gokaldas exports ltd

GEL/SEC/2024-25/64

November 22, 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 Q2 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 Q2 FY'25 earnings conference call held on November 13, 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

Digitally signed by GOURISH GANAPATI HEGDE
Date: 2024.11.22 21:14:49 +05'30'

Gourish Hegde
Company Secretary & Compliance Officer

Encl: as above

"Gokaldas Exports Limited 2Q FY '25 Investor Conference Call"

November 13, 2024

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

Moderator: Ladies and gentlemen, good day and welcome to Gokaldas Exports Limited 2Q FY '25 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask question after the presentation concludes.

Should you need any assistance during the conference call, please signal an operator by pressing "*", then "0" on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Binay Sarda from E&Y Investor Relations. Thank you and over to you, sir.

Binay Sarda: Thank you, Zico. Good afternoon 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 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 afternoon, everyone. I am happy to have you at our Earnings Call for the second quarter of FY '25.

Retail sales have been resilient and maintained gains year to-date. In fact, if I look at the current year-to-date, retail sales in the US have been +3% over the same period last year. Brands have been able to sell their products at full price, reducing the need for discounts which has contributed to growth primarily in terms of price and a little bit on account of volumes. US apparel imports are now trending up over the previous year. After major period of excess inventory, which the brands were consciously trying to liquidate, inventory holdings have reached a low level and have started purchasing again.

During this quarter, our revenue performance has been robust thanks to a strong tailwind that we have started seeing from the brands. This will start accumulating more and more as we move in the quarters ahead.

Our consolidated revenue for the quarter grew by 85%, which is the reflection of some of the acquired entities contributing to revenue. If you look at growth without the acquired entities, our revenue growth was 28% year-on-year. And if I look at, specifically export revenue of Gokaldas Exports without the acquired entities, our growth was 33% against India's export growth of 13.5%. This is the tailwind that I was talking about. And I can see this only intensifying in the quarters ahead.

Our consolidated EBITDA grew by 48%, while EBITDA without acquired entities grew by 28%. EBITDA margin was impacted and there were several reasons for it. The underperformance of acquired entities happened in the second quarter primarily because these were seasonally weak quarters for the industry as a whole and both Atraco and Matrix had a lower revenue than their usual quarterly run rate. So, this impacted the margin. In addition in Atraco we also had the Kenyan Shillings, which was at an all time high. It moved from ksh 160 to ksh129 against US $, it's moving in that range. So, when Kenyan Shillings went up sharply, our cost in dollar terms went up, so that also impacted our margins there.

In India as well, we had some one-time air freighting because of spillover from Q1 when we had some production loss, for production outage on account of heavy absenteeism in Q1 due to elections. So, all of that is behind us. But these were some of the reasons why, our costs trended up more than planned and that is why our margins were slightly lower. However, Gokaldas export standalone has performed very strongly, and we believe that all the three entities Gokaldas Exports and the acquired entities will start performing even better in the quarters ahead. Integration of the newly acquired entities has progressed well and we are poised to gain from operating leverage in the future. Most of the headwinds in the acquired entities are behind us now.

Our strategic investment in BTL, the fabric processing unit that we invested in, strengthens our vertical integration into critical raw materials. And this will enable us to deliver high quality, cost-effective solutions faster to our customers. In the first-half of the year, we generated about Rs. 155 crores in cash from operations. Our new manufacturing unit in Madhya Pradesh has fully ramped up and is working for two major international customers. And we are planning to expand in Madhya Pradesh further. So, we are planning to commence work on the second unit, which will happen in this quarter and hopefully, the work will get completed in nine months. Monsoons are over and the physical construction work will start soon.

We are finding a strong tailwind for business in India and Africa now. And hence, we are looking at expanding capacity across our system. So, we are looking at additional capacities in our existing units and looking at leasing some capacities as well in the South of India to allow for quick expansion. Apart from Bhopal and South India, we may also look at incremental capacity in Ranchi, in Jharkhand. The company's order book remains strong, securing robust near-term prospects. The long-term outlook is also very favorable, supported by a continued shift in global sourcing away from China, Vietnam, even Bangladesh, where there is turmoil at the moment.

And there is also a trend towards supplier consolidation among efficient and well capitalized players. And the ongoing supply side instabilities across the South Asian region is also helping us.

We are expecting the momentum to pick up in the second-half of the year. Particularly with Q3 production for spring 2025, brands are pushing incremental business to suppliers like us. And are promising good set of quarters ahead. This is also a period of increased sourcing from India. So, we anticipate sequential growth to trend up from now. We believe that the strategic boost that we are taking will allow us to continue to grow the business going forward. We continue to closely monitor any potential macroeconomic situation and will take measures focusing on customer relations and service excellence. With the macroeconomic situation becoming more favorable for outsourcing from India., we only hope that the tailwinds will intensify. We are confident in the strong medium to long-term prospects for the company.

I will pause here. 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 from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please proceed.

Kaustubh Pawaskar: So, my first question is on EBITDA margin. So, at consol level, the EBITDA margins, including the acquisition is around 7%. If you look into like-for-like EBITDA margins, it is around 11%. So, as you said, in your initial commentary that, now things are looking good, acquisitions have been integrated, the airfreight cost is also reduced, and the second half will be good for the acquired entities. You are seeing good momentum in the garment exports as well. So, considering that, should we expect this gap between the consolidated and the like-for-like EBITDA margins to reduce? Or also would like to understand whether there is a further upside in the like-for-like EBITDA margins which are currently 11% to improve to around 12% what was historically high for us.

Sivaramakrishnan G.: So, I believe that the like-for-like will definitely go up. I think your commentary on like-for-like, can it go to 12%? I feel confident about it. When you say like-for-like it is the old Gokaldas organizations without the acquired entities. So, yes, that will happen. because that is the trajectory in which we are trending towards. Our production efficiencies are going up, we are seeing a robust order traction as well, not only for Q3, Q4, but also for the quarters ahead. And I believe that some of those one-time impacts and all are all behind us. So, we should be trending towards that number, definitely. As far as the consolidated EBITDA is concerned there also I feel that at a consol level we, should be seeing a 1.5% improvement in EBITDA margin. That is 150 that bps.

Kaustubh Pawaskar: Sir my second question is on the capacity utilization for our standalone entity in quarter two and what was the volume growth because the revenue growth on like-for-like basis was 28%. So, what was the volume growth in this quarter?

Sivaramakrishnan G.: Sathya, would you like to answer the volume growth?

Sathyamurthy: The total volume what we have done is. 14.95 million at a consolidated level. The realization is at Rs. 580.

Kaustubh Pawaskar: So, sir consolidated level, you mean including the acquired entity or this is only for that?

Sathyamurthy: Yes, including the acquired entities.

Kaustubh Pawaskar: Can you help me with the standalone entity volume figures as well?

Sathyamurthy: Standalone, we have done 8.1 million. And at the acquired entities, we have done around the 6.89 million.

Kaustubh Pawaskar: And sir, what would be the utilization level and what do you expect in the second-half?

Sivaramakrishnan G.: So, if I can answer directionally and neither Sathya can probably give the number of pieces, though we do not look at the business from that perspective given that we make a very wide variety of garments. If I look at the capacity utilization in the second-half, we are running full capacity utilization. In fact, our Bhopal unit has reached its full utilization of 1,100 machines as we speak and although it is also running at full capacity. We are actually capacity starved, and we have business for another 1.5 factories. Actually, so we are looking at expanding our capacities in the system. So, at the moment, we are running at full capacity, which is higher than of course what the levels we were in Q2. Given that the Bhopal unit was fully ramped up only in Q3. So, I would imagine that we would be at an incrementally another 5%-7% higher than the quarter that went by.

Kaustubh Pawaskar: So, my follow-up question would be you mentioned about capacity expansion in your initial commentary. So, what would be the CAPEX? Is it going to be anything above what you have mentioned in the presentation or most of it is covered in the presentation, whatever the number?

Sivaramakrishnan G.: Most of it is covered in the presentation. We had planned for it and it is just that we will just be implementing it now. I think out of Rs. 100 crore that we planned for this year, I think we have already incurred Rs. 55 odd crores. I think the rest of Rs. 45 crores which will go in will help in taking our capacities up. Most of these incremental capacities we are working on will yield fruit only in the next financial year. CAPEX will be spread between this year and next financial year for that. And one more point is similarly capacity utilization in Atraco and Matrix will also go up in Q3 as we have a fairly good order book for both of those entities. In fact, in Atraco we are looking at expanding the capacity by another. 900 machines, we have already gone ahead, and that work is going on in full swing.

Moderator: Thank you. The next question is from the line of Bhavya Gandhi with Dalal & Broacha Stock Broking. Please go ahead.

Bhavya Gandhi: Just wanted to understand, I mean a freight cost is a part of our expenditure because most of the other peers, they sell it on FOB basis. So, why is this different, if you can help me understand?

Sivaramakrishnan G.: So, we also sell it on FOB basis. Our CIF revenue is very, very small, it is almost negligible under 1%. So, it is all FOB. However, freight cost comes into play, when we look at inbound logistics. Since we do a lot of synthetic outerwear, etc. in India and we are one of the market leaders in that, especially in Q1 and Q2 when we do a lot of fall winter programs, we do have a significant component of our raw materials coming from the far East. So, we do have freight component loaded in inbound logistics, raw materials coming in. Secondly, for Atraco also there is a big component of freight, because all the raw materials for Africa comes from Asia, so either India or China or Vietnam and some of these countries.

Bhavya Gandhi: Let me just ask you in another way, what is the total raw material which we import, across all?

Sivaramakrishnan G.: So, if I look at the standalone entity, 25% of the raw material on a annual basis gets imported or Atraco 100% gets imported. So, Atraco's quarterly revenue is say between Rs. 200 crores to Rs. 250 crores. Raw material cost will be about 60% there, almost 100% of that gets imported. For GE Rs. 650 crores revenue. The raw material component will be about Rs. 300 crores, Rs. 350 crores of which 25% gets imported, if I take on a quarterly basis. But in second and first quarter, we usually have a higher proportion of imported. And in the third and fourth quarter a much lower proportion of imported components in its raw material.

Bhavya Gandhi: Another question with respect to the steady state, what would be the ROCE and ROE because there are couple of acquisitions, there are few other cost elements and also it is very difficult to find out the implied steady state ROCE and ROE. So, what would be the number that we are targeting?

Sivaramakrishnan G.: Sathya, you want to answer this?

Sathyamurthy: Yes, the current level is we are trending around 15% to 16%. In a steady state our endeavor is to reach over 20%, that is our plan over a period of time, over next two to three years. But because all the new investments will take time to reach steady state level . Our CAPEX approval is always with the assumption of average ROCE at the rate of 20%.

Sivaramakrishnan G.: So, I would not like to work at below 20% at any cost. So, at this moment if you look at the standalone entity, it is ROCE is high, it is almost approaching 25%. However, on a consol basis, the ROCE is operating at around 15%, because the acquired entities are yet to reach the level of performance that we want. And that will happen by the end of this year. So, we are working towards them and working towards improving the performance of these entities and we will start seeing some of those benefits. Keep in mind that these acquired entities have come into the fold only at the start of this financial year. So, there is a lot of work that is going on in integrating in also changing the customer profile there and all of that. And that will be work in progress for a year. We are also dealing with a fairly large volume and business growth, but we are very confident that the performance of those entities will also come up very strongly by the end of the year.

Bhavya Gandhi: So, you are expecting by the end of the year only we will be touching on a consol level 20% ROCE, that is what you are trying to say?

Sivaramakrishnan G.: No. So, that means all the inputs to correct that will happen. So, we will start seeing an improvement from the next financial year onwards. I refer to Sathya to see what will be the ROCE hopefully next year. But if you ask me the year after, we should be hitting closer to 20% or even exceeding 20% rather.

Sathyamurthy: FY27 by then, all the new investments, will start yielding the results, only then we will realise that.

Bhavya Gandhi: And just one more question, if I can squeeze in, any progress on the UK India FTA agreement? And do we see any significant benefit out there?

Sivaramakrishnan G.: So, there has not been much progress. There is an intent on both sides, but there has not been much progress on the UK India FTA. So, we do not know what will happen or what will be the eventual outcome. Having said that, if it happens, the outcome is going to be very positive. And it is positive, definitely more positive for me because we already are working with some UK based clients in anticipation and they will only increase their sourcing. But regardless of that, I am seeing that, with problems in Bangladesh, I am finding even UK based customers who currently enjoy a 12% delta in import duty between India and Bangladesh because Bangladesh goes duty free are looking at outsourcing more from India. So, we are seeing traction coming from there which will only accelerate if the FTA happens.

Bhavya Gandhi: And is it possible to give us the share between brands versus retailers? What will the contribution be on a full year basis?

Sivaramakrishnan G.: I think we only directly work with brands. I do not know what you mean by retailers. Retailers are retail brands we work with. We do not work with intermediaries or importers at all. We only work with direct brands.

Bhavya Gandhi: No, I meant do we work with any large size retailers?

Sivaramakrishnan G.: All the brands are retailers, so we work with GAP, we work with Carhartt, all these customers are retailers, JCPenney, all these are retailers for us. So, I do not know if these are retail brands. So, when I say brands or when I say retailers, we are using them interchangeably for our customers.

Moderator: Thank you. The next question is from the line of Sundar from Avendus Spark. Please go ahead.

Sundar: First, I just want to have a clarity in terms of what you had mentioned in terms of capacity and utilization, so not going through the volume numbers given the price mix impact. If I were to just look at it in terms of the potential that we have got today, that is we did roughly about Rs. 650 crores this particular quarter. And you said there is about, 6%, 7% percent upside to that particular number. One, have I got this number right? And two, does this include the entire Bhopal expansion or does it include only Phase-1?

Sivaramakrishnan G.: No, there is only Phase-1 of Bhopal expansion as of now. Phase-2 of Bhopal expansion, the work will commence from Q3 and hopefully, we will get done by Q1 of next year. So, effectively it will come into play only in the second-half of next year. Then we should start training people etc. So, at the moment, the expansion will start contributing in Q3 and likewise, whatever incremental expansions that we have done in the South, in our debottlenecking of existing factories, that will also start contributing to our revenue growth in Q3. So, this is one part. Secondly, Matrix and Atraco, which have a seasonally low quarters in Q2 will also start showing some incremental growth in Q3. So, that is how we are seeing growth in the 3rd Quarter.

Sundar: No, if I were to just talk in terms of numbers, we believe we can do Rs. 700 crores per quarter on the standalone numbers, sir, as per the current capacity that we have?

Sivaramakrishnan G.: Say that again, you talking of standalone?

Sundar: Standalone, sir.

Sivaramakrishnan G.: Standalone, currently we are at, I think this quarter we were at Rs. 650 crores or thereabouts. And I think in the quarter ahead, we should be closer to about Rs. 670 crores, Rs. 680 crores in that region. And at a consol basis we should probably cross Rs. 1000 crores.

Sundar: The Rs. 680 crores here presumes a full utilization?

Sivaramakrishnan G.: Say that again, please.

Sundar: The Rs. 680 crores presume full utilizations? At full utilization, we can do Rs. 680 crores per quarter, is my understanding right?

Sivaramakrishnan G.: No, I think it could be more. I will tell you why I am saying that, because what happens is revenue is based on not on production, but revenue is based on dispatches. And in December, especially during the last week, dispatches slowdown. That is because of Christmas and all those holiday season and all of that. So, it may not be fully characteristics of the revenue, revenue may not be fully reflecting the production capacity increase. So, this is factoring in all of this.

Sundar: I am just trying to come in from the view set on, one side, we see US inventory levels going down. US imports from India has also increased. There is a possibility with the new government coming in place in US that the tariff rates on China could go up. I am saying what are the production capability that we would have, because on the one side demand seems to be a lot more of tailwinds are coming through from that front. So, I just want to see, what is the maximum revenue that we can do with the current capacity and with the extended capacity that comes in terms of Madhya Pradesh Unit-2, that is from 2H of even FY '26. So, what is the maximum run rate that we can get to in terms of revenues discounting for volumes and price mix?

Sivaramakrishnan G.: If you ask me, if you talk about max revenue, our current footprint should yield approximately Rs. 700 crore. And if you look at Unit-2 of Madhya Pradesh that will on an annual basis yield another Rs. 175 crores of revenue. And then we are looking at more capacities going forward, those are all work in progress. If we are able to lease some factories, we will do that as well. And incrementally in Atraco and Matrix also, we are looking. For example, we are looking at another 500 workstations increase in Atraco, so that should hopefully bring in an incremental 10% capacity increase. So, that is about Rs. 70 crores-Rs. 85 crores plus we are looking at an incremental capacity in Matrix also, which should yield Rs. 100 crores. But some of those capacities will, matrix capacity and Bhopal Unit-2 capacity all will start playing up somewhere in the second-half of next year.

Sundar: So, should I presume that Matrix the current capacity allows us to do about Rs. 600 crores per year?

Sivaramakrishnan G.: About Rs. 500 crores, Rs. 550 crores per year.

Sundar: And Atraco?

Sivaramakrishnan G.: Atraco will be about Rs. 900 crores.

Sundar: Rs. 900 crores. With the increased capacity, increased by about another Rs. 100 crores given that.

Sivaramakrishnan G.: So, you said current capacity. So, that is why I said increased capacity will bring in another 10% or thereabout.

Sundar: Now just the other angle in terms of just the margins out there, this quarter has been weak for various other reasons. But what we should we look at it on a sustainable basis on these standalone numbers?

Sivaramakrishnan G.: On the standalone, right?

Sundar: Yes, sir.

Sivaramakrishnan G.: See, I will tell you what has happened is, we have not seen the pricing power come back yet. If you recall, last year all the customers had dropped their purchasing by a very significant amount, 20%, 25%. Even if you look at YTD, you will find that the imports for this year CYTD compared to the previous year, is actually lower, US imports and European imports. But it has started picking up from July onwards. So, the quarter from July, we have seen that imports for July, August, and September this period has trended above the same period last year. So, we have started seeing the curve turn from Q2 onwards, the import increase. So, I am seeing that when that starts picking up pretty significantly that is when some pricing power will return, and which will really happen in the next financial year. So, at the moment, when we are trying to ask for increased pricing for increased cost, that is not on the cards, especially for this financial year. Because there is enough, enough capacity going up again, and competing with us. But I am presuming and I am reasonably confident that we will be able to price in better going forward in the year ahead. So, that will also improve margins. I am presuming that it will help us take the standalone next year to close to 13%.

Sundar: And in terms of the other acquired entities sort of margins, I believe Atraco has been the big pull down this quarter?

Sivaramakrishnan G.: Yes.

Sundar: Were there any one-off say for any work strike or anything of that nature or this is all be one time effect that we are seeing in 2Q?

Sivaramakrishnan G.: No. So, Atraco, you remember there was a strike early on when we had acquired and there were some continued air freights, which happened until August of this year. So, from September onwards, that one-off has gone. The other one-off is the Kenyan Shillings going up against US dollar, which was not anticipated by us. That was the last currency we thought would go so strong vis à vis US dollars appreciating from 160 to 128 or 129. So, it is almost 20%, 25% appreciation of the currency which had happened. The effect of that should also, in my opinion, wear off. I am not saying the currency will weaken again, if that happens, that is good. But we have started pricing it in into our contracts going forward. So, that effect will start happening from partly in Q4 and from Q1 onwards. So, we are mitigating the pricing and factoring in a stronger currency. But the impact will come in later.

Sundar: So, when would be the target quarter be, when we say we go back to that 10% margins on the acquired entity, sir.

Sivaramakrishnan G.: Target quarter, I am very confident that target quarter will be Q1 of next year. We will make every attempts to see if we can do that in Q4.

Sundar: And just a continuation to that is that I presume you started booking orders, the orders have been booked by Gokaldas from 3rd Quarter on the acquired entities also?

Sivaramakrishnan G.: Gokaldas has been booking orders now for all these entities from 3rd Quarter onwards. Of course, the existing customers of theirs are contributing. But we are playing a role in pricing and all of that, so all that will start from 3rd Quarter onwards. All the orders that we booked in Q2, which will be executed in Q3 were all under our us.

Sundar: That should also be a margin driver.

Sivaramakrishnan G.: Partially, as I said, the impact of the ability to raise prices in an environment where there is still a supply exceeding demand is not very high. Now we will start seeing the situation because there is an incremental demand coming in from the US as they have completely worked out their inventory and everybody is coming in and buying more. As I said, the trend reversed from Q2 onwards. If you look at the import stat and that is what will help drive the pricing up. Until then, the demand supply mismatch would not help in pricing. However, India sourcing is growing. So, even if they are not buying so much more, they are buying much more from India relatively speaking. So, they are reallocating from other regions to India. So, that is helping us, even that will help us negotiate better. But all of that will happen, in my opinion, from the next year onwards. So, we are seeing a volume tailwind in H2, and I hope that it will be augmented by some bit of pricing power also from H1 next year.

Sundar: And any update on BRFL also, where are we currently?

Sivaramakrishnan G.: So, what whatever support that needs to be made, we are doing. In fact we have started placing orders on BRFLs for fabric sourcing as well and we are pushing a significant amount of our purchasing to that unit. Simultaneously, with the money that we have invested, they are also incurring CAPEX to improve its machinery and improve its productivity and all of that. We are also seeing BRFLs product quality improve. Rejections come down and also those are all positive signs, which gives us confidence that they will be able to service our requirements well. So, it is going in the right direction. It has been only a quarter since our investment, but all the operational metrics are trending up.

Sundar: An infusement into that entity until now has been just Rs. 50 crores?

Sivaramakrishnan G.: Until the end of Q2, it has been Rs. 60 crores. And I think in October we have infused another Rs. 20 crores. So, it is about Rs. 80 crores.

Sundar: And one more question, just the last one on the balance sheet itself, why specifically you said that the debts have not been repaid and we continue to hold cash?

Sathyamurthy: The debt is in Atraco books in Dubai. It was done from a tax-efficiency point of view. So, about US$30 million debt we are carrying in Dubai books. Otherwise in Indian entities the debt is nil

Sundar: So, any part to repatriate this back and have it paid out, given that cash is also there on books?

Sathyamurthy: We are exploring, but the only challenge is that repatriation at a later point of time, there could be a challenge. We are working on. Our intention is to reduce at least about 10 million in Atraco.

Moderator: Thank you. The next question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking. Please go ahead.

Bhavya Gandhi: Sir, can you just help me understand what would be your top five customer revenue contribution and is it possible to name them? After the merger of acquired entities, I believe that one new acquired entity does not have overlap of customers.

Sivaramakrishnan G.: With Matrix we do not have an overlap of customers. With Atraco we have an overlap of the customer which is JCPenney. Our top five customers are GAP, Carhartt, Columbia and JCPenney, which will be the fifth one I think it is Abercrombie & Fitch. So, these are some of the customers. The combined contribution of the top five customers to our total revenue will be approximately 65% to 70%, it will vary from quarter-to-quarter. But that is the range it affiliates.

Bhavya Gandhi: So, as a top customer, how much revenue contribution would it be somewhere in the range of?

Sivaramakrishnan G.: The top customer is close to 27%.

Bhavya Gandhi: 27%. And what would be as a percentage of their total procurement, because I believe GAP does not allow more than single digit procurement from one vendor?

Sivaramakrishnan G.: Peanuts. We will be peanuts. The GAP itself will be buying close to US$ 4 billion and our revenue will be single digit percentage, very low single digit percentage.

Bhavya Gandhi: So, basically I am trying to look for without adding new customer also there is significant runway to penetrate deeper in the existing customers?

Sivaramakrishnan G.: 100% yes. But what happens is we will have to decide, which kind of programs we want to go to. So, we tend to remain in the highly profitable women's fashion business, etc. We tend to stay away from men's, kids we use, because their the pricing will be sharper. Secondly, we also stay away from core program businesses except in places like Africa or in Madhya Pradesh or some of these low-cost regions. That is because again the margins will be sharper in some of those programs. So, say, if we start opening up our opportunity landscape, opportunity space in those programs, it is very-very large. You know core programs will be large. If I look at just the bottoms, so its pants or shorts or shirts, there is a huge opportunity there. We really do not do that, not because we cannot do it. In fact, we can do it very well, very efficiently, etc. But it is just lower margin and we have to effectively use the capacities that we have for the best of the products.

Bhavya Gandhi: So, between knit and woven, which would be a better margin provided to us?

Sivaramakrishnan G.: So, it depends. So, the knit that we do in India are high value adds out of Matrix and out of the Erstwhile GE we do sportswear knit, both of them are very high margin programs, relatively speaking, but also complex. Whereas in general, if you look at knit which are the regular T-shirts and jerseys and the leggings, etc. The woven margins will always be higher. For us, we are in high margin knits and high margin wovens.

Bhavya Gandhi: So, it is possible to share roughly what would be the margin differential between the two?

Sivaramakrishnan G.: Again, depends on which knits. If you look at ours, we do not see much of a delta between knits and woven for the business that we are in. Again, if you look at the commodity knits, if you are vertical player, you will have good margin, because you will enjoy the benefit of verticality. But if you are a pure garment player in commodity knits, you will have to offset it with high productivity. So, there are lots of variability there. I think the net margin delta will be between knits and wovens, commodity knits and wovens will be about 1% or so, 1%-1.5%. If you look at the business that we have more or less at par.

Bhavya Gandhi: And would you like to give any guidance for the next 3-4 years on the revenue and EBITDA front, because all these acquired entities and everything is there, so if you can just give a small guidance on console level.

Sivaramakrishnan G.: So, you know our current quarterly run rate. On a consol basis, our endeavor will be to grow at a minimum of 15% and if we are able to grow even faster, there is nothing stopping us because there is a lot of business tailwind, and I am seeing this business tailwind at least for India. It all depends on what policies the new government in the US comes up with. But I feel that whatever they come up with is only going to be helpful, incrementally helpful. If they go more against China, that is going to add to our business prospects, things in Bangladesh will take time to settle, anyway Bangladesh capacity at the moment fully being utilized. But incremental capacity could come to India. Most of the brands are looking at more India sourcing and they are all capacity starved. So, there is a good amount of tailwind. So, our endeavor will be to add capacity at an even faster rate in a country so that we can capitalize on it. So, 15% is the min growth rate, I believe.

Bhavya Gandhi: 15% revenue growth, not volume growth, you are saying, right?

Sivaramakrishnan G.: Yes.

Bhavya Gandhi: Around 2% 3% realization growth will be there?

Sivaramakrishnan G.: Could be there, that is the endeavor. I mean, that is one crystal ball, I refuse to get down to going forward, because there is a lot of factors which come into play there. If US tariffs go up then would there be a pressure on pricing? I do not know. There is a lot of ifs and buts going on there, so we do not know. Because any such moves will be inflationary, and I do not know if the customer will have the ability to bear all those costs. But that is going to have universal impact. So, that is something which I do not have a sense on, but our endeavor will be to definitely realization go up by a 1% or 2% definitely, our endeavor will be that and we will push towards that. Volume growth will definitely happen.

Bhavya Gandhi: And on the EBITDA margin, if you would like to guide anything, a steady state EBITDA margin considering the consolidation and all that?

Sivaramakrishnan G.: As I said, the steady state, our immediate endeavor is to take the console EBITDA to over 10% pretty quickly, very, very quickly and that should happen this year itself, very soon hopefully in the quarter ahead itself. And after that, we are looking at the steady state EBITDA of at least 12% for the consolidated entity.

Bhavya Gandhi: And beyond 12%, I believe we will have to change the product mix only, because even with operating leverage and because you will be adding capacities also, so there would be significant operating leverage or is the understanding wrong?

Sivaramakrishnan G.: Whenever new capacities come there will be a deleterious impact on the EBITDA margin for the component of new capacity. It takes two years before that starts kicking in incremental. Having said that, some of our newer capacities are in regions which are low-cost and which will contribute positively going forward, like our Bhopal unit, etc. So, there are going to be some positives as well, and depending on the product mix, depending on the automation, because we are also assuring in a lot of automation etc. in our production unit, which will also yield incremental productivity. Our aim will be to take the EBITDA margin up through those means.

Bhavya Gandhi: And just one last thing on the, we have an FTA, India has an FTA with Japan. I mean, I do not see lot of Indian companies capitalizing on this. What is your take on this and are you looking any opportunities in that front?

Sivaramakrishnan G.: So, we are and we are not. In the sense that we do have an opportunity in Japan, but we are capacity starved at the moment. So, we are not actively pursuing to add a new customer from that perspective. And it also takes a couple of years before we can orient our production to the Japanese market requirements because that market and its standards are very different from rest of the world. So, we have enough business opportunities in other regions that we have to take a strategic call. But having said that, Japan today imports a lot from the Far East. They are also looking at incremental sourcing from India. That opportunity does exist. We will have to take a call going forward.

Moderator: Thank you. Our next question is from the line of Varun Gajaria from Omkara Capital. Please go. Ahead.

Varun Gajaria: Just wanted a little bit clarity, how is Bangladesh exports and has there been any capacity closures in Bangladesh, the existing capacity closure has there been such?

Sivaramakrishnan G.: So, the reality is that Bangladesh needs garment industry badly. So, no matter who is in power, the garment industry in Bangladesh will function and it is vital for the economic survival. So, this industry is protected. So, there is no capacity outage in Bangladesh. Having said that, there is a lot of customer lack of confidence in Bangladesh. So, most of the customers think that there is going to be incremental volatility, the relationship of Bangladesh with India is not great. And Bangladesh depends on India for a lot of things, including day-to-day consumption items. So, food, cooking oil, everything goes from India, cement and all of that. So, any friction in our relationship increases that cost and increases their inflation, which adds to instability in that region.

Secondly, an election is due in Bangladesh because currently you have an interim government and when that election happens, there is going to be another round of instability during that process. So, there is a lot of these uncertainties which people are looking at and saying that look, we do not want to do incremental growth in Bangladesh anymore. We want to in fact look at diversification out of Bangladesh to India. So, much so that even European players are talking about it. So, that is the fascinating part, where they are willing to forgo that duty arbitrage that they get from Bangladesh and look at alternate locations. So, I feel that there will come a time, the time has come where people are really looking at alternatives to Bangladesh. But Bangladeshi's existing volumes will not come down. The country as well as the world will need Bangladesh.

Varun Gajaria: And are we witnessing any other countries or companies from any other countries probably taking up tie-ups with vendors in Bangladesh? Has that been the trend so far? Let us say Chinese players or Taiwanese players or even Indonesian?

Sivaramakrishnan G.: No, no, so you are saying that brand retailers in China, Taiwan etc. are sourcing from Bangladesh, is that what you are asking?

Varun Gajaria: No, manufacturers. Probably international.

Sivaramakrishnan G.: So, say at the end of the day, this is driven by the customers, where do they want to source from? So, customers incrementally are looking at other regions. Incrementally, they will not look at the additional sourcing from Bangladesh. Customers are looking, if they look at China, many of the customers are seriously considering for a more rapid descaling from China. Customers are looking at Vietnam and seeing that the costs have risen up so high in Vietnam and Indonesia that they are alternate options. So, all of them are pointing towards India, pointing towards other regions in South Asia, some people are even looking at Pakistan again, because their currency is cheaper. There is a fabric ecosystem there and all of that. Some people are looking at Africa again and we have seen some renewed traction for that region also. So, the world is exploring other options. I think India stands a good chance to profit from it.

Varun Gajaria: Right. But Pakistan will be more in the home textile space, right? I do not think it has much game in the garment space.

Sivaramakrishnan G.: It is increasing.

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

Bijal Shah: My question is with regard to your standalone margins. So, now, if I look at your standalone margins, it is around 9.5% for last two quarters. And I am looking at the margin without including other income. So, can you give us some idea where this margin, what kind of margin we should build in for FY ‘26 and FY ’27? And I am specifically asking question for the margin without the other income, because your other income because of your treasury and investment in BRFL will actually push your other income significantly higher. So, can you tell us that operating level, what kind of margin you are expecting?

Sivaramakrishnan G.: Operating level for standalone entity, I am expecting one percentage up in the next financial year that is FY ‘26 and one more percentage up in FY ‘27.

Bijal Shah: Around 10% kind of margin we should expect next year at operating level.

Sivaramakrishnan G.: Yes. So, +1% for whatever, so whichever way you calculate. I am talking only from an operating perspective. A safer assumption would be take 1% and 0.75% in the year after, because the cost will also go up.

Bijal Shah: Second question is on the tax rate has been pretty low for domestic business. Is there anything which we should extrapolate into future or this is something, which will trade away and you will go back to 25% kind of tax rate?

Sivaramakrishnan G.: I think there is some as we grow and as we add more people, there is some **80JJA** benefit or something. Right, Sathya, which it also gives.

Sathyamurthy: That is why the blended rate you see is almost around 22% for both Gokaldas Exports as well as for Matrix. But for the new entities when the Bhopal units are profitable, the will get taxed at a lower tax rate of 17% to 18%.

Bijal Shah: So, overall, the tax rate will be lower than 25%.

Sathyamurthy: Atraco is tax free, For other companies at consolidated level without Atraco you can assume it around 22%.

Bijal Shah: 22%, yes, that is very helpful. Now secondly, I mean, see I understand that the market is in turmoil right now and I am not questioning that there will be an improvement. But I am just trying to understand that, how the pricing power when we will get pricing power because on one side what we hear and what you are also mentioning is that, customers do not want to procure from the existing location, be it Vietnam be China or Bangladesh. And I would assume that a good part of that, I mean there are hardly any other large country which can replace other than India. And they are coming to India, you are seeing 26% kind of growth in your revenue this quarter. So, despite that Indians, I mean I would logically think that Indians should have lot of pricing power in this context and which you are saying not there. So, what is the reason for that?

Sivaramakrishnan G.: The only reason is this is a global business. So, if let us say, we extract or we demand a higher price immediately the business can go to Indonesia, business can go to wherever location, because commercial considerations will trump everything else. So, today our aim is, if there is a business coming our way, let us take it rather than just go for a kill on pricing because there are certain things which you cannot obtain. So, today, incrementally if you look at globally, till June, July, the buying was only falling YoY. After that, slowly the curve has turned, they have started increasing. So, at this point, the demand supply mismatch still exists at a global level. For India, it may not, for India it is still favorable, demand is slightly exceeding supply. And for people like us, we are seeing a much better traction. So, we are not in a state where we can suddenly demand pricing, in which case the option or opportunity to diversify away from us continues to exist with the brands. So, our aim at the moment is to take the orders and keep it here and then wait for an opportune moment.

Bijal Shah: Last question. See, I mean this first year of consolidation and we are also getting to know what is Atraco and Matrix. So, on a QoQ basis, we have seen around 20% drop in revenues of subsidiaries put together. Now is this seasonal trend normal or is there something which is due to transition and going forward this kind of drop from Q1 to Q2 will not happen?

Sivaramakrishnan G.: No. So, usually Q2 is a weak quarter for the industry. For Gokaldas, we also used to have this about five years back. We have worked to remove the QoQ impact on us, because we work with the right product mix etc. So, we have a strong fall, winter program, which helps us in Q1 and Q2. So, we have a more balanced capacity utilization in Gokaldas. This is not the case for the acquired entities, which will be a work in progress going forward for us. So, historically Q2 has been weak quarters for both the entities. Q3 they will both come back up in revenue terms and we will have to work on fixing their Q2 for the year ahead, that is next financial year.

Bijal Shah: So, if I understood correctly, what has happened this year is not something that is normal, but in the future, will you fix the Q2 of acquired entity the way you fixed it for Gokaldas in probably couple of years?

Sivaramakrishnan G.: That is correct.

Moderator: Thank you. The next question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking. Please go ahead.

Bhavya Gandhi: On the data front, I just wanted to understand that, do we have any debtor financing, ECGC cover or any sort of guarantee in terms of payments from them for export guarantees or any sort of guarantee?

Sivaramakrishnan G.: So, for Indian operations, we do have an ECGC cover as a guarantee which guarantees are receivables from our customers. I think ECGC covers to the extent of 90% of the receivables.

Bhavya Gandhi: And for the other operations?

Sathyamurthy: For the international operations, for the specific customers, we have, to a limited extent, back-to-back cover with the early payment programs. offered by the customers with the supply chain finance program. With that, I would say at least about 50% of the receivables are covered.

Bhavya Gandhi: So, on our consol basis is roughly 60% to 70% is covered, right?

Sathyamurthy: Much more than that, you can take it around 80%.

Sivaramakrishnan G.: Atraco's revenue is 25% of the total revenue and half of it is covered. So, that is 12.5% not covered and for the balance 75%, 10% is not covered, 90% is covered. So, 10% of 75% is 7.5%, so 7.5% plus 12.5% that is 20% not covered.

Bhavya Gandhi: 80% covered. And do we resort to debtor financing, or do we not take any early payment?

Sathyamurthy: We take early payment. In India, we avail early payment. We rather prefer that, because we get early payment at better rates than Indian interest rate. Because typically, when we enter into early payment program we get financed basis the customers' interest rates.

Bhavya Gandhi: And are you sharing the number of total customers added in last three, four years new customers?

Sivaramakrishnan G: I think four or five.

Bhavya Gandhi: Four or five. And what would be their penetration in overall numbers right now?

Sivaramakrishnan G: Anywhere between about 17%, 18% maybe.

Bhavya Gandhi: 17%, 18% and this where do we intend to take it going forward?

Sivaramakrishnan G.: This will keep growing. So, we keep acquiring customers and we look at the right kind of customers so that we can also have the right amount of product diversification, customer diversification and all of that. So, this will keep growing as we take the business forward. What we are seeing is that our existing customers also want to grow with us because we have hardly scratched the surface with them, so there is a tremendous opportunity there. My intention is not to add a whole lot of customers. We have enough and more good customers that we work with. All the customers that we work with, our top tier, almost like the top 20 customers of the retailers of the world. Our aim is to grow more with them. Also, what happens is if you start growing more with them, we become more strategic with them and that helps in pricing. If you have a customer who is only say Rs. 50 crores to Rs. 100 crores in revenue, frankly, our penetration in them is so low that we will only be used to reduce somebody else's prices. So, we do not want to be in that situation, we would rather be more strategic and have a meaningful engagement with the customers.

Bhavya Gandhi: And largely, I mean the industry is very cyclical. It goes through two, three years of demand supply mismatch. Then suddenly the demand drops, and all those things happen, right? Either one loses customer or something of that sort. So, I mean, what is the risk element in our business and how do we try to mitigate it? I mean, what is your biggest fear when it comes to grow, right now you are growing, but in challenging times what is the biggest fear that you would like to address.

Sivaramakrishnan G.: So, we have to understand why is the cyclicality? So, the cyclicality happens for many reasons. One is of course the retail industry itself can be cyclical because of economic changes etc., etc. We will also find that certain retailers, especially in a fashion business, certain retailers have a season they will tend to do very well. For example, Abercrombie & Fitch is flying high, they are doing exceedingly well. And certain retailers may be losing market share because their collections are not being appreciated by customers, etc. So, that also drives volatility into the supplier base. So, this is the root cause and the others is of course a huge amount of volatility induced by post COVID changes. So, during COVID it fell, then post COVID there was the stimulus money which pumped up the demand. Then immediately excess inventory brought down the demand from the retailers. So, there are a lot of pipeline related issues also which brings in cyclicality.

The good part is to avoid cyclicality or to mitigate the cyclicality as a supplier, what we do is we work with good quality customers. We work with customers where we believe that their financials for the next few years are not going to be weak. So, we track them very closely and we only work with good customers and if we do have a customer whose financials are not very strong, we then tend to slow down their business or pivot away from them and we have done that in many, many cases. Then, in fact, even last quarter we pivoted away from one customer because their financials were not good and we actually exited their business. So, we are very clear on some of these areas like again, the other thing that we look at to reduce this the cyclicality is being in the right location. So, our increased footprint in low cost regions etc. helps us make sure that we will get business regardless of what happens to the rest of the world. And lastly, our ability to handle product diversity. So, if we are in one product then you are completely dependent on how that product does. If you are knit, for example, and if you are doing commodity knit or something like, or if you are just in commodity bottoms, then all the inventory related ups and downs come and impact you. But if you have versatility in products, then one product type underperforming can be offset by going after some other product type. So, we have also built in enormous versatility in our business that we have insulated ourselves from some of these possible cyclicality is in the business. I hope I have answered your question.

Bhavya Gandhi: One more thing, if I can squeeze in is do we intend to be vertically integrated, I mean we have already reached to the fabric level. But do we intend to go further back? Because does that aid margin, and does it help in the longer run?

Sivaramakrishnan G.: This is my view currently and these views can change over a longer period of time but would not change in the shorter period of time. I believe that we have to be in those parts of the value chain where there is a lot of value addition. So, fabric processing again is made to order and there is a tremendous amount of value addition there and we have to be in that space. But when it comes to say going to weaving, weaving is highly fragmented. And unless we have a very, very specific kind of weaving capacity that we want, we are not that keen, weaving or knitting. But if it goes to spinning, which is again a high CAPEX area and for the backward integration, I believe it is a commodity and there are enough players who can put in that capacity to provide commodity on. We are not that keen to go in those areas. So, we will stay for now in up to fabric processing. For now, there is no interest in going further backward.

Bhavya Gandhi: Just last one thing because before also you had mentioned, what would be the pecking order in the entire value chain in terms of EBITDA and ROCE?

Sivaramakrishnan G.: So, ROCE will be highest in the garment manufacturing, and it will start going lower and lower as we go backwards. Because the capital employed and garment manufacturing is the least, it is the highest ROCE business in garment manufacturing. If you look at EBITDA margin, however, you may find that it may be higher in fabric processing or it may be higher in upstream. But that is only misleading because we do not only look at EBITDA margin, we look at ROCE as well.

Bhavya Gandhi: ROCE is I think the matrix to look for.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

Sivaramakrishnan G.: Thank you so much. I think as I continue to maintain the business traction for India and even in a medium-term for Africa looks very strong. So, we are working to capitalize on it. We are working on capacity enhancements. We are also working at improving our productivity, which means increasing our operational efficiency, so that we can offset some of the cost increases. We are also working with customers to increase the share of business that we do with them. And we have seen good amount of progress that we have made from H2, which have been maintaining since long now, that H2 is looking promising. And we are seeing that the business prospects turn from Q3 onwards. I feel that next year will be very strong given that how things are unfolding and business prospects ought to be good.

I do not see too many macroeconomic challenges, which will further worsen, except for one which is the US market. We do not know how the new regime will impact US from an inflation perspective etc. But at the surface, it looks very positive given that the Trump administration or the president-elect is more indicating that he will go increase tariffs on China and all those regions. So, all the guidance coming from there is positive, but we still have to look at how that economy will fare over a longer period of time. But in the short to medium-term, it is going to be very, very strong and helpful for growth of sourcing from India. And regardless of any macroeconomics, at the end of the day it impacts all regions simultaneously. But in India, position will always be much better going forward, as we seem to be doing much better than all the other stronger garment manufacturing county. We also have a fairly good vertical ecosystem in our country, which we can leverage. So, all said, it is going to be a good set of years ahead for Gokaldas and the Indian industry.

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