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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 04th September 2020	

Dear Sir/Madam,

With reference to our letter dated 02nd September 2020, intimating you about the conference call with Analyst/ Investor held on 04th September 2020, please find attached the transcript of the aforesaid conference call.

This is for your information and record.

Thanking You.

Yours faithfully,

For S.P.Apparels Limited

K.Vinodhini

K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above

Transcript

SP Apparels Ltd 1QFY21 Post Results Conference Call

Event Date / Time : 4th September 2020 at 16:00 Hrs IST

Event Duration : 59 minutes 30 seconds

Presentation Session

Pavithra: Good evening, ladies and gentlemen! I am Pavitra, Moderator for the conference call. Welcome to SP Apparels Ltd.1QFY21 post-results conference call hosted by Batliwala and Karani Securities Pvt. Ltd.! As a reminder, all the participants will be in a 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 and 0 on your Touchstone phone. Please note that this conference is recorded. I would now like to hand over the floor to Ms. Prerna Jhunjhunwala. Thank you and over to you, ma'am!

Prerna Jhunjhunwala: Thank you! Hi, Good evening, everyone. On behalf of B & K Securities, I would like to welcome you all to 1QFY121 post-results conference call of SP Apparels Ltd. From the company, we have with us the senior management including Mr. P Sundararajan, Chairman & Managing Director, Mrs. P.V Jeeva (CEO, Garment Division) and Mr. V Balaji, CFO of the company. I would now like to hand over the call to Mr. P Sundararajan for the initial comments. Thank you and over to you, sir.

P Sundararajan: Thank you! Good evening! Thanks to one and all for participating in the call. COVID 19 has disrupted all the countries, industries, economies and people across all parts of life. Weathering this disruption has been a challenge, and we have successfully faced these challenges. Q1 has been a quarter with disruptions due to COVID-19. We will now review Q1FY21 performance for each division separately. Regarding garment division, our customers have been able to grow better even after the impact of COVID lockdown. This is purely due to our niche segment. They have also started consolidating their supply base further, and we are one among the preferred factories during this consolidation. After the COVID lockdown relief, all customers are presenting 20% to 30% increase in the future orders, which is mainly due to diversion of orders from China and consolidation of the supply base. We have already added one new customer from the UK. Two customers are in the pipeline from the US, which will be added during Q2FY21. Customer order-book has been regularized for an uninterrupted revenue post lockdown. Our current order book stands at Rs. 224.45 crores and delivery spread up to January 2021. With regard to operations, with the permission of local authorities, the company has resumed its plant operations from 11th May 2020 onwards for different days for different factories. As of today, all the factories are operating at around 60% capacity due to social distancing norms imposed by the government authorities. A small portion of the migrant workforce moved back to their hometown during May and June 2020. We are requesting migrants to move back, and we are expecting more migrants to return once the transportation is regularized. We are planning aggressively to maximize the workforce to optimize capacity utilization. Now our new factories have been approved by the customers for the commercial production. With regard to forward contract and cancellation and the currency impact; revenue fell by 75% during this quarter due to pandemic and all contracts taken during this time needs to be cancelled or needs to be shifted to foreign currency load. Hence, we foresee a foreign currency impact movement during Q2 also. Reduction in operating expenses as we mentioned during the last result con-call, the company has announced a reduction in working days to the extent of 30% to all staff and above employees including the senior management till September 2020. Small rented factories have been consolidated with the big factories, which will reduce the operating overheads and will improve the supply chain management. Company has consolidated workmen transportation, and this will reduce the transportation cost by 30%. Our strategy, going forward, a robust, comprehensive business continuity plan as a response to disruption due to COVID 19 with focus on customer engagement, continuous cost reduction, calibrated expansion plan, business strategy realignment, employee productivity and efficient utilization of IT-enabled systems. Although our aggressive plans for continuous growth effective from Q1FY21, unfortunately, is pushed by two quarters due to the pandemic. However, our clients are ready, and you will see consistent and considerable growth every year in revenue as well as margins from Q3FY21 onwards. Q1FY21, the financial performance of garment division. Garment division's adjusted revenue stood at Rs. 49 crores which de-grew by 74.4% year-on-year basis and adjusted EBIDTA stood at 15.6%. The margins comparing year on year increased by 260 bits. Major reasons for the reduction in revenue are due to the current COVID 19 issue. First, 45 days of the quarter was complete closure of the operations. This was the major reason for a drop in revenue. Garment division capacities: Our current capacity is 5,100 sewing machines, and we are currently utilizing 3,000 sewing machines which are at 60% level. We have consolidated small rented factories, and we are expecting utilization to be better going forward. During the Q3FY20, we had utilization level of 3,100 machines, and it improved during the month of February, where we reached around 4,000. During the Q4FY20 our working days were only 60 days. We are expecting this utilization levels to be more than 4,000 by the end of March 2021. In our last con-call, the installed capacity was informed as 5,500 instead of 5,100 which may be taken note of. Q1FY21 Retail division financial performance. The total revenue for this quarter stood at Rs. 2.15 crores as against Rs. 20.7 crores year-on-year. This decrease is mainly due to the COVID crisis. EBITDA loss was at Rs. 70 lakhs. EBITDA margin stood at -32.7% as against 0.6% year on year. The revenue of SPUK for the quarter ended was at GBP 0.95 million as against GBP 1.46 million revenue on a YoY basis. SPUK de-grew by 31.6% mainly due to the pandemic crisis. SPUK margins were negative, mainly due to the currency fluctuations. The overall outlook – We are witnessing significant traction in the order-book, and we have aggressive plans to bring more customers from the US. We also have plans to increasing capacity utilization, going forward. Under the current crisis, the company has been able to rise through this process only because of the strong fundamentals. These are opportunities opening due to anti-China sentiments, due to which we have already have some queries. I would like to close this speech and thank you for listening. Over to the CFO.

V Balaji: Good evening, everybody! I would like to update you on the performance of the company in terms of numbers. We have achieved Rs. 59 crores of revenue on a consolidated basis as against Rs. 225 crores on a year-on-year basis. Our EBITDA stood at Rs. 6.7 crores as against Rs. 25.6 crores year-on-year which is a drop of 73.8%. This is mainly due to the pandemic crisis, where the revenue could not come in for the first two months. Out PBT stood at Rs. -5.8 crores as against Rs. 10.9 crores year on year. Our garment division, revenue stood at Rs. 49 crores as against Rs. 191 crores year-on-year, which fell by 74.4%. Our SPUK revenue stood at Rs. 8.61 crores as against Rs. 12.58 crores of last year, which is a decrease of 31.6%. Our retail division revenue stood at Rs. 2.15 crores as against Rs. 20 crores of revenue last year, mainly due to the closure of all stores during this pandemic time. Our garment export division's EBITDA margin improved by 260 basis points during this quarter even though our absolute EBITDA came down. SPUK had a negative EBITDA margin due to currency fluctuations. Our gross debt as on 30th June is Rs. 184 crores, cash is Rs. 15 crores, and net debt is Rs. 169 crores. We have a stock of Rs. 234 crores on the book, receivable of Rs. 89 crores and payable of Rs. 80 corers as on June 2020. Rest of the data is available in the presentation. We can go into the question and answer session.

Pavithra: Thank you, sir! Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press STAR and one on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing STAR and one again. I repeat, ladies and gentlemen, if you have a question, please press STAR and one on your telephone keypad. We have the first question from Mr. Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Yeah, thank you for the opportunity and good management on the cost side during this quarter. My question is on this overall upbeat commentary on the demand side. You have also mentioned the same in your presentation in terms of order-book. So, last year what we have seen is in the second half, the revenue run-rate itself was lower, pre-COVID as well. So, now going into let's say next 2-3 quarters, say Q4 by which we can see some normalization. What kind of run-rate should one estimate? Obviously, I understand the scenario is still uncertain but based on your judgment, what do you see, the run-rate moving by quarter 4 of this year.

P Sundararajan: If you compare with Q420, it will be definitely above that. We expect it to be at par with Q4FY19.

Resham Jain: Sorry, sir. I couldn't hear the last statement.

V Balaji: Resham, say today we are looking at a capacity utilization of 60%, which is 3,000 machines. In the initial remarks, Mr. Sundararajan spoke about reaching to 4,000 sewing machines by March 2021. So, that by itself will improve the effectiveness by 20%. So, resulting in will be the revenue.

Resham Jain: Ok. And at 4,000, what kind of revenue run-rate you can reach on a quarterly basis?

V Balaji: On a quarterly basis, 4,000 sewing machines would be close to Rs. 200 crores of revenue from exports alone.

Resham Jain: Ok. That's encouraging. Sir, my second question is on SP UK business. Typically, what we have seen is that it is purely a trading business. The run-rate has been stable since the last couple of years in this business. So, how you want to take this business, going forward? Do you see any synergy or any benefits coming from this business, going forward? Other than it has been profitable, but in the last 2-3 quarters in the trading business itself, we have seen some minor impact.

P Sundararajan: Yes, this business model is a great business model. Which means taking care of the customers who want the full service like designs and sourcing, quality control and compliances which they would not be able to manage. So, this is the kind of service we do. And this office has got a set of factories under them. So, the business model is very good, and the customers are extremely happy, and the customers' business is growing year-on-year. What we have not done is, we have not increased the customer base because it is a brand-new business, so it needed about a few years to stabilize and go to the next level. So, in the meantime, in the last year, we had a few disturbances, and now the COVID has come. So, post lockdown now we have added two more customers for SPUK business. And we expect our budget, the business budget closing FY 21 is in a much more than what we used to be before. And our plans are by FY22 to cross 10 million pounds. That is our plan. And I am sure we will be able to do it because we have increased the customer base. And we don't see, so far, we have not seen any difficulty with regard to the operations or payments or anything.

Resham Jain: Understood. Right. And sir, my last question is on the overall operations side in terms of, you mentioned about a lot of cost-cutting programs which you have initiated. Should we see some of those benefits flowing through in the next few quarters or this is just a temporary thing? And what can be the impact on the margins because of the same?

V Balaji: So, in terms of the cost reduction we are only utilizing the capacity to the extent of 60%. So, since there is a reduction in the utilization level, we have requested all the staff and above people to reduce their number of working days by 30%. And from October onwards, when we have to come up again with 80%-85% of utilization, this has to come up. But in terms of what it is going to get contributed in terms of margins, we feel that the margin of 18% what we have guided for should be looked at, including the cost reduction.

Resham Jain: Ok. Right sir. Thank you very much, and all the best!

P Sundararajan: Ok. Thank you!

Pavithra: Thank you, sir! Ladies and gentlemen, if you have a question, please press STAR and one on your telephone keypad. We have the next question from the line of Mr. Deepesh Agarwal from UTI. Please go ahead, sir.

Deepesh Agarwal: Yeah, good evening, gentlemen. Congratulations on managing tough time well. Sir, in your opening remarks you mentioned that you had got two new customers, one from the UK on the garment division side. Can you throw some insights into how large these customers would become and by when you expect some meaningful volume for these customers to start coming in?

P Sundararajan: Ok. So, this customer is a character licensed importer, I would say. So because normally licensed importers mostly import only because they cannot have the manufacturing. Nor, we can handle the customers directly because it needs a lot of inputs with regard to Disney or other brands or other licensee characters. So, they do all the designs, and they work closely with the licensor. And then they hold the stock and deliver to the brands. As and when immediately required, say for example some movies are released, say in Disney characters any movie is coming up, so immediately they will have the stock ready and deliver it within 2 to 3 days. That's the kind of business model. So, the advantage we are going to get from them is during the recession time, we will be able to produce and keep the stock because we are the stockiest and deliver locally. So, this is a big advantage. And normally for the licensee products the margins are much better than the regular ones. And their volumes are also big because they are dealing with all the big retailers in the UK. And also, they have connections with the US. At a later stage so, that will also give us an opening in the US market for the characters business.

Deepesh Agarwal: Ok. And the other customer is from the US?

P Sundararajan: You asked about the UK. Then the US already the work is going on, and all the costing exercise are done. They are happy, and now the design inputs are being given to them. Price negotiations are going on. Hopefully, from Q1 2022, we will be able to start the business with them. Two customers are there. I mean, they are again retail brands.

Deepesh Agarwal: Ok. So, both of them we expect from Q1FY22, the dispatch to start, right?

P Sundararajan: Yes, the US customers.

Deepesh Agarwal: And UK one?

P Sundararajan: Already started. The shipment is going next week.

Deepesh Agarwal: Ok. Ok. And sir, in terms of the retail division, any decision now? What is the road-map for the retail division?

V Balaji: So, Deepesh, we are looking at strategy. We can discuss the strategy only when LFS have all opened up and see how we consolidate on the retail part and work on it. So, currently, only stores like standalone stores are opened up. And we may be in a position to give you complete strategy going forward only when complete lockdown is released, and the malls and the LFS are all opened up.

P Sundararajan: And one good news is that Reliance has taken over the Future Group. So, Future Group is one of our big business partners; where, you know, the last couple of months got stuck. The movement of stock and payment got stuck. So, now since Reliance has taken over, we have got a formal message from Future Group – Kishor Biyani as well as from Reliance Group all the supply will continue as well as payment will be released. So, there will be no disturbance in the ongoing businesses. So, now we feel we are in safer hands.

Deepesh Agarwal: Ok. What would be the fixed cost run-rate of the retails division?

V Balaji: So, if you look at the fixed cost, on a full complete running basis, we may be Rs. 1 – 1.25 crores a month. But what happens is that when the stores are all closed, we don't pay the rents. Because the stores are not allowed to be opened up, so now you cannot look at the fixed cost. Moreover, we have requested all our employees to work from home, and they have all taken haircuts wherever it is possible.

P Sundararajan: Expenses are 50% now.

V Balaji: Expenses are like every employee has taken a 50% haircut.

Deepesh Agarwal: And lastly, we don't plan to add more capacity this year on the garment side. We are now 5100 machine. We won't be adding new machines, right?

P Sundararajan: It's like this, you know, there will not be any new projects for the next two years. And we will maximize the capacity within the existing set up by increasing the utilization. So, probably, we will reach up to 80-85% of the existing capacity, over the period of say one year. The next year by now, we should be able to go close to 5000.

Deepesh Agarwal: So at 5100, we expect to utilize 5,000 machines next year, it will actually

P Sundararajan: Say 4,800 by the end of March 2022. We will be able to reach up to that. Then we will be thinking of expanding by new projects.

Male: Deepesh, we are also looking at exploring the opportunity of looking at to a second shift, maybe in one or two factories where there is an opportunity.

Deepesh Agarwal: Ok. Thank you! That's all from my side.

Pavithra: Thank you, sir! We have the next question from Divya Jain from ICICI Mutual fund. Please go ahead.

Divya Jain: Thanks for taking my question. Sir, my question is more regarding when you were saying the increased demand from the customers. So, is this because off the field and child, you know, the category we serve? I just wanted to understand what are the incremental order that you are getting from the customers.

P Sundararajan: As I mentioned to you, we are expecting another 20% to 30% increase from the existing level of the whole year business. So, we are expecting 20% to 30% from the existing customers.

Divya Jain: No, I just wanted to understand which category.

P Sundararajan: Same kind of products, but you know, the business is coming. They want to increase their number of pieces per order, volumes per order. And also due to consolidation, we are getting others' businesses to us in the same category, same segment. Not different fabric or not different, say men's or ladies. Only within this, with the same products.

Divya Jain: Ok. And sir, if you could just help on the, you know, previously we had discussed that we are getting into the pyjamas and basic commodities of the nature of apparels also. So, how are we progressing on that front?

P Sundararajan: Can you please repeat it?

Divya Jain: Sir, you had indicated previously that we are getting into a different line of business, like basic pyjamas. So, any progress on that front or we are still silent.

PV Jeeva: Yeah, actually we started doing that pyjama also. That is also going at a good volume. Comparatively, when compared to last year, the basic pyjama and the other basic product volume has picked up now. So, based on your question, we are increasing the pyjama volume.

P Sundararajan: Also.

Divya Jain: Ok. Ok. And which are the categories? Is it possible along with the pyjamas, T-shirts are also possible?

P Sundararajan: Yes. T-shirts and the essentials, bodysuit, slim suits and the fashion T-shirts and pyjamas. These are the categories. And accessories like booties, hats, all these. So, across the world, the volume is increasing.

Divya Jain: And sir, your guidance 4,800 sewing machines will take care of these orders also, right? The blended one for all of them.

V Balaji: Divya, I would like to reiterate that it is not guidance. But we plan to go to 4800 machines by the end of March 2022.

Divya Jain: Ok, sir. Thank you! That's all from my side.

Pavithra: Thank you, ma'am! Next, we have a question from Zakhi Nasser from Nasser Investments. Please go ahead.

Zakhi Nasser: Hello! Hello, can you hear me, sir?

Pavithra: Yes, you are audible.

Zakhi Nasser: Sir, Mr. Sundararajan mentioned that you would be using 4,800 machines at the end of last quarter of March 2022. 4,800 machines would turn out to be turnover of around Rs. 260-270 crores roughly.

V Balaji: Per quarter.

Zakhi Nasser: Per quarter, yes. So, that was 255 what we did on September 2019. So, do you think that growth the company was planning is mostly postponed by a year or so, sir?

V Balaji: Rs. 247 crores of revenue which was done in Q2 FY20 is a consolidated number. And 220 crores is garment division turnover alone. So, there is a differentiation.

Zakhi Nasser: Ok.

V Balaji: Rs. 247 if you look at 40 crores of retail revenue and 10 crores of the SPUK is also part of it. So, what we are looking at is, when we do a 4,800 sewing machines, Rs. 250 crores of exports alone can happen, along with the duty drawbacks and other incentives, it could be close to 270 crores. And you can add SP retail division and SPUK, which could be the additional number.

Zakhi Nasser: Around Rs. 300 crores, that would mean.

V Balaji: Yes. Close to Rs. 300 crores.

Zakhi Nasser: And sir, what are the incentives available from the Government of India now, sir? Because things like MEIS and all were scrapped. So, have you got anything which replaces those schemes or so?

V Balaji: Currently, we have a duty drawback of 2.1% and ROSCTL of 4.75%. So, that is what the existing duty structure is. From April 2020 onwards, the ROSCTL is not being released because the government is looking at the new duty drawback structure and the rebate on duties and taxes structure, which could be expected by the end of this month, which would be given retrospective from 1st of April 2020 onwards.

Zakhi Nasser: Ok. So, there is some talk of getting from retrospective effect.

V Balaji: Yeah. That is correct.

Zakhi Nasser: And sir, you said that the net debt is Rs. 169 cores. So, have you calculated this by adjusting the cash and cash equivalent also? Because cash is, I think Rs. 46 crores.

V Balaji: Our net debt is Rs. 169 crores. Rs. 15 Crores are my cash availability. So, if you look at the balance sheet, which has been released on 31st March, you will find the Rs. 40 crores of Ind-AS 116 adjustments because of lease obligation, which is sitting part of my debt. So, without my lease obligation, my net debt is Rs. 168 crores.

Zakhi Nasser: Ok, sir. And sir, looking forward, see the first quarter was totally tough for everyone, second quarter things have slightly stabilized. So, do you think the third and the fourth quarter would see a close to normal 85% kind of run-rate for the company, sir?

PV Jeeva: Yeah, that is what we are expecting, and hopefully, we are planning to do that.

Zakhi Nasser: Ok ma'am. Thank you!

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

Vikas Jain: Thank you, sir. Thank you so much for the opportunity. Sir, my first question is about us as a business has seen a sharp margin expansion. Anything to read into about this? Or it is just because the revenues are down. So anything to interpret from that, sir?

V Balaji: You are talking about the gross margins?

Vikas Jain: Yes.

V Balaji: See, gross margins are not at 23% is purely because the retail contribution has come down.

Vikas Jain: Correct.

V Balaji: So, the revenue contribution from Retail business of Rs. 20 crores has come down to Rs. 2 crores. See, always retail COGS is supposed to at 60%-65%. On consolidation, when you look at the consolidation in the retail in the UK, you look at a higher margin. Contribution from retail is low. So, that is why you are finding the margin on a low base.

Vikas Jain: And sir, you also mentioned that you have also consolidated a few factories by merging smaller ones into the bigger ones. So, what would be the count of the factories as of now?

P Sundararajan: 17, 16 factories? 16 factories.

Vikas Jain: We have 16 factories. And because of the consolidation

V Balaji: Vikas, I would like to say that 16 sewing factories. We have other factories, like printing, embroidery, dyeing, spinning all are different.

Vikas Jain: Correct, correct! Sir, so what would be the savings. Permanent savings kind of a number that you would like to give for saving in terms of rentals for those factories?

V Balaji: Rentals, when you talk about rentals it is going to get consolidated into my depreciation because all the factories, they are getting consolidated into my factory. What could give us an improvement in the margin is going to improve our supply chain management, and the effectiveness of the utilization of labour force will come definitely into the margins.

P Sundararajan: Roughly around Rs. 1 crore will be the yearly savings on the rentals.

Vikas Jain: And this you are talking about from a monthly run-rate of say, FY20, right?

PV Jeeva: Yeah.

P Sundararajan: Yeah, correct.

Vikas Jain: All right, sir. In one of the answers you mentioned that you expect around 20% to 30% incremental business from existing customers. While you say that, you are benchmarking from the FY20 levels or from the current levels?

P Sundararajan: No, this is what I mentioned is, the customers are willing to increase the business by 20% to 30 % from existing levels. And we have to work on this, and which means I would say pre-lockdown period volume. From there they want to increase by 20% to 30%, not from current.

Vikas Jain: All right. All right. Understood. Yes sir. I will join back the queue for any more questions.

Pavithra: Thank you, sir. We have the next question from Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit: Good evening, sir! Sir, if we compare our revenue with peers, we have seen sharper fall in year on year and Q on Q in revenue sir.

P Sundararajan: Can you be a little louder?

Siddharth Rajpurohit: Am I audible, sir?

P Sundararajan: Yes. Yes.

Siddharth Rajpurohit: Sir, if we compare our revenue with peers, sir, so we have seen sharper fall in both year on year and Q on Q. So, what is the reason, sir?

P Sundararajan: So, there has been a drop in the only Q4 of last year due to this lockdown and Q1FY21 again. First two months there is no sales literally. April and May, there was no sale. Before to that, we mentioned, we lost you know two customers gone bankrupt, you know, K Mart share and Mother Care. That was the reason. So, as I mentioned, we are all set for take-off, you know, now the customer base is all strengthened, you know, it is now streamlined, and customers are willing to increase their business, and we are trying to ramp up our capacity utilization to a new height. So, we are all ready to take-off now. So, the last three quarters we have been very disastrous quarters. If you compare to Q2 of last year, Q1 Rs. 184 Cr revenue and Q2 was Rs. 211 Cr. Then from Q3, Q4, we started these difficulties. And now Q1FY21 we have the same problem, and in Q2 there will be a little bit of aftereffect, which we have already overcome. August and September, we are back to normalcy. So, July there is a small impact. From next quarter onwards, we are back on track.

Siddharth Rajpurohit: And sir, in the past year, what was our highest order-book?

P Sundararajan: At any point of time we had our around Rs. 240-270 Cr. maximum. See, because we usually book for the next three months' time. So, some can be for the next five months, you know, because of the bigger volumes. At an average, we keep, at an average Rs. 250 crores to 270 crores.

Siddharth Rajpurohit: Ok, ok. Because our current order-book is Rs. 240 crores and that would be for the next five months, right?

P Sundararajan: Yeah. See, there is Diwali ahead, no? So, we introduce booking during those two weeks.

Siddharth Rajpurohit: Ok, ok. That will reduce. And sir, this China effect that you talked about, sir so is that still on talks, or you already started receiving order-books and is there instead of competition from the other countries which can take away their order, sir?

P Sundararajan: Yes, there, we have already started getting orders. There is no doubt about it. The basic volume of business is coming. And there are competitions. Others are also getting businesses. But China is a big ocean. Even 1% of business coming to India is too much for India. So, that should not be a problem for India.

Siddharth Rajpurohit: Ok. And sir, with this ROSCTL being now converted into RODTB what amount of benefits do you see sir? Will this current will be retained, or there will be additional which we had earlier?

P Sundararajan: If you know, please let us know.

Siddharth Rajpurohit: Sure, sir. Definitely. There are any resolutions or some indications?

V Balaji: Once we know anything, we will definitely update you.

P Sundararajan: We are optimistic. Anything, something will be there for sure. It is not the worst thing is they will not reduce further.

Siddharth Rajpurohit: Hmm. So, sir earlier we were having 12%, right? Total benefit?

V Balaji: That was including MEIS of 4%. Not 12% but it was 11.5%.

Siddharth Rajpurohit: Ok. And sir, how do you see, sir, now your customer's trend? Means how is it opening up at your customer end, sir? And how much normalcy has been there?

P Sundararajan: See, most of our customers are supermarket customers and online businesses, and we are in babies and kidswear. So, their business is doing exceptionally well. They do not have any issues in terms of businesses. And in fact, say one of our big customers is Tesco. In fact, they have hired 16000 people extra to manage the online business and delivery. So, that's the way the business is you know, catching up today. So, our customers are solid, and they are wanting, and they are asking us to take more and more orders in this segment. But this is not the case with ladies and men.

Siddharth Rajpurohit: Ok. And, sir the last question is, in terms of percentage what is the total benefit that you will get from this consolidation of our factories, sir, on margin?

V Balaji: I think Vikas asked the same question on percentage. See, the supply chain management could improve another 20-25 bps.

P Sundararajan: See, at least 50 bps on rent savings and overall savings and supply chain, logistics savings. All put together half a per cent would be the savings.

Siddharth Rajpurohit: Ok. Ok, sir. Thank you and all the best, sir.

P Sundararajan: Thank you!

Pavithra: Thank you, sir! We have the next question from Deepan Shankar from Trustline PMS. Please go ahead.

Deepan Shankar: Good evening, everyone! And thanks for the opportunity. Sir, on the news coverage we have seen that we are working with Carters for developing a new fabric, manmade fabric-related product. Can you please elaborate what is this new fabric and what kind of market size we are looking at?

P Sundararajan: See, this is, you know, we are India, and we are doing only with 100% cotton fabric. That is the strength of India and based on our cotton cultivation. So, customers never used to look at us for anything other than cotton, any blends or any special fabric because they were comfortable with China. Now that since, you know, they would like to have an alternate plan; not that they are completely going to come out of it, they want to have another leg into a strong country, which is India. So, they are pushing us for developing some kind of cotton polyester blend. You know, this kind of fabric. And they said they would arrange for some technical know-how, some technical inputs from China which they are doing. So, like this, everyone wants the suppliers of India, manufacturers of India, especially who have got fully vertical set up, they want to develop them into other than 100% cotton fabric. So, that is what they are trying to do. But we are into early stages and don't know how it is going to move forward.

Deepan Shankar: Ok. So, it is more related to dress material or even the bed linen kind of material?

P Sundararajan: No, as far as we are concerned, it is only clothing.

Deepan Shankar: Ok. Clothing. Ok, and on China +1 kind of strategy, so even competitive with other countries also. So, are we at any disadvantage in terms of margins, cost with countries like Bangladesh, Vietnam? So, how is India positioned against other countries?

P Sundararajan: See, we all know that it is a tough time for us against China or as against Bangladesh, Vietnam, Cambodia. Bangladesh is a big threat. But this has been happening for many years. So, we are used to living with this kind of competition now. And although there is a threat, we are able to manage all these years, and we will manage. That is not an issue.

Deepan Shankar: Ok. Thanks a lot, and all the best!

Pavithra: Thank you, sir! We have the next question from Amit Mehendale from Robo Capitals. Please go ahead.

Amit Mehendale: Thanks for the opportunity. Sir, if we expect to go to about Rs. 200 Cr quarterly revenue by Q4 FY21, and if I assume of about 18% of EBITDA should do about 15 crores of PAT number. So, can we assume that as a kind of quarterly run-rate? And extrapolate that to 50-60 crores of annualized profit numbers?

V Balaji: See, 15 crores of PAT you said, right?

Amit Mehendale: Right.

V Balaji: Rs. 15 crores of PAT should not be an issue considering the garment division. But if the numbers of 18% EBITDA sticks, it should be even better. That is what I feel.

Amit Mehendale: Right. Correct. But, can we assume this as a going forward sustainable quarterly number with the visibility what we have currently?

P Sundararajan: Yes, it is. As I mentioned to you, this should have been the case Q1FY21 onwards. But because of this pandemic thing, the whole thing has shattered. But our plans, the strategy has not changed. Only we have postponed it for two quarters. Which means already we are on track and working on in terms of capacity utilization, sales strategy, marketing strategy, production, material, supply chain, everything. All the plans are ready. Now we have already taken up, we have started the work now. So, there is no way it is going to be any disruptions in the plans, and it is expected to grow continuously year on year. There is no issue.

Amit Mehendale: Ok. Thank you, sir! And, on the duty side, what is the impact of, you know, the net impact of MEIS withdrawal? And ROSCTL is not in place, right? So, for the current quarter, is there a net impact in rupee term or percentage term that you can quantify?

V Balaji: See, in terms of duty drawback, for the current quarter, it remains the same as of Q4. Except that an additional 1% what is given for ROSCTL is no more from 01st April 2020. So, my net duty drawback is close to 7% depending on the product. But we are not sure what kind of duty structure or the incentive structure that will be given on RODTEP. So, let's wait and see.

Amit Mehendale: Right, but this 7%, how does it compare with the earlier structure? The earlier structure was 11% or

V.Balaji: It was at 11.5% during Q2FY20.

Amit Mehendale: Right. Which is at about 6.5% – 7% now.

V.Balaji: 7.5% discounted. Yeah.

Amit Mehendale: Ok, sir. And one last question. Now, in terms of our customers, or terms of revenue of Rs. 200 crores, how do we split the revenue or customers in e-commerce versus traditional customers? What would be the broad slabs?

V.Balaji: You are talking about the garment division?

Amit Mehendale: Yes.

V Balaji: See, garment division listen only to the retailers. How they sell their products is their sales strategy. We cannot get into that.

Amit Mehendale: Right. I mean, I was asking that from the backdrop of the fact that you know, the traditional retailers are losing market share as compared to the e-commerce players. So, do you expect that to have any adverse impact?

P Sundararajan: Even our customers are going strong in online business. It is TESCO or Asda; they are all very strong in online businesses. Even Carters is going very strong in online businesses. So, our customers are maintaining the tempo both in brick and mortar as well as online.

Amit Mehendale: Ok, sir. Thanks. That's it from me. Thank you very much!

Pavithra: Thank you, sir! Next, we have a follow-up question from Resham Jain from DSP Mutual Fund. Please go ahead.

Resham Jain: Yeah. Thank you for the opportunity again. Sir, my question on the initial remarks which you mentioned on China-based or anti-China based kind of inquiries that are coming in if you can just share your thoughts in terms of let us say what kind of discussion might be happening with the customers. And is the scenario such that and you feel that in the next 18 months our capacity may get fully utilized? How then we leverage on this incremental demand factor which is visible right now? Just thoughts on macro front and then on how the company is looking to leverage that?

P Sundararajan: See, as we mentioned there, we are already planning to increase our sewing capacity to 4,800 machines by the end of March 2021. So, that itself is about 20% to 40% growth. So, where that is one side, we are getting ready for the additional businesses. And already the existing customers incremental business. So, we are getting ready for the business what so ever maybe. Maybe it is a transfer from China, or already their own existing business increase is happening. So, whatever it is, we are expecting a 20% to 30% of businesses coming from our current customers. And, new additional three customers; one from the UK and two from the US.

Resham Jain: And from the customers' perspective, like in few of the other companies what we have observed is that your case also customers are asking to increase the capacity further so that we can source more from India. So, don't you feel that you need to plan for additional capacities or factories possibly?

P Sundararajan: Yeah, with the existing factories, it can still accommodate another 30% to 40% of the capacity.

Resham Jain: In addition to 4,800. Is that right?

P Sundararajan: Yes. So, we do not have any further plans to increase new projects, new factories for the next two years.

Resham Jain: Understood. So, is that same premises or the facilities or facilities?

P Sundararajan: As the CFO said, we are planning on a phased manner from Q3FY21 onwards to shift factories. The existing factories, let's say, for example, one factory has 500 machines maybe it will be doing 700 machines with the same capacity.

Resham Jain: Understood. Sir, my second question is, has there been any lower inventory at the customer end because there is a phase in between where you couldn't supply, but the customer probably might be selling at the same pace? So, has there been lower inventory kind of a situation at the customer end right now?

PV Jeeva: Yeah, right now we have about a small volume of about 8 to 10 crores they will take these goods in December.

P Sundararajan: No, he is asking they are running short of inventory now.

PV Jeeva: They have inventory also. They will be pushing for 1 season. They are not going to buy for 2-3 months, and they are going to use the current stock what they have right now.

Resham Jain: Ok. What I was asking is that has there been any reduction in the inventory at the customer end. You are telling that.

P Sundararajan: They are liquidating. They have not placed any additional orders in the last 2-3 months. They are only trying to sell their existing stocks and clear the stocks what they already placed with us. That is what is happening. So, now they are slowly reducing the inventory. Currently, they are sitting with huge stocks, like Primark or anybody. But Tesco that is not the case. They are running out of stock. And George is also running out of stock. Only Primark has stocks which they are liquidating now. So, their new buying will start from the next season. They have not bought for two seasons. They will begin buying once the stock is reduced in the next 2-3 months' time.

Resham Jain: Understood. So, the grocery retailers are getting stocked out while the departmental stores have enough inventory.

V Balaji: Correct, correct.

Resham Jain: Ok. Understood. And sir my last question is on the Capex. As you mentioned, you are not going for incremental projects. So, for the next year; this year and next year, what kind of Capex one should look at?

P Sundararajan: For modernization?

V Balaji: Anything with respect to the maintenance Capex and the modernization Capex in terms of the PD - processing divisions, I think it will be close to, anywhere between Rs. 7 to 10 crores per year.

P Sundararajan: And modernization of even sewing factories to lean manufacturing, you know, that kind of things will happen. But not big, you know, maybe per year about Rs. 2-3 crores. That's it.

Resham Jain: And just a related question to that. So, for next 18 months, with only Rs. 20 crores of capex and a marginal increase in working capital, and the debt is at a very low cost, so will you build up cash during this phase? Because, I presume that the Rs. 169 crores, out of that Rs. 110-120 crores are all subsidized debt in a way.

V Balaji: So, what is your question?

Resham Jain: My question is cash utilization for the next 18 months.

V Balaji: Yeah, cash utilization will happen. See, the policy on capital allocation will be strictly followed. And wherever the allocation needs to be done, it will be done.

P Sundararajan: That needs to be discussed later.

Resham Jain: Ok. Right sir. Thank you!

Pavithra: Thank you, sir. Ladies and gentlemen, due to time constraint, that will be the last question for the day. Now I hand over the floor to the management team for the closing comments. Please, go ahead, sir.

P Sundararajan: To all participants, I am sure you will be satisfied with the answers given by all of us. And thanks for participating. Please rest assured that the bad days are gone. We are expecting everything to be more promising. Better quarters yet to see. So, be rest assured that we will be performing much better in the quarters to come. Thank you!

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