"Gokaldas Exports Q4 FY22 Earnings Conference Call"

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MANAGEMENT: MR. SIVARAMAKRISHNAN GANAPATHI – MANAGING DIRECTOR AND CEO, GOKALDAS EXPORTS
MR. SATHYAMURTHY ANNAMALAI – CFO, GOKALDAS EXPORTS

Moderator: Ladies and gentlemen, Good day and welcome to Gokaldas Exports Q4 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sada from Ernst & Young LLP. Thank you and over to you, Sir.

Binay Sada: Thank you Tanvi. 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 is expressed or implied by such forward looking statement.

Please note that we have mailed the results and the presentation and the same are available on the company's website. In case if you have not received the same you can write to us and we will be happy to send the same over to you.

To take us through the results and answer your questions today we have the top management Gokaldas Exports Limited represented by Mr. Sivaramakrishnan Ganapathi – Managing Director and CEO and Mr. Sathyamurthy Annamalai – CFO. We will start the call with a brief overview of the quarter gone past and then conduct Q&A session.

With that said I will now hand over the call to Mr. Sivaramakrishnan Ganapathi. Over to you, Sir.

S. Ganapathi: Thank you Binay. Good morning, everyone. Happy to have you at our earnings call for the financial year of 2022. We are living in special times, the western markets that were recovering from a severe bout of COVID is now teetering with inflation, a bye product of economic measures taken to combat COVID and now the Russian invasion of Ukraine. Fresh outbreak and stringent COVID control measures in Asian country is holding back the growth in those markets.

Shipping logistics stayed disrupted through FY22 raising cost and building an inventory of goods in the supply pipeline. Supply chain disruption increased factor cost compromising availability and price of raw material. Cotton, a key agricultural commodity was also in short supply globally resulting in an extraordinary price inflation impacting Indian textile industry. Governments worldwide are taking steps to address this situation and hopefully would be able to combat inflation in a concerted manner. Such situations bring in opportunities and effects to various players in the industry and we have no exception.

FY22 assured in several opportunities in terms of global sourcing moving away from China driven by cost and political consideration, supplier consolidation towards efficient and well capitalized players, rapid role out of vaccination across India resulting in our supply side bouncing back quickly vis-a-vis other competing countries which witnessed the supply side instabilities in key producing countries like China, Vietnam and Sri Lanka and Pakistan as well. Post COVID, demand surged particularly in the US, led by reopening of the economy and back to work program, strengthening dollars, Central government initiatives like PLI schemes supporting new investments in MMF segments, state government initiatives to support job creation by supporting capital investment in labor intensive sectors and lastly bilateral initiatives like FTA with several key countries. Inflation and volatility remains a key threat to the global economy and textile and apparel business is on exception to this concern. In these particularly tough times the company has operated with a lot of determination while constantly assessing risks and above all showing courage and agile high performance and entrepreneurial organization like ours not just survived but thrived on this disruption.

During this period, we seized new opportunities, grabbed market share expanded our manufacturing footprints invested in productivity improvement areas and emerged as an indispensable part of the global value chain.

In FY22 our company reported a total income of Rs.1,801 crores registering a 47% growth in revenue. Our export revenue grew by 58% which is in contrast to India's apparel export growth of 30% during the period. We generated an EBITDA margins of 12% for the year,earning Rs.216 crores. Our net profit adjusted for deferred taxes was Rs.105 crores which is a milestone. The company recorded one of the best quarters ever posting a revenue of Rs.588 crores in Q4 a growth of 58% over previous year and delivered an EBITDA of about Rs.80 crores a YoY growth of 109% and an adjusted PAT of Rs.49 crores. The company generated Rs.117 crores as cash flow from operations. We managed to contain our working capital to 70 days of sales we unlocked the fixed deposit with the banks to the extent of Rs.132 crores and will unlock the residual amount in FY23.

With a singular focus we unlocked capacities in our existing facilities, upgraded our machinery for productivity and ensured optimal utilization of capacity while staying razor-sharp on customer delivery matrix emerging as an indispensable part of the global value chain. We commissioned three new units in Karnataka and Tamil Naidu which are ramping up well and initiated work on a new factory in Madhya Pradesh. In October we successfully raised equity capital of Rs.300 crores through QIP to support our ambition for growth. Our business segment continued to grow in FY22, share of casual,outerwear and sportswear segments grew. Our focus on US market continue to pay off as the market showed the most amount of recovery, European consumption is yet to catch up to pre-pandemic level we continue to invest in capacity creation and modernization. We have incurred a capital expenditure of Rs.84 crores in the financial year and expect to continue with investment in FY23. With a diversified customer base, we anticipate a higher growth of our non-top five accounts, with FTA negotiations between India and UK gaining ground there is an opportunity to focus on the market going forward. With consumer getting back to work and socializing, woven products also gained traction.

There are headwinds and tailwinds for global trade in FY23 and apparel is no exception. While no one can predict the events that will unfold, we remain optimistic about our order book for FY23. We have good traction for H1, our service delivery is exceptional and customer satisfaction is high.

We continue to see growth opportunities in FY23 despite the expected uncertainty from a peculiar combination of headwinds and tailwinds. I thank you all 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 Gautam Trivedi from Nepean Capital. Please go ahead.

Gautam Trivedi: Question I have to you is that your EBITDA margins have risen significantly from the fourth quarter of FY21 which was 10.2% to 13.5% for FY22 fourth quarter, now I have a question with respect to raw material prices and to what extent have you been able to navigate cotton raw material prices I mean clearly cotton prices have gone through the roof and other input cost, so want to get a sense of that and also in your case labor is a big element how much are you seeing pressure on wages as well?

S. Ganapathi: See raw material costs have been rising and that is the fact of life for all industries and particularly in the manufacturing sector. So, cotton prices have gone up pretty significantly over the last one year, but then cotton yarn prices have not risen as much and when you finally look at woven fabric the price increases are in the range of about 10% YoY so that is because the cotton content in the fabric is only to that extent so there are value additions that happen and we have long term supply contracts with our supplier which help us get better than the market prices as well as we have the ability to pass on from these cost increases back to the customer and we have been quite successful in doing that through the year. So, raw material prices while they have gone up both in cotton side as well as on manmade fibre-based fabric we have been reasonably successful in passing on our cost increases back to our customer so that explains the raw material cost. As far as other factor cost go particularly labor, through the year the labor cost remains static we have once a year inflation linked wage increase which we usually see, so we had a wage increase in April 2021 that was about 4.5% at that point in time and from April 22 onwards there is another 4.5% wage increase for our labor force and that will get baked into our costing from April onwards, so 4.5% to 5% labor cost increase effectively translates to about 1% of revenue in terms of overall cost increases we typically tend to offset this by driving a higher productivity, we have always a year-on-year productivity growth we have usually witnessed a 3% to 4% productivity growth year-on-year I am talking of CAGR over the last five years and we have every reason to believe that we will be able to drive that as well and the weakening rupee also absorbs some of the labor cost inflation and other factor cost inflation. So, overall while there may be cost pressure our ability to push back some of these prices with our suppliers, push it back to the customers or bake it into the costing and absorb it through productivity increases and rupee depreciation all of which combines us to neutralize some of these effects.

Gautam Trivedi: There is an article today in Times of India that there is a major issue with respect to the heat which unexpectedly we saw in the month of March was the hottest month of March ever, month of April was the hottest April ever in India since the records began in 1901 or whatever, the point I am going to make is that with respect to that heat, does that impact the cotton crop as well or is it only grain I mean would you know that?

S. Ganapathi: We do not track cotton as an agricultural commodity or cotton growing because we only buy fabric. So, we are far removed from cotton as an agricultural commodity I do not believe that it is going to impact as much, but then I am not an expert on it.

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

Pulkit Singhal: Just on the costing side itself I am just trying to understand the P&L a bit better because it seems quite different from the other quarterly P&L, QoQ this year revenue has increased, but we have seen almost I think 4% gross margin contraction or 3.5% whereas the cost in employee cost and other expenses are all lower than the previous quarter so if you can help understand how does that happen while we have the revenue increase but the cost are lower at least on operating cost?

S. Ganapathi: When it comes to gross margins since we make a very wide variety of products our gross margin does not necessarily translates proportionately to the EBITDA margins the reason is that depending on the product type that we make the material content could be very different. So, if I produce more of outerwear which is what we usually produce in certain quarters so for instance this quarter we had a little higher volume of outerwear we typically tend to have a higher material content in our CoGS. So, it has a tendency to show a lower gross margins, but these manufacturing margin that we get from such products are usually higher and hence we make better EBITDA margin finally on those products. I have said this before in my calls as well so a good way to imagine this would be think of us making a cotton shirt where the raw material for the shirt is you know the fabric is Rs. 100 and I am pricing the shirt at Rs. 200 I am just giving you a very macro economics here and my cost of manufacturing is let us say Rs. 75, I make Rs. 25 on that particular shirt. So, if let us say I am given an order to produce a linen shirt where the cost of fabric goes to Rs. 200, but I am given a price of let us say Rs. 325 or something like that my cost of manufacturing still remains Rs. 75 and I can earn another Rs. 50 per shirt, but if you look at the gross margin statistics which will be Rs. 125 on Rs.325 it will look that my gross margin is lower, but my net realization will be higher. So, there is a bit of this conundrum going on in our P&L because of the product variety that we handle. Coming to the employee cost what we usually do since we have a very large employee base by the way we have 32,000 employees, now our employee benefits and retiral provisions are made in the first three quarters and then based on the actuarial valuations we adjusted in the fourth quarter. So, this time we got certain provisions which we had to write back from the previous quarters because we had actually made higher than expected provisions. So, to that extent the employee cost came down particularly because we made higher provisions in Q2, Q3 that is the reasons why our EBITDA margin is slightly overstated in Q4 and employee cost may look a little lower.

Pulkit Singhal: So, What would be the right employee cost to look at adjusted for this provision because I know you are scaling up as well simultaneously?

S. Ganapathi: The total employee cost which is the factory labor cost plus the overheads plus HO complete employee cost, a good metric would be about 30%.

Pulkit Singhal: And in terms of the other expense that also is lower why this is surprising to me is because you are also expanding and your new units are coming up so typically one expects that cost should go up QoQ that is what I am just trying to understand?

A Sathyamurthy: The other expenses normally account for the manufacturing expenses and the supply chain cost. Because of the three new units that have come up, those costs are included. If you compare QoQ there was some air freight element in Q3 and hence between Q3 and Q4 you could see some variance, but otherwise, it is the normal expenses which are incurred for the manufacturing as well as supply chain cost and administrative cost grouped under other expenses.

Pulkit Singhal: Just last question I mean in terms of the working capital very good improvement the debtor has come from 50 days to 28 days I mean this has never happened before so what should be the right debtor days to look at ? going ahead is this 28 or will it be higher?

A Sathyamurthy: Because of the supply chain disruption our inventory days are slightly higher in the finished goods to the extent we carry additional inventory by 10 days, otherwise if you really compare inventory and debtors together we are at a reasonable level . Our average debtors is estimated around 25 days to 28 days in a normal circumstances.

Pulkit Singhal: So, 25 to 28 we should look at going ahead so this is a reset this is a onetime reset which has happened from 50 days to 25, I mean in the past we never had 25?

A Sathyamurthy: Yes we have done, in fact we have negotiated with our customers and participated in the early payment program to bring down our debtor receivables.

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

Jayant Mamania: Sir our volume in 2020 was around 25 million garments and in 2022 it is around 22.6 million garments almost 10% lower, but our turnover is higher by 35% so how would you attribute this to product mix and the rise in raw material pricing?

S. Ganapathi: The reason for that is we are focusing more and more on high value garments. So, when I make outerwear, today outerwear is 41% of my total turnover. Outerwear is the more complex garment it is equivalent to 10x effort of the regular garments that we produce. When you look at the number of pieces we produce it is misleading in many ways because we take one outerwear and added it to one shirt let us say it just become two garments, but effectively outerwear could be 10 x that of a shirt in terms of production effort. So, do not go just by number of pieces it is an indicator of how we are progressing and how we are growing, but then the composition of that also matter. As you can see that higher ASP garments are forming an increasing proportion of what we sell.

Jayant Mamania: Sir if you can quantify what would be the quantum of sales that is attributed to the rise in raw material prices?

S. Ganapathi: Rise in raw material prices will be about 4% or 4.5%.

Jayant Mamania: Sir our margin in Q4 have gone up to 13.5% so what would be the sustainable margin going forward?

S. Ganapathi: So, as I said earlier the margin of 13.5% is slightly inflated because of a little lower provisioning for employee benefits and retiral in the previous two quarter. So, realistic it is over estimated to the extent of 1%. So, realistic estimate of our performance for Q4 is 12.5% we would like to maintain that going forward, but there are a few cost pressures that we will see going forward. For one it is the wage increase that we will be experiencing from April onwards that is 5% wage increase on account of dearness allowance increase as per government notification which has a 1% impact on the EBITDA. We will of course offset it with higher productivity. So, I would reckon that overall for the year we should be at par or slightly better than the FY22 levels that is what we are gunning for in the future. We will have to match it up with our productivity to offset some of these cost increases as we go along, which we are working on. We will also have an additional cost for employee stock options which we recently issued I am not factoring in that because that is a separate Black-Scholes calculation and it will come in as one-time item for the next three years because it is the three year stock vesting program, but it is a non-cash item it will not have an impact on our cash flow, but is an accounting cost that we will have to take so there will be a bit of that I am not factoring that at the moment in the calculations barring that we should try to hold on or improve our margins is the efforts that we are putting in.

Moderator: Thank you. The next question is from the line of Dhaval Shah from Swan Investment. Please go ahead.

Dhaval Shah: Two questions from my side, so first is given the increased heat and we are in labor intensive industry, do we see any impact on the yield on the productivity side?

S. Ganapathi: As I said historically or we have seen about 3% productivity gain YoY. So, we have every reason to believe that journey will continue at least in the near future.

Dhaval Shah: Second question is on the price increase which we would have negotiated with our customers now in this quarter as we see an increased EBITDA margin quarter-on-quarter, so a large part of the increase has come in the current quarter and then the further prices for the further inflation which we would be seeing would that be again get reflected in the next round of negotiation which might happen may be two quarters down the line, can you just help us understand this entire practice of the negotiation and how it would be reflected?

S. Ganapathi: So, the way we price our orders are that when we get a spec for a particular garment we go back and look at what are the factor cost, so what is the fabric cost, what are the trim cost, what are the packaging cost, etc., what is the cost of manufacturing and all, with that we develop costing, secure the prices from our supplier and then quote a price to our customer and close the price and back-to-back secure the prices from our supplier so that we are not exposed to any price variations once an order is booked. So, that is how we plan our business, so when we take an order we know exactly what my cost structure is, as I have already locked in my raw material cost at that point in time and have made my determination on what should be my profit margin on the particular product. So, increase in raw material cost we have by and large been able to push it back to our customers so that extent there is a price increase. The revenue growth is largely driven by volume growth, volume adjusted for complexity of the garment so we calculate based on number of minutes rather than just number of pieces so that's how what is the total work content which goes up and we have seen about 34% volume growth in the FY22 versus FY21 and the rest of it is the price increase or the realization increase which partially would be because of the raw material cost increase and also because of the mix of the product that has changed.

Dhaval Shah: When you say we lock the raw material so like today you get an inquiry then you give your quotation so for how many days or does this quotation remain open or valid till a client comes back to you number one, number two the quotation would be for a certain volume for certain number so maybe for one batch of order or if you are entering into a yearly contract or a six month contract you would be booking the entire fabric for the next one year duration of the contract or the entire life of the contract, otherwise if it was such back to back then raw material would never be a problem in your kind of business so just want to understand these two things?

S. Ganapathi: So, when we get an order we typically tend to get a quotation which is valid at least for a couple of months from our suppliers so we lock them in for that period, if we go back to them placing the orders that price point is valid and is enforceable and then we go ahead and secure the business from our customers and then back-to-back close it with our suppliers. So, the price quotations that we get from our suppliers is locked in and we have enough time to get back to them and close it and hold them accountable to the prices given to us.

Dhaval Shah: So, if you book say a particular quantity that would be deliverable for what three months, six months, how much that be?

S. Ganapathi: So, there are both kinds of businesses large portion of our orders are shorter duration rather than very long duration of 6 months to 1 year. We usually have a turnaround time of three months by which time we will have to turnaround the product. If there is an order let us say a long term and in continuous supply over a 6 month period, a generic commodity kind of product then we tend to negotiate appropriately with the supplier. Also keep in mind that a lot of our raw materials are also nominated supplier. So, we get into a three-way discussion between ourselves, our buyers which is a large customers as well as the fabric suppliers and the fabric suppliers price point becomes binding on the customer as well since it is a three-way dialogue. So, there is a lot of these contractual safeguards that we have in place which allows us to price things to our customers.

Moderator: Thank you. The next question is from the line of Akhil Aragi from Robo Capital. Please go ahead.

Akhil Aragi: So, regarding what you have mention about the revenue growth which is based mostly on the volume growth and not that much on the price increase, so going ahead would the quarterly run rate of revenue be around Rs.500 crores only, for FY23?

S. Ganapathi: No, I think we should be able to do better than the Rs.500 crore run rate I think in the fourth quarter we did about Rs.588 crores, so we are also adding capacity as we speak. So, we are intending to keep our growth momentum and will continue. As of now we do have a very good visibility for H1 we have order book which is reasonably robust for H1 and keep in mind that for Indian garment suppliers Q3 and Q4 is when we produce garments for spring and summer for the Western world and that is the peak season for us. So, Q1 and Q2 usually has got a small dip and then Q3 and Q4 picks up pretty strongly by and large we have insulated our own business from seasonal vagaries and seasonality as we do lot of outerwear in the first and second quarter to pull up the slack, but our revenue growth in FY23 is assured. So, we will have a growth over FY22 we are seeing a good traction for our business as well.

Akhil Aragi: Since you mentioned a robust order book what is the current order book right now?

S. Ganapathi: We normally do not give out those numbers, but I have a fairly full capacity booked for H1FY23.

Akhil Aragi: And just to squeeze in two more questions since you mentioned the company has grabbed market share, so what is the current market share and how much has it increase by?

S. Ganapathi: Market share has to be looked at slightly differently, we tend to look at it in a far more granular fashion. So, what's my market share with say gap as a customer, what my market share with Walmart as a customer and so on and so forth and within that again which sub segment that I grab. So, we tend to look at it differently otherwise if we look at all India exports FY22 was about US$16 billion out of this US$16 billion we did about Rs.1,800 crore which is what about US$250 million. So, from that perspective our market share within India apparel exports is tiny US$250 million on a US$16 billion. So, I see the opportunity landscape to be immense and there is enough potential for people like us to grow.

Akhil Aragi: And my last question is regarding the CAPEX that you are doing in FY23 Rs.160 crores and Rs.120 crores out of that how much is going to be the debt funding?

A Sathyamurthy: About Rs.75 crores we intend to avail over a period of next two years.

Akhil Aragi: Rs.75 crores over the next two years?

A Sathyamurthy: During the year FY23 and FY 24.

Moderator: Thank you. The next question is from the line of Venkat Samala from Tata AMC. Please go ahead.

Venkat Samala: Sir my first question is there was some article moving around wherein Gokaldas is one of the shortlisted company under PLI scheme, so could you give some more color as to you know which product are we manufacturing, what could be the outlay and the benefits that we entail to receive from the government side?

S. Ganapathi: We applied for a PLI scheme that was scheme II which is for Rs.100 crore CAPEX we could produce garments which fall under the MMF product category and their government has specified 40 specific HS codes which qualifies the product which fall under those HS codes would qualify for PLI incentive. So, the investment is work in progress, the factory is under construction which is in Madhya Pradesh. We intend to produce the products which fall under those HS codes, it will take at least a year before the factory starts becoming able to produce and generate the targeted revenue. The target revenue for a Rs.100 crore investment as per PLI scheme is Rs.200 crores of revenue falling under the specific HS code and for that in year 1 the government will give a 11% PLI incentive and for year 2 they would expect a 25% growth over the year 1 level. So, Rs.200 crores going up to Rs.250 crores and for that incremental revenue they will give 9%. So, it is a sliding scale 11%, 9%, 7%, 5% and so on so forth for 5 years and incremental 25% gets the benefit that is the kind of broad PLI scheme. By the time we actually realize the PLI revenue PLI incentives and qualifies for PLI scheme it will be FY25. So, it is a bit away at the moment, but the notion here is that it brings in the ability to Indian manufacturer to get into MMF based products incentivize Indian manufacturer to produce more of manmade fibre based garments. The raw material ecosystem for that is pretty weak at the moment it needs to be established. We already produce garments under these HS codes we do have the technical capability to do so. So, we are in a sense a little better qualified and take advantage of it, but it is something which will take a bit of time before we start seeing the benefits of PLI.

Venkat Samala: And just as a small follow up to that so as you mentioned the incremental revenue over that Rs.200 crores of 25% on which you will get the PLI benefit furthermore as the time horizon extends, so do we need to further keep investing into this to realize benefits beyond that 11% in the first year?

S. Ganapathi: So, we may have some investments going on so based on that first Rs.100 crores itself we can produce much more than Rs.200 crores. So, I do not see way too much investments going forward to continue to realize that PLI benefit it may be some marginal investment.

Venkat Samala:: My last question is when we looked at the Europe share of our revenue mix that has been consistently coming down and that is despite the fact that historically also we were more tilted towards US, so I mean how do we see this moving forward?

S. Ganapathi: So, I see the trends reversing good forward the reason why we have focused on US was manifold. One US is a large homogenous market so we get very good run sizes and hence a better profitability as compared to Europe which is fragmented. Two when we go to Europe we tend to compete with Bangladesh which goes duty free into Europe as opposed to ourselves where we go with the 10% to 11% duties. So, we have a duty disadvantage going into Europe. So, clearly the margins catering to Europe was not as great and third, post COVID US saw the best bounce back of the economy unlike Europe which continue to stagnate in calendar 2021 and now again Europe will go slow because of the war in Europe. So, all of these reasons we focused more and more on US and we were opportunistic, we were also very conscious of our bottom line and focused on the larger markets for us. Now going forward with FTA expected with UK by the year end and FTA negotiations which could start with Europe in calendar 2023 it presents a good opportunity for us. We are looking at slightly reversing the European trend and going a bit more focused on Europe in anticipation of FTA's coming in place.

Moderator: Thank you. We move to the next question from the line of Yash Bajaj from Lucky Investment Managers. Please go ahead.

Yash Bajaj: Sir I just wanted to understand what would be the mix in terms of cotton and manmade fibre apparel?

S. Ganapathi: Cotton is about 60% of our total fibre mix. We will also have linen and viscose adding up to another 10%, 12% to it and the rest will be polyester, nylon and others.

Yash Bajaj: I mean just to understand like how different would be the costing in terms of all these three type of apparels?

S. Ganapathi: What happens is that depending on the fabric specked out between us and the customer we tend to factor in what is the cost of the particular raw material of the fabric and the other trims associated with it and then we calculate the cost and make it into our costing. So, it becomes a pass through to the customer. So, the costing could vary from what the product type is, what kind of blend it is and so on and so forth, but for us it is just a pass through.

Yash Bajaj: Just to understand there is no difference as such in terms of that because it is just a pass through?

S. Ganapathi: Correct.

Yash Bajaj: And sir coming to the CAPEX side how much I remember I think the Q2 calls we were deciding whether to make any CAPEX in Bangladesh, so what is the status with that?

S. Ganapathi: We are working on the Bangladesh project, we anticipate that we should have some amount of output coming from Bangladesh in the second quarter. We are still contemplating between leasing our factory versus building our own, building our own takes time. So, it will delay the commissioning of the projects and it will take it to FY24. We are thinking of starting off with lease in which case we may not have as much of CAPEX. So, it is all work in progress as we speak.

Yash Bajaj: With the MP project?

S. Ganapathi: MP project is under construction we believe that it should be completed by end of June or early July post which it will start with pilot runs and then start ramping up over the next 6 months or 9 months.

Yash Bajaj: So, we can expect a full ramp up after 9 months?

S. Ganapathi: Correct.

Moderator: Thank you. The next question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: Sir wanted to understand like with production issues in Sri Lanka and Pakistan are we getting more order inquiries because of that also which is strengthening our order books?

S. Ganapathi: Sri Lanka has lot more knits and intimate wear, we do not do those products at the moment. So, while we intend getting into knits going forward at the moment we are not as much in competition with Sri Lanka and for that matter with Pakistan. The answer is no those are not benefitting us in particular, but we do tend to benefit from COVID in China, COVID related close down in Southern Vietnam so those benefits have come to us as we make lot more complex products and we are more in competition with suppliers in those countries.

Gunjan Kabra: Also the MP project also is it a part of the PLI scheme or will we be establishing a new plant for PLI?

S. Ganapathi: The MP project is part of the PLI scheme.

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

Cheragh Sidhwa: Sir my first question pertains to the quarter-on-quarter growth so you already have a very high base in the third quarter and we are reporting a 12% growth on that, so I just wanted to understand what will be the rough price hike and volume growth for the current quarter?

S. Ganapathi: You are talking of Q4?

Cheragh Sidhwa: From Q3 to Q4 the 12% QoQ growth, so how much will be the price led growth in that?

A Sathyamurthy: In terms of realization it is almost about 17%.

Cheragh Sidhwa: Volume has dip this quarter because of the higher Outerwear?

A Sathyamurthy: Sorry what we said 17% growth was Q4FY22 v/s Q4FY21, we will get back to you with our answer just bear with us we will come back.

Cheragh Sidhwa: Second question is on the Karnataka plant which we had commissioned the previous quarter if I am not wrong that plant contributed close to around Rs.16 crores in the previous quarter, so what will be the contribution in the current quarter from those plants?

S. Ganapathi: We commissioned three units two in Karnataka and one in Tamil Naidu and the contribution from all these three new plants put together in the Quarter 4 was close to Rs.40 crores.

Cheragh Sidhwa: And the capacity utilization in the current quarter will be trending more than 50%, 60% for these plants?

S. Ganapathi: For those plants yes it will be around that level.

Cheragh Sidhwa: And also just one follow up question from one of the previous participants just look at the last four years of our CAGR growth which has been close to around 15% from FY18 to FY22, but that is mainly driven by our realization growth, so going forward what should one kind of factor in, should we expect similar kind of mix like around 14% would be realization growth and single digit volume growth or going forward volume growth would be close to around double digit and a lower realization growth?

S. Ganapathi: Here is the current run rate the way I see it, my volume growth this year was 34% over last year,of course last year was COVID impacted year FY21. The reason is that we don't look at each piece as our volume, as the work content on each piece could be very different. So, yes you can assume that the volume growth will be there if you treat volume as unique pieces of garments the volume growth will be about 10% or 12% and the realization will be higher, but that is simply because till the mix keeps changing in favor of more and more outerwear you will find that realization per piece will keep growing up faster.

Moderator: Thank you. We will move to the next question from the line of Dixit Doshi from Whitestone Financial Advisors. Please go ahead.

Dixit Doshi: Just one question as you mentioned that it is not prudent to look at the number of pieces and also the ASP changes with the product mix, so considering whatever capacity you have and considering the best possible product mix what kind of top-line we can do with the current capacity and also considering the Tamil Naidu and MP plant what kind of revenue we can do?

S. Ganapathi: The current capacity utilization that is in Q4 we were at full capacity utilization. Based on our current capacity we may see some incremental utilization coming from our three new factories that we set up in the second half of last year. So, they are on a ramp up they have almost ramped up to 50%, 60% levels and given this is incremental ramp up we will get that incremental revenue coming in from there so that is the growth. MP will start contributing revenue only from the third quarter of this year that is FY23 and then it will start ramping up QoQ. The Tamil Naidu new units which is the knits fabric processing unit which will get commissioned by end of FY23 so really strictly speaking its own contribution will start coming in from FY24. So, this year the growth will come from some more incremental capacity unlocking from our existing factories, the incremental growth of the three units we setup in H2 of FY22 and the Bhopal unit which will be contributing as we go forward. We will also, based on demand supply situation we will also be looking at additional garment capacities to be setup in this year that we will keep announcing as and when plans are firmed up. We may also have some revenue coming in from Bangladesh towards the second half of the year based on what we are working on. So, all put there is a decent revenue growth that we are expecting it will all panout in the quarters ahead more so in the second half of the year.

Dixit Doshi: Typically, how much would be the asset turns whatever CAPEX we do?

S. Ganapathi: Typically, the revenue will be 4 to 4.5 times that of the CAPEX that we make when it is fully ramped up. So, if I invest Rs.100 crores I can expect a revenue of Rs.400 to Rs.450 crores once the factory is commissioned and the factory then ramps up to full capacity.

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

Bharat Choda: Basically, I was looking at this presentation in that you have given this like the outerwear proportion basically the ASP beyond Rs.450 has increased from 59% to around 88% in FY22, so what has actually contributed this change in that entire thing like the ASP have been significant what has been contributing to that?

S. Ganapathi: The higher proportion of outerwear in our product mix even the other garment sportswear, casualwear we intended to focus on higher ASP product that is the reason why our mix is weighted towards higher value product so we pick Rs.450 because that is the average price of woven garment exported out of India and the vast majority of our output is at a much higher rate. For example, in FY22 our realization per piece is in excess of Rs. 700 or so, about Rs. 738. So, it is on an upward trend and that is because of the product types that we have focused on.

Bharat Choda: And sir on the CAPEX front like in FY22 could you provide us a breakup of the CAPEX like which capacity how much you have invested and probably also similarly the FY23 CAPEX we are planning how you would be distributing that among the different capacities?

A Sathyamurthy: For FY23 for all the new plants we invested close to around Rs.22 crores. In the existing plants for the capacity expansion and for the modernization we have invested around Rs.18 crores then we also have invested around Rs.30 crores in two of the new projects which are going on. One in Bhopal almost about Rs.19 crores and for the fabric processing units in Tamil Naidu about Rs.11 crores is invested that is as far as FY22 is concerned. For FY23 our investment plan is about Rs.160 crores it includes normal CAPEX in our existing plants to the extent of Rs.20 crores, for the new projects in Bhopal and for new addition we estimate around Rs.70 crores another Rs.70 crores is likely to be invested in our fabric processing unit in Tamil Naidu.

Moderator: Thank you. We will move to the next question from the line of Ankit Pande from Quant Money Managers. Please go ahead.

Ankit Pande: My question would be especially given the estimations from some of the proxy advisors, what would be the approximate ESOP charge that we will have to take in FY23?

S. Ganapathi: I think we will do the final calculation based on how much of ESOP are being handed out to the employees. So, we have had a board meeting, we have finalized it and once the calculation is made we will share with you based on what is the quantum of ESOP being allocated. So, bear with us for some more time we will get back.

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

Prerna Jhunjhunwala: First question is that in your opening remarks you mentioned that you have invested in productivity improvement areas, could you highlights some of the initiatives taken by you to help us understand how the improvements are coming in?

S. Ganapathi: In all our existing factories we have added lot of machines to automate our production. The several such investments have taken place within our existing factory so you know machineries which can automate like collar attachments, cuff attachments, welt pockets and many such investments even we have upgraded our cutting and fusing machines, we have upgraded our embroidery machines, printing machines. So, those things will actually give a higher throughput and some of these newer machines have a lower cost of operations as well. So, it will indeed help us in getting productivity up going forward.

Prerna Jhunjhunwala: So, that will add to the 3% improvement in productivity that you have been saying historically?

S. Ganapathi: Correct.

Prerna Jhunjhunwala: And sir next question is on the inflationary trend that you are witnessing right now in such inflationary trend also your suppliers are binding by the quote that you receive for 6 months or how is the industry working in current scenario because prices are moving up regularly and how are the customers taking it forward are they looking into product mix change, to manage the supply increased cost or how things are happening?

S. Ganapathi: Let us say one fibre price goes up pretty significantly automatically it will lead to fibre blending and all of that. So, rather than use cotton you will use cotton viscose and so on and so forth. So, bit of that happens the woven fabric price increase is not as high in relation to cotton price increase as compared to say a knit fabric price because it will have a higher cotton price and the yarn price increase will be much higher. So, from translation from a percentage increase of cotton to a percentage increase in fabric it comes down quite a bit as there are several other value adding pieces in the production of fabric itself. So, computing all of that and the fact that end consumer that our customer is aware that the fabric prices have to go up we will tend to price in the higher fabric cost. The customers in turn or the brands in turn are reacting by increasing prices of apparel as well. So, on an average we find that the US apparel prices have also gone up thanks to inflation it is about 6% or 7% increase we are finding in apparel price increase as well in the US market. So, it is getting passed on to the end consumer which is what is the most important trend to track. So, if the end consumer is paying for all of this then I think we are good, the raw material prices need not be absorbed by the value chain it can be passed down to end consumers. So, far we have been able to do that, brands have also been able to do that. Some of it may have to be absorbed by the value chain which can happen only through productivity improvement or say currency depreciation etc, which is also getting done to an extent, but largely from our standpoint we are pushing back the pricing which then get push back to the end consumers.

Moderator: Thank you. The next question is from the line of Devesh Goyal from Omkara Capital. Please go ahead.

Devesh Goyal: Sir what would be our share of autumn and winter apparels total revenues and in FY22 and what was it in FY21?

S. Ganapathi: So, FY21 it was 37% it is growing up to some 40% odd percent now.

Devesh Goyal: And sir what would be our tax payout in FY23 are we expecting?

S. Ganapathi: You are saying tax payout?

Devesh Goyal: Yes.

A Sathyamurthy: We are getting into regular tax and for the current year FY23 the effective tax rate will be at 25.17%.

Moderator: Thank you. The next question is from the line of Vikas Kasturi from Focus Capital. Please go ahead.

Vikas Kasturi: Sir my question is regarding your working capital days so since the time you took over it has reduced dramatically from about 108 days to 75 days, so is this a reflection of your growing importance in the supply chain of your customers that is the only question I had sir?

S. Ganapathi: So, the portion of it is because we have negotiated better payment terms with the customers so we have brought down receivable days. We have also got better terms with our supplier which has also increased our number of days that we get to pay to our raw material supplier and we have also managed inventory tightly. However, I should say that in FY22 our inventory management was not as effective simply because of lot of logistical challenges that we had. So, to an extent one could argue that we can operate at a lower working capital cycle than what we currently have if only there was a bit of stability in the logistic supply chain. We, for instance, for imported materials we started importing material at least one to two months in advance just to account for volatility in supply timing etc. So, ships were getting delayed, containers were not being found so there were so many other challenges resulting in us having to keep more raw material inventory and often time even FG inventory.

Moderator: Thank you. The next question is from the line of Nishid Shah from Ambika Fincap. Please go ahead.

Nishid Shah: My question is broad vision you are one of the largest listed garment exporter from India there is an unlisted company, but on a three-year, five-year roadmap and then now we are on a run rate of about Rs.2,500, Rs.2,600 crore a year so when do we see a billion dollar and beyond a billion dollar and benchmarking with the global players, could you just give some color on that?

S. Ganapathi: We need to keep up our growth momentum going forward and for that we need to keep growing at a strong clip. So, notwithstanding short-term headwinds like the inflation in the US or war in Europe which all saying at the most can impact the market by a year or so, I think the longer term prospect for this industry is pretty robust and hence our ability to keep growing will be good. So, we should, we are clearly setting up sight on that long-term growth we would like of course like to grow Rs.5,000 crore, Rs.7,500 crores as we mentioned and keep growing. Timeframe I think we would like to do at the earliest I would say, but then there are lot of short-term challenges that I see in the market, but overall we are reasonably on track to keep up our growth percentage or growth momentum.

Nishid Shah: Just to add on to that these China plus one factor and now the COVID in China and also in Vietnam should be helping us in making inroads into newer variety of garments, higher margin products as well as with sticky customers which was earlier little difficult for an Indian garment manufacturer so how do you react on that?

S. Ganapathi: So, you are right in that, we tend to produce more complex garments which are typically produced in China, Vietnam and other places. So, we are seeing traction on some of those product types and increasingly more and more of the western buyer are shifting that to India and players like us. So, we do tend to compete a lot with them, we do tend to have a good track record of delivering. So, I see that as a bigger opportunity because costs in China and for that matter China and Vietnam are only going up and up to an unrealistic level so much so that India can compete very effectively with them. The only drawback we currently seem to have is a fabric ecosystem. Most of the fabric for such products we are still importing from Taiwan, Korea, China, etc., at the moment, but even then if we are seeing a good order book which were here to be produced then it means that the consumers are seeing some value out of India. So, we do have a good opportunity in that space.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investment. Please go ahead.

Ravi Naredi: Whether these margin of financial year 22 are sustainable at these higher cost of cotton?

S. Ganapathi: So, there are all kinds of forces so there is a higher cost of raw materials which is not just cotton, but even MMF. There is a higher cost of wages inflation and the trick is how much can you pass it back to your customer so higher cotton price effectively has led to about 10% increase in higher cotton fabric price. Now 10% fabric price increase means to me in revenue terms it is about 4 odd percent increase in pricing. If I am able to pass it all through the customers then I do not have a margin impact. If I am able to pass zero to the customer then I take a 4% hit. Now the reality is that so far we have been able to pass most of it back to the customers. Wage cost increase we would have a 1% impact on EBITDA which we intend to offset it through productivity improvements so we will not have as much of an issue there and any other cost that we end up absorbing in the mutual negotiation we do have some relief coming in the form of rupee depreciation. So, if the rupee depreciates by about 3%, 4% then I think bit of our cost increases can be offset there. So, that is how we look at the business. Our endeavor is to be able to sustain the EBITDA margin in the longer run I continue to maintain that I will be able to improve my EBITDA margin by a percentage and half in a two and half to three year timeframe simply because there will be an operating leverage as we grow in scale and productivity there will be some benefits. In the short-term random cost increases of sharp cost increases may have some negative impact in a quarter or two, but overall for the year I think we should be on track for FY23.

Moderator: Thank you. The next question is from the line of Bismuth Nayak from RW Advisors. Please go ahead.

Bismuth Nayak: So, what would be the EBITDA margin profile for all the product category casual, outer, bottom and sportswear?

S. Ganapathi: So, we usually have a bit higher EBITDA margin for outerwear you know it will be about 1% to 1.5% higher and casual wear will be proportionately slightly lower, but more or less you could assume 12% to 12.5% is the average EBITDA margins outerwear will be plus 1.5% the others will be minus half or minus three quarters of a percent.

Bismuth Nayak: And one more thing on number of pieces shipped I did not you understand how do you compute this thing, so how is volume computation done, you said something on outerwear number of pieces?

S. Ganapathi: So, number of pieces are total number of pieces. So, if I ship 10 jackets and 10 shirts I am counting as 20 garment shipped because that is number of pieces, but jacket could take let us say 200 minutes to produce that is the embedded effort to make it and a shirt let's say takes 20 minutes to produce, so a jacket takes 10 times effort that of shirt. Now this depends on the type of jacket and type of shirt please take it with that caveat. So, every product is different since we make a wide variety. So, if we look at let us say a t-shirt making company the bulk of the product will be a round neck t-shirt or polo neck t-shirt with the same level of effort. So, we can define capacity in terms of number of units as the units are more or less standardized. Unfortunately, in our case we are making wide variety of garments which have got humongous amount of delta in terms of product complexity which is why you know defining capacity in number of pieces becomes a bit of a challenge and that is the reason also why the realization per piece is vastly different. So, we have products which are US$20 products as well and we have products which are like US$5. So, the variety is huge.

Moderator: Thank you. The next question is from the line of Aashish Upganlawar from InvesQ Investment Advisors. Please go ahead.

Aashish Upganlawar: You explained in the earlier part of the call that this corundum between the percentage gross margins and the net realization that you would have we understood that, just to understand is it difficult to pass on the absolute may be rupee kind of change in the raw material cost in terms of the increase in the price of the final products in terms of net realization and I am trying to understand whether in absolute basis your margins can stay protected and you can pass it on because you also said that when you contract with the customer you do a back ended contract to suppliers and to what extent the inflation can be managed in this kind of a formula that you have?

S. Ganapathi: So, our endeavor is to pass 100% back to the customers of course we will negotiate with our suppliers the best possible price since we have long term supply contract and then pass it back to the customers. Now most of the instances we do tend to get away by passing to the customers because we also bring in the customers in to nominate the fabric supplier and nominate the pricing of the fabric as well so it becomes a three-way understanding between ourselves, the customers as well as the raw material supplier and fabric is the largest raw material by the way. So, from that perspective we do tend to lock-in the pricing with the customers clear understanding. So, it is largely pass through in the event there is a small amount where we lose out in negotiation we tend to make up this with higher productivity and other parameters, but by and large over 90% of the cases we have been able to pass it in full.

Aashish Upganlawar: If I can ask one more question on the ESOP cost you said the final quantities and the value is still to be finalized, but can you give us some direction as to is it going to be say 1% of the overall capital or something like that or is it going to be a higher amount that you think?

S. Ganapathi: I think roughly ballpark wise as you know the final cost is I do not have it at my table, but it is a little over Rs.5 crores a quarter, but keep in mind that this is an accounting charge it does not impact free cash flows as there is no actual cash payout and it does give us a tax shield so in that sense from a free cash flow standpoint it actually increases the free cash flow.

Moderator: Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors. Please go ahead.

Mithun Aswath: You put up three units this year what is the CAPEX on that and you referred to that the asset turnover is typically around 5 to 5.5 times, so just wanted to get a indication of where we are with those new plants in terms of annual run rate and what run rate we would have done in Q4?

S. Ganapathi: So, the three units that we put up in the second half of last year, two were in Karnataka one in Tamil Naidu, the full capacity run rate for the three units put together would be about Rs.220 crores per year so once they reach the full capacity levels. So, about say Rs.55 crores per quarter. Currently we may be at about 60% of those levels in those three units all put together. So, there is some residual growth that we can anticipate from those units.

A Sathyamurthy: The CAPEX for those units, for the FY22 we incurred Rs.22 crores and some more investment will happen in FY23.

Mithun Aswath: That refers to maybe almost a 10x for asset turnover?

S. Ganapathi: That is correct, so some more CAPEX he said will happen in FY23 the reason in that particular instances is because some of it is also leased capacity so we did not do a full Greenfield investment, we also leased some machineries so in that particular instance we get a higher asset turnover, but then the OPEX cost will be a little higher because we did one of the factories came in some amount of machinery with it. So, when you go and lease capacities you will have to take what is available rather than the way you wanted to be done.

Mithun Aswath: Just one more broader question is how competitive has India become ? Is this more certain opportunity because of the COVID and the business moving to India or what has led to this sort of change of supply is happening here because once COVID goes away do you think Vietnam and China will be back if they are more competitive? so just wanted to understand from that standpoint the labor cost is cheaper here or what is the driver for us to gain more market share?

S. Ganapathi: So, apparel is labor intensive and if you look at the labor cost in China it is in excess of about $350 to $370 per month. Vietnam is closer to $250 in places like Ho Chi Minh City and Hanoi may be even higher. So, the labor cost is high in India it is about $160 odd per month. So, even adjusted for productivity assuming that the Chinese labor or Vietnam labor are more productive. Indian cost are still lower than those places. So, naturally there is a cost arbitrage which is sought out by large brands as they seem to buy more and more garments from cheaper and cheaper locations so this is point number one. The second one is the trade actions against China so banning Chinese cotton, increasing the duties on products from China, etc., as well as the political risk factor that one associates with China particularly for US companies means that they have to diversify their buying outside of China. Now this will be a more long term trend than a short term trend for instance most of the large brands would be sourcing anywhere between 20% to 40%, to 45% from China and usually on the top end of this band rather than the lower end of this band. So, when you are buying that quantity from China any geopolitical risk impact the stability or earnings of the brand itself or the retailer. So, they are also under pressure to diversify their procurements and when you look at the world of production unfortunately there is only Asia which seems to shine well, Africa showed promise, but Ethiopia did not work out, Kenya did not scale up, Central America like Nicaragua, Haiti, etc., could not scale up, Europe or ancillary parts to Europe like Turkey, etc., are also high cost. So, literally they have to look at other locations in Asia, Vietnam is more expensive, Cambodia is growing very fast and so is India and Indonesia and Bangladesh continues to grow. So, these regions which are the only ones left for a buyer or a large brand. Now apparel trade itself is approaching US$500 billion. So, when you have US$500 billion worth of goods to be produced you need large manufacturing centers and if there are good players in India who can step up to the place then you can get business. So, from a larger strategic perspective I do not see getting business or growth is a challenge, the challenge is really how do you set up capacity, how do you ensure that your execution is flawless. In this business since you are producing a wide variety of goods and goods are continuously changing. I am not producing one type of garments from January to December. The product type is continuously changing with the factory so are the raw materials used to make the product. So, if we are able to handle the SKUs, handle variety in the factory and yet order after order after order do a timely delivery on time in full delivery I think there is no challenge to your ability to grow from a business volume standpoint it is only a execution challenge which will govern how much you can grow.

Moderator: Thank you. We will move to the next question from the line of Nilesh Jethani from BOI Mutual Funds. Please go ahead.

Nilesh Jethani: So, my first question is on the overall CAPEX plan we had some few quarters back we were envisaging around Rs.300 crores or Rs.350 crores kind of a CAPEX so I believe three units are already being setup, so wanted to understand how much CAPEX is planned in this new upcoming knitwear and the MP capacity? what balances not announced and when can that happen in future and what is the asset turnover we can expect on the overall Rs.300 crores or Rs.350 crores CAPEX?

S. Ganapathi: So, overall asset turnover as I said it will remain at about 4 to 4.5 times. The CAPEX envisage in FY23 is close to Rs.160 crores, Rs.20 crores is modernization CAPEX so for productivity improvement in existing units like automation, etc., about Rs.70 crores of that CAPEX will go into the fabric processing units which we will be setting up in FY23 and that will go into production only in FY24 and another Rs.70 crores will go into garment manufacturing capacities that we will set up which includes Madhya Pradesh and any other facilities that we are still work in progress there will be some amount of it which will also go into Bangladesh all put together Rs.70 crores.

Nilesh Jethani: One last question from my side this clarification so I heard there is scope to improve EBITDA margin further by 1% and 1.5% it is on the Q4 exit rate or the FY22 base?

S. Ganapathi: FY22 base and that is in a two-year timeframe to do that, in the short term there could be ups and down because of volatility in raw material prices. So, I am talking of annual we will try to maintain that trajectory may be some small hiccups here or there, but those will all get evened out through the year if there is any exceptional volatility, otherwise we will try to maintain that over the annual level of FY22 and I am not factoring in the ESOP cost in this for the moment.

Moderator: We will move to the next question from the line of Tejas Mehta from Omkara Capital. Please go ahead.

Tejas Mehta: Just a couple of quick questions so one is are you a bit worried about the US markets slowing down since last quarter US market has shown about a dip in the GDP growth and sooner or later if you are expecting a sort of recession coming over there, so are you likely to see any demand impact and how do you kind of try to offset that?

S. Ganapathi: So, these things can happen that is why in my opening remarks I did mention that there are headwinds and tailwinds. So, there are challenges, the world is pretty volatile as we speak US interest rates are expected to go up, US inflation is high even UK inflation is almost at a 200-year high. So, there are all these factors which can result in disposable income with the people may be coming down, people may reduce their spending, we have not seen that as much at the moment, but who knows 9 months from now, 6 months from now how things will be. So, we are keeping a very close view or a close watch on some of those numbers the way to mitigate this is as follows try to diversify your customer base as much as possible. So, in the event that you know one customer experiences a lower sale then at least you have the possibility of working with another customer, two go in with more high fashion products so that there is a bit of a price inelasticity there and you are able to still push those products through the market we are doing both of that. I am also hoping that after two years of lockdown where knit and casual wear was going up and up during this period we could perhaps some amount of resurgence in woven products because people will start going back to offices, people will start attending social functions. So, if there is a need to refresh your wardrobe at least some amount of spending will go into woven garments buying those garments which are meant for social occasion. So, we may see some tailwind for us, but the headwinds are indeed there in the major market of US and Europe we are watching it and we are trying to diversify away from it. We are hoping that eventually the markets will work itself out.

Tejas Mehta: And just one more question sir do we have a medium term or let us say long term target to kind of reach a 15% kind of an EBITDA margin and if that is the case then what will it take for us to be able to reach that kind of a margin?

S. Ganapathi: I said earlier 1.5% growth over the current levels in the longer term is a definite possibility and when I say current levels I am saying FY22 levels there will always be short-term related issues where there is a drastic increase or sudden volatile increase in raw material prices or something like that it may impact a quarter or so, but overall, the trend will be about a percent and half. I do not think going up to 15% is realistic at today's level. We will surely work towards the higher and higher profit margins. We are very conscious of the product types that we choose to produce or choose to take so that we are able to deliver a higher margins so we are conscious of that. What can come in the way is only very sharp movements in raw material prices which at a very short-term we may not be able to pass it on unlikely at the moment the way I see it because we have been able to push everything back and the costumer have been also able to take it up in their costing. So, our business cannot grow sharply whatever movements will happen gradually only. So, we will try to protect our EBITDA margin for sure we will see if we can grow it, but 15% seems high.

Moderator: Thank you. The next question is from the line of Abhishek Agarwal from Prithvi Finmart. Please go ahead.

Abhishek Agarwal: Sir I want to know what is the reason exactly to set up a facility in Bangladesh compared to India, so how'sthe environment and all?

S. Ganapathi: So, we do have all our facilities are currently in South of India. We wanted to diversify ourselves outside of that and that is one of the reasons why we went to Madhya Pradesh and we are setting up a factory there. We wanted to diversify our production base even more and that is one of the reasons why we are looking at Bangladesh. Bangladesh has got a very robust garment manufacturing industries, worker availability is strong and our ability to grow there will be faster simply because of the established ecosystem there and the government support that we get there. So, that is one of the reasons for diversification, ability to grow faster, access to European market and hitherto Bangladesh has enjoyed duty free access to Europe. So, several of these factors meant that we thought we would need a footprint in that location to take advantage of some of these.

Abhishek Agarwal: Sir can we say that because we do not cater to European market and because of cost advantage Bangladesh have, so that is why we are planning to setup a facility in Bangladesh?

S. Ganapathi: As I said that is one of the reasons, but the other reason is also because we can probably setup a factory faster and ramp up faster there as the prevailing ecosystem is very robust there. So, worker availability, mid management availability is strong in Bangladesh as the industry has evolved much more in that country.

Abhishek Agarwal: And sir one more thing are we planning to explore opportunity at technical textile?

S. Ganapathi: At the moment it is only the thought, but no.

Moderator: Thank you. The next question is from the line of Ankit Dixit Individual Investor. Please go ahead.

Ankit Dixit: Sir I want to know that what is the demand scenario going forward in the US market at the recession, we are listening the recession could become in the next 6 month, so I just want to know and with the FTA, with the UK and Australia and UAE what would be our revenue going forward?

S. Ganapathi: I did talk about the US inflation just 5 minutes back. US inflation is here to stay it can be a risk factor for the industry as a whole and why only apparel industry for anybody who is exporting anything to the US, but that said we are taking mitigating measures by trying to diversify our customer base within US as well as outside of US. As far as FTA goes I view Australia and UAE has very small market, a population of Australia will be less than that of Mumbai or maybe of that size. So, you can imagine how much of apparel consumption will happen whereas UK is a much larger market and level-playing market. We are hopeful of the FTA with UK getting concluded by end of this year which would mean opening up a very large opportunity and more importantly UK becomes a forerunner for opening up FTA with Europe and if that happens that opens a very large market for India. So, FTA's with the UK and Europe is the most critical one to watch out for which will open up a large market for the country automatically we will start focusing more and more on those sub-segment from a growth standpoint as it does bring in a huge arbitrate potential for all of us.

Moderator: Thank you. We will take the next question from the line of Mohammed Rafiuddin Individual Investor. Please go ahead.

Mohammed Rafiuddin: The question on the long-term horizon three years to five years and actually a billion dollar was in my mind, but are there any milestone you wish to touch or you go to that number something like a dividend policy, something like promoter shareholding going up something like those?

S. Ganapathi: I do not want to speak up for shareholding in the company, but at the moment I think the milestone that we are always looking out for are on the financial milestones and operating milestones and so far I think we are well on course for decent growth.

Mohammed Rafiuddin: Would we be considering to be at net debt level to be negative like the way you are currently?

A Sathyamurthy: Yes for the current year and as of 31st March 22 we have net debt as a cash surplus Rs.119 crores. For FY23 we anticipate will end up with Rs.50 crore surplus.

Mohammed Rafiuddin: Any landmark that you have, I am asking from a long-term investor point of view that would excite us?

S. Ganapathi: The way I see it is that the market is very big and apparel exports are huge. The slow and steady decline of China is here to stay. So, that is also a factor to keep in mind and China still is 10x that of India or at least 8x that of India and anything that comes out of China will be huge for incremental growth in India. So, that opportunity exist, and apparel trade or apparel consumption is not going to come down anytime soon as world's population is only growing from 7 billion and it will touch 8 billion. So, there will be lot more apparel purchase and emerging economy. We sell to almost 50 countries. So, as emerging economies also grow in GDP terms I think consumption will only go up. So, the long-term prognosis is strong for apparel consumption. From a production standpoint or supply stand point of view the story for India is strong. Government of India is supportive of this sector that is why I think they have given a clear announcement of holding RoSCTL till FY24 making those policy announcements, working on FTA with several countries. So, the government intent on supporting this sector they want to support manufacturing, they see this as a segment or a sector which will also help the country socially as it generates a lot of employment and the last and the most important point is that you will also find that this segment is also consolidating with suppliers who are strong so people like us who have the ability to keep investing in sustainability, etc., will also tend to prosper in the long term. So, you know there is a bit of supplier consolidation going on, consolidation towards India which gives presence and opportunity to India, but more so for the larger players in India. So, that long term story is intact I do not see a disruption to that any time for the next 7 years or 10 years there is no other country in the horizon which can pick up that slack from China and Chinese population is also aging and you need as the workman you need younger people who will work in this. So, this is a non-strategic industry for them so more and more has to get produced outside. Indonesia could be one, India could be one, Bangladesh will continue to grow, but there are not too many countries outside of the three or four that I mentioned so the prognosis is good.

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

S. Ganapathi: So, clearly the way I see it is that our team has done a great job in navigating pretty choppy water in FY22 we started the year with a delta wave of COVID which shutdown our factories. In early January we had omicron which also resulted in a lot of our workers reporting sick for quite some time so we did have some production impact. So, the year was characterized by lot of challenges, supply chain remained a challenge, raw material prices was stubbornly high and resulted in us having to sit and had lot of discussions with supplier, buyers etc. So, this volatile environment I anticipate continuing in FY23 for a whole lot of new reasons as well. One is inflation, the other is war in Europe etc. So, we need to stay focused, we need to stay close to the ground to offset any negative event that may come our way. Some amount of volatility can be expected because of reasons which is completely outside our control, but the long-term prognosis for this industry is strong. Our own company has got a good order book so we do have some good degree of visibility in terms of growth and stability in our business. We hope to capitalize on it and build upon it. At the moment we are holding on to our CAPEX plans and continuing with it so we seem comfortable going ahead with those plans for growth. If there are any short term further impact we will obviously react immediately to those events for now I take comfort from the two, three years trajectory that the industry is poised well and the opportunities that I see for a larger high-performance player like us and I feel confident that as shareholders you can see some good progress in the years to come.

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