



“Monte Carlo Fashions
Q1 FY2020 Earnings Conference Call”

August 06, 2019



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Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2020 results call of Monte Carlo Fashions hosted by Emkay Global Financial Services. We have with us on the call today, Mr. Dinesh Gogna – Director, Mr. Sandeep Jain – Executive Director, Mr. R. K. Sharma - CFO, and Mr. Ankur Gauba – Company Secretary. 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, 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. Preethkar R of Emkay Global. Thank you and over to you Sir!

Preethkar R: Good afternoon everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to the management for opening remarks. Over to you gentlemen!

Sandeep Jain: A very good morning, dear ladies and gentlemen. It is a great pleasure to greet you all on behalf of our Board of Directors and our senior management.

We begin by thanking all of you for sparing your valuable time in joining us here today to discuss our Q1 results for the financial year 2019-2020. Our revenue during the quarter stands at Rs 59.92 Crores versus Rs 59.24 Crores last year. Our gross margin remains stable during the quarter at 68%. Effective cost control helped us to report 149 basis point improvements in EBITDA margin for this quarter.

In our direction of positioning all fashion brands, dependence on woollen segment has been gradually decreasing. Cotton segment now contributes 60% of our FY2019 revenues. Home furnishing and kids segment continue to grow at a healthy rate. Home furnishing segment grew by 40% year-on-year and kid segment grew 22% year-on-year for Q1 FY2020. At Monte Carlo, we have created a comprehensive range of woollen, cotton, cotton blended, netted and woven apparels and also home furnishing through some of our range under umbrella brand named Monte Carlo such as Denim, Alpha, and Tweens. We have also added our sportswear segment that is Rocket.

One of our key strength has been our wide and growing distribution network with holistic presence across India. We have a deep presence across India through 2500 plus multi brand outlets, 262 EBOs and 103 national chain store outlets.

Majority of our net revenues comes from franchise EBOs and MBOs where we primarily sell on preorders and outright basis. By virtue of this business model, there is no major inventory risk and we remain adequately insulated from the normal hazards of sales in the branded apparel business.

We plan to diversify our pan India presence by increasing our penetration to all region across India. We are strongly focused towards rewarding our shareholders by following an asset light model. In this endeavour, we are focusing on asset utilisation, quality, efficiency, and relationships. We have enough capacity headroom to see us grow continuously in the near-future

and we do not envisage any major capex for the next two years during which our growth will primarily be achieved from higher capacity utilisation.

We definitely remain optimistic about our future growth and earning potential. We believe that we have built a strong foundation for the future with sustainable profit growth for the long term. We again thank you for sparing your valuable time and joining us here today. Now we can open the floor for question and answer session. Thank you very much.

Moderator: Thank you very much. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Jeki Abbanasser, who is an individual investor. Please go ahead.

Jeki Abbanasser: Good afternoon Sir. There are two questions, which I would like to ask. Number one, you have indicated in your last con-call that this year you would be looking at a 15% growth in your top line. This does not seem to have reflected in the first quarter numbers and you had also indicated that the cotton is growing well. So, what is the reason attributed to that, has there been a general slowdown or it will take another couple of quarters for the growth to kick in? Number two, regarding margins on cotton garments and what is your plan for this 15% growth Sir. Would it be geographical growth or same market trend penetration? Thank you, Sir.

Sandeep Jain: Thank you. The first question which you asked is about the revenue guidance which we gave in the last con-call and we still stand by the revenue guidance, which we gave. That guidance was given on the basis of the order book we have, which is primarily going to be in the second and third quarter. So, we still stand by the guidance of 15% in revenue growth in this full financial year. Our business is such that there are variations from quarter to quarter and we cannot give a quarterly guidance of 15% revenue every quarter, that is not possible at our end, but yearly guidance, we are still very optimistic and confident that we are going to achieve the 15% guidance for this full financial year. As far as margins are concerned, I would again reiterate that the margin guidance which we gave was around 16% in the beginning of the year and we still stand by the margin guidance and we would see the turnaround happening in our performance in second and third quarter.

Jeki Abbanasser: I was just wondering whether it should have shown a slight uptake that means if you are planning for a 15% revenue guidance, then, the feel is also weak in this quarter. What is the reason for that Sir, I mean is it because of the winter, summer mix or why?

Sandeep Jain: The reason is that the more it earns from the large format stores and online channel which pushed our revenues down and also the profit down, but again there is no excuse for that and we know how to manage that in the future, so considering that we have already got returns, whatever was pending from the LFS and ML, we have already put it in our income and now we are very optimistic that second quarter and third quarter, we would be achieving the required growth to achieve the 15% guidance for this financial year.

- Jeki Abbanasser:** Sir, one important question which was in my mind even last quarter I could not ask is, the retail landscape is changing and lot of these stores are coming up with private labels, even where your stock is there. would you see any risk from these private labels of all these major chains Sir?
- Sandeep Jain:** . Definitely most of the large format stores, they are coming up with private label and they are focusing more on the private label than the outside label, so that definitely poses a risk for not only Monte Carlo, but all the brands who are doing business in LFS, but we have a policy where we maintain ourselves not to go beyond 10% of our sales in large format stores. So, we are keeping that strategy open, so we are doing more business with our EBOs, our FIS, where we have more control as far as LFS and ML is concerned. So definitely, you are right that there are putting more focus on private label and that might have cut all the brands who are doing business with the LFS stores.
- Moderator:** Thank you. The next question is from the line of Deepan Shankar from Trustline Portfolio Management. Please go ahead.
- Deepan Shankar:** Good afternoon everyone and thanks a lot for the opportunity. Sir, how has been the order book for winter season and also what is the kind of inventory available in the market?
- Sandeep Jain:** As far as woollen inventory is concerned, the one good news is that the woollen inventory is at the lowest as compared to previous year and as far as order book is concerned, we have a healthy order book that is why in the beginning of the year, normally we do our booking in the month of April, so we come to know that how much we can supply in second and third quarter. Based on that only we gave our guidance of 15% revenue growth and already the stocks are in pipeline and it will be executed mostly in case of second quarter and third quarter and optimistically we see a guidance of 15% will be met in second and third quarter as well.
- Deepan Shankar:** Sir, what is our expectation on winter season this year because monsoon has not been bad or good, so it has been in the normal level, so what is our expectation on overall winter season?
- Sandeep Jain:** If we see the monsoon level, which was deficient 40% two months back, now it is only 5% to 7% deficient, so that is very good news for the agriculture, for the economy, for overall industry also. So we are very optimistic that coming this festive season, the demand will pick up because of low inflation, as far as food articles are concerned, there will be more income to spend as economy is also now looking up, so I think that it will start changing up near the festive season and we should have our targets met as per the guidance is given.
- Deepan Shankar:** So, if severe winter is expected then I think more woollen goods will be moving, right?
- Sandeep Jain:** We cannot predict this severe winter or less winter, but one thing is very sure that now the woollens are leveraging only festive season. If the economy is doing well, festive season is on time, there are lot of weddings happening in this year as compared to last year, so that gives us the confidence that if everything goes well in that regard, we will definitely do better winter season as compared to last year.
- Deepan Shankar:** All the best.

Moderator: Thank you. The next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: Can you walk us through the business in the sense, what segments are doing well for us or where we are seeing some better traction. We have got multiple sub-brands, so what kind of products are doing well? Where are we seeing the consumer responses better? Where a lot of our growth would come in because you are guiding for a 15% growth, so there would be some segments, which will grow above 15%, some segments, which may not grow below 15%, so I think it would be very helpful that just beyond the numbers, if you can just spend some time telling us, which category you are more excited about or which products are you excited about or which geographies you are more excited about right now as the way you see things?

Sandeep Jain: We expect this financial year particularly; we should have around 30% in this category that is doing very well. We should have around 25% to 30% growth in textile that is also doing very well. We will have more than 30% growth in our Cloak and Decker this financial year which is also doing very well based on the order book and ladies have also picked up as compared to men. We should have a growth of minimum 15% to 20% in ladies and balance will be plugged by all the other categories we are present and doing business in.

Nilesh Shah: Broadly, on the ground reports suggest that liquidity is getting a little tighter for the conventional trade channels and we are obviously talking about industry beating growth this year. So, how do you see the working capital especially in terms of trade getting impacted? Do you think we will have to loosen up a bit in terms of our terms of trade to push through more sales or not? Or will we have to give more credit period, if you can just really throw some light on that as well.

Sandeep Jain: I think you have rightly pointed out the weakness, which is existing as far as liquidity is concerned. Definitely there is a liquidity problem in the market, but as far as we are concerned, most of our business is with outright, MBOs, SIS and our own franchise outlets and LFS so almost 70% to 75% of the business basically does not face much of liquidity crisis. Yes, there is a 20% to 25% business, which we may have late payments, if the market does not pickup in the next two quarters.

Nilesh Shah: Thank you so much.

Moderator: Thank you. The next question is from the line of Hitesh Goel from Kotak Securities. Please go ahead.

Hitesh Goel: Thank you Sir for taking my question. Sir, can you just tell us something about what is happening on your distribution channel? Are they facing a lot of issues in terms of the liquidity issues or funding issues because of which you have not seen much growth in this quarter? I know this is a seasonally weak quarter, but when you are talking about your order book it also depends how your channel profitability is and how and what kind of financing arrangements that they have to keep the stock and all. Can you talk about your distribution channel, what is the situation right now and how is it evolving?

Sandeep Jain: Fortunately, our distribution channel is very small. I do not think it is even more than 10% of the Company's revenues. Most of the goods are being sold through our EBOs, which is Exclusive Business Outlets and MBO, SIS, which is Shop and Shop where we get regular payments after every week and I think it is only 20% to 25% which goes to MBOs where again the invoice are getting the payments so those kinds of payments if the economy does not pick up there may be a delay of 15 to 20 days or maybe a maximum about a month, because they have to pay interest also on the late payments, so they cannot delay more and we do not allow whole of our MBOs to delay payment more than 30 to 35 days. And we charge interest on that also, but one thing is definitely what you said is true there is a liquidity problem in the market, there are stocks which are lying with distributors, some which we have not moved much in the summer sales also, so yes, I cannot say that problem is not there, but the problem what we are facing is minimum as compared to other brands which are there in the market. That is what I can assure you right now at this moment.

Hitesh Goel: Because you were talking about your order book, I understand that these outlets, MBOs, EBOs will give you a guidance in terms of what they will take in terms of stock over the next six months, because of which you are giving a guidance and third quarter is a big quarter for you, but how certain are you that this assurances from these outlets are met because that can change quite dramatically if in one quarter they do not see any pickup and festive season will not get that good, the guidance can be really slashed. So, I understand where you are coming from, but the channel is very important, right? And how much reliance do you think by your experience over a period of time, how much can you rely on this guidance?

Sandeep Jain: Thanks for asking this question. I think it is a very good question and it will help others also to understand how we are faired in this business. Basically as far as our EBOs are concerned, which contributes almost now 60% of the turnover are basically not having any stocks because they return whatever they have at the end of the financial year so anyhow they are going to have all the orders to be taken up because they need to sell the goods also in October, November and December and that dent our March. So there might be some issues in case the economy does not pick up, in case of MBOs which contributes only 20% of the sales, in that case, there may be some slowdown in the pickup of the supplies and there may be some slowdown where we may expect some of the reluctance to take some of the supplies in few MBOs if the economy does not pickup. You are true in that regard, but as we are insulated from our EBOs and from LFS because they are going to and they have started taking deliveries and they are putting pressure on us, please supply as fast as you can, so the channels, where we are very comfortable with and which do not have any problems as far as inventory system is concerned, so 80% to 85% of the business is secured. Yes, 15% of the business we may face some problem, only in case where the season does not pick up or economy does not pick up or there is some liquidity issues. But I think, when 80% of the business is covered, we can manage this in second and third quarter.

Hitesh Goel: Sir, my final question is on the operating margins, if I look at last five years, the operating margins have been going down. I mean your revenue growth is reasonable in the environment that we are seeing right now, but can you tell us why these margins are coming down? Is it because of the mix or channel issues? What is the issue with the margins? Is it like somebody

pointed out that private labels are increasing because of which there is pressure on margins? Can you talk about margins and how do you see them?

Sandeep Jain: There are two reasons for that. If we talk about three to four years back, most of the business used to come from the MBOs. At that point of time, there is no discount sharing, there is no return, but over the period of time, as we are seeing the online sales picking up, we have seen the trend of sales, the end of season sales which is going up every year because you must be preferring to buy in end of season sale period, so that is effecting the overall market. We used to have a margin of 21% to 22% four years back, but now it has come down to 60%. It is only because the sale which is happening, the fresh sale has come down, more of the goods are going into end of season sale discount and majorly the EBOs and the LFS where we share the discounts also, put pressure on the margins. So, it is the industry phenomenon, which is with everyone, it is not only that we have suffered because of online and more discounts, but we see that this financial year we should be able to maintain the EBITDA margin of 16% to 17% the guidance which we gave last year. Last year we achieved 15.7%. You know, this is one of the highest EBITDA in the garment industry if we talk about as on today.

Hitesh Goel: Sir this is a structural risk, right as the online sales keeps on increasing because online is very small right now and people keep expanding at a great pace. So, is there a structural risk to your margins or there is understanding now that this is a bottomed-out margins and your margins could stabilise out here? I understand the sales revenue growth could be quite decent because your brand is small, but just wanted to get a clarity on the margins.

Sandeep Jain: I think the online retailers are now mature enough. They are thinking about how to turn it profitable and there are some government policies also which have come up there, you cannot offer any discount on yourself. We have to have the assurance from the suppliers, from the brand and brands are reluctant to give any discounts because they are also losing money as far as fresh period is concerned. So, I think, things have changed this year as compared to last year and you only see the uptick from here rather than going down in the online as far as last year is concerned.

Hitesh Goel: Great Sir. All the best. Thank you.

Moderator: Thank you. The next we have a follow up question from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: You have done a buyback last year and of course now deregulations on buyback have changed in terms of taxation and we still sit on some liquidity. So, any kind of thought process that in changed of the new tax regime what is there in our minds in terms of the future distribution of the cash that we hold and do we have any capex plans as well or any plans for inorganic acquisitions if you could just throw some light on that?

Sandeep Jain: Thank you. Since the Company went public, we have been giving a general dividend of 100% and last year we gave 120%. We have never skipped a year for any dividends and this year just to benefit the shareholders, we went for buyback of Rs 55 Crores without even participating of

promoters. So that shows how we take care of our shareholders and investors without having even taking any benefit of buyback, all the wealth, Rs 55 Crores of the Company is being distributed to all the shareholders. So, Company has a reputation and a policy of distributing its wealth since its inception and I can only promise this will keep on continuing in the future as well, but the modus operandi maybe different, because it goes along with our existing law and the practice in the market.

- Nilesh Shah:** Right, how much is the cash that we are holding right now, latest cash position?
- Sandeep Jain:** Rs 146 Crores as of now.
- Nilesh Shah:** Thank you.
- Moderator:** Thank you. The next question is from the line of Pratik Jain from Goldman Sachs. Please go ahead.
- Pratik Jain:** Thanks for the opportunity. Will it be possible for you to share the volume numbers for your segments?
- Sandeep Jain:** Sure. What I can do is that I can share the summer volumes, which start from February to June so it will give you an idea that how we performed in summer, which is a pure cotton segment. So, the summer season splits are from February 15 to June 30 the total summer sales last year the total volume was 23 lakh pieces and this year the volume is 26.77 lakhs pieces. So, in summers in volumes we have grown 16.38%.
- Pratik Jain:** This volume is for the cotton segment or the entire?
- Sandeep Jain:** Pure cotton segment.
- Pratik Jain:** What about the other segments, the home furnishing, kids and woollen?
- Sandeep Jain:** I will give you the breakup for home furnishing also. The home furnishing our quarterly figure where we did this year 1,11,000 pieces as compared to 80,000 pieces last year, which is a growth of 40% as compared to last year as far as volume is concerned. In kids we did 1,27,000 pieces as compared to 93,000 pieces, which is a growth of 22% in volumes.
- Pratik Jain:** Sir what about the woollen segment? Where there any sales?
- Sandeep Jain:** Woollen segment, we do not have any sales. It is only returns which comes back in this quarter.
- Pratik Jain:** Sir, just one doubt on your presentation. On slide #8, I can see that for FY2019 the total number of national chain stores was 306 but for Q1 FY2020 you have reported just 103? It is slide #8.
- Sandeep Jain:** In summer it goes down, because not all the large format stores do business as far as the Monte Carlo brand in summers is concerned, but in winter they increase again to the same level.
- Pratik Jain:** Thank you Sir. That is it from me.

- Moderator:** Thank you. The next question is from the line of Gautam Gupta from NRC. Please go ahead.
- Gautam Gupta:** Thanks for the opportunity. Just wanted to check with you will you be able to quantify the sales returns that you had in the Q1?
- Sandeep Jain:** Sure. It is Rs 30.82 Crores as compared to Rs 21 Crores last year. That is why the margins and the revenues went down.
- Gautam Gupta:** Thanks a lot. That is it.
- Moderator:** Thank you. Next we have a follow up question from the line of Nilesh Shah from Envision Capital. Please go ahead.
- Nilesh Shah:** The sales return, can you just explain us, why does the sales return keep happening every year. Will this even continue in the future as well? I do not know if there is any history or any some past behind it, but if you could just kind of throw some light on this in terms of this whole sales returns thing?
- Sandeep Jain:** Normally, it happens in the first quarter every year because when the winter season is over, the retailers, EBOs and LFS they send the goods back to us, which is entered basically in this quarter. Last year also it was Rs 21.58 Crores, which is Rs 30.8 Crores this year and in summer it is very less which comes in October but that is not much significant, but it happens every year.
- Nilesh Shah:** Is there a negative impact of this in terms of our first quarter numbers, because of this sale returns?
- Sandeep Jain:** Yes, definitely yes. Because this has actually put my first quarter numbers in the negative as the sale return was more, so it hurts both the bottom line as well as the top line. So, we have to reduce the total returns from the turnover.
- Nilesh Shah:** Is there no way for making any provision for this in our March quarter numbers because the March quarter numbers then are higher and then of course the June quarter numbers come lower and if this is always the practice, Is there a way for us to have some kind of estimate that this could be the return and therefore let us make a provision for this in the March quarter?
- Sandeep Jain:** Thanks for asking this question. We have already taken this year that we would be putting provision in all the quarters to counter the effect in one quarter.
- Nilesh Shah:** Yes, because this will reduce volatility, quarter-on-quarter volatility?
- Sandeep Jain:** Already the board has taken a decision. So, the provisions will be made.
- Nilesh Shah:** Just a housekeeping question, is there any pledge of shares of the promoter holding or anything?
- Sandeep Jain:** Not at all. We are a cash rich Company where we have Rs 146 Crores of cash which is lying on the books and the debt is only Rs 20 Crores as far as long-term is concerned. Even the promoters

have not pledged any shares. In any of the Company, none of the group companies, this concept we do not have.

Nilesh Shah: This is very helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Jeki Abbanasser who is an individual investor. Please go ahead.

Jeki Abbanasser: Since we went in for our buyback last time and since then for whatever reasons, weakness in the market or whatever the stock price has come down considerably, would the promoters consider doing another buyback since there is enough cash on the books? Thank you.

Sandeep Jain: Buyback has a condition. You cannot do a buyback as far as one year is concerned, but now the government has come up with the tax on buyback also, so these things can only be discussed in the board. I am not in a position right now to answer anything as far as buyback is concerned.

Jeki Abbanasser: Thank you.

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

Sandeep Jain: Once again, I thank you very much for all the people who have gathered for this conference call. If you have any questions, which has not been answered or which has not have crossed your mind, you can always feel free to have to send email to us, mentioning the queries, we would be happy to answer it. Once again thank you very much. Good day.

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