S.P.APPARELS LTD.

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Stock Code : 540048	Stock Code : SPAL
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Sub: Transcript of the Conference call held on 10th February 2023	

Dear Sir/Madam,

With reference to our letter dated 07th February 2023, intimation about the conference call with Analyst/ Investor held on 10th February 2023, 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

"S.P. Apparels Q3 FY-23 Earnings Conference Call"

February 10, 2023

MANAGEMENT:	**MR. P. SUNDARARAJAN – CHAIRMAN & MANAGING DIRECTOR, S.P. APPARELS** **MS. S. SHANTHA – JOINT MANAGING DIRECTOR, S.P. APPARELS** **MRS. S. LATHA – EXECUTIVE DIRECTOR, S.P. APPARELS** **MR. S. CHENDURAN – JOINT MANAGING DIRECTOR, S.P. APPARELS** **MRS. P.V. JEEVA – CHIEF EXECUTIVE OFFICER, S.P. APPARELS** **MR. V. BALAJI – CHIEF FINANCIAL OFFICER, S.P. APPARELS**
MODERATOR:	**MS. PRERNA JHUNJHUNWALA – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the S.P. Apparels Q3 FY23 Earnings Conference Call hosted by Elara Securities 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 phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Prerna Jhunjhunwala from Elara Securities Private Limited. Thank you. Over to you.

Prerna Jhunjhunwala: Thank you Ryan. Good afternoon, everyone. On behalf of Elara Securities Private Limited, I would like to welcome you all to Q3 and nine-month FY23 Post-Result Conference Call of S.P. Apparels Limited.

Today we have with us the senior management of the company, including Mr. P. Sundararajan – Chairman and Managing Director, Ms. S. Shantha – Joint Managing Director, Mr. S. Chenduran – Joint Managing Director, Mrs. S. Latha – Executive Director, Mrs. P.V. Jeeva – Chief Executive Officer and Mr. Vijayakumar Balaji – Chief Financial Officer of the company.

I would now like to hand over the call to the management for opening remarks. Thank you, and over to you.

P. Sundararajan: Thank you, everyone. A very warm welcome to all of you present on the con-call to discuss our Quarter 3 Financial Year '23 Performance. I hope and wish everyone and their loved ones are happy and safe. I would like to update you all on the buyback that the process is complete.

Let's discuss the performance of the company division-wise:

Garment division our garment division revenue for this quarter stood at 219 crores versus 219 crores of Q3 FY22, which is flat year-on-year. Total export quantities stood at 13.3 million pieces. This quarter we saw some pushback from the retailers mainly due to the inventory pile-up with the retailers because of the container issue that happened during the month of October 2022. Our adjusted EBITDA of the garment division stood at 40 crores for the current quarter at 17.7% versus the adjusted EBITDA of 20.2% year-on-year. Our current order book stands at 364 crores. Capacity utilization as of today is around 74% and is expected to increase by around 10% to 15% going forward. We have started working with two new customers, one out of the US and another one out of Russia. We expect traction with these customers in the coming quarters.

On the FPA front, we are looking for the FPAs to be signed up by the end of March, hopefully. As we informed you earlier, our new factory is under process, and there is a push in lot of the process due to clearance from competing authorities. We expect the project to be completed and up and running by April 2024.

With regards to spinning; our three months spinning production was reduced due to the high cotton price and lower realization rate, hence the margin from the spinning plant was negative at the EBITDA level during the process. Further, cotton prices have corrected and now we hope that cotton price will continue to correct. Spinning plants shall contribute to the margin going forward. For your information the yarn price is now stable.

With regards to the processing unit, in spite of the coal availability issue and the raise in the input cost our processing division was able to perform well with good utilization levels and contributing to the market effectively. Regarding the subsidiary S.P. Apparel UK Limited, it has seen lot of disruptions in supply chain due to the container issues and is yet to recover. It is slowly it is recovering now. Revenue for the quarter stood at GBP 1.12 million as against 2.14 million for same quarter. SPUK has made EBITDA break even as against 2.9% Q-on-Q. I am confident that SPUK will be able to come out of the crisis and will be able to do well going forward.

Concerning S.P. Retail Ventures Limited, currently we have 65 stores under all brands. We have opened 2 new stores for Angel & Rocket in Bangalore and it is doing well. We have also opened stores for Head which is also doing well. S.P. Retail Ventures made a revenue of 31 crores and an EBITDA loss of 1.8 crores for the current quarter. Company has been making profits continuously and however the new brands that we have added and their fixed overheads are pulling down margin. We firmly believe that the other two brands we have added will perform well and we are confident that brands like Crocodile, Head and Angel & Rocket and Natalia will do well in the future. Our current liquidity after making Rs. 35 crores buyback, so our liquidity position is very strong and we have serviced all the debt up to date.

Thank you. Now over to CFO, Mr. Balaji.

V. Balaji: Thank you Chairman. Good afternoon, everybody.

As I was coming through the presentation for the financial performance of the company:

For the current quarter we have made a total of 258 crores on an adjusted revenue basis and an EBITDA of 38 crores and a PBT of 19.43 crores and PAT of 13.2 crores. On a nine-month basis we have 825 crores against 609 crores year-on-year and EBITDA of 134 crores against 103 crores with the PBT of 85 crores as against 78 crores year-on-year and the PAT of 62 crores as against 59 crores year-on-year.

On a division wise performance; our garment division made a revenue of 219 crores for the current quarter with an EBITDA of 17.7 crores. Our UK did a revenue of 11.15 crores with breakeven EBITDA and our retail division is the 20.87 crores with an EBITDA of (-8.96%). On the debt position; as on 31/12 we have a long-term debt of 38 crores, short term debt of 124 crores, a gross debt level of 168 crores. We have 78 crores in terms of cash and cash equivalents. So, net debt position as on 31st, December is only 84 crores. On working capital, we have 265 crores as inventory as of 31st, December and account receivable of 59 crores as of 31st, December and an account payable of 50 crores as of December. So, my net working capital is 274 crores.

Other information are available in the presentation and we'll get into the question and answer session.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from the line of Shikha Mehta from Equitree Capital.

Shikha Mehta: I just have a couple of questions. Looking at our presentation, I understood that our EBITDA has been pulled down due to the MTM FOREX loss of 8.5 crores. So, is my understanding right that there will be a reversal of this next quarter and it should result in an improvement say next quarter?

V. Balaji: We made an EBITDA gain last year and the reversal of that because if you recall what happened in the month of first week of October there was a change in the Prime Minister candidate in UK. So, the pressure on the pound and euro was severe. We had a gain last quarter, and the impact of this 8.9 crores is reversed.

Shikha Mehta: So, this 8.5 cores is more of a reversal of last quarter than something that will be reversed next quarter.

V. Balaji: Correct.

Shikha Mehta: Another thing I wanted to understand was if you look at the garment sector as a whole in the media, there has been a lot of negative news floating around today. Today there was an article in the newspaper about certain garment manufacturers that are not doing well and haven't been able to pay their portion of the EPF. Can you throw some light on how the garment division is doing overall and how we see this going forward?

P. Sundararajan: Yes, the inventory management is generally chaotic due to the post-COVID and the container issues. There has been a big mess up because they bought a lot for the last Christmas but now slowly, they are getting into the ground reality of the real picture that there is a mess in most of the retailers' inventory, the stock. They really don't know which one to buy which one not to buy. That's the kind of a situation. They are just holding everything and gradually now they are releasing the orders. For example, one of our customers suddenly said that for another two seasons no orders. Within one week to ten days, they placed 3 million pieces of order. This is the kind of situation confused to state. So, what happened here is that the customers do not prefer these small players, small manufacturers, because most of the retailers rely on the big manufacturer. That is why now the big factories are able to manage but the small factories are not. This is one thing; in this current scenario, the retailers are trying to consolidate it. So, naturally they want to reduce the number of suppliers and push the business to the big manufacturers. They are asking us to increase the capacity. So, this is also happening. There are different, there is a mixed view with regards to this industry. Small players will say there is a recession and no orders. But big players are majorly affected.

Shikha Mehta: So, to consolidate everything, you've said we should benefit from your because of consolidation and a niche segment, correct?

P. Sundararajan: Definitely. We are expecting, so we plan to gain in this situation in the consolidation. We'll be one of our preferred factories by the retailer. It's a push of time 2-3 months.

Shikha Mehta: **I also wanted to understand that,** now we're almost midway through this quarter through Q4, how are we seeing our demand and margins shaping out? Could you also shed some light on our spinning segment and if we can see that on even breakeven or positive.

V. Balaji: You're looking at Q4 performance, right?

Shikha Mehta: Right and also about the spinning segment and the margin.

V. Balaji: Spinning as Chairman spoke about the cotton prices coming down, I think still the correlation between or the margin spread between the cotton prices and the yarn prices is very low. I think once the demand in terms of yarn picks up then spinning also should be in line. I think by March things should be back.

Shikha Mehta: Q4 also the spinning unit might be rough quarter?

V. Balaji: Maybe not as bad as Q3 or Q2. It should be definitely better comparing Q3 and Q2.

Shikha Mehta: We had alluded to around 20% growth for FY23 and FY24, after our Q3 performance are we still holding to those guidance?

V. Balaji: So, like we have not said 20%. We said anywhere between 15% to 20%. We still feel that 15% to 20% should be possible.

Shikha Mehta: For FY23 and 24, right?

V. Balaji: Yes.

Moderator: Our next question comes from the line of Aman Agarwal from Carnelian Capital.

Aman Agarwal: A few questions from my side. First one on the volume decline, Q-on-Q volumes, like they have come down from 16 million units to around 13.4 million units. Can you touch on what is impacting this and how we see volumes panning out in the future in the next few days?

V. Balaji: On the volume for the current quarter in the opening remarks, Chairman spoke about the push-backs. We have guided for a 25% growth for the current year FY53 and still see 25% to 30% growth for the current quarter as the current financial year should be possible. For FY24 as last called asked about the growth we still stick to the guidance of 15% to 20%.

Aman Agarwal: In terms of production if you can tell me what was the production in terms of pieces for this quarter. Was it just the inventory impacting us like inventory with the retailers or even on the production side we have produced less garments during this quarter.

V. Balaji: You are talking about the inventory stuck.

Aman Agarwal: I'm asking the production volume for this quarter like in garments.

V. Balaji: Those numbers cannot be provided in terms of quantity. You can look at the number for the whole financial year, we could anywhere between 58 to 60 million pieces.

Aman Agarwal: In terms of our capacity utilization and labor addition, please give me any number like how much labor we have added during this quarter since the start of this year. That would give an idea of how our labor procurement is going on and the steps we have taken over the last few years.

V. Balaji: So, in the opening remarks, Mr. Sundar has spoken about the current capacity utilization of 74%, which can be increased by 10% to 15% going forward. That's where we are looking at in terms of utilization level. Next financial year we should be at around 80% to 85% in terms of utilization.

Aman Agarwal: Like we mentioned it in our opening remarks that the new CAPEX for garment facility that will be ready by 2024, is that right? Because that is like one year from now, what is causing this delay in the CAPEX for the garment facility?

V. Balaji: In terms of the delay, Mr. Sundar in his opening remarks has spoken about the delay because of the approvals that needs to be taken from the competent authority. That's the cause why it is getting delayed. But we are on it and we hope that things is almost at the finishing stage and we should start working on the factory from April onwards and in starting we were talking about the building getting started.

Aman Agarwal: Just a final question on the retail segment, this is still making EBITDA losses like around 9% for this quarter. Any internal target we have to basically achieve EBITDA break even in this business, any internal time that we have?

V. Balaji: The new brands, the Angel & Rocket, I have said and we have started working with these brands only for this year. So, opening up new stores and point of sale with the LFS channel was a tough task and we have opened up. So, we have opened up with so many LFS channels like Shopper Stop, we have opened up with Pantaloon, we have opened up with Central, we are equally working on improving the presence of the brand. Whatever we have put effort during the current year will start yielding results next year. We expect that we will do a better EBITDA margin for the retail interest next year.

Moderator: Our next question comes from Prerna Jhunjhunwala from Elara Securities.

Prerna Jhunjhunwala: I wanted to understand the demand scenario regarding kids and infant segments. Do you see divergent demand behavior as compared to adults in current scenario or is it largely similar to the entire garment right now?

P. Sundararajan: Can you come again please?

Prerna Jhunjhunwala: I was asking on the demand scenario for the babies and kids' segment that we are in as compared to the adult segment, is there any divergence in the demand scenario for the segment that we are looking for especially with respect to recovery rather than the current scenario? Second are we also looking to expand our product basket to the adult wear?

P. Sundararajan: Currently as I always say that kids and babies are always in demand. But now there is little bit of the demand. It's not dropped, it is going very steady. The retailers are just waiting and watching to buy the next round. Compared to men and ladies, kids and babies are doing better and it is always good. We are definitely as I mentioned because of the consolidation happening, customers also wish to us to increase our department to men's and ladies as well because those factories, our factories who can handle the babies and kids can easily manage ladies and men. We are getting the business of men's and ladies gradually from our existing customers. This is a part of the consolidation again, not only in babies and kids. While consolidation is happening, they are asking us to do even the adult business.

Prerna Jhunjhunwala: What is the current contribution of adults in our current revenue and where do we envisage this to be in the next 3 to 5 years?

V. Balaji: Current percentage is about the maximum 7% to 8%-10% and we anticipate around 20% by end of next year.

Prerna Jhunjhunwala: That's pretty good. Second question is on average realization, this improvement in average realization that we've seen this quarter, is it also because of the change in product mix or is it a factor of only cotton and it will revert back to normal levels when cotton with cotton prices coming down?

V. Balaji: Average realization is a combination of both. There is some increase in the material cost because of which the selling price is getting increased and also because of the mix that is happening, it is also increasing. So, it is a combination of both. Quantifying the percentage will be very tough. The yarn prices have started coming down, maybe next quarter you'll see that the average realization is coming down.

Prerna Jhunjhunwala: There is also no supply disruption from Turkey and Pakistan and there are large European suppliers. Are we seeing any benefit because of disruption in supply chain coming in to our company?

P. Sundararajan: Yes, the customers are definitely reluctant to place orders with Pakistan and Myanmar and Bangladesh because Bangladesh is recently the wages, the workers unrest because the wages they want the rates to be doubled 4 to 5 times. Even if they settle it 2 times or 2.5 times, they will be expensive. That's number one. The Myanmar, Pakistan they are politically not stable. China definitely with anti-China sentiments are still happening. In addition to that if we get FPA so all the more benefits.

Prerna Jhunjhunwala: But are you seeing additional enquiries coming in?

P. Sundararajan: Yes, it is coming. Currently they are just settling down with the managing their inventory, the stock level. From April onwards there will probably be an aggressive placing of order we expect between April and July. From July onwards there will be an aggressive placing of orders.

Prerna Jhunjhunwala: From July onwards. So, Q1 is likely to be soft?

P. Sundararajan: We are getting, for our capacity it's not an issue, for additional increase due to the consolidation these things will happen from July onwards.

Moderator: Our next question comes from the line of Ashwin Reddy from Samatva Investments.

Ashwin Reddy: I have a few questions. Firstly, on the top line, some clarification. Given that in the first nine months we've done approximately 32.5% growth in the top line, so for the current year and for next year what is the broad numbers we need to work with in terms of top line sales? Because there's some back and forth, I'm just trying to get clarification in FY23 and FY24.

V. Balaji: FY23 and '24, I think in a couple of weeks before we have given a guidance of anywhere between 15% to 20% of growth in.

Ashwin Reddy: This is FY24. So, for FY23 you're saying we need to work with 25% to 30%?

V. Balaji: Yes, we have already completed nine months. We have done a 35% of growth nine months. We expect to complete 25% to 30% for the current financial year.

Ashwin Reddy: Secondly on the margin front, so one because of the current demand scenario has there been any pushback on the margins for us? In terms in our talks with the retailers has there been any pushback on the margins?

V. Balaji: There cannot be pushback on the margins. But definitely when you compare the cotton prices or the yarn prices increase the same incremental revenue is not coming. For example, there is an increase in yarn prices by 30%. Same 30% increase from the output is not there. So, there is a reduction. Net only 10% is given a sales realization. Definitely there is a pressure on the margin because the spreads are coming down but now of late where the cotton prices have started coming down, yarn prices have corrected. We feel that we should be in line with the guidance of 18% what we have already guided for.

P. Sundararajan: **We are consolidating** so the volumes will go up, but there is a big challenge on the price implication which we have to mitigate in other things like managing better efficiency and overheads control. We will definitely be able to manage and maintain the 18%.

Ashwin Reddy: But in case we take the next 2-3 years given that we are guiding for an increase in the men's wear and women's wear, if that proportion increases in your overall sales would that mean a lower margin table for you in the next 2-3 years as the sales might increase faster but with the margins just because of the increasing proportion of men’s wear and women's wear.

V. Balaji: The margin will not increase because the most competitive products….

Ashwin Reddy: I'm saying will it decrease because of the men’s wear, women’s wear will the margins decrease because of that?

P. Sundararajan: Correct. Since in terms of percentage there will be a decrease in the margin that's the challenge and we have to manage it.

Management: But we'll have more of a fashion in baby wear and the kid’s wear, so we'll get better margin. The overall we'll be able to maintain that say 18% to 20%.

Ashwin Reddy: You're saying despite getting the increasing the men’s wear women’s wear in the next 2-3 years still the margins can be maintained at 18% above that’s what you're saying.

Management: Yes.

Ashwin Reddy: Finally, could you comment on the overall demand scenario and compare the current US and UK scenario? Because US, it’s very small for you but you are making inroads there. Any thoughts on the US versus on where UK is overall and where Europe is?

P. Sundararajan: This is in UK and the Europe but again because of this Russia-Ukraine war. It will settle down in about 6 months hopefully. So, again because of consolidation generally the industry yes, there is a problem in the US and the UK. As far as we are concerned our business is being protected with our existing customers and we are planning for adding few more customers. But this is not the right time to have new customers at the moment because everybody is doing the consolidation. We will for another year that nuisance, but compared to US, Europe and UK are not that great.

Ashwin Reddy: Okay got it. The last question I have is on the retail business. What is the scale that you're looking at or what is the broad numbers in terms of stores that you want to have in the next 2 or 3 years? If you put together the existing Crocodile plus Indian market plus Head, what is the broad plan you have for the next 2 or 3 years?

V. Balaji: You wanted a specific number?

Ashwin Reddy: Or an approximate number, so just to know how you're thinking about the scaling up part of the retail part of the business?

V. Balaji: We are looking at close to 120 crores of revenue next year. With Angel & Rocket and Head, Crocodile, Natalia, maybe Natalia will take some more time for us to operate and putting

(Inaudible) (33.03) into the Natalia. But we are looking at 120 crores of revenue next year where we should be in a position to do 8% of EBITDA for the whole year.

Moderator: Our next question comes from the line of Niraj Mansingka from White Pine Investment Management Private Limited.

Niraj Mansingka: I just want to know Mr. Sundararajan, how is the employee count at the end of the quarter?

V. Balaji: For the next quarter we should be close to around 12,500.

Niraj Mansingka: Last quarter we had said that we had added 500 employees, but has there been any shrinkage of employee or is it just normal?

V. Balaji: This quarter because of the Diwali time usually there will be reduction in employees during Diwali because people used to go to their home-state, they don't return back. Moreover, there is a number of working days in this quarter is also low. Usually, Q3 numbers will come down and again start picking up from April onwards. That's how it is for the whole industry.

Niraj Mansingka: So, what is the target? How the employee addition that you are looking at here onwards?

V. Balaji: Target in terms of employees as we are only based on employee strength. When we talk about the 10% to 15% or 15% to 20% growth next year, we are also looking at the 15% growth with employees.

Moderator: Our next question comes from the line of Gunjan Kabra from Niveshaay.

Gunjan Kabra: I wanted to understand that you have guided 18% EBITDA margins to be sustainable. As far as I understand in 2021-2022 when were able to do 16% to 18% EBITDA margin, that time the yarn division or yarn sector was also spinning sector as a whole was doing pretty well. All the spinners were also performing very well. That kind of helped us also, I think. After that now when the spinning sector as a whole is not doing well, there are not able to pass on the prices. So, our margins have deteriorated. So, if we assume also that it stabilizes, how are we seeing the margins to be 18%? How does that trajectory work? I wanted to understand that.

V. Balaji: Comparing others it all depends on the size of the capacity is very important. We have a 27,000 spindles capacity which works only for our captive purpose and a leased capacity which also works for the captive purpose. I don't think you can compare the spinning as an industry and compare S P Apparels because we are purely backward integrated and whatever excess production, we are doing being sold outside that's how we work. So, your question in terms of comparison may not be right but in terms of percentage of guidance of rating percentage since we feel that the yarn prices have corrected and we expect spinning also to contribute to the overall standalone as a company that's where we are guiding 18%. If you recall our last two calls, we have been saying that our margins are under pressure because of spinning. If you look at last year, our EBITDA margins were close to 21% that was also because of the spinning.

Gunjan Kabra: Correct. That is what I wanted to understand. I understand it is for just the captive views that we do. So, when the yarn prices were high it helped us also in a way when were able to do 18% EBITDA margin. So, I wanted to understand that even if yarn prices go down going forward, will we be able to maintain those 18% margins? In the previous year the 2021 and '22 when yarn prices were high we could do around 16% to 18% EBITDA margin whereas in the previous years were doing around 14%-15%-13%. So, I wanted to understand if going forward the yarn prices also doesn't move and there, so still we'll be able to maintain 18% margin.

V. Balaji: It's not about the movement of yarn price alone. Spinning is between cotton to yarn. So, the spread between cotton to yarn if it is sustainable over period of time that could be margin. If the cotton price is higher and your yarn realization is lower than the margins are steep. So, we take only the current market yarn price whenever we take orders. Because every competitor works only from the yarn price. So, the customer do not lose on the cotton price, it works on the yarn. That's where the difference is.

Gunjan Kabra: Also. one more question I had. If you can guide what would be the difference in EBITDA margins when we cater to children, baby wear and when we cater to adults and men and women war? So, will that be possible if you can guide the difference in the EBITDA margins?

V. Balaji: If you wanted to work the spinning, now the costing in terms of men and women, children would be all same because it's the processing time will differ for children and somewhere for the **(Inaudible)** (40.16).

P. Sundararajan: The margin break-up for adults, kids, or babies because it is our internal working where some orders, we take to fill our dying capacity and the yarn production capacity and sometimes we used to take orders and even cost-to-cost to sewing capacity to avoid the over-heads. It's a combination of everything and it's closely been monitored every time we receive an order. So, the cumulative **(Inaudible)** (40.57). On the one hand we have to see the, fill the capacity and on other side to the cost paying then the competition. We cannot practically give the individually for the segment wise the margins.

Moderator: Our next question is from the line of Nirav Savai from Abakkus Investment.

Nirav Savai: My question is regarding the retail business. What went wrong in this quarter? I actually missed the first few minutes of the call. But is there anything which went wrong in the quarter because we have reported losses at EBITDA level in the retail business?

V. Balaji: No, we have made a top line of 21 crores and we have made 1.8 crores at EBITDA level losses. So, the losses are purely because of the fixed overheads that the new brands are carrying, which is not supported by the top line. That is where I said in the beginning that these new brands now need to be presented in all the points of sale. Now we are coming up with new LFS channel. We need to be present in all channels. We are in the process of putting all the channels and now we are present in Lifestyle, we are present in Shoppers Stop, Central and Pantaloon. So, we have started working with all. I think next year will be the year where we see all these brands coming up and our EBITDA should be positive there.

Nirav Savai: In Q4 also do we see anything changing as far as retail business is concerned or would be still either low margin or loss making?

P. Sundararajan: Basically, see Crocodile, is there is a pre-dominancy that's the large sense of the total business which does about 80%, I think, 85% so which has turned around, which is, it is the margin is sustainable now. There's been continuous EBITDA plus in Crocodile so which means the 85% of the total business is profit making now and this Head, Angel & Rocket is a new business and so which needs to break even, at certain level it would take about 2 to 3 years' time already across 2 years of time in between COVID came, all got disturbed. Maybe next year we are hoping to increase the turnover of Angel & Rocket by increasing the presence in the various channels. And same way for Head also, Head is already if you look at the Head, the margins on costing is better but only the overheads are pulling it down because we have to increase the number of outlets by which we increase the sale. Angel & Rocket leaving Angel & Rocket and the Head, the retail business is definitely very attractive and profitable. Since we have taken these two also it means it's minimum time to break even which is happening now. So, FY24 we are confident that there will be EBITDA plus about 8% to 9%, that's what we are expecting, putting all together.

Nirav Savai: And what is the exposure to pound? If you see for the third quarter because we had a MTM loss on FOREX what would be your exposure on pound?

V. Balaji: Pound exposure should be around 45%.

Nirav Savai: 45% is pound. Going forward will it be continued to be Head? Because I understand a lot of our receivables are also in dollars, we reduced our pound exposure and increased the dollar exposure. So, we were also selling in USD to one of our UK clients. So, has anything changed there?

P. Sundararajan: No nothing has changed there. I told you; I think you missed the 20 minutes came out from the first. Since we have been LTM gains for past two-three quarters, from Q4. We were making closely around 1,300-1,500 crores of gain and suddenly because the quarter is disturbed by change in the current Prime Minister candidate in Q4-Q3 there was a change in the currency so that's why there is a hit in the current quarter. It is a reversal of the last quarter's gains this year. So, ultimately, whatever margins we booked now, which we show as EBITDA margins, is without anything. So, this is purely a reversal of impact of last two-three quarters.

Nirav Savai: In this deferred revenue which we had, there was some deferment of order and all. So, putting that in the fourth quarter do we see a good growth in the fourth quarter on YOY basis?

V. Balaji: YOY basis yes, we should see some good traction in Q4.

Moderator: The next question is from the line of Prerna Jhunjhunwala from Elara Securities Private Limited.

Prerna Jhunjhunwala: Just wanted to understand our capacity? Currently, how many machines and what kind of additions are we looking at over the next 2 to 3 years and CAPEX for this year and next 2 years?

V. Balaji: So, currently we are working with 3,400 machines on average so with last quarter we were at 3,400 and by March we should be at 3,900-3,800.

Prerna Jhunjhunwala: That is a utilization because we were at 5,100 is what I assume about?

V. Balaji: Yes, that is right.

Prerna Jhunjhunwala: What will be our capacity for FY24 and '25? Are we looking at any additions?

V. Balaji: Yes, we are looking at addition also but internally for us we still have a good headroom to improve by another 20% of capacity utilization and second also is that we are working on a second shift basis where we can look at say 500 machines of utilization on a second shift also is possible. So, and we are also working on the new project of Sivakasi which could come by March. So, next year we feel that effective utilization in terms of the capacity could give us a growth of 15% to 20% along with capacity addition also.

Prerna Jhunjhunwala: What will be our effective capacity at the end of next year?

V. Balaji: Of this financial year?

Prerna Jhunjhunwala: **What will be our effective capacity after** FY24 and at the end of FY24?

V. Balaji: The effective capacity utilization should be 4,200 machines on an average for the whole year.

Prerna Jhunjhunwala: Not utilization actually I just wanted the total available capacity?

V. Balaji: 85 could be the right number.

Prerna Jhunjhunwala: No, I'm not asking for percentage, I'm asking for the total number of machines that will be available?

V. Balaji: 4,200 machines on an average for the whole year.

Prerna Jhunjhunwala: That I get is the utilization?

V. Balaji: 1st April it could be 3,900 and March it could be 4,500. Average it should be 4,200 for a whole year.

Prerna Jhunjhunwala: I missed the order book number at the beginning, in the beginning speech. What will be our order book and how much that would service for how many months?

V. Balaji: 364 crores is the current order book and will be over 4-5 months. Certain orders could be for 6 months also but current order book is 364 and we have closed for the month of April.

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

P. Sundararajan: Thanks for everyone's participation on the various questions. It shows the interest in your company here and we are going very steady and we are very clear about our plan. We have a very clear visibility despite the disturbances in terms of the logistics or any kind of at all any recession or whatever it is. But still, we have a very clear visibility of where we are heading to. We are confident about the subsequent quarters to come. Thank you for your time, thanks for the participation.

Moderator: Thank you. On behalf of Elara Securities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.