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Stock Code : 540048	Stock Code : SPAL
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Sub: Transcript of the Conference call held on 12th August 2022	

Dear Sir/Madam,

With reference to our letter dated 10th August 2022, intimation about the conference call with Analyst/ Investor held on 12th August 2022, 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

"SP Apparels Limited
Q1 FY 23 Earnings Conference Call"

12th August 2022

MANAGEMENT:	**MR. P. SUNDARARAJAN - CHAIRMAN AND MANAGING DIRECTOR, SP APPARELS LIMITED**
	MRS. S. LATHA - EXECUTIVE DIRECTOR, SP APPARELS LIMITED
	MR. S. CHENDURAN - EXECUTIVE DIRECTOR, SP APPARELS LIMITED
	MRS. PV JEEVA - CHIEF EXECUTIVE OFFICER, SP APPARELS LIMITED
	MR. V. BALAJI - CHIEF FINANCIAL OFFICER, SP APPARELS LIMITED
MODERATOR:	**MS. PRERNA JHUNJHUNWALA - ELARA SECURITIES INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to SP Apparels Q1 FY'23 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, ma'am.

Prerna Jhunjhunwala: Thank you, Lisa. Good evening, everyone. On behalf of Elara Securities Private Limited, I would like to welcome you all to the Q1 FY'23 Post Results Conference Call of SP Apparels Limited. Today, we have the senior management of the company, including Mr. P. Sundararajan, Chairman and Managing Director; Mrs. S. Latha, Executive Director; Mr. S. Chenduran, Executive Director; Mrs. PV Jeeva, Chief Executive Officer; and Mr. V. Balaji, Chief Financial Officer of the company.

I would now like to hand over the call to the company's senior management for initial comments. And thank you, and over to you, Sir.

P. Sundararajan: Thank you. Good evening, everyone. Very warm greetings to all of you present on the con call to discuss our Q1 FY'23 performance. I hope and wish that all of you and your loved ones are healthy and safe. I would like to update you all on the buyback where, due to certain regulatory process that needs to be fulfilled, the Board will deliberate on the buyback plan after the regulatory content is fulfilled in a couple of weeks' time. As you are aware of the company's performance, during this quarter, we have performed well. Our margins in terms of value have been the best across so far.

Let's review the performance division-wise. Our garments division revenue for this quarter stood at INR 223 crore versus INR 116 crore for Q1 FY'22, which is at a growth of 93% year-on-year. Total exported quantities stood at 14.8 million pieces. Adjusted EBITDA of the garment division stood at INR 48.2 crore in the current quarter as against adjusted EBITDA of INR 30 crore year-on-year. Our current order book stands at around INR 400 crore. We are in the process of adding two more new customers from Q3 onwards.

Regarding the Free Trade Agreement (FTA) for the U.K., it's a long-awaited one. Our commerce and industry minister has indicated that it would happen very soon in the near future on account of the 75th independence anniversary. If this happens, it will be a great advantage and opportunity for India as we will be on the same level playing field with other competitor countries like Bangladesh, Sri Lanka, etc. This will also improve the orders inflow for our country. With regards to capacity utilisation, it is around 75%, and this is expected to increase by around 10% to 15% going forward. As we have informed earlier, our new factory in the down south is under process and is expected to be completed by the end of June '23.

Regarding spinning, we have now invested in 1 megawatt of solar plants in our spinning plant as part of our sustainability strategy program. And going forward, we propose to increase 1 megawatt every year. The plant has commenced only during the month of July and is expected to contribute towards margins going forward. Furthermore, cotton prices are very volatile, and fluctuations in yarn prices are not in correlation with cotton prices. We have reduced our yarn production during the month of July and August until the price stabilises. We expect the cost of prices to decrease during November. We expect an ascension in spinning margins during Q2 due to the increase in cotton prices and the fall in yarn prices.

Regarding the fabric processing division, despite a shortage of coal availability and the rise in the input cost, our processing division was able to perform well with a good utilisation level, contributing to margins effectively.

Regarding SPUK, it has seen a lot of disruptions in the supply chain, majorly due to the third wave in the U.K. and Europe. Non-availability of adequate containers has severely interrupted the supply chain and disturbed the current quarter's revenue. Revenue for the quarter stood at GBP 1.21 million as against GBP 1.12 million last year. SPUK has made a loss of GBP 33,000 against a loss of GBP 8,000. I'm confident that SPUK will be able to come out of the crisis and will be able to do well going forward from Q3 '23 onwards.

With regards to SP Retail Ventures Limited, as planned, we have hired out the retail division into a separate company, and we have added two more brands under this Retail portfolio. We have added a children's brand called 'Angel & Rocket', a premium brand under SP Retail Ventures Limited. We have also added one more brand under the Retail Ventures portfolio, which is an international brand that is well known for skiing have given license to SP Retail Ventures Limited to manufacture and sell apparel and footwear boots in India under the brand' HEAD'. This brand comes under the athleisure segment.

Currently, we have 59 stores under all brands. We have opened two new stores for Angel & Rocket in Bangalore, which are doing well. We have also opened stores for HEAD, which is doing well. We are confident that with brands like Crocodile, HEAD, Angel & Rocket, and Natalia, it will do very well, and we'll be able to get this company listed at an appropriate time separately.

Financial performance of SP Retail Ventures: Total revenue for Retail stood at INR 17.1 crore, we had a positive EBITDA of INR 0.5 crore, and we had a loss of INR 0.4 crore for the first quarter. Current liquidity. Our liquidity position is strong, and we have serviced all the debts up to date.

Now I pass on the financials by Mr. Balaji, CFO, and thank you.

V. Balaji: Thank you, sir. Good evening, everybody. I'll just run through the company's financials by listing the presentation. We have a total revenue of INR 252 crore against INR 131 crore year-on-year, which is a 92% increase. And we have an adjusted EBITDA of INR 48.45 crore against INR 27.83 crore year-on-year, which is an increase of 74%. We have our PBT at INR 35.45 crore as against INR 16.82 crore year-on-year, which is a 111% increase, and we have our PAT margins at INR 25.8 crore as against INR 11.56 crore year-on-year, which is an increase of 123%.

Garment division revenue stood at INR 223 crore as against INR 116 crore year-on-year, which is a 93% increase. EBITDA margins of the garment division stood at 21.6% as against 26% last year. And our revenue from retail operations stood at INR 17.1 crore against INR 4.5 crore last year, and the EBITDA margins for the retail division stood at positive 2.9% against negative 53% last time. And U.K. stood at INR 12 crore as against INR 11 crore last year. And the EBITDA margin for retail is at minus 1.9% as against a positive 0.3% year-on-year.

In our current debt position, we have a gross debt of INR 199 crore and net debt of INR 171 crore. As part of working capital, we have INR 138 crore as inventory, INR 78 crore as receivables and INR 59 crore as payable for the current quarter.

This information is available in the presentation, and we can get into the question-and-answer session right away. Thank you.

Moderator: The first question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: Congratulations on a great set of numbers. I just had a couple of questions. On the retail side, we've done very well. So, is this a run rate we can consider going forward for the rest of the year? Also, could you throw some light on what strategy has worked for us, what changed, etc.?

V. Balaji: In terms of the run rate going forward, we've already explained the growth that's coming. You can definitely look forward to the same set of numbers going forward.

P. Sundararajan: It's regarding retail, right?

V. Balaji: You're talking about retail?

Shikha Mehta: Yes. On the retail side, yes.

P. Sundararajan: See, on the retail side, see, as I mentioned to you now, we have announced three brands under this umbrella. Natalia is also in the pipeline, which is our own brand. So currently, we have Angel & Rocket in our premium kid's segment, SP Retail's own brand, and Natalia is also our own brand. Crocodile is a licensee brand that we have been doing for the past 15 years. And this HEAD is the one in which we got the license just before the first COVID lockdown. So, this is the current scenario.

And with regards to the performance, all these retails have taken a big hit during these continuous COVID lockdowns. And again, in Tamil Nadu, Saturdays and Sundays are not open for many weeks. So, we had a big hit. Now everything is back on track. So, Crocodile is doing extremely well, and we have about 59 EBO stores, in addition to distribution channels and the shop-in-shop-like large format stores. So, Crocodile definitely has turned around and is doing extremely well.

With regards to Angel & Rocket, our own brand, it's only after the COVID lockdown that we are taking aggressive steps. We have a presence in Shoppers Stop, Lifestyle, Central (which is a Reliance Central) and so on. And also, we have opened our own two stores in Bangalore, Angel & Rocket, which are doing very well. So, it will take about another few quarters to break even and to be able to make profits.

With regards to HEAD, I think everyone knows it's a famous brand globally. Originally, it was from the U.S., and now it's been owned by Austrian owners. So, we have got India's license for athleisure apparel and footwear for India under the name HEAD. So now we have one store opened in Chennai, and we have three more stores in the pipeline of EBO stores. And we already have a presence in Central, and there is a discussion going on with the Central Reliance, where there is a possibility of getting a presence in about 50 to 60 stores. So, this is a brief about the retail business model.

Shikha Mehta: All right, Sir. Sir, also on the volume front, as shown on Slide number 9, I think, as in FY'22, we are still not doing the same volumes we did pre-COVID. And if we continue on the run rate we've done this quarter, we should just about touch our pre-COVID volume number. So, can you explain why that is? Is that because we're seeing slower demand? Can you explain that? And as part of the same question, our total turnover has been higher than pre-COVID levels. So, is that because of raw material hikes, because of which we had to take price hikes? Or is there another component to it as well?

V. Balaji: You're talking about the EBITDA margins, right?

Shikha Mehta: Sir, I'm talking about our volumes.

V. Balaji: Volumes, actually comparing last year-on-year quarter, we definitely moved 20% ahead in terms of volume.

Shikha Mehta: Yes. So, this year, our volumes, which we go at the same run rate, will be the same as they were in FY'19 approximately, correct?

V. Balaji: Correct, correct. FY'19 was a different story, with some order issues postponed to FY'20, and our projects were delayed. If you look at the call transcript FY'20, you will understand. So, expecting the projects to be completed, we took orders, and we were not able to complete the orders in-house. We had to outsource it and complete it. So that is FY'20.

P. Sundararajan: I think FY'21, that is during the COVID, there was a partial lockdown FY'21. So, the sales had dropped. So ideally, we should compare with FY'19, a year when there were no interruptions during the whole year. So, if you compare like-for-like from FY'19 to FY'23, I think we are firm and slightly more. And your question is because of the raw material increase or something that is only playing partly in this number. But there has been a growth in the capacity also, in a sense, in FY'19, we had about 3,300 machines running, and now it's about 3,400 machines on average.

So that is one reason. And a little bit of increase in the raw material prices. But let's just not compare with FY'20 and FY '21.

Shikha Mehta: No, Sir, I'm asking about FY'19 only. FY'19 and FY'23 volume should be flat if we go at the same run rate as we have in Q1, though the top line number, the total revenue number will be much higher. So is the revenue number higher due to raw material hikes, and hence, we've taken price hikes ? Or is there something else as well ?

P. Sundararajan: No. The material increase is about 5% to 10%, not much. It is only because of the real increase in the production and the sales booking. Because FY'19, there was a small disturbance with one of our major customers. So, there was a drop in the order book during that period for about 4, 5 months' time. So now we have revived everything. We are back on track. And now, in Q1 and Q2, we are back to normal. There is going to be a natural increase in the top line.

Shikha Mehta: All right. And Sir, how much of the raw material price hike have you been able to pass on?

P. Sundararajan: It's about 5% to 10%. It depends on customer to customer, 5% to 10%, we are able to pass on.

Shikha Mehta: All right, Sir. And we said in our opening remarks that we assume cotton would be cooling off in November. So, post that, do we need to correct the prices of our finished goods as well? How does it function?

P. Sundararajan: Yes. There will definitely be a reduction in the sales price and unit price because customers are waiting for the right time to get back to normal. In fact, they mentioned that when the cotton price comes down, we should be in a position to contribute to being competitive.

Shikha Mehta: And Sir, are we seeing incremental business coming from the Middle East and Australia post the FTA?

P. Sundararajan: Yes, there is a possibility. But we are not looking at the Middle East area or Middle East countries.

Shikha Mehta: All right. And Sir, could you also shed some light on the status in the U.K.? It seems that there has been some sort of demand slowdown. So, are we experiencing that in our products as well?

P. Sundararajan: Yes. There is definitely a recession all over Europe and the U.K. due to this Russia, Ukraine war. And as we always said with regards to babies and kids, we are not very much affected. But there is kind of a competition with other countries like Sri Lanka and Bangladesh because everyone is in need of orders. So that is the challenge we are facing. But we are able to manage so far by being competitive to some extent, but there has been some call on the margin, and it has been very tight now. However, we are working internally to see how we can mitigate this reduction in margin and get back to the same position in terms of margin.

Shikha Mehta: Right. And Sir, also, our interest cost has gone up a significant amount this quarter. So, is that due to an increase in debt? Or how should we look at that? And is that again the run rate to consider for the rest of the year?

V. Balaji: No, I think the interest costs have gone up just by some INR 40 lakh, INR 50 lakh. And it is purely because of the material costs going up. Carrying cost on the inventory is also going up. So, the utilisation level is also going up. So going forward, I don't see that there will be a big increase in interest cost.

Shikha Mehta: All right, Sir. And the last question, if I may. Could you also tell me what our profit number would be adjusting for the Forex gain and loss? In your presentation, I think on Slide number 10, there are 2-line items. One is gain on Forex currency and then below that, and there's M2M gain. So, if you could just explain.

V. Balaji: So, Forex gain is the difference between the spot and the realisation, M2M is a notional number which is pertaining to the outstanding forward contracts. So that's it.

Moderator: **We'll** move on to the next question. That is from the line of Niraj Mansingka from White Pine Investment Managers Private Limited. Please go ahead.

Niraj Mansingka: I just wanted to ask two questions, one on manufacturing and one on employees. Can you tell me what the capacity of machines is right now and how it will move forward in the next 2 to 3 years, like when the capacity is added ?

P. Sundararajan: Yes. So currently, we have a total of about 5,100 machines installed capacity. And currently, we are using about 75% of it, which comes close to 4,000. And we are expecting this to go up to 80%, 85% by November, or December, which means it will cross about 4,200 machines we hope to cross. And in the future, probably in 12 months from now, we expect an increase of another about 15% to 20% increase in the machine capacity from the current scenario, which will fetch in the growth of 15% to 20% additional in business.

Niraj Mansingka: Okay. So, 20 months from now, we will get a capacity revision, not before that. How many months from now will you add 20% machines?

P. Sundararajan: So, there will be around 500 to 700 machines.

Niraj Mansingka: In how many months from now?

V. Balaji: 12 months.

Niraj Mansingka: Okay, 12 months. And till 12 months, the number of machines will remain at 5,100. Only utilisation will increase. Is it right to say?

V. Balaji: 12 months from now, we will add another, say, 700 or 800 where we should be very close to 6,000. And our utilisation level should be a reason going forward.

Niraj Mansingka: When will you add 700 to 800 ?

P. Sundararajan: See, there are two methods of increasing the production, not physical machines alone, because we will be adding on another about 300 to 400 machines next year by now. Also, in addition to that, we are increasing the existing capacities. Still, we have room for increasing in all our existing factories. So, all those idle machines will be filled, that's the second thing. And the third one is, as we have been mentioning in the last few con calls, that we are planning for two factories starting with the second shift. So already we have started in one factory, with second shift about the two lines. So gradually in every quarter, we will be increasing 2 to 3 lines in the second shift. So, with all these combinations, we will be able to increase our production capacity by about 600 to 700 machines.

Niraj Mansingka: Okay. Got it. The physical machines will add only after 12 months from now. But by using more and more double shifts, you will add utilisation of those machines in the next one year from now. Is it right to say that?

P. Sundararajan: Correct.

Niraj Mansingka: Got it. And I guess the other thing is the number of employees. How many employees do you have right now?

V. Balaji: We are backwards-integrated. So, all put together, we should have close to 12,500 employees.

Niraj Mansingka: Okay. And can you give some colour on how you're planning to hire and retain because that has been the biggest slowdown, or can you say that was the biggest important factor for your growth in the past?

V. Balaji: We have strategised in terms of those employees.

P. Sundararajan: Yes, I have been informing all these on conference calls that there is a challenge in motivating demand for the workforce. And as I mentioned last time, we are nearly able to come out of this issue. Yes, now I would proudly say that we are out of this problem and can mobilise the workforce how we want it. So, this was the only constraint this company had for growth. But this has turned around now, we are in a position where we can increase the workforce easily by 15%, 20%, and it will not be a bottleneck. Hopefully, we say that it should not be a bottleneck hereafter.

Niraj Mansingka: Can you give me some colour? How do you overcome the challenge?

P. Sundararajan: So that is our internal subject. I don’t think we have enough time to talk about it now. See, in a sense, we had made attempts in different channels to get the people mobilised. A lot of networking we have done, the big team is working here. So that’s a big subject anyway. But we have done it.

Moderator: The next question is from the line of Rakesh Wadhwani from Monarch Networth. Please go ahead.

Rakesh Wadhwani: Sir, can you just explain a bit on the point you mentioned in your opening remarks regarding the FTA agreement that’s going to be implemented from 15th August? I just didn’t get the point properly. Can you please help me with that?

P. Sundararajan: I mentioned that as a part of the 75th independence anniversary, the government is very keen to get this FTA done with the United Kingdom, U.K. It was just an indication. But I’ve been reading in the newspapers and getting a lot of information officially from the associations that our commerce and industry minister said yesterday that we are working very hard. They have several rounds of sitting they discussed. And more or less done, so we expect any moment, maybe in the next 2 or 3 months, the FTA should be through, I guess. So, if that comes through, then it’s a very good opportunity for India because we will be at par with duty-free countries like Sri Lanka, Bangladesh, Pakistan and other countries. So, there will be the same level playing field, and we can take more orders at competitive prices. And definitely, if the FTA is run out, and the European and I mean, U.K. customers have the preference to place the orders to India first.

Rakesh Wadhwani: Okay. Sir, I just have one more question. We are reading that in Bangladesh, Bangladesh as a country is witnessing a power shortage problem. Can you please talk about that? And are we getting some orders because of that?

P. Sundararajan: See, definitely, many buyers in the U.K., just ten days ago, so everyone has said that they want to divert. See, last year, the customers were talking about diverting their business from China. I don’t know. Suddenly this time, they want to divert some of the business from Bangladesh for two reasons. One is the over-jumping of orders to Bangladesh, which is too risky for them. And secondly, the raw material costs, the power problems, power issues and uncertainties on deliveries. So, it’s a big concern for the buyers. So, they want to play with the safer country. So that’s one of the reasons again, that they prefer India. So obviously, we are getting some even regular businesses, which are supposed to be produced in Bangladesh, is coming to us now.

Rakesh Wadhwani: Okay. And Sir, one more question regarding the buyback. Is there any amount that the company has thought to do buyback? Like because we have less cash on the books as far as the recent presentation goes. Any amounts you have thought of?

V. Balaji: The Board has not deliberated anything on the amount. As of now, there is no comment to talk about the buyback.

Moderator: The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Congrats on a good set of numbers. Sir, my question is again on the demand front. You just mentioned that you are not witnessing any demand slowdown due to the European countries' recessionary environment. So, can you explain to us why so? And if that is the case, then what is the replenishment cycle in the kids? What is helping you out? Or, as you just mentioned, some of the customers want to shift from Bangladesh and Sri Lanka to India for a much more stable supply. That is the reason why you're saying that this recessionary environment will not lead to lower demand for you.

P. Sundararajan: The first question, yes, there is a recession all over Europe, the U.S. and the U.K. as well. And definitely, there is no doubt about it. But as I always mentioned, the babies and kids wear, if given an opportunity to spend, the customers will spend first for the children's garments. So that is one reason. And the second one is all these years, and what I assume from the way they spoke to me, they have not been comfortable with Bangladesh for whatever reason. So given a choice, they would always like to move to India. Because of this recession, so they really don't need to depend so much on Bangladesh. So now they got a room, there's a time to shift some of the businesses to India because their requirement is less now than compared to previous reasons. So that is one of the second reasons why they are coming to India. So, this is the right time for them and keeping in mind the FTA also. So, they want to set up their factories in India. By the time FTA comes, they will be comfortable in the competition.

Kaustubh Pawaskar: I just have another question, the second question, if I can ask. So, the second question is related to the first question. You just mentioned your initial comments that two more customers are also getting added by quarter 3. So, should we expect that these 2 customers will add on to your revenues from FY'24 and not from the second half of the year because that is how it works for you?

P. Sundararajan: I mean, the shipment will start in Q3 for these two customers.

Moderator: We'll move on to the next question. That is from the line of Yog Mehta from Scan Capital. Please go ahead.

Yog Mehta: Congratulations on a good set of numbers. Sir, my question is, you talked about the solar plant which started in July. Sir, can you talk about how much electricity it will generate? And compared to how much electricity demand we have given, Sir, many smaller players than us have completely backward captive power supplies.

V. Balaji: It's a 1-megawatt solar plant, and we expect 5,000 units to be generated daily.

Yog Mehta: Okay, Sir. And given, Sir, what is the approximate number of units we require for our operation, Sir, number of units of electricity?

V. Balaji: We, as a company, think the requirement is huge. So, we need 8 megawatts to 10 megawatts of a solar jar in case we go for solar. So, we have a huge headroom to grow into solar. So that's why in the opening remarks, the Chairman spoke about increasing the solar 1 megawatt yearly.

P. Sundararajan: See, there are two things. One is that we should also support the margin gradually. So, we need solar power, which will also help us improve the bottom line. And the second thing is also it's in the kind of repairmen of the day for sustainability, so natural renewable energy is important, all the customers are expecting as against the global warming. So, we have already taken steps year-on-year, from a minimum of 1 megawatt to a maximum of 2 to 3 megawatts year-on-year. So that in the next five years' time, we will be self-sufficient with our own renewable energy. That's the plan.

Yog Mehta: I asked because, Sir, 15x, 20x smaller companies than us in the textile, Sir, they have completely backward integrated, sir, power supply system. So I thought power is one of the critical components in our industry, Sir. And another question, Sir, given for another big component of our P&L, Sir. Heating requirements, Sir, we use coal right now. Given, Sir, the elevated prices in coal, are we looking at shifting to alternative heating generators like burn gas oil, propane, or petroleum coke, as other textile manufacturers have done, Sir?

P. Sundararajan: Yes. See, with regards to our own captive energy, yes, we used to have them before we had renewable energy. But in between, we sold those wind energies about ten years back. I mean, coming back to the backup of our own renewable energy, that's one thing. That, again, it's a question of investment. You see, we have to also in mind the ROCE, which is also important. So, it makes about INR 100 crore to INR

150 crore all of a sudden. We don't want to invest because our margins are reasonably good. So, what we plan is at the same time, somewhere we need to start this thing, renewable energy, for sustainability purposes also. So that's how we started. Over a period of 5 years, we will be self-sufficient. And with regard to coal, yes, alternatively, we are using good fire boilers.

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

Shikha Mehta: Sir, I just had a couple of follow-up questions. To one of the participants earlier, we spoke about the additional capacity we were adding plus the second shift. So, all of that put together, how much revenue will we be able to add at optimal utilisation?

P. Sundararajan: Optimal utilisation will be, as we mentioned, around 80% to 85%. And the growth we expect is about 15%, 20%.

Shikha Mehta: Sir, I meant all our new capacity plus the second shift, all of that put together. How much revenue can we add?

P. Sundararajan: 15% to 20%.

Shikha Mehta: Okay. And Sir, I have another question. Could you give us what percentage we are in all our top 5 brands and wallet share? What wallet share do we have in percentage terms in the top 5 brands we supply to?

P. Sundararajan: One customer is about 40%, the second one is about 25%, and then another is 15%. And the remaining are around 5% to 10%.

Shikha Mehta: Sir, I mean as in their books. Out of their total supply, how much would we be supplying to them?

P. Sundararajan: See, first customer, about 80%, 82%. And another customer is another say about 30%, 40%. The third one is they are quite big. And it's too early to know the exact share of our investment. Then the remaining volume was just starting, so not much.

Shikha Mehta: But Sir, our top 5 customers, we are 82% of their total suppliers and 40% of their total suppliers.

P. Sundararajan: Yes.

Moderator: The next question is from the line of Rakesh Wadhwani from Monarch Networth. Please go ahead.

Rakesh Wadhwani: Sir, I wanted to understand a little bit more or further about Bangladesh's competitiveness compared to us. Can you just talk or give us, let's say, an example, explain the competitive advantage Bangladesh has with respect to cost and why it is coming down?

P. Sundararajan: See, they are competitive because of their low labour costs and the duty-free to the importing country. But because of the uncertainties in delivery and the fact that these ethical factory compliances are still in question. Then the overjumping into Bangladesh because of the competition among the retailers, everyone wants cheaper imported growth. So, everyone wanted to place more orders in Bangladesh, but they had no other choice, which means that they had to place more orders in Bangladesh by force. At the same time, they felt hijacked because of the uncertainties in deliveries and uncertainties in ethical compliances and etc. Now that India is becoming very strong and FTA is expected, and there is a recession in Europe, the U.K. and the U.S. So, they reduced buying. They want to first give to India and then to Bangladesh. So that's the strategy, it looks like.

Rakesh Wadhwani: Sir, I just wanted to confirm that FTA, more like if India is also included in the FTA, will be a big change towards India from Bangladesh?

P. Sundararajan: Yes, we are keeping that also in mind hoping that if they stop placing the orders out, they are hoping by the time we ship from India, landed to the U.K. or Europe or maybe the U.K. now. So, there is a good chance of getting them duty-free.

Moderator: The next question is from the line of Kaustubh Pawaskar by Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: My question is on the margin front. In your initial comment, Sir, you mentioned that you would continue to fill the hit on the margins in the second quarter. And from the second half, there would be a gradual improvement in the margin. So, is it the right understanding?

P. Sundararajan: Yes, that's correct. What guidelines we gave last time also, the same thing we are doing now. The Q1 results are what we have declared is better than we anticipated because we have done many internal things to improve the margins and things. But it was uncertain when we were talking to you during the FY'22 results. Same with Q2 also that it's, again, we have to undergo these difficulties because the cotton prices are on the high side, cotton stock rate everyone has now, and the yarn price is coming down. So, this is a completely different direction. So that is one challenge, and most of the garment manufacturers have booked the orders at the lower yarn price, but the yarn price has gone up. During the yarn price increase, everyone has covered the yarn. So, there are going to be tough numbers in Q2. However, as far as SP Apparels is concerned, we are confident that we should be in a position to maintain the same as in Q1. Maybe a little 1% or 2% less also. I mean, it's too early to say that.

Kaustubh Pawaskar: And my second question is, once the capacity utilisation goes up to around 80%, 85%, incrementally, how much will it add to your margins? As you said, that 15% to 20% will also be added to your revenue in terms of margins because of the efficiencies. How much will it help us, too?

P. Sundararajan: The percentage may not be the same. But in value terms, there should definitely be an increase.

V. Balaji: We have been guiding for a margin of 18%, and we would like to stick to it in spite of an increase in cotton prices. We would like to stick to the guidance which we have given already, that we will maintain at least18%.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for the closing comments.

P. Sundararajan: Okay. Thanks for everyone's participation and the various questions you have asked. I hope I have been able to answer all your questions to the point. And as I always say, we are very confident about our business model. And the entire team, including myself, are working so hard to ensure that we continuously improve in terms of the top line and the bottom line, which we have consistently proved to the shareholders. And we see a great future in the next few quarters. It is very visibly obvious that the order book is now 400 crore, the capacity will go up, and the FTA is on the way. So, a lot of positive things are happening. And, we are confident that we should be doing great numbers in the coming future. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Elara Securities Private Limited, that concludes this conference call. We thank you for joining us, and you may now disconnect your lines. Thank you.