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Sub: Transcript of the Conference call held on 01st July 2020	

Dear Sir/Madam,

With reference to our letter dated 29th June 2020, intimating you about the conference call with Analyst/ Investor held on 01st July 2020, please find attached the 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

Transcript

S.P. Apparels 4Q FY20 Post Results Conference Call

Event Date / Time : 1st July 2020, 16.00 HRS IST

Event Duration : 59 mins 52 secs

Presentation Session

Pavitra: Good evening, ladies and gentlemen. I am Pavitra, a moderator for the conference call. Welcome to S P Apparels 4QFY20 -post-results conference call hosted by Batlivala and Karani Securities India Pvt. Ltd. At this moment, all participants are in listen-only mode, and later we will conduct a question and answer session. At that time, if you have a question, please press star and one on your telephone keypad. Please note this conference is recorded. I would now like to hand over the floor to Ms. Prerna Jhunjhunwala from Batlivala and Karani Securities India Pvt. Ltd. Thank you and over to you, ma'am.

Ms. Prerna Jhunjhunwala: Thank you, Pavitra. Good afternoon everyone. On behalf of B&K Securities, I would like to welcome you all to go through FY20 and full-year FY20 post result conference call of S P Apparels Limited. From the company, we have with us, the senior management including Mr. P Sundararajan, chairman and managing director of the company, Mrs. S Latha, executive director, Mr. S Chenduran, director operation, Mrs. P Jeeva, CEO the garment division and Mr. V Balaji, CFO. I would now like to hand over the call to Mr. P Sundararajan for the initial comments. Thank you and over to you, sir.

Mr. P Sundararajan Thank you. Good evening everyone. Thanks to one and all for participating in the call. The last few months have been tough, not only, it has been a huge challenge to the whole of humanity. Whether in this crisis has been a challenge, and we are proud to inform you all that we have been able to ride over this crisis successfully without any major financial impact until today. I would like to talk about the COVID 19 impact. Regard to the garment division, despite the uncertainty, lockdown, and supply chain disruptions, the company did not witness any significant order cancellation from the garment division export customers. This is the testimony of the company's strength, the niche products, i.e., babies and kidswear. Shipments were kept on hold by our international customers due to lockdown imposed in their respective countries. This led to a revenue loss of rupees 250 million in Q4FY20. We are witnessing significant recovery in the order inflow from the customers since May 2020. Customers are placing new orders based upon the season and number of stores they have opened. Few customers have postponed the orders while others have placed the order with the lesser quantity. No significant loss of revenues due to order cancellation. Whichever order that was canceled during the month of April 2020, customers for those orders have either now reinstated those orders or have accepted to pay liability depending upon the order status. Our current order book is at rupees 210 crores. Regarding operational impact, all the factories and corporate office were closed from the 25th of March as per action from the government authorities. With the permission of the local authorities, the company has resumed its plant operation from 11th May 2020 onwards over different dates for different factories. As of today, all the factories are operating at around 60% capacity due to the social distancing norms imposed by the government authorities. The company supported all the migrant employees for their stay and food in the hostel premises while ensuring all the safety and social distancing norms. One portion of the migrant workforce moved back to their hometowns during May and June 2020. We are expecting the migrant employees to return in another five to six weeks' time. Indian currency depreciated significantly in Q4FY20 compared to last year. This impacted our hedging position and resulted in .F.C. restatement loss of about 40 million for the Q4FY20. Foreign currency appreciation and the loss of revenue due to a pandemic is expected to impact the hedges and may see an impact in Q1 and Q2FY21 also. The company has announced a reduction of working days to the extent of 30% to all staff and all employees, including the senior management till September 2020. Small rented factories are in the process of consolidation with big factories, which will reduce the operating overheads going forward considerably. The company has consolidated on workmen transportation, and this will reduce the transportation cost by 30%. Our strategy going forward, a robust, comprehensive business continuity plan as a response to disruption due to Covid19 with a focus on customer engagement, continuous cost reduction, calibrated expansion plan, business strategy realignment, employee productivity, and efficient utilization of .T.I.T. enabled systems, focus on liquidity management, capital preservation, and operating leverage. Then the next one is the priority for FY21. Focus on calibrated growth and operating leverage, maintain adequate capital and liquidity, continued reduction in operating expenses, improved margin profile by product mix improving production efficiency, reduction in overheads, and efficient raw material consumption, the efficient use of technology and .T.I.T. enabled systems to increase productivity and efficiency. Now I would like to mention about the retail division. All stores, large format stores, and MBOs were closed during lockdown period effective from 21st March 2020, but certain malls that closed much earlier and stores in malls were closed from 15th March 2020. As of today, certain stores that are standalone and are in the green zone have opened effective from 18th May 2020 onwards. Currently, until the lockdown is completely lifted, we may not be in the position to open up all the stores. The next is S P Apparel .K.U.K. business. SPUK's revenue was impacted during the month of March 2020. Orders worth GDP seven hundred thousand were not delivered due to lockdown. Now SPUK has started delivering goods to its customers and will be back to normal growth of revenues from Q2 onwards. The debt of the company, our net debt to net worth as of March 2020, is 0.27. We have serviced all our dues with the bank, including the term loan installment as of today. Our working capital utilization is below 70%. The working capital procession, we are only using less than 70% of our limit with the banks of working capital facilities available. Further on our garment data, we have received a request from one of the customers for the extension of payable days to 150 days on the shipments made up to 30th June. We do not find any other impact on our working capital. Now let's review the performance of each division for this quarter. Financial performance of garment division. Garment division adjusted revenues stood at rupees 145 crores, which degrow by 21.6% year on year basis, and adjusted EBITDA margin stood at 12.7% for this quarter. The margins comparing year or year decreased by 340 basis points. The primary reason for the reduction in the margin is due to government's recent decision to roll back incentives given to garment exporters under MEIS, which impacted our margins by 4%, which is around Rs. 22 crores. Second, due to the loss of revenue by rupees 25 crores due to the impact of the global pandemic situation. Third one due to the appreciation of foreign currency against the Indian rupee, which impacted our hedges. With regard to capacity, our current capacity is 5500 sewing machines, and we are currently utilizing 68%. Due to the consolidation of small rented factories, we are expecting the utilization to be better going forward. Regarding retail division, just update that our plans to [inaudible 00:10:52] the retail division did not get shareholder's approval during March 2020. Since then, retail division and its operations have been kept on hold due to the pandemic. For the time being, utilization continues to be a part of the S P Apparels Limited, and we will profit well after the lockdown is over. Retail financial, total revenue for this quarter stood at Rs 12.7 crore as against the sale of 20.7 crores year on year. This decrease is mainly due to the COVID crisis. EBITDA was at -3.9% as against -9% last year. With regard to SPUK business, financial performance is revenue of SPUK for the quarter ended was and GDP 1.26 million as against last year's performance GDP 0.96 million in revenue. Even though SPUK grew by 31.5%, orders worth GDP 0.7 million were not executed due to the pandemic crisis. SPUK margins were at 3.5% as against the negative margin of 1.6% year on year. General outlook, the current order book for fiscal and restoration of the business for .P.S.P. Apparels garment division it's clear evidence that we are in the niche segment of babies and kids. Most of our customers with online business and the supermarket businesses have grown by 50 to 100% under this segment we cater to. The customer's spending pattern gives priority to spend on the product which we cater to, and the current prices that the company s have been able to raise through this process only because of the strong fundamentals. There are opportunities opening due to China's situation, which we are real to make use of. I thank all the investors for having confidence in the company and supporting the company even during the crisis like Brexit, demonetization, and current COVID 19. We are progressing to a better future, and we expect your continuous support. Thank you.

Speaker 1: Good evening, everybody. I would like to give you the financial performance of S P Apparels. Total revenue stood at 830 crores as against 810 crores for the financial year 2019. Total revenue grew by 2.5% for the whole year. Adjusted EBITDA stood at 110 crores as against 123 crores of the fiscal year 2019. EBITDA fell by 10.9%. The djusted EBITDA margin stood at 13.3% as against 15.3 last year. The main reason for the EBITDA margin falling is due to MEIS withdrawal. PBT margin stood at 5.3% versus 13.5% last year. The main reason being the MEIS withdrawal, forex, and MTM losses and the foreign currency appreciation, which hit our PCFC restatement. PAT margin stood at 5.6 versus 9.1 year on year mainly due to reasons discussed above

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Financial performance of the company during the fourth quarter, total revenue stood at 169 crores as against 214 crores year on year. Mainly disturbance due to the COVID impact. Adjusted EBITDA stood at 18 crores as against 27 crores year on year mainly impacted due to MEIS withdrawal. PPT margin stood at 3.1% versus 13.9%, mainly due to MEIS, loss of revenue, and forex currency loss, and PCFC restatement. PAT stood at 2.8 crores as against 19 crores year on year. On the performance of the garment division, total revenue stood at 702 crores versus 680 crores year on year. EBITDA of garment division stood at 15% versus 17.6% last year, which was mainly impacted due to MEIS. The total revenue of the garment division for the Q4 stood at 145 crores as against 185 crores of last year, mainly due to the losses, which we have discussed. EBITDA margin stood at 12.7% versus 16% during Q4 decreased mainly due to MEIS. On the retail performance, total revenue stood at 77.6 crores versus 71.7 crores year on year mainly last 20 days sales didn't happen. EBITDA of retail stood at 4.4% versus 2.1 % year on year. Q4 revenue of retail division stood at 12.7 crores as against 20 crores year on year. Q4 EBITDA of retail division stood at 3.5%. SPUK total revenue stood at 50 crores versus 48 crores year on year. EBITDA margin stood at 3.7% for the current year. As we already pointed out on a standalone basis, our current debt is very much under control. Our gross debt is 180 crores, and our net debt is 139 crores, for which only 30 crores are long term in nature, and the rest is short term. Of the 180 crores, 36 crore pertains to the right of use. We have serviced all our term debt and interest up to 30th June, and we currently have no dues outstanding. As CMD pointed out, our working capital limits are well less than 70% of the overall limits. On the working capital on a standalone basis, our inventory stood at 227 crores for the current year as against 247 crores last year. Inventory has come down by 20 crores. Receivable stood at 94 crores as against 128 crores, a considerable reduction in receivables also. Payable stood at 84 crores as against 109 crores last year, and the company has made operating cash profit of 124 crores as against 78 crores, which is very healthy. Other things are available in the presentation. we can open up for questions and answers now.

Pavitra: Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star and one on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing the star and one again. I repeat, ladies and gentlemen, if you have a question, please press star and one on your telephone keypad. We have the first question from Ritesh Gandhi from Discovery Capital. Please go ahead, sir.

Mr. Riddhesh Gandhi: Hi sir. Congratulations on handling these hard times reasonably efficiently. I just have a couple of questions, you know, as of now, what kind of utilization compared to pre-COVID are we running as of right now? And do you have any expectations in terms of actually by when we should be able to get again to pre-COVID levels?

Mr. P Sundararajan Currently, our utilization is 3300 sewing machines as against between 3600 to 3700 machines pre-COVID scenario. So that's about our utilization percentage. Going forward,

Speaker 2: Yeah, actually, our current utilization is about as .D.M.D. mentioned it is about 62 to 70%. We were reaching 70%, and this month onwards, we are thinking of improving the capacity, but again there is a lockdown announcement in our state, so we are trying to maintain the same 70% in this month of July. From August-September onwards, we will improve to 75 and 80. From October, we are expecting to reach the maximum of before COVID situation.

Mr. Riddhesh Gandhi: Understood, but [inaudible 00:20:34] if we are, if you, this is a contradiction, here if we are saying we are 3200 to 3300 as opposed to the 3600 of pre-COVID that's close to 80-90% right? Or am I not getting the numbers, right?

Speaker 1: Oh! See pre-COVID, we did face some issues because of the orders of mother care and KMart, so like if you look at January, it was purely a holiday season. So that's why the utilization was low, but I guess what CEO said is purely on the total machinefront.

Mr. Riddhesh Gandhi: Okay. So she was saying 70% based on the 100% capacity, but probably 80% to 90% of where we were at the pre-COVID. Is it right? Am I correct?

Speaker 3: Right.

Mr. Riddhesh Gandhi: And just to understand with regards to, it's not a question of demand and orders, is it only primarily a question of being able to like ramp up in terms of rules and regulars, the demand is in a problem and all, is it that my understanding what you are saying?

Speaker 3: Yes, exactly. See, we have enough orders to run the capacities as we usually used to place 80%. Still, because of this social distancing and transportation, mobilization of people, we are able to maintain 60% to 70% of 80%.

Mr. Riddhesh Gandhi: Got it. How would you check pushing on that just to understand that overall, you know, you would expect some amount of slowdown in retail even to have happened to our customers, right? Like even in London and all of that when we hear that, you know, the stock is slowly starting to open up, but I mean the retail is still slow, so how are we continuing to get that demand is it because we are detaining a certain amount of, if you know, of you know, market share from other clients, is it new clients who we have broken into?

Speaker 3: No, it is, you know, our customers we are only talking about from our existing customers, not about any new customers.

Mr. Riddhesh Gandhi: Okay.

Speaker 3: See our customers are, you know, majority of the customers are supermarket customers, who open all their stores all the time and where again the clothing is the part of the supermarket sale where again this babies and kids are always, you know, in demand and moreover all the customers are really strong in their online businesses. And Primark has opened most of the stores in all the countries, all over the world and the business has immediately has shot as it used to be before, so we don’t see any drop in the order book in the coming future.

Mr. Riddhesh Gandhi: Got it. And then effectively just to understand is the exchange rate we have had a large, I mean depreciation of, with the rupee so in terms of is that being adjusted in our pricing or are we able to keep some of the currency gains which we have.

Speaker 3: To some extent, we billed it in the costing because customers are also aware of these things, so definitely there is a lot of pressure on the order book pricing because of this Covid situation, but this is helping us in meeting out that targets today. So, it’s not going to give us any extra margins, but you know, we are able to meet the targets.

Mr. Riddhesh Gandhi: So I mean mostly….

Speaker 1: Riddhesh, see we have forex coverages or hedges during the month of April and May..

Mr. Riddhesh Gandhi: Yeah

Speaker 1: …so this hedges need to be pushed over to subsequent months when we use it, so maybe the first two quarters we may not be in a position to use the exchange advantage which we have…

Mr. Riddhesh Gandhi: Understood and with regards to if you know, obviously we have lost MEIS also, and so the incentive has reduced a bit too, have we been able to adjust that in our pricing up to an extent?

Speaker 3: Yes, as we mentioned, even in the last concall that we are trying to make up to the same 17-18% EBITDA, despite the loss of MEIS of 4%. So, we are confident we would be able to do it.

Mr. Riddhesh Gandhi: Got it, got it. So effectively here what we are seeing is a net-net of the MEIS loss, plus the currency, plus the pricing taking into account everything, we should be able to maintain 17% to 18% EBITDA margin, and that would be at how much capacity utilization?

Speaker 3: Capacity utilization at 85%.

Mr. Riddhesh Gandhi: So, and as of now, we are at about 17%, so you are saying as we….

Speaker 1: Yeah, see we are looking for the first quarter, and the second quarter, we may not look at the EBITDA margins of 18% because we are operating factories at 60-65 to 70% based on the area, so maybe from Q3 onwards we should be in the position to reach 18% EBITDA margin if there is no more further disturbance.

Mr. Riddhesh Gandhi: So even with regards to like H1 it's not like we are in a state where we are like losing money, and so effectively we will still be slightly profitable, but by Q3-Q4 we expect to be normalized and also have an ability to utilize our enhanced Capex which we have done and executed. Is that sort of ….

Speaker 3: Yes, very much, sir.

Mr. Riddhesh Gandhi: and the order book from your other global clients like Carter's and all of that which we are working on, all of those like new accounts are also actually are panning out.

Speaker 1: So, in terms of the order book, yes, we have bookings from Carter also. We cannot give you customer wise booking, but we have bookings from Carter's also.

Mr. Riddhesh Gandhi: But overall, because of how we are placed in this specialized area in which we are in, we don't see the demand or profit margin being an issue. It's just is supply constraint, which we are hoping after the lockdown ease maybe after may a month or two, we can move up from 70% to 85%, to 90% or whatever.

Speaker 3: Yes.

Mr. Riddhesh Gandhi: Alright, got it, and my last question is on your retail front .Since the retail division is hit, have we been able to reduce our overall fixed cost so that we are at least as a little abled as actually possible?

Speaker 1: Yeah, see in terms of retail stores are closed. So, all stores from March onwards we have spoken to the landlords that we are not passing on the rents during the closedown period and also with the malls where we are closed, we are not paying any rent. We are negotiating with them. Certain people are asking for 30%, 35%, but we are still negotiating. We are not paying anybody now, and in terms of the personne cost, we have reduced so many, the frontline is completely reduced, and even at the backend level we are working with 30%, the number of days is reduced so that the cost is not much sitting on the books.

Speaker 3: Even the number of staff and vehicle use has been drastically reduced.

Mr. Riddhesh Gandhi: Okay, understood that. That's all from me. Thank you and all the best.

Pavitra: Thank you, sir. We have the next question from Chirag Shah from Value Quest. Please go ahead.

Mr. Chirag Shah: Yeah. Thank you for the opportunity. Sir, I just wanted to know what would be the impact of this Vietnam have entered into FTA agreement with E.U.? So now how Indian garment manufacturer would be impacted with this?

Speaker 3: Yes, this is one thing Vietnam is a challenge. So, they have gone into FTA. This was long-awaited one, but again since they are into the volume businesses. Vietnam is again like China big volumes and more of the millions of the unit orders and where in India the order size and the sizes are completely different from what Vietnam is doing, but still, as have we always mentioned that India had got its own chunk of an order which, you know, the customers would always split the orders to mitigate the risk, so, so far we have not faced a.ny challenges and still as you said that some of the Vietnam orders are coming here also. So, it is too early to comment on anything on the Vietnam one, but we are getting prepared for the competition.

Mr. Chirag Shah: But do you think it will put margin pressure because now incremental 9% duty disadvantage will be there compared to Vietnam. So, do you anticipate any pricing pressure with this?

Speaker 3: This is the same as, Bangladesh, Sri Lanka, and Vietnam. All the three countries are like this only. So, as we faced Bangladesh and Sri Lanka, we will face Vietnam also.

Mr. Chirag Shah: Got it, sir. Sir secondly on, so now with MEIS withdrawal, what is the current incentive which is sitting on the P&L? What is the total percentage of sales which we get as an incentive?

Speaker 1: 7.25%.

Mr. Chirag Shah: 2.25%.

Speaker 1: 7.25%.

Mr. Chirag Shah: 7.25%, got it. Earlier it was 11.25%, right?

Speaker 1: 11.5%.

Mr. Chirag Shah: Got it, sir. Sir, what is out hedging policy?

Speaker 1: So, when the order is confirmed, we hedge 60%., On shipment, we hedge 20%, the balance 20% is kept open.

Mr. Chirag Shah: Okay. And currently, at what rate we would have hedged now?

Speaker 1: For which currency like Pound we are at….

Mr. Chirag Shah: Euro, I mean whichever is the highest exposure you have today.

Speaker 1: Pound is at 95, and the dollar is at 74.50.

Mr. Chirag Shah: Okay. And sir, now with reducing cotton prices, how it will impact or benefit to us? Will it be sitting with some inventory also?

Speaker 1: So, in terms of cotton, it's like orders were taken based on the current yarn rate. So, cotton to yarn cannot exactly match, but for orders which we have already taken, we would have booked our cotton, but cotton, which was procured during the season time, yes, we should have, we could have some small impact because of that.

Speaker 3: Yeah, the cotton price reduction will definitely help a little bit in the margin of the yarn and but then it comes to the garment it's very little.

Mr. Chirag Shah: So we don't expect any inventory loss in the coming quarters because of a reduction in cotton prices. Is that understanding correct?

Speaker 3: Yeah, because cotton, what stock we have is already against the order what we have. So, I don't think there will be any impact on the margin hit.

Mr. Chirag Shah: Got it, sir. And sir, so currently we are having almost around Rs. 230 crore inventory in our books, out of that how much would be towards finished goods?

Speaker 1: Finished goods would be close to Rs. 7.5-8 crores on the garment.

Mr. Chirag Shah: And remaining would be?

Speaker 1: So, see it will be like a certain portion will be at the yarn stage, the certain potion will be at the cotton stage, certain portions will be at the dying stage, and rest will be WIP.

Mr. Chirag Shah: Oaky, so 200 odd crores would be .M.R.M. plus WIP, is that understanding correct? 200…

Speaker 1: See, of the Rs. 227 crores, Rs. 40 crores are of retail, retail stores, so you have to remove that and look at it. So, if you are removing that and looking at Rs. 187 crores of inventory, that, we will have a cotton inventory of Rs. 40 crores, you have to also remove that to look at it. So, Rs. 147 crores is the garment division inventory.

Mr. Chirag Shah: Got it. Got it. Got it. And sir, just lastly, you mentioned that you will be able to maintain your margins to the previous level, this year was an aberration because of MEIS, so this 4% reduction which we have seen this year, how you will be able to recoup that? What are the line items where you see that these efficiencies will come?

Speaker 3: Now this is something which is our internal way of working, we have so many ways like, you know, wastage improvement and wastage management and further we have to work closely with the efficiency improvement on the efficiency of production and the raw material procurements and just in time management, so a lot of things are there. So, in every touchpoint, if we say even about a half percent or quarter percent, then easily we should be able to manage 4%.

Speaker 1: and utilizing our capacity at 85% is what we said for 17% to 18% EBITDA margin, so once we start utilizing capacity by 85%, then I think 18% and above will be the EBITDA margin.

Mr. Chirag Shah: Got it. Got it, sir. Thank you and all the best.

Speaker 1: Thank you.

Pavitra: Thank you, sir. We have the next question from Dipesh Agarwal from UTI Mutual Fund. Please go ahead, sir.

Mr. Dipesh Agarwal: Yeah, good evening, gentlemen. Hope everyone is safe out there. So, my first question is when you were saying 60% utilization, does that imply something like 4.5 million pieces per month, is my understanding correct?

Speaker 1: Dipesh, I think the utilization of the machines, pieces cannot be rationalized. What you can take is that we are working at 3300 to 3400 machines depending on the factories. So, you cannot just extrapolate it to the number of pieces that is not possible.

Mr. Dipesh Agarwal: Okay, okay. And currently, what would be our fixed cost per month, and what was it at pre-Covid times?

Speaker 1: Are you looking at the garment division or looking at the retail or the company as a whole?

Mr. Dipesh Agarwal: As a company.

Speaker 1: As a company, I think we are close to Rs. 10 crores of fixed overheads, including depreciation and interest.

Mr. Dipesh Agarwal: And earlier, this number was higher?

Speaker 1: Talking about the earlier.

Mr. Dipesh Agarwal: Okay. And now?

Speaker 1: Now,

Speaker 1: We are looking at 30% of the reduction in all overheads except the depreciation and the interest cost.

Speaker 3: Salaries and traveling.

Mr. Dipesh Agarwal: Okay.

Speaker 1: So primarily those are not there because there are no travelling happening, so we are expecting anywhere between Rs. 6 to 7 crores of overheads.

Mr. Dipesh Agarwal: Okay. And sir, with the cancellation of the retail deal, any strategies which you have framed for the retail division going ahead?

Speaker 1: Dipesh this is too early because

Speaker 3: It has just come

Speaker 1: The hive-off approval did happen only on the 26^{th} of March, and we were in lockdown period so far. Retail has not picked up any sales, so now, until all the stores are open and we are back running fully, only then we will be in a position to strategize anything, but we are not ruling out any strategy as of now.

Mr. Dipesh Agarwal: Hmm, hmm and sir lastly, continuing with one of the previous participants questions, how does the cotton prices impact us on the garment division because when I see last two years when the cotton prices were going up, we did not see a comparable increase in our garment realization and in fact there was a margin decline though some of this could be explained with our one-off expenses and change in MEIS, still there was something extra pain in garment margin, so I believe that could be because these were not able to pass on the cotton prices. Now with cotton prices going down, do you see that to bounce back?

Speaker 1: So, like there is no relation with the garment division margin and the cotton prices. How do we work here is that we go by current yarn prices, and not the cotton prices. So, costings with the customers are done based on the current market yarn price, not the cotton price. There is no correlation between the yarn prices and the cotton prices. There could be some ups and downs in the margin because of movement in the yarn prices, but not in the cotton prices.

Mr. Dipesh Agarwal: Okay. Thank you. I will join back the queue for further questions.

Pavitra: Thank you, sir. We have the next question from Mr. Manoj from .D.M.D. Investments. Please go ahead.

Mr. Manoj: Good afternoon, sir. What is our strategy for our retail division after we were failed to hive-off the department because of shareholder approval was not there?

Speaker 3: Yes. Good afternoon. So it is, as CFO said during the lockdown period the shareholders declined approval, so after that, we have not, and after that the retail business operations have beennot been back to normal. So, we are still yet to strategize anything on this front, but it's too early to decide, but what we are currently doing is we are waiting for all the retail shops to be opened, all the large format stores, and other things. Then we will carry on the business and gradually, you know, we will try to maintain a sustainable business and look for opportunities where if we find some good buyers for this one, definitely we don't rule out to selling it out, so but this is too early to move forward for this because there is not a right time for any valuation thing, so it will take its own time. It maybe after a few quarters we will be able to talk about it.

Mr. Manoj: Okay. As we valued retail around Rs. 80 crores if you subtract from the enterprise value today about Rs. 420 crores it comes around Rs. 340 crores, and if you see our garment sale around Rs. 750-800 crores with 18% EBITDA level, it comes around Rs. 140-145 crore. So actually, we are trading around two-three times EBITDA level, so what is our plan for the buyback? Does the buyback make sense for this kind of situation?

Speaker 1: So Mr. Manoj at the current moment I think our priority or interest is to see that we are in the consolidation process of getting the confidence back with all the customers in the, putting up our operation fully capitalize, so I think this time, for the time moment I think the strategy is to strengthen our price with the customers and also with the employees where we bring in more capacity. So maybe two quarters down the line, we would definitely think around a possible buyback two or three quarters down the line when things are back and running fully.

Mr. Manoj: I agree with you. I was talking when things normalize or something like that. If that kind of valuation persists, the board is in agreement of something like that buyback in this kind of situation which….

Speaker 1: Sorry, can you repeat the question?

Mr. Manoj: I was asking not in the present condition, going forward as the things normalize, and we know kind of valuation persist the prices of the stock market, so…

Speaker 3: Yes,

Mr. Manoj: …in that kind of condition that I was asking.

Speaker 1: Yes, yes, that is, maybe once things are back to normal we will definitely look at it because we were in the process of getting to a buyback during March, but unfortunately because of this Covid we have kept on hold, so it is kept on hold. It's not a cancellation. So maybe two-three quarters down the line we may thing around it.

Speaker 3: Yeah, originally it was like this, you know, when we were planning for the hiving-off the retail thing, so with those proceeds we were planning for a buyback. Since this entire thing has not happened, so now we have to re-strategize everything after our priorities are over with fully optimizing the production and the customers' deliveries and full booking. Once these things are done in the the next two quarters, then we will have to re-strategize regarding the buyback, but we are not definitely ruling out the buyback.

Mr. Manoj: Okay. Thank you and best of luck.

Speaker 3: Thank you.

Pavitra: Thank you, sir. We have the next question from Mr. Vikas Jain from Equirus Securities. Please go ahead.

Mr. Vikas Jain: Yeah, hi. Thank you so much for the opportunity. Sir, in one of the statements as you mentioned that we would be reducing the working days to the extent of around 30% for the staff and above, would that translate into saving the cost in terms of the employee?

Speaker 1: Yeah, yeah. That will definitely bring down the employee cost.

Speaker 3: Yeah, very much. That is the way, see the number of working days, you know, lesser so definitely there is a cut in the salary.

Mr. Vikas Jain: Right, so but that includes the senior management and so what it includes the staff as and like the people working in the factories so that...

Speaker 3: All the staff and above, including myself.

Mr. Vikas Jain: Okay, okay, right. Sir you mentioned that you would be consolidating smaller factories into a bigger one, so are you planning to cutting down the number of factories and shifting all those to the existing bigger one, so that to save on the lease or the rental cost, is that the idea?

Speaker 3: Exactly. By consolidation of five factories, well-set factories to a bigger factory save a lot of overheads, including rents and other things, and the maintenance and other things will be reduced to a great extent and efficiency in terms of supply chain and managing the factories will be far far better. So now it's time for consolidation. That's what we are doing. Definitely, it will help in the reduction of overheads to a great extent on the factory operation side.

Mr. Vikas Jain: Right, sir, but then that won't affect the ordering from the customers where some of the customers book a certain part of our capacity, right? So that won't have any impact on that.

Speaker 3: No, say when we close down the most of the workers will be going to the bigger factories which are nearby to those factories. So, we will be losing only 30% of the workmen from currently what we are having. So, it means these capacities are not lost. These capacities are going to be merged with existing bigger factories.

Mr. Vikas Jain: Correct, correct. And sir, just wanted to ask about this, the sharpsurge in this interest cost because of this PCFC restatement, so can you just broadly elaborate on what …

Speaker 1: Vikas, if you look at FY19, the cost for the whole year stood at Rs. 6 crores. So, what happened last year is that there was a PCFC gain to the extent of Rs. 8 crores, which reduced the overall cost. The reversal of that impact is getting to the whole year, so again by the end of the year I am again having a lot, so that means, I mean gain reversal for the current year and the loss for the current year is happening both together, and that's why my finance cost is at Rs. 22 crores. Did you get the point?

Mr. Vikas Jain: Sorry sir, but I got confused means can you just….

Speaker 1: So FY19, my finance cost was Rs. 6 crores.

Mr. Vikas Jain: Correct.

Speaker 1: That was because of a gain of PCFC restatement of Rs. 8 crores.

Mr. Vikas Jain: Okay. So, the actual interest cost was close to around Rs. 14 crores for FY19.

Speaker 1: Yes.

Mr. Vikas Jain: Right.

Speaker 1: So now that reversal of Rs. 8 crores is now setting in my current year books. And year-end you have another Rs. 4 crores of loss, so both is getting consolidated into current the year which is showing Rs. 22 crores of...

Speaker 3: What is the net finance term.

Speaker 1: My net cost is only Rs. 14 crores.

Mr. Vikas Jain: Right, right, sir. So the reversal of last year's Rs. 8 crores and loss of Rs. 12 crores and some loss from the PCFC and…

Speaker 1: Yes, yes. If you look at both finance costs together, I think it will be easy for you to understand.

Mr. Vikas Jain: Right. Sir, so is it like year-end phenomena every time we have to reevaluate how much gain or loss we have to, mean, at what period or interval do you have to see that?

Speaker 1: Like, in terms of the PCFC, I guess it's going to be every year-end phenomena, yeah. Based on the currency movement.

Mr. Vikas Jain: Correct. Correct, correct, sir.

Speaker 1: Usually, it's not so bad, but this year because the currency abnormally moved towards the end of the year, it was at 76.24 for the dollar, so that brought down the PCFC.

Mr. Vikas Jain: Right, right. Correct, correct, correct. Alright sir, thank you, thank you so much.

Speaker 1: Thank you.

Pavitra: Thank you, sir. We have the next question from Yogansh Jeswani from Mittal Groups. Please go ahead.

Mr. Yogansh Jeswani: Hi, sir. Thanks for the opportunity. Sir, if I look back at your numbers for the past three-four years in terms of gross margin, I think our material cost was some 40%, whereas if we look in FY20, I think it has gone above 44-45 % now. So, can you pinpoint the exact reason behind this jump in the material cost? Or is it mainly because of the export incentive that you mentioned the 4% that we lost out, so this is reflecting on material cost as the percentage of sales?

Speaker 1: So, the material cost or the margin, what you are discussing is purely to base on the product mix of the company. Say for this quarter we have a realization of Rs. 95 rupees per piece, so when my realization of the pieces is on the higher side, my material cost will always be on the higher side, say my basics are on the higher side, material cost always will be on the higher side. So, if it's going to be a margin for say niche style, then material cost will be lowest. So as a product mix, which will…

Speaker 3: Depends on if it is the basic product then the material cost will be slightly higher if it's a fashion product material cost will be slightly lower because of the realization value is better. So that keeps changing.

Mr. Yogansh Jeswani: Right, sir. I fully agree with your point, sir, on the quarter on quarter basis obviously the product mix will determine a lot of it, but I was looking at your number for say 2016, 2017, 2018, 2019. For these four-five years, the gross margin was around 60%, which is now down to 55%. So, I was looking at more, so is there a change in the product mix overall from what we used to do say three-four years ago or it's the competition that is dragging down the per-unit price of the garments?

Speaker 1: So, there are three things, one something to do with the cotton prices, which you cannot compare it year on year. The second thing is with respect to your realization on the forex and if the same price is given a year before for say 1.5 pounds and now its same 1.5 pounds, but for the rupee, it has changed you cannot do anything on that, but purely the product mix , 2017 versus 2020 if you look at we have moved more closely to basics like previously it was 85%, 15% niche was basics now we are closely at 60%-40% on the basics front. So, basics have moved up, so that is why you are looking at the increased margin.

Speaker 3: Not only that, there is a pressure on margin that is true. That is for sure so that we are going to make it up now.

Mr. Yogansh Jeswani: Understood, that's a good broad understanding that you shared, sir. So just to follow up on that on the margin point I think another participant also asked you on this that since if you look at the industry scenario, day by day it is getting more and more competitive and Vietnam, Bangladesh, Sri Lanka like you mentioned getting the better duty in European union wherein we have key clients and now losing out 4% MEIS benefit so how are we able to confidently say that we will be able to reach to our 16%-17% odd EBITDA, so there must be a plan or some thought in the management's mind, which you can share and probably transfer that confidence to us as well and share the insight with us if possible.

Speaker 3: Yeah, see, as I mentioned before, we are working on so many touchpoints for cost-saving. Now, this anyways is the part of our processes, which we are definitely doing now like, you know, cost-cutting, overhead cost-cutting that will definitely save about 1% or 2 % on the overall overheads and the production efficiency which we have re-modeled all the factories to a lean production which will definitely improve the efficiency. As we mentioned many times, our efficiency is going to be better by 5% which will again save another 1% or 2%, so, there is a gap of what currently is and what we are expecting is about 4% to 5% and some, you know, more is, such wastage management, the consumption improvement, and wastage management is also something which, you know, is in the, in our priority. This we were not, the priority we were, now we are addressing this also. So, there are about 5-6 touch points where we can easily save another about 4% to 5% hopefully.

Speaker 1: And also, maximum utilization will also

Speaker 3: And the utilization is very important, machine utilization used to be 80% or 85%, now we are expecting by the end of this financial year we will be raising to around 87% to 90%. By targeting the overheads of the factories, costs will be drastically reduced.

Mr. Yogansh Jeswani: Hmm, hmm.

Speaker 1: FY17 versus FY20, we have added closely to 2500 machines over a period of 3-3.5 years. And all these 2500 machines are through new factories only, so now that once this process of consolidation of all these 5500 machines has started, then the efficiency level, preoperative expenses all will come down. Hence, there are so many things that will happen. Only because we added close to 2500 machines preoperative expenses on the trainee cost was on the higher side for the past 1-1.5 years. That is why the margins were impacted so far.

Mr. Yogansh Jeswani: Hmm, understood sir, so I think, I think that's a great insight that you shared. I think that's really helpful and sir secondly like we are seeing a lot of news that India is trying to go out to the world and supply PPE kits. The textile division is looking at this as an opportunity to fulfill the gap that's there because of demand erosion in globally across retailer and everything. So, are we also looking at filling up some of our capacities through this route, PPE kit, and if yes, what is the kind of margins and competition that we are seeing in this, sir?

Speaker 3: At the moment, we are not looking at it at all because our capacity is already filled with existing customer's orders, and we are looking for more capacity for the existing customers also. So, I don't think we will need to look at those areas at the moment.

Mr. Yogansh Jeswani: Understood. That's it on my side and best of luck to you, sir. Thank you for answering.

Pavitra: Thank you, sir. Due to time constraints, that would be the last question for the day. Now I hand over the floor to the management team for closing comments. Over to you, sir.

Speaker 3: Thanks all for participants for participating and I hope that we have been able to address all your questions and ambiguities and as we always say that please rest assured that we are definitely working so closely and meticulously to improve the things and this business is so dynamic, and there are so many external factors are involved in this one, so we have been so far faced all the challenges and tied over the situation, and our financial ratios are very healthy, so we don't see any big disasters or any deviation from what we have been focusing at, so please rest assured that we will definitely perform, continuously improve the performance in the future quarters. Thank you.

Pavitra: Thank you, sir. Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you, and have a pleasant evening.

Note:
1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.