S.P.APPARELS LTD.

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01st March, 2019

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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 15th February, 2019.

Kindly take the above on your record.

Thanking You,

For S.P.Apparels Limited,

K.Vinodhini
Company Secretary and Compliance Officer

“SP Apparels Limited
Q3 FY2019 Earnings Conference Call”

February 15, 2019

ANALYST:	**MR. ANKIT GOR – SYSTEMATIX SHARES & STOCKS 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 Q3 FY2019 Earnings Conference Call, hosted by Systematix Shares & Stocks 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 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. Ankit Gor from Systematix Shares. Thank you and over to you Sir!

Ankit Gor: Thank you Raymond. I welcome all on our Q3 FY2019 earnings call of S.P. Apparels. From management side, we have Mr. P. Sundararajan, CMD, Mrs. S. Latha, Executive Director, Mr. S. Chenduran, Director Operations, Mrs. P. V. Jeeva, CEO, and Mr. V. Balaji, CFO of the company. I would like to hand over call over to the management.

P. Sundararajan: Thank you Ankit. Good evening one and all. At the outset, I am glad to inform you all that this quarter has been a wonderful quarter in terms of performance of all the three divisions. Financial performance of the company; the company has achieved total revenue of Rs.224 Crores this quarter, which is all time high in the history of S. P. Apparels. The revenue grew at a growth rate of 37.5% on year-on-year basis and a growth of 17.08% on quarter-on-quarter basis. EBITDA has grown by 37.45% on a year-on-year basis and 25.4% on a QoQ basis. PAT has grown by 94.4% on a year-on-year basis and 79.58% on quarter-on-quarter basis. Company's EPS grew by 90.49% on a year-on-year basis and 79.66% on a quarter-on-quarter basis.

Let me give you a brief on each division. About the garmenting division, I would just like to give a small brief on the global apparel market. After the trade war between US and China, now much of the retailers from the US are diverting their orders from China to other countries and preferably to India. Also, the EU retailers are diverting their orders out of China due to an increase in the cost of manufacturing in China. Furthermore, the global recession will affect the apparel industries, but the chances of negative impacts on the business due to the recession is very low. Moreover, we are in the niche segment of children and babies, so the global recession will not affect our business. Now, all major retailers are constantly consolidating their vendor base in order to be more efficient in sourcing and we are one of their preferred vendors, which will bring an additional order inflow due to further consolidation.

Regarding Brexit, we are not able to comment on its impact, but we have already overcome the effects of Brexit during few quarters last year. Even if Brexit happens, we do not foresee any major impact in the business. However, any changes in currency may affect margins to some extent.

Regarding customers, we have already consolidated with the customer base of 10 customers. We have also diluted the geographical concentration of our customers. Currently, our country wise contribution is US 20%, other European countries 30% and UK is 50%. Whereas, UK were closely about 85% of our exposure around three years ago.

Now, we have diluted the geographical concentration of our customers. Currently, the order book is Rs.345 Crores up to the month of July. With regard to capacity, we have added three factories that were mentioned during the last concall, and they will be up and running by the end of this quarter. There has been an addition of 300 machines during this quarter, in our existing factories and new factories. Our capacity utilisation is around 72%. Our factory in Kovilpatti has now reached the capacity utilisation level of 40% machines over a period of eight months, and is expected to reach full utilisation by March 2020. We are in the process of adding more capacities during this quarter, and will reach 5000 machines in total by end of March 2019.

As for financial performances, the garment division revenue grew by 37% on a year-on-year basis, EBITDA stood at 18.1% for this quarter, and stood at 18.1% for nine months period. The margins changed very little due to the underutilisation of spinning units and the processing units because of ongoing projects.

Now, coming to the retail division, regarding the number of stores we have 30 COCO stores and 15 FOFO stores as on December 2018. We have 257 large format stores as on December 2018 and expansion plans in place for FY2019-2020. We intend to focus more on EBOs, that is both COCO and FOFO, in addition to the increase in large format stores.

Sales for this quarter stood at Rs.24 Crores as against a sale of Rs.21 Crores year-on-year, which is at a growth of 13%. We have achieved sales worth Rs.61 Crores up to December 2018, which is Rs.7 Crores over and above the whole year performance of Rs.54 Crores. Margins during this quarter were stressed due to deep discounts during the month of November and December.

As for the financial performance of our UK operations, the nine months ended revenue stood at £4.2 million, which is at par with the revenue of full year performance of last year. Our margins also improved from 4% to 7% now.

Regarding the outlook of UK operations, this business model is very promising and successful as retailers are looking to increase the sourcing through full service vendors, which are importers, in order to source efficiently by having the proper mix of direct sourcing and delivery based sourcing. We are planning to increase the customer base year-on-year by sourcing from various countries.

And other details with regards to the spinning expansion: spinning mills saw utilisation levels of 60% due to the modernisation process of existing frames, and expansion of the blow room capacity. The spinning expansion project is almost over and should be put into operation by March end. We can expect a better financial performance of the spinning plants in the next financial year.

Talking about the expansion of the processing division, the biological treatment plant of ETP is 75% completed and we are expecting this to be fully operational by April end. Thanks for your continuous support and thanks for the trust you have in the company. We expect to keep performing in the same manner in quarters to come. Now our CFO will brief you on the financial performance of the company and each division. I will hand it over to Mr. Balaji. Thank you.

V. Balaji: Good evening everybody. I will just run through the financial performance of the company and each division. For Q3 we have made revenue of Rs.218.4 Crores as against Rs.162.9 Crores of revenue at a growth rate of 34% on a consolidated basis. Our EBITDA margin stood at Rs.34 Crores as against Rs.26 Crores last year, which was a growth rate of 31%. Our PBT grew at 90.8%, which stood at Rs.38 Crores. Our PAT grew at 94.4%, which stood at Rs.26.8 Crores comparing last year performance of Rs.13.7 Crores.

For nine months end, our revenue stood at Rs.595.8 Crores with a growth rate of 21.8% and our adjusted EBITDA stood at Rs.95.9 Crores as against Rs.86.5 Crores of last year, which was 10.9% increase. PBT of Rs.79.5 Crores as against Rs.52.2 Crores of last year, which grew by 52.5%. PAT of Rs.54.3 Crores as against Rs.34.5 Crores of PAT compared to last year.

The garment division grew by 37% on a quarter-on-quarter basis. The UK office grew by 29% on a quarter-on-quarter basis. The retail division grew by 16% on a quarter-on-quarter basis. Here, if you compare the retail division, the revenue of 21 Crores for the last year's year-on-year number is now is Rs.25 Crores, where last year we were on a primary selling basis and this year it is a secondary sale basis. So even though retail shows a growth rate of 16%, the difference in the standard growth rate should be closely around 40%. Our EBITDA margins for the garment division stood at 18.1% as against 17.3% last year. As CMD spoke about some strain in the EBITDA margin, this year it was due to the projects running in our processing and spinning divisions, which was utilised 60% and 75% accordingly.

For the nine months end, the garment division stood at 18.1% and SP UK stood at 7.2% — I am talking about the adjusted EBITDA margins. Retail stood at 5.8% on the margin front. On the revenue front, the total revenue from garment increased from Rs.409.9 Crores to Rs.495.5 Crores, which is 21% growth. SP UK grew from Rs.25.1 Crores to Rs.39.2 Crores, which is a 56% increased growth rate. Retail grew to Rs.61 Crores as against Rs.54 Crores, which is again a growth rate of 13%. In terms of the debt, current gross debt is Rs.167 Crores and net debt is closely around Rs.140 Crores. On the inventory level we have Rs.244 Crores of inventory and receivables of Rs.120 Crores and a payable of Rs.105 Crores, which is Rs.259 Crores of working capital as of December 2018, which was Rs.262 Crores last quarter. Other things are covered in the presentation and any queries can be raised now. Thank you.

Moderator: Sure. Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Kashyap Jhaveri from Emkay Global. Please go ahead.

Kashyap Jhaveri: What is the contribution of new clients in the top-line in this quarter?

V. Balaji: For the current quarter alone, new clients contribution was around 7% to our top-line.

Kashyap Jhaveri: If I recollect in the previous quarter that number was about 3% to 4%?

V. Balaji: Yes.

Kashyap Jhaveri: I missed that number you said 7%, right?

V. Balaji: You are talking about new customers, because Garan is contributing from last year onwards.

Kashyap Jhaveri: Whatever we added in the last 12 months.

V. Balaji: Carter's and H&M is closely around 7%.

P. Sundararajan: 7%, which was 3% last time.

Kashyap Jhaveri: Now if I look at your adjusted margins and this will be on slide 10 in the presentation, they have actually come down from about 16.2% to about 15.9% for the quarter and from 17.7% to about 16.1% in the nine months, Sir what would you attribute this to the gross margins on constant currency basis. This has happened because of the cotton prices or if there is anything on our foreign currency realisations, which have come down?

V. Balaji: We are looking on the gross margin level, so gross margin has got various impacts. One when you compare our first quarter, we had a hit in the gross margin because of the product mix. So, if you recollect the conference call, we had explained that there was a hit in the product mix and the margin got hit at that point of time. In Q2 and Q3, we are maintaining it more than 18% and because of the spinning underutilisation where we are only using 60% utilisation for the Q3 and Q4 and the processing division where the utilisation level has come down from 75% because of the projects that are ongoing. So there is a hit in the margin because of these impacts. Also, regarding retail in the opening remarks, our CMD spoke about deep discounts that have been given and the margins have been impacted there.

Kashyap Jhaveri: Sir second question is on the retail front, despite gross margins as well as EBITDA margins going down because of deep discounts; we have seen the growth on YoY from Rs.21.5 Crores to just about Rs.24 Crores to Rs.25 Crores, so any plans to increase this growth on this still very low base?

V. Balaji: The strategy in the retail is to first penetrate in all areas. Now we have started penetrating in the large format stores and after we achieve a pan India presence, we will start looking at improving on the margin front. If you recollect, two years before, we spoke about most of our concentration being given to the large format stores. If you compare the opening remarks given by CMD, he said that next year 2019-2020 we are looking at opening stores COCO and FOFO. So now the preference is to have a balance between the large format stores — where we give deep discounts — and COCO and FOFO — where our preference also increases. So by next year our margin should definitely improve.

Kashyap Jhaveri: Have we realised the full impact of the currency in terms of our realisation let us say US Dollar at Rs.72 or GBP at 91 plus, hedges are still in place and the full potential will be realised only now?

V. Balaji: I am not in a position to understand your question but let me tell you how the hedges functions. So I have taken a hedge against the order and whenever it is getting realised I use the hedge. So there is no open position here at all.

Kashyap Jhaveri: Sir my question is that in terms of our hedges now, would all hedges be at the current exchange rate or would we still have some old hedges, which are at less than 70 also let us say in terms of GBP less than probably 88 or 87?

V. Balaji: 10% or below 10% on the old rates.

P. Sundararajan: At the time of booking the orders, we do the costing on the prevailing currency exchange rate and based on that we do the hedging - keeping about 10% to 20% open, so if the rupee depreciates then benefit will be only to that extent of 20%.

Kashyap Jhaveri: Right and last question what is the gross debt number as of December?

V. Balaji: Rs.167 Crores.

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

Ankit Gupta: Sir how much can be the contribution from top five customers in this quarter?

P. Sundararajan: We will come to it in a minute, so you can go to the next question. I will just take it out.

Ankit Gupta: Sir next question is on the new client that we have added in the quarter, so can you talk a bit about new clients that we have added and how long will it take for them to scale up?

P. Sundararajan: **For** the new customers, generally to scale upto a saturation level, it takes at least two to three years time.

Ankit Gupta: We have started with some initial orders and then it will take some time to scale up?

P. Sundararajan: That was trial order and then one season they will give slightly bigger quantities and then there will be continuous growth based on our capacity commitments.

Ankit Gupta: Is it that to get some new orders we also take some hit on our margins or it is not like that?

P. Sundararajan: Not really, it is not like that.

Ankit Gupta: From a strategy point of view, let us say over the next two, three years, the last quarter we had the top five customers contributing to almost 80% of our sales, so where do we expect these numbers to be like for our top five customers or top 10 customers contributing to our sales in — let us say — two to three years down the line?

V. Balaji: If you recollect the contribution percentage a couple of years before, we had only three or four customers contributing to 80%. Now what we are looking at is the top six customers contributing closely around 80%. So the dilution between the customers have changed.

Ankit Gupta: It will be 80% for this quarter as well top five customers?

V. Balaji: Correct, but business is done, and the dilutions have changed that is what I mean to say.

Ankit Gupta: Got it and Sir over the next few years where do you see this number coming to let us say two to three years down the line with the new customers being added in our portfolio how much will be our dependence be on these customers?

P. Sundararajan: We will be adding a few more customers in the next two years. Also we will be constantly adding one or two customers year-on-year and on other hand we will be increasing the business with each customer, but we will be reducing their share in the total business that is how we have to strategised the business model.

Ankit Gupta: The percentage will come down over the next ?

V. Balaji: We will maintain an average of 15 to 25, depends on the customers and the business potential.

P. Sundararajan: 15-25 for each customer.

Moderator: Thank you. The next question is from Deepan Shankar from Trustline portfolio management. Please go ahead.

Deepan Shankar: We have seen a strong volume growth during this quarter, so how do we see the volume growth over the next two to three years from here on?

V. Balaji: We try all our best to sustain such kind of a growth for next two to three years and we do not anticipate any problem.

Deepan Shankar: Sir are we seeing improvements in US and the UK the retail perspective, earlier we have seen lot of disruptions from these online players so how was those things?

P. Sundararajan: Our customers, with whom we are dealing in US and UK, are already in the online business, so we do not see any major impact because they are already very strong in the online business.

Deepan Shankar: Also, on the capacity side, we are expecting more strong volume growth, so are we increasing our machine additions, we have been targeting some 200 to 300 machine additions every year, so that run rate will improve in the future now?

V. Balaji: Yes. Obviously when we are talking about this kind of growth level, we have to increase at least about 600 to 1,000 machines year-on-year.

Deepan Shankar: Which region, so earlier we were talking about Kovilpatti as a test zone, initially we will launch with some 300 machines then as we scale it up, we will improve the capacity over there, so you will be putting up more capacity in that region?

V. Balaji: Yes, more capacity in that region. There also may be one more factory in other regions that we have identified as having a very, very high potential.

Deepan Shankar: We can assume 600 machines addition over next two to three years, right Sir?

V. Balaji: Yes easily, each year.

Moderator: Thank you. The next question is from Dipesh Agarwal from UK Asset Management. Please go ahead.

Dipesh Agarwal: Sir when you say our revenue exposure to UK is 50%, does it include UK based customer who are procuring for the other Europe wide stores?

P. Sundararajan: This is UK, which means we combine UK and Ireland. Primark is the only one that has the international presence where UK the business is on the higher side. So that is why we have included Primark also in the UK contribution, but frankly speaking Primark UK and Ireland will be about 60%.

Dipesh Agarwal: Broadly we could be having exposure to UK retail sales of somewhere like 45% on our exports, right?

P. Sundararajan: Yes.

Dipesh Agarwal: Sir when you are saying that you could possibly be adding few customers further, so can you throw some light or anything on the pipeline over the next 12 to 24 months on new customer signup?

P. Sundararajan: We have already identified two to three customers who have already visited the factory at the top level and the sourcing directors level. The dialogues are going on, but the thing is we cannot suddenly increase the business because we need to spare the capacity for growth for our existing customers, and in addition to that we have to bring in extra capacity for new customers. So that can only happen over a period of time.

Dipesh Agarwal: It may take one to two years or much longer?

V. Balaji: For any new customers to start the business it will take one year and to take off, it will take two to three years.

Dipesh Agarwal: Two to three years and they would be US based or Europe based?

V. Balaji: Yes, Europe and US.

Dipesh Agarwal: Sir lastly, I guess by end of this year you would be having some 5000 odd machines, so what would be the practical volume we can achieve without adding more machines and what is our current utilisation?

V. Balaji: The volumes if we are looking at 5,000 sewing machines at 100% utilisation, closely around 82 million pieces.

Dipesh Agarwal: Currently what is the utilisation?

V. Balaji: We are at 72% utilisation.

Dipesh Agarwal: 72% and you can easily go to 80% to 85%, right?

V. Balaji: No, we can go up to 92 also, there are factories, which are having 90% to 95% kind of utilisation level, but when you look at the number of sewing machines that are available and certain sewing machines are used for training, each factory will have a training line. So you exclude all those things for utilisation. 92% utilisation is always possible.

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

Kashyap Jhaveri: What would be our cash flow from operations in the first nine months; would it be like Rs.60 Crores to Rs.70 Crores would that be right number?

V. Balaji: Cash from operations for the nine months should be closely around Rs.78 Crores.

Kashyap Jhaveri: This is post tax or pre-tax?

V. Balaji: Yes, post tax.

Kashyap Jhaveri: One last question in terms of our clients is Kmart and Kiabi also now started generating revenues or they are yet to?

P. Sundararajan: **For** Kmart, we are slowing down their business, but Kiabi we have not started yet.

Moderator: Thank you. The next question is from Kshitij Kaji from Edelweiss. Please go ahead.

Kshitij Kaji: What is the average realisation for our garments business in this quarter?

V. Balaji: Average realisation is Rs.102.

Kshitij Kaji: Sir and the next question is that what is the capex that we are estimating for the next year FY2020?

V. Balaji: This depends on the project completion that will happen. Let's say that from here on, we are looking at an additional four factories, which will come in the year 2019-2020, so I am looking at closely around Rs.85 Crores to Rs.100 Crores of investments.

Kshitij Kaji: From today till the end of FY2020?

V. Balaji: Yes.

Kshitij Kaji: Sir last question on the finance cost, so we have seen because of PCFC the number is negative this year, but on a steady state business what should we look at as the finance cost?

V. Balaji: Finance cost, which is Rs.150 Crores of the debt, so we should consider close to around Rs.12 Crores for the whole year.

Moderator: Thank you. The next question is from Devang Patel from Crest Wealth. Please go ahead.

Devang Patel:	You said you are looking to add 600 machines per annum what will be the capex for that?
V. Balaji:	Capex for 600 sewing machines will be closely around Rs.18 Crores to Rs.20 Crores.
Devang Patel:	Can you be more specific on the range of growth that we are looking at for the next two to three years?
V. Balaji:	We have been guiding for a consistent increase in the capacity. So I guess CMD has spoken about 600 to 1,000 machines every year-on-year. so this should lead to growth.
Devang Patel:	That is roughly 12% to 20% growth?
V. Balaji:	15% to 20%.
Devang Patel:	Sir any deduction on the margins you can guide us about?
V. Balaji:	No. We have already guided for the margin of 18% to 20% for the garmenting division. So we still feel that 18% to 20% can be maintained.
Moderator:	Thank you. The next question is from Ankit Gor from Systematix Shares. Please go ahead.
Ankit Gor:	Thank you. Sir my question when you are saying that the customer reaching to the saturation level, so that saturation level if you can quantify in terms of revenues is it like Rs.250 Crores to Rs.300 Crores or lesser or more than that?
P. Sundararajan:	It is not saturation. I think I changed the word maturity level.
Ankit Gor:	What is that in terms of?
P. Sundararajan:	Maturity level is something, we need to at 25, as much as we grow the capacity from the customer's point of view, if they are saturated or they have reached a level where they are able to source enough from us, they will either not increase further or they will add one more department. So it is in a kind of after maturity level, and generally it is about 5%. We are consolidating the vendors. We expect the business to grow further. So, it is a kind of maturity level I would say Rs.250 to Rs.300 Crores is a decent number for a maturity level.
Ankit Gor:	When you are saying that the largest customer will be how much of our total revenue, the largest one, the oldest is probably I am just assuming, Primark is the largest?
V. Balaji:	Primark is the largest equal Rs.50 Crores.
Ankit Gor:	Post that if I see from our top three top and top four customers, from three to four years back to where they are right now, for example ASDA or TESCO or George?
V. Balaji:	Before TESCO was number one, now TESCO is number two and ASDA is number three and Garan is number four.
Ankit Gor:	Just another question with regards to customers, whatever addition we did in last 12 to 18 months, which one do you think is promising?
P. Sundararajan:	Primark, they have reached a maturity level so the growth can be about 5% to 10% and if say for example Garan or Carter's they are in the early stages or Garan in middle stages, so the jump may be year-on-year 20% or even 40% to reach a maturity level, so Garan can be about 15% to 20%, so it all depends until everyone reaches to a certain level then the growth rate will be stabilized to 5% to 10%.
Ankit Gor:	What was the incentive numbers this quarter received government incentives?

V. Balaji: You are talking about the exports?

Ankit Gor: Yes export incentives.

V. Balaji: You wanted for the quarter?

Ankit Gor: Quarter, I am just trying to find out the actual realisation number per piece, why the numbers are different from my calculation and yours?

V. Balaji: Exports is closely around Rs.168 Crores. Rs.168 Crores exports alone and 16.5 million pieces, so Rs.102 Crores, the sales export benefit is Rs.11.2 Crores.

Ankit Gor: Thank you very much.

Moderator: Thank you. The next question is from Ritesh Badjatya from Asian Market Securities. Please go ahead.

Ritesh Badjatya: Thank you Sir for the opportunity and congrats for the good set of numbers. Sir in your initial remarks you are talking about the vendor consolidation at the global retail level and we are in the children and baby segments, so that global recession has not impacted, so when they are looking for the vendor consolidation, so do we have any advantage because of the category in which we are? Do we expect better margin from the upcoming customers? As of now our top five to six customers are contributing about 80%, so do we think in the next two to three years after adding two to three new customers will 80% contribution will materially change?

V. Balaji: When you said top five is top five any number of changes, but the top five may be 70% or 75% or 60% we never know and it barely comes down for sure. When we maintain an average of say 15% to 20%, we may add between eight to 10 customers.

Ritesh Badjatya: Sir under this vendor consolidation are we expecting new customers at the better margins?

P. Sundararajan: It is not really to do with the margins. It is the product because India is comparatively affordable they move from China to here. However, our prices are similar to what they have been all these years, so we sound cheaper to them, but we are able to get the margin we want.

Ritesh Badjatya: Second question Sir in the terms of your thoughts on the wage inflation and availability of the labour because when we are talking about adding 600 to 1000 machines every year that means behind every machines in your previous communications you talked that around three labour is required behind every machine that means 1800 to 3000 new labours we require every year and the government is focus on Make in India and other industry, many labour intensive industry is setting up shop in India, so how do you see that wage inflation and are the enough labour is available for our upcoming facility and what is your thought overall?

P. Sundararajan: We are putting up the factories in various locations that we identify depending on it being a sufficient labour catchment area. So the availability of labour is not an issue because we have put up the factories in places like Kovilpatti and all. With regards to the inflation of wages, yes we have to move along with the market, so the costing will not have an impact because everybody has to have the same kind of wage level. Nevertheless, when compared to other countries, we are still better. For example, even Bangladesh the wages have gone up and every country wages are going up so we are in line with other countries, but we are still cheaper than other countries.

Ritesh Badjatya: Can you share how many labours as of now we have?

V. Balaji: 14200 employees as on December 31, 2018.

Ritesh Badjatya: Thanks. That is all from my side.

Moderator: Thank you. Due to time constraints we will take one last question. The last question is from Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Thanks for the opportunity. Sir my question was regarding you say that because of cheap labour the garmenting industry moved from China to India, so let us says that Bangladesh and other South East Asian countries like Vietnam, is it possible that if the wages increase in India, the garmenting might also move to these countries where the labour cost is cheap.

V. Balaji: No, Vietnam is already expensive, but they are getting into different products, which are not similar to India and Bangladesh, although the wages have increased it is still cheaper than India, but there are several risk factors involved in both countries. So the customers will not put all the distress into our country there, so we do not see any challenge.

Ankit Gupta: As compared to garmenting for adults, in kids wear and infant wear, do you think once a customer comes in the locking is much more compared to other segments even if the prices are cheaper in some other countries?

V. Balaji: Sir say it again.

Ankit Gupta: What I am asking is in case of the kids and infants wear that we cater to the entry barriers are much higher compared to let us say garmenting for adult wear and exporting to developed countries like US and Europe?

V. Balaji: Right.

Ankit Gupta: What are the key entry barriers for manufacturing or garmenting and catering to customers and infants wear and kids wear?

V. Balaji: The entry barrier for kids and babies is that customers would not like to try with all the factories, so there is definitely an entry barrier especially with the fashion product what we are doing, it is a very strong entry barrier for the competitors.

Ankit Gupta: In terms of costing is it one of the most important criteria for the clients who decide which vendor to appoint?

P. Sundararajan: Yes. They have a very clear way of placing the orders. They identify certain factories for certain products and it is a mutual negotiation because it is on a project base so we negotiate the price before the order is carried out, which is mutually agreed to.

Ankit Gupta: Sir in terms of vendor consolidation like you were talking about let us say one of your customers let us go how many vendors does it take supply from for kids wear and infant wear, any customer if you can just talk about this how this vendor consolidation is happening and how many vendors are currently supplying to them?

P. Sundararajan: Already from 360 or something they have brought it down to 170 or something, maybe further they are reducing it. What they say is that 80% of the requirement is procured from 20% of the suppliers and now they are trying to make it 90% from 10% suppliers. It is a method everyone is following because it is less tedious to them, easier and allows for working comfort efficiency in all terms. The large suppliers who are in line with their requirements in terms of quality, price, compliances, and deliveries have been working for many years, and as they are consolidating they feel better, so the business will increase with the existing customers.

Ankit Gupta: In terms of new customers that you are getting are they changing their vendors or what is happening like as you think that vendor consolidation is happening, it might be impacting the new customers as well, so like why are they switching to us?

P. Sundararajan: Correct. The process is like this. Each retailer will struggle to settle down with the proper vendors. When somebody is weak in sourcing they try all the corners and find out so many factories and get the experience with each factories and drop many and gradually settle down with few factories and then consolidate them. This is a process vendor sourcing process. So those customers who are coming to us now are in the process of replacing some of the vendors with a better one, or one with the capability of what we have in the baby's fashion, which they may not get from other factories. This would make them prefer to ship the business here, so both the process will happen continuously.

Ankit Gupta: Sure and in terms of designing I think the customers control the design, we also offer them designing services?

P. Sundararajan: It is mutual, both do the design and they send us the development packs and we develop them, it is a joint exercise.

Ankit Gupta: Thank you.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management team for closing comments.

P. Sundararajan: Thanks for participating and thanks for various questions and I hope that we have been able to answer all the questions. In case if anyone is not clear, please do not hesitate to talk to us and call us on phone. Thanks for participating. Thank you.

Moderator: Thank you very much. On behalf of Systematic Shares and Stocks Limited that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.