# S.P.APPARELS LTD.

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| The Deputy General Manager<br>Department of Corporate Services<br>BSE Limited<br>1st Floor, New Training Ring,<br>Rotunda building, P.J.Tower,<br>Dalal Street, Fort,<br>Mumbai – 400 001 | The Asst. Vice President<br>Listing Department<br>National Stock Exchange of India Limited,<br>Exchange Plaza, 5th Floor,<br>Plot No.C/1, G Block,<br>Bandra – Kurla Complex, Bandra (E),<br>Mumbai – 400 051 |
| Stock Code : 540048 | Stock Code : SPAL |
| **Ref:** Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 | |
| **Sub:** Transcript of the Conference call held on 14th February 2024 | |

Dear Sir/Madam,

With reference to our letter dated 06th February 2024, intimation about the conference call with Analyst/ Investor held on 14th February 2024, please find the attached transcript of the aforesaid conference call.

This is for your information and record.

Thanking You.

Yours faithfully,

For S.P.Apparels Limited

K.Vinodhini
Company Secretary and Compliance Officer

**Encl: As above**

# “S. P. Apparels Limited
# Q3 FY2024 Earnings Conference Call”

## February 14, 2024

**MANAGEMENT:** **MR. P. SUNDARARAJAN – CHAIRMAN & MANAGING DIRECTOR**

**MRS. S. SHANTA – JOINT MANAGING DIRECTOR**

**MR. S. CHENDURAN – JOINT MANAGING DIRECTOR**

**MRS. S. LATHA – EXECUTIVE DIRECTOR**

**MRS. P.V. JEEVA – CHIEF EXECUTIVE OFFICER**

**MR. V. BALAJI – CHIEF FINANCIAL OFFICER**

**ANALYST:** **MS. PRERNA JHUNJHUNWALA – ELARA SECURITIES**

**Moderator**: Ladies and gentlemen, good day and welcome to the SP Apparels Limited Q3 and 9M FY2024 Earnings Conference Call hosted by Elara Securities Private 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 Ms. Prerna Jhunjhunwala from Elara Securities Private Limited. Thank you and over to you Madam!

**Prerna Jhunjhunwala:** Thank you Dinesh. Good afternoon, everyone. On behalf of Elara Securities Private Limited, I would like to welcome you all to Q3 and 9M FY2024 post results conference and business update call of SP Apparels Limited. Today we have with us the senior management of the company including Mr. P. Sundararajan. Chairman & Managing Director, Mrs. S. Shanta. Joint Managing Director, Mr. S Chenduran. Joint Managing Director, Mrs. S. Latha, Executive Director, Mrs. P. V. Jeeva, Chief Executive Officer, and Mr. V. Balaji, Chief Financial Officer. I would now like to hand over the call to the management for opening remarks. Thank you and over to you, Sir!

**P Sundararajan**: Thank you. Good afternoon, everyone. I welcome you all to our post results conference call for the Q3 and nine months ended FY2024 of the company. I hope all of you had a chance to look at our investor presentation that is uploaded on the company's website and stock exchange. I would like to highlight about the latest acquisition before we go into detail. Acquisition of Young Brand Apparel Private Limited as well as Bannari Amman Spinning Mills running factory assets. I am delighted to share that we are embarking on a strategic acquisition initiative geared towards enhancing our market presence and diversifying our offerings to the customers. As part of this initiative, we are planning to acquire a 51.33% stake from Bannari Amman Spinning Mills Limited and 49% stake from the joint venture partners from US and Mexico in Young Brand. The acquisition of 100% of Young Brand will be at a cost of Rs. 165 Crores, also we are acquiring the garment unit of Bannari Amman located at Palladam along with its movable, immovable assets and the leasehold rights of the land and its customers and Employees. Deal also includes a leasehold of 6.43 acres of land enclosure of its existing building located in SIPCOT, Perundurai in Tamil Nadu for a total cost of Rs. 58 Crores. Young Brand Apparel Private Limited renowned in the intimate wear manufacturing sector has an impeccable presence in critical global markets and remarkable manufacturing prowess. The company is making impressive strides in expanding its presence in markets like US, Europe, and the UK. We view this acquisition as a strategic effect aligning with our vision to broaden our reach into various textile categories, bolster our export basket and build a more diverse business model. With its established customer base and product line Young Brand Apparel Private Limited will enhance our cross-cell synergy especially as we focus on deepening our footprint in the US market. This acquisition will not only solidify our export spread but will also lay a robust foundation for sustainable and resilient business growth. We are eager to welcome Young Brand Apparel Private Limited as we embark on this exciting new chapter together. We will fund this acquisition through a balance mix of internal accrual and borrowed capital. Now let me talk about the various segments of the business. The garment division the recent quarter we faced a few unexpected weather-related disruption such as cyclones in Chennai and Tuticorin port areas. These disruptions had an impact on our garment shipments and certain shipments were withheld. This also includes the Red Sea issue also. We also had some damages to our stock, but luckily the damage is minor and will be covered by insurance. This quarter there was a decrease in unit realization of garments which is due to the yarn prices coming down hence this lower yarn price affected our segment's overall revenue. However, our strategy to diversify our product range by manufacturing ladies and men's wear and expanding into the intimate wear segment which has a better unit price will increase our realization in the future. As it currently stands our order book hold orders worth 382 Crores. In Q3 FY24 our quarterly revenue reached Rs. 225.28 Crores as compared to Rs. 226.68 Crores recorded in Q3 FY23 with exports of 14.3 million pieces during this quarter. Our garment segment reported an adjusted EBITDA of Rs. 38.71 Crores in the same quarter with EBITDA margin amounting to 17.2%. We are glad to report an increase in utilization levels escalating from 74% in Q3 FY23 to 78% in Q3 FY24. Furthermore, we are currently preparing to construct a new factory in Sivakasi that is anticipated to be operational by August 2024. We would like to reaffirm our guidance of adjusted EBITDA margin of 18% for FY24. However, our revenue may be flat year on year in spite of the reduction in unit realization which we have discussed earlier. With regard to the spinning division during Q3 FY24 we have seen a rebound in our spinning segment compared to the same period last year. The margins have largely stabilized due to a drop in cotton prices enabling us to achieve break even in this segment. We are optimistic that this improved performance and trend towards stability will continue in the future quarters. With regards to our SP UK division, it has been on a positive path to recovery. I am pleased to share that we have on boarded a new customer during Q3 FY24. Also, in line with our new strategy we plan to direct a few orders from the SP UK division to a subsidiary in Sri Lanka for manufacturing. For this quarter SP UK's revenue amounted to GDP 1.32 million compared to GDP 1.12 million during the same period last year. SP UK EBITDA stood at 3.9% for the current quarter. Looking ahead we are confident in our potential to secure few more significant customers for this division by March 2024. We therefore forecast a strong performance from this division in the coming period and beyond. Regarding retail division during Q3 FY24 SP retail ventures recorded revenues amounting to Rs.14.9 Crores while the EBITDA reported a loss of Rs.2.9 Crores for this quarter. The profitability of the Crocodile Brand remained consistent however the introduction of the new brands and the related fixed overhead cost have impacted our profit margin. At present our retail division is experiencing a phase of consolidation, particularly as we work toward stabilizing new licenses and brands. With regard to the industry outlook through 2024 we successfully navigated various economic and geopolitical challenges leveraging emerging opportunities despite the slight dip in sales in the US and European markets. The Indian government extension of ROSCTL scheme fostered our positivity. Meanwhile rising wages in Bangladesh have made India more attractive to retailers. Coupled with predicted demand increase in spring and summer wear in the US and European market and sourcing transitions away from China, we look forward to various emerging opportunities in the Indian apparel sector. As we continue to evolve, we have expanded our garment export segment beyond kids apparel to include men's, women, and now intimate apparel. This expanded portfolio along with our recent acquisition will facilitate further growth opportunities. In addition, our newly acquired garment unit and additional land bank provides with ample space for future expansions bolstered by government policies that support our endeavor combined with the promising recovery in demand we are optimistic about the future and are excited to build upon these favorable conditions. We anticipate the bright future as we stride forward in this journey. Thank you and over to Mr. Balaji our CFO.

**V Balaji**: Thank you Sir. Good afternoon, everybody. I will just run you through the financials of SP Apparels Limited. On a standalone basis total revenue for the quarter stood at Rs. 225 Crores which is flat year on year. Total revenue stood at Rs. 684 Crores for the period ended nine months which is flat year on year. EBITDA for the quarter stood at Rs. 39 Crores which is 18% growth year on year. EBITDA for the period nine months is Rs. 127 Crores and growth of 10.5% year on year. PAT stood at Rs. 22 Crores for the quarter which is a 37.5% growth year on year/ PAT for the nine-month stood at Rs. 77 Crores which is 12.2% growth year on year. EPS for the quarter stood Rs. 8.9 per share and EPS for nine months stood at Rs. 30.7 per share on a standalone basis. On a consolidated basis total revenue for the quarter stood at Rs. 253 Crores, which is 1.9% less year on year. Total revenue for nine months stood at Rs. 783 Crores which is 5.1% less year on year. EBITDA for the quarter stood at Rs. 36 Crores which is 15.8% growth year on year. EBITDA for the period of nine months stood at Rs. 116 Crores which is 3.9% growth year on year. PAT for the quarter stood at Rs. 17 Crores. PAT for 9 months stood at Rs. 61 Crores. EPS stood at Rs. 7 for the quarter and Rs. 24.4 for nine months ended on a consolidated basis. On division wise performance revenue for the quarter stood at Rs. 223 Crores versus Rs. 219 Crores year on year on. Revenue for nine months for the garment division stood at Rs .693 Crores versus Rs. 704 Crores year on year. EBITDA stood at Rs. 38 Crores for the current quarter comparing year on year it stood at Rs. 32 Crores. EBITDA stood at 17.2% for the current quarter versus 14.5 year on year. EBITDA for nine months stood at Rs. 127 Crores which is 18.6%, comparing year on year it is 15.8% and performance of SP UK revenue for the quarter stood at 14 Crores Indian rupees versus Rs. 11 Crores year on year. EBITDA for the quarter stood at 3.9% positive comparing flat EBITDA year on year.. SP Retail

Ventures revenue for the quarter stood at Rs. 15 Crores versus Rs. 20 Crores year on year. EBITDA stood at Rs. (3) Crores for the current quarter. In terms of our debt position longterm debt stood at Rs. 2.7 Crores, working capital at Rs. 163 Crores, total gross debt stood Rs. 166 and net debt Rs. 131 Crores on a standalone basis. Working capital stock stood at Rs. 243 Crores receivable at Rs. 85 Crores and payable at Rs. 70 Crores so net working capital Rs. 258 Crores. Other data is available in the presentation. Now we will get into the question-and-answer session.

**Moderator**: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Rehan from Equitree Capital. Please go ahead.

**Rehan**: Hi good afternoon. Thank you for taking my question. I just wanted to understand we had an order book of roughly 400 odd Crores for Q3 and we had a consol level revenue of about 257 Crores so just wanted to understand what is the execution challenges we are seeing to not be able to realize higher part of the order book.

**P Sundararajan:** See the order book is something it is very wavering it is not very steady see sometimes order book will be like delivery for six months or 12 months annual booking and sometimes only the fashion will be for three months delivery or four months delivery, so it is always fluctuating. As of today, considering the top line it will range from say Rs. 370 Crores to Rs. 410 Crores something like that so that is only a yard stick so if you look at in the past it used to be about Rs. 250 Crores, Rs. 300 Crores then gradually improved to Rs. 320, Rs. 350 as we grow bigger so there is no real any logic behind the order book changes.

**Rehan**: Okay understood. I think I missed in your opening remarks regarding your spinning division so currently how is it contributing considering we are seeing raw material stabilized significantly so what kind of contribution is it giving right now, is it a breakeven, is it positive addition to the current numbers, could you help me understand that.

**P Sundararajan:** See good thing is that the yarn price has come down and it is maintaining the same price it is neither going further down or is not increasing and the yarn price is also more or less the same. There is no big change so it is a kind of fixed situation which is like EBITDA margins will be around 8 to 10% is EBITDA margin so which is being maintained now, but if you look at the last quarter there was a big loss in the spinning division because of the mismatch of yarn prices versus the cotton price so which is a good sign and it might continue for quite some time.

**Rehan**: Understood. Thank you for explaining so well. My last question would be with the current order book of about 380 odd Crores with Sivakasi expected to come early on stream in

FY2025 and the Young Brands Apparel what guidance can we gauge from you for FY2025 if you can share some light on the same Sir.

**P Sundararajan:** The guidance we cannot give you see but it is simple like Sivakasi is going to be for FY2025-2026 only so that is about roughly 400 machines though you can easily plan what we expect is about the FY2026 we will be see about 60 to 80 Crores that is the kind of number we are looking at if the machines are up and running full and with regard to this Young Brand we have already mentioned in the press release that currently Young Brand is doing an export of 330 Crores so we are going to take the possessions shortly after the DD everything is done so definitely we will be able to maintain the 330 Crores and we will put additional efforts to see how we can increase it further.

**Rehan**: Understood Sir and FY2025 what kind of capacity do we expect from Sivakasi in terms of utilization 50 to 60% is fair to understand.

**V Balaji:** I think for 2025 Sivakasi could be very low in terms of utilization because it will get commercially operated maybe mid of October or December so for FY2025 you may not find.

**P Sundararajan:** It will be negligible. Better we take the numbers for FY2026.

**Rehan**: Understood thank you for being so honest. Thank you.

**Moderator**: Thank you. The next question is from the line of Surya Narayan from Sunidhi Securities and Finance Limited. Please go ahead.

**Surya Narayan**: Sir just to understand from the young acquisition at around 330 Crores of revenue what is the EBITDA margin you have seen there, the unit was operating.

**V Balaji:** Their EBITDA margin currently is anywhere between 10 to 11% and there is very good scope of improving on the EBITDA margins.

**Surya Narayan**: Is there any chance to expand the facility or you want to just carry on the existing facility as it is.

**P Sundararajan:** So, we have no plans of any expansions maybe modernization will be happening but definitely no expansion.

**Surya Narayan**: So, this acquisition is at around 223 Crores so how much you are going to incur over there to modernize any ball park figure you have in mind.

**V Balaji**: I think in terms of modernization what will be the cost that needs to be studied and then only we can give you any number in terms of that.

**P Sundararajan:** Sorry I was under the impression you are talking about the spinning mills, no there is no modernization at present required for Young Brand. We will continue with the 330 Crores of business. Currently the EBITDA is about 10 to 11% so they say that by next quarter they may be able to achieve a little more 2-3% more so that is the thing, what is his last question. We are not going to do any modernization now.

**Surya Narayan**: So how will you raise the EBITDA margin because this is basically outsourcing arrangement from the brand.

**V Balaji**: Actually, their utilization level needs to be improved so they are at 70% utilization, there is a possibility the utilization level can be increased.

**P Sundararajan:** The installed capacity is 1800 whereas they are running effectively is only 1200 for the orders.

**Surya Narayan**: So how many pieces of garments the unit is generating per year.

**V Balaji:** We will just let you know once the transaction is complete. We will let you know in terms of what is their production capabilities and all we will just let you know once the transaction is complete.

**Surya Narayan**: Okay can you just guide us the kind of the leverage we will be doing for the acquisition.

**V Balaji:** On the book you are asking.

**Surya Narayan**: Yes, at the moment I understood your standalone debt level you have said earlier but now what is the additional debt the company will be adding for the acquisition.

**V Balaji**: So, on the book we have closely around Rs. 125 Crores as investments which will be leveraged for the buyout and subsequently anywhere between Rs. 70 Crores of additional debts would be borrowed.

**Surya Narayan**: Okay and Sir this Sivakasi unit you said full capacity utilization in FY2026 or beyond may generate around 60 to 80 Crores of revenue.

**V Balaji:** Yes so 400 machines are the plan which we are doing for the first phase so for 400 machines we suggested 80 Crores.

**P Sundararajan:** If it is fully running.

**Surya Narayan**: The last question is that because softening yarn prices has led to some sort of pass on to the end consumer so that is why the ASR was a little bit muted so now that yarn prices are now consolidating for again for a up move we do not know to what extent it will be rising but surely looking at the cotton prices it is stabilizing at this level so if that is the case then what is the guidance you can give for FY2025 realization growth.

**V Balaji:** We have already stated that for FY2024 we may be flat and for FY2025 we look at anywhere between 10 to 15% in terms of growth, both in terms of revenue and in terms of the number of pieces.

**Surya Narayan**: That is what I am asking what is the volume growth and value growth you could be looking at.

**V Balaji**: We cannot confirm on the value growth, but volume growth could be anywhere between 10 to 15%.

**Surya Narayan**: Okay Sir anything I will come back.

**Moderator**: Thank you. The next question is from the line of Akshay Kothari from JHP Securities. Please go ahead.

**Akshay Kothari**: Yes, thanks for the opportunity. Sir what is the reason for Young Brands sale why were the existing group actually selling this unit.

**P Sundararajan:** I cannot comment on that. There must be some reasons. It is very tricky question. We got the offer, so we found it more interesting and that is why we have taken only the garment side, we have not taken the spinning side. We have not acquired the dying as well as the spinning.

**Akshay Kothari**: Generally, since they are like a job worker so they will be having some long-term contracts with the brands for example Jockey because based on that only so what is the tenure of that contracts if they are expiring anytime soon.

**P Sundararajan:** That is all subject to due diligence now it is all under due diligence we really do not know yet.

**Akshay Kothari**: Okay so by when do we expect the transaction to get completed.

**V Balaji:** Maybe mid of April two months from now.

**Akshay Kothari**: And Sir just on that front only you did mention about EBITDA margin of 11% in Young Brands what is the PAT margin currently they are doing.

**V Balaji:** PAT is somewhere around 5 percentage.

**Akshay Kothari**: Okay and Sir I think you did mention or not what would be the mix of internal accrual versus debt for the acquisition.

**V Balaji:** So, you asking what is the composition. What we are looking at funding the garment unit and the 58 Crores we are looking at taking a support from the bank and the buyout of shares of 165 Crores will be funded through the internal accruals.

**Akshay Kothari**: Okay Sir that is it from my side. Thanks a lot, and all the best.

**Moderator**: The next question is from the line of Prerna Jhunjhunwala from Elara Securities Private Limited. Please go ahead.

**Prerna Jhunjhunwala**: Congratulations Sir on this acquisition. I just wanted to understand the customer profile of the acquired company and how synergies can help us elevate to a higher level.

**V Balaji**: Current customers they are working with American Eagle.

**P Sundararajan:** They are working with Jockey, American Eagle and they have some US importers as well and they have few more customers. We are still not into it completely so the customer base is quite impressive there is no issue about it.

**Prerna Jhunjhunwala**: I was asking what kind of synergistic benefits can we expect from this acquisition in terms of customer addition or geography addition or manufacturing capability synergies, what else.

**P Sundararajan**: Because this acquisition of Young Brand this is completely different product all together the underwear, the lingerie and that sort of products which is completely different so it will cross sell, the existing customers might be interested in buying those products as well and their customers would be interested in buying kids brands or babies as well so there is going to be a real complimenting each other kind of a situation, real synergy will happen. This is with regard to the customers and with the production side I think it is already running one. We will try to understand the better Business model from that company, and we will Implement what best is working out here to that company so a lot of things will happen.

**Prerna Jhunjhunwala**: Okay and are we also taking over the running management when we take over the company or it will be replaced by our own professional.

**P Sundararajan:** There are professional running the company so there is not going to be any change in the middle management team. They are doing extremely well so we will just let this continue as is.

**V Balaji:** Just to add a point on the synergies like geographical presence of the of Young Brand which is much into US, it give us more work for SP Apparels in US also and also that is a place where you have 26 acres of land where there is a possibility of increasing the capacity there also is possible so to add just two more points on geography and expansion of factories.

**Prerna Jhunjhunwala**: Okay and we can also leverage the network in Sri Lanka because Sri Lanka is known for intimate wear if I am not wrong.

**P Sundararajan**: You are aware of everything. You are aware of the industry very well, it sounds like.

**Prerna Jhunjhunwala**: Next question is on the margins of the garment business with spinning margins now at break even and maybe it may improve with the cotton prices at lower level can we expect EBITDA margins of garment business to reach near 20% over the next two three quarters or are there any pressures with respect to demand in UK or our existing customers.

**S Chenduran**: In the opening remark Mr. Sundar spoke about the EBITDA margin guidance of 18% so whatever beyond 18% so I think we have done for the nine months we have done 18.6%. We should be anywhere between 18 to 19% for the whole year and we would stick on the guidance front between 18 to 20% margins for the future.

**P Sundararajan:** We would like to maintain that 18 to 20 because you know this industry is very dynamic. There are so many changes positively or negatively adversely so it is a challenge to maintain the 18 to 20 because of the external influences so I do not think that there are chances of improving more than 20 that can happen gradually over a period of time only.

**Prerna Jhunjhunwala**: Okay Sir last question on Red Sea impact since our exposure to Europe and UK is high is there any impact in terms of our customers asking for preponement of deliveries because the number of days have increased or if there are any advantages or disadvantages because of this event.

**S Latha:** Actually because of that there are disadvantages for the customers. In some cases because of late receipt of goods they are taking goods by air on their cost but there is no impact for us but they are taking air on their cost.

**Prerna Jhunjhunwala**: Understood madam. Thank you. I will come back to the question queue for any further questions. Thank you.

**Moderator**: Thank you. The next question is from the line of Resham Jain from DSP Asset Managers. Please go ahead.

**Resham Jain**: Hi good afternoon team so I have few questions so the first one is on acquisition itself so if we just break this acquisition into two parts one is the Young Brand and the second one is the asset which you have taken over what will be the revenue from ex Young Brand or it is just an asset.

**P Sundararajan:** Young Brand we are acquiring the shares of the running business. I think they have done 330 Crores last year and last nine months three quarters 229 Crores they have done. We are just getting those 300 odd business straight away as a part of the SP Apparel group and once we take the possession and we are very very confident with support of our customers there and they are also working on additional new customers so probably we can easily increase in the next 12 months easily another about 20-30 Crores so that is what we look at it and we do not see any problem in improving EBITDA that is what we are looking at. What we say 18% here and we expect 15 to 18% there that is what our target is to work with in Young Brand so over a period of time we will try to maintain 18% in Young Brand also as in SP Apparels garment division and with regard to the acquisition of the assets here I think this is very much out of Tripur which has got about 550 sewing machines running because for want of orders there has been a drop in the business only 120-130 machines are running and they have hostel facilities everything so we have already started working towards them and gradually we will be able to take the complete procession before end of March and with the employees everyone will be taken by SP Apparels. It is not going to be a subsidy of SP Apparels it is going to be one more factory of SP Apparels that is the plan.

**Resham Jain**: So, this additional factory can give you what kind of top line.

**P Sundararajan:** After this acquisition we will bring about another close to 80 to 100 Crores.

**Resham Jain**: So, Sir is it fair to assume that this 223 Crores total acquisition cost should lead to eventually over the next two years close to 460 odd Crores of revenue once you streamline everything maybe two years, two and a half years.

**P Sundararajan:** Yes.

**Resham Jain**: And one should assume whatever 15 to 18% margin in that range.

**P Sundararajan:** We will work towards 18% see currently it is only 12% and I think we will be able to improve it by 15% once we acquire in the first quarter itself we should be able to touch 15% EBITDA that is what we hope for the next year.

**Resham Jain**: Okay understood so that was my first question Sir. The second one is on the existing garmenting business when I look back in terms of let is say the kind of commentary in the previous quarters there was some upbeat in terms of the overall business momentum but it seems you are saying that FY2024 will be flat kind of growth let us say 15% growth in the year beginning and I understand that overall business environment has also changed but how do you see the situation for SP Apparel per say and in terms of new order pipeline, new customers how is that building up.

**P Sundararajan:** With regard to SP Apparel next year we are confident we should be able to increase the business by about 10 to 15% that is for sure and in addition to that this Young Brand will add on to it and this the new factory also will add on to this and Sivakasi factory will not give any big support for the FY2025 and the market scenario is that yes there is a tough competition for India from Sri Lanka and Bangladesh because of the duty benefits, definitely customers are looking at the Bangladesh and Sri Lanka that is another thing and of course as we are really strong in the fashion product with the kids and babies still we will continue to get our business but as we go with our existing customers we are looking at men's and ladies fashions and even lingeries, undergarments and other things so what we are planning for next financial year is one is the lingeries undergarments from the newly acquired factory for our existing customers as well as the Sri Lanka factories which will come under SP Apparels only, the exporting will be by SP Apparels although it is in Sri Lanka hopefully we are planning for that one so that will also add on additional business more than what we are currently getting from other departments so this is the current scenario for the next one year.

**Resham Jain**: Okay understood. Sir the other one is in terms of and I have been little critical about this division which is retail and this year also if I look at the first three quarters we had almost close to 9 Crores EBITDA loss maybe at PAT the loss would be even higher is what I presume and you have been quite positive over here but in terms of trajectory as an investor we are not able to understand how are you taking this business forward, like for a revenue of 58 Crores loss of 10-12 Crores seems to be quite high so if you can just explain what are you thinking about this business going forward because it is pulling down the overall profitability of the company.

**S Chenduran**: To your question on the retail, the trajectory how it is going compared to even last year. It has been quite difficult again market situation all that, but as we said, or we have been saying Crocodile has done an EBITDA positive, so it is performed well. Even to be fair for Q3 the other brand Angel & Rocket has become profitable on a gross margin level. We used to make losses on gross margin because of smaller volumes now that has increased. The biggest let down has been on the other brand where the contract comes to an end by the end of this December 2024 and there is a minimum guarantee royalty agreement with them which we are negotiating so we are in a process where if we have to exit we have to exit by the end of this year which means selling the stock, liquidating stock, and clearing and all that so that has been going on for the first three quarters because we decided this three quarters back so this impact from the Head brand is going to affect us for Q4 maybe Q1 next financial year also but by the Q2 next financial year we will be out of this minimum guarantee and all that so if that turns out positive in terms of conversation things will improve immediately if it does not then two more quarters there will be impact from this and I remember during con call in the first quarter of this financial year we said that we look at it retail as a whole for eight more quarters and I think there are three quarters down the way. We are making corrections, making sure that things do not go worse than this but in two more quarters we will be able to see the results if we do not then we know what to be doing with the business in say four more quarters. We are definitely monitoring it closely and addressing as much as we can to limit the damage that it can do to the parent company.

**Resham Jain**: Okay the last one is on cash flows so as you mentioned you have a net debt of 131 Crores is that correct.

**V Balaji:** Correct.

**Resham Jain**: And you will have another 233 Crores to be paid and then you mentioned 70 Crores of incremental borrowing. I actually was not able to reconcile all these three numbers because if your net debt is 131 Crores and if you have 233 Crores of incremental acquisition.

**V Balaji:** We have 125 Crores of investment capacity which has not been part of the net debt so if I reduce that 125 Crores my net debt will be around 8-9 Crores only.

**Resham Jain**: Okay then it is correct. Okay perfect thank you. I am done. Thank you, all the best Sir.

**Moderator**: The next question is from the line of Rehan from Equitree Capital. Please go ahead.

**Rehan**: Hi thanks for the followup opportunity. Sir I just wanted to understand like how much of a hit have we taken because of the Red Sea issue I think you mentioned the same in your opening remarks so are we seeing some backlog which will realized in Q4 can you help me understand the impact of the same.

**V Balaji**: So, in terms of sales, we could have somewhere around 6 to 7 Crores worth of shipments that were kept on hold during the December end so that could be into the sales for Q4.

**Rehan**: I understood so nothing severe as such.

**V Balaji:** No nothing severe.

**Rehan**: I understood. Thank you.

**Moderator**: Thank you. The next question is from the line of Surya Narayan from Sunidhi Securities and Finance Limited. Please go ahead.

**Surya Narayan**: So what I am asking is I mean the Page industry is a franchise of Jockey so then the Page Industry is generating if you see the long term EBITDA of around 18 to 20% as higher as 22% maybe but in recent time it is around 18 to 20% and when you guided that you are eyeing for Young Brands 18% margin so is it viable to sustain that or we will be able to settle somewhere around 12-13%.

**V Balaji:** For Young Brand we have given a guidance of 15% going forward now currently we are making only 11% and you are comparing EBITDA margin with Page. We are B2B only. They are into B2C so they have backward integrated in terms of their overall setup so I think you cannot compare Page EBITDA margins and SP Apparels EBITDA margin but definitely we are moving towards increasing our margins from 18 to 20% that is a part of our process which we have been doing it regularly.

**Surya Narayan**: No Balaji Sir I am not comparing you with Page industry, I am comparing Young Brand with Page industry.

**P Sundararajan:** Young Brand is also a manufacturing company it is also like SP Apparels.

**Surya Narayan**: Correct so that is what I am saying when Page itself is generating around 18 to 20% so where we our margin in Young Brands to settle currently around 11-12% so is it possible to raise it to 15% beyond.

**P Sundararajan:** We are working towards 15 at the moment the longterm yes 18 is possible by combining. That is the advantage SP Apparels acquiring Young Brand there are more possibilities of putting Young Brand also in this 18 to 20% slot in the long run, completely different fabric, different product, everything is completely different ball game of manufacturing and exporting.

**Surya Narayan**: Okay thank you.

**Moderator**: Thank you. The next question is from the line of Anand from Avendus Spark. Please go ahead.

**Anand**: Hi Sir. You are mentioning about the SP UK and SP Sri Lanka facility what is the kind of capacity that we are setting up in Sri Lanka and what are the products that we are looking to cater to any large clients we have got something on that front.

**P Sundararajan:** See because there are certain customers of SP UK, they are only insisting on the duty-free countries preferably then they want to grow the business so naturally we have offered them Sri Lanka production, so which is fine. Some of the customers have seen the factories and they are fully convinced so the capacity is something we are planning for the next one-year time up to 1000 machines over a period of 12 months we are planning production of 1000 machines out of Sri Lanka for SP UK.

**Anand**: So, this is more of like the same customer what we are doing from India shifting to Sri Lanka or is it a new business that we are getting in it.

**P Sundararajan:** SP UK is the same customers. SP UK is buying from India buying from Sri Lanka sometimes buying from Bangladesh also because they are based at London, so the same customers and we are adding one more customer, so they are also interested in Sri Lanka also. This is going to be additional benefit because SP UK is not manufacturing, it is only a trading business so for SP UK trading they can source from any country wherever the price advantage is there and different product, they can make everything. They are not restricted to only products or knitted products or the babies or something like that.

**Anand**: Sure Sir. Thank you, Sir.

**Moderator**: Thank you. The next question is from the line of Aabhash Poddar from Aionios Alpha Investment Management. Please go ahead.

**Aabhash Poddar**: So actually I just wanted to check on Young Brand you said for nine months you have done around 230 Crores of revenue and for nine months 2024 and FY2023 you had done 330 so is it there some seasonality where Q4 you would be similar to that number or will for FY2024 you will be at a lower level and from there on we are saying FY2025 as per the press release will be closer to 370-400 odd Crores so just wanted to understand the revenue growth for Young Brand that is point number one and point number two is I wanted to understand when you say you should be able to take margins from 10-11 to 13-14 or 13 to 15% quickly is it led more by your sourcing and your capabilities which is why gross margin is something which is easily understandable are there any low hanging fruits if you could just talk about one or two factors which is giving you this confidence on the margin front.

**P Sundararajan:** See the first question is that in the last three quarters we cannot comment on anything because the previous management one we do not know and even Q4 we really do not know what is going to be the numbers because we are going to take the possession somewhere in the month of April but I had a discussion with the previous management is that they are expecting to close around say 320 to 330 Crores that is something and by looking at their customer base and the capability we strongly believe because currently we are doing only 1,200 machines so once the order inflow is coming, see there is a synergy. The customers know SP Apparels, the minute they got the news from the media some of the customers have approached us and good that SP Apparels acquiring it so we are ready to place more orders for such kind of products, underwear products kind of things with us so with our existing customer support and also they are also pushing with their lot of other customer US importers and we should be able to increase the running capacity utilization from 1,200 to say 1,500 machine in the next 12 months time so that will fetch another about say about another 50-60 Crores of additional business so we are aiming for up to 400 Crores in the next financial but I am not sure unless I really jump into it we are not able to comment anything and the second question is margin in Young Brand. See once the utilization goes up and these products are something because of worth of order sometimes the existing management is forced under pressure to take the orders even for loss to keep the factory running so with our support with our customer support once the order inflow is coming so automatically there will be improvement in the margins up to 15%.

**Aabhash Poddar**: Understood and just one last bit for the overall business grow for SP Apparel the organic business so you were working on new factory at Sivakasi, you are working from SP UK and the Sri Lanka belt and obviously when we hear global commentary as well where we understand all the export demand and all those challenges have gone away so in that backdrop I just wanted to understand is 10 to 15% a conservative number you think you can do better, just wanted to understand the growth in perspective, as a part of this I am just saying SP Apparels as an entity should not we grow faster with the number of efforts that we are making.

**P Sundararajan:** The 10-15% growth we are talking about is only with related to SP Apparel garmenting existing setup excluding Young Brand and excluding Sivkasi, so consolidated number can be another say 400 Crores in the next financial year in addition to 10 to 15% growth of our existing.

**Aabhash Poddar**: Perfect that is clear. Okay thanks and all the best.

**Moderator:** Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing comments. Thank you and over to you Sir.

**P Sundararajan:** Thank you for showing interest in this con call and trying to having interest to know more about the information and there are more questions focused on the acquisition part and we are very confident this acquisition was very right move for us and that is our strength also and definitely their customers are really interesting to us and with additional capacities and additional customers it makes lot of sense to the acquisition of this company and also we are very very optimistic about the Sri Lanka operations for the SP UK as well as we are planning for Sri Lanka operation for our SP Apparels business also so we are confident for the coming financial year to have a very interesting numbers and thank you for showing interest in our business and thank for participating, good luck.

**Moderator**: Thank you. On behalf of Elara Securities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.