"TCNS Clothing Co. Limited
Q4 FY2021 Earnings Conference Call"

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MANAGEMENT: **MR. ANANT DAGA - MANAGING DIRECTOR - TCNS CLOTHING COMPANY LIMITED**
MR. AMIT CHAND – CHIEF FINANCIAL OFFICER - TCNS CLOTHING COMPANY LIMITED
MR. RAHUL AGARWAL – STRATEGIC GROWTH ADVISORS
MR. AAKASH – STRATEGIC GROWTH ADVISORS

Moderator: Ladies and gentlemen, good day, and welcome to the TCNS Clothing Company Limited Q4 and FY2021 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 "*" 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 at TCNS Clothing Company Limited. Thank you, and over to you, Sir!

Anant Daga: Thanks so much. Good evening, and welcome to our Q4 FY2021 Earnings Conference Call to discuss the operational and financial performance for the quarter and full year. I am joined by Amit, our CFO, and SGA, our Investor Relations Advisors.

First, I hope you and your near ones are safe and healthy. I am sure that most of us have spent considerable time in last few weeks containing the impact of pandemic at both personal and professional levels. We have witnessed very strong rate on the people to overcome this unprecedented challenge, it is good to see the number of cases declining and the vaccination drive getting momentum. Our collective efforts will surely see us emerging stronger from this crisis. While Amit will share detailed financials let me share some key highlights of Q4 and full year, our perspective on the emerging situation and our approach on way forward.

Our offline sales started up well in Q4 even with a cautiously lower discounting than the market; however, due to initiation of lockdowns and restriction operating hours in the second fortnight of March the quarter got slightly impacted.

A happy aspect of this recovery was that number of markets specially a lot of tier 2, 3, 4 markets recovered beyond a near pre-COVID numbers. This has strengthened our confidence in the robust nature of underlying demand. Another project was on offline side is that we completed the rationalization of MBO channel and restarted primary sales in MBO in February with the launch of SS21 range. There is a pause on that because of the March second half disruptions but hope to build it once its takeoff.

On the online side our strategy of focusing on D2C has started showing healthy results. Overall online sales are more than doubled in Q4 D2C share of the marketplace grew 7x over last year though on a very small base but now it is contributing almost one-third of all third-party marketplace sales.

We have been investing in ourbrand.com and the resultant business has grown to about 2.5x contributing in double digits to total online sales. This growth of online has been built on back of world's best-in-class certified operations and portfolio network.

As you would recall, at the beginning of the year, in light of COVID-19, we set out a five-pronged approach for FY2021. Preserving the balance sheet strength was the primary focus, while retaining the ability to scale up as needed. We intended to focus on controlling costs, conserving cash, engaging our consumers, building organizational resilience, and seizing potential opportunities.

Let me share a quick update on some of the key achievements in this period. To start with, on the primary focus area of cash conservation, we are happy to share that we have been cash accretive since Q3 and have closed the year with higher cash reserves of Rs 182 Corers versus the opening cash reserve of Rs 171 Crores. This is in addition to utilized bank limits. Our continued strong balance sheet despite the adverse market conditions sets up well to tap into the growth opportunities as the market comes back on track.

On cost reduction front, we are well ahead of our estimated savings across all key items. Our rental savings of 45%, salary savings of 23%, and overheads of 29% are all ahead of the stated targets that we have shared at the beginning of the year. This is despite investing in building key capabilities such as an integrated warehouse, enabler supply chain for faster thought to sell and investing in new initiatives. Other focus areas for us were customer engagement, organizational resilience, and seizing growth opportunities. We have established capabilities to build a single view of inventory and leverage the same across sources to be showcase in soon to our customers through all D2C delivery models and by the third-party channels. This is reflected with accelerated online D2C growth as mentioned earlier.

On the offline side as well, we launched multiple direct to consumer initiatives such as virtual selling through our video calls, chats being embedded as core offering for the convenience of consumers. Phase I of the automated inventory management system has been rolled out to optimized inventory across EBO and LFS point of sales using data science and variables. This is the key project for us which will change the way we optimize, allocate and sell inventory across the value chain.

As we all know COVID second wave has significantly disrupted the business from middle of March 2021. Most of the retail network was closed for last parts of April and May, the stores are unlocking gradually in various part of the country and as on date we have around 60% of stores that are operational although with stipulated restrictions. Our supply chain which was disrupted in April and parts of May as well is now operational. With reduction of cases, gradual unlocking in the country and increase in vaccinated population, we expect meaningful levels of recovery by end of Q2 and onset of festive season.

While we are fully cognizant of the current market scenario, we believe we need to balance long-term growth opportunities with near-term challenges. We see a limited window to lock-in long-term accretive real estate opportunity and are embarking on an accelerated store expansion plan and will target opening 60 plus net stores in fiscal 2022.

We have already signed 30 plus stores which will open in Q2 and Q3. Strategically, we are adopting a two-pronged approach project Rise which is upgrading our flagship stores across all the locations and Project Bharat which is entering into Tier 3, Tier 4 markets through franchise route. As you all would know this year, we had completed EBO channel network wherein we have been gradually closing stores because of which overall recovery rates also has come down but with addition of these stores next quarter onwards we should see a significant built off.

Even on LFS front we should be able to add 200 and 250 stores further strengthening our network. Online is expected to evolve at a fast pace and should see another year of robust growth for both brand.com and third-party marketplace. Additional channels, newer business models, personalized digital marketing and online search product ranging as some of the initiatives which will drive this growth. We are also looking at the coming season to build on a link product initiative which has not seen a regular full season yet. Cash conservations will remain key focus area and we will again aim to add cash to balance sheet through our laser focus on working capital reduction and cost controls. Investment in capabilities building with further pickup pace with full rollout of automated inventory management system set up of design incubation cell and shortness of the sell time.

To summarize the interaction given the confidence gain from navigating to FY2021 our focus shifts towards investing and building growth run rates and key capabilities while continue to manage the evolving demand scenario in the market.

I will now request Amit to take you through key financial highlights for the quarter and the year.

Amit Chand: Thanks, Anant. Good evening. We sincerely hope that you and your families are keeping safe. Let me share the update and our financial performance in FY2021 Q4 and full year. Our Q4 revenue was Rs. 221 Crores which is marginally higher than our FY2020 Q4 revenues of Rs. 219 Crores. The quarter was disrupted post mid mark with the emergence of second wave of COVID-19.

Our gross margin for the quarter was 57.5% similar to our last year gross margin of 57.9%. Q4 for us typically a low margin quarter as seen over the last few quarters' few channel mix and inventory dormancy on low sales base having impact in Q4 as well though the quantum of impact has scheduled substantially. The company has generated positive EBITDA for the quarter of Rs.41 Crores versus last year EBITDA of Rs.4.3 Crores. PBT for the quarter was Rs.4.7

Crores versus a loss of Rs.36.5 Crores last year. We delivered PAT in Q4 of Rs.3.9 Crores versus a loss of Rs.23.8 Crores last year.

During the quarter we closed 18 stores and opened new stores taking the store count of 551 stores.

Now let me take you through the full year performance of FY2021. Our FY2021 revenue was Rs.635 Crores versus 1,149 Crores last year. We incurred a PAT loss of Rs. 56.4 Crores in the year versus a profit of Rs.69.4 Crores in FY2020. As Anant mentioned our key focus in FY2021 was to maintain our balance sheet strength which is reflected in the cash reserves of the company we started the financial year FY2021 with a cash reserves of Rs.171 Crores and ended the year with a higher cash reserves of Rs.182 Crores this achievement was supported by a cost reduction as well as release of cash from working capital.

During the year the company achieved significant savings on various costs sides, store rental is a large cost item for us and here we achieved savings of roughly 45% in the year. Savings and employee cost other overheads were 23%, 29% respectively overall savings on the total cost item was to the tune of 30% plus.

Thank you we are now open to questions. Since we are the only listed entity in our segment, we might not be able to share granular details that could be competitive information we request your understanding of the same.

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

Nihal Jham: Thanks a lot. Two questions from my side. First is if I look at your performance on the topline side while you allude to that the last 15 days had the impact of COVID but even if you break it into the first 75 and the last 15 days, I was just expecting that maybe the recovery or the growth would have been better off considering at least the impact in the last 15 days of last year was much adverse then the last 15 days of this month. So if you could just give a little more color in terms of that bifurcation or in general in terms of how the recovery standout that will be helpful and just adding to that even if I look at channel wise growth what I do notice is that the maximum impact has come on the EBO channel and here also I think that as the closure be more than what we were initially guiding, if you could just address that then I will come to my next question for you guys?

Anant Daga: Sure, and a very fair question. I think part of that it has been as per your understanding so if you look at EBO our network was competitive. We closed about 40, 45 stores and this is what I think from day one we were guiding. Unfortunately, there were lot of rental negotiations which kept lingering on so we never could get up perfect hold on how many stores would finally get shut but I think that created a big impact as far as EBO overall recovery goes. In terms of like-to-like store sales recovery we were about 92%, 93% and not materially different from LFS also so same store sales recovery was impact online. It was impact us conceited store network. So that is one. Second if you look at the secondary sales there are channels like MBO and all where we did meaningful secondary sales consumer sales, but we still did not do any primary sales so while we use these primary sales so on primary basis the recovery looks slightly lower, but if you take actual consumer secondary recovery that obviously was higher. So, these were two key reasons and third if you look at break into quarter wise, generally we are very conscious about lower discounting and hence obviously our sales recovery was slightly lower because we were focused on containing discount and to that extent, we have been able to contain discount very, very effectively compared to market in our previous performances as well. Our post EOSS recovery was in fact it was tracking very close to almost 90%, 95% on normal levels for most of the tier 2, tier 3 markets, and tier 1 also we started crossing 75%, 80% across major markets but last 15 days especially with Holi being in it, it got impacted more than what we thought. So, these were the some of the key reasons, while our recovery could have been better but got impacted.

Nihal Jham: If I may ask for the first 75 days of this quarter what was the recovery like?

Anant Daga: While we would not like to give much granular details, but I am just saying post EOSS which is mid February onwards till mid March, we were tracking our same store sales were tracking almost 90% plus against pre-COVID levels for most of the part except airport stores in one or two big cities.

Nihal Jham: Just one more question from my side. I know Amit mentioned that Q4 is traditionally a quarter where you do lower margin and this was a thing in the past also but I think one of the key driver this quarter was that we were launching a fresh collection and assessment even in it as you alluded to the fact that there was a much higher share of sales from that coming so would it not that our margin this quarter should have been similar to our earlier levels pre-COVID that was in excess of 60%, 62% just if you could highlight your thoughts on that?

Anant Daga: Typically, what happens is new season gets launched in mid February and the full price season sale typically second to third week of February till end of March so in fact it was the full price season which got more impacted rather than the old season merchandise. So that is one and second thing when you look at gross margin these is two impact one is the impact of channel mix so our online was still higher than the normal levels then online we have always discussed in past also that the gross margin level they have been impact because that is how the channel is structured in terms of cost and revenue recognition while at the bottomline it all evens out but then higher online share will always have an impact on the gross margin though was on PBT levels, so that was the bigger reason for Q4.

Nihal Jham: That is helpful Anant. I will come back in the queue if I have further questions. Thank you so much.

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

Vikas Jain: Thanks for giving me the opportunity. Anant, the point I was trying to ask is how the MBO is looking like from now here on since the primary billing has also started is the pickup good and some color on it?

Anant Daga: Vikas there are two parts to how this has been shaping one overall what is happening at the channel level and second where are we in our journey of rationalizing the channel. So, you know before COVID wave two, we have completely rationalized the channel. So, we are good to go. So, from our company perspective, I think that channel is ready. Having said that overall, again with the COVID wave two hitting that channel is under some stress. So broadly the channel is under stress but as far as our business is damn good it is not streamlined, so I do not think it will still be growing at a rate where it was pre-COVID because of overall stress but at least from our perspective this should now build much strongly that what we saw in last year or last to last second half. It will still take probably a couple of seasons more to come back to normalcy but at the variant should be seasonal.

Vikas Jain: You also talked about some of the initiatives of this automated inventory management systems and integrated warehouse that we have like started on so can you just throw light how much could be the expected benefit that we expect coming out of this new technology initiative?

Anant Daga: See Vikas while it is slightly difficult to exactly quantify this, but our conversations with people who have implemented this automated inventory management system we could easily look at about 10% to 15% reduction in inventory stocking level at store level so that is the benefit that should come but integrated warehousing should give us two benefits; one is we are ready for new age D2C delivery model which was not enabled in our earlier warehouses. So, this is one. Second we get up to new categories which again was not the case with old warehouse and third of course there will be first of all cost rationalization over longer period because now we had put everything in one warehouse which will run more efficiently and secondly if you help us reduce our time and effort in getting stocks connected throughout the country so those are some of the benefits which will come out of this in terms of readiness for new channels readiness in terms of cost saving and third is better efficiency.

Vikas Jain: Thanks, Anant. I will join back to the question queue. Thank you.

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

Garima Mishra: Thank you so much for the opportunity. First question you ended the year with roughly 551 EBOs could you just give some more granular details has to what you think this number could be up by in say in the next couple of years. You did mention Anant I think in your opening remarks that you would take the franchise route maybe to add more stores, so any sort of sense there and in particular from a brand strategy, do you think you will go aggressive on Elleven that we have four stores now do you think there is potential to be aggressive there and open a lot more stores and sort of run that brand up?

Anant Daga: Garima, this year we will see opening at least 60 net stores out of which half of them we have already signed, and we are in process of signing more so we see a very, very lucrative window and now with having ruthlessly shut and completed our network last year we are set to go for an aggressive expansion. So, 60 stores this year and at least similar number next year we can easily assume that on expansion part number one.

Garima Mishra: These are net right, Anant net of closures?

Anant Daga: Correct. See there would be 15, 20 regular closures right and the gross numbers would be slightly higher. Coming to Elleven, see right now we were all set that we have signed another three stores for Elleven but again with COVID wave two it has just gone on a pause slightly some pause so maybe we will pick up the that from September, October onwards but Elleven again our plans are to open at least another 15 stores this fiscal and run a full scale pallet for that which we have not been able to do because we have taken a EBO route and that got really disrupted.

Garima Mishra: What is the performance of the three or four stores you already have?

Anant Daga: Couple of stores are showing good progress, couple of stores are shut because of they were on high streets, we could not do enough marketing and that sales anyway are slightly lower. I do not think it is fair to guess the performance of these stores because there have been any hardly any marketing, the markets have been disrupted. Let me answer this question once we have at least three months full scale operations. I think that would be a fair time to assess the impact of this channel once we have a pilot with the stores running properly over at least three to four months period.

Garima Mishra: My next question was on this warehouse integration and D2C kind of a strategy that you are evolving and how many more months for this process of progress to sort of take-off and so you to complete the project.

Anant Daga: Garima if I understand you correctly you are asking specifically about D2C initiatives or inventory which one are you talking about?

Garima Mishra: I want to know about both actually because the warehousing bit I think the D2C one will probably be more of an evolving theme yes there will be some upfront sort of integration of stores but it would remain evolving but more so of the warehouse management, etc., the projects that we have undertaken how far along are you towards completion of the same?

Anant Daga: Warehouse, we should be able to completely integrate by November provided there are no more disruptions. So, our original target was about August which has got shifted to November. So, by November we will have one consolidated warehouse up and running. In terms of automated inventory solution, the first part about allocation has already been rolled out. The second part of planning again is slated to get over by December completely by December so Spring Summer 2022 Season will be fully on the new system at least for Brand W, for Aurelia it might take one more season, so we are doing brand wise.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.

Prashant Kutty: Sir first question is a bit on the working capital side of it. So, while obviously if you look at our revenue numbers we have been fairly down but we have not seen a reduction in our overall working capital side especially our debtor days so just want to check on that part has that part of the debtor which is largely because the brand debt has that kind of come up any clarity on that if you could give or what is the timeline for that?

Amit Chand: If I start with the debtor's part of it so our quarter four sales is comparable to the last year's quarter four sales and the debtors have come down by 10 Crores while the sales have been similar. So, there we do not see a stress in any of the channels that we cater to and so most of the amount is recoverable and whatever is not recoverable we have already provided for the same. If I move to the inventory part of it a larger part of this inventory is what we keep, and the inventory that we hold on as of March 31, is mostly in relation to our expectation of the kind of sales that we will be doing going forward. So, in the month of March, we were ready to launch our spring summer merchandise entirely and the inventory in relation to that now unfortunately with almost one and a half two months getting impacted a part of this inventory we are getting forward once invested but we do not see a stress there. Anant already mentioned in his call that one of the key initiatives that we had laid out for FY2022 is to further bring down our entire working capital levels and inventory reduction will be a part of the immediate initiative.

Prashant Kutty: Just a follow-up on this so obviously when you said that debtors have largely provided for but typically if you look at this number did with close to about close 95-100 odd days kind of a number what will be a more comfortable levels you as far as the debtor levels are concerned because you will start seeing the overall other brands starting to do well as the recovery kind of comes back on track so what is the more steady state number for you as far as the debtor days are concerned?

Amit Chand: Yes. I think it can potentially come down by another 10, 15 days in really a stable state scenario but as of now we are fairly optimized on our debtor days already, so the potential is maximum going to be another 10 days or 15 days but its imagination on a steady state basis.

Prashant Kutty: The same thing for inventory also what will be a more steady state level as far as the inventory days are concerned?

Anant Daga: Yes, I think let us comment on the total working capital days; however, our stated goal is that we want entire working capital which used to be around 120 days. We want to reduce it to 105 days in the short-term and probably a double-digit number in the long-term.

Prashant Kutty: 105 in the short-term and double-digit in the long-term. Also, just one last question if I could actually ask in terms of channel wise, I am sorry if you just made a comment on that how does the channel wise growth look like at this point of time also in terms of EBOs if you could probably we have seen a lot of EBOs getting signed up in this particular quarter as well so what is the target on that front from a next couple of year perspective?

Anant Daga: See online should see growing at a healthy rate. As a company we are already sitting on a consistently higher phase and most of the fashion brands and we ourselves are pushing this agenda very, very high. So online should be the highest growth channel. MBO probably obviously it will recover and then the growth might be on the lower end. EBO and LFS should go hand and hand if EBO being slightly ahead than LFS in the short-term because we are again building the base so that is how we see next two to three years in terms of growth.

Prashant Kutty: What is the share of online right now do you share that?

Anant Daga: Yes, for the full year it has been about 28% and for quarter four it is about shared over 21%, 22%.

Prashant Kutty: Thank you.

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

Susmit Patodia: Good evening. I hope everybody is safe as far as the pandemic. My first question is we saw a differential in growth rate between W and Aurelia so is that pointing towards more occasion wear you get some behavior that you have seen and if you can just talk towards that?

Anant Daga: I think when we are looking and comparing growth this season and recovery not only within ethnic wear company but in the apparel industry overall, we need to consider different categories and different channel and geography mix because this time the recovery has not been very, very homogenous. So, for example there are few categories which have done better, there are few geographies and channels which have done better because of the COVID impact nothing to do with anything any other macro environment so if you look at Aurelia and W also the biggest difference is that channel mix and the geographic spread. So, Aurelia usually is very thick with all the value format retailers wherein W is the more departmental stores, and the performance difference has been marketed different between the two. Similarly, EBO the higher number of closed shirt and in fact is W than Aurelia so obviously there is a difference from this channel and geography mix and partners mix which has made Aurelia grow faster. Having said that there is some impact also of the fact that Aurelia probably made more day wear, more easy to use products than any other brand and as a result in the market not only at least W but I think if you do a channel check probably Aurelia will emerge as the best performing ethnic brand across so that benefit was there but a large part also said because of channel and geography.

Susmit Patodia: My second question also is for rental and concession so this will be confusing. What is the outlook towards the rental expense for the next two years because there are lot of those concessions will be rollback plus you will have extra cost of the 60 stores that you have opened. So, if you can just help us understand this a little bit, please?

Anant Daga: Typically, this is our rental base to start the year would be about Rs 130 to Rs 140 Crores. I can come back with a more precise number later. So that is the base and now depending upon concessions it will fall somewhere so last year we saved about 45% and this year we will see how the negotiation goes. Now this is the starting point and the more EBOs that we open obviously this will get added to.

Susmit Patodia: Lastly just on the cash flows, if I may I am sorry any of you can take the questions. The outflow on account of lease liability is flat Y-on-Y so where does the concessions get adjusted it is only on the rent line item is it that how it works accounting?

Anant Daga: Sorry can you repeat the question again.

Susmit Patodia: If you look at cash flow from financing activities payment term account of lease liabilities is flat -100 Crores, -100 Crores so I am just wondering how the concession will get accounted in the cash flow segment?

Anant Daga: Yes, so especially the cash flow that you are looking at is this was the lease payment so what we did was that time being get accounted for the savings towards the year of our significantly higher quantum what we did towards the March end and if let you recollect last year margin was fairly impacted quarter so we deferred some part of the cash flows into the current year and while we have accounted for the entire savings in the current year, there have been some lease payment which pertain to the leases that we have signed afresh in the last quarter and the current quarter so I can get back to you with exact specific details of how much of it is pertaining to the last year that we get in the current year but broadly.

Amit Chand: So Susmit maybe we can do a call Skype later to just explain this more in detail.

Susmit Patodia: Yes, please sure. Thank you and all the best.

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

Varun Singh: Thank you. Most of my questions have already been answered. just two questions, the first is that on large format stores as we say that we have added 58 store counts on the channel and over last few years we have done kind of 500 store additions on large format store front so while we do not see and of course as per your commentary EBOs are largely to grow at a higher rate compared to large format stores so I mean how do you explain this and this is store addition on large format stores and whereas on revenue growth front we are slightly moderate in terms of the guidance?

Anant Daga: No. I think what we are referring into past. So even in future we believe this year also we will end up opening at least 200, 250 stores. We expect lot of stores are coming from tier 2, tier 3, tier 4 expansion in that per store turnover right now will be there, when you talk about, it, this was not a normal year. We have never so aggressively shutdown our stores because see why did we shut our stores first we did not get proper rental deals and our stores are there is not a store most of their written-down asset value was very low so we have always had a chance of upgrading it so now that completed days over next two years the rate of expansion that you will see in EBOs could be far higher and that is the reason why I said when you will see a slightly higher growth but having said that see it is an interplay few of the LFS might also get very aggressive and we might open more doors and do better throughput so then they are hand in hand. I just feel that next two years EBO growth could be potentially higher.

Varun Singh: Lastly on Aurelia versus W so for example this quarter Aurelia grew at 11% whereas there was decline in the W both I understand you mentioned about a difference in the channel and in the presence as well as the category in which it operates but overall you think that this value trend is likely to persist for maybe minimum, I mean of course we are targeting 70% kind of vaccination till December for next two to three quarters you expect Aurelia to grow at a higher rate compared to W?

Anant Daga: See there are two differences and let me just call those out. One is last time when we saw the recovery happening there was a big lag in tier 1 versus tier 2 versus tier 3. This time at least the first 14 days data does not so that bigger lag so we are very surprised with some of the cities like Pune and Mumbai and Delhi rebounding better so one i don't know whether that will play or not its not a question of value retailer versus departmental store or more premium location it is just about where the unlocking has happened and where the consumer have come back last year in COVID tier 3, tier 4 were not impacted at all this year they are impacted so I am not very sure whether that trend will continue. So that is one part. So, it is not about just about value product versus the premium product, it is also about where the unlocking is happening and what channel for firing. Second, structurally I think Aurelia will keep growing faster than W because first is on a smaller base, second we see a huge upside of this because we have not done full scale marketing very meaningfully over a longer period of time so we have some plans around Aurelia marketing and Aurelia brand building and I hope that will give us an additional fillip in times to come so we also internally our strategy also to grow Aurelia based on intensity brand building better presence so that is something which will happen, which should happen.

Varun Singh: Sorry Anant my question was primarily that for similar kind of product for example if we say that Aurelia is available at a relatively lower price point compared to W as a brand so of course I am referring to this from price point perspective and not from channel wise perspective. My question is primarily that do we expect of course overall we see that value focused brands and products are growing at a faster rate therefore do you think that this very brand is likely to grow at a higher rate assuming that all the channels are allowed to operate?

Anant Daga: No, so what we are seriously our brands are not matured brands yet so all these brands have lot of headroom to our grow maybe value retail will grow slightly faster than other retail so there could be that effect but what I was trying to explain was see part from that the fact that Aurelia has not been suppose to a full scale brand building and it is still slightly more in nascent stage obviously the growth would be more.

Varun Singh: Thank you very much. That answers my question.

Moderator: Thank you. The next question is from the line of Prateek Chaudhary from Bowhead Investment Advisors. Please go ahead.

Prateek Chaudhary: In our previous calls, we had communicated that we were carrying a lot of SS20 stock with us because of the first COVID wave and we were suppose to dispose a bulk of that in January to March 2021 which is the just gone by quarter and we would also previously mentioned that around 20% to 25% of our earlier inventory that we were carrying were stocks that we were carrying from SS20 so if you could give a number on what is the current percentage of SS20 stock that we are carrying in our current inventory?

Anant Daga: See I do not have that granular details right now and frankly see 90% plus inventory that we carry are pre-seasons and more current and that is what we track and we share so there it is and second you are right we shared last time that we are carrying significant merchandise from SS20 to SS21 and are giving it in MS20 and that is the reason if you look at the inventory levels in September it was higher than March when you look at this March we can able to down stock about 15% of that inventory which was as what we communicated I believe in earlier calls also that is how we had planned at this.

Prateek Chaudhary: You said it is lower than 15% now?

Anant Daga: It went up to I believe about Rs 335 Crores odd and now it came down to about Rs 280 Crores, around that and this is what I think the communication earlier calls out, so that forms brand and season merchandise.

Prateek Chaudhary: How much of your stock would be more than a year old now?

Anant Daga: We typically look at three seasons. So, beyond that it would be about 10%-odd probably.

Prateek Chaudhary: 10% odd and three seasons means beyond one year, is that understanding, correct?

Anant Daga: Yes, because you see in apparels you have to go by season, financial year do not make sense. So, depending upon which month of the seasons, where it could be 12 months or 15 months.

Prateek Chaudhary: Okay and could you share the dormancy provisions that we did for Q4 FY2021?

Amit Chand: We do not potentially share dormancy provision, but we had a standard dormancy policy which we have been using for a fairly long period of time and we have been mentioning that the dormancy freight on every quarter's it is standard. Unfortunately, what happened in the Q1 and Q2 of the current was that the sales base was low and the hits that we take on dormancy got exaggerated because of that factor. But only point we can share is that dormancy policy is aggressive and we have consistently followed.

Prateek Chaudhary: I think in Q3 FY2021 it was around 4% of sales, so is it fair to assume that it was probably a similar number in Q4 FY2021?

Amit Chand: We typically provide dormancy by looking at the ageing and like Anant was mentioning 90% of the stock typically that we carry is less than three seasons old and the dormancy is not a hit as a percentage of sales. It is an absolute amount that we provide on the inventory that we carry, now that absolute hit that we take on the dormancy is depending on what sales we have done in the quarter could be of higher percentage or could be lower percentage.

Prateek Chaudhary: Sir, if I look at your gross margins quarter-on-quarter despite the larger contribution coming from online and other channels remaining the same, but our gross margins even on a quarter-on-quarter basis have contracted by almost 3% points. So, has the industry seeing extreme discounting or lowering of price points because you want to clear off inventories or if you could may be give your thoughts on that?

Anant Daga: I think Amit just explained some time back when you look at gross margins, you have to see the quarterly play in it. Typically, Q4 is the lower gross margin quarter for us. If you compare it with last year on normalized basis I think the gap between the years have really come down over each quarter and that is what we mentioned in the first call itself that as the channel mix continues to get back to normalcy and as the sales base comes back to the original numbers, this gap should reduce, because there is no structural change out there, except for the fact, that are slightly more shift towards the online will reduce the gross margins, because that is the way the cost structure of the channel is set up. So that is the difference. I think in Q4 our gap has reduced versus last year and if sales were slightly higher we would have inched even further.

Moderator: Thank you. The next question is from the line of Vaishnavi Mandhaniya from Anand Rathi. Please go ahead.

Vaishnavi Mandhaniya: Thanks for taking my question. Sir, firstly on the cost saving that we saw in this year how much do we expect going forward as well, so probably next year how much cost savings do we expect versus FY2020?

Anant Daga: Vaishnavi there are a few parts to this. First, is you see, there are lots of cost savings are related to sales turnover and as the sales turnover comes back, that will get adjusted. So, depending upon the sales it will move. In terms of overheads, we think if you look at FY 2020 base we should be able to save about 10% to 20% somewhere in that range, 10%, 15%, and 20%. In terms of ERP, one should not take too much saving, because we have restated salaries and we are building new capabilities and same with people. In terms of rentals actually early to comment because all the discussions have just started with the locking of stores but our attempt will be to as it nearer our sales as much as possible, so last time we got a very, very good response, this year it is slightly more tricky because there is more stringent lockdown, there are considerate timings, there are all kinds of restrictions, so the conversations are on and maybe in the next call, we might be in a better position to share even to a range, right now it is too early.

Vaishnavi Mandhaniya: Second question is again on the gross margin front. Historically obviously we had a much higher gross margins of 60% plus sort of a number so with the channel mix changing and probably or Aurelia growing faster and taking all these things into account so how do we see our gross margin moving forward, let us say like leave FY2022 out, beyond that how do we see our gross margin number moving?

Anant Daga: If you look at gross margins, I think, see Aurelia would not make much difference because we are having healthy gross margin profile across. In terms of channel, the only impact would be on online and online, see again I just want to reiterate this point because the way online cost structures are it will impact the gross margins. Now again, if the share becomes from 22, 25 or 30 then there would be a gradual drop, so it would be say about few basis points depending upon the kind of movement to online happens. Having said that there are no other major costs like star, front, and all, so in terms of bottom-line, online will end up making reasonable margins than any other channels. So, there should not be any impact. Now it is very difficult to give a range of gross margin, because it will all depend upon the kind of share online will have or any other parameter like pricing, costing, we are good on gross margins, so we do not see a challenge otherwise.

Vaishnavi Mandhaniya: Thank you.

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

Avi Mehta: Anant I hope all well at your end. I had a clarification on the warehousing question, warehousing bit. Now if I understand you correct, you seem to be looking to set up a single large integrated warehouse by November, does this expose us to higher freight cost? Secondly related to our does this make this excess production less important versus earlier since all the units are consolidated.

Anant Daga: I trust all good at your end as well. See the warehouse does not do any harm to any of the projects because we are talking about faster turnaround and this warehouse again is at (inaudible). So, it is very close to where our existing warehouses are. So, in terms of either excess production or anything it does not frankly take away anything from these initiatives.

Avi Mehta: Because I was of the view because you consolidate the inventory the expectation earlier was that you would need faster turns for production that is no longer required? That does not happen?

Anant Daga: Sorry Avi. That is on the production side. At warehouse, and we have three warehouses in NCR 1 I do not think that will impact because see these are different functions within which are being handled. So, there is no implications in terms of timelines and all, in fact, this will give us even better visibility and higher capability to cater to D2C channels wherein we see some lag even today.

Avi Mehta: Good. Second bit was essentially related to the online bit, now we are kind of moving and we are seeing an increased share of online, do you think in anyway exporters brands to perceived more discounted brands because that is a large ethos of the online sales and how do you see to counter that?

Anant Daga: Now it is early days. One very interesting trend that we saw in the lockdown in the last one year of COVID impacted business environment our full priced sales is also increasing at least on our website from being a mid single digit number, it has already crossed a double-digit number. So, that is one. Second, it is all very contextual. So, we are again, not very heavy discounter compared to many other brands or labels, so it is still contextual, and I think overtime, this is a channel where consumers are coming, consumers also differentiate between what is the fresh season, what is the earlier season, so overall I think a huge potential to grow full priced business out here, second also to give differentiated ranges. So, in fact there are no differentiated ranges also, which might not essentially sell at very heavy discount. So, all these we are trying to build and at the end of the day it is the consumer’s choice where consumers want to shop, they will shop and I think as a brand, we need to cater that to the best possible manner.

Avi Mehta: Anant, what I am saying is you then look at percentage discount not being offered? I am just trying to look in always kind of managing discount levels because you highlighted gross margins lower on online versus managing the brand like you essentially want to do a lot more best deals to make the brand look premium, So, I just wanted to understand how do we manage that and how do we kind of manage these two opposing goals two to some extent?

Anant Daga: If you look at gross margins and the profitability obviously the discount in online is slightly higher than offline, but then there are many other costs which gets negated.

Avi Mehta: This I agree with you, but I am looking from a consumer perception because…?

Anant Daga: I am just coming to that Avi. So, from a consumer perspective, you see this is a channel where best of the brands also are sold on discounts but their discounting old season merchandise. So, we are in no way discounting our fresh merchandise. We are creating some online first ranges which will be sold at lower discounting than the market discounting. So, the idea is to create more relevant products there, wherein discounting can also be controlled at the same time, there is a different kind of consumer whom we are reaching to. So, I think in context through the broader markets, given the size that we are among the earlier full priced sale and lower discounting than the online space, I think we have a similar standing as we would have in offline materialize much then most other brands.

Avi Mehta: This clarifies everything. Thanks a lot. I have some few questions; but I will come back later in the queue. Thank you very much.

Moderator: Thank you. The next question is from the line of Bharat Chhoda from ICICI Securities. Please go ahead.

Bharat Chhoda: Thank you for the opportunity. I have two questions; one was regarding your capex, like what is our planned capex for FY2022 and FY2023 and what would be our capex on the warehouse front? This is my first question.

Amit Chand: For FY2022 as we commented, so there are three larger initiatives where we are going to invest in FY2022. One is as Anant mentioned we intent to open a net of 60 stores, A part of it will be franchise led expansion, so there we do not incur any capex, but for the balance we would typically incur a capex of Rs.25 lakhs to Rs.30 lakhs per store. I think that amount itself will be about Rs 15 Crores. The second is the initiative around the warehouse where in total, the total capex that we go and the warehouse that we are talking about is in the range of Rs 8 Crores to Rs 10 Crores and third is this inventory management software which will take another Rs 5 Crores of capex. So, that is probably where and what we are going to invest in FY2022. FY2023, I think could be a similar kind of a number at the store front and we typically keep on investing into other initiatives on the IT front as well, so you may see a similar number for FY2023.

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Bharat Chhoda: Sir, post the rationalization of EBO and MBO can we target a 15% plus margin on three-year basis?

Amit Chand: It is very early to comment. See, we have been maintaining that structurally there are no changes in the business from our product costing to a channel margin perspective, nothing has changed. So, once we are back to our pre-COVID sales typically we should be able to maintain a similar kind of a contribution, obviously some costs have gone up over the last two, three years, so proportionate growth will be needed for us to deliver that we used to deliver in FY2019 and FY2020.

Bharat Chhoda: Thanks a lot for answering the questions. Thank you.

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

Devanshu Bansal: Thank you for the opportunity. Sir our online inventory shared on the platform like Myntra are relatively higher compared to peers, so is this a result of our investments in the channel and better fulfillment capacities or we should not reach these merchant rate?

Anant Daga: Could you please come again? You said something about Myntra right, there was some disturbance in the line this side?

Devanshu Bansal: I was looking at online inventory share of you and peers at online website like Myntra, so I found that it is relatively higher compared to them. So, is this a result of our investments in this channel and better fulfillment capability?

Anant Daga: You are referring to a greater number of pricings around Myntra is that what you are referring to?

Devanshu Bansal: Yes.

Anant Daga: Even what happens is there are two things, one of course we have a deeper relationship with them, and we are amongst the highest selling brands so our collection would be right, second also what happens is most of the times the labels that sell better or the brands that sell better they also are buying a lot more and display it better. So, even this could be a result of these two efforts. Having said that we have obviously constantly making efforts to enhance both our collections and depths and mix of our product ranges so that should show on all these sites especially places like Myntra which is more on fashion and slightly less on discount compared to some of the other horizontal players.

Devanshu Bansal: Secondly, do these D2C partnerships still B2B earlier, do they also help controlling their discount levels on online channels?

Anant Daga: Yes. It does helps in controlling discount and helps in displaying a wider catalogue to our customers. So, both these places the brands come up.

Devanshu Bansal: So that increasing share the online gross margins at least should be on improved track?

Anant Daga: Yes, in terms of gross margins there will be two positive that should come one is higher share of full price, at least on our one website and second is higher share of commodity.

Devanshu Bansal: Lastly second question is on selling and distribution expenses. Even when we look at the percentage of LFS driven these have risen significantly this year, so how should we read this and any guidance on this front going ahead?

Anant Daga: See, some of the part of the online expenses, online does not have rent, ERC, and all, but some of the part of the system selling and distribution so with the increase of our own website and all, obviously some of those costs are going up. That is not just the LFS effect. also in terms of LFS, our S&D has been slightly lower because on back of lower discounting in the last year.

Devanshu Bansal: Sir, I want to understand it better, so I thought online is represented net of everything in your sales?

Anant Daga: No, our own website, our own website, has some expanses which falls below that in S&D. So maybe offline we can discuss slightly give you a view of how it is constructed, but your point is very valid, I think it is a good observation.

Devanshu Bansal: Sure Sir.

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

Anant Daga: Thank you everyone. We will take this opportunity to thank all of you for joining the call. We hope we have been able to address most of your queries. For any further information, please do get in touch with us or SGA. Have a nice evening. Take care and stay safe. Thank you so much.

Moderator: Thank you very. Ladies and gentlemen, on behalf of TCNS Clothing Company Limited that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.