



“TCNS Clothing Company Limited  
Q2 FY ‘23 Earnings Conference Call”

November 11, 2022

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**Moderator:**

Ladies and gentlemen, good day, and welcome to the TCNS Clothing Co. Limited Q2 and H1 FY'23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of the 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 press 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. Thank you, and over to you, sir.

**Anant Daga:**

Thank you. Good evening everyone, and welcome to our Q2 and H1 FY'23 earnings conference call to discuss operational and financial performance for the quarter. I'm joined by Amit, our CFO, and SGA, our Investor Relations Advisors. First of all, we wish you a very happy festive season. We hope you all had a joyful celebration with your family and friends and claimed back a part of life, which was being missed last couple of years. While Amit can share detailed financials, let me share key highlights of Q2 and H1 and our perspective on the emerging market situation.

As we had laid out, our focus this year is on building growth momentum. I'm happy to share that in Q2, we have achieved our highest ever quarterly sales. Overall, the company revenue grew 46% year-on-year and 27% sequentially over Q1 FY'23, to clock INR 351 crores for the quarter. A key milestone this quarter has been the number of EBOs launched - In line with our aggressive store expansion plan, we opened a gross of 41 stores in this quarter and 32 on a net basis, which again has been the highest ever store opening in the quarter for us.

This season also saw us investing in brand building after a hiatus of two years. Both W and Aurelia launched comprehensive 360 digital campaigns, straddling digital, retail, influencers and partner tie-ups. We have significantly upped our marketing investment, which should reinforce our brand's market leadership position.

Coming to the performance highlights of Q2 '23, we are seeing resurgence in the overall women's ethnic wear market both year-on-year and sequentially over last quarter. The women's ethnic wear category has seen strong recovery except north where it's lags. Overall, for us, offline channel grew by 60% over last year. Aurelia led the growth, aided by a strong product range and comprehensive marketing campaigns.

Talking about EBO channel expansion, in this quarter, we opened 32 stores on a net basis to reach a total count of 648. In addition to these 32 stores, we have upgraded another five



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stores under Project Rise initiative, taking the tally of Project Rise stores to 25. As we shared earlier, given the rapidly evolving experience expectations of the Indian consumers, Project Rise initiative is helping us tap into existing demand in some of the most critical and important markets across the country.

This quarter also saw opening of 11 Elleven EBO stores, taking the total count to 32. As shared earlier, we would be tracking the performance of these stores and accelerate Elleven store expansion thereafter. Overall, all brands put together, we are well on our target to add 100-plus stores on net basis this year. We have a strong pipeline of new stores, and going forward, all brands put together, each quarter should see 25 to 30 store additions on a net basis.

In the LFS channel, we added 57 doors, taking the total count to about 2,479. Overall, LFS numbers continue to be impacted since one of the largest partners is still not functional. MBO continues to grow well and scaled up to 2.7x over Q2 last year. Overall, it has been heartening to see the offline channels bouncing back after a prolonged COVID impact, and we should see them built thereon.

Coming to online channel, one of the key objectives have been to build our strong own website D2C business. We are happy to share that our own website has grown ahead of other channels and is now contributing to a quarter of total online sales. On marketplaces outright business front, our primary sales continued to lag behind the secondary sales and hence, the reported numbers are looking lower than actual consumer sales or secondary business.

Of late, we are also seeing discounting and acquisition costs increasing across online channels. We are committed to building a profitable online business and balancing out growth opportunities and cost metrics in the near future.

Talking about the new forays, in the monsoon festive 2022 season, we have rolled out comprehensive product range for each of the forays. Driven by healthy consumer acceptance, the new forays are scaling up rapidly and we are well on track to reach our stated target of INR 100 crores ARR and consumer sales at the end of the year. All in all, we continue to build on all the key initiatives and focus areas for the year. Now I would request Amit to share key financial highlights.

**Amit Chand:**

Good evening, everyone. I will be giving you an update on our financial performance in Q2 and H1 FY '23. I'll start with the Q2 performance. Our Q2 revenue was INR 351 crores, which is a growth of 27% over Q1 FY'23 revenues of INR 276 crores and a growth of 46% over Q2 FY'22 revenues of INR 239 crores.



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Our gross margin for the quarter was 67.3% versus 62.7% in Q2 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 own nuance in terms of the revenue recognition, gross margin percentage and costs reflecting in selling and distribution expenses or other overheads. Accordingly, basis channel mix, these metrics could vary in a range from quarter-to-quarter.

For Q2, the company generated a positive EBITDA of INR 47.9 crores versus INR 38 crores in Q1 FY'23 and INR 45 crores in Q2 of FY'22. PBT for the quarter was INR 10.1 crores versus a PBT of INR 2.6 crores in Q1 and INR 14.1 crores in Q2 of last financial year. PAT for the quarter was INR 7.6 crores versus INR 2.4 crores in Q1 and INR 11.1 crores in Q2 of last financial year. We have zero rental concession in Q2 this year versus INR 17 crores of rental concession that we recognized in Q2 of last financial year.

During the quarter, the company added 32 exclusive brand stores taking the store count to 648 stores. We have added 57 point of sales in LFS channel, taking the doors count to 2479.

Speaking of our performance in H1, the revenues were INR 627 crores versus INR 333 crores in H1 of last financial year, a growth of 88%. EBITDA in H1 this year was INR 85.8 crores versus INR 24.7 crores last year. PBT H1 was INR 12.7 crores versus a loss of INR 35 crores last year. We are now open to questions.

**Moderator:**

We take the first question from the line of Devanshu Bansal from Emkay Global.

**Devanshu Bansal:**

I just wanted to check if you can -- we have sort of invested strongly in the inventory, and we have made some new launches under both W, Aurelia & Wishful. So just wanted to check if you could share some thoughts on the festive traction that has gone by during Diwali as well as post that?

**Anant Daga:**

If you look at the festive traction, Aurelia has seen a strong recovery. So barring north, it has been ahead of the pre-COVID numbers. North still is slightly behind. So that's where Aurelia is. Compared to Aurelia, in W, we had some product challenges, and there were particular silos which we were optimized for maintaining the MRPs closer to pre-COVID - - closer to earlier season levels. W is slightly slower than Aurelia. So this is between the two brands. Wishful is in line with the earlier levels where it was. In terms of new product categories, Elleven has shown great traction in LFS and SIS, so that we are gearing up. Footwear, jewelry, cosmetics continue to contribute strongly in the stores where they were launched, but that is also building out well.



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**Devanshu Bansal:** Aurelia has been at pre-COVID levels. So this is on a like-to-like basis or it is for the overall. So my question is, is it on a larger store base that we have seen like-for-like performance? Or is it on a per store level that Aurelia has recovered to pre-COVID levels?

**Anant Daga:** Sure. So let me just explain it again. So on a like-to-like basis, barring North, Aurelia has been ahead of pre-COVID numbers in all other regions, even on a like-for-like basis. In North, the recovery has been slightly lower. But if you take all regions put together Aurelia has still been ahead. W, we had certain product issues because of which it has lacked the recovery. So there were certain calls which we took because when we were building the monsoon festive range, the fabric prices were all-time high. In order to optimize the cost increases, we took some calls, which unfortunately didn't work as well. So there is lag there.

**Devanshu Bansal:** And so we have seen a significant increase in the working capital. So do you expect it to normalize by the year-end? How is your expectation on that front?

**Anant Daga:** Yes. So if you remember last time, we were building up inventory for the festive season. And we have tried to be ahead of the curve because there are a lot of disruption in the supply chain overall in the industry. So there's a lot of built up that you see today. Inventories by year-end should look better. This is for the festive buildup.

**Devanshu Bansal:** And on Elleven, store additions have increased and you have been mentioning that once we achieve a desired unit metric in this format and we will sort of ramp up the store addition, just wanted to check your thoughts on to what extent have we been able to achieve the unit metrics you're looking for?

**Anant Daga:** So see, if you remember last time we mentioned that we opened about 20-odd stores, and then we took some learnings from there, about 17, 18 stores. And most of these stores are new stores that we have added over the last couple of months. So I think we still need to see next three, four months. First signs are that these stores are doing better than the first lot, but let one season play out there. In LFS and all, we have already seen good traction and that's basically it.

**Moderator:** We take the next question from the line of Mr. Saurabh Patwa from Quest Investment Advisors.

**Saurabh Patwa:** Yes. Sir, I just wanted to understand, when you say that W had some issues with respect to product optimization. So was it related to product design? Or was it related to the pricing of the product because of which you couldn't optimize the product?

**Anant Daga:** No. So there was no design concern. In fact, if you look at the space, some of the best-selling articles were jump suits and jumprakhās and all that we have launched. So, design was not an issue. What we did was we used some man-made fabrics and we used some value



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addition techniques which were more optimization for cost. Finally, when the product came, I think the price remained high, but somewhere the conversion dropped in these particular silos. It's not that the entire range had an issue. It was a part of the range. And clearly, the issue was the fabric value addition combination and not design per se. So while this has happened and it's impacted our numbers somewhat in this season, the good thing is we exactly know what the problem is and going forward it's getting solved.

**Saurabh Patwa:** So essentially the impact would be more, could be it is that this quarter's numbers when we see the margins could have been better had not been for these issues?

**Anant Daga:** Yes. So if you look at brand level performance, if you even look at quarter 1, W was leading the pack in terms of SSSG recoveries. This season, there is a gap between Aurelia and W. If W would have recovered not for these issues, obviously, you would have seen a much better profitability and sales.

**Saurabh Patwa:** And sir second question would be that we have a large number of EBOs also. And since the Diwali festive season was in Q3. So a pickup in revenue would be more towards Q3 also. Will that be fair thing to assume?

**Anant Daga:** You are comparing this with which season, sorry?

**Saurabh Patwa:** Sorry?

**Anant Daga:** You are talking about year-on-year? Or are you talking about just quarter?

**Saurabh Patwa:** Exactly. So year-on-year, even from Q2 because the wholesale revenue would have already come in Q2 but the revenue from the EBO side, where the stores are owned, that would come in Q3. Is that would be a fair understanding?

**Anant Daga:** Yes. So secondary sales would be higher in Q3. While the primary billings would be added in Q2. Absolutely, right.

**Moderator:** We take the next question from the line of Mr. Varun Singh from IDBI Capital.

**Varun Singh:** Sir, two questions. First, on the online business. So as you mentioned that 25% is the share that we expect from online business. And 60% of the business is from B2C channel. So just wanted to understand that, do you think that this increasing revenue contribution from online because I think the percentage of revenue in our case is over-index compared to other apparel retail company that you could see in India, I mean in the listed space that we look at. So how do you kind of look at this number as more of an opportunity or more of a threat because there is so much of intense competition in the online space?



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- Anant Daga:** Mr. Varun, first of all, the contribution from total online business was about 16%. So it's not 25% of total business it's 16%. 25% is from our brand websites. So I see what is happening is over the last couple of years, a lot of marketplaces are also moving away from a B2B model to D2C. And there has been an alignment which we had done in the Q4 of last year. But since then, also couple of players have, again, become now more D2C focus than what they were. So this is that alignment with those guys wherein primary and secondary sales get over this. In terms of overall business, we are at 15%. I think what we have mentioned in the past also growing this channel by 20%, 25% on secondary sales basis should be sustainable. There could be some quarters wherein you can see a lower growth and all depending upon what the earlier base was, but that kind of growth should come. So overall, our percentages are about 16%, and not 25%. So I think there's quite a room for growth.
- Varun Singh:** Anant sir, so 15% is overall contribution. But -- I'm sorry, I did not understand that in the PPT, you mentioned that in FY'23, 25% share from online business is expected. So what is this 25% number, sir?
- Amit Chand:** So Varun if you are referring to the presentation, we are talking about the share of brand website being 25% of the online sales that one part. Second as Anant mentioned, so there's always a lag of primary and secondary, and we have mentioned...
- Anant Daga:** Varun, we understood. The confusion was, it's not 25% of total business. It is 25% of online business.
- Varun Singh:** Sir, 60% from B2C, how should we understand this number sir, B2C contributing 60% of online?
- Anant Daga:** So again, if you look at it about 2 years back, almost 100% of the business was B2B which was business to business operating model and there has been a continuous shift. So last year, the D2C number in the total which is to sell from our own website or in marketplaces directly, where inventories are, we hold the inventory, that number has now come to 60%, over 60% of total business. And that's the shift we were talking about. As we move forward, I think there's a lot of inclination from various portals also to move more towards D2C model.
- Varun Singh:** And then my second question is on our overall revenue recovery, sir, do you think that we have taken more than expected time to reach pre-COVID levels of revenue? And why do we think that it is taking more time for us compared to like competition or other players?
- Anant Daga:** No. So Varun, if you look at our segment, particularly, I think if you look at brand-wise performance, Aurelia has if not well ahead in market. In fact, in a lot of partner channels, we would have also gained a lot of market share out there. W because of an inherent



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problem, which was pertinent to a part of the collection, definitely has recovered lower than what the overall market is. So that is where -- I think market is recovering well on the ethnic wear front. And once we have this particular issue behind us, even W should come back strongly.

**Varun Singh:**

Sir. So in Q3, we should expect much more strong performance in W?

**Anant Daga:**

See, what happens, Varun, is, unfortunately, it's a seasonal business. So for W, Q3 also would continue to be slightly impacted. This entire merchandise issue gets resolved with the new season launch SS'23 which we have also done our trade show. We have got all the consumer feedback, customer our channel partner feedback, which is very strong. But W problem will persist till SS'23 gets launched. So there could be another quarter wherein you see some low recovery from W. Aurelia, on the other hand, has grown well, and I think we should continue to see that trajectory there.

**Varun Singh:**

So maybe from Q4 onward, we should expect strong growth.

**Anant Daga:**

January, February onwards with the new season launch. So that is when this thing should get completely sorted

**Varun Singh:**

Right. And Anant, just one last question. On Aurelia kids, any commentary which you offer..

**Anant Daga:**

Yes, yes, Aurelia kids has shown very, very good traction. And in fact, the contribution also in the stores where we have put Aurelia kids, it comes from. So that's a good silo, and we'll continue to build that.

**Moderator:**

We'll take the next question from the line of Mr. Jay Modi from EIML.

**Jay Modi:**

Sir, I just had one question. It was on the margin front. So when we see at the revenue level, we've recovered to pre-COVID level yet somehow our margins continue to be much lower than what we've done in the year Q2 FY'20. So is this predominantly explained by the supply chain issue that you mentioned for W or is more to miss that the store expansion is going down on that call?

**Amit Chand:**

This is Amit. I will take this question. So when we are looking at profitability, and this is something that we have mentioned in our earlier calls as that the revenue at a store channel level have to recover to compensate for any cost increase that has happened at the channel level, right? Rentals may have gone up, store salaries may have gone up. So one level of sales increase have to happen at a channel level. And second, at a corporate level also. Overall, revenue has to increase to compensate for any cost increases at a corporate level.





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So if you look into our rental costs, employee costs, overheads, they've also gone over the last three years, right? FY'20 or pre-COVID period. So to answer your question, while we have done better than pre-COVID in terms of total revenue, obviously, there is one challenge we've seen about W lagging in terms of recovery, but the cost increases are higher than the increase in revenue that has happened in Q2 over a pre-COVID number. We need to build further on the revenue for us to go back to the earlier profitability numbers.

**Jay Modi:** Fair enough. So internally, do we expect FY'24 to be the year wherein we can reach this 20% EBITDA margin level? Or you still take some more time than, I mean, recovery might be delayed beyond '24?

**Amit Chand:** We don't give guidance on specific numbers, but our historical -- after Ind AS 116 PBT probably is a better number to anyway refer to. So if -- whatever levels we have done historically, as I mentioned, the sales need to go back to those levels with some upside coming in from store expansion and otherwise. For us to go back to the profitability level that you're talking about, I don't want to specifically quote whether those numbers will be achieved in FY'24 or which quarter of FY'24. But yes, once we reach -- start getting the revenue numbers, which can compensate for the cost increases that have happened, then profitability should follow.

**Jay Modi:** And just one clarification. So with respect to W, you said the revenue is tracking lower? Or is the profitability which is lower than what we used to do in the previous years?

**Anant Daga:** See, in terms of W, it's the same-store sales recovery, which is lagging. And obviously, because lot of cost are fixed, it has an implication for the margins. But essentially at a product level, costs are not a challenge at all. It has more to do with revenue.

**Moderator:** We take the next question from the line of Mr. Rakesh Wadhvani from Monarch Limited.

**Rakesh Wadhvani:** I want to understand where do you classify the W brand, is it more into fashion or regular women wear or office where you can just -- because in case of Aurelia, I can understand that demand was lesser in Q2 because it's -- that was a non-festive season, in Q3 because festive-- so I'm just trying to understand why the W is lacking when we look at all the retailers end, they would have spoken growth across all the segments, all the product categories.

**Moderator:** Sorry to interrupt sir, the management line has got disconnect.

**Rakesh Wadhvani:** I repeat my question. Sir, I just wanted to understand your thought process. When we look at the two key brands, one is W, one is Aurelia. Aurelia we know it's a very festive-oriented or marriages like people wear it during marriages and festivals. So the demand will be more during Q3 and Q4, but I am still not able to understand why the demand for the W is



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lesser like before COVID, because it is more of a regular female wear, office-wear you can say because if you look at all the retailers in India that has come with the results they have shown, growth with respect to all categories. So can you just throw some light on that?

**Anant Daga:**

No. First of all, even W is very-very relevant for festive. So both our brands, W and Aurelia have a part range, which is non-festive, non-occasion wear and a part range, which is occasion wear. So even in the past, W has performed equally well and better. So that's not a question, whether one is festive and one is non-festive. Wishful is one brand, which is completely occasion wear. So that is more dependent on occasions and non-occasion periods. Now coming to W, as I was explaining, W's recovery has been in line till about Q1. In Q2 when we launched the new range, there was a part of the range, wherein probably it was an error of judgment and in our pursuit to optimize cost, we'll probably launched some products which didn't resonate very well with the customers and that's one reason why W's recovery has lagged. Having said that, W continues to be the highest-selling brand across all channel partners, but we have definitely lost a recovery opportunity, which could have come. Now as we move to spring/summer '23, we have rectified most of these issues. And hopefully, one should see W bouncing back strongly.

Second, in a fashion business, again, it's not that this quarter will be a base for next quarter or next season. So consumers pick where they -- it's not to say that consumer will pick only from the last base. So obviously, that W bounce back should happen very strongly once this issue is behind us. I hope that clarifies.

**Rakesh Wadhvani:**

Yes, that's very well, detailed answer. Sir, one more question. Has all the expenses have come back to normalcy, like advertising, rental, all the expenses, what we have seen in the quarter 2 back to normalcy?

**Anant Daga:**

Yes. In fact, in areas like marketing, we have also overinvested because it's after a long time that we are doing that. So obviously, our expenses are slightly higher. All the rent concessions, all the salary cuts, all those things are reversed. So that's all normalized.

**Rakesh Wadhvani:**

So there will be no sharp increase in the expenses in the coming quarters. Is my understanding correct?

**Anant Daga:**

No, I don't think there should be any sharper increase in any of the expenses. So, it's more...

**Amit Chand:**

So the expenses that you're seeing in Q2 is a good reflection of what next quarters should be.

**Rakesh Wadhvani:**

Yes, that was my question.

**Moderator:**

We take the next question from the line of Mr. Nihal Jham from Nuvama.



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**Nihal Jham:** Sir, a couple of questions from my side. First was on this issue that you highlighted for W. Is it the possibility that, that could leave us with some stock and high liquidation in the Q4 quarter given that, as you said, the monsoon fest would continue on generally the EOSS happens in that period? And based on initial trends, which we're not seeing a pickup, would that be one thing that would be monitorable for you?

**Anant Daga:** See, Nihal, we have to see how the season builds from here on. Luckily, you know the winter has set in and our winter range has nothing to do with these shortcomings that we have seen in the festive range. So hopefully, overall, that part of the business should take off. Coming to the specific inventory silos. Obviously, there would be more leftovers because sell-through of those products has been lower, so that will liquidate through online channel and other liquidation channels that we have.

There could be some discounting impact, but given the overall scheme of things, it will not be a very, it should not be a very-very significant number. Because it's one silo of W. Unfortunately, this is a silo which was present in the peak festive. And because this was more lower price, most of the LFS and all also had a bigger share of that. I think it was also a lot to do with the timing issue of those particular silos. Overall, it should not be a very big hit, but yes, there would be some increase in discounting.

**Nihal Jham:** That is helpful. The next question was on a channel-wise recovery. So while our EBO channel has done pretty well and more or less come back to pre-COVID if I look at it on per store. I noticed that for the LFS, the recovery is obviously still much lower versus the pre-COVID. So any specific points to highlight?

**Anant Daga:** I don't know how you calculated that Nihal exactly, but there are a couple of things, which I'll just spell out. One, still one of the larger partner of ours is not operational and those typically were higher throughput stores for us. So probably that is showing an impact on the LFS, which is exactly not a same-store recovery, but it is because of part of network being disruptional. So that's one. Second, a lot of new stores are also not that high throughput stores, so those are typically lower sales per store kind of numbers. So that is what you would see. At an overall SSSG levels, we have seen W EBO is better than W LFS. But on Aurelia side, LFS has done equally well. So there's not a material difference there.

**Nihal Jham:** Anant, would it be possible then just to give a ballpark sense of the SSSG for the LFS format because as you said there's this issue with I'm assuming Central, whichever it may be and a lot of the LFS are coming up in Tier 2 and 3s so at least the mix is not something that is fair for us to then look at it. Then, is it possible just to give a ballpark sense of the SSSG versus pre-COVID for the existing LFS?

**Anant Daga:** Early to mid-nineties so that was a kind of number, which we saw in...



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- Nihal Jham:** I'm so sorry, your line was not clear to me. My apologies. What is the number you said? I got that, sure.
- Moderator:** We take the next question from the line of Mr. Vikas from Equirus.
- Vikas Jain:** One question from my side. Can you throw some color with respect to the new stores, the new Project Rise stores that they've added. How have these stores done in 2Q, in the current quarter?
- Anant Daga:** This is with respect to what stores?
- Vikas Jain:** The new larger size stores that is under Project Rise. How has the performance of those stores happening in this quarter that is 2Q?
- Anant Daga:** Obviously, there was an overall issue with some parts of the W range. But these stores wherever we open continue track about 1.5x to 1.75x kind of numbers. So that strategy is playing out really well and in those stores, the newer categories are also contributing to about 15-odd percent. So that -- those things are playing out well. In fact, we are being more aggressive on that front and we'll be signing, we are signing more stores out there.
- Vikas Jain:** And sir, one observation from my side. And when I compare our 2Q, '23 performance of our EBOs as a channel versus 2Q of FY'20, where, while the store network has grown substantially, almost an addition of around 80 stores with better quality because we did, do a lot of rejig into the stores where we shut down the stores during COVID times and also you have opened up new larger format stores, which are higher in terms of throughput. Despite that our revenue per store trajectory is still either flattish or a few percentage points lagging than our pre-COVID levels. So is it just restricted to the issue that we face in W? Or is it something more to do towards that?
- Anant Daga:** See, there are two things. One is, obviously, what we have said W that is a bigger reason. And second is, for some reason, North has not seen such a sharp recovery. And compared to many other brands and retailers our North proportions are slightly higher. The business that comes from there. So lot of W big stores are in North. And North somehow I think across retailers and brands have been slower. So that is it. But otherwise, there's no particular issue. If these issues were not there, you would have seen a decent growth.
- Vikas Jain:** Sure, sir. So any reason you would like to highlight as to why, what was the issue that we faced in the north side or probably as an industry. What was the issue that happened?
- Anant Daga:** So see, we have spoken with many brands, retailers and all our partners. I think no one has a clear understanding of why that has happened. It's always a very, very good consumption market. There could be some temporary blips, there could be lower NRI flows, weather



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and there were a lot of disruptions with the rains and all in parts of UP, Haryana. So there are multiple reasons, but difficult to pinpoint a particular...

**Vikas Jain:** And sir, when you highlighted that our sales have not grown to a level, in correlation with what our costs have grown. So probably at what -- in order to achieve the previous margins that we did pre-COVID, what level of revenues probably would you like to do at a quarterly level to reach those kind of margins back?

**Anant Daga:** I think there's no straight answer to this. It's a combination of two things. One, obviously, overall throughput increase; and second, the quality of those sales increase. So whether it comes from EBO channels, whether it comes from SSSG or it comes from online channel, there are a lot of those considerations. So unfortunately, there is no very direct answers, but if all combination, everything works well and about 25% growth numbers should get us back to that trajectory. But again, it's a mix of many, many things.

**Vikas Jain:** And sir, one last request since we have now though being in smaller size, we do not disclose the revenues from the Elleven brand. I mean would you like to quantify what was the revenue that we are doing currently?

**Anant Daga:** So right now, it's a small business. As of now, we would be tracking about, say, INR 25-odd crores on consumer sales annual run rate, which we think by year-end should at least be INR 45 crores, INR 50 Crores on consumer sales.

**Vikas Jain:** You mean to say secondary sales, right?

**Anant Daga:** Correct. That's right.

**Moderator:** We take the next question from the line of Sunketa individual investor.

**Sunketa:** Sir, your revenue is showing very well, but why is the profit so less on y-o-y basis?

**Amit Chand:** Sorry, if we understood your question correctly...

**Anant Daga:** The revenue growth which you are seeing now, if you see the expense in three years it will increase, if you compare it with pre-COVID. Revenue will not have commensurate growth. If you seeing from last year, then last year, then there was rent concession, salary cuts and market investment was less that is because you see this year profit is less than last year.

**Sunketa:** How is profit for Q3, Q4 this year?

**Anant Daga:** If there is good sales growth then business fundamentally, as gross margins and all are in place, should come back on track.



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- Sunketa** After so much revenue coming in, profit is less. Its less than last year – this year INR 100 crore revenue is more. From last year profit of INR 11 crore, has come down to INR 7.6 crore?
- Anant Daga:** You are right. If you see last year and I will tell the detail separately. Last year rent of INR 17 crore is concession that is not this year. Last year there were other expense cuts because of COVID, which has come back. We can explain this separately to you.
- Moderator:** I'm sorry to interrupt, sir. It looks like that line from Mr. Sunketa has been disconnected. So we move on to the next question.
- Anant Daga:** We can connect to him later also.
- Moderator:** We move on to the next question from the line of Mr. Rajiv B, DAM Capital.
- Rajiv B:** Sir, my question is on, you mentioned initially that there will be increase in discounting and this is not only for W, this is for the entire piece, is it? Entire portfolio, is it?
- Anant Daga:** No. In fact, if you look at it, in our Q2, EOSS, we've been able to manage our discounts well. So I was just answering to a very particular point which Nihal asked about a particular part of the range. So I don't think it was true for the entire range, entire collection and entire range.
- Rajiv B:** But are you, I was actually referring to your opening remarks. So you mentioned something on the discounting, maybe I misread it, but are you seeing any such trends that the discounting portion may have to increase or clearly some slowdown in urban demand...
- Anant Daga:** Offline, in fact, we have not seen discounting go up, and that's a very, very pleasant news for the entire industry overall. Online, we have seen discounting going up. So online, there is some pressure on discounting, which again was around festive time and all. Offline frankly, I think the industry has really been able to bring down the discount levels from historic highs.
- Rajiv B:** And sir, on your various brands, are the gross margin differential between the three, so that incremental when the mix changes, in favor of one or the other, there is a part of the gross margin drop can be explained by that.
- Anant Daga:** So they all operate in a tight range. Obviously, there are some differences, but they all usually operate in a tight range. W will be the highest gross margin business for us followed by the other brands.
- Rajiv B:** Yes, I can hear you.



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- Anant Daga:** Yes, that's what I was saying. So gross margins are in a tight range. Obviously, W has the highest gross margins. But others are also close.
- Rajiv B:** Sure. Sir, on the inventory side, how much is raw material out of the inventory which we have in the system right now?
- Anant Daga:** See, we don't give exact numbers, but it's around 20%, 25%, 20% level should be the current situation.
- Rajiv B:** That is irrespective of it is March ending or September ending or the raw...
- Anant Daga:** It keeps changing. So see, when you are looking at inventory, 2 things to understand, please. We source all our raw materials, most of it. So it's RM, it's WIP and FG. So depending upon where in the -- which part of the season we are in, it keeps changing, so typically, the range for fabric would be 20% to 30% and the balance are FG.
- Rajiv B:** And if you could specify what is the rent out go for, let's say, Q2 and H1?
- Amit Chand:** Sorry, can you repeat that question, please?
- Rajiv B:** I mean, the rent, the cumulative rent, you have indicated the variable part of it in the P&L. But what is the cumulative rent outgo for the quarter and first half?
- Amit Chand:** Currently, we are running, having a rental run rate of about INR 140-odd crores annually.
- Moderator:** We take the next question from the line of Mr. Devanshu Bansal from Emkay Global.
- Devanshu Bansal:** Sir, I have two questions. One is around W. So over the past few years, we have made investments in the quick replenishment cycle. So just wanted to understand the reason why we could not follow this process in this particular style that didn't do well for us. And going ahead, what are the takeaways that we sort of take from this particular event?
- Anant Daga:** See, I think let me just clarify that these are two different processes altogether. So what we do is when we create a new range, we obviously do a trade show. We take all our partners' feedback, we take the multi-brand outlet, LFS, and even this time when we launched W, we did all this. And frankly speaking, we've got a much stronger response for W than Aurelia. When it came to the market. Again, I'm reiterating. It was not a design issue. It was more a final outcome of some man-made fabrics and some value additions, which didn't do well. And this took even our partners by surprise. So it's very rare that something like this happens, but it happened unfortunately for a part of the range.
- The other parts of the range, which are more cotton, which are more rayon, they have done well, and there's a clear difference. So going forward, we'll be following this process. We have corrected this issues of man-made fibers and certain particular value addition.



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Obviously, some parts will still be there, but mostly it will get resolved. So that is one part. Second coming to express replenishment, the express replenishment is about the styles which have done well, how quickly can we refill that kind of in stores. So while this can solve for higher sell-throughs for good selling products. But anyway, whatever limited bet we have taken upfront and the product didn't do well, you still have no recourse to that. So while the other part has done well, this is the issue where we are...

**Devanshu Bansal:** So just to put it this way, if we wouldn't have this quick replenishment process setting, we would have faced higher losses than what we are seeing as of now?

**Anant Daga:** Yes. If you would have bought even higher. So loss of sales have happened because also the timing issue that these products are there in the peak festive. So that is one. I think it was, what it has saved us is, if we would have brought it in bigger quantities, then obviously, the leftover stocks would have been even bigger. To that extent, it get solved. Second, also, we have to understand something clearly that while express replenishment works very well across the year, in festive period because the window is so small. And we don't really overplay this. Because in festive, whatever is selling in Pujos, you have to have it in the stores in Diwali. And finally, our cycles are about four weeks, 35 days kind of cycle. So in festive, there is a limited utility for that. Balance of the year, we can work well with it.

**Devanshu Bansal:** Anant, if you can -- I'm just trying my luck if you can call out the quantum of inventory that's there for this particular time, then it would be helpful and sort of help us understand as in what actually will be the impact?

**Anant Daga:** No. See, it's not a particular style. It's some kind of product and season is not over. So obviously, we'll be selling it in another season sale also, there is a wedding season also. So we'll take a better view once the season gets over. I'm just talking about the relative slower recovery in W. So it's not like something has completely bombed or that.

**Devanshu Bansal:** And last question from my end, from online perspective. So we have moved to this D2C sort of model where we are taking the inventory and initial understanding was that since we are sort of handling all the things, we would have better sort of control on discounting that's available on marketplaces, but as you indicated that for online, particularly, the discounts have sort of increased. That's why I understand that, that is not completely in your hands, but what exactly are you sort of seeing in terms of trends and going ahead in future for the online sort of sales?

**Anant Daga:** Again, what I was saying was more from a market perspective that we are seeing discounting going up. Obviously, a big part of the discounting is in our hand, and that's what I mentioned in my opening comment that we'll be balancing it out. So it's not that discounting is going to shoot out as a rule. But I just thought we should let you all know





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that probably there would be some trade-off between growth and between managing profitability. So we would definitely control discount and see how it plays out.

**Moderator:** We take the next question from the line of Mr. Saurabh Patwa, Quest Investments.

**Saurabh Patwa** Sir, my question has been answered.

**Moderator:** We take the next question from the line of Mr. Rakesh Wadhvani, Monarch Limited.

**Anant Daga:** Sorry, I can't follow.

**Rakesh Wadhvani:** I said my questions are answered.

**Moderator:** We take the next question from the line of Mr. Shreyans J from AK Investments.

**Shreyans J:** Sir, just wanted to understand, I'm fairly new to your company. So when you talk about the various channels, so EBO, MBO, and LFS, how does the inventory model work? So once we sell, do we take it back like SOR basis or it's once sold doesn't return to us?

**Amit Chand:** This is Amit. Let me answer this question. So we'll have to see this at a channel level. So let me explain it to you. So when we talk about EBO. Again, our EBO channel has multiple parts to it. A larger part of EBO channel is where the stores are operated directly by the company, we call it COCO stores. So obviously, in these cases, when I supply the inventory to these stores, and eventually we recognize the revenue when the end sale happens to be end consumer, so we have to take the stock back and we keep doing it within the season, but primarily the stock return typically happens after a particular season is over. That is what happens in case of own stores. Another part of EBO channel is franchisee network. Again, we have multiple different types of understanding, but given that we don't want any of the exclusive stores to be choked with any inventory, which may not get sold. So a larger part of the inventory, which is not sold at the end of the season is, obviously, taken back.

If I move to the second channel, which is LFS, large format stores, where we classify all the national chains whether it is Lifestyle, Shoppers Stop, Pantaloons, there the arrangement is the sale or return. So we keep stocking them during the season and any product which is unsold at the end of this season is returned back that's the whole understanding of sale of return. The third offline channel that we have is MBO, where we work through distributors and eventually supply merchandise to mom and pop retailers where we do take returns and we, at a quarter level, we keep making return provisioning as well. There, we provide a limited return opportunity. Again, the intent is to not let channel choke because of leftover inventory. It's all that the returns that we take is limited to a certain percentage that we agree with the distributors, whenever we enter into commercial arrangement with them. The fourth channel is online. Again, they are two parts to online. One is the direct to consumer, where we do the billing directly to the consumer. In that



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case, whatever returns happens, happens. In case of the second part of online, which is what we call B2B where we supply the inventory to any partner that we have there, again, it was on a model where we allow a certain percentage of our initial billing to be returned. I hope that answers your question.

**Shreyans J:** Yes, that helps. And second is, sir, when we are talking about expansion, so our major focus area is EBO expansion, am I right?

**Amit Chand:** Yes. Our expansion is primarily focused on EBO.

**Shreyans J:** And that would be COCO or FOF0?

**Amit Chand:** We want to maintain the mix. So as on date, about 65%, 70% of our EBO network is COCO, which is managed directly by us the balance of franchisee, we find it as healthy mix and going forward when we look at expansion, we want to continue the same ratio. I'm not talking about specifically one quarter or two because it will depend on which store we are opening. But from a long-term perspective, the current ratio of 65%, 70% in COCO the balance being franchisee operated and what we intend to maintain.

**Shreyans J:** So when we do COCO EBO expansions are, it entails a lot of capex, right. So I think we've mentioned somewhere in the presentation that we are focusing on an asset-like business model. So in fact, it when you go for an EBO COCO, you are incurring significant capex in terms of store inventory or manpower. So doesn't that actually make your balance sheet a little bloated than you would want?

**Amit Chand:** Yes, if you look at the overall business, we are a brand business. So the COCO stores that we are talking about the expansion that we are doing through COCO, we were small part of the overall business. If you compare it with the retailer, if I can make an example, where most of the investment is done by the retailer itself. In our case, when we look at INR 100 of revenue, EBO is only about 40%. And again, COCO is two-third of that so from an overall business perspective, 26% of our business is where we make investment in the stores. The balance is where we operate through partner. So that's one point. Second, in our business, our payback is relatively less, typically when we open up stores and the capex that we do, we are able to recover it within a period of around 15 months. So that makes sense to invest our own capex.

**Shreyans J:** And what would our normal EBO COCO capex be for one store?

**Amit Chand:** Typically, if you look into a W store, it will be around, let's say, 1,000 or 1,100 sq. feet taken an investment of about INR 30-odd lakhs.

**Shreyans J:** And just in terms of the 3 brands or maybe if I include even Elleven, just wanted to understand what is the capital employed in each of them? If you could just give us a fair



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idea where is most of your working capital or maybe capital employed blocked in terms of the brand, if I were to understand that?

**Anant Daga:** I think we have never shared any of such granular details in the past, but for almost all our businesses, the bulk of the investment goes into working capital.

**Shreyans J:** But sir, I think you mentioned somewhere on the call that W is the highest gross margin. A few years back, I think I was under the understanding that Wishful was the largest ASP in terms of the brand. But am I getting something wrong here? Because from what I understood Wishful was the highest in terms of ASP and then you had Aurelia and then you had W, which was a mass brand that you were trying to create.

**Anant Daga:** No, sir, actually, Wishful has highest ASP, followed by W, followed by Aurelia. So this is how the pecking order is. But the margins that we make on W is higher than others.

**Shreyans J:** So is it because of the volumes, is it?

**Anant Daga:** Yes, volume, distribution network, all this put together, the cost is also lower in W compared to Wishful.

**Moderator:** As there are no further questions, I would now like to hand the conference over to Mr. Anant Daga, Managing Director, for closing comments.

**Anant Daga:** Thank you, everyone. We take this opportunity to thank you for joining the call. We hope we have been able to address all your queries. For any further information, please get in touch with us or SGA, our Investor Relations advisers. Wish you all a very happy festive season. Thank you.

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