimum will be running for.

Vikas: All right, thank you. Thanks for answering.

Moderator: Thank you. The next question is from the line of Prolin Nandu from GMO. Please go ahead.

Prolin Nandu: Anant, just wanted to understand our learnings again in the last two years where we have used this crisis as an opportunity by closing some of the stores which are not profitable, this project Rise, project Bharat, saving on rental, adding more categories like footwear and accessories. Now, Q3 was as normal a quarter as we have seen in the past two years, what are some of the indicators that you are internally tracking to gauge the impact of all the changes that we have done in the past two years, and you may choose not to share the value of that indicator. But couple of indicators because what is happening is that, again as somebody asked the question on PBT you mentioned that there is a lot of investment which is going on that is the reason why PBT margins are not showing the true picture. So, what are some of the indicators that you are tracking to gauge what we have learned in the past two years?

Anant Daga: It is a fair question. Unfortunately, for all the initiatives which are long-term a three-month normalized period is not enough to throw the right indicators because some of the matrix that we want to track and there lot of effort has gone is full price sales. The other matrix is long-term discounting trends, third is online your own channels how they will build versus others, fourth is obviously improving rent to sales ratio, first effort sales ratio, I guess we need three-four normalized quarters to actually create a strong trend around it, but these are the areas where we have put in lot of efforts and whatever limited way, we have been able to test it out the results are very, very encouraging. But honestly, one quarter would be too less to comment on these long-term indicators.

Prolin Nandu: Just on data, how many stores have we closed since start of COVID?

Anant Daga: I think on a net level we would have closed almost 80 to 100 stores?

Prolin Nandu: 80 to 100 stores and basically now that we are back to where we started in terms of 575 stores, Q3 FY2020 we were at 586 so we have opened that many stores in some time. So, again not sharing the numbers I am not asking you to share the numbers but on these 100 new stores that we have opened whichever matrix again this thing that you have mentioned are there tracking significantly better than what were these stores doing or what was our average pre-COVID?

Anant Daga: In fact if you look at the kind of stores that we have opened, whether it is project Rise and all and it is all tracking better than pre-COVID matrix also and whatever new stores that we have opened, obviously the markets have been got the learning we have re-sized the stores, we got into better rentals which again over a longer time will show results. And again I would like to say something. As business model our payback period for stores are very fast and second our investments also are very limited. So, we were able to ruthlessly close all these stores and many of these same markets we have opened a new store at lower rentals.

Prolin Nandu: Got it. My point is that the idea of opening new stores, was it just to save rental or eventually we will see a higher throughput also?

Anant Daga: Obviously, we will see higher sales, because if the sales are not there what is the point in saving the rentals any which ways.

Prolin Nandu: Correct. Thanks a lot, Anant. Thank you.

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

Garima Mishra: Thank you so much for the opportunity. I have one question could you please clarify the amount of rental cost saving that has been booked in the third quarter and which line item does it really appear in?

Amit Chand: In the third quarter we have booked a total rent concession of Rs.7.7 Crores. This entire amount has been adjusted against the line item which is rental expense.

Garima Mishra: Okay, understood and Amit, on a sustainable going forward basis, I mean assuming these rental savings would end. So, one, cue would you have any rental savings that may continue and second also what is the sustainable level of rental expense that you expect. I know the rental line itself it seems three -four-line items thanks to IND AS sort of accounting. So, on a pure cash basis if you were to look at that percentage as a percentage of revenue where would that number be, is it like 12 to 14% somewhere in that ballpark?

Amit Chand: Let me answer the first question first. Garima, in Q4 we expect very marginal rent concession obviously with COVID wave-III, we still have to see how long the disruption continues, when do we start the rental negotiation on that front and obviously as what we have seen in this historical period that if the recovery is faster, sharper, typically we do not get rental concession but then obviously the advantages in terms of us going back to recovery in terms of sales sooner than later. But to answer question in simple terms, we expect very marginal rental savings in Q4 and going forward. Now, to answer your second question, if you remember our historical rent bill used to be about Rs.120-Rs.125- Rs.130 Crores historically. With the current expansion we expect to close the year with 600 stores which is in line what we used to have at the end of Q3 FY2020. So, similar kind of rental bill is what we will close the current year at. Now, depending on what kind of an expansion we finally plan for next year the number, in terms of the total rent spend, it will go upwards from the base of Rs.130 Crores odd.

Garima Mishra: Understood, Amit. Thank you so much.

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

Ankit Kedia: Just wanted to understand the price increase in the system while we are seeing 90% recovery compared to pre-COVID at the EBO levels. How much is led by volume growth and how much in last nine-month you have taken price increases for RM inflation?

Anant Daga: Hi! Ankit, you know in our business because we don't do much of core and there is a huge change season-on-season on whether we are selling sets or we are selling individual mix and match pieces, it is very difficult to track volumes and price obviously, because in one season if dial upon sets, and it gets counted as one piece rather than three piece and certainly our AUV would also increase. So, it would be very difficult for us to give an exact number. But given the current fabric prices increases and all, we will have to selectively take price increase which could be mid-single digit kind of number.

Ankit Kedia: In Aurelia given that the ASP would be below 1000 for at least 50 – 60% of the products given that the GST reversal came in on the last day. What were you thinking on the price increases for the GST, do you think the customer was ready for the 7% price increase or how are you looking at it internally?

Anant Daga: Frankly, Ankit, first in Aurelia not 50% is below 1000 but anyways with all the EOSS discounting and all, of course the numbers would come close to that. I think broader industry this thing comes along with the fabric price increases, the industry has to go for a price increase. So, it is a question about how much you want to pass to the consumers, how much you want to absorb that will depend upon what more you can do on cost savings at your end. For example, in our case we were upping job work content of fabric; we were also looking at alternate fabric. Thankfully for us unlike many other players our dependence is not only on cotton. So, we do many more fabrics wherein the price increase has been far lower than what we have seen in cotton. So, I think we would have still gotten away with a lower price increase given the relative pricing of brands, it should have been okay with the consumers.

Ankit Kedia: Sure, and sir my second question is on bottoms, while a lot has been talked about Elleven, I believe in few concalls back you said 18 to 20% of our sales, even in W and Aurelia, comes from bottom wear, is it possible that instead of branding those bottom wear as W and Aurelia we can brand then Elleven while they could still be sold in the SKD together or separately in those stores. So, from a brand perspective the customer knows the brand much more and when he going outside, we can relate and talk about it?

Anant Daga: I think Ankit, probably what you are referring to and which makes lot of sense is how can we leverage our existing brand to even populate Elleven more and that is what we have been trying, so even in the Elleven stores we communicate to the customers that it comes from the house of TCNS, we are also in the process of placing it in few Aurelia stores wherein there would be a shop-n-shop and Elleven gets promoted. But the idea is to keep it separately because when we do Elleven and when we do W or Aurelia lot of products are also different where sometimes W fit is different than Elleven so, there are those nuances also. We are also that we are looking at trying to promote through our Aurelia stores.

Ankit Kedia: Sir, my last question is on Wishful, we have seen a lot of M&A activity in last six months in the women ethnic space. Now what is the right to win in Wishful now given more consolidation has happened in the space now and more money towards mid to premium kind of segment?

Anant Daga: If you look at Wishful and you compare the pricing of Wishful compared to some of these designer names that are there, the product price value equation is very, very strong in wishful and what we are positioning it as is light festive. We are not saying it is heavy festive-wear. That is the space that Wishful is occupying wherein most of these other brands are not even operating at. The price points are far higher.

Ankit Kedia: Sure, that is helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Rohit Kadam from Entrust Family Office. Please go ahead.

Rohit Kadam: Anant, thanks for the opportunity. Couple of questions, first is on the comparative intensity and I am not kind of looking at the last three quarters, but if you just take a five-year view is it fair to say that competitive intensity has substantially picked up with a few large private level retailers now entering with their own ethnic wear, a brand trying to take them separately as EBO's, we also have a new men's ethnic player who has a women's brand also. While I understand that our brands are segmented differently at a micro-level but just as the same as the waters are getting a bit rough out there. So, strategically have we thought about how we will invest and preserve our brands as we capitalize on the broader ethnic tailwind going forward?

Anant Daga: If you look at and since you mentioned five-years, let me share that perspective. First, it is a very, very big market with very limited number of brands, when you compare any other segment of apparel and if you look men's formal, if you look casual, for the market size that they are they have multiple brands, so I would not be surprised if you see more brands coming in, it is a big market, very, very strong tailwinds. So, obviously this market can take many more brands. So that is number one. Again, I am not surprised that some of the big houses are getting into it because this is an area which is growing fast, it is a big base and obviously this is something here to stay. Now, if you look at last five years, can we really think of pan India brands that have come who have crossed the turnover of even Rs.100 Crores frankly I do not know of any. So, while there many labels, while there are regional players, while there are people online who are operating on price proposition, I have not seen many brands actually coming and making an impact on design or on product promise. So that is one. Second, private levels it is been mixed bag. So, at different point of time we see different private labels doing well but to win in the market you need to do consistently over a long period of time. That is one thing that is probably going forward we will see much more happening, there again when we talk about private labels, they are two kind of players, one who are 100% private label obviously we do not have role to play there and second is wherein there is mix of external brands and private labels and there frankly the only way to win the race and keep ahead is by investing in your brand having that consumer pull, offering a very, very differentiated bouquet of product and doing well on all the retail matrix and that as a brand what we have been concentrating on for last so many years and that is how we have to operate. Again, in these places there is always a long tail. So, if you are better performing external brand, you still get the benefit of that. So, that is how we look at the market evolving. Obviously more brands will come, we will have to do what we have done best, keep innovating, keep investing in the brand and if you look at some of the initiative which is like project Rise, which is signing Alia for Aurelia, all these are in those direction.

Rohit Kadam: That is helpful, Anant. My second question is if you could comment on how is the pilot on the BPC cosmetics category shaping up, any key learning's there, how is the traction there?

Anant Daga: We have just launched in 50 stores, it has been a very, very short time. Obviously, there are tons of learnings but if it is okay with you, I will just reserve my comment, let us just see that for another three months and probably we will come back. But all I can say we have got a good thumbs up on both selected online partner platform and our stores.

Rohit Kadam: That is helpful. Thank you so much. All the best.

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

Manish Poddar: I have two questions. One is probably if you explain what is happening on the omnichannel part despite literally the opening up and stores are now running at 100% that number still sticks. It is very healthy. It has actually moved up sequentially. So, is there anything which you all are doing at your end or is there anything at the customer end, just any sense on that?

Anant Daga: In fact, in the coming quarters, you will see this number moving significantly up further. We have already rolled out our omnichannel network to over 90% of our serviceable areas and we are adding one platform after the another on this network. The idea is to maximize from a fungible inventory and that is the road ahead. As more platforms comes, as more stores that enroll, you will only see these numbers going up from here.

Manish Poddar: It is largely a function of more mix stores in the network getting added not anything at the customer level in terms of trend.

Anant Daga: When more platforms get added and more inventories get visible to the consumers, obviously more consumers can shop from the omni experience. So, idea is to make more and more inventory fungible and get more and more customers avail that inventory.

Manish Poddar: Okay, and second one to the D2C cosmetics. Any sense let us say now you share online direct D2C brand what is really called success, let us say Rs.100 Crores sales in two years, one year one season. Now, what is called success, that any probably parallels which you can draw from other companies which are probably unlisted they would have gained size and scale in two years, three years. Just trying to understand if you really click, with both the backend and the frontend, how fast can you click things. That is what I am trying to understand?

Anant Daga: Manish, first of all, what we are trying to create is not essentially an online D2C cosmetics brand at all. So, for us cosmetics, our offline retails are going to play a very significant role. Secondly, when we are investing in business obviously, we keep an eye on how much money we are investing, what kind of cash flows would it take. Obviously, we are not in a business wherein we are going to burn lot and lot of cash and just get growth upfront. So, it is a strategy that we are following what we have followed for our other businesses. Obviously, now online being a big part of the total business, it will also play a bigger role in new categories.

Manish Poddar: But Anant, what I am trying to understand is there any parallel to any other brand let us say with the matrix saying which maintains the steady state gross margin as your economics. Is Rs.100 Crores in three year a good number or can that happen faster, just wanted to understand for a new brand?

Anant Daga: I guess once the pilot is successful with the kind of network, we have to achieve a Rs.75 to Rs.100 Crores run rate over 18 to 24 month should not be a very big challenge.

Manish Poddar: Okay, got it. Just a parallel, let us say footwear now, many have got into 150 EBO's from where we were about 18 months back. Is that been understanding that in the next 18 – 24 months it will in that similar run rate?

Anant Daga: Yes.

Manish Poddar: That is how one should look at. That is great. Thank you so much.

Moderator: Thank you. The next question is from the line of Pankaj Bobade an Individual Investor. Please go ahead.

Pankaj Bobade: Thanks for taking my question. I wanted to understand in last concall you mentioned about transforming into a platform company. What are the initiatives we are taking for the same? Are we going on the same lines as another listed company which is into cosmetics and now also getting into apparels?

Anant Daga: I am not sure which company you are alluring to but if my understanding is right that is a very different play. So, obviously from a consumer lens, apparel and cosmetics and accessories they all form part of fashion. So, there could be different routes, there could be different starting points, but if you want to become a head-to-toe wardrobe solutions brand, then obviously you have these categories. So, that is our journey and when we say platform it is a platform which will be an omni channel multi-brand, multi-category. That is the business model we focus on.

Pankaj Bobade: I want to understand if you are going if you are going to launch apps. Anything on that line?

Anant Daga: Those are individual initiatives which can form part later, but we are not going to be online first only in near future. It would be an omni channel model and most of our business comes from offline, so while the share of online will go up but it will still in-near future, will be more of a slightly higher offline mix.

Pankaj Bobade: I have another question wherein I would like to know whether we would be able to, since we are a domestic brand right now, are we going to plan our foray outside and whether we will be able to get some market share as India signs FPI agreement with new and other nations?

Anant Daga: We already have some international presence. We have stores in Sri Lanka, Mauritius, we have stores in Nepal, we have opened a store in Bangladesh. Unfortunately last 18, 24 months we have gone slightly slower on these initiatives, but we do have plans to get into newer markets, especially middle east and all. We are also exploring online launches in some of these markets. So, you will see more action on that in coming quarters.

Pankaj Bobade: Thank you, Sir. Last question, when do we expect our EBITDA margins to reach pre covid levels?

Anant Daga: I think Amit just mentioned about it, it will depend upon quite a few parameters. But once the channel mix gets stabilized, once the new initiative starts throwing relevant revenues and margins, we should be able to get closer to those levels.

Pankaj Bobade: Thank you. Thank you, very much and good luck.

Moderator: Thank you. The next question is from the line of Ameya Karambelkar from Kotak Investment Advisors. Please go ahead.

Ameya Karambelkar: Good evening, Sir. Thank you so much for the opportunity. From a more normalized and medium-term perspective, how should we think about our working capital. Your perspective on that would be helpful?

Anant Daga: Historically, our working capitals have been close to 115 to 120 days. With all the initiatives that we have taken during the COVID times, in terms of supply chain integration, automated replenishment systems and all, we believe we have a fair chance of bringing it down to 110 days level very, very quickly and there on, over next three to four years, the aim would be to bring it down closer to 100 days.

Ameya Karambelkar: Thanks Sir. That is very helpful. Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was the last question for today. I would now like to hand the conference over to Mr. Anant Daga, for closing comments.

Anant Daga: Thank you. Thanks everyone. We take this opportunity to thank you for joining the call. We hope we have been able to answer your queries, for any further information please get in touch with us or SGA. Have a nice evening take care, stay safe.

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