



“Gokaldas Exports Limited
Q2 FY2020 Earnings Conference Call”

November 15, 2019



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Moderator: Ladies and gentlemen, Good day and welcome to the Gokaldas Exports Limited Q2 FY2020 Earning Conference Call, 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 Mrs. Shradha Agrawal from Asian Market Securities. Thank you and over to you Madam!

Shradha Agrawal: Thank you Bikram. Good morning everyone. On behalf of Asian Market Securities, I would like to welcome you to Q2 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 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 and thank you all for participating in the Q2 FY2020 earnings call of Gokaldas Exports Limited. I am joined by my colleagues who are earlier introduced by Shradha. So they are also available after my presentation for answering any calls or any follow-ups that maybe needed.

Our results this quarter were broadly in line with our plan to increase market shares to new and existing customers and making upfront investments to create a sustainable and profitable business.

The business environment for our sector remains dynamic; on the positive side we see increased interest in India as a sourcing destination by our clients due to increasing labor cost and in producing countries, availability of manpower in relation to some other competing countries in India and the ability of Indian suppliers to produce quality garments for exports.

While the business was characterized by many subscale players in India there is a trend towards consolidation of the business in favor of larger players in the country which augurs well for Gokaldas Exports.

The continued challenges post by US China trade war, rising cost in China and other parts including Vietnam is also expected to help the business environment in the future. Clearly we are looking at all of these opportunities and working on them to make sure that Gokaldas Exports will have a sustainable growth going forward.

On the negative side however there are fears of a global slowdown which means that our customers due to fall in consumer spending on apparel. Europe has slowed down somewhat, while US is still going strong which is good news for us, Gokaldas Exports has increased its exposure to the US market in line with the markets performing very well and thus we are able to maintain our growth trajectory, but we are continuing to watch the global retail market trends which in turn drive our business growth.

My recent interactions with our top customers in the Western world which is North America and Europe indicate that they view Gokaldas as a strategic supplier that delivers consistently and process considerable technical capability that is the reason why we have been able to penetrate into newer divisions within our large customer groups get into new product types which either to we were not doing and so on and so forth thereby sustaining our growth and also giving us the ability to become exclusive suppliers to certain product lines.

So on customer relations front we seem to be on a very strong footing and we continue to build upon that. Coming to Q2, Q2 is generally characterized a weak quarter for the industry in India, the reason being that what we produce in Q2 is Q1 and Q2 is largely meant for autumn and winter wear in the western world and what we produce in Q3 and Q4 are usually spring and summer wear which tend to utilize a lot of India's trends which is in cotton and viscose. So typically when we enter Q3 we entered with a strong order book and then do exceedingly well because we are working towards our strength and what happens in Q2 is that the season change from autumn winter to spring summer results in certain capacity opening up because of the small fall in order flow which happens towards July and August, which we tend to cover up with Indian business and that this year was not doing very well and also because we focus a bit on Indian business in Q2 to augment our capacity we tend to have a little lower margins as we earnings from export incentives are not that high as in other quarters.

Having said that Gokaldas has had an exceptionally strong Q2 over the previous Q2 as well as over Q1 we clocked a revenue our total income of 374 Crores which is a 24% growth over the previous year which is one of the highest ever Q2 performance in the last ten years for the company. This performance was enabled by a very, very strong customer connect that we have developed and the fact that we on-boarded several new customers over the last one year as well as recent as in Q2 which enabled us to diversify our revenue base and get new additional revenue streams from our customer.

The EBITDA for the quarter was 259 million or 25.9 Crores and if you exclude the one-time impact of Ind-AS, as well as the one-time provision that we made for one of our customers which is Sears, which went bankrupt in October 2018, our EBITDA is 17.5

Crores for the quarter. Now this is, it is somewhat flat performance as far as our EBITDA for last Q2 however if one adjusts for the material content where we have taken up a lot more outer wear kind of business our margins actually if I look at revenue adjusted for material and then compare EBITDA as a percentage of that our margins have improved by actually 0.7% as in FY2019 we were at 9.74 versus FY2020 we are at 10.38% when you had adjusted revenue for material content which is a pass through. So it gives me the confidence that we are doing well in terms of execution, we are focusing on all the right matrices in terms of productivity, efficiency, wastages etc., and are delivering on a consistent basis.

The way I look at the order book for Q3 and Q4 I see fairly strong and robust quarters ahead and I am very confident that the growth trajectory that we have embarked upon in the first two quarters would definitely be maintained we probably would exceed that going forward in the quarters ahead.

With that in mind, we also undertook some investments in Q2 for our future growth that is in Q3 and Q4 we have started putting up additional lines in several factories we built up some capacities by building up additional sheds etc., and up a lot of employees on training in anticipation of Q3, Q4 growth. We incurred about 3.4 Crores of additional expense because of the incremental workers who were undergoing training in Q2 and who are getting deployed in this quarter for our growth. So there have been lots of investments that we have been doing for sustaining growth of the company. I am also pleased to report that while the growth continues to be strong the growth is fairly well diversified across customers so that the customer concentration risk is actually getting addressed and is coming down we are fairly well diversified in terms of our revenue base.

To conclude my overall description of the business at this point in time I would be happy to take any questions that any of you may have. Before I conclude, I would like to reiterate the management team is confident in sustaining this business growth and in confirming to you that the customer confidence on Gokaldas remains very, very high which in turn gives me the confidence that our business prospects are good. Thank you gentlemen and ladies we will be open to any more questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have our first question from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.

Sudhir Bheda: Good morning and I think considering the situation and weak second quarter you have delivered good results, so congratulation on that Sir. Sir my question is since the new lines are ahead and capacity has expanded to cater to the demand of Q3 and Q4 which is typically

the best quarters. So what kind of margin expansion do you foresee in Q3 and Q4 and what kind of revenue growth you will see over first half in the second half. That is the first question, and second question I did not understand that one off adjustment you did for bankruptcy of some of the clients, so can you quantify that.

Siva Ganapathy:

Your first question was what kind of growth do we anticipate in the quarters ahead, I could say we because of the seasonality of the business we tend to compare the like quarters, as you are aware that in Q1 our growth over previous Q1 was about 22% in Q2 it was over 24% the way Q3 is going we would probably be higher than both of these numbers over the previous Q3 that is the indication I am having at this point in time so it is a fairly robust growth in Q3 I can assure you that. Margin always is superior in Q3 and Q4 that has been the historical trend for the company and that trend will continue going forward as well. so we would have a superior margin definitely over H1 in H2.

Coming to specifically on the one off issue, the issue pertains to one of our customers Sears which went bankrupt in October 2018 and at that point in time we had a revenue of 4.35 Crores which was outstanding when the company went bankrupt, we are working with our lawyers in order to ensure that we collect as much as possible out of that, there was also some goods in transit during that period in time, which was about \$853000 in to Sears. Overall we had already provided for so far to the tune of 1.33 Crores for Sears considering that the receivables may not be collected in full.

Our auditors advised us based on the progress of the bankruptcy, based on the progress of the case in the bankruptcy court, that we are prudent to take an additional 1 Crores of provisions as bad debt for that client and we have provided for that as well. We are pursuing the case vigorously, we are happy to indicate that so far the debtors that is Sears have not disputed any of our claims, any of our administrative claims and we are working with them, we do believe that our provisioning norms are in line with most prudent accounting policies, if there is a need to provide more as a onetime, if the need arises in the future we will, but I can assure you that this is one time we do not have a problem with any other customer in our books at this point in time.

Sudhir Bheda:

And Sir one more query is can you throw light on the traction which we can have because of trade war which is going on and some business can transfer from China to India?

Siva Ganapathy:

Certainly, so there are two components to it, one is of course the trade war which is putting a pressure on most of the largely American buyers who are buying from China to look at alternate sourcing regions and the other is of course China's own cost of labor increasing, so both of them are at play which is resulting in people increasingly looking at business opportunities outside of China.

Now the top three countries or top four countries I would say which come to people's mind or the customer's minds are Vietnam, Bangladesh, India and Indonesia, when they move out of China. Vietnam stood to gain the maximum because of its proximity to China and the fact that there were lot of fabric mills and other ecosystem which has developed in China which helps in the downstream garment manufacturing. So the first of benefits has gone to Vietnam, but the cost in Vietnam are also rising very fast as they have a reasonably limited labor cost and in the top two cities like Ho Chi Minh City and Hanoi the costs are going up pretty considerably.

So automatically large buy sourcing companies are looking at Bangladesh, India, Indonesia so there is the trend towards looking at some of these countries, has the trend been of, if the trend is only a trickle at this point in time, so we are seeing early signs of it, I would say that in the quarters going forward we could see a some more volumes flow to India. However, this has to be supplemented by good fabric backup and other things as well as lot of fabric mills and the upstream capacities are available in China for the kind of products that they produce mainly synthetics. So we have to work through all of those aspects as well before we see a lot of business flow towards India, but directionally I am seeing that there is an opportunity and this will happen in a year or two and it will increase through this period.

Sudhir Bheda: Thank you Sir.

Moderator: Thank you. We have next question from the line of Sunil Kothari from Unique Investments. Please go ahead.

Sunil Kothari: Congratulations for very good revenue growth. Sir my question is two, three basically we have quarterly **(audio break)** 17.55 Crores depreciation cost on 113 Crores which is on the base of just 125 Crores fixed assets. So how this cost will move that is about one thing this is after EBITDA what I am trying to understand is, and second our employee cost remains around 33%, 34% of the revenue. So what is the scope there that is the two things if you can clarify?

Siva Ganapathy: So I will first address the second question and then I will address the first one. See regarding the employee cost what has happened in this financial year is that we have seen a little lower 10% we are anticipating a little lower 10% of basic minimum wage plus another DA of about 3% in Karnataka, so that is a pretty steep wage increase that has happened or that has been factored in this financial year. The VDA was announced, but the minimum wage increase has not been announced. So we have been factoring it into our numbers. So that incremental wages which are a onetime increase in this financial year, we usually these increases are then sustained for a longer period of time, the minimum wage agreement is usually for three years, sometimes for four years. So we have seen a wage increase in this

financial year while the increase has not been announced, we have provided for it in our book. So we do not anticipate any further wage increase requirements, we have been careful in providing the right quantum of number and we do not anticipate any additional provisions required.

So the wage increase is actually reflecting in the overall wage cost, while that happens on one end the other side we are working hard on ensuring the productivity is high, the efficiencies are improved etc., which then helps us in containing our wage cost to reasonable levels. So I am presuming that as we continue to expand the wage cost will not run in conjunction with our revenue, it will be at the much lower phase and as we continue to diversify into smaller towns as well as other states of India which we are actively looking at, then our wage cost in relation to revenue will only come down going forward.

Sunil Kothari: Your target Sir, if you have who are since we have paid of wage cost which is around 30% plus 33%, 35% any objective or visible target you have.

Siva Ganapathy: I would say we would like to work towards a 10% reduction as in gaining from 33% if you say then work towards 30% another 3% reduction. So that is the kind of the goal with which we are going ahead in our mind. And coming to the depreciation and interest I would defer to Sathyamurthy who will answer this question.

Sathyamurthy: The interest cost and it also has an IND AS component into it, so the real interest for the loans it is about 7.48 Crores for Q2 and for H1 it is 14.76. Basically the depreciation it was 6 Crores for Q2 and it is 12 Crores for some level.

Sunil Kothari: So Sir what will be sustain numbers going forward.

Sathyamurthy: Going forward we really look at it that the current cost of almost around 66.5% is what the average cost we would like to maintain and the measures what we have taken is to really maintain the working capital at a very tight level and we foresee that we will be able to continue this trend and contain the cost at the current estimated level.

Sunil Kothari: It is on the depreciation and interest level.

Siva Ganapathy: Interest I am talking about and the depreciation is around you can take it at the current levels, because for the current whatever the investment which has happened in the past year that is the incremental depreciation is reflected in the current year numbers of H1 and current year also we are incurring a cost to the extent of close to 30 Crores to 35 Crores is what my capex. So we can take the depreciation over and above that.

- Sunil Kothari:** So basically roughly 12, 13 Crores of depreciation per quarter and around 89 Crores finance cost which will continue as per Ind-AS.
- Siva Ganapathy:** Correct including Ind-AS yes.
- Sunil Kothari:** Thank you Sir, thank you very much.
- Moderator:** Thank you. We have next question from the line of Ankit Gupta from IndiaNivesh PMS. Please go ahead.
- Ankit Gupta:** Sir you said that our H1 is generally weaker than H2 in terms of sale as well as gross margins, but Sir generally is not that logic pertains that winter wear is more expensive than the summer wear and also more complex to make, but should not it is another way around.
- Siva Ganapathy:** Good question, what happens is that, while that is true, it is not that in H1 we only make winter wear, we also make other garments which are often there are garments like shirts or trousers and stuff like that which gets made year around and it is always a blend of everything, it whenever I say in H1 we make outer wear it is outer wear heavy versus in H2 it is spring summer heavy and the volumes that we see in the H2 timeframe is so high that the number of garments that we produce is very large that it is more than makes up for the outer wear. For example, if an outer wear takes a 180 minutes to make and spring summer wear may take 25 minutes to make, I may make many more garments, I may make seven garments or eight garments in relation to one outer wear garment. So effectively from a topline perspective I more than make up for in terms of volumes in the second half.
- Second point is regarding the raw materials; most of the raw materials that we use for spring summer wear tend to get procured locally that is from India versus for outer wear which we tend to buy from Asia which is China, Taiwan, Korea and some of these markets. So our export incentive earnings is better transport and logistics cost is better in H2 because we are procuring locally as I said incentives realization is better so all of these in a better H2 margin.
- Ankit Gupta:** And Sir secondly regarding the employee expense you explained the one-time wage expenses, but what can be the operating leverage in this business, like when we increase our sale to say 500 Crores per quarter of whatever, do our employee expense will still remain to be 33%, 34% of sales or do we foresee a decline in that.
- Siva Ganapathy:** I would answer this question in a slightly different way for your understanding. So when we talk of growth let us assume that today I have 15 factories and I am producing revenue of whatever 350 plus Crores in a quarter. Now if I look at my EBITDA margin at a factory

level, my EBITDA margin is in excess of 15% at a factory level. So my incremental revenue which comes by let us assume that, if I set a new factory etc., would yield a much higher EBITDA margin that can give you a sense of what kind of operating leverage we could get, that means my cupric cost or my other designer merchant I think cost will not scale up while my margins will scale up faster, incremental earnings on incremental revenue will be better.

Ankit Gupta:

Okay Sir, thank you.

Moderator:

Thank you. We have next question from the line of Hardik Solanki from Moneybee. Please go ahead.

Hardik Solanki:

Congratulations Sir on good set of number. Sir during the half year ended, inventory days has gone down, so just wanted to understand that aspect. Secondly if you come to a cash flow, what has had see during the half year ended as a purchase of plant and machinery of 24.75 Crores, so however I do not see any incremental net block, but is it because of the Ind-AS impact.

Siva Ganapathy:

No, it is on account of the cash flow, even though the current quarter, current H1 purchase is close to 12.5 Crores, the opening purchases whoever we made the cash outflow which for that has happened for because of the extended credit it was lying in the creditors account. So when we drop the cash flows, the cash flow takes here the actual cash outflow and that is the reason you see that the 10 Crores which is paid for the past year purchases since reflect to be there.

Hardik Solanki:

And about the write-off use of because of the India and we are seeing an asset increase by 49 Crores and the liability side we are seeing a 26 Crores. So I say when we do a creating an asset and creating a liability somewhere it should match right.

Siva Ganapathy:

That is what is reflected in the notes to accounts we have mentioned that the opening balance whatever the differential has been adjusted against the shareholder expense, if you really notice our notes to accounts we have mentioned that.

Hardik Solanki:

And Sir just want to just I am believing to claim the FPI limit we have increased the expend limits on 24% to 49% so and even on 5th or 6th of September as any classification in share of lease, I just want to understand the expend because increase in the expend limit is there any thought process just want to understand your thought process behind that.

Siva Ganapathy:

Can you repeat the question your voice was very strained we could not hear you properly.

Hardik Solanki: Yes, so during the last financial year we have increased from 24% to 49% what I can see in balance sheet.

Siva Ganapathy: It has gone up from 24% to 49%.

Hardik Solanki: FPI limit that was just a recognition we have passed so just want to understand the thought process behind that.

Sathyamurthy: Sorry we cannot hear you can you please...

Siva Ganapathy: What has gone from 24% to 49% if you can ask the question clearly it will be helpful?

Hardik Solanki: Yes, so it has moved from 24% to 49% during last you have mentioned in last annual report so just want to understand the thought process as we have increased in limit so are we looking for some foreign money or any, I just wanted to understand thought process behind that and during the quarter what is the export incentive we have earned.

Siva Ganapathy: Yes, okay you are talking about export incentive.

Hardik Solanki: So what is the export incentive and second is FPI limit.

Sathyamurthy: What is the second thing you are asking can you please ask?

Siva Ganapathy: Export incentive and...

Hardik Solanki: FPI limit, so we have increased the limit of shareholding by register so that what I can see in annual report from 24% to 49%.

Siva Ganapathy: With reference to export incentive current quarter we have earned 22.6 Crores is our earnings for the current quarter, the previous quarter it was 14.4 Cores.

Hardik Solanki: That is in line with the revenue growth as well as like the increased export incentives given by the government.

Siva Ganapathy: Then FPI I will refer the point and I will come back I do not have that immediately I will just tell you by the time we conclude the call.

Hardik Solanki: Okay, thanks.

Moderator: Thank you Sir. We have next question from the line of Mulesh Savla from M M Savla Consultancy. Please go ahead.

- Mulesh Savla:** Hello Sir heartiest congratulations for good set of numbers in seasonally weaker quarter and look forward to a blockbuster H2. My first question Sir is on new facility by anyway can we shift to the new incentive scheme announced by the government for starting new manufacturing facility.
- Siva Ganapathy:** So yes, answer is yes we are working on it and we are working to get some, we have already as I said identified facilities in two states in Madhya Pradesh as well as Andhra Pradesh for expansion in the future we are also looking at leasing facilities in other states the benefit in these states are far superior to what comes benefits in terms of both capital incentives as well as labor incentives than what we obtain in our current state of operations which is Karnataka. So we are looking at all of these pretty actively we are also working with banks to get a term loan which would help us in applying for top subsidies which we get for new capacities that we can put up and the intension is that by end of this year we would certainly be commencing work on both of these facilities which will yield some incremental capacity towards the end of next year.
- Mulesh Savla:** And there is some just accounting clarification one that exceptional items note we have given in note number 5 does it have any impact on the financials and what is the current status of that.
- Sathyamurthy:** Yet the in terms of the exceptional items we have already provided for in the previous year itself, it is in the note, I mean the notes explained very clearly its intention is to we are pursuing that, we are pursuing a legal action against the party for recovering the amount in the meantime we are also trying to really see if there is any alternate I really...
- Mulesh Savla:** Mr. Sathya, I am talking about the other exceptional item that which is saying the fair value of some asset which is held for sale or something like that.
- Sathyamurthy:** That is correct so if you recall in Q4 of last year we wrote it off we did not write it off we provided for it 100%. So it has been provided for now we are attempting recovery and see if we can collect whatever we could.
- Mulesh Savla:** As of now no implication on the financials this is an information, and what is the status what are the chances of recovery.
- Sathyamurthy:** It looks very weak, but we have not given up we are attempting it.
- Mulesh Savla:** Great that is good and just a small understanding that previously you said that 2.44 Crores has been debited provided in the current quarter is it part of what expenditure in the current quarter in financials.

Sathyamurthy: In the current quarter it is part of the other expenses it is reflecting we are already provided it is a provision for doubtful debts we have provided.

Mulesh Savla: Alright Sir thank you so much and wish you all the very best. Thank you.

Moderator: Thank you Sir. We have next question from the line of Jose Francis from Geojit Financial Services. Please go ahead.

Jose Francis: First of all, congratulations on the good set of numbers. Sir my first question is that I want to know what was the raw material mix for the current quarter Q2 and the volume for exports and domestic.

Siva Ganapathy: Yes, what is the raw material mix for the current quarter, right?

Jose Francis: Yes.

Siva Ganapathy: The raw material percentage what we had the consumption percentage is around 57.8% current year.

Jose Francis: Excuse me Sir.

Siva Ganapathy: It is 57.8%.

Jose Francis: And the volume for exports and domestic.

Siva Ganapathy: We have overall volumes, the overall volumes was 17.1% volume growth during the quarter.

Jose Francis: Sir you had talked about new client additions this quarter. So how much has that taken price and what is the contribution in a percentage wise to the revenue?

Siva Ganapathy: The contribution of a new client in the quarter is very, very marginal because either we start typically with a pilot orders and then start expanding upon it, it will take a year before the volume from the new clients will be pretty significant.

Jose Francis: And how many are in line right now Sir.

Siva Ganapathy: But if the volume from the clients that we on-boarded last year has taken up sharply and we are currently in this quarter we will be doing about 15-odd Crores from the new customers we on-boarded last year as far as new customer which we got now our revenues have been of the order of about 8 Crores or there about.

Jose Francis: Okay Sir thank you that is all.

Moderator: Thank you Sir. We have next question from the line of Premal Sanghavi from Vama Financial. Please go ahead.

Premal Sanghavi: Just want to know if you can share what was the top five clients of your sales if you can share in the current year or the current quarter.

Siva Ganapathy: The top five customer names.

Premal Sanghavi: Names and what part of your sales would be.

Siva Ganapathy: Okay what proportion of our sales, just give us a minute we will give you the number.

Premal Sanghavi: And the second question was what confidence do you get that there was one client of you who filed for bankruptcy. So what confidence do you get in that these clients will not field the other new clients not field bankruptcy going forward.

Siva Ganapathy: Let me answer the first question our top five clients contribute about 70% of the revenues this is for quarter two and coming to your next question of what gives us confidence that other clients will not file for bankruptcy we tend to have export insurance cover for other customers so we are protected from that perspective Sears which was a legacy client for us historically the exports coverage was not extended to Sears because of their own weak financial situation and that is the reason why we suffered on account of Sears suddenly declared in bankruptcy but we do not foresee that problem with all our other customers.

Premal Sanghavi: And what would be the current debt now in your balance sheet and some you foresee for the next six months.

Siva Ganapathy: We have 393 Crores is the gross debt but the net debt is 197.

Premal Sanghavi: And how do you foresee for the next six months how you plan to raise something or retire what is the plan.

Siva Ganapathy: Because the volume increase is there what we anticipate we will continue at the current level our estimated debt what we are really looking at is the net debt we are looking at 260 Crores.

Premal Sanghavi: Thank you very much.

Moderator: Thank you Sir. We have next question from the line of Jayant Mamania from Care PMS. Please go ahead.

Jayant Mamania: Congratulations Sir for the robust revenue growth. Sir I want to understand our price formula or price mechanism which does not allow us to charge more than 5% to 7% at the operating level, so what was that factors because everything is in house raw material, labor cost and our scale is also good so what are those factors which does not allow us to charge margin beyond 5% to 7%.

Siva Ganapathy: See what happens is this is a B2B business and most of our customers are large customers so they tend to have a good understanding of the cost structure, not just in India but also globally so cost structures in Bangladesh, China, Vietnam, etc. They are also aware of what kind of incentives are available and all of that the raw material prices etc. So what allows us to charge or get our pricing is a) if we have an exclusive capability which only we can do and others cannot do that we can tend to price higher, b) if we have access to raw material or fabric at a better price than others because of our long-term relationship with mills that gives us an added advantage, c) if we play to India's trends which is more cotton viscose etc., then the overall cost effect of fabric etc., because lower margins improved and of course, d) if we diversify our customer base to customers who not necessarily have that clout of large buying, so big brands tend to have very large buying houses with in turn tend to squeeze the prices and make one compete with others where a smaller brand sometimes can we may be able to get better pricing because of stronger relationships that we build with them. So it is all of these plus the product portfolio that we work with will determine what kind of margins which we work with that we earn we are working on all of these fronts to see how we can improve our margins and all of that what I mentioned is on the customer side and internally looking we are also looking at how do we improve our productivity which means that if I am producing 100 garments in a line can I produce 1050, 10100 that incremental production comes at no manufacturing cost only raw material cost plus also looking at reducing the rejection which is also on a downward trend month-to-month so all of those indeed help us in our margins.

Jayant Mamania: Sir however scale can be considered as compared to players in the Vietnam and Bangladesh.

Siva Ganapathy: So Bangladesh and Vietnam has very large players while we are reasonably comparable there are players who are four to five times bigger than us as well.

Jayant Mamania: Thank you Sir that is all from my side.

- Moderator:** Thank you Sir. We have next question from the line of Smit Jain from Prithvi Finmart. Please go ahead.
- Smit Jain:** Sri what is our capex plan for this year and next year.
- Siva Ganapathy:** For this year we have plan for 35 Crores for the new capex is for the next year for the new unit we are working on close to 60 Crores is what is our plan for the new unit. Normal capex every year we are anticipating 25 Crores for the next three years.
- Smit Jain:** And Sir we were going to; you are saying that to reach 2100 Crores topline we have to put a new plant so what is our plan regarding that.
- Siva Ganapathy:** So we are looking at two new factories which where we will incur the full capex as what Sathyamurthy just indicated incremental capacity we will be looking at even taking up factories on lease or other modality so that our upfront capex is reasonably minimized. We will also be working on expansions within our existing facilities to take them to the maximum levels possible I can see that in our existing facility itself we have the ability to take up another 7% to 8% capacity through incremental lines and incremental investments. So combination of all of these will take us getting to 2100 Crores topline growth will be driven by all of what I said.
- Smit Jain:** So what timeline we have set to reach to 2100 Crores.
- Siva Ganapathy:** See we are working on an aggressive growth when we started the year we had anticipated a certain level of growth I was not anticipating more than 15% growth in this financial year given how the industry is shaping up, the industry continues to be where it is, it is not that the industry is growing much on the contrary industry is growing flattish to under 5% so we on the contrary have been able to grow in H1 at least well in excess of 20% and will sustain the momentum in H2 as well so we are actually beating our own estimates on the growth front this year and hope that our efforts will allow us to sustain this momentum, so then you can make your own projections on how soon we can hit there our effort is to hit as soon as possible.
- Smit Jain:** And Sir on margin side can we achieve a 9% margin this year.
- Siva Ganapathy:** EBITDA margin you are saying.
- Smit Jain:** Yes.

- Siva Ganapathy:** As I said the EBITDA margin is a function of the material content as well so in that sense it is not the most appropriate or accurate way of looking at the business I keep giving this example internally like if I take an order for a cotton shirt where let us say I price the garment at Rs.200 where my material cost is Rs.100 manufacturing cost is Rs.80 and profit is Rs.20 then my EBITDA margin looks 20 on 100 which is 10% and if the customer gives me a linen shirt or a silk shirt where let us say the material content is Rs.200 and other things being the same manufacturing cost and profit the notional profit will look like Rs.20 on a Rs.300 garment so the profit margin looks much lower so the point I am making is it does not matter just to look at it from that perspective EBITDA margin or look at EBITDA margin with a small degree of caution which is getting induce due to material content this is point number one. Having said that I can anticipate that our margins are on a strong trend and will compared to last year we will probably be maintaining those levels given two reasons one the wage cost have gone up this year and we have not been able to pass it on to our customers because it has not been announced as yet by the government which is very unfortunate most of the year is over and we have still not got an order from government of Karnataka regarding wage cost increase so there is a bit of that and that once we get it we probably will start pushing into our costing next year onwards. Second we are also anticipating that we are also watching how the MEIS and other things shape up going forward we are working with the government and indication seem to be that they are all going to be supportive of export oriented industry and we will keep it at these levels if all of those are maintain then we can keep our margins high.
- Smit Jain:** So more or less it will be in the range of 7% to 9%.
- Siva Ganapathy:** We are working towards it we are working hard to make sure that our margins in H2 are superior and working towards those kind of margins as we speak.
- Smit Jain:** Thank you that is it from my side.
- Moderator:** Thank you Sir. We have next question from the line of Juvansh Jaswani from Mittal Analytics. Please go ahead.
- Juvansh Jaswani:** Sir first question is on the incentive part; I think you mentioned 22 Crores of this quarter right.
- Siva Ganapathy:** Yes.
- Juvansh Jaswani:** And what was it for the previous quarter.
- Siva Ganapathy:** Previous quarter meaning Q2 last year.

- Juvansh Jaswani:** Yes, Sir corresponding quarter.
- Siva Ganapathy:** Q2 or Q1, last Q2 or Q1 FY2020 which one are you looking.
- Juvansh Jaswani:** Q2 FY2019.
- Siva Ganapathy:** 14.5 Crores.
- Juvansh Jaswani:** And Sir in percentage terms what is the current incentives and do you see any significant changes going forward we are looking at all the discretions actually have going on, on incentives and with the trade organizations.
- Siva Ganapathy:** So incentive percentage is there is the US is pushing for reduction in MEIS what the finance minister indicated was that they will consider looking at some alternative mechanism instead of MEIS and they have worked out a mechanism called RODTEP which meets with WTA requirement so to that extent the export incentives alternate mechanism has been worked out as far as the percentage incentives are concerned a lot is under discussion and we have to see how it pans out there is a possibility that going forward the government may reduce the incentives by 2% but these are all speculative at this point in time we are still waiting to hear exactly from the government clearly from an industry perspective we are trying to push for as much export incentives as possible to get a level playing field with the competition globally. Once all these numbers are clear we tend to use all of this up in pricing and then work with our customers accordingly so a clarity on this is more important than exact quantum in that sense. As far as Q2 export incentives as a percentage is concerned of...
- Sathyamurthy:** It is 8.7% as far as Q2 is concerned 8.7% of export sales and Q3 is in the range of...
- Siva Ganapathy:** Q3 or in last Q2 Sir.
- Sathyamurthy:** Okay last Q2 is also it is around 6%.
- Siva Ganapathy:** 6%, 6.2% or something last year to whereas this Q2 is about 8.74%.
- Juvansh Jaswani:** And Sir like you mentioned to a previous participant about growth that we have been able to grow at a higher rate than the industry so could you just throw some more light on where this growth is coming out for us is it that we are going into new geographies or is this because of new products of maybe the change in product mix can you just throw some more light on the drivers behind this growth.

- Siva Ganapathy:** There are three drivers one is product mix we took up a lot more complicated outer wear business where we have seen strong traction in terms of revenue number two the customer diversification that we did by bringing on-board new customers we tend it to grow more with some of our newer customers which also helped us and number three we shifted our business from our US exposure of say 65% of our revenues to US to almost 75% or even higher to the US given that, that market was showing robust growth while Europe was slowing down so focusing on the right markets focusing on a diversified customer base and product all three collectively contributed this.
- Juvansh Jaswani:** And going forward we should expect similar product mix in terms of the summer collection also because in Q3, Q4 we will see the summer collection coming in. So can we have a comparable kind of numbers in those quarters?
- Siva Ganapathy:** When you say numbers meaning you are talking of growth percentages.
- Juvansh Jaswani:** Yes Sir.
- Siva Ganapathy:** So growth percentages as I said in H1 in Q1 and Q2 we grew by 22% and 24% I am anticipating a better than that number as far as growth percentage is concerned in say the third quarter.
- Juvansh Jaswani:** So I was trying to understand it more from the product mix perspective like you mentioned in H1 it is because of the...
- Siva Ganapathy:** So product mix majorly in these two quarters are clearly on the spring and summer wear so the product mix issue is relatively muted in the third and fourth quarter where we tend to produce a lot of spring summer wear the accession in our case is that we are actually engaging with several customers on a design led kind of growth with them so we are manufacturing a lot of our own designs for our customers in proportion to previous year so that is also helping us a bit more growth but in terms of technical aspects of the product it is fairly less complicated as compared to what we do in the previous quarter.
- Juvansh Jaswani:** And Sir the capex that you mentioned for this year is 25 Crores right.
- Moderator:** Sir I am sorry to interrupt, please come back in the queue.
- Juvansh Jaswani:** Sure.
- Moderator:** Thank you. We have next question from the line of Amit Doshi from Care Portfolio Managers. Please go ahead.

Amit Doshi: Sir this about this one of the slide which prominently discuss is the benefit that can accrue to us pursuant to this US China trade war what could be your scenario or have you thought the scenario in case things fair of I mean they actually come to some sort of an arrangement and this benefits do not accrue that as we anticipate. So do you see that as a scenario happening and if at all yes, that what could be our plan in that benefit does not accrue to us because you initially mentioned that directionally we see business shifting to us from China.

Siva Ganapathy: Understood. So whatever happens now whether they get into an arrangement do not get into an arrangement these things do take time because we are not talking of just one event happens and manufacturing shift there is a huge amount of capacity like China has ten times the capacity manufacturing garment manufacturing capacity as of India so it takes a long time for such capacity to move that is point one second it is not just the manufacturing capacity but it is also the raw material capacity so it is an ecosystem the government manufacturing it in turn supported by fabric mills as well as trim supplier the buttons, the reverts this is it and so on and so forth the interlining and so many material which in turn going to a garment which also are located in China and they have said they have built up fairly large scale capacities in that country. So any movement has got a certain time associated with it, it takes time for all these supply chains to get realigned, it in the event this US China trade relation pause and things improve the fact remains that the cost structure in China is very, very high and increasingly US buyers are vary that the issue on China will revisit them later, so the directional trend is what we are talking about when we allude to US, China trade war rather than the immediate preceding negotiations one way or the other, the directional trend is that people want to diversify the manufacturing our sourcing base away and get a more realistic spread or a manageable spread of sourcing locations across multiple countries when they look at the landscape while China continues to dominate the manufacturing landscape as far as garmenting is concerned there is a possibility to look at some of these countries because of not very large capex is required for setting up facilities and that is the reason why most of these large buyers tend to be looking at diversification which will in my opinion happened in next two, three years to India so to that extent it allows us the time to absorb the capacity build up our capacities as well in order to gain from this broad macro trend.

Amit Doshi: Sir in the initial question one you mentioned that there is two new customers international customer that have been acquired has approximately 8 Crores of contribution in this quarter and last quarter some new plants have added and the growth now this is 15 Crores so can you were the numbers also same because I believe last year I think you had more international customers acquired so can you give some comparable number as to what became 15 and what this 8 could become I mean just to understand the growth trajectory of a particular client a new client entering into bouquet.

- Siva Ganapathy:** Say the new customers tend to grow initially first few quarters they will tend to remain at the same level once we come in, once they come in and typically in the next season that they tend to pickup volumes so see know if let us say I have just to give you a sense if I have 10 Crores revenue from a new customer in a particular quarter then the next quarter say there is four quarters from now that is the subsequent year same quarter I could expect that particular revenue to grow by about 20%, 25% and then after that it will scale up even faster till it reaches a certain level so it tends to stagnate for a while as they also understand our capability see how the, are there any product defects that get called out from the retail stores are there any product returns from the product manufactured so all of those due diligence is to take time before then the ramp up starts.
- Amit Doshi:** And this on the forex thing Sir first half we had about 10 Crores of loss on forex this year we have about 13 Crores of gain on forex can you share because this numbers make sizable difference to our overall number so what is our policy on that and how do we want kind of such kind of fluctuations...
- Siva Ganapathy:** So what happens is we tend to hedge as soon as we book an order we tend to hedge the order at for the period at which our deliveries are expected so forex gain or forex losses are usually seen in the P&L but from a purely business perspective they are all part of the business so they are intrinsic part of the business because customers tend to price and all these foreign exchange levels and our P&L in the meanwhile is constructed at the spot rate which prevails during the particular quarter while we actually work on the hedge rate and the difference between hedge and spot rates indeed come in the form of either a forex gain in the revenue side or forex expense on the cost side but reality is business is done at a hedge rate. So I view forex gain or a forex hit both as part of my business income or business expense because that is fully considered in our pricing and in our booking plans and business plans.
- Amit Doshi:** So we hedge 100% practically.
- Siva Ganapathy:** We hedge yes not 100% almost 80% because we also have a natural hedge in terms of imported material so wherever there are imported materials we remove that and then hedge accordingly.
- Amit Doshi:** Thank you Sir, thank you and wish you all the best.
- Moderator:** Thank you Sir. We have the last question from the line of Riddhesh Gandhi from Discovery Capital. Please go ahead.

Riddhesh Gandhi: Great congratulations on your revenue growth, but just like quick question if you adjust for the incremental export incentive which we have received the actual absolute EBITDA is also lower this quarter so how should we be thinking of that.

Siva Ganapathy: Sorry say that again, if we adjust for incremental export incentives, okay so incremental export incentives we have incremental wage increase so our incremental export incentives was closer to 6 Crores wage increase was also at the same level. So and as I said the wage increase has still not been notified we have just provided for it we are awaiting a formal notification so this is not something which we have incurred as of now but we are anticipating that unfortunately as I said the notification has also not come in which case we have not priced it into our garments as well. So the way to read this is that look Indian incentives are somewhat given to address Indian cost structures, tax structures etc. So export incentives are factored in when the customers do tend to price tend to give their orders and the cost of wages are also factored in, we have a unique situation where I am not able to pass on my wage cost but yet my customers are already factored in my export incentives. So in many ways this we are actually at a disadvantage and have yet covered up and done well as far as the EBITDA is concerned. Did you understand the explanation what I gave.

Riddhesh Gandhi: No I get Sir, and just to understand because this entire adjustment of the export incentives actually impacts us with a highest given we have got low EBITDA where actually our margins even our product mix compared to actually other tax our players so how do we think about this potential adjustment which may come through and a 200 basis points potential decrease in the export incentives have given and we had a lost the actual ruling and take the WTI.

Siva Ganapathy: So if that happens so once it is transparent and we can work with the business accordingly so I am not setting too much about the export incentives going down by 200 basis points or otherwise once there is absolute clarity on it we would go on without business accordingly and start working on the business customers also tend to know that this is what the export incentives are obviously it augurs well for Indian business and India to get a higher share from global other global sourcing destinations to get more business if the export incentives are higher so from an Indian competitiveness perspective a higher export incentives is always better it will accelerate volume flow it to India and hence increase job creations in India but if it is not there I think we will price it and I do not anticipate while there may be a brief hit on EBITDA a portion of it on the EBITDA I think we will recover back pretty quickly because we will align our product mixes and we will align our poor pricing to account for that.

- Riddhesh Gandhi:** Sir if I understand that although there may be with a 32%, 40% hit in EBITDA all are seeing equal of the export incentive goes away in the event that we would be also going away so nobody is talking about it on the contrary the garment seems to be indicating the export incentive side...
- Siva Ganapathy:** No I am saying a 200 basis points decrease in the export incentives we will be able at better priced at through our clients effectively?
- Riddhesh Gandhi:** Going forward, if it happens suddenly abruptly in a quarter obviously we have already booked up our business.
- Siva Ganapathy:** Yes, so existing orders but in the wake of future orders effectively?
- Riddhesh Gandhi:** That is correct. We will tend to it takes a couple of quarters before you can fully bake it in or something like that it takes it works with the time lag but it eventually gets absorbed a small percentage changes can get easily absorbed and in the business going forward over a few quarters.
- Riddhesh Gandhi:** Got it thanks a lot and all the best.
- Moderator:** Thank you very much Sir. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing comments. Sir over to you!
- Shradha Agrawal:** Thank you so much for asking all these questions and interest in Gokaldas exports I can reiterate our commitment to continue working strongly to grow the business and watching the profit margins at the same time and ensuring delivering a strong financials from quarter-to-quarter we are committed to sustain expansion we are committed to business practices which would allow us to compete with some other best globally and working hard towards that thanks for your support and commitment to Gokaldas Exports we feel that apart from doing good business we are also working hard to make a difference in the Indian economy we today employ 25000 people of which over 20000 are women these are women from the lowest economic strata of the society and we I am proud that we would be amongst the top few companies providing employment for women and we want to continue to grow that so that we generate formal employment for people in the country these are people who get PF, ESI all kinds of benefits and we are very meticulous about meeting all the labor law requirement in the country so we are an ethical fully compliant company which generates a lot of employment and hope that this works well with the need of the country as well. Thank you so much gentlemen, talk to you soon.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Asian Markets Securities that concludes this conference call. Thank you for joining with us. You may now disconnect your lines.