



Monte Carlo Fashions Ltd Q1 FY19 Quarterly Update

MARKET DATA

NSE TICKER	MONTECARLO
Networth FY18 (Rs in Crs)	529
P/BV Ratio (FY18) (x)	1.8X
EPS (FY18)(Rs.)	27.3
Market Price (Rs.)	432
P/E Ratio (FY18E) (x)	15.8
52 Week High(Rs)	664
52 Week Low (Rs)	384
Market Capitalisation (rs. Cr)	941

AVERAGE MONTHLY VOLUME

BSE	1234
NSE	11,690

SHARE HOLDING PATTERN

Promoter	64.7
FII	4.3
DII	3.7
Public	27.3

RETURN (%)

	3M	6M	1 Yr
Monte Carlo	-16.2	-24	-12
Nifty	6	8.9	15

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Financial performance:

Historically, Q3 has been the strongest quarter for Monte Carlo due to winter wear sales of jackets and sweaters- it accounted for 55% and 80% respectively of FY18 sales and profits. Profit contribution is higher than sales contribution due to sales of higher margin woollen products in this quarter. Q1 contributed 10% of FY18 sales. Monte Carlo clocked decent results this quarter. Sales increased by 21% to 81cr, EBITDA increased by 57% to 13cr, and PAT increased by 20% to 6.3cr. The EBITDA margin expanded by 309 BPs to 16.5% largely due to operational leverage- the employee costs and operating and manufacturing expenses did not increase as sharply as the increase in sales. PAT did not increase as much as EBITDA due to a reduction in other income and due to higher tax outflow.

Increase in cotton MSP to impact margins:

One of the steps that the government has taken to double the farmers' income by 2022 is increasing the MSP (Minimum Support Price) of over 20 crops to at least 1.5X the cost of production. As a part of this initiative, the government has increased the price of cotton (kapas- raw, unprocessed cotton) by 28% from Rs4020/quintal to Rs5150/quintal. This move would be beneficial for the farmers but will pressurize all downstream industries that utilize cotton.

Monte Carlo has steadily reduced its dependence on woollen products; cotton products contributed 60.8% of FY18 sales and are expected to constitute 70% of FY19 sales. The increased contribution of cotton to Monte Carlo sales will pressurize margins due to unfavourable input prices. Furthermore, as the contribution of cotton division to overall revenues will increase, the margins will further deteriorate as the margin of cotton products such as T-shirts (which constitutes 50% of summer sales) are lower than the margin made on woollen products. However, company is focusing on those products as it follows asset light model and improved contribution of those products will enhance ROCE. The lower margin will be somewhat offset by higher profitability of fast growing jackets division; this product line has a better profit margin than woollen sweaters. Margins will also be pressurized due to higher discount sales made to remain competitive with online sales.

To compensate for the increased cost of production, the selling price of products will be increased. Our model assumes a price increase of 7% to offset the increased production costs. This will not be sufficient to take care of higher RM costs and the gross margin will deteriorate by 374 BPs from 47.7% to 44%

Management Guidance:

Firm targets a 15% revenue growth in FY19 while maintaining previous year margins. There is a shift taking place from smaller to large, organized players due to GST and economies of scale.

Management aims to establish a pan India presence with sharp focus on West and South India. Last year there was a distribution problem in South India (one dealer was unproductive and has been replaced) and new distributors have been appointed this year. Firm expects 18-19% growth in South India this year. Firm is focused on building shop in shop in South India to increase sales in that region.

New EBOs are coming in Bihar, MP, Chhattisgarh, Delhi, Punjab, and Haryana. Depreciation will keep reducing as the asset base is reducing as assets are not being added. Targeted ad spend is 4-5% of sales

Quarterly Performance:

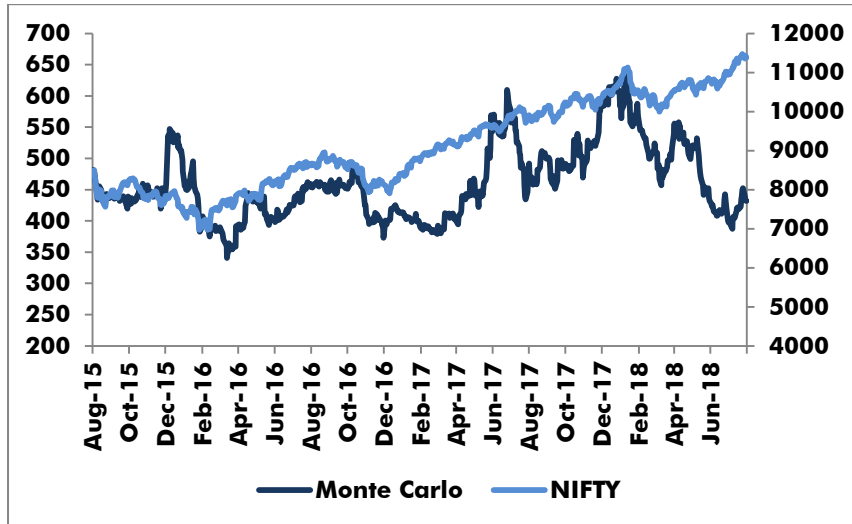
Particulars (RS in crs)	Q1 FY19	Q1 FY18	YoY (%)	Q4 FY18	QoQ (%)	FY18	FY17	Y-o-Y
Net Sales	80.9	63.3	27.8	86.3	-6.2	568.6	538.0	5.7
RM Cost	24.2	18.6	30.5	59.9	-59.5	297.1	282.0	5.4
RM Cost as % of Sales	30.0	29.3	NA	69.4	NA	52.3	52.4	NA
Employee Cost	13.5	12.8	6.0	14.4	-6.2	53.1	49.2	7.8
Other Operating Expenses	29.8	23.5	26.8	25.3	18.0	119.1	129.1	-7.8
EBITDA	13.3	8.5	57.3	-13.3	-200.1	99.3	77.6	28.0
EBITDA Margin	16.5	13.4	NA	-15.4	NA	17.5	14.4	NA
Interest	1.6	1.6	-3.8	1.6	-3.1	7.7	11.8	-34.3
PBT	10.3	6.9	50.3	-12.0	-186.2	89.5	65.7	36.1
Tax	4.1	1.7	146.1	-3.2	-229.5	30.1	20.6	46.6
PAT	6.3	5.2	19.8	-8.8	-170.7	59.3	45.2	31.3
EPS	2.9	2.4	19.6	-4.1	-170.5	27.3	20.8	31.3



Valuation and view

We like Monte Carlo due to its strong brand recognition especially in North and Eastern India, low capex requirements, and company's focus on enhancing ROCE. We have valued Monte Carlo using a P/E multiple of 15 on FY20 expected EPS of 30.8. The intrinsic value of 462 implies an upside of 7%

3-Yr Price comparison



Concall Highlights

- 65% of cotton revenues come from winter wear products such as jackets and sweat shirts. Revenue from cotton wear in winter reduced due to discounts offered in response to discounted online sales. Discounting has become a norm and all players have to deal with it
- Wool price has increased but no inventory gains will be recorded as the company does not hold inventory of finished woollen products
- Sourcing from other countries becomes feasible only in large volumes- not feasible for smaller volumes of fashion products as is required by Monte Carlo. Currently the firm is buying some products from Bangladesh (trousers) in large quantities but that's a small contribution to overall sales
- Rocket was launched last year with only an online presence. Firm has tied up with Pantaloons and is adding 20 shop in shop stores this year
- Current annual capacity for woollen products is 1.8 million pieces and this is sufficient for the next 2 years. Future growth will be achieved through increased capacity utilisation. Among cotton products, T-shirts and thermals are made in house but everything else is outsourced and there are no capacity constraints for those products. Thus the firm has adequate capacity for the next 2 years. Home furnishings sales have gone up from 50,000 to 80,000 pieces, accessories have gone up from 36,000 pieces to 64,000 pieces, and kurtis, T-shirts, denims, etc. have gone up from 2.1 lac pieces to 2.3 lac pieces
- D/E now is 0.11
- 146cr of cash and cash equivalents exist on balance sheet this quarter
- 2 EBOs were closed as one mall shut down and a government order forced the other to close. 2 other EBOs were closed by the company due to poor performance



Monte Carlo Fashions- Income statement				
Description (INR Cr)	FY17	FY18	FY19E	FY20E
Net Sales	538.0	568.6	661.1	737.9
COGS	282.0	297.1	370.2	413.2
Employee cost	49.2	53.1	57.6	62.2
Manufacturing cost	52.2	51.0	59.5	66.4
Advertisement expense	29.9	24.8	29.8	33.2
Selling incentives	9.7	9.0	12.6	14.8
Rental expense	13.7	14.2	15.4	19.0
Other expense	23.7	20.0	20.7	21.5
EBITDA	77.6	99.3	95.4	107.6
Depreciation	24.1	19.8	17.5	15.7
EBIT	53.5	79.5	77.9	91.9
Other income	23.9	17.7	23.6	23.2
Interest	11.8	7.7	9.4	12.1
PBT	65.7	89.5	92.1	103.0
Tax expense	20.6	30.1	32.2	36.1
PAT	45.2	59.3	59.8	67.0
EPS	20.79	27.30	27.53	30.82

Monte Carlo Fashions- Balancesheet				
Description (INR cr)	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS				
Share Capital	21.7	21.7	21.7	21.7
Reserves & Surplus	474.2	507.2	540.9	581.7
Shareholder's Funds	495.9	528.9	562.6	603.4
Long Term Borrowings	15.4	12.8	12.8	12.8
Other Long Term Liabilities	12.5	14.9	17.3	19.3
Total non current liabilities	523.8	556.6	592.7	635.6
Current Liabilities				
Short Term Borrowings	34.4	40.3	55.5	47.5
Trade Payables	103.3	110.2	136.9	152.8
Other Current Liabilities	36.7	20.3	20.3	20.3
Provisions	5.5	6.2	6.2	6.2
Total Current Liabilities	179.9	177.0	218.9	226.8
Total liabilities	703.7	733.6	811.6	862.4
APPLICATION OF FUNDS				
Total Net block	165.6	156.3	150.8	146.1
Deferred Tax Assets / Liabilities	3.9	3.7	3.7	3.7
Non Current Investment	23.6	37.6	43.7	48.8
Long Term Loans & Advances	5.7	11.6	11.6	11.6
Other Non Current Assets	17.6	1.0	1.0	1.0
Non current assets	216.3	210.2	210.8	211.2
Current assets				
Current Investments	93.5	90.7	82.6	74.5
Inventories	202.0	190.7	232.5	253.8
Sundry Debtors	146.3	193.0	231.6	264.6
Cash and Bank	26.0	18.1	18.1	18.1
Other Current Assets	19.2	30.7	35.7	39.8
Loans and Advances	0.4	0.3	0.3	0.3
Total Current Assets	487.4	523.5	600.8	651.1
Total assets	703.7	733.6	811.6	862.4



Monte Carlo Operation Ratios				
DESCRIPTION	FY17	FY18	FY19E	FY20E
Operational & Financial Ratios				
Earnings Per Share	20.79	27.30	27.53	30.82
Book Value (Rs)	228.21	243.41	258.91	277.69
Margin Ratios				
PBIDTM (%)	14.4%	17.5%	14.4%	14.6%
EBITM (%)	10.0%	14.0%	11.8%	12.5%
PATM (%)	8.4%	10.4%	9.1%	9.1%
Performance Ratios				
ROA (%)	6.4%	8.1%	7.4%	7.8%
ROE (%)	9.1%	11.2%	10.6%	11.1%
ROCE (%)	9.8%	13.7%	12.3%	13.8%
Asset Turnover(x)	0.76	0.78	0.81	0.86
Inventory Turnover(x)	1.40	1.56	1.59	1.63
Debtors Turnover(x)	2.73	2.70	2.70	2.70
Fixed Asset Turnover (x)	3.25	3.64	4.38	5.05
Efficiency Ratios				
Receivable days	99.27	123.89	127.89	130.89
Inventory Days	261.49	234.23	229.23	224.23
Payable days	133.75	135.33	135.00	135.00

Monte Carlo Fashions Ltd. CashFlow				
Description (INR cr)	FY17	FY18	FY19E	FY20E
PAT	45.2	59.3	59.8	67.0
Depreciation	24.7	19.8	17.5	15.7
Changes In working Capital	26.0	-37.6	-56.3	-40.5
Cash From Operating Activities	95.9	41.6	21.0	42.1
Capex	-13.3	-13.3	-12.0	-11.0
Dividend paid	-21.7	-20.7	-19.7	-18.7
Tax on dividend paid	-4.4	-4.4	-4.4	-4.4
Total cash available for repayment of debt and investments	56.4	3.1	-15.1	8.0



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