

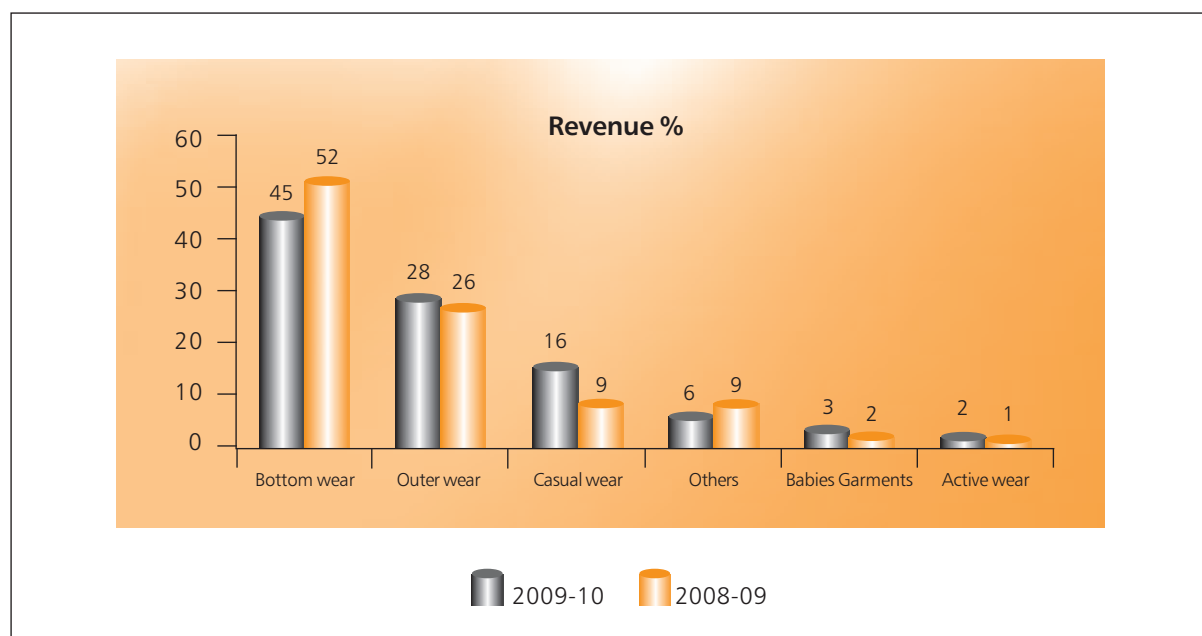
MANAGEMENT DISCUSSION AND ANALYSIS

Introduction

Gokaldas Exports Limited (GEL) is the largest and one of the leading exporter of apparel in India having worldwide presence with established manufacturing, marketing and research capabilities and is a ISO 9001:2002 certified company. GEL is vertically integrated with a presence across the apparel and textile products. GEL has more than 40 factories spread across in Bangalore, Chennai, Mysore, Tumkur Hyderabad, and Madanapalle manufacturing around 2.5 million garments per month.

The principal products that GEL produces are outer wear and bottom wear. Outerwear includes both sports wear and winter wear and bottom wear include casual pants, chinos, linen trousers, denim jeans etc. The following graph shows the product mix for the year 2009-10:

Graphical representation of product mix



Industry Structure and Developments

The Indian economy has weathered the storm unleashed by the financial crisis. However, the impact of this crisis is different on various sectors.

Industries that depend on overseas markets (exporters) have continued to be subdued whereas those that depend on domestic demand have fared well.

We, as export industry, belong to the former category and are still getting out from the hangover of last year's economic slowdown.

The after effects from last year's economic slowdown continue to weigh on the business. Global retail sales are still subdued and will take some months more to come back to old levels. Consumer spending in both U.S. and European markets is sluggish and though the recession is "officially" over in most markets, their economic growth is marginal.

Pricing pressures are dominating the markets. All the buyers have got used to cheaper prices offered during the global crisis and are unwilling to reverse this trend. Their obvious answer has been that their retail prices have not improved. In the textile and apparel industry, the order book position has improved but the prices are maintained at the same old lower levels.

Cheaper countries like Bangladesh and Vietnam have hit Indian apparel exports and have captured substantial markets in U.S. and Europe.

The Government of India has withdrawn the 2% subvention which was given to the textile and apparel sector and this also has resulted in making our prices uncompetitive.

MANAGEMENT DISCUSSION AND ANALYSIS

Market share by value of US Apparel Imports (USD M)

	CY 2006	CY 2007	CY 2008	CY 2009
Total US Imports	71,630	73,923	71,569	63,104
Growth (%)		3.2%	(3.2%)	(11.8%)
China	25.9%	30.8%	32.0%	37.2%
Vietnam	4.5%	5.9%	7.3%	8.0%
India	4.4%	4.3%	4.3%	4.5%
Bangladesh	4.1%	4.2%	4.8%	5.4%
Indonesia	5.1%	5.4%	5.6%	6.1%
Cambodia	3.0%	3.3%	3.3%	3.0%
Total of 6 countries	47.0%	53.9%	57.3%	64.2%
Total excl. China	21.1%	23.1%	25.3%	27.0%

China is the largest player in Asia but this country is also facing a difficult situation. The critical problems are:

- (1) anticipated currency appreciation.
- (2) increase in wage cost.
- (3) social compliance.

The competitive edge that Indian apparel industry has are:

- a) large fibre base.
- b) 2nd largest cotton growing country.
- c) design and development capabilities.
- d) integrated supply chain.
- e) higher level of social compliance.

However, against the above advantages, we have the following negatives.

- a) pricing pressures, coupled with increasing yarn prices.
- b) rising wage inflation.
- c) high infrastructure cost.
- d) volatile forex currency levels, making calculations difficult.
- e) Euro has fallen 14% and Rupee has appreciated 5% against the Dollar.
- f) acute shortage of skilled labour.

Opportunities and Threats

India seems to benefit due to raw material, design skills and skilled labour advantages. India is the world's second largest producer of cotton, second largest producer of cotton yarn, third largest exporter of cotton fabric and fourth largest exporter of synthetic fabric. With the establishment of training institutions like National Institute of Fashion Technology (NIFT), many high quality designers, who are able to create modern designs and interact with the buyers, are emerging. This is a distinctive advantage that Indian companies have, and not yet exploited.

The U.S. and EU markets constitute 86% of our company's exports and the slow down in these markets have impacted our exports in a significant way. Consumers in these major markets also seem to have shifted towards cheaper products and therefore more economic sources of supply. Countries which are able to supply cheaper goods have therefore been less affected. Several of the leading manufacturing countries have taken various steps to mitigate the hardship faced by their respective garment industries.

Outlook

Buyers are trying to reduce their Chinese exposure and are moving to other Asian countries. India stands a good chance to capture some of the Chinese orders because of the above reasons. Even if India captures 3% of the Chinese business, it will result into approx. \$ 2.5 billion additional revenue. This is a ray of hope for the Indian apparel industry and expectations are that post-September, India will go back to earlier pricing levels and volume levels. We expect our company also to fare better from the second half of the Financial Year 2010-11.

MANAGEMENT DISCUSSION AND ANALYSIS

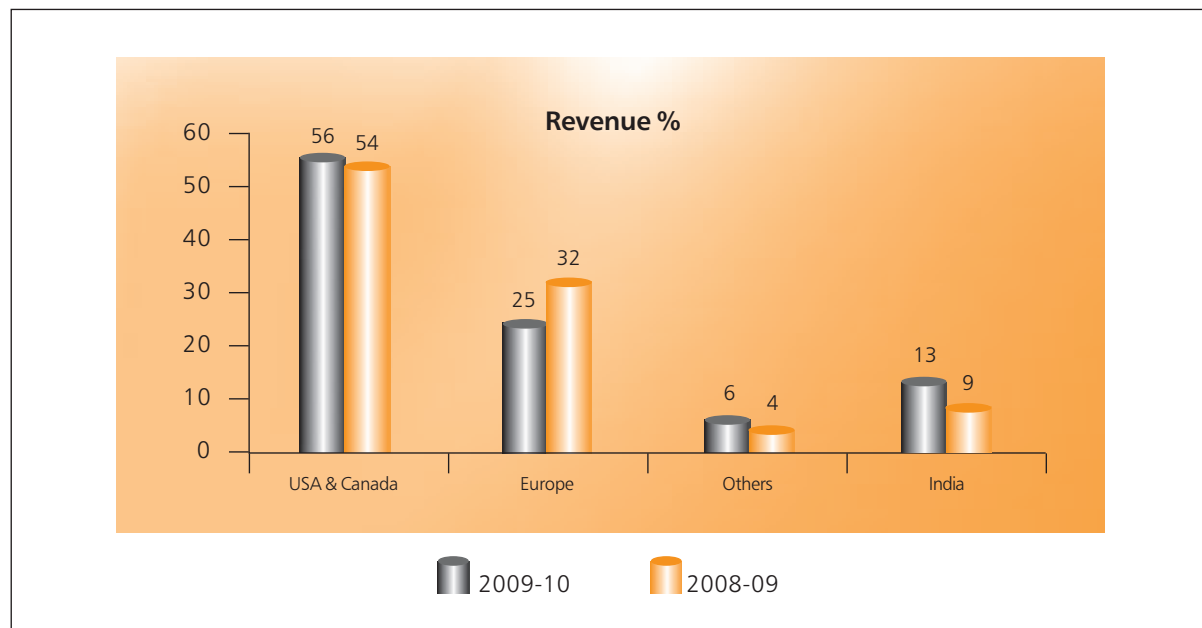
Operating Results / Financial Highlights

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956 and generally accepted accounting principles (GAAP) in India. The management accepts the responsibility for the integrity and objectivity of these financial statements and the basis for the various estimates and judgments used in preparing the financial statements.

During the year, the Company has achieved a revenue of Rs. 1,15,516.17 lakhs, out of which 82.56 % is in the form of foreign exchange. Loss before tax is at Rs. 453.23 lakhs and net loss after tax stood at Rs. 193.23 lakhs.

The low profit margin is mainly due to increase in the raw material cost.

Graphical representation of revenues from various geographical locations / countries:



Some of the key performance indications are given below:

Particulars	(Rs. in lakhs)	
	2009-10	2008-09
Gross Revenue	1,15,516.17	1,17,494.20
Profit Before Tax (PBT)	(453.23)	345.00
Ratio of PBT to Gross Revenue	(0.39)%	0.29%
Profit After Tax (PAT)	(193.23)	336.47
Ratio of PAT on Gross Revenue	(0.17)%	0.29%
Earnings Per Share (EPS) Rs.	(0.56)	0.98

Risks and Concerns

We are exposed to foreign currency risk. The company is an export oriented apparel manufacturer and approx. 90% of its revenue comes as foreign currency. Since the buyers compare our products with that of competitors in USD denominated rate, appreciation of Indian rupee vis-à-vis USD would weaken our competitive position and similarly, our profits would depend on the Indian rupee appreciation / depreciation.

Since the Company is Bangalore based and most of the factories/units are located in and around Bangalore If there is any localized social unrest, break down of services and utilities, it may affect the business and consequently its revenues. To minimize the locational risks, the Company set up factories / units in Chennai, Hyderabad, Mysore, Tumkur Madanapalle etc.

MANAGEMENT DISCUSSION AND ANALYSIS

The Government of India has instituted several policies to promote the growth and these include interest rate subsidies, duty/tax reimbursement schemes etc. Withdrawal/ termination of any of these policies / schemes may adversely impact the profitability of the Company. Also wage costs in India have been significantly lower than the wage costs in the developed countries for skilled professionals in the textile industry, which has been our competitive strength. Wage increase in India may prevent us from sustaining this competitive advantage and may negatively affect our profit margins.

Internal Control Systems and their adequacy

The Company is committed to maintaining an effective system of internal control to facilitate accurate, reliable and speedy compilation of financial information, safeguarding the assets and interests of the Company and ensuring compliance with all laws and regulations. The Company has an internal control department to monitor, review and update internal controls on an ongoing basis. The Company has put in place a well defined organisation structure, authority levels and internal guidelines for conducting business transactions.

The Company appointed independent internal auditors, who would monitor and review all transactions independently to get higher level of efficiency and would report directly to the Audit Committee, which consists of entirely independent directors, on quarterly basis. The Internal Auditors conducts audit on all key business areas as per the pre-drawn audit plan. All significant audit observations and follow up actions are reported to the Audit Committee along Internal Audit reports and management's responses/replies. The minutes of Audit Committee would be reviewed by the Board for its suggestions/recommendations to further improve the internal control systems.

The Audit Committee periodically reviews audit plans, observations and recommendations of the internal auditors as well as external (statutory) auditors with reference to significant risk areas and adequacy of internal controls.

Human Resources / Industrial Relations

The Company believes that its people are a key differentiator, especially in knowledge driven, competitive and global business environment. Adapting work culture to suit the dynamic balancing of people requirements and employee needs is an ongoing process. Fundamental HR processes which enable higher performance orientation, speed, skill and competency development, talent management are corner stones for the success of any organization.

As in the past, the industrial relations continued to remain cordial at all factories / units of the Company. The Company has around 39000 employees as on March 31, 2010.

Caution Statement

Investors are cautioned that this discussion contains statements that involve risks and uncertainties. Words like anticipate, believe, estimate, intend, will, expect and other similar expressions are intended to identify such forward looking statements. The Company assumes no responsibility to amend, modify or revise any forward looking statements, on the basis of any subsequent developments, information or events. Besides, the Company cannot guarantee that these assumptions and expectations are accurate or will be realized and actual results, performance or achievements could thus differ materially from those projected in any such forward looking statements.