"TCNS Clothing Company Limited
Q3 FY2020 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to TCNS Clothing Company Limited Q3 FY2020 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anant Daga Managing Director of TCNS Clothing. Thank you and over to you Sir!

Anant Daga: Thank you. Good evening and welcome to our Q3 FY20 Earnings Conference Call to discuss financial and operational performance for the quarter. I am joined by Venkat our CFO and SGA our Investor Relations Advisors.

While Venkat will take you through quarterly performance, let me share an update on few key initiatives we have been working on. As we navigate through the short-term challenges in the current environment, we have been equally focused on strengthening our business fundamentals and creating long-term growth runways. We are happy to share that all our initiatives are on track and looks promising. Here is the quick update on the same.

We have spoken about launching our fourth brand, coordinates-wear brand. We are happy to announce the launch of our first store in Ahmedabad under the brand name Elleven. The brand promise is to be the ultimate destination for contemporary bottom and drape wear solutions for the modern Indian women. It has been less than 2 weeks since the store got opened and the initial response is extremely encouraging. We have signed four more stores, which are slated to open in the next couple of months. We see a huge potential in the market and given our product supply chain and retail experience, we look forward to rapidly scaling it up.

The next exciting opportunity that we talked about is footwear launch in W. We are all set to launch a 70 plus wide range starting 1st week of March. We have seen great traction with our jewellery business and given the affinity of our customers towards top to toe look solutions we believe footwear could be significant non-cannibalizing product category. This should help us drive store level efficiency and create stronger engagement with our customers.

Similarly, we will be launching our girls ethnic wear range in April. This category has seen strong consumer traction in the last couple of seasons and they have an active demand for the same from our existing customers. The range would be retailed through our Aurelia stores.

Building a strong Omni channel business has been one of the top priorities for us. We have invested in building capabilities for market place management, data sciences, and B2C operations and now have the complete team in place. We have also invested in creating, enabling infrastructure with B2C warehousing, CRM system and other IT platforms.

We are happy to share that our Omni channel endless-aisle solution has been rolled out to most of the stores across the country, which offers a single view of inventory to our consumer. This is already contributing to couple of percentage points in many stores and establishes a differentiating proposition to our consumers.

Along with this, we have also launched proactive inventory optimization using machine-learning algorithms. This minimizes stock outs of fast moving inventory in stores through system driven exchange of inventory from other stores and warehouses. This will maximize the sell-through of inventory present in any city by ensuring each piece of inventory moves to the store where it has the highest likelihood of sale.

On the online side, we have built marketplace direct-to-consumer capability to stay ahead of the fast evolving ecosystem in the space. We are now live with all our large online fashion marketplaces partners in the direct to consumer model. This capability has additionally enabled us to build partnership with newer marketplace like Tata CLiQ, Paytm, and Nykaa.

Our aim is to be best in class in technology front and will continue to invest in the same.

Finally, our low cost manufacturing base expansion is progressing well. We now have four operational facilities contributing to high teen's percentage of our entire production. We are further scaling up these units, which should help in more cost effective production and de-risking of geographic concentration of production base.

As stated earlier, we are committed to a long-term strategy and continue to invest in people, brands, and businesses.

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

Venkatesh Tarakkad: Thank Anant. Good evening everyone. Our Q3 revenue at Rs. 329 Crores was 10% higher than last year. We have clocked an SSSG of 2% on a base of 8% last year. As mentioned in the last quarterly call, we continued to rationalize our MBO network and as a result, we have seen a sharp decline in MBO revenues on account of one time stock corrections from discontinued or replaced distributors and dealers.

Our store expansion continues on track. Our EBO store count was 586 at the end of Q3 with net addition of 18 new EBOs this quarter. We also opened 115 LFS doors this quarter taking LFS store count to 1,889. Our MBO network now stands at 1,134 outlets.

Our gross margin in Q3 was at 67.8% versus 68.5% in previous year. The compression being mainly on account of channel mix. Our Q3 EBITDA was at Rs. 75 Crores versus last year Q3 EBITDA of Rs. 53 Crores. Adjusted for Ind-AS 116 impact our EBITDA in Q3 was at Rs. 48 Crores versus Rs. 53 Crores.

As Anant mentioned, we are investing in building teams and infrastructure for new initiatives that are in incubation stage. We are also in the process of upgrading our sampling and warehousing facility. All these would have some impact on employee cost and overheads in the short-term. There was also an increase in selling and distribution cost due to post Diwali consumer sales promotion.

Our Q3 PAT reported was Rs. 55 Crores versus Rs. 37 Crores last year. We have an exceptional one time favorable item of 24 Crores in our PAT this quarter arising from the refund from the assessment order being passed favoring us for assessment year 2018 that is financial year 2017. Adjusted for this past tax refund, normalizing tax rate for both years and the Ind AS 116 impact, our comparable PAT was Rs. 31 Crores this quarter versus Rs. 35 Crores last year. Thank you.

We are now open to question.

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

Nihal Jham: Thank you so much and good evening to the entire management. Anant I know you have mentioned about SSSG not being great driver for profitability, but just trying to understand how our stores are moving and if I also compare to SSSG of some of the peers, not necessarily in your space and more urban focus, they are seeing SSSG of close to double digit or high single digit, whereas for us it has been a little muted. So even in the backdrop of weak consumer sentiment they have somewhere been seeing decent SSG, so I just wanted to get a sense from you about how do you assess your performance in that backdrop?

Anant Daga: While we always tell SSSG is not only a metric, but definitely, it is a very, very important metric. So now, there are couple of things. One, despite low SSSG what we have been able to effectively do is also to control cost to a great extent. As we speak, for more than 20% of our own stores we have been able to renegotiate rents and we have been able to rationale staff cost. Those kinds of efforts go along when we say there is weak market sentiment and we need to do something about profitability. Part two, I am not very sure of which players you are referring to and for which category, so if you look at Q3 last year, our base was 8%. This year, there was an element of part festive in Q3 vis-à-vis last year same quarter full festive. Because of this reason, plus a more severe winter, the ethnic wear has not really grown, that is the feedback we have received from many large format stores.

Now, looking at SSSG, apart from whatever the market and seasonality factor, there is one particular aspect that has affected us probably more than any other player is airport stores. If you look at the first 9 months, it has de-grown at more than 10% while the trajectory is improving by the quarter and this quarter it was single digit de-growth. But, I think that took some additional toll on our SSSG.

Nihal Jham: Absolutely and how is competition shaping from especially the large format store if I compare it to last year. You think that there has been a significant increase?

Anant Daga: So again Nihal, lot of times the data that we get is not very comprehensive. Typically what we get from brand sales, from large format guys, where you do figure in the ranking in terms of various parameters and sales, let me tell you there is absolutely no change in our brand position. So W continues to be one of the best performing brands almost on all parameters as far as lot of our partners go. Yes, there are few brands, which have grown at a faster rate but still operate at lower performance matrix. When you look at the key peers, I do not think we would have lost on the market share, probably overall ethnic in this quarter has not grown at a rate which we would have like to have grown in any quarter because of the Festive reason and Winter that I have spoken.

Nihal Jham: The second question was there is quite divergence about how W and Aurelia are growing. I do not know if the channel mix is the reason, but just wanted you to elaborate on whether Aurelia has grown really well or maybe W has slowed down, so just your comments on that.

Anant Daga: So I think what you are suggesting is the answer, so the big issue right now in W and Aurelia divergence you see is the channel mix. So first of all, let me just tell you that last year also if you look at full year numbers that W grew faster than Aurelia. Even today, when we look at various formats, W continues to be among the best performing brand. Unfortunately, there are couple of things which happened this year which has impacted W more than any other brand.

First is this MBO channel disruption. MBO channel as we have spoken in earlier calls, we have seen that this channel is struggling. There is a huge liquidity issue in the channel. The issue is not whether you can make the sale or not, but whether you can realize money rather than just pushing sales. Lot of Companies are doing sale or return model but I think as a company we are more focused on realizing money rather than just pushing sales and we thought this is a great opportunity to clean it up.

Unfortunately, W being a stronger brand also has a higher share in MBO business. So, just to give you an anecdotal number, suppose MBO would have been flat this year, W would have seen high single digit growth already. On top of that airport stores. Out of all our airport stores, only one is Aurelia everything else is W. No other brand probably has such a huge share at least in the listed space, so that comparison would not be possible. W by virtue of its positioning is more relevant for premium department store, so we have seen Aurelia having accounts doing better and as a result Aurelia obviously getting some tail winds. So it is mostly being a channel mix issue than anything else.

Nihal Jham: Again, that is helpful Anant. I just have one more question on the MBO channel. As we are seeing, the way we have been reducing the number of stores in the MBO side since the last 3-4 quarters I just wanted to understand from you, whether you think that the cleanup is done and over with or there would be still some rationalization possible. Also one more thing was that the de-growth in MBO channel is obviously higher than what the rationalization of stores is, so are we reducing the throughput to our existing MBOs also which are surviving after the rationalization?

Anant Daga: So first of all, I think MBO for most of the last year was not such a big challenge. Obviously we have always said that MBO would not be the fastest growing channel for us, but last year more or less was fine. I think the situation really deteriorated after the July August EOSS. And, as we work on season, for us monsoon festive is a season, which cuts across Q2 and Q3 and rationalization happened in this season, so the impact is on both quarters. Now we are done with most of the rationalization. But, there are still one or two accounts so there could be some lingering effect on future quarters, but most of the rationalization has been done. We have new distributors in place so that is not a challenge.

Second, what happens is, the rationalization is happening more at a distributor end, so lot of time you would not see a corresponding decline in number of dealers because they will still have some inventory. The rationalization has happened at the distributor end and that is a transitional period where in we are getting new distributors to restart that business. Now for me, my spring summer starts right now and hopefully now onwards you see revival in this channel from our end, so most of the rationalization is already behind us. We think this channel can get back on the positive trajectory and this is something that you should see in a quarter or two.

Nihal Jham: That is it Anant. I am getting back queue in for further question. Thanks.

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

Varun: So broadly if I see there is a decline in gross margin, there is a decline in like to like basis EBITDA margin, channel wise we see there is margin dilutive changes which are happening, MBO channel which was earlier contributing 14% to the revenue now contributed only 3% and then share of large format store which is less margin accretive is also increasing. Online which we said grew at 33% but contributed 13% to revenue and over last more than one and half year the contribution from online has been roughly same despite you mentioning that we now kind of have presence on almost all kind of platform including Tata CLiQ and Nykaa etc. So channel wise and even brand wise if I look, W has not grown since last 6 months. I understand you mentioned that airport store predominantly belongs to W. In your last call you said airport store contribute roughly 10% revenue and we say 55% of overall revenue comes from W, so hardly

20% of the channel brought in decline in W as a brand which is our most margin accretive brand. So I mean on the brand front or the channel front so how do you look at going forward ? How do you strategize to grow revenue and how do you look at both that channel the brand and also the margins?

Anant Daga: So Varun, if you look at the overall scenario let me just address these few parts separately. So the first part is about growth in W and in particular channels. Now see there are two things. One, overall tepid consumer environment which is fine - that is something which is for all the players. For us there are specific events like MBO rationalization and airport stores, which are taking a toll on sales of brand and channel as a mix. W is slightly subdued, it is not about a product or a supply chain or a consumer traction issue, it is more like these channels are taking a hit and that is something which has happened now. When we look at future consumer sentiment we have not seen any significant uptake frankly. But, specific issues like MBO rationalization, airport store de-growth, we think it is majorly behind us now, so those one off events which have impacted our earlier quarters, probably should get stabilized.

Now when we look at our brands W, Aurelia and Wishful, we believe that going forward, without these disruptions one should see reasonable growth across all brands because all these 3 brands are expanding in terms of doors, products lines are getting stronger, we are taking new initiatives for example, in W you have footwear, in Aurelia you have Girls, so all those kind of stuff is happening which should make it to grow.

In terms of margin, there are again two factors, which has impacted our margins. One is external, which is market condition. So, today there has been lot of promotions, there has been lot of discounting and there has been general slowdown because of which to some extent our gross margin has compressed and our selling and distribution expenses have increased. Now, when will that get back to normalcy, it is difficult for me to comment. But having said that I think over last six months, as an organization, we have prepared ourselves better and that is something which you will start seeing in future. We have now set up an inter store transfer process in place, Omni module, turnaround time, responsive supply chain - all that is to counter this existing slowdown and discounting. The idea is to increase full price sale. Second, our margins also are somewhat under pressure, because of investment that has gone in creating all these new capabilities, infrastructure and businesses, so for example we have put almost a team of 12-15 people in terms of IT capabilities. There is data science, Omni is there, market place is there, now these are things we have just started. Similarly for footwear, we have created a full-fledged team and the first range will get launched in March and then we will see how it builds.

Similarly, for Aurelia girls and the new brand Elleven there has been lot of these investments which are sitting as expenses in our overheads, which probably make our EBITDA look slightly lower. I think these initiatives will soon pay for itself and that is something for which probably we will have wait couple of quarters, but overall if you look at it I think first half, and to some extent, first 9 months we have had some issues which had depressed our margins more than what you know normal market condition should have done. With most of these things behind us, I think from hereon we should look at least in the next couple of quarter onward, is a much improving trajectory of our business.

Varun: So you said that rationalization of MBO channel and airport stores, these two have contributed to the nonperformance of W as a brand but I just wanted to understand is that airport and MBO channel contribution to W revenue is not more than 20-25%. My question is that is even the 75% is not performing. How do you look at that? What I am asking that is do you think that W as a product is not selling?

Anant Daga: See we can do more math around on it, but if you just look at the MBO channel degrowth and the airport degrowth, and if you just put both these things together W would have reached double digit number. As I explained earlier, what we have understood from our large format stores and online partners is that part festive being in Q2 and strong winter, ethnic generally across sections has slowed down. I think once you see MBO growth back and the airport stores stabilize you will be able to see much better growth rates in W because that is what has actually hampered it. In terms of SSSGs and in terms of stores it is very comparable to Aurelia.

Varun: In footwear, do we get more margin compared to what we get in apparels?

Anant Daga: See, in the initial stages, the margin would not be higher on footwear because obviously the size runs would be very limited and there will be a cost in getting these minimal quantities. Having said that, where we intend to sell footwear is in our existing stores and hence frankly, apart from variable cost, we would not be incurring any fixed cost. Rent of W store will get leveraged from my footwear business, so overall it should not be a big drag on margin. But, if you just look at one to one comparison, I do not think for the next couple of seasons, footwear as a category because it is in incubation stage, can generate similar margin. In long-term, the metrics could be similar, though footwear generally is slightly lower than apparel.

Varun: Sure sir. Thank you very much.

Moderator: Thank you. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: Thanks for taking my question. Actually, I wanted to get some industry insight as you had earlier mentioned this is an easy industry to get into, hard to scale up, so just wanted to understand why is it such a challenge to scale up and what are the 3-4 variables that a company needs to execute to succeed in the long run?

Anant Daga: See, why scaling is difficult slightly in this business, is because of couple of very unique characteristics. First of all ethnic wear is slightly more regional in nature, so you need to first create a product line which can become a winner across the length and breadth of the country.

This requires a lot of understanding in terms of consumer preferences in sizing and fits across consumer platforms, so I think this is one thing which makes it hard.

Second, it is a fashion business, so there you always need to reinvent and recreate newer stuff and for that, you need a very strong design process. Usually most of the companies fail to create institutional design process, which can be on back of solid team, solid feedback and solid processes. Now this is one part. Second part, which makes it very difficult is the product which is slightly complicated unlike western wear product, as a ethnic kurta typically needs 3-4 different fabrics and there are all kind of issues, all kind of supplier issues. There are very few companies who have the scale or has the access to quality suppliers to develop a very exclusive and comprehensive range and distribute them season after season. Supply chain again is tremendously difficult moat to cross. Now there are companies, there are few of us who have been able to create that. But, it is slightly a long drawn process and you need institutionalised design with a very very strong supply chain to create this which creates more challenges for most of the people.

Anirudh Shetty: Got it. Thanks for the elaborate answer and also from the customer's angle, so would you say that the customers have strong brand preferences where they would have a very strong affinity to one of their brands or are there not as sticky sometimes?

Anant Daga: See brand affinity in woman wear is slightly lower than men's wear. Second, what happens is there are few brands which have a very visible logo and that is something lot of people buy. In women's wear, especially ethnic, that part is missing. So to that extent, the affinity could be lower. Having said that, there are couple of things which makes it very sticky for the customers to be loyal to our brand. Number one is fit. In woman's apparel, fit is much more important than men's wear and once you fit into a brand it becomes really sticky. Second, if you are a true brand and you have a brand identify in terms of signature design language then that will create a strong pull factor and also a sticky factor for the consumer. So, those are two areas which really increases the loyalty and we have seen some really loyal customers over the years who really care for these kind of factor attributes.

Anirudh Shetty: Do you have data on that? Probably something on customers repeat purchases?

Anant Daga: See, we have explained in earlier calls and meetings also, till about last year we did not have enough insight. But now we are building an engine and this a question which probably we will be able to answer best in couple of quarters.

Anirudh Shetty: Got it and SSSG growth right now we are seeing a slowdown, but if I just take a longer viewpoint, what is the fair SSSG growth to assume in our business line and what you guys look at?

Anant Daga: See we look at mid single digit for sure, so that is something that we think should be achievable and that what we work towards

Anirudh Shetty: At mid single digit SSSG growth will the store profitability go up or is that will be flattish?

Anant Daga: So what we are seeing from our experience is suppose if we do nothing on the cost side, 5% to 6% SSSG is what we expect, but in reality what happens in a slowdown not only SSSG comes down but the cost also come down. So, there is always that benefit of cost renegotiation and setting the base right.

Anirudh Shetty: Got it and final question. You are doing a lot of effort in terms of machine learning and inventory rationalization. So scope for inventory days to come down?

Anant Daga: Yes, that is what we have working very actively on. So when we talk about machine learning algorithm it will have two impacts. One, it will ensure that the right stock is at the right place and that will ensure better sales and reflect in our numbers and number two, it will definitely reduce unwanted inventory in the system.

Anirudh Shetty: Could you quantify the inventory day reduction?

Anant Daga: No, it is very difficult at this point of time because we have just rolled out the effort. I think it will take a quarter or so to stabilize but maybe next year Q1 or something we will able to give you a much better answer. But just in terms of the loss of sale app in Omni channel, in lot of our stores where it has been launched and it is properly executed, we are already seeing 2% plus contribution coming from that.

Anirudh Shetty: Okay thank you so much for answering my questions.

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

Avi Mehta: Hi Anant. I had two questions on near term quarters and then trying to understand FY20-21. When you look at it, there has been increase in sale and distribution cost, is there a one off over there or is this part of the investment that you are making.

Anant Daga: So Avi, coming to selling and distribution, see what happened was, last year, Diwali was slightly late into Q3 and this year it was early, so there was a gap between the Diwali date and end of season sale and what we have seen earlier also, post occasion, there was a lull in demand and the market moved down to some kind of consumer promotions, so this is that hit. I do not know whether to say this is one time or not but yes last year because Diwali was late, Q3 did not have this impact, this year it has. The consumer promotions do happen, so it is just about a timing issue more than anything else.

Avi Mehta: Even in 2018, we had such a period between Diwali and EOSS, but such selling and distribution costs were not there at that time

Anant Daga: I will have to brush my earlier numbers once, but see, last year we did not run any promotions because Diwali was bang on there and thus the difference

Avi Mehta: Second question I was just trying to understand what would our gross margins be going ahead? We have seen a marginal 70-80 bps decline. Would about 70% odd or 68% odd be the right number to kind of look at? I just wanted to kind of understand structurally what is the best way to look at it?

Anant Daga: So Avi, we continue to follow our strategy of controlling discounts and focusing on our gross margins. Having said that, a lot of this would also depend on what happens relatively in the market. So, while we choose to be more conservative from rest of the market, but it really depends like what it holds compared to earlier seasons. As of now, you are right, we are extremely focused on this number, because we have other avenues of liquidating stock. As a company, we are sitting on quality inventory so that is not a pressure for us. There is no necessity to do short term tactic of discounting more and more.

Again, there are one or two more reasons for gross margin movement, which you will see season on season. It is channel mix, which frankly is not completely in our control. So this season we saw MBO sales dropping and hence our gross margin got compressed and it depends upon how channels behave. While cost of sale is not completely in our control, other part of gross margin is.

Our COGS, which is cost of goods sold, there I think we are in complete control and we have taken lot of steps which will ensure that at least that component of this remains strong. So, essentially we will have to see how the environment would be and what the necessity would be, but consciously we will try to protect gross margin.

Avi Mehta: Okay and lastly as you highlighted, you have made a lot of investment to support growth over the medium term, now when do these investments come into the base? I would assume that it would largely come to the base in FY2021 or may be Q4FY20. Actually I am not sure it would be FY2021 or Q4, so when they come into base would it be fair to kind of expect annual margins to start moving closer to the 15% level? What I am trying to understand how should we look at margins as we go forward?

Anant Daga: So Avi couple things here again. One is in terms of margins. What we are seeing in H1 till 9 months it is something that we should be able to better upon so that is one thing that we see going forward. Now again is not a question of only Q4 or Q1 next year, but I am generally sharing the assuring the trend with you for Q4 over the next 4-5 quarters. I think that is something that one should see improvement from whatever we have seen in recent times.

Number two, lot of these initiatives are something which will be in pilot stage this season and again as we working in seasons so there is two quarters that cut across the kind of pilot seasons. I think the real scaling up of most of these would be visible from probably next year spring summer that is Q4 onwards. Before that, we will see a trajectory of how these are evolving. I am hopeful that we will be able to see what the potential of this could be and how the growth looks like, but the real kick in of meaningful revenue, that will only start coming from probably the next to next season.

Just one more point. See all the initiatives that we are talking about, while will take a time to perfect it and make the best case model out of it, all these are extremely scalable so if you look at our brand Elleven, I think whatever time it takes to stabilize, after that, scaling up could be very easy. I do not think 40-50 stores in a year is challenge at all. Similarly, footwear, because we have to replicate the same in own stores, so you can see very rapid scaling up, but that might take two seasons.

Avi Mehta: No. Where I was coming from is that we are facing two headwinds right now in margins. One is the investment that you are making and second is the weakness in growth rates, while the weakness is something that we cannot kind of clearly predict. I was just trying to understand once these investment the initial phase of investments kind of starts, kind of coming to the base, what kind of margins or what kind of impact are they are having and how should we look at this?

Anant Daga: For most of investments made, they will start coming to the base level from Q3 onwards but seasonality of these businesses should also be taken into. But mostly, investments should kick in from Q3

Avi Mehta: Okay perfect that is all from my side and I will come back in the queue. Thank you very much.

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

Vikas Jain: Hi, thanks for the opportunity. I have couple of questions. First question, the rationalization of the MBO channel that we talked about. Is it largely complete or is further rationalization left and how are we looking at our overall channel mix going ahead?

Anant Daga: So as I was explaining, most of the rationalization has happened in between Q2 and Q3. There is a very fag end of it that is left, which will happen in this quarter. We think there is potential in this channel and given the rationalization that we have done we should be able get it back to track on good trajectory. Now as we have mentioned earlier also this is not a channel which has the fastest growth and we will have to see how things evolve out there. But at least fundamentally and structurally, we know that we have the base ready now to work up on growth. In terms of channel mix, I think all the channels should be able to show growth. Again, I am not talking about quarterly numbers, because in our business we work on seasons and based on that you could would see quarterly difference. But if you take a slightly mid-term view, we believe all these channel should be able to see decent sufficient growth and should come back to some kind of normalized channel share. We believe online will grow at a fast rate and then LFS, EBO would be there and then MBO's.

Vikas Jain: Right. My second question is about our new coordinates brand. The new store that you have launched, so wanted to just understand these brands will always be launched through individual stores only right. It would not be in future be a part of W or Aurelia stores. Correct?

Anant Daga: Correct, so the idea is to launch a standalone store and what happens is at times because we get really good real estate deal, because we now have three brands with independent stores, we might open these side by side or we might have some of those large formats, but mostly what you are going to see at least in near future is all standalone stores. Apart from that, we will also be retailing through MBOs, through large format and online, but that we will do selectively and gradually.

Vikas Jain: Right but majorly it would be through the standalone COCO and FOCO Coco stores?

Anant Daga: See this phase right now is in a piloting phase. We are piloting with all kind of market, all kind of Tier cities. We will also be piloting with LFS and online and MBO channel. Ultimately, you will see a distribution network across this. Maybe in the initial days EBO will play a bigger role.

Vikas Jain: Continuing on this what are our plans to expand this presence both in terms of stores expansion as well as the capex that will be investing towards building up this brand?

Anant Daga: See, as of now, we have signed up five stores and we are very confident that before June we will be able to at least open 10 stores. Basis our experience from that and fine-tuning of the model, probably then we will start looking at opening at least 3-4 stores a month. These stores would typically be about 500-600 square feet and capex would be anywhere between 15-20 lakhs each. Now, depending upon how many of these are franchisee and owned, we will have the capex outlay.

Vikas Jain: And just last one bookkeeping question. You mentioned that we have stepped up SND expenditure and other thing can you state the reason for the rise in the other expenses both even sequentially as well as year-on-year?

Venkatesh Tarakkad: There are few expenses, which have increased and it is part of the investment also. As we mentioned, one of things is the warehousing expense. So what we have done is part of the new season we have moved to new warehouse. So that, we will have to run these parrallely, so this is one expense which is increased. Actually what happened also is in this quarter, October what we have also done that is we have slightly increased freight cost. We shipped some things to make sure that it is available at all stores in the peak period before Diwali. So we have few things like this. We also did slight increase in marketing. If you remember, we told you last time that for festive season we will be starting a television campaign. So we ran a television campaign for Aurelia for a limited period. So all these expenses is what has been included in the others.

Vikas Jain: Okay Sir thank you.

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

Prerna Jhunjhunwala**:** Thanks for the opportunity. Just wanted to understand the impact on working capital for rationalization of MBOs over the last two quarters inventory or debtors days reduction or what are we targeting at from this exercise and how long it will take to reach there.

Anant Daga: Our working capital days as on 30 September was about 120 odd days and what we have taken as a target is to at least reduce 3-4 days of this on account of debtor rationalization and we are targeting this quarter end for something like that.

Prerna Jhunjhunwala**:** Okay and as you said that you MBO channel can grow after this rationalization, could you just help us understand where we can reach due to market size. We were at 1500 earlier odd number and now we are at around 1100 so what is the opportunity size if we want to see from a 3-5 year perspective?

Anant Daga: See this is one thing that we have mentioned earlier also. I think number of doors from an MBO channel point of view, probably is not as relevant because there is a long tail. If you ask me, you have an opportunity getting back all those stores again, because we have discontinued most of them because of the liquidity issue or whatever it is. Potentially in terms of number of outlets, there might not be huge run rate but depth in these stores could vary. Last few quarters in fact, not only this year, but even last year we saw that MBO channel has not grown in itself, so there has always been pulls and pushes in terms of what product they are keeping, how they are managing the inventory and space. Once general market conditions improve, we will see better depth also in the MBO channel. So we think overall sales can be easily be 7-8% again.

Prerna Jhunjhunwala**:** Okay and how much investment you are planning to do in this new initiative of IT and SEM and CRM and warehousing and all, so what is your capex plan for this year and next year and when will you be done with this investments that is planned today, I mean one year back or things like that.

Anant Daga: See there is not too much of capex expenditure. As far as IT and all is concerned, it is mostly operational, so there are lot of modules plug and play that we are trying to do. Even coming to warehousing, lot of these are third party warehousing solutions, for example B2C marketplace warehousing. As most of them are actually sitting in our overheads and essentially not in capex, so we do not see a major capex as far as these initiatives goes. Yes, warehousing we are moving in phases, so maybe next one year the warehousing could see some investment but there we will have to see the kind of model we which choose. As a company, our major capex goes in building new stores and that is where majority of money goes as far as capex goes.

Prerna Jhunjhunwala**:** Can you please reiterate your store opening plan for the year and next year if possible?

Anant Daga: See this year, we have already opened 45 stores, so we should land between 60 and 65 as we have mentioned earlier also. As far as large format stores count goes, we are being given driven more and more doors by large format partners, so there we have actually exceeded the kind of estimate that we have had. Next year again if you take Elleven also in to account, I think opening 75-80 plus store should not be a big challenge and large format doors those also we see a similar number getting added.

Prerna Jhunjhunwala: Okay thank Sir. I will come back in the queue if required.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: Thank you for taking my question. Sir I just wanted to understand what is the genesis of this end of season sale from the retail apparel perspective and your insights whether it is being driven by customer having now permanently gotten used to it at a certain level or is it peers not managing their inventory levels well and having to resort to this, so some insight what is this concept is how do you look at going probably 3, 4, 5 year out?

Anant Daga: See end of season sale or rather promotions if you look at being extended, it has many reasons and the genesis has been multiple, so there is no one particular thing. We can say online started it, we can say some few retailers or few brands started it, but the reality of the situation is today it has become part of the business. Now what we believe is, frankly I do not have an exact answer. I do not have an answer on where this will move finally, but as a company or as a brand fraternity, I think what all of us need to do is: Like we have promotions and end of season sale eating into full season/peak season sales, we also have to figure out ways of ensuring selling for full price sales during those EOSS period. So I think that is something which all of us have to work very very strongly on. Second, what we have seen is the tendency of people to buy much more during occasion and this is one area frankly where lot of retailers including us, plans were not completely ready last season. But again, this is something which will improve as the market improves, the general sentiments improve. We will have to build our processes, our facilities to cater to this big demand and that is something, which we want to cater through whatever new things we are trying to do. A big role for any organization today is to work on inventory optimization and by that I do not mean the level but ensuring right inventory at the right place to ensure that there is no loss of sale because of missing sizes or missing styles and that is where some of the initiatives we have been taking about is being built. So I think we have to be better prepared to tackle these promotions in the long-term though they are here to stay. Yes, the quantum could reduce and things could look better if market sentiments improve but it is not going anywhere.

Manjeet Buaria: Sir just one followup on this. When we look at some other apparel retailers right, just as a peer how do you look at their incentives whether they are optimizing for scale and there is no end to it from their perspective because they are really deep pocked retailers bigger ones, so how does one think about it or how do you think about it as management. Where does this end?

Anant Daga: First, see I do not know which retailer you are talking about because if I look at retailer and brand stores, I think relatively we are also in a good position, number one. Number two, see at the end of the day it is not only discounts the consumer buy into, it is also a product, it is also an experience and that is what we are seeing around occasions, that is what we are seeing so many times. So while the market dynamics will play a role I think as a company we will continuously have to reinvent to be ahead of the curve in terms of operations, design, product, experience, consumer focus, so I think rather than thinking about where these things finally would go, we have to see how better we have to get.

Manjeet Buaria: Got it Sir. Thank you.

Moderator: Thank you. The next question is from the line of Rakhi Prasad from Alder Capital. Please go ahead.

Rakhi Prasad: Hi good evening. Just wanted to understand from a strategy point of view, the logic or its reasoning to open a different type of store for coordinates brand?, Can you give some kind of market insights why we thought about going down this path instead of having these coordinate selections within either W or Aurelia stores as well?

Anant Daga: So Rakhi, couple of things are there. First is, see what we have realized over the last 3-4 years is unlike old times where coordinates was seen just as an ancillary product to a kurta, today it has emerged as an independent product. See, there were days when you would have only a churidar or a salwar, but today you have so many salwars, so many varieties, so many fabrics. The consumers have warmed up to the idea of looking for bottoms independent of top wear. Now we sell a lot of bottoms and drapes in W and Aurelia already, but the issue is, as we are looked at more like a mix and match store which also keeps these categories, it is difficulty to do justice to this. Wherein a consumer for sure would love to look at a brand which does just this, so that it becomes a destination place for her. When she comes to W store, in her mind it is kurta or a look, but when they go to Elleven, that will always be a bottom and drape store and that gives the focus. That is number one.

Number two, if you look at the market today, the market leader is already at a 200-250 crore plus revenues. There are two or three other players in the organized segments who all again in a very short term have shown very good traction. Now, when we compare ourselves to any of these, I think in terms of product expertise, in terms of supply chain, in terms of retail experience and customer relationship, we have all the know-how and it is much more natural for us to do this business. Now, while in the short-term you will have these expenses sitting as extra burden to our P&L, but if you look at the long-term scenario compared to any of these bottom exclusive or drape exclusive player we have an whole organization already in place wherein most of these initiatives, especially the bottom wear brand could be done at a very very marginal cost so this is why we thought it is a great opportunity. There are very few people who understand all channels. There are very few people who already have a product expertise and this is something that we should get into, this model is scalable, it is very well accepted by the customers. I think we just need to get the store right, the product right, and then move faster for growth on this.

Rakhi Prasad: Could you get some sense in terms of at what margins levels would these be compared to W, Aurelia? Where do we place it?

Anant Daga: See in the steady state it will be very similar. Fundamentally, the matrix are very similar to our regular businesses.

Rakhi Prasad: And at what level do we see this in terms of a revenue. I mean what we are trying to achieve. How bigger brand do we think this can become?

Anant Daga: **As** I told, the market leader is already doing about 200-250 Crores.

Rakhi Prasad: Okay all right thank you.

Moderator: Thank you. The next question is from the line of Govind Sabu from India Nivesh PMS. Please go ahead.

Govind Sabu: Can you help me with the number of current investments and cash balance as on 31st December?

Venkatesh Tarakkad: As you are aware, in December we do not disclose the balance sheet numbers, but couple of points. Our working capital, which we reported in September is under control so that is not an issue. Second is, we have also mentioned that second half is when we generate cash, so normally we have been generating about 40 Crores plus in a year and this we are on track in the second half of the year.

Govind Sabu: So the free cash flow is 40 Crores?

Venkatesh Tarakkad: It is the target, which we expect to generate. We are on track for it.

Govind Sabu: So what was cash generated during the Q3 if you can help me with that number.

Venkatesh Tarakkad: See, we do not give the quarterly balance sheet and cash flow number. All I can talk about is, the annual cash flow generation of about 40 Crores, so please excuse us for that.

Govind Sabu: Okay thank you sir.

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

Varun: I just wanted to understand that with the large format stores, most of the sales that you do is on SOR basis?

Anant Daga: Yes.

Varun: Sir how has been the business in the month of January compared to last year?

Anant Daga: It has been very flattish and I think the season starts now. New collections are seeing good traction, so probably next 15 days we will get a much better picture of how the season is progressing.

Varun: How is the end of season sale? How it went for you?

Anant Daga: It has been very flattish compared to last year, but our focus is also to grow full price sales, so the season is just starting and I think next 2-3 weeks should show us a much better picture.

Varun: Okay sure Sir. Thank you very much.

Moderator: Thank you, that was the last question in queue. I would now like to hand the conference back to the management team for closing comments.

Anant Daga: Thank you. We take this opportunity to thank everyone for joining on the call. We hope we have been able to address all your queries. For any further information, kindly get in touch with us or SGA our Investor Relations Advisor. Thank you once again.

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