



“S.P. Apparels Limited
Q3 & 9M FY26 Earnings Conference Call”
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MODERATOR: **MS. PRERNA JHUNJHUNWALA – ELARA SECURITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day. Welcome to the S.P. Apparels Q3 & 9MFY26 Earnings Conference Call hosted by Elara Securities. As a reminder, all the participants' line will be in the listen only mode. There will be an opportunity for you to ask a question after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

Now I hand the conference over to Mr. Prerna Jhunjhunwala from Elara Securities. Thank you, and over to you, ma'am.

Prerna Jhunjhunwala: Thank you, Mansa. Good afternoon, everyone. On behalf of Elara Securities Private Limited, I would like to welcome you all to Q3 & 9MFY26 Post Results Conference and Business Update 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; Mrs. S. Latha, Executive Director; Mrs. S. Shantha, Joint Managing Director; Mr. S.Chenduran, Joint Managing Director; Mrs. P.V. Jeeva, Chief Executive Officer; and Mr. V. 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, sir.

P. Sundararajan: Good afternoon, everyone. I'm P. Sundararajan, Chairman and Managing Director of SPAL Limited. Thank you for joining SPAL's investor call. I'm pleased to share our business update, the evolving trade environment, customer traction across key markets and our priorities as we enter the next phase of growth.

This has been a steady quarter for us, and I'm happy to share that our operations across all verticals have continued to perform well. Even though Q3 was soft for the sector, we managed the quarter efficiently.

The industry environment and policy clarity trade deal between India and the U.S. was a cause of worry for the past seven to eight months and now signing of India U.S. agreement has helped bring clarity on the tariff situation. We are also happy that EU and India have signed the trade deal last month.

Further, we are all aware that U.K. and India also have agreed for a trade deal. This scenario is very positive for the textile industry. The clarification on the India-U.S. agreement has removed the uncertainty we saw in the recent months. At the same time, Sri Lanka remains useful for programs where duty-free access to the U.K. and EU market provides an advantage, especially with the U.K.-India FTA still about less than a year away.

The India-U.S. pact, which brings tariffs down to 18% strengthens our competitiveness and opens access to USD118 billion U.S. textile import market. While the U.S., Bangladesh zero duty provisions for garments using U.S. cotton is something we are monitoring.

In Europe, the India EU FTA eliminating up to 12% import duties has improved buyer sentiment. Overall, our presence in both India and Sri Lanka gives us the flexibility to navigate these ships and service customers efficiently.

On the demand side, we are seeing healthy reengagement from American buyers who had earlier preferred for Sri Lanka ships. Many of them now prefer continuity in India under the revised tariff clarity.

At the same time, our ability to serve U.K., EU orders from Sri Lanka gives us flexibility on the landed cost and the lead times. We have active dialogue with existing customers on expanding product lines, and we are onboarding new programs aligned to our quality, compliance and delivery.

Our Garment division continues to be the backbone of SPAL. In India, the utilization for Q3 FY26 declined largely on account of addition of new machines and impact of U.S. tariffs. However, we believe the utilization to improve in next financial year.

We also onboarded four to five new buyers during the year which has strengthened our presence in these key markets. The temporary pause with our U.S. customers, which we saw in Q3 due to the U.S. tariff situation has now eased after the signing of the India U.S. agreement and customers have started working on new order placements with a clear normalization in booking patterns.

In Sri Lanka, we made further progress by integrating additional, one more additional factory in this space, taking total operational capacity to approximately 1,650 machines. Stabilization efforts across production, HR and financial systems are progressing well, supported by the phased rollout of our homemade ERP platform. We expect operations in Sri Lanka to reach normalized levels from Q1 FY27 with meaningful shipments and optimum utilization in Q2 FY27.

During the year, by acquiring the factories, we have also added new customers from Sri Lanka. Orders from these customers will begin in Q1, and we expect steady contribution from Q2 onwards. Young Brand apparel being predominantly U.S. focused saw a little pressure in Q3 because of the earlier tariff uncertainty. Q4 will have more pressure in the revenue.

Despite this, the division maintained healthy operational margins with the tariff situation now resolved, customer engagement has picked up sharply and order visibility for the upcoming season is strong.

We have resumed the sale of expansion that was temporarily paused, and the Young Brand is scaling towards 1,700 installed machines with the sales utilization ramp to around 1,500 machines. We are also onboarding one or two new U.K., European customers, which will help diversify the customer mix and reduce overreliance on the U.S. market.

Young Brand is also geared up to produce for the domestic market as the diversification of the product. Overall, Young Brand well positioned to deliver strong growth as demand normalizes.

Our multi-country manufacturing model is at the heart of our strategy. The clarity in the U.S. duty-free access from Sri Lanka to the U.K. and the ability to command EU, U.K. programs between India and Sri Lanka provides us with the resilience as well as agility.

With tariff uncertainty withdrawing, the Young Brand expansion is back on track and the Sri Lanka platform will operate at a normalized from Q1 next year with customer shipments ramping from Q2. We will continue sharing utilization metrics and performance KPIs.

With regard to SPAL U.K., we remain very optimistic on SPUK. We are targeting a significant growth in the business over the next two financial years with a revenue goal of about USD 20 million, that is approximately INR 200 crores as customer additions and design-led engagement scale up. SPUK's ability to source between India and Sri Lanka depending on landed cost is a distinct advantage. And we expect this to contribute to improved profitability as the base expands.

The order book status division-wise of SPAL is INR 353 crores, Young Brand apparel is INR 87 crores SPUK is INR 30 crores. With regard to Retail, our Retail division remains EBITDA positive and added another anchor store recently.

Crocodile continues to perform steadily with disciplined inventory and the Angel & Rocket is gaining traction as we sharpen products, omnichannel and consumer engagement. The cleanup of underperforming channels, cost discipline and tighter merchandising has strengthened the fundamentals, and we expect sustained profitability.

On ESG front, we are progressing well on our sustainability commitments by planning for addition of approximately 3 megawatts of rooftop solar capacity across three additional units for the next financial year FY26-27, taking total installed capacity on in-house solar facility to 4 megawatts.

On the new Labour Code, we are already aligned with the most requirements, and we do not expect any material operational impact on the financials. And once the notification comes through, we will align with the rules as and when clear.

We are maintaining our revenue guidance of INR 2,000 crores by FY27 on a consolidated basis. Q3 was softer for the sector, but Q4 also will be softer because of the U.S. tariff issue, and we see a stronger outlook from next financial year onwards as policy clarity translates into steady order inflows.

Our order pipeline and the customer additions in Sri Lanka combined with the resumption of young brand expansion and scaling up of SPUK support this trajectory. We will continue to prioritize quality growth, disciplined execution and returns. To summarize, the signing of the India EU agreement has restored visibility for customers who are in wait and watch mode.

We expect production to continue in India for those programs while Sri Lanka provides flexibility for the U.K. and the EU opportunities. Our diversified footprint, integrated

capabilities and strong compliance helps position us well to capture incremental share as global sourcing recalibrates.

With that, I will now hand the call over to Mr. Balaji, our CFO, to take you through the financial highlights for the quarter and 9MFY26. Balaji, over to you.

V. Balaji:

Thank you, sir. Good afternoon, everyone. I'll just take you through the financial performance of the company for the Q3 and 9MFY26. **Standalone performance for Q3** adjusted revenue stood at INR 258.8 crores, a growth of 10.9% year-on-year. Adjusted EBITDA stood at INR 40.4 crores with an EBITDA margin of 15.6%.

Profit after tax during the current quarter stood at INR 19.3 crores against INR 18.0 crores of Q3FY25, a growth of 7.2% year-on-year. **On a standalone basis for nine-months ended December 2025**, adjusted revenue grew by 20.8% YoY and stood at INR 851.4 crores. Adjusted EBITDA stood at INR 138.4 crores with an EBITDA margin of 16.3%.

Profit after tax during 9MFY26 stood at INR 66.5 crores as against INR 58.8 crores, a growth of 13% year-on-year. **On a consolidated basis**, revenue from operations in Q3FY26 stood at INR 382.9 crores, a growth of 6.6% year-on-year.

EBITDA grew by 11.2% year-on-year to INR 56.6 crores with an EBITDA margin of 14.8%. Profit after tax stood at INR 27.0 crores as against INR 24.8 crores, a growth of 9.1% year-on-year. **On 9MFY26 basis**, revenue from operations stood at INR 1,213.7 crores as against INR 995.9 crores, a strong growth of 21.9% year-on-year.

EBITDA during 9MFY26 stood at 29.7% growth year-on-year again which stood at INR 173.2 crores with a margin of 14.3%. Profit after tax stood at INR 82.4 crores against INR 64.7 crores, a growth of 27.3% year-on-year.

On a segment-wise performance, Garment division Q3 FY26 adjusted operational revenue stood at INR 343.6 crores, a growth of 7.6% year-on-year. Adjusted EBITDA during the quarter stood at INR 58.3 crores, a growth of 7.6% year-on-year. 9MFY26, adjusted operational revenue grew by 16.7% year-on-year to INR 1,105.7 crores.

Adjusted EBITDA stood at INR 179.2 crores, a growth of 16.3% year-on-year. SPUK Q3FY26 revenue stood at INR 19.2 crores with a positive EBITDA of INR 0.8 crores. Retail division Q3FY26 revenue stood at INR 17.2 crores with a positive EBITDA of INR 0.8 crores against a loss of INR 0.6 crores Q3 FY25.

Further, in the Retail division, Crocodile brand revenue stood at INR 14.5 crores and Angel & Rocket revenue stood at INR 3 crores for the current quarter. Our current debt position on a standalone basis, gross debt stood at INR 275.4 crores and our net debt is INR 227.9 crores.

With all this information and all the other information that is present in the presentation, we will move to the question-and-answer session. Thank you.

- Moderator:** Thank you so much. Now we begin the question-and-answer session. The first question is from Bharat Gulati from Dalal & Broacha.
- Bharat Gulati:** Hi, thank you for the opportunity. I just had a couple of questions. So, my first question, sir, would be regarding any change in our FY27 guidance given that the tariffs have been revised and we would see higher utilization levels in our YBAPL business? Would there be any revision in guidance?
- V. Balaji:** So on the guidance, in the Chairman's speech, he has assured that our guidance on the revenue front stands at INR 2,000 crores for FY27 on a consolidated basis.
- Bharat Gulati:** Got it. And the past guidance that we've given on margins of about 15% consolidated margins on the EBITDA front, would we see a change in that going forward with operating leverage kicking in due to the higher utilization levels in our YBAPL and our Sri Lanka business?
- V. Balaji:** No, we, currently, we would like to stick to the guidance of 15% at the EBITDA level on the Garment division.
- Bharat Gulati:** Okay. And sir, if I just look at our EBITDA margins in terms of ex of YBAPL, it's seen kind of a degrowth in this nine-months as well as in this quarter. So, would there be any specific callout? Or is tariffs the only reason for that to happen?
- V. Balaji:** So, if you look at last year versus this year, our wages have gone up from March 2025 minimum wages have changed. And because of the tariffs, there has been a couple of factories that has been closed down because of, so purely because of tariff and the wages increase, there is an impact on the margin front.
- Bharat Gulati:** So it would be fair to say that our Garment division ex of YBAPL should touch that 18% EBITDA mark again next year?
- V. Balaji:** Yes, definitely, I feel that. On the Garment division, you have the Sri Lanka business sales also. So while we give guidance on Garment division, Sri Lanka business is also part of the Garment division. So naturally, Sri Lanka business will give you only 10% margin. So, when you add up both together, including the Sri Lanka business, we are looking at 15% margin in the Garment division going forward.
- Bharat Gulati:** And just to understand in terms of realization, there's been a trend of about degrowth that's been seen in the past three quarters of about roughly 3% degrowth in our realization. So is this going to continue going forward? Or will we see an uptick in realizations as the product mix changes towards the adult wear?
- V. Balaji:** So, it's purely on the product mix. Like when you do a lot of children products like the baby, body suits and the sleep suits, the realization tend to come down. It's purely the product mix only.

- P. Sundararajan:** We will be at the pressure for the margin. Q1 onwards, we will normalize it. Q2 will be stabilization. Q2FY'27.
- Bharat Gulati:** Got it. But sir, just to understand, just our realizations, will they be continuing in the downward trend? Or is this a new base for us for realizations? Or can we see them go back to that 140 kind of average realization level?
- V. Balaji:** Sir, realization is to do with the product mix only. Nothing to do with the margins.
- P. Sundararajan:** So, we expect to maintain or move up a little bit because we are planning to bring in more of adult orders also, which will bring up the average price hoping because we need to fill up the capacities by bringing in adult orders.
- Bharat Gulati:** And sir, just one last question I wanted to understand. In terms of our capacity that we, I mean, in terms of the, what we mentioned in our PPT, the volumes that we've exported and the realization, when I add, when I do the math on that, I don't see us achieving the revenues in our Garment business. So, what exactly is the exports, the 18.2 million exports in this quarter that's been done? Which business is that exactly talking towards?
- V. Balaji:** That's purely on the garmenting division, which is correspond to the standalone. So, if you look at standalone numbers, it will get reflected there.
- Bharat Gulati:** So that's stand-alone and then our, so it excludes basically our YBAPL business and our Sri Lanka operation.
- Bharat Gulati:** So, I didn't get that, sorry. Could you repeat yourself?
- V. Balaji:** Sorry?
- Bharat Gulati:** I couldn't hear you, sir. Sorry, your voice cracked a little bit.
- V. Balaji:** So, on the garmenting division, which is segmental reported in the presentation, it is inclusive of the export and the YBAPL put together. So if you exclude YBAPL in the Garmenting division, you will find the numbers.
- Bharat Gulati:** So that number would be for purely our stand-alone India exports wouldn't include Sri Lanka, right, sir?
- V. Balaji:** Correct.
- Moderator:** The next question is from the line of Shubhankar Gupta from Equitree Capital.
- Shubhankar Gupta:** So, the first question is with regards to the Labour Code changes. So as per what I could see from the presentation and the numbers, the INR 27 crores consolidated PAT does not include the Labour Code changes impact. Is that correct? And if that is so, then can we get a number as to what would that impact be like?

- V. Balaji:** No. See, in the Chairman's speech, there is no material impact because of the Labour Code. See, the Labour Code was supposed to be introduced in the year 2020 itself. So we have aligned ourselves with the Labour Code in the year 2020 itself. So, there will be no big material changes or impact in the financials because of the new Labour Code.
- Shubhankar Gupta:** Because we are saying that we had already increased the salary of our, all our labour force. So that would not be a challenge, right?
- V. Balaji:** Correct.
- Shubhankar Gupta:** Okay. So that should not have any impact. Fair enough. Second question, sir, so it's more broad. So so there have been so many trade deals which have happened, right? But then there are two major ones, which is one is U.S. and one is UK. So, what is our take on the timelines with regard to the same? And are we doing anything extra to gain from these big trade deals, which have happened?
- P. Sundararajan:** Can you come again, please?
- Shubhankar Gupta:** So basically, my question is there have been major trade deals that have happened in the last six, seven months, out of which two are major U.S. and UK. What's our take on the timelines with regard to the same? Like how will it start impacting SPAL's numbers? And are we doing anything extra to gain, like gain more market from these trade deals?
- P. Sundararajan:** Actually speaking, it will take another one more quarter to come back to normal because all the customers have been with us now and they were waiting for the tariffs to be revised. So now they have already press the button to receive the normal business inquiries and placing the orders that has already started.
- And all these things will reflect from Q2 numbers. And we are also adding some new customers, about four to five more new customers, maybe two from the U.S. and another two, three from the Europe and the UK. So, everything will reflect from Q2 onwards. And the Q4 is going to be under pressure for financial numbers. Q1 is going to slowly improve and Q2 will be the restoration of the original situation.
- Shubhankar Gupta:** And like what would be the clarity on the timelines with regard to both U.S. and UK deal. Like will we be seeing any goodness in calendar year '27 with regards to UK or U.S. according to you?
- V. Balaji:** So, see, with respect to guidance, we have included that the trade deal will be considered and we will have a U.S. business restuck. So, the guidance has been given with the INR 2,000 crores top line is based on the deal.
- S. Chenduran:** It is based on the U.S., but I don't think we've taken into account the UK FTA in the guidance. So, we've taken, consider the U.S. agreement, but not the UK yet.
- P. Sundararajan:** UK is still not through.

- S. Chenduran:** Yes.
- P. Sundararajan:** But we are working on based on filling our capacity. So whatever is the business what we are getting, that will be enough to fill our capacity, which will fit this kind of volume. The guideline is INR 2,000 crores, considering all the situation, U.S. and Europe as well as UK. That's the situation now.
- Moderator:** The next question is from the line of Bhavin Chheda from Enam Holding.
- Bhavin Chheda:** Congratulations on a very good set of numbers in difficult environment and strong commentary also on FY'27. So a very good detailed presentation, it includes every division's data. Just from your opening remarks, you indicated a weak quarter four. Why is that when quarter three has been decent, has been growing and the margin is there. So anything specific you're saying the recovery would happen from quarter one or quarter two?
- P. Sundararajan:** American customers have slowed down their order placing. And in fact, in Q4 shipments, we have agreed to continue all of a sudden, neither we can stop the production of shipments, nor the customer can completely exit from India and move to other countries. So we both mutually agreed to give some kind of a discount to them to maintain the continuity. So definitely, that kind of the orders are under production in Q4.
- And Q1 FY27, they were not prepared for placing orders because they already decided to move the business from India. The main since the tariff reversal has happened. So now they have now geared us to place the orders. So in the meantime, we have lost some kind of order placement during the Q1 shipments. So that is the transition quarter, so even now if they start placing the shipment will start from Q2.
- Bhavin Chheda:** So basically, you're saying you accepted less orders since initially the tariff was there. So some top line and margin could be impacted. But 25% margin has been taken off. So that hit won't come to the EBITDA margin in quarter four, right?
- V. Balaji:** Both in terms of revenue and also on the bottom line. There have been a couple of orders which we have negated because of huge deep discounts that the customers are asking for
- S. Chenduran:** Sorry, I can explain. So from a U.S. perspective on Young Brand where we had given discounts and the customers were holding back on some of the orders for Q4, knowing that the tariff reversal will happen. So it has been a bit slow for this quarter. And Q1FY26 onwards, now they are pushing the orders back again.
- So we will have a bit of impact because of them holding to place the orders because they were unsure about how it was going to move. But Q1 onwards, we will see the growth and the improvement in terms of the numbers.
- Bhavin Chheda:** I understand it used to be only 10%- 11% of your overall turnover, right?

- S. Chenduran:** On the Young Brand, it's almost 85% of the turnover. So collectively, if we have consolidated it should be 25%, Balaji, correct me if I'm wrong. The U.S. contribution on the entire business.
- Bhavin Chheda:** Young Brand, you are saying 40%?
- S. Chenduran:** No, Young Brand 85%.
- V. Balaji:** Young Brand and SP Apparels put together, our U.S. exposure is less than 25%. So it should be roughly around 23% to 25%.
- Bhavin Chheda:** Okay. So that some part of the business could have got impacted in the last quarter, but it would recover going forward?
- V. Balaji:** Yes. Q1, we are expecting the recovery to happen. And post Q1, I guess Q2 will be the optimum time where you will find all the orders reinstated and then kicking off from there on.
- Bhavin Chheda:** Okay. So Young Brand, you have reported an EBITDA margin of almost 22%. Q2, it was 15%. So it has improved substantially. Probably you are saying because the U.S. part is much more, Q4, it could be less, but it will remain, since the tariff has been taken off, again, next year, it would remain upwards of 20% as things normalize?
- V. Balaji:** Sir, I'm again telling you our guidance is Garment division, we are guiding for 15% EBITDA margin, including Young Brand, SP Apparel and the Sri Lanka business. All put together, we are guiding for 15%.
- Bhavin Chheda:** Okay. The mix could be different, but overall blended basis, you are confident?
- V. Balaji:** It may vary from quarter-to-quarter, but on a consolidated basis, it will have, the garmenting division will have 15% margin.
- Bhavin Chheda:** Yes, sure. And sir, next year, since Sri Lanka major capacity would start by the year-end. So in terms of utilization, normally ramp-up takes how much time and when can we achieve, say, optimum 80%-90% on the Sri Lanka facility? Normally, it would be second year, third year?
- P.V. JEEVA:** Actually, we have four factories. Out of that for three factories, we can ramp up the capacity from Q3. From Q3 as per our plan, it will be around 100% utilization for three factories and one factory it will take another six months' time.
- Moderator:** The next question is from the line of Pranav from Rare Enterprises.
- Pranav:** Sir, can you just spend some time on highlighting, will we gain market share in after EU FTA against, say, Bangladesh, Vietnam, China, etc.? And how does that market look? And how are we taking efforts to seed that market with new accounts, new customers and new SKUs?
- P. Sundararajan:** For the American business, you're talking about, right?

- Prnav:** Europe after EU FTA.
- P. Sundararajan:** Yes. Definitely because of this trade deal agreement for FTA, definitely, India is the most preferred country for all the Europeans and the UK customers, which we are already seeing the benefit by the new customers are coming in and they are talking about the capacities for new businesses, but still the developing is very, very positive.
- And the focus because Bangladesh is something that what we hear from the market of the brand, they would like if not reduce the business in Bangladesh, at least they will not place more orders in Bangladesh as a part of risk mitigation. So those additional business and some of the businesses if they want to reduce from Bangladesh will come to India only.
- And it is up to us whether it comes to us, we are treating Sri Lanka India as one part. So, we will decide how much we will produce in Sri Lanka, how much we produce in India. So, we look at the India, Sri Lanka as one part in terms of our retail customers.
- Moderator:** We move on to the next question that is from the line of Yash Bajaj from Lucky Investments.
- Yash Bajaj:** Sir, my first question is this quarter, what would be the number of machines across India standalone Sri Lanka and Young Brand?
- V. Balaji:** So, in terms of machines utilization, we were closely around 4,200 machines in India and 280 machines in Sri Lanka and 1,100 machines in Young Brand utilization.
- Yash Bajaj:** And the installed, have we added any machines this quarter?
- V. Balaji:** Yes. This quarter, we have added 700 machines. We don't want to give all the machine details in the presentation purely because of the strategy of the company. We don't want to provide any other data in the presentation. So we have not shared any data there. This quarter, we added 700 machines.
- Yash Bajaj:** And sir, so we had kind of held back our plans in terms of adding machines in the Young Brand business because of the U.S. tariff issue. Now that the tariff issue, we have gotten some clarity regarding that. So are we back on adding the planned machinery, machine addition, which we were thinking of in FY27 as well?
- S. Chenduran:** Yes. So I think as we said in the initial opening remarks, there are plans to expand or restart that project in Salem with for Young brand in terms of expansion. For this, the coming financial year, it would be around 150 machines effective running, but that can scale up to 350 machines by the end of the next financial year.
- Yash Bajaj:** And my second question is on the Sri Lanka business. Last quarter, we had highlighted that we would achieve close to INR 50 crores of business this year. So are we on track this year for Sri Lanka business to achieve that number?

V. Balaji: For the first nine months, we have done INR 37 crores on the Sri Lanka business, and we expect to go up to INR 50 crores this financial year.

Yash Bajaj: And my third question is on the Young Brand business. We have witnessed a very good gross margin expansion this quarter. I mean, considering that there was U.S. tariff issue and all that, you would expect that the gross margins could have impacted. So, any reason we have had such a healthy gross margin expansion of 300 basis points?

S. Chenduran: So I can explain Balaji?

V. Balaji: So in terms of the gross margin, if you look at the current quarter, last quarter was, because we have agreed to certain discount. This quarter, we have passed on certain discounts to the customer and suppliers. So there are improved margins. And moreover, the customers have requested for a discount, which we have given earlier to be passed on to the suppliers.

So that is why the margin is a little better this year, this quarter. So we expect the margins with respect to YBAPL at an EBITDA margin of 15 to 18% Quarter-to-quarter, it may vary. But yearly, we expect it to be around 15 to 18%

P. Sundararajan: Do you want to say anything?

S. Chenduran: Yes, pretty much on that a lot. Not every, all the discounts brought through the customers happened in Q3. A lot of those will be in Q4. Q3 had only November, December effectively in terms of the impact of discounts. And as Mr. Balaji said, those were passed on to the raw material suppliers as well. So we had better raw material prices. And I think there was a bit of rupee depreciation helped to an extent as well.

Yash Bajaj: Okay. Understood. And the last final question is on the SP UK business, which we are planning in the next two years. In your initial commentary, you mentioned that we'll be planning to reach INR 200 crores kind of business in that. So can you help us understand what is leading to this kind of optimism for kind of generating that kind of business in that segment? And at that scale, what kind of margin and working capital requirement would be there?

P. Sundararajan: Yes, with regard to SPUK, the sudden growth expected as per the guidance is because definitely the existing customers, they are observing our business model moving from, as I used to say before, from Leicester to London and setting up entirely the new team with designers and everything. So the customers waiting to watch and see how we have settled down in the UK.

And the last few quarters, we have performed and our prices are acceptable, product development, design support, everything they are extremely happy. So now they openly they have told our team in the UK that, yes, we can do most of our departments, we are consolidating our suppliers and we are in the top four of our vendor list.

So, they have given a guidance of this is the kind of volume, one customer is giving about INR 80 crores, and another one is about INR 80 crores, and we are adding another one or two more new customers.

So putting all together, the major business comes from the existing customers, which means it should happen. There should not be, there is no reason why it cannot happen. And then with regard to the margin, it's a trading model, the fixed expenses are there. So we are working towards achieving 4% at the EBITDA level.

- Yash Bajaj:** Got it. And the working capital required for this would be?
- V. Balaji:** So working, it's a trading business. The working capital should not be a big requirement. As such, we take some suppliers 45 days credit to 60 days with certain suppliers. And it will be a requirement of one month turnover only for working capital. So it's a high ROCE business.
- Moderator:** The next question is from the line of Prerna Jhunjhunwala from Elara Securities.
- Prerna Jhunjhunwala:** Congratulations on strong set of numbers. Just wanted to understand on your machine addition plans, are we on track of the numbers that you have guided in the past to add machines?
- V. Balaji:** See, with respect to number of machines to be added in this financial year, we have guided for 1,000 machines, and we have already added 700. But because of this U.S. tariff, we have slowed down even, we have closed a couple of factories which we have started. So currently, we look at maybe two quarters that could be an extension of the addition of machines. But I guess we are on track.
- P.V. JEEVA:** But the position what Chairman has given to you, it is based on the existing available machines. So there won't be any increase of machines for this year.
- Prerna Jhunjhunwala:** Okay. And for FY27-28, given there is some more clarity on trade deals and stuff coming in. So can we see that also going as per track as discussed earlier?
- V. Balaji:** Prerna, it's hardly 15 days since the trade deal has happened. And so many things every day, there is a new update on certain things. Today, our commerce minister said that even India will get a 0% trade. I mean similar to Bangladesh on cotton bought from U.S. So, FY27-28, I guess that will be very tough to look at. But we have been adding machines, and we still have good amount of headroom to improve our utilization level even though when the trade deals happen.
- P. Sundararajan:** This is existing setup. There is no plan for new projects or new acquisitions.
- Prerna Jhunjhunwala:** Okay. And sir, what about Sri Lanka, there are we planning? You mentioned about one more factory to be added. So where should we reach in Sri Lanka because there is no tariff?
- V. Balaji:** We have already added four factories. So now we are at close to 1,650 machines in Sri Lanka. So, I think by March, we will have these 1,650 machines, and we can add more machines in the same factory. So, adding machines is not an issue. So, we are in line with whatever guidance that we have given for FY27.
- Moderator:** The next question is from the line of Bhavika Jain from Niveshaay Investment.

Bhavika Jain: Sir, I want a bit understanding on the tariff duty. So basically, as per my understanding, like we have 18% reciprocal tariff. So do we have to pay like in total 30% or it's going to be the total 18%? And along with this, I also want to know like there was a threshold of 20%, like there is a relief from U.S. initially, where if we have a U.S. origin material somewhere about 20%, then we get some relief on the tariff duty.

So just want to understand if we, like SP Apparel were enjoying that relief by using U.S. cotton or like if you can give me understanding on that? And the second question I have related to the recent Bangladesh deal on the U.S. import. So sir, I just want to understand because as now we are having the tariff advantage and also we export to U.S. also.

So are we planning to use the U.S. because the talks which are going on about the same clause which India will get. So are we looking to take advantage of that? Or just want to understand the Indian cotton market scenario?

P. Sundararajan: First of all, this U.S. cotton using U.S. cotton for zero tariff it is a deal, but it is not attractive. Because the American cotton is much more expensive when it landed, it will be at par with the duty paid for other Indian cotton or something. So, there is no big difference unless and until any customers from the U.S. insist for American cotton, there is no big advantage.

We don't see any big advantage. So even if it comes to India, India is anyway we are strong in the cotton, and I don't think we will look at the American cotton unless the customers ask for it. And there will not be any cost benefit.

V. Balaji: On your first question, I guess 18% is a reciprocal tariff. So already there is a duty which the retailers are paying. And over and above that is a reciprocal tariff. So, this reciprocal tariff is 12% plus 18% will put together 30% duty on the Indian imports. So that's the kind of impact that the retailers will have.

Bhavika Jain: And follow-up question on Bangladesh. So as per my understanding, the Europe Bangladesh deal, which is going to end because they are now in the developing country status, Bangladesh. So what you see like do you see having any advantage from that side in terms of like customer acquisition from Europe from, because Bangladesh losing the customers from that because of the deal going to end?

P. Sundararajan: In Bangladesh, what article I read today is that it says that American cotton is so expensive. This is what I told you before. So even if they import that American cotton and reexport it. The landed cost is going to be the same unless otherwise any customer from America is insisting for using American cotton.

Otherwise, I don't think Bangladesh will opt for the American ones. There are so many things. They have to buy bulk and feed the stock where they can get from China or India in a short period and also flexible.

Bhavika Jain: Sorry to interrupt you. My question is related to the Europe and Bangladesh deal. The deal they have right now of duty free going to end. So that thing, I want your understanding?

- P. Sundararajan:** So, we will be at par with Bangladesh as well as Sri Lanka like other countries. We will be better placed as against Bangladesh. We expect the country expects more business coming from EU and U.K.
- Bhavika Jain:** Okay thank you sir.
- Moderator:** Thank you. The next question is from the line of Rupesh Tatiya from Long Equity Partners. Please go ahead.
- Rupesh Tatiya:** Hello, sir. Thank you for the opportunity. I have two questions. So, first question, is on the parent business, standalone business, how are we looking at the U.S. growth now that all the uncertainty is gone? Can U.S. become, I mean, it's fairly large market. So can it become 20%, 30% of our revenue in two, three years? So that is question number one.
- And second question, sir, is, again, on standalone business only is our fixed asset turns, I find a little bit on a lower side. So maybe if you can explain why are they low? And how can we improve the fixed asset turns? Because margin, we are guiding 15%-16%, I mean and not like 20%. So at least then I was hoping that the asset turns will go up. So, these are the two questions.
- P.V. JEEVA:** I'll answer question number one. U.S. market, yes, there has been a dip in Q4 and Q1 also. The existing customer, they started looking at India and we'll be maintaining the same percentage of 15% to 17%. And we are adding one more customer in U.S. So if we consider that the U.S. business will increase to 20 plus for the year FY27.
- V. Balaji:** With respect to your question on the fixed asset turns, so SPAL, it is backward integrated, the investment gone into our two spinning plants, dyeing plant is not reflecting in the margins because of the cotton prices movement. But once the U.S. business revives, I think the yarn realization will be up, and we should see the margins going up.
- For FY26-27, we estimate only 15% is purely because of the impact of the U.S. coming late in the second half. So, once the U.S. business revives, our spinning plant and the dye plant will be fully utilized, and they will also be yielding more margins, which will improve the margins on a standalone basis.
- Rupesh Tatiya:** That's helpful, sir. Just one follow-up on the first question. My question is a little bit broader in the sense that, I mean, you have two customers, you're adding one customer. But given the landscape now, I mean, why can we not add, let's say, 10 customers in next two, three years? It is a little broader question?
- V. Balaji:** So, you need to be clear. I guess your question is not clear.
- Rupesh Tatiya:** I mean why are we, let me put it this way, why are we a little bit cautious on the U.S. growth given now the trade deal and competitive advantage against China and some of these other things? Why are we still slightly cautious on the U.S. growth?

V. Balaji: Currently, our contribution is quite very low with U.S., and we are improving on the U.S. So, we are moving from 10% to 20% in the standalone business. And we are also reducing the contribution of U.S. in Young Brand by adding two more U.K.-based customers.

So we are looking at a balanced customer base like next year, we may have 20%. Next year, we may increase it by another 5%. So we would stick to a balanced approach of U.S., U.K. and Europe. That will be our strategy.

Rupesh Tatiya: Okay. Thank you for the answering my questions.

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

Bharat Sheth: Hi, sir. Good morning and congratulations. Sir, my question is related to Sri Lanka. How do we are looking beyond, I mean, FY27?

P. Sundararajan: Beyond FY27, it looks very prospective and very potential Sri Lanka. We have been very confident in the way the things are happening in Sri Lanka because the labour force is available and the efficiency skill is good and it's EU duty-free and U.K. duty free.

And and it's not too far from place from Tamil Nadu. So, we don't see any, we treat this as one of our other Tamil Nadu factories like extended factory of Tamil Nadu. That's how we see it.

Their way of working very much to our way of working and are open to change our way of working. And customers also are not hesitating or reluctant to give more businesses into Sri Lanka. So what they say the customers say SPAL India, Sri Lanka, is one and the same for them.

And the capacity, there are good possibilities of increasing the capacities in the four factories what we have acquired. So, we can increase another about 500 machines over a period of two, three years. So, it's not an issue. We look at it as a very potential one and the great future.

Bharat Sheth: Sir, my second question, are we looking at different product than the existing product range like Sri Lanka has a much better, capability in lingerie. So are we really evaluating or we have already started manufacturing that?

P.V. JEEVA: It's not that we have just started manufacturing, but we are looking at the special products, even we are focusing on woven in Sri Lanka also. We are approaching customers to increase the woven business.

P. Sundararajan: And not only that is more flexible Sri Lanka because they all are multiskilled, they can handle all kind of fabric, woven or polyester or or modal or cotton and style ladies, fashion or undergarments or babies. So, they are so versatile, all the factories in Sri Lanka. And not only that now that the UK has given, and also EU, I think, they have given one more scheme is that they import fabric from anywhere in the world and they are getting duty-free into UK.

Previously, if it is from China, they used to import 12% duty. Now they have removed everything. They can source import from any country and they re-export it duty free. So which is a big advantage where we can get some orders of China-based fabric also.

- Moderator:** The next question is from the line of Anant from Mount Infra Finance.
- Anant:** I just have a small question. I have a question regarding the share of loss from an associate company, which associate company will this be because this is just coming in FY26. So is this, I think Sri Lanka and SPUK and SP Retail have been consolidated. So I'm just trying to understand which associate company would this be?
- V. Balaji:** So, with respect to associate company, it is Sri Lanka operations comes under the associate company. But on the UK and Retail, it's all in the consolidated revenue. So associate company is purely on the operations from the Sri Lankan company.
- Anant:** So, can you explain your setting in Sri Lanka, are you out purchasing companies? Or are you partnering with factories in Sri Lanka?
- V. Balaji:** So in the associate company in Sri Lanka, the foreign companies are not allowed to own the land. So what we have done is that we started an associate company and we have extended loan to that associate company for the purpose of buying all the assets in that associate company. So in the related party transaction, we see an ECB extended from S.P. Apparel to the associate company.
- Anant:** And this associate company would be headquartered in Sri Lanka or would have origin in Sri Lanka?
- V. Balaji:** Correct.
- Moderator:** The next question is from the Bharat Gulati from Dalal & Broacha.
- Bharat Gulati:** Just trying to understand that our current capacities that we have available for operation in India, it's at about 4,200 machines. So, I'm a little confused. Our presentation talks about close to 5,000 machines as of FY25, but currently 4,200 plus you've added 700 machines. So, has there been a shutdown of a lot of machines?
- V. Balaji:** So, 4,200 machines is the utilization. And every factory has got some unutilized machines. And moreover, when we spoke in the beginning, we have closed down a couple of factories due to the U.S. tariff issue.
- P. Sundararajan:** Mainly planned for US orders.
- Bharat Gulati:** Got it. So, sir, just would it be able to quantify how many machines are there today available to us in our respective geographies that you are guiding for the INR 2,000 crores of top line. So how many machines are there operational for that guidance to be achieved?

- V. Balaji:** Operational machine details, I guess you can reach out to our IR and collect data.
- Bharat Gulati:** Sure, sir. Just one last question, sir. So, if I just do a kind of reverse calculation of our India utilization and the volume shipped for the quarter, I arrive at about 103 million pieces for the entire year. So, would that be fair that we have a current capacity of 103 million pieces to be available to be shipped from India currently?
- V. Balaji:** So, we usually don't go by the number of pieces that we produce because if you produce children garments, it will be different. If you do fashion design products, it will be different. So, it differs. So, we don't go by number of pieces. Roughly around our capacity, we should be doing roughly around.
- P. Sundararajan:** We run the full capacity of about 5,000 machines; we will be doing close to INR 1,200 crores.
- V. Balaji:** Of exports alone.
- P. Sundararajan:** Exports alone.
- Bharat Gulati:** Got it. So, INR 1,200 crores of exports would be from the 95% kind of utilization that we plan to achieve next year in our current capacity?
- P. Sundararajan:** Correct, correct.
- Bharat Gulati:** Got it. And Young Brand, sir, if you can just give a broad understanding of, will we see a growing trend take place in Young Brand next year in terms of revenue top line? Or will it be flattish? Like how do we look at that?
- S. Chenduran:** So with regards to Young Brand for next financial year, there will be a growth. Again, as we've guided normally between 15% to 20%. So definitely, that kind of a growth will be there. But to have the full impact of the growth will come in the next financial year with the Salem project fully running. But there will be better utilization and as we said, we are adding customers as well, even UK customers to Young Brand. So there will be a growth compared to this year.
- Bharat Gulati:** Fair enough, sir. So just to get a broad understanding that there would be no capex for next year going forward, we will be doing all this capex for Salem and for India closing this financial year, right?
- S. Chenduran:** Yes.
- V. Balaji:** With respect to capex, we are planning to have some maintenance capex, which will be roughly around INR 10 crores to INR 15 crores every year. And as a part of sustainability, we will be investing into the solar, which Chairman has given in the beginning of his speech, that could be costing us another INR 10 crores. And around expansion could be reinstating whatever in young brand we spoke about the project could cost us another INR 5 crores. So roughly around INR 30 crores for capex next financial year.

Bharat Gulati: Got it. So, no major expansion capex.

Moderator: Thank you. Ladies and gentlemen, due to the time constraint, this will be the last question. I now hand the conference over to the management for the closing comments.

P. Sundararajan: Thank you all for the participants, and I'd like to thank everyone for showing interest in this company. And I hope we were able to answer to all the questions up to your expectations. And we still expect your support as you have been all the time. And we still stay confident about our growth plan and growth path, and we seem to be having a very strong plan. And thank you once again for having confidence in this company. Thank you.

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