"Gokaldas Exports Limited
Q3 FY2021 Earnings Conference Call"

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Moderator: Good morning ladies and gentlemen, welcome to the Gokaldas Exports Q3 FY2021 Earning 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Christensen IR. Thank you and over to you Sir!

Binay Sarda: Thank you Lizzan. 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 results performance or achievement to differ significantly from what we expressed and implied that is forward-looking statement. Please note that we have mailed the presentation and the same are available on the company's website as well as the results too. In case if you have received the same you can write 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. Sivaramkrishnan Ganapathy, Managing Director & Chief Executive Officer and Mr. Sathyamurthy, Chief Financial Officer. We will start the call with the brief overview of the quarter gone pass and then conduct Q&A session. With said that, I will now hand over the call to Mr. Siva. Over to you Sir!

Siva Ganapathy: Thank you. Good morning everyone. We at Gokaldas Exports are focused on being a leading manufacturer sought after by top global apparel brand for its product capability, quality, and consistency with the strong commitment to sustainability initiative while delivering year-on-year growth profitably. We have been working relentlessly to achieve this goal and we are making good progress quarter-after-quarter. Our progress and resolve were severely tested by COVID-19 in FY2021 when lock down post store closures in most market and factory shutdowns in producing country resulting in a volatile order flow and disrupted supply chain claiming a toll on the financial health of most companies across industry.

For a global lifestyle and fashion apparel manufacturer, Q3 FY2021 was one of the most testing quarters from a market standpoint. Almost all apparel brands are saddled with excess inventory from spring 2020 on account of store closures due to lock downs in major markets during March 2020 to June 2020. Consequently demand for spring 2020-2021 garments produced in Q3 FY2021 was muted. Despite this with all the efforts that we took to diversify our customer base and engage with our customers, we contained our export sales drop to just 11% over Q3 of previous year. The company also consciously reduced its exposure to Indian retail customers to minimize credit risk. Domestic business or domestic retail business as you are aware has fallen quite sharply and is only now somewhat picking up.

Domestic business revenue for Q3 FY2021 was brought down by us consciously by about 35% as a consequence of our internal decision. We of course chose to forgo the revenue and the corresponding EBITDA to minimize the risk. The incremental revenue could have yielded a strong incremental EBITDA as not all fixed cost would come into play to deliver that. Having said that, we chose lower risk option. I am happy to report that your company reported a total income of Rs.271 Crores in Q3 FY2021 as against Rs.328.5 Crores in the previous year adjusted for MEIS loss coming in at 82% in total of the last year's pre-COVID level. Our EBITDA was Rs.26.8 Crores, the margin of 9.9%.

If we compare our margin with last Q3 after adjusting it for adhoc we are ahead of the margin despite a drop in revenue and slight under utilization of capacity. This shows the capability of the company to balance its business and manage its volume volatility very efficiently and yet, deliver EBITDA margin. We contained our net debt to Rs.150 Crores as well. We have ensured very high efficiency in our manufacturing process, controlled our cost well, contained the working capital deployed and improved connect with our customers. All of these enabled us to deliver a strong EBITDA margin of 9.9% despite a drop in revenue. With this we believe that we have put COVID behind us by and large.

We have strong order book for the quarters ahead. We hope to be back to pre-COVID levels of business volume from Q4 onwards with vaccination gaining momentum in all country, we are anticipating a recovery of the market soon after and the most recent second wave of COVID-19 run through in most major market. We are well prepared to tackle the future. We are strong, we are resilient, and we believe that we will be able to come up very strongly with our robust order books going forward. Thank you. I will pause here and we will take up questions from the investors.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sudhir Beda from Right Time Consultancy Services. Please go ahead.

Sudhir Beda: Good morning Sir and hope you all doing well. Sir, we are very satisfied with the performance in view of current situation under the able management of Mr. Siva, Mr. Sathyamurthy. Sir, my questions are as you have said in your presentation that customers are had excessive inventory because of lock down, so now whether orders are falling in the

Q4 and how next year is looking like in terms of growth because we have seen the demand from the customer in terms of home furnishing that are increasing, but garments demand were not increasing, so whether you are banking on the business that will seek from countries like China to India or there will be a real jump in the demand that is number one and number two is, how going forward we can still improve the margin because margin almost to the double digit sounds very good for the Q3, so how it will pan out in the coming time?

Siva Ganapathy: I will answer your questions in the order that you asked, so first I will go for the demand question. The demand for lifestyle garments that we are producing is now robust especially as countries are coming out of COVID related pandemic even though European market is slightly impacted by COVID, the online sales to end customers is growing in a robust manner and are offsetting some of the retail store closure related slowdowns and US market is going very strong in terms of demand, so going forward our order book seems to be in a strong position, we are anticipating that as we continue to deliver consistently to our customers at very high quality we will be able to garner additional business from our customer, so I am happy to report that order books going forward it is strong and we do not anticipate any capacity related constrains or any demand related constraints at this moment for the year ahead as well as quarter four. As far as you question on EBITDA is concerned, I can report that we are doing everything in our ability to continuously improve our manufacturing efficiency, our internal processes so that we are able to produce more and more at lower cost, higher capacity utilization in our factories also will yield an incrementally higher EBITDA for the period ahead, so we are hopeful that if the other things being equal we should be able to perform better in terms of EBITDA margin in the year ahead.

Sudhir Beda: Sir, can we expect the reasonable 20% kind of growth from the 2019 level because in 2020 level there is no point, 2021 level there is no point in talking because two quarters have gone, so from 2019-2020 level can we expect 20% kind of growth in terms of turnover going forward in FY2022?

Siva Ganapathy: You know, I do not want to promise a particular number, but I can say it will be a strong growth over FY2020 level.

Sudhir Beda: That sounds good and thank you for giving me the opportunity.

Moderator: Thank you. The next question is from the line of Zaki Nasar from Nasar Industries. Please go ahead.

Zaki Nasar: Congrats on very reasonable performance in a very depressing kind of international scenario. Mr. Siva, looking at the third quarter gone by and looking forward to the fourth quarter in terms of uptake in the international market, what feel do you get out it, number two is how has the rise in cotton prices affected us if at all in anyways and what you feel of the cotton price is going forward because I believe there has been a sharp jump in the last quarter, thank you, Sir?

Siva Ganapathy: So, I did speak about the demand and as I said for a player of repute like us we can source demand and when we see that now by and large, the COVID effects are wearing out in most market and hopefully should be completely out or nearly completely out in other 3 to 4 months, we feel very confident looking at our order pipeline and the order book that demand will be robust going forward. As far as the raw material cost are concerned you are right, the cotton yarn prices are going up and that puts a pressure on the raw material cost; however, for us it is largely pass through and when we work our contracts with our customers we tend to factor some of these in, so far we have managed to offset the cost increases to a large extent, we hope to keep it that way, if any pressure comes then we will have to appropriately deal with it with our suppliers as well as with our customers as the case maybe.

Zaki Nasar: Thank you, Sir and as you have indicated in your previous answer that you are expecting a decent growth over March 2020, the orders, which you are booking right now would indicate that or the general improvement in scenario because US and UK are still not too good?

Siva Ganapathy: Correct, I am drawing my inference from the general market scenario as well as the order enquires that are coming to us.

Zaki Nasar: Thanks a lot.

Moderator: Thank you. The next question is from the line of Jay Daniel from Entropy Capital Advisors. Please go ahead.

Jay Daniel: Sir, just as the previous participant had eluded to this cotton value chain getting expensive and freight have seen sharper increases, the company operates on fixed rate contracts with very thin margin, so how does it manage this volatile raw material base?

Siva Ganapathy: When we book an order we tend to factor in all the raw material cost, etc., and then price our products, so when the raw material prices do go up then we tend to either negotiate hard with our supplier before we give a final price offering to our customers or mark up the price of the product to accommodate the higher price of raw material, so it is a combination of both of these, which is at place, clearly we would like to protect our margins, we are very conscious of making sure that our profitability is protected at all cost and we negotiate with all parties concerned to ensure that we are able to deliver the margins targets that we have. As far as freight costs are concerned, incoming freight while it gets billed to us, our responsibility ends by delivering the product to our customers at ports in India, so the outgoing freight to the western markets are largely at our customers cost, so we do not bear that.

Jay Daniel: And this commentary provided by most cotton yarn company is that one will have to get used to higher cotton yarn prices plus Chinese cotton from a specific region in China has been banned, how this all play out vis-à-vis China's competitiveness in this space and competitiveness of cotton garments to those manufactured from manmade fiber?

Siva Ganapathy: Price of raw material will eventually influence the blend of different fibers in garments, so say if cotton prices continue to remain high then obviously it may have an impact on how much it is blended with manmade fibers, etc., so all that will play over a period of time, these are all slow and gentle movements, which will happen and these calls are taken by large customers by taking several long-term trends into play. The fact that the western markets are also going after China means that a lot more orders are coming off China into other country, so that also presence an opportunity for operator like us albeit the raw material cost still has to absorbed, but the point I am making is that when there is a market opportunity then the raw material cost eventually at some stage will have to be priced in by all parties concerned in the value chain.

Jay Daniel: Sir, one more question, actually in the last call management had held out that the third quarter would be better than the second quarter with improving utilization and company getting into a seasonally better quarter, but the performance for the third quarter has come in as a bit of a surprise because reason given of excess inventory in the pipeline and labor availability issues would have been known at that time, so we were expecting a better performance in the third quarter?

Siva Ganapathy: So, I always maintain that, we anticipate turnaround from the fourth quarter of this year and that is what we have seen as to coming to pre-COVID level, usually third quarter is good for the industry from a margin standpoint as we produce more and more of spring and summer related garments for which India is known for and India is strong at, the inventory problem was always there and we have addressed it to a large extent by taking appropriate action, but then simply going after revenue by taking on more incremental revenue with the credit risk by going after India customers was also something, which we consciously avoided, but the consistent stand of the company has been that we anticipate pre-COVID level performance from fourth quarter onwards and I think we still maintain that.

Jay Daniel: Thank you very much.

Moderator: Thank you. The next question is from the line of Mohnish Sehgal an Investor. Please go ahead.

Mohnish Sehgal: Good morning, Sir. Congratulations on a resilient result. Just wanted to ask two questions, one fairly short-term kind and second a bit long-term, last March quarter I think was one of the most difficult in all sense, the incentives were removed and COVID had hit in and some sales were delayed, so if you just compare to previous March quarter, I just wanted to know would you see a large amount of growth as well as increase in EBITDA, secondly where do you want to take the company say in 2025, what are the plans and related capex that you would want to do and when, I do not want the exact dates or timeline, but directionally I would want to know?

Siva Ganapathy: The loss of MEIS was there from March 2019 onwards itself even though it came retrospectively in January 2020, so when you compare the last March quarter versus this March quarter, the incentive regime more or less remains the same though it is the government's call how do they play the incentive regime going forward under RoDTEP scheme. As far as revenue and profitability goes for the current Q4, we expect that we will be slightly ahead of the last Q4 levels and continue our momentum in the quarters ahead so that is the plan on which we are working and so far we are trending on the plan as well, so for the years ahead and you mentioned for 2 to 3 years ahead starting next year, we anticipate reasonably robust growth for FY2022, FY2023, and FY2024. I would anticipate going as a generally fair, after a spurt in FY2022, we will probably grow, internally at least we are targeting a minimum growth of over 15% year-on-year. going forward to FY2023 and FY2024, we look at even higher growth rate year-on-year, so we are hoping that we will maintain that trajectory, we will do everything in our ability to accelerate the growth momentum while not losing sight of the EBITDA margin as well. We would like to keep our EBITDA margin at double digit levels at all first going forward and we will work towards it.

Mohnish Sehgal: What about the related capex, when would you have to do the capex to meet that growth?

Sathyamurthy: We have plan for investing around Rs.120 Crores in the next 2 to 3 years time, for that we have a term loan requirement of Rs.50 Crores, a credit line is established already, balance will be managed out of the internal accruals.

Mohnish Sehgal: Thank you so much.

Moderator: Thank you. The next question is from the line of Nitin Aggarwal from Shreya Investment. Please go ahead.

Nitin Aggarwal: Good morning, Siva and team and I would like to congratulate you on the good set of numbers in these tough times. I have heard your comments on Q3 demand being low because of carryover inventory and you cutting back on the customers, could you just give us brief understanding and flavor of how and which regions you are seeing real growth in demand going forward and how this whole China plus one will play out for India in specific in comparison to Bangladesh and Vietnam?

Siva Ganapathy: So, going forward I think demand will grow in every region, every geography, we continue to see US as a country, which has got a good demand for apparel product, particularly from India while Europe will continue to get served by Bangladesh, thanks to FTA that Bangladesh enjoys to Europe, but across all markets we will see growth going forward in terms of consumption and US has not slowed down as much and we will anticipate that same store sales is picking up in the calender 2021 going forward, so that should take care from demand standpoint. As far as China plus one is concerned, there is a continued pressure on China even after the regime change in the US and the moves by the Government of United States to restrict uptake of cotton from Xinjiang province which came into effect very recently in January will put further pressure on cotton related products from China or export of cotton related product from China, so automatically supply chains will get somewhat realigned and China will continue to focus more and more on manmade fiber based exports with increasing cost in China and somewhat increasing cost in Vietnam, now a days we are seeing that Cambodia also is growing in terms of manufacturing and exports, but increasingly buyers will have to come to producing countries like India, Indonesia for their supply chain requirement and that augurs well for operators like us, so we will slowly, but surely stand to gain with the cotton value chain very much being part of India and as India slowly ramps up with manmade fiber value chain, which probably will take several years then there will be a additional growth for exports on the country though one we did not count all those before they come into play, at least even the cotton based value chain itself can give the reasonable growth for the country taking on additional volumes, which are coming of China.

Nitin Aggarwal: Siva, the demand that you are seeing is in lower value products and lower batch or style sizes or you seeing demand in midlevel products and higher mid sizes?

Siva Ganapathy: Even now if you look at the demand it is more for lower value products so garments which are priced at $20 to $25 in the markets or under are selling well and that is why you will find casuals going well whereas products like suite or blazer is just not performing at all, so as a manufacturer who has got flexibility to manufacture any product, we have pivoted to what the customers want of us, eventually the market for other products, fashion products of high value garments will catchup, but as of now as we see most of the demand catchup has happened from lower value products as far as end consumers are concerned and it will stay that way for sometime to come a few more quarters before an all round growth of all products will start.

Nitin Aggarwal: Thanks, I am done with my questions and wish you best of luck.

Moderator: Thank you. The next question is from the line of Jayant from Care PMS. Please go ahead.

Jayant: Good morning, Mr. Ganapathy. I was just looking at our 2019 and 2020 annual financials, we generate normally profit of around Rs.25 Crores to Rs.30 Crores at net level and if you add to that is around Rs.50 Crores is depreciation, so I think part of the depreciation must be required for replacing the machines actually, so I want to understand for maintaining 15% to 20% growth in future what kind of capex will be required and how that cash will be generated?

Siva Ganapathy: See, our capex plan for the next 2 years is around Rs.120 Crores, so we will have enough internal accruals to take care of it up to Rs.72 Crores, we will draw term loan to an extent of Rs.50 Crores.

Jayant: So, that Rs.120 Crores capex, how much capacity will be added?

Siva Ganapathy: The additional capacity will be at least around 35% to 40%.

Jayant: With Rs.120 Crores we can add 35% to 40% to the capacity?

Siva Ganapathy: Yes.

Jayant: What is the replacement cost every year that we spend?

Siva Ganapathy: Around Rs.25 Crores year-on-year we have been investing consistently for the last 3 years.

Jayant: That is booked under fixed assets, correct?

Siva Ganapathy: Correct.

Jayant: Sir, you said that we consciously reduced the exposure to Indian customers, so can you name few Indian customers we would supply?

Siva Ganapathy: I would avoid naming anybody in this call, but we have been working with almost all the big brands, as a conscious choice we have said till the market turnaround and this is nothing against any one customer, but since many of them were financially challenged we wanted to avoid any further exposure to Indian retail till we get the comfort that Indian retial market has come back strongly.

Jayant: Are you witnessing any payment delay from the Indian customers?

Siva Ganapathy: So, there has been some delay for the goods that we supplied pre-COVID, but we have all agreed on certain payment plans with them and they have been tracking to those payment plan, fresh supplies we have anyway stopped, so we do not have any further problems.

Jayant: Sir, this post-COVID I think the work from home is going to be the new normal in most of the service industry part, so are we planing any change in product mix?

Siva Ganapathy: We will go based on the product mix changes that our customers dictates to us and in the wovens while we are finding a lot more lower value garments, which we are eminently capable of producing, we are doing that and as and when the market picks up for other garments, which are higher value we will do that. We also produce a lot of outer wear, which are seasonally required for cold weather, which anyway will have a set of demand, we also produce industrial wear, which will have its demand based on industrial requirement, all of those will also be sustained I believe, so from a product mix standpoint we do not anticipate too much of a change except that our causal wear will slightly increase compared to formal wear or high fashion wear.

Jayant: Thank you.

Moderator: Thank you. The next question is from the line of Prateek from Nippon Life Insurance. Please go ahead.

Prateek: Sir, I just wanted to check your interest cost as a percentage of your net debt seems very high on Rs.150 Crores of net debt, we had for the first 9 months Rs.27 Crores of interest cost, so can you help me understand that, that is question number one, second is on capacity utilizations what are we currently at and just an extension of this, let us assume you go back to the peak capacity utilization depending on seasonality for the full year, what is the sustainable EBITDA margins this business is capable of generating and lastly, on the

RoDTEP scheme if you can help us understand if there is any communication from the government and how does it impact your financials, so these three questions?

Sathyamurthy: Our interest cost includes Rs.7.5 Crores, which is pertaining to Ind-AS interest, so our real interest cost is only Rs.20 Crores for the 9 months period of this year, as against last year it was around Rs.23 Crores. Hope this clarifies. This is because of the Ind-AS treatment, part of the rental cost is being classified under interest.

Prateek: But Rs.20 Crores on Rs.150 Crores also high, right, is not it?

Sathyamurthy: It is mainly because on the gross borrowings the interest is reflected here, the interest income is reflected separately.

Prateek: Got it.

Siva Ganapathy: To answer your further questions, this is at peak capacity utilization, what should be the EBITDA margin, so if you assume current conditions of incentives, etc., etc., I would expect anywhere to go up by a further 1.5% or may be even 2% from current level that would be medium term kind of EBITDA levels that we will operate assuming the incentive levels stay at current levels, you also ask me the question on RoDTEP, which is proposed going forward. At this moment, we do not have a clarity on what is the proposed incentive for the industry. While the industry feels that the embedded taxes in the system is reasonably high and it has to be maintained at current levels, we really await guidance from the government as to what RoDTEP levels will be sanctioned to the industry going forward, so to that extent we are hoping that at the budget or may be shortly after the budget we will have clarity on what are the levels of incentives that the government would provide for the industry going forward. Being an export oriented industry and a manpower intensive industry, we have been urging the government to ensure that the incentive levels are not disturbed going forward, but then government will have to balance its own financials and come up with an incentive scheme for us. If we have a clarity on the incentive scheme going forward, we will be able to align our business through that incentive scheme and in a few quarters try to offset the additional loss or if there is a gain whatever coming from the incentive scheme, but I am not hopeful that the RoDTEP will be higher than RoSCTL if at all it may go a bit lower to what extent it will go lower is unknown at the moment, we will have to wait for may be a month at most to get clarity of it.

Prateek: Got it, Sir. One question and a clarification pardon my ignorance, I am not aware of this, when you say current level incentives will help you reach steady state 1.5% margins more than what we are reporting today, how do you define these incentives, are there any incentives because MEIS is withdrawn, I am not aware?

Siva Ganapathy: For incentives, we have what is called RoSCTL and we have duty drawback, both of them put together amount to about 5% as of now, so all of this will get rolled into what is called RoDTEP going forward and that is the incentive amount, which is unclear at the moment because rates have not been notified as of yet.

Prateek: So, your guidance of margin expansion assumes this 5% benefit right?

Siva Ganapathy: That is correct, as I said we as well as our customers and everybody works with a transparent incentive regime, so even our customers know this is the incentives we are getting, if the incentive change then it will take a few quarters to realign to the new set of incentives as we book orders in advance, so we may not be able to price all those things right away when an incentive is announced, but going forward we will try our best to price within and absorb the incentives in our contracts, but pending which we will have to absorb the incentive shock if any.

Prateek: Sir, in quarter three did you book any incentives or this margin is excluding the duty product?

Siva Ganapathy: We booked incentives the usual level of incentives that we have booked.

Prateek: But duty drawback was withdrawn right, it was just Rs.2 Crores a month if I am not wrong, I am not sure?

Siva Ganapathy: No, duty drawback is very much there as well as RoSCTL is there, MEIS was withdrawn from March 2019 onwards, but we did get all these incentives, which had been the norm for quite sometime.

Prateek: Lastly, your thoughts on your net debt, is it peaked out because the way you talked about your capex for the medium term plus maintenance and I were to assume some numbers looks like your net debt has almost peaked out from your own either it would be flat or go down, is that the correct understanding, Sir?

Siva Ganapathy: So, based on business volumes our net debt will go up, we are trying to contain our working capital days to current level so that we will maintain or try to taper it down, we will try to keep it between 75 days or 80 days there about, but net debt will grow if the business grows.

Sathyamurthy: The current net debt is about Rs.150 Crores which includes Rs.52 Crores, of post-shipment credit. We anticipate post shipment credit will go up depending upon our delivery plans, during March quarter, we may end up around Rs.90 Crores. So to that extent the net debt will go up based on the volume increase. Otherwise if you eliminate post-shipment credit today, we are at sub 100 Crores of net debt levels.

Prateek: So, that is the function of volume, got it. I will back in the question queue. Thank you.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: Thank you for the opportunity. I heard your commentaries on your reason for next 2 to 3 years both on the volume revenue side as well as the margin side, the investments you are planning as well, so if I look at on capital employed for FY2020, what are the targeted recovery assets you have been looking at for the business over the medium term?

Siva Ganapathy: Are you asking what is the return on capital employee in the years ahead, is that the question?

Chintan Sheth: Correct, so based on your exception January growth your capex, your working capital concerned as well as you targeted?

Siva Ganapathy: Let me try to answer you regardless, if the question is on what is the return on capital employed going forward, internally we are working to reach ROCE of about 18% 2 to 3 years and we hope that we should be able to achieve that.

Chintan Sheth: Sure. That is all from my side. Thank you.

Moderator: Thank you. We will move on to the next question that is from the line of Vaibhav Gogate from Ashmore. Please go ahead.

Vaibhav Gogate: Thanks. Sir how is the domestic business as a percentage of revenues and what is the outlook for the upcoming quarters?

Siva Ganapathy: We have two components of domestic business, one is the domestic business of our international customers, so if I say supplying to H&M, I am also supplying to H&M in India or GAP India and so on and so forth or say Adidas India or Puma India and I used to supply to Indian retailers as well, so my domestic business clubs both of them and both put together our domestic sales for third quarter was 18% of the total revenue.

Vaibhav Gogate: So, how should we expect this 18% is to shoot up in upcoming quarters, is there any backlog of inventory from previous year?

Siva Ganapathy: There is no backlog inventory and all that, most likely if these levels will continue, Indian market typically tends to grow faster than global market and the domestic sales may go up a little bit as a percentage of revenue, but the focus is still largely on exports and from our standpoint we will largely trend to drive exports even within this 18% a larger proportion of almost 10% to 12% is for the domestic business of our international clients, so the domestic business for domestic customers will probably come down to very, very low levels of 1% or 2% going forward.

Vaibhav Gogate: Got it and have you face any deferred revenue because of lack of container availability in the current quarter?

Siva Ganapathy: So, these kind of things happen, container availability is impacting both ways, one for raw material coming, which is a huge challenge because we still get a lot of raw material from the Far East and that has got an impact on managing the production as supplies sometimes coming late, which are replanning all our activities in the factory, it is also somewhat impacting the outgoing material for example, there was a lot of pileup in December and goods were getting stuck at the ports and not going, so some of those revenues also spill over into January, so we do have those situations, I think we will have to just deal with that as we go forward till the container issues sorts itself out, it may take several months before that happen, we are just dealing with it.

Vaibhav Gogate: So, would you like to quantify loss in revenue for the current quarter?

Siva Ganapathy: I would not like to quantify because all these things get aligned between quarters, so what loss comes back from the previous quarter and stuffs like that, so my assessment is that this alignment will just shift at best some of our revenue from Q-to-Q that is about it, but overall if you look at an annual performance it will barely have a reflection of some of these issues.

Vaibhav Gogate: So, I was having a look at your annual report and Asia contributes around 20% odd of revenue, so which other countries apart from India are important for Gokaldas?

Siva Ganapathy: In Asia or globally you are saying?

Vaibhav Gogate: In Asia?

Siva Ganapathy: In Asia, we still supply a lot to China, we supply to Japan and then several other countries are much smaller in terms of their market share, so our biggest market continues to be US followed by Europe. US is almost 70% odd of our exports then Europe comes in at about 10% to 12%, and all other counties are smaller in terms of volumes.

Moderator: Thank you. The next question is from the line of Kush Gangar from Care PMS. Please go ahead.

Kush Gangar: My first question was on our order book visibility, so generally for how months do you have order book?

Siva Ganapathy: So, we get a guidance from our customer for one year and firm order book for one quarter ahead and may be somewhat for 2 quarters ahead, so 50% order book for 2 quarters ahead, so as of now I have my Q1 order book in place and some with of Q2 orders are already flowing in, all of my Q2 orders will be fully in place by middle of my Q1 so that is how our order booking flow that is because we are in the fashion market and the customer firm up the final product only a quarter before they want delivery and that is when the firm order is placed on us with pricing, raw material contained, etc., whereas the guidance will work for the whole calender year, which is provided at the start of the year.

Kush Gangar: Sure, got it and if you can just share some flavor on new customer addition that have happened or that you are seeing new enquiries and what is the contribution of customers added over the last 2 to 3 years since Q4 just some flavor on that?

Siva Ganapathy: So, during the pandemic most people are not travelling, the international customers are unable to come to India for audits of our factories and capabilities, also since volumes across the globe are running lower than pre-pandemic level, there is a reluctance in customers to onboard new suppliers as their existing suppliers are themselves more than adequate to do that. Having said that Gokaldas has been fortunate and thanks to our ability to engage with customers and some of the early engagements that we were having we are having actual dialogue with quite a few of our new customers, which we hope that once travel get restored we should start seeing some incremental volumes, we may start doing some pilots with two new customers most likely from Q1 onwards based on current engagement, so at the moment that is where we are, as far as new customer who came in the last 2 years their revenue share currently is about 20% or a little higher than that.

Kush Gangar: Got it and you mentioned about your medium term vision where you want to grow about 15% CAGR, so what would drive that growth, so if you can just share or bifurcate in terms of your expected industry growth, your ability to gain market share and third new custom contribution, so that would give an idea of how the growth would come in?

Siva Ganapathy: Industry growth in the space will not be high because the industry growth will depend of what is the enduser growth in garment sales, which will be globally about probably 2% to 3%, but then for people like us we tend to grow gaining market share from other operators or other suppliers and we will be able to maintain this space based on our consistency in delivery and product capability so we hope to keep this trend, we will grow with our existing customers, most of our existing customers are large solid company with global footprint and an ability to expand their business, we work with some of the finest brands and we hope that we will be able to grow into them taking a larger share of their supply base that is one item. We have also engaged with new customers in the last 2 to 3 years, so those customers where our market share currently is low is also where we will have dipropionate growth and try to gain market share with them, so overall given the customer diversity that we have we should be able to deliver this growth without too much of an issue.

Moderator: Thank you. The next question is from the line of Pathik Gandotra from Dron Capital. Please go ahead.

Pathik Gandotra: Mr. Siva, I just wanted you to clarify one thing that this whole incentive thing of RoDTEP we have seen that with MEIS also, is just impacts a few quarters right because you have taken a hit of 5% on your MEIS and your margins are back to levels, which were above what was margins with MEIS, right?

Siva Ganapathy: That is correct, so we took a hit of 4% and then we got back to those levels, so it does take sometime before we are able to integrate the new incentive regime into our system and continue business as going forward, what happens is since we are booking orders well in advance say a quarter or two ahead, we will not be able to factor any of that immediately those orders are booked there is no scope for price change, if the new incentive regime say with us is the lower incentive then we will have to go back to customer have a negotiation with them and it does take a couple of quarters before we will be able to push it all through as there will be reluctance from the customer as well initially and these discussions take time, but then in a couple of quarters going ahead we should be able to absorb, it all depends on the percentage change that one talks about that how fast one is able to absorb all of this.

Pathik Gandotra: I understand that point, I was not looking at in the quarter kind of margins, I am saying that when you are saying that your business can inherently deliver an EBITDA of 150 to 200 basis points more than what is right now does it really depend upon incentives from a longer term perceptive?

Siva Ganapathy: Short-term it may get pushed here or there, but longer term perspective, no.

Pathik Gandotra: That is because of the huge demand shift happening from China which will happen going forward?

Siva Ganapathy: That is correct, so demand shift, our ability to go after better price, better margins product, etc., all of these will have a role to play in our ability to get to that margin.

Pathik Gandotra: My second question is does the product mix influence your margin, which means if you make more suits than less of casuals, first of all what is your idea in point of mix, what was in pre-COVID level, what so called higher value products percentage and how is it come down now, how is it changed going forward and does that really influence margin because you are in a conversion business eventually 50 basis point, 100 basis point, here and there is okay, but it does really influence margin?

Siva Ganapathy: Yes, it does influence margin somewhat, so for example, you know our pre-COVID levels our casual wear and the lower value garments so to speak was about 50% now it has gone up further, but the point is, the margins depend on the product mix I agree that product mix also is a function of seasonality, so in outer wear gets produced in certain seasons and gets consumed in the winter and autumn, so to that extent there is a certain fixed allocation of product mix, which we cannot change, but high fashion will yield better margins for us for now that is not as much prevalent in our order book simply because of the enduser demand if they go up then we will tend to take more of those businesses as well.

Pathik Gandotra: So your margin when you are saying you can earn 200 basis point more it predicates the fact that your product mix will return to normal which is a mix of formal, high fashion, and all thing right that is what you meant?

Siva Ganapathy: It predicates that and it also predicates further improvements and manufacturing efficiencies.

Pathik Gandotra: Mr. Siva, we are talking about just 2% points, so how much does the product mix actually influence if you have a bad product mix, this is the bad product mix right now right what you have right now?

Siva Ganapathy: It can influence 1% product mix and the other 1% odd will come from continued improvement in our production.

Pathik Gandotra: My third question and final question was that, we sold manmade fiber thing how are you looking at that as an opportunity apart from your normal growth, are you looking at that in the future, now later?

Siva Ganapathy: Definitely all these are under considerations, it is an opportunity presence itself, we definitely give it a strong look and we will consider such opportunity, we are evaluating all those opportunities at this moment, it all depends on the attractiveness, the immediately of the demand, the market I believe will turnaround very soon in a couple of quarters when most of this COVID will be behind us and customers will come back engaging in future looking projects and product, so timing wise we are not too far away from some of those discission and if there is an opportunity definitely we will be interested.

Moderator: Thank you. The next question is from the line of VP Rajesh from Banyan Capital Advisors. Please go ahead.

VP Rajesh: Thanks for the opportunity. My first question was just trying to understand the impact on the revenues because of the stopping of the domestic supplies, so you are down 17% year-over-year, so if you can segregate how much you are attributable to that?

Siva Ganapathy: Exports were down 11%, domestic was 35% from an absolute revenue perspective for domestic we reduced it by about 30 Crores.

VP Rajesh: And in terms of your, you would see this is going back up this would be done as well given the situation and all?

Siva Ganapathy: The debt revenue we will try to fill with exports going forward absolutely.

VP Rajesh: And that is because they are high margin or the credit terms are better?

Siva Ganapathy: Yes, they are high margin and less risk.

VP Rajesh: And if you can just also talk about how is your customer concentration now, has it changed compared to last quarter?

Siva Ganapathy: Quarter-to-quarter there would not be much of a change from a customer concentration standpoint, our top 5 customers contributes to about 72% to 73% or may be even 75% of revenue that has been the case for sometime now, as this point in time with the pandemic effects not fully gone I am not so particularly bothered about changing the mix as long as the top 5 customers are financially strong and are able to sustain themselves in the markets, so when all round growth starts happening in the western market then we will go back to track of diversifying our customer base by expanding with new customers anyway our new customer growth is exceeding or increasing faster than the existing customer, so over a period of time, the concentration is going to come down, the phase which happen will only accelerate.

VP Rajesh: My last question regarding Bangladesh what is the reason why we are not putting up a factory in Bangladesh and supplying that market through that out?

Siva Ganapathy: So, that is not out of the realm of possibility in fact we were even contemplating at one stage pre-pandemic about some of those and then we put it on hold till more clarity emerges in this space, so we will take a call as we go forward on how these things pan out we will also have to see how long Bangladesh will continue to enjoy a preferential supplies to Europe as their FTA will also come up for review in a year or two, so all of that will have to factored in going forward before we take a decision and along with Bangladesh there may be several other countries also, which may be of interest so we are not averse to looking at any options, but at the moment we are not doing anything till the whole market and everything comes out of pandemic completely.

Moderator: Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Congrats for good numbers. I am sorry I have joined a bit late, so if my question is repeated, but if we try to understand more a structural point of view the sector, the lauds are pretty much clear that lot of shift is happening from China to other countries, but if you try to compare India vis-à-vis let us say Bangladesh and Vietnam, so what sort of changes that perhaps we need to become more competitive against these countries because if I understand it rightly the duty differential between those countries and India is around 9.5% and that is what clearly were getting early now which has been reduced to 5%, so if you could throw some light that what sort of changes that perhaps which industry needs to become more competitive against those country will be really helpful, Sir?

Siva Ganapathy: Clearly they enjoy free trade agreements with some markets, which give them preferential access so they enjoy a clear 10% odd price advantage going to Europe, which really makes them far more competitive than us, Bangladesh enjoys a lower labor cost than we do while Vietnam enjoys the higher labor cost than we do, the labor working hours are longer, the labor discipline particularly in Vietnam and Cambodia are much higher, so their productivity is slightly higher than that of India, so there are some of those structural advantage, which are in favor of Bangladesh, some structural advantage, which are in favor of Vietnam, Vietnam has one additional structural advantage, which is a big advantage, which is that the entire MM ecosystem, which is based out of China can supply the raw material to Vietnam at a very short lead time, so the time taken for goods to move from China to Vietnam is few days as oppose to China to India takes 2 weeks, so that acts as the lead time for manufacturing for MM fixed products since the entire backward integrated businesses are all there, so those kind of product will always be produced or still be produced from Vietnam, Cambodia, China, etc., though China is becoming more expensive than Vietnam and Cambodia and may be to a smaller extend Laos, whereas Bangladesh will continue to produce a lot of commodity products based on free trade agreement related benefits as well as lower cost of labor. India will tend to take advantage of its cotton value chain, which is what it is doing, producing a little higher fashion related garments where we can enjoy our margins, we are also trying to compete with Vietnam and China by taking some products, which were either to being made there by getting even the raw materials sourced out of India so even the raw material value chain also is being strengthened in India as we speak so that we are able to take on products, which are being made there out here, we ourself have engaged with the lot of our customers and shifted our raw material base to India so that is an ongoing activity, which will help India compete well with them, remember that India enjoys the labor cost benefits vis-à-vis Vietnam at least.

Moderator: As there is no response from the current participant, we will move on to the next that is from the line of Prateek from Nippon Life Insurance. Please go ahead.

Prateek: Sorry, just one clarification to my earlier question, I did not understand within 20 Crores of net interest cost on 150 Crores of debt is there some one-off or how is it just trying to understand the breakup if you can help me with that?

Sathyamurthy: We have to net off Rs 6 Crores interest income, which is reflected separately above the line. So net interest cost, net of interest income & Ind-As interest is only Rs 14 Crores and remember Rs 150 Crores of net debt is as on a particular date and interest cost is based on the daily average utilization and thus the actual cost of Rs.14 Crores is reflected.

Prateek: Thank you so much for this clarification.

Moderator: Thank you. The next question is from the line of Jay Daniel from Entropy Capital Advisors. Please go ahead.

Jay Daniel: Sir, I wanted to know there is any problem with the H&M customer there were some stress earlier so that has been sorted out, how is the thing over there?

Siva Ganapathy: No, I think we have a good relationship with the customer, so those are all okay.

Jay Daniel: I had some bookkeeping question on the margin side large part of the increase is because of Ind-AS 116 and at the same time you have taken a hit on MEIS, so has the core operating margins improve?

Sathyamurthy: Not able to understand on the Ind-AS related question and hope you are asking about margin.

Jay Daniel: Operating margins your lease charges earlier if I had to make a comparison with the earlier years, lease has been above the line now it gets added to depreciation in interest cost?

Sathyamurthy: I agree, but compare to the previous year it is reflected on like-for-like basis.

Siva Ganapathy: That is one part and also the way these lease charges gets calculated in depreciation, etc., so some of our lease charges are still held as rent expense, it depends on the lease terms that we have, so if we do not have a long-term lease or if the lease is continuing on a year-on-year basis then those costs are coming up on the rent side as of now also, so not all of it is coming down in the finance cost, some of it is coming in the finance cost, in Q3 some of those got also reclassified into rental expense so it has moved up, so overall it does not make any difference at a PAT level, all of these on the country there may be an additional hit because currently our lease finance cost are actually in excess of the rent cost that we have paid that is as of now.

Sathyamurthy: As of now Ind-As require certain treatment with reference to lease charges and we have booked Rs.4 Crores extra cost while arriving at the profitability as of 9 months, so our PAT Rs.10.5 Crores is after taking an additional hit of Rs.4 Crores on an account of Ind-As.

Siva Ganapathy: That does not change from year-to-year depending on how it gets classified.

Jay Daniel: Ands your term loan is nil as of now, right?

Sathyamurthy: This quarter we have drawn about Rs.16 Crores out of Rs.40 Crores term loan sanction, this will be utilized for the capex what we are intending to do.

Jay Daniel: Thanks a lot, Sir.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Sameeksha Capital. Please go ahead.

Chintan Sheth: On the bookkeeping, the capex spend for the 9 months this year, if you could help me with that?

Sathyamurthy: About Rs.17 Crores.

Chintan Sheth: Is it mostly related to replacement capex, right?

Sathyamurthy: Yes.

Chintan Sheth: And what are we intended to spend in the fourth quarter?

Sathyamurthy: Fourth quarter some of them may get capitalized around Rs.6 Crores to Rs.7 Crores.

Chintan Sheth: And targeted working capital cycle if I look at your presentation, we are around 82 days?

Sathyamurthy: Our target is around 75 days.

Chintan Sheth: 75 days over the medium term, right, okay. That is all. Thank you.

Moderator: Thank you. The next question is from the line of Mohnish Sehgal an Investor. Please go ahead.

Mohnish Sehgal: Thanks for the followup, Sir. Just wanted to once again check so we are at about $200 million after November right now, when do we think we will reach half a billion say to start with and secondly are we investing in innovation or R&D as of now because I think that would be necessary to say change processes to survive in the environment going forward, so any thoughts on that?

Siva Ganapathy: I think if we are being pretty aggressive we should be looking at FY2027, FY2028 or there about if we continue growing at a certain aggressive phase, if this assuming all organic if one does something inorganic or does backward integration some additional stuff then one can see if we can accelerate this to a faster phase all these would depend on what are some of the strategic decisions that we take going forward, this is a bit out there in terms of target, but then that the broad outline I can give as far as half a billion concerned, what was the second question?

Mohnish Sehgal: Investment in innovation or R&D were going forward you would want to change processes or more efficient, what is your take on that for this industry?

Siva Ganapathy: There are two types of innovation that we have currently working on, one is the course, being able to produce new product, which we were not hither to making, so very high end puffer jackets and stuff like that in a way we are now making where we are extruding insulation into the jacket and stuff like that in a more like complex outer wear products meant for different services and suff like that, so that is one product related innovation, the other one of course is continuous improvements, but there also a lot process innovation will happen, we are digitizing our manufacturing process, so we continuously monitoring our factory operation at all stages right from cutting to packing and manufacturing at every stage and trying to optimize them, trying to track control over all the parts and pieces to minimize wastage, these areas will yield sustainable advantage in terms of production efficiency and wastage minimization, our industrial engineers are working on it and these process innovation will allow us to become benchmark setting operators across the manufacturing world and that is another area that we are focused on.

Mohnish Sehgal: Sir, also one more thing, we understand a lot of global cooperates are now focusing a lot on ESG framework, so from that perspective are we looking to become more and more compliant and add to that as something which we want to showcased to our buyers?

Siva Ganapathy: Yes, of course we are doing a lot of that, so in some of our units we have installed solar power, we have gone zero liquid discharge for our laundry, so we are recycling all of the water and safely disposing the chemical all of these have been incorporated by us and we are continuously adopting sustainability initiatives in our factory. We are required to do this in order to also compete for more high quality business as most of our customers are also committed to do this across their supply chain and people like us who are investing in some of ESG initiative will always come out ahead in terms of being preferred supplier, other social compliance related areas like having crush, ambulance, doctors in other infrastructure in factories they are all there anyway, in the environment sustainability factors most of the people are in place already and further investments are going on in order to make our factory as green as possible.

Mohnish Sehgal: Thank you, Sir. One final question, anything on the inorganic side on the table what are we looking at?

Siva Ganapathy: Not at the moment, we want to see the post-pandemic situation, the situation has to come completely out of it before we commit anything from an inorganic standpoint.

Mohnish Sehgal: Sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Pathik Gandotra from Dron Capital. Please go ahead.

Pathik Gandotra: Mr. Siva, one of my questions was interrupted, I was asking you about the manmade fiber environment, now the government has announced in principle a PLI scheme for the manmade fiber ecosystem including garments, so what do you think about that and would you be interested if it is in a manner, which a kind palatable to the industry at large?

Siva Ganapathy: Of course, the PLI scheme is work in progress with the government, but we know that the PLI scheme is for investments in the manmade fiber based apparel space and obviously with our customer connect and the product experience we do produce manmade fiber based garments and we would definitely be interested in taking advantage of the PLI scheme as and when the details are spelt out and the details are very conducive for business investment, we will be interested in, not just looking at it, but also active on it.

Pathik Gandotra: So, the point is the whole growth that you discussed going forward excludes this whole piece right?

Siva Ganapathy: As of now we have not factored all these things in because these are additional and will depend on the exact new answers, which come out, our growth trajectory for now excludes any of such initiatives.

Pathik Gandotra: Thank you.

Moderator: Thank you. The next question is from the line of Bajrang Bafna from Sunidhi Securities. Please go ahead.

Bajrang Bafna: Thanks for the opportunity. Sir, my second was if we try to understand what is basically apart from cost structure, which is moving up in China and that is leading to some sort of opportunities for markets like India in the value added products, is there thing called now we are hearing this China plus one strategy that has come up after pandemic, so how this particular strategy is going to impact your overall textile industry from India, so if you could throw some more light will be really helpful, Sir?

Siva Ganapathy: The cost of labor in China is going above, the availability of labor in China is challenged as their working age population shrink, they do have a strategic need to focus on higher value added products like engineering or services business rather than labor intensive manufacturing given their demographic change as well as economic aspirations of the country, so all of this means that in the textile value chain the most labor intensive piece, which is the apparel manufacturing will move out of China, which is steadily moving out of China into other country and that where China plus one comes where the back end manufacturing lead to fabrics, fibre, your trends, etc., get still produced in China because those are all capital intensive, large capacity exists and they do have economies of scale there, so they will continue to be produced in China with the apparel conversion happening in other country, now when you look at it from that standpoint you would like to minimize the travel time of the raw material and the finished goods and that is where a Vietnam or a Cambodia comes into play because of proximity and that is where some of those productions initially are this thing to and that is why those countries are growing faster in terms of taking business of China; however, based on skills that available in other countries like India, Indonesia, etc., we have also been able to take some share out of China based on these movements. Post US action on China where additional sanctions have been imposed on China the phase of things moving out of China will only accelerate going forward and not one country or may be not two countries will be able to absorb what China said and that is where an opportunity exist for other countries to participate if they are capable of and the way I would look at it is whether a country is able to capitalize on it or not I am not so sure or it does not really matter, what really matters is whether the individual players in the country are able to take advantage.

Bajrang Bafna: I was coming to that only.

Siva Ganapathy: So, people like us who have the capability may be able to take advantage regardless of whether India as a whole takes advantage or not.

Bajrang Bafna: Sir, in that sense in our company Gokaldas Exports how are we seeing now this Xinjiang province, which was a major exporter to US, lot of sanctions we have heard in other conference calls that also putting lot of pressure and lot of opportunities are also coming because of that part, so how as a company we are prepared and what sort of enquiry level that we are seeing right now, you also pointed out that because of this COVID travel restrictions are there, so we are not able to capitalize it on fully, but broadly from a 2 to 3 years perspective you have just guided 15% kind of growth, but if this immense opportunity which is emerging and China is currently contributing roughly 65% of the global trade and you rightly said one or two countries will not be able to absorb this, why this 15% guidance, directionally we want something bigger than what probably you can thing of at this point of time?

Siva Ganapathy: China share in textile trade or apparel trade is about 35% odd and their share is coming down and their share will come down more rapidly going forward, clearly presents an opportunity for others, when I am saying our ability to take on additional business it is based on organically how we are poised to grow and what we do if the circumstances and the situation are favorable, which for the moment they are from a customer and market standpoint and let us say post the pandemic running full course in the next several months we will see a rebound in most markets and if that consumption goes and if there is an opportunity for us to grow at a faster phase trust me we will not hold back, we will try to capitalize on it and also jump into to take advantage of that growth.

Bajrang Bafna: Thanks a lot, Sir.

Moderator: Thank you. The next question is from the line of Athul Shah an Individual Investor. Please go ahead.

Athul Shah: Sir, my first question is why our gross margin is higher in this particular quarter in general historically?

Sathyamurthy: It is primarily due to product mix because the casual wear is normally higher in this quarter. Casual wear contributes almost 45% vs 27% in Q2 and 25% in H1, and casual ware is comparatively with lower material cost and higher labor cost and this is in line with the last year. Last year material cost was 43.2% and current year it is around 43.6%.

Athul Shah: So, overall casual wear is accretive to our margins right that is what you mean to say?

Siva Ganapathy: Yes, as a gross margin level yes, but overall one has to be a bit circumspect because the issue is that we need to maximize the way I look at the business is we need to maximize our EBITDA in absolute numbers rather than simply be the margin percentage because if I produce the garment, which has got a higher raw material content in it, which becomes somewhat pass through, but it gives me a better profit realization I should still do that so I have shared this example even in the past on certain conference call for example, if I am making a shirt of cotton and let us say I am pricing it at Rs.200 just for argument sake of which Rs.100 is my fabric price, my gross margin is 50% and let us say my net profit on that is Rs.20 and I get 10% and let us say my customer ask me to manufacture linen shirt where they are willing to give me Rs.300, but the fabric price goes from Rs.100 to Rs.200 right and my profit on that let us say about Rs.25 so they are willing to pay me Rs.305 let us say, my gross margin may look smaller because it show as Rs.105 on Rs.305 it will show as about 33% whereas it will show 50% in the other case and my net margin will also look smaller Rs.25 on Rs.305 verus Rs.20 on Rs.200 in the other case, but the reality is that it takes the same amount of effort to manufacture a linen shirt or a cotton shit I will make more money Rs.25 per shirt than the Rs.20 shirt, so only looking at margin as a percentage of revenue may not be the best way of maximizing our profit, I can explain to you offline if you are more interested when we connect.

Athul Shah: Yes, I got the essence of the argument, so when you say the higher margin product, when you say jacket or winter wear or outer wear, you mean to say that the absolute profit or EBITDA, which you make is higher in those products although on a percentage basis it might be lower right?

Siva Ganapathy: Correct because of the raw material content in those products may be higher.

Athul Shah: But is not there also the second chapter of how many of those products can make during a certain period of time that is a turnover?

Siva Ganapathy: It is all adjusted for that.

Athul Shah: Fair enough. My second question is on when you see that how do you look at woven garmenting versus knitted garmenting just wanted to understand because based on my understanding knitted guys make higher margins, but I am not sure why is that the case can you help me understand that?

Siva Ganapathy: If you look at the entire market as such woven and knitted are more or less split half and half, knitted are usually casuals and especially knitted casual which are what mainly produced in India they comprise of like garments like your T-shirts, round neck, etc., these are all commodity garments you can produce in large numbers pretty higher, etc., and as Sathyamurthy eluted to a little while ago the material contained in those garments will be lot lower compared to the price and hence the notionally the gross margins and EBITDA margin will be higher in those product whereas in woven garment depending on again what you produce the opportunity is large, the fabric content or the fabric valuation in the garment value will be higher and that is why the gross margin, return on sales will look smaller, what one has to look at eventually is what is your return on capital employee, that is what is the right measure I would recommend and that is what we need to maximize at any stage, now knitted also runs at very high efficiency because of large volumes of commodity play that existed whereas at the moment you are to fashion wear, etc., you are continuously changing the lines and producing newer garments, so there is a bit of an optimization that has to happen between in your running larger run at lower margin versus running lower runs at high margin what is the most optimal level at which you can maximize you margin, so that is what we tend to do, I hope I answered your question.

Moderator: Thank you. Ladies and gentlemen, that is the last question. I now hand the conference over to management for their closing comments.

Siva Ganapathy: Thank you everybody and we committed to ensure that we are a leading manufacturer sort after by global apparel brands, we are working towards becoming a key player in the Indian market and a desirable supplier or a supplier of choice to our customers, we are working relentlessly to ensure that we grow the business and we grow the profitability of the business and we are committed to do that. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of Gokaldas Exports that concludes this conference. Thank you for joining us. You may now disconnect your lines.