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24th August, 2017

Bombay Stock Exchange Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai – 400 001.

National Stock Exchange of India Limited
'Exchange Plaza',
Bandra-Kurla Complex, Bandra (East),
Mumbai – 400 051.

Scrip Code: 540048

Symbol: SPAL

Dear Sirs,
Sub: Transcript of the Conference Call

We wish to inform you that unaudited Financial for Q1FY18 results conference call hosted on 16th August, 2017. We are sending herewith the transcript of the conference call.

Kindly take the above on your record.

Thanking You,

For S.P.Apparels Limited,

K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above

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"SP Apparels Limited. Q1 FY18 Earnings Conference Call"

August 16, 2017

ANALYST: **MR. KSHITIJ KAJI – EDELWEISS 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. P.V. JEEVA – CHIEF EXECUTIVE OFFICER - S.P. APPARELS LIMITED
MR. V. BALAJI – CHIEF FINANCE OFFICER - S.P. APPARELS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the SP Apparels Q1 FY2018 Earnings Conference Call hosted by Edelweiss 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 the questions after the presentation concludes. Should you need assistance during the conference call please signal for an operator by pressing '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kshitij Kaji from Edelweiss. Thank you and over to you Sir!

Kshitij Kaji: Good afternoon ladies and gentlemen and welcome to the Q1 FY18 SP Apparels conference call. On behalf of Edelweiss broking in would like to welcome the management team of SP Apparels Limited to discuss the quarterly results and the future outlook. We have with us Mr. P. Sundararajan – Chairman and Managing Director, Mrs. S. Latha – Executive Director, Mr. S. Chenduran – Director Operations, Mrs. P.V. Jeeva - CEO and Mr. V. Balaji – CFO. I would now request Mr. P. Sundararajan for his opening remarks post which we throw the floor open for Q&A. Thank you and over to you Sir!

Sundararajan: Good afternoon. At the outset, I would like to inform you about the updates. Our first AGM post listing was completed on August 11, 2017 and e-voting process results will be uploaded on the website today. I would like to mention that there is a change in the auditors after the term is over, two terms Deloitte has retired and ASA Auditors from Chennai has taken over as statutory auditors.

We have successfully converged ourselves from IND-GAAP to Ind-AS from this quarter onwards. I would like to brief you on the GST, it has got little bit of impact at the moment in government where there is a confusion still the clarity is not there on one hand the GST input credit can be taken as against the duty drawback or you can avail the duty drawback and no input credit be taken so there is no clarity; however, we expect that there should be 1% or 2% impact on the bottom line unless there is any attractive package given by the government. GST with regard to the retail whereas again in wholesale business of retail front there is an input credit facilities of about 2% in the saving which is being passed on to the retailers and on the direct retail marketing the input credit benefit is been adjusted and no impact on this.

With regard to Brexit that has been a biggest challenge all these quarters it has definitely impacted to some extent on the topline the revenue due to the Pound depreciation as well as the recession because of Brexit. We have made a strategic move from EBO to LFS model, which has been published in today's paper and I would request all of you to go through the numbers in millions only because by mistake they printed as in lakhs on that particular subject but we request you to read it as millions.

I would like to explain you on the EBO and LFS when the retail division subject comes. Let us look at the quarter performance of each vertical. In garment division we display the resilient operating performance despite Brexit outcome and volatile currency movement. The garment division revenues declined by 5% on account of Pound and Euro currency depreciation, in Q1 FY2018 compared to Q1 FY2017.

Despite revenue is flat we were able to sustain the adjusted EBITDA margin by focusing on driving operational efficiencies in both garments. Adjusted EBITDA margin improved from 17.9% to 18.2%. PAT margins increased from 7% to 7.1%. We have added two new non-UK customers as we mentioned in the last quarter concall non-UK two customers both of them are from US and there is another customer from France. He is under process we are expecting to start the business with the France customer in the next two three month's time.

The existing capacity will facilitate us to grow by another 20% in topline, which means without adding any further sewing machines we will be able to achieve a growth of about 20% with the existing capacity. With regard to the SP UK business operations which have really performed well this is the third year first quarter since inception of the company, it has recorded revenue of 750,000 GBP which is close to about 6.5 Crores in Q1 FY2018 compared to 100,000 GBP that is about 85 lakhs in Q1FY2017.

SP UK Operations where EBITDA positive GBP29000 in this Q1 quarter compared to the loss in Q1 FY2017. We have tied-up with two more customers in addition to the existing customers in UK business is one is landmark group in Dubai and BH International. With regard to the retail operations it has displayed a stable performance with improving operating parameters.

As on June 2017 we had 35 COCO stores and 11 FOFO stores. During Q1 FY2017, we opened up four new FOFO stores and closed non-performing three COCO stores. Our endeavour going forward will be to open more stores on franchiseebasis and convert existing coco stores into FOFO stores gradually. Additionally we continue to increase our presence across all large formats stores.

Our large format stores should increase by another 160 stores over the next two years, currently we have about 145 outlets so put together it will be about in the next two years time we will have 300 outlets in the large format. This is where exactly we have tweet the business model is instead of putting up more of COCO stores where it is on the high streets, we have put up more outlets in the larger format stores where you have quick reach and better penetration all over and large format stores always they have walk-ins so all we need is we need to have presence in large format store, from the day one the business picks up there. So we thought this would help us to speed up our topline growth as well as the improved ROCE as against the COCO stores.

Now I will hand it over to Mr. Balaji to talk over the financials. Thank you.

V. Balaji: Good evening everybody. I would just like to run you through the key highlights on the financials front. Last year Q1 we have made a revenue 164 Crores as against 156 Crores this year which is a 5% decline. As our CMD explained you the reason for the decrease in revenue is because of the depreciation in the currency both the pound and the euro front and if you look at our adjusted EBITDA in terms of absolute numbers we have come down by 3% but if you look at in terms of margin percentage we have improved by 29 basis points. If you look at our PBT we have come down by 3% and if you look at the absolute terms in terms of the percentage we have improved by 30 basis points. And again on the PAT front we have come down by 4% last quarter on the absolute number front but improved ten basis points on the percentage front.

If you look at the revenue growth of the garment division we have come down 5% on the garment front and 0.6% on the retail front which is basically because of the Ind-AS impact and the GST impact as the CMD was informing you about the GST impact in the retail because we were not able to bill for our distributors from 15th and because of the GST we were forced to take back close to 4 Crores of goods, which were returned back so the net impact of retail is including those effect.

As CMD explained you on the garment revenue from UK we have improved our garment revenue in terms of rupees from 71 lakhs to 6.13 Crores during this quarter. So basically other things are available in the presentation and I think we can get into the Q&A section quickly.

Moderator: We will now begin with the question and answer session. We have the first question from the line of Dimple Kotak from SKS Capital and Research. Please go ahead.

Dimple Kotak: Thanks for taking my question. Sir the other income has shot up too much so what is the forex component in that?

V. Balaji: The other income contains 5.6 Crores of exchange fluctuation gain and the balance is on the interest front. The interest and the dividend yield.

Dimple Kotak: Sir what is the impact of INR going ahead are we fully hedged?

V. Balaji: Yes, our policy is to hedge the orders immediately. We hedge 60% at the time of the receipt 20% at the time of shipment so the balance is kept open so this is a policy and we adhere to the policy.

Dimple Kotak: Okay and Sir what is your progress on your orders from new clients?

Sundararajan: Yes, already we have started both the customers business has already been on. We have made shipments of one customer this month and another customer the shipment is expected also this month so the first billing for both the customers will be from this month onwards.

Dimple Kotak: So we may see in their revenue share coming in Q2?

Sundararajan: Yes, very much.

Dimple Kotak: And Sir how has been the performance of Crocodile been?

Sundararajan: Crocodile is doing extremely well there is been a growth there and we do not see any problem going forward except for GST, but the GST has no major with our retail business, only as CFO

Balaji mentioned that the first quarter there was a little bit of problem No.1 is due to GST from 15th of June nobody had accepted the orders for the wholesale market taken the goods, in fact many of them have returned to the tune of 4 Crores worth stocks back and they will take back hereafter and in the retail also most of the brands already started growing I mean found sale, I mean generally in July the sale period will be there it starts from July but this time because of the GST everyone started in June itself so there is been a hit on the topline as well as little bit on the bottomline the retail shift otherwise is well set to go now take off.

V. Balaji: To just add one more point to it when you compare the margins of Q1 last year versus margins Q1 this year last year we have made a losses of EBITDA level of 1.5 Crores now the EBITDA loss is close to around 30 lakhs so we are moving forward in terms of cost reduction and also on the improved margin front.

Dimple Kotak: Okay and Sir what is the capex guidance overall guidance for full year?

V. Balaji: Capex guidance in garment division backward integration it should be close to around another 60-65 Crores which we have raised funds from the capital market and on the sewing front I think closely around 20 Crores should be the expected capex from the sewing front.

Dimple Kotak: Okay and Sir for the overall your revenue in margin guidance?

Sundararajan: Revenue I think we have already instructed that there will be a capacity increase of 10% to 15% Y-O-Y and we stick to that, in terms of guidance on the margin front we expect in spite of this GST, Brexit currency fluctuation we will be in a position to sustain the margins.

Dimple Kotak: Sustain the Q1 margins for the full year.

Sundararajan: Yes.

Dimple Kotak: That is all from my side. Thank you very much.

Moderator: Thank you. The next question is from the line of Manan Patel from Equirius Portfolio Management. Please go ahead.

Viraj: This is Viraj here Manan's colleague. Sir just a few questions, when you said that there will be capex, what will be the capex in the retail business for us?

V. Balaji : This quarter we have made a capex of closely around 1.5 Crores of capex this quarter, going forward again it all depends on the number of stores and so I guess it should be close to around 2.5 Crores to 3 Crores.

Viraj: Okay because the only reason I am asking this is because we have raised in the IPO document it was written that roughly 27 to 28 Crores were raised for basically retail expansion?

Sundararajan: Correct.

Viraj: So out of that only this year atleast very little amount will be used?

V. Balaji: No last year we have made close to around 4 Crores of investments based on the IPO proceeds. Now close to around 1.5 Crores have been used so going forward another 3-3.5 Crores of capex will be spent.

Viraj: Okay and Sir when we last met you have mentioned the growth trajectory the Primark the customer offers you the visibility. Does that visibility still exists because in a number if you look at last two-odd quarters the numbers have been soft so does the visibility of Prima still exist for us?

Sundararajan: Yes, of course very much, prima visibility is there that is one of the most potential customers for us.

Viraj: So Sir, this year can we like would 15% to 20% growth be possible for us in our export business?

Sundararajan: Yes, we are working on 20% but we can definitely achieve between 10% and 15% for sure.

Viraj: Thank you Sir and best of luck.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

Kaustubh Pawaskar: Good afternoon Sir. Thanks for giving me the opportunity. Sir my question is again on the revenue front. Sir in the garment business the 5% decline you mentioned was mainly because of the rupee fluctuation but it also gives us an indication that volumes were flat during the quarter and as per our earlier interaction Q1 and Q2 is normally a strong quarter for you, so can you explain that was there any issue in terms of volumes or is there any competitive intensity which is affecting your performance in the garment business?

Sundararajan: See as we all anticipated Brexit is been a biggest challenge we have ever seen before in the past where the Brexit has ended up with all the retailers in the UK of recession, drop in buying purchasing, spending power in the UK and depreciation of the pound so all these things had happened at one time due to this Brexit. So customers instead of putting up the selling prices they had to bring down the price further down because of the recession due to Brexit so due to those reasons they started asking us to many of the price where we are looking for increase in the price because of pound depreciation so there was a stage where you know same kind of a situation where we could not reduce the price nor they could increase the price so but of course customer is always right and customer is God so we decided to be little bit choosy not instead of accepting all the orders at the price whatever we were looking for, we were little be choosy in taking the orders where we could save little bit of money if not the same margins and left out some of the businesses for them because they say that they used to say they could get cheaper in other countries, I mean this is general practice where the customer will always do in order to bring the supplies under control, they would take away some of the business to the competitor although they may not be confident about the business with them so we had to let them take away the business from us to some other countries so there was a drop in the quantities as well. So there were about the depreciation have found as well as we had deliberately left some of the businesses for them to come back.

Kaustubh Pawaskar: But now how is the situation do you expect them to come back?

Sundararajan: As we predicted, yes the customers are coming back to us because as we always say that our handwriting is something, which has been accepted by the customers. They are definitely not happy with other competitors of other countries so they are coming back to us, now there has been a little bit of improvement in the margins. Of course, customers and we have worked closely to bring down the cost by change in designs and change in shapes and fabrics and other things and by increase the volume per order so both have been able to mitigate this cost escalation and somewhere we have met a situation where both are bit comfortable now, the things are now getting back to normal.

Kaustubh Pawaskar: So this 10% to 15% growth for the entire year that means you will have to grow at about 17% - 18% in next nine months so it is because this old customers are getting back on track and the new orders from your new customer is that a right understanding?

Sundararajan: Yes, very much.

Kaustubh Pawaskar: Sir my second question is on the retailing business, as CFO just mentioned that the impact was mainly because of the GST and the changes in the accounting standard so can you explain the changes in the accounting standard part little bit, what exactly is the impact?

V. Balaji: See previous under Ind-GAAP what we were doing is that we were booking the scheme discounts under the other expenses just because of the Ind-AS we have netted off it the scheme discount with the sales.

Kaustubh Pawaskar: But that you will be getting somewhere else so it has to be netted off ?

V. Balaji: Scheme discount is the thing which happens regularly and the discount is not specific so it goes with the products and the season so in spite of that they said that it need to be netted off in the sales so the revenue has come down not the EBITDA the revenue has come down because the other expense portion is getting adjusted in the sales.

Kaustubh Pawaskar: Right so it must be getting netted off at your operating level, okay so that should be a continuous phenomenon I think in Q2-Q3 also you would see the same thing?

V. Balaji: Yes, correct.

Kaustubh Pawaskar: Thank you.

Moderator: Thank you. We have the next question from the line of Andri Purushottam from Cogito Advisors. Please go ahead.

Andri Purushottam: I wanted to understand couple of things, one is that the two new US clients and the French client that you have added if you were to estimate revenues let us say not for this year but for the next year what additional revenues could this amount to? Secondly could you also comment have there been any significant changes in product mix and between various kinds of garments etc., and in terms of the long-term prognosis of the retail business are we on track towards breaking even and making some profit this year?

Sundararajan: Yes, the first one let say for example FY2019 considering the additions of two US customer and the France customer may be one more US customer probably the contribution of those businesses will be around let us say 150 Crores in the next financial year will be in addition to the from the existing customer sales.

Andri Purushottam: And how much for this year in FY2018 what could be your estimate?

Sundararajan: Just we are yet to ship the goods now so hardly about say about 10 Crores or 20 Crores, about 25 Crores. And your second question is on the product mix. As we mentioned during the last concall that we are getting not only the fashion now we are getting into the basic children, kids and babies products also so that you know the productivity, the factory efficiency will be much better and more flexible so with the utilization of the machines also it will be much better, so that already been taking place now, by adding new customers we are getting into the basic products, not the fashion one so there is now the proper mix of the products to have a smooth efficient running of factories. And your third question on the retail one. Yes, very much, we are very focused and we are very clear roadmap on the retail front and as you look at this quarter the numbers are Q1 is roughly about 11.5 Crores in spite of returns of about 4.5 Crores. So if had the return not been there due to GST this quarter would have been 15 Crores so you can imagine we are very much in the in track and we are confident by end of this financial year we will be able to break even in EBITDA level.

Andri Purushottam: Right. As far as the fashion in this product mix is this financial year estimated versus last year what would be your ratios look like?

Sundararajan: Last year it was almost about it was 70-30, 30% was the basic and now 60-40 now another 10% more in basics.

Sangeetha Puroshottam: Sir this is Sangeetha Puroshottam. I have one question regarding with duty drawback if you could just take a few minutes to just explain the impact that you are likely to see and you mentioned earlier in the call that you will be able to maintain margins whereas the earlier guidance has been there would be some improvement in margin this year and every year thereafter so have you toned that guidance down because of uncertainty on the top line growth which happened in the Q1 and also because of duty drawback?

V. Balaji: See in terms of the duty drawback this quarter, because of the change in the GST, the duty drawback structure has not changed so far so they have extended the duty drawback structure to continue until September 30, 2017 but what is happening is that previously we were not taking any input credit so far, even in sales tax that is the state taxes or even the central excise or the customs duty we were not allowed to take any credit, so what has happened is that the duty drawback is sustaining at the same level but there are certain services which are coming under GST regime so like say for example I am processing my yarn outside, it is coming under the purview of GST where I am paying 5% extra. And when I am importing certain goods from other countries previously I used to import the goods without paying any duty under the advance license scheme. Now we are not allowed to use the advance license scheme, I have to pay I-GST and clear my goods but since I am not able to take a credit there is some straight impact on my margins to that effect. That is what we said that 100 to 200 basis point impact on the GST front could be visible in this quarter.

Sangeetha Puroshottam: That is July to September quarter?

V. Balaji: Yes, right. So only once we get the duty draw back structure from the foreign trade policy then we will be in a position to understand where we are and how it could positively impact or negatively impact the margins going forward. In terms of the guidance given to you on the EBITDA front going forward, yes we have said that the EBITDA will be improving once we backward integration process is completed. So this year we expect the backward integration process to be completed by end of this financial year and the operational of the backward integration process should start anywhere in the first quarter of next financial year. So that is where you can expect the margins to improve.

Sangeetha Puroshottam: Right. And Sir if for example the duty drawback goes away but you are allowed to take input credit set off then how that impact margins?

V. Balaji: See if it goes away, say for example, what is a duty draw back it is a combination of my customs duty, my central excise and my sales tax all these things put together is called the duty draw back now because of GST I will be allowed to take the customs duty credit which could be 4.5%-5% which may come we are not sure about what percentage it will come but we will be allowed to take the input credit. So this needs to be worked what kind of change, which is happening on the top line, and what kind of credits, which we are getting so, this needs to be worked out. But let me tell you one specific thing is that because there is a change in the GST rates we have started talking to our suppliers to decrease the cost. That way the portion they will be in a position to get credit so we have already started talking with all the suppliers for reduction in the basic product rate because they will be in a position to take credit on the excise duty also. So is just an added information to information to you people.

Sangeetha Puroshottam: Okay thank you very much.

Moderator: Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.

Ronak Morjaria: I just wanted to get an update on the backward integration, has it started the backward integration process plant and everything started commence this year and will it be operational next financial year first quarter itself?

V. Balaji: Just now I explained about the backward integration process to be commissioned before March 31, and it should be operational in the first quarter of next financial year. Let me explain you on two fronts, one is on the knitting front and one is on the spinning front. Knitting we have already received 20 knitting machines and it has started its production from the fourth quarter of last year itself. The spinning, in terms of spinning the bottleneck in terms of the spinning has been increased from 3200 to 5000 kgs per day so that there is an improvement in terms of our spinning capacities with the small mini project work. Now we are expecting the approval from the government building plan approval from the government, which will happen anywhere next month, and the building will be commenced and it should be completed by 31 March 2018 and the production should start by Q1 of March 2019.

Ronak Morjaria: Sorry I did not get that which approval is pending from the government?

V. Balaji: Building plans approval.

Ronak Morjaria: Okay and I just also wanted to get an update last quarter we have added 250 sewing machines, which are not operational have you started operations on those machines?

V. Balaji: Yes, those machines are now under training process so in terms of actual capacity they will not be contributing anything to the capacity but they were operational now. We have recruited the freshers and all of them under training now and in the due course time all will be commencing production.

Ronak Morjaria: Okay so incrementally how many machines you planned to add this year?

Sundararajan: I think this year as I mentioned before in the opening meeting that we do not really have the plan to increase the sewing capacity for the next one year or so because the existing sewing capacity with efficient productivity and full utilization of the capacity properly this itself will help us grow to 15% to 20% of the productivity.

Ronak Morjaria: Okay this quarter what is our capacity utilization in terms of machines?

V. Balaji: In terms of machines it was close to around 74%.

Ronak Morjaria: Thank you, that is it from my side.

Moderator: Thank you. Next question is from the line of Naysar Shah from Val-Q Investment Advisors. Please go ahead.

Naysar Shah: Hi, good afternoon and thank you for the opportunity. Sir in the last conference call you had mentioned that there were some 7-8 potential customers in the pipeline so what is the status on that?

Sundararajan: Yes, we already have got already the orders have been placed and the production is going on, the shipment is expected to start from this month onwards and the third customer is under the process next week the buyers are visiting us and we are hopeful of getting the business in the next one month time so currently we have this three customers through now, generally when you want to increase the customer base you will drive in four five or seven customers so that you shortlist and settle down with three or four customers so already we have three done and we may have been working for one more customer so that would suffice for next one year or so then we will be looking for one or two more customers.

Naysar Shah: Sorry Sir. Out of seven customers three were already added in Q4 I thought seven, three you have already added and four in the pipeline so you are saying seven includes those three as well?

Sundararajan: No we were trying for having dialogue with about seven customers shortlisted seven and finally settle with this three customers and one more is there so there are going to about four customers now in the next two months time out of seven.

Naysar Shah: Okay. And Sir what is the medium term growth potential with our existing customer so last concall you mentioned that prima you do about 140 and that you can scale up to 230 what is the potential with other four customer Sir, medium term?

Sundararajan: Yes, other customers we continue to grow about 5% to 10% there is no issue but again now we have more customers so we will be more choosy in selecting the orders at the right price with better margins so the overall growth will be same as current year what we are doing the overall growth but customer wise growth depends on the better prices, better margin depends on that we can decide that time to time. Of course for example Tesco we can easily grow about 5% to 10% we can grow if we want to, all depends on the situation since we added more customers now so our focus will be more into the new customers saving them taking more business into them so prima is going to be again we will have big jumps in the next one or two years and then the new customers that will also happen another two three years time big jump so until it reaches to saturation level. So with the existing customers all depends on we can definitely grow 5% but we need to decide time to time.

Naysar Shah: Sir last concall you had mentioned that you will add about 600 machines in FY18 and you just mentioned that this year you are not planning to add any new machines so what has changed between then and now Sir?

Sundararajan: See because you know what happened we have got the product mix of babies basic products now so which has got more efficiency, more output, so currently what we think this alone will help us in growing about 15% - 20% at the topline without adding any new machines, if we had to focus more on the fashion then always there are required to be some more extra spare machines but since we are shifting about 40% this year on the basics so all our capacity utilization will be optimum in the sense say may be 85% to 90% we can use it so we thought let us not increase for the time being until we reach a saturation with improvement in efficiency the improvement in top line. So probably after one year we may be think off increasing the machine.

Naysar Shah: Okay. Sir I have few more question. I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Bharat Sheth from Quest Investments. Please go ahead.

Bharat Sheth: Good afternoon. Sir regarding the price increase from the existing customer. How the things are going for the new order that we are getting from the existing customer are we able to get some price increase?

Sundararajan: Yes. What happened we are not getting the same price what we used to get about one year back after Brexit yes they definitely wanted to reduce the price from what they used to get on the other hand we were looking for increase in the price because of depreciation of pound so there has been a kind of stale situation then finally we had to let them go away for some of the businesses to other countries because we could not take all the orders to big negative margins so we were little bit choosy in selecting the orders and that is why the topline is flat one of the reasons is that one and now they also realize because depreciation of pound in any country everywhere you go the sourcing countries the same situation so we were very sure that even if they go to any other country the same problem will be faced. Yes, so now of course we are able to get back the business gradually but not the same price as we used to get before but however we have been able to set right certain things improving the efficiency, better efficiency in consumption and better management in wastage so we are able to mitigate those things and able to maintain more or less a same margin what we used to get before.

Bharat Sheth: Okay. Sir now on this retail expansion, Mr. Balaji said that for expansion for COCO store we are doing 4.5 Crore this year but again there is one expansion plan for large format store so what is rationale, and how much we are going to spend this year and next year?

Sundararajan: No, let me explain the model, now what we are trying to adopt is we continue to open the COCO stores in the high streets or in the malls and at the same time instead of opening up so many number of stores what we thought we will increase the number of outlets in the large format stores where say for example, Reliance they have got about 50 or 60 outlets all over the country so if we get an entry there straightaway you are getting outlets of 50 outlets all over Reliance so same way with everyone with Megamart or Central, brand factory, or Arvind, everywhere so this is a fastest and safer with less investment on the fixed assets and there is an assured walk-in spite in those large format stores than compared to our COCO stores, standalone stores so we thought we will have this also parallelly in addition to opening up new COCO stores because we need to have the visibility on the high streets in all over the cities so we continue to do that which will be in the future will be gradually converted as a franchise model. So what we will do is we will continue to open COCO stores and convert them to franchise and we will be opening up more number of stores in the large format stores using this money.

Bharat Sheth: What the number putting together I mean how much capex that we plan to do I mean this year and next year?

V. Balaji: See in the year 2017-2018 we are looking at a capex cost of 4 Crores both put together in the COCO stores we are investing closely around 2.5 Crores and in the large format stores we are putting up 1.35 Crores which will be closely around 4 Crores and in the year 2018-2019 we are planning to invest closely around 3.75 Crores in the COCO stores and close to around 1 Crores in the FOFO stores, when you add up these two it will be close to around 4.5 this is pertaining to the capex cost.

Bharat Sheth: But Mr. Balaji okay, so this does not include security deposit and all correct?

V. Balaji: Yes, I am talking only about the capex.

Bharat Sheth: Thank you. That is all from my side.

Moderator: Next question is from the line of Manan Patel from Equirius Portfolio Management. Please go ahead.

Viraj: Viraj here. Sir just one last question what we heard from the other textile company is that we also do job work for in our dye processing facility is that correct?

Sundararajan: Yes.

Viraj: And one of our client because now they will be putting up their own job work facility as in processing facility we will loose that job work in our processing facility so would that mean that we will loose the business and the resultant higher EBITDA margin business that we used to do with them?

Sundararajan: No, already our own captive purpose our capacity is been used for about 60% to 70% so only 30% we are dependent on job work because we always need some kind of job work arrangement in order to efficiently run the plant, so there is a plenty of opportunity for getting the job work orders it is not to be worried about any one customer leaving us will hit us that is not the situation because 60% to 70% is our own business our own captive orders.

Manan Patel: But what my understanding was that that processing was a 17%-18% margin business for just doing processing so that is the only reason we had some concern.

Sundararajan: All the same, whether we do it so that is passed on to us that 17%-18% instead of topline it will be improving in the bottomline.

V. Balaji: Not only that, if today the customer is moving out we can bring new customers in that place that is not an issue because Tirupur area is highly they are dependent on the processing unit because the zero discharge is the problem here so it is not a problem to replace the customer.

Viraj: Thanks a lot and best of luck.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri who is an individual investor. Please go ahead.

Kashyap Jhaveri: Thank you very much Sir for the opportunity. If I look at some of your comments in the previous question and your annual report and the realization it seems that lot of your personal wear are actually downtrading out of the requirement and though we are not seeing any reduction in prices the overall realization probably will continue to driving down is that the right assumption?

V. Balaji: See in terms of realization, we have already informed that there is a shift in the product mix if you go by last quarter 70:30 was the product mix, now it is 60:40 so if you recall the con call conversation happened during last quarter also CMD was explaining about 50:50 in terms of the product mix, 50 fashion and 50 basics so now we are looking at a more basic and volume products so just because of that there is a decrease in the realization per piece.

Kashyap Jhaveri: And would that sort of continue until it reaches that proportion?

V. Balaji: Yes, that 50:50 until 50:50 it will continue it will come down.

Kashyap Jhaveri: Okay. Second question again from your annual report if I look at your last three-year power and fuel expenses they have remained constant despite our volumes trending up quite dramatically, which means there is lot of operating leverage that we have got in with that expense line item any particular reason for that and has it bottom down there is been more benefit from there?

V. Balaji: So in terms of power and fuel, see garment division does not have a major contribution from power and fuel. The only spinning and the processing are the two division which has a major portion from power and fuel so in terms of spinning or the processing division has been utilizing say spinning has been utilized at 100% capacity until as of now and the processing division at 80%-85% as of now so there should not be any major variations in the power and fuel cost at any point of time, so it shows that utilization levels for all the three years it has been at the same level but in terms of going forward we feel that in fact I personally feel that the power cost should come down because of the availability of solar power now in Tamil Nadu which is on the availability is on the higher side and the power cost should come down going forward.

Kashyap Jhaveri: One last question in your annual remarks you mentioned about GST impacting our margins now if I understand since we are an exporting unit we would fall in the sort of zero category GST right and in which case the IGST and CGST refund becomes automatic so why should it impact our margins even in short term?

V. Balaji: I think you have missed the clarity which has been given in the previous question about GST, in terms of duty drawback when I availing a duty drawback I will not be allowed to take any input tax credits so when I am availing a duty drawback an additional GST is a hit in my margins, so what happens in terms of my import any import of goods need to be cleared through IGST which I will not be able to take credit, previously I was using advance license now that advance license is not available so there is a hit in my margins.

Kashyap Jhaveri: Yes, but if I have read the circular, which came in within seven days anyway 90% of the credit they have to be, export oriented?

V. Balaji: That is with respect to the availment of tax credit if I opt for tax credit. Not for the people who are taking duty drawback.

Kashyap Jhaveri: One last question on your standalone account, I can see about 7-7.5 Crores advertisement and promotion expenditure now ideally it should be only in consolidated number because we have the whole retail business which is in the consolidated numbers and the standalone it is largely export oriented so why is that in the standalone expense also?

V. Balaji: I think you have not considered our business model properly. SP Apparels retail division is part of SP Apparels and all the businesses done in SP Apparels retail division which is part of SP Apparels and the advertisement, which happens on SP Apparels, is booked in SP Apparels.

Kashyap Jhaveri: That is it from my side.

Sundararajan: It is only a retail division of SP Apparels.

Kashyap Jhaveri: Thank you.

Moderator: Thank you. Due to time constraints we will be able to take one last question. The last question is from the line of Shraddha Agarwal from Asian Market Securities. Please go ahead.

Shraddha Agarwal: Good afternoon to the management. Sir one question has the entire impact of Brexit been felt in this quarter or we see some impact in Q2 as well?

Sundararajan: I mean the fullest impact is in Q1. Q2 is somewhat better than compared to Q1 the restoration will be in Q3 onwards.

Shraddha Agarwal: So in terms of a rupee based realization we might see pound depreciation in Q2 as well?

Sundararajan: Sorry can you repeat the question please?

Shraddha Agarwal: I am talking about the pound depreciation impact when it comes to rupee realization per unit that impact can be felt in Q2 as well because of the pound depreciation?

Sundararajan: Small portion of it will be felt in Q2 also.

Shraddha Agarwal: Sir would it be possible for you to give out the realization per piece number for this quarter?

V. Balaji: Per piece close to around Rs.96.

Shraddha Agarwal: Okay and just one thing I mean on a previous question you said that you would be spending 20 Crores of capex on this sewing machine addition and subsequently you mentioned that you are not adding any machines for this year so is this pertaining to addition for FY2019?

V. Balaji: See in terms of the capex we have already, we are looking at a opening up of factory in southern part of Tamil Nadu so that is why I explained you about putting up 20 Crores of capex, which could come into effect may be subsequent year.

Shraddha Agarwal: So that is only about land construction not of sewing machines?

Sundararajan: All see, in the investment all will happen during this financial year, operations may start happening in the next financial year onwards.

Shraddha Agarwal: Okay but the broad guidance of 600 machines addition in FY2019 right, I mean since we are not adding machines this time so will increase the guidance for next year sewing machine addition?

Sundararajan: Yes, correct.

Shraddha Agarwal: That is it from my side. Thank you.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to the management for any closing comments.

Sundararajan: I would like to thank everyone for the participation and I am very confident that Q2 results will be up to the expectation of all the investors and shareholders. Thank you.

Moderator: Thank you very much. On behalf of Edelweiss that concludes this conference. Thank you for joining us ladies and gentlemen. You may now disconnect the lines.