"Monte Carlo Fashions Q3 FY2019 Results Conference Call"

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Moderator: Ladies and gentlemen, welcome to the Q3 FY2020 results of Monte Carlo Fashions hosted by Emkay Global Financial Services. We have with us today Mr. Sandeep Jain- Executive Director, Mr. Dinesh Gogna - Director and Mr. R.K. Sharma-CFO. 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 hand the conference over to Mr. Ashit Desai from Emkay Global. Thank you and over to you Sir!

Ashit Desai: Thanks, Faison. Good afternoon everyone. We would like the management of Monte Carlo and thank them for giving us this opportunity. I am now handing over the call to the management for opening remarks. Over to you Sir!

Sandeep Jain: Very good afternoon. It is a great pleasure to welcome to you all to this earning conference call to discuss our financial performance for the Q3 and 9M 2020. Thank you, everyone, for sparing your valuable time and joining us here today. We have uploaded our Q3 and 9M financial results and results presentations on our website as well as on the stock exchange. I believe you may have had a chance to go through it. I will initially share the key financial indicators for the Q3 and 9M financial 2020 and then share the key developments during the quarter.

The total revenue during the quarter stood at 403 Crores as against 375 Crores in Q3 financial 2019. The revenue and profit during the quarter are adjusted post provisioning future discount of 26 Crore pertaining to Q4 of financial 2020. The company reported a gross margin of 42.3% of Q3 financial 2020. EBITDA margin during the quarter stood at 26.4%; the company reported a profit after tax for the Q3 financial 2020 at 72.3 Crores against 75.5 Crore in Q3 financial 2019.

The nine months performance is as follows; revenue for nine months stood at 616 Crores as against 560 Crore, and the gross margin is 47.4%, and the EBITDA margin is 21.9%, and the PAT margin is 11.8%. We are positioning Monte Carlo as an over fashion brand. Monte Carlo has diversified presence across four segments, woollen, cotton, home textile and kids. One of the most important trends that we have listed in the segments in the last few years of a gradual shift to lightweight winter wear. Consumer today exhibit a uniform propensity towards lightweight and durable products that can be used as fashionable clothing with a high level of comfort.

Today the winter wear market in India is driven by lightweight products instead of bulky winter wear products. Monte Carlo has witnessed a warm response to their range of products through various channels. Our quarter sales for own portal have gradually increased to 2.7 Crores as of December 2019 from 1.3 Crores as of December 2018. The cotton segment share in nine months this financial year is around 56% of the total revenues.

T-Shirts, Shirts and cloak and decker form a major share in cotton products category. Home furnishing and kids segment continue to grow at a healthy rate. The home textile share increased to 12.6% in nine months from 10.1%, and the kid's segment share increased to 7.1% as against 5.4% in financial 2019.

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, 280 EBOs, 506 National Chain Stores outlets and 128 shop and shop. Majority of our revenues comes from MBO, franchise EBOs, where we primarily sell on preorders on an outright basis. By virtue of this business model, there is no major inventory risk, and we remain adequately protected from the normal hazard of sales in the branded apparel business.

At Monte Carlo, we believe in stable and supreme performance while our focus will be to maximise revenue growth going ahead. Large interest is to build profitability by maintaining cost control measures and focus on improving return ratios and maintaining a healthy balance sheet position. We can now open the floor for a 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 Zakir Abbas Nasir. He is an individual investor. Please go ahead.

Zakir Abbas Nasir: Good morning Sir and congratulations on a stable set of numbers for considerably weak quarter in the consumer segment as I would understand. I have two questions; number one, how are you satisfied with the stability of your product range which is slowly panning out in Monte Carlo during the last three quarters, number two, you said provision for future discount of 26.4% had been made in Q3, would that mean that last Q3 that provision was not there that is what I remember and considering that the last quarter was on similar lines to Q4 last year, the numbers will far better for the full year? Have we selected to be in the 25% tax category or 33% tax category?

Sandeep Jain: Thank you. First I will come to the second question, which you asked the 26 Crore of future provisioning discounts which we have made into this quarter. So as per new Ind-AS now all the future discounts whichever goes in the next quarter we normally take in the quarter where we actually realise the sales from our end so last year what happened was the discount was taken in the fourth quarter and this year we have taken future provisioning of 26 Crore of discount in this quarter that means if I compare my quarter as per the last quarter, apple to apple the profit would have gone by Rs.26 Crores if we had not taken up the provisioning, but as the provisioning had been taken so in the next quarter we will not have any discount provisioning it can be marginal, but it will be significantly better as compared to last financial year. If you see the last financial year in the last Q4, we had a loss of 26 Crores that was because of the discounts which the provisioning was not taken in the third quarter in the last financial year. Now as we have taken the provisioning in this quarter so it means that the loss will be significantly less or it can become positive in the fourth quarter which will give better financial position and profitability as compared to the last year.

Zakir Abbas Nasir: The figures will look much healthier and because your CSR spend is also more in last year?

Sandeep Jain: Secondly, you asked the tax slab we are now in 25% bracket, which was 33% bracket last year and in CSR expense we have already taken the provision of 1.41 Crores of CSR expense which was last year we took in the fourth quarter, so that would also help us in the fourth quarter.

Zakir Abbas Nasir: Sir your opinion on the company's stability now because the past five quarters to six quarters you all have been trying to maximise the product, and you have been trying to make it off-season also like outside winters, how satisfied are you with what has been cheaper?

Sandeep Jain: I think as far as the performance of the company is concerned I think we have maintained all the guidelines whichever we have given at the beginning of the year till the end of the financial year. Even this year we have already in our analyst call also at Mumbai we have told that we will be growing 10% as compared to last financial year, even though there was definitively lot of challenging in the economic environment right now as far as India is concerned. Our GDP is also actually going up as it was considered at the beginning of the year. So beside I think despite all the challenges and the problems the company has been able to grow 10% as compared to the last year as far as the revenue is concerned and again the most important thing is that we will be able to improve or maintain our EBITDA of last year as well. So that shows that as far as the performance is concerned, we are satisfied with the performance of the company.

Zakir Abbas Nasir: Thank you.

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

Dipan Shankar: Good afternoon, Sir. Thanks a lot for the opportunity. So this provision for without provisioning so this is included in our raw material cost itself?

Sandeep Jain: Can you please repeat?

Dipan Shankar: This discount provisioning of 26 Crores so is it included in the cost of raw material consumed itself?

Sandeep Jain: Yes, definitely yes.

Dipan Shankar: Sir, are we expecting Q4 numbers to be better than last year because of extended winter and so?

Sandeep Jain: Definitely yes as the first reason is the discounts which are happening right now in Q4 most to the discounts have already been considered in the third quarter which was not the case in the Q4 last financial year and secondly the sales is also better as compared to last year. So we are very hopeful and sure about the performance of the fourth quarter as compared to the last financial year of the fourth quarter.

Dipan Shankar: Okay, so did we see the sales extended until February 2020?

Sandeep Jain: Can you please repeat?

Dipan Shankar: Have witnessed the sales during February 2020?

Sandeep Jain: No, the sales period normally starts from January 1 and it ends at around February 25, so this year also the trend is same, it started around January 1 and it will end around February 25 and the sales which are happening in this quarter is more than compared to last year so that means there should less stock at the retail outlets and also at the company premises.

Dipan Shankar: Okay, Sir. Thanks a lot, I will come back in the queue.

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, my question would on the revenue segment composition. What I look at it as the component of home textiles is being on an increasing trend. So just wanted to ask you that the further future guidance what is the peak composition which we are looking at our home textile segment and are we looking to expand our product portfolio towards home textile or this would these levels only?

Sandeep Jain: Home textile grew more as compared to rest of the categories, so that is why the contribution of home textiles in Monte Carlo in the overall revenues have been increased but going forward we assume the home textiles should grow between 25% to 30% or around 25% I would say for next financial year, this is one segment the reason why it is growing is because there is less competition as far branded players are concerned. We are for the few brands available in the home furnishing segments so that advantage is what we are getting because of home furnishing and as far as our woollen, cotton and garments range is concerned I think we have already stated earlier also we will be growing double-digit easily next few years as we have a strong base of EBO's, MBO's, LFS, Online and other channels.

Mihir Desai: Just wanted your view on the provisional of future discount which we have made which is roughly around 26.4 Crores in Q3 FY2020, can you please explain this provisioning?

Sandeep Jain: No actually last year it was of same which happened in the Q4. So instead of doing again in the Q4 which actually if you see the Q4 of last financial year the company had a loss of Rs 26 Crores, so as far as Ind AS provisioning is concerned now, the company takes care of all the future provisioning whichever they are in that quarter where the sales realised, so that is why this provisioning has been taken, and that will ensure that we should have a very good Q4 as compared to last financial year of Q4.

Mihir Desai: Understood and having said that there is a slowdown which we have seen the liquidity crunches which we saw in the market. We are not experiencing any delays in payment, so basically we are experiencing any bad debts kind?

Sandeep Jain: No basically this year we have realised our payments faster as compared to last year. So as far as Monte Carlo is concerned, we are not experiencing any bad debts or any late payments and we are better as compared to last year as far as our debtor position is concerned.

Mihir Desai: Lastly, on industry front, we have seen that there is a slowdown in China due to the virus, so will that help us or will that help Indian garmenting or Indian textile industry. Just wanted your view on that?

Sandeep Jain: I do not think so because right now it is closed because of Corona Virus, but they have Chinese New Year holidays. But as we have seen earlier in SAR case also they act very fast, so I do not think it is going to go for a long time I think they will contain it, or I think by the end of February or March first week it should be alright as per my opinion is concerned.

Mihir Desai: Okay understood. Sir, that is all from the side if I have any further questions I will join the queue. Thank you.

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

Vivek Ganguly: Thank you for the opportunity. I have a couple of questions, to clarify on the provisioning that we have done, if you all have not done that provisioning your expenses would be lower by 26 Crores is that the way to understand?

Sandeep Jain: Yes, you are right.

Vivek Ganguly: Sir second is there was a steep jump in depreciation so why it is happening because as we understand, there is not a lot of capex that is happening?

Sandeep Jain: This is because of the asset-liability of showrooms which are on rent. So as far as the Ind-AS is concerned we have to consider at all the premises we are paying rent as our assets. So that is where our depreciation has gone up as per new Ind-As is concerned.

Vivek Ganguly: Is it that the rent you all were paying, which was an opex for you all is now clubbed in the depreciation, I am not very clear on that?

Sandeep Jain: Rent which was showing as expenses a rent expense is now is shown as depreciation, and the finance cost and the rent cost has gone down. So basically this a new law of Ind-AS for which we have to change accordingly.

Sandeep Jain: The value of your assets has gone up as you know, it has been merged with that.

Vivek Ganguly: Okay and what about the finance cost there also we have seen especially on the nine-month comp we have seen it double. So any particular reason for that is it a working capital related or where is it coming from?

Sandeep Jain: There are two reasons for that one is the Ind-AS where we have to cover some finance cost also in depreciation case and second is because of the buyback which we have done if you would remember 55 Crores, so that has gone from the working capital, so that has raised the finance cost.

Vivek Ganguly: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Premal Kamdar from Haitong Securities. Please go ahead.

Premal Kamdar: Sir just wanted to understand your take on the MBO channel, so many of your peers have reported that the MBO channel is currently going through a liquidity crunch issue and many are now shifting their distribution more towards EBO channel, but for you, if I see FY 2019 our channel makes it as actually improved from 49% to 53% so what is the situation over there?

Sandeep Jain: Basically what we have done is that the bigger MBOs we have converted in SIS, Shop-in-Shop model, so we have not lost any business in MBOs we have increased their business if we combine both our MBOs and SIS and EBOs we have already opened 25 outlets at this financial year as compared to last year it was 255 and it has gone up to 280, so I think both the areas have grown in MBOs as well as EBOs.

Premal Kamdar: So we are not finding any issues with our MBO channel currently?

Sandeep Jain: No, not at all.

Premal Kamdar: Going forward for FY2021 our capex is around 10 Crores so our expansion would be more through MBOs and LFS channels right?

Sandeep Jain: Capex guidance we have given at the beginning of this year also so that it should be around 10 Crores to 15 Crores for the next two years. It should not be more than that because we are labour intensive industry so we do not require much to invest as far as any machines are concerned and what was the second question?

Premal Kamdar: Just going forward channel where we would more focus on for expansion?

Sandeep Jain: I think EBO is the channel where we will be focussing more we would be opening another 25 outlets in the financial year as well.

Premal Kamdar: Sir just wanted to know what is the usually gross margin between cotton offering and woollen offering, what will be the differential gross margin between two products?

Sandeep Jain: The woollen gross margins are higher because the manufacturing is in-house and the cotton growth margins are lesser because it is mostly outsourced but if we combine both of them it will around 47.4% and in case of cotton garment but the PBT is higher at PBT level as far as if we compare with the woollen products.

Premal Kamdar: Thank you very much, Sir.

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

Venkat Subramanyam: Thanks for the opportunity. We are broadly noticing two trends; one is a lot of pricing pressure because every neighbouring outlet of yours is offering discounts and therefore discounts have become rule of life and the second is an inability to differentiate because of people's propensity these days to actually to do online shopping, both of these seems to give secular pressure on margins and pricing, do you have any comment on this?

Sandeep Jain: Thank you for asking this question but I think as far as we are concerned, we would be improving our margins as compared to last year. Even though there have discounts on the online channels, there have been discounts on the neighbouring shops, but still, we have very good control on our cost and also very good control on the discount part. We were the last company to go on discount sales when everyone else is on discount sales, and we also do not go for 40 or 50 immediately at least for 80% of the stocks which we have in the showrooms as compared to the other people who started just when they are going on the discounts. So I think these all parameters help us improve our margins as far as tackling the competition also we are also offering the discounts as well as we are not matching those discounts which are being given by other players. So I think because of this strategy we have been able to not only improve our margins but also improve our sales as well.

Venkat Subramanyam: Can you explain the second point that you made, I can understand that you are not bending down on price, how is that you will improve sale because one will work against the other right, if your pricing is necessarily very stiff and if you are not asking discount?

Sandeep Jain: When I say the sale is improved, now what is happening is that in Ind-As whatever discounts we give we have to minus it from our sales, if I give more discounts like 50%, suppose the value is Rs. 100, if I give Rs. 50 discount, the sale will come down to Rs. 50, the net realise a sale.

Venkat Subramanyam: My question is respect to unit sale strategy Mr Jain. Your unit sale will have to suffer in case you do not bend or not bend.

Sandeep Jain: No, I am talking about the revenues, not the unit sales.

Venkat Subramanyam: That I appreciate. You are saying you will not compromise on price, and you are okay in case growth is comprised a little bit, but it has to be at the cost of growth, right?

Sandeep Jain: No, I think you understood me wrong. We have always called for profitable growth. We have always said that we would like to grow, but profitably, yes, we are not growing 30% to having a cut in our margins, we are growing double-digit, maintaining the margins or in this year we will be improving our margins so if the drop is around 10% to 15% I think we have been able to maintain our margins as well and also we can grow at this level without having any dent in the margins.

Venkat Subramanyam: Fair enough, Sir. In response to a previous question, you said you want to grow the exclusive outlets more than MBOs. Do you have any cut-off expectation with respect to a particular EBO?

Sandeep Jain: What do you mean by cut-off?

Venkat Subramanyam: You would want certain profitability, or you would want a certain revenue for an EBO to survive for a certain EBO to be well-positioned, etc.?

Sandeep Jain: Definitely, we normally take around 15% of the expenses of the overall sales, if that we any EBOs to open in that particular bracket we go for that.

Venkat Subramanyam: All our stores that are currently operating and the ones that you intend opening will all meet that guideline, is that what you are saying?

Sandeep Jain: Not every outlet meet the guidelines, but we intend to have all the outlets in this particular range, so there are outlets which are above that; also, there are outlets which are below that also but that are the level actually which helps us maintain our profitability.

Venkat Subramanyam: Lastly, because now the taxability of dividend is in the hands of the recipient at full marginal rate and since your current holding is at 60%, there is an expectation that many companies will cut down on dividend distribution and will probably go for buyback, do you have clear thinking. Do you want to guide the market?

Sandeep Jain: No, actually this has not been discussed in the board yet, so whenever we have our board meeting it will be discussed what actions will be taken but everything as far as last three years are concerned we have been handsomely giving dividend of 100% to 120%, and then last year we buy back without even promoters participating list, so definitely whatever would be in the best interest of the company will discuss in the board meeting.

Venkat Subramanyam: Understood. Thanks a lot.

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

Dipan Shankar: Thanks for a lot for the opportunity again. Just want to understand what is the reason behind the woollen sales which has dropped by 11%?

Sandeep Jain: See again the future provisioning has been taken, so that is where the sales have come down. Overall sales are up around 20% in non-woollen this year.

Dipan Shankar: In this cotton segment and what is the winter and non-winter kind of split?

Sandeep Jain: It is jackets, sweatshirts, tracksuits, lowers, T-Shirts, Shirts, Denim.

Dipan Shankar: In terms of revenue, what kind of split they have winter and non-winter?

Sandeep Jain: I need to check it. You are asking about online sales?

Dipan Shankar: No, only that winter, non-winter or pure cotton kind of split?

Sandeep Jain: I can give you the figures of the categories which are in the cotton category you can note it down. T-shirts contribute approximately in nine-month I am talking about 85 Crores of sales, Denim Trousers and Shirts contribute around 45 Crores of sales, Jackets which are mostly made of cotton and cotton-polyester that contributes around 128 Crores of sales and then if I talk about the tracksuits and other garments and cloak and decker they again do around 55 Crores of sales. We have short stores, thermals and they all contribute about 35 Crores of sales.

Dipan Shankar: 35 Crores, so what was this for the previous year?

Sandeep Jain: Pardon.

Dipan Shankar: What was the same thing for the previous year?

Sandeep Jain: Previous year if I see it was 319 Crores in last nine months, this year it has been around 354 Crores as compared to last year if I compare affordable without taking the future discount provisioning.

Dipan Shankar: Okay. In terms of this cotton split you are saying T-Shirts and those things but for last year nine months?

Sandeep Jain: Last year, nine months, it was 76 Crores.

Dipan Shankar: For T-Shirts. For the jackets, how much it was last year?

Sandeep Jain: It was 120.

Dipan Shankar: Okay and this kids category is it more towards woollen or cotton?

Sandeep Jain: Cotton.

Dipan Shankar: Pure cotton only, no jackets, nothing like that.

Sandeep Jain: No, that includes jackets, that includes sweatshirts, that includes tracksuits, everything.

Dipan Shankar: So that winter-related will be higher proportion?

Sandeep Jain: It should be around 60%.

Dipan Shankar: 60% Okay. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Arjun Sengar from Nippon Mutual Fund. Please go ahead.

Arjun Sengar: Good afternoon, Sir. This was regarding your presentation slide number 13 where you have given quarterly results, if I understand correctly the Q3 numbers and the nine months numbers at the operating EBITDA level is not comparable to the same period last year because of Ind-AS, so can you give us the comparable number, please?

Sandeep Jain: You can note it down. If I do not take the future provisioning of 26 Crores, then the operating EBITDA becomes 31.7% as compared to 32% and the PBT becomes 121 Crores as compared to 114 last year and the PAT becomes 92 Crores as compared to 75 Crores.

Arjun Sengar: But what about the lease rentals and all that have now gone into depreciation and finance cost because of this EBITDA would look higher right, that also adjustment will have to make?

Sandeep Jain: Yes, that is also pushing up the EBITDA higher.

Arjun Sengar: So would you have the number after that also, adjusting for that?

Sandeep Jain: I do not have number after that also but one thing which I can assure you that it is better as compared to last year when we go for a full financial year because last year we had an EBITDA of around 15.7% and we are hopeful of better as compared to last year in the effort for full comparison without taking depreciation effect into the revenues.

Arjun Sengar: Okay, Sir. Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Harshal Mehta from B&K Securities. Please go ahead.

Harshal Mehta: Thank you for the opportunity, Sir. I have two questions, the first one is, our online degrew by 11% YoY so any particular reason for this degrowth and how do you look at this channel looking forward. The second question is, why has the interest cost increased by 8 million QoQ despite a decrease in that by 14.4 million?

Sandeep Jain: I will come to the first question where the online sales have gone down, it is not gone down because the future provisioning of 26 Crores which I have spoken earlier actually has taken into effect otherwise it is 20% up as compared to last year, if I do not take the future provisioning discount is effect in that and second is the finance cost is up because of two reasons, one is because the Ind-AS where the impact is around 3.42 Crores because of Ind-AS by taking the finance portion depreciation cost and second is buyback which we have done last year that was 55 Crores which the money has gone out from the working capital, so that has raised the finance cost.

Harshal Mehta: Thank you.

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

Sandeep Jain: Once again thank you very much for sparing your valuable time, and please feel free to write an email or ask any queries we will be happy to answer that. Thank you very much.

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