"The Mandhana Retail Ventures Limited Q4 FY 2017 Earnings Conference Call"

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ANALYST: **MR. HIMANSHU NAYYAR - SYSTEMATIX SHARES & STOCK LIMITED**

MANAGEMENT TEAM: **MR. RITESH BHARDWAJ - FINANCE**
MR. SAHARSH DAGA - FINANCE
MR. KUNAL MEHTA – BUSINESS DEVELOPMENT AND MARKETING
MS. SHEETAL KHANDUJA – INVESTOR RELATIONS

Moderator: Ladies and gentlemen good day and welcome to the Mandhana Retail Ventures Limited Q4 Results Conference Call, hosted by Systematix Shares & Stock Limited. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Himanshu Nayyar from Systematix Shares & Stock Limited. Thank you and over to Sir!

Himanshu Nayyar: Thank you Stanford. Good day everyone. On behalf of Systematix Shares & Stock Limited, I welcome you all to Mandhana Retail Ventures Q4 and FY2017 Earnings Call. Representing the management team today, we have with us Mr. Saharsh Daga, Mr. Ritesh Bhardwaj, and Mr. Kunal Mehta. We also have Ms. Sheetal Khanduja from GO India, their IR Advisor. We would request the management to briefly discuss the quarterly and annual performance and future outlook for the company and then we can start with the Q&A session. Would request Sheetal to take this forward from here. Over to you Sheetal!

Sheetal Khanduja: Thanks Himanshu. Ladies and gentlemen, thank you for joining us today for Mandhana Retails maiden conference call. I hope you have seen our earnings presentation that is available on our website. Just a quick note, some of the information on today's call maybe forward-looking in nature and will be covered by the safe harbour language on page two of the earnings presentation. I will now hand over to Saharsh.

Saharsh Daga: Thank you Sheetal. Good afternoon ladies and gentlemen and I am pleased to welcome you all to our Company's first earnings conference call. As you all know last year was a landmark year for Mandhana Group as we embarked upon a huge exercise of a demerger with Mandhana Industries to create one of India's leading retail entities The Mandhana Retail Ventures Limited.

We have successfully listed ourselves as a separate entity in December of 2016. We entered into an agreement with "Being Human" foundation in 2010 for a period of ten years and since then have worked tirelessly to create a superior high fashion brands.

TMRV today is one of the leading and fastest growing retail brands in the country. We have a strong domestic penetration with over 400 point of sales and a large exposure in Middle East through our partners landmark group. The company, as on today, has a strong balance sheet with almost zero debt and high EBITDA margins to the tune of about 20% plus.

We have a strong and growing loyal customer base of about 4 lakh customers. The brand today enjoys a high recall amongst its target audience, which is primarily in the age group of 18 to 40 years.

Last year though a transitional year was also landmark year for the company in which we added about 70 additional points of sales, which is an increase of about 20% over the previous year number. We have had a strong EBITDA growth of about 25% on an adjusted basis.

We maintained our industry leading margin profile of over 20% at EBITDA level and our gross margins remained at high 50% levels. Our A&P spends continue to remain one of the lowest in the industry at about 3%-3.5%.

Going forward we will continue to maintain this robust growth momentum and we will work towards further strengthening our brand positioning by providing our customers access to high-end fashion brands through an elevated retail experience. We are actively working on various strategic tie-ups to improve our geographical footprints in other geographies across the globe.

Before I open the floor for questions I would like to briefly touch upon the change in the accounting policies at the end of this year.

From Q4 this year we have started accounting for sales returns, which are about anywhere between 12% and 15% on an accrual basis instead of actual basis therefore the topline of FY2017 has been impacted adversely because we have accounted for the sales returns which was anticipated in April and May in the current year. This practice gives a more realistic picture of the actual performance during the quarter.

We also had a onetime hit in our finance cost of about 2 Crores due to interest on delayed income tax payments primarily on account of the demerger. The reasons for these one-offs have also been explained in detail in our earnings presentation which is available on our website.

I would now like to open the floor for questions, if any.

Moderator: Thank you very much. Ladies and gentlemen we will now begin with the question and answer session. We take the first question from the line of N. Samraj from Dwaraka Wealth Managers. Please go ahead.

N. Samraj: Saharsh Sir if you could frankly just take us through the four piece of marketing and let us know how what sort of growth are we going to target in the next three years taking into consideration all the four piece of marketing?

Saharsh Daga: Samraj Ji as a policy we do not give any forward-looking guidance for the company but rest assured the management is aggressively working on improving its topline and we will continue to give a similar performance to what we have given over the last few years.

N. Samraj: Across the four Ps if talking about a point of sales, branding, marketing, promotions. So what sort of a growth we can expect so Sir?

Saharsh Daga: As I told you the topline numbers for the future, we would not want to share. But as far as the point of Sales is concerned, I will ask my colleague Mr. Kunal Mehta who is here with me to give you a debrief.

N. Samraj: Okay now also I wanted to just briefly check on this part of the sales returns. Now what we understand is that we have sort of provided for forward anticipated returns?

Saharsh Daga: These are actually not forward anticipated at least these are returns which have actually come in the month of April and May because the books were closed post these returns and they have been taken for in the previous quarter as a prudent accounting practice. This also in line with Ind-AS, which is going to get applicable for the company from next year. So rather than doing this change next year we have actually taken this change one step forward so from 2017-2018 anyways I am suppose to follow this accounting practice. So as a prudent thing we have done it a quarter in advance. On the point of sale, I will just ask Kunal to debrief you.

N. Samraj: So then relatively for last year what would have been the EPS if we are adjusting for the provisions and compared to the last years FY2016 to FY2017 what would be the reference then?

Saharsh Daga: That number would be again lower by about 9, 10 Crores.

N. Samraj: About 9 to 10 Crores.

Saharsh Daga: Yes.

N. Samraj: Sir what we understand that since you are not giving any forward projections and then we are also going to provide for this sales returns in the very professional accounting practice taking all this into account, we can expect at least 30% growth probably as we usually grow?

Saharsh Daga: There are lots of things, which are going to change going forward. There is GST, which is coming. There is lot of uncertainty around GST for the upcoming two quarters parallelly there is Ind-AS, which will change the whole accounting domain for the company. So honestly, I would not want to comment on any number, but, as the management, what I would want to definitely reiterate is that we are in for a good growth trajectory for the company going forward for the next two to three years. That should be a good enough assurance from the intent of the management.

N. Samraj: As far as we have got about I think in our intellectual properties and designs departments about almost I think more than 25000 designs run rate.

Saharsh Daga: Honestly, Sir the design proprietary that you are reading was for Mandhana Industries Limited. As far as Mandhana Retail Venture goes the business being retail in nature goes through new designs every season so there is no such thing like having an intellectual property right now the standard of designs which are used rather the designs are created every season for three seasons in advance and those are created on an ongoing basis. So internally, we again have a design team, which is doing this job day in and day out for about two years in advance kind of sales.

N. Samraj: You have said in the presentation that now you will be actively targeting the Tier II towns right apart from the urban outlets?

Saharsh Daga: Yes.

N. Samraj: Urban potential markets, what would be the sophistication in the designs and will it change a bit for rural acceptance, how do you conceptualize this?

Saharsh Daga: Not really. We continue to be the aspirational brand. We are very, very connected to international fashion trends and we acclaim ourselves to be one of the pioneers in getting international fashion to the country so from that prospective obviously there will be no change and the way India is changing we personally believe whatever we are creating, the Tier II towns is a ready market for such creation. On the contrary they are aspiring to get these things readily available to them and the testimony of that is the e-commerce sale, bulk of it happens in tier two towns primarily because of lack of store presence in those areas.

Moderator: Thank you. We take the next question from the line of Yash Jhaveri from Alder Capital. Please go ahead.

Yash Jhaveri: Two questions on the balance sheet side - one is there has been a increase in trade payables of about 12 Crores if I am not wrong, so could you just explain what was reason behind that and the other thing is of the income tax provision that we had of a 22 Crores, last year how much has been paid and how much remains to be paid?

Saharsh Daga: On the question of trade payables the increase in trade payables is primarily on account of better negotiating terms. There is nothing unusual in that. We have just increased our purchase terms from 35 days to about 60 days, which has resulted in an increase in the trade payables going up. As far as the income tax payment is concerned last year, 22 Crores payment has been completely made. It was primarily on account of demerger. This was the provision of 2014-2015 and 2015-2016 in the books of MRVL; however, the same was not paid at that point in time primarily because independent numbers were not published for filing and income tax returns. The said has been done in the month of February and the entire payment has been made.

Yash Jhaveri: So the 13 Crores short-term provision is for what?

Saharsh Daga: That is for the financial year 2016-2017.

Yash Jhaveri: Thank you.

Moderator: Thank you. We take the next question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Couple of questions. First I would like to understand what is the capex target we are looking for FY2018 and if you can break it up into new stores opening and maintenance capex.

Saharsh Daga: There is hardly any maintenance capex, that is a very small negligible amount. Honestly, I cannot quantify that. As far as the capex is concerned it is typically about 50 lakhs per store. I would just hand over the call to Mr. Kunal Mehta who will give you a brief outlook on what would be the number of stores that we are looking for operationalizing in this financial year.

Kunal Mehta: We are looking at approximately 20 stores for this financial year that would be opened, breakup of around 10 to 11 EBOs and extra franchises so there is no capex on that.

Giriraj Daga: So roughly about 5 Crores, 5.5 Crores of capex?

Kunal Mehta: Correct.

Giriraj Daga: What are our total number of EBOs and total number of franchise as of FY2017 end?

Kunal Mehta: 29 EBOs, 24 franchises.

Giriraj Daga: My next question if I look at our sales mix what I have been observing is that over the last two years exports is going down as a percentage of sales and even the e-commerce segment is going down can you throw some light on this and how do you see that things playing out in FY2018-2019?

Saharsh Daga: The exports are primarily going down for the only reason that when we started exports business, it was a men and a women range combination and exports is a clean sale business so there is no return whatsoever in export business. Whatever I had to sell is taken by the landmark group and it never comes back to me so it is paid for the movement they give an order. So over a period of time they have discontinued the women's range because we also did not expand the women's range as aggressively as we expanded the men's range so from that perspective that is one area where we need to really work better and deliver better numbers on that so that women's range can become more lucrative. Same is the case in India, even in India the women's range is not doing that well as the men's range is doing. So that is the primary reason that you see that export number degrowing and secondly we have not added any more geographies and we are working on that in the export side.

The export business if you crack one geography you will get a big 10 Crores plus kind of number on your topline overnight but till such time that cracking does not happen it is going to be a wait and watch kind of a scenario. As far as e-commerce is concerned, we have consciously gone slow on various websites of e-commerce primarily because we were catering to discounted sales and we as a policy have stopped giving any discounts unless and until the website is offering a two season old merchandise, which will be available on a perennial discount. Otherwise the only time we offer discount on the website is when we are going to an end of season sale in our own stores. So therefore the only time you see the merchandise available on discounts perennially would be two-season-old merchandise, which we have offered as a discounted thing so that range is limited and therefore those numbers have come down over a period of time.

Saharsh Daga: But that is a conscious call so we really want to make sure that there is no the price differentiation between what we sell in our brick and mortar stores and what we get via e-commerce.

Giriraj Daga: Just a follow up on that, like in export you said we are only working with one customer landmark as of now?

Saharsh Daga: Yes we have got three, four more stores one is in Mauritius, one is in Europe the France, three are in Nepal but bulk of exports business comes from Landmark group almost 95% would come from the Landmark.

Giriraj Daga: You expect more customer addition or large customer addition I assume?

Saharsh Daga: Yes that is right.

Giriraj Daga: So should we expect some positive outcome in the FY2018?

Saharsh Daga: As I told you we are working aggressively on it as and when it happens it will get reported to the exchange.

Giriraj Daga: Just e-commerce follow up, like you do not have any separate set of goods for the e-commerce nothing like that?

Saharsh Daga: We have one common range for everything.

Giriraj Daga: On the sales I also understood that is for FY2018 reported numbers include FY2016 sales also and FY2017 sales also?

Saharsh Daga: I did not get the question.

Giriraj Daga: Like FY2016 whatever the sales return we had in April and May was also reported in FY2017 full year numbers?

Saharsh Daga: That is right.

Giriraj Daga: FY2017 and anticipation of sale or a sale mix as we have also booked in FY2017?

Saharsh Daga: Yes.

Giriraj Daga: Just the last thing on the inventory side overall if I look at adjusted sales also the inventories are flat and receivables have slightly gone up do you expect the similar trend continue or you expect some tightening in recovery days basically?

Saharsh Daga: Inventory will remain where it is even if we grow further so from here I do not see inventory going up but trade receivables will go up for the only reason that most of our sales are on Sales or return basis so we get paid when the secondary sales happen X the stores from where they are being kept right now, till such time they continue to be in debtors. I am hopeful that with Ind-AS coming in from next year we will have to change our accounting policy so to that extent you will see that the trade receivables number actually coming down the impact has not yet been worked out but as of now you assume that they will remain where there are in this level.

Giriraj Daga: Just last thing could you share what is the EBITDA loss you are making on currently EBO stores like stores opened in the last two years.?

Saharsh Daga: Honestly we are tracking that but none of these numbers are in the public domain so I will not able to give you at this juncture; however, I can give you an assurance that none of the EBOs at this juncture are losing money so all of them are EBITDA positive.

Giriraj Daga: Thanks a lot and all the best.

Moderator: Thank you. We take the next question from the line of Chintan Sheth from Sameeksha Capita. Please go ahead.

Chintan Sheth: In a nutshell you said about we have 29 EBOs currently and we are planning to add another 10 to 11 EBOs in this year with an investment of 50 L per store correct so now if your strategy is basically on the EBO side you want to base the EBOs and franchise mix on a 50:50 basis like 29 stores and 24 stores franchise 29 stores EBOs and similar numbers we will be getting at this year 10, 11 kind of numbers so investments we want to blend it out on that basis that we do not have to upfront or hedge it on a 50:50 basis one want to exposure the entire EBO exposure directly so that may half of the investments will go through franchise route.

Saharsh Daga: No, what is the question I am not very clear.

Chintan Sheth: I just wanted to understand the kind of return we expect or breakeven we expect traditionally we have seen in the past for the investment we made in EBOs and franchises separately.

Saharsh Daga: Franchises we do not have any investment. So obviously the return is from day one as to whatever he buys whatever money we make on our gross profits and EBITDA levels are our profits directly. As far as EBOs are concerned typically we work out a breakeven period of about 2.5 years for a payback on our investments.

Chintan Sheth: The investment of 50 lakhs includes the inventories?

Saharsh Daga: No, inventories are over and above that.

Chintan Sheth: What will be the typical inventory size per store?

Saharsh Daga: Typically each store has about 4000 pieces of inventory that is about 2 million.

Chintan Sheth: Okay 20 lakhs for that.

Saharsh Daga: That is right.

Chintan Sheth: So in the franchise what kind of agreement we have on a profit sharing or sale?

Saharsh Daga: Typically they are sold at a mark down value anywhere between 28% and 33% depending on the terms of the trade.

Chintan Sheth: So they get a markup value as we get the value of our goods sold?

Saharsh Daga: That is right.

Chintan Sheth: Expenses are borne by the franchise?

Saharsh Daga: Borne by the franchise.

Chintan Sheth: The margins on the franchise will be similar to what will be selling at our EBOs right?

Saharsh Daga: That is right.

Chintan Sheth: So it will be the sale figure will reflect the EBOs and franchise at the equivalent level?

Saharsh Daga: Honestly the EBO sales were reflected a higher value for the only reason what we sell at EBO gets booked at the price what consumer pays.

Chintan Sheth: Correct that is the mark up of 28, 30 similarly.

Saharsh Daga: Exactly and what is the challenge is that franchise gets booked at the mark down value so to that extent you will find EBO sales being booked at a higher per piece realization vis-à-vis franchise.

Chintan Sheth: If you provide us more colours about the category mix. So what current men, women mix in our business?

Saharsh Daga: It is about 85%, 15%, 85% is men and 15% is women.

Chintan Sheth: Any target where we want to be next three years five years.

Saharsh Daga: Honestly women's is a bigger market but it is a more complicated market so honestly there is no target at since but yes there is a very clear intent to come up with a more aggressive women's wear line.

Chintan Sheth: How do we develop our in-house design team because the entire business model depends on the designers. How we have equipped our spend to sustain the business offering going forward?

Saharsh Daga: I will ask Kunal Mehta to answer this question.

Kunal Mehta: We are following the complete international global trends, we have a designer also based overseas who is our head designer so they are totally in tune with the latest fashions and the latest trends and being in the export business also we totally are in tune with the trends and now most of our stores are opening also into Tier II and Tier III areas so the design trends are completely in tune.

Chintan Sheth: So I am asking about the team size of the designers we have and since you have mentioned they are with us since inspection so how many designers we added with the past seven years?

Kunal Mehta: We have a design team which is totally about 25 people and on top of that they also have a merchandizing team which is of over another around 30, 35 people and these designers are from top institutes so they are from NIFT and other top institutes of India.

Chintan Sheth: Okay how the team has grown over the past seven years of the brand.

Kunal Mehta: Yes so when the brand started there were 3 people and now it is over 25 people.

Chintan Sheth: Thanks. That was really helpful and on the ten-year agreement with Being Human Brand so it will be end in 2020?

Saharsh Daga: That is right.

Chintan Sheth: And how is the pre-planning?

Saharsh Daga: We are already in talks with the foundation for the extension and it should happen soon.

Chintan Sheth: So what is the agreement with the royalty sharing or brand sharing agreement with the Being Human?

Saharsh Daga: We have recently renegotiated the agreement at the time of demerger and the royalty payout has increased from 3% to 5.75% all inclusive.

Chintan Sheth: So that is on the gross value of sales?

Saharsh Daga: That is on the net sales.

Chintan Sheth: So 5.75% on the net sales that is the going forward number right?

Saharsh Daga: Yes.

Saharsh Daga: For next three years.

Kunal Mehta: Yes.

Saharsh Daga: Thank you. I will get back in the queue.

Moderator: Thank you. We take the next question from the line of Keshav Kumar from Blue Water Investments. Please go ahead.

Keshav Kumar: Do you pay anything to the brand ambassador, Mr. Salman Khan other than the royalty fee that you pay to the foundation?

Saharsh Daga: No.

Keshav Kumar: That is it. Thank you.

Moderator: Thank you. We take the next question from the line of Swarn Agarwal from Axis Bank. Please go ahead.

Swarn Agarwal: The revenue for Q4 2017 adjusted was around 562 and for Q4 2017 audited are 376? Difference between adjusted and audited revenue for Q4 2017 would be around 186 so that is because of returns?

Saharsh Daga: Yes that is right.

Swarn Agarwal: So that returns 18 on if I do 56 would be roughly around 33% so that does not add to your 10% to 12%.

Saharsh Daga: That is not the way we look at the returns. You look at the returns over six month's period because typically operating two seasons.

Swarn Agarwal: This is for the six months so per quarter it will be at a rate of 16%?

Saharsh Daga: No so return does not come every quarter. Returns come at the end of six months.

Swarn Agarwal: At the end of six months.

Saharsh Daga: Yes.

Swarn Agarwal: So for one quarter it will be 16% because 18 divided by 56 could be roughly 33% so 17% is the return.

Saharsh Daga: It is not like that. Typically returns are in the range of 10% to 15% every year depending on how the season has gone and how the sales growth has actually happened at the store level. There may be a season when you make have a return of 5%, there may be season where you may get returns to the extent of 20% also. I am saying average number would be about 10% to 15% every year and that is the kind of number this year also.

Swarn Agarwal: Thanks.

Moderator: Thank you. We take the next question from the line of P.S. Krishnan an Individual Investor. Please go ahead.

P.S. Krishnan: Thank you. I want to ask you why were your Q4 sales down when I compare it to some of the other quarters even accounting for the returns.

Saharsh Daga: That is the only reason there is an 18 Crores accounting for return if you add that up the Q4 sale is in line with Q4 sale of the last year.

P.S. Krishnan: But I think your comparative performance in Q3 ending December I think was much, much significant and much better.

Saharsh Daga: Yes it is seasonal, there has even been a post demonetization impact which has got added on this, there has been an impact of end of season sale which has got added on this so yes obviously the performance is not as great and there are multiple factors. But I would say primarily it is a accounting policy which is really hit the top line.

P.S. Krishnan: So what will be your new base. Will it be the Q4 numbers of 35.74 Crores will that be the new normal?

Saharsh Daga: Not really and that is the reason we have given an explanation in the statement as well.

P.S. Krishnan: If I mayask you what is your breakup for revenue how much they do on your EBOs total revenues if you can give me percentage.

Saharsh Daga: On EBOs.

P.S. Krishnan: Yes.

Saharsh Daga: That is 33%.

P.S. Krishnan: The franchise outlets?

Saharsh Daga: Franchise will be about 15%.

P.S. Krishnan: The rest accounts for the year 52% is it?

Saharsh Daga: The rest accounts for shop and shops and the distributors and the exports, e-commerce.

P.S. Krishnan: Also wanted to ask you what is the level of sourcing from Mandhana Industries the parent organization?

Saharsh Daga: Zero.

P.S. Krishnan: What is your roadmap for de-pledging of shares by the promoters?

Saharsh Daga: That is something which is work-in-progress, we are trying to aggressively work on it and we are hopeful that we will be able to see this number reducing as we move ahead in the quarters to come.

P.S. Krishnan: And looking at your balance sheet, you had an advanced of 17.31 Crores in FY2017 can you give us a bit of a background?

Saharsh Daga: In FY2017 17.31 Crores just come again on the number where are you seeing this number.

P.S. Krishnan: It is in your balance sheet.

Sheetal Khanduja: We will just get back to you in a minute.

P.S. Krishnan: Okay.

Moderator: Thank you. We take the next question from the line of Divahar Jawahar an Individual Investor. Please go ahead.

Divahar Jawahar: I just was a bit late in the call so I may be repeating the question sorry for that. Just went through the presentation, it is mentioned that we have working on the price band of around 1000-1500 so do we think that with the same pricing strategy we will be able to penetrate in Tier II, Tier III or are we going for discounting or what is the strategy and what could be the sustainability margin in those area?

Saharsh Daga: I will ask Kunal to address this question for you.

Kunal Mehta: So there is going to be the absolutely same prices will be maintained pan India and there is no different price strategy and over the years we have realized that there is no need for a different pricing strategy in Tier II because the sales are quite strong and it is quite an aspirational brand and lot of other verticals also show that in Tier II the spending power is as good as any metro.

Divahar Jawahar: The margins would be sustainable in and around 18% to 20% in that.

Kunal Mehta: Yes similar.

Divahar Jawahar: The export side of sales has come down so what is the strategy?

Saharsh Daga: At this point of time, we are aggressively looking at other countries and so yes US also is one of the markets which we are looking at.

Divahar Jawahar: There was an interview by the management so where they told they will also try to venture into a similar kind of arrangements with the other personalities?

Saharsh Daga: Sorry I did not get the question can you please repeat again?

Divahar Jawahar: Actually there was an interview the Business Line where the management is saying that apart from the Being Human brand we will also look to have other similar kind of arrangements?

Saharsh Daga: We are looking at other possibilities, at this juncture there is no concrete development to really talk about.

Divahar Jawahar: Margins have come down from 25% to 18%, what is the internal benchmark that management has.

Saharsh Daga: We are hopeful of sustaining at this level.

Divahar Jawahar: 18 to 20.

Saharsh Daga: Yes.

Moderator: Thank you. We take the next question from the line of Manav Shah from RGO Partners. Please go ahead.

Manav Shah: I just wanted to know are you going to use your setup for even adding new brands or current set will be only for Being Human.

Saharsh Daga: No the current setup will be only used for Being Human.

Manav Shah: You do not plan to add any new brands?

Saharsh Daga: As and when the new brand will be coming on board there will be a separate plan for that.

Manav Shah: Okay so but there is no plan as of now to add any new brands.

Saharsh Daga: As of now there is no other brand also.

Manav Shah: Thank you.

Moderator: Thank you. We take the next question from the line of N. Samraj from Dwaraka Wealth Managers. Please go ahead.

N. Samraj: You mentioned that agreement with the foundation would be signed soon so how soon could that be end what is the timeframe are we looking for approximately?

Saharsh Daga: As and when it happens it will be reported to the exchange the very next hour. There is no hurry we have time till March 2020 nevertheless be rest assured we are in talks and it will happen sooner than later.

N. Samraj: So that is what I wanted check on and about this loans and advances you had to come back

Saharsh Daga: Someone told me there are loans and advances of 17 Crores I cannot see where is it.

N. Samraj: It is there actually this other gentleman also had pointed out I had also seen in the balance sheet loans and advances notes.

Saharsh Daga: 17 Crores.

N. Samraj: One second I will just…

Saharsh Daga: You are talking about the long-term loans and advances those are the deposits given for the stores that we have taken on rent. I was actually looking the short-term loans and advances I was thinking where it was.

N. Samraj: Thanks so much.

Moderator: Thank you. We take the next question from the line of Yash Jhaveri from Alder Capital. Please go ahead.

Yash Jhaveri: Just a question on the new accounting standard and how it treats SOR so what proportion of your sale would be on SOR basically and any impact you would like to call out?

Saharsh Daga: As I told earlier also we are yet to work out the Ind-AS working because Ind-AS is applicable to our stock this current financial year so obviously there will be some impact but that impact will be for both the reporting periods and therefore there will be an impact which will be coming up.

Yash Jhaveri: Most of your sales.

Saharsh Daga: Yes except for the export and the EBO sales rest all sales are in SOR basis so obviously the system will move from primary retails to secondary sales and that is one of the reason we have actually proactively taken the returns of the next year in the current financial year so that we do not have a big impact in the next quarter but needless to say there will be an impact in the next quarter but it will be for both the periods and it will be suitably adjusted whatever it will be we will go through it.

Yash Jhaveri: The other thing is this 18 Crores return that you have booked in this quarter from what channel was it or if you could split that rough?

Saharsh Daga: Primarily entire franchisee and distributors and e-commerce.

Yash Jhaveri: Roughly equal from all.

Saharsh Daga: I would have that number but that will be almost equal and it is part of routine business.

Yash Jhaveri: Thanks.

Moderator: Thank you. We take the next question from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Just few other follow up clarifications. When we said we are looking into other brands so are we looking at other celebrities for that.

Saharsh Daga: It may be a celebrity based brand it may be a non-celebrity brand, endorsed by a celebrity so it can be anything honestly we are open for anything as long as it is exciting and it is going to make money in the long run.

Giriraj Daga: And do they require no objection certificate, NOC?

Saharsh Daga: Not really.

Giriraj Daga: There is no clause like that.

Saharsh Daga: No.

Giriraj Daga: Second question is on the breakup of inventory if you can give me between RM and FG and may be some WIP?

Saharsh Daga: Everything is FG because we only buy finished goods.

Giriraj Daga: But we have got these 18 Crores of inventory we have taken in to the account so it must have been accounted in cost or what?

Saharsh Daga: At cost.

Giriraj Daga: My next question is like just a clarification we are not into the manufacturing and we are completely outsourced.

Saharsh Daga: That is right.

Giriraj Daga: Okay my last clarification, you gave something just missed that franchise and EBOs the margin difference?

Saharsh Daga: Franchise and EBOs the margin difference.

Giriraj Daga: Yes.

Saharsh Daga: I did not understand the question.

Giriraj Daga: Like how much you have give to the franchise additionally?

Saharsh Daga: It is anywhere between 24% and 33% that given as a markdown to the franchise.

Giriraj Daga: Thanks a lot.

Moderator: Thank you. We take the next question from the line of Chintan Sheth from Sameeksha Capita. Please go ahead.

Chintan Sheth: On the investments in EBOs and franchises going forward beyond FY2018 so any rough plan where we can say that we want to reach certain number of stores at the end of say FY2020 or FY2022 or annual plan for store additions like 20 stores per year - should we take it as a ongoing process?

Ketan Mehta: The vision for the next five years is to have 1500 point of sales.

Chintan Sheth: 1500 points of sales from current 400?

Ketan Mehta: Correct.

Ketan Mehta: In the next one-year we are looking at opening 20 stores.

Chintan Sheth: Beyond that FY2018?

Ketan Mehta: Sorry.

Chintan Sheth: Beyond FY2018 say 2019-2020?

Ketan Mehta: We were look at opportunities but at this point of time I can tell you that for the next one year our plan is to open 20 stores.

Chintan Sheth: You mentioned about the creditor days where we have a more favorable kind of 60 days payment cycle so still we our net working cycle is around 120 odd days – will it remain at this level?

Saharsh Daga: It will remain where it is. Honestly I do not think so we can really crash it dramatically since while it is 5, 10 days which will be the efficiencies that will be get build as the business grows but honestly we are not really building in too many too much of crashing on this cycle.

Chintan Sheth: So it will stay at this level or plus minus 5, 10 days.

Saharsh Daga: That is right.

Chintan Sheth: And margin you said 18.5 will be steady state you want to sustain even after considering the increase in the royalty payout?

Saharsh Daga: Yes this margin is post the royalty payout.

Saharsh Daga: 2017 whole year the royalty payout has been on the higher royalty.

Chintan Sheth: Thank you.

Moderator: Thank you. We take the next question from the line of Nagaraj Chandrashekar from Laburnum Capital. Please go ahead.

Nagaraj C: Just wanted to ask what you see and what you are able to do about counterfeit sales of your products at lower discounted price point, could we have a figure of what could be the potential revenues you could be losing and if there is something you can do about this?

Saharsh Daga: That is a great question I will start by saying that imitation is the best form of flattery so we would love to do something about it but it is very difficult to do. Some changes have happened, if you see the kind of design that we come out with. There is also an end of season pricing point available to him which is actually more or less equal to the original pricing. So we personally believe that these counterfeits would not last for too many quarters but this is the problem which we really cannot addressed overnight. But we know that for the kind of work we are doing the kind of designs we are coming up with and the kind of pricing the merchandise is sold at the time of end of season, there was a 60% off this weekend at our Santa Cruz outlet, so those are the kind of days when the counterfeit guy actually end up buying original merchandise and that will eventually be the way forward.

Nagaraj C: You probably have three or four such sales event during the year at deep discounts of round 50%, 60% off so what percentage of your sales are at these end of season sales and how long do they typically run for?

Saharsh Daga: The kind of days that we do which is 60% off day or the Salman Khan's birthday those are the one-off sales. Those are primarily done to get rid of old merchandise so while we are selling something at 50% off we are still recovering 40% which way more than your cost. Now end of season sales has become a business reality in the current brand business so cumulatively if you want to look at the number we end up selling about 45% to 50% of the sales at discounted MRPs.

Nagaraj C: Just wanted to understand the typical demographic of Salman Khan fan a very large percentage of them you might not be able to reach at these price points so are you looking for considering a lower price brand or any such thing to sort of counter this problem with counterfeits or being able to reach. If you think about 4.5 lakh fans are a very small percentage of his actual number of fans so is there any thinking on this.

Kunal Mehta: Yes the reason we are going into Tier II and Tier II market is because we want to reach all the fans of Salman and we are not looking at any different styling or different pricing to reach them because we know that the people who are following us and following Salman and following the brand are completely happy with our pricing so I do not think so there is any strategy to follow that.

Nagaraj C: Thanks.

Moderator: Thank you. We take the next question from the line of P.S. Krishnan an Individual Investor. Please go ahead.

P.S. Krishnan: Thank you very much. I wanted to ask you why this purchase of stock in trade in Q4 at 114.37% of your revenues, which is very high as when I compared into Q3 and Q3 2017, and Q4 2016?

Saharsh Daga: Sorry for Q4 what was the number just if you can repeat?

P.S. Krishnan: Q4 2017 your purchase of stock in trade was 114% of your revenues, which is very high when I compare it to Q3 2017 which is 41% and which is 73% in Q4 2016.

Saharsh Daga: No that is not the way we have to look at because there was a change in inventory also so whatever extra we have purchased would be for the upcoming season and that stock is lying in your inventory.

P.S. Krishnan: Do you forecast what kind of numbers would you require based on the demand, because these numbers seems to be quite high?

Saharsh Daga: Which numbers.

P.S. Krishnan: I mean the purchase of stock into it when I compare it to revenues for Q4.

Saharsh Daga: What makes you say they are high.

P.S. Krishnan: Well if you just put a percentage on it if you look at it, if I do not take your returns back. it is about 114% of your Q4 revenues?

Kunal Mehta: But you need to adjust the inventory know whatever have been purchased for the next season will also be in inventory if you look at the number for the March quarter last year it was a similar number.

P.S. Krishnan: No, not really I think last quarter was about 73%.

Saharsh Daga: Last I have an increase in inventory March 2016 also there was an increase in inventory of 9 Crores. This year that number has gone up by 16 Crores that is higher.

P.S. Krishnan: If you look at it as a percentage it is about 73% of your Q4 revenue in 2016.

Saharsh Daga: But honestly purchase of stocking trade as a percentage of revenue is a very wrong indicator to evaluate you have to look at the number and the net number that is your consumption you have to compare your revenue, which is your consumption.

P.S. Krishnan: I wanted to ask you what the average sale per EBO per year.

Kunal Mehta: It is around 2.5 Crores.

P.S. Krishnan: Around 2.5 Crores is it.

Kunal Mehta: Correct.

P.S. Krishnan: And what is for the franchise.

Kunal Mehta: Similar.

P.S. Krishnan: So franchise also was similar.

Kunal Mehta: Sorry.

P.S. Krishnan: No, no even for the franchise it is a same number is it, at 2.5.

Kunal Mehta: Yes same number.

P.S. Krishnan: Thank you.

Moderator: Thank you. Ladies and gentlemen we take the last question. We take the question from the line of Divahar Jawahar an Individual Investor. Please go ahead.

Divahar Jawahar: Sir could you please explain the dynamic of this return of sales which we have done because I have missed the few conversation so could you please explain it out like how it would be going forward?

Saharsh Daga: What will be going forward?

Divahar Jawahar: How it will work also going forward - let us say that the you book around 60 Crores of revenue so every quarter we may expect some 10% to 12% of return on this, this is what we are trying to say with the percentage sir so could you please give a colour on that?

Saharsh Daga: No it will not happen every quarter, if the returns and for a period prior to March 31, and it comes to me in April and May I will provide for it. Likewise if I am doing a closing for the quarter of September and if the returns have come in October and they are for a sale made in the period of April to September, I will do an accrual basis accounting that is the only change otherwise there is no other change.

Divahar Jawahar: So on the GST point of view Sir what is our take like how are we expecting the rate to is it being going to be considered on the luxury part like what is your take on it?

Saharsh Daga: I have no idea. GST is the most complicated subject in the industry right now.

Divahar Jawahar: Thank you.

Moderator: Thank you. Ladies and gentlemen I now hand the conference over to Mr. Himanshu Nayyar from Systematix Shares & Stock for closing comments.

Himanshu Nayyar: Thanks Stanford. On behalf of Systematix Shares & Stock, I would like to thank all the participants for logging in and also to the management for giving us an opportunity to host their first earnings call. I would now hand over to the management team for any closing comments if they have. Thanks.

Saharsh Daga: Thanks Himanshu. Thanks again for joining in. Thank you so much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Systematix Shares & Stock Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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For Further Information; please contact

Sheetal Khanduja
Go India Advisors
+91 9769364166
Sheetal@goindiaadvisors.com

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