S.P.APPARELS LTD.

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Stock Code : 540048	Stock Code : SPAL
Ref: Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015	
Sub: Transcript of the Conference call held on 16th February 2021	

Dear Sir/Madam,

With reference to our letter dated 19th June 2021, intimation about the conference call with Analyst/ Investor held on 24th June 2021, 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
Q4 FY2021 Earnings Conference Call"

June 24, 2021

ANALYST: **MR. NAUSHAD CHAUDHARY – SYSTEMATIX INSTITUTIONAL EQUITIES**

MANAGEMENT: **MR. P. SUNDARARAJAN – CHAIRMAN & MANAGING DIRECTOR - SP APPARELS LIMITED**
MRS. S. LATHA – EXECUTIVE DIRECTOR - SP APPARELS LIMITED
MR. S. CHENDURAN – DIRECTOR - SP APPARELS LIMITED
MRS. P.V. JEEVA – CHIEF EXECUTIVE OFFICER - SP APPARELS LIMITED
MR. V. BALAJI – CHIEF FINANCIAL OFFICER - SP APPARELS LIMITED

DICKENSON WORLD: MS. PUSHPA MANI, SENIOR ANALYST

Moderator: Ladies and gentlemen, good day, and welcome to SP Apparels Limited Q4 FY2021 Results Conference Call hosted by Systematix Institutional Equities. 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 Mr. Naushad Chaudhary from Systematix. Thank you and over to you Sir!

Naushad Chaudhary: Thanks, Nirav. Good afternoon everybody. On behalf of Systematix I welcome you all on SP Apparels Conference Call. I thank the management team of SP Apparels for giving us this opportunity to host them. From the management team side, we have Chairman and Managing Director - Mr. P. Sundararajan, Executive Director – Mrs. S. Latha, Director – Mr. S. Chenduran, CFO – Mr. V. Balaji, CEO – Mrs. P.V. Jeeva. Now, I hand over call to the management team. Over to you Sir!

P. Sundararajan: Good afternoon, everyone and a very warm welcome to all of you present on the call to discuss our financial year ended FY2021.

At the outset, I hope and wish that all of you and your loved ones are healthy and safe. COVID-19 pandemic has spread at an alarming pace and has emerged as a social economic and humanitarian crisis worldwide, infecting millions and bringing the countries worldwide to a standstill. This has caused a lot of damages to the biggest of the economies in the world. Your company has weathered well during the crisis, and we have managed better during this second wave.

Lockdown during the month of January to March in the UK has disrupted the operations and despite the above disruption we were able to deliver better revenue during that quarter mainly due to the product segment which we cater to.

The end of March second wave started in India which has affected the performance of the company during Q1 FY2022, but despite this we are managing to perform better than the last year wave which is Q1 FY2021.

We are glad to inform that the board has recommended for a dividend at 22.5% that is Rs.2.25 per share. Our major divisions have performed well during this quarter. It shows the inherent strength in the company. This sustainability and experience gained during this period of the business will take us to a new height.

Regarding our various segment's performances; Garment division, the shipments to customers during this quarter increased year-on-year in spite of the lockdown in the UK. Our customers are witnessing consistency in demand especially for their online retailing business. Retailers' consolidation of supply base is still happening aggressively, and that is one of the reasons that will support our growth going forward. As we continue to remain as one of their most preferred suppliers.

As of now our current order book stands at Rs.325 Crores. Our garment division revenue for the quarter stood at Rs.163 Crores, an increase of 13% year-on-year. Our EBITDA margins improved from 13.1% to 17.8% this quarter, which improved by 470 BPS. EBITDA margin could have been better provided; the government has released RoDTEP. This has an impact of 4% in the margins comparing last quarter.

As mentioned in the previous call, we have consolidated factories to reduce the rent, workman transportation cost and other operating overheads. We are confident that the EBITDA margin will sustain at this level going forward.

Our strategy in increasing the utilization level by aggressive sourcing and training of workmen is gradually yielding results. We are working with a mix of employee base.

We have migrant employees, home state employees as well as the local employees who travel through transportation. The strategy to bring more migrant employees will start yielding better results going forward.

Second lockdown in Tamil Nadu was for 7 weeks and on the current status of the factories, we have resumed our operations and have reached to 60% of where we were before the lockdown. We are able to utilize the capacities better with experience we gained during first lockdown. But for the second wave in Tamil Nadu, we would have seen a better utilization of machines. Our efforts in increasing the utilization of machines by increasing the second shift has been deferred due to the second wave and will implement at the right time.

As we have explained in the last concall about two new customers we are yet to move forward and start the business very soon and will update you in the right time.

With regard to the spinning division, spinning is fully being utilized and is yielding good margin addition to the garment division. Currently, we are in the process of expanding our spinning divisions by another 3,600 spindles and now due to the pandemic, the project is delayed by another three months. Once the project is completed, we will be at 27,000 spindles.

Processing division: the biological treatment plant project is completed and is up and running. This has improved the efficiency of the plant and now our capacity has increased by another 3 tonnes per day. This is also contributing a considerable margin to the garment division.

With regard to SP Apparels in the UK; SPUK is looking very promising. We have three new customers now in the pipeline. We can expect their orders from October 21 onwards and they will work with us in the babies and kid's segment.

SPUK revenue stood at Rs.21.9 Crores when compared to Rs.11.7 Crores of revenue year-on-year. Our current order book for SPUK is at sterling pound 5.3 million.

With regard to retail, revenue for the retail division stood at Rs.8.2 Crores for the current quarter compared to Rs.12.7 Crores year-on-year. Unexpectedly due to second wave in India we witnessed significant reduction in the sales, and we were forced to give deeper discounts on the products and we have also liquidated certain stocks during the current quarter.

Retail EBITDA was a loss of Rs.4.5 Crores this decline is majorly due to the low sales and the higher discounts. We hope the economy revise and all the malls and stores will be allowed to operate and will start making better revenue and margins going forward.

We hope that the efforts of the team will yield us revenue, growth and margin sustainability going forward. Our liquidity position continues to remain comfortable. We have cleared all the interest and debt installments obligations that were due until today.

Finally, during this FY2022 we are working towards better utilization of capacities and also to increase in revenue by strategically having different verticals of businesses, which will parallelly grow along with the existing current business and we are excited about the new verticals.

Now I will request our CFO to give an overview of the financials. Thank you.

V. Balaji: Good afternoon everybody. Thanks for participating in the call. I will just run you through the financial performance of the company and the division wise numbers.

Quarter-on-quarter performance: Revenue stood at Rs. 193 Crores as against Rs.169 Crores year-on-year basis which grew by 14%. EBITDA stood at Rs.25 Crores as against Rs.18 Crores year-on-year which grew by 33%. PBT stood at Rs.15 Crores as against Rs.5 Crores year-on-year which grew by 194% mainly due to low last year base due to disruptions caused during the pandemic. PAT stood at Rs.10.56 Crores as against Rs.2.81 Crores year-on-year which grew by 275%.

Performance of the year: Revenue stood at Rs 653 Crores as against Rs.830 Crores year-on-year which is degrowth of 21% is mainly due to the pandemic hit in the quarter one and quarter two. Our adjusted EBITDA stood at Rs.107 Crores as against Rs.89 Crores last year which is a growth of 20%. PBT stood at Rs.59 Crores as against PBT of Rs.44 Crores last year which is again a growth of 33%. PAT stood at Rs.43 Crores as against Rs.46 Crores of last year which is degrew by 8% mainly due to a DTA reversal which happened due to effective tax rate change last year.

Garment division: Revenue stood at Rs.163 Crores versus Rs.144 Crores year-on-year, the growth stood at 13% for the current quarter. Revenue was disrupted due to the RoDTEP which was not announced by the government, and we have not recognized RoDTEP in the revenue and also it was disrupted due to the container shortage and Suez Canal issue during this current quarter. This led to the revenue slippage by Rs.12 Crores quarter-on-quarter.

Revenue for the year stood at Rs.536 Crores as against Rs.703 Crores year-on-year. This is mainly due to the disruptions caused by the pandemic during Q1 and Q2. EBITDA margins stood at 17.8% as against 13.1% year-on-year, improvement in spite of RoDTEP not being recognized. EBITDA margins for the year stood at 20.2% for the whole year as against 12% for the whole year.

Retail division: Revenue for the quarter stood at Rs.8.2 Crores versus Rs.12.7 Crores year-on-year. Revenue for the whole year stood at Rs.39.5 Crores versus Rs.77.63 Crores year-on-year. Revenue has come down significantly due to the disruptions of the pandemic. EBITDA for the quarter was negative to the tune of Rs.4.5 Crores. EBITDA for the whole year was also negative 13% as against an EBITDA of 4.4% last year. The negative EBITDA margins is purely because of reduction in sales. Gross margin also has come down in the retails mainly due to the higher liquidation and deeper discounts for the current year.

On the performance of vertical SPUK: Revenue for the quarter stood at Rs.22 Crores as against Rs.11.7 Crores year-on-year, growth stood at 87%. Revenue for the year stood at Rs.76 Crores as against Rs.50 Crores last year, which is at a growth of 50%. Revenue in terms of GDP was at Rs.7.9 million as against Rs.5.6 million last year the growth stood at 40%. EBITDA stood at 5.3% versus 3.7% for the whole year and this is a significant growth in terms of EBITDA and revenue.

Let me give the status of the debt position on a standalone basis excluding the right-of-use. Gross debt stood at Rs.145 Crores which is a significant reduction in last year number, last year it was 180 Crores. Net debt stood at Rs.113 Crores as against Rs.139 Crores last year significant reduction in debt which is equivalent to Rs.32 Crores.

Working capital position, we have receivable of Rs.93.8 Crores as against Rs.85.7 last year. Stocks stood at Rs.241 Crores as against Rs.227 Crores last year. Our payable stood at Rs.73 Crores as against Rs.75 Crores last year. Our operational cash flow stood at Rs.79.3 Crores as against Rs.86.9 Crores in spite of the pandemic.

Other information is available in the presentation, and now we can start the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Giriraj Daga from KM Visaria Family Trust. Please go ahead.

Giriraj Daga: Good afternoon. Sir my first question is regarding like when I look at your volumes, your garment volumes for FY2021 it is down about 27% for the full year. So, I want to understand as per your understanding how the industry has behaved and how is our market share in FY2021. Have we lost market share and we see as how much and have we able to retain our market share what was the industry number for FY2021 in your market that you are offering?

V. Balaji: See you cannot just look at numbers versus revenue because revenue has got certain portion of other operating income also. So, like the duty drawbacks, the change in the incentive schemes that will also be part of the duty drawbacks. But, if you look at the volume, it will also be like what kind of products we do, so I think looking at volume versus revenue could not give a better picture in terms of reduction what you say is 27% versus the revenue reduction is close to around 9% because we did not have the opportunity of working in the first quarter.

Giriraj Daga: I understand, but I want to understand let us say at a client level have we lost our market share or that was the idea as the client also effort.

V. Balaji: Actually, there are no losses in terms of market share.

Giriraj Daga: So, you mean there is no loss of market share for us, the client itself has acquired is 25%, 30% lower this year compared to last year?

V. Balaji: No. The ability to take orders also depends on the number of capacities which we productively utilize. So, like when there is a reduction in capacity due to the lockdown so I have to take orders based on whatever capacities I have. So, it is purely I think your question on the revenue versus product pieces may not be right for the current year, financial year.

Giriraj Daga: This year what is the volume expectation we have? Will we come back to our 6 Crores kind of a run rate this year as per the order book and as per the understanding assuming there is no fresh COVID wave can we be able to reach a 6 Crores volume number this year.

V. Balaji: This year we should be first quarter is also a disturbed quarter until today we are yet to get a clearance from the Tamil Nadu Government for opening up fully and the migrant employees traveling is also restricted so first quarter is a disturbed quarter. We expect that we should reach 60 million by end of this financial year. It should be better than FY2020.

Giriraj Daga: Q1 this time will be better than FY2020 Q1 you are mentioning that, or the full year will be better than the FY2020?

V. Balaji: Yes correct.

Giriraj Daga: Full year, right?

V. Balaji: Yes, full year. I am talking about the full year, yes.

Giriraj Daga: So FY2020 we did about 5.76 Crores or 57.6 million?

V. Balaji: Correct, we should be better or very close.

Giriraj Daga: Second is Sir EBITDA per piece so this time after a longtime we had come with the run rate of 25 which we saw earlier in 2017-2018. Do you think this kind of a number of Rs.25.7 EBITDA per piece is sustainable number?

V. Balaji: Whatever if you look at what chairman spoke about in the opening remarks, he said that we expect this margin to be sustained over a period of time, in spite of the increase in the cotton prices and the RoDTEP not being recognized we are able to deliver an 18% EBITDA this quarter so we feel that this margin should be sustainable going forward.

Giriraj Daga: I will just on this so 18% for the quarter or you maybe say 20% for year so which is sustainable number 20% or 18%?

V. Balaji: So, we feel that 18% should be the guidance for the years to come.

Giriraj Daga: There you are not assuming any export duty benefit in 18% now?

V. Balaji: No, see you cannot look at EBITDA margins and export incentives both together. See in spite no export incentives or RoDTEP not being recognized this year we were able to give you better EBITDA margins. But what we need to look at is when I have an option of getting export incentives, I have more I need not pressurize on the margins with the customers. So, I need not negotiate more with the customers.

Giriraj Daga: Either was that this RoDTEP it has not been announced so this 18% number, assume what 2% RoDTEP 3%, 4% so that was right now, and you say 18%?

P. Sundararajan: It is expected that close to 4% between 2% to 4% so if that is announced all the possibilities that it can improve only.

Moderator: Thank you very much. The next question is from the line of Akshay Chheda from Canara Robeco Mutual Fund. Please go ahead.

Akshay Chheda: Sir my first question would be you did mention about the disruption that have happened in Tamil Nadu because of this obviously we would be exporting less so is there a case where the orders get shifted to other competing nations or the position of India still remains intact because in apparels it is very important that we deliver the goods on time? So that is my first question, and on the second on this container availability and the freight cost like are there challenge is still on that side or the situation has somewhat relax towards it. So these were my two questions? Thank you.

P. Sundararajan: See regarding the first question, see there is always competitive companies on the table and because of this pandemic situation it does not mean that the business is diverted this is because even other countries are also suffering such kind of the pandemic thing so it is not that the customers are comfortable by transferring the orders to Sri Lanka, the Cambodia, Vietnam, or even Bangladesh. So definitely this pandemic is not going to affect the orders getting inflow getting into the country we are definitely very, very strong in all aspects. India is very, very strong in all aspects and we especially SP Apparels being in baby segment, infant and kids wear segment always our customers give the first priority to us and they plan in such a way that sometime they even take them by us to see that the stocks are available so they always prefer not to divert the business from us to others in all aspects. With regard to the point number two the container thing that has been now it is regularized it is normal there is no issue in this container issues.

Akshay Chheda: Thank you Sir.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: I just had a question with regards to any sense on looking when you expect the normalcy due to unless assuming obviously there is no COVID disruption but given where we just stand with our order book and given that the economy in India is now opening up. Do we expect like Q2 to be at levels of utilization which is close to a 100%?

P. Sundararajan: See, the utilizations in Q2 as we always used to be about 78%, 80% as the utilization of apparels capacity between 70% to 75% so that will continue and probably from Q3 the utilization level will slowly increase once we implement the two shifts in certain factories hostel factories. So yes by Q2 we will be back on track as we were before lockdown time and then gradually we will ramp up the capacities.

Riddhesh Gandhi: So if we have to adjust for the shifts as well how much would be getting the capacity in Q2 and what would be our expectations on utilization and in Q3 if you run two shifts how much would be the utilization?

P.V. Jeeva: Actually, the shift and all we will be able to plan only in Q4 after Diwali and for Q2 and Q3 our focus will mainly be bringing back the previous capacity that we had before lockdown.

P. Sundararajan: They may also increase about 2% to 3% increase in the capacity additionally from Q4 onwards.

Riddhesh Gandhi: But is this based on look because we had also done a capex with increased capacity so this on the increased capacity.

V. Balaji: No, the capex what we have spent what we are talking is purely on the existing, which capex you are talking about?

Riddhesh Gandhi: I am saying the historical capex where we had increased our capacity which was about I think a couple of years ago, we were on the verge on ramping it up would you already indicated, we were pretty slow in ramping up and the profitability is low you have not talk about the immediate capex do we see that, that being utilized also actually appropriately with some Q2 onwards?

V.Balaji: In terms of your query on what we have spent on the capacities previously, will start utilizing it only by Q4 onwards is what Madam also said.

Riddhesh Gandhi: So it is not spending I am talk about the utilization. And the other question was, is there on our existing capacity how much is the peak revenue which we can do on our existing capacity?

V.Balaji: So on the existing capacity we are close to around 5000 sewing machine and we should be usually doing 1,000 Crores to 1,100 Crores of revenue on the exports alone not to include on the duty drawback and the other benefits.

Riddhesh Gandhi: During the peak utilization?

V. balaji: Peak utilization and at the 100% efficiency level.

Riddhesh Gandhi: We would expect to be able to reach this level by Q4 or next year or how should we obviously assuming there is no disrupt in the COVID?

V. balaji: Efficiency is not possible anytime. I think 90% utilization is possible and we can gradually improve our efficiency by 5% year-on-year we cannot improve the efficiency immediately to 100%.

P. Sundararajan: No. I think his question is what is your peak utilization sales not 100% he is not meaning that?

Riddhesh Gandhi: Yes, I am saying given this existing capacity what is the utilization numbers in the quarter?

P. Sundararajan: If you really maintain that peak utilization we can cross Rs.200 Crores per quarter it is purely on exports alone. I am talking about only on the garment exporting.

Riddhesh Gandhi: The incremental spinning capex which we are doing is the yarn 100% used for internal consumption or we are selling the yarn also in the market?

V.Balaji: No. We are using only for internal purposes and if there is any excess available in the market, in the production and we are able to utilize better ways in the market we will just sell that across.

P. Sundararajan: Predominantly captive only.

Riddhesh Gandhi: So the expansion which we are doing of this additional spindles will actually increase the profitability.

P. Sundararajan: Correct.

Riddhesh Gandhi: Then the other question was look if we see we had discussed with you a few years ago we were talking about EBITDA margins at that time in the range of 20% to 22% you now have your own captive spanning which you are also effectively increasing, overall I mean operating leverage should also be higher as your capacities are coming on-stream should we not be able to achieve even higher profitability than what we guided to earlier and this 17%, 18% which you are speaking of to connect actually this is conservative number?

V.Balaji: Riddhesh, if you look at the 20%, 22% margin which we spoke couple of years before at that point of time all our benefits including ROSL, RoSCTL, MEIS were all at the peak of 11.5% now this quarter our duty drawback and other benefit are only 2%. So we are trying to maintain the margin of 18% in spite of increasing the cotton prices, in spite of increasing the wages, in spite of the duty drawbacks gain I mean the RoSCTL and the MEIS withdrawn we are trying to maintain 18%. So our guidance is that we will maintain 18% and definitely improve on it going forward with 200 to 250 BPS if everything is in our favor so that is what we are trying to say that we are maintaining an 18% EBITDA margin.

P. Sundararajan: So in other words the 18% is on the business own strength without any other supports. So anything plus will be in addition to this one this is what is the current scenario.

Moderator: Thank you very much. The next question is from the line of Sumedha Srinivasan from ICICI Prudential Asset Management. Please go ahead.

Sumedha S: Thanks for taking my question. Two questions from my end. One is our cotton prices have been steadily increasing so what is our strategy on that front? Do we have I mean do we generally keep the stock for large part of the year or how does it work and do we see any impact because of this Xinjiang China cotton ban which will impact on India?

P. Sundararajan: The cotton price yes there has been a consistent demand for the cotton prices and cotton prices going up it is reaching 60,000 plus so definitely this is very historical number it is high but parallelly there has been, overall if you look at it there is a inflation all over so this will also inflate the currency as well as we have to even other competitors from other countries also are getting this kind of costing so this is not going to have any impact on our costing of the garments to our customers and even in the market the yarn prices are equally proportionately, it is increasing, so I do not see that there is going to be any difficulty in running the business in a normal way.

Sumedha S: What are our normal stocks that which are in terms getting number of months of cotton stock that the companies generally do?

P. Sundararajan: Yes as we always mentioned we do not speculate in keeping the cotton stocks always we keep stocks for about 60 days to 90 days consumption so this is we are not to facing any severe impact on this one.

V. Balaji: Just to add a point see cotton always seasonal so the policy is to maintain stock near three months time and whenever you have better crops and during the season time it can go up to 120 to 150 days time. So that is the cotton status.

Even cotton policy were towards the end of March which is the end of the season we use to buy higher cotton during that end of season in July, during the month of March so that is the policy on cotton side.

Sumedha S: Any thoughts on the China cotton ban to as well as the China plus One strategy impact on India how you see it?

P. Sundararajan: Definitely this is in India's favor in all aspects because most of our customers will make sure that there is directly or indirectly the raw material what you used should not be from that China particular city cotton so the customer are very, very vigilant on those things and very stringent so again it is leading to increase in the cotton demand so that is the current scenario.

Sumedha S: Just one last question if I could squeeze in what would be your strategy on the retail parts going forward I think this quarter also it was being impacted because of the lockdowns but any incremental investment is planned on that front or what is the strategy to sort of revise that segment?

V.Balaji: If you look at incremental investment as we have already stopped investing into retail a year back. So because of the pandemic situation we are forced infuse at least Rs.2 Crores to Rs.3 Crores so that the liquidity is far better so we may have to infuse another Rs.2 Crores to Rs.3 Crores into retail so that the working capital is effectively ramped up because of the damages that has caused because of the pandemic, but in terms of strategy on retail, I think if we wanted to strategize and see how we can move forward in terms of retail but the pandemic has not allowed us to think about because it is like open close and open close so we are not in a position to strategize anything at the current movement but rightly when the time is there we will definitely look to strategize how to move forward in terms of retail but I feel that the capital allocation for retail will definitely be looked at, at least the board is sincerely feeling that any incremental investment into retail will be the only screened and then will be looked at.

Sumedha S: Thank you.

Moderator: Thank you very much. The next question is from the line of Deepan Sankara Narayanan from Trustline Portfolio Management Service. Please go ahead.

Deepan Sankara N: Firstly, I wanted to understand after this lockdown ending in UK the UK reported very strong retail sales of 10% higher than 2019 sales for the month of May so are we seeing very good traction in the order book in terms of some specifically from the UK region?

P. Sundararajan: Yes, as I mentioned in my opening stage we are very, very optimistic about SPUK business model.

P.V. Jeeva: Actually, there is no problem from booking the order from UK market and since their lockdown is completely open and we are getting the booking as usual.

Deepan Sankara N: No, are we seeing that momentum picking up post lockdown opening up in UK market?

P. Sundararajan: Yes, very much, see it is very much and also this is the time the post lockdown in Europe so they are seriously reviewing again and again on consolidation because of lack of traveling, lack of one to one communication, lack of capability to manage all on the digital way of working. So they want to concentrate on very limited super suppliers so which means the distance anyway is good after the lockdown in the Europe plus because of the consolidation the customers are asking us to take more businesses even in other department. So as far as the order inflow is concerned it is not at all a problem it will be very, very positive.

Deepan Sankara N: Also, are we in discussion with any new customers in pipeline for UK or US region?

P. Sundararajan: Yes, as we mentioned before we have two customers in the pipeline which we mentioned before so due to the lockdown the things have delayed a little bit I think already they have started again starting the dialogues now so probably in Q3 the business will start coming in. Once we get orders we will just confirm the name of the customer we will not be in a position to name any customers for the time being.

Deepan Sankara N: Lastly this SPUK EBITDA margins last quarter it was around 7% but this quarter it has fallen so this is the sustainable margins there or it can bounce back to 7% EBITDA margin?

V. Balaji: No, 7% EBITDA margins is purely because of the exchange movements that is happening so when you reverse that that is where the changes are happening but on a year as a whole the EBITDA margins is sustained at 5% and I guess going forward anywhere between 5% and 6% because it is purely a trading business 5% to 6% of EBITDA margins should be sustainable going forward.

Deepan Sankara N: Thanks a lot and all the best.

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

Resham Jain: The first question is on the European retailers per se what we keep hearing is that the inventory pipeline for the retailers is much thinner than what it was a year back pre-COVID times and because of the 1Q disruption which we are seeing in India possibly the kind of imports we could have done that might have also reduced so just your thoughts on the same that should be seen from here on much better demand because of this situation as well?

P. Sundararajan: Yes. See it is a very unusual last lockdown both Europe, American market as well as India were under lockdown so there were no issues but this time what happened in this Q1 period now from April onwards until April made the Europe was under lockdown and we were open and now they are open and we are in the lockdown so they have some customers has enough stocks to manage for another two months in all supply chain but some customers have running normal stocks only so where they are facing a kind of expectation of shortfall in supply chain, so there are lot of support we are getting from the customers to make sure that whenever possible they extend the delivery dates and then they will make sure that and most of the orders they even take by air to meet out their supply chain to have enough stocks. So this is the current scenario.

Resham Jain: Thank you for that. The second question is on the capex what is the capex amount for FY2022 the budgeted number?

V. Balaji: FY2022 because the carryover that has happened because of last Q1 so we are expecting the capex close to Rs.20 Crores to Rs.25 Crores

Resham Jain: If you can give a breakup between?

V. Balaji: Spinning we are expecting close to around Rs.15 Crores of investments where we have thinking of 3600 spindles to be added other than that the other thing should be only mostly to do with the maintenance capex.

Resham Jain: Sir just one book-keeping question. For your garmenting division how much of yarn is procured internally?

V. Balaji: Internally I look at close to 70% of the yarns procured internally, 30% is brought somewhere 30% to 50% based on the product mix special yarns, dyed yarns so based on that 70% to 75% will be internal.

Resham Jain: This will become like closer to 85% after the 3600 spindles, increase in volumes you are going to increase?

V. Balaji: It will increase by another 5% anywhere between 75% and 80%.

Resham Jain: Thank you. I will come back in the queue. Thanks.

Moderator: Thank you. Next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Good afternoon. Thank you for the opportunity. Mr. Sundararajan in FY2019 we did a volume for export only garment export almost 60 million which has come down to Rs.42 million and after that also we expanded our sewing machine capacity in FY2020 from 4000 to roughly 5000 is that correct statement?

P. Sundararajan: Sorry can you repeat again?

Bharat Sheth: In FY2019 when we did a volume of approximately 60 million FY2019 I am talking at that point of time our sewing machine capacity was roughly around 4000, 4200 and now we have expanded our sewing machine capacity to 5000 is that correct?

V. Balaji: Correct.

Bharat Sheth: Now coming to with this 5000 sewing machine capacity and whatever utilization you assume from say Q3 onwards and then going to a double shift say in FY2023 so what peak revenue can be achieved with that utilization?

V. balaji: Currently, we have 5000 sewing machines which you were correct and at the peak utilization of the current spindles it can be close to Rs.1,000 Crores of revenue on the exports alone when you add up our export incentives we can also go up to Rs.1,100 Crores, Rs.1,150 Crores.

Bharat Sheth: If once we do double shift which we are planning to do it from say Q3 onwards subject to normalization of everything and then again some of the factory then FY2023 we may be able to expand this double shift again two more factories so in that scenario what kind of a peak revenue which you can achieve?

V. Balaji: The double shift can be implemented only where the factories have got the hostel facilities. We cannot implement it in all the factories last call MD clearly said that the factories which have got the hostel facilities can ramp up for the second shift which could be at a peak of 1500 sewing machines.

Bharat Sheth: Are we planning to increase more hostels so that in future whenever we get the opportunity so without spending too much capex we can expand the capacity itself?

V. Balaji: Yes, you are right our main objective is to improve the capacities through hostel so that we can increase the second shift so that there is no investment into the factory.

P. Sundararajan: All what need to happen is that once the lockdown is become normal then we will increase the migrant strength gradually we have to bring them from other states to train them and put them in place and gradually still for the one shift they can face and gradually go for the two shifts on a phased manner so it is a kind of long-term exercise so probably in next year by now we would have most of the hostel factories will be operating in two shifts.

Moderator: Thank you. Next question is from the line of Akshay Chheda from Canara Robeco Mutual Fund. Please go ahead.

Akshay Chheda: Sir my question was on the textile parks announcement that was done in the budget so do we see any progress there or things are there they were post the announcement?

V.Balaji: Textile park I think we are not going for any textile park mainly because we have built our own setup and the problem is not on the infrastructure, it is purely the capacities how we bring up so we have to increase our capacity strength and that is where we are working on.

Akshay Chheda: No Sir I wanted to understand more from the government perspective like do we hear any progress on that side?

V.Balaji: I am not aware about the textile park that is coming up from the Tamil Nadu side.

Akshay Chheda: Thank you.

Moderator: Thank you. The next question is from the line of Nilesh Doshi from Green Lantern Capital. Please go ahead.

Nilesh Doshi: Sir in your opening speech, you mentioned about some new verticals, and you said you are very excited about those new verticals. Can you please elaborate like what are those new verticals? Are you going to bring those products from this current capacity? How much it would add to the revenue and at what period of time so can you just help us understand in more detail?

V.Balaji: Mr. Sundararajan would like to explain more on it but for the time being I guess the verticals are in the beginning stage.

P. Sundararajan: I will explain it. See we cannot be so open about the plans but we have done a kind of strategizing so many ways how we can ramp up parallelly if one is the existing setup to grow at a phase of say 10% to 20% that we are always trying to do anyway that is going to happen. In the meantime, we were just internally seriously thinking of how to strategize the parallel, vertical setup so it can go along with this growth and at one point of time, it will also like SPUK business model, which is now currently it is supporting about say Rs.100 Crores of business now and which can also go up to double in the next two, three years' time. So same way we have strategized some business model is about three verticals to four verticals without disturbing our existing setup or with any additional investments on the fixed assets or anything capex so we have worked out and framed something but the talks are going with the relevant parties and probably we will be able to know by the Q3 after the Q2 results announcement we will be able to give you some kind of inputs currently we will not be able to tell anything.

Nilesh Doshi: But that would be in the same line of products, or it would be completely different category of products?

P. Sundararajan: It will be remains into the same industry same product.

Nilesh Doshi: The second is on the UK business can you help us understand the SPUK so I would assume that the products are already manufactured and exported from the standalone business so the EBITDA of standalone 18% is captured and over and above that we get 5% to 6% EBITDA for that Rs.100 Crores sales what you do SPUK is that correct?

V. Balaji: Yes you are right. Why at all SP UK is that certain sizes of orders which we are not able to execute in-house, they are getting it outsourced from the other factories so like small set of orders, which they do which we are not able to do they are doing it so we are leveraging only on the relationship what we have they are doing a it is purely an additional business which comes to us.

Nilesh Doshi: But there, Mr. Balaji do you sell this product, I mean you give it to the wholesalers or a big brands like the Primark and all?

P. Sundararajan: Let me tell you there are set of retailers who are not having any design capacity, sourcing capability or their own people or quality control, technical so they have only the retail business but nothing, no other in fact because of their size of business, they cannot afford to spend so much. So they seek somebody locally in the UK who can take these kinds of services and supply to them. So we are sitting here we cannot handle them because their local needs them to interact with them on a weekly basis and design support everything so what we thought because of this company reputation of SP Apparels the most of the customers would love to work continue with the SP Apparels for their products but we cannot say no to them from India business so what we decided that there is we have evolved with this business model which means same handwriting, same people, same communication strength but that UK also it will give design support, technical support sourcing, compliance, all supports all they need to do it just give the order to our SPUK office who can source wherever they want to and they can supply to them so which means we are not sharing our existing capacity to these customers these business is coming as an extra capacity from other sources.

Nilesh Doshi: How big this business can then become over a period because this was a business with complete outsourced model?

P. Sundararajan: Yes, it can grow because today because of this COVID situation it is becoming lesser and lesser traveling by every retailers previously they always use to travel once in two months, three months but now completely stopped so it has become a new normal, new way of working for them so they would prefer not to travel if that is the case they will definitely need some support from the local who can have an office in India can manage it so it is all them were going to be more prospective more benefit to the SPUK business it can easily double or three times it can go up to it is not an issue.

Nilesh Doshi: The second is you mentioned some Rs.360 Crores kind of an order book on the garment division right is that correct at as of the end of March?

V. Balaji: Rs.325 crores as of now.

Nilesh Doshi: Rs.325 crores as of now.

P. Sundararajan: Yes, Rs.329 crores as of today.

Nilesh Doshi: How do you see I am repeating the question asked by another colleague but how do you see because since Europe and UK is opening up absolutely as somebody pointed out the inventory levels are extremely low across the world there was a disruption in supply chain so my sense is that you would be under tremendous pressure as a movement to supply I think and the kind of orders should be pouring in should be phenomenally high compared to even pre-COVID level specially because of the pent up in the very poor supply chain and inventory?

P. Sundararajan: For us we will only book as whatever capacities we have, we expect to have so we cannot book more than that. Of course, there are pressure they are asking us to increase the capacity why do not you do something you put up new factories or something like that so there are we are looking at some ways to increase the business, we are talking to our customers how we can increase the business but there are pressure but we will not over book.

Nilesh Doshi: And still you can book at the rate of Rs. 250 Crores a quarter right?

P.V. Jeeva: Up to Rs.200 Crores we can book.

P. Sundararajan: Another Rs.200 Crores we can book.

Nilesh Doshi: Thank you so much.

Moderator: Thank you very much. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Good connecting again. Two questions, one on the labor side I remember there was some regulatory stuff which rate which are expect to happen can you give us some color on there and what the executions thereof?

P. Sundararajan: Regarding the wage you are seeing?

Jeetu Panjabi: Yes, the state had mandated some wage hike which everyone in the area to do right.

P. Sundararajan: No. There is a routine revision of wages on the DA every year-on-year that is the only thing is happening otherwise there is no any compulsion or any restriction to increase the wages we go by the prevailing market prices.

Jeetu Panjabi: The second question is if I heard you right I mean what I heard you say is you do a little lower 1000 Crores so the one you would be 18% EBITDA margin is maintainable did I hear that correctly?

P. Sundararajan: It is correct.

Jeetu Panjabi: The final question is this whole buoyancy in the cotton and the cotton yarn segment that is happening, how do you see because the whole area whole Coimbatore and whole the region is a belt doing that so that must be going through a big boom and the supply of spindles must have tightened up because US was the last spindle so is that putting pressure on you guys or what are the implications thereof?

P. Sundararajan: See it is being a captive manufacturing if the yarn is boom then there will be a tight model in our garment division so but margin will be better in the yarn so I mean it is all within this because of the backward integration unless there is an increase in the cotton raw material prices we will not have any major impact on the price fluctuations and if the cotton price increases definitely it increases to all competitive countries also so we will be able to negotiate with our customers to get a better price.

Jeetu Panjabi: One final quick one is that you talked about adding some spindle capacity are you going to need external capital for that or how are you going to fund that?

V. Balaji: We are going to use the internal funding for the capex.

Jeetu Panjabi: And is there a number to that how much money?

V. Balaji: The capex will be close to Rs.15 Crores.

Jeetu Panjabi: That is not much. Thank you guys all the best.

Moderator: Thank you. The next question is from the line of Parth Patel from Equirus Capital. Please go ahead.

Parth Patel: Thank you for the opportunity. All our questions are answered just one question. Sir you are planning for any technological upgradation in your manufacturing process like two three years down the line?

V. Balaji: Gradual upgradation what upgradation?

Parth Patel: Printing, system something like that.

P. Sundararajan: We did this definitely some modernization in the existing film setup by lean manufacturing and etc., but otherwise on the ancillary facilities like printing or embroidery we are outsourcing them with the approval of our customers which is fine, we do not see any big investments in the future for the next two years probably after two years once we ramp up our topline then probably we will have additional increase in the printing and embroidery to some extent not immediately.

Parth Patel: That helps. That is all from my side. Thank you.

Moderator: Thank you very much. The next question is from the line of Mr. Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: I have one broader question, if I look at the other listed company out of Coimbatore, if I look back let us say five years out the revenue was almost similar and if you can share your thoughts that what will change in the next five years, where I could see the other competitors growing almost double the size in last five years while we remain even on a quarterly basis it is similar to what we were let us say five years back? FY2017 if I look at the numbers we were around Rs.600 Crores in garment and if I look at the quarter four run rate you will be like Rs.640 Crores so what really will change for us in the next five years for us to move to the next level of growth just your thoughts on the same?

P. Sundararajan: Yes. I agree to that but I do not know I mean in the last five years you know that every year we have been facing lot of hindrance in one way or other, whether it be Brexit or GST.

Resham Jain: I truly appreciate those aspects.

P. Sundararajan: In the next five years as I mentioned see there is no issue on financials, no issue on customer, no issue on the capability of manufacturing. The only issue is to increase the sewing capacity that is the only constraints we have been facing where we have taken one step is that to increase the hostel migrant workers which we already have started doing in the last four, five months' time but for this pandemic situation this has been slowed down so already this. So, we are having a plan to bring in more migrants already we have setup the training centers and the things are ongoing on a monthly basis x number of operators we train and we put them, induct them into the manufacturing sewing short floor that is going where ongoing for the next five years for sure so that L1 will double the capacity only by concentrating on the migrant workers. So as the capacity increases naturally there are no other hindrances to stop the growth of the company. Secondly, we are as I told you we have about three four verticals, strategic business plans which will run parallelly to the existing similar to SPUK business now we started about five years back. Today it is going close to about Rs.100 Crores of business. So like this we are having some two, three vertical business strategy models, which will also similar to SPUK will bring in additional growth for the business so existing growth the outgoing process is going on and there is a ramping up of the business with SPUK there are three more new customers added to the SPUK so that is quite possible that it can develop the business in the next two years time and three verticals will also bring in few 100 Crores of business in the next two three years time so we have a very clear plan for the next five years it is not going to happen like what we have been doing in the last five years.

Resham Jain: Thank you very much and good year. Thanks.

Moderator: Thank you very much. Ladies and gentlemen that will be the last question for today. I will now hand the conference over to the management for closing comment.

P. Sundararajan: Dear all, I think we have come to the end of this concall and I really appreciate various questions has been raised by you and unfortunately we have very limited time so we could not attend more questions. I thank you so much for showing interest in our business and thanks for your valuable time to participate in this concall. Thank you.

Moderator: Thank you very much. On behalf of Systematix Institutional Equities that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.