gokaldas exports ltd

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February 17, 2025

BSE Limited
Phiroze Jeejeebhoy Towers
25th Floor, Dalal Street,
Mumbai – 400 001

Scrip Code – 532630

National Stock Exchange of India Limited
The Exchange Plaza
Bandra-Kurla Complex, Bandra (E),
Mumbai – 400 051

Scrip Code: GOKEX

Dear Sir / Madam,

Sub: Transcript of Q3 FY'25 earnings conference call

Pursuant to Regulation 30 and Regulation 46(2) (oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of Q3 FY'25 earnings conference call held on February 10, 2025. The Transcript is also available on the Company's website at www.gokaldasexports.com.

Please take this into your records.

Thanking you,

Yours truly,
For Gokaldas Exports Limited

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“Gokaldas Exports Limited

3Q FY '25 Earnings Conference Call”

February 10, 2025

MANAGEMENT: **MR. SIVARAMAKRISHNAN GANAPATHI – VICE CHAIRMAN AND MANAGING DIRECTOR – GOKALDAS EXPORTS LIMITED**
MR. SATHYAMURTHY – CHIEF FINANCIAL OFFICER – GOKALDAS EXPORTS LIMITED

MODERATOR: **MR. BINAY SARDA – ERNST AND YOUNG**

Moderator: Ladies and gentlemen, good day, and welcome to the Gokaldas Exports Limited 3Q FY '25 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 this conference, please signal an operator by pressing star and then zero on your touchtone phone. Please note that this conference is being recorded.

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

Binay Sarda: Thank you, Darwin. Good morning. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risk, 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 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...

Moderator: Sorry to interrupt, sir, but your line seems to be breaking up in between.

Binay Sarda: In case if you have not received the same, you can write to us and we will be happy to send the same over to you. To take us through the results and answer your questions today, we have the top management of Gokaldas Exports Limited, represented by Mr. Sivaramakrishnan Ganapathi, 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 morning, everyone. Happy to have you at our earnings call for the third quarter of FY '25. In the third quarter of this year -- this financial year, Gokaldas Exports reported significant jump in total income, PAT and EBITDA. We have crossed the INR1,000 crores total income milestone for the first time this quarter. EBITDA margin improved sequentially, indicating a healthy performance. In this quarter, our total income grew by 79% year-on-year and 6% sequentially.

The total income for the company, excluding acquired entities, grew by 19% year-on-year. Consolidated EBITDA is up 66% and PAT is up 65% year-on-year. This indicates the resilience of the company. While there is improvement in the margin in acquired entities, overall margin has been slightly lower due to cost buildup in our Madhya Pradesh unit to meet the steep ramp-up of the facility based on new export orders executed in Q3 and subsequently in Q4 of FY '25.

U.S. retail apparel sales remained consistent, showing a 3% growth in calendar 2024. U.S. and EU apparel imports have picked up momentum since the second half of CY '24 on the strength of lower inventory with retailers. We see business volumes picking up with sustained stable performance of the company going forward. With this in mind, the company is planning to expand its production capacity with ongoing investments in three facilities. The first one is a new facility in Madhya Pradesh.

This will increase the capacity by about 1,100 machines and is under construction. The second one is an additional unit in Karnataka, which will add about 750 machines, which is also under construction. The third incremental unit is expected in Ranchi leased premises. All these units are expected to commence operations at different points in FY '26. The last factory that we set up in MP is producing at near full capacity utilization. The operating parameters there are now at par with other locations, providing the confidence to expand.

The company's order book remain strong, securing robust near-term prospects. Fall/winter order placements have been good, the production for which happens in Q1 and Q2. Early indications for spring/summer is also strong. All of our customers are seeing good business traction and we are engaging with them.

We are working on improving margins by better pricing and stronger operations management. The longer-term outlook is favorable, supported by continued shift in global sourcing away from China, Vietnam and Bangladesh, a trend towards supplier consolidation amongst efficient, well-capitalized player and ongoing supply side instabilities in various countries.

Our company, Gokaldas Exports, is one of India's largest apparel makers exporting to over 50 countries. We employ about 54,000 people, a large proportion of whom are women. This is a sector that employs over 1 crore of people, has the potential to industrialize small towns, creates more jobs per unit investment as compared to any other industry and has a high share of revenue disbursed as wages. In short, a highly desirable industry for social upliftment and for growth in the country.

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

Moderator: We have the first question from the line of Manish Ostwal from Nirmal Bang Securities Private Limited.

Manish Ostwal: I have a couple of questions on the macro as well as the company specifics. So first question on the -- your comment on the trade shift from the China, Vietnam and Bangladesh to India. So I just I wanted to see -- wanted to check with respect to Vietnam because what we are reading in the global news printer, the China trade is moving more Vietnam than Bangladesh. So we are confused from that comment?

And the second is, if I look at your Slide number 16, with showing the share of the various countries in export to U.S. and EU and the U.K., the Vietnam share actually increased, whereas India share is quite stable over this -- all the three regions. So can you explain your comment on how the trade is shifting? And what are the factors will drive this shift much faster this time than the past?

S. Ganapathi: Sure. Thank you so much for your question. See, the cost in China, Vietnam are higher than India. If India is at $200 per month wage for the workers, the cost in Vietnam is in excess of $300. That's point number one. And most of the players in Vietnam are people who have moved their operations from China to Vietnam.

So with rising geopolitical tensions, trade sanctions being threatened, etcetera, there is a fear that it may impact Vietnam also because there is a lot of dependence in Vietnam for fabric from China. So brands take a cautious approach and start diversifying. So these are some of the trends we -- very early days and we may see some movement going forward to other regions just so that there is a reasonable amount of diversification there.

Even if you look at trade balance between U.S. and some of these countries it is -- the trade imbalance with Vietnam is also very high. Vietnam exports a fairly large -- Vietnam enjoys a very large trade surplus with U.S. So all of this indicates that there is a little bit of a risk building up and some amount of diversification can happen, will happen. So there are options that open up for players like us.

The other factor is that we, unlike most other apparel manufacturers also specialize in outerwear manufacturing, which is typically a product which gets produced in China and Vietnam. So we have a natural advantage of taking over some of the businesses from that region as long as we are cost competitive.

Of course, we still secure fabrics from Far East, from Taiwan, Korea, Vietnam, etcetera. But thanks to cost advantage, we are able to compete but we will see growing traction from business which were earlier denominated there, which will move to India.

So that's as far as Vietnam is concerned, to your specific question. And as far as Bangladesh is concerned, there has been, of course, political instability there, which is resulting in some supply or some retailers or rather many retailers trying to diversify away from Bangladesh, not a whole lot but at least to reduce the dependence or reduce incremental businesses being placed there and they are seeking other alternative options and India is very much in the consideration. So overall, I think from a Gokaldas standpoint, we are seeing some tailwind on account of all of these.

Manish Ostwal: Sure, sir. The second question on the overall outlook on the raw material prices. So our gross margin, one is the factor is the acquired entity has some impact of lower margins. And now we are ramping up that thing and the new facility, there is some cost over there. But so on a medium-term perspective, where do you see our gross margin, EBITDA margin settling down and your outlook on the yarn, whether the yarn price and the cotton will remain range bound? And what is your sense on these two commodities?

S. Ganapathi: There is a slight downward pressure on the commodity prices. So that will certainly help the business in terms of being able to reduce the overall price of garments. Thanks to raw material price reduction. Our business, if I look at only the garmenting business, which is bulk of our business, is really a conversion business.

So we really do not -- our raw material prices are really a pass-through. So if there is a price increase or price decrease, we tend to pass it back through to our customers. Of course, if there is a price decrease, then it allows us some incremental growth and maybe an ability to incrementally improve our margins, which we try to secure.

So the way I see cotton prices going forward it should -- it has dropped a bit. It should remain -- being agricultural product, there will be some degree of volatility, of course. But then I don't see a rapid spike in those prices. And I think the raw material prices should be range bound, which helps the business from a longer-term perspective.

Manish Ostwal: And sir, what is the volume growth in 9 months FY '25 compared to 9M F'24 in our business?

Sathyamurthy: 9M last year is 20.808 million and 9M this year is 50.395 million.

Moderator: We have the next question from the line of Depen Shah, an individual investor.

Depen Shah: I had a couple of questions on the macro side. Sir, you mentioned about improving demand and destocking in the U.S. and Europe. Could you just give us some more color exactly on what actually is happening and whether the summer season, as you said, is picking up? And what should it bore fore FY '26? That's the first question.

S. Ganapathi: From second half of calendar '24, we are seeing U.S. imports growing. Now the reason for that is that most of the brands have reached a reasonable level of inventory destocking. They all were carrying or saddled with excess inventory in '23, and they were continuously getting rid of that.

U.S. retail sales has been under -- growing at a consistent clip of about 3% -- and with U.S. purchases being down in '23 as well as first half of calendar '24, the inventory positions have reached an optimal level that now brands have started buying. So there has been a spurt of imports into U.S. across all retailers, and this is also playing out in Europe, too. So that is aiding demand bounce back.

Obviously, the supply-demand equation is being corrected. So we had a situation where there was an excess supply over demand till middle of 2024 calendar year, and now that's changing. So this is also helping us from a business growth standpoint apart from the fact that we are seeing some business movement from the Far East as well as Bangladesh to India. So there is a double movement in favor of India, and we seem to get that tailwind in our business.

I think this tailwind is here to sustain. If there are any tariff-related moves which U.S. imposes, I don't see any discriminatory tariff relative to other countries over India. So overall, I think we should be fine, and we should see some incremental business growth from demand from those -- from the primary importing countries for us.

Depen Shah: Okay. Sir, any geographical diversification or new markets which you are targeting post the acquisitions, which we made last year?

S. Ganapathi: See, we have enough opportunities to expand in other territories. So we are focusing a little more into Europe, though I would still say that the U.S. market is far more resilient and robust than the European market. We have increased our share into U.K. by a few percentage points and are expanding our relationship there, but it's not that significant. U.S. still continues to be dominant with over 75% of our exports into that region, while we continue to export about 50 country.

Moderator: The next question is from the line of Bhavya Gandhi from Dalal & Broacha Stock Broking.

Bhavya Gandhi: Sir, I just wanted to understand on a macro level, globally, polyester is a major market and India largely being a dominant in cotton market. So how do we intend to grow in the polyester because

I think we don't have a back-end ecosystem for polyester. So what is our thought process on this?

S. Ganapathi: See polyester is about 60% of global fiber whereas cotton is say about 25%, 30%. So polyester almost double that of cotton and India's strength is in cotton, thanks to the raw material being available in the country. People like us who also export a lot of outerwear and sportswear tend to export a lot of garments, which has got a polyester content in it.

And the fact that we have operations in Africa where we enjoy a duty-free access to U.S. and duties in synthetic being extraordinarily high in the U.S. we tend to have a little dominant product mix in favor of polyester. So most of the polyester or synthetic fabric that we buy as raw material comes from the Far East from various sources, various countries.

And since we have some of those technical capabilities and cost-efficient production, we are seeing reasonable amount of traction in those spaces. Both athleisure is growing, some segments in outerwear also, we are seeing now some growth after a lull for some time, primarily because there was an excess inventory in the system for the last 2 years.

So we are now seeing that traction coming back too. So we are seeing traction in the polyester segment, but fabric dependency is still on cotton.

Bhavya Gandhi: Got it. And unit economics wise, we are cost competitive, right, when it comes to polyester as a product?

S. Ganapathi: Because we focus on highly technical products, yes, we are cost competitive.

Bhavya Gandhi: Okay. Got it. And just wanted to understand what would be the total capacity in terms of pieces post all these MP, Karnataka, Ranchi expansion?

S. Ganapathi: Total capacity in three pieces?

Bhavya Gandhi: Pieces.

S. Ganapathi: We really do not measure our capacity in pieces because it's very product type dependent. So Ranchi, we are expanding for knits, in Madhya Pradesh and Karnataka we are expanding for wovens. In wovens, we do garments, which may -- which take anywhere from 18 minutes to 45, 50 minutes. And in the South, we make even garments, which take 200 minutes to make. So really denominating capacity in pieces is hard.

But let me give you revenue-wise because at the end of the day, that's probably what you're trying to look for. The incremental capacity in MP should net in about INR175 crores when it is fully ramped up. I'm talking of the incremental new capacity. One in Karnataka would yield about INR125 crores, INR130 crores. And the one in Ranchi would yield about INR55 crores, INR60 crores. So overall, I would say it's about INR300-odd crores.

Bhavya Gandhi: Got it. And have we got any firm commitment for the incremental capacity that we are putting in? I mean, any visibility from the customer side?

S. Ganapathi: So at the moment, all our existing capacities are fully utilized. And there is a fair amount of demand traction that we are seeing. Some of these capacities will come up towards the start of Q3. So we are seeing a fair amount of demand traction building up in anticipation. So we don't foresee a big challenge. In fact, we have enough of inquiries and we are turning down demand because we don't have enough capacity to serve. So I'm not so worried about the ability to fill up these incremental capacities.

Bhavya Gandhi: Got it. And on the consol level, can you guide on the EBITDA margins?

S. Ganapathi: I'm sorry. Say it again.

Bhavya Gandhi: On the consol level, can you guide on the EBITDA margins post the capacity expansion and the Atraco and Matrix merger, I mean, on a full-scale basis?

S. Ganapathi: Keep in mind that whenever new capacity comes for a year, year and a half, the incremental capacities have a tendency to depress the earnings. In fact, our Madhya Pradesh unit tendency of reducing our EBITDA margin because it was on a serious ramp-up. We have now reached a manpower count of almost 2,200 there. And while we were ramping them up, training them, etcetera, we had far more people in training than we were -- we had people in production.

So causing an overall cost being in excess of revenue. So, it takes a while before that normalizes. So keeping all of this in mind, we are still aiming for 1% improvement in EBITDA margin going forward at a consol level in the year and a half ahead.

Bhavya Gandhi: And just wanted to understand what would be the total depreciation for next 2 years, if you can provide some number on that?

Sathyamurthy: For the current year it is about INR125 crores. There are about 2 components, IND AS depreciation and regular depreciation. Going forward, for FY '26 and '27, the depreciation will increase by almost around INR15 crores to INR17 crores, on an average. You can consider accordingly

Bhavya Gandhi: And if I can squeeze in one more question. Just wanted to understand on the Japanese FTA. Are we trying to tap into any of the Japanese customers? I believe the stickiness is much higher on the Japanese side. If you can throw some light on that as well.

S. Ganapathi: So we do have inquiries from that region. But at the moment, since our capacities are full, we are unable to open up any capacity for a new customer. So that's one of the reasons why we have not been able to bring in any customer from other regions for now.

Bhavya Gandhi: Are we trying Australia or any other region for that matter? Because I believe, again, you've signed an FTA with Australia as well?

S. Ganapathi: Not really because the volumes there aren't that large. And there are a few customers where the pricing may be very sharp. So we are not that aggressively looking at that region.

Moderator: The next question is from the line of Sundar from Avendus Spark.

Sundar: The first question is on the margins of the acquired entities. So there's been a remarkable turnaround from what we had last quarter to this quarter. So can we assume that all the problems that we had in Atraco is behind us? And what is the impact of that Kenyan shilling position to dollar had in terms of margins?

S. Ganapathi: So I wouldn't say everything is behind us. It's a work in progress. And I think this work in progress will continue into Q4 as well and maybe even early Q1. The way we are combating that Kenyan shilling appreciation is by focusing on operational improvement. So there's a considerable movement in operational efficiencies in our African units, thanks to a good work done by the team there. And secondly, there has also been some amount of price increases that we managed to secure on the basis of an appreciating shilling. So this has helped us.

I would say that some of these newer orders, which are at better pricing actually taken from Q1. So in Q4, there is some blended impact. So the real benefits will start flowing in the next financial year. In the meanwhile, we are trying to see all -- explore all avenues to improve the performance of that unit.

Sundar: I'm coming back to this because you had earlier guided that 10% is the sort of margins that we should look for Atraco. I believe given the blended number that you've disclosed you're far above that particular number. So do you want to revise the guidance as to what we can look in terms of margins for the acquired entities?

S. Ganapathi: So I would say Atraco, if I get about 10% EBITDA margin in the next year, I will be happy. We are working towards that for sure, and we will hopefully even achieve it. For the other unit of Matrix, I think we will be at par or a notch above Gokaldas Exports, primarily because we are not adding too much of new capacities there. So there is no drag on the P&L on account of new capacities in the -- in that entity.

Sundar: So if you can just help with the current quarter split between Atraco and Matrix ballpark number in terms of margins?

S. Ganapathi: So I think Matrix is at about 14-odd percent and Atraco is proportionately, I think 7% or thereabouts.

Sundar: Right. So Atraco 10% movement would be the trigger by Q1 is what we can expect?

S. Ganapathi: Well, we're trying. And I don't know whether it will be by Q1 or Q2, but the effort is on. Again, as I said, incremental orders will slowly nudge up the pricing and hence the margins. It takes time to build up. So overnight, we may not be able to move that much. Maybe if not Q1, by Q2, we are trying to do that.

Sundar: But my assumption is that by now, all the order booking is being done by you only. So there's no erstwhile orders to be executed as of today?

S. Ganapathi: That is by and large correct. Though in Africa, we tend to book a little longer-term orders and there are repeat orders, etcetera. So sometimes you may not be able to secure all the price increases in one go. But you're right. All the incremental orders are being secured by us now.

Sundar: Perfect sir. Just coming back to the standalone business, you indicated that there is some cost buildup on account of Madhya Pradesh. So are we referring this to Phase 2 buildup that we're trying to do for that INR175 crores incremental revenues next year? Or is it referring to the Phase 1 cost that we had incurred?

S. Ganapathi: Phase 1 cost because what happened was we suddenly shot up to full capacity utilization in Phase 1 and bulk of that capacity ramp-up happened in Q3. So we went to full complement of workforce. Now the entire unit is working chock a block from a capacity utilization standpoint. So that massive ramp-up, which we did in Q3 also caused a faster cost increase than revenue realization.

Sundar: But on a standalone basis, if I were to just look at MP on a standalone basis, what would be the standalone margins of that unit, sir?

S. Ganapathi: Standalone margin, which we will achieve in the future or standalone margin in Q3?

Sundar: Yes. In the future. What would be the potential of that unit MP given that we are also -- that is also PLI approved unit?

S. Ganapathi: My assessment is at least 2.5% to 3% over the Gokaldas standalone achievement.

Sundar: Yes. And this should be after Phase 2 also stabilizes?

S. Ganapathi: That's correct because while Phase 1 will stabilize starting Q1 onwards, I think Phase 2 will start having that impact. But Phase 2, we are expecting the construction to be over in May. So somewhere in June, July, we will start the manpower ramp-up.

Sundar: So the incremental training you would have already started for Phase 2?

S. Ganapathi: We will be starting not now. We'll be starting soon. I mean we'll be starting closer to end of Q1.

Sundar: And the Ranchi unit that you mentioned will be under Matrix or any kind of Gokaldas stand-alone?

S. Ganapathi: So now the integration of Matrix is strongly underway, operational integration, I'm saying. So there is hardly any difference between Matrix and Gokaldas. Yes, under -- as far as the legal entity is concerned, it will be under the Matrix subsidiary, the expansion in Ranchi.

Sundar: And one last question here is that I presume that you gave out the margin or the potential margins of MP without the inclusion of PLI or the DBT that we were entitled to. Now what is the status update on both of that, sir?

S. Ganapathi: MP, PLI. So the PLI is dependent on a product type. And the product that we are currently manufacturing in MP does not qualify for PLI. PLI is restricted only to 40 specific HS codes. And those HS codes, the order flow into India is not very high. So we are really at the end of the day, PLI is something where if you are able to secure it's great. But our focus is to make sure that the business runs with or without PLI, right?

Sundar: And on the DBT part, sir?

S. Ganapathi: DBT?

Sundar: The Direct Benefit Transfer that you had promised from the state government in Madhya Pradesh?

S. Ganapathi: That's continuing. So that is available in MP.

Sundar: Okay. So that numbers have started flowing is what I'm trying to understand.

S. Ganapathi: So, in terms of accounting we are taking and we are at -- we were told by the MP government that it would start flowing from the forthcoming financial year and we should -- we should start seeing that. So, we are on track for it.

Sundar: All right, sir. Perfect. But can there be a lever to margin beyond the 250 basis points because of DBT coming through or is it already accounted for?

S. Ganapathi: So, I think there is a lever to margin improving over the 250 basis points. Yes, there is.

Sundar: Perfect. And one last one, if I may, please, as to the current status on the BTPL given the additional investment or the stake that you are beginning to procure. What is the status now? Is that -- are we still going to go with that INR250 crores investment or where are we in that particular journey, sir?

S. Ganapathi: So, till this quarter that is quarter ending December, we have invested INR110 crores in - BTPL and subsequently we have invested another INR65 crores. So, it amounts to about INR175 crores of investment till date. The unit from nearly no orders has reached to about 40% to 45% capacity utilization currently. Incrementally, we will not be able to pull up the capacity utilization until all the capex's which are underway are seen through to its fruition.

So, there is a lot of work going on which will continue through till April in terms of the debottle necking capacity, repairs of machines, upgrade of the machines, etcetera, etcetera. So, in that sense, we have taken up the capacity utilization pretty quickly and simply. So, obviously, this meant that the losses have started coming down.

There has been significant improvement in production quality also. So, for example, reprocess rates have come down. The quality of production has started improving. We are starting to nominate this mill with various brand. So, a lot of activities are going on as we speak and it's been only since July that we started engaging with it.

So, realistically we started -- the activity started only in August. So, the progress that we have made in the last 6 months has been pretty significant and that gives us the confidence and the encouragement to seriously consider merging this asset with us going forward at the opportune time.

Sundar: So, does the timeline change from what we had initially indicated in terms of when this entity would be consolidated within this timeline?

S. Ganapathi: No, I think they -- at the moment, the thought process is to initiate this sometime in the month of June 2025 and go through an NCLT process for merger and hopefully that will take another 9 months or 12 months depending on how long that process takes.

Sundar: Sir, sorry to come back into this, but what would be the total quantum of money that would be required from here to June 2025 for the acquisition of this entire entity -- beyond the INR175 crores.

S. Ganapathi: Apart from the INR175 crores, I think it will be about -- we had earlier on indicated about INR 588 crores to acquire 100% of the asset. So, that's -- it will be -- it will be that amount adjusted for certain working capital and there are some financial terms and conditions in the agreement. So, that's the amount that will be required as and when this event starts, it gets triggered.

Sundar: Perfect, sir. Sure, sir. Thank you and all the best, sir.

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

Prerna Jhunjhunwala: Thank you for the opportunity. So, just for taking forward BTPL's discussion only, one last question on that front. At INR175 crores, our stake is 13%. Is my understanding correct?

S. Ganapathi: No. INR175 crores is invested only through OCD. So, we -- this is the investment into BTPL for its effects plans, for performance improvement and so on and so forth, working capital, some amount of loss funding, etc. So, it's only that.

The 13% stake is in addition where we intend to buy some shareholders out in the in a process to kick start the consolidation of that entity with us.

Prerna Jhunjhunwala: Okay. So INR 175 crores does not include the 13% price cash consideration that you have mentioned in the press release?

S. Ganapathi: That is correct.

Prerna Jhunjhunwala: Okay. Understood. So, second question on Atraco. Is there any expansion in Atraco as well?

S. Ganapathi: So, as we speak, the 500 machine expansion has been initiated and we have spent about INR35 crores in Indian rupees for that.

Prerna Jhunjhunwala: And what will be the revenue potential for the same?

S. Ganapathi: The revenue potential will be about -- in my opinion about INR125 crores -INR130 crores.

Prerna Jhunjhunwala: Okay. And I missed the Ranchi machine number. Can you just help me with that as well?

S. Ganapathi: So, Ranchi is a leased facility. We have taken a 200-machine facility, but it will work in 2 shifts. So, equivalent it is 400 machines.

Prerna Jhunjhunwala: Understood. So, sir, if I total, your total revenue would be around INR4,000 crores approx annualizing the 9-month numbers? And your total revenue potential that is getting added INR

350 INR300 crores plus INR100 crores for Atraco, INR130 crores, so around INR500 crores. So, in the next 2 years, should we assume this INR500 crores additional revenue or how it should flow?

And how will growth pan out for the company to utilize the benefit from shift in supply chain? Shouldn't we be growing a little higher growth rate? I mean, if I am missing some -- anything somewhere can you -- you can clarify. Thank you.

S. Ganapathi: Sure. So, these are units and expansions which are underway as we speak. This does not stop us from adding more capacity as we go along. So, at any point in time we are planning a lot of incremental capacities as well. This is point number one. So, we -- in the next 2 years, we will be adding more factories. And we are not going to stop at the factories that are work in progress as we speak.

Secondly, the existing units also do get de-bottlenecked. And we are continuously investing in automation and productivity improvement. So, a 3% improvement in existing units per annum itself on a let's say, a INR4,000 crores revenue is additional, how much, about INR120 crores, right? So, those kind of growth will also happen. And as I said, we will also look at newer facilities for growth.

Prerna Jhunjhunwala: Okay. So, should we -- should 10% plus growth rate, 10% to 15% should be a decent assumption for assuming over a longer term like 2 to 3 years time frame, medium term period?

S. Ganapathi: I think it's a very decent assumption. I would say that top end of that range will be a more reasonable decent assumption.

Prerna Jhunjhunwala: And that's great. And consolidated margins should be around 12 odd percent on expanded capacities?

S. Ganapathi: That is correct. Though we are trying to improve our margins also as we speak, as I said some of these growth in newer regions do tend to take longer before it stabilizes as we don't get access to train manpower. So, we have to work harder to train them and bring them up to speed in terms of productivity and quality, etc. But now that we have achieved it incremental factories in some of these newer regions like Madhya Pradesh and all will be -- will reach productivity and profitability sooner. So, Yes, despite all of that in the first year there will be a negative impact of new capacities. But we are looking to offset that and improve the EBITDA margin in the coming financial year.

Prerna Jhunjhunwala: Okay, sir. Thank you and all the best, sir.

Moderator: We have the next question from the line of Heet Vora from Guardian Capital Partners. Please go ahead.

Heet Vora: Good morning and congratulations on the set of numbers. I just had one question and that's per se to the tariffs. If we are going to see an increase in tariffs, would Atraco be benefiting given it goes tax-free to the U.S.?

S. Ganapathi: So, you know, we don't know what is happening with tariff, right? There are so much of news coming from United States that it's hard to keep up. One doesn't know what exactly are the tariff plan. But the feeling one gets is that Africa may be spared tariffs and currently it enjoys a go-up benefit of zero tariffs.

So, unless for some strange reasons it's pulled out, which I don't see any reason and there is no -- no competitive situation between U.S. and African countries, nor do they enjoy trade surplus. So, we don't believe that will change. And if there is a tariff increase from the regular exporting nation, then the tariff delta will widen, which will only make Africa more attractive.

And that's one of the reasons why, customers who are hitherto also not very keen on Africa. So, there are some customers who are, are also talking about it, saying that maybe we should explore there -- at least we are having some conversations around it. So, I feel that it's going to be beneficial for us from an African standpoint in the longer run if tariff goes up in other regions.

Moderator: The next question is from the line of Mithun Aswath from Kivah Advisors.

Mithun Aswath: I think you've answered a lot of the questions that I had. You mentioned about 15% kind of overall top-line growth. I just wanted to understand, you embarked on M&A as a strategy to grow. In the next couple of years, would you continue on that path? Are you seeing more opportunities to consolidate? That was the first question. And the second question was more on the BTPL acquisition. How would that kind of change the contours for you in terms of size because utilization is still low? What kind of revenues and profitability could that add to the company?

S. Ganapathi: So would we look at acquisitions probably in the short term, no. In the long term, yes. We are open to growth in any form. And again, we will not acquire a company just to bulk up or add revenue. Our intention is to acquire to get access to a low-cost geography, access to a new customer, or access to a new product type. And it has to make strategic sense in addition to simply a revenue gather. So that's the strategy.

But in the short term, we are not looking at an acquisition. We want to consolidate what we have. Remember, we have only taken up some of these acquisitions 9 months ago, and there is tons of work required to be done to bring them to where we would like them -- like to see them. So next year also, we'll be consumed in bringing those units up to speed with Gokaldas' operations. So we won't be indulging in any acquisitions in the meanwhile. That's point number one.

And your next question was on BTPL or the fabric unit. See, the fabric unit is strategic. It helps us secure raw materials. It helps us turn things around much faster for our customers from a lead time standpoint and also improves our negotiating position with brands because the number of fabric mills are far fewer than the number of garment companies. So at the end of the day, if you do control fabric, you do have a better handle on specific orders and product types.

So with all of that in mind, we went investing in this asset. This asset is also has a great reputation from a technical capability standpoint, and we need to now bring back that capability to the customer, which is what the work in progress is.

So the impact of BTPL, if I look at it on a stand-alone basis, its peak revenue could be about INR1,500-plus crores. But then again, a lot of it could be bought internally. So once it is merged, some of those revenues will get knocked off in consolidation. But then obviously, it will it may have an EBITDA improvement benefit.

Mithun Aswath: Right, sir. What kind of impact could it have on the EBITDA on FY '27?

S. Ganapathi: So if I look at it as a stand-alone basis, the EBITDA of this unit should be about 12%, 13%, 14% going forward. So if it is more or less in line with the garment EBITDA, then again, if the revenue gets knocked off then obviously there will be some sort of an EBITDA benefit, which you can do your math. But then I don't see this consolidating before FY '26. So effectively, if at all it happens, it happens in FY '27 onwards.

Mithun Aswath: Correct. FY '27 is what I was asking you.

Moderator: We have the next question from the line of Raman KV from Sequent Investments.

Raman KV: Sir, can you again explain the cost buildup in the MP unit, which led to lower margins, that particular part of it?

S. Ganapathi: You are asking the cost buildup in the MP unit?

Raman KV: Yes, yes, yes. You said there was a cost buildup in the MP unit, which led to lower margins. Can you explain that particular part?

S. Ganapathi: So the point here is that in the third quarter, we started adding people. We almost added about 1,200 people in the third quarter in MP. So now the manpower count has reached about 2,200 people. So most of them were under training during that period. And in the initial phase of production also, since they are trainees who have hit the production line, their productivity will be low.

So we incur the full complement of labor cost through training as well as early production. And then the corresponding revenue doesn't materialize because it comes with the same lag. So our incremental cost was about INR3 crores to INR4 crores on account of all of this, and it has not manifested in proportionate revenue. So that's -- that was the point I was referring to.

Moderator: The next question is from the line of Monish Ghodke from HDFC Mutual Fund.

Monish Ghodke: Sir, what would be the share of outerwear on an annualized basis in the revenue of each entity, that is Gokaldas Matrix and Atraco?

S. Ganapathi: So outerwear on a 9-month basis for Gokaldas was about 30%.

Monish Ghodke: Annualized basis would be how much?

S. Ganapathi: Yes. I mean it will be around a similar percentage, 35% maybe. Okay, Matrix and Atraco is very less. It will be like a low single digit.

Monish Ghodke: Okay. So sir, this margin expansion, which we have got in acquired entities of 11.3% since Q3 and Q4 are generally summer-heavy. Do you expect this to continue in Q1, and Q2 as well, or there will be some reduction?

S. Ganapathi: There could be some reduction, particularly Matrix is spring/summer heavy so where there could be some reduction in Q1 and Q2. But the aim is to offset that somehow by further improvement in Atraco as well. So there are a lot of countervailing forces as well, so we'll try our best.

Monish Ghodke: Okay. And sir, one more question. So in this budget, there was an increase in duty on knit fabric imports. Does it impact us in any way?

S. Ganapathi: No. Most of the knit fabric that we produce, we will -- we buy domestically. And even let us say, we buy fabric for export manufacturing, we buy it under advance license, so we don't pay duty on those. So we will secure the raw material at mill duty.

Moderator: We have the next question from the line of Manish Sehgal an individual investor.

Manish Sehgal: Just wanted to understand this purely from a production perspective, Q4 production, as you said is fully utilized. What would be the production in terms of revenue? And also, if you could give an update on the knitted unit that we had commercialized last year, that would be good, sir?

S. Ganapathi: So we don't give specific numbers or -- of revenue going forward. So suffice to say that even Q3 was working at full capacity utilization. Of course, what happens in Q3 is that towards the end of December a lot of shipments get bunched up. They don't move out because of port congestion and other things. So typically, some of those revenues tend to spill over.

But currently the -- if you look at revenue standpoint, we are reaching that full capacity utilization across our units. And incremental units will come and de-bottleneck that and provide additional growth opportunities.

As far as the knit fabric unit is concerned, the knit fabric unit is producing. We are getting nominations from quite a few customers. In fact, at the moment, we have 2 or 3 customers who have approved that unit for fabric sourcing. We will be ramping it up through Q4 and Q1. And I feel that it will also reach a full capacity utilization somewhere in Q2.

Manish Sehgal: And what would be the output there, sir, in terms of revenue? Of course, it will be sourced internally, the fabric, but should add EBITDA there, right?

S. Ganapathi: So exactly. So output will be about 400 tons a month. That is the expected output. And its revenue will be annually about INR150 crores to INR200 crores.

Manish Sehgal: Okay. Sir, you had a stated vision of moving towards $1 billion revenue, say, down the line in 3, 4 years. What do you feel now standing where we are on that vision?

S. Ganapathi: So I think that vision at the end of the day --that vision is quite attainable. The demand side, I don't see that as a bottleneck at all. There is enough opportunity coming India's way, and there are many customers who are increasingly trying to source more from India. So as long as we can find lower cost manufacturing locations within India and are able to produce it at high productivity, achieving that target should not be a problem.

Manish Sehgal: Any stated objective you have on this front? How many --much time you want to achieve this?

S. Ganapathi: Soonest I would say, but it will take a few years for sure.

Manish Sehgal: Okay. And lastly, sir, do you expect Q4 margins now given you have the bookings to be better than Q3, given the full ramp-up in MP has happened? And it's a seasonally good period for all the acquired entities as such?

S. Ganapathi: Yes. So see, Q4 is seasonally good. Directionally, it should happen. And again, let's not speculate on those margin number. But yes, directionally, we will be going in that -- on that trajectory.

Manish Sehgal: Lastly, sir, how will INR depreciation help going forward?

S. Ganapathi: So INR depreciation will not benefit in the immediate near future for us, primarily because we hedge most of our near-term receivables. So today for -- all the way up to Q1 and even partially to Q2, we have hedged all our receivables at old rates.

So -- but INR depreciation in the longer run always helps us because it allows us some flexibility to absorb costs and offset some of the inflationary trends in the -- on the cost side of the company. So it augurs well for the next quarters ahead, and it will augur well for us.

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

Bijal Jitendra Shah: Congratulations on good set of numbers. I have two questions. One, we read a lot of news items saying that buyers in U.S. were increasing their purchases from across the world on account of expected tariffs. So I just want to understand that you have seen strong growth in Gokaldas.

Is there an element of preponement of purchase and which should reverse in the due course of time? That's question number one. And question number two is on the BTPL. Once it is fully operational and once you have done all the capex, will it reduce your dependence on imports from Southeast Asia?

S. Ganapathi: Okay. So regarding the first question, is your question on how is tariff going to play? I could not fully understand your question, the first question. I did understand your second one, and I can answer that subsequently. Can you restate very simply the first question?

Bijal Jitendra Shah: See, there was expectation that tariffs will come. So to avoid tariffs, there was a lot of news items saying that for buyers in U.S., U.S. is actually preponing all the imports, so building the inventory, so at least for a few months, but they are kind of protected from the tariff which probably Trump could announce. So during the December quarter and probably 4Q also, are you seeing that some of your buyers have actually preponed the purchases or the growth which you have seen is normal?

S. Ganapathi: See, the buying is very seasonal. So if I start advancing too much of my buy, these are all short-term play, which you can do for 15 days, 20 days. But every 3 months, say the American customers or European customers buy products which are very specific to a particular season. So they will not go and production also happens for that reason. So they are not going to go buy excess and then hold the inventory over 1 year and all of that.

So I'm not seeing much of that happen out of here. And also the worry on tariff is more on the Far East. So there may have been some degree of expediting of deliveries from China, maybe even Vietnam and all of that. But then as far as the India denominated sourcing is concerned, we are not seeing so much of that.

And as far as your second question on BTPL becoming an import substitute for us, the answer is no. Most of BTPL will still work on domestic fibers, and it will become a substitute for domestic mill, but not really -- and of course, growth, but not really a substitute for imported fabric. So synthetics, etcetera, will still continue to be dependent on imports.

Moderator: The next question is from the line of Avinash Nahata from Parami Financial Services.

Avinash Nahata: Okay. So the first question pertains to across our facilities, all -- everything put together. So where is an opportunity wherein we can add additional shift and increase our production in terms of -- I mean, at an aggregate level? And what is the practical difficulties you face when you move from shift 1 to shift 2, if you can speak about it?

S. Ganapathi: So all the units, except our Ranchi unit currently works on 1 shift operations. And particularly, bulk of our units are in the South. And here, getting manpower for an odd shift is extremely difficult simply because people are not available to work those late night shifts. You have to transport women back to their homes.

We don't work on a model where people are housed near the -- in the factory campuses or there are no dormitories that we build, etcetera. So we will have to pick up and drop from their homes, which all adds to layers of complexity. So we've not been very successful at managing multi-shift operations.

However, in Ranchi, we have done that. Of course, it's a smaller unit, and we have done that successfully. In Bhopal, the first shift operation works very early ours, giving us an opportunity to put in a second shift as and when we reach that phase. We have reached a full capacity utilization in Unit 1 to now.

So we will experiment with the second shift, and we will see how the labor market responds to that going forward. But there is a theoretical opportunity there to explore second shift. But in most of our factories, it is not a possibility.

Avinash Nahata: Okay. And if you can provide the -- in absolute terms, women working at our facilities?

S. Ganapathi: It's about 78% to 80% of our labor force is women.

Sathyamurthy: Out of 55,000, almost 40,000 are women employees.

Avinash Nahata: Okay. And one more data point in terms of our permanent employee and which --

S. Ganapathi: All are permanent.

Avinash Nahata: Sorry?

S. Ganapathi: All are permanent.

Moderator: We have no further questions, ladies and gentlemen. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

S. Ganapathi: Thank you so much for asking the questions and giving us an opportunity to explain our position. We continue to focus on growth. And with that intention, we have -- we are working with the acquired entities. We are backward integrated. We are setting up new capacities. We are also working with many of our customers to expand our relationships.

We are seeing most of our customers experiencing reasonable growth, and they are doing well, which would translate to incremental business if we continue to execute well for them. For us, execution is the key mantra. And if we do execute well, obviously, business will come in a B2B business. We are focused on margin improvement along with revenue growth, and we will continue to focus there.

As newer capacities come on board, it will have a downward pressure on margins, but we intend to offset that and right size the growth metrics so that we are able to expand and seek improvements in EBITDA margins. We continue to be very focused on all the operational details of the business. And hopefully, we will continue our growth journey. Thank you so much.

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