“Monte Carlo Fashions Limited Q4 FY 2016 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to Monte Carlo Fashions Limited Earning Conference Call, hosted by Anand Rathi Share and Stock Brokers. 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 Ms. Sonal Gandhi from Anand Rathi, thank you and over to Madam!

Sonal Gandhi: Thanks. Good morning everybody. On behalf of Anand Rathi Securities, I welcome you all to this conference call. We thank the Monte Carlo Management for giving us the opportunity to host this call. From the company's side we have Mr. Sandeep Jain – Executive Director, Mr. Dinesh Gogna, Director and other senior management of Monte Carlo. I would now like to handover the floor to Mr. Sandeep Jain, over to you Sir!

Sandeep Jain: Good morning everyone and welcome to the conference call of Monte Carlo Limited for the fourth quarter and full year of financial year 2015 – 2016. It is a great pleasure to greet to you all once again 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 performance for the financial year 2016.

At the outset, I am pleased to announce our dividend as our board has recommended a dividend of about 100% of the face value that is that is Rs.10 per equity share for the year 2016 which amounts to a total dividend payout of Rs.21.73 Crores. Our dividend payout is 36.9% over the reported profit after tax.

For any new participants on the concall I would like to start with a short brief on our company. Our brand Monte Carlo was launched in 1984 as exclusive wool wear by Oswal Woollen Mills Limited. Our flagship brand Monte Carlo has emerged bigger each year and it is today a clear market leader making us enjoy a head start in this space.

Over the years we have successfully diversified and created a comprehensive range of woollen, cotton and cotton blended knitted and woven apparels and home furnishings through some of our ranges under umbrella brand Monte Carlo such as Platine, Denim, Alpha, and Tweens we believe we have successfully positioned ourselves as a lifestyle brand with a well-diversified product offering.

One of our key strength is wide and growing distribution network with a diversified presence across India. We have presence through 2000 plus MBOs, 223 EBOs and 164 national chain store outlets. Majority of our net revenues comes from MBOs and franchise EBOs where we primarily sell on a pre-ordered outright basis. By virtue of this business model there is no major inventory risk and we remain adequately protected from normal hazards of the branded apparel business.

Now, talking about our financial performance during the full year financial 2016 and quarter ending March 2016, our full year reported revenues from operation for financial 2016 increased by 6.7% to Rs.621 Crores as compared to Rs.582 Crores during financial 2015. However if we exclude the sale of raw material that is fabric and yarn our adjusted revenue has actually increased by 9.5% to Rs.577 Crores from Rs.527 Crores.

Our Q4 financial 2016 reported revenue from operation decreased by 8.5% to Rs.64.5 Crores; however, if we exclude the sale of raw material that is fabric and yarn our adjusted revenues had actually increased by 0.3% to Rs.63 Crores. Our raw material sales during Q4 financial 2015 was Rs.7 Crores whereas the same in this financial year Rs.87 lakh. Our gross margins increased by 224 basis points to 78%.

Our full year financial 2016 EBITDA without other income has been stable with a marginal increase of 0.3% to Rs.123 Crores as compared to Rs.122.9 Crores in financial 2015. Our Q4 financial 2016 EBITDA without other income decreased by 32.8% year on year to 98.8 millions. This was primarily due to increase in advertisement and marketing expense, which increased by 185% to 9.6 Crores as compared to Rs.3.3 Crores last year. Our current strategy to establish our brand visibility on a pan India basis along with increased focus of Southern and Western area; therefore, we believe the increase in advertising and marketing expense should be seen as an investment which would lead to a long-term benefit of enhancing our overall brand recall. So our target is to open another 20 to 25 EBOs by the end of financial year 2016 and 2017 mainly through the franchise route. We also plan to diversify our pan India presence by penetrating into the central southern and western region of India. We are strongly focused on optimizing asset utilization, quality, efficiency and relationships. We have a strong balance sheet with low leverage and strong cash balance. With this we once again thank all of you for having spared your valuable time and joining us here today. Now we can open the floor for question and answer session. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sameep Kaskekar from Emkay Global. Please go ahead.

Sameep Kaskekar: Good morning Sir. Thank you for taking my questions. Just want to understand what exactly our woolen gross margins?

Sandeep Jain: It is 53%.

Sameep Kaskekar: 53% and Sir since we book most of our woolen revenues in the Q3 typically should not our gross margin in the Q3 be higher than Q4, but as you see sequentially there is actually increase in gross margins in Q4, so any particular reason for this?

Sandeep Jain: No, I will let you know the exact gross margin of Q4 also just wait for a minute. It is over 35%.

Dinesh Gogna: I mean so far the gross margin for Q4 is concerned we do not have a working with us separately for woolen or separately for cotton. The reason is this so far wool part is concerned stocks are very high, so that is the reason we must have seen that the gross margin goes to around 225 or something this last quarter. That reflects the position.

Sameep Kaskekar: If I look in a quarterly basis our gross margin in fourth quarter is about 78% versus our third quarter which is about 39%, so is there any particular reason for this quarter-on-quarter jump?

Dinesh Gogna: That is only because of this, as I told you the stocks are there and the way we renew the stock that closing stock in the realizable value less GB so because of that, when the stocks are high and our inventory is high at that time the profit margin would be higher side.

Sameep Kaskekar: Okay, secondly sir I missed the initial commentary that what is the reason for slightly weak growth, given our low base in terms of top line?

Dinesh Gogna: In case of Q4 basically as you all know that the winter season has not been good, so it is a more of discounted rates happened in this quarter as compared to last year, so that is why, actually the growth and PAT has affected. Otherwise if you see the full year we are grown by 9.8% as far as garments are concerned as compared to last year.

Sameep Kaskekar: And coming to employee cost, there is an 18% increase, so is this largely because of additional work force or have we taken any wage hikes?

Sandeep Jain: Which one?

Sameep Kaskekar: On an employee cost?

Sandeep Jain: The employee cost some of manufacturing we have started in-house in our unit number two, so that is why the employee cost have gone up, otherwise it was used to be outsourcing, still outsourcing is going on, but still we have added the manufacturing facility also that is why the employee cost have gone up.

Sameep Kaskekar: What would be our steady state EBITDA margin going forward?

Sandeep Jain: We would like to maintain the EBITDA, which is right now.

Sameep Kaskekar: So roughly about 15%, 16%?

Sandeep Jain: No, EBITDA is 20%.

Sameep Kaskekar: Okay for the full year, understood and lastly Sir, on our working capital is a little stretched, any particular reason for our build up of inventory and debtor days?

Sandeep Jain: Yes because of very bad winter season the payments are delayed that is why actually the working capital has increased as compared to last year.

Sameep Kaskekar: So do we expect this contract going forward?

Sandeep Jain: Going forward we assume that this will be. As the payment has started flowing now, so I think in this quarter we will see this improvement in the working capital.

Sameep Kaskekar: Lastly if you can give us some revenue outlook on cotton and woolen segment?

Sandeep Jain: Yes we assume to grow around 10% in this financial year also including woolen and cotton. In woolen we look at the single digit growth and in cotton we look at double-digit growth.

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

Moderator: Thank you very much. The next question is from the line of Sunil Jain from Aditya Birla Equity. Please go ahead.

Sunil Jain: First of all Sir, has any investor presentation being circulated this time?

Sandeep Jain: Yes, we have already uploaded now the investor presentation and that is there.

Sunil Jain: None of the investor I think have gone to investor presentation, it is not available on the BSE or NSE website also.

Sandeep Jain: No, it is available, we have already uploaded this and we have got the confirmation that it is already there, investor presentation.

Sunil Jain: I cannot see it on NSE or BSE website, anyway coming to the question, two or three things I can observe on this working capital side, in terms of free cash flow two things are visible, one is your long-term borrowings has gone down from Rs.60 Crores to Rs.29 Crores and short-term borrowing has also gone down from Rs.39 Crores to Rs.29 Crores, so Rs.10 Crores there, so basically loans have gone down by Rs.10 Crores and your working capital has actually gone up by almost Rs.90 Crores, so why have you not finance this working capital increase from short-term borrowings, so could you just explain that what is happening on the working capital side, that is question number one, also there is one, other non-current assets Rs.25 Crores, please if you could explain what is this and third related thing is that your cash has actually gone down from Rs.117 Crores to Rs.70 Crores, so if you could sort of just take a merit in terms of explaining how the cash flow of the company has been managed?

Dinesh Gogna: Good morning Sunil, this is Gogna here.

Sunil Jain: Gogna ji good morning.

Dinesh Gogna: Good morning to you, so far this total cash is concerned right now this is 117 last year, this year it is around 7487, the dividend outflow is also there and as well as FDs and other things, the FDs has gone up, because this money gone from the current two investment accounts, we have been using the FD also, some portion of FD around Rs.17 Crores, Rs.18 Crores from cash to the working capital side.

Sunil Jain: Just talk about working capital first then come to cash management a little bit, could you explain working capital A, B, talk about the borrowings and then come to the thing between investments and cash pays?

Dinesh Gogna: Working capital has increased because of two reasons, one is increase in inventory, second is increase in debtor level. Because the winter season was not that good, so that is why the payments are little delayed, in case of winter mostly payments are coming now in May, June, basically which was not happened in March, so that is the reason that the debtor has gone up and secondly because more inventory as compared to last year that is why the working capital has increased.

Sunil Jain: This inventory is what, this is woolen inventory, the cotton inventory or finished goods, raw material what?

Dinesh Gogna: This is both woolen and cotton, more is woolen, less is cotton inventory.

Sunil Jain: It is unsold stock of winter season?

Dinesh Gogna: No, it is a new increase of stock, which we have started early this year, this has gone up from Rs.184 Crores to Rs.221 Crores as of today, as in the close of the year and whereas there is a slight increase in debtors also because it was earlier it used to around 120 now it is gone to Rs.151 Crores of payment actually delayed and creditors, also some portion of it has been compensated by the creditors because earlier it was 81, now it is 107.

Sunil Jain: So according to your Gogna ji, your net current assets are gone up by how much?

Dinesh Gogna: Net current for 43 Crores.

Sunil Jain: Rs.33 Crores?

Dinesh Gogna: 43.

Sunil Jain: 43?

Dinesh Gogna: Yes.

Sunil Jain: Okay and what is the long-term loans and advances, other non-current assets Rs.25 Crores?

Dinesh Gogna: Rs.25 Crores FD amount, actually a maturing amount more than one year.

Sunil Jain: So this is also included in cash balance basically FD?

Dinesh Gogna: Yes, this is FD.

Sunil Jain: If FD not included in cash and bank balance?

Dinesh Gogna: No, if it included of course, everything is included there, but some portion of FD because earlier the FD was more, this year out of FDs we have utilized the working capital around Rs.17 Crores, Rs.18 Crores, so we have reduced that amount because earlier it used to be my current asset like, the long-term current asset by around 165, which has come down to 148, something.

Sunil Jain: Okay so therefore you wanting to say that this Rs.25 Crores is actually not current asset, but it is liquid assets or FD?

Dinesh Gogna: Yes, that is correct.

Sunil Jain: Okay because that makes a big change, otherwise I am counting this Rs.25 Crores also has increase in working capital?

Dinesh Gogna: That they did mistake in they prepared earlier the cash flow statement, so we told them because it is more than one year, so it will not be taken into other current assets. It is shown separately and cannot be as long-term financials.

Sunil Jain: Next can you explain please the borrowings coming down from Rs.60 Crores to Rs.30 Crores and also short-term borrowings coming down from Rs.39 to Rs.29?

Dinesh Gogna: That is the repayment of loan, term loan.

Sunil Jain: Repayment of term loans?

Dinesh Gogna: Yes obviously that is term loan.

Sunil Jain: When there is an increase in working capital then why we have not utilized our borrowing limits available?

Dinesh Gogna: No, what we are doing is there, we have been using basically FDs in an overdrafts of 0.45%, so that is question of less as compared to working capital limits, which is at 10%, even the PP is more so that is why we are using some of the portion of FDs by paying overdraft charges that is 0.45% over the FD interest rates. Sunil as he had explained earlier also, this is a cheaper way of finances and secondly the FD amount is utilized as and when it is required like OD. This way we manage our finances in a cheaper rate, only effect of this is when I compute my operational profit then whatever the interest I get from FD that has shown as income from other sources and whereas the interest whatever I pay on that OD amount is dividend in the profit and loss account, so my operational income goes down, but if we take the total profit PBT level it will not affect.

Sunil Jain: You explained that actually your other income of Rs.13 Crores should be netted off from Rs.16 Crores and see net interest?

Dinesh Gogna: Yes obviously that is Rs.14.1 Crores, which is to be adjusted. This year it is roughly around Rs.14.58 Crores interest liability, which is to be adjusted. So in case if I see one of your colleagues Jayesh had asked one what is the total operational cash available. So as against last year it was Rs.6 Crores now this year it will be Rs.30 Crores.

Sunil Jain: Sorry, Rs.6 Crores and Rs.30 Crores are a little lost?

Dinesh Gogna: Last year it was Rs.6 Crores, now this year it will be, operational cash, cash from operation.

Sunil Jain: After working capital adjustment?

Dinesh Gogna: After adjusting working capital, so it comes to around that much.

Sunil Jain: Rs.30 Crores is higher?

Dinesh Gogna: It is higher by say 24 Crores.

Sunil Jain: Total cash flow operation is Rs.30 Crores you are saying?

Dinesh Gogna: Yes total cash from operation.

Sunil Jain: I will just see this presentation because I want to also ask you about the volume, is that comment in the presentation?

Dinesh Gogna: Volume is not there.

Sunil Jain: So can you explain that how much volume increase is there this year?

Dinesh Gogna: Yes, if we talk about woolen, the volume of woolen last year it was 13,46,000 pieces, which is 14,39,000 pieces this year, so volume increase of 6.93%. In case of cotton it was 34,79,000, this year is 36,60,000, the volume increase is 5.19%. In kids it was 3.99 lakhs last year, this year it is 4.28 lakhs, 7.1% increase as compared to last year. Home furnishing it was 3.98 lakhs, this year it is 4.15 lakhs, which is 4% increase in this year. In fabric was 37,000, which is 1,98,000 this year, 33% increase over last year, so overall increase in volume is 8.48%.

Sunil Jain: 8.48%.

Dinesh Gogna: Yes.

Sunil Jain: Sandeep Ji what is your overall feel that you are getting for the cotton roll out that you are doing that is because even the ads are showing cotton in a big way, Denim and all that, so what is the response you are seeing from the market?

Sandeep Jain: Response has been good that is actually we spend almost 6 Crores more in last quarter that is why it is reflecting in the PAT, PAT has gone down, because more of the spend has been done in the marketing and advertisement front because we think that this is one area where we need to focus more in the future, so that is why more spend has been given on this area in advertising and marketing also and I feel that this spend is going to benefit us in this coming financial year because now awareness has definitely increased as compared to the past and people are recognizing Monte Carlo as all season brand as compared to perception about the last year the winter wear brand, so that is the why the spend was must, so that is why the spend has been done and there has been increase in advertising and marketing expenses, which is definitely going to benefit and you see the results coming two, three quarters, but it will reflect in the quarter sales also.

Sunil Jain: And how has been the order booking this year, your summer order booking?

Sandeep Jain: Order book is still in process of like we are punching it, so we will come to in another 15, 20 days time.

Sunil Jain: Whatever you have seen because large part of summer sales has already sort of taken place I think, so whatever you have seen is it higher from last year, same as…

Sandeep Jain: Summer sale is higher from last year and it will reflect in the next year as well.

Sunil Jain: All the best for the future. Thanks.

Moderator: Thank you. We have the next question from the line of Mehul Savla from Ripple wave. Please go ahead.

Mehul Savla: My questions have been answered. Thanks.

Moderator: Thank you. The next question is from the line of Khush Gangar from Care PMS. Please go ahead.

Khush Gangar: First I wanted to ask about as you mentioned we have increased the manufacturing in-house for cotton side we have added one manufacturing facility, so what would be the percentage of manufacturing in-house for cotton and I believe for woolen it would be 100% right?

Sandeep Jain: Yes it is 100%, now we divided cotton in two parts, one is knitted and one is woven. Woven is still completely outsourced, but in knitted portion we would reach around 60% in outsource.

Khush Gangar: Okay and any plan to add to that percentage in coming years, capex plan for the next year?

Sandeep Jain: There is no capex plan in knitting also, but we will maintain around 60% production for knitted garments to be done in-house 55 also.

Khush Gangar: Okay right and second thing would be considering we are increasing our ad spend, any budget that you have as a percentage of revenues which you would like to spend fixed percentage?

Sandeep Jain: The percentage will remain same 4% to 5%, but more of the effort has been done on the summer side, so that is why these expense has been done.

Khush Gangar: Major markets would be southern and western side where we have spent for advertising right?

Sandeep Jain: We have spent in all pan India basis, it is covering the all regions of India and that is why the sale is increasing from all the regions. Yes the southern sales have also increased as compared to last year, it has jumped from 15 to 20 Crores as compared to last year, so there has been growth in each and every region, but the spend is pan India advertising and marketing.

Khush Gangar: What would be a percentage of sale from e-commerce since I saw, we have social media presence and we are increasing our ad spend also, so what would be the percentage of online sales?

Sandeep Jain: Last year it was 2% to 2.5%, so this year we are going to grow at 4% to 5% this financial year.

Khush Gangar: We mentioned that we are keeping a percentage of cash aside for any acquisition opportunities that come along, so any update on the acquisition front and any segment, which we are focusing on where we are looking for acquisition or something?

Sandeep Jain: Till date we have not listed any brand acquisitions, but definitely we are considering that as and when we get any good opportunity we will definitely let the markets know about that.

Khush Gangar: Which segment are we looking on mainly cotton side or in kids or some other areas?

Sandeep Jain: We are looking at ladies and cotton side.

Khush Gangar: Ladies and cotton side okay, so even if hypothetically we get an acquisition opportunity our dividend pay out policy would be consistent right?

Sandeep Jain: Yes last year also we paid 100% dividend, this year also we paid 100% dividend and it depends on the company's performance. As we see the performance next year we will decide what the next year dividend also.

Khush Gangar: But just wanted to ask acquisition would not impact the payout policy right?

Sandeep Jain: Definitely not because we have a cash at least of Rs.145 Crores with us that would be funded through that acquisition only, so as far as dividend policy is concerned it is from operational cash flow.

Khush Gangar: What cash balance are we looking to keep aside for acquisition, any targets, which we have set that we require minimum this much cash balance for acquisition?

Sandeep Jain: See we have Rs.145 Crores of cash lined with us so we are looking at acquisition size of Rs.150 Crores to Rs.200 Crores as and when the opportunity comes.

Khush Gangar: Okay, thank, that would be okay.

Moderator: Thank you very much. We have the next question from the line of Sahil Doshi from Birla Sun Life Mutual Funds. Please go ahead.

Sahil Doshi: Just wanted some clarification on your balance sheet, sir on your balance sheet in investments we see two items, one is non-current investments of 200 million and current investments of around 300, so can you give us details of that, what is in that respect to and what is your total cash balance including the non-current assets which is stated were actually FDs?

Dinesh Gogna: This is the investment in the mutual fund, both are investment in mutual fund as well as FDs also SMB.

Sahil Doshi: Okay is it correct to assume that your current investment, non-current investments, other non-current asset as well as cash balance is all liquid?

Dinesh Gogna: All liquid.

Sahil Doshi: As per your working Sir, what will be the correct cash balance we should assume Sir?

Dinesh Gogna: As per my cash balance as on today is approximately Rs.145.79 Crores.

Sahil Doshi: And this would be against what figure last year Sir?

Dinesh Gogna: As against Rs.165.82 Crores.

Sahil Doshi: Okay and Sir similarly we wanted a clarification on your debt number, if you can give the correct number including current maturities?

Dinesh Gogna: My debt numbers is around 68.73 as against 89.56 of earlier year.

Sahil Doshi: Okay this includes current maturities as well Sir?

Dinesh Gogna: Yes.

Sahil Doshi: Another question related to what you had answered to a previous query, you said your inventories have increased this quarter mainly because of bad season, so does that mean that we will have to liquidate this woolen at lower volumes going forward?

Dinesh Gogna: No, it is not, let me just tell you, it is yes, there are so many factors, which plays role in a particular thing. Inventory has gone up because of the business has also gone up, but sales have also gone up and some portion is like as you know that winter this year was very bad, so the payment has been delayed and because of that the stocks also there. So everything like in the cotton stocks this dispatches have gone in the month of April, so all these factor play important role and then it has gone to 221.52 as against 184.

Sahil Doshi: Sir can you give us the break up of this inventory into cotton and woolen, how much would that be?

Dinesh Gogna: I am sorry I do not have the figures right now here with me cotton and woolen, but just a minute in case if you can hold him let me just say, let me ask my CFO actually to give me that figure quarter.

Sahil Doshi: No I am just trying to assume that Sir since our inventory of woolen would be higher because of bad season, would that indicate there will be some margin pressure because we will have to liquidate?

Dinesh Gogna: Mr. Sandeep Jain would answer this question to you.

Sandeep Jain: The inventory is not higher because of bad winter season. Definitely the inventory is higher because we normally have basic stocks, which we keep always ready with us whenever the season demands so that basic stock definitely keeps on moving every year, so that stock which has increased the inventory and secondly we have increased basically preponed our production for winter garment to supply more winter garment this year in September itself because last year it went in October and November so we would like to prepone our supplies so that we are the first one to reach to shelves early as far as winter garment is concerned, so that is why inventory in winter is helping more but as we arriving June quarter you will have exact picture of how much winter inventory we have last time as compared to this year and how much quarter inventory we had last time and in this financial year and we can share with you figure of cotton and woolen inventory separately, I will just get the figure from CFO as and when he gets as we will get a light to that question also.

Sahil Doshi: Just related to that just wanted to clarify that mean that we will see margin pressure in the woolen segment at least for the next few quarters?

Sandeep Jain: I am not seeing any margin pressure, the only problem we have seen at retail level is that my retailers and MBOs are not able to make money this year because the season was bad, so they have to sale a lot of inventory in the discount sales, but as far as my margins are concerned, my margins are not hampered because we sell at out rightly basis, so definitely the discount sale which happens at the retail level, our MBOs and EBOs, they suffered some margin pressure because of more discount sale happened this season.

Sahil Doshi: Sir one number quickly if you can share what is the proportion of discounted sales to full price sales and how do you see the outlook on that?

Sandeep Jain: Overall, I think, because there are four business models, so I need to calculate accordingly, we have MBOs where we do not have any discount sales, it is fresh sales because we pre-book the orders and then we supply. There are EBOs where we participate in small amount of progression up to 17% at the end of the year, there are national chain stores, yes, there we fully participate in the discount whenever they go for discounts and e-commerce there we fully participate, so I have to calculate, so overall if you see as a brand you should not go beyond 15%.

Dinesh Gogna: 15% of total sales. My MBOs is contributing most of the sales 60%, so those sales are without any discount because I do not share any discount with them. The remaining it is only the EBOs that EBOs that be like the high share with them is a certain percentage of discount, assuming this EBOs whatever I sell will be approximately Rs.30 Crores, 35% of my total sales and if I share the total sales then it comes to around 31.96%. So basically if you calculate that 4 x 3 = 12, so it will be not more than 15% of my total sales, the discounted sales will be that only.

Sahil Doshi: We see the trend not increasing when you are capped at 15% is that correct?

Sandeep Jain: I do not see this as going up because this was one of the bad season where we had around 15% normally it is less than that 12%.

Sahil Doshi: Thank you.

Moderator: Thank you very much. The next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.

Prashant Kutty: Thank you for the opportunity, just one question firstly I just wanted some clarification on some other income among which you told, I just did not get that number, if you could just please help me with that number, adjustment in other income you said am I right?

Dinesh Gogna: Other operating income that is basically it is an interest income on FD because FD like you know whatever is lying in bank has, Mr. Jain has already explained on this those FD are available for the working capital, what we do is that by giving the spreads of only 0.4% to 0.5% and this is much cheaper than even the GP limits.

Prashant Kutty: If I look at the other income number for the quarter, it is actually.

Dinesh Gogna: Let me just reply that some portion of interest from the customer also included in this, for the delayed payment or something like when the interest income we charge interest. When it comes like that is also included.

Prashant Kutty: But I look at the number for the quarter, it is just about 6 million versus an average run rate of almost about 4 to 5 million, so can I know the reason for the fall in the other income?

Sandeep Jain: The fall in other income is basically get change, what we do is that we normally charge the commission to the agent then you also pay them interest, so what we did this time is that we charge less commission interest so that is why there is fall in other income because of interest which is going to be received from agent actually it is being like adjusted in the commissions this year.

Prashant Kutty: How is the expected to behave going forward actually, are we looking to increase our commissions further as well going forward?

Sandeep Jain: Commission is same, commission has not been increased, it is only the interest has been adjusted in the commission.

Prashant Kutty: Okay we give a higher commission and this adjusted to the interest as well?

Sandeep Jain: Yes so that is why it is not reflected in other income in this quarter.

Prashant Kutty: Okay is there a reason as to why interest has also come down?

Sandeep Jain: I am not able to understand your question, what are you saying?

Prashant Kutty: You said that you paid a higher commission and you have adjusted that against the interest, so while I understand because of that your other income came down, what I am trying to understand is that going forward are how we looking at other income is concerned?

Sandeep Jain: No, other income in this case is that, there are two other incomes, one is FDR interest, which we pay and second is the interest we receive from the customer, what happened is there if an agent has to pay Rs.15 lakh commission and the interest was Rs.20 lakh so I pay Rs.30 lakh only, so Rs.20 lakh other income has not reflecting, so your commission has gone less, so that is why the other income is not reflected at same time the commission has gone down. Let me just tell you one thing, basically from this year onward we have tied up with a agent that commission payable to you would be as the cost of any late payment also. It is the net commission, which is to be paid to him. In case there is any financial delay in the payment, he says he will calculate as percentage and that will be charged on your commission, so from our side the commission payable will be only that much of money which is the net of financial cost.

Prashant Kutty: Okay if we had given up the commission of 6% and if it is a late payment then there will be a charge of 1% so you will get as 5% that will be the commission and you said there would be no effect on your other income right? That is what you are trying to say?

Sandeep Jain: It will certainly like so far as my other income is concerned, that will get diluted, because the reason is there used to be earlier I used to calculate separately the total commission payable to them and they will exercise expenses rights, there is an income like interest income used to be accounted for separately. Now the commission payable itself this was precisely I was telling you, I was trying to explain it to you, that this is an agreement with the agent now that the commission payable to them would be determined only after reviewing the financial cost of any late payment.

Prashant Kutty: Secondly, if you look on the growth side, while you just highlighted that as per the wool segment is concerned, we are looking at a single digit kind of growth wise number and this cotton side you are looking at double digit growth in numbers, so if you could just dwell a little more on that part as well, I mean how do we actually look at the growth, because you are speaking about distribution, expansion both in the South and the West as well, is it that you should actually be entailing for a much higher growth as well quarter segment is concerned or also if you could let us know how is the overall competitive intensity really plays out over here because I guess cotton as far as the cotton business is concerned, there seems to be a fair bit of competition which actually plays out in this part of the segment as well, if you could just give us some sense in both these questions?

Sandeep Jain: It is a very good question. Growth depends on two factors, one is like how we perceive, our company to grow in certain areas and secondly how economy is behaving. So, we will see in the kind of environment we have, the challenging environment we have, I think it is our brand, every brand knows that actually reduced sales are not picking up as it should be as the economy is not growing that fast. So that is why we are giving a figure of single digit growth in woolens and double digit growth in cotton, but if the economy improves from current level as it is being predicted that most of it will be very good and there are some efforts being done by the government on the policy side, growth is going to come. If other cycles contributing the improvement of our economy, this growth can be more, so that is how we perceive the growth in the next financial year.

Prashant Kutty: But sir, ideally if you are talking about distribution, expansion then obviously that itself should lend me the growth in the next couple of years, right?

Sandeep Jain: Yes, definitely, of course. The distributor financially helps the growth in the coming quarters as well as in the next financial year also.

Prashant Kutty: I am typically, if I look at the geographical breakup, are there any specific trends which are really coming out in terms of let us say certain markets are doing really well, certain markets doing really bad, any such trend if you would like to highlight in your stronger markets as well as in the weaker markets?

Sandeep Jain: I think, more or less in all over India we are certainly faced with vision, the growth is definitely there but it is not improving as everybody expected to be moving all the areas, but still as we have small presence in south the growth, actually it look more because it looks 25% because the base is very small, but since the base is very large so growth looks little small as compared to the southern region and western region. Wherever the base is small, the growth would be a little large at 30%, wherever the base is large, the growth would be around 10% so that is the reason basically. Otherwise we see that all areas are facing the same situation whether it is west or south or north, so economy has to improve. Actually, increase in consumption in the Indian economy.

Prashant Kutty: While I do understand that your woolen margin is basically much higher in terms of gross margin, what I am trying to understand is that, what is the scope for margin expansion in the cotton segment or growth really coming up in the cotton segment because you just highlighted obviously you are looking at a similar kind of EBITDA margin in numbers, I am just trying to find out what are the drivers for margin expansion over here especially at a time when we are expecting the cotton segment should be growing in double digit?

Sandeep Jain: Margin expansion, let me clarify the woolen growth margins were more because manufacturing are in-house, so in case of cotton it is more of around 50% 60% outsourced so that is why the cotton margins are less. Only at PBT level, profit before tax the cottons are little higher as compared to woolen, so margins of cotton business have improved over last five six years and the people have recognized Monte Carlo summer wear as equivalent to Monte Carlo winter wear that is against the margin we get that again from the growth we are getting.

Prashant Kutty: Do you mean to say that there is no further scope for margin expansion in the cotton side also, is that an assumption?

Sandeep Jain: Very definitely, there is definitely a chance of getting a margin expanded but definitely economy has to help. If we start doing at more than 8-9% of economy growth every year, definitely there is a chance for margin expansion also, but at this figure wherever we are right now we hope to maintain our margin.

Dinesh Gogna: I would like to add one thing more. I am Dinesh interpreting again. As Sandeep Ji as said as the cotton part is concerned, now we intend to manufacture this woolen, not the woolen but knitted, with the sale of 60% in-house, so when we are moving out to that manufacturing in-house, obviously it will affect though not very materially, but little bit and cotton margin also. Earlier, we are being outsourcing and we have been paying the conversion to other people. No of course the salary, personal expenses and other depreciation whatever in case we will be paying but if you compare with that it will zoom our margin. So that certainly is going to help us.

Prashant Kutty: Just one last thing, obviously there has been a lot of talk of lot of retailers picking about the kidswear stake in terms of opportunities, we pretty much know that it is a very strong opportunities because we are very large unorganized market over here. What are our plans over here as far as the kidswear market is concerned and do not we really see this as a much bigger drivers for growth if you could just give me your thoughts on the same.

Sandeep Jain: This year market we have grown this year almost I think more than 13% and basically the growth will be there for next year also, but in this case we are working through agents and mostly we are working through MBOs. So this year has been very difficult for MBOs because a lot of discount sales happened in this last financial year also so that is where the growth has been more, but we also share that this is one of the off-year where the season was not there, but we assume to grow around 20% in this year also, in this financial year.

Prashant Kutty: Sir, just one last thing, if I could have your channel mix and if I could also have your geography mix. I am sorry I do not have an access to the presentation so I am sorry for that.

Sandeep Jain: If you talk about our EBOs, MBOs and CPOS, financial year 2016 63% were contributed by MBOs including national chain store, and 36% was contributed by EBOs, COCO and FOCO, Company owned and Franchise owned. Geographically wise, north contributes in financial year

2016 around 52.7% and east contributes to 25.9%, central contributes 13.1%, south contributes 3.6% and west contributes 4.4%.

Prashant Kutty: Just one last thing Sir, if you could just is there any math which we basically relate to a GDP growth let us say for example a GDP growth is at this space has there been any such bad debts as to how a Monte Carlo number would have grown. Is there any such thing which we refer to in terms of let us say our GDP would grow at x percentage. Then may me Monte Carlo revenue should be growing at let us say whatever percentage. Is there any such matter in that?

Sandeep Jain: There is no any correlation with that but what we assume is that whenever the economy improves, whenever GDP growth is there, definitely there is an increase in economic activity, increase in consumption and increase in spending. So when these things happen definitely it helps the brand. And therefore we have seen in the past also our growth if you see the 10-year growth is around 22% CAGR, versus 5% to 15%. And this year as the economy has little slowed down the growth has been around 9.4% in garment sales if we talk about this financial year. So we see that when the economy was growing at consistent rate and it improves the economics like it just keeps on growing at 8% to 9% definitely it helps the spending and economic activity.

Prashant Kutty: Thank you very much and all the very best to you.

Moderator: Thank you. The next question is from the line of Sonal Gandhi from Anand Rathi. Please go ahead.

Sonal Gandhi: Sir, just needed some clarification. Sir, in terms of cotton, how much is manufacturing that we are doing in-house right now?

Sandeep Jain: Now in cotton there are two areas; one is knitted and one is woven. In woven we are not doing anything. It is completely outsourced. When we say woven it is shirts, trouser and jackets. And when we say knitted it is track suits, thermals, cotton T-shirt, cotton lowers, cotton tops, so in this case around 50% is being made in-house right now. It should be more than 50%.

Sonal Gandhi: You also increased this up to 50% by FY2017 is that correct?

Sandeep Jain: It will further increase around 5% to 6% as compared to last year.

Sonal Gandhi: Any capex for this Sir? Any incremental capex that we are expecting?

Sandeep Jain: No capex in this.

Sonal Gandhi: No capex. Sir typically if you could just give me a number what kind of growth should we expect in employee cost this year?

Sandeep Jain: I think it is all normal increments which happens around the year around 9% to 10% that will be the incremental cost next year.

Sonal Gandhi: Sir, secondly on gross margins if you could just share a segment wise gross margins?

Sandeep Jain: The woolen gross margins are around 54% to 55% and the cotton gross margins are around 34% to 35%.

Sonal Gandhi: Sir, any impact of new accounting standards on your financials that we should expect this year? Change in accounting standard any impact on your financials?

Sandeep Jain: No there is no impact on our financials for accounting standard.

Dinesh Gogna: It is only because one thing see all the selling expenses which are related to the revenue has to be netted off from the revenue, earlier they used to be like the revenue there were like commissions and other things and discount even, like this year my discounts were very heavy, so it had to be netted off from the sale side. So this change in accounting standard it is only the presentation otherwise overall PBT and other things are burdened by the accounting standard. Once GFR activities of course that has come though it is not a business exercise nevertheless because of Institute of Chartered Accountant there would be a debit in the profit and loss account.

Sonal Gandhi: Again on the volume I mean you said that the revenues growth probably we are expecting is about 10%, Sir, if you could give a better breakup on volume front as well as realization because if I compare this year numbers, we have roughly grown our revenues by 9.2% and volumes have grown by 8.5%. So we just like 70-BPS of realization growth. What is the expectation for FY2017?

Sandeep Jain: Volume growth this year has been I think 8% and the revenue growth was 9.5% as compared to the last year, but next year we see the volumes should grow around 5% and balance should be contributed by the value.

Sonal Gandhi: That is it from my side. Thank you.

Moderator: Thank you very much. The next question is from the line of Manu Sehgal. Please go ahead.

Manu Sehgal: My question is for other companies as well in the group, but since Mr. Gogna is there as well and he is handling other companies I would want to ask a question on Nahar Industrial may be you do not have the numbers as such in front of you, but the company has gone through a lot of ups and downs and I just want to know broadly going forward what do you see Mr. Gogna because as I told you, you are the right person to ask the question when I call them the lines in Ludhiana?

Dinesh Gogna: Because the Nahar Industrial has also published their result, it is not in website at the moment, but Nahar Industry is concerned it is doing well and future also it is expected to do well and this year of course I would like to share because it has been already shared with all the investors that we have thought earlier to merge this cotton counting unit in Nahar Industrial, but because of some strategic thing or something like we have dropped that idea, now Nahar Industrial as a total composite unit of this cotton side and woven it is doing very well as of today and it has a good future also.

Manu Sehgal: The inconsistency, which we saw in the last three, four years where we had to declare losses because of sugar and others?

Dinesh Gogna: Dear friend that inconsistency appeared only because of the cotton prices, the way the cotton prices are very volatile and the government of India policy also.

Manu Sehgal: So going forward you see that it will do better and hopefully?

Dinesh Gogna: There is only one negative factor which I would like to share with you that is because Nahar Industry has also owns a sugar unit that contributes only 7% of a total revenue, so basically that was earlier three four years earlier, but now onwards the government policy and sugar prices are good, and the policy is also be good because of our new prime minister who has been working for last two years he has started using the present commodity six months that is how the policies are working, so probably it will be good for industry and Nahar Industry as such would be good, but anyway a conference call on Monte Carlo dear friend.

Manu Sehgal: I agree Sir but I thought I will take this opportunity to chat up with you and really sorry for this, but this is the only thought I have. Thank you.

Dinesh Gogna: Because I am equally involved in Nahar Industry also, so I can.

Manu Sehgal: Which I thought I will catch hold of you. Thank you.

Moderator: Thank you. That was the last question, I now hand the conference over to Ms Sonal Gandhi for closing comments.

Sonal Gandhi: I would like to thank you all again for joining us on this call. I would request Mr. Sandeep Jain if you have any closing comments.

Sandeep Jain: Once again thank you very much for sparing your time and speaking to us so we would like to answer any queries through e-mail also, if any is there for any business related queries. Thank you very much.

Dinesh Gogna: Thank you, good day.

Moderator: Thank you very much. On behalf of Anand Rathi Share and Stockbroker that concludes this call. Thank you joining us. You may now disconnect your lines.