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21st February, 2018

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

Scrip Code: 540048

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

Symbol: SPAL

Dear Sirs,

Sub: Transcript of the Conference Call

Pursuant to applicable provisions of SEBI (LODR) Regulations, 2015, please find enclosed transcript of Q3 FY18 conference call hosted on 16th February, 2018.

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 Q3 FY2018 Earnings Conference Call"

February 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. 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 Q3 FY2018 Earnings Conference Call hosted by Edelweiss Broking 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 the 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 from Edelweiss Broking. Thank you and over to you Sir!

Kshitij Kaji: Good afternoon ladies and gentlemen and welcome to the Q3 FY2018 SP Apparels Conference Call. On behalf of Edelweiss broking I would like to welcome the management team of SP Apparels to discuss the quarterly results and the future outlook. We have with us Mr. P. Sundararajan, Chairman and Managing Director, Mrs. S. Latha, Executive Director, Mr. S. Chenduran, Director Operations, Mrs. PV Jeeva, CEO and Mr. V. Balaji, CFO. I would now request Mr. Sundararajan for his opening remarks followed by a question and answer session. Thank you and over to you Sir!

Sundararajan: Thank you. Good evening everybody. Under the difficult global and local environment, we were able to sustain our revenues from operations. Changes in duty drawback, implementation of GST, foreign currency fluctuations have impacted our revenue growth and margin to some extent. We have successfully converged ourselves from IND-GAAP to Ind-AS. Let us look at the quarter performances of each vertical.

First let us talk about the garment division. We have achieved a sustained performance in garment division despite adverse currency movements. The garment division revenues grew by 0.4% in Q3 FY2018 compared to Q3 FY2017. Despite revenues flat our EBITDA margins dropped due to changes in the duty drawback structure, GST implementation, increase in cotton price and volatility of currency. We have added two new non-UK customers during the current quarter, the names of these customers will be shared once we get first orders from the customers, which we expect within March end. Once these customers are through we will have a base of 10 customers across the globe who can give orders in high volumes.

After one-and-a-half years currency movement of rupee against pound and euro now it is in our favour. Our current capacity is 4210 machines and our utilization is at 79%. Optimum utilization of the existing capacity will facilitate us the growth by another 15% from the topline. Our efforts to increase the efficiency are yielding results and we are seeing good improvement in our efficiency levels. Currently our order book is about Rs.236 Crores. For Q3 contribution of business with US customers have gone up to 13%. Next year we are looking at an increased contribution of business with non-UK customer so that our geographical concentration is spread out.

With the regard to our SPUK operations. SPUK has recorded revenue of GBP 1.05 million GBP in Q3 FY2018, which is at 112% growth comparing Q3 last year. SPUK operations were EBITDA positive at 4.2% for Q3 FY2018 compared to loss in Q3 FY2017. We have successfully started taking orders in women segment also in our SPUK operations in addition to kids. We have started working with a big retailer in UK known as Arcadia Group, which is now entering into kids segment under the brand called OUTFIT. We hope that SPUK operations will have the same growth pattern next year also.

With regard to retail operations, retail operations have grown by 88% comparing Y-o-Y. This quarter retail operations have delivered positive EBITDA of Rs.30 million. As on December 2017 we had 36 COCO stores and 15 franchise stores. It is our endeavour to move forward to open more stores on franchise model along with our own COCO stores. We also look to convert existing COCO stores into FOFO stores gradually. Additionally we continue to increase our presence across all large format stores. We have opened up with 35 new large format stores doors in this quarter. Our plan is to improve our LFS doors to 300 by end of March 2019 are in the course.

To update you on the other expansion, on the spinning expansion we are also glad to inform you that we have initiated the building construction and allotted the contract, expecting the building process to be completed by December 2018. I would also like to update you that in our processing division we are improving the ETP capability to adopt bio wash of the fabric and also increase the capacity by five tonnes a day. The ETP we are converting into biological treatment so which will enable us to get more capacity by default. I am happy to inform you all that our factory in Kovilpatti near Sivakasi will be ready by this month and will start its training by next week and will be ready for commercial production by March end. We are planning to put up 350 sewing machines in this factory before September 2018. We have started working towards increase in capacity for fiscal year 2019 and 2020 already in addition to 2018-2019. Thank you.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. As there is no response from the current participant we will move on to the next that is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: Sir my first question is on the contribution from new clients, have we started receiving any revenue contribution from new clients in this quarter?

V. Balaji: As CMD explained there is 13% contribution from the new clients from US alone for this quarter.

Ronak Morjaria: So which means now we have seen this kind of incremental revenue coming from this new US client, which means our existing customers you would be degrowing or something or slightly lower rate right?

V. Balaji: It is not about degrowing it will continue to grow because our capacities are also growing.

Ronak Morjaria: But if I were to just see that new incremental revenues have come in from the US client, which means the existing clients would have not grown similarly right?

V. Balaji: No if you compare Q2 versus Q3 our capacity utilization have gone up and the number of sewing machines have also gone up so it does not mean that we have come down with the other customers and we are improving the US client. The additional capacity is helping our growth with the US client.

Ronak Morjaria: So how many new machines were added in this quarter versus the previous quarter?

V. Balaji: Closely around 250 machines were added in total, but the basic will be closely around 200 machines.

Ronak Morjaria: Which were operational in this quarter?

V. Balaji: Yes correct.

Ronak Morjaria: And also if I were to look at our realization, what would be the realization in this quarter versus last quarter?

V. Balaji: This quarter the realization is Rs.100 as against the realization of Rs.113 last quarter.

Ronak Morjaria: This is primarily because of the product mix change or the currency?

V. Balaji: Yes, product mix change.

Ronak Morjaria: And if I were to just compare on the topline front you would have lost out roughly 5% to 6% because of the export duty incentives, right?

V. Balaji: Yes, you are right.

Ronak Morjaria: Lastly on the EBITDA margin on the retail segment I assume that Q3 is generally a good quarter because of the festive season you have seen such good EBITDA margin, but what would be a sustainable kind of EBITDA margin in this retail segment?

V. Balaji: What we have achieved in Q3 is closely around 14.3% of the EBITDA margins at the EBITDA level, so we strongly believe that the EBITDA margins of anywhere between 9% to 10% is sustainable and we can improve on the EBITDA margins also once the topline grows.

Ronak Morjaria: And on the spinning front when would it be operational I missed on the opening remarks?

V. Balaji: It was informed that by December 2018 the building will be completed, and the commencement may happen in Q4 of next fiscal year.

Ronak Morjaria: Q4 of FY2019, it is being delayed on if I were to look?

V. Balaji: Yes, it was delayed by closely around 8 to 9 months time because of the clearance from the state government.

Ronak Morjaria: So till then since we lost out something on the incentive front, etc., so we would see slightly lower margin going ahead?

V. Balaji: See nothing to lose in the incentive front because of the backward integration.

Ronak Morjaria: Earlier whatever capex there between?

V. Balaji: It is part of backward integration only, what we have done is we have procured goods from outside, we have not stopped business.

Sundararajan: There is no incentive loss due to this delay because it is only the yarn project.

Ronak Morjaria: No I am just trying to understand since there was a gap between the actual incentives what we were getting earlier and then because of the new revised rate, etc., we would still be losing out 1%, 1.5% right with the current incentive structures?

V. Balaji: You are right, but that has got nothing to do with the backward integration.

Ronak Morjaria: No, I was just assuming that once the backward integration comes in, you will get 1%, 1.5% incremental margin from this side so net-net you would be?

Sundararajan: That is right.

Ronak Morjaria: That's it. I was just trying to understand. Fine. That is all from my side.

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

Apurv Kulkarni: Congrats on a good set of numbers. Sir I just had two questions, what was the forex part in the expenses for this quarter and also, I do not know whether if you declared the number of pieces sold if you can for this quarter?

V. Balaji: This quarter the number of pieces is 12.1 million, which is part of the presentation maybe if you go down you can find it out. In terms of exchange fluctuations until last quarter we were making gains, this quarter we have made 8.7 million losses.

Apurv Kulkarni: Alright. Perfect. Thank you so much.

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

Duby Rex: It is nice to see that the EBITDA margins of the retail operations is improving quarter-by-quarter, my only thing is I just wanted to know the strategy behind opening the COCO or FOFO stores throughout India without concentrating on one or two states, for example I think in Chennai and

Bengaluru we will have only two or couple of functional stores only then what is the logic behind spreading of sales through so many states initially?

Sundararajan: Everything depends on the success of the brand in various cities, for Crocodile in metros it may not be performing very good, it can only be just create a visibility otherwise in operation wise I do not think in metros crocodile will perform as against much bigger international brands, so we have positioned our brand in Tier-II cities and Tier-III cities and also all over large format stores, so we are not opening up any big stores in metros unless otherwise it is really important for us to support the distributors or to support the local LFS, so that is a logic behind it.

V. Balaji: To add one more point here, all the metros or so-called Tier-I cities the rentals are very expensive that is why we strategically put ourselves there with the LFS model in the large metro cities and we are present on Tier-II cities.

Duby Rex: And Sir why are we are not concentrating on the southern state first and then spreading out throughout the country, initially itself we are spreading out throughout the country, so what is the reason?

Sundararajan: But when you are going for LFS naturally you need the No.1 for LFS you need to have presence across the country. Also for distribution channel of our essential products we need to have presence allover. Yes your point is right, but sometimes we are worried that the brand should not be looked at as a region based kind of a thing that is also very important, the perception so these are the reasons, one is for distribution, another for LFS model and for perception of the customers as a brand in national level.

Duby Rex: So, if I may ask one more question may I know what does the advertisement spend for this quarter and what is the plan going on for the promotions?

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

Duby Rex: What is the advertisement spend Sir for this quarter for the marketing?

V. Balaji: Advertisement spends for this quarter is closely around 1.6 Crores.

Duby Rex: So, is there any plan to go beyond the print media and things like what is the plan for the advertising for the brand Sir?

V. Balaji: Now our concentration is much on the in-store advertisements we are not getting into print media or into the electronic media now our strategy is to look into the in-store branding like say if you go to a small MBO shop where you can brand yourself put placards show that crocodile is available, so in-store branding is very important, but we do print media ads also where the distributors want some support we do go with the print media ads also.

Duby Rex: But it is more in the rural area would not it be that Sir, that would be the logic is it?

V. Balaji: See distributor when ask for a concentrated kind of ad then we support them based on the sales what they make, but all the ads what we make is clearly on the in-store branding.

Sundararajan: By television media or print media our presence is not so much populated so it is better you know as and when required we continues to do and in LFS itself is advertising because so much of walk-ins into the shop, so we cannot require to spend so much now at the moment. We maintain about 4% to 5% of the turnover.

Duby Rex: Thank you Sir. All the best.

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

Vikas Jain: Sir my question is regarding our garment volumes so this quarter we did supply to our Garan and K-mart customers right, so how much were the volumes to them out of the total volume?

V. Balaji: You cannot go by volume, but in terms of value it is closely around 13%.

Vikas Jain: So, what I wanted to understand was our older customers and our highly growth potential customer Primark, so are we seeing increased traction from them or the volumes are a bit declining because overall volume growth is not to the extent what we had expected earlier a potential was very high from our Primark customer, so what is the scenario there?

V. Balaji: See it is all depending on the product mix, even with Primark when you are looking at a set of pieces, last time we have did pyjamas, which is a fancier product, which could have value addition product in Primark also, so you cannot just go by Primark then you just cannot say that it is all a basic model alone so you have value addition there also. So if you look at Q2 last time our realization was 113 per piece average realization now Q3 it is 100 so you cannot go by customer rather than you have to go by product mix.

Vikas Jain: The decline in realization was around Rs.13, but the growth volumes are what I feel is not to the extent what it should be so how much you guide me you see in FY 2018 volumes and in FY 2019 if you can guide us?

V. Balaji: Can you speak little louder?

Vikas Jain: So I just wanted to have a volume outlook in FY2018 and if you can share something in FY2019 also?

V. Balaji: Vikas we have been consistently saying that we cannot give guidance in terms of volume growth or in value growth, but what we can assure you is on the increase in capacity levels, so the utilization levels have to improve, so that should give the growth pattern. Actually, this Q3 is supposed to be the number of days of production will be on the lower side because of the Diwali season so what happens is that post Diwali the production does not start immediately so it takes its own course of time to reach the optimum production so always Q3 is supposed to be a disturbed season because of the Diwali festival.

Vikas Jain: Thank you.

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

Kashyap Jhaveri: Sir just one clarification, if I look at slide No.9 in the presentation other expenses excluding the FX gains have gone up from about 22.8 Crores to 33 Crores was there any one off write back in the same quarter last year?

V. Balaji: No last time because of demonetisation time there were couple of expenses, which were postponed and if you look at last year, when you compare the sales of the retail division where there is an advertisement spent closely around 1.6 Crores excess because last year we have not spent anything on the advertisement because of the demonetisation, so certain expenses like the machinery maintenance repairs were all postponed because of demonetisation and this quarter we had all because of the regular production time.

Kashyap Jhaveri: Sir if I look at let us say Q3 of last year and then Q4 and Q1 the range is like 23 Crores, 31 Crores and 30 Crores so that is more or less normalized to a 30 Crore number in March and June quarter, but 8 Crores is like too bigger number for postponement?

V. Balaji: No, see royalty when you compare royalty of Q3 last year versus Q3 this year there is an increase of 1 Crore because of the increased sales right, and then additional spend of 1.6 Crores from the advertisement front and on the repairs and maintenance if you look at there is an increase of 2 Crores, so it is closely around 6 / 7 Crores is because of this only.

Kashyap Jhaveri: Sir I am just looking at Q3 presentation last year that number was 28.46, which now is 22.86, so there is a restatement of about 6 Crores in that number?

V. Balaji: No there is no restatement but let me check up and then come back to you on this I am not clear on the Q3 numbers, which we have presented previously let me check and come back to you on this.

Kashyap Jhaveri: Any wage revision that we would have done in this quarter?

V. Balaji: No, this quarter there is no specific wage revision.

Kashyap Jhaveri: So largely increase would be to do with addition because of?

V. Balaji: Because of the production, say the last quarter we had 2860 sewing machines on the production now we have 3250 sewing machines under production so increased production capacity that is the only impact.

Kashyap Jhaveri: That is, it from my side. Thank you very much.

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

Moiz Tambawala: Couple of questions, one is could you give me the export revenues and the export incentives for the quarter?

V. Balaji: Export revenue is closely around 115 Crores and export incentives could be closely around 9.5 Crores.

Moiz Tambawala: Now that the new incentive structure has been come out with the MEIS and duty drawbacks so on what would you suggest would be sort of sustainable margins on your export business now?

V. Balaji: See over the period of one-and-a-half to two years we have been saying that the margins could be anywhere between 18% to 21% or 22% as the case maybe so we still believe that the margins anywhere at 20% level is possible once we complete our backward integration process in the garment division alone.

Moiz Tambawala: Got it and lastly on your revenue per machine I think you have guided about 17 lakhs on annualized basis per machine in the past few quarters that has been at about 12 lakhs so is there any structural change happened over there?

V. Balaji: I do not think full 12 lakhs is number, which is not right, you must include the other operating expenses income also on to the revenue and look at it.

Moiz Tambawala: So as of now you are still maintaining it at about 17 lakhs sort of a durable number on your machinery?

V. Balaji: That is definitely possible, and we are trying to improve through our efficiency improvement.

Moiz Tambawala: If you are taking 100 as a base earlier your export revenue would be say 113% were your export incentive so on the topline basis that number would now be close to about 108 is that correct?

V. Balaji: Yes, you are right, 107.5 something.

Moiz Tambawala: So now to maintain the same absolute EBITDA number your EBITDA margins sort of increase right so are you seen that happened?

V. Balaji: See there are two things, one is that previously whatever the VAT, which I was paying, now I am eligible for input credit for all the service tax, so this will definitely improve my EBITDA margins by 2% or 2.5% straightaway and more over because of change in the GST structure certain products percentage have come down, say for example the base rate have changed so that means that the rates of certain chemicals, dyes, certain sewing threads have come down because of the GST change this also will enhance my EBITDA margin.

Moiz Tambawala: Got it. Thank you very much. That is all from me.

Moderator: Thank you. The next question is from the line of Ankit Gor from Systematix Shares & Stocks. Please go ahead.

Ankit Gor: I missed one thing there if you can repeat that, what was the export revenue it was 115 Crores right in export, which is duty draw back was 9.5 Crores?

V. Balaji: I will give you the exact number.

Sundararajan: In the meantime, what is your next question Ankit?

Ankit Gor: Sir next question is if I may ask, if you can give the breakup of Primark revenue how much was Primark revenue of which is 115 Crores whatever export revenue we did if you can give that number?

V. Balaji: See Ankit we have already informed people that we cannot go by customer wise data every quarter, so we have to look at customer wise data on a Y-o-Y basis and we will not be in a position to share customer wise data every quarter. Sorry for that, but duty drawback is 8.25 Crores, i.e. duty drawback, MEIS and the ROSL all put together.

Ankit Gor: And what was this number last year 3Q FY2017 if you have?

V. Balaji: I will send you a mail on that right.

Ankit Gor: Export revenue was 115 Crores right, this quarter?

V. Balaji: Yes.

Ankit Gor: So when we calculate NSR per piece, which is 115, Crores divided by 12 right?

V. Balaji: What is that?

Ankit Gor: When we calculate per piece realization which is 115 plus 8.2 right that is way we look at?

V. Balaji: No, total revenue by volume, so I have made a volume of 12.16 so 115 by 12.16 is the right way to look at it.

Ankit Gor: Okay.

Moderator: Thank you. The next question is from the line of Vijay Sarda from Crescita Investments. Please go ahead.

Vijay Sarda: I have two questions, one is on the volume growth so this quarter what is the volume growth that was there and secondly if you can just explain a bit more on the forex transaction because if I can understand you are giving order book and all that so you have the rate already negotiated, you have now already might have got the raw material also in place so if you book forward in all that so ultimately there is certainty in terms of the revenue so why there is so much of foreign exchange fluctuation that do come across because I know there was profit in the past so how that element work so if I can just get more detail on that?

V. Balaji: So I have to explain you from the basic, see today when I am taking an order at sales, today I am taking an order, today the dollar rate is 64 so I am taking an order for 1 million so immediately my work is to cover 60% of the order I will cover a rate on the date in which I am expecting the inflow, next 20% will be covered when I am making shipment so I am covering 80%. When I am making a sale then I am booking the sale on the spot rate on which date I am shipping the goods, so say for example tomorrow I am shipping whatever rate there is on that specific date I am shipping the goods and booking my sale on the spot rate on that date.

Vijay Sarda: So whatever is the difference between?

V. Balaji: Whenever I realize the money, so I have already taken a cover, which say one or two rupees premium so when I realize in the forward rate whatever could be between the spot rates on the date.

Vijay Sarda: That can book as loss of positivity, okay.

V. Balaji: Loss or gain will be there.

Vijay Sarda: So, at any point of time we are 80% covered?

V. Balaji: Yes, correct.

Vijay Sarda: So effectively that should not impact the margins basically if I am securing order at particular price point then the margin should remain there for the project except for the foreign exchange plus minuses?

V. Balaji: Yes, you are right.

Vijay Sarda: Then why there is swing in the margin?

V. Balaji: The product mix, it is all in the product mix.

Vijay Sarda: So eventually if you do a low value product then the margins may fall slight a bit or basically it is a mix of what kind of product and what profitability you are doing the project?

V. Balaji: What kind of product mix I am taking, what kind of customer mix I am taking is all part of that.

Vijay Sarda: And Sir just last thing in terms of this other income this quarter I mean last few quarters we are seeing continuous 5 Crores, 6 Crores kind of other income this quarter there was a miss so is there the other income was?

V. Balaji: The exchange loss this quarter, if you look at nine months when nine months you can find the last six months we have delivered other income of 160 million, now there is 150 million of other income that means this whatever I said in terms of exchange loss of 8.7 million needs to be grouped down that is why it come down into the other expenses.

Vijay Sarda: And that part of cash that is lying on the treasury that is different so other income was majorly a function of forex only is it correct?

V. Balaji: Yes. You are right.

Vijay Sarda: Thank you.

Moderator: Thank you. Next question is from the line of Naysar Shah from Val-Q Investment Advisory. Please go ahead.

Naysar Shah: Thanks for the opportunity. Sir on your garment revenue side the contribution of US customer you said is 13% so if I exclude that your UK customers revenue has declined by about 12% so can you just, I am still not clear, if you can just help me understand because we had enough capacities, we would have increased our utilization right, so if you can just help us understand that?

V. Balaji: See increase of utilization can happen only based on the operators available, after if you look at our utilization in terms of machines Q4, Q1, Q2 and Q3 we have been consistently growing. At the time of demonetization there was lot of people who migrated out from Tamil Nadu to back to their places, so the utilization level is majorly because of the operators nonavailability not because of the machines nonavailability.

Naysar Shah: So, you are saying that you had enough orders, but its just that employees were not available is it that is what you are saying?

V. Balaji: Yes, the absenteeism was on the higher side and the utilization level is subdued because of the operator non availability.

Naysar Shah: And Sir on the realization part you said that we have to divide export revenues of 115 Crores with volumes of 1.21 Crores to arrive at realization number right?

V. Balaji: Yes, correct.

Naysar Shah: So if I do that and I get a realization of Rs.95 versus I thought you earlier mentioned about Rs.100 so where is the difference?

V. Balaji: Yes, that is what you should add even this 8 Crores of exchange fluctuation the other operative incomes also.

Naysar Shah: Then it comes to about Rs.101?

V. Balaji: Yes, closely around 100.

Naysar Shah: And Sir you have added two more customers so what would be the nature of this would it be more basic or value added or how will be your mix change because I understand your realization will be lower, but the asset utilization could be added and hence the same ROC so what would be the nature of the new two new non-UK customers that you have added, what would be the nature of the business?

V. Balaji: It will be on the kids front and we have already said that we wanted to have a 50:50 mix in terms of fashion vs basic, we are closely moving towards that and this should not change any ROC because of the new customer coming in at all.

Sundararajan: We need to keep both the mix 50% of fashion so that we are attractive to the customers due to such product and we need 50% basics because we need flexibility in production shop floor to improve the efficiency, so we are planning to have 50:50 both.

Naysar Shah: And Sir what would be the potential of these two customers in the long run?

Sundararajan: That two, which we are yet to start.

Naysar Shah: You added three customers this year and plus you are saying you have added two non-UK business will start next year, but I am saying what would be the medium term potential of these customers so even if you say there is some slowdown from the five UK customers that you had earlier would it be able to kind of compensate and give you still reasonable growth those customers have that kind of potential to do the business with you?

Sundararajan: Yes, they are also again I would say in the clothing in apparel retailers they are one among the top 10 so that is not an issue, the potential is very high.

Naysar Shah: And Sir you have done business with these customers earlier or these are new customers for you?

Sundararajan: One of them yes, the other one is new.

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

Moderator: Thank you. The next question is from the line of Nirav Savai from JM Financial. Please go ahead.

Nirav Savai: I have two questions, one would it be possible for you to quantify the impact of cotton prices this quarter?

V. Balaji: In terms of absolute value I do not think that is possible because what happens is that when you take up an order today you negotiate with the customers with the existing price only so the impact of cotton prices getting increased cannot be quantified in terms of value or in percentage.

Nirav Savai: So, do we keep any inventory of cotton two months inventory or anything like that?

V. Balaji: Until last year we used to have two months inventory, now we have changed the inventory policy on the cotton front because of the season time buying, now we have started buying at the season time so it is a new policy where it will be closely around 100 days of cotton. This year this is the end of cotton, that is why we were not able to maintain the stocks.

Nirav Savai: Another thing is going forward let us say two to three years down the line where do you see the contribution of new client's percentage of total sales?

Sundararajan: I think it is too early to say it now because we are going to mitigate the whole thing in terms of the product mix and the margin mix and utilization efficiency so all this put together, but we will see to it that no customer will be expected to be more than 25% to 30% any single customer and let us say about 5% to 8% so that is a kind of a proposition we are maintaining.

Nirav Savai: So, no customer would be more than you said new customer 5% to 8%?

Sundararajan: Yes.

Nirav Savai: So currently if you see your top customers it is roughly about 90% or 95% is it safe to assume can come down to about 65%-70%?

Sundararajan: Already we have a few customers that we have 50% and we mentioned to you some old customers contribution is about 87% and definitely it might come down to say about 65%-70% as we grow bigger and bigger it will get diluted, but there will be a growth in the business with even the old customers definitely.

Nirav Savai: Alright Sir. Thank you very much. That is, it from my side.

Moderator: Thank you. The next question is from the line of Shraddha Agrawal from Asian Markets Securities. Please go ahead.

Shraddha Agarwal: Congrats on a good quarter. Sir on the retail front what is your expansion strategy and how do we look at FY2019 in terms of addition in LFS and FOFO stores?

V. Balaji: So we have already said that we are looking at 300 store doors at the LFS, now we are closely around 207 so we are looking at to add another 90-95 stores during this fiscal year 2018-2019 on the LFS front and we are looking to open down with COCO stores and also with the franchise stores that is with the retail front and on the B2B front we are also looking at spreading our presence throughout the northern part of India where our presence is very low, now we wanted to increase our presence in the northern and the western part of India.

Shraddha Agarwal: FOFO stores I did not get it very clearly what did you say on the expansion strategy?

V. Balaji: We are looking at increase the FOFO stores along with our COCO stores.

Shraddha Agarwal: But any number you can give out there how many stores you are planned to add?

V. Balaji: Next year?

Shraddha Agarwal: Yes, FY2019?

V. Balaji: On the COCO stores it could be 10 and on the FOFO it could be 20-25, we are budgeting for 25 stores.

Shraddha Agarwal: And Sir secondly you have said that the two new customers, which you have added one of them is amongst the top 10 retail companies plus you have seen a good order traction even from existing client so why are we going slow on the capex plans and sewing machine addition I mean we are just looking at 350 machine additions, which will get commercialized by March 2019 so given this kind of visibility in order book from existing plus new clients we should have ideally increased our sewing machine addition capacity?

Sundararajan: Yes, we are very much aware that the more you increase the capacity the growth in sales will definitely be not a problem, but the big challenge is mobilizing the people putting at the factory in certain places and mobilize the people it will take its own course of time so as I mentioned even in the earlier concall we do not want to rush in putting up big factories all of a sudden and get into trouble, but now we had geared up that as I mentioned in my opening speech that we are already getting ready for additional increase in sewing capacities for 2019-2020 now so which means we have started working well in advance one year ahead of the plan so that exactly by next year April we will be able to go as per our sales budget for 2018-2019 plus 2019-2020.

Shraddha Agarwal: One clarification on the P&L side, this one-line item, which shows up as MTM gain loss due to foreign currency fluctuation so is this the MTM on the balance sheet items?

V. Balaji: No, it is on the P&L only it is not the balance sheet item but it is a notional number so we try to show you the impact without notional number, say today I am making a gain of 3 Crores or 4 Crores because of my open contract on the closing date the next day I am going to reverse it so there is nothing to look at with the notional number that is why we used to show it separately.

Shraddha Agarwal: Thank you.

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

Ronak Morjaria: Thank you for giving me the opportunity again. Sir if you could just help me understand more on the garmenting margins, which drop in this quarter how would you attribute it to specifically garmenting segment?

V. Balaji: Decrease in margin is purely because of couple of things, one there is a big change in the duty draw backs, there is change in the GST I mean because of GST certain things needs to be changed, three on the currency fluctuations and on the cotton prices also, so you cannot generally put a reason for the change in the drop-in margin. Two if you look at last year's quarter the gain of 55 million last year was purely because of the depreciation of the pound where we have already covered for the orders, so that is a onetime number, which has come up, so you have to remove that and look at it.

Ronak Morjaria: But still if I look on a Q-o-Q basis also I think last quarter we did 20.4 and this quarter it was down to 16.5, garmenting EBITDA margin?

V. Balaji: Yes, that is what I am saying, see garmenting EBITDA margin one there is a change in the duty drawback, increase in the cotton prices, the GST implementation and what I am asking you is to remove the 55 million of exchange gain, which happened because of the pound depreciation last year so if you remove last year 55 million on the profit the EBITDA and look at it then we are almost 3%-4% difference, but still yes we have a margin hit this quarter.

Ronak Morjaria: Yes, that is what because if I just compare Q-o-Q also still we are lower by almost 4% points?

V. Balaji: Yes, that is what I am saying, yes, we have hit in the EBITDA margins maybe because of cotton prices or the product mix, which has happened, the exchange fluctuation and the GST also, see duty draw back the previous question was on 13% to 7.5% it could be even because of that.

Ronak Morjaria: Also if you could throw some light on the Brexit do we still feel the heat of the Brexit or now we have started seeing the retailers coming back and doing the similar pricing what we used to do earlier, are there any pressures on that?

V. Balaji: So if you recollect the Q2 concall discussion even there we stated that our customers have come back to us and we do not foresee any problems because the currencies have appreciated, when you look at March we were closely around 80-82 in pound and 70-71 in euro, now pound is closely around 90 and euro is closely around 80, so there is a big changeover because of the appreciation in the currency also. Also people are moving out of China, China is getting very expensive and they wanted us to take up all the business of China, which is coming out, so people are definitely coming back to us.

Sundararajan: The price is slightly better because of appreciation in the currency, so there is not much pressure on the customer side as it was in the last two three quarters, so this price pressure is released now, which will reflect in the Q1 and Q2 of next year.

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

Moderator: Thank you. The next question is from the line of Uttam Srimal from Fortune Financial. Please go ahead.

Uttam Srimal: My question is about retail division this time you have clocked the EBTIDA margin of 7.6% so is it sustainable or we can expect this margin will go up in future?

V. Balaji: See EBITDA margin this quarter is closely around 14%, but I think this is because of the festive season, but we guess that this EBITDA margin for the whole year if you look at should be anywhere between 9% to 10% and that should be sustainable.

Uttam Srimal: With regard to your garment retail division currently retail is contributing around 11.1% of total revenue, so how much we can increase from here on in terms of overall contribution to the revenue?

Sundararajan: I think it should maintain because all the divisions are growing in the same level, of course there will be a big jump in retail and SPUK as against the garment division, but still there may be a growth, the same contribution will be there, maybe 1% or 2% more in retail and SPUK not big because every division, every vertical is growing.

Uttam Srimal: What is your outlook on cotton prices going forward?

Sundararajan: It is unpredictable, I think no one who is an expert in this and we have put our cotton procurement policy in place now because all these years we used to buy only for two month stock, but now we have planned that after every season beginning to stock for at least about five to six months, so let us keep our fingers crossed, nobody knows, but this is a strategy we have taken as far as the cotton purchase is concerned.

Uttam Srimal: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Naushad Choudhary from Systematix Shares & Stocks. Please go ahead.

Naushad Choudhary: Thanks for the opportunity and congrats on a decent set of number Sir. In the garment division Sir if you can give us the breakup of volume and value between your fashion and basics of this quarter and the same quarter of last year?

V. Balaji: Last year I think it should be 75:25 on the niche segment

Naushad Choudhary: In terms of value right?

V. Balaji: In terms of quantity.

Naushad Choudhary: And value Sir?

V. Balaji: Value I do not have numbers.

Sundararajan: Roughly about 65 and 130.

V. Balaji: Contribution maybe you can send the mail so that I can reply to you on that I do not have exact numbers on the value front, this quarter it is 40 on the basics, it could be 50:50.

Naushad Choudhary: Lastly on this as you said there was some impact on volume due to this Diwali shutdown would you be able to quantify it that how much was it impacted because of this Diwali thing?

V. Balaji: I do not think it can be quantified because see what happens is that post Diwali number of machines, which is getting utilized will sharply grow from 2500 then next day go to 2600 then next day it will go to 2700 slowly it will increase and by 10 to 15 days' time it should be back to normal.

Sundararajan: I would say 10 to 12 days will be the net loss of production days.

Naushad Choudhary: As you said fashion and basic mix is right now have reached to around 50:50 that is what your target was so can we assume the realization from this point should be in the range of 100 and 105 only going ahead?

V. Balaji: Anywhere between 95 to 105 will be the right mix I guess.

Naushad Choudhary: That is it. Thank you so much.

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

Sundararajan: Thanks everyone who have participated, and I am sure we were able to answer all your questions and if anything still left you please feel free to communicate to us and we will be able to answer to you all. Thank you and goodbye.

Moderator: Thank you. Ladies and gentlemen on behalf of Edelweiss Broking Limited that concludes today's conference. Thank you for joining us. You may now disconnect your lines.