S.P.APPARELS LTD.

Regd. Office : 39-A, Extension Street, Kaikattipudur, AVINASHI - 641 654, Tamil Nadu, India.
Phone : +91-4296-714000 E-mail : spindia@s-p-apparels.com
Web : www.s-p-apparels.com CIN No.: L18101TZ2005PLC012295

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The Deputy General Manager Department of Corporate Services BSE Limited 1st Floor, New Training Ring, Rotunda building, P.J.Tower, Dalal Street, Fort, Mumbai – 400 001	The Asst. Vice President Listing Department National Stock Exchange of India Limited, Exchange Plaza, 5th Floor, Plot No.C/1, G Block, Bandra – Kurla Complex, Bandra (E), Mumbai – 400 051
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Sub: Transcript of the Conference call held on 18th May 2023	

Dear Sir/Madam,

With reference to our letter dated 16th May 2023, intimation about the conference call with Analyst/ Investor held on 18th May 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
Q4 FY 23 Earnings Conference Call"
May 18, 2023

MANAGEMENT: **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

MR. V. BALAJI – CHIEF FINANCIAL OFFICER

MODERATOR: **MS. PRERNA JHUNJHUNWALA – ELARA SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the S.P. Apparels Fourth Quarter FY '23 Result and Business Update 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 star then zero on your touch-tone 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, ma'am.

Prerna Jhunjhunwala: Thank you, Zico. Good afternoon, everyone. On behalf of Elara Securities Private Limited, I would like to welcome you all to Q4 and full year FY '23 post result conference call with business updates 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. V. Balaji, Chief Financial Officer of the company.

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, Prerna. Good afternoon, everyone, and a very warm greetings to all of you present on the con-call to discuss our Q4 FY '23 performance. I hope and wish that everyone and your loved ones are hail and healthy and safe. I'd like to highlight something on the industry.

So generally, the apparel industry has started doing well and especially the American customers, as well as the European customers and the U.K., they are the retailers are insisting to I mean, they are very serious about transferring as much business as possible from China to India as they would see a lot of potential in India. So still that anti-China thing is still very strong. And we are able to experience them.

And nextly, this free trade agreement which is the series talks are still going on. And according to the inside information from the association is that hopefully, by the end of June, it should be true with the U.K. and Canada. In the meantime, yesterday, we got the news also that EU is also is pushing quickly from Brazil. So, this is one interesting subject. And hopefully, FTA should be through in the next two months' time. It will be very much in favour of our country.

With regard to the forex situation. Again, it is in our favour in the sense that the euro, pound and dollar are very much in our favour. This is helping us in being competitive to other competitor countries. Lastly, the raw material situation is the prices of cotton have started slightly declining to the normal fee from the inflated one. Off late, we have been seeing about -- in the last few months, in the last 2, 3 months, the prices of cotton has come down roughly INR 5,000 per candy. So, which is a good thing for us. This will help the long spinners to come out of of the losses, which is again good news for us. Then we'll go to the dividends. The dividend for FY '22-'23 will be taken up as per the policy by the Board during the August meeting before the AGM.

Regarding the Garment division, the financial performances are our government division revenue for this quarter stood at INR 232 crores versus INR 219 crores for the Q4 FY '22, which is a 6% growth year-on-year. And total exported quantity stood at 14.42 million pieces. Our adjusted EBITDA of the Garment division stood at INR 41 crores for the current quarter at 17.8% of EBITDA margin versus adjusted EBITDA of 20.2% year-on-year. Our current order book stands at INR 365 crores. Capacity utilization of as of today is around 70%, and we expect it to increase by around 10% to 15% going forward. There have been a lot of inquiries coming from new customers, both from U.S. as well as EU, and we are looking at scrutinizing the suitable ones.

On the FTA, yes, as I mentioned that the FTA should be through soon, and we'll see a lot of traction in India because of the FTA. Last month, we consolidated our factories by closing them -- some of the small factories, and we moved the employees to bigger factories, which has given us better efficiency in running the factories. As we informed you earlier, our new factory support at Sivakasi is under process of starting construction in July '23. And hopefully, in 12 months' time, it will be up and running.

With regard to spinning, spinning mills are not making margins due to less demand for the yarn in the market as well as no considerable decrease in the cotton price so far. Now things have started changing now. The cotton prices have now stabilized, and I do not foresee more fluctuations in cotton prices. I am confident that our spinning unit will overcome the challenges and will contribute to the margins from the current quarter onwards.

The Fabric Processing division, in spite of the input cost increase, our Processing division was able to perform well with good utilization levels and contributing to the margins effectively. S.P. Apparels the U.K.'s business, SPUK has seen a lot of disruptions in the supply chain majorly due to the COVID impact. There is a change that's happened in the SPUK team and shifting of the location to London, which now has been settled down.

The young new team will take things forward in the coming years. They are already on the job. Revenue for the quarter stood at GBP 1.4 million as against GBP 2.2 million year-on-year. SPUK has made EBITDA breakeven as against 5.5% year-on-year. The current order book value is GBP 3.4 million. I am confident that SPUK will will be able to work closely with the customers, and will be able to do well going forward.

With regards to S.P. Retail Ventures Limited, currently, we have 40 Crocodile stores and 17 stores under all brands. We have opened 1 new store for Angel & Rocket in Hyderabad, and it is doing well. We have also closed the non-performing stores. S.P. Retail Ventures made a revenue of INR 25 crores and made EBITDA loss of INR 3.37 crores for the current quarter. Crocodile has been making profits. And however, the new brands that we have added, and their fixed overheads are pulling down the margins. We firmly believe that the other brands that we have added will perform well, and we are confident that the brands like Crocodile, Head, Angel & Rocket will do well in the future. Current liquidity. Our liquidity position is very strong, and we have serviced all the debt up to date.

Thank you, and over to Balaji, our CFO.

V. Balaji: Thank you, sir. Good afternoon, everybody. I'll just run through the financial performance of the company. We have done -- for the quarter, we have done INR 272 crores of adjusted revenue as against INR 258 crores year-on-year. We have done an EBITDA of INR 40.48 crores on a consolidated basis for the current quarter as against INR 45 crores year-on-year. Our PBT for the current quarter stood at INR 25 crores as against INR 36 crores year-on-year. Our PAT for the current quarter stood at INR 20 crores as against INR 25 crores year-on-year. On the financial performance of FY '23, we have done INR 1,098 crores which is the highest as per the history of S.P. Apparels as against INR 867 crores year-on-year.

On the EBITDA front, adjusted EBITDA stood at INR 173 crores as against INR 153 crores of last year. Our EBITDA margin for the whole year on a consolidated basis stood at 15.7% as against 17.6% year-on-year. Our PBT for the current financial year stood at 1,000 -- sorry, INR 110 crores as against INR 114 crores year-on-year. Our PAT stood at INR 82 crores as against INR 84 crores year-on-year. On the financial performance, Garment division has done INR 960 crores of revenue as against INR 742 crores year-on-year. And operational revenue of SPUK stood at INR 58 crores as against INR 72 crores. And Retail has done INR 80 crores of top line as against INR 48 crores year-on-year.

Our EBITDA margins for Garment division stood at 17.8% for the current financial year -- current quarter as against 20.2% year-on-year. For the whole year, Garment division has done 18.7% in terms of EBITDA margins as against 20.9% year-on-year. Our EBITDA margins for the financial year of SPUK is almost 1.2% as against 3.5% year-on-year. For SPUK -- sorry, for S.P. Retail Ventures, we have done an EBITDA of INR 7.5 crores negative as against INR 5.1 crores on the previous year.

On our debt front, our long-term debt stood at INR 13 crores and our short-term working capital borrowing on a stand-alone basis stood at INR 148 crores. Gross debt being INR 161 crores on a stand-alone basis, and cash and cash equivalent is INR 121 crores. As per the balance sheet, given by the auditors, certain investments have been grouped under current investment by the auditors, which is also cash equivalent, but they don't agree to it, but for us, it is cash equivalent. So, our net debt as on March 31 is INR 40 crores on a stand-alone basis.

On the balance sheet front, we have an inventory of INR 296 crores and a receivable of INR 104 crores. We have a cash, cash equivalent of INR 62 crores and other current assets of INR 72 crores. The rest is available in the presentation. We hope that we have covered all the areas.

So over to the team for any queries.

Moderator: Our first question is from the line of Resham Jain from DSP Asset Managers. As there is no response from the participant, may I request the management that we'll move to the next participant.

P. Sundararajan: Sure.

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

Niraj Mansingka: I had just one question about the factory you have closed. So, can you share some more details on how many factories you're running, how many you're planning to close, or you've closed? And which factories new locations do we see as the core locations and how many people will be working in those?

S. Latha: Yes. Actually, we had 18 factories. We have closed 4 factories. Now we have 14 factories running. Yes, so we are only seeing factories we are talking about. The reason for closing these factories is actually these factories are very small factories of 100 machines. So, we want to consolidate the machines for better efficiency and better working, so we'll have better control if we have less number of machines.

Well, for the transfer of workers, about 50% of the -- we had 400 machines for 400 workers, but we could transfer the 200 to 250 workers in the other factories. And around 100 to 150 workers, they moved to other factories because they cannot transfer to other factories because of long distance from their home. So, to make up those 150 machines, we are trying to increase the capacity in the existing machines -- existing factory.

Niraj Mansingka: Okay. Any more factors to be -- left to be converted or closed down or these are done?

S. Latha: No. It's almost done. We are not closing any more factories. In fact, we are going to increase capacity with our own machines with huge or larger capacities.

Niraj Mansingka: Okay. And how many workers are you right now having at the end of the quarter, end of the year?

S. Latha: 12,500.

Niraj Mansingka: But the number was similar a year -- a quarter back. So, you have hired back already 150 workers or how is it?

V. Balaji: Niraj, your question was not clear. Can we...

Moderator: Mr. Niraj Mansingka may we request you to use the handset, please?

Niraj Mansingka: Okay. My question is that you had 12,500 employees a quarter back. Again, a new 150 workers employed had left, so you hired them back or you have added -- so I have maybe some bad math so how many employees you might hired net in the quarter?

P. Sundararajan: Your voice is not clear. See, you are asking about...

Niraj Mansingka: I will come back to the queue.

P. Sundararajan: Can you come again, please?

Niraj Mansingka: I'll come back to the queue meanwhile.

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

Aman: Congrats on a good set of numbers. My first question was on the order book. Like can you share how much orders you have right now like at the end of this quarter?

V. Balaji: Order book size is INR 365 crores.

Aman: Okay. Sir, my next question was on working capital. Like if I see our working capital has come down materially, like we have generated good cash flows and a part of this is due to the reduction in inventory and receivables. So, is it mainly due to lower prices of cotton compared to last year? Or have we seen some reduction in the working capital cycle and how do we see that going forward, like if you can touch upon it, sir?

V. Balaji: See, in terms of the movement of working capital, yes, 2 things have happened. One, a reduction in the cotton cost. So, if there is an increase in the cotton costs, the whole supply chain is carrying the cotton, which is, like say, INR1 lakh per candy cost and now the candy cost has come down to INR 65,000. So, there is a reduction of 40% in terms of the carrying cost. And two, on the cotton storage during March, we had -- the carrying of cotton was only for 45 days. Last year, we had a cotton carrying for 95 days or something. So, there is a reduction in cotton storage and also cotton carrying cost also has come down. So that has resulted in significant decrease in the inventory. And we have also planned for just-in-time working so that there is no -- a number of days is getting reduced.

Aman: Right, sir. That's interesting to hear. Sir, on the cotton side, right, currently, we have 45 days of inventory. So, given the current prices of cotton, how you are seeing the ramp-up of cotton like do you intend to increase inventory? Or are we waiting for some price correction more in the cotton side?

P. V. Jeeva: No. See, everything depends on the availability and the fluctuations of the market of cotton. But now it's more or less availability is not an issue, and the price is gradually coming down. So, we have religiously, planned for 45 days to 60 days of stock, but we used to have 90 to even 100 days because there was uncertainty and better quality availability. And availability is still not a problem because we meanwhile used to hold the stock and not releasing. But now that's not the case now. So, we are planning for 45 to 60 days of stock.

Aman: Right, sir. So like since the cotton prices have come down from INR100,000 per candy, almost INR100,000 per candy to somewhere around INR65,000 per candy now, so like our realization of fees, which stood at somewhere around INR140 for last year, like do we see some correction like INR15, INR20 kind of correction due to pass on of cotton prices going forward?

P. V. Jeeva: On the yarn, you mean?

Aman: Sir, realization for a piece of garment...

P. Sundararajan: Yes, see, always in the last about more than 1 year of time, there was a complete mismatch between the raw material cost of cotton and the yarn price realization costs completely irrelevant and erratic. Cotton price was uncontrollably increasing and yarn price was also sliding so heavily because of less yarn demand by the spinners in the market by the consumers.

So now the situation is the other way now. Now there has been a demand for the yarn, gradually it is increasing. And there has been a cotton price coming down. So, it's the sign of coming back to normalcy because the last 1 year is a very important reason why there has been a -- we had struggled a lot, and we had to literally lose the huge money in the spinning division because of these problems. And I think to the tune of about -- we lost nearly about INR30 crores to INR40 crores we lost in the last financial year because of this erratic situation of cotton versus yarn realization.

Aman: Right, sir. Sir, like my question was realization for garment. Like last year, we have done INR140 per pieces. So, like going forward, do we expect this to fall down to INR125 or INR120 given cotton has corrected from INR1 lakh to INR65,000 now, sir. So that was my question.

S. Latha: Yes. Actually, current average price is around INR115 to INR120 only because of the reduction in the yarn price. It's already happened as of now. Yes.

Aman: Understood. Just 1 final question on retail business. Sir like our retail business is minus 13%, 14% kind of EBITDA during this quarter. So are we seeing any sort of improvement and like what is happening when do we see the outlook improving in that business, if you can touch upon it sir.

P. V. Jeeva: Chenduran can you...

S. Chenduran: Yes. So Q4 has been bad and even the last year, comparatively has been difficult. But in terms of brand wise, Crocodile being a bigger contributor, which has done well. It's made EBITDA breakeven, and it's consistently month-wise, it's been doing well. The thing is with the new brands, it is taking a bit of time, especially on the fixed overhead, and there is expansion happening on the Angel & Rocket brand as well. So, expansion, we've opened 4 stand-alone stores in premium locations out of which 2 have been doing, very successfully.

The other 2 are improving. So, these are initial costs in the new brands, which is affecting the bottom line altogether, but positive side is Crocodile has been consistently performing well and we expect Crocodile to be contributing even more to this financial year.

Aman: Any outlook for next year, sir, like, do we expect overall level EBITDA breakeven or positive EBITDA for next year?

P. Sundararajan: So, we knew this year, there could be an EBITDA loss, but it has been slightly higher than what we thought because of the other 2 brands. But for next year, we'll definitely, on a consolidated level among all the 3 brands, it will be EBITDA breakeven. Brand-wise, the other 2 will still not be out of it, but Crocodile would be making enough EBITDA to make up for the other 2 brands EBITDA losses.

Aman: Right, sir. And in terms of the funding for this retail business, like how much liquidity we have in that subsidiary? And do we plan to allocate more capital to that business like in future?

P. Sundararajan: Balaji?

V. Balaji: Currently, I think there is a cash loss of close to INR6 crores, INR7 crores that happened for the current financial year. So, I presume that this should be taken up to the Board to decide how that can be supported.

Aman: But sir, in past, we have envisaged that this is not a business we want to allocate more capital to. So, like so are we thinking about allocating this kind of capital going forward? Or like would we look for external investors or other kind of partnerships to basically fund this business?

V. Balaji: The main reason why we hired the retail division is that the allocation should be quite strict in terms of capital allocation. I think the Board has to decide how the capital needs to be allocated. So, I prefer that this question should be -- can be answered only after the Board meeting what they would decide upon.

Moderator: Sorry to interrupt, Mr. Aman may we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. Our next question is from the line of Resham Jain from DSP Asset Managers.

Resham Jain: Okay. So, a few questions. First 1 is on garment business itself. What kind of growth are we expecting in terms of volume in Garment division? And also, I was just looking at the commentary on the Sivakasi factory. I think this was supposed to be commissioned almost 6 months back or so. I was just referring to a previous call. So, if you can just highlight what's delaying the factory commissioning and also the growth expectation in the garment business?

P. Sundararajan: Yes, the garment as the growth rate will be -- so we are planning for about 14% to 15% as a growth rate for '23-'24 and that could be easily achievable. And the Sivakasi...

V. Balaji: On the Sivakasi project, Resham, that's purely because there was some delay from the government side in giving the approval...

P. Sundararajan: Clearance.

V. Balaji: Clearances in terms of the approvals. Now we are clear with it, and we are in the process of getting the construction ready...

P. Sundararajan: In July.

Resham Jain: Okay. And this 14%, 15% Garment division growth volume or value?

V. Balaji: It should be volume...

P. Sundararajan: More or less because it's about INR120 average price she is talking about so more or less both are same because volume is something it is...

Resham Jain: Okay, due to the price fall, I thought...

S. Latha: Yes, actually, value-wise, it's 14%; volume-wise, I think it will cross 20% to 22%.

Resham Jain: 20%, 25% volume growth?

S. Latha: Yes, 22%. Yes.

Resham Jain: Okay. Understood. Sir, the second question is on the retail business, the earlier participant also asked about the same thing. And we have been managing this brand business since long time. Obviously, we have added new brands as well. But I think somehow INR7 crores, INR8 crores loss on the INR80 crores business seems to be quite high. So, if you can explain the nature of this loss at the EBITDA level. You explained about fixed costs, but still, it looks quite on a higher side. So, what are we doing? And before further allocating capital in this business, what are we doing to make sure that there is the right economics in this business because over the last many years, this business has not...

P. Sundararajan: Resham, you are not audible.

Moderator: The line for Mr. Resham has dropped.

P. Sundararajan: Okay. So let me reply to Resham's query on the retail. So, yes, the last 2, 3 years because of the COVID up and down on the stores, closure on Saturdays and Sundays was definitely a pulling factor, last 3 years have been very tough for the retail industry as such. And going forward, in spite of having a COVID impact FY '23 for Crocodile was far better comparing the previous performances. I mean, unfortunately, the new brands, which has come is not able to perform in terms of the large format stores, which we are present in.

So, we have done some initial work on closing down the nonperforming stores opening up. So those works have been completed. We've seen that this year, the new brands and the preoperative expenses of all the new brands should be absorbed and should be doing well going forward. In terms of the capital allocation, I guess, we have already spoken about enough on the capital allocation to retail, which again the Board will look into it and decide upon how to allocate capital to the Retail division.

Moderator: Our next question is from the line of Surya Narayan from Sunidhi Securities.

Surya Narayan: So, my first question is that sir, now that you have reached nearly 70% utilization level. So, what will be the capex for the core garmenting area rather than other areas. So, if you can give some guidance on the capital allocation for FY '24? So that is first. And secondly, you have said that now in July, the FTA will be signed with the U.K. and followed by the EU also.

So, we have been listening in the recent past that the European customers, they are asking some kind of discounts to the tune of around 10% from the Indian and Bangladeshi traders so -- I mean, manufacturers. So, if looking at the advantages, the India manufacturers will be getting after the FTA, so will you not, see that kind of discounting trends to extend for the FTA signed countries?

P. Sundararajan: Yes. See, regarding this to the garment factories, we have a plan for see, every year about 1 big factory so that to maintain the growth and the opportunities which we really have to grab it. So more or less, see, roughly around so INR 50 crores, INR 60 crores will be per year for the new garment factories year-on-year, that will be allocated for the new projects.

And in addition to that, we are working on it because the customers are insisting on ESG, renewable energy, and we are thinking or we are working on putting up the solar energy plants, the roof mounted one, in the new factors as well as in the existing factories that will also happen every year, as we said before, 1 megawatt or 2 megawatts every year. So, this is our plan. And with regard to the FTA thing, what was the question of this FTA one?

V. Balaji: Percentage, discount...

P. Sundararajan: Yes, that is okay. So, the FTA, see the duty landed cost, there will be a reduction of about 9.5%, say, 10%. So definitely, that will be -- cost will be -- landed cost will be cheaper. So, we will have to share, and contribute something to them. And both the customer as well as we should be able to share because there is a room for negotiation for both.

Surya Narayan: So how does take it 10% -- around 10% advantages, and how much will be nullified do you feel, I mean the worst case?

P. Sundararajan: So, 5%, roughly, we should be -- we stand to gain 5%.

Surya Narayan: Okay. Net to net 5% gain. And sir, regarding...

P. Sundararajan: Yes. It is subject to centrally experiencing it only when it comes. Today, we are able to compete the duty-free countries like Sri Lanka, Bangladesh and Pakistan. Despite this, we are not under the FTA, still, we are able to compete with them. So, when the duty free structure comes, definitely, there is a possibility that we can gain another about up to 4% -- 5%.

Surya Narayan: Got it, sir. Currently, what is the total number of pieces we can best -- because of the capital allocation and the capex could be having some gestation period. So, you per se proposed a signing up the FTA if the demand were to bounce back significantly maybe in the second half. So, with the current capacity, how much we can produce a per quarter maximum?

V. Balaji: So, we are utilizing that 70% today, and there is a headroom of 20% to be utilized from the existing capacity. And we are adding 1 more capacity of 20% coming up from Sivakasi. And the third point is that we are also looking at the option of the second shift, which can be used for the higher capacity requirement without any capital being employed. So, we show -- we are looking at all the options. And when we get good business, definitely all the options would be looked at.

Surya Narayan: So, per quarter basis, we can achieve around, let's say, about 20 to 22 million pieces.

P. Sundararajan: No, that we cannot predict anything because order inflow is different from workforce managing. So, we cannot simply just like that say we cannot increase the workforce because we need to have availability and then training them and improve the efficiency.

Surya Narayan: No, no. I'm not asking for the increase in the workforce but on the seat basis. If you see if we can increase the seat then what is possible, that is what my question?

V. Balaji: So maybe 22 million pieces per quarter is a number which is possible based on the utilization level. Today, my sewing machine are 5,100 and if my 5,100 machines goes beyond, say, 6,100, and I'm utilizing maybe 1,000, 1,500 factories on the -- 1,000, 1,500 sewing machines on the second shift, then the number could be possible.

Surya Narayan: Okay. And regarding, sir, the order book, current order book is around -- I mean, 1.25 per quarter level. So historically, what was the case in our case, I mean order book to a per quarter, I mean it is a 2 quarters order book earlier, and now it has fallen to 1.25, how is it?

V. Balaji: See, order book and quarter revenue not matched together because order book certain orders will be given for a season. Certain orders will be given for 2 seasons. And certain orders will be given for 2 seasons in 4 phases.

P. Sundararajan: And longer lead time also.

V. Balaji: So, you cannot compare the order book and compare quarter numbers. Usually, the lead time is around 90 to 120 days. That's how we work with.

P. Sundararajan: And some urgent orders will also come.

Surya Narayan: Okay. So -- and sir, due to the reduction in the cotton prices from the peak level, so are you facing any kind of negotiation issues from the brands from -- especially from the European side?

P. Sundararajan: Not really because they know that they have not been able to increase the yarn cost prices because of cotton price increase. So, there is no such kind of scenario here with the customers.

Moderator: Mr. Surya Narayan, may we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. Our next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas.

Kaustubh Pawaskar: Sir, my question is on the garment business. This year, the margins were down because of the higher input prices and even the volumes were lesser but going ahead, since cotton prices are coming down and should we expect -- and volumes are expected to pick up maybe in a quarter or 2, should we expect margins to improve to around 20% level? What you used to be guiding for?

V. Balaji: See, whatever happens with respect to raw material, the management bandwidth is working towards the 18% EBITDA margins, which we have guided for. And I don't think any change in the cotton prices, or margins would affect the EBITDA. We still see that 18% EBITDA margins can be sustained. And if there is a reduction, it will give us more cushion for -- the negotiation can be better. So that's how it works out.

P. Sundararajan: See, mainly this year, we hopefully come out of this spinning losses. Even if it is a breakeven, it's a big saving to the company and it might turn to be a profitable one, which we don't know. And there is no pressure from the customer side as of now yet to reduce the prices on the account of these cotton price coming down. So, we are able to maintain 18%, for sure, which even in the last year despite the huge loss of INR 30 crores from the spinning, still we have been able to maintain this on the garmenting division. So, we are confident between 18% to 20% always it is possible.

Kaustubh Pawaskar: And sir, can you throw some light on the current demand environment in some of your key markets, considering the inflationary environment over there and other textile companies facing the heat because of it. So just your perspective on the same?

P. Sundararajan: You mean on the garment business side?

Kaustubh Pawaskar: Yes, yes.

P. Sundararajan: Yes. Definitely, there has been a huge demand because, see, on one side, our customers, as I always used to say, our long-term customers who were associated with this for more than 2 decades are so much confident in our association. And they are consolidating more and more businesses to us. So already, we are getting more and more business from the existing customers. And we have another 2, 3 customers in the pipeline. So, there is a big demand for the baby garment, which is generally, everyone expected there would not be much demand in Europe and the U.K., but that's not the case. There has been a huge increase in the babies and kids garment demand.

Kaustubh Pawaskar: Right. So, INR 365 crores is the order book currently. So, you expect a similar kind of order book to sustain going ahead?

P. Sundararajan: Yes, you should understand one thing. So now the average price is about INR120 to INR130, but it used to be about INR140, INR150. Despite that reduction in the average price, still we are having INR360 crores. So, we should have been otherwise, say, close to INR400 crores. So we are expecting maybe the quarter-on-quarter, there will be an increase in the order book. Always there's going to be an increase in the order book. Again, it is not having any connection with the quarterly numbers. Some orders may be a long term, say for 1-year order book, some may be quick deliveries, and some may be repeat orders. So, this order book in hand will not give -- will not throw any specific messages on the financials.

Moderator: Sorry to interrupt Mr. Kaustubh Pawaskar, may we request that you return to the question queue for follow-up questions as there are several participants waiting for their turn. Our next question is from the line of Shikha Mehta from Equitree Capital.

Shikha Mehta: Most of my questions have been answered. I just have a couple of more. So, as we mentioned earlier on the call we went through a loss in the spinning segment as well as on the retail side. So, when we talk about this 14% to 15% growth of FY '24 that is over and above the normalization on the spinning and retail side, right? Would that be the right way to look at?

V. Balaji: See, what is being contributed by spinning is purely on -- we are captive consuming. So, like the growth has got nothing to do on the spinning. Maybe the EBITDA margins -- it could have more on the EBITDA margins.

Shikha Mehta: So, sir, what I mean is that the PAT growth will be substantially more, right, is what we could hope for?

V. Balaji: Yes. Correct.

Shikha Mehta: So that is the right way to look at it, right?

V. Balaji: Correct.

Shikha Mehta: And sir, I also wanted to understand, we've spoken about vendor consolidation earlier on our call, and we also mentioned that we were entering the men's segment, which is slightly a lower margin business compared to the kid’s segment. So, if that -- a, how much do we expect that to increase going forward? And b, if that does include, how do we plan to maintain our 18% to 20% margins?

S. Latha: Yes. Actually, we are not going to do any basic. We are going to enter the fashion venture. So, I don't think the margin will be reduced because we entering into men. The margin will be at par with the kids business what we are doing because we are doing from the design part, so right from the product development part, so definitely, the margin will be at par with the kids.

P. Sundararajan: Unit value realizations are much higher. So, unit value realization is...

Shikha Mehta: Margins are comparable?

S. Latha: Yes.

P. Sundararajan: Yes.

Shikha Mehta: Okay. Understood. And sir, lastly, how is summer 2023 looking for us this year?

S. Latha: '23-'24 yes.

Shikha Mehta: This summer. Our orders must be already in place, right, for May, June, July. So how is that period looking for us...?

S. Latha: The order book is solid. We are booked until August.

Shikha Mehta: So, are we expecting summer to be strong, sir?

S. Latha: Pardon, can you repeat the question?

Shikha Mehta: Are we expecting this summer to be strong for us?

S. Latha: Yes, of course.

Moderator: Our next question is from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna: Sir, just the first question pertains to Bangladesh. If we heard and you talked about in your last call also that there is some wage negotiation that is happening, there from almost $75 to $200-plus. So, any update on that, that how that particular thing is it possible to happen? And what sort of impact it will be having vis-à-vis Indian competitiveness? So that's the first question.

And the second question is purely from a demand perspective, if you see that there are multiple media articles which are publicizing that there is a significant demand slowdown that is there in the European market and the U.K. market. And it has been cited by a lot of industry trackers that there are not enough orders for our country and especially Surat, which is surviving only on the one-month order book. So, any clue on that, which can give us some sort of visibility in the immediate near term? We know that the long term looks good, but purely from next 1 or 2 quarters' perspective, how are we placed to face the demand scenario, which is slightly subdued at this point of time?

P. Sundararajan: Yes. With regard to the wage inflation in Bangladesh because they were already e low-wage industry. So, one day or other, they'd had to have the corrections, which is happening now. But in India, that's not the case. Already we are at par with the requirements or the standards. So, I don't think there will be a big increase and there's going to be only as a routine increase of about 5% year-on-year. So, we do not envisage any kind of wage inflation in our country. That's for sure.

Secondly, with regard to the -- whatever the article you have read that's not correct. There is definitely -- because we are in the niche segment, babies and kids are definitely still very strong. And , we are getting more inquiries than we could accept. So, we do not see in the near future, there is a problem or any disruption in the demand of this segment. And not only that because of consolidation, I mean, apart from the garment industry in general, S.P. Apparels is getting more and more orders even in ladies and men businesses because the customers want to consolidate, they want to reduce the number of vendors globally. So, we take the biggest advantage in that scenario.

Moderator: Our next question is from the line of Akshay Kothari from Envision Capital.

Akshay Kothari: Sir, pardon me for my ignorance, but I'm a bit new to this company, but just wanted to know how are we related to Crocodile Products Private Limited? And what is this royalty we pay them for? And secondly, what is our customer concentration if you can give that?

P. Sundararajan: See, see, Crocodile Products Private Limited is a company-owned by S.P. Apparels as a joint venture with the brand owner in Singapore, Crocodile India, sorry, Crocodile International. So that is our company. The brand in India is 70% we have the right in this Indian company. And this company will be paying a royalty to the Singapore company. So, it's a joint venture. So that's the arrangement. And what's your next question please?

Akshay Kothari: So, what is the royalty we have paid in FY '23?

P. Sundararajan: The royalty is -- yes.

V. Balaji: The royalty is mostly around INR1.5 crores or INR1.6 crores. It is in terms of the percentage what Retail Ventures pay to CIPL based on 4.5 percentage base CPPL base is around 2.5 percentage.

P. Sundararajan: Second question was customer concentration. So, as we said even in the last quarter, we are looking for increasing say maybe others 2 or 3 customers in the next 2 -- within 1 year's time. We are working on that. Because we are not getting any room for bringing in new customers because the existing customer demand is more and more coming every year.

Moderator: We move to the next question. Our next question is from the line of Niraj Mansingka: from White Pine Investment Management.

Niraj Mansingka: Sorry, you are able to hear me sir, last time, I think I could not reach you properly.

P. Sundararajan: Yes. Yes, now very clear.

Niraj Mansingka: Yes. So basically, you basically shut down the factories of 400 machines, so you moved those entire sewing machines to the other units, or it is the capacity has gone down of the sewing machine?

P. Sundararajan: See, first of all, the consolidation of this factory was the need of the hour, which is really good which we did during the last year when there was a recession, global recession so we have some lesser inflow of orders. So, we made use of this opportunity to consolidate because it is very cost effective and administratively much better and easier. And third one is the customer for small-size factories, they're very reluctant to approach those factories.

So, we have been thinking for a very long time that one time or whatever the suitable time, we should consolidate as much as possible. So that's what we did that one. But however, with regard to the loss of capacity, as CEO mentioned before that of the 400 sewing machine operators, we could transfer about 200-plus operators to the existing nearby factories and another 150 to 200 operators could not join this company due to their mobilization issues, but we have been able to make it up by the existing factors itself. And now we are more than what we used to have before the consolidation.

Moderator: We move to the next participant. Our next question is from the line of Aman from Carnelian Capital.

Aman: Just a question on the currency rate. We have seen some depreciation in INR compared to got USD as well as GBP. So, do we expect some benefit in terms of foreign exchange gains going forward, like how the currency is moving right now?

V. Balaji: So, in terms of currency exchanges, when I'm getting the orders, I'm 100% -- 88% booked. So, like any movement in terms of currency because I have already booked the exchange gains, there is no opportunity for us to book more. So, there is no headroom for us to move forward in terms of booking for the appreciation, if any.

Moderator: Due to time constraint, that was the last question of our question-and-answer session. I now hand the conference over to the management for closing comments.

P. Sundararajan: Thank you. I would like to thank all the shareholders, investors and whoever has participated, and who is listening to it, thanks for your confidence and continue to support this organization. And as I always say, we have very, very ambitious plans and we have the road maps ahead for the next 5 years, and we are confident that we will be able to give better results year-on-year. And I thank you all for the confidence you have in this organization, and I will request you to continue to have the conference on us. Thank you very much.

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