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Sub: Transcript of the Conference call held on 16th August 2023	

Dear Sir/Madam,

With reference to our letter dated 09th August 2023, intimation about the conference call with Analyst/ Investor held on 16th August 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

"SP Apparels Limited
Q1 FY2024 Earnings Conference Call"

August 16, 2023

ANALYST: **MS. PRERNA JHUNJHUNWALA – ELARA SECURITIES PRIVATE LIMITED**

MANAGEMENT: **MR. P. SUNDARARAJAN – CHAIRMAN & MANAGING DIRECTOR - SP APPARELS LIMITED**
MRS. S. SHANTA – JOINT MANAGING DIRECTOR - SP APPARELS LIMITED
MR. S. CHENDURAN – JOINT MANAGING DIRECTOR - SP APPARELS LIMITED
MRS. S. LATHA – EXECUTIVE DIRECTOR - SP APPARELS LIMITED
MRS. P.V. JEEVA – CHIEF EXECUTIVE OFFICER - SP APPARELS LIMITED
MR. V. BALAJI – CHIEF FINANCIAL OFFICER - SP APPARELS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the SP Apparels Q1 FY2024 Earnings Conference Call hosted by Elara Securities India Private Limited. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone 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 and over to you Madam!

Prerna Jhunjhunwala: Thank you, Lizan. Good afternoon everyone. On behalf of Elara Securities Private Limited, I would like to welcome you all to Q1 FY2024 post results conference call and business update call of SP Apparels Limited. Today we have with us the senior management of the company including Mr. P. Sundararajan, Chairman & Managing Director, Mrs. S. Shantha. Joint Managing Director, Mr. Chenduran, Joint Managing Director, Mrs. S. Latha, Executive Director, Mrs P. V. Jeeva, Chief Executive Officer, Mr. V. Balaji, Chief Financial Officer of the company. Without taking much time, I would now like to hand over the call to Mr. P Sundararajan for opening remarks. Thank you and over to you, Sir!

P Sundararajan: Thank you. Good afternoon everyone and very warm greetings to all of you who are present on the call to discuss Q1 FY2024 performance. I hope and wish that all of you are hail and healthy. At the outset I am happy to share with you that the board of directors in the meeting has recommended a dividend of Rs. 3 per share which is 30% on the face value of the share. With regards to garment division, before getting into the financial performance of garment division of Q1 FY2024, I would like to update you on the latest development in this industry. Firstly, regarding the FTA, this is the latest information that the 12th round of discussion has been going on now. The team has come from UK to India and hoping that the latest message says that by end of August, FTA will be signed off that is what the information we have received. Secondly, with regard to the demand scenario, slowly the market is picking up, although there is still recession on account of Russia-Ukraine war. As I mentioned the previous calls also there are consolidations happening from the retailers' side, so which means that they want to reduce the number of suppliers and consolidate the long-standing good performance to increase the distance with them. In addition to that China Plus One is working out. All the retailers are seriously working on China Plus One strategy where in addition to China business they would also like to have one more country or more than one country to mitigate the risk and for gradual exit to a great extent from China business. So once that comes probably the things will be better now. We as a company, we stand to gain to take the advantages because our customers are longstanding customers. So the consolidation is in our favor now.

Thirdly, the market balance volatility with regard to cotton prices and the yarn prices. Still, the cotton prices slowly which has stabilized now, and the yarn price is slowly picking up because the orders have started coming from the customers now. So at the moment the cotton and yarn prices are more or less breaking even kind of a situation, so currently this has been stabilized. With regards to the currency, on the currency front hopefully we are seeing US dollars, GBP, and Euro strengthening against the Indian rupee and we are also witnessing a significant increase in the interest rate in US, UK and the Euro which is not allowing us to use our working capital effectively.

An update on the garment division is as part of our new strategy on expansion, we are pursuing to set up a company in Sri Lanka which will help us to expand our capacities in Sri Lanka in addition to our existing efforts to increase the existing setup. But this model will be asset light model, which will allow us to expand our capacities as much as possible in Sri Lanka. In addition, as a part of the expansion strategically, I would like to update you all that we are in the process of growing our capacities in the woven garment sector. We are on the lookout to add more capacity in this segment by looking at some woven garment factories as an additional capacity. Our current order book is around Rs.425 crores. Our capacity utilization has improved significantly, and our current utilization is 3,900 machines and is around close to 80% utilization levels.

On the financial performance of the garment division, our garment division revenue for the quarter was Rs. 213 crores compared to Rs. 223 crores in Q1 FY2023. Total export quantities for Q1 FY2024 were 14.4 million pieces. Our adjusted EBITDA for the garment segment in Q1 FY2024 was Rs. 35 crores compared to Rs. 48 crores in Q1 FY2023. EBITDA margins stood at 16.3% largely on account of the pressure on the raw material prices. In spite of our current margin, we are hopeful that our margin will be hopefully above 18% in the coming quarters. With regards to the spinning division, spinning mills are not making margins due to less demand of the yarn in the market. The cotton prices have now stabilized, hope it will sustain. I am confident that our spinning units will overcome the challenges and will contribute to the margin from the current quarter onwards. SPUK there were lot of strategic changes being done, such as shifting office to London, and the change of the team which has now settled. The new team will take things forward in the coming years. I expect the revenue to pick up from second half of the financial year and should do well going forward. We are planning to add two more new customers to the SPUK business. Revenue for the quarter stood at GBP 1.4 million and EBITDA we have made losses to the tune of GBP 50,000. I am confident that SPUK will be able to work closely with the customers and will be able to do well going forward. With regards to SP Retail Ventures Limited, in general Q1 FY2024 has been bad for the entire retail industry. Our top line remains flat at Rs. 15 crores with an EBITDA loss of around Rs. 4.5 crores. Current liquidity, our liquidity position is strong, and we have serviced all the debt up to date. Now I will hand over to CFO for financial presentation. Thank you.

V Balaji: Our adjusted revenues stood at Rs. 242 crores and adjusted EBITDA stood at Rs. 35 crores and our PAT stood at Rs. 15 crores over the current quarter. We made an EPS of Rs. 5.99 on the EPS front. On the segmental reporting like the garment divisions did a top line of Rs. 213 crores and 16.3% on the EBITDA which is around Rs. 34.7 crores on the EBITDA number. On SPUK we did Rs. 14.8 crores top line where we have made EBITDA losses in SPUK. On SP Retail Ventures we have done Rs. 15 cores of top line with Rs. 4.5 crores of EBITDA loss. On the debt front, our gross debt stood at Rs. 191 crores, now next debt is Rs. 120 crores for the current quarter. We have utilized our working capital probably because the risk had changed in the interest rates in UK and US where the interest has gone up, so our working capital has increased. Other information is available in the presentation, and we can get into the question and answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin with a question-and-answer session. The first question is from the line of Aman Agarwal from Carnelian Asset Management. Please go ahead.

Aman Agarwal: Sir thank you for the opportunity. The first question was on the Sri Lankan subsidiary. We are incorporating a new subsidiary so are we planning to have manufacturing operations in Sri Lanka also in the future for garments like if you can explain a bit more.

P Sundararajan: See the kind of manufacturing we are looking for; we have short listed some factory and in consultation with the customers we will be going ahead with that. This is going to help us. We are looking at the running factory so straight away we will get additional capacity probably if everything goes well, they will be up and running from Q4, late part of Q4 or up and running from Q1 FY2025.

Aman Agarwal: Just wanted to understand will this be in the kids category, which we are predominantly present and are we looking to get into any new category with this acquisition in the Sri Lanka?

P Sundararajan: We are already into jersey product, and we are going to go for woven that we will also add within India as well as in Sri Lanka. In addition to this, even for the mixed products, we may be going for the kids and babies, and we are not ruling out the ladies and men’s wear because those factories are versatile for any kind of product.

Aman Agarwal: Understood Sir. Sir one more thing like on the capacity utilization, we have guided for 90% kind of utilization by end of this year, right so what kind of labour addition we are looking for to achieve this kind of utilization?

P Sundararajan: If it is for 90% then we should we cross about 4,500 to 4,800. Labour initiative that is an ongoing process. As we mentioned in the past calls that we are mobilizing workforce from the migrant other states also, and in addition to that there is one new project is coming up in Tamil Nadu. So all put together probably we will be able to reach 90%.

Aman Agarwal: Got it Sir. Sir one question on the exchange loss, like this quarter we have incurred a loss of around Rs. 5 crores in foreign exchange right realized losses. So if you can explain like why this happened and like any outlook on exchange gains or losses for the future like for the rest part of FY2024.

V Balaji: Aman the exchange gain or loss happens because of the spot moments. Sales are booked on the spot rate. And the coverage covers or forward contracts are taken from the date of order which we have taken, so there will be always moment in terms of positive and negative because spot keeps moving regularly. So whenever Rupee is depreciating you will find this as negative and whenever rupee is appreciating you will find it as positive, so this is how it works.

Aman Agarwal: Got it Sir. I will get back in the queue Sir, thank you.

Moderator: Thank you. The next question is from the line of Surya Narayan from Sunidhi Securities. Please go ahead.

Surya Narayan: Sir thank you for giving me the opportunity. So just to understand the Sri Lankan operation, so what is labour differential of the arbitrage India versus Sri Lanka.

P Sundararajan: See in India this has always a challenge, but we are able to grow there, but Sri Lanka these problems are less because the factories are ideal for the month of August, and this is the right time we get into Sir Lankan manufacturing set up when the factories are already running with full workforce. So, we have identified some full workforce because getting the workforce in Sri Lanka as much challengeable as in India, so we thought we will make use of this opportunity.

Surya Narayan: Any ballpark figure on the budget side I mean as far as buy out is concerned and the labour size you want to deploy there.

V Balaji: I think discussing on Sri Lankan operations it will be too early for us to discuss on numbers and capacities and other things because we have to get the customer clearances before getting into the capacity and other things so that may take some time for us to come out with details on that, maybe will let you know once there is concrete data, we will let you know on that.

Surya Narayan: So internally no budget has been fixed.

V Balaji: If you look at chairman speech, he said that will be an asset light model. For the time being we are not looking at any expansion in Sri Lanka. We are only looking for factory on lease basis or on a contract basis as of now. Once we are comfortable with the operations then we will look at putting up projects there.

Surya Narayan: And Sir regarding you migration or let us say adoption into the woven segment so are you facing any challenges on the knit side so that we want to mitigate risk from the woven side.

P Sundararajan: Generally now in India in the fashion industry so now there are more demand for the woven products and since the customers are consolidating business, most of the factory business is coming to us so they are expecting us to do the woven garment as well. But our existing set up cannot do those things because already we have enough orders for existing factory, so unless we look for another factory which is real typical woven factory so that we do not lose that business in addition.

Surya Narayan: So in that case our own internal knitting unit will be underutilized am I right Sir.

P Sundararajan: No, this is additional business.

Surya Narayan: We do not see any sort of disruption in the existing demand from the knitting side?

P Sundararajan: Yes, we are working on it. We are already on the process so probably in the next quarter we will be able to update you on this. Only then we will start taking woven orders.

Surya Narayan: And Sir regarding the retail and SPUK still this year will be work in progress so far as the turnaround is concerned.

P Sundararajan: See SPUK is only a temporary phenomenon. Post COVID effect will hit SPUK as well as the retail only after about four quarters to six quarters because only immediate impact will be on the manufacturing but otherwise for the trading model it will take about a few quarters to have the impact on this. So now in the SPUK we have already moved our set up, their design department and the sales team everything to London now. It has all been set and up and running now. So probably from Q3 onwards they will be back to normal. We will start making profits on this. These two quarters literally we had revamped the whole thing so that is the reason why there has been fixed expenses are there, but the real top line has not grown.

Surya Narayan: Okay and Sir about the local retail.

P Sundararajan: What is the question about local retail sorry?

Surya Narayan: My question was about the turnaround of both units; I mean Sir has told about the SPUK and the domestic retail your perspective about the turnaround.

Mr. S. Chenduran: Domestic retail among the three brands that we currently operate Crocodile has been consistently profitable and it has turned around, so even Q1 Crocodile has done good numbers but the major impact has been from the kids wear where the gross margins are lower because of these smaller volume and some marketing preoperative expenses for new standalone stores and there has been some liquidation which happened on the Head front which may be in the next two quarters we will be able to come out of that but Crocodile has been growing. So Q3 onwards Crocodile will support both the other two brands and it will turn around.

Surya Narayan: What I am saying is that primarily we are kids wear company and Crocodile is adults wear company so, is it that slowdown is happening in the kids wear at the moment because we feel the kids wear should be having a secular growth but that is not panning out what you are saying, or you are facing competition?

P Sundararajan: I think it has got nothing to do with export division. Retail is a separate business model. We have a new brand called Angel & Rocket for the domestic purpose it has got nothing do with our manufacturing set up, so it is in the incubatory period kind of thing so this means it will take another two years to start making profits because only three years over now and at the moment we have taken this business immediately within one month the lockdown came, the pandemic came so we last two years of that so we were held up with the stock, sitting with a huge stock, so slowly we are liquidating everything so now only we start buying the new stocks and going to the market. So as JMD stand by end of this financial year the overall retail, we will be able to turn around.

Surya Narayan: So how much additional capital allocation will be required in the retail this year?

V Balaji: We have tied up with banks for retail so I think they will take care of their internal requirement from the working capital.

P Sundararajan: There is no need for any growth funding because we are not planning to have a big growth in the retail.

Surya Narayan: Any merchant sale in the cotton yarn you are doing? Any external sale of cotton yarn?

V Balaji: We have our captive plant whenever there is an excess quantity that is available, we sell it in the domestic market. It does not happen regularly.

P Sundararajan: It is purely for captive only.

Surya Narayan: Okay and when you are expecting the realization to improve because now currently the realization is below last year and currently the cotton has again picked up from 55,000 it is close to around 60,000 per candy so are we seeing any negotiation to arrest the fall in the realization?

V Balaji: See in terms of cotton prices we are a company where we pass on the cotton cost to the customer. So if you compare Q4 versus Q1 we have come down on the realization that is purely because it is the behavior of the yarn prices which has come down, so you should not confuse in terms of realization.

Surya Narayan: So shall we mean that realization in Q1 that is around Rs.135 so that is the bottom.

V Balaji: It may come down still because the of orders which we have taken, the current orders which we are having in hand is around Rs.130, Rs.129 only, so it all depends on the current yarn prices.

Surya Narayan: Because my sense is that unless and until the destocking issues that are being debated that has improved, we cannot get higher realization, is my reading right?

V Balaji: You may be correct to a business model where it is purely dependent on the cotton prices.

P Sundararajan: Cotton price kept going up now but even the yarn prices they have increased by another Rs.10 so trying to match with the cotton price increase as against the yarn prices so we hope that there will not be a big loss in the spinning sector.

Surya Narayan: Okay Sir thank you.

Moderator: Thank you. The next question is from the line of the Vikram Suryavanshi Phillip Capital India Private Limited. Please go ahead.

Vikram Suryavanshi: Some of the questions were already answered. Just wanted the clarity that the new facility what we are looking at Sri Lanka is it possible to shift existing order to new facility and vendors does approve that or we need to take a new orders for new facility?

V Balaji: See in terms of Sri Lanka I think we have just updated you on the strategy.

P Sundararajan: So let me explain to you see this is a strategy we have taken for offshore production because currently this company has got good potential of getting businesses as much as we could increase the capacity from the customer, because we are one of the preferred vendors to our existing customers, and we want to have room for increasing the customer base, so we need to include some new customers as well but it is not in tandem. I mean like the order inflow versus the capacity increase are not in tandem, so what we thought we need to inorganically plan something either in offshore production or acquisition of some factories so that we get the capacities quickly so that was the plan we had. So finally what we thought was why not we think of Sri Lanka offshore production with the existing running factories so we just get the business from the customers, and we will get it produced from the Sri Lankan factories. It is going to be an additional business provided the customers are giving the go ahead for those factories which we do not see that would be a problem. So which means, for example in Q4 we offer them X number of machines but out of Sri Lanka, so definitely the orders for those machines, additional orders will be placed. So it will be part of our total sale. So this is the plan so once the customers give the clearance then we will book the orders and we will be producing it out of Sri Lanka and ship it from Sri Lanka.

Vikram Suryavanshi: Understood and this will predominantly again in the kids segment or these factories are…

P Sundararajan: It is open for all. Those factories are very versatile factories, so depends on customer what product they want us to produce there, based on that we will agree.

Vikram Suryavanshi: Understood that was helpful. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Chirag Shah from White Pine. Please go ahead.

Chirag Shah: Sir my first question was with respect to the number of machines that you indicated of the 900, it is a good jump from a historical range of around 3,500 so is this utilization sustainable or there is seasonality involved in this, that is the first question.

P.V. Jeeva: It will be sustainable because we have orders for another four months in full, so definitely we will be increasing the capacity definitely this will be maintained.

Chirag Shah: Second question was while utilization has gone up the number of pieces has not gone up in that proportion and because ASPs have also gone down so can you just explain this because partly the ASPs are lower because of the raw material prices which you explained so what is the net impact on ASP or number of pieces if you can explain that.

P Sundararajan: The more the utilization level goes up definitely it will help us to increase the top line as well as the bottom line because our fixed cost will definitely be spread across this capacity. This will definitely help us, but this quarter is something which is not really based on the 3,900 machines the Q1, but currently now we are running is around 3,800 to 4,000 around this time. So probably effectively Q3 will be the numbers where you will see the top line growth proportionately as well as the bottom-line growth.

Chirag Shah: Sir what was the number of machines deployed in Q1 if you count 3,900.

V Balaji: Effective utilization for Q1 is 76% which is close to 3,500.

Chirag Shah: Okay close to 3,500, so now you are utilizing 3,900.

V Balaji: Currently utilization is close to 3,900, yes.

Chirag Shah: Okay and this you are reasonably confident of taking it up to 4,500 by end of the year?

P Sundararajan: Yes.

Chirag Shah: Sir the ratio is 2.25 right per machine if I want to convert number of labour, number of work force is it 2.25 the right ratio to use for machine?

P.V. Jeeva: Ratio we are working it now that is all purely based on products.

Chirag Shah: What will be the workforce number?

V Balaji: Currently it should be close to 12,000.

Chirag Shah: Okay it is close to 12,000. Is it 12k for Q1 or 12k for these 3,900 machines?

V Balaji: See we are backward integrated. You have to look at spinning, processing, the embroidery, knitting everything put together so the total number what I am saying is purely a fully integrated so that is the number which you have to look at.

Chirag Shah: Okay and this number will go up when you reach 4,500, right? So it will be closer to something like 13,500 kind of a number?

V Balaji: Correct, correct.

Chirag Shah: Okay Sir second question was given that you are also adding capacity of 2,000 odd machines in the new capacity in India again going back why Sri Lanka is an option you could have chosen to do this kind of work at your new factory also, right Sir.

P Sundararajan: See as I told you we have plans inorganically. See we are putting up a new project, new factory, already the work started, and we are also looking for increasing any possibility of adding the new factory whichever is running for woven garment so that is also within India and third possibility is offshore production. We are trying to manage all the three. We are trying to take all the three options that is one is new projects; another one is any acquisition of the woven garment factory third one is offshore production. So this is why because we have enough capacities and the customers are willing to place more orders, so we cannot simply try to grow 10-15% when this is the right time, the right opportunity to make an attempt and all the things because SP has been ahead so lot of order inflow will be expected and China Plus strategy is also there and the customers are consolidating. So considering all these things, we are just thinking why we should not suddenly increase the capacity, make a big jump in the capacity so that we do not miss the opportunity.

Chirag Shah: Sir in your thought process this offshoring in Sri Lanka either off shoring or a complete buy out kind of an option that you are evaluating, how big this can be in overall scheme of things. It can add what 500 machines, or it could be lower than that.

P Sundararajan: These are running machine so that will depend on the customer concurrence, we will straight away go in with 300 machines and 500 machines. We can increase up 1,000 to 2,000 machines not an issue but that will happen over a period of time.

Chirag Shah: So you are not looking to start with not more than 200-300 machines right that is the right way to look at it.

P Sundararajan: See it is too early to say anything I told you. We have to take the customers concurrence. After that clearance and how many customers are willing for it and what sort of quantities, what style they would like to want us to produce from that, all depends on those decision which means the capacity is open.

Chirag Shah: Okay Sir second question was coming back to the retail business of India. I just wanted to understand how you are looking at it because what are the monitorable or the time zones that you have given to take hard call on that business because we have been trying time and again to rejuvenate the business and I understand opportunity is very big but despite that execution there has been some issues coming across. Management bandwidth is getting blocked over there. Why not focus on woven, Sri Lanka completely rather than focusing on retails so internally have you formed up any timeline any monitorable where you are willing to take hard call.

P Sundararajan: We have a road map of seven quarters to turn around.

S. Chenduran: The road map is we will look at retail as whole with all the three brands in terms of the turnaround. We will look at it for seven more quarters and based on our experience with the Crocodile brand it, it took a lot of time for the brand to reach a level where we have been fully out of issues in terms of profitability, inventory, and receivables, all of those. So it is going to take time and primarily because of the new brands that we had launched specifically during the COVID period but internally we have kept the deliverables and the way of monitoring, and we have given targets where we will have a look at it in say seven more quarters on the retail overall, unless it has turned around, then we will look at other options.

Chirag Shah: Hostel facilities at your existing factories and even the new ones that you are constructing in Sivakasi so what percentage of our revenue can come from those kinds of facilities and what is coming currently and how are you thinking over the next 2-3 years?

P.V. Jeeva: Actually, we are building a factory in Sivakasi. There will not be hostel so it is not outsiders. We are using all local people only and the revenue contribution from the hostel factory at the moment it is about 30-35% and balance 65% from the other factory.

Chirag Shah: Any thought process on increasing this number, how are you looking at it? Are there any specific challenges that you are facing because of which you do not want to raise it up because providing a hostel could be a very good opportunity also to attract the talent right which has been a challenge?

P Sundararajan: No, our strategy as I have been mentioning in all the calls for the India business for our business, we also have three type of business models. One is the local who are commuting from home which is a safe one and another one is the hostel migrant which is always, it is again 1/3 of the total business we are keeping, it is only risk mitigation and the third one urban model, I mean satellite factories where new projects, new set up where there are abundant people are available whom we will train and develop them so like Kovilpatti is the one which is working out very well. So we constantly keep these three models always to mitigate the risk. And now not only for mitigating the risk to increase the capacity quickly we are planning for acquisition of woven factories, and we are planning for offshore production which will bring in more additional capacity immediately. So this is the strategy of our workforce management.

Chirag Shah: Sir would it be a right to make an assumption that wherever you have hostel factories the turnover of the labour is lower than the other two factories, would it be the right assumption of not necessary?

P Sundararajan: Generally the hostel factories attribution is comparatively higher.

Chirag Shah: Higher.

P Sundararajan: Yes, because they are all migrants.

Chirag Shah: Okay that was the reason why it is higher okay, and Sir lastly any capital allocated for the acquisition of the woven factory any thought process over there? What kind of size, what kind of capital you want to invest.

P Sundararajan: It is too early to discuss on this thing, just at early stage.

Chirag Shah: Okay great. Thank you and all the best.

Moderator: The next question is from the line of Prerna Jhunjhunwala. Please go ahead.

Prerna Jhunjhunwala: Hi thank you. Sir just wanted to understand this demand up scale that is happening and you are getting good orders from customers. So could you give some colour on how the demand coming in from existing or is it demand ramp up from new clients as well and how your customers concentration is changing and is likely to change over the next two years.

P Sundararajan: This is purely because of the consolidation. See all the retailers, everybody no exception, everyone wants two things one is reduce the number of suppliers based on the performances and the longevity of the relationship. And the second one is they need one more country other than China to mitigate to move away from China or reduce the risk from China. So this is what every retailer is working on, so we stand to take the advantage of this because of the consolidation one. Most of the business are coming to big factories like ours and they are reducing number of suppliers, so this is one of the reasons, not that there is a big demand in the European market or something like that, that is not the case. With the limited volume of business what retailers are doing, this is the right time for them to easily consolidate the factory so that is what is going on. And China plus model is also helping us to get some of that, we are doing all China products also here now, so the customers are asking to do China products also here.

Prerna Jhunjhunwala: Sir China products meaning it will be cotton based only.

P Sundararajan: It is a blend, cotton, polyester, something kind of winter product those kinds of things.

Prerna Jhunjhunwala: On the new customers that you had up in the last two years how is happening.

P Sundararajan: This is not the right time to have the new customers because the recession is going on all over the Europe as well in the US because of Russian war so there is no point in tapping or knocking at the door of the new customers at the moment. We are waiting for the right time to try for new customers and in the meantime, we will maximize our capacities in all the aspects from acquisition of factory in India, I mean the Sri Lanka offshore production. So all these things once we are ready in the next two quarters probably that will be the perfect timing to tap the new customers as well.

Prerna Jhunjhunwala: And Sir also wanted to understand what made you circle on Sri Lanka because there is political instability there as well as economic instability and they have been losing orders as you mentioned. So before circling onto Sri Lanka have you looked at Bangladesh and any other geographies and was Sri Lanka was a win-win so just like to have some colour.

P Sundararajan: Yes, there are the possibilities at looking at Bangladesh or Vietnam or Cambodia. Vietnam and Cambodia are completely Chinese kind of working model which won't suit us, and China has been putting up their big factories in Vietnam and Cambodia, that is ruled out. Only Bangladesh and Sri Lanka are the two options available in front of us where again Bangladesh is always risky from the customers point of view because given a chance, they would like to move the business as much as possible to India because still there are compliance issue, fire safety issues, and the work men unrestness, all these things are happening there that is one. And the second thing is cultural problem for us to handle them. Culturally their way or working, the communication language is a problem for us to take over those factories. It is a good option for Bangladesh as well, but given a choice of Bangladesh or Sri Lanka we prefer Sri Lanka because culturally there is no difference and abundant labour is available as in Bangladesh and as you said in political instability it is not the case because the tourism is not doing good so they depend only the garmenting business where they import the material out of China and India and they export the wages that is what they are doing and now they are in need of the orders, this is the right time and the work force are available plenty and this is the right time and culturally they are in line with our way of working and they understand everything what we are talking about, and customers also will be preferring Sri Lanka first only then will go for Bangladesh.

Prerna Jhunjhunwala: Okay understood. Sir last question on geographic distribution now how much is of our revenue is coming from UK, Europe, and US individually.

V Balaji: US contribution is 8% this quarter and 44% is European contribution, rest is from UK.

Prerna Jhunjhunwala: Thank you so much Sir and all the best.

Moderator: Thank you. We move on to the next question that is in the line of Ketan from Robo Capital. Please go ahead.

Ketan: Hello Sir. What will be the revenue guidance for FY2024 and 2025 at consol level?

P Sundararajan: We have given you the guideline of our growth of proposal 15-20% if everything goes well and if the offshore production is set then probably, we may expect more 5% extra.

Ketan: Okay thank you.

Moderator: Thank you. The next question is from the line of Rusmik Oza from . Please go ahead.

Rusmik Oza: Yes, thanks for the opportunity, Sir. Just wanted to get some sense on this FTA with UK as and when it comes, how does it impact our EBITDA margins positively and does it lead to any change in the guidance if given in the presentation of 18% to 20% of EBITDA margin that you are looking at especially from FY2025 perspective.

P Sundararajan: Everybody is waiting for FTA to be through, but we really do not know the government policies with regard to the duty drawback thing, we really do not know. Because at the moment Sri Lanka is duty free and Bangladesh is duty free, and India is yet to be duty free once the FTA is announced but we really do not know what the benefits are whether we will continue to get the same benefits at the moment what we are getting or there may be any cuts in the benefits we really do not know. From the customers point of view yes there will be some sharing of the profits if all at the duty is saved but according to me the bottom line, there will not be any significant change either way whether in our favor or against us I do not see anything. It will be open for more business to India.

Rusmik Oza: Okay thank you Sir.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now have the conference over to the management from their closing comments.

P Sundararajan: I hope I have been able to answer most of your questions clearly and still if you are not clear please feel free to call any of us from the management. We will be happy to clarify if at all you have any queries and thanks for your time and have a good day. Thank you.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of a lot of Elara Securities Private Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.