"Monte Carlo Fashions Limited
Q2 FY22 Earnings Conference Call"

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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. R K SHARMA – CHIEF FINANCIAL OFFICER - MONTE CARLO FASHIONS LIMITED** **MR. ANKUR GAUBA – COMPANY SECRETARY - MONTE CARLO FASHIONS LIMITED**

Moderator: Good morning, ladies and gentlemen, welcome to the Monte Carlo Fashions Limited Q2 FY22 earnings conference call hosted by Emkay Global Financial Services. We have with us today on the call, 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 call, please signal the 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 – Emkay Global Financial Services. Thank you and over to you Sir!

Devanshu Bansal: Good morning, everyone. I would like to welcome the management team of Monte Carlo Fashion Limited and thank them for giving us this opportunity. Without taking much time, I shall now hand over the call to the management team for their opening remarks. Over to you Sir!

Sandeep Jain: Good morning, everyone and thank you for joining us for the earnings call of Monte Carlo Fashions Limited to discuss the financial and the operating performance for Q2 and H1 FY22. I hope all of you are keeping safe and healthy.

Now let me share with you the financial and the operational highlights for Q2FY22. The company reported revenues from operation of Rs.238 Crores during Q2 FY22 as against Rs. 98.2 Crores. Thus, registering a growth of 143% year-on-year mainly on account of reopening of stores across geographies post COVID related geographies restrictions imposed during Q1 FY22 which was further aided by improved consumer sentiments and demand.

We continue to witness encouraging trends from our online channel which stands at Rs. 19.4 Crores in Q2 FY22 as against Rs. 7 Crores last year. Operating EBITDA for the quarter grew by 252% year-on-year to Rs. 52.7 Crores as against Rs. 15 Crores in Q2 FY21. Strong growth in EBITDA was mainly due to sharp increase in revenue. Operating EBITDA margins increased by 686 basis points from 15.2% in Q2 FY21 to 22.1% in Q2 FY22.

Profit before tax stood at Rs.44.9 Crores compared to Rs.7.2 Crores in corresponding period last year, a sharp increase of 523%. Profit after tax stood at Rs.33.9 Crores in Q2 FY22 compared to Rs. 4.4 Crores in Q2 FY21 thus increase of 660%. PAT margin increased by 973 basis points from 4.5% in Q2 FY21 to 14.2% in Q2 FY22. Our balance sheet continues to remain robust with cash and cash equivalent of Rs. 197 Crores and nearly zero debts.

Monte Carlo Fashion continues with its endeavour to build a leading branded apparel company and has a well-diversified product portfolio across categories of cotton, woolen, kids and home furnishing. Under cotton segment apart from jackets and coats, we also produce T-shirts, shirts, denim, trousers, and suits. We also produce cotton and cotton blended T-shirts in our economic category which is a brand Cloak & Decker. We are ready to tap varied segments of the market and provide the company with tremendous opportunities for growth in the coming years.

Our key strength is extensive distribution network and presence across India through all format stores. As of September 30, 2021 our company has presence through 307 EBOs more than 1400 MBOs and distributors and 581 National chains taken 227 stores along with the presence over all major online platforms like Amazon, Flipkart, Myntra, Jabong and Kapsons.

Majority of our revenue comes from franchise EBOs and MBOs where we primarily sell on preorder outright basis. During the quarter, the company opened 14 new stores in different regions at the same time closed few non performance stores.

The Board of Directors of the company have approved incorporation of a wholly owned subsidiary to leverage the growth opportunities in the home textile sector and to reap the benefit of production linked incentive scheme announced by the Government of India with a factory outlay of 11,000 Crores. The proposed subsidiary company will manufacture rugs 13 million square meter per annum and mink blanket fabric 20 tons per day. The total investment is Rs.355 Crores over a period of five years.

With the growth in end user, rapid organization, increasing purchasing par and change the lifestyle of people, we are optimistic about the success of this business. At Monet Carlo, our key focus is to reward our shareholders and the stakeholders by following an asset like business model, in this we are focused on optimising our asset utilisation, quality efficiencies and relationships. With a drastic reduction in the number of COVID-19 cases and the vaccination drive gaining pace, the economy is gradually moving back towards normalcy. We are optimistic about our future growth and earning potential, we believe that we have a strong foundation for the future which can provide us sustainable and a profitable growth for the longer term. While our focus will be to maximise revenue growth going forward, our large interest is to build profitability by maintaining course control measures.

With this now, we can open the floor for questions and answer session. If you have any of you have queries post this earnings call, you may contact us through Dickenson World, our Investor Relation Advisor. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Nimesh Vaja from KVP Financial. Please go ahead.

Nimesh Vaja: Good morning. First question is we have seen EBITDA margins improving from 15% to 22% in this quarter but our gross margins have shown some kind of weakness it may be due to the higher cotton prices, so wanted to understand how is the company in terms of able to pass on the higher raw material prices or will it come with a lag affect in terms of cotton prices? Second question being in relation to our wholly owned subsidiary Home Textile, if you see for this half year, we have clocked in a revenue of around 23% that is close to Rs.65 Crores from Home Textile and we are making investments of 355 Crores over the next five years, I want to understand that if we are targeting say 100 Crores of revenue from Home Textiles then what kind of capex we do for initial years for home textiles. Those are my questions. Thank you.

Sandeep Jain: I will come to the first question. The gross margin, you are saying it is 50% as compared to 60%, the reason being is that when we do our own manufacturing, the gross margins are more but in case of this financial year the proportion of cotton garments have gone up in this quarter and the proportion of wool garment is less, so that is why there is a change in the gross margin in this quarter but overall if you see in the full financial year, the gross margins will approximately remain same as per the last year, it will be better. Now coming to the second question which is the wholly owned subsidiary Monte Carlo Home Textile Limited, the reason for setting up this subsidiary is that we see lot of potential coming up in home furnishing segment in India andas far as the investment is concerned, investment is in part, it is not that Rs 355 Crores is invested in first year, so the first two years that is 2022-2023 and 2023-2024 will have an investment of Rs. 185 Crores which is a mix of debt and equity and then over next three years, we will be investing around Rs.170 Crores, so total will be around Rs.355 Crores overall and that would have the turnover of around Rs.600 Crores in next five years, so whatever turnover we achieved last year in Monte Carlo, we assume to have around the same kind of turnover in next five years from this new business, so this new business is rugs, rugs has a lot of potential for export from India to various countries in Europe and US and business is coming to India from Europe and US. We have seen the shift happening from China to India particularly for these categories, so we thought of entering into this segment and also to our added advantage the government has announced the PLI scheme, which gives us lot of financial benefits going forward, PLI scheme gives almost ~50 Crores of incentive which we can claim under this category and Monte Carlo business will continue as it is, as this line will be a new line and it will have its own set up and a new team will be there to operate it, so we think that both these businesses have the potential to grow over next five years and also will be putting up Mink blanket fabric line, so some of the fabric will be used internally and balance will be sold in the local market. Thank you.

Nimesh Vaja: If I understand currently what we are selling in Home Textile will be continuing in the Monte Carlo and the subsidiary will have different revenue breakup or this revenue will be transferred to the subsidiary?

Sandeep Jain: No, this will continue under parent brand Monte Carlo. The subsidiary, we are setting for manufacturing rugs and Mink blanket fabric, so some of the Mink blanket fabric might be used internally and balance will be sold globally and exported to different markets and similarly 90% of rugs will be exported to various countries and 5% to10% can be sold locally and in our own pack.

Dinesh Gogna: I just want to add something to what Mr. Sandeep Jain has said that in case if you really want to understand then it is like we purchase the fabric or we manufacture the fabrics, there are two things and thereafter get it converted into saleable item that is shirts and pants likewise this company will be manufacturing Mink blanket fabric, not the blanket, so Monte Carlo will continue its business of selling blankets in retail and that fabric has to be converted into blanket because that requires some procedures which Monte Carlo will get it done and then sell it. Let me explain, so the business of Monte Carlo of this blanket will not be affected at all rather it will help because raw material will be procuredd in-house only and we will be controlling even the fabric..

Sandeep Jain: Just to add towhat Mr. Gogna has said, so there are dual benefits in this, one is, some of the fabric would be used internally which can definitely cut its cost as far as Mink blanket is concerned because right now we import all our blankets from China, so we pay lot of freights and also the duties, which is increasing the cost, so one is that it will reduce the cost because this capacity is a larger capacity so not everything will be used internally, some of the capacity will be used internally and some of the capacity will be used for selling the local market for fabric and for exporting this fabric to other countries.

Nimesh Vaja: Am I right in understanding that EBITDA margins on a standalone basis for Home Textile might show an improvement going say two years, three years down the line, what it is saying because captive consumption?

Sandeep Jain: Definitely yes, because it will help us in reducing the cost as we pay lot of freight and import duties which increases the cost, so that will definitely bring down the cost structure and improve the EBITDA margin in home furnishing segment and for your information like the rugs, we have been chased by many investors in the past that why are you not going for expansion and puting up some unit as you have so much of cash available in the balance sheet, so we were looking for a business which can give us EBITDA margin of ~18%-20%, so this is one kind of business which can generate that kind of EBITDA margin, that is why the company is seriously looked into this business.

Nimesh Vaja: Thanks, I will join in queue for any other questions.

Moderator: Thank you. The next question is from the line of Rohit Kadam from Entrust Family Office. Please go ahead.

Rohit Kadam: Thanks for the opportunity. I have a related question on this new subsidiary, so first let me begin with our total debt levels, if I look at our September 2021 debt levels if I add up the short-term and long-term debt, we have close to160 Crores -170 Crores of debt which kind of balances against the 200 Crores of cash, so my question was why do we raise this debt from time to time instead of running down our cash level but would you answer that by saying that the cash will now be utilized for this capex for the new subsidiary?

Sandeep Jain: No, the cash which is lying in the books, it is not that the whole cash will be used. We will be going for a debt equity model and debt equity the company is looking at is 25% to 30% of debt and balance is equity. Even the investment of Rs.180 Crores in the first phase is in two years not in one year, and in that case the contribution from company's equityis just Rs.40 Crores – Rs.45 Crores that is not much and secondly our peak level of working capital keeps on changing so if it is Rs.160 Crores now it will come down to around to Rs.70 Crores to Rs.80 Crores in the third quarter and it will come down to around Rs.40 Crores to Rs.50 Crores in the fourth quarter. Because the third quarter is the heaviest quarter for us for which there is an increase in working capital because most of the dispatch takes place in the second and third quarter, that is why it goes up. But otherwise, if you see the working capital in case of short-term and long-term debt combined together, in fourth quarter it becomes just Rs.30 Crores – Rs.40 Crores and in the first quarter it is around Rs.50 Crores – Rs.60 Crores. It is not that we use all our cash in our working capital and secondly the long-term debt for the company is negligible, it is Rs.14 Crores and thirdly we propose to set up this plant in Madhya Pradesh where we get subsidy on the interest, so it is better to take debt when you are getting an interest waved up by the government that is the reason that we are proposing this plant. I hope I have answered your question?

Rohit Kadam: That is very helpful. Just a follow up would it be fair to assume that over the next two to three years sort of Rs.200 Crores are excess cash will gradually come down to Rs.100 Crores as some of this will go into the new manufacturing set up?

Sandeep Jain: How it will go down I am not able to understand it. We generate almost Rs.60 Crores – Rs.70 Crores of cash every year, which is the dividend also and at the same time it is increasing. Last year it was Rs.135 Crores it has gone to Rs.195 Crores we have added Rs.60 Crores of cash in investment. So, it is not that the company has stopped generating cash and all this cash will be used and in that subsidiary that is not the case altogether.

Rohit Kadam: Understood that is helpful. Sorry, to harp on the same question. Any reason why you then do not pay dividend why keep Rs.200 Crores maybe you just sit with Rs.50 Crores do a buyback or pay down as dividend, so we shareholders are also rewarded?

Sandeep Jain: This company has been very generous in giving the dividend. If you see the past history, it is only increasing it in this year, we have gone for 150% we have gone for buyback also. But at the same time the company needs to conserve for the future as well. So, that if we come across some uncertainties like COVID-19, it was only the cash companies who survived it and not the debt companies who are having lot of debt they did not survived. There are continuously things also which comes into future, so we have to take care of all these things.

Rohit Kadam: Fair enough that is very clear. My second question is what is the reason to set up a separate subsidiary for the new rugs? We could have set up a separate operating segment, , is the reason that if you set up a separate subsidiary you get tax benefit is that the reason?

Dinesh Gogna: I think you will be able to appreciate one think, there are two benefits out of this. Firstly, there being that when we separated from Oswal Wool Mills Limited, a parent company Monte Carlo business our basic idea and the declared agenda was this that we wanted to have more focus on the retail business as it was only the woolen segment, which was manufactured within the house, but rest of things were procured from outside in the name of Monte Carlo so we wanted to have the focus especially in this company on the retail business. Now, we have realized because of the government policy as Mr. Sandeep Jain has told you as well as the interest benefits and other things for that purpose we have thought over that the manufacturing line should be, because manufacturing is also adding something in the revenue and under the government scheme lot of incentive would be available to the company and manufacturing line would be separate.

Basically, to have a separate team to focus in that line and the government requirement is that it should be a separate company for availing the incentives and as well as the interest subsidy which will be given by MP government and the income tax benefit.. Do you know that the income tax benefit in case we come out with the production before March 31, 2023 then our tax rate will be 15% instead of 22%? So there are number of benefits which we have calculated and secondly which will give us the opportunity to have separate two focus, one is on the retail business and other on the manufacturing line and home furnishing and as well as rugs inwhich we have got a high potential but in any case it is going to be wholly owned subsidiary it will certainly all the things would be merged with Monte Carlo company.

Sandeep Jain: Just to add to what Mr. Gogna has said the reason for setting up a wholly owned subsidiary, first we clearly mentioned is to have a clear focus on home furnishing business which has lot of potential going forward and retail garment business will remain separate and second thing is the government requirement for a PLI scheme that the company should be wholly owned subsidiary or a separate company and third is the income tax benefit, it is 15% for a new set up. So, all these benefits help us decide that it should be a wholly owned subsidiary rather than merging into the same business.

Rohit Kadam: That is helpful that is exactly what I thought, and you helped clarify it. Thank you. That is, it from my side.

Moderator: Thank you. The next question is from the line of Rashi Mehta an individual Investor. Please go ahead.

Rashi Mehta: Thanks a lot for the opportunity. I just wanted to know that as you have the short-term borrowing has increased substantially as compared to March any specific reason for the same and how do you see the debt level going forward from here?

Sandeep Jain: It is the same phenomena which happens every year, if you see in last five years it goes to the peak in the month of September and starts to come down in December and it becomes lowest in the March quarter because our third quarter dispatches are over 50% of our turnover so that is the reason it goes up otherwise nothing abnormal in this.

Rashi Mehta: Other question would be on the brand ambassador are you planning to appoint any brand ambassador?

Sandeep Jain: Right now we have not gone for that option particularly in this financial year but we may look at appointing in the next financial year as and when we need because we used to appoint it three four year back but it did not help brands much as per the feedback we have received from various retailers and MBOs so we are putting more focus on digital marketing and other areas which are more helpful and setting of EBOs and store in a good location which creates awareness and that is the strategy we have adopted in last few years.

Rashi Mehta: Finally, would be on the advertisement spends, the advertisement spend has increased comparatively to the last quarter. What would be your guidance on the advertisement spend going forward would it increase or stay at the same level?

Sandeep Jain: In the beginning of the year, we have given the guidance of 2% to 3% of the revenues would be advertising expense so we will be matching our guidance what we have given.

Rashi Mehta: Okay, thanks a lot. That is all from my side.

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

Zaki Nasser: Good morning. Congratulations to the management of Monte Carlo for coming on with such healthy numbers. I would have my question in two parts, number one is the robustness of numbers in this quarter you gave an explanation of it, but is it entirely due to the demand coming over to the second quarter or is it also because the company had changed the mix in its store and additional products?

Sandeep Jain: I think you have asked the right question. There are two reasons for that, one is definitely a strong demand which has come from the market. That is one reason and there are some earlier dispatches where the revenues have increased. If you see we had almost the worst first quarter for us which was because of COVID, so in the beginning of the year we gave a guidance of 15% to 20% over last years' sales and I am pleased to announce here that as we have achieved very good sales in this quarter and also the demand is very good and dispatches are also happening in the third quarter itself. We are increasing our guidance from 15% to 20% to 25% to 30% for this financial year. Seeing the strong demand and that the COVID infections have gone down, and the vaccinations have spread up so the company thinks that we can easily give this kind of growth rate in this financial year.

Zaki Nasser: Understood and because there has been a large inventory build-up for the third quarter, I guess guidance of 25% to 30% would be on dot. So, we are talking of 25% to 30% on Rs.620 Crores, right and not Rs.725 Crores of EBITDA?

Sandeep Jain: Yes.

Zaki Nasser: I would also like to know, because I have visited the Monte Carlo show room last week and when I went three months back there has been a phenomenal shift in the product offering there. This time around I could see much more vibrant products and the store was much brighter, so is that been a conscious decision to change the look and feel of store outlet?

Sandeep Jain: One thing which never changes is the improvement. Over the years we got the experience, and we got the customer feedback, and we know that what customers are looking at so accordingly we change our product mix and accordingly we change our shades, designs and everything. So, I would say that we have a very strong marketing team which gives us constant and very good feedback about our products and the retailers are also very supportive they are always in touch with us all these things helps the brand to improve their product mix and to improve the designs and the colour mix.

Zaki Nasser: One final question about this blanket project. Monte Carlo does around Rs.650 Crores worth of sales in the blanket so is it fair to assume that within the new project the viability increases because the subsidiary company has a ready client in Monte Carlo, and we can from the first year onwards Monte Carlo can buy at least a part of the manufacturing thing?

Sandeep Jain: Yes, the mink blanket fabric which will be manufactured by the subsidiary company and it will be sold in the local market as well as it will be given internally to Monte Carlo but at the same time it has export potential and we are going for a rugs plant which has 90% we are thinking of export and only 10% will be sold in Indian market because we see lot of potential in export market as people are shifting from China to India and they are looking at India as very serious manufacturing market as far as textiles are concerned. So, seeing that we thought that to add to our revenues Monte Carlo as it will grow organically and definitely the new business which we have set up will definitely give Monte Carlo edge to become global level company. So that is the reason we have gone for this and improve our margins also going forward.

Zaki Nasser: This ultimate target of Rs.600 Crores from the new business would come 50:50 from mink blankets and rugs or how would the mix be?

Sandeep Jain: Can you please repeat it?

Zaki Nasser: From Rs.600 Crores topline which you are looking five years down the line for the new company would it come 50:50 or what would the percentage be?

Sandeep Jain: Majorly it will come from rugs and you can assume around 60% will come from the rugs and balance will come from the mink blanket fabric and also after two years if you see there is a potential of adding anything else because home furnishing is a very, very vast segment, there are so many other things like that. So, we are setting up a wholly owned subsidiary to capture the whole product range in home furnishing segment. These two products have been short-listed as of now but there is a chance of short-listing another product once we set up this company and we start making revenues and establish ourselves in this segment which is to tap the untapped potential in this home furnishing segment.

Zaki Nasser: Because you are importing these blankets from China so you know exactly what will sell and what is best suited for the earning facility?

Sandeep Jain: Definitely it will improve our margin, we pay lot of freight, we pay lot for import duties, so lot of packaging cost goes towards in the transit. So, definitely it is a win-win situation for the company.

Dinesh Gogna: Also, the conversion of the fabrics into the blanket because fabrics as it is, is not a blanket like what the subsidiary will be manufacturing will be the blanket fabrics which will be sellable to everyone whereas so for the Monte Carlo business is concerned home furnishing that will continue as it is, but they will purchase only the blanket fabrics and convert that into blanket and then sell it off. Therefore, we will be saving the margins right now from three places, one is to manufacture, secondly to convert and otherwise also the profit margin.

Zaki Nasser: Thanks a lot. What is your opinion or what is your feel on the cost of raw material which has gone haywire in the past few months? Do you think there will be a peak to this or how do you see this scenario being yarn and the cotton market?

Sandeep Jain: This has increased we have never seen increase in the last twenty-five years what it increased in this year, the price gone 30% to 40% in case of cotton yarn, and we had to increase 19% across our product to absorb this increase in the cotton yarn prices and thankfully the brand has the power that in spite of increasing 18% our trade show witnessed a booking increase of 25% to 30%. That shows the strength of the brand Monte Carlo even though the price increase is almost 19%, 20% still the booking growth has been around 25% to 30% that shows that the brand has the power to growth increase as well as to market our products effectively.

Zaki Nasser: Thank you and best wishes for the best year in the history of Monte Carlo this year. 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, many congratulations and our shareholders are positively surprised by our performance but despite your upbeat guidance of 25% to 30% year-on-year if we see that in trailing 12 months that is including past four quarters including Q2 numbers we are already doing around Rs.800 Crores revenue versus Rs.622 Crores last year. Basically, what that means that we are already up 30% what that means is in the remaining two quarters Q3 and Q4 you are not expecting much growth year-on-year?

Sandeep Jain: Whenever we give guidance, we give an annual guidance. There are quarter variations, some time more goods go in second quarter sometimes some less goods go in third quarter but what we need to see is that when a company is giving a guidance it is giving annual guidance. The annual guidance which we gave in the beginning of the year was 15% to 20% growth as compared to last financial year. After seeing this strong demand and strong sales at the retail level we increased our guidance to 25% to 30% and it can be increased in next quarter as well, but we do not want to prove anywhere wrong as far as our guidance are concerned. So, we always give a very conservative guidance, and we are optimistic and positive about going forward as far as next two quarters are concerned.

Keshav Garg: That is reassuring and wanted to understand Monte Carlo is covering the whole apparel spectrum apart from formals is that correct?

Sandeep Jain: Yes, we are basically more into casuals, but we also do formals that is not much. Formals, I talk about the suits category which we do not do right now.

Keshav Garg: Lastly our main thing is seasonality, in Q4 and Q1 our seasonally weak quarters due to stock return etc., and we even make some kind of loss in these quarters. So, do you think that going forward if we breakeven inQ1then the performance for the whole year can drastically improve do you see that happening?

Sandeep Jain: I have said this in last conference call from now onwards you would see a drastic change in the revenues and the revenue mix of Montel Carlo.. I do not want to comment much on that but definitely as you said that there are positive surprises which are coming up in Monte Carlo this quarter so you would see the positive quarters coming up going forward.

Keshav Garg: Great! Thank you very much and best of luck and lastly just wanted to understand this wholly owned subsidiaries when do you expect revenues to start coming?

Sandeep Jain: There is a gestation period of around one and half to two years once the project is conceived, we will be able to talk much in the next conference call in the next quarter.

Keshav Garg: Sure, basically will we be able to qualify for the 17% tax regime in the new wholly owned subsidiaries?

Sandeep Jain: Yes, of course yes.

Keshav Garg: Thank you very much.

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

Anil Jain: Congratulations on the good set of numbers. I missed the part when the revenue from the subsidiary will start generating?

Sandeep Jain: 2024 – 2025.

Anil Jain: What kind of run rate you can expect from first year?

Sandeep Jain: We see our growth in home furnishing segment, it should be around 25% to 30% per annum

Anil Jain: I just wanted to know the revenue from subsidiary in the first year of operation?

Sandeep Jain: Rs.200 Crores minimum because that is how we get the performance and incentives around Rs.22 Crores we can only get once we achieve Rs.200 Crores of turnover.

Anil Jain: Okay and how much of the production or revenue will be consumed in house?

Sandeep Jain: I think very less. Most of it will be sold locally or exported. So, you can assume like in rugs it is almost 90% will be exported and in case running blend of fabric around 75% will be locally sold or exported and balance 30%, 35% will internally be involved but it may increase going forward if there is a good demand in the local market. That is the assumption as of now but definitely the geographical sale mix can change.

Anil Jain: Okay and you expect a peak turnover of Rs.600 Crores from these Rs.355 Crores investment, right?

Sandeep Jain: Yes, it is a very conservative figure so I think easily it can be achieved.

Anil Jain: Okay and 20% EBITDA margins you can achieve?

Sandeep Jain: EBITDA margin as a guidance we have been given is around 18% to 20%.

Anil Jain: What kind of working capital will be involved in the new subsidiary?

Sandeep Jain: All these details, we will be able to tell you in the next conference call as this is just last month thatwe conceived this idea. So, the complete project report is under preparation, we will be able to know some more things in coming one or two months.

Anil Jain: Thank you for the detailed answers. Thank you.

Moderator: Thank you. The next question is from the line of Amit Kumar from Determined Investments. Please go ahead.

Amit Kumar: Thank you so much for the opportunity. I got disconnected during the call, so my apologies, if this is a repeat. First of all, for this particular quarter I just wanted to get a sense of your revenue growth. If you could help break it down in terms of volume and pricing, please?

Sandeep Jain: I can just give you a brief categories wise volume growth like in case of men woolen's the growth was almost double from 71,000 to 1,90,000 pieces and in case of women's it was approximately 72,000 to 1,45,000 pieces. All the categories have shown a growth of around 50% to 70% as far as volume is concerned, last year base was very less.

Amit Kumar: Are you talking about first half, these are first half numbers or second quarter numbers?

Sandeep Jain: First half numbers.

Amit Kumar: Where I am basically coming from is that I am trying to understand that in terms of pricing year-on-year what kind of hikes broadly taken in I understand they will differ from category to category but given that this particular quarter is any which ways cotton heavy and your woolen's will probably be more in the third and fourth quarter. So, on the cotton side what is the kind of price hikes the company has taken, that is broadly are going to?

Sandeep Jain: It is around 17% to 19% across categories.

Amit Kumar: That is very helpful. Thank you so much for this.

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

Deepan Shankar: Good morning, everyone, and thanks a lot for the opportunity. Firstly, I wanted to understand this entry into home textile segment, this segment is really overcrowded and supply is heavy how do we see the supply dynamics is the home textile segment and how do you plan to differentiate from other large players in this segment?

Sandeep Jain: I would like to defer in this. If you see home furnishing segment there are only few companies who are competing under this, there is lot of competition in cotton spinning and everything else, but I think we have chosen this segment carefully. This is one segment where the competition is less as compared to other segments and secondly now India is offering a very good market for European and US customers and people are shifting from China and other countries to Indian manufacturers and you might have seen the good results of many home furnishing listed players their results you might have seen. The reason being is that the customers from US and Europe they would like to shift some of the product lines and some of the sourcing line to Indian market and we also hope to have a discussion with few players who are interested to buy from India. That is the reason, and another reason was we have been chased by our investors from last many years that why do not you go for an expansion or why do not you add a category which can generate good EBITDA we were looking for an acquisition. So, we short listed this opportunity which is giving EBITDA of 18% to 20% also which is matching our EBITDA at the same time we are creating another business which can become as big as Monte Carlo business in the next five years, and it has a potential to even increase beyond that. So, all these things and secondly the PLI scheme from the government which has come up at this point of time is giving margin benefits and then there some capital subsidies in the interest subsidy by the respective state government. So, all these things make this business a viable business and we have full faith as far as our management discussions are concerned that this can become a great business for years to come.

Dinesh Gogna: And we have witnessed 23% growth in the home furnishing.

Deepan Shankar: Just to add one more thing how is these low-cost countries competition in your particular segment like Bangladesh, Shri Lanka are we seeing heavier competition in that particular segment and also as you are saying the demand has been overshadowing this supply?

Sandeep Jain: The competition is mainly from China there is a reason for that. China has also the raw material cotton, polyester and nylon with Bangladesh, Vietnam, and this complete vertical integrated chain. In India we the raw material availability which makes us competitive as compared to other countries. China has that same capability but Bangladesh, Vietnam lags the capability of big polyester, big cotton other spinning units. So, that is the reason that the business is shifting to India.

Deepan Shankar: Okay, and lastly on our retail side we have seen substantial growth as compared to even pre-COVID levels. So, are we seeing this growth to sustain in the coming quarters, or you are seeing only as festival season bump up and later it could slow down also?

Sandeep Jain: We do not talk quarter on quarter, we talk on annual basis and our annual business is robust. So, you can assume that the company is giving the revised guidance which we gave 15% to 20% in the beginning we have revised it to 25% to 30%. That shows the confidence of the management in the brand and also the demand which we are getting from the local market and from the feedback we receive from our retailers. So, that is why the guidance has been revised upwards.

Deepan Shankar: Thanks a lot, and all the best.

Moderator: Thank you. The next question is from the line of Ankita Patel an individual Investor. Please go ahead.

Ankita Patel: Good morning and thank you for the opportunity. I had two questions, as you can see the company has shown a strong growth in the online sales since last year how has been the trend in the online sales post unlocking after the second wave of COVID-19?

Sandeep Jain: People are getting used to it to buy online so, there are many customers who just prefer to buy online. So, the trend has seen a change when the COVID has come as people were restricted to their homes and the trend is continuing because once you develop a habit you keep doing it. So, we have seen a growth of around 50% last financial year in our online sales and this year also again we see a growth of 50% of last year's sales in online segment and it is definitely a good segment to continue and to grow.

Ankita Patel: Okay, and what would be the sustainable levels for Monte Carlo?

Sandeep Jain: Sustainable level means?

Ankita Patel: The expectations over the next quarter?

Sandeep Jain: We already told that we should be growing 25% to 30% as compared to last financial year in our sales.

Ankita Patel: Okay, and if you could share the margins from online channel?

Sandeep Jain: We do not have a separate margin right now with me. We have only the margins for complete company it is available with me right now if you want that you can talk to Lingam Sir, and they can answer your call and you can also write to our CFO Mr. R. K. Sharma.

Ankita Patel: Thank you. That will be it from me.

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

Anil Jain: Just wanted to know winter season has already started in many parts of India how is the third quarter looking like because major of the winter sales is happening in this quarter?

Sandeep Jain: It is the third quarter which made us to revise our guidance so you can well judge about that how it is looking out because when the sales goes up, only then the company revises the guidance.

Anil Jain: Thank you.

Moderator: Thank you. The next question is from the line of Kritika Ghosh from Sequent Investments. Please go ahead.

Kritika Ghosh: Thank you for the opportunity. What is the reason for the sharp increase in other current assets like what are the components that have increased and how do we see that going forward also the trade receivables has increased as compared to March, so are the trade receivables under any stress?

Sandeep Jain: Current assets have gone up because of lease rentals. Because the more lease rentals will come as the Ind-AS have changed the policy of asset and liabilities as per as the leaser into and what was the second question?

Kritika Ghosh: About the trade receivables?

Sandeep Jain: As the sales go up the trade receivable also goes up. There is nothing alarming in that and these number of days have not down up, so we are receiving the payment as per the schedule.

Kritika Ghosh: Thank you so much.

Moderator: Thank you. The next question is from the line of Manvardhan an individual Investor. Please go ahead.

Manvardhan: Good morning. Congratulations on good set of numbers. Partly my question was addressed by the last participant but maybe if you could take us in more detail for your working capital and tentatively what would that look like end of December once the season is done with?

Sandeep Jain: Can you please repeat it again?

Manvardhan: In March you will releasing your official working capital numbers again because the balance sheet comes with the annual numbers and SEBI guidelines required for six monthly releases of the balance sheet. But still the cycle for your particular company is such that December tends to be the quarter for which you accumulate inventory for which receivables and post December. That is why I wanted to understand that post December because maybe right now we are looking at very elevated numbers on inventory and trade receivables thus even debt has gone up which could be a temporary phenomenon is what I assume?

Sandeep Jain: Inventory will become lowest by December 31, and the working capital will also come down and in the March 31 even the debtor level and inventory level will be down, and the working capital will be at the lowest.

Dinesh Gogna: The December of course is the peak time and the working capital required will be around Rs.400 Crores looking at the progress which we are achieving and the growth which we are witnessing at the moment. We expect that it will be roughly around Rs.400 Crores net working capital in December that is the peak time.

Manvardhan: Right now where does it stand?

Dinesh Gogna: It is approximately Rs.425 Crores.

Manvardhan: Okay, do we see this Rs.400 Crores working capital number is something that we will be looking at for the whole year tentatively?

Dinesh Gogna: Not for the whole year as Mr. Jain has already explained to you that the system is like this that our lowest working capital requirement which comes down to around Rs.40 Crores – Rs.50 Crores or Rs.60 Crores or Rs.70 Crores sometime in the month of March then all our debtors are realized and basically it starts building up right from April onwards because the stocks are piling up thereafter then we start dispatch in the month of June, July, August, September. So, therefore then the working capital keeps on increasing but it will start going down again from the month of December and now I would request Mr. Sharma to tell you the exact figures.

R K Sharma: As far as working capital components they keep on changing from quarter to quarter for the financial year end, we will be having summer seasons component. So, the components will keep on changing. As on second quarter ending our inventory is at the highest and debtors also at the highest. So, December the inventory will be lower, and debtor will be higher so the components of the working capital will keep on changing.

Dinesh Gogna: That is what I have told them. It will keep on changing from quarter to quarter.

R K Sharma: For the first quarter when we end the financial year our summer season components will come into picture.

Dinesh Gogna: But in any case, by that time all the debtors in fact like heavy debtors' realization would be there from the woolen side.

R K Sharma: I would like to tell that the banking utilization will be the least in the end of the financial year. It will be around Rs.30 Crores to Rs.40 Crores, working capital banking debt.

Manvardhan: Fair enough. Roughly for March 2021 the net working capital was close to Rs.300 Crores?

R K Sharma: Yes, will be Rs.350 Crores approximately.

Manvardhan: Yes, and for March 2022 it would be close to?

R K Sharma: I am telling you about the same by 2022 it will be Rs.350 Crores.

Sandeep Jain: No, the net working capital inventory should be around Rs.30 Crores – Rs.40 Crores for March 31.

Manvardhan: I understood where the two figures are and that way, so fair enough. Just wanted to understand on a receivable cycle what are the terms that we offer?

Sandeep Jain: 90 to 120 days.

Manvardhan: Thank you so much. All the best.

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

Sandeep Jain: We once again thank you very much for every participant in this conference call. If you have any further queries which remains unanswered you can always talk our Investor Relation Dickenson World and also you can contact Mr. R.K. Sharma - CFO of this company. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. We thank you for joining us and you may now disconnect lines. Thank you.