"Gokaldas Exports Limited
Q2 FY '23 Earnings Conference Call"
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MODERATOR: **BINAY SARDA – ERNST & YOUNG**

Moderator: Ladies and gentlemen, good day, and welcome to the Gokaldas Exports Q2 FY '23 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 star then zero on your touchstone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Binay Sarda from Ernst & Young. Thank you, and over to you, sir.

Binay Sarda: Thank you, Lizann. Good afternoon 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 result performance or achievement to differ significantly from what is expressed or implied by the 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 questions today, we have the top management of Gokaldas Exports Limited, represented by Mr. Sivaramakrishnan Ganapathi, Executive Vice Chairman and Managing Director and Mr. Sathyamurthy, Chief Financial Officer. We'll 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 afternoon, everyone. Happy to have you at our earnings call for the second quarter of FY '23. We continue our exceptional growth trajectory, delivering a resilient performance in a seasonally weak quarter for the Indian apparel industry and despite the challenging macroeconomic business environment. We reported a revenue of INR 576 crores, up by 29% over the corresponding quarter of the previous year. The 6% reduction over Q1 FY '23 is due to seasonal effect. Our strong focus on operational excellence and exceptional service continues to endear us to the customers.

During this quarter, we reduced the operating expenses and managed working capital well to generate adequate free cash flow to support our growth ambition. The net cash surplus, which is cash and cash equivalents less gross debt was INR 369 crores at the end of this quarter. Our entire team worked hard to deliver exceptional product quality and service to our customers. We continue to outperform on various customer delivery metrics.

In this quarter, we earned an exceptional income on account of sale of building amounting to INR 6.05 crores. Excluding this exceptional item, we generated a net profit of INR 39.8 crores. Our EBITDA margin of 12.5% in Q2 is above that of the previous year as well as Q1 FY '23.

We faced supply chain challenges from China as we are heavily dependent on imported fabrics and trims in Q2, but we work with other suppliers to ameliorate such risks. US monthly apparel store sales have been on the rise consistently crossing the pre-COVID level.

YTD August sales in 2022 is 8.3% higher than in 2021, and 7.9% higher than 2019 pre-COVID level. YTD '22 E-com clothing and accessories sale also witnessed a modest growth of 7.5% compared to calendar '21. India's share of US imports has increased to 6% in YTD August '22 compared to 5.1% in '21. So overall, we can conclude that the US market has thus far been quite resilient, and the sales growth has been strong. We hope that the US market continues its growth trajectory through rest of '22 as well. The coming holiday season sale will indicate the continuance of this trend.

Higher inventories and rising inflation may pose a challenge in the near-term. We are closely watching the macroeconomic environment for any development that may be adverse to the business in the short run. The continued military conflict, the extent of global monetary tightening and the trajectory of China's economy are causes for concern.

In the short run, our response is to further strengthen relations with the customers and ensure impeccable delivery. We view the long-term macroeconomic factor as very favorable for the growth of that business. With this in mind, we are progressing with our CapEx plan. We incurred a CapEx of INR 51 crores over the first half of the year and expect to continue spending in the second half as well. The unit in Madhya Pradesh is expected to come on stream in this financial year and the knits fabric processing unit in the next financial year.

Our growth trajectory for the financial year is intact, and we continue to build a firm foundation for strong growth in the years ahead. With a view to strengthen the ability of the company for the next phase of growth, the company has inducted three new independent directors subject to approval by shareholders.

They are Rama Bijapurkar, a well-recognized thought leader on marketing strategy and consumer behavior. George Varughese, a New York based private equity and investment banking veteran and Shiv Dalvie, a private equity and technology professional with global experience. In addition, the company has also elevated Poorna Sreenivasan, Executive President leading business operations of the company to the Board as an Executive Director. With Mathew Cyriac moving into the Chairman's position, the company has balanced change with continuity.

The induction of independent professionals with deep experience and global reach will help the management as we charge an ambitious growth plan for the company while transitioning Gokaldas Exports into a truly professionally managed and board-run company.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer-session. Anyone, wishing to ask a question may please press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Atul Mehra from Motilal Oswal Asset Management. Please go ahead.

Atul Mehra: Congratulations on the good results. Just thought to get your thoughts on how are you really seeing outlook from here on? Obviously, things are quite mixed globally. So, could you like talk a little bit more about like how the order book is building up? And what are you hearing from clients? And how are you preparing the business from the perspective that if at all, there are any plan deferrals, there are any cancellations, and it doesn't like maybe back the performance. So how are you really going about business in this fairly uncertain global environment, sir?

S. Ganapathi: Sure. Thank you for the question. This is an issue that is up almost in all of our minds. The global macroeconomic situation continues to be uncertain. And I believe that our staff as leaders is to navigate these uncertain times with the great degree of focus and a great degree of operational excellence and execution. So the way we are going about is to ensure that the customers that we deal with, we have excellent relationships with. The execution parameters are continuously met, and we focus on markets where we believe that there is a growth potential for us.

The product category also is equally important, and we are thankfully have the depth in our manufacturing capability as well as design capability to produce products which are in demand, depending on the circumstance of the situation. So if you look at the woven fashions products, we haven't seen as much of an inventory problem or a demand problem in comparison to say commodity products like knit. So we have seen a reasonable traction, which is the reason why in the second quarter, we had a 29% growth while the Indian apparel industry actually had a decline of 6.3% in exports. So it all depends on which markets you focus and what product category you focus. We've also had the good fortune of having a diversified set of customers, which allows us to pivot from one customer to another to make sure that our order book is reasonably intact.

That said, we feel that Q3 could be a time of challenge given that the inventory overhang in the US market is at its highest for spring '23, which is what we produced in the third quarter. Also, the European market is exceptionally weak given the high inflation and war scenario there, and the markets in China are also quite weak from a demand perspective. So given all of this, our choice of market within the United States, which has been reasonably resilient, has been good. We have an order book which is reasonably good for the third quarter. We are confident of coming at par with last year's revenue for the third quarter and hopefully start growing post that even better in the fourth quarter. When I look here or the quarter ahead, which is the fourth quarter, that is when we will be producing for summer of '23, which is almost a year away. And if you look at this summer, the summer of '22, it was warm and it was long. The sales were good, especially for woven products. And I believe that if the global warming is here to stay, then next summer would also be long and warm and the retailers would have low inventory, which would mean that reasonably good demand situation for us. So I'm encouraged by certain seasonal cues, weather cues, etcetera, global macroeconomic instability is beyond our pale. And we hope that we will be able to navigate whatever uncertain times that come in front of us, we have done that hitherto, and we are confident that we will do our best to handle any situation or any adverse situation that may come our way. We are usually exceptionally prepared well ahead of time and are ready to take any countermeasures if required.

Atul Mehra: Just one small follow-up, sir. In the sense that given that our share of business with the client, obviously, a lot of our clients are very large in size, is still quite small from the perspective of the clients' revenue. Would you say that this macroeconomic environment, while it is true for the economy and broader level numbers, from our company perspective, given our share is still quite small in these clients, we would be more insulated on a more ongoing basis than the broader environment is suggesting or like those kind of risks remain even with us?

S. Ganapathi: So that allows us some reasonable degree of cushion, but it doesn't completely protect you. So for example, if the macroeconomic headwinds are too strong, and let us say, there is a huge drop in buying volumes, it may affect all the suppliers. But we don't anticipate that sharp a drop either. On the contrary for the products that we make, we will probably see some growth. And given that not all suppliers are held equal by the big brands and well-performing suppliers are usually rewarded. We think that what you said would mostly come through and a good supplier like us should be able to consolidate the other suppliers and still be able to perform.

Atul Mehra: So just one other question on Bangladesh, like are we go ahead with Bangladesh as a manufacturing destination, or are we looking at other alternates and anything on that, sir?

S. Ganapathi: No. We are still -- definitely Bangladesh is in the radar. Bangladesh caters to Europe because of the duty-free access to Europe that Bangladesh enjoys. European market is weak, but we have not yet stopped our focus on Bangladesh. In fact, we are working on a factory which we hope will come up in early FY '24, somewhere during that time, we should be able to get the factory in our control. We are working with our partner in Bangladesh on this.

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

Pulkit Singhal: Congrats on an excellent set of numbers. My question is just a follow-up on the demand environment. Do we have signs to say that this is just a one quarter or two quarter issue and beyond that, we can continue to grow at 20%, 30% kind of growth rate, or are we not yet sure from a demand perspective?

S. Ganapathi: I can't predict some of these macroeconomic events, especially war in Europe. These are controlled by factors way beyond our prediction capability. But having said that, I don't think that the demand problem will be more than two quarter, three quarter problem. Beyond that, we should start seeing solid traction as apparel demand has to happen year-on-year. Inventories are already coming down with most of the American buyers, and it will get sorted soon. So they will come back to buying. People will have to buy garments. So I don't see this as a more than a couple of quarters or at best, three quarter problem.

Pulkit Singhal: And cotton price is going up, there is an underlying inflation that has also helped revenue growth of the last two years, three years. Do you think that next one year or two years, that aspect will reverse and therefore impact revenue growth?

S. Ganapathi: So see, at the end of the day, raw material pricing for us is a pass-through, so we're not excessively worried by raw material prices going up or down because when it goes down, we pass on to the customer. Obviously, it may have some impact on the FOB pricing and marginal impact on revenue growth, etcetera. But from a marginal standpoint, we tend to offset all of that with kind of pricing that we do and with the kind of execution that we do. So I don't see that as a big factor at play.

Pulkit Singhal: Last quick question which is margins will likely maintain that 11% plus last two quarters, three quarters. Now given this issue, would we be able to give away some bit of this over the next two quarters, three quarters as we cycle through this?

S. Ganapathi: So what happens is when the revenue comes down a bit, there will automatically be a margin pressure because of the fixed cost that we have. Having said that, we have taken a lot of measures to tone down our fixed costs as well in order to protect our margins. So our effort will be to maintain the margins as far as possible, but we may come under pressure for a quarter or so at best.

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

Aashish Upganlawar: So I think continuing on the question on the due diligence probably of the customers, and I just wanted to have some feel of -- we can see that your receivables have come down quite a bit, if I look at the September balance sheet. So is that the strategic initiatives where we want to keep receivables lower in the current scenario? And adjacent to that, how would be our customer composition in terms of the kind that we are extending to our customers. Are there any weaker set of plans where we would want to be a bit cautious in the upcoming, I mean the scenario and when the macros are weakening? Would your thought process be like that from this or...

S. Ganapathi: So we are closely watching all the customers. And I don't believe that there is any customer who is financially weak and we don't want to work with them. We are constantly monitoring their financials. As far as receivables is concerned, it is also a timing issue. We had a lot of shipments go much earlier to the end of the quarter period which resulted in collections happening sooner and hence, the receivables as we show at the end of the quarter turned out to be a little lower. I wouldn't read way too much into it. As far as focus on customers are concerned, all the customers that we work with are large and are having a good potential and are showing growth trajectory. So we are not concerned, on the contrary we draw confidence from the customer base that we have.

Aashish Upganlawar: Another thing is if I want to look at the gross margin trajectory and if you look at the last three quarters versus the three quarters before that, there is a kind of decline in the gross margins. Though we have made up with the other scale-related efficiencies on the margin. So is it possible to just show some bifurcation as to what has impacted gross margins in the last three quarters versus three quarters before that from a -- because currency has been favorable, the raw material has not been favorable at all, it has been other way? So some color on that would be helpful for us to understand the future.

S. Ganapathi: Certainly. So see, the way we price our garments is material cost plus the cost of manufacturing and plus our margin. That's how we price the garment. So when the material costs go up, the -- notionally, the gross margin will decrease because our cost of making remains what it is. The profit margin expectation remain what it is. So effectively, the gross margin notionally comes down because the embedded raw material which goes into making the garment has gone up in pricing. So it's only that I wouldn't read way too much into gross margins because we will still manage to get our return regardless of that.

Aashish Upganlawar: So you mean to say that it's a unit pricing rather than a percentage margin that is the target connected.

S. Ganapathi: That is correct.

Aashish Upganlawar: And nothing comes to us from the currency perspective since its weakened so much, it should be beneficial somewhere.

S. Ganapathi: No. So what happens is most of the brands have -- they are also well aware of the currency movement and have started asking us for currency benefits to be passed on to them. So there is always a negotiation that we have between us and them. And also, when currency moves very fast and sharp, the way it has moved now, we hedge our currency.

So whenever we place, we secure an order, we tend to determine what is the exchange rate and then do our pricing based on that. So our hedges have been at a certain rate and the spot rupee has actually weakened even further than the hedge rate. So we have that issue. So we will have to deal with that but these are momentary aberrations. We don't indulge in any speculation in currency at all. When we book orders, we naturally go and hedge our forward receivables.

Aashish Upganlawar: And one last thing I wanted to understand, is it a good time to expect some guidance on the may be next six quarters? Or is it too hazy for you to even spell that out as we get some direction as to the numbers, how things will go?

S. Ganapathi: So I don't know how many quarters you said, six quarters?

Aashish Upganlawar: Yes, I think two quarters left for this year and next year -- financial year, FY '24.

S. Ganapathi: So as I said, the quarter ahead is going to be the most challenging for us. That is the third quarter, the quarter that we are going through at the moment. And we hope to come at least at par with last year's revenue. And we'll try to see if we can do slightly better than that, but that's the situation we are.

We hope that post that, that is the fourth quarter onwards, we should start again looking at growth in revenue further. I anticipate FY '24 to be reasonably good. We will still have a decent growth over FY '23, notwithstanding these macroeconomic events, which are within our visible range. Now anything which goes completely out of filter, is not something which we can plan on. So I'm not sure how the war will end. I'm not sure what kind of severe economic recession that could happen in the Western world. Based on what we can see now, I feel that next year, we should start seeing growth again.

Operator: The next question is from the line of Mohit Khanna from Banyan Capital Advisors LLP. Please go ahead.

Mohit Khanna: Congratulations on gaining strong set of numbers. I just wanted to have a little bit more clarity on the CapEx numbers. So INR 51 crores you have that for first half and the yearly target remains at INR 160 crores. So I mean, what is the expectation? Do you want to change that? Or do you think INR 160 crores you would make this year?

S. Ganapathi: No, we are continuing with our CapEx plan. So we're not changing any of that. INR 160 crores will continue.

Mohit Khanna: So basically, you're confident that you would need that.

S. Ganapathi: That is correct.

Mohit Khanna: And any changes or addition to the next year or FY '25 CapEx plans, anything additions over there?

S. Ganapathi: See, FY '24, we have a CapEx plan of about INR 125 crores. We -- for now we are holding it, we will calibrate it as we go forward, closer to date, for now we have it in our plans and we intend doing it. We will take a look at how the macroeconomics situation evolves. And if let us assume that growth returns and the market stabilizes, then we will need this CapEx to get back to growth. But if there is a very severe headwind, then we will take a call accordingly. But that's for FY '24, FY '23, we are on track to do this because we see that we should be able to meet that capacity in the next year.

Mohit Khanna: And second question would be you definitely gave a very comprehensive answer on your expectations on the revenue line, quarter three and going forward. Is the expectation would be the same on the margin of the EBITDA line as well? Which is around 12.3%.

S. Ganapathi: So see, when the revenue decline, there will be a little bit of a pressure on margin So our hope is to come closer to these numbers. And we are putting in every bit of effort to come at this 12% odd level. And hopefully, we should be successful.

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

Gunjan Kabra: Sir, Congratulations for a very, very good set of numbers. So my first question. So there are two things that can happen from the company point of view, like we are witnessing a resilient US market. But on the other hand, like one of the major customers, if I say, is Old Navy, it is having a lot of in the cancels also they said because of their assortment and balance and size issues. They have a lot of inventory tied up with them. So is it like has this issue been resolved? And how are you seeing the order book to build up going forward if the issue has been resolved with respect to this?

S. Ganapathi: Okay. Which customers are you referring to when you said -- they said about inventory problems?

Gunjan Kabra: Old Navy.

S. Ganapathi: Old Navy. Okay. So see the inventory problem that the brand has, it is sorting itself out as we speak. So they are bringing down the inventory. The peak was, I think, about three, four months earlier. And now their inventories are also coming down. They are also aggressively trying to liquidate inventory. As old stocks do have a limited shelf life.

Second, most of the inventory that they have are in the knits or commodity kind of garments which is not where we are majorly present. So for us, while there has been an impact and we have tried to address these issues, it has not been as serious because of the product types that we produce. And the focus of our marketing has also been such that we have built for businesses which are very difficult for others to produce and hence held on to our revenue share.

Gunjan Kabra: Sir, also, I wanted to understand that you guided that the Madhya Pradesh plant will commence this year. So are we like initially, I think, two, three con calls back we are planning to do it in two phases. So what would be the total capacity of that? And are we doing it in phases or the two million capacity will come online altogether.

S. Ganapathi: No. It will be two phases. As of now, the work is happening only in Phase 1 with certain common utilities being built for both the phases, but what will come in production in the fourth quarter will be only Phase 1 of the Madhya Pradesh unit.

And in the fourth quarter, we'll be running pilots. We'll be running trial orders, et cetera, with real commercial production, more or less happening in the first quarter of FY '24.

Gunjan Kabra: And this would have the capacity of how many pieces, Phase 1?

S. Ganapathi: About 2.5 million to 3 million per annum.

Gunjan Kabra: Sir, and what would be the second phase, when will the second phase come online?

S. Ganapathi: So we will take a call on the second phase as we go forward. It's a part of our FY '24 CapEx in this. We will take a call once the first phase comes on board, how fast we are able to ramp up and stabilize we will take a call. More likely, we will start the second phase by end of FY '24.

Gunjan Kabra: Sir, and the knitting fabric plant, which is coming online next year. So when is that expected to come in?

S. Ganapathi: At the moment, we are working -- looking at a Q1 FY '24 plan.

Gunjan Kabra: Q1 FY '24.

S. Ganapathi: Yes.

Gunjan Kabra: And sir, these are the two CapEx which is expected to come online for the next year, right, as till FY '24, right?

S. Ganapathi: That is correct.

Gunjan Kabra: Sir, next, I wanted to ask is generally Q4 is expected to be -- for Q3, you guided it is a little challenging and you are expected to remain flattish, but Q4 is expected to be a little higher on account of sales would be higher on account of high average price because of the product mix that we cater to. So can we expect a better run rate in Q4 and Q3 a bit?

S. Ganapathi: So Q4, I don't think the product mix will change much because Q4 is summer product. Summer products are all the fashion garments and these are not outerwear, which are high-value garments, which we typically tend to produce in Q1 and Q2. So it's not from that, but in general, summer volumes are higher, and that's why Q4 should be better.

and also last summer, that is summer '22, the retail sales were put in the US, which is our primary market. So we are hoping that by Q4, we should start seeing some traction redevelop for us. So it's not from product mix change or ASP growth, but it's really just the volumes, which will drive Q4.

Gunjan Kabra: Sir, also, when we say that the European markets are not doing well, the Chinese market is not doing well, Sri Lanka is having a problem and all these. So in this kind of a scenario, customer will have a lot more suppliers because the demand is not that high. So how are we seeing that kind of a scenario because it will become a little more very, very competitive for the brands to source their garment. So how are we seeing that.

S. Ganapathi: That is definitely an issue that all of us have been dealing with. As long as there is an excess of supply over demand, it will result in price pressure, and that's evident in the market. The only way to counter that is twofold; One, try to specialize in product types, where you can still hold on; and number two, try to become as efficient as possible so that what you lose in pricing, you try to make up in lower production costs.

So we are working on all these fronts. There is a pricing pressure without a doubt across the whole market. This is across all industries as well. We are trying our best to counter it. Weaker rupee slightly helps us in that direction as well.

Gunjan Kabra: And how many customer comprises of 70% of our revenue and how many customers comprises of that revenue?

S. Ganapathi: About 5.

Gunjan Kabra: About 5 is -- 70% of the revenue comes from customer?

S. Ganapathi: Correct.

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

Mulesh Savla: Congratulations on a good set of numbers. Just to continue on the previous question, sir, how are we booked for quarter 3 and quarter 4, our order book, how does it look like?

S. Ganapathi: As I mentioned for quarter 3, we did have challenges on the order book front. As most of the brands are facing considerable overhang from excess inventory in the US European customers who are not really buying because they were worried about the market sentiment, the retail sentiment. So we did have challenges.

Despite all of that, we feel somewhat confident that we would be able to still come at par with last year's Q3 number in terms of top line. So we have worked on it. We are still working on it to make sure that we are able to bring that kind of revenue. So our order book has reached those levels for third quarter. So fourth quarter, it is still work in progress.

The orders are still coming in early to predict how things will go. I think the sentiment in the holiday season, which will start sometime mid-November post-Thanksgiving in the US will drive the brand. If this holiday season sales is good, I think more and more brands will come back to buying vigorously in the market.

Mulesh Savla: And sir, you have mentioned one of the main aspect in the CapEx as new initiatives. Can you throw some more light on what do you include as new initiatives?

S. Ganapathi: So new initiatives is our entry into the knits business. So currently, we are focused only on the woven side. Starting next year, we will also have a knits processing unit. So we're building that up. And that CapEx is underway as we speak. So the factory is under construction, which we should hopefully get it commissioned sometime in the first quarter of next year.

Mulesh Savla: And so basically, that knitting garments, which we are planning to manufacture, so it is CapEx related to that facility.

S. Ganapathi: Yes.

Mulesh Savla: And with the improved working capital, we have a fairly good cash on hand. So is there any specific plan to use those cash or you will use it for the growth of the business?

S. Ganapathi: So at the moment, the intention is to use it for the growth of the business. Some more CapEx is planned. We also will take stock on how the macroeconomic situation unfolds in the next -- second half of this year. If things start correcting itself towards Q4, then I think India will start seeing tremendous tailwind of growth coming from China, Vietnam, et cetera, where the costs have gone up by geopolitical reasons mean that the brands have to buy more from other geographies. So we have to prepare ourselves for CapEx growth as and when the current macroeconomic problems resolve. So we are hoping that we will get some clarity and visibility by the second half of this year.

Operator: The next question is from the line of Gunit Singh from TCIPL. Please go ahead.

Gunit Singh: As I'm new to this company, so pardon me if I'm asking repeat questions. But you mentioned about setting up two new units, which, I guess, are coming up in Q1 of FY '24. So I just want to understand how will these two units add to the revenues for the coming years? And what are the projections like when these two units are fully operational? How much top line and bottom line can the company achieve with full utilization, and by what time?

S. Ganapathi: So the expectation is that between these two units, and there will be some downstream units to the fabric processing unit as well which will come up as and when the fabric processing unit is commissioned. We are talking of about INR 500-odd crores of top line, which will be delivered by these CapExs, and that's the work which is going on.

Gunit Singh: All right. And do we expect these to be fully utilized as soon as they are commissioned or...

S. Ganapathi: No, it will take easily one year this all, -- one year to 1.5 years before it reaches that state. So if you get about INR 500 crores to INR 600 crores of top line, you can expect from these.

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

Simran Omkara: Sir, I'm just going to ask you that how you'd see the textile industry going forward on the macro front. Because I just want a view on that because textile industry has lot of problems in the past two years or three years on the concerns of supply chain constraints, freight cost, low demand in the US. So how do you think the textile industry is going to perform the upcoming one year or two years down the line? Your personal view on that because you are in the textiles, so any additional points on that, can you brief something on that?

S. Ganapathi: So I'm very bullish. If you take one year to two years' time frame or longer, then I'm very bullish. I feel that the government is extremely supportive of manufacturing in India and textile in particular, because this is a job accretive to the economy. The incentive regime which the government is providing, especially certain state governments to encourage capacity creation is exceptional that allows India to still remain amongst low-cost producers globally.

So that's encouraging. I'm also finding that the macroeconomic situation at least as far as China is concerned or even US's resistance towards China is concerned, is not going to go away anytime soon. And also kind of cost structure, for instance, which is very high. So China is exporting about US$120 billion of garments that will come down, and that has to probably be absorbed by either Cambodia to an extent, Bangladesh and India and may be Indonesia as well to an extent. Vietnam is also getting very expensive these days, and Vietnam is also pivoting to higher-value electronic manufacturing.

So the way I see it is that the confluence of several events is leading to reliance of more and more output from India. The big brands globally have also experimented with Central America, Africa and all of that. But somehow the volumes have not really kept pace with their expectations. And the only big players in India who can actually step up and deliver to that requirement. Now Indian industry also has to mature and start delivering quality, which is equivalent to that of East Asia and also at volume levels which both countries can deliver. Some of the upstream industry, which is the fabric, etcetera, also has evolved to keep pace, especially in the synthetic area, especially in the fabric processing areas. But those areas and all will develop in phases. But I feel quite strongly about how things are shaping up over the next few years.

The other factor which can be very favorable to India would be the FTAs with UK and EU. Now UK FTA could be resurrected with the current Prime Minister in UK indicating that he is in favor of getting it done. And there has been exchanges with the current government in Delhi as well. So that's encouraging. And if that happens and we take up the EU FTA in earnest after that, and let's assume that by end of FY '24 or early FY '25 an FTA with EU happens, that will become a big shot in the arm for the country because the duty advantage or duty arbitrage that we get will result in a massive inflow of orders for Indian apparel producers. So overall, I would say, pretty bullish if I take a long-term view.

Moderator: Thank you. The next question is from the line of Arpin from Ardeko. Please go ahead. As there is no response from the current participant, we'll move on to the next participant, the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: How is the competing position of other player in other country like Pakistan, Cambodia, Vietnam because we are hearing like Pakistan as an apparel exports destination that electricity cost has gone up drastically and not viable now and they need to shut down the manufacturing?

S. Ganapathi: So, Pakistan's volume is not too high that I wouldn't say that gives us a big advantage. So the same goes for Sri Lanka. In some of these countries, their currencies have also depreciated quite drastically. So even though their cost may have gone up in dollar terms, the currency offset also helps them. So I'm not so bullish about business coming from Pakistan or Sri Lanka. They are there for certain reasons. But the business that comes out of China and Vietnam that's here to say and that's more structurally viable long term, and that's what will drive growth in India.

Jignesh Kamani And second thing about, more about the entire supply chain initiative, how do the client in terms of sourcing view cotton and other issue, how the client now much more serious and associated with the client on the supply chain where you buy the cotton and the entire supply chain? And on the flexibility part, do think at what level we are in since we're now able to provide the supply chain to our client?

S. Ganapathi: See, at the end of the day, if the price of one fiber goes up classically, blends will start. The fiber choice is based on season and the weather pattern. So in the autumn and winter, people will want synthetics. In the summer and spring, they will want breathable fabrics so they will prefer cotton or viscose. So automatically, viscose blends, linen blends will increase, even polyester blends may happen just so that the brands can keep the costs reasonable.

So when cotton prices were going through the roof, we were seeing actually blends share increase quite a bit. So there ways to mitigate raw material prices and fiber substitution does happen as and when certain fiber prices go up exceptionally out of sync with the other fibers. That said, for us, we are since an apparel manufacturer and the rest of the value chain, we just depend on fabric from our fabric suppliers. We tend to price that in based on the orders that we secure from our customers. The high cotton prices may not translate into a proportionate price increase or decrease on the fabric side because there are several other value additions also involved. So let's say cotton prices goes up by 40% doesn't mean fabric price made out of cotton will go up by 40% as other value additions are there.

Jignesh Kamani: Traceability of the cotton, origin of the cotton in the entire supply chain. Customer want a particular cotton or particular variety or ESG compliant or they can say, other aspects?

S. Ganapathi: That's okay, right. I mean, then they are willing to pay the price for it. That's right.

Jignesh Kamani: Where we are right now versus the competitor and can we get some sort of market share gain which the -- from the customer, which are more conscious on the entire supply chain at the sustainability part?

S. Ganapathi: See, so it's not, we don't play too much in the material part, except to the extent that India has a cotton base, we have a good fabric base, etcetera. Our focus is more on design, the quality of our manufacturing, the outerwear, which is very difficult for many other players to emulate or manufacture. So our competitive strength comes from those areas and that's how we differentiate.

Jignesh Kamani: And my last question, what are the issues right now, which led to delay in the FTA between India and UK ,I can say expectation was that earlier it might come in June, then might delay now it might looks like March. So what is the -- any issue which you think?

S. Ganapathi: I think the issue is very evident. The frequent government changes in UK is what is the reason. So we need a stability on the bureaucracy on that side for us. Most of the work has been concluded, is just that we need stability on the government so that it can be taken to closure.

Moderator: Thank you. The next question is from the line of Rishabh from RBSE Investment Managers. Please go ahead.

Rishabh: I just want to understand, since you're also getting into knitting. In the current scheme of things, if you were to compare woven versus knitting, which business is more attractive and in terms of, say, challenges or competition, if you could help us understand.

S. Ganapathi: So each business has its own challenges, and the challenges will vary from time-to-time, right? If you look at globally post COVID, the knits business started growing much more. So it was almost 50:50. And then especially if you look at the US market, knits became almost 55% in terms of knits versus woven ratio. It may get correct and woven may get its share back. But the point here is that there is a synergy between the two, brands sell both the products, they do go to a shop, you will get a shirt and a T-shirt with the woven and the knits product there. And we can cross-sell to our existing customers. That's the reason and logic for going into knits where we can cross-sell to our existing customers.

The business challenges will vary. At the moment, we are finding traction for woven. Our knits unit will come up next year, by then hopefully things will start stabilizing in knits as well. And we will be -- I mean our knits revenue share as a percentage for us will be very small compared to the woven. So for us, it will get started and it can allow us to get a growth engine for us going.

Rishabh: And then from a longer-term perspective, since we are not currently fully integrated, does it make sense for us to get into spinning or other value-added for us to enable better customer service going forward, say, five years, six years down the line or being asset light in a better way?

S. Ganapathi: So in the long run some degree of integration is good. We will have to think about it and work on it. And we don't have to go necessarily all the way back to spinning, which is commodity in my viewpoint. But fabric processing maybe. Anything above that, we'd like to take a call.

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

Simrat: So I just wanted to ask on the employee management side. So what are some of the steps that we are taking so that employee management is in place as we scale our business?

S. Ganapathi: I am not sure I got the question.

Simrat: Yes. So I just wanted to ask like, so when we scale our business, so how do we make sure that we are able to handle the large number of employees?

S. Ganapathi: No, that is -- we have demonstrated that over the years. So we have had many employees. Currently, we have 32,000 employees, we've been handling them, and these employees are spread across multiple factories. Clearly, we have a strong HR system in place to handle all these employees. We are considered one of the better quality employer and with the systems and processes to manage all of these. So I don't see that as a big problem.

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

Aashish Upganlawar: Sir, on a longer-term basis, beyond the near-term headwinds that the macro is present, how do you see the overall – I mean, the journey of this company, given the fact that before you came on board, there was a period which was really painful and the growth was all lost basically, and some of competitors like the Shahi which is still 3x of our size. So is there a potential to reach to those levels? And do you see that journey unfolding for Gokaldas that way, maybe three years, four years, five years down the line?

S. Ganapathi: Just a correction, Shahi probably is for 4x times.

Aashish Upganlawar: Yes, it would be now.

S. Ganapathi: They have done well for themselves. And I really admire that company. See, there is a huge opportunity. I mean, Shahi just has shown the way, right? They have grown and that clearly means that there is hope for a well-performing company to grow. So there is enough latent demand. At the end of the day, India last year exported US$ 16 billion out of US$ 500 billion of apparel trade, which is nothing. So there is enough opportunity out there, which the country can capture.

And it will be best captured by larger players who have got the ability to invest in quality, invest in sustainability, invest in compliance management and all of that. So bigger players like us will definitely see disproportionate growth opportunity for ourselves. And there is a demonstrated capability by Shahi that Indian players can grow. So I'm sure there is a lot of opportunity here, and we will also capitalize on it.

Aashish Upganlawar: So is your customer set, I mean same, similar and how do they recognize you versus Shahi in terms of the qualitative parameters that you might want when you are on that journey to maybe we create some of the journey, is it similar?

S. Ganapathi: They view us very favorably. They view us as one of the strong suppliers, high-quality suppliers and a very strong competitor to Shahi in that sense. And I think if I were to ask the brand, they would like to see more of people like us -- players like us, that us meaning both Shahi and ourselves. So, there is room for many more players to exist in the country. And they would welcome it because then they can source more from India.

And as far as to your question, they view us as good as anybody in the country, and they even compare us with international players. So we even come very favorably with respect to players in other countries like Bangladesh, Vietnam, China, Cambodia and all that.

Aashish Upganlawar: Okay. So to ask bluntly as investors, maybe from a longer-term horizon of may be three, four years, we should be expecting that kind of a journey from Gokaldas if things were to go fine. I mean that's the endeavor of the management to go that way and 3x of the current size?

S. Ganapathi: See if opportunity is there, why not, right? And somebody has to do it, and I'm sure if more people do it, the better because there's room for everyone to do it. And I'm hoping for the good of the country and good of the textile industry, there will be lots of players who will participate in that opportunity.

Moderator: Thank you. The next is from the line of Mohit Khanna from Banyan Capital Advisors. Please go ahead.

Mohit Khanna: You had mentioned in the call right now that you have bid for some products which is difficult for your competitors to manufacture. So I think that specifically for Old Navy or maybe other customers as well. So could you just elaborate what are the competitive advantage that you have as compared to your competitors here? And what would be your strategy to consolidate or both market share and the wallet share for your own segments?

S. Ganapathi: See, it's about outerwear where the company has a strong pedigree there, capability of producing complicated outerwear. These are cold weather garments, which are usually produced in huge quantities in Vietnam, China and to an extent in Bangladesh, but not to a great extent. So we do have the capability. We import fabrics, etcetera, for this, but we do have the peak capability for some of those. Even our design capability stands us in good strength, some of the smaller players may or may not be able to invest as much in design engagement with our customers, whereas we could. So some of these differentiators do help us in securing certain types of orders which others can't.

Mohit Khanna: And so that would be your strategy for the growth and to become 4x just like Shahi.

S. Ganapathi: So growth will come from multiple segments. This will be a strategy to really try to see how much we can protect our margin.

Mohit Khanna: Fair enough. So this is not a scalable product mix or product...

S. Ganapathi: Don't get me wrong. It is scalable. But that's not the only segment we can grow in. We will grow in various segments as well. It has to be a balance between growth in outerwear and growth in the other segments as well. Outerwear is not a year-round product. So it's more like a cold weather product. So we have two factors in all of these when we plan our product strategy.

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

Pulkit Singhal: For the follow-up. Just look at the slide which talks about US apparel imports and Indian apparel exports. I mean CY '18, '19 until now it's all flattish in terms of Indian exports. In fact, Indian apparel exports and US has probably gone up a bit. So is the opportunity really China-Plus-One? Or is it consolidation largely playing out and you have gained share in other Indian players. Or is it that for your particular segment you are witnessing more of China or other country Plus One.

S. Ganapathi: No. So if you look at India's share in US imports, this year, right YTD August for this calendar year 2022, we are 6% versus 5.1%. That's our share of import. Last year, in '21, it was 5.1%, this year it is 6%. So almost 1% up. Now where are we getting this 1% incremental market share, China has lost about 2% in the last one year. So we have picked up some slack from there. Bangladesh is more or less flattish, very marginal growth. So India is the one which is picking up share. So there is an opportunity for India to pick up more share and 1% or 2% to one percentage point share is huge. So it is going in the right direction in my viewpoint. And if FTA comes, there's an opportunity to pick up share in Europe as well. So there is considerable opportunity the way we see it.

Pulkit Singhal: Actually, I was comparing to CY '19 and '18, the absolute exports is flat. It's about US$13billion, which is similar right now. So I'm not comparing to last year, I'm just looking at the entire chart. I'm just looking at it over three years because -- so I'm just wondering whether there is a consolidation happening from an Indian supply standpoint as well for the larger player?

S. Ganapathi: So that's another point at play where some degree of consolidation will also happen. See, there are two, three things that play. In the last three, four years, especially just before COVID started, there has been a move by the Americans to reduce their reliance on China. And it started with

Trump continues with the current Biden administration. Strategically, things are going more and more in that direction. So there is that move, which is what we are seeing in the most recent times, '21,'22, etcetera.

The other thing is within the country itself, there is a degree of concentration of orders amongst the bigger suppliers. Like our country's output is US$ 16 billion, the bigger players are the ones who may be delivering a bulk of the growth as opposed to all other players. So there may be a bit of a stagnancy seen amongst the others. So that also helps us.

Pulkit Singhal: Sure. And then lastly, what is the peak revenues you can do from your current capacity and based on the current prices for the full year?

S. Ganapathi: I think what we delivered in Q1 would be our peak revenue based on current capacity. Not factoring the incremental capacities which are coming on board. Those will give additional revenue.

Pulkit Singhal: So INR 2,400 crores roughly. I mean you are saying this...

S. Ganapathi: I'm sorry, say it again?

Pulkit Singhal: INR 2,400 crore annually is what you can do from your current capacity?

S. Ganapathi: That is correct.

Moderator: Thank you. The next -- ladies and gentlemen, we'll be taking the last question that is from the line of Cheragh Sidhwa from ICICI Securities. Please go ahead.

Cheragh Sidhwa: So this is a clarification on incremental revenue part. So the INR 500 crores that you mentioned, so correct me if I'm wrong, INR 230 crores will be from your two units installed in Karnataka and one in Tamil Nadu that contributes around INR 230 crores and then the MP would say contribute around INR 160 crores. So INR 390 crores from there and INR 100 crores close to from the knitting capacities is that the correct understanding?

S. Ganapathi: So your voice was not very, very clear to me. I mentioned there in the Madhya Pradesh unit and the fabric process unit, that is the revenue. From the large units, which have come up in Karnataka and Tamilnadu which has already come up last year, those revenues we've captured separately, yes.

Cheragh Sidhwa: And sir, say, around INR 80 crores CapEx towards...

Moderator: Sorry to interrupt, there is a lot of disturbance from your line Cheragh.

Cheragh Sidhwa: Is it better now, sir?

S. Ganapathi: Yes slightly better.

Cheragh Sidhwa: Sir, the knitting capacity, which is close to around, say, INR 80 crores to INR 90 crores, which we are planning to invest, that is purely for the commissioning of fabric processing or it also includes some of the downstream garmenting units which will be utilized to produce the garments or that will be separate of this INR 80 crores, INR 90 crores?

S. Ganapathi: That will be separate -- that will be separated, only the fabric processing unit.

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

S. Ganapathi: So thank you very much for supporting Gokaldas Exports. We are committed to seek growth within the constraints that we have of the macroeconomic environment. We are working hard, working with our customers, working on improving our operational excellence, and that's a journey which continues. We peg ourselves with some of the best players so that we are able to compete with some of the best to deliver to our customers.

We will continue to see growth even in this hard macroeconomic environment. We are reasonably confident of a strong tailwind in the years ahead when the dust settles on the current macroeconomic situation, where the opportunity for India is strong given our cost structure, given the government support and the FTAs that are coming up. So I'm confident that the prospect for the industry is strong. We are focused on execution as always and we will keep delivering to the best of our abilities. Thank you.

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