gokaldas exports ltd

GEL/SEC/2025-26/17

May 29, 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 Q4 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 Q4 FY'25 earnings conference call held on May 22, 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

GOURISH GANAPATI HEGDE

Digitally signed by GOURISH GANAPATI HEGDE
Date: 2025.05.29 17:54:21 +05'30'

Gourish Hegde
Company Secretary & Compliance Officer

Encl: as above

Intertek

UKAS MANAGEMENT SYSTEMS 014

"Gokaldas Exports Limited
Q4 FY '25 Earnings Conference Call"
May 22, 2025

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

MODERATOR: **MR. DIWAKAR PINGLE – EY CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to Q4 FY '25 Earnings Conference Call for Gokaldas Exports Limited. 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. Diwakar Pingle from EY . Thank you, and over to you, sir.

Diwakar Pingle: Thank you. Good afternoon to all the participants on this call. Before we proceed on the call, let me remind you that the discussion may contain forward-looking statements that may involve known and unknown risks, uncertainties and other factors. It must be viewed in conjunction with the business risks that could cause future results, performance or achievements to differ significantly from what is expressed or implied by such forward-looking statements.

Please note that we've mailed the results and the presentation and the same also available on the company's website. In case you've not received the same, you can write to us at the EY team or Sharan at Gokaldas, 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. Siva Ganapathi, Vice Chairman and Managing Director; and Mr. Sathyamurthy, the Chief Financial Officer. We'll start the call with a brief overview of the quarter gone past and the full year and then conduct the Q&A session.

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

Siva Ganapathi: Thank you, Diwakar. Good afternoon, everyone. Happy to have you at our earnings call for the financial year of FY '25. FY '25 marks the first full year of consolidation following the acquisition of Atraco and Matrix Designs.

The consolidated total income stood at INR3,915 crores, reflecting a year-on-year growth of 63%, primarily driven by contributions from both the acquired entities. Excluding these, the company's total income registered a healthy year-on-year growth of 19%, while Indian exports during the same period grew at 10%, indicating a gain in export market share. EBITDA for the year stood at INR424 crores, a growth of 49%.

In Q4 FY '25, the company delivered a total income of INR1,035 crores and an EBITDA margin of 13.7%. The company has improved its performance across all business units, including acquired entities and continues to focus on delivering exceptional value for its customers and all stakeholders.

The year marked the beginning of recovery in global imports, particularly in the second half as brands focused on reducing their inventory-to-sales ratio during the first half, a trend evident across US, EU and UK. At the start of the year ,at the start of FY '26, the US announced steep reciprocal tariffs on April 2, which were later paused for 90 days from April 9. A 10% tariff still applies despite the pause, while China has a revised 30% tariff.

Now this presents a near-term challenge as higher tariffs may raise retail prices and dampen demand, although many customers plan to absorb or share the cost. If the tariff is reinstated to earlier levels, this could significantly impact the cost of goods in the United States and may impact consumer demand in H2 CY 2025.

But this is yet to be played out, and we will have to see how all of this pans out. The immediate impact of such an incremental tariff is the expectation for the suppliers to absorb additional costs imposed by the tariff and thus compromising profit margin.

The other near-term impact of tariff uncertainty is business uncertainty. US brands may stay cautious during this period with no clarity on the tariff after the end of 90-day pause, customers are reluctant to build inventory at unknown costs. Short-term order placement is the first casualty in such a scenario as any order placed now will land after the 90-day pause window.

India remains a key player in sourcing strategies for all customers. So higher tariff on China and political uncertainties in Bangladesh contribute to overall attractiveness of the country as a sourcing destination. The recently announced India-UK FTA offers a 12% duty advantage over China and puts India on par with Bangladesh, creating a strong export potential.

This FTA has the potential to increase India's exports to UK by an additional $1 billion. With China still accounting for 22% of US apparel imports and the reciprocal tariffs being high, India has a strategic opportunity there.

Ongoing US, India and EU trade talks may be a hard rigor of better opportunities in the future. Backed by a strong textile ecosystem, low labor cost, supportive policies and geopolitical stability, I think India is uniquely positioned to gain global apparel market share.

And within India, Gokaldas is strongly positioned to gain a disproportionate share. Strategically, the company is expanding its European business. In Q4 of this year, the exports to EU reached about 12%. We are stepping up our engagement with UK-based customers in preparation for FTA.

Now all of these are the right move to diversify our business so that we are less exposed to any tariff-related uncertainty, and we have a much wider exposure to different markets. The integration of Atraco and Matrix Designs has progressed well. Most legacy headwinds associated with the acquisitions are now behind us.

Our strategic investment in BTPL, a fabric processing unit, which strengthens vertical integration into critical raw materials, enabling faster, higher quality and cost-efficient delivery is also progressing very well.

The company is expecting completion of the second unit in Madhya Pradesh as well as one additional factory each in Karnataka and Jharkhand. The company is proceeding cautiously with additional capex and we'll commit to incremental capex as more clarity emerges on tariff and its business impact.

The already committed capex itself will add substantial capacities to us in the middle of this financial year. And we are well geared to effectively utilize those additional capacities that are coming our way. The company is focused on growth and views the macroeconomic factors aligning in favor of India, which makes the prospects for apparel manufacturing industry looking very good.

Coming on the heels of the UK FTA if India manages to enter into an FTA with EU and sign a bilateral agreement with US, there's a strong possibility of business growing manifold in India. The short-term challenges of tariff-related uncertainty, while it could impact margins in the near term, it should only be a hiccup along the way, in the longer run, the business prospects remain strong.

Notwithstanding such challenges, the business opportunities for Gokaldas remain robust. And we are confident that with some of the capacities coming up also, we should be able to deliver growth in the coming year and the years ahead.

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

Moderator: The first question is from the line of Aashish from InvesQ PMS.

Aashish: Sir, firstly, I wanted to understand on the -- it's been a long-standing stance that because of the differential kind of taxes in EU mostly, we've not chased that business at all. We've been US focused. So now how do we plan to address the opportunity that the UK market presents for now? Have we already started building teams and making efforts on that? And maybe one year kind of what we plan to do in this geography?

Siva Ganapathi: So the UK FTA for it to take effect perhaps will take a whole year. That's the kind of current timeline indicated. It's up to the respective governments to speed up. But in the meanwhile, we do have a reasonable mix of strong UK-based customers. And what we are doing is stepping up the volumes of business that we do with them.

It was always in our hands to direct our capacities to the customers that we want to. And at the moment, strategically, we have taken a call to expand our business with UK and not just UK, but even with European customers, just so that there is a little bit of a diversification.

Historically, we have been very focused on United States for one simple reason that we did not want to compete with Bangladesh, which goes duty-free into Europe and compromise our margins. US also being a large homogenous market, gives longer runs, which is much better from a profitability standpoint.

But given current tariff situation and uncertainties, it's always prudent to have a little diversification of the market, and we have started that. In fact, we've started the endeavor very well and have moved significantly that already our European business is now moving into the double-digit realm, and we'll continue to increase our European business.

Remember, we are growing. So it's not like coming at the cost of American business or reduction in American business. On the contrary, that also is growing. It's just that the European business is growing at a much faster clip for now because we are reflecting it so.

Aashish: Okay. Sir, secondly, on this initial comment that you made, reading on to what the customers are kind of feeling there that because of the tariff situation. So would you say that first half of the year will be really very challenging that the routine pickup on the orders, that is also going to be hampered to a certain extent for maybe at least 6 months till the time this gets...

Siva Ganapathi: So it's yet to play out because Q1 order book is there, it's intact, it's strong, etc. Q2 order book, which is the winter session- the winter season orders. They're a little slow to come by because people are just -- customers are just unclear on what the tariff is. If you place an order today, by the time the goods land in the US and is custom cleared, it's outside the 90-day tariff window, which expires July 9.

So what's the tariff at which you will clear those goods, right? and how much quantum should I place the order will depend on what is the cost of goods that I would incur when I place the order. So, there's a bit of uncertainty which most brands are facing, which is a global reality, right? So, we can't fight that.

But at the end of the day, I believe this is all short term. And eventually, no retailer would want their inventories to be depleted in their stores because that's even more detrimental. So they'll build it up cautiously. And hence, while there may be a little slowness in demand, I think Gokaldas should not have as much of a problem.

We will be able to fill up our capacity. My worry is that there will be a twin issue of, a) a general softness of demand across the globe; b) American demand may be slow, so that also contributes to it. And c) The tariff itself means that at least in the early days, the supply chain may have to bear even a portion of it, a small portion of the 10% to really give some offset or some relief to the retailers.

So all of that means that there may be some degree of margin pressure in the early days. But we look at the business over a longer period of time, and we can't take decisions based on what happens in Q1, Q2, etc. And when we look at the business on a longer term, I feel that it's fairly bullish.

There is a fair amount of order traction for us, even despite all these headwinds, we are seeing customers come to us and place orders. So margins notwithstanding, I think all of these can be recovered as we move forward. In the short term, there will be a pain in H1.

Aashish: Okay. Got it. Just one last thing. In BSE announcement, I could see that a reasonable part of the promoter holding is kind of pledged. So is there any comment that you would like to make on their behalf because it's reasonably significant to our understanding, clear with...

Siva Ganapathi: I don't have any comments to make on the behalf of any shareholders.

Aashish: That's true, but it's kind of an overhang in the minds of shareholders, why would the promoters pledge so much actually?

Siva Ganapathi: I think it may be in response to some short-term need. Again, I'm only speculating. I have no understanding of this. And this is really a question to be posed to the shareholders. But as far as the company is concerned, the company is Board managed professionally run, and it will have no impact whatsoever on the way it is run or the business it will pursue or the aggressive growth that we target will not be impacted by any of these moves.

And I also know that the promoters are strongly behind the company and have solidly stood with the company even now. So whether the or how to read the pledge is something which I don't wish to get into or I don't know, but I don't think that's going to impact the company or their commitment to the business.

Moderator: The next question is from the line of Vishal Mehta from IIFL Securities.

Vishal Mehta: Congratulations on a decent set of numbers. Sir, so my question firstly is on your tax rate. The ETR for 4Q is around 33% and for full year is around 27%. And we've earlier said that actually, we are in a tax-free rate for Atraco acquisition and also -- we also get a benefit on 80JJAA . So I just wanted your thoughts and how should we probably look at the tax rate going forward?

Sathyamurthy: No. As we had discussed last time also, Gokaldas, parent company is already into the effective tax rate of 25.17%. It's a combination of actual tax rate and the deferred tax rate and deferred tax is the reflection of whatever the carry forward balances of assets and liabilities at any given date and accordingly, the deferred tax credit or debit is considered.

At the FY '25 level, our tax rate is at 25% for Gokaldas stand alone entity. The issue is with reference to Atraco. Atraco, the tax-free profitability contribution did not happen effectively this year. And that's why you are not seeing any impact on the tax rate.

The other issue which we faced with reference to Gokaldas, the Sec 80 JJAA benefit was available last year. 80JJAA benefit is there for any incremental number of people employed, for a period of 3 years. The head count remained more or less the same except an increase to the extent of 1,000 to 1,500 people only, but it was not at a significant level of growth.

The other entity , which is at 15% of income tax rate did not contribute to the overall profitability, which also impacted the effective tax rate. But as the new units start contributing, Atraco business starts contributing the profitability, we should be able to see the real impact on the overall tax efficiency.

Vishal Mehta: Okay. Fair, sir. The other question was Mr. Siva spoke about the capacities which are probably coming by middle of FY '26. If you could give kind of some more exact time lines on these capacities. And also, there was probably in previous call, we were speaking about Atraco Africa expansion. So how about that?

Siva Ganapathi: Okay. So the Indian capacities, which are this unit in Madhya Pradesh as well as the units in Karnataka and Jharkhand, they are all timed to come on stream in Q3 of this financial year, that is FY '26. And they will start their ramp-up during that period of time. At this moment, in 2 of those units in Karnataka and in Jharkhand, we have also started training in preparation for it.

And in Madhya Pradesh, we will probably start that in a couple of months. But all of them will start early contributions in Q3 and then will start ramping up. So that's the kind of time line. And we are also aligning customers to these capacities. As far as Atraco is concerned, the expansion of 500 machines is done, and that expansion will start playing out in this financial year -- in the coming financial year. That is FY '26.

Vishal Mehta: Okay. And sir, last one, volume breakup between Gokaldas standalone and acquired entities for 4Q and full year? That would be last question.

Sathyamurthy: For the full year, Gokaldas is 33.22 million @ INR 693 is the rate. Atraco is at 27.68 million at INR 306. Matrix is 7.44 million at INR 573 . And in total, 68.34 million at INR 524 is the average realization. That is for full year.

Moderator: The next question is from the line of Palash Kawale from Nuvama Wealth.

Palash Kawale: Sir, my question is related to this reclassification of lease liabilities. So is there any change in rental agreements? Just if you could shed some light on this? And will this depreciation level will be like we can take this forward, the current depreciation? These are the 3 questions.

Siva Ganapathi: So what happened was in the current financial year, the assets in Africa, they are leased assets, by the way. And African regulations don't need to -- do not have this Ind AS like requirement of capitalizing leased assets and then depreciating it. So we had not done that. But in Q4, when we were consolidating all the results, we had to capitalize all the lease assets and then start depreciating.

So all the depreciation for the year was taken in Q4of this year. That's why you see an extraordinarily high depreciation number forQ4. So that's an aberration. You would have seen it move from, say, INR30 crores to INR42 crores. I think the go-forward impact of the Ind AS of our African units would be about INR2.5 crores a quarter. So the realistic depreciation levels would be about INR32.5 crores or thereabouts. Does that help you?

Palash Kawale: Yes, yes. That's really helpful, sir. And sir, my next question is on margins. Even if I take this INR9.9 crores effect out of the numbers and still margins and I'm talking excluding other income, are in double digits. So do you foresee these margins maintaining for the next year as well? And again, you have spoken about some softness in H1 and then ramp-up of capacities in H2 as well. So how do you see margins playing out for the full FY '26?

Siva Ganapathi: So if we didn't have all these tariff-related uncertainties and these kinds of the impact which was unleashed in April, our margins would have grown in FY '26 versus FY '25 because we are driving higher efficiency in our factories. We are managing costs well. We are booking orders of the right kind and so on and so forth.

But with the tariff-related issues and customers now seeking some relief from the supply chain because they are unable to pass on all the cost increases back to their customers. There could be some short-term impact on the margins. So instead of growing margins, we may have a few percentage points impact on the margins in the short run for a few quarters before this settles out.

Our endeavor, eventually, all the tariffs will get passed on to the end consumer. That's how it all happens. In the interim, the customer and the supplier will have to share some burden, and that's a short-term thing, which we may have to absorb. We will also have to see how the bilateral trade agreement happens between India and the US.

So far, it looks encouraging. The India is fairly ahead in terms of its negotiations. And if we do get some overall tariff relief, then I think all of this will be behind us. On the contrary, we will have a fairly strong business traction, but we'll have to wait and see when that happens and when that takes effect.

In the short term, we may have, as I said, a margin overhang or a margin setback, but that's purely due to tariffs, nothing to do with Gokaldas' performance or underlying fundamentals or anything of that sort. And that will go away as and when the tariff gets pushed through back into pricing of the goods and back into the customers. So it's a short-term phenomenon, I believe.

Moderator: The next question is from the line of Kaustubh Pawaskar from ICICI Securities.

Kaustubh Pawaskar: Sir, my question is again on the capacity expansion. You have given an outlook that the UK FTA will have around additional textile exports of US $1 million plus we are hoping to have a trade agreement with EU soon. And also bilateral talks with US also will create an opportunity. So in that context, are we kind of on a back foot in terms of adding the capacity?

Does it not give us a vision or visibility or indication that maybe by FY '27, FY '28, we will start seeing some kind of uptick in terms of order and we should have adequate capacity to fulfill those orders?

Siva Ganapathi: 100%. I think we are thinking exactly like that. And that's why we are adding the capacity that we are adding here. So these 3 new factories, which will come in, in the second half of this year will realistically ramp up substantially next year and will contribute to a significant growth in the next year.

There will also be capacity unlock that we will do in our existing factories. So wherever we can, we will extract 3%, 4%, 5% incremental capacity from each factory, which we do every year. So that kind of a capacity growth, we will constantly focus on to meet with customer and to meet with growth volumes.

We're also planning some incremental factories that we can take on lease and some of those have been planned and is in the works. Even the short term, whichever factories that we are building out, we are continuing with that as many of them will -- as all of them will come on stream in Q3 or almost at the beginning of Q3.

But as far as new capacity planning is concerned, we just want to wait until we have a little better clarity on the tariff since it's such a volatile subject, and it is not a subject which any one of us have a clear understanding or a clarity on where we will land up eventually.

We would rather wait for a month or 2 or 3 as required to get absolute clarity before we continue our journey of further capacity expansion. Having said all of this, we are building a data bank of where all capacities can be created and even trying to set the grounds for building up incremental capacities while not really actioning on it until we have a little better clarity on tariffs before we action those.

Kaustubh Pawaskar: Sir, my second question is again on the margin front. So I was assuming that your large part of capacity expansion is happening in the second half of the year. So prior to that, you start building up with your employees and workers, training and everything, which results into the incremental cost, which we have seen last year as well.

So I was assuming that Q2 and Q3, we might see some decline in the margins. And once the capacity starts operating at optimum level, the margins will improve by Q4. So now with this tariff issue, I believe that the first 9 months, we might see a decline in the margins and Q4 might give us a better margin kind of a picture. So is it a fair assumption?

Siva Ganapathi: I think we may have some margin trouble in H1, given that, at the moment, 10% tariff applies from 3 months starting April. So it's Q1, but it will spill over to Q2 as well. It's a very, very reasonable assumption to make. Beyond that, if the bilateral tariff -- bilateral agreement fructifies, then we may have a different story, right? So yes, it's uncertain as to the impact on Q3.

I think we can be somewhat reasonably sure that there will be some impact in Q1 and Q2. We should wait and watch before coming to any conclusion on Q3. At the moment, we are fairly confident that Q3, we should get out of this margin-related issues. By and large, the cost will get absorbed either by the customers or the end consumer.

So should not have, but only time will tell because that depends on the quantum of the tariff that will finally get imposed. We are in uncharted territory at the moment, right? We don't know the tariff.

Kaustubh Pawaskar: Right. And do you expect any delay in shipments or something like that…

Moderator: Sorry to interrupt Mr. Kaustubh. May we request that you return to the question queue for a follow-up?

Kaustubh Pawaskar: Sure.

Moderator: The next question is from the line of Bhavin Chheda from Enam Holdings.

Bhavin Chheda: Good set of numbers. Just a couple of questions. From your US imports slide, you have shown that there was almost 11% growth in US apparel imports in Q1 to $20 billion. So does this number and your interpretation looks that this was inventory rebuilding before the tariff got kick in, in April and hence, the volumes in Q1 and Q2 of this year for a company as a whole or India as a whole could be impacted?

Siva Ganapathi: So Q1, there was a surge in US imports primarily because they wanted to bring in a lot of imports prior to the tariff kicking in. So there was a huge amount of goods movement, particularly in March, end March, even in the early April kind of time frame. So it partly reflects what you just said.

Q2, there may be a little slowdown in imports -- US imports because it's coming at a higher tariff. And Q3 -- I'm talking of calendar Q1, by the way, here. So financial Q1 and calendar Q2 and calendar Q3, there may be a little bit of a slowdown in US imports because of the tariffs.

Bhavin Chheda: Okay. So when they are slowing down because they are having obviously an inventory rollover from the March and April strong imports, do you think India exports to them and for -- particularly for Gokaldas since North America is 77% of overall consolidated sales, your volumes are also going to be impacted over first half?

Siva Ganapathi: So it's difficult to predict because Q1 volumes were already secured even before all these tariffs came into play. And at the end of the day, the buyers will also -- the customers will also need inventory to sell. So they will need to buy and many of those orders will come probably closer to date as opposed to early advanced buying.

So for instance, in Q2, the order book is filling at a slightly slower pace than we would have normally anticipated simply because of the tariff-related uncertainty. Eventually, it will all get done.

Bhavin Chheda: One, volumes are not getting impacted only in terms of pricing, there would be some...

Siva Ganapathi: Pricing, definitely, it is getting impacted because they are all demanding...

Bhavin Chheda: Volumes are not getting impacted?

Siva Ganapathi: Correct. At a global level, volumes are getting impacted. Let me put it that way. For Gokaldas, we may still fill up the volumes, but everything comes at a price.

Bhavin Chheda: Sure. Again, my second question is on we are at 10% versus China at 30%. So that is a big 20% difference at least for next 90 days. And China is a very large number in terms of US market share, almost 22%. So for a client, obviously shifting a lot of China volumes to whatever possible, possibly to the alternative countries.

So are you not -- or have you not seen this shift in the month of April and May because you are already on May 22. So you've already seen -- and I believe the China tariff was implemented from March 10 and not April 1.

So we are already 2 months into a very high China tariff regime in US. So what is your interpretation of the US market and your clients in these 2-month period when the China tariff was already implemented at a higher rate?

Siva Ganapathi: So what happens is when there's such a high tariff in China, the immediate port of call for them would be Vietnam because that's just from a proximity standpoint. And Chinese fabrics can enter Vietnam by road or it's a very short sea right away and then get converted in Vietnam and go with a 10% tariff, which is at par with India, right?

So Vietnam -- so it's important for tariff to be seen in clusters. So China's loss is moving to Vietnam. Having said all of that, we are seeing a good amount of business, which has come in the last 2 months from China. So some of those customers with products being manufactured there and even in Vietnam are looking at sourcing from us.

But for these to materialize, for example, even if an order is placed now, by the time the fabric is obtained, most of the orders which are placed on China-based suppliers are all synthetics. So the fabric ecosystem is there, not in India. So we let us still buy the fabric from there, bring it here and convert it. So all of this will show up in the months ahead, but we are seeing that traction for sure.

Bhavin Chheda: And the last one, sir, when you talk about the margin pressure at least for 1 or 2 quarters of the first half, that is 100, 200 basis points or it is much more,it's a larger number?

Siva Ganapathi: So it will be a few percentage points. I would say about 2% or maybe a little higher than that, but not much more than that.

Bhavin Chheda: And from the Q4 levels, right, and not as compared to last year Q1 level?

Siva Ganapathi: So again, product mix change, etc., may have an impact. So we'll have to factor in all of those. So it will be somewhere in between Q4 and Q1, yes.

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

Prerna Jhunjhunwala: Congratulations on good set of numbers. So Just wanted to understand, take forward Bhavin's question by previous participant. Have we, in any form, seen any increase of orders from the customers in light of uncertainty in tariff, but we know that there is 10% tariff today, and it is pretty much bearable. So in any rush of orders wherein they are preponing their purchases for Q2 into Q1 now?

Siva Ganapathi: No. No, we are not seeing that. No, not seeing that. No.

Prerna Jhunjhunwala:

Siva Ganapathi: Most of the buyers will be making an assumption saying that the same 10% or whatever will continue beyond the 90-day window. So they're not in a rush to take advantage thinking that 10% will be lower than what is going to come. So at the moment, we're not seeing that.

Prerna Jhunjhunwala: Okay. And in continuation with this, how much impact can we see in profitability in Q1? Because this is in Pandora's box where we don't know what is happening at the business end. So just wanted to have a gauge on what should we expect from Q1?

Siva Ganapathi: So unfortunately, right, at the end of the day, I think this is a problem which will be limited to Q1 and Q2, not just Q1. So let me reiterate and restate that, number one. Number two, what is the extent of a problem? It's a subject matter of negotiation. So see, all these orders are placed and we are working with the customers. The orders are being produced, orders are being shipped, etc. All these orders were placed well before this new tariff was known.

So Q1 orders were placed end of Q3 last year. So at that point in time, we had no understanding of this tariff as well. So now there is a negotiation saying, okay, since we have a 10% tariff, can the supply chain bear a portion of it. And when we say supply chain, it is not just a garment maker, it's also the fabric maker, etc.

So it goes down the value chain all the way to yarn. So there is a negotiation across the value chain. And all these negotiations started from almost third week of April. It is not concluded as yet. And it will take effect from April when the tariff came in. But the percentage of who bears, how much is all being negotiated as we speak.

So we don't know where we will land, right? Obviously, our hope and endeavor will be to minimize the impact on us and put as much burden back on the customer so that they can in turn put it on the end consumer when they sell it. But at the moment, that end consumer, nobody is willing to change the price tags, price tickets, etc.

So it's not getting passed on to the end customer. So it has to be absorbed by the retailer and the supply chain. The relative allocation of the burden or the tariff burden is yet to play out. So it's unclear at the moment. So I don't have a number because it's still under negotiation.

Prerna Jhunjhunwala: Okay. Understood. And sir, the margins that you would report for the year beyond FY '26, should we expect that it should continue forward, except FY '26? .

Siva Ganapathi: I am super confident of that. So I mean, if you keep the tariff-related chaos aside, the margins will be on an upward trajectory. There is no challenge on that front, and it will keep improving. So if you look at a period beyond FY '26, I don't see any problem whatsoever from a margin standpoint.

Moderator: Sorry to interrupt, Ms. Prerna. Can we request you to return to the question queue for a follow-up?

Prerna Jhunjhunwala: Yes, sure.

Siva Ganapathi: I presume you ask me what is the quantum. I think we should -- it will be percentage...

Prerna Jhunjhunwala: No, I just wanted to ask that what would be the leverage we could get on subsidiary financials improvement on the current profitability?

Siva Ganapathi: I think we may have a good amount of leverage from the Africa side where we may see 2% to 3% improvement in EBITDA margins there.

Prerna Jhunjhunwala: And Matrix?

Siva Ganapathi: Matrix may be 1%.

Moderator: The next question is from the line of Dhavan Shah from AlfAccurate Advisors.

Dhavan Shah: Yes, sir. So my question is on the subsidiaries front. If I look at this quarter EBITDA of subsidiaries, consol minus standalone, so there is some reduction in the other cost from INR44-odd crores last quarter to INR20 crores in Q4 '25. So what was that related to the lower other costs, which led to improvement in the subsidiaries operating margin?

Sathyamurthy: Sorry, can you repeat the question again? I'm sorry. We couldn't follow you fully.

Dhavan Shah: Yes, yes. So this Q4FY '25, we have seen the reduction in the other costs in the subsidiaries' accounts. So what is that related to?

Sathyamurthy: It is a reclassification of the leased assets rental from other expenses getting regrouped into depreciation and interest.

Dhavan Shah: Understood. So the entire INR20 crores on quarter-on-quarter basis, there is some improvement of INR20-odd crores.

Sathyamurthy: No, it is for the quarter -per quarter, it should be INR2.5 crores per quarter.

Dhavan Shah: Okay. But still if I look at on quarter-on-quarter basis also, if I adjust this INR10 crores, then the other cost for this quarter is INR31-odd crores, which was roughly INR44 crores in Q3 FY '25. So still there is a reduction of INR13-odd crores despite the revenues in subsidiaries is more or less the same on a quarter-on-quarter basis.

Sathyamurthy: Okay. It was partially the air freight cost and also partially the costs which are associated with material conversion charges in Matrix. i.e we buy the fabric and then we convert it, that expense is being classified as other manufacturing expenses. Those expenses in the current year -- current quarter, most of them have got reflected in the material cost itself. That's also one of the reasons. So may I request you to look at it at a total level, the total cost will make sense, except the reclassification of the depreciation.

Dhavan Shah: Understood. And sir, on stand-alone basis plus the Atraco and Matrix, if you can share what would be the volume growth guidance for '26 and the margin also, if you can share, stand-alone plus Atraco plus Matrix?

Siva Ganapathi: See, it is very difficult for me to give a guidance in '26, both on margins and on revenue growth. There will definitely be a revenue growth. Our revenue growth broadly at a consol basis, we are still targeting 15% or in that ballpark. Difficult to put a margin number on it, primarily because there is so much of uncertainties. We don't even know after this 10%, will the tariff blow back to 26% or will it just stay put at 10%, will it go to 15%.

These are wild numbers, and we need some clarity before we have a clarity on how our margins will pan out. But from a growth perspective, we are still at a consol level targeting at about 15%, and we will continue on that trajectory. We will endeavor to do so. So the acquired entities also, in my opinion, will approximately track this kind of growth, anywhere between 12% to 15%.

Moderator: The next question is from the line of Roshan from B&K Securities.

Roshan: Just wanted to understand that in relation to the subsidiaries, the African subsidiary, the AGOA is set to kind of expire in 2025. So what is your view that is building up? Will it be renewed? Or what is the view that you are having?

Siva Ganapathi: Very good question. So AGOA, which is African Growth Opportunities Act allows Kenya to export duty-free into United States. So either it was going duty-free. It continues to go duty-free. This is the underlying tariff, which ranges anywhere between 14% to 32%, which we all pay when we enter United States.

And on top of it, there is a reciprocal tariff, which is 10% for all countries, except China, which includes for Kenya as well. So Kenya currently goes at 10% tariff, but no underlying tariff that is thanks to AGOA. Now AGOA expires in September '25. So post September '25, any goods entering United States will go with normal tariff. That is 10% reciprocal tariff plus the underlying tariff, which is the ad valorem duty based on the HS code that United States will charge.

Now as far as the business flow is concerned, we are already booking orders beyond September in Africa, knowing fully well that AGOA may not be extended. So there is still a hope that AGOA will get extended. It was all set to get extended, but then Trump administration has put a pause on any move on the -- pertaining to tariff.

So AGOA also suffered a pause, which was supposed to get extended by another 10 years automatically. So in the interim, Kenya is negotiating a free trade agreement direct with US. There is a talk that AGOA -- until the negotiations are concluded, AGOA may get extended by 1 year so that it gives a window.

Africa traditionally enjoys a trade deficit with US. So US exports more to Africa than Africa exports to US. So the tariff regime to Africa should be looked at more favorably by the administration is the belief.

But having said all of this, even let's assume that AGOA benefit goes away and we are currently basing new business transactions on that assumption, we are not seeing any let up in the order flow or business flow, which means brands are still comfortable sourcing from that region and are not toning down their business volumes there.

Roshan: Okay. And just as an extension of that question, supposedly, if this doesn't get extended, what would be the potential impact that you could have on margins from...

Siva Ganapathi: At this point, we are not seeing that also because we are selling FOB. So the duty impact is on the brand. Some of the brands did come and sort some negotiations on potential sharing of duty, etc., as and when we'll have a clarity on it. And we have said flat, no. And we still seem to be able to book orders. So I don't see this particular AGOA impacting our margins or ability to book business at the moment.

Roshan: Okay. And a final question from my side. What would be the capex...

Moderator: Sorry to interrupt Mr. Roshan. May we request you to return to the question queue for a follow-up question?

Roshan: Yes, sure.

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

Varun Gajaria: So sir, just -- I'm not too sure if you've already addressed this. But on standalone levels, I can see that our margins have sort of dipped by around 300, 350 bps. Any particular reason for that?

Siva Ganapathi: Can you ask the question again? Your voice was muffled. Do you say standalone basis are -- what did you say, our margins are...

Varun Gajaria: I can see that the margins have dipped by around 300 bps. Can you cite the reason for that?

Siva Ganapathi: Our margins has not dipped unless you're looking at PAT margins, and that could have dipped because of deferred tax impact in Q4. So if you're looking at PAT margin, then you're right. There was a deferred tax impact of almost INR10 crores, INR11 crores or something. On a stand-alone, I think it was INR10 crores. So it could probably be that you're looking at. But otherwise, I think our margins have only improved.

Varun Gajaria: Okay. And so what is your view because I can see that Target and likes of Target and Walmart, they have revised their guidance for FY '26, probably accounting a little bit for recession also in the US at the same time. So if you can just give us some color on that? Because I can see that our contribution from in terms of ASP have sort of increased from less than INR450 in terms of sales contribution?

Siva Ganapathi: Okay. So the less than INR450 contribution has increased primarily because acquired entities have -- are selling more of those kinds of garments. Gokaldas per se, we have not seen that change. Coming back specifically on US recession or US market slowdown, that's a reality that we called out at the start itself, and I addressed that in the opening remarks.

So we have to see how the market performs. At the moment, we haven't seen retail demand slow down. So if I look at Q1 CY '25, retail sales has only gone up over Q1 CY '24. So we are seeing a positive growth. But we have to see how retail sales pans out in the quarters ahead, Q3 -- Q2, Q3, Q4 of the calendar year.

At the moment, Q1 CY '25 versus Q1 CY '24, there's a 5% growth. So let us -- it's early to call out as to what will happen. Will there be a recession? Will there be a slowdown in buying? Will the tariff in turn induce recession? It's very difficult to predict. At one level, we are not in the business of macroeconomics.

But it's prudent as business people to be prepared for it. And in the eventuality of a little bit of a slowdown in sales, how do we pivot our business? And that's the reason why we are also looking at other markets, diversifying ourselves into different customer bases and product segments so that we continue our growth regardless of anything.

As far as Walmart, in particular, is concerned, we -- Walmart is a customer of ours. I have not seen a slowdown so far in Walmart's order placement with us. On the contrary, they are coming in and honoring all their commitment and are placing orders as we speak. So they are not showing any signs of slowdown. Probably they may be emphasizing more sourcing from India, and they may be slowing down elsewhere, but at least India sourcing doesn't seem to have impacted for now.

Varun Gajaria: And your view on the recent embargo of imports from Bangladesh that the Government of India has put. How does that pan out for the Indian market for the domestic market?

Siva Ganapathi: We don't cater to domestic market. So those who are in the domestic market may benefit because domestic market also has a lot of made in Bangladesh goods coming in, which was coming in duty-free earlier. So there may be an uptick for those who are catering to the domestic market. Since we don't play that, it's irrelevant for us.

Moderator: The next question is from the line of Jenish Karia from Union AMC.

Jenish Karia: Sir, just one question. If you could just explain why the Q4 gross margins of around 50% are lower than the 54%, 55% in last year and last quarter?

Sathyamurthy: As always we explained, it is the product mix which makes the difference, especially in terms of material cost. That's why we recommend to look at both material costs and the employee cost together, that constitutes almost 79% to 80%, and that is intact. In the current quarter, there was a shift from, compared to the last quarter of last year, outerwear business, which is relatively less and more of casual wear was produced.

The material component is relatively high for the products produced during the quarter. If you compare at the EBITDA level, all this will get evened out and you will see that the margin being reflected correctly. The material component and the manpower component, differs from product category to category. And depending upon the product mix, it gets reflected.

Jenish Karia: Sure, sir. That helps. And sir, just one last thing. If you could just explain why the stand-alone other income of INR33 crores is higher than the consolidated other income of INR20 crores. So subsidiaries have a negative other income, how come that?

Sathyamurthy: The other income largely constitutes the interest income charged on the loans extended to the subsidiaries. In the consolidated financials, all those gets knocked off, and you will see the correct number, and that's why you see the difference.

Moderator: The next question is from the line of Niraj Mansingka from White Pine Investment Management Private Limited.

Niraj Mansingka: I have 2 questions. One, what is the revenue capacity that will come up after the 3 locations are up and operational by Q3?

Siva Ganapathi: You're saying what would be the revenue potential of the 3 new units? Is that the question?

Niraj Mansingka: The total revenue potential of the company after the 3 new units come up?

Siva Ganapathi: So the 3 new units incrementally will contribute to about INR325 crores to INR350 crores incrementally -- and so if you look at the current Q4, we were at about INR1,035 crores, right? That was the revenue. So that's the revenue potential of the company. These 3 new entities will contribute incrementally by this level -- this amount. This is annual.

Niraj Mansingka: And other related question is in the scale-up of non-cotton side, do we have in India enough designs and availability of fabric for us to scale up your non-cotton exports because what I thought was that, that was one of the bottlenecks of scale-up of non-cotton from India, obviously, the -- and the costing as well for those non-cotton fabrics. So any comments on that? And also, if you can address the Bombay Rayon, how it will help you in reducing cost and what is the potential for that company for a slightly longer period of time?

Siva Ganapathi: So we do a lot of non-cotton garments, particularly outerwear with fabric from the Far East. So from Vietnam, Taiwan, Korea, even China and so on and so forth. So the -- do we have the capability? Absolutely, we do. The handicap that India has is that fabric is not locally available and so are several trims, which are not locally available.

So basing the business on shipping raw materials from other regions increases the lead time and increases the cost for us. So while we're still competitive, if such raw materials were available locally, our competitive ability would have orour competitive advantage would be much, much higher.

If you look at the fiber content in global apparel trade, polyester itself contributes to 60%. And if you add other MMF man-made fibers to it, it goes almost to 67% to 70%. So at that staggering high level, India is virtually absent in global man-made fiber-based garment trade. And that's an opportunity for us.

But so far, it's an opportunity which has remained with China and the countries around China, like Vietnam, Cambodia, Indonesia, etc. So while we do it, it will take a while before it can expand. There are moves in India to expand the synthetic fabric ecosystem, but it's happening very slowly, and it will take a while before India can become competitive in the synthetic space.

Coming to the next question on BRFL. I think the asset is progressing well. We have made investment in the asset with a view to taking a call on acquiring it down the line. And so far, the progress made in mending the operations and taking up its capacity has been fairly strong. When we invested in it in the month of June- July, the capacity utilization was of the order of 15%, 20%.

Today, we are well crossing 50%. So that team has done a fantastic job of managing that asset and expanding it. So we are supporting that investment, supporting the management team there and helping that unit to turn around, which should happen soon in my opinion.

Niraj Mansingka: So last question, small question, that will your then cotton exports scale up first, followed by the non-cotton is what you're saying? Or you would continue to import fabrics from Middle East and -- sorry, the Far East and then scale up here?

Siva Ganapathi: So our cotton-based exports are the highest. So 75% of what we do are cotton-based, and that will continue to grow. And the Far East-based supply chain, since we are competitive with respect to some of those countries because we are competitive more on the labor cost here, we will continue to explore growth avenues there as well. And that's an area where we do have a lot of technical capability. We'll continue to work in that space, too.

Niraj Mansingka: And the government has done a lot of imports of fabric, doesn't impact your imports or is it only for domestic usage?

Siva Ganapathi: We import for exports. So we clear our fabric on advanced licensing. So we don't have any of those related issues. We don't use those fabrics in the domestic market. We just convert it and send it abroad.

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

Siva Ganapathi: Thank you, everyone, for listening to us. The business has been growing, and there has been a tailwind accruing to India. The UK FTA was the first one in that direction, which, in my opinion, will bring incremental business of $1 billion as and when the UK FTA takes effect. I believe it will take at least a year, if not a little longer before it can take effect.

But directionally, it will bring in significant business. There is a negotiation going on with EU as well as a bilateral agreement with the United States. As and when that happens, and apparel is high on the agenda because it's labor-oriented, manufacturing oriented and Government of India treats that with high priority.

So we feel confident that there will be a lot of manufacturing movement to Indian region from other areas. And this would also benefit Africa where we do have manufacturing setups. So we are very confident of the long-term business opportunity for us. We have a fairly good reputation with our customers, and we have a large number of customers with whom we will continue to grow.

In the short term, we will see some challenges, particularly with respect to tariffs and the need to absorb some of the costs pertaining to the tariff because that's something which will impact the industry at large. And we may have to stay solidly with the supply chain there, supporting our customers, too, to make sure that we navigate the tariff -- uncharted waters with tariff.

But my suspicion is that we will have more and more clarity as we go to the second half of this financial year. By then there would be a better understanding of specific agreements with respective countries like India and US and so on and so forth. So these tariff-related challenges then soon will be behind us.

And then also brands are trying their best to explore ways to offset or pass on these costs back to the customers, and all that will happen, too. So I feel that short-term hiccups aside, the long-term growth prognosis is strong for the company. In the short term, there will be -- certainly, there will be challenges.

And those challenges will materialize in the form of margin impact, which is as yet unknown. But I guess in a few quarters, we will overcome that as well and move forward. Overall, the business is trending in the right direction and looks forward to continued growth of the company. Thank you.

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