

Monte Carlo Fashions

Q2FY17 Conference Call Transcript

Moderator:

Ladies and gentlemen, good day and welcome to Monte Carlo Fashions Q2 FY2017 Earning Conference Call, hosted by Emkay Global Financial Services Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameep Kasbekar from Emkay Global. Thank you and over to Sir!

Sameep Kasbekar:

Good morning everyone. I would like to welcome the management of Monte Carlo Fashions and thank them for giving us this opportunity. We have with us today Mr. Sandeep Jain – Executive Director, Mr. Dinesh Gogna, Director, Mr. Sharma, CFO, and Mr. Jassar, who is in charge of the Corporate Finance role for the group company. I now handover the call to Mr. Dinesh Gogna for his opening remarks. Over to you Sir!

Dinesh Gogna:

This is the second quarter of conference call, which we are going to attend though the market is in a topsy-turvy. Everybody knows this, but the side effect actually in the share market in being witnessed only because of the changes in the country whatever is going on, but anyway these are all temporary affects. It will bounce back and so far as Monte Carlo is concerned, I will request Mr. Sandeep Jain who looks after the entire business operations and everything of Monte Carlo. He will give a brief idea and he will address you on this side also. Mr. Sandeep Jain.

Sandeep Jain:

Good morning and hello everyone and welcome to the conference call of Monte Carlo Fashions Limited for the second quarter and first half of the financial year 2016 and 2017. It is a great pleasure to greet you all once again on the behalf of all our board of directors and the senior management.

We will begin by thanking all of you here by sparing your time in joining us today. At Monte Carlo, we continue with our endeavor to build a leading branded apparel company. Over the years, we have successfully spread our horizon and rectified our business operations.

We have created a comprehensive range of woolen, cotton, cotton blended, knitted and woven apparels, and home furnishings to some of our renewed under our umbrella brand Monte Carlo. One of our key strengths is wide and growing distribution network with diversified presence across India.

We have presence through 2200 plus multiband outlets, 233 EBOs, and 169 national chain store outlets. Majority of our net revenues comes from NBOs and franchise EBOs where we primarily sell on preordered outright basis. By virtue of this business model, there is no major inventory risk and we remain adequately protected from normal hazard of branded apparels business.

Talking about our financial performance during the quarter and first half of this year, our first half financial 2017 revenues from operation remains stable on year-to-year basis at 199.82 Crores. Further I would like to highlight excluding the sale of raw material, which is cotton and yarn, our adjusted revenues worth 162 Crores as compared to 161 Crores last year and our gross margins improved by 177 basis points at 61.1%.

Analyst:

Mr. Sameep Kasbekar
Emkay Global Financial Services Limited

Management:

Mr. Sandeep Jain – Executive Director
Monte Carlo Fashions

Mr. Dinesh Gogna – Director
Monte Carlo Fashions

Mr. Sharma – CFO
Monte Carlo Fashions

Mr. Jassar
In-charge Corporative Finance
Monte Carlo Fashions

Overall, growth outlook is stable due to good visibility on the order book. Our first half financial 2017 EBITDA without other incomes decreased by 6.3% at 33.9 Crores on a year-to-year basis. Our EBITDA margins were 16.9%. This was primarily due to increase in advertisements and marketing expense, which increased to 14.2 Crores as compared to 10.5 Crores on a year-on-year basis.

Our H1 financial 2017 PAT increased by 2.2% to 15.44% on year-on-year basis, our PAT margins improved by 38-basis points due to moderating depreciation cost and a stable interest expenses.

The current strategy is to establish a brand visibility on a Pan India basis along with increased focus on Southern and Western India. Though the increase in advertising and marketing expense should be seen only as an investment, which would lead to long-term benefits of enhancing our overall brand recall. However, our endeavor will be to restrict the advertisement expense up to 5% of total revenue for the full year. During the current quarter we opened seven new EBOs with the focus on Central and Western regions. We opened stores in Mumbai, Aurangabad, Hubli, and Jamshedpur. No major capex is planned for the next two years. Therefore, positive operating leverage expected as a production gain scales during the course of this year.

We plan to diversify our pan India presence by penetrating further into the Central, Southern, and Western regions of India. We have already made an encouraging beginning towards this goal. We are strongly focused on optimizing asset utilization, quality, efficiency, and relationships. With this we once again thank all of you for having spared your valuable time and joining us here today. We now open the floor for question and answer session. Thank you very much.

Moderator:

Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Deepan Shankar from Trustline PMS. Please go ahead.

Question and Answer Session

Deepan Shankar:

Good morning Sir. Thanks a lot for the opportunity. Just want to understand what is the kind of wool price increase witnessed over the last quarter and what proportion of the same is we expecting should be passed on to the customer.

Sandeep Jain:

See wool price increase is not that much. Basically, whatever we plan we plan the production in the month of March and April itself, so the prices are fixed at that point of time. Even if it is an increase of due to 4% during the year, we are excluded because we planned our purchase well in advance that is almost six months before we start the booking at the production, but anyhow the wool price there has been an increase to a small extent, but it is not affecting us because of prebooking of the raw material also.

Deepan Shankar:

Sir we have read that this Australian farmers losing interest in the sheep rearing, which might keep woolen prices firm in future also. So on the one side we are seeing demand muttered and on the other side raw material prices are coming up. So structurally are we are seeing woolen margins to decline over the next few years?

Sandeep Jain:

Actually now the trend is shifting towards woolen and woolen blended garments also. So woolen blended garments the price has not gone up. Yes to some extent woolen it has gone up, but I do not think it is going to affect us because we have been able to pass on the price increase every year, but this year being an exceptional year because last year was a little bad year because of the high stocks, which was there with the retailer, so I think this was one off season, which we

have some less booking as compared to last year, but I do not think this problem is going to continue because now we are seeing a very good season ahead. Definitely there have been some problems because of what happened last week by demonetization of Rs.500 and Rs.1000 note. Otherwise, we were doing very well in October and November first week if we see the year on year sales figure of October and November at our own retail outlets.

Deepan Shankar:

Sir how are we expecting this winter this year as follow up to good monsoon. So could you throw some light on order book? How has it performed over compared to last few years?

Sandeep Jain:

As I said in October we have grown in our same stores sales growth also. In November first week also there has been very good response as far as winter sales are concerned, but suddenly after the season, which was announced by our Honorable Prime Minister after that there has been a cash crunch in the market. So because of that the flow to all the retailers not only to our brand, it has come down because of certain panic in the market, but I think every passing day, the situation is improving, so we see that once we have another seven to eight days, the situation will improve and I think that the retail sales I do not think it will grow aggressively, but yes it will improve as compared to last week.

Deepan Shankar:

The order book, which would have been already placed right?

Sandeep Jain:

The order book already dispatches have been made. Now it is more of country sales, which will happen on our EBOs and all MBOs.

Deepan Shankar:

Okay that order book has grown you mean to say?

Sandeep Jain:

The order book has been flattish because of the last year sales was not good in winter wear.

Deepan Shankar:

Thank you. I will come back. Thank you.

Moderator:

Thank you. The next question is from the line of Dhruv Agarwal from Cresita Investments. Please go ahead.

Dhruv Agarwal:

Good morning Sir. My question is regarding your source of wool as a raw material. Is it more of a domestic or do you import from outside.

Sandeep Jain:

No it is 100% imported.

Dhruv Agarwal:

100% imported and what is the source of the market.

Sandeep Jain:

It is Australia and New Zealand we import the wool.

Dhruv Agarwal:

Okay Australia and New Zealand. I missed some part of your conservation so the prices will not see a much upside. Your raw material prices for wool will be stable going ahead. Is that what we can assume?

Sandeep Jain:

Yes definitely.

Dhruv Agarwal:

Okay and also because you are now a big player in the cotton and readymade garments so how are cotton prices playing on your P&L?

Sandeep Jain:

The cotton prices have not increased as compared to last year. So it is almost stable. It has gone to 2% to 3%.

Dhruv Agarwal:

Okay 2% to 3% so that is the margin and what is the backup inventory that you keep off for wool and cotton as a raw material?

Sandeep Jain:

See both the inventories like before we go to the booking we book the raw material and then only we go for booking. So we are insulated as far as one season is concerned.

Dhruv Agarwal:

Okay as per the main your December quarter is concerned you are insulated for that.

Sandeep Jain:

Yes.

Dhruv Agarwal:

Sir when balance sheet question at your short term half yearly borrowings it was around 30 Crores in F12016 and now it is showing as 125 Crores. So any reason for this increased short-term borrowing?

Sandeep Jain:

We have to compare year-on-year basis because ours is a seasonal product so you cannot compare the March 31st borrowing quarter and borrowing with the September borrowing. It has to be compared with the September borrowing of last year to this year.

Dhruv Agarwal:

So you mean to say that it will come down by the end of this financial year the short-term borrowings will again come down?

Sandeep Jain:

Yes definitely.

Dhruv Agarwal:

Thank you so much.

Moderator:

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

Sameep Kasbekar:

Good morning. I just we understand on your woolen segment our numbers from Q2 was slightly weak, so is this because of inventory pending in the system.

Sandeep Jain:

Yes dispatches come in the October itself, so there was a little delay in the seasons. So that is why the sale of woolen was less in September quarter and it will pick up in October, November, and December quarter.

Sameep Kasbekar:

So we maintain our growth guidance in terms of our woolen and cotton wear or is there any revision for it?

Sandeep Jain:

I think the guidance at this point of time depends on the liquidity in the market. Of course we were maintaining our guidance, but after November 9th it was panic in the market where I think everybody knew the reasons, so I do not need to go much into details, so we need to see by November end and December 15th how this market recovers and how this liquidity improves and what are the government actions, which can improve as far as liquidity crunch in the market is concerned, so then only there will be more accurate positions to answer this question and answer this question.

Sameep Kasbekar:

How are we doing in our newer geographies? We have expanded into vest in south and even central. So I am presuming this is mostly for the cotton wear. So how are we doing in that division?

Sandeep Jain:

As we said earlier also that in south we would definitely continue to grow around 40% to 60% year-on-year basis, so we are well on track because our base is small. So that growth is definitely there are on the cards even this year also.

Sameep Kasbekar:

Sir because if I look at second quarter cotton numbers they were slightly muted so any particular reason? Are we are seeing some hurdles in demand in these regions?

Sandeep Jain:

Basically there is a seasonal variation so dispatches to winter actually happened last year in September. This year it is happening more in October. So that is why the revenues are flattish, but again I would like to say that the dispatches have been made. Now more it depends on the sundry sales, which will happen only EBOs and MBOs. So those countries sales definitely I think we will need to see how much the decision by our honorable Prime Minister, which was taken on November 9 will affect the sales because of the liquidity now in the market. So again it is very difficult to say at this point in time and will be more in position to say once we have retained this number and inventory on November 30.

Sameep Kasbekar:

My last question this EBOs, the seven EBOs you have opened are they company or are they on franchise model?

Sandeep Jain:

They are franchise model.

Sameep Kasbekar:

That is all from my side. Thank you Sir.

Moderator:

Thank you. The next question is from the line of Dharmesh Shah from ICICI Securities. Please go ahead.

Dharmesh Shah:

Thanks for giving an opportunity. Sir you have talked about the demonetization sir just wanted more clarity from an industry perspective what could be the impact and whether this will have an impact for quarter or six months if you guide or if you are having any on the ground feedback from your marketing team that will be helpful.

Sandeep Jain:

As we all know that India is basically cash based economy where the cash sales are happening across all industries. So definitely garment retail was one of the areas where lot of cash transactions happen. People were not using that much of credit card or debit card, but fortunately in our brand we have seen in our regular channel, the consumption of debit and credit card is approximately 50%, so we will not be that much affected as some of the other industries where the cash transaction in grocery is almost 80% to 90% in consumer good segment, but still it is very difficult to say at this point of time that how much affect will be there overall business scenario because the people are more of frightened out going for their usual needs of the households to fulfill it first then I think the other things will happen. So I think another 15 days are very crucial so the question I think I will more happily answer once we have the November 30 figure in our hands.

Dharmesh Shah:

Sir because of this any impact on consumer sentiment for spending?

Sandeep Jain:

Pardon.

Dharmesh Shah:

Because of this thing will there be any impact on consumer sentiment for spending?

Sandeep Jain:

Definitely. I think that the consumer good sales should come down because of a lot of sales where happening through cash sales and if you see if you see even on online website 60% of the component was cash on delivery. So all this will be affected, as cash is not available in the market. So if we do not have cash definitely the cash sales is going to go down. Initially the more of the efforts would be to go for the urgent needs of the households then only further spending will happen. So this might delay the spending for another 15 to 20 days.

Dharmesh Shah:

Thank you Sir.

Moderator:

Thank you. The next question is from the line of Anand Krishnan from Kotak. Please go ahead.

Anand Krishnan:

Good afternoon. I just wanted an update with respect to the shoe licensing that you actually did with some other local seller. So, what is the update on that? What sort of sales has it started doing and what is the traction on that.

Sandeep Jain:

Can you please repeat?

Anand Krishnan:

The shoe segment that

Sandeep Jain:

Yes shoes are getting a little delayed and I think the further update we can do it only in December second week.

Anand Krishnan:

Okay its not yet been launched as such?

Sandeep Jain:

Not yet launched.

Anand Krishnan:

Thank you so much.

Moderator:

Thank you. The next question is from the line of Sunil Jain from Aditya Birla. Please go ahead.

Sunil Jain:

Good afternoon Sir. Two things Sandeep Ji, one is that in terms of the immediate cash crunch now you see that in this week it is expected that the lines at the ATM and all that will be lower and people have adequate cash for spending now, but my question to you is in terms of their spending for say December, so a person who wanted to buy some woolen garment or basically any spending that he wanted to do now he has the cash but has the sentiment or the urge to go and buy and spend that money do you think that will come down in the next one or two months because ultimately this one or two months will be very crucial for your product that is one, and secondly a little bit of crystal grazing based on your linkages with all the national chain so typically discounting starts from 1st January onwards but there was one news in the Bombay that Shopper's Stop is actually discussing that we should delay the discount season this year, so what is the thinking or feedback that you have from the market?

Sandeep Jain:

I agree this Sunil Ji, that the consumer sentiments are down right now, even if they get the cash in next five to seven ten days but the sentiments are not they have to spend it immediately because the first priority would be to go for the household needs and the most essential things to purchase then only I think the discretionary like spending on other items will happen. As far as a discounting by the Shopper Stop are concerned I think discounting only happens when you see the stocks are more as compared to last year, so it is very early to say at this point of time that anybody who going to start the winter discounting season in November itself because I think any decision of discounting might happen once we have in November end season, if the people see the inventory at least stores are higher as compared to the last year season so that panic discount season may happen but that is again too early to comment on that and every brand has their own strategy to start the discount but as far as Monte Carlo is concerned we do not have any plans to start any discount in November this year.

Sunil Jain:

Sir November I think is the prime season so you never start obviously in November but the article which came is typically retailers look for 40% prime and 60% discount and if people were finding that also under pressure so that is stock too much discounting actually happening and we should delay the discounting that is what this article A from Shopper Stop was saying, so all retailers can actually come together and say that boss, we are having too much of discounting even brands are feeling the pressure so let us delay the discounting because virtually 15-20 days of prime sales is actually been eaten away?

Sandeep Jain:

Yes, you are right Sunil Ji but I do not think that retailers have the unity among themselves. Everybody just see their business strategy and definitely so it is very difficult to like talk to retailers and make a platform where a decision can be taken, we have tried earlier also but nothing happens, everybody they more concerned about their operational level performances.

Sunil Jain:

The other one question I wanted to ask Sandeep Ji in terms of employee cost why that has every quarter we see employee cost going up little, little why is that so?

Sandeep Jain:

Employee cost I think if you see the year-by-year I think last year it is almost same, its only that the increment which happens a 10% year that goes up and the production which has started last year the same production we are doing this year also but the increment which happened in the April itself so that actually got one reason, which increases the employee cost.

Sunil Jain:

No Sir, last few quarters you were saying that you are bringing some production in-house and because of this the employee cost has increasing so now this year now it is same as last year there is no further in-housing of the production?

Sandeep Jain:

No further in housing it is same as last year so overall employee cost will be like increment cost only will increase otherwise it should remain same.

Sunil Jain:

Thank you.

Moderator:

Thank you. We have follow up question from the line of Sameep Kasbekar from Emkay Global. Please go ahead.

Sameep Kasbekar:

Sir just had a quick question. If I look at our mix year-on-year it has significantly moved in favour of home furnishing whereas the woolen mix has come off, however you have seen a sharp improvement in our gross margin and with price increasing so is there anything you can read from it?

Sandeep Jain:

See I think the six months figure does not have the figures of full financial year so basically the Q3 figure which will actually decides about the categories and about the contributions so we need to see the Q3 so I think is a figure more or less will remain same as far as woolen cotton categories are concerned cotton category is going to grow more than the woolen so its contribution will increase and home furnishing contribution will remain almost flat as compared to last year it may go up by 1 to 1.5 basis points.

Sameep Kasbekar:

Sir but in this quarter if I look on year-on-year basis that is versus Q2 of 2016 there has been about a 230 BPS improvement in our gross margins whereas our mix has actually deteriorated if I look from year-to-year so is there any particular reason for this, how are we manage to improve our gross margins?

Sandeep Jain:

Again what I am saying is that the home furnishing business has improved as far as EBITDA and gross margins are concerned but there has been a slight decline in the margins in case of

woolens and cottons because of higher advertising cost, if you see it has gone from 10 Crores to 14 Crores but that is one of itself, because that ultimately the advertising spend will be 5% year-on-year, which was last year also so sometime the advertisement spends happen in first quarter and second quarter and third quarter it is less, so in this quarter the advertising spend was more as compared to last year that is why it has reduced the margins of the woolens and cotton category but in next quarter which is this quarter which is coming on again we will improve our margins.

Sameep Kasbekar:

That is all from my side. Thank you.

Moderator:

Thank you. We have one follow on question from the line of Sunil Jain from Aditya Birla. Please go ahead.

Sunil Jain:

Sandeep Ji could you just comment on the working capital situation from September 2015 to September 2016?

Sandeep Jain:

Net working capital it was 303 Crores in 2015, which has increased to 349 Crores this year again the reason was the debtor level has gone up because of delayed payment and the inventory has gone up as compared to last year and that inventory will come down in this Q3 itself.

Sunil Jain:

No but inventory actually has gone up significantly?

Sandeep Jain:

Yes, before the dispatches have been made in October not in September, so by the Q3 like December 31, we will see the actual inventory is going to come down as compared to last year.

Sunil Jain:

And has all the receivables of Winter 2016 been recovered now these are all the new receivables?

Sandeep Jain:

No there are some pending receivables of winter last winter year also but their percentage has come down lot.

Sunil Jain:

More than six months receivables will be how much, if you can say that how much was it in FY2016 and how much is this in September 2016?

Sandeep Jain:

I can check up and within another five minutes I can give you the comparison.

Dinesh Gogna:

It is about 2.5 Crores. It is approximately 2.5 Crores or something which is the one party which has now it has come down. It is one person who had delayed the payment because of some reasons or something because there was some grievance in the family and so many other things. But anyway he has started paying and we have absolutely no doubt about his credit worthiness. He will pay it off. This is the main question my auditor also asked me. Let me tell you, just believe with me, what I am saying is my auditor is asked us, it is not my local auditor, so in case you know if they are not satisfied about the intention of the payer they would certainly comment in

their reports. So because this party incentives there was some genuine problem with that party and which has now he has overcome that and he is regularly paying up.

Sunil Jain:

This 2.5 Crores you are saying by now is down?

Dinesh Gogna:

Yes, it is quite substantially it has gone down though it has come up again because you know now the dispatches have already started.

Sunil Jain:

But regular business is happening with him.

Dinesh Gogna:

Yes, regular business is happening he is the biggest seller of our product.

Sunil Jain:

Okay. The other one thing I wanted to ask on de-monetization like now almost like 150 Crores is outstanding from market so do you expect some pain on the recovery because of the demonetization?

Dinesh Gogna:

Demonetization in any case will effect, the recovery in the business like as the model which we have so it is not like a we are not dealing in cash or something, it is all against supply and the payments is secured earlier also it is used to be secured by cheque, post-dated cheque or the bank guarantee now also it will be secured by that so those people who secured the payment like by giving you the post-dated cheques and other things so the other money demonetization note, yes, I agree with you the parallel economy which was going on in India it has been very badly affected. So it is not the state economy because there are two types of economy working in India one is for the white money, one is the black money so when we are working especially for white 100% so there is no question of our being affected of course as Sandeep Ji has explained to you, yes the buying is free, that will be comparatively I mean I also assume this because within the period down the line for one month people will be having the cash with them, they have already changed or they will be in the process of changing a money but only thing is psychologically they were so much affected, because it is not something very easy to digest. The Honorable Prime Minister has taken an action but want to give a large effect this everybody knows so when it affects, I mean so many people, even if I have some money in my pocket I know that I can spend this the surplus with me nevertheless I will think twice when the situation in the country is going on like this. So let us wait for this and I think in the period of one month or two months, it will go on.

Sunil Jain:

I agree with you there is nothing to sort of panic and the pending pattern, how it will sort of I think its difficult to guess?

Dinesh Gogna:

Mr. Jain let me just tell you, the Finance Minister in his speech in the Parliament had clearly stated that there will be no retrospective amendment in Income Tax Act in India. Do you think that they will go away from this statement? They cannot. Whatever our Prime Minister has done people will welcome it. Because now the people will have no option, except to come clean and when they will come clean everybody knows this and everybody is giving this opinion that the cost of coming clean will be much lesser than what the people used to bring earlier. Unless they make some amendment in the Income Tax Act with retrospective effect, which is highly unlikely, well let us hope for the best.

Sunil Jain:

Thank you.

Moderator:

Thank you. The next question is from the line of Ajay Thakkar from Anand Rathi Securities. Please go ahead.

Ajay Thakkar:

Just wanted to check on one thing, we have some breakup of how much of our sales is from the rural economy or you know any of our studies to corroborate how much of sales will come from the rural economy versus the urban one?

Sandeep Jain:

We have data of A+, A, B and C+ it is which I think we can collaborate and we can share with you but right now at this point of time I do not have that data, but that can be shared. We have your numbers. We will send it across to you.

Ajay Thakkar:

Thank you.

Moderator:

Thank you. As there are no further questions I would like to hand the floor over to Mr. Sameep Kasbekar for closing comments.

Sameep Kasbekar:

I would like to thank the management once again and I would like to handover the call to Mr. Gogna for closing comments.

Dinesh Gogna:

This is the situation where we have to understand that the country is passing through a difficult situation. Country when I talk about it is not the country as a whole, the citizens of the nations of the country. They are switching over from one side to the other side and the mentality of the consumer will also be affected but how long would it take to come back to the normalcy we cannot say because the Prime Minister or the Finance Minister has to announce the more concession to the people and if they announce more concession probably the faster the people would come back rather consumer market will revive back. And hopefully we also understand that so far we are concerned I think our business of course to begin this is down the line for seven eight days, yes it will be affected or fifteen days it will be affected but after that it will come back. So there is nothing to fear about it, it only that some portion may be delayed but as for the winter part is concerned we are expecting that the winter is likely to be very good this year as it has been witnessed earlier in last thirty forty years when the monsoon is good the followed winter is always very good. So we hope that for the company it will be very good and I would request my investors that at least bear with us and see that what is the outcome up to December 31. When we see the result of December 31 position will be more clear but we are hopeful that we would be, suppose we are unable to show a very high growth this year at least we would be little better than last year. This is what I can say. Earlier we were giving the guidance of minimum say 10% to 11%, 12% growth but now in the changed circumstances because it will eat up two months so I think the growth I cannot expect in double figures in this year if the situation continued like this but let us hope for the best. We are good in business; the market has accepted the products we are finding out the new areas we have the all growth drivers and this we are making attempt. Any further question by anyone if it is not there then I would say thanks to Sameep Ji and I would say if anybody has any other query in your mind you can shoot out the email to us and we will answer that. Bye and have a nice day.

Moderator:

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

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- Note**
1. This document has been edited to improve readability.
 2. Blanks in this transcript represent inaudible or incomprehensible words.

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SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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