

## **Gokaldas Exports Ltd - Performance Review**

### **The year that was**

The year ended March 31, 2005 was a momentous year for us. We completed our Group restructuring whereby all operating textile businesses under the Gokaldas Exports Group were brought together under one entity culminating a long complex exercise. This involved conversion of partnership firms into companies, merger of entities and bringing in of manufacturing units as subsidiaries of Gokaldas Exports Ltd.

The results of Gokaldas Exports Ltd for the year ended March 31, 2005, as discussed in this performance review are thus not comparable with the financials for the previous year ended March 31, 2004.

We also concluded our IPO in April 2005 whereby 31,25,000 shares were issued at a price of Rs.425 per share to raise Rs.132.81 cr. The issue received very good response from the investors.

FY 2005 was also marked a major change in our industry with the removal of quotas from Jan 1, 2005. The initial period, post dismantling of quotas, has been eventful with supplies from various nations trying to increase their market shares. The EU has finally imposed restraints on China's export growth after an initial surge. Buyers are evaluating new vendors and similarly, manufacturers are trying to reach out to new buyers leading to a flux in the market place. Buyers are also trying to consolidate their buying from fewer geographies and fewer suppliers within each geography to enhance their buying efficiencies.

*"The elimination of trade quotas in 2005 gives us the opportunity to consolidate our sourcing base. Without quota restrictions, we can choose our vendors and build strategic relationships with those who have the best capabilities and share our values"*

**Paul S Pressler**

**President & CEO, GAP Inc**

*"We predicted that the prices would fall at the end of the quota system. They will probably continue to fall for while and then level off and start growing again. We cannot predict what the ultimate price will be since there are so many different levels in the market place. A lot of factors would decide the pricing of products."*

**Laura E Jones**

**Executive Director, USA-ITA**

**(United States Association of Importers of Textiles and Apparels)**

India has emerged as a favoured sourcing destination with large global buying houses looking at enhancing their presence here. Availability of reliable suppliers who can supply larger volumes is an issue that most buyers have highlighted as Indian capacities are falling short of buyer requirements. As a leading player, we expect to benefit from the growing demand for apparel from India.

### **Revenue Analysis**

We reported revenues of Rs 724.05 Cr for the year ended March 31, 2005.

Our export revenues were Rs 708.34 Cr. North America continued to be our dominant market with over 70% of sales.

Our domestic revenues were at Rs 15.71 Cr and include sales of apparel through a chain of stores (Wearhouse) operated by our wholly owned subsidiary.

Our regional break up of revenues for the year ended March 31, 2005 was:

<b>Region</b>	<b>Sales (Rs Cr)</b>	<b>(%)</b>
North America	506.91	70.01
Europe	185.88	25.67
India	15.71	2.17
Others	15.55	2.14
<b>Total</b>	<b>724.05</b>	<b>100.00</b>

We added several new customers during the year and also enhanced our product portfolio.

Product wise break up of our export revenues for the year ended March 31, 2005 was:

<b>Product Category</b>	<b>Sales (Rs Cr)</b>	<b>(%)</b>
Outer Wear	369.47	52.16
Active Wear	28.04	3.96
Bottom Wear	241.54	34.10
Casual Wear	49.35	6.97
Babies Garments	17.86	2.52
Others	2.08	0.29
<b>Total</b>	<b>708.34</b>	<b>100.00</b>

We employ hedging mechanisms to lock in part of our realizations. Our other income comprised of exchange difference of Rs 1.75 Cr received as the dollar weakened during the year. Our other income also includes Rs 2.92 Cr received on loss on fabric procured for which orders were cancelled and duty drawback of Rs 3.97 Cr.

### **Operational Analysis**

We reported Profit before Interest Depreciation and Tax (PBIDT) of Rs 68.77 Cr during the year, reflecting a PBIDT margin of 9.36%.

While we have a natural hedge to the extent of imported raw material, and also cover a substantial part of our balance foreign exchange exposure, continued weakness of the US\$ impacted our margins.

During the year, the Duty Drawback rates were substantially reduced from 9% to about 3%. We were insulated from the same on account of over 90% of our exports being made from our 100% EOUs. Our exports from our Domestic Tariff Area unit though did suffer on account of the drawback changes. The drawback rates have now, w.e.f. May 5, 2005, been increased to 6%.

Our expenses on quotas were higher than in the previous years as we took in orders from new customers to build our relationships with them for the ensuing non quota regime.

We opened four new factories in FY 2005 and also expanded capacities in two of our existing units, taking our total capacity to 270 lines by March 31, 2005 as against a total group capacity of 224 lines at the end of FY 2004. Our total capex during the year was Rs 36.77 Cr. Start up expenses related to the new factories have been written off. The factories, after the initial gestation period, are now beginning to operate at optimal efficiencies and will contribute to the profitability.

We employed over 35000 people at the end of FY 2005. There has been the normal wage inflation which we expect to make up for through enhanced productivity.

### **Finance costs**

Finance costs include bank interest of Rs 4.69 Cr, paid against our working capital facilities and bank charges of Rs 7.20 Cr paid against documentation charges and LC negotiations.

Currently, we have utilized the proceeds of our Public Offering to meet our planned capex requirements and working capital requirements.

Interest free unsecured loans of Rs 64.49 Cr received by us from the promoter group continues to be carried at zero interest.

### **Profits**

We reported profit before tax of Rs 43.93 Cr. Profit after current tax was Rs 42.05 Cr. We continue to enjoy tax exemption on our 100% EOU units, which accounted for over 90% of our sales, till FY 2008-09. Our profit after tax was Rs 39.79 Cr after providing for deferred tax of Rs 2.26 Cr.

### **Outlook in post quota scenario**

The overall impact of quota removal has been quite positive for us. Several new customers including large international retailers and brands were added during the year. Some of the initial orders entailed higher quota costs and lower margins, however we believe these customers can grow to become significant customers over time for us.

Our existing customers too expressed their intent to enhance their sourcing from us, for which we have increased our manufacturing capacities and continue to do so, to be able to service their growing requirements.

We are continuing to invest in manufacturing capacities as well as enhancing our product range by adding new products and finishing/washing capabilities. We have already opened two additional units during April and May at Dodballapur and Yashwantpur (Bangalore) taking our capacity to 294 lines from 188 lines in March 2003. We have also, over this period, added products like knits, denim bottoms and classic formal trousers. With this, we now have a wide product portfolio ranging from simple shirts & skirts, to formal

bottoms, active sportswear and complex winter outerwear; using fabrics including knits, woven cotton/blends and wool.

We are expanding our washing unit and intend setting up two new manufacturing units during the current financial year. We have also invested in enhancing our design and sampling capabilities. We are also looking to add our capacities by outsourcing manufacturing to units that meet our requirements.

Our current export order book for the forthcoming Autumn-Winter season is quite healthy with orders for Rs 410 Cr in hand, for delivery upto September 2005. The pricing environment has been volatile and is expected to be so till buyer seller equations stabilize. We are consistently evaluating all opportunities with long term potential and profitability in mind.

We present to any customer evaluating India as a sourcing base an attractive opportunity to procure a wide range of products from a single vendor. Our in house integrated operations, our design capabilities, a wide product portfolio and our ability to service large run sizes will help us enhance our market share with existing and new customers in the coming years.

## **Press Release**

### **Gokaldas Exports Limited forges ahead in FY 05**

**Bangalore, June 18, 2005:** Gokaldas Exports Limited, India's largest apparel exporter, has registered a healthy financial performance in FY 05.

The Bangalore-headquartered export major's total income for the year ended March 31, 2005, stood at an impressive Rs. 724.04 crore while its profit after current tax stood at Rs. 42.05 crore. The company's profit after deferred tax is Rs. 39.79 crore.

Mr. Rajendra Hinduja, executive director, Gokaldas Exports Limited said: "The year gone by saw Gokaldas Exports Limited make steady progress. We are presently in the process of acquiring new customers and penetrating markets. With the quota regime now becoming history, the future holds immense potential which we are ready to exploit."

Describing FY 05 as a "momentous year" for Gokaldas Exports, Mr. Hinduja said that the group restructuring whereby all textile entities of the Gokaldas Exports group were brought together under one entity, was successfully completed."

The above process involved the conversion of partnership firms into companies, merger of entities and bringing in of manufacturing units as subsidiaries of Gokaldas Exports Limited.

The company which came out with its IPO in April 2005 (it was over-subscribed 47 times) will continue its capacity expansion initiatives while simultaneously enhancing its existing product lines and launching new ones.

**Please note:** Following the group restructuring initiatives which were successfully concluded last fiscal, the financial figures of previous years are not comparable with those of FY 05.

**For further information, please contact:**

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