



**“Gokaldas Exports Limited  
Q4 FY2020 Earnings Conference Call”**

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- Moderator:** Ladies and gentlemen, good day and welcome to the Q4 FY2020 and FY2020 Earning Conference Call of Gokaldas Exports Limited hosted by Asian Market Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Shradha Agrawal from Asian Market Securities. Thank you and over to you Madam!
- Shradha Agrawal:** Thank you Ayisha. Good morning everyone. On behalf of Asian Market Securities, I would like to welcome you all to Q4 FY2020 Results Conference Call of Gokaldas Exports Limited. On the call today we have with us the senior management of Gokaldas including Mr. Siva Ganapathy, MD and CEO, Mr. Sathyamurthy CFO, Mr. Tushar Panigrahi, VP Finance and Mr. Harmendra Gandhi, VP Corporate Strategy and IR. I would now like to handover the call to the management for their opening remarks. Thank you and over to you Siva!
- Siva Ganapathy:** Thank you Shradha. Good morning everyone. I am happy to report that our company reported a total income of Rs.1400 Crores in FY2020 as against Rs.1196 Crores in the previous year delivering a growth of 17%. The year FY2020 was quite eventful, we had the Government of India announcement on complete withdrawal of MEIS in January 2020 with the effect from March 2019. MEIS amounted to 4% of export turnover and was very much a part of business consideration for the industry. It was priced into the contract. The company lost Rs.41 Crores in FY2020 and another Rs.6 Crores in FY2019 because of this withdrawal. The company did receive an additional ROSCTL of Rs.5.3 Crores as a one-time relief in the year partially compensating the loss. In October 2019 the Karnataka government announced the minimum wage increase of 10% with effect from April 2019 so again retrospective. We have absorbed a considerable amount of cost on account of this change as well and this also impacted the cost structure for the year. In this year, the rupee depreciated by 1.4% against the dollar versus Chinese currency CNY depreciating 3.8% apart from the relative weaknesses where rupee was relatively stronger than CNY. The lower rupee depreciation is not mitigated the inflationary effects in full and finally in Q4 COVID pandemic hit the globe. The Coronavirus unleashed an unprecedented event, which has been so sudden and so extensive in its streak that it has caused the world unprepared for the economic consequences. We experience a tragedy of extraordinary proportions as economic shock such as deferred orders, canceled orders, delayed payment reverberated across the industrial value chain, impacting the millions of people whose livelihood depends on business. The lockdown in China hit the supply chain in January 2020 forcing us to realign input supply. In the meanwhile in February 2020, COVID shutdown principal markets of EU and the US, retail stores were closed brands started deferring orders in response. Subsequently in March 2020 India announced lockdown of clothing factory operation. Your company lost production for over eight days during the

peak supply season impacting revenue to the extent of almost Rs.30 Crores to Rs.40 crores. We paid the workers full salary in March 2020 as a moral obligation. This is one too odds for any business to bear in any one year. Just for context our growth of 17% came when global economic growth in the full year fell and Indian apparel exports declined by 0.1% in FY2020. We generated an EBITDA of Rs.102 Crores excluding exceptional items like profit on sale of land of Rs.26 Crores and reversal of MEIS income for previous year of Rs.6.1 Crores getting an EBITDA margin of 7.3%.

Our ROCE has gone up 10.3% and working capital days have come down to 84. Many of the changes like MEIS and wage increase are now internalized into the business. We have strengthened our business by expanding our customer engagement wherein we have growth with our new customer, enlarged our engagement with large profitable customers, stepped up additional adjacent brand in the customer's portfolio and set up to those friends and enlarged products to help us become an all seasonal player as far as possible. We stepped up our design capabilities making us a partner to our customers and not just big B converter. We inducted strong talent in operation, which is helping us strike our delivery initiatives. We digitized manufacturing to a large extent which allows us extensive packing of production line. We have undertaken video analysis of operations to streamline every set of processes. We have IoT enabled machines to a large extent and we have put control systems that makes the factories productive and replicable. We focus sustainability to ensure that they are in tune with future needs of the business and of the industry. All of the above gives us confidence that we are well positioned to gain market share. We demonstrated that in FY2020. Please note that we grew when industry actually declined and we have done that by gaining market share and we believe that the strengthening of business that we did in FY2020 further positions us to gain market share. Significant impact of COVID has been in Q1. Our factories were shut in April except for PPE manufacturing. We opened the factories on May 4, 2020 and ramped up to about 50% production level to maintain social distancing which is mandated by the government. In June we are operating at about 75% so this impacted our ability to produce to full capacity in the first quarter. Your company responded well by leveraging new opportunities in health care garments. We are the pioneers in India introducing PPE for Government of India and a large producer producing almost 25,000 PPE per day. We partner with earlier in developing producing high-quality woven PPE as well this provided us with YTD cash flow and operations for otherwise shutdown. We have initiated structural correction where capacities are being aligned to market demand. We have right sized the business as well as reduced our operating expenses. We tightened cash management. We deferred capex, renegotiated supply terms ensured extra line credit was available for contingency.

Overall, we address the COVID induced business disruption squarely in Q1 when the industries bore the brunt of the impact, we expect the effects of the pandemic to last a few

more months and likely return to somewhat of a normalcy in Q4 of FY2021. We have the strategy, the business book, the resources and the capability to sustain and bounce back out of COVID and emerge much stronger. Our goal for FY2021 is to emerge leading operational entity delivering superior engagement with our customers. We hope to recover most of the metrics before the end of the year. We want to ensure that in FY2022 we outperform the industry growth and profitability parameters delivering a strong revenue growth over FY2020 level with superior operating market. I thank you for listening to us and we would be happy to address any questions that you may have.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Rahul Singh, an Individual Investor. Please go ahead.

**Rahul Singh:** Sir I have few questions, despite a labor-intensive industry which employs maximum number of people in India, the government has not given enough attention to your industry, at what platforms you have given representation to the government for incentives and how is the response so far?

**Siva Ganapathy:** So we have an industry body called AEPC and through the industry body we have represented to the Textiles Ministry, Ministry of Finance and various departments of the government to support the industry, especially given that it has got a labor-intensive component. The government is also constrained by its own financials especially with the tax revenues coming down in the year due to COVID and support for any industry for that matter was not as much forthcoming. I can understand the government challenges as well. We are hopeful that the government will understand the pain points and will continue to support the industry because they also understand that not only does this generate a lot of employment, in fact after agriculture, I think you know, this will be one of the largest employment generators and in the formal sector this is the largest and also employs a lot of women, particularly among the poor, so this is an important industry for the nation and for the wellbeing of large masses of people. So there is an understanding and we hope that some support will come going forward in the future.

**Rahul Singh:** Sir any planning for product mix for profit maximization?

**Siva Ganapathy:** So in the year, we did a lot of product mix planning in fact, we have strengthened our outerwear capability in FY2020 that is the reason why you see a robust Q1 growth, usually fourth quarter is the most busy quarter for the industry but in FY2020 you would have seen that first quarter was higher than the fourth quarter of FY2019 in revenue terms and that is because we had built a considerable capability in producing outerwear's and that worked in the first and second quarter season. We have entered into several new product lines in that space including puffer jackets and complex industrial wear etc., the whole point behind that

was to reduce the seasonality on the industry. This industry is fairly seasonal where spring summer sales go up substantially because that works to India strength of button and viscose, so there is a revenue usually towards the later half of the year and we have tried our best to minimize that revenue skew by expanding our capability across product line so that we have a far more balanced growth across all quarters and volatility in business is low.

**Rahul Singh:** So do you feel our global competitiveness will continue as most of the cheap labor has gone to their places due to COVID?

**Siva Ganapathy:** So in that sense Gokaldas is quite fortunate. We have historically been focused only on local labor force, so most of the labor force that we employee are people who live in and around our factory. We have stayed away from migrant labor for strategic reason. In the past we have found that migrant labor typically take a month off or even longer during Diwali, Chhath Pooja and other such festivals and it impact our production, it disrupts our operations and many of them do not even come back after the holidays, so we have historically felt that it is better to focus on local labor force. It also helps us build goodwill in the community where we are operating and that is the reason why we have specifically stuck to local employment. From that perspective our ability to ramp up as soon as the lockdown was lifted was very remarkable because we did not have a great exposure to migrant labor. So we are in a far superior position from that perspective.

**Rahul Singh:** So any major clients now reducing their volumes?

**Siva Ganapathy:** So we have announced the layoff in one of our factories which was financially not as strong and we have scaled down operations where we thought that the cost structures are not high. We currently have adequate order volumes for the business capacity that we have and all our factories are running nearly full to the capacity that we are operating at so we are from that perspective we have more or less aligned our businesses by reducing the capacity to the volumes that are mandated by COVID for now, which we hope that by November, December we should be able to recoup and start recovering from there on.

**Rahul Singh:** Sir any R&D expenditure in broader perspective?

**Siva Ganapathy:** Any R&D expenditure...

**Rahul Singh:** Incurred or expected to be incurred during these days of lockdown to attract customers?

**Siva Ganapathy:** During the lockdown we entered into PPE business and in fact we were pioneers in that business. We did the design and specific for the PPEs that are being manufacturing so we had some R&D at that point in time in April and May to get into PPE design and firm up the PPE

for the country. We became a large supplier at that point in time for PPE manufacturing which also helped us substantially in the first quarter, but otherwise, R&D expenses etc., we have scaled now, we do not want to incur unnecessary expenses going forward. We are trying to make sure that our cost structures are aligned to the business volumes that we have.

**Rahul Singh:** Thank you that is all from my side.

**Moderator:** Thank you. The next question is from the line of Anil Kumar Sharma, an Individual Investor. Please go ahead.

**Anil Kumar Sharma:** Sir I want to know what are your ideas as a whole for this year FY2021. What would you expect, how this company will fare, for FY2022 you have said, it is very good that is going to be excellent in this year how do you expect profits and number two in the last year you have provided for certain customer in the present scenario when the things are very different, how much realization you expect to get back?

**Siva Ganapathy:** So FY2021 will be somewhat muted though not a whole lot for us. We will see some revenue dip, Q1 was classic case in point where we lost almost 100% almost 85% production in April and 50% production in May and the other 25% in June so giving an average capacity utilization only about 50% in first quarter so we start off the year with a lower capacity primarily driven by lockdown and we are still not completely out of COVID as yet because we are seeing some resurgence in COVID numbers across the country. So we are waiting with bated breath to make sure that our factories run well, our factories have all the sanitization protocols, we are very strictly following all the protocols, education of employee that we have done very well to ensure that there are no COVID cases in our factory and touchwood so far we have been able to manage without any incident and if we continue to have the business vigor and continue to focus on business development or market development with our customers, we anticipate that we recover our business at least by Q4, by mid Q3 we should be seeing somewhat of a leveling at normalcy level and then see a reasonably good Q4 given current conditions of course, that is the caveat and hopefully a strong FY2022. So FY2021 would have a revenue dip over FY2020, the extent of dip may not be very high and we are hoping to contain it to reasonable levels and more importantly from a cost perspective, we have taken out a lot of cost in preparation for this event and we hope that by the end of the year, you know, we should not be negative. We should try to be profitable and more importantly set ourselves up for a strong FY2022.

**Anil Kumar Sharma:** Second part Sir regarding realization how do you think how much can be realized?

**Siva Ganapathy:** So you asked about provisions for bad debt and we did provide for bad debt for JC Penney which went bankrupt in Q1 of this year. We provided that for that in Q4 financial itself, we

provided almost 50% of the receivable from them so we do not foresee any further customers getting impacted due to bankruptcy. We do have certain exposure to India Retail as well, which we are working on and hopefully we will collect from them. Other than that I am not foreseeing any bad debt related problems cropping up beyond what is visible at this point in time. We will have to wait and see how COVID unfolds over the month ahead if there are no second wave or third wave and recurrences etc., I guess by and large in the principal markets of the US and Europe we are seeing some amount of business recovery, certain customers are recovering much faster than the other customers and we are obviously aligning our capacities to those customers so that we are able to witness volume growth in tune with our capacities and thereby hopefully keep our business going strong and partner with customers who are also financially strong.

**Anil Kumar Sharma:** Thank you Sir.

**Moderator:** Thank you. The next question is from the line of Ashwin Reddy from Samatva Investment. Please go ahead.

**Ashwin Reddy:** Thank you for putting up the presentation so my question was on the receivable days so if you have seen in the last three to four years, there has been a clear improvement in the receivable days so how should we think about is going ahead given that the retailers are going through quite a bit of pain, how do we see this in the next one to two years?

**Siva Ganapathy:** Okay, so we have improved receivable days by focusing more and more on export customers where the receivable periods are lower and also entering into an early payment plan with our customers. The interest cost for early payment with some of the customers that we entered into have been very attractive and better than the cost of financing available in India and only both cases where we have gotten attractive early payment plan. We have entered into those with the customers. Many of the customers now have come back with fresh early payment plan and we are again signing up with them. We will ensure that the cost of early payment plan is well within the interest cost that are currently prevalent in India with interest subvention. We do not anticipate significant increase in receivable days going forward maybe a quarter or so, we may have some challenges, minor challenges that too, but we do not foresee any that also leading to any cash flow related issues and overall for the year we will be more or less at this level.

**Ashwin Reddy:** Okay this helpful and basically on H&M because there will be some videos on Twitter about the goods supplied to H&M and all so and given that they are a client to us is there any issue with receivables there?

**Siva Ganapathy:** Sure one of the factories which we have where we have laid off the workers, we had an issue with lower volumes from various customers that we were working in that factory. H&M is also one of the customers there and we are working with H&M. We are working with other customers to ensure that the volumes are there. Receivables related issues we do not have with the customer so that is not a problem. It is a volume related problem that we have with customers. The social media-driven publicity engine rope in H&M also, unfortunately into this controversy, but by and large we are sorting it out between all of us.

**Ashwin Reddy:** Thirdly on the consolidation industry which is the kind of expect in the next one and one-and-a-half years so would be driven regularly road or would this be some kind of toll manufacturing but is it feasible to kind of scale up that way in general so can you talk a bit more about your thoughts on being the consolidated within the industry and given that fact that there is some kind of debt that we have right now and cash flows could be a little constrained in the next one year?

**Siva Ganapathy:** Sure both the ways are open to us. We do have access to several capacity which have been mothballed because some of the competitors do have adequate setup and they do have the manpower there, they do have technical skills that when capability factories and we can leverage them as soon as we can expand our customer engagement which we can get more orders to fill additional capacities so we do have that ability, that would become more organics because it would just involve easing of facilities from other suppliers where required. The other option of course is to acquire entities which are in financial distress where there are strong capabilities so if it brings with it strong product capability that lack or if it brings with it a strong customer that we currently do not have in our portfolio or it brings with it a manufacturing location, which we do not have in our portfolio at the moment then those are very interesting options. We will not shy away from those options as then when they come to us and are attractive to us. It is just a matter of time when all of these activities will start. For now there is a bit of an uncertainty around when business volumes will resume. So it is prudent to wait for a few months till some clarity emerges. The way I see it based on discussions with an extensive set of customers across the globe is this may blow over by end of the calendar year. So that is the timeline there looking at then you know looking at accusative growth could be timed around that time.

**Ashwin Reddy:** Understood very helpful and one final question if I may? On the new FTA issue because I believe Vietnam has got FTA from June and given that we would be in disadvantage with Bangladesh and Vietnam so do you have any clarity on that, that would be helpful?

**Siva Ganapathy:** You are talking of free trade agreements right?

**Ashwin Reddy:** Yes correct.



**Siva Ganapathy:** So Bangladesh and Vietnam to an extent have free trade agreement advantage working for them. India has its own set of advantage which is you know, it is extensive backward integration, especially in the cotton and with goes with value chain so we do have our strengths and we do play to our strengths. I foresee that especially in Vietnam is more or less as the full capacity as far as production capacities are concerned and Bangladesh still does have possibilities for further expansion going forward when the business volume starts going up post COVID. India will remain a strong player in the scheme of things, primarily because China continues to be a large player. China is the largest exporter of apparels, that volume all of it cannot be outsourced or pushed to Bangladesh and Vietnam alone. They will be overwhelmed and they will have no capacity to absorb. Good producers like ourselves in India will have a good opportunity to leverage some of these external ongoing especially with respect to China. The most recent post labor act as well which US has pursuing will also potentially help push more cotton related manufacturing to India. So I foresee some of those regulatory moves work in our favor where companies will not just talk about moving capacities outside of China, which has been going on for years, but also will be forced to act and it is important that people like us position ourselves strongly with capability to produce garments as good as the best in the world. So we have a single-minded obsession about making sure that our production capability are one of the best and can compete with some of the best in the world, automatically business will come. Today our consistency in performance is one of the best across players. We have been consistently rated high by our suppliers of you know on time and in full delivery, product quality etc. If we keep maintaining this on a continued basis, automatically we feel that we will be resistance of business volume.

**Ashwin Reddy:** I understood it is helpful. Finally what is the proportion of cotton in our overall business just to get where we are, what is the proportion of cotton garments export versus the man made fiber?

**Siva Ganapathy:** I feel it will be about 65%-70% if I add viscose be about 75%.

**Ashwin Reddy:** Got it. Thank you so much and wish you all the very best.

**Moderator:** Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.

**Ronak Vora:** The customer that got bankrupt so how much would be the receivables from that customer if you can just quantify?

**Siva Ganapathy:** So there is only one customer that went into bankruptcy just now post COVID which is JC Penney one of our customers and the receivables for us from that one customer is \$322000 with amounts to a little over 2.5 Crores whereabouts we have provided Rs.1.25 Crores. We

have filed with the bankruptcy administration for the recovery of our receivables and we are pursuing it with them in the meanwhile in Q4, we have taken Rs.1.5 Crores provision. We have provided for the bad debt.

**Ronak Vora:** Okay, and secondly, I wanted to ask you said that we have laid off a few employees in one of the factories in Karnataka, so can you quantify how many employees have been laid off so we can just estimate whether the employee cost for the year of FY2020 would be the same as FY2021 or it will be much lower?

**Siva Ganapathy:** So the manpower in that particular factory amounts about 1450 people, about 1500 people and they have been in layoff at this point in time. The manpower cost for that factory is about Rs.2 Crores per month so that is the cost which we have currently laid off. We also have reduced our staff wherever there is surplus people etc., in our operations overall to align to the business needs and thereby saving additional costs. A lot of thoughts have been taken out in the system to contend with the business volume change.

**Ronak Vora:** Okay, and thirdly do we feel that we will be able to have the same revenues that we did in FY2020 like in FY2021 also around Rs.1400 Crores?

**Siva Ganapathy:** I doubt whether that will happen because right off the bat in Q1 as I recall Q1 of FY2020 we had a revenue of Rs.352 Crores, right off the bat in FY2021, we lost 50% production in Q1. When you produce half your revenue can only be half. So that is because of lockdown in our country so we have lost close to Rs.175 Crores off the bat straightaway. Now, I do not how much we can recover all of that given that even Q2 will be somewhat muted in revenue terms since most of the large brands are still trying to figure out how their demand will be so it is unlikely that FY2021 revenue will equal at FY2020 revenue but what is more important is how do we handle the cost structures and how do we handle the overall net results for FY2021. We have made sure that we are geared up for lower business volume in FY2021. We have worked on our cost structures exceedingly well on that front and we will make sure that we will not have any problem whatsoever in running the business.

**Ronak Vora:** Okay so at least for the time being we can say that FY2021 would be a muted or maybe some kind of degrowth but 2022 will be surely be better than in FY2020 level right?

**Siva Ganapathy:** Quite sure.

**Ronak Vora:** If we operate at full capacity Sir how much is the peak revenue that we can make?

**Siva Ganapathy:** At current level?

- Ronak Vora:** Not at current levels, but in case if things return back to normalcy and all our capacities are utilized, manpower and everyday so what would be the peak revenues that the company can make with our current capacity in hand?
- Siva Ganapathy:** I feel we can go up to Rs.1500 Crores.
- Ronak Vora:** Okay so are you planning any capex we have surplus Rs.1400 Crores level in FY2022?
- Siva Ganapathy:** Yes so as I said we would as and when we are ready for it we will be looking at additional capacities which are available in the form of lease as well so we may not have to have huge capex requirements and if capex is required we are prepared for that as well. We have already identified certain options which are operationally which are highly efficient cost-effective wise and we were just waiting to press the trigger before COVID hits, it so now we will wait for those options and we will start building them out as well as and when we feel confident that business volumes have revived. So yes capex for FY2021 will be muted but FY2022 we will start going full-blown on our new factory capex. In the meanwhile, you know, taking least capacity for augmenting capacity in other forms will continue.
- Ronak Vora:** So currently as I see that we are at our current net debt level at around 0.67 times to net worth so in case we want to build up an additional capacity so what is the extent or what is the company's internal benchmarks to have net debt to equity level say one time or the max that you will go?
- Siva Ganapathy:** The max that we would be comfortable going will be one time.
- Ronak Vora:** Okay, so not greater than 1 okay.
- Siva Ganapathy:** Because I am confident that we will also have cash flows from businesses augmenting our needs going forward as well as we have the headroom to take some more debt even our current net debt to equity ratio with that will be more than sufficient. Our business is not very capital-intensive as well. So we cannot architect it in a way where we do not have to blow up the debt to higher levels.
- Ronak Vora:** Okay Sir. Thank you, Sir.
- Moderator:** Thank you. The next question is from the line of Dakshin, Individual Investor. Please go ahead.
- Dakshin:** I think considering the loss of the last 10 days the numbers are looking pretty decent in fact so there are two questions one for Mr. Siva and one for Mr. Sathyamurthy. Mr. Siva you

would have a pulse how your consumers are behaving in terms of country-wise. What is the broad feel were between US and Europe. How are the buying trends? And could you briefly I mean at least if you see in India, I mean, there is no clear trend and could you just give us a broad outlook on your feel of the market how it will be in the next two to three quarters Sir, also in relation with the countries which compete with us in producing. I mean China and Vietnam, Bangladesh is a large competitor so how does this balance out, do you think there is some shift from China to the other countries?

**Siva Ganapathy:**

Certainly. So let me first talk about the market side then I will talk about the producing side. On the market side, you know, currently I find that both in United States and Canada on one hand in North America and Europe stores are opening, several stores have opened, the discussions with large swath of fashion customers indicates to us that garment sales have somewhat picked up and when you look at June-over-June that is current June 2020 versus June 2019 that is the right comparison metric we find that in the lower value garments the sales volumes are down by about 20% whereas in very high cost garments the sales volumes are down by about 75% so there is a fairly good amount of traction that is building up as of now for low-value fast fashion garments in both of these markets. The second point is that increasing amount of sales is shifting from brick-and-mortar stores to online. Online is seeing a very substantial growth and almost all the brands have stepped up their online sales capabilities and they are seeing fairly brisk amount of volume coming from that space, some of the grocery store brands, which also sells garments like your Walmart or Target or Care for in Europe, these guys are seeing good volume simply because they sell low price garments so volume levels are high and even fast fashion customers like Gap etc., they are fighting, at brand levels, they seems to have picked up volume to an extent though they have not reached FY2019 levels so the question is, what would be the prognosis going forward for the months ahead everybody is keeping their fingers crossed, summer is setting in there and soon fall holidays will settle, fall holiday market demand will indicate how consumers react as people will have to go buy winter wear those kind of garments so we will see, in a few months we will get to know how the demand pans out, but so far signs seems to be encouraging. The sales in East Asian Markets like China, Korea, Japan etc., are also encouraging because there also the numbers have picked up to a large extent so seemingly the markets are bouncing back in many countries, but they have not yet reached the calendar 2019 level. As far as the production goes Indonesia, Vietnam and large parts of China never shutdown, so garment manufacturing continued while India shutdown in first quarter so to that extent operations in those countries benefited in Q1 unlike ourselves so we did have a competitive disadvantage in Q1 as a country, but since we have opened up we are trying to get back to track as fast as possible and business volumes are aligning across different production companies. We have seen that most of the large brands continue to have strong confidence in India and they also given the COVID risk levels would like to keep their risk levels low. They do not know which country will shut down for what reason from a production perspective so they would also

diversify their production capacity across different countries so we are in a sense getting good volumes, thanks to the diversification strategy and within India since many players are not as financially strong as ourselves and there is a degree of vendor consolidation which is happening in this industry I believe that we will be a beneficiary of that going forward, keep in mind that the end user demand first impacts the brands which sell the garments, we come one step behind them and our demand will fall when our brands demands falls but if there is a vendor consolidation we may not see as much of a impact of sales reduction as the brands would and that should be our quest as a supplier saying that how do we make sure that while my customer may see X percent volume decline, I may not necessarily have to take an X percent volume decline if there is a vendor consolidation to some extent. So that is the effort which all suppliers would try to make and insulate themselves from volatility. Hope I answered your question.

**Dakshin:** Yes follow up of this thing you made an interesting point about your brand demand being asserted, but your overall demand may not be asserted since lot of sales as you said has shifted to online do you see a brand disruption and lot of volume being shifted to private labels like Walmart and Tesco and stuff like that I mean do people keep in mind a brand while being online or do you think that broad preference sort of brands pulls away in times like this?

**Siva Ganapathy:** So even the brands which have got in a fast fashion brands in their portfolio have seen robust demand pickup again albeit not to calendar 2019 levels but pickup is happening post opening up of markets so the growth in the fast fashion segment is reasonably good and almost all those brands have seen an uptake but as a percentage to different degrees.

**Dakshin:** So brand preference as you feel it will remain I mean a customer support will expand, will prefer the expand even if you got it online?

**Siva Ganapathy:** Yes. All of these brands I have an online channel and people do not change taste so often and brands also have to keep innovating designs etc., some of these brands have a high design portion in their offerings and that is not what Tesco's and Wal-Mart can do. Their customer profile are very, very different so there will be demand for both and there is a demand for both.

**Dakshin:** Okay Sir that kind of answers this. I would just like to have a word with Mr. Sathyamurthy on the debt level. Right now our net debt levels are Rs.250 Crores as I can see, so I mean how would you like to manage this going down next year Sir because in times like these if lower the debt be stronger the company's confidence in surviving and driving to these kinds so I would like to have a management perspective of the debt level which you want for over the next three years Sir thank you?

**Sathyamurthy:** Yes, currently our net debt if you remove the bill discounting also it is less than Rs.150 Crores, around Rs.149 Crores is what is our net debt level. Today we do not have any term loan in our books. So we believe that in the current year, we will be able to maintain the operation at the same level plus or minus Rs.10 Crores to Rs.15 Crores for the operation except for any expansion we may have to rely on partial term loan. As Mr. Siva has explained our's is not a very capital intensive business, any new investment we believe that we will be able to do with a term loan of Rs.25 Crores to Rs.30 Crores during this financial year. So to answer your question for this financial year we will be ending up with the net debt level of Rs 200 Crores, and for the operation size, the same is well within the norm. We believe that we will be able to generate cash with any new investment and we will be able to re-invest the same. Going forward as we mentioned our aim is not to breach the net debt level to one time of net worth as we will be able to generate cash and re-invest is what we have our plans for the next three years.

**Dakshin:** I mean if a time comes where you are net debt free would you want that situation, how long will you keep that fixed debt?

**Sathyamurthy:** So to quickly answer that question, the cost of debt for us with interest subvention comes down to about 6% so if the debt is available at 6% it may not make financial sense to be net debt free given the cost of equity by any measure all of us would agree will be much higher so why would we do the equity funding to fund working capital when you can have debt available to us with subvention at 6% and on top of it for the growth we want to really rely on this and then we believe that we need to really reinvest because there is a proper expansion plan, we have plans so accordingly we will be taking debt to take care of the expansion plans.

**Dakshin:** Okay thank you Sir.

**Moderator:** Thank you. The next question is from the line of Vipul Shah, an Individual Investor. Please go ahead.

**Vipul Shah:** Sir would you repeat what is your total outstanding with JC Penney and how much you have taken write off and I think after March 31, 2020 in your note number five you have taken another write down for another client so would you comment on both these issues?

**Sathyamurthy:** Our total receivables as on March 31, 2020 was close to Rs.8.15 Crores.

**Vipul Shah:** From JC Penney?

**Sathyamurthy:** Yes from JC Penny it was Rs.8.15 Crores was the outstanding as of March 31, 2020 we subsequently collected Rs.5.65 Crores we have the outstanding of Rs.2.5 Crores as on the

date when we went for the board meeting, and as against Rs.2.5 Crores 50% is what we have provided for in the books.

**Vipul Shah:** But are you hopeful of any recovery in bankruptcy process?

**Sathyamurthy:** Obviously that is what we have been given to understand from the business team as well as the JC Penney local team. What they have suggested that they have filed this bankruptcy petition mainly to take care of their debt restructuring, which they have opted for and they believe that they will be able to really get back the funds and then take care of all the vendor related payments is what they have told us. However as a prudent policy what we have really done is that we have provided for it and we have already filed a claim before the court.

**Vipul Shah:** And regarding that another customer for whom you have mentioned in the note so what is the situation Sir.

**Sathyamurthy:** Sir actually this is with reference to Sears group. Sears group went for bankruptcy during the previous year. We had an outstanding close to 1.5 million \$ but through the court settlement we have got settlement to the extent of 765k \$ of which partial money also has been received so accordingly we have taken carefully the provision whatever based on the settled amount, the balance amount to be received from them is only as on date is around \$473,000 is what is outstanding as of now.

**Vipul Shah:** Rest you have received, you have taken write down I did not understand this?

**Sathyamurthy:** We have received partial amount almost around \$292000 and the balance only what is there has been provided for.

**Vipul Shah:** Okay and Sir can you comment on the recent trend of order cancellation from your clients how you are seeing the demand so if you can give some color on that it will be very helpful?

**Siva Ganapathy:** So you know why initially a lot of customers came with order deferment and to the extent possible we accommodated them because our own production was also stuck in the first quarter so we were also unable to cater to the delivery schedule that we had committed to before the lockdown was announced, so it also helped us to realign the delivery schedule as per the customer needs so to an extent there was a deferment, we have minimized cancellations to a large extent and anyway pushed the liability back to the customers as well so there is less of those issues, the order deferment is something which as an industry we will have to work with and we are working with customers, as and when they start seeing a pickup in volume they are also advancing the deferred orders so somebody deferred an order to September, then they have advanced it back to July so all of these are work in progress as our

customers are also aligning themselves to rapidly evolving end customer demand. We do not have much of a problem from that perspective obviously first quarter has been hit by production loss because of lockdown. By the time we are entering second quarter we are seeing demand levels are somewhat restored though not to previous Q2 level I am hoping that by end of Q3 we should be back to near normal.

**Moderator:** Thank you. The next question is from the line of Amit Doshi from Care PML. Please go ahead.

**Amit Doshi:** Yes thank you. Just wanted to know since you mentioned that we are limiting the impact of lockdown, the kind of reduced sales etc., so when do you plan to fill the gap from because from large customers etc. already have either gone bankrupt, or seeing less demand etc. so when the gap would be filled?

**Siva Ganapathy:** Sure, as far as bankruptcy is concerned, Sears bankruptcy happened last year and this year only JC Penney has gone through that and frankly post petition that is post bankruptcy JC Penney have got some funding lines and they are also operational even though we have reduced our exposure to them, we are not taking further exposure, but as you know it is being driven by bankruptcy and their businesses is continuing so we do not foresee any further bankruptcy and our exposure to customers who are financially weak is very minimal. So that extent our business risk is low. The volume risk remains because it is really a function of any customer demand. If you and I as individuals do not go and buy garments in the market, the brands will not sell and hence the producers will not be able to produce more. Now how do I foresee that happening as I said earlier things seems to be coming up and hence the volume seems to be restoring. If you look at Q1 whatever order deferral that we had was mitigated by the fact that we were post lockdown, our factories not produced enough so to that extent our challenge was twin fold and more to do with production capacity related issues rather than business related issues. Q2 we do have volumes being lower than the previous Q2, but we have already aligned our production capacity to those volumes, so I am not carrying those costs anymore and I have reduced by volumes which when the times up need we can always rack it up as required and that is the reason why the layoff in one factory and reduced capacity operations in few other factories just to keep our capacity aligned to demand so we have done that, so we flexed our capacities in a fairly nimble fashion to address the market demand and we are handling it reasonably well.

**Moderator:** Thank you. The next question is from the line of Sunil Kothari from Unique Asset Management. Please go ahead.

**Sunil Kothari:** My question is Mr. Siva is during last three, four years you have seeing all the tough scenario, minimal wages increasing, exports incentives withdrawn by government, this COVID and all



so we have really managed and restructure our organization really well, so how you feel for next two years what else you can do hopefully nothing negative happens furthermore and we will see our cost control you reach almost 7.5% EBITDA margin so looking at China replacement and all this global replacement theory, India being very capable in terms of raw material, labor and all these things what is the larger picture you want to draw for Gokaldas as a CEO, will you face two, three years of tough time.

**Siva Ganapathy:**

Okay good question, I really appreciate you are asking this. See even if we look in a larger picture our goal is to ensure that Gokaldas is the manufacturer of repute, is the manufacturer of tallest standing amongst the customers, is the manufacturer who is not just a mere converter of tech specs given by our customers but is a partner with our customer, designing their garments and also working with them in their strategies and producing garments for them and we have slowly, but surely built capabilities in all these areas. We have also focused very, very heavily on consistency in what we do because manufacturing is all about delivering products and servicing our customers on a consistent basis order by order by order by order and either you are as good as how you delivered your last few orders and we have to make sure that we do not relax our guard and produce accordingly. Now if you look at some of the macro economics headwinds that we faced in the last couple of years I feel most of it is done. I mean today the export incentives are down to a minimum whatever we are getting is the small amount of duty throwback of 1.5% or thereabouts and we are getting refund of central and state levy which is just a refund of levy so we do not anticipate any further reduction of all of these. What we need is a stable environment so that we can factor all of these into contracts and not have an environment where things happen with retrospective effect which impedes us from putting it in contract and guessing the necessary benefits so minimum we just settle for next three years, four years, our export incentives is more or less settled we do not foresee any setback on that so we have nearly a stable regimen going forward. Now we need to perform and we need to perform really well to our customers requirement, to benchmark which are best in class in the world and make sure that we are the performer in India who customers want to work with and I think while we have combated all the headwinds, we have ensured that all of the other are addressed very well and customers are confident of the capabilities of Gokaldas to continue to report their faith with us and expand business with us. Now it is a question of ensuring that we are able to grow, now to grow we have to ensure that we are a, one of the lowest cost producers so that margin sustainability is high, world over demand hunts for low capacity which is low cost and of course capability is look as a premium and we do get a premium for that but still overall cost hunting happens so we have to ensure that all of our capacities are working efficiently, working at a relatively lower cost and the incremental capacities come at incrementally lower cost so that incremental margins are high, we are ensuring that, we have to also make sure that we have enough of customer diversification so that we are not dependent on our business fluctuations of any one of our customers we have done that also successfully earlier our top customer was

almost 35%, 38% of our revenue today we have brought them down to about 28-29% and we will continue down that journey which means that when we grow, we are growing on a secular basis with all our other customers and with adding new customers into our portfolio, we are confident that we will have multiple growth ventures available to us. So if I look forward into say FY2022 and beyond and if you are able to keep up the pace of growth which we did in FY2020 which is 17%, if I grow even at about 15-odd percent or more higher than I think we are in a very strong position so FY2022 will be a big bounce back which we will have to ensure given that FY2021 will be a low but beyond that if we are able to grow at a brisk pace which is quite doable I do not foresee by say FY2025 we should at least theoretically aim to be at say Rs.3000 Crores or thereabouts at the top line basis and is that doable? it is quite doable if we apply ourselves and keep growing, operating margins will be strong by then because A, we will have the operating leverage in place and we will be one of those strong capacities which will be there in India competing with some other best globally so if we continue to deliver benchmark performance doing these kind of growth should not be a problem and with that will come our EBITDA and cash flows accordingly.

**Moderator:** Thank you. The next question is from the line of Manan Shah from Moneybee Investment Advisors. Please go ahead.

**Manan Shah:** Sir I wanted to know post withdrawal of the MEIS benefit, have we been able to negotiate better realizations and you also mentioned about reducing our labor cost, so currently we are maintaining that as around one-third of our revenues so post this reduction should we expect the labor cost to remain at the same level in a percentage of revenue or should it become better?

**Siva Ganapathy:** So to answer your first question MEIS, obviously after MEIS was withdrawn in January when it was withdrawn in January almost all of our Q4 business were contracted in Q3 itself, by November we had closed our Q4 order books and by January we had also done a reasonable amount of Q1 order book as well, going forward since we are all clear including our customers that there is no MEIS we are able to factor in the pricing accordingly so that gets included in our contract negotiations going forward, so MEIS we will be able to absorb going forward so that is one point. As far as the cost structures are concerned what we have done as far as the labor cost is concerned we have no way of reducing labor cost per capita we had to go with the minimum wage increase in FY2020 because that was mandated by law so we cannot reduce it further, the reduction in people is to align our capacity to demand so at a percentage of revenue it will not change when it comes to the factory labor cost, when it comes to the corporate overheads etc., which we had built for another 20% plus kind of growth in FY2021 we had the ability to takedown some of those costs, some of our R&D cost, some of our development relation cost etc., which we have pared down so that there we will be able to

reduce some cost structures. Overall I think our manpower cost will come down to about 30% of our revenue from about 30-33% level.

**Manan Shah:** Okay, thank you.

**Moderator:** Thank you. Due to time constraints, the last question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

**Maulik Patel:** I had just question, when we joined you said that there are many of levers because organization did improve previous 10 years before you joined in and there were many levers for improvement in margin either it is a productivity improvement or unnecessary cost cutting and all, has all these been done largely and if yes where do you see in terms of an overall margin improvement and despite all of sudden because over the last two years the margin has done relatively better than what one could have expected but do you see the trajectory going on?

**Siva Ganapathy:** A lot of these initiatives which are productivity improvement, efficiency improvement, wastage reduction etc., have been done in FY2019, FY2020 we have done a fairly reasonable job of increasing throughput, we almost increase the 9% throughput in FY2020 out of the same capacity as compared to FY2019 so all of these have yielded and we will continue as there is still some more scope so that will continue, our margins in FY2020, actually operating margins have been strong, despite of the fact that we had retrospective setbacks as far as MEIS is concerned or even the minimum wage is concerned, where we have to absorb all of it in the first operating post wage increase, so we have done all of that. Going forward we do not anticipate any further changes so these performance metrics will allow us to also pricing the contract well, some of the challenges that we had in FY2020 worked at, the MEIS withdrawals could not be effective post implementation in our contract so we got risk whereas going forward we will not be left with this kind of a situation so I foresee that margins on a steady state continuing business only to improve from current levels for sure and that steady improvement will definitely be visible, the first few quarters in FY2021 would be challenge for other reasons which is the business volume reasons but otherwise from an operating perspective there will be a steady improvement.

**Maulik Patel:** Just last in addition to the same in your discussion with one of the clients are they indicating any move to transfer some volume from China to India is there any thought processes?

**Siva Ganapathy:** So we are getting businesses from China to India it is just that it is not full still, we have got a few customers who had a very, very high China exposure, reduced their China exposure and increased their India, Vietnam, Bangladesh, exposure and we have got some good shares, we have got our share of business from customers particular for decade which were China

dominated business which have moved that to India wherever the fabric ecosystem was available and where we could pick those businesses. Will that trend accelerate? I foresee to an extent it will happen it is either historically it has not been for a very long period, Vietnam was bigger beneficiary of this and so was Bangladesh after that but the volumes in China being what it is, there is still benefit that we could obtain, the other thing of course is to also consolidate within India and gains share with respect to volume being done by other players so we will have twin benefits of getting additional allocations for the country as well as consolidation business.

**Maulik Patel:**

Sure, great thanks for the answering and wish you all the good luck.

**Moderator:**

Thank you. I would now like to hand the conference over to Mr. Ritesh Badjatya from Asian Markets Securities for closing comments.

**Ritesh Badjatya:**

Yes, we thank management of Gokaldas for giving Asian Markets Securities an opportunity to host the call. Thank you again for giving this opportunity.

**Siva Ganapathy:**

I think I have answered most of the questions and given an overview of the business so I would do the formality of closing remarks. We have seen confident of what we are doing and we feel that we have addressed the COVID related issues squarely it is face and we feel comfortable that we will be able to overcome the business disruptions induced by COVID and come out much stronger going forward with that note I would like to sign off. Thank you.

**Moderator:**

Thank you. On behalf of Asian Markets Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.