“Gokaldas Exports Limited Q2 FY-24 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to Gokaldas Exports Limited Q2 FY24 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 Sarda from E&Y. Thank you and over to you sir.

Binay Sarda: Thank you, Lizann. Good evening to all the participants on this call.

Before we proceed to the call let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risks that could cause future results, performance or achievement to differ significantly from what is expressed or implied by such forward-looking statements.

Please note that we have mailed the "Results and the Presentation" and the same are available on the company's website. In case 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 – Vice Chairman & Managing Director and Mr. Sathyamurthy – Chief Financial Officer.

We'll start the call with a brief overview of the quarter gone pass and then conduct Q&A session.

With that said I'll now hand over the call to Mr. Siva. Over to you sir.

Sivaramakrishnan G. Thank you Binay. Good afternoon, everyone. Happy to have you at our earnings call for the second quarter of FY24.

Retail sales have been resilient and maintained gains year to date 2023. Brands have been able to sell their products at full price reducing the need for discounts which has contributed to growth primarily in terms of price rather than volume. However, this has not translated into a higher demand for apparel manufacturers. US apparel imports for the year to date fell by 23% while EU fell by 13%. Major brands were consciously liquidating excess inventory holdings and controlling their purchases.

During the quarter our performance remained subdued, which was in line with the market condition. This is a period when we manufacture for the holiday season, weak retail demand in autumn winter 2022 due to high inflation, high interest rates and a mild winter contributed to excess inventory impacting offtake for this period. Our revenue for the quarter came in lower by 11.7% due to lower demand. In this quarter we incurred certain one-time expenses of Rs.5.2 crores of which Rs.1.6 crores was for acquisition led expense and Rs.3.6 crores was for the startup of our MP plant. As you know when we start up a factory, we have to ramp up our manpower and put a lot of people through training and there's a lot of startup expenses that we incur which will probably continue for a quarter or two more.

On the acquisition Led expense as well, there may be some additional bookings of acquisition led expense in the next quarter too. This Rs.5.2 crores of one-time expense impacted our operating margin by 1% adjusting for which our EBITDA margin in Q2 FY24 stands at 12% compared to 12.5% in Q2 FY23. We also ramped up our labor force in Q2 in preparation for third quarter business volume, resulting in an increase in wage cost of about Rs.5 crores. Further our operating margin was impacted by an increase in statutory wages for factory employees. We continued to offset some of the cost decreases through superior operational performance. In the first half of the year, we generated Rs.113 crores in cash from operations and covered our capital expenditure of Rs.70 crores. We plan to incur another Rs.75 crores of capital expenditure in the second half of the year to continue to build up our capacity as we plan for future growth.

Our new manufacturing unit in Madhya Pradesh is on track and we expect production to increase in the coming quarters. The fabric processing unit in Tamil Nadu is in advanced stages of completion as well. We are making good progress with our acquisition of Atraco. We are awaiting regulatory approvals from different jurisdictions and anticipate the process to be completed by the end of Q3 FY24. We are expecting the momentum to pick up in the second half of the year, particularly with Q3 production for spring ‘24 as brands have more or less destocked their inventory and are increasing their order placements. This is also a period of increased sourcing from India. We anticipate sequential growth to trend up in the next two quarters.

We believe that the strategic moves that we are taking will allow us to continue to grow the business going forward. We continue to closely monitor potential macroeconomic situations and take measures, focusing on customer relationships and service excellence. We are confident of the medium to long term prospects of the company. I thank you for listening and would be happy to address questions that you may have.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Jatin Chawla from RTL Investments.

Jatin Chawla: My question was when I compare Gokaldas Exports and India's overall apparel exports, it seems the performance is largely in line. I would have expected that in this kind of weak scenario, the stronger larger players would probably do better. So just wanted to understand why is that not panning out?

Sivaramakrishnan G. Good question. So, there are several reasons for it. One of the reasons is that the primary reason is that we are a very outerwear focused company and in the second quarter we do a lot of products which are meant for holiday season for cold weather purposes. That's a core product for us. Last winter was a very mild winter and coupled with a very high degree of inventory stocking on the brand side, resulted in the brands placing very low orders for outerwear products for this coming winter. That is winter of 2023, holiday season 2023. So, this resulted in our Q2 volumes being more impacted as we don't do as much fashion wear and other lightweight products or commodity products. So we had to switch to many other product types for this Q2 to offset this peculiar situation of higher inventory stocking of the product types that we tend to specialize in. So that's one of the reasons for our decline in growth which came certainly in line with India's exports. Number two, we are US heavy and as you're aware that US imports have fallen much more than European imports. So that also impacted us a bit more in Q2. And number three, was if you look at our last year Q2, we had a very strong performance much higher than the rest of the industry. So, there is also a base effect which resulted in us coming more or less in line with the industry decline. So, if you adjust for all of this actually, we have performed well. But that said if you seek an explanation this is what I have.

Jatin Chawla: Clearly, I understand the product type dependency. Overall, you would think that in the market the larger players would still be doing better than the smaller players and hence once this anomaly kind of adjusts, we should expect to do better.

Sivaramakrishnan G. Always, absolutely.

Jatin Chawla: And given that how small India is as a part of the overall global pie, is it a little bit surprising that Indian exports are not doing better than—I understand that overall conditions are tougher and India is doing—slightly better. But would you have expected India to do slightly better than what you have done in the last couple of months?

Sivaramakrishnan G. Again, Q1 and Q2 is not India's strength. Gokaldas is different. We do a lot of synthetics and outerwear and all of that. But typically, India plays to its strengths in the third and 4th Quarters when more and more spring and summer wear comes into play if they use cotton and viscose based fabrics. So typically, you will see a little bit of a surge in the third and 4th Quarter for India as such. And in a situation where the brands are buying a lot less then it's a question of relative impact. Globally all the regions have seen considerable slowdown. So, when I talk to operators in Bangladesh, Vietnam, China they've all seen a much higher degree of slowdown.

So, in such a situation it's hard for anybody to outperform. The fact that India has dropped only 12% is a good sign I would say.

Jatin Chawla: And would you expect these markets share gains for India then to accelerate a little bit once the overall market picks up given that then the guy who's sourcing would not be cutting volumes from somebody and gaining it but rather incremental volumes would be guaranteed?

Sivaramakrishnan G. It should, some degree of the bounce back will benefit at least the stronger players from India for sure and we will have to build upon it going forward.

Moderator: The next question is from the line of Gunjan Kabra from Niveshaay.

Gunjan Kabra: Wanted to understand that home textiles in the US have showing a sign of pickup. At least some companies are showing a sign of a pickup in their numbers. So, do you think that same is the inventory has decreased now for the apparel segment also? And how do you see this for the next Q3 and Q4 and going forward for Gokaldas Exports?

Sivaramakrishnan G. I think the inventory issues going forward is a lot lower because many of the brands have managed to destock well. And it is also evidenced by the fact that our order book is pretty good for the third and the 4th Quarter. So, we are seeing traction coming back. If you see the US retail market that has been reasonably resilient, and I hope that it stays resilient through 2024. So that depends on a lot of macroeconomic factors. But as far as the brand is concerned, all the buyers are concerned, and their inventory issues are concerned. I think we have seen some de-stocking that more or less happened. So, it will help us grow going forward.

Gunjan Kabra: So, also wanted to understand your view in short term and long term. Initially like 1.5 year back at least there was like a tailwind in the sector where India was gaining market share and because of the China ban and China Plus One. So right now, because of the slowdown in the US and Europe and everything, so we have acquired Atraco also and we are in expansionary phase also. I wanted to understand what's your vision is for the short term. What are the factors that can maybe hinder growth or settle in short term and maybe the long-term vision for Gokaldas in say next 2 to 3 years, 4 years? What kind of growth or what kind of perspective do you see with the acquisition going forward?

Sivaramakrishnan G. So, I don't see too many short-term issues barring macroeconomic factors and that's anybody's guess. You can also judge on how that is going to pan out. If you look at the US interest rates have been kept high and there may be some impact on consumer sentiment going forward. So far, the US market has bucked all the trends and consumer demand has been reasonably resilient in that market. We'll have to see how that pans out going forward. There are elections in several jurisdictions US, Mexico, UK, India so on and so forth. We'll have to see how all of that pans out. But by and large I think global demand doesn't have such wild oscillation. My sense is that the excess of inventory which happened when the supply chains tightened up and then eased out all of that is more or less wearing off. So, we're back to catering to the usual demand growth that will happen going forward. Some degree of normalcy will return to the market. Now in such a scenario, stronger players will have the ability to win more market share and continue to grow. So going forward there'll be a bit of a steadying of the volatile fluctuations is what I guess. Again, everything caveated to some major geopolitical crisis. I feel that China Plus One will continue to play out. It's already playing out on the cotton sector but it'll slowly start happening in the other synthetics as well. It will take a few years but that also will move as India's cost structures are far superior and we are exploring newer lower cost locations. We're also looking at a possible FTA with UK and if that happens that will be a great benefit for India. If EU FTA comes which will take some time that also will be a major shot in the arm for Indian manufacturers. I think that for a good solid manufacturer who can compete and hold themselves at a global level, the opportunity is very strong. That's the reason why we are investing in capacity. We are making sure that the capacities that we are investing in are low cost. We're investing in relationships with new customers. So, there's several discussions that are happening with customers. I feel confident that in the next 2 to 3 years the prospects should be good for Gokaldas. Our Atraco acquisition will also come into play most likely from 4th Quarter of the current financial year. The order book for that entity is also pretty good going forward. I'm taking comfort from all of these strengths and saying that we should be on a good growth path going forward subject to no major macroeconomic crisis.

Moderator: The next question is in the line of Anush Kumar from Spark Asia Impact Managers Private Limited.

Anush Kumar: I have two questions. My first question is on the export incentive part where the RoSCTL I think the extension is till March '24. What is your take on that? Will there be any further extension on that and if there is not any extension and what would be the impact? Because considering the fact that we have put in lot of money what would be the margin and revenue impact for that? Second question can you also throw some ballpark growth for the second half? Will the subdued first half be compensated by the second half performance both on revenue and margin front? Are you seeing that type of growth?

Sivaramakrishnan G. Coming to RoSCTL, your first question; at the moment RoSCTL is applicable till FY24. That is March 31st, 2024. The government of India is aware and there have been discussions going on for continued extension of RoSCTL. We will have to wait for directions from the government on RoSCTL. Since it's an industry-wide situation, the impact will be uniform for all the industry, and we will have to play it accordingly. We will also have to see how much of it we can price it into the customers. Eventually, it will all get priced in as far as the customers are concerned since it is not impacting one player negatively. There are also several other things going on globally. For instance, even in Bangladesh, there is expected to be a sharp wage increase by end of this year. So, all of these do impact regional competitiveness and I guess we will have to take in stride. Our best hope is that the RoSCTL gets extended beyond FY24. All efforts are being made by the industry to secure this. So, we will have to wait and watch but we feel that the government may listen to us, listen to the industry favorably given that this industry also employs a lot of people and it is important to preserve the competitive economics of this industry. So, there is a likelihood that this may get extended.

As far as your second question is concerned regarding the prognosis for the second half, our endeavor is for us to recover the revenue growth in the second half and try to come to at least last year's revenue level this year. So, if you look at our last year, we had a strong H1 and after that when the world went into a tailspin thanks to high inventory etc., we started dropping our revenues to about Rs.525 crores level from Q3 onwards. I think we will see a reversal of the trend in this year and Q3 and Q4 we will see an upward growth such that by and large we will try to cover up and get back to the revenue level of last year. I anticipate us getting closer to Rs.2,200 odd crores in the current financial year. On top of it there will be Atraco contributing to incremental revenue in the 4th Quarter. So overall we will have a growth YOY for Gokaldas. Does that answer your question?

Anush Kumar: Yes sir. One more question, on this second half I think it is more of cotton-based products, can we see margin expansion as well? Is my assumption right on that?

Sivaramakrishnan G. Yes, I think our endeavor is to work towards a margin of 12%-12.5% EBITDA margin for the year.

Moderator: The next question is on the line of Vikas from Equirus Securities.

Vikas: My first question is with respect to our employee cost. Of course, you mentioned that we did increase our labor to prepare for the 3Q but can we go ahead and estimate that Rs.180 crores per quarter would be a sustainable run rate or it could be somewhere even inch up higher going ahead in next quarter?

Sivaramakrishnan G. No, I think that Rs.180-Rs.190 crores will be the rate at which labor cost will trend in the quarters ahead.

Vikas: Secondly, would you like to throw some light on how was Atraco's performance in the quarter?

Sivaramakrishnan G. We have not concluded the acquisition of Atraco, so Aatraco still remains a separate entity and we anticipate that with regulatory approvals coming in sometime in the near future, we should be able to conclude the acquisition by end of this current quarter. That is Q3. So as of now the company is tracking to its performance and it's more or less tracking to last year's performance level despite market headwinds. But we are still not in control of the assets since we have not yet got the regulatory approvals.

Moderator: The next question is on the line of VP Rajesh from Banyan Capital Advisors.

V.P. Rajesh: First question is regarding UK FTA, what's the timing on that? Has it been pushed out and what's your sense that when will it come through?

Sivaramakrishnan G. Rajesh, I wish I knew that. And we're all eagerly awaiting for UK FTA to happen. Obviously FTA for textiles is just one of the agenda in the India UK trade relations. So, Government of India and the UK Government are working on it. We are hoping that it should happen sometime soon. We are eagerly awaiting it but it's hard to put a timeline on it. I guess a lot of those discussions have already happened. That's what I'm given to understand. But as far as the timing is concerned it's anybody's guess. Government of India has its own set of priorities and there are a lot of discussions going on between the two countries and discussions are at a fairly advanced and concluding stages is what I understand.

V.P. Rajesh: And then similarly for the Kenya renewal for its US FTA, what's the timeline on that? When do you think that will come through?

Sivaramakrishnan G. You're talking of US FTA?

Sivaramakrishnan G. Okay I got it. AGOA is valid till December 2025. So that discussion will come up only in 2025. So, there is some time for it. Last time it was extended from 2015 to 2025. The expectation which I hear from Kenya and other markets are that it will get extended by another 10 years. So far it has been going in line. Kenya is also working on an FTA with US because geopolitically Kenya is very closely aligned with the US, regardless of AGOA I think Kenya is expected to enjoy preferential access to US market. But there is a lot of time before we can talk about AGOA extension.

V.P. Rajesh: And then on the MP plant if you can talk about when does it gets to 100% capacity and how that ramps up in the coming financial year?

Sivaramakrishnan G. I think to reach 100% capacity utilization we are talking of almost like Q2 of next year, they will continue to ramp up. Our endeavor will be to ramp it up as soon as possible. It all is a function of how fast we can get the people trained and deployed on the floor and they reach their peak productivity level. It's not just about putting the manpower in the floor or to the production floor but also getting their productivity up and that also takes another 6 months. I anticipate that we are talking about somewhere like by end of Q2 by which time we will have the productivity levels and the full manpower complement to be playing out.

Moderator: The next question is from the line of Varun Gajaria from Omkara Capital.

Varun Gajaria: I just had a question on this on FY24. So earlier today I thought in one of the interviews you mentioned that, there is already the 10% to 12% growth YOY in FY24, am I getting that wrong? If the revenues are going to be flat, then how will that work out?

Sivaramakrishnan G. You are talking about FY24, right?

Varun Gajaria: Yes.

Sivaramakrishnan G. That is the expectation. As I mentioned a little while earlier our endeavor is to come as close to last year's revenue based on our current performance which is about Rs.2200+ crores and then we expect that Atraco should contribute incremental revenue in the 4th Quarter, so that will give us an incremental revenue in the 4th Quarter too. So overall we can expect about a 10% kind of revenue growth in '24 over '23, FY24.

Varun Gajaria: So that will be on consolidated basis.

Sivaramakrishnan G. Yes of course.

Moderator: The next question is from the line of Vikas from Equirus.

Vikas: What are the volumes and the ASPs for the quarter?

Sathyamurthy A: We have done 7.77 million and the ASP per piece is around Rs. 610.

Sivaramakrishnan G. For the quarter.

Vikas: Going ahead since in H2 we generally do cotton based products. So, this ASP generally drops for the H2 quarter, right?

Sivaramakrishnan G. That is correct. So, as I had mentioned earlier, the outerwear business was a bit slow because of the weather-related issues and excess inventory from last year. We have produced a lot more non outerwear products in Q2 which otherwise would have been an outerwear heavy season for us. All of that contributed to slightly lower ASP in the quarter.

Vikas: I just wanted to confirm that last that is 2Q of 23 our unit sales volume was 6.7 million pieces with an ASP of Rs.850, is that correct?

Sathyamurthy A: You're right.

Moderator: The next question is in the line of Pulkit Singhal from Dalmus Capital Management.

Pulkit Singhal: My first question is just on the kind of engagements you're having with clients. Now that the US inventory collection is behind, what is the level of new client engagement? How is that picking up quarter-on-quarter? And how is your conversation with some of the existing clients as they're looking to diversify the supply chains? Are they saying that why don't you just go ahead and set up capacity? So, some softer discussions around the same.

Sivaramakrishnan G. The discussions with existing clients have been going strong and we have actually been engaging with them on starting new product lines or product types, expanding relationships with other sub-brands. Many of these retailers have several brands that they carry and we may be supplying two to three brands so we can add incremental businesses. All of those discussions are going on based on our track record our relationships and the fact that they tend to see that the inventory levels are now coming back to some degree of normalcy going forward. So, all of that is going on, it's encouraging. I'm picking up encouraging signals as I see going forward. The only caveat that I have is I don't know how the stubbornly high-interest rates will pan out going forward in the US from a retail demand perspective because retail demand despite everything has kept on growing albeit at a lower rate but it's still positive for the calendar year 2023 till date. I hope that the retail demand stays going forward. But the dialogue with the brands has always been encouraging. On top of it if FTA and all happens, I think there will be further additional growth from Europe that will be a positive for us. Incrementally our customers are talking about expanding their relationships with us, so we seem to be drawing comfort from all of that.

Pulkit Singhal: The second question is on the gross margin front; you're clearly taking a call of working only on slightly higher margin profile at the cost of revenue growth. Now as growth is coming back, how is the pricing environment now? Do you have to sacrifice some bit of margins to get that growth or are you seeing a good margin at a gross margin level also considering?

Sivaramakrishnan G. There is a tight pricing regime going on. As long as the buys are less than in the past, there will always be a pricing pressure. So, if demand is less than supply, we will always have this issue. Buyers have choices. There are players in other global markets as well who are willing to compromise on their margins and bid. So, while we try to hold on to our margins to the best extent possible it's an uphill battle until there is a degree of normalcy from a demand perspective. So as the demand climbs up, some of these pressures will yield or will reduce. But I don't anticipate that happening anytime soon. We will see how FY25 plays out. I'm hoping that sometime during that period, we will see some degree of pricing power come back. But in the meanwhile, we do not drop prices and chase revenues. That's not in our DNA. We will try to hold on to our margins to the extent possible.

Moderator: The next question is from the line of Anurag Agrawal from Agrawal Analytical Investments.

Anurag Agrawal: I noticed that in our presentation were focused towards Europe and the US for our export related business. I just wanted to understand in future do we also aim to target other geographies like probably Canada, Australia or MENA region?

Sivaramakrishnan G. Globally US, Europe and China are the top markets from an apparel demand perspective. Lot of China's demand is fulfilled by China based players, so China produces for China. So that really leaves US and Europe for players like us from a demand catering perspective. We have been US centric in our approach, so 75% to 80% of what we produce goes to the US market. Europe is much smaller in our portfolio. We intend to increase our exposure to Europe as we go forward to balance the revenue mix and in anticipation of an FTA with the UK. As far as Australia, MENA and others are concerned they are much smaller markets and if it suits us, we will go for those markets. But at the moment the overheads of a relationship and to cultivate those markets are much higher to warrant efforts in that region.

Anurag Agrawal: My question was in this particular region due to the factor that we are seeing some kind of an economic risk out there in US, since recently I also read that credit card delinquencies have increased to 60%. So, this could have a potential impact on us in the coming time. So that's why I thought if our company was trying to diversify the geography base.

Sivaramakrishnan G. The only issue is that the other markets are so much smaller. If you look at population of Australia, it's a tiny fraction of the United States population. The problem with all of these markets that you mentioned are way too small. So, we have to make sure that we secure ourselves with the larger markets and make sure that we work with the right set of customers so that we minimize our impact.

Moderator: The next question is from the line of Rehan from Equitree Capital.

Rehan: As an earlier participant asked about RoSCTL and you mentioned that it will be till it's currently till the 31st of March 2024. Assuming the government doesn't carry forward that what kind of margin impact do you seem to face in the industry if you can shed some light on the same?

Sivaramakrishnan G. So, it's a bit difficult to estimate at this moment. We are hoping that it should get extended but, in the event, it doesn't happen it is not that we will take a 3.5% or whatever we are getting as RoSCTL. That level of hit maybe we will have to take hit at 50% of that level till we try to recover that back going forward. So, the recovery of that will happen by pushing back on pricing and all of that, it'll take about two to four quarters before we recover it all back. But in the meanwhile, we may have to take about half of that as a hit I presume.

Rehan: So, basically not some concrete level of margin impact we can see?

Sivaramakrishnan G. No, RoSCTL amounts to about 3.5% of the export turnover which is bulk of our turnover. So that's the 3.5% EBITDA margin sitting there. But my sense is that it's a transparent thing. The brands also know that RoSCTL is available to all the suppliers and to that extent it gets factored in the pricing. So, for whatever reason RoSCTL goes away, there is a possibility of pushing that back into the pricing when we do our calculations going forward. So, our endeavor would be to claw back most of it. But I'm presuming that in the interim for a short period, we may have to eat half of it and till we fully plow back all of it.

Rehan: One more question would be on the UK FTA. If you can even share some light on the volume, you expect that could India generate because of the UK FTA versus the global competitors we have any like 10%-15% you see as a ballpark figure?

Sivaramakrishnan G. I anticipate it to be about a billion-dollar opportunity. It's again anybody's guess but this is my assessment. If you look at Bangladesh, they export almost US$4 billion to UK and China exports about US$5 billion to UK. Once we get a level playing field with Bangladesh and India exports to UK about a billion or something like that. So, a portion of it at least three out of 4 billion which Bangladesh exports, if we get half a billion and China exports about US$5 billion. And I'm presuming that at least US$2 billion out of that will be cotton based and there we will be 12% cheaper than China because of duty free access. Another half a billion coming out of it. Conservatively we can talk of about a billion-dollar opportunity. It can be even more. All depends on how well positioned Indian suppliers are to take advantage of the FTA. Economics will drive it and economic rationale is very compelling. I feel even a billion dollar is conservative estimate.

Moderator: The next question is on the line of Ruchit Shah, an individual investor.

Ruchit Shah: I've already had two questions. The first one was the challenges that were highlighted, majorly seen external from inflation, brands destocking and US and Euro regions wise having economic challenges and so on. I just wanted to ask is there anything specific that we see which could be related to Gokaldas either from execution perspective or anything that is company specific to us that we are working on?

Sivaramakrishnan G. I'm not sure I fully got your question but if you're asking if there are any challenges that you see company is facing.

Ruchit Shah: Yes correct.

Sivaramakrishnan G. I don't see anything directly or immediately impacting Gokaldas specifically from a challenge perspective. We have a fairly stable set of operations, a stable set of customers. I don't see any risk from that standpoint. It's just that we have a little higher presence in the south of India where costs are high and labor costs slowly will keep inching up. So, over a period of time, we will have to diversify our manufacturing operations to access other lower cost labor pool, so it's only to that extent. The good news is that the labor costs are only increasing in China, in Vietnam and even in Bangladesh going forward. So, from that perspective while there are certain challenges of labor availability and labor costs in south of India, I don't see any other big challenge that are confronting us at the sure.

Ruchit Shah: The second question is related to the brands right now have gotten majority of their benefits due to price increase versus volume as a contribution. So, from what I understand that means that the brands are increasing their prices. So, is there any scope for us also to be looking at increasing the average selling prices that we sell to the brands?

Sivaramakrishnan G. I wish we could do that. I don't think that is feasible because this is all based on demand and supply and most of the brands are buying far less than what supply ecosystem is. So, at the moment in the market there is a bit of price pressure on account of demand supply consideration. So, at the moment I don't foresee us being able to push up our selling prices.

Moderator: The next question is from the line of Vikas from Equirus Securities.

Vikas: In one of the comments, you mentioned about that Bangladesh is also expected to take wage hike. Can you elaborate on this point? What are you hearing and what could be the extent of wage hike that they could take?

Sivaramakrishnan G. The issue is Bangladesh has seen a very high degree of inflation and that's because their currency has dropped sharply. And most of the consumable products that Bangladesh consumes is all imported into Bangladesh. So, they have seen cost of living go up and there is an election coming up in Bangladesh too. So, there is a bit of pressure to offset some of that through wage hikes. The unions are negotiating with the government to reset the minimum wages. My sense is that it may be even be as high as 35%-40% wage increase in that country. The last wage hike which happened in Bangladesh happened I guess in 2018 or early 2019. So, it's been a while since wages have gone up and inflation has eaten into real income. So, it will be high, pretty high 35%-40% at the least I suspect.

Vikas: My second question is with respect to the one-off expenses that you mentioned. Can you broadly quantify how much it could be going ahead?

Sivaramakrishnan G. My sense is in third quarter we will have about Rs.8 crores of one-off expense. Largely it will because of the payments to the lawyers and the accountants and the bankers for all the due diligence and acquisition of Atraco. The smaller component of that will be for the Madhya Pradesh startup cost, I think that it would conclude by Q3. But we will have approximately Rs.8 crores worth of one-off cost in Q3. And I don't anticipate this continuing in Q4. If the acquisition is delayed and some of the bookings gets spread out and in this Rs.8 crores will get split between Q3 and Q4. So, it depends on the timing of closure of the acquisition.

Vikas: But as on that you are not expecting any delays in the progress, right?

Sivaramakrishnan G. No, we are not expecting any delays but it's all procedural. So, all the regulatory approvals there are a lot of paperwork required and submissions required. So, we're doing all of those and it is going as per schedule.

Vikas: About our MP plant, of course we have commenced the operations in Phase-1. When do we expect the Phase-2 of the plant or any broad guidelines of that to commence or to…?

Sivaramakrishnan G. We've already released plant drawings for Phase 2 and we will soon commence construction. So, my expectation is that Phase 2 will start production sometime in FY25, in the later half of FY25.

Vikas: And this Tamil Nadu plant, I believe that will also happen phases or it is like a one go we are doing it by the end of this year.

Sivaramakrishnan G. It is a fabric mill, so it'll happen in one go. There was a slight delay in the construction part of it as we had to change the configuration a bit and all of that for technical reasons. We are anticipating that instead of end of Q3 we may have to start that in early Q4 this year.

Vikas: And the ramp up of that will happen over a period of one year.

Sivaramakrishnan G. That will be about a 1-1.5 year, yes it will ramp up.

Moderator: The next question is from the line of Prerna Jhunjhunwala from Elara Capital.

Prerna Jhunjhunwala: Just wanted to understand what could be the potential revenue for the MP plants, Phase-1 and Phase 2?

Sivaramakrishnan G. When it fully ramps up we expect each phase to be about Rs.170 to Rs.175 crores.

Prerna Jhunjhunwala: You mentioned that there are wage hikes visible in China, Vietnam, Bangladesh but at the same time you were also looking at setting up or tying up with some facility in Bangladesh. Could you highlight what are your plans now given the increasing cost structure in these economies?

Sivaramakrishnan G. So, we have not invested in Bangladesh as yet. We have identified some assets but we have not gone ahead. We will look at all the cost elements and then take a final call on investments. I still believe that Bangladesh will not lose its potential as a great garmenting destination because it continues to enjoy duty free access to Europe. It will have abundance of labor and the ability to quickly ramp up. So, there is the advantages which that location enjoys cannot be taken away from it. Also keep in mind that Bangladeshi taka has considerably declined vis-à-vis dollar. It's fallen much more than INR. So, their cost competitiveness will continue to remain going forward. We will take a call. The wage increase data will come in a month or so, so accordingly we'll do. But we're still committed to Bangladesh subject to the big cost factors remaining reasonably good even after the wage hike.

Prerna Jhunjhunwala: Which other geographies are you looking at or at this point in time just focus on Atraco and India expansion?

Sivaramakrishnan G. Correct. At the moment it's only Atraco and expansion further in India.

Moderator: The next question is from the line of Nikhil Agrawal from VT Capital.

Nikhil Agrawal: So just wanted to understand where do we procure our raw materials from and what has been the price trend of the raw materials of late?

Sivaramakrishnan G. We buy our fabrics from various mills, so we buy from large mills like Arvind, Vardhaman so on and so forth. A lot of the mills are also dictated to by the brand. Some of them are nominated fabric supply sources. Depending on the product type we make, so for outerwear we even import fabrics from far east. The fabric sources, the raw material sources are all different for different products. From a cost standpoint, compared to last year, there has been a slight reduction in the raw material cost. But at the end of the day all of these are passed through and effectively the customer takes away the cost or gives in if the costs go up.

Nikhil Agrawal: If your raw material prices increase after you've agreed on an order with the customer you can easily pass that on to the client.

Sivaramakrishnan G. That is correct.

Nikhil Agrawal: If you could highlight what our major clients across globally?

Sivaramakrishnan G. So, we work with a lot of customers. At this point we have customers like GAP, we have customers like Columbia, we have customers like Adidas, Puma, Walmart. All these are our customers that we work with.

Nikhil Agrawal: And we are mostly into cotton products or are we into nylon and other manmade fibers as well?

Sivaramakrishnan G. When we do outerwear, we work with polyester nylon and all those synthetic fibers too.

Nikhil Agrawal: And what would be the mix?

Sivaramakrishnan G. Mix as in?

Nikhil Agrawal: What percentage of cotton?

Sivaramakrishnan G. Historically we have worked with about 40% of our outer wear. If you look at pure synthetics, the synthetic contribution to our fabrics would be about 25% to 30%.

Nikhil Agrawal: Do we plan to take this increase given that there are many brands which are pledging to get into completely polyester or move away from cotton completely? So, are we planning to increase this going forward?

Sivaramakrishnan G. It all depends on the fabric availability in India. So synthetic ecosystem is not fully evolved in our country and no brand moves away from one fiber to another. There'll be demand for all of these fibers. Typically cotton and viscose demand comes to India and polyester and nylon and all these products are usually made out of the Far-east. So that's how historically it has played. We are an exception. We do synthetic products too but by buying the fabric from Far-east. So, it all depends on the product, customer and the type of business that we go after.

Moderator: The next question is from the line of Bijal Shah from RTL Investments.

Bijal Shah: My question is the trade in apparel is almost like US$500 billion. However, I have not come across even a single company which has revenue of even US$5 billion. So, the question is, is there some natural limit to which an apparel manufacturer can grow or probably there are some other models which can be experimented with and probably US$5 billion or so kind of revenue, if possible, in long term?

Sivaramakrishnan G. Since it's manpower intensive since it has got a very low capital investment, especially in apparel you will find that the industry has a tendency to fragment. So, when you reach a billion 2 billion etc. you will find that there will be other players who are coming up, making the investments, competing on cost etc. So, for example, Shenzhou, which is a large player is about US$3-US$3.5 billion in revenue and almost US$10 billion in market cap. So, they're big ones, they have fabric and they're very technically savvy and competent players. But yes, you're right you don't see a US$5 billion player simply because the industry will fragment at that stage at that level. Now can somebody consolidate it, perhaps. So, we will have to see how that evolves.

Bijal Shah: The second one question is, you answered that some of the other markets outside US are small. But if I see some of the Taiwanese players are really doing good business in Japan, so beyond US and maybe let's say if UK FTA happens, isn't there any market or isn't there any customer with whom we can really engage?

Sivaramakrishnan G. We look at any engagement at scale. So, if we get a customer, a large customer in some other geography who have the scale then we would like to engage. So, we are not averse to any market. The Japanese market has a very different set of protocols and requirements to satisfy, and we have served the Japanese market in the past and we continue to engage with potential customers in all geographies including Japan. So, it all depends on the opportunity. If an opportunity makes financial sense to us, we will go ahead with that.

Moderator: The next question is from the line of Harsh Mittal from ICICI Securities.

Harsh Mittal: I have one small question. I just wanted to know what would be our annual garmenting capacity in FY24 and '25 from 36 million pieces in FY23?

Sivaramakrishnan G. In capacity in pieces or what are you asking?

Harsh Mittal: In pieces.

Sathyamurthy A: Capacity in pieces is 30 million considering our product mix at this point of time.

Harsh Mittal: So that is 30 million as on FY23, right?

Sathyamurthy A: Correct.

Harsh Mittal: In FY24?

Sathyamurthy A: FY24 also remains the same except for another 5% you can add for the new capacity which has come up in Bhopal.

Moderator: The next question is on the line of Anush Kumar from Spark Asia Impact Managers Private Limited.

Anush Kumar: My question is on the PM MITRA Park, like how beneficial are we as a player like a pure play garment exporter when you compare it with a player who's present across the value chain? So, what sort of benefits we get when you compare it with a player who's already there across the value chain?

Sivaramakrishnan G. PM MITRA Parks are very large parks and situated in remote regions because of the requirement for a very large land bank. These parks are about 1000 acres in size and require water availability and all of that. Largely it is meant for fabric processing and some of those related areas. Garment manufacturing requires access to people or availability of people, so if we go and put up a factory in one of those PM MITRA Parks, then we will have to also house people in dormitories because the areas where the parks are may not have access to a lot of people. So, at this moment from a garment industry standpoint, I think we will continue to expand in regions wherever people are available at low cost and in abundance and not necessarily go after PM MITRA unless there are some compelling advantages. Having said that PM MITRA Parks also needs to be infrastructurally developed. It'll take a couple of years before the infrastructure in those parks are fully developed. So, the land has been acquired but the land has to be developed. The internal roads have to be put in, power, water infrastructure has to be brought in. So once those things come, we will also evaluate setting up units in PM MITRA if we still have access to people. Does that clarify?

Anush Kumar: Yes sir.

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

Sivaramakrishnan G. Thank you so much. We at Gokaldas are always focused on ensuring execution excellence and we are working hard towards combating any of the market-related challenges. We continue to look at global events and what impacts retail purchases from suppliers like us. We would work towards staying competitive. We are working towards improving our product portfolio so that we always stay ahead of the supplier base and always should be able to grow at a much faster pace than the rest of the industry. We will focus on this. We will focus on ramping up the newer capacities that will come up and we are razor-sharp focused on securing our margins and protecting it. As usual, we will continue to work towards strong growth. Our acquisition of Atraco which once it comes into play will also require us to integrate and grow. We're confident that we should be able to do it. We have done a lot of background work already in anticipation of the approvals that we will get and we are confident that we should be able to integrate that very comfortably into our operations so that will also yield growth going forward into the future. Thank you so much for asking the questions and supporting Gokaldas Exports.

Moderator: Thank you, members of the management team. 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.