

gokaldas exports ltd

GEL/SEC/2024-25/20

June 04, 2024

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

Scrip Code – 532630

Scrip Code: GOKEX

Dear Sir / Madam,

Sub: Transcript of Q4 FY'24 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 Q4 FY'24 earnings conference call held on May 28, 2024. The Transcript is also available on the Company's website at www.gokaldasexports.com.

Kindly take this into your records.

Thanking you,

Yours truly,

For Gokaldas Exports Limited

Gourish Hegde
Company Secretary & Compliance Officer

Encl: as above



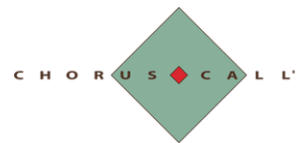
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“Gokaldas Exports Limited
Q4 & FY '24 Earnings Conference Call”
May 28, 2024



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

MODERATOR: **MR. BINAY SARDA – ERNST & YOUNG**



Moderator: Ladies and gentlemen, good day, and welcome to Gokaldas Exports Limited Q4 and FY '24 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Binay Sarda from EY LLC. Thank you, and over to you, sir.

Binay Sarda: Thank you, Sejal. 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 same are available on the company's website. In case, if you have not received the same, you can write to us, and we'll 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'll start the call with a brief overview of the quarter gone past and then conduct Q&A session. With that said, I'll now hand over the call to Mr. Siva. Over to you, sir.

Sivaramakrishnan G: Thank you so much. Good morning, everyone. Happy to have you at our earnings call for financial year FY '24. In the financial year, the consolidated revenue of the company grew by 7.2% to INR2,409 crores as against INR2,247 crores in the previous year. In Q4 FY '24, the company delivered a consolidated revenue of INR818 crores against INR530 crores in the previous year.

However, if you look at growth, excluding acquired entities, the revenue in Q4 grew by 13.9% year-on-year to INR604 crores. The company delivered an EBITDA margin of 11.8% for the year as the newly acquired entities pulled down the margin. The company continued to deliver exceptional performance in the existing business and is working towards continuous performance improvement of the acquired entities.

For most part of FY '24, the retail industry continued to be in an inventory overstock position resulting in brands reducing their apparel purchases by 20% in the U.S., 19% in EU and 28% in U.K. The inventory destocking cycle is now coming to an end with many fashion brands showing reduced inventory, improved financial performance and the renewed appetite to buy.

In such a challenging environment, such as last year, your company's like-for-like revenue dropped by 2.3% Y-o-Y compared to a 10% drop in Indian exports in the same period, indicating the resilience of the company in face of adversity. Sensing an opportunity to further consolidate its position in the apparel industry, the company completed the acquisition of Atraco and Matrix,



enabling the addition of new product offerings, such as high-value knitwear, access to low-cost locations, along with clear access to mutually exclusive new customers. The company invested INR934 crores for the purpose of these acquisitions.

After the acquisition of these 2 companies through a combination of debt and equity, the company had a net debt of INR336 crores as of March 31, 2024. Subsequently, the company raised equity capital of INR600 crores through qualified institutional placement in April 2024, which has helped the company to turn net cash positive.

On the cost front, the company faced several headwinds, including increase in statutory minimum wages, ramping up employees in anticipation of volume growth in the second half of the year, start-up costs at our new unit and one-off expenses related to the two acquisitions.

Further, the tepid demand from major buying region last year led to price pressures impacting margins. The company generated cash from operations before working capital adjustments to the extent of INR266 crores. The company continues to seek further integration of the acquired entities over the next 4 to 6 quarters. We see strong demand traction for the existing entity while the newly acquired entities will require handholding for over 2 to 3 quarters to ramp up the demand from existing levels. This will help improve operating margins of those entities.

The newly acquired entities expand the product category, adds low-cost manufacturing locations, gives access to new markets and brings new customer relations. Effort has been initiated to leverage all these advantages. To prepare for the next phase of growth, the company has added talent to its management bandwidth and at multiple levels. The long-term prospects for the industry remain intact with the continuing shift of global sourcing away from China, supplier consolidation towards efficient and well-capitalized players and supply-side instabilities in several countries.

Favorable currency, PLI and FTAs with key markets should drive the company forward towards a strong future. Our company, Gokaldas Exports is one of the India's largest apparel makers exporting to over 50 countries. We employ about 50,000 people, a large proportion of who are women. This is a sector that employs over a crore of people has the potential to industrialize small town, creates more jobs for unit investment compared to any other industry and has a high share of revenue disbursed as wages.

In short, a highly desirable industry for social upliftment. We, at Gokaldas Exports remain focused on strong operating performance and we'll continue to deliver with all the capabilities that we have. I thank you for listening, and I will be happy to address any questions that you have.

Moderator:

The first question is from the line of Romil Jain from Electrum PMS.

Romil Jain:

Yes. Sir, first question is on the margin side. So I think when we acquired the entities, the presentation showed that they are decent in terms of margins, more than 10% odd. And in this quarter, we have seen some impact, right? I think if I just subtract the consolidated from the like-to-like that we have given, I think we are at 3%, 3.5% margins. So you mentioned about some one-off cost. And also, can you just explain if you exclude these costs, what can be the



normalized margins that we can expect and with the efficiencies where we can reach maybe in 2 quarters or 3 quarters or so?

Sivaramakrishnan G:

So as far as the acquired entities go, we have 2 of them Atraco and Matrix. I think in a normalized operations, Atraco should be over 10% to 10.5% EBITDA margin and Matrix should be at about 11% odd EBITDA margin on an ongoing basis. What we had -- and this is -- this will happen in a few quarters. And beyond which our endeavor would be to take their EBITDA margins to Gokaldas Exports' level, which itself in my opinion, will at least take 4 to 6 quarters before we can get to that level.

In the fourth quarter of last year, when we acquired Atraco sometime in January, we had taken over Kenya's operations as an asset purchase basis and this resulted in us having to terminate all the employees, the workers. And then we asked them to rejoin the Gokaldas entity, which is the new asset that we put in place. So on the same terms and conditions.

Unfortunately, in the process, there were unions which came into play sensing an opportunity to demand a higher pay from the new entity because there was a process involved of termination and rejoining, which resulted in some sort of industrial action by the employees. And we had lost some bit of production in the transition.

We also had to deal with the rebadging changeover of employees, which resulted in quite a bit of lost production. We almost lost 2 to 3 weeks of production. And to make up for that, we had to incur over time, we had to incur some airing of goods, et cetera, which impacted profitability in that quarter, which some of the residual air lifting may have to happen in Q1 as well. But since then the production has stabilized, the rhythm in the operations has come back more or less.

So we went through that change, but we thought it was a desirable one rather than given at this point in time to industrial action, and that is the reason why we had a little bit of setback in terms of margins with Atraco. This is, I would say, an initial teething trouble. Most of it is behind us already. And in the quarters ahead, that should take care of itself.

As far as Matrix is concerned, what we have is only 19 days of overlap in that quarter. So the margins, which come from there is hardly significant. It was very, very insignificant. Going forward, as I said, we anticipate an EBITDA margin from these 2 entities at the level of about 10.5% and 11-odd percent on an ongoing basis. And our endeavor, as I said earlier, would be to take it up to GE levels of EBITDA margins in 1 year, 1.5 years, more likely a 1 year, 1.5 years.

Romil Jain:

Okay. Okay. Got it, sir. And what would be the utilization in both these entities presently or maybe you know by FY 25 what we expect.

Sivaramakrishnan G:

So utilization in both these entities, I would say, is around 80%, 85% at the moment of their capacity. I anticipate based on -- and this is a bit early for me to say, because orders for H2 will come only somewhere in Q2, so full visibility will come. But our expectation is that by second half of the year, both of them should go to at least close to 100% capacity utilization based on early indications from the market from a demand perspective. We're working on those.



- Romil Jain:** Do we have capex plans for those then?
- Sivaramakrishnan G:** No. So capex plans will kick in as and when the capacity reaches full utilization levels, we will push in more capex for expansion of those units as well. We are fully committed to expanding both of these operations and as and when in the second half when -- for those entities we start seeing traction reaching to full capacity utilization, we will initiate more machinery purchases etc. I believe that you know for Atraco there is a possibility of 20-25% capacity expansion possible and we will work towards it.
- Most of that revenue from that capacity expansion should play out in the subsequent year, FY26. In FY25, we will start seeing traction starting from second half. But really, it will play out in the FY26 timeframe.
- Romil Jain:** Thank you so much. I'll join back in the queue.
- Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan By BNP Paribas.
- Kaustubh Pawaskar:** Yes, thanks for giving me the opportunity and congrats for good set of numbers. Sir, I just want to understand on both the acquisitions for Atraco and Matrix. This year if you can give us the proforma numbers for both the acquisitions in terms of revenues and EBITDA margins that will help us from the modeling purpose? And second question is with this capacity addition what you are doing at Gokaldas Exports front currently you have around 30 million pieces of capacity. Where do you see this capacity going up over the next maybe two years? So, 39 million pieces. We have current capacity for gokex where we can see this capacity going up by FY26?
- Sivaramakrishnan G:** We don't give projections for the years ahead, and it would be unfair for me to go out and change a certain number. Our endeavor would be to grow as fast as possible. And we generally tend to focus on a 15-odd-percent Y-o-Y growth every year. Of course, there will be periods when we will take advantage, take the opportunity to grow even faster and that is the trend that we will maintain over the next several years.
- Having said that, we -- for this year, you talked about Atraco and Matrix. I think we should see at least them trying to do their revenues that they did last year or more, and we will ensure that we will focus on delivering those. Atraco last year did about USD 90-odd million. And we are hoping that we should be able to do that and if not even better if the trends have to be seen.
- And similarly, Matrix, which did about INR450 crores, INR500-odd crores, our aim will be try to see those numbers are met or if not, we even better it. So efforts will be going on in that direction. Gokaldas itself as an erstwhile entity will continue to grow aggressively because we have a well-developed platform and a strong customer traction. So we should see strong growth in the base business as well.
- So overall, I would think that our growth trajectory is more or less in the region, which I mentioned. And we will continue to focus on avenues where we can extract more growth as and when impossible. The new capacity additions that we have had will always support us in this direction in terms of me able to deliver the revenues.



As far as capacity in a number of pieces are concerned, it depends on the product mix. Over the last year, we have had seen a little drop in outerwears business as a proportion of overall business. And there, the number of pieces are low, but the revenue per piece is high. And the reason is that, A, there was an inventory overhang, particularly in outerwear. And B, exceptionally mild winters in the West resulted in an exceptionally high outerwear inventory. So it took a little longer to clear the inventory overhang in that product category, resulting in lower demand.

So then we pivoted more to regular products where number of pieces went up. So if you look at this financial year, our number of pieces shipped went up pretty significantly. And this will keep shifting depending on the market conditions.

So for FY '24, we shipped about 29 million pieces and my hope is in FY '25, even if the product mix changes to a little more outerwear, I believe we should still be able to do this or even better in terms of number of pieces shifted, which gives you a sense on where we are heading as far as revenues concerned.

Kaustubh Pawaskar:

Right. Sir, my next question is on the demand environment and how -- if that is improving, can you see any improvement in the realization? I can understand about the mix. But overall, on the realization front, if demand improves from the current level, should -- can we expect some kind of improvement in the realization as well?

Sivaramakrishnan G:

So if the demand improves, realization will improve, and that is the logical way of looking at it. Last year, we were hit considerably from a demand perspective, global demand or imports by key regions fell by almost 20%. And when you have a 20% reduction in demand, you can see the mayhem that is created in the supply chain. It was almost as if COVID hit us again.

During COVID, the demand fell by over 25%. So we faced the 20% hit. So we weathered that storm fairly well despite global headwinds. So obviously, it had an impact on the margins because if all the supply chain was impacted and demand falls, clearly, brands or buyers get an opportunity to get some price savings by getting people to compete with one another.

As the situation improves going forward and the demand is coming back, the pricing power will come back. But my sense is the pricing power will take some more time before it reaches because the full demand situation has not been restored. Even in Q4, there was lower inputs compared to the Q4 of previous year. So it will change, it will slowly turn. But I suspect over the next 3 to 4 quarters, the full power of pricing will not return back. We could see that in FY '26 more than in FY '25.

Yes, having said all of this, from a margin perspective, while there is new pricing pressure, there will be cost pressure, like last year, we had wage costs go up almost by 9% in FY '24 over FY '23 because minimum wages went up, DA went up, et cetera. We tend to overcome that with better and better productivity through automation and higher efficiencies in performance itself. So the productivity per employee going up, more automation, helping in us delivering more garments per machine kind of effort. So that effort will continue to offset some of the margin



pressure that we see. This endeavor will continue. And we continue to look for opportunities to improve our operating performance.

Kaustubh Pawaskar: Sir, the integration will also maybe in the next 4 to 5 quarters once integration of both the acquisition happens, I think that should also help you to add to your efficiencies and margins maybe in FY '26.

Sivaramakrishnan G: 100%. 100%. In fact, integration efforts are fully on. And there's a lot of work that is going on. Keep in mind that Atraco was acquired only in January and Matrix was acquired in the late, in almost end of March, so the end of that quarter. So it's only a few months since we have acquired now and integration efforts are fully on.

We are seeing a lot of green shoots in that effort. So far, the integration is going very well as planned. And we are slightly ahead of the plan so far, but then these are very, very early days, so I wouldn't read too much into it. As I said earlier, 4 to 6 quarters, we should have most of the integration plus margin improvement efforts underway, and we should start seeing strong benefits flowing from there.

Moderator: The next question is from the line of Anush Kumar from Spark Asia Impact Managers Ltd

Anush Kumar: So my first question is on the employee cost. Can you give an outlook on that? And also in Kenya, the rebadging of employees is that done with that quarter alone or it will continue for the next quarter? And also on the increase in wage in Bangalore, Karnataka. So how long it will persist? And what is the outlook for FY '25 on employee cost, one.

Question number two, can you give -- this is a bookkeeping question on revenue. What is the revenue of Atraco for Q4, which is with respect to Atraco's first quarter for the calendar year and the margin.

Sivaramakrishnan G: Okay. As far as the employee cost question is concerned, the issue of employee rebadging, et cetera, is over as far as Atraco is concerned. So there is no more employee cost-related problem which will come in the quarters ahead. Having said that, the lost production in Q4 will have a continuing impact in Q1 as well as we're still behind schedule as far as the deliveries are concerned to customers.

Having lost production, we can't overcome overnight. So it takes time for the production to normalize. So because we're still catching up on delivery, the factories are chock-a-block with orders, and we have to clear the backlog. So there will be some airfreight related costs, et cetera, because of delayed delivery, which is a flow through from Q4 into Q1. So there will be some amount of financial impact, but normal and that should get cleared out in Q2. So that's as far as the rebadging and the acquisition-related issues as far as Atraco is concerned.

As far as the employee costs are concerned in India, this year, we have had a 5% growth in employee cost, 4.5% or 5% growth in employee costs because of DA increases which we had to absorb. The immediate impact will be, of course, rising costs overall. Employee costs are almost 25%. I mean, labor cost is almost 25% of revenue. If labor cost increases by 5%, it impacts



margins by 1.25%. We then start working towards offsetting it to buy further productivity gains. So that effort will be on and it should start percolating in the quarters ahead.

So we are working on it. But immediately from April, we saw a 5% growth in employee costs, particularly in Karnataka, but this was also seen in other states where we operate, namely Madhya Pradesh, Andhra Pradesh and Tamil Nadu as well. All these states prior to elections, some of the states have also gone ahead and increase in the minimum wages. So all of that we are absorbing as we speak.

But by and large, we still hope that we should be able to offset that through productivity improvements as the year progresses. In terms of very specific employee costs and trends, I would defer to Sathya. Sathya, do you want to add some more color there?

A. Sathyamurthy:

Yes. I would urge you to really look at the employee cost and the material cost together. The employees cost completely depends upon the product mix that we operate. Subject to the product mix, the ratio will vary between the material cost and the labor cost, depending upon the labor component of the product category. During the last year, when you compare FY '24 with FY '23 for Gokaldas on a standalone basis, the employee cost is slightly higher compared to the previous year.

The product mix change is also the factor for the increase in labour cost. Higher the casual wear, the labor component is more. But overall, when you compare, both material cost and labor cost together, it is in the range of 79% to 80%. So, for the last year, for the given product mix, the employee cost in Gokaldas standalone company was around 32% as against 28% in the previous year.

The product mix also contributed to the increase in employee cost apart from 9% wage increase, what Mr. Siva had talked about. Compared to that, in Atraco, the employee cost was in the range of 25% to 26% of the revenue. And in Matrix it is around 28%. Hope it is clear.

Anush Kumar:

It is for the quarter, sir?

A. Sathyamurthy:

It is a trend what I'm talking about as far as Gokaldas is concerned. For Atraco, it is for the quarter. For matrix, it is based on the last financial year figures, since we have only 19 days of operation reported in our financials.

Anush Kumar:

Have you budgeted this number, like what would be the proportion of revenue which would come from Atraco and Matrix once the full consolidation happens for FY '25?

A. Sathyamurthy:

Okay. First, you had asked about Atraco. For the last quarter, Atraco achieved a revenue of INR201 crores. At the operating EBITDA level, we did almost 5.7%. That is before the onetime cost adjustments what we referred. So at the operating level, they've got 5.7%.

Anush Kumar:

Yes. Sir, also on the -- for FY '25, like what would be the revenue mix, which would come from Atraco and Matrix, if you could bifurcate that and tell it would be helpful, like the budgeted numbers.



- A. Sathyamurthy:** We do not really see any change in the product mix of Atraco. 75% is coming from the bottom wear and 14% is from sportswear and about 11% only casual wear. We do not foresee much of the mix change for the current year.
- Similarly for Matrix, Matrix is with 80% casual wear and 14% outerwear. So given that mix, only in H2, if there is any change in the mix, there may be a slight change in the cost, but we tend to measure total material and labor cost components together, and we will be able to operate at the same level as we had done in the last year.
- Anush Kumar:** Sir, can you give an outlook on cotton. Now that 1/3 of our business will be on knit. What is the cotton outlook for FY '25 -- cotton price outlook for FY '25?
- Sivaramakrishnan G:** See, we don't -- we really are not very dependent on cotton prices. We buy fabric. Fabric is our raw material. And by the time, cotton prices get impact, cotton gets converted into fabric. Cottons component in fabric is low. And we tend to have fabric price as a pass-through when we tend to price our contract. So unlike any other company where we have -- which are vertically integrated, we don't have a huge dependence on cotton volatility.
- Of course, when cotton prices go up significantly, which happened about 2 years ago, where cotton prices almost at one point reached about INR1 lakh per candy, doubling from INR50,000. The impact on fabric pricing at that point was 10% to 15% only. So for us, it is not a major cost component in that sense. We tend to, as far as possible, pass it back to the customer. So we are not exposed to volatility of basic raw material pricing.
- Anush Kumar:** Sir, one last question. Can you throw some guidance on revenue for FY '25, considering the fact that there will be full consolidation of Matrix and Atraco.
- Sivaramakrishnan G:** As I said, we don't give revenue projections. You have fairly good amount of data from whatever information that we have provided. And as I continue to maintain, we will seek growth as well in our business. On an overall basis, we try to grow at a minimum of 15%. So basis that, it's easy to project. I don't want to give up a number at this moment because there's a lot of moving parts, and our endeavor will be to even better some of these numbers. So please bear with us.
- Moderator:** The next question is from the line of Gautam Trivedi from Nepean Capital LLP.
- Gautam Trivedi:** The question I have is with respect to this whole China plus 1. I was in the States just 2 weeks ago, and I went to Costco, for example. I saw products being made in garments I'm talking about. In various countries from Nicaragua to Mexico, China, of course, and Guatemala, and some even in Thailand. So I'm trying to figure out how successful is this China plus 1 strategy from India and how much are we benefiting from that?
- Sivaramakrishnan G:** Okay. Great question. Thank you Gautam. The China plus 1 is playing out more and more. I spent a lot of time with customers in the last 15, 20 days. And across the board, everyone is under pressure to shift their supply chains away from China. And when I say shift the supply chain away from China, even there is a pressure on Vietnam because Vietnam, which also produces a lot of garments and most of the Vietnamese garment players are China-based



companies, their supply chain in turn is linked to China. So their raw material which is fabric, trims, et cetera, come from China.

And many of the brands have a stated intent of reducing their dependence on China because of geopolitical pressures that are being exerted on U.S. companies. And regardless of which parties in power, the dynamics are such that the effort to peel away from China continues, which really augurs well for us. In fact, we are seeing fairly strong traction coming from brands seeking incremental growth over the next 3 to 5 years.

Remember, moving supply chain is not an easy task for any brand or anybody as it takes years for all of the capacities to come up. Even if we want to add capacity, it takes -- there is a certain timeline to add it, if they put a new factory, et cetera, et cetera, get the raw material capacity up and so on and so forth. So all those will take about 3 to 5 years to pan out. But the directional trust is so that most of them would like to buy more from India.

Now there is also a component of season. So if you grow in the winter, you will see a lot more products coming in from China, Vietnam and those areas because winter products are more synthetic dominated and India does not have an adequate synthetic fabric ecosystem. But if you go in spring and summer, you will find products in the market, which are a lot more India denominated because the fabrics are cotton and viscose and those kind of fabric.

So it depends on when you went shopping in some of those markets that you will see Indian products or non-Indian products. Having said all of that, overall, in every season, you will find that Made in India will increase going forward. Last year was exceptional as most brands had excess inventory overhang.

So they were also selling goods from previous year. This should change as we see -- as we move forward. We ourselves from all the brands, I am not talking of one single brand, all the brands are seeing an upward pressure in demand. So there's a lot of positivity going on. And many of this is not because they're selling more garments than they sold in the previous year, it's just that they want to buy more from India as compared to the previous year.

Gautam Trivedi: Understood. That's good news. Did I hear you right earlier in the -- on the call saying that the overall demand last year was down 20% year-on-year, is that right?

Sivaramakrishnan G: Yes. So overall demand from the United States was down 20% in FY '24. And that is a 12-month up to March '24. Overall imports, U.S. imports of garments was down 20%. If you look at EU, it was 19% down and U.K. was 28% down. So this is all because in the year before, they went on a binge, stacking up products. They also had -- we had supply chain problems, shipping-related constraints, et cetera. So a lot of inventory got stuck in the high seas, which all finally when it got cleared, landed up in the -- with the retailers in their DC, and they got stuck with excess inventory, which they were clearing last year.

Moderator: The next question is from the line of Shoumik Ganguli from Aditya Birla.

Shoumik Ganguli: Atraco and Matrix EBITDA projection, could you please give us?



Sivaramakrishnan G: I had indicated earlier that the long-term projection -- I mean, the medium term projection is about 10.5% and 11%. And long term, we would like them to come closer to GE's own EBITDA margins, which will take at least 2 years.

Shoumik Ganguli: Okay. Okay, sir. And are there any expansions happening in the future coming years?

Sivaramakrishnan G: Expansion in the company?

Shoumik Ganguli: Yes, expansion in Atraco or Matrix.

Sivaramakrishnan G: So if I have to split it across the three, in GE standalone itself, there will be expansion. So our current unit in Madhya Pradesh is ramping up. And I can see, based on the order flow, et cetera, we should ramp up through the year. And we may also look at adding additional units in some low-cost regions within India. So we will have factory expansions coming up in India.

In Atraco, it may come most likely towards the end of this year when we will probably start looking at further expansions of capacity in Atraco, but not right away, it is a 9 months away from now. Matrix will also take some time. If all of these more likely will happen towards the back end of FY '25 and early FY '26.

Sorry, before we continue, the other aim is also to make sure that the operational improvements, profitability, all of that is always high on our agenda to get all of that done and then push through more expansion so that even the expansion becomes much more profitable. So current focus is to get the margins up. If I have to prioritize one over the other, I will prioritize that.

Moderator: The next question is from the line of Palash Kawale from Nuvama Wealth.

Palash Kawale: Sir, my question is on working capital. So there is a significant increase in debtor from creditor as compared to last year. Even if I look at inventory, there's an increase. So how do you see debtor inventory and creditor base panning out for FY '25 and FY '26?

Sivaramakrishnan G: Sathya, do you want to talk about it?

A. Sathyamurthy: Yes. I will split it into the 3 entities. As far as Gex is concerned, we are back to normal working capital cycle of 70 days. The receivables is currently at 36 days, it again depends upon the despatch pattern what we follow with our customers. This time, most of them were skewed closer to the second fortnight of March and they were subsequently collected. But otherwise, the receivables is at 36 days. Our target is around 30 to 35 days and we are well within the target.

For the working capital cycle for Gokaldas, our inventory is at 61 days, receivables at 36 days and payables at 24 days. We are there with the 70 days target, while we tend to operate between 70 to 75 days, and we believe that is the same level we will continue in the current year also.

As far as Atraco is concerned, Atraco's working capital number of days is a little higher because they have to import all the raw materials and stock it well in advance in Kenya and Ethiopia and then execute the order. And their inventory holding is in the range of 100 days. As of 31st March, we were at 91 days. Our intention is to operate around that level. We would like to improve it further with respect to receivables management. In Atraco, the inventory holding is 90 days and



30 days of receivables and payables is around 30 days. So, we operate with around 90 days working capital cycle in Atraco.

Matrix, is again a similar model of our India operations, but at least there is a better efficiency in inventory management because they have back-to-back tie-up with the fabric processing house. So, they operate with a lower inventory. However, their receivables is on a higher side.

In Matrix, the inventory is about 50 days, receivable also 50 days and payables are around 25 days. They are operating at 75 days. Our focus is to really work on receivables. Inventory number of days may go up, but there also we target to operate between 70 to 75 days. That's the target for the current year.

Palash Kawale: Sir, my next question is on Atraco volume. So could you give the volume for Atraco for Q4?

A. Sathyamurthy: Atraco, they have done 7.9 million pieces. The realization is lower. That's the reason, for such a high volume, while Gokaldas achieved ~Rs 600 Cr with almost a similar volume, it's 3x of turnover because of the higher realization in Gokaldas standalone company.

Palash Kawale: Sir, if you could give a realization number for Gokaldas and Atraco as well for Q4, it would be great?

A. Sathyamurthy: Gokaldas is @ INR 677, with 29 million pcs for the full year, last year. As far as Atraco is concerned, we did 7.9 million pcs at INR 254. Matrix is very negligible because it's only for 19 days. We sold around 215,000 pcs and the realisation is about INR 540.

Moderator: The next question is from the line of Chirag Jain from Yogya Capital.

Chirag Jain: My question was more on the U.S. side. We have seen that the U.S. market is growing at low single digits in the current -- for the current past 2 to 3 years. So what is the key driver would be for us, except for China plus 1? Because China plus 1 has seen Bangladesh and Vietnam gaining more share on back of lower duties and higher subsidies. So what's the main differentiator that would be for us to grow in U.S. or with the clients? So that was my question was.

Sivaramakrishnan G: So there are a few parts to it, right? I mean, when U.S. itself had an inventory overhang, so did most of the major Western countries. So coming out of that, the base effect itself should propel incremental volumes going forward. People when they drop buying because they have excess inventory. If you look at the end user market or retail sales last year, it was up 3% last financial year.

So if retail sales continues in value terms that is, if retail sales continues to be reasonably good, people, once they clear their inventory, they will have to come back to buy more. So having many brands having cleared most of their inventory, we come back to buy. So that effect we have seen already. And as we go forward and when I'm talking of a 3- to 5-year kind of time frame, the move is to source more from India.

So many of the regions, if you look at Vietnam, the cost of Vietnam have actually gone through the roof, and there is a saturation that the region has reached. Vietnam also depends very highly



on China supply chain. So there is a move to move away from Vietnam because it's very expensive. And if you look at Bangladesh, there also the costs have gone up, starting late December, early January, the minimum wages in Bangladesh have gone up by 50% over the previous year.

Bangladesh had not changed it for several years and they came under political pressure to yield to the workers. Also Bangladesh is taking extremely high inflation given their balance of payment issues. And hence, you know they have to increase workers' wages. So Bangladesh's costs are also coming closer and closer to India. In fact, if you look at many players, they are actually actively looking at diversifying away as well.

So there are opportunities coming in India's way, and there are opportunities because a, India is at least in cotton and viscose is self-sufficient in fabric. So on fast fashion, we think to do very well. In summer, we do very well. Most of the brands are also now after having burned their finger with excess inventory are seeking, faster and faster response from their supply chain.

So they're placing orders closer to date rather than planned long term ahead. Given all of that, those having fabrics will be into a stronger position. And India again, scores well, particularly on cotton-based fabrics. And we are seeing that traction to. So my sense is that in the next 3 to 5 years, you will find a lot more growth in our region, and that is given.

People like Walmart have taken a strategic call to source a lot more from India, and they have made announcements to that effect. And this is -- this usually will get followed up by many others who will look up to some companies take the lead in making announcements. So we will see a lot more India traction if the fabric ecosystem keeps pace with the business requirements and we have fairly strong geopolitical situation favoring India, I think we will see the impact, positive impact in the next 2, 3, 4 years. And it will be seen every year going forward in terms of demand pool.

Chirag Jain: Okay. Fair enough. Second question was on the 15% guidance you gave. So I was trying to understand how much would be the volume growth? And how much would be the price growth? So could you give us some color on that?

Sivaramakrishnan G: See it's always difficult to -- it will still be largely volume growth. Price growth don't happen at such staggering pace. So in my opinion, pricing being where it is, I don't believe that at least for the next 1 year, we will see some -- Okay. My apologies. I'm dialing internationally, I'm not in India and calls generally get cut-off after one hour. So I think it's a setting in the international dial in. So my apologies for that. I'm back on track.

Chirag Jain: Yes. So sir, last question before I get back into the queue. What is the capacity utilization for the Gokaldas standalone entity?

Sivaramakrishnan G: Standalone entity, as we speak in the current state, we are at 100% in fact we are -- from a delivery standpoint, we have chock-a-block with orders. We are not able to take any more. So we are at 100%. We are trying to add more people and more capacity to cater to our requirements. That is as we speak.



- Moderator:** The next question is from the line of Vikas Jain from Equirus Securities.
- Vikas Jain:** Sir, continuing from the last question itself, the MP, would you like break that up into what is the utilization between your MP facility and if at all, Tamil Nadu facility also, what is the stage there?
- Sivaramakrishnan G:** So MP facility is a greenfield new facility. It will take time to ramp up. The capacity there is about 1,100 machines. We have ramped it up to about 500-odd machines. So it's about 50% of the manpower is already in. And starting this month, we will again -- we had put a halt on ramping up manpower until the productivity comes to our desired level. And then again, we start the manpower growth.
- So I think we are in that phase. My sense is that we will go to a full complement of capacity utilization by early Q2 or mid Q2. And then for the productivity to level -- to reach the full capacity level because currently, the productivity levels are low as most of the manpower are fairly new.
- And they need time before they reach suitable high productivity level. So that will -- we will see closer to end of this financial year. So that's how MP is tracking. It's as of now tracking well in terms of its growth and productivity improvement. In terms of quality, et cetera, they are delivering very well. So we feel that by the end of this year, we should have MP reach its full capacity utilization level.
- Vikas Jain:** Sure. And then with respect to the Tamil Nadu facility, what is the stage right now there?
- Sivaramakrishnan G:** So Tamil Nadu is a fabric unit. The trial productions are going on. The early signs of trial production is very encouraging. It's high quality from a fabric standpoint. We are continuing to run -- ramp up the production and doing some more trials. By this quarter, all the trials will be completed and commercial production should start early next quarter from the Tamil Nadu unit.
- We are also simultaneously aligning demand for those units, both internal and external. So that work is also going on. It is also -- we had slowed it down looking at the overall demand traction from the Western market, now that traction is coming back, we are going back aggressively and ramping it up.
- Vikas Jain:** Got it. Got it. And sir, just on similar lines, I mean, since we have Matrix also with us, so is there any thoughts where the Tamil Nadu fabric production will be utilized in the Matrix? And if that is the case, then how much that would be?
- Sivaramakrishnan G:** Certainly, that is the endeavor. And at least I think eventually, half or more of Tamil Nadu's production can just be consumed by Matrix itself. So there is a lot of work going on in that direction. Trials, when I say trial, we are also doing trials there, and we are confident that a significant quantum of their production can be consumed in-house between Gokaldas and Matrix, more so by Matrix.
- Vikas Jain:** Can you please illustrate that you've outlined of around INR100 crores. Can you like broadly give which areas this will be spent at for FY '25?



- Sivaramakrishnan G:** Are you talking about capex outlook?
- Vikas Jain:** Yes. For FY '25, the INR100 crores that you mentioned, this would be spent at?
- Sivaramakrishnan G:** Yes, Okay. Go ahead Sathya.
- A. Sathyamurthy:** For the Bhopal new unit, we allocated around INR 40 crores. For the normal capex, what Mr. Siva talked about, we will be investing in improving the efficiency parameters, that is the profitability improvement capex are the key focus area. We allocated almost INR50 crores during the year for this purpose. INR25 crores for the existing units, about INR10 crores in Matrix and INR15 crores for Atraco. So that's about INR50 crores.
- INR10 crores the residual amount will be invested in the fabric processing unit, So that adds up to INR100 crores.
- Moderator:** The next question is from the line of Jatin Chawla from RTL Investments.
- Jatin Chawla:** So on this Tamil Nadu fabric unit, this will largely show up as incremental margins for us given that eventually more than half of it will be consumed internally?
- Sivaramakrishnan G:** That is correct.
- Jatin Chawla:** Okay. Got it. And when I kind of tying in your comments on the U.S. market, given that retails were up 3% and still we had a 20% decline in sourcing. This year, if retails were to be up similar 2%, 3%, would you expect sourcing to be up 20% or the previous year, FY '23 had some higher base because of all the disruptions that we had in that year and since we should not expect that kind of improvement on overall U.S. sourcing.
- Sivaramakrishnan G:** No, we should not expect that kind of improvement in U.S. sourcing simply because brands have also started to learn to live with lower inventory than they normally carry. So their inventory to sales ratio, they are also tuning it down if they see a strong demand environment set in place. As you can see, most brands are nervous about high interest rates.
- And the good news is that many of them are now factoring in the fence aims to reduce interest rate by the end of this year and early next year. So they are anticipating certain rate cuts which will spur further demand. When those happen, they will also take encouragement from there. Keep in mind that clothing is consumed by all strata of society. And the lower strata of society, which are in high number, are very sensitive to interest rates.
- So as the interest rates come down, there will be a significant uptick in garment consumption. And once that happens, the demand will start coming in back, which will offset the 20% drop. Until then, I think that there will be a little muted buying. Definitely, the base effect will kick in, which means having bought 20% less, they have to buy more. So that growth will happen. But will the growth be 20%? The answer is no. It will be more like 10% or thereabouts as everybody is cautious till they see long-term traction in interest rates and, hence, demand outlook.



- Jatin Chawla:** And in that 10%, you would expect India to do better and within the Indian Gokaldas to do better.
- Sivaramakrishnan G:** That goes without saying. Absolutely.
- Moderator:** The next question is from the line of Siddharth Purohit from InvesQ Investment Advisors Private Limited.
- Siddharth Purohit:** Sir, just one clarification. The 15% growth like that we're expecting is even on the individually the acquired companies also can grow by 15%, that is an assumption or...
- Sivaramakrishnan G:** Yes. So as I said, in the first year, we may not just push growth there. Our endeavor would be to push growth there from FY '26 onwards. In the first year, the effort will be to reach to full capacity utilization, margin improvement and impeccable delivery. There is no point in simply ramping up and driving growth.
- Having said all of this, if we start seeing traction in terms of operational improvements, we may start driving it sooner. So we may start driving it in FY '25 itself. So all options are open, but I would rather count on that kind of growth in the next year over -- FY '26 over FY '25 in both entities. And the base entity or the current Gokaldas entity will continue to grow in the meanwhile.
- Siddharth Purohit:** Okay. Sir, one more clarification. Is there any customer overlap between the acquired companies and existing one that we are already supplying for?
- Sivaramakrishnan G:** There is only one customer overlap in all seriousness. And that customer, we are doing very well on both sides between Atraco and Gokaldas. As far as Atraco and Gokaldas and Matrix or Atraco and Matrix are concerned, there are no customer overlap. In fact, there is an endeavor to start looking at cross-selling. So we are trying to talk to our customers and seeing if some of the production can be shifted to those entities and vice a versa. So those discussions are also on. But as far as customer overlap is concerned, there is only one.
- Moderator:** As there are no further questions, I would now like to hand the conference over to the management for closing comments.
- Sivaramakrishnan G:** So thank you so much for listening to us. We believe that there is a lot of growth coming the garment industry way. And there is a considerable amount of capacity growth that we need to look at both within Gokaldas on an immediate basis. And in a short-term, near-term basis in Matrix as well as Atraco. The demand traction is strong. We are seeing considerable demand favoring us particularly in Gokaldas in the quarters ahead and hope that the India story will be strong going forward.
- The effort on margin improvement is high on our agenda and we are continuing to work on it. While Gokaldas standalone, we feel a lot more confident about pushing back on cost increase through productivity improvements, et cetera. On the other one, we have got a fairly strong grip on the levers to improve the margins further from where we are with the operating improvement efforts will happen over the next several quarters to improve their margins as well.



So overall, we feel confident that revenue growth story is very strongly intact and margin improvements will happen as we go forward. And if the demand environment improves, there could be a little easing of pricing pressure, which will also help us going forward. So that's how we see the macro environment as we speak. Thank you so much for understanding us, and we continue to work towards a better and better performance 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.