gokaldas exports ltd

GEL/SEC/2023-24/93

February 09, 2024

BSE Limited
Phiroze Jeejeebhoy Towers
25th Floor, Dalal Street,
Mumbai – 400 001

Scrip Code – 532630

National Stock Exchange of India Limited
The Exchange Plaza
Bandra-Kurla Complex, Bandra (E),
Mumbai – 400 051

Scrip Code: GOKEX

Dear Sir / Madam,

Sub: Transcript of Q3 FY'24 earnings conference call

Pursuant to Regulation 30 and Regulation 46(2) (oa) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of Q3 FY'24 earnings conference call held on February 02, 2024. The Transcript is also available on the Company's website at www.gokaldasexports.com.

This is for your information and records.

Thanking you,

Yours truly,
For Gokaldas Exports Limited

GOURISH GANAPATI HEGDE

Digitally signed by GOURISH GANAPATI HEGDE
Date: 2024.02.09 23:26:55 +05'30'

Gourish Hegde
Company Secretary & Compliance Officer

Encl: as above

"Gokaldas Exports Limited
Q3 FY24 Earnings Conference Call"
February 02, 2024

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

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

Moderator: Ladies and gentlemen, good day and welcome to Gokaldas Exports Limited Q3, FY24 Earning Conference Call. 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, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Binay Sarda from E&Y. Thank you, and over to you, sir.

Binay Sarda: Thank you, Riya. Good morning to all the participants on this call. Before we proceed to the call, let me remind you that the discussion may contain forward-looking statements that may involve known or unknown risks, uncertainties and other factors. It was reviewed in conjunction with our business risks that could cause future result performance or achievement to differ significantly from what is expressed or implied by such forward-looking statements.

Please note that we have mailed the results and the presentation. and the same are available on the company's website. In case if you have not received the same, you can write to us, and we'll be happy to send the same over to you.

To take us through the results and answer your questions today, we have the top management of Gokaldas Exports Limited represented by Mr. Sivaramakrishnan Ganapathi, Vice Chairman and Managing Director; and Mr. Sathyamurthy, Chief Financial Officer. We will start the call with a brief overview of the quarter gone past and then conduct the Q&A session. With that said, I'll now hand over the call to Mr. Siva. Over to you, sir.

S. Ganapathi: Thank you, Binay. Good morning, everyone. Happy to have you at our earnings call for the third quarter of FY24. Our company, Gokaldas Exports is one of the India's largest apparel manufacturer exporting 50+ countries. We currently employ about 33,000+ people, a large proportion of whom are women -- this is a sector that employs over one crore people, has the potential to industrialize small towns, create more jobs per unit investment as compared to any other industry and has a high share of revenue disbursed as wages.

In short, a highly desirable industry for social upliftment. In this quarter, the revenue grew by 6% Y-o-Y and 10% sequentially. Just for the context, Indian apparel exports in this quarter witnessed a decline of 12% Y-o-Y and remained flat sequentially. This indicates the resilience of the company in the face of adversity. I'm given to understand that in December 2023, US monthly apparel store sales are estimated to be about $29 billion, which is 9% more than December '22.

Retail sales in '23 has been higher than in '22. However, when one looks at the import statistics, the data for Jan to November 2023 indicates that all major markets have imported substantially less. US imports were lower by 21%, UK by 17%, EU by 5% and Japan was less by 4%, these markets collectively imported 16% less during this period as compared to the previous period.

However, improving supply chain trend and either inventory positions with retailer are helping facilitate a return to a more normalized planning and ordering time line, bringing in greater predictability for manufacturers like us. It has taken almost 12 to 18 months for retailers to unwind a lot of the excess inventory positions that were built up in early 2022, when inflation and global turbulence began to impact customer demand.

Sales growth is now outpacing inventories for many brands, which is a welcome sign. We are expecting a positive momentum for us in the calendar year 2024 and expect sequential growth to pick up slowly over the next few quarters. In this quarter, our EBITDA margin stood at 12.6%, improving Q-o-Q by 163 basis points, due to better operating leverage. However, despite an increase in statutory minimum wages in Karnataka, employee ramp up in anticipation of volume growth in Q4, start-up costs at our MP unit and certain one-off expenses, the company managed to contain the margin decline to 112 basis points on a Y-o-Y basis.

In the nine months of the financial year, the company generated INR141 crores in cash from operations and covered the capital expenditure of about INR102 crores. Our new manufacturing unit in Madhya Pradesh is expected to turn profitable in the next forthcoming financial year, while offsetting the initial operating costs incurred in training the large number of employees and bringing them to productive levels.

Fabric processing unit in Tamil Nadu is an advanced stages of completion, and we expect trial production to commence sometime in Q4FY24 or maybe early Q1FY25. We have completed our acquisition of Atraco in January 2024 and are in early stages of integrating the operations. We will be consolidating Atraco numbers from the next quarter, while Atraco's order book looks good, the initial quarter of Atraco may be impacted by some delivery challenges brought about by lost production people days on account of rebadging the employees consequent to asset purchase in Kenya.

We will view the long-term macroeconomic factors as favourable for growth of the business. With this in view, we signed a definitive agreement to acquire Matrix Clothing we feel that Matrix with a strong track record of performance expands the company's offering brings in a stronger position in the knits category, introduces new customers, improved geographical spread to Europe and complements our investment in fabric processing. We are confident that our growth strategy will lay a solid foundation for a strong and sustainable future.

I wish you all a Happy New Year, and thank you for listening. I will 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 Shagun Lalwani from HDFC. Please go ahead.

Shagun Lalwani: Hi. Sir I just wanted to ask, is there -- if you could provide any details on the PLI scheme that the company is receiving and what details will be there? How will you proceed with that? How will you envisage that?

S. Ganapathi: So there were -- the first PLI scheme, we had applied for PLI scheme, and we are a recipient of the award from the government, the factory in Madhya Pradesh qualified for that PLI scheme, that's the earlier one, which came two years back, which incentivizes production of apparel using fabrics with synthetic content. For the moment, looking at the product profile, etcetera, we are not very hopeful of taking advantage of the PLI. And this is a general issue with the industry as such.

The industry is also discussing with the government on other PLI, which is not product restrictive but having said that, there is no clarity on when -- if or when that will be announced. So at the moment, as I have maintained in the past, we are not banking on PLI as a scheme to support. However, if we are able to pick up our synthetic products, exports, we may be able to avail of PLI benefit sometime in the future. We do qualify through our manufacturing unit in Madhya Pradesh.

Shagun Lalwani: All, right. Thank you.

S. Ganapathi: You're welcome.

Moderator: Thank you. Next question is from the line of Akshay Kothari from JHP Securities. Please go ahead.

Akshay Kothari: Yes. Thanks for the opportunity sir. Sir, what is the price to book we have paid for Matrix?

S. Ganapathi: We will get back to you on that. Let's carry on with the questions. I will come back to you, our CFO will just...

Akshay Kothari: Alternatively, if you can tell me what would be the goodwill amount recognized on Matrix acquisition either of both? Yes.

A. Sathyamurthy: The share purchase value is i.e equity value is INR334 crores. The book value in Matrix design is about INR155 crores. That is represented by the equivalent amount of debt. So the net assets, being acquired s about INR155 crores. The remaining amount that will be recognised as goodwill in Gokaldas books when we consolidate the financials will be around INR332 crores.

Akshay Kothari: That is actually huge. Okay, sir. That's it from my side. Thanks.

Moderator: Thank you. Next question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Hi. Thank you for the opportunity. Congratulations on this acquisition. I just wanted to understand what made the promoters exit this business and sell this because I saw the numbers that have been released in the press release, the company has been growing in top line.

S. Ganapathi: So, this is again -- it's a personal decision of the promoters. And obviously, they are looking at succession and many other issues that they may have to deal with. So I don't want to speculate on that. But at the moment, it looks like they want someone to take over the assets, who can protect the asset in the long run, and grow with it.

And the existing promoter is also supportive of the company under Gokaldas. So that that understanding is clear between both of us. And he wanted to see someone take over the assets in the long run as he wants to retire and pursue other things in life. So it's a combination of all of these factors, which has really led to the existing promoter to look at an eventual exit from Matrix.

Prerna Jhunjhunwala: To follow-up on this, the existing promoter will also be managing the factories and the business post-acquisition and how long?

S. Ganapathi: So he will be available for as long as we need initially, definitely for a year and even longer. Remember, he will also have a stake in Gokaldas, post the stock swap. So in that sense, there is some degree of continuity for him as well. And there will be a long enough transition period.

He is quite active in the Indian apparel industry, having served the industry for over 40 years, and still believes that he will have the energy to go support the growth of the business. So I count on his support and on his goodwill to continue to run not just the Matrix business also, but even advise us on Gokaldas Exports business. So he will be available for long enough.

Prerna Jhunjhunwala: That's great. Sir, what -- who will be the top clients of Matrix, if -- I'm just trying to understand the client mix?

S. Ganapathi: So we may have some disclosure related problems as far as the customers are concerned. We have not talked to their customers at the moment from the perspective that can be disclosed their names in public. But suffice to say that these are top-notch customers, customers who buy high-quality knit wears. These are very good brands. And in due course, when we have the permissions, we will let you know.

Prerna Jhunjhunwala: Okay. How would be the mutually exclusive? I mean, do we serve those customers, the top customers existing or I mean they are building new acquisition for Gokaldas as well?

S. Ganapathi: So if I look at the top three, four customers, we don't serve them. So it is a mutually complementary set of customers. There are two customers, who are common, but those two customers for them are absolutely negligible in their revenue. So by and large, there is a customer complementarity between ourselves and Matrix.

Prerna Jhunjhunwala: That's helpful, sir. Sir, going on to our Gokaldas numbers. Just wanted to understand how is the demand scenario shaping for future? We understand the December quarter has not been that great, but how are the order books and customer inquiries and other things shaping up for the next few quarters and the year , how the customer is behaving in current price deflation kind of scenario?

S. Ganapathi: So many of the customers are indicating that the excess inventory that they were having has come down. But this is not a uniform story. There are some customers, who are still grappling with high inventory, but many of them, especially in the fashion segment, have managed to liquidate a substantial portion of their inventory. So many of them are now coming back and are restoring their purchases because most of last year's retail sales were catered to from the excess inventory that they have built up.

Keep in mind that if I look at the US market last year, the retail sales were up by almost like 4%. When I say last year, I'm talking on calendar year '23. So the retail sales has been fairly good. It was just the inventory, which was preventing the brands from buying more. As they have liquidated the inventories or in the last stages of liquidating their inventories, they are coming back to buy more.

So when I look at the prospects for the company in the quarters ahead, we see that there is a reasonably good pickup. And we had indicated about this much earlier, right, even in the early part of this year. And you saw that in Q3, we've seen this pick up. And that's the reason why revenue Y-o-Y is up 6% in this Q3. And I think this trajectory will continue going forward. My sense is that the customers are coming back for more, albeit not all customers, but many customers. And we will see at least year-on-year, quarter-on-quarter growth going forward.

Prerna Jhunjhunwala: Is there any pricing pressure also that we are facing because we hear that so many factories are still underutilized and demand has been weak and stuff. So is there any pricing pressure also? Or it's not there?

S. Ganapathi: Yes, it is there. If you look at India's exports also in the third quarter was 12% lower than previous year. So obviously, there is a capacity demand supply mismatch. And whenever there is a demand-supply mismatch, it goes against the suppliers like us. So there is pricing pressure. And the only offset to pricing pressure is becoming more and more efficient in how we manufacture and try to get as much advantage in sourcing of raw materials in your own manufacturing costs and managing your cost.

So we're doing everything in our power to hold EBITDA margins to realistic -- to strong levels. And I think the pricing pressure will continue for a few more quarters till the situation changes to where the buyers come back asking for more products. So until then, I anticipate the pricing pressure to remain till at least next stage, which is the next Q3. We may see some easing of as we go forward, but it will still be there.

Prerna Jhunjhunwala: Thank you so much. Last question on volume growth. How much was the volume growth this quarter and in nine months?

A. Sathyamurthy: In nine months for FY24, the volume growth is almost nil during this nine-month period.

Prerna Jhunjhunwala: In Q3?

A. Sathyamurthy: In Q3, the volume growth is close to 15%.

Prerna Jhunjhunwala: That's fantastic. Okay. Thank you for detailed answers sir. Thank you much. And all the best.

A. Sathyamurthy: Thanks, Prerna.

Moderator: Thank you. Next question is from the line of Saransh Sethi from Samar Wealth. Please go ahead.

Saransh Sethi: Sir, do you see Bangladesh as any potential threat in export business?

S. Ganapathi: Is the question -- is there a potential threat from Bangladesh. Is that the question?

Saransh Sethi: Yes, sir.

S. Ganapathi: Okay, yes and no. So Bangladesh has always been a threat in the past because of their low cost of labour and a fairly robust availability of manpower for manufacturing. We found that in December 2023, Bangladesh's wage costs went up by almost 50%, and that has reduced the delta of wages between India and Bangladesh. So for instance, we are currently at about $190 for our labour and Bangladesh is operating almost at $150. So the gap has come down substantially. .

Secondly, Bangladesh also has had some social unrest problems in the run-up to the election. So brands are also wary of having too much of their capacity being sourced from Bangladesh that they are looking at alternative locations. India is also emerging as a competitor, particularly in certain pockets. For example, in Madhya Pradesh, in Jharkhand in Orissa. Some of these untapped states from an apparel manufacturing, the cost of operations are comparable to Bangladesh. So we would see, going forward, more competition from India to Bangladesh as well.

So I -- while I feel that Bangladesh continues to remain competitive, the competitive edge, which Bangladesh had over us is actually reducing. Secondly, if India gets into an FTA with UK, and that's been on the anvil for some time, though we haven't seen the light of the day, as yet, then we get a level playing field as far as that country is concerned.

So currently, India goes with 12% duty into UK versus Bangladesh, which goes with 0% duty. So if that level playing field happens, it will also be an advantage to India. There is also a threat of Bangladesh losing the LDC status, which is the low-cost country status, which confers on them the duty-free access into Europe. But there is a likelihood that they may enter into an FTA and offset this and still retain that benefit.

So when India gets an FTA, maybe the differential between India and Bangladesh will more or less vanish. Until then, two countries like United States, where both of us do not have any --both of us have parity and no differential treatment as far as imports are concerned, while Bangladesh does enjoy some cost benefit, it is -- we are as competitive as they are in many products. I hope this clarifies.

Saransh Sethi: Yes, sir. Thank you. That's all from my side.

Moderator: Thank you. Next question is from the line of Bijal Shah from RTL Investments. Please go ahead.

Bijal Shah: Thanks for the opportunity and congratulations on good set of numbers as well as acquisition on Matrix. So my first question is with respect to equity dilution. You all considering for INR6 billion of equity dilution. Could you give us some more colour on the same?

S. Ganapathi: So this is just an enabling resolution to potentially raise capital in any form in the year ahead. We will discuss internally and with the Board to see how and when to go about raising this capital. At the moment, we are only seeking an enabling resolution, which will permit us to have funds for future growth.

Keep in mind that we are generating cash every quarter, and we will continue to do so going forward as well, and with some of these acquisitions, our cash generation will increase. But having said all of that, we are also conscious of tapping the market -- tapping the opportunities in the market for growth. So we will look at all of these possibilities and take an appropriate decision going forward.

Bijal Shah: I understand that, but just -- see, if I look at all the debt and all, it will hardly be INR3 billion to INR4 billion. And both your cash flow and the kind of, I mean, debt equity you have, I'm slightly surprised that why you need even an enabling resolution?

S. Ganapathi: So we are equally conscious of that. And we will do what is right for the company for sure. And there, it all depends on how the opportunity landscape evolves for us. The way we see it, we are at a very interesting time, where we see that the most of the challenges for the industry is behind us. And in the next one year to two years, there should be a lot of growth opportunities. We have to prepare ourselves to be ready to take on some of those challenges and press ahead with growth, if we want to. So some of these resolutions are with that in mind.

Bijal Shah: Got it, sir. And sir, second question is -- as shareholder, we are extremely excited and what you have done is really incredible. But if I step back and see the three things, there are a lot of things happening. You are ramping up MP, you are having a fabric processing plant, then you have acquired capacity in Africa, you are going to Ranchi and all with the new acquisition. And I mean that probably you might even think of Bangladesh

I don't know whether that is on table right now or not. So there are really so many things happening at some point of time. So do you see any challenges coming up in terms of managing this entire probably scale up, which you are doing right now? Can we see some hiccups during the time or I think during the time we really integrate everything efficiently?

S. Ganapathi: So it's a very good question and a very pertinent question. Obviously, when we do some of these things, we would have thought of it -- and I've thought through most of the issues that you are raising. We will clearly need a strong management bandwidth to run all of these operations, integrate them and take advantage of some of these acquisitions.

One of the principles that we've used for some of these acquisitions are that they are all well-run companies, and they're all profitable. And they all come with good management to start with. So in many ways, we are adding to the management talent pool of the company through these acquisition as well.

So that is not understood very well when we only talk about numbers. So I'm glad that you asked this question. And it's -- how do we align all of these management team members to deliver even if I don't do any mergers, integration, drive synergies, etcetera, all of them are profitable. They're all able to grow on their own. But clearly, we have a plan to bring all of this together.

Most of the plans will be set in motion as we speak. And over the next year, we will not be in a terrible hurry, but we will ensure that there is a uniformity in the approach as far as operations are concerned. A single point of connections with all the customers and the shared sense of purpose across all of these units.

So I don't see that as impeding our ability in any which way. It just it's -- on the contrary, it will allow us to propel ourselves forward as we will also be acquiring a lot more bandwidth in the company through management that we will get from those companies. In addition to that, we are also recruiting and adding management team members at our company level at very senior levels.

This will also be able to help us address some of these acquisition-related management issues. So by and large, it's all going well and going as planned, and we are comfortable and with what we are doing. Keep in mind also that we are acquiring companies which are smaller than us, so which -- and we have studied these companies for a fairly good amount of time.

So it's not -- while the acquisition has happened now, we've been engaging with this company for a long time. So we have a fairly good understanding of how are they run, what are the issues, what are the challenges. So we're not going in trying to discover something new where we have a fairly good idea between ourselves and the new managements to as far as the way forward etcetera.

Bijal Shah: Okay. Sir, got it. Sir, one last question, if I can squeeze in. Sir, you have talked about that F24 revenue, you'll try to meet what you have done in F23. Now only one quarter is left. Do you think that is possible?

S. Ganapathi: So again, with the acquisition that we made is Atraco, definitely on a stand-alone basis, we may be slightly short of F23 revenue. But with the acquisition at a combined company level or certainly.

Bijal Shah: Sure. Thanks and all the best.

S. Ganapathi: Thank you.

Moderator: Thank you. Next question is from the line of Anand S from Avendus Spark. Please go ahead.

Sundar Praveen: Sir, this is [Sundar Praveen, Avendus Spark] -- Sir, congrats on your acquisition. Just a few doubts here is that I believe going by the numbers that you've published on Matrix, there is no volume growth left in terms of capability. Because I understand that they have a capacity or about close to 13 million pieces, and they're already about 11 million.

So what's the growth plan going ahead? Because what -- do we have any capex in mind? Because this question, I would like to extend to Atraco also because in both these places, I find growth to be challenging especially from a volume perspective. Now what's your take on that, sir?

S. Ganapathi: Okay. So answering as far as Atraco is concerned, and then I'll come to Matrix. There is a new unit in Atraco, which has got huge capacity to expand and we built. So we are -- we have a fairly good ability in Atraco to expand our capacity within our existing set of units by about 25%. So I don't see growth in Atraco as a challenge, if the business is there and the business volumes also are going forward will be there.

We won't see -- we won't have a problem as far as expanding the capacity as the capability to expand capacity exists. As far as Matrix is concerned, while there is some headroom for growth, in my opinion, 10%, 15% headroom for growth is there in existing factories. There is also a possibility of expanding in Jharkhand in new factory.

So by putting up a new factory, they already have 1 unit operational there and additional units can be set up in that region, since the management has got the -- has got a good understanding of operating in that region. So that possibility -- incremental to that 10%, 15%, we will have the ability by putting up new units.

Sundar Praveen: And just a continuation to this is that what is the kind of capex, sir. They wouldn't be very similar asset terms to the existing business? And what's the kind of gestation period that we should factor in for this expansion to be coming into numbers?

S. Ganapathi: So all of the -- for Atraco's incremental expense in the asset terms are similar. Atraco's expansions, most of it, since they are in existing factories, the gestation period will be fairly low. And even for Matrix, the first blush will be at low gestation period. New factories will have a strong time line, it will take at least 1.5 years or maybe even two years before it can really start meaningfully contributing to the bottom line.

Sundar Praveen: Right. Fair enough. Sir, one last question just in terms of Matrix, there's two numbers that I would want a clarification on is that the kind of average realization per piece that you see is on the higher side, considering with the knit business. And two, the margin profile seems we are the lower side considering to be at 12% margin.

We'd indicated that even for our - at presently we can do about 16% to 18%. So where am I missing those numbers or was the dichotomy in terms of the margin as well as in terms of realization. What categories with it early handy with, which gives them a higher realization compared to average knit realization from India?

S. Ganapathi: So Matrix's products are large embellished. So obviously, those kind of products have a better realization. They have worked with also premium customers. And that's the reason why they have a much higher FOB value as compared to most of the list manufacturers. When it comes to EBITDA margins, I feel that EBITDA margins, there is further improvement possibility in EBITDA margins there given the product profile that exists. And it is our endeavour to further take it up.

With our knit fabric mill, there is again a complementarity where some of the fabric output of our knit mill can be utilized as a good portion of it can be utilized for Matrix's own consumption. So there will be an added synergy, and that will also help in not only capacity utilization on 1 end at the fabric mills, but also help Matrix with access to in-house fabric. So there are a lot of other benefits that we see in this to even help drive up margins.

Sundar Praveen: So it would be happy to take the top line. But 1 last before I leave is that can you give your comments on the Red Sea issue and what sort of impact that we should envision for Gokaldas on this, either in terms of inventory turn becoming lower or in terms of buyers becoming more cautious, we understand predominant FOB, but is there a slowdown in terms of inventory ordering or how is that taking place, sir?

S. Ganapathi: No. On the contrary, they are hustling up to send the good sooner simply because the shipping right around Africa is taking longer. So in order to meet the in DC time lines, they will want us to deliver it sooner, right? So I don't see Red Sea still at this moment as a negative. The cost of -- increased cost of logistics is being borne by the customers, and it will continue to be borne by the customers.

So the real issue is the demand scenario in the best and how do the brands cope with that. But as far as logistics is concerned, our incremental insurance costs are concerned, many of them are offsetting by talking to their logistics player. Some of them are also addressing it by air freighting it, so that they can short-circuit the time line. But as far as demand is concerned or time lines are concerned, so far, we have not had any effect.

Sundar Praveen: Thanks for your prospect, sir. And all the best.

S. Ganapathi: Thank you.

Moderator: Thank you. Next question is from the line of Anushkumar from Spark Asia Impact Managers Private Limited. Please go ahead.

Anushkumar: Sir good afternoon. Thank you for the opportunity. So I just wanted to know what would be the Wovens v/s knits net proportion post all the acquisitions?

S. Ganapathi: Knit will be 30%.

Anushkumar: 30%. Okay and so once all this -- in terms of cost synergies, are you seeing anything like negative post these acquisitions?

S. Ganapathi: Can you repeat it? What do I see as negative, sorry?

Anushkumar: In terms of cost synergies, post all these acquisitions -- is there anything negative with respect to EBITDA?

S. Ganapathi: No. In fact, I don't see of course, Atraco has a slightly lower EBITDA compared to the Indian units, both ourselves as well as Matrix. But then Atraco also has the offsetting benefit of being located in a tax zone. So at the PAT level, they are in fact better. So net-net, I don't see a problem from an EBITDA perspective. Now if we are able to synergize somewhat in sourcing of fabrics, etcetera, we may see some accretion but that's for the future. So we will let it happen when it happens.

Anushkumar: Okay. Also on FTA, are you seeing anything like from the government whether it be materialize before the end of the financial year?

S. Ganapathi: Well, this is anybody's guess. We can't speculate on it. What we've heard last is that both the governments are sincerely working on it. We do not know, if and when it will happen because it's been taking a long time -- and both the governments will have to comprehensively negotiate all the little, little aspects which form part of the FTA. So really, we are not in control of it. We don't -- we are not fully privy to all the goings on. We are hopeful that it will happen, but we'll have to leave it at that for now.

Anushkumar: Thank you, sir. Thank you for the opportunity.

S. Ganapathi: Sure.

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

Nishid Shah: Well, most of my questions have been answered, but congratulations on a very good set of numbers and a very good acquisition Shiva and your team.

S. Ganapathi: Thank you, Nishid.

Nishid Shah: Thank you very much. And all the best.

S. Ganapathi: Thank you.

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

Vikas Jain: Yes. Thank you, sir, for the opportunity. Sir, in your opening remarks, you mentioned comments with respect to the near-term working on the Atraco. Can you just repeat that, please?

S. Ganapathi: So when we acquired Atraco, which happened in January, we did an asset purchase in Kenya. So when you do an asset purchase, all the existing employees of the entity had to resign from the erstwhile company. And then re-join us as a new entity, which we had created. So during that period, there was a disruption to production because there was a time period between these two. So there were some lost production days, lost production mandates. And because of this, and the unit has -- all the Atraco units are running at peak Chock-a-block capacity utilization, the lost capacity resulted in some degree of air freighting.

So we are always estimating the cost because the buyer delivery rates don't change, but this has to be done as a onetime consequent to asset purchase model that we chose to implement there rather than buy it as a going concern. We didn't want any previous liabilities to be inherited. So is this a onetime acquisition-related challenge that we consciously chose to adopt, lost some production days, significant number of production days at that point in time. It's behind us. But nevertheless, it will have some degree of impact, but it will be restricted to this 1 quarter.

Vikas Jain: So that impact will be limited to this quarter itself, right, it would be carried our further?

S. Ganapathi: Correct. Correct.

Vikas Jain: Sir, my second question is with respect to the MP unit. I believe that we started that MP -- the production in the MP appeared in last quarter. Can you state what are the current utilization levels there?

S. Ganapathi: Okay. So, utilization has 2 parts to it. One is utilization with respect to the current manpower of utilization with respect to the factory's potential capacity. If I look at utilization with respect to the factory's potential capacity. We are about 35% of the factory's full potential capacity.

So that is because the manpower is still being added and the manpower productivity is also growing. So from this 35-odd percent cap utilization with respect to it's full potential, we will be reaching that full potential in the next 3 or 4 quarters -- hopefully soon. As we are working on that. And the productivity also has to catch up. So somewhere in FY'25, we should be accomplishing all of this and the factory should really be working towards full capacity, full potential by the last quarter of FY'25 for sure.

Vikas Jain: So on a year-on-year comparison of our revenues, even, if we exclude the MP unit contribution the performance looks broadly weak in terms of the existing installed capacities. This is predominant with respect to the weak -- or there are some softness in the demand? Is that the correct understanding?

S. Ganapathi: So there are a few things here. If you look at the current performance versus last year's performing, and if you remove MP, then it's coming slightly lower in terms of EBITDA margins. And one of the reasons is that we've had a fairly substantial growth in minimum wage in Karnataka, where bulk of our operations are.

So the wages have gone up this year versus last year was 9%. So that itself has a 2%, 2%-odd impact as a percentage of revenue. A good portion of that, we have offset it by improved productivity, but we have not recovered all of that. One of the reasons is because we are also facing enormous price pressure from the brand given that there is a demand supply mismatch. So we are not able to offset it by pushing back on pricing. That's one aspect.

Second, because of the particularly low demand situation that we are in, we are not able to get all the product types that we want -- so sometimes we like to adjust it to what is the product types that are available in the market to continue to grow. So the product mix changes are very, very frequent these days in the units, which also impacts the efficiency growth that we are driving. So there is a lot of operating level issues that we are contending with, given the current market situation.

I expect this to stabilize in the quarters ahead. But while it is going on, we can't let a new sites of growth or new sites of opportunities. And we will had to deal with some of these operating challenges in the interest -- in the larger interest of growth of the company. And we have been doing an admirable job given all of this that we have not dropped the ball as far as the profitability is concerned.

Vikas Jain: One last question. In one of the participants answer, you mentioned the amount of goodwill. Can you please reiterate how the calculation for that amount, please, for the Matrix acquisition?

A. Sathyamurthy: For Matrix, the equity value is INR334 crores. This payment will go to the shareholders of Matrix Designs India Private Limited. We also need to make a payment of INR 155 crores to clear the debt in MDPL. So technically, when we consolidated the books of accounts, we will get INR155 crores worth of asset. Whereas as against equity value that is getting paid, except for the share capital value, which is a very low value about INR1 crore, the balance amount INR333 crores will be treated as a goodwill in the books of Gokaldas when we are consolidating the books of accounts.

Vikas Jain: And 1 last question. You mentioned we have a brownfield capacity expansion possibilities at the Matrix plant. Can you elaborate as in -- do we have an excess land bank or some lines of -- that we can add in the existing units? And what can be the growth potential there in probably the next 1 or 2 years?

S. Ganapathi: So as I mentioned earlier, within the existing units, the growth potential is only to the extent of 10%, 15%, but the company does has some land in Ranchi. And that plant could be developed. And as and when that is developed, we have the potential to increase capacity. They are already operating 1 unit out of a leased facility in Ranchi. So the company does have a management team on the ground, so which can be extended to the newer facility as and when that is built out.

Vikas Jain: Sure, sir. And then that Ranchi facility is operating on 2 shifts basis, these aren't headcount, right?

S. Ganapathi: The existing Ranchi facility is working on that 2 shifts, yes, correct.

Moderator: Thank you. Next question is from the line of Kaustubh Pawaskar from Sharekhan By BNP Paribas. Please go ahead.

Kaustubh Pawaskar: Sir, my question again is on the EBITDA margins. So you just mentioned that currently, there are some operational hindrances, which is likely to put pressure on the margins. But if your production capacity in Madhya Pradesh utilization rate improves, I think that might offset whatever the risk currently you're facing through. So it is the right understanding?

S. Ganapathi: That is correct.

Kaustubh Pawaskar: So should we expect EBITDA margins to be marginally lower in the quarters ahead? And once the situation improves in terms of the pricing also in terms of -- in terms of the supply issues currently we are facing because of the Red Sea issue. If all these issues gets sold out, then your margins will improve with better mix?

S. Ganapathi: So my sense is that -- keep in mind that Madhya Pradesh is just at the moment only 1 unit. So its ability to influence the overall EBITDA will be marginal, given that there are -- the rest of the company is much, much bigger in proportion, correct?

Having said all of this, my sense is that towards the latter half of next financial year, we will see the demand supply improve a bit. And hence, it may have -- it may have a positive impact as far as the margins are concerned, because some amount of pricing power can return. I mean that's the expectation. We'll like to see how all of these pan out.

But given how things are unfolding as we speak, it looks reasonably likely. So that's what I would characterize that. Keep in mind that Atraco is operating at about 10%, 10.5% EBITDA margin. So when Atraco start integrating, the EBITDA margin at a collective level will come down because their own EBITDA margin is lower. We will have to work with that to improve it to our levels going forward, and that is a 2-year journey that we will have to go through a 2, 3-year journey.

But however, as I said earlier and clarified earlier because they are in a tax free location, their PAT levels will be pretty strong given that they won't have taxes. So this is how it looks like. Plus if there are some other synergies that we can drive, then that also will hopefully help us the margins.

Kaustubh Pawaskar: And one, last one on Matrix. So like Atraco, do we expect Matrix also to be earning accretive from FY2025? Or you have to work on the fundamentals of the Matrix to see margin improvement coming in the years ahead?

S. Ganapathi: No. Matrix will also be margin -- EPS accretive from year FY'25. So it will benefit us. And I think just like Atraco, Matrix also, we have ensured that the acquisitions are all accretive almost from the start.

Kaustubh Pawaskar: And one last one, if I can. What is the EBITDA margin for Matrix? What are the EBITDA margins, the Matrix?

S. Ganapathi: About 12.5%.

Moderator: Thank you. Next question is from the line of Vishal Saraf from SBI Funds Management. Please go ahead.

Vishal Saraf: Sorry, if I missed out, what is the revenue potential from Matrix, say, 1, 2 years down the line both with existing assets and potential revenue if you do, if you have some plans to debottleneck or do that?

S. Ganapathi: So as I said about, if you look at the long-term revenue potential, it all depends on how much of capacity we put up in Ranchi and other places, right? And at the moment, 10% to 15%, we can unlock out of Matrix right off the bat. I mean, when I say right on the bat in a year or 2. But beyond that, if we can add more capacity, for example, if we had a capacity in Ranchi that itself will add another 20% incremental capacity. So there is no end to how much more capacity we can drive out there.

Vishal Saraf: And this 10%, 15% over the last year number that has published, is it?

S. Ganapathi: No. So 10%, 15% -- so this year, their revenue has dropped. When I say this year, I'm talking of FY'24 their revenue is lower than that of last year. So they have maintained -- they've improved their margins a bit this year compared to last year -- profit margins. So I'm looking at it from current levels. But I think by and large, that 10%, 15% when I'm talking about it may be 10% over last year or so.

Moderator: Thank you. Next question is from the line of Akshay Chheda from Canara Robeco Mutual Fund. Please go ahead.

Akshay Chheda: Sir, 1 question again on this Matrix. Apologies if you have already answered. Just wanted to understand the thought process behind Matrix. Is it that we are looking for geography expertise because after Matrix, besides Karnataka and Madhya Pradesh, we have two more geographies.

That is, say, Haryana, Jharkhand. So are we looking at geography expertise? Or are we looking to fill in product gaps or is it that we are speed fasting our customer acquisition?

I mean just trying to understand, I mean, if we had to do it on our own versus what Matrix helps us because at least in Atraco it was clear that you had to add that duty benefits, but what is that we are looking for Matrix? So if you can, so yes.

S. Ganapathi: Okay. So in Matrix, the advantage is that it gives us access to mix as a business vertical. If you look at Gokaldas per se, our net exposure is low single digits as a percentage. And Matrix is predominantly a knits niche business. It's also an embellished, which gives it a degree of competitive advantage over many other knit producers, who are commodity knits producers. So they have a well-protected business in that sense.

And apart from that, it gives us a new geography to work with. It also provides us the ability to acquire new customers because the larger customers that they work with are not our customers and vice versa. So we have some cross-selling opportunity.

And over and above, it is complementary to our knits mill that we have set up. So the fabric mill that we have set out, the output can be consumed by Matrix. So from all of these perspectives, whether it is a new manufacturing location, complementarity to our fabric mill, new customers, new product category, which is mix and new market geography, which is EU and the U.K., it adds value to us.

So for instance, Gokaldas is largely weighted towards United States as the market. Matrix is -- has got a higher exposure to Europe. And with FDA and other things being discussed, we thought that having a little Europe-centric business may also help in the future if they do come. But even otherwise, Matrix as an asset, has got several other complementarities to Gokaldas.

Moderator: Thank you. Next question is from the line of Palash Kawale from Nuvama Wealth. Please go ahead.

Palash Kawale: Congratulations on the good acquisition, sir. So most of my questions are answered. But sir, any thought on Bangladesh capacity? Is it still on cards or -- you're not looking at the...

S. Ganapathi: The opportunity is on cards. We have to take a call. We've been working on other opportunities as we speak. And I had deprioritized Bangladesh simply because there were too many things going on there. There was an election going on, and there were a lot of civil unrest there. On top of it, the minimum wages, which got firmed up only in December. So we wanted to see how that plays out. What is the impact of all of that on competitiveness at Bangladesh. .

So while Bangladesh remains competitive and remains an attractive destination, the level of attractiveness has diminished from its past. So we have to take a call. And I think over the next 6 months, we will take a call on whether we want to go to Bangladesh, we do have the option, we do have an identified factory location, we do have an understanding of the market having done, enough and more work there, but these are calls that we will take as we go forward on -- with our strategy.

Palash Kawale: So you are looking for more opportunities in India right now, as you said.

S. Ganapathi: So obviously, that's the reason why we have done this acquisition. So we're not averse to any geography for that matter. As a company, we are global, or the customers that we cater to are global, and we will go and produce from where it makes the most sense. So we're not wedded to any 1 particular location. Whatever makes business sense and financial sense, we will do that.

Palash Kawale: And just one more question. What were the average realization for the quarter?

A. Sathyamurthy: Product realization, right? It is the 689

Palash Kawale: 689?

A. Sathyamurthy: Its 689.

Palash Kawale: Okay. For 9 months?

A. Sathyamurthy: For 9 months, it is 689. For 3 months it is 673.

Moderator: Thank you. Next question is from the line of Amay Chedda from Balvan Capital. Please go ahead.

Amay Chedda: Just a couple of questions. So firstly, on Matrix, -- so Mr. Gautam Nair and the Bhargava will be continuing for at least for another 2, 3 years. Is that understanding correct?

S. Ganapathi: So Mr. Gautam Nair will definitely be involved with us for 1 year. He will be involved with us for longer as well. He's a well-wisher of the company. And as a gentleman he has confirmed that he will be supportive of the company. He will ensure that Matrix continues to perform well, and he will be available for the long term.

So we have not put any particular time line around it. And I would welcome Mr. Gautam Nair's presence for the long-term in the company. We do have a fairly great understanding between ourselves and he will be asset for the company. So at the moment, we're all thinking long term. As far as the business set and all are concerned, they will be there -- because they will continue to be in the business as operating members for the long run.

Amay Chedda: Okay. The next question is, what are the capex plans for Q4 and FY'25?

A. Sathyamurthy: FY '25 capex plan is around INR75 crores towards normal capex. Other than that, specific capex expansion plan -Phase 2 expansion capex at Bhopal unit, another INR40 crores will be incurred.

S. Ganapathi: So I anticipate it to be about INR100 crores or maybe even less, we may go careful with our capex plan, since a lot of capex has already gone in. Our endeavour will be to now maximize the utilization of our existing capex. Of course, modernization capex will happen. So that is -- that goes without saying that is routine in capex -- but other than that, adding new factories, etcetera, we will go -- we will be going slow on it because we will have enough capacity to work with as we speak.

Amay Chedda: Okay. So INR40 crores for Bhopal and another maybe INR55 crores, INR60 crores for normal continuous capex of approximately INR100 crores.

A. Sathyamurthy: Correct. Yes.

Amay Chedda: And for H2 of this year because first half is around INR70 crores, INR75 crores, sir.

A. Sathyamurthy: Already we had spent INR102 crores up to 9 months. We are planning to spend another INR43 crores of which around INR30 crores are committed already.

Amay Chedda: Okay, understood. And the last question is the increase in other expenses in this quarter was mainly because of Atraco, right?

A. Sathyamurthy: Partially Atraco and partially, on account of provisioning for receivables, which are not realised beyond 1 year, we had to provide as per our accounting policy. We provided about INR2.7 crores as a provision. As and when it is realized, it will be accounted as income.

This receivable is towards sale of the surplus garments, which has been sold to the one of the customer nominated vendor. There has been a delay in realisation because the vendor is not able to liquidate it and he is seeking some more time to settle the dues. So, as per our policy we have provided for this, which is also the reason for increase in the other expenses.

S. Ganapathi: So some of which is on acquisition-related legal expenses, INR2.7 crores is provisioned for doubtful debt. We have also seen electricity charges grow in Karnataka -- recently, there was a steep price in electricity bill. So a portion of that is there. So I think the INR2.7 crores is one-off, barring that, it's normal.

Amay Chedda: So can you quantify what was the increase in electricity charges and the expenses relating to Atraco?

A. Sathyamurthy: Yes. The Atraco expenses is about INR1.5 crores, approximately. And the increase in power cost is 5%. That's close to about INR1 crores.

Moderator: Thank you. Next question is from the line of Pulkit Singhal from Dalmus Capital Management. Please go ahead.

Pulkit Singhal: My question is largely in relation to your acquisition strategy. I mean, if I look at it over the next 3 years, the first part is how regular will be acquisitions given that you're also looking for a QIP of almost INR600 crores. So is this going to be now a more regular feature? And therefore, is it fair to assume that a larger chunk of incremental capex, that is augmenting of capacity will happen through the acquisition route, while the existing growth can happen to the extent of 10%, 15%, but a larger chunk of augmenting of capacities will be processed. That is the first part.

S. Ganapathi: Okay. So very difficult to answer this, Pulkit. We are open minded about means of growth. What we are clear is that we would look at the best possible way to grow. So to grow, we need a few things. One, we need good customer base, solid large customers. And if we can acquire them organically, all power to us, and we will try all of that.

Otherwise, we will also acquire them inorganically. If we need new product categories, it's better done through an inorganic means that it's faster, shorter learning curve, etcetera. If we want geographic expansion, we would prefer in organic ways, and that's what we have done so far.

So we're not deprioritizing organic growth. I'm a much larger believer in organic growth over inorganic growth. Having said that, inorganic growth are also opportunistic, and we will be careful in what we will acquire. Keep in mind that for these 2 acquisitions that we have announced, we have not proceeded with several other acquisitions. So we're being very selective about it. And that selective filter will continue to be applied.

So if we -- only if we are 100% convinced that this is value adding to us, accretive from a financial standpoint, etcetera, that we will go ahead with acquisition. So to generalize thing that will acquisition be a routine feature, don't know because it's a function of the quality of the opportunities that could come in front of us. But will we be open-minded about it, answer is, yes.

Pulkit Singhal: Okay. So the second subpart is, I mean, in this pursuit and however things proceed, what are the kind of guardrails you are having in mind in terms of the financial metrics of the firm? And secondly, in terms of the size of the acquisition, how do you ensure that you're not going overboard as well as a management team at some point. So if you could share with us some of that?

S. Ganapathi: Good point. So, our laterals are that, a, we should be able to have a fairly good understanding of the business that we are acquiring even before we acquire. Second, the acquired entity should be profitable, so that we are not looking at turning them around. Maybe we can improve their profitability, but to begin with, they should be profitable.

Third, they should have good quality and pedigree of customers. Fourth, they should be in the business for a reasonable length of time. They're not one of those new start-ups who have bulked up and not selling. Fifth, it should add either a new geography, new customers or new product type to us so that it becomes complementary. And preferably 2 out of the 3 has to be obtained through that.

Next, it has to have a good management team, so that we are not -- we're not looking at changing people and completely reorienting their strategy in order to deliver the financial numbers. So the filters are pretty strong. And lastly, we also should have the bandwidth to acquire. And that's why we have so far stuff on companies, which are smaller than us, much smaller than us rather than even someone at our level.

So we're being conscious about the size of the acquisition also. So there are all these guardrails that we have put. And these are all very sensible guardrails that we have at the moment. There's another area that we may want to look at from an acquisition standpoint is not maybe verticals. So those are things, which who knows, right? We will all look at as and when the future comes.

But for now, these guardrails and these kind of acquisition parameters that we have set for ourselves that is apparel company, smaller insights, well-run, profitable, complementary customer base, complementary geography, etcetera, etcetera, are the kind of parameters that we have defined for ourselves. And above all, what we can manage through our management bandwidth being available.

Pulkit Singhal: Understood. Just the last part is the revise space is still that exists, you obviously alluded to some of it. I mean I'm thinking maybe you mentioned about Bangladesh, vertical integration is probably something you're hinting at. And is near shoring also something that you're looking at?

S. Ganapathi: Near-shoring new product categories. All of these are open, right? It can be anything. I mean, either at the moment, there is nothing on the table or on the annual -- but as and when opportunities come our way in any of these spaces. So for example, a new product like, right, there could be any kind of product, we're not doing all the product types even in the current scheme of things. So we can go to anything, which can add to our portfolio of products.

Moderator: Thank you. Next question is from the line of Harsh Jhawar from Avendus PMS. Please go ahead.

Harsh Jhawar: Congratulations on good acquisition. All my questions have been answered, but I just want to know about the ESOP cost. So it's supposed to be INR24 crores for FY'25 I want to know the trajectory going forward, since we are hiring a lot of senior members, senior management team also. So how would this expense move from FY'26 onwards?

A. Sathyamurthy: As of now, as per the scheme, whatever ESOPs had been granted, it gets amortized till FY'25. Whenever any new ESOP grant, as and when it happens, it will be amortized over the vesting period in future. New grants whenever it happens, it will cover over a period of say, for the 3 years or 4 years, as may be decided by the Board in future for such grants.

But for now, we are proposing to take the approval from our shareholders to increase the ESOP pool to the extent of the 15 lakh options.

As and when the shareholders approves and then subsequently when the Board and the committee approves, the ESOP grants to new employees, then cost for such grants will be amortized over the vesting period. And as you know, it has to be calculated at the fair value options and will get amortized over the period.

S. Ganapathi: So long answer short, we don't have a number for you at the moment because it depends on how many options are granted and how many and what is the period for which we are going to grant. So some of the new options will be directed towards the new people, the new management team members that we will be bringing on board and that's the reason why we are seeking an approval for ESOPs for the new team, new senior team members, and I think that will only help the company for its growth.

The exact cost will be done through Black Scholes, maybe it will take some time. Immediately, I don't see an impact. There may be some incremental impact in FY'25 yet to be quantified, maybe we will have a better sense angle in the next 3 months. And as and when we have a handle, we will let you know.

Moderator: Thank you. Next question is from the line of Varun Gajaria from Omkara Capital. Please go ahead.

Varun Gajaria: Most of my questions have already been answered. I just had one question on the Matrix. So what is the premature 9-month revenue at Matrix at this point? And how is it deferring y-o-y?

S. Ganapathi: What's the 9-month revenue of Matrix? I think that's the question.

A. Sathyamurthy: It's about INR390 crores, but this is an unaudited number because we go by what is the audited number available to us, and that is what is given in investor presentation. I would request you to restrict to the numbers what is given in our presentation.

Varun Gajaria: Okay. And from when will you start integrating Matrix numbers are...

S. Ganapathi: As in when we get our shareholders' approval, then it will start integrating. So meaningfully, it will be integrated only from the next financial year.

Moderator: Thank you. Next question is from the line of Anil from SMIFS. Please go ahead.

Anil: Sir, just one number, if you can repeat, what was the volume number for this quarter?

A. Sathyamurthy: The volume growth during this quarter.

S. Ganapathi: Volume for this quarter.

A. Sathyamurthy: Volume is 7.48 million. Yes.

Anil: So that amounts to basically 17%, 18% growth, right y-o-y? Quarter 1?

A. Sathyamurthy: Sorry, 7.58 million, yes.

Anil: 7.58, right?

A. Sathyamurthy: Yes.

Anil: Okay. And last year, this was, I think, 6.35 million, right?

A. Sathyamurthy: 6.3 million.

Anil: So that amounts to basically 19% kind of volume growth. I think in the earlier comments, you said some 15% kind of growth?

A. Sathyamurthy: Yes, because we do not really compare only on pieces basis. If we compare at no of pieces basis, it is around 19%, but we compare actually the number of minutes, that's a real volume because the actual minutes taken for different products vary. So that's why I said 15% based on the actual minutes, the real volume increase during this period.

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

Vikas Jain: My question is with respect to Atraco, since now we have completed the acquisition, can you throw some light on what are the top 3 customers? And how is it that despite operating the same economy. We have only 1 mutual customers?

S. Ganapathi: So we have 1 mutual customer -- 1 customer and the rest are Atraco's customers. I mean there is no common customer barring 1 customer between us and Atraco. That's correct. And as far as Atraco's customers are concerned, all the customers are showing growth, which is why we are seeing a fairly well loaded factory capacity at the moment. I didn't understand your question in specifics -- if you specifically...

Vikas Jain: In that case, sir, could you name a top 3 customers of Atraco and probably that could help?

S. Ganapathi: Let us -- the acquisition just got completed. I would like explicit permission from the customers to name them. We haven't really followed through on that and got the permission from those customers. So I will have to hold back on it until we get so.

Moderator: Thank you. Next question is from the line of Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: I missed the part of what -- why other expenses are up this quarter? And what is the increase in the wages that you've been talking about in both in Bangalore or Karnataka?

S. Ganapathi: So other expenses, the principal increases have been INR2.7 crores for provision for doubtful debt, some surplus garments that we sold to a party in the U.S. They have not been able to liquidate and hence, they have not been able to pay us back the amount. And because our provisioning norms indicate certain provisioning rules we have gone ahead and provided.

We don't believe that this money won't come. It will come with some delay. But prudent routing principles indicate that we better provide. So we have gone ahead and provided for that. So there's INR2.7 crores of provision for doubtful debts.

There is an increase in electricity charge by INR1 crores. So that's increased our other expenses. And there were some legal and professional expenses pertaining to some of these acquisitions. That is about INR1.5 crores. That's 1 time. It may not be there in the long run once all these acquisitions are completed.

So that's the composition of incremental other expenses. So INR2.7 crores plus INR2.7 crores doubtful debt plus INR1.5 crores of legal expenses are one-off expenses. So about INR4.2 crores is incremental one-off expenses in this quarter.

Prerna Jhunjhunwala: Okay. And wage inflation, how will that hit?

S. Ganapathi: So wage inflation hits us in terms of employee expenses. And we've had -- we've had about 9% wage increase in Karnataka this year over last year. And that's not fully -- it won't fully hit us because a portion of it -- we will recover based on our productivity improvements, etcetera. But yes, that wage increase is here to stay.

Moderator: Thank you. The next question is from the line of Bijal Shah from RTL Investments. Please go ahead.

Bijal Shah: During the discussion, you mentioned that Bangladesh will lead developed countries, you said. So is that a certainty or it can change. And if it does do good then only UK would be an issue for Bangladesh or even in Europe, we will not be able to export duty free and that will open up a market or probably we'll get a level playing field in Europe also?

S. Ganapathi: So that it is speculative. At the end, I think that status, they have till 2026, if I'm not mistaken, but this needs to be confirmed. And by then, there is a possibility that it may -- they may extend it for a few more years or Bangladesh may enter into an FTA.

And if they enter into an FTA, they may or may not have the full benefits as of now. So there are a lot of eventualities that can happen out there. So as of now, there is no FTA, but Bangladesh can get in an FTA. Their have low cost of manpower is still an attraction over us. But increasingly, brands are finding that their overexposure to Bangladesh is -- their exposure to Bangladesh is high and hence, they need to diversify. So that compelling pressure does exist.

Moderator: Thank you. Next question is from the line of Ankit Tatiya from Ladderup Wealth Management. Please go ahead.

Ankit Tatiya: Sir. I just have a couple of questions.

Moderator: We got disconnected from the line of Ankit. As that was the last question of today. I would now like to hand the conference over to management for closing comments.

S. Ganapathi: Thank you all for patiently listening to us as we talk about our business. We are working with the full intention of leveraging growth opportunities that come our way, while we work a lot on organic growth, and we continue to believe strongly in organic growth, we will look at all opportunities and avenues for growth.

We will be opportunistic, when it comes to inorganic growth. And when a good opportunity presents itself to us, we will go for them. And with that in mind, we went ahead with the acquisition that we recently disclosed. We are mindful of the need for managing those acquisitions well and integrating them well with our company. We'll work -- we are working on those areas. We will ensure that we are margin focused, when it comes to operating the business, and we'll do everything in our power to improve our margins.

At the moment, given the demand-supply mismatch, we find that the ability to nudge up pricing is very, very limited. Costs are going up. So we have to continuously work on newer and newer ways of improving operating margins, and we are doing all of that in our power.

We have a fairly good risk management template for ourselves. So we are constantly evaluating any challenges that may come our way and proactively try to address them. That said, in our global business, which is exposed to all kinds of geopolitical risks, there could be many that come our way. And we are equipped to tackle with them from time to time.

As a business, I feel that the opportunity for growth out of India, out of Africa continues to be high, and we will see more such opportunities as China becomes expensive and we will take advantage of all of those through our benefit. We will keep focused on delivering strong results and focusing on our financials as we go forward. Thank you for all your support, and look forward to talking to you all soon.

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