The acquisition of TCNS Clothing gives Aditya Birla Fashion Retail an entry into the women’s premium ethnic wear segment. It thus completes its portfolio from the luxury and exclusive to the mass segments. This comes on the back of partnerships with well-known designers such as Shantanu & Nikhil, Tarun Tahiliani, Sabyasachi and House of Masaba.

TCNS reported a revenue of ₹960 crore for the year ended March 31, 2022. Business was caught up with Ashish Dikshit, Managing Director, Aditya Birla Fashion and Retail, for more colour on the transaction.

Could you give a quick background on the rationale for the acquisition?

About five years ago, we decided that we should make a play on the ethnic wear side, which was a missing part of our portfolio. In the last 4-5 years, we have made several very careful sequences/tech organic and incantation steps, to build a large and comprehensive portfolio of Indian ethnic wear business, with partnerships with designers at the top and a few organic brands we launched at the bottom end. But one piece missing in our portfolio was the premium, sub-premium women’s segment.

TCNS is a leader in the premium ethnic wear market for women. It has a portfolio of brands, and in some ways, it strategically completes the journey of brands that we were making in our own ethnic wear portfolio. So it brings strength and scale and completes our entire portfolio. That is the strategic rationale that brings a bunch of leading consumer brands in the country to our company.

The deal is structured as part cash, part share swap. Could you explain?

It’s (TCNS) a free cash flow generating brand, and we don’t expect it to require too much capital beyond what it can generate on its own. We obviously wanted to do a balancing act. If we did a pure cash deal or a pure swap deal, then we pay the whole amount taking the debt on one side, and on the other side, we end up diluting all the existing shareholders. It was a very large deal, and we didn’t want to swing on either side, and therefore, we felt the best thing was to do the right balancing by giving half the shareholders cash and allowing the other half to merge with ABFRL.

The open offer size is conditional on a minimum acceptance level. What does that mean?

The way it is conditional is that we are waiting for the open offer to find out how much of the open offer gets tendered. If it is slightly less, then we will buy a slightly higher share from the promoters, and that’s why it’s not exact percentages. The promoters own something like 29 per cent. We could have done an open offer for as low as 22 per cent, but we decided we would make a 29 per cent open offer, and depending on how much we get in the open offer, the remaining amount will come through promoters.

How soon do you expect the acquisition to be EPS accretive?

We must understand the company a bit more to make a definitive comment. I would wait for at least the open offer process and completion of a 51 per cent stake to comment on that.

Do you expect to invest more in the company after the acquisition?

TCNS has been a well-run brand. It has been cash positive for a long time; for almost 10-12 years they have not needed to raise any capital. So it’s a free cash flow generating brand, and we don’t expect it to require too much capital beyond what it can generate on its own.