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Monte Carlo Fashions

Q4FY17 Conference Call Transcript

Moderators:

Mr. Sameep Kasbekar
Emkay Global Financial Services Ltd.

Management:

Mr. Sandeep Jain
Executive Director,
Monte Carlo Fashions Limited

Mr. Dinesh Gogna
Director,
Monte Carlo Fashions Limited

Moderator:

Ladies and Gentlemen, Good Day and Welcome to the Q4 FY 2017 Results Call of Monte Carlo hosted by Emkay Global Financial Services. We have with us today Mr. Sandeep Jain -- Executive Director; and Mr. Dinesh Gogna -- Director. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal for 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 of Emkay Global. Thank you and over to you.

Sameep Kasbekar:

Hi, Good evening, everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now like to hand over the call to Mr. Jain for his opening remarks. Over to you, sir.

Sandeep Jain:

Yes, very good evening. Once again, it is a great pleasure to greet you all on behalf of our Board of Directors and senior management. We begin by thanking all of you for having spare time in joining us here today to discuss our fourth quarter and full year earnings for the financial year 2016-17.

At the outset, I am pleased to announce a dividend as the board has recommended a dividend of 100% of the face value that is Rs. 10 per equity share for the year financial 2017, which amounts to a total dividend payout of 21.73 crores and our dividend payout is 51.3% of the reported profit after tax. We are committed to create sustainable shareholder wealth for all our shareholders. Our company has agreed to distribute an optimal and appropriate level of profits earned during the year.

At Monte Carlo, we continue with our endeavor to build a leading branded apparel company. Over the years, we have successfully expanded our product offerings and created a comprehensive range of woolen, cotton, cotton blended, knitted, and woven apparels and home furnishing to some of our ranges under umbrella brand Monte Carlo such as denim, alpha, tween.

We believe we have successfully positioned ourselves as a lifestyle brand with a well-diversified product offerings. One of our key strength is wide and growing distribution network with presence across India. We have presence through 2,300 multi brand outlets, 231 exclusive brand outlets and 198 national chain store outlets. Majority of our net revenue comes from MBOs and franchise EBOs where we primarily sell on a pre-ordered and outright basis.

Now, talking about the financial performance during financial 2017. Financial 2017 has been a challenging year due to difficult operating environment. Firstly, due to existing high inventory levels at the store due to weak winter season during the financial year '16 and secondly, the demonetization impacted current year third quarter sales which actually accounts for more than 60% of our annual sales. So, during this period besides infrastructure with retail showrooms that is card swiping machines, the liquidity crunch also curtailed the consumer spending particularly those peak months of November and December. So, we have to change our strategy in the current quarter and we initiated technical discounts during quarter four financial 2017 in order to clear and rationalize the inventory. With Q4 financial 2017, our revenues from operations increased by 48% on year-on-year basis to 95.6 crores.

As mentioned earlier, the focus during the quarter was to normalize the inventory level through discounts. Naturally, the EBITDA and the PAT for the period have been impacted as expected due to this strategy. The good news is that the inventory levels have now been normalized and we see a build-up of good order book providing us good visibility and positive outlook for the coming quarters.

We plan to expand our Pan-India presence by penetrating into Central, Southern, and Western region of India. The current strategy is to establish our brand visibility on a Pan-India basis along with 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 efficiency and relationship. And no, major CAPEX is planned for next two years.

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, sir. Ladies and gentlemen, we will now begin with the Question-and-Answer Session. The first question is from Deepan Shankar from Trust Line PMS. Please go ahead.

Question and Answer Session

Deepan Shankar:

Considering a normal monsoon and good winter, so what kind of revenue growth we are looking at from woolen segment for the current year?

Sandeep Jain:

As far as overall company is concerned, we are pleased to give the guidance of 15% to 18% for the next year depending upon the order book we have received and seeing the positivity of the order book which is still continuing from our various agents and distributors, we are hopeful of generating revenue guidance of 15% to 18% for the next financial year.

Deepan Shankar:

Okay. So, the previous year inventory in the system is more or less completely out?

Sandeep Jain:

Yes, that is the reason that we have to give discounts in this fourth quarter to get rid of the inventory which was there struck in the last quarter of this financial year also and some previous quarters also. The reason is known to everyone that demonetization which impacted the sales, fresh sales I would say that which could have generated more profits in third quarter, we have to sell those quantities in discount in the fourth quarter.

Deepan Shankar:

Okay. And cotton front, how is your outlook, sir?

Sandeep Jain:

See, I am optimistic both on the cotton and the woolen front. Cotton is definitely going to grow more than the woolen side. So, we see that we should grow at least 25% in case of cotton categories and around 10% to 12% in case of woolen category. So, average growth should be 15% to 18%.

Moderator:

Thank you. Next question is from the line of Sanidhya Daga from Athena Investments. Please go ahead.

Sanidhya Daga:

Firstly, just a little bit on the inventory days, you have said that there is reduction in inventory which has led to efficiency in working capital cycle. So, just to get a sense what the inventory days have been like? I mean previously and in FY 2017 and what is the guidance going forward?

Sandeep Jain:

There are three days higher because of less sales inventory. Overall, inventory is down. The number of days it was 129 last year and this year it is 125 days.

Sanidhya Daga:

Okay. And is there any plans to reduce it further and how we are going to achieve it?

Sandeep Jain:

Inventory level yes, definitely we will get reduced in the coming quarter as well.

Sanidhya Daga:

Okay. And from the company's point of view since majorly it is in-house production, are there any plans to increase the outsourcing?

Sandeep Jain:

See, as we mentioned earlier also, it is a mix of in-house and the outsourced production. Basically, the sweater category is completely in-house and t-shirt category is partly in-house, balance is outsourced and shirt, trousers and jacket categories completely outsourced.

Sanidhya Daga:

Right. So, if you could break it into percentage what part is in-house and what is outsourcing?

Sandeep Jain:

I think more than 50% is in-house and balance is outsourced.

Sanidhya Daga:

Any plans to reduce in-house going forward or vice versa?

Sandeep Jain:

No, actually in-house can only get reduced when we have more orders in case of cotton category coming in next financial year. This year production is already planned, so it should be remaining same as last year. But yes, going forward we may depend more on the outsourced production as we do not have any CAPEX plan for in-house machinery.

Sanidhya Daga:

Right. Just a little bit on your focus on new product launches that you have said caps, socks, and mufflers that you are trying to get into. So, what kind of revenues can we expect going forward from these categories as in what percentage of your total revenue can we expect coming from these categories?

Sandeep Jain:

We see a revenue of around Rs. 8 to. 10 crores in this financial year from these three categories.

Dinesh Gogna:

And this should contribute to almost 1.5% to 2% of our turnover.

Sanidhya Daga:

Okay, great. And any margin guidance on this as in will you get more margins on this than the other products?

Sandeep Jain:

Margins in these categories are lesser as it is a very competitive category and also we are in a launching phase where we are still trying to establish ourselves in the market. So, definitely the margins are not that healthy in the first year - second year. But definitely this is one category which is going to give us very good, I would say revenues in the coming 3-4 years.

Sanidhya Daga:

Right. So, you expect it to go further up from contributing 1% to 2%, where can it go in like three to five years from now?

Sandeep Jain:

I think in three to five years, it should touch around 4% to 5% of our revenues.

Moderator:

Thank you. Next question is from Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

Giriraj Daga:

Sir, a couple of things. On the revenue side, it is 15% to 18% guidance, on the margin side how do we should look at? Should we look at FY 2017 as a one-off and should we see FY 2016 as a base for margin?

Sandeep Jain:

See, margin we are seeing the base of 2015 financial year because this year the margins got impacted because of demonetization and heavier discounts which we have to offer to get rid of the inventory. So, we are optimistic that we will have the margins which we had in financial year 2015.

Giriraj Daga:

Financial year 2015 - 2016 you are talking about?

Sandeep Jain:

Yes, 2015 - 2016, sorry.

Giriraj Daga:

Okay. So, that for 20% we are headed 19.8% EBITDA margins?

Sandeep Jain:

Yes, you are right.

Giriraj Daga:

Okay. My second question is on the growth side, so you are saying that our focus is on Pan-India and primary the focus on South and West. So, what kind of distribution have we done so far, have we put it in infrastructure so far the number of dealers like what is the distribution model you are doing this?

Sandeep Jain:

See, we are following a distribution model in Southern India and the reason being is that agent model cannot work as we need a local presence who can distribute our goods on time. So, that is why we have around four distributors in Karnataka, Tamil Nadu, Kerala, and Andhra Pradesh, so they are the one actually how distribute our goods on behalf of the company and on Southern front only, we are experiencing a 30% - 35% growth because of the low base of the revenues. So, the growth is around 30% to 35% in Southern India.

Giriraj Daga:

Okay. Are you aiming something high, big discount high margin to the distribution, retailer in the Southern market?

Sandeep Jain:

Yes, the margin in case of distribution is higher because they have to like first buy the goods, then they stock it and then they redistribute it. So, the margin in case of distribution is around 13%. But the margin in case of agents is around 6%.

Giriraj Daga:

Agents 6%. And sir, like just more understand on this side. Earlier we have agents, the agent same policy by like sale we do not have the levers or sales return policy within, right?

Sandeep Jain:

No, we never had any sale return policy and also we did not have agents for Southern India. We started with….

Giriraj Daga:

No, but I want to check whether in the South market, are we having the return policy?

Sandeep Jain:

No, no return policy it is outright sales.

Giriraj Daga:

Okay. In South market also we are totally outright sales.

Sandeep Jain:

Yes, outright sales.

Giriraj Daga:

Okay. On the working capital side, would you be able to retain this similar kind of number of days or would we see feasible reduction in the numbers of days going forward when our revenue coming in how should the working capital behave?

Sandeep Jain:

See, working capital number of days will be reduced going forward not very significantly but we will have a marginal improvement in the number of days in working capital also.

Dinesh Gogna:

Gogna here. The working capital number of days has gone up because of the reduction in the turnover. But if we go back and as we are expecting and Sandeep ji has just told you that we are expecting the growth in double-digit or beyond 15% this year. So, obviously the number of days in the working capital will also get down.

Giriraj Daga:

Okay. Understood. Last question sir, like what is the gross margin, we are having in FY 2017 for both cotton as well as woolen and what is the expectation on FY 2018?

Sandeep Jain:

So, the gross margin is 43.83% in financial year 2017 and expectation for financial 2018 is around 48% to 49%.

Giriraj Daga:

If you can break between cotton and woolen?

Sandeep Jain:

Yes, this is a combined figure but obviously because most of the production for woolen is in-house, so it is more and cotton is lesser. I will give you the break-up also.

Dinesh Gogna:

The woolen goes to 54% - 55%. We do not have break-up at the moment. It goes to 55%.

Sandeep Jain:

So, woolen goes around 54% - 55% and cotton goes around 34% - 35%. So, the average gross margin is 43.83%.

Moderator:

Thank you. Next question is from the line of Venkat Subramanian from Organic Capital. Please go ahead.

Venkat Subramanian:

I just had a couple of macro questions for you. It is quite clear that we run a very tight shaped, working capital management is in place, etc. But if you go back to your slide 25, what disappoints you clearly is the fact that our topline guess has not gone anywhere between 2014 and 2017 which has been the golden years for most of the competitors. Have you thought through what is not helping us and what is our strategy going forward? And two, on a small base of let us say about 500 odd crores, is there a broad vision inside the group to maybe get to about 1,000 crores and may be in something like about 4-5 years. What is stopping us from bigger growth?

Sandeep Jain:

See, I think, first of all, if you see the revenue structure of Monte Carlo because primarily we were a winter wear brand. So, that is why we were heavily dependent on the winter sales. So, what happened last to last year was there was very less winter in Northern and Eastern India and that is why the inventory got stuck with the retailers. So, because of that they booked lesser orders next year and that is why the sales have come down and above all we have something unexpected which happened on 9th November that was demonetization which actually eaten up all our margins.

Venkat Subramanian:

Do not get me wrong, I am not talking about 2017 at all. I am talking about the broad direction inside the company because that the growth numbers between go back as far as 2014. You know back in 2014, we were a 500 crores company.

Sandeep Jain:

Yes.

Venkat Subramanian:

Yes. We are still less than 600 crores company. Now, are we as a company trying to be everything to everybody rather than wanting to be everything for some so that there is more brand pull or what is it stopping us from having a slightly aggressive growth because this is fairly anemic as you would realize, right?

Sandeep Jain:

Okay, I think if I truly understand your question, you wanted to like ask the growth from financial 2014 to financial 2017 was not that much.

Venkat Subramanian:

Yes, meaning or even go back meaning our growth numbers are meaning it is there for everybody to see, so you have realized as such.

Sandeep Jain:

Yes, so I think going forward one thing which is changing in this company is that the dependence on the sweater business is coming down. So, as we were primarily dependent on the sweater and winter business that is why even if the season went wrong, it has clearly affected us as far as revenues are concerned. But going forward as a dependence on the winter business is coming down and more on cotton category, it will be beneficial for the company and we expect more revenues in the other quarters. So, going forward we see there they have the dependence on third quarter to come down to 50% which is 60% - 65% right now. So, this is going to benefit us in case of our cotton categories and more so the growth of the company will be more in case of because we have primarily nine months of summers in India and also being a tropical country, we are going to cater to now Southern and Western India also. So, when we have a cumulative growth of nine months and also dependence on winter coming down. So, we can see the growth of around 15% to 20% going forward also this what we project.

Venkat Subramanian:

Given that we having had the kind of growth that your competitors have experienced in some specific categories from a base of Rs. 580 crores, I just wanted to find out whether there is possibility for higher growth, I think I have part of the answer.

Sandeep Jain:

Already we gave the guidance for this financial year which is 15% to 18%. So, that means that we have the preparation, we have the plans to achieve this kind of figure and we are very optimistic that in going forward also because there are certain kind of things which we are unavoidable which happened in last two years but we change our strategy and reducing our dependence on winter category year by year which is evident that a company which is primarily a winter wear company has now almost 50% of revenue it is coming from the other categories and going forward, we assume that the dependence on winter wear is going to come down and the growth should be more as we are doing a very good growth in cotton categories.

Venkat Subramanian:

Understood, sir. And within cotton, we have a very small percent in kids and home textile, etc., can that become a large growth driver or do we have challenges there as well?

Sandeep Jain:

You are talking about home textiles?Yes. So, in home textiles I think one thing which we liked about this category is that there is a total vacuum of branding in this category. If you see in this category, there are a very few brands available and that is why we are getting benefit and we are growing handsomely around 25% per year in this category barring last year, the reason is known to everyone. So, this is one category. With the coming of GST, now there are many unorganized players which are playing in this category but after GST I think now these categories we are paying full taxes. But many players in this category are actually not paying any taxes because there was no tax on the blankets right now, we are paying full taxes. So, that is the reason in coming two year or three years when the difference between the Monte Carlo and the unorganized will be big. So, the difference will be approximately, I assume that if today is 20% - 25%, it will come down to 12%. So, that will further benefit Monte Carlo and its product is just 12% expensive as compared to unorganized product. So, there will be shift from unorganized to branded ones like the brands which are available in home furnishing category, so this is one category where I am very positive that the growth should be more as compared to other categories.

Venkat Subramanian:

Yes. And lastly, we have been talking about our focus on East and South, but it is not completely played out in 2017, but are you seeing good traction, are you seeing things falling into place there and are we confident of actually much better numbers this year?

Sandeep Jain:

Yes, we are hopeful of achieving 30% growth year-on-year on Southern region in this financial year.

Dinesh Gogna:

Standalone.

Sandeep Jain:

Standalone Southern region.

Moderator:

Thank you. Next question is from Naresh Kataria from Money Curve. Please go ahead.

Naresh Kataria:

Just one question on GST, still textile GST rates have not been finalized, so that is open. What are the rates applicable to us currently on excise plus VAT?

Sandeep Jain:

See, currently if you talk about the retailer, they are paying VAT, they are paying CST, and excise duty. So, cumulative total rate is 9%, 5 + 2 + 2. So, as on 3rd June I think rate will be finalized but as the industry is talking about, we assume that it should be around 12% unless and until we have the final declaration on 3rd of June but this is what is assumed in the industry. If it comes to that level, it is almost same what we are paying. So, I do not think there is a much effect as far as pricing are concerned, definitely increase of 1% to 2%. But at the same time it is going to have a foreseen impact on the organized sector. As some of the unorganized which were not paying these taxes at all, they will be coming into this bracket of 12%. So, that is going to benefit us in the future.

Moderator:

Thank you. Next question is from the line of Shekhar Singh from Excelsyor Capital. Please go ahead.

Shekhar Singh:

Just want to know like in FY 2018, will your advertisement and other expenses go up significantly?

Sandeep Jain:

No. Sir, actually when the revenues goes up, advertising and expenses does not go up with that proportion. So, last year we spent I think only Rs. 29 crores. So, we maintain the guidance of around 29 to 33 - 34 only but the revenue guidance we have given is almost 15% to 18%. So, definitely the advertising will definitely go up but not the same as we have like given the revenue guidance.

Shekhar Singh:

Correct. And secondly like sir, you still have some debt on your books and there is no CAPEX for the next two years, are you planning to repay some portion of the debt this year because your payout is around 50%, so remaining can be used to pay debt.

Sandeep Jain:

This year in April, we have paid up the Indian bank loan of around Rs. 13 crores which was a loan, which was not under TUF. The only loan we have right now in long-term is State Bank of Patiala TUF loan of Rs. 17 crores. Now that loan is subsidized loan in TUF loan which is effective rate of interest comes out is around 4.5%-5%. So, we are not going to pay that this loan as we will not be availing the subsidy which is coming into work. So, 17.94 is the only long-term debt the company has right now.

Shekhar Singh:

Okay, perfect. And just in terms of your tax rate for next year will that be closer to the current year's level or will it be different?

Sandeep Jain:

It will be same. I do not think there is any change in the income tax slap. There is no change.

Shekhar Singh:

So, basically like the way things stand today and what you are guiding for FY 2018 because 15% to 18% revenue growth and margin expanding to around 19.8% or 20%, we can see a very sharp increase in your profit after tax in the coming year?

Dinesh Gogna:

It will be going back to us. It is not the sharp increase. Basically like we would go back toward the margins which we have been either to earning and so far the other part is concerned like you know growth part is concerned yes, the growth is expected because this year like you know we said this year the year was very bad and we were hit by two blows, one was the 2015 winter was very bad, 2016 the effect of that came and thereafter like you know this demonetization. So, because of these two reasons, we were affected. Now we have to go back again do the same growth tempo. So, that is the reason we are expecting that we make that or we may cross even 15% growth but it is not sure, it is only the estimation, what board has considered on the projections.

Shekhar Singh:

And in terms of your dividend payout ratio will you be maintaining the same payout ratio in the coming year or is it some sort of dividend policy schedule?

Dinesh Gogna:

No, it is basically like it is not that we have decided any policy or something but only thing is like you can judge only from the action of the management. This year my profit was less in spite of that like so far the distributable profits, those were available with the company. Because of that, we have distributed entirely 51.3% and 51.3% is excluding DDT and we have 20% tax also on that. So, if it is added onto that, the 4.5 crores outgo will be further there. So, whatever the PAT remains with me, I am distributing more than say 60% or something. So, basically like you know this only gives you an indication what is the policy of the company for the purpose of distribution of their profits. So far distribution of profits are concerned, yes we have all approach investors friendly approach and we also as Mr. Jain in his speech has said that this action clearly justifies that we also want that our investor should be benefited by our approach and their wealth creation should also be there.

Moderator:

Thank you. The next question is from the line of Shailesh K from Sunidhi Securities. Please go ahead.

Shailesh K:

I would like to know about the volume growth that has taken place across segments in FY17. Like, woolen, cotton, kids, home furnishing?

Sandeep Jain:

So if we talk about for the woolen category, as already mentioned we have gone down in the woolen from 1.49 million, it has come down to 1.24 million. There has already been told about the weak winter last year, but so far the cotton category, they have actually grown from 6.14 million to 6.46 million.

Shailesh K:

Okay. And what about kids and home furnishing?

Sandeep Jain:

Yes. Kids is basically it was 3,76,000 last year. This year it is 4,04,000.

Shailesh K:

Okay. And home furnishing?

Sandeep Jain:

Home furnishing, again it has gone down to 3.77 lakhs from 4.15 lakhs. Again the reason was, because after November we could not sell home textiles because nobody basically in this small category have the credit card machine. That was the peak period for selling these blended.

Shailesh K:

So number you said is 3.77 lakhs against 4.11 lakhs?

Sandeep Jain:

4.15 lakhs.

Shailesh K:

That is great. Second thing is, you have given guidance of around 25% in cotton and 10%-12% in woolen for FY18.

Sandeep Jain:

This 20%-25% in cotton 10%-12% in woolen, yes, you rightly said.

Shailesh K:

So out of this, what would be the volume growth sir?

Sandeep Jain:

The volume growth I assume that it should be around 13%-14% and balance would come from the pricing.

Shailesh K:

If we take it segment wise like, cotton and woolen?

Sandeep Jain:

I think the mix will remain the same. Because 6%-7% I think should come from the price and 90balance should come from the volumes.

Shailesh K:

Great. Second thing, how many distributors do we plan to add in FY18?

Sandeep Jain:

Actually I think we have added recently 3-4 distributors basically for those areas where we think that we are not reaching it properly, that is Jharkhand and Orissa. We have recently appointed a distributor and also we are finalizing one distributor for our over wearing shirt, denim and trouser range for Rajasthan.

Shailesh K:

One distributor for Rajasthan?

Sandeep Jain:

Yes.

Shailesh K:

Fine. And what was the discount that we have offered in FY17 in order to tied over the extraordinary situation that has come?

Sandeep Jain:

I think there were two things. One the discount was offered early. Normally the discounts start from 15th of January, this has started from 1st of January because everybody was very anxious to sell these stocks and we were too because it was a very short window where we have to get rid of the winter stocks and then we have to spread the summer goods. So basically, we started from 30%. Nobody will start from 20% and it reaches 50 immediately. As everybody was very anxious, so that is the reason that the discount window became large and also a discount to 50% reached very early. So that is the reason that lot of goods went on the higher discounts which actually reduce the PAT and the EBITDA margins.

Shailesh K:

So you said you started the discount with 30% and it went up to?

Sandeep Jain:

50%. Normally will start from 20%-25% and also from 15th January, 15 days also because of early discounting and also you have to pay heavier discounts to get rid of the stock which highly affected the margins.

Shailesh K:

Okay. Coming to this, you have already explained, dividend distribution intend of the management in a very nice manner. But just a small question. What I see there is 135 crores of cash sitting in your books and you don't have any significant CAPEX plan for next 2 years. Don't you think, I mean when you don't need the cash it is unnecessarily depressing the returns.

Sandeep Jain:

Actually it is not that we don't need the cash, actually we are not able to find the right opportunity to invest.

Shailesh K:

So basically you are looking for some inorganic thing?

Sandeep Jain:

We were looking from last 2 years, but actually we have not got anything which can create a shareholder wealth, create value for our shareholders because if we are sitting at particular EBITDA and cannot go and buy any acquisition which is giving me less than 10 EBITDA. Right opportunity has not come into our way. So this is not the fund which is like, we are not going to use it, but we have not been able to find the right opportunity to use it.

Shailesh K:

Is it fair to assume looking at this current year payout ratio that we would be more or less maintaining this payout ratio with slight deviation.

Dinesh Gogna:

We cannot define the ratio as in today because you can say about it only when you have a fixed policy. Yes, we will be having a liberalized policy, this I can assure you, and this is Gogna here, but I cannot tell you what will be my percentage wise or otherwise, I cannot comment on that. It depends like, you never know, after two years I may need some, as you are talking about acquisition and I come across a very good acquisition, so at that time I may plough in the money in the business itself. I cannot committed at this moment, but anyways looking at my present steps, looking in my present intention, otherwise also my definition of dividend it clearly indicates that I have got a good dividend policy in my mind.

Shailesh K:

Fine. And just a last question. A while ago, you have explained this GST impact, I just missed on that part. If you could do it for me once again?

Sandeep Jain:

Yes. See, GST what I was trying to say was that the GST rate has not been decided by the government yet. The meeting is on 3rd of June and we have met our Finance Minister Manpreet Badal also and we have suggested from our price that what could be the GST rate. Even though everybody was saying at 5% but the industry assumes that as the present pay structure is 11% so it could be coming around at 12%. So if it comes at 12%, the difference I was saying that, there is a lot of goods manufacturing in unorganized sector which are not paying any taxes at all. Everybody has to come into the same bracket. The cost of those going up and the branded goods are also there. So the difference between the branded and the goods which are manufactured in those categories will definitely reduce. So that has pushed the consumer from the unorganized to organized sector which is beneficial for the branded, which is branded apparels like all the brands which are there in India. But I think it is positive for Monte Carlo as well as the other brands.

Shailesh K:

This tax breakup of 9% which the industry currently pays, what is that 5% plus 2% plus 2%?

Sandeep Jain:

See, 5% is the local VAT, 2% is the CST and 2% the excise duty which we pay.

Moderator:

Thank you. Next question is from Sameep Kasbekar from Emkay Global. Please go ahead.

Sameep Kasbekar:

So have we taken any price hike in April this year?

Sandeep Jain:

Yes, we have taken almost 7%-8% price hike in most of the categories.

Sameep Kasbekar:

So across categories.

Sandeep Jain:

Yes.

Sameep Kasbekar:

And just wanted to understand, what is our sales from e-commerce sales as a percentage, if you could help me with it?

Sandeep Jain:

E-commerce sales is, right now it is around 4%-5% of our annual sales.

Sameep Kasbekar:

And this is largely through third party channels.

Sandeep Jain:

It is a mix of third party and also our own website.

Sameep Kasbekar:

Could you give us a split of, maybe if I can just give some other sense into the split between the two?

Sandeep Jain:

Out of the 20 Cr which we sold last year, around 3 Cr was from our website and 17 cr from combination of Myntra, Jabong, Snapdeal and Amazon.

Sameep Kasbekar:

And sir, just one bookkeeping question. You mentioned in your presentation that we have cash and cash equivalents about Rs. 1.5 billion. Could you just help me out with the breakup? So the cash on your balance sheet that you have shown is about Rs. 259 million. So where is the balance 1.2 billion housed under which line item?

Sandeep Jain:

So around 85 crores is I think it must be in mutual funds and balance is invested in FDI.

Moderator:

Thank you. The next question is a follow-up from the line of Venkat Subramanian from Organic Capital. Please go ahead.

Venkat Subramanian:

Sir, just a couple of questions. If you have a favorable winter, if you have a harsh winter, how prepared is our channel and how well supplied are we in terms of stocks with stock aids and how quickly can you go and fill that demand?

Sandeep Jain:

If I clearly understood this question, I think you mean that if there is a harsh winter, how we are prepared? Am I right?

Venkat Subramanian:

Exactly.

Sandeep Jain:

See we are basically a company which is actually catering to harsh winter only. So if there is a harsh winter, it is good for us because we plan our production well in advance and we book our order in April itself. So we have a very good logistics and warehouses wherein in Ludhiana which supplies the good everything before 30th September and 15th October if I talk about sweaters and jacket category. So we are the only ones who are able to supply, almost I would say that 17 lakhs – 18 lakhs pieces particularly in these 2-3 months. So we are well prepared to tackle to all these price if I say, if winter comes early also we are the one who can fit in the gap.

Dinesh Gogna:

This is Gogna, in case you know there is other possibility of this question, probably this is what I have understood or in case I have rightly understood you, your question pertains about in case there is a very heavy winter and there are repeat orders from my buyers, am I prepared to supply and all those things and what are my arrangements?

Venkat Subramanian:

Exactly.

Dinesh Gogna:

In that case, like I can tell you, that so far the woolen part is concerned, it is such a thing like which is unlike cotton. To manufacture woolen item is very difficult. And secondly, Mr. Jain would reply better what will be our position for the repeat orders.

Sandeep Jain:

Sorry, I understood the question in other way. But Gognaji has rightly explained if there is demand, once we supply, in that case we always have the basic articles are ready with us which we can supply anytime whenever the repeat comes. So in that case, definitely session articles are booked on the preorder business. But the basic articles we keep an inventory at least more than 10% - 15% which we can supply on demand.

Venkat Subramanian:

Understood. Secondly on your financial, if that 15%-18% growth happens at this time and if your EBITDA reverse stood at FY2015 kind of number, your PAT margin this year should probably be better than FY2014 - 2013. Will it be fair to assume, let us say about 11%-11.5% PAT margin?

Dinesh Gogna:

Yes. It will be more than that. Rather we will be touching say around 12%-13% because of the entire production, cost of interest and other things and also depreciation.

Moderator:

Thank you. The next question is a follow-up question from the line of Sanidhya Daga from Athena Investments. Please go ahead.

Sanidhya Daga:

Just looking at the revenue breakup that you have product wise, I can see that the cotton category has gone up from 51% to 58% in FY17 and since you have guided that majority of the growth that you are expecting should come from the cotton category. So where can we see this ratio changing and how much do you see the cotton category growing up further?

Sandeep Jain:

If you see historically even in the last year breakup, it was just 51% and it has reached 58% now. Every year there is an increase of cotton categories which is going to happen, I think going forward also we would see cotton growth. Why because the cotton growth is more as compared to woolen growth. So when one category is growing more, definitely they have more share in the coming year as well.

Sanidhya Daga:

So what is the EBITDA margin guidance for 18?

Sandeep Jain:

We give 19% - 20%.

Sanidhya Daga:

Okay. Just a little bit on this sense. You said cotton category gives you a little lesser margin than the woolen category and given that the cotton share is going to go up?

Dinesh Gogna:

That is gross margin. Depreciation part is there. Woolen, we manufacture in-house and when you manufacture in-house the depreciation part is always there whereas in the cotton we procure from outside. So basically there, the margin is around 34%-35% gross margin and but PBT side like it is higher. Overall EBITDA, if you take the average, it would be around 21%. But in fact like in case you want to understand correctly, then my EBITDA margin is more than 21% rather. That we had explained earlier also because in my turnover, there are some item like which are nonprofitable. Also do not contribute anything in the profit, but they are included in my turnover. Like for the textile fabric sale. Fabric sales like, because I have to get it converted from the converter and the manufacture of fabrics are not ready to supply them directly. So what I do is I purchase those material and supply to them. So it comes to around at cost only. It comes to around Rs. 40 crores – Rs. 50 crores every year. So basically if you reduce that, then in that case my EBITDA margin will be 2% more. So my margin goes to as high as 23% rather.

Sandeep Jain:

I just would like to add one more thing If we compare only apparels, if we reduce our home textile also, then further 2% EBITDA will be up, so it should be around 25% in that case, if pure apparels is considered.

Moderator:

Thank you. The next question is from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari:

Sir, you are saying will not be investing or doing any major CAPEX for next at least 2 years. So are we having enough capacity for next phase of growth whatever we are talking about 15%-17% or when you feel you will require to have major investment?

Sandeep Jain:

Yes. It is a good question. So basically this garment industry is labor intensive industry not the capital intensive industry. So right now we have extra capacity about sweaters also which can be used and with a very little investment even after two years, we can add another around 3 – 4 lakhs pieces with an investment of around 10 Cr – 15 Cr only. So not much capital is required. So why we mentioned two years because two years we have enough capacity to fulfill the demands and as far as cotton capacity is concerned, we can definitely outsource as much as you want. There is no limit for that.

Sunil Kothari:

And with GST coming in, there is no problem in outsourcing?

Sandeep Jain:

Not at all because we are having clearly defined laws that anybody who is having lesser than 20 lakhs of turnover, GST would be borne by the manufacturer like the person who is selling it at the consumer level and above 50 lakhs we have to pay the GST which will get the credit and will take input credit and gives the taxations benefit to the consumers.

Moderator:

Thank you. As there are no further questions, I now hand the conference over to Mr. Sameep Kasbekar of Emkay Global for closing comments. Over to you.

Sameep Kasbekar:

Thank you. I would like to thank the management once again for giving us this opportunity and thank you to all the participants for joining in. Thank you all.

Sandeep Jain:

Thank you very much.

Moderator:

Thank you very much members of management. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.

Note: 1.This document has been edited to improve readability.

2. Blanks in this transcript represent inaudible or incomprehensible words.

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