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Sub: Transcript of the Conference call held on 23 rd May 2022	

Dear Sir/Madam,

With reference to our letter dated 19th May 2022, intimation about the conference call with Analyst/ Investor held on 23rd May 2022, 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
Q4 FY22 Post Results Conference Call”**

May 23, 2022



MANAGEMENT: **MR. P. SUNDARARAJAN - CHAIRMAN AND
MANAGING DIRECTOR, SP APPARELS LIMITED
MRS. S. LATHA - EXECUTIVE DIRECTOR, SP
APPARELS LIMITED
MR. S. CHENDURAN - DIRECTOR, SP APPARELS
LIMITED
MRS. P. V. JEEVA - CHIEF EXECUTIVE OFFICER, SP
APPARELS LIMITED
MR. V. BALAJI - CHIEF FINANCE OFFICER, SP
APPARELS LIMITED**

MODERATOR: **MR. ROSHAN NAIR - BATLIVALA & KARANI
SECURITIES.**

Moderator

Ladies and gentlemen, good day and welcome to the SP Apparels Limited Earnings conference call hosted by Batlivala and 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 passing '*', then '0' on your touchstone phone. Please note that this conference is being recorded.

I will now hand the conference over to Mr. Roshan Nair from Batlivala and Karani Securities India Private Limited. Thank you, and over to you, sir.

Roshan Nair

Thank you, Peter. Good evening, everyone. On behalf of B&K Securities, I would like to welcome you all for 4QFY22 post results conference call of SP Apparels Limited.

Today, we have the first senior management of the company, including Mr. P. Sundararajan, Chairman and Managing Director; Mrs. S. Latha, Executive Director; Mr. S. Chenduran, Director; Mrs. P. V. Jeeva, Chief Executive Officer; and Mr. V. Balaji, Chief Finance Officer.

I would now like to hand over the call to the Management for initial comments. Thank you, and over to you, sir.

P. Sundararajan

Thank you. Good afternoon, everyone, and a very warm, greets to all of you present on this call to discuss Q4 FY 22 performance. I hope and wish that all of you and your loved ones are healthy and safe.

As all are aware that the company has completed the retail hive off through a slump-sale arrangement during 31st December 2021. After the hive off, SP Retail Ventures is continuing its operations under the subsidiary company and Managing Director of SP Retail Ventures. Mr. Chenduran will update you on the latest business developments of the company. As informed in the last call, we are planning to raise private equity from strategic investments in our new retail venture to grow the business and to excel in this industry.

Now, with regards to the current scenario of the industry, I'm getting calls from various investors, shareholders that some ambiguity about this industry, what they see in media and what they hear, so I just want to update you on this. Generally, the scenario in textile industry is that cotton prices going up due to which the yarn price and in turn, the garment price are going up. That is for sure. – The cotton price has grown by more than double, never in the history before. And that has also affected the increase in yarn prices. This is a general scenario. There's no doubt about it. And the coal, and the electricity, all the raw material challenges, and the electricity are – the prices are also going up. This is definitely there. And also, we found this is not in our favor, something like that, but this has also been under control.

So generally, from the outsider's point of view, there is a concern about the textile industry, but that's not the case with most of the big players and especially in SP Apparels as– we would like to highlight three points which are mitigating this kind of situation. One is our USP is that we are strong in babies' products as always. And that sort of key strength and remains key strength. And there is very high entry barrier for these ones. This is the one thing, which always support us because of our capability. And the second point is we are backwardly as well as forwardly integrated. So, this is the biggest advantage for us, especially the current scenario, because if the cotton price goes up, yes there will be an impact in our garment costing, but we overall we manage it in such a way that we don't lose the orders. Nor we will take the orders at the negative margin or something like that because one way or other we'll be able to make some money. That is one thing.

And the availability of yarn is not an issue because our capacity of the yarn is fully balanced with our sewing capacity. So that has never been a problem. even during the crisis time, the cotton quality is not as expected by everyone, but we are able to do a proper mixing and we know what cotton we need to buy for our product. So

there again, we don't have the quality issues. So, these are some of advantages what we have because of backward integrated facilities.

And the third one is our manufacturing, garmenting facility that as I always been telling that it's a hub and spoke model of manufacturing setup, which means we have mix of hostel and local factories. In the hostel facilities there are migrants as well as local Tamil girls. We also have distance factories where there is abundant workforce available whom we can recruit and train. So, we have got a different mix of workforce availability, and we are engaging them well which means if at all, there is a problem in one or two factories in terms of shortage of workforce, the remaining factories will take care of everything. So, this is something which has been continuously mitigating our risk. And these are the three things which I would say are our key strengths.

As far as the textile industry is concerned. So, for SP Apparels, you may not be having any concern about the business. I will update you on these things. And I would like to give you an update on the dividend part. Yes, there has been a policy for dividend and the Board has suggested to wait until the next Board meeting to decide upon the dividend and its quantum. So, I request everyone to wait until the next quarter Board meeting.

Now I would like to discuss on the segment wise performances. The financial performance in our Garment division, revenue for this quarter stood at INR 219 crore as against INR 163 crore for Q4 FY21 growth of 35% on year-on-year and for FY22 stood at INR 743 crore as against INR 534 crore for year ended 31st March 21, growth of 38%. Adjusted EBITDA margin of the Garments division stood at 20.1% for the current quarter versus 17.8% for Q4 FY21. Adjusted EBITDA of Garment division for the year stood at INR 153 crore as against INR 107 crore of FY21 a growth of 43% YoY. With regards to our current order book, it stands at INR 327 crore. And with regards to the new customer additions, as we mentioned before, yes, we are looking for addition of two customers both of them, as we mentioned last time, they're globally present and they have stores all over the globe and we'll be working directly with these brands. So, the business will start, hopefully in the next six months' time. By then we will have adequate capacities to accommodate for their orders.

Before discussing about the capacity utilization I would like to highlight that regarding Free Trade Agreement with the UK, Europe, and Canada, it is going very strong and steady and most probably by October, I think there will be some conclusion of FTA between the UK and India. This will be of a great advantage, and we will be at par with any other duty-free countries like Bangladesh, Sri Lanka, etc. Then we will play at par with these countries. This is also one of the reasons why our existing customers, as well as new customers are looking to place business with India and where again, for the babies, they would prefer only SP Apparels Limited.

Regarding capacity utilization, it is around 72% currently and is expected to increase by another 10% to 15% going forward. So, which means we expect around 82% to 85% in the next two to three quarters. The new customers are looking for bigger factories and hence we are planning to add one more factory in the down south in this year.

With regard to spinning, as explained to you, our expansion of 3,600 spindles is completed currently, and they have started yielding production. Further as instructed in last call, to mitigate the risk of availability of quality yarn, and consistency in supply, we have tied up with a mill on conversion basis, so that the supply is done without any volatility. In the current financial year, our spinning plan has demonstrated well both in terms of margins and production. It has contributed significantly to the margins.

With regards to the cotton prices for spinning, until now the cotton prices are steadily increasing, and our associations are talking to central government and the state government to intervene and see that some actions are being taken. Until then the prices continue to increase. We hope that in the next two months' time, there will be definitely some relief and probably the price will start coming so, down. This is in regard to the spinning.

And to go back to the Garmenting, I want to inform, because one of the shareholders had questions about the quantity. For the financial year'22 we have shipped ~5 crore pieces. And the order book is 3 crore of pieces volume in hand, that is, INR 327 crore in value.

Going back to Processing division, despite the coal availability and the range in the input cost, our Processing division continue to perform well, and with good utilization levels and contributing to the margin effectively. Our SP Apparel's UK division has seen a lot of disruptions in supply chain majorly due to the fair wells in the UK and the Europe. Non availability of adequate containers has also interrupted the supply chain and disturbed the revenue for the current quarter. Revenue for the quarter stood at GBP 2.1 million as against GBP 2.2 million last year. Current liquidity, our liquidity position is strong, and we have serviced all the debts up to date.

With regard to Retail division, I would request Mr. Chenduran, the Managing Director of SP Retail Ventures, to brief you on the performance of the Retail division, and its updates. Thank you. Over to Chenduran.

S. Chenduran

Thank you, Chairman. So, I'm Chenduran, Managing Director of SP Retail Venture. This is the subsidiary of SP Apparels, solely for retails. So, as you know, we hold the license for the brand Crocodile, which was part of Retail division SP Apparels, currently with SP Retail Ventures. On the numbers, I'm sure CFO will be able to explain in terms of the value of the slump sale.

So, in terms of Retail last year, last two, three years has been very difficult where in terms of COVID and lockdowns, lot of discontinuity in terms of the supply chain, as well as with the closure of a lot of stores, but this financial year onwards, it has picked up. It is very positive now. So, to give a brief update on the retail front, apart from Crocodile, SP Retail Ventures also has the license of a brand called Head, which is one of the premium tennis brands. The brand is very well positioned and is in top three in terms of tennis and the skiing. And we have the license for the brand, for the sportswear as well as the footwear of Head in India. With Head, we signed a 15-year royalty agreement with exits in between, mutual exists. And apart from that SPRVL also holds the license for UK based kids wear brand, a premium kids wear brand which is based in the UK called Angel & Rocket. Again, it is licensing agreement for now, but we intend to acquire the brand in the future. It is a premium kids wear brand, which is completely designed in the UK for the global market. It has a huge presence online in UK, Europe, and the Middle East in offline stores. And in India, we are present currently in around 70 large format stores, like Shopper's Stop, Lifestyle, Central, Iconic, Kaptions, apart from that all the online platforms like Myntra, Ajo, First Cry, even Nykaa in India alone. There is a standalone store exclusive brand outlet planned in Bangalore. And apart from that, we are also planning to increase the footprint in terms of large format stores as well as EVS.

That's it in terms of the update from the retail side. Over to CFO, Mr. Balaji.

V. Balaji

Good afternoon, everybody. Thank you, Chairman and Director for the brief update. Regarding the financials, I would just like to update you on the consolidated financials for the quarter. Adjusted revenue stood at INR258 crore, as against INR 194 crore year-on-year. Adjusted EBITDA stood at INR 45.75 crore as against INR 25.16 crore year-on-year. PBT stood at INR 36.58 crore as against INR 15.19. crore year-on-year. PAT stood at INR 25.25 crore as against INR10.56 crore year-on-year. EPS for the quarter stood at INR 9.83 versus INR 4.11 for year-on-year, which is a 139% increase. On standalone financials for the quarter, adjusted revenue stood at INR 219.92 crore versus INR 163 crore year-on-year, which is an increase of 35%. Adjusted EBITDA stood at INR 20.1 crore. PBT stood at INR 36 crore as against INR 15.98 crore year-on-year. And PAT stood at INR 23.26 crore as against INR 9.8 crore year-on-year. EPS for the quarter stood at INR 9.83, versus INR 3.82 year-on-year, which is a 257% increase.

Consolidated financials for the whole year. Total revenues stood at INR 867 crore versus INR 653 crore year-on-year, which is an increase of 33%. Adjusted EBITDA stood at INR 153 crore as against INR 107 crore year-on-year, which is an increase

of 43%. PBT stood at INR 114 crore as against INR 59 crore year-on-year, which is an increase of 94%. PAT stood at INR 84.6 crore versus INR 43.2 crore year-on-year, which is a growth of 96%. EPS for the whole year stood at INR 32.96 as against INR 16.8 year-on-year, which is an increase of 96%.

Standalone financials for the whole year. Total revenue stood at INR 742 crore versus INR 536 crore, which is an increase of 38%. Adjusted EBITDA margin stood at 20.9%. PBT for year stood at INR 113 crore versus INR 53 crore year-on-year. PAT stood at INR 83.2 crore versus INR 38.68 crore year-on-year. EPS on a standalone basis, stood at INR 32.38 versus INR 15.06 year-on-year.

Our credit rating has been upgraded currently to AA Negative Stable for the long-term, and short-term, we have been upgraded too A1 plus stable. With regards to the debts in the books, on a standalone basis, we have a gross debt of INR 173 crore and a net debt of INR 117 crore. In terms of a consolidated basis, we have a gross debt of INR 197 crore, and a net debt of INR 141 crore. On the working capital front, our inventory on consolidated basis stood at INR332 crore and on standalone basis, it's stood at INR295 crore. On receivables, consolidated basis, stood at INR108 crore. On a standalone, it stood at INR 162 crore. On payable front, on a consolidated basis, it is INR 118 crore, on a standalone basis, payables are at INR 88 crore. Increase in the inventory level is mainly due to increase in the cotton prices and other cost of material. The increased cost of escalation has increased the carrying cost of the inventory without increasing the working capital limit. And this shows the strength in the company and its liquidity.

All the other information is available in the presentation. And we can get into the question-answer session.

- Moderator** Thank you very much. We will now begin the question-and-answer session. Our first question is from line of Niral Sawai with Abacus Investments. Please go ahead.
- Niral Sawai** So my question is regarding this SPUK subsidiary. Now, we have been doing this business for a long time. So, how do we see the future growth trajectory and what are the kind of working capital requirements we have for this business?
- V. Balaji** So, SPUK, we have started working with SPUK since 2016 onwards. And it's six years now. And we cannot consider FY20 and '21 because of the disturbance caused by COVID issues. We cannot consider that, but there it's purely a trading model where we are looking at the revenue of close to GBP 9 million to GBP 10 million next year. And it's purely back-to-back in terms of PO's So, working capital should be hardly 45 days there.
- Niral Sawai** Okay. But over a period of next two to three years, do we see this going 2x or even bigger than that?
- V. Balaji** Yes. Working capital?
- Niral Sawai** No I'm saying in the overall terms of size if we see the revenue?
- P. Sundararajan** As, I've been explaining before also, unfortunately three years have been affected, that is FY'20, FY'21 and even FY'22 because of these supply chain issues. And they reopened these stores and the business picked up from the stock and everything. So, it had an after effect for another one year. So now it's getting back on track. The business model is purely based on the reputation of the company's subsidiary, which is very well known to the UK and Ireland market. As I always mention some of the brands they work in a different model, which means they want everyone land and delivery in the sense they want the suppliers to do the designing, the sourcing, compliances, quality and delivering to their resources. So, this kind of service is something which most of the retailers are doing. And for them, our company is the best apt for this kind of full service. So, there is a lot of chances that already we have three customers. So probably with these three customers, we can easily double the business in the next two to three years' time. It's a good opportunity for this business model, which is not taking away any of our India business. It is an additional extra business.

- Niral Sawai** Okay. And so, what could be a hedging policy? We have seen a lot of volatility in pound. So, would there be an impact in the first quarter?
- P. Sundararajan** On this new, on size in the cotton price?
- Niral Sawai** No, I'm saying in the pound, I mean would there be any impact of currency because of extreme volatility in pound in the first quarter? And what is our hedging policy? I mean, is there something which...
- P. Sundararajan** So we have clear forex policy. I think let CFO explain.
- V. Balaji** Yes. So, we have a very clear forex policy where we cover 80% of our orders within six to seven days from the date of receipt of the order, so that we cover the volatility in terms of any currency fluctuation. And whenever we do costing with the customer, we work on the current prices and work accordingly. So, there cannot be huge volatility because of the currencies at least next couple of quarters.
- Niral Sawai** Right. And sir, the way the cotton prices have gone in our category also, would there be a big impact because this is infantwear category which I understand is lesser commoditized than the adult wear and all. So, what can be the potential impact, how difficult it is to take price hikes in this segment?
- V. Balaji** Yes. So, we have given a guidance in terms of percentage anywhere between 18% to 20%, and I think we would like to stick between 18% to 20% in terms of the guidance. If at all, there is any pressure because of the cotton prices fluctuation, it could have a pressure not beyond 100 bps on the margin. So only a 100 bps could be a risk here.
- Niral Sawai** Right. And sir, is there any expansion plan going ahead, as far as sewing machines are concerned for next couple of years?
- V. Balaji** Yes. If you recollect, in the Chairman' speech, we have couple of customers where they are looking at new facilities or facilities with a bigger capacity. So already the existing capacities are tied up with the existing customers. So, we are looking at one factory which could come up with the bigger capacity. That may happen towards the end of the financial year.
- Niral Sawai** Okay. So, end of FY23, we might see this new facility coming on stream.
- V. Balaji** Yes.
- Niral Sawai** And so how many machines we would be adding in that? Anything, if you can give some number.
- V. Balaji** We cannot predict it now, but the additional capacity should be at least 2,000 to 2,500 machines in total at full utilization levels, because we would like to go and phases there.
- Niral Sawai** Okay. And so, what would be the capex behind this new facility, which we are planning?
- V. Balaji** It could be anywhere between INR 50 crore to INR 60 crore in terms of the full project, including it.
- P. Sundararajan** But right now, out of 2,000 machines, it's about 1,000 machines additions as it will happen in phased manner.
- Niral Sawai** 1,000 machines. Okay. All right, sir. That's it from my side. Thank you very much.
- Moderator** Thank you. Our next question is from the line of Mr. Resham Jain with DSP Investment Managers. Please go ahead.
- Resham Jain** Yes. Hi. Good evening. So, I have a couple of questions. First of all, congratulations on good set of numbers. So first is on Garment business. Our earlier guidance of

around INR 1,000 crore in the garment export business. Does that guidance still hold true for FY23?

V. Balaji Yes, I think we are not taking back any guidance. We are working towards INR 1,000 crore of revenue for the Garment in FY23.

Resham Jain Right. Great. And what you mentioned in your initial remarks, is it correct that despite several headwinds, which we see in the industry, the margin could be, at least in the near term we have the visibility of 18% to 20% with 100 basis point differential in your core business? Is that a fair understanding?

V. Balaji Yes. Just now I said we have been guiding for 18% to 20%, but because of the unusual cotton prices, there could be a pressure in the margin to an extent of 100 bps.

Resham Jain Right. Understood, sir. Great. And my last question is on SP Retail, the new subsidiary, which you created. Just to understand, how are you approaching this business because last five years, if you look at this business, and one can argue that '21, '22 is affected years because of pandemic and all, but on a base of INR 50 odd crore, this business has hardly grown in the past. INR 50 crore have moved to INR 82 crore in FY19 and a very small base. So clearly the scalability has been an issue in this business. And now we had this Crocodile brand, but we are now adding another two brands here. So how are we planning to deploy capital in this business given the not-so-great track record in the past, if Mr. Chenduran can help in terms of how the capital employed will be in this business and what kind of risk measures, because on the profitability side also, over the last five years, if we look at the cumulative, EBITDA, it's actually negative. So just the thought process on scalability of this business and also the risk management. Yes, that's it from my side.

S. Chenduran So this is Chenduran. Thanks, Resham. So, in terms of the past five years, there have been a lot of ups and down in terms of the inventory management, there have been certain errors and mistakes where the stores opened, or we closed some channels. And if you just ignore the last two years because of COVID, the earlier three years, there were a lot of corrections that we had to do internally, which we knowingly did, but at that point of time, even before COVID, the plan was to achieve an INR 100 crore top line in Crocodile alone. And unfortunately, we had the situation where we couldn't do anything, but we still achieved the significant top line despite losing four months. So effectively last financial year, we lost five months. If we don't take into account the weekend lockdowns, which are again, peak for Retail. We lost a couple of months with the transition. We've upgraded the SAP in terms of migration, from this entity to the other entity.

There was a lot of hindrances, but as of today, as it stands, even from April onwards, we've been on track to achieve the number that we proposed to achieve. So, in terms of scalability, it has always been possible, but internally there had been issues earlier. But that is precisely what we worked on. And last two years, in terms of inventory also, we've considerably reduced. To an extent of INR 10 crore, the inventory has come down, by liquidation. We effectively used the inventory to achieve the numbers and we've reduced the buying.

So going forward on the capital terms as well with the existing inventory, by improving more in the core business, core products, we will be managing the working capital and the inventory. So, if we do only fashion, then we have to keep changing every season but the contribution from wholesale distribution, which is going to be higher is going to help us in terms of effective utilization of the inventory and the capacity.

And in terms of the new brands also, where we've not taken any additional overheads in terms of teams or marketing or any such thing. But they've already started giving us revenues. So that is going to help in terms of the overall overheads for the Retail as an entity.

Resham Jain Okay. So, any four, five years' plan, if you can share how scalable this business can become?

S. Chenduran I don't know if I can...

Rehsam Jain There will be losses which we may see in the initial period, or it'll be break even kind of business, at least for the first two years?

S. Chenduran It will definitely be a break even this financial year. It has already started that way. And to be very honest, if there is, no unprecedented issues with COVID or lockdowns again, every month there is going to be definitely EBITDA positive and going forward, I don't know if I can give a guidance on a five-year plan on a number, but we'll definitely be growing to 50% to 60% every year.

S. Chenduran That's includes the new brands also. So, it looks very progressive from now onwards.

Moderator Our next question is from the line of Forum Makim with Equitree Capital. Please go ahead.

Forum Makim Hello, sir. Congratulations on a great set of numbers. I just had a couple of questions. So, could you share the realisation per piece number for the quarter?

V. Balaji Should be close to INR 125 to INR 126 per piece.

Forum Makim Okay. And how was that last quarter?

V. Balaji Last quarter it was around INR 114.

Forum Makim So it's gone up by almost 10%.

V. Balaji Yes.

Forum Makim Okay. So, what is the reason for the improvement in gross margin, Q-on-Q, and what would be the impact in Q1 on a margin since we are sitting on a high-cost inventory?

V. Balaji See all the inventory which the company is holding or is carrying under working process is purely towards the orders in hand. In case my order book is INR 327 crore, I need to have at least INR 180 crore of inventory under WIP, where I've already taken the cotton, yarn and completed the dyeing process. So, the process in terms of working progress is purely towards my orders in hand.

And in terms of my raw material, because we are backward integrated. Our inventory both as cotton and yarn in our Spinning divisions and dyeing plant is also considered as raw material. And the carrying cost at the current cost should definitely be on the higher side. On the margin front, the current quarter, there is a betterment in terms of the margin. It's clearly because of our Spinning division contributing on the margin, because we were carrying cotton average prices previously, which was giving us better margins for the current quarter.

Going forward, our holding, we have come down to 45 days of holding. So, the margins could have some hit at the Spinning division level.

Forum Makim So would that be a temporary phenomenon, or it could last for the whole financial year?

V. Balaji I'm not sure. The cotton prices only God can say how it's going to work.

Forum Makim Right. So, in a cash flow statement, there's an INR 6 crore impact due to some forex loss. Could you just explain what that is?

V. Balaji That is not forex loss. It is gain, mark to market gain of INR 6 crore.

Forum Makim So we've booked that gain.

V. Balaji Yes. And in our presentation, you could see that the margin was getting adjusted towards that.

Forum Makim Right. And so, have we started operating the second shift?

- P.V. Jeeva** Actually, in one of our factories in a small level, one line we have started. Slowly, we'll be increasing one by one, and we are trying to add the second shift in one more factory also, that will happen in the next month.
- Forum Makim** Okay. So, by next month it should be operational.
- P. V. Jeeva** Yes. We already started operating one line and slowly we are increasing one by one.
- P. Sundararajan** In one factory, we have started running the second shift for one line and it's on a trial basis and next month, we will start one more line in another factory. So probably in the next three, four months' time, the number of clients in both factories will be increased.
- Forum Makim** Right. Okay. And sir, we spoke about adding to new customers. So, what could be a revenue potential from those customers?
- P. Sundararajan** I think they are big brands. Their volumes are unlimited, and they are focusing for the babies and kids. So, like in the first year we will be just starting on a trial basis. So, the real business starts from next year, FY23 - FY24. By then, our new factory will be also ready for the new customers. So, from say April '23, the business will take off for those two customers.
- Moderator** Next question is from the line of Rishabh Mundada with ICRA. Please go ahead.
- Rishabh Mundada** Yes. So, I just wanted to understand, since cotton prices have been increasing, so in all likelihood, the margins in Q1 of FY23 would be impacted if the company is not able to fully pass on the price to customers?
- P. Sundararajan** Yes, see. It's like this. We always factor in the cotton prices in anticipation, which means we add another certain percentage of increase in anticipation and do the costing. And we are able to get some via media prices. So, this is how we are managing it now, because even the customers know that all over the world, this is the situation. So, it's not only the price of SP, but it is the price for everybody. So, they are cooperating. And the one good thing is that the retailers have started increasing their prices also. So, which is good news for us because unless they increase their selling prices, how can they pass on some prices to us? So that has started happening now. So, I think the whole industry, has started accepting the current situation and until the situation restores. So that's the current scenario.
- Rishabh Mundada** Sir, you mean to say that you have taken price hikes in the current quarter?
- V. Balaji** Yes. Yes. So whatever orders we have taken previously is going to be shipped for the current quarter and you expect the prices coming.
- Rishabh Mundada** I was not able to hear you. You were telling something that goods are about this, goods are shipped.
- P. Sundararajan** The goods are being shipped in Q1. We have factored in a certain increase of the yarn prices, but the facts were rightly the yarn prices have gone up more than what we factor in. Since in this quarter, Quarter 1, there will be an impact to some extent, say about 1%.
- Rishabh Mundada** Okay. But just let's say hypothetically, like if the cotton prices remain high for another two quarters, so from Q2 we'll be able to pass on this to our customers?
- P. Sundararajan** Yes, we are trying as much as possible. And the customers also understand the situation. And that is why I said that they were forced to increase their retail price. So, there is a room for passing on some prices. So, I think we should be able to manage the same 18% to 20%, with maybe an impact of about 1% as CFO mentioned.
- Rishabh Mundada** Okay.

- P. Sundararajan** On the overall year.
- Rishabh Mundada** One more point, in terms of this, are we seeing any impact of inflation in this Europe markets on the demand side? Let's say over two, three quarters.
- V. Balaji** In terms of the demand, as Chairman indicated that the FTA is coming, the China factor, like the container, the ships are not able to leave the ports from China because of the COVID lockdown. So many factors and demand is definitely far, far, far better comparing last year. So, there is no big impact on the demand front.
- Moderator** Our next question is from the line of Aman with Carnelian. Please go ahead. Mr. Aman, your line has been unmuted, you can proceed with your question.
- Aman Agrawal** So sir, as I can see, like during this quarter we have basically exported around 1.5 crore garment pieces. So, do we expect that for the next year we would be doing 6 crore pieces, at least, like what we did during the peak of FY19?
- V. Balaji** Current year, we have done 50 million pieces and we are expecting it to increase by 10% to 15% next year, as you heard Mr. Sundar talking about the future and the number of pieces. So, definitely we are looking at increase by 10% to 15% in terms of volume.
- Aman Agrawal** Okay. Noted. So, my second question was on the labour side. So, we had previously guided that we are basically adding around 300 labour per month, out of which we are basically planning to retain around 200. So how has that been going on? Like are we facing any issues or is that on track right now?
- P.V. Jeeva** Yes, labour front, as we committed, there was an inflow of 200 to 300 people until last month due to some policy changes in Odisha part. There was a less inflow expected this month and next month. So again, from July onwards, definitely we will be getting inflow of 300 as we committed. So, regards to capacity commitment, as we committed, we'll be able to achieve the missions what we have already committed.
- Moderator** Our next question is from the line of Samir Palod with AUM Fund Advisors LLP. Please go ahead.
- Samir Palod** Thank you for the opportunity and congratulations on a very good set of numbers. Just some clarification, sir. I'm a little new to the company. So as far as the two sort of subsidiaries are concerned, you mentioned that the Indian retail business has been hived off into a subsidiary, and they will look to basically raise private equity or strategic capital. So, there won't be any capital employed from the parent company into that business. Is that understanding, correct?
- V. Balaji** So for the new Retail Ventures, which has been hived off, there we have transferred on a slump sale consideration of INR 53.5 crore, which will be converted into equity at some point of time. And when private equity is joining us, then that will help them grow their business.
- Samir Palod** No, I understand, but apart from this INR 53 crore, which will get converted to equity at some point in time, there's no plan to additionally invest more money into that subsidiary. It will come from external sources, either private equity or strategic, is that correct?
- V. Balaji** Correct. Correct. Until as of today, we feel that whatever is invested into is enough. And we would like to partner with somebody like a private equity or a strategic investor to take the business to the next height.
- Samir Palod** Sure. So, what does SPUK actually do?
- V. Balaji** SPUK is purely a trading company where whatever orders, which we are not able to take because of the quantities of the order size, SPUK takes the order and gets it outsourced somewhere else and gets it shipped to the customer. It's purely a leverage only model.

P. Sundararajan It's in fact, as I mentioned before, there are certain small retailers who would not like to do the sourcing or quality directly because of the cost budget involved. So, they would like to have some local importer, full-service vendors who can do the designing, sourcing compliances and the shipping, everything, quality. So, in order to serve those small retailers, I mean, not small really, medium sized as well as those who want full service, so our UK office will approach them and they will do the designing for them and get the order booking, and they can source it from anywhere in the world. They can source from Bangladesh, source from India, source from anywhere, Sri Lanka.

Samir Palod So SP it not a parent, at all.

S. Sundararajan Sorry?

Samir Palod SP Apparels, the parent, there is no sourcing from SP Apparels, India.

P. Sundararajan It'll not source from SP Apparels here. They will source directly from other factories, not us.

Samir Palod Okay. Sir, second question, sir I don't know if I heard it correctly. You said there is about INR 350 odd crore of order book for about 3 crore pieces. Is that number right?

V. Balaji Yes. Close to 30 million pieces.

Samir Palod For about INR 350 crore. So isn't there a dramatic drop in the per piece value.

V. Balaji So it's only a rough number. In terms of quantity, I think I can share it when we're able to communicate through mail. I'll communicate through mail on the correct number of pieces.

P.V. Jeeva Actually the value is right at INR 327 crore. The average price now is INR 135. So, you can calculate the pieces.

Samir Palod But last year, you did 5 crores for about INR750 crore of...

V. Balaji No, no, see. The INR 750 crore of revenue is along with all the other operational income, exchange gain, the duty drawback and all put together. So, the number, what I'm talking purely on the export front.

Samir Palod Okay. But in the last quarter you mentioned that you are doing INR 160, INR 170 a piece in one of the earlier questions. So, I'm just trying to get a good sense, whether it is moving up, it's remained stagnant?

P. Sundararajan Last year, FY22, the garment sales are INR 578 crore for exports alone.

V. Balaji All put together, INR 740 crore.

P. Sundararajan Correct. But we shipped 5 crores. So, it is INR160.

P.V. Jeeva So actually the sales, we are talking about is only export sales, but you are comparing with all the other income also. So that is the difference. If we compare only the sales part, the growth rate is about 20%.

Samir Palod Sorry. The growth rate of per piece realization.

P. Sundararajan See, last year, the sale value of the export per piece is INR 116 for 5 crore pieces.

Samir Palod, you said INR116?

P. Sundararajan Yes.

Samir Palod Okay.

- P. Sundararajan** 578 divided by 5 crore pieces.
- Samir Palod** So where does -- how do you – INR 578 crore and your total sales...
- P. Sundararajan** No, no. The sales are INR 578 crore, correct? The sales of Garments are INR 578 crore, leaving Spinning and Dying revenues apart. Only Export division, Garment Export. And divide by 5 crores, is another 15.
- Samir Palod** Sir, I'm unable to understand. I'm looking at your Slide 10 of your presentation, which talks about Garment exports of INR742 crore.
- V. Balaji** Exports has got a backward integrated. We have Spinning division...
- Samir Palod.** No, it can be. But what is your per piece realization from your buyer? He's basically buying garment from you, right? Fully finished.
- P. Sundararajan** What is your help, please?
- Samir Palod** Sir, I'm trying to get what do your buyers pay you on a per piece basis? And I'm trying to figure out whether that per piece realization due to a product mix or raw material cost escalation or better margin, how is it increasing, let's say between '21, '22 and in the coming year.
- P. Sundararajan** No, I think let's not waste the time here. You can talk to us separately. I'll explain to you.
- V. Balaji** You contact us. We will talk to you separately, explain to you how things are arranged. I think you are looking at this for first time. So, I'll explain to you separately.
- Samir Palod** Sure. Sir my last question, if you can permit, just over a slightly longer-term period, we are hearing that the Indian garment exporters are seeing very, very good demand from UK as well as U.S. There's also some discussion around a treaty with the UK and given a lot of your export and your customers are in the UK. What sort of volume growth do you think this business can generate? Not just necessarily FY23 but over a two, three-year period. How are you seeing this business develop, your Garment Export business specifically?
- V. Balaji** So, we have already given guidance in terms of the growth next two, three years. So FY23 we are looking at a revenue growth somewhere around 20% increase and going forward it should be anywhere between 10% to 15% because of the complexity of the product. So, we are looking at 10% to 15% revenue growth from the FY24 onwards.
- Moderator** This is the operator. Mr. Samir, if you have more questions, please join the queue. Thank you. Ladies and gentlemen and the interest of time, we request you to ask questions two per participant. Thank you. Our next question is from the line of Abhilasha Satari with Monarch Net worth. Please go ahead.
- Abhilasha Satari** Thank you for giving me opportunity. Sir, you have mentioned that in FY23, the average revenue, what you would be clocking will be around INR 1,000 crore for the Garment division, and for the volume growth, you are guiding around 10% to 12% increase with 70% utilization, and that going up to around 80% to 82%. So, the rest of the growth, another 20% growth will come from that realization, product mix. How is it distributed?
- V. Balaji** Ma'am if you recollect the last concall, which we have explained, that there is a significant increase in the cost. So, there is some escalation in the cost given by the customers, which could be anywhere between 10% to 12%. And there will be an increase in the volume growth also. So as the previous person asked, it could be anywhere between 12% to 15% in terms of the volume growth, and because of the prices getting escalated 10% to 12% growth. So, both put together, that is where we said that it could be anywhere between 20% to 25%. And if can add on to this is,

please bear in my mind that there is a continuous improvement in our efficiency that will also take about another 5% minimum of increase in the output, which will automatically improve the growth. Another one is increase in efficiency. The third one is increase in the price.

- Abhilasha Satari** Okay. And what is likely to be our peak capacity utilization. Is it like that 80%, 82% would be the peak utilization and then the addition of this 1,000, 1,500 machines will give us further volume growth in FY24?
- V. Balaji** See, our peak utilization can be between 85% to 90%.
- Abhilasha Satari** Okay. So, when we are seeing the demand is so buoyant and in India there is lot of inquiry, your order book is increasing, then why we are guiding so conservatively when we also have a capacity.
- V. Balaji** So if you recollect the Chairman's speech, he said that our USP is on the children's product, where the entry barriers are on the higher side. Since we are in the niche segment, the skilled labor force is a challenge, which we are managing. And we have already climbed with couple of skill development agencies to increase our capacity utilization, which, as Ms. Jeeva spoke about a couple of questions before about increasing the capacity going forward.
- P. Sundararajan** So as always, the getting the business is not as challenge as getting the capacity increased, because it's a labor-intensive unit where we need mostly women employees. So that is a challenge in this industry. So, our growth plans based on our capacity, always. The more the machines running, we can grow our dispatch. So that's the model.
- Abhilasha Satari** Okay. Sure. So, 10% to 15% is more like a sustainable volume over a longer period of time. Thank you.
- Moderator** Our next question is from the line of Niraj Mansingka with White Pine Investment Management. Please go ahead.
- Niraj Mansingka** Yes. Thank you. Mr. Sundararajan, I think the question is on the capacity. How many machines do we have right to installed in your current locations?
- V. Balaji** All our location, we have 5,000 machines and the utilization level is at 72%.
- Niraj Mansingka** Right. So, when you say utilization, you do not use the second shift. It's just a single shift being utilized. And of that, 72% machines are being used. Is it the right way, to look at?
- V. Balaji** Correct. Your understanding is right.
- Niraj Mansingka** And how many employees are there at the end of the year, last year?
- V. Balaji** Last year, we had close to around 12,000 employees on roll.
- Niraj Mansingka** Okay. But if I see the numbers, on a December quarter call, you had said 12,500 and the number of March, you're talking about 12,000. So has there been a fall in the employees in the company?
- V. Balaji** No. Actually, because of COVID so many people didn't turn up. And this January, we did the cleanup in terms of settlements, having taken to people who did not return for longer term. So, the numbers are now looking at 12,000.
- Niraj Mansingka** Okay. But our company has been struggling to get the number of employees addition? So how do you see this addition? I understand you have done contacting with agencies to get you employees. How do you see the employees increasing over the period of next six months or a year from now?
- V. Balaji** So don't get into number of employees. For us, every machine must be supported by 2.25 employees. So, if I'm running 100 machines in one factory, then I should effectively have 225 people working in that factory because you have the ironing

work to be done, you have the helper cutting work to be done, you have to do the buttoning work. So, you have to have the complete process in-house. So, for us for every machine, you should have 2.25 people working. And moreover, we are backward integrated. We have a facility with employees, we have with sewing people with employees, which all contributing to the number of 12,000.

Niraj Mansingka No, but the reason I'm asking is only one. I'm just coming to the same thing that you have do you see your utilization going to 85% with 12,000 employees?

V. Balaji No. See, utilization is only because of the presence of the operator on the sewing machine. So, my utilization only says for example, if I am having a 100 sewing machine factory, and I have 200 employees on roll, and I have sewing operators coming, then only 10 machines can run. So, my utilization level and number of employees on roll doesn't matter.

Niraj Mansingka Okay. So then if -- so coming to the same question, if it is not matching, then what is stopping you from getting 85% utilization despite you having...

P. Sundararajan We need operators. See if I have to run one machine, at first, I need one operator and helpers another 1.2. So, if I don't have an operator, then I cannot use that helper also. So, the greater number of machines...

Niraj Mansingka So I have the same question again, are the shortage of operators and how do you see the number of operators increasing over the next one year?

P. Sundararajan Yes, that's what they told. We have to do addressing sourcing. Manpower sourcing, we have to train them. And that's the major thing, you know. That's the damage. I mean, your question is how can we grow if we don't have the operating? Correct.

Niraj Mansingka Exactly, exactly. I'm trying to understand that...

P. Sundararajan So, I never said I don't have an operator. No. I said, I am going to recruit. That's a continuous process.

Niraj Mansingka So the question is what is a visibility that you'll be able to hire? I know you have done contracting with skill people, skill agencies. So how much confidence do you have that you can hire employees? So, the use utilization can go up much beyond 85%.

P. Sundararajan That an ongoing thing. Gradually only we can do it because there are lot of, ifs and buts. So, I think it's a continuous process. I cannot give you any clear visibility.

Moderator Ladies and gentlemen, due to time constraints, this was the last question for today. And now I would like to hand the conference back over to the Management for closing remarks.

P. Sundararajan So I think we have been able to answer to most of the questions. If anything, still not clarified still, if you have any queries, please do not hesitate to call anyone of us, or email us. We'll be able to explain in detail. Otherwise, thanks for your support. Thanks for the time you spent. Thanks for showing interest in our organization and investing in our organization. Please, touchwood, as I always say that these company is not fully growth more, and we are looking for great numbers in the next five years' time. Thank you.

Moderator Thank you. On behalf of Batlivala and Karani Securities, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.