

## "S.P. Apparels Limited Q1 FY2020 Earnings Conference Call"

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**APPARELS LIMITED** 

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**Moderator:** 

Good day ladies and gentlemen and welcome to S.P. Apparels Limited Q1 FY2020 earnings conference call hosted by Asian Market Securities. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference please signal an operator by pressing "\*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Shradha Agrawal from Asian Market Securities. Thank you and over to you Madam!

Shradha Agrawal:

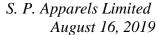
Thank you Inba. Good afternoon everyone. On behalf of Asian Market Securities, I would like to welcome you all for Q1 FY2020 Results Conference Call of S.P. Apparels and would like to thank the management for giving us the opportunity to host this call. On the call today we have with us the senior management of S.P. Apparels including Mr. P. Sundararajan, Chairman & Managing Director, Mrs. S. Latha, Executive Director, Mr. S. Chenduran, Director Operations, Mrs. P.V Jeeva, CEO, Garment Division and Mr. V. Balaji, CFO. I would like to hand over the call to management now for their opening remarks. Thank you and Over to you Sir!

P. Sundararajan:

Thank you. Good afternoon to all. Thanks for the participation in the concall. This quarter results have been unusually not in line with previous quarter performance and not as expected. This is due to inevitable reason which will be explained below.

The garment division with regard to customer, we have already consolidated with the customer base of 10 customers, we have also diluted the geographical concentration of customers. Currently our country wise contribution is 20% US, 32% Europe and 48% UK by which sales risk has been mitigated reasonably. Currently the order book is at Rs.258 Crores, our current capacity is 4,800 machines and our capacity utilisation is around 78%. We are in the process of adding more capacities within our factories and new factories. We are consistently expanding, and we will be close to 6,000 sewing machines by end of this year. Regarding the financial performance of the garment division, the adjusted revenues stood at Rs.191 Crores which grew by 25% on year-on-year basis and adjusted EBITDA stood at 13% for this quarter.

The margins underwent stress due to the following reasons. Firstly, I would like to let you know that we have changed our mix comparing what we were a year back. Mix means the customer mix, product mix and the geographical mix. These changes in the mix is throwing some multiple challenges on the margin front and that is the main reason on the shrinkage of the margin. Secondly the cotton price movement also has been a big challenge; volatile exchange rate movements in rupee have also impacted our margins. New factories have contributed preoperational expenses and the trainee cost of the new operators has also increased the personnel cost because of the new factories and the tight order booking. We have moved goods by air to reach the customers on time. This air





freight has increased our other expenses considerably. Increased maintenance expenses in our factory to meet out compliances and accumulated CSR spent are the reasons for increase in our other overheads. I hereby like to assure you that the EBITDA margins on the garment division will improve in the quarters to come and we will be able to stick to our guidance coming quarters. In Q2 there will be evident improvement in the EBITDA margins.

Next is retail division, the store details are we had 28 companies owned, company operated stores and 16 franchises owned, franchise operated stores as on June 2019. We had 345 large format stores as on June 2019.

Expansion plans during FY2019-20, we intend to focus more on EBOs that is both company owned and franchised owned, in addition to the increase in large format stores.

Financial performance, sales for this quarter stood at Rs.20 Crores as against the sale of Rs.18 Crores year-on-year, which is at a growth of 15.7%. Margins during this quarter was stressed due to discount during the quarter and due to some stock liquidation. Retail division hive off. Please note that the board has recommended to form a committee to review the proposal of hiving off retail division by way of demerger / transfer / slump sale on the going concern basis. The discussions on this area are at initial stages and will update as we get more information on this. The reason for this proposal is mainly due to additional requirement of equity for the retail growth.

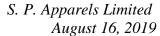
UK operation, S.P. Apparels UK division's financial performance: Revenue of SPUK for the quarter ended was £1.4 million, which as against last quarter performance was £1.6 million and the margins are at4% as against 4.8%, due to currency movements.

The general outlook, the business model is very promising as the retailers are looking to increase the sourcing through full-service vendors i.e., importers, in order to source efficiently by having proper mix of direct sourcing and landed delivery. We continue to increase the customer base globally and plan to mitigate currency risk by sourcing from various countries.

Now I will pass it onto CFO to brief you about the financials. Thank you.

V. Balaji:

Good afternoon everybody. Our consolidated adjusted revenue stood at Rs.225 Crores as against Rs.187 Crores of last year, which grew by 20% and our adjusted EBITDA stood at 11.4% as against 14% a year-on-year basis, which fell due to the reasons explained by the CMD and our PBT fell by close to around 45%, due to the reasons explained by the CMD along with increased in finance cost. Our finance cost stood at Rs.5.6 Crores, which is due to increased PCFC restatement and due to Ind-AS 116 adjustments. My gross debt as on June 30, 2019 is at Rs.187 Crores with a long-term debt of Rs.31 Crores and my net debt is Rs.155 Crores as on June 30, 2019. Inventory stood at Rs.247.6





Crores as against Rs.247.9 Crores as of March 2019. My receivables were at Rs.104 Crores as against Rs.119 Crores March 2019. My payable stood at Rs.94 Crores as on June 30, 2019 as against Rs.101 Crores of March 2019. Rest of the details are available in the presentation and I request that we can take up questions straightaway. Thank you.

**Moderator**:

Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Kshitij Kaji from Edelweiss. Please go ahead.

Kshitij Kaji:

Sir I heard your comments on why the margins have fallen this quarter, so I just wanted some help in trying to just calculate. So last quarter in Q1 FY2019, we have done 16% EBITDA margin, garments and ROSL benefits are close to around 3%, and spinning also as a plant has started close to around 1%. If I just take a rough ballpark maybe 3% to 4% additional, we should have been 19% - 20%, but you have done around 13% in this quarter. If you could breakup these additional or one-time whatever expenses are there. What would be the breakup to bridge the gap between maybe 13% to 19%?

V.Balaji:

You spoke about two, one is on the 4% RoSCTL and 1% on the spinning right. The spinning has just now started working and it is closely around two months' time, so you cannot look at 1% additional EBITDA margins from spinning straightaway. So, I do not think that you have to look at 19%, maybe looking at close to around 18% is the right number, but the difference of fall due to cotton price fluctuations, product mix, customer mix, inefficiency all has dropped on the EBITDA front.

Kshitij Kaji:

Sir my basic question. I just want to understand, suppose in the next quarter our base is roughly around 20% in garments. So in Q2 FY2019 we have around 20% margin. Now suppose if we take this RoSCTL benefit and the spinning benefit to maybe around 2% or 3%. So in Q2, would we be around 22% margins or around the 20% margins? I just want to get a sense on the trajectory that these one-offs are. Are they totally over or is there still anything more to come in the next quarter in terms of one-offs?

V.Balaji:

Now in the opening remarks CMD has explained that we will stick to our guidance going forward. So maybe our guidance is on 18% where you know that MEI is 4% and it has been taken off. So, there is no MEI as of now but when comparing last year at the same time, same quarter we may look at 100, 150 base of margin pressure for Q2 alone.

Kshitij Kaji:

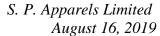
What will be the main reason for that Sir, it would be product mix change or what will be?

V. Balaji:

So many changes maybe CMD could explain on that.

P. Sundararajan:

It is like this, this Q1 was a challenging one, which very rarely. In the sense of this particular quarter, where we have been planning for the last Q4 2019 as we have started scale up our production. So





naturally there is a big jump of say 25% to 30%. Unless you really make a jump you cannot fill the capacities, as our projects are on. So, we have increased our business more from some customers just for filling the capacity so as to get the things going. So there was a little bit of compromise on the margins to just get started with that increased capacities. This what happen exactly in the Q1 2020, when we have this problem again in FD, which will be a was a big challenge and we are just coming out, May is better, then April and June and in that was May. So this quarter definitely is going to be much better results than Q1 and Q3, as CFO said. We will restore the situation back on track on the margin front. This has led to Q1 because we have increased the order. This has led to challenge the performance to the customers on delivering certain things, so since it was delayed due to inefficiency and lot of challenges, we had send via air costing us air freight to the customers in order to satisfy them to reach the stock on time and also some additional maintenance expenses to meet the requirements. So, these things have definitely been a challenge along with the exchange rate as it was very, very volatile. That was one of the challenges we faced. So, these are some of the challenge...and training program. So, all these things happened in one quarter.

Kshitij Kaji:

Right. Okay Sir that is all from my side. Thank you so much.

Moderator:

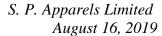
Thank you. Our next question is from the line of Vijay Sarda from Crescita Investment. Please go ahead.

Vijay Sarda:

Sir on the numbers front just wanted to check that you already explained some part of the reversals that can happen in the next quarter. Can I just understand how much is the pressure on account of the raw material prices? Because if I understand the raw material prices, cotton prices already moved from Rs 48,000 to Rs 41,000, Rs 42,000 currently. So will that affect the softening in the cotton prices? Will it come through this quarter? or Wil we still sit on some bid of inventory, which will affect this quarter? Secondly on the rupee front as I said, rupee has also now depreciated further from Rs 68.5 to RS 71.5 currently. So do we see the benefit of that also kicking in? Because if I can understand due to hedge some part of it, but some part of it always open so do we see that positivity coming back in the current quarter? And last thing in terms of the demand in the garment side as a retail division, do we see the slowdown? As it has been talked about by almost all people around, because there has been a booking season for the festive season so how is the response for the same? Thank you.

V.Balaji:

So your question on the cotton prices fluctuation, so I would just like to inform you that cotton prices had come down only this month and last month. The orders which we have taken couple of months before you need time for processing. So processing time is three to four months' time. For orders which are getting shipped this quarter, the orders have been taken previously and the goods have been purchased at that price of that point of time, so the impact of cotton prices coming down will come up only in the Q3 and same way on the currency front also. Rupee has depreciated only off late from the





month of August, so the impact of currency will come up only towards the end of the Q3 where I am shipping my orders for the order which taken today. So, on the currency front, yes there could be increased margin level going forward. Maybe Q3, Q4 you can look at the EBITDA margins increasing because of the currency also and third point on the demand front may be CEO can explain demand from the customers. Third thing you spoke about the retail or domestic?

Vijay Sarda: Domestic.

**P. Sundararajan:** The domestic one actually, the domestic retail, India retail is definitely doing good and the sales is

improving continuously on month-on-month so we do not anticipate any recession for this during the festival and already we are on in procuring the stocks for the getting ready for the season from Dussehra onwards. So we do not anticipate any drop in sales for this festival that is Dussehra and

Pooja and Diwali.

**Vijay Sarda**: Okay Sir. Thank you I will come back if I have any questions.

Moderator: Thank you. The next question is from the line of Dhruvesh Sanghvi from Prospero Tree Financial

Services. Please go ahead.

**Dhruvesh Sanghvi:** Just for the correction sake you said 18% margin that is EBITDA, right?

V.Balaji: Yes correct.

**Dhruvesh Sanghvi:** Sir what is the plan in terms of capex numbers for FY2020 and FY2021 including the maintenance

capex and the existing capex that we are going through, is there number that you can help us with?

V.Balaji: Planned capex for the FY2020 is closely around Rs.75 Crores, is the Rs.75 Crores. Rs.35 Crores is

pertaining to the capex that happens because of backward integration whereas already tied-up IPO funds which is complete in the Q1 itself. So those things will be getting capitalised to this year and subsequently we are also looking at two more factories, which will be completed this year so capex to

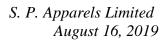
that extent should be closed to around Rs.35 Crores.

**Dhruvesh Sanghvi**: Okay fine. Is the other Rs.40 Crores also expected to complete by the year end March 2020

approximately?

V. Balaji: That could take another three to four months' time. So, you can see the completion happening. Sorry

what is your question actually?





**Dhruvesh Sanghvi**: Out of Rs.70 Crores, Rs.30 Crores already done for spinning, which is already capitalised and the

balance Rs.30 Crores is for the garment.

V. Balaji: Garment and processing division.

**Dhruvesh Sanghvi**: Right Sir. suppose after the completion, let us assume another 12 months and we complete this entire

capex that is planned. Can we say that the revenue of S.P. Apparels goes to more than Rs.1,200 Crores on the top line assuming the current mix. I want to have some sense on the potential sales if

the demand is there.

V. Balaji: If my Rs.75 Crores, which I am talking about is for this fiscal year, March 2020. So once completed if

you recall the CMD, he spoke about 6,000 sewing machines at the end of March 2020, so my

potential capacity should be close to 1,200 at 100% efficiency level.

**Dhruvesh Sanghvi**: 1,200?

V. Balaji: Yes at 100% efficiency level.

**Dhruvesh Sanghvi**: Sir is it wise to assume 90% efficiency or even that is not achievable?

V. Balaji: You can look at anywhere between 85% and 90% that could be ideal.

Dhruvesh Sanghvi: Okay fine, Sir and what would be the number of employees which we would have at the end of this

capex and potentially 85%-90% efficiency of that and second in connection to that employee thing assuming that the number of employee remains constant, what is the wage inflation that we are

looking over the next two to three years?

**P.V. Jeeva:** Employees are currently 12,000. After expansion it would be around 2,500 employees more by end of

March 2020. So including all it is around 1,4500, we are expecting.

**Dhruvesh Sanghvi**: Right and should we assume 5%-7% or it could be more in terms of inflation on the cost of the

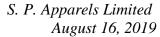
employees?

**P.V. Jeeva:** Inflation we expect around 3% to 3.5%.

**P. Sundararajan**: Unless any change in the policy of the minimum wage.

Dhruvesh Sanghvi: Sure and Sir after this because we are consistently seeing a phenomenal tailwind in your favour

because of the trade tariff war or multiple reasons international garment branders are looking at





diversifying their vendor options, does it mean that we will like continuously keep expanding or we will take a break and then look at debt reduction after that?

P. Sundararajan: Yes, it is a good question, after this expansion definitely as I mentioned before, we will take a break

for about one year and wait and watch and optimise the efficiency and place extra machine and streamline the customer base and product base. So lot of corrections are requested once we reach the capacity level because what we are currently doing in the phase 1 is we need to grow, so we need to increase the capacity and subsequently the correction has to happen. So we will break for at least one year and then within this one year of course there will be increase in the capacity within the existing factories for sure. We always continue to do that, but new projects will not happen for another one

year.

**Dhruvesh Sanghvi**: Okay Sir I will join back the queue. Thank you.

Moderator: Thank you. Our next question is from the line of Bhavik Bhatia from Birla Sun Life Insurance. Please

go ahead.

**Bhavik Bhatia**: My first question pertains to, if you can just help us with the hedging policy for the company. What

are the open hedges as of now? And secondly if you could talk about the demand environment in UK

with the BREXIT related developments.

V. Balaji: So, on the open hedges front, you are talking on the currency correct?

Bhavik Bhatia: Yes currency

V. Balaji: So the order of say Rs.258 Crores we have hedged closely around 90% on the order front.

**Bhavik Bhatia**: Okay and what would be the hedge rate

**V. Balaji:** And on the demand front?

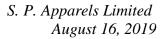
**P. Sundararajan**: Regarding the demand front, yes, the BREXIT is a big question mark whatsoever is may be as we

customers are, say for example TESCO, and TESCO is doing good. They are increasing the space on the children segment. So, we continue to grow our business even if there is impact in this after BREXIT still this segment will continue to grow not only that and the international business of the

always believe when we have always proven that we are in the babies and kids' segment. So, our

existing customers are also growing. So, it will have an impact only concentrated to the UK, it will be a very small portions where again we are protected with the TESCO is our major customer and Prima

so we do not see big problem in this, so order book will not be a problem.





**Bhavik Bhatia**: Sure, sounds good. Just if you can help me with the hedge rates?

V. Balaji: Rates on the pound front we are closely around at Rs.90.50 and at the Euro front we are closely

around Rs.80.10 paise and the dollar front we are at Rs.69.80 or Rs.69.90 something.

Bhavik Bhatia: All right and one last thing from my end on the air freight charges so have things normalised on that

front and if you can quantify what was the impact in Q1?

P.V. Jeeva: The air freights have been streamlined now after June it has drastically been reduced from August

onwards almost it is negligible so for the second quarter, the air freight will be very small amount.

**Bhavik Bhatia**: Okay and what was impact from air freight charges in Q1?

V. Balaji: June it was closely around Rs.3.6 Crores.

Bhavik Bhatia: Alright. Thank you and all the best.

Moderator: Thank you. Our next question is from the line of Niraj Mansingka from Goldman Sachs. Please go

ahead.

Niraj Mansingka: I am sorry I joined the call late; can you explain the reason for the other expenses for the quarter and

the one you just discussed about the air freight of Rs.3.6 Crores?

V. Balaji: Rs.3.6 Crores is because of, as MD has spoken about the change in the product mix, customer mix,

new factory inefficiency. So there has been some delay as we have been behind the schedule. So we have to airlift goods to the customer to reach it on time. So closely around Rs.3.6 Crores of air freight has been spent and that has elevated our expenses and also on the spends of CSR activities and on the

maintenance expenses, which has hit the margins.

**P. Sundararajan**: You want to hear some more in detail Niraj?

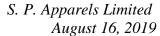
Niraj Mansingka: Yes, because that does not explain the numbers because other expenses went up on Q-o-Q basis by

almost Rs.10 Crores and Rs.11 Crores on Y-o-Y basis around Rs.14 Crores?

V. Balaji: On the other expenses there is Rs.13 Crores increase. So on Rs.13 Crores much is to do with the

proportion on sales also like my power cost and the PD has improved their capacity. So power cost has gone up to an extent of Rs.7.5 Crores and because of the air freight, the maintenance cost, increased the CSR activity and also my preoperative expenses of the new factories has hit our

EBITDA margins.





P.Sundararajan:

And not only that as I mentioned in my speech that in order to fill the capacity for the additional capacity, we had to take some orders on that trust basis just to get that ball rolling, just to fill the capacity and other things. So that also has impacted to some extent. As I mentioned that these things are happening only this for particular quarter.

Niraj Mansingka:

Yes if you recall that you were always planned the capacity to start, your expectation was that how much capacity would come at what point of time and you were refusing orders then would you try to get orders which has no margins at all?

P. Sundararajan:

That is because the customers have their practice of auditing the factory. They need at least three months to six months' time when it will get ready because they need history of factory. So we had to manage until we have a history of three months, so we cannot go to the known customers whom we met for this factories to be produced for those customers and now even the project also got delayed so in fact the expansion got delayed in this quarter so these things we know the order is definitely not a problem, but for the planned customer that is the problem for the particular quarter, now the factories are being used for those customers.

Niraj Mansingka:

And why would you do an airlift because that is also indicating some sort of?

P. Sundararajan:

Inefficiency.

Niraj Mansingka:

Why would there been an inefficiency considering you had so much of experienced in running, so is there some...?

P. Sundararajan:

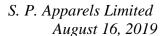
The operators are new, see this has got a legacy. If we see in the month of March after our Pongal festival, there is heavy rain during those periods people from those places have not come so it was back to normal only in the month of mid-May I would say so April. We literally have to take new girls and train them all happened in this quarter so there was some inefficiencies which we never anticipated but these orders are booked in the month of December, so it is sequence problem.

Niraj Mansingka:

And Sir on product mix you mentioned but what is this product mix that you have?

P. Sundararajan:

The product mix is fashion and the basic products. Now we are entering into the ladies nightwear products also in order to have a proper mix because of the volumes and other things so there are more of fashion and now as we mentioned during the last quarter also, we have more of basic products where the ball game is only on efficiency, it is not on the fashion kinds of hidden margins, so which means the basic products are very flat competitive one where unless we efficiently run it, they will not be able to make margins on this. So, we had to balance these capacities by having a mix of both so





where we had not been able to do that is the production on the basic products, which has led to pull down the margins.

Niraj Mansingka: Got it and the last thing on the capacity you said that after this expansion you will slow down for

some time, take some breathing space and again decide your capex expansion. Why would you want to do that considering that you have already run for years and the order book environment is much

more tailwinds are in favour so why would you want to do that?

**P. Sundararajan**: Because there are new factories and increase in capacity in existing and change in the customer base,

change in the geographical things so more business on the international thing so in order to improve the efficiency we need to introduce a lot of shop floor practices like leads, reduction in WIP, reduction in these things because in order to improve efficiency, lot of mix needs to done in the shop

floor, so we need to take a breath just to streamline the whole thing and then you have to run again.

Niraj Mansingka: Is it right to assume that your EBITDA per machine or percentage EBITDA will actually improve

over a period of time after Q3 onwards?

**P. Sundararajan**: That is what we said Q2 will be expected to the better than Q1 and Q3 and Q4 we are hopefully back

on track.

Niraj Mansingka: And what is your guided stable EBITDA margin for slightly longer period say after Q3 onwards?

V. Balaji: So Niraj, we have been guiding for 18% EBITDA margin for a quite long time and we are still

sticking to that guidance.

**P. Sundararajan**: But for this quarter erratic thing, otherwise we are still stick onto that. There are no issues.

Niraj Mansingka: Got it. Thank you very much.

**Moderator:** Thank you. The next question is from the line of Apurv Kulkarni from NRC. Please go ahead.

Apurv Kulkarni: In your initial comment where you mentioned about hiving retail division, which is on the cards, I

wanted to ask how much capital employed could be freed up doing the same and any timeline that

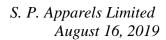
you can put on it?

V. Balaji: See, on the net capital employed front it is closely around Rs.75 Crores, which is the inventory &

receivables. Timeline Apurv it is very tough, we have just now discussed, and I have no idea how it

can move, but the discussions are on.

**Apurv Kulkarni:** Okay it would be demerged and listed, or would it be bought out by the...?





V. Balaji: I have no idea about whether it will be demerged as a subsidiary company or will it be separate

company getting listed, no idea as of now but one thing is that the Deloittes have been appointed to

give us recommendations on what can be done in terms of the retail division.

Apurv Kulkarni: Okay other question was on if your mix you would have done around a little over 15 million odd

pieces on this quarter? Could you give us mix of between the fashion and the basic wear, how would

they be placed?

V. Balaji: You are talking about the product mix percentage?

**Apurv Kulkarni:** Yes.

P.V. Jeeva: Actually, in the Q1 itself the basic is very minimum this quarter which will be around 30% of basic

and 70% fashion in the Q1.

**Apurv Kulkarni:** Okay. Understood.

**P.V. Jeeva**: For the Q2 also that will remain same. From Q3 and Q4 onwards the basic will be improved by

another 15% to 20% so finally 65% would be the fashion and 45% will be the basic.

**Apurv Kulkarni:** All right it is pretty close to 50-50 which was you're going forward as well right?

P.V. Jeeva: Yes.

**Apurv Kulkarni:** Okay last question on the fact that Mr. Sundararajan is there a financial assessment that is done of

your foreign customer before you kind of start supplying to them, what I mean it is not just customers doing your assessment that your factories, but would you also do financial assessment of your foreign

customers? Thank you.

P.Sundararajan: If you look at most of our customer almost all except one customer American, most of them are all

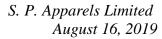
associated for more than 10-20 years and definitely for any new customers we will always get a financial report from D&B. So, we always do that so that is our continuous practice but currently we

do not need the practice because everyone is long-term associated.

**Apurv Kulkarni:** Sure alright. I will get back in the queue.

Moderator: Thank you. We will take our next question from the line of Ankit Gor from Systematix Shares. Please

go ahead.





Ankit Gor: Sir my question with regards to product mix first, our NSR per piece, realisation per piece stands at

Rs.120 Y-o-Y that is more or less there and our mix is more towards fashion after that also my EBITDA has dropped substantially. If I want to put this way remove all my one-offs, would my

EBITDA be 15% sort of number 13% to 15% sort of anywhere between that number?

V. Balaji: Ankit, when you remove Rs.7.5 Crores of overheads which are sitting in my other expenses that

should be closely around 3.5% to 4% so right from 13% another 4% is clearly visible, which can be because of one-off expenses, which is part of other expenses and my gross margin also has come down that is basically because of movement in exchange to cotton prices and also something to do

with the filling up factories as in these sort of customers.

**Ankit Gor:** We had air freight charges of around Rs. 3.6 Crores, there will be some air freight charges as well in

Q2?

V. Balaji: Madam said it will be very negligible.

**Ankit Gor:** Can you list me one-offs one is 3.7 probably 3.6 is this, 1.5 is for some CSR or something?

V. Balaji: Express maintenance which is on now and CSR of Rs.1.5 Crores which is closely around Rs.3 Crores

so closely around Rs.7.5 Crores one-off expenses which is happening in the current quarter.

**Ankit Gor**: But the CSR, is that one-off?

V. Balaji: Accumulated CSR expenses.

**Ankit Gor:** Okay accumulated and similarly maintenance cost will remain, or it is an extra maintenance cost?

V. Balaji: For the time being we have stopped maintenance and we expect maintenance to come down

significantly from here on.

Ankit Gor: Okay in my next question with regards to SPUK we have also seen some decline in revenue in SPUK

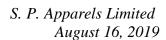
not that, but this considered to be very fast-growing segment for us, what is the actually impacting

here Sir?

PV.Balaji: One is the exchange rates, expect the realisation again conversion we sell it for euro mostly but we

book it in pounds that is one reason. Another is that this UK customers we have deferred some of the shipments to a later stage and that is the reason I think there is marginal drop in the sales due to this reason and I think Q2 will perform better than compared to year-on-year will be much better. We do

not see any issue in the UK business even in Q1, this only matter of sales posted to the next quarter.





**Ankit Gor:** Okay again on the guidance side we are maintaining strong volume growth guidance for this year,

which is 15% to 20% sort of number?

V. Balaji: Ankit you look at the performance of S.P. Apparels for the last four quarters, we have been

consistently performing 25% growth year-on-year and we would stick to that next quarter and going

forward also.

Ankit Gor: Because base impact will start kicking in right because from next quarter onwards if I am not wrong

base will be higher then?

V. Balaji: Yes, you are correct that is why I said we will grow in the next quarter you can find the elevated

growth rate and then we will stick to 15% going forward.

Ankit Gor: Okay and there will be no fillers right and Q1 we had filler to maintain that growth rate or something

like that?

**P. Sundararajan**: For the new capacity.

V. Balaji: It is only when you bring in new factory when you add factories to your list, so he spoke for the first

six months you will need existing customers to approve the factory so that is what he was meaning

but going forward it should not happen.

Ankit Gor: Okay and lastly on backward integration we were kind of foreseeing Rs.10 Crores at EBITDA

because of this backward integration, so complete financial year, right?

V. Balaji: Correct.

**Ankit Gor**: Okay in which quarter, we will see a substantial part of it?

V. Balaji: From Q2 onwards?

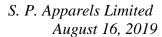
Ankit Gor: Q2 onwards, okay. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Niraj Mansingka from Goldman Sachs. Please go

ahead.

Niraj Mansingka: Two to three questions how many machines did we end up with this quarter?

**V. Balaji**: 4,800 sewing machines.





Niraj Mansingka: How much it is, sorry I could not here?

V. Balaji: Utilisation you are asking?

P. Sundararajan: 78%.

Niraj Mansingka: 78% with 4,800 machines and by March end would be how much?

V. Balaji: March would be 4,800 sewing machines again with 77% utilisation.

Niraj Mansingka: March 2020 you are talking of?

V. Balaji: March 2020 you are talking about? We should be close to around 6000 machines.

**P. Sundararajan:** With 78% realisation.

Niraj Mansingka: Okay 6,000 by that time and then that is the time you are planning to stop all the expansion for some

time and again later on start?

V. Balaji: Exactly, correct.

**Niraj Mansingka**: Then how much was the revenue profile from UK, US and others?

**P. Sundararajan**: 20% US, 22% Europe, 48% UK as of now Q1.

**Niraj Mansingka**: And Sir of this 48% here from UK how much is billing in what term?

**P.Sundararajan**: On the UK front it could be 21% dollar and balance will be in pound.

Niraj Mansingka: 21% or 48% or 21%?

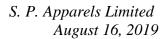
**V. Balaji**: 21% of the whole contribution will be in dollars.

**P. Sundararajan**: Within UK, the 48% of UK, 21% of the total but in 48% it should be 50% and the remaining 50%

will be in pound.

Niraj Mansingka: Okay and Sir what was the reason for the delayed shipment that led to higher inventory for you?

V. Balaji: This is because of the efficiency drop and the capability challenge in the increased capacities.





Niraj Mansingka: But you just said that efficiency drop has been broadly capturing by zero shipment in air freight in

August, so has the revenue...?

P. Sundararajan: That was what exactly because of the delay in delivery, we have accepted to air freight to meet their

landed delivery date.

**Niraj Mansingka**: Okay got it and that is all from my side.

Moderator: Thank you. Our next question is from the line of Vikas Jain from Equirus Securites. Please go ahead.

Vikas Jain: Sir my first question is at on the retail side. So, retail side why was the margins dropped to around

0.6% what are the cost inflation or any cost measure that we are facing that is led to reduction of this

margin?

V. Balaji: If you are talking about retail gross margin, yes there is a reduction in the gross margin basically

because of the discount and some stock liquidation that happened during this quarter. On the overhead front I guess we have considerably reduced our overheads basically by a few structural changes that

has happened on the retail front, but the problem was only from the gross margin because of the high

discounts.

P. Sundararajan: See generally February, March will be the end of season sale, EOSS so all brands will go for

discounts but this year it has prolonged until April. So, there has been more discounts during this time

and the liquidation of this so that we did not want to carry the stock to the next season.

Vikas Jain: And one more thing we read in article that the European Union and Vietnam has come to a trade

agreement where almost 99% of the goods will be either nil duty or very negligible duty. So, since we have around if I am correctly it is around 30% to 32% of our revenue is coming from Europe how do

we see this impacting our business from Europe?

P.Sundararajan: Of course, in the mean item you should not forget the China business is also coming to India, it is

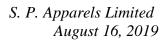
even 1% of china business coming to India from the US. That will again the booking orders, getting orders is not a problem and the competition with Vietnam is more into volume over trousers, shirts

and such kind of linen, so still India has its own chunk of business.

Vikas Jain: Correct you basically mean that incremental business coming from the China will more than offset

any decline that we might have from Europe?

**P. Sundararajan:** Correct if at all has happened that can be offset by the diverse on Chinese business.





Vikas Jain: Sir last question the two factories that you are talking about that in what time period you estimate that

to commence production?

**P.V. Jeeva**: Next month from September onwards.

Vikas Jain: From September onwards and is it like we have already started taking orders for those facilities?

**P.V. Jeeva**: Yes, we have started taking orders.

Vikas Jain: And just last question Sir this air freight expenses that you mentioned was it like that we had taken

the orders for the incremental machines that we had and we were not able to supply or is it like the machine that we already had did not run up to that capacity utilisation and when we are not able to

supply in time or hence we have incurred that air freight cost?

V. Balaji: Because I had planned for 4000 machines and the machine which is running for say is 3800, this 200-

machine gap is getting cascaded month on month. So, what happens is that at one point of time that will be a huge thing so that is where CEO spoke about January orders which is getting pushed

because of lack of the employees.

**P. Sundararajan:** Due to this flood after December and January so there a lot of absenteeism. The workers did not turn

up until April, May so there was the drop of 200 machines, which has cascaded the delivery issues and in addition to that new workforce trained and the efficiency dropped so it was the combination of

both. That is mainly because of the absenteeism workers during the flood time.

Vikas Jain: So, as the backlog cleared in terms of production or is it like marginally still left and we will face

some of it in...

**P. Sundararajan**: By end of August we will be on track.

**Vikas Jain**: Sir can we do something like outsourcing for some part and?

**P. Sundararajan:** The brands will not permit then it is lack of transparency, we are not supposed to do it. All should be

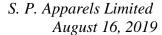
done only in the approved factory.

Vikas Jain: Got it. Thank you.

**P. Sundararajan:** We do not do that practice.

Moderator: Thank you. The next question is from the line of Prerna Jhunjunwala from B&K Securities. Please go

ahead.





Prerna Jhunjunwala:

Sir listened to the entire call just wanted to get a summary about some of your initial comment where you mentioned that changed mix of customer, product, and geography or impacted the margin understand that product mix more in front of move in favour of fashion and inefficiency on the product side I have understood but can you explain on the site of the customer and geography how it has negatively impacted you?

P. Sundararajan:

Yes if you are moving from let us say from UK to another country, so definitely we will need to look for more business from the existing customers wherein we should be competitive enough for getting the business from the existing customers where the products to the US, we had to compete with other competitors in another countries something like that. So, we in order to get these capacities up and running so because of the relationship what we have with existing customers. So, there was product mix and geographical change what we are not expected in certain products in other countries, which we have gone there and what we are not expected to do certain products from that customers we have taken those that products. So, this is kind of product mix, customer mix, and geographical mix, which means it changed the whole base strategy, the product strategy, which we are innovative we have to do that so that we get the comfort in the production.

Prerna Jhunjunwala:

Okay so Sir is this strategy that you have adopted in Q1 going to be continued in Q2 and Q3 also and the impact will be negative even in the next two quarters?

P. Sundararajan:

That is what I mentioned and as CEO mentioned as is going to be 55 fashion and 45 basics now because gradually we have been increasing, but in the last Q1 is where we have increased more of basics wherein we have to get into that type prices and get the things rolling. Now we have got that what he able to catch up the things and we know how to bring down the cost unless you bring the orders in, we cannot work on bringing down the cost and improving their efficiency and the control at various stages and the better negotiation of raw materials. All these things we have done during this Q1 so the proposition will not change in terms of customer, products, but we have got the hold of just managing the situation from Q2 onwards.

Prerna Jhunjunwala:

Okay and Sir any new client additions or whole growth that we are looking forward to for 6000 machines will be from existing customers?

P. Sundararajan:

Not at the moment because as i had mentioned already, we have two to three customers big customers started with us, so we have big plans to grow with them for the years to come.

Prerna Jhunjunwala:

This will be US-based customers largely?

P. Sundararajan:

One is international presence all over and another one is US.





**Prerna Jhunjunwala**: So that will again impact the mix negatively or how?

**P. Sundararajan**: As I said in Q2 we will be out of all these things.

Prerna Jhunjunwala: Okay. Thank you so much Sir.

**P. Sundararajan:** We have tested with all these customers, different products so we know, and customer knows, which

are mutually strength for growth.

Prerna Jhunjunwala: Okay. I understood Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question; I would now like to hand the conference

back to Ms. Shradha Agrawal for closing comments. Over to you Madam!

Shradha Agrawal: Thanks, Inba. On behalf of Asian Market Security, I would like to thank the management of S.P. for

giving us the opportunity to host this call and thank you everyone on the call for your participation.

Thank you.

Moderator: Ladies and gentlemen on behalf of Asian Market Securities Limited that concludes this conference.

Thank you for joining us. You may now disconnect your lines.