"Monte Carlo Fashions Limited Q2 & H1 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, welcome to Q2 FY2021 Earnings Conference Call of Monte Carlo Fashions Limited hosted by Emkay Global Financial Services. We have with us today Mr Dinesh Gogna – Director, Mr Sandeep Jain- Executive Director and Mr Rishabh Oswal – Executive Director, representing the Company on this Earnings Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr Devanshu Bansal from Emkay Global. Thank you and over to you Sir!

Devanshu Bansal: Good afternoon everyone. I would like to welcome the management team of Monte Carlo Fashions Limited on behalf of Emkay Global Financial Services and thank them for giving us this opportunity. I would now hand over the call to the management team for their opening remarks. Over to you Sir!

Sandeep Jain: Very good afternoon. It is a great pleasure to welcome you all to this earnings conference call to discuss our financial performance for the second quarter and half year of FY2021. Thank you all for sparing your valuable time and joining us here today. Before sharing the recent developments and strategy undertaken for growth, let me provide the key financial indicators reported during the Q2 FY2021. Revenue during the quarter stands at Rs 98.2 Crores as compared to Rs 152 Crores in Q2 FY2020. The company reported gross margins of 60.4% in Q2 FY2021, operating EBITDA margin during the quarter stood at 15.2% as compared to 13.2% in Q2 FY2020.

The cotton segment now contributes around 41.7% of the total revenues as reported in Q2 FY2021, the T-shirt, shirts, denim jackets forms a major share in the cotton product category, home textile segment continue to grow at a healthy rate. The home textile segment contributed approximately 35.2% in Q2 FY2021. The company's performance during the quarter was encouraging with the lifting of lockdown in most parts of the country; the company was able to operate its manufacturing facility at Ludhiana successfully. The company remained focused on stimulating consumer demand with various strategic tie-ups while maintaining the focus on restoring the lost ground due to COVID related disruptions.

Our operation profitability and the cash flow stabilized during the quarter while we maintained strict control on the operating cost. One of our key strengths has been our wide and growing distribution network with a holistic presence across India. We have a deep presence across India through 2500 plus multi-brand outlets, 285 EBOs and 279 national chain store outlets and 146 stop and shop. Majority of our revenues comes from MBOs and franchise EBOs where we primarily sell on preorder and outright basis. By virtue of this business model, there is no major inventory risk and we remain adequately protected from the normal hazard discount sales in the branded apparel business.

We have strategically eyed for increased revenue contribution from online sales and happy to share that the increased traction from the channel, online sales from Q2 FY2021 stood at Rs 7 Crores against Rs 6.7 Crores during the same period in last financial year. As per our growth strategy, we are building our pan India presence with an emphasis on western and southern region. We have already made a beginning to achieve this goal to increase the reach of Monte Carlo products to end-users. We also have a strategic tie-up with Ajio, First Cry, Tata Cliq along with the existing tie-ups with Amazon, Paytm, Flipkart and others. Monte Carlo continues to enjoy a comfortable net cash position and its medium-term liquidity needs are well covered.

With adequate banking limits in place, its ability to service debts and financial obligations on times remains unaffected. Monte Carlo has zero reliance on exports and has a priority domestic market approach with an extensive distribution network. The good credit terms with our suppliers help us to operate the business smoothly. No major capex is planned for the next 2 financial year thereby positive operating leverage is expected as the production gains scale. We are strongly focused on optimizing asset utilization, quality, efficiencies, and relationships. Before we open the floor for the question and answer session, I would like to wish everyone a very Happy and a Prosperous Deepavali. If you have any questions or queries still unanswered, you can reach to our investor relation team at Dickenson World. We can now open the floor for question and answer session. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Zaki Nasser, an Individual Investor. Please go ahead.

Zaki Nasser: Sir, good morning wishing all of you at Monte Carlo a very happy Deepavali and let us hope this year is great for the country. Sir, my first question, would be since it is already one and a half month into your prime season, this is the quarter where Monte Carlo does most of its topline and bottom line, how is that looking, do you think it can compare with the previous EBITDA for you, point number 2, one thing I noticed is that in this current 3 months, the purchase of stock in trade is quite down, so the majority of the sales would be from our own manufacturing, is that correct, Sir, thank you?

Sandeep Jain: First, regarding your first question, which is you asked about how this winter season is going as compared to last financial year, well if you see the sales of October, and if we compare with the last year, we have reached almost 90% of pre-COVID sales, as we did in last year, so that is the status of EBOs. As far as MBOs and SISs are concerned still we have to get this data from that channel, but we believe that they are also at par what we achieved in our retail outlets. Your second question was, own manufacturing will contribute more or the outsource manufacturing, yes this year definitely I think there will be more contribution from home manufacturing as number one, where we make sweaters we do not see a much fall as compared to the last year's level, but definitely in the case of the goods, which are manufactured outside like the jackets, where they have labour shortages and we have also reduced production as compared to last year, so there will be proportionately the in-house manufacturing will be more as compared to last year's level, so the season has started well for us and of course there has been less fear in the minds of consumer as compared to the last quarter, where people are not venturing out of their homes and they were not going to shopping and they were not like going on the high streets where we have most of the stores located as far as the EBOs are concerned, so we are very positive to begin in this quarter.

Zaki Nasser: Expecting the winter quarter to be at least 90% of last year?

Sandeep Jain: No, I have told you the October sales had been 90% of last year October sales, so November and December sales are still to come and we believe if the second wave does not hit us very badly, I think we should have the same levels in the November and December as well.

Zaki Nasser: Fantastic, Sir. Thanks a lot and best of luck.

Moderator: Thank you. The next question is from the line of Gautam Gupta from Nine Rivers Capital. Please go ahead.

Gautam Gupta: Good afternoon, Sir. Thank you for the opportunity. Great to see us emerging from the worst of the COVID, I think things are going exactly the way you envisaged in the previous couple of quarters. My question since we have Rishabh on the call as well, my question is on the e-commerce side of thing, you know we are still quite small in terms of sales and obviously, we are growing and investing a lot in that, if you could give a broad roadmap for e-commerce, I am not looking for guidances or targets, but more in terms of where do we see the opportunity in the long run and where are we in terms of our reach, in terms of cataloguing, visibility, where are we and where do we want to get, so just a broad picture?

Sandeep Jain: Okay, I would ask Mr Rishabh Oswal to answer this question.

Rishabh Oswal: Good afternoon. Thank you for the question. During the lockdown as already mentioned in the opening speech, we have maintained the sales figures of last year and this year in the winter, we are targeting a 25% growth in the online sale segment while doubling our own website sales, so the key focus for this year is focusing on our own website where we enjoy extra margins also, so that is the way going forward, also all our advertisements focus has been shifted towards e-commerce sales, so we are focusing more on social media and Google ads to direct more customer to our own website.

Sandeep Jain: I would like to add one more thing if we see, it is only the online channel, which has grown in this financial year otherwise, all other channels have been down if you compare with the previous growth.

Gautam Gupta: Sir, Mr Rishabh mentioned that we are focusing more on our own website sales, which is fantastic if I look at H1 ballpark, how much of the sales would be our sales v/s third party?

Sandeep Jain: We currently do not have the graph figures for our own website per se.

Gautam Gupta: Just a broad number, not the exact number, is that less than half or maybe we can come back later?

Sandeep Jain: Yes, I think it is better we come back later.

Gautam Gupta: Sir, you said you are seeing growth this year and that is our own website sales is our aspiration, but somehow long term perspective, maybe a three to four-year perspective we still look at something, I do not want a guidance, but just want to understand the aspiration where you see the market, is it 25% or 50% CAGR, it can double in three years, in the pipeline because this is a brand which is not a mass-market brand, which has a brand value, from that point of view I wanted to understand where do you see it, because a few years ago we said the online market is more discounting robust and maybe the opportunity for Monte as a brand is not that big, is that changing?

Sandeep Jain: So, I think to answer that question, if you see the discounting percentage in the online segment for our brand Monte Carlo, it is almost at par with the offline channels with an increase of 3% to 4%, and when we sell through third-party websites like Myntra and Jabong, we have clauses written in our agreement, but our ability to control the discounting is still dependent on them, so that is why the shift and focus towards our website and also we have started developing some special merchandize only for online segment to avoid the clashes with the discounting when it comes to the offline channels, so in the next 3 years, I think we should be able to contribute 10% to 12% of the company's turnover from the online channels.

Gautam Gupta: Good enough. Thanks.

Moderator: Thank you. The next question is from the line of Venkat Subramaniam from Organic Capital. Please go ahead.

Venkat Subramaniam: Thanks for taking my question. A couple of my questions are fairly general in nature, now that actually people find less and less reasons to go out, do you see the challenge in branded apparel per se, and two, when Mr Rishabh mentioned that about aspirationally we would have about 10% to 12% of company's revenue coming from here that is almost about eightfold growth, so if you can kind of expand on what kind of strategy that we have to get that going and I have few more questions later?

Sandeep Jain: To answer your first question, where you mentioned that people are stepping less and less out of their home, I think it was actually very true when we were in last quarter from March to September. Definitely people were having a fear in their mind and they were restricting themselves to the homes, but as we stepped into October and we have seen the COVID cases are coming down from approximately 1 lakh cases to almost 50000 cases, so there has been travelling also. People are just fed up sitting at home and they just want to go out of their homes and go for shopping, go for some holidays also, we have seen even the hotels and nearby places in the northern region in Himachal and all, they are fully booked, so as the COVID cases have come down, people are just moving out of their homes and the walk-in in the malls have increased almost three to four folds as compared to September if we compare, particularly some of our malls. So I think this is a phenomena, which will keep on going up because we were restricted in the homes for such a longtime, so people will move out definitely unless and until there is again a crisis of increased COVID cases, which fortunately we are not facing right now, of course as in India it has been happening in Europe and US and other countries, but we never know about how this happens in the next 15 to 20 days and secondly as you rightly mentioned that we are targeting a 10% to 12% of online sales as Rishabh has rightly mentioned in the next few years, the reason being is that people are getting more and more habitual of purchasing online as compared to the past because earlier some of the people who are not actually buying online have actually gone online because they were not having any other option, so this phenomena I think will keep on happening and will keep on growing and that phenomena will definitely help brand like us to increase our sales in online channel as well as we have a loyal customer, which are not only purchasing offline, but they are moving to online as well when they know that it is difficult to move out of the houses.

Venkat Subramaniam: We had no doubt that, that is the direction that market is taking, but in as much as we do not discount at all because I am noticing your presence in many of the popular sites, we have held onto to our price point, so given our reservation about discounting, how do we get the 10% to 12%, we know that is the direction the market is taking, but how we get to about 60

Crores to 70 Crores of current revenue in the current gross terms or if you even can grow higher later, how we will get there, that is the question?

Sandeep Jain: See, why we are mentioning this thing is that, the percentage of discounting in overall sales is actually growing every year, earlier there have been fresh percentage is approximately 60% of the sales, but now the fresh percentages have gone down to almost 40% of the sales, so 60% of the sales is happening basically in the discounting end of the season sales, so at that time the offline and online channels are offering the same discounts, so people have the option of purchasing online as well as offline, so people who just want to sit at home and order so that will definitely push the online sales and discount season as compared to offline sales, so that is the reason, Rishabh mentioned that in the coming few years we will see definitely the increased online sales even if it comes from a discount as were the whole channel is concerned.

Venkat Subramaniam: Right, I just have a couple of bookkeeping questions, our home textile seems to have gotten to a fairly significant portion of revenues, how do you envisage on a near-normal kind of a trajectory, what portion would you see home textiles going up to or maintaining and two, I noticed that in the east we have grown pretty well actually this quarter, and thirdly your cotton percentage has kind of dropped, so on these three counts can you kind of guide us as to what the steady-state will be?

Sandeep Jain: Home textiles, as we mentioned I think in last year also that it is one segment where the competition is relatively less as compared to the garments so that is the reason it is not that much affected from the competition as our other garments are, so home textile last year I think it contributed almost around 12% of the revenues and this year it will increase, the reason being is that as the other revenue is coming down in garments, but in case of home textiles, the fall will not be that much. We anticipate the fall from 25% in case of our other Monte Carlo garments in this financial year because of the less production, because of COVID, but in case of home textiles we see a fall of probably 10% to 15%, so definitely the growth will be much more in the coming years as well. The another reason why the home textile is not dropping in this year, the reason is that because home textile is normally in India in particularly in a northern region it is being taken in the gifting sales also so as we have reached the beginning of the wedding seasons people normally gift blankets in our case Monte Carlo blankets in the weddings and others also as well and that mainly more in the rural region, not in the urban, mainly in the rural region and the rural sales are not that much affected if we compare with the urban sales so that is another reason it has not dropped as such the other Monte Carlo garments.

Venkat Subramaniam: Sure, Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Devendra Pandey from DP Financial Advisory. Please go ahead.

Devendra Pandey: Good afternoon and thanks for taking my question. I have recently started to track this company, so I just wanted to understand what is our blended average realizations as of now and how the trajectory has been in the last 3 to 5 years?

Sandeep Jain: If we see the net realized winter sales of autumn-winter 2019, it was approximately 50.53% for MBOs if we compare to the NRV sales, it was around 49.29% in case of EBOs and 46.78% in case of online and it is mostly similar in autumn-winter 2018 also where we have little lesser sales in NRV in online, which is 43.8%, but in MBOs and EBOs, it is almost equal.

Devendra Pandey: Sorry, Sir, I did not get your answer, I was referring to the average realization per piece for you blended average realization?

Sandeep Jain: If we talk about the men's sweater, the average realization in September 2019 was 1453 and this year it is 1523, women it was 1432 and this year it is 1379 and in case of cloak and decker, which is an economy segment, it was 776 in September 2019 and it is 679 this financial year.

Devendra Pandey: And what would be the ballpark number, the difference between the average realization through our own shops and through the online channel?

Sandeep Jain: It is almost 4% discount it will more in online channels as compared to offline channels.

Devendra Pandey: And what would be the trajectory going forward, do you see this growing or do you see the average realization is remaining at this level, but the number is growing?

Sandeep Jain: No, in case of online, the average realization will go up as we are seeing the trend that even the fresh sales are contributing now more as compared to discount sales as people are becoming used to buy online also, so I think the realization in online channels will improve going forward and I see that the realizations in the offline channels should remain same.

Devendra Pandey: Okay, thanks. I will get back if I have any questions. I will join the queue.

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

Vikas Khemani: The key thing, which I wanted to get a sense around, I mean one is obviously this COVID, but the bigger problem in larger if you see some last 2014, 2015, 2016, our sales have just remained quite stagnant, we were around in the range of 500 Crores to 600 Crores and after almost 5-6 years despite having such a strong brand, product recall, the growth has just not come by whereas the most product categories have grown, so what is your take, are you at all planning to address that problem or what is your overall take on that, that is one of the reasons why the company has taken such a beating on the market cap despite having such a good consumer-oriented company and strongest return ratios, but the growth seems to elusive despite all being right?

Sandeep Jain: See, I think there is a little misunderstanding as far as understanding the revenues are concerned, if you see the revenues in 2016-2017 and 2017-2018, it was around Rs 575 cr, in 2018-2019, it was Rs 655 cr and in last financial it was Rs 724 cr, the reason is in last 3 years why the revenues have not grown proportionately as compared to 2014-2015 and 2015-2016, because at that time the discounts were considered as expense and now we are actually reducing the discount part from the overall sales, so if we include the discount as expense the sale will proportionately go up from 2014-2015 level and 2015-2016 level because after that the method has changed, so as of now we are reducing all our discounts from the total sales, but earlier we used to put it as a expense so the revenue used to look up, so that is the reason that if you see the growth from 2014-2015 and till 2019-2020, it is not showing that much, but if we compare the growth of 2017-2018 and 2018-2019 and 2019-2020, which is on the method, 2017-2018, the turnover was Rs 575cr, it grown around 11% to Rs 655cr, again I think grown around 13% to 724 if we compare the last year even though economy was not doing very well and last 2 financial year also if we see the Indian economy was going only at just 5% of GDP even we were outperforming the economy almost by double digit.

Vikas Khemani: Okay, so going forward, how do you see the growth coming back or what is your sense on the growth, what are the categories you think, I mean if you can give some, this is nothing to do with the quarterly earnings, obviously the December quarter, I am assuming will be much better than the current quarter is the peak quarter, but in terms of trajectory one has to say what will be your major growth drivers and how are you planning, can you share some of the strategies on that?

Sandeep Jain: I think the major growth drivers going forward definitely will be our SIS, EBOs and online channels, and modern retail where we are penetrating and increasing our presence year by year and definitely in the geographical extension also, we are increasing our presence in west right now, we are opening our exclusive outlets almost, I think this year we will be getting around 3 outlets more in western region and then we are putting a lot of emphasizes in the north and eastern region also where we are opening exclusive stores and increasing our presence in MBO, definitely we are little weak in southern region as we have not been able to penetrate that much in the southern region and the growth will definitely come from the existing categories and also the newer categories, which we have added over the year's like Cloak and Decker and economy segment and also our accessories we are increasing every year and definitely the home textile segment, which is growing almost double digit from last 4-5 years, so it is basically growth in the existing categories, growth coming from the newer categories and also from the geographical extension.

Vikas Khemani: In terms of your distribution reach, I think EBOs, you give 2500 plus number, in the last presentation also it says the same number plus, if that the number not to be monitored or why is that it remains in a number of 2500 plus, plus, plus for the last 4 quarters, so I am curious to...

Sandeep Jain: Total sale points as of now if we compare with September 2019, it was 2929 and it is 2895 in September 2020, which includes our EBOs, LFS sale points, textiles, distribution network and MBOs, so the sale points are almost like constant.

Vikas Khemani: What I was trying to understand, your MBOs and distributor number, which you have given in the presentation for the last 2 to 3 years, you just say 2500 plus, plus, plus, so that is not a focused channel because if you are increasing your reach in other geographies and all, so that number not being monitored and going up?

Sandeep Jain: Actually, we are closing some of our smaller MBOs because they are not able to survive because of competition and we are not using our presence in the larger MBOs, so some of the numbers have been gone down, even though we have increased numbers in the western and southern region, but some of the MBOs have closed down in the north eastern regions, which were not able to compete with the larger MBOs, so that is another reason that is constant in the last 2 years.

Sandeep Jain: EBOs have improved, if you see the EBOs last year it was 272 in September 2019, but this year it has increased to 287, so we have opened 15 EBOs in the last one year as compared to last year.

Vikas Khemani: In terms of our online sales still we seem to be a very, very insignificant part of the overall story, whereas I think that channel is the future seems to be working very well for other brands and also, what is the plan on that?

Sandeep Jain: Again, I would say the same thing that we never dependent on the discounts around the year, if you see other branch they have a policy, we are giving discounts even in the fresh season also, which we do not want to give that is why the sales are little less in online sales, see our intention is not only to increase our online sales, but to maintain our brand equity as well, we do not want to fool our customers who will have different pricing policy as all our channels, we just want to keep the same pricing at all the channels just to make people purchase at any of the channels or the preferred choice, so that is the reason it has not grown as much as other branches have grown, but we are confident as the people are moving to fresh sales also in online they are buying the fresh merchandize also, so in the coming 2-3 years as Rishabh has rightly mentioned we are trying to achieve around 8% to 10% of total sales of online sales as compared to total sales.

Vikas Khemani: Because many companies, I understand totally that there is a pricing difference, but many companies have launched because it is a very different set of customer who goes online, which probably may not be available offline, and many companies have addressed it through a very unique product line for online apart from whatever they have offline and that is how they kind of balance between the pricing difference of offline, and so online available that is not going to be available in offline, are you kind of thinking of those lines, or you say that the product line will be the same respect to the same?

Sandeep Jain: See, the customer understands the pricing because when he goes to buy any brand, he has a certain price in his mind. I just cannot reduce the price for the online sweaters and keep the higher price at offline sweaters that is not possible at all because the customer has the perception of Monte Carlo brand to purchase a sweater at approximately compared to around Rs.3500 if he has in mind, so I just cannot reduce my brand equity and introduce something at a lesser price and make him purchase at the online sales, our intention is just to make people come for the brand so whether they go to any channel, so they should have the same pricing point and if they want to buy a brand, which is like they have some aspiration in their mind, so they will go any preferred price and he will purchase it. Mr Rishabh will like to add e something.

Rishabh Oswal: I also mentioned during my first answer, we are also working on these lines, we produced some products exclusively for our online channel, but over there also we try to maintain the same discount that we are offering in the offline channels, so as Mr. Sandeep has rightly said people have started buying products at full price now through the online channel, which was previously dependent only on discount sales, so if you see the first half of this year, the realization of our online channel has gone up by 6% to 7% in terms of MRP, and we also shifted our focus to market place model where all the products are kept in one specific way they are all shown to all the portals where we are able to minimize the inventory to achieve the desired sales, also I do not have the current geographical sale wise value with me right now, but our sales in western area of the country has also grown up and therefore we are tying up and open up a warehouse in west of India also as of now, so going forward I think online, we will be able to maintain the same discounts and grow at a better rate than the company as far as online in concerned.

Vikas Khemani: Okay.

Moderator: Thank you. The next question is from the line of Riddhima Chandak from Roha Asset Manager. Please go ahead.

Riddhima Chandak: Thank you for the opportunity. Sir, the question is on the EBO COCO operated and FOFO operated, so in FY2018, our total EBO FOFO was approximately 240, whereas, in FY2020, it is approximately 241 and giving a contribution in FY2018 was 35% whereas in FY2020 was 32%, first store content increase in FOFO whereas the revenue is decreasing and saying the EBO COCO, 21 stores in FY2018 whereas 35 in FY2020 and revenue contribution was just increased by 1%, from 7% to 8%, so what is the reason behind that and in the current year we almost opened 6 stores including some stores are shutting down and some are newly opened, so what is the strategy behind our EBO and what would be the SSG growth going forward after the COVID passes on. Currently, it may not be so good, so what is the strategy behind this?

Sandeep Jain: I think, if we compare the financial 2018 and financial 2019, definitely there have not been any growth as far as the EBOs are concerned, if I see like to like we have grown only at 1% in case of EBOs because there had been a slow down in the economy in last quarter itself, we lost a sale of approximately Rs 11 Crores in that case because of the lockdown happened in various parts of the country, so I think going forward even in this financial year I do not think we will any growth in EBOs because we lost 4 precious months from April to almost August we did not have much sales and the sales are just coming up, so by the next financial year we are very confident because we are opening, we are finding new opportunities, which are available in the market and we have opened 6 outlet also, so I think going forward once this crisis gets over, definitely demand will be more as compared to this financial year and we intent to grow almost 15% to 20% as compared to this financial year in case of our next financial year EBO sales.

Riddhima Chandak: Okay and you said that we do not have any capex in the current year, so is that also include that like in the Q4 you have stated in that quarter, capex was approximately 10 Crores to 15 Crores, which includes the debottlenecking and modernization and also includes some machinery for the mask manufacturing, which you imported from China and the value was approximately 3 Crores to 3.5 Crores, so what is the clarity on that part?

Sandeep Jain: So, you are right, we imported few machines for making mask as it was the need of that point of time, and we also need a sale of around Rs 2.1 Crores in March and we also earned around 90 lakhs of profit out of that sales, so that is the Rs3 Crores to Rs3.5 Crores was basically for a mask and we also purchased a warehouse for our textile region, which we incurred around Rs 9 Crores, so total capex in this year we project was around Rs12 Crores to 15 Crores and we are in that area only, but for the next 2 financial year, we do not see much capex and we see in the line of the normal capex around Rs10 Crores.

Riddhima Chandak: Okay and this winter wear, earlier some smaller brands we are not able to produce and there were some supply chain issues, this will give our company a chance to sell more in the city like especially Ludhiana, so what is the current status of the supply and demand specifically for the winter and for the overall company's portfolio?

Sandeep Jain: As you are seeing that there have been lockdown and the production could not be started before July itself, workers had gone back to their home, so by the time they came back and the production started and everything normalized, we were almost in mid-June or end June, so I think it is same for everyone in Ludhiana. If we see the smaller one as well even everyone they have cut down their production 40% to 50%, but fortunately in case of Monte Carlo, I think we will be reaching around 80% to 85% of our sweater production as we did in last year so that is a great achievement as we have been able to do it in spite of we have lesser workers in spite that there have been lot of issues in transportation and logistics, but we have been able to maintain our production even in case of our outsource production also we will be reaching around 75% to 80% of the levels, which I think industry as far as Ludhiana is concerned we will be doing only 55% to 60%, so we are better placed as far as production levels are concerned as compared to Ludhiana industry, but definitely we are less 20% to 25% as compared to last year's level as we having disruptions in the production in the initial 2 to 3 months, but we are hopeful as the guidance we have given in the beginning of the year, we will be doing around 75% to 80% of the sales, which we did in last financial year despite all the disruptions we have faced in production and sales and one good thing I think, which I would like share is that because the supply side now having the constrains, but the demand is actually coming up in this festive season, as the wedding season have also started so we hope to have a lesser stock in our warehouses by the end of December this financial year, considerably less I would say as compared to last financial year because of the less production, but the demand actually in October has come up and in November we have seen it is picking up, but everything depends on definitely how we have the next 15 to 20 days as far as the second wave of COVID is concerned, right now it seems very positive, we are confident in Ludhiana, Punjab in various other states where we are operating, we are not seeing much crisis as far as COVID is concerned, but we never know as no was expecting in Europe and US and it has hit them very badly, but if the phenomena keeps on going like as of today we will have almost better margins I would say as compared to last financial year during this quarter.

Riddhima Chandak: Okay, so on the woollen side, in the first half-year our revenue contribution was approximately 11.9%, so I assume that as you stated guidance of 75% to 80% but I assume both almost 100% because FY2020 contribution was approximately 22.3% right and in terms of FY2020 volume was approximately nearly to 12 lakh pieces, so what is currently on that side, in terms of volume?

Sandeep Jain: I think the volume will grow by 15% to 20% as compared to last year's level and it would be around 25% in case of a cotton segment, so in the woollen, the drop will be lesser, but in the cotton segment it will be more, so the volume drop overall we see around 20% of the total financial year.

Riddhima Chandak: Okay and just one last question, on the cost side, what would be your advertising cost negotiation like you saved almost 15 Crores in the last quarter almost, in Q4-Q1, so what would be the guidance for the advertising and salary cuts and also earlier there were some of our vendors, so if there any default and you also give some credit for the 2 to 3 months, any clarity on that, that is it from my side?

Sandeep Jain: I think, the advertising will be facing a lot in this financial year, there are two reasons for that, we used to hold trade shows for our retail bookings twice in a year where we used to spend almost 4.5 Crores to 5 Crores expense, but that has been cut down and we are doing the virtual booking and door-to-door booking so that expense that actually shas come down a lot, so that was one part for business promotion expenses and secondly advertisement expense, which was around 3% to 4% last will come down to 1% to 2% because we are reducing our dependence on hoardings and also on some of the print media, but we are increasing our spend on digital and social media spend where people are looking up these days as and when the lockdown has started, so definitely there will be a reduction in the advertisement expense in the percentage terms, we expected to be around 1% to 2% of total revenues in this financial year as compared to 3% to 4% of last year's revenues.

Riddhima Chandak: And some delayed payments, as you have given some credit up to 2 to 3 months, so what is the status from that side?

Sandeep Jain: See, the payment positions have actually improved as compared to last year, so we have put a lot of focus on the recovery of payment rather than promoting the sales so that has helped us like improving our working capital also at the same time the debtor has also gone down.

Riddhima Chandak: Just one last question, on the home textile portfolio, which contributed significantly during the quarter, and on our MC healthcare what would be our long-term lookout on these 2 segments, how much revenue contribution we are expecting to contribute in our total portfolio as you invested also in the healthcare?

Sandeep Jain: First, we will come to home textiles, home textile contributed almost I think around 12% in last financial year, but this year I think the contribution from the home textile should be around 18% to 20% of the total sales because home textile sales is not decreasing, but the overall sales have decreased, so the home textile contribution will improve around 18% to 20% and secondly on healthcare, see the healthcare, the sales depends on definitely the COVID crisis because the demand of masks, actually we have gone down as compared to last quarter and everyone is actually manufacturing mask almost 800 machines have come up in India in last 2 months, so the price have considerably reduced and the demand has also gone down a lot, so I am not very optimistic about healthcare division and we expect lesser sales in this quarter as compared to last quarter unless and until, which I do not want that the COVID cases goes up, which is not in our interest and your interest as well so but we see that healthcare division should have very lesser sales as compared to last quarter because of very less demand in mask now.

Riddhima Chandak: Thank you so much, Sir.

Moderator: Thank you. The next question is from the line of Deepan Shankar from Trustline. Please go ahead.

Deepan Shankar: Good afternoon, Sir and thanks a lot for the opportunity. First of all, just want to understand what are the key drivers for the gross margin improvement of 600 bips to 60% to 60.5% kind of margins?

Sandeep Jain: See the reason being is cut down in the expenditures, so if you see in the presentation we have cut down the advertising, we have cut down on the salary part, we have cut down on other expenses as well, so all these things I think has helped us to improve the gross margins.

Deepan Shankar: On the raw material side, I am asking on raw material, so the raw material cost has come down as compared to sales even though our cotton sales and also winter sales have come down drastically over year-on-year, still we are seeing some gross margin improvement, not on the EBITDA margin, but on the gross margin?

Sandeep Jain: Gross margin have improved, you have rightly said because of cotton sales going down, because in woollen we have higher gross margins, so the cotton sales have actually gone down in this quarter and the woollen sales have actually gone up proportionately as compared to last quarter, so that is why the gross margins have improved.

Deepan Shankar: Okay, and also higher inventories as the 313 Crores, this is mainly to cater the Q3 sales itself or something else we are talking of?

Sandeep Jain: No, the higher inventory reason is that we have not been able to sell our complete summer inventory in this financial year, we have to hold our summer inventory, so in that case, the inventory has gone up in case of summer, inventory is almost same.

Deepan Shankar: Okay, do we foresee any inventory right now for the summer season sale?

Sandeep Jain: Not at all because what we did is that we had saved some of our inventory to be re-launched in the next summer which will be in this financial year in winter also it has gone because there were some shirts, trousers and denim, which we did sell in summer, so they are going in September and October this financial year because we have to hold the inventory as the lockdown has happened so some of the inventory has been hold up, but we do not see any write down in any inventory even in winter as in summer also.

Deepan Shankar: Thanks a lot.

Moderator: Thank you. The next question is from the line of Apoorva Mehta from AM Investment. Please go ahead.

Apoorva Mehta: Sir, just wanted to ask that you were talking that the overall productivity of the woollen is overall less, so before going ahead we will see less discounting of the products because normally in Q4 we have to discount heavily and sell our products, so can we assume that the discounting will be much lesser and we will be having less inventory also for that?

Sandeep Jain: Yes, I think if we compare to the last year we should have less discounting because the merchandized available with us is not that much, so I think we will have more sales at the lesser stock available in the store, which will improve our fresh sales and secondly because the production is less as compared to last year as I have clearly told you that the volume is almost 20% less as compared to last year, so there will be less inventory at the store level at the end of this financial year, we are very confident about that.

Apoorva Mehta: So, that will help us to improve our margins, so substantially because we are not going to have advertising expense or cost-cutting is there and the discounting will not be there and we will have some improvement on the evaluation also, so if at all we reach 90% of sales that the margins will be up even 100 bps?

Sandeep Jain: Because the sales are down 20%, so the best things I think what we are doing right now is that we are curtailing our expenditure in all the areas so our intent is to maintain or better the margins as compared to last year, but definitely when the sales is down, it affects the margins as well.

Apoorva Mehta: So, this Q3, the sale will be far better margin and sales?

Sandeep Jain: Right now it appears that the Q3 should be better as of now, but again I have told you that there are uncertainties in the market about the COVID and all, if it does not hit us badly in the second wave then I do not think that we should be doing better as compared to second quarter as well as compared to last quarter of the last financial year also.

Apoorva Mehta: And going forward, you were talking about marketing and advertising expense do you think there will be a structural shift on that side that given the marketing expense on the online and on the social media and there will be a virtual trade shows, which will help us to cut down the cost, is there a structural shift, which can happen, do you think so?

Sandeep Jain: As we are seeing that after the lockdown people are looking more on the social media and digital channel, so intentionally we have increased our spend on the digital media and social media and I think this trend will continue for this financial year and we will see as we go ahead how to keep this trend in the next financial year, if we see that there has been more response in the digital media and social media we definitely keep on increasing our spend on this channel and reducing our spend on other channels.

Apoorva Mehta: Lot of things that we are looking at that people have started focusing on the EBO channels, a lot of brands have started shifting in EBO channels, so are we seeing that our company also shifting to be an EBO player?

Sandeep Jain: We are focusing definitely on the EBOs because there has been some issue with the MBO channels and the smaller MBOs are not able to compete with the larger MBOs as well as they are not able to cut down the expenditure because they do not have much incomes also, so I think to grow in some of the regions, we need to open more EBOs so that we can have the potential, which is available in that particular area, so that is why 6 EBOs have been opened in last 2 months and we have planned to open another 7 to 8 EBOs in the next 3 to 4 months.

Apoorva Mehta: What our learning is that a lot of companies are doing very aggressively on the EBOs like they are adding 50, 100 EBO kind of thing?

Sandeep Jain: Basically, these are the company, which want to complement all our channels or compete all our channels, so we do not want that my LFS should compete with my MBO, my MBO compete with EBO, so we open the EBO where we see there had been decreasing sales in MBOs or there are no MBOs, we open our MBOs where we see that the EBOs we cannot open, so we would like all our channel to complement each other rather than compete with each other otherwise it will hurt the overall brand sales.

Apoorva Mehta: Thank you.

Moderator: Thank you. The next question is from the line of Venkat Subramaniam from Organic Capital. Please go ahead.

Venkat Subramaniam: Just of my previous question as well, we are wondering whether there has been a structural disruption in apparel game altogether, but from all the discussions that we have heard you do not seem to perceive that, that it then means that some of the aspirational guidances that we give like getting to 1000 Crores in about a couple of years, growing 15% topline, retaining about 11% to 11.5% kind of pre-tax profit margins, etc., you think none of them are threatened and you think we are on course?

Sandeep Jain: I think we were pretty much in course before this crisis happened because if you see in the last financial year also we have grown almost 14% in spite of the economy slowing down, in spite of the GDP growth has come down to 4% to 5%, so I think in this financial year it is definitely something, which has never been seen by anyone and because of COVID we are reducing again our guidance to 75% of last year sales, which was of less production because of no manufacturing happened from April to almost June. I do not see any deviation as far as target of growing around 10% to 15% every year, we are on our course to achieve their guidance and I would say that in the next financial year definitely the growth would be much more because almost the sales will be down by 25%, we have already achieved 725 Crores in financial 2020, so you can assume that the growth of next financial year would be much more as the economy opens up and we are in good position because we have cut down our expenses, some of the advantage is we will get from the lockdown is that we have cut down our expenses, which is going to continue for us that should help us in improving our margins and there are some other things, which we learnt in this particular period, which was not there in last financial year, so that would help us and we are better placed as compared to other brands because we are not that much affected as we were depended mostly on the third quarter, so in the third quarter still we will be doing better as compared to other brands who are affected in the first and second quarter as well, so I think Monte Carol is better placed to achieve the guidance, which we have given 2 years back and again it depends everything on how this crisis and how the country's economy grows up in the next 2 to 3 financial years and how the policies of the government shapes up in coming times, but we are confident about it.

Venkat Subramaniam: Mr Sandeep, my question is not with respect to what happened before, post-COVID we are wondering whether we are actually looking at completely new world and with respect to how branded apparels will get consumed or will get sold or brought, so in that context are we still rewiring ourselves or is there a need to do that or the existing strategies are good enough to get us there?

Sandeep Jain: I think, Rishabh has clearly mentioned that our focus is shifting to online because after lockdown people have actually developed the habit of purchasing online, which was not there earlier, earlier it was some of the population, which was going online, but now I think almost 70% to 80% of the people have gone online and purchased things so we are shifting our focus definitely, restructuring ourselves to make available on all the websites, which are there in India as well as our own website so that is one change, which the company has done and secondly, we have seen that the trend of clothing is also changing, people are looking more at casual clothing once the lockdown started we see that the range have picked up so we are putting much focus on those kind of appeals source, which can help people to stay at home and work from home, the pressure is coming up, so we are having some changes, which has been made by our design department as well, there are some changes, which had been made by our marketing department how to control by sitting at one place to all the outlets everywhere in India we have and thirdly again, the shifting of our focus on the online channels, where the phase are picking up, so these things will definitely help us in growing ourselves in the next 2 to 3 financial years.

Venkat Subramaniam: Thanks a lot.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Sandeep Jain: Thank you everyone and I think we have answered all your queries, but still if any queries are unanswered, so you can definitely mail us to our company secretary and our finance controller and I wish you all a very Happy and Prosperous Deepavali. Thank you very much.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.