"Gokaldas Exports Limited
Q4 FY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Gokaldas Exports Q4 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 Steven. 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 risks that could cause future results performance or achievement to differ significantly from what we expressed and implied by that is forward-looking statement. Please note that we have mailed the results and presentation and the same are available on the company's website too. In case if you have not 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. Sivaramakrishnan Ganapathi, Managing Director & CEO 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 that said that, I will now hand over the call to Mr. Siva. Over to you Sir!

Sivaramakrishnan G: Thank you Binay. Good morning everyone. I hereby report that your company announced a total income of 1223 Crores in FY2021 registering a decline in revenue of 12%. Our export revenue fell by 8.8% which is in contrast to India's apparel exports decline by 17.4% during this period.

The year 2021 was quite eventful. We all learnt about a virus that engulfed the world during the year. Unfortunately, after more than a year we still do not know how to fully contain it and are dealing with the after effect of the devastation unleashed by the virus in date. We were severely tested by COVID-19 in FY2021 when lockdown post store closures in most markets and enforced factory shutdowns in India and other producing countries resulting in a volatile order flow and disrupted supply chain claiming a toll on the financial health of most companies.

When the first wave stuck, we had order cancelations and realignments, payment deferral and operations closure, resulting in a stressed H1. Q3 saw a constrained order flow as the customers who are suffering from excess inventory from spring 2020. In addition to such challenges, we also had to deal with price pressure as global orders were far lower than global supply. In response, we managed to cut cost significantly, rationalized our capacity, streamlined operations through shear agility and ramped up our order book.

Another initiative that came to our rescue during the year was entry into PPE business. We became the pioneers in PPE business when it was unknown to anyone in India. We seized the opportunity to design and manufacture PPE and became one of the largest producers of the product during the early pandemic. This brought in revenue to the extent of Rs.80 Crores during the year and substantial cash flows to tide over the financial deficit during the early part of the year.

The company also consciously reduced its exposure to Indian retail customer to minimize credit risk. We then returned to business normalcy from Q4 onwards. With all these efforts we could contain overall export sales drop to just about 9% over the previous year. We ensured high efficiency in our manufacturing process, controlled our cost well, contained working capital deployed, improved connect with our customers. Thus, despite a drop in revenue the company delivered a superior EBITDA margin for the year as compared to the previous one.

The morale of the organization is at the highest level now, quite simply because we came out so much stronger through the year. Customer confidence in Gokaldas Exports is very high as we are consistently met our commitments through all these challenges. This were possible only because of a “can do” approach of the team and positioning of Gokaldas Exports as a true partners to the customers.

We had the Government of India announce a new scheme from January 2021 called RoDTEP to refund embedded taxes replacing the earlier RoSCTL. The rates under RoDTEP, is yet to be announced. Consequently, we have under recognized this amount in our reported Q4 revenue. Due to the pandemic certain customers of ours went into financial difficulties. In response we had to make onetime provisions for expected credit loss of Rs.7.5 Crores during the year. After adjusting for all this, we have generated an EBITDA for the year of Rs.114 Crores a growth of 11% over the previous year despite a drop in revenue and PAT of Rs.26.5 Crores which is substantially higher than last year after adjustment. Our net debt reduced by Rs.38 Crores during the year to Rs.166 Crores.

Since our business is denominated in US dollar, we hedge our receivables to insulate ourselves from currency volatility. We book our orders based on prevailing forward rates. The P&L that we operate is the hedged P&L, while revenue recognition is on the prevailing spot rate. Thus, our P&L may show a hedge gain or loss based on how the rupee trend, but business wise this does not impact our profit. Once hedged, if the rupee substantially weakens in the spot markets during the period, the hedge loss will widen and vice versa;

however, making more impact on net profit. For the year we had a hedge loss of Rs.1.5 Crores, which just means that our hedge rate was slightly lower than the spot rates in INR to USD term. On the contrary if we had a hedge gain during the period it also reflects the business earnings and not extraordinary income as order pricing has done accordingly.

The apparel industry has been traditionally labor intensive and low wage industry. The competitive advantage in this industry has determined by the ability to produce trending designs while maintaining cost effectiveness. The apparel industries dependency on labor cost is evident with multiple shifts in the industry base on a global level over the last 50 years to countries that offer cost advantage.

As manufactures we are responding by keeping track of design trends worldwide and co-creating products for our customers, delivering quality products consistently on time and in full. This calls for a highly efficient manufacturing capability and the supply chain management ability to manage the large number of SKUs that we produce. Relentlessly speaking out cost effective solutions in pursuit of efficiency and accessing structural advantage through production in lower cost location. India continues to offer competitiveness vis-à-vis China and other countries. There are regions within India which are more favorable than others and we are actively exploring such options for growth.

Next is a continuously improvingly lead time to the market as fashion cycles are shrinking and production is happening closer and closer to consumption period. Supply chain and logistics play a critical role in this and finally adopting practices which are demanded by discerning global customers like sustainability in the value chain whether it is zero discharge, recycle polyester, use of organic materials, adopting sustainable labor practice we have done all of these to and gear ourselves to our customer.

Gokaldas Exports is focused on being a leading manufacturer that is sort after by top global apparel brands for its product capability, quality and consistency with a strong commitment to sustainability while delivering profitable year-on-year growth. The outlook for the industry is positive. With vaccination drive gaining momentum in all the countries that we export to, we anticipate a good demand recovery in the forthcoming year. This is already reflecting in our strong order book for the quarters ahead.

We are in the process of commissioning a new unit in Karnataka in July which will increase our capacity. Our goal is to emerge as a lean operational entity delivering superior engagement with customers. The company has the confidence and resilience to leverage the opportunity provided by the market and take appropriate steps in line with government directives to manage and grow the business.

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

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Anand Trivedi from Nepean Capital. Please go ahead.

Anand Trivedi: Thank you for the opportunity. My question is that given the current second wave of COVID are you all facing any supply constraint issues in terms of running factories or lack of labor by which you cannot supply your order book in the US and Europe and if so is that creating any issues from a more in your contracts as penalties or airlifting or cargo any of that sort?

Sivaramakrishnan G: Yes we are facing some challenges as we speak. In fact for about a week there is a shutdown happening in Karnataka. For Karnataka based factories are under a lockdown which means they are nonoperational and our Andhra Pradesh unit is operational at the moment, bulk of our capacities are based in Karnataka so significant part of our manufacturing for the moment has been suspended in response to government directives. We also had in the previous week directive to operate at 50% of capacity utilization to minimize the workers congregating together or increase in the social distancing. So this lockdown which has been announced is in effect till the end of the current week. So to that extent there has been an amount of disruption, we have responded by reaching back to our customers and wherever possible we have sought deferment in deliveries. Those fast fashion customers who have very tight delivery schedule, we will be prioritizing the manufacturing for them as soon as the lockdown opens up so that we could deliver to them but even in those cases we have sought some extension from deliveries. Our customers understand that this is a national level emergency as well as government directives which is resulting in all of these. We are also simultaneously exploring options to ramp up our capacity by working overtime or over the weekends etc., post the lockdown lifting so we will meet our commitments, in fact having a full order book for the future is a constraint in these kinds of scenario but the good news here is that these shipments, the delivery scheduled for the month of May is obviously a lean season for delivery most of the deliveries are set in June. So, to the extent that we can reopen the factories and scramble we may not have too much of a problem in terms of meeting commitments but then we will have to all played by the year depending on the lockdown scenario that were put in.

Anand Trivedi: But in the event this continues and it cannot meet your commitments, are there penalties to your contracts?

Sivaramakrishnan G: So the contracts would expect as to airlift which gives us additional three weeks because the sailing time three to four weeks because the sailing time is cut shot in the process, but that is the penalty and if we still are not able to meet the commitments then of course there are certain penalties which can be waived by the customer depending on the case-to-case basis based on our longstanding relation. However what we have done is we have formally got extension for deliveries from our customers, so to that extent for now we are good, if the lockdown continues for a longer period of time then we may have to again revisit these discussions with the customers and see what best we could do. In the meanwhile, one more point, we are also engaging with the state government to see if we can once the caseload comes down if we can operate, restart operating factories here. So they actually allowed us to finish and dispatch the goods which are in the unit and which are in the ready set but which we could not dispatch because the lockdown came into effect so they have just open that out for us to dispatch from the unit so there is a bit of a cooperation from the government as well to support the industries and hope till that we should be able to come out of the lockdown soon.

Anand Trivedi: My next question was close to 63% is the sales comes in the US everything I understanding I hearing is the US consumer is coming back in a big way can you touch a little bit lighter on the order book as to how much traction we are getting in the US specifically?

Sivaramakrishnan G: So our US traction is extremely strong US. Even US is coming back to near normalcy with their vaccination drive going exceedingly well and they gradually are opening up in many parts of the US. From our customers we understand that they are anticipating a reasonably good demand pickup and hence we are seeing a good order flow. Keep in mind that for a substantial part of last year and early part of this year as well the customers were largely buying casuals which were knitwear etc., and people are skipped one to two seasons of buying fashion garments so I am anticipating that from spring 2021 onwards people will start buying more and more garments as people start going out carrying out their normal lives going to work, going and meeting friends etc. So we anticipate a good spring, summer orders which mean our Q3 and Q4 should be strong. We already have a strong order book all the way till Q2, so I am anticipating that from the trends that I am seeing particularly in the US and even early times in Europe that the demand cycle has to be very strong.

Anand Trivedi: Thank you so much.

Moderator: Thank you. Next question is from the line of Prerna Jhunjhunwala from B&K Securities. Please go ahead.

Prerna Jhunjhunwala: Thank you. Congratulations Sir on a strong set of results despite the current scenario of pandemic. Sir I wanted to understand the capacity at your end, what utilizations are you working at and how much capacity is expected to come up in the near future to service its extended demand that we are seeing right now?

Sivaramakrishnan G: Whatever capacity we have, we are working at full capacity. In fact we were just prior to this lockdown just started last week we were on a ramp up of capacity across all units, the capacity in terms of manpower and we were getting the manpower compared over the last year so we are on course ramping up. I am also adding the capacity in terms of the new unit in Karnataka, which should go on stream as early as July and we are actively looking at more capacity that we could add given our order book so capacity while we will continue to work on ramping up incremental capacities in our existing units wherever possible by building out extra lines in our current factory, we are also scouting for new capacities which could either lead capacities or build out and all of them are work-in-progress. I do not foresee too much of a capacity challenge as orders come up we will keep on building capacities going forward to meet the requirement.

Prerna Jhunjhunwala: So what kind of volume growth can we see here coming in for the year?

Sivaramakrishnan G: I can say that the demand is very strong and you will see a strong growth in the year.

Prerna Jhunjhunwala: Thank you Sir. I will come back to the question queue.

Moderator: Thank you. The next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.

Chetan Shah: Sir just one small clarification from our previous participant's question. Sir the ground situation of the logistic support I am just not talking about currently due to COVID but even otherwise in terms of container and all what we hear from other companies and other businesses is a bit of a challenge and a problem so if you can just tell us how is the situation in our case and are you doing anything specific because that kind of increases our cost of logistics for export segment?

Sivaramakrishnan G: Most of our contracts are FOB basis so our scope in when we deliver our goods to the customer at a port in India. So yes there is a container challenge and often times we had to wait, keep the finished goods in our factories still we get a container so that we can load in the containers and then transport them to a port either Chennai, Mumbai or Tuticorin port and hand it over to the customers. So the increased cost logistics cost on account of all these shortages and higher shipping cost is borne by the customer but this year logistics of container availability did impact us even in the fourth quarter when we were scrambling for containers to move the goods out, but then these are all logistics problems which we have to take in our stride and we have been managing it reasonably well.

Chetan Shah: Sir just one last question from my side. Just in a normalized business environment I am talking of pre-COVID wave we had a two fashion cycle and that is how we kind of prepared ourselves both in terms of availability of our raw material and goods to be sold so in this changing business environment and the climate how is our interaction with the customer and in terms of the cycle of the business normally we get three to four months time horizon before the fashion season starts and we export and then they sell it to the final customers how is this dynamics have changed if you can give us some flavor on that to get a sense whether it has changed or it is still going on how it was in the past?

Sivaramakrishnan G: So the four macro seasons of spring, summer, autumn and winter sales for customers but when fast fashion customers are continuously refreshing their product in their stores and have gone to many more drops in their stores which means that they push us to deliver goods at a shorter and shorter lead time. So India in general focuses on spring and summer where there is a skew towards Q3 and Q4 from a production standpoint because India is strong in cotton. We at Gokaldas have actually broken this cycle and we have a fairly good autumn, winter sales as well because we focus on products which are synthetic oriented, which are outerwear oriented and we have the technical capability to do so, so we have balanced the season somewhat by on boarding customers who need all these kind of products as well as managing the order flow in the right manner and developing the technical capabilities accordingly. The fashion cycle, if fast fashion continues the fashion cycle, will remain the way it is and probably people will expect a shorter and shorter lead time which will put more and more pressure on the factories and on the logistics but then we are well plugged in with our customer set and we geared ourselves up for the needs of the customer. So we are good to go from that perspective.

Chetan Shah: Just one last question in terms of the capex for expansion of the current capacity or a new location if you can give some guidance for both FY2022 and FY2023 do we have any plan, please?

Sivaramakrishnan G: For both the years put together we expect to invest about 120 Crores for 2022 and 2023 put together.

Chetan Shah: Thank you so much.

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. Couple of questions; one, is on the working capital if I look at your receivable cycle for this quarter so it seems a bit stressed related to what we had in Q4 in September quarter anything to read out on that? That is one. Second is in the margin strength if I look at your margins for the quarter last part of it coming from managing our employee cost relatively better than in the previous year despite a gross margin contraction we are seeing because of the input cost prices. So how long we can sustain our margin based on the employees cost side because there is the limit to it so if you can elaborate on our strategy in terms of how we are going to scale up our margins going forward given the pressure we are seeing from the input cost which we are seeing?

Sivaramakrishnan G: Let me answer the second question first and then come back to the first question. You talked about employee cost. The employee cost for the year was about 30.4% and we estimate that to be at a similar level for FY2022 as well. So our employee cost, at the top management what we have done is we are holding whatever incremental employees would be required would be for only for expansion. The second point is how do we improve our margins going forward, that is as we grow the incremental revenue will come at an incrementally higher profitability as not all fixed cost, scale ups so capacity expansion in the existing factories itself by adding more lines will come at a much higher profitability. Our factory EBITDA itself runs at about 5% higher than our overall EBITDA so incremental revenue will come at a higher EBITDA which will automatically give us a margin inflation as we keep expanding the business. Coming to the first question on working capital I think and particularly your question was on receivables there was a huge amount of shipments which got bunched in the last week of March which resulted in receivables filing up in the last week of March so that is only a bunching of timing issue from that perspective. Sathya, you want to add a little more color on the receivables?

Sathyamurthy A: It is purely because of skewed dispatches based on customer's requirement. This is one off issue due to the pandemic and so about Rs.161 Crores was exports receivables, all of them got collected subsequently. Out of this Rs 72 Cr represents bills discounted amount as on 31st March 2021 and the balance Rs.88 Crores was subsequently discounted and realized fully now.

Chintan Sheth: Lastly on the FD with Canara Bank the issue at the fixed deposit stuck with the Canara Bank for working capital anything we are trying to move out to the other bank or something like that if you can, where are we standing on that front right now?

Sivaramakrishnan G: We are working with the other banks' private banks. The work is in process. We hope to really have a breakthrough in this financial year.

Chintan Sheth: We will be looking at 140 Crores getting released and that will obviously help us to kind of manage our working capital much better.

Sivaramakrishnan G: Absolutely.

Chintan Sheth: I will join back in queue for any questions.

Moderator: Thank you. The next question is from the line of Bharat Chhoda from ICICI Securities. Please go ahead.

Bharat Chhoda: Congrats on a good set of numbers. Sir I had a question regarding the current capacity in terms of lines like what is our manufacturing capacity in terms of lines and how much more lines do we expect to add in the next two to three years like FY2022 and 2023 and also specific to Karnataka unit how many lines will be added and what would be the capex for the same? This is my first question.

Sivaramakrishnan G: I think we have about 200 odd lines internally. Again, line itself changes based on the product type for outerwear which are heavier garment we may have to combine a few line to get one outfit versus a simple garment we may even break the line into two lines to produce those. But yes from a standard line perspective we have about 200 odd lines across the factory. From a capacity perspective as I said we will keep pushing the capacity growth based on demand which is very strong and we will keep building outlines either in a new unit or an existing units wherever possible and we will keep driving through this year and the next that is why we are also allocating a good amount of capex for expansion we have As I said we are actively brining up a unit in Tumkur, Karnataka itself, which is almost come up and fort the lockdown there has been a bit of a delay in completing the unit in commissioning it but then that we will be adding capacities through the year as and when we need in order to meet our requirements so capacity growth will be in line with the demand trend that we have seen.

Bharat Chhoda: Sir any number you can share on what capacity will be added in Karnataka unit and the capex for the same?

Sivaramakrishnan G: As I said capex, well, I would not say we will be looking at expansion beyond Karnataka itself so while this current unit is coming up in Karnataka we are open minded about expanding in other areas. For example, the next unit which we are actively looking for and most likely will commence soon once all the paper work is done will be in Bhopal. So we are looking at expansions beyond South of India as well looking at locations within India which are cost effective from a labor perspective and from an availability perspective so that we can even continue to ramp up so as I said the capex we are looking for is about 120 Crores over the next two years which will be for expansion of small portion of it will be for modernization but largely we will be looking at expansion.

Bharat Chhoda: Sir I have another question regarding our gross margin like if you look at the yarn prices have been increasing so what would be your outlook on the gross margins and also our employee cost is it expected to be lower in FY2022?

Sivaramakrishnan G: As I had mentioned the employee cost in FY2021 was lower than FY2020 as a percentage of revenue employee cost in FY2022 will be more or less in line with its employee cost as a percentage in FY2021. That is as far as the employee cost is concerned. As far as gross margin is concerned if you are asking about yarn prices, cotton prices even polyester prices and all of these have indeed gone up so still we are very large buyers and we do have some amount of buying clout in the market so we did not come under as much pressure last year and more over for many instances we could pass back the higher cost to the customers so we negotiated and pushed it back to the customers as well if it is a small amount of it which we had to absorb as well so these are all dynamics things based on negotiation but by and large we have insulated ourselves from a sharp increase. I am anticipating that the cotton prices may ease a bit and it has already eased a bit so we will see how it goes in the forth coming year.

Bharat Chhoda: Thanks a lot for your answer.

Moderator: Thank you. The next question is from the line of Akshay Chheda from Perfect Research. Please go ahead.

Akshay Chheda: Very good morning Sir. Sir I had a few questions, the first one is what sustainable advantages do we have against Vietnam & Bangladesh in our business. The second has been are our contracts pass through in nature as in can we pass the increase in the cost material price to the clients and the third one being which 24000 employees already on the role what challenges do we see with labor management, unions etc., when thinking of chasing up that?

Sivaramakrishnan G: When it comes to Bangladesh and Vietnam the competitive dynamics are different. Vietnam works with raw material from China which is for them is the short lead-time away and they have a good garmenting base that they developed; however, Vietnam is witnessing significant cost increase in terms of such labor cost as they have limited labor availability and they are also up migrating to other industries in the country and the country is also doing well and growing so the salary expectations are going up so Vietnam costs are going up indeed and some of the customers are looking at other options like Cambodia with those countries are also increasing in cost. Bangladesh continues to enjoy a significant cost advantage and more than that a significant availability of labor force and government support to the textile industry so Bangladesh will continue to grow; however, I am also seeing that there is a risk that Bangladesh may lose their FTA status with Europe. I am saying may because it is not final as yet in about four or five years which means that customers may have to realign themselves as to how much capacity they can get produced out of there. As the large advantage Bangladesh offers so is actually the duty free access to Europe that itself gives them about 11% reduced cost to sending goods to Europe and the labor cost is brings at the rest. For US customers there is no duty differential between Bangladesh and India so there is only the labor cost labor arbitrage which comes into play. India can hold on its own thanks to its fabric ecosystem. Thanks to its design capability and I see that we have ample opportunity to continue to take business away from China which we have done quite a bit through this period and which we will continue to do as Chinese costs are going up and China is also fallen somewhat out of favor in many countries and China's business is huge so we will continue to gain at their cost and I do not foresee that Bangladesh and Vietnam will take away all our business so in fact there is enough business for India to take on a global basis. So I hope I answered you on that, can you just repeat your other two questions please.

Akshay Chheda: The second question, are our contracts pass through in nature?

Sivaramakrishnan G: Yes, most of the contracts are like that so when we book an order we estimate the price of raw materials and back-to-back place an order on them so to that extent our raw material prices become pass through.

Akshay Chheda: Shall I repeat the third question Sir?

Sivaramakrishnan G: Yes, please.

Akshay Chheda: With this 24000 employees are already on the role what challenges do we see with the labor management unions etc., when choosing of scaling up Sir?

Sivaramakrishnan G: So, labor management always has got its own issues especially when we have large labor we have the capability and we have the experience of handling the labor force within the company. We have been managing them so far and managing them really well. So I do not anticipate this to be an additional challenge or an additional burden from our standpoint in fact if you are fair the labor practice labor practitioner and do all your statutory compliance and manage your labor force very well which I believe is one of our core competence then I think we are in a strong position to manage our labor well so I do not foresee too much of a challenge on that front.

Akshay Chheda: That was helpful Sir. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Mulesh Savla from Shah & Savla LLP. Please go ahead.

Mulesh Savla: Heartiest congratulations Sir on a good set of numbers in a challenging environment and also congratulations for a very nice presentation, very informative presentation that is what being put up on the site. Most of my questions have been answered Sir, but I just wanted to have one accounting question related to our finance cost. I see that though our net debt is very low and as we get some interest subvention also still our finance cost comes to around 9% of our debt is that right reading?

Sathyamurthy A: No, our finance cost consists of two component one is the normal finance cost plus the Ind AS interest account. So out of Rs 34 Crores of our interest cost about Rs 6.5 Crores is on account of Ind AS the balance only accounts for a normal interest cost. Again this Rs 28 Crores consists of the bank charge of about Rs 6 Crores which is on account of the various normal transactions, processing fee etc., if we eliminate that the actual interest cost is only Rs 22 Crores against that you have to knock off Rs 6.3 Crores of interest income which is grouped under other income so effectively our interest cost is only Rs 15 Crores as against the net debt and average interest cost works out to sub 6% at this point of time.

Mulesh Savla: So that the other charges for export and all those things are also very high?

Sathyamurthy A: Yes, it is also because of numerous transactions and number of invoices that we do every month and also we incur pre-shipment insurance cost which is charged by the bank all those charges accounts for that.

Mulesh Savla: That is very good. That is very helpful to understand the finance cost and Sir you have further provided for about 4.72 Crores for expected credit risk may we have some detail of that and we hope that no further provision is expected against any customer.

Sathyamurthy A: This is as per the company's policy, expected credit loss provision was provided by the company on a conservative basis. We do not foresee any recoverability issue; however, as a conservative policy any receivables exceeding a certain period we provide for it and subsequently we write it back when we realize and that is how we provided for this financial year Rs 4.72 Crores of which Rs 3.5 Crores has been provided in the first quarter itself.

Sivaramakrishnan G: Just to clarify 4.1 Crores was provided in this fourth quarter and 3.5 in the first quarter right. So it is about 7.5 Crores.

Sathyamurthy A: Yes, and on realization it will be accounted as write back of provision.

Mulesh Savla: Thank you so much and wish you all the very best.

Moderator: Thank you. The next question is from the line of Ashwin Reddy from Samatva Capital. Please go ahead.

Ashwin Reddy: Good morning. Congrats on a very strong set of numbers. Sir I have two questions, firstly this is regarding the design and the value added services and which you talk about in the presentation and your commentary as well so I just wanted to understand is it something which is becoming a norm for the industry and kind of part of the course for all these suppliers say such as a bigger guys like you or is it something which we are focusing on to increase the margins over the next two, three years, so how should one think about it I mean and this is in anyway link to the fast fashion trend also which is going on?

Sivaramakrishnan G: It is a bit of everything. We have the capability we have the repertoire of clients who are a mix of fast fashion as well as the grocer type like your Walmart's and others so we have and industrials as well so we have all kinds of customers and what happens is that with the capability that we have and with the cross customer view that we get we are in a strong position to advice many of our customers as to how to go about looking at their portfolio and help them and we do that primarily to increase business stickiness. So that we continue to get a good amount of business traction from them and it has worked well with several customers as they get to know our capabilities, our design capabilities and obviously with that our production capabilities as well and also build stickiness. Whether that results enough getting a little higher pricing I would not fully endorses what it does deliver to us is the better stickiness and growth in revenues.

Ashwin Reddy: This is helpful. Secondly regarding the credit loss and I understand that last three, four years have been tricky for the US retail, but in terms of subsidy predicting ourselves against such cases in the future happen but is there anything that can be done or has been done already to reduce?

Sivaramakrishnan G: So we had taken credit insurance. I will answer it in two parts. One is we have had some credit issues with Indian customers so as a consequence we have actually exited the Indian business completely so we are only focusing on international business and we are only focusing on those customers who we believe are financially solvent and strong. We have had certain instances in the past again legacy where we did not have insurance cover for a few customers, Sears was from us then and we had a problem and they went bankrupt and we most of the customers almost all the customers that we have currently we have an insurance cover from them which covers any receivables which are at risk even though we may not cover the goods which are under production but the best protection that we have is to constantly monitor the financials of our customers and make sure that we adjust our exposures accordingly. So far the customers that we deviate now especially post COVID are all customers with reasonably strong financials and have good amount of cash flows or got cash in bank so we are very careful now to avoid any credit risk going forward.

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

Amit Doshi: Thank you. Really appreciate the detailed presentation and the type of data cover in the presentation. Sir you mentioned about the strong order book and generally as you have always said you have around two quarters of order book in hand so this time do you believe that it is more than two quarters order book in your hand or it is a type of order which is more like an outerwear or which is more margin remunerative orders. So can you give some hint on that?

Sivaramakrishnan G: So it is the volume of orders as well as the type of orders. We have a good amount of outerwear the kind of orders for the quarters ahead which is Q1 and Q2 and we have a strong order book which means that our orders for the quarters ahead in terms of sheer volume is high and it is a combination of the right orders high value orders as well as volume.

Amit Doshi: Sir second about this cost structure I was just looking at this March 2021 results and this employee cost you have already answered about reduction in employee cost on the other hand there is job work charges which are on an increase so is that some sort of a change in the structure that how we are operating is there and also on the margin front while we say that we hedge our forex but this quarter we have around 7 Crores substantial forex gain and probably that is one of the contributors of increase in the margin so do you want to comment anything on this as well as that cost structure which I spoke about?

Sivaramakrishnan G: Let me address the forex part. For the year there was a forex loss of 1.5 Crores. For the quarter there is a forex gain of 7 Crores. Frankly, the forex gain or loss matters nothing to the P&L and to the PAT levels of the company. What happens is when I book my order, I book it based on my forward rate available and I have already hedged my receivable for the quarters ahead. So at this point in time for Q1 and Q2 we have mostly hedged and for the quarters ahead also we had somewhat hedged. So I work on the hedged P&L. If the spot rate in a quarter going forward turns if the rupee let us say substantially weakens in the quarter ahead, we will show that there has been a hedge loss of a certain value because I have hedged that let us say I would say 73.50 and the rupee goes to 74.50, I book my revenue at 74.50 and then that Re.1 delta is how it as a hedge loss so it really does not matter what the spot rates are and hence what is the hedge loss or hedge gain as the case maybe because the business is done on a hedged P&L and not on a spot P&L whereas the Ind AS process has to cast the P&L as per the spot rates so revenue is denominated in the corresponding spot rate for the quarter and then the hedge loss or hedge gain may be taken accordingly it really does not matter to the bottomline.

Sathyamurthy A: With reference to job work charges, I just wanted to clarify, that some of the activities we engage people on contract basis inside the factory to complete it and if you observe that our employee cost for the quarter is very low partially because of the nonavailability of labor on time and we have engaged some people on contract and that is how you see the job of charges slightly more in Q4.

Amit Doshi: That is a temporary shift into lack of labor availability.

Sivaramakrishnan G: Correct.

Amit Doshi: Last one accounting question about the tax how much tax loss or carry forward loss that we have and which can be set off so I mean just to understand?

Sivaramakrishnan G: Around 64 Crores is what is the carry forward loss what we have in this financial year.

Amit Doshi: Sorry what figure you said.

Sivaramakrishnan G: 64 Crores.

Amit Doshi: Thank you so much and wish you all the very best.

Moderator: Thank you. Next question is from the line of Chirag Lodaya from ValueQuest. Please go ahead.

Chirag Lodaya: Sir my first question was on this RoSCTL which is now discontinued. So what was the benefit earlier and how much we have accounted in this quarter?

Sivaramakrishnan G: So the RoSCTL till December 31 we use to get about 3.5%. I cannot pin it to a certain value because it depends on product type. So there is a range depending on what product we produce and export at the shipped rate but on an average you could assume at about 3.5% or thereabouts. The RoDTEP rates the government has announced that starting January 1, 2021 it will be moving to what is called RoDTEP, the Refund of Duties and Taxes similar one which is the refund of embedded taxes. We do not know the rates because it has not been announced yet and there has been a committee which has worked on it and given it to the government but we are not privy to it but what we did was to take a conservative approach and recognize only RoDTEP to the extent of lower end of the range which the industry is expecting so we have recognized it at about 2% or thereabouts and we are hoping that when we actually get the RoDTEP number, we will make appropriate corrections going forward then we have been conservative with the RoDTEP estimation.

Chirag Lodaya: My second question was on margins so you said that current high prices of yarn etc., will not impact us in near-term because we hedge it back-to-back and we are able to manage our raw material inflation very well. So is that understanding correct and if you can just help us understand say in next one or two years what can be a sustainable margin from a company point of view?

Sivaramakrishnan G: From a company point of view my belief is that we should be looking at a couple of percentage points improvement in EBITDA margins, which will come from a combination of doing higher value products, managing operations even more efficiently and further growth sheer growth itself will give some operating leverage so all of these will help us gain some additional EBITDA margins.

Chirag Lodaya: There will be no impact on margins in near-term because all the orders are already hedged is that understanding correct?

Sivaramakrishnan G: That is correct. Though I would say the current lockdown may have some impact, current lockdown which is in Q1 because while I do have orders in hand chock a block for my factory and I am not producing when it opens up I may have to use overtime labor, I may have to get some job work done etc., so all of this may increase my costs a bit and may have a temporary impact on my margins pertaining to the period of the lockdown but then that is only a temporary blip, once the lockdown is done and the backlog is cleared, we should not have a problem going forward but yes this lockdown and the time lost or the manufacturing capacity loss may certainly have an impact one time which is only one time and our endeavor will be to recover it as fast as possible and as quickly as possible once the operations are allowed to commence.

Moderator: Thank you. The next question is from the line of Bhavin Chheda from Enam Asset Management. Please go ahead.

Bhavin Chheda: Good set of overall numbers and very good presentation. Sir just a few questions to clarify on the capacity and all that from the presentation if I see a number you have roughly done 19 million pieces and I think your annual report at a capacity of roughly 30 million pieces so you can do 50% growth from here despite that we are doing 120 Crores capex which is almost doubling our block so obviously I think the buoyancy in the US market is driving this so can you explain us that 120 Crores capex well are you adding how much line and in terms of million pieces what would be the capacity post the capex?

Sivaramakrishnan G: Just to clarify when we talk of pieces there is a bit of understanding that we need to have we are not one of those traditional say a T-shirt manufacturer where a piece becomes a standardized piece or a commodity piece and the difference between two pieces are very little in terms of time taken to manufacture etc. So when we are manufacturing something as varied as complex jacket for say Mountain Hardware , it is the other end of the spectrum one garment could take 10 minutes to make and other garment could get 200 minutes to make. So to that extent pieces are a bit of a misnomer so piece versus value both we have to see and keep all this capacities in mind. As we are producing more and more outerwear in terms of capacity itself we will come down from that 30 million because these garments are equivalent to 6 or 7 garments of a traditional 20, 25 minutes garment variety so that is a caveat I want you to have so over a period of time we have migrated to a higher value products year-on-year. As far as the 120 Crores capex is concerned based on the capex estimates about 30 odd Crores will go for upgrade capex to upgrade our quality and refresh our machinery the balance will be for fresh capex which will add capacity. The idea is also, you know, this is only an estimate if my demand is strong then I will go for a faster growth as well so we are looking at capacity additions based on how fast we can bring up the capacity as well as how fast demand picks up which I feel will pickup very strongly going forward.

Bhavin Chheda: If I can ask Sir 120 Crores capex can give you what kind of revenue potential when you run that on a full basis that is one question and second I understand as you said that this outerwear is leading to the capacity reduction because it obviously utilizes much more time but historically refreshing your presentation you have done 24, 25 million pieces so is that number itself gone down because your outerwear share is now 44% versus 30% earlier so on a comparable basis you are actually flattish on volumes as compared to past?

Sivaramakrishnan G: So we use to make 24 million, 25 million pieces this year it has been lower primarily because of the pandemic related loss of capacity. I think going forward we will even though we are producing more and more outerwear which are equivalent to more number of garments, but we do only one garment we will probably be back to that 25 odd million pieces this year or maybe even more depending on how the volumes go up because we are also adding capacity as we speak. As far as the thumb rule is concerned which you said and Sathya correct me if I am going wrong somewhere 1.4 Crores, 1.5 Crores capex investment will give about 6.5 Crores, 7 Crores of revenue is that a fair this is per annum I am saying, Sathya am I correct?

Sathyamurthy A: Yes Sir.

Sivaramakrishnan G: So you got the math Bhavin.

Bhavin Chheda: Yes, so you are saying 1 Crores investment leads to 6 to 7 Crores?

Sivaramakrishnan G: No, 1.4 Crores to 1.5 Crores investment will lead to 6.5 Crores to 7 Crores.

Bhavin Chheda: So roughly it is four to five times okay that is fine. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Lalpuria from B&K Securities. Please go ahead.

Aditya Lalpuria: All my questions have been answered so I do not have to ask anything.

Moderator: Thank you. The next question is from the line of Riddhima Chandak from Roha Asset Managers. Please go ahead.

Riddhima Chandak: Congratulations on a very good set of numbers. Sir my question is on your capex so this 120 Crores capex will this totally funded from internal accruals or how much debt we could take?

Sathyamurthy A: Well term debt to the extent of 50 Crores.

Riddhima Chandak: Like you said that in terms of volume growth we as outerwear revenue contribution will be much higher and it is a higher value product so can we assume that our revenue would be around 1500 odd Crores as you said we can do 25 odd million pieces in FY2022?

Sivaramakrishnan G: You are talking for FY2022 you are saying.

Riddhima Chandak: Yes.

Sivaramakrishnan G: So we are obviously trying to do well in FY2022 and hopefully we will do very well. I really missed the revenue number you said but it is 1500 am I correct?

Riddhima Chandak: Yes.

Sivaramakrishnan G: We will try to do better than that.

Riddhima Chandak: In terms of your EBITDA margin Sir EBITDA margin if you compare to our last seven, eight quarters it is highest if we see so will these EBITDA margins sustain in FY2022 and going forward that is 9%, 9.5%?

Sivaramakrishnan G: That is what I mentioned that over a period of time we will see EBITDA margin go up primarily because we are catering towards higher value products second operating leverage that is incremental revenues will come at an incremental revenue of at the cost will not scale up in line, so all of these will certainly help us get a better EBITDA margin going forward.

Riddhima Chandak: So means 1%, 2% incremental we can…

Sivaramakrishnan G: We should be seeing those kind of improvements going forward.

Riddhima Chandak: Thank you so much Sir.

Moderator: Thank you. Next question is from the line of Resham Jain from DSP Investment Managers. Please go ahead.

Resham Jain: Just couple of questions so first is you just mentioned 1500 Crores is the optimal kind of revenue from the current capacity plus the new one which is coming up in Karnataka is that right?

Sivaramakrishnan G: Can you repeat the question?

Resham Jain: What I was saying that the 1500 Crores revenue which you mentioned is the optimal revenue which you can give?

Sivaramakrishnan G: No I did not mention any 1500 Crores so she asked if you will do it but we are looking at a good revenue growth based on demand. We will push the revenue as much as possible in this year. We are very confident of a strong revenue growth. The number which we just spoke seems to be at the lower end of the spectrum is all I am saying we may do better, yes go ahead.

Resham Jain: What I was trying to understand is the optimal revenue which we can do including the new Karnataka capacity which is coming up what is that you can do assuming seasonality into the business.

Sivaramakrishnan G: So you are saying what is the revenue that I can do based on the current capacity, is that the question that you have asked?

Resham Jain: Yes, including the new capacity coming up in Karnataka.

Sivaramakrishnan G: So with that we will do an excess of that 1500 odd Crores revenue. Since the capacity also is flexible as we are adding more capacity in the system and if I freeze the capacity at current levels then that is the number which we are looking at but I will also be adding capacity at least we get.

Resham Jain: Sir my second question is on the number of factories which you have and in the past we discussed that there can be few rejig within the factories which you operate is that process still on or you think that whatever has to happen in terms of optimization has already happened?

Sivaramakrishnan G: There is some more of that happen. See the capacity of a factory is dependent on two things one the space available in the factory to add more lines and two labor availability in the captive area around the factory. So let us I have more space and I can put lines but if I do not have neither there is no point and going and putting the line so what we are doing is we are building up more capacities in the existing factories as well at a lower cost to build up and to increase capacity and we are also when we are running short of labor in the captive area around the factory we are also now looking at options to put up dormitories and bringing in facilities through our third-party of course so that is bringing in more labor force in that area to just break this labor availability conundrum and South of India sometimes can become labor challenge in certain pockets and that is how we are working through so all of this is helping us unlock some more capacity in our existing factories too. How much would that be it would be about in our existing factories we could unlock to the extent of about 10% odd in all our existing factories put together and then rest will all be our new capacities we will have to keep going.

Resham Jain: Thank you Sir.

Moderator: Thank you. The next question is from the line of Pratik Kothari from Unique PMS. Please go ahead.

Pratik Kothari: Sir my question to the continuation of earlier comment you made regarding the FD which we have with the Canara Bank FD. This as a shareholder I was not aware about the scheme so if you can just highlight what the whole issue is about?

Sathyamurthy A: This is a legacy issue. In fact when we offered some of the properties prior to 2015 as the collateral security for a term loan and when we have sold those properties but then replaced it as a cash collateral and the cash collateral continued. Today we have around Rs 147 Crores in fixed deposit, which continued as collateral for the working capital also. So our request with the Canara Bank to reduce our working capital by setting off this fixed deposit has been pending for quite some time. There were challenges, because it is a dilution of security they are not in a position to take a decision easily. So we are working with other banks to replace the working capital limits sanctioned by Canara Bank with the private bank, the work is in progress and we hope to have a breakthrough in this financial year.

Sivaramakrishnan G: Anyway for more color I think you can have an offline conversation on this. I am sure you will have more questions on this explanation as well so you can probably connect with Sathyamurthy offline to know more.

Pratik Kothari: Thank you Sir and all the best.

Moderator: Thank you. The next question is from the line of Anish Jobalia from Banyan Capital. Please go ahead.

Anish Jobalia: Good afternoon. Thank you for the opportunity. Sir my question is around the RoDTEP rate which you have currently booked at around 2% and the range that like we are looking at is in the 2% to 4% range. So our total incentives on export in the past have been 5% to 6% so we are looking at a shortfall of say 2% to 3% going forward so how would you be able to recoup the shortfall on the customers in FY2022 if not what would be your strategy to mitigate this margin headwinds?

Sivaramakrishnan G: When I say 5% it also includes the duty drawback which also comes to about 1.5% that has not been abolished so that is very much within the scope. So we will get that as well. So effectively we are talking of 1.5% delta in terms of margin reduction if that happens. Now we will naturally price that into our contracts going forward and once the rates are very clear to us and this is announced then we will start factoring that into the pricing as it becomes transparent to everyone. For the moment, the rates not being announced is a challenge as there is no official word on what it is going to be so we are waiting for appropriate announcements but then we will start factoring into the extent possible. Rest of it anyway we will whatever our own efficiency improvement will also compensate for us so as to a large extent we will push it back on their pricing.

Anish Jobalia: So given this Sir in the next year we are expecting a very strong growth assuming a normal scenario as it is today based on your predictions and your visibility so with such a strong growth and you have been speaking about the operational leverage plan out, so, do you think this operating leverage can play out in the next year itself because of such a strong growth and that we are expecting or what is the timeframe for this margin expansion that you have been thinking of 2%?

Sivaramakrishnan G: The timeframe for margin expansion is two years for me conservatively and we will obviously try our best to bring it home as fast as we can and all efforts are on now what is against all this margin and I am kind of also factoring in new RoDTEP in this makes after all of that but then how fast how soon we can all depends on how much I am able to price it in and how fast I am able to price it in to what is the disruptions due to lockdowns which at the moment we are currently facing so there is a minor hiccups on the way but I am anticipating that by the fourth quarter of the current year that is FY2022 we should be seeing a good chunk of it coming in.

Anish Jobalia: Just one small follow-up, so the margin expansion that we are clearly looking at as per your calculation is around 2% right?

Sivaramakrishnan G: Over two years yes.

Anish Jobalia: Thank you so much for the answers.

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

Monish Singhal: Congratulations on a good set of results, hope all of you in the company are keeping good. Just wanted to quickly understand from you from a three, four-year perspective are we looking at any geographical diversification from the markets point of view. This ECL that we have provided for this is a one time and had it not been there so if I have to compare apples-to-apples next year this 4.5 Crores should get added into the P&L right?

Sivaramakrishnan G: So answering the first question first you talked about US market and concentration risk, are we looking at market expansion. In fact, we have pivoted more and more towards the US in response to a better performing market there and we have pivoted out of Europe so our exposure to Europe was much higher when we have brought it down over a period of time and we continue to do that as we speak because the US market seems to be doing much better. US is a more homogenous market, it is a larger market whereas Europe what sells in Germany is different from what sells in Italy and so on and so forth so there are too many small scale orders and most importantly we end up competing with Bangladesh when we go into Europe where Bangladesh goes duty free so we have been doing more and more American business. Now do I see a concentration risk? No because we have suitably diversified ourselves from suitably diversified ourselves across customers and across product class as well so whether it is fashion, industrials and all of those garments so to that extent there is an reasonable diversification. As far as the market concentration is concerned we are still watching and we have also upped our Asia exposure so we will balance all of these between the three large geographies that is Asia, Europe and US. For the moment we think comfortable with our exposure levels to US. If there are any headwinds that we see then we may realign because the lot of our customers are global and we can always realign as that was for this one and you had one more question which was pertaining to the ECL. Yes the ECL will be an additional benefit going forwarded because I do not foresee us providing going forward.

Monish Singhal: Sure and one last question sorry, the return on incremental capital should be in excess of 25% to 30%?

Sivaramakrishnan G: I am sorry return on what incremental?

Monish Singhal: Incremental capital employed so whatever we invest going forwarded so return on that.

Sivaramakrishnan G: I will have to come back to it how the ROCE or incremental, you are saying incremental return on the incremental ROCE or incremental capital correct is that what you are saying?

Monish Singhal: Correct.

Sivaramakrishnan G: See it does not work as that seemingly. In the long run yes, in the short-term no and I will tell you why because whenever you put up the new capacity, the new capacity takes time to ramp up and when it is ramping up for the first year there will be a ramp up cost etc., the skills have to be aligned, we may not be able to going for the highest quality product in those factories so typically a new factory will try to pull it down a bit. Having said that we are also looking at low cost locations where the cost of growth is significantly lower the labor cost is much lower etc., and labor incentives also kick in. So there would be an offsetting component based on that as well so it has to be seen in a net light we can connect offline to discuss this.

Monish Singhal: Thank you Sir.

Moderator: Thank you. The next question is from the line of Chirag from Elara Capital. Please go ahead.

Chirag: Sir all my questions have been answered. Thank you so much.

Moderator: Thank you. The next question is from the line of Dheeraj from Finarthaa Research. Please go ahead.

Dheeraj: Sir we have been seen a substantial decrease in the employee cost in last year so this is due to the pandemic or there has been some automations done?

Sivaramakrishnan G: Both. One is of course pandemic so we have managed to reduce our costs which are all structurally done and second we have also gone for higher value product and higher margin product so that also helps in bringing down labor cost as a proportion through the revenue.

Dheeraj: Second question are we having any benefits on the recent policies announced by government like PLI scheme & Textile parks and all ?

Sivaramakrishnan G: PLI scheme really favors manmade garments. The scheme as the government shared in the first instance was not the best from an industry standpoint. The industry has gone back and represented to the government to alter it. We are awaiting more details before we can take full advantage of it.

Dheeraj: Thank you.

Moderator: Thank you. We take the last question, a follow-up from the line of Bhavin Chheda from Enam Holdings. Please go ahead.

Bhavin Chheda: Thanks for taking my question. Sir can you update as you made the comment India was taking away market share from China mainly in the US market can you elaborate more on the overall market size if any of your product segments and how the market share has moved in last two three years, some kind of a structural change and some data points where it will be useful so that we can track it on a regular basis?

Sivaramakrishnan G: I can probably have a separate conversation with you on some of these as it requires a lot of elaboration in terms of details, product wise, trends etc., and it will be difficult to just explain it away on the phone, but the key is that China is when you look at exports to the state, China has been showing a year-on-year decline, even last year they had a 4% odd decline and it is their loss has largely been taken by Vietnam and a few other places and India has not gained as much but on their level but people like us operators like us we have been gaining considerably and gaining share in those markets so it also depends not just on how the country as a whole does but an operator individually may be able to take a good amount of share based on their own capabilities. So there are lots of those nuances in here.

Bhavin Chheda: Sure sir thanks sir that is helpful and we will chat on this separately.

Moderator: Thank you. I would now like to hand the conference over to the management for closing comments.

Sivaramakrishnan G: Thank you. I think I feel confident based on how the market is shaping up, our end markets. I am encouraged to see that most of the markets seem to be turning round the corner post COVID. All of those countries have had several waves of COVID and there seems to be getting a firm grip if whatever reason the markets do get impacted then there maybe some headwinds though I do not anticipate that at all. On the contrary and to get a strong tailwind from a business standpoint as these countries are opening up and particularly since our exposure to US is high and as US is opening up more and more demand will come our way so our locus of attention or focus will be largely on how do we ramp up our production to cater to the demand and that is where we are single mindedly focusing on. We do have the present challenge or a temporary challenge at the moment in the form of a lockdown in Karnataka which has kept all our factories shut which is a source of agony for us as we are sitting on a huge order book. We are hoping that we will be able to get our factories operational at the earliest. The lockdown continues till end of this current week. We are hoping to get us back on rails as soon as possible. So that we can meet the requirements to the extent that we have lost time in terms of productive capacity there will be some minor hiccups in terms of financials in terms of our inability to shift goods accordingly. So it might get reflected in our Q1 financials but that is completely temporary because as soon as we are operational we will try to scramble up, make up a loss time and then continue growing as we are sitting on huge amount of orders. I do not anticipate much from penalties on this kind of perspectives with this we are aligning our customers well from that perspective. So we are handling the lockdown reasonably well. It is just the loss time we need to account for and manage as soon as the lockdowns are lifted, but I am very hopeful and very confident of demand staying strong through the year and the years ahead. Thank you very much for listening into the conversation.

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