

Monte Carlo Ltd. (MCL) : "Subscribe only for listing gains "

28th November, 2014

Launched in 1984 as an exclusive woolen brand by OWML(one of its Group Companies) which was engaged in spinning of woolen, cotton and other blended yarns, weaving denim fabric and manufacture of apparel. With effect from April 1, 2011, the woolen and cotton apparel business of OWML under the brand 'Monte Carlo' was demerged into this Company. Today, Monte Carlo has been recognized as a 'Superbrand' for woolen knitted apparel in each edition of Consumer Superbrands India since its first edition in September 2014. The Company primarily caters to the premium and mid – premium branded apparel segment for men, women and kids, offering a comprehensive line of woolen, cotton and cotton blended knitted and woven apparel and home furnishings through its 'Monte Carlo Exclusive Brand Outlets' and MBOs, including a network of national chain stores under the 'Monte Carlo' Brand. The Company operates two manufacturing facilities in Ludhiana, Punjab, one for its woolen apparel products and one for its cotton apparel products. The manufacturing facilities include facilities for product development, a design studio and sampling infrastructure. Almost, all its woolen knitted products are manufactured inhouse. MCL have also recently commenced in – house manufacturing of some of its cotton t – shirts and thermals in April 2014. For the remaining cotton and cotton – blended products, it follows an asset light model by outsourcing the production to a network of third party manufacturers. The shares on the block together constitute 25 per cent of the post-offer share capital of the company. The company will not receive the funds raised. The public issue is intended as an offer for sale, a sale of shares by private equity investor Samara Capital (which will reduce its shareholding from 18.51 per cent to 10.94 per cent) and the remaining by the promoter group Oswal Woollen Mills Ltd. In June 2012, Samara Capital, a Mauritius – based India focused private equity firm, through its affiliate, KIL, acquired a stake in MFCL and currently holds 18.51 percent of the pre – offer capital of the Company.

MCL's topline and bottomline have witnessed a CAGR of 17.57% and 5.75%, respectively over the period FY12-14. Geographically, 58 percent of revenues are from North India where as South, East, West and Central account for 2.67 percent, 25 percent, 5.31 percent and 9.02 percent respectively. The Company enjoys return on equity (RoE) of 14.5 %. In addition, the Company has cash and liquid assets worth Rs. 166 crores (cash – Rs. 116 crs + Current Investments- Rs. 50 crs) as on Q1FY15. The Company proposes to utilize the cash for acquisition of good brands in segments like Ethnic wear, Suitings and Shoewear segment. The Company believes that there are no listed companies in India which are engaged in the same business with an equivalent product mix. The Company directly competes with wholesalers, direct retailers of apparels, diversified apparel companies with substantial market share, established companies selling internationally renowned brands, as well as against domestic retailers and regional unorganized competitors in the apparel industry. However, the domestic apparel segment is fragmented and continues to be dominated by unorganized and regional players.

At the upper band of the issue price, MCL is valued at 25x – FY14 Post issue EPS/share of Rs. 25.4/- at upper end of the price band. With due consideration to factors like a) 30 years old well established leading all season apparel brand which, b) strong back end with in – house design and manufacturing, c) long term relationships with third party manufacturers, d) nationwide sales and distribution network, e) positive operating cashflow, f) favourable capital structure with decent return ratios, g) buoyant secondary market conditions, we recommend "SUBSCRIBE" to the issue only for listing gains.

Issue date	Dec. 03 – 05 , 2014
Issue size	Rs. 3,502 mn at upper end of the price band
Face Value	Rs.10
Price Band	Rs. 630 - 645 per share
Lot size	23 equity Shares and in multiples thereof
Issue structure	QIB: 50% Retail: 35% Non – Institutional: 15%
Type of issue	5.43 mn equity shares - Offer for sale by promoters and Samara Capital (PE investor)
Equity shares post issue	21.73 mn equity shares
Post issue market capitalization	Rs. 14,016 mn at upper price band
Book Running Lead Managers	SBI Capital Markets Ltd. Axis Capital Ltd. Edelweiss Fin .Services Ltd. Religare Capital Markets Ltd.
Registrar to the issue	Link Intime India Pvt. Ltd.

Shareholding Pattern (%)	Pre Issue	Post Issue
Promoters	81.06	63.63
Samara Capital	18.51	10.94
Public	-	25.43
Total	100	100

Y/e 31 Mar (Rs. mn)	Q1FY15	FY14	FY13	FY12
Total income	747.68	5,037	4,044	3,721
EBITDA	180	941	710	818
EBITDA Margin (%)	24.07	18.6	17.6	21.9
Reported PAT	85.18	553	489	495
PAT margin (%)	11.4	10.9	12.09	13.30
Post issue EPS (Rs.)	3.92	25.44	22.50	22.75
P/E (x) at upper end of price band	-	25	28	28
Equity Capital	217.32	217.32	217.32	217.32
Networth	3,882.43	3799.72	3246.71	1507.67
Book value per share	179	175	149	69
RoNW (%)	-	14.55	15.06	32.8

Research Analyst

Akash Jain, MBA (Financial Markets)

Corporate Off. : 408, Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall, Western Express Highway, Malad (East), Mumbai - 400 063. Tel : 91-22-67160400
mail : research@ajcon.net Website : www.ajcononline.com

Disclaimer

The content in this research report has been prepared by Ajcon Global Services Ltd. and is meant for the recipient for use as intended and not for circulation. The content in the research report should not be research reported or copied or made available to others. The information contained herein is from the public domain or sources believed to be reliable. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as decision such. Ajcon Global Services Ltd. would not be responsible for any loss to the investors; they should verify all the fundamentals before investing. Investors should not solely rely on the information contained in this research report and must make investment decisions based on their own investment objectives, goals, risk profile, financial position and based on their own analysis.. The securities discussed in this research report may not be suitable for all investors. The recipients of this material should take their own professional advice before acting on this information. Ajcon Global Services Ltd., its directors and employees, will not in any way be responsible for the contents of this research report. This is not an offer to sell or a solicitation to buy any securities.

Ajcon Global Services Ltd. proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in Futures and Options Segment, and buy or sell the securities in Cash market thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The analyst for this research report certifies that all of the views expressed in this research report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this research report. Ajcon Global Services Ltd., may be considered as interested party in view of its relationship as the financial advisors and consultants to some of the companies discussed in the research report.



For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160443 (D)

CIN: L74140MH1986PLC041941

Website: www.ajcononline.com

Corporate and Broking Division

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Malad (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062

Registered Office:

101, Samarth, Off. Hinduja Hospital, 151 Lt. P.N. Kotnis Road, Mahim (West), Mumbai – 400016. Tel: 022-24460335/36/40

Research Analyst

Akash Jain, MBA (Financial Markets)

Corporate Off. : 408, Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall, Western Express Highway, Malad (East), Mumbai - 400 063. Tel : 91-22-67160400
mail : research@ajcon.net Website : www.ajcononline.com