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MONTE CARLO FASHIONS LIMITED

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November 11, 2023

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Symbol: MONTECARLO	Scrip Code: 538836

Sub: TRANSCRIPT OF EARNINGS CONFERENCE CALL – Q2 and H1 FY24

Dear Sir / Madam,

Pursuant to the provisions of Regulation 30 read with Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith transcript of the earnings conference call of the Company held on November 8, 2023 to discuss Q2 and H1 FY24 results.

We request you to kindly take this in your record.

Thanking You,

Yours Faithfully

For MONTE CARLO FASHIONS LIMITED

ANKUR GAUBA

Digitally signed by ANKUR GAUBA
Date: 2023.11.11 11:23:26 +05'30'

ANKUR GAUBA
COMPANY SECRETARY & COMPLIANCE OFFICER
ICSI Membership No: FCS 10577

"Monte Carlo Fashions Limited

Q2 FY'24 Results Conference Call"

November 08, 2023

MANAGEMENT: **MR. DINESH GOGNA – DIRECTOR – MONTE CARLO FASHIONS LIMITED**
MR. SANDEEP JAIN – EXECUTIVE DIRECTOR – MONTE CARLO FASHIONS LIMITED
MR. R K SHARMA – CHIEF FINANCIAL OFFICER – MONTE CARLO FASHIONS LIMITED
MR. ANKUR GAUBA – COMPANY SECRETARY – MONTE CARLO FASHIONS LIMITED

MODERATOR: **MR. VISHAL PANJWANI – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY '24 Results Conference Call of Monte Carlo Fashions hosted by Emkay Global Financial Services. We have with us today Mr. Dinesh Gogna, Director; Mr. Sandeep Jain, Executive Director; Mr. R.K. Sharma, Chief Financial Officer; and Mr. 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 touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Vishal Panjwani, Emkay Global Financial Services. Thank you, and over to you, sir.

Vishal Panjwani: Hi. Good morning, everyone. I would like to welcome the management and thank them for this opportunity. I shall now hand over the call to Mr. Sandeep Jain for the opening remarks. Over to you, sir. Thank you.

Sandeep Jain: Very good morning to everyone. And thank you all for joining us for today's earnings call to discuss the quarterly performance for Q2 and the first half of financial year '24. Let me start by sharing the stand-alone financials and the operational highlights. The company reported revenues of INR212 crores during Q2 financial '24, representing a degrowth of around 15% year-on-year.

EBITDA for this quarter was INR34 crores, which declined by 33% year-on-year and EBITDA margins were reported at 16%. The margins were reduced in the current quarter due to higher sales returns. Sales returns amounted to INR56 crores against INR27 crores in Q2 financial '23. Net profit stood at INR13.3 crores for this quarter, which declined by 56% year-on-year.

Talking about first half of financial year '24, revenue from operations stood at INR351 crores, which degrew marginally by 3% year-on-year. EBITDA was around INR30 crores, witnessing a decline of around 46% year-on-year with EBITDA margin reported at 8.51%. Net profit stood at INR1.7 crores, a decline of 94% year-on-year.

On the balance sheet side, as on quarter ending, we had a cash balance of INR247 crores, which comprises of cash and bank balances along with the current and noncurrent investments. Long-term borrowings reduced to INR1 crores as of September '23 compared to INR2.7 crores on March '23, which shows our efficiency in serving the debt.

Now moving on to the operational performance. Monte Carlo Fashions continues with its endeavor to build a leading branded apparel company, with continued effort to increase its distribution network. The company recently added 24 new EBOs, 17 in COCO model and seven in FOFO model. With this, the total EBO has reached 377 across 20 states. Currently, we have 1,700-plus MBOs, 377 EBOs and 1,000-plus national chain store plus SIS. Our online sales through our own website stood at INR2.4 crores for the first half of this financial year.

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

Moderator: Thank, you. The first question is from the line of Dhiral from PhillipCapital.

Dhiral: Sir, last quarter, I remember you talked about that at the retail level, the inventory was much lower than the historical average. So what led to the sharp returns in this quarter versus last quarter?

Sandeep Jain: No. I mentioned some of the inventory, which we received was in June and some of the inventory which we received in July. So that is why the total impact of that overall inventory was INR56 crores, which was higher as compared to last financial year. So that is why because whenever the inventory comes back, so we take it on a cost and when we build it, we build it on WSP, that is wholesale price. So that is INR26 crores is a loss of that return inventory, which is again going into the stores in this quarter. So this is why the EBITDA has declined in this quarter.

Dhiral: So sir, this inventory is of which season sir particularly, last year summer or you're talking about some winter season, too?

Sandeep Jain: No, I am talking about last year winter.

Dhiral: Okay. And sir, what is the rationale to enter into the leather shoes space, which is totally unrelated to the existing apparel business?

Sandeep Jain: Basically, this is -- there are two reasons for that. One is, there are very few brands in formal category, particularly shoes in India. And certainly, we are having repeated demand from our franchisees that people are asking and looking for shoes also. So we have just tested a launch of around 40 stores, which are bigger in size. So there we are keeping as a test launch of shoes in our 40 stores. And depending upon the test launch, the company will take further decisions.

Dhiral: So sir, we will be making the shoes or we will be doing the trading on our own like what do we for home textile?

Sandeep Jain: No, we are outsourcing it. We are outsourcing it. And we have vendors for that, and then we are marketing it in our brand name.

Dhiral: Okay. So now if you see in current Q3, sir, almost 40 to 45 days has gone, right? So what is the overall demand outlook for the current quarter? Have you seen any uptick, particularly on the winter side?

Sandeep Jain: See, to be very honest, October has been slow, but since the beginning of November, it has picked up as we are approaching near Diwali and also the wedding season is going to start in a very short time. So that demand has picked up in the last 7, 10 days, and we are very hopeful that because this year, production is also less. And inventory already being taken care of, so we are hopeful that we'll have a good quarter going forward.

Dhiral: Sir, what is the full year growth guidance now as you talked about earlier that we'll be sharing by Q2 end? And what kind of margins are you expecting for the full year?

Sandeep Jain: We have already given the full year guidance where we'll be having a flat year this year. We don't anticipate much growth in this financial year. So either we'll be having a flat year or there may be increase of around 4% to 5% in the revenues. So that is the guidance we already gave in last analyst call also.

Dhiral: And sir, in terms of margin for the full year?

Sandeep Jain: We are still hopeful that we'll be able to maintain our margins plus/minus 100 basis points of last year's EBITDA level.

Moderator: The next question is from the line of Sanjeev Goswami from Fractal Capital Investments.

Sanjeev Goswami: I have this question around our inventory. If you look at September 2023 inventory, it has further increased by 32% Y-o-Y compared to year 2022.

Sanjeev Goswami: So inventory for September 2023 has further increased by 13% on a Y-o-Y basis compared to September...

Sanjeev Goswami: Okay. I'll come in the line afterwards, please.

Moderator: We will move to the next question from the line of Madhur Rathi from Counter Cyclical Investments.

Madhur Rathi: Sir, I wanted to understand our EBOs have been going at a faster rate than our revenue. So what has been going on here? Because we guided that in two years we'll kind of reach an optimum for our EBOs, but it is otherwise. So if you could help me explain that?

Sandeep Jain: See, I'm not able to understand your question. Can you please repeat it?

Madhur Rathi: Yes, sir. Sir, our EBO -- company-owned, company-operated EBOs have grown at a faster rate than our revenue. So I'm just trying to understand that what has been -- has there been any longer period for a feedback from these stores because you had guided in two years, we'll kind of reach an optimum level? So if you could just help me understand that.

Sandeep Jain: If I have clearly understood your question, you were saying that the EBOs -- company-owned EBOs sales have increased more as compared to the revenues of the company. See, there's a reason for that. Basically, the MBO sales have gone down as there are smaller MBOs which are, again, because discretionary spending has gone down, are not performing well, particularly in this financial year. So that is why the EBOs sales are actually more over consistent, and it has not gone down, but the other sales particularly in MBO has gone down.

So that is why EBO sales are looking better as compared to MBO sales. So going forward also, we think that this trend will continue and the company has planned to open 50 to 55 stores as committed in the last conference call in this financial year. Out of that, 24 have already been opened and we'll be opening balance in the next six months. And we are hopeful that the EBO sales will be definitely increasing as compared to other channels because of the trend, which is continuing in this market.

Madhur Rathi: Okay. And sir, on our textile plant, so how is the progress going on that front?

Sandeep Jain: See, there are many hassles as far as land procurement is concerned. We are still not able to procure the land from the government basically. So there are a lot of departments that are involved and company is trying as early as can to procure the land from the -- basically in Kathua region.

Madhur Rathi: Sir, do we have some kind of timeline then since the day we procure our land, like in 12 to 18 months we'll be operational?

Raj Sharma: Pardon?

Madhur Rathi: Sir, what will be the timeline since the day we procure the land for to be operational?

Sandeep Jain: The day the land is available to us. So it will take at least 12 to 15 months to make the plant operational.

Moderator: The next question is from the line of Keshav Garg from Counter Cyclical PMS.

Keshav Garg: Sir, I'm trying to understand that I -- in my memory, sir, this is the first time that we are being -- we are facing with issue of return of inventory and that too significant amount in the first half of this year. So going forward, sir, how -- what are we doing that in future, this does not get repeated, sir, because then what happens, sir, if the company comes out with very good numbers also in some quarters, the shareholders are not sure that maybe these sales will get reversed in future. So what are you doing so that we can avoid this in the future?

Sandeep Jain: It's a very good question. You are right that this problem has come basically first time. It has come earlier also, I think, seven years to eight years back, but that problem was not that bigger, which is in this year. So I would explain what was the reason for this kind of return. There were two reasons for that.

Earlier, we were having a model where we were doing less business with large format stores and also the online channels where the returns are more as compared to normal channels like MBO, SIS and EBOs. So this year, what we have done is that, now we have again reduced our exposure to large format stores. So that will definitely reduce the returns, which will take inverse.

And secondly, what we are doing is that you know -- what we are doing is that we are making some of the returns, which we get from our LFS and EBOs we are sending back to the stores, which other brands are also doing. So in that case, that will be taken care of, like the returns what we got from last year, earlier we used to sell it only on a factory outlet. But when the return is more, factory outlet cannot absorb all the returns.

So what we have decided this year is that in the EOSS sales, so some of the returns will go to those channels also, so that will take care of the returns, which is coming from the stores as well as from the LFS. So I'm sure that with this step, definitely, going forward, we will not have these kind of problems in the future.

Keshav Garg: Sure, sir. And sir, also our advertisement and business promotion expense has also come down a lot from INR13 crores to INR5. 37 crores Y-o-Y in the second quarter and the same is the story in the first half. So I hope that trying to avoid getting hit on the margin is not taking a toll on the future business development and growth prospects of the company.

Sandeep Jain: See, we should not see advertising revenues for one quarter. Basically, we have to see it on an annual basis. So when there is Diwali delayed, the wedding season is delayed, so definitely advertising expense shifts to third quarter. So last year, Diwali was early. It was in October. So that is why some of the expense occurred in September quarter.

But this year, Diwali and wedding season is late as compared to last year. So some of the expense have shifted to this quarter. So overall, I think we'll be maintaining our guidance of what we have like committed at around 3% of our total revenues. So that will remain the same, but it keep on varying quarter-to-quarter depending upon the festive season and wedding season.

Keshav Garg: Sure, sir. And sir, just lastly, sir, our debt has also actually -- we used to be debt free, but now there is a net debt. Sir, so I'm hoping that once the inventory gets unwound by 31, March again, we should be debt-free, sir. What are your thoughts?

Sandeep Jain: Yes, yes, you're right in that. See, the long-term debt is only INR1crore, as I already have spoken about that. And it's normally a working capital debt. And working capital debt has gone up because of the inventory of last year also, which we are getting forward and for this year inventory also. And I'm 100% sure that by 31, December, when we reach by the end of this quarter, the short-term debt -- working capital debt will be taken care of. It will come back to the normal level.

Moderator: The next question is from the line of Koustav Das from Das Investments Group.

Koustav Das: I just wanted to understand that if you guys are seeing some kind of a demand slowdown? Or is it like you are losing some market share because of what I was seeing is that the amount of volume that you have sold compared to H1 last year, this year, it seems to be flat. But actually, if you dig in the numbers, the numbers that you have provided, it seems that in home textile and in kids section, there has been a considerable decline. So are we losing some market share here?

Sandeep Jain: Basically, what is happening is that the dispatch has been shifted to this quarter. So last year, because of early wedding and early Diwali season, dispatch was mainly in the September quarter. So around INR30 crores to INR40 crores of dispatch has been shifted to this quarter. So that is the main reason for less sales in kids and in home textile division. But I think once we have the year-end, we'll see that improvement coming in this third and fourth quarter.

And secondly, we are not losing any market share. And I think if you are in the market and you ask all other brands who are there in the market, actually, we are gaining market share in -- particularly in this winter because some of the brands we heard that because most of the manufacturing happens in Ludhiana, they have cut down their production by 50%.

So this is the news, which we are getting from the market. And the local hosiery, which is there in Ludhiana, has reduced their production by 30% and we have cut down our production only by 15%. So we are very optimistic that we'll be gaining our market share in this quarter rather than losing our market share.

Koustav Das: Okay. Why are we cutting down on production because -- is it because of shorter winter? Or like is the demand slow in India this time around this year?

Sandeep Jain: Again, a very good question. See, the reason for cutting down production was because of more returns we got from last year. So we need to take into account the returns, which we received from our stores also, so that return is going back along with this fresh production. So that is why we cut down the production by 15% this financial year.

Koustav Das: Okay. So I just want to understand one thing. Like hypothetically, if you just think, so last year, you might have booked the revenue, but that had to be returned and now you're trying to sell it back. So if we adjust for all of these anomalies, what would be the actual growth of the company, like the real sales growth? Can you just explain like what will be the sales growth for Monte Carlo products? I'm just trying to understand what is the growth, underlying growth, actually.

Sandeep Jain: See, as far as revenues are concerned, we see a flat year ahead because the production we have already cut down. So whatever returns we have got, we are sending again with the EOSS sales. So that will be sold in that period. But otherwise, the overall revenues of the company, I would say that it will remain same at the last year's level mostly or there can be some growth because we have got a very good booking in the summer booking, which is double-digit growth as far as last year's summer booking is concerned. So that may add some revenue growth in the fourth quarter.

Koustav Das: Okay. Coming to the next point that you guys are entering the business of shoes. So will you be focusing on premium or like the lower end of the shoes? I saw there is a premium shoe -- one product is definitely premium shoe, but what will be the pricing? Because to be honest, like what I'm seeing right now is that there is a demand slowdown across the board for smaller ticket products, like, for example, things which are not that expensive, but maybe luxury items are having a quite significant demand. So just trying to understand like which category you're trying to focus.

Sandeep Jain: I think many will be very curious that why we have entered into this segment. So there are two reasons for that. Primarily, if you see in formal shoe segment, there are only a few brands you can name it, particularly in, I would say, formal leather wear category. And secondly, we are not launching it in all these stores. See, there are around 45 stores, which are bigger in sites.

So just to keep that space idle will not give us anything. So if we have a category which is selling, if we can put that category into the store, it's not increasing my overhead. It's not increasing my marketing cost of salespeople. At the same time, it is generating additional sales in that store that will help us in having the better margins, particularly in those stores. So that was the reason we introduced only 40 stores where we have adequate space. It's not that we're going to have in all these stores. So I just wanted to clarify this.

Koustav Das: And how does the margin profile look like in your shoe compared to the garments?

Sandeep Jain: It's same because we keep the same markup as we have kept in our garments. And being in a premium category, which is about INR4,500, INR5,000, so margins are same.

Moderator: The next question is from the line of Aditya Jhawar from AJ Capital.

Aditya Jhawar: Sir, what I understand is this year, we'll have basically no growth compared to last year... Sir, what I am asking is, this year we don't have growth, that is year-on-year, we are flat. That is the expectation. What about next two years to three years, what is the guidance in terms of revenue and margins?

Sandeep Jain: So thank you very much for asking this question because we were -- I was like anticipating it. So what happens is that after COVID, if you remember, in 2020, our sale was INR624 crores. So in two years, it has jumped to INR1,100 crores. So basically, there was a growth of around 37% CAGR in the last two years.

So definitely, when the company grows, inventory also grows. So there is always one year if the winter season is not good, it comes after seven years, eight years. So everybody is touched up with inventory. So I think that issue is now taken care of because we have cut the production in this financial year, and we are using the returns of the last year also.

So going forward, as now the slate is very clear as inventory issue is taken care of, we are very confident to grow double-digit, 15% to 20%, going forward next two years to three years. As the store expansion is also happening and other categories are also increasing some of our sales. In a just recently conducted trade show, we have seen a double-digit volume growth in that. So that shows the confidence of all the consumers in our brand. And that also gives us the confidence to say that we can easily grow 15% to 20% going forward.

Aditya Jhawar: That's good to hear, sir. Sir, can you throw some light on the Kashmir plant? What will be the revenue coming -- going forward in the next two years to three years?

Sandeep Jain: I'm sorry to say that there's a lot of problems in acquiring the land for in J&K state. It goes from nine to 10 departments, and we are trying from the last six months to seven months, but still we are not able to register the land on our name. So as soon as the land is registered, so then we can give another -- I would say an update on when the plant will be operational.

Aditya Jhawar: Sir, basically, then the growth will come from basically our existing same store. Whatever the growth will happen from our same store, right, then?

Sandeep Jain: See, whatever growth we are seeing is that we are not taking into account the additional sale of J&K plant. What I am saying right now is organically whatever we are going in our stores and also in our normal business of Monte Carlo, so that growth I am talking about. So if that plant is operational, there will be additional growth which will come into the picture. But right now, we are talking only about the Monte Carlo brand's growth.

Aditya Jhawar: Okay. Great. Sir, what about the addition of stores? Like current year, we are adding some roughly 40 to 50 stores, right? So next two years to three years, you are planning the same?

Sandeep Jain: See, earlier, if you remember that from -- if I don't take into account last year, we were expanding 25 to 30 stores every year. Last year, we expanded 45 stores. This year, our target is 50 to 55 stores. And next two years, we'll be targeting 60 to 65 stores to open in full financial year.

Aditya Jhawar: That's fair. Sir, if I may ask what you are seeing that you are -- that is good for the growth. But what are you seeing that so that you are expanding like '22? You are now going at a run rate of 60 to 70. So can you throw some light here? What demand or what the brand is taking into shape in next two years to three years?

Sandeep Jain: See, because we have seen that the MBO business is actually slowing down, because the smaller MBOs either they are closing up or they are not able to make up because the expenses have gone up. So that is why there are pockets where we think that the company can -- see, we cannot lose sales in those areas where some of the MBOs have closed.

So we need to open our EBOs in those areas to gain that share which we already have in those pockets. So that is why company has decided to up its guidance of store opening. So this year, as already have guided that we'll be opening 50 to 55 stores. And going forward, we'll be opening 60 to 65 stores every year, depending upon the circumstances, and definitely depend on the macro environment also.

Aditya Jhawar: Great. Sir, how much cash we have in the books?

Sandeep Jain: We have INR247 crores as of 30th September.

Aditya Jhawar: Okay. So that you are keeping it for Jammu & Kashmir plant? Or what is the utilization thought there?

Sandeep Jain: See, we have already a cash approval of almost INR100 crores every year. So it's not that we need money for that particular plant. And also that plant is having debt also because the debt is very subsidized. The interest subvention scheme, which is available at 2% of the cost. So money is basically not needed right now in the company, and it can be used by giving dividends and whatever Board decides in the Board meeting. So it's always good to have money on the books rather than debt on the books.

Aditya Jhawar: But sir, just a suggestion. Then it's a good way to do a buyback, right? You can increase your stake and it is...

Sandeep Jain: There is every possibility. Whatever the Board decides, definitely we'll let you know.

Moderator: The next question is from the line of Vishal Panjwani.

Vishal Panjwani: I just had one question. Like other categories in consumer like jewellery and consumer durable are seeing strong growth trends, but apparel category is seeing muted trend. How are you seeing this?

Sandeep Jain: I think this spend will also come back. After COVID what was happening was that, there was a pent-up demand for everything. And that demand is now basically being curtailed to only traveling, only to having going to restaurants and vacation and all. So money is going particularly in those areas. But as of now, we see that because inflation has gone up and also the discretionary spending is down.

So this particular where we have seen, there is -- some discretionary spending is not happening. But this will come back definitely, as it has come back after COVID also. The same thing we experienced in 2020 and same thing we are experiencing now. But all these are -- nothing is permanent. So it keeps on changing. And we are very hopeful there by this festive season, everything should be normalized.

Vishal Panjwani: And one more question. For apparel as a category, we have to plan our inventory in advance for future growth expectation. So as a company or based on your industry interaction, what is the kind of growth that industry is expecting for this year's festive season?

Sandeep Jain: See, to be very honest, as we have been discussing every day with our marketing team about what other brands are doing and what other brands are performing in the market. To be very honest, we have seen that if we degrew only 10% to 12%, other brands have degrown in winter wear category 30% to 35%. So by this estimate, you can have the Q3 of other brands also, and I'm 100% sure, not even 99, 100% sure, we'll be performing much better in Q3 as compared to any other brand which is there in the market.

Moderator: The next question is from the line of Amit Kumar from Determined Investments.

Amit Kumar: Just two questions at my end. So you sort of noted that the MBO channel is under a little bit of stress and some MBOs are either buying less or maybe not buying from you. But there are sort of distributors -- I mean, there are different, different MBOs with different brands. One MBO in a particular market is not buying from you. Typically, companies go find another distributor or MBO to sort of stop their products. Is that not a possibility? I mean I'm just saying that the more EBOs that you have, it's also more -- the business model sort of then tends to become a lot more asset heavy in that sense? So just trying to understand your thoughts on that.

Sandeep Jain: See, you are right in one sense, but the thing is that every market has some top MBOs and some medium MBOs. So we work only with the MBOs who are premium dealers, who are selling premium goods. So those dealers actually are having some problems because the discretionary spending has gone down. They may pick up in this festive season or next summer. It is not that we are not going to perform again. But the problem is there in this financial year, particularly. And I'm hopeful that they may pick up from this festive season or the next season.

The reason for our opening of EBOs is that because we need that there is -- we need some security also particularly in those areas. Even if they don't perform in the future or if they perform less, we just can't have this thinking only that they will start performing by this festive season. So company needs to have their security also, so that it should not lose fresh customer if they're looking for Monte Carlo clothes, in particular, that region. So that is the reason we are opening our EBOs. Also at the same time, we are pushing up MBOs also to increase their sales.

Amit Kumar: Okay. Understood, sir. On the second point, this LFS and online issue that you sorted. So I mean, this has been there in the industry for a while, and these channels also tend to be a little bit more discount-led channels. Again, just a sort of business-only question here. So right now, you seem to be operating with these channels on a sale or return basis. But at least I know from online guys that they are happy to work on an outright model also, but of course, they will demand a little bit, couple of percentage point extra in terms of gross margin at your end.

So why reduce your exposure to these channels? Would it not be better to basically shift from an SOR model to an outright sale model if you're sort of facing these issues? Because these are important channels. I mean, LFS and online put together in online -- put together in apparel is, I think, around 25%, 30% of sales. So reducing your dependency on these channels also doesn't help in the long run.

Sandeep Jain: See, consciously, we have taken a decision that we should be around 10% of our sales, not going beyond that, particularly in LFS because the returns are more in -- and also margins are less. It's not that we're removing our products from LFS. We'll be present in Reliance, we'll be present in Shoppers Stop, we'll be present in Central, wherever we are present. The only thing is that, we are not sending our stock to those areas where the sales are less. Because we have seen that last year, some of the areas where we have sent our goods, actually, we got 55 returns from those areas.

So we have cut down those stores, those areas where the returns are more and we are increasing our presence in those areas where our returns -- our sales are more and we'll keep on doing that in the future as well. It's not that we will cut down on LFS exposure. It may go up next year also if those stores, which we have taken this year perform better than the rest of the stores. So there is no fixed quality for like we'll be reducing our LFS exposure or -- it all depends on the performance of the channel. If one channel performs better, definitely, it has more exposure. If one channel performs lesser, definitely it will have less exposure in that financial year.

Amit Kumar: I understand that. But what are your thoughts on the SOR model versus an outright sale model? In the outright sale model, obviously, you get slightly lesser in terms of margins, but our overall margins are as it is sort of fairly healthy. And you pass on the inventory risk to the LFS or the online people effectively. So what are your thoughts on those 2?

Sandeep Jain: I understand your question correctly. See, first of all, LFS doesn't buy own outrightly. The Reliance and other brands won't buy outrightly. Online, yes. Flipkart buys outrightly, but then we lose our control on the pricing. So what they do is that when they buy outrightly, they can put simply 50%, 40% discount on the products, which we don't accept because we only go for EOSS sales.

So we want to have a full control on the pricing when we display our product either on online or LFS or on our own channels. So that is why we are not selling outrightly to Flipkart. So they will just spoil the market. So there is a fear we haven't done in the past also because we tried, last year and that is why we are selling them SOR model where we have a control on the pricing also.

Moderator: The next question is from the line of Koustav Das from Das Investments Group.

Koustav Das: I just wanted to ask three more questions. So when you're saying that the winter season was bad, which winter are you trying to refer? Is it like the coming winter or the winter that's already behind us, like the last year?

Sandeep Jain: Last year winter.

Koustav Das: Okay, last year winter. And are you seeing some kind of stress because overall, if you see the winter months are coming down, is it causing some kind of stress to your business? Or are you not seeing that?

Sandeep Jain: No. Winter, we are very positive. Definitely, there was less footfall in October month that is because Shradh have come early and Navratri were late and the festive season was late. But beginning of November, we have seen that footfalls have also increased and sales have also gone up. So as of now, we are very hopeful. I can't say about full November and December months. But as of now, as Diwali is very near, sales have improved. We are very positive with this trend going forward.

Koustav Das: Okay. So to understand what you are saying is that this is like a one-time phenomenon that might occur in five years, six years, seven years, where there might have some stocking and there might have been some bad winter that might cause this kind of discrepancy, but this is not going to be on a regular basis. This might be in five years to seven years. Is my understanding correct?

Sandeep Jain: In my experience of 27 years, it has occurred three times. So you can say that every eight years, nine years, there is one year where we have less winters or where we were less monsoon or where we were deficient in rains. It's related basically. So whenever we see there is some deficiency in the rain, so it can happen. It's weather, you can't control it. But again, we don't say that because of bad winter actually the sales are down.

Sometimes, it is because of higher inflation also the sales are down because people are spending less on clothes and all. So that can be another reason which can happen any time. So these will be mainly two reasons why sometimes the sales are down.

Koustav Das: Got it. Just one thing. So all of the returns that were happening, why didn't you book in the first quarter itself? Like why did it spill over to the second quarter?

Sandeep Jain: No. We take the return on an actual basis as some stores are far where we get in July and some in June. So that is why -- because we have a refinishing capacity also. So we have a standard return policy where we have defined timelines that when we can take the return, so that we also not get crowded at our warehouses also.

Koustav Das: Okay. Got it. So I think it will be helpful from the next time on the con call, you can give a guidance to the investors that what might occur. Like if you could have explained that this scenario might occur, in maybe one or two con calls before, then I think market would not have reacted sharply. But anyway, that is why. The other two things that I wanted to ask is like you guys are expanding in Southern India. How are you seeing the demand? I guess the winter wear, demand is a bit lower there and summer wear is more. So how is your demand shaping up?

Sandeep Jain: You are right that summer wear demand is more in Southern and Western market. We are having very good sales basically, that is why we're increasing our EBOs over there. Right now, we opened, I think, four, five EBOs in this final, and we're opening another five, six EBOs. So there will be 10 to 12 EBOs in Southern region and five EBOs in Western region.

And the initial response has been very encouraging. That is also pushing us to open more EBOs. In Chennai, we had only one EBO. So I'll just give you an example. We opened Palladium Mall in Chennai. And in one year itself, we did a sale of INR1 crores, which we're normally doing in Tier 2, Tier 3 cities in Northern region. And it's mostly the summer sales.

So we have planned three more showrooms in Chennai, one is in Ampa Mall; one is in Marina Mall, already opened; one is an Express Mall. Because we got response in one region, so that is helping us to take decisions faster in particularly those regions. And similarly, in Bangalore, we have planned almost, I think, nine stores this year. Earlier it was only four stores.

So that is giving us confidence in summer wear range also. So going forward, we are very confident in our -- and you would see that in our presentation for full year presentation, South and West should grow even though whole company is not growing, but this region should grow around 35% to 40% as compared to last time I mentioned.

Koustav Das: Understood. So from what you have told, it seems that your summer wear business is going good. I just want to understand what is the margin profile there in comparison to the winter wear? Are the margins similar?

Sandeep Jain: Unfortunately, the summer margins at PBT level are better than winter wear margins.

Koustav Das: Okay. So then in that case, I believe that you guys should focus more on the summer wear. I'm not saying that you don't focus on winter wear, but you should also try to focus more and more on summer wear and the premium luxury kind of clothing because this will actually help you to move away from the seasonality factor because India is mostly a summer and humid kind of a country. So summers are not going to be bad. Like even if winters are bad, mostly summers are not going to be bad. So yes, what's your thoughts on that? Like do you want to expand the summer wear?

Sandeep Jain: I agree with you, and that is what we have been trying to do from the last five years. If you see my investor presentation of five years, six years back, it used to be 70% in third quarter, now which has come down to 50%. So why it is 50%? It's not that winter wear has not grown. The summer wear has grown faster than winter wear and other three quarters are actually taking 50% of the business.

And it is increasing every year, because the summer wear is growing double digit and the winter wear is growing single digit. So going forward, I would say that if I say next three years downward, we should have only 40% sales from the third quarter, so below from the last few quarters.

Koustav Das: Okay. So maybe three years, four years down the line, the seasonality factor will be a lot less behind us, right, because you will become very much summer heavy, not summer heavy, but at least summer wear will become a significant part of the business.

Sandeep Jain: We are having internal discussion. Whatever we have our meeting, we have decided that by 2027, we should have more summer exposure than winter wear exposure for the next year.

Koustav Das: Right. And that might help you to actually reduce the kind of seasonality, okay, got it. One last, sir. So you guys are having a lot of cash, and I think some other participants also explained that you should do a buyback. So don't you think like buying back at this kind of a market price will actually help you guys? Because if you see right now, the stock seems quite undervalued. Like on a P/E basis, it's like 13, 14x and you guys have a good brand.

So obviously, the brand premium is not visible right now in the market. So can you -- don't you think that you guys should tap into the market and do a buyback so that it actually shows up your percentage and it actually helps in the long run. So what are your thoughts on that?

Sandeep Jain: I can't comment anything in this earning call, but Board may decide it as and when this question comes. And definitely, when we have a more cash, so either the company gives good dividend or company goes for buyback. So both options are available with the Board.

Moderator: The next question is from the line of Vivek Kumar, an individual investor. As there's no response from the current participant, we'll move on to the next, that is from the line of Arjun Chandnani, a retail investor.

Arjun Chandnani: So I have two questions. I joined a little late, so I don't know if it's already been answered. So the inventory that was there last year because of a shortened winter, the prices that we are getting for that inventory are the full prices? Or are you having to give some discounts or something on that? And just one more thing, on the store openings.

So in earlier con calls, you had mentioned that 90% of the roles that you will be opening will be franchise-owned and franchise operated, but for the first part of this year, at least the majority of stores opened have been company-operated and company-owned. So if you could throw some light on that?

Sandeep Jain: So the first part, which if I clearly understood, so whenever we get the inventory, we book it at a cost. So that is why we have incurred a loss. So whenever we sell it, again, we sell it at a wholesale price. So we realize the profit. So if I'm answering, I think this is what you wanted to know?

Arjun Chandnani: Yes. So you won't have to discount that inventory further in order to sell it. You'll sell it at a fresh...

Sandeep Jain: No. They are having some discounts at the store level, but not at the company level. And secondly, see the seven stores, which you say is company-owned, so overall percentage, 80% to 85% will remain same. So in the next six months, you will see that more of the franchisee stores are coming up. So the overall percentage of company owned store will remain at around 10% to 10% and 85% will be the franchise-owned, franchise-operated stores only.

Arjun Chandnani: Okay. So you're seeing good demand from -- for the franchise openings as well in second half?

Sandeep Jain: Yes. That's why we have already -- showrooms have been planned, and that is why we are guiding store opening of 50 to 55 in full financial year. So 24 have been already opened, and balance 30 will come up in this second half.

Moderator: The next question is from the line of Pravin Sharma, an individual investor.

Pravin Sharma: Sir, most of the questions are answered. I had a few questions, especially on the shoe business. How much is the investment in terms of the inventory we are putting up to start with in this?

Sandeep Jain: It's just INR2 crores inventory basically. It's only for 40 stores we're planning up. So depending upon that, we'll see what we can do in the other stores, which are opening basically at larger areas, more than 2,000 square feet because we're not keeping shoes lesser than 2,000 square feet store because -- and the reason why we are putting up in more than 2,000 square feet because the space is available. So we need to use it, so they can only generate additional sales and there is a market for that also.

Pravin Sharma: And we are looking at putting up belts and other accessories also along with the shoes or only shoes as of now?

Sandeep Jain: We are considering belts also, but still it is not up in the stores. And we are considering already socks are there as far as caps are there in the stores. So two accessories are already there, the socks and caps. And shoes, we are putting up in 40 stores, and company may think of other accessories also in the future.

Pravin Sharma: Okay. And sir, basically, in this particular segment, what is the total addressable market size? Means we would have done some kind of research on this. I mean, if things go well, what is the opportunity size?

Sandeep Jain: So one thing, which we noticed is that in formal wear, formal shoes, leather shoes category, there are only a few brands you can name it. So one is Bata and the second is Metro shoes and you can name one or more few shoes, but there are not many brands available. As in sports, there are many brands, so Nike, adidas. It is very difficult to compete with those brands, international brands like Nike, adidas, Skechers and ASICS and all. So this is one category, which is less penetrated as far as, I would say, branding is concerned.

And also, people are looking at good quality leather shoes also which they're not getting it, basically at a good price, if we talk about the premium category. Then there are other issues which are available at very, very high price. But the good leather shoes if I say at INR4,000, INR4,500 crores, nobody not available. So there is the reason actually we ventured into that. Another reason was because we have a larger stores, which the space would be utilized. So these were the two reasons we introduced it.

Pravin Sharma: Okay. And basically, what you are saying is that value proposition is our right to win or the USP in this particular. This is how we are planning to take on the incumbents like Bata, Hush Puppies and Liberty. So basically, value proposition in terms of quality at a reasonable price, correct?

Sandeep Jain: See, quality, again, Bata is not considered a premium brand. So we being a premium brand compete with these because they also keep the shoes. They're also not having the only stand-alone shoe store, they're only keeping at their EBOs. Van Heusen is also keeping it and I've seen it in Arrow also, so even Blackberrys has kept it. So I think every brand is actually where they have a larger space, trying to have the complete men's wardrobe. So we were missing in this category, and we've introduced it.

Pravin Sharma: And sir, last one question. It's most an observation than a question. Basically, when we try to sell in these LFS, do we have the right kind of team? I would assume that there is a team. But based on one of the experience because I see in one Reliance Trends store, the products were not displayed properly, quite shabbily at the back of the store somewhere.

So do we carry on some kind of checkup. And I don't -- just to ensure that our products are properly displayed and they are properly marketed in these LFS because then we are leaving it to them and then they return. They have an SOR kind of arrangement.

Sandeep Jain: It's a very good question. So basically, what happens is that if we are present in 400 locations, so there are around 300 locations where we are present throughout the year. So there we get proper wall where we have summertime also and winter wear products also throughout the year.

But in 100 stores, which are only category stores, where we supply winter, sometimes they place on their will because we don't have a choice over there as they are selling only as a category, not as a full year wall they're giving to us. So yes there maybe problem in some 100 stores out of that, but balance 300 stores, we have got a good location, and we are given a proper space.

Pravin Sharma: And we can come on and checking it that once in a while?

Sandeep Jain: We have a team which highlights it and checks it and gives the report and all. So those 100 locations, we need to compromise because we are not present throughout the year. So as a category business, they place it on their will.

Moderator: The next question is from the line of Hitesh Popat, an individual investor.

Hitesh Popat: I have two questions. One is regarding the companies which are in similar apparel business and more focused on exports, they are performing nicely in recent times. So is there anything -- or are we comparing such things? Are there any better opportunities in export market or anything as such we are exploring?

Sandeep Jain: Again, it's a good question. We have just started it. We are exporting some consignment to Germany. We have started a few consignment to other countries also. But that -- the value is not that big. But I think that this is one opportunity, which is opening up for Monte Carlo now, and we are seriously looking at this opportunity now.

Hitesh Popat: Because we are a very good brand. I take it Monte Carlo as a top five or top 10 brand of India. So we can leverage that brand in export market. We are not getting expected performance since a couple of quarters in India?

Sandeep Jain: As I said that, we exported just one consignment to Germany, and we are looking at other countries also. So we have started thinking on this also in the export front.

Hitesh Popat: Okay. My second question would be what is our current or recent spend on branding advertisement?

Sandeep Jain: Pardon?

Hitesh Popat: What is our recent spend in percentage of total sales on branding or advertisements?

Sandeep Jain: We guided for 2.5% to 3% of the revenues.

Hitesh Popat: Okay. Since long I have this question. As we are a very good brand, can't we raise it to a higher percentage? Or does it help us or not? Are we confident on that?

Sandeep Jain: Yes, I think because absolute value is going up every year. As earlier, we had a sale of INR600 crores, the spend was around INR18 crores. Now the spend has gone to INR30 crores, INR35 crores. So absolute value is going up every year.

Hitesh Popat: Are we having any plans to raise it as a percentage, like 3%, 4%, 5% of total sales because we are a good brand, very good brand, I would say. It might give an additional boost.

Sandeep Jain: As of now, we think that the percentage what we are maintaining is sufficient for us. And we may think of increasing it once there is any need for that.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to the management for the closing comments.

Sandeep Jain: Once again, thank you very much for all the questions which have been asked. Still if there is any question or any data which you require, which is not provided by the investor presentation, please feel free to ask to our Investor Relations agency and also to our Company Secretary. Thank you very much.

Moderator: Thank you management team. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.