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04th December, 2017

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

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

Scrip Code: 540048

Symbol: SPAL

Dear Sirs,

Sub: Transcript of the Conference Call

We wish to inform you that unaudited Financial for Q2 FY18 results conference call hosted on 16th November, 2017. We are sending herewith the transcript of the conference call.

Kindly take the above on your record.

Thanking You,

For S.P.Apparels Limited,

K.Vinodhini

K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above

“SP Apparels Limited. Q2 FY2018 Earnings Conference Call”

November 16, 2017

ANALYST:	**MR. ANKIT GOR – SYSTEMATIX SHARES & STOCK LIMITED**
MANAGEMENT:	**MR. P. SUNDARARAJAN - CHAIRMAN/MANAGING DIRECTOR - S.P. APPARELS LIMITED** **MRS. S. LATHA - EXECUTIVE DIRECTOR - S.P. APPARELS LIMITED** **MR. S. CHENDURAN - DIRECTOR OPERATIONS - S.P. APPARELS LIMITED** **MS. PV JEEVA – CHIEF EXECUTIVE OFFICER - S.P. APPARELS LIMITED** **MR. V. BALAJI – CHIEF FINANCIAL OFFICER - S.P. APPARELS LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the SP Apparels Q2 FY2018 Results Call hosted by Systematix Shares & Stock 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 for an operator by pressing '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Gor from Systematix Shares & Stock. Thank you and over to you Sir!

Ankit Gor: Thank you. Good evening one and all and welcome to the Q2 FY2018 Earnings conference call of SP Apparels. We would like to thank the management of SP Apparels for giving us an opportunity to host this call. From the management side today, we have Mr. P. Sundararajan – Chairman and Managing Director, Mrs. S. Latha – Executive Director, Mr. S. Chenduran – Director Operations, Mrs. P.V. Jeeva – CEO, and Mr. Balaji – CFO. I would request Mr. Sundararajan to give an opening remark then we can start the Q&A session. Thank you and over to you Sir!

P. Sundararajan: Good evening everybody. This is Sundararajan, Chairman and Managing Director of SP Apparels Limited. I would like to update on the results of Q2 and just to take you through and then we will go the question and answer session quickly. Under the difficult global and local environmental situation, we have been able to sustain our revenues from operations. In fact, there has been lot of difficulties we have been facing in the last two quarters, which we were well prepared for this kind of event and we have been able to get through the situation.

Brexit and the foreign currency fluctuation have impacted our revenue growth to some extent in this quarter i.e. Q2. I am pleased to inform that we have successfully converged ourselves from IND-GAAP to Ind-AS and our first balance sheet after the convergence has been published in this quarter.

If you look at this quarter's performance of each vertical; first let me talk about garment division, we displayed sustained performance in garment division beside Brexit outcome and volatile currency movements. Garment division revenues declined by 4% because of Pound and Euro currency depreciation in Q2 FY2018 compared to Q2 FY2017.

Beside revenues flat, we were able to sustain the adjusted EBITDA margin by focusing on driving operational efficiencies in garment division. Adjusted EBITDA margin of garment division improved from 20% to 20.4%.

As we have informed before, we have been able to add three new non-UK customers one is Garan, US, another one is K-Mart US, and third one is Kiabi from France which is under process which should be ready for the business by the end of January. We are currently planning to add a couple of new customers in FY2018 in addition to three customers.

Our current capacity is 4050 machines and our utilization is at 78%. Optimum utilization of the existing capacity will facilitate us the growth in topline by another 15%. Our efforts to increase the efficiency are yielding results in terms of productivity and we are seeing good improvement in our efficiency level. Our current order book is at Rs.230 Crores as of today and for Q3 and Q4 we are looking at customer mix of 10% in our business by non-UK customers and next financial year we will be having about 20% to 25% of non-UK customers where the UK concentration is further diluted.

Regarding our SPUK business, our SPUK has recorded revenue of 1.2 Million Sterling Pounds in Q2 of financial year 2018, which is 254% growth comparing last year's. SPUK operations were PAT positive 69000 Sterling Pounds in H1 of this year. We have successfully started taking orders in women segment as well for UK Office business and we are planning to add couple of more customers from UK Office business during next year.

Coming to retail operations, retail operations grew up by 33% comparing year-on-year. This quarter retail operation has delivered a positive EBITDA of Rs.11 million. This is the first time we are breaking even. As on September 2017 we have 35 Company-Owned Company-Operated stores and 12 Franchise-Owned Franchise-Operated stores. It is our endeavor to move forward to open more stores on franchise basis along with our own Company-Owned Company-Operated stores. We also look to convert existing COCO stores into FOFO stores.

Additionally, we are continuing to increase our presence across all large format stores. We have opened 40 new large format stores in this quarter. Our plan is to improve our large format stores to 300 by end of March 2019, which is in the course. About the spinning, we are glad to inform you that we have initiated the building construction process by calling for the tenders and expecting the building process to be completed within seven to eight months of time from now. Please be informed that we have purchased a factory in Kovilpatti down south near Sivakasi and expecting the factory to start its commercial production by January for garmenting. The plan is to put up 350 Sewing capacity in this factory.

This is an overview picture of the current scenario of our business and I will now pass it on to Mr. Balaji for the financial presentation. Thank you.

V. Balaji: Good evening everybody. I would like to quickly go through the financial presentation. The financial presentation is already available with the exchanges. Q2 FY2018 total revenue marginally declined by 1% on consolidated basis we were close to Rs.170 Crores of revenue this quarter.

Revenues were flat in garment division and revenues grew by 33% in the retail division. Garment division revenue was flat due to Brexit impact as CMD was referring to. Retail division growth was largely driven by higher direct sales from LFS and EBO stores. Our adjusted EBITDA for the Q2 grew up 5% yoy to Rs.31.71 Crores against the adjusted EBITDA Rs.30 Crores last quarter. The EBITDA margins improved by 104 basis points from 17.6% to 18.6% this quarter. Garment division EBITDA margin was stable at 20.4%, retail division achieved a break even at

EBITDA level registering a margin of 6.3% which is Rs.11 million as CMD pointed out. The Q2 PBT declined by 33% year-on-year to Rs. 150 Million, Q2 MTM loss of 41.1 Million compared to MTM gain of 1.5 million Q2 last year because of foreign currency fluctuations.

Our finance cost remained on the higher side 76 million this quarter as against 41 million last quarter basically because the dividend on the preference share is considered as interest as per the new accounting standards. So actual interest outflow for this quarter was only Rs.33 million. Our Q2 PAT declined at 38% year-on-year to Rs. 97.6 million. PAT margin declined to 5.7% from 9.1% last quarter.

This is about the financial and we can take on the Q&A section straight away.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Shraddha Agarwal from Asian Market Securities. Please go ahead.

Shraddha Agarwal: Good afternoon to the management team. So, on the Brexit impact you said that this quarter also we had felt some impact because of Brexit. Last quarter also there was this reason and we had expected that probably this time around the volumes would improve, also because new client's business had also started so your thoughts out there?

P. Sundararajan: So, Brexit impact we started feeling from, although it was exactly one year back. We had the forwards booking already for these four months' time and customer had also has discovered the currency, so we were able to manage until March, so the first quarter of this year as we mentioned to you last time, because of the severe impact of currency depreciation was about 18%, so Q1 was major impact and Q2 has been better than Q1. So, over all Q1 and Q2 have a severe impact on this Brexit and now Q3 and Q4 we have already started gaining, the orders as of now better than first two quarters.

Shraddha Agarwal: So, we are at flat volume given for Q2, we are at 12 million in 1Q and 11 million 2Q, so how do we see volumes ramping up now from these levels?

P. Sundararajan: Q3 and Q4 was going to ramp up to some extent, so we will be able to maintain the similar kind of business level of large players.

Shraddha Agarwal: So, 50 million is what you mean?

V. Balaji: 50 million is for the whole year.

Shraddha Agarwal: Right, for FY2018 you are expecting similar volumes of 50 million?

V. Balaji: Yes, Q3 and Q4 the volume will be better.

Shraddha Agarwal: Sir, secondly on the sewing machines addition this year, last time you have indicated that we are not looking at any further addition, so are we still on that same track or are we looking at adding any swing machines this year?

V. Balaji: In the opening remarks MD had said that the optimum utilization of the current capacity will improve our topline by 15%, so if we optimally utilize our existing sewing capacity we could grow by another 15%, but we are still adding 350 Sewing machines by end of January or March. at kovilpatti factory.

Shraddha Agarwal: Sir, secondly could you elaborate on the impact of duty drawback on our margins?

V. Balaji: Duty drawback, there is still no clarity on what will happen, but as such there is a duty drawback of only 2% to the exporters and they can avail the input tax credit, which has been paid by the exporters. As such there is no clarity, but I think if this 2% remains constant then we will have a hit of 200 to 300 basic point on our margins because of the duty drawback, but that can be revived by our revenue growth and our internal efficiency.

Shraddha Agarwal: Sure Sir, that is helpful. That's it from side.

Moderator: Thank you. We will take a next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Thank you Sir. Sir, again on this duty drawback, the difference will be what from October 1, 2017 onwards compared to first half, how much was the total duty drawback export incentive and what it will be as stands today?

V. Balaji: First half we had a duty drawback of 7.5%. From October 1, 2017 we will have 2% of duty drawback, and first half we were not allowed to take any input tax credit either in terms of customs either in terms of central excise or in terms of the service tax or in terms of VAT, now we have been allowed to take the credit in terms of central excise or in terms of the GST in fact, so the net effect will be around 200 to 300 basis points. That is what I guess, if there is no any revision.

Sunil Kothari: Sir, what is your feedback, sometime back when we spoke we were expecting government to decide on this thing, is there any timeline has been given on this duty drawback, incentive or something?

V. Balaji: There are two things our associations are strongly believing the current duty drawback will be maintained until March 2018, and the second thing we are still working with the textile ministry to restructure something so that there is no major hit and we will be able to maintain the same kind of refund structure, so we are keeping our fingers crossed, but anyway we started working keeping the duty drawback benefits aside, we started working in order to going in better margins.

Sunil Kothari: But Sir, any timeline has been given by ministry or your association?

V. Balaji: No, not really, but in an operating basis it is happening, several meetings have already been done.

Sunil Kothari: Sir, in first half we manufactured 23 million pieces and we are talking about reaching 50 million by a year and so next we will make 26, 28, 27 whatever, so for further growth for next year, what we are seeing is 10% to 15% is further utilization is possible, so are we planning to expand next year only, or we start in current year for any further expansion.

P. Sundararajan: It is an ongoing process, say for example Q2 when we close Q2 average of 3100 machines, but as on today we are running 3500 machines, so which means we are constantly increasing the capacity with the existing factories where we can do a better space management and people management and that itself we will be able to grow another 500 machines within the existing factory, so it is an ongoing process.

Sunil Kothari: So, we will be adding any machines during current year or it will be added next year only?

V. Balaji: As we told you near Kovilpatti, we have already started the construction of sewing factory of 350 machines capacity, which will be running from April onwards.

Sunil Kothari: Great, and my last question is how competitive scenario, are you able to say if require maintaining your margin and your operation, will you able to pass on your this lower incentive or higher cost to your customer?

P. Sundararajan: To some extent yes, we must do a lot of internal things, in order to restore the situation, number one we are very sure that there will not be a very big pressure on margins as I told you always our product have fashion especially for babies and kids high fashion thing, so customers definitely would not like to move to other countries whatsoever it may be, so we are getting our business back from the customers after this tight pressure. We must avoid many orders because of the price pressure, but we are getting them back to the level of price what we have been expecting, so the competition wise we do not see much competition and internally by improving the efficiencies and increase capacity with the existing overheads, these two things will definitely help us saving another about 3%to 5%, this is what are working on now.

Sunil Kothari: Thank you Sir.

Moderator: Thank you. Next question is from the line of Dhimant Shah from Principal Mutual Fund. Please go ahead.

Dhimant Shah: Thank you for taking my question. Two or three questions and I have follow-ups from the previous once, number one to what extent will be volume growth 50 million is for this year right and next year what kind of volume growth can we plan for?

P. Sundararajan: About 10% to 15% growth is for sure and we are planning for much more, but we cannot commit now.

Dhimant Shah: No, this not commitment. I am trying to gauge that given, there are two or three things are happening, one is we did, everybody did suffer as you rightly pointed owing to the non-clarification on the input tax credit and so on and so forth, of course that would have put to some amount of breaks on your growth ability, but key question is that on one hand in the garmenting you are kind of wanting to do expansion and the current expansion you mentioned can give us 15% to 20% topline growth and we are adding machines for further growth, so both put together and would not be adding but for more orders from the three or four new customer wins, so it is you getting the trajectory right, so if you can just share a little bit more on this and post this what would be mix between different currencies, so let us say between Euro, Pound and Dollar how would it stack up and if you can help us even how the currency impact because you have given us an understanding of increasing margins by removing a core, earning of forex, because forex is a core earning whether it is in favor or against to you so the rest of that if one has to see it is slightly cumulated in that sense, so if you can help us understand both these aspects?

P. Sundararajan: Yes, as I mentioned we have now some 3100 machines as of today we are running about 3500 machines and by end of March we will be increasing another about 200 machines like say 3700 to 3750 machines so straightaway some Q2 of 3100 machine, we expect in Q4 will be around 3700 machine, so you can imagine in the next year an average will be increasing by about 700 machines to 800 machines that itself shows about 20% growth for sure which is the current trend and our efficiency, which we strongly believe it will help us in growing our topline further and bottom-line as well, that definitely we are very confident because in the last six months' time we have been able to grow the efficiency by 2% to 3% and long way to go in the next six months' time to one year time will be increasing another 5% on the efficiency fact. So, this will definitely help us in a topline growth of surely 15% and may go up to 20% to 25% I am not sure about it. We are working towards that if everything goes well. On the customer front yes, we are increasing three more customers and the existing customers also would like to grow further, so what we are doing is we are reducing or diluting the customer density or existing customers at the same time growing with them as well not that we are not growing.

Dhimant Shah: You are giving more spread of fashion possible fashion across your, you want them to come more on board rather than somebody was giving you once a year only?

P. Sundararajan: So on the regular basis our existing customer we would like to grow with them, but at the same time we would like to bring down the share the contribution of their business in our business, we want to bring down, so we are adding three to four more customers, so we will have a proper shift by next financial year very concrete customer base and answer for your second question on the currency side is that yes, we grow our business to non-UK customer like two customers in the US and one in France so this help us in increasing dollar and euro business also, so probably we expect about US dollar will be 50% next year and euro will be 30% and pound will be 20%.

Dhimant Shah: So, with this mix do you think the forex volatility will be fairly reduced not to?

P. Sundararajan: Yes.

Dhimant Shah: Is there any ingrained component with any customer for you to share the currencies spoilage or take currency spoilage within the plus or minus range?

V. Balaji: The currency risk is purely ours. It could not be pass on to the customer, so what happens is that whenever we take orders we look at the currency at that point time and work accordingly.

Dhimant Shah: But earlier you had given me to understand that beyond a certain range we can go back, or we can negotiate again, and customers do negotiate again if it is against them, so I do not know?

V. Balaji: No, see I told you as a product when you look at product of 200 designs of one point of time certain products may be a better margin for customer and a better margin for us, so it is always negotiable and at the end of the day for the whole 200 designs it is a win - win situation for all, so that is how it happens.

Dhimant Shah: Sorry, was not very clear.

P. Sundararajan: Now I explain this. Each order is a project. So, it is all fashion business so which means one order will never be the similar one as other one, so which means every order is to be negotiated and the margins have to be worked mutually.

Dhimant Shah: No, in the recent past even a year or two ago we have faced massive volatility owing to the currencies and it is only purely out of that, that you wanted to spread your currency risk and that is why the outcome you spreading your basket in Euro dollar and pound, so as a natural corollary to what you are already doing, there have been instances where the garmenting guys plus minus 5% or plus minus 10% whatever that ranges you kind of share or have the customer to make good if it is beyond a certain bearable range, so is there any such order that we have taken?

V. Balaji: Nothing like that. Nothing like that.

Dhimant Shah: So, all the currency gains and I am just clarifying gain, which means all the currency gains belong to us and all the currency spoils if it goes against us also belong to us?

V. Balaji: Of course, yes because once order is agreed, entire risk is on us.

Dhimant Shah: Let us say if you have done it hypothetically something at Rs.60 and you finally realize Rs. 67 to a rupee that incremental Rs.7 has come for virtually free to you right?

V. Balaji: Yes, for that particular, yes then we will go for a next order the costing will be done based on 67.

Dhimant Shah: So, if it so happens that again you want to replenish at 67, it will happen at 67.

V. Balaji: Yes.

Dhimant Shah: Lastly if you can help us understand on the retail piece if you do a very quick math on the internal ROCE's of the subsegment of retail if LFS, EBO, COCO, or FOFO, which of these subsegment is more profitable for you?

V. Balaji: The EBOs are more profitable.

Dhimant Shah: So EBO, LFS, COCO and then FOFO.

V. Balaji: Yes.

Dhimant Shah: In that order.

P Sundararajan: The large format stores helps us in scaling up the business very fast and penetrations growth throughout all parts of India and EBOs gives you better margin, but need more investment, but EBOs in terms of ROCE, EBOs are far better.

Dhimant Shah: So overall net-net would it be fair to say that 15% plus volume growth for next two, three years?

P Sundararajan: Yes.

Dhimant Shah: with the current margins being sustainable?

P Sundararajan: Yes, current margins are sustainable may be a growth of anywhere between 10% and 15%.

Dhimant Shah: Can I squeeze one more question if that is okay? The new rule of the minimum wages does it impact us big time or alternately can we pass on that cost?

P Sundararajan: That is minimum wage is not for us now because it is not for the wholesale industry, so the minimum wage was there.

Dhimant Shah: Yes, some 15000 or whatever.

P Sundararajan: No, nothing to do for us.

Dhimant Shah: Great Sir. Thank you so much.

Moderator: Thank you. We will take a next question from the line of Pranoy Kurian from Ambit Investments. Please go ahead.

Pranoy Kurian: Thanks for taking my question. Wanted to ask you regarding your prior revenue numbers, could you help me out with the FY07 revenue number?

V. Balaji: FY07?

Pranoy Kurian: Yes, your revenue number.

V. Balaji: During the year 2007.

Pranoy Kurian: Yes.

V. Balaji: Of which, total revenue you are talking about?

Pranoy Kurian: Yes, total revenue, it is an approximate number that is fine.

V. Balaji: 2007, we were normally a trading company, we did not have manufacturing facilities and all, so I do not think it is better to compare 2007 with 2017.

Pranoy Kurian: So then when would that transition have taken place from trading?

V. Balaji: It took place from 2008 between 2011.

Pranoy Kurian: 2008 to 2011.

V. Balaji: Between 2008 and 2011.

Pranoy Kurian: What I was actually trying to understand I see the growth between 11 and 16 there was a period of consolidation as you have disclosed, but Sir I was just wondering when came to invest you are still investing in capex in FY2011 and 2012, now I know that you also sold some assets in FY2012, so could you just explain what was asset that was sold and what capacities you are adding in 2011 and 2012?

V. Balaji: 2011 what you see in terms of capacity addition that all in the work-in progress stage as I told you 2008 and 2011 where the consolidation - where we were expanding on the production manufacturing front, so 2011 you would have found everything capitalized. In terms of the assets, which we have sold was windmill. We have sold was windmill at that point of time.

Pranoy Kurian: So that was in 2012 and then if those windmills, that assets getting sold then I think roughly Rs.80 Crores would have been added in capex over 2011 and 2012?

V. Balaji: Mostly around it could be, I do not have numbers.

Pranoy Kurian: I mean I think that is the number looking at 2011 was Rs.52 Crores?

V. Balaji: It could be, when you look at the addition of assets between 2007 and 2011, it could be close to around Rs.150 Crores during that period.

Pranoy Kurian: That is net of the windmill you are saying.

V. Balaji: Yes.

Pranoy Kurian: If I am saying FY2011 and 2012 just those two years there was Rs.80 Crores added in capex?

V. Balaji: I do not have any numbers in my hand as such maybe you can send me a mail requesting details I can share with you.

Pranoy Kurian: Okay fine. On a similar note I was just wondering what is the volumes we could not find in the prospectus, what are the volumes be in FY2011?

V. Balaji: Sorry I do not have any numbers now?

Pranoy Kurian: That is, it from my side. I will get back in the queue.

Moderator: Thank you. The next question is from the line of Rahul Jagwani from SKS Capital. Please go ahead.

Dimple Kotak: This is Dimple Kotak from SKS Capital. I want to understand that suppose if the duty drawback does not go back to the normal level before March then will see an impact on our margin in the second half?

V. Balaji: The duty drawback does not come back to the same level, we will be having impact surely on the margins to the extent of 200 to 300 basis point, which I explained previously also. To mitigate that pressure in the margins we are backwardly working on, one efficiency and two scaling up the operations and three we are also talking to our suppliers to bring down the rates also, so if you look at the GST structure for example chemical supplier who is supplying chemical & dye, now his base price of a product is remaining same, so there is reduction in price because of GST, so these things will definitely improve the margin.

Dimple Kotak: If I am understanding correct that because of these measures even if the rate does not go back to the previous levels, we will be able to sustain margins at 18%?

V. Balaji: We should be able to sustain 18% margin.

Dimple Kotak: Sir second is that this year this quarter because we paid interest on preference that is why our interest costs were higher, so going ahead you see normalized interest rates for the coming quarters?

V. Balaji: Our interest outflows are normalized only except for couple of the debt, which was successfully closed using shareholders fund. Now this dividend cost of preference, dividend will be in the interest cost, so definitely for the whole year there is going to be an impact of Rs.2.5 Crores because of this preferential, but other than that our other things should be normal.

Dimple Kotak: Will it be fair to take a 10% jump of the interest cost compared to last year for the full year?

V. Balaji: You mean 10% jump?

Dimple Kotak: Increase I mean increase on a YOY basis?

V. Balaji: Anywhere between 6% and 10% yes.

Dimple Kotak: Sir that is all from my side. Thank you so much.

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

Ronak Morjaria: Good evening. Sir I just wanted to understand what was our current realization per piece excluding the duty drawback benefits?

V. Balaji: Current realization for this quarter is Rs.113.

Ronak Morjaria: For the first half what would approximately?

V. Balaji: First half.

Ronak Morjaria: Yes?

V. Balaji: First half should be anywhere between Rs.102 to Rs.105.

Ronak Morjaria: You are guiding for the 50 million pieces, so roughly for 4% kind of volume growth and approximately if I just assume it to be 110 the realization then we are assuming that the garment segment revenue should be growing by approximately 10% odd percent? Is it fair to assume that?

V. Balaji: Yes. We are looking at the 10% appreciation and we are not guiding for 50 million pieces, but we are expecting it to touch 50 million pieces.

Ronak Morjaria: Also, if you can just throw some light like you faced the Brexit impact in Q1 and Q2 how is the scenario now? Is it improving or is it still in challenging situation?

P. Sundararajan: We are still not completely out of this, but one thing is for sure it is improving. There is a restoration situation, which means like immediately after Brexit, our costing done for Q1 delivery, there were lots of pressure of 18% to 20% deduction in price due to pound depreciation, so we had to lost some of the businesses and now we are getting them back, so if not 18% recovery at least we are getting about 10% to 12% gain in the price negotiation as compared to Q1 shipments. So, I think by end of Q4 and beginning of Q1, we will be back to normal as before. Because it is a big challenge and bit hit in the industry Brexit and especially for us UK competition is more, so despite all these challenges we have been able to sustain, which is only because of the fundamentals of the company and the way of our working. So, I am very confident Q1 we will be back to normal.

Ronak Morjaria: We would continue to see growth from our existing customers as well as incremental growth, which you would see from the new clients? We would be discontinuing any existing customers?

P. Sundararajan: No. We are only adding. We are not discontinuing anyone and with the existing customers also there will be a growth of 5% to 10%.

Ronak Morjaria: Lastly this spinning the backward integration would be implemented by end of Q1 or we will get to see the benefit of that from Q2 or prior to that?

P. Sundararajan: Yes, from Q2.

Ronak Morjaria: Thank you. That is, it from my side.

Moderator: Thank you. Our next question is from the line of Duby Rex from iThought Financial. Please go ahead.

Duby Rex: Good afternoon. Could you give us the breakup on that retail Sir from EBO and from B2B?

V. Balaji: B2B is Rs.5.04 Crores. B2C is Rs.16.23 Crores.

Duby Rex: So in the opening remarks Sir had mentioned about that Kovilpatti Factory, could you throw some more light on this in terms of the cost and also the fact that all the other units have in and around Tirupur area and this is the first one coming out of that area, what is the though cause and some financial numbers also the cost and things like that something would be great?

P. Sundararajan: The reason for putting up somewhere in Kovilpatti is because that is one of the catchments areas where in the fire work industries are there and lot of our ex-workers had worked here and gone back and settled down, so they are very much willing to come back if we put up a factory there, so we have done a study survey there, so there is a big catchment area especially for SP Apparel. That is the reason why specifically we wanted to set over there and secondly is the cost wise there is no big difference because we go by the minimum wages of the industry, so we do not see any benefit on cost of manufacturing. The only thing is increase in the capacity.

Duby Rex: Sir I meant the cost of the total factory unit, putting up the unit, and things like that of that sort I meant actually?

V. Balaji: The project cost you mean.

Duby Rex: Yes Sir?

V. Balaji: It is about Rs.13 Crores.

Duby Rex: Rs.13 Crores. That is all from my side. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Naysar Shah from ValQ Investment Advisors. Please go ahead.

Naysar Shah: Sir in your first half if I exclude turnover of SPUK, the decline is much higher, so when you are guiding for about 50 million pieces and 10% to 15% growth, it is including SPUK or you are talking about the manufacturing operations?

P. Sundararajan: We are talking about 10% to 15% on all the quantities, which has been described about S.P Apparels India and not about SP UK, so we are looking at the 10% to 15% growth excluding SP UK. The SP UK's growth will be far, far higher.

Naysar Shah: Sir the spinning facility that is coming up, so what kind of benefits you will have next year on margins because of that?

V. Balaji: Anywhere between 150 and 250 basis points improvement in EBITDA.

Naysar Shah: Sir in your opening remarks you said that you planning to add a couple of new customers in 2018, so you mean calendar 2018 is it?

P. Sundararajan: Financial year 2018.

Naysar Shah: So, this year Sir you already added three customers you mean in the next five months you will add two more customers is it?

P. Sundararajan: Yes, another two more. Existing there are three and we will have another two more.

Naysar Shah: Sir these two new customers what kind of business potential you see in the medium term?

P. Sundararajan: The additional new.

Naysar Shah: Yes?

P. Sundararajan: There is similar kind of customer what we are looking for in new kind of customers probably from US. I cannot comment anything more on these customers.

Naysar Shah: Thank you very much Sir and all the best?

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

Vikas Jain: Thank you for the opportunity. Sir my question is what are the sales of Primark and how is Primark in US in this quarter? Sir I wanted to know how was the Primark as a customer for us in this quarter and how do you see for the rest of the year? Do you continue for the growth that you guided in the last quarter? Is it still achievable?

P. Sundararajan: Yes.

PV Jeeva: Actually, Primark contribution for Q2 is around 34% and this may reduce from Q3 to Q4. Maybe it will be around 30% and from next year also, we will be maintaining around 30% in Primark account.

Vikas Jain: Also in retail side, Sir what was the net addition of the LFS Stores if you talk about in the H1?

V Balaji: Totally, we have added forty stores this quarter. So now we are close to around 180 stores of LFS and we are planning to open by March 2019, we will be having 300 LFS stores for now.

Vikas Jain: Thank you Sir.

Moderator: Thank you. Our next question is from the line of Moiz Tambawala from Florintree Advisors. Please go ahead.

Moiz Tambawala: Good evening. What are the export revenues for the quarter?

Moderator: Sir we could not hear you Sir.

Moiz Tambawala: What was the export revenue for number of machines?

Moderator: Sir your voice is breaking up. We are not able to hear your question.

Moiz Tambawala: I will come back Sir.

Moderator: We will take the next question from the line of Yogansh Jeswani an Individual Investor. Please go ahead.

Yogansh Jeswani: Thanks for the opportunity. Sir just going back to the duty drawback aspect of it, so in terms of meeting the current order has the pricing and contract must have been on the basis of the past 7.5% rate or were we able to renegotiate or will the GST input credit be what has balanced the situation, so your comments on that Sir?

V. Balaji: Any orders taken with the shipment date after October 1, 2017. We have considered only 2% on the duty drawback structure. This is how we have worked. So, when existing orders, which are in the new pipeline will not affected because of the change in the duty drawback structure.

Yogansh Jeswani: So, no impact as such?

V. balaji: The margin pressure will be there, but on the costing front we have considered this duty drawback structure at 2% only.

Yogansh Jeswani: Understood. I meant no impact on the execution front of the orders? You said 200 to 300 basis points that you have taken right?

V. Balaji: Yes.

Yogansh Jeswani: Sir secondly will there be any impact on working capital due to this change from duty drawback to GST regime?

V. Balaji: Yes definitely. See we are paying the GST on the cotton, Fabric and dye all upfront and then we are getting it refunded. The Ministry is assuring us refund at least within a period of four months' time, but I guess it may take longer time, but until we have this four-month upfront scheme, we are not seeing the refund as such. So eventually when you start looking at the refund being issued at the proper timing, we may be sure in telling that, but there is a strain in the working capital to an extent of three or four months of GST, which is being paid upfront.

Yogansh Jeswani: Is it possible to comment on the quantum of it given the clarity you have at present like how much increase?

V. Balaji: If you look at the Rs.2.5 Crores of payment per month, so three and a half months, it should be anywhere between Rs.10 Crores.

Yogansh Jeswani: Rs.10 Crores additional?

V. Balaji: Yes.

Yogansh Jeswani: Understood Sir. That is, it from my side. Thank you.

Moderator: Thank you. Our next question is from the line of Dhruv Bhatia from AUM Advisors. Please go ahead.

Dhruv Bhatia: Sir my first question is on the volume guidance that is not a guidance though, but achievable target of 50 million pieces for the end of FY2018, it implies that for the H2 FY2018 you will probably need to store volume worth 20%, so do you feel that is achievable number for you?

P. Sundararajan: Yes of course. We do not anticipate anything on the customer front and manufacturing side also we are increasing the capacity and sufficient man power is also in place, so we do not see any difficulties.

Dhruv Bhatia: Is that much visibility in terms of order book for you to achieve that number?

P. Sundararajan: Of course, yes. We already have an order book of Rs.230 Crores as I mentioned to you before in the opening comments. So, we will always ensure that we have at least three months fully book our capacity. That is the way we work.

Dhruv Bhatia: Sir how do you seemed to have three new customers, which you have added the two American and European customers, which you have added how do we expect to see this ramping up? Would it be a very gradual ramp up in terms of volumes or should we see this?

P. Sundararajan: As I mentioned to you before all of them were our old customers who have been working with us before and due to constraints on capacities and things, we had to exit amicably, and we have promised them we will come back at one time and now we have gone back, and the business has restarted, so we assuming that the straightaway taking see for example Garan we started just about six months back. So, the shipment started growing and already Rs.20 Crores shipment has gone now. Since we have an order book of say another about Rs.20 Crores of order book already we have, and we met them last week, so we have a commitment for the next whole year, so it is not an issue.

Dhruv Bhatia: Sir I just want a clarification when you mentioned earlier that on the existing capacity that you have, you can grow revenues by 15% more, this does not include the new plant where you are putting up 350 sewing machines right?

P. Sundararajan: That is for the next year 2018-2019 we have planned for and that will be in addition to the 15% growth what we expect.

Dhruv Bhatia: Sir what type of growth can you see with this additional of 350 machines?

P. Sundararajan: About 7% to 8% because it cannot take up immediately being a first year.

Dhruv Bhatia: Sir the last question was on the currency because you have exposure to all USD, GBP as well as Euro, so going forward because you have shown a realized gain, which is a part of your revenue of Rs.4 Crores for the quarter how should we see this going forward? Should we continue to see a run rate similar to this based on the hedging that you have already done?

V. Balaji: See hedging it is all in the market. It is market driven. We do not have any control on the market driven. What happens to this exchange gain is that when I book a sale on that spot rate and when I realize gain is the difference is the exchange, so we always find it when we hedge our orders, we see that there is a good premium, which we get, so there is always an opportunity for us to make gains there.

Dhruv Bhatia: Thank you.

Moderator: Our next question is from the line of Rahul Jagwani from SKS Capital. Please go ahead.

Dimple Kotak: Dimple here. Sir just wanted to ask that has the contribution to the revenues from the new customers started or will it start on second half?

P. Sundararajan: It is all from the third quarter. We have done a Small shipment for K mart of about Rs.11 lakhs the month of September so the big jump is only going in this month.

Dimple Kotak: Sir, I missed on to your realization per piece in this quarter and the previous year?

P. Sundararajan: Sorry?

Dimple Kotak: Sir, if you can just help me with your realization figure, the realization per piece?

V. Balaji: 113.

Dimple Kotak: Sir what was that in the last year?

V. Balaji: Last year it was close to around 101 or something, it is close to 100.

Dimple Kotak: So, do we expect any increase in realizations going ahead or would we stabilise at this?

V. Balaji: It is a product mix; you will not be in a position. See it will fluctuate between Rs.10 and Rs.20 plus or minus because we will continue to change the product and also it is also the game of summer products and winter products and simple may produce more units, but the average price will be lesser. So, it will always be ranging between 98 and 120.

Dimple Kotak: Sir, and your order book if I am correct is Rs.230 Crores you said?

P. Sundararajan: Yes.

Dimple Kotak: Sir, just to sum it up, for the FY2018 is this safe to assume our 10% to 12% of topline growth with 18% margins?

V. Balaji: Yes. if you look at the consolidated numbers, we are not committing on anything, we can definitely, we will be anywhere between 10% and 12% and margins it should be anywhere between 15% and 18%. We should be in sustainable margins.

Dimple Kotak: Thank you so much.

Moderator: The next question is from the line of Moiz Tambawala from Florintree Advisors. Please go ahead.

Moiz Tambawala: Good evening. Sir, I missed out the duty drawback part. Could you give any update on what is happening with MEI & ROSL?

V. Balaji: On duty drawbacks we are getting, 2% no information on ROSL, even the associations are waiting for the information on ROSL but no clarity on it so far.

Moiz Tambawala: Are you not sure whether it is going to come or not. The current hit that we are expecting is purely based on duty drawback structure, because ROSL of acquisition is that an additional uncertainty is it correct?

V. Balaji: I told you about the impact of duty drawback is around 200 to 300 basis points, which is including the assumption that there will be no ROSL given.

Moiz Tambawala: Got it. What is the export sale for the quarter as well as your utilization level?

V. Balaji: Utilization is 78% this quarter. What was your question upon?

Moiz Tambawala: The export sale?

V. Balaji: It is 116 Crores.

Moiz Tambawala: The number of machines you have done for the quarter?

V. Balaji: 3158.

Moiz Tambawala: Thank you so much.

Moderator: Thank you. We have our next question from the line of Ankit Gor from Systematix Shares and Stock. Please go ahead.

Ankit Gor: Thanks. Sir, I have a question on retail business. If you can give me some breakdown of capital employed into the retail business. That will be great, one. Second in absolute EBITDA number of UK operations that will be great?

V. Balaji: Ankit the capital employed for retail operations is around 60 Crores and if you look at ROCE, this is the first quarter where we had made an EBITDA positive. So, the EBITDA is close to around 6% I guess. UK business we have got 69,000 GBP at PAT level for H1FY18.

Ankit Gor: 69000 GBP, okay. When we say total machines we have if I am not wrong there it is 4050 is the machine numbers when we say we utilized 78% capacity utilization that mean?

V. Balaji: 3158.

Ankit Gor: 3158 and we can go up in this sense we can go up to full utilization, right?

V. Balaji: Yes, we can go up to 95%.

Ankit Gor: Sir, what is the mix this time around for basic and specialty in your operation? What did that mix this quarter?

V. Balaji: Product mix, it will be 60% fashion and 40% basic.

Ankit Gor: This time around we did more of fashion?

P. Sundararajan: Yes. That is our key area to make profits.

Ankit Gor: I mean to say sales realization NSR per piece was higher this time around, 113 against probably 96 of these.

P. Sundararajan: We started increasing some pajamas where it has more value per piece. So, we are working a lot of things internally to improve the unit price.

Ankit Gor: Great Sir. Thank you. All the best.

Moderator: Thank you. I would now like to hand the floor back to the management for closing comments. Over to you Sir!

P. Sundararajan: I thank everyone who has participated in this session. Please be rest assured in us, and I would like to give an assurance that we are going in the very right track and we have been our whole team, the full team has been really working so hard to ensure that things are in place and we are reviving and facing all the challenges and we know what are the challenges and we know how to tackle them and we are going in the right direction. Please be rest assured. Thank you.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Systematix Shares and Stock Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.