"Monte Carlo Fashions Q3 FY2018 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY2018 results call of Monte Carlo Fashions hosted by Emkay Global Financial Services. We have with us today with Mr. Sandeep Jain – Executive Director and Mr. Dinesh Gogna – Director. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal 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. Sameep Kasbekar from Emkay Global. Thank you and over to you Sir!

Sameep Kasbekar: Thank you Lizaan. Good afternoon everyone. I would like to welcome management and thank them for giving us this opportunity. I would now handover the call to the management for their opening remarks. Over to you gentleman!

Dinesh Gogna: This is Gogna here. The lady has spoken that me and Mr. Sandeep Jain both are here, but along with us Mr. Sharma, Accounts Head is also present with us. If any questions, we would be taking his assistance also. Over to Mr. Sandeep Jain!

Sandeep Jain: A very good afternoon. It is a great pleasure to greet you all on behalf of our Board of Directors and the senior management.

We begin by thanking you all for sparing time in joining us here today to discuss our Q3 earnings for the financial year 2017-2018. As announced at the beginning of the year, we have been optimistic about our business prospects and an upswing in the demand for FY2018. I am happy to report that we have achieved a 15.1% growth during the first nine month of FY2018. Apart from strong growth in sales, our dependence on the wollen segment is reducing, as we are working on increasing cotton sales. Cotton sales contributes nearly 57% of the nine month revenues of FY2018, compared to 54.5% in the corresponding period of the previous year.

At Monte Carlo we continue our endeavors of building a leading branded apparel company. Over the years, we have successfully expanded our horizon and diversified our business operations. We have created a comprehensive range of woollen, cotton and cotton blended, knitted and woven apparels, and home furnishing through some of our ranges under the umbrella brand name Monte Carlo such as Denim, Alpha, and Tweens.

Recently we announced the launch of our fitness and fashion wear under the brand "ROCK IT". In the first quarter itself we achieved a sale of Rs.2.5 Crores and going forward we expect sales to go up substantially.

One of our key strengths has been our wide and growing distribution network with a diversified presence across India. We have been present through 2500 plus MBOs, 234 EBOs and 270 national chain store outlets.

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

I would like to highlight that till date we have experienced zero bad debt in our business, which explains our strong business model and zero credit risk for the company.

Talking about our financial performance, last year the business was affected by demonetization, which came during the peak of our season. Later, during the first half of 2018, there were small disruptions with the implantation of GSTs. However I am happy to report that business has returned to normalcy now and we should gradually get the benefit of GST, being the leading branded player in the industry.

We have achieved a sale of Rs.559.7 Crores in nine months period. In December quarter, we have achieved a sale of Rs.355.9 Crores, which is the highest ever-quarterly sales of Monte Carlo. We achieved 22.5% EBITDA margin without other income while our EBITDA margins including other income stands at 22.7%. High EBITDA margins clearly reflects strong brand positioning for Monte Carlo in the country as the company continues to enjoy higher EBITDA margins among the peers in the branded apparel segment.

Deprecation was marginally lower during the quarter at Rs.5.44 Crores. During FY2017, we made efforts towards reducing debt with the business as a result interest cost has come down to Rs.2.5 Crores. Our December quarter PAT is Rs.47.8 Crores, which is higher than the full year PAT of last year. We have delivered a profit after tax for Rs.68.6 Crores in the first nine-month of FY2018 and we remain optimistic about future growth and earning potentials. We believe we have built a strong foundation for long term, sustainable and profitable growth for future.

We plan to diversify our pan India presence by penetrating all the region like Central, South, and Western regions of India. The current strategy is to establish our brand visibility on a pan India basis along with increased focus on Western and Southern India. We have already made an encouraging beginning towards this goal. We are strongly focused on optimizing asset utilization, quality, efficiencies and relationships. No major capex is planned for next two years. For the next two years, the growth will be achieved from higher capacity utilization.

We once again, thank all of you for sparing your valuable time and joining us here today. We can now open the floor for question and answer session. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, 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 Deepan Shankar from Trustline Portfolio Management Services. Please go ahead.

Deepan Shankar: Thanks a lot for the opportunity and congrats for the great set of numbers. First of all wanted to understand, so for the current season, so even January and February also we are seeing good pickup? How has been the current situation?

Sandeep Jain: It is doing well. I think the store levels if we see at retail levels have come down as compared to last year’s level, so that shows that there should be a good growth coming in the next year as well.

Deepan Shankar: How has been our debtor's position?

Sandeep Jain: Pardon.

Deepan Shankar: Q3 debtors position?

Sandeep Jain: Debtors is Rs.347 Crores as compared to Rs.240 Crores last year.

Deepan Shankar: Sir this increased cotton contribution during Q3, so this is normal? We have seen higher sales of cotton jackets, so that has been the reason?

Sandeep Jain: Yes. The higher sales of jackets, the higher sales of sweatshirts, and track suite is the reason basically for the jump in the revenues.

Deepan Shankar: What is your outlook for the next year?

Sandeep Jain: I think we hope to maintain double-digit growth of 15% to 18% next year as well because we do not see any difficulty in achieving this and it can be more if the economy grows more than the current levels.

Deepan Shankar: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Aveek Mitra from Aveksat Equity. Please go ahead.

Aveek Mitra: Thanks for taking the question. Congratulations for the great set of numbers. My first question would be regarding this debtor's position can you repeat once again please?

Sandeep Jain: Debtors have gone up because one reason is the sales have gone up. Almost Rs.80 Crores is the jump in the sales itself. Then definitely there are some delayed payments also where we charge interest. So I am hopeful that by March quarter ending, the debtor will come down to normal level as previous year.

Aveek Mitra: Normal level means how many days basically because now you are saying Rs.240 Crores to Rs. 347 Crores, so Rs.80 Crores sales increase and debtor increase is almost by Rs.107 Crores?

Sandeep Jain: Yes. So there are some delayed payments also, which we hope to receive in January and February and most of which we have received already. At the March ending quarter, we would see the debtor position same as we had last year levels the normal debtors levels, which we historically have in our company.

Aveek Mitra: The next question would be regarding this Q4 because last year what happened is that due to the early discount and stuff like that you have shown a loss what will be the color till now this year? What type of solution is going we can expect in Q4?

Sandeep Jain: One thing is sure that we would be much better as compared to last year's Q4 levels, but at exact numbers I cannot right now because still the sales are going on and the stock is getting liquidated, but one thing I can say that it should be better than last year's quarter.

Aveek Mitra: Is it as steep discount and as earlier you have started as last year or it is lesser discount I mean it is parallel the way it is?

Sandeep Jain: Discounts started late this year as compared to last year because last year we started discount even in the last week of December itself. So this year we started discount around January 8, 2018 to January 9, 2018.

Aveek Mitra: Can we expect better results than Q4 last year?

Sandeep Jain: That is what I am saying the results would be better as compared to last year's quarter.

Aveek Mitra: Thank you. That is all from my side.

Moderator: Thank you. We will take the next question from the line of Kunal Patel an Individual Investor. Please go ahead.

Kunal Patel: Sir my question is in true sense your revenue should be compared with December 2015 quarter and not December 2016, so if I compare that then revenue growth is not very encouraging, so can you comment on that?

Sandeep Jain: Can you please repeat it?

Kunal Patel: Basically my question is your revenue should be compared with December 2015 quarter rather than December 2016 quarter because of demonetization and the impact, so if I compare it with December 2015 quarter then your revenue growth is not very encouraging, so can you please comment on that?

Sandeep Jain: I think first of all we need to compare the last year's levels because of last year it went down because of the bad weather and demonetization, so if we compare the last year, the revenues are up, but if you compare December 2015 then also it is around 3% to 4% up as compared to December 2015, but again I will tell you the reason is that basically at that year also the next year the winter was not that good. That is why the cotton contribution has actually increased from December 2015 also. It is the woolen contribution, which has gone down, so overall the business for the cotton if you compare December 2015 quarter and December 2017 quarter there is a jump of around 10%, but if you compare the woolen business actually it has gone down that is why it is looking like the revenue for December 2017 quarter is less than the woolen revenue of December 2017 quarter is less than December 2015 quarter, so that was the reason because of bad weather.

Kunal Patel: My second question is regarding the acquisition target, so can you please comment on are you looking to acquire any facility or are planning to acquire any brand or something? Can you give some color because it has been not coming so, so if you can just comment on that and how much cash that you hold? So, I just want to know how you want how you want to use that?

Sandeep Jain: We reiterated earlier also we have been looking at some of the inorganic type of growth, but the problem is that we are not finding an opportunity deal, which is matching up our EBITDA or can give value to my shareholders. So that is why we are holding on acquiring the assets. So unless and until we get the same EBITDA level or at least an opportunity, which can grow us in the future, we cannot take any decision immediately with the cash lying with us.

Kunal Patel: But are you looking at acquiring any brand or you are planning to acquire any manufacturing facility or something?

Sandeep Jain: In the apparel industry, capex is very less. There is no point in acquiring any asset where machineries are lying. It is only the brand, which gives value. We are looking at the brands, which can give us value and which can match our EBITDA and can provide us with future growth as well.

Kunal Patel: Any particularly segment that you are targeting for acquisition?

Sandeep Jain: We said earlier also that there are some segments where we are not present like footwear so these are the segments, which are also growing, but at the same time, we do not have any presence and it is not competing with our mother brand Monte Carlo also.

Kunal Patel: Hypothetically if you do not get any good acquisition in say six to nine months then how you are planning to reward your shareholders?

Sandeep Jain: I think this is one point, which has been discussed in our board meetings also, so I cannot tell you about what we need to do about the money we have, but there are some discussions, which is happening inside the management in the board room, but we will disclose it as and when the price line comes.

Kunal Patel: Fair enough. Thank you Sir.

Moderator: Thank you. The next question is from the line of Sameep Kasbekar from Emkay Global Financial Services. Please go ahead.

Sameep Kasbekar: Thank you for taking my questions Sir and congratulations on the good set of numbers. My question was regarding the home furnishing business. We have seen a strong growth year? We have been having certain challenging times in the past can you just throw some color on how we see this business? What exactly drove the growth this quarter and how do we see this evolving?

Sandeep Jain: I think home furnishing is one business, which has been doing very well, but last year because of demonetization this is one business, which is sold on cash only because there are small retailers and unorganized retailers who actually sell the home textile like blankets and quilts, so they were badly suffered. That is why the booking was also less, but now the things have been stabilized and we are confident if this year we will grow our home furnishing business from 25% to 30% EBIT of more than next year's levels.

Sameep Kasbekar: Would the kid's business be largely the Tweens brand that we have or does it include some of the Monte Carlo brands as well?

Sandeep Jain: No, it is a blended Monte Carlo blended mainly.

Sameep Kasbekar: No Sir I am talking about kids wear?

Sandeep Jain: Kids wear basically have jackets, sweaters, track suite, shirt, and T-shirt all the categories.

Sameep Kasbekar: It is largely a Tween's brand? Would that be a proxy for Tweens brand size?

Sandeep Jain: We market it as Tweens brand in the range name of Monte Carlo only. It is not the brand. It is the range name of umbrella brand Monte Carlo.

Sameep Kasbekar: Understood Sir. Lastly Sir on our advertising cost if I compare our nine-month numbers, we have just about 2.5% of sales as our advertising cost, so our guidance has been around 5% of sales would go towards advertising, so it is likely that we will see an additional advertising cost coming in the fourth quarter?

Sandeep Jain: The guidance initially, which we gave was 4% to 5%, but we are treating this guidance as 3% to 4% only because we are going for advertising on need based advertising and we have rationalized the post as well and also there is reduction of cost because this year we did not make films, which normally goes around Rs.2 Crores because the film of last year was used for campaigning because last year was not used properly because of demonetization, so that is also a reason advertising costs have gone down this year.

Sameep Kasbekar: We can expect going ahead between 3% and 4% as our advertising cost?

Sandeep Jain: Yes. It would be guidance of 3% to 4% of revenues for advertising expenses.

Sameep Kasbekar: Sir on our full year EBITDA margin guidance we are inching up towards 20%, which has been a long term average? Is it sustainable at least for FY2018-2019?

Sandeep Jain: In the beginning of the year, we gave the guidance of 18% to 19%. We not only achieved it, we over achieved it and we are still maintaining the same guidance of 15% to 20% growth and 18% to 19% for EBITDA and I am hopeful that this is actually sustainable in the years to come also.

Sameep Kasbekar: Sir that is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Kshitij Kaji from Edelweiss. Please go ahead.

Kshitij Kaji: Thank you for the opportunity Sir and congratulations for a good set of numbers. My only question was regarding the other income, so I think it was around Rs.8 Crores last year and it has come down to around Rs.1 Crore this year, so can you please comment on that?

Sandeep Jain: Last year what happened was there was a CVD claim of around Rs.7 Crores, which was there was last year in other income, but this year there was no such kind of other income was there. That is the difference only.

Kshitij Kaji: Sir what will be the sustainable other income going forward may be on a yearly basis?

Sandeep Jain: Other income barring that this Rs.7 Crores, which was there was last year otherwise it will sustainable the same other income for next year as well.

Kshitij Kaji: Which is around Rs.3 Crores to Rs.4 Crores that you do every quarter around that much?

Sandeep Jain: It is around 1 Crores per quarter.

Kshitij Kaji: That is all from my side thank you.

Sandeep Jain: Unless there are some other security, which are there for maturity because CVD the income, which we have said that was excise refund. Refund of excise like countervailing duty. So that was something unusual.

Kshitij Kaji: Sir that is all from my side. Thank you.

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

Apurv Kulkarni: Thanks a lot for the opportunity. I wanted to ask how has been the share of cotton blends in this quarter's revenue and how it is shaping what kind of traction are you gaining in your key areas? Can you just comment on the whole business? Thank you.

Sandeep Jain: I will just let you know. The share if I talk about the third quarter of last year, the woolen segment share was 41.1%, which has come down to 35.1% and the cotton segment, which was 48.9% has gone up actually to 51.3%, so the cotton segment is increasing every year and the home furnishing which was 5.9% last year, it is 7.4% this year and the kids, which was 4.1% is 5.5% this year and 0.7% is contributed by the Rocket. So that is actually a comparison of last year and this year.

Apurv Kulkarni: Can you also comment on the traction that you are gaining?

Sandeep Jain: Going forward we see that the cotton segment as it is growing at a faster rate, so we will have the cotton segment might be taking more share and woolen segment is reducing every year, so it used to be 100% if you talk about 2003, which has come down to 35% in this quarter.

Apurv Kulkarni: Just to understand again this whole segment is outsourced manufacturer?

Sandeep Jain: No only woolen is manufactured in-house, cotton T-shirts are manufactured in house, but the cotton shirts, cotton trousers and jackets they are outsourced.

Apurv Kulkarni: Any other new products except for Rocket that you plan to launch in this segment?

Sandeep Jain: Not right now.

Apurv Kulkarni: How has been the traction with the Rocket brand? I assume it is a very small brand, but in niche category?

Sandeep Jain: I think it is a very promising category as there are only a few multinational brands, so there is a vacuum in the market that why it was launched and we have already received a sale of Rs.2.5 Crores and for the next year we are keeping a target of Rs.10 Crores from this brand.

Apurv Kulkarni: Thank you very much.

Moderator: Thank you. The next question is from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: Sir just I was looking at the revenue share of your woolen now that share has fallen because of cotton growth being strong, but if I just look at the woolen segment growth rate that is just 2%, so Monte Carlo was known for woolen segments and all so what exactly has happened say in a year like Q3 FY2017 because of demonetization woolen was low that is understandable, but in Q3 FY2018 why has the woolen segment only grown by 2% or 3%?

Sandeep Jain: Generally, people are more preferring the sweat shirts & jackets, so that is another reason why woolen has actually gone down a bit, but we are very positive and hopeful next year will have a double digit growth in woolens as well because of good winter this year.

Shekhar Singh: So basically, like in a way you are saying the areas or the type of product the people are demanding that they were not made available by Monte Carlo?

Sandeep Jain: No, it is not made available. The fashion is changing. People are preferring. The youth is preferring more of sweat shirts and jackets than sweaters. So that is the one reason and another reason is last year the stock levels were high, but this year we are very confident this year we are going to have a double-digit growth in woolens as well for the next year I am talking about.

Dinesh Gogna: Excuse me, this is Dinesh here. Sorry for the interruption. What Mr. Jain wanted to convey to you as we so far, the fashion is changing. So as far as the product of Monte Carlo is concerned whether it is wool or winter wear jackets are also our products only and you must have seen that there is an increase in the cotton side because those things are accounted for as the sales of cotton product, but those are winter wear, but now we are thinking that we will be introducing some other type of product in main woolen also. There so we will probably achieve the woolen growth also. I mean the growth in the woolen industry also and the reasons would be because the GST has come, so there would be some place, which will be vacated by the unorganized people and we will occupy that, but simultaneously if there was a reduction or you can say there was competition in the pure wool then there was a demand for the Monte Carlo products on the cotton side, so our sales is rising. So, it is not that the winter wear was reducing. It was only from woolen by people they have surged woolen with the cotton, because of fashion.

Shekhar Singh: Understand. Thank you Sir.

Moderator: Thank you. The next question is from the line of Vatsal Mehta from Individual Investor. Please go ahead.

Vatsal Mehta: Thank you for taking my questions Sir. Can you please highlight the benefit of GST on Monte Carlo how do you think unorganized players are coping with GST because woolen segment is more unorganized?

Sandeep Jain: Basically, what was happening was when the GST was not there, there was lack of tax compliance because one can sell the fabric without paying any tax and all, so those things are not there. Now everybody must comply with the tax structure. So, a difference between the unorganized and the organized as far as cost structure is concerned that will reduce, so that will benefit the organized industry and the brands like Monte Carlo.

Vatsal Mehta: Thank you Sir.

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

Deepan Shankar: Thanks a lot for the opportunity again. Sir how has been the cotton order bookings for summer has it started and how has been the outlook for this year?

Sandeep Jain: It is better as compared to last year and I think finally as far as retail sales are concerned we should have a double-digit growth in this quarter as well in the cotton segment.

Deepan Shankar: So how has been our growth in additions of MBOs in Southern markets how are we seeing the growth over there?

Sandeep Jain: The southern market I think earlier in the last two to three years, we have grown at around 25% to 30%, but this year I think that we need to grow only 10% because of some less orders this year, which are just taking up the matter with some of our retailers and distributors and hope to have another 25% to 30% growth next year as well.

Deepan Shankar: Thank you Sir all the best.

Moderator: Thank you. The next question is from the line of Navin Jain from Florintree Advisors. Please go ahead.

Navin Jain: Good afternoon Sir. My question was on your guidance. You mentioned that you are confident of achieving 15% to 18% kind of a growth even in the current year so if that must happen basically your fourth quarter revenue has to be greater than Rs.110 Crores. You think that looks likely because usually we do not do such kind of topline in the fourth quarter?

Sandeep Jain: Basically, the guidance, which we gave was 15% to 18% and whatever number you have calculated you are right, but we are pretty sure that we are going to get 15% to 18% growth somewhere in between in this quarter itself to achieve the final figure of 15% to 18%.

Navin Jain: Got it Sir sure. Thank you.

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

Kunal Patel: Sir thanks for the opportunity again. Can you please tell me what is your capacity utilization right now and do you want to take it to what level in the next two years?

Sandeep Jain: In woolens we have a capacity of around 1.7 million pieces depending upon the design and right now the special utilization is around 80%, so there is scope of next one to two years as Mr. Gogna as rightly said we do not need any capex, so that capacity can be used for the next two years also if we are going to grow from double digit in woolens. At the same time, in cotton i think most of the products are outsourced. Only T-shirts are manufactured in house, so we have adequate capacity to meet the future demands.

Kunal Patel: Can you also comment on the margin segment wise means what are your margins on woolen segment and cotton, which is in breakup?

Sandeep Jain: Growth margins woolen is around 53% to 54% and in cotton is 34% to 35% because cottons are outsourced, and woolen are manufactured in house, so there is a difference in the growth margins, but if we come at EBITDA level and PBT level both are same. PBT cotton is better than woolens right now.

Kunal Patel: Thank you Sir.

Moderator: Thank you. We will take the next question from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar: Thanks for the opportunity and sorry for our repetition. If you could just or tell what is the correct kind of growth we are expecting for FY2019 and FY2020 in both the divisions?

Sandeep Jain: I think the kind of growth we have this year is around 15% to 18%. The final guidance, which we will give only once we have the complete stock level in our hand as far as retailers are concerned, but we are hopeful to achieve a similar kind of growth in the future as well for the next two years. The actual guidance we will give in May when we have the final figures in our hands for the next two years. As we all always give in May at the beginning of May for the next year.

Shailesh Kumar: What is the sustainable level of EBITDA margins for us?

Sandeep Jain: I think 18% to 19% for EBITDA levels are maintained from the last 10 years barring last year, so we think that this level can be maintained this year as well as the next year also.

Shailesh Kumar: Has there been any progress on our acquisition front we were trying to acquire some company?

Sandeep Jain: I replied to this question earlier also that still we have not found any suitable opportunity where we could just look at and invest in that, so that is still I would say nothing in hand right now.

Shailesh Kumar: Thank you.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Sameep Kasbekar for his closing comments.

Sameep Kasbekar: I like to thank the management once again for giving us the opportunity and I would like to hand over the call to the management for their closing remarks.

Sandeep Jain: Once again thank you very much. I thank all the participants and again I would say that that if there are questions or any queries, which are unresolved, or which are pending or which you want to have you can always email us and we would be happy to reply to that. Thank you very much.

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