"Monte Carlo Fashions Q4 FY2018 Results Conference Call"

May 28, 2018

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Moderator: Good day ladies and gentlemen, and welcome to the Q4 FY2018 results conference call of Monte Carlo Fashions hosted by Emkay Global Financial Services. We have with us today from the management Mr. Dinesh Gogna – Director, Mr. Sandeep Jain – Executive Director. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal 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. Ashit Desai – Research Analyst from Emkay Global. Thank you and over to you!

Ashit Desai: Hi good morning everyone. I would like to welcome management and thank them for giving this opportunity to us. Handing over to the management for opening remarks post which we will take the Q&A. Over to you Sir!

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 you all for sparing your valuable time in joining us here today to discuss our Q4 and full year earnings for the Financial Year 2017-2018. At the outset, I am pleased to announce the dividend recommended by board, which is 120% of the face value that is Rs.10 per equity share for the financial year 2018 which amounts to total dividend payout of Rs. 26 Crores and the dividend payout is 43.7% of reported profit after tax which is 20% higher than the previous year in line with our commitment to create a sustainable wealth for our shareholder. Our company has agreed to distribute an optimal and appropriate level of profits earned during the year.

As announced at the beginning of the year we have been optimistic about our business prospects with an upswing in demand for FY2018, I am happy to report that we have achieved a healthy growth of 11.7% during FY2018. Apart from strong growth in sales, our dependence on the woolen segment is reducing as our effort for increasing cotton sales is beginning to take its effect. Cotton now contributes nearly 60.8% of our revenues of FY2018 compared to 58% of the previous year.

At Monte Carlo we continue our endeavour of operating 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 wool and cotton, cotton blended, knitted and woven apparels, and home furnishing to some of our range under umbrella brand name Monte Carlo such as Platine, Denim, Alpha, and Tweens.

One of our key strengths has been our wide and growing distribution network with a holistic presence across India. We have a deep presence across India through 2500 plus multi brand outlets, 235 Exclusive Business Outlets and 283 national chain store outlets.

The majority of our net revenues comes from MBOs and franchise EBOs where we primarily sell on pre-orders 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 the branded apparel business.

I would like to highlight that till date we have experienced almost zero bad debt in our business, which stand testimony to our strong business model based on a zero-credit risk policy for the company.

Now talking about the financial performance, during the first half of 2018 there were minor disruptions post implementation of GST. However, I am happy to report that despite these major turbulent factors our business has now returned to normalcy and we should gradually see the benefit of GST comes into play being the leading branded player in the industry.

During the year we have achieved a sale of Rs.644.7 Crores along with strong EBITDA growth of 30% to Rs.101 Crores. During the year we have achieved 15.6% EBITDA margin without other income while our EBITDA margin including other income stands at 18.4%. High EBITDA margins clearly reflects strong brand positioning of Monte Carlo in the country. I would like to add that our company continues to enjoy higher EBITDA margins among the peers in the branded apparel segment.

During the last two years we have been consistently making efforts towards reducing the debt level within the business. As a result, the interest cost has fallen sharply by 34% to Rs. 7.7 Crores during the full financial year. Our debt to equity ratio shows at 0.11% which can be used for faster growth and to reward the shareholders. For the full year we achieved PAT of 59.7 Crores, which grew strongly by 35% over the previous year. We remain optimistic about our future growth and earning potential. We believe that we have built a strong foundation for the future with sustainable and a profitable growth for the long term.

We plan to diversify our pan India presence by increasing our penetration into Central, Southern, and Western regions of India. Our current strategy is to establish our brand visibility on a pan India basis with increased focus on Western and Southern India. We have already made an encouraging beginning towards this goal. We are strongly focused towards rewarding our shareholders by following an asset light business model. In this endeavour, we are focusing on optimizing our asset utilization, quality, efficiencies, and relationships. We have enough capacity headrooms to see us through the continuous growth in the near-future therefore we do not envisage any major capex for the next two years during which our growth will primarily be achieved from higher capacity utilization.

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

Moderator: Thank you very much. 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 Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar: Good morning and thanks for the opportunity. I would like to ask the management that in spite of the guidance of 15% to 18% kind of top-line growth we have ended the year only with 11% kind of top-line growth so what is going wrong with us, I mean we have not been able to meet our sales guidance for last two years?

Sandeep Jain: Shailesh thank you very much. You rightly said that we gave the guidance of 15% to 18%, see that guidance was given on the kind of response we were getting in the retail sales and based on the bookings we had last year. So, guidance is based on the business prospects but sometimes what happens is that there are some circumstances which makes the guidance little here and there. In this year's case the discounts gained are a problem because the discounts are increasing every year, traditionally Q4 is a very weak quarter for us but as all the winter wear manufacturers goes on discount in Q4 so, we also had to go for heavier discounts which reduced our turnover also. See what is happening in our Ind-AS is all the turnover discounts, all the incentives, all the discounts have to be reduced from the sales revenue. So that is why the growth came down to 12% as compared to the guidance of 15% but we are confident as far as company's potential is concerned about our next year's prospects.

Shailesh Kumar: So, what you suggest, I mean what are you targeting for FY19?

Sandeep Jain: See again we are giving the guidance of 15% to 18% for next year as well, but the problem is what is happening in today's scenario is, compared to the past the discounting is increasing every year. The brands have started going for discount even before the actual discount season starts and that is the big reason, which is actually hurting the margin as well as it is cutting the revenues also.

Shailesh Kumar: So, Sir, we are among the top two leading brands of the country, so doesn't our brand help in garnering better pricing and not going for the discounting?

Sandeep Jain: Sir I think in today's scenario, we see all the leading brands not only Indian brands but the international brands also, no brand can survive without discounts so when it is end of season discount sale every brand be it a strong brand or a weak brand has to adjust to the market conditions. When every brand is on sale in those days we just cannot remain insulated to the practices which is happening in the industry. So, we believe that going forward also the discounting sales is going to increase from last year as well as, but we believe that we have strong balance sheet available with us and we also have the policies which insulate us to make more in fresh sales, so that we can protect our margins. If you see the overall revenues of the company for full financial year we have grown 12% and the EBITDA Margin has also grown by 222 basis points and the PAT has also grown more than 35%. We were just comparing our profit and loss account with the leading branded apparel companies who are listed in Indian stock exchange, all companies have grown in the range of single digit only in the revenues. So, I think we have performed as far as industry is concerned definitely better but yes, we missed our estimate of the guidance which we gave 15% to 18%.

Shailesh Kumar: To what extent this is true that the online sellers are forcing established brands to give this kind of discounting and all these things? I mean the arrival of e-commerce is it leading to this kind of ratio, I mean discount sales and all these things?

Sandeep Jain: Yes, you rightly said it is one of the factor which is actually influencing the brand to go for the discount sales because these customers are now getting habitual to discount sales as the discount sales starts very early, now even if the summer has not peaked but we have a discount sale which is beginning from May 1, 2018 itself most of the brands have gone for discount sales. We have not gone for discount sales yet this year right, but most of the brands have gone for mid-season discount sale and scheme. So, e-commerce is one of the factor which influence the brands to go for the discount sales early as compared to past few years.

Shailesh Kumar: What is the volume growth that you are factoring in this 15% to 18% kind of topline growth which you are targeting for FY19 what would be the volume growth?

Sandeep Jain: We are seeing a 10% of quantity growth over last year.

Shailesh Kumar: 10% volume growth?

Sandeep Jain: Yes.

Shailesh Kumar: And if you could just tell me individual volumes in cotton, woolen, and non-textile for FY18?

Sandeep Jain: I think as far as the woolen is concerned we are very positive this year that we should grow around 8% to 10% in the volume growth and in cotton, again we will have the double-digit growth in volumes in cottons as well for the next financial year.

Shailesh Kumar: No, I got the point, what I was asking is in FY18 how many pieces of cotton garments we have sold, how many pieces of woolen, and the nontextile?

Sandeep Jain: So if we talk about the woolen category the volume is a little bit down, was 12,46,364 pieces last year and this year there has been 11,47,201 pieces and if we talk about the cotton volume, so if I talk about the denims and trousers segment the volume has been 2,30,000 as compared to 2,35,000. In shirt, we have 3,48,000 as compared to 3,00,000 in T-shirt and other knit and woven including sweat shirt, track suit, and jacket, the total volume stands at 26,58,000 pieces which was 24,00,000 pieces a year back. If we talk about the kids segment it is 4,60,000 pieces as compared to 4,00,000 pieces, newly added segment Rock-It contributed 31,469 pieces and in textiles, it is 3,25,000 as compared to 3,77,000 last year.

Shailesh Kumar: Sir if I am not wrong this year winter was a bit severe then how come we have not been able to match even last year's volume?

Sandeep Jain: See winter has been severe but the problem is that the period of winter is shrinking. Before it used to last two and half months but now it was lasting only for one and half months, that variation in the period is sometime sweating the customer to spend the money. But it is not that we have not grown. If we see the jacket, track suits and other sweat suit segment we have already grown around 15% in volumes as compared to last year. So, the period, which is October to November we sell life jackets, sweat shirts, track suits have grown as compared to last year.

Dinesh Gogna: What Mr. Jain wanted to say was so far our sales in the winters are concerned the sales have not gone down because of the fashion it is switching over from the hosiery to the jacket side because jacket is a one thing which is worn normally in the winter season. Earlier people used to wear more sweaters, less jackets, now the taste is changing because of the seasons. Otherwise in case we see overall our winter this volume has not gone down, if we combine jacket as well as sweater both together.

Shailesh Kumar: That is perfect. Thank you.

Moderator: The next question is from the line of Zaki Nasser, he is an individual investor. Please go ahead.

Zaki Nasser: Good morning Sir. I have a couple of questions Sir, number one is your expansion into other parts of India because what I remember is couple of years back you had presence in south then some of the stores have shut down, I would like to know how you plan your foray into the south because south is a very important market for the T-shirts and trousers and stuff like that, number two is your debt, your interest burden stands at 7.5 Crores and you have reasonable amount of cash balances on the book so why not make the company debt free? These are the two questions Sir.

Sandeep Jain: We first come to the first question, which was the expansion in southern and western region, yes, the few of the EBOs have been closed in south. The major setback we had this year in south was one of our distributors in Tamil Nadu actually got some financial problems, so that is why we could not have orders from Tamil Nadu region, which actually reduced our southern region turnover, but that problem is being taken care off four months back as we have opened up with a new distributor and we have got a very good summer booking also from him and the winter booking is going on, which is giving us the confidence that this year we will grow in southern region. Now we come to second question about the debt position why we are not paying it back because it is a TUF’s loan, which is available at rates minus 5% of the net loan, which is around 8%.

Zaki Nasser: So, you save a couple of points over there?

Sandeep Jain: Yes, so because it is TUF loan, which is a subsidized loan we are keeping this loan with us, otherwise all other debts have been paid by the company.

Zaki Nasser: The face of the company or the impression of the company it is primarily a winter wear company right, but the effort of the management to diversify into affiliated brands and sportswear and T-shirts do you think that this would be a three-year plan whereby your quarter-to-quarter variances go away?

Sandeep Jain: See if you are tracking the company from last few years we have been increasing our range in cotton, the revenues in cotton have been going up, the contribution from the cotton segment has reached almost 60%, which was 100% at one point of time that shows the commitment of the company towards increasing its cotton ranges and the presence in the regions where cotton is more saleable, so I think the company’s endeavour is going forward also to increase its cotton range so that our dependence on winter wear comes down. If you see from last few years it is coming down every year.

Zaki Nasser: Fantastic and Sir one last question, which might not be too material, but all the brands are within the listed entity right Sir, Monte Carlo, Rock-it and the other brands?

Sandeep Jain: Yes.

Zaki Nasser: Thank you Sir and best of luck for the year.

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

Kshitij Kaji: Good morning Sir and thank you for taking my question. Sir my first question is based on Q4 results, so we have seen a sharp drop in our gross margins this quarter so can you elaborate as to why that has happened?

Sandeep Jain: See Q4 is again I have mentioned earlier also that is a traditionally a weak quarter for us so definitely there had been more discounting, which happened in this period which actually dropped the EBITDA margins as well as the gross margins, but I think this business has to be seen on annual basis because I do not see think that by seeing the quarter-to-quarter results it gives any inference about the company so I think this company has to be viewed on the annual basis and on annual basis we have grown almost 11.7% in revenues and the profitability has grown more than 35%, so quarter-to-quarter there can be variation because of some difficulties and sometimes the discounting is more and sometimes discounting is less, but it is more prudent as far as our company is concerned to view it on annual basis.

Kshitij Kaji: If you see our full year margins historically we are doing margins of around 18%, 19%, 20% and this year we have done around 15.4%, going for the next two, three years what do you see the margins standing at?

Sandeep Jain: Including other income the margin is 18.4% and without other income the margin is 15.6% and as we see the discounting is increasing every year so there can be a little bit pressure on the margins going forward, but we do not see a major effect as far as our margins are concerned.

Kshitij Kaji: But you see them improving over the next two years?

Sandeep Jain: I think it should remain stable.

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

Moderator: Thank you. The next question is from the line of Sanjay Kaul from FE Securities. Please go ahead.

Sanjay Kaul: Good morning Mr. Jain. I wanted to find out we are 60% cotton-based company so how come 80% of the profits come only in one quarter which is third quarter, which is not predominantly a cotton based as such what are the reasons?

Sandeep Jain: Yes, the Q3 actually contributes almost 55% of our turnover and basically that is the quarter where high value garments are actually sold, so that is why the profit is more in Q3 as compared to Q1 and Q2, but if you see from last three to four years the dependence on Q3 is also coming down, last year it was 55% it used to be 60% and then 65% so dependence is coming down on the Q3 and this year again I think the dependence will come down, going forward if you see another three to four years the dependence on the profits on Q3 will further come down.

Sanjay Kaul: And a suggestion that if you cannot keep 15% to 18% growth do not give a guidance we do not want to have explanations at the end of the year as why it is not, you think you inaudible 23:14 15% give a guidance of 10% and achieve it**,** but instead of giving guidance of 15%-18% margins are going down, discounts are going up, so you think you cannot do 15%-18% stick to 10% to 12% guidance no problem at all, do not bring it down then afterwards.

Sandeep Jain: First of all, I apologize for the guidance of 15% to 18%, but we were actually hoping that we should have this guidance achieved, but somehow it could not be achieved, but going forward I cannot say 10% when we are again hoping of 15% to 18% and it is not that we failed our guidance every year. From the last four years we are maintaining the guidance. It is just the last year that we skipped it by 3%, but we are very hopeful that this year we would meet our guidance.

Sanjay Kaul: Thank you.

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

Deeban Shankar: Yes. Thanks a lot for the opportunity. Sir one thing wanted to understand this as we said that the preference of people shifting towards cotton jackets more than sweaters during woolen period so do we have any margin difference between this cotton winter wear versus woolen winter wear?

Sandeep Jain: Fortunately we have a little better margins in cotton winter wear as compared to woolen wear so that is the advantage for the company and the shift is basically as the preferences of people are changing and they are shifting to jackets, sweat shirts, so it is a fashion, which is changing, so I think as far as total winter wear category is concerned it constitutes of woolen sweaters, sweat shirts, jackets so that categories are interchanging, but overall the category is growing.

Deeban Shankar: And one more thing what I wanted to understand is the competitive positioning for us we are quite strong in woolen wear and mainly particularly woolen sweaters and all so, but if people are shifting more towards cotton jackets and how is our competitive position and how are the competition in these segments?

Sandeep Jain: I think the one area, which is not having much competition, which is casual jackets, sweat shirts as far as we compare with other brands. There is a competition in the formal suits segments, which we are not present right now, so I do not see any further competition increasing in this particular category where we are operating and where we are increasing our revenues every year.

Deeban Shankar: Receivables have increased quite sharply this year so any particular reason?

Sandeep Jain: Because sales have also gone up, accordingly receivables have also gone up and there is some delay.

Deeban Shankar: Other than the sales growth?

Sandeep Jain: Yes, I know so there are some delayed payments also where we charge interest from our agents.

Deeban Shankar: It will be back to normal from Q1 onwards?

Sandeep Jain: Will be back to normal in this financial year.

Deeban Shankar: Sure, Sir I will come back. Thank you.

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

Priyank Boricha: Thanks for taking my question. Sir my question is in the year FY2018 we have increased our NCS from 141 to 283 so how do you estimate this revenue to come from this segment and the online segment in the next coming years?

Sandeep Jain: NCS and on online they are contributing almost around 10% of our revenues and going forward I think the revenue mix should be around 10% to 11% only because this is one area where we are not putting much emphasis as it is SOR basis sale or return, so we are putting much emphasis on the outright basis, which is MBOs and EBOs.

Priyank Boricha: Sir even though we have almost 42% increase in the number of stores of NCS we would see 10% only contributing to revenues?

Sandeep Jain: Yes, because these stores have been added in the areas where we can sell the summer wear, so that is the reason these stores have been added in this year.

Priyank Boricha: So, they are majorly for summer wear?

Sandeep Jain: Yes, for increasing our summer sales we have added these outlets.

Priyank Boricha: Sir my next question is as you said in the south and western region you had some issues with the distributor, so now you have changed the distributor are there any other strategies to penetrate those markets and what can we see from that region in our revenues as a mix?

Sandeep Jain: One change, which we have made this year was that earlier we used to have the booking, which was happening through distributors and they just go and visit different retailers and sometime they are venue booking, but this year we are planning to have one big venue booking in southern region where a company is holding and tied up with the resource to invite everyone from the southern region to have the booking over there, which should increase the company's revenue as far as southern region is concerned in the summer wear this year.

Priyank Boricha: Just to get back to the followup question on one of the colleagues asked about the margins, so we were doing around 20% margins before FY2017 and from FY2017 we are down to 13% and 15%, so what are the challenges to come back to that margin and when do we see we really reaching a level of 20%?

Sandeep Jain: I think it again depends on the economic growth of the country, because if you see and if you compare with other brands also everybody is experiencing increase in discount sales, so when discount sales are more every year definitely it will put pressure on the margin not only for us but for everyone and if you see discount sales are less this year then the margins will improve, but again it is very early to say about that, but we hope that we should maintain these margins going forward.

Priyank Boricha: This one in the sense 15% FY2018 margin correct?

Sandeep Jain: Yes.

Priyank Boricha: Sir but even the input prices are going up if you see cotton and wool, then how will you maintain the profitability of 15% to 16%, how do you plan to maintain that since the input prices are going up?

Sandeep Jain: For increase in Input prices we are hiking our product prices also, so input is not an issue, issue is the discounting sales, but when the volume is increasing and the value is increasing the overhead comes down, so it helps us to maintain our margins.

Priyank Boricha: So, we have taken a hike this year?

Sandeep Jain: Yes, we have taken a hike which is 10% from the volume growth and 5-6% from the price.

Priyank Boricha: I will get back if I have any other questions. Thank you.

Moderator: Thank you. The next question is from the line of Kunal Patel from Equiligence Capital Advisors. Please go ahead.

Kunal Patel: Thank you for the opportunity. My question is during Q3 concall Mr. Jain said that Q4 is likely to be better than Q4 of last year and it was mid of February then, so what went wrong after the concall and was second half of last quarter was particularly very bad as compared to first half?

Sandeep Jain: Yes, I think you are right, when we were on the concall for the Q3 we were very optimistic that this year the discount level should be less as compared to last year because we were seeing that the consumption is increasing, and the economy is improving, but actually it did not improve that much on the ground actually the discount increased in the Q4, which actually impacted the margins so that was accurately. We were not anticipating, but it happened in the Q4.

Kunal Patel: So particularly in second half of last quarter it went bad?

Sandeep Jain: No, fourth quarter the discount sales have increased as compared to last year that impacted the margins basically.

Kunal Patel: Sir my second question is how much of capital is employed in your home furnishing and kids segment if you can tell me?

Sandeep Jain: Home furnishing is a zero-capex business because it is all trading business. We import from different countries and then we sell it in India, these are our exclusive designs, so only working capital is involved.

Kunal Patel: What about kid's segment?

Sandeep Jain: This segment also is all complete outsourcing, so only working capital is involved in this segment as well.

Kunal Patel: Any reason why we were not able to increase our sales in kids segment particularly?

Sandeep Jain: Kids segment our sales have increased. The sale was 19.96 Crores last year this year it is 21.78 Crores.

Kunal Patel: Sir for my third question, I am coming back to the question, which earlier participant asked regarding debtor days, so it has gone up from 92 days to 110 days, during last concall we were very sure that we will recover most of our debtors in Q4 so why there is a delay in the payment is that because of there is some issue with the system or if you can just elaborate on that?

Sandeep Jain: I think because the industries were bit slowed down, the retail sales are not happening that much so, that is why the debtors have increased, but now we are pushing all our agents and distributors to pass on the payments and as you see that in next six months we should see the improvement by the steps we have taken in last three, four months, so you should definitely see the improvement in next six months as far as debtor position is concerned.

Kunal Patel: Sir my final question is regarding your advertisement cost, in Q4 your advertisement cost has gone up significantly as compared to last year so any particular reason why it has gone up in this particular quarter because your strongest quarter is December, so I would assume that you will spend the most of your advertisement expense in second quarter of every financial year?

Sandeep Jain: No basically it is the summer advertisement, for which the dispatches have been earlier this year so that is why the advertisement also happened earlier as compared to last year because the dispatches started in February itself this year, so that is why the advertisements have been preponed as compared to last year.

Kunal Patel: Any full year guidance for advertisement expenses?

Sandeep Jain: We maintain the same guidance of 3% to 4% of our revenues.

Kunal Patel: Sir if I can squeeze in one more question, your other expenses have come down in this particular quarter, although it is not very significant, but if you can just tell me more about it?

Sandeep Jain: Yes, the other expenses have come down by around 6 Crores, out of that 5 Crores is because of advertisement only.

Kunal Patel: I will ask it offline. Thank you so much.

Moderator: Thank you. The next question is from the line of Raghavan Rajkumar from Share Giant. Please go ahead.

Raghavan R: Sir during the last quarter our brand Rock-It did quite a good sale; however, during this quarter there is no mention of this brand, if you can please guide us how do you see the future regarding that?

Sandeep Jain: We are very positive as far as future is concerned, it was a online channel launch, which we did last year just to test it that how people react to the sportswear brand from Monte Carlo and the response was good, so now we are putting up in the offline channel as well because the response has been generated from some retailers, some other Shoppers Stop stores also and also Pantaloons has this year tied up with Rock-It putting up 20 outlets at the

Pantaloons, so I think this year actually the response of Rock-It will come as compared to last year because last year was just a test launch for online sales only.

Raghavan R: Sir your advertisement cost has gone down in this full year compared to the previous year so what is the reason for this and what is the company's strategy going forward regarding the advertisement cost?

Sandeep Jain: We have saved on the production cost to produce the ad film, we used the last year's production film in this year as well that saved the cost for this year's advertisement expense and secondly, we also not believe in zero sales advertising, so whatever is required as per guidance we get from our distributor agents accordingly we go for advertising rather than advertising, which is central based advertising.

Raghavan R: So, Sir if you can also guide us of the future strategy how you are going to revive the growth in the long term in three to four years? For the long-term strategy of the growth perspective like there are hiccups in the business, but in the long term three to five years how do you perceive to be the growth to recover?

Sandeep Jain: Yes, I think now some of the issues, which have been there with us like the demonetisation, GST before that we have been growing 22% CAGR from last 10 years, so these two years we had came down to 15% and 12% this year, so I think now as we see that some of the things and with GST coming into picture, which should increase business in organized segment as compared to unorganized so we see that the growth of 15%-18% should not be challenge for us going forward in three to five years.

Raghavan R: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ashwin Agarwal from Ashmore India. Please go ahead.

Ashwin Agarwal: I just wanted to ask the question if you consider the cotton clothing, which is also worn in winter season like jackets and sweat shirts, etc., then what is the percentage of your revenues, which is still winter season revenue?

Sandeep Jain: If you see Q3 revenues it is almost 40% comes from the cotton categories on jackets, sweat shirts and balance come from the sweater, so that is the revenue mix of the Q3 the winter wear category.

Ashwin Agarwal: So, the entire December quarter sales I should take it as winter wear sales is it?

Sandeep Jain: Yes, so October to December is basically a winter wear sale, but also, we sell T-shirts, denim shirts, trouser, stoles and shawls, those categories also in this quarter.

Ashwin Agarwal: Yes, I get it, but my whole question is that if you see your revenues as whatever 560 Crores as your non-textile revenue out of that what percentage is winter wear I mean is it 40%-45% what is that number work out to in your calculation?

Sandeep Jain: I do not have a complete figure with me, but I can mail it to you.

Ashwin Agarwal: And the other concern you know some of the other participants have also asked I mean you are in a situation where you are expanding your footprint into south India into west India and central India you are introducing new products like Rock-It in that environment how do you think about actually decline in advertising sales is in the engine to drive your sales so why the advertising expense coming down, that kind of appears a little counter intuitive to me?

Sandeep Jain: There is no reduction as far as distribution cost is concerned, it is only because this year we have not produced the film, we used last year film, so we saved on those accounts for summer and winter, so last year's TV campaign film was used so next year again when we produce a new film again the cost will go up.

Ashwin Agarwal: So next year we should expect the advertising expenses to go up as the cost of producing a new film?

Sandeep Jain: Yes definitely.

Ashwin Agarwal: If discounting you are saying is become more of an industry trend led by online that is something that we just have to leave it there is nothing that can be done?

Sandeep Jain: Yes because it has come a trend overall everybody actually goes for discount sales just when season is one or two months over like in this year as we entered into May the season started in February 15, 2018 and the most of the brands have gone for mid season discount sale although we have not started, but all the brands if you go to any of the brands their mid season sale is already started in the May first week that shows that the discounting sales is actually picking up and the customers also like preferring the discounting period in getting the goods.

Ashwin Agarwal: Are you looking at any new product introduction like suits you mentioned you were not present there I mean ethnic wear is somewhere you are not present at this point I mean are you looking to extend into those directions as well?

Sandeep Jain: I think this year we added one more segment, which is economy sweaters in name of clock & Decker, so earlier we were only selling premium sweaters in Monte Carlo, but this year we have added sub brand “Clock & Decker”, which is a economy segment sweater I think they will do well going forward.

Ashwin Agarwal: Thank you. All the best.

Moderator: Thank you. The next question is from the line of Ankit Kedia from Centrum Broking. Please go ahead.

Ankit Kedia: Sir just wanted to know what percentage of our sales is actually discounted and could you actually give a quantum of discount season wise or annual level or woolen segment, cotton segment wise to get an understanding how it seems to be in about three-year period, three years back what was the discount level and today what is the discount level?

Sandeep Jain: See this is now we have to divide it into three areas basically when we go for MBO sales we do not be at any discounts it is only in the EBO, LSS and online. We bear the discount part so that sale is almost 65% of the sales, 35% comes from the MBOs, so the 55% of the sales the average discount of that total sales comes around from 22%-23%.

Ankit Kedia: So, 23% is discounting?

Sandeep Jain: Discounting sales of the total sales, which happens on the percentage of sales.

Ankit Kedia: On 55%, 23% is discounted sales?

Sandeep Jain: Yes.

Ankit Kedia: Sure, and how much would that discount have increased say over last three years, could you throw some number to that?

Sandeep Jain: That we can check it up and let you know if you can just give us your e-mail address and all we can pass the information to you.

Ankit Kedia: Sure, and Sir is that the reason why despite our store network our EBO counts not increasing substantially, our share of revenues from EBOs have increased over last three, four years?

Sandeep Jain: No, last year actually we have not increased our EBOs the reason being was that because we were adding national chain stores also, but this year we are adding around 20 to 25 EBOs in this financial year, so you would see our EBO's touching 260 from current 240.

Ankit Kedia: Right Sir, but our revenue contribution from EBOs you know if I look at say from FY2015, which used to be around 36% has become 42% while our count has not grown substantially in the same percentage, so is discounting the factor predominantly via EBO where we do not discount the share?

Sandeep Jain: Discount happens in EBOs as well as MBOs also, but in MBOs we do not bear any discounts, we do not have any discounts sharing with them, but the sale of EBO as a percentage of total sales have grown as compared to last two years to around 42% as you rightly said.

Ankit Kedia: So, Sir why has that happened so in the sense that same store sales in the EBOs is increased significantly what are we doing to attract that footfall while our store count has not grown?

Sandeep Jain: There has been a 14% same store growth, which happened in EBO last year.

Ankit Kedia: Sir just wanted to know on competition, while you said discounting happens so, who would be your predominantly competitors because our segment is such where we do not have any national competitor present it would be more unorganized players or more few regional players who would be your competition so with them being given our brand should not we have some pricing power where we would not discount our product significantly?

Sandeep Jain: No, we cannot have the goods sold on MRP when every brand in the mall is selling on discounts, the only thing you can do is that you can definitely have your prices higher as compared to other brands because nobody is actually matching your quality and the product as far as woolen sweaters are concerned, but when the discount period is there, when a customer comes to your showroom when everybody is offering a discount we have to offer the discount to catch the sales.

Ankit Kedia: Sure, but it is not like because competition is discounting heavy we are doing is because probably other brands and other categories of cotton products are doing in our store we are forced to keep the discount for increase in walk in?

Sandeep Jain: More conversions basically if I can say.

Ankit Kedia: Sir who would be your major competitor for woolen segment currently?

Sandeep Jain: We are competing with Benetton who makes wool sweaters, then we are competing with Madura brands also, we are competing with Raymond also in the market.

Ankit Kedia: Sure. Thank you so much Sir.

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

Zaki Nasser: Sir, the question is regarding your expansion into the south, what group would you prefer, would you prefer the route of a shop and shop or would you want to have standalone stores that is question number one and as you mentioned our competition is with Raymond, part of Madura brands and as you aware their network of stores is in compare to Monte Carlo pretty large, so how would you look at that aspect of it?

Sandeep Jain: Correctly understood your question, you mean to say that balance between the shop and shop and EBOs?

Zaki Nasser: Yes.

Sandeep Jain: See this year we are opening around 25 shops and shop with the leading MBOs to increase our sales, at the same time we are adding 20 to 25 EBOs also, so that is how we are going forward in this financial year.

Zaki Nasser: Thank you and about how do you plan to face competition like, the people like Raymond, people like may be Indian Terrain they also come out with different category, so suppose they come out with winter wear and for some reason their reach is far beyond, do you think that you would want to increase your ad spend in that segment to retain our edge as a premium winter wear company?

Sandeep Jain: They are already in winter wear like the Raymond and Indian Terrain they are making sweaters, they are making winter wears, but we have not been able to gather that market share because of some of the limitations because sweater is not easily to produce, it goes through 35 processes and it is actually very complex way to produce the sweaters that is why we have edge over the years, but going forward definitely they are also competing with us and they are increasing their presence in Northern India also if I talk about Indian Terrain and Raymond, so they are providing competition to us, but we had been able to tackle the competition from last so many years and we are confident that we will be able to do that in the future as well.

Zaki Nasser: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Kunal Patel from Equilligence Capital Advisors. Please go ahead.

Kunal Patel: Sir, thanks for the opportunity again. My question is regarding your strategy for increasing our profitability in rest of the quarters, 45% of your revenue in Q1, Q2 and Q4 contributes only 20% of the profit, so what is our strategy to increase our profitability or margins in those three quarters?

Sandeep Jain: I think again this is the same question, which was asked before also. If we compare five to six years, the profit distribution is increasing in favour of other quarters also as compared to, it used to be third quarter only we used to generate all the profits, but now it is coming down, so going forward also I say the same thing that we dependent on third quarter the revenue and the profit is reducing every year and this year also 2% reduced.

Kunal Patel: If I look at your competitors, your competitors are actually looking decent profit in these three quarters where most of the sales are cotton related sales, so why we are not able to show the similar numbers?

Sandeep Jain: I think if you compare the competitors on the annual basis, we are making the average of 15.7% operational EBITDA, the competitors, which we are like information available with us, the Madura makes around 9% EBITDA, Raymond makes around 7% EBITDA and it is only the KKCL, which has equivalent EBITDA or more EBITDA than us, otherwise all the competitors, which we are mentioning actually having the lower EBITDA, so if we compare the annual basis, but if we compare the second quarter and the fourth quarter, fourth quarter definitely we are hurt more because we have revenue, which comes from the third quarter, actually some of the goods go into discount in the fourth quarter and that actually impacted the EBITDA in the fourth quarter, otherwise second quarter also if you see the profitability it is almost I think last year we made in the first six months the profitability was around 18 Crores PAT.

Kunal Patel: Fair enough. Sir my last question is regarding your use of cash, we have been talking about some acquisition, but you have not been able to find the right candidate, so what is the strategy now, do you plan to reward your shareholders with dividends or buybacks or something, do you have any such plan?

Sandeep Jain: I think nothing has been discussed in the board as far as buyback or anything is concerned, but that space is again I would say that the right opportunity is not available that is why the cash has not been utilized. Unless and until we have something, which gives value to our shareholders and we get the brand or product at right price we definitely go for that.

Kunal Patel: Sir, till when will you sit on cash and wait for the right opportunities, it has been more than six quarters now, so I am just wondering when do we plan to use this cash?

Sandeep Jain: Unfortunately, I do not have a clear answer of when will be able to utilize this cash, but again I will say that unless and until we find a suitable opportunity, we will not go for acquisitions.

Kunal Patel: Fair enough sir. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Shah from Centrum Broking. Please go ahead.

Ashish Shah: Sir, thank you for taking my question. Sir if you look at the EBITDA margins that we have got this year and if you look at what they were five years back then they are significantly lower and even this year while YoY EBITDA margins have expanded, we have seen some expansion in debtor days, so over the next three to five years do we see the fact that we are now going to stay in such EBITDA margins with such credit period or we are going to go back to where we were five years back, where we see the debtor days going to 60 to 70 days and EBITDA margins going to 18% plus and importantly how do you see this happening, if at all you see that happening?

Sandeep Jain: I think two areas where you should see improvement this year one is a debtor level, we are very confident that the debtor level, the number of days will come down this year it will be seen in the next two to three quarters and secondly as far as EBITDA margins are concerned we have said earlier also that we should see that if we would have a stable EBITDA margin as compared to last year, whatever we made last year we should see same going forward also.

Ashish Shah: Sure, the way I understand is that what we have seen now over last year or sort, which is this band of 15% odd is what we are more likely to sustain over the next couple of years, is that the right way to look at it Sir?

Sandeep Jain: Yes, I think we will be able to sustain the last year's margins.

Ashish Shah: And Sir likewise on the receivable days, we had a spike this year while you are guiding that we will go down if again if you go back in time over last four, five years they were far significantly lower than where we are today, so do you see that reverting back to that, the debtor days going back to something like 70, 80 days or again we will just go back to last year levels?

Sandeep Jain: The debtor levels have gone up because of sales and there were some delayed payments also, so those things have been taken care of now, so going forward we will see the number of debtor days will come down.

Ashish Shah: Sir, one last thing on the competitive intensity, how do you see that what is going to tilt in our favour or against us over the next two to three years?

Sandeep Jain: I think because we have our own ESP of established brand particularly in the Northern and Eastern market, so already we have got a very good retail space, which is available with us, which is not going to go away from us and also the brand equity is very strong and we also introduced Clock & Decker economy segment, which will take some cheer from the unorganized markets, so these things will going up ever as far as the growth is concerned.

Ashish Shah: Sure. Thank you very much Sir.

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

Dinesh Gogna: This was the annual conference for the annual results. Since there are no further questions, we think that now our investors have nothing in their mind to enquire again from the management and if you have any question in your mind you can always shoot out an e-mail to us and we will immediately come back to you and thanks to everyone who spared your time and interact with the management for the real working of the company. Thank you very much. Have a nice day.

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