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Stock Code : 540048	Stock Code : SPAL
Ref: Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015	
Sub: Transcript of the Conference call held on 16th February 2021	

Dear Sir/Madam,

With reference to our letter dated 12th February 2021, intimation about the conference call with Analyst/ Investor held on 16th February 2021, please find the attached transcript of the aforesaid conference call.

This is for your information and record.

Thanking You.

Yours faithfully,

For S.P.Apparels Limited

K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above

"SP Apparels Q3 FY-21 Earnings Conference Call"

February 16, 2021

MANAGEMENT:	**MR. P. SUNDARARAJAN – CHAIRMAN & MANAGING DIRECTOR, SP APPARELS LIMITED** **MRS. S. LATHA – EXECUTIVE DIRECTOR, SP APPARELS LIMITED** **MR. S. CHENDURAN – NON-EXECUTIVE DIRECTOR, SP APPARELS LIMITED** **MRS. P.V. JEEVA – CHIEF EXECUTIVE OFFICER, SP APPARELS LIMITED** **MR. V. BALAJI – CHIEF FINANCIAL OFFICER, SP APPARELS LIMITED**
MODERATOR:	**MR. ANKIT GOR – SYSTEMATIX INSTITUTIONAL EQUITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the SP Apparels Limited Q3 FY21 Earnings Conference Call hosted by Systematix Institutional Equities. 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. Ankit Gor from Systematix Institutional Equities. Thank you and over to you sir.

Ankit Gor: Thank you Nirav. Good evening everyone. On behalf of Systematix I welcome everyone on the call to discuss Q3 FY21 earnings of SP Apparels Limited. From the management side we are joined by Mr. P. Sundararajan – Chairman and Managing Director, Mrs. S. Latha – Executive Director, Mr. S. Chenduran – Non-executive Director, Mrs. P.V. Jeeva – Chief Executive Officer and Mr. V. Balaji – the Chief Financial Officer. Without taking much time, I would like to hand over call to Mr. Sunararajan for opening remarks, post which we can have floor open for question and answer. Thank you and over to you sir.

P. Sundararajan: Thank you Ankit. Good afternoon, everyone and a very warm welcome to all of you present on the call to discuss our financial results for Q3 and nine months FY21.

At the outset I hope all of you and your loved ones are healthy and safe. Despite second lockdown in Europe and the UK during October 2020, we were able to deliver good revenue during this quarter, mainly due to the product segment, which we cater to. All our divisions have performed well during this quarter, despite the lockdown globally. This shows the inherent strength of the company. This sustainability of the business will take us to a new heights. The garment division witnessed healthy traction in Q3 FY21, as the shipments to customers increased despite the second lockdown. Our customers are witnessing consistency in demand, especially for their online retailing business. Retailersconsolidation of the supply base is still happening and that's one of the reasons that will support our work going forward as we continue to remain one of their preferred suppliers.

Our current order book stands at Rs. 215 crores. Our garment division revenue for the quarter stood at Rs. 176 crores, an increase of 20.9% year-on-year.. Our EBITDA margins improved from 17.4% to 21.6% this quarter an improvement of 420 bps.

As mentioned in the previous call, we have consolidated small rented factories with bigger ones in order to reduce the rent, workers transportation costs and other operating overheads. These too contributed to our EBITDA margin for the garment division to improve to 21.6% for the quarter. Besides, we have efficiently worked on the consumption, wastage control and control on personal costs, which further contributed to margin improvement. We are confident that EBITDA margins will sustain at this level going forward.

Our current focus is mainly on increasing the utilisation level by addressing sourcing and training our workmen. Gradually we will implement two shifts in some of our hostel factories in quarters to come. This will allow us to increase our capacity without additional CAPEX. This will further improve our revenue metrics and EBITDA margins going ahead..

We are receiving enquiries from new customers and we are in the verge of getting orders placed. Moreover, we are working to add few more customers from US and Europe which will increase our customer base in the future. Unfortunately, due to third lockdown there are delays in order placing by customers even though we continue to receive new orders to some extent. The retailers have indicated that they will resume the normal buying from mid March '21 onwards.

Regarding the spinning division, after the completion of the expansion, unit has started contributing reasonably to thegarment division margins. Yarn prices have started moving up while the cotton has stabilised, and this is also contributing to margin improvement for our garment division.

Processing division: the biological treatment plant project is completed and is up and running. This has improved the efficiency of the plant and now our capacity has increased by another 3 hours a day. This is also contributing to the margin of the garment division.

SP Apparel UK division: SPUK revenues stood at Rs 21.3 crores and EBITDA margin stood at 7.2% compared to 13.5% of revenue year-on-year. Our current order book for SP UK is at GDP 3.69 million.

With regard to the retail division; as the economic conditions gradually improved post the lifting of the lockdown, our retail segment saw a decent uptick in Q3 FY21. Revenue for the retail division stood at Rs. 14.9 crores compared to 22.2 crores in Q3 FY20. We are expecting the retail division to do fare better in coming years and graduallpick up in the consumer buying factor. The revenue of retail will be gradually growi quarter-on-quarter in a sustainable manner. Serious efforts in cutting the overheads are giving some margin improvement and will be able to access the situation once customer sentiments are completely back to normal.

Overall, our efforts to recalibrate the system by moving towards the leaner costs structure and the recognition of employee costs and other operating overheads and other cost reduction initiatives helped us to improve the adjusted EBITDA margin quarter-on quarter. We hope that our efforts will yield us in providing margin sustainability going forward.

Our liquidity position continues to remain stable and comfortable. We have cleared all the interest and debt instalments obligations that were due until today. We are increasing our customer base strategically and confident of comfortable growth going forward whilst our strategy towards operational efficiency is on .we look forward for a good future in the years to come. Thank you. Now I will request CFO to give an overview of the financial.

V. Balaji: Good afternoon everybody. Thank you, sir. I will just sum up the financials of the company and the divisions which are already present in the presentation which has been uploaded.

Consolidated revenue stood at Rs. 212 crores as against Rs. 181 crores for last year Q3 which is growth of 17.2% year-on-year. Consolidated revenue for nine months stood at Rs459 crores as against Rs. 661 crores, which was a decline of 30.5% year-on-year. EBITDA for the quarter stood at Rs38.9 crores as against Rs. 28.1 crores , which is a growth of 38.4% year on year. EBITDA margins improved from 15.5% to 18.3% year-on-year. EBITDA stood at Rs79.2 crores for nine months as against 92.1 crores of EBITDA year-on-year, a decline of 13.9% in EBITDA. Even when our absolute EBITDA declined year-on-year, our nine months EBITDA margins improved from 13.9% to 17.3% year-on-year. Our PBT stood at Rs 26.6 crores for the quarter against the PBT of 5.35 crores year-on-year, which is 397% growth year-on-year. Our PBT margins improved from 3% to 12.5% year-on-year for this quarter. Our PBT stood at Rs 43.96 cores for nine months ended as against Rs 39.25 crores year-on-year which is an improvement of 12%. Our PBT margins improved from 5.9% to 9.6% year-on-year for nine months. Our PAT margin improved from 1% to 9.3% for this quarter, year-on-year. Our PAT margins improved from 6.7% to 7.1% year-on-year for nine months.

We just look at the division wise performance, garment division, revenue increases from Rs 145 crores to Rs 176 crores year-on-year for this quarter which is growth of 20.9%. Nine months revenue stood at 373 crores as against revenue of 557 crores year-on-year for the garment division. EBITDA margins for the quarter stood at 21.6% as against 17.4% year-on-year without exceptional item. It is an improvement of 420 bps. EBITDA margins for nine months stood at 20.5% as against 15.6% year-on-year which is the growth of 490 bps improvement. On the retail division, revenue stood at 14.9 crores for this quarter as against 22 crores of revenue year-on-year, which is a decline of 32.3%. Revenue stood at 31 crores for nine months ended as against a revenue of 64 crores year-on-year, which declined by 51.9%, EBITDA margins were negative for retail division at 4.2% as against 10.6% EBITDA year-on-year for this quarter. EBITDA margins for nine months were negative 2% as against the positive EBITDA of 6% year-on-year.

SPUK revenues stood at GBP 2.19 million for this quarter, which is flat year-on-year. EBITDA margins for UK stood at 7.2% as against 3.4% year-on-year, which was an increase of 380 bps. Revenue stood at GBP 5.69 million for nine months as against GBP 5.7 million year-on-year, which is also a flat number. EBITDA margins stood at 6.3% for nine months for SPUK as against a 3.8% of EBITDA margins year-on-year which improved by 250 bps.

As Chairman indicated that our liquidity is stable, debt position on a standalone basis as on 31st December my gross debt is 170 crores and our net debt is 128 crores as on 31/12/2020. On our working capital front, inventory stood at 232 crores as against 243 crores as on September '20. Receivables stood at 95 crores as against 131 crores as of September '20. Payables stood at 75 crores for December '20 as against 90 crores as on September '20. So there is a significant reduction in the working capital and ourdebt and all other information are available in the presentation. Let us take questions straight away. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Prerna Jhunjhunwala from B&K Securities.

Prerna Jhunjhunwala: I wanted to understand where are you getting more traction from US or Europe, UK region? And how are the trends in both the categories with respect to demand and customer behaviour?

P. Sunderarajan: Most of our customers are actively trading online, except the largest customer Primark, so they do not have any online businesses. So the rest of the customers have online businesses and all online business, especially for the babies and kids, trading is doing well. However, the unexpected, the third lockdown has shattered everybody. So, due to the severe lockdown, there has been of a little bit of disturbances both in US as well as U.K and now the things are picking up, the customers are not cancelling any orders, of course they have deferred some of the shipments for few weeks. But they have promised that they will start placing further orders from mid-March onwards. So we don't see any difficulty in getting the inflow of the orders.

Prerna Jhunjhunwala: So do you think fourth quarter might be a little softer than third quarter because of this deferment?

V, Balaji: Fourth quarter could be in line with third quarter, but Q1 may have some disturbances.

P. Sunderarajan: We are still trying, although Q1 there maybe disturbances because for the Q1 delivery they should have placed the orders by now. So it was not as much as what expected but we are trying to bring forward some of the orders booked for July onwards. So we will see to it that somehow we will try to maintain the similar numbers of Q3 and Q4 for Q1 but we expect a little bit of drop in Q1 top line.

Prerna Jhunjhunwala: What is the reason for the impressive growth in SPUK business? It's grown quite with strong numbers?

P. Sunderarajan: If we look at year on year the SPUK business is flat in terms of revenue and also for nine months SP UK business is flat. Your question on growth on SP UK you are comparing it with the previous years or all?

Prerna Jhunjhunwala: Yes. previous year.

P. Sunderarajan: Like SP UK now have started working for the customer (Inaudible) (18.12) and they are now penetrating to other segments also. So previously we (Inaudible) (18.17) we were doing only children now they have started doing for other segments also. So that's why there is increase in revenue there in SP UK.

Prerna Jhunjhunwala: What other categories are you doing in SP UK apart from children?

P. Sunderarajan: Men's and ladies.

Prerna Jhunjhunwala: But that will all be knit wear, or it will be a mix of everything?

P. Sunderarajan: Mix of everything.

Prerna Jhunjhunwala: Any challenges with respect to labour availability now or has it come back to normal?

P. Sunderarajan: As explained previously that with regards to the labour availability, now the things are normal and recently there has been no big disturbances because even the migrant workers have come back, everything is normal now. So currently we are back to normal with work force.

Prerna Jhunjhunwala: My last question is on geographical mix, could you help us with the geographical mix between US, UK, Europe?

V. Balaji: So 12% is US, 53% is UK and rest is Europe.

Moderator: The next question is from the line of Kirti Jain from Sundaram Mutual Fund.

Kirti Jain: With regards to the recent customer addition. Any recent success of new customers' addition in recent quarters?

P. Sunderarajan: As we earlier mentioned, we have been talking about these new customers in the past two quarters. As we mentioned before those businesses have started and it's all now running and there are a few more customers which we are are having a dialogue with them. Hopefully the business will start from, say, order placing will be from we will expect the business in Q2 of 2022 t then we expect about three customers, addition.

Kirti Jain: How significant maybe the contribution in FY22 from these customers in terms of Rupees growth, cumulatively put together, all three put together?

V. Balaji: In terms of customer addition and the contribution those are all new customers. So they don't give volume business to start with, so it will gradually build up going forward. Once these customers are there, all the customers which we have in pipeline or volume customers, so we can expect good business traction to start once they are comfortable with the process and it may take a year for us to settle down with the new customers and start picking up in terms of contribution as a percentage.

Kirti Jain: Any initial guidance would you like to give for FY22? How it is shaping up given the visibility and everything and opening up, for next year any guidance would you like to give like what kind of target we will achieve?

P. Sunderarajan: We see 2021-2022 to be definitely a better year especially after this COVID we hope we are all geared up for a good performance, a better performance than all these quarters. Not only that, we have planned as we mentioned in the last quarter that we have planned for capacity increase but not increasing the CAPEX so which means as I mentioned we have increased the number of workforce but using the same existing factory, some of the existing factories are gradually being converted into two shifts so which means naturally there will be an increase in the capacity by at least about another about 20% or so. So with additional capacity, it will fetch additional sales. So we hope next year is going to be far-far better

V. Balaji: But giving you guidance in terms of percentage or in terms of value could be tough because the impact of COVID is still there in the system. Q3 as we started saying that Q1 there is booking or deferment in terms of booking by 3-4 weeks. So, we still feel that 2021-2022 should be the best year if you consider the SP previous performance

Kirti Jain: So we will target to cross 825 crores?

V. Balaji: That's what we cannot give you a number as such, but in terms of exports we can say anywhere between 15% to 20% of revenue growth year-on-year or 10% when you compare FY19 where we have done well. So if you look at FY19 come FY20 was a disturbed year, FY21 is also was a disturbed year, so when you compare revenue growth on exports alone there could be a significant improvement of 10% to 15% revenue growth from FY19 for FY22 that could be some guidelines which you can look at.

Kirti Jain: My next question is given that the growth pace and there would be a very good cash flow generation at least currently we have 20 crore kind of profit and 8 crore depreciation. If I annualise it we will generate more than 100 crore cash flow next year, assuming the same run rate continues what will be the application for the cash flows which will be generated?

V. Balaji: In terms of capital allocation, we are very clear about that it should be done in a reasonable way. For the time being I guess capital allocation into the projects for the expansion will not happen because we are very clear in terms of what needs to be in terms of project. It will be appropriately taken; the action will be taken at the appropriate time. We have taken more efforts on capital allocation so that's answer for your question.

Kirti Jain: Currently we are fully captive on yarn or we have open exposure, we have to buy from market, what is the current mix at the increased utilisation?

P. Sundararajan: Certain products like yarn just we have to buy outside which we don't have an in-house capacity. It's like if I am consuming 80% of my yarn what I produce I may be buying 20% from outside. Just to keep the other products also getting sourced.

Kirti Jain: Will we look to expand any yarn?

P. Sundararajan: For the time being I guess the expansion which we have already done in terms of the building infrastructure is already available for 27,000 quintals but we could add another three frames which will be another 3600 next year.

Kirti Jain: What is our maintenance CAPEX plus hostel CAPEX plus this 3600 CAPEX which we may plan up next year? will these three CAPEX may come in next year?

V. Balaji: We have spoken about 15 to 20 crores of investment into a hostel facilities last call itself which could come up based on the requirement wherever it's essential. It's purely that you wanted to have a mix between the migrants and the locals. So that is a requirement for hostel facility which target allocation of Rs15 to 20 crores could be possible.

Kirti Jain: Maintenance CAPEX, what is our yearly maintenance CAPEX?

V. Balaji: Maintenance CAPEX will be anywhere between Rs 3 to 6 crores depending on the customer requirement.

Moderator: The next question is from the line of Bharat Sheth from Quest Investment Advisors.

Bharat Sheth: On this garment side we have order book of around 215 crores. What could be approximately delivery timeline, is it in Q4 or it will be divided between Q4 and Q1?

P.V.Jeeva: That is up to 4 months ,from April to July. You mean ordering that is from February to July.

Bharat Sheth: There is a talk is going on, on this container logistic challenge, so how we are placed in that aspect? Are we facing or do we have to incur some extra cost during this Q3?

V. Balaji: Our scope of work is only up to the handing over it to the forwarder. It's up to the customer and the forwarder to decide on the container because we are not concerned about the container but what happens is that it could be some moving issue because the container doesn't move or the ship doesn't move then the recognition of sales also differs, that's the only thing. We don't spend on the container.

Bharat Sheth: Mr. Sundararajan you stated that this current EBITDA margin will continue. So in nine-months Q3 we have done a 21.6% whereas in nine-months 20.5% for garment export. Are we confident of maintaining between 20% to 22% kind of a margin range next year?

P. Sundararajan: We dont committ to you but we give you some directions, some idea that we are able to maintain, we have been guiding from 18 -20% range. So far we have been able to maintain that EBITDA margin so which means we have seen all the bad side right from demonetisation, GST thing and Brexit, now again this COVID. All these times overall we have been able to manage, maintain 18% to 20%.. I don't think there will be any problem in maintaining this 18 to 20% range.

Bharat Sheth: How about SPUK which is approximately say this quarter is 7.2% and nine-months is 6.3%, so what is sustainable margin that we look forward for SPUK?

V. Balaji: For SPUK we should be at anywhere between 5% to 6%. Because of the currency movements there are some items when you convert that so there is a better EBITDA margin. You have to consider 5% to 6% of EBITDA for SPUK, that's a sustainable percentage.

Bharat Sheth: As you stated that approximately 15% kind of a growth in garment export can happen. What about a growth in SPUK as Q3 FY21 is very good. How do we see sustainable growth in SPUK?

P. Sundararajan: SPUK is all the more is comfortable than SP India because they are free to source from many factories and they are free to book from many customers .. based on the company's reputation .n. With our own existing customers, with small orders we are able to manage but for this COVID thing definitely we would have definitely crossed about 8 million but for this COVID month. The growth should not be a problem as far as SPUK is concerned, it can grow even faster what it is so far.

Bharat Sheth: We have been working on bringing down cost and everything, so how do we see retail business for next year?

V.Balaji: In terms of growing retail, we need to invest more into the inventories. How do you expand retail growth is by opening up small stores at present in bigger areas, that's how you can grow retail? Considering that there is a huge amount of capital employed into the retail division. Now the board has decided not to invest more money into retail division. Now our aim will be to sustain with a capital employed, whatever is available today and increase or maintain the revenue without making much cash losses. So that will be the strategy on the retail front.

Bharat Sheth: Since now this MEIS are benefit is getting over so how do we see that going to have an impact on our company because currently how much MEIS benefit or RODA whatever scheme name is there we are getting in and how do we see that going ahead?

V. Balaji: Currently we are close to 6.2% of duty drawback and RoSCTL up to December. From January onwards RoSCTL, is replaced by RoDTEP which the percentage is yet to be announced but the idea is to make India competitive like with the Bangladeshi, Sri Lanka, Vietnam, duty benefits should be extended to the manufacturers of the garments so that we are competitive with the rest of the world. Government will definitely have to support the industry with this genesis because anything getting exported from Bangladesh is duty free into Europe and US. So to compete ourselves we should get these benefits.

Bharat Sheth: In your opening remarks you said that since Primark is the only customer which is not online so because of lockdown it may be getting impacted so how Primark is currently contributing our top line in this Q3?

Management: It ranges between 20 to 30%.

Bharat Sheth: So which is one of the largest customer that we have so if this lockdown continue the way in particularly in UK, so what could be the impact on our business how do we really plan to derisk the kind of weightage we have on the Primark?

V.Balaji: So on the Primark front previously it as contributing close to 30% to -35% . Now because of the lockdown they had come to 20%. previously Chairman has spoken about bringing into three new customer so that we mitigate the risk of concentration of customers which we have doing for past two-three years, but unfortunately after bringing in new customers we could not keep our contribution from new customers because we went into COVID issue then again because of COVID they also went into lockdown. I think FY21-22 as Chairman was talking about should be the year where you find all the derisking in terms of customer concentration will happen. So in place of Primark as we have already started getting the orders from new customer as we mentioned previously that two new customers have already coming and trial orders have started and we have shifted. So we are in line for placing the next round of orders so which will definitely compensate little bit loss of Primark.

Bharat Sheth: You said that from this new customer we expect order to start from Q2 and three customers are there, so if you can give the geography presence of this three customer with whom we are expecting the order in Q2?

P.Sundararajan: See there are two things, the last two quarters we mentioned that we are already talking to two new customers which the business already started. So those businesses will start coming from Q1 onwards they will start placing and other two or three more customers we have just started the dialogue so we will start getting the business from Q3 onwards so that will support next financial year 22-23. So here already we have two new customers started placing orders.

Bharat Sheth: Which geography if you can give this five customers presence?

Management: They all are from Europe.

Moderator: Thank you very much. The next question is from the line of Nirmal Shah from Seraphic Management. Please go ahead.

Nirmal Shah: Sir just follow up to the previous question I wanted your perspective on the incentives front like some of the companies in the home textile we are talking about the incentives would be lower than what they were getting before and even in budget allocation the RoDTEP scheme allocation has been pretty low, so do you see that as a risk in terms of incentives it might be lower than what you are getting before?

V.Balaji: So for home textiles I think the concept of incentive percentage is completely different from what the government is making like they had an incentive scheme where they were getting closer to around 11 percentage I guess I am not sure, but I think this 6.25% of incentive which has been extended to the garmentdivision, garment industry should be extended by at least one or two years so that the industry and the competitiveness of the industry is withheld.

Nirmal Shah: So sir my question was looking at the way government financials are even the incentives are lower than what you were getting before do you have any levers to recoup that because the same was done when the MEIS was withdrawn retrospectively no one expected that, so it was just a a time lag how much time lag does it take for you in case if the incentives turns out to be lower than what you are expecting, how many quarters do you typically take to recover your margins from the customers that was mainly on account of time lag?

P.Sundararajan: In MEIS that 4% was withdrawn so we definitely get that it was a big shocke to the industry and we are unable to decide, now although there is immediately this COVID situation came out. So we definitelydid not expect thzat, but we were prepare for it and we have revised now I mean we are able to maintain the same even after withdrawal of MEIS., I do not think that will happen, if at all happens, there even if it cannot happen big thing may be small percentage. So we are working to be prepared for in case if the situation arises then we will prepare for that also there could be first two quarters there will be disturbance then we will revise the Q3.

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

Vikas Jain: My first question is with respect to the garmentt sector sir what was the realisation per piece this quarter?

Management: In terms of absolute exports close to 107 per piece

Vikas Jain: What was I trying to understand is that our utilisation rate in last quarter also it was around 60% and this quarter also we had around 61%, so the strategy that we work to increase the share of basics in order to increase our utilisation rate and so realisation rate has been pretty much closer or stable at around Rs. 105, Rs. 110 per piece, so what do you think I mean in terms of strategy since we are getting a good number of orders will we stick to more of a higher fashion sorealisation per piece garments so that one can increase our margins or what would be the strategy at this point here?

Management: So I think your question is on strategy to improve the capacity utilisation is that right?

Vikas Jain: With respect to the margins will we focus to take more of a basic orders or are we currently taking or choosing more of a fashion orders more in order to keep our margins at a higher side and sacrificing the utilisation also to some extent or we will again go back to our strategy of improving utilisation rate and incorporating more of a basic garments into our production?

P.V.Jeeva: Actually, our strategy is we will be maintaining the fashion item as of what we are doing now currently and going forward we are focusing majority on basics . So we will be improving the volumes and taking more production out of that. So we will be focusing on volumes and also improve the margin as well. Yeah, realisationswill also be improved.

Vikas Jain: New client that you talked about adding to whether we already started giving orders and in discussion with the three more are there more of a basic or also fashion customers?

P.V.Jeeva: Yeah, they are all more for basics

Vikas Jain: Sir my second question is in terms of the retail since we have decided not to invest into the growth of this segment and making it a self-sustainable, what kind of sustainable growth do we expect in next year period?

V.Balaji: Vikas I think escalating or anticipating the retail growth or the revenue that could be generated from retail consideringon the current scenario I think anticipation is also very tough assuming that I sustain the existing revenue what I have done in Q3. So I should be easily going anywhere in 60 to 70 crores of revenue going forward, but thinking about the growth currently we are not in a position to estimate or assume what could be the revenue potential in each channels. So what we can estimate is anywhere again 60 to 70 crores of revenue for FY22.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir just wanted to understand from the perspective of sewing machines utilisation levels now it was at about 61%. Now you did mention about the delays in orders so the target that we have in terms of 4,000 utilisation level by March 21 I mean 5,000 by March 22, so how has that changed so any kind of comments on those clients would be quite helpful?

Management: I think as planned the things are on track, but due to the third lockdown there will be likely to be little bit of disturbance in the first quarter of FY22. We are trying our best to make sure that it is all fully engaged and we have done all the base work for filling the capacity. See even in this Q3 this 61% is because of the Diwali festival combined with this COVID situation so there are lot of absentism. So , this Q3 the utlisation was slightly lower when compared to previous quarters Q3 and Q4. So the Q1 utilisation should be better everything depends on the order inflow . For production probably we are trying our best you know using the capacities of July deliveries and also in April, May, June. So we will do our best in terms of utlisationutilisation. Even though the things have slowed , it is temporary and it is only for three to four weeks time .I think it should pick up post February or anywhere in mid-March. So plan of having 4,000 machines by March could be deferred by one month not beyond that.

Deepak Poddar: I did not got the last point it will deferred by how many months?

Management: One month.

Deepak Poddar: So that 4,000 machines by March may be deferred by one month?

Management: Yeah, it could because there is a delay in the order flow. So it could definitely deferred by a month maximum that is what I am saying.

Deepak Poddar: And what would be our current utilisation level?

Management: Current utilization is at 61%.

Deepak Poddar: Current only I thought third quarter was 61% so I thought that currently we would be at a higher utilisation level?

Management: We are close to 64%, 65% of utilization.

Moderator: Thank you. The next question is from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Couple of quick questions so on your existing capacity including the asset light just in this strategy which you had using to, how much would turnover expect it to be at any peak levels?

Management: For the capacity what we have.

Riddhesh Gandhi: Yes.

Management: So we can do export alone without the dutiess and other things we can easily reach Rs1,000 crores of revenues for the capacity what we have.

Riddhesh Gandhi: And you would expect to reach the optimum capacity utilisation towards the end of FY22 if you are looking at Q4 FY22 should be where we can get to peak capacity utilisation?

Management: Yeah should be close to that should be possible.

Management: Rs1,000 crore what I said is at my full capacity utilisation and full efficiency also so if both are at 100%, yes FY22 could be the time where we can reach there.

Riddhesh Gandhi: And would there be any operating everage which potentially helps in increasing the EBITDA margins ?

Management: There are couple of opportunities one improving the efficiency could definitely push the EBITDA far better. Second one is that optimum utilisation of thecapacity could give more EBITDA third thing is that getting to second shift on the existing machines that will definitely improve the margins again. So there are good headwinds where we can improve the margins.

Riddhesh Gandhi: I am asking I mean China where people are looking towards India are we seeing any benefits of that with lot of customers?

Management: They are very much happening because you know there are lot of inquiries that should have gone to China. So still that anti-China things are in the minds of the customers, so we are getting the benefit also of that. So that is also one of the reasons why we want to utilise the capacity as fast as possible because this is the right time and one of the reasons why textile is doing good and the yarn price is going because of these reasons also.

Moderator: Thank you. The next question is from the line of Priyank Chheda from Standard Chartered Securities. Please go ahead.

Priyank Chheda: Sir just wanted to clarify in previous quarter which was Q2 we exported 12.1 million units and in the current quarter we have exported 13.2 million units, so which also means our average realisations have gone up in the current quarter is it correct understanding?

Management: To this quarter our realisation have moved up by Rs. 1. 50 paisa QoQ, so last quarter we did closely around Rs. 112 per peice now we are at Rs. 107 so realisation have come down actually.

Priyank Chheda: Anything of the percentage that you would like to call out that we used as a imported yarn?

Management: We are having yarn captive so we do not import yarn at all

Priyank Chheda: As on last quarter we had an order book of 226 crore can you call out what is the current order book right now?

Management: 215 crores.

Moderator: Thank you. The next question is from the line of Prerena Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Sir you have around 5,100 machines and you mentioned that your capacity can increase by around 15% to 20% over the next one year, so what would be your capacity then and what will be the peak revenues you mentioned 1,000 crore but it is on current capacity so on full expanded capacity what will be your top line for garments business?

Management: What CFO said is that 100% utilisation capacity with 100% efficiency existing capacity as such can achieve Rs1000 crore that cannot happen normally, 20% lesser than that and so 20% will be lesser and in addition to that we are also increasing the workforce and we are planning two shifts in some of the factories so that would also help us to improve the opportunities improve the growth and finally we are also trying for new customers. So if everything goes well we should be comfortably doing the work it is about 20% growth.

Prerna Jhunjhunwala: Sir can we assume that on the expanded capacities new client additions and new workforce being added you can do 1,000 crores in three years time frame?

Management: All probabilities why not that see you never know what can happen what can go around you never know.

Prerna Jhunjhunwala: What I wanted to understand was like in a three-year timeframe where this company will be given the strong efforts it is taking to grow on the longer term, so it is not what I want to understand in the near term view actually want to take a broader call to understand how the top lines can be?

Management: We feel that achieving 1,000 crores should be possible by FY23.

Management: In two years’ time I mean we cannot give you any numbers at the moment so you can comfortably plan in such a way you can work it on yourself.

Prerna Jhunjhunwala: And this will be excluding export incentives the point to understand?

Management: Plus, or minus say 5%.

Prerna Jhunjhunwala: Sir any cost reduction activities that you have done in the past 9 months, do you think any of those part is sustainable which is not likely to come back or whenever we reach normal level of operations the whole cost structure will be back to normal?

Management: As we mentioned last concall we have done lot of cost reduction exercises and we are able to achieve them and we are able to sustain the same like consolidation of factories, reduction in transport of people cost lot of things and in addition to that now two shifts that has reduced the cost to a great extent.. So lot of things we have been doing and we are able to sustain them so it is going to be an ongoing exercise in our favor. We do not see any adverse situation.

Moderator: Thank you. The next question is from the line of Naushad Chaudhary from Systematix. Please go ahead.

Naushad Chaudhary: First question on the order book side despite there is a good momentum and positivity in the market we have seen our order book run rate is gradually coming down, so is it because of the uncertainty on the incentive part we are finding it difficult to sign the new contracts or what is exactly the reason the run rate to order book has gone down?

Management: There is a third lockdown in UK which is very severe in nature. So like the lockdown which was there from 1st of January is getting extended until end of February. So the lockdown is severe in nature and we have strict penalties even for that. So the customer coming to always looking at what needs to be ordered is also question mark. So already order is getting deferred. So the order book I do not know what you are comparing with because you said the market is good. We are not actually UK and Europe is not looking at the good market for retailer as such that is a why there is a shift in order book and also there is a deferment of existing shipment also.

Management: So whatever current business we are doing is purely only on online business. So you can imagine once the things are normal as if the online will continue to grow and offline will also be an additional business. So I think we see good future there is going to be a revenge buying so that is how the people, the customers are talking about once the things are normal and there is going to be revenge buying. So we are getting ready to face that kind of new business phenomena by increasing the capacity I mean infrastructure and supply chain everything are getting ready now. So we hope from first quarter onwards the things should be completely different in our favor.

Naushad Chaudhary: Why I was asking this because if I see your competitor some of them as you know the order book run rates have gone up 30%, 40% times, so just want to understand if this is Primark who is dragging our overall order book and growth rate or is there any other client who are facing this growth challenges in their portfolio and that is coming to us?

Management: So if you look at the contribution which has come down from 35% to 20% now. I think we have consistently working on adding few more customers I think by March we should have good customer base and good order book also going forward.

Naushad Chaudhary: Lastly on the interest rate is there any reduction in our overall debt cost and is there any significant reductions we can see next quarter onwards in our business?

Management: You are asking the question on the debt cost?

Naushad Chaudhary: Yeah interest rate basically on a blended debt.

Management: My long term debt cost is 8.05 %a blended cost and my working capital I have a cost of say roughly about 3.5% to 4%.

Naushad Chaudhary: Has this been same throughout the year or has there been any reduction in last one or two quarters?

Management: This year in fact our working capital cost has reduced by another 15 bps.

Moderator: Thank you very much. Ladies and gentlemen that will be the last question for today. I will now hand the conference over to Mr. Ankit Gor for closing comments.

Ankit Gor: Thank you sir for your time. I would like to handover call to Mr. Sundararajan for any closing remarks. Thank you and over to you sir.

P. Sundararajan: Thanks to everyone who has participated in this concall as we have been repeatedly mentioning that please have trust in this company under different model and we are going very steady and the financial year ‘21-22 as CFO mentioned would be one of the best year and we are doing our best to make sure that all the shareholders, investors are satisfied and happy about the investments. Thank you.

Moderator: Thank you very much. On behalf of Systematix Institutional Equities that concludes this conference. Thank you for joining us, you may disconnect your lines. Thank you.