"Gokaldas Exports Limited Q3 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Gokaldas Exports Limited Q3 FY22 earnings conference call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touch tone phone. Please note that this conference is being recorded. I now handover the conference to Mr. Binay Sarda from Christensen Advisor and over to you Mr. Sarda.

Binay Sarda: Thank you Neerav and 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 achievements to differ significantly from what is expressed or implied by such forward-looking statements.

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

To take us to the results and answer your question today we have the top management of Gokaldas Export Limited represented by Mr. Sivaramakrishnan Ganapathi – Managing Director and CEO and Mr. Sathyamurthy – Chief Financial Officer, we will start the call with a brief overview of the quarter gone path and then conduct Q&A.

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

S. Ganapathi: Good morning, everyone. Happy to have you at our Earnings Call for the Third Quarter of FY22. Our Company Gokaldas Exports is one of India's largest Apparel Makers exporting to over 50 countries. We employ 32,000 people of whom 25,000 are women. This is the sector that employs over a crore of people has the potential to industrialize small towns, creates more jobs per unit investment as compared to any other industry and has a high share of revenue disbursed as wages. In short, a highly desirable industry for social upliftment.

The Company recorded one of the best quarters ever, posting a revenue of Rs.524 crores a growth of 95.5% over the previous year. Our export revenue growth was 118%, indicating a strong focus on that segment. We delivered an EBITDA of about Rs.63 crores a year-on-year growth of 161% and PAT of about Rs.30 crores 5x that of the previous year.

This performance seems magnified by a week Q3 of FY21, which was impacted by a poor demand for Spring 2021 goods as buyers were carrying excess inventory from previous season. The real growth comparison should be with Q2.

Our revenue grew by a healthy 17.5% sequentially, raw material costs grew in tandem.

On the labor front costs associated with training and lower productivity of newly recruited people were offset by improved overall productivity of the larger base of the workforce. We augmented the deficit of locally available workforce through the relocation of people from other parts and settling them in third party run dormitories. Other expenses increased over Q2 level due to additional cost of setting up dormitories, higher job work charges due to higher flow of orders, and additional logistics costs. New factories also contributed to increase in other expenses.

Our EBITDA margin was more or less maintained at Q2 level despite continuing ramp. While sequential PBT grew by 35% with lower financing cost, the PAT growth was moderate on account of tax impact of Rs.8.5 crores for the nine-month period ending December 2021.

Our usual business working capital cycle is 75 days, it grew to 83 days in Q3, mainly on account of higher raw material inventory holding and rise in government receivables. The higher inventory was on account of supply chain disruptions we advanced raw material purchase.

The net working capital at the end of Q3 stood at Rs.365 crores. While incremental growth will need incremental working capital, our focus will be to bring back the working capital cycle 75 days optimizing funds.

In October we had a successful capital injection of Rs.300 crores through QIP. We repaid longer tenure loans carrying a higher rate of interest brought down working capital loan and held the rest in various liquid debt instruments to deploy in line with fund raise objectives. Though we carried a gross debt of Rs.177 crores, net of cash and cash equivalents, we held a surplus of Rs.71 crores.

During the last two years, we not only survived the COVID-led disruption, but thrived on it. We sought new opportunities invested in productivity improvement, expanded capacity and grabbed market share consolidating our place in the global supply chain. These results are a testimony to our agile business strategy.

Our capacity addition is happening at a good pace. We anticipate commencing commercial operations at our new unit in Tamil Nadu soon, while our Madhya Pradesh unit is under construction. We also incorporated a new wholly owned subsidiary to enter Knits.

We plan to set up a fabric processing unit in FY23 for a capital investment of about Rs.100 crores. The Company is planning a wholly owned subsidiary in Dubai to lead international expansion. This is work-in-progress. We will update when the plants materialize.

Our senior leadership team led by Mr.Poorna, handling sales, marketing and all business operations, Mr.Sathyamurthy managing finance, commercial and logistics, Mr.Moideen leading all aspects of human resources, keeping our 32,000 strong team highly engaged and helping with their growth. Mr.Tushar streamlining business processes, managing MIS, ensuring that organizations across all stakeholders are in a data rich environment and Mr.Prabhat leading corporate development, interfacing and coordinating with the industry and all regulatory agencies for current business and new projects are vitally supporting the ongoing progress of the Company. We have a strong team handling various aspects of the business to ensure sustainable growth. We continue to focus on a safe work environment for all our employees and I applaud the tireless efforts of our team to maintain a culture of health and safety above all.

Our order book continues to be strong for the fourth quarter of FY22. Our major customers are growing with us. US monthly apparel store sales have been on the rise for nine months in a row consistently crossing pre-COVID levels. YTD November sales in 2021 are 49% higher than 2020 and 3.2% higher than 2019 level. US e-commerce sales have grown significantly 40% higher than YTD 2019 indicating a growing shift in consumer trends. The US continues to be the largest market for the Company.

The new COVID variant is testing as we continue to be hampered by supply chain issues with shipping logistics yet to be normalized. We are seeing incrementally higher absenteeism among workforce impacting production in the short term. This is more of a mid-January phenomenon and we hope will subside soon, at least by early February. We hope that this current wave would end soon, allowing us to resume full production level at the earliest.

Raw material prices have gone up substantially recently. Global brands have attempted to increase the retail price of apparel to offset these trends. Government of India continues to support the industry, FTA with UK is under discussion. When it comes through it could provide additional impetus to demand.

With the pandemic slowly becoming endemic, the outlook for the industry beyond FY22 looks promising.

To conclude, here is a verse that describes us:

"We are on a road less traveled, with every turn offering a choice unrivaled. For when opportunity knocks we must be there to walk the talk. Only the brave set out to conquer setting off into the wild blue yonder, with the determination of a master seeking out fresh green pasture. Courage comes from the knowledge that we are after all privileged for we can build, build and build a formidable business further afield. Traveling around the world flocking miles, clothing people building lives. Growth is at once daunting and truly liberating. I wish you all a happy new year and thank you for listening."

I would be happy to address any questions that you may have.

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

Mulesh Savla: Sir my only question is on expansion on fabric processing unit. So, can you throw a little more light on how that unit is going to help us increasing our margins and further backward integration also on card or not? Whether are we planning to even go for yarn manufacturing, then fabrics and then processing? What kind of integrations are we planning in time to come and there are some news in the newspaper today, that government is coming up with some additional scheme apart from PLI for all those integrated units of textile manufacturing. So, can you elaborate on that? Whether any can we take benefit of any of those new provisions or new announcements?

S. Ganapathi: So, to answer your question, the fabric production unit is in line with our intention to get into the Knits Business. Currently 97% to 98% of what we produce are Woven Garments and the customers that we serve to sell both Woven and Knits Products in their market in their stores. We do have an opportunity to get into Knits, as a means to diversify our offering to our customers and with the existing customers itself, we can leverage to get additional growth. So, with that in mind, we, we thought that Knits could be a good natural move for the Company. Moreover, Knits as a segment globally, is 50% of the global apparel trade in value terms, and it is growing a bit faster than woven given a general casualization trend, general athleisure trends in the industry. So, given that we are having we chose Knits and to be a competitive player in Knits, you need to not just have a garment in business which we are in but also be able to have control over Knits Fabrics, especially fabric processing, because that is where most of the value addition happens, because our intention to set up a Knits Fabric Processing Unit is to exclusively cater to our own garment production. So, we will intentionally convert everything into garments and either sell it to our customers. This unit we are planning to set up in FY23 most likely we have identified a place in Tamil Nadu and we will be putting this up. We will take FY23 to bring up this unit and will most likely contribute production from FY24 onwards. It will help us start our growth in the Knits segment. So, that's the purpose. Whether we will get into yarn production and other areas time will tell. We are constantly working on various developments, but at this moment, our intentions are restricted to getting into the Knits Space for which we believe fabric processing is required. As far as the government policies are concerned, there are several policies one of them is PLI, we are evaluating application for PLI which is due by end of this month and we are working on it that is for manmade fiber-based business. So, there are those incentives. Government has also announced setting up textile parks, giving incentives for textile machinery manufacturer, some of them may not be of interest to us anything which is in the government space or in the space that we are currently operating is what makes more sense for us. So, we will focus on what we think we can do.

Mulesh Savla: Right. So, about how much this fabric processing unit can add to our EBITDA margin.

S. Ganapathi: See, we may not be selling fabrics as such. So, it can be I can look at it from a segmental P&L, I would say they will be about 18% or there about. We will be converting them into a garment and selling it eventually.

Mulesh Savla: So, that's what we will be capturing the value chain from processing our fabric to making readymade garment and selling it.

Moderator: The next question is from the line of Bhavin Chheda from ENAM Holdings. Please go ahead.

Bhavin Chheda: Yes, congratulation to the entire team for our excellent number and successful QIP reducing debt substantially. So, few question if you can quantify the value of the order book which is there one and the other on the any guidance on margins, the margins have remained strong in the quarter and nine months but the raw material prices have been an increasing trend. So, what can be the long-term margin trend?

S. Ganapathi: Okay, thank you see, our order book is strong, we have order book, which can take us well into the next two quarters. So, we have booked in advance and at the moment, all our factories are running at full capacity. So, there is abundance of orders for us to keep working on them. As far as the margin guidance goes you have seen us perform at about 12% EBITDA margins. So, as far as margin is concerned, our aim is to continue to improve our margins further going forward, we will directionally target to improve it by another 1% to 2% over the next two years, we are working on it, while the ramp up goes on, there will be pressures on margins, as new people will keep coming on board, new factories will keep coming on board and they may have a tendency to in the short term could bring down the margins, which we will have to offset by bringing up their productivity to normal levels of other factories, raw material prices do put a pressure on the margins effectively, we have pushed back all of those raw material cost increases back to the customers, we were trying our best to keep it that way. You know it is always a negotiation. You know that that happens between us and the buyers, but so far, we have been able to do it, we hope to keep pushing it. However, sustained increase in raw materials may have a negative impact in the overall growth because the end garment prices grow etc, etc. But the good news is that many of the retail brands have started increasing the prices of the garments as well. So, this is a trend which has started in the western market. So, that is also encouraging and we hope that the raw material prices will also cool down sometime in the future. So, if you look at cotton prices, while they are up about YOY, by about 45%, the fabric price are up only 10% to 15%. I am talking of cotton and cotton blend fabrics. Now, this is also high. We hope that once the cotton price cools down a bit, eventually, the pressure may come down, but in the meanwhile we will be pushing it all back on our customers.

Bhavin Chheda: Sir good to hear that and the last one on the CAPEX you have given a slide of Rs.340 crores of CAPEX spread from FY22 to FY25. So, which includes Rs.110 crores in FY22 and Rs.115 crores in FY23. So, you are in line with that numbers are that numbers have changed?

S. Ganapathi: No sir, I am in line with that number already for the nine months we have spent about Rs.52 crores. The balance will need to, Rs.52 crores for the first nine months, another Rs.55+ crores is being spent in the fourth quarter. So, the spend is all like we speak. So, we are in line with the CAPEX spend and for the year ahead.

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

Chintan Sheth: A couple of things on the demand side. Is this demand coming from expanding our number of customers over this period or this is on ground demand retail demand which is growing and are we seeing any moderation given last year and over the past two years, we have the retail demand has been kind of pushed back and now the pent-up demand is coming back, which is helping us to grow faster. Are we seeing any moderation in recent times, and which can kind of derail our growth aspirations?

S. Ganapathi: So, the good news is that the demand, if you look at the end retail demand, it has grown sharply in calendar 2021 in the US in comparison to even 2019. This is pre-COVID levels, which is what I alluded to in my opening talk. Europe, which is another large market, they are still failing to reach the 2019 levels. So, the good news is that the whole world is not coming out of COVID together, different markets are at different stages of evolution, with US market really leading the way in terms of demand growth, which is good, because in the future, we will be able to when the other buckets come up to be productive, we will be able to leverage those market demands as well. So, I do not foresee any demand drop, per se, because some certain key markets are yet to demonstrate growth. That is point number one. Second, we are at the end of the day, India is a small player in the global apparel trade and Gokaldas as a Company, we have a small share in the whole global trade. So, if we continue to do well, and if we continue to perform to our customer's needs, I do not foresee a demand problem to be that much of a critical issue for us, as long as we are delivering good results to our customers. We have enough customer diversification to help us get additional business, regardless of the rate of industry growth.

Chintan Sheth: In the Knits part, obviously the customers do sell Knits, and that is giving us a cross-selling opportunity there. But in terms of our USP was more towards fashion apparel and Knits being a more bulky, voluminous business, how are we kind of in the learning curve, in terms of migrating to handling that businesses as well. It is little different than the fashion apparel woven part, right?

S. Ganapathi: That is correct, it is little different, but it is not very different. It is an adjacent business and we understand that business as well. So, we are already to athleisure. So, to that extent, we know what we had to Knits, but it is a different kind of Knits and Knits casual is something which we can handle so this was a choice to allow us to grow faster and allow us to have an additional sphere of growth. So, apart from normal growth in woven, we can start an additional growth opportunity in Knits and this way, we will also have an opportunity to swing from one to another in the event there is any particular pandemic or any other external shocks, which will push demand in one segment or the other. So, we do have some degree of diversification in our portfolio.

Chintan Sheth: Right. Sir but Knits as a business has a low asset turn compared to Woven because the selling prices are kind of higher in Woven versus lower in Knits, but the investment required in Knits is larger than relative to Woven, but margins are again offsetting each other. So, are we saying that return profile will be similar or better if we move to knits

S. Ganapathi: From a return on capital invested I would be more or less at the same space.

Chintan Sheth: Okay, got it. Got it. But the CAPEX requirement will be higher in knits compared to wovens given the backward integration.

S. Ganapathi: Given the backward integration that's correct.

Moderator: The next question is from the line of Venkat Samala from Tata Asset Management Ltd. Please go ahead.

Venkat Samala: So, my first question is with respect to knits, you partly spoke about it that you will be adding the fabric processing capability to sort of provide you that competitive edge when you are entering into knits segments. So, just as a follow up on that, I also wanted to understand what will be the CAPEX which will be required for buying the additional sewing machinery and if at all you have identified any location to put up this facility and what could be the revenue and margins that we can expect.

S. Ganapathi: So, we have identified garment units, and they are all in the plan. So, the downstream units will be set up, we will be investing another Rs.75 to Rs.100 crores in the downstream units, but that will happen over three to four years. Some of our existing units also, partially if we can convert into some Knits production, we may try to do that. We will play it as it comes. We do have one full year for the Knits fabric unit to come up. So, it will give us enough time to engineer our downstream capacity planning.

Venkat Samala: Understood and this is a follow up so, we would expect this to get commissioned, largely in FY24. Is that the right way to look at it?

S. Ganapathi: That is correct. It will take a year for this to come up.

Venkat Samala: Okay and we would expect margins of around 18% from this category alone. I mean, knits start to end.

S. Ganapathi: So, if I look at it from a segmental perspective, yes, but that is from the Knits Fabric unit. So, that is return on sales perspective, right, but we will not be selling the fabric. We will be converting it ourselves. So, you, you have to keep that in mind, it may not really reflect in all on the P&L in that sense.

Venkat Samala: So, sir end to end margins we are just trying to understand. From the fabric processing right to the RMG that you will manufacture and sell, right?

S. Ganapathi: Yes, we will again to back to about 14%-16% EBITDA margin for the Knits business overall. Higher than the current levels for sure.

Venkat Samala: And my last question would be about this incorporation of a wholly owned subsidiary in Dubai, if you could highlight, I mean, what is the thought process and what should we expect from this?

S. Ganapathi: So, this is a unit which will in turn invest in our international manufacturing unit. We are looking at options at the moment we will be to let you all know as and when we will identify. We are actively working on an international manufacturing unit as we speak. Once that happens, we will let but that will be the holding Company for this process.

Venkat Samala: Okay. So, say that will be the vehicle that will invest into say some time back, you said, you are actively looking at Bangladesh, so some of the investments that happens.

Moderator: The next question is from the line of Bharat ICICI direct. Please go ahead.

Bharat Choddha: Sir, just wanted to understand the current capacity and the peak potential annual revenue that we could have, like we are looking at current capacity. We were like close to that Rs.1500 Crore annual revenue mark, but now, we have clogged around Rs.525 crores in Q3. So, is it because of higher realization have we outsourced or has this quarterly rate above Rs.500 crore is an organic one and we will be able to sustain from here on.

S. Ganapathi: So, the number that we have delivered is definitely sustainable, because we have delivered it all organically. We have expanded Units capacity wherever possible; we have undertaken all projects work that can yield additional capacity in all our existing factories so wherever there is a potential to build some shed in the campus and add additional lines we have done that and utilize it to the hilt. So, there is a plethora of activities which has gone on which has helped us deliver this revenue and organically it is possible to sustain this yes indeed.

Bharat Choddha: So, probably now the annual peak potential would be around Rs.1800 to Rs.2000 crores. Would that be correct understanding sir?

S. Ganapathi: You could say that.

Bharat Choddha: And sir one question I had on the CAPEX as well like we have announced this Rs.340 crores CAPEX now this fabric processing is included in that or it is excluding that.

S. Ganapathi: It is included in that.

Bharat Choddha: Included in that okay and this knitting normally has an average realization, which is much lower. So, the thought process behind is like, probably, we will have a better EBITDA that is why we are getting into it or anything else.

S. Ganapathi: No, I am most interested in return on investments and return on capital employed. EBITDA margin is just a return on sales numbers. But that is just one metric in that sense. The whole idea behind this is diversification of our offering to our customers. So, today, if I am catering to only half of my customers' requirements, while the other half is completely open, I am losing an opportunity. Incremental growth can be obtained by just talking to my existing customers, if I have to let us say generate an additional growth, I will have to bring on new customers bring on develop new products or expand my existing woven business with my existing customers. By doing all of this, I have an opportunity to open up the other 50% which I have completely ignored by getting into Knits and starting to drive some additional growth. So, it is only coming from that perspective synergize my relationships with the customers and start cross-selling to them.

Bharat Choddha: Better mining the existing customer base is the key thing over there.

S. Ganapathi: Correct.

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

Pulkit Singhal: If I just look at I mean, if you are clocking around Rs.2000 crores run rate or sales on an asset base of gross block of around Rs.580 crores because you mentioned around Rs.52 crores were spent so far that is just translating to almost 3.4x asset turns, is that the correct number to look at while thinking about your incremental asset turns or is there also an element of product mix which may not be repeated.

S. Ganapathi: So our asset turns is usually about 4.5x and not 3.5x as I heard you. So, that correction and we have been investing CAPEX even through this year to augment capacity. So, some of the capacity ramp ups that you see which are happening in our existing units and you remember two new factories came up in September as well. So, they are also contributing to an extent to our revenues and they are still in a ramp up mode. So, in Q4, they will ramp up and most likely in Q1 they will reach full capacity. So, all these capacities will be contributing and as far as asset turns are concerned, you could assume 4.5x as the really more appropriate. Between 4x to 4.5x as the real asset turns.

Pulkit Singhal: And that I should assume on the incremental Rs.340 crores or the CAPEX also doing or would that be slightly lower because you are also going into knits on that side.

S. Ganapathi: No. So, the Rs.340 crores will definitely contribute to that kind of revenue growth. Now, out of the Rs.340 crores You know, the Rs.340 crores spend has already started. So, this year we have already spent Rs.50 crores. We will be spending the balance Rs.290 crores going forward. Some of these Rs.50 crores will only yield going forward. So, yes you could assume that the Rs.340 crores the equivalent revenue has to come up.

Pulkit Singhal: Sure, and you also alluded to probably considering the PLI Scheme I am just curious I mean, you mentioned manmade fibers is what would be considered so are we looking at getting in that segment or what is the thought process?

S. Ganapathi: No, we will not be into get into backward integration. We will only be producing garments which utilize manmade fiber-based fabrics.

Pulkit Singhal: Okay and that could be a sizable opportunity or that is the incremental kind of thinking.

S. Ganapathi: It will be an incremental opportunity for us. So, say that the government has specified very specific HS codes, which are hardly exported out of India. These are typically products, which are exported out of China and Vietnam. They want to create the textile ecosystem for manmade fibers out of India. So, if we start producing those garments here , then the whole ecosystem will start getting generated and the government wants the manmade fiber ecosystem, which is larger than the cotton fiber ecosystem to also be created in the country thereby expanding the industrial base here. So, that is the intention of a PLI, where we have the relationships with the customers, and we have the product technical knowledge as well and we already do some such products in our portfolio as of now. So, we will reach out to our existing customers once the plans are ready and then start producing those specific garments. The fabric for which may still have to be imported at the moment because there is no such fabric availability, and then we will convert into garments and export.

Pulkit Singhal: So, I am just trying to understand whether you have we get significant benefits from PLI here. Does it make it very attractive from a standpoint of ROCE and margins in participating in that?

S. Ganapathi: See, the way I look at this business is that any business I get into should be attractive from an ROCE and margin perspective, without disincentive, the incentive can only be an add on to me if I construct a business, which is interesting or financially interesting, only based on the PLI, additional PLI, that is getting into a risk. So, I would not do that.

Moderator: The next question is from the line of V.P. Rajesh from Banyan Capital. Please go ahead.

V.P. Rajesh: What is the target ROCE for the incremental capital?

S. Ganapathi: So, the general ROCE that we are targeting for the Company is 20%, or a little upwards of that.

V.P. Rajesh: Right, shouldn't it be a little higher for this incremental CAPEX or what is your take on that is it going to be around 20% for this also?

S. Ganapathi: The incremental CAPEX will also be needing that. So, are you asking me if it will be higher than this for the incremental CAPEX?

V.P. Rajesh: Yes.

S. Ganapathi: Let it play out obviously, the intention is to maximize the return on capital employed. So, definitely, we will try to push as much as we can.

V.P. Rajesh: One quick question on the customer side, as you are diversifying away, I am just trying to understand the logic of it because I would presume that your current market share or the wallet share with your current customers is quite small in the woven itself, isn't it?

S. Ganapathi: Yes.

V.P. Rajesh: So, when you moving to Knits you much elaborate the logic for it that would be helpful

S. Ganapathi: Okay, so, see at the end of the day, we look at it from a customer's perspective. They buy different products categories from various different suppliers and all the suppliers are locked for years together. So, while we keep pushing our current product category, and seek incremental business, we A) Seek a higher share of our customers growth, B) we seek some share from other suppliers production. So, cannibalize some other suppliers production and C) get into new areas so that that there also we can participate in incremental growth. So, if I am looking at much higher than industry growth in revenue, then I will have to seek multiple opportunities and not just seek incremental growth in my current area. So, it is from that perspective that I want to increase my options available, whereby I today from a product category perspective, we are in fashion, we are in outerwear, we are in athleisure. Now, we are in Knits. It gives me multiple options to play with. Keep in mind that despite all of this in our wovens will be a much larger piece of business for us. So, Knits is just an entry and it takes time for it to build up to a substantial level. The other logic behind this is that over the last two years, Knits has grown faster, mainly because of the pandemic where people wearing casual and I do not see the casual trend going away completely, so casuals will have a good prospects in the future so we thought and then India has got a solid cotton base as well. So, Knits will have a reasonably good future as long as we can produce it at an appropriate cost.

Moderator: The next question is from Bajrang Bafna from Sunidhi Securities & Finance. Please go ahead.

Bajrang Bafna: My first question pertains to we are seeing multiple headwinds which are coming up for textile industry in Pakistan and as well as Bangladesh, you might be going through N number of media reports which are reporting the unavailability of cotton and all those issues, which are also started happening in those countries, which are also participating in export thing. So, are we seeing our clients from these countries apart from Vietnam and China, which we earlier alluded to are also scouting, some sort of interesting opportunities in India. Have you started seeing some movement there also.

S. Ganapathi: See, not much from Bangladesh all these things do take time to materialize as it is there is enough opportunity coming from the other larger supplying sources like China. So, I do not see more such opportunity from our neighboring states is going to help much but let me tell you one thing that been with the fabric manufacturing ecosystem largely being in India, especially for cotton the future for India is much stronger, because if the fabric can be converted into garments in India, that is always better rather than take it all the way to Bangladesh, the only current advantage of Bangladesh is that there is a very, very solid manufacturing ecosystem and the labor costs are cheaper. So, Bangladesh will try, but I definitely see that India will thrive as well and opportunity may momentarily shift from one to another, but I think both the countries will try.

Bajrang Bafna: Yes, Shiva sir my question was pertaining to the fact that earlier for Bangladesh, the larger opportunity was that they were importing this fabric from China, and now, the Chinese cotton is completely banned in US and parts of Europe also. So, because of that now they have to resort to Indian cotton or Indian yarn, which was not the case earlier. So, is this particular thing will throw some opportunity to us, because we might be more competitive in terms of raw materials.

S. Ganapathi: That is what I am saying. So, from a fabric side, we may have an advantage only because India has got the fabric ecosystem for cotton. So, yes, and while US has banded Europeans are still buying so keep that in mind. So, if you look at China's share into the US market, in the last two years, it has fallen by 6%. But as far as Europe is concerned, China has still maintained its share, that mainly a US thing, where cotton ban is being aggressively enforced. Having said all of this, yes, there is a benefit for India, because the cotton manufacturing bases here, and there pushing fabric all the way to Bangladesh, there is an additional cost involved there.

Bajrang Bafna: Sir just my last question on the employee side we have seen your employee base has consistently gone up if I remember it correctly, the last number reported was 24,000 and now it is almost 32,000 employees. So, can we understand some sort of productivity gain because here the cotton prices are also moving pretty fast. So, to get a sense, in terms of to get a handle on our modeling part, how do we assess the productivity per employee wise, some metrics that you could provide us from your historical experience will be really helpful. Not in terms of the value but purely from a volume perspective.

S. Ganapathi: This will require a much larger discussion, I think, rather than take away everybody's time, we can schedule it sometime offline.

Moderator: The next question is from Faisal Hawa from H.G Hawa & Company Limited. Please go ahead.

Faisal Hawa: What kind of legacy from the old management of Blackstone and the promoter remain to be still solved so that Company can even work better at sales growth?

S. Ganapathi: There is no legacy at the moment, it is all it is all behind us.

Faisal Hawa: So, would it be right in making a statement that most of the turnaround has taken place by installing new machines more modern and entering into new segments, where you are not present as before this?

S. Ganapathi: Not only that, it is also improving the business processes. Machine per se will not produce say the business process, which makes which is important. So, yes, a combination of capital infusion, business process strategy and consistently delivering to the customers, have delivered this.

Faisal Hawa: And how many customers have we added in the past nine months.

S. Ganapathi: Past nine months, we have added two customers, and those customers are yet to begin. You can think these past nine months have been pandemic impacted with global travel still being not opened up. So, customers are not coming here. We are not able to meet customers to commence the operations. So, these are certain challenges that we are facing, otherwise, we have actually signed up two customers, but we are just waiting for waiting in the wings for some of those processes to be completed before serious production can be started. Trial productions have already started.

Faisal Hawa: And sir any particular strategic advantage that we have in setting up a unit at Madhya Pradesh because it is actually a landlocked state, and secondarily sir what is the percentage concentration of our top 5 customers to our net revenue.

S. Ganapathi: Madhya Pradesh have offered us two things. One availability of labor, less competitive intensity. So, we are not competing for the same labor force for with other garment manufacturers, labor is available and the government incentives are interesting. So, we do not have we find that to be attractive from that perspective. As far as access to ports are concerned, whether it is from Madhya Pradesh to JNPT, or Bangalore to JNPT more or less, should not be very, very different. So, logistics wise, we do not see too much of a problem. And as far as concentration of top customers go, Sathya our top five are currently about 75% or there about. 70% or 75% somewhere in the mid-range.

Moderator: The next question is from me, Neeraj, from White Fund Investments. Please go ahead.

Neeraj: I have a question regarding your revenue capacity. Why your Tumkur and Bommanahalli your shed is yet to scale up totally and you also said that your revenue potential is now around Rs.500 crores a quarter? Can you correlate these two. Because they're not. So, is that Rs.500 crores of revenue ex of Tumkur and Bommanahalli that you are talking about.

S. Ganapathi: So, in this current quarter, that is the third quarter Tumkur and Bommanahalli I have already contributed but it has not contributed to full capacity levels. So, I would presume that Tumkur and Bommanahalli contribution is to be 40% of innate potential. So, let us say Tumkur plus Bommanahalli equal to Rs.150 crores because we had said that at full capacity utilization, both of them collectively. They will contribute Rs.80 crores + Rs.80 crores, Rs.160 crores of top line currently, that is annually, which is Rs.40 crores per quarter. Currently it is contributing to about 40% of that and about Rs.16 crores per quarter. So, there is an additional opportunity for those two units to further contribute to the extent of Rs.40 odd crores. So, that, that that's an additional capacity available in the system which will happen between Q3 and early Q1, Q4 and early Q1.

Neeraj: So, then is it right sir that Rs.520 crores that you did for the quarter you have additional revenue potential of around Rs.550 crores definitely in the scaleup of Tumkur and Bommanahalli.

S. Ganapathi: See that is correct plus we are also trying to ramp up in our existing unit and not letting any capacity opportunity go. So, wherever we have existing units, we are trying our best to add additional capacity there. So, all options are being explored to not lose opportunity to grow. So, we will seek to unlock some capacity as we go forward, a lot of them are in planning.

Neeraj: Two more questions I have one is on the CAPEX of Rs.340 crores that you said does it include the Rs.100 crores of processing, Rs.100 crores of the processing for the knitting that you're talking about?

S. Ganapathi: Yes, it does include Rs.340 crores includes the Rs.100 crores of it.

Neeraj: So, from here onwards say the next two years the total amount we spent remaining is Rs.290 crores of which the Madhya Pradesh CAPEX and the knitting processing would be the main to CAPEX. Is it right to say that?

S. Ganapathi: That is correct that there will also be a few more factories, which will come up. Garment factories, we are working on those actively. We are also working on an international unit and that also that also they will require some CAPEX so this is inclusive of all of those, but they are out they will all be in the garmenting space.

Neeraj: And last question on employees. How many employees would be when the entire Tumkur and Bommanahalli scales up and how much will be when the Madhya Pradesh Phase-1 scales up.

S. Ganapathi: Tumkur and Bommanahalli have about 1200 employees and Madhya Pradesh at its peak. At the end of Phage-1 will have 2000 employees where in the Phage-2 also in Madhya Pradesh so that will only commence after phase one is completed which is equal in size.

Neeraj: And how much has been Tumkur and Bommanahalli right now?

S. Ganapathi: Right now, Tumkur and Bommanahalli have about 800 to 900 people.

Moderator: The next question is from Abhilasha Satale from Dalal & Broacha. Please go ahead.

Abhilasha Satale: Most of the questions are answered I wanted to know in the current rate of Rs.500 crores the quarterly Rs.520 crores of top line, how much growth we have witnessed through the volume growth and how much is a price growth and when you are talking about we are booked for the next two quarters. So, are we expecting this Rs.500 crores run rate like we are taking this Rs.500 crores run rate because usually Q2 and Q3 are better quarter for us.

S. Ganapathi: When I look at my quarters there I am also factoring in some amount of growth quarter on quarter, because we are also trying to bring up additional capacity as we speak in our existing units and ramp up of our new unit as well. So, when I look at the order book for the next two quarters, I have factored in that growth as well and we are carrying that kind of an order book for the next two quarters. So, it will be more than the current quarterly revenue.

Abhilasha Satale: Okay, sir can you tell me how much is the volume growth in this current year.

S. Ganapathi: In the current year, you are talking about volume growth sequentially between Q2 and Q3 Is that your question?

Abhilasha Satale: No, annually.

A Sathyamurthy: Yes it is about 35%. So, volume growth is almost 60% now.

Abhilasha Satale: Volume growth is almost 60% now and 35% is the price growth in the current quarter. Sure, that is very encouraging. Secondly on the price increases. So, we have seen the cotton prices have increased very sharply and in spite of that we have been able to maintain our margins. So, going forward as the overall cost increases, because of the incremental cotton costs coming into inventory, how much price increases, we witness to take on how much costs the push will have to give to maintain our margin?

S. Ganapathi: I did not fully understand your question, but if your question is, how will we handle incremental cotton price increase and whether we will be able to push it back to the customer or whether it will have an impact on demand? Is that Is that what you're trying to find out?

Abhilasha Satale: Yes sir, I mean, like this quarter, we have maintained margin, but cotton prices have increased further. So, how much further the price increase needs to be passed on this cotton price increase and as we are booked the orders for the quarters ahead.

S. Ganapathi: Our endeavor is to pass on almost as much as possible all the raw material prices back to the customer, when I book an order, we tend to factor in the raw material price and then book it, having said that, we come under pressure as a sustained raw material increase necessitates the entire value chain to take some amount of pressure. So, we tend to push back our raw materials suppliers, so our fabric suppliers get pushed out, and our yarn suppliers get pushed, and so on and so forth to absorb some of the costs. We are a very large buyer of fabric too. So, we do tend to have some amount of negotiation power when we source fabric so we do not absorb all the cotton price increase or fabric or fabric price increase ourselves. We push it back to our supplier. We push it back to our customers and some of it we like to absorb. So, it is a constant negotiation going on three-way between all of us. We try to absorb or retain as little as possible and whatever the little we will have to absorb; we tend to then offset it with improved productivity. So, it is a very complex game, very difficult to predict every quarter, how exactly it will all pan out. But if I look at the bookings that I have done for the quarters ahead, more or less, I have been able to push out some of the fabric price increases.

Moderator: The next question is from Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Yes, most of my questions have been answered just one clarification, you mentioned there are two CAPEX going on one in Tamil Nadu and one in MP. So, how much would be the CAPEX cost and when both of them would be starting?

S. Ganapathi: The MP construction is expected to be completed in May and then we will start training and trial production and so I anticipate that it will take time until Diwali before really some pilot production pilot commercial productions can start. So, it could be more like Q3 Q4 of next year revenue and then it could take a year to ramp up because it is a very large unit. There is one garment unit in Tamil Nadu which most likely will come in commercial production ASAP. So, we are hoping that by end of this month or early next month, we are hoping to get the necessary clearances from the local government authorities. This is a garment factory in Krishnagiri in Tamil Nadu. We are completely ready with everything. We just need certain permission from the government to get it started. Trial productions have also commenced. As far as the Knits fabric unit is concerned, the buildup will happen to the next financial year. So, that will commence only in the subsequent year.

Dixit Doshi: Okay, and CAPEX for MP and Tamil Nadu separate.

S. Ganapathi: CAPEX for MP The first phase one is about Rs.50 crores, and Rs.45 to Rs.50 crores for phase two which is similar. Phase one is what we have embarked on at the moment. So, you could assume Rs.50 crores. Knits unit is Rs.100 crores as I mentioned. The Krishnagiri unit, which is the garment unit, our CAPEX is about Rs.15-Rs.20 crores.

Moderator: Our next question is from the line of Gunjan Kabra, Individual Investor.

Gunjan Kabra: Most of the questions are answered. One question is that I was going through some brands in Europe like Mango or Benetton. They are buying from the vicinity because of the supply chain of disruption like some part of the production is again getting shifted there. So, because of the lead time has increased because of logistic issues and the logistic cost has increased significantly so brands like these are shifting to Turkey or nearby countries. So, are we seeing any such scenario like what is your sense on issues like this impacting the lead time in the industry, which is a very, very important factor for the apparel industry.

S. Ganapathi: See the lead time related nearshoring is the common occurrence and depending on the style, nearshore sourcing will happen. Turkey is a nearshore location for EU. EU is not a big market for us anyway. We are exporting single-digit percentage now 9% or something to that market as compared to US, which is much larger for us. Now, the supply chain issue means that there is a huge amount of inventory getting piled up in the shipping line between the supplying countries and the recipient countries. So, that is a concern. People are addressing that by adopting three views. One trying to place orders in advance. So, we are seeing that order placement seasons have moved up accommodating a longer delivery times. Two, some buyers in desperation are even airlifting goods at their costs so that they can get the goods in season especially for important people and see a little bit of nearshoring so that they can get their inventory in their stores. Overall, the shipping congestion are only easing a bit. So, I do not see this trend accelerating any further it may ease upon going forward.

Gunjan Kabra: Sir also on the CAPEX side, I wanted to ask that we have not added any new customers like it has mentioned that we are in talks with one or two customers. So, is the capacity expansion that is happening is on the basis of the top five, six customers that we have currently like, because the expansion is at a very, very rapid stage currently. So, are we expecting that kind of an order book from the existing customers only?

S. Ganapathi: Yes, there is an additional growth, growth from existing customers. The other two customers I mentioned we have just got them on board. It is just that the startup and the formalities are taking time because of COVID related, travel and so many other issues that that we're out with it, but definitely we have visibility and opportunity from some of these customers.

Moderator: Next question is from Rahul from PGIM India Mutual Fund, please go ahead.

Rahul: I just want to check. Does this CAPEX include the international unit also.

S. Ganapathi: Yes.

Rahul: Okay. So, how much I mean, if we go ahead with that then how much that can be there.

S. Ganapathi: How much of investment internationally you are asking what kind of value.

Rahul: Yes.

S. Ganapathi: I find it a bit difficult to pin pinpoint, but it will not be less than Rs.50 crores.

Rahul: And, I mean, if you can, just like give outlook on your debt, you brought I mean, obviously reduce your long-term borrowings. So, from now on, will you primarily be working capital, will you be taking on some term that also eventually for the CAPEX.

S. Ganapathi: So, for now we plan our growth appropriately. For now, we will not take on the term debt, only working capital debt at this point in time. And then depending on how fast we what incremental ramp up or what incremental CAPEX plans that we come up with, we will decide on further debt option.

Rahul: I just reconfirm you said the first phase of the MP unit basically will come from Q3 Right? FY23.

S. Ganapathi: That is correct.

Rahul: Okay. that is Rs.50 crores.

S. Ganapathi: That the CAPEX is Rs.50 crores, correct.

Moderator: The next question is on line of SK Patel from Shanti Patel Investment Advisor. Please go ahead.

SK Patel: Good afternoon sir. My question is who are our main competitors from India and where we stand as far as the organized sector is concerned.

S. Ganapathi: Our main competitors in the woven space that we operate in is Shahi Exports, then we have Arvind. We have other like orient craft, we have Richa. There are several players in this space who compete with us. These are competitors from India. Likewise, there are competitors from Bangladesh, Vietnam and China as well. So, we all compete for the same business.

SK Patel: So, in the organized sector.

S. Ganapathi: Yes, these are all organized player.

SK Patel: No where we stand, what is our ranking?

S. Ganapathi: The largest, okay. So, the largest player in the business in India out of India is Shahi Exports, their total revenue is about Rs.7400 odd crores in my opinion. So, they seem to be the biggest. At the moment from a pure garmenting perspective, we may be number two or thereabouts. I am not sure of based on our current run rate, but I am not sure of certain private players, if they do, if they also have grown considerably there is PGIL there is there have several other players as well for also growing so, we will have to look at all those numbers, but we seem to be generally regarded as a as a strong second to Shahi domestically, but that really does not matter. This is an international business and we compete with global players as well. So, when I look at players in Bangladesh, there are several larger players there. When I look at Vietnam and China, there are many, many large players out there, players who are more than a billion dollar. Shahi itself is almost $1 billion in India. So, it is a very large sector with large operators we are we are, we still have quite a bit of way to go to reach those sizes.

Moderator: The next question is from Dr. Munish Seghal, an individual investor. Please go ahead.

Munish Seghal: What would be the potential run rate of revenues for Q4 and Q1 next year and secondly, are we as a trend seeing some say niche brands also coming to us for production? We seeing influencer led brands also catching up as well as some private labels of say marketplaces. Is that a trend that is catching on.

S. Ganapathi: So, order book is good, we are seeing strong growth. We just hope that the current pandemic which is impacting our production in January subsides soon so that we can get back to clocking our normal production continues. So, for the moment it will be the factory absenteeism is a lot as many people have reported sick and have quarantined themselves. So, there is a bit of a disruption. We believe it is a short term and we will it be just a blip and we will overcome it. That said we expect growth in Q4, Q1. So, that continues. Regarding additionof niche customers, no, we do not look at small niche customers. It is the overhead to manage the niche customer is too high. We would rather look at volume customers and scale customers for now.

Moderator: The next question is from the line of Siddharth Purohit from InvesQ Investment Advisors. Please go ahead.

Siddharth Purohit: Sir, just one clarification, if I missed it out, can you repeat. Sir as you said, there is a lot of kind of again pressure on the outbound shipment and some disruptions and price escalations. So, like is there any like possibility of shipment getting deferred during this quarter also, what kind of what quantum of price hike in terms of freight we are seeing from outbound side.

S. Ganapathi: The outbound costs continue to be high and there are certain delays in shipments to the market. So, those challenges continue, I do not see it completely resolved by a in any time soon, it will take probably second half of 2022 or even end of 2022 to kind of fully resolve. Given that shipping line congestion are a real issue. Keep in mind that China is also enforcing pretty aggressive lockdown in response to Omicron. So, they are shutting down ports, even today, we are struggling to get raw material from China where we need simply because many ports are shut or ports are working at low capacity. So, disruptions are here to stay and with disruptions come higher costs. Now, outbound logistics are our customer scope so we do not tend to pick up much cost, but some amount of cost increase. One account of inbound logistics is expected to happen because of these disruptions.

Moderator: The next question is from the Bhavin Chheda from ENAM Holdings. Please go ahead.

Bhavin Chheda: Yes, there was a note on lower provision for RoSCTL in the quarter. Can you explain in what is the current RoSCTL run rate now.

S. Ganapathi: So, I will make Sathya explain the RoSCTL run rate and the topic is as follows RoSCTL is refund of state and Central Levy, which the government gives us. These are taxes which are embedded in the raw materials that we buy. So, for example, any exporter to provide a level playing field WTO allows the local governments to reimburse embedded taxes. So, for example petroleum fuel-based inputs, electricity duty based inputs are not GST, so, we do not get any refund which is GST refund. So, that is given back in the form of RoSCTL. It has been fixed for different product types based on a very elaborate calculations and refunded back to us. Now, RoSCTL has started coming back to us from January onwards when they had put a block on it earlier, but they come in the form of scripts. So, we get a script whenever we export and we can sell the script to an importer who can use it to important an equivalent value and thereby monetize RoSCTL value. So, what used to happen in the past what we used to get almost 98% of the script value when we sell in the market. These days, the number has fallen down to 80% because the import levels have come down or realization on sale of scripts has come down and we have represented the government of India saying that look you this is effectively your transfer of subsidy from exporters to importer as importers can buy script at a cheaper rate and exporters are subsidizing importers cost so we have represented in the meanwhile, we have re-rated the RoSCTL receivable down to accommodate for the lower realization we are getting on the scripts that is line item, so about five odd crores which you see it is on account of under valuing the receivables from the Government of India on account of lower realization of scripts as we dig deeper now. It is just prudent accounting policies that we are doing.

A. Sathyamurthy: As of now, the outstanding is around Rs.42 crores net of this provision.

Bhavin Chheda: Current outstanding is Rs.42 crores which is worth of scripts which you have to sell in the market.

Bhavin Chheda: Okay, so that you have already done mark to market lower at 80% realizable value.

A. Sathyamurthy: Yes, we have taken an estimate and accordingly we have provided. We have currently valued at 88%.

Bhavin Chheda: Okay, sir my second question was, in the quarter in the first nine months in the top line growth, how much is volume driven and how much is the price is for blended realization driven?

A. Sathyamurthy: In terms of the volume, if you look at it, it is close to 60% and because of the product mix, we got almost 35%.

Bhavin Chheda: This quarter or nine months.

A.Sathyamurthy: This quarter.

Bhavin Chheda: So, you are saying 60% volume growth and 35% blended growth.

A.Sathyamurthy: Correct.

Bhavin Chheda: So, I understand product mix would have also driven it, but how much has been the pure price hikes due to raw material cost escalation, which you have taken to clients?

S. Ganapathi: My assessment would be about three and a half or 4%.

Bhavin Chheda: Three and a half or 4% in this quarter,

S. Ganapathi: That will be the maximum, but I think that is assessment of mine, Sathya can come back to you with a detailed calculation subsequently.

Bhavin Chheda: And the way that cotton yarn and freight prices have been rising, how much you think further price hike would be required to maintain double digit margin.

S. Ganapathi: See it is difficult to say that because it is not linear price hikes as different products are different types. So, we will also tend to go blended. So, for example, instead of pure cotton, the product could be viscose. So, the styles change, the product type changes, and hence it is very, very difficult to say that what is it that contributes to the price. For example, if a garment is $8. Now, I can change the design to make it consume less fabric and thereby change the product itself. So, it is more complicated exercise, we can handle it offline.

Moderator: The next question is from the line of Chintan Sheth from Sameeksha Capital, please go ahead.

Chintan Sheth: I am still looking at in the balance sheet, the fixed deposit held with bank so can you clear on that issue.

S. Ganapathi: We have already got Rs.70 crores during the month of January, we already got it released. Partial release has happened already. The balance amount also we are in the process of getting it unlocked during this quarter. We are in the process of migrating the working capital facility from the existing banks to the new banks who have sanctioned without that collateral. So, that activity is in progress. So, we hope to get the balance amount also during this quarter. So, in Q4, that amount will get unlocked.

Chintan Sheth: Sure, that is good and the volume growth 60% you spoke about, will translate into 12 and 12 and half crore of garment volume. That is a ballpark right number I am looking at in Q3.

S. Ganapathi: In Q3 almost, just to give you a correct number if you want a 4.6 million pieces is Q3 last year, and 6.6 million pieces is Q3 this year.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

S. Ganapathi: So, thank you all, I think, as a Company we believe in continuous growth. We believe in taking care of our people. We believe strongly that this business has great potential in the country. Textile, as the business it is the traditional business has been around in the country for years and years for centuries and today, I see that the opportunity has come for the country to dominate this segment and lead its growth. Manufacturing out of India, it is quite doable. We have been consistently demonstrating that even though it is quite labor intensive and we have been able to successfully ramp up. We will continue down this trajectory and we believe that the most important elements of success is continuously engaging with customer, delivering a very, very consistent experience to our customers and that is exactly what we are doing as we speak. The challenge is quite formidable, especially when we keep adding new factories and to make sure that the new factories are as productive and as quality conscious as our existing decade old factories. So, we have to make sure that our business processes are quite scalable, robust as we keep expanding. We have the operational depth in our team to deliver this and we are continuously focused on that so that we stay ahead in terms of delivery parameters to our customers. We hope that we will continue this journey going forward into Q4 as well as into FY23. Thank you all.

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