S.P.APPARELS LTD.

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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 August 2021	

Dear Sir/Madam,

With reference to our letter dated 13th August 2021, intimation about the conference call with Analyst/ Investor held on 16th August 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 Limited Q1 FY22 Results Conference Call hosted by Systematix Institutional Equities"

August 16, 2021

MANAGEMENT: **MR. P. SUNDARARAJAN – CHAIRMAN AND MANAGING DIRECTOR, SP APPARELS**
MR. S. LATHA – EXECUTIVE DIRECTOR, SP APPARELS
MR. S. CHENDURAN – DIRECTOR, SP APPARELS
MRS. P. V. JEEVA – CEO, SP APPARELS
MR. V. BALAJI – CFO, SP APPARELS

DICKENSON WORLD: **MS. PUSHPA MANI, SENIOR ANALYST**

Moderator: Ladies and Gentlemen, Good day and welcome to S P Apparels Q1 FY22 Results 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Naushad Chaudhary from Systematix Institutional Equities. Thank you and over to you, Sir.

Naushad Chaudhary: Good evening everybody. On behalf of Systematix, I welcome you all on the SP Apparels Q1 FY22 Earnings Call. I thank the management team of SP Apparels for giving us this opportunity to host them. From the management side, we have Chairman and Managing Director Mr. P. Sundararajan – Executive Director Ms. S. Latha, Director Mr. S. Chenduran – CEO – Mrs. P. V.Jeeva and CFO – Mr. V. Balaji. Now I hand over the call to the Chairman Mr. P. Sundararajan for the opening remarks. Over to you, Sir.

P. Sundararajan: Thank you. Good afternoon everyone and a warm welcome to all of you present on the call to discuss our Quarter 1 FY22 performance. At the outset, I hope and wish that all of you and your loved ones are healthy and safe. During our performance call on FY21 we had discussed in detail about the COVID second wave situation and its implications on the business. In fact, there is no big change in the business operational environment after the second wave. Factories are allowed to function with 50% capacity and buses which commute between factory and employees places are not allowed to utilize full capacity.

Hope this position will improve in couple of weeks' time and restore normalcy. Our major divisions have performed well during this quarter which shows the inherent strengths of the company. This sustainability and the experience gained during period of the business will take us to a new height. Let us discuss segment wise performances. With regard to the garment division the shipments for customers during the quarter increased year-on-year in spite of the lockdown in UK and some of the other countries. Our customers are witnessing consistency in demand especially for their online retailing business. Retailer consolidation of supplier base is still happening and that is one of the reasons which will support our growth going forward as we continue to remain as one of their most preferred suppliers.

Our current order book stands at Rs. 335 crores. Our garment division revenue for the quarter stood at Rs.115.68 crores an increase of 136% year-on-year with low base which was impacted by COVID. EBITDA margin improved from 12.7% to 26.1% in Q1FY22, EBITDA margins are better due to recognition of RoSCTL announced by the government of India. We have recognized RoSCTL where we have Rs. 8.5 crores during this quarter out of which Rs.4.5 crores is pertaining to Q4 of FY21. Our garment division EBITDA margins without the previous quarter RoSCTL would be at 22% which is also very healthy.

As mentioned in the previous call, we have consolidated factories to reduce rent, workmen, transportation cost and other operating overheads. We are confident that EBITDA margin would be between 18% to 20% in the coming future for this. Our strategy in increasing the utilization levels were aggressive sourcing and training of workmen is yielding better results. For the second lockdown listed completed our strategy of bringing more migrant employees will gradually start yielding better results.

As I have already discussed in the last call we have a strong customer base and all our infrastructure is in place to engage increased volume. We are also equally working on the strategy to increase skilled based employee and I am confident of better growth in coming years. Let us talk about the spinning. Spinning is fully being utilized and is yielding good margins adding to the garment division margins. Currently we are in process of expanding our spinning division by another 36,000 spindles and now due to the pandemic the project is delayed by another three months. Once the project is completed we will be at 27,000 spindles.

Processing Divisions- The processing divisions utilization levels has increased due to investments in projects over last two years. This will also add considerable margins to the garment division. S.P. Apparel UK again got disturbed due to the lockdown work in UK and India, but the unlocking is happening and we are seeing good recovery in order inflow. This division is looking very promising which has three new customers now. SPUK revenues stood at Rs.11.62 crores and compared to Rs. 8.61 crores of revenue year-on-year. Our current order book for SPUK is at sterling pound 7.1 million.

Regarding retail before analyzing the performance of retail division I would like to share an update on the retail division. The board has given consent to setup a wholly owned subsidiary company for the purpose of retail operations. Rationale cost of setting up we are wholly owned subsidiary company for retail operations is due to the following reasons. We are very optimistic about the retail division and the future of retail industry and we would like to re-strategize and restructure the current retail operations. We would like to unlock the value in the retail divisions and you are aware that we have already tried to hive off retail division on a growing concern few quarters before, but that did not go through.

As we have mentioned earlier our retail division is a single brand retail agency model which has limitations to market access, customer demand and optimization of overheads. Moving to the next level we need to have couple of more brands either own as well as any utilization fee which requires additional investment towards creating larger distribution channels, investment in brand awareness and working capital requirement. The company intends to expand the retail division into a large network of stores and distributors and would require a focused business plan with investment and hiring of key management people. The retail division has sufficient market opportunity and experience, but however constrained by margins and existing business model. The single brand facility does not leverage the existing or future potential. Hence it was supposed to move operations into a subsidiary company and appropriate investment be raised in the new entity for further expansion. Investment maybe sought from external private equity investors and other options of raising equity. This strategy will improve the performance and the valuation of both the garment and retail companies. The board has constituted a committee to look into the process and means in which operations will be shifted to the subsidiary company.

Regarding our liquidity position it continues to remain comfortable. We have cleared all the interest and debt installment obligations that were due until today. We had strategized on the retail division and will work towards unlocking value and for our retail division as well as our stakeholders. In garment division we are working towards better utilization of capacities and increase in revenue by strategically having different verticals of business which will parallelly grow along with the business and we are excited about the new verticals.

Now I will request CFO to give an overview about the financials.

V. Balaji: Thank you sir. Good afternoon everyone. Let me just run through you the financial of Q1FY22 performance of the company we have made a revenue of Rs.151 crores as against 59 crores of revenue year-on-year which is an increase of 120%. Our adjusted EBITDA margin stood at Rs.27.83 crores as against Rs.5.28 crores of year-on-year there is an increase from 8.8% to reach to 21.1% which is 427% increase. Our PBT stood at Rs.16.82 crores which is at 12.8% as against a negative PBT of Rs.5.82 crores year-on-year. Our PAT margins stood at Rs.11.56 crores as against negative PAT of Rs.5.82 crores last year our PAT is at 8.8%.

On the division wise performance. Garment division revenue stood at Rs.115 crores versus Rs.49.06 crores year-on-year. Our garment division EBITDA stood at 26.1% as against 12.7% year-on-year. Our retail division revenue stood at Rs.4.54 crores versus Rs.2.15 crores year-on-year. Our EBITDA margins for retail division stood at negative 53.8% as against 32.7% negative year-on-year. UK revenue stood at 11.62 crores in Indian rupees as against 8.61 crores year-on-year and on EBITDA margin which is at breakeven point 3% for the current quarter as against EBITDA negative of 2.6% year-on-year. Our gross debt stood at Rs.157 crores and net debt is at Rs.132 crores. Currently our inventory is at Rs.281 crores as against Rs.241 crores of March 21. This inventory is increased is mainly because of cascading of the orders where we were not able to dispatch orders due to the lockdown. Our receivables are at Rs.77 crores as against Rs.94 crores year end and our other assets are at Rs.43 crores as against Rs.34 crores of year end.

Our trade payables are at Rs.78 crores as against Rs.73 crores of year end. Rest of the information is available in the Investor Presentation and we can get into the question and answer straight away.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ashwin Reddy from Samarthaya Investments. Please go ahead.

Ashwin Reddy: So, wanted to get some more clarity on the retail part of the business so one is there any specific strategy to focus on the kids wear or is it like a general thing you were looking at retail that is the first question and second given that through SP retail you already have the dealership of head and engineering bucket in India, how does that time with what you have on the private side of the business?

V.Balaji: Can you repeat your first question.

Ashwin Reddy: First thing was within retail so if you could give more specifics on the strategy with respect to is it focused on kids wear or is it like a general retail or your own brands or is it again franchise to some brands or some clarity would be helpful as to what are your plans on retail?

V. Balaji: On retail Ashwin is like currently it is proposed to transfer our operations into the subsidiary company rest equity based either through private equity or through other means of equity and then try to consolidate on couple of more brands it could be either own brand or it could be licensee brand because the single brand retail as chairman was informing and discussing on the opening remarks the single brand retail has got this limitation then it is not able to push more so like since the retail industry is good and we wanted to explore all the opportunities. Currently now the strategy is to move the operations into the retail subsidiary company and then try to build brands there raise equity there and move forward, that is the strategy.

P. Sundararajan But we have plan for one kids brand and one Sports brand that is only we are going to look for and most probably it should be the way it is.

Ashwin Reddy: Sir, but right now the retail brands has both head and also uneven bucket in India because as we are seeing some intermediaries online that is what I understand is SP retail brand, so would they moved into this company or will they opt it separately because with that remains private and run separately?

V. Balaji: The retail brand is something which was setup previously a year and half before when we wanted to hive off. I am not sure things could there be a time where it could also be part of the subsidiary company.

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

Giriraj Daga: So, my first question is like you mentioned about the expansion in retail I mean we will be looking to expand our footprints there, so what is the investment status we have we finalize so we will only be investing with the expanded money what we will be getting or we will be investing from the SP Apparel balance sheet also?

V.Balaji: So, in terms of strategy on investment into the retail I guess why at all we are looking at subsidiary in brief is because we are not investing any more money into retail and that is why the operations is getting transferred to a subsidiary company and then allow the subsidiary companies to raise its own capital and then consolidate into the operations and move forward that is why we are moving the operations into a subsidiary company.

Giriraj Daga: Just to make myself clear that you will be looking out for the fund-raising plant and suppose I am just playing a devil advocate here suppose if you do not able to make any success out there, so will we just keep the plan in hold or will be then take a different call there?

V.Balaji: See the strategy is to raise funds there and if you ask to why what happens if it is not being able to raise money there we cannot answer that question at the present moment, but we are very confident that over a period of three, four years' time we can also look at listing retail as a separate company three, four years down the line that should also be a possibility.

Giriraj Daga: My second question is on garment division so you mentioned 18% to 20% of EBITDA margin guidance right?

V.Balaji: Correct.

Giriraj Daga: This is assuming the new revised RoSCTL rate right?

V.Balaji: Yes, this is including the RoSCTL which will be extended until March 24.

Giriraj Daga: Like last time you are talking about 18% so I thought this time we will be minimum 20% this should not be the case?

V.Balaji: See when we last time spoke about EBITDA of 18% we were looking at RoTEP which should be at 2%. So, now RoTEP has not been extended to the garment division I mean garment industry as such. So, now we feel the RoSCTL which has been given. So, like there is an additional 2% which is coming up and that is why we are saying that EBITDA margin between 18% to 20%. So, we have increased the spreads.

Giriraj Daga: No, I was looking a minimum 20% by the time 18% to 20% price brand I was looking at a minimum 20% kind of a thing?

P. Sundararajan: We hope so, but it is better to give a range of 18% to 20% I mean if you look at the historical thing but for the lockdown period we have been able to maintain it and I think once we ramps up our top line probably this may improve we are not sure.

Giriraj Daga: My last question and a few follow up on the same segment only we did about like 9 million kind of a number this quarter, so what is the full year guidance looking at the order book in our hand and you mention about that there are some inventory also and that is why our inventory number has gone up, so have we seen the tracking that shaping in July, August so far so the second quarter should probably be much better than the first quarter?

V.Balaji: Yes, definitely second quarter will be better than the first quarter in terms of quantity in retails front and for looking at the guidance I guess anywhere between 57 to 58 million could be the possible number.

Giriraj Daga: Just last clarification as you mentioned inventory number can you just give me the number I just slipped from the call?

V.Balaji: Rs.280 crores an increase of Rs.39 crore against March 21.

Moderator: Thank you. The next question is from the line of Rajesh Kumar from Share Gaint. Please go ahead.

Rajesh Kumar: Just explain about the order book sorry I missed that if you can just repeat what is the kind of order book we have?

P. Sundararajan: Rs.325 crores for our garment division and 7.1 million pounds for SP Apparel UK business.

Rajesh Kumar: And sir on the UK business so wanted to get some color like due to there has been too much of moves which is in one of your main markets where like there has been due to COVID locking, unlocking situation is happening, so how do you see the trend and what is your outlook?

V.Balaji: You are talking about UK.

Rajesh Kumar: Yes.

V.Balaji: See in the opening remarks see as already said that the unlocking is happening in UK and we are seeing good traction in the orders in fact. The order inflow is very good in fact we are restricting ourselves in taking couple of orders because of the availability of capacity. So, the order inflow is very good and the unlocking is happening and the retailers are doing well.

Rajesh Kumar: Sir any kind of risk in stance like due to this COVID issue any kind of write off or something which can come up?

V.Balaji: So, in terms of write off I guess we do not have any write off as such today. The customers whom we deal with in the garment division are very sound customers and in fact if you look at our receivables it has come down by Rs.20 crores from Rs. 99 crores to Rs.73 crores it has come down considerably it is mainly because we are paying us little earlier now because they wanted to support all the suppliers and the customers are paying us a week earlier. So, there is no issue with regard to any payment like default or anything.

Rajesh Kumar: Sir also wanted to know if you can answer on the CAPEX requirements which you will see for further expansion in the going ahead?

V.Balaji: So, in terms of the expansion, I think last call we have updated that we are investing Rs.15 crores in a spinning capacity expansion and anything in terms of investment into the garment division will be only to support our hostel facility it could be anywhere between Rs.10 to Rs.12 crores.

Rajesh Kumar: Sir what is the kind of debt numbers you have and what is the outlook going ahead of the debt?

V.Balaji: Debt today is at net debt is at Rs.130 crores of debt the outlook like we want to be a zero debt company in another two years' time.

Moderator: Thank you. The next question is from the line of Ashwin Reddy from Samarthaya Investments. Please go ahead.

Ashwin Reddy: So, basically I am trying to say what has been the key learning from the Crocodile brand that we had so far and when you have a multi brand approach I am trying to understand what are the key things that we will change or what are the key things that you are banking on?

V.Balaji: See in terms of the learning the key learning will be to increase the square feet, presence needs to be increased so that the revenue can increase considerably and what we have worked on from the centralized warehousing system where we are constantly reviewing the inventory and the other inventory related because inventory is something which could pile up in the retail because of the cut sizes and so on. So, we have strategize or we have got an experience in terms of how to strategize on the inventory pile up and how to liquidate it and on the multi brand I think that you have to have couple of options like I have developed Crocodile as a casual and a formal where brand so far and going forward there could be a brand which can be used as an can be athlete brand or sportswear brand which could compliments each other in terms of the store presence and same store growth can also come up because I am having multi brand in the same store. So, this could be a combination which could increase our sales per store so that the revenues can increase unit wise can increase per person.

Ashwin Reddy: So, basically you are saying the existing network of Crocodile stores will also be used and become like a multi brand outlet or material?

P. Sundararajan: See it is a Crocodile it is a single brand if you need to grow then you have to only grow the men wear only as a growth and then you need to pile up lot of stocks and lots of liquidation, lot of unsold things so these are the lessons which means there is a limitation of growth of one single brand, but in order to grow better way we need to have more than one brand so that we will have minimum stocks in all the brands and different segment one is a mens wear, one maybe kids wear, one may sports and Athleisure brands. So, we have a mix of all so the same amount of inventory can be split across the three brand so where the cash liquidity will be better, liquation will be much better. So, this is a learning and this is the strategy.

Ashwin Reddy: And sir second question sir on the SPUK front say given that in the SPUK division so you are doing not just kids wear, but men and women wear as well right, so how do you see this business in the next one, two years so how do you see a scale up happening in this business for SPUK?

P. Sundararajan: This is a good question again see here if you look at considering this COVID situation the retail brands they are restricting themselves from travelling to various sourcing countries to manage the supply chain or replacing etc. So, they need somebody who can serve them locally from UK or in other countries. So, SPUK office is very much advantageous to them because they do not have to travel all the way to look for new factories or placing orders or samples or quality control or compliances etcetera. So, this SPUK is giving all full service to those retail customers so which means this model is picking up much better than what it used to be because people prefer someone can support them locally the retailer prefer. So, we are getting more and more new customers added we have been having two customers already there now we have added another three more customers so there are about five customers and there is no limitation of capacity because we can source from any factories, any countries as long as we are fully complied with.

So, this is a wonderful business model which needs to take off to a new height in the next two, three years' time.

Ashwin Reddy: Again, a follow up on this so what you do right now is only the sourcing part or do you also design and do more valued stuff for the brand in UK?

P. Sundararajan: It is a completely different setup which start from creatives and designing, product developments and sourcing and supply quality control complexes it is a full services.

Moderator: Thank you. The next question is from the line of Nilesh Joshi from Green Lantern Capital LLP. Please go ahead.

Nilesh Joshi: Sir taking forward from the previous question and your answer so this in the new model from SPUK you will restrict to children wear only right is that correct?

P. Sundararajan: In garment division.

Nilesh Joshi: Yes, in SPUK model?

P. Sundararajan: SPUK model is for all it is not restricted only to kids wear it is doing mens wear and ladies wear only and not only the jersey products even the woven.

Nilesh Joshi: And you would try to outsource these products from the manufacturers possibly from India is that correct?

P. Sundararajan: India but we are not restricted only to India we can source from Bangladesh or Sri Lanka from anywhere else.

Nilesh Joshi: But in that case we do not that kind of expertise or any capabilities to source from Bangladesh or other countries because typically our model has been we were the manufacturer for last many years, so how do you feel comfortable and confident to do this outsourcing provide with the same quality control?

P. Sundararajan: Now you have set aside completely different independent business entity where in our UK office they have expertise who used to work for the retailer who use to work for retailer as designers for sourcing or quality control same way even their office have recruit that somebody from the various buying offices who used to source from various countries. So, there is a very strong completely different kind of outlook people are there, they are nothing to do with the manufacturing outlook. So, that is a kind of a team we have in UK and India.

Nilesh Joshi: What is your I mean feel that in next two to three years how big this opportunity can be?

P. Sundararajan: In the next two to three years it will definitely we expect to double it for sure minimum.

Nilesh Joshi: And you were also in the last call talking about repeating a similar model expansion in US and in other countries?

P. Sundararajan: We are not ruling it out it will take some time once this COVID thing settles down we will think of those also.

Nilesh Joshi: But then for that you will again have another office in US and Europe or everything will be done through SPV?

P. Sundararajan: We are still not conceptualized it so we are yet to think about it, but there are ways and means for it.

Nilesh Joshi: And sir last question is on the India export you are talking about two new customers to start probably in Q2 so is it on track or there is some delay on this?

P. Sundararajan: Very soon we will be getting the inquiries converted into orders any time the sample developments and costing are going on.

Nilesh Joshi: And sir what is the progress on your model of doing two shift operation where are you there at the moment?

P. Sundararajan: As I mentioned see we have been already we have started mobilizing people after the COVID lockdown from various other states those states also have their own restrictions so sending the people migrant from there is a little it is a challenge. So, we have already met most of the people and probably we would be able to stop one shifts, two shifts from September onwards. We are very hopefull we are doing it which we originally supposed to do in the month of June, July, but due to the second lockdown it has been pushed to September, October and I am very confident in October, November it will be one or two more factories with few lines double shift will be operated.

Nilesh Joshi: So, your ecosystem for hostel and those facilities are already ready?

P. Sundararajan: Very much intact.

Nilesh Joshi: And sir last question is are you I mean from the talk what you explained about retail division it appears that you are still very confident that this is a good business and you want to explore it further because in spite of having gone through very rough patch and losses for many years it appears that you still have lot of I would use it in a layman word lot of emotional liking towards that business and you feel that business can be scalable, so again I want to understand that I hope what you are thinking may turn out to be positive for the shareholders, but can you really share that is that your product and what you are selling in retail is giving you confidence that there is a huge potential and you have a capability to cater to through quality product basically quality product versus the price point and that is what you are learning is that encourages you to spent energy and time of management into that business?

V.Balaji: See in terms of emotional connect that is not right because we tried to hive it off from the garment division I mean from SP Apparels, but it did not work out well, but in terms of the retail whatever experience we gain we feel that if you have another two brand in the same premises the infrastructure can be utilized for two to three brands whatever we have invested into the IT whatever we have invested into the warehousing facility, whatever we have invested into this networking facility, whatever we have invested into the design experience that we have already almost like 14 years to 15 years of investment into people also we feel that the two, three brands in one umbrella could definitely work out retail will definitely come out of its existing issues.

P. Sundararajan: It is not a emotional connect or something like that he has got all the experiences as I mentioned that single brand the growth will be a challenge and unless you grow considerably then overheads we will never be able to meet our requirements there is always challenge between the overheads and the growth. So, suddenly with one brand if you grow then you are left with more unsold stocks what happens unless we have two three brands it is a different targeted audience and three different areas like mens and then may be sport wear I was asking. So, with our experience, with our network, with our IT support, with our warehousing and logistics everything we have invested everything, but we are not able to grow with a single brand if we make an attempt to grow then we end up with liquidation of stock which will ultimately ends up with the bottom-line thing and then especially during this COVID period two times. So, by adding two more new brand came to this one with the same people, same setup it should definitely work very well. So, we are optimistic about not emotionally taking a decision on this.

Nilesh Joshi: No I would understand you would have done lot of homework before getting into that, but second point the product what you will sell through retail you will be manufacturing yourself or it would be outsourced also?

P. Sundararajan: All will be outsourced.

Nilesh Joshi: Even currently what you are selling is outsourced is that correct?

P. Sundararajan: Yes, very much. It has trousers, denims, and lot of things and Mens we are not producing currently for Crocodile. So, already the supply chain is also setup the supply base is setup, everything purchasing, good thing everything is setup the only thing scaling up is a big challenge either you grow in the scaling up in the same brand or additional brand which is equal size of business so this is the concept.

Nilesh Joshi: And you will also take it on the E-Commerce platform?

P. Sundararajan: Very much of course yes.

Nilesh Joshi: And last is again on that so how many more years would you like to give yourself on this retail?

P. Sundararajan: To turnaround.

Nilesh Joshi: Yes to turnaround and may be a bit positive or EBITDA positive whichever way you look at it?

V.Balaji: See in terms of retail see if you look at our presentation where we are given five years of performance of retail we have been doing well, but for like in terms of FY20 and FY21 is the two years where we are undergoing severe crisis because of the pandemic. So, I guess you cannot look at the retail with the pandemic, so I guess you have to look at retail in the last sheet you will see the five years of performance of both retail in garment and UK separately. So, if you look at that if are doing well for year 17, 18 and 19 only during 20 and 21 we had challenges. So, even 20 was better because 20 was hit I mean March 20 was date when pandemic hit. So, it was almost 20 is also as good as 19, but only 21 we have gone severe pressure because we have to liquidate all the stocks at lower price or either liquidate stocks because of the season. So, you should not look at retail performance mainly single it out for your FY21 we have to look at it over a period of time.

Nilesh Joshi: How soon you should be launching those two products I mean on the two more brands?

V.Balaji: That depends how we get the brand and see move forward in terms of raising money we have to look at all the options there.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investment. Please go ahead.

Bharat Sheth: Sir now taking forward to previous participant in this retail business how well we are prepared on the supply chain management and designing I believe we maybe sourcing, but designing will be our inhouse or design also we outsource because right now we have only one product, so we are diverting into two another product which is totally different categories so how well we are prepared on those front?

P. Sundararajan: See there are few things which we need to look into this retail one is this the designing part which is the key thing. So, designing part for we have our in-house designing capability which was being Mens ones and not too complicated one, but if at all we go for the Kids and for the sports brand. So, we already have an office in SPUK they also have design us so we can outsource them, we can hire them who can be managed by that office once we go for the kids brand because already those design are expertise in the kids designing. So, if we take a brand of kid then it should not be a problem and sportswear is also not a big deal that can also be handled by our SPUK office and they will have counterpart sitting over here in the retail office and they can manage it and sourcing when it comes to sourcing. So, for sourcing we are sitting in the hub of sourcing this I would say Coimbatore, Tirupur area we have plenty of suppliers who are again working with us for the past 20 to 30 years. So, we have the best factories, fully compliant factories. Sourcing we already have buying teams buying system in place so buying is already there it is not a big deal and we know because we have already manufacturing this kids wear product so we know what kind of buttons or especially embellishments to be source from where so we have all the connections and network for this sourcing and when it comes to the qualities quality is also very important where already we have the team in retail division who are under loading because of this turnover so once the volume ramps up we have already a team of quality we will be able to manage this at this quality control as well.

Bharat Sheth: Sir on garment division in previous call first quarter we were operating at 50% so what rate we are operating in June and July?

V.Balaji: July has gone up by another 10%.

Bharat Sheth: Only 60% we are now operating?

P. Sundararajan: Why I tell you because we are insisting on double vaccination of all so that is also one of the reason why we are not able to take everyone and even the workforce they are also not immediately coming because whenever there is availability of vaccination in the local places. So, they wait and then get it done although we insist them to come we can also provide for vaccination they want to wait there. So, probably by end of August all should be in place and September we will be again back to normal as we used to be between 75%, 80% for the utilization.

Bharat Sheth: Now coming to this SPUK as you explained that we do right from designing to sourcing and everything so what kind or a margin trajectory are we really looking because we will be doing more value-added work over there?

V.Balaji: Sir there the margins historically is like 5.5% of margins EBITDA margins can be looked at SPUK. It is purely a trading model.

Bharat Sheth: I do understand Mr.Balaji, but as our chairman said that we do lot of value add also, so from that perspective I just want to get some sense?

P. Sundararajan: That will only improve the top line which is nothing to do with the margins, margins anyway will be around that percentage also. The value addition will be realization value will be better.

Bharat Sheth: So, it will help us to grow I mean bigger size of the business?

P. Sundararajan: Yes.

Moderator: Thank you. The next question is from the line of Gunjan Kabra an Individual Investor. Please go ahead.

Gunjan Kabra: Sir my first question was sir on the cost front like cost as a percentage of sales if you see for this quarter it has declined quarter-on-quarter so is it because of inventory gains or result of yarn captive consumption that we do because assuming the yarn prices are on an increasing trend or will we see a increase in raw material cost going forward in Q2, so what is the trend look like here?

V.Balaji: So, you are talking about the gross margin.

Gunjan Kabra: Sir meaning that revenue has decreased quarter-on-quarter, but the cost has decreased a lot more which has resulted in increase in EBITDA margins quarter-on-quarter?

P. Sundararajan: Can you explain slowly.

Gunjan Kabra: Sir I am saying that the revenue quarter-on-quarter has decreased but the cost has decreased a lot more which has resulted in rise in EBITDA margin quarter-on-quarter like we did 21% this quarter?

V.Balaji: If you look at Q4 revenue we have not recognized RoSCTL which is around Rs.4.5 crores for the current quarter I have recognized Rs.8.5 crores of RoSCTL as my revenue Rs.8.5 crore on the total revenue of Rs.110 crores is clearly 10%. So, if you look at in terms of value it will be like do not look at in terms of percentage look at it in terms of value without RoSCTL my cost will be same. So, I am sitting with the revenue of Rs.10 crores extra this quarter that is why my COGS has come down.

Gunjan Kabra: Sir also like in SPUK we deal in kids, men and women wear so here in the garmenting division also are we looking forward to anything whether we enter men or women division or just we are focusing on kids wear?

P. Sundararajan: Only the kids and ladies because the amount of requirement from our existing customers so much even if we double the capacity still we will be placed orders for this one so we have no room on those amount of customers have ask for they would like to place orders for women and men wear also, but currently we have more room for any segment place.

Moderator: Thank you. The next question is from the line of Shweta Shah from Samarthaya Capital Private Limited. Please go ahead.

Shweta Shah: My first question is what is your view on garments division going ahead and also how is the COVID situation currently and how is the labour availability in the plants?

P. Sundararajan: Currently the textile and apparel industry in India seems to be very promising and very attractive and so for SP Apparels also. So, we have a very clear visibility in terms of order inflow, the workers, the existing customers, and we also have plans as I mentioned that are two customers are being added in this quarter and another two more customers they approached us and we are working on those customers also. We are again on to the international various countries that kind of a retailers. So, as far as the garment division is concerned order book and expansion of the capacity we are already almost on a permanent basis this challenge. So, we will start experiencing this result from October onwards or probably the post Diwali so wherein we will have more people workforce with us and we expect to increase by another about 30% to 40% more workforce from what we used to have and order book is also is not of an issue. So, we see the future quarters are to be very exciting and what is your second question.

Shweta Shah: My second question was how is the COVID situation currently and how is the labor availability in the plants?

P. Sundararajan: As we mentioned before also the first lockdown has given us lot of experience so that time everybody was panicking as we did not know how to manage the situation. Now we are used to this new normal way of working conditions and the workforce they are also very safe and they were well taken care by our factory management and they are confident about this management. So, we do not see any reluctance from the workmen to come for the job on a daily basis.

Shweta Shah: Can you throw some light on various export incentives that you are receiving?

P. Sundararajan: ROSCTEL SPAL announced 2024 about 4.5% close to that range 4% will be net one, but I came to understand from related resources that our government is talking to European, British and the American for a FTA (free trade agreement) and this is almost reached a shape and we are very confident that very soon we will have a free trade agreement if that is the case and you know that will be windfall for this industry for the garmenting because the importing countries will get the landed cheaper.

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

P. Sundararajan: Thanks for participating in this concall as usual and thank for your support and the confidence you have in this company, your company and as I mentioned the last concall please rest assure that we have done all the base works everything for our continuous growth performance in the quarters to come, but for this COVID the situation would have been far-far better. I am very confident considering even anticipating any COVID situation we have plan in such a way that it is not going to be affected very severely as it was in the last two lockdown. So, please rest assured that we will give better results in the quarters to come. Thank you for your support. Thank you.

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