KamayaKya

UPSIDE POTENTIAL 20 PERCENT

MONTE CARLO
It's the way you make me feel

GARMENTS & APPARELS INDUSTRY

Monte Carlo Fashions Ltd (MCFL)

AS ON 15/12/2022 MCap : ₹ 1505 Cr Risk Profile : Medium

NSE: MONTECARLO BSE: 538836 BUY PRICE: Rs. 726.15 Target Price: Rs. 871.38 Duration: 12 months

EV/EBITDA: 8.69	OPM: 20%	D/E: 0.55	ROCE: 21.73%	Promoter Holding: 73.17%
Price to Sales: 1.53	NPM: 12.61%	Interest Coverage Ratio: 9.73	ROE: 17.87%	DII/ + FII: 3.58%

FUNDAMENTAL NOTES

Monte Carlo Fashions Ltd was launched in 1984 by Oswal Woolen Mills Ltd, the flagship company of Nahar group. It is known for its winterwear offering. The products offered under brand Monte Carlo, apart from Woolen knitted garments, include T-Shirts, Shirts, Linen Shirts, Denim, Trousers, Dresses, Shorts, Tunics, Sportswear & much more for men, women and tweens (8-14 years age group). The brand has gained the ISO 9001: 2000 certifications. MCFL's products reach the end user through different channels i.e. through Exclusive Brand Outlets (EBO Formats: Company Owned Company Operated, Franchisee Owned Franchisee Operated), Multi Brand Outlets (MBO), National Chain Stores (NCS), Large Format Stores and Online. As of H1FY23 Monte Carlo is available through more than 336 EBO, over 1900 MBO and Distributors, 687 NCS, 325 Shops & Online retailers like Ajio, Amazon, Flipkart, First Cry, Myntra, Jabong and Kapsons.

TRIGGERS

1. CAPACITY EXPANSION IN THE MMF (HOME TEXTILE) SEGMENT
Board has approved the incorporation of a new subsidiary (Monte Carlo Home Furnishings) to make rugs & mink blankets for a total investment outlay of ₹350 Cr over next 5 yrs with a revenue potential of ₹600 Cr. Main aim is to drive exports of Rugs and Mink Blankets where the company is seeing huge opportunities due to China +1 strategy. MCFL has already been selected under the PLI scheme in MMF. First phase of this plant will be operational in Q3FY24 with a revenue potential ₹160 Cr & capital outlay of 80 crores. MCFL currently trades in mink blankets but is dependent on China for its supply. It will be expanding their existing operating margins from 15% previously to 20% once the manufacturing facility commences. The new plant will be opened up in the state of J&K. The benefits of setting up a plant in J&K are capital investment incentives, capital interest subvention, GST-linked incentives, a low rate of electricity.

2. EXPANDING EBO NETWORK TO DRIVE GROWTH IN THE CORE BUSINESS
- MCFL plans to strongly grow its store network with 80% of their new stores coming up in the Northern and Eastern parts of India, 10% in Central region of India and the remaining 10% will be opened up in Southern and Eastern parts of India. The growth plan mainly consists of expanding their EBO network under the franchisee model, this will pass on the inventory risk from the company to the franchisee as the number of franchises grow. The Company revised its guidance to open 40 to 45 stores in this FY, from 30 stores.

3. DIVERSIFICATION IN THE LONG RUN TO REDUCE SEASONALITY
- Management is focusing on improving its summer offerings over time to reduce the seasonality and dependency on winters. Cotton has already been contributing majorly but cotton offerings are mostly winterwear offerings, this is expected to change structurally in the long term.

4. NORMALISING MACRO BUSINESS ENVIORNMENT IN INDIA FOR TEXTILE/FASHIONS INDUSTRY AND INCREASED TRAVEL COUPLED WITH AIRLINE TRAFFIC RECOVERY
- Increased travelling and higher discretionary spending by consumers should aid MCFL to continue on this momentum of 20% CAGR in topline.

RISKS

1. Geographical concentration: Sales in Northern & Eastern parts of India contribute majorly to its sales. Climatic disruptions in those regions can affect MCFL's revenues. Their future growth plan relies on expanding in these regions.
2. Seasonality: Majority of its revenues(50%+) are concentrated in Q3 as it is a winterwear brand. If winters do not turn out to be severe enough their growth in sales is impacted causing inventory pileup which reduces subsequent orders.
3. Low advertisement spends: MCFL has planned to keep advertising costs range bound at 2% to 3%, which is low for a brand that wants to grow. The company has been focusing on a localized approach which has its own strengths.
4. Majority of manufacturing (75%) is outsourced. Manufacturers do not manufacture for Monte Carlo exclusively which poses threat of copy products or similar quality products.
5. Following the competitor: Fashion industry is a price sensitive industry, if competitors are offering deep discounts, Monte Carlo is forced to follow suit and gives up on its pricing power in order to grow and maintain market share.
6. Socio-political risk: New capacity of mink blankets is coming up in J&K, which is a politically sensitive region and may affect the operationality of the new facility.