S.P.APPARELS LTD.

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Stock Code : 540048	Stock Code : SPAL
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Sub: Transcript of the Conference call held on 03rd November 2022	

Dear Sir/Madam,

With reference to our letter dated 31st October 2022, intimation about the conference call with Analyst/ Investor held on 03rd November 2022, please find the attached transcript of the aforesaid conference call.

This is for your information and record.

Thanking You.

Yours faithfully,

For S.P.Apparels Limited

K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above

"SP Apparels Limited
Q2 FY 23 Earnings Conference Call"
November 03, 2022

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

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

Moderator: Ladies and gentlemen, good day, and welcome to SP Apparel's H1 Q2 FY '23 Conference Call hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in 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 star then zero on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjhunwala from Elara Securities Private Limited. Thank you, and over to you, ma'am.

Prerna Jhunjhunwala: Thank you, Rochelle. Good evening, everyone. On behalf of Elara Securities Private Limited, I would like to welcome you all to Q2 and H1 FY '23 Post Results Conference Call of SP Apparel Limited. Today, we have with us the senior management of the company, including; Mr. P. Sundararajan, Chairman and Managing Director; Mr. S. Shantha, Joint Managing Director; Mr. S. Chenduran, Joint Managing Director; Mrs. S. Latha, Executive Director; Mrs. P.V. Jeeva, Chief Executive Officer and Mr. V. Balaji, Chief Financial Officer.

I would now like to hand over the call to the management of the company for their initial remarks, post which we can start the Q&A session. Thank you, and over to you, sir.

P. Sundararajan: Thank you. Good afternoon, everyone. I'm Sundararajan, Chairman and Managing Director of SP Apparels Limited. Very warm welcome thanks to all who are present in this con-call to discuss the Q2 FY '23 performance. I hope and wish that all of you and your loved ones are healthy and safe. I would like to update you on the buyback. The regulatory approvals have come, and expecting the process to be completed within the regulatory timeframe. Advertisements on the offer have been given, and please check the information on our website. Also, please note that the buyback offer is open from today.

Let us discuss the performance of the company divisions. Our garment division revenue for this quarter stood at INR 269 crores versus INR 183 crores for Q2 FY '22, which is at a growth of 47% year-on-year. The total exported quantity stood at 16.37 million pieces. The adjusted EBITDA of the garment division stood at INR 48 crores for the current quarter versus the adjusted EBITDA of INR 40 crores year-on-year. Our current order book stands at INR 356 crores. Capacity utilisation as of today is around 75% and is expected to increase by around 10% to 15% going forward.

On the FTA front, we are looking for the FTA to be signed by the end of December because of the change in the UK's Prime Minister, we are hoping for a favorable sense now. As we informed you earlier, our new factory at Sivakasi is under process and is expected to be completed by the end of June 23. With regards to spinning, now we have commissioned 1 megawatt of solar plant in our spinning plant as part of our sustainability strategy. And going forward, we propose to increase 1 megawatt every year, and this is expected to contribute to the margins going forward. Last three months, spinning production was reduced due to the high cotton price and low yarn realisation rate. Hence, margins from the spinning plant were negative at the EBITDA level during this quarter. Further, cotton prices have corrected, and now we hope that cotton prices will correct and steady. The spinning plant shall contribute to the margins going forward.

With regards to the Processing division, in spite of coal availability issues and the rise in the input cost, our processing division was able to perform well with good utilisation levels and contributing to the margins effectively. With regards to the SP Apparels, the UK division, SP UK has seen a lot of disruptions in the supply chain, majorly due to the third wave in the UK and Europe. Revenue for this quarter stood at GBP 2.12 million as against GBP 1.24 million quarter-on-quarter. SP UK has made an EBITDA margin up 2.9% as against a loss Q-on-Q. I am confident that SP UK will be able to come out of this crisis, and we'll be able to do well going forward.

Regarding SP Retail Ventures Limited. Currently, we have 65 stores under all brands. We have opened two new stores for Angel & Rocket in Bangalore, and it is doing well. We have also opened a store for Head, which is also doing well. SP Retail Ventures made a revenue of INR 17 crores, mainly EBITDA loss of INR 2.5 crores for the current quarter. Crocodile has been making profits. However, the new brands that we have added their fixed overheads are pulling down the margins. We firmly believe that the other brands that we have added will perform well, and we are confident that brands like Crocodile, Head, Angle & Rocket, and Natalia will do well and will be able to list the company separately. Currently, our liquidity position is strong, and we have serviced all the debt up to date.

Thank you. And now over to CFO, Mr. Balaji.

V. Balaji: Thank you, sir. Good evening, everyone. I will just run through the numbers of SP Apparels. The revenue for the quarter stood at INR 314 crores as against INR 222 crores year-on-year. The growth rate at 41%. Adjusted EBITDA stood at INR 44 crores as against INR 44 crores last year, which is flat. PBT margin stood at INR 30 crores as against INR 31 crores year-on-year, and our PAT stood at INR 23 crores as against INR 23 crores year-on-year. The revenue for the first half stood at INR 567 crores as against INR 354 crores, which is a 60% growth. Adjusted EBITDA for the first half stood at INR 96 crores as against INR 65 crores last year, which is a growth of 39%, even though the pressure in the cotton prices has reduced the margin by 140 bps.

The PBT margin stood at INR 65 crores as against INR 47 crores year-on-year, which is a growth of 37%, and our PAT margin stood at INR 48 crores as against INR 34 crores, which is a revenue of 40%. The division-wise contribution for the current quarter is 82% garment division, SPUK 6.4% and retail 5.4%. Adjusted EBITDA margins for the garment division stood at 17.9%. SPUK stood at 5.3%, and retail had a negative margin of 16%.

The garment division grew by 47% for the current quarter and SPUK de-grew by 19%, and retail grew by 17%. Our current liquidity position is healthy, and we have long-term debt of INR 46 crores and short-term debt of INR 108 crores. Gross debt is at INR 154 crores, and we have a cash and cash equivalent of INR 67 crores which is a net debt of INR 87 crores. And the other data are available in the presentation, and we can take into the question and answers. Thank you.

Moderator: Thank you very much. [Operator Instructions]. Our first question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: It is a good top line in a very, very difficult scenario. So, my first question is the growth rate in the revenue is pretty high in this very difficult scenario. So, what has led to such a high growth rate any change in the fundamental factor that you're seeing when European Union and the UK having a great time?

V. Balaji: See, in terms of the growth rate, if you are looking at year-on-year, last year, first quarter, we did have some disturbances because of the second wave, like June 20, the factories were all closed because of the second wave, it was a disturbance of closely around 25 days, and it is a low bottom base, which we are looking at, point number one.

And point number two, we said the current utilisation level has increased comparing what we had last year. Now we have moved significantly higher, and that's why you are looking at the growth rate, which is on the optimistic side.

P. Sundararajan: So, as we mentioned, since we have been able to mobilise the workforce, that is one of the reasons why we have been able to increase the running machines and being able to book orders for that.

Gunjan Kabra: So even if we see quarter-on-quarter, the growth has been very good. It has been around 24%-25% of sales growth. So wanted to understand like, at this time also are we like increasing our wallet share in the existing customers, or if we are acquiring new customers, or if the China plus or Bangladesh is one that is playing out favourably for us. Because I understand that you are even the baby garment and that baby garment demand is very, very good all the time. But again, like because these countries are having a very, very slowdown type of a scenario. So what is leading us, and will this continue? Like how does the order book look like right now with respect to this?

P. Sundararajan: So, I mean, please be informed that there has been an increase in the average unit price due to two reasons. One is the raw material cost increase. And the second one is the product mix has changed. So, we are doing some high-value products also. So, both put together, there is an increase of about 10% to 12%. In addition to our additional production capacity increase due to mobilisation of workmen. So, these are the two reasons. Otherwise, we always are booked, no matter where the business is coming from China or Bangladesh or anything. Still, we will make sure that we are fully booked for the next four months all the time.

Gunjan Kabra: So, in the last quarter, our order book was around INR 400 crores. So what would the order book look like this time?

P. Sundararajan: It's all in the pipeline. So, because of this recession, the order placing is slightly getting late. So now we have INR 350 crores as against INR 400 crores of last quarter. So, it's all under process. So as of now, we have booked until February completely, and in March, we are partly still open. So, these things will definitely be filled.

Gunjan Kabra: So, in the last quarter, we had one factory with two lines operating in the second shift. So, has that number increased right now? And what's the plan for every quarter? Are we planning to increase one or two lines?

Ms. Latha: So, compared to last quarter, this quarter, we have increased one more line, and maybe in next quarter, we'll be increasing two more lines. So, as we already agreed to inform you every quarter, we'll be increasing one or two lines.

Moderator: I'm sorry to interrupt. May we request you to please return to the question queue? There are several partials waiting for their turn to ask a question. Our next question is from the line of Riddhesh Gandhi from Discovery Capital.

Riddhesh Gandhi: I had a quick question with regards to hearing of some excess inventory etcetera with retailers and some degree of a potential slowdown in the EU and the UK. Do we see any implications of that on our order book at all?

P. Sundararajan: Not really, because there is an absolute recession in the retailers. There is no doubt about it. But as we always say, we are in the niche segment for babies and kids. The inflow is always there in business. Not only that, during this recession time, all the retailers strategically are planning to consolidate the number of suppliers, so this is the right time for them, and it is a good opportunity for them to consolidate. As we mentioned in the last con-call also, we are getting into other segments like menswear, ladieswear, all other things also. So that is also one of the reasons. So, we are not having any issues with the inflow of orders.

P. Sundararajan: But definitely, there is a recession.

Riddhesh Gandhi: So, from an order book and revenue angle, we are kind of able to retain the guidance which we had provided earlier with regards to the kind of revenue growth you are expecting.

Ms. Latha: Yes, that will be done, surely.

Riddhesh Gandhi: Another question was any sort of expectation on when we expected -- just a pressure on the profitability to sort of go away because I think we were indicating 18% to 20% EBITDA margin, which as per our calculation at this level of revenue was also slightly conservative, if you will. I think we could be too higher. Any idea on sort of when we can sort of get back to normalised profitability?

P. Sundararajan: No. We still stick on this 18% to 20%. Definitely, now there is a lot of pressure on margins. See, because of the recession, there are many factories even within India are not fully booked. So, they are desperate to book their orders to fill their capacity. So, there is definitely acute competition, which we are prepared to chase it. And then probably because of the consolidation, the preference is given to us. The only thing is a margin, which we have to offset, that's the early situation. Otherwise, we can maintain this cost.

Riddhesh Gandhi: 18% to 20%, we should be back as soon?

P. Sundararajan: It should not be a problem.

Moderator: Our next question is from the line of Nilesh Doshi from Green Lantern Capital LLP.

Nilesh Doshi: Sir, my question is again on the margin front. Can you explain in detail like where the 6% loss of margin has happened? Like if you say MTM loss in foreign exchange, can you account it how much it was?

V. Balaji: We have never said that there is an MTM loss because the adjusted margin that we have given is 17.9% without the exchange. See, this time, the margin pressure came from more spinning plants, where if you have heard the Chairman's opening remarks, he said that we had EBITDA negative margins in the spinning plant because of high cotton prices and low yarn realisation, in fact, that is the only area where the margins have lost.

Nilesh Doshi: So, Mr. Balaji, I mean, if my understanding is correct, we buy cotton and make yarn and this yarn we consume internally. Is that correct?

V. Balaji: Correct.

Nilesh Doshi: Now, typically, we have an order book of four months in hand, then I'm not able to understand where this cotton spread or yarn price decline would have impacted us because we have already booked the order four months in advance. And even if we had bought cotton in between, we have already accounted for the conversion to yarn and yarn to the product, whereby our margin would have been already pre-decided at the time of booking of orders. So I'm not able to understand this arithmetic?

V. Balaji: Yes, you have to understand this first because here, when we do costing with our retailers, we work from the yarn prices, not from the cotton prices, and that will be the market price because the yarn price is the same for every manufacturer. So, we work from the yarn price, which is the current market price.

P. Sundararajan: So, when we do the garment costing, we do the costing based on the yarn price of the prevailing market rate. And when we produce the yarn, we internally, we do the costing based on the market price. Even if the yarn price goes down, that is going to be the marketplace. And the cotton price goes up, which is definitely offset in our entire margin.

Nilesh Doshi: So, when you say 20% EBITDA is a target, this is always based on the market price of yarn?

P. Sundararajan: Yes.

Nilesh Doshi: Yes. And in case we get a spread from carton to yarn, would that be additional EBITDA we can generate?

P. Sundararajan: Exactly. See, this time, there is a loss of margin due to this cotton spinning division, but sometimes it can be the other way also. It will boost the margin sometimes. As it did in the first quarter.

Nilesh Doshi: So, as you explained in the initial remark, from the current quarter, you are seeing the cotton to yarn is more or less now positive?

P. Sundararajan: Yes, it's more or less. Still, it is not very close to breakeven.

Nilesh Doshi: Close to breakeven. So at least this can take us back to a 20% margin soon. Yes. Sir, the second question is, now as the rupee has appreciated versus the UK, I mean, the pound and our larger exports are to the UK. Then in the new order booking, are we getting the pricing in terms of -- because we may be selling in the sterling pound. So, are we getting that incremental pricing for this rupee appreciation?

P. Sundararajan: No. Although our business is not predominantly, it is international is a major. The UK is also there. But for one customer, it is in dollar terms, and for one customer, it is in pounds. And the remaining is Euro. So, there is a mix of all. The majority is in pounds. The pound is about 45%, yes, we will definitely get the advantage, but because of the recession, there is a strong negotiation, but we are able to beat them to some extent.

Nilesh Doshi: So how confident are we that we should be able to get back to irrespective of currency movement? I mean, I don't know going forward because we are 100% hedging if I remember correctly. So, going forward, how soon can we get back to this kind of margin profile?

V. Balaji: See, the margin, in terms of 18% to 20%, is a 10bps reduction and which we indicated last call itself. And this is purely because of the cotton-to-yarn correlation and has nothing to do with the exchanges. So, if you look at how the costing happens is that, I take the current market price in terms of yarn, trim, accessories, and my wages and work on it with the current currency rate and take orders. I don't get into the additional margin, which can come only by hedging it.

Nilesh Doshi: Right. And we hedge it, right, sir?

V. Balaji: Yes, we hedge closely, say between 80% to 90%, we are hedging it.

Nilesh Doshi: Sir, just the last one if you allow me, is how do we see the demand going forward? Because if we are to plan for the next two years, how do we see irrespective of this inflation slowdown in the US, UK, and Europe everywhere?

P. Sundararajan: So definitely, there is a slowdown. There is a recession for the next six months. Everyone is expecting the recession to continue for six months, where, again, as I said, there is a consolidation going on in terms of the supplier base. So, we stand to gain the maximum advantage from our existing customers. So, we will get our order filled for our capacity. There is no doubt about it. But definitely, these orders will be from other small players from this country and other countries. So, they will definitely suffer.

Nilesh Doshi: But then will that allow us to grow by 15%, 20% as we are targeting?

P. Sundararajan: Yes, between 10% to 20%.

Moderator: Thank you very much. Our next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: Congratulations on a decent set of numbers during challenging times. I have a couple of questions. Sir, in your presentation, you mentioned that the realisation has improved by around 17.4% in the first half. And I'm assuming some of this is due to the high raw material impact. So now as we see cotton normalising would we have to reverse this price hike?

V. Balaji: See, in terms of the increase in the raw material cost, just now I explained to the other person that costing was based on the current yarn price, current trims, and current currency price. So, if there is a reduction in material costs, it needs to be taken.

Shikha Mehta: Correct. So, are we indicating that we might see some trimming in the top line? Or will volumes equalise that?

P. V. Jeeva: But simultaneously, we are increasing the capacity also quarter-on-quarter basis.

Shikha Mehta: The increasing volume will normalise the price reduction?

V. Balaji: There will be a reduction in the unit value realisation. There is no doubt about it. But that will be offset by the increase in our production capacities.

Shikha Mehta: Right. So also, could you help me understand what happened in the retail division did better because last quarter seemed quite positive. We ended up having positive margins. And this quarter, again, we've been at negative 16%. You said in your opening remarks that some of this was due to the fixed costs attached to the new brand. But when can we expect this to normalise? And how should we look at this going forward?

S. Chenduran: Yes. So, in terms of retail, the first quarter was positive. One reason was because we hadn't launched the brands in terms of the inventory for the new brands, Angel & Rocket, and Head, and in terms of the Crocodile sales were really good for the first three months. And the second quarter normally includes July and August, which has an end-of-season sale where we might have to give discounts for some stocks. And with regard to the new brands, it was more on the gross margin level rather than the overhead. Because we've maintained the overhead, it has not increased much, considering we already have a retail setup. But the concern was on the gross margin levels because of the smaller quantities for the new brands. So that's Q2 and Q3, we're expecting it to be much better than Q2 because of the festival and all. But in Q2, the difference was on the new brands in terms of gross margins. Because of the minimum qualities that was the issue.

Shikha Mehta: So, for Q3, can we expect to break even or not yet?

S. Chendruan: I don't think I should be giving guidance on that. I'm not sure, but Q3 has definitely been good. The October month has been better, but December would again have end-of-season sales. So, it would be a mix of Q1 and Q2.

Shikha Mehta: Post the FTA, we'll be looking to gain market share from countries like Bangladesh, right? So if you could explain how that would move and also our current situation how competitive we are with then?

P. Sundararajan: Yes, once FTA is through definitely the customers will take the benefit out of it because they would like to increase the business in India. And the big question in India should be able to manage the entire volume. Because of FTA, there will be a lot of orders coming in. So only the big players are ready to grab those businesses. But we think there could be a possibility that the margin could increase slightly better than that if the FTA is there because we have better-negotiating power now.

Shikha Mehta: And currently, how competitive are we with Bangladesh?

P. Sundararajan: Bangladesh, Sri Lanka, and Pakistan.

Shikha Mehta: So, our pricing will be more or less similar to what we've alluded to?

P. Sundararajan: Exactly. Now the landed cost of India after post-FTA is at par with Bangladesh, Sri Lanka and Pakistan.

Moderator: Miss Mehta, I'm sorry to interrupt, but may we request you to please return to the question queue so that we can cover the other questions, as well?

Shikha Mehta: Yes, sure. Sir, just one follow-up on the same question. On pre-FDA currently, what would be the difference approx in the pricing? Right now as on date, before the FDA, how are we placed against say Bangladesh and Sri Lanka?

V. Balaji: So, there is the deference…

P. Sundararajan: 9% is a 9.5% is the difference. If the negotiation starts from them, it is zero, we will be minus 9.5%.

Moderator: Thank you. Our next question is from the line of Aman Agarwal from Carnelian Capital. Sorry to interrupt, Mr. Agarwal. Can you please use your handset, your voice is a bit muffled. We can't hear you very clearly.

Aman Agarwal: Yes. So, first of all, sir congrats on the volume ramp-up from Q1 to Q2. The volume ramp-up was really impressive. So my question was regarding labour additions. So how much labour would we have right now at the end of September '22?

P. Sundararajan: So there has been a continuous increase in the labour force. So, it's a continuous process. Every month, there is an increase, although there is attrition, but still, we are working to improve retention. And we have increased the water level of the workforce trend. So, we will be able to manage and continue to increase the level of our force by 10% and 15% every quarter.

Aman Agarwal: But any number like how much is the number of labourers right now after Q2?

P. Sundararajan: That we can discuss later on.

Aman Agarwal: Sir, my second question was on finance cost, like there's an increase in finance cost Q-on-Q. We have INR 8 crores of finance cost in a console balance sheet compared to INR 5 crores of finance cost in Q1. So by this increase in finance cost, even when our debt has basically declined since March?

V. Balaji: So, the increase in finance cost is purely because of the restatement of my foreign currency packing credit, where you know that the dollar has appreciated, or the rupee has depreciated closely to 82 continuously. So, for the last two months, three months, the rupee has been weakening. So, PCFC, the packing credit, which has been taken in foreign currency, is getting restated and restated loss is closely around INR 4 crores, which, I guess, will be the only notional number.

Aman Agarwal: Sir, in terms of CAPEX, we have done around INR 29 crores of CAPEX during the first six months. So, could you indicate like which areas have we basically spent CAPEX on? And what would be our full year on CAPEX basically guidance?

V. Balaji: So, this CAPEX, what we have done is purely to enhance our hostel facility. And you are looking at the previous year's number, I guess. So, in the previous year, we had a different agenda in terms of increasing the capacity at our spinning plant. And this year, it's purely for the hostel facilities getting expanded. So, the CAPEX is purely towards that.

Aman Agarwal: A final question from working capital, like our working capital has slightly improved compared to March. So, what has led to the improvement in working capital? And how do we see this going forward? Like do you see further improvement in working capital in future?

V. Balaji: The improvement in working capital is purely because of inventory bought during March. The cotton inventory, we have consumed. During March, we used to have inventory to the extent of 95 to 100 days. And now the cotton carry is closely around 30 days. So every time when we came towards the end of the season, we used to buy cotton towards 90 to 100 days so that there were no big quality and availability issues.

Aman Agarwal: And sir, final question on SPUK. Do we see this margin basically continuing, given Q1 was impacted, but we have recovered well in Q2?So, do we expect this 5% kind of EBITDA margin will continue in the second half also?

P. Sundararajan: Yes, very much. We will be able to restore this situation in Q3 and Q4 as things are getting better now. Unfortunately, there is a recession. But still, that will not have a big impact on our UK business. I'm confident that Q3 will be better than Q2, and subsequently, Q4 will be normal.

Moderator: Thank you. Ladies and gentlemen, you may enter star one to ask a question. Our next question is from the line of Niraj Mansingka from White Pine Investment Management Private Limited. Please go ahead.

Niraj Mansingka: My question is, how much was the increase in employees in just a broad number quarter-on-quarter from June to September? Approximately amounts.

P. Sundararajan: Roughly around 500...

Niraj Mansingka: Yes. That's very good and commendable. Congratulation on that because -- I think that was a bit gradual. We're expecting these numbers to go to what number? I think in the past, you have indicated around 15,000 people,

V. Balaji: That's what our target is, yes.

Niraj Mansingka And when do you see us achieving that number? Which year or quarter?

V. Balaji: We should reach it by June '23.

Niraj Mansingka: That's quite good. And sir, about and -- what the machines, how many machines we have? You're still at 5,100 or...

V. Balaji: Yes, we have not added a new machine so far. It's 5,100 and our utilisation is close to around 3,700.

Niraj Mansingka: So, can you just request a reiteration on whatever I think Mr. Sundararajan has said about the outlook for Q3 and Q4? I just like to confuse you because on one side, you're saying that the world in recession and on the second side you are saying that you will see improvement in Q3 as well as in Q4. So can you just reiterate like, is it what you're saying that your industry is not good or...

V. Balaji: Niraj, if you recollect all the calls which we have already discussed about the growth, we are looking at 25% year-on-year growth for FY '23 as a whole. So, when you compare back Q2 and Q3, Q3 has got a lot of offs because of the Diwali festival, and production days are low. So we are looking at a 25% growth rate for the whole year, and we are working towards the same.

Niraj Mansingka: I'm not questioning that; I'm just asking another question related, that on one side, you have seen the resonation in the UK side, but you're also saying that Q3 will be in volumes will be better than Q2. So, the reason I'm asking is that because you have said about consolidation of suppliers by your buyers, so are you seeing a confirmed trend that you will see growth, whereas the industry should be not...

P. Sundararajan: Q3, has more number of holidays due to Diwali. So it will not be more than Q2 number. It will be at par this probably.

V. Balaji: You have to look at year-on-year. Year-on-year, the growth rate will definitely be better in Q3.

P. Sundararajan: Q3 '23 will be better than Q3 '22.

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

Resham Jain: I have a couple of questions. So the first one sir, is generally, you mentioned FY '23, but in terms of preparation for FY '24, I think your new Sivakasi plant also will be commissioned soon. So for '24, what are your internal expectations in terms of garment division growth?

P. V. Jeeva: Actually, the internal expectation is like from '22 to '23. Same, we are planning for '23 to '2

Four also.

Resham Jain: So that is 25% growth, is it?

P. Sundararajan: Yes.

Resham Jain: So this year, you should be ending somewhere around INR 1,000-odd crores in the INR 950-odd crores profitably in the Garment division. So, on that 25% growth. Is that the right understanding?

P. Sundararajan: Yes, right. You got the numbers.

Resham Jain: And sir, the second question is to Mr. Chenduran, I think if you look at the retail business numbers, we are actually below the pre-COVID levels. We used to do around INR 20-odd crores pre-COVID times. This quarter, we have done just INR 17-odd crores. A lot of retail and branded companies. What we have seen is that most of them have grown past the pre-COVID levels. But in your case, despite the addition of new brands, obviously, those are at the initial stages. But it seems the recovery is much lower than a lot of others – and even on a lower base because your base is too small. How should one think about this business?

S. Chenduran: So, the biggest thing about the pre-COVID level is, I think we were selling in 100 brand factory stores under Future Group, which contributed to almost 60% of the turnover at that point in time. So, it was around INR 50 crore for the whole year. And the number, which we are comparing like-for-like for this year, all the EBOs have grown 25% even wherever shop-in-store wholesale has grown. The biggest chunk of codes was almost INR 50 crores of business, which we didn't have correct, as you know, the situation of the Future Group. Now part of the stores that have been taken over by the lines of businesses, has picked up. So, I think we started launching in some of those stores back again in November. So, six months of no business, which used to contribute 50% in the 2019 pre-COVID level. That's a lot of impact we've taken from that particular challenge. But the good news is we've grown in channels which have actually contributed most of the gross margin levels in terms of Crocodile. So that actually helps us innovate.

Resham Jain: Okay. Understood. And on this low base now, given that you've added a few more brands now, you are a 3 to 5 years outlook because you talked about lifting this entity, given it's very small. What are your expirations here? How do you want to grow? If you can just explain in terms of retail, in terms of EBOs and e-commerce? What is the plan here?

S. Chenduran: Okay. So, in terms of the SP retail as a whole, for the next year, we're trying to maintain things in terms of project organically not trying to expand more geographies or more brands, more product capping because we want to be careful about the inventory. So, the next one-year plan is to be sustainable and grow organically. But from that onwards, once we sustain there in terms of inventory, we now know what sells well with Crocodile, what's the kind of product, what geographies work. Even with the retail parts, as I said earlier, with the Future group, there have been a lot of concerns.

So, we corrected all of that, and we've grown in terms of per square feet per store has all been growing. In terms of the channels, there is more scope in the EBOs. And whatever EBOs we have opened in the last year have performed extremely well, and positive that we can expand more EBOs, both company-owned and franchisees. So, COCO and FOFO stores in the next three years. We are currently at 60 EBOs, but we want to be closer to 100 in the next two years, early next year. And after one year, we'd probably be trying to touch 100 EBO. That would be the biggest growth.

E-commerce as a platform, we have been doing well, especially with the launching of new brands. But the only downside to that is in terms of the returns and discounts, all of it. We don't want to be identified as brands which are running discounts all the time. So, we are looking at doing exclusive collections for online marketplaces going forward. And distribution of wholesale is another huge area where we have been consistently improving and all the payment cycles are fine, the inventories are going well. So that's the reason why next one year, the outlook is not a huge aggressive plan to make sure that we sustain ourselves for growth. But two and three from today, we definitely will be expanding more into the EBOs and distribution.

Moderator: Thank you very much. Ladies and gentlemen, you may enter star one to ask a question. Our next question is from the line of Vikas from Equirus. Please go ahead.

Vikas: So, my first question is from the perspective of sewing machines' capacities, while our current machine count remains the same. But when we say that we have added one more line in the last quarter and one more in this quarter. So how much does that add to our overall capacities in terms of manufacturing? And while we're going ahead, we do have a plan to add one line every quarter. So while keeping the machine count the same, how much does that overall add to your overall capacity? And what is the utilisation rate that we expect going ahead for the increased machine shifts that working in two shifts as well?

P. Sundararajan: Yes. See, the night shift or the second shift say, roughly, approximately per quarter, we'll be able to add about 50 machines to 100 machines, 50 machines to be accurate side. Every quarter, there will be 50 machines added. So gradually, over a period of time. In one year's time, there will be about 200 machines.

Vikas: And how many machines out of the total that we have can be shifted to two shifts?

V. Balaji: All machines can be used, but it is only the line product...

P. Sundararajan: We have to send them to the night shift production line. We need to train the night shift operators and things. We cannot fill it within one month or two. Gradually, we have to do it because we are very, very new to the night shift operation and especially in garment there is garment manufacturing, not many factories are doing night shifts because of so many controls required.

Vikas: And that also depends on the availability of hostel facilities, right? So that's your plan. So what is our target for the hostel facility is also within all our plants. What is the thought process there?

V. Balaji: See, already, we have hostel facilities in certain plants, and we are trying to expand our hostel facilities in that specific plant, so that we can accommodate for the second shift also. And please note that a line is only 20 machines. So, when CEO was talking about two shifts two lines every quarter, we should be closer to 40 to 50 machines in the quarter. And moreover, only when you have the capacity for a hostel facility, you can expand with the second line or the second shift for production. So, we are planning by the end of March 2024, and we should have 200 machines in the second shift. The same machines can be used. It will be only the supervisors, the production people changed. It will not be a separate machine.

Vikas: Sir, you said one of the key reasons for the dip in the margins was the spreads that we got from the autumn and yarn, so what is the current inventory that we are currently holding, is it aligned to the spot rates? Or is it still higher than the current market rates...

V. Balaji: The inventory, what we are holding is only towards 25 days of inventory. It is the current market rate.

P. Sundararajan: Yes, now, as for the stock what we have in inventory, what we have got is at par with the current cotton price on price, the yarn price.

Moderator: Thank you. Our next question is from the line of Bhavesh Shah, an Individual Investor. Please go ahead.

Bhavesh Shah: Sir, two questions. The first is about the buyback, which has started today. Are we seeing a promoter participating in the buyback? Or it's like only the outside investors are participating in it?

V. Balaji: No. If you see your offer letter, I think the intention of the promoter participating in that has already been provided.

Bhavesh Shah: So, promoters might participate in the buyback. Okay. And another question is for considering the UK economy. Do we see a sense of urgency in diversifying our geography, or are we comfortable with such kind of growth rate in UK geography itself?

V. Balaji: See, we wanted to add new customers from the other geography also. During this time of recession in the US and other areas, you can't expect the orders to come flow from new customers. I mean, the retailers will not look for new suppliers to be added because of the recession time.

So, we have to strategically look at retailers who are ready to bring more orders. So, this is a tough time, in fact. The recession is hard in the US. We wanted to penetrate into the US it may take some time. But definitely, we are looking at diluting our concentration in terms of the UK.

P. Sundararajan: Getting new customers to enter, it's a difficult thing at the moment because they are looking at saving for their own existing suppliers. So, they are not looking for any new suppliers. At the same thing, the good news is that our existing customers are consolidating, so we are getting more differences from the existing customers. They are not allowing any new vendors to their supply base.

Bhavesh Shah: And sir, the last question, how do we see the IRR of second-shift working vis-a-vis adding new machines? Are we definitely seeing a significant advantage of having to work the second shift? Or is it better to add up new lines itself?

V. Balaji: Bhavesh, we are now in the process of setting up the second shift. And once we have a full year run of the second shift, looking at IRR could be better. But for me, generally looking at the second shift IRRs, it should definitely improve in terms of margin because the fixed-up cost is getting diluted.

Bhavesh Shah: Also, even probably the investment might also be lower. I'm not sure if the hostel facility would be an add-on investment also in there?

V. Balaji: Correct.

Moderator: Our last question is from the line of Anil from SMIFS Ltd. Please go ahead.

Anil: Good evening, sir. Congratulations on a good cash flow wise performance. Sir, just wanted to know, last time, you mentioned that supplies to some of the clients will start in Q3. So, I mean, have we started something this quarter or is it getting postponed?

P. Sundararajan: As we mentioned, the two customers we started in the last quarter.

Anil: Okay. We have already started supplying to them. And sir, any cancellations from any of the existing clients and your orders got cancelled?

P. Sundararajan: Approximately by our side, no.

Anil: That's good news, sir. And, sir, just some bookkeeping questions. If I may know, what was the total volume year given export volume in the presentation? What is the total volume, sir?

V. Balaji: We have an additional $0.6 million.

Anil: And sir, if you can give me the reason why the breakup of sales and currency exposure?

V. Balaji: Anil, I think currently, I don't have the numbers, let me share them with you. I'll send you the numbers.

Anil: Okay. Yes, I think that's all from my side. Thank you so much, and all the best.

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

Management: Thank you. Thanks to all the participants in the con call and showing interest in your company. And as I always mentioned that please stay confident and stay sure that we will be keeping up all our commitments. And We always have a plan for the next two to three years. That's a kind of visibility we work. So, we know what we are doing. I don't think there will be any unexpected situations except the external factors. So, we are going steady despite the recession, the cotton price increase or whatsoever it may be. And thanks for all your support and confidence. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, with that, we conclude this conference call. On behalf of Elara Securities Private Limited. Thank you for joining us and you may now disconnect your lines.