



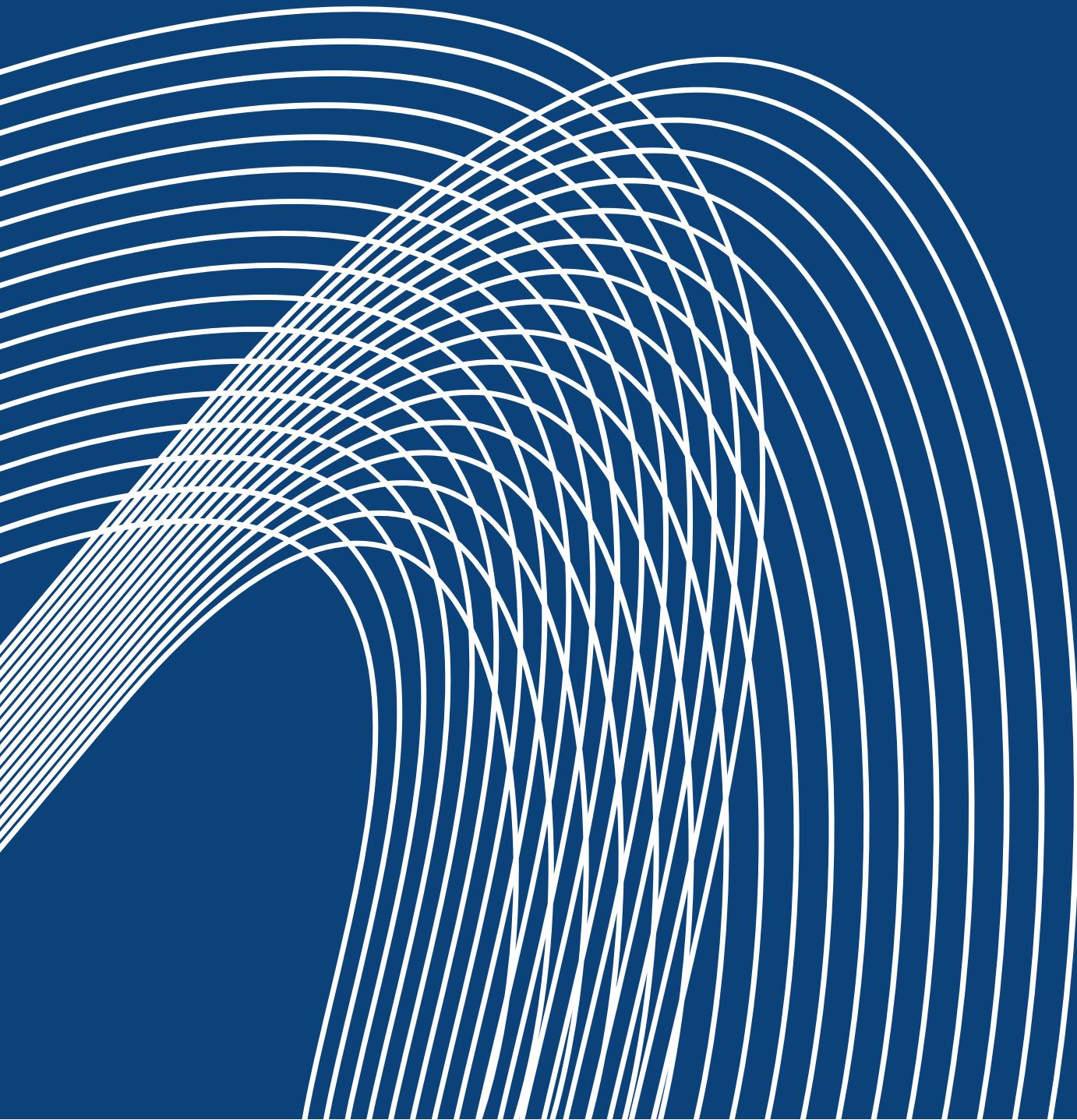
Final Project

PRESENTED TO
Business Analysis and
Strategy

PRESENTED BY
Group 3



INVESTMENT THESIS



Rapidly growing Industry- The women's retail apparel industry is expected to grow 13.2% YoY over the next five years. With ethnic wear comprising 70% of the market, there is a great runway for growth for TCNS. Further there is a marked shift toward organized and branded retail.

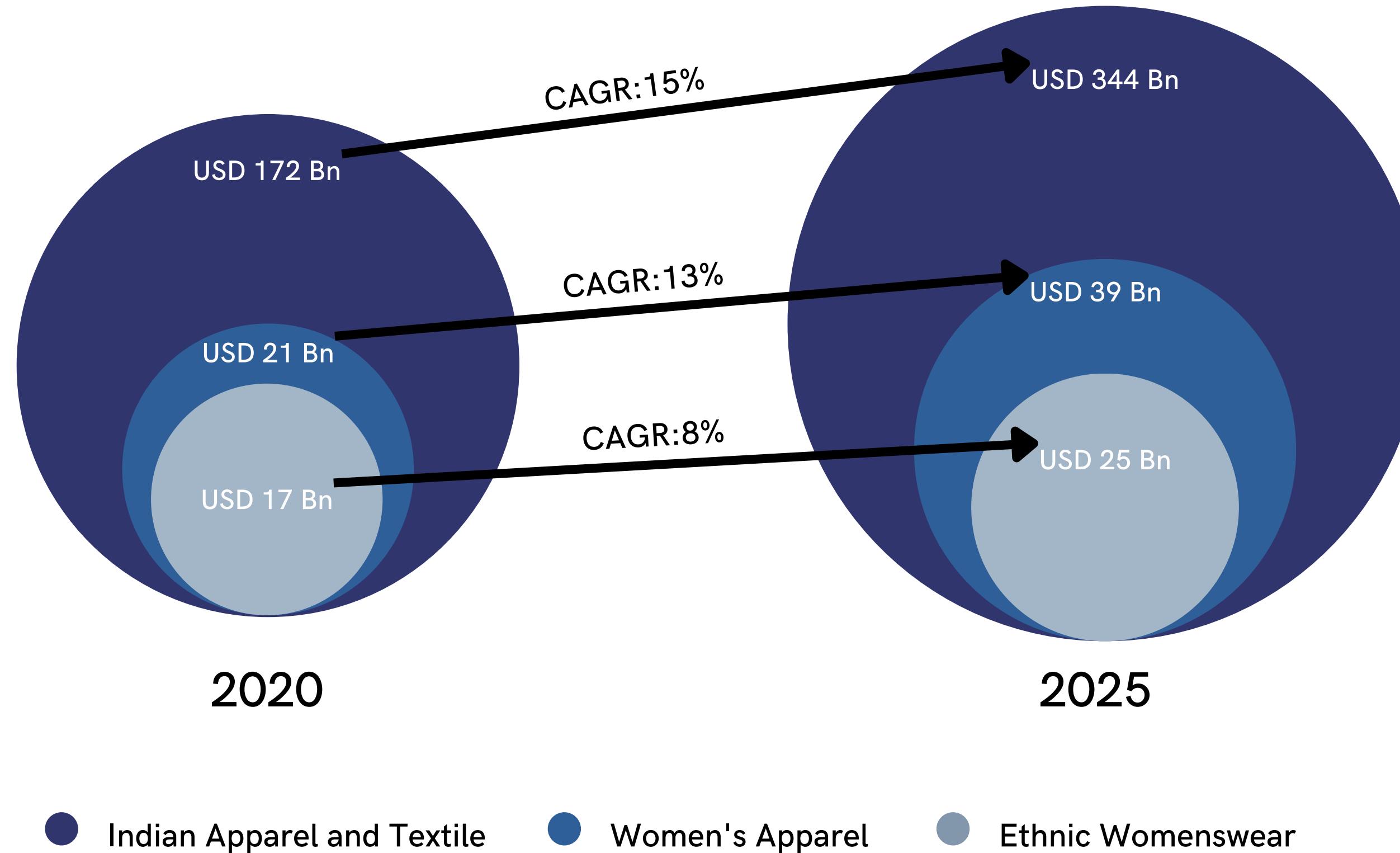
Diverse product portfolio - TCNS has a very diverse portfolio which mitigates concentration risks, and allows it to avail the benefits of Brand Extension

Retail Expansion and Acquisitions - Already in the phase of retail expansion into under-penetrated market demographics - with revenue streams already starting this year. Owing to a better distribution network amongst others, can operate at better margins. Further scope there with relevant acquisitions and additions to the brand portfolio.

Strong Brand Presence- TCNS brands especially W has a strong presence in the 25-40 year age group among women, it is the third most well known brand and associated with quality and value.

Key Risk - Slowdown in demand for TCNS products due to change in consumer preferences and lower brand appeal. Higher level of discounting can impact gross margins. Shift towards online as compared to offline retail.

INDUSTRY IS EXPECTED TO GROW TO 24 BILLION USD BY 2025



THE LANDSCAPE SEES MANY PLAYERS, BUT IN THE LAST 5 YEARS HAS SEEN CONSOLIDATION WITH VARIOUS M&A DEALS

	Ethnic	Fusion	Western	
Luxury			 Label RITU KUMAR	
Premium	 Nalli® SINCE 1928	 fabindia CELEBRATE INDIA	 BIBA  global desi	 ZARA
Mass Premium	 JAYPORE	 WESTSIDE	 HAUTEcurry	 H&M
Value	 LAKSHITA	 aurelia	 madame	 Levi's
	 Sabhyata		 ginger by lifestyle	 Allen Solly

- Ethnic wear sees presence of several regional brands & a few pan-India brands
- Western wear segment very concentrated in the mass premium & above segments which also indicates relatively fewer shoppers vis-à-vis other segments

Notable Deals

- Aditya Birla Retail Limited acquired Jaypore for INR 110 Crore in 2019
- Reliance Retail Ventures Limited (RRVL) acquired a 52% stake in Ritika Pvt Ltd (Label Ritu Kumar) for an undisclosed amount in 2021
- Reliance Retail acquired Future Group (FBB, Central, and Brand Factory) for USD 3.4 Bn in 2020

INCREASING WOMEN ENTERING THE WORKFORCE IS DRIVING GROWTH IN WOMENSWEAR



Increased number of women buying branded apparel led by:

- Increasing urbanization
- Increase in working women in service sector- increased from 17.5% in 2010 to 28% in 2019.



Higher frequency of purchase led by:

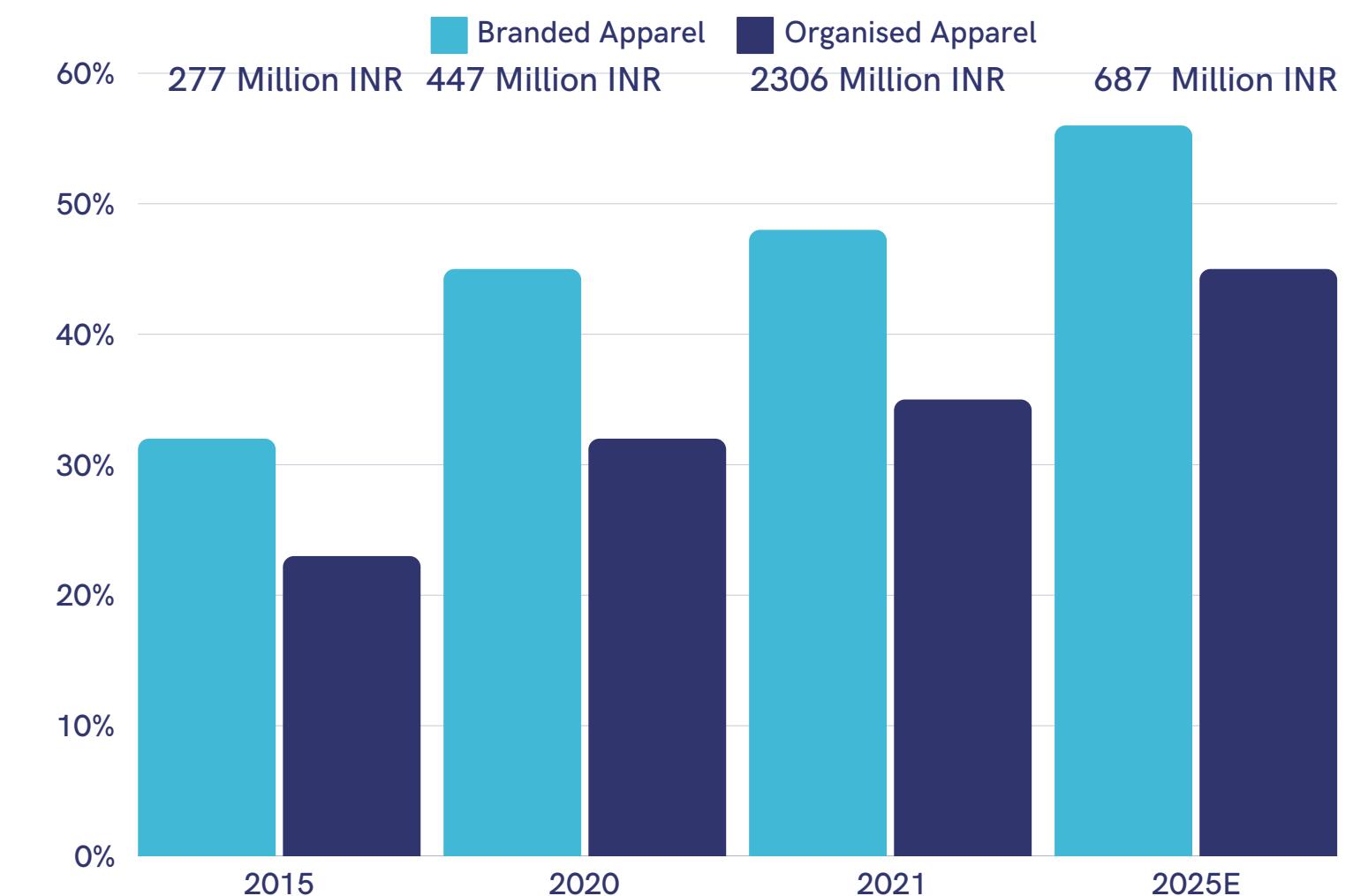
- Emergence of occasions
- Shift to occasion specific clothing
- Accelerated fashion obsolescence



Increased spend per wear led by:

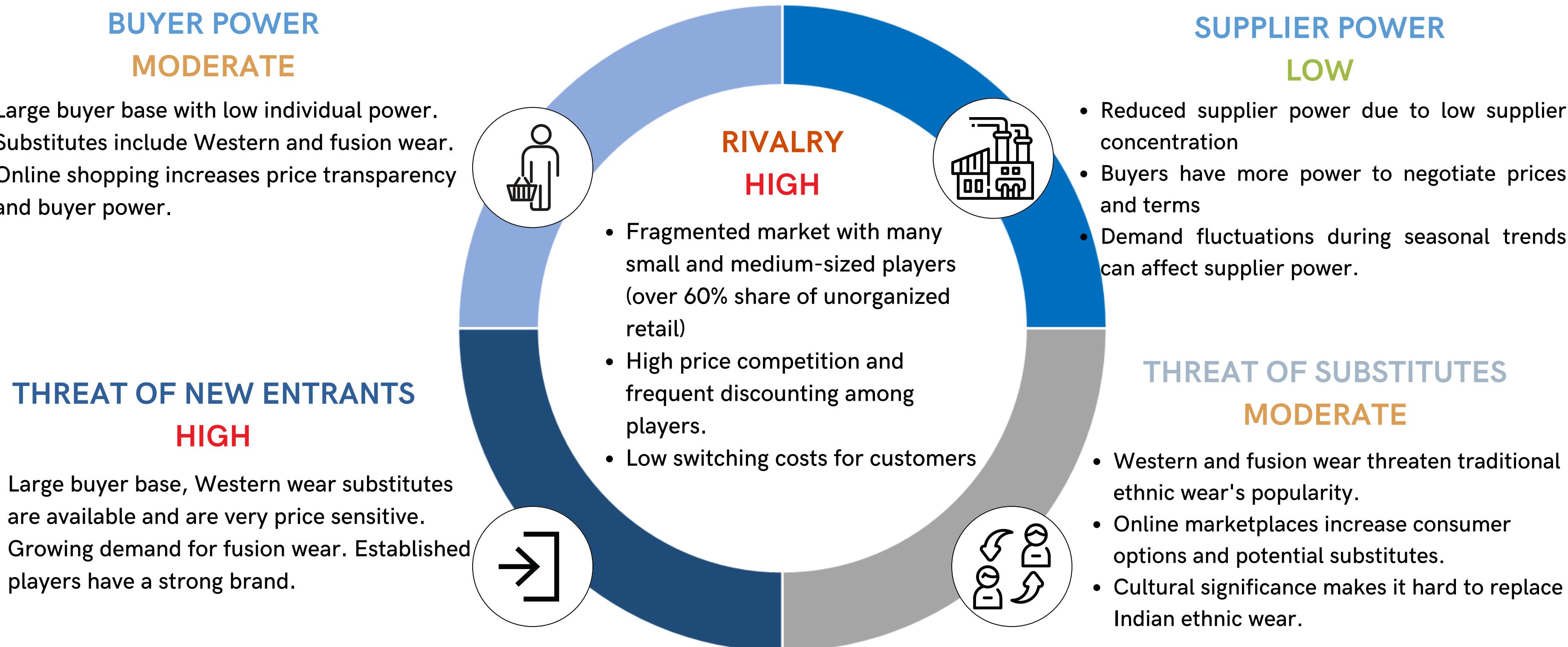
- Higher quality and better designs
- Higher discretionary spends- India's middle class growing at a CAGR of 10% from FY12-20.

Shift toward Branded and Organised Retail will push growth of TCNS brands



Growth of both branded apparel share and organized apparel retail share in apparel category will outpace the overall category growth. COVID-19 gave impetus to the growth of e-commerce which is expected to become a significant growth driver for the organised market.

THERE IS INTENSE COMPETITION IN THE MARKET DUE TO HIGH FRAGMENTATION AND LOW SWITCHING COSTS



TCNS IS ONE OF THE PROMINENT WOMEN'S FASHION COMPANY IN INDIA

- Established in 1997
- Market Cap : Rs. 28.29 billion, listed in July 2018.
- Last 5 years : 5.8% CAGR for revenue, 5.2% CAGR for Operating Income and 3.3% CAGR for Net Income
- Physical presence in 5 countries, shipping to USA, Australia, Canada, Singapore and UAE
- 2298 Large Format Stores, 600 Exclusive Business Outlets, 1098 Multi Brand Outlets

Category Presence



Source: TCNS Annual Report

FY22 PERFORMANCE

8.9 Bn
INR Revenue

41% YoY
GROWTH IN SALES

1.24 Bn
EBIDTA

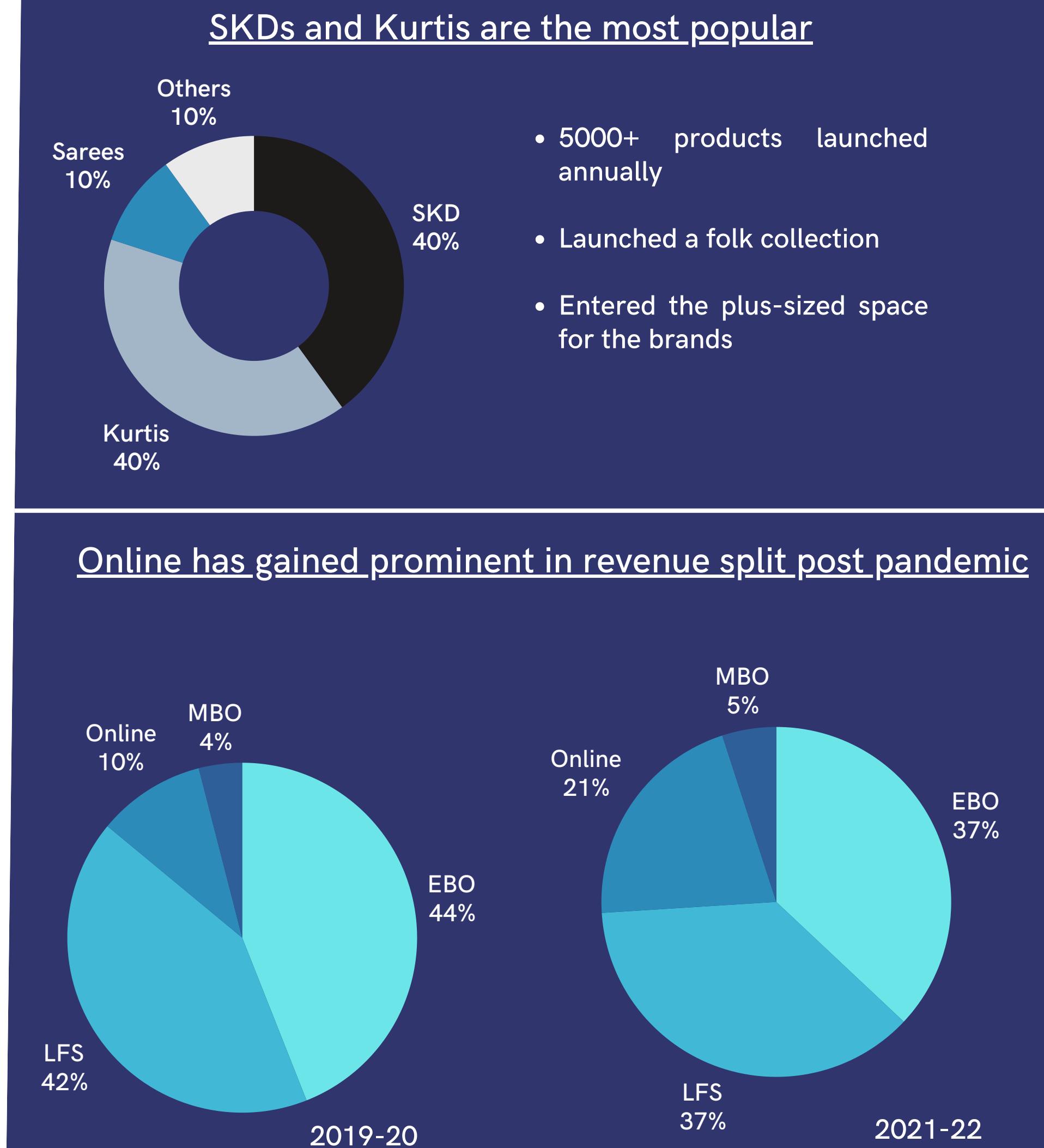
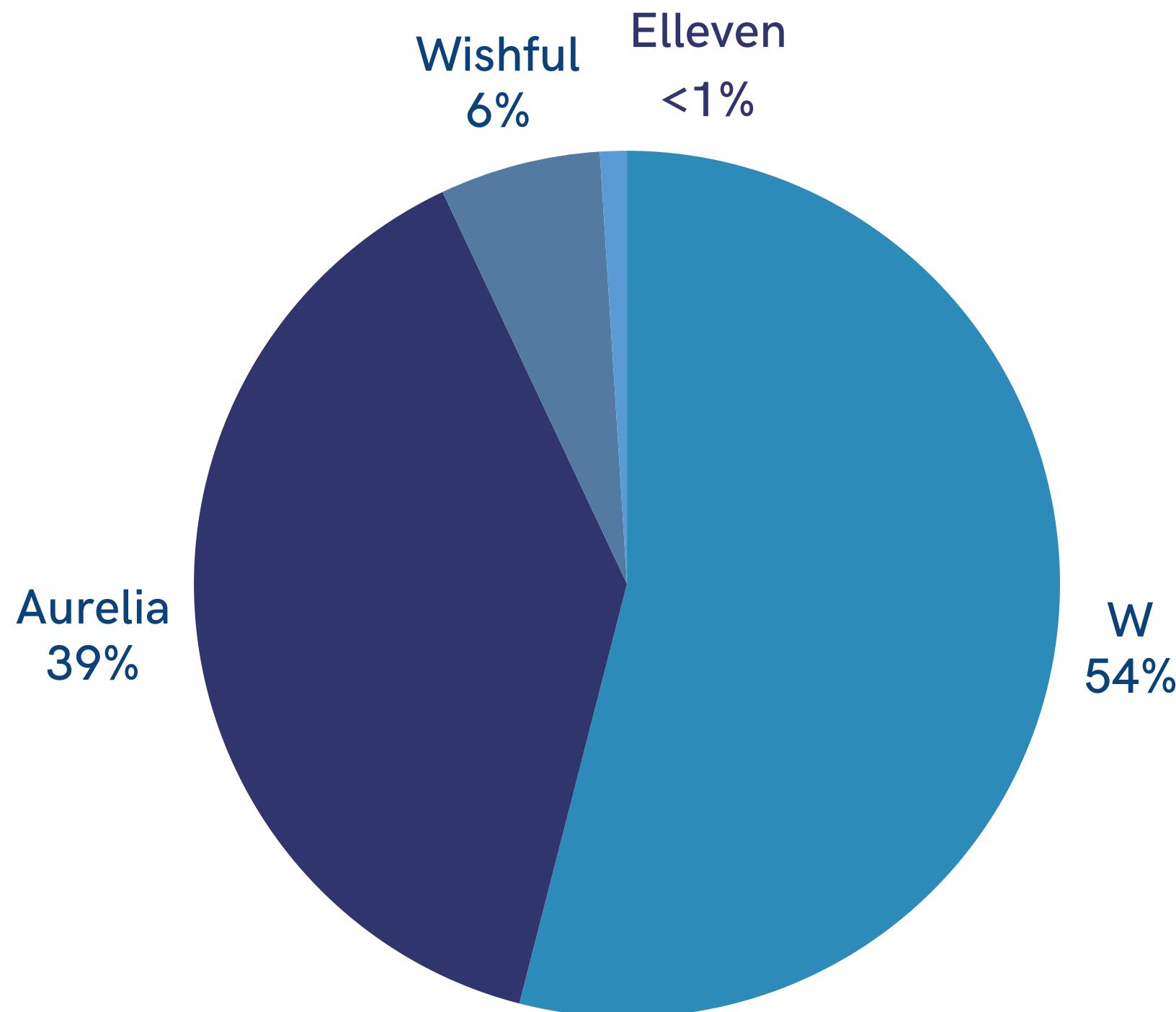
20%
SHARE OF ONLINE
REVENUE

-72 Mn
INR PBT

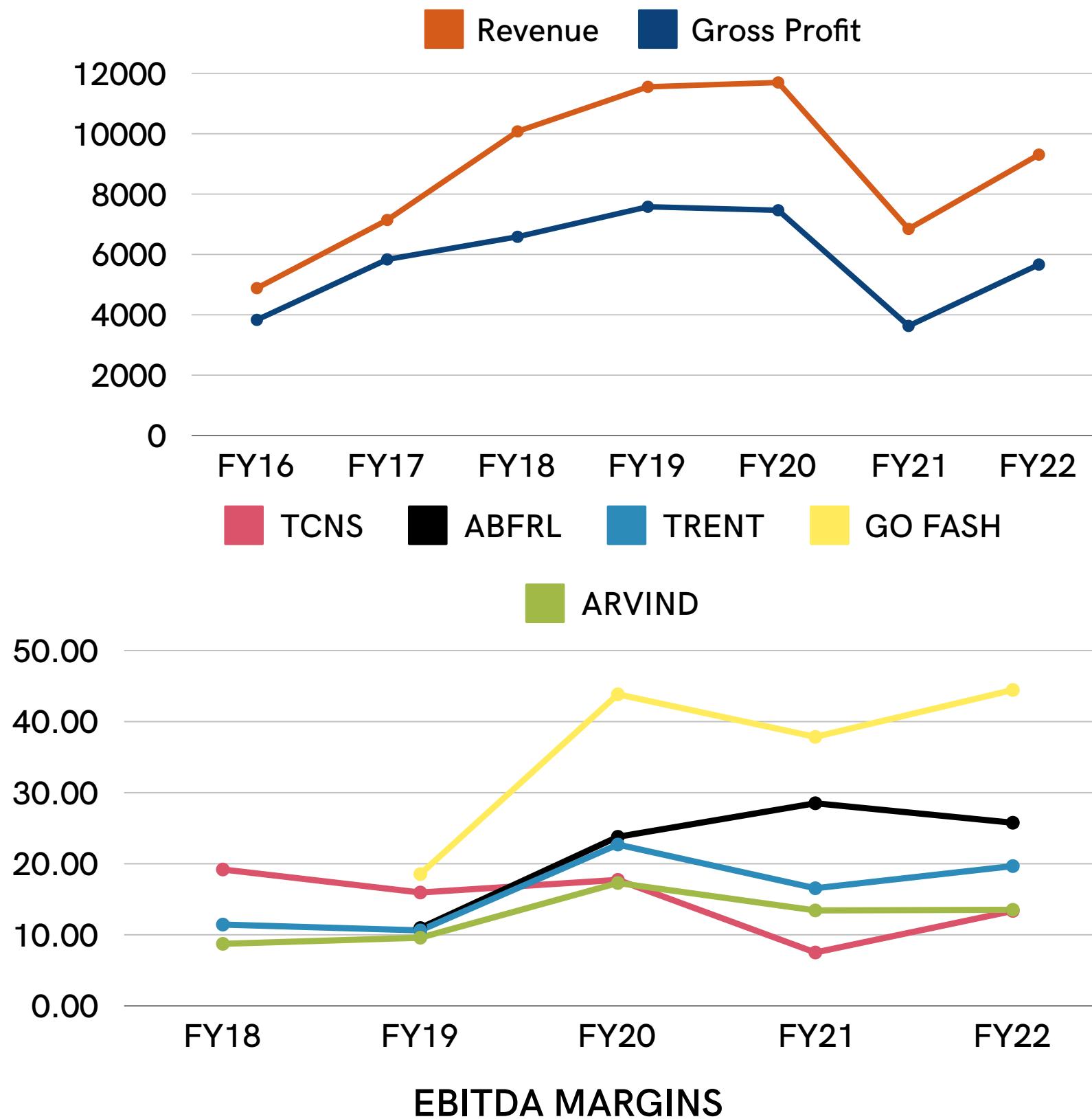
-0.64%
NET PROFIT
MARGIN

W DRIVES MAJORITY OF TCNS REVENUE

Revenue by Brand (FY22)



PROFITABILITY TRENDS: EBITDA MARGINS ARE INCREASING AND ABOVE PEERS



STATUS QUO

- Steady growth in revenues (4874 Mn - 11698 Mn) between FY16 and FY20. Slashed by 42% down to 6845 in FY21.
- Bottomline impacted by aggressive competition (Low NPMs).
- We see that the EBITDA margins is increasing (13.36% FY22) and above its peers in an otherwise flat industry.

SHORT-TERM IMPROVEMENTS

- In the short run, they seek to improve the capacity utilization and generate returns with already incurred capex.
- Their FY22 report focusses on investment in retail expansion

LONG-TERM IMPROVEMENTS

- Shift in product mix to high value-add products to improve margins
- Further build on allied segments to help revenue distribution.

ROIC HIGHER THAN COMPETITION PRE COVID

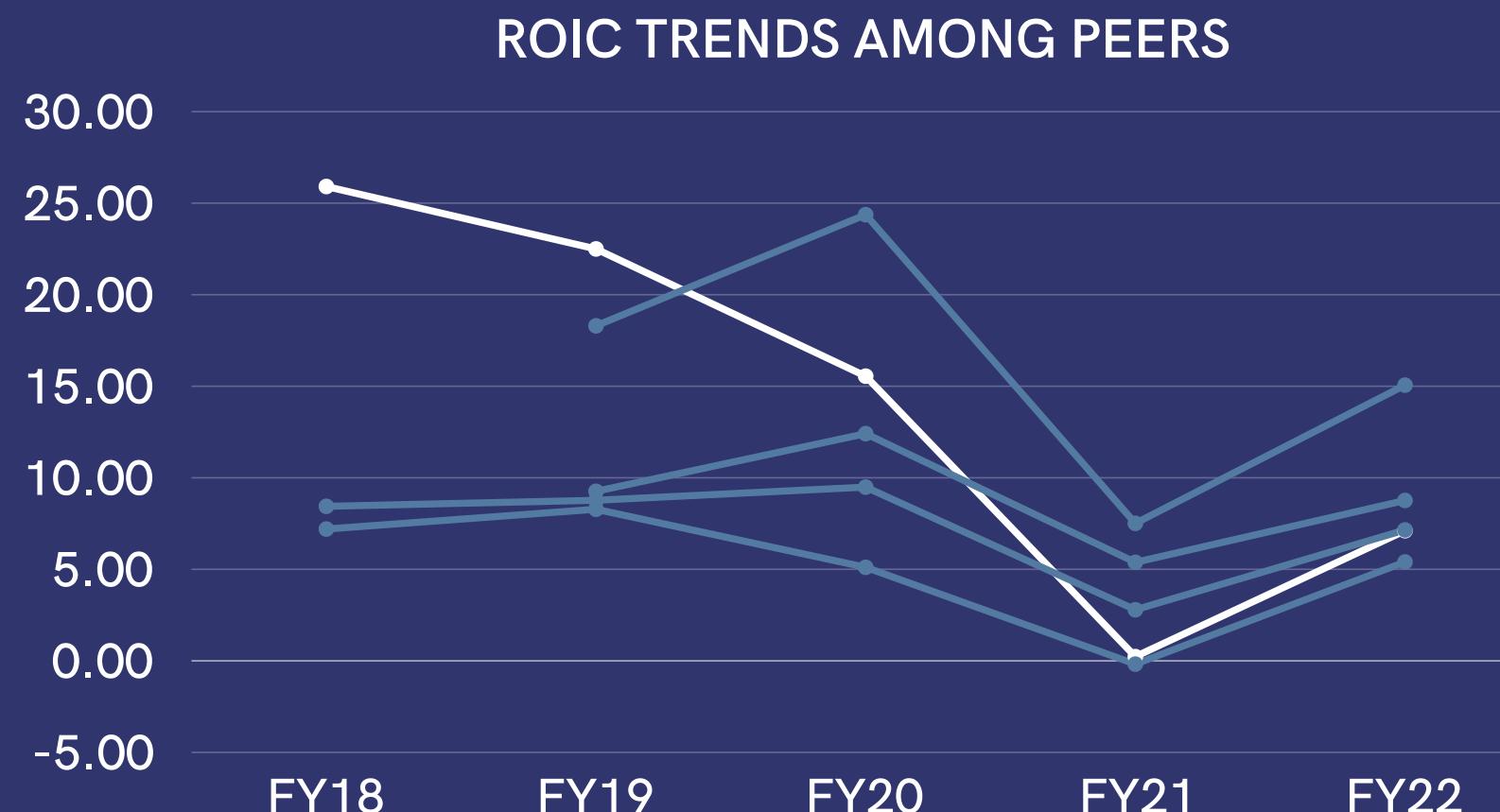
- TCNS enjoyed levels of ROIC's significantly higher than most of their peers which is a positive sign.
- Disproportional impact due to covid although has bounced back and expected to further increase in FY23.
- Pre Covid it was dipping due to high investment in machine learning, retail investments (many of these retail outlets were inefficient) High warehousing expense

ASSET EFFICIENCY : SALES/INV.CAPITAL

- We see a decline in asset efficiency and then a reversal (Peak of 1.47 and Bottom of 0.64)
- Result of the already incurred capex and retail expansion starting to generate sales.

PROFITABILITY METRICS : EBIT/SALES

- Drop in 2020 explained by sheer declines in revenue due to stores shutting down.
- Has always had an edge in profitability margin over competitors and see large scope to increase with push for higher margin product sales.



DUPONT DECOMPOSITION

ROIC	ASSET EFF.	PROFITABILITY	
7.10%	0.74	9.63%	FY22
0.22%	0.64	0.36%	FY21
15.55%	0.98	15.92%	FY20
22.49%	1.47	15.30%	FY19
25.91%	1.42	18.3%	FY18

Source: TCNS Annual Report, Competitors Annual Report

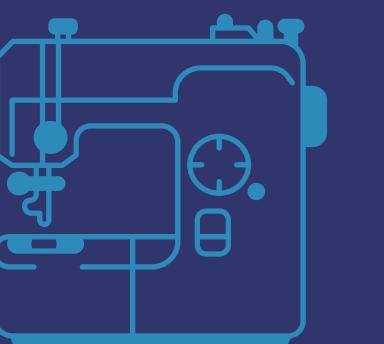
W KNOWS WHAT WOMEN WANT



Design Led Approach

Identifying Customer Needs	Design Process	Competitive Edge over Peers
<ul style="list-style-type: none">Identifying the biggest impediment in ethnic wear: Need for right fitUnderstanding evolving lifestyles: Need for functionalityAddressing fashion obsolesce: Need for continuous innovationUnderstanding regional complexity: Need for focused variety	<ul style="list-style-type: none">Pan India anthropometric study to determine right fit for Indian womenStrong design team (50+ members)Feedback oriented product approach with high refresh rate of design	<ul style="list-style-type: none">Wide range of sizes offer 8-9 sizes which is the highest among peersBalance of creativity and commerce with a wide range of options catering diff use casesLaunch 5000+ styles in a yearRegion and channel relevant, nuanced product assortment

Phases of Design



TREND ANALYSIS

IDEATION

STORY
CONCEPTUALISATION

PRINT CREATION

PRODUCT
CONCEPTUALISATION

Institutionalised Design Process has revolutionised Indian apparel



2003: Launch of Iconic Knit Churidar- combining functionality and fashion, knit churidar revolutionised this category



2012: Reinterpreting fusion wear Palazzos and Slim pants added an edge to fashion wear

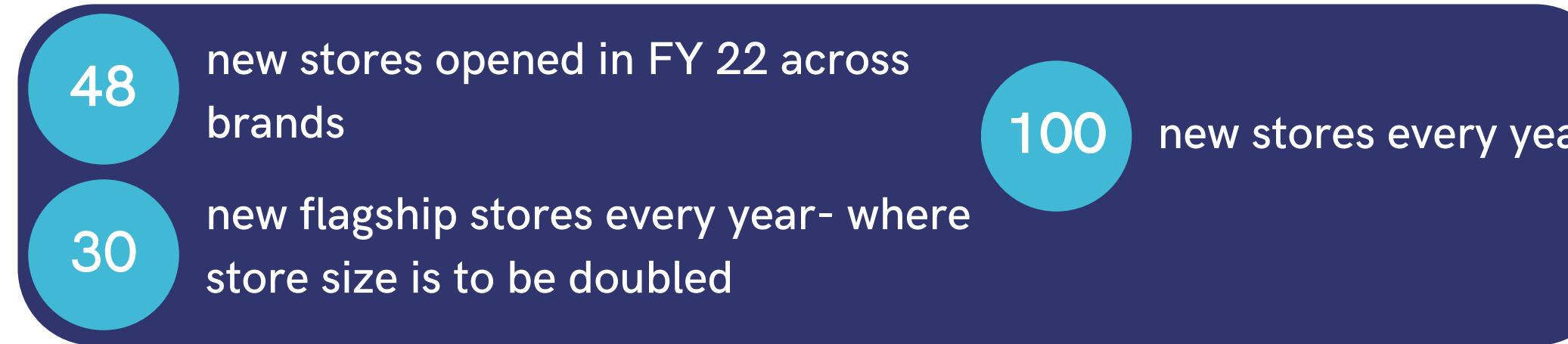


Gypsuit - ready to wear saree

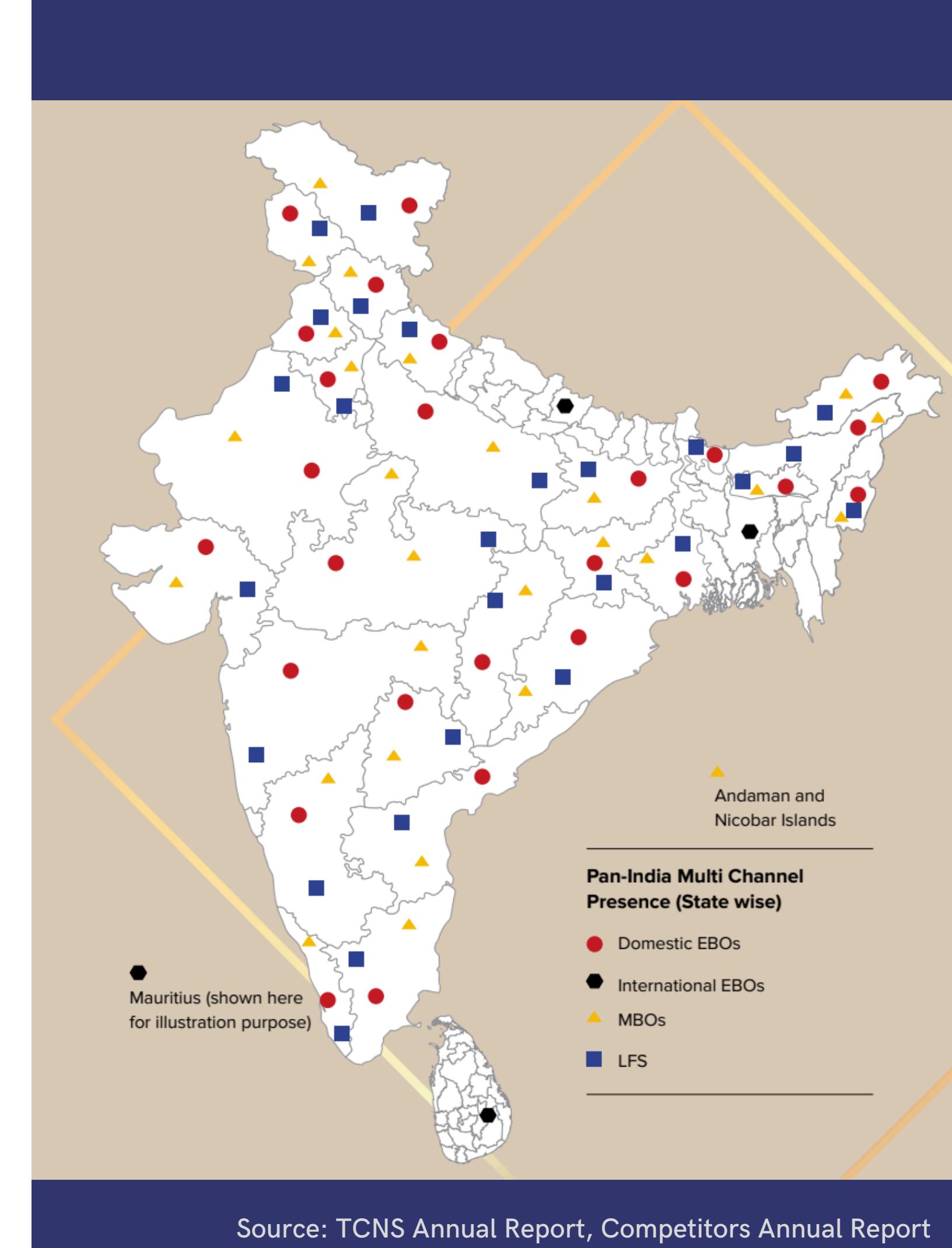


Folk Song - rethinking artisan led fashion

EXPANSIVE RETAIL NETWORK WITH AMBITIOUS PLANS TO EXPAND FOOTPRINT, TOUGH TO REPLICATE



Brand	LFS	MBO	EBO
TCNS CLOTHING CO. LTD	2298	1098	600
ADITYA BIRLA FASHION & RETAIL	6500+	28,000+	3468
A	5000		1300
GO COLORS!			500



Source: TCNS Annual Report, Competitors Annual Report

TCNS IS FOCUSING ON BUILDING ECOM AND OMNICHANNEL FULFILLMENT

Brand website

- Brand websites grew 30% YoY
- Brand websites generate ~25% of online revenue
- Increased investments to improve personalization to increase sales
- Lower margins due to tech investment, but should stabilize at the highest per-product margin
- Launched W website in international markets

Third-party marketplaces

- Share of omnichannel fulfillment expanded to double-digits of online D2C sales
- Increasing focus on marketplace branding and multi-channel awareness campaigns
- Increased support from marketplaces as demand increases (Mynta's GMV target 50% higher)

INCREASING BRAND VISIBILITY DUE TO A PRODUCT FOCUSED APPROACH?

TCNS has a wide womenswear reach with 4200+ points of sales, strong owned omnichannel network and partnerships with retailers.

W for Women is the 3rd most-known with a high unaided brand recall and brand loyalty, according to industry surveys.

Presence across digital spaces through social media marketing, search engine optimisation, pay-per-click advertising, alongside traditional advertising through tv, print, billboards, etc.

However, despite expenditure on SEO through Google AdWords, W still does not rank among the top 10 results on a Google Search, unless the brand name is explicitly mentioned - in which case TCNS brands perform better.

Market Metrics April 2022				
Visits	Unique Visitors	Pages/Visit	Avg. Visit Duration	Bounce Rate
230.4K ↓20.29%	221K ↓19.11%	1.14 ↓9.75%	03:27 ↓42.02%	95.48% ↓0.97%



Brands		
WforWomen	488K	745K
Aurelia	312K	359K
Wishful/Elleven	28K	47K
Fabindia	924K	562K
Biba	455K	858K

Social Media: Follower Count

THE ROAD AHEAD FOR TCNS



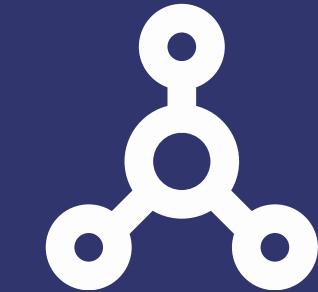
Bullish on Retail Expansion

- TCNS is betting big on retail expansion in tier 2 and tier 3 cities on a franchisee model



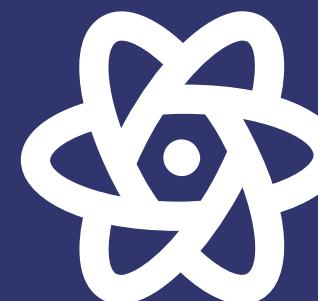
Lifestyle Brand

- The management aims to become a lifestyle brand, aiming to scale up efforts in footwear and cosmetics



Omni Channel

- The management aims to enhance their efforts of becoming an omni channel platform



Reinventing Brand Identity

- The management aims to reinvent brand identity for Aurelia

Key Risks

Higher level of discounting can impact gross margins

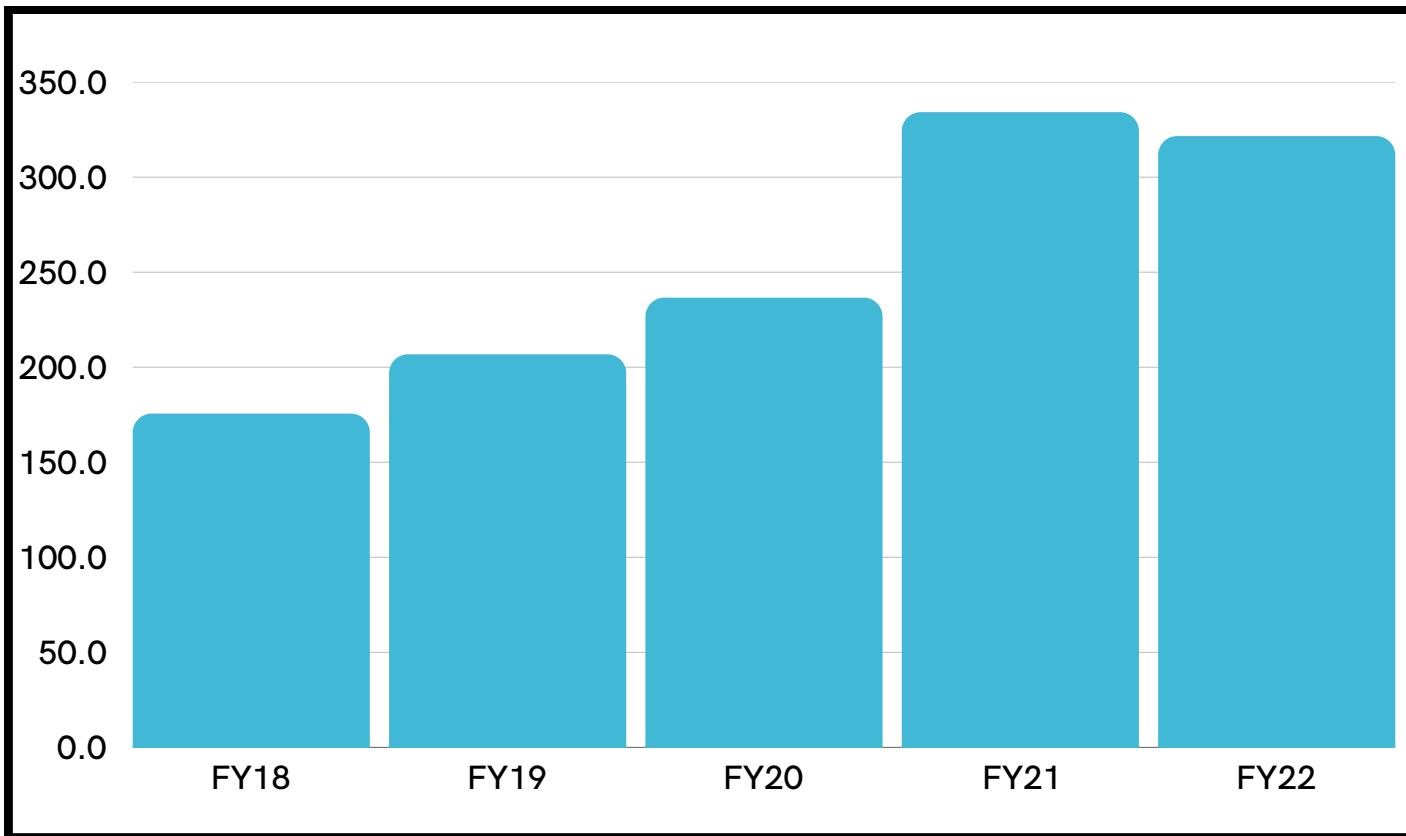
Shift to western apparel

High dependence on W as a brand

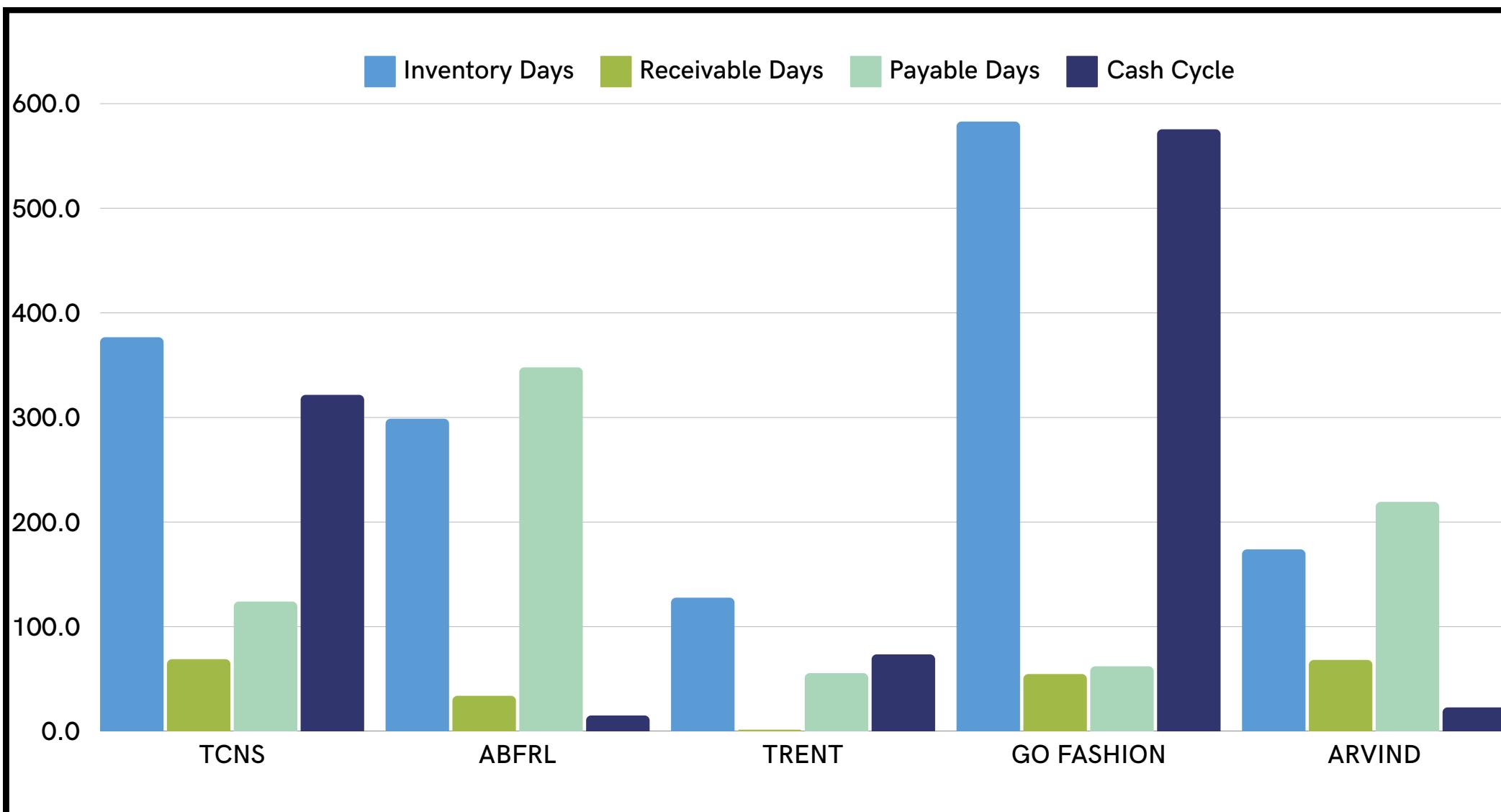
Changing consumer preferences

Changes in raw material prices

APPENDIX



OPERATIONAL EFFICIENCY: CASH CYCLES HAVE BEEN IMPROVING



KEY TAKEAWAYS

- Increasing trend in TCNS's Cash Cycle, with space to improve. Inventories specifically could be optimized.
- NWC of 4559 Mn tells us that TCNS has enough capital to fund short run operations.
- Total Debt of 3517 Mn on books to be repaid still. Debt-to-Equity (0.01-0.57)

MANAGEMENT ANALYSIS

Promoter/Management Check		
Promoter stake (%)	32.21%	
Promoter stake trend over the last 8 quarters	32.33% to 32.25%	
Promoter pledge	0%	
Reason for promoter pledge	N/A	
Are there material related party transactions	No	
Does the promoter have any other material business?	No	
%of time devoted by promoter towards this business	Not enough	
What drives the controlling shareholders?	Owned by O.S. Pasricha and Family	
Is this business run by a professional CEO?	Yes	
Length of the top management team in the company?	Owner, MD has been on the board for 25+ years;rest 10+ years in the company	
Quality of second level team	Good	
Succession planning	No	
Family dynamics?	Good	
Quality of Board of Directors	Good	
Any unrelated diversification in the past	No	
Quality of Reporting		
Are the company's accounts audited by the big 4?	Yes	
Are the subsidiary accounts audited by the big 4?	Yes	
Change in auditor over the last 5 years?	No	
Are accounting policies prudent? (Lease, depreciation etc.)	Yes	
Any qualifications in the auditors report?	No	
Any material red flags in notes to accounts and contingent liabilities?	No	
Receivables>6 months as a % of revenue	18.70%	
How would you classify the business structure?	Vertically integrated model (controls entire value chain)	
Are business practices aggressive?	Yes	
Does the company provide clear and comprehensive explanation of their cash flows?	Yes	
Does the company provide clear and comprehensive explanation of their balance sheet?	Yes	
Does the company provide detailed operational performance metrics?	Yes	
Do the company's accounting processes and systems meet acceptable standards?	Yes	
Quality of Forecasting		
Deviation of what management says vs actuals (financials, project implementation)?	No	
How tightly is capex spending managed? (in terms of time and cost)	Extremely asset heavy and capital intensive business	
Does the company provide an annual guidance?	Yes	

INDUSTRY IS EXPECTED TO GROW TO 24 BILLION USD BY 2025

Key Growth Drivers



● Indian Apparel and Textile ● Women's Apparel ● Ethnic Womenswear

Barriers to Entry	Description	Reasoning
	Competitive advantages	
High startup costs and capital expenditure	Established players have an advantage in customer loyalty and brand recognition.	Starting an apparel manufacturing/retail business in India requires significant capital investment.
	Liquidation of inventory	Liquidation of apparel inventory is challenging as it involves inventory write-downs, discounts, or clearance sales.
High Brand Loyalty and Low Product Differentiation	Long Term Lease agreements	Physical retail stores, may have long-term lease agreements (binding clauses and penalties for early termination)

Increased number of women buying branded apparel led by:

- Increasing urbanization
- Increase in working women in service sector- increased from 17.5% in 2010 to 28% in 2019.

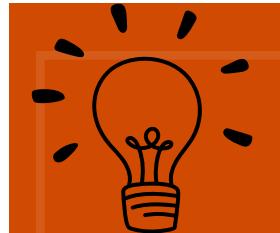
Higher frequency of purchase led by:

- Emergence of occasions
- Shift to occasion specific clothing
- Accelerated fashion obsolescence

Increased spend per wear led by:

- Higher quality and better designs
- Higher discretionary spends- India's middle class growing at a CAGR of 10% from FY12-20.

SWOT ANALYSIS QUICK CRET



- Expand to western segment
- Deepening of penetration of current geographies and expansion into tier 3 and tier 4 towns
- High consumer preference of Customizable clothing

- Fast changing customer preferences
- Increasing customisation trends i.e by tailors

BENCHMARKING IN ADJACENT CATEGORIES

Category	Biba	W	Soch	Global Desi	FabIndia
Women Footwear	✓	✓		✓	
Fashion Jewellery	✓	✓		✓	✓
Bags	✓			✓	
Cosmetics		✓			

Distribution Strategy

- A majority of the revenue comes from LFS and EBOs. LFSs' have increased from 1623 in FY '19 to 2298 in FY '22
- Diverse distribution network that includes EBOs, MBOs, LFS, and e-commerce platforms.

Supply Chain

- Diversified supply chain including artisans as well as large mills.
- Ensure availability of Best Seller Products through integrated warehousing.
- Optimization of stock by Inter Store Transfer.
- AI-based planning and replenishment system.

Pan-India anthropometric study to determine right fit for Indian women's body type

Strong design team consisting of 50+ members from premier institutions

Feedback oriented product approach with high refresh rate of design

PRIMARY RESEARCH: THE TEAM VISITED 2 RETAIL STORES OF TCNS AND INTERVIEWED STORE MANAGERS

Festive Season

Wishful does well: festive and occasional wears

Footwear and Cosmetics

Helps in ATV (average transaction value) and extra-ordinary businesses

Best Category

POP shop (handmade articles)
Age group: 25-40 max footfall

Employee Feedback

Lots of things to learn working in W.
Customer collection
Customer servicing
Great work experience

Based on interactions with manager of W EBO



Best Selling Product

Summer Season: SKD, kurtis

Typical Demographic of customers

Upper Middle-Class women aged 25-35

Inventory Management

Currently, 40% of the stock is sold

Revenue Split

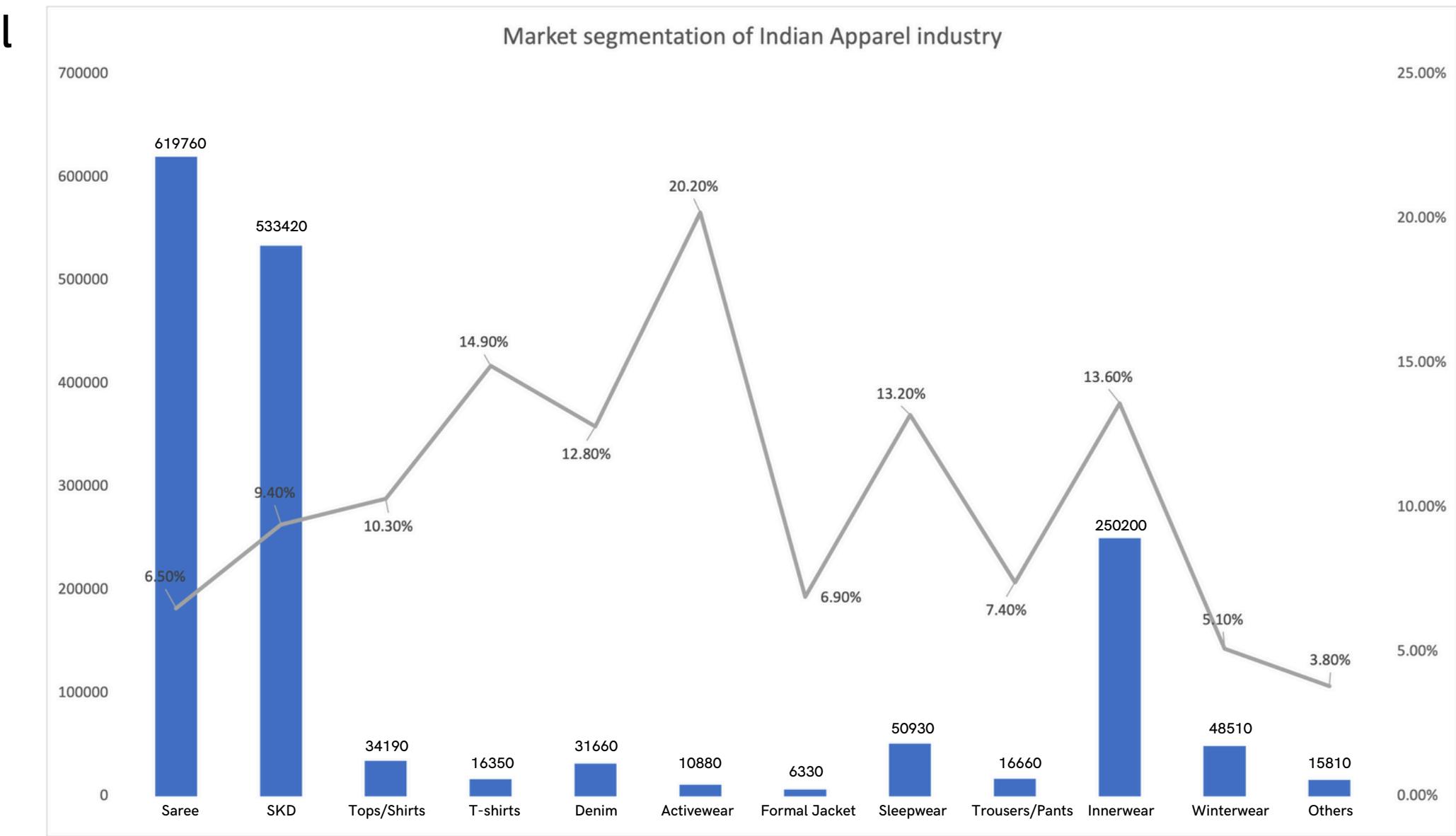
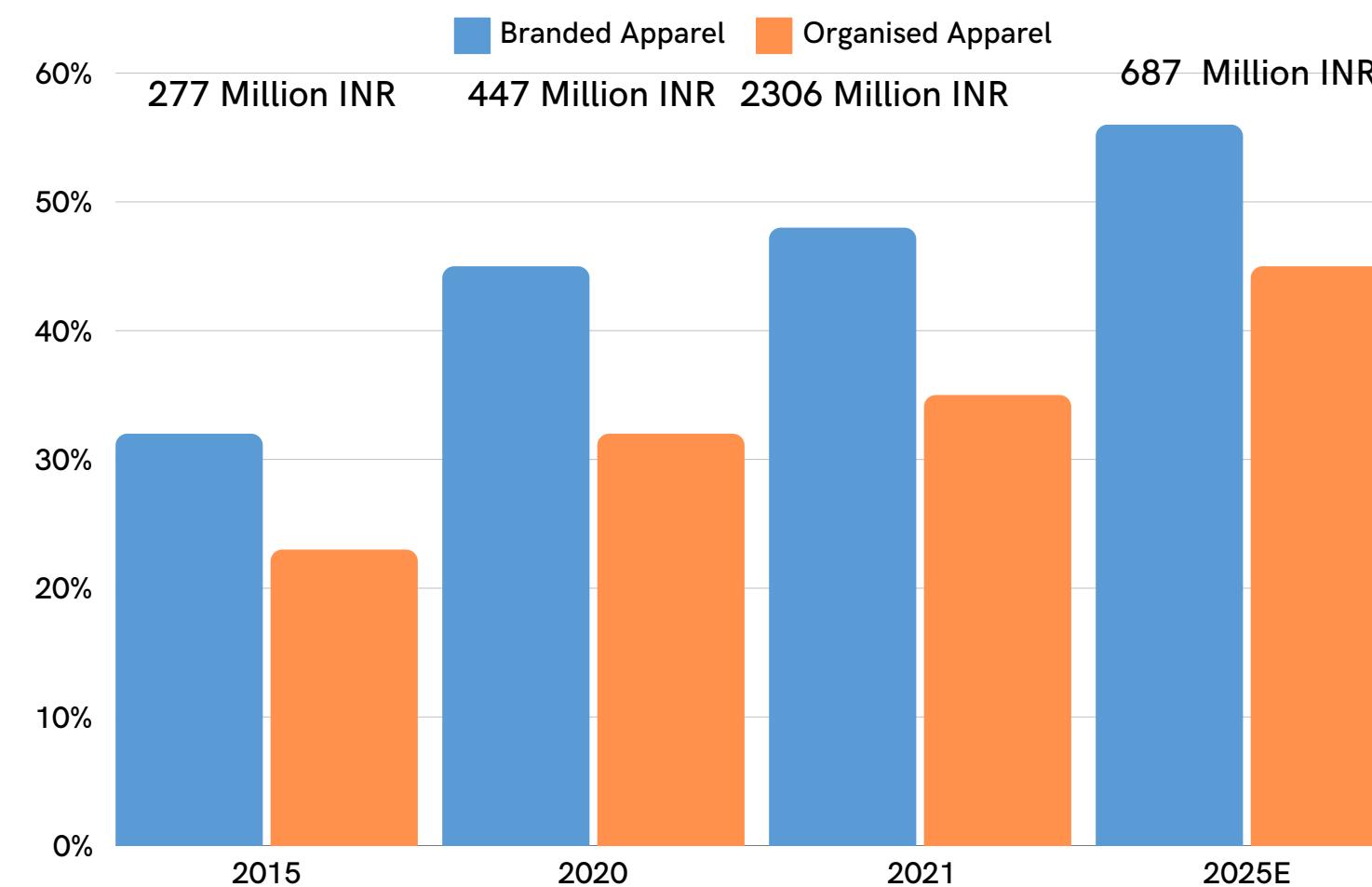
(40%) SKD, (40%) kurtis,
(4-5%) cosmetics, (10%) footwear,
(5%) others.

Average Daily Revenue

1 Lakh Rupees

Based on interactions with manager of W EBO

Branded Apparel and Organized Apparel Retail as a share of Apparel Market (Year in FY)



Branded apparel signifies registered trademarks that are regularly patronized by customers and that are sold through both organized retail and trade channels.

Organized retail signifies formal retail channels of Exclusive Brand Outlets (EBOs), Multi Brand Outlets (MBOs), Large Format Stores (LFS), E-commerce etc. Apparel retailed through these organized retail points of sales is necessarily branded. Therefore, organized share is less than the share of Branded apparel in total share.

RECOMMENDATIONS

Both financial and brand/network factors point to TCNS being an attractive acquisition

BRAND/NETWORK	FINANCIALS
W and Aurelia hold high levels of brand recall	Able to sustain higher margins in general in comparison to its peers
Strong distribution network with a large number of stores	Push for both better asset efficiency as well as profitability
Developing strong digital capabilities to exploit the growing online market	

Sustainability

Market Metrics IN; Apr 2022

Visits	Unique Visitors	Pages/Visit	Avg. Visit Duration	Bounce Rate
230.4K ↓20.29%	221K ↓19.11%	1.14 ↓9.75%	03:27 ↓42.02%	95.48% ↓0.97%

Market Share 3.69%

Market Traffic 6M↓

- Collaborations:

Livaeco;
Solar chakra mission.

The campaign "I am Awake" was run in 2019.

- Launched the Harit Khadi range through solar-energy-based production.