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27th August, 2018

Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.

Scrip Code: 540048

National Stock Exchange of India Limited
'Exchange Plaza',
Bandra-Kurla Complex, Bandra (East),
Mumbai – 400 051.

Symbol: SPAL

Dear Sirs,

Sub: Transcript of the Conference Call

Please find enclosed the transcript of the Conference Call conducted by the Company on 17th August, 2018.

Kindly take the above on your record.

Thanking You,

For S.P.Apparels Limited,

K. Vinodhini

K.Vinodhini
Company Secretary and Compliance Officer

"S. P. Apparels Q1 FY19 Earnings Conference Call"

August 17, 2018

MANAGEMENT:	**MR. P. SUNDARARAJAN – CHAIRMAN AND MANAGING DIRECTOR** **MRS. S. LATHA – EXECUTIVE DIRECTOR** **MR. S. CHENDHURAN – DIRECTOR OPERATIONS** **MRS. PV JEEVA – CHIEF EXECUTIVE OFFICER** **MR. V. BALAJI – CHIEF FINANCIAL OFFICER**
MODERATOR:	**MR. KSHITIJ KAJI– EDELWEISS BROKING**

Moderator: Good Day, Ladies and Gentlemen. And a very warm welcome to the Q1 FY19 Earnings Conference Call of S.P.Apparels hosted by Edelweiss. As a reminder, all participant line 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kshitij Kaji from Edelweiss. Thank you and over to you, sir.

Kshitij Kaji: Good afternoon, everyone. Welcome to the Q1 FY19 S.P.Apparels Conference Call. On behalf of Edelweiss Broking, I would like to welcome the management team of S.P.Apparels Limited to discuss their quarterly results and the future outlook. We have with us Mr. P. Sundararajan – Chairman and Managing Director, Mrs. S. Latha – Executive Director, Mr. S. Chendhuran – Director Operations, Mrs. PV Jeeva – CEO, and Mr. V. Balaji – CFO.

I would now request Mr. P. Sundararajan for his opening remarks, followed by Q&A session. Thank you and over to you, sir.

P. Sundararajan: Thank you. Good afternoon, everybody. I am glad to inform you that we have grown in revenue by 20% year-on-year during the current quarter under the turbulent global environment. Changes in duty drawback, implementation of GST, currency volatility, increase in raw material cost and so on has impacted our revenue growth and the margin to some extent. In fact, Q1 FY19 witnessed all time high quarterly revenue numbers for the company. I am glad to inform you all that the Board has recommended a 5% dividend for the year FY18. We witnessed robust revenue growth across all divisions.

Let us review the performance of each vertical separately. With regard to garment export division, the garment division's revenue increased by 10% in Q1 FY19 compared to Q1 FY18, primarily driven by increase in orders from existing as well as new customers. Exports sales contribution from US customers is at 20% for the quarter Q1 2019. We have weathered through the impact of Brexit for the past one year and hence forth we do not foresee any impact going forward.

Adjusted EBITDA margins dropped by 410 bps, mainly due to FOREX movement and cotton prices. PBT margins increased by 17% due to decreased finance cost, majorly on redemption of the preference share and PCFC statement. Overall, PAT grew by 14% year-on-year due to decreased finance cost. Currency movement of rupee as against pound, dollar and euro is now favorable.

Our current capacity is 4,375 sewing machines and our utilization is at 80%. Optimizing the current capacity will improve the top-line by another 15%. Our continuous efforts to increase our production efficiency which is yielding results and all-seeing good improvement.

Current order book is at Rs. 344 crores. We are also working to add few new customers. We have already received orders from H&M, Carters and Carrefour and expecting new business from Kiabi and Target. Thus, by end of March 2019, we should be having a broad customer base which will facilitate steady growth over a period of time with uninterrupted order book.

As I have already informed you about the new capacities, we have identified three new factories in the same region which will be soon in operation. These factories will increase our capacities to grow our top-line.

With regards to SPUK operations, SPUK continued to demonstrate growth momentum. We recorded revenue of 1.6 million GBP in Q1 FY19 which is close to 144% higher in comparison to Q1 2018. SPUK operations were EBITDA positive at GBP 75,000 for Q1 FY19 at 4.8% as compared to 3.7% Q1 FY18. We have started working with big retailers in the UK, Arcadia which is now entering into kids garment under the brand 'OUTFIT.' We are seeing SPUK business as more promising and will grow in the same pace for the current year also.

Coming to retail operations, domestic retail. Overall, we have been consistently growing on our revenues year-on-year. Considering the GST and demonetization issues, licensors have accepted to reduce the royalty by 1% across all products which will support to improve the margins. Retail revenue grew by 71% year-on-year for the current quarter. Retail operations have delivered an EBITDA margin of 8.6% as compared to negative EBITDA margin last year. As on March 2018 we had 32 COCO stores and 15 FOFO stores. Looking ahead we aim to open more stores on franchisee model in addition to COCO stores. We are also working on conversion of existing COCO stores into FOFO model.

Regarding our Large Format Stores (LFS) model, we continue to increase our presence across all LFS and during Q1 FY19 we have increased 15 new outlets. Going forward we are planning to increase our LFS outlets to 300 outlets by end of March 2019 and the plan is well on track. We are glad to inform that we have plans to launch Crocodile footwear, time wear and luggage on sub-license model which will bring additional margins.

Other expansions, on the spinning expansion, we are glad to inform that the building construction is going on in full swing and is expected to be completed by December 2018. I would like to update you that in our processing division, as we have mentioned earlier in the last concall about the improvement in the ETP, their capability to adopt bio wash of the fabric and also increasing the capacity by five tonnes a day, we are looking for completion of the project by end of Q3 and put into operation by Q4.

I hope that I have shared all the information and will hand over to CFO Mr. Balaji for more financial updates. Thank you.

V. Balaji: Good afternoon, everybody. I would just like to highlight on the financial numbers. Our total revenue grew by 20% on a year-on-year basis, our garment division grew by 10% and UK operation grew by 144% and retail division grew by 71%. Our EBITDA decreased by 8%

year-on-year basis and adjusted EBITDA decreased from 18.1% to 14%. PBT grew by 17% on a year-on-year basis. PAT grew by 14% on a year-on-year basis.

As CMD explained to you about the contribution on the garment front, it is closely around 88%, UK is 4% and retail is 7.3%. Our debt position as on 30th June, gross debt position is Rs. 185 crores and net debt is Rs. 135 crores. Our inventory level as on 30th June is Rs. 192 crores versus Rs. 187 crores during March 2018. Our receivables or debtors during 30th June is Rs. 115 crores versus Rs. 165 crores during March 2018. I guess, other information is available in the presentation which has been uploaded. We can now get into the question-and-answer session straight away.

Moderator: Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Dhruv Agarwal from Crescita Investments. Please go ahead.

Dhruv Agarwal: Sir, my question is regarding the volumes. If you can give the garment pieces which we have sold for the first quarter in FY19 compared to last year FY18 first quarter?

V. Balaji: This quarter we have made quantity of 12.8 million pieces as against 11 million pieces last year, 11.2 million I guess.

Dhruv Agarwal: And the average realization per piece?

V. Balaji: Average realization for current quarter is Rs. 110 versus Rs. 96 last year.

Dhruv Agarwal: So, now this has started showing improvement, because I guess for the last two quarters it was mainly on a down trend or on a flat basis, so that is a good indication. Sir, if you have added any new clients in this quarter, first quarter of 2019?

V. Balaji: CMD has spoken about three new customers where we have already received orders, one is H&M, second is Carter and third is Carrefour. So, we will start shipping from the third quarter onwards.

Dhruv Agarwal: Sir, one thing regarding the EBITDA drop, I would like you to explain in detail, we have started holding cotton inventory from last year onwards. So, have we not had any benefits of holding the inventory, even after holding the inventory we have seen a sharp drop in EBITDA, so if you could explain in detail why has this happened?

V. Balaji: See, as mentioned before we are holding the raw material for our own spinning, but our consumption is only 20% of our requirement. So, the remaining 80% we have to go to the market for yarn. So, when we go to the market for yarn, the yarn price goes up because of the cotton price increase. That is an impact. Our consumption captive is some of our mills are only 20%.

Dhruv Agarwal: So, do you foresee increasing this 20% to higher level so as to give a consistent EBITDA?

V. Balaji: Yes, definitely, because we have expansion going on, so probably by end of March next year we will be consuming say about another 20%, so probably 40% - 45% we will be consuming our own production.

Dhruv Agarwal: So, this 40% - 45% is the target as on March 2019?

V. Balaji: Approximately, yes.

P. Sundararajan: It could go up to 60% also.

V. Balaji: So, what we produce from our mills will be 60% of our export division requirement.

Dhruv Agarwal: So, that is used more for the export division?

V. Balaji: Yes.

Dhruv Agarwal: And sir one last thing, if we see the other income in this quarter has been 61 lakhs, but compared to last year it has dropped substantially, last quarter it was around Rs. 10.46 crores in first quarter of 2018. So, why this big drop or there was something extra ordinary in those Rs. 10.5 crores of other income last year?

V. Balaji: So, when you look at our presentation we have split the exchange gains separately and the other income separately. So, in the presentation of last quarter FY18 Q1 we had gain of Rs. 5.5 crores on our FOREX realization because we had covered to the extent of 10 million during our Brexit time. So, we had a better realization during Q1. Now it is almost two years since the Brexit has happened, so now the covers are over and now we are back with the same numbers. So, Rs. 5.5 crores of exchange gain is something because of the currency.

Dhruv Agarwal: Sir, a few bookkeeping questions, what are the current number of LFS stores on board which we have?

V. Balaji: 237 stores.

Dhruv Agarwal: 237 stores is including the 15 new which we have added in the first half…?

V. Balaji: Correct, as on 30th June we have 237 stores.

Dhruv Agarwal: And sir one last thing, what is the spinning capacity as on date which we have in-house and what are we expanding it to?

V. Balaji: Now we have a spinning capacity of 6 tons a day and we are expanding up to 15 tons a day.

Dhruv Agarwal: So, are there any phases or it will be done in one go by December of 2018?

V. Balaji: No, the construction of the building is going on and it should be completed by third quarter.

V. Balaji: It will start running in April.

Moderator: Thank you. Our next question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: Now, just to carry forward from the earlier participant on this gross margins, we had an inventory of about Rs. 180 crores at the end of March 2018 and our total raw material purchase for the full year was about Rs. 280 crores, so we almost had like 70% of the raw materials as inventory at the end of March 31st, 2018. Whereas as you said we sort of buy 80% of our requirements of yarn from outside. So, did this inventory consist a lot of finished goods also, Rs. 180 crores – Rs. 190 crores inventory?

V. Balaji: This Rs. 190 crores of inventory what we were carrying as on 30th June and you have to compare it with our debtors also. So, debtors' position has come down from 165 to 115, which is Rs. 50 crores has reduced, this is because of the impact of new standard IndAS where you show the obligation of the sales on realization. So, there is a change in revenue pattern where the receivables are now brought to the inventory.

Kashyap Jhaveri: Sir, I was talking about actually March 31st numbers, so on March 31 we had a closing inventory of Rs. 190 crores. So, let's say at the beginning of Q1 FY19 we had an inventory of Rs. 190 crores whereas our full year consumption or full year raw material purchases are just about Rs. 290 crores. So, are we holding for that 20% internal consumption of cotton, why are we holding such a large inventory?

V. Balaji: I am not in a position to understand your question in terms of the inventory, but I will tell you why the inventory level has gone up. There is a Rs. 25 crores of reduction in receivables because of IndAS 115 obligation. So, receivables in the retail is getting showed as per inventory, so that is why there is an impact in the inventory.

Kashyap Jhaveri: Maybe I will take this one offline. Now, on the Rs. 344 crores of order book which you mentioned, would the gross margins be similar to what it is on Q1 basis?

P. Sundararajan: See, I mentioned to you that by this Q1 we are coming out of this Brexit impact, because it has carried over literally for about seven quarters we had suffered, I would say six quarters we suffered. I think this Q1 is a last quarter, I mean getting into an end. From Q2 onwards there will be definitely a good improvement in terms of the prices, realization, FOREX, everything will be back to normal.

V. Balaji: I would like to add a point here, so we have already guided for an EBITDA percentage of 18% to 20% for the garment division alone. So, the whole split in the presentation is being given. So, what CMD is talking about is only the garment division.

Kashyap Jhaveri: And last question is on our volume growth, after posting a fairly strong growth in Q3 and Q4 last year now that is down to about 6% - 7% odd, whereas we added I think two more clients I think which was Garanimals and K-Mart in last year, but still volume growth is very modest at single-digit numbers. So, any guidance over there also?

V. Balaji: In terms of volume growth you look at realization also. When there is a mix in the product the time consumption for a complex product could be on a higher side when comparing a lower product. So, you have to consider even the realization when you look at the product mix. So, annualizing revenue per machine is closely around 17 lakhs comparing 16.5 lakhs last year same quarter. So, the revenue has increased.

Kashyap Jhaveri: But would you like to give any guidance on the volume growth or one should look at only value growth overall?

V. Balaji: We are not giving any guidance on the quantity, because the product mix may change completely. So, we are talking about 15% to 20% improvement in our sales, that is the only thing that we can commit to.

Kashyap Jhaveri: And last question on the retail side, you mentioned you would be introducing footwear and luggage under the Croc brand. Now if we go back last quarter or a couple of last quarters your commentary we were looking at about Rs. 90 crores to Rs. 100 crores of top-line in retail in FY20. Does that include this footwear and luggage also or that would be over and above what you have guided in the past?

P. Sundararajan: That is only on the apparel side what we mentioned earlier. It is an additional one, it will be sub-licensed.

Kashyap Jhaveri: And gross margins in these two products will be similar to what we are doing on the apparels or would they be because there will be more traded items or sub-license items this will be different?

V. Balaji: On the margin front we will come back to you and give you a guidance when we are launching the brand.

P. Sundararajan: Too early to comment on this.

Moderator: Thank you. Our next question is from the line of Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: Sir, two questions. One is, what would be your customer base at the end of March 2019? And secondly, cotton prices have touched 48k – 50k per candy, so then where do you think the margins will be? Will we see a suppression or flattish kind of margins for Q2 and the full year, if you can just help me with that?

P. Sundararajan: By end of March we will have about 12 to 13.

Dimple Kotak: And we had 10 in FY18 close?

V. Balaji: No, we had 7 customers.

Dimple Kotak: And what would be the incremental percentage of revenues coming from these new customers?

V. Balaji: Whatever capacities that we are getting added is earmarked to the new customer, so we guess 15% to 20%.

Dimple Kotak: And sir basically the capacity revenue growth will be reflected from FY20 onwards, right?

V. Balaji: Growth on revenue front should be

P. Sundararajan: It is an ongoing process.

Dimple Kotak: Sir, from the new capacity, your capacity is expected in December.

P. Sundararajan: It is expected by Q1 of next year.

Dimple Kotak: And sir on the margin front?

P. Sundararajan: Yes, on the margin side, see this cotton price increase has global affects, not only for India. So, the customers has started increasing the prices. So, we do not think that there will be a big problem.

Dimple Kotak: So, maybe can I take Q1 as your bottom out for the margins, I mean either we will see a flat or we will see an improvement from here?

P. Sundararajan: Maybe that is a bottom one, Q1, it could be anytime better than Q1.

Moderator: Thank you. Our next question is from the line of Ronak Morjaria from Edelweiss. Please go ahead.

Ronak Morjaria: Sir, if you could just throw some more light on your gross margin front, you explained that to some extent it is because of the cotton price and the other part of the presentation you mentioned that because of the product mix. So, if you could throw some more light and explain a bit how has it impacted?

V. Balaji: Globally you know that there is an increase in the cotton prices. And while we consume cotton on the spinning where we have already stocked cotton at say 46,000 – 47,000, still 70% of the yarn is being purchased from the domestic market. So, there we will not be in a position to take cotton at that price. So, the yarn cost is on the higher side. And moreover, I spoke about realization of Rs. 110 versus the previous realization of Rs.96 quarter-on-quarter. So, when you review quarter one last financial year where realization was 96% and the gross margin was closely around 60% - 62%, now it has come down to 57%. Because of the realization being on the higher side margin also could change because of the improvement, the yarn and the material cost in the costing. So, you should look at the margins based on the realization also. So, that is why there is a dip in the gross margin level.

Ronak Morjaria: So, you mean to say you have sold a better realization product that is also one reason? I was trying to understand from the product mix front you mentioned.

V. Balaji: See, this is a fashion industry and you cannot go by each product, that could be very difficult to understand the contribution of material cost versus conversion cost, the overhead absorption of each product.

Ronak Morjaria: If you could just help me with the breakup between the fashion and non-fashion in this quarter versus same quarter of last year?

V. Balaji: That is what I said, realization per piece last quarter was closely around Rs. 96 where there is much of basics. So, basic conversion cost will be on higher side. And when realization is on the higher side the material cost could be on the higher side. So, it is very tough to identify the impact.

Ronak Morjaria: I am just asking the share of fashion versus non-fashion.

V. Balaji: It should be 70:30 last quarter, now it should be 75:25.

Ronak Morjaria: And also if I were to just look at your garmenting revenues, I believe this Rs. 153 crores of garmenting revenues, we had done similar in the first quarter of 2017 as well. And two years have passed and I believe that there was some impact from Brexit and Q4 actually showed a good jump from previous historical garmenting revenues of Rs. 163 and now again back to Rs. 153 crores kind of run rate. So, now are we confident of this run rate now inching upwards from the next quarter onwards?

P. Sundararajan: Yes, actually because of the Brexit the pricing was an issue, and now we are getting back to normal and we have reworked the whole thing. So, realization per piece is better and the capacity has increased and definitely the numbers will be better than the previous quarters.

Ronak Morjaria: Because looking at our customer addition, etc, in two year’s time also we are seeing top-line remaining more or less at similar levels.

P. Sundararajan: I think that one year of Brexit we cannot completely ignore it, because that has given a lot of disturbance in our growth. So, now we are back to normal. So, that was only a temporary phenomena, now we will continue to grow.

V. Balaji: We already have Rs. 344 crores of order book for the next four months.

Ronak Morjaria: I am saying even if I ignore last one year, I am saying in first quarter FY17 also we had done revenues of roughly Rs. 150-odd crores and still even if I were to look in first quarter 2019 also garmenting revenues are there despite new customer addition over two years, excluding last one year. So, are we losing out business from existing customers?

V. Balaji: Previously if you look at the realization per piece versus March, you are talking about 2017 versus 2019, correct?

Ronak Morjaria: yes.

V. Balaji: So, when you look at Pound at Rs. 100 and Pound at Rs. 90, now there is a depreciation in the Pound. The duty drawback changes like the 7.5% versus 2% now. The ROSL impact has come down in spite of that we are able to increase our top-line by 10% and that is what we spoke about in opening remarks that Brexit impact is being weathered out. And we are now facing the growth path. We are expecting a 15% to 20% revenue growth from garment division year-on-year we should see that.

Ronak Morjaria: And margins at 18% to 20% only?

V. Balaji: Yes. See, this fluctuation in the currency is something which we have to figure out. So, there is always a bucket between 200 to 250 basis points here or there up and down the currencies. That is why we are giving a 200 basis point split between 18% to 20%.

Moderator: Thank you. Our next question is from the line of Resham Jain from DSP Blackrock Mutual Fund. Please go ahead.

Resham Jain: Sir, I have two questions. One is on cotton which you mentioned, so typically what I feel is that typically you keep the cotton inventory to the extent of the order book you have. So, let's say for the next four months if you have an order book in hand we will also have inventory for the same. So, why do you say that the cotton has lead to impact, by our model is cost plus model, so why cotton should impact your margins?

P. Sundararajan: See, this is again the customers' appetite, how much can they pay you more, normally we start pushing them from Q4 last year for increase in the prices. So, definitely this would not happen upfront. So, one quarter we had to gradually start increasing the prices and now we have been able to get it. So, then when you put up the cost up because of the cotton price increase, the customer would not be paying so much all of a sudden, that is a problem.

V. Balaji: One more point to add, the cotton which we store for four months or five months in the spinning division is for their consumption only, for the consumption of yarn like say 15 tons a day in our garment division is not stocked as cotton. So, cotton is stocked only for the spinning five tonnes a day, others are being sourced outside only.

Resham Jain: But yarn also you must be booking the day when you booked the order for garment, you must be covering your cotton yarn also, isn't it?

P. Sundararajan: Yarn also against orders. See, if we receive the orders within 10 – 15 days we recover the yarn for the entire orders. But when you go to the market they will go only by the current yarn price, current cotton price.

Resham Jain: So, in the last three months actually we have seen a further increase in the cotton yarn prices, so have you been able to now pass on whatever increase has happened? Because last three months we have significantly 10% to 15% increase in cotton yarn is what we have seen. So, have you been able to pass on that cost as well to the customer or that will come with lag in quarter three?

P V Jeeva: Actually, the order book is happening for four months, so if we book the orders for first quarter normally the booking would have completed by January last year. So, first quarter is affected because of cotton price. And as you said for the second quarter onwards we have already passed on the new price to the customer, so it will not have an impact.

Resham Jain: And second question I have is with respect to you have mentioned that there is some change in revenue booking pattern, is this related only to retail business or also to do with the garment export business?

V. Balaji: No, it is only with retail.

Resham Jain: Okay, because nothing has been mentioned in your result note.

V. Balaji: It is only with respect to this quarter, effective from 1st April 2018. So, when the balance sheet comes out I guess it will be shown.

Resham Jain: So, no change in your opening results?

V. Balaji: Yes, there is a change in opening retained earnings. That is what I said, when the balance sheet comes out it will be reflected.

Resham Jain: That is to what extent it got impacted in terms of retained earnings?

V. Balaji: It should be Rs. 10 crores.

Resham Jain: Rs. 10 crores positive or negative?

V. Balaji: Negative, in the retained.

Resham Jain: Sir, this is related to inventory only?

V. Balaji: Receivables only, asset model adjustment.

P. Sundararajan: Primary sale has been converted as inventory.

Moderator: Thank you. Our next question is from the line of Ankit Gor from Systematix shares and stock. Please go ahead.

Ankit Gor: My question with regards to this per piece realization first of all how do we derive at Rs. 1.10? What is the garment revenue we have taken, is it Rs. 152 crores or what we have taken?

V. Balaji: 153 divided by 12.8 million pieces.

Ankit Gor: So, that is Rs. 119.

V. Balaji: There are certain other revenues which are part, say the job work charges of the dying which we have removed and worked at Rs. 110 per piece.

Ankit Gor: And my question with regards to this, when we say our volume has increased by 6% YoY while our realization also increased by 15% YoY which is probably the garment piece which cumulatively should have increased overall revenue by 21%, but overall garment revenue grew by 10%. So, where am I missing here, am I missing something?

V. Balaji: See, last quarter we had the duty drawback, so you have to remove the impact of this 5.5% which previous I was having as revenue, now I do not have it as a revenue.

Ankit Gor: But still I have a difference of 11% then?

V. Balaji: Last quarter we would have added Rs. 5.5 crores of exchange fluctuation as part of our revenue, this time we do not have this exchange fluctuation gain. So, maybe that is what is impacting your numbers.

Ankit Gor: Can you help me with whatever FOREX related expanses we have incurred in other expense side.

V. Balaji: That we have separately shown in the presentation.

Ankit Gor: I am sorry, I missed that.

V. Balaji: You can look at page #8 of the presentation.

Ankit Gor: And when we say our realization has improved, but on the same time our US sales has also improved. In best of my knowledge US is a voluminous business which gives you lower realization. And our product mix has also shifted a little bit. So, should we assume that in the US we are doing little higher margin business?

P. Sundararajan: Not high margin, the product type is different, it is more embellish.

V. Balaji: Ankit, I guess we have spoken about this Garan business is coming in, Garan business is volume business plus they are neither in fashion nor in basic where you get the prints and the embroidery on the t-shirts which we produce. So, their realization is closely around Rs. 100 – Rs. 105.

Ankit Gor: Just last question from my side, overall revenue of Rs. 191 crores, what was the export incentive?

V. Balaji: Should be Rs. 10 crores.

Ankit Gor: And similarly, 1Q FY18?

V. Balaji: I do not have numbers, maybe I will share it later.

Moderator: Thank you. Our next question is from the line of Apoorva Kulkarni from Nine Rivers Capital. Please go ahead.

Apoorva Kulkarni: I had two questions. First was, what sort of improvement do you see when you say that you are going from 20% to 60% captive utilization from your spinning unit? And second is, you mentioned there are 4,375 sewing machines currently, so what would these three new factories be adding to the number of machines?

P. Sundararajan: The first question is on the yarn side from 20% to 60%, yes this will help us by about 1% margin by using captive. And for the second question is on increase of machine, is about 900 machines, about 20%.

Apoorva Kulkarni: And this is you said for the additional clients that you won?

P. Sundararajan: Yes.

Moderator: Thank you. Our next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: Can you give me some color that you are adding new client, is it basically due to now that Trump has imposed duties on China and China has also imposed anti-dumping duty on the bails they import on cotton. Is there any tailwind coming from China to India regarding outsourcing of garments?

P. Sundararajan: It is not really, even otherwise we had the plan, we have been working for past one year to get the new customers on to the table. Yes, now adding to it is an advantage in this country because China is becoming expensive in terms of fabric as well as in garment manufacturing. And other than the competing countries India is the first preferred country for such kind of products like babies, kids' products with more of embellishment. So, we are taking the advantage of this China's situation now.

Manoj Dua: Secondly, I could not get the expansion part, how much percentage of our capacity will increase with our new expansion?

V. Balaji: Now we are closely around 4,375 machines and adding another 1,000 machines to that should be close to around 20%.

Manoj Dua: And this would suffice for next two, three years? I just wanted a broader picture, how can we double the sale in next amount, how many years we want to double the sales in the longer term, what is our longer term goal picture?

P. Sundararajan: Year-on-year we continue to increase our capacity by 15% to 20% because we have very strong customer base, so the only challenge will be capacity. So, our plan is to increase 15% to 20% year-on-year. And so, it will double in five years if it goes like this.

Manoj Dua: We do not see much constraint in terms of orders.

P. Sundararajan: Yes, we do not see because we have broadened the customer base so much and the customers are world leading customers. So, our relationship is also very long with them, so I do not think we will have any problem with regards to order book.

Moderator: Thank you. We have the next question from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Sir, I had question on the broader demand side. Your contribution from US has increased to 20% in revenues for garment business. So, exactly this growth of 10% is it solely from the new geography that you have added which is US, could you just help us with geography wise growth like UK and US growth and how is the demand looking in the UK region now?

P. Sundararajan: See, we have been doing since the last one year we have been increasing our customer base in the non-UK area and the US. So, in the beginning exactly one year before there was no business in the US. So, within this one year we have added two or three US customers and one more from the non-UK. So, this has started increasing our order book now. And with the new additions this will help us for the future.

Prerna Jhunjhunwala: And what will be the growth in the UK region in this quarter on a YoY basis?

P. Sundararajan: See, UK customers, almost we have reached that level of growth which can be about 5% to 10% with our existing UK old customers. Of course, except for Primark, Primark there will be growth of at least 15% - 20% until we reach a level. But the US customers the growth jump will be definitely big, 20% to 30% growth.

Prerna Jhunjhunwala: So, this quarter you grew about 5% to 10% in UK region?

P. Sundararajan: Yes.

Prerna Jhunjhunwala: And the demand seems to be promising, because I was reading some articles on UK, they are saying that the UK retail sales in the quarter were not that great.

P. Sundararajan: As I always mention, in the clothing, in the retail the kids and babies are always in demand, whatsoever maybe the market recession or market conditions the parents continue to buy these products, so always there will be a scope for growth.

Moderator: Thank you. Our next question is from the line of Resham Jain from DSP Blackrock Mutual Fund. Please go ahead.

Resham Jain: So, two questions, one on this export incentives. I think Q1 FY18 still had the past export incentive structure. So, vis-à-vis Q1 FY18 how much incentive in terms of percentage must be lower in Q1 FY19?

V. Balaji: So, it is close to around 5% lower.

Resham Jain: Sir, this is including whatever benefit which we may have got because of input credit and all, so the net impact…

V. Balaji: See, in terms of export incentives if you look at, previously we were getting closely around 12.5%, now it is closely around 7.5%. So, the impact is 5% straight away, leaving away the input cost which is getting into the material cost.

Resham Jain: But is 5% the net impact on our margins or is it lower?

V. Balaji: The impact on the margins will be 100 – 150 basis point only.

Resham Jain: And my second question is these three new factories which you mentioned, they are coming in Tamil Nadu only or in some other…?

P. Sundararajan: In and around the same region.

Resham Jain: Not in newer states?

P. Sundararajan: Not yet.

Resham Jain: Because we are seeing that a lot of states are coming out with a very good scheme.

P. Sundararajan: Yes, we are not ruling that out, but for our immediate requirement the best way is wherever there are some pockets available for labor force we want to just take them first. In the meantime, parallelly we are working on other states.

Resham Jain: Sir, the next phase of CAPEX, because one year from now you have to then plan for newer factories, then probably it may not come in Tamil Nadu.

P. Sundararajan: Maybe in Tamil Nadu but not in this region, slightly far away could be, and the other states also.

Resham Jain: Because Tamil Nadu there are no incentives given by the state on the garmenting side.

P. Sundararajan: That is correct.

Resham Jain: Because in India we are seeing most of the new garmenting factories are coming in Andhra, in Telangana, in Jharkhand, in Gujarat, so I was just wondering why we are still…

P. Sundararajan: No, see currently how we are surviving in Tamil Nadu is the same way we can manage with the existing. If we go for these subsidies and other benefits it will be an additional advantage which we would like to take it for sure, but not immediately, we want to settle down with the growth plan.

Moderator: Thank you. Our next question is from the line of Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: Sir, the current year quarter order book you said is Rs. 344 crores, what was it last year same period?

V. Balaji: It should be close to around Rs. 200 crores – Rs. 210 crores.

Dimple Kotak: And what is the kind of growth at the end of the year the total amount of order inflows you are expecting for garment division?

V. Balaji: See, when you compare year-on-year 2018 versus 2019, we should be anywhere between 20% revenue growth.

Dimple Kotak: And this Rs. 344 crores is executable over the next four months?

V. Balaji: Maybe certain orders would be…

P. Sundararajan: About more months also. So, maybe about 70% could be in the next four months time.

Dimple Kotak: And sir with the capacity expansion what kind of incremental depreciation you are looking at?

V. Balaji: See, there should be an addition of say Rs. 20 crores on CAPEX front which you can look at depreciation of Rs. 1 crores to Rs. 1.25 crores based on the number of operational month gives.

Dimple Kotak: Okay. So, last year we had 22 crores, so around Rs. 23 crores to Rs. 24 crores for FY19 closing would be a fair estimate?

V. Balaji: I am talking about the capacity addition only on the garment division front.

Moderator: Thank you. Our next question is from the line of Kartik Gada from Val-Q Investment Advisory. Please go ahead.

Kartik Gada: Can you give us the total CAPEX number? You mentioned Rs. 20 crores I think that is just for garments, so can you give us the total CAPEX number for March 2019?

V. Balaji: March 2019 we should be close to around Rs. 70 crores – Rs. 80 crores of CAPEX where the backward integration process is getting complete, our biological treatment plant will be complete, investment in the garment division also will be complete, anywhere between Rs. 70 crores to Rs. 80 crores of CAPEX.

Moderator: Thank you very much. As there are no further questions, I now hand the conference over to the management for their closing comments.

P. Sundararajan: I hope that we are able to answer all your questions. And if you feel anything still missed, please feel free to call us any time. And thanks for your time. Thank you.

Moderator: Thank you very much. Ladies & gentlemen, on behalf of Edelweiss, that concludes this conference call for today. Thank you for joining us. You may now disconnect your lines.

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