



Monte Carlo Fashions Ltd Q2 FY19 Quarterly Update

MARKET DATA

NSE TICKER	MONTECARLO
Networth FY18 (Rs in Crs)	529
P/BV Ratio (FY18) (x)	1.4X
EPS (FY18)(Rs.)	27.3
Market Price (Rs.)	343.2
P/E Ratio (FY18E) (x)	12.6
52 Week High(Rs)	664
52 Week Low (Rs)	328.1
Market Capitalisation (rs. Cr)	748

AVERAGE MONTHLY VOLUME

BSE	2888
NSE	26,956

SHARE HOLDING PATTERN

Promoter	65
FII	4.5
DII	2.5
Public	28

RETURN (%)

	3M	6M	1 Yr
Monte Carlo	-20	-31	-31
Nifty	-7.5	-2.1	3.8

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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 high margin woollen products in this quarter. Q2 contributed 18% of FY18 sales. Monte Carlo clocked a decent revenue growth of 16% this year. However, EBITDA declined by 43% to 15cr largely due to a decline in gross margin and sharp increase in marketing expense and operating and manufacturing expenses. The gross margin shrunk by 770 BPs while the EBITDA margin declined by over 1200 BPs. PAT declined by 56% to 7cr.

Woolen products business appears encouraging:

Management is very optimistic about the performance of the woollen products business in Q3FY19. Wool price has increased by 8-10% over the last 6 months but management has responded by increasing selling price and thus margins will be maintained. Looking ahead, management expects wool price to remain stable. Even though wool is imported from Australia, depreciation of the Rupee against USD will not have a major impact as the Rupee hasn't depreciated against the AUD. Company has been shifting from pure wool to wool blended garments. This will partially insulate the company from a future increase in wool prices; in pure wool clothes, wool accounts for 50% of sales while it accounts for 30% of sales in blended woollen products.

Management retains optimism:

Management is confident of achieving the targets set for the year- sales growth of 15% and the EBITDA margin to be maintained at 17%. However, our model is more conservative with the margin profile. Management believes that they will be able to make up for lower profits achieved in Q2 in Q3. This is based on encouraging results thus far in Q3- not only has a retail growth of 20% been achieved but the company has also increased prices for woollen and Monte Carlo cotton products which should help in margin expansion. Furthermore, the order book also looks encouraging especially in South India where it has grown by 30-35%. However, the order book for woollen products has grown just 10%, lower than expected.

Reason for decline in margins:

The gross margin decreased largely due to a changing product mix. Home furnishings are traded products and have a low gross margin; the contribution of this product line to overall revenues increased from 9.3% in Q2FY18 to 13.1% in Q2FY19.

Selling and distribution expenses increased by over 100% mainly due to increase in ad spend from 3cr in Q2FY18 to 6cr in Q2FY18.

Operating and manufacturing expenses increased by 29%. This increase was largely due to increased consumption of spare parts and higher commission on sales. Higher power and fuel costs and increase in packaging expenses also contributed to the higher costs but to a lesser extent.

Quarterly Performance:

Particulars (RS in crs)	Q2 FY19	Q2 FY18	YoY (%)	Q1 FY19	QoQ (%)	FY18	FY17	Y-o-Y
Net Sales	126	108	16%	81	56%	569	538	6%
RM Cost	58	42	39%	24	142%	297	282	5%
RM Cost as % of Sales	46%	39%	773 bps	30%	1657 bps	52%	52%	-17 bps
Employee Cost	16	14	14%	14	15%	53	49	8%
Other Operating Expenses	37	27	38%	30	24%	119	129	-8%
EBITDA	15	26	-43%	13	11%	99	78	28%
EBITDA Margin	12%	24%	-1218bps	16%	-474 bps	17%	14%	304 bps
Interest	2	2	28%	2	56%	8	12	-35%
PBT	11	22	-49%	10	9%	90	66	36%
Tax	4	7	-34%	4	6%	30	21	46%
PAT	7	16	-56%	6	10%	59	45	31%
EPS	3.18	7.16	-56%	2.9	10%	27.3	20.8	31%



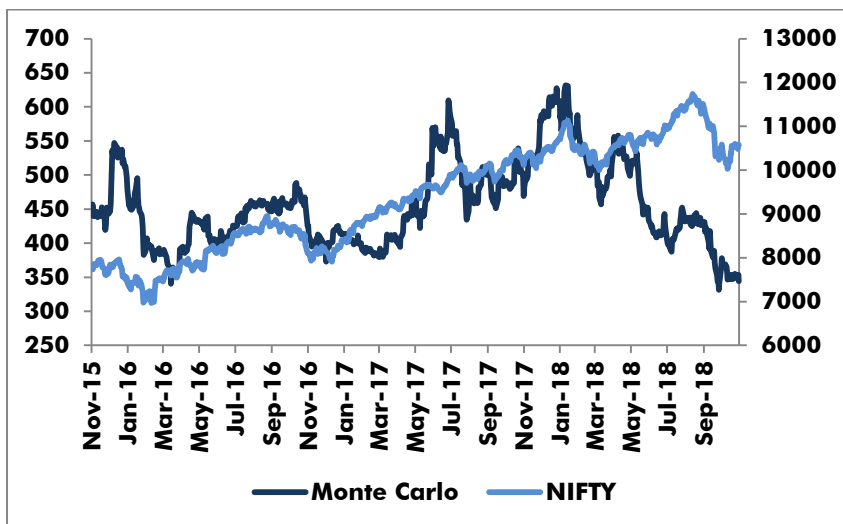
Changes in model:

- Growth of wool segment has been reduced in line with decreasing sales of wool products in H1FY19 compared to H1FY18 and due to weaker than expected order book
- The pricing growth of cotton products has been reduced but the volume growth has been increased in line with H1 performance
- The growth rate of home furnishings has been increased to reflect H1FY19 results
- The growth of kids business has been reduced in line with H1FY19 results
- Gross margin has been reduced on account of unfavourable product mix- the contribution of woollen products are decreasing and home furnishings are increasing. Furthermore, our analysis suggests that the unfavourable product mix only partially explains the decline in gross margin
- The multiple has been decreased from 15 to 13 to account for the deteriorating margin profile of the company

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 13 on FY20 expected EPS of 30. The intrinsic value of 386 implies an upside of 13%

3-Yr Price comparison



Concall Highlights

- The company achieved SSSG of 8% in Q2FY19
- A committee has been formed to make company plans regarding a share buyback. The decision of that committee will be made public in the next 30 days. Management is of the opinion that the current share price undervalues the business
- Rock It revenue was 60lac in Q2FY19. This product line had no contribution in Q2FY18
- Management maintains guidance for capex at 10cr per year for the next 2 years
- Management maintains guidance for ad spend- it may vary from quarter to quarter but for the year, it will remain the same as guided- 4-4.5% of sales
- Management expects a more favourable product mix next year



Monte Carlo Fashions- Income statement				
Description (INR Cr)	FY17	FY18	FY19E	FY20E
Net Sales	538.0	568.6	672.9	757.9
COGS	282.0	297.1	383.6	432.0
Employee cost	49.2	53.1	57.6	62.2
Manufacturing cost	52.2	51.0	60.6	68.2
Advertisement expense	29.9	24.8	30.3	34.1
Selling incentives	9.7	9.0	12.8	15.2
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	92.1	105.7
Depreciation	24.1	19.8	17.5	15.7
EBIT	53.5	79.5	74.6	90.0
Other income	23.9	17.7	23.6	23.2
Interest	11.8	7.7	9.4	13.9
PBT	65.7	89.5	88.7	99.4
Tax expense	20.6	30.1	31.0	34.8
PAT	45.2	59.3	57.7	64.6
EPS	20.79	27.30	26.53	29.73

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	538.7	577.2
Shareholder's Funds	495.9	528.9	560.4	598.9
Long Term Borrowings	15.4	12.8	12.8	12.8
Other Long Term Liabilities	12.5	14.9	17.6	19.8
Total non current liabilities	523.8	556.6	590.9	631.5
Current Liabilities				
Short Term Borrowings	34.4	40.3	65.5	64.4
Trade Payables	103.3	110.2	141.9	159.8
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	233.9	250.7
Total liabilities	703.7	733.6	824.8	882.2
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	44.5	50.1
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	211.6	212.5
Current assets				
Current Investments	93.5	90.7	81.8	73.2
Inventories	202.0	190.7	240.9	265.4
Sundry Debtors	146.3	193.0	235.8	271.8
Cash and Bank	26.0	18.1	18.1	18.1
Other Current Assets	19.2	30.7	36.3	40.9
Loans and Advances	0.4	0.3	0.3	0.3
Total Current Assets	487.4	523.5	613.2	669.7
Total assets	703.7	733.6	824.8	882.2



Monte Carlo Operation Ratios				
DESCRIPTION	FY17	FY18	FY19E	FY20E
Operational & Financial Ratios				
Earnings Per Share	20.79	27.30	26.53	29.73
Book Value (Rs)	228.21	243.41	257.91	275.60
Margin Ratios				
PBIDTM (%)	14.4%	17.5%	13.7%	13.9%
EBITM (%)	10.0%	14.0%	11.1%	11.9%
PATM (%)	8.4%	10.4%	8.6%	8.5%
Performance Ratios				
ROA (%)	6.4%	8.1%	7.0%	7.3%
ROE (%)	9.1%	11.2%	10.3%	10.8%
ROCE (%)	9.8%	13.7%	11.7%	13.3%
Asset Turnover(x)	0.76	0.78	0.82	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	4.46	5.19
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	57.7	64.6
Depreciation	24.7	19.8	17.5	15.7
Changes In working Capital	26.0	-37.6	-64.2	-45.0
Cash From Operating Activities	95.9	41.6	10.9	35.3
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	-25.2	1.2



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