

Date: 20.02.2023

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Dear Sir/Madam,

Sub: Transcript of Investors Earnings/ Conference call for Q3 and nine months ended 31st December 2022.

Ref: Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Scrip Code: BSE Code: 541700, NSE Code: TCNSBRANDS

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and in pursuance of intimation by the Company dated 07th February 2023, in respect of the Investors earnings/ conference call on Tuesday 14th February 2023 at 06:00 P.M. IST to discuss the performance for Q3 and nine months ended 31st December 2022.

In reference to the above captioned subject, please find herewith, enclosed the transcript of the Investors earnings/ conference call. The same is being disseminated on the website of the Company. <https://wforwoman.com/content/investor-relation>.

No unpublished price sensitive information ("UPSI") was shared/ discussed during the interaction and the discussion held on the publicly available documents only.

This is for your information and records.

Thanking you
For and on behalf of **TCNS Clothing Co. Limited**

Piyush Asija
Company Secretary and Compliance Officer
M. No: A21328

Date: 20.02.2023
Place: New Delhi



TCNS Clothing Co. Limited

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TCNS Clothing Co. Limited

“TCNS Clothing Company Limited Q3 FY ‘2023 Earnings Conference Call”

February 14, 2023

Disclaimer:

This document is subject to errors and may or may not contain words which have been Included/omitted due to human error while transcribing the conference call. Any and all Information should be verified with the company by the reader.



**MANAGEMENT: MR. ANANT DAGA – MANAGING DIRECTOR – TCNS
CLOTHING COMPANY LIMITED
MR. AMIT CHAND – CHIEF FINANCIAL OFFICER –
TCNS CLOTHING COMPANY LIMITED
SGA INVESTOR RELATIONS ADVISORS**

Moderator: Ladies and gentlemen, good day and welcome to the TCNS Clothing Company Limited Q3 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve 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 call, please signal an operator by pressing star, then zero 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, everyone, and welcome to the Q3 earnings conference call. Hope you all had a great start to the New Year. I'm joined by Amit, our CFO; and SGA, our Investor Relations advisers. While Amit can share detailed financials, let me share some key highlights of Q3.

Q3 overall saw a challenging demand environment. We saw a meaningful decline in consumer traction, especially post Diwali owing to a weak wedding season and delayed onset of winters. The market recovery varied between regions and tiers of towns. South as a region continues to be ahead of pre-COVID numbers followed by west, while north and east still lags behind, not surprising given a weak winter season. We saw a much stronger recovery in Tier 1 markets compared to Tier 2 and Tier 3 across markets, across regions.

Coming to company performance. We achieved net revenue of INR 306 crores in Q3 and INR 933 crores year-to-date FY '23. As we have discussed in the past too, there has been a continuous shift in online business model from B2B to D2C, which had a pronounced impact this quarter. While the secondary sales have been higher, the reported sales have been impacted due to negligible primary billing to online B2B customers. While this will entail short-term pain, however, it also creates benefits for the business in the long term as D2C model offers higher control and inventory efficiencies.

Overall, our offline recovery was similar to last year levels. While south and west were closing on pre-COVID sales, north and east dragged numbers down. EBO channel overall grew by 15% over last year on back of strong expansion. In this quarter we have opened 16 odd stores on a net basis to reach a total of 664 stores. In addition to these 16 stores, we have upgraded another

4 stores under Project Rise initiative taking the tally of Project Rise stores to 29. Overall, all brands put together, we are well on track to add 90 to 100 net stores this year.

LFS channel was flat compared to last year except for the impact of disruption on account of one large partner. We added around 23 doors taking the total count to over 2,500.

Coming to online channel, the focus has been to build D2C business and our brand websites and building capabilities for marketplace models. We are doubling down on our brand websites, which continue to grow at 30% plus levels year-on-year and is contributing to a quarter of total online sales. We have launched our W brand.com in key international markets as well. On marketplaces front, we are seeing omni tech stabilizing across additional partners and this should further enhance inventory fungibility and consumer experience.

Talking about new forays. Elleven continues to expand its footprint. Overall, we have 34 stores and over 200 SIS as on date. While the EBO format continues to evolve, we are seeing strong traction in SIS model and continue to get additional accounts and doors. Other categories continue to contribute double digit to store sales where they are present. We are expanding presence of these categories in line with our ongoing expansion of brand stores.

I would also like to mention about the launch of SS'23 range. As mentioned in our Q2 call as well, we had our first range failure in W in the last decade. This was the outcome of us prioritizing and optimizing product pricing rather than product features and attributes, which in hindsight was a wrong business call and this has taken a toll on brand's performance this season.

Taking full cognizance of the consumer and market feedback, we have incorporated the deep insights into creating a more comprehensive SS'23 range, which is now getting launched in the market. We should be fully on with our new season merchandise by end of February and this should set pace for a strong season ahead.

Now I would request Amit to share key financial highlights for the quarter.

Amit Chand:

Thank you, Anant. Good evening, everyone. I'll be giving an update on our financial performance in the third quarter and year-to-date in FY '23. I'll start with the quarterly performance. Our Q3 revenue was INR 306 crores compared to INR 329 crores same period last year. Our gross margin for the quarter was 68.3%, which is an improvement over 67.8% in Q3 of FY '22. As we have mentioned earlier, we should see this metric in conjunction with selling and distribution expenses and other overheads as every channel has its nuance in terms of revenue recognition, gross margin percentage and costs reflecting in selling and distribution expenses or marketing or other overheads. Accordingly, basis the channel mix, these metrics could vary in a range from quarter-to-quarter.

In Q3 company generated a positive EBITDA of INR 43.5 crores versus INR 67.7 crores last year. PBT for the quarter was INR 0.7 crores versus a PBT of INR 35 crores last year and PAT for the quarter was INR 0.5 crores versus INR 25 crores last year. We have not received any rental concession in Q3 this year while we had recognized a rental concession of INR 7.7 crores in Q3 of last year.

During the quarter, the company added 16 exclusive brand stores taking the store count to 664 and we have added 23 point of sale in LFS channel taking the doors count in this channel to 2,500 plus. Speaking of our performance on YTD basis, the revenues were INR 933 crores versus INR 662 crores last year, a growth of 41%. EBITDA was INR 129 crores versus INR 92 crores last year. PBT was INR 13.4 crores versus INR 0.4 crores last year.

We are now open to questions.

- Moderator:** The first question is from the line of Devanshu Bansal from Emkay Global Financial Services.
- Devanshu Bansal:** I have few questions. Firstly, I wanted to check if you could share some light on the current trends for Q4 since you mentioned that there were delayed winters so are we seeing some tailwinds that should help us have strong growth in Q4? Also there was Omicron last year so are these going to be the tailwinds for Q4?
- Anant Daga:** See, first of all, our season starts in July, August and goes till mid-February so lot of the seasonal range issue that we had unfortunately continues till mid-February. But now as we are connecting new stocks, we are seeing good traction so hopefully in the coming weeks one should see a significant pickup in sales.
- Second, as far as winter is concerned, you are right, the delayed winters would have helped sales somewhat in January; but unfortunately, all this has come at a higher discounting. So while the volumes have moved, obviously net sales impact might not be as high.
- Devanshu Bansal:** Okay. And also wanted to check since this fabric issue has been there so are we done with that particular inventory or we'll be carrying it to next season for Q3 FY '24?
- Anant Daga:** Yes. So there is a small portion of that which gets carried forward also, but that would be maximum at a 10% to 15% Kind of range. Balance everything would be fresh. So over 80%, 85% of the stocks is all new season where all these issues have been resolved completely fully. So I don't think we should see a big impact of this in the carry-forward inventories. It's just a small proportion now.
- Devanshu Bansal:** And overall inventory is also at acceptable level so there is not much increase because of lower sales, etc.
- Anant Daga:** No, Devanshu. Since Q3 sales were impacted, obviously there is some build-up in inventory. But we have also adjusted some of the buys accordingly for this season so by end of this season, we should be at a regular zone of inventories.
- Devanshu Bansal:** Got that. And Anant, so FY '23 has been a weak year for us due to some specific issues pertaining to TCNS and overall slowdown in demand as well. So any outlook that you would like to sort of give us for FY '24.
- Anant Daga:** So Devanshu, I think the best way to look at is to break this probably in three parts. One, obviously lot of this performance has been because of our own internal range issues, which to my mind we have corrected. We have shown to all channel partners. They all feel that these

ranges are far stronger and as it's getting launched, we are also getting good response from those new stands.

So that internal issue is stand resolved which itself should give us meaningful growth. That's number one. Number two, coming to ethnic wear segment as a whole, which was struggling till about last year Spring/Summer. Post Pujio, what we have seen is there's a consistency in demand there and we have seen quite a few players also clocking ahead of pre-COVID numbers.

So that's a very, very encouraging news. And if this trend continues, then obviously all ethnic wear players will gain out of it. Third, about the more macro market thing, I think see, it's similar for everyone so we'll have to see how that plays. But on the last two count itself, I believe next year should fundamentally be far stronger.

Devanshu Bansal:

Okay. And what is the cash level as of now? Obviously if you could share since you expect some of the inventories to get liquidated by this season end. So if you could indicate as in what are your expectations on cash exiting FY '23 and whether since we have sort of delivered low margin so does that in any way impact our store additions for next year?

Anant Daga:

So there are 2 questions out there. First of all, December end we were positive of about INR 30 crores to INR 35 crores, INR 40 crores range cash. Second, coming to margin and store expansion, see basically most of the stores that we have opened, they are profitable. So when our SSSG or recovery is still not at par, most of the stores are profitable. It's just that they are making lower profit.

So with all these range issues and if the sales comes back, even these would be highly profitable. So all the expansion and all, right now also what we are doing, we are taking cognizance of this and being very, very sure of profitability. We are going slowly in couple of areas of geographies where sales has not picked up and we don't have a visibility in near future. So these are very, very specific markets, couple of markets. So there we are going slowly. Otherwise most of the expansion is profitable and we are going on with that.

Devanshu Bansal:

Okay. And just a follow-up on this. So even if macros don't improve, then that sort of 80, 100 store additions annually that should continue for next year as well?

Anant Daga:

Yes. So that I'm taking into account. So obviously if macros don't improve, that number of 90 to 100 could be 70 to 80 or something like that, but it's very specific market issues.

Devanshu Bansal:

Okay. Anant, last question from my end is on this Bottomwear category. So what is the sort of strategy that we are adopting for Elleven? Are we more into core or fashion segment or also if you could elaborate on which categories specifically are we catering to in terms of leggings, churidar, palazzos, culottes etc.?

Anant Daga:

So, Devanshu, maybe separately we can share more details also, much more granular detail. But on this call right now, the range the way we have created is : it is elevated core - core and elevated core. So for example it's not hard core fashion, but the core basic products are also elevated with features.

So that's how the range of Elleven is. In addition to the normal categories, which are core like churidars, tights and basic stuff. In terms of category, see, this is something that cuts across Western, ethnic, athleisure, everything. So we have 3 or 4 different silos. So, on one hand, we have tights, churidars, palazzos and culottes. On the other hand, we also have yoga pants, we have travel pants, then we also have some denims and formal trousers. So it's a range which is a complete bottom wear solution. Some of these silos we are building up as we go and some of the silos are more stabilized.

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

Nihal Mahesh Jham: I have a couple of questions. On W, you highlighted the range issue that was visible and if I look at Aurelia that as a brand is still seeing a degrowth while you're highlighting the issue of the macro concerns is that we've seen a reasonable amount of store additions. And generally, when we're looking at performance for some of the other players also, it seems that at least on an absolute level a lot of them have managed to report a growth. So if you could just highlight specifically anything about that?

Anant Daga: So Nihal, Aurelia wherever it was present in the various areas barring one chain, I think Aurelia did better than the chain average. Unfortunately for Aurelia, a lot of these are slightly more value and economic segment retailers who themselves have not recorded meaningful growth out there.

And second, it's also an impact of lot of Tier 2, Tier 3 recoveries being lower. But frankly, in terms of relative basis if you take the season, I think Aurelia has performed at par with most of the other peers in respective channels. Obviously the impact of B2B is there. So B2B billing is something which had a toll so B2B billing was 90%, 95% lower than what it was last year. So that has taken a toll on Aurelia as well. Offline, Aurelia has grown.

Nihal Mahesh Jham: Got it. And is it possible to get a sense that if you're highlighting this range issue that ideally what is the kind of sale loss you've seen because of, say, having the collection in W which was not as per the standards you would have wanted or the customer expected?

Anant Daga: So Nihal, we can throw the numbers, but it's more academic. So I would say like till about Q1, Q2, W's recovery was ahead of Aurelia. In Q2 post-festive, there's a delta difference between W and Aurelia. Again in these accounts, there are few players with stronger ranges have done better. So there is a difference, but it will be more of an academic answer, honestly. It's very difficult to ascertain a number.

Nihal Mahesh Jham: Got that. Just last question and again this was an observation in the earlier quarter on the LFS channel. There the weakness seems to be more than any of the others and earlier we highlighted the mix aspect also that maybe incrementally we are adding large format stores in non-metro or lower tier cities. But even this quarter it seems that that channel has seen a significant impact, I'll leave online apart you highlighted that. So anything separate to that or if you could just highlight on that part?

Anant Daga: So you're aware one large format account, they are continuing to have issue where the stores are shut and there was a big disruption and that was a big account for us in LFS. So I think that has

really taken a toll on the LFS numbers per se. If you just make that exception, LFS was also ahead of last year.

Nihal Mahesh Jham: Right. But LFS was within issues in the base quarter of last year, right? So that won't be the reason for the YoY contraction there, right?

Anant Daga: No, no, it was not.

Moderator: The next question is from the line of Varun Singh from ICICI Securities.

Varun Singh: Am I audible?

Anant Daga: Yes, Varun, you are.

Varun Singh: So my question is on the W range failure. So as you rightly or as you mentioned in your remark that this is a first kind of failure in a decade. So I just wanted to understand given that revenue growth of our company when we look at all of the competition or other set of listed companies in retail sector so our stands at kind of the lowest or in the bottom quartile and we have been observing this since past several quarters.

Earlier we understand that I mean there are some channel related stuff, mix changes; this quarter we understand it is the range failure for W. So sir, if you could throw some light regarding what has led to this kind of catastrophic problem and why we failed to predict it? And the reason that I'm asking is what kind of business risk is this event and the likelihood of it in future? So if you can throw some light regarding how has this happened, why has this happened and how should we look at this issue from future point of view as well?

Anant Daga: So Varun, I think there are a few parts in your questions so let me try to answer each one of them and in case if I miss something, please do call out. So first of all when you say we have been in the bottom quartile this season, I completely agree with you and this is the reason of -- because of execution gap in terms of range. I'll come to that in a minute, why that has happened, what we are doing to correct it, right?

But that's an issue which is more internal so market, Ethnic wear has done okay better than before, but we have not done well so that point is 100% taken. Now coming to last few quarters, I don't know which companies you are comparing us to because in ethnic frankly women's ethnic, there are not too many listed entities. That's number one. Number two, what I would also request you to see is within these listed entities also, how has ethnic performed compared to some other categories.

So after COVID after probably 1.5, 2 years, this is the first season when ethnic wear has been able to show growth for lot of the large format partners also, for industry as a whole. So I don't think before that it's exactly apple to apple comparison not taking away that we could have executed better, we could have done better, but I don't think that's a very fair comparison.

And frankly, till about apart from the period when we were very open and we came to the market and we said that we want to prioritize cash and that is what we are doing and we want to manage cash, I think there's a period apart from that, frankly, our relative performance also was not bad.

We were in the medium quartile. We were not in the top of the game, but definitely we were not in the lower quartiles or even below half of that. So that I think maybe we can have a longer discussion on. This season obviously there has been a challenge. Now there are 2 challenges. One is this model disruption, which is B2B to D2C and second is the range issue.

So B2B to D2C is something which started last year. We already had a very, very big base of online compared to many, many other players and for us, our B2B business was a significant part of total revenues. Now when that is changing, there is an impact which is there in this quarter, which might be there for a couple of more quarters.

Obviously it won't be as pronounced, but this quarter it was more pronounced. So that's one part. Second, again this is something which probably is not true for many, many listed players especially the chain stores and all so I think we need to just look at it in that light.

Third, coming to W range issue. This is an issue which it happened because when we were designing this range, the fabric prices were all-time high, we were selling in January, February of last year where it was COVID impacted.

So what we thought was consumers might be looking at a slightly lower price option and they might be okay with fabrics like polyester and ornamentation like data prints and all wherein we made a wrong assessment. So when consumers came back, premium segment unlike value moved much faster, they were demanding better products and that's where we found lacking.

Now we have taken cognizance of this. If you go and see our new collection by end of February in the stores, you'll see that you have much more cottons, natural fabric. It's a different range altogether. So that is how we have corrected it. There are still 10% to 15% of that carry forwards, which will linger on, but I think that's a small part. So this is how at least we see what has happened in our business and that's our assessment of how the business has been impacted in last quarter or so.

Varun Singh:

Right. And sir, how are we ensuring that this kind of event does not repeat in future? If you can say something.

Anant Daga:

Varun, two things. One, see in a fashion business, one off cases can happen and see the fact that in last 8 to 10 years, this is the first time something like this happened talks about the robustness of the process. This time also we went through the process. Unfortunately we prioritized a wrong attribute. So when we are correcting SS'23 and when we are looking at further ranges, we are doing the usual stuff. We are doing in-depth market studies, we are creating a range.

We are calling all our partners to see the range, give the feedback, give their thumbs up, let us know where we can improve. So this is something that we have followed for Spring/Summer completely and that's the best way when all our channel partners, when our customers, they are

there, they are also seeing the range and giving an affirmative rating on the range. I think that's the process we follow and that's what we have done now and that gives us confidence.

Varun Singh: Understood. And so when you say the online B2B business wherein primary billing was impacted because of the switch that we are looking to D2C because of the better business economics. So what is the -- I mean if you could give some objective number with regards to how significant was this? So online base was higher I understand, but what is the total contribution of the B2B billing to our revenue, sir?

Anant Daga: So if you look at this turnover, we lost almost 7% to 8% growth only because of this one item. So the impact in this quarter itself of lower B2B billing is somewhere in the INR 20 crores or INR 25 crores range.

Varun Singh: Okay. And sir, I'm sorry, I do not understand this part when you say that we are moving from B2B to D2C. So what exactly we mean by this? So we want to sell it directly to customers through our own website?

Anant Daga: Correct. So, what happened was, earlier the model say about 2 years a was completely wherein we used to do the buy and sell model with platforms wherein they would buy all the inventory and sell. So we didn't have a D2C channel at all. But now gradually lot of business is moving to direct channel wherein we hold the inventory and we are only using their platform to service our consumers.

So if you look at it from almost a Zero level or less than 5% level D2C, this quarter the D2C level is almost 2/3 of the total business. And when we are recording these secondary sales, the primary stock that our partner sites are holding, they are also making secondary sales on that without buying primary inventory from us. So whatever is in their store, they are also selling and hence secondary sales are higher.

Until the time this transition happens, obviously stock is getting sold from 2, but only 1 part which is D2C is getting recorded in our books. So this is the gap that I was talking about. Also in this process of shift obviously there have been some disruptions wherein entire D2C inventory is also not being exposed to consumer, which is getting rectified at a very good speed. So that should be online, but this is basically what is happening in the online channel.

Varun Singh: And in this method of selling wherein we are carrying the inventory risk, how much is the better margin improvement and how do you quantify inventory risk as well compared to the B2B model?

Anant Daga: So see, inventory risk is these are old season inventories and when we have an omnichannel presence, obviously these are fungible inventory. So I won't say there's an additional challenge out there in terms of inventories risk. Right now the D2C model, right now the margins are slightly lower than the B2B channel because this is a new channel and out there we have to now build our own website, build our own capability. So right now the margins are slightly lower, which should catch up eventually.

- Varun Singh:** Sorry, but you said that to the existing partners who were buying from us and then selling it on their platform. Instead of doing in this way, now we are selling it directly on their platform. So this is what I understood of D2C.
- Anant Daga:** Sorry, my bad. There are two parts to D2C. One is our own websites, which is growing at a very healthy rate wherein obviously we have to build the entire marketing base, consumer pull to our website. And second, when we are selling on their website. So, these are the two different parts of D2C and I was talking about overall margins.
- Varun Singh:** Understood. And sir, I'm asking about the third-party channel wherein we are selling and we moved from B2B to D2C. So on our website, sir, I understand. But for these channel partners, how much is the margin improvement, etc.?
- Anant Daga:** So Varun, frankly, there is no margin improvement right now. It's comparable, but there is no significant margin improvement because earlier there were a lot of discounting and all which they were bearing over and above whatever their margins were. So obviously there's not a gain right now.
- Moderator:** The next question is from the line of Harshil Shethia from AUM Fund Advisors.
- Harshil Shethia:** Firstly, my question was how much of our contribution comes from the LFS channel?
- Anant Daga:** You mean to say sales contribution?
- Harshil Shethia:** Yes.
- Anant Daga:** So typically it is about 37% to 40% range.
- Harshil Shethia:** Okay. And how much would be the large account that you said which is in trouble?
- Anant Daga:** So see, that was overall -- it was about 3% to 4% of overall business so obviously about 10% of the LFS business. I'm giving you broad numbers.
- Harshil Shethia:** Sir, my second question was going now that we've corrected the whole designing end with our SS'23 launch and everything, what kind of EBITDA margins on a long-term basis would be sustainable for us?
- Amit Chand:** This is Amit. I'll take that call. See, we have started referring to PBT post 116 accounting. So if you look into our historical profitability, it used to be in the 14% range. We believe that with sales recovery at the stores coming back whenever we achieve the recovery at a pre-COVID level and some growth at a corporate level, we should be able to go back to those levels of profitability.
- There will one change, however, since the channel composition has changed and we believe that online will be a marginal share of our pie compared to what it was pre-COVID that delta and within online B2B shifting to D2C, combination of all of these may create a certain dent on our profitability as a metric. But if you look into the profitability at a channel level, I think we can

go back to those levels once we achieve 100% pre-COVID recovery with some growth on top of that.

Harshil Shethia: Okay. So can we say something like assuming all these Ind AS and everything now behind us, we'll be able to do around 10% to 11% on PBT level on a long-term basis?

Amit Chand: See, those levels are sustainable. Obviously, we feel recovery have to touch pre-COVID and beyond and those levels that you mentioned are possible.

Harshil Shethia: Okay. Sir, going ahead what would be our target in terms of growth for our EBO channel in terms of number of store openings and SSSG target that we would love to maintain for our mature stores also?

Anant Daga: See, I think if you look at next 3 to 5 years perspective, mid- to high single-digit SSSG and opening about 80 to 100 stores is something that we'll aspire for at least.

Harshil Shethia: Okay. And sir, are we also planning to enter into the men's segment going ahead or you would stick to the women's segment only or maybe expand our horizon from ethnic or indo-western kind of dresses or garments?

Anant Daga: No. So definitely, there is no plans of getting into menswear. We are a platform for women's apparels and obviously even in our existing ranges, we have capsules which are very indo-western. So all those things; apparel, accessory categories; these are something that in the long term we'll keep adding to our platform. But no plans of getting into men's.

Harshil Shethia: Okay. Then sir, in the long term you do aspire to go into the Western segment completely Western like say jeans or some kind of T-shirts or something like that or we'll stick to indo-western only?

Anant Daga: See, the way we defined our company's objective, obviously all those things are under that umbrella, but we'll keep prioritizing different initiatives at different point in time. But that's definitely a possibility.

Harshil Shethia: Okay. And that would be under the same brand name or a different brand would be launched?

Anant Daga: No, no. See, right now I'm just saying it's a possibility and we have not worked out any detail whatsoever around that. We'll take a call at a more opportune time.

Moderator: The next question is from the line of Rajiv Bharati from DAM Capital.

Rajiv Bharati: Sir, on your B2B issue, did you try, let's say, tapping into the MBO market a little more aggressively because, let's say, online guys and LFS guys were not exactly picking up inventory during Q3? And how has historically been for example the behaviour in terms of returns and possibly on the receivable metric also?

Anant Daga: No. So again as far as LFS and online goes, frankly, we have not got any challenge on either receivables or inventory returns. Obviously at times there would be some great extension on those, but minor stuff. In terms of MBO in fact looking at the market situation and the credit

scenario, we have actually pulled back from lot of outlets and we have curtailed that business slightly more. So we are present in MBO channel as well, but do it in a more curtailed controlled manner right now.

Rajiv Bharati: No. So the return part and the receivable I was actually asking from a context of MBO so because the other two channels are a little slow so possibly tap into MBO for the time being is what I was referring to.

Anant Daga: No. See, MBO is a very, very small channel for us. So frankly, and again out there, a couple of years back, we took a more conscious call of putting our stuff only in MBOs which can do justice to our brand and which have 100% credit worthiness. So in that aspect, we are actually curtailed. And I think, see, it will not meaningfully move the needle honestly. So I think that's where we are taking a more conservative call in that channel.

Rajiv Bharati: Sure. And sir, in some conversation, we have heard that Myntra has put out a GMV target 50% higher than for the current fiscal as compared to the last fiscal and it looks like they will pick up inventory what they have not picked up in last quarter. So this B2B to D2C, is it required or because once things come back, your B2B itself will fire?

Anant Daga: So see, there are two things. One is obviously nothing has become Zero. It is just from quarter-to-quarter it becomes more difficult to explain to you. I exactly don't know what can happen in Q4 and again in Q1. But from a long-term directional point of view, I think business is continuously going to move towards D2C and that's what I was alluding to in one of the previous questions.

Rajiv Bharati: Sure. And if you can talk about your -- when did your end of season start and as compared to the last time and when did it get over?

Anant Daga: So this time end of season sales started towards second week of December and it's just ended so it was about 2 months. I think it was about a week or 10 days extra over what pre-COVID typically would be. I think slightly delayed onset of winter actually also made people advance it.

Rajiv Bharati: Okay. And in terms of the range failure where you basically optimized cost, what part of this inventory is still left in the system? You mentioned something like 10%, 15%? Is it possible to specify the quantum?

Anant Daga: So see, I don't want to give a number right now. But about 10% to 15% of the inventory is what we'll have to resolve for in the next 6, 7 months in terms of liquidation channel and that's the quantum broadly.

Rajiv Bharati: Okay. 10% to 15% of the entire inventory is basically this and this was largely festive inventory, right?

Anant Daga: Yes. This was more festive inventory, you're right.

Moderator: The next question is from the line of Vikas Jain from Equirus Securities.

- Vikas Jain:** Sir, my first question is with respect to again stressing with this B2B sales point. Sir, was there any conscious call that we took with respect to lowering our sales with the B2B client and then boosting our D2C sales or it was like naturally it came from the partners and said that they reduced their orders or pickups from us?
- Anant Daga:** So see, we have continuously been working with our partners to have a more uniform discounting, better brand representation. So all those have been going on in the background. But frankly, B2B business also was very good for us so it's more from the partner's end that their model is undergoing a change rather than us really pushing for it.
- Vikas Jain:** Correct. So what I was pointing to was it's not anything which is related to specifically to a TCNS. It is like all players will be same, right?
- Anant Daga:** No. So, there are two things out there. One is historically not everyone had a B2B model. So there were few partners who had B2B models with these people and this is basically before COVID hit, it obviously used to be highly B2B. And now that shift has happened of late, for us we have been parallelly building our website business which was a focus area. But on the third-party marketplace model, obviously that accelerated push has come from their end.
- Vikas Jain:** Sure. Okay. Sir, one more thing. When you did say that of course the margin profile in our D2C business is currently quite lower and would increase only upon scale up. So what is the margin profile that you're targeting on D2C segment that would like eventually shape up our company level margins going ahead?
- Anant Daga:** No, see. So out there, frankly, we won't like to share very granular details on this. But as we have mentioned earlier also that typically for us, online has been a reasonably profitable channel. Obviously it's much lower than EBO and MBO business. So we would like to get back to those levels, which could be lower than these, but definitely double-digit profitability contribution.
- Vikas Jain:** Right. But achieving a certain scale, it would definitely be much more profitable than the current third-party online marketplaces that are used there, right?
- Anant Daga:** So just to give you an idea, every full price merchandise that I sell on my website is the highest margin sale across business. So as we build our own website stronger and stronger, as we do more full price and lower discounting product, that margin profile will keep improving. But again it's a journey.
- Vikas Jain:** Sure. And one data point here, what would be our share of own website in total online sales that we do?
- Anant Daga:** So this quarter it's about this year so far it's about 25%.
- Vikas Jain:** Correct. And that's exactly what we were talking about where we achieved the highest ever sale when we sell at a full price MRP, right that 25%.
- Anant Daga:** No, sorry. Our website sales as part of total online sales is 25%. There's a low double-digit number which is full price.

- Vikas Jain:** I get it, yes. Sir, one additional question with respect to the range that you were talking about that didn't work well. Of course as you mentioned, it would form around 10% to 15% of our current inventory. But then is the thought process that that would be like a liquidator with the higher EOSS that happened that just concluded or it will be like what would be the need of disposal of these inventory that you are planning?
- Anant Daga:** No. So typically see, these get liquidated through all liquidation channels and it happens over couple of seasons. So that's what you see every year, we have inventories which are left over and these are the liquidation channels that we use. So in this process, obviously this time that quantum is slightly higher, might take a quarter or 3, 4, 5 months extra, but that's about it. So regular liquidation channel will be able to liquidate that.
- Vikas Jain:** Sure. And lastly, what was in this quarter any inventory losses that you booked and was it above the normal level?
- Amit Chand:** So this is Amit. I'll take that question. So we have a dormancy policy, which is anyway very aggressive in nature. We start taking a dormancy hit on our cost once the product reaches season minus 3 and we keep on taking sequentially higher hit as the product moves on to older seasons.
- The reason why we have this kind of a policy is that being a high gross margin business in more often than not cases, we don't need to provide for any dormancy even in season minus 3 and the reason is that even when we liquidate sales either at a store level or online or any of the liquidation channels, the realization is higher than the cost. So yes, we did take a dormancy hit in Q3, which is as per our regular policy, which is anyway aggressive in nature.
- Vikas Jain:** But in any case it was not abnormal than a normal inventory write-off that we take?
- Amit Chand:** No, it was not.
- Moderator:** The next question is from the line of Shivaji Mehta, Individual Investor.
- Shivaji Mehta:** Sir, I had a question on the markets of Bihar and UP. If you can give some colour as to how they're performing given that they had suffered from poor rainfall in the kharif season, but with rabi crop expected to be good, are we seeing some traction here?
- Anant Daga:** See, overall in one of our earlier question, I just mentioned that UP has been one of the most impacted markets for us and think for the industry overall. So, there have been multiple reasons for that. So as of now, frankly we have not seen any update. We'll have to see how things move in coming months. But UP as a market has really struggled.
- Shivaji Mehta:** Right. Sir, my next question is on the cotton prices. They've corrected a lot from the peak of about INR 100,000 per candy. Are we passing this on to the consumers in terms of lower pricing or are we kind of retaining some bit of this?
- Anant Daga:** No, no. So we already work at very healthy gross margins. So most of these benefits will be going back to the consumer and it will reflect on the product value.

- Shivaji Mehta:** Sir, my last question is on the new forays of footwear, etc., that we had gotten into. So if you could just give us some colour on how these are performing?
- Anant Daga:** So see first, let me just tell you like when we talk about footwear and cosmetics, jewellery and all, these are essentially extensions of brand W and the idea was to create a full lifestyle brand out of W and have mega stores on the same. So with that perspective, we started these categories.
- So today if you look at some bigger stores where all these categories are present without cannibalizing space for W apparel, which are bigger stores, they are already contributing to mid-teen kind of percentage numbers for these Project Rise stores. So that is the way we are building. As we open more bigger stores, I think these will continue to build. Idea is to have at least 25% contribution from non-apparel in next 2 to 3 years' time and that's the journey we are on.
- Moderator:** The next question is from the line of Sunketa Gangareddy, Individual Investor.
- Sunketa Gangareddy:** My first question is, you are increasing your stores as well as revenue, but why there is less profit?
- Anant Daga:** Now we have said the new stores are profitable but the existing stores don't have sale recovery and in retail sales recovery is very important, it is because of this there is margin loss which is reflecting. Secondly, last year there were some benefit, rental savings and all are not this year and impacting us. And the loss in B2B business is impacting us, these are the key reasons.
- Sunketa Gangareddy:** The new stores which you are opening, if there is no profit why are opening new stores?
- Anant Daga:** The new stores which are opening are getting profit. We are not opening any loss making stores. Keep patience for one season, for three months you can see the performance, as sales get pick in one season then obviously we'll get profit. What you are seeing is pre-COVID 85-90% level of sales. As the sales get back for which we are trying with range and operations then you will see the impact.
- Moderator:** The next question is from the line of Vishwajeet Bhandigare from Alpha Valley Advisors.
- Vishwajeet Bhandigare:** My question was on the balance sheet front. I can see in the annual report of 2022, in the footnotes you have mentioned like the assets have been pledged against the borrowings. I just wanted to ask if there are no borrowings, why the assets are being pledged?
- Amit Chand:** This is Amit. I'll take the question. So we had these limits that we had even before the COVID period and during COVID we were unsure of how the impact of COVID will last and what will be the impact on the financials. So we want to retain these limits with us and as we were coming out of the COVID, again the strategy for us even for the current year was to push on to growth initiatives. So to answer your question simply why we have not been dipping into debt so far, it is always good to have a cushion with us in terms of limit and these assets kind of are hypothecated against those limits. There's not a significant limit that we today have so about INR 50 crores, INR 60 crores and Anant mentioned in one of the questions earlier that as of December end, we were having cash of about INR 30 crores, INR 35 crores. As the recovery

starts happening and we want to invest into opening of 80, 100 stores on a per year basis. So it is only prudent of management that we continue with those limits and hence the hypothecation.

Vishwajeet Bhandigare: All right. The second question was on the fund of ESOP schemes. First question is like, why do you have so many complex ESOP schemes? And the second one being like the total outstanding options is like 11.5% of total outstanding shares. So could you please give your thoughts on that?

Amit Chand: Yes. So if I understood your question, it was more about the complexity of the scheme. See, these different ESOP schemes we introduced at different point of time as the organization became more mature and we wanted to incentivize different level of people. So before we went for the IPO, we consolidated different schemes that were existing at that point of time into one scheme, which was 2014 to 2017 scheme.

Post which, we introduced just one scheme which is what we call 2018-2023 scheme. And within that scheme, there are three different components. One of it is linked to longevity of the people staying with the company and in certain cases performance specific to verticals. There are other two parts, which is more to do with the pricing of the company. So if you look into just the current scheme which is 2018-23, it is relatively simple. There is one part which is to do with longevity and there are two parts which is to do with the value creation in terms of how the share price moves.

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

Devanshu Bansal: Anant, so I have two strategic questions. So basically ethnic category has been seeing slower recovery versus other categories. So I just wanted to take your thoughts as in what gives you confidence that growth in ethnic will continue when western is also picking up. Since you know the business in and out, if you could just help us understand as in what are the key drivers that should help ethnic to sort of continue growing over the medium term?

Anant Daga: No. Devanshu, in fact this is what we are seeing right now in the market. So post Puja, the demand for ethnic has gone up and it has come at par with many other categories. So it is not like a hope. It is something that we are seeing in the market right now.

So if you look at two categories, which were men's formal and ethnic, they were slightly slower, but both of them are bouncing back. So as people have started going back to office, more and more physical -- these physical things are opening up. I think this was bound to happen and this is what we are seeing right now. At least as of now for last 4, 5 months, this has been a consistent trend.

Devanshu Bansal: Got it. And the second question was on discounting at online marketplaces. So your products are available at even more than 50% discount and even you mentioned that at your own website full price mix is only 10%, 12%. So as a consumer I feel that this is really confusing as in for consumers to sort of decide where to buy from because as a consumer, I don't know whether online is getting old articles and at the store it's the fresh one which I'm going to get. So in your view, do you feel that this in some sense sort of impacts our brand image and what are you sort of doing as in taking steps to sort of keep a uniform pricing across platforms?

Anant Daga: No. So Devanshu, there are 2 parts to this. One, first of all, there are very different consumer cohorts. So there is a price seeker, value seeker and there is a variety seeker. So a full price consumer is a variety seeker who wants something latest and it's out of convenience and choice that she is coming and buying full price online.

Wherein if you look at a 50%, 60% discount customer, they are a value seeker. So when they go on a site, the first filter they use is over 50% discount. So these are 2 different customers and they co-exist. So I don't think there's any challenge that way, number one. Number two, coming to price parity, you see a very, very broad for the fresh season, there's 100% price parity. You wouldn't see a price parity issue in online space for price of the fresh season.

Moderator: Yes, sir. Sir, there is an issue with the management's connection. Participants, please hold while we reconnect the management line. Ladies and gentlemen, we have the management reconnected.

Anant Daga: Yes, sorry. So I was answering the question, I don't know where I left. But just to reiterate, on the fresh merchandise, there is absolute price parity so it's not that something is getting discounted somewhere and being sold on full price. As far as discounted merchandise, it's a very tight range. And inventories which are common is often at the same discounting across sites. The only minor difference would be in the B2B build inventory side wherein there could be some minor differences. But on an overall basis, it's maintained very well.

Moderator: Devanshu, do you have any further questions?

Devanshu Bansal: So Anant, my concern was if we want to address both the consumers, why address it by giving a discount? Why not price those articles at a lower price only? So why are we sort of giving them a discount?

Anant Daga: No. Devanshu, this is something which happens in offline also. So these are not online specific merchandise. So there are two kind of brands. One who obviously first inflates the price and then offers discount so that's not what we're doing at all. So all our products, these are full-price season sales, which after 1 season, 2 season, and 3 seasons goes on discount. Offline also behaves the same, online also behaves the same way. All the brands do this. So I don't think that – so it's not about inflated pricing at all. It is regular merchandise, old season at discount.

Devanshu Bansal: Yes. So I was coming from that point only, Anant. So I think this is because of excess inventory that doesn't get sold at full price and that goes on sale. So what are we doing to sort of reduce that inventory so that we don't have to offer that kind of a discount?

Anant Daga: So Devanshu, this is a different question altogether. First of all in fashion business, there always will be leftover inventories and there always will be something which will be sold on discount and this happens across brands. Now the quantum of obviously EOSS discounting and retail sales is inversely proportionate to how strong your season goes.

So obviously when there's seasons where you have a challenge, this is something that propped up. The idea going forward is to increase full price sale for which we have taken those initiatives, which we can discuss at length some time. So, we are directionally and completely with you.

We should reduce discounting. We should do more full price sale. The routes could be very, very different. But directionally, this is what even our attempt is.

Devanshu Bansal: Got it. And then last a bookkeeping question. So this quarter we have seen some players where margins were impacted due to realization of high cost raw material inventory. So do we also have that kind of raw material inventory where we have sold it at higher prices or our prices are more related to the current prices that are there in the market?

Anant Daga: I'm sorry, I've not been able to understand your question.

Devanshu Bansal: Anant, my question is on raw material inventory which is about 25% of our overall inventory. So this quarter there are certain players which realized margin decline due to realization of high cost inventory that they purchased, say, last year. So I'm checking as in do we also have some inventory which is high priced or our raw material inventory is more or less aligned with the current rates?

Anant Daga: No, no. Majority of that is aligned. Obviously there would be some greige and all which we keep, but more or less it is aligned with our current market prices. So we are not carrying any high cost raw material.

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

Anant Daga: So thank you, everyone. We take this opportunity to thank you for joining the call. We hope we have been able to address your queries. For any further information, please do get in touch with SGA, our Investor Relations adviser. Have a nice evening. Take care. Thank you.

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