"S.P. Apparels Limited Q2 FY20 Earnings Conference Call"

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MODERATOR:	**MS. SHRADHA AGRAWAL – ASIAN MARKET SECURITIES**

Moderator: Ladies and gentlemen good day and welcome to S.P. Apparels Limited Q2 FY20 Earnings Conference Call hosted by Asian Market Securities Limited. As a reminder all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance, during the conference call please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Shradha Agrawal from Asian Market Securities. Thank you and over to you Ma'am.

Shradha Agrawal: Thank you Janice. Good afternoon everyone. On behalf of Asian Market Securities, I would like to welcome you all for Q2 FY20 results conference call of S.P. Apparels and would like to thank the management for giving us the opportunity to host this call for them. On the call today we have with us the senior management of S.P. Apparels including Mr. P. Sundararajan – Chairman & Managing Director, Mrs. S. Latha – Executive Director, Mr. S. Chenduran – Director (Operations), Mrs. P.V Jeeva – CEO, Garment Division and Mr. V. Balaji – CFO.

I would like to hand over the call to management now for their opening remarks. Thank you and Over to you sir.

P. Sundararajan: Thank you Shradha. Good evening everyone. Thanks for the contribution in the concall. This quarter we have seen good traction in the revenues from all the divisions, though we have seen some pressure in the margins due to increased revenue which is as per our guidance. The review of the performance update division is as follows. With regard to garment division, customers whom we have added of late have started responding to increased business and you will see the traction happening from these customers in next financial year onwards. So far we have not seen any impact in the business due to the Brexit. We have identified a few new customers for business in the financial year 2021-22. The plan to have customer contribution in balanced manner and expect to have 30% from US, 40% from UK and 30% from international business. This will mitigate the geographical concentration. With regards to the order booking currently we have order book on hand is about Rs. 247 crores. Our current capacity is 5,100 sewing machines and our capacity utilization is around 68%. For the current quarter we have added close to 300 machine which are yet to be put into production. We are constantly increasing the capacity and planning both through Greenfield projects and adding more capacities in the existing factories. We will be adding 250 machines more during this quarter. With regard to financial performance, garment divisions adjusted revenue stood at Rs.221 crores which grew by 27% on year-on-year basis and the adjusted EBITDA margin stood at 16.6% for this quarter. The margins comparing last quarter improved by 360 bps. There is still scope for us to improve the margins and should be in line with our guidance of 18% from Q4 onwards. Gross margin in the garment division dropped this quarter mainly due to, firstly spinning division after completion of expansion project has started producing 13 tons a day. The excess produced by the spinning unit is being sold to the domestic market. The ratio of yarn to cotton is close to 70% and we sold yarn this quarter which is also part of the revenue growth]hich is contributing to the increased COGS and decrease in gross margin.

Secondly, this quarter we have a high percentage of basic garments and orders with tight margins to ramp up the sales which is showing the increased COGS.

Thirdly, like to assure you that the EBITDA margins on the garment division will improve in quarters to come. And we will be able to stick to our guidance coming quarter that is from Q4 onwards for the garment division.

Regarding retail division, we have 29 COCO stores and 14 FOFO as on September 2019. We had 362 large format store doors as on September 2019. Financial performances of retail are a total revenue for this quarter stood at 22 crores as against the sale of 16.5 crore year on year, which is at the growth of 34.4%. In spite of increased sales, margins during this quarter were stress due to discounts during this quarter which is end of season same quarter and due to some stock liquidation. EBITDA for retail stood at 6.4% for the current quarter. In continuation to the decision on the retail division hive off, we are exploring all the options and let you know the right strategy in the hiving off of the retail division in next two months' time. The plan is very much intact.

Performance of SPUK operations, revenue of SPUK business for quarter ended was GBP 1.4 million as against last quarter GBP 1.48 million revenue, and margins stood at 4.2%. This division is promising, and we are growing at better rate. General outlook of the business, the business model is very promising as the retailers are looking to increase the sourcing through full service vendors that is importers. In order to post efficiency by having proper mix of direct sourcing and landed deliveries. We continue to increase the customer base globally and planning to mitigate currency risk by sourcing from various countries for this is SPUK business.

Thank you, I now pass it on to CFO who will brief you about the financial performances. Thank you.

V. Balaji: Good evening everybody. Thank you for the participation. Financial performance of the company. Revenue stood at Rs. 255 crores, which was the highest for our company and it grew by 34% year on year. Our EBITDA stood at Rs. 38.4 crores, an increas of 9.1% year on year in absolute number. Our EBITDA margins dropped due to the reasons explained by our chairman in his opening remarks. PBT for Q2 increased to Rs. 23 cores as against 21 crore year on year, which is 7.4% is increased. Our PAT saw a significant increase due to the income tax effect majorly contributed by reversal of deferred tax liability. Our EBITDA for the first half also increased by 4.3% to 64 crore in absolute number. Our PBT for the first half fell by 18% due to higher depreciation and finance cost due to the IndAS 116 adjustments. Our garment division grew by 37% with EBITDA margins improving from quarter on quarter basis. Our retail division also grew by 34% on the revenue front and our UK business was flat. Our garment division grew 31% in the first half and our retail division grew by 19% in the first half. The EBITDA for the garment division stood at 14.9% due to the impact of Q1 FY20. Our gross debt stood at Rs. 183 crore including the buyer's credit of Rs. 13 crores and our net debt is Rs. 152 crores. Increase in the borrowing show in the balance sheet is due to IndAS 116 adjustment on the right to use which is closely to Rs. 31 crores. Our inventory stood at Rs. 235 crores where Rs. 150 crores is pertaining to the garment division, Rs. 39 crores to the spinning and Rs. 40 crores in the retail division. The inventory in the spinning division is carrying excess inventory because of Rs. 18 crore of inventory in yarn which is because of increased production, which will be consumed or sold in the coming quarters. Our receivables stood at Rs. 138 crores out of which Rs. 35 crore pertain to retail, the balance pertaining to the garment division. Our trade payables stood at Rs. 108 crores. Rest of the information is available in the presentation and we can get into the Q&A straight away. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We take the first question from the line Ankit Gor from Systemetix Shares. Please go ahead.

Ankit Gor: Sir my question with regards to overall 2H volume since 2H my high base will kick in, because in 3Q FY19 onwards my average volume was in the range of 15 to 17 million pieces and if we go by the similar exit run rate what we did in 2QFY20, overall what sort of volume number we are looking at for the full year. And do you believe that incremental volume will come from where for 2Q FY20?

V.Balaji: Are you looking at the volume for the whole year?

Ankit Gor: Yes.

V.Balaji: It should be close to 70 million pieces. That is an estimation. And the second part of your question was you asked about the place from where we can get the increased volume growth, that is what your question was?

Ankit Gor: Yes, because my new customers have started giving me incremental volume from 3Q FY19. So, if I have to grow on the high base 3Q FY19 I am just trying to get the visibility there.

P. Sundararajan: Yes, I will answer to this. As I mentioned in my speech, last year we had taken two new customers at a beginning of FY19 one from America and another one is international. For last one near the trial was going on and once the capacity has been ramped up now and they have also tested the performance and other things, so now the additional business easily to the tune of about 100 to 200 crore will be coming from those new customers.

Ankit Gor: Okay, that will start from 3Q you mean to say?

P. Sundararajan: Yes, Q4. They always have the placing; the shipment will start from January onwards.

Ankit Gor: Okay. Since the FY20 base would be relatively higher can we assume 12% sort of volume growth there or 15% sort of volume growth for FY21?

P. Sundararajan: Between 10 to 15% easily.

Ankit Gor: Okay. My second question with regards to yarn, logically when we backward integrate my operating margin or my EBITDA margin should have improved. But in our case, backward integration should have helped us, has it helped in improving our EBITDA margin since we have backward integrated now? And secondly, when we setup this capacity we said 80% of our requirement will be internally met. So, what is the need of selling yarn outside and having a lesser gross margin in that case?

V. Balaji: So, two things you have asked. One is on why this yarn is getting sold and two on the margins why is backward integration is not increasing margin. On the first part, I have put up a backward integration process and the expansion completed and my 13-ton capacity is for 45 tons which I am are not fully capable of consuming today, maybe two years down the line I will be in a position to consume it 100%, but it may take some time for us to consume fully in house. So that is why we don't want the yarn to be kept to store it in the warehouses and so we are selling it out in the domestic market. On the margin front, the margins will definitely as you said it will improve and we are finding that the margins are getting improved, but because of the impact of cotton prices this year, specifically the cotton prices are not in correlation with yarn prices. So that is why we are looking at a drop in the margin.

P. Sundararajan: We will be able to consume 75 to 80% of our captive yarn production from January production onwards so until then this stock we need to go to the market and sell it off. So that is why, while we are selling it to the market so the average margin, EBITDA margin is pulled down because of the yarn sales. From January onwards the 80% will be captive**.**

Ankit Gor: Okay. I will further understand this offline. My next question with regards to export incentives, what was the export incentives in 2Q specifically sir?

V. Balaji: Q2 we had 10.5% all put together.

Ankit Gor: Okay. And we expect this 10.5% for remaining six months of FY20 or we expect some tapering?

V. Balaji: If assumed that if EBH it will be extended until December; the same percentage will be extended until December. And subsequently it could, the MIIS, RoSCTL both can be merged together to be given a new, different form of incentive.

Ankit Gor: Okay, just going back on yarn. 1H would be the same number right, 10.5 would be the?

V. Balaji: Yes.

Ankit Gor: Just going back on the yarn side sir.

V. Balaji: 8% to 10.5% based on the product and the countries.

Ankit Gor: Got it, okay. Sir on yarn on a quarterly run rate what should we assume , this is the right number to work with 7.58 crore?

V. Balaji: Yes, Rs. 8 crores should be the right number.

Ankit Gor: Okay. And sir any one off this time like airlift you said probably airlift or any other one offs this quarter?

P. Sundararajan: Q2 is still, there has been some of the orders delayed push to the Q2 so we airlifted but not as much as the Q1, but sill there has been its slightly more than the normal one.

V. Balaji: We had booked expenses airlifting expenses of closely to 1 crore which happened during the month of July.

Ankit Gor: Okay, and can I have inventory write-off we took in retail side for liquidation in that way, how much was?

V. Balaji: Liquidation exact number, maybe I will be in a position to share that through a mail.

Ankit Gor: Okay. Any other one off in this quarter?

V. Balaji: No.

Moderator: Thank you. We take the next question from the liner of Dharmik Prajapati from Prosperto Tree. Please go ahead.

Dharmik Prajapati: Sir, I wanted to understand what is the CAPEX guidance you will give for the next half and for FY21?

V. Balaji: So next half of the year we are looking closer on 10 to 12.5 crore of CAPEX.

Dharmik Prajapati: Okay and for FY21?

V. Balaji: For FY21 I guess based on the information it should be closely to Rs. 30 crore of CAPEX.

Dharmik Prajapati: And this revenue which has shot up just because they are selling off yarn and cotton the reason is that only the reason nothing there is a one time and **–20:05** right?

V. Balaji: No, nothing rather the 7.5 crore of yarn other than that there is nothing. Likely compared on the export front volume itself has grown 30%. So other than 7.5 crore of yarn there is no one-time kind of impact.

Dharmik Prajapati: Okay, so we can see this revenue growth consistent or is there any contingency?

V. Balaji: See in terms of our revenue growth you look at last four quarter performance right from Q3 FY19. We have been consistent between 25 to 30%. Maybe this two quarters you can find year-on-year 9 to 10% of revenue growth. Subsequent to the Q4, you can see the increas in the number of the machines which have been added this quarter and which were last quarter will start giving you revenues from Q1 onwards.

Dharmik Prajapati: Okay. So this machines that we are adding and Q3 will start giving revenues in Q4, you meant to say that, and 250 you gave in the opening remarks.

V. Balaji: 300 which we have already added in Q2, which was not put in use, with those will start giving you revenues from Q4 onwards.

Dharmik Prajapati: Okay. So we will see that effect in coming quarters?

V. Balaji: Yes.

Moderator: Thank you. Next question is from the line of Dipesh Agarwal from UTI Mutual Fund. Please go ahead.

Dipesh Agarwal: Sir, can you help me understand a margin little better because if I compute the absolute EBITDA your garmenting division absolute EBITDA would have increased from say 33 crores in 2Q FY19 to around 36, 36.5 crore which implies roughly 3.5 crore kind of a Y-o-Y increase on absolute basis. And if, I see the additional incentive because of export incentive now you are getting 10.5% last year it could have been 7%. On additional 3.5% here you would have done something 6 crore additional EBITDA. So adjusting for this additional export incentive. It seems like your absolutely EBITDA would have decline?

V. Balaji: So Dipesh, in last year we had ROSL at 3.7%. It is a 200 bps increase in the incentive. You are right to that extent. But yes, last quarter we did find difficulty in, we did let you know that we are expecting a 17% of EBITDA this quarter. That is where we are today. So, I guess we are sticking to the EBITDA margin which we have guided last quarter.

Dipesh Agarwal: Okay, so this is 17% is aided by extra export incentive. So if we adjust that then actually our margins have declined?

V. Balaji: You are talking year-on-year right?

Dipesh Agarwal: Yes.

V. Balaji: Yes, you are right.

Dipesh Agarwal: Okay, so going ahead when assuming this extra export incentive will go away, say six months down the line, then what would be the margin we can work with?

P. Sundararajan: As I mentioned to you. Say, we have increased the sales with the new customers with the tight margins we were under the margin pressure, but however in order to get the business increase, so we have taken up those orders that is one of the reasons showing there has been a difficulty in the challenging the margin this quarter, but by Q4 onwards we will get to know how to improve the margins of the new customers' orders although the prices are same, we will definitely get the hold of the costing's and production efficiency. So, we will then improve our, this is how whenever we get into new customer's business first we take them cost to cost basis or any thin margin basis and then we try to improvise the margins for better efficient way of working. So, probably this last quarter Q2 because of new customer's price pressure which will be efficiently managed by quarter four onwards.

Dipesh Agarwal: Okay. And secondly, can you highlight what is the breakup of the CAPEX plan for the next year?

V. Balaji: So, CAPEX in terms of the processing division, we are looking at a CAPEX of Rs. 3 crore and rest Rs. 27 crore should be for the CAPEX in the garment division for increase of capacity.

Dipesh Agarwal: Okay, so next year how many machines you are targeting to add?

V. Balaji: Closely to 700 machines.

Dipesh Agarwal: That will take you to 6,700 by end of FY21 right?

V. Balaji: Now we are closely 5,100. So, chairman explained about 250 adding up this quarter so, we should be closely around 5,400 and maybe next year we will add up 700 where we will reach up 6,000.

Moderator: Thank you. We take the next question from the line of Ritesh Gandhi from Discovery Capital. Please go ahead.

Ritesh Gandhi: Just a couple of question. So if we go into Q4 as you were saying you were expecting it to be a normalize quarter within the margin, how much do we expect the EBITDA margins to be at that point of time?

V. Balaji: We should achieve 18% or in fact it should be better because we are planning to giving you guidance in terms of 18% for the whole year. So we guess it should be close to 20% margin for Q4.

Ritesh Gandhi: Got it. So we expect to end entire FY20 at roughly an 18% EBITDA?

V. Balaji: Yes, roughly around 18% for the whole FY20.

Ritesh Gandhi: Got it. And then Q3 also then we would expect to be around the 18% mark maybe slightly up and down?

V. Balaji: Yes, correct Q3.

Ritesh Gandhi: And then effectively do we also have any incremental benefits because we've seen that a rupee depreciating against the pound over between Q2 and Q3 would we expect any incremental benefits even out of the depreciation to creep in?

V. Balaji: In terms of currency, whatever orders I take, I cover it on that day. So, my margins based on the orders that is where it is, it cannot be related to the exchanges. Maybe 1 or 2% can be, you can relate it to exchanges, but when I take orders I cover it the same day.

Ritesh Gandhi: Got it, understood.

P. Sundararajan: what I am trying interpret that, if the rupees gets weakened against the pound, then we have better negotiations and customers they don't negotiate too much, but when the is Rs.65 or Rs.67, then the customer will not be in a position to improve the prices for buying. So, let's say for example, if the pound today is say Rs.91 if it goes to Rs.98. So, naturally in the negotiation we have better place for negotiation. So, that indicate another 2% more. During the IPO time the rupee was Rs.102 against pound. Definitely the margins are much better. So, suddenly after Brexit it dropped to 80 and 82 because of those problems still we are now gradually we are improving it now. So if the rupee depreciates against the pound defiantly there will be an improvement in the margin.

Ritesh Gandhi: Got it. And so if we are to just summarize the impacts on the Q1 and Q2 margin is driven by a new facility opening, which had some teething issues which you expect to have maybe some small implication in Q3 and Q4 it will normalize. And actually spinning things like lower on the profitability side primarily because of the mismatch in the cotton prices and the prices of yarn. But we also expect to normalize from Q3, Q4 onwards.

V. Balaji: Yes, exactly.

Ritesh Gandhi: Got it. And are there any risks you see to achieving the kind of guidance which we have provided for FY20? Or it's hopefully it's sort of in the bag?

V. Balaji: Sorry can you come again the last question?

Ritesh Gandhi: So just wanted to understand the risk which you are seeing with regards to achieving your FY20 guidance parse?

V. Balaji: Risk always, exchange is a risk we will not know how the currency will impact because of the BREXIT that could be MTM losses because of if the currency pound depreciates or dollar depreciates there could be impact on the outstanding contracts which we are, other than that I don't foresee any major issues.

Ritesh Gandhi: We got it. And just one last question with regards to your retail operations. We were talking about a potentially a few strategic alternatives on the last call and apologies because I joined this call slightly late, but if you could throw any light on what's happening with that?

V. Balaji: So in the opening remarks Chairman let everybody know that we are still exploring all the possibilities. And we are hopeful that we will let you all know, in a two or three months' time.

Ritesh Gandhi: In terms of the alternative which you are pursuing or actually transaction in to the next quarter?

V. Balaji: On the transaction we would let you know on within two or three months' time.

Ritesh Gandhi: Got it, understood. Just the last question, because our EBITDA margins are amongst the actually higher in the industry. The impact on us for any reduction which may happen in MEIs ROSL would be materially lower percentage of our absolutely EBITDA right?

V. Balaji: Yes. In case of an impact on the incentives, that will have a direct impact on the EBITDA.

Ritesh Gandhi: But to us the impact would be lower than it is to other industries because margins are higher than everybody.

V. Balaji: Correct, because we have niche product so our will have a lighter impact than the other business.

Moderator: Thank you. We take the next question from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Sir, my first question would be what would be the realization per piece for the garment business during this quarter?

V. Balaji: Rs.102.

Vikas Jain: Sir earlier our philosophy was to move in including more of the basic garments. So can be fairly assume that a realization at around Rs.100 per piece level would stabilize there or it can further go down?

V. Balaji: So if you look at our realization per piece over a period of 13 or 16 quarters, we have been consistently there between 120 to 100. So, we have not come down, one time we have come to 98 other than that we have not come down below 100. So, I assume that it should sustain at that 100 level.

Vikas Jain: Right and given that during that period our basics portion has increased but still it has remained at near 100 levels and it will continue to stay at these levels only right?

P. Sundararajan: Yes, it is being leveraged in such a way.

Vikas Jain: Okay, sir my second question would be on the retail side. So retail side for the last couple of quarters we have been giving a deep discounting which have been hurting our margins. Sir, so what would be our sustainable kind of a margin that we can assume for a retail division?

V. Balaji: Vikas, couple of quarters before when we decided upon to hive off retail division we clearly informed all the investors saying that they need capital for their growth. So any liquidation that is happening is because of the liquidity pressure and that's why the goods are getting liquidated at a deep discount, other than that there is nothing in the inventory level for the retail division.

Vikas Jain: Correct. Sir going further, earlier if I remember correctly in the last call we had guided of ending FY20 with around 6,000 sewing machines in a garment division?

V. Balaji: Correct.

Vikas Jain: And we are saying that we will be ending by around 5,400 machines. So any specific reason why we are cutting such?

V. Balaji: So the factories which we proposed have not started, there is a delay in the projects and that's why we are pushing it to the next quarter. I mean next year.

Vikas Jain: Right. But what I believe that based on the projected machine addition we started booking our orders earlier so?

V. Balaji: That was the mistake which we did.

P. Sundararajan: The last quarter we mentioned to you that in anticipation of this new projects we have booked the orders and since last year the projects were delayed due to heavy rains over here. So the order what we booked we have to manage to produce within the available capacity and that's the reason why there are delays in shipments that we have flighted so much. And because of that the customers have slowed down until we clean the old orders so there is even a drop in the booking also because of this reason, but now everything has been revived. So, in the month of July it was the last one, the delayed shipment cycle. So, now we are back on track. Now we will get all our factories at that new projects will be up and running from December onwards gradually it will raise the maturity to all about four to five months' time. So by April 2020, it will be fully running. So our total capacity would be around 5,500 machines by April we will be running 5,500 machines.

Vikas Jain: Right. And sir my last would be, we have guided about for our garment division a margin of 18% on a full year basis. Can you highlight something about the margin guidance at a company level including both other divisions as well?

V. Balaji: You are asking for the re-guidance or something else?

Vikas Jain: No, I am asking for the FY20 guidance at the company level.

V. Balaji: So Vikas, at the company level we have never guided for, so as a division wise whatever contribution based on the contribution, and each division has its own ups and downs and the EBITDA margins for each division is different. So we have been guiding only for division wise

EBITDA margins, like EBITDA margin for garment division we are guided for closely on 18%. And for retail division, we are guided for 6% and or S.P. UK we have guided for 4 to 5%. So this is the guidance which we have given and we are still sticking to it.

Moderator: Thank you. Next question is from the line of Yogansh Jeswani from Mittal Analytics. Please go ahead.

Yogansh Jeswani: Sir you mentioned about export incentive being 10.5% for the end quarter right. Can you also provide us what was this percentage in the corresponding quarter last year Q2 FY19?

V. Balaji: Previously, it should be closely to 8.5%.

Yogansh Jeswani: 8.5% in FY19?

V. Balaji: Yes, FY19.

Yogansh Jeswani: And this is going to continue till December and any expectations post that are you expecting a reduction or do you think the mechanism that is going to work out will be at the similar level, what's your thought on this?

V. Balaji: We are expecting that this MEIs, RoSCTL, ROSL all will be abolished and it will be given in a new form. And that should be in line with the existing percentage, maybe 100 or 150 bps plus or minus can happen.

Yogansh Jeswani: And in terms of CAPEX that you mentioned for these machines is Rs. 30 crores right?

V. Balaji: Yes, Rs. 30 crores.

Moderator: Thank you. Next question is from the line on Noshad Chaudary from Systemetix Shares. Please go ahead.

Noshad Chaudary: Most of the questions have been answered one or two quick questions. Can you share what was the mix of basic and fashion and this quarter versus last year same quarter?

V. Balaji: Basic was close to around 63% and 60 to 63%, and the rest was the niche product.

Noshad Chaudary: And what was this in last year same quarter?

V. Balaji: Year-on-year you are asking?

Noshad Chaudary: Yes.

V. Balaji: It could be that my niche could be another 10%.

Noshad Chaudary: So basic was around 50% you mean to say?

P. Sundararajan: Could be 50.

Noshad Chaudary: Okay. Second thing on the growth guidance do you still maintain of 20 to 25% of growth from this level or do you want to release it down because you have?

V. Balaji: 25%?

Noshad Chaudary: And 15 to 20% you have been guiding?

V. Balaji: 15 to 20% was what was guided and as the Chairman in the opening remarks, he explained that Q3 and Q4 could have a slag and then from there on you can find increase in the growth by say 15 to 20%.

Noshad Chaudary: This is at volume level and?

V. Balaji: For us volume and revenue or both could be the same it could change 1 or 2%.

Noshad Chaudary: Okay. Last one on the cotton side sir what is the current inventory we have as of now for how many months of inventory we have for cotton and what is the average cost if you can share?

V. Balaji: On the cotton inventory one second, we have closely worth of Rs. 16 crore of cotton which should be a consumption of three and a half to four months' time requirement. Because we are in the start of season time so you will find slowly we will be accumulating cotton. By March we should be having at least six months of cotton.

Noshad Chaudary: Can you share the average cost of this inventory?

V. Balaji: Sorry at the present moment I don't have the average cost, but it should be closely around 48,500 per bale**,** landed first.

Moderator: Thank you. Next question is from the line of Rashi Vohra from Prabhudas Lilladher. Please go ahead.

Rashi Vohra: My sincere apologies for coming on the call a bit late. But one of the questions you spoke about exploring possibilities on a strategic basis, so if you could elaborate on that because I have completely missed out on the opening statements from the management. So, what kind of possibilities are we exploring sir?

V. Balaji: So, we are planning either to hive off the retail division into a separate company or if there is a strategic partner we are looking to sell it into a, put it up into a separate SPV with holding hands to strategic partner. So that is the option which we are looking at.

Moderator: Thank you. Next question is from the line of Shradha Agrawal from Asian Markets Securities. Please go ahead.

Shradha Agrawal: Yes, sir. Just wanted to know, how do we look at the revenue mix for FY21. As to how much would yarn sale would be contributing in FY21 revenue?

V. Balaji: Yarn contribution, I think it's anywhere between 7 to 10 crore a quarter, could be the same that can happen on the garment division CEO will explain.

P.V Jeeva: Shradha can you give the first part of your question again?

Shradha Agrawal: We sold close to 7.5 crore of yarn in this quarter, so I want to know if this kind of run rate would be sustainable in yarn or would it increase or decrease in FY21? And then correspondingly, how would the revenue mix look like in terms of split between garment, yarn sale and if we would also want to do some fabric sale to outside market? Sir how should we be looking at S.P. Apparel would it more be like, would it be like an integrated company selling yarn, fabric garment or our focus would still be on garment sale exclusively?

P.V Jeeva: Out of the same production of yarn about 20 to 25% will be sold to the market and the remaining will be for captive consumed.

Shradha Agrawal: Sir the 20 to 25% in absolute terms how much would that number mean?

P.V Jeeva: So it would be 7 to 8 crore per quarter.

Shradha Agrawal: The run rate of 7.5 crore that we saw in this quarter would kind of sustain?

P.V Jeeva: Yes, FY21 we are talking about.

Shradha Agrawal: Right. Then are we also looking at some increased fabric sale also because we are looking at some CAPEX on the processing side also in FY21. So, is it only for internal consumption or are we looking at fabric sale for outside market as well?

P.Sundararajan: Yes, we are looking for fabric sale outside also that would come to roughly per quarter about say 2-3 crore to begin with for the next whole year, whole year it will not be more than about 10 crores. Say around 10 crore fabric sales.

Shradha Agrawal: Right sir. And then what would have been the EBITDA margins on our yarn business in this quarter?

V. Balaji: EBITDA on the yarn business should be at closely around 8 to 10%.

Shradha Agrawal: And the margins which will be making on our EBITDA business would now be a function of the cotton yarn spread going forward, right?

V. Balaji: Both the cotton is market driven and the yarn rate is also market driven. So it doesn't have any correlations but it is purely market driven.

Shradha Agrawal: Right. But can we get to say 14, 15% margins in the yarn business, I am just hypothetically asking this question?

V. Balaji: 14 to 15% yarn business is possible only when export of yarn is, the market is looking at good export of yarn. Today the export of yarn to China has come down considerably and that's why the EBITDA is at 10% or else it should be at 15%.

P.Sundararajan: If the yarn market itself easily it will be 15% EBITDA

Shradha Agrawal: Right sir. And sir your initial comments on how do you look at cotton crop for this year and do you expect cotton prices to connect because some of our initial industry level check suggest that the cotton crop quality has not been very good the first stage at least so your general outlook on the cotton crop, the quality and the price you expect for the coming season?

P.Sundararajan: Nobody can predict it; nobody can praise it is very erratic now. See I mean, entire whole year of this cotton calendar year the price has never come down it continued to go up even in the begging of the season now there is no big drop in the cotton price. So, we really don't know so unless the yarn export starts and the yarn price starts appreciating better only then we can give you some margins, not out of the cotton price lowering.

Shradha Agrawal: Right sir. And sir any potential clients you would want to highlight which are in the pipeline and you are hopeful of conversion soon which can add to our revenue visibility going beyond FY21?

V. Balaji: So in terms of new customers, as and when we add them to our list of customers, before that we will not be in a position to intimate anyone.

P.Sundarajan: For the year 21-22 that is FY22 we are already exploring few customers, the big volume new customers. So probably next financially year we will start taking small orders on a trial basis. And we will get ready for the FY22 for the additional capacities.

Shradha Agrawal: Right sir. And I just missed on your expectations on growth for Q3 and Q4 for FY21 I noticed you said 10 to 15% growth, but for Q3 and Q4 20, the number you had highlighted?

V. Balaji: We are looking at a flat year on year for Q3 and Q4 in terms of revenue.

Moderator: Thank you. Well, as there are no further questions I would now like to hand the conference back to the management for closing comments.

P.Sundararajan: Thanks, everybody whoever has participated and I hope we have been able to answer all your questions. And still if anyone wants more clarification on certain questions, please feel free to call anyone in office and we will be always happy to share more information. Thank you, good bye.

Moderator: Thank you very much. On behalf of Asian Market Securities Limited we conclude today's conference. Thank you for joining, you may disconnect your lines now.