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Dear Sir/s

Sub: Transcript of Post Earnings Call for Q4 and Financial Year ended 31st March 2022.

Scrp Code: BSE Code: 541700, NSE Code: TCNSBRANDS


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

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, and in pursuance of intimation by the Company dated 20th May 2022, in respect of the Post Earnings Call on Friday, 27th May 2022 at 06:00 P.M. IST to discuss the performance for the Fourth Quarter and Financial Year ended 31st March 2022.

In reference to the above captioned subject, please find herewith, enclosed the transcript of the earnings call. The same is being disseminated on the website of the Company.
<https://wforwoman.com/content/report/fy-2021-22-q4-5>

This is for your information and records.

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


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

Date: 31.05.2022

Place: New Delhi



TCNS Clothing Co. Limited

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“TCNS Clothing Company Limited Q4 FY2022 Conference Call”

May 27, 2022

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**MANAGEMENT: MR. ANANT DAGA - MANAGING DIRECTOR - TCNS
CLOTHING COMPANY LIMITED**

**MR. AMIT CHAND – CHIEF FINANCIAL OFFICER -
TCNS CLOTHING COMPANY LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to TCNS Clothing Company Limited Q4 FY22 Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anant Daga - Managing Director. Thank you and over to you Mr. Anant Daga!

Anant Daga: Thank you. Good evening and welcome to our Q4 and full year FY2022 Earnings Conference Call, to discuss operational and financial performance for the quarter and the year. I am joined by Amit - our CFO and SGA our Investor Relations Advisors.

Let me start by sharing key highlights of Q4 and full year 2022, our perspective on the situation and our focus for FY2023. Amit can then take you through key financial highlights. After two years and multiple waves of COVID causing significant business upheavals, hopefully we seem to be facing the pandemic settling into an endemic. Over the last few weeks, we are heartened to see the ethnic sector experiencing a gradual return to normalcy with many parts of our offline network now tracking ahead of pre-COVID numbers. This, in addition to the aggressive store expansion, robust traction in MBO and online channel, as well as response to our new forays should set us well to ride the next growth wave. Overall, FY2022 we saw our sales growing by 41% over last year. We saw a steady recovery trajectory till December which was greatly affected by the third wave in January and early February. In Q4 starting with offline, we added 31 EBOs making it one new store every three days. As you would recall we had taken aggressive calls towards closing stores during the COVID period and with these new openings, we are now back to higher than pre-COVID store base for the first time in last two years. Q4 started with COVID wave three induced lockdowns and disruptions especially in North and Delhi NCR region. January and parts of February were significantly impacted for us as meaningful part of our business comes from these regions which further aggravated the impact on our business. Since then, we have seen a fairly consistent recovery with many geographies now tracking higher than pre-COVID levels. One big win for the quarter has been MBO business getting back on track. We have just concluded our monsoon festive trade show and have received a strong order book from the MBO channel. In Q4 MBO business has scaled up well and we expect to build further on it.

Coming to online, the secondary sales have grown well in the mid-teens for the full year on an already large base. This is despite consumer purchase behavior re-adjusting back from online to offline over the last year. We have pushed ahead with our strategic thrust of tilting the online operating model towards D2C as preferred model of sales due to greater control and enhanced experience. In line with this objective, we have taken a significant re-alignment of inventory, the

third-party marketplaces impacting Q4 reported sales. D2C already contributes majority of online sales now and the aim is to take it higher in the future.

Now coming to the update against key focused areas for FY2022 sharing few highlights for the year. The first area this year has been store footprint expansion. As shared earlier we got on an accelerated store expansion plans starting Q3 and have added 24 stores in Q4 and 48 stores in full year FY2022 on a net basis. We also now have 14 project rise stores which are already tracking at 1.5-2X sales from the same catchment areas. I am excited to share that we have recently unveiled W's new avatar with the completely new retail identity with opening of 3000 square feet project rise store in Indira Nagar, Bengaluru. In addition to defining the new brand identity this store truly encapsulates and fully showcases all the categories like apparels, footwear and accessories and complete brand assortment of Folksong and Wishful. I urge you to please visit the store and experience the journey we are on. We have opened other such stores in Camac Street, Kolkata and Ambience Mall Gurgaon and the indent now is to roll out this concept across all key markets. Project Bharat also saw opening of 15 stores this year. Store expansion will continue to be key focus area for us in FY2023 and as communicated earlier we are targeting to open over 100 stores for the first time ever in a 12-month period. The second focus area for us in FY2022 have been growth of online business. As I mentioned over the last year, with the gradual return to normalcy of offline business, we have seen a re-adjustment of consumer demand. Despite shift in context, our online business has continued to expand across both own website and third-party marketplaces. Our brand websites have grown ahead of third-party channels and now contribute almost 1/5th of online sales. Our key focus areas has been building on D2C model and its share has also more than doubled over the last year, contributing more than 50% of online business. The omni channels fulfilment continued to scale up strongly quarter-on-quarter and is now contributing to about 20% of sales for select channels and hitting close to double digit number for the entire online business. Third focus area has been cash conservation and cost control. Maintaining balance sheet strength was the primary objective we laid out at the beginning of the pandemic. This has been a key win for us, and we ended the year with more than Rs.150 Crores of cash. We have successfully navigated the pandemic without any external funding or weakening of our cash position. The fourth area of Swifter Thought-to-Shelf we are happy to share that all the building blocks are now in place and should aid net sales of growth for organization.

Now, switching gears to next year, our focus for FY2023 will be accelerated growth. The segment is taking up pace with occasions making a comeback and offices re-opening steadily. We are seeing a strong resurgent of consumers coming back to stores and engaging with fashion as opposed to a need-based chore it had turned during the pandemic induced fear and restrictions. We are also sensing the aggressive roll of brands by our channel partners in both LFS and online space and seeing a strong revival in India. On our readiness, we are excited that the building blocks we have put in place across all key enablers to tap into this growth opportunity including product, supply chain and channel. Last two years have all been about protecting the balance sheet, strengthening capabilities, building infrastructure and processes.

On the products side this monsoon festive will be the first season after two years when we will have a comprehensive season appropriate range for the consumers without any overhang or carry forward from the earlier seasons. We just concluded our monsoon festive Tradeshow ~~XX~~ (Inaudible) and have got a huge thumbs up for the collection from all the partners and channels. The supply chain, with our investment over the last year in setting up our integrated warehouse as well as automated inventory planning capability, is now fully geared up to support fast scale up. We have also made significant progress in product creation process for our new foray. We believe our approach over last two years to manage cash will now empower us to invest in growth levers. Given the aggressive scale up aspirations in FY2023 we are now deploying the cash to fuel growth with significant step-up in investment in working capital and other capex. While there are multiple growth levers, let me share my thoughts on few key ones. One of the key agendas will be store expansion both horizontal and vertical. We are targeting to open 100 new stores in the coming year. The store addition will come from both franchises led project Bharat models in tier 3 plus markets as well as normal expansion in existing markets. A key constraint that we face is the existing stores size which no longer suffices for the gamut of products offered by us. We are already experiencing a large sales spike in the existing project rise stores driven by both sales growth of existing categories as well as the significant contribution of new collections and product categories with their representation now being possible. This further reinforces our belief that expanding a store size in existing catchment to offer a complete product portfolio is a very, very large opportunity for us and therefore we are aiming to upgrade a lot more stores to project rise over the next few quarters. This year, we will be opening at least 25 project rise stores across key markets in addition to the ones we already have and regular upgradation across many more markets. With the re-orientation of marketplace business towards D2C in place we are firmly set to drive the online business growth across both third-party marketplaces and brand websites. We are focused on establishing the single view of inventory and are live with all marketplaces across all appropriate partnership models. Going forward we will continue to drive the growth of third-party marketplace channels through leveraging strategic marketing, scaling up the omni channel fulfillment model and launching online first products. With our focus on improving consumer experience, we expect share of omni channel fulfillment to double this year. For the brand websites, in addition to the growth enablers for marketplace we will also go deeper into personalization and sharply relevant communication for each consumer.

Coming to new foray, I am happy to share that this was a quarter when the new categories and brands started achieving critical mass. We now have a clear consumer product fit in place. While there continues to be more learning each day from all sides, whether product, channel or supply chain, we feel more confident about each of these initiatives Overall, these forays put together, we all set to hit an annual run rate of over Rs.100 Crores of consumer sales by the end of this year. Given the possibility that lie ahead of us and the effort put in last two years in creating a more robust platform, incubating new concepts and retaining financial and operational strength we are all set to get back on building the next growth phase. I will now request Amit to take you through key financial highlights for Q4 and full year FY2022.

Amit Chand: Thanks Anant. Good evening, everyone. Let me share the update on our financial performance for FY2022 Q4 and full year. Our Q4 revenue was Rs.234 Crores which is a growth of 6% over our FY2021 Q4 revenues. The quarter was severely impacted by the third wave of COVID affecting large parts of January and February sales. We also had an inventory alignment in online channels in line with the objective of moving towards a higher share of D2C which had a significant impact in our reported sales from this channel. Our gross margin for the quarter was 68.9% versus 57.5% in FY2021 Q4 and 67.8% in FY2022 Q3. Gross margins are now tracking at pre-COVID levels; however, we should see this metric in conjunction with selling and distribution expenses and other overheads. As we have mentioned earlier in our communications as well, every channel that we operate in has its nuance in terms of revenue recognition resulting into gross margin percentage changes and cost reflecting in selling and distribution expense or other overheads. Accordingly, basis the channel mix, these metrics could vary in a range between different quarters.

For Q4 the company generated a positive EBITDA of Rs.32 Crores versus last year's Q4 EBITDA of Rs.41 Crores. We incurred a PBT loss of Rs.7.6 Crores in the quarter versus a PBT of Rs.4.7 Crores last year Q4 and a PAT loss of Rs.5.8 Crores in Q4 versus a PAT of Rs.3.9 Crores last year Q4. The rental concession that we have booked in the quarter was Rs.10 Crores versus Rs.17 Crores that we recognized in Q4 of FY2021. Please note that in the quarter we have also taken a provision for receivables for a specific partner which is reflecting in our other overheads. While the situation is evolving, we have been more conservative in taking this provision. During the quarter the company delivered highest ever gross addition of stores, we opened 31 new stores and closed 7 stores taking our store count to 599 stores, highest ever.

Now, let me take you through the full year performance of FY2022. Our FY2022 revenue was Rs.896 Crores versus Rs.635 Crores last year a growth of 41%. For the full year we incurred a PBT loss of Rs.7.2 Crores versus a loss of Rs.77 Crores last year. At PAT level we incurred a loss of Rs.5.7 Crores this year versus a loss of Rs.56.4 Crores last year. Our key focus in FY2022 was to maintain our balance sheet strength. We have closed the financial year with cash reserves of Rs.156 Crores. As on 31st March 2022 we had working capital of Rs.363 Crores which is at similar levels as we had on 31st March 2021, but lower than what we used to have pre-COVID. With business now accelerating, we would see a buildup in our working capital in line with the business growth. Thank you. We are now open to questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Mr. Jignesh Kamani from GMO & Co. Please go ahead.

Jignesh Kamani: Hi! Thanks for the opportunity. Can you quantify the revenue loss because of the online realignment with all of the customers and it will be the permanent loss of revenue or revenue will differ from the fourth quarter to first quarter?

Anant Daga: Jignesh, the impact on the topline growth would be about 400 to 500 basis points and this is something like it is re-adjustment of inventory. So, this is not something that will be recouped in

the future, this is when you shift the model from B2B to D2C obviously the primary sales gets reduced. So, that is the impact that you are saying.

Jignesh Kamani: So, over a period of time this will be adjusted but there will not be any impact on the secondary sales, right?

Anant Daga: Only during this period for a short period there was some impact but from a long-term perspective, no. While most of this has happened and gradually it is still happening there would be some marginal tail which would be left which would be done over next few quarters but that would be very marginal.

Jignesh Kamani: Understood. Second thing on that the Elleven brand now is almost two, two and a half years which we are operational, yes there was a dip because of Covid so how is the current learning and has the model stabilized in terms of a store size and revenue per square feet and other metrics if you compare with the competitor or our internal benchmark at what level we are?

Anant Daga: Sure, first of all you are right, we launched our first store just a month before COVID hit us and frankly for the next two seasons we did nothing on that. So, we had couple of stores operational but frankly there was no focus on that. So, Elleven we started focusing only since last season and as you will recall we opened the first set of stores which were about 10 odd stores and basis the learning, we have just opened 7 stores in this quarter. We are getting already far better traction from these stores and we now have a healthy mix of stores which are doing as per our expectation. Even in other channels I think we have seen a month-on-month strong build up on the brand and on the products. So, lot of learnings in terms of consumer product fitment and all is already in place. So, obviously when we are saying that right now we are seeing some traction I am sure by the end of this year, these numbers would be at least 2X if not more. So, product consumer parts we are well confident now we have done most of the learnings. LFS part and SIS part again the learnings are very clear and we are all set to increase the count. Having said, that of course we are in talks with all the large format guys and probably they would want to wait at least a season, full season before they decide on this. Coming to supply chain there are two parts, one of course the product that you also do in our other brands there it is easier, but the other part of the supply chain is we are also importing lot of fabrics for this and we are trying new kind of Silhouettes So, there we are still scaling up which should take another couple of months. But overall, we are now very confident of what we are going to run along with another couple of months for current set of EBOs to observe and then scale it up further.

Jignesh Kamani: It is safe to assume towards three quarters we will be ready to open at least 50 stores a year after that?

Anant Daga: I think, from end of Q3 because we work in season so by end of monsoon festive season you start seeing the scale up and if the project goes well then probably next year, we will be looking at that kind of numbers.

Jignesh Kamani: Understood, and your 100 stores include Elleven store addition also or that is separate from that?

- Anant Daga:** Out there we have just taken about 10 odd stores but anything over and above that would be, and again just the point is clear this 100 would be a net number. So, obviously there will be some more upgradation. So the gross opening would be in excess of 125.
- Jignesh Kamani:** Understood. Thanks a lot.
- Moderator:** Thank you. The next question is from the line of Varun Singh from IDBI Capital. Please go ahead.
- Varun Singh:** Thank you. Hello Anant Sir, just two questions, first is I was looking at your number and wanted to understand that in Wishful, recovery is low compared to business recovery in W brand when we look at absolute revenue and compare it pre-COVID for example Q3 FY2020 in case of Wishful our revenue is 53% of pre-COVID levels whereas in case of W our revenue is 73% of pre-COVID. Whereas I would have expected Wishful to do much better, the numbers to be in quite an opposite direction for example 73% Wishful and 53% W. So, can you please help us understand that why business recovery in Wishful is much, much lower compared to W?
- Amit Chand:** Varun, just to clarify you are talking about Q4 numbers, right?
- Varun Singh:** Yes.
- Amit Chand:** About Q4 Wishful recovery is actually not less if you refer to the slides in terms from the brand shares you will notice that Wishful is at a similar share percentage, let me pull out the slide at my end too.
- Anant Daga:** Because there will be some difference in the numbers, but Wishful recovery has been in line not material difference. In fact, end of first couple of quarters obviously because we were not putting enough Wishful stocks in the store there was the gap but in festive that has got covered. Maybe we can discuss this offline but that is not the case anymore and then we saw the Wishful share coming down obviously at that point in time we took a conservative view of how consumers are coming and shopping, so we actually tilted the balance towards more core and day wear but now we are back.
- Varun Singh:** Okay, understood and Amit this question on gross margins, that our current gross margin is highest ever at 68.9%, what is the reason for this? I mean highest ever margin given so much of inflation, which is out there into general economies, what is the reason for that, and can we maintain this margin going forward for the FY2023?
- Amit Chand:** Varun, let me give you a picture on the gross margin and let us segregate the understanding of gross margin into two parts, one is channel mix and the second is the product piece, right where you spoke about the inflation. We have taken some price increases in this season to compensate for price increase on the raw material side. Also, what we have done is that we have put in various efforts on the product creation itself to make sure that whatever price increases we have seen in the fabrics is mitigated to certain extent. As we have shared earlier what we have done is

that we have looked at the entire assortment that we have for all the brands that we have and we have either replaced fabrics, we have changed the mix between the usage of the fabric and the value addition. So, lot of those kind of works has enable us to mitigate the fabric price increase to a larger extent and the balance has been compensated with the price increase that we have taken on our MRP. The second piece and that is where the trick is because we work in different channels and within the channels also there are nuances like, let me give an example within online we have a B2B business, we have an own website business, we have a D2C business. All these three businesses within the online itself has a different revenue recognition and that affects how the gross margin gets recognized. It has a difference in terms of what cost hits in other overheads and what is the cost that hits in marketing spend in other overheads. Similarly, between the different channels that we have EBO or LFS the revenue recognition differs. This in turn affects how the gross margin percentages eventually land up to. So, to answer your question in simple terms 68% has to be seen in conjunction with our selling and distribution expenses which is what I mention during my commentary, and it has to be seen in terms of how the overheads is reflecting. Now, going forward what the channel mix eventually will land in a particular quarter will impact whether we will be able maintain these 68% gross margin level that we delivered in this quarter, or it will be more like anywhere between 64 to 68%.

Varun Singh: Okay, understood and sir just one last question, assuming that Rs.1150 Crores is a base kind of revenue in FY2019 and FY2020 we achieved this level of revenue, so assuming that now there would be no lockdown etc., and given the aggressive store additional guidance that we aspire for do you think 15 to 20% revenue growth over that number should be kind of an achievable range?

Anant Daga: Varun, two things out there first we believe industry is getting back at normalcy faster. So, in a given year anyway which ways a mid-teen to high-teen numbers should be deliverable. This year here has been a gap of two years post COVID growth our aspirations would be far high.

Varun Singh: Understood. That is it from my side. Thank you very much and all the best.

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

Devanshu Bansal: Hi! Thanks for the opportunity. Anant, you indicated that most of the online business is now D2C, so wanted to check is revenue accounting for D2C similar to outright online sales or is it similar to the large format sales channel that we have?

Amit Chand: Hi! Devanshu, in case of D2C business the accounting is similar to what we do for LFS which is where the revenue gets recognized at the consumer sales net of tax. It is very different from the outright business because in case of outright business the revenue is recognized net of margin, discounting all of that.

Devanshu Bansal: Got it and does this omni capability that we have developed on the own website as well as third-party marketplaces is this really a differentiator that we have built in TCNS or all brands are offering this omni channel capability across third-party market places?

- Anant Daga:** Actually, almost all brands are on this journey, I would say that we have been able to create a stronger base for ourselves compared to many, many other players. Having said that, this is a journey which anyone with a great online and a very vast offline distribution would aspire for because frankly this is going to be a very big differentiator. Now, for us we have a very strong online presence as well as we have a huge offline network. Obviously, it would be a source of competitive advantage compared to someone who has more limited presence on either. One great benefit that we see out here apart from better customer experience and fungibility of inventory it also gives us an opportunity to showcase entire gamut of products irrespective of space in the store, irrespective of location, I think that is a huge advantage. But having said that all the brands are trying to create this silo. I think given our current trajectory, we should be able to build it slightly bigger.
- Devanshu Bansal:** That is helpful and does that help in lower returns as well as a cost of delivery?
- Anant Daga:** Yes, because what we have seen is any curtailing in time to delivery also helps that. Correct. It also helps drive full price sale because all the inventory would be available, so both.
- Devanshu Bansal:** Sure, and Anant from store level perspective we have added new categories which are ramping up quite well and on the cost side we have curtailed our unproductive network significantly over the last two years. So, how should we see the profitability of your network going ahead, I know I understand that you have been investing in new areas as well but overall, how should we see your profitability compared to pre-COVID levels?
- Anant Daga:** If you talk intra channel obviously EBOs once the safe recovery are complete. One important thing would be the same stores also to recover to pre-COVID levels where we are still not there completely while couple of regions and many, many parts are ahead of pre-COVID but I think we still need to do some catching up. So, once that catching up happens and there is the commensurate growth, I think EBO channel per se would be more profitable then where we were because you are absolutely right, our new store profitability are decent and we have done away with most of our unproductive stores. There is only one impact that could come is on the share stock of MBO and online business because MBO historically has been the most profitable business and now has set a certain level. While online probably is the lower profitability model then either EBO or MBO, so there would be some trade off therein but within channel, EBO surely will be more profitable.
- Devanshu Bansal:** Sure, lastly Anant I wanted to check there have been categories like jewelry or celebration wear, even formal wear where there has been a pent-up demand which has sort of negated the impact of losses due to store closure during the pandemic. However, besides you said that we have still not recovered in some of the regions has not reflected in our Ethnic category. So, what according to you are the reasons for this and do you foresee some sort of wardrobes refresh that should lead to a stronger growth for us?

- Anant Daga:** As you have rightly pointed out compared to many other categories probably, we have seen a lag in Ethnics so far. Having said that if you look at last festive and if you look at parts of April also with some occasions happening that gap has reduced significantly. Now, our understanding of the situation after talking to all our peers, our partners because they all are in the same boat right now, while occasions wear has made a strong come back, I think the other key pillar of ethnic occasion usage will also work and related outings that is still building up. So, I guess once that is also back completely then probably you see much better trajectory in terms of overall sales. So, that is the understanding that we have right now and in terms of region frankly there is no particular region while one or two geographies are struggling but it is difficult to pinpoint a single reason for that.
- Devanshu Bansal:** Sure Anant, do you see that recovery as some component of pent up will also be there or do you expect a normal recovery to return?
- Anant Daga:** I guess if you look at last festive also it was not a complete unlock and despite the complete unlock the categories really saw a very, very decent spike in sales. I guess this festive we are looking at probably the strongest festive ever not only for us but for the entire ethnic industry. Last two years because of the lockdowns and all consumers have not refreshed their wardrobes and frankly as brands also we have not come up with really new innovative ranges. So, our focus this time is to get newer silhouettes, newer styling lot of innovations and as you are rightly suggesting consumers are going to set the refresh button for their wardrobe. So, we think it should see the pent-up demand coming back that time.
- Devanshu Bansal:** Sure very helpful, Anant. Thanks for taking my questions.
- Moderator:** Thank you. The next question is from the line of Vikas Jain from Equirus Securities. Please go ahead.
- Vikas Jain:** Thank you for the opportunity. Sir, my first question, of course January was definitely disrupted because of the third wave, but how do you see the SSSG of our matured stores probably from the March and April perspective have they been tracking above the pre-COVID levels or how are they, some comments on that?
- Anant Daga:** Without getting into too much specific on monthly basis, as of now most of our stores are tracking at about 90s kind of recovery numbers, April obviously was better because just now I said that there were couple of occasions, festivals but that is being the trend right now. Again, if you look at a regional level South and West are already ahead of pre-COVID numbers most of the pockets they are ahead, I think it is North which is lagging slightly and East.
- Vikas Jain:** Correct, sir one more question, in your opening comments you did mention that you target to open more of the larger size stores for FY2023 do you think we have attained or we have largely got our store economics correct when we open larger sized stores so as to in totality they contribute to the overall margins and profitability. Some comments on your thought process with respect to opening higher size stores and translation of same into the profitability.

- Anant Daga:** Vikas, three things first in terms of revenue obviously they are tracking at 1.5 to 2X kind of revenues, rental increase for us so far in this stores has been about 1.3X and the space increase has been about 2X and right now we are saying that there is still some recovery left I am sure this will further build on. From that angle in terms of profitability we are bang on. Most of these 15 stores are profitable from month one and as of now we are sensing a payback period of anywhere between 12 and 18 months for most of these including the security deposit, interiors and inventory. So, I think it will have a very positive impact both on our P&L and cash flows. Basis success of these we are going even more aggressive on the same.
- Vikas Jain:** Correct and one last question, can you just quantify the re-alignment of the inventory that you did for the quarter and some comments as to what is the freshness of the inventory level as we go ahead in the next financial year?
- Anant Daga:** First part obviously I just mentioned that this would have given us another 400 to 500 basis point of growth so that is the extent of re-alignment. Second question I am sorry I am not clear what you are asking about freshness?
- Vikas Jain:** About the inventory freshness level as we enter the new season?
- Anant Daga:** If you could recall in the last three seasons we have always been carrying forward inventory from one season to other because our whole focus was on working capital and as a result every season our first launch never saw a full-fledged season appropriate product range. But right now as you move into monsoon festive across all our point of sales, you will not see more than 2 or 3% percent of carry forward everything would be fresh. If that was the question you were asking.
- Vikas Jain:** Yes, sir exactly. Thank you so much.
- Moderator:** Thank you. Next question is from the line of Arvind Krishna from IME Capital. Please go ahead.
- Arvind Krishna:** Thanks for the opportunity. I actually had a couple of book-keeping questions, I just wanted to understand on the LFS accounting the revenue recognize in the profit and loss statement is net revenue, Right? net of the channel margin that give to our LFS partners, right?
- Amit Chand:** LFS is a business which is on SOR model for us, sale or return model for us. There the revenue is recognized at the consumer sales level net of taxes and the margin that we have to pay to any LFS partners gets recorded in sales and distribution expenses.
- Arvind Krishna:** Okay, any margin for any LFS partner that margin gets recognized in one of the cost-line items which is sales and distribution, right?
- Amit Chand:** That is correct.
- Arvind Krishna:** And any discount schemes that we call on with the LFS partner also goes into the sales?

- Amit Chand:** That is already netted when we report the net revenues. So, discount to the consumer is already reduced when we do the revenue recognition taxes are already reduced and margins is an expense for us.
- Arvind Krishna:** Okay, another question on one particular line item. So, on selling distribution line item, this is a fairly big line item as percentage of revenue. Earlier at the IPO time we used to give our fabrication cost and I understand this fabrication cost you have stopped disclosing for competitive reasons but I clearly club this into selling and distribution cost. So, I just wanted to understand what are the components in selling and distribution line item right now because technically fabrication cost as the percentage of revenue should have gone down since we moved our operations out of NCR so you should have seen that benefit but this keeps fluctuating a fair bit. So, can you give a picture on this?
- Amit Chand:** Actually, it is fairly simple, any cost which goes into the production of the product is above the gross margin line. Any distribution cost, to answer your question specifically what goes into selling and distribution primarily they are two costs today, one as I mentioned is the margin that we have pay to large format stores that is sitting in selling and distribution. Second with the higher share of D2C business their cost which pertains to that channel which sits in selling and distribution.
- Arvind Krishna:** This is basically a fulfillment cost?
- Amit Chand:** Yes, fulfillment cost, warehousing cost some bit of logistic cost all that will sit in selling distribution expenses. Maybe some costs which pertains to EBO channel or other online channel but those are very, very small percentage of selling and distribution.
- Arvind Krishna:** And this line item also includes the fabrication cost, right?
- Amit Chand:** No. Any cost that we pay to any fabricators for producing the garments is already netted off when we arrive at the gross margin number, so it is in the product cost.
- Arvind Krishna:** Okay, that is from my side. I am done with the questions. Thank you.
- Moderator:** Thank you. Next question is from the line of Jignesh Kamani from GMO & Co. Please go ahead.
- Jignesh Kamani:** Since last one, one and a half year our focus was on the working capital and hence we cut down on the inventory which impacted our revenue for the third and fourth quarter to some extent if the recovery happened quicker. How is the current inventory position to gear up for the upcoming demand because if you take about inventory up by just 30% if I take about 15% increase purely because of the higher pricing of the raw material, so on volume basis we are just 13% increase in the inventory compared to last year. So, it is sufficient to take care of the future demand?
- Anant Daga:** There are couple of components with this, one you would remember that we are now keeping OTB for within season repeats of best sellers which was our quick replenishment models. So,

that is now functioning very well obviously some OTB that we have kept there. Second lot of the new season arrivals monsoon festive for us starts from July end, so lot of those arrivals would actually happening in April-May-June that is the time when you see further built out.

Jignesh Kamani: This time a stuck-out situation will be very limited, right if there is a suddenly pent-up demand happen and we may not lose out our market share compared to a competitor?

Anant Daga: So far in the last three-four seasons obviously we have let some growth on the table because we wanted to manage the working capital but this time now with more or less COVID behind us we are putting the best foot forward. So ideally there should not be such a situation.

Jignesh Kamani: Understood, second thing on this sourcing part, how much of sourcing is coming from the North region because we can set up our sourcing center and manufacturing hub in non-NCR region also?

Anant Daga: Already, the North non-NCR is now contributing to about 25% plus and this is coming from units in East, South and up North.

Jignesh Kamani: Any meaningful benefit in terms of the raw material costing or the lead time improvements?

Anant Daga: If you look at it, raw material is still coming from the bigger mills so obviously it is not the fabric base that is shifted, what we have shifted is our job work which is conversions of fabric to garments and obviously with the lower wages and lower overheads, those places are giving material at a lower cost so, that also one of the key reasons our price increases typically we had been on the lower side, so there is some benefit that is coming from that.

Jignesh Kamani: Understood. Thanks a lot.

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

Devanshu Bansal: Thanks for the follow up opportunity. Amit, you indicated some receivables loss that has been booked in other expenses can you quantify the amount of the loss because the other expenses have increased quite significantly this quarter?

Amit Chand: Hi! Devanshu, we do not want to share that quantification it is the conservative provision that we have taken for one of the partners, let me state that the reason for the losses for the quarter is on account of that provision that we have made.

Devanshu Bansal: Okay, and contribution of MBO channel has picked up strongly versus our earlier expectations of about 4 to 5% contributions. So, how should we see this channel going ahead?

Anant Daga: My guess is we should see a number of mid single digit kind of thing; it could be anywhere between 5 to 7-8%. Having said that I just want to reiterate this is not a business which quarter-

on-quarter number would make too much sense because it is a seasonal business and there are stages when primary sales happen. But overall, from a full year perspective it should 5 to 7-8% kind of share of overall sales

Devanshu Bansal: For online Anant, you indicated that with offline gaining traction this channel saw some impact in Q4, what are your growth expectations from this channel for FY2023 over FY2022?

Anant Daga: First just a small correction, what I meant by re-alignment of offline and online was of course the year before this was much badly impacted for offline obviously there was a surge and this year with offline gradually re-openings some re-alignment has happened that is what I was talking about. In term of growth online channel and I am talking about doing a good profitable business and it is not like discounting to no end and getting growth. So, on a full year basis one should at least expect 20-25% plus kind of numbers.

Devanshu Bansal: Sure, and last question form my end, you have talked about picking new forays to annual run rate of about Rs.100 Crores plus by FY2023 end and what are the current run rates for these new forays?

Anant Daga: All put together we are right now tracking about Rs.40 to Rs.50 Crores odd on consumer sales business.

Devanshu Bansal: Okay and most of it would be coming from footwear as of now?

Anant Daga: If I talk about current day situation, footwear, Elleven, both are contributing equally well.

Devanshu Bansal: Okay, so in terms of new forays footwear, Elleven and cosmetics these would be the key segments.

Anant Daga: Cosmetics is just in the pilot phase as we said and for our business it is a season, obviously that is just a pilot phase right now. Monsoon festive we should see some built up, but I am mostly talking Elleven and footwear which are now completely tested.

Devanshu Bansal: Sure, thank you.

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

Varun Singh: Thank you for the follow up. Sir, can you elaborate more on Folksong, why did we launch this brand and currently we are in 70 odd EBOs and our footwear is around 200 odd EBOs, so how are you thinking on the expansion or availability of these products in 100% of our EBOs. On Folksong if you can give more detail with regard to how you are thinking or what is the strategy behind launch of the brand?

Anant Daga: First of all, we are trying it out as a collection in our select W stores. The idea behind this was there is growing demand in consumers for a sustainable, artisan, more Indian rooted products and

we thought that our consumers would like to have a share of that, from the house of W and that is the reason why we have started with this collection. The initial idea obviously was to just put it as a collection, but looking at the response we are now expanding it. Why we have selected the 50 doors in the first season and then 70 now is because the supply chain for this is slightly more complex and we need to have a full-fledged learning our there also. On the demand side, we have got some phenomenal response for this, but supply side has to catch up. As we move into future, we will see this thing getting replicated in many, many more stores. Having said that right now we do not want to put just one bay or two bay of Folksong in smaller stores so we will stay away from that. As we open more project rise stores, as we open more bigger size stores in key markets that is where we want to place it.

Varun Singh: Understood. Is there any for example store size benchmark if the store size is more than this then only, we will be putting Folksong otherwise it will be cannibalizing the sales of my existing brand?

Anant Daga: Two things again, wherever we have put Folksong we are seeing an increase in average transaction size, obviously while the space is taken away it still contributes quite positively. Second, it is not just about the size of the store. First is the cliental, so Folksong so far we have just been selling on full price and it is like season agnostic premium product. All the key markets wherein we sell a lot of our premium stuff is where Folksong will go. Again, to do justice to Folksong we need at least 100 – 150 square feet space, so I guess any good store in such a market which is 1100 – 1200 square feet should take Folksong. But even now, just to be very clear, we need to scale up the supply chain, on demand side we are having a very good response.

Varun Singh: Sir, we could have done similar stuff under the brand Wishful, why Folksong as a separate brand?

Anant Daga: Varun, they are very, very different genre of product, Wishful is more occasion-wear sale, but when you look at Folksong the fabrics are more organic, it is all antique Indian art and craft. So, it is like a classic versus Wishful which is far more fashion oriented.

Varun Singh: Okay, understood and sir on footwear currently 200 EBOs why only 200 EBOs and how are you thinking about expansion into existing EBOs along with the new EBO target that we have?

Anant Daga: Varun, answer again is very similar, footwear needs a big back room and there has to be enough space, while the footwear wherever we have placed in the bigger stores it is already contributing to a double a digit number. There are lot of stores which just cannot take footwear because of the space crunch and as we open more and more bigger stores, footwear is getting placed in every single store.

Varun Singh: Understood okay, and sir incremental store addition guidance that we have, can we expect that footwear will be there in almost most of the stores or not necessarily?

- Anant Daga:** Project Bharat stores footwear might not be there because those would be typically smaller stores but most of the expansion that is happening should carry footwear otherwise.
- Varun Singh:** And even jewelry also sir?
- Anant Daga:** Yes, footwear, jewelry, Folksong will be limited to more premium markets but footwear, jewelry, cosmetics all will be there. I just wanted to mention to everyone on the call if anyone of you are in Bengaluru or Kolkata or Delhi please try to visit these stores that we mentioned about and you will get a much better sense then we are talking on this call of how these things are coming to life.
- Varun Singh:** Right, sir just one last question that Aurelia Girls we made a mention about it couple of quarters back, so any commentary you wish to make on the kids wear category which is relatively more fast growing?
- Anant Daga:** On kids wear we mentioned the best season to do a full-fledged range is monsoon festive and this festive we are putting up our range which is probably a more comprehensive range of more than 80 odd styles and apart from the top EBOs we are also trying it out in select LFS. So, this season you will see full-fledged launch of Aurelia girls.
- Varun Singh:** Okay, sir that is it from my side. Thank you very much.
- Moderator:** Thank you. Due to time constraints, we are closing the question-and-answer session. I would now like to hand the conference over to Mr. Anant Daga for closing comments. Please go ahead, sir.
- Anant Daga:** Thank you everyone. Thanks for joining the call. We hope we have been able to address your queries. For any further information please do contact us or SGA our Investor Relation Advisors. Have a very nice evening, take care and stay safe.
- Moderator:** Thank you. On behalf of TCNS Clothing Company Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.