S.P.APPARELS LTD.

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19th July, 2019

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

Scrip Code: 540048

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

Symbol: SPAL

Dear Sirs,

Sub: Transcript of the Conference Call

Please find enclosed the transcript of the Conference Call conducted by the Company on 27th May, 2019.

Kindly take the above on your record.

Thanking You,

For S.P.Apparels Limited,

K.Vinodhini
Company Secretary and Compliance Officer

"S P Apparels
Q4 FY2019 Earnings Conference Call"

May 27, 2019

ANALYST: **MS. SHRADHA AGRAWAL – ASIAN MARKET SECURITIES PRIVATE 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 FY2019 Annual Performance conference call hosted by Asian Markets Securities 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 Ms. Shradha Agrawal from Asian Market Securities. Thank you and over to you Madam!

Shradha Agrawal: Thank you Nirav. Good afternoon everyone. On behalf of Asian Market Securities, I would like to welcome you all to Q4 FY2019 results conference call of S.P. Apparels and would like to thank the management for giving us the opportunity to host this call for them. On the call, we have with us the senior management of S.P. Apparels including 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 for their opening remarks. Thank you and over to you Sir!

P. Sundararajan: Thank you. Good afternoon. At the outset, I am glad to inform you all that this quarter has been a good year in terms of performance of all the three divisions.

Financial performance of the company, total revenue for the year 2018-2019 stood at Rs.829.82 Crores as against Rs.678.79 Crores of financial year 2017-2018. This is at a growth rate of 22.25%.

EBITDA for the FY2018-2019 stood at 137 Crores as against Rs.122 Crores of financial year 2017-2018.

PAT for the year 2018-2019 is at 73.37 Crores as against 47.81 Crores of financial year 2017-2018 which is at a growth rate of 53.5%.

EPS for the year 2018-2019 is at Rs.28.66 as against Rs.19 of year 2017-2018.

With regard to the garment division the global scenario is that currently the US China trade war is having some positive impact for the country, for the customers to focus more on Indian manufacturers. This is purely due to the anticipation and the ambiguity, so the customers including the European customers started focusing more on India for their sourcing. They have already requested us to increase the capacity and they want to book the capacity.

Regarding the BREXIT for the UK market, as of now we have not had any big changes which we have been experiencing for the past more than one year. So, we do not see any major change from what we are currently witnessing.

With regard to our products, we are going very strong as being children and baby's products. The customers continue to support and continue to increase the business with us. Now the cotton price has started coming down, so we hope that is going to be a positive situation for our business.

We have already consolidated the customer base of 10 customers. We have also diluted the geographical concentration of customers. Currently, our country wide contribution is 22% from US, 30% from other European market, and 48% is from UK. Our current order book is Rs.265 Crores.

With regard to the capacity of garment division, we have added three factories as we have informed during the last call and will be up and running by end of this quarter. There has been an addition of 100 machines during this quarter in our existing factories and the new factories. Our capacity utilization is around 77%. We are in the process of adding more capacities by way of expansion by putting more factories.

Our expansion plans are: we have added factories this financial year and we are looking to add four more factories in Tamil Nadu as part of our expansion plan. Once these factories are completed, we should have the capacity of around 6,000 machines and we should start consolidating them from here.

Financial performance; garment division adjusted revenues stood at 185 Crores, which grew by 19% on year-on-year basis and the adjusted EBITDA stood at 16.1% for this quarter and the EBITDA stood at 17.6% for the whole year.

The margins underwent stress due to the following reasons; the change in the product mix, which is mix of basic products in addition to the fashion products and new factories have contributed pre-operational expenses and the trainee cost of the new operators has also increased our overheads.

Our spinning plant was underutilized because of the expansion completion.

With regard to the retail, we have 29 COCO stores and 14 FOFO stores as on March 2019. We have 287 large format stores outlets as of March 2019.

Expansion plans in retail during FY2019 and FY2020 we intend to focus more on EBOs especially the FOFO in addition to the increase of large format stores.

Financial performance of the retail: Sales for this quarter stood at 20 Crores as against sale of 10 Crores year-on-year which is at a growth of 100%. We have achieved a sale of Rs.81 Crores in FY 2018-2019 which is Rs.17 Crores over and above last fiscal year performance of 64 Crores.

Here I would like to specify that this performance is after the Ind-AS 115 adjustment on sale. Margins during this quarter was stressed due to deep discounts and due to some stock liquidation.

With regard to our UK business financial performance, revenue of S.P. UK for the fiscal year ended was at GBP 5.2 million as against last year's performance of GBP 4.2 million revenue. Our margins also improved from 3.5% to 5.6% for the whole year.

The outlook of the UK business; business model is very promising as the retailers were looking to increase the sourcing through full service vendors that is importers in order to source efficiently by having proper mix of direct sourcing and landed delivery. We are planning to increase the customer base year-on-year by sourcing from various countries.

Other details; on spinning expansion, spinning mills saw a utilization level of 60% due to modernization process of the existing frames and the expansion of the blow room capacity. Spinning expansion project is fully completed and is running now at full capacity since May 2019.

Now I will handover to CFO with regard to the financial performance. Thanks for your continued support and interest in the company and we expect to keep performing in the same manner in quarters to come.

V. Balaji: Good afternoon everyone. The adjusted revenue for financial year 2019 stood at Rs.810 Crores for the company and garment division contributed 680 Crores for the financial year and 81 Crores from the retail division and 48 Crores from the SPUK.

Adjusted EBITDA margins of garment division stood at 17.6% as against 21% last year. SPUK adjusted EBITDA stood at 5.6% versus 3.5% last year. Retail margin stood at 2.1% for the current year as against 3.6% of the last year.

On the Q4 performance our garment division revenue stood at 185 Crores as against 163 Crores of last year, which was a growth rate of 13% and our retail revenue stood at 20 Crores as against a revenue growth of 10 Crores last year which is 100% revenue growth.

Our SPUK revenue stood at 8.94 Crores as against 10.2 Crores of last year, because of shipments which got deferred during the end of March, which was explained by the CMD. Our adjusted EBITDA margins for the garment division stood at 16.1% as against 24.4% of last year where the explanation has been given by CMD the reasons for the decrease in EBITDA margins.

Our SPUK margins stood at negative which is 1.6% as against 2.5% is basically because of sales being down by 13%. And our retail margin stood at -9% as against -18% of Q4 last year. Our core net working capital days reduced to 118 days as against 139 days of the previous year. Our net debt stood at 147 Crores which is 0.31 on the equity and our adjusted ROCE stood at 19.3% as against 17.1% for the whole year.

Other informations are available in the presentation and we can run through the question and answers now.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Pritesh Chedda from Lucky Investment Managers. Please go ahead.

Pritesh Chedda: Question is on margins, so if you see QOQ there is a sharp reduction in margins and we are actually getting to a phase where we are favorable hedges and all, so just wanted your comments on this and what is the indicative margin percentage that one should look at in FY2020?

V.Balaji: So, if you look at our EBITDA margins for the Q4 we have achieved 16.1% adjusted to the exchanges. This is basically because of our new factories that have come up and the training costs being on the higher side. You can look at our employee cost which has increased basically because of the new trainees that are put up in the products. They are not into production yet. So, our EBITDA margins are slightly reduced because of one, product mix and two on the trainee front who are costing to the company without any production and three on the spinning plant which is underutilized because of the expansion. So, these are the reasons for the decreased margins. We stick to 18% EBITDA margins in the garment going forward.

Pritesh Chedda: This is including whatever forex income plus FX on hedges, all inclusive 18%?

P. Sundararajan: Yes 18% is inclusive of the exchange gain.

Pritesh Chedda: Inclusive of exchange or hedges expense if any which is 16% in the quarter?

V.Balaji: 15% which is 16.1% in this quarter, We are guiding it for 18% for FY20.

Pritesh Chedda: What is the EBITDA that we would have made for the full year in the retail business or brand side?

V.Balaji: EBITDA for the full year is close to around 3.85 Crores. The presentation has got the percentage, we have made 2.1% at the EBITDA level for the whole year.

Pritesh Chedda: There is a slowdown in the garment's growth rate in this quarter. So, I think your garments would have grown at about 13% to 14%. So, is there anything to read there in terms of growth rate and how is the supply pipeline looking for you which could give some indication on the growth next year?

V.Balaji: If you look at the growth rate for the whole year, we are close to around 23%. So, for the first and the second quarter we had a growth of say 12% to 13%. For the fourth quarter we had a bigger growth rate because the base rate of last year was a lower growth rate, but we are guiding for a 20% growth year-on-year basis not quarter-on-quarter. In addition to this, first quarter the product mix what I mentioned, we are sort of getting more of mixed of basic products wherein the price is much lower than the average price say about Rs.60 or Rs.65 so the more production has happened in the fourth quarter. But if you look at the quantity terms, there is definitely a substantial growth. So, this is what we are exactly working. As the growth we have to look at the average unit price realization value and filling the capacities and the mixing up of the products to improve their efficiency and maintain the margin. In the fourth quarter all these things we have started working on. So in the quarters to come, gradually you will see the improvement in the margins, by increasing the productivity and everything will happen now.

Pritesh Chedda: You have not factored in the margins RoSCTL incremental benefit of 3% which is going to flow in Q1?

V.Balaji: Yet it is to come. What will happen first RoSCTL which is being given and the MEIS will be taken off. So that is what we understand, but the new government should come out with a clear policy about the export incentive. Considering the current position that RoSCTL will remain and MEIS will be taken off. We guide for 18%. This is with effect from March 20.

Pritesh Chedda: But there was an extra 3% from March 20th?

V.Balaji: That is what we are waiting for the government to give a clear signal on that. It will be continued.

Pritesh Chedda: So, you are not recording that and neither receive reporting it, that is how it will be from Q1?

V.Balaji: They may discontinue MEIS.

Pritesh Chedda: Sir that is future. I am just saying till the time you do not know that it is getting scrapped or not till that time do you have these extra 3.5% getting booked in the quarter or will get booked in the quarter?

V. Balaji: That is only for that March 7 it is negligible. When compared to the whole quarter it is already factored in.

Pritesh Chedda: Yes Sir. I am saying incrementally you will book that 3.5% till the time you get whatever clarifications.

V. Balaji: Yes.

Pritesh Chedda: So that 18% margin that you are guiding for includes this 3.5% or this 3.5% should be additional?

P.Sundararajan: Yes, 18+ something because again 18 is the bottom which we are maintaining and this 3.5% is the buffer we have to really play and maintain this 3.5% also.

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

Ankit Gupta: Sir, just wanted to check with you in your opening remarks you said that you are seeing an increasing opportunity because of the US China trade war, can you please elaborate on that a bit?

P. Sundararajan: Regarding this US China war, see definitely the US customers are little panicked about it. Although there is no duty increase in the garment products, apparel products, but still they expect the disturbance in the industry so customers are immediately reacting. If this was sorted in the last one month there wouldn't have been lot of enquiries coming from the existing customers asking for more capacities, which are definitely unusually happening here. Not only the Americans, also the UK customers are also asking for more capacities. So, this is the kind of indication we have received. And that will be in favor of India.

Ankit Gupta: How much was the contribution of the top three clients in our business and how do you see this panning out over the next two, three years? We have added few clients how is the ramp up happening from those clients?

V.Balaji: We have already indicated that 48% from UK, 22% from US and the balance from other European Union.

Ankit Gupta: I am asking customer wise, customer concentration?

V.Balaji: That is what I am just coming down to that. So, if you look at the contribution customer wise, top four customers contribute closely around 70%.

Ankit Gupta: Top four?

V.Balaji: Yes, top four.

Ankit Gupta: What was this percentage in FY2018?

V.Balaji: FY2018, our top four will be close to around 80%. Now it has come down to 70%.

Ankit Gupta: Sir, I had also asked about how is the new customers that we had added during the year? How is the ramp up happening from the sales from them?

P. Sundararajan: As we mentioned many times before we have added two, three customers. So we need to grow the business with them. It is all in early stage, the first, second quarter so for another one year we are not looking at adding any new customers because existing new customer have more potential to place orders and we need to meet out their requirements. So, there is no point in looking at new customers currently. Probably next year we will be looking at new customers for years 2021 and 2022.

Ankit Gupta: So, basically the new capacities that we are adding will be for our existing customers and the new customers that we added last year and currently you are not looking in FY2020 we are not adding any new customers because of capacity constraints?

P. Sundararajan: Yes.

Moderator: Thank you. The next question is from the line of Anshul Mittal from CARE Portfolio Management Service. Please go ahead.

Anshul Mittal: I wanted to ask that on year-on-year numbers, we can see an increase in other expenses, so can you tell me the bifurcation of those excluding the forex activity?

V.Balaji: So, if you look at the other expense, since we are backward integrated, the cost of conversion from cotton to yarn, yarn to fabrics, then dye charges, also printing charges, embroidery charges, are all factored into the other expenses. In addition to that power cost, fabrication cost, processing cost, selling cost, and rents are also included in other expenses. I guess the whole expenses attributable in term of revenue which will be in variable nature, will be approx 20%.

Anshul Mittal: So, these expenses basically we should consider these other expenses sustainable roughly at this level?

V.Balaji: Portion of which should be considered as manufacturing expenses.

Anshul Mittal: Sir, also wanted to ask what is the scenario for dividend payout? Are you thinking of something on that front?

P. Sundararajan: For the current year, the board has not taken up any decision for dividend in the last meeting. So whenever there is any update, we will definitely come up.

Anshul Mittal: Sir, are there any bad debts in our books because of increase in receivables, so do we see any bad debts? I just wanted to know what is the bad debt percentage of our total trade receivables?

P. Sundararajan: In terms of our garment division and SPUK all are against the orders and you do not find any big bad debts coming our way. But in the retail division, because there could be some disputes between the large format stores, there could be some bad debts, which we have taken a provision of close to around 50 lakhs this quarter.

Anshul Mittal: So, the bad debts are covered?

P. Sundararajan: We have provisioned for expecting some bad debts.

Moderator: Thank you. The next question is from the line of Vivek Kumar from Lufkin Capital. Please go ahead.

Vivek Kumar: Sir, my question is can you throw more light on what is the competition like China is leaving the market, what is our advantage versus Vietnam or Bangladesh? Who is more competitive? Is it Bangladesh or Vietnam taking more of this business or is it coming to India? Can you throw more light on that?

P. Sundararajan: The neighboring countries including Sri Lanka, Bangladesh, Vietnam, Cambodia always there has been a competition for many years. So this is part of business which we have been managing all these years. India is preferred for few reasons. Number one, they do not want to put everything in one or two countries who are much cheaper than us. They will anyway share the business with all these countries. Number two, Indian policies are very stable and there is no ambiguities so, they would like to keep the Indian shares always, each customer would like to. One of our customers were here two weeks back and they were at director's level, they mentioned to us that our sourcing from India has been only 10% as against other countries. Now we are planning to increase to 20% this is a message from a big customer. So, these are somethings which they are now looking at increasing the capacity, sourcing from India. So, we will always have our own niche products from this country as against other countries.

Vivek Kumar: So, we have competition in be it Bangladesh and all the other countries? It is just that we have our own market share, right?

P. Sundararajan: Exactly.

Moderator: Thank you. The next question is from the line of Manoj Dua from Geometric Securities. Please go ahead.

Manoj Dua: Can you give some more color on the incentive the company received, which had? How much we are receiving in MEIS, which we are sharing that there maybe taking off because of RoSCTL? Can you give us some more color on that how we see all these incentive going forward? How are our company can be or what textile industry can be WTO compliant as well as how much we can expect from the government if possible?

V.Balaji: There are only three, one is the duty drawback, one is the RoSCTL and the third is the MEIS. So, duty drawback is 2%. RoSCTL is 4.75% to 5% depending on the product and the MEIS is 4%. So, this MEIS can be removed at any point of time because of the WTO arrangement. As they have increase RoSCTL from 1.5% to 4.75%-5% we are expecting MEIS to be withdrawn. So that is the breakup.

Manoj Dua: And with RoSCTL has been defined increase to 4.75% or 5% up to which stage or it will be reviewed every year as we go forward?

V.Balaji: Whenever they reduce MEIS they would increase the RoSCTL. This will be reviewed every year.

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

Prakash Jain: Sir, I would like to know what is the sewing machines addition for the full year in FY2019?

V.Balaji: For FY2019 March we were at 4,800 sewing machines against we were 4,370 by March last year.

Prakash Jain: And average utilization for the full year was?

V.Balaji: 500 machines.

Prakash Jain: Sir, I was asking the utilization rate for the full year?

V.Balaji: Full year should be 74.5%.

Prakash Jain: 74.5%. Sir and what was the capex amount for FY2019? If you could segregate between sewing machines.

V.Balaji: Capex for the garment division as a whole was closely around 30 Crores.

Prakash Jain: Our CMD Sir shared about the four locations that we are planning to add going ahead. Sir, can you elaborate what would be the sewing machines that we are planning to add and how much capex should be required for that?

V.Balaji: So, we are looking at close to around 1,200 sewing machines in the next one year's time in these four factories. The capex on the 1,200 machines should be close to around 70 Crores.

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

Ankit Gor: Just trying to understand EBITDA margin more clearly. Considering our product mix remains same, what could be one-offs here, which is Q4 FY2019 one is training will be one-off probably and once the spinning ramps up, what do you expect in terms of number of or absolute amount which the spinning can add to EBITDA?

V.Balaji: On the product mix if you look at last quarter versus this quarter my average realization has come down. So that shows my contribution in terms of pieces which is basic in nature has gone up. So, where we could have some issues on the efficiency front also. On the spinning expansion, I think we are looking at additional EBITDA of close to around 10 Crores for the current year.

Ankit Gor: Sir, I am just trying to understand since we have done more of basics, the economies of scale should come in right or should have come in?

V.Balaji: Yes, that is what I said, the efficiency could be lower.

P.Sundararajan: Should have been better, but that is what we are working on. So in the quarters to come the efficiency will be better and we will maximize our profitability.

Ankit Gor: What is the Q4 product mix, basics and fashion?

V.Balaji: 40:60. 40% should be the basic one and 60% should be on the fashion.

Ankit Gor: This number should remain for the next two or three quarters or for example for FY2020 or it will change? What is your assessment?

V.Balaji: Ankit, the metrics of 40:60 we are working towards 50:50. We wanted to move towards 50:50 but you will not know how the orders are picking up. So we wanted 50:50 and we want to strengthen our efficiency also.

Ankit Gor: On our incentive side when we are saying 18% is what we are guiding which includes currently 10.75% to 11% sort of incentives, right? Will that guidance includes that?

P. Sundararajan: MEIS may be withdrawn. When it is withdrawn we are looking at 18%. At this 11% incentive, our EBITDA should be 21.5% or 21%.

Ankit Gor: But you also said that MEIS will be recouped via RoSCTL?

V.Balaji: That has been done, so 11% is including RoSCTL only. So, they have increased it already. Now they may withdraw MEIS.

Ankit Gor: Okay, if MEIS remain then, if 11% is to remain our EBITDA margin will be 21%?

P. Sundararajan: This is what I mentioned, so 18% is the base margin and we have to see which is 3.5% either we may maintain 21% or between 18% to 21%. It depends on the customers, product mix and other things.

Ankit Gor: My last question with regards to other expenses. Since now we are backward integrated our job work will reduce, which we used to do outside, so in that case, my other expense should go down from 43 Crores?

V.Balaji: Again, Ankit, you have to breakdown the other expenses which are variable in nature and fixed in nature. So like the power and fuel is variable one, fabrication charges is also variable which is in proportion to the sales, manufacturing expenses is also which is variable in nature, selling overheads is also variable in nature. So you have to remove the other variable expenses and then identify what is your fixed expenses and then extrapolate it. That is the way in which we have to do it.

Ankit Gor: In my employee cost, which is 55 Crores, which should continue that 50 Crores to 55 Crores on a quarterly basis?

V.Balaji: See, when my utilization level goes up, my employee costs will also go up along with it. But one thing that can happen is that my training cost can come down over a period of time. But since we are putting up four factories in next year and we have already added three factories this year. What will happen is that we may have to maintain this employee cost to some extent, every quarter. We may have some employee cost on the trading revenue. There will be some marginal increase.

Ankit Gor: Lastly, with regards to cotton, since cotton prices are also coming down, what is our inventory in terms of cotton? Now we are a backward integrated so we have to keep inventory as well for the same. So what is the tonnage inventory and what is the costing for that, average costing for that inventory.

V.Balaji: Our inventory is close to around four months inventory as of March and it was carrying the cost of around 47,500.

Ankit Gor: Sir, if in case, if cotton prices currently is around 44,500. I am not including the logistic cost, which is 44,500 and again if I include?

V.Balaji: I have not included the logistics cost, and GST rates.

Ankit Gor: So, it comes to around 47,000 in that case again, 46,000 or 47,000 and if it is further dropping for example, since newer cotton pricing also going down so I should see some inventory loss for Q1? Is it fair to assume? If cotton prices go below 44,000?

P. Sundararajan: That will get averaged out. The kind of inventory what we maintain and the amount of value what we consume it will get averaged out, when we make the costing.

V. Balaji: We used to keep inventory of about 200 before. Last year we were maintaining the inventory close to around six months. Now our inventory we are carrying is only four months.

Ankit Gor: But since the nature of business has also changed as now we are backward integrated is it fair to say that we should have more inventory now compared to last year?

V. Balaji: No, it is like this. We have to watch the market and cotton prices. How we work is that if it is continuously increasing we try to keep at least three months of stock to give a better mixing. But if it is going to be stable or coming down, then we cover and average it out. We will hold it for about six to eight months, so it depends on the fluctuations.

Ankit Gor: One is finance cost, if you can give some guidance on finance cost, full year FY2019 was around 6 Crores. How should we look at for FY2020?

V.Balaji: Ankit, we are looking at the net debt of 150 Crores. We are looking at close to around 6% for the whole year.

Ankit Gor: In that PCFC credit that thing is done or it is still there?

P. Sundararajan: Including the PCFC also. We should be close to around 12 Crores to 13 Crores for the year.

Moderator: Thank you. The next question is from the line of Anand Jain, an individual investor. Please go ahead.

Anand Jain: This entire China shift that is happening that you have spoken in your beginning comments, I just wanted to understand as to a) what is the cost differences between India and China? I just wanted to understand whether the opportunity is long-term or short-term. That is one part. Second is in general what kind of contract structure do we have with our large clients? So that you know once we put capex for them it remains utilized for a very long period of time. The third question is some of the other companies like KPR Mills are setting up facilities specifically in Africa and Ethiopia what kind of cost arbitrage or cost differences do we have in India versus Africa?

P.Sundararajan: The first one is China, definitely their costs of manufacturing is very high and shortage of people for the garmenting industry because they are moving on to the electronics and the auto industry's So now they are probably more of yarn making, cotton, and the dye that is how it is. There are certain specific products which only China can do and not India. So those products will be continued to be sourced by the customers. But for India they have alternate 100% cotton, such kind of products specific for India where our Indian manufacturing cost is much cheaper than China. So that is how it is being settling down. Regarding your second question regards to contract with the customers. As we have been always telling that the contract with customers are project-based orders because we are in the fashion industry, so each order is one project. So, every time they continue to place the orders, there are no such agreements that they will ensure to place the orders. It all depends on the price negotiations and they will continue to give the business. But this has been working out well for the past 20 years with our existing customers. So we do not anticipate any issues with regard to getting the business.

Anand Jain: Third one is on Africa and Ethiopia.

P.Sundararajan: Third one, number one is the people move to other countries for want of more people. There is shortage of people and to the African countries they have the duty benefit which will be passed on to the customers. There is not going to be any extra benefit for the manufacturers, the only thing is the customer will identify such products where they can get cheaper prices due to duty free thing. But as far as we are concerned, we still have more opportunities to increase the capacity with existing workforce by putting up a factory in the right places. So at the moment, we do not see any hairline increase in the capacities. Not the duty-free benefit competition. So, it is not the pressure at the moment. We are still open to putting up factories in suitable countries, maybe in Africa and other places, we don't want to rule it out at the moment. We want to get our capacities as fully optimized within Tamil Nadu and within this country.

Moderator: Thank you. The next question is from the line of Ashutosh Garud from Aventis Wealth Management. Please go ahead.

Ashutosh Garud: Sir, just wanted to understand basically by the end of this financial year 2020 we are looking at 6,000 machines?

V. Balaji: Yes, installed capacities.

Ashutosh Garud: Sir, how confident are you about this utilization levels moving up beyond 80% to 85%?

V.Balaji: Our current utilization is 77%. So, we are strategizing on it to improve our utilization level. That is our primary area where we are working on. Utilization anyway be around 80% or 82% because we need to have special machines always as and when required. We are planning to go up to with the installed capacities, up to 85% to 90% in the years to come.

Ashutosh Garud: That would be possible in FY2021?

V. Balaji: It is likely because we continuously increasing the capacities. So what happens our old factories, already our utilization may be close to 85% to 90%, since we are adding up new factories. So it is pulling the average utilization. So probably as we continue to grow there will be improvement in the utilization percentage, but in FY2021 we are not sure. But there will be an improvements in the utilization rate.

Ashutosh Garud: Sir, in last concall, you mentioned about upping your expansion plan from around 200 to 300 machines to 500 to 600 machines post this expansion, so you are still confident of the same, right?

V. Balaji: We have already had 500 machines for the current year, because the factories which are under construction there is an escalation in the completion of time. So, the additions are also getting postponed. So we should have completed about 5,200 machines by March. But, the construction work is there is a delayed. But we are confident that by March 2020 we should be close to around 6,000 sewing machines capacity installed.

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

Naushad Chaudhary: I missed out some initial comments. Did you share your 4Q FY2019 volume number of garment division?

V.Balaji: Volume number it is part of the presentation, but still let me tell you that we are close to around 17.4 million pieces.

Naushad Chaudhary: How much this was in last year same quarter?

V.Balaji: Q4 last year it was 13.87 million. Now it is 17.36 million that is the product mix.

Naushad Chaudhary: This quarter we have a mix of 40:60 in terms of basic and fashion, right?

V. Balaji: Right.

Naushad Chaudhary: How much total export incentives did we fetch in FY2019?

V.Balaji: I will just tell you the number in a moment.

P.Sundararajan: Next question in the mean while please.

Naushad Chaudhary: What was your garmenting margin in 4Q?

V. Balaji: For the Q4 garmenting margin is 16.1%.

Naushad Chaudhary: When do you see your retail margin turning positive?

V.Balaji: For the whole year the retail margin is positive 2.1%.

Naushad Chaudhary: Yes, but this quarter we had around…?

V.Balaji: Specifically, this quarter is because of certain stocks getting liquidated and higher discounts.

Naushad Chaudhary: So that is the trend generally you will see in every fourth quarter of the year?

V.Balaji: Fourth quarter you will find the margins from a lower spread.

P.Sundararajan: Because next quarter is mainly discount quarter.

Naushad Chaudhary: Lastly, how much number of employees do we have right now? And how many are under training going on?

P.V.Jeeva: Workmen, total operation centre is about 4,000 and total worker strength is about 12,000 and the operator training is around 500 people.

Naushad Chaudhary: If you can quantify how much loss we had or extra cost we had employees' level for the training of this 700 people?

V.Balaji: We cannot just quantify that in terms of value. That is very tough, but whatever CEO said is based on the garment division alone. When you look at company in terms of the backward integration. All put together we are closely around 14,500 employees.

Naushad Chaudhary: But this is something very regular thing, 500 employees would most of the time would be under training these kind of numbers always be there?

V.Balaji: Which are put up new, which are in the newer area, you will not have the same kind of training every time. But what will happen is that first time whenever people join they are trained and you will always have this training going on. But first time when you put them into training is something which is a value addition without any other commercial protection happening. I think she has mentioned about the 500 people on the new factory training, but in our existing factories it is always we continue to have about 10 to 15 people continuously training. We are not taking that into account. So, if you take that also then probably 1,000 people will always be under training.

Naushad Chaudhary: So, is it fair to assume out of your 12,000 employees, almost 8% to 10% employees would always be under this nonproductive thing or they will be under training?

V.Balaji: Yes, always. There is always a pre-operational expense which are happening when you put up a new factory, that is also hurting us. Export incentives which you asked is 43.3 Crores for the whole year.

Moderator: Thank you. The next question is from the line of Manoj Dua from Geometric Securities Private Limited. Please go ahead.

Manoj Dua: Sir as you have said that four of our top client make us 80% so actually it looks like we have a relationship business where both of the parties understand each other, so for example, MEIS rebate is not taken off, so they will actually say, "okay reduce the prices" or may going forward MEIS is taken off and rebate is also being reduced, we can also can go to them, okay that our cost has been increased or rebate has been reduced, so similarly in the case of cotton prices also if the prices are increased can we go to them and say, okay, increase the prices so how this relationship works?

P. Sundararajan: See this is what I exactly mentioned to you. We will stick to 18% for sure and if at all we get this 3.5% without taking this MEIS. So we will use the 3.5% for all contingency, negotiation contingency and other things so we are confident. There are chances in the 18%+ so we do not know that 3.5% we need to use it for the competition, raw material and other aspects.

Manoj Dua: If for example, next year MEIS is not there and RoSCTL has been reduced, we have that kind of relation that we can increase our price is that okay to show them because it is four clients are there which are getting 18% so what I believe that is we have to also respect the cost, return of our capital employed or something like that because we are putting new capacities for them. So going forward in longer-term these types of margins can be maintained whatever rebate we are getting or not, is it possible? Can it look like that?

P. Sundararajan: It looks like that we will be able to maintain this margin. The relationship with the customers is that we know, what exactly is their requirement from us. So we do not see as a big problem in this one. We will be able to maintain it.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to the Ms. Shradha Agrawal for closing comments.

Shradha Agrawal: On behalf of Asian Markets Securities, I would like to thank the management of S.P. Apparels for giving us the opportunity to host this call and thank you everyone on the call for your participation. Thank you.

P. Sundararajan: Thank you.

Moderator: Thank you very much Sir. On behalf of Asian Market Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.