"Gokaldas Exports Limited Q1 FY-23 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Gokaldas Exports Q1 FY23 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sada from E&Y. Thank you and over to you, sir.

Binay Sada: Thank you. Good morning to all the participants on the call. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known 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 during 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'll be happy to send the same over to you.

To take us through the results and answer your question today, we have the top management of Gokaldas Exports Limited represented by Mr. Sivaramakrishnan Ganapathi – Managing Director and CEO and Mr. Sathyamurthy A – Chief Financial Officer. We will start the call with a brief overview of the quarter gone past and then conduct Q&A session. With that said, I'll now hand over the call to Mr. Siva. Over to you sir.

S. Ganapathi: Thank you Binay. Good morning, everyone. Happy to have you at our earnings call for the first quarter of FY23. We continue our exceptional growth trajectory despite the challenging macroeconomic business environment, delivering a revenue of Rs.613 crores. Revenue grew by 152% Y-o-Y compared to a COVID impacted Q1 FY22. Exports revenue grew by 5% over a seasonally strong previous quarter of Q4 FY22. The solid revenue and profit growth were driven by excellence in execution and optimal utilization of capacity. Seasonally H1 is relatively weak for the Indian apparel industry. This is the period when brands source synthetic apparel for autumn/winter, India's most strongly rooted in the cotton fiber ecosystem, which caters largely to spring summer demand. With a strong expertise in outerwear, we have been able to mitigate the impact of seasonality.

Higher business volume and superior cost management helps in delivering a strong earnings performance. Starting this quarter, the company started providing for ESOP charge of Rs.6 crores amounting to about 1% of revenue, which despite impacting the P&L is a non-cash expense that is accretive to the cash flow as it provides the tax shield. Our EBITDA prior to non-cash ESOP charges is Rs.80 crores, generating an EBITDA margin of 13.1%. The EBITDA margin of 12.1% that we reported after considering the ESOP charge is still higher than FY22 level. Increase in minimum wage effective this quarter increased labor costs by Rs.4.3 crores though this had an impact of 0.7% on the margins it was offset by business volume and productivity.

The company had accumulated tax losses till FY22. Starting this year, the company anticipates normal tax incidence impacting PAT accordingly. The company earned a profit after tax of 39.4 crores, adjusting for the non-cash ESOP charge the PAT would be Rs.45.4 crores. We continue to be zero net debt company having a net cash and cash equivalents of Rs. 236 crores. We also managed our working capital well. As an organization, we have shown enormous resilience in the face of all odds, we had supply chain disruptions in Q1 from China. We heavily depend on imported fabrics and trims in H1. Repeated delays in raw materials supplies due to lockdowns in China affected the efficient factory operation. We work with the suppliers and our customers to mitigate these challenges. We also battled labor shortage due to school closure period of April, May this year. As this was the period for most of our people to visit families that were not possible in the previous years due to COVID.

Looking ahead, anticipating changes, and planning for eventualities we persevered and delivered. Our newly commissioned unit in Karnataka and Tamil Nadu are ramping up well, and our project work for new factories is also progressing well. We continue to manage our working capital well and generate adequate free cash flow to support our growth ambition. Our entire team worked hard to deliver exceptional product quality and service to our customers. We continue to outperform on various customer delivery matrices. We see headwinds in the near term and strong tailwind supporting the ongoing growth of the business. While US retail sales has grown 12.8% YTD in May calendar year 22, large brands are wary of slower consumer uptake in the seasons ahead, till inflationary trends persist. They are also battling higher levels of inventory from last year. It is expected that this may impact imports in the short run.

We are also simultaneously seeing several opportunities present themselves in the form of continuing shift of global sourcing away from China. Supplier consolidation towards efficient and well capitalized the player. Supply side instabilities in countries like Sri Lanka, Pakistan and Myanmar, a favorable currency PLI and signing of FTAs with key markets. While the order book for H2 is work in progress, we see reasonable traction for us. Falling raw material prices is aiding the industry. Despite near term headwinds, we anticipate good growth in FY 23 and the surge from FY24. 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 Aditya, an Individual Investor. Please go ahead.

Aditya: Just wanted to, if you can elaborate more on the opportunities that will come up because of the dire condition in Pakistan and Sri Lanka, which are huge garment exporters. And my second question is, since Gokaldas exports 80% of its goods to the US and, the impending recession there what is the plan of the management to mitigate this, just these two questions. Thanks.

S. Ganapathi: Thank you Aditya. It's a global opportunity and if there are supply constraints in certain countries, it automatically results in customers looking for options from other places as well. Customers are also bound by long term support that is required for suppliers in those countries. So, at the moment, we see some amount of orders moving out of Sri Lanka to India and we have been recipients of those as well. And it does help us in the short term. But in the long term, the Indian story is so strong that we feel that there will be considerable tailwind and support for growth on our own speed. However, we are in these things some benefits from challenges in our neighborhood. To your other question, what is the second question?

Aditya: The slowdown in your top market of our company Gokex**?**

S. Ganapathi: Yes, here you mentioned about US right 80% from the US. So, we do have reasonably strong and diverse customer base. And that helps us from one to another to ensure that we have the ability to fill up our order book from multiple customers, even in the event one of our customers don't seem to do well. In our particular case, since we do woven and most of the garments that we produce are fashion and elevated fashion. We have not seen as much of a challenge even from the US market since the inventory that they hold don't seem to be the inventories of the kind that we produce and since the markets are opening up post COVID people are coming back to work and traveling et cetera there seems to be reasonable demand for products that we make. So, we are not as challenged even though the slowdown may impact all the suppliers like impact all the brand our impact is a lot less. Having said that, we are pivoting a lot more towards Europe in anticipation of an FTA which is being signed with UK, and hopefully an FTA that could be signed with Europe going forward. So, slowly, but surely we are trying to increase our share for the European market that's work in progress as we speak.

Moderator: Thank you. Next question is from the line of Aman Agrawal from Carnelian Capital. Please go ahead.

Aman Agrawal: So, my question was basically, you operate a double shift in terms of garment production, but most of the players in the industry are not able to do that. So, can you please highlight like, what we are doing different compared to the industry in terms of executing that double shift?

S. Ganapathi: No, there's a misunderstanding we don't operate double shift, we also operate single shift most of the employees that we work with are women, and it becomes extremely difficult for them to work very early morning shifts or very late evening shifts, and as they have children to attend to and families to take care off so, we do work one shift only. We are highly efficient in what we produce. So, our productivity levels are good, and we have been reasonably successful in driving up our productivity Y-o-Y as we keep searching for more and more growth. So, not all of our growth comes from just capacity addition, even productivity yields us growth, which has got a higher contribution to return on investment. So, while we tried experimenting with double shift, we have not been very successful, because most of the labor force tend to resist double shift. And, we have seen enough growth coming with single shift operations itself.

Aman Agrawal: Right, thanks for that answer, it was really helpful. My second and final question was basically that we have good CAPEX plan over the next one and two years. So, in terms of given the near-term demand blip, would we like to go ahead with the CAPEX and second, in terms of labor procurement for this new CAPEX which we are going so, do you think there will be any problem in terms of procurement of labor, or we would be able to execute that fairly?

S. Ganapathi: So, we're not slowing down our CAPEX, so our CAPEX plans are intact as we speak, the factory that is coming up in Madhya Pradesh will come up shortly, it will start trial runs production and slowly ramp up by the end of this year. So, at this moment, we don't intend slowing down anything, even our knits unit which is under construction in Tamil Nadu is progressing as its best, as per schedule, and it will also get completed by the end of this financial year that is March 2023. So, we're not altering the timelines, we are not at the moment daunted by any recessionary trends globally. We feel that by the time these units come up on stream we should be fine and we should be able to drive business into these incremental capacities. And as far as labor is concerned, since incrementally we are looking for locations outside of Karnataka and even within Karnataka we are going too far-flung places. We don't foresee as much of a labor availability challenge as well.

Aman Agrawal: Okay. And in terms of foraying into new regions like do we contract with agencies to get labor for our new factory or what is our strategy in terms of going to new regions?

S. Ganapathi: We hire the labor from the local area, we solicit people, we train them and we hire them so we don't use labor contractors.

Moderator: Thank you. Next question is from the line of Venkat from Tata AMC. Please go-ahead sir.

Venkat: Sir my first question is with respect to the top client for us, the news flow surrounding the top client, maybe with respect to the management changes, or recent quarterly performance, wherein there was a sharp revenue decline isn't really good right. So, how are we seeing impact from them could you give some color?

S. Ganapathi: You're asking GAP as a customer?

Venkat: Yes, correct.

S. Ganapathi: Okay, so GAP is a very, very large company, and we do a small, tiny fraction of what they buy. So, for instance their global buying would be in the region of 3 to 4 billion, and our business is closer to 50 million. So, it's, a small share that we have, we don't foresee much of a problem, our relationship with the customer is deep and wide, we have access and relationships with a wide number of people across that organization. And we work with three brands, there Old Navy, GAP as well as Banana Republic. So, we do have enough diversification within the GAP ecosystem as well. So, I don't see any problem with any leadership change or their own business, as GAP also is talking about moving more and more production base to India. So, we don't see much of a problem. There could be these short-term recessionary trends can lead to a small hiccup in a quarter or so, quarter or two at best, but the general trend is strong, our relationship with GAP is strong, we are one of the top suppliers for them, strategic as well as the high-quality supplier for them. So, we don't foresee much of a problem with that relationship.

Venkat: Understood sir that's helpful. And my second and last question would be, you did highlight in the presentation about seeing some challenges with respect to supply especially from China for procurement of certain RM items. So, it costs lead to any foregoing of any revenue, either in Q1 or Q2, because of that?

S. Ganapathi: No, so there was a little bit of deferment of revenue, as some of the raw materials could not come in on time and hence we could not take up those particular size for production in time. But we could obviously take up alternate orders and work with them, but the impact was more on productivity and profitability, because constant supply disruption impact smooth and efficient working of factories. So, we did see a lot of that in the month of April, May, and early June. Now, the flow of raw material has been streamlined as the factories and the supply chain in China is working smoothly regardless of the lockdown trend.

Venkat: Understood, right. And quickly sir, on the gross margins, you did highlight and we are seeing cotton prices kind of ease off. So, when do you see that reflecting in our margins, kind of bottoming out and seeing some improvement there?

S. Ganapathi: See, our raw materials are always passed through so when the raw material prices were increasing, we were able to pass through back to the customers, when raw material prices decrease that also gets passed through to the customers. So, I don't get too much hassled with raw material price volatility, unless it becomes volatile beyond a certain band. A lowering of raw material prices is always good as it will lead to increasing demand from India given that the overall FOB price of the garment will go down as the material prices go down. So, it will reflect more in the demand trend, rather than on the margin side. As far as gross margins are concerned in Q1 we largely produced synthetic based garments. So, we are less to do with cotton and cotton pricing movements in Q1 and Q2. It has got a higher bearing in Q3 and Q4 when we produce more for spring and summer, and that's where a large cotton-based garments are produced. But a declining cotton prices does help garner more demand.

Moderator: Thank you. Next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: I just want one clarity because recently you were on an interview where you guide to something like a 20% revenue growth for the year. Now, I'm just trying to ascertain the net impact of the headwinds and tailwind because if I just analyze the last two quarters, which has both a seasonally good quarter and a seasonally weak quarter, that itself implies more like a 35% kind of growth rate. Now, I understand there will be more capacity coming in during the later part of the year, at the same time we have RM deflation and we have those things we talked about, but how should I see this on a net basis like a 20% figure to go with or what should it be?

S. Ganapathi: So, I feel 20% is a conservative number given out there, these days it's very difficult to say anything with certainty the paradox of macroeconomics is that it is predictable in its unpredictability. Having said that, I feel that 20% is conservative, we may most likely do much better than that.

Pulkit Singhal: Understood. And in terms of the pricing pressure, are you facing you have both obviously RM prices you have to pass through but you also have currency depreciation. In this current environment, are you having to pass through more of these benefits back to the customers, is this year therefore going to be a margin decline years to a certain extent versus the previous year or do you think you will still maintain or grow.

S. Ganapathi: So, obviously when there is a demand supply imbalance in any period, there is going to be some amount of pricing pressure. So, last year, when we had the demand, supply in our favor, despite raw material increases, we were able to pass the incremental raw material cost back to the customer, I foresee that we may have to take a small amount of pricing pressure from the customers as there is a lot of suppliers from other countries also who may be chasing the same demand. Having said that, our aim is to mitigate it as much as possible through improved productivity and better raw material sourcing or lower cost raw material sourcing. So, all effort will be on, we had earlier said that this year we may be looking at the EBITDA margin of 11% compared to 12% last year. Our endeavor will be to do it at least at that level or even better than that. So, far we have been able to hold it and I had also mentioned in the last call that this is after adjusting for ESOP charges which amounts to almost 1% of revenue, but at the moment we are trending higher than what I had indicated, we hope to keep it that way. But there will be some amount of pricing pressure I can see going forward which may have a marginal impact.

Pulkit Singhal: Understood. And lastly ESOPs if you could just clarify how much should we bake in for the full year and whether this is a recurring item which will continue for the next two, three years how should we look at it?

S. Ganapathi: This is a recurring item which will continue for three years till FY25 and it will be at the rate of Rs.6 crores a quarter for the period until FY25.

Moderator: Thank you. Next question is on the line of Mohit Khanna from Banyan Capital. Please go ahead.

Mohit Khanna: My point was regarding the order intake that you are currently seeing for the US summer and the spring season. How is that going along and conversation with the customers, is it regarding deferment of any orders that you're seeing right now or are you sort of overbooking currently because you might have some sort of a deferment?

S. Ganapathi: So, at the moment we are booking for spring which is Q3 from our production standpoint. And if I look at the order status as of now versus same period last year for spring, and spring order booking will continue till mid-August so it's a bit early to predict anything as order booking is happening as we speak. For now we are trending at last year's levels. So, we don't seem to have too much of apprehension. Having said that, we are being cautious and we hear a lot about recessionary trends in the US. So, we'll wait and watch to see how it pans out at the end of the order booking season.

Mohit Khanna: Fair enough sir. Are you also witnessing some sort of increase in wallet share per customer or when you say that you are trending like last year you're acquiring new customers to trend at the same level or are you increasing the wallet share?

S. Ganapathi: So, at the moment, it is increasing the wallet share. So, all the customers eventually will end up buying less this year when there is no doubt in my mind. The aim would be to try to increase the wallet share of our existing customers, that's the best way to handle headwinds at all times. So, a new customer will not grow that sharply to provide a huge revenue cushion. So, it's always best for us to work on new customers so that it paves the way for growth over a three-year period. Whereas in the short term, work on increasing the wallet share so that we are able to still keep our share of business, keep our growth intact as far as possible.

Mohit Khanna: Just last point if I just squeeze it in, so when you say that we're trying to increase the wallet share and customers will buy less this year, then what gives us confidence that you would be able to hold at least 20% revenue?

S. Ganapathi: So, looking at the trend going forward, I do have some discussions with the customers and visibility which is what is giving me the comfort that we will be able to drive this growth, there is also some amount of supplier consolidation with the brand are doing, which also gives me comfort that we will be able to take up additional wallet share. The other comfort that I draw is that our delivery metrics are outstanding and best in class. So, customers in this business actually tend to go with those supplier who can supply on time in full, in quality are able to meet the technical requirements of the customers and we are able to do all of that. So, all of this gives me the comfort that we will be able to progress our business well.

Moderator: Thank you. Next question is from the line of Akshita Talishera from SBI General. Please go ahead.

Akshita Talishera: I wanted to check on your plans on the CAPEX in Bangladesh, is it still on track or we anticipate any delay given the macro environment?

S. Ganapathi: No. So, there are no delays on the sort of macro environment. At the moment we will have some revenues coming from Bangladesh in the second quarter, but those are from a leased facility that we are working with. We are looking at setting up a new facility and that's going on full stream work on that is going on. We hope that we should be able to conclude that sometime by early FY24. So, that's work in progress in the interim we will be working with existing available capacities on a lease basis and a lot of work is going on on that side. In Q2 we will see some amount of revenue starting from that side.

Moderator: Thank you. Next question is from the line of Abhilasha Satale from Quantum AMC. Please go ahead.

Abhilasha Satale: My first question is on the outlook in FY24. So, basically this year we will see some inventory destocking and things like we will see some pressure on the margin. So, I'm not talking specifically from the Gokex side we will have more share from our customers, but then overall the outlook on demand is subdued for this year. As we move forward in FY24 and so on, how do you see the overall demand environment picking up from the end customer point of view and in that tandem, how are we placed to gain market share as compared to competition?

S. Ganapathi: So, the way the global supply chain is working is that more and more brands are looking at sourcing from India as cost rise in China, in Vietnam, and they are looking at increasingly alternate locations like India and Bangladesh. Bangladesh is also fairly mature and large and most of the brands would like to source even more from India. Given that India is a large country has got a good textile ecosystem, particularly on the cotton side and availability of labor in several parts of the country. So, there is a concerted push from local customers to source more from India. This has been from various discussions that we've had with the customers and it's also available in the public domain. So, we see that to pan out from FY24 onwards as the market in consumer demand situation will improve and we are by and large what is bought in FY24 will be consumed in calendar 24 and 25 onwards. So, by then the recessionary trends also should be behind us and the brands will rally to buy more and they will also try to allocate more share to India. So, I see a strong growth for the Indian apparel industry. I also foresee that established players and larger players like us will be able to drive a faster growth simply because, while the Indian industry is fragmented, there are a few large players like us who will be able to get a bigger share from the global pie and thus driver our growth. So, reasonably confident, the other point which will work in India's favor is FTA with UK and Europe, if the FTA does materialize with UK by end of this year, then we will see the British brand also move some amount of sourcing from Bangladesh to India for diversification reasons. So, that also will add to the tailwind for growth in FY24. So, there's a lot of macroeconomic factors which will drive overall growth for the industry in FY24. And better players obviously will see a higher share of that growth.

Abhilasha Satale: Okay. And can you give details of FY24 CAPEX because, in this year we will be starting two facilities, FY24 we are incurring CAPEX of around Rs.120 crores, so can you give details of which plants we will be commencing in FY24?

S. Ganapathi: So, there will be more additional apparel manufacturing plants that we are looking at. So, those are under planning at this stage and those will get executed in FY24. So, they will get commissioned sometime during that financial year. So, there is one factory we are looking at the South of India for sure. And that's still at a plan state but we will execute that in FY24. Bangladesh will also start picking up speed from FY24 as we set up that unit and we will look at incremental capacities as we go forward.

Abhilasha Satale: And how much investment we are looking totally in Bangladesh, the investment in Bangladesh?

S. Ganapathi: It will go up to about anywhere between Rs.35 to Rs.50 crores.

Moderator: Thank you. Next question is from the line of Aman Batra from Goldman Sachs Asset Management. Please go-ahead sir.

Aman Batra: You presented some headwinds in front of us in terms of the inventory, the retail channel, et cetera. But if you look at the initiatives that we are taking as a company you seem to be geared up for growth. We have new capacities coming in Madhya Pradesh, we have more capacities coming in Bangladesh as well over the next 12-18 months. So, how should we look at it that, can we continue to grow despite these costs, this macro headwinds and that's why we are confident enough to continue investments?

S. Ganapathi: Good question. See, I am more worried about this macro and economic headwinds only for FY23. I don't foresee this as much of an issue from FY24 onwards. Let's take Q4 of this year, in Q4 we will produce for summer 2023. Summer of 2023 is June, July, August of 2023, which is almost a year away if you look at it, that's what we will produce in this Q4. So, my assumption at the moment is that any headwinds, recessionary impact, inflationary impact at best will play out by the next one year and after that brands will also would have worked out all their inventory and will be back into the market for buying more. So, if you look at FY24, that what is going to be consumed almost more than a year from now and by then the demand should have picked up very strongly. So, I'm not particularly worried on demand side for FY24 and if FTA does indeed materialize, then that will also augur well for the country because more demand will come from Europe, which also we are readying ourselves for. So, creating capacity for FY24 should not be a problem, given the capacities that we have working now, more, or less will be effective only FY24 as they will ramp up then. So, I'm not so worried about the short-term macroeconomic headwinds we will have to take it on our stride, we may have to absorb it in our business in FY23 and move on because there is going to be growth beyond that.

Aman Batra: Sir, the other aspect which I want to touch upon is because the product that we supply are fairly seasonal products. And typically, the way I understood is that these retailers if they are saddled with some inventory at the end and they need to refresh the inventory from spring to summer and autumn, et cetera, they will discount it out and not keep it as inventory. There should not be much concern of over inventory and therefore orders not coming through, it's just only that the sales velocity at retail end could be slower so there could be some marginal impact should we see that way?

S. Ganapathi: That is correct, so most of the brands are actually trying to liquidate the inventory. And sitting on inventory has a cost and obsolescence both. So, they don't like and impact their return metrics because the money is locked up in their, capital is employed in their inventory as well. So, inventory will get liquidated so nobody likes to sit on excess inventory. The excess inventory was really built up on account of supply chain deficiencies of last year. As more and more goods were sitting in the shipping, and they came home late in the season, which they could not sell. But all of those will get worked out this year and I don't anticipate it carrying forward, going forward.

Aman Batra: Got it. And just because in a June quarter which is typically a lean quarter we have done fantastic Rs.600 crores of sales, can this level be maintained despite let say we slowdown that we are witnessing over the next two, three quarters?

S. Ganapathi: See, our weakest season, weakest quarter is Q2 usually, if you look at our historical trends, that's because this is where we produce even more synthetic base garments for the holiday season or winter season. So, there can be seasonal variances, you can't look at those business on a linear quarterly basis. So, there may be seasonal dip in the linear but if you look at Y-o-Y comparison we will always have a very strong growth even this year compared to last year.

Aman Batra: Got it. Just one last question is, how should we look at the depreciation of rupee coming to our benefit in margins?

S. Ganapathi: So, depreciation of rupee will definitely aid the margin. On the other side demand, supply related push and customers asking for some amount of price breaks, especially when they are a bit weak in their financial will tend to erode. So, there are counter pressures happening on both sides, so it may tend to get nullified in the short run, in the long run it is definitely beneficial from a margin standpoint.

Moderator: Thank you. Next question is from the line of Aditya from HDFC. Please go-ahead sir.

Aditya: I had a question on the labor policies in the sense that, I believe you're setting one of your garment plants in MP, can you throw some light because labor is obviously garments is labor intensive. So, are you having any flexibility in the lean season in terms of maybe getting some labor on the contract roles, and then being flexible in terms of increasing or decreasing the headcount depending on the order book?

S. Ganapathi: So, we don't do that we hold all the labor on our books. The reason why we do that, is that we are not very confident of contractors maintaining all the compliance requirements. So, we are bound by extremely onerous compliance audits by all our customers, and concurrently four or five brands will be always auditing any one of our factories at any point in time. So, let's assume that an employee joins, leaves in a day or two for whatever reason, because she determines that this is not the place where she wants to work, we still have to ensure that we pay the PF, ESI everything for those two days. So, we feel more confident having them on our payroll rather than through a contractor payroll and take their liabilities and responsibilities. Having said that, since overall there is a growth environment we are not particularly worried about flexing the labor up and down. To a small extent if you have to do that the attrition itself takes care of some of that requirements, but we are not anticipating any major problems from having labor on our books.

Aditya: Okay. And second sir is there any integrated textile policy which has been passed because now you are backward integrating into fabrics right and earlier this was not so much the case like a garment company only used to be focusing on garments, but now we are seeing even the yarn companies are forward integrating into fabric and garments and you are backward integrating, so, is there some policy push which is helping you out?

S. Ganapathi: No. So, we are entering into knits space and that is where we are getting into fabrics, because knits require an integrated value chain to play, as the value addition purely on the garmenting side is very low. So, you have to make your fabric and then you have to convert it into garments as well. Then it comes to knit. In the woven side, there is a huge amount of product type in the fabrics as well, which is why on the woven side you will find that the garmenting players are usually separate from the fabric player. So, our entry into backward integration is largely a result of our getting into the knit space, where we are setting up an integrated unit. On the policy side, the government has come up with a textile park called PM Mitra scheme, the details, the parks are need to be notified and those are some things which will happen by FY24, FY25. But there are certain incentives that they are offering for setting up fabric mills and providing the supporting infrastructure, as and when that happens we will take a look at them. But at the moment, we are only going by our business requirements.

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

VP Rajesh: So, my first question was that if you think about the business model, so we are adding capacity and we are getting incremental revenue from those for sure. But for the base capacity, are we doing anything to get higher revenue from that, or how should one think about the base capacity?

S. Ganapathi: So, the base capacity, the only way to work with base capacity is to drive our productivity so that we are able to produce a little bit more. And obviously, there will be cost pressures in terms of rising labor costs, et cetera in the base capacity. So, it's always a race between productivity and rising wages, productivity has to stay ahead of that curve, and depreciating rupee will also ameliorate some of the rising wages. So, that's how we see the base capacity. The potential to grow the base capacity is not very huge, as most of the base capacity is almost fully utilized.

VP Rajesh: I see. So, the fact that we are diversifying into knits now, that doesn't really help the top line from the base capacity is that the way one should understand it?

S. Ganapathi: So, base capacity will continue to contribute its top line, knit will be accretive we will have to add incremental capacity. So, downstream garmenting units we like to add it to utilize the fabric that we will produce, so we will be setting up those incremental capacities in FY24 to take care of that growth.

VP Rajesh: Right. But isn't it true that knits has a higher sort of revenue per capacity or is that not correct?

S. Ganapathi: I don't think so. We don't look at it that way actually, this is a lower value garment as compared to woven. So, revenue wise, we may have a higher throughput, and a higher revenue per unit investment, etc., in the woven side.

VP Rajesh: Okay. And then the second question is, with respect to our facilities now coming online in Bangladesh, are we thinking about going into Europe with those facilities, or those will continue to be focused on the US market?

S. Ganapathi: So, initially it will start with US and then eventually it will pivot to Europe, it will start with US only because we have stronger relationships with brands there. So, we are really talking about FY24, because by then the factory has to come up and the first customers would be our existing customers, and then slowly pivot, that probably could be happened by FY25. But eventually, the intention is to utilize Bangladesh for its purpose which is catering to Europe.

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

Gunjan Kabra: Sir, my question is that according to channel checks, so if there are four seasons in a particular season if a customer is sourcing four times it is giving you order for four times and now they have skipped the first two times and they are just thinking of waiting and watching the situation and going like maybe order the third or the fourth time. So, is this impacting our order book?

S. Ganapathi: No. So, the four seasons our core distinct seasons like, so there is a need for products in all the seasons. So, for example, what is consumed in autumn and winter the kinds of fabrics and the garments that are consumed and not what gets consumed in spring and summer and summer styles are very different from spring style. So, there will be order in all the seasons, there is nothing called skipping a season, because I bought higher in the previous season. So, the only way that let us say if I bought excess in last spring, then this spring and if I am saddled with excess inventory from the previous years, it may have a bearing on how much I as a brand may order in the forthcoming spring. So, inventories are categorized for those seasons, it doesn't work on a linear basis, it works on a Y-o-Y basis. So, going forward, when we are booking for spring and summer, we will have to see how much of spring inventory those brands are carrying and summer inventory brands are carrying. And accordingly there may be some amount of calibrated buying. We also will have to see how much of demand, the end users are exhibiting in spring and summer. Summer is almost when I'm talking of summer which is Q4 production we're talking of consumption next year, next 2023 June, July, August, this is a year from now, we will have to see how that demand pans out if that demand is strong then we will see this and if the brands do indeed think that next year the demand will be reasonably good then they will buy.

Gunjan Kabra: Sir no actually wanted to ask this way that in suppose in a particular season like summer or winter, so in a particular season a customer is actually giving you order four times maybe, in a particular season I'm talking about if the customer is giving you orders four times. So, now they are reduced the frequency of their orders is what our channel check is suggesting. Even now they are.

S. Ganapathi: Are you saying intra season, within the season they are buying.

Gunjan Kabra: No, here intra season which is one particular season I'm talking about, like if I'm talking about giving you orders during winters or during summer, then if the particular customer is giving you four times, frequency of order is four times in a particular season, then they're just reducing it to two times now because of the slowdown or the hiccup in the macro factors?

S. Ganapathi: So, too early to call out all those, so they do tend to give a large component of that in the first round itself. And, during the season they come in for more in seasonal purchases and I don't see at the moment that in seasonal purchase is impacted, we will have to wait and watch as to see how that pans out. I'm not so sure that the three- or four-times purchases will not materialize, it can happen and it will happen is my view.

Gunjan Kabra: Okay. And sir also like we discussed in the previous question also that there was a high sourcing last year on account of supply chain deficiency by the apparel brands. So, the result is high inventory right now. So, going forward this year can we say a little top line getting impacted because if we see year-on-year basis, #A on account of this and #B on account of decrease in the cotton prices somewhat offset by rupee depreciation. So, going this year, can we see a little impact on our top line, if we compare it to the previous year?

S. Ganapathi: When you say impact, see there are two forces. One is the demand and the other is momentum of our own growth. So, what we're saying is that the momentum of our own growth will help us still grow in FY23 regardless of demand related issues based on a prognosis that there could be recessionary trends in the US, et cetera. So, momentum will offset that and we will still show a reasonably good growth in FY23 that's what I'm saying. The demand related problem we will have to deal with, in my opinion it's a two quarter phenomenon and if we are looking at it from an equity standpoint we are all here for the long run and even if there is a one or two quarters of a minor demand slowdown, what I'm trying to say is that beyond that this problem will work itself out and the demand will get restored and strong growth will continue as the markets are favoring more and more India sourcing. So, at best what you're saying is a one or two quarter issue which we will try to work and we are doing our best to even mitigate that to the best extent possible.

Gunjan Kabra: Okay. And sir, the recent CAPEX, the Tumkur unit under Bengaluru unit that we started last year, so what capacity utilization is it operating at currently?

S. Ganapathi: It's almost 95% up.

Gunjan Kabra: Okay. And also like with Reliance partnering with GAP and to bring GAP to India and GAP is one of our major customers globally. So, if it is getting GAP to the country, can we say a little market share or maybe we can supply to this brand in India also, how does this business model work?

S. Ganapathi: So, when we supply to GAP we supply to GAP globally, clearly India is a tiny fraction of GAP global consumption that India becomes a rounding off error in what we supply to GAP. So, if GAP India grows then overall GAP buying will grow because as far as Indian market is concerned, they will tend to buy a little more from India rather than ship it from some other part of the world. So, if GAP India grows indeed with in partnership with Reliance, then that will increase the demand from that particular customer for us. But overall I wouldn't say it would make much of a dent for us.

Moderator: Thank you. Next question is from the line of Venkat from Three Sigma Financials. Please go ahead.

Venkat: Sir, we were talking about inventory concern earlier. So, I just wanted to understand are we in fast fashion business or are we in like some kind of stable designs that we work on?

S. Ganapathi: Okay. So, about 40%, 45% of our business or you can even say up to 50% of our business is fast fashion, the rest is outerwear and athleisure which are less prone to fast fashion trend. They are much more stable and have a predictability about how those businesses go. The other half is fast fashion.

Venkat: Sir if the fast fashion, so whatever inventory is left out will they send us back, or will they try to sell in the next year same season, or will that happen, how does it work out?

S. Ganapathi: So, moment we hand over the goods to our customers in the ports in India, the goods have shifted from us to the customers, we have zero liability on it. And if the customer sells all of it, or doesn't sell any of it, or part of it, it's their liability, their look out we have nothing to do with that. So, inventory is customers not ours

Venkat: Sir my extension of the question is, we are working on this knitted clothing are they being used for any technical purpose like sports or something like that or is it like general purpose knitted clothing.

S. Ganapathi: No, there are a lot of knit t-shirts, and knit jogger pants and those kinds of garments that's what we're talking about, so these are all casual clothing.

Venkat: But these are value add also right, if normal technical textiles have more value compared to regular use clothing is that how I understand?

S. Ganapathi: Our knits what we are planning we are not getting into technical textiles; we are planning these regular casual wear that gets consumed in the marketplace.

Venkat: Fantastic. Sir my second question is on PLI. So, since we have selected PLI, so what is the roadmap for the PLI scheme?

S. Ganapathi: So, roadmap PLI, by the time it comes into effect it will be FY24 to FY25. So, that year we have to produce goods which fall under certain **HS Codes**, which are all synthetic base garments in order to qualify for PLI. So, that's work in progress as we speak and we still have time for it.

Moderator: Next question is from the line of Mr. Pankaj from Effluent Assets. Please go ahead.

Pankaj: I just wanted to ask, given that we have performed very well in this quarter. And it would it be rational assumption to annualize this quarter's results both on top line and bottom line?

S. Ganapathi: No, absolutely not you can't just annualize one quarters number as it is a seasonal business. And our business doesn't move in a linear fashion like that so we have to always compare a quarter with its corresponding quarter the last year, that's point number one. Point number two, as I said, we may see some macroeconomic headwinds in the second half of the year. So, we may have to factor a little bit of that, going forward I don't foresee any of those problems. We will continue back on growth, but simply extrapolating it on a linear basis is not the right way to look at the business.

Pankaj: No, where I am coming from is, as I understand Q1, Q2 are among the weakest quarters throughout the year as far as full year is a concerned. So, given that we have posted Rs.600 crores of top line and Rs.40 crores of bottom line, so should we understand that it should be given the history our annual results FY23 would be far better than our first quarter's results?

S. Ganapathi: No, so again as I said FY23 has to be compared against FY22. And when you compare FY23 versus FY22 there will be good growth, someone earlier asked would it be 20%, would it be higher I said 20% is conservative, we will look at higher growth than that. So, I will leave it at that at the moment, as none of us are any wiser on how the macroeconomic environment will play out. Our anticipation is that we are best suited and best able to tackle it and still be able to drive growth in corresponding quarters of this year versus previous years and we will try to do our best to do that and I do anticipate that headwinds will probably be limited to FY23 only.

Moderator: Thank you. Next question is from the line of Nishid Shah, from Ambika Fincap Consultants Private Limited. Please go ahead.

Nishid Shah: So, my question is, you mentioned that in India we do more of cotton-based garmenting. So, on the synthetic based material we are more dependent on China and other things, are we taking initiative to see that we develop that part of the fabric capability in India because over a period of time if we have to be taking away market share from China then we will need that kind of capability internally in country over here?

S. Ganapathi: Very good question. I would like to see that happen in the country that more synthetic fabrics are available, it will certainly help grow in that synthetic sector, which is almost two thirds of global apparel. So, it's a very large segment which India is not strongly playing in. So, that fabric ecosystem has to come to the country, the PLI initiative of the government also is a step in the right direction to support more capacity creation here, my feeling is that it will take a few years before all of this can materialize. The right technology has to be available in order to set up synthetic fabric mills, and people will have to come forth to do so as well. I'm hoping that it happens so that more growth can be driven. And, if there are fabrics available in India, obviously it will be margin accretive as well rather than bringing it all the way from China, et cetera. And incurring additional cost.

Nishid Shah: Thanks. And on these global brand penetration like you mentioned on the GAP that it's a three to four billion global sourcing or garmenting and we are very tiny and very small. So, what initiatives are we taking to penetrate more into the existing large brands and how are we going to shape these up over a period of the next two, three years let say?

S. Ganapathi: So, we're working on both sides, one is expanding our relationship with various incremental customers. So, diversifying our customer base so that we do have large customers and can start doing incremental business with them to, to drive growth. And as far as increasing the wallet share is concerned, we are getting into newer and newer product categories with the customers. So, we tend to maximize the wallet share within their sourcing from India, but then if we have to tap into what they're sourcing from other countries, then we will have to get into certain product types like synthetics, et cetera which are manufactured in Vietnam, China so that we are able to compete well with the players there who have access to local fabric. So, we're doing our best from a relationship perspective trying to maximize local share and then trying to take up some share from other countries as well.

Nishid Shah: Would it be farfetched to say that we can become 10% of global brands, would that be the aim for us?

S. Ganapathi: That will be very difficult, because the product types are so widely varying, and also we may not want to take that level of exposure with one customer so, we will have to see where to cap the relationship with one customers. So, about say $100, $150 million, beyond which we may have to be wary about increasing the exposure.

Nishid Shah: Okay. Just last question. You mentioned that we are working on one shift, but can we bring in a China model, like they hire young girls and put them up in our hostel, and then nearby the manufacturing facility, and they can work maybe in two shift or one and a half shift three to eight or eight to six, then we can elongate the working hours, if not really just one shift, would you like to elaborate here?

S. Ganapathi: So, it's a very early days, we haven't really much involved in our thinking on this, doing that in our existing unit is quite a challenge. As our current model supports people living in their homes and we recruit them and utilize their services. So, the hostel model, taking responsibility for people managing them in-house, et cetera is not a model which we have gone and we sometimes feel that that may become an impediment to our spread of growth. So, if we want to put some capacities in multiple parts of the country, taking advantage of labor availability and labor costs, and certain incentives available there, our ability to replicate an in-house residence model may or may not be that efficient. So, we are still at work in progress on this particular issue we will update you as and when we have a better, more evolved thought process.

Moderator: Thank you. Next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, I wanted to understand you mentioned 11% EBITDA margin for this year. So, is this after adjusting for ESOP, like to like comparison would be like 12.1% that we reported this quarter as compared to that we are expecting about 11% for the entire year. Is that the right interpretation?

S. Ganapathi: So, when I had earlier mentioned 11% that was the EBITDA, that is after giving effect of the ESOP charges. So, after making an adjustment, so after writing back the Rs,6 crores per quarter, that's what I had mentioned. So, the comparison is 11% versus 12.1% in that sense, for this quarter right. Now, maybe we will do better than that, our endeavor will always be to do better than that. And the first quarter we have done better than that. We are working towards it, it all depends on how much of pushes and pulls we will have to bear in the third and fourth quarters with our customers given the demand supply imbalance and definitely the rupee depreciation is also helping us to shore up, to mitigate some of those pulls and pressures. So, I feel more confident that we may eventually end up having margin better than that.

Deepak Poddar: Better than that, but we do expect a margin to see some pressure in the second half because of economic headwinds and pricing pressure that you mentioned about right?

S. Ganapathi: Yes, there will be some amount of pressure we are trying to minimize that to the extent possible.

Deepak Poddar: Okay, understand. My second query is regarding your revenue growth. Now, this 20% growth for the entire year effectively means for the remaining nine months, you will not grow. It will be kind of a flattish kind of revenue that we might be looking at right?

S. Ganapathi: That is why I said 20% is very conservative, it will be better than that.

Deepak Poddar: Understood. Any kind of range that you can provide, what sort of growth you might be looking at?

S. Ganapathi: It will be purely speculative at this point if I start putting growth numbers but suffice to say it will be strong.

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

Prerna Jhunjhunwala: Most of the questions are answered, I just wanted to have a look on some bookkeeping question with respect to sales, so what has been your volume growth for the quarter and product mix, if you can share the same?

A Sathyamurthy: Good morning, in terms of quantity the number of pieces, is 6.66 million as against 7.84 million during last quarter. As we always maintained it's due to a product mix -i.e outerwear. In terms of the price, it is 17% increase over last quarter due to outerwear mix. Outerwear during the quarter is 42% as against 25% last quarter.

Prerna Jhunjhunwala: Against 45% last quarter okay. And sir on your working capital I see your trade payables increasing this quarter against last year same quarter, could you just help us understand why this is the same and is it going to increase with time?

A Sathyamurthy: No, this is for the quarter based on the current buying pattern, and most of the import purchases have been taken care in Q1. So, during Q2 it is mostly the domestic purchase and with available cash we tried to take advantage by opting for early payment discounts to offset the price increases - to get the better pricing on the raw material costs. We have given some of the people advances and got the material at a better rate and that is the reason the trade payables is relatively lower. In terms of the quantity growth , on Y-o-Y basis, it is 125%

Moderator: Thank you. Next question is from the line of Bhavin from Enam Holdings. Please go-ahead sir.

Bhavin: Just two, three questions, just on this ESOP charges this is accounted from this quarter only right Rs.6 crore?

S. Ganapathi: That is correct, ESOP was issued in the month of April. So, that's why we will start accounting it from Q1 of the this year onwards.

Bhavin: So, roughly it's Rs.24 crores per annum, you said it will be there till FY25?

S. Ganapathi: That is correct. So, this is based on Black Scholes valuation, because our stock had huge amount of volatility in the period running up to the first quarter, the Black Scholes valuation came out to be high and that's the reason why the ESOP charges are amounting to Rs.24 crores a year or Rs.6 crores quarter a quarter and that will be applicable for three years, FY23, 24 and 25. Now, remember this is a non-cash charge and this will in fact from a cash flow perspective will be beneficial because we will get a tax shield out of it. So, cash flows will actually improve thanks to this but from a PAT and EBITDA perspective we will find the Rs.6 crores charge for these three years.

Bhavin: And sir what is the sales mix between US, Europe, and rest of the world. And how much would we top customer and top five customer now as a percentage of sales?

S. Ganapathi: So, US continues to be about 80% between 75% and 80%. So, that is high, though going forward, we may see Europe slowly going up given FTA and other developments. The top five customers put together will be about 70%, 75%.

Bhavin: Okay. And sir last question, the effect tax provision would be roughly this quarter was 22.5%. So, should we assume that or it will?

A Sathyamurthy: Yes, we expect that around 22.75% with the current workings and with the current estimates.

Moderator: Thank you. Next question is from the line of Niraj Mansingka from White Pine Investment Management Private Limited. Please go ahead.

Niraj Mansingka: Two questions, one on the bargains for generally outerwear, generally our gross margins are generally higher. But that doesn't seem to be the case in this quarter any color on that?

S. Ganapathi: No, so gross margins will not be higher on the contrary it may be lower. EBITDA margins may be higher the reason is that the material cost in an outer wear since it's all synthetics and it's all imported will be very high, it's also a technical product. So, there is a lot of material component in there. So, the material component of our outerwear far outweighs the manufacturing component, that's why your gross margin may notionally look lower in the first two quarters whereas I start producing cotton, lightweight garments, et cetera. The stitching, packing and all those efforts are higher compared to the material costs. So, gross margin may look notionally higher.

Niraj Mansingka: Got it. And second question is on FTA of UK how large can it be for you like as a flow to business to India?

S. Ganapathi: It will be significant because most of the Europeans barely buy from India barring very, very.

Niraj Mansingka: UK, not Europe actually.

S. Ganapathi: UK okay. So, UK also there are several big buyers from UK like Prima, Marks & Spencer and NEXT and so on and so forth, they are sourcing a significant quantity from Bangladesh and all of them would look at diversifying out of Bangladesh. So, from an opportunity standpoint for India it will be reasonably good. And for a larger established player like us, we do have the opportunity to tap into that incremental growth,

Niraj Mansingka: Any possible market growth that you can see like for India, like the opportunity size growth and the percentage would be a useful one?

S. Ganapathi: I will have to think and get back to you, let me come back. Whatever that happens, that will happen in FY24 because the FTA is not anticipated before end of this calendar year. In terms of growth, it will again pan out if we grow Y-o-Y eventually we may see an incremental sourcing of about $250, $300 million or something like that from India, maybe even up to $500 million so, we will have to see India is exporting about 16 billion so, you can do the math on that. So, it will take time to reach those levels, it will start picking up the speed.

Moderator: Thank you. The next question is from the line of Monish Ghodke from HDFC Mutual Funds. Please go ahead.

Monish Ghodke: Sir our top line of Rs.600 crore does it include any duty drawback benefit or any export benefit?

S. Ganapathi: It includes all of that.

Monish Ghodke: So, what would be the percent?

S. Ganapathi: The duty drawback plus RoSCTL which is a refund of state and federal if all put together approximately as up to 5%.

Monish Ghodke: Okay. So, excluding that our sales would be around Rs.580 crores.

S. Ganapathi: Yes.

Monish Ghodke: Okay. And sir one more question, so in terms of currency depreciation we say that rupee has depreciated against dollar, but other currencies like Bangladeshi currency has depreciated a lot more. Is it possible that India will suffer because of that?

S. Ganapathi: At the moment, I don’t see much of a problem. Because, if you look at our depreciation over a longer period with vis-à-vis China, ours have depreciated much more than China. So, eventually more and more business will come out of China and if the relative depreciation favors India, then vis-à-vis China that is what we are competing with. I don’t think we are competing with Bangladesh. So, Bangladesh is competitive in its own right and is more competitive than India. So, we have to look at countries which are bigger and which has the potential to lose business and vis-à-vis then we are in a better position.

Monish Ghodke: Okay. And one more question sir in terms of fabric sourcing, so who are like our key suppliers like where do they come from, is it of China or is it like India based like, and what is the mix like cotton and manmade fiber?

S. Ganapathi: If I look at it on an annual basis 30% is imported, 70% is domestically sourced, all the big players are our supplier, even domestically. The weightage however will change in the first two quarters where a larger proportion becomes imported.

Monish Ghodke: Okay, and we largely import manmade fabric right?

S. Ganapathi: That's right.

Monish Ghodke: And we import it from which countries?

S. Ganapathi: China, Taiwan, Korea, but a larger proportion comes from China.

Moderator: Thank you. Next question is from the line of Manish, an Individual Investor. Please go ahead.

Manish: Just quickly one short term question, do you think we will grow in each quarter versus the previous quarter this year, as in Q3 over Q3, Q4 over Q4.

S. Ganapathi: That is the endeavor we will try our best to do that. We may be more challenged in Q3 and Q4 on this count, as we have to still see how the demand situation pans out and how deep the recession if at all, there will be, so our endeavor will be to see we can grow Y-o-Y on every quarter.

Manish: So, it will be more demand constrained rather than anything else till about last quarter, we had capacity constraints. So, I guess we're moving the other way now, at least for Q3, Q4?

S. Ganapathi: Correct. Beyond which again we will be back into capacity constraints.

Manish: Will be good situation. Secondly, on a medium-term basis, we have Rs.200 crores of cash and cash equivalent, CAPEX requirements as outlined is about Rs.200 crore, cash of around Rs.200 crores still, and we continue to generate cash, anything extra that you plan to spend beyond what you've outlined in the next two years to make sure that the capital allocation is better from here?

S. Ganapathi: Yes, I understand your question. It's dynamic so as we move towards the end of this year or as we enter FY24 we will look at; we will evaluate the situation and if required we will deploy more CAPEX to drive growth. So, those decisions will get taken, any CAPEX decision above the current plan, we will revisit only in FY24.

Manish: Okay. In terms of capacity sir, we exited say at X in end of 22, where will we be at FY23 and say what percentage higher in terms of capacity?

S. Ganapathi: End of FY23 versus end of FY22?

Manish: Yes.

S. Ganapathi: Again, I would say about 20%, 25%.

Manish: Okay. This in terms of volume I was mentioning not the other.

Moderator: Thank you. Next question is from the line of Nagraj Chandrashekar from Emerge Capital. Please go ahead. Thank you. Next question is from the line of Vignesh Iyer from Sequent investments. Please go ahead.

Vignesh Iyer: I just wanted to know, now a probable recession looming around the world. And is there any, fall in freight price as such as in is there a better availability of containers or is the prices of the freight is still at higher levels like it was in FY22?

S. Ganapathi: So, it's coming down from the previous year's level. So, that's the good news and hopefully if the oil prices stay low then we will see the freight rates also come down. US as a country is also working on breaking the cartelization on freight side. So, there is an anticipation that the freight rates will continue to fall as there has been pressure exerted from the United States as well to bring down the freight rates. For us anyway freight rates only impact our raw material purchases or imported raw material purchases. All our exports are FOB, so the freight component is picked up by our customers so we don't really have to deal with freight costs volatility.

Vignesh Iyer: Okay. Understood, I got the point. My another question was, If I am not wrong last quarter you have said that there would be some increase in labor cost in quarter one. And there was some shortage of labor. But that cost has been accounted already in quarter one and the labor issue is more of less sorted right?

S. Ganapathi: So, the incremental labor cost is because the dearness allowance which is the inflation linked wage increase, mandatory wage increase has happened from April 22 onwards. So, it did result in an incremental Rs.4.3 crores of expense in the first quarter that was about 0.7% of our revenue, but we absorb that and that's the level which will continue for the rest of the year as well. As far as labor availability is concerned at the moment, we did have some amount of challenges Q1 but that has also worked its way out. So, we don't see that have much of a problem now.

Vignesh Iyer: Okay. Sir just one more on my side. The thing is, the quarter one and quarter two are in general a slower quarter for us. And three and four are a bigger quarter, if I have to just take into account the fact that the mix of product is different for first half and the second half, I am right to say that the products we sell in H2 are more margin lucrative?

S. Ganapathi: Yes, it is because it's based on domestic fabrics and all that so from a margin perspective, usually we find that H2 is better than H1, other things being equal so, market conditions, et cetera. If they are normal we will find H2 is better than H1.

Moderator: Thank you. Next question is from the line of Pankaj from Affluent Assets. Please go ahead.

Pankaj: Sir you mentioned about margins differential H2 and H1, I would request you to elaborate more on it. And secondly also wanted to know, our margins have been improving over couple last couple of years. So, have we reached the peak margins or do we have more legs for growth as far as margins are concerned?

S. Ganapathi: So, you're talking of margins in H2 versus H1 and growth in margins, that's correct?

Pankaj: Yes.

S. Ganapathi: So, my margins usually I am saying if it's regular in the business, as usual and there was no recessionary trends and demand pressures, et cetera H2 margins are better than H1, because the product types are more favorable in H2, we make a lot of elevated fashion in H2, we also use a lot of domestic fabrics in H2 which has got lesser of supply chain cost embedded there. And the export incentives also worked better for domestically sourced raw material. So, H2 two margins are superior. Having said that, this year we will have to see how it works because I do anticipate for one particular period, which is H2 of this year we may see some more pressure from our customers on pricing since there demand or they're buying will be somewhat muted. So, we may have to let go a little bit of that. So, that's as far as this particular year is concerned but otherwise, H2 is better than H1. In terms of growth in margin, I'll continue to maintain that in the longer run over three year, we are working towards the 1.5% improvement in margin in the EBITDA margin. However, for FY23 as I had indicated earlier that we will see a slight reduction over FY22 level and that's only because of the current recessionary trends. We're working to even mitigate that, but that's something which will pan out as we go forward in FY23, but FY24 onwards, I think in the next two, three years or at least over FY22 levels of 12%, we will see a 1.5% growth.

Pankaj: We will advance towards 13% to 14%, for FY24 onwards?

S. Ganapathi: No, between FY24, 25, 26, we will work on a 1.5% growth over 22 levels of 12%.

Moderator: Thank you. As there are no further questions, we have reached the end of question-and-answer session. I would now like to hand the conference over to the management for closing comments.

S. Ganapathi: Thank you all. This year is again characterized by a combination of headwinds and tailwinds. And have been maintaining for the last six months, we have drawn on our ability to anticipate and adapt to the changing business environment, we are doing our best to procure as much of business as we can to beat the capacity and to maintain the growth momentum in FY23 over FY22. I believe that most of the recessionary trends impacting our business will be over by end of FY23 and starting FY24, we will have to gear ourselves up for growth. That's one of the reasons why we're still working on our CAPEX plan as we speak and looking for incremental capacity from FY24 onwards. We are always agile and nimble to any business, headwinds or tailwinds that may come our way if there are improvements in the business environment, we may accelerate things, if there are slowdowns we may slightly decelerate but overall at the moment when I see the business environment, I feel that FY24 onwards we should see reasonably good growth. In FY23 we will see growth for sure but from FY24 onwards, we will see stronger growth. I will pause here. Thank you so much for attending this earnings call.

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