gokaldas exports ltd

GEL/SEC/2023-24/54

September 05, 2023

BSE Limited
Phiroze Jeejeebhoy Towers
25^{th} 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 investors 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 investors call held on August 29, 2023. The Transcript is also available on the Company's website at https://www.gokaldasexports.com/investors/.

Please take this into your records.

Thanking you,

Yours truly,
For Gokaldas Exports Limited

GOURISH GANAPATI HEGDE
Digitally signed by GOURISH GANAPATI HEGDE
Date: 2023.09.05 23:07:46 +05'30'

Gourish Hegde
Company Secretary & Compliance Officer

Encl: as above

"Gokaldas Exports Limited Conference Call"

August 29, 2023

ANALYST: **MR. BINAY SARDA – ERNST & YOUNG**

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

Moderator: Ladies and gentlemen, good day and welcome to Gokaldas Exports conference call. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Binay Sarda from Ernst & Young. Thank you and over to you Sir!

Binay Sarda: Thank you Nirav. Good morning to all the participants on this call. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risks that could cause future result performance of achievement to differ significantly from what is expressed or implied by such forward-looking statements. To talk about the recent acquisitions 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 will start the call with the brief overview of the acquisition and then conduct Q&A session. With that said, I will now hand over the call to Mr. Siva. Over to you Sir!

Sivaramakrishnan G: Thank you Binay. Good morning, everybody. Thank you for joining us at this extraordinary investor presentation. Last evening we concluded definitive agreement with Atraco Group which has got manufacturing facilities in Africa and have operations in UAE, Kenya, and Ethiopia. They are head quartered in Dubai in United Arab Emirates where all the marketing, production coordination, the senior leadership team, their sourcing and finance functions are all located. While the manufacturing happens out of four different units in Kenya and one unit in Ethiopia so that is the spread of the network of this particular asset. This company was setup in 1986, so it is a very well regarded, long established apparel manufacturing company with a solid reputation in the industry. They employ about 13,000 workers and have got fairly long-standing customer relations. Bulk of the production of this company goes to United States, 95% of the output is exported to the US and the reason fundamentally is that the access to American market is facilitated by AGOA which is a special treaty which allows African countries to export duty free to United States so Kenya qualifies for AGOA, Ethiopia used to qualify but of late since the civil war two years ago the AGOA benefit has been suspended. Ethiopia continues to access Europe through duty free arrangements and it is expected sometime in the future that the AGOA benefit for Ethiopia will also be restored but bulk of the output of this company goes duty free into United States. This is also a duty free access to the US. The product range includes products for men, women, and children. Products across bottoms, tops, blouses, dresses etc in both woven and knit so the company has been adhere to privately help and post this transaction we intend acquiring 100% of the equity of the entire company. The key advantage that I see for Gokaldas Exports from this asset is one we get access to low cost locations namely Kenya, Ethiopia and maybe any other geographies like that in the future. A duty-free access to principal market which is going to be a very big advantage. Duty free locations always gets priority in terms of sourcing allocation from large brand and that is why regardless of market volatility and fluctuations these countries do not see much drop in volumes. The production facilities that the company has are all exceptional. They are very well run and very efficiently managed. The company has got very good track record over the years. The relationship with the customers are solid so all of this gives us the confident that we have identified a great opportunity for partnering and growing and post this acquisition we will have one more region to leverage upon for future growth. The company in 2022 calendar year delivered revenue of US$107 million and a PAT of about US$7.2 million. It had about a little over US$1 million of onetime cost that got baked into its calendar 2022 P&L on account of start up of a new unit that they set up. This will not be there going forward so to that extent their PAT has been under stated so the company has got reasonably good potential for growth as well with the new capacity that they recently put up. There is an opportunity to ramp that up going forward in calendar 2024 and the years ahead so we see a fairly good opportunity with Gokaldas and Atraco coming together. The customer base that we have is largely mutually exclusive. There is only one common customer that we have between us but otherwise we got access to new bunch of customers and hopefully we can even cross sell so overall I am enthused by the fact that we get access to a new geography. I am enthused by the fact that we have the ability to grow in multiple geographies and service our customers better. I am enthused that we have got a fairly strong management team in Atraco which can continue to progress this company forward. I am glad that we have done everything in our possibility to make sure that the acquisition was well thought out. We have a lot of cultural similarities between the two companies as well as both of us are very conservative in our approach and I feel confident that once the acquisition closes which will happen sometime in October after receiving all regulatory approvals, we should be able to bring more cross functional capabilities to one another and drive up the synergies and hopefully if the demand in the market picks up then we will have fairly strong growth possible going forward. I will stop here and pause for any questions that you all may have. Thank you.

Moderator: Thank you very much. Ladies and gentleman, we will now begin the question-and-answer session. The first question is from the line of Kapil Jagasia from Nuvama Wealth. Please go ahead.

Kapil Jagasia: Good morning all of you. Thank you for taking my question. Sir my first question is on the timing of this acquisition. Now we already witnessed a slow Q1 and probably as per your commentary it would be slow Q2 as well and we are already on our max of capex plan so though this acquisition is at a very good value and the synergies are there for sure, but would not the timing would have been a little later when most of your capex plan would have been commissioned towards the Q3 or Q4 and probably there would have been some uptick in the exports because the exports month on month has been a decline so just wanted your comments on it.

Sivaramakrishnan G: Going forward starting third quarter I am seeing an upward trend in exports so I am not as particularly concerned about the timing at all. On contrary since this asset is based out of duty-free region there is a strong support from the customers as they get access to lower cost garments from these region. The order book for this company is also relatively strong from the latter half of this year onwards, so I do not see any challenges in acquiring this and being able to utilize their capacity. We do have strong tractions from our respective customers. As I said the customers are also fairly mutually exclusive and their customers are also giving them fairly good traction from a business stand point so our capacities which will come on board towards the latter half of this year and early FY2024, all the efforts that we have been doing to fill that continues and those are for businesses that are denominated out of this region which is India and South Asia where as the businesses that Atraco will do will be those which are denominated for middle east, Africa region and that is an incremental business that we will tap into and there also we see strong traction from the customers so I do not see much of a problem from capacity utilization perspective going forward.

Kapil Jagasia: Sure, that helps. My next questions is could you help us with the split woven and knit wear because if I see 40 million pieces for this company so probably it would be a split of around say 60:40 for woven wear, knit wear just wanted the realization part.

Sivaramakrishnan G: So in the 40 million, capacity denominated in certain SAM values etc. They actual number of pieces may vary depending on what are the specific styles of the garment that we make so with that caveat having their woven to knit ratio is 74:26 so almost 3/4 of their output is woven and quarter is knit.

Kapil Jagasia: Sure and Sir what could be the capacity utilization Atraco would be at currently?

Sivaramakrishnan G: Almost like a shade under 90%.

Kapil Jagasia: Okay great. That helps a lot Sir. Thank you I have no further questions.

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

Bhavin Chheda: Yes congratulations on this acquisition. It looks attractive on the first glance. Sir few questions first on this AGOA treaty is due for renewal in December 2025 and currently I think the acquisition looks obviously there is a big duty advantage to US, 95% of the sales are to US and treaty is due for renewal next year so what would be your thought process on the same.

Sivaramakrishnan G: So we are reasonably confident that the AGOA benefit will get extended. Usually AGOA is given for a 10 year timeframe and that expires in 2025. In the previous period also AGOA got extended. Kenya believes very strongly that AGOA will be extended. Kenya is also working on a FTA with the US. The relationship between America and Kenya is very, very strong. They have a very good relationship and America is investing a lot in Kenya and strengthening the relationship because there is also a geo political move between China and America to come closer in Africa so from all of those aspects and knowing that Kenya is one of the strongest allies in the African region for United States we have a strong belief that Kenya will continue to have preferential access to US market that apart there is also a preferential access to European market so we take comfort from that. Not only all of this but fundamentally also the assets are very efficiently run and cost effective so even let us assume that entire region loses AGOA which I do not see as a possibility at all. The financial structures will be good enough to keep the businesses going.

Bhavin Chheda: Sure Sir. Second on the product segments, are there any products or segment which are common between you and them or this is completely new segments which you are not doing, since you also said that the customers are not common so if you can give some idea are there any overlapping products or this is completely new segments which you were not there earlier.

Sivaramakrishnan G: So, we do largely woven. They are 75% woven and Knits is a product which is not overlapping between us and them. They also do about 40-50% of children garment which is a not a product category that we are present in. We do only men and women so from that perspective our overlap is restricted to woven which is 75% of their revenue but only on men and women which is again half of their revenue, the other half being children. It is a new segment for us, knits is also a new segment for us that is 25% of their revenue.

Bhavin Chheda: Thanks a lot Sir.

Moderator: Thank you very much. Next question is from the line of Sohini Andani from SBI Funds Please go ahead.

Sohini Andani: So, I wanted to get some perspective on the previous owners from whom we have acquired this business and why were they looking to sell this and in terms of retaining the key people in that geography what are our plans.

Sivaramakrishnan G: So, the previous owner he has aged and he wanted to pass on the legacy to somebody who can take this asset and hopefully grow upon it, protect the legacy and probably further the legacy so that was the intention. It was more of passing on the asset to someone who can take care of it. They came from that perspective so there is going to be and holding that I will seek from the existing owner for a period of one year or so and he has graciously consented to that. The company itself is run by a management team. There is a CEO. There is a COO who is operating the operations of the company and they are all very seasoned professionals, very well respected in the industry as well so from a continuance of operational stability from a management perspective we are keeping all of them. We are keeping the top management, the middle management, the factory management, and all of that. They are all solid, professionals and there will be continuity in operation from their perspective.

Sohini Andani: Sure, that is great to hear and also wanted to check that since you mentioned that the operations are run almost at about 90% capacity utilization so when do you think would you be investing further into that geographies and what will be the quantum how do we would need to do that.

Sivaramakrishnan G: This will have to be worked out going forward, but I anticipate that starting calendar 2024 we will probably start looking at planning the capacity expansion, so we should start really investing in calendar 2025 in capacity expansion. The new unit that they have set up, there is scope for additional lines to be set up in that unit as there is a space and region earmarked for further capacity expansion in the in the fourth unit in Kenya. So we will be investing going forward once the market conditions are also accessed and we get control over the assets sometime toward the end of October this year. So, my expectation is towards end of 2024, we will be working on it and 2025 we should have the capacity enhancements in place.

Sohini Andani: Sure. Thank you for your explanation.

Moderator: Thank you. Next question is from the line of Rehan from Equitree Capital. Please go ahead.

Rehan: Hi Sir, congrats on the acquisition. My first question is when do you see the numbers kicking on your P&L for the new acquisition?

Sivaramakrishnan G: So, we have entered into agreement and now these are subject to regulatory approvals from respective countries. We anticipate that all of that will get concluded by end of October. Now the usual caveat remains because we are expecting the approval from government and there could be delays but our anticipation is end of October, so from November onwards, we will start consolidating the numbers into our P&L.

Rehan: Okay and second question would be what is the amount of debt to equity you plan to use for funding this acquisition.

Sivaramakrishnan G: So the total cost of acquisition is US$55 million for 100% of the equity. We intend using US$15 million from our own cash on hand and US$40 million we plan to take debt. We have already secured line of credit from banks and that US$40 million we will deploy for the balance of acquisition cost.

Rehan: Thank you Sir.

Moderator: Thank you. Next question is from the line of Tejas Mehta from Max Life Insurance. Please go ahead.

Tejas Mehta: Hi Siva, thanks for taking my question. First of all, congrats on this good acquisition. If you can share some basic number. You did mention that they do about US$7 million of profit last year and in fact one number which you mentioned is one time cost other than that what is the EBITDA percentage do they make, what sort of gross block does this entity have, what sort of debt this balance sheet has, if you can throw some related numbers to us it would be helpful.

Sivaramakrishnan G: See the number that I mentioned was a little over US$1 million which was a onetime cost that they had in setting up the new unit so that they took a P&L hit in calendar 2022 which we do not expect that to recur so the US$7.2 million of PAT is after taking that little over US$1 million of it in that onetime cost. As far as EBITDA margin is concerned, if I adjust for the one time hit in calendar 2022, this asset should have an EBITDA margin of a little over 10.5% and I expect that as we invest in upgrade of plant and machinery etc and also we expand the capacity there we should have operating leverage kick in. We should also have some efficiencies coming through further investments coming in, all of that there is an upside potential as usual of about 1.5 to 2% there and we will work towards that over the next two to three years to realize that. So it will require some amount of investments, some amount of expansion. It is a very wellrun company, so we will have to work on improving the efficiency and hence the margins there going forward.

Tejas Mehta: Got it and any debt which is there in the balance sheet, what is the gross loss that they have today.

Sivaramakrishnan G: They currently have a US$15 million working capital debt. There is no other term debt on the books of the company.

Tejas Mehta: Okay and is it a similar model like how they have 4x, asset turns.

Sivaramakrishnan G: More or less similar model yes.

Tejas Mehta: Okay got it. Thank you so much.

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

Nishid Shah: Hi Siva congratulations. Siva additional capacity through the brown field expansion and also the scope for cost reduction in terms of manufacturing, marketing because you have marketing network here, you have a marketing network in this company so obviously there will be some synergies coming in so basically are we saying that 1.5 to 2% efficiency coming in EBITDA over the next one to two years would bring the EBITDA for the acquired unit also in line with what we are currently having right now.

Sivaramakrishnan G: I think so. Over that two to three year period we should be able to bring it more or less in line with the EBITDA margins that we have here.

Nishid Shah: Superb that is very good and, on the customers, you said that it is complementing so we also get a lot of new customers coming in through these acquisitions could you give some more colour on that.

Sivaramakrishnan G: So these are all American customers that they have and they have had multi decadal relations with. Those customers there are a potential that we can take our customer. We have a much bigger customer base then they have in terms of sheer number of customers and we can take our customers there over a period of time some of their customers also we can work with so that potential exists is what I alluded to when I said that it is a complimentary customer base where there is a possibility of cross fertilization of customers going forward.

Nishid Shah: Siva on the working capital, how much working capital do they have, are we paying also for the working capital. What I am trying to say we are paying US$55 million for the acquisition but how much is the working capital there or is line with the working capital loan that they have.

A.Sathyamurthy: About US$15 million is the working capital debt they have as on date. Their working capital cycle is a little longer than our Working capital cycle. About 110 days is, the working capital cycle because of the long lead time they have, to import the material, inventory holding is about 70 days and also the receivables is around 50 days, though there is some inefficiency we will work on it but currently their operating cycle is about 110 days.

Nishid Shah: I am just trying to understand the numbers so working capital debt is how much and how much is the working capital.

Sivaramakrishnan G: US$35 million is the working capital. They have a working capital debt of only US$15 million.

Nishid Shah: US$50 million is the debt.

Sivaramakrishnan G: Correct.

Nishid Shah: Five zero is the debt.

Sivaramakrishnan G: One five.

Nishid Shah: One five so if I adjust for it we are actually enjoying US$15 million dollar coming out of working capital is not it Siva you understood what I am asking. US$20 million actually is the working capital I am gaining net of the working capital debt that I have. So then we are actually getting it for a very reasonable valuation and Siva the last question from my side this makes us not just an India centric global garment manufacturer we will now be truly going global with Africa and also you have already a move onto Bangladesh, so are we gearing up to become a truly global garment exporter?

Sivaramakrishnan G: The intention is that. That's the mean to achieve an end, the real objective is to have a fairly strong customer base a company that can provide extensive solutions to our customers and having global execution is one part of that equation. We should also have a stronger design capability. We should have a stronger marketing capability. So we will have to have front end offices, more investments in design and all of that, so all of those parts also we need to build out, but definitely this is a big step because setting up manufacturing unit globally is not easy and it takes a lot of time before they can mature to be very efficient. This acquisition reduces the process, the time taken in the process and gives us a good asset to start working with.

Nishid Shah: Thank you and I think this is a very good acquisition. All the very best. Thank you very much.

Moderator: Thank you. Next question is from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

Vikram Suryavanshi: Good morning and congratulations Sir. Most of questions answered, but just to break up the capacity between Kenya and Ethiopia can you share that number.

A. Sathyamurthy: 87% is Kenya in 2022 about 13% of the business came from Ethiopia unit. Because in Ethiopia they have only one unit, and operate four units in Kenya.

Vikram Suryavanshi: Okay and is there material difference between these Ethiopia and Kenya products or more or less similar.

Sivaramakrishnan G: Products are similar.

Vikram Suryavanshi: Okay so average realization wise there is not much difference.

Sivaramakrishnan G: Not much of a difference at all.

Vikram Suryavanshi: Okay in terms of labour efficiency or productivity, if you compare with the India how these are the numbers in terms of cost advantages if you can give some reference.

Sivaramakrishnan G: In terms of efficiencies they are very well efficiently run business and I see that the efficiency of the labour force at least that I have seen in their unit are as good as India maybe even a notch better so that goes as far as the efficiencies are concerned. As far as the labour costs are concerned Kenya the labour cost is approximately $190 to $210 odd dollars per month which is notch higher than that of India, but then obviously the efficiency compensates for it and fall in Kenyan shilling also helps to reduce the cost. The Ethiopian costs are a lot lower. The total cost comes to about $110 to $120 per month per labour. They are much cheaper than India or Kenya for that matter.

Vikram Suryavanshi: Okay got it. Thank you Sir.

Moderator: Thank you. Next question is from the line of Vikas Jain from Equirus Securities. Please go ahead.

Vikas Jain: Thank you Sir. Thank you so much for the opportunity. First of all Sir congrats for a very great acquisition. Sir my first question is with respect to operations at our both Kenya and Ethiopia facility. As per your assessment how easy or difficult is managing the labour there, most importantly with respect to either bringing them to the factory or either handling the acquisition there or managing the productivity there. Any views to respect to that and major that we are taking scale up or we have plans to scale up their efficiency there.

Sivaramakrishnan G: I could hear the question and I could fill in the gaps as well. So let me answer this question. The Kenyan, the operations there are very efficient in fact manpower availability is also good both in Kenya and in Ethiopia the new units that got set up abundance of manpower available. The attrition rates are slightly better than that of India, but not a whole lot better. The manpower productivity in both Kenya and Ethiopia is strong. I feel Kenya is a little better than Ethiopia. Ethiopian culture being what it is, it is somewhat like India. So they also take a lot of festival holidays and all of that stuff but by and large I think from a manpower management perspective, I do not see any problem whatsoever because these companies have been run there for years together. So whatever issues they have had, they have ironed it out over a period of time, managed to find the formula to run it so what we are getting is a well oiled, well run, and well managed labour force so we do not see a problem in managing the labour or even expanding for future growth because the ability to manage the labour force in both these countries exist.

Vikas Jain: Got it Sir. Sir my second question is with respect to our clientele. While we also derive almost 85% of our revenue from North America and they also have around 95% coming from the America side but then you are saying that except for one retailer we do not have any overlap so can you like name who are all the top four size retailer client base for Atraco group?

Sivaramakrishnan G: At this point I am not at liberty to name the customers. We need permission from the customers. We concluded the deals yesterday so we have not gone through all that process so I will ask you to kindly bear with me on the names but then the fundamental factor is that they go duty free into the US and that is the reason why they have American customers largely. Going forward if FTA and all happens between India and UK we will try to balance our customer base and take our business a little more and shift that towards Europe from a very, very strong reliance on the US market so that will happen over a period of time on the Gokaldas Exports side. The African assets will at least for now continue to be facing United States.

Vikas Jain: Understood. Alright Sir. Thank you so much. Thank you for answering.

Moderator: Thank you. The next question is from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Congratulations on a great deal. I was just wondering like it is a well-managed operation and reasonable profitable margin, labour productivity is not very different so the succession was the only reason for the owners to sell out?

Sivaramakrishnan G: That is correct. Yes.

Hiren Dasani: Would you expand the capacities more in those geographies only where the current management teams will have the expertise to run the labour intensive operations?

Sivaramakrishnan G: The senior management sits out of Dubai so we probably can target a larger region of East Africa for now and while the initial focus will be on the two countries more so in Kenya than Ethiopia but still Kenya and Ethiopia, we will also explore other opportunities going forward. The management team in the past has run operations in Egypt, Madagascar, and all these places. They used to have factories in those regions as well about 20 years ago or 25 years ago, in fact they started by having some units in UAE itself so this management has the ability to handle multiple units in multiple geographies. The model allows us to do that because all the businesses are booked in UAE and then manufactured in the respective geographies so the way the operations are set up is they are scalable, we can also tap into new counties, new geographies, set up new units, and work with third party units if the need arises even though I am very reluctant to go down that path as well. There are multiple options for exploring other adjacent geographies. We will be careful in entering newer regions and we will do our strong due diligence before we commit to any geographies that we were hitherto not present so even now we did a strong diligence on Kenya, we did a diligence on Ethiopia, the factory that they have is present in Addis Ababa which is the capital city and is well protected, so all of those diligences have been done. We have looked at manpower linkages so all those diligences will continue when we look at future expansions with this asset as well.

Hiren Dasani: Got it and you are reasonably locking in the senior management with appropriate incentives and all that?

Sivaramakrishnan G: Yes correct.

Hiren Dasani: Finally just to clarify are you saying that Kenya labour cost even on a productivity adjusted basis is slightly higher than India?

Sivaramakrishnan G: Productivity adjusted will be more or less at India level. Thankfully the Kenyan Shilling has fallen which has helped India to that extent. So I would say they are coming at India cost level, so my cost in Madhya Pradesh probably will be a shade cheaper but what we look at is landed duty paid cost to the customer so the duty-free access the American duties can go as high as 28% for synthetics so that is a huge play that exist there, so overall I think that benefit more than offsets any other incremental cost so it is a slightly different value proposition. By and large the labour cost is similar to India, duty-free access is stronger. There are regions within Kenya where the labour costs are lower as you go away from cities of Kenya, Nairobi and Mombasa so those are all areas that we can tap into also going forward.

Hiren Dasani: Great. Congratulations once again and thanks for the opportunity.

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

Niraj Mansingka: Sir thank you. I have only two questions one was on the revenue growth you had said that the Kenya figure US$30 million growth potential can you elaborate on that?

Sivaramakrishnan G: The new factory that has been set up by them in Kenya there is an expansion potential available there so we can add extra lines there going forward in the future once we take control over the asset and we will probably plan that sometime in the next calendar year that is 2024 so we do have the opportunity to take the revenue up by US$20 million or even probably more.

Niraj Mansingka: The time to bring into revenue will be how many months?

Sivaramakrishnan G: I think this would probably be closer to 2025 or so in calendar year.

Niraj Mansingka: So basically, the growth in Kenya will only come in FY2025 because you are running in almost 90% utilization in that or you can see some more utilization growth?

Sivaramakrishnan G: So we will have to add that machinery, then recruit the workers; train them, so there is a process of six months to one year which we go through to deliver all of that.

Niraj Mansingka: How is easy or difficult to hire people in that location?

Sivaramakrishnan G: Not at all difficult, there were abundance of people available, the reputation of the company is good so people would like to join them and work, the track record of treating people well and paying them salaries, etc., is strong so not at all difficult.

Niraj Mansingka: Last question is on EBITDA you said that EBITDA margin is accretive the company is only doing 10.5% so is there some immediate term margin growth that you will see coming in or just two years period or that you are talking of one-and-a-half years?

Sivaramakrishnan G: We need the twoyear period to do that.

Niraj Mansingka: Great. Thank you.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan by BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Thanks for giving the opportunity. Most of my questions have been answered. Sir on the margin front again I just want to understand the African asset margins are slightly lower than what we have currently around 11.5% to 12% is it mainly because of the lower realization what we are getting over there because as you said that labour cost or operating efficiencies are similar to what the Indian assets currently have so is it more to deal with the product profile what they are currently selling to the US market?

Sivaramakrishnan G: It is product profile, regional profile and customer profile; there is a lot of all that going on there, so it is a bit of combination of all of those. There is also a factor that not too much of investments in plant and machinery over the period has happened which also will drive some incremental productivity improvement and which can then help shore up the EBITDA so all of that may happen going forward but it is largely and currently a result of the product and customer profile.

Kaustubh Pawaskar: Right Sir so any kind of investment or thoughts you have that you are planning to go beyond the capacity addition what you are planning to do for that?

Sivaramakrishnan G: I do not intend doing anything immediately at least for the next one year except for absolutely critical capexes which are in the nature of replacement capexes or improvement capexes but we will do the plan sometime in 2024 and then probably 2025 we may want to do some upgrade capexes.

Kaustubh Pawaskar: Right and last one for the debt part of US$40 million you are planning to take for the acquisition so what will be the cost?

A. Sathyamurthy: It is in the range of around 250 basis points over SOFR all inclusive costs.

Kaustubh Pawaskar: 250 basis points over?

Sivaramakrishnan G: Over SOFR.

Kaustubh Pawaskar: Tax benefits?

Sivaramakrishnan G: Yes, we do have. So, in Kenya we are setting it up as an EPZ. So, we will enjoy a 10-year tax holiday and the business is largely denominated in UAE so all the revenues are booked in UAE and then the manufacturing operations are done in the respective entities in respective countries and those entities are paid certain transfer prices for carrying out the manufacturing, so the working capital is also held in the UAE entity. So the profits are largely booked there and UAE being a tax efficient region there will be tax benefits.

Kaustubh Pawaskar: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Varun Gajaria from Omkara Capital Private Limited. Please go ahead.

Varun Gajaria: Congratulations on the acquisition. Sir you just mentioned that we could add another incremental US$20 million in terms of revenue over the next two years from the acquisition what is the capex that you are looking at and what is the capacity addition that you are looking at there in that particular region?

Sivaramakrishnan G: The capex in my opinion will be about US$4 million in that region and there will be some incremental working capital as well which will be required for delivering the incremental US$20 million revenue?

Varun Gajaria: Right and four times asset turn?

Sivaramakrishnan G: That is correct.

Varun Gajaria: Just a small clarification Sir.

Sivaramakrishnan G: We will have a little higher capex productivity this expansion will happen in an existing facility so incremental cost of building out the facility and all will be not there as far as this particular asset is concerned so there may be a little more efficiency in the revenue to capex.

Varun Gajaria: Right so probably towards the end of FY2025 what will our cash or debt position look like, post completing all your capexes and everything else?

A. Sathyamurthy: At the group level you are talking about or at the Gokaldas Exports on a standalone basis?

Varun Gajaria: At a group level.

A. Sathyamurthy: We anticipate net debt including all this around Rs.150 Crores to Rs.200 Crores.

Varun Gajaria: Right okay so this particular debt position will be post the capex that you will be doing right?

A. Sathyamurthy: Yes Atraco capex mostly will happen in Q4 of this financial year or later part of Q1 next year however that will not be significant. What we talked about Gokaldas Group level debt is after taking care of the expansion activities happening in India as well as the investments what we are intending to do and the working capital funding for the same. All put together at the net level we anticipate about Rs.150 Crores to Rs 200 Crores is the estimated debt after completing the acquisition and the expansion plan for the financial year of FY2024.

Moderator: Thank you. The next question is from the line of Arvind Kothari from Niveshaay Investment Advisory. Please go ahead.

Arvind Kothari: Congratulations on a great acquisition. I wanted to understand that we also wanted to expand in Bangladesh as well so what are our plans going forward now with this acquisition will we go ahead with that because there is also a talk of the Bangladesh minimum wages going up by 70% to 80% by the year end so wanted to understand on that part?

Sivaramakrishnan G: Good question. We had suspended the Bangladesh expansion till we had a better read on the market conditions from a demand perceptive. Now with these assets in place we still have the opportunity to invest in Bangladesh. We will continue to be open minded about it and if the opportunity exists and if there is consumer traction for it we will look at it but we will review the decisions and take a decision closer to date. When we took the Bangladesh decision obviously this asset was not in play. Now that this asset is in play we can take a look at it. We are not ruling it out at all. In fact Bangladesh attractiveness thanks to duty-free access to Europe continues and having said that their cost structures are also going up and there is a mood amongst buyers to diversify out of Bangladesh but despite all this talk you should realize that Bangladesh exports about US$42 billion compared to India US$16 billion so Bangladesh over the last few years have continued to grow and that is the region which is still favored by the brand so we are not rolling that place out at all. We will keep that in play for the foreseeable future.

Arvind Kothari: So in that context I just wanted to understand if the minimum wage bill were to be passed in Bangladesh have we made some assessment of how it will affect the business volumes in India because that will do away the tax advantage that they might have right?

Sivaramakrishnan G: So if the minimum wage goes up by 40% to 50% which is also a good likelihood and Bangladesh does this once every five years or so after that this minimum wage will just stay put so first we will have to assess the quantum of minimum wage increase. You should also keep in mind that Bangladeshi Taka in the last one year depreciated by 13% whereas Indian Rupee depreciated by 3%. So there is an incremental depreciation of Bangladeshi Taka by 10%, so that also has got a countervailing impact on all of these. So let us say a 40% increase in wages translates to about 10% decrease in EBITDA margin assuming wage is 25% but a 10% relative depreciation offset that so we will have to keep all of these factors in mind when we do the calculation.

Arvind Kothari: Got it and Sir finally can you name some clients or the large top five clients that the new entity would be having to just understand their relationship with them?

Sivaramakrishnan G: We just had an agreement with the sellers yesterday. We have not really sought permission from the clients at the moment, it is a bit too premature and we have not had the time to seek the necessary permission to disclose their names and I want to respect this asset is still not in our hands, all this is subject to closing, so I do not want to speak out anything in public till we have the clearances for that.

Arvind Kothari: Perfect Sir but in our due diligence have we made an analysis of what is the contribution of the largest buyers in their sale?

Sivaramakrishnan G: So our top three customers collectively have contributed to about 65% of the revenue, so they do have a significant concentration of customers.

Arvind Kothari: Got it Sir. Helps a lot. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Apurva Shah from PhillipCapital. Please go ahead.

Apurva Shah: Thank you so much and congratulations to you and your entire team for the fantastic acquisition. Just continuing with the last question so just wanted to understand the thought process is there any change in the strategy because in the last conversation if I remember clearly we have never spoken about Kenya or Ethiopia, but we were more focused towards Bangladesh, so what has changed your thought process or strategy which has led to a sudden acquisition which seems to be a prima facie seems to be very good acquisition for you as well so what has changed in the thought process or strategy?

Sivaramakrishnan G: Strategy remains the same. The reason for choosing Bangladesh because it had a duty-free access to the Western market which is Europe, Kenya has a duty-free access to US market. It is always looking at low cost region for manufacturing because my belief is if you are in a low-cost region your sustainability of the business is much longer. So we will continue to explore low-cost region. We got an opportunity to tap this region by acquiring a very well run company, there was meeting of minds, etc., that happened here it could have happened in Bangladesh for all we care. At this point in time if the opportunity presented itself in another geography but the attraction of the geography was fairly similar that is the reason why we chose this one.

Apurva Shah: Got it and Sir in Bangladesh we have finalized some JV partner and we were in advanced discussion as well so based on your statement I think that JV is no more at a progressing level or what is the current status of that JV and what could be your plan for Bangladesh over the next two years?

Sivaramakrishnan G: The JV is intact. The relationship is intact. We just decided that we will time it appropriately when the market conditions improve. Last six months or nine months the markets were not that great that both of us were not very comfortable going ahead and putting in capex and building capacity. We were taking over an existing capacity through which was under receivership with the banks. So the capacity would have come up on screen pretty quickly and then ramping up in Bangladesh also does not take time as the need of talented labour is available. So we did not want to make huge investments till we were sure of the market that is why we have been put that on hold and it continues to be on hold and we will review it and take a call going forward.

Apurva Shah: Got it and Sir just last question on the capex side, so except this change in some Bangladesh because of the ongoing situation there is no change in the capex front for the domestic operation so whatever we have done that is just top up of your domestic expansion is that clear understanding Sir?

Sivaramakrishnan G: Correct.

Apurva Shah: Great Sir. Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Gaurav Sud from Kanav Capital Advisors Private Limited. Please go ahead.

Gaurav Sud: Thanks for the opportunity and congratulations for a great acquisition. One thing I wanted to know was in terms of the product breakup for the new company, what is the breakup between synthetic and cotton yarn?

Sivaramakrishnan G: I think it is about 50:50 between synthetic and cotton, probably a little higher on synthetic, maybe even 60:40 it is a little more synthetic weighted.

Gaurav Sud: Where is the fabric sourced from?

Sivaramakrishnan G: Largely China. Synthetic fabrics are mostly sourced from China.

Gaurav Sud: Cotton part?

Sivaramakrishnan G: The cotton from China, India, Pakistan, and all these regions.

Gaurav Sud: So would there be an opportunity for you to be sourcing came to India and you could use the scale economies in order to reduce the procurement cost?

Sivaramakrishnan G: We will explore all of that. Being a standalone region if they have a superior sourcing ability from China or some other regions if the pricing is better we will continue to explore all those options. For synthetic anyway we will continue to focus on China.

Gaurav Sud: Last question from mine on a year-on-year basis do you expect the revenues to grow there or they will be stagnant or degrow where is the current run rate headed?

Sivaramakrishnan G: They are currently on a calendar year book closing, so I do not expect much growth in calendar 2023 given the global market condition, but calendar 2024 onwards we anticipate good growth.

Gaurav Sud: Thank you Sir.

Moderator: Thank you. The next question is from the line of Priyadarshee Dasmohapatra from Fidelity International. Please go ahead.

Priyadarshee D: Thank you for taking my question and congratulations. My question was more around the risks behind this acquisition, so we are entering a different territory and some of the Indian players have had problems in Ethiopia in the past, so I would like to understand the political stability and business environment in these places that we are getting into and what gives us the confidence that there would never be disruption in these places?

Sivaramakrishnan G: Sure. The difference is that we are not setting up a new unit we are buying a well run continuing operations in that region. 87% of the revenue comes from Kenya and 13% comes from Ethiopia. There was civil war in Ethiopia which ran between October 2021 and November 2022 I think during that timeframe and during that period some of the operators in Ethiopia saw some disturbance to their business. These were people who were located in far-flung regions of Ethiopia closer to Tigray or in other parts of Ethiopia where there were troubles. The unit of this particular company is located in Addis Ababa, the capital where there were no problems and that was a well protected area. So it continued to run through all the civil war problems as well during that period. We went and due diligence that as well. There are other units running in the same industrial park where they are located and they are also running quite well in that particular region. So I do not see any problem in an ongoing continuing operation. There the Ethiopian operations are old and are very well run and have no disruption whatsoever. The other challenges of having access to ports, etc., continues to remain the same for all Ethiopian operators as Ethiopia is landlocked and they have to access Djibouti Port. The AGOA benefit has been suspended for Ethiopia since the civil war. There is a talk that AGOA could be restored sometime next year but we will have to wait and watch how and when it will happen. In the meanwhile, Ethiopia continues to have duty-free access to Europe. The cost of labour in Ethiopia is much lower and it continues to be very attractive. So there are pluses and minuses for Ethiopia, which is 13% of the overall volume and I think at the moment while all the minuses have played out pluses are yet to play out, so I feel that it is not a bad option given all the circumstances that have played out in Ethiopia.

Priyadarshee D: Thanks a lot and second question was more around how much of EPS accretion do you expect from this if you could revise the interest cost increase once again and also give us a sense of how much EPS accretion would come in a couple of years?

Sivaramakrishnan G: We did that analysis on calendar 2022 numbers of the company and put that in the presentation which is available on our website where we are showing based on 2022 numbers itself an EPS accretion of about Rs.4.6/share, but anyway I think going forward we anticipate that the performance of the company should be even stronger and the accretion to our EPS be stronger as well.

Priyadarshee D: Roughly Rs.5/share EPS accretion next year right so FY2025 for us?

A. Sathyamurthy: No it is based on FY2022 numbers, but FY2025 numbers is what Mr. Shiva has explained that it is based on the margin increase and volume increase we anticipate much better EPS accretive.

Sivaramakrishnan G: Whatever I said was based on CY2022 number, hopefully with the performance improvement it should be better.

Priyadarshee D: That is excellent. Thanks a lot. That is all from my side.

Moderator: Thank you. The next question is from the line of Mithun Aswath from Kivah Advisors LLP. Please go ahead.

Mithun Aswath: My question was on the AGOA benefits in Ethiopia, there has been talk that from 2024 this would be renewed, if that was to be renewed what could the addition to profitability be?

Sivaramakrishnan G: So obviously there is a positive impact. While it will not be substantial because Ethiopia's contribution to overall revenue is only 13%, so on that 13% we may see some incremental margin of 2% to 3% or even higher in my opinion, it depends on how the pricing is struck, etc., etc., and how much of it the company has taken versus the buyer on account of lots of Ethiopian duty-free access, so let us say take 5% as the advantage and then take 13% of 5% you can do the math that is the only improvement in EBITDA margin that can be possible so it will be about 0.6% to 0.7% improvement.

Mithun Aswath: Right and I just wanted to understand since those benefits in Ethiopia went away in 2022 has there been utilization which has dropped in CY2023, so I just wanted to understand for the company CY2022 the revenue has moved up from $86 million to $107 million on an overall entity and how is CY2023 looking, has there been some impact because of the Ethiopian issue and what about the Kenyan operation so just want to get a sense on how CY2023 is looking so far?

Sivaramakrishnan G: CY2023 so far in the first half we have been running more or less on track with the last year's revenue run rate given the adverse market conditions which is a global phenomenon. The Ethiopian operations have been scaled back slightly more than that of Kenya simply because Kenya enjoys duty-free advantage whereas Ethiopia does not so it has made logical sense for both the customer and operator to prefer Kenya over Ethiopia so relatively speaking Ethiopia got scaled back slightly more but as we speak since the volumes we anticipate the volumes to come back both the regions are being scaled up.

Mithun Aswath: Can you give us some sort of guidance in terms of revenues for CY2023, should we get to the similar $107 million or it will be a tad lower than that?

Sivaramakrishnan G: I cannot predict the number given all the market conditions that we are. It is safer to assume a tad lower than that. Our hope is that we will come at par.

Mithun Aswath: Right and just one last one if I can squeeze in just wanted to understand since Gokaldas is a much bigger company than this company are there any sourcing benefits in terms of raw materials that you could help this company with just wanted to get a sense on that as well?

Sivaramakrishnan G: Yes to an extent, to the extent that they play in synthetics and they have access to other regions to buy, there is no fabric ecosystem or no significant fabric ecosystem in Kenya unlike India, so in India we prefer more of Indian sourcing simply because the transportation costs and duty and all those benefits start kicking in and the lead time taken to our advantage sourcing from India. Being in Africa you again have the opportunity to source from the lowest cost sources in the world, so to the extent there are synergies in suppliers. Definitely there will be a buying strength that we can demonstrate and take advantage of, but to the extent that they are buying from China we may not have as much of an advantage, the current sourcing which they are doing may just continue.

Moderator: Thank you. Mithun sorry to interrupt you. I request you join the queue again for a followup question. The next question is from the line of Abhineet Anand from Emkay Global. Please go ahead.

Abhineet Anand: Just wanted to know CY2022 numbers we have put in press release and you have also stated from medium term perspective let us say over the past three years how has sales and margin behaved for the company?

Sivaramakrishnan G: Past three years?

Abhineet Anand: Yes.

Sivaramakrishnan G: In CY2022 the company did 107 million revenue, in 2021 it did 86 million and in 2020 the company did 70 million in topline revenue. So 70, 86, 107 that is how they have grown, remember 2020 calendar year was impacted by COVID, so if you go back to 2019 there were 78, so 78, 70, 86, 107 you get the numbers right, that is how they have grown. EBITDA margins have been in the range of about 9, 10% during this period.

Abhineet Anand: You talked about working capital of around US$35 million on the books of the company and US$15 million as the debt so there is a US$20 million working capital that is there on the books and we are paying US$55 million for the whole entity?

Sivaramakrishnan G: Correct.

Abhineet Anand: So indirectly adjusted for the working capital it is US$55 minus US$20 only US$$35 million?

A.Sathyamurthy: Correct and we also get the assets, the movable assets in the respective factories and we get a land in Kenya about 13 acres plot and a building that is valued all put together is about US$11 million .

Abhineet Anand: Just last one was what is the exact US benefit that Kenya gets?

Sivaramakrishnan G: They get duty-free access to US market.

Abhineet Anand: What is that number in terms of, lets us assume you make a margin of 10% and what is that benefit?

Sivaramakrishnan G: That margin is subject to negotiation between buyer and seller, what I have been assuming that, just take a worst-case assumption which is not necessarily true that all the benefits and the duty extends from say 16% to almost 28% in the case of synthetic so the synthetics have got a higher duty entering US so that is the reason why the company prefers product in the synthetic part of the value chain. Now assuming all the benefits of duty are taken by the buyer, you still will have the benefit of being a low cost supplier for the buyer because landed duty paid these units will be the lowest and will get preferential allocation in case of any business volatility. So any reduction in buying may have a much lower impact when it comes to souring from duty free region, now that is again is never zero and 100% in favor of buyer, some amount of benefit can be negotiated back from the buyer so that all depends on how the operator conducts the brand and what kind of competitive dynamics exists in that region.

Abhineet Anand: What I was trying to understand was that if the benefits go away where can this 10% margin go?

Sivaramakrishnan G: I do not anticipate the benefit going away as I said earlier Kenya has a special relationship with US that special relationship Kenya is geopolitically is very very important for United States and they have co-operations across wide range of subjects which is why we believe that even hypothetically for AGOA goes at the end of 2025 that is from 2026 onwards

Kenya will still get an FTA benefit when they are entering US. We do not anticipate AGOA going away. We have had multiple conversations with various stakeholders and we are reasonably confident that AGOA will be continued going forward post 2025 the renewal will happen only somewhere during 2025 because as it stands it is currently valid until December 2025. In case it goes away, standalone business itself is still cost effective and quite comparable to India and still the customer will have to bear the incremental duty in spite of all that event happen and they may lose access to an ultra low-cost region, US does not have access to low cost regions much. They are not very many, many regions world over which goes duty-free to US, CAFTA is one area which was Central America but the cost of labour is ridiculously high so about $700, $800 a month compared to say $200 or thereabouts in Kenya, so the competitiveness which is so heavily weighted in favor of this region may come down, but I do not think the region will go away, the margins are a function of how you negotiate, I feel we can still defend the margin that should not be a problem, but coming back to AGOA itself I for now do not see any logic for AGOA to be pulled out after 2025.

Abhineet Anand: Thanks a lot.

Moderator: Thank you. The next question is from the line of Achal Phade from ICICI Prudential Life Insurance Co. Ltd. Please go ahead.

Achal Phade: Thank you for the opportunity Sir. Sir my question was while you acquired this asset can you throw some light on who are all the competitors, bidders or was there any bidding at all happening in the first place or how did we scout this asset, some color on that?

Sivaramakrishnan G: There was no process or it was not done through a bidding process. We knew the promoters well and it was mainly a succession planning and the promoters felt confident that with Gokaldas the legacy can be preserved and we respect the promoter very, very much. I have a personal regard and very high respect for the individual which is why we intent to make sure that the legacy of the promoter over the last 35 years will be continued and we will protect that, so we will make sure that the business is well run and we will expand upon whatever he has built. So it is not through a competitive bidding process long story short.

Achal Phade: Sure. Thanks. My other questions have been answered. Thank you.

Moderator: Thank you. The next question is from the line of Prolin Nandu from Goldfish Capital Advisors Pvt. Ltd. Please go ahead.

Prolin Nandu: Shiva thanks a lot for giving me this opportunity. Just to conclude right and sometimes you talked about one of the reason for acquisition was duty benefit, but that is essentially what is passed on to the customer right, it depends on negotiation the customer also knows that the company is operating from a duty-free zone so accordingly pricing will be negotiated so are we then essentially buying growth at a very low valuation because like say for example if you talk about 2023 also it has been a very volatile year?

Sivaramakrishnan G: That is only one part buying growth at low valuation right. The fundamental part is if your manufacturing exists in low-cost region you are less susceptible to volatility in business volumes. Some of the regions will face the axe first and the low-cost regions will be the last one to stand. We will not have any problems in terms of access to business, so it is really positive from a volatility perspective. Business volatility will be minimal there.

Prolin Nandu: Sure, but so in that context 2023 has been a very volatile year and you mentioned that 2023 will be largely flat for this company in sometime and for company like us who is operating out of India who does not have any duty benefit who have a higher margin we are probably aiming at a growth, so that also in terms of this tough market condition they should have grown and we should have so much decline right I am just trying to figure out how should one gauge less volatility during tough market condition given the fact that FY2023 despite the capacity expansion that they are doing?

Sivaramakrishnan G: A lot depends on the individual company as well, right. We are a much bigger company and we are force to reckon with in India as having said all of that we also face the brunt despite a huge growth last year we also could not grow much given the demand volatility this year. We did face severe headwind. Then being a smaller company in a region which is not as big as India at the moment the fact that they have weathered this storm very well, they have a fairly robust order book which carries forward well into early 2024 indicates that they are enjoying the benefit of being in a duty free region and low cost region so as of now when I look at their order book they seem to have a fairly good order book all the way through to April 2024 now that is something which says a lot about how customers view such assets and customers view the benefits of being in a duty free region, so going forward is when we combine with them we should be hopefully able to bring a little more thrust to growth with the right investments in that region.

Prolin Nandu: Let us have an example, from here on if I were to ask you that out of Rs.100 of capex in that we were to allocate between three regions, right which we have talked about India, Kenya and then Bangladesh right and sometimes how will that allocation look like hypothetically going forward in the next five to ten years given the fact that again we are competing with in the same geography earning higher margins than them despite not having duty benefit and you have talked about the potential that India itself has right, there are lot many within the country we can control lots of things right versus sitting out of UAE and controlling a unit in Kenya so in terms of capital allocation going forward how will things look like between these three geographies going forward?

Sivaramakrishnan G: So I will not bring Bangladesh into the this as of yet because we still have to decide on Bangladesh at the moment. There are a few variables there which is how does the minimum wage play out and all of those will get factored into the equation and we will wait to see now what is the percentage of minimum wage hike, etc., that happens in Bangladesh, so I will pause that for a moment. Between India and Kenya I would say both of these regions are attractive. It will all depend on what kind of traction we get from customer. For synthetic I will continue to play Kenya because the duties for synthetic are well in excess of 20% and goes as high as 25%, 26% so synthetic production focusing on Kenya makes more sense as there is a massive arbitrage available. In India our growth will continue in lower cost region, so when I look at Madhya Pradesh, etc., the cost structures are low, and we will have the benefit of managing it here so it will be more balanced. I would not say I will go India weighted, I would not say I will go Kenya weighted, probably the weightage will be in the ratio of revenue between these two regions so going forward they will be about 40% of the combined company and I think about 35%, 40% that is the ratio in which the capex will grow. I do not want to under invest in one region or the other. I still see a lot of potential in that region particularly from a synthetic standpoint.

Moderator: Thank you. Prolin I will request you to come back in the question queue for a followup question. The next question is from the line of Vishal Gajwani from Aditya Birla Mutual fund. Please go ahead.

Vishal Gajwani: My question is on the electricity cost in Kenya, which seems to 2X of the cost in India or China, so trying to understand what is electricity as a percentage of total cost?

Sivaramakrishnan G: Our electricity cost is about 1.5% so it is really insignificant.

Vishal Gajwani: Got it, that is all. Thank you.

Moderator: Thank you. The next question is from the line of Naveen Vijay from NS Capital Ltd. Please go ahead.

Naveen Vijay: Thank you for the opportunity and congrats on a great deal. Just wanted to check on the clients without giving the names what are the client profiles like, are they big box retailers like how we do or they predominantly working through importers?

Sivaramakrishnan G: The primary relationship almost 75, 80% of the revenue are directly through big box retailers, about 15% to 20% will be through some importers and others, and usually our intention is to expand it all to big box retailers.

Naveen Vijay: In terms of the product capability are they predominantly an undergarments player or denims player or if you could give some color on that, that will be helpful?

Sivaramakrishnan G: 50% is children, and the balance are men and women top, a little more weighted to bottom, so almost like 70%, 80% of the men and women will be bottom oriented trousers, chinos, shorts, etc.

Naveen Vijay: Thank you Sir. Thanks once again.

Moderator: Thank you. The next question is from the line of Siddharth Purohit from InvesQ Investment Advisors Pvt. Ltd. Please go ahead.

Siddharth Purohit: Yes Sir. Most of the questions have been answered. Just one clarification Sir. Based on the EBITDA margins and the PAT margins of the acquired company you have given and if I assume normal depreciation, you are paying a low single digit effective tax rate, it is correct guessing?

Sivaramakrishnan G: You are talking of tax rate for that asset?

Siddharth Purohit: Yes Sir.

Sivaramakrishnan G: It is in no tax zone. It is based out of UAE, so at the moment, they enjoy tax-free earning.

A Sathyamurthy: Tax free earnings on offshore earnings because this entity is in the free zone area and the business is generated outside UAE, so any profit earned out of that business as per the current tax laws, is not taxable.

Siddharth Purohit: Sir one more clarification in the PPT you have mentioned that US$15 million that is to be paid from internal accruals as part of the equity, so there will be no equity dilution from our end as such?

Sivaramakrishnan G: Yes that is correct.

Siddharth Purohit: Thank you Sir.

Moderator: Thank you. The next question is from the line of Jignesh Kamani from GMO & Co. LLC. Please go ahead.

Jignesh Kamani: Just wanted to understand it is close to around 20% kind of ROCE business like US$35 million working capital, assuming 1:4 asset-turns and so, US$100 million should have a plant and machinery of US$20 odd million so capital wise close to $50-$55 million on EBITDA of US$11 million?

A Sathyamurthy: You are talking about 4X for the revenue working?

Jignesh Kamani: Yes.

A Sathyamurthy: No, currently the working capital is little high, this is about US$35 million at this point that is because they are the importing the goods. They are at 110 days working capital cycle as we explained, whereas we operate almost at 60 to 65 days. So, the same yardstick cannot be applied in terms of the revenue projections. So, you will have to reduce at least 1X because of higher working capital. In terms of the assets, it is about US$11 million, so US$11 plus US$35 is the total capital employed and you can apply the relevant multiple. The working capital is higher because of the business structure as every material has to be imported and so they hold higher inventory as well as on the receivables management they do not have the arrangement of early payment options like in our case and so there are some inefficiencies and hence the 4X application is not right.

Jignesh Kamani: Understood. So, US$45 million capital employed is earning US$11 million of EBITDA?

A Sathyamurthy: Yes.

Jignesh Kamani: Understood. Thanks a lot.

Moderator: Thank you. The next question is from the line of Harsh Mittal from ICICI Securities Ltd. Please go ahead.

Harsh Mittal: Thank you for taking my question. Most of my questions have been answered. Just one query is it possible to share the half yearly numbers of CY2023?

Sivaramakrishnan G: It is unaudited, so at this point I am not sure it makes sense.

Harsh Mittal: Sure. Thank you Sir.

Sivaramakrishnan G: They have been at least for the first half; they have been tracking to last year's numbers.

Harsh Mittal: Thank you.

Moderator: Thank you. The next question is from the line of Aman from Goldman Sachs Asset Management. Please go ahead.

Aman: Just wanted to understand if presentation say that there are some tax benefits for Europe as well as for the both operations, but we have very minimum business from Europe, so what is the reason for that and could that be an opportunity going forward?

Sivaramakrishnan G: Yes, it is an opportunity going forward. Historically since both Kenya and Ethiopia had duty-free access to US, the company had focused almost entirely on the US market and remember a larger part of their capacity is in Kenya which continues to enjoy the US duty-free access. So even for Ethiopia they were focusing on US market. Going forward there is an opportunity to also target European market and Ethiopia does have that benefit. There is a discussion going on in that direction, so definitely it is an area of focus.

Aman: You also said we are well run operations so for the next let us say after the acquisition next 18 to 24 months what is the focus when you drive margin growth, drive working capital efficiency in the first 2-3 focus areas?

Sivaramakrishnan G: The focus will be actually to drive up the production efficiency even more and that will require some investment in automation, etc., in the factory. So, some amount of capex will go in that and I really prefer that kind of capexes because the pay offs coming from that is very, very high as productivity improvements immediately falls to the bottomline, these investments can start yielding benefits right as opposed to setting up a Greenfield unit. So we intend to deliver at least a percent and a half or two over the next two to three years through incremental revenues as well as unlocking some extra efficiencies in the existing operations through investment in automation so that is how we look at it. As far as the growth is concerned, we are hoping that we should drive about 20% odd growth in calendar 2024 which will be our FY2025 let us see how that pans out. We will have a better handle over all these things once we get control over the operations.

Aman: Got it. Thanks a lot.

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

Sivaramakrishnan G: Thank you so much for all the questions that you had and please feel free to reach out to us in case you have any further questions on our acquisition. We continue to remain focused on delivering exceptional performance and we are execution oriented when it comes to running businesses. We are very conservative in how we approach business and how we take over assets and run them. We have done our fair amount of diligence on this company. We have drawn enough comfort through due diligences by our business partners. So we got BDO to do due diligence on accounting taxation side. We had Khaitan and Company which did legal due diligence and we had JM supporting us through the transaction, so with all of this external scrutiny we have gone ahead and concluded this transaction. This is subject to regulatory approvals and the regulatory approvals we are anticipating will happen by end of October, so really the assets will come through our control only from November onwards that the earliest we anticipate, if there are any delays then it may go further. We will continue to engage with the company and work on a smooth transition. The management team is well aligned and it has got a very good team there. So we hope that we can build up on it and hopefully together Gokaldas and Atraco can have a great future. Thank you so much for your understanding. Thank you so much for all the questions and we remain available for any clarifications that you may need going forward. Thank you so much.

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