S.P.APPARELS LTD.

UKAS QUALITY MANAGEMENT 005

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

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

Scrip Code: 540048

Symbol: SPAL

Dear Sirs,

Sub: Transcript of the Conference Call

We wish to inform you that Audited Financial for FY18 results conference call hosted on 31st May, 2018. We are sending herewith the transcript of the conference call.

Kindly take the above on your record.

Thanking You,

For S.P.Apparels Limited,

K. Vinod

K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above

“S P Apparels
Q4 FY2018 Earnings Conference Call”

May 31, 2018

ANALYST:	**MR. ANKIT GOR - SYSTEMATIX SHARES & STOCK LIMITED**
MANAGEMENT:	**MR. P. SUNDARARAJAN – CHAIRMAN & MANAGING DIRECTOR - S.P. APPARELS LIMITED.** **MRS. S. LATHA - EXECUTIVE DIRECTOR - S.P. APPARELS LIMITED.** **MR. S. CHENDURAN - DIRECTOR OPERATIONS - S.P. APPARELS LIMITED.** **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 S.P. Apparels Q4 FY2018 earnings conference call hosted by Systematix Shares and Stock Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ankit Gor from Systematix Shares & Stock. Thank you and over to you Sir!

Ankit Gor: Thank you Stanford. I welcome one and all on Q4 FY2018 earnings call of S.P. Apparels. From the management side, we have Mr. P. Sundararajan, Chairman & Managing Director, Mrs. S. Latha, Executive Director, Mr. S. Chenduran, Director Operations, Mrs. P. V. Jeeva, CEO, Mr. V. Balaji, CFO. I would like to hand over call to management post which we can have Q&A session. Thank you and over to you Sir!

P. Sundararajan: Thank you Ankit. Good afternoon everybody. Thanks for participating in the concall and I am happy to inform you that we have grown during the current year under the difficult global and local environment. We witnessed a revenue growth in FY2018 coupled with improvement in operating profitability. The changes in duty drawback, implementation of GST, currency volatility and domestic challenges has impacted our revenue growth and margins to some extent.

Our financials have been prepared under Ind-AS for the first year and we have successfully converged into Ind-AS now. Infact Q4 FY2018 witnessed the highest ever quarterly revenue recorded by the company despite the currency volatility. Let us review the performance of each vertical separately.

The garment division, displayed good performance despite difficult global economic scenario. The garment division revenue increased by 18.2% in Q4 FY2018 compared to 4% in Q4 FY2017. Primarily this is driven by increase in orders from existing as well as new customers along with increase in the capacity. Adjusted EBITDA margins increased by 331 BPS due to better management of forex movement and cotton procurement to our favor.

PBT margin decreased by 317 BPS due to increase in finance cost majorly due to PCFC restatement. Overall PAT grew by 23.5% year-on-year to Rs.132.2 million in Q4 FY2018. After one-and-a-half years currency movement of rupee as against pound, dollar and euro, is now in our favor. Our current capacity is 4,337 machines and our utilization is at 78%. Optimum utilization of the existing capacity will facilitate us to grow our topline by another 15%.

Our efforts to increase our efficiency is yielding results and we are seeing good improvement in our production efficiency levels. The current order book is at Rs.320 Crores. Contribution of business from US customers has gone up to 8% for the whole year. Next year we are looking at an increased contribution of business from non-UK customers to average our geographical concentration in the UK.

Overall the garment division during this FY2017-2018 we have stabilized a sustainable business structure by ensuring; One, adequate customer base with risk mitigation geographically and regular order inflow. Two, strong uninterrupted supply chain management for production in line with our planning.

Three, availability of projected capacity for achieving the sales. Now for this year we are focusing on efficiency in consumption, efficiency in production and efficiency in waste management.

Now, we move to SPUK operations. SPUK continued to display strong growth momentum. We recorded revenue of £4.15 in FY2018, which is close to 200% higher in comparison to FY2017. SPUK operations were EBITDA positive at £1,50,000 for FY2018 compared to loss of £4000 in FY2017. We have started working with big retailers such as Arcadia in the UK, which is now entering kids garment under the brand name of 'Outfit.' We are looking SPUK business more promising and will grow in the same pattern in the years to come.

Retail operations: - retail revenue grew by 19% for the current year. Retail operations have delivered an EBITDA of Rs.23.2 million as compared to a loss last year. During the current quarter, our retail division degrow and EBITDA was negative mainly due to our returns from customers due to the past difficulty, which we explained to you before due to GST and other things. As on March 2018, we have 34 companies owned company operated stores and 12 franchisee owned franchisee operated stores. Looking ahead we aim to open more stores on franchisee basis along with our own COCO stores. We also looked to convert existing company owned stores to franchisee owned. Additionally, we continue to increase our presence across all large format stores. We have opened up with 15 new LFS doors this quarter. Our plans to improve our LFS doors to reach 300 doors by end of March '19 is well on track. Even in the retail, we have made a lot of efforts in the last two years. We have ensured that there is potential for increase in number of outlets for both retail and wholesale and we had made the platform ready for this and secondly, we have managed to have adequate suitable vendor base to support the retail business. What we are going to do this year is to improve the efficiency in inventory management as well as supply chain management.

Other expansions, on the spinning expansion we are glad to inform that the building construction is going on in full swing and is expected to be completed by December 2018. I would like to update you that in our processing division as we have updated you on the last call about the improvement in the ETP capability to adopt biowash of the fabric and increase in the capacity by 5 tonnes a day in addition. We are looking for the completion of the project by end of Q3 this year and put into operations by Q4.

Our sewing factory in Kovilpatti near Sivakasi has started commercial productions since March end. We are planning to put up 350 sewing capacities in this factory before December 2018. To enable us to grow we are constantly looking to improve our capacities, we are in the process of identifying more places to put up bigger factories and we will let you know once we have completed the process. I hope that I have covered all the information and we will now hand over to CFO for more financial updates. Thank you.

V. Balaji: Good afternoon everyone. Thank you for the participation in our concall and I would like to update you on the financial numbers. First on Quarterly year-on-year numbers, we are happy to inform you that this quarter is the best performance quarter in terms of revenue for the company and our revenue stood at Rs.184 Crores as against Rs.161 Crores on year-on-year basis. Our adjusted EBITDA stood at 20.8% as comparing 17.1% last year. Our PBT declined by 12.9% basically due to increase in interest cost, which includes the preference share dividend and the PCFC restatement.

Our PAT increased by 23.5% on year-on-year basis and PAT margins also increased during the current quarter. Now on year-to-year comparison that is FY2017 versus FY2018. This year our total revenue grew by 3.6% as against FY2017. Adjusted EBITDA margin grew by 20 basis points, in value terms it grew by 4.8%. Finance cost grew from Rs.18 Crores to Rs.28 Crores, which is Rs.10 Crores increase majorly due to PCFC restatement. As you are aware that last year we had a PCFC gain of Rs.3.5 Crores and this year we have a loss of Rs.5 Crores, which both put together we are taking a hit of Rs.8.5 Crores on the PCFC restatement. This is the reason for our increased finance cost. PAT decreased from Rs.53 Crores to Rs.47 Crores this also is basically due to the increased PCFC restatement and MTM losses. I would like to inform you one and all that this year we are starting with the credit of these two MTM losses, which are booked in FY2018 is getting reversed this year and also the PCFC restatement of Rs.5 Crores is getting reversed this year, so we are starting with Rs.10 Crores of credit this fiscal year. The current EPS is Rs.19 as against Rs.21.3 last year. EPS has also come down basically due to the PCFC restatement and the MTM losses.

On our debt front, our net debt is Rs.154 Crores for the current year. Our inventory level during the current year has increased considerably basically one because of change in the cotton procurement policy. Until last year we used to procedure cotton only for 45 days, this year there is a change in the procurement policy where we have procured cotton during the season time for the next six months, so there is considerable increase in the inventory level where it has gone up by Rs.30 Crores only because of this policy change. I think all the other points have been covered in the financial presentation. We can now move onto the question and answer session.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Dhruv Agarwal from Crescita Investment. Please go ahead.

Dhruv Agarwal: Good afternoon and congratulations on a good set of numbers. Sir if you could help me with the number of garment pieces that you sold for FY2018 versus FY2017 on a consolidated basis?

V. Balaji: FY2018 we have made exports of 49.2 million pieces as against 47.9 million pieces last year.

Dhruv Agarwal: Average evaluation per piece for FY2018 versus FY2017?

V. Balaji: Average realization per piece for FY2018 should be closely around Rs.99.

Dhruv Agarwal: For the FY2017 was?

V. Balaji: FY2017 should be closely around Rs.101 or Rs.102.

Dhruv Agarwal: Any new clients, which you have added in the year FY2018?

P. Sundararajan: We have added four new customers coming in, all large players. Already business orders have started coming in from two customers and remaining two customers we are expecting business to be through in the month of September.

Dhruv Agarwal: Sir what are the geographies for these four new clients?

P. Sundararajan: One is European, but global presence that is H&M then one is American again they are big in babies garments they are the largest and the third one is from France another supermarket, fourth one is the largest supermarket in UK, so there are four customers now.

Dhruv Agarwal: Okay that is all

V. Balaji: In last concall we have informed that the two American customers have already come in. Garan and K-Mart last quarter their contribution was 13%, for the whole year their contribution is 8%.

Dhruv Agarwal: For Garan and K-Mart?

V. Balaji: Yes.

Dhruv Agarwal: Garan came at 8% for the whole FY2018?

V. Balaji: **L**ast quarter it was 13% , now for the whole year it is 8%.

Dhruv Agarwal: Got it. Sir we are totally into exports right the garmenting division is completely into exports if I am not wrong?

V. Balaji: Correct.

Dhruv Agarwal: And for FY2018 what has been your capex that is number of sewing machines that you have added for FY2018?

V. Balaji: For the whole year?

Dhruv Agarwal: Yes.

V. Balaji: See we have been informing people on quarter-on-quarter basis for Q4, we have added 125 machines.

Dhruv Agarwal: Got it.

V. Balaji: And for the whole year we have added closely around 300 sewing machines.

Dhruv Agarwal: Your machines as on 31/03/2018 is 4337?

V. Balaji: Yes.

Dhruv Agarwal: What should be your target for FY2019 Sir the number of machines to add?

V. Balaji: The chairman spoke about consistently looking at factories and to improve the capacities since we are looking at couple of factories to be starting up. We are looking at 500, 600 capacities to be added in a year and already we are working with 78% utilization we can improve another 15% utilization by bringing up capacity utilization.

Dhruv Agarwal: So that 78% can go to 90%-93% range?

P. Sundararajan: Not 90% or may be 85%.

Dhruv Agarwal: 85% should be the ideal maximum capacity utilization okay Sir. Last two bookkeeping questions, your interest rate that has increased for this quarter so can we expect a similar run rate of Rs.10 Crores, Rs.11 Crores for quarter for the interest line?

V. Balaji: No, as I told you that the interest cost you must look at the interest cost without PCFC restatement. So our interest cost is closely around Rs.28 Crores including PCFC this year so without that if you look at Rs.10 Crores is basically because of restatement so without that if it is Rs.18 Crores of that you have interest payout of the preference shares, which is Rs.2.5 Crores if you remove both the interest for the whole year should be only Rs.14 - 15 Crores, the preference shares are getting redeemed this year so you will not find the preference interest being charged finance cost anymore, so without these things if you look at our finance cost should be only Rs.14 Crores, Rs.15 Crores a year.

Dhruv Agarwal: So that is what we should expect at the current rate?

V. Balaji: Yes.

Dhruv Agarwal: Thank you so much.

Moderator: Thank you. The next question is from the line of Viraj Parekh from KR Choksey. Please go ahead.

Viraj Parekh: Good afternoon Sir and thanks for the opportunity. Sir I had a couple of questions. Sir I would like to know the split of our revenue the bifurcation between garment and the retail division in percentage terms?

V. Balaji: It is much available in the presentation. The contribution from the garments for the current year is 90.4% and for retail it is 9.6%.

Viraj Parekh: Sir secondly, I wanted to know on the industry side Sir what positives are we looking for in the coming year and what could be the key challenges considering our industry per se if you could share it with us?

P. Sundararajan: In the garmenting side as, I mentioned to you that the continuous uninterrupted order inflow is not at all a challenge anymore. Then sourcing up material supply, supply chain everything is in place. The challenge is only going to be increasing the new factories, increase the capacity by adding new factories in new locations wherein we have to set up the proper things in place that is going to be always a continuous challenge, which we are always overcoming a year-on-year that is what we expect to be the only challenge. There will be definitely little bit of margin pressure from the customers, but we are being in the niche one and talking about the industry, since we are in the niche product area we do not envisage that also with this. So only the challenge is going to be the new projects to be up and running. On the retail side we do not see any big challenges because we are out of all GST thing and everything is out now. The only thing as I mentioned is that we are working on inventory management and supply chain management.

V. Balaji: One more risk could be on the exchange fluctuations, which is market driven

P. Sundararajan: Which is always there.

Viraj Parekh: Fine Sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Sameer Deshmukh from Principal Mutual Fund. Please go ahead.

Sameer Deshmukh: Good afternoon Sir. Can you just enumerate I was just going through your annual numbers? All the cost items seemed to have increased including depreciation and finance cost and cost of materials and services and other expenses all the line item, but there has been no proportionate increased in the topline, so what explains that number one, number two even in terms of spending I think we are here to spend a significant amount based on the initial plan that you would have enumerate it for expansion, so if you can explain why there has been a lag despite having decent consumer wins and lastly I missed the average production and sales figures can you just also repeat that please?

V. Balaji: On the sale and revenue front we have improved by 4.6%.

Sameer Deshmukh: Tepid 5% while all the other cost items have gone up more than 10%.

V. Balaji: We explained you on the gross margin front yes we have come down on the gross margin front for the whole year it is basically to do with the cotton rather than cotton it is the yarn price movement, which is the change because of the gross margin level and on the employee expenses yes our utilization levels have improved on the overall front when you compare last year, our last year utilization during March was closely around 2850 machines as against 3350 machines this year.

Sameer Deshmukh: Sorry can you repeat the figure Sir?

V. Balaji: 2854 last year versus 3368 machines for the current year. So, there is improvement in the production front where our output goes from 47.8 million pieces to 49.2 million pieces for the current year and if you look on the total sales including the domestic our total numbers improved from 51.3 million pieces to 52.8 million pieces, so there is definitely improvement in the production front.

Sameer Deshmukh: So, what was the average realization Sir?

V. Balaji: Average realization for the current year is Rs.99.

Sameer Deshmukh: As against?

V. Balaji: On the export front alone Rs.101 in the last year.

Sameer Deshmukh: So, is there some clauses that we have no pass through element for any of the clients because your yarn prices have increased, your costs have increased, so only tailwind possibly you would have had if any would be on the forex front?

V. Balaji: No as we have been discussing, we go by the orders on the specific date say if I am taking an order today I go by the rate of the existing today's rate with the today's currency and today's realization of the yarn or the trends everything is based on current prevailing rates, so nothing is passed on to the customer.

Sameer Deshmukh: But if that is so you would also cover yarn in a similar fashion?

V. Balaji: Yes correct.

Sameer Deshmukh: So, you do not seem to have done that?

V. Balaji: It is not like that Sir there could be change in the product mix, customer mix also could be a change, so you cannot have the same margin with all the customers for all the products, so it keeps changing.

Sameer Deshmukh: No, I am saying if lets say your gross margins are let us say 30% and it is based on an X price of yarn, X quality and let us say in the next customer is Y yarn and Y quality you would have covered that back to back and hence there should have been no at least dilapidation on margin front owing to the gross margin. I can understand the other cost items going on

P. Sundararajan: In the last quarter the orders were booked about three to four months before so somewhere way back.

Sameer Deshmukh: I am saying your annual figures I am not even using the quarterly figures?

P. Sundararajan: In general, so there has been a pressure on the forex volatility right, so both customer and we have to manage the situation so there has been pressure on the prices and that is what has actually happened that is why the realization has come down per piece and now it is back on track.

Sameer Deshmukh: So back on track would mean what Sir I mean stable gross margin or significantly improve margins in the current year?

P. Sundararajan: Markets are back on track so there will not be pressure from the customer side as well as from our side on the prices.

Sameer Deshmukh: So what kind of improvement can one hope for?

V. Balaji: We should have steady EBITDA margins anywhere between 18% to 20% going forward that is what we guess.

P. Sundararajan: Which always we expect.

Sameer Deshmukh: This is including the forex trajectory?

V. Balaji: Yes correct.

Sameer Deshmukh: We are about 50%-dollar, 30% pound and balance others right?

V. Balaji: You are right. This contribution can increase it could go because we are having couple of new customers I am going to start working only in dollars so the contribution on the dollar front can go up.

Sameer Deshmukh: What kind of volume jump can be seen owing to the machines?

V. Balaji: Volumes would increase by anywhere between 15% to 20% going forward i.e FY2018-2019

Sameer Deshmukh: Right and last question you have converted this redeemable preference shares in favor of equity shares owing to the promoters that conversion is at what rate sir?

V. Balaji: We have got the clearance from BSE and NSE yesterday and the redemption will start happening from the Monday or Tuesday.

Sameer Deshmukh: But we are reissuing shares?

V. Balaji: Based on the allotment committee, availability of allotment committee chairman and based on that the allotment will happen. We will let know the investors at the appropriate time.

Sameer Deshmukh: Sure, but you would have calculated the rough range in which it would happen?

V. Balaji: Yes, it is based on the rates should be closely around Rs.381 or Rs.382.

Sameer Deshmukh: Great Sir. All the very best and may be if I have any follow through I will come back.

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

Keyur Shah: Thank you very much Sir for the opportunity and congratulations for a good set of numbers. First question is some articles, which appeared in newspaper say that what is happening with sugarcane, which is anything below MSP trades cannot be done and whenever there is a state announced price anything less than that in terms of trade is not allowed will be replicated to other agricultural commodities also including cotton, so how does that impact you in terms of your accretion of fabric manufacturers and eventually to the spinners?

P. Sundararajan: This MSP has already been in existence for many years. For sugarcane it has come only now, but we are already in the policy of the MSP, so there is nothing that is going to have any impact.

Keyur Shah: The manufacturers from whom you acquire fabric and the partial spinning that you do anything, which was bought in terms of cotton till date was always above MSP or in line with MSP is that correct?

P. Sundararajan: Correct.

Keyur Shah: Second question is on the subsidies and export incentive side recently US has applied to WTO saying that since the gross or average income per capita income in India is more than $1000 now for three years in row and which means that India should remove subsidies or export incentives across industries, do you see any fallout of that on us?

V. Balaji: At the current scenario we cannot bet or talk about distant event, which can happen distantly I do not foresee any event happening now. If you look at the oil, the crude rates, the volatility in the dollar and the deficit happening because of dollar, the crude prices going up I do not foresee the export sector getting away from the incentives as of now for next at least couple of two to three years time.

Keyur Shah: Looking at your slide 22 in the presentation where you give a breakup of your stores in terms of MBO, EBO and EBO, COCO, and FOFO so we have seen a significant scene about quite a bit of addition in MBO and some change in terms of COCO and FOFO composition between 2017 and 2018, over the next about 12 months what sort of changes do you see in that composition from here?

V. Balaji: So, in terms of COCO and FOFO we are looking at closely around 5 stores in the COCO and 10 stores in the FOFO to increase for the next year and LFS as I told you in the opening remarks that we will be closely around 300 stores by end of March 2019 and MBOs could be anywhere between 5000 to 6000, but we are constantly working on it.

Keyur Shah: Keeping that in mind what sort of growth you see in the retail business in next year?

V. Balaji: Retail should grow in the same similar percentage, we have grown 20% last year and anywhere between 20 and 25 is something, which we are looking at for the current year.

Keyur Shah: And within the retail I would presume that B2C would have higher gross margins, but slightly lower EBITDA margin at this point of time given the scale do you believe that the margins in retail business once we grow at this pace in next two years the EBITDA margins on a full year basis could be materially higher?

V. Balaji: EBITDA margins for the whole retail could not be beyond 11%, 12%. As you said B2C should have better EBITDA margins, better gross margins than the B2B business. Now our focus is on B2C where we are looking at more improvement in the LFS and I guess going forward our EBITDA margins should be anywhere between 8% and 10% for the next year hoping for.

Keyur Shah: On a full year basis?

V. Balaji: Yes.

Keyur Shah: Quarterly there could be some?

P. Sundararajan: There are end of season sale, sale period, festival season, so there are lot of seasons, season based there can be some ups and downs, but on a whole year what he says is the number.

Keyur Shah: For the full year FY2018 what was the ad expenses and discount in retail?

V. Balaji: Advertisement expenses closely around Rs.3.5 Crores.

Keyur Shah: And discounts, which would be netted off from the sales?

V. Balaji: Netted off in sales.

Keyur Shah: Yes that is what.

V. Balaji: You want the number of this discount?

Keyur Shah: Yes what was netted off from the sales number in terms of discounts?

V. Balaji: I do not have the number now.

Keyur Shah: Sure. No worries I think that is it from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Sir why we want to make capex in spinning when lot of yarn facilities available?

P. Sundararajan: See as we have been mentioning since the beginning that our products are babies or infants products, we are predominantly doing 60% of our products are babies so where soft spun yarn, soft cotton these things are to be used, which is added value to the garments, so we go with some specific counts of yarn and specifications are very exclusive for such kind of garments and that is one of the reasons why our customers prefer our products and they rate it as a best garment. So, to have that kind of special product yarn and raw materials we have to have yarn in house because we cannot get this from the open market. So, it is not that 100% we are using inhouse only even after the completion of projects still we will be buying from open market because this is not the full requirement the capacity what we are going to have.

Ravi Naredi: How is the refund of export incentive is going on now after GST applicable in India?

V. Balaji: Until March we had issues with both GST and ROSL. ROSL was not released for nine months and GST from the day of implementation was not released, but after March yes we have received considerable amount of GST refunds closely around Rs.8.5 Crores has been released and ROSL has also to an extent of Rs.5 Crores has been released, so we had an accumulation of closely around Rs.22 Crores because of this and now it is eased out to some extent.

Ravi Naredi: In next one month more money may receive in about this amount, right?

V. Balaji: That is what we are expecting.

Ravi Naredi: So overall GST has given boost to our business or some hurdles in the business?

V. Balaji: The GST is not impact for us, but changes in the duty drawback yes to an extent that has impacted.

Ravi Naredi: So overall experience to our company is good or bad?

P. Sundararajan: No, definitely it is not encouraging thing, but we had mentioned in the last quarter also that we have been able to manage our situation and we have started working very tightly to face this problem and that is why the results are better and Q1 FY2019 will be still better than Q4. We have been able to manage the situation now.

Ravi Naredi: Thank you and all the best Sir.

Moderator: Thank you. The next question is from the line of Dipan Shankar from Trustline Portfolio Management Services. Please go ahead.

Dipan Shankar: Thanks a lot for the opportunity. Sir just wanted to understand this retail portion how much proportion was this B2B business?

V. Balaji: B2B business was closely around Rs.12 Crores.

Dipan Shankar: And percentage?

V. Balaji: Roughly 20%.

Dipan Shankar: In the garment business we have added around Rs.1.4 Crores volumes during Q4 so is this quarterly run rate sustainable for FY2019?

V. Balaji: Our aim is to improve the volume by 10% to 15% for every quarter.

P. Sundararajan: And it is sustainable.

Dipan Shankar: And any updates on this Kovilpatti capacity addition when it will be available for usage?

P. Sundararajan: We had mentioned when I gave you the opening speech that 350 machines by end of December.

P. Sundararajan: It is already up and running now. Now 120 machines.

Dipan Shankar: All the best Sir.

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

Ronak Morjaria: Good afternoon and congratulations on decent set of numbers. Sir my first question is with respect to our other expenses for the Q4, which I can see it has gone up sequentially also, so can you brief me what has been the reason behind it and whether this trend is to continue I am talking about the adjusted number as per your presentation?

V. Balaji: See the expenses have increased by Rs.6 Crores basically because of the volume only. The processing, which has been done on the yarn and on the fabric is an increased cost, which has come sit on the other expenses front, so other expenses should be in line with anywhere between Rs.35 Crores to Rs.40 Crores per quarter every year.

Ronak Morjaria: So that is not considered as a part of the gross margin you are saying?

V. Balaji: Yes, That is not considered as part of a gross margin

Ronak Morjaria: Also, I just wanted to understand does the garment volume also include the volume of SPUK or it is pure exports only?

V. Balaji: See we are talking only about pure exports. SPUK sources it is a trading model.

P. Sundararajan: It is a separate entity.

V. Balaji: It sources it from outside and service to the customers, so we do not have intercompany sales at all.

P. Sundararajan: UK volumes are over and above what we are talking about in garment export.

Ronak Morjaria: Since you have mentioned that for full year the non-UK customers have contributed 8%, which means like our existing customers have not grown, some of the customers would have degrown could you throw some light on that?

P. Sundararajan: No, it is not that case. Some correction has been happening in case of Q2.

V. Balaji: See what happen is that Q1 and Q2 because of the Brexit impact we have already stated this in couple of concalls where we have let go couple of orders, so because of the margin pressure we let go couple of orders with the existing customer where we have taken up more contribution from others. It is only because of that.

Ronak Morjaria: Lastly on the inventory front so since this time we have sourced for six months, so we can expect the inventory day level to remain at these levels even for the coming years?

V. Balaji: See when you look at year-on-year yes the inventory levels can go up.

Ronak Morjaria: In terms of days I am saying.

V. Balaji: Let me explain. See in the beginning I said that there is a change in the cotton procurement policy always the season time is between October to March so what you do is that unseason time, the April, May, June, July this time you are stocking the materials during the March time. So, the current state there is increase of Rs.30 Crores, but by end of next year our production will increase considerably after the completion of the project, so what could happen is that we could stock more going forward.

P. Sundararajan: For Increased capacity.

Ronak Morjaria: Also, your receivables have gone up if you could highlight on that also any specific reasons?

V. Balaji: When you look at quarter-on-quarter, there is sales improvement by 20%, so this 20% improvement will be reflected in the receivables.

Ronak Morjaria: So, it is mainly because of the high sales last quarter and since in the first nine months we did not have much of profit?

V. Balaji: Yes.

Ronak Morjaria: And on the retail front now I think earlier we used to guide for a slightly higher growth and earlier I think we had a focus on B2B more and now focusing more on B2C more and on growth rate I think our expectations has come down slightly so?

V. Balaji: We may have been saying that we will grow at 40% year-on-year. Because of the GST, demonetisation past couple of quarters we had the issue, so we are looking at an aggressive growth plan only, but guiding for anywhere between 20% to 25% and as we said that we have two verticals there B2B and B2C under B2C our focus is on LFS, so it is not that we are not focusing on B2B.

P. Sundararajan: B2B little disturbed because of this GST and demonetisation, so there has been a small drop in this business; however, the B2C is constantly growing, so now B2B is also back on track, you will see the similar kind of growth in the year 2018-2019.

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

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

Duby Rex: Regarding the receivables the receivable days per se increased, will that be under pressure also going forward?

V. Balaji: I do not think receivables have been coming under any pressure, change in the customer product mix like if mother care is on the higher side then the customer mix is always something, which is looking at the receivables, customer mix is very important. Now we have aligned with K-Mart who is also 90 days customer, so the customer mix is very important by end of March.

P. Sundararajan: That decides the number of dates.

Duby Rex: Sir regarding the retail, even though we do not have to see too much into the EBITDA up and down when do we see a sustainable growth in the EBITDA margin Sir, like two quarters we are up and then one quarter we are down and things like, but how long do you think totally up and things like EBITDA and the retail format?

V. Balaji: Please refer to our last call what we have said. We have informed people that on a sustainable basis for the year you have to look at on an year base, because Q3 was a festive season quarter and even Q2 is an EOSS period where the North India is celebrating their festive season so Q2 and Q4 you find the sales volume going up and Q4 always is a EOSS period where you provide more sales on a discount basis. So sustainable EBITDA on a yearly basis is anywhere between 7% and 9% as I said previously, so we are looking at sustainable EBITDA margin between 7% and 9% year ahead. Once we cross Rs.100 Crores this will definitely improve.

P. Sundararajan: There will be a positive EBITDA, but it cannot be same numbers, similar numbers like in garment export for all the quarters. There will be fluctuations quarter-to-quarter depends on the season, but there is going to be an improvement in all the season EBITDA growth.

Duby Rex: Thank you. All the best.

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

Giriraj Daga: Just a few clarifications. You mentioned about 15% growth in the initial comment what I understood is it for the entire company or only in the garmenting part you are mentioning about?

V. Balaji: We are talking about the garmenting division.

Giriraj Daga: Like what I have heard you like obviously in the last quarter there was some concern on the some order you have to let it go and therefore we could not have achieved growth, so is not this 15% we are talking like very conservatively just to give the guidance part or because the things come to normalize on the existing customer plus addition of new customer ideally should not we talking about this year 20% kind of growth, 20%, 22% higher plus?

V. Balaji: See two things one Q1, Q2 because of the Brexit impact yes, we let go couple of orders, but we are consistently improving our capacities and also improvement in our customer base. So we are looking both together, we are improving our customer base, we are improving our capacities also, improving the efficiency in the operations, which will definitely yield closely around 15% to 20%, which we feel that is definitely possible.

Giriraj Daga: In terms of retail when you say B2C you mean the MBOs and large format stores right B2C?

P. Sundararajan: Large format stores.

V. Balaji: Large format stores and EBOs.

P. Sundararajan: B2C is large format stores and EBOs.

Giriraj Daga: Okay.

P. Sundararajan: That is COCO, FOFO, franchisee company, all standalone shops.

Giriraj Daga: B2B?

P. Sundararajan: B2B is distributor and MBOs.

Giriraj Daga: So the number what I was like we have about B2B of Rs.12 Crores in the complete year and we have very large number of EBO something about Rs.4000, which we are looking to get Rs.5000?

P. Sundararajan: No, I think you have mistaken that outlets are distributors small counters.

Giriraj Daga: Correct, dealers and we are doing that?

V. Balaji: No, it is the reach through the 4200 outlets that was it means.

Giriraj Daga: No, but I just wanted to understand how much this 4200 outlets contribute in our revenue?

P. Sundararajan: That is Rs.12 Crores.

Giriraj Daga: So, does it really makes sense to go there other than focusing our energy may be LFS store because the cost matrix may not be the right thing?

P. Sundararajan: Because of GST and demonetisation got disturbed, but we have the outlets, but the business did not take up due to these things and even we got the returns also we have mentioned in the last quarter, so for GST we had to take back the stocks that hit the sales in B2B. Now everything is back on track and our business as CFO said that the outlets, the counters and B2B is going to be about 5500 to 6000, so it is going to be effectively in operation.

Giriraj Daga: But my point was still talking about annual growth per store coming about less than lakh rupees, right?

P. Sundararajan: Those are all small shops, very small MBOs and on opposite railway stations and bus stands all kind of dealers.

Giriraj Daga: My last thing you mentioned about this 8% to 10% margin is it for like guidance or is it for the wish list for this year or how do we see then what is the capex number you are looking in the sewing machine side and in spinning side i.e. the backward integration capex if you can give the breakup there?

V. Balaji: See in terms of percentage it is our wish list that it should be anywhere between 7% to 10% or 8% to 10% however we say. We are expecting retail to have an EBITDA anywhere between 8% to 10% that is where we are saying and second thing is on the capex build up, so let me break you on the capex so Rs.45 Crores of investments will get into spinning division and Rs.18.5 Crores will be invested in the processing and we are looking Rs.25 Crores of investment in the sewing capacity all put together should be anywhere between Rs.80 Crores where the spinning capacity is supported by the IPO funds and with the processing and sewing will take support from the debt where we are supported with the TUFS facility and in the retail sector we are expecting at least closely around 5 stores to be put up in the COCO this year so that will cost us closely around Rs. 2 to Rs.2.5 Crores.

Giriraj Daga:: Thanks a lot and all the best.

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

Vikas Jain: Sir my first question would be on SPUK side so what are the EBITDA margins that we make on SPUK on annual basis?

V. Balaji: EBITDA margin should be closely around 4%. The EBITDA margins and the PBT margins should be same.

Vikas Jain: This should be increased further in 2019-2020 means any effort that you are making?

P. Sundararajan: Margin will be more or less same, but the topline will grow.

V. Balaji: Once the topline grows the fixed cost will definitely come down and definitely that will improve the margins. It could go up by 100 BPS to 150 BPS because it is a trading model you cannot find more margins.

Vikas Jain: One more question on our employee cost side so do we have any policy of taking wage hikes during the year or is that how do you wage hikes are taken?

V. Balaji: See the wages are determined based on their skill, so every year if there is an employee who is in job for more than a year and his skill levels get upgraded. Once the skill level is upgraded you increase their salary based on the skill level and also for the existing employee you increase the wage by 3% to 4% year-on-year because of his longevity with the company, so that is how we work with.

Vikas Jain: Thank you.

Moderator: Thank you. The next question is from the line of Sameer Deshmukh from Principal Mutual Fund. Please go ahead.

Sameer Deshmukh: Sir just a followup I mean you said cotton policy changes so on an overall basis how much do you need to procure and stay put as opposed to the earlier policy and is there any recalibration of working capital limits kind of our payment terms with any of the customers because your working capital seems to have doubled in terms of days?

V. Balaji: See working capital has doubled.

P. Sundararajan: The net working capital seems to have doubled largely owing to the inventory.

V. Balaji: Inventory we have already explained about the increase of Rs.30 Crores because of cotton procurement and the other thing is that also because of the receivables from the government from the ROSL front and the GST front also has improved the working capital cycle.

Sameer Deshmukh: If that would course correct because now that is more flowing right it was a problem till the year end?

V. Balaji: Correct now it is set right. I think we should not have any stress on our working capital going forward.

Sameer Deshmukh: And this change in cotton policy owing to some specific client requirement or whatever?

P. Sundararajan: That is nothing to do with the inventory. See as Balaji said that good cotton crop you get during the month of October until March so it is better to cover as much as possible during this period for two reasons, one is the quality of the cotton will be consistent and second is the productivity will be much better throughout the year if you have homogeneous consistent quality so if you look at the productivity against the inventory cost it is better to have stock for six months until the season again comes back.

Sameer Deshmukh: Which means by on March end you will be maintaining anywhere between 4 to 6 months of inventory?

P. Sundararajan: Yes, exactly until September we will have enough stock.

Sameer Deshmukh: No, as things coming March it will look like you having four to six months of inventory on your books?

P. Sundararajan: Yes.

V. Balaji: On the cotton front alone.

Sameer Deshmukh: But you are not new in the business so what is this change of heart?

P. Sundararajan: No, previously we had two things, we were producing only 90s count because this spinning mill was acquired by us from somebody else so where the spinning pattern was only 90s count where the cotton inventory was not much required number one and number two as you know that we were not strong enough during those time to procure the cotton and keep the stocks due to financial crisis time and otherwise given a choice we would always like to keep the stock for six months. Those days what we used to do every month we used to cover the cotton, but it had definitely affected us in the productivity, quality, consistency, everything, but we have no other choice. Now since we are back on track we have changed the cotton policy to this model.

Sameer Deshmukh: How do you I mean can you adjust it in some way in the pricing to cover up at least finance cost of the incremental working capital?

V. Balaji: See both are same. The only one thing is when I am procuring during the off-season time the cost is also increasing, When I purchase the cost is getting at the higher side, so the cost, which I am taking because of my PCFC is very low comparing what I am paying when I am purchasing during off season.

P. Sundararajan: Increased price.

Sameer Deshmukh: Great Sir. Best of luck.

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

Ronak Morjaria: Thank you Sir for followup opportunity. Sir could you help us give a number what would be your revenues from Primark this full year?

V. Balaji: We cannot give you numbers, but contribution from Primark is closely around 35%.

Ronak Morjaria: Also, just wanted to understand on the interest, which you mentioned that this year you had booked roughly Rs.5 Crores of PCFC thing, so next year it would be added back to our P&L or how would that work?

V. Balaji: That is what when you recall my remarks, which we said next year what is the current fiscal year, what will happen is my PCFC I will get reversal of my loss last year I will get a credit of Rs.5 Crores this year along with MTM reversal of Rs.4.5 Crores, so I will start the year with the credit of Rs.9.5 Crores for the current year.

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

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I now hand the conference over to the management for closing comments.

P. Sundararajan: Hi everybody it was indeed a pleasure interacting with you all and thanks for all the questions and I am sure that we have clarified the best possible to all your queries. Thanks for participating. Thank you and all the best.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Systematix Share and Stock Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.