"Monte Carlo Fashions Limited Q4 & FY20 Earnings Conference Call"

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ANALYST: MR DEVANSHU BANSAL – EMKAY GLOBAL FINANCIAL SERVICES

MANAGEMENT: MR SANDEEP JAIN - EXECUTIVE DIRECTOR – MONTE CARLO FASHIONS LIMITED
MR DINESH GOGNA – DIRECTOR – MONTE CARLO FASHIONS LIMITED
MR RISHABH OSWAL - EXECUTIVE DIRECTOR – MONTE CARLO FASHIONS LIMITED
MR R.K. SHARMA – CHIEF FINANCIAL OFFICER – MONTE CARLO FASHIONS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to 4Q & FY20 result Conference Call of Monte Carlo Fashions Limited hosted by Emkay Global Financial Services. We have with us today Mr Dinesh Gogna – Director, Mr Sandeep Jain- Executive Director, Mr Rishabh Oswal – Executive Director and Mr R. K. Sharma – Chief Financial Officer, representing the Company on the call. 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 an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr Devanshu Bansal from Emkay Global. Thank you and over to you, Sir!

Devanshu Bansal: Good afternoon, everyone. I would like to welcome the management team of Monte Carlo Fashions Limited and thank them for giving us this opportunity. I would now hand over the call to the management team for the opening remarks. Over to you, gentlemen!

Sandeep Jain: Good afternoon, everyone. It is a great pleasure to welcome you all on this earning conference call to discuss our Q4 and FY20 financial performance. Thank you for sparing your valuable time and joining us here today.

In the unprecedented and continuously evolving situation arising out of COVID-19 outbreak we hope all our stakeholders, customers and suppliers are taking enough care to ensure the safety of oneself, family and in general ensuring the spread of the virus is curtailed.

Before I briefly share the financial performance for Q4 and FY20 and developments during the year, I would like to update you all on the business continuity post opening up of the lockdown since April 21, 2020.

Complying with the government directives regarding the nation-wide lockdown, Monte Carlo Fashions Ltd also had temporarily closed its manufacturing facilities, corporate office and retail stores from March 23, 2020, onwards. In-line with government's safety and the security norms for COVID-19, the Company's offices, factory's and retail stores are now operational and are currently operating at around 70% capacity utilization. The company continues to work with its business partners across all channels, i.e. Company-Qwned Company Operated (COCO), Franchise Owned Frnachise Operated (FOFO), National Chain Stores (NCS), Large Format Stores (LFS) and Multi-Brand Outlets (MBO).

We have taken various measures to take care of the livelihoods of workers and their safety and security. The company has emphasized on providing medical facilities to workers inside the factory premises, and sanitization and fumigation in the whole factory. We have ensured that employees of our clearing and forwarding agents and distributor's frontline field force are observing necessary safety precautions.

Monte Carlo continues to enjoy a comfortable net cash position, and its medium-term liquidity needs are well covered. With adequate banking limits in place, its ability to service debt and financial obligations on time remains unaffected. While the safety and well-being of our employees is our priority, we have given utmost importance to incident management and stakeholder communications. All departments are in constant touch to take inputs and to ensure business continuity.

The Company's product development team in May 2020, launched a new range of products in the healthcare segment, i.e. face masks (3-ply mask, KN95 mask and N95 mask) and personal protective equipment kit (PPE), considering its shortage and massive demand from the medical workers and the general public.

Moving on to the financial performance, the total revenues for the fiscal year 2020 stood at Rs 726 Crores as compared to Rs 656 Crores in FY19, recording a growth of 11% year-on-year. During Q4FY20the company reported total revenues of Rs 110 Crores that is a 14% increase over the Q4FY19 revenues of Rs 96 Crores. The company reported a gross margin of 47.2% and EBITDA margin of 17.1% in FY20. For FY20, the profit after tax stood at Rs 63 Crores as against Rs 60 Crores in FY19, a growth of 5% year-on-year. The total online sales have gradually increased to Rs 25.5 Crores in FY20 from Rs 20 Crores achieved in the previous financial year. Our own portal sales have grown to Rs 5 Crores in FY20 from Rs 4 Crores in the previous financial year. The cotton segment contributed around 59% to the total revenues, and 22% contribution came from the woollen segment. T-Shirts, Shirts and Cloak & Decker forms a significant share in cotton segment category. Home textiles and kids segment continue to grow at a healthy rate.

Monte Carlo has zero reliance on exports and has a presence in the domestic market across India with an extensive distribution network. Good credit terms with our suppliers help us operate the business smoothly. The company has always been focused on a digital transformation journey to enhance customer engagement and emphasize to drive sales through its own portal sites.

The COVID-19 pandemic followed by the nation-wide lockdown has impacted the company's operation. The last 10 days of March and the first fortnight of April 2020 witnessed significant disruptions in the operations of the company. Considering that the situation is unprecedented and is changing dynamically, we are planning production based on the estimate of demand. The company is trying to ramp up the capacity further as early as possible. We continue to evaluate the impact of the pandemic as the situation evolves. We are not in a position to gauge with certainty the future impact on the Company's operations, but expect that there shall be an adverse impact in FY21 in the first half due to the economic slowdown and lower demand. However, our strong presence in winter wear market along with a well-diversified product portfolio across ranges will help us to minimize the impact of COVID-19 for the full FY21.

The company has implemented stringent cost control measures across the organization to conserve cash to address any evolving situation resulting from the pandemic. The company can sustain robust growth without any significant CAPEX and is fully geared to withstand the challenges as the situation unfolds on the back of its financial and operational strengths.

We can now open the floor for the question and answer session. Thank you very much.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vivek Ganguly from Nine Rivers Capital. Please go ahead.

Vivek Ganguly: I just wanted one clarification on your balance sheet. There are these two new items there, one is about the Rs 75 Crores right-of-use, and the other is lease liability of Rs 70 odd Crores, so where do these come from and if you can just explain that, that is very helpful?

Sandeep Jain: Rs 75 lakhs is a write-off, which we considered the bad debt, which the company is not going to receive from its one of the retailers and as far as Rs 70 Crores lease liability is concerned it is basically the Ind-AS impact on the lease rent, which we give to the malls and other high street shops, so that is basically only Ind-AS impact, which is considered as like assets in case of the rents, which we pay on the lease.

Vivek Ganguly: No, so I was projecting to the Rs 75.9 Crores right of use assets?

RK Sharma: You are talking about right-of-use assets?

Vivek Ganguly: Yes.

RK Sharma: This is as per the Ind-AS 116 implementation we have to capitalize all the rental properties, and this is the asset, which is Rs 75 Crores. The equivalent amount has been set aside for the liability also, so this is the Ind-AS 116 requirement, which all the companies are required to maintain.

Sandeep Jain: Financial impact is nothing.

Vivek Ganguly: Yes, got it. Thank you.

Moderator: Thank you. Next question is from the line of Dipan Shankar from Trustline Portfolio Management Services. Please go ahead.

Dipan Shankar: First I wanted to understand in the Q4FY20 the south region has degrown by 28% so any specific reason for that or full year it has degrown by 28%?

Sandeep Jain: After March 15, 2020 retailers did not take any deliveries and that happened for south also. As most of the delivery in South is basically in the last week of March, retailers did not took the deliveries before that. After the lockdown, we are stuck with more than Rs 32 Crores of inventory, which is lying in our godown, which was to be dispatched to various parts of India. Out of that around Rs 3 to 4 Crores was for South. So if we include that figure in the south, it would have even crossed the last year figure by around 5%.

Dipan Shankar: Last year full year cotton growth seems to be slowed down to 6% level; any specific reason. Full-year numbers, please?

Sandeep Jain: The reason is same, we are stuck with around Rs 30 Crores of material, which was ready to be dispatched from March 20, 2020 to March 31, 2020. If we add that figure it would have grown to around 12% to 13% in case of cotton categories also, so the reason is only the lockdown because of that the dispatches have not been made.

Dipan Shankar: Also if I see last two to three years numbers, our EBO and COCO has not been growing. COCO and MBO have been growing in double-digits, but COCO is still growing at 8% CAGR for the last three years, any specific comments on that segment?

Sandeep Jain: If we talk about the revenues of, you are talking about the EBOs and MBOs separately?

Dipan Shankar: Yes, EBO that mainly that franchise-owned, franchise operator EBO.

Sandeep Jain: I will give you the detail of the growth of last year and last to last year also. First, I will talk about this financial year. The overall growth in the exclusive business outlet was from Rs 270 Crores to Rs 290 Crores, it could have been Rs 305. Still, again the reason is same, so the growth was around 10%. If we consider the goods which were to be dispatched but could not dispatch, and if we take out the company-owned outlets the growth is again coming to around 8%, so the growth is there. Due to the lockdown, the dispatch could not be made in the last week of March.

Dipan Shankar: So even if I am looking at last three year period FOFO growth has been lower than COCO and MBO, so that is where specifically I wanted to understand; so are we working more on FOFO so what is precisely happening over in that segment?

Sandeep Jain: No, I need to check the figures of last to last year also, it is not available with me right now, but I have asked my finance department I think they will collect it in other 15 to 20 minutes. I will come back to you with the growth figures of FOFO in last three years.

Dipan Shankar: Finally, how is your expectation this year on winter season as our orders started to, how is that picking up?

Sandeep Jain: See basically now there are two kinds of problems. One is that we could not have our tradeshow in Delhi, which was scheduled on March 24, 2020 and we had to shelve it when the lockdown happened;

so, in that case, we invited our EBOs, online, LFS and other channels, but the MBO booking could not happen. MBO bookings we are now doing it in various parts of the country by sending our samples. However, still it is taking time because of some restrictions on the travel, some restrictions on some containment areas so the booking is still not come to us, but we have estimated that our production levels will be around 70% as compared to last year, so whatever winter wear we produced because we have got the summer products with us, it is just the estimation, so with estimation only we have studied our production. We planned everything around 70% of last year's what we have achieved in the winter category.

Dipan Shankar: Okay, thanks a lot. I will come back to you.

Moderator: Thank you very much. Next question is from the line of Keshav Garg from Counter-Cyclical Investments. Please go ahead.

Keshav Garg: Sir I want to understand that in last five years our operating profit is flat at around Rs 124 Crores whereas our receivables have doubled from Rs 120 Crores to Rs 250 Crores, so what is the reason for this and when will we break out of this range.

Sandeep Jain: I think you have asked a very good question. See the reason for increasing the receivable was that the model is completely changing from the last five year to this year. Mostly we were doing with MBOs at that point of time, so MBOs receive the goods and make the payment immediately, but as our business has progressed so the other channels like SIS and large format retail and the online sales channels and more of the EBO, which are doing consignment sales have added. so when all these have been added, they only give the payments when they actually sell the products, so that is why the receivable it is showing more as compared to last five years; As far as profits are concerned, if you see what is happening in last five years is that after the advent of online channels and all and the discount, which is going up every year that is definitely hurting not only Monte Carlo, but everyone in the industry. So as the discount is going up, still we are able to maintain at least our profitability in case of I would say that in all the channels, but definitely the impact of discounting of returns is also there in the balance sheet from if we talk about 2015 and 2020.

Keshav Garg: When will we break out of this Rs 125 Crores operating profit range?

Sandeep Jain: This is a question definitely I cannot answer in this particular year because there are so many challenges and very difficult economic environment. Our first priority in this financial year is to cut down all the unnecessary expenditure, all the bad expenses and just to survive ourselves and do better than others, that is what actually our focus on this financial year is, because we have still not aware about how this situation will improve in the coming few quarters. We are reading that the Corona cases are increasing every passing day, so clarity is not there as far as this particular financial year is concerned.

Keshav Garg: So our woollen is around less than 25% of our total sales, and what I want to understand Monte Carlo brand is only for woollen or cotton, etc., also non-woollen non-winter wear also we are selling under Monte Carlo brand?

Sandeep Jain: Monte Carlo brand is for the company's product, so whatever we sell in our EBOs, in MBOs, in SIS and in LFS all the categories comes under Monte Carlo. Besides that we have one economy brand, which is called Cloak & Decker, which only serves to the economy segment. We also have one more brand Rock.It, which is our sportswear, sports apparel brand, which is a very different category altogether, but 90% to 95% of the sales are being contributed by Monte Carlo brand itself.

Keshav Garg: Sir but do not you think everybody knows the Monte Carlo as a winter wear brand. It has got enormous brand equity in that segment, so now if we start selling even non-winter wear under Monte Carlo the brand will get diluted because let us say that Gillette now if starts selling soaps, etc., under Gillette brand, so the brand will get diluted because it stands for only shaving, so similarly do you not think that we should just at least can sell non-winter wear under some other brands, what do you think about this?

Sandeep Jain: See Monte Carlo is a brand for the lifestyle apparels. So when we talk about lifestyle apparels, it covers winter wear as well as summer wear. I will give you a very fine example of how the other categories have grown. See at one point of time, 100% revenue was contributed by Monte Carlo brand only in the sweaters category if I talk about 2002-2003; now you see that in last 16 to 17 years the contribution from woollen categories has been restricted to or came down to around 23%. Hence, the non-winter categories and the non-sweater categories basically contributed almost 80% of the revenues of Monte Carlo that shows the strength of the Monte Carlo that how the brand image, which was created by Monte Carlo in the woollen sweater was passed on to cotton T-Shirts, cotton Jackets and other categories, which kept on growing and they have grown at a such an extent that now they contribute more than 75% sales of Monte Carlo.

Keshav Garg: So if that is the case then why do we make a loss in March and June quarter if non-winter wear also if we are able to sell then we should be making a profit in all quarters?

Sandeep Jain: See the reason is that there is EOSS End Of Season Sales, which usually happens in summer i.e. in June, July, August and in winter it happens in Jan, February, so that is the time because we do almost 60% to 62% of the sales in the third quarter by winter wear categories and that goes on discount in this January and February period with huge volumes. So you have to see Monte Carlo as a yearly revenues brand; we cannot compare our quarter with other brands quarter because their business model is different, so you need to see how we have grown in one financial year and how our profits are and how our EBITDA is, so that is the best way to see Monte Carlo as a brand.

Keshav Garg: Okay, Sir, thank you very much.

Moderator: Thank you very much. Next question is from the line of Mihir Desai from Desai Investments. Please go ahead.

Mihir Desai: I was just looking at the presentation and what I noted is that in Q4 our online sales have grown, so do we see as a structural change in the industry, and we thus see this line of segment expanding going forward, just wanted to take a view of your side?

Sandeep Jain: I think if we talk about the fourth quarter and also in this quarter, the online sales are actually growing more than any other channels, the reason being is that the people are still fearing to go out in public, go out in the market, go out in the malls. So when they know the brand, when they have used the product earlier, they better sit at their home and order the product to be delivered at their home. That is how they feel very safe without going out and buying the things, which they need the most. So definitely the answer is yes, the online sales will definitely outgrow other channels in this financial year as well because most of the people who are like if I talk about the old age people, so they are presently not required to venture out from their homes because there is so much fear outside. They prefer to sit at home and order the product, which can be delivered safely at their home addresses, so that is why the online sale is growing. We will grow this year as well.

Mihir Desai: Sir, actually even we were also trying to grow and focus on the online, so basically, we are growing in a good pace that is commendable, which I notice. Other than that one question on the finance cost, the finance cost has been increased, is this only due to COVID impact, just wanted an insight from you?

Sandeep Jain: No, there are two, three reasons for that; one is the Ind-AS impact which has actually increased our finance cost, and the second reason is we did a buyback also last year, last financial year, so that was a cost of Rs 55 Crores, which also went from the working capital, that increased the working capital limits to an extent and which increased the finance cost, and third the inventory and the sales have also increased as compared to last year, so there was the usage of more working capital as compared to the previous year. These three reasons basically contributed to the increase in the finance cost.

Mihir Desai: Just wanted an outlook on cotton, so currently I do understand that the demand revival is the key point, but apart from that the going or the lower fuel cost and will that help us to further and at least be at a stable gross margin what we achieved in FY20?

Sandeep Jain: If we talk about only the fuel cost, I do not think it is going to affect much to us because we do not use it much. We depend on the electricity which is being transmitted by the state electricity boards. Still, when the fuel cost is lower, it helps the economy, which in turn helps improve the customer sentiments and which definitely helps to improve the GDP.

Mihir Desai: Sure Sir, if I have more questions I will join the queue.

Moderator: Thank you. Next question is from the line of Sreeraman Hemant from Bearing Advisors. Please go ahead.

Sreeraman Hemant: Just have a few questions on the longer-term trends in the business that you are seeing, you made an interesting point on buyer behaviour specifically on more online purchases. How do you see the post COVID world; do you see more purchases to move online permanently?

Sandeep Jain: I do not think so. There are a set of customers who would like to go to the shops, feel the fabric and see in front of the mirror and see how it looks to them and then they change it. Then there are customers who prefer to sit at home who wants to feel a little safer as they are more prone to diseases and also do not like to venture out. I think there will be an increase in the online sales because some of the people will change their mind to go to the shops, but I do not think that it will hurt the physical channel sales and the reason being is that if we compare our EBO sales in the June 2020 particularly this financial year, we are already doing around 70% of the sales, which we are doing at pre-COVID level so that shows that even the fear is there in the mind of the people, still people are coming out at the stores and buying the products. I think the fear will also go away as the time passes because naturally when you start stepping out of the home the first day, you are very fearful, but once one month is passed, two months are passed you become habitual to it and you know that you have to live with the disease and you have to adjust yourself, you need to have some protective equipments so that it does not hamper your work. So I think as the time will pass, definitely the fear will be less as compared to now and definitely, the physical sales will start rising. It has risen from the last 15, 20 days as compared to May and the online sales definitely will improve more as compared to last year because the reasons I have told earlier.

Sreeraman Hemant: Got it and today it is at 3% to 4% of sales, let us say five years from today what would be your estimate of how much online share would be as a percentage of your revenue?

Sandeep Jain: We see 8% to 9% of the sales coming from this channel in the next three years.

Sreeraman Hemant: Interesting, got it. The second question is on the customer profile, the primary outreach channel for your business is multi-brand outlets. I am wondering if you could share some insights on the customer demographic and when I say customer I mean the ultimate buyer and do you track that closely?

Sandeep Jain: I did not understand your question can you please repeat it.

Sreeraman Hemant: I leave the personal example, so I am a buyer. I am the ultimate consumer of your product. Now I might be buying your product through a multi-brand outlet or an exclusive brand outlet. I am just wondering if as a company you track the customer profile itself closely in terms of who is the customer, what is the kind of demographic and why do they come to you versus say going to other outlets?

Sandeep Jain: See that is being applied at our exclusive outlets where we have a privilege customer program and where we have information as well as the demography also that from where the customers are coming. But it is not possible in case of MBOs because at MBOs we do not have any of our software installed over there. It is their software and they actually deal with the customers, so customer comes to them and they show them different products and customer buy that, and we do not come to know except what we have sent to them and what they have sold. We can get the data from them that this much of Monte Carlo products have been sold in different categories, but the customer profile is not shared by MBOs to us, but in large formats, yes we do come to know.

Sreeraman Hemant: I am assuming that even through the online channel, you would have slightly more insights?

Sandeep Jain: Yes, the online channel we do know everything about the customers.

Sreeraman Hemant: Thank you very much. I am going to get back in the queue. All the best.

Moderator: Thank you very much. Next question is from the line of Gautam Gupta from Nine Rivers Capital. Please go ahead.

Gautam Gupta: Unfortunately COVID happened. Otherwise, I think Q4 this year has been really good for us. I think all the accounting changes we made has also started showing, that was one positive sign that kick on. Just had a few questions on the accounting side. The employee cost has been up by about 17% year-on-year, I just wanted to understand has there been more hiring at the manufacturing side or what has kind of driven this cost?

Sandeep Jain: I think that is again it would have been around 15% if 30 Crores have been added to the sales, which was not done in the last week of March, so the percentage would have come down in the earlier it has gone up. I think the sales have also increased if you see the sales are increased by 11% and if the dispatches would have happened in the last week of March so it would have been almost similar as compared to the previous year in percentage terms.

Gautam Gupta: The absolute rate from about 59 to 69 Crores is more wage hike driven or more headcount expansion driven if I can ask that?

Sandeep Jain: No, it is basically the large format stores, which have been added, so we have employed additional people over there which was lesser in last financial year and this financial year gone up.

Gautam Gupta: Yes, and that makes sense, understood, fair enough, so that is clear now. Sir, now in terms of the inventory levels that we would have, because of the COVID impact when we talk to brand, such as yourself, we usually see two strategies: some brands say that we will hold on to the inventory and will launch it in the next season. Some brand says we may go for discounting and liquidate it, our thinking on this front, what route do we plan to take?

Sandeep Jain: There are two things in that, one is the inventory, which is entirely in set wise, shade wise and sidewise and second is assorted inventory. Assorted inventory will definitely be selling in this financial year only because it has been already dispatched to various SIS, MBOs, EBOs and LFS also. Some of the inventories lying with us and still we have around two months of summer, which is left with us, definitely I think that will be liquidating those inventories. Still, some of the inventories, which is set wise, will be taking in, there are some festivals like in south there is Pongal and all in West Bengal, Odisha. in Bihar, there is a Pooja. So we are keeping that merchandise definitely for those regions and then if you talk about the shirts and trousers that we would be using in the August, September and October period and Diwali period in northern and eastern India.

Gautam Gupta: I know it may be a little too early to say but in terms of discounting do we expect a higher discounting level in FY21 to get customers back to the stores?

Sandeep Jain: I can certainly say for the summer because when we started it, the morale of the customers and the economy was very, very low so we could not sell it on MRP. We have to start with the discount and still discount is there in all the channels. It will only increase going forward so in summers definitely, we will be facing more discount pressures as compared to last financial year summer, but winter, I am not sure about that. I would like to throw some light on the winter part. See first of all in Ludhiana there are many hosieries, which do not have the workers right now so the production level of those hosieries, which used to be 100 pieces, if I take it for an example, it has come down to 40 or 45 pieces. So the problem in the winter is, because of nonavailability of workers, which have gone to their native places because of the wrong polices of government, so the production could not happen for many of the hosieries who are here in Ludhiana, but fortunately for us, we are running around 80% of our capacity right now and we are producing around 70% what we produce 75% what we produced last year in that case. When the availability of winter wear would be less at the retail stores all across India, there will definitely be more demand. Brands like Monte Carlo which has a strength in winter, in that case its more products goes on the fresh sales there might be a chance that we have lesser EU assets because of lower stocks because of no previous stocks lying in this store and because of not many brands are able to produce the winter goods on time. That gives us a chance to sell our merchandise most in fresh than as compared to last year and then lesser in discounts as compared to last year that is our presumption right now and seeing the conditions of the hosiery industry in Ludhiana.

Gautam Gupta: Thank you, Sir, that is a very nice perspective for us. Sir two more questions if I may ask one was where do we see opex cost optimization opportunity in advertising side or any of the other areas that if you could get some color on how much we can reduce the fixed cost buying for the first half given that it will be a slow first half for us?

Sandeep Jain: We have taken various steps in the company to reduce the expense size, first of all, I would like to talk about we have taken the salary cuts across the company, which will save us around approximately 3 Crores in this financial year, then the full financial year impact will be 8 Crores as compared to last financial year. We would be saving at least 15 Crores in advertising cost in this financial year as compared to the previous year. We are negotiating with all the rentals with all the mall helpers and all other shops where we are having, will be saving around Rs 3 Crores to 4 Crores in that case also. We are also working on the expense side as well on how to cut down the expenses when we know that the sale is going to go down because the production is less. I think if we manage whatever we have discussed in our expense side, I am 99% sure this will definitely help us in maintaining the margins.

Gautam Gupta: Sir last question we mentioned about the PPEs, the masks and PPEs that we are making wanted to get a sense of how material this can be in terms of sales how much of the sales shortfall could be made up from this or is it more of a CSR thing right now?

Sandeep Jain: No, it is not a CSR; it could be a profitable venture for Monte Carlo. Basically, we have gone for two product lines right now, one is the three-ply mask, which is very common and very popular, which sells around in the market at around Rs.10 and secondly if we have gone for N95 and KN95 and this is a specialized mask, which is a five-layer mask. We have already imported the machines, the productions have already started, so we assume that this financial year we should do a turnover of around Rs 12 to Rs15 Crores out of this mask line.

Gautam Gupta: Is it retail or more to institution?

Sandeep Jain: There are two models for this, we will be selling in our own retail channel also and secondly, we have appointed some distributors who are having the medical line so it will be selling through the chemists also and thirdly will be selling to the institutions, which are the government tenders and also to some hospitals.

Gautam Gupta: Great Sir, thanks a lot for the detailed answers and wishing you all the best for the coming year.

Moderator: Thank you very much. Next question is from the line of Aditya from B&K Securities. Please go ahead.

Aditya: Sir I have two questions, one is what is our current year Capex plan, and the other question is how has the business been so far in the first quarter of FY2021?

Sandeep Jain: The first question: the CAPEX is approximately Rs 10 to Rs 12 Crores in this financial year, last year it was 24 Crores, so we have cut the CAPEX to half for this financial year. Second is after COVID there was definitely a slowdown in the economy. We witnessed that at our retail outlets also, but right now if I talk about on this date from last 15 days the business has picked up and in EBOs when I speak about barring Delhi, which is most affected Corona state in India, the business has touched almost 80% of the last year sales in June. Still, in Delhi, because people are not able to come out of their houses because of so many containment zones, so many shield streets, so Delhi we are witnessing only 20% to 25% of sales as compared to last year, which is previous financial year June sales.

Aditya: Okay, Sir that should be from my end. I will join back in the queue.

Moderator: Thank you. Next question is from the line of Zakir Nasir, an individual investor. Please go ahead.

Zakir Nasir: I think Monte Carlo has turnout a decent performance for the last year taking into account that last 10, 15 days loss of production and although the pandemic has been a human tragedy. I think as you mentioned that by winter season things should get back to normal, keeping that in mind you said that your production line is working at 70% capacity, so do we assume that Monte Carlo will do at least like 75% to 80% of the topline it did last year. That is my question number one, question number two is this year you had a reduced dividend even though their profits and slightly higher than March 2019, so do you think would this be an exception because of the nature of this year and you will get back to your dividend policy to previous levels once things improve, that is all Sir?

Sandeep Jain: FirstI come to the dividend part. I think you would appreciate that the kind of situation India is and all the companies in India are facing, the future is uncertain. So every country, every company would like to conserve cash for any problems which can come in the future as well. Still, the company has thought that it should reward its shareholder even though everyone is talking about conserving cash, cutting down of expenditure. However, the kind of situation we are in, still the company went ahead and gave a dividend of 50%.The company has continued the dividend policy, which it has been doing from last six, seven years and the one year, which the company did not give dividend, we did a buyback of Rs 55 Crores where the promoters did not participated. We are very concerned about the shareholders wealth and that is why we have gone ahead even in this difficult times. Can you tell me your second question, please?

Zakir Nasir: You said your production facilities are running at 70% to 75% capacity now, so is it safe to assume that you will do at least 75%?

Sandeep Jain: Basically what happened was our winter season production normally starts in the month of February. We completely lost two months of production from March 21, 2020 to May 21, 2020, so that production we cannot produce and scondly workers availability is still a challenge. We are trying hard to get those workers back, the workers have not reached Ludhiana yet. The demand from some of the EBOs are higher as compared to last year. still, we will not be able to produce more than 70% to 75% of the orders, which we delivered last year, so production is basically more constraint than anything else.

Zakir Nasir: Can it be assumed that you will do at least 70% of the turnover of last year. Sir, like in the previous year we did 725 Crores so 625 to 650 would be safe to assume?

Sandeep Jain: It is challenging to comment at this point of time, but I think you can assume it as I have given you the figure of the productionso you can work out those figures very easily. It is not prudent from my side to give any figures right now for the next financial year.

Zakir Nasir: Suppose things come back to normal before the winter which things should be, do you think our third and fourth quarter should be equivalent to last year if you are able to ramp up the production also.

Sandeep Jain: The winter goods are very difficult to produce, in case of winter garments the time required is around six months. So even if it becomes normal it will require from one end to another end at least 90 to 120 days to reach to the end of the product. Hence, the cycle is very large, but again as we have estimated that we should be able to sell this much of quantity, we should be able to produce around 70% to 75% of last year's winter goods, which we did last year. So we can safely assume that the company should achieve that kind of turnover in this financial year.

Zakir Nasir: Your imports from China, you were importing some blankets and some of the home textile kind of products. What is your view on that and have you change your country for those products because definitely there is kind of resistance for Chinese goods, your opinion on that?

Sandeep Jain: It is very difficult to change instantly and to place orders to any other country because right now no studies are being made, which are the good producers and who can give us the same price, which we are getting from China. So biggest challenge is the price, there are many countries which produce blankets, but the price is not comparative odd, so we are only buying from China right now, but yes the import has been reduced to 60% of the levels as compared to 100% of the levels last year, but there are chance if the situation improves we can further import in the August and September, Still, it is not possible in case of sweaters and jackets, but right now we are targeting 60% of the blankets sales, which we did last year due to the current prevailing conditions in the country.

Zakir Nasir: I was just reading somewhere that the only clothing or consumer who wants to buy because of the lockdown is a T-Shirt or a track pant or of course a sweater would be an integral part of things. Hence, I think Monte Carlo is well placed to in the textile segment in India, what is your feel right now? You would be interacting with your EBOs and your retailers, what is your feeling of the market right now?

Sandeep Jain: I think when the lockdown opened, the only thing which we were selling at our retail stores were T-shirts and lowers only, so we are well placed to service that demand. We do not have stock left with us, as particularly for lowers there is so much demand in the lockdown, particularly because people were only wearing lowers at that point of time. They did not have much, I would say that the quantities were less with them. So when the lockdown ended, the first thing they bought is the T-shirts, the lowers, those kind of regular category which they wear at home. Definitely yes, the lower demand and T-Shirt demand has gone up as compared to last year, the shirts and denim trouser demands have actually come down in the month of May and the first 15, 20 days of June.

Zakir Nasir: Any plan of getting into innerwear Sir?

Sandeep Jain: No, not right now.

Zakir Nasir: Thank you Sir.

Moderator: Thank you very much. Next question is from the line of Apurva Mehta from AM Investments. Please go ahead.

Apurva Mehta: Sir, can you just let us know that did you see witness any stress on the collections during this COVID?

Sandeep Jain: Fortunately in our business at this present moment we do not have any default arising out of this COVID cases, but, yes there are some delayed payments for which we have given some extension for two to three months, but we do not see any defaults right now particularly for Monte Carlo brand.

Apurva Mehta: Can you give us the breakup between fresh and end of season sale kind of thing, last year what we did was fresh and end of season breakup. Can we have some ballpark figure?

Sandeep Jain: We can only talk about the EBOs because we do not get the figures from the MBOs, so it is not relevant for our brand, but EBO it is around 40% to 45% in the fresh.

Apurva Mehta: Can you give a ballpark figure for woollen last year and impact on costing?

Sandeep Jain: The price of cotton and woollen both have come down, but already the production has been planned for this financial year so we would not have much effect as far as this season is concerned, but it will definitely have more effect in the next season.

Apurva Mehta: Thank you, and I wish you all the best.

Moderator: Thank you very much. Next question is from the line of Bhaskar Choudhary. Please go ahead.

Bhaskar Choudhary: I just wanted if you could just explain the difference in the profitability profile and the working capital profile of your online and your offline businesses?

Sandeep Jain: You were talking about the working capital?

Bhaskar Choudhary: Working capital profile and the margin profile as well.

Sandeep Jain: There is a difference in online and MBOs, SIS and EBOs, the difference of margin is 3% to 4%, online is lower. The MBOs, SIS and EBOs are higher, but in LFS it is again 3% to 4% lower, and the working capital involvement in online is not that much because it contributes only 4% of the sales.

Bhaskar Choudhary: Sir but for that 4% relative to the percentages what is your inventory level and what are your debtors?

Sandeep Jain: Basically we sell on market place model where we have to keep the inventory with them, so it is same like in LFS or in EBOs. Also, the model is not different from EBOs and LFS.

Bhaskar Choudhary: So on a return of capital basis, how would businesses be different?

Sandeep Jain: See the return of capital in MBOs are the best because we do not have any sales return from that channel; then come to the SIS, then come to the EBO and then come to the LFS and online.

Bhaskar Choudhary: Thank you, Sir.

Moderator: Thank you very much. Next question is from the line of Riddhima Chandak from Roha Asset Managers. Please go ahead.

Riddhima Chandak: Sir, as 59% of our revenues are from cotton segment, do we see any downtrading happening over there or any bill size increase or decrease so can you tell us?

Sandeep Jain: When we talk about the cotton segment, it is not only the summer segment, it is basically around 70% of the winter segment. When we talk about sweatshirts, when we talk about jackets, it comes under the cotton category. When we talk about the tracksuits in winters, so basically the cotton category comprises of around 70% of the winter category and 30% of summer categories. So summer category when we talk about, it is T-Shirts and Shirts. Trouser and Shirts and Trouser Denims also comes in the winter season also, so if we say 59% contribution by the cotton category out of that mostly, it will come in the third quarter. Hence, I think that in the third quarter, we would not be much affected in the cotton categories as compared to other brands.

Riddhima Chandak: Is there any downtrading happening currently. As you said that in T-shirts and lowers there is a huge demand, I thought as many people are currently working from home, is there any downtrading happening as compared to our previous levels, pre-COVID levels?

Sandeep Jain: Downtrading means?

Riddhima Chandak: Means people are buying cheaper products than the premium products, say, earlier they bought Rs 500 worth clothing now they are buying Rs 400 or Rs 350 like this?

Sandeep Jain: I think in one way you are correct because when the economy is down, and the purchasing power also comes down, there have been cut in the salaries, there has been an increase in the unemployment, there has been a downtrend in the economy so people would prefer to buy lower price product as compared to higher price product. So I would say, yes in some of the cases where these kind of situations happens, the first thing which comes to the mind is saving the money which everybody does, but again there are specific customers who are called upper premium and who are not that much affected as compared to lower middle class. They do not mind spending money for the good value product.

Riddhima Chandak: Currently, what is our average realization per se as of now and how much is their volume growth we achieved during the quarter or in the last financial year FY20?

Sandeep Jain: Woollen category it was 13 lakh pieces in last financial year March 2019 and this year it is 12 lakh pieces, so it is almost 6% to 7% down, and in case of cotton categories it was 47.6 lakh last year, this year it is 49.71 lakh, so the growth of around 6% in categories, but this growth would have been around 10% if we could have got the last week of March also, so overall is around 5.65%, 5.2% for full financial year.

Riddhima Chandak: As we said that we already restarted at 70% production level, so in the cotton category as you said that 49.71 lakhs you achieved last year in FY20, so how we assume in this financial year that it could be reduced by 10% or say 15% any thoughts on that?

Sandeep Jain: When I said 70% it was only for the winter categories that constitute the summer categories as well, so we have entirely lost the sales of April and May. Hence, it is tough to project right now for summer categories. still, for winter categories the production plan for this financial year is 70% as compared to last year and the summer for next financial year would be more than previous year summer because by the time we reach in March, April and May next financial year everything will be alright. So only the difficult time I believe Monte Carlo will face is June and July only. Post that because we have upcoming winter season, then upcoming summer season, I would say that it would be better as compared to last summer as by that time the economy would be definitely reaching around 2019 levels and there would be more demand as compared to the previous year.

Riddhima Chandak: Our Inventory is Rs 216 Crores, so how much in this is woollen and cotton in terms of value?

Sandeep Jain: I need to have to see the breakup for that, I do not have right now with me. The total inventory is Rs 216 Crores, but I think the winter portion in this is approximately around Rs 80 to 90 Crores, which we have freshly produced for the next financial year and balance is summer category.

Riddhima Chandak: One last question Sir, as our CAPEX plan is almost Rs 10 to 12 Crores for this financial year. Out of that, we imported machines from the respective country for the mask manufacturing, so how much we invested there in the Rs 10 to 12 Crores?

Sandeep Jain: Approximately Rs 3.5 Crores has been invested in the mask making machines.

Riddhima Chandak: So that investment is made in the previous financial year?

Sandeep Jain: This financial year.

Riddhima Chandak: Okay, Sir, thank you so much.

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

Sandeep Jain: Once again thank you very much to all participants. If there is any query, which is unanswered or if there is any further query you can mail us or Dickenson World, our Investor Relations Agency.Thank you very much. Stay safe.

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