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23rd November, 2018

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

Please find enclosed the transcript of the Conference Call conducted by the Company on 16th November, 2018.

Kindly take the above on your record.

Thanking You,

For S.P.Apparels Limited,

K. Vinodhini

K.Vinodhini
Company Secretary and Compliance Officer

"SP Apparels Limited
Q2 FY2019 Earnings Conference Call"

November 16, 2018

ANALYST: **MR. KSHITIJ KAJI – EDELWEISS BROKING 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
MRS. P.V. 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 FY2019 Earnings Conference Call hosted by Edelweiss Broking. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kshitij Kaji. Thank you and over to you Sir!

Kshitij Kaji: Good afternoon, everyone. Welcome to the Q2 FY2019 S.P.Apparels Conference Call. On behalf of Edelweiss Broking, I would like to welcome the management of S.P.Apparels Limited to discuss their quarterly results and the future outlook. We have with us Mr. P. Sundararajan – Chairman and Managing Director, Mrs. S. Latha – Executive Director, Mr. S. Chendhuran – Director Operations, Mrs. PV Jeeva – CEO, and Mr. V. Balaji – CFO. I would now request Mr. Sundararajan for his opening remarks, followed by Q&A session. Thank you and over to you, sir.

P. Sundararajan: Thank you. Good afternoon. I am glad to inform you that we have grown in revenue by 12% year-on-year during the current quarter. We have witnessed robust revenue growth across all divisions.

Let us review the performance of each vertical separately. Now garment division, the garment division's revenue increased by 16% in Q2 FY2019 compared to Q2 FY2018, primarily driven by increase in orders from existing as well as new customers.

Adjusted EBITDA improved by 11% on Q-o-Q basis mainly due to efficiency improvement. PBT increased by 42% due to decreased finance cost majorly on redemption of the preference shares and PCFCs restatement. Overall PAT grew by 53% year-on-year. Currency movement of rupee as against pound, dollar, euro is now in a favorable condition to us.

Our current capacity is 4385 sewing machines and our utilization is at 77%. Optimizing the current capacity will improve our top-line. Our continuous efforts to increase our production efficiency which is yielding results and we are seeing good improvement.

Our current order book is at Rs. 364 Crores. We are also working to add more customers. We have exported goods to H&M, Carters ,Carrefour and expecting new business from Target . Thus, by end of March 2019, we should be having a fairly distributed customer base, which will facilitate steady growth over a period of time with an uninterrupted order book.

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

Next is SPUK operations, SPUK continued to demonstrate growth momentum. We recorded revenue of 1.4 million pounds in Q2 FY2019, which is close to 27% higher in comparison to Q2 FY2018. SPUK operations were EBITDA positive and for Q2 FY2019 our EBITDA was at 10%

as compared to 4% in Q2 FY2018. We are seeing SPUK business as more promising and will grow in the same pace for the current year also.

Then comes the retail operations. Our revenue in the current quarter has declined by 22% as against Q2 FY2018 which is mainly due to IndAS transition. Retail revenue grew by 10% year-on-year for the H1 FY2018 as against H1 FY2019. The retail operations have delivered an EBITDA of 6.3% flat when comparing year-on-year. As on March 2018, we had 31 COCO stores and 18 FOFO stores. Looking ahead we aim to open more stores on franchisee model in addition to COCO stores. We are also working on conversion of existing COCO stores into FOFO model.

Regarding our large format stores model, we continue to increase our presence across all large format stores. Currently, we are close to 237 doors. Going forward, we are planning to increase our large format store outlets to 300 by end of March 2019 and the plan is well on track. We are glad to inform that we have plans to launch Crocodile footwear, time wear and luggage on sub-license model, which will bring additional margins.

Other expansions, on the spinning expansion, we are glad to inform that the building construction is going on full swing and is expected to be completed by December.

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

V. Balaji: Good afternoon, everybody. On the financial performance of the second quarter FY2019, company grew by 16% for the first half in the total revenue front and the adjusted EBITDA stood at Rs.61.35 Crores which was 2% increase of last year and the PBT margins increased from 9.9% to 11% for the first half and the PBT absolute value increased by 29% from Rs.32 Crores to Rs.41.39 Crores and PAT increased from Rs.20.8 Crores to Rs.27.5 Crores, which is 32% for the first half.

On a quarter-on-quarter numbers, on an adjusted revenue front, this is the highest quarter which we have recorded Rs.190 Crores of revenue and at the EBITDA level our adjusted EBITDA stood at Rs.35.21 Crores, which is close to around 18.5%, which is an increase of 11% over last quarter year-on-year basis and our PBT stood at Rs.21.41 Crores which is 11.3% which is an increase of 42% year-on-year and our PAT stood at Rs.14.9 Crores, which is 7.8% which is 53% increase year-on-year.

Our garment revenue for this second quarter improved by 16% and our UK revenue grew by 27% and retail growth declined by 22% basically because of IndAS transition has explained by CMD. On the balance sheet front, if you compare, our debt levels have come down mainly because of the redemption of preference shares and also because of the utilization levels.

Our current inventory is close to Rs.240 Crores as against March Rs.187 Crores- is basically because of two reasons, one because of the increased order capacities where we are looking at close to around Rs.200 Crores of order execution next quarter and two because of the IndAS accounting standard 115 adjustment, but if you look at our total current assets we have come down by Rs.5 Crores when comparing March 2018, we were Rs.483 Crores of current assets during March 2018 and we have come down to Rs.477 Crores for September 2018.

Other things are available in the presentation and now we can straightaway get into the question and answer session. Thank you.

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

Dhruv Agarwal: Good afternoon Sir and congratulations on a good set of numbers. Can you tell me the number of garment pieces that we sold for the second quarter versus year-on-year numbers?

V. Balaji: For the second quarter this year, the number of pieces exported is 13.2 million pieces as against 11.17 million pieces during Q2 last year.

Dhruv Agarwal: And sir the realization per piece for the same period this quarter versus last year?

V. Balaji: This quarter the realization per piece is Rs. 112 including the duty draw back and the other things and comparing last year it was 105.73 per piece.

Dhruv Agarwal: Sir, have you added any new clients in the second quarter?

P. Sundararajan: We have not added any new during the second quarter, but as I mentioned you there is one American customer underway, we expect to start the business by first quarter of next year and the rest of the customers which we added over a period of one year, the business is now regularized.

Dhruv Agarwal: Sir can you tell me the number of new machines you have installed in the first quarter.

V. Balaji: So first quarter, the machines total capacity has increased just by 15 machines. Machines have come and it is yet to be installed. So this installation happens usually after this Diwali time. So we can expect the addition of machines coming in the second half.

Dhruv Agarwal: And sir in the second quarter how many machines you have added?

V. Balaji: 15 machines.

Dhruv Agarwal: Again 15 and in the second half how much do you expect to add?

V. Balaji: Second half it could be another 200, 250 machines.

Dhruv Agarwal: 200 to 250 machines.

V. Balaji: Yes.

Dhruv Agarwal: And sir one thing regarding the numbers which I wanted to ask is that. For the second quarter we see an increased interest expense, in the first quarter it was around Rs 3.78 crore, in the second quarter it is Rs 6.29 crore. So this rise in interest cost is account of what.

V. Balaji: This rise in the interest cost is basically because of the PCFC restatement.

Dhruv Agarwal: Okay PCFC restatement?

V. Balaji: Yes the PCFC, you know the currency movement, so because of PCFC restatement there is a loss of Rs.2.8 Crores.

Dhruv Agarwal: So this loss of 2.8 Crores accounted in the other comprehensive income loss.

V. Balaji: No, that is part of PCFC only.

Dhruv Agarwal: And sir there is loss that is of Rs.2.1 Crores for the other comprehensive that is on account of what?

V. Balaji: That is because of the MTM on the forward contracts.

Dhruv Agarwal: Okay sir, I will come back in the queue.

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

Kashyap Jhaveri: Good afternoon Sir and congratulations on a good set of numbers. My first question is on order book, what is our order book at the end of Q2.

P. Sundararajan: As I mentioned to you it is Rs.364 Crores.

Kashyap Jhaveri: And this is after reducing the Rs.200 Crore order which is pending for dispatch or this is pre that?

V. Balaji: No as on today, order book on hand is Rs 364 crores this can be not necessary it will be only for three months, it can be even for four to five months time.

Kashyap Jhaveri: That I understand sir. My only question is that this Rs 364 crores number of order book, so you mentioned at the end of Q2 there was this one order of Rs.200 Crores which is part of the inventory and sort of pending, this is not part of the Rs 364 crores?

V. Balaji: No see, what I mentioned is that Rs 200 Crores of shipments that can happen in the next three months' time that is what I felt.

P. Sundararajan: There is an increase in the shipment sales so that is the reason for increase in the inventory.

Kashyap Jhaveri: I remember in the first quarter you had mentioned that the tax rate impact seems to be wearing off and we are seeking price increases from our clients to restore the gross margins. If I look at this quarter your gross margins on Y-on-Y as well as quarter-on-quarter basis are up by about 400-500 basis points. How much of this is contributed by any price increases in GBP terms that you would have taken or foreign currency terms you have taken and how much is contributed by the cotton sourcing, any efficiency that we would have gotten?

V. Balaji: See in terms of increase in the margin, if you want to have a split between what is because of the price increase that is happening and what is because of the cotton prices that is coming down that will be very hard to look at because each project has got only 50000 pieces designed, so you cannot match everything to the gross margin level but basically there can be two, one because the cotton prices have stabilized and there is no volatility in the cotton prices now and two because after the Brexit, now people have started even increasing the margins.

P. Sundararajan: See this is the normal margin structure even before Brexit, so we had a challenge during the Brexit. So now we are reviving coming back on track. So that is a normal thing and even the cotton side also we have mitigated that cotton fluctuation. So we cannot give you the breakup of exactly what it is, as he mentioned that order-to-order we book, so we go along with the cotton prices, we quote the prices and it is based on the current exchange rate. So it goes as it is.

Kashyap Jhaveri: Now is this like more sustainable gross margins, is that you are saying?

P. Sundararajan: Yes very much. So only during the Brexit we had a challenge that is all.

Kashyap Jhaveri: And what is the volume growth that you would or let us say value term sales growth that you would guide for the full year?

V. Balaji: We have already guided anywhere between 10% to 15% on a year-on-year basis, you cannot correlate it with the volume versus value. So if the volume is going to come down then the value is going to go up, so it is like you cannot correlate both together.

Kashyap Jhaveri: And if I remember correctly you said one American customer will start contributing in terms of top-line from next year, which were signed up last year.

V. Balaji: Yes.

Kashyap Jhaveri: And this H&M, Carters and Carrefour, have they started or when are you expecting those clients to come?

V. Balaji: Shipments have already been done and we have also received money from them now.

P. Sundararajan: I mentioned to you that all shipments have been effected for the first orders and we received the payments, so the order inflow is again regularized now from these customers.

Kashyap Jhaveri: Thank you very much sir. That is all from my side.

Moderator: The next question is from the line of Deepen Shankar from Trustline PMS. Please go ahead.

Deepen Shankar: Thanks a lot for the opportunity and congrats for a good set of numbers. Sir, I just want to understand the demand scenario– is it improving for UK and US market and if this ecommerce aggression is slowing down and retailers gaining more share?

P. Sundararajan: In the European and American market you mean.

Deepen Shankar: Yes.

P. Sundararajan: So, the ecommerce is going steady there, there is no doubt about it, but see all the retailers are mitigating the situation by both ecommerce and the brick and mortar model. For all our customers we deliver for , they are doing a good proportion of ecommerce as well. So there is no big challenge on duty ecommerce in the near future.

Deepen Shankar: Otherwise, overall demand scenario has it improved?

P. Sundararajan: Yes, in the sense because of China the business - due to China's situation, the business can very likely come to India which is the second immediate option for resourcing. So India as a country we have better chances to get the overflow of China business .

Deepen Shankar: And one more thing, this WTO noncompliance subsidies, if WTO force the India to remove this kind of subsidy so what will be the impact on Indian exporters?

P. Sundararajan: No. Currently, there are no subsidies. We are at par with WTO.

Deepen Shankar: Okay. This ROSL and other subsidies also? Because US has been against Indian textile subsidies right?

V. Balaji: Yes, see when there is an impact of WTO on the subsidy front, it is upto the government to tackle that. See already we have a CAD climbing regularly and we have already crossed whatever has been done last year. So I guess for the time being, there will not be any impact on the subsidies given by the government on the WTO front, even though if they are going to pressurize the Indian government on the subsidies given, they have to support the Industry or else the industry will not be in the position to export goods.

P. Sundararajan: Because already we have taken a hit of about 2% on the duty draw back. So I think the government will have to manage the situation considering the industry.

Deepen Shankar: So currently our subsidy is around 9% right sir.

V. Balaji: No it is closely around 7.7% including the ROSL.

Deepen Shankar: So near-term we are not seeing any threat, so even if they force the government could do it in any indirect form that is what our…

P. Sundararajan: Yes definitely because it is a second largest labor intensive industry.

V. Balaji: Not only because we are labor intensive until we as a country depend much on crude, fuel, like coal, the gold we completely depend on the other countries for imports. To balance that they have to support the export industry which would be very tough for the government without the export support.

Deepen Shankar: Thank you and all the best.

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

Vikas Jain: Thanks for the opportunity. Sir my first question will be, are we able to take some price hikes on products which was a bit difficult in the earlier past?Are we able to take the price hike in our product now?

P. Sundararajan: Can you say that again because your voice is too much of eco, feedback, can you lower down your voice.

Vikas Jain: Sir, is it audible now.

P. Sundararajan: Yes it is very noisy.

Vikas Jain: Sir I was asking about the price hike. So have we taken any price hike during the quarter or is the scenario being favorable now or is the price hikes taken in selective pockets now?

P. Sundararajan: Yes, to some extent there was a big hit during the Brexit, but now we are able to revive and customers are able to consider the price that was originally used to be.So there is acceptability from the customer side.

Vikas Jain: Sir, my second question is on our hedging front. So as just mentioned earlier that we are bit comfortable now as compared to the currency rate, so can we assume now that we will not have any Forex losses in the coming quarter?

V. Balaji: On the exchange front?

Vikas Jain: Yes.

V. Balaji: How do you expect me to tell an answer to this because dollar went up to $75 now it is at $71. So we will not know what is happening to the dollar or the currency of Indian rupee, as it is not in our hands, but what we can assure is that today if I am taking an order and if I am inwarding the order today the rate will be protected. That is what we can ensure, but we cannot say because of the exchange fluctuations.

Vikas Jain: Right, so the order book that we currently have, so assuming that they say that this rate the dollar rate?

V. Balaji: If this status quo remains same, then we should be comfortable with the exchange rates.

Vikas Jain: Got it sir. Thank you.

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

Ronak Murjaria: Good afternoon. Sir my first question is on the other expense side, if you look at in the current quarter our other expenses have shot up quite a bit, if you could highlight what is the reason behind that?

V. Balaji: Total other expenses include the power and fuel, the electricity, the repairs and maintenance, the selling expenses, the admin expenses all put together and this quarter especially first half in fact. First half, there has been significant AOP work, which has been taken. AOP is all over print which happens in which we do not have in-house capacity. So these prints have been given outside and we have taken close to around Rs.6 Crores to Rs.7 Crores of increased manufacturing overheads outside. The other cost like we have given a provision for bad debts for Rs.1 Crore. We have given 1.5 Crores increase in selling OH , Rs 50 lakhs have gone to the CSR which was not there last year. So when you look at say Rs.20 Crores first half versus first half for the whole year. There is an increase of Rs.20 Crores year-on-year for the first half alone. So this Rs.20 Crores, 6 Crores to Rs.7 Crores contributed by the other manufacturing expenses, Rs.1 Crore has gone up in the power and fuel, Rs.1.5 Crores in the selling and distribution expenses, Rs.50 lakhs in CSR and Rs.1 Crore because of the provision of bad debts. So closely around Rs.12 Crores is contributed because of this and balance is in proportion the top-line.

Ronak Murjaria: Okay. So this 12 Crores out of this, but now Rs.6 Crores to Rs.7 Crores of the additional manufacturing expenses that will keep on continuing right?

P. Sundararajan: It is like this because we have taken more of American customers the volumes are big, and the requirements on embroidery or the printing is more, where not necessarily it would have to be done in-house facility . So on and off, we will have to send it out for subcontracting, so that will cost the additional other manufacturing expenses.

Ronak Murjaria: Yes, so that is what I was trying to confirm that since we are started supplying to these new customers and hopefully we will keep on continuing the subcontracting.

P. Sundararajan: Yes this will continue because it is part of our costing-

Ronak Murjaria: My second question was on the margin dip on the garmenting front for this quarter. So if you could throw some light on that also.

V. Balaji: If you look at our margin year-on-year, yes there is a dip of 40, 50 basis points year-on-year, but if you look at our margin quarter-on-quarter we have improved our margin closely around 420 basis points on quarter-on-quarter basis. So the 40, 50 basis points of change in the margins year-on-year could be basically because of the customer mix, because of the product mix, it could be because of that.

P. Sundararajan: Not only that see if you look at the 2016-2017 the margins are better as against this one - that was pre Brexit type where the exchange rate also was much favorable then, then in 2017-2018 there was a dip and now in this year FY2019 we are reviving and they coming better and better, if you see the quarter-on-quarter.

Ronak Murjaria: So for full year we are expecting it to be at 18%, 19% for the garmenting segment?

V. Balaji: Yes, we are looking anywhere between 18% to 20%.

P. Sundararajan: Very likely.

Ronak Murjaria: Okay. And if you could also help me understand what is the current status of our spinning facility and when will it be operational?

V. Balaji: The project should be completed by December 2018 next month or it could be completed by January. So it should be operationalized in the month of March.

Ronak Murjaria: Okay. So proper operations will be starting - at least we can expect from the FY2020 onwards?

V. Balaji: Yes, full year operation you can expect from FY2020 onwards.

Ronak Murjaria: Okay. And also if you could give us an understanding that out of this quarter revenue how much would be from our new clients and how much would be from our existing clients if you could help us with that?

V. Balaji: We have already said that the contribution percentage could not be shared, but the new client is closely around 3%-4% for this quarter.

P. Sundararajan: Because in the early stage, we were just increasing now.

Ronak Murjaria: Okay. And lastly if you could help me understand on the retail front, how was the festive season for us this quarter and what kind of revenue we are expecting for the full year?

V. Balaji: We have performed closely around Rs.37 Crores of revenue in the first half. So second half should be better, where this year the festive season was delayed, so the revenues for the festive season is expected in Q3. So we expect anywhere between…

Ronak Murjaria: Q3 only, how is it? I am just trying to understand.

V. Balaji: It should be better and we should be closely around Rs.80 Crores of revenue for the whole year, anywhere between Rs.80 Crores to Rs.85 Crores.

P. Sundararajan: The retailer sale was very good in fact. That will answer the question.

Ronak Murjaria: If you could just help me understand this IndAS adjustment in retail revenues, again if you could?

V. Balaji: IndAS is on the sales revenue, where you recognize sales only when it is sold with the help of large format stores. It is secondary sales.

P. Sundararajan: Used to be primary.

V. Balaji: Now it is secondary sales.

Ronak Murjaria: Okay. Thank you and all the best sir. That is it from my side.

Moderator: Thank you. The next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Good afternoon Sir. Thank you for taking my question. My question is regarding the Forex impact. So basically, despite us achieving a very good volume growth, the growth in the garment business is just 16% and if you look at it the currency would have depreciated by more than 10%, 12%. So is it that due to the product mix change?

P. Sundararajan: Yes product mix. Because as we mentioned before there is a product mix of basic products also, which are an average rate of say Rs.60 and Rs.65, so that is also one of the reasons.

Ankit Gupta: And sir just wanted to understand how customers react to currency depreciation. They also rely that the currency has depreciated. So, is there any adjustment in the contract that we do regarding this currency depreciation? Because all the competing countries also have experienced depreciation in the currency, so how do customers react to this?

P. Sundararajan: See during Brexit time customers did not increase the prices, in fact rather they reduced further, so which means they are very clear about what price they would want to buy. So they maintain it even today. They are not negotiating for the depreciated currency today.

Ankit Gupta: And so even like - the currency of other competing countries has also depreciated, they are not coming back to us and asking for price cuts?

P. Sundararajan: No, it is not. See because the same problem with all the countries, whoever faces the same kind of Brexit problems in the UK. Because our main customer for the sales is the UK and the American customers are only concerned about what price they are looking for that is all, they do not ask you to reduce proportionately on the currency depreciation.

Ankit Gupta: And the orders that we have, like the current order book and as well - do we get any annual projection from our customers, looking for these many supplies for the year and this is the price that you will pay? So how is the revision, which happens in pricing, is it quarterly basis, annually basis, half yearly basis?

P. Sundararajan: No they give us a commitment in terms of volume for next one year, two years like that, but our business is all project based, each order is on project. So every time we make the samples we quote freshly and then that is how it goes.

Ankit Gupta: Okay. So when the quotation is done, for how much time is it applicable, if you made a quotation for an order and ….

P. Sundararajan: It will take about one to one-and-a-half month.

Ankit Gupta: So if the retailer comes back and says that I want more volume for this product, the pricing is again negotiated?

P. Sundararajan: Yes, they may renegotiate. They will freeze the price at the time of negotiation and they will check the prices from others also and then they will price for renegotiation, so it is a routine practice and we will make somewhere in-between all this.

Ankit Gupta: And Sir of late, because of Amazon and other ecommerce space there has been a lot of pressure on the retailer, we have seen in a bankruptcy also in case of some big retailers, especially on the infant and kids wear side. So what is your view, how is the industry shaping up and any further pressures which can come from retailers and is there a possibility that we can lose some of the businesses?

P. Sundararajan: Always there is a risk because of ecommerce , so there are many retailers who are shutting down the non-profitable stores, which is a continuous routine work, which all retailers always do. They open 100 stores. They may close 50 stores if they are nonperforming stores. There is a challenge for retailers with the ecommerce , but the bankruptcy is something, which due to so many other reasons not just because of ecommerce. So it will always happen, but I think we make sure that we have very strong customer base, we are not with a small customers, so we do not see immediately any challenge on this front, the bankruptcy front.

Ankit Gupta: How much will be the contribution of our top five customers to our revenues?

P. Sundararajan: Top five customers maybe about 80% to 90%.

Ankit Gupta: And Sir one thing on the new factories that you were talking ,you were also highlighting in our initial speech for increasing their capacity, how much capacity will be added post this three new factories which will come into operation.

P. Sundararajan: Yes, in the next four to five months time.

V. Balaji: 1000 machines will be added. 1000 machines capacity in these three factories.

Ankit Gupta: And how much is our current capacity for the machines.

V. Balaji: 4375.

Ankit Gupta: So almost 20%, 25% increase in capacity is expected to be added in second half, let us say Q1 of next year.

V. Balaji: Correct, but see the capacities cannot straightaway startup. They will start up over a period of time. Say, putting up a factory today, it will start with 150 sewing machines, then gradually it will improve.

P. Sundararajan: Install maybe 1000, but the effective running will gradually improve.

Ankit Gupta: Okay. And on retailing front also we have seen that our margins have improved. Is it because of the IndAS impact because the revenue gets recognized best and the discounting is directly knocked off from the revenue and the margins have improved because of that?

V. Balaji: Our retail margin on first half last year was 3.2%, now it is closely around 7.6%. Revenue has gone up by 10% for the first half. So the revenue has also increased. Second point is also that our royalty has also changed. If you recall our last con call, where we have said that the partner, the CIPL, the brand owners have accepted for reduced royalty which is equivalent to 100 bps.

Ankit Gupta: Okay because of 100 bps and in second quarter we have seen flat EBTIDA margins and decline in revenues because of shifting of the festival season to Q3?

V. Balaji: Yes correct.

Ankit Gupta: Okay sir thank you.

Moderator: Thank you. Next question is from the line of Niraj Mansingka from Goldman Sachs. Please go ahead.

Niraj Mansingka: Mr. Sundararajan can you tell more about the capacity addition because what I understand is you had planned for 4700 machines sometime back, what led to the delay and how you see this 1000 machines scale up happening and are there any risks of capacity addition there?

P. Sundararajan: Probably, you know it is a matter of - this should have been ready - about 200 to 300 machines should have been ready in September, but it is pushed to the next quarter. So we have already three factories, one is already ready for production probably from December onwards it will come for production of about 200 machines. The remaining two factories, the projects are underway and originally we had planned for January, but it has been pushed to March. So we are very much adherent to our plans, the 1000 machines.

Niraj Mansingka: And beyond that like how much lead time do you need to plan for addition of a capacity generally?

P. Sundararajan: Say about eight months to one year.

Niraj Mansingka: Any plans for next year?

P. Sundararajan: Yes, for 2021 also we have the plans.

Niraj Mansingka: Can you share something on that?

V. Balaji: We can share with you the details once we are concrete on the location.

Niraj Mansingka: But what would be the broad sense, I do not want to know exact number, but what process in terms of range of addition you are talking of?

V. Balaji: No see, we are looking at an addition of another 1000 machines next year also. So that will be closely around another two to three factories. So these factories we are trying to open,one can come up from outside the state, and we are looking at options. Already by March, we should be having 5000 machines. So we should be having 5000 machine and by end of March 2020 we should be having another 1000, so I guess our plan is in well in course.

P. Sundararajan: By 2021 we have a plan to add say 500 to 800 machines.

Niraj Mansingka: Okay. And locations, different states are giving lot of subsidies…?

P. Sundararajan: It is too early to discuss on this subject.

Niraj Mansingka: No I am talking of something else. I am not talking of the location. I am talking of various states have given various incentives for labor expenses. So what I have thought like would you plan to diversify into other locations like Jharkhand or Madhya Pradesh offering good incentives or you would continue to be in a similar region?

P. Sundararajan: Well definitely in different states. See as we mentioned, for 2021 we will be looking for other states also. See currently, its all in Tamil Nadu only, so 2021 we are looking at putting up factories in other states, we are working on that. CFO had attended the Conclave of the Orissa also two days back and we are also meeting Andhra Pradesh, and so we are seeing different possibilities and which is best suitable for us in terms of manpower requirement and subsidies and rest of the things, but definitely we have 500 to 800 machines to be increased in 2021. We will freeze it by December end.

Niraj Mansingka: And on the other expenses, what was the MTM losses that you had to incur?

V. Balaji: For the current quarter?

Niraj Mansingka: Yes.

V. Balaji: For the current quarter, it is Rs.2.8 Crores.

Niraj Mansingka: It was a part of the other expenses or it was a part of?

V. Balaji: Our presentation has shown it separately, so if you are looking it from the SEBI what has been uploaded in the exchanges, then it is part of it but our presentation we have shown it separately.

Niraj Mansingka: And the third question is on the client discussions we are having right now with the trade war issues coming in and January 1st being the deadline, are you getting some orders right now or it is just a client interaction happening just as a safeguard in case something happens they would end up giving order like? Can you just give thoughts on how clients are thinking with that looming tariffs in China?

P. Sundararajan: The strategy generally for the retailers is that they always mitigate the risk. So once they envisage there is a going to be a challenge from China, naturally they will start looking at other countries as well, that is the reason and that is how one or two customers, to our surprise, have approached us and started the business. It is because they are mitigating the risk to be on safe side.

Niraj Mansingka: And with your discussions, do you see a reasonable scale up on those guys and generally which region would you see a major scale up, from Europe or east?

P. Sundararajan: No it is American as well as the international, I mean global. Say like H&M for example. So they have presence everywhere, so it is not from the UK, it is from the US they are looking because the volumes of US is much bigger and their sourcing is so much from China. So naturally they would like to try at least 10% of the business to other countries probably where the major role would be India.

Niraj Mansingka: Okay great, thank you very much and wish you best of luck.

Moderator: Thank you. Next question is from the line of Giriraj Daga from KM Vesaria Family Trust. Please go ahead.

Giriraj Daga: Just on the guidance that you mentioned 10% to 15% increase in the revenue, it was particularly garment segment right?

V. Balaji: Correct only garment.

Giriraj Daga: Okay. And based on your order visibility from the new clients and the discussion with the existing, what kind of growth should we be penciling for FY2020 since most of the ramp up in new clients will happen in FY2020?

V. Balaji: FY2020, I guess the increase in terms of percentage could be anywhere between 15% to 20%, but I guess it all bottoms down to the capacity increase, how we put up our capacities and scale up our operations. So I guess we could find increased growth rate by March.

Giriraj Daga: Okay. My second question is on the retail segment like we started here with like Rs.90 Crores to Rs.100 Crores kind of a revenue, but we are now giving a revised guidance of Rs.80 Crores to Rs.82 Crores so…?

P. Sundararajan: In retail.

V. Balaji: Yes, because previously we spoke about Rs.100 Crores where the IND-AS adjustment was not being part of it, so now we are looking at Rs.80 Crores to Rs.85 Crores because of the secondary sales adjustment.

Giriraj Daga: And what should be the sale in for FY2020 there?

P. Sundararajan: That should be in terms of percentage it should be close to 20%, 25%.

Giriraj Daga: Okay. Coming back to the debt number and Capex number, so how much we have spent so far and what is our current debt?

V. Balaji: Current debt is close to around - gross debt is Rs.184 Crores and on the capex front we have closely an addition of say closely around Rs.18 Crores to Rs.20 Crores.

Giriraj Daga: We have spent in first half?

V. Balaji: Yes.

Giriraj Daga: And what is the second half and FY2020 Capex number?

V. Balaji: Second half is supposed to be on a higher side, should be anywhere closely Rs.50 Crores of investments.

Giriraj Daga: And what will be the pending number in FY2020?

V. Balaji: FY2020 for the garment division I guess it should be Rs.20 Crores to Rs.25 Crores of capex and nothing much from the spinning, it all depends on the spinning operational, how it is going to come out, but on the garment front it is going to be Rs.20 Crores to Rs.25 Crores of addition.

Giriraj Daga: But will there be any spinning capex left, which we have planned or most of the capex will be get over by FY2019.

V. Balaji: Everything should be over by FY2019, that is why I said there is no addition in the spinning as such, but if there is a carryover, say we are completing the project by April then certain things could come in the month of April because much of the machines will come only towards the end of the completion of the building.

Giriraj Daga: My last question what should be the additional margin we should see with the commissioning of this backward integration plants?

V. Balaji: It should be 100 bps to 125 bps.

Giriraj Daga: 100 to 125 bps additional because of this backward integration.

V. Balaji: Yes.

Giriraj Daga: Okay thank you.

Moderator: Thank you. Next question is from the line of Vaibhav Kacholia from VK Capital. Please go ahead.

Vaibhav Kacholia: Thanks for the opportunity. I wanted to know sir for our manufacturing facilities, when we add, what is the kind of ROI we can generate on this investment?

V. Balaji: See it all depends on the overall investment plan, say if I am going for our leased out buildings, the ROIs could be better. If I am going on our own, then the ROIs would come down, but if I am going with our own then the ROI could be anywhere between 30% to 35%.

Vaibhav Kacholia: And if we lease it?

V. Balaji: Lease it, it could be better another 10%, 15% could be better.

Vaibhav Kacholia: Like 40% to 45% is it?

V. Balaji: Anywhere between 40%.

Vaibhav Kacholia: And sir so basically if we put up 1000 machines, so that is Rs.25 Crores you mentioned for next year?

V. Balaji: Yes, for a 500 it should be Rs.20 Crores to Rs.25 Crores yes.

Vaibhav Kacholia: And for 1000 machines.

V. Balaji: Again proportion in terms of what you invest in land, what is invested in building is something needs to be looked at, but generically when it is owned building it is going to be a Rs.25 Crores.

Vaibhav Kacholia: Rs.25 Crores for 500 machines is it?

V. Balaji: Yes correct for our own building.

Vaibhav Kacholia: For the own building. So suppose 1000 machines we invest Rs.50 Crores, so approximately 30% ROI, so Rs.15 Crores EBIT we can make on that kind of stuff right?

V. Balaji: Correct.

Vaibhav Kacholia: Okay. And what would be the same thing for the spinning operation sir?

V. Balaji: Spinning operation is a completely different matrix which works out, the ROIs are more like 10%, 11% there, 10 years on return and because spinning is more capital intensive. So the ROIs are completely different in the spinning line.

Vaibhav Kacholia: So sir is the ROIs are so low we are doing it just for backward integration and to get more control on the supply chain?

P. Sundararajan: Exactly because as I mentioned to you that baby products, we have some special yarn, soft to handle, soft to feel, so we always prefer backward integration for this.

Vaibhav Kacholia: Okay. And sir one more question. You said this festive season has been very good, so we would be kind of seeing 20% festive season to festive season kind of growth.

P. Sundararajan: Could be.

Vaibhav Kacholia: At the retailer sales end kind of thing right?

V. Balaji: See it is only one month which has gone by and we have another two months to …

P. Sundararajan: Last year festive to this year festive.

Vaibhav Kacholia: As of now, it has been very good is it?

P. Sundararajan: Yes, when compared to last festive year definitely it is much better, because we have increased a number of outlets as well as the product range and everything is better and the pricing is also slightly on the higher side.

Vaibhav Kacholia: Okay. And sir this 30%-35% returns are really good rate, our return on investment, so this is because more we are in to baby products and there is less competition and we have expertise in this? Other garments would not be so high?

P. Sundararajan: Definitely, yes, very much.

Vaibhav Kacholia: Okay. Great thank you so much sir.

V. Balaji: And these ROIs are depending on the customer also, so it can differ based on the customer also.

P. Sundararajan: But for the current customer base, this is okay for us.

Vaibhav Kacholia: Right fantastic. Thank you so much sir.

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

Kashyap Jhaveri: Sir, just one question on the inventory side. The inventory number which went up from Rs.190 Crores to Rs.240 Crores – just one question on inventory which went up from Rs.190 Crores in Q1 to Rs.241 Crores in this quarter, can you split that between this inventory related to order and one related to the change in the consignment policy for LFS stores.

V. Balaji: If you breakup the inventory of between what is for the garment division and what is for the retail division. Retail division has got an inventory of close to around Rs.42 Crores and garment has got an inventory of Rs.198 Crores. This includes the cotton, dye, the coal which is there in the dying unit and the inventory in the garment division. So as I told you in the beginning remark that we have a order book of Rs.200 Crores for next three months alone, which will be lying in the inventory for completion.

Kashyap Jhaveri: Right Sir. This increase of Rs.50 Crores, which is on quarter-on-quarter basis, would be largely attributable now to this…?

V. Balaji: IndAS 115.

Kashyap Jhaveri: Thank you very much sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to the management for their closing comments.

P. Sundararajan: Thank you so much for participating in the con call and hope we have been able to satisfy to all your questions and look forward to seeing you soon during the next quarter and the rest assured that the next results will also be at far early and better than this quarter. Thank you.

Moderator: Thank you very much members of the management. Ladies and gentlemen, on behalf of Edelweiss Broking that concludes this conference. Thank you for joining us. You may now disconnect your lines.