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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 12th November 2021	

Dear Sir/Madam,

With reference to our letter dated 10th November 2021, intimation about the conference call with Analyst/ Investor held on 12th November 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
Q2 FY22 Earnings Conference Call"

November 12, 2021

ANALYST: **MS. PRERNA JHUNJHUNWALA - BATLIVALA & KARANI SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT: **MR. P. SUNDARARAJAN – CHAIRMAN & MANAGING DIRECTOR**
MRS. S. LATHA – EXECUTIVE DIRECTOR
MR. S. CHENDURAN – DIRECTOR
MRS. P.V. JEEVA – CHIEF EXECUTIVE OFFICER
MR. V. BALAJI – CHIEF FINANCIAL OFFICER

DICKENSON WORLD: MS. PUSHPA MANI, SENIOR ANALYST

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY22 earnings conference call of SP Apparels hosted by Batlivala & Karani Securities India Private 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjhunwala from Batlivala & Karani Securities Private Limited. Thank you and over to you Madam!

Prerna Jhunjhunwala: Thank you, Jacob. Good afternoon everyone. On behalf of B&K Securities, I would like to welcome you all to 2Q FY22 post results conference call of SP Apparels Limited. From the company, we have with us the senior management including Mr. P Sundararajan Chairman & Managing Director of the company, Mrs. S. Latha, Executive Director, Mr. Chenduran, Director, Mr. P V Jeeva, Chief Executive Officer, Mr. V Balaji, CFO of the company. I would now like to hand over the call to Mr. P Sundararajan for initial comments. Thank you and over to you, Sir!

P Sundararajan: Good afternoon everyone. A very warm greeting's to all of you who are present on the call to discuss our quarter two FY22 performance. I hope and wish that all of you and your lovable ones are healthy and safe.

Most of our divisions have performed well during this quarter. The sustainability and the experience gained during this period of the business will take us to new height. Let us discuss segment wise performance. Regarding garment division, shipments to customers increased both in terms of quarter-on-quarter and year-on-year. Our customers are witnessing increase in demand and specifically on the online retailing business. We are experiencing high demand situation despite increase in raw material cost and supply chain disturbances.

In terms of our customers, we have added one new customer from Gulf who is one of the big retailers and one more customer is in pipeline and we will soon update you all on the new addition of the customer. I would like to update you on our strategy in increasing the utilization level by aggressive floating and training workmen, which is now yielding better results. This workers mobilization is no longer a challenge for the company and it will add as an additional strength for business. As I explained to you in the last call we are yet to start our second shift operations slowly, but surely we will look to utilize the capacity with second shift operations.

Our current order books stands at Rs.313 Crores, our garment division revenue for this quarter stood at Rs.193 Crores versus Rs. 148 Crores for Q2 FY21 which is at a growth of

23.8% year-on-year. First half total revenue stood at Rs.299 Crores as against Rs.197 Crores for H1 FY2021 at a growth of 61.6%. Adjusted EBITDA of the garment division stood at Rs.36 Crores for the current quarter against adjusted EBITDA of Rs. 28 Crores for Q2 FY21. Adjusted EBITDA of garment division for H1FY22 was at Rs.68 Crores versus adjusted EBITDA of Rs.34 Crores for H1 FY21. Regarding spinning, spinning is being utilized fully and is yielding good margins adding to the garment divisions margin.

Currently, we are in the process of expanding our spinning division by another 3,600 spindles and this project is delayed by another three months. Once the project is completed, we will be at 27,000 spindles. We have also started outsourcing our yarn requirements based upon contracting on job work basis.

With regarding to processing division, its utilization level has increased, but the division is undergoing stress due to price increase in coal, dyes and chemicals as well as supply chain cost escalation. We are working on an alternative mechanism to mitigate the price escalation in coal. With regards to SPI Apparels UK division, it has gained momentum during this quarter and expect the same kind of momentum to continue going forward.

There have been challenges in this quarter due to container issue because of the increased cost of container and availability of containers. Revenue for the quarter stood at GDP 2.4 million as against GDP 1.1 million quarter-on-quarter. With regards to retail division, hope you are all aware about the shareholders content giving to transfer the retail operations into a new wholly owned subsidiary company, In our last call we have updated on the rationale for moving the operation. The board has constituted a committee to identify the process and ways in which operation will be shifted to the subsidiary company. The process could be either and upsell transfer method or a slump sale as agreed by board on that specific date. We are planning to move the operations of retail during Q4 of FY22.

Retail division has done well during the current quarter and has a positive EBITDA. With being a disturbed quarter due to lock down of malls and stores, we expect this quarter to be better both in terms of revenue and EBITDA. Our liquidity position is strong and we have serviced all the debt up to date. We have a strategized on the retail division and we will work towards unlocking value for our retail division as well as our stakeholders.

In garment division, we are working towards better utilization of capacity and the increase in revenue base strategically has different verticals of business, which will primarily grow along with this business and we are excited about the new verticals. Now, I will request, CFO to give an overview of the financials.

V Balaji: Revenue for this quarter stood at Rs. 223 Crores as against Rs.187 Crores of revenue, year-on-year. Adjusted EBITDA stood at Rs. 38 Crores as against Rs 31 Crores, which is a growth of 21% year-on-year. PBT stood at Rs. 31 Crores as against Rs. 23 Crores year-on-year, which is approximately at about 14%. PAT stood at Rs. 23 Crores as against Rs.19 Crores year-on-year with the 24% growth and PAT Margin of 10.4%.

On a half yearly basis our revenue stood at Rs. 355 Crores as against Rs. 247 Crores year-on-year which is at a growth of 44%. Our adjusted EBITDA stood at Rs. 66 Crores as against Rs. 36 Crores last year in H1FY21 which is at a growth of 80% and EBITDA margin of 18.5% and our PBT stood at Rs. 48 Crores as against Rs. 17 Crores year-on-year which is an increase of 177%.

H1FY22 PAT stood at Rs. 35 Crores as against Rs. 13 Crores which is at 169% growth rate. Our garment division EBITDA stood at 20% as against 19% year-on-year and SPUK margin stood at 3% as against 9% year-on-year. Retail Division EBITDA margin stood 3% as against 5% year-on-year. Gross debt for September 30, 2022 stood at Rs. 189 Crores, net debt stood at Rs. 157 Crores. All other information is available on the company website. We can take up the Q&A session.

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

Chirag Lodaya: Thank you for the opportunity and congratulations on the great set of numbers. Sir, in the opening remarks you have mentioned that workforce mobilization is no more a challenge, and we will look to start second shift operation soon, so given this new set of information what kind of peak turnover we can achieve and the corresponding margins in garment division?

P Sundararajan: As I mentioned that this has been a challenge for us in the last few years of mobilizing the workman so that was one of bottleneck for our growth, since this has been debottlenecked and we are very confident that we will have an aggressive work plan because no longer it is going to be a challenge to us so we will be maintaining the same EBITDA margins, but the topline will be a growth, we have aggressive plans and we are hopeful of 20% to 25% growth, that is what we are planning to, and we are working towards that.

Chirag Lodaya: Can you help us understand when you will be able to achieve that, what kind of peak sales can we achieve with the given infrastructure and teams we have brought in?

P Sundararajan: Sorry, I did not get you?

Chirag Lodaya: what I am trying to understand is, what kind of peak sales can we achieve with the given set of infrastructure we currently have and it is okay whenever you are able to utilize it?

P Sundararajan: In our existing center for the next two years we do not have any additional requirements or putting a new factory because we have enough capacity which has been underutilized because of this reason, so as I mentioned that we are working towards the growth of 20% to 25% and hopefully it should happen.

Chirag Lodaya: So, 900 Crores to 1000 Crores garment revenue, is it possible from the existing setup, if you are able to utilize it fully?

P Sundararajan: Yes, that is what we had said. During the interview in CNBC also I indicated that we are working towards about 1000 Crores in the exports front alone in the next financial year.

Chirag Lodaya: Right and 20% margins is a sustainable margin going ahead even currently?

P Sundararajan: Yes, we always try to maintain as much as possible.

Chirag Lodaya: Got it, Sir. Thank you and all the best.

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

Riddhesh Gandhi: Sir, I had a question again on the similar line, so of the ~5100 actually machines we have capacity of, how much was actually utilized in Q2 of this year?

P Sundararajan: Close to around ~64% because July and August we had some disturbances because the transportation was not fully allowed so utilization was close to around 64% for the whole second quarter.

Riddhesh Gandhi: Got it, Sir, if we just assume then effectively out of this ~5100, which is running one shift, how many would we be able to run on a two shifts effectively, so I just want to get a sense on the effective capacity that we have and what the utilization was?

P Sundararajan: See, we have ~5100 sewing machines and effectively we can use all these 5100 machines, but if you ask what will be the timeframe or even if we start gradually with two shifts so the capacity overall, see normally we mention that capacity utilization are one shift only so where we are currently utilizing about 70% plus, so as the things grow anyway we will always have about 15% to 20% machines idle because the fashion garment industry always we will have about 20% as a standby arrangement, so by adding two shifts in a gradual manner, the utilization will go better, much better.

Riddhesh Gandhi: Sir, if I can understand that out of 5100 machines, we could potentially effectively run the equivalent of 10,000 assuming two shifts we have, let us assume 20% idle capacity so that gets to about 8000 and effectively we have used about 3200 odd machines in Q2, so we can potentially double our revenues without doing any increment capex obviously this is going to happen by FY23. Looking forward we get double revenue without any capital expansion, which we need to do?

P Sundararajan: Straightaway we need to multiply by two because this two shifts cannot happen in all the factories, this can happen only in hostel factories, so hostel factories are only about 50% of the total capacity where even in the hostel capacities on a gradual manner we will be increasing the number of shifts, so over a period of about two years time we will be able to use second shift about 50% of the hostel capacity, so it is not possible to simply double it.

Riddhesh Gandhi: So, we still have the potential of just existing capacity without incremental capex to effectively materially increase the revenues from where we are today?

P Sundararajan: Yes, we are trying to do is that we will try to use 5100 machines fully by combining one shifts and two shifts factory put together, the utilization will go up to 100% that is what we are trying to do.

Riddhesh Gandhi: Understood, Sir and just to understand, is the demand the constraint or is it a labour requirement with the constraint out here and how are looking at these to overcome the challenges in the terms of labours?

P Sundararajan: All these years as I had been repeatedly mentioning in all the conference calls, workforce mobilization was a big challenge to us which we have overcome now and we have to balance once the capacity increases so now we look for the new customers and additional business from existing and new customers so this goes on, the cycle is completely going on now.

Riddhesh Gandhi: Got it, but on the demand side, is the increase in the demand because of the China Plus One ,diversification incrementally is happening to India or is it large orders from existing customers or all to increase capacity we will have to effectively look for a new customer?

P Sundararajan: It is both because of the China issues, our existing customers want to consolidate more into India and new custom/ers are coming to have I know to balance the first thing, strategy so they are also coming to India so that will also happen. In addition to that, our existing customers are also consolidating so wherein they also want us to increase the capacity, the only challenge is the raw material cost that is again it is universally for everyone so there will be a slight pressure on the prices, but we should be able to manage it.

Riddhesh Gandhi: Got it, understood. Sir, what we are hearing from others is that the existing customer demand is extremely strong, so we do not have an issue with regard to visibility of new order its just about how to get the people available to sort of implement and execute?

P Sundararajan: Yes, now since there is capacity, everything debottlenecked, so now we will be looking for more for an existing customers and do not see any problem in taking more orders from existing and new customers.

Riddhesh Gandhi: Alright, thank you. That is all from me and all the best and congratulations.

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

Nilesh Doshi: Sir, thank you for taking my question. One is just to elaborate on the earlier discussion, you said that next two years you do not require any capital expenditure except for on the spindle side, but not on the garmenting side and that can take you along with the utilization in the second shift to around 1000 Crores kind of revenue, what point of time over the next two years you would then think of additional capital expenditure and adding more and the garmenting line?

P Sundararajan: Your first question is about the capex, but for 2022-2023 we do not see any major capex, but yes, from 2024-2025 there are possibilities in the garment division there will be some projects expected as the inflow of orders and workmen are improving, we will be balancing both.

Nilesh Doshi: So, you will need implementation time of about a year or so, so well actually you are forcing currently that you may start talking of capex on the drawing board?

S. Latha: That will happen on 2023-2024.

Nilesh Doshi: Madam, that would be the facility coming up, I am saying implementation point of view?

P Sundararajan: Implementation will be 2024-2025. It will be an ongoing project I think Balaji will explain.

V Balaji: For any incremental revenue that comes for 2023-2024 your capex should be spent on 2022-2023, so they are trying to say is that the revenue will come from 2023-2024, the capex could happen 6, 7 months before.

Nilesh Doshi: Balaji, can you share that what scale in terms of economic size now the new capex will happen like it is in the lots of 500 machines and how does that work because I am not expert in that?

V Balaji: So, any new factories which we put up should be close to 500 to 400 numbers and it could cost us anywhere between 20 Crores to 25 Crores per factory.

Nilesh Doshi: Sir, any new factories which you decide to put up, it will be based on the hostel concept going forward?

P Sundararajan: What concept, hostel?

Nilesh Doshi: Yes.

P Sundararajan: We will not rule it out. Now we have understood that any factory should have a mix of both or maybe 100% hostel also is something which we will not rule out.

Nilesh Doshi: Sure, second is on the feedback side when you are talking to your customers, what is the kind of visibility and what is kind of potential they talking over next couple of years from us?

P Sundararajan: The visibility as I told you that they want consolidation of the existing factories whether it is out of India or within India, we are one of the most preferred vendors for our customers, so any consolidation that happens the major chunks will come to us only so we do not see any hurdles in getting the order inflow.

Nilesh Doshi: In terms of a little longer term mission statement within the company, are we talking of 1500 Crores kind of garmenting revenue by 2025?

P Sundararajan: I cannot comment on the numbers, but as I said 20% to 25% growth that is what we are working, we are planning for with all probabilities if that happens in the next 5 years time why it should not happen to 2000 Crores.

Nilesh Doshi: That is nice. Sir and in the last call you were talking about additional large customers, so can you elaborate on that what is the status now and how things are unfolding?

S. Latha: Actually, we are trying our best and two of our customers are almost through so it will through from December or January onwards. So that will be enough for the next year sale. So for the next year beginning from May onwards we will be looking for one or two more customers for 2023-2024, so we are working on that and the two new customers will be through within two months' time.

Nilesh Doshi: So when Madam you said though means, we start getting orders?

S. Latha: Yes, we will start getting the orders.

Nilesh Doshi: Sir, the last question if you can help us understand what is happening on the UK business and you were also wanting to expand similar model in US, so can you share what is the current status and how are you seeing that unfold?

P Sundararajan: I do not think I ever mentioned that even US we will have a same model, but we have it in the mind, but that is too early to comment anything on that, but the UK business separates, the UK division is definitely going strong because of COVID there is a logistics issues and other issues, they are not able to deliver the goods on time so there has been a small setback in the sale, but the none of the orders have been cancelled by our customers of the UK division, so once everything is settled in this 2021-2022, 2023-2024 our clients will make a big jump in the UK division and once it is streamlined probably we will think of the similar model for the US also.

Nilesh Doshi: Sir, UK business over the next three years, what kind of potential we have, how big it can be, it can reach to something like 30 million pounds or so?

P Sundararajan: You are talking about our SP UK division, right?

Nilesh Doshi: Yes, only UK division.

P Sundararajan: We will end up anywhere between 9 million and 10 million this year and we look to a growth of 20% to 25% we should cross 30 million in the next five years time.

Nilesh Doshi: Sure, all the best. Thank you for taking my questions.

Moderator: Thank you. The next question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan Sankara N: Good afternoon everyone and thanks a lot for the opportunity and congratulations for good set of number. Firstly, wanted to understand the reason for a sharp reduction in EBITDA margin for this garment export division on QoQ?

P Sundararajan: Q1?

Deepan Sankara N: Q2 compared with Q1?

P Sundararajan: See, in Q1 we had RoSCTL recognition of both Q4 and Q1 that is why there is an increase in the EBITDA margin in Q1.

Deepan Sankara N: So, Q2, how much was that amount, Sir?

P Sundararajan: Amount must be around 4.5 Crores that is equivalent to 4% or 5%.

Deepan Sankara N: This current strong growth in garment exports so this was possible mainly from higher contribution from our existing customers or also the incremental addition from newer customers have also started coming?

P Sundararajan: No, it is only incremental revenue from the existing customers. If there is any new customer we will definitely update investors accordingly.

Deepan Sankara N: Last 6 months we have added a couple of customers, so any scale up has happened in terms of orders from that side?

P Sundararajan: Yes, that is what we mentioned right, it will going to be through.

S. Latha: It is going to be through, but for the past 6 months there were no incremental revenues on the new customers.

Deepan Sankara N: Thank you a lot and all the best.

Moderator: Thank you. The next question is from the line of Deepesh Agarwal from UTI AMC. Please go ahead.

Deepesh Agarwal: Good afternoon, team. Congratulation for great set of numbers. My question is on the garment margins or on the textile margin, how much would be the contribution from the yarn and is there an element of the low cost cotton inventory sitting with us?

P Sundararajan: In terms of margin if you wanted to split between yarn spinning margin, and garment division there could be close to around 4 Crores to 5 Crores of EBITDA margins sitting on the garment divisions margins because of yarn.

Deepesh Agarwal: There is no element of low-cost cotton inventory, which would have helped us in this quarter?

P Sundararajan: No, we have cotton procurement policy is for every three months. Every four months, we procure the cotton, so we do not speculate anything on low cost cotton or high cost cotton, so it will average it out, that is how it works.

Deepesh Agarwal: Understood, and with the kind of PLI schemes, any further plans to get into any new line of business or some quarters ago you mentioned about customers keen on evaluating manmade fibre, so any thoughts on this?

P Sundararajan: As I mentioned that based on vertical we are working on for one vertical of business, additional vertical of business will happen after my visit to the UK probably after 10 days' time, so we will start an additional vertical business in addition to existing setups so that is our plan.

Deepesh Agarwal: Last question, just a clarification we are targeting 80% utilization on this 5100 machine next year plus additional volumes from double shift right?

P Sundararajan: Yes.

Deepesh Agarwal: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Shivam from JHP Securities Private Limited. Please go ahead.

Shivam: Good afternoon, Sir., Our capacity utilization in Q2 was 63% so could you t tell what the capacity utilization currently is?

P Sundararajan: It has gone up by another 3% to 4% each.

Shivam: So about 67% to 68% right?

P Sundararajan: Yes.

Shivam: You said that approximately 15% would be the additional hostel facilities right, on 15% capacity?

P Sundararajan: Sorry, can you come back on your question?

Shivam: I just wanted to clarify that the hostel facilities is on 15% of the capacity right?

P Sundararajan: Yes, correct.

Shivam: Sir, if I look at what you are guiding for next year at 80% utilization, 1000 Crores odd topline from garmenting, but when I look at your guidance on the margins it seems that you are a pretty conservative in just guiding at maintaining the margins, so why this caution, why this conservative stance?

P Sundararajan: Because it is highly fluctuating in our industry, it involves various countries competitions involved and on and off there will be a lot of pressure on the margins when compared to other country supplies, we will not get duty free when compared to Bangladesh Sri Lanka, and other countries so there are various factors involved in this front, in addition to that, government they re-finals and other things are also on and off changing and there are so many raw materials involved in this front , so we cannot assure very promising margins all the time. It is not conservative, I will say it is a practical one. Moreover if you look at the price or the margins material cost and my personal cost is almost like 82% or 83% of the whole costing system and we have only room of say it was around 15% where the scaling will definitely help, so that is why the guidance is around 18% to 20%.

Shivam: Sir, just a couple of followups on this, you spoke about competition, but when we had in the previous conference calls you had said that there is a consolidation that has happened in the industry where the number of suppliers have reduced, so should not that aid our margins moving ahead considering?

P Sundararajan: No, that would not work like that. They can only give enough orders, but it is no way connected with the price event, they will take the price of other competitors within India or outside India and they will take this as a benchmark and we literally have to work differently to make sure that we are able to achieve this price. I mean given the acceptable price and you will be getting opportunity of getting more orders that is all, it is not that just because they want to give you the orders we cannot dictate the prices at all.

Shivam: Sir, in terms of passing on increase in cotton prices, how does it work in our model with the customers on a broad basis is it a quarterly lag or monthly lag?

P Sundararajan: Can you give the question more clarity?

Shivam: What I was trying to ask is with our customers how do we pass on the increase in raw material costs, which would be cotton prices mostly, how do we pass it on, is it passed on with monthly lag or a quarterly lag?

P Sundararajan: It is as I have mentioned many times our orders in a project based it means every order is a project, so when we quote today any orders so we take it based on today's cotton prices and the yarn prices and so as and when even next week if we quote something if there is a change in the cotton or yarn price we will quote based on that only so it is all built in on and off, it is not like with the forecast.

Shivam: What would the timeline for a project, is it a three monthly project or six months?

P Sundararajan: Three to four months, in some cases there will be bigger one, six months of program, but always we will make sure we protect the yarn.

Shivam: Sir, coming to the SP UK, what would be the order book currently that we are sitting on?

P Sundararajan: It should be close to around 4.5 million.

Shivam: 4.5 million pounds?

P Sundararajan: Yes.

Shivam: So, if I get it correctly it was approximately 7 million pounds last quarter so is there a slowdown that we are seeing in terms of inflow?

P Sundararajan: In terms of what has been shipped of closely around 2.5 million, so the order book is close to around 4.5 to 5 million, so there is no big movement in terms of orders inflow because retailers are trying to push back the orders say for example, they are supposed to deliver it in the month of December they are pushing back in month of January so that the orders are getting pushed.

Shivam: Sir, I did not get this could you just explain why they are being pushed?

V. Balaji: Last quarter it was 7 million odd because of pushback of some of orders of the previous quarter, they wanted to take it at the later stage so that is why it is added on and compiled to 7 million pounds, but on a regular basis it is always roughly around 4 million to 5 million is the order book for UK.

Shivam: Got it and Sir, one question on the facilities that we have, so first of all very good to know that the workforce issues have started easing, that is a good part, just from a broader perspective in our business model we have multilocational facility do you think that once we achieve a particular scale, this could be a hindrance to grow at a faster cliff because where I am coming from is that considering to scale up, you need a lot of labour availability and that in turn depends on hostel facilities so considering we have multilocational facilities and hostel cannot be made at every facility do you think this can be a hindrance to our future growth in terms of the speed at which we can clock revenue growth or business growth?

P Sundararajan: You should look at it in a positive manner because we have two types of factors one is 100% commuted for local workforce, another one is hostel and the mix of hostel and local these are the two kinds of models that we have. This practice will continue and in some of the local dependence factories we will also put a small hostel over there so those factory capacities can be additionally utilized by having an hostel in this local factory. This is one thing and the another one is we are also planning for putting up some factories mainly in 2023-2024 100% only hostel factory, so there is a mix of local 100%, a mix of hostel and local and 100% hostel, it is a risk mitigation strategy.

Shivam: Sir, one last question the narrative in the last quarter was that there were labour issues in terms of availability, currently we have mitigated that so what steps you have taken to mitigate this because it was quite quick if you could just help us understand this?

P Sundararajan: You mean how we mitigated?

Shivam: Yes, Sir.

P Sundararajan: We have been working on this for the past several years so we tried from the models and kindly they have settled down what was the best model we felt so I think we have been able to manage.

Shivam: Could you elaborate on this model, please?

P Sundararajan: That cannot be discussed now maybe we can discuss later when we meet one to one.

Shivam: Thank you very much, Sir for your time. Thank you.

Moderator: Thank you. The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.

Abhilasha Satale: Thank you for taking my question. I have a question on our inventory days, our inventory days have increased on year-on-year basis, you explained that our overall sales cycle is in the range of 3 to 4 months, and we do not hold any major cotton or yarn inventory, why there is so much inventory on our books? This is my first question.

P Sundararajan: If you look at our order book year-on-year, the order book has also increased so proportionately there would be definitely increase in the inventory also. Second is that September 30, we are booking the inventory because of couple of order pushback is happening that also is forming part of the inventory pileup. So definitely there is no big increase, I would say is a proportionate increase in terms of orders, which are yet to see. You cannot simply base on year-on-year because the orders are also increasing you have to look at orders in hand, based on order in hand my inventory level also will improve.

Abhilasha Satale: So, my question is if we see our inventory days are more than 300 days wherein our sale cycle as you have mentioned it is in the range of 3 to 4 months?

P Sundararajan: I am not sure whether your calculation is right, there is no 300 days of inventory. This is no way and we have Rs.220 Crores of inventories and revenue is close to around Rs.220 Crores, how can you look at inventory on 300 days, there is no possibility for 300 days.

Abhilasha Satale: No, I am calculating on cost of goods, so I am calculating on your raw material cost?

P Sundararajan: See, you cannot look at raw material alone because my wage cost is sitting below the item and other cost is sitting in other expenses for example, what I do in terms of yarn manufacturing, my power cost is coming down in my books, yes, other expenses in the power cost, so you cannot look at this in terms of value on COGs that is not the right way, it is not a trading model kind of business where you can look at COGs on the inventory, so, there is work-in-progress.

Abhilasha Satale: Sir, going forward how do I expect because has the sales improved this inventory days also will improve or it will remain at the current level?

P Sundararajan: See, today we have backward integration. We are from cutting till the exports, so every stage like cotton to yarn, yarn to fabric, fabric dyeing, printing, printing to cutting, so we go by stages so every stage its probably 120 days of inventory needs to be added on the WIP, if you look raw materials in terms of the yarn or the fabric or the cotton, it is purely not against the order so we have to look at the inventory in bifurcation, remove the raw material which is purely against the order and if you look at the WIP which seems to failed within 120 days time and SP will be failing immediately, so we have to bifurcate it and look at it.

V Balaji: See, for the garment the yarn cost will be roughly around Rs.20 to Rs.30 only whereas the realization is about Rs.115 to Rs.120, so when we start the yarn today the shipment is expected in 120 days so it is carrying the cost all the time.

Abhilasha Satale: Thank you. Secondly, when I see, one of the challenges what you have said that the manpower management is a challenge and I see the employee cost has also been moving up which is required for the increase in sales, so how do you see this inflation going up over a period of time, how will be your employee strength will it be going up over a period of time and also the inflation in the manpower cost?

P Sundararajan: See, one is the raw material cost, another one is the personal cost, personal cost is something which has to continuously increase by 5% to 7% year-on-year the total income in value turn, when comes to raw material it is only because of the China issue, dyes chemicals and coal things are you know it is completely out of control, at one stage it should stabilize for sure, it cannot continue like this, once the things put in place our government is working on how to get the coal cheaper, even the containers and other thing they are doing and the third one is the raw material cost, suddenly in the last two months it has shot up like anything historically never before but now it started coming down again so the inflation is something which we cannot control , it has to happen but at the same time the depreciation and customers win a price increase we are able to mitigate those things.

Abhilasha Satale: Sir, I want to know that how much employee strength you will add over the next two years to reach to that full utilization level?

P Sundararajan: Additional increase of about 2000 employees.

V Balaji: May be incremental capacity utilization like say if one machine is getting incremental then we may have to add two employees for one machine addition so if you are going to increase our capacity close to 5000 we are going to add closely around 3000 people addition.

Abhilasha Satale: Sure, thank you.

Moderator: Thank you. The next question is from the line of Forum Makin from Equitree Capital. Please go ahead.

Forum Makin: Sir, congratulations on a good set of numbers. Sir, I had a couple of questions, our debt has increased, but the interest cost has halved so is your reason for that?

V Balaji: So, debt is increased because my working capital utilization has increased because the inventory also has gone up, but because there is a restatement on PCFC, which is a gain of 1.75 Crores for the current quarter is reducing my interest cost that is why, it is a notional number 1.75 Crores will get adjusted next quarter.

Forum Makin: So, what is the run rate you can expect in terms of the interest cost?

V Balaji: Interest cost for a year I guess it should be close to around 13 Crores to 15 Crores.

Forum Makin: Sir and this PAT of Rs. 20 Crores to 23 Crores is it like a sustainable quarterly run rate going forward?

P Sundararajan: Why it should not be, that is why we are working toward that. The COVID situation the whole thing has turmoiled, so I do not see there will be any change in this thing.

Forum Makin: So, that means we are on track to touch 80 Crores for the year?

P Sundararajan: Sorry, can you repeat?

Forum Makin: Sir, that means that for the full year we can touch 80 Crores?

P Sundararajan: Yes, we are hoping for that but you never know how can I commit.

Forum Makin: Sir, just one more question that what is our growth plan for the next 2 to 3 years, how do we plan to grow, what is our strategy?

P Sundararajan: As I mentioned before in this call that we have a plan of 20% to 25% growth in the next 2 to 3 years so based on that you can work out on the numbers this is only the guidance we are doing at the back end all the things, you know the plants in terms of customer increase, customer base, and the capacity infrastructure and other things, so by all means it should go by 20% to 25% in the 2 to 3 year.

Forum Makin: Thank you so much.

Moderator: Thank you. The next question is from the line of Chirag Lodaya from ValueQuest. Please go ahead.

Chirag Lodaya: Thank you for the follow up opportunity. Sir, my first question was on, in your presentation you mentioned how much garment produced and how much garment is exported, and generally what we are seeing whatever we produce we are able to export, but this quarter there is some difference so is that there were some delay in shipment and this spillover of revenue will seein Q3?

V Balaji: Yes, because of the container issue as Chairman indicated previously, we have certain portion of goods which we were not able to be exported.

Chirag Lodaya: So, is it fair to assume that around 30 Crores to 35 Crores revenue which could have been booked in this quarter now can be booked next quarter because of this issue?

P Sundararajan: Not 35 Crores, it could be close to around 10 Crores to 15 Crores

Chirag Lodaya: Secondly Sir, just one clarification you mentioned 1000 Crores revenue in next year that is for garment or that it is for the overall company?

P Sundararajan: That generally we are working towards for the company as such.

V Balaji: Basically we are doing only the garment exporting, spinning all mostly captive only, dyeing is also mostly captive, so it is understood as the group there is no big difference.

Chirag Lodaya: No, but your SP UK subsidiary, which is almost doing 100 Crores odd plus when retail division is around 50 Crores so it is 150 Crores on 1000 Crores is a big number? I was just cross checking it.

P Sundararajan: I think we are looking at 20% growth rate for garment division next year and in total it could cross more than 1000 Crores for the company.

Chirag Lodaya: Right because 540 Crores of FY21 and if I assume say 20% growth this year then it is 650 Crores and on that 20% comes to at 780 Crores odd and then there is a difference of shortfall of 200 Crores, so clarification is needed?

P Sundararajan: I think we are leaving into your assumption or your expectations, but we are working towards achieving 1000 Crores of revenue or it may be above 1000 Crores in the garment division.

Chirag Lodaya: In the garment division, next year?

P Sundararajan: Next year, yes.

Chirag Lodaya: Thank you and is there any debt repayment plan next year?

P Sundararajan: Of the 187 Crores of gross debt only 35 Crores of debt has come, the other portion is all working capital limits so in case if there is any accumulation in terms of cash we will definitely go to resume the working capital limits.

Chirag Lodaya: Sir, one basic question how many customers do we have and what is the contribution of the top three players?

P Sundararajan: Now we are looking at 7 customers as of today.

Chirag Lodaya: Right and top three contributions?

P Sundararajan: Top three contributions would be close to around 85%.

Chirag Lodaya: Generally what is the time to scale up new customers to achieve 50 Crores to 100 Crores revenue expected from the new customers what is the typical for the customers?

P Sundararajan: To scale up new customers this time it will take two seasons that is one complete year for experimenting each other.

Chirag Lodaya: Whatever client we will be adding this year we might see the ramp up happening in H2 of next year is that understanding correct?

P Sundararajan: Yes, correct.

Chirag Lodaya: Got it. Thank you and all the best.

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

Bharat Sheth: Mr. Sundararajan, currently, we have around 15% of the hostel facility of the total installed base of the sewing machine is that a correct understanding?

P Sundararajan: Yes.

Bharat Sheth: How much can we further increase from 15%?

P Sundararajan: See the factories, which are available with the hostel is 50% that is where we can increase the second shift and if we need to increase more then we want to add more hostels where the factories are available.

Bharat Sheth: How many place where we can increase this 50% in existing without expanding the new factory?

P Sundararajan: Come again, please?

Bharat Sheth: Currently, we have 50% hostel capacity of the existing base correct?

P Sundararajan: Right, correct.

Bharat Sheth: Existing best we have to add the hostel, how many hostel we can add and that is 50% to 70%, 80% or where?

P Sundararajan: We may add about see if existing hostel capacity we will be able to take some more so probably we may have to add one or two more hostel not the big size, medium size hostel and some small hostel.

Bharat Sheth: Now, coming to this, how we are seeing the mix of the business basic and fashion because with basic we can generate more utilization, so currently what is a business mix and with new customers that we are acquiring, how much will be the basic and how much will be fashion?

P Sundararajan: As we always say that 50% fashion and 50% basic that is a concept. We normally make the factory running smooth.

Bharat Sheth: This year you said that we have added one customer in Middle East, correct?

P Sundararajan: Yes.

Bharat Sheth: So, Normally in Christmas we have higher sales, so some of the months we may see much higher demand so how that mix can really smoothen out our operation?

P Sundararajan: We do not have production season wise, but your question on whether the gulf customer will bring in more volume when there is off season, I do not think it will suit ourkind of working, because we are into the fashion mostly, we will have any change in the customer mix.

Bharat Sheth: One more customer in which region, USA or Europe?

P Sundararajan: In Europe.

Bharat Sheth: Now, still we have larger concentration on the Europe only, correct?

P Sundararajan: Yes.

Bharat Sheth: But, USA side also we have been working so when we expect more customer from USA?

P Sundararajan: We may add one or two new customers and we will start exploring now it may be fruitful after one year or so, maybe 2023-2024 you may start getting some business from the US customers.

Bharat Sheth: With this current addition of spindles will be able to meet our 100% in-house requirement except this fancy yarn that we keep on buying?

P Sundararajan: Yes, correct, as the business goes we may have to outsource some of the yarn from the market so that is what we are just thinking.

Bharat Sheth: Last question, Balaji, this working capital what is the rate of interest that we pay because since it is available, we are exporter it is meant for export, so are we getting it at much cheaper rate?

V Balaji: Yes, we have a concession of 3% and moreover we also take BCHC which is foreign currency where it is more like LIBOR plus 85 BPS so net rate in terms of working capital will be close to around 3%.

Bharat Sheth: Thank you and all the best.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to the management for closing remarks.

P Sundararajan: Thank you. Dear, all investors, as I always mention that please rest assured and have confidence and trust in this organization. We always try to perform better year-on-year and we are working towards that. The whole team behind me is working towards that. Thanks for your support, continued support all this crucial time and henceforth we look for better seasons and better business coming year. So we hope for the best. Thank you.

Moderator: Thank you. On behalf of Batlivala & Karani Securities that concludes this conference. Thank you for joining us. You may not disconnect your lines.