PhillipCapital PRIVATE CLIENT GROUP

Monte Carlo Fashions Ltd (MOCF.IN)

Encashing the fashion world

INDIA | SMALLCAP| INITIATING COVERAGE REPORT

4 August 2023

BUY

CMP Rs 845

TARGET Rs 1146(+36%)

Why we like the company

- Robust business model led by 1) asset light approach 2) improving brand acceptance 2) premium positioning 3) consistent double digit margins 4) healthy balance sheet and 5) better returns ratios.
- Diversified product portfolio has helped to reduce business seasonality, thus ensuring steady growth; cotton and other segments now contributes more than 70% revenue. Also, capacity expansion in home textile segment to accelerate segmental revenue and overall profitability.
- Aggressive store addition via asset light route (i.e. FOFO model) to drive business growth. Going ahead, the company targets to grow its EBO footprint at 13-15% CAGR over FY23-FY25E v/s 9-11% CAGR in last 5 years.
- Extensive distribution network with increasing focus towards untapped markets of Southern and Western India, which together contribute less than 10% of revenue as on FY23.
- Financials to improve with underlying capex of Rs2bn in next two years with revenue potential of Rs 4bn in coming years along with increasing network expansion would translate into 22% CAGR growth in profitability over FY23-FY25E.

Outlook and view:

Monte Carlo Fashion Ltd is one of the leading premium winter-wear brands in India. Over the years, it has gradually realigned its business model with changing fashion trends through focus on product diversification and category extension. The company enjoys strong competitive advantage due to strong in-house designing team, dedicated manufacturing facilities as well as widespread distribution network. It is well placed to gain from shift towards branded apparels, rising discretionary spends, increasing premiumisation and strong brand recall.

We are optimistic on the company led by experienced management, in-house designing team, asset light business model, improving financials and consistent dividend payout. We forecast MCFL sales, EBITDA and net profit to grow at a CAGR of 17%, 19.5%,22% over FY23-25E. We initiate coverage on MCFL with BUY rating with price target of Rs 1146/- (12x FY25E EPS), which implies 36% upside from recommended level. We believe, MCFL has the potential to rerate due to 1) diversified products category 2) consistent growth 3) better returns ratio.

Key financials: (Rs Mn)

Year	Net sales	EBITDA	PAT	EPS	D:E	P/E	EV/EBITDA	ROE	ROCE
FY22	9043.0	1800.0	1140.0	55.1	0.03	8.8	5.7	16.6%	18.9%
FY23	11177.0	2177.0	1325.0	64.0	0.24	9.7	6.8	17.1%	18.0%
FY24E	13072.1	2626.4	1618.9	78.2	0.00	10.8	6.7	18.3%	21.2%
FY25E	15224.0	3104.8	1976.8	95.5	-0.05	8.8	5.5	19.4%	21.1%

Source: Company, Phillip Capital

COMPANY DATA

O/S SHARES (Cr) :	2.1
MARKET CAP (RS BN) :	17.4
MARKET CAP (USD MN) :	210
52 - WK HI/LO (RS) :	908/530
TRADING VOL. 3M (000) :	72.6
PAR VALUE (RS) :	10

SHARE HOLDING PATTERN, %

PROMOTERS :	73.17
FII / FPI :	1.23
DII/MF :	1.18
PUBLIC & OTHERS :	24.41

SHP as on June 2023

PRICE VS SENSEX

Source: Company, Phillip Capital

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Company Background

Monte Carlo Fashion Ltd (MCFL) was launched in 1984 as an exclusive woolen brand by Oswal Woolen Mills Ltd, the flagship company of Nahar Group. During 2011, the branded apparel business was demerged and since then, the company has evolved as one of the leading manufacturer and retailer of woolen products, cotton knitted garments across men, women and kids wear. The company also sells accessories products like stoles, caps, muffler and socks. It is also engaged in trading of home textile products. The company is led by Mr J L Oswal who has more than 5 decades of experience in the textile and apparels segment.

Manufacturing details

The company operates two manufacturing facilities in Ludhiana, Punjab i.e. one for woollen products and one for cotton apparel products. These manufacturing facilities include product development, a design studio and sampling infrastructure. The company's woollen knitted products are entirely manufactured in-house whereas only 30% of cotton apparels products are manufactured in-house and balance is manufactured through network of third-party manufacturers. This results into asset light approach.

Key Brand & product portfolio:

"Monte Carlo" is the flagship brand of the company which is a market leader in the woollen knitted apparel industry in India. The brand enjoys significant premium and equity recall on a pan India presence. While Monte Carlo is the Umbrella brand, the company has introduced other sub-brands like "Alpha" and "Tweens" to sell exclusively women's & kids wear products respectively. The kids wear is focused towards age group of 7 to 13 years. It has launched "Cloak & Décor" brand to focus into mass segment whereas "Rock-IT" brand to focus on sport's wear segment. The "Luxuria" brand is focused on ultra-premium segment of the market.

Brand Logo	Flagship Brand	Segment description	Product category	Products Portfolio
	Monte Carlo	The Flagship brand caters to premium and mid-premium segments	Woolen, Cotton and Home Textiles	**Woolen product includes** - Sweaters, Pullover thermals, Woolen Accessories (Caps, Mufflers, Shawls, Stoles). **Cotton product includes** Shirts, Trousers, T-shirt, Track-Suits & Jackets. **Home textile includes** Mink Blankets, Bed Sheet and Quilts.
	Luxuria	The brand caters to premium and mid-premium segment	Woolen and Cotton segment	**Woolen product includes** - Cash Wool Sweaters, Blazer, Coats. **Cotton Product includes** cotton Shirts, Trousers and T-shirts
		Denim Mid Premium/Premium	Cotton Segment	**Cotton product includes** Denim Trousers (Jeans) and Shirts
	Alpha	Focus on Women's Wear	Woolen and Cotton segment	**Woolen product includes** - Sweaters and Cardigan. Cotton product includes: Shirts, T-shirts, Trousers, Jackets and Sweat Shirts
	Tweens	Focus on Kids Wear	Woolen and Cotton segment	**Woolen product includes** - Sweaters and Cardigan. Cotton product includes: Shirts, T-shirts and bottom.
	Cloak & Décor	Focus on Men's Wear	Woolen and Cotton segment	**Woolen product includes** - Sweaters and Cardigan. Cotton product includes Shirt, T-shirt
	Rock It	Focus on Sport's Wear	Cotton Segment	**Cotton product includes** Tank, Polo, T-shirt, Shorts, Track Pants

Source: Company, Phillip Capital

Market reach

The company has strong distribution network and wide presence across Pan India. The distribution network constitutes exclusive brand outlets (EBOs) and Multi Brand outlets (MBOs) along with other networks like national chain store (NCS) and Shop in Shop (SIS) Model. Under MBOs segment, the products are supplied through exclusive commission agents to 2500 MBOs on outright basis as on March 2023. Under NCS channel, the company supplies its product to 6-7 large retail chains which include Shopper Stop, Pantaloons, Reliance Retail, Trends, Lifestyle, Globus and Lulu.

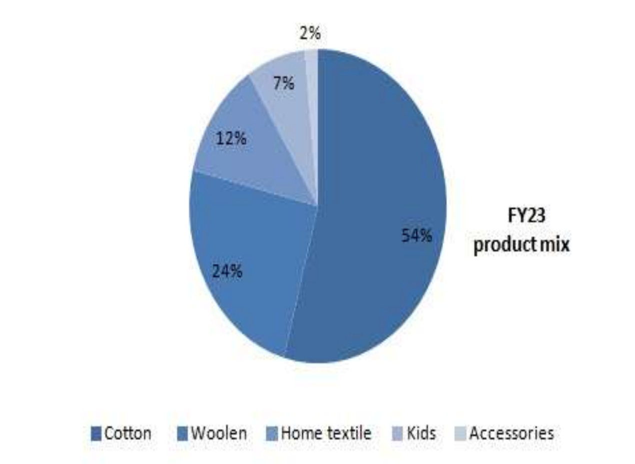
Under EBOs segment, the company has COCO and FOFO model. As on FY23, the company has 70 COCO (company owned & company operated) stores which are leased and managed by company personnel. Under FOFO (franchise owned and franchise operate model), the company's store count stands at 286 as on March 2023.

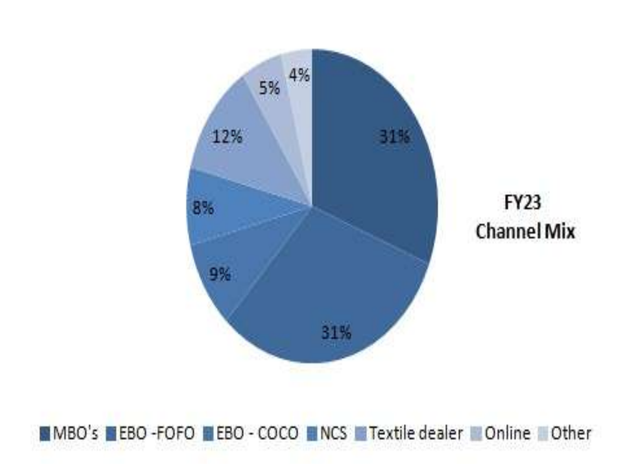
The company's products are also marketed through own portal i.e. montecarlo.in along with tie-ups with other digital platforms like Flipkart, Amazon, Myntra, Ajio etc.

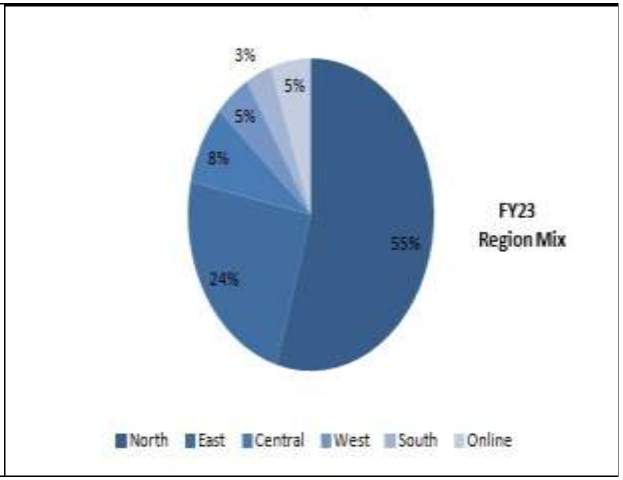
Geographically, the company has strong presence in Northern and Eastern India. It is gradually increasing its presence in other part of the nations through aggressive channel expansion via EBOs and retail reach.

Revenue contribution across different segments:

As on FY23, the company generates 56% revenue from menswear followed by 23% revenue from womenswear, 7% from kidswear, 12% from home textile and rest from accessories. Further, below is the revenue mix across channels, product and region wise





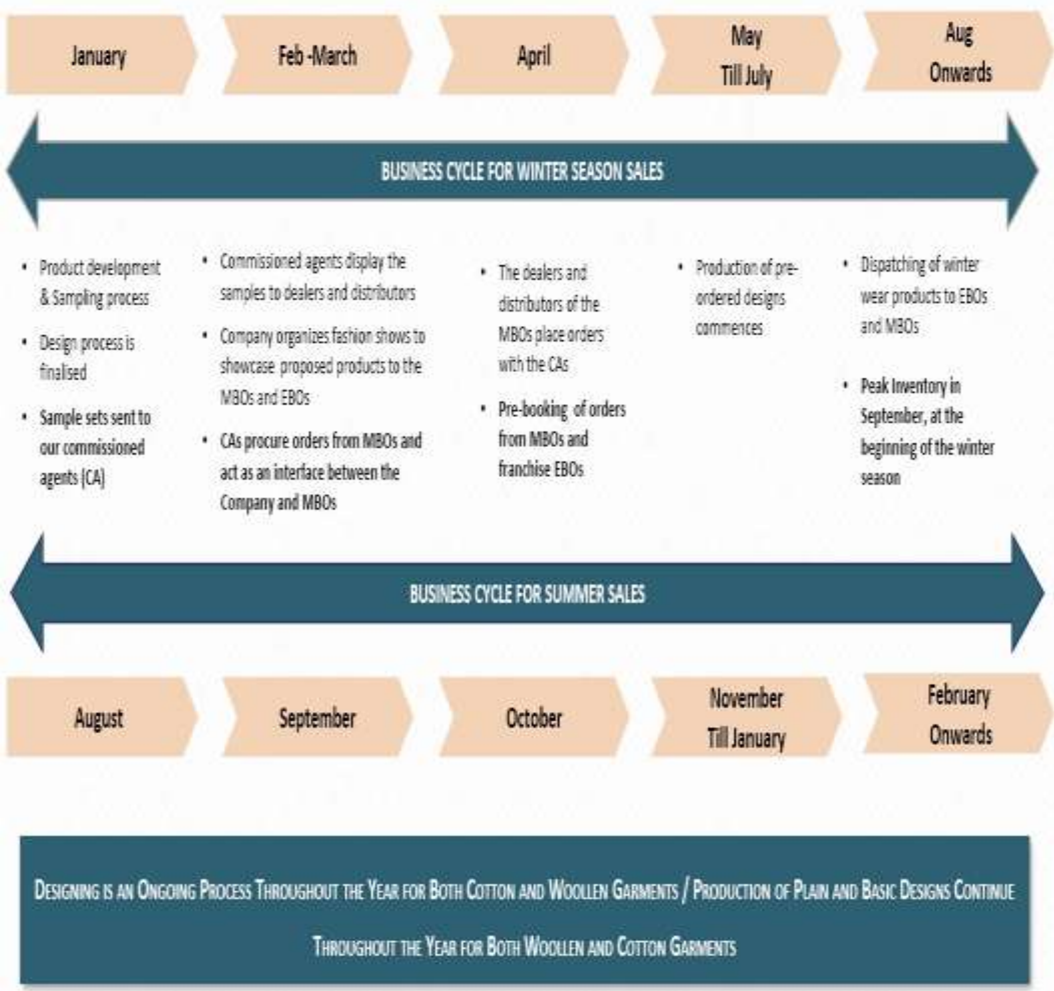


Source: Company, Phillip Capital

Business and distribution Model

Over the years, the company has gradually transitioned itself from a winter wear brand to a lifestyle brand with the help of product diversification. The company follows different cycle for its winter as well as summer sales. On distribution side, the company's sale model is largely secured with minimum risk of goods return, low collection risk and make to order. The company also enjoys strong pricing power across value chain.

Below is the business model for winter as well as summer sales product



Source: Company, Phillip Capital

below is the distribution policy across the channels

	MBO and Distributors	NCS	Shop In Shop	EBO-COCO	EBO –FOFO
Distribution Sale Model	Pre-Booking of orders Outright Sales	SOR – Sale or Return / Outright Sales	Pre-Booking of orders Outright Sales	Inventory owned by Company	Pre-Booking of orders Outright sale
Goods Return Risk	No	Yes	No	N.A	Minimal 5% - 10 % of Products Return Allowed
Discount Sharing	No	Yes	Yes	Yes	Yes Range of 5% - 17.5%
Payment Collection Credit Risk	Exclusive commissioned agents are liable to pay	Reputed retail chains	Exclusive commissioned agents are liable to pay	-	Bank guarantee's and PDC taken from franchise

Source: Company, Phillip Capital

Marketing Spend

For increasing brand presence and enhance visibility, the company regularly invests in brand building and marketing initiatives which includes print advertisement, advertisement across multiplex and strategic tie up with airlines and digital platform. It has also featured as a clothing partner for various blockbuster bollywood movies like Barfi, Student of the Year, Saaho etc and other reality shows. Recently, company roped West Indies cricketer Mr. Andrew Russell as Brand ambassador for its sports-wear brand "Rock it". Historically, the company spends around 4-5% of sales towards advertising and marketing expenses, this is likely to continue in coming years

Source: Company, Phillip Capital

Key Management details:

The company is led by experienced management who has successfully transformed business to new heights year after year.

Key Personnel	Designation	Profile
Mr. Jawahar Lal Oswal	Chairman & MD	He belongs to promoter category and holds Graduate degree. He has more than 5 decades of experience in textile and apparel segment. He is awarded the 'Udyog Ratna Award' by the PHD Chamber of Commerce and Industry, the 'LMA-Sat Paul Mittal Life Time Achievement Award' by the Ludhiana Management Association and the 'Achievers of the North' by the Economic Times
Mr Sandeep Jain	Executive Director	He also belongs to promoter group. He holds Bachelor's degree in Pharmacy and Diploma in Export certified in wool from AWTA, Australia. Prior to joining Monte Carlo, he worked with Oswal Woollen Mills as its executive director and he was also past chairman CII Punjab
Mr. Rishabh Oswal	Executive Director	He is a part of third generation of Oswal family. He has completed his BA Hons in Management Studies from University of Nottingham, UK in 2013 and then went on to pursue an Executive MBA from the prestigious Indian School of Business, Hyderabad.

Overview of Indian textile and apparel industry:

The retail market in India was valued at $492bn in FY15 and reached a value of $1tn in FY22, grown at a CAGR of 9.2%. The Indian retail market is Asia's third-largest and the world's fourth-largest after the US, China and Japan. The disruption caused by COVID-19 not only contracted the economy but also the Indian retail sector for a time being. The sector employs approximately 8% of the Indian workforce. Post opening up of the economy, the Indian retail sector has posted a robust recovery and the same is estimated to reach $2 Tn by 2030, driven by socio-demographic and economic factors such as rapid urbanization, per capita Income growth, digital penetration and young demography.

Below is composition of retail market & penetration of organized retail market

Composition of retail basket of India	FY12	FY17	FY22
Total Retail Spending ($Bn)	398	710	1000
Food & Grocery	69.1%	67.5%	66.5%
Textiles & Apparels	8.0%	8.5%	8.0%
Jewellery & Watches	7.3%	7.7%	8.2%
Consumer electronics	5.2%	5.9%	6.8%
Home & Living	4.0%	4.3%	4.4%
Pharmacy & Wellness	2.8%	2.9%	3.0%
Others	3.6%	3.2%	3.1%
Total	**100.0%**	**100.0%**	**100.0%**

Source: Industry source, Phillip Capital

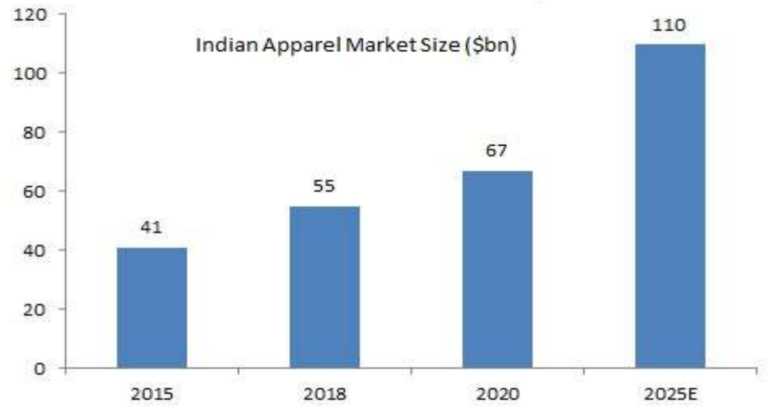
Penetration of organized retail across key categories	FY07	FY17	FY22
Total organised Retail size ($bn)	10.4	66.6	140
Food & Grocery	1.0%	3.0%	6.0%
Textiles & Apparels	14.0%	24.0%	33.0%
Jewellery & Watches	6.0%	28.0%	35.0%
Consumer electronics	3.0%	27.0%	13.0%
Home & Living	6.0%	11.0%	13.0%
Pharmacy & Wellness	21.0%	11.0%	30.0%
Foot apparels	10.0%	27.0%	34.0%
Others	14.0%	13.0%	15.0%

Source: Industry source, Phillip Capital

As shown in above table, within the retail sector, textiles & apparel contributes 8% of the total size i.e. $80bn as on FY22. Further, the organized share of branded apparel has increased from 14% in FY07 to 33% in FY22 reflecting the shift in consumer preference, expanding middle class populations, rising youth aspiration, increasing affordability and easy access to e-commerce. According to industry data, the per-capita expenditure on apparel has grew from Rs 3,900/- in 2018 to Rs 6,500/- in 2022 and the same is expected to reach Rs 8000/- by FY26. As a result, it is anticipated that by FY24, the total amount spent on textile clothing will increase to Rs 9.35 Lakh Crore.

Notwithstanding the uncertainty over the short term, India is expected to deliver a strong growth trajectory in the apparel and retail sector in coming years. Further, the domestic casual wear market has evolved significantly over the years and categories such as denim, active wear, casual shirts, and fashionable skirts are outpacing the growth of formal wear in India reflecting the changing consumer trend and increasing usage of casual wear in offices as well as home. With this positive impetus, the Indian apparel market which was at $80bn in 2022 is expected to reach $160bn by 2027 with an expected growth rate of 15% CAGR. The organized retail market share is expected to touch 41% in the next 5 years. Also, top 25 cities in India constitute more than 40% of the branded apparel market. However, next leg of growth is expected to come from Tier-2/3/4 cities driven by aggressive expansion by organized players, rapid urbanization, rising farm incomes and increasing digital penetration by government.

Apparel market size: The domestic apparel market accounts for different share among men's, women's and kid's wear. Out of the total apparel market size, menswear accounts for 42.5% share while women's wear accounts for 34.5% and kid's wear accounts for balance 23%. The men's apparel market size is $37 bn in FY23 and is expected to grow at a CAGR of 10.3% over the next 2yrs to $45bn. Men's casual wear remains the fastest growing segment. The women's apparel market is expected to grow at a CAGR of 15 % to reach $45bn over the next 2yrs from market size of $30bn in FY23. The Indian kid's apparel market size stood at $20bn in FY23 and it is estimated that the market size should reach to $25bn by 2025, registering a 2yr CAGR of 12%.



Source: Industry report, Phillip Capital

Channel share: Traditional retail channel (independent mom & pop stores) have dominated the retail market over the years, which accounts for 79% of total retail by share channel while modern brick and mortar retail and E-commerce retail comprised of 13% and 7% respectively in FY22. However, the share of traditional retail is expected to decline below 75% while modern brick and mortar retail and e-commerce is expected to increase further in coming years. Digital penetration remains one of the key drivers of the growth of Indian apparel Industry as it helps brand awareness and reach to the last mile. It is estimated that e-commerce channel will grow from current 7% contribution to 30% over the next 10 years in terms of total industry sales.

Channel Market Share (% contribution)	FY12	FY17	FY22
Traditional	93.0%	88.3%	79.4%
Modern	6.8%	9.4%	13.6%
E-commerce	0.3%	2.3%	7.0%
Total retail market size ($bn)	**398**	**710**	**1000**

Source: Industry report, Phillip Capital

Woolen market - The domestic woolen industry is the seventh largest in the world and one of the important sectors of India's rural economy. The size of domestic winter-wear market is approximately $1.6-1.8bn and is growing at a CAGR of 7-10%. Between men, women and kids segment, men contribute as high as 51% of the entire segment. Most segments in winter wear, such as shawls, men's suits, jackets, blazers and sweaters are registering a double digit growth. In India, the winter wear market is clearly segmented between branded and unbranded players. The ratio is 70:30 with 70% players being from the unbranded sector. The established domestic brands are trying to capture market share by innovating and introducing new lines of product every season. Innovative pricing and discount sales are helping them increase foot falls to their exclusive brand outlets. Most lifestyle apparel brands have exclusive range of winter wear for the specific months and there are not many exclusive players in this segment.

Home textile segment- Home textile is the third largest segment of Indian textile industry after apparels and technical textiles. Bed linen and bath linen are the two largest selling products and together account for two-third of home textile market. Kitchen linens, curtains, upholstery, and rugs / carpets are the other major products in the sector. India is one of the leading exporters of home textile products including bed linen, curtains & drapes, and other home furnishing articles. The global home textiles industry is projected to reach $152bn in size by 2025 from $123bn in 2019, registering a CAGR of 3.5% during the period (2019-2025). The United States and Europe is the largest market, accounting for 60% of household textile imports, with Countries such as India, China and Pakistan are major suppliers. The domestic home textiles market is largely unorganized/ imported; which accounts for nearly 80%-85% of total industry size (i.e. $8.7bn) as on FY22. This unorganized structure offers a huge opportunity for organized players to tap a significant market share in this space. The category is witnessing 8-10% p.a. CAGR growth led by increased consumer spends, rising population, better income levels, shift to organized retail, and growth of end-use sectors like housing, hospitality, healthcare. Increasing efforts in quality improvement, better cost efficiency, innovations through R&D programs and other value-added features is aiding organized home textile players to gain market share in domestic as well as global market.

Government initiatives:

Textile sector is one of the largest employment providers in India next to agriculture. Blessed with raw material (cotton, jute, silk) and manpower, the sector has a long history and has always been a significant part of the economy. Given its importance, Indian government has been working on several schemes/initiatives, to boost the sector.

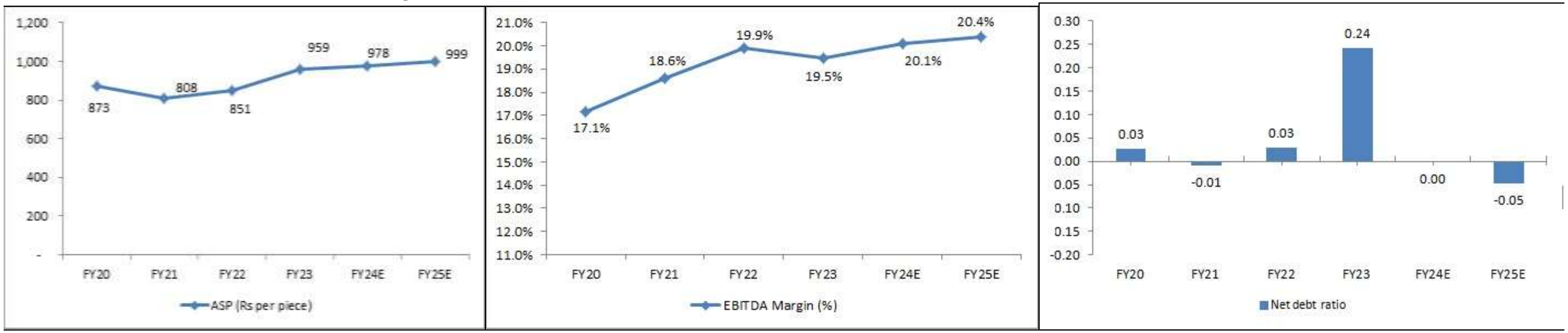
The Production-Linked Incentive (PLI) Scheme for Man Made Fiber (MMF) segment and technical textiles, notified in September 2021, will enhance India's manufacturing capabilities. It is estimated that over the period of five years, the PLI Scheme for Textiles will lead to fresh investment of more than Rs 190bn and cumulative turnover of over Rs 300bn, which will be achieved under this scheme. It will create additional employment opportunities of more than 7.5 Lakh jobs in this sector. Further in a major support to enhance the competitiveness of the sector, the government notified the setting up of 7 MEGA INTEGRATED TEXTILES REGION AND APPAREL PARK (MITRA) in October 2021 with a total outlay of Rs44.4bn. The scheme is expected to increase the thrust of 'Atma Nirbhar Bharat and would eventually increase the position on the global textiles map. This scheme is inspired from 5F's -farm to fibre; fibre to factory; factory to fashion; fashion to foreign – which will strengthen the sector by developing integrated large scale and modern industrial infrastructure facility for entire value-chain of the industry. It is expected to reduce the logistics cost and will help India in attracting investments, and boosting employment generation.

Investment Argument:
Robust business model

Premium brand positioning – Over the years, MCFL brand is fairly known and associated with premium winter-wear segment. There are no other significant national level players who specialize in winter wear, thus leaving MCFL as the dominant player in this segment. We believe, the company has smartly positioned its non-woollen category at various price –point (mid-premium to premium) thereby creating a niche for themselves in minds of consumer. This has helped company to benefit from increasing premiumsation trend as well as rising discretionary spend. The company has remained less impacted from mass market slowdown in last few quarters led by high inflation, rural slowdown as well as global uncertainties due to premium brand positioning. Given superior positioning, company enjoys pricing power which translates into rising blended average selling price (ASP) by 2-3% CAGR over last 5 years to Rs 958.6/- per piece and maintaining high teen margins, irrespective of volatile raw material scenario. Going ahead, the company continue to guides for improvement in ASP as well as achieving EBITDA margin range of 20-22%.

Healthy Balance sheet: Company enjoys healthy balance sheet owing to asset light approach towards manufacturing as well as distribution side. As on FY23, the company's net debt stood at Rs 1.87bn and net leverage ratio of 0.24x. On manufacturing side, the company outsourced 70% of its cotton apparel production on job work basis whereas rest is manufactured in-house which includes woolen and other premium cotton based apparels. This results into lower capex requirement and higher returns ratio. For FY24/FY25, the company has announced a Greenfield capex plans for Home textile segment worth Rs 2bn, which will be in two phases. This will be funded through mix of equity and debt (using centre/state loan incentives). The company's regular capex requirement on annual basis is Rs 0.1bn. Historically, the company's working capital cycle has remained around 150-180 days due to exposed to winter wear sales and thus management guides to maintain same level in coming years. On distribution side, the company targets to expand majority of its channel network i.e. 90% EBO store addition via FOFO model, which results into efficient capital allocation policy. For COCO model, the company's capex per store is around Rs 3mn per store (excluding inventory). Going ahead, the company plans to continue asset light approach which will aid to maintain healthy balance sheet in coming years.

Below is the blended ASP trend, EBITDA margin trend and debt ratios



Source: Company, Phillip Capital

Low credit risk – Company's business model is significantly based on low to negligible credit risk due to simple policy approach across the value chain partners i.e. retailers like EBOs and MBO/SIS, where company undergoes pre-booking of orders/outright sales. This results into zero risk of goods return risk and negligible payment collection risk. Further, company undertake bank guarantees or PDC from franchise FOFO model against the inventory dispatch. The two channels together accounts for 86-88% of total revenue. For large format stores, the company largely undergoes sale or return basis which result into mere 8-10% risk of goods returning back. The payments from reputed chain retailers are never a problem due to better credibility; this accounts for 8% of total sales. The company's online channel also remains immune from credit risk due to advance payment system/cash on delivery. However, the company's discounting policy differs across value chain due to differentiated sale structure.

Below is the business model across channel partner:

	MBO and Distributors	NCS	Shop In Shop	EBO-COCO	EBO –FOFO
Distribution Sale Model	Pre-Booking of orders Outright Sales	SOR – Sale or Return / Outright Sales	Pre-Booking of orders Outright Sales	Inventory owned by Company	Pre-Booking of orders Outright sale
Goods Return Risk	No	Yes	No	N.A	Minimal 5% - 10 % of Products Return Allowed
Discount Sharing	No	Yes	Yes	Yes	Yes Range of 5% - 17.5%
Payment Collection Credit Risk	Exclusive commissioned agents are liable to pay	Reputed retail chains	Exclusive commissioned agents are liable to pay	-	Bank guarantee's and PDC taken from franchise

Source: Company, Phillip Capital

Product diversification aiding to secular business growth

Historically, "Monte Carlo" brand was associated with winter-wear for its woollen knitted apparel. The company enjoys dominant position in the organized woollen-wear space. Over a long period, winter wear has limited avenues for growth, given the limited geographical market within India. The weather conditions also has a material impact on sales as a longer winter ensures higher sales while a mild and short winter adversely affects their business. However, this seasonality has given significant advantage of making strong in-roads in the northern and eastern regions of India, due to extreme winter condition compared to other regions of India. In order to position as an all season pan- India brand, company has invested into other growing categories i.e. cotton wear from mid 2000s, followed by women's apparel during 2012, kid's apparel in 2013-14 and home textile segment in last few year. In recent years, the management is also focused on brand extension by introducing new categories like kurti and jackets for women's wear, towel and bed sheet for home textile, sport-wear under Rock it brand etc. This strategy has resulted into creation of comprehensive product portfolio, thus leveraging its brand equity across other categories.

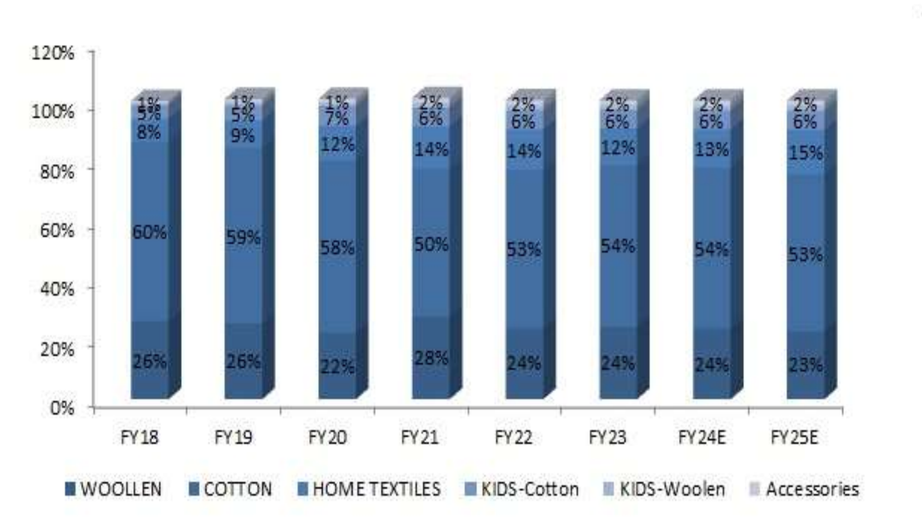
The company's strong product portfolio augurs well to position itself as a lifestyle family brand and thus caters to varied segments such as kids, youth, middle and seniors and it is prevalent in both woollen, cotton and cotton blended apparel. This product addresses varied price points, thus enabling them to service the mass to mid-premium to premium segments. The share of cotton products has grown steadily over the years (i.e. 12-13% CAGR) and contributed 54% of sales in FY23 whereas emerging categories like home furnishings, kids' apparel, accessories etc is growing at 25-30% CAGR on low base, which altogether constitute ~22% of sales. The balance revenue is contributed from woollen segment i.e. 24% sales and growing at 14-15% CAGR. We believe, company's brand and category extensions will reinforce its core positioning thus providing it with new streams of growth. The product diversification has not only helped to reduce the seasonality but also resulted into secular growth across the year.

Below is the widening product portfolio – revenue contribution details

Sales Value (Rs Mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
WOOLLEN	1,496.00	1,714.0	1,613.0	1,699.0	2,216.0	2,865.0	3,183.0	3,536.3
% growth YoY		15%	-6%	5%	30%	29%	11%	11%
COTTON	3,446.00	3,963.0	4,187.0	3,038.0	4,891.0	6,367.0	7,294.7	8,210.9
% growth YoY		15%	6%	-27%	61%	30%	15%	13%
HOME TEXTILES	436.00	611.0	843.0	878.0	1,271.0	1,436.0	1,740.4	2,307.8
% growth YoY		40%	38%	4%	45%	13%	21%	33%
ACCESSORIES	40.00	75.0	89.0	104.0	161.0	192	230.4	265.0
% growth YoY		88%	19%	17%	55%	19%	20%	15%
KIDS-WOOLLEN	28.00	17.00	21.00	27.00	116.00	144	176.3	215.7
% growth YoY		-39%	24%	29%	330%	24%	22%	22%
KIDS-COTTON	266.0	337.0	482.0	380.0	584.0	726.0	851.6	998.9
% growth YoY		27%	43%	-21%	54%	24%	17%	17%

Source: Company, Phillip Capital

Below is the increasing contribution of other emerging categories



Source: Company, Phillip Capital

Capacity expansion in Home textile segment

The domestic home textile segment is largely unorganized/import focused which provides enough room for organized player to gain incremental market share. Over the years, the growth in the home textiles is supported by increasing population, rising income levels, increase in organized retail, and growth of end-use sectors like housing, hospitality, healthcare.

Over the years, MCFL is engaged into trading of home textile product and it is one of the fastest growing segments for the company and growth of 27% CAGR over FY18-FY23. The products in home textiles include blanket, quilt, bed sheet and towel which are procured from China, Korea and local vendors. The company foresee huge opportunity in home textile led by import substitute. This entailed company to incorporate a new subsidiary “Monte Carlo Home Textiles Ltd” in Dec 2021 to carry out in-house manufacturing of home textiles product particularly blanket and quilt. During August 2022, the company announced overall investment of Rs 2bn in the state of Jammu & Kashmir and this capex will be commissioned under two phases. Geographically, the company’s is largely focused on Northern as well as Eastern India for home textile, thus new plant will aid to serve core market effectively.

The company guides that the 1st phase of this plant will be operational by Q1FY25 with potential revenue generation of Rs 2bn and capital outlay of Rs 1bn. The company target to replace 70-75% of blanket and quilt trading with its own manufacturing plant. The company is expected to receive various state and central benefits for putting up this plant in J&K which includes capital investment incentive, capital interest subvention, GST-linked incentive along with other measures like low rate of electricity. The company believes that such incentives will aid to expand operating margin. The manufacturing margins will be significantly higher range of 20-22% as compared to current trading margin range of 14-15%. Over next 4-5 years, the management guides to achieve Rs 5bn revenue from this segment with the help of incremental expansion across two phases, which would translates into more than 30% CAGR growth. We believe, this would eventually translate into higher segmental growth and improves overall margins at company level in coming years.

Extensive distribution network with increasing focus towards untapped markets

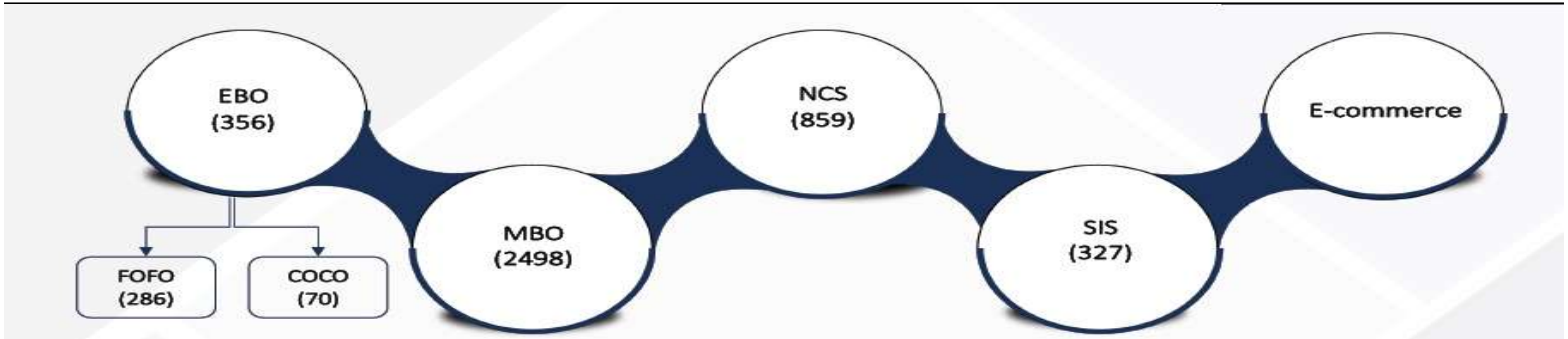
The company's key strength lies in its diversified channel network which includes traditional retail chain like MBOs to modern retail network which includes national chain stores (NCS), shop in shop (SIS) and e-commerce segment. The company also directly distributes its product via "Monte Carlo Exclusive Brand Outlets (EBOs)", thus covering multiple channel networks. As on March 2023, the company retailed its product across 2500 MBOs, 859 NCS counters, 327 SIS, 356 EBOs and multiple e-commerce platforms. Of the total EBO stores, ~80% are on FOFO basis and the remaining 20% are COCO stores.

The company believes that wider distributions reach aid to generate deep insights with respect to geographical expansion, customer preference, product designing as well as competitive intensity. MCFL has strong presence in in North, East and Central India, which altogether contributes 85-86% of its FY23 sales and it is focusing on increasing its footprints in South and West India (i.e. 8% of revenue) due to low presence. The management guides to increase presence via asset light franchisee route (EBOs) and rapid expansion via MBO/NCS channels due to diversified product portfolio, increasing brand acceptance, better affordability and rising internet penetration.

In last few years, the company has aggressively increased channel presence through NCS/SIS route via geographical expansion and introducing discount sharing model for SIS channels. Under EBOs model, the company has doubled its annual store addition from 25-30 p.a. in FY19 to now 45-50 p.a. in FY23. Going ahead, the management target to add store count by 50-55 p.a in FY24 and this would continue to increase at accelerated pace on annual basis to drive incremental growth. Further, the management guides to add 20% incremental stores in South and West India from 10% addition done in last few years in order to increase revenue pie from untapped market. As on FY23, the South & West India together contributes Rs 0.9bn revenue; management target to double the sales in coming 2-3 years.

On online side, the company is taking significant efforts to increase sales through multiple ecommerce partners which currently constitute 5% to sales. Further, the company's own website (www.montecarlo.in) is also gaining traction and it contributes 15% of total online sales.

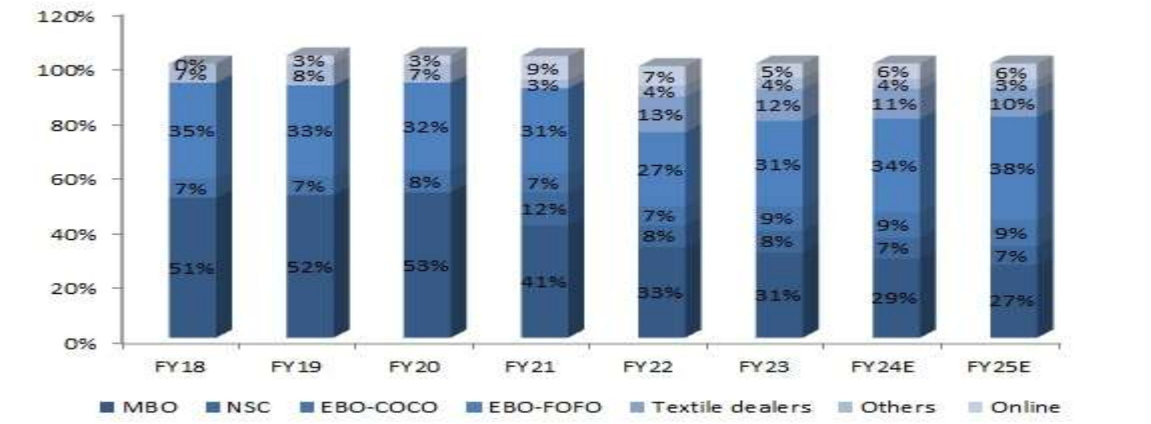
Below is the widespread distribution reach as on FY23



Source: Company, Phillip Capital

The management guides to grow its EBO footprint at 13-15% CAGR over FY23-FY25E v/s 9-11% CAGR in last 5 years. The company generates average revenue of Rs 1.2-1.5cr per stores on annual basis with breakeven achieved within 3 years.

Growth is expected to be driven by fast store addition under EBO space



Source: Company, Phillip Capital

Target to add 50-55 EBOs annually in FY24, store count would likely to grow at steady pace in coming years

EBO Net addition	FY18	FY19	FY20	FY21	FY22	FY23	FY24E
Existing	231	235	256	278	298	315	356
New Opened	**10**	**27**	**31**	**28**	**35**	**47**	**55**
Closed	6	6	9	8	18	6	
Total EBOs	235	256	278	298	315	356	411

Source: Company, Phillip Capital

Target to add 20% of incremental stores addition in South & West India – potential untapped market

Region wise - Store count	Mar-19	Mar-20	Mar-21	Mar-22	Mar-23
North	164	179	188	191	217
Central	44	47	52	55	62
East	27	29	33	40	43
West	13	14	16	19	20
South	8	9	9	10	14
Total	**256**	**278**	**298**	**315**	**356**

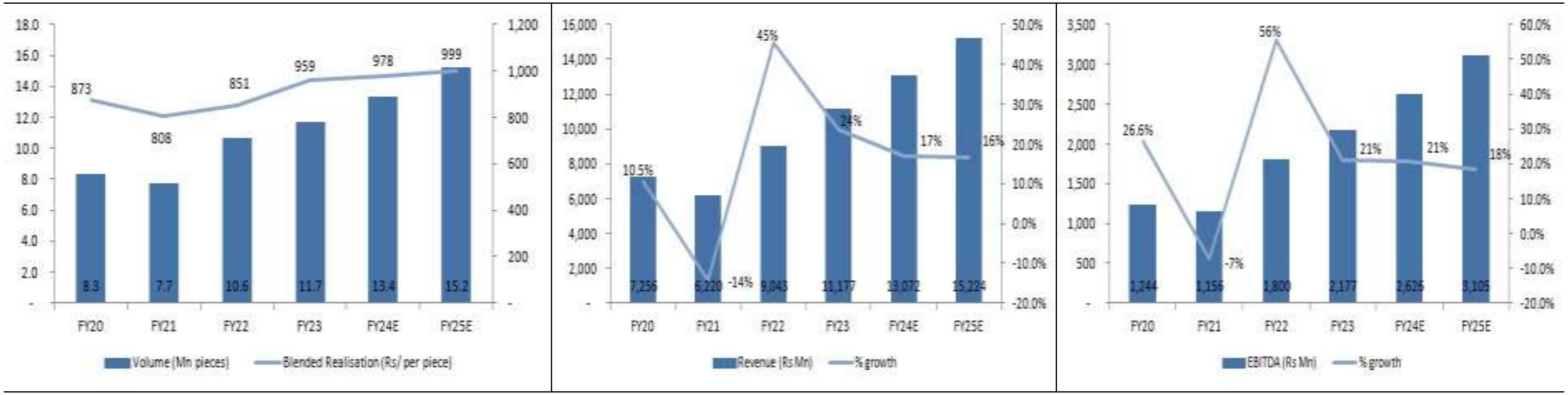
Source: Company, Phillip Capital

Improving financial performance

In last 5 years i.e. FY19-FY23, MCFL financial has improved significantly with volume, sales, EBITDA and PAT growing at 11%/14.2%/22%/22% CAGR respectively led by diversified product portfolio, aggressive store expansion, improving brand presence in untapped market, strong brand equity, better internal efficiencies. Further, the company enjoys a competitive advantage due to strong in-house designing team, dedicated manufacturing facilities for woollen and premium cotton apparel and long-term relationship with third-party manufacturers. On designing side, company has over 30 professionals in design, development and merchandising department dedicated to developing new products, improving existing ones and forecasting fashion trends. In addition, company's commissioned agents have direct access to the dealers, distributors and retailers, which help to conduct regular market surveys in order to understand consumer demand and feedback, which aid to better product development.

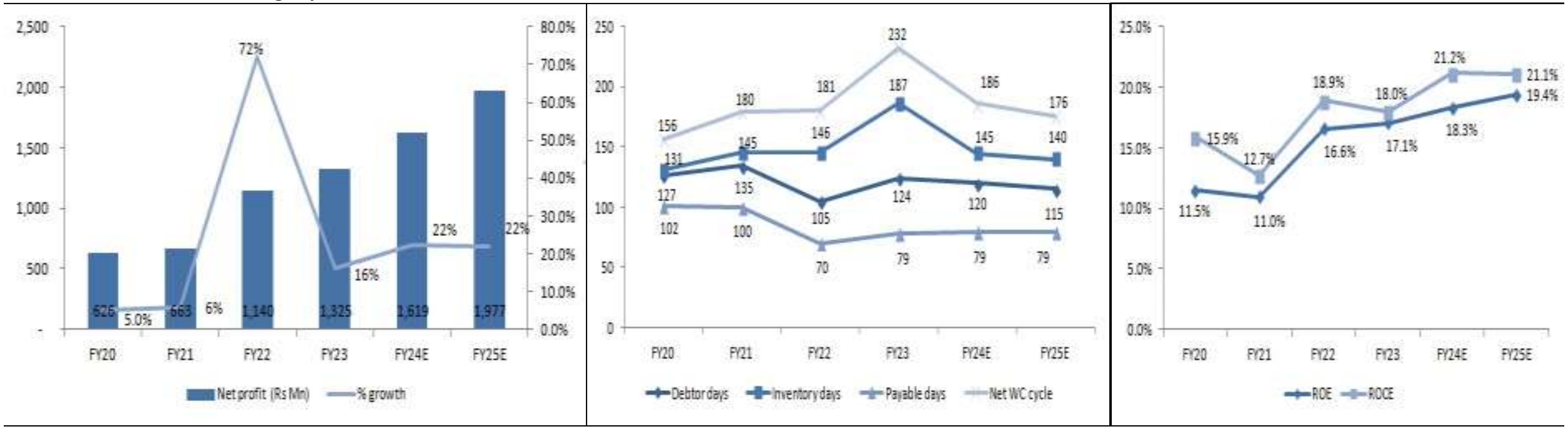
Going ahead, we expects MCFL's volume, sales, EBITDA and net profit to grow at a CAGR of 14%, 16.7%, 19.5% and 22% over FY23-25E on the back of incremental capex, expanding channel network, penetrating into new markets, steady A&P spends and increasing customer base. This will be also backed by store/EBO addition of 13-15% CAGR over next two years. In last few years, cotton bale prices have seen strong uptrend from Rs 50000/- per candy during Sept 2021 to more than Rs 1lac/- per candy in August 2022, which didn't result into corresponding price hike to mitigate the cost inflation. This impacted gross margins as well as Ebitda margins by 130bps/40bps (yoy basis) respectively to 53%/19.5% in FY23. With decline in cotton prices to around Rs 56000/- per candy, we don't expect any price cut scenario, thereby aiding to margin recovery from here on. Also, commencement of home textile plant from Q2FY25 will aid to better margin improvement in coming years. Going ahead, management guides to maintain EBITDA margin range of 20-22% for next few years. We expect company's EBITDA to improve from 19.5% in FY23 to 20.4% by FY25 which would aid to operating profit CAGR growth of 19.5%. Further, better operational performance, asset light approach and stable working capital cycle would drive profit CAGR growth of 22% over FY23-FY25E to Rs 1.98bn. With improving financials and better margins, we believe, company to deliver better return ratios i.e. ROE/ROCE of 19.4%/21% respectively by FY25E.

Below is the volume, revenue & EBITDA trend over FY23-FY25E



Source: Company, Phillip Capital

Below is the PAT, Net Working capital & return ratios trend over FY23-FY25E



Key Risks:

- MCFL generates 25% of revenue from winter-wear brand, which is seasonal in nature. Less severity of winter may impact sales of the woolen wear.
- MCFL is one of the leading players in lifestyle apparel brand; any slowdown in economy could impact financial growth of the company.
- Intense competition from peers may results into higher discounts/offerings which could impact margins
- Rely on third party to manufacture part of their products; limited control and non timely availability of products may have materials impact on business operations.

Outlook and view:

Monte Carlo Fashion Ltd is one of the leading premium winter-wear brands in India. Over the years, it has gradually realigned its business model with changing fashion trends through focus on product diversification and category extension. The company enjoys strong competitive advantage due to strong in-house designing team, dedicated manufacturing facilities as well as widespread distribution network. It is well placed to gain from shift towards branded apparels, rising discretionary spends, increasing premiumisation and strong brand recall.

We are optimistic on the company led by experienced management, in-house designing team, asset light business model, improving financials and consistent dividend payout. We forecast MCFL sales, EBITDA and net profit to grow at a CAGR of 17%, 19.5%,22% over FY23-25E. We initiate coverage on MCFL with BUY rating with price target of Rs 1146/- (12x FY25E EPS), which implies 36% upside from recommended level. We believe, MCFL has the potential to rerate due to 1) diversified products category 2) consistent growth 3) better returns ratio

Consolidate Financials

Income Statement

Y/E March, Rs. Cr	FY22	FY23	FY24E	FY25E
Net sales	9,043	11,177	13,072	15,224
Growth %	45.4%	23.6%	17.0%	16.5%
Raw Material Cost	4,677	5,928	6,876	7,873
Employee cost	812	966	1,159	1,391
A&P spend	241	465	523	685
Other expense	1,513	1,641	1,887	2,170
EBITDA	1,800	2,177	2,626	3,105
EBIDTA margin (%)	19.9%	19.5%	20.1%	20.4%
Depreciation	373	418	452	532
EBIT	1,427	1,759	2,175	2,572
Interest	157	245	266	266
Other Income	255	208	196	228
PBT	1,525	1,722	2,105	2,534
Less: Taxation	385	397	486	558
Effective tax rate (%)	25.2%	23.1%	23.1%	22.0%
Recurring PAT	1,140	1,325	1,619	1,977
Growth %	71.9%	16.2%	22.2%	22.1%
PAT margin (%)	12.6%	11.9%	12.4%	13.0%
Wtd. Avg. Shares (Cr)	207	207	207	207

Balance Sheet

Y/E March, Rs. Cr	FY22	FY23	FY24E	FY25E
Equity capital	207	207	207	207
Reserves	6,665	7,557	8,633	9,959
Net worth	6,872	7,764	8,840	10,166
Non Current Liabilities	1,081	1,764	2,118	2,583
Current Liabilities	3,212	5,436	4,954	5,704
Total liabilities	**11,165**	**14,964**	**15,913**	**18,453**
Net block	1,531	1,554	2,334	2,279
CWIP	13	194	200	-
Total fixed asset	1,544	1,748	2,534	2,279
Right of use asset	784	1,181	1,492	1,926
Intangible asset	4	4	4	4
Other non current asset	820	1,410	1,568	1,800
Current Investment	1,631	1,701	-	-
Inventory	2,891	4,604	4,150	4,648
Debtors	2,599	3,802	4,298	4,797
Cash & bank Balance	480	147	1,441	2,504
Other Current assets	412	367	426	494
Total assets	**11,165**	**14,964**	**15,913**	**18,453**

Cash Flow

Y/E March, Rs. Cr	FY22	FY23	FY24E	FY25E
PBT	1,525	1,722	2,105	2,534
Depreciation	373	418	452	532
Tax paid	385	397	486	558
Change in WC	226	717	(1,118)	316
Cash Flow from Operating activities	**1,287**	**1,026**	**3,189**	**2,194**
Capital Expenditure	412	622	1,238	278
Other intangible asset	50	453	311	435
Others	490	534	158	232
Cash Flow from Investing activities	**952**	**1,609**	**1,706**	**944**
Change in Equity	(309)	(433)	(543)	(651)
Change in Debt	(34)	(56)	(27)	-
Others	80	739	381	465
Cash Flow from Financing activities	**(263)**	**250**	**(188)**	**(186)**

Valuation Ratios

Y/E March, Rs. Cr	FY22	FY23	FY24E	FY25E
EPS	55.1	64.0	78.2	95.5
Book NAV / Share	332	375	427	491
DPS	20.0	20.0	25.0	30.0
Growth Ratios				
Net Sales (%)	45.4%	23.6%	17.0%	16.5%
EBIDTA (%)	55.7%	20.9%	20.6%	18.2%
PAT (%)	71.9%	16.2%	22.2%	22.1%
Return Ratios				
ROE (%)	16.6%	17.1%	18.3%	19.4%
ROCE (%)	18.9%	18.0%	21.2%	21.1%
Turnover Ratios				
Asset Turnover (x)	0.8	0.7	0.8	0.8
Fixed asset turnover (x)	0.4	0.4	0.4	0.3
Receivable Days	105	124	120	115
Inventory Days	146	187	145	140
Payable Days	70	79	79	79
Liquidity Ratios				
Current Ratio (x)	2.3	1.9	1.8	1.7
Interest Cover (x)	9.1	7.2	8.2	9.7
Net Debt / Equity (x)	0.0	0.2	0.0	0.0
Valuation Ratios				
PER (x)	8.8	9.7	10.8	8.8
Price / Book (x)	1.5	1.7	2.0	1.7
Price / Sales (x)	1.1	1.2	1.3	1.1
EV / Sales (x)	1.1	1.3	1.3	1.1
EV / EBIDTA (x)	5.7	6.8	6.7	5.5

Source: Company, Phillip capital

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	>= +10%	Target price is equal to or more than 10% of current market price
NEUTRAL	-10% > to < +10%	Target price is less than +10% but more than -10%
SELL	<= -10%	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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