"Monte Carlo Fashions Limited Conference Call"

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MODERATOR: **MR. MOHIT DODEJA – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day and welcome to Monte Carlo Fashion conference call hosted by Emkay Global Financial Services. We have with us today Rishabh Oswal, Executive Director, Sandeep Jain, Executive Director; Raj Kapoor Sharma, Chief Financial Officer; Dinesh Gogna, Director; and Ankur Gauba, Company Secretary. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mohit Dodeja from Emkay Global Financial Services. Thank you, and over to you, sir.

Mohit Dodeja: Good morning, everyone. I'd like to welcome the management and thank them for this opportunity. I shall now hand over the call to the management for the opening remarks. Over to you, gentlemen.

Sandeep Jain: Yes. Good morning. This is Sandeep Jain and thank you all for joining us for today's earnings call to discuss the performance of third quarter and year-to-date results of financial year 2025. Let me start by sharing the financial and operational highlights. For the third quarter under review, the consolidated revenue from operation was INR549 crores, registering a growth of 9% year-on-year. EBITDA was INR155 crores, representing a growth of 27% year-on-year with EBITDA margin reported at 28.23%, net profit grew by 25% year-on-year to INR97 crores.

For the 9 months ended financial 2025, the consolidated revenue from operations stood at INR895 crores, which increased by around 5% year-on-year. EBITDA was INR181 crores, witnessing a growth of around 19% year-on-year with EBITDA margin reported at 20.21%. Net profit stood at INR92 crores, representing a growth of 16% year-on-year.

As the financial performance suggests, we had a strong revival this quarter, driven by our focus on strategic initiatives to drive sales and reduce cost. We continue with our endeavor to build a leading branded apparel company with efforts to increase our distribution network. And we are also committed to open 45 to 55 EBOs pan-India, including West and South.

Our total number of EBOs have reached 469 across 23 states and 4 UTs. And we are also present in 1,810 multi-brand outlets, 959 national chain stores and 467 SIS as well as various e-commerce platforms, our online sales through our own website have picked up, especially from our own website.

For brand Cloak & Decker company has opened 5 EBOs in Q3, totalling to 10 EBOs as of 31st December 2024, and we plan to continue to open further in sizes of 500 to 1,000 square feet. We have also tied up with quick commerce platforms like Blinkit, Swiggy, and Zepto for up to 30-minute delivery. Lastly, we have collaborated with Sales Force to streamline and enhance the company's operational efficiencies and drive customer loyalty and experience.

With this, now we open the floor for question-and-answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Viraj Parekh from Carnelian Asset Managers. Please go ahead.

Viraj Parekh: Congratulations on a good set of numbers. Just a few questions from my end. Firstly, sir, I would just want to understand on cotton and woollen segment, volumes have been flat more or less. I mean, woollen has grown by 1.6% and cotton degrown by 3.6% in volume terms. But however, in absolute value, we've seen like a 5% growth in cotton and a 13.4% growth in woollen. So that just highlights that we've increased the average realization for our products in these segments. So can you please elaborate more on that?

Sandeep Jain: So I think you have rightly pointed out. So there has been increase in the realization of cotton and woollen. The reason being is that because we took corrective action, as we suggested in last con call also, regarding the discounts. So the discounts have gone up -- discounts have, sorry, gone down. So that has improved the realization in Cotton as well as in Woollens. So that is the prime reason.

Viraj Parekh: So sir, I mean, earlier, we were a bit more sceptical about the demand environment per se. And at a company level, we are focusing more on profitability. With the increasing competitiveness in this industry and how sustainable are these price realizations? I mean, I think my second question is also on the lines of our gross margins, which has come at 46.8% this quarter, which is a significant rise and that has eventually contributed to a healthy profitability this quarter.

So I wanted to more understand on the sustainability of these margins and realizations going ahead for our main two segments?

Sandeep Jain: Yes. Thank you. Thanks for asking this question. So I would be happy to state that there is now a chance of improvement in the margins going forward. The reason being is that we have taken a price rise also and the raw material price is almost stable. So we'll be having a trade show right now going on as far as pre-winter booking is concerned, which is showing us a very good response.

And our full winter trade show is going to happen in Delhi in next 1 month. So already, we have taken a price rise. But as far as raw material is concerned, all the raw material, what we are using in cotton fabrics, in woollen yarn, they are all stable. So they have not gone up. So there is every chance of an improvement in the margins going forward also next financial year.

Viraj Parekh: And sir, would you speak a bit more on the competitive intensity we are seeing in this space? I mean, eventually, if we are sustaining these realizations and we're talking about margins being increased, will it eventually take a hit on our volumes or how are we planning growth going ahead, if you could highlight that road map?

Sandeep Jain: It will not take a hit on our volume. So last year, we consciously produced less goods because we wanted to focus more on the profitability. And the reason being was that we were stuck with the inventory also. So that was the reason we were very cautious last year. But this year, now the inventory issue has been sorted out. And there have been expansion in EBOs as well as SIS as well as online platform, which is doing very well.

So we are very confident that as far as our company is concerned, I can't talk about the other companies, but as far as our companies are concerned, definitely, we will be -- we see that the worst is behind us now. So going forward, I see even the next quarter going to be better as compared to last financial year quarter. And the next year should be, I would say, we are open with a very optimistic note as compared to last year, which we opened.

Viraj Parekh: Sir, will it be possible to give us an idea of, in December '24, what was that inventory levels at the channel? I mean, if you can just highlight a number of days as well, if we keep an active number, what are the inventory days at a channel level right now?

Sandeep Jain: Just a minute.

Management: So inventory, we are having INR476 crores as against INR428 crores.

Sandeep Jain: So it's INR476 crores as against INR428 crores.

Viraj Parekh: Last two questions before I get back in queue. Firstly, I saw that we've opened exclusive outlets for our home textile segment. And I feel earlier, 2 years ago, we were doing pretty good in that segment. And I think the momentum has picked up going into this year. So we've done around INR53 crores kind of quarterly sale. I think it's the highest in the last 7, 8 quarters that I see in terms of home textiles.

So can you speak more on your strategy for home textiles and how much revenue you're seeing? And if we can break up in terms of unit economics in terms of revenue per square feet for the stores we are opening?

Sandeep Jain: See, first of all, the stores which we have opened are basically only adjacent to our EBOs. It's not the, I would say, the standalone stores. Like if we are operating on the ground floor and first floor is available, so we took that first floor because it's outright sale. It's not a consignment sale and all the 6 EBOs have been opened as outright sales only. And it's not that we are opening standalone stores, it's basically adjacent stores or like if a space is available near these stores, we are taking it up and opening it up.

And as far as home textile is concerned, see, this year, earlier, we guided that we should be having a flat revenue growth, but I'm happy to state that we should be ending by, I think, 13% to 15% value growth in home textiles. And even next year also, we are projecting the same growth. So maybe, again, it depends on the trade show, it can be more because right now, I think that this year, we should be having around 13% to 15% of growth in the home textiles in this financial year over the last year.

Viraj Parekh: And the strategy would be to open company-owned company-operated stores in this segment, right? We won't go for the FOFO model?

Sandeep Jain: It's through distributor agents and MBO business only. We are not focusing much on the standalone stores in home furnishing. We are only opening those areas where we get additional space in our EBOs or some adjacent space is available where our EBOs can easily -- a person can operate. So it is just added advantage to EBO also, it improves their profitability. Otherwise, we are not opening standalone stores of home furnishing.

Viraj Parekh: Sir, last question, just if you can -- I know it's a little bit more forward-looking, but if you could just get a flavor of the quarter 4. Because I believe like in this last calendar year, on an interview, we spoke about good order for summer booking, which highlights a good Q4 for us. So I mean, last year, we -- it was quite bad for us, Q4, because of multiple reasons. How do you see this Q4 panning as compared to last Q4 in terms of profitability, a ballpark?

Sandeep Jain: See, as of now, we are fully confident that the last quarter should be better than the last year's quarter because inventory is less and the discounting have been less and the summer dispatches have been happening even started earlier as compared to last year. So we are confident going forward in the next quarter that it will be better as compared to last year's quarter.

Viraj Parekh: So any guidance you want to give on annual profitability?

Sandeep Jain: We already guided for a flat revenue and improving in margins. We are maintaining that guidance. And we have actually surpassed our guidance because we guided for flat revenue growth for this financial year, and we'll be ending with single-digit growth. And we also guided that we will be having a better EBITDA and better margins. So definitely, we have seen in 9 months, already the margins have been better as compared to last financial year. So on a full year basis also, it will be better as compared to last financial year.

Viraj Parekh: Thank you so much sir. All the best.

Moderator: Thank you. Your next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: Congratulations on a very good profitability performance in Q3. Sir, there is this tax reduction in the Union Budget that has been announced plus our base is also low, right? So in FY '25, we will see almost like a single-digit growth. So any outlook that you can sort of give us for FY '26 because already you are seeing very good momentum in the trade shows for both summer and winter offerings. So what kind of growth and profitability should we expect for FY '26?

Sandeep Jain: See, one thing which I can assure you is that the next year should be better as compared to this financial year. The full year guidance we normally give in our fourth quarter con calls. So please wait for the fourth quarter con call. We'll come with a guidance for the next financial year also. And please note that whenever we gave guidance, we try to give a very accurate guidance.

So in March, we are having a trade show, which is going to happen in around 20th of March. So we'll have a full -- the targeted growth for the next financial year as we have the bookings in our hand in our trade show. So please wait for the fourth quarter con call, and we'll give a guidance for the next financial year as well. But one thing which is very evident is that the stock inventory is less. It's looking to be great year going forward in next financial year.

Devanshu Bansal: Sir, just a small follow-up. When you say '26 will be better than FY '25, so is it like growth in FY '26 should be better than growth in FY '25 or you're just mentioning that FY '26 absolute revenue should be better than FY '25 absolute revenue?

Sandeep Jain: Both revenues and both margins should be better in financial '26 as compared to financial '25. This is what I can guide.

Devanshu Bansal: Second question is on price hike and realization. So what I could gather from your commentary was that you indicated that discounts have reduced, which have led to this realization gain. And in another comment, you also mentioned that you have taken some price hikes as well, right? So in Q3, this improvement in realization is entirely because of reduction in discounts or there is a component of price hike also that has helped us?

Sandeep Jain: It's basically for both the factors. There have been a price hike also and there have been reduction in discounts also. So both the factors contributed in increasing the realization.

Devanshu Bansal: And for Q4, we have taken further hikes or the hikes were what we have taken during Q3?

Sandeep Jain: The price hike has already been taken in the winter products in the month of -- when we start the production around August and September. So only we are trying to be having a lower inventory, which will definitely improve our profits and also lower discounts. So that will improve the realizations.

Devanshu Bansal: Last question, sir, there has been some debt increase, sir. So we -- I just wanted to better understand as in what is driving that? And from an ROE perspective, '24 was sort of very muted. It was like 8%, 9% only. So what are the initiatives that we are taking to improve the return profile of the business?

Sandeep Jain: We have a zero long-term debt. It's only the working capital debt, which has gone up because of higher inventory and higher planning for the next summer. And it will come down in the March quarter.

Devanshu Bansal: On a Y-o-Y basis, you are saying that that INR200-odd crores debt that was there in '24, it should broadly be similar, right, at FY '25?

Sandeep Jain: Yes.

Devanshu Bansal: And anything on initiatives that we have taken to improve the return profile of the business?

Sandeep Jain: Return profile means?

Devanshu Bansal: ROE, return on equity.

Sandeep Jain: So that will definitely be better as profitability has improved. So that will definitely be better.

Devanshu Bansal: Any initiatives on the working capital optimization that may happen in the business, sir, or it will remain stable?

Sandeep Jain: Working capital will remain the same. We don't see any difference. There can be a marginal difference, but we don't see any significant difference as far as working capital is concerned.

Devanshu Bansal: Understood. Thanks for taking my question. This was really helpful.

Moderator: Thank you. The next question is from the line of Mohit Dodeja from Emkay Global Financial Services. Please go ahead.

Mohit Dodeja: Congratulations for a good set of numbers. I just wanted to know how is the broader...

Sandeep Jain: Can you please repeat it?

Mohit Dodeja: Yes. Sir, I just wanted to know how is the broader demand environment?

Sandeep Jain: See, I think there are now two, three things which we are witnessing in last month, which is helping us to understand that there should be good quarters going forward, basically the Q1 and Q2. The reason being is that there have been a tax reduction in the budget, which will definitely boost the consumer sentiments and consumer spending.

So that is one area. And second, I think RBI has just taken a step to reduce the interest rate also, that will further boost the sentiments. So I think that it might take 3-4 more months, but definitely, the sentiments are improving. And we will see this effect coming in the next financial year. But as far as, as on today is concerned, yes, the situation has not changed much, but it has started improving.

Mohit Dodeja: So across channels, is there a growth difference?

Sandeep Jain: If you see that the Online segment, I would ask Mr. Rishabh to speak on the Online segment, which has performed very, very well. And I've already told that the Home Furnishing segment has seen a growth. Otherwise, the Rock It also have performed very well. It has grown almost 40% to 50%. So Mr. Rishabh can speak on that.

Rishabh Oswal: So I think it is fairly visible from the numbers also that there is a difference in the growth percentage of each vertical. So newer channels like online and large format continue to grow at a faster pace than what the other channels are growing. MBO SIS are growing at single digits, and we foresee they growing at the same pace. So -- yes. So I think Rock It also has doubled almost this year. And we foresee -- because of a very small base, they should be growing at a faster percentages than the rest of the company.

Mohit Dodeja: Okay. Thank you, sir.

Moderator: Thank you. The next question is from the line of Yuvraj Kunwar from Emkay Global. Please go ahead.

Yuvraj Kunwar: I would like to ask what is your expectation for capex for the next year?

Sandeep Jain: It would be normal capex of INR15 crores to INR20 crores. That's what we perceive. Otherwise, there are no major capex is planned.

Yuvraj Kunwar: Okay, sir. Thank you.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead.

Devanshu Bansal: I just wanted to better understand your comments around demand. So obviously, your performances has been relatively better versus whatever trends we are seeing. In other companies, these channels be it MBO, LFS, obviously, there is one large partner which is struggling and that is sort of leading to a good amount of challenges for brands.

So from that perspective, while EBOs, et cetera, are doing well, there is these other channels, MBO, LFS, etcetera, which are not sort of doing well. So according to you as in, can we see some amount of growth improvement in these challenged, I would say, source of channels also? Or how should we see that?

Rishabh Oswal: Yes. So this is Rishabh. I'd like to answer this. So I'll go channel by channel. So when it comes to MBO, SIS, last year, as you know, we had a lot of inventory that was left over across all channels, and that included SIS. And due to our financial working, we bill the products that are left over to the SIS outright. Therefore the overall buying for these SIS was quite less as compared to last year.

But if I compare the secondary sale, which is not reported in the numbers, it is much higher than what we did last year. Going forward, we foresee this number growing at a faster pace when it comes to MBO SIS. Online, as you've already noticed, it has grown at 40% this year. We target a growth of 25% to 30% for the next year as well for the online segment.

When it comes to National Chain Store, as you rightly said that there is right now a restructuring happening in the National Chain Store level. A lot of retailers are refiguring out their format if they would want to go the Zudio way or they want to premiumize there, but I would like to mention that Monte Carlo across all our channel partners hold a very significant and very important part.

It is not -- because of a strong monopoly in certain categories, these retailers tend to keep us and we would be one of the last brands to be affected by this demand. In fact, last week only we have our pre-winter bookings going on. Last week only we had meetings with all these retailers. And all of them are very bullish on Monte Carlo and everyone is going to increase the revenue that they get from Monte Carlo.

The only thing that we have to figure out going forward is to maintain -- ensure the profitability as the cost structure in National Chain Stores is much higher as compared to the other channels.

Devanshu Bansal: Lastly, sir, can you -- you've discussed MBO, online, National. So EBO also, if you could just lay down what's your growth expectations as in just ballpark numbers there, both in terms of store additions and SSG?

Sandeep Jain: Yes. So as far as EBOs are concerned, we did almost INR465 crores as compared to INR435 crores. But as far as like-for-like growth is concerned, it is almost flat. So the growth came only from the new EBOs, which we opened in this financial year. But going forward, we look forward to having a like-for-like growth of around 5% to 7%. And also with the addition of new EBOs, which have planned from 40 to 50 EBOs next financial year. So definitely, it will be a segment which will be growing for us.

Devanshu Bansal: And sir, just one small follow-up here. Since like-for-like growth have been sort of muted over the last couple of years, so are you seeing some downgrade in confidence from franchisee investments perspective or that enthusiasm from franchisee investments perspective continue? So your comments on that?

Sandeep Jain: See, market sentiments are bad. So it's not only bad for us, it's bad for everyone in the market. So franchisees also understood that the market for everyone is bad. But still, we are outperforming as far as our competitors are concerned, if you see even in this tough period also, our EBITDA and profitability has grown. And that is only because of our franchisees working hard.

So there are some tough times, which everybody knew that. But as going forward in this financial year, and we see that the improvement is happening and all our franchisees are also very confident because the one reason is that they have a low inventory right now as compared to last financial year. So that is giving us the confidence that next year could be better as compared to this financial year.

Devanshu Bansal: Very encouraging. Sir, very encouraging. And just last question from my end. So since we have been through a challenging period, are you seeing some consolidation from the competition perspective? Are there brands which were like very aggressive now sort of either sort of vanishing or seeing challenges? So from that perspective, if you could highlight your views?

Sandeep Jain: Definitely. We have been getting offer of some of the brands which are on sales because of -- they are not able to survive. So definitely, there is -- there will be some consolidation in the market as the market is actually -- as of today, the market is very tough. So I think there are some brands which are not able to survive and also the funding is not easily available basically for the garments and basically for the retail.

So that is posing some challenges to the existing brands, which are basically more leveraged than other companies. But there are only a few companies who are basically sitting on the cash. Otherwise, mostly some of -- mostly company in garment is sitting on the debt. So that is making them -- making difficult for them to survive.

So yes, you have rightly said that there are some challenges as far as some brands are concerned. And also because of low demand, it is creating more challenges. So that is why I'm saying that some of the brands, there are offers from the market that they are on the sale.

Devanshu Bansal: So are we open to consider, sir, our growth will be more organic in nature?

Sandeep Jain: We are open to acquisition, if any good opportunity comes to us because we are sitting on our cash. If any good proposition which comes to us, which can increase our shareholder values and which can increase -- which can match our EBITDA. So we are open to those kind of acquisitions.

Devanshu Bansal: Last to complete this discussion, sir, any broader guidelines as in -- so I'm asking from the perspective that since you talked about shareholder value creation. So we are already sort of present in the physical retail online is also sort of doing well. So what are the gaps, key gaps in the portfolio that we would like to address from acquisition perspective? That is one. And secondly, from a channel perspective also, are there any visible gaps that you can address with such acquisitions?

Sandeep Jain: I think there are areas where we are not present basically in Southern and Western India. And also there are some categories where we are not present or where we don't operate at all. And also some premium segment where right now we don't have a brand which can add value of around INR15,000 to INR20,000 at these kind of prices. So those are the opportunities. If available, definitely, we'll look into it.

Devanshu Bansal: Great sir. Thank you for taking my questions. It is really helpful.

Moderator: Thank you. The next question is from the line of Shreyansh Jain from 3A Financial Services. Please go ahead.

Shreyansh Jain: Sir, Reliance recently announced the revival of Shein. So how do you look on that deal? Does it -- will it affect your business?

Sandeep Jain: Yes. Can you please repeat what you're saying?

Shreyansh Jain: Yes. So Reliance recently announced the revival of Shein.

Sandeep Jain: Shein. Okay.

Shreyansh Jain: Yes. So how do you look on that deal and would it affect your business?

Sandeep Jain: No. It's basically, Shein operates in low economy segment and ours is upper premium segment. So there's no direct competition from Shein as far as Monte Carlo is concerned.

Shreyansh Jain: Okay. Thank you so much.

Moderator: Thank you. Sir there are no questions in the queue. Should we close it or you want to continue.

Management: Yes, we can close.

Sandeep Jain: Yes, we can close it. Thank you very much for participating in this earning's concall. I hope we have been able to answer all your questions satisfactorily. If you have any further questions or would like to know more about the company, please reach out to our IR managers at Valerom Advisors. Thank you very much.

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