S.P.APPARELS LTD.

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Stock Code : 540048	Stock Code : SPAL
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Sub: Transcript of the Conference call held on 14th February 2022	

Dear Sir/Madam,

With reference to our letter dated 11th February 2022, intimation about the conference call with Analyst/ Investor held on 14th February 2022, please find the attached transcript of the aforesaid conference call.

This is for your information and record.

Thanking You.

Yours faithfully,

For S.P.Apparels Limited

K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above

“SP Apparels Limited
Q3 FY'22 Earnings Conference Call”

February 14, 2022

ANALYST: MS. PRERNA JHUNJHUNWALA, BATLIVALA AND KARANI SECURITIES

MANAGEMENT: MR. P. SUNDARAJAN, CHAIRMAN AND MANAGING DIRECTOR - SP APPARELS LIMITED

MRS. S. LATHA, EXECUTIVE DIRECTOR - SP APPARELS LIMITED

MR. S. CHENDURAN, DIRECTOR - SP APPARELS LIMITED

MRS. P. V. JEEVA, CEO - SP APPARELS LIMITED

MR. V BALAJI, CFO - SP APPARELS LIMITED

Moderator: Ladies and gentlemen good day, and welcome to the SP Apparels Q3 FY '22 Earnings conference call posted by Batlivala & Karani Securities India Private Limited. As a reminder, all participle lines will be in the lesson only mode and there will be an opportunity for you to ask questions after the presentation conclude. Should you need assistance during the conference call, please signal and operator by pressing * then 0 on your touchstone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Prerna Jhunjhunwala from Batlivala and Karani Securities India Private Limited. Thank you. And over to you, ma'am.

P. Jhunjhunwala: Thank you, Janet. Good afternoon, everyone on behalf of B&K Securities, I would like to welcome you all to treat you Q3 FY'22 post result conference call of SP Apparels Limited. Today, we have with us the senior management, including Mr. P. Sundararajan, Chairman and Managing Director of the company. Ms. S. Latha, Executive Director; Mr. S. Chenduran, Director, Ms. P. V. Jeeva, CEO and Mr. V Balaji, CFO. I would now like to hand over the call to the management for initial comment. Thank you, and over to you, sir.

P Sundarajan: Thank you. Good afternoon, everyone and very warm greetings to all of you who are present on the con call to discuss about our Q3 FY'22 results performance. I hope and wish that all of you and your loved ones are healthy and safe. Before discussing on the performance of each division, I would like to update you the development of the retail havoc high which has been completed on 1st January 2022.

We have shifted the operations of retail into our wholly owned subsidiary SP Retail Ventures at the consolidation of Rs. 53.5 crores. This consolidation will be converted into equity at an appropriate time. Further, I would like to take this opportunity to inform all of you that we will be looking to raise PE or strategic investments in our new retail venture to grow the business and excel in its industry.

Now let's talk about the garment division, segment wise performance. For garment division the shipments to customers have increased both in terms of Q-on-Q and year-on-year. In terms of customers, we have added one new customer from U.S. and expected to receive initial order in the next four weeks' time. This addition from U.S will surely dilute our concentration in the U.K geography.

I would like to update you on our strategy in increasing utilization levels by addressing, sourcing, and training our workman, which has started the yielding better results now. The process of starting our second shift is still to be commenced and will likely happen in the month of May and will update you all, on this soon. Our current order book stands at Rs.330 crores. Our garment division revenue for this quarters stood at Rs. 223.8 crores versus Rs. 176 crores for Q3 FY’21 which is at the growth of 27%. Year-on-year.

The total revenue for 9 months stood at Rs. 523 crores versus Rs. 373 crores for 9 months ended FY’21 at a growth of 40%. Adjusted EBITDA of the garment divisions stood at Rs. 44 crores for the current quarter as against Rs. 38 crores of Q3FY’21. Adjusted EBITDA for garment division for 9 months stood at Rs. 110 crores versus Rs. 75 crores of 9 months FY’21. Regarding spinning, spinning is fully being utilised and is yielding good margins, adding to the garment division’s margin.

Our Expansion of three phase that is, 3,600 spindles is completed currently, and have started yielding production effective from 1stFebruary, this year. Further as instructed in last call, to medicate the risk of availability of quality yarn and consistency in supplying we have tied up with a mill on a conversion basis so that supply is uninterrupted without any volatility.

Regarding processing, this division, utilisation level has increased which means, we are working even on two Sundays a month, so the working days have increased, coal prices have started decreasing and raw material prices and supply chain cost escalations are putting margins at stress level in the processing division. We have worked an alternative mechanism to mitigate the price escalation in coal during last quarter. Regarding SP Apparels U.K division, SPUK has seen a lot of descriptions in supplies chain majorly due to the third wave in the U. K and Europe. Escalation in the container cost has put the supply chain on a standstill and disturb the revenue for the current quarter.

The position is improving now and SPUK will pick up same from Q1 FY’23. Revenue for the quarter stood at GBP 1.4 million as against GBP 2.1 million year-on-year. Retail division, performance has been separately disclosed to the exchange as business of discontinue business in our standalone financial reporting structure. Further as highlighted in the opening remarks we will be looking for some PE or strategic investors into our retail ventures to grow the business and move to the next level in our retail operations. The current security position is strong, and we have serviced all the debt up to date. Thank you. Now I will request CFO to give an overview of the financials. Thank you.

V Balaji: Thank you, sir. Good afternoon. Everybody. I’ll just run you through the financial performance of the company. The revenues for this quarters stood at Rs. 254 crores on a consolidated basis, which is 20%higher on year-on-year basis. Our consolidated adjusted EBITDA stood at Rs. 41 crores, as against Rs. 39 crores year-on-year. PBT stood at Rs. 30 crores as again Rs. 26 crores increase of 13.6% year-on-year basis. Adjusted PAT stood at Rs. 24 crores as against Rs. 19 crores year-on-year, which is an increase of 25%.

On a 9-month basis of revenue stood at Rs. 609 crores on a consolidated basis, as against Rs. 459 crores year-on-year, which is an increase of 32.6%. Adjusted EBITDA stood at Rs. 107 crores as again Rs. 78 crores year-on-year, which is an increase of 37%. PBT stood at Rs. 78 crores, as against Rs. 43 crores, which is an increase of 80% year-on-year.

PAT stood at Rs. 59 crores as against Rs. 32 crores year-on-year, which is an increase of 82. On garment division, the revenue stood at Rs. 223 crores for the quarter as against Rs.176 crores, which is an increase of 27% year-on-year. Garment margin stood at 19.7%, as against 21.7% year-on-year. SPUK revenue stood at Rs. 17.6 crores as against Rs. 21 crores which is reduction in the revenue due to the reasons explained by the chairman.

Our gross debt stood at Rs. 130 crores, and net debt stood at Rs. 105 crores. My net working capital net is Rs. 55 crores and term debt Rs.50 crores. My inventory as on 31st December is Rs. 240 crores are mainly because of increase in cotton prices and yarn prices. Debtors' receivables are at Rs. 70 crores and payable is at Rs. 71 crores. Other information is available in the presentation, and we can get into the question-and-answer section. Thank you.

Moderator: Sir, can we open the call for a Q&A session now?

V Balaji: Yes.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin to question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the questions queue is assembling.

The first question is from the line of Chirag Lodaya from Valuequest. Please go ahead.

Chirag Lodaya: Sir, this Rs. 330 crore order books if you can help us understand, compared to, say pre-COVID. How is it looking like? Is it much about pre-COVID order book levels or it is similar to that? Basically, what I'm trying to understand is how is overall demand trends in garment division?

V Balaji: In terms of demand, I think there is a good demand which is coming up. When you compare our order book prior to COVID and after

COVID so like our order book prior to COVID was somewhere around Rs.250 crores, Rs.260 crores and now we are sitting on an order book of Rs.350 crores. And the demand is really very, very strong.

P. Sundararajan: Yes, let me explain to you. See, the order book has now increased. It used to be Rs. 260 crores, Rs. 270 crores now it is Rs. 330 crores, which isa project-based order so we have the firm delivery of say three to four months' time, so which means, Rs. 330 crores, 80% to 90% of this value will shifted in three to four months' time. So, this is always the case. And this itself is a clear example that there has been an increase in demand for the supply from our existing customers. And that's a current scenario. So, we are going very strong with the order books now.

Chirag Lodaya: Got it. Second answer margin. Given the inflationary trend on a Q-o-Q basis also, how are you looking at margins in garment division going ahead. Any range that would be helpful.

P. Sundararajan: See, one of the reasons why there is a small dip in garment division margin is only because suddenly we have booked the order at the prevailing prices of yarn and the dyes and chemicals, but after the order book, the price went up, which nobody expected during the beginning of the cotton season. So, this is where it has misled us to some extent. So, we could not ask for increase in prices from our customers that's the reason why there has been a little bit of drop in the margins.

But now the customers have started accepting the increase in the cost price because, all over the supplying countries, this is a situation. So, they have started agreeing to reasonably increase of the prices. So, we will be back to the same situation of what we used to have the margins.

Chirag Lodaya: So, is it fair to assume that 20% kind of margins in garment division should sustain going head also?

P. Sundararajan: No. We always give you an indication the guideline is 18% to 20% always, that is how we work. For us if anything comes extra it's a bonus. So, we tried to always maintain between 18% to 20%. So, we don't really give any false promise that'll be a dip 10% because all streamlined our costings and their products and customers' requirements all streamlined. So, this 18% to 20% is working out all the time irrespective of any volatility, so we don't commit anything much bigger than this. So, if it just comes well and good.

Chirag Lodaya: In retail division this quarter there was spiking lockers. What is the particular reason and how we should look at retail division on an annual basis? What kind of cash flow should one to expect going ahead?

V Balaji: Retail division for the current year has made losses, and we were not able to make sales during the month of December because of the transition into the new company. So, all the stocks were kept on hold until there is a movement into the new company. So, retail has made losses for the current 9 months also. And going forward, I guess, things will stabilize.

So, like Q3, if you look at the month of October, we have disturbances where we were not able to open shops during the weekend. Saturdays and Sundays were not allowed to open, so we have disturbances in Q3 because of the COVID. But going forward we guess that there will be good amount of traction in the revenue and move to the next stage. So that is all about retails.

Chirag Lodaya: Got it. And sir just lastly on overall debt position. What to expect by next year, next end, what kind of debt level will be like?

V Balaji: I think on the debt levels our current debt is close to Rs.105 crores. And on the term debt we have Rs. 55 crores and on the working capital we have Rs. 50 crores. Despite increase in the cotton prices and all the supply chain, we can maintain the debt at the low level. In case if the cotton prices had not gone up, we would have come to a stage where we don't have any debt. But debt, I guess, is purely based on how we work on the working capital. But I guess we are working towards a zero debt in 1- or 2-yearsyears' time.

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

K Pawaskar: Sir, my first question is on your differentiated mechanism, which you indicated during your initial comments to mitigate the raw material pressure. So, can you just explain it what kind of mechanism or pricing strategy you are alluding towards?

P. Sundararajan: No, I guess, it's regarding the raw material yarn. So, this is the mitigation. Yes, instead of we buy it from the open market see, currently our existing capacity can manage up to 60% of our requirement. So, the balance we must buy from the open market. So now we have increased the capacity so that the number one we get confirm the delivery of yarn, and the required quality. Because our babies' products so the quality requirement is very, very, sensitive. So, we have a very consistent quality which we cannot get from the open market.

And the third one is the at least, we have a firm price without any volatility of the cost price of the yarn. So, these things will mitigate our risk in terms of quality, delivery, and the price.

K Pawaskar: Right. So, sir this 60% has gone up to how much? Like 60% of requirement is through internal?

P. Sundararajan: 80% I would say.

K Pawaskar: Okay, 80% of requirement is in-house, 20% you are buying from the open market.

P. Sundararajan: Correct.

K Pawaskar: And sir, on the pricing strategy. As you mentioned that since the price yarn prices, and dyes prices were booked earlier, and it was difficult to increase the price. But now since the market is opening up for the price increases. What is the maximum, level where you can increase the price which will be comfortable for this your customers?

P. Sundararajan: As the older price increase by 12%.

PV Jeeva: Yes, it will. It is working out to 16% to 20%. But we have already asked the customer to increase for 20% but for them it will work out to 14% to 16%. So, they are ready to give up to 15% increase.

K Pawaskar: So, have you taken 15% increase or still it is to be taken.

PV Jeeva: Yes, we have already taken 15% increase.

P. Sundararajan: For the future

K Pawaskar: Okay. Okay. And my, last question is on your capex. So now you have completed one already completed this including this unit capacity. Any further plans on capex you are looking at?

V Balaji: If you look at what we have guided for in the last con call we have spoken that we are going aggressively moving towards hostel and we are investing closely around Rs. 20 cores of hostel facility into hostel facility. That will happen this current fiscal year FY'23 we will start investing into expanding our hostel facility so for that we are also increasing our capacity accordingly.

P. Sundararajan: In factory.

Moderator: Thank you. The next question is from the line of Arvind Kothari from Nivesh I. Please go ahead.

Arvind Kothari: Sir, congratulations on a great state of number. I was wondering if we have also done a comparison of what has been the price increase by our competitors like Bangladesh and Sri Lanka and whether they are facing some issues because of the situation, in Sir Lanka in terms of currency and all the things. So, are we winning orders in with respect to them or they have also taken price increases, which in a way, puts us a better off or are we also is one thing if you could clarify book?

V Balaji: Price hikes both in Sri Lanka and Bangladesh. Are also taking price hikes?

P. Sundararajan: So, you mean to say that the top retail countries, right? Companies.

Arvind Kothari: Yes.

P. Sundararajan: They are also in fact, impacted severely when compared to us because we have this indigenous raw material, but for them they must rely on either China or India for Bangladesh or Sri Lanka. So, they will be severely affected there. So, the price increase is going to be the same or more than us for them and they must get the price increase. That is the reason why customers are being increase of 15%, 16%. It should be for all. Unless you know other demand, they would not be giving to us also.

Arvind Kothari: Got it. And sir, my next question is on in the budget there was a lot of duty changes that happened across the imports like buttons, and I guess accessories for garment. Could you clarify what kind of cost benefit we would get, in percentage terms of our manufacturing cost?

V Balaji: So, on the in the budget, I guess, there was only one slight change for the import in terms of people who import under a duty can get it, I mean, through an obligation they can do it. So that's the only thing, but I don't get that will be terms of percentage, which can be marked. It will be very, very small.

Arvind Kothari: Okay. Got it. And sir, this new client that we are talking about in the U.S. I mean, and we in a way last quarter, I guess we had two clients that got added in the UAE so in terms of volume or maybe value terms if you could clarify it how what it means for us for our growth target that we had you talked about in the last firm.

P. Sundararajan: See one customer we have already got I think truly out of two we already got that's from Middle East we told you before. And the other one is the incoming order placed for them. So that's an U.S. customer. Now first year, there will be a small portion of our business contribution will be there on either side. So, real pick up maybe from '23,'24 onwards. So, easily it will not take about 10% to 20% of our pick-up of our sales that's the plan.

Moderator: Thank you. The next question is from the line of Shikha Mehta from Equitree Capital. Please go ahead.

Shikha Mehta: what our current labor strength is? And if we seeing any shortage of labor?

P. Sundararajan: See, as I mentioned that it started improving. Yes, still we need to fill the capacity with the new recruits, which already started working in the last two, three, four months' time. So, over a period of another about three months' time we should be able to fill the existing installed capacity and slowly we will be doing as I said from May onwards, we will be gradually increasing the number of lines for the second shift without adding any additional machine. So, it's on the right track.

Shikha Mehta: Right. And what's our attrition rate?

P. Sundararajan: Attrition is slightly on the higher side. Now, we have already started working on the month-on-month about 5%. So, we are working on the serious retention strategies which will also yield the result in the next two, three months' time, for sure.

Shikha Mehta: Alright, sir. Sir, I guess our order normally that order normally be three to four months to be completed and our current order book is around Rs.330 crores. So, are we saying next quarter we'll be doing around north of Rs.300 crore top line?

P. Sundararajan: Yes. Straightaway you don't take it this way. As I told 90% of Rs. 330 crores will be for three to four months' time, so it can be split into four. So, you can work on this. This is the order book we have for the coverage of four months of 90% and another 10% will be there for the next few more months. So, we cannot give you the correct number based on this, but you can guess it.

Shikha Mehta: Alright, Sir, our employee cost also for the quarter again on the higher side, which is due to the writ petition, etc. So, can you give the normal salary paid for the quarter?

V Balaji: So, like, if you are looking at the employee cost based on percentage, yes, the percentages are on the higher side because of our inefficiency. Once the efficiency comes in, we should see the employee cost in terms of percentage coming down.

Shikha Mehta: Okay, so what percentage would you be looking at approximately?

V Balaji: As per the industry I think the employee cost could be anywhere between 20% to 21% and we are working towards it.

Shikha Mehta: Alright sir. So how much percentage has the raw material cost gone up by?

V Balaji: So, it all depends on the product mix. Like if it is basics. If you work on basics, the raw material cost will be on the higher side. And if it is on fashion the raw material cost will be on the lower side. It all depends on the product wise which we work.

Shikha Mehta: If you could give a broad percentage?

V Balaji: It will be between 35% to 42% based on the product.

P. Sundararajan: It used to be around 37% - 38% raw material cost. Now in the current reason it is about 40% to 42% because the customers have not been able to pass on increase the price. So, again the thumb rule is normally. As we said from the current order what we are booking now, customers have increased the upcharge the cost of increase. So, we will be back on track around 37% to 40% will be the raw material cost.

Shikha Mehta: Okay. And sir, could you give us some light on the logistics cost? How much of balance is that?

V Balaji: our orders are FOB

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

Bharat Seth: Hi. Congratulations, Mr. Sundararajan and team on good set of number.

Bharat Seth: Yes. Now current year, we can expect maybe around Rs.750 crore of our garment sales. So subject to how much we realise up from the order book. And the way the order book is expanding as well as we are adding the customer so can you give some senses, where do we look for FY'23 subject to everything is normal and we will be able to ramp up the capacity as well as utilisation level. So how much are we looking for FY'23? As well as in the volume term, as well as in price value term.

P. Sundararajan: See, as I've mentioned in most of the con call, we always appear to you look for about 15% to 20% growth, which is what we are always working towards. And this current year we expect the growth to be 25% for this FY'22 and next year also, it can be between 15% to 25% it's a too wide range I know, but safe side you can have 15% to 20% growth on the top line. And the bottom line is always in we maintain 18% to 20% EBITDA

Bharat Seth: Okay, that's fair, sir. But if we look at, the way price increase we have taken, so will that accelerate some growth percentage?

P. Sundararajan: Which business you are talking about?

Bharat Seth: We have taken a price hike of around 15%. Correct?

P. Sundararajan: Correct.

Bharat Seth: So, from that scenario.

P. Sundararajan: No, that is what exactly is right increase the customer is going to pay now.

Bharat Seth: Correct. Okay. But if they agree, then the growth rate will be little higher, correct?

P. Sundararajan: Yes. That 15% price will also be an addition. That is what we are trying to say 20% to 25%.

Bharat Seth: Okay, fair sir. And SP UK How we are seeing the situation now?

P. Sundararajan: See, now it's back to normal. Europe is open and the all the retailers or corporate offices are open. They started meeting the vendors, the people so it's all back to normal, same as it was in the 2018-19. So, the whole thing on the demands is as usual after the pandemic there is going to be aggressive demand and that is what is happening. So, only the U.K. where we must look at the price increase with regards to the customers, their customers, who will also have some.

So, if we look at the top lines there will not be an issue. We, hope growth by 20%, 30% and the margins will be maintained as it is.

Bharat Seth: Okay. Sir, last question, on the garment side, the new customer that we have added is more of a basic or a fashion side?

P. Sundararajan: Mix, of basic and little bit of fashion. Because they come to us because of fashion styles only. So, it will be about more say 60% of basic and 40% will be fashion.

Bharat Seth: Okay. Sir, now you said that in retail we have an aggressive since it has been transferred to separate 100% subsidiary and we have aggressive investment plan. So, can you give some more color how much investment we want to make till we raised the fund, so it will be from which entity it will be funding?

V Balaji: No, See, in this in chairman's note he said we are raising funds for the growth.

Bharat Seth: Correct.

V Balaji: Now that is where we are growing at an aggressive pace. So, we are looking to raise funds both if there is a strategical investment coming in or a financial investment or a PE, whatever kind of investment that will accelerate the growth. So, the investment is for the growth.

P. Sundararajan: So, we have a plan. We have aggressive plans and then if we need to grow. While it was in this company in SP Apparel, so we did not support them by further funding due to the board decisions. So, now this being hived off in the100% subsidiary now they are free to raise the money from anyone else. But the business plan is always, it's very, very positive, in domestic retail is very positive now. So, we have a plan for having one or two more brands into it. So, one will see now is this Crocodile men's brand and we have a plan for adding one kid's brand or premium brand and the third one is going to be a licensee brand of world-famous sports brands where we will have an apparel and footwear. So, the business model and the business numbers are very, very attractive and very, very positive. So, with the additional infusion of money, we should be able to take it up for the next three years plan.

V Balaji: One more point to be explained, is that there will be no more additional funding from SP Apparels into retail without any aggressive growth, that is coming in.

Bharat Seth: **Fair.** See in current I mean, 9 months what is our basics and fashion mix?

V Balaji: Mix. It should be 60% basic and 40% fashion.

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

I have few questions. One from which date did you take the price Increase?

V Balaji: No prices are quoted based on the orders which we have. See, example today I am getting an order. I go with the today's pricing. So, it's not like you don't go back and get the pricing.

P. Sundararajan: So, it is not the commodity. Our products are.

Niraj Mansingka: So, let me rephrase this question that from what is the has the quarter three seen the full impact of the price increased passed on to customers or the full impact is yet to come?

V Balaji: Partly it is getting passed on. Maybe orders for, like, basics symbol could have been passed on. For certain orders it could have not been.

P. Sundararajan: The same case for Q4 also.

Niraj Mansingka: Okay, so then Q1 would be the full impact. Is it right?

P. Sundararajan: Yes. Right.

Niraj Mansingka: Okay. Got that. The other thing is how many employees do you have right now? And how many machines?

V Balaji: Currently, we are working with 12,500 employees on roll. And we have 5,100 sewing machines in-house and capacity utilisation is closely around 62%.

Niraj Mansingka: Okay. So, one related question. You had told in the past also, that you don't need to add capacity now considering that you're going to go for a double shift. Do you think that by May you would be able to start scaling up the double shift? And do you see any delays of that increasing the double shifting of the resources?

V Balaji: Yes, as per the plan we are looking towards May, where we'll start up the double shift.

Niraj Mansingka: Right.

V Balaji: We will not have them overnight. But gradually we will start having three lines four lines and five lines. And gradually we will keep adding.

P. Sundararajan: s I hope I answered your question.

Niraj Mansingka: No when your utilisation is low then why you still want to go double shift. So just can you explain that?

P. Sundararajan: see there are certain factories which are associated with hostel. We can hire only in hotel factories. For the local factories, we will continue to fill the existing capacities and at the same time for hostel factories there will be more inflow of people so here automatically we will not stop the inflow we will add on the night shift lines.

Niraj Mansingka: Okay, so is the labor availability an issue? Because see, one thing, I'm not able to understand is, industry is getting a lot of orders today, but aid, but you are still learning a 62% utilization and see a lot of scope to increase utilisation as well as to increase the hostel facility and go for double shift. So, then what is stopping you? Is it the availability of labor or some other operational issues that's stopping you to scale up?

P. Sundararajan: Managing the inflow. See suddenly, we cannot simply bring in 1,000 to 2,000 people, so it must happen on a month-on-month basis. So, that is what is happening now. So, in the next two to three months there will be more of inflow, and we must train them and put them on job, so it takes its own course of time.

Niraj Mansingka: Okay, so the last question. So how do you see the employees scale up in number of employees from here in next two years? And how do you see the training for them facilities that you're planning? Just wanted to get your thoughts on that.

P. Sundararajan: See, based on the growth rate we said that 20% to 25% the same manner. First, we will fill the existing capacities and then we will reach a level where a year-on-year there will be a growth in work force by about 20%, 25%. And we have a proper training centre, so we take fresh people, train them up, and then put them after a certain period. Once we evaluate and found suitable, then we'll place them in the thing. So, this is a routine exercise.

Niraj Mansingka: Okay, but can you give some number, like in terms of which will understand explains it how you are thinking? Like how many employees you cease two years from now?

P. Sundararajan: See when I say 20% to 25% so you can think. Now he says 12,500 so there is going to be another 20% to 25%.

Niraj Mansingka: Almost 40%, 50% addition in employees in next two years.

V Balaji: See, every sewing machine I must have at least 2.25 people on the role. So, like every operator needs to be there and helper needs to be there. So, for every machine I add, I need to have a 2.25 person as per role. So, for example, I add 1,000 machines next year I must have another 2,200 people on my roll.

Niraj Mansingka: But this doesn't include the double shift.

P. Sundararajan: So, if it is a growth at 20% so naturally you can say 2,500 will be the growth.

Niraj Mansingka: Okay. No, I was trying to more understand from, like machines versus employee. Because your machines what I thought in the past also you have shared in the con call that your machines won't increase for some time because we were going to slightly 3 plus number of employees versus machine per machine.

P. Sundararajan: The machine man ratio he mentioned which is about each machine 2 to 2.25 is the ratio. So, you can work on it. Machine workers.

Niraj Mansingka: No, but this is for single shift. But when you go for double shift, your efficiency improves more.

P. Sundararajan: So there again, the number of machines will increase. Even if the second shift, if we are running 500 machines there is going to be another 500 machines. We are not talking about installing the machines, we are talking about running machine.

Moderator: Thank you. The next question is from the line of Shivam from JHP Securities. Please go ahead.

Shivam: A couple of questions. One is on the employee availability. Just continuing what the previous participant asked. So, when I go back to my notes of the last quarter con call, you'll had stated that two shift facility will start by it means you will start two shift operations in one factory by September. So, has that started?

P. Sundararajan: See, as we mentioned, because of this Omicron thing, it has disrupted the whole thing because the inflow of workman from other states the government has stopped them. So, now it has resumed, so literally we have lost about three to four months' time. So again now, which is resuming. So, again, I'm telling you there is one more, see pandemic one more this viral spread comes even we don't know what will happen. So, these are only the risk factors.

So, what we plan for September moved to January, again now we are planning for May because disruption to resume it takes about six months' time. Until we stabilize. After that, there is no big issue. While in the process of stabilizing this disturbance is really disrupting the plans.

Shivam: Got it, sir. So, sir, assuming you'll have two shifts in the next year over the next year. So, what would be the capacity utilisation then for the next year that you would be targeting. So, its current 62%.

P. Sundararajan: 80% to 90%. Then probably we will be adding new more machines.

Shivam: Okay. 80% to 90%. And this would be on 5,100 sewing machines.

V Balaji: As sir said, we may add in couple more machines next year also.

Shivam MS: Okay. Got it. And sir, when look at the GP margin. So, when I look at the standalone figures and I think that would give me a better understanding of the garmenting division, correct me if I'm wrong. So, when I look at those numbers on a Q-on-Q basis and on a Y-o-Y basis the GP margin hit has been substantial. So, if you could just give some color on how our raw material procurement has been over the last quarter. And what led to this hit? If you could give a little more granular understanding.

Because as far as I know, we keep three months of cotton inventory with us. And in a rising environment one would have been able to pass on the price with the low-cost inventory remaining with us, as in our stock. So, this kind of a hit would not have come in this particular quarter. So, just wanted to understand this part.

V Balaji: So, I think you haven't heard the previous questions which have been asked. So, we have already explained this why there is a hit. This is purely because of the products mix. So, when I do more of a product which is basic in nature there will be no value addition in terms of my cost.

So, when I do more of basics, then my material cross is always on the higher side. And more consumption towards the yarn or the fabric is going to increase the contribution. But in terms of margin, we guided for 18% to 20% of margin. Don't look at EBITDA margin separately and gross margin separately. It's my basics contribution which is going to be on the higher side. My personal cost could be on the lowest side. So, we have to look at it holistically. Hope I'm clear.

Shivam MS: Yes, got it. And sir, if you could give us, give me the volume for this quarter in the garment's division.

V Balaji: Now we have already given that in the presentation. But still I'll tell you 13.6 million pieces exported and 0.4 million on the domestic front. So, both put together 14 million pieces.

Moderator: Thank you. The next question is from the line of Resham Jain from DSP Investment. Please go ahead.

Resham Jain: Sir, my question is on the growth, which we are expecting for a FY'23. Considering this quarter, we have already done around Rs.225 crores which means we are already going to if we do this run rate that itself will give us that 15% to 20% kind of assuming that there is some more price hike, which was not available during first half of this year. So, are you seeing that these run rate in terms of volume will be like what we have done in Q3?

V Balaji: Okay. I think volume could be anywhere between 10 to 15 percentage. And the price hike could be anywhere between 10 percentage. So that is why chairman has instructed that it will be 25 percentage for FY'23.

P. Sundararajan: See, definitely we are planning for.

Resham Jain: That is what I am asking. That if I look at the quarter three run rate of garmenting export revenue, the growth doesn't seem to be very high. It means that you are not adding to incremental volumes next year.

P. Sundararajan: Yes, that's what I'm trying to say, that we are planning for capacity increase by about 20%. And also, the price increase will be around 15%, correct. But it is not for all we will be getting the 15% growth. So, we have to work in such a way that combined, it will work around 25% this is what we mentioned to you. So, this is only the guideline we are giving. We really, we cannot assure you on the numbers now.

Resham Jain: Yes, I understood that part, sir. What I was just saying is that this quarter we have already done Rs.225 crores, that means, we are already doing Rs. 900 crores kind of rate which means that next year on this run rate, whatever we have done in quarter three, it seems that because 1Q and 2Q was anyways much lower for us because of multiple issues. What you're saying is that you will maintain this run rate and some marginal 5% - 7% growth rate. Is what I'm coming to when you say 20%, 25% growth, the growth doesn't seem to be very large.

The volume growth obviously doesn't seem to be more than 0%.

P. Sundararajan: So, already done it's not Rs. 225 crores per quarter we have already achieved, and Q4. And I mean that if you look at the run rate to Rs. 225 crores average If you take this Rs. 225 crores is also not to the existing capacity, also the previous one, which was because of the container issues and other things this has been happened. So, if we maintain this Rs. 225 crores in four quarters it will be easily around Rs. 900 crores. And incremental 10% incremental increase. So, you can work on this that close to Rs. 1,000 crore it is coming to.

Resham Jain: Okay.

P. Sundararajan: So, you're trying to say this incremental growth is not very attractive to you mean to say not advancing?

Resham Jain: No, No, sir, I'm not saying that. I'm saying that you are already doing that kind of run rate to reach that 20% growth. So incremental capacity doesn't seem to be coming in. But what you are saying is, that you will do Rs.900 crores and then plus Rs.100 crores-odd so you can execute Rs. 1,000 crores next year FY'23.

P. Sundararajan: Yes. I have also said it in the interview CNBC that we will be achieving Rs.1,000 crores in 2023 FY.

Resham Jain: Yes. Got you, sir.

P. Sundararajan: Yes.

Resham Jain: So, basically growth will be more towards like 30% rather than 20% what you are saying. Understood.

P. Sundararajan: So, you want me to say Resham, you have done all the homework, why are you try to bring it for me.

Resham Jain: Okay. Sir, second question is we are doing nice thing by debottlenecking by putting up hostel. But in terms of the real capacity addition, when do you think we need to start putting up newer capacities for incremental growth beyond FY'23, '24?

P. Sundararajan: See, this itself because with the existing set up we can easily grow another 40% to 50%. So, which means for another next two to three years' time so this itself will give you the required increase, but we have a plan of another one big factory in 23 - 24. Maybe one more or two big factories, we will be planning to put up in 23 - 24 depends on how this one-year post to pandemic the things are settling down.

So, there is a plan for two big factories that will add, that is not ruled out. Where we will also do some consolidation. It is not that straight away, there may be reduction in number of production sites by another two or three big/small factories rental factories we will club those.

Resham Jain: Okay. Understood. And sir the last question is, given that our capex is quite limited over the next 24 months or so and the generation is quite high, and also retail will not require the money. So how do you plan to deploy the money, which you are going to earn over the next 24 months, which seems to be quite large. Your debt is already at Rs. 100 crores, which is already subsidised rate. So, all the cash which you will be generating now seems to be like a free cash flow.

V Balaji: So, anything in terms of cash, I mean capital allocation I think we have already guided for 15% of the EBITDA will be distributed to the shareholders accordingly. And, if at all, we have cash accumulation, the capital will be used effectively to pay off the shareholders either by way of dividend or a buyback. That may happen once we see good amount of cash accumulation happening.

Moderator: Thank you. The next question is from the line of Ridhesh Gandhi from Discovery Capital. Please go ahead.

Ridhesh Gandhi: Hi, sir and congratulations on your numbers. Just had couple of clarificatory questions. So, you indicated that we are running at about 65% capacity. This is including the capacity on which we can like run on double shifts?

P. Sundararajan: Yes. So, when we say the capacity is not installed capacity. Say, for example, out of say 5,000 machines we run 1,000 machines double shifts then it become 6,000 machines. So that's how we look at it, like one shift 1 machine installed. So, if that is the case, so if it is, you know 60% now and when we say 80% that also includes the night shift.

Ridhesh Gandhi: Understood. Got it. So, we've got a reasonable head room to grow on existing capacity as well. Sir, and the guidance which you have given for 15% to 20% growth is it that volume growth is that we are looking at?

P. Sundararajan: As we said60% basic and 40% fashion.

Ridhesh Gandhi: No, I'm thinking of 15% to 20%. Sir, I am assuming 15% to 20% growth which we indicated which we can do next year that would be on actually a volume growth, right? And its pricing would be over and above that. I mean depending on the price of the cotton.

P. Sundararajan: Yes. In units. Yes.

Ridhesh Gandhi: Got it. Sir, so then we don't need then effectively, any incremental capacity, at least till the end of FY'24. Is it? Because effectively assuming 15% to 20% growth even for even for the till next two years we still wouldn't be an optimal capacity utilisation.

P. Sundararajan: No. Yes, we may not the additional new machines, but we have we said that always we may have to have, when we have garment of about 10%

to 15%, we may have to invest in new machines to balance the line for each factory. So otherwise, there will not be any increase in the number of installed machines other than this 10% because we are using double shift.

Ridhesh Gandhi: Got it. Sir, but given the overall demand scenario and what we are hearing from both the offline garmental, as in listed and unlisted, is it like the demand's scenario is extremely strong. So, given we have that capacity and given we have the credibility, we have the client base, we have the scale shouldn't we potentially be attempting for even higher growth?

I mean, I know 15% to 20% is a great number, but just wanted to understand isn't there a potential to do even higher?

Ridhesh Gandhi: What is actually, a bottleneck in taking into a lot?

PV Jeeva: Yes, it is definitely possible. If we get a continuous man power source. All depends on sourcing of the manpower.

P. Sundararajan: Yes, this we have medicated we have faced the challenge of inflow of the people work force. But you know one thing which I always say the mobilisation was the challenge which now we are coming out of this. But you know, in the big volumes handling that handling is such a huge mobilization of workman. Most of them 90% to 95% are women, all girls. So suddenly it is not advisable to take about 1,000 to 2,000 people and just put them in the hostel and train them, so this must happen as a natural course of action.

Like gradually per month, we can do about 200 to 300 machines and like this we can increase. At the same time we have to address on the retention also. Because currently we have addressed this inflow, but we have now started working on retention plans. So, what will happen say 300 will come, maybe 100 will go so we cannot just suddenly bring in one to manage the whole thing. Because the productivity, quality issues, then saving of the material these are the challenges. So, it has to have only by 20% to 30% of workmen growth. This is what we strongly believe in.

Ridhesh Gandhi: Okay, Got it. And in terms of just but is this in your view? Because what we are hearing from even some of the large analysis in this Texaco or Gokuldas etc is that people are looking that this as a golden era, potentially in a garmenting just because international customers are just looking to increase India's share. Is this something which you are also experiencing and see?

P. Sundararajan: Yes. This is a golden year. Of course, the challenge is the price, which is, now they have accepted, and the second is capacity. See, we simply cannot just acquire a big manufacturing company and just manage the whole thing rather, we used to grow 10%, 15% in the past now we are talking about 20% to 25% growth. This itself is the message that we want to make use of this opportunity. And maybe I'll say 20% to 25%. Maybe if we manage to get 30% to 35%, we are happy to handle it that's not an issue. But when it comes to the official announcement, we only stick to 20% to 25%.

Ridhesh Gandhi: Got it. And a last question. Someone had eluded to the utilisation like cash on the books. Given we've got a really a limited amount of capex, which is coming on stream, at least in the near term. Given our leverage, levels are reasonably low as well and given our retail business and we have committed like we'll I mean no more require capitals what are we going to do with the excess capital? Some amount will be like received through dividends, but, I mean, in the event that we don't have the utilisation may be a good opportunity to utilise it to do in buyback at a reasonable given the prices also reasonable at the moment?

V Balaji: Yes, you're right. I think you should hear the previous question where we have spoken about the capital allocation, which will be strictly investigated. And wherever it is possible and if there is good accumulation of cash, we will look into a buyback also.

Moderator: Thank you very much, Ladies and gentlemen. Due to time constraint, we take that as a last question for today. I would now like to have the conference back to the management for their closing comments.

P. Sundararajan: Thank you for the participation in the con call. And we appreciate the various questions raised by all of you, which shows that how keen you are in this company's growth. And I am sure that we have been able to answer to all your questions exactly to up to your expectations. And please rest assured, as I promised the last time also, we have very aggressive plans. And as somebody mentioned that it's not really golden era. I think we are back to the normal this thing. Although there are always some challenges but now number one, we have learned how to manage, face these challenges.

Number two, the whole thing is in our favour. This industry is in our favour, and the third one is, that the talk of this industry all over the world is the free trade agreement which are already in the dialogues have been started. So, we are very, very optimistic about it. So, one of the reasons why customers are focusing more into India is they also anticipate about FTA agreement very soon. So, considering all these things, yes, this garment industry and the textile is a very, very, very positive and will be it's up to the individual companies how to make use of these opportunities. And we are day and night working towards that to see how we can optimise and maximise this opportunity. Clear rest assured that we will do our best to see that your expectations are met out. Thank you very much.

Moderator: Thank you. On behalf of Batlivala and Karani Securities India Private Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.