"Monte Carlo Fashions Limited Q4 FY2021 Earnings Conference Call"

May 17, 2021

ANALYST:	**MR. DEVANSHU BANSAL - RESEARCH ANALYST - EMKAY GLOBAL FINANCIAL SERVICES**
MANAGEMENT:	**MR. DINESH GOGNA – DIRECTOR – MONTE CARLO FASHIONS LIMITED** **MR. SANDEEP JAIN – EXECUTIVE DIRECTOR – MONTE CARLO FASHIONS LIMITED** **MR. RISHABH OSWAL – EXECUTIVE DIRECTOR - MONTE CARLO FASHIONS LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q4 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. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. 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 now hand the conference over to Mr. Devanshu Bansal, Research Analyst from Emkay Global. Thank you and over to you Sir!

Devanshu Bansal: Good morning everyone. I would like to welcome the management team of Monte Carlo Limited and thank them for this opportunity. I shall now hand over the call to the management team for their opening remarks. Over to you Sir!

Sandeep Jain: Very good morning to everyone joining us today on this call. We are pleased to welcome you all to this earning call of Monte Carlo Fashions Limited to discuss the financial and the operating performance for Q4 and the financial year ended 2021. I hope all of you are safe healthy and at your homes during the second wave of COVID-19. The result presentation has been uploaded over the exchanges and I hope everyone had an opportunity to look at it. Before taking you all through the financial highlights for the year let me first take you through our business and operating performance during the year.

Monte Carlo is a well-known brand having a basket of the diversified products, which includes woolen, cotton, kids, home furnishing. Under cotton segment apart from jackets, we also have T-shirts, shirts, denim, trousers, and different other garments. We also produce cotton and cotton blended T-shirt in our economic category under the brand Cloak & Decker. Such a diversified strategy of the company helps in catering to various demands for various seasons. The company has a presence across India through various distribution channels and recently have noticed huge demand coming from our online channels.

For financial year 2021, our sales through online channel has increased to Rs.37.2 Crores against Rs.24.1 Crores in financial year 2020, which now around constitutes 6% of the total revenues. With regard to online sales, we are looking to focus more on selling through our portals, but our products are also available under various e-commerce website such as Amazon, Flipkart, Myntra, Jabong and Kapsons. I am happy to share that even during the tough times of COVID pandemic, we were able to open 28 new stores in different regions and at the same time, we even closed few non-performing stores. As on date we have 298 stores in various States and Union Territories of India.

We continue to enjoy a comfortable net cash position and our medium-term liquidity needs are well covered. With adequate banking limits in place, the company's ability to service debts and financial obligations on time remains unaffected. Monte Carlo has zero reliance on exports and has a presence in domestic market across India with an extensive distribution network. Good credit terms with our suppliers helps us to operate the business smoothly. No major capex is planned for the next two years therefore the positive operational leverage is expected as the productions gain scale.

Now, let me give some insights on the financial performance for the year followed by the quarter performance. Despite COVID led disruptions during the financial year 2021, the company reported revenues of Rs.622 Crores as against Rs.725 Crores in financial year 2020. The gross margins stood at 46.8% in financial year 2021 as against 47.2% in financial year 2020. EBITDA for financial year 2021 stood at Rs.115.6 Crores against Rs.124.4 Crores in financial year 2020 and PAT for the year stood at Rs.66.3 Crores as against Rs.62.7 Crores in financial year 2020. The Q4 financial year 2021 revenue stood at Rs.108 Crores against Rs.109.5 Crores in Q4 financial year 2020. Gross margin stood at 48.1% in Q4 financial year 2021 as against 46% in Q4 financial year 2020.

On the balance sheet front, we have a cash balance of Rs.228 Crores, which comprises of cash and bank balances along with current and non-current investments. Long-term borrowing for financial year 2021 is Rs.11.7 Crores compared to Rs.16.3 Crores in financial year 2020, which shows efficiency in servicing debt. Debt equity ratio is 0.05x for financial year 2021. ROCE and the cash adjusted ROCE is 17% and 21% for the year.

Lastly I would like to inform that our Board of Directors of the company have recommended to pay a dividend of Rs.15 per share that is150% on face value of Rs.10 per share as our endeavor is always to create value for our shareholder and stakeholders.

If any of you any queries post this earning call, you may connect us or Dickenson World, our Investor Relation agency. So, we can now open the floor for the 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 Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Thanks a lot for the opportunity and good morning everyone. Firstly, want to understand that last year our cotton segment summer sales got impacted due to pandemic, so what is our expectation for the current year, are we impacted worse than even last year?

Sandeep Jain: Good morning, Mr. Deepan. As you all know that the last year we were badly affected and there were disruptions from March 23, 2020 till approximately end of May, but fortunately this year the disruptions have stared in mid April, so definitely the sales as compared to last year are better in summers and we will see that first quarter sales are also better as compared to last year summers, but we have near term uncertainties as most of our stores are closed right now, but we hope that by June first week we should have opening of our EBOs and MBOs and also our LFS stores, so right now it is online sales, which is happening, but we are optimistic that we have some openings and easing of restrictions from June 1, 2021, onwards and that may improve the sales as compared to last year.

Deepan Shankar: So, what will be our full year guidance for this year?

Sandeep Jain: See, it is very early to say about the full year guidance. We would like to give our full year guidance in the next quarter's earnings conference call, but definitely we are optimistic as compared to last year because disruptions as far as productions are concerned it is not affected at all, last year we had a disruptions in our production from March till almost mid of June, so that has not happened. Also our main season basically is winter, as you all know significant revenue comes from the winter quarter, so disruptions of production has not affected, so that may improve the sales going forward if things becomes normal.

Deepan Shankar: Sir, particularly Q4 quarter, we have seen the kids' segments have got heavily impacted any particular reason 30% kind of fall in topline?

Sandeep Jain: Kid's segment?

Deepan Shankar: Yes.

Sandeep Jain: See, basically if we compare the last year sales of kids and this year summer sales it has actually grown by around 30%, but the problem is that it is not reflecting in this quarter as supplies have happened basically in first week of April, so that is not being counted in the summer sales, otherwise it has grown as compared to last year.

Deepan Shankar: Lastly, on the capital allocation front, we have cash of around Rs.228 Crores, which is almost 43% of our market capitalization, so any major plan for buyback or giving return back to shareholders, which will improve valuations and return ratios of the company?

Sandeep Jain: I think these things are being discussed in the board also, but we do not have any information right now. I think the company has given the best dividend till date of 150% that is Rs.15 per share and which is basically to benefit our shareholders.

Deepan Shankar: Yes, but still we are accumulating more cash every year and cash is getting increased and this is impacting our return ratios and if we reward the shareholders well the valuations also will improve for Monte Carlo?

Sandeep Jain: I understand your concern. Even this is concern for us that are cash revenue is actually rising, but in this particular year, our intention goes to survive this pandemic and definitely the company has some plans, which are on hold so cannot discuss anything as of now without discussing in the board.

Deepan Shankar: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Zaki Abbas Nasser an individual investor. Please go ahead.

Zaki Abbas Nasser: Sir, good morning and I would congratulate the management on a resilient set of number for this fourth quarter and the full year despite the pandemic. Mr. Jain, you slightly mentioned about how this time around is different from last year. Could you just elaborate on this point and I just want to know you are confident that the company will do slightly better than last year provided stores open in June, so where does your confidence come from because there is a kind of weird lockdown in the different parts of the country, different goods regulation region wise, so I would like to have your thoughts on this? Thank you.

Sandeep Jain: Thank you, Mr. Zaki. First of all, there are two reasons for having us more confident as compared to last year. Last year when this pandemic happened we were just sitting in dark, we were unaware of all the implications, which can happen in the future, but this year as of now at least I think we are more prepared to tackle this as compared to year and secondly, we have a vaccination program, which is already going on, which is definitely helping us as far as this COVID is concerned and thirdly, the major reason, which I think is benefiting this year is, last year all our labor had gone in March itself, so we had a major disruption, which is happened from March till mid of June, so which is not there in this year and one of the biggest reason, which is making us confident is that there are very low level of winter stocks, which is lying at our retail stores and also at our multibrand outlets, so that has helped us to have a more booking as compared to last year, which is still going on, so that gives a bit confidence and definitely we will have a very good second and third quarter. Yes, there are near term uncertainties because of COVID, but we are hopeful that the number of cases are going down everyday so we are seeing that from 4 lakhs we have come down to 2.8 lakhs and also there has been restrictions, which is controlling the number of cases and vaccination is also going on so that makes us more optimistic as compared to last year that we will have a very good second quarter and third quarter.

Zaki Abbas Nasser: So, you already have got a feel by the winter booking, Sir?

Sandeep Jain: Yes, already the winter booking, which is happening around at various places actually more as compared to last year, so that gives us the confidence that our sales book is better than the last year.

Zaki Abbas Nasser: I would also like to congratulate the management on increasing in spends to nearing 75%, Sir, I think that is it, if something else I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: First of all I want to thank you for the very general dividend, but you would appreciate that now company has to pay 43% tax for dividend and 23% for buyback, rest shareholders have to pay and moreover as you know that our EBITDA is flat since 2015, so in that case until we had reduce the number of shares outstanding through a buyback, then only our EPS increase and then share price will also ultimately follow EPS, so may be for the future you can give preference to share buyback over dividend far as this issue was concerned. Now the main issue is that I have seen in your presentation that you are selling summer wear also under Monte Carlo whereas even though when you have half a dozen brands, so then what is the need, because this totally contradictory so how can you sell summer wear in your established winter wear brand?

Sandeep Jain: Very strange question this has come from you. Basically, we are not selling summer wear from this year, we are selling from 2000. It is almost 20 years we are selling this summer wear along with the winter wear and that is why we have been able to open around 300 outlets across India, which shows that the brand stands in summer as well as winter wear and secondly, our summer wear is growing almost high double-digit from last so many years and it is now contributing almost more than 50% of our sales, so that shows the strength of the brand in summers as well as it is helping us in winter also to strengthen our existing sales. Your second question was on buyback. The company is not holding buyback in the future, but right now the board has decided it is more prudent to give dividend at this point of time, but the company is not saying that it might not go for buyback in the future, it all depends on the circumstances, it all depends on that time the profitability, what kind of profitability we have and what kind of share prices we have at that particular point of year, so I think this year company has decided to give a liberal dividend, which is highest till date for the last seven years since 2014, the company went public. The highest dividend, which was given was 120%, so even we faced this year a lot of difficulties, pandemic, COVID, but then also we went ahead and had the best margins as compared to last year and also gave the dividend of Rs.15 to benefit our shareholders.

Keshav Garg: Sir, you will see that even though now woollen is contributing to around 28% of our turnover, but all our profit is coming in the third quarter only, I mean in the December quarter. So basically if the main profit turnover is the winter wear, its okay that we are getting sales from all our other business but it is also eroding our brand value, so I do not think there is any gain in that just making turnover without any margins?

Sandeep Jain: It is not the case. We do have a profit in fourth quarter also, but we have a very heavy EOSS, which comes from the winter sales in the fourth quarter, so that actually reduces the profit of the summer wear sales at that point of time and please see us on an annual basis and not on a quarterly basis. If you see the last year we had said that at that point of time when the COVID started that our company might degrow at 20% to 25%, but actually if you compare us we have degrown only by 15% and if you see other companies who are in apparels have actually degrown by 20% to 25%, I am talking about the pure apparel companies, not about the briefs and vest companies, so if you compare us to all the listed apparel companies, we had actually preformed the best as far as this year is concerned, so please see us, view us as an annual basis rather than on quarterly basis and we are very confident that we will have a very good double-digit growth going forward in the next two financial year also.

Keshav Garg: Sir, that is great to hear and will that also increase our EBITDA?

Sandeep Jain: See, I cannot say anything at this point of time because we are passing through a difficult period so giving any projections at this point of time might not be prudent on my side, but definitely once we reach the second quarter we will be able to give more appropriate guidance.

Keshav Garg: Sir, thank you very much. I will rejoin the queue.

Moderator: Thank you. The next question is from the line of Piyush Chheda from Serendib. Please go ahead.

Piyush Chheda: Thanks for the opportunity and congratulations on doing well in an extremely challenging year. I think part of my question has been asked before, but I basically wanted to understand what is the path for the cotton business, the summer wear business to move towards profitability otherwise the bulk of our profits tend to come from one quarter within the year, is there a 2-3 years map when we can say that no more than half the profits would come from the third quarter?

Sandeep Jain: Cotton business is already profitable and it is actually 100 basis point more profitable than the woollen business, so I am not aware that how this question is coming that the cotton business is not profitable, but the thing is that the major sales even of the cotton segment also happens in the wedding season, which happens normally in October, November, December, so we have a major sale of cotton wear, which is happening in third quarter as well, it is not that only the winter wear which sales in the third quarter it is the cotton segment also which sales in the third quarter and secondly definitely we have a very good sales in the second quarter as well, which is a profitable. If you see the last few years balance sheet, the second quarter has always been a profitable from last so many years, it is only the fourth quarter, which is a traditional a very weak quarter for us and where we have a major chunk of our winter sales, which is going for EOSS, so that particular fourth quarter we have to give a lot of discounts in the end of season sales, which actually gives the profitability over the summer wear as well at that point of time, otherwise summer wear is always profitable since inception.

Piyush Chheda: I see, but will this concentration of the profits in the second and third quarters continue or that may not change?

Sandeep Jain: I think going forward we will have more profits in second quarter as well as even in the first quarter as well, but last year it was affected because of COVID, otherwise we used to have a positive first and second quarter as well.

Piyush Chheda: Like a lot of other people on the call would urge you to take some look again at capital allocation I think the dividends are great beginning but given the amount the cash that we have on the balance sheet it may not be the best use that we are putting it through. Thanks a lot.

Sandeep Jain: Thank you. As you are saying the dividend, I am seeing it is one of the best used for the company's money. If any case the buyback does not ensure a better return to any shareholders. The company cannot buy say 50% of the shareholding of anyone, say last time also we did only 5%. Now suppose you are holding 100 shares and even if our buyback is at Rs.450 than we will be able to buy 5 shares and what you are getting is calculate on 100 share you are getting 150% dividend from the company, the only thing in this, buyback money when you get it is debt free and when you get dividend it is taxable.

Piyush Chheda: Sir, honestly speaking this year you were to give a special dividend or something like that, I as a shareholder would be equally comfortable as a buyback?

Sandeep Jain: No, let me just tell you. So far as the company is concerned, company has to make shareholder very happy and at the same time company has to grow and reduce the tax liability also. Now the taxability is gone under many year work, earlier the company was paying dividend tax, now they removed from the company, now the shareholders are paying. People who do not have the share, or regular income up to that total tax exemption, they will not pay and the tax rate may come down to even 20%, 10% in their case, so it is basically tax liability, but otherwise, if you see in terms of money, in terms of the reward, then in that case I think the higher dividend as distributable as the company is having the dividend policy it is going on. It is much better for a shareholder according to our understanding than the buyback. It rather gives more money in the hand of shareholders and the money remains with the company will also be utilized for the purpose of company's growth. Definitely when the question or anything arises like that the board will consider and the moment the board decides to buyback we will come back to you and give you the good news.

Piyush Chheda: Thank you so much. I will just say one thing again. A special dividend or a buyback both are the same for me as a shareholder whatever tax liability is there it should not impact our decision and either one of the two would be absolutely fine.

Sandeep Jain: No, what I am saying is the money reaching in the hand of shareholder will be much higher. In case of a company declaring a higher dividend and consistently following this is an upward trend in the dividend. What I am saying on buyback is, when company running a business cannot afford to buyback 50% of shareholding because it involves increasing of percentage beyond the limits it will carry.

Piyush Chheda: I am happy what you said. We completely agree with you on that.

Moderator: Thank you. The next question is from the line of Mihir Desai from Desai Investments. Please go ahead.

Mihir Desai: Thank you for the opportunity, Sir. Sir, firstly my question would be on macro front, what is your view on the PLI scheme, which the government is planning for garment and how it will be benefiting our company?

Sandeep Jain: Actually, most of production is outsourced, so basically we are not for this as it is only woollen side, which is being manufactured at our place and cotton side it is just 15% of our total production and we are basically more of a marketing company rather than production-based company, so most of the products are outsourced in our case.

Mihir Desai: I understood, Sir. If the yarn prices, which have been increasing will it be a pass on for us or it will impact our gross margins to some extent?

Sandeep Jain: No, it is already passed on. Whatever yarn prices have increased we have increased our prices for the winter products for approximately 5% to 6%, so we have passed on that high to the product prices.

Mihir Desai: So, you do not foresee these prices to be on upper end for coming years or what is your view on the yarn prices?

Sandeep Jain: No, yarn prices actually have come down, it was up around 30% to 35% in case of cotton, but when do the booking what we do is that we calculate the prices accordingly at that point of time, if the yarn price is up, we normally raise the price in every brand in this particular time because the raw material prices going up so we have to include that hike in our prices otherwise margins will fall, so we have already taken that hike in our product prices.

Mihir Desai: Understood, and on our online business I just wanted to ask that we have seen a significant or reasonable growth in our online business because of the pandemic also, so what is your view going forward on this business? Do we give this current growth number to continue in this line?

Sandeep Jain: With me is Mr. Rishabh, he is going to answer this question.

Rishabh Oswal: Good morning. We have seen that we have grown the online business by around 50% for this financial year and going forward for the next financial year we also expect to grow again by 40% to 50%, but more focus being on our own portals, so we are foreseeing a growth of 40% to 50% there, so we will maintain the 6% contribution to the company's turnover going forward for the next year as well.

Mihir Desai: Understood and on the marketing front on our online business, so how are we targeting or can you share us some roadmap on this, the digital marketing or online?

Rishabh Oswal: So, right now for the last financial year you must have seen the total advertising spend of the company has come down considerably. The entire amount that you are seeing right now as the company spend on advertisement is through online channel, so we are advertising on different social medias, different online properties, so this has resulted in a growth of 40% of our own website sale and this year with the focus on advertisement and product based linked advertisement our overall discount percentage in the online segment has also come down.

Mihir Desai: Sure, a followup question on the same, so if we see the advertisement expenses during this quarter also we had seen a fall in this advertisement expenses and FY2021 full year also we have seen, so that may be because of the COVID-19 pandemic impact, so going forward how should we look at this number?

Rishabh Oswal: See, a lot portion of the advertisement budget was going into advertisement through different theaters throughout the country, but since there was a lockdown in the entire country we pulled back on that budget and we have seen that the increase in advertisement in the online segment has given us a better return on investment on that so I think going forward also we would be focusing more on online advertisement and we would be targeting a 2% to 3% share of advertisement on your total revenue.

Mihir Desai: So, should we consider this number to be like at a level of Q4 2021 or a little bit high on that front?

Sandeep Jain: No, Q4 is not basically a quarter where we can have the benchmark for advertising expenses. We are talking about the yearly basis, yearly basis earlier we used to spend 3% to 4% of our revenues on advertisement, but this year we are keeping it around 2% to 3%.

Mihir Desai: 2% to 3%, okay. I understood. Sir, lastly on the employee expenses if you see in Q4 FY2021 it has been on the increasing trend is it because the utilization levels are coming back or what is the reason for that and this number also must have come down. So how should we look at this number for going forward projection in FY2022 and forward?

Sandeep Jain: For personal cost?

Mihir Desai: Personal cost, yes.

Sandeep Jain: It has actually come down. If you see that the strategy is almost the same. It was the percentage for the full financial year, you are talking for Q4 or you are talking for the full financial year?

Mihir Desai: Sir, full year will give more colour?

Sandeep Jain: The full year percentage was 9.59%, last year and this year it is 9.6%, so it is almost same even through the revenue was gone down, the personal expenses have not increased.

Mihir Desai: Correct and last question, currently our debt levels are at very comfortable level, so is there any scope of further decreasing our debt numbers or finance cost going forward?

Sandeep Jain: Yes, there is definitely a possibility of finance cost going down because our term loan is basically right now Rs.11 Crores, which was RS.16 Crores last year, it is going to go down this year as well, so definitely the finance cost will come down as compared to last year.

Mihir Desai: So, that would be positive on our EPS?

Sandeep Jain: I hope to be the same.

Mihir Desai: Thank you. That is all from my side. I have two questions I will join back in the queue.

Moderator: Thank you. The next question is from the line of Abhishek Jain from Arihant Capital. Please go ahead.

Abhishek Jain: Thank you for taking my question. Sir, sorry I joined late if it is repetitive I am extremely sorry. Sir, how is the inventory in the channels right now at this point of time? Second, if you can throw some light for which all segment you see the faster recovery going forward especially on the rural or may be Tier 3, Tier 4 because this time Tier 3, Tier 4 has been deeply hurt, what is your outlook on the same?

Sandeep Jain: First of all as far as inventory is concerned I have talked about it earlier also that this season we have the least inventory as far as the growths are concerned at all over outlets and also at the company level, but definitely some inventories are at the peak because we had a lockdown, which started almost last month, so I think going forward if we open up in June definitely we will have a liquidation of our some inventories and you righty said that this year the COVID has penetrated into the Tier 3, Tier 4 and the rural area as well and definitely we need to see impact that is going to come up, but I think we are very optimistic that this time as far as we are concerned we did not have any disruptions in the production, so last year we had to face lot of problems at production front as well so I think that problem is solved and going forward we see the speed of vaccination also goes up and the second quarter, which is coming up in June itself we are seeing the number of cases going down and the economy is opening up faster as we anticipate so definitely I think going forward second and third quarter would be much better as compared to last financial year.

Abhishek Jain: Sir, one more question if you can add up, do you see any liquidation in Q1 that is what you have said earlier that is right?

Sandeep Jain: It all depends. If economy opens up in June first week and we have restrictions easing up because right now almost 90% of our showrooms are closed and all the channels are actually not operating at all except online, since it opens up in June first week we will have definitely a good chance to liquidate the some stocks in the June months itself.

Abhishek Jain: Thank you, Sir. Just if you want to add, is there any further scope of lowering down some other expenses because like earlier participant also said that other expenses have increased on QoQ can we see some savings on that side also?

Sandeep Jain: The other expenses actually have gone down; it has not increased. The percentage is 16% last year and this year will be 16.5% and in absolute term it has gone down by around 14 Crores, so it will be almost the same level as compared to last year. It will remain proportionate to the sales.

Abhishek Jain: Thank you.

Moderator: Thank you. The next question is from the line of Nitin Khandkar an individual investor. Please go ahead.

Nitin Khandkar: Sir, thanks for the opportunity to ask the question. My question is about the receivables, now you have increased the receivables collections days from seven days so is there a possibility that are the receivables fully collectable? That is the first question. Secondly, our working capital turnover ratio has deteriorated from 2 to 1.38, so how are we planning to improve our working capital cycle? Thank you.

Sandeep Jain: See, the major reason is because the revenues going down because we calculate the working capital divided by the revenues, so if the revenue is down definitely the working capital cycle goes up, but going forward it will come down because the revenue is going to up as compared to this financial year.

Nitin Khandkar: Sir, the receivables, is there any possibility there?

Sandeep Jain: The number of days will definitely come down because again it is proportionate to revenues, if the revenues go up the number of days will also go down.

Nitin Khandkar: So, you are saying that you are confident that the receivables are fully collectable, right?

Sandeep Jain: 100% confident, no doubt about that.

Nitin Khandkar: Thank you.

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

Venkat Subramanian: Thanks for taking my question. Probably there is no question at all that we will be in the top quartile of efficiency and profitability among apparel players, but we probably are not when it comes to growth so how do we see ourselves, which is question one, and two, what is your assessment of apparel industry overall over the 4-5 years in terms of growth rate, etc and which segment do you think will grow the fastest?

Sandeep Jain: Thank you very much for your question. I think the last year if see around is seven-year CAGR we have grown as only 11.5% so definitely the growth is not that much, but there has been two to three reasons for that why the growth is not sounding great, the one reason was there had been some accounting changes in the last 3-4 years, earlier we used to have our February sales included in the sales, which we reduced it I think around 2016. Then there is another change in the accounting system that we used to have the discounts considered as expense, which we now happily minus from our sales so that has also led our revenue have gone down, but otherwise now all the counting end of February are over, so if we compare last year I think most of the brands have degrown by 20% to 25%, but we have degrown only by around 15%, but we are very optimistic and confident about the future and we think that the higher double-digit growth is very much possible on this base and even from 2019 level also we will definitely let to grow, but again there are some near term uncertainties because of the COVID. Nobody have ever anticipated that we will have risky and very severe COVID wave, which had struck us in the month of April, so there are some later on challenges, which I think we have been able to tackle it and I am confident that if we talk about next four to five years we are confident that Indian economy is going to grow around 9% in this financial year and again, 7% to 8% in the financial year 2023, financial year 2024 as recommended by our economic survey so that shows that we can definitely double or outperform the economic rate by double the rate if Indian economy is growing at 9% to 10%, we can easily grow to around 20%, so that is our projection from our end. So going forward I think the double growth is definitely on the cards and we are working on that on various categories and was on the various businesses as well.

Venkat Subramanian: Then, I do not think anybody will have any doubt that we probably manage the tighter ship within the apparel industry or within the top quartile for sure, my question was really limited to what is the broad outlook for apparel industry, which you say is probably growing at may be close to double the nominal GDP growth, but which segment out of it will outgrow and what is going to be our positioning for it to grow more than broad margin?

Sandeep Jain: See, as far as Technopak Service is concerned they have clearly said in the last report, the Indian apparel industry is going to grow from 9% to 10%, so that is as per their survey and out of that the kids is one segment which would grow faster than the ladies and men's category, so I think similarly in our case also we see that the kids is growing faster as compared to men's and ladies category and we see the men's and ladies category also as far as our company is concerned will be growing more than the apparel industry's growth rate, which is given by the Technopak Survey and see, it depends on the consumer sentiments as well, right now in this financial year definitely the consumer segments are down and which is testing the growth rate of all the apparel companies, but going forward once we are out of this pandemic and out of this problems, I think 15% to 20% growth is definitely on the cards.

Venkat Subramanian: That is good to hear. Thanks, Sir.

Moderator: Thank you. The next question is from the line of Danesh Mistry from Investor First Advisors. Please go ahead.

Danesh Mistry: Thank you, Sir and first of all congratulations for showing such a good number during these difficult times. Just a couple of questions from my end; the number one, if I would see your channel wise sales, I just want understand how do you plan to grow, so you said you opened 28 new outlets so are these outlets all on the EBO focus model or the MBOs that is one question and number two is that if you were to see again whilst for the quarter contribution from our franchise owned franchise operated has fallen from 31% to 18% is it because of closures or are we kind of culling some non-performing franchise?

Sandeep Jain: See, the first question, the 28 EBOs they are all exclusive business outlets. There are additions in FIS, in MBOs, and LFS format also definitely will let you know those figures also and the second question was you are talking about the Q4 performance of retail?

Danesh Mistry: Yes, basically if you would see Q4 2020, you are saying your revenue breakup channel wise 30% came from EBO, FOFO and that has fallen to about 18%, so I think slide #7?

Sandeep Jain: Okay, you are talking about the Q4 performance?

Danesh Mistry: Yes, Sir.

Sandeep Jain: Yes, Q4 it has gone down as compared to last year slightly. In case of channel wise breakup the MBOs and LFS had contributed 46% in this financial year, which was 42% last year, so it has increased and EBO FOFO it has gone down by 1%, it was 20%, which has come down to 19% and in EBO FOFO, 31% last year it has gone down to 18%, so there has been some disruptions in summer supplies, so again I would say that this quarter is not reflecting the overall performance of the company, so please see us on an annual basis, some of the sales getting shifted to another quarter like in this case they are shifted into April, May, June quarter so the figure will be entirely different when we reach to Q1.

Danesh Mistry: This is what I understand, so it is not that franchises are big difference, is the question?

Sandeep Jain: No, it is not because of that.

Danesh Mistry: Alright and going forward, do we plan to go through the COCO model or franchise model?

Sandeep Jain: No, it is franchise model always because it is asset like model, so we believe in asset like model, COCO model is only applicable whenever there is a higher rental or when there are any places, which is having a high variability for the brands and higher brand awareness we go for COCO model in that case.

Danesh Mistry: Got it and how many stores do we plan to open next year or coming years, understand the disruptions and COVID and all that, but in the next 2-3 years how many stores would be opened?

Sandeep Jain: See, this financial year we have planned to open 20 to 25 stores.

Danesh Mistry: Got it and Sir, just one more question from my end, the online sales as you specified really jumped and done pretty well, but was this a question of offering our discounted sales through the online model or is it fully price sales that we are doing through the online model?

Rishabh Oswal: I was saying that the discount percentage on the online sales has gone down considerably this year, this shows that the products were sold at the MRP and less discounts rather than 40% to 50% of discounts. So on an average the discount percentage for online sale is 17.48% this year, which was higher 300 to 400 basis points last year and we have also started focusing on marketplace model for our online sales, which drives down our cost considerably without tagging our inventory to a particular channel and we have also started working with players like Amazon, Flipkart, Myntra working under outright sales where we sell directly to the channels outright and there is no discount sharing for the product that are sold online, so that has brought our profitability of online segment this year as compared to last year even despite growing 50% on the topline.

Danesh Mistry: Excellent and just last question from my end. What would be the same store sales growth that we have in our main channels basically the MBO, LFS and franchise FOFO?

Sandeep Jain: See, this year it has gone down because the overall sales is down, so SSG in this year is actually negative as compared to last year.

Danesh Mistry: For the full year or for the quarter?

Sandeep Jain: I am talking about the full financial year.

Danesh Mistry: Full financial year that is negative, but is it like negative 1% to 2% or is it like a higher kind of negative?

Sandeep Jain: I think it is around 9% to 10% negative as compared to last year, but again LFS it has gone up by 20%, this year has gone up.

Danesh Mistry: The sales have gone up for LFS?

Sandeep Jain: For larger formal stores, which is more than retail.

Danesh Mistry: But otherwise for others it has gone down, it is probably about 9% degrowth same store sales growth?

Sandeep Jain: Around 10%.

Danesh Mistry: Got it. Thank you very much.

Moderator: Thank you. The next question is from the line of Keshav Garg from CCIPL. Please go ahead.

Keshav Garg: Sir, as you were saying that your summer sales are also quite profitable, so then we will make profit in the June quarter because that is the result when there are no winter wear sales?

Sandeep Jain: We were making the profit in June quarter, if you see financial figures of 2014 onwards I think it is on the last year we faced a problem because it was totally washed quarter and our stores were not opened, so that is why we met a loss, you know this financial year also there are near term uncertainties because the shops are closed, so cannot say much about this quarter, but otherwise first quarter is always profitable for us.

Keshav Garg: Sir, but I can see that in June 2019 quarter and June 2018 quarter we made around 2 Crores to 3 Crores of operating loss, which is very minor, but the question still remains that if our cotton sales are so profitable then why in 2018 and 2019 also June quarter we made a loss?

Sandeep Jain: See, there was reason for 2018 and 2019, our sales were less as compared to what we anticipate, but now our sales have roughly grown, if you see in this year summer supplies we made almost around 40% more summer supplies primary sales as compared to last year, so that will definitely ensure profitability, but now we are facing a pandemic, which is actually putting us off track otherwise we would have a first quarter profitability in this financial year as well.

Keshav Garg: Sir, last year was extremely low base of Rs.11 Crores so 40% of growth over that means nothing, I mean year before that we made Rs.60 Crores in June quarter revenue and even at that level we were not making money?

Sandeep Jain: No, I am not talking about Rs.11 Crores, I am talking about overall summer supplies of last year, overall supply of last year was around Rs.80 Crores and this year we supplied Rs.120 Crores, so it was jump of almost over 50%, I am not talking about the first quarter financial performance, I am talking about the overall summer sales as compared to this year as compared to last year, so that has grown by 50%.

Keshav Garg: Sir, also out of the many segments that we have like kids wear, women wear, so which of these are yet to breakeven and are we bleeding in any of these segments?

Sandeep Jain: No, all are breaking even at primary level.

Keshav Garg: But don't you think that we are trying to do too much of Denim also winter wear, summer wear also as it is such a small company that India is a 17% of world population, so we do not have to do everything kids wear, women wear, Denim, we just have to do one thing and if we become market leader then our market capitalization will be 10000 Crores?

Sandeep Jain: See, it is not that we have started this kids wear or ladies wear just in one go, we started with men's wear and when we got our strength in men's wear then we ventured out in ladies wear, which also we have grown at a considerable pace and then just 4-5 years back we started our kids wear range, which this year I think it should be closing Rs.15 Crores so it is not a small number in kids wear category and all brands are basically utilizing the strength. Ifyou talk about the United Color of Benetton, they are in men's wear category, women's wear category and in kid's category, you talked about Zara, you talked about HNM, you talked about Uniqlo, all brands are primarily in all the categories in summer wears and winter, so we are not doing anything different we are just capitalizing on our brand strength, which can generate our sales in various categories.

Keshav Garg: Sir, your argument is much appreciated, but the fact remains is that the Benetton brand itself is for everything, they were doing since the beginning, but our brand Monte Carlo, if you ask anybody it only as winter wear and rest of our brand nobody even know, so you might be pushing those segments and the good thing is we are not doing manufacturing ourselves so it is only the working capital that we are blocking so the question remains that had we been doing only winter wear and then our return ratios would have been far, far superior?

Sandeep Jain: See, then how we run our stores 12 months in a year, if we do only winter wear, how we will open our stores and how we will present in online channel throughout the year so it is not like that we have to stay in one category and then forget about rest of the months, so we have to grow in all the categories, the good thing is that the company is growing higher double-digit in cotton, which is actually increasing its share every year and it is decreasing its dominance in one particular season otherwise the company would start seeing only one season itself.

Keshav Garg: Sir, in that case why our EBITDA is such since past six years and if you adjust for inflation actually your EBITDA is halved because this is nominal number and six years back Rs.120 Crores was not the same value as Rs.120 Crores now, and you also said that some changes in accounting like discounts you were expensing out and now you are deducting from sales and etc., then in that case at least the EBITDA should have grown, until EBITDA does not grow then what is the point of doing sales?

Sandeep Jain: Thanks for asking this question. I would like to have answered in the first instance only. Basically the challenge in the last five, six years since the online sales have started the modern retails have started more of the multinational brands and other brands have come up in India. So it was to maintain to the EBITDA, not to grow the EBITDA before the discount season it is actually growing every year. The discount months are actually expanded. It used to be only one month at one point of time, now it has gone to around two-and-a-half months in one particular season so the discount is applicable in all the categories and all brands have started discounts so it is a challenge to maintain the EBITDA. If you compare the EBITDA of all the apparel companies which are right now competing with us they are playing a single digit EBITDA. If you talk about Arvind brands, if you talk about Madura brands, if you talk about other brands, which are listed company they are having single digit EBITDA, we are still able to maintain overall 16% to 17% or 18% from last five, six years despite the competition has come from multinational companies like Uniqlo has come, Zara has come in last five, six years many brands have come, but still it is not our EBITDA has gone down to single digit level. We are still able to maintain it. So why we were able to maintain it because we are still focusing on the profitability as well as the growth front, otherwise most of the other companies if I talk about 10 out of 9 companies are having single digit EBITDA right now in apparels.

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

Devanshu Bansal: Thanks for taking the question. Sir, you alluded to this, but just wanted to understand in a bit more detail about our arrangements with online retailers across both the B2B channels like Myntra as well as B2C marketplace model. I guess we pay commissions plus some sharing of discounts, so can you throw some light on this?

Rishabh Oswal: Yes, so there are three different models under which we work with our online partners. The first is the outright sales where we sell our products directly to them and there is no discount sharing from our side. The second is the SOR model where our products are placed in their warehouses and they sell it and there is 100% sharing of discounts with them. The last and the format, which we are pressing this way is the marketplace model where the products are kept in one central warehouse, which our company's warehouse and the same inventory is shown in all the other channels here also discount is given by the company itself; however, during EOSS there are a couple of periods where our channel partners give their own discounts which is borne by them, so at any given point of time, the discount sharing between the online channels and our EBOs or our national chain store is the same any additional discount is given up by the channel partners, so right now focus is towards the market place and the outright sale models.

Devanshu Bansal: Sir, in the SOR you have indicated 100% sharing of discount so if suppose the discount is Rs.100 and Rs.50 is borne by the online partner and Rs.50 is borne by Monte Carlo?

Rishabh Oswal: No, the entire Rs.100 is borne by us.

Devanshu Bansal: How have the gross margins and EBITDA margins from online channel compared to other channels?

Rishabh Oswal: We have not calculated the EBITDA and the gross margin specific for the online channel, but I can give you an idea by the net realized value that we calculate for each channel, so net realized value is nothing but the percentage that we realize from the MRP after discount, after any commissions or margins or any returns, so for online we have a net MRP for this financial year is 48.25% of MRP, which was 46.7% last, so the net realized value has grown by 2% of our online channel.

Devanshu Bansal: This includes the commission as well?

Rishabh Oswal: Yes, this includes the discount, margin, commission and any handling charges, which we pay to a warehouse. So just to give an idea, this year it was 48.25%, last year it was 26.78% and the year before that it was 43.8%, so we increased our realized value by around 500 basis points in the past two years.

Devanshu Bansal: This minus the cost of goods would be the EBITDA margins?

Rishabh Oswal: Yes.

Devanshu Bansal: Thanks. That is it from my side.

Moderator: Thank you. The next question is from the line of Zaki Abbas Nasseran individual investor. Please go ahead.

Zaki Abbas Nasser: Sir, sorry I just needed you to clarify one point. There are two questions, when you normally said that Monte Carlo does not manufacture anything on its own, but I think the company has a substantial percentage of manufacturing on its books, so could you just clarify this point? Thank you.

Sandeep Jain: No, I said that in woollen we have 100% in-house production, but in case of cotton it is just 15%, whereas the other things are outsourced, so in T-shirts definitely we do around 20% to 30%, but in case of jackets, trousers, shirts and all other categories are outsourced.

Zaki Abbas Nasser: Thank you, Sir, but woollen we have 100% manufacturing?

Sandeep Jain: Woollen 100% we are manufacturing in-house.

Zaki Abbas Nasser: Thank you.

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 for participating in this conference call. If you have any questions, any query, which is not answered or if it is not clarified please talk to our Investor Relations Agency, Dickenson and you are all most welcome to mail to our CFO as well as to us. 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.