S.P.APPARELS LTD.

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

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The Deputy General Manager Department of Corporate Services BSE Limited 1st Floor, New Training Ring, Rotunda building, P.J.Tower, Dalal Street, Fort, Mumbai – 400 001	The Asst. Vice President Listing Department National Stock Exchange of India Limited, Exchange Plaza, 5th Floor, Plot No.C/1, G Block, Bandra – Kurla Complex, Bandra (E), Mumbai – 400 051
Stock Code : 540048	Stock Code : SPAL
Ref: Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015	
Sub: Transcript of the Conference call held on 12th August 2024	

Dear Sir/Madam,

With reference to our letter dated 07th August 2024, intimation about the conference call with Analyst/ Investor held on 12th August 2024, please find the attached transcript of the aforesaid conference call.

This is for your information and record.

Thanking You.

Yours faithfully,

For S.P.Apparels Limited

K.Vinodhini
Company Secretary and Compliance Officer

Encl: As above

"SP Apparels Limited
Q1FY25 Earnings Conference Call"
August 12, 2024

MANAGEMENT:	**MR. P. SUNDARARAJAN – CHAIRMAN AND MANAGING DIRECTOR**
	MS. S. SHANTHA – JOINT MANAGING DIRECTOR
	MR. S. CHENDURAN – JOINT MANAGING DIRECTOR
	MRS. S. LATHA – EXECUTIVE DIRECTOR
	MRS. P.V. JEEVA – CHIEF EXECUTIVE OFFICER
	MR. V. BALAJI – CHIEF FINANCIAL OFFICER
MODERATOR:	**MS. PRERNA JHUNJHUNWALA – ELARA SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to the conference call to discuss Q1FY25 earnings of S.P. Apparels Limited, hosted by Elara Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prerna Jhunjhunwala from Elara Securities Private Limited. Thank you, and over to you, ma'am.

Prerna Jhunjhunwala: Thank you, Siddhant. Good afternoon. On behalf of Elara Securities Private Limited, I would like to welcome you all to Q1FY25 post results conference call and business update call of S.P. Apparels Limited. Today, we have with us the senior management of the company, including Mr. P. Sundararajan, Chairman and Managing Director; Mr. S. Shantha, Joint Managing Director; Mr. S. Chenduran, Joint Managing Director; Mrs. S. Latha, Executive Director; Mrs. P.V. Jeeva, Chief Executive Officer; and Mr. V. Balaji, Chief Financial Officer of the company.

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

P. Sundararajan: Thank you. Good afternoon, everyone. I welcome you all to the post earnings conference call of Q1FY25. I hope all of you had a chance to look at our investor presentation that is uploaded on the company's website and stock exchange.

The Indian textile sector is experiencing positive growth in market trends. Due to the China Plus One strategy and recent political unrest in Bangladesh, industry stakeholders are reevaluating their reliance on Bangladesh and looking for other countries to diversify their supply chain. Consequently India, Sri Lanka, Vietnam, and Cambodia are becoming more appealing options for apparel sourcing. These economic shifts are beneficial for us, as clients are looking to increase our production capacity to satisfy their rising needs, which we are planning to fulfil gradually.

We are eager to take advantage of these opportunities. To do so, we are implementing strategic measures such as maximizing the utilization of our current capacities. We are also expanding into more favourable locations, like Sri Lanka, where we have established a subsidiary recognizing the country's duty-free status and the availability of abundancy in the labour. We have begun to attract interest from numerous customers ready to place orders with our new entity, which we anticipate will significantly contribute to the company's growth in the upcoming years.

Starting with the spinning division performance, in recent years, we have encountered challenges, especially with the fluctuating prices of cotton. Despite this uncertainty, we have managed to find the balance between the cost of cotton and yarn sales, which we expect will lead to a consistent EBITDA in the future. Additionally, our dyeing facility is now operating at full capacity, enhancing the efficiency and performance of this segment.

In the garment division, we have broadened our range by venturing into the adult wear markets. We are also set to boost our production with a new facility in Sivakasi, which will introduce 400 machines, to our operations and is slated to start in the second half of FY25.

Furthermore, our subsidiary in Sri Lanka is already yielding positive returns. We are currently in talks with 2 customers orders in addition to existing customers and anticipate a significant business opportunity with the major customers shortly.

By the end of financial year '25, we aim to have 1,000 machines in operations in Sri Lanka. Our current order book stands at INR 402 crores. Looking at the Garment division performance, the adjusted revenue was INR 214.1 crores with an adjusted EBITDA of INR 36 crores and the EBITDA margin of 17%. The utilization rate was 79.8% in Q1FY25.

In the Retail division, S.P. Retail Ventures reported revenue of INR 14.8 crores compared to INR 14.9 crores in Q1 FY24. We have strategically chosen to discontinue the brand Head due to its unprofitable outcomes, which were adversely affecting the division. Our focus is now on the Crocodile brand, which is a strong brand in our portfolio, and our own Children's brand, Angel & Rocket, which is showing consistent improvement. We expect the Retail division to achieve a breakeven status by the end of FY25, as we mentioned in our earlier concall.

With regard to S.P. U.K., our revenue for Q1FY25 was GBP1.1 million, and current order book is valued at GBP4.4 million. At S.P. U.K., we are experiencing a revival. The company has revamped this segment by hiring a new team of designers, move to new office and expanding customer base with 3 additional clients. We are confident of the growth of this division and aim to double our revenue base in the coming years. We will be able to show positive figures from end of Q3FY25.

We recognize our teams to contributions to our success, and we have decided to issue employee growth plan as a token of appreciation and recognition. This initiative aims to reward their hard work and foster a sense of ownership, aligning their interest with the company's future growth. With regard to the newly acquired Young Brand, the manufacturing setup at Chennai, that the Q1FY25 revenue was INR 59 crores and the order in hand is about INR 75 crores.

Additionally, we are confident of improving the EBITDA hopefully from between 15% to 18%. There are a lot of opportunities to improve the sales.

With regards to sustainability, we are dedicated to sustainability and are actively working towards achieving carbon neutrality by 2033. This goal will involve reducing greenhouse gas emissions, investing in renewable energy, and improving overall energy efficiency across our operations. Our aim is to minimize our environmental impact and lead by example in the transition to a more sustainable future.

Looking forward, our growth is expected to be driven by increased utilization of the capacity and new upcoming production capacity in the garment division. The newly added acquisition of Young Brand apparel, expanding operations in Sri Lanka along with gradual growth in the Retail and S.P. U.K. division, we hope there would be good numbers in the future quarters. These, along with the supportive market trends, are set to contribute to our company's expansion in the coming years. Thank you, and over to Mr. Balaji, our CFO.

V. Balaji: Thank you, sir. Good afternoon, everybody. I'll just run through the performance of the company and the division-wise performance. For the current quarter, on a standalone basis, we have delivered INR 214 crores of top line with an EBITDA of INR 36 crores and a PAT of INR 22 crores. On a consolidated basis, we have done INR 245 crores of revenue, which is 1.1% in growth and with an EBITDA of INR 32.4 crores at an EBITDA margin of 13.2% on a consolidated basis.

With the PAT of INR 18.1 crores, we have delivered 20% growth on a year-on-year basis. On the division-wise performance, garment division has a revenue of INR 214 crores as against INR 212 crores year-on-year with an EBITDA of INR 36 crores for the current quarter, which is at 17%. When you compare it with the year-on-year, we have delivered INR 39.9 crores of EBITDA value at 18.8% year-on-year.

S.P. U.K. has delivered INR 11.7 crores as against INR 14.8 crores year-on-year. And Retail has a revenue of INR 14.8 crores as against INR 15 crores year-on-year. EBITDA margins of Retail stood at a negative number of INR 3.49 crores as against a negative number of INR 4.4 crores year-on-year.

On the financial statements, all the financial statements are available in the presentation. I would just like to give an update that the Young Brand has been acquired on 21st June. We have taken over the control of Young Brand on 21st of June and 10 days consolidation has been done with the current consolidated financial numbers.

Young Brand apparel's Q1 performance is also present in the presentation, which we have given separately. And with respect to our debt position, currently, we have a gross debt of INR 189 crores with a net debt of INR 162 crores. There is an increase in debt due to the acquisition– of Young Brand apparels. Other things are available in the presentation, and we will get into the question-and-answer session. Thank you.

Moderator: Thank you very much, sir. The first question is from the line of Rehan from Equitree Capital. Please go ahead.

Rehan: I just had a question on the capacity utilization. In the PPT, it's written that the capacity utilization is about 79.7%, and that's higher than last year at 76%. But the volume in terms of number of pieces has reduced. So are we sitting on higher inventory? Or can you explain that?

V. Balaji: So like if you look at the utilization, so utilization is purely production based and the sales quantity, what you look at, is purely on the sales pace. So there has been some shift to it next quarter...

P. Sundararajan: See, I think this increase in the utilization of machine, it happens gradually over a period. As on today, it is 79.8%. But it doesn't mean that for the entire quarter, it has that percentage. And not only that, the production is not necessarily to be shipped in the subsequent months. Sometimes, the volume model, we keep producing and it will be WIP and then subsequent months, it will be shipped. So we may not have to relate the production value with the shipment value.

Rehan: Understood. So basically, it's rotating, it's not basis for the quarter?

V. Balaji: Correct. And moreover, see, there has been increase in the utilization where it is attributing to the new migrants who were joined, and their efficiency is very low. So there is dip in the efficiency level also.

Rehan: Okay. Understood. Second question, if I can, to get to the capacity utilization of what we are trying to achieve of 85% to 90%, what are the real constraints that the company can see? Is it going to be labour availability? Or is it order book? Or what other restrictions that we see that could slower the 85% to 90% capacity utilization? What's basically stopping us from going there?

P.V Jeeva: Actually, the capacity utilization that's at the moment, the constraint is only the labour availability. And as we mentioned in the last quarter, we have already come out for that situation. Now the labour inflow is consistent. We are getting enough manpower and keep on trading them. And every month, we are increasing the capacity by minimum of 75 to 100 machines and hopefully achieving 90%-95% that will happen in third quarter.

Rehan: Okay. And Balaji, sir, if you could tell me the contribution of spinning for the quarter at EBITDA level?

V. Balaji: Sorry?

Rehan: The contribution of spinning for the quarter. Last quarter, it was 40 lakhs so this quarter, how much is the contribution from spinning?

V. Balaji: Spinning, it should be around 65 lakhs-70 lakhs at the EBITDA level.

Moderator: The next question is from the line of Aabhash Poddar from Aionios Alpha Investment Management. Please go ahead.

Aabhash Poddar: So just a couple of questions. One, if you could talk a bit more about Sri Lanka. You said you want to reach around 1,000 machines in Sri Lanka. Can you talk a bit about what is the realization here? How do we think in terms of numbers, some timelines, some idea about the operations in overall? That will be really helpful.

P. Sundararajan: Okay. See, as we mentioned in the previous con calls also, it is a contract basis. It is not the company owned factories there. That is the way this type of business model works. So the customers are okay with that contract model. And so we are shortlisting the best factories who are good at volumes and capacity, efficiency, and the costing. So based on this, we have shortlisted a few factories, and they have done the audit, and also some of the customers have audited and placed the orders.

And the big customers, now the audit is going on in this week. And probably the orders will be released the end of this month or next month beginning. And as the customers are satisfied with the shipments and quality and the prices, so they will start increasing the business, placing production at Sri Lanka also in addition to India, based on their comfort.

So getting those capacity in Sri Lanka is not a big issue because there are good factories available with the skilled workmen. So, we will have the business, as the order book increases, we will also increase the contracting facilities over there. This is how it operates. And with regards to the margins, it is more or less at par with India because it's a duty free, although there is a slight increase in the labour costs.

Aabhash Poddar: So in terms of realization, it will be pretty similar to what we are doing here, but the margins will obviously be different since its contractual for us. So that's how we understand this model, right?

P. Sundararajan: There is no difference between Sri Lanka realization or here. The average price is more or less the same, going to be.

Aabhash Poddar: Perfect. That's very clear. And the second question was on Young Brand. So earlier, when we had acquired this, you were earlier saying that our margin value here will be first to get to 14% to 15%, and then obviously, over a period, we are getting to 15% to 18%. Just listening to your commentary, it seems like you are more confident now more towards the upper end as compared to the lower end.

So if you could just talk about anything that's changed here for Young brands? And second to part to that, are you still confident of reaching that INR 400 crores top line from your entire year that you talked about earlier when the press release come out? so just some thoughts on Young brands as well?

P. Sundararajan: Yes. So continuously, we have been attending the various operations level in Young Brand continuously. And what we noticed the efficiency of the factory is good and the availability of workforce is not a big challenge over there because that region is more is a catchment area of the workforce. So that is not going to be an issue.

On the getting the orders, already they have American customers, but it's not enough for increasing the sales. So, we are going to push some of our customers or other new customers either from the U.S. or from the Europe and the U.K. So that will happen over a period of say, six months' time. So that additional customers will happen from FY26.

And again, there is a cost controlling and the material sourcing such kind of areas where it needs to be addressed. There are a lot of areas where we can comfortably improve the margins, as what we have experienced in the SPAL. So we can easily improve to 3%-4% just like that by correcting all those lapses. So this is what is going to happen. And with regards to top line, so once we reach 1,500 machines, we are confident we will be close to INR 400 crores next financial year.

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

Surya Narayan: Just my questions on the Young Brand has been answered. So just wanted to understand definitely, realizations, I mean, increasing though. So when can we expect the realization as apparels industry is currently going on a very muted part. So by what time we can see the realizations can improve, sir?

P. Sundararajan: Realization means?

Surya Narayan: The average realizations of the yarn.

P. Sundararajan: Yarn?

Surya Narayan: Yes.

P. Sundararajan: Can you come again your question please?

Surya Narayan: I'm just asking the average realizations is hovering around currently 160-170. So I mean, can we expect any knitting yarn from this current level? Or it will be similarly staying here?

V. Balaji: So you're talking about realization per piece?

Surya Narayan: Per piece, sir.

P. Sundararajan: Per piece? So realization per piece has got nothing to do in terms of improving on the revenue front. So, it needs to be like we need to produce more so that realization is better, because we cater children category and the realization per piece will be at the same level. It can be only around INR 135 to INR 140. And that's been the case for us for past 4-5 years. And we need to produce more quantity so that the sales improves.

V. Balaji: Yes, it can happen. As I mentioned in my speech that we are increasing for adult category for the future increase in capacities, then probably the average of the realization part will improve. But I'm not sure it will go up to INR 160 or INR 170. But over a period, there will be an increase because we are adding adult products as well.

Surya Narayan: So by year-end, how much adult category revenue we can get out of the total basket of garment?

P. Sundararajan: That's not sure about it because there are so many factors involved in this. So we are not sure. It can go up to, say, 5% -10%.

P.V. Jeeva: Currently, it is 15%, and maybe we can improve up to 20% in quarter 3.

Surya Narayan: Okay. Because the adult category setup is quite different. And are you accommodating in the same premises, or any dedicated facility has been created...

P.V Jeeva: Same set up only.

Surya Narayan: Same set up?

P.V. Jeeva: Yes, same set you because we are versatile in all -- say, all products, so we can reduce the babies and increase the adults also.

Moderator: The next question is a follow-up question from the line of Aabhash Poddar from Aionios Alpha Investment Management.

Aabhash Poddar: Just wanted to check on one thing. You said that in Young brands, that is not so much of a challenge from before. So is there fungibility possible between the orders that we get for S.P. Apparels and because Young Brand is clearly more of for intimate wears, and we do more of infant wear. So is there fungibility possible for that so that we can adjust the labour challenges going forward?

P. Sundararajan: Yes. That is possible because there is no big challenge we see in mobilizing the workforce. So we are very confident that we can increase the sales. We can reach the capacity up to 1000 -- 500, 600 machines. And also, we can go for expansion after 2-3 years' time because we have enough place, the vacant place for building the new factory also there.

And innerwear segment is the most demanding one, and there are entry barriers to this segment. So, we plan to get the opportunity to increase in terms of orders as well as margins.

Aabhash Poddar: Okay. Perfect. And despite the way the first quarter has gone, we would still hold on to the target that we set for the entire year? And you were saying that the organic business growth will be 10%. And then we have the Sivakasi factor and on top of that, we have Young Brand. So we still hold on to what we said at the beginning of the year -- or at the end of the quarter?

P. Sundararajan: Yes.

Moderator: The next question is from the line of Reshma Jain, an individual investor.

Reshma Jain: So my question is regarding the recent capacity additions. We are existing doing that 79% utilization level. So post this new capacity, what will be our utilization level? And where do you see this capacity going up over the next 2 years?

P. Sundararajan: When you say new capacity, I'm not able to understand which one do you mean? So you are talking about the newly acquired factory, you mean?

Reshma Jain: Sivakasi and Sri Lanka, that one.

V. Balaji: Sivakasi factory is yet to start

P. Sundararajan: Yet to start. There beginning to start between 400 machines by March. January, we will be able to run about 400 machines in Sivakasi. But Sri Lanka as I told, it's only the contract basis. We are yet to think about the any investments or joint venture in Sri Lanka. It's too early to talk about it.

But those factories are on the job work basis, so there is no question of capacity utilization over there. With regard to Young Brand, the installed capability is 1,600 machines. But currently, we are using 1,100 machines. So gradually, in the next 6 months, we will be able to utilize about 90% in Young Brand. With regards to overall SPAL garment division over here, we expected a 90% plus by end of March.

Reshma Jain: Okay, sir. And 1 last question, how much capex has been planned for this year?

V. Balaji: We are looking at , capex of around INR 40 crores, including the investments in Sivakasi.

Moderator: Next question is from the line of Akansha from ND Investments.

Akansha: I have 2 sets of questions. So I just want to hand on the acquisition of Young Brand. Can you please provide insights on the projected revenues and EBITDA margins for the FY25? And how much will it contribute to the top line.

V. Balaji: So we are looking at INR 300 crores of revenue from Young Brand for the current financial year. And at the EBITDA level, it should be in a position to contribute around INR 32 crores to INR 35 crores based on the percentage on the completion. So that is what the estimated number should be in terms of Young Brand numbers.

Akansha: Okay. And how are you leveraging the cross-selling opportunity? Have you started with the Young Brand customers?

V. Balaji: Sorry?

Akansha: No, I just wanted to know...

V. Balaji: Can you repeat the question, please?

Akansha: Yes. So I just wanted to know how are we leveraging the cross-selling opportunity so which we have started with the Young Brand customers?

V. Balaji: So cross-selling, as sir was saying that, they are working with 2 U.S. customers. We would like to add customers there, and also take our customers there so that the utilization level goes up.

P. Sundararajan: Surely, our existing customers in inner garment requirement, they are also looking for new sources. So once the Young Brand is all settled down in terms of filling the capacity, in terms of compliance, everything, then we will approach our existing customers to increase them to place the orders for innerwear. So that should not be a problem.

Moderator: The next question is from the line of Prerna Jhunjhunwala from Elara Securities.

Prerna Jhunjhunwala: Sir, a broader question, how are we seeing the opportunity on the demand side shaping up, especially from the European customers today? In light of Bangladesh and if Bangladesh stabilizes also, then also, I mean organic demand I'm talking?

P. Sundararajan: Okay. As I mentioned in the previous con calls, any way customers are having their sourcing strategy of moving some of the businesses from China as well as Bangladesh. Anyway, even before this Bangladesh issue, already it was a plan of most of the customers because they all felt that they are putting more businesses into Bangladesh, where the political instability is there, on and off labour restlessness and such kind of things and natural calamities.

So considering all these things, so they were given no choice to increase the business over there because they're duty free. But now because they have been putting more order in it, they have started feeling very risky. So for that reason, they have already decided to move some of the businesses to India, Sri Lanka, Vietnam, Cambodia, other than China, Pakistan, and Bangladesh. So this is the current scenario.

So with this situation, the current issue, they are becoming more sure of going steady with their strategy. Overnight, they will not although, it will settle down, but still, they will continue to work to diverse their business to some extent to other these 4 countries. So we plan to gain for India and Sri Lanka.

Prerna Jhunjhunwala: Okay. Understood. So in this scenario, for organic growth, what all opportunities would be there for us. Like Young Brand, we understand cross-selling and all that. But on the client addition front, and in other geographies that we are seeing some traction, what kind of inquiries are we getting? Some color on that would be helpful.

P. Sundararajan: Yes, after acquisition of Young Brand, we started getting the new customers for our existing business, the babies and similar business, by their customers who were already in the process of inquiry going on with the Young Brand and garment factory. So those customers, once they have the news that we are taking over, acquiring it, so they started approaching us mostly from U.S.

So there are possibilities that their businesses will come to us, subject to availability of sufficient capacity in our existing setup. But we are not ruling out that those business can move to Sri Lanka, these new businesses of U.S. can move to Sri Lanka. So there are cross-selling happening either way. So as I mentioned for Young Brand also, we will be bringing additional business to Young Brand by our existing customers. So, I think the cross-selling are happening, and this will take about 6 months to settle down. So overall, the customer base for both will increase.

Prerna Jhunjhunwala: Okay. Understood. And sir, this current order book of S.P. U.K. at GBP4.4 million, it is executable over how much period?

V. Balaji: GBP4.4 million.

P. Sundararajan: GBP4.4 million. Yes, what's the question?

Prerna Jhunjhunwala: It is executable about in how much period? Like it provides visibility for?

P. Sundararajan: For five months' time.

V. Balaji: Five to six months.

Prerna Jhunjhunwala: Okay, five to six months, so which means we can see double the revenues coming in for S.P. U.K. from...

P. Sundararajan: From Q3 onwards, we are confident that we will be back on track and take off.

Prerna Jhunjhunwala: And sir, EBITDA will be positive at those revenue?

P. Sundararajan: Hopefully, it should be because it's a trailing model. So what is pulling down the EBITDA margin is only because of the fixed expenses. There are i think about 12 people are working over there. It's designer costs and the business head and other costs. So this fixed expenses are pulling down the margin. So even if we do 10 million or 15 million, which is possible, so these fixed expenses are going to be the same. So naturally, the EBITDA will be very attractive.

Moderator: The next question is a follow-up from the line of Surya Narayan from Sunidhi Securities.

Surya Narayan: Just a follow-up question to understand Balaji sir, that the Young Brand has we are focusing on this company is into undergarments and where the aesthetic angle is less focused rather than the delivery. So what I understand is it like there, the asset turn will be higher than the existing garment. Is it the right understanding, sir, because of the low margins...

V. Balaji: You're taking about the Sri Lankan company, right?

Surya Narayan: No, Young Brand sir.

V. Balaji: Young Brand, the asset turn will remain same. Whether you take S.P. Apparels standalone or the Young brand, the asset turn will be remaining the same.

Surya Narayan: Okay. Because in our case, embroidery, and there's a lot of, you know, I think the printing. So those things are there, but that is not there in the case of undergarments.

V. Balaji: Surya Narayan, the Young Brand doesn't have a backward integration. So S.P. Apparels here has a backward integration. So if you look at the Garment division as a separate entity, the asset turn will be on the higher side, but because it is backward integration, we are money invested into the assets, will bring down the asset turn. But there, it's purely only garment. So the asset turn will be on the higher side. You can look at assets at 5 to 6 times there.

Surya Narayan: Yes, that's fair understanding. And sir, just to understand a broad scenario of labour availability. So prior to, let's say, 2 years back, the individual states from the Eastern side where we generally procure labour, so that was a fairly easy process to get.

But now the Eastern side, a lot of governments are putting up their own facilities. They are even a few of the listed companies have gone there. So recently the labour availability or migrant labours will be less available in this other side. So how are you, how the industry, especially from this high side, is going to profit there?

P. Sundararajan: First of all, Northeast side, there are plenty of still raw hands workforce is available. Currently, still it's not a tight situation, number one. And number two is that as the things go for us, it is only the company relies on the migrant workers only about 1/3 or about say, 40% of the total workforce. I would say 1/3 of the total workforce only there.

So because we have mitigated the risk of workforce by having at the strategic locations, like Sivakasi, Coimbatore various places of Tamil Nadu, where the abundant workforce is locally available. So that is our biggest strength as against other companies, some of the companies who are 100% rely only on the hostel workers, where again today is only the migrant workers, not even the Tamil Nadu workers.

So that risk has been mitigated. And over a period once we reach the machine utilization of 90% plus, so only we may need about month on month about 100 to 200 workforce, new to replace the attrition. So, we are very well safely placed with regard to the mobilization of workforce.

Surya Narayan: Okay. And because our.

V. Balaji: I'll add a couple of points here. See, the mitigation in terms of the migrants, sir has explained. So now what we've done is we have gone to Sri Lanka also, where it is a kind of mitigation that happened. And the other one is the geographical mitigation that's also happened by acquiring the Young Brand. So, I can move factories where we put out new factories where our labour force is available. So, we've done a strategic way of mitigating the risk of migrants all the way.

P. Sundararajan: The new factories can be put up again in one more place in Tamil Nadu where the abundant workforce available. So, our strategy of workforce is very safe and concrete.

Surya Narayan: Okay. Because Bangladesh happens to be in knit and denim. So given any strategy by the global chains to have a Bangladesh Plus One strategy, then we need to be ready for an expansion. So just wanted to understand whether the kind of level because already, we have been facing labour availability, in case even labour upgradation. So even though we may be having excess of machines, but the labour, they are on the learning curve, and it takes time to be productive. So, in that light, just wanted to understand whether Tamil Nadu, a learning capable or we need to see some of the eastern locations as well?

V. Balaji: Part of your question, we didn't understand. Actually, I guess, there is some problem in your mobile or in the line. But I guess your question was to do with the availability of labour force in Tamil Nadu as a general. So currently, as a part of strategy, we have already explained that we are mitigated. We have all the mitigation taking care of the risk to what we are saying, but I don't know, the question was not that clear in terms of labour.

P. Sundararajan: Yes, for growth, we are well placed with Sri Lanka and new projects. And for filling existing capacity to increase the utilization, we have a risk mitigation of local plus, if migrant, workers. So, it's not a big challenge at the moment now. So, over a period of 6 months' time, as I said, we'll be reaching 90% plus utilization. So only the outflow will be -- balanced by the inflow. But it will not affect our growth. I'm not able to understand your question because it is not very clear, but I think the answer should be there.

Surya Narayan: My question was to because the current Young Brand and the Sri Lankan operations and the other acquisitions, that is actually to take care of the accretion of 2 to 3 years CAGR, what are the projections you have been giving. But beyond that, the visibility just to understand whether you are looking at any Eastern part of the country to expand or you'll be sticking to Tamil Nadu?

P. Sundararajan: We do not have any plans for putting up a new set up in the Eastern part.

V. Balaji: But to add a point here, see, the growth doesn't come only if we can put up factories in the eastern part or northern part or some part of the country. So, like the growth can also happen by adding factories to the existing. So, I think putting up factories today the scaling up the factory is very tough when it comes to the other states. So it is always possible that there could be some inorganic as like Young Brand.

P. Sundararajan: We have a very clear visibility of like 10 years with regard to managing the workforce. Because even in Tamil Nadu, we have identified more pockets where we can get workforce that we are well versed, whith the handling of Hub & Sopke model of satellite factories handling. So, it's not a big issue for us.

Moderator: The next question is from the line of Nirav Savai from Abakkus Investment.

Nirav Savai: Most of my questions are answered. Just 1 on Sivakasi. Am I right in hearing it's going to start from March '24, March '25?

V. Balaji: Sorry, you were not audible.

P. Sundararajan: You're voice is very feeble. Can you please little louder please?

Nirav Savai: Just wanted to confirm, did you say Sivakasi is going to start from March '25?

P.V. Jeeva: No, Sri Lanka will be starting from October this year.

Nirav Savai: Sivakasi, the new greenfield expansion that we're doing.

Management: From December.

Nirav Savai: From December? And total, how many machines will be having and what will start in the first batch?

P.V Jeeva: Yes. First batch would be around 50 to 75 under total of 400. We will be able to achieve 400 by December '25.

P. Sundararajan: And the customers are ready, the order book is ready.

Nirav Savai: So, by December '25, we will be using entire 400 machines. But initially, we had some plans of 1,000-plus machines, right?

P. Sundararajan: No, this is phase 1 is 400 machines. And phase 2, we'll be doing another 400 machines.

Nirav Savai: So, 50 to 75 you said, I didn't get. Exactly what it was?

Management: So, 50 to 75 means that we will start...

Nirav Savai: Utilization, you are saying, is it?

P. Sundararajan: Yes. Because we cannot just to suddenly increase -- all of a sudden, we cannot make the active and full. So, it has to grow month-on-month in the year to increase the number of lines, train them, engage them. That's how it goes.

Nirav Savai: Okay. So, in Q4, we should see some incremental revenue coming from this greenfield expansion?

P. Sundararajan: Yes.

Nirav Savai: And you said the order book is there in place. So, this would be somewhere in Q4, and we have order book visibility in the second quarter itself?

V. Balaji: No, no. It's like factory,the customers are ready to underwrite the factory. That's why ma'am was talking about the already order book

Nirav Savai: So existing customers have gone and done the audit and whatever requirement is, so it has been approved from existing?

P.V Jeeva: Maybe orders in October, November for Q4 shipment.

Moderator: The next question comes from the line of Chirag Shah from White Pine Investment Management Private Limited.

Chirag Shah: I have 2-3 questions, which could be interlinked. One, sir, suggestion first, sir, in the presentation, if you can actually clearly indicate about your ramp-up plans of new projects because if I read through the transcript, there seems to be continuous delays and the communication over the quarter seems to be a bit confusing. So that is 1 suggestion. So at least we are able to track and monitor and have a better qualitative discussion on the call rather than just stuck with the numbers, which quarter, how many machines, etc. So that's one.

My reading is that there has been continuous delay in some of the or in the projects that you indicate versus when it is initially communicated to us. So, we request you to look into it on that. And sir, I'm not able to understand, sir, Sivakasi, if you are indicating 400 machines will be utilized in Q4 of FY25 or December '25.

V. Balaji: No, December '25.

P. Sundararajan: December '25, we'll be running 400 machines.

Chirag Shah: December '25. Because then there seems to a significant delay with this, right, sir? Because we had very different ambition when the project was started and what you indicating. Sir, what has changed materially?

P.V Jeeva: Actually, we have indicated that this will start from October this year. As we planned, we'll be definitely starting from maybe November or December 1 or 2 months delay. As we committed, we are starting the production from December. But we say the completion of total filling of these factories will happen in December '25.

Chirag Shah: Okay. So there seems to be a delay. Sir, second question is, again, coming back to another point that you made, China Plus, Bangladesh Plus, Pakistan Plus One strategy that you indicated. But when we look at some of the other data points published by various agencies, the shift is yet to be visible while we have been talking about. Let's say, the garment industry in India I'm referring to, since quite a few times now, but the data doesn't indicate the shift is happening. In fact, in some of the other sectors, which are more complex, and timelines are much longer in terms of approval process, the shift is visible.

So what is happening? Why the shift is not being visible? And whatever loss of market the China has seen has gone to some of the other countries. We know the reasons. I'm not even debating the reasons. But even now we are having the same line that there are huge inquiries, etc, but the conversion is taking perennial time, sir. So how should one look at this part if you could help us?

P. Sundararajan: See it can happen only over a period of time. It will take, say, 1- or 2-years' time.-See the strategical decision has been taken, but season-on-season,the customers have to look for the best factories and the capacities, capabilities. And so it cannot happen. This specific decision has been taken by most of the retailers, but you cannot see the numbers all of a sudden.

Chirag Shah: Okay. So, if the discussions were started or indicated 2 years back or 2.5 years back, ideally, we should be seeing some impact, right? This could be miniscule. But because 2.5-3 years is a reasonable time for conversions for garmenting industry, I would say.

P. Sundararajan: Definitely see, if you take our case, we have been facing them for the past 2.5 years. See, because it's a major decision, the business case -- they have to go through the business case in reference to various like quality, technical team, then commercial teams. There are so many complex teams. It will take its own time because that's not the priority at the moment for any retailer.

It's only a strategy. They may not have to do it expressly. So in our case itself, we have been working with closely with our customers. And only now, we have been able to get the business for Sri Lanka. So, it will have its own time and speed.

Chirag Shah: Okay, sir. And sir, lastly, in the past, we have been indicating that you have a good amount of orders in hand, but labour was a challenge. So, can we assume that issue has now been sorted and there could be much bigger conversion of potential orders?

Because whenever I look at your past commentaries, you have been indicating labour challenge while you had good amount of orders in hand, which you couldn't take up simply because of labour issue. Now you're indicating, all those changes seems to be getting addressed. So, is it the right way to look at it that from here on, those challenges are behind for us?

P. Sundararajan: Yes. See, our company, as S.P. Apparels as a company, we have very clear visibility, strategy, long-term strategies. We never ever go just by quarter-on-quarter results kind of way of working. So, this manpower challenge has been, you must have noticed, but I think for the past few– 2- 3 years, I mean, before COVID, we reached the maximum, the saturated level on this capacity. But of course, during the COVID and after the COVID, everything got disturbed. So, mobilizing the people from the Northeast side was a big challenge.

Only now, we have been able to streamline everything. Today, we have categorized in such a way that we will be able to utilize 90% plus capacity, means we are confident of mobilizing more people into our factory and training system, improving their efficiency, retention, everything is in place now.

So, you have to wait and see the next 4-5 months' time. You will see the increase in the capacity running. Again addition to this to mitigate this workforce, we always go for old new project, green factory projects and acquiring new factories like the Young Brand and also offshore production like Sri Lanka.

So, these 3 things, in addition to increasing capacity in our existing setup, so there are 4-pronged way of approach we are doing to improve the growth, which is working out well. We are not just saying.

Chirag Shah: And sir, last question is on Crocodile brand, you indicated that it is break even, or it is profitable today?

P. Sundararajan: Crocodile brand, it is profitable

V. Balaji: Crocodile as a brand is profitable. But Head and the Angel & Rocket is pulling it down. So strategically, we have exited Head, and we have given the termination notice. And we will come out of the brand license agreement effective December 2024. And after that, the minimum royalty, which is pulling the overall numbers will definitely be closed and also that we are also looking at increasing the Crocodile presence by doing garment distribution work, which we have not done so far. So, I guess by Q3 onwards, you can see the efforts which we have put is yielding results.

Chirag Shah: Sir, is it possible to make it only Crocodile brand, what is the revenue and probably what is the profitability because it gets lost in the aggregate number, of the retail business?

V. Balaji: So, what we will do is, sir, we'll add this into the presentation going forward from the next quarter.

Chirag Shah: It would be helpful because anyway, you are exiting the other 2 pieces. So, it would be helpful.

V. Balaji: Not the other 2, only Head.

Chirag Shah: Okay, only Head. Great. But any way the Crocodile brand will also help us to monitor the scalability of Crocodile brand because given the way you are looking to expand yourself. Crocodile brand becomes a much smaller piece in overall team of saying unless there is some other advantages of doing the retail business, which is not scaling up, you also need to look at that.

If there are more qualitative advantages of running the Crocodile brand in terms of business and market understanding, fair enough. Otherwise, Crocodile brand itself the retail business, whether it needs to be done or not has to also be evaluated, sir.

P. Sundararajan: Well, taken.

Moderator: The next question is from the line of Akshay Kothari from JHP.

Akshay Kothari: Yes. So just wanted to know what is the current stages per employee for the labour, which we are paying. And considering the next 4-5 years could come out along with a lot of populist measures? Do we foresee any sort of increase in minimum wages as per minimum wages act? And how would it impact us?

V. Balaji: So, in terms of wages, we cannot just give the numbers in an open. You just drop me a mail, I'll share you what the wages are, what we did. In terms of the revision, we go by the standards which are available in the market and where there needs to be a change in the industry then we do it accordingly. So, to retain the workmen, we need to enhance their wages regularly. So, we keep increasing their wages based on the market and the industry.

P. Sundararajan: But at the moment, there is no view of revision of minimum wage by the government of Tamil Nadu. So, nothing in the near future.

Akshay Kothari: Okay. And just wanted to know a range we would be around 10% to 15% above the limit, right, or not?

P. Sundararajan: No, which one you are taking 10% to 15%?

Akshay Kothari: So, for example, minimum wages as per our zoning, say for example, 600 for day. So, we would be around 10%, 15%, 20% above that? What is that range?

P.V Jeeva: So, it will be around 5% to 10%.

P. Sundararajan: That we discuss separately.

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

P. Sundararajan: I'm sure and I'm hopeful that we have satisfied all your queries, and we have been able to answer all your questions. And thank you so much for participating in this con call, showing your interest in the company's growth. And thank you once again, and we are confident that Q2 results should be better than Q1, and we are coming out of these things from Q3 onwards. Please rest assured that we will do our best to perform and give the best results to the investors. Thank you. Have a good day.

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