S.P.APPARELS LTD.

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Date: 19.11.2024

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Stock Code : 540048	Stock Code : SPAL
Ref: Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015	
Sub: Transcript of the Conference call held on 13th November 2024	

Dear Sir/Madam,

With reference to our letter dated 09th November 2024, intimation of Earnings Call for the Quarter ended September 30, 2024 to discuss the financial performance of the Company, held on 13th November 2024, 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

Vinodhini K

Digitally signed by Vinodhini K
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Date: 2024.11.19 13:28:06 +05'30'

K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above

"S.P. Apparels Limited

Q2 FY 25 Earnings Conference Call"

November 13, 2024

MANAGEMENT: **MR. P. SUNDARARAJAN – CHAIRMAN AND MANAGING DIRECTOR**
MRS. 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 S.P. Apparel Limited Q2FY25 Earnings Conference Call, hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero 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, ma'am.

Prerna Jhunjhunwala: Thank you, Manav. Good afternoon, everyone. On behalf of Elara Securities Private Limited I would like to welcome you all to Q2FY25 Post-Result Conference Call and Business Update Call of S.P. Apparel Limited. Today, we have with us the senior management of the company, including Mr. P Sundararajan, Chairman and Managing Director, Mr. S Chenduran, Joint Managing Director, Ms. S Shantha, Joint Managing Director, Mrs. S Latha, Executive Director, Mrs. P V Jeeva, CEO, and Mr. V Balaji, Chief Financial Officer of the company.

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

P. Sundararajan: Thank you, Prerna. Good afternoon, everyone. I welcome you all to the Post-Earning Conference Call for Q2 & H1FY25 of S.P. Apparel Limited. I hope all of you had a chance to look at our Investor Presentation that is uploaded on the company's website and at the Stock Exchanges. The Indian textile sector is currently experiencing favorable conditions in the global market. As international retailers adopt the "China Plus One and Bangladesh Plus One strategy", India has become a key sourcing destination.

This shift is driven by a desire to mitigate risk and diversify supply chain moving away from traditional markets. In response to this shift, American and European companies are actively looking for alternative to Chinese raw materials. This trend, coupled with India's growing capacity and infrastructure, has allowed garment exporters to significantly increase their production capabilities to cater to this demand.

We are seeing this trend gain momentum with a few prominent customers who are actively encouraging their importers to shift sourcing away from China to India. Similarly, US importers are also showing a keen interest in placing orders with India, signaling a positive growth outlook for our market. Moreover, India, alongside Vietnam and Sri Lanka, is emerging as a sourcing destination, reflecting a shift in preference from China and Bangladesh.

These economic shifts are beneficial for us as we are eager to take advantage of these opportunities. To do so, we are implementing strategic measures such as maximizing the utilization of our current capacities and have also begun to attract interest from new customers who are ready to place orders with us.

Coming to our business performance, at our spinning division, we have faced some hurdles in the past, particularly due to the volatility in cotton prices. However, cotton prices have stabilized on the lower side now, enabling us to maintain the profitability. Additionally, our dyeing facility has reached 95% utilization rate, enhancing the efficiency and performance of this segment. In the garment division, we have made significant strides in our operational efficiency.

Our capacity utilization has increased to 82% in Q2FY25, up from 79% in Q1FY25. Historically, our utilization rates were between 72% to 74%, which has currently increased to 84%, and we are on track to achieve our target of 90% utilization by March 2025. During this quarter, employee expenses were higher due to the recruitment of new workmen, which improved our utilization rate.

However, production efficiency was not at its peak since these employees are still in the early stages of their training. Over the time, we expect their productivity to improve. Additionally, the necessity to expedite certain orders via air transport led to increased air freight costs, which affected our operational margins for the quarter.

Turning to our recent acquisition of Young Brand Apparel, which is a significant milestone in S.P. Apparel's journey and brings substantial potential for growth, we have identified several areas for improvement that will enhance margins. With full control over the workforce, production efficiency, order booking, raw material sourcing, and overheads, our goal is to improve margins by 4% to 5% in the upcoming years.

Currently, out of 1,500 machines, we have achieved 74% utilization rate, and by the end of March 2025, we anticipate it to increase to 92.5% with 1,400 machines in utilization. Additionally, we plan to expand the capacity at Young Brand by adding 300 machines in the next two years. With regard to customers, S.P. Apparels has traditionally been concentrating in European and UK markets. However, the acquisition of Young Brand has opened doors to the American market, where the brand enjoys a strong reputation.

This has led to increased interest for American customers in S.P. Apparel's fashion products, demonstrating effective synergy between SPAL and Young Brand. In Young Brand, we anticipate some initial impact on EBITDA margins, but we are optimistic in reaching our goal of 18% margin in the Garment Division, including Young Brand. Going forward, the numbers of Young Brand will be combined with SPAL's numbers under Garment Division for presentation purposes.

Furthermore, we are happy to share that Training of Workmen at Sivakasi Unit has been started and we expect this to operate efficiently in the next 12 to 15 months' time. Our current order book is INR512 crores, where INR402 crores from SPAL and INR110 crores from Young Brand. Looking at the Garment Division's performance, the adjusted revenue was INR257.5 crores with an adjusted EBITDA of INR43.9 crores and an EBITDA margin of 17.1%.

Moving towards our subsidiary in Sri Lanka, which is an asset-lite business model with high ROEs, has already started yielding positive results. The operations in Sri Lanka are enhancing our capacity without additional investment in assets. We have onboarded new customers of wholesale US importers in our customer profile, which aligns with our expanded capacity and growth in customer volume.

In the Retail Division, SP Retail Ventures reported revenue of INR22.5 crores during the quarter, compared to INR27.6 crores in Q2FY24. I am excited to announce that our Crocodile Brand has reached that breakeven point this quarter, with a top line of INR22.5 crores despite a nominal loss. We expect the Retail Division to achieve a breakeven status by end of FY25.

Additionally, we have made the strategic decision to discontinue the Head Brand, with the license set to expire in December 2024. We are actively exploring fundraise opportunities for our Retail Ventures, including participation from existing shareholders.

With regard to SP UK, our revenue for Q2FY25 was GBP1.83 million and current order book is valued at GBP5.01 million. At SP UK, we are experiencing a revival. After a year of transition involving office relocation and team restructuring, including the integration of new generation of designers, we are now back on track.

I am pleased to share that in H1FY25, we secured two new customers and we have two additional customers to be signed up this financial year. We are confident of the growth of this division in FY26.

Now, we recognize our team's contribution to our success, for which we have launched Employee Stock Ownership Plan, ESOPs, as a token of appreciation. This initiative aims to reward their hard work and foster a sense of ownership, aligning their interests with companies' future growth. Looking forward, we anticipate improvement in margins with our aim to reach 18% EBITDA margin in Garment Division.

By March 2025, we expect to have an average of 4,200 machines running, up from 3,600 machines in FY24, marking a significant increase of 18% growth in the capacity utilization. Moreover, our recent investment in expanding capacities has enhanced our ability to grow, allowing us to seize new opportunities and provide strong value to our stakeholders. These efforts, along with supporting market trends, are set to contribute to our company's expansion in the coming years.

Thank you and over to Mr. Balaji, our CFO.

V. Balaji: Thank you, sir. Good afternoon, everybody. I'll just run through the financial performance of the company. On a standalone basis, we have recorded a revenue of INR257 crores on an adjusted total revenue basis. And at the adjusted EBITDA, we have recorded INR44 crores, which is at 17.1%, and at the PAT level, we have recorded INR18 crores of PAT at 7%. And for the first half, we have done INR471 crores, with INR80 crores of EBITDA, which is at 17%, and a PAT of INR40 crores, which is at 8.7%.

On a consolidated basis, for the second quarter, we have done INR393 crores, which is at a growth rate of 32.1%, at an EBITDA of INR52 crores. This is an EBITDA, not an adjusted

EBITDA, which is at INR52 crores, which is 13.2%, and a PAT of INR21.9 crores, which is at 5.6%.

On the first half, on a consolidated basis, we have done INR641 crores, with an EBITDA of INR87.8 crores, which is at 13.7%, and we have done INR40 crores of PAT at 6.2%. On the division-wise performance, on the government division, we have done INR257.5 crores, with an INR44 crores EBITDA, at 17.1% for the current quarter. For the first half, we have done INR471 crores, with INR80 crores EBITDA, which is at 17%.

For SP UK, we have done INR19.9 crores of top line, with an EBITDA negative of INR1.1 crores, and at the retail division, we have done INR22.5 crores for the current quarter, with an EBITDA of INR8.8 lakhs negative number. In terms of our debt, on a standalone basis, our gross debt stands at INR167 crores, and net debt stands at INR137 crores. And on a consolidated basis, our gross debt stands at INR299 crores, and net debt stands at INR241 crores, which is 0.3 on debt equity, and 1 time of EBITDA. Other data is available in the presentation, we can get into the question-and-answer session.

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Bharat Seth from Quest Investment.

Bharat Seth: Sir, my question is related to our US market. So, how many customers as of now we have and when we are seeing as per our MD remark, the kind of attractions. So, what is our strategy and how do we plan to increase that opportunity currently available from US market?

P. Sundararajan: Yes. So, currently in SPAL, we have about 6 customers, and we are in the process of increasing the customer base. And in addition to that, American customers from Young Brands, they are also open for fashion businesses. And in addition to that, there are certain basic orders where there is a requirement from the US market into India is becoming more like Walmart importers and all.

And Young Brand has got limited capacities which will be completely filled whereas they want more orders to be placed. So, what we are planning is that any additional orders, numbers can be taken by SPAL. That is one way of increasing the customer base and the top line also. In addition to that, through them, we will be getting more importers from the US which will, you know, gradually the number of customers will increase over a period of time.

So, in the next 2 years' time, put together SPAL and Young Brands, we will be having 10 to 15 *customers.*

Bharat Seth: And what is the kind of potential that we anticipate that we will be able to really reach US sales, I mean, on SPAL and Young Brands both put together?

P. Sundararajan: You mean in numbers?

Bharat Seth: Yes. Or in ballpark figure?

P. Sundararajan: No, it is like, you know, our sales top line grows only along with the number of machines, the utilization. So, the more the numbers, the more the orders because filling the capacities has never been a problem. So, why we are increasing the customer base is to see that there is a possibility of improving the margins by having more customers.

And our continuous effort is to increase the capacity. So, over a period of 2 years' time, we have put together, young brand and SPAL put together, we expect at least about 7,000 to 8,000 machines.

Bharat Seth: Okay, great. And profitability-wise, how is the US market vis-a-vis other European and UK markets?

P. Sundararajan: See, the profitability, because of volume, American market, we would be able to improve the margin a little bit. But still, the price pressure is always there in both, in both regions.

Bharat Seth: Okay. And on SP Apparels and Young Brands put together, how much contribution is coming from the fashion and how much is currently at the basic side?

P. Sundararajan: Contribution of? Babies. No. Babies are only in SP Apparel. In the Young Brands, it is only adult products.

Bharat Seth: Fashion product and a basic product that my question is. Like Primek is a basic, correct?

P. Sundararajan: No, no, it's a mix. For all customers, there is a mix of basic and fashion products. In SP Apparels, their fashion product is about 60% to 70%. And the rest are all basic products. But whereas in Young Brands, it is only the undergarments. There is no fashion or there is no basic. Everything is essential, basic only.

Bharat Seth: And taking further, I mean, sir, this SPUK, the way we are playing out. So can that SPUK kind of, again, one more, I mean, venture can help us, I mean, to grow into the U.S. market, like sourcing from India and selling, distributing to the American end user.

P. Sundararajan: To SPUK, you mean?

Bharat Seth: Either SPUK or separate subsidiary, sir.

P. Sundararajan: No, no, we have a plan. We are not ruling it out. We are planning SPUK office to put into American market as well to contact some of the retailers. And they can source from India and Sri Lanka for U.S. market, which we are not ruling it out. We might have an office in the U.S. also. It's too early to comment anything on that.

Bharat Seth: Okay. Last question, sir, on Sri Lanka side, how the things are playing out, our experiment with the Sri Lankan outsourcing market?

P. Sundararajan: Yes, Sri Lanka, see, we have already started the production. The first shipment is yet to go. So far, everything is going good in line with our requirements. And as I mentioned in my speech that, you know, we have a plan for increasing up to 2,000 machines over a period of two years' time. So without any investment into assets, so this will fetch additional extra businesses. And we have to mitigate only the margin, which shouldn't be a problem.

Bharat Seth: Margin to the extent of asset lite, is that fair understanding?

P. Sundararajan: Yes, if it is asset lite, overall if you look at it, yes, you know, the ratio will be better, but margin will be tight. Because, you know, the labor cost is slightly higher there, but the production efficiency is better. Our ROCE will be better. Oh, you're talking about ROSCPL. Yes, so we have to compromise on the ROSCPL.

And that is the reason why, you know, there will be a pressure on margins. But overall, it will as a company, it will fetch better ratios to the numbers.

Bharat Seth: Okay, so one last question on the retail side. How do we really, as you said that from existing shareholders, so are we also planning to put the money in this retail business?

V. Balaji: See, currently, the idea is to raise money in the retail division, where the debt portion will come down, and the margins will definitely improve. So, it's currently in the discussion stage. Nothing is being finalized so far.

Bharat Sheth: But if required, I mean, SP Apparel is ready to put the money, also additional money in this retail venture again?

V. Balaji: No, no. We are trying to raise money from outside. Chairman spoke about getting money from the existing shareholders of SP Apparel.

Bharat Sheth: Okay, okay. Thank you and all the best.

Moderator: Thank you, sir. We have our next question from the line of Aman Agarwal from Carnelian Capital. Please go ahead.

Aman Agarwal: Good afternoon, sir, and thank you for the opportunity. A few questions from my side, basically starting on the spinning division. So, like, sir, how much utilization are we operating currently? Are we a bit of a break-even? Like, how is the profitability in the spinningn division right now?

V. Balaji: Spinning utilization is full. And 95% is consumed by the other. It is capital consumed. And moreover, the efficiency levels are better now. And the margins are around 14%-15% at the division stage.

Aman Agarwal: 14%-15% EBITDA margins, right, sir?

V. Balaji: At the division stage.

Aman Agarwal: Okay, got it. So, sir, if that's the case, like, what was the main reason for current decline in garment margins? Like, we alleviate to higher employee cost, but still, like, with spinning doing well, we get a kicker in overall garment margins, right. So, why was garment margins at 17% compared to, like, historical level of 18%-20% for us? Or, like, anything on that?

V. Balaji: Two things. See, if you look at the EBITDA margins in terms of percentage, we have been guiding for 18%. And now there is a reduction in margins. One, because of the air freight cost, which has a significant impact because of INR6 crores for the first half is sitting in the expenses. Two, there is an increased employee cost because of the training where our utilization level has gone up and the training cost is sitting. And the spillover in terms of sales, whatever additions that has happened from Q1 to Q2 in terms of utilization level, the sales will get completed by Q3 and Q4.

So, spillover on sales has an impact on the margin. And third is on the training cost also. Like, we have utilization level going up because there are a lot of trainees that have been utilized for training has been done. So, there is an increased training cost. These are the three things which has impacted the EBITDA margins.

Aman Agarwal: Thanks for the answer, sir. That was really elaborative in explaining. Again, on the exports volume, FICR volumes have basically been flattest. Garment exports for the standalone division.

P. Sundararajan: Can you speak a little louder, Aman?

Aman Agarwal: Am I audible better now, sir? Yes. So, I was talking about the garment exports volume. We have done 15.25 million units in this quarter compared to last year. It was flattish Even with new employees and higher capacity utilization, we had similar volumes. Have we seen an increase in stock which might go in Q3? Why are we not seeing an increase in volumes despite the increase in utilization?

P.V. Jeeva: Actually, Balaji has already explained to you. The sales have been pushed to Q3 and Q4. Although the utilization is better, the sales will be pushed to Q3 and Q4. Overall, there will be an increase in growth in a year.

Aman Agarwal: Okay. Got it. One final question on Young Brands. We have reported 13.5%-14% EBITDA margins in young brands. Will this be a recurring run rate for now? We are hoping for EBITDA margin expansion. We are working towards that direction. But this margin will stay stable from year on. This will be the minimum margin in Young Brands.

P. Sundararajan: Yes. As I mentioned, any future quarter, the result will be definitely better than what has been experienced now. We expect in a period of a few quarters, say 4-8 quarters, we are confident that the EBITDA margin can increase by another 4%.

Aman Agarwal: Got it. Thank you, sir.

V. Balaji: Just to add to one point, it is only one quarter since we have taken over control of Young Brands. So, give us a couple of quarters to have complete control on the EBITDA margin. So, I guess whatever Chairman said is that we are working towards the improvement on the EBITDA margin.

Aman Agarwal: Understood, sir. Thank you for answering my question, sir. That was really helpful. Thank you.

Moderator: Thank you. We have our next question from the line of Resham Jain from DSP Asset Managers. Please go ahead.

Resham Jain: Good afternoon, sir. Just 2-3 clarifications. The first one is, you had close to 2%-3% garment growth in the first half. And our guidance at the beginning of the year in the last quarter was close to 10% for the full year. Do we still maintain that?

P. Sundararajan: Yes. The first half is slightly more or less flat. But as we said, the deliveries of Q1 and Q2 are pushed to Q3 and Q4. So, we expect the overall FY25, we expect the same number of, you know, the growth of about 10%.

Resham Jain: Okay. So, around 15% growth is what mathematically it comes for the second half.

P. Sundararajan: Between 10% to 15%.

V. Balaji: So, for the whole year, we are looking at 10% to 15%.

Resham Jain: Yes. Okay. So, and the second is that earlier, I think when we acquired this company, we thought of doing close to 300 odd crores in this new acquisition, Young Brands. But I think in this quarter, we did close to INR94 crores. So, is it that we have done better than our own kind of expectations here?

P. Sundararajan: No, it was, you know, the previous quarter Q1, the top line was a little lesser, which is all been pushed to Q2. That is the reason why it has gone up. So, we expect all put together for the whole year, it will be around INR303 or INR305 crores.

Resham Jain: Okay. So, close to INR75 odd crores kind of run rate?

P. Sundararajan: Yes. Between INR75 to INR80 crores.

Resham Jain: Okay. Understood. And sir, in this business, again, when we took over, I think the margin was close to 10%, 11%. When I look at the numbers, it seems that this quarter you have already done 13.5%-13.8%. Again, some of the benefits have already started flowing through?

P. Sundararajan: Yes, definitely. See, because although now officially we took over the possession by the end of June, but I have started intervening into their thing in the past about, even before acquisition, about three months or so. And I used to push the previous CFO and the sales team to improve the margins. And we have shared our expertise with them. So, this has yielded the result. And now we have directly, we have jumped into the operations now.

And we know where are the, which are the areas to be plugged in. And easily, I could easily see straight away 4% improvement over a period of time. It's not by just customer increase the price or something.

The efficient way of working in terms of purchase, the sourcing, supply base, and the excessive employment of staff and above, and the expenses are abnormally high. And a lot of other areas, you know, where the leakages need to be plugged in. So, a lot of things we could do.

And forex hedging, that will fetch another about 1% or 2%. So, many areas needs to be addressed. We have identified the areas, and we need to plug them over a period of time. All of a sudden, we cannot do it.

V. Balaji: So, one more point to add up here. As sir spoke about, first quarter sales being pushed into the second quarter. So, the economics of scale is working out in terms of increased margin. So, if you look at for the first half, as such, we should be anywhere between 12.5% to 13%.

P. Sundararajan: Yes, that's a good point. See, because the sale of second quarter is slightly higher. So, the EBITDA has shown another 1 or 1 to 2% better. So, if you average it to H1, it will be more or less 11% to 12%.

Resham Jain: Understood. Clear, sir. So, the last question is, this year, if we just look at the normalized sales of Young Brand, on an annualized basis, we will be doing close to INR1,330 odd crores kind of revenue in the garmenting business.

On that base, with Sivakasi coming in and some improvement further in Young Brands and some of the old facilities getting ramped up, what kind of growth are we expecting in FY26 on this 1330 kind of FY25 garmenting number?

V. Balaji: I think you are looking at the consolidated numbers of SPAL and Young Brand, correct?

P. Sundararajan: Yes. SPAL, there will be a growth of say 10% next year. That will come to say around 1,100 crores of export. And Young Brand, we are targeting at 325 crores. So, that will add up on 1,100 plus 1,425, which includes Sivakasi for SPAL. So, close to 1,500 crores.

Resham Jain: Okay. And anything from Sri Lanka?

P. Sundararajan: Including Sri Lanka, we said SPAL, Sri Lanka is part of SPAL. Put together, we say 1,100 crores. Okay.

Resham Jain: So, Sri Lanka will not be very large in FY26?

P. Sundararajan: Yes, because now in the early stage, we have to gradually step in.

Resham Jain: Okay.

V. Balaji: Here, Mr. Sundar is talking about 1,100 crores on absolute exports. And you will have the duties of all other things along with it. That is where he said we will reach 1,500.

Resham Jain: Understood. Clear, sir. Okay. Thank you. All the best. Thank you.

Moderator: Thank you. We have our next question from the line of Rehan from Equitree Capital. Please go ahead.

Rehan: Okay. On the labour front, I wanted to understand this higher labour cost. Are we hiring this labour to prepare for Sivakasi or is it because we have, we are trying to ramp up our utilisation to ensure 90%, as MD said as well, that we are trying to achieve 90% by March in the coming two quarters. So, is this labour cost going to be relatively higher on these two accounts or can you throw some more light on it?

Management: Yes, exactly. For Sivakasi also, we started recruiting people from this week. And as he said, the migrants, we are going to increase the utilisation to 90+. So, we have to recruit them and train them before one quarter at least. We started doing that. Because of that, there is an increase in labour cost.

Rehan: Okay. So, this includes the Sivakasi recruiting as well, right?

P. Sundararajan: Yes. Yes. Just we started one week before. So, that will happen gradually. Whereas, this migrant mobilisation will be a little aggressive.

Rehan: Okay. On the freight cost, I think Balaji Sir mentioned there was a 6-7 crores freight cost. We do our sales on FOB basis. So, do we expect, I mean, why is that an impact on us, INR6-INR7 crores?

P.V. Jeeva: Yes. Yes. Freight cost is actually, there was a delay in Q4 of last year. Because of that only, it had impacted. And moreover, the higher air freight cost, normally it would not have been so much. Because of Red Sea issue, the air freight cost itself was on higher side. Now, it is completely stopped.

Rehan: No, but the delay was from our side because as per my understanding, all our shipments are on FOB basis. So, the buyer would take care of the air freight

P. Sundararajan: No. It's like this. See, generally, normally in every quarter, there will be a nominal air freight always there due to late deliveries or sometimes customers will request for air freight at our cost. And this is, see, order is only FOB.

But if our deliveries are late, they will ask us the air freight at our cost. And it is not something new. Always in every quarter, there will be a nominal increase due to air freight. Of some orders, we cannot be 100% accurate on dot on deliveries. So, but this time what happened, the air freight cost of all the airlines is three times what it used to be. So, that is why generally we used to, spend about INR50 lakhs or INR1 crore for each quarter.

But whereas, because of the hike in the air freight cost and with a little more air freight thing, this has, impacted the bottom line. Otherwise, all FOB, only late deliveries, customers, we will negotiate and if the customers accept extension, it's fine. Otherwise, we will have to air freight at our cost.

Rehan: Understood. Thanks for that clarification, sir. It was very helpful. On young brands, I have one more question. The gross margins have come down quarter on quarter. Can you tell us more on that as to why we have seen a 4%-5% gross margin difference?

V. Balaji: In the beginning, we explained to you about the spillover of sales from Q1 to Q2. And a certain portion of the value-added products would have been spilled over to Q2. And that's why there is some reduction in Q2 as gross margin.

P. Sundararajan: For SPAL, you said the young brand.

Rehan: Young brand, the difference I think is about 6% gross margin difference. Q2 is lower gross than Q1 despite higher top line.

V. Balaji: It's purely because of the spillover of sales.

Rehan: But, sir, then how is that? That should be higher gross, right?

P. Sundararajan: Higher gross. Gross margin is 44 as against Q1 of 51. There was air freight. Sorry, there was air freight. COGS.

V. Balaji: When I buy fabric and dye on it, then the dyeing cost is sitting in my COGS. But my expenses for dyeing is sitting on other expenses. So when I net off in COGS, the COGS will definitely be showing lower numbers. Other expenses will be sitting on the bottom line.

Rehan: Can you re-explain that? It wasn't very clear.

V. Balaji: I think the absorption costing is the issue here. Maybe we can take an off call and discuss on this separately.

P. Sundararajan: For example, there are two ways of working. Raw material, either we buy finished fabric or sometimes we buy the yarn, we send it for dyeing and then we get it. So when we do the job, when we do ourselves for the dyeing and knitting, so that comes in the other expenses. If we buy a straightaway outright purchase of fabric, it goes into COGS. You can explain it later.

V. Balaji: I think it needs to be a broader explanation on this. We can off call and discuss on this. Can I know the name, please?

Rehan: Rehan from Equitree Capital.

V. Balaji: Equitree. Okay. Rehan, we can take a call and I'll explain to you on this.

Rehan: Okay. And sir, if you could also quantify the spinning EBITDA for the quarter. I couldn't hear that absolute figure for the quarter.

V. Balaji: Sorry?

Rehan: The absolute value of spinning in the quarter EBITDA level?

V. Balaji: Spinning EBITDA level. Spinning EBITDA for the quarter, current quarter you are asking?

Rehan: Yes, please.

V. Balaji: Just hold on a minute. Sure. For the first half, spinning EBITDA is around INR7.15 crores. This is first half.

Rehan: So, I think in Q1 we did around INR50 lakhs to INR1 crore, if I'm not wrong. So, balance is

V. Balaji: Could be somewhere around INR1.5 crores or something. Now, we have done INR7.15 crores.

Rehan: And for FY25, I think you had given a guidance of around INR1200 crores to INR1300 crores top line. And I think we have done…

V. Balaji: On a consolidated basis.

Rehan: Yes. For FY25, I'm just going to repeat.

V. Balaji: Correct.

Rehan: So, INR1200 crores top line in FY25. You achieved about INR600-odd crores in the first half, INR640 crores.

V. Balaji: When we gave the guidance, it was Q4, I guess. We expected Q1 to be consolidated on the Young Brand, but Young Brand we didn't consolidate for Q1. So, I guess we should be in line with the numbers whatever we have given in terms of INR1300 crores for the whole year, FY25.

Rehan: Okay. So, you're saying INR1300 crores, right ? For the full year.

V. Balaji: Yes. On a consolidated basis, yes.

Rehan: Yes. Okay, that's fine. I mean, if you even consider this run rate, it's more than that. My question is also on the volumes. I think for first half, if I take H1FY24 versus H1FY25, on that apparel business, the garment division, we've de-grown in volumes by about 0.7 million pieces. Can you throw some light on why that is happening and what, and because I think in either Q1 or Q4, you had mentioned that you expect volume growth of 7%-8% on a Y-o-Y basis for the full year? So, do you see that much volume difference to come out in the H2 or are we seeing a flattish year again?

V. Balaji: Rehan, if you look at our realization, our realization has gone up in spite of reduction in material cost. So, there is a product mix which has changed. But in terms of, if you have heard to the previous question, which has come on the sales growth, we are expecting that the second half should be far better than the first half. So, the sales should pick up in second half, whereby we should be in a position to end up on a 10% to 15% kind of growth for the whole year.

Rehan: I am not talking about absolute sales growth. I am asking you in volumes. The guidance you had given in Q4 or Q1 was 7-8% volumes. And to answer your question on realization, your realization has broadly been, I mean INR1-2 difference. I am looking at the PPT and saying

V. Balaji: No, no. See, Q2FY24, the material cost was on the higher side. The yarn prices have corrected. So, in spite of correction in the yarn prices, we are able to maintain the same kind of. So, there is a change in the product mix.

Rehan: Correct. Which is showing in your gross numbers. There is a percent and a half increase in gross numbers. My question is on absolute volumes. If you have done X amount of pieces that are in H1FY24. In H1FY25, you have done 0.7 million less. I understand product mix change in absolute terms. I understand that completely. But at the aggregate basis for the whole year, you had mentioned that you do about 7% odd volume growth. So, are you seeing in Q2, the volumes do well or are you seeing realizations do well? That's my question.

V. Balaji: We are expecting the volumes to grow.

Rehan: Okay, that's broadly my question. Yes. Understood. And Sivakasi, I think sir you had mentioned in the opening remarks has started?

V. Balaji: Yes, the training has started. And we expect the production to start in the first week of January.

Rehan: Okay, first week of January we expect production. Thank you for answering everything so patiently. Thank you.

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

Chirag: Thank you for your opportunity. Sir, my first question is just a refresh. Some time back, you had indicated that if the retail business doesn't turn around in a specific time frame, you are looking to shut it down. If I recollect, the time frame was March 25. So are you sticking to it or is it getting extended? Or for the time frame, my memory is not correct.

V. Balaji: March 25 was not the deadline which we have given. Q1, we said we will look for 8 quarters. That is FY24, we said we will look for 8 quarters and then take a call on it. So we have crossed 3 quarters now. So, we are looking at raising funds there see, the problem in retail is that, yes, it has been making negative losses, but it has not been supported by the losses in terms of cash losses. It has not been supported by cash injunctions. Whatever they get is purely on the debt front, which again is pulling down the numbers…

S. Chenduran: Sorry to interrupt, Balaji. So just to answer this question, hi, this is Chenduran, Joint Managing Director. So just to answer that question, yes, we are seeing progress. And I think even this Q2, we are almost at EBITDA break-even. And even in terms of raising equity, the conversation has been about that.

So as you said, we have 2 more quarters, but then we want to extend that because we are seeing progress. And I'm sure with Q3 and Q4, with the significant progress on the EBITDA level numbers, I'm sure we will continue with the retail and the raising of funds. So if it was going negative, if it was getting worse or the impact is significant, then as you said, definitely there was conversation about what do we do with the retail entity if it affects the parent company.

But as of now, we are seeing significant progress on the bottom line as well at the EBITDA level. So we will look at Q3 and Q4, and I'm sure we will see the progress.

Chirag: Okay, because even if it breaks even, it will still be a suboptimal ROCE business for you. And it will take time for you to get to the average ROCE

S. Chenduran: Sure, sure. That's why we intend to move it. We are raising funds outside, so it doesn't affect the parent company's ROCE. Because again, as an industry or as a sector, it is different and it works in a different way. So the first priority is to make sure that the bottom line, the negative EBITDA margin doesn't affect the parent company.

Once we cross that, definitely there is going to be work towards improving the ROCE, raising money outside and all that. So, the parent company's numbers are not affected by retail as a sector.

Chirag: Okay, this is helpful. Sir, second and a slightly broader question. So, if I look at the commentaries over the last 2-3 years, like China Plus One, etc. Now Bangladesh Plus China Plus One, etc. A lot of these stories have been made, but we are yet to see any proof of conversion happening in terms of revenue or in terms of customer additions in any form. Okay, so where are we in that stage? I understand approval processes, etc. So they are still looking at SP Apparels and India in general, etc or in the next 12 months, can we see some proof of pudding because some of the peer sets have started seeing those benefits flowing through in their numbers. Though at the initial stage, but they have started seeing the benefits.

And second related question is, if I look at the last 3 years while we have grown our revenues, our EBITDA and PAT number at console level has stagnated. One or the other part of business sees some issues in one of the quarters which drags the overall performance. So, at times it is SP UK at times it is retail, at times it is the garmenting business due to spinning profitability, so on and so forth. So, do you have a ballpark view on how to look at the businesses where we can see a sustainable earnings growth or cycle coming across? So, this is the question that I have?

P. Sundararajan: This is actually, as we all know that this industry is very dynamic which has got a lot of risk involvement in terms of foreign currencies. Then the government policies, importing government policies, then labor intensive and raw material fluctuation. So, there are so many things involved in this. So, it is a big challenge, the garment industry is a big challenge. We know definitely this China plus one and Bangladesh plus one is working out in the same. There are a lot of inquiries are coming and that is the reason why we are talking about increasing our customer base.

And it is not a very short-term task. We need to work for at least about 2 years time to restructure the whole business model to improve everything, but as far as SP Apparels is concerned, we never had a problem of filling the capacities. Our challenge was only increasing the capacity, which now we have as we said many quarters before that from 3,600 machines last year by now, by the end of March 25, our average running will be 4,600. There is a significant growth of at least 15%-20% growth in the capacity alone. So, which is a big thing which we have been able to overcome.

So now that in addition to it we have acquired a Young Brand. This is another, it's inorganic growth by adding it, quickly we are able to get another INR300 odd crores of business, and additional INR330 crores of business and capacity addition. So, this is a quick, if at all we had to achieve those INR330 crores of sales in Young Brands, we would have to work for another 2 years to 3 years time to bring that number, which we got so quickly here.

So, I think we are very much on the track and it's a matter of time. And as you said there are always challenges in SP UK. SP UK is only the post-COVID effect and all of a sudden it cannot be corrected. And the spinning and processing division, they are going okay that's fine. And the retail is a continuous improvement is going on. It was never up and down kind of a thing. And SP Apparels is constantly growing, it has never been flat. There are, of course, like Red Sea issue where the air freight cost has gone up. So these things are always there, we have to mitigate, but for so many years, we have been able to maintain around INR18 crores of EBITDA which is a good sign. This company is definitely performing good in spite of so many challenges.

Chirag: My question, I'm not disputing the revenue side. Revenue growth has been there, which is good. It's more about EBITDA and profit growth. Ultimately, revenue without EBITDA and profit growth doesn't matter much because it becomes ROC dilutive.

P. Sundararajan: Yes, see EBITDA, see in garment division, we are able to maintain the 18% growth.

Chirag: So I'm looking at concentrated level and not individual business level because ultimately, you are not having a garment business separately listed, sir. That's the point I'm trying to drive, that at console level somehow our profitability has stagnated and probably you may need to re-look at it very closely, how to look at this particular piece. And sir, second question was, if I can know what is your share of business in someone like Primark? I'm not saying how much Primark is contributing to your revenue, but would you be like 5%-6% of their supply?

P. Sundararajan: Contribution? Please come again.

Chirag: For whatever amount, suppose you supply Primark worth INR100, how much that would be in overall scheme of things for Primark relevant part of the business because we don't supply everything. Why I'm asking is we have five, six customers, while we have done well with the single largest customers, why we are not able to scale up with others in terms of our share of business with them? And more importantly, even with Primark, have we hit the roof over there and we can't increase our share of business over there?

P. Sundararajan: See, everything is based on the capacity availability. Whatever capacity we are offering to our existing customers, the business grows with each customer. So that is how it goes. Why we are not able to increase the business with other customers because we never had additional capacity to offer to other customers. Now, for example, Young Brand with additional capacity, now that is coming for American Eagle and Jockey and other customers, they are additional customers. And here from 3600, now we are talking about 4500.

Now we are bringing in additional new more customers and we would like to maintain Primark share as it is today, because we have to give room for the other customers to come in.

Chirag: Sir you said your number of machine count is going from 3600 to 4500?

P. Sundararajan: Yes.

Chirag: Okay. And this will happen over the next 18 months?

P. Sundararajan: No, by March 25.

Chirag: March 25. But it will get effectively utilized in another 6 months, correct?

P. Sundararajan: Yes. Utilization of machines from 3600 last year to 4500 March 25 for SPAL including the Sivakasi unit.

Chirag: Okay, sir. This is helpful. Thank you very much and all the best.

Moderator: Thank you. We have our next question from the line of Divyanshu Mahawar from Dalal & Broacha. Please go ahead.

Divyanshu Mahawar: Thank you for the opportunity, sir. Sir, just wanted to understand broad question that how you look at the opportunity on the demand side that is shaping up, especially from the European customers today. After seeing from Bangladesh, that outright happens and if there is some talk that Bangladesh is going to stabilize more in terms of textile. After that, what would be the organic demand? So how do you see that?

P. Sundararajan: See, it's like this. People have got some kind of a wrong opinion about Bangladesh issue. The retailers, the brands, what they're taking a stance is, they will not pull out the business from Bangladesh. They don't want to because their margins are better. Landed cost is much cheaper than other countries. What they will now do is they will not increase further in Bangladesh. Rather, the additional quantity what they want to increase, that will be done in other countries like Vietnam, India, Sri Lanka, and Pakistan.

Divyanshu Mahawar: Okay. So on this opportunity if you look at, if you look at this scenario that they're looking for additional capacity in other countries like India and Vietnam, what could be the organic opportunity for us like, for an example, we have done Young Brand acquisition for cross-selling opportunity. What could be the other opportunities you are looking for that in this, acquiring the customers in the terms of business?

P. Sundararajan: I'm not able to understand. Can you come again, please?

Divyanshu Mahawar: So if you look at the companies, they're looking for the additional capacity not in Bangladesh, but for other countries in India or Vietnam etc?

P. Sundararajan: Correct.

Divyanshu Mahawar: So, for that ways if I have to look at for an organic growth, what kind of opportunities you are looking for an example, you acquired Young Brands just to have enough cross-selling opportunities inside yourself only. So what could other opportunities you can have, you are looking for and you can look for it in upcoming years?

P. Sundararajan: The new customers of American customers will be looking for big factories with good capacities whom we are not working with, so they will also be coming for the additional business. Because there are many American importers and brands, they have never been to Indian market for sourcing. So those are coming in and hunting for the big factories. So that's the biggest opportunity.

Divyanshu Mahawar: And one last question, sir. Are there several states like Odisha, Chhattisgarh, Bihar. So if I was going to their industrial policy, they are having a huge amount of subsidies for their textile park, in terms of capital subsidy or interest subsidy. So they are calling out like 80% capital subsidy the government is providing to set up the textile plants in state of Chhattisgarh or Odisha or Bihar.

So is it a good opportunity for you to move some of their new capex plan towards them because the low labor cost of these states are very less compared to Karnataka? Just wanted your view on this?

P. Sundararajan: Yes, this depends on the management outlook and management capability. See, our stand, what we take as a stand is that, at the moment we don't look at other states of India because we have still enough space to increase the capacity within Tamil Nadu. There like Sivakasi, then if the existing factories, we can mobilize more local people also.

So at the moment we don't have any plan to cross the states. Rather we are crossing the country to Sri Lanka, where because in India you cannot get this kind of job working factories approved by the customers. But customers accept Sri Lankan factories because their factories are far better than Indian in terms of compliance and other things.

So why we opted that route is because we do not want to invest further into this one to make it, not to make it asset heavy. So Sri Lanka is as good as Tamil Nadu way of working. So we can immediately get good factories with a skilled workforce and the customers ready to place the orders.

So this is the easier way we think, rather than putting up a big factory in northern part or the northeast part of India.

Divyanshu Mahawar: Okay, thank you sir.

Moderator: Thank you. We have our next question from the line of Kiran D from TableTree. Please go ahead.

Kiran D: Thank you for the opportunity sir. If I look at pure garment revenue, we'll probably end up at around INR1,100 crores this year. To go to, just focusing on garments, right. To go to, let's say INR2000 crores, INR2500 crores, the delta of INR1000 crores, INR1200 crores, including young brands, excluding young brands, that's fine sir.

But essentially for that to happen, should we onboard some of the large U.S. players like Carter's or anybody else in the young kids segment? Otherwise, our growth will continue to be 10%-12%. Is that a fair assumption?

P. Sundararajan: No, we have that, as I've been mentioning, we have to increase our customer base, add in more customers. And now there is a way for allowing, there is a room for increasing the customer base because the capacity has been increased. Without reducing the business of existing customers who are long associated with us for many years, the only way to increase the customers, even though it is American market, only way is to increase the capacity and give room for them to place the orders with us.

So that's what we are working on. The short cut is young brands, then we've got 3-4 customers. Same way, if we have another 1000 machines extra in the next 1 or 2 years time, so we will be focusing on new customers.

Kiran D: Got it sir. Sir, the other question I have is, from a garment's perspective, is U.S. going to be, given the demographics of UK and Europe, young population is probably, stabilizing or actually collapsing. Is our next growth market primarily going to the U.S..? Should we assume, kind of assume, that the UK market will stagnate from here on at whatever INR900,000 crores sales and the next level of growth, the next INR1,000 crores is going to come from the U.S.? Is that a fair assumption?

P. Sundararajan: Yes, see, it's like this. One or two customers are, confined to only the UK market, UK and Ireland. But other customers are, international players. They are into UK, into Europe, they are into U.S. market. So, that is a bigger growth. So, I think American market is much, much bigger than the European market. And once we increase the customer base of American customers, then automatically the business will grow. Over a period of time, there could be more contribution from the American market.

Kiran D: Got it sir. Sir, the third, final question that I have is, if I look at a 10-year history, right. 10-year history, our margins were substantially higher except for the COVID years. So, gross margin, again, on garmenting only, sir, not on the retail and the SPUK, but just on garmenting, we are about 20 plus.

Our competitor, who is based in Kerala also, is probably 20 plus. So, just trying to understand, is there more competition coming in the children wear, kids wear, infant wear segment from outside India, which is forcing us to reduce our gross margins, just gross margins, sir, I understand about all the freight and all that for EBITDA, but just on gross margins, is there more competition coming, which is forcing us to reduce gross margins, or is this a play on scale, where I want more scale, so I have to compromise on gross margins. How is that working in the last 10 years?

P. Sundararajan: It works both ways, because even there are a lot of competitors are Indian players are coming in, so there is a controlled competition, there is no doubt about it, but at the same time, economy of scale, that's what we are working, for the kind of overage what we are having, so if we increase the top line to say INR1,300 crores or something, then definitely we will be able to sustain this competition, so that's our plan.

Kiran D: So you are saying the competition is also because, from what we understand from the time you have been listed, is that infant wear, children's wear, 0 to 24 months, is like an insanely labour intensive process, extremely difficult for competition to get in, so therefore there are only 2-3 players in India who can actually do this at scale, so now what you are saying is, over the past 5-6 years, there are a lot other competition from India that's coming in that 0 to 24 months pace? Is that roughly the conclusion?

P. Sundararajan: Yes, slowly, because they also like to move to a little more complicated styles, where the competitors think they can make a little more money, so that we cannot stop, so we restrategise everything to see how we can maintain this EBITDA margin.

Kiran D: Got it, sir. Thank you so much.

Moderator: Ladies and gentlemen, that would be the last question for today, and I now hand the conference over to the management for closing comments.

P. Sundararajan: Yes, thanks for the opportunity, I thank all the shareholders who participated in the con call, and as I always say, we are strategizing the business plans for the top line growth and the bottom line growth, we are consistently working towards it, despite a lot of challenges in this industry, and we are confident that we have a long way to go, and we will be able to satisfy all the shareholders. Thank you for participating.

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