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Dear Sirs,

Sub: Transcript of the conference call

We wish to inform you that the Q2 FY17 Results Conference Call hosted on 15th November, 2016. We are sending herewith the transcript of the conference call.

Kindly take the above on your record.

Thanking you,

Yours faithfully,
For S.P.Apparels Limited,


K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above



“S.P. Apparels Limited Q2 FY17 Results Conference Call

November 15, 2016



ANALYST: **MR. ANKIT KEDIA - CENTRUM BROKING LIMITED**

MANAGEMENT: **MR. P. SUNDARARAJAN - CHAIRMAN/MANAGING DIRECTOR
- S.P. APPARELS LIMITED
MRS. S. LATHA - EXECUTIVE DIRECTOR - S.P. APPARELS
LIMITED
MR. S. CHENDURAN - DIRECTOR OPERATIONS - S.P.
APPARELS LIMITED
MRS. PV JEEVA - CEO - S.P. APPARELS LIMITED
MR. V BALAJI - CFO - S.P. APPARELS LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the SP Apparels Limited Q2 FY17 Results Conference Call, hosted by Centrum Broking 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ankit Kedia from Centrum Broking. Thank you and over to you Mr. Kedia!

Ankit Kedia: Thank you. Good afternoon everyone. We at Centrum Broking I extremely pleased to host the Q2 FY17 Results Conference Call for SP Apparels. We have from the management, Mr. P. Sundararajan, Chairman and Managing Director, Mrs. S. Latha, Executive Director, Mr. S. Chenduran, Director Operations, Mrs. PV. Jeeva, CEO and Mr. V Balaji, CFO. I would now like to hand over the call to the management for opening remarks post which we will open the floor for Q&A. Over to you Sir!

P. Sundararajan: Good afternoon everybody. I welcome everyone to the concall and I am happy to talk to all of you on account of Q2 results. I am extremely pleased to inform that we have witnessed a robust top line growth against a Q216 and also the operating profits are comparatively much better, there is an improvement. With the existing customers the orders have increased when compared to last year and parallelly we have also increased the capacity to match the order inflow. We have in fact increased 300 machines during the Q1 and another 300 machines we are going to increase before end of this financial year before March. There has been a considerable increase in the business with Primark who has been recently. It is just about 1.5 years before we started the business with them as we mentioned in the road show. There has been a good increase in Primark business as we mentioned before to the tune of say about 38-40% as against the like-for-like quarter. That is a very good healthy sign and they have been giving us lot of hopes in the future business and also they say that they will be spreading with more businesses. In addition to that we are also planning to as we mentioned in the road show that we are increasing the customer base by adding new customers in the non UK and US, which we are already on the job and hopefully before end of March we will add one or two customers before end of March, which is a good sign and customers are positive about it and our current order book is also for until current year and today it is about 150 Crores, this is the general outline about the business. With regard to the UK business we are pleased to say that we have been able to break even for the first half FY17, which is good news after one year we have been able to break even. With regard to the retail we are again happy to inform that we have doubled the sales as against the year-on-year. They have increased the number of outlets in large format stores such as Mega Mart, Reliance, Brand Factory, More, and there are many we have increased in large format stores as well as in the hypermarket and we have raised up to 115 such outlets as of today, which is again a very big jump in the number of outlets. We will also be able to maintain the same level of growth in H2 as well. In addition to these, in order to improve the same store sales growth in our eBay workshops we have already spoken to our Singapore Crocodile to add footwear, luggage and timewear watches in the sales stores, which we are going to take it on an experiment basis before end of March maybe in one or two flagship stores and see the reaction and probably next year we will

also be doing in a big way in footwear, luggage and timewear, which will definitely help us in increasing the sales in addition to what we have originally planned. This is the outline about the retail business and overall before I would like to mention that there has been a depreciation in the Pound so we are going to mitigate them is overall will be able to mitigate this margin pressure due to this Pound depreciation. In our total foreign currency business it is only 35% is Pound where again we have been able to pass on some of the depreciation costing to our customers as well as we have been able to pass on to our suppliers during the negotiation considering the market situation. So to some extent to help us to manage the situation in the currency depreciation. Also, it has helped us in there is yarn price decrease currently, so this will also help us for Q3 and Q4 shipment, so this will help in reduction in the cost price, which was not taken into consideration in our costing with our customers. Thirdly there has been a support of about 3% from ROSL that is Rebate of State Levies; it will also help us to mitigate the Pound depreciation. Finally, we are able to negotiate better with our suppliers for raw materials and various items with our improved liquidity in our system, so these are going to help us to maintain the same level of EBITDA or even to improve better wherever possible. This is the overview of our current situation. I would like to pass on the financials to Balaji, CFO. Thank you.

V Balaji:

Good afternoon everybody. As management as discussed on the qualitative aspects of the result I would straight away move into the financial aspects. The revenue for the quarter and then year-on-year has improved by 33% considering that we have achieved 166 Crores. Such a significant increase in the top line was driven by 33% of year-on-year increase in the exports of garments and continue good performance in our retail, which grew by 120% from 7 Crores to 16 Crores this quarter. Growth in the garment division was primarily driven by the increase in the existing customer orders along with increase in the capacity. During Q2 FY17, EBITDA grew by 31% to 25 Crores in line with our increase in revenues. EBITDA margins are stable at 15.2%. EBITDA margins including 49.3 million, including that exchange fluctuation if you look at the EBITDA margins it will be closely around 18.1%. Here I would like to tell everybody that the exchange fluctuation, which is grouped under other income needs to be looked along with the revenue because the shipments, which happened during Q2 was basically the orders have been taken in the Q1 itself, so during Q1 the orders were taken at say 96 or 97 towards a pound and when it was shipped, the spot rate was closely around 88, 89, sometimes even 82, so the difference where we have covered through forward exchange is sitting in the exchange fluctuation, so we have to include the other income of exchange fluctuation along with revenue and look at it as EBITDA where you will find EBITDA at 18.1% which is equivalent to the numbers, which we have already shared with you people. Our PBT year-on-year grew by 256% to 22 Crores. PBT margins increased by 837 basic points from 5% to 13.4%. The increase in PBT was backed by significant saving in the finance cost and also increases in our topline revenue. Our finance cost has come down from 79 million to 36 million during current quarter and as I told you that there is increase in our other income also that is majorly because of the depreciation of Pound. Our PAT has also increased by 216% year-on-year to 14.89 Crores considering last quarter where we had only 3.6%. Our debt has come down to 178 Crores during 30th September, which is including the buyers' credit of 8 Crores so net if you remove that buyers' credit these buyers' credit are towards the machinery, which we have ordered, so if you remove that buyers' credit our net debt

will be 170 Crores. I would like to thank everybody for the participation and if there is any queries we will take the question and answer session. Thank you.

Moderator: Thank you very much sir. We will now begin the question and answer session. First question is from the line of Pritesh Chura from Lucky Investments. Please go ahead.

Pritesh Chura: Sir! I have two three questions. First you know the Crocodile business what is the EBITDA loss or profit number, which is there now in the numbers for Q1 and H1? My second questions is overall why are the margins down on a QOQ basis that is the second question and my third question has the new garment policy talked about has it started flowing in your Q2 number or it will start flowing in and what will be the benefit of these questions?

V. Balaji: Thank you for the questions. For the first question the EBITDA margins when you look at Q1 as I told you last quarter in the conference call also. There is an extraordinary item of mark-to-mark gain of 4 Crores 75 Lakhs, which has improved the EBITDA and if you remove that and see it will be 18% and the same way here you have to include the exchange fluctuation. There are two items, which we need to look at every quarter; one is on the MTM gain and two it is on the exchange fluctuation. MTM gain is on our contracts forward contracts, which is pending, so you mark to market that forward contracts and show income or gain or expenses in our other expenses, so last quarter we had a mark-to-mark gain of 4 Crores 75 Lakhs. If you remove that and see it is 18% EBITDA last quarter and if you add the exchange fluctuation of 49 million during the current quarter then the EBITDA also remains 18.1% which we are sustaining.

Pritesh Chura: Is there any MTM in the quarter?

V. Balaji: There is MTM, but what happens is last quarter MTM is getting reversed and currently we are making a new provision as on 30th September. Net on net the effect is nil. I answered your first question?

Pritesh Chura: I just got now a little bit confusion. Is there are MTM numbers, so there are two things here, there is one MTM number and then there is one booked out FX number right? Booked FX number is a part of other income, which you said is about 4 Crores? Is there MTM number also, which is a part of expense line?

V. Balaji: See MTM number is the first quarter where there is a gain of 4 Crores 75 Lakhs.

Pritesh Chura: And in Q2?

V. Balaji: Q2 also what happens is the gain is getting reversed in the second quarter and you book a fresh loss or gain that is also 475, so net effect is 0. The opening balance sheet of Q2 is Rs.4 Crores roughly and closing out.

Pritesh Chura: As clarify when you are saying 18% margin in Q2 you are just including the other income element, but you are not adjusting the MTM loss of 4.7 Crores in Q2?

- V. Balaji:** See there is no gain in MTM during the second quarter because you would reverse the first quarter gain and book the second quarter gain also, so when you reverse it you will have a debit and the credit. Net effect is very near negligible.
- P. Sundararajan:** Which means the MTM opening reversed was also 4 Crores and closing MTM in our favor also 4 Crores.
- V. Balaji:** So net effect is very negligible.
- Pritesh Chura:** What is the Crocodile impact on the EBITDA line?
- V. Balaji:** Crocodile had a top line of 16 Crores and EBITDA loss of 1 Crores closely around 6.29% and that 1 Crores has a hit on the EBITDA in second quarter.
- Pritesh Chura:** When will the new garment policy get implemented, have you started booking the rebate incentives on that?
- V. Balaji:** You are talking about ROSL. See ROSL is effective from 20th September and we have started getting the duty drawback effective from 20th September, so Q2 will not have the impact of ROSL. You will have Q3 where you will have closely around 3.5% in excess of the duty drawback, which we are receiving as of now.
- Pritesh Chura:** In excess of what you are getting now?
- V. Balaji:** Additional.
- Pritesh Chura:** 2.3?
- V. Balaji:** 3.5
- Pritesh Chura:** 3.5 of the revenue?
- V. Balaji:** Yes exports revenue.
- Pritesh Chura:** Of the exports revenue. Thank you very much sir and have a great day.
- Moderator:** Next question is from the line of Ravi Naredi from Individual Investor. Please go ahead.
- Ravi Naredi:** Sir! Why not you go for store expansion in asset light model?
- V. Balaji:** Can you come back again?
- Ravi Naredi:** Can you give the franchises model to other persons though it can make the stores and?

- P. Sundararajan:** Franchise model already as we informed during our road shows to everybody we have already started converting some of the existing our own stores to franchise as well as we already identifying few more franchises who will start up their own stores, they will invest for their own stores, it is already in the process. We have already done I think we are in the negotiation with one or two people before end up in March we should be able to convert some of the existing one or maybe one or two new franchise model.
- Ravi Naredi:** This Crocodile when you are getting to break even?
- P. Sundararajan:** We hope to break even by March end.
- Ravi Naredi:** If you go for asset light model it can be before that also?
- P. Sundararajan:** I do not think so.
- Ravi Naredi:** What will be the impact of this demonetization of currency?
- P. Sundararajan:** Nothing for our business in the retail because our 50% is on the retail direct from customers and another 50% through distributors. Distributors they have since this is an organized sector ours is so they also get everything payment by RTGS or by cheque or something no cash dealing, but there is little bit impact in the last two three days only for working in our stores, but that will not have much impact in going forward should be always next two three days time.
- Ravi Naredi:** Small impact means how much percentage?
- V Balaji:** Let me add one more point here. Of the store sales 80% of the sales is through credit cards and debit cards, only 20% is through cash, so we guess this 20% is the number, which is getting affected for say 10 or 15 days time maybe subsequently I think it should pickup.
- Ravi Naredi:** Because every person is now busy to change the currencies of credit card and debit card persons are not coming to stores anywhere in India that is the main problem.
- V Balaji:** Correct walkings are a bit subdued, but this is always after Diwali we will always have this problem of low walkings so we do not foresee that to be a big impact overall.
- Ravi Naredi:** How was Diwali season this year?
- V Balaji:** It was very good. We had a cracker number for Diwali.
- Ravi Naredi:** Thank you Sir!
- Moderator:** We take the next question Sir! That is from the line of Ujwal Shah from Quest Investment Advisors. Please go ahead.

- Ujwal Shah:** Thank you for taking my question Sir! Thanks for good brief that you gave at the start. Just to quantify the number in terms of the Brexit effect based on whatever you have said, so we maintain that margins would stay at 18% level in and around by all the measures that we have taken and that you have specified or you think there is a chance of some risk?
- V Balaji:** The Brexit impact we do not foresee any impact in the margins going forward. Whatever margins, which are getting affected because of the depreciation in the Pound is only with 35% of our overall business and if you look at the margins, which is getting affected in Pound alone should be closely around 3-4% or max could go to 5%, where I think our CMD has explained clearly in his comments saying that we have taken all steps to mitigate the upward of margin, which is getting affected. We are getting this 3.5% of duty drawback in excess, which is for all the exports not only for GBP. I think that the margins will definitely sustain going forward and not only that when once we are complete in terms of backward integration, the other things on place we will definitely be able to improve our margins going forward.
- Ujwal Shah:** Sir in terms of orders and demand from the UK region how are we seeing that because the next cycle was expected to start soon, so how were the negotiations with the clients?
- P. Sundararajan:** As far as the orders are concerned there is no issue because as we always mention we are in such a segment where the infants and the kids business is not there, there is always that has been spending on this segment, so we have not seen any drop, any decline in the order book. When compared to last year the order book is much better today as on hand, which is a very clear example that never this children segment will go down in the business in spite of any recession or any kind of Brexit issues. This is one thing, other thing is regarding the price negotiations the retailers have started increasing their selling price after the Christmas, so they cannot also sustain for a long like this, and one or two customers have also increased the price to say by 7-8% with us say for example some customers have increased the prices also for the Q4 deliveries, so there has been no big impact of Brexit with regard to order book or the pricing. There has been a pressure no doubt about it, but as I mentioned we are able to mitigate even the smallest portion of the 35% of the Pound.
- Ujwal Shah:** This is a question forward with demonetization and its impact, so good to hear that we had a very robust Diwali sales, but do we still maintain that by your end you would be able to break even for the retail segment or do you think the current demonetization as well impacted to certain extent that might see a roll back on that?
- V Balaji:** The impact of demonetization you cannot measure it as of now, but the immediate impact is there in the walk-ins. So we are hopeful that we will break even because when you look at what we have achieved in the first half we are closely 29 Crores of revenue from the retail for the first half so we feel that we can definitely go forward the numbers. We are looking towards it, let see how things go.
- P. Sundararajan:** Sorry to interrupt. Luckily this demonetization has come after Diwali and generally post Diwali for one month or so there will be a definite recession because there will not be a priority for the

customers to shop again in the shops. Luckily we are undergoing during that time so we are not facing any big changes. Anyway the walk-in going to be lower post Diwali and then the business starts for Christmas and other things the festival starts again, so we do not see any thing. In October for Diwali we have really done good numbers.

Ujwal Shah: Lastly you did mention in your initial comment that the yarn price decrease is also going to help you reduce your cost price so can you quantify that what kind of reduction can we seen on account of this and what percentage of raw material supplies do we get from China, can you throw some light on that please.

V Balaji: We do not get anything from China, so I do not think quantification in terms of impact that is not possible.

P. Sundararajan: Better negotiation due to the liquidity improvement and that is the only thing in addition to drop in yarn price, but I do not think we will be able to quantify exactly because it is continuously going to drop.

Ujwal Shah: Thank you Sir! That is all from my side.

Moderator: Next question is from the line of Dharamesh Shah from ICICI Securities. Please go ahead.

Dharamesh Shah: Thanks for the opportunity Sir. Just to further digging in the demonetization Sir. As far my understanding there will be an impact in the consumer sentiment plus there will be also an impact in the end of season sales, which generally happens in the winter season. If you can just give further update from the industry perspective not from the company, but if there will be an impact from the industry perspective whether there will be impact for one quarter or two quarter something like that because people are going to be spending more on the essential items and then only they will spend on the apparels or luxury items if you can just give any feedback that will be helpful.

P. Sundararajan: That is correct. This will have impact more on the unorganized retail businesses. Some of the MBOs where there are the low-income group for such kind of people this may not be a priority.

Dharamesh Shah: Sir! If you divide between the urban and rural segment how this will even impact in the urban and rural area then how ourselves have divided between the urban and rural segment?

P. Sundararajan: As Balaji mentioned that generally the mid income, upper mid income groups are all transacting the credit cards and debit cards, which in the normal course, so for that they have definitely not disturbed with this kind of situation, it is only a chaotic situation, but today just to understand about the demonetization, otherwise it is not that the people are not going to spend money on their routine because they are not disturbed by the demonetization.

Dharamesh Shah: Thank you Sir!

- Moderator:** Next question is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.
- Chintan Seth:** Thanks Sir for taking my question. Just wanted to understand our ordering table. Last quarter we had order book of around 190 Crores and this quarter you are saying that we are having order book of 150 Crores there is a drop so any?
- P.V. Jeeva:** Actually this order book is less because of November we have less working days and if you calculate this less working days when Q3 is at par with the Q2 numbers.
- P. Sundararajan:** Generally always Q3 the number of working days are going to be lower when compared to Q1 and Q2 because of various festivals and as well as even Q4 there will be a small drop in number of working hours. In the first month due to the local festival over here Pongal festival, so the factory will be closed for a number of days, so always the order book generally we keep those numbers of working days in mind and take the orders. So if you compare this with last year similar time post Diwali it will be much better than the previous one.
- Chintan Seth:** This is basically to do with seasonality and number of working days?
- P. Sundararajan:** Number of working days in line with the festival season.
- Chintan Seth:** On an average annual basis what will be our capacity to take the orders full year basis?
- P. Sundararajan:** There will be an increase of 15-20% as compared to last year.
- Chintan Seth:** So last year full year what was the order book as of March and you are expecting 15-20% growth by March end this year right?
- P. Sundararajan:** Correct.
- Chintan Seth:** What was the figure as of March 16?
- P. Sundararajan:** March 16 we have export revenue of 423 Crores.
- Chintan Seth:** No I am asking about the order book figures?
- P. Sundararajan:** You cannot match that way.
- V. Balaji:** The order book cannot be matched. It can be the first booking for three months delivery, six months delivery, and there are lots of things that can change.
- Chintan Seth:** One more thing Sir. Under 420 Crores export revenue you just mentioned it would be mostly from the UK and Europe, right?
- V. Balaji:** Yes.

- Chintan Seth:** The breakup will be more 80, 90% will be from the UK side?
- V Balaji:** Exactly.
- P. Sundararajan:** 75 and 25.
- V Balaji:** The 25 is from Ireland that is non-UK.
- Chintan Seth:** 75% is UK and 25% is Ireland, non-UK. You are planning to add one or two clients in US?
- V Balaji:** US as well as non-UK say maybe from Sweden, Northern France, we are already in talks with them.
- Chintan Seth:** Can you help us just how the dynamics of the ordering takes place. When you book an order say two days for delivery in next month or so how you protect your margin, is it on a percentage sales basis or it is on a percentage per unit basis on a gross basis not on EBITDA level I understand that and there will be some implications on the input cost and all, but what is the general sense how do you do business?
- V Balaji:** We work on GP basis. We do the costing and we will negotiate with the customers, so we arrive as GP then we maintain this by budgeting for raw materials, production plans everything then you will try to match the margin what they booked at the time of order.
- Chintan Seth:** Gross profit basis you keep the margin static that is what you are saying right?
- V Balaji:** Exactly.
- Chintan Seth:** If I look at gross margin of this quarter it fell sharply because of the increase in input cost prices by around 390 on YOY basis.
- V Balaji:** If you look at the margin impact that I told you earlier.
- Chintan Seth:** Because of the input
- V Balaji:** No because of the depreciation in Pounds. The Pound has depreciated. Whatever shift during the second quarter I have taken on order at the rate of 96 rupees, 97 rupees. When I am shifting it, it is flowing into my books as 82 rupees. Subsequently on realization I have taken 98, so you have to include that exchange fluctuation of 49 mn in gross margin. So my revenue itself is down by 49 million that is what I am trying to say. When you increase the revenue and look at it then you will have an impact of only 125 basic bits, which is pertaining to the increase in the yarn prices.
- Chintan Seth:** On gross profit that is on a percentage basis or per unit basis you mentioned right now or you mentioned that you fix or you look at profit as a precursor for any order and essentially budget according to the cost?

V Balaji: In percentage.

Chintan Seth: It will be in percentage.

V Balaji: Percentage style to style, customer to customer quantity based things will change. We have certain parameters for costing purposes, based on that.

Chintan Seth: Small batches, poor margins

V Balaji: We can have four margins yes exactly. For the volume lines we will reduce the margin, so there are some standard formats we are following.

Chintan Seth: So it will be on a rough case basis 42% gross margin you are working currently or much lesser?

V Balaji: In customer margins I think we will not be able to share with you now.

Chintan Seth: Correct on a company basis.

V Balaji: It cannot be discussed I think.

Chintan Seth: Any impact on the debtor days given the situation on the UK front as well as on distributor side in India because of demonetization we are facing?

V Balaji: In terms of receivables for the export there is a cycle where it takes its time 45-50 days and then it's received. There is no effect of demonetization on the export receivables or because of depreciation there is no impact of the receivables of export receivables. In terms of the distribution it takes some longer time, say now wait 60 days or 70 days. It may take some say another 80 days or 90 days that will be the impact.

Chintan Seth: You are actually saying that in India distribution retailing side the impact will have from 60,70 days currently to 80, 90 days.

V Balaji: There maybe a collection delay by 20 days or 15 days should not go beyond this.

Chintan Seth: Because of this demonetization?

V Balaji: Correct.

Chintan Seth: UK is generally 50-55 days cycle.

V Balaji: It depends on customer to customer. Usually it is 50-55 days on an average.

Chintan Seth: You have not seen any impact of the Pound depreciation on the cycle so far?

- V Balaji:** I think we have given the impact analysis on the opening remarks and subsequently also we do not foresee any problem because of Brexit.
- Moderator:** Excuse me this is the operator you may be requested to rejoin the queue please for followup questions.
- Chintan Seth:** No issues.
- Moderator:** Next question is from the line of Ketan Gopani from Unique Investment Consultancy. Please go ahead.
- Ketan Gopani:** Thank you very much Sir! My broad question is we were realizing the 94, 96 rupees per Pound previously so if we hypothetically believe that one pound is the cost per piece what we were charging, so is there any price increase during the current month or further negotiations we would like to now charge 1.1 or 1.2 pounds like that?
- V Balaji:** As I mentioned before some customers in some orders wherever there is a questions they are trying to help us to increase the price rise say about as I mentioned 5-7% in case to case and there is again only in case of where that negotiation in UK part not in dollars or not in euros.
- Ketan Gopani:** When you feel those higher prices will be realized in this current quarter or next quarter?
- V Balaji:** Increase is far with the Q4.
- Ketan Gopani:** Second question is what is our export revenue in first half and the bifurcation of that exports in terms of currency the pound, euro, or?
- V Balaji:** Pounds will be closely around 34%, dollars will be 55%, and balance will be euros.
- Ketan Gopani:** One more question, we are paying to all the employees or effective workers care, so we are paying by cheque their salary?
- V Balaji:** Whoever has got accounts we pay through 45% of our overall and these paid through bank accounts. The balance the floating employees take time to open up accounts and all, so for those people we paid through cash only.
- P. Sundararajan:** And we continue to convert them through banks.
- Ketan Gopani:** Thank you very much.
- Moderator:** Next question is from the line of Kashyap Jhaveri from Capital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** I just wanted clarification. You mentioned in one of your earlier remarks is that due to Brexit there could be an EBITDA loss or let say EBITDA margins could get impacted by about 3-4% of

only GBP sales right? That is what you mentioned and that could be compensated by additional 3.5% rebate on the overall exports sales.

V Balaji: You got it right.

Kashyap Jhaveri: Thank you very much.

Moderator: Next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Thank you for the opportunity. Just one question on is we exporting as of now to US?

V Balaji: So far not we are planning hopefully next financial year we will be definitely starting US market.

Aman Vij: Would the recent development regarding the TPP be favorable to us? Am I correct if it is not coming?

V Balaji: Which one you are talking about?

Aman Vij: Trans-pacific.

V Balaji: That is so far we have not felt anything on this segment, I think it is not much, we have not felt anything on this.

Aman Vij: But going forward just your view on the industry itself those people like you who will be planning to export to US and others who are also currently exporting to US, so the TPP not coming in as per the news report, will it be favorable to the Indian industry?

V Balaji: It could be, most probably it will be in our favor that could be.

Aman Vij: Thank you. That is it from my side.

Moderator: Next question is from the line of Raunak Morjaria from Edelweiss Mutual Fund. Please go ahead.

Raunak Morjaria: Can you give us a volume growth number for the quarter in exports?

V Balaji: Last quarter we have made export volume of 12.76 million pieces against Q2 of 7.66 million last quarter year on year.

Raunak Morjaria: And for the half year?

V Balaji: Half year we have made portal exports of 26.15 million versus 16 million.

- Raunak Morjaria:** What would be the Capex going ahead in this year you said 300 new machines will be installed in this year, already we have installed 300 machines in the first quarter?
- V Balaji:** Capex for the next half year should be close to around 7-8 Crores in the garmenting front and the backward integration process is on and it will take a course of time to get completed.
- Raunak Morjaria:** By when are we expecting it to be operational?
- V Balaji:** The knitting division is expected to be completed by the first quarter of financial year 18 and the spinning we are expecting it to be operational by the fourth quarter of FY18.
- Raunak Morjaria:** How much is the capex going to be for this?
- V Balaji:** For knitting, it is closely around 16.5 Crores in terms of machinery and for the spinning it will be closely around 45 Crores, which has been raised through the IPO funds.
- Raunak Morjaria:** I just wanted to understand what kind of advantage India versus Bangladesh for entering and gaining shares in the European and the US markets?
- V Balaji:** The biggest issue in Bangladesh is the compliances, the social safety. So many customers are definitely not willing to increase the business in Bangladesh. In addition to that there has been terrorism, some of the buyers were also died during the thing. @so the kind of in every brand, the retailers are trying to reduce the business or not increase at least so these business will definitely come to India.
- Raunak Morjaria:** That is it from my side, thank you.
- Moderator:** Next question is from the line of Sandeep Baid from Quest Investments. Please go ahead.
- Sandeep Baid:** Good afternoon sir. I just wanted to understand if the ROSL benefit would continue under the GST regime?
- V Balaji:** GST has nothing to do with ROSL maybe if once the GST comes into the picture then they may change the whole duty drawback structure itself.
- Sandeep Baid:** Thank you.
- Moderator:** Next question is from the line of Chintan Seth from Sameeksha Capital. Please go ahead.
- Chintan Seth:** Thanks for taking my question again. On the capex you mentioned about commenting capex and all. I wanted to understand what is the present capacity in million pieces and what will be the extended capacity post extension?

- V Balaji:** In terms of capacity we have 3760 sewing machines against which we have utilized 3218 machines, which is 86% utilization. I think we cannot talk in terms of capacity in terms of pieces because style wise it varies.
- P. Sundararajan:** Definitely in the output there will be definitely increase of 15-20% that is about 600 machines as against 3900 plus it is going to be.
- Chintan Seth:** Post extension it will be from 3670 to 3900?
- V Balaji:** 3760 you will have another 300 machines getting increased.
- Chintan Seth:** Close to 4000?
- V Balaji:** Yes close to 4000.
- P. Sundararajan:** It was 3200 something before; we increased 300 machines during the first half so now after increasing another 300 it will be close to 4000.
- Chintan Seth:** Post that there is no addition in the sewing machine?
- P. Sundararajan:** No, these are ongoing one I think next financial year
- V Balaji:** We are looking at an increase of 2000 sewing machines over a period of three years, so this year we are looking at an increase of 600 sewing machines, subsequently we will increase sewing machines by 800 and then by 700, so overall if you look at we will be increasing our capacities regularly. It will be ongoing process.
- Chintan Seth:** On this increment what will be the total incremental revenue on this increment of 2000 machines?
- V Balaji:** Any machine will fetch you a revenue of closely around 17 and/or 18 Lakhs per annum, so any incremental say if I am incremental of 2000 then you have to just
- Chintan Seth:** 17-18 Lakhs per annum roughly?
- V Balaji:** Roughly.
- Chintan Seth:** On a per machine cost of?
- V Balaji:** Per machine cost of say closely around 2.5 Lakhs per machine.
- Chintan Seth:** Thank sir.
- Moderator:** Next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

Bharat Sheth: Good afternoon. You said that in second half we expect to grow at the rate of 15% over last year correct?

V Balaji: Yes.

Bharat Sheth: So last year how much exports sales there in second half was?

V Balaji: Our revenue for the second quarter

Bharat Sheth: Last year second half.

V Balaji: Second half was closely around 220 Crores last year.

Bharat Sheth: So on that we expect to grow at 15% correct?

V Balaji: Yes correct.

Bharat Sheth: Where do we see the EBITDA, which you say including this exchange fluctuation around 18% in second half?

V Balaji: We should be settling down somewhere closely around 18-20 percentages.

Bharat Sheth: Can you give some sales impact mdo we have or is there any change in for work hour policy also we taken post this Brexit?

V Balaji: No, there is no change in the policies in terms of Brexit because whatever orders we are taking we are looking against the orders and based on the shipment date and receivable date we are booking it back to back, so there is no change in the policy.

Bharat Sheth: You said that yarn prices are declined, so can you give some trend how much was the percentage increase over Q1 in Q2 and then ex percentage decline in Q3?

PV Jeeva: For Q1 and Q2 yarn price itself it gone up to 20%, now for Q3 it has been reduced to 10% and we are expecting another 10% by Q4.

Bharat Sheth: That will help us and so it will improve our EBITDA?

PV Jeeva: Yes.

Bharat Sheth: Some of the benefit that will start with because of knitting next year, so next year where do we see, expecting that pound remain this level kind of EBITDA margin?

V Balaji: As we have discussed this 18-20%, which we said we have achieved during the second half these are blended numbers, so when you look at next year we are expecting somewhere closely around 21% in terms of blended number.

Bharat Sheth: Blended number 21%?

V Balaji: 20, 21%.

Bharat Sheth: In second half how much is a sale we are expecting on account from this Crocodile retails?

V Balaji: We are trying to double the number.

Bharat Sheth: So how much was the first half?

V Balaji: 29 Crores.

Bharat Sheth: We are expecting to do it around?

V Balaji: Expecting somewhere closely around 60 Crores.

Bharat Sheth: In second half?

P. Sundararajan: No, in second half the whole year.

Bharat Sheth: Fine Sir! Thank you very much. That is all from my side.

Moderator: Next question is from the line of Chintan Modi from Motilal Oswal. Please go ahead.

Chintan Modi: Thanks for the opportunity. Sir my first question is like can you share out of the total revenues that we booked in first half and second quarter how much had contributed by Primark?

V Balaji: Primark I think we have taken a call that we will not provide information about the customer voice data every quarter.

Chintan Modi: No problem.

P. Sundararajan: I mentioned in the beginning there has been a significant increase in Primark business, which we have been mentioning throughout various meetings and concalls. We are in line with that and they have also committed that there is going to be a significant increase furthermore in the coming year.

Chintan Modi: And can you share overall realizations that we would have done?

V Balaji: Overall realization in terms of?

Chintan Modi: Per piece?

V Balaji: Per piece realization should be closely around 100-101 Rupees.

- Chintan Modi:** Just to clarify one more thing, you mentioned that impact of the Brexit would be close to 3-4% on the UK business so effectively that means that on the overall revenue the impact should be 1-1.5% on the EBITDA correct?
- V Balaji:** Correct.
- Chintan Modi:** And against that we are expected to get around 3.5% of ROSL benefit, so effectively that means that we should end up 2% gain on the EBITDA margin?
- V Balaji:** If you look at the overall impact what MD was saying that it would happen only in Q4 not in Q3.
- Chintan Modi:** The impact of Brexit?
- P. Sundararajan:** The impact on the pound business pricing there will be a hit of 5-7% on this 35% business.
- Chintan Modi:** So that will be your 2-2.5% kind of impact on the overall business?
- P. Sundararajan:** I think it should match with the 3% more or less.
- Chintan Modi:** It should match, but against that Sir! We are also getting the benefit on the raw material, the yarn prices are also falling, so I think incrementally we should see a higher margin only.
- V. Balaji:** That is where we said that EBITDA margins would be roughly around 18-20% going forward.
- Chintan Modi:** Fine Sir! That is it from my side.
- P. Sundararajan:** It is in the same side only.
- Chintan Modi:** That was helpful Sir. Thanks.
- Moderator:** We have next question from the line of Sumit Poddar from Birla Sunlife Mutual Fund. Please go ahead.
- Sumit Poddar:** Good afternoon and great set of numbers. Congratulations on these numbers. For the full year we are saying that we will achieve a 15% kind of growth or is it that we are giving this number for the remaining of the year as such? Given the kind of strong growth that we have had in first half what kind of growth we expect for the second half?
- P. Sundararajan:** The same in line. The same 15-20% that is what we have been working from the day one. Because as I mentioned many times the 15-20% is the best growth I would say so in this industry and sometimes we can make a small big jump, but otherwise 15-20% is the ideal growth rate, which we are maintaining.
- Sumit Poddar:** For remainder of the year you will have 15-20%, it is not for the full year you are saying 15-20%?

V.Balaji: No. Naturally it will be only 15-20% that is what we have been saying everywhere.

Sumit Poddar: Are you seeing anything, which because this implies that second half would be a low single digit number?

V.Balaji: It is not like that, but what we are saying is only 15-20%.

Sumit Poddar: There is inherent strength the business do have that kind of growth as such. Anything that we have already gained in first half is over and above that.

V.Balaji: Correct. You got it.

Sumit Poddar: On the overall basis if I look at the next year, so from a distribution standpoint the retail would be kind of substantially higher than what we have currently right.

V.Balaji: Yes, the contribution percentage should be higher on the distributor side.

Sumit Poddar: Next year, what kind of margin the retail is expected to deliver sir.

V.Balaji: In terms of EDITDA, we are sure we will breakeven.

P. Sundararajan: Actually we are going in tandem with that.

V.Balaji: I think we should be in a position to achieve somewhere, some plus, yes. Numbers, I think we will not be in a position to.

P. Sundararajan: Next year going to be the first year we are coming out of the wood.

Sumit Poddar: Sir on the GBP side what kind of hedging would be there currently as such.

V.Balaji: So once we receive the order, we book 40%, once the sales confirmation comes, then we will book 20%, and balance on shipment, we cover 20%. So 80% is covered. So balance 20% is kept open. So, this is the policy, which has been in the company for the past three, four years.

Sumit Poddar: Right. But in absolute on the end of quarter what will be hedging per se as such.

V.Balaji: You are talking about total.

Sumit Poddar: Total hedged amount as such.

V.Balaji: In terms of pound?

Sumit Poddar: Yes.

V.Balaji: Pound, we have closely hedged around 81%.

- Sumit Poddar:** Okay, so that the Rs.150 Crores order book is like 81% hedged as such.
- V.Balaji:** No only the pound front.
- Sumit Poddar:** Only the pound fine.
- V.Balaji:** All you have the same proportion only.
- Sumit Poddar:** Sure.
- V.Balaji:** Maybe in dollar, we may have 84-85%, euro we will 78-79%.
- Sumit Poddar:** Great sir. Great and all the best.
- Moderator:** Thank you. Next question is from the line of Raunak Morjaria from Edelweiss Mutual Fund. Please go ahead.
- Raunak Morjaria:** Hello.
- V Balaji:** Hello, yes please.
- Raunak Morjaria:** In the segment, which we are present of the infant garments, which other countries are competing with us in the markets we are present in.
- V Balaji:** Mainly I would say Vietnam and Sri Lanka to some extent because they are more into the ladies lingerie and the basic products, a little bit now they are into this children segment for fashion. Not much from Bangladesh.
- Raunak Morjaria:** In the US markets, which countries are dominant in the infant garment segments.
- P. Sundararajan:** For the US, China is the one. Since the China business is coming down so it is coming to US, Cambodia, Vietnam, to some extent the Bangladesh but not this kind of quantity because some customers who were doing business with us before in US, they want to come back to us who went to Vietnam and Cambodia because this product is something not all countries can handle. So India is the best destiny for such products.
- Raunak Morjaria:** Okay.
- P. Sundararajan:** There is no like for like competition in this segment with other countries.
- Raunak Morjaria:** Okay. So, what kind of benefit does Vietnam has over India.
- P. Sundararajan:** I think duty free.
- Raunak Morjaria:** They have duty free.

- P. Sundararajan:** Vietnam is not duty free, only Cambodia is duty free. So there is no benefits of people expected that to be more productivity and less wages but the whole thing has changed now. They just have increased lot of labour union issues and so no benefits from that country. So many people are coming out of Vietnam currently.
- Raunak Morjaria:** Okay. What would be differences in labour cost of India, Bangladesh, and Vietnam in garmenting side?
- P. Sundararajan:** Vietnam I would say in terms of rupees we are currently around 10,000 to 12,000 rupees we are, the worker wages whereas Vietnam is I think 13,000 to 15,000 rupees today. Just now, in the recent past, they have increased it so that is one of the reasons why the customers are not comfortable there, Bangladesh also should be almost at par with Indian thing and Sri Lanka is slightly expensive. There they must be saying around 10-20% greater than India wages.
- Raunak Morjaria:** So Bangladesh is at par.
- P. Sundararajan:** More or less, slightly lesser but because of the compliances issues, they are also becoming expensive now.
- Raunak Morjaria:** Okay. China is anywhere --
- P. Sundararajan:** China is definitely expensive, yes.
- Raunak Morjaria:** Okay. Thank you. That is it from my side.
- P. Sundararajan:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen due to time constraint that was the last question, I would now like to handover the floor to the management for their closing comments, over to you sir.
- V. Balaji:** Thanks to all for participating in the concall. I hope, we were able to satisfy all your questions and please rest assured that we are all the time our whole team is working more consciously and meticulously to see that we exceed our expectations what we doing the road shows and many meetings. So, please rest assured that we would be able to meet out your expectations. Thank you.
- Moderator:** Thank you very much sir. Ladies and gentlemen on behalf Centrum Broking Limited that concludes this conference call. Thank you for joining you and us may now disconnect your lines.