“Monte Carlo Fashions Limited Q2 FY 2018 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Monte Carlo Fashions Q2 FY2018 conference call hosted by Emkay Global Financial Services. Representing the management we have with us today, Mr. Sandeep Jain - Executive Director, Mr. Dinesh Gogna – Director, Mr. Raman Sharma – CFO, Mr. Sharma – Accounts Total In-Charge. 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 call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Harsh Shah – Research Analyst of Emkay Global. Thank you and over to you Sir!

Harsh Shah: I would like to welcome the management and thank them for giving us this opportunity. I would now handover the call to Mr. Jain for his opening remarks. Over to you Sir!

Sandeep Jain: Very good afternoon, ladies and gentlemen. It is once again a great pleasure to greet you all on behalf of our board of directors and the senior management. We begin by thanking all of you for having spared time in joining us here today to discuss our Q2 earnings for the financial year 2017-2018.

At Monte Carlo, we continue with our endeavor to build 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 woolen, cotton, cotton blended, knitted, woven apparels and home furnishing through some of our ranges under the umbrella brand "Monte Carlo" such as - Platine, Denim, Alpha and Tweens.

Last quarter we announced launch of fitness and casual wear under the brand "ROCK IT". We are receiving positive feedback on the fitness wear and expect it to contribute meaningfully to our sales going forward.

One of our key strength is a wide and a growing distribution network with diversified presence across India. We have presence through 2400 plus MBOs, 232 EBOs 249 national chain stores outlets. Majority of our net revenues emanate from MBOs and franchise EBOs where we primarily sell on a pre-ordered outright basis. By virtue of this business model there is a no major inventory risk and we remain adequately protected from the normal hazards of "branded apparel business". I would like to highlight that till date we have experienced zero bad debt in our business, which explains our strong business model.

Now talking about our business performance during Q1 FY2018, as you all know FY2017 has been a challenging year for the company due to high inventory in the system from previous year and demonetization coming right at our peak business period. In first quarter we saw some impact on GST towards the end June month as our business partner delayed purchases due to uncertainties on GST. Business has now returned to normal. We have witnessed strong pickup in sales in the Second Quarter, our total income from operations have increased 11.7% Y-o-Y to 137.7 Crores during Q2.

Our gross profit margin for the quarter remained strong. We maintained our gross margins of over 48% during the quarter. We achieved 18.8% EBITDA margin without other income while our

EBITDA margin including other income stands at 21.3%. Strong EBITDA margin clearly reflects the strong brand position of Monte Carlo in the Indian market. Depreciation was marginally low at during the quarter as 5.25 Crores. During FY2017 we made effort towards reducing debt within the business as a result which interest cost has come down to 1.9 Crores as against 4.4 Crores in the previous year. This also includes the benefit of lowering interest rate in the country.

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

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

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sailesh Kumar from Sunidhi Securities. Please go ahead.

Sailesh Kumar: Thanks for giving this opportunity. Sir what is your order book for winter wear as of now?

Sandeep Jain: As far as order book is concerned, we will be witnessing approximately 15% growth over the last year so if we see as of now wherever we stand we see the financial year ending with approximately 15% of the growth including winter wear.

Sailesh Kumar: Looking at your number it seems home furnishing segment is under some sort of pressure any specific reason for the same?

Sandeep Jain: Yes, you are right, the problem with home furnishing was it actually operates in unorganized retailers who do not have the GST number so many of the retailers have not taken the GST number on time, so some of them have taken so that is why the sale has decreased as compared to last year in home furnishing but we hope that this is going to pick up in the coming quarter.

Sailesh Kumar: Overall you were expecting 15% sort of growth so if I request you to give the bifurcation between woolen cotton and home furnishing how will it look like?

Sandeep Jain: As we stated earlier also you want me to quote on this full year?

Sailesh Kumar: Yes, full year FY2018?

Sandeep Jain: Full year I cannot give you a complete bifurcation but as we stated earlier that woolen will grow in single digit and cotton will grow double digit so overall revenue growth will be 15% at the end of the year. Actual figures we will come to know by March.

Sailesh Kumar: So previously we were talking about 15% to 18% now it has been turned down to 12% to 15%?

Sandeep Jain: No I never said 12, I said 15% to 18% only, the minimum is 15% or it can go to 18% depending upon the season.

Sailesh Kumar: Okay. Our southern part distribution what is the level of distribution that we have reached and what kind of EBOs, MBOs we have opened there?

Sandeep Jain: We have not opened any fresh EBOs in south region but we do have presence through national chains stores and multibrand outlets. So we are mostly present in three states that are Andhra Pradesh, Karnataka and also Tamil Nadu. In Kerala we have just appointed a distributor, sales should start most probably in the next quarter.

Sailesh Kumar: Okay, so previously we will be guiding that we would be growing close to 30% in southern region does that guidance still hold good?

Sandeep Jain: Yes, we are still holding that guidance.

Sailesh Kumar: I will get back in queue. Thanks.

Moderator: Thank you Sir. We have a next question from the line of Sagar Karkhanis from Nirmal Bang. Please go ahead.

Sagar Karkhanis: Thank you for the opportunity. Just wanted to understand we generally have a 4%-5% ad budget on revenues so what is the advertising we are expected to do in the next quarter that is in this December quarter?

Sandeep Jain: Approximately 4% we will be able to maintain this year also.

Sagar Karkhanis: Shall be around 25-30 Crores of advertising?

Sandeep Jain: Yes, you are right.

Sagar Karkhanis: On the cotton Sir our brand if you can just throw some light how that has picked up because woolen obviously we have a very good brand advantage but in cotton how the business is shaping up and how do you see the customer feedback on our fashion and products if you can throw some light on that? Thank you.

Sandeep Jain: I think the revenue which has grown from last seven-eight years have grown because of cottons only, because woolen is not growing at that double-digit rate; it is a cotton which is growing that is why the revenue growth is more in cottons as compared to woolen. The contribution of woolen, which was 100% at one point of time if we talk about 2003-2004 has come down to 34% in sweaters so that shows that the other categories have picked up and have established trust among the consumers.

Sagar Karkhanis: Right Sir, it would be fair to assume that we will continue to grow the cotton at that such healthy growth?

Sandeep Jain: Definitely, that is how the growth will come in the brand.

Sagar Karkhanis: That is encouraging. Thank you Sir. All the best.

Moderator: Thank you. We have a next question from the line of Nikhil Upadhyay from Securities Investment Management. Please go ahead.

Nikhil Upadhyay: Thanks for the opportunity. Sir just touching upon with the cotton mix if I look at our key brands here, which are like Platine and Denim Alfa and Cloak & Decker so within these four, which would be the largest brand, if you can share, some split? One is that. Second is on the cotton if we look at the economic so as we move in not only in south and west but even in places where like in north and east where we are already known as a brand, how does the economics work vis-à-vis the woolens, which we are selling under the Monte Carlo so what type of margins we are making and what kind of receivable days or credit period, which we are extending to the MBOs or the national chain stores in the north and the eastern side, so if you can just highlight upon that?

Sandeep Jain: Can you just repeat the two major parts of your questions?

Nikhil Upadhyay: Sir my first question was that if I look at cotton and cotton blended part and I think if I look at our presentation the key brands which come under are Cloak & Decker, Denim and Alfa so if you can give a breakup or qualitatively also, which would be the largest segment, which is contributing that is first. Secondly as we are, because I think in last two, two and half years we have been pushing and trying and the cotton business has been growing for us but just want to understand how is the economics of cotton business improving for us, so two years back what was the receivable period, which we were giving to the stores and what were the margins, which we were making and how has that changed now?

Sandeep Jain: Okay so first of all come to the first part where you asked about the Cloak & Decker, Denim Alfa and Freeze, basically Denim Alfa and Tweens are the range names under the Monte Carlo brand. They are separate brands so basically the children range is under brand name Tweens, the women range is under brand name Alfa and the Denim range of Monte Carlo is under brand name Denim. The brand is Monte Carlo only. It is only the range name given to them. As far as Cloak & Decker is concerned it is an economy brand, which is priced around 20% lower than the Monte Carlo. The reason for launching of Cloak & Decker was to capture the economy segment where Monte Carlo could not reach. There are many rural areas where the potential is there for unorganized segment to convert that customer into the branded segment we launched Cloak & Decker series of range. Now if we come to the margin structure even if we talk about the PBT level the cotton margins are higher than the woolen margins as of now and it had improved from last two three years so that shows the strength of Monte Carlo brand, which has passed on to the cotton segment as well. Now if we come on to credit period it is common for both woolen and cotton. There is no difference in credit period for cotton or woolen it is 75 days for MBOs and for EBOs it is 60 days and for national channel store it is consignment so when they sell the good, they give the payment in 15 days. I hope I have answered all the three questions.

Nikhil Upadhyay: Yes, just continuing the first question so I understand that these are ranges under the Monte Carlo brand but if you can give me a split between say Denim Trousers, shirts, simple trouser and T-shirts? For last six months is also fine.

Sandeep Jain: I will give you the breakup for last six months. So for Denim the value was 14.71 Crores for six months. For Trouser it is 9.5 Crores and for children Tweens it is 6.94 Crores and I do not have the separate calculation for Alfa because the whole ladies range comes under the Alfa category and it contributes approximately 30% of the total sales, so 70% is men's sales 30% is women sale and women sale we call it as Alfa.

Nikhil Upadhyay: How has that grown year-on-year even for first half last year vis-à-vis this first half?

Sandeep Jain: 14.16 Crores was the sale of denim last six months this is 14.71 Crores, for trouser it was 8.57 Crores this year it is 9.5 Crores, for shirt it was 15.97 Crores it is 16.83 Crores and for children it was 7.93 Crores last year versus 6.94 Crores, but these figures are not relevant because there has been a quarter-to-quarter variations and the dispatch in this season actually is happening in October so most of the actual realistic picture will come once we have the nine months results in our hand which is comparable to last year's nine months period.

Nikhil Upadhyay: Secondly just on your expansion strategy so as you go into south or west even in central region and you try to build a new distribution network is there a resistance from MBO's or distributors, because we have seen in other brands that when they try to enter a newer regions generally there is resistance from the MBOs or the distributor to take up a new brand. Sir what has been your experience in terms of your ability to put the brand in those regions and what are the key issues, which you are facing as of now with the distributors or in terms of supply chain or in terms of demand? If you can highlight what are the challenges and what are the issues you have faced over the last two years?

Sandeep Jain: Fortunately we did not face any difficulty in choosing the distributors, they have accepted us with open heart, there are challenges in the southern market being a brand which was known as a woolen wear brand to convince the consumer and the retailer that we are equally strong in summer wear so there are challenges and the challenge is I think are also in the terms of awareness about how strong we are in summer, how strong we are in designing so those challenges we are tackling and we are understanding this market from last three four years and that is the reason we have been growing 25% to 30%. But the good thing is that we are being accepted and we are growing in these particular regions, which is the strength of the brand.

Nikhil Upadhyay: On the margins side, when you mentioned that cotton margins are higher than the woolen margin but if I look at our quarterly run rate and I believe Q4 and Q1 would be a cotton heavy business for us so if I compare our margin during that period generally we have made 12%-13% against a 20%-19%, which we make in Q2 and Q3, so how does that cottons have higher margin as compared to woolen?

Sandeep Jain: Now, when it comes to Q4 that is January to March, which is a peak season for dispatch of summer wear, its also a period of end of season discounts so basically even if cotton make higher margins there is a discounting there in the woolen garment. Actually we are not giving separate margins for cotton and woolen business. We are giving the combined margin of both the businesses but if you take on account the separate business of cotton and woolen you will see that margin of cotton is little better than the woolen business but when it comes to quarter and when the woolen is also selling in discount in that particular period definitely it will affect the whole Quarter margins.

Nikhil Upadhyay: Lastly in Q4 March 2017 quarter were there some one off that we have reported a loss of 9.5 Crores?

Sandeep Jain: Yes, that was because of demonetization, we were not able to sell our goods in the fresh season. Most of the people went cashless so there has been hurt of sales so whatever stock was there we had to go for early sales at high rates of discounts so that caused the loss in that quarter.

Nikhil Upadhyay: Okay because if I look at our sales growth there was a sales growth so we did from 64 Crores to 95 Crores so you mean to say that the higher discounts, which we provided impacted us to a larger extent?

Sandeep Jain: Yes, higher discount impacted the sales, cotton grew in that quarter but higher discounts impacted the margins.

Dinesh Gogna: In fact like you know because of demonetization, the reason was this because of demonetization the stocks were piled up for the woolen side so we had to create an inventory. Our basic policy is like as we started this company also you must know that our company does not have inventory problem so we never wanted to carry on inventory with us and we wanted to dispose it off. So at that time, we had no other option except to offer higher discount so far the woolen part is concerned and we cleared all our inventory. That was one of the reasons. That is straightaway the heavy discount is accounted for and again as you were asking regarding this, as a gross margin the margin may be different but in fact, if we look at the other margins at the PBT level the margins is from the woolen as well as from the cotton, hardly very slight variation not much of it.

Nikhil Upadhyay: Just taking this discussion a bit forward because what I understand is that in winter business the woolen business Monte Carlo certainly has a very strong brand equity and we are creating a brand equity in the cotton business so intuitively it should have been that the woolen should be higher margin business vis-à-vis the cotton so that is why I asked this?

Dinesh Gogna: Let me just tell you, so far the woolen part is concerned, I do not deny this fact that we started the entire thing with the woolen and still we are commanding a very strong and not only strong but No.1 position in India so far the woolen part is concerned. But the growth in woolen is limited. We cannot show because in India weather and other things and so far the woolen garments are concerned, we cannot deny the seasonality to that, so considering all these factors it is a limited percentage like where we can grow so far the value is concerned and there is a limited sector, which can govern us for the volume is concerned. So therefore combining these two, we have to restrict ourselves to a particular return, but so far the cotton part is concerned, because our brand made because of product and other things we have been widely accepted in the market and our margins are also increasing and obviously as Jain Sir has said it is that so far cotton margins are concerned those are better but if we look at the gross margin that is purely acedemic, it is not in consideration like in case I see that my the gross margin from the woolen side comes to around 53%-54% from there it is cotton like if I look at it around 35% the reason is this because the woolen is entirely manufactured in-house and cotton is outsourced because of this reason in case I see the winter year, there are certain material, which are purely cotton, but it is basically winter wear. I cannot say it is woolen. There the margins are as compared to the other cotton margins like jackets and other things like T-shirts also, so basically certainly down the line also it is expected the management also expects that the cotton would contribute a better margin in future. I got a cotton offer for sale, vast market. There is no end. It is still there a lot of places where which we can occupy in spite of lot of competition and other things. Like we have entered into south, suppose once we are accepted as we are for last three years have been growing to the extent of 25% to 30% in isolation if I look at it. Same way like if we continue the growth our cotton business is like due to the of course the woolen contribute there was a time when woolen used to contribute 100% then it came down to 50% then it came down to 35%, as on today it is contributing around 33%-34%, the time is ahead where the woolen would contribute hardly 30% as a rest of the things would come from cotton. We are expecting that our margin because of brand image, because of the quality and acceptance in the market our product it will be higher.

Nikhil Upadhyay: Thank you.

Moderator: We have a next question from the line of Vignesh Shankar from Aditya Birla Private Equity. Please go ahead.

Sunil: Sandeep Ji Hi, Sunil here. Sandeep Ji can you sort of further benefit of everyone just explain two things which are actually not tying up on what you have said, (a) you mentioned that cotton has got a better margin and your cotton percentage in the overall revenue mix has increased at the same time if I see the gross margins it has come down from Q2 FY2017 55% to Q2 FY2018 48% so what are we missing I am not able to understand?

Sandeep Jain: See as Mr. Gogna has rightly explained that woolen has a gross margin of 54%-55% and cotton has gross margin 35%-36% when the cotton grows more than the woolen definitely the gross margin is going to come down, if the cotton is growing at 20% and the woolen is growing at 7%-8% definitely the proportion of cotton is better.

Sunil: You just said that cotton is higher margin business than woolen?

Sandeep Jain: I am talking about the PBT level. When you say gross margin it includes the worker cost, wages cost, power cost, that cost and overall.

Sunil: That is all in-house manufacturing so the operating costs are coming below the line.

Sandeep Jain: No cost is coming so actually it is not impacting my margins but cost is being debited to me, as the production is in-house.

Sunil: But if one look at EBITDA level rather than at the gross level?

Sandeep Jain: At PBT level the cotton is almost same or having better margin.

Sunil: Understood. And the second question is what going to be the go-to-market strategy for the company because are we going to advertise in a big way because you obviously have aggressive sales target and if I see the advertising cost has come down than what used to be advertising cost used to be about 35 Crores in FY2016 and 30 Crores in FY2017 and current quarter it has come down so rightly so because of demonetization and all those cut downs, but what is going to be the strategy going forward are we going to see Monte Carlo lot more in the air, on the streets as we do or what is going to be the go-to-market strategy?

Sandeep Jain: Yes, advertising you might have seen five-six days back a newspaper, which all the leading newspaper covered the full day ad of winter wear and it is going to continue till December 31, so we have big plans including in whole ATL and BTL activities. It will be airing on the TV also and it will be covered in magazines in airlines, most of the airlines have been covered for their monthly magazines so all the hoardings have been booked so next two months there will be lot of advertising on Monte Carlo winter wear going into the campaign. As far as budget is concerned we are maintaining a 4% budget on the revenues this year as well that should translate to around 27Crore to 28 Crores.

Sunil: Okay and last question is in terms of order book how are you seeing the winter wear booking now this year because that is going to be for a critical to drive PBT revenues?

Sandeep Jain: As far as order book is concerned, we did have the order book in April itself where we gave the guidance of 15% based on that order book only so we are very comfortable in the supply position also so we are hopeful that the guidance, which we gave 15%, we stand by this guidance.

Sunil: Thank you very much.

Moderator: Thank you Sir. We have a next question from the line of Giriraj Daga from KM Vesaria Family Trust. Please so ahead.

Giriraj Daga: My first question is regarding your guidance like we are talking about 15% although if I look at the first half number the growth has been subdued so my first question do we expect the second half to be better? Second if I talk about the number like last year of course third Quarter we have demonetization so are we still guiding only the number 15% above the last year number ideally we should be guiding 15% on FY2016 base so what is your thought on that?

Sandeep Jain: As far as the guidance, which is given by us is for the annual guidance of 15%. It may vary quarter-to-quarter, some quarter it may not show 15% growth in other quarter it may grow 20% also so the growth, which is combined growth of 15% will depend on the next two quarter that is Q3 and Q4 and in these two quarters cumulatively will be giving the four years target of revenue growth of 15%.

Giriraj Daga: Okay and the base is like obviously FY2017 was a low base so should not we be you be doing more than 15%?

Sandeep Jain: Pardon.

Giriraj Daga: FY2017 was the base effect of demonetization also. Q3 generally are good quarter and we got a hit because of base effect so still if I look at the growth on a FY2016 basis it would be 10% kind?

Sandeep Jain: I cannot comment that growth in this quarter but the next two quarters will contribute a required growth to achieve the 15% growth that is what I can like inform.

Giriraj Daga: My second question is if I look at the inventory compared to last year September we had a lower inventory so any particular like it was more of a hedge on as an event or it was intentionally like what was the case behind this?

Sandeep Jain: You asked a very good question. The reason for low inventory in September 30 was, we started the dispatch of major inventory in the first week of October itself so we definitely purchased but the dispatch was also in the October 15 so that is why the inventory has been called in first week of October and dispatches began in that period only.

Dinesh Gogna: Last year the inventory also cleared off in the month of March.

Sandeep Jain: Another reason was the last year inventory was also cleared up in the month of March, which caused the lower inventory.

Giriraj Daga: Sorry Sir, like woolen is produced in-house so we must be having all them into ready for dispatch in the first fortnight of October?

Sandeep Jain: Yes definitely the woolen is in-house but also there are a lot of cotton garment, which has been dispatched so they are also being received from different vendors across the country so they are received in October itself and they are being dispatched also.

Giriraj Daga: So you mean to say you have deferred the purchase also there?

Sandeep Jain: Purchase was not deferred but the dispatch was deferred because the retailers they were asking the deliveries in October 15, to save the GST many vendors actually prefer to bill it on October 1 rather than to September 30 otherwise they have to deposit the GST on September 30, itself.

Giriraj Daga: Correct, so inventory our inventory is lower means we also purchased that in the first fortnight of October?

Sandeep Jain: Yes.

Giriraj Daga: Okay. Sir on the debtor side if you look at like we are setting on a debtor of like if I look at the first half number and first half revenue it comes very high number?

Sandeep Jain: Yes, debtor has gone up slightly I think by the fourth quarter debtors level will also be low.

Giriraj Daga: But like 182 Crore of debtor on a revenue of 200 Crore it will be like 90%?

Sandeep Jain: It is only because of sales. My sales are taking place now. Most of sales happened in second and first quarter, and there are some delayed payments also where we charge the interest, by Q3 we will have lesser number of debtors.

Giriraj Daga: Okay but the cycle is something like 5.5-6 months?

Sandeep Jain: Cycle is basically mostly 90 days but when the payment is late we charge interest also. If you see the number of day's debtor turnover is 99.

Giriraj Daga: But how do I look at the first half revenues 205 Crores and debtor is 182 Crore in the first half and at the end of September?

Sandeep Jain: This is for the September 2017.

Giriraj Daga: Effectively our 90% of sales is outstanding what we have made in the first half?

Dinesh Gogna: Basically this is beginning of our sales. Some consignments have already gone in the last week, as you know this in the winter season we start manufacturing in the month of February. We keep on accumulating our goods thereafter the dispatches start sometime in the last week of September or first week of October so now when the debtors also we give them a 75-day credit.

Giriraj Daga: Agreed Sir but this time you started dispatching in October itself so it is not reflected in the sales also it not reflected in the debtors?

Dinesh Gogna: Sales has already gone up, because the debtors have gone up only by say 10 days. In case if you see last year the number of the days of the debtors was 87.

Giriraj Daga: So you are calculating on a full year basis I am looking at a first half basis?

Dinesh Gogna: I am talking about the total debtor.

Giriraj Daga: Thanks a lot.

Moderator: Thank you very much Sir. We have the next question from the line of Aveek Mitra from Aveksat Financial Advisory. Please go ahead.

Aveek Mitra: Thanks for taking my question. My question is related to continuation of the earlier question and taking queue from the previous conference call where we discussed that the margins on the cotton side you said that is almost similar or even better than the woolen stuff and if I see this particular quarter and this particular quarter is basically primarily I can assume it is cotton so why this year-on-year margin is down by almost 7%. I really could not follow, though you have answered it once I am unable to understand basically?

Sandeep Jain: Year-on-year margin is not down if you talk about the EBITDA it is 16…

Aveek Mitra: No let us focus on the gross margin, okay so the thing is that why the gross margin has come down from earlier the present by almost 7%, on the gross margin that will be fantastic?

Sandeep Jain: See gross margin hads come down because the cotton segment is growing higher than the woolen segment and cotton segment has a gross margin 35% because the production is not in-house.

Aveek Mitra: But the point is that Q2 you sell mostly cotton right, in previous Q2 also you have sold cotton and this Q2 also you have primarily sold cotton.

Sandeep Jain: Yes, but the proportion has gone up.

Aveek Mitra: Okay, so can you tell me what is the proportion of cotton previous quarter Q2 and this quarter Q2?

Sandeep Jain: Yes, in this quarter the cost of material has gone up by 4% so that is the reason of gross margin coming down.

Aveek Mitra: Cost of material for the cotton has gone up?

Sandeep Jain: No for the overall.

Aveek Mitra: Okay so overall it has gone up by 4%, the cost of procurement has gone up by 4% both for woolen as well as for cotton?

Sandeep Jain: Yes, combined cotton and woolen.

Aveek Mitra: Yes, can you give the breakup?

Sandeep Jain: The data is there. We have shown the total figure of cost of material. The bifurcation of cotton and woolen I do not have now but otherwise the profit and loss account we have given the cost of materials consumed and there is an increase in the inventory and other things both the figures we have given. The cost of material what we have given is 4667 then change in inventories 4262 after adjusting that the cost of material in case we work it out it has increased by 4% and the effect of this, this will be nullified when we see the sales in the other side. Like the main sales will take place in this quarter. So the realizable value will come only in the next quarter.

Aveek Mitra: Then your value of inventory should have gone up right, because the thing is the value of inventory has come down from 313 to 276 the raw material cost have gone up then that would have been captured in the value of inventory right?

Sandeep Jain: Let me just tell you that value of inventory has not worked out like that. Our method of value of inventory working is totally different because we are not taking the cost part. We are taking the total sales minus GP and thereafter we value the inventory and this is the method which we have been following for last 30 years, so in any case like you know if the cost of material has increased in particular region particular time you can say the counteraction of that will be reflected only in sales.

Aveek Mitra: So do we expect a lower sales figure in next quarter compared to previous quarter of Q3?

Sandeep Jain: The sales will be higher. Now whatever the increase in the cost of material is the effect of that which is nullified in the increase of the sales price in the next quarter because as we have given the earlier first quarter accounts for hardly 10% to 12% of my total sales then the next quarter accounts for only 15% the balance 50% to 60% are accounted for only in the Q3. So when I told you that by valuation of inventory is different that system is different. If I workout the cost per item wise, yes, what you are saying is correct but in case I value the inventory because it is the number of products are there so I am adopting that method, which is that the total sales minus GP and that average sale price, I have to take and I have to take into account only on the previous quarter.

Aveek Mitra: I think I need to understand it clearly that I am not been able to follow it; very honestly speaking I am not been able to follow it.

Dinesh Gogna: Again I will try to explain it to you that whatever you are saying it is that the cost of material is higher then in that case my inventory valuation should also be higher, what our basis, in case I am taking the cost of each and every item separately working out and taking into inventory what you are saying is correct because in that case my cost of closing stock will be higher and my profit will be higher side. Now what I am trying to say when I value my closing stock, I value my closing stock by taking a formula, which is permitted under accounting practice that you take a selling price reduce that by gross profit so in that case you do not arrive exactly from one to one level of the price of cost of material. In case this arrive at correct price only when we take into account the selling price also, now the right selling price will be reflected in the next quarter.

Aveek Mitra: In that case we will never be able to understand from inventory because next quarter we do not know how much discount you have to provide because that will depend on the duration of the winter and the length of the winter right so we may have another surprise in January or February when you come out with the Q3 results that we may find that because your selling price you are saying may not be knowing right? You do not know how much discount you need to provide?

Sandeep Jain: No discount is separate altogether because discount part is separate and so far the closing part is concerned of March 31, the entire sales have taken place all things are available and it has to be booked as it can be.

Aveek Mitra: Sir how did you arrive at the sales price? How did you arrive at the sale price on valuing the inventory when you do not know the sale price itself?

Sandeep Jain: This quarter have to be guided only by the sale price of this quarter because I cannot take the average selling price of the year and anyway, you can send me a query, I will reply you in detail on e-mail. I cannot hold back and keep on discussing on this side for a longer time, if you send me a query I will reply you in writing.

Aveek Mitra: No fully appreciate it and the other question is that basically related to your trade receivables so I just wanted to understand that Monte Carlo is a very significant brand right, so what are the benefits of the brand strength you get, because I think your margin you say is not that high and you have not been able to increase the sales your trade receivables are high so where from the Monte Carlo brand, which is the formidable brand for last almost 30 years is extracted out of the market, very broad question so you can answer?

Sandeep Jain: The trade receivables if you look at the market, it has increased around 14 Crores compared to last year but basically the payment happens in 90 to 100 days but sometime it is delayed in case of GST the payment has been delayed but as I said earlier also once we arrive in the third quarter we will see the situation normalized and the figure will also change.

Aveek Mitra: Thank you.

Moderator: Thank you. Sir. We have a next question from the line of Shekhar Singh from Excelsior Capital. Please go ahead.

Shekhar Singh: I just wanted to know like forget this quarter but over the last two three years your margins have continuously been coming down and I am talking at the operating profit level that is the EBITDA/Earnings Before Interest, Tax and Depreciation. Now even this year this quarter, we did not have any special issues like the GST or anything else even then we have seen a drop in margins so just wondering like where will the margin stabilize and in which year we will see some uptick in margins?

Sandeep Jain: Sir in case of this quarter, EBITDA margin has not dropped it is same 16.76%-16.8% the difference is only 0.1% so the margin has not dropped, if you compare the last year EBITDA margin it was 13.5% only and we committed that this year the margin should be around 18% and I am fully confident once we reach third quarter and we have the third quarter results our margin will be around 18% EBITDA level so it has not dropped absolutely it has increased over the last year. This quarter is 18.80.

Shekhar Singh: This quarter is 18.80 and I was comparing it was 20.0 which is given on your slide #9?

Sandeep Jain: Absolutely correct but this year because the first quarter was very bad, because of the GST and other things like, so once we reach the third quarter and fourth quarter we will have the overall margin as we give the guidance to 18%, which was 13.5% last year.

Shekhar Singh: Secondly like in case of cotton you mentioned you are basically outsourcing most of the production, is that correct?

Sandeep Jain: Not all the production, knitted garments around 40% we make in-house, and balance we outsource and the woven we completely outsource.

Shekhar Singh: Okay and what are your plans for capex in this year?

Sandeep Jain: We gave the guidance of 10 Crores to 15 Crores for the whole year and we would restrict ourselves to around 12 Crores.

Shekhar Singh: Thanks a lot.

Moderator: Thank you Sir. We have a next question from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

Shailesh Kumar: Just a small question in continuation to the previous participant now that raw material cost has gone up have we taken any offsetting price increase or we intend to take one?

Sandeep Jain: Yes, in third quarter sales it will be nullified as explained by Mr. Gogna.

Shailesh Kumar: So we have taken some sort of price increase because of this?

Sandeep Jain: Yes, definitely we have taken a 5% increase in price because of that.

Shailesh Kumar: 5% price increase effective?

Sandeep Jain: 4% to 5% yes.

Shailesh Kumar: When is it effective from? Is it from October 1?

Sandeep Jain: Yes, it is already effective, when supplies will be made that will be reflecting in the margins also.

Shailesh Kumar: Thanks.

Moderator: Thank you Sir. We have the next question from the line of Rajiv Mehra, Individual Investor. Please go ahead.

Rajiv Mehra: Good afternoon Sir. Congratulations on a good set of numbers. Can you please share some light on the response for "Rock it" and on which platform has that been launched?

Sandeep Jain: The "Rock It" has been launched online. This is a sport wear brand, which would be competing with Adidas, Nike and Puma. It is exclusively launched online in Myntra and once we have the initial launch period then it can be distributed through offline also.

Rajiv Mehra: Alright Sir and on the response front how is it been?

Sandeep Jain: It is giving very good response. The initial response is very encouraging but since it is only 15-20 days so we need to see at least three to four months to give the complete picture on "Rock it".

Rajiv Mehra: Right Sir and on the outlook of the segment what topline and margin figures are we targeting over the next three years?

Sandeep Jain: We are targeting a revenue growth of around 30 Crores to 40 Crores for next three years for sports wear "Rock it" brand.

Rajiv Mehra: So that will be 30 to 40 Crores every year?

Sandeep Jain: No we are targeting to reach a sales figure of 35 to 40 Crore in three years for "Rock it" brand.

Rajiv Mehra: And on the margin front what is the margin figures can we expect?

Sandeep Jain: We hope to maintain the same EBITDA margin of Monte Carlo around 18% to 20% in rock it as well.

Rajiv Mehra: Thank you so much for that. That is helpful and good luck.

Moderator: Thank you Sir. We have a next question from the line of Harsh Shah from Emkay Global. Please go ahead.

Harsh Shah: Sir if we see the other expenditure, we see a decline I mean is there any particular line item, which has seen a decline there?

Sandeep Jain: It is because of advertising expenses which will be happen this quarter.

Harsh Shah: Thank you Sir.

Moderator: Thank you. We have a next question from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

Giriraj Daga: Sir just a follow up on the price hike you mentioned what we understand is the cotton prices for the new season has been lower to 10% to 12% right for the next season?

Sandeep Jain: No the cotton yarn price has actually gone down in last three four months but we have not decreased any price actually we have increased 3% to 4%.

Giriraj Daga: So are we talking a very big margin delta Q3 and Q4 and if yarn prices are down and you have taken a price hike?

Sandeep Jain: See every thing we have taken into consideration when we give our guidance our last year EBITDA was 13.5% we gave the guidance of 18% to 19% EBITDA, so that has already taken into effect the pricing of cotton and woolen.

Giriraj Daga: Okay. Just a last question any initial thought on the FY2019 apart from like 15%-18% you mentioned in last three four year target of 15% to 18% anything more than that on FY2019 guidance?

Sandeep Jain: We hope to maintain the same revenue growth but actual figures we can give once we have reach in March this year.

Giriraj Daga: Thanks a lot.

Moderator: Thank you Sir. Ladies and gentlemen that was the last question I would now like to hand the conference over to the management for closing comments.

Sandeep Jain: Once again thank you very much for participating in this conference, I know there are certain question which need detailed discussions, so I would request the participants to please mail us the specific question so that we can reply and respond on those. Thank you very much.

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