gokaldas exports ltd

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August 16, 2024

BSE Limited
Phiroze Jeejeebhoy Towers
25th Floor, Dalal Street,
Mumbai – 400 001

Scrip Code – 532630

National Stock Exchange of India Limited
The Exchange Plaza
Bandra-Kurla Complex, Bandra (E),
Mumbai – 400 051

Scrip Code: GOKEX

Dear Sir / Madam,

Sub: Transcript of Q1 FY'25 earnings conference call

Pursuant to Regulation 30 and Regulation 46(2) (oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of Q1 FY'25 earnings conference call held on August 08, 2024. The Transcript is also available on the Company's website at www.gokaldasexports.com.

Please take this into your records.

Thanking you,

Yours truly,
For Gokaldas Exports Limited

GOURISH GANAPATI HEGDE

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"Gokaldas Exports Limited Q1 FY '25 Earnings Conference Call"

August 08, 2024

MANAGEMENT: **MR. SIVARAMAKRISHNAN GANAPATHI – VICE CHAIRMAN AND MANAGING DIRECTOR, GOKALDAS EXPORTS LIMITED**
MR. A. SATHYAMURTHY – CHIEF FINANCIAL OFFICER, GOKALDAS EXPORTS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Gokaldas Exports Limited Q1 FY '25 Earnings Conference Call.

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 the "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Binay Sarda from Ernst & Young. Thank you, and over to you, sir.

Binay Sarda: Thank you, Steve. Good morning to all the participants on this call.

Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risk that could cause future result performance or achievement to differ significantly from what is expressed or implied by such forward-looking statements.

Please note that we have mailed the Results and the Presentation, and the same are available on the Company's website. In case, if you have not received the same, you can write to us, and we will be happy to send the same over to you.

To take us through the Results and answer your questions today, we have the top management of Gokaldas Exports Limited represented by, Mr. Sivaramakrishnan Ganapathi – Vice Chairman and Managing Director and Mr. Sathyamurthy – Chief Financial Officer.

We will start the call with a brief "Overview" of the Quarter gone past and then conduct a Q&A session.

With that said, I will now hand over the call to Mr. Siva. Over to you, sir.

Sivaramakrishnan G: Thank you, Binay. Good morning, everyone. Happy to have you at our Earnings Call for the 1st Quarter of FY '25.

This was the 1st Quarter where the full Results of our newly acquired entities were included. In the 1st Quarter, the consolidated revenue grew by 80% Y-o-Y to Rs.940 crores. Revenue excluding the acquired entities grew by 11.2% year-on-year, indicating a recovery in demand from the customers.

During this period, India's exports grew by 4.2%, implying a market share gain for the Company. While the revenue growth has been strong, we experienced a series of foreseeable but unavoidable headwinds.

The U.S. retail market remained resilient in the first half of '24. During this period, retail sales in the U.S. continued to grow Y-o-Y by about 3%. Most of the growth has been price-led, while volume has been flat. Retailers have optimized their inventory holding levels with early signs of recovery as the decline in imports subsided for the U.S., EU and UK in recent months. Retailers are still cautious as they align their inventories to a volatile market in the near future. We continue to anticipate the industry demand to be sluggish for H1 FY '24 with momentum picking up subsequently.

We witnessed several challenges, starting from a disruption of production, leading to delays in shipment, huge ramp-up of employees in anticipation of volume growth, slower ramp-up of our new units and continuing airfreight costs at Atraco, the recently acquired entity in Africa. Some of these impacts will be offset in the quarters ahead.

The business in the Company, excluding acquisitions, that is the standalone entity of Gokaldas Exports was severely impacted in April and May this year. There was a huge shortfall in manpower availability, and this resulted in production rescheduling, overtime work, delayed shipments, order cancellation and airfreight to compensate the customers. The impact of this on EBITDA was to the extent of Rs. 12.6 crores. Some of it was on account of air freight, some of it was on account of lost production, as well as overtime charges.

Atraco also had a continuing impact from Q4 of FY '24 resulting in a non-recurring air freight cost of Rs.8.6 crores. The Company is seeing strong traction for business volume in the coming quarters and expects the capacity across all acquired and expanded apparel units to be fully utilized for the year ahead.

Our new manufacturing unit in Madhya Pradesh is ramping up to full capacity and will reach optimal levels by Q3, FY '25. The fabric processing unit in Tamil Nadu will start commercial production sometime soon in this quarter in Q2, FY '25. The results of trial production is encouraging and we are hopeful of this unit ramping up by Q4, FY '25.

We are making good progress towards integrating the operations of our newly acquired entities to secure better operating leverage. Our strategic investment in BTPL, the fabric processing unit, allows us to derive utmost benefit through vertical integration into critical raw materials, adding an edge in terms of speed, quality and cost. After completing all the acquisitions, the Company is currently at a net cash of Rs.58 crores as of June 30, 2024.

With several investments underway, there has been an impact on the ROCE as many of the investments are yet to yield their full pay off. The standalone business excluding acquisitions and new business is operating at about 25% ROCE. It is the endeavor of the Company to strengthen the ROCE of the consolidated Company over the next two years.

To prepare for the next phase of growth, the Company has strengthened its management talent at multiple levels. Our performance endorses the belief in our ability to sustain continued operating performance gains in a sluggish macroeconomic environment.

A quick analysis of our revenue indicators indicate that we continue to gain market share by building on our execution strength. The Company is hopeful of achieving strong improvement in the quarters ahead, particularly in the second half of the current year and continuing into the next financial year.

I thank you for listening and would be happy to address any questions that you may have.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aayush Dandiya from Dandiya Trading. Please go ahead.

Aayush Dandiya: Sir, given the recent developments in Bangladesh, do we expect any business to come to India and can we capitalize on that opportunity? Or is it that Bangladesh's competitive edge is a lot given their lower export duty, sorry, lower import duty in developed countries? Can we capitalize on that?

Sivaramakrishnan G: Simple answer is yes. However, it's a long-term structural adjustment. If you look at the problems in Bangladesh, this has been growing for quite some time and it reached a flashpoint a week ago. So, we have been anticipating this and have been also shying away from creating capacities in Bangladesh, worrying about the safety and security and the business environment there.

Having said all of this, the cost economics as well as duty-free access to Europe makes Bangladesh a continuing attractive region. The garment industry in Bangladesh is a significant industry and the government will do everything in their power to make sure that the garment industry functions well. I have a lot of contacts in Bangladesh, and we have checked with them. Most of the factories have come back into operation, but they did suffer over the last 7 to 10 days. And the whole country is not out of the woods yet.

So, given all of this, most of the brands will try to not put too many eggs in the Bangladesh basket so to speak, and would look at diversification as long as it doesn't increase their costs too much. I think this trend has started almost a year, year-and-a-half back. Probably it will accelerate going forward.

As far as Gokaldas is concerned, our order book is pretty much full for the quarters ahead that we may not stand to benefit too much immediately as we don't have any more capacity to accept orders within our system.

Having said that, a directional shift to more sourcing from India will definitely happen and that augurs well for us from a capacity creation standpoint. So, we are open-minded about it. We are also looking at adding capacity in low-cost regions.

As you are aware, we have a factory in operation in Madhya Pradesh and through our Matrix acquisition, we have a factory in operation in Ranchi and Jharkhand. Both of these are low cost locations, and it is our endeavor to expand in these areas. In fact, those areas can probably compete well with Bangladesh as well.

So, to give you a long answer to your question, I think the long-term prospects was good and it has become slightly better. And India can take some of the incremental growth if it comes our way.

Stronger players will always tend to benefit more as the volumes in Bangladesh are high, volumes in China are high and stronger players will be in a much better position to leverage the benefits coming out of this.

Moderator: Thank you. The next question is from the line of Aashish Upganlawar from InvesQ PMS. Please go ahead.

Aashish Upganlawar: A couple of questions. One is, sir, what I was trying to understand is there are again kind of noises of maybe recession or maybe unemployment rising in the U.S. and stuff. So, what are you kind of anticipating or hearing from the customers?

And secondly, the freight cost increase that you have also highlighted in your presentation, is the curve still looking steep upwards or is it flattening or going down as such? These two things I wanted to understand.

Sivaramakrishnan G: So, to answer your first question most of the brands have mentally prepared for some sort of a slow market uptake. So, I don't see us having too much of a problem unless the recession is very sharp and deep and all of that. So, none of us can be prepared for all the economic possibilities that may arise in the future.

But as far as Gokaldas is concerned, we have diversified our customer base very, very significantly unless there is a secular global trend of recession and all retailers are significantly impacted, I don't foresee a big problem hitting us. When I look at our own order book well into Q3 and early Q4, it seems to be pretty strong for us and we are working at full capacity utilization.

Having said that, we are always open to any potential risk in the horizon, and we will take appropriate actions as and when we see some of those coming up. For now, all my discussions with my customers, especially when I look at fast fashion customers or even outerwear customers, seem to be operating at fairly low inventories and are indicating a robust order placement season going forward.

We are also diversifying into Europe as a precautionary measure and have started pulling more business from that region. In fact, two of our European customers are expanding sharply as we speak.

So, we are reasonably diversified, well poised to handle any demand fluctuations barring some major economic meltdown which affects the entire market secularly. So, that is as far as your first question is concerned. I am happy to elaborate if you want any more clarity on the first question.

Regarding your logistics question, so logistics costs went up in recent times particularly because there was a lot of logistics between China and the U.S. in anticipation of a duty increase. So, there was a shortfall of containers, shortfall of shipping and logistics costs in general rose up. I think that will settle down as we go forward.

Most of the logistics costs are borne by our customers. So, we sell FOB. We don't sell CIF. So, in our case, we don't pay for logistics except for incoming logistics for fabrics that we import. And to that extent, we have had some increase in cost, but they are all pass through for us. So, we have been able to push it back to the customers. So, I don't see logistics impacting us but industry as a whole, the retailers are paying a higher price for logistics.

Aashish Upganlawar: Sir, in the slides that you have given in the presentation, I could understand that there are certain one-off items in the current quarter, which you have shown adjusted EBITDA. So, how is the integration going on? And should we see normalization to maybe 10%-11% margins, maybe going into maybe Q3 type of scenario? Is that more reasonable? And are there any teething issues or something which is glaring in the integration overall? If you could highlight that, and so are we smoothly going to see Gokaldas integrating these or are there any issues as such?

Sivaramakrishnan G: So, let me give you a detailed answer. When we acquired the Atraco entity we had some worker unrest in the early part of acquisition. We had bought the Company on an asset transfer basis. So, when the employees got rebadged to us, there were some demand for incremental wages, etc. Anyway, those resulted in production disruption, which we have now come out of. So, there is a consequent air freighting, which happened because of a massive delay in production and consequently air shipments impacted us and that, in fact, continued in Q1 of FY '25. I don't foresee that happening in Q2 or from Q2 onwards.

As far as all other aspects of integration is concerned, it is going very well. In fact, we have integrated the finance function. We have integrated the sourcing function. We are working with both Atraco and Matrix, and we are also working on integrating operational best practices and last but not the least, we are working on marketing integration as well.

So, every aspect is being worked on. The integration in my mind is going ahead of schedule, not behind schedule. And whatever problems that we have had, consequent to some strong decisions that we took, so that we secure the long-term future of the Company and not cave into some unreasonable demands will pay off in the quarters ahead.

As far as India is concerned, we had a disruption in April and May when we lost a lot of productive manpower on account of the elections in India, etc. which resulted in people getting paid well for participating in campaigns and rallies and all of that. So, we lost a lot of production capacity during that period of time. This was an unusually high impact that we faced at that point in time. We have since recovered, but we did pay a huge penalty on account of that lost production.

In fact, just in GE, the cost of overtime plus air freight plus loss of production itself in the quarter came to about Rs.12.6 crores. So, it was a massive hit as a onetime hit, but I guess most of it will be behind us. And when I look at the quarters ahead with both Atraco and Matrix kicking in strongly in the second half, I am very confident that our margins will go to double digits and not just 10% but even higher from the second half onwards. And I can literally see it because the order books are all full, the production is reaching that rhythm and things are falling in place very strongly.

Aashish Upganlawar: Sir, you used to give some guidance on what we are targeting in terms of sales, if everything is normal, and also some guidance on the margins. Are we looking at, as you said, the 12% kind of a normalized margin, or would it be higher than that? Maybe FY '26 would be a better idea to give some guidance.

Sivaramakrishnan G: Historically, we don't give guidance, but as a general term, if we talk of FY '26, I am very confident that the margins will come back up very, very strongly. In fact, I see that coming up in H2 itself, but in FY '26, we should start seeing overall margins go to the region that you indicated.

Moderator: The next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: The first question was the kind of arrangement we have with Bombay Rayon. Can you elaborate as to the amount of funds we are paying, and what kind of financials one can expect from this?

Because looking at the past history doesn't seem that great. So, if you could just elaborate a bit on that.

Sivaramakrishnan G: So, the strategic rationale for that investment was to make sure that as we grow, and we have grown considerably, and as we start talking at strategic level to our customers, most of them are seeking a stronger relationship than hitherto you send me the garments that I need.

So, we are working with them on reducing lead times. We are working with them on much stronger partnerships, multi-geographic delivery, etc. And for that, I think, one important component that we felt was missing in our portfolio was the access to fabrics at a short lead time and also access to a lot of fabric development.

In fact, on the garment side, we have started engaging with many customers on lot of co-creations. So, we are doing a lot of design and development for our customers and now seeing, having fabric development will be the next step in that direction. So, we felt the need given our size and scale, given the customer requirements and given the strength of the engagement that we are having with the customers.

So, Bombay Rayon is a unit which has got a very large capacity. It's one of the finest in terms of the quality of machines that it has. Most of them European machines of a very high quality and have got a generally good reputation as far as its production quality. The Company itself went into difficult times because of its financial challenges and management challenges. We thought that after doing enough due diligence that that is something which is rectifiable. The machines are of good quality and if we handhold it by making investments and supporting it, we should be able to get what we want out of that.

So, with that in mind, we entered into an agreement with the Company to invest up to Rs.350 crores. Our intention is to only invest what is really required for its capital expenditure requirement for some working capital etc., etc. And that investment has gone through an OCD structure. So, the OCD itself carries an interest coupon of about 20% and we will have the ability to work closely with the unit.

The intention is, if all things go well and we feel comfortable, we will initiate a merger sometime in the next financial year, culminating into a proper merger by FY '27. So, the effective merger through an NCLT process may take a year. So, it will happen sometime two years from now, say June, July, August 2026. So, that's the process if all goes well and if we intend to go down that path of having a full-blown acquisition or merger of that entity with ours.

So, the strategic rationale is strong. We also feel confident that we ourselves can buy a lot of fabric given our huge fabric consumption between all our units from BRFL. So, we should be able to at least secure 15% to 25% of BRFL's production through demand generated by ourselves. So, there are a lot of compelling strategic reasons. Of course, it depends on how soon we can get the unit back on track. It would involve getting the machinery up and running to full capacity, building up an order book, strengthening the management, etc.

It's all work in progress as we continue to hand hold and work with the management team there. We feel confident in this relationship allowing us to punch way above our weight in the market. And when I have talked to most of our large customers, they have endorsed it fully. They have been very supportive of this. So, that gives me an added confidence that we are on right track.

Pulkit Singhal: In case of this acquisition, how much is the peak investment for us in terms of to be able to acquire, what is the broad range? And what is the peak turnover that this entity can do if everything was to be externally sold and not to Gokaldas? So, just to get a sense of how much we are paying and what we are getting?

Sivaramakrishnan G: Are you saying what is the peak revenue from this asset if we acquire? Is that the question?

Pulkit Singhal: Yes, that is one. And how much are we paying for that, overall, if we were to acquire?

Sivaramakrishnan G: So, this is all speculative as we speak because we don't know whether we will acquire them. We have invested as in an OCD in them, and this allows us to work closely with them and also place orders on them to secure our supplies.

Having said that, if we do acquire them, the acquisition price is about Rs.580 odd crores, which we had mentioned in the filing at that point in time, about Rs.585 crores. In addition to that, we had indicated that we will ourselves through OCD invest about up to Rs.350 crores, but I don't anticipate it going all the way to that level. It will be somewhere in between, anywhere up to Rs.200-Rs.250 crores. Maybe even less if we can tightly optimally, if that unit can manage itself.

So, that's the kind of investment we are looking at, and the Company itself has a debt of currently about Rs.100 crores to Rs.150 crores. So, that's the nature of that entity. If and when we acquire, we will have all these investments going in which means Rs.585 crores, say, Rs.600 crores plus a debt of Rs.150 crores, which is Rs.750 crores, and then we ourselves would have invested through OCD and an additional debt of about say Rs.200 crores.

I am just giving you a very, very macro number. These numbers can change by Rs.50-Rs.100 crores here or there. So, that itself makes it Rs.750 crores plus Rs.200 crores, Rs.950 crores, a ballpark Rs.1,000 crores. That will be the enterprise value of the entity if and when we acquire it and merge with it 2 years from now.

So, this gives an optionality for us to go down that path and have a fairly large fabric capacity in our portfolio. The revenue itself at its peak could be about Rs.1,800 crores if all goes well and it works at full capacity. And it should work at an EBITDA margin of, say, the industry level, which is about 12% for the fabric companies. May be given the specialty fabrics that it produces, it should even probably do better than that. But that's the kind of expectation that we have.

Pulkit Singhal: Next question is just on the Bangladesh situation. They just seem too big to fail in the overall garmenting sourcing piece globally, right? But at the same time, I am just wondering whether customers are already talking to you about having to diversify a bit and how sustainable is that? Is it possible for us to at this point secure long-term contracts with some customers rather than some knee-jerk order for just one or two quarters and then going back to Bangladesh?

Sivaramakrishnan G: So, customers are very, very smart and they have been sensing this for almost a year, year-and-a-half. In fact, many of the customers have talked to us almost a year back saying that we want to diversify away from Bangladesh. So, customers who are, let's say, heavily weighted towards Bangladesh have had come to us and talked about incremental capacity here. So, all of that encouraged us to set up new capacities and I think that customers will diversify.

You know, I don't foresee any short-term knee-jerk reaction. First of all, for short-term movements, you need capacities in Bangladesh to be shut for a longer time. That's not the case. They have mostly opened up. Secondly, we should have capacity in the short term. And I don't think we look at business in the short-term either.

If you ask me, medium to long-term, I think people would have found that their hypothesis that Bangladesh is risky is getting more and more confirmed. And hence, they would try to incrementally allocate more growth to other regions. So, I think in the longer run, it is good for us. In the short run, to expect any major knee-jerk reaction probably is super ambitious. You know, always somebody, especially in fast fashion, who has got a major delivery problem will automatically ask us for some support. And we will extend that from time to time.

But I am more keen on the long-term movement. And I believe that in the long-term, with so much going on in Bangladesh, Sri Lanka, etc., there is a little more comfort in sourcing out of India. If we are able to develop lower cost locations in India, which is the endeavor that we have embarked on, I think that will accelerate and support this trend.

Pulkit Singhal: But can the reverse happen? If the Bangladesh currency, given that situation, were to appreciate by a sudden 15%-20%, in fact, it will just become even more attractive. So, can the reverse trend actually happen? And it would make sense to be present there.

Sivaramakrishnan G: I think that is a very theoretical thing. And when I talk to customers, nobody is going in there just because there is going to be a massive currency arbitrage that is available to them because there are also risks ahead. I have talked to one large customer, a fairly large customer with whom we still don't work, and they are knocking on the doors. They want us to start, but we don't have the capacity to see if they can move some things out of Bangladesh to India. So, I don't see people taking such very, very short-term view.

Secondly, I am also not so sure that Bangladesh can afford to weaken their currency that much and I am not an economist. But keep in mind, Bangladesh imports most of their goods and a lot of consumable goods and the FMCG goods ,etc., go from India. So, if the currency depreciates, their cost of living, which is already high in Taka terms will just shoot through the roof creating more unrest in that economy.

One of the biggest challenges that Bangladesh faces is that the restless population is impacted by high inflation. So, if they depreciate their currency sharply, there could be even bigger problem. I am not so sure that that's what has been expected for that economy, but then that is for an economist to answer.

Moderator: The next question is from the line of Jignesh Kamani from Nippon Mutual Fund. Please go ahead.

Jignesh Kamani: Just on the Bombay Rayon, you mentioned that we have to acquire if we want to through NCLT. So, in that case, NCLT has a power to decide, you can say, whom with they want to sell, and in that case, we have to bid it again or there is a possibility that it may be another bidder instead of us. And if yes, then what will happen to our investment of Rs.200 crore which we made? And in case we don't want to acquire it, then what is the recourse, or you can say Rs.200 crore investment of NCD which we are planning to make right now?

Sivaramakrishnan G: Good question. Just to clarify, this is not an asset under NCLT. So, this unit is not part of BRFL. This is called BRFL Textile Private Limited, which is outside of NCLT. When we talk of NCLT, it is just the merger process which will be passed through NCLT because any merger in India goes through an NCLT driven process for concluding the merger. So, we are only talking about that.

The principal shareholders in this case, in this entity are JM Financials plus a clutch of various other investors who total the 100% of the Company and we have an agreement with all of them so that in case we decide to go ahead, they will sell the shares at such and such price which we had indicated. So, the merger will go through an NCLT route for consummating the merger, but it is not an NCLT process where NCLT is calling in bidders and investors and all of that. I hope that clarifies.

As far as your second part of the question, which is in the event we don't like this asset, now we have done enormous amount of due diligence, checked with our customers, seen what kind of fabrics that we are placing orders on, what is the future trend ,etc., and done all the due diligence before entering into this arrangement.

In the rarest of rare event, we don't want to go ahead we will have to deal with that process. We will probably stay invested with the OCD structure and continue to get dividend etc. But we will deal with that situation as appropriate at that point in time. We have a feeling that there is a high likelihood that we may take a call on going ahead if all goes well. But then that is something I will reserve for a year from now.

Jignesh Kamani: And the follow-up question on that, as you mentioned close to around Rs.800 crore kind of revenue they do at peak. So, what would be our fabric requirement out of this Rs.800 crore? And second thing, are we planning to appoint any Board member, or you can say, as of now, or that we will take a call only once you decide to go ahead with the merger?

Sivaramakrishnan G: So, it is not Rs.800 crores, it is Rs.1,800 crores. As far as if we take a call, then obviously, the unit gets into a merger with the parent Company with Gokaldas. So, then there is no question of a new Board etc., etc. We will just merge into us. At that point in time, we may decide if we want to stuff the board with our people or whatever, but we have not taken those calls.

Jignesh Kamani: And out of this Rs.1,800 crore, what is kept for your unit as of now?

Sivaramakrishnan G: So, let me give you in terms of meters of production, right? So, for example, the units at full capacity and today it is by no means operating at full capacity because several machines are not in a state of production. We need to put in CAPEX to restore them back to full capacity. But its full capacity is about 4 lakh meters a day which translates to about 1 crore meter a month. Our own fabric consumption in Gokaldas is 55 lakh meters a month. If I add Atraco to it, it will add to another 15 to 20 lakh meters a month. So, that is about 75 lakh meters a month. Whereas its capacity is 1 crore.

Now, not all of what we buy can be made by BRFL because we buy a wide variety of fabrics including synthetics etc., some of which are imported. But that's why I said I am very confident that at its peak, we can at least meet 25% of the 1 crore meters per month demand. Maybe more. Our endeavor is we need to do as much as we possibly can. But that itself gives a huge amount of security in terms of demand for that entity.

Moderator: The next question is from the line of Monish Ghodke from HDFC Mutual Funds. Please go ahead.

Monish Ghodke: So, out of our total capacity of 87 million pieces, what is the split between GOKEX, Atraco and Matrix? And could you also share average realization per piece for these three entities as well as average utilization levels?

A. Sathyamurthy: At Gokaldas it is about 36 million pieces and Atraco can produce about another 40 million pieces. another 11 million pieces can come from Matrix.

Monish Ghodke: And sir, what are the utilization levels currently?

A. Sathyamurthy: Currently I can give you the number of pieces for you to get some understanding. Gokaldas has done 6.6 million pieces at an average realization of Rs. 781. 8.78 million pieces in Atraco at Rs. 285. Matrix we have done about 1.7 million pieces at about Rs. 618 is average realization. In total, we have sold 17 million pieces during the quarter at an average price of Rs. 510. Again, the pieces measure is quite a misnomer, because, depending upon the product mix, the number of pieces can vary.

Sivaramakrishnan G: Come down or go up accordingly

A. Sathyamurthy: Depending upon the complexity of the garment.

Monish Ghodke: And sir, could you also share in this pieces, what is the mix of, let's say, co-creation versus customer-given designs?

Sivaramakrishnan G: So, it varies from customer to customer. For certain customers, our co-creation is almost going up to 60%, and on average across all customers, we are operating at about 15% to 17%.

Monish Ghodke: And sir, these realizations also include our duty advantages, right, duty drawback, which we get?

A. Sathyamurthy: No, this is our net realization at our ex-factory level.

Monish Ghodke: And typically, what percent of, like, let's say our realization is 100. What percent do we get as a duty drawback or incentives?

A. Sathyamurthy: Just to clarify the realization, what we said, is at an FOB level, it does not include all the incentives and other stuff.

Monish Ghodke: No, no, I am saying, when I am seeing EBITDA margin, it would be including incentives, right?

A. Sathyamurthy: Correct.

Monish Ghodke: So, typically, what percent of our sales are our incentives?

Sivaramakrishnan G: Oh, what percent? So, we have duty drawback, which amounts to about 1.5% or 1.3%, somewhere in that ballpark, and RoSCTL, which is the refund of state and central levies, which work between 3%, 3.5% level, again, depending on the product type, etc. And this is available for whatever our sales from India. For overseas entities, it is not applicable. Keep in mind that the brands also know these are available. So, all these get factored into the pricing.

Moderator: The next question is from the line of Bijal Shah from RTL Investments. Please go ahead.

Bijal Shah: Thanks a lot for explaining BTPL, but I am still not able to understand strategic rational as well as financial rationale for this. So, if you can elaborate on a couple of points. Number one, so you are saying that eventually whenever everything is at the best performance level, you will be taking maybe 25% or maybe 30% of total output of BTPL.

So, just to understand that what is the reason for 30% of your requirement, you want to buy something which is like 3 to 4x your size and which will put you in a position where you have to sell another 75% of the output to outside world, and that is very different from your existing business. I mean, the investors are investing in you because of China plus One story, not that 70% of fabric you go and sell in the market. So, that is one thing which I am unable to understand.

And within that last call, you talked about the guardrails for acquisition that we will not be looking at companies which are not making profit, we will be looking at companies which are occasionally amazingly run. So, how do you reconcile that with your potential acquisition in which you made it clear that in the rarest of the rare occasion, this acquisition will not go through. So, how do you reconcile that with your previous commentary?

The second question is that even if I look at the numbers at Rs.1,800 crores and you get 12% margin on that, so maybe somewhere around Rs.210 crores of EBITDA and that would translate into roughly 21% pre-tax ROCE. So, in terms of return profile also, this is pre-tax, and there will be tax on that. So, of course, interest depreciation. So, in terms of return profile also, it looks not really that great. So, how do you think that financially it would make lot of sense for Gokaldas to invest in it?

Sivaramakrishnan G: So, there are several questions. Let me try to answer all of them. And if I missed something, please remind me and I will address that. So, the first part is you indicated that 75% of it will have to be sold outside. Now, what I said was, that's the worst case.

I had indicated to you that we ourselves buy 55 million and Atraco will add another 15 to 20 million. So, that itself will make it about 75 million meters out of, say, 1 crore meters that the Company produces. Over a period of time, this 25% I said is the worst case, not the best case.

So, the worst case is we cater to 25% of the demand, 15% to 25%, initially starting 15%, ramping it up to 25%. And our endeavor will be to buy as much in-house. Why will I buy outside? And if I start buying in-house, my margins will go up, right? Even though the revenues may get knocked off in consolidation, my margins will go up.

But the key point here is that, in our garment business, we will continue to grow. So, this is our current situation. Fabric unit capacity is what it is. And if the garment unit continues to grow at 15%, 20% year-on-year, the fabric demand will also go up in proportion. So, on an incremental go-forward basis, we will continue to take on more and more from that unit. This is number one.

Number two, we can orient that unit to produce more and more garments for our requirements. That's a possibility which will also help us to respond faster to customers. So, one of the things that's going on in the market is, how do you reduce the lead time of delivery? And if I have to do that, then I need to have fabrics coming in at a faster pace.

I need to be able to work with customers on orders which hitherto, let's assume that somebody is making something out of Bangladesh and their fabric lead time is very, very long. I can combat it with saying that, look, I can turn things around in three weeks shorter, but you have to work at a price I dictate.

These are new possibilities which will open up for us. And keep in mind that as we approach larger and larger size, and as we approach a billion-dollar kind of revenue, we will need to be a little more vertically integrated to take command and control over our destiny, our own raw material sources, so that we are not denied raw materials or we struggle with raw material product development.

Fabric is an important component of a garment. So, if there is a garment development that we do, fabric development is an integral portion of it. And that's the reason why we are not saying we want to go into spinning and weaving and all of that because that on that end, we believe it's all commodity.

But we want to be in fabric processing, because that also is made to order, not made to stock and we will be working with the customers. Being a major garment producer, we are very close to our customers. We know exactly what they are seeking and what is it that they are looking for, which will allow us to steer the fabric Company to be responsive to the customer, as opposed to a standalone fabric Company.

So, we see a lot of strategic advantages, a lot of advantages that a garment Company is running a fabric unit as opposed to a fabric Company standing alone on its own. So, our DNA will be garment first. So, that's the strategic rationale clarified for you.

As far as your next question, what was that again? I am sorry. You had said what is the price? Why are we paid this kind of a price or something to that effect, right?

Bijal Shah: See, you had outlined guardrails that you will not go and acquire a Company which is already….

Sivaramakrishnan G: Yes, I thought I will come to that last, but since you have brought it up, look, the reason…

Bijal Shah: Second question is that if I look at ROCE on Rs.1,000 crores, in EBITDA, if I work out EBITDA, it will be around Rs.210 crores on the numbers you selected. And that is the best case, and your capital investment would be Rs.1,000 crores. So, it is like translating into kind of 21% on a pre-tax basis, pre-depreciation, pre-interest. So, that is much lower than the return profile which you have for your Company. It will bring down return overall and your total capital employed is right now Rs.1,000 crores will be going into this. So, it will be a very substantial portion. So, how do you think about the returns from this investment?

Sivaramakrishnan G: Let me explain that. So, some of it has to be also taken in the right spirit. So, if we look at the amount that we will pay, if we go down the acquisition path, the amount of the payout that we said which is under Rs.600 crores is to be paid 2 years from now, not now. There is a time value of money for that and if I apply some reasonable interest rate and look at that Rs.600 crores in today's value, it will be probably 500 crores or even less. So, that is something for you to keep in mind that the actual investment has to be considered appropriately.

Also, this Company has accumulated losses to the tune of Rs.400 crores. So, that also brings, in the event we merge finally and go ahead with the transaction, we may stand to gain from accumulated losses in that entity which will help Gokaldas. So, there are other mitigating factors as well, which I am sure you can do the math and understand that the final effective capital employed will be very different given some of these extra benefits that come with it.

But it is not just about ROCE. See, what happens is I can be a very high ROCE and small and not grow. If I have to balance growth with ROCE, then I need to compromise on ROCE at the initial phase and then catch up on ROCE. I cannot just grow fast while holding on to my ROCE. So, if I want to grow at 15%-20% and remember, I mean, look at the revenue this year, right? Through the acquisitions, we have grown even faster.

So, if I want to grow and have a dominant presence in the industry, I may have to compromise on ROCE, but it is definitely not for the long term. We are extremely conscious of margins and we are extremely conscious of ROCE.

That is why all the internal discussions are how do we get it back? How do we get our margins back? How do we leverage our position so that we are able to recover some of these? And it will happen in the next several quarters.

A lot of things are happening well for India as well, even the geo-political situation. And the fact that we are a little more vertically integrated means we are attracting customers which were hitherto not really working with us. Our entry into low-cost geography is also being supported by some of these fabric investments. All of this will support the growth, and we have to now improve profitability, which will help us in ROCE improvement.

Bijal Shah: And the last, I mean…

Sivaramakrishnan G: So, let me come to that part, which is, we are very clear that we will only acquire companies which are profitable. We don't want to acquire companies which are loss making. That's the reason why we invested in BTPL and not go into an acquisition upfront, we could have done that as well. But we did not want to do that because that's against our philosophy. So, if we feel that this Company can turn around financially in a year is then when we do what we do. Otherwise, I would not be so keen. And again, based on the diligence that we have done, we feel reasonably confident that we can turn this around, especially given that we know the business, we are a big consumer ourselves, and we know the quality of the asset that exists there. So, given all of this, I believe that we can turn this around in a year. And that's the endeavor. And that's the reason why this acquisition if it goes through will happen in 2026 and not 2024. Because by then it should be well way, way profitable from the current situation where it's bleeding or loss making.

Bijal Shah: And just if it is possible, I am not sure. But if it is possible, if you can share their revenue or some details on their performance in the upcoming quarter, it will be really helpful.

Sivaramakrishnan G: Yes, we will see how much we can share and keep you posted. But you know, that's a separate entity where we just have mere investment. So, I am not sure how much we can talk about that, but let me see.

Moderator: Thank you. The next question is from the line of Vivan Mathreja from PH Finance Limited. Please go ahead.

Vivan Mathreja: I have just one quick question. So, recently, last week, there was a report that came in The Times of India about the textile industry and foreign companies investing in Tiruppur and using the suppliers from Tiruppur. The top companies include Primark, GAP and many more. And also, there are quite a lot of government incentives towards Tiruppur in terms of developing infrastructure and giving companies loans at a lower interest rate and also simultaneously. countries like the U.S. and majority of the European countries are divesting from China and plan on investing in India specifically with respect to the textile industry. So. I would like to know the benefit that a Company like Gokaldas would get through this incredible opportunity of investing in Tiruppur and taking advantage of this.

Sivaramakrishnan G: So, there is nothing specific for Tiruppur. It's all for India and there are certain low-cost regions in India, especially if you look at states like Madhya Pradesh, Jharkhand, Orissa etc., which are giving special incentives to set up more capacities in their area to create jobs.

If you look at the labor force in India, most of them if you look at Tirupur, if you look at Bangalore, if you look at NCR, which are all major garment manufacturing clusters in India, the labor force is all coming from outside. Even in Bangalore, we struggle for labor force and a lot of incremental labor force is coming from the eastern part of India and northern part of India. So, that is where the industry will gravitate towards. Even Tirupur has got a large labor force coming from east and north of India rather than from the local region.

So, as far as incentives are concerned, the government incentives are there. For MSMEs, there are extra incentives. So, regardless of where you are, you get your incentives. Whatever else you said about units, companies from who are sourcing from China, looking to India, we have sourced a large order, which were hitherto being destined in that region. We keep getting that and we keep doing that all the time. So, that's a secular trend, which will come towards India. No doubt about it. But I am not sure if there is anything very specific about Tiruppur. We ourselves are not in Tiruppur. And we find that going into Northern India or those regions make more sense.

The only unit that we have, which is a knit fabric unit, which is in a place called Perundurai in Erode District, which is near Tiruppur, but that's a fabric processing unit that we have. This is our own greenfield fabric processing for knit fabric. And that's closer to that region. But we are not really dependent on Tiruppur, or we don't intend going further there.

Moderator: Thank you. The next question is from the line of Vikas Jain from Equirus. Please go ahead.

Vikas Jain: Sir, my first question is with respect to the Tamil Nadu facility. Sir, what are the plans with respect to, are you planning to use the fabric internally only or if the plan remains the same where you sell it out initially to other units and then add garmenting units aside and then probably book it? Want your comment as to what is the view for the output that comes from this Tamil Nadu facility?

Sivaramakrishnan G: We probably will need about 50% of that output, at least in the near term. We will consume in-house because we have both in Gokaldas and in Matrix. Matrix is 100% knit and Gokaldas also does some amount of knit. The capacity there is approximately 400 tons a month, and I think more than half of it we can consume internally. We are working towards that. We are getting all the buyer approvals for that factory's output to be confirmed. All of that is work in progress, and we are very confident because all the initial trials have gone out very, very well.

We are currently doing trial productions, and we will be starting job work and all of that soon. All the indications are it's going well, and by, let's assume that end of this year, we should have a substantial part of that output being consumed internally and then as we grow, we will start consuming even more. But rest of it anyway, we will sell in the market because we can't capacities come in step curves and as we continue to grow, setting up more and more knit business.

In fact, there are a lot of requirement or request from customers to expand our knit business. And we are not as largely exposed in that area. But with this fabric unit, we may be able to accelerate that as well. So, it's a step in the right direction. Assumption or the intention will be to try to consume as much in house.

Vikas Jain: Secondly, with respect to our MP facility, can you give some comments with respect to how is the ramp up? You did mention the utilization rate, but the ramp up expected, when do we expect the full ramp up of Phase-1 and the commencement of or the investments in Phase-2 of the facility?

Sivaramakrishnan G: Good question. So, MP, this takes some time. We, in fact, started MP last June. So, it's been a little over a year. We started production with domestic customers just to set the factory, the lines, the quality, the standards and compliances, etc.

We have now had two international customers already place orders on MP such that the full capacity will be taken up by these two international customers. Both of them will ramp to full capacity by Q3, which is another 2 months, 1.5 months from now. So, the orders are there. We are working on ramping them up to full capacity level.

So, the current unit is fully booked, which is Unit-1. And we have already done the work for Unit-2. So, all the planning is ready. Post monsoon, we will start construction. So, vendors are being finalized and all of that. We will be starting construction of Unit-2, which is in the same campus in adjacent land. So, that will start.

We are confident that with these two customers and some more in the pipeline, we should be able to quickly fill up Unit-2 as well. The time taken to ramp up Unit-2 will be a lot less because the ecosystem is already set. So, we have entire compliances, which we have got. When I say compliance, it's not just social compliance or environmental compliance. Even technical quality compliances, quality approvals, all of those have been secured in place.

Now it's only a question of training the manpower and ramping. And with this first experience of the first unit, the second unit should go through on a pretty straight line, quick basis. So, construction will commence post monsoon. We are hoping that the construction will take anywhere up to nine months. Post that, we will start ramping that unit as well.

So, overall, MP unit took a little longer, but I think when I look at the cost structures, when I look at the availability of manpower, and when I look at how it has worked so far, I am very confident that we have found the right location where manpower availability is still good, and costs are moderate or low relative to where we are. So, that's the commentary for MP.

Vikas Jain: And just if you could comment on the capacity wise, Unit-1 and Unit-2, what is the installed capacity in each unit?

A. Sathyamurthy: Each unit at a peak revenue will be Rs.175 crores annually.

Moderator: Thank you. The next question is from the line of Palash Kawale from Nuvama Wealth. Please go ahead.

Palash Kawale: Sir, my question is related to, you mentioned that there was a price-led growth in the U.S. So, do you foresee any gross margin benefits on account of that for the full year?

Sivaramakrishnan G: I am sorry, what growth in the US?

Sivaramakrishnan G: Price-led growth.

Palash Kawale: Price-led.

Sivaramakrishnan G: So, price-led growth is for retail. So, retail consumers, when I said that 3% of U.S., in CY '24 versus the same period CY '23, U.S. retail sales, apparel sales have grown by 3%. I am saying the volume stagnated. All the 3% was price-led. That is retail as far as that is concerned.

As far as the orders that we are getting, there is a huge amount of price pressure because unlike the rest of the industry, if you look at U.S. imports, it is still negative 6% for CY. And so, this is true for UK and Europe as well. So, the larger industry is not out of the woods yet. And there is a demand supply mismatch.

We are seeing strong demand ourselves and that's helping us to fill up our incremental capacity as well. But the pricing power has not really come back. I anticipate that coming, sometimes starting next year. So, for now, the pricing remains sharp as usual, because there are other suppliers in the rest of the world who are willing to operate at sharp prices as well because of the demand-supply mismatch.

Palash Kawale: And sir, related to Bangladesh issue, so which country do you think gets to benefit more? Is it India or the countries like Vietnam or other would benefit more in the diversification of supplies in essence?

Sivaramakrishnan G: So, first is, we should not bank too much on things moving out of Bangladesh. Bangladesh has enormous resilience, and they will find a way out because this is too critical an industry for that country for them to let go. So, we should look at it more as a secular long-term trend where businesses will try to diversify away from a risky hotspot area.

Now, having said this, where will they go to? A high likelihood is India. I don't know whether Pakistan still falls in that bracket where capacities can go there because that's another country which is low cost and goes duty-free into Europe and all of that. But I think the larger opportunity for moving export sourcing out of should come to India rather than a Vietnam or China. Those regions have really maxed out their potential. There is no more scope to grow there.

Palash Kawale: And sir, I missed on the volume and the realization trend. So, could you just mention the numbers again?

A. Sathyamurthy: We have done 17 million pieces at an average realization of Rs. 510 at the consolidated level. At Gokaldas, it is 6.6 million pieces, @ Rs. 781, Atraco is 8.78 million pieces at the rate of Rs. 285. Matrix is at 1.68 million pieces with an average realization of Rs. 618.

Sivaramakrishnan G: This is for Q1.

A. Sathyamurthy: This is for Q1.

Moderator: Thank you. The next question is from the line of Cheragh Sidhwa from Bajaj Finserv. Please go ahead.

Cheragh Sidhwa: Just one question. In the second half, when we say that our order book is pretty much at full capacity utilization, do we mean across all the three divisions, that is GokEx standalone, Atraco and Matrix?

Sivaramakrishnan G: Yes.

Cheragh Sidhwa: And at the current gross block, what would be the peak quarterly run rate? So, this quarter we did close to around Rs.940 odd crores. So, it is fair to assume close to around quarterly run rate in second half should be close to around Rs.1,000-Rs.1,100 crores?

Sivaramakrishnan G: Yes, I think we should be topping up Rs.1,000 crores.

Cheragh Sidhwa: Topping up Rs.1,000 crores, okay.

Sivaramakrishnan G: We are already at near full capacity.

Cheragh Sidhwa: So, for the full year one could expect close to around Rs.3,900-Rs.4,000 crores kind of top line, given the current order book status.

Sivaramakrishnan G: We can do the math here.

Cheragh Sidhwa: And sir, for the next financial year then, given that we are already at optimum levels, apart from the MP Phase-2, which would yield another Rs.175 crores odd kind of incremental revenue, what would be the other key triggers for the revenue growth for say FY '26 on the basis of FY '25?

Sivaramakrishnan G: We will continuously look to debottleneck our current facility. Number one. Second, we will look at increasing productivity and productivity itself should give us a few percentage points in capacity on the existing base.

Third, we are looking at an incremental expansion in Ranchi in Jharkhand because that's again a low-cost region. So, that's work in progress, and we will take a decision sometime soon, but we are now more and more inclined to go into these areas.

Third, we are looking at some incremental expansion in Africa as well in Mombasa where we have the ability to expand capacity, fair amount of capacity there. So, we will be triggering all of these sometime during the second half of this year which will help us in the next year.

Plus, as I had mentioned earlier that we will also be starting work on Bhopal Unit-2, which will probably start contributing from the later part of next financial year.

Moderator: Thank you. The next question is from the line of Mithun Aswata. Please go ahead. The current participant has been disconnected. We will move on to the next question. It's from the line of Bijal Shah from RTL Investments. Please go ahead.

Bijal Shah: So, my question is, you are saying that order book is full, but you are very categorical in guiding in second half, things will improve. So, is it that in second quarter also there are some issues which will persist?

Sivaramakrishnan G: No, so the second half, I don't think from a capacity standpoint, usually it's a weak quarter for the industry per se in the second half because we usually ramp down on fall winter and ramp up on spring so that this shift in seasons happen in second half, sorry, in second quarter, So, usually there is a bit of a gap and while Gokaldas itself doesn't have an issue, this second quarter gap is a little more pronounced in Atraco and Matrix.

But I don't see that as much of a problem because the transition is, we have kind of worked a lot to offset that the way we did it in Gokaldas a few years ago. And I don't see this as a problem from next year onwards. But that's why I am saying from Q3 onwards, we will be powering away with full capacity utilization. In Q2 for a very brief short period, there may be that seasonal change.

The other part is from a margin perspective also, as we enter spring summer, we should be able to pick up some streams. Because lot of these businesses that we have even in Q2 which is for fall winter, because of exceptionally warm winters over the last several years and excess inventory, we have had a situation where we had to go and get business at somewhat more sharper prices than otherwise. So, all of that will also wear off in the second quarter.

But you know, by and large, revenue trajectory will be maintained. Capacity utilizations are near full in Gokaldas and near full in others as we speak. But all of them are ramping up to full utilization in the month ahead.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I would now like to hand the conference over to the management for their closing comments.

Sivaramakrishnan G: Thank you. So, we are very conscious from a financial standpoint about running the business. We are also conscious that the growth imperative is very important, and we need to handle both growth as well as margins. And sometimes one leads to compromising the other, but we have now in the last 1-1.5 years, despite extreme headwinds from business, challenges, global volatility and all of that, we have focused on growth.

We also took the opportunity to acquire some entities, which we are in the process of stabilizing. We are confident that some of those strategic decisions will pay off in the quarters and the year ahead. We feel confident that all the decisions that we took are decisions in the right direction and a lot of work is going on to make sure that the Company's strength will fully come out in the years ahead. We are very well poised in that sense.

We are also having a strong relationship with most of the customers and that's evident in the way we are seeing our order and evident in the way we are working with customers, whether it is on co-creation, whether it is in fabric development, in garment development, etc.

So, I feel that directionally we are on the right track. I am hoping that the demand supply at an industry level will become more or less even as we go forward. But there are enough volatilities, particularly the Western world is still not completely out of their economic situation and if there are some soft economic challenges or softness in demand, there could be some volatility.

But we have worked hard to make sure that we are reasonably insulated from it. We are also very well safeguarded against any of those challenges, which is why some of this vertical integration moves as well, which strengthens our offering considerably.

So, strategic calls, I believe, are all in the right direction. Executions are falling in place and that will help us improve our margins, sharpen our margins as we go forward. Hopefully, demand supply at an industry level will also help us in that. Thank you. We remain quite confident about our future and we are working hard to make sure that we will deliver stronger results going forward.

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