gokaldas exports ltd

GEL/SEC/2023-24/40

August 16, 2023

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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 Q1 FY'24 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 Q1 FY'24 earnings conference call held on August 08, 2023. The Transcript is also available on the Company's website at https://www.gokaldasexports.com/investors/.

This is for your information and records.

Thanking you,

Yours truly,
For Gokaldas Exports Limited

GOURISH GANAPATI HEGDE
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Gourish Hegde
Company Secretary & Compliance Officer

Encl: as above

"Gokaldas Exports Limited

Q1 FY '24 Earnings Conference Call"

August 08, 2023

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

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

Moderator: Ladies and gentlemen, greetings, and welcome to the Gokaldas Exports Limited Q1 FY '24 Earnings Conference Call. At this time all participant are in a listen-only mode. A brief question-and-answer session will follow formal presentation. If anyone should require operator assistance during the conference, please press star and zero on your telephone keypad. As a reminder this conference is being recorded.

It is now my pleasure to introduce your host, Binay Sarda from Ernst & Young. Please go ahead, sir.

Binay Sarda: Thank you, Ryan. Good evening to all the participants on this call. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It must be viewed in conjunction with our business risks that could cause future result performance or achievement to differ significantly from what is expressed or implied by such forward-looking statements. Please note that we have mailed the results and the presentation and the same are available on the company's website. In case if you have not received the same, you can write to us, and we'll be happy to send the same over to you.

To take us through the results and answer your questions today, we have the top management of Gokaldas Exports Limited, represented by Mr. Sivaramakrishnan Ganapathi, Vice Chairman and Managing Director; and Mr. Sathyamurthy, Chief Financial Officer. We'll start the call with a brief overview of the quarter 1 passed and then conduct Q&A session.

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

Sivaramakrishnan G.: Thank you, Binay. Good afternoon, everyone. Happy to have you at our earnings call for the first quarter of FY '24. Global retail offtake has been slow, resulting in overall imports of major consuming markets like the U.S., U.K. and EU, declining significantly in this period, primarily owing to inventory overhang with the customers. Apparel import data shows a Y-o-Y decline for April and May 2023 of 26% for U.S. and 20% for U.K. and Europe put together. Weak retail demand in autumn winter '22 due to inflationary trends, high interest rates and a mild winter contributed to excess inventory impacting offtake for this year.

Major brands are consciously liquidating excess inventory holdings and controlling their purchases. We continue to anticipate the demand to be sluggish for H1 FY’24 with momentum picking up subsequently. Our performance endorses the belief in our ability to sustain continued operating performance gains in a sluggish macroeconomic environment. A quick analysis of our revenue indicates that we continue to gain market share by building on our execution strength.

On the cost front, an increase in minimum wage and dearness allowance of factory work employees resulted in an impact of about 2% to the operating margin. With an extraordinary focus on operations excellence, we offset the additional cost through productivity improvements, generating an operating margin of 13% in Q1 FY '24 versus 12.1% in Q1 FY '23. We continue our trajectory of strong cash generation.

Our net cash stands at INR433 crores. We continue to invest in the business, incurring a capital expenditure of INR43 crores during the quarter, securing a healthy base for the growth of the company. Tight management of the business helped the company unlock working capital, though a part of the reduction is also due to reduced business volumes.

Our ROCE continues to remain high at 23.5%. The long-term prospect for the industry remain strong with the continuing shift of global sourcing away from China, supplier consolidation towards efficient and well-capitalized players and supply side instabilities in several countries. Favourable currency, PLI, FTAs with key markets should drive the company to a strong future. The India-U.K. FTA negotiations have made good progress.

India is also negotiating FTA with Canada and EU. All of these moves has the potential to open up large markets for preferential trade. Our new manufacturing unit in Madhya Pradesh started commercial production, and we expect the production to ramp up in the next 9 months. The project work at our fabric processing unit in Tamil Nadu is in advanced stages. We are also progressing well on onboarding new customers. We continue to closely monitor macroeconomic risks and take measures focusing on customer relations and service excellence.

While the global economy is anaemic, the good news is that it can only get better. We are optimistic about revival of the business in H2 and are bullish on the long-term prospects of the company. We are committed to gaining market share and preparing ourselves for business growth when market conditions turn more favourable. Our capacity addition is in line with this. As an organization, we are future-ready.

I thank you for listening, and we'll be happy to address questions that you may have.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from the line of Gunjan Kabra with Niveshaay.

Gunjan Kabra: Okay. So I wanted to understand that it's very good to see that the team and you and the team has been able to post steady numbers quarter-on-quarter, considering a very, very slow business environment in domestic and export market. So what strategy are we following? Are the two new customers that we added in the last quarter from the U.S. and the U.K. has started to contribute or have we increased our wallet share in the existing customer in the current quarter? Or are we looking forward to onboard any new customers as well which you initially were aiming for? So how is it?

Sivaramakrishnan G.: So the customers that we've onboarded, they will start ramping up shortly, and these relations take a while to mature. So the initial interaction from them seems to be good and we hope that we will grow fast with them. So, so far, so good as far as the new customers are concerned, the relationship is going very well. The relationship with the existing customers are also good. For the moment, if I look at Q-on-Q, linear Q-on-Q, we haven't grown much. It's been fairly flattish.

So we have maintained most of the customer relationships, maintained the revenue from the respective customers. We intend to grow, particularly in the second half of the financial year with some of these customers. And we are reasonably confident that, that will happen based on all the discussions that we are having with the customers. So all of that is happening. We are also in advanced discussions with several more customers. So some of those will take time to mature, but I believe that all that will happen in this financial year.

Gunjan Kabra: Okay. Sir, secondly, like right now, we are in August, which is almost end of H1, so about to get over now. So how are we seeing the demand scenario like -- is it on track with what you were anticipating since last few quarters that H2 FY '24 will be much better than H1 FY '24. So what are your customers guiding now in terms of demand orders and inventory and how you and the team is planning to take on this demand revival be more aggressive or slowly ramp up the new capacity or how are you taking this scenario as a strategy going forward?

Sivaramakrishnan G.: Sure. So, we are in a fashion business, and customers placed orders closer to date. So at the moment, we are looking at third quarter bookings and we are very encouraged by the discussions that we are having with the customers and the orders that we are booking with the customers. So clearly, we are seeing a very good traction in the third quarter so far, and we hope to keep up that momentum. Customers are coming and placing orders closer to date unlike the past.

So they're waiting till the last moment and placing orders, thereby, they are minimizing their risk of calling out on certain styles and orders well in advance. But we are seeing a fairly good traction for the third quarter. And I think that momentum will be maintained or we can further build upon it for the fourth quarter. So when I look at the third quarter and compare it with the third quarter of previous year, we will see a reasonably good growth. As of now, that's the trajectory that we are on.

Gunjan Kabra: Okay. Sir, gross margins have improved to 50% this quarter. So do you think this is -- we'll be able to stress it for the next few quarters as well or you anticipate it to normalize with 46%, 47% or something?

Sivaramakrishnan G.: So, one of the reasons is that the raw material costs have slightly decreased. So that has helped us from a gross margin perspective. We've also had a minor shift in the product mix, particularly in the Q1. So that also helps. So from a very high outerwear, we have slightly increased the share of fashion wear and casual wear.

So that minor change has also partially contributed to the lower raw material costs and hence offered a little higher gross margin. So by and large, for the year, I am anticipating that the trajectory will remain more or less more or less a little better than last year. I would think that it will be 0.5% or 1% better than last year as far as the gross margins are concerned.

Gunjan Kabra: Okay. Sir just last question. If you can tell what volumes have we done in the current quarter of the total 36 million production capacity that we have. Of that, how much we have done in this quarter and the previous quarter Q-o-Q basis?

Sivaramakrishnan G.: One moment.

A. Sathyamurthy: One moment. In the current quarter, we have sold 5.62 million pieces. In the previous quarter, we have done 7 million pieces. As we have explained earlier, the pieces is not a right comparison because it again depends upon the product category we deal with. So in the quarter 4, it used to be mostly casual wear. And so the numbers, it was 7 million vis-a-vis in terms of this quarter at 5.62 million., More or less, the capacity utilization has been in the same line, but because of the product mix, the pieces are less in the current quarter.

Sivaramakrishnan G.: So, in the first quarter, we do a lot more outerwear and hence, the number of pieces will be low, but the complexity of the pieces are high. The standard minutes taken for garment is much higher. So from an efforts perspective, it will be more or less the same. That's why the revenue is also similar Q-on-Q.

Gunjan Kabra: Sir. And Q1 FY '23, what was the number?

A. Sathyamurthy: In Q1 -- it was 6.66 million pieces.

Moderator: Our next question comes from the line of Atul Mehra with Motilal Oswal Asset Management.

Atul Mehra: So, just a couple of questions. Firstly, I think like you mentioned in your commentary and the presentation, the bottoming out process will really begin from Q3. So Q2 also we would expect a little bit of a decline in business versus Q2 last year sir?

Sivaramakrishnan G.: That is correct.

Atul Mehra: Right. Sure, sir. And secondly, in terms of doing the cash balance that we're sitting on a more medium to long-term outlook for the company, any further finalization of capex either Bangladesh or any other business projects that we have in our mind. So maybe if you could elaborate more, sir, on the medium to long-term capex outlook on the company?

Sivaramakrishnan G.: Sure. So we're working on some of the capexes. So we are at the moment, we will be building out our second factory in Madhya Pradesh. The work is continuing in the fabric mills in Tamil Nadu, which we are setting up for our knit division. So that's continuing. The Bangladesh unit, we deliberately put on a slower track or on hold to wait for the demand revival. And once that happens, we will start. So more likely, we will revisit that in the second half of this financial year when the business prospects are much better.

In the meanwhile, we are open to all other strategic options from foreign investment, so whether it is capex or some new product types or whatever else that we deem fit. So we are exploring several opportunities. It's too premature at this stage to -- because we haven't finalized anything. But we definitely intend to deploy some of these capital for growth purposes.

And if we start seeing market traction starting second half of this year, and if we anticipate that the next financial year is going to be strong, then we will have to time it also accordingly. So definitely, we will work on some of those areas. We have some plans, but none of them are at a stage where we are ready to implement.

Atul Mehra: Right. And sir, one final question in terms of because we have significant capacity expansions coming on stream for the next 12 to 24 months. In terms of conversations with potential new clients, how do they typically work because maybe some of them want your capacity to come on stream to commit large orders for you. So can you maybe spend a little bit of time explaining how this is really working?

Sivaramakrishnan G.: So, usually, for the new capacity, some of the existing customers who will take it up. The newer customers would want an older mature factory that they feel a little more comfortable with. When they start a new relationship, they don't want a new relationship and a new factory. So that becomes too much of a complexity for a new customer. Having said that, whenever we plan a capacity, we have reasonably good indications from our existing customers that they will tend to utilize it and then only bring the capacities on stream. So that's how we plan.

Some of the relationships that we are, we have onboarded now over some of the customers that we are talking to, they are all very large customers with a good potential for future growth. And that's a large part of that will happen when the market traction also improves for the end user demand goes up and they come in rows to buy. But these guys have a fairly good, solid potential to buy a lot more. So that gives me the confidence that whatever moves that we have made will augur well for us strongly in the future. And the capacities that we are planning will get utilized as well.

Moderator: Our next question comes from the line of Kapil Jagasia with Nuvama Wealth Research.

Kapil Jagasia: Sir, what was the quantum of wage hike in Karnataka?

Sivaramakrishnan G.: There were two components to it. One was minimum wage went up, that went up somewhere towards the end of January. And then the dearness allowance went up from April -- by April 2023. So if I put both together and compare it to, say, the December wages, it has gone up by about 9%.

Kapil Jagasia: Okay. And is this rate hike over or will it flow through to next quarter too?

Sivaramakrishnan G.: No, no, now it's over. so the minimum wage usually is for 3 years or sometimes even longer. And the dearness allowance happens every year, which is CPI-linked -- inflation linked. So the next dearness allowance increase will happen next April, which will not be very big, will be 3%, 4%. And minimum wage, which goes up in a chunk, that we hope that we will not see for another 3 years.

Kapil Jagasia: Okay. So reported employee expenses for coming quarters would be in INR140 crores, INR150 crores range because in this quarter, it is INR160 crores also this new plant has come up. So how do we pencil in?

A. Sathyamurthy: The employee cost currently, what we have indicated, is going to be in this range because as we ramp up the capacity, we have also increased the headcount. So that –we are ready to handle with the volume increase in the quarters ahead.

Sivaramakrishnan G.: So, the employee cost has gone up for a few reasons: One, if you look at Q-over-Q, that is Q1 over Q4, we have -- in the fourth quarter, we had excess provision, which we took off. This was due to some gratuity related provisions. We had made -- we had overprovided for in the quarters ahead, that's why we had to pay a lot less in the fourth quarter. So that impact was about 2% of the revenue again. So if you look at between Q4 and Q1, my employee cost as a percentage of revenue has gone up from 26% to 30.7%. So that's about around 5% increase.

So 1.3% is due to the baseline effect in in Q4 due to the gratuity-related provisioning. 1.5% - 2% is due to increase in wages that minimum wage that went up. And about 15% is because of headcount increases. So what we had done till date was we allowed natural attrition to play. And as the revenues were not so forthcoming, we allowed the attrition to play and let the headcount slide down.

Now that we are seeing some traction ahead, we have started recruiting labor. So we have taken up the labor count , we have started taking up the manpower in the factories, which is also resulting in a higher employee costs. This will continue in the second quarter and ahead as well.

Kapil Jagasia: Sure, sir. This helps. My next question is on the margin front. Now for this quarter, the reported EBITDA margins are around 12%. And as H2 would be better, how much improvement can be seen in this fiscal year? Would 13% margins be a fair assumption?

Sivaramakrishnan G.: So the margin is a function of several things. Margin is a function of what kind of pricing we get. Margin is a function of what is the raw material costs that we incur and also a function of what are the wage, right? So wage cost has had a deleterious impact on our margins, but we are offsetting it with better productivity.

I don't believe the material costs will go up significantly. So it will remain more or less in line with where we are at the moment. Pricing also, we don't anticipate much of a change. So our Q1 margins, whatever we say, I think, can be a reasonable representation for the year's margin at the moment.

Kapil Jagasia: Okay. But usually H2 being more of outerwear sales the margins would be slightly higher or am I mistaken --

Sivaramakrishnan G.: So historically, we have seen, it's not because of outerwear. H2 because it's more cotton based and the spring summer wear, and we use a lot of Indian fabric, we do tend to get some advantage. So there's a possibility that in H2, we usually have some upside in margins that we get. I'm just being cautious because we don't know how the market conditions are, what is the demand supply situation globally, etcetera, though we are getting good traction.

I'm not going to go out on a limb and claim that the global market conditions are in a great situation. Gokaldas is getting a fairly good traction from its customers. I don't know how much of pricing power we will regain in the second half of the year. Usually, we do. Usually, we will have a little better cost benefit. So your point is correct. We can try to get a better -- slightly better margin in the second half, but we will have to actually see how it plays out going forward.

Kapil Jagasia: Sure, sir. And my final question --

Sivaramakrishnan G.: We will make every attempt to grow our margins. So we are extremely margin focused, and we spare no effort to take up our margins if we can.

Kapil Jagasia: Great sir. And my final question is on the average realization. Considering 5.6 million volume for this quarter, the realization comes to around 915 or so. So for the entire year in FY '23, we did around 744. So like how the realizations would pan out for the rest of the year? I'm a bit confused on this aspect.

Sivaramakrishnan G.: Good question. Realization per piece falls in the second half of the year. That's because we do a lot more casual wear, fashion wear, other products. H1, we do a lot of outerwear. And the realization per garment will always be higher because it's a far more complex and larger garment. So by the time we finish the year, we will average out to what you saw in the last year.

More of an outerwear jacket, the cold winter jacket that you wear, whereas in H2, we will do a lot of spring wear with a light ladies' top and those kind of things. The pricing is very, very different, right, pricing per garment. So it gets averaged out and reduces by the time the year goes through.

Kapil Jagasia: So Q1 is more of outerwear. Q2 would be a combination of outerwear and casual wear also?

Sivaramakrishnan G.: No. See Q1 we do autumn wear, Q2 we do winter wear. Q1 and Q2 is more of this outerwear. And in the third and fourth quarter, we do spring and summer wear.

Moderator: Our next question comes from the line of Rakesh Wadhwani with Monarch AIF.

Rakesh Wadhwani: I just wanted to understand the facets of buying, for example, customer comes to us with the order. So how the cycle works? So we directly buy the fabric immediately or we buy the fabric when we actually need to dispatch the product? For example, if the customer gets an orders over a period say 6 months. So we deliver the product every month or we deliver the product at one time for all the quantity?

Sivaramakrishnan G.: Okay. So whenever a customer comes to us with an order, they come and ask us for a quotation. And they give all the technical specs of the garment that we have to manufacture. Once they give that, we do the costing for it. We estimate the amount of fabric that is required amount of various trims, button places, etcetera, that are required. We get the quotations from our suppliers against all of these and then bake that into the pricing, and then we quote to our customers.

Once we receive the order from the customer, we go back to back and secure the same pricing which we got from our fabric supplier and the trims supplier. So we lock that in, so that we don't have any variability in raw materials from the time we costed it to the time we took the order. And then the timeframe is also very short. We contractually we bind our suppliers also to it.

So that way, we protect ourselves from cost variances between the order negotiation stages and the order getting placed to us. As far as the order delivery is concerned, it depends. Smaller deliveries are one lot, but if there is a much bigger order, then they will have multiple delivery drops which we will do on a month on basis based on the date that they give us.

Rakesh Wadhwani: So just discussing further on the same point. For example, if a customer comes to us and gives us the order like after 3 months, like the order has to be executed after 3 months but he has given us the purchase on the confirmation. So we go and buy all the fabric on all the components that are required today only. Is that understanding correct?

Sivaramakrishnan G.: No. So we place the order for the fabric today and the fabric people also take their time. So we give them the time indication, etcetera, when we want the fabric in. But we tend to lock the pricing as of today because the cost of the fabric, etcetera, also depends on what is the cost of cotton and the underlying commodities, etcetera, right? So we tend to lock-in the raw materials when we get the orders, and we tend to take delivery of raw material closer to when we actually want it in our factories.

Rakesh Wadhwani: Okay. So we actually buy the raw material when the actual production is supposed to happen. But before that, we book the prices so that we do not face raw material -- the movement in the prices of raw materials?

Sivaramakrishnan G.: Correct. Correct. We don't expose ourselves to volatility as a business rule.

Rakesh Wadhwani: So is that the reason in last few years, the number of inventory days is coming down?

Sivaramakrishnan G.: So we try to work very, very hard to minimize the inventory. We have gotten significantly better at managing it, buying closer and closer to date, managing a very tight operation. So this is one reason. The inventory may go up as the business volumes return. So at the moment compared to, say, last year, our business volumes are slightly low.

So the inventory is also a function of business volume. So from the third quarter, I'm anticipating that our inventory will start growing in line with the revenue. But whatever efficiencies we have brought in into our operations, that will remain. But the number of inventory days may slightly go up. We are at a really unrealistic level at the moment.

Rakesh Wadhwani: So what is the guidance on the inventory days for FY '24 or '25?

A. Sathyamurthy: It is around 60 days, –inventory alone is around 60 days.

Rakesh Wadhwani: Okay. And second question, regarding the Bangladesh currently, we have put on hold the plant because of the lukewarm demand. But if we -- the moment the demand picks up, do we have any strategy what we -- are we going to buy the plant there or setting up -- set up the things or we buy some plant which is already running and we just catch up the plant or we'll just take over the plant. What is the strategy on the Bangladesh side?

Sivaramakrishnan G.: So at the moment, we have identified a plant, which is under receivership. So we've identified that. We have not taken over the plant, but we have identified it. We know as and when the timing is right, we will go ahead and execute but for now, we have put it on hold.

Rakesh Wadhwani: So that plant is already running, it will be just a change of the management?

Sivaramakrishnan G.: No, no, it has gone into receivership, so banks own it. At the moment, it's not running.

Moderator: Our next question comes from the line of Jatin Chawla with RTL Investments.

Jatin Chawla: I have two questions. First question is, sir, I mean, we would assume that Gokaldas would be really doing much better than smaller mom-and-pop kind of shops in textile exports. Now when I look at your growth right now for the last 3 quarters versus the growth of apparel exports from India, the outperformance of Gokaldas is only 3% to 4%.

So despite being organized, despite being well capitalized and offering such a wide variety of apparel, do you think that is the right and that is the kind of outperformance vis-a-vis export market we should expect going forward? Or the last 3 quarters have been slightly on the lower side and probably we should see Gokaldas Exports growth significantly outperforming that of India?

Sivaramakrishnan G.: See, we are also very margin conscious. If I want growth in top line, I can deliver growth. At a price, there's always business available. We are very, very conscious and clear in our strategy that we will not pick up business at rock bottom prices. Even today, in the first quarter, in the fourth quarter, in the third quarter, even in the second quarter, we have walked away from business, which we believe are very, very sharply priced. In a market where demand is far lower than supply or capacity, there is always bargain hunting that happens. It's a buyers' market.

We don't want to compromise our margins or signal to the market that we are willing to take up business at low price, which is also one of the reasons why we are not only prioritizing growth. So when it comes to our growth, we are still performing well above the import that is happening in the primary market. For example, the drop in imports is to the tune of 26% in the U.S. market, which is our primary market.

If you look at India's exports, that also is lower than our exports. So we have outperformed the industry at an overall basis, but we are also conscious not to drop our margins and just drive top line growth. If I wanted it, I could have outperformed even more. But then that's not the point that we want to achieve. I don't want to dilute my EBITDA margin. More or less, I don't want to signal to my customers that I'm willing to operate at very low pricing as well.

Jatin Chawla: So sir, when do you -- I mean, is this scenario likely to change your probably there are so many players in the industry that they would be always happy doing business at lower margin. And thereby --

Sivaramakrishnan G.: When the demand picks up, it will change. So it's only a current situation that we see at the moment. When we -- this is a peculiar situation where particularly in the U.S. market, where they have excess inventory. And because of the excess inventory, they are buying less. Secondly, many of the brands have took a decision that they'll buy closer to date. They want to wait and watch, play their strategies closer to their chest, etcetera. So that also resulted in them buying a lot less and postponing their buying, thereby resulting in a missed season from a buying perspective.

Having said all of this, as the inventory is being paired down and the retail end user demand has not really gone down that much. If you look at the U.S. retail sales or European retail sales, Y-o-Y it is slightly positive. So the inventory position will turn pretty quickly, they will come to buy and the demand supply balance will get restored. So that's what we are hoping in the quarters ahead, which will then restore the demand-supply balance and the pricing balance.

Jatin Chawla: Okay. Got it. Sir, second question is we don't know when -- whether there will be a recession or when it will be. So at the point of time, recession was supposed to be in 2022, then in '23, now people are talking over in '24. But finally, is there a -- see, if I look at the entire market of around US$ 100 billion of exports to -- or imports by U.S. and look at our size, it's very small, India size also is very small.

So let's assume that if the U.S. economy does not improve and U.S. market remains in a weak spot for a while. In that scenario, do you think that at some point of time, there could be meaningful market share gains, which can drive the growth or probably the meaningful growth is only possible only once the market stabilizes. So what would be your take on that?

Sivaramakrishnan G.: See, whenever demand falls by 26% -- 25%-30%, it is not possible that there will be certain vendors who will grow. Everybody will take some haircut. The better vendors will take lower haircut, the weaker vendors will take 50%, 60% cut in their business as well. Some will be removed from the supply chain also.

So when the growth comes back, that is when there will be a disproportionate growth, which will happen to the better players or players who have seen only a smaller drop in share. So people like us who have seen a lower drop in our buy compared to the rest of the industry, we will stand a better chance as the market gets restored. That's how it works.

Jatin Chawla: So I mean -- but for the jump in revenue growth, I mean, you would need market to really come back in a reasonably good way.

Jatin Chawla: That is correct. As you know, who wants to cut a few suppliers and then overindulge in a few suppliers. It doesn't work like that. So the market situation has to turn, which I believe will turn soon, and that will result in the disproportionate impact coming to play.

Jatin Chawla: Sorry, if I just -- if I'm allowed to ask one more question. So what you are saying is that you are kind of being very clear on pricing, and that is the reason why you're compromising on growth or compromising on business. And as and when things turn better, so I would presume that pricing for the industry will improve. But since you are already, I mean, not getting into price war or probably reducing prices, maybe your pricing will remain relatively stable even then.

So when industry margins will improve, of course, when industry margins are lower, your margins -- you have been able to preserve margins. But when industry margins improve, your margins should remain in the similar range. We should not see any benefit on account of overall industry pricing improving, would that be correct?

Sivaramakrishnan G.: So margins are also a function of how you drive your productivity, how you -- and there are several factors, right, how you buy your raw materials, etcetera. So if you -- if some of those advantages you can lock in, you may be able to. Similarly growth, when you have growth, operating leverage kicks in, right? My overall margin and my factory EBITDA margins are different. So if I have higher revenue, the incremental revenue may be coming in at an incrementally higher EBITDA margin. So when we start growing, we will also get those benefits come in.

Jatin Chawla: Congratulations again for a great performance.

Moderator: Our next question comes from the line of Amruta with Wealth Managers India Private Limited.

Amruta: I have two questions. First is regarding the capacity addition that we are doing. So how significant is it in terms of number of pieces?

A. Sathyamurthy: The new capacity is added in Bhopal. The factory commenced its commercial production during the month of June, and it is in the process of stabilizing the production. The revenue, which has come from this factory during the quarter is very, very less. It's about less than INR1 crores in the month of June. However, they are in the process of ramping up. In terms of the number of pieces it is less than 2 lakh pieces/month at this point of time. Regarding the potential revenue increase, it can add to the revenue and when it comes in a steady state, up to INR150 crores in a year.

Amruta: This is regarding the Bhopal Unit. What about the Tamil Nadu unit?

A. Sathyamurthy: The Tamil Nadu unit is the fabric processing unit. The fabric processing unit will commence with production I mean trial production during the Q3 of this year and will be ready for a commercial production by the end of this financial year. In a steady state, that can also add up the revenue once it is fully operational and in a full conversion to the end garment basis, it should add at least about INR350 crores to the top line.

Amruta: Just one confirmation, the Bhopal unit you said INR150 crores that is for unit 1, right? So unit 2 will be additional.

A. Sathyamurthy: Unit 2 will be additional, correct.

Amruta: My second question is regarding our global competitors. As in, with our clients, like who do we compete against in terms of, say, wallets share and how big are the global competitors?

Sivaramakrishnasn G.: So there are very large global competitors. They are billion-dollar players globally. There are large players in Bangladesh, there are large players in China. There are large players in Vietnam. So in India, we compete with the likes of Shahi, which are in to wovens, we compete with several other players, but Shahi will be a big competitor for us. Likewise, globally, there are players in Bangladesh, Vietnam, China with whom we compete. There are a lot of Korean players who operate out of China and Vietnam with whom we compete as well.

Amruta: So size wise, like what would be the differential?

Sivaramakrishnan G.: So there are players all the way from US$150 million to US$1 billion, US$1.5 billion as well in the market.

Moderator: Our next question comes from the line of Vikas Jain with Equirus.

Vikas Jain: Yes, sir. So my first question is more of a with respect to a longer-term view and our strategy out. So while I compare the CAGR from '19 to '23, our sales volume has grown by around 4% to 5% CAGR, whereas our ASPs have grown by around 13% CAGR. So can we fairly say that our strategy will be majorly towards improving the realizations or moving more and more towards the premiumizing the products where our focus would less be in terms of achieving volume growth?

Sivaramakrishnan G.: So I think the ASP growth will peak at a certain point in time. We are already near the peak. So incrementally, if you look -- if I take a longer-term view, right, that's what you mentioned at the start. If you look at a 5-year view, a larger proportion of the growth will come from volume growth going forward.

Vikas Jain: Understood. Understood. Whereas the realizations, again, will broadly be at a similar level or marginally improving, right?

Sivaramakrishnan G.: Correct. Correct. We won't have the scope to dramatically increase that because we have -- whatever increases we have driven, a large proportion of that we have already got.

Vikas Jain: Sure. Sure. And again, similar with the longer-term horizon only, where do you see our EBITDA margins probably 3 to 5 years down the line. Of course, we have taken a lot of initiatives where we have streamlined our operations. We have brought in more and more efficiencies into production and all other things. But do you see a similar kind of an expansion that we saw in like last 3 to 4 years --

Sivaramakrishnan G.: In a longer timeframe, I see a 1.5% improvement possibility in our EBITDA margin.

Vikas Jain: Understood. Understood. And sir, with respect to installed capacities, so just one sense, what was our realization for this quarter? I missed that point.

A. Sathyamurthy: This quarter it's INR840.

Moderator: Our next question comes from the line of Chinmay Kabra with Emkay Global Financial Services.

Chinmay Kabra: Just wanted to know that Q1 has been a little soft. And I just wanted a little bit of number's perspective in terms of the entire year FY '24, if you could maybe give a guidance in term of revenue or the EBITDA margins, which we are planning to maintain?

Sivaramakrishnan G.: So we don't give guidance as a matter of principle. And we are in a market where the economics are as it is very difficult to predict. At the moment, we feel confident that we will see a strong growth in the second half of the year based on the conversations that we are having with the customers based on the macroeconomics that we are reading, but there are all kinds of events that may happen. You are as good in guessing how or in predicting the macroeconomic environment.

So at this point, I don't want to specifically indicate the revenue that we will go. As far as margins are concerned, we will try to protect it at these levels. Our endeavour will be to do that. As far as revenue is concerned, we will try to see we meet the last year's revenue. Our aim will always be to grow. We are very growth oriented in that sense, but at the moment, it's hard to predict anything.

Moderator: Our next question comes from the line of Pulkit Singhal with Dalmus Capital Management.

Pulkit Singhal: Congrats on a good set of numbers in trying times. First question is just trying to understand what percentage of this quarter's revenues are driven by orders that are placed during the quarter versus before the quarter begins?

Sivaramakrishnan G.: All the revenue will be based on orders placed before. We do not get orders in the quarter. We normally get some orders slightly before the start of the quarter, that is inseason orders or something like that. But usually, all the orders are locked when the quarter starts. So the lead times of raw material purchase, etcetera, it takes a month, 1.5 month. So it will be very, very tiny proportionate.

Pulkit Singhal: Right. So I'm just trying to figure out that statement which you made that I mean, most people are placing orders end moment, how do we evaluate that from -- before the downturn started to now in terms of how that is happening in terms of numbers like they used to face --

Sivaramakrishnan G.: For example, if it was the past, now my third quarter orders would have been completely booked. It would have been locked seal by now. And the middle of August, at the moment or well into August, and we should have had this in place. However, we believe that for us to close the third quarter, it will take towards end of August. So that's what I mean by either they're trying to push it as much as possible.

Pulkit Singhal: Okay. So almost 15 to 25 days kind of I mean --

Sivaramakrishnan G.: Yes, correct.

Pulkit Singhal: Okay. And also in terms of -- I mean kind of related to the previous question, I mean, if you were to double your revenues from here, can you do with at similar or higher ASPs or will it require you to go down the ASP curve?

Sivaramakrishnan G.: Our endeavour will be to maintain this. I'll tell you why, because the higher ASPs primarily because of the outerwear component and outerwear is countercyclical for our business. So if you look at the Indian apparel exporters, largely they play on the spring/summer, which is Q3, Q4 denominated where Indian fabric is used cotton viscose fabrics are used. So since we have to also have a balanced utilization of our capacity. So as we add our capacity, we may have to also do a lot more outerwear to keep the proportion of that, and hence, hold on to the ASPs as well because that's what drives the ASPs.

Moderator: Our next question comes from the line of Prolin Nandu with Goldfish Capital.

Prolin Nandu: I just have one question, and these are early days in our Bhopal facility. But in terms of productivity that we are able to get from that facility and in terms of scaling up, right? And when we compare that productivity with some of our older factories, I mean, how confident are we that we can replicate the model that we have, let's say, in our home state in some of the other states as well, it could be MP right now, but in the future, there could be some other states also. So what are the early kind of learnings that we have in terms of labor productivity and scalability in MP?

Sivaramakrishnan G.: Okay. Good question. See, before I go into labor -- I mean scalability, productivity, etcetera, from a labor availability perspective, it has been a very refreshing change. In the south, we always struggled, especially when we start growing, we always struggle to get the full complement of labor and that becomes a limiting factor for our growth.

So we always run about 10% short, which results in us having to deploy more of overtime, etcetera, which comes at double the gross labor cost that we need to incur. So from our perspective, labor availability is important, and that is available in abundance. We have never been short of labor. In fact, labor, attendance, absenteeism on all those parameters seem to be far superior to what we get in the south.

Now as far as the productivity is concerned, the product will be lower, but it was anticipated because they are new, they are going through a training and they have come up the curve. So again, here, I expect it in 2 parts. As far as quality is concerned, we found that the quality of garments produced by them is of an equivalent standard. So the labor has become proficient and is delivering at high quality. As far as the productivity is concerned, they are tracking at a slower pace.

So I find an equivalent labor in our current location, they have a faster learning curve than what we have there. But I guess it's a matter of time. If you give them a month or so, I guess, they will also come up. For now, the productivity ramp-up is running slower than expected. Quality is at an equivalent level. Availability is far superior to what we thought.

Prolin Nandu: Sure. And just a follow-up to that. Is the state helping in terms of making the labor available or is it just a pure -- I mean, purely our effort that is leading to availability not being a challenge?

Sivaramakrishnan G.: Our effort, our effort. So we're just in the right location. We are tapping the right communities. We are providing the necessary infrastructure support, etcetera, etcetera, for them to come to our factory and all of that. We don't expect the state government to do all of that.

Prolin Nandu: Sure. And have we identified some of the other pockets where we can probably -- I mean, in the future also see such opportunities in terms of right location and conducive labor environment? Have we already started.?

Sivaramakrishnan G.: Not only that, plus the right labor, right government incentives and all of that. Yes, we have identified. We have identified, we have offered it all in our strategy. So as and when we want to grow, we have a clear plan on where all we want to grow, etcetera.

Moderator: Our next question comes from the line of Anush Kumar with Spark Asia Impact Managers.

Anush Kumar: My question is on the demand sluggishness, which is persisting for probably the next quarter as well. So is there any chance that there might be any rollover of these capex plans which is going on?

Sivaramakrishnan G.: No, these capexes also takes time to fructify. And on top of it, we also, from a productivity learning curve perspective, it takes time. So for example, the Bhopal unit came online in June. But by the time it reaches its full complement of workers, will be end of this year. And by the time the workers become fully productive, it will be well into middle of next year. So it takes time.

So we don't want to stop capex growth as we believe that by come FY '25, we should start seeing business as usual, and we will need capacity for growth. Our utilization has not fallen as much and when the -- as compared to the demand fall. So when the demand goes back up to even normal, we should not be in a position where we are caught with lesser capacity in hand. So from that perspective, I think timing is okay.

Anush Kumar: Perfect, sir. So if you could break down this INR114 crores of new capacity and new projects which was mentioned in the presentation between the 2 plants, if you could give that number, it would be helpful.

A. Sathyamurthy: So we have another INR30 crores to spend in Bhopal, about INR35 crores to INR40 crores investment in our fabric processing unit and then we have INR30 crores additionally going for further expansion of new plants and new additions.

Anush Kumar: How much is for the Perundurai one?

A. Sathyamurthy: For Perundurai, INR37 crores more to spend as of now.

Moderator: Our next question comes from the line of Akshay Kothari with Envision Capital.

Akshay Kothari: So I just wanted to know how do you track the inventory movement at the customer shelf for? What sort of conversations are you having with the customers?

Sivaramakrishnan G.: It's very difficult. We let you some third-party reports and all of that and it's out all from conversation with the customers. At the end of the day, inventory be what it is. It is the brand strategy as to when they want to buy, which really governs our order books. So this inventory is only a proxy and it's a reasonably good proxy.

So we do tend to track from whatever sources we have. It's very difficult to accurately obtain all of this data. We look at the statements given out by the brands, especially to their investors. We track all of those and any other publications, we track this inventory.

Akshay Kothari: Okay. And once we have sold garment to the customer you won't take it back even in case it is dead stock, right?

Sivaramakrishnan G.: Correct. Correct. The responsibility shifts immediately to the buyer. And whether it sells or not, it is their lookout, it's no longer our problem.

Akshay Kothari: Understood. And all the sales are on FOB basis, right?

Sivaramakrishnan G.: Correct.

Akshay Kothari: Okay. Sir, lastly, it's a very interesting decision to go in Bhopal because the textile parks, which government has outlaid is actually coming near Indore in the region called Dhar.

Sivaramakrishnan G.: Correct.

Akshay Kothari: Any specific reason because I think Bhopal is not that much, Indore is becoming the hub for MP for textile parks, yes.

Sivaramakrishnan G.: Correct. So Dhar is a little away from Indore by the way. And it's the -- by the time this textile par comes into working, which means the necessary infrastructure, water, power, etcetera, is pulled into that place and the land is developed, it will take another 2 to 3 years. We cannot wait that long for the textile part to come up. So as and when these textile parks come up, we may consider it.

But for now, we have to go with whatever location we want. This is one reason. So textile parks are not ready yet for us. Second, we would like to be a little away from other industries so that we don't end up competing for labor with other industries which may have the potential to pay more. So Indore is far more industrialized.

And if you look at Indore & Pithampur more belt, there are a lot of engineering industries or so on and so forth, where they may have a propensity to pay more, I don't want to compete with them for the labor, whereas Bhopal doesn't have any of that. So that's one of the reasons why we went there. And the fabric mills like Vardhaman, etcetera, are more closer to Bhopal than Indore. So the access to raw materials is easier.

Moderator: Our next question comes from the line of Anurag Agarwal, an individual investor.

Anurag Agarwal: Sir, I just wanted to understand, let's say, India signs FTA with U.K. or any other such bigger countries, western countries, what kind of impact will it have on us like in terms of -- will it help us get more clients? And to what extent will that help us?

Sivaramakrishnan G.: See, U.K. imports about US$4 billion from Bangladesh and about US$5 billion from China per annum. Now they export both synthetics and cotton so let's assume that about US$1.5 billion from China has cotton. And almost all of Bangladesh products can be made in India as well, that's US$4 billion. So when India gets an FTA -- as and when India gets an FTA, we will be, A, be on par with Bangladesh, that 12% delta goes away.

And B we will be cheaper than China to that -- by that amount. So it's natural that a portion of that business will get diversified into India. Nobody in U.K. wants to put so much from Bangladesh. If they get duty free access from India, they would like to diversify their supply source to reduce risks. Moreover, fabric all goes from India, so they would also want to be closer to where fabrics are so that the lead times can be reduced.

So the opportunity size at a minimum, I would say, is about US$1 billion. It could be even more depending on how much Indian apparel makers are able to pull from Bangladesh plus China, since we are going to be significantly cheaper than China and at par with Bangladesh. So that's the opportunity size. There you go. Bigger players can, of course, try to get a good share out of that.

Anurag Agarwal: Got it. One more question from my end. Sir, like as you mentioned, most of these customers are wanting to have just-in-time inventory, something like that. They want the apparel to reach closer to the sale. So are you also seeing nearshore or onshore opportunities like I have heard it from some of other competitors also setting up factories near shore? Is that the case which --

Sivaramakrishnan G.: The apparel value chain people would like closer today so that they can turn things around faster. But keep in mind that nearshore locations are also very expensive. So the labor cost in some of those regions are high. So there's always a balance between nearshore and offshore from a cost consideration perspective.

And so, while some very fashion-oriented brands may opt for a higher proportion of nearshore so that they don't have markdown challenges as much or they don't have stockout related issues, where either the fashion -- a particular style is selling well, but they have less stocks available just an opportunity loss. So to prevent that, we want to have some onshore capacities.

They are usually sewing capacities but smaller volumes. It allows some of us to improve our relationship with customers, but near shore will not be the main state, offshore will be because the costs are lower. It will be a combination of these two that come to play. Some of the nearshore locations also, especially if you look at CAFTA, that is the Central American Free Trade zone, are duty free zone. But despite duty-free locations, the cost could be very high because of the higher labor costs that prevail there compared to Asia.

Anurag Agarwal: Got it. So we don't currently have any plans or you're not in discussions with any of our clients for near-shore opportunities, right?

Sivaramakrishnan G.: See there are lots of discussions that are happening. It all depends on when and -- if and when we decide to do something. So I won't rule out anything at the moment. As part of a larger strategy, we will look at all possible options. But we will only exercise an option as and when we feel a compelling long-term sustainable strategy by going there.

Moderator: As there are no further questions, I would now hand the conference over to the management for closing comments.

Sivaramakrishnan G.: Thank you. Thank you all for going through the Q&A session. I'm happy to answer your -- I was happy to answer your questions. As I said, the business was going through trying times and continues to go through trying times, especially from a demand perspective. The encouraging sign is that despite the interest rate hike, the U.S. market has been quite reasonably resilient. European markets have also showed a reasonable amount of traction.

So retail market has not fallen down as much as one would have thought it would. Having said that, with high inventory overhang and a conservative approach of the brand, they have been extremely cagey about buying products. But I think part of that is also because, at the moment, they are buying for autumn winter. And since the last autumn winter was very mild, they would have had excess inventory from that.

Going forward, once we entered into spring/summer, this is for Q3 and Q4 production, I guess brands will start buying a bit more. They will be a lot more confident in coming and picking up stocks and that's what we are seeing. So early signs of revival are there. We have seen reasonable traction from the customers as far as the third quarter bookings go and the traction or the dialogue for the fourth quarter as well.

However, for the second quarter, it will continue to be sluggish as we have seen so far and the prospects will improve going forward. I see that the longer-term trend is very solid. If India goes and concludes the FTA with U.K., Canada is also a fairly advanced stages and later on in the EU. I think these have the potential to open up vast opportunities for the Indian apparel industry. They will help in propelling the growth of this sector here in India.

People, like us, who are professional, who are large organized players will have a better opportunity -- better shot at that opportunity. So we look forward to those incremental opportunities as well as we keep growing and creating capacity for growth.

Thank you so much for listening to us and look forward to the next meeting.

Moderator: Thank you. The conference of Gokaldas Exports Limited has now concluded. Thank you for your participation. You may now disconnect your lines.