

# MANAGEMENT DISCUSSION AND ANALYSIS

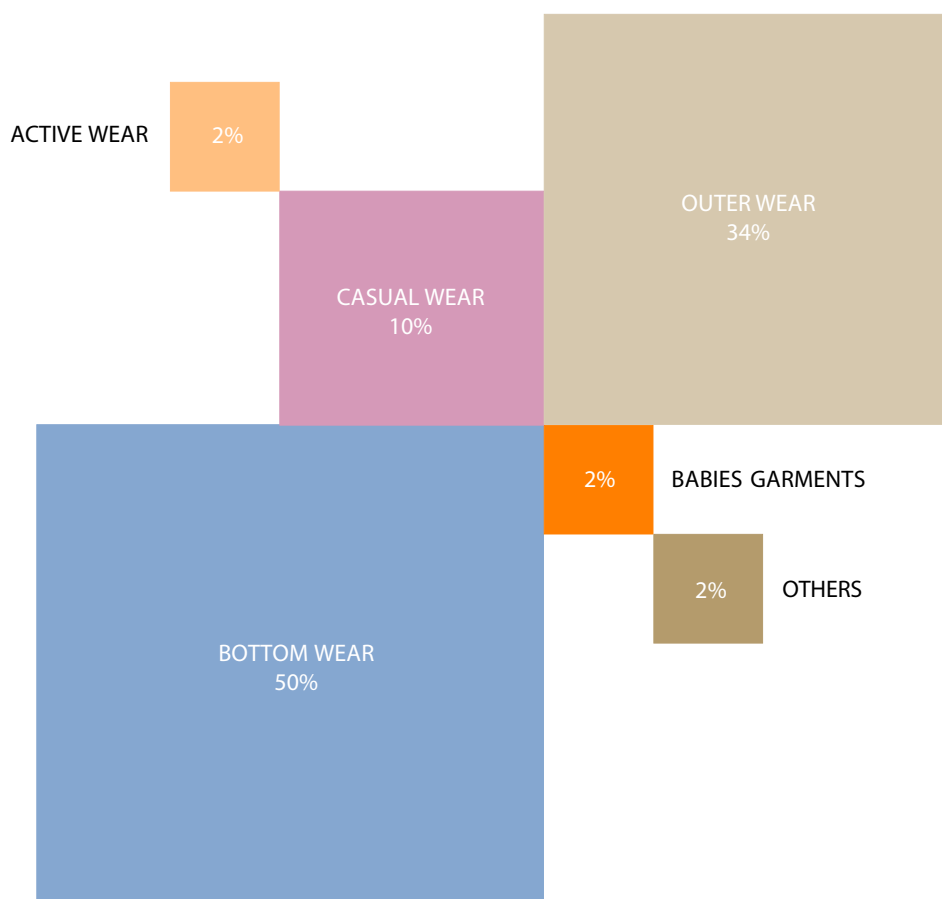
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## Introduction

Gokaldas Exports Limited (GEL) is the largest and one of the leading exporters of apparels 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 46 factories spreading in 45 locations in Bangalore and Chennai, manufacturing more than 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 pie graph depicts the product mix for the year 2006-07:

## Graphical representation of product mix



More than 95% of revenues come from export activity. GEL has big plans to enhance the production capacity to 3 million garments per month by the end of current fiscal. Towards this objective, we are investing more than Rs. 1000 million in the next two years, which would make us to further consolidate lead in the apparel and textile industry.

## Industry Structure and Developments

The Textile and Clothing Sector has witnessed unprecedented investment trend in the last few years, so much so that for the last 5 years the CAGR of investment has been around 100%. It is more encouraging to see that weak sectors like processing have drawn significant investment in the last 2 years.

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The growth figures of the last few years have made the entire textile industry brim with unprecedented confidence and optimism. These growth targets envisaged a fundamental shift in the textile scenario and has taken a trajectory of a very rapid growth. There has been a boost in the Indian Domestic Textile Sector. The increasing GDP per capita has led to greater disposable income with the Indian people. There have been more working female population, leading to increasing purchases and a major portion of the purchases is among the textile and clothing items.

The growth penetration of organized retail (the percentage is expected to increase from the present 3% to 10% by 2010) will increase the availability and hence the purchase of textile and clothing by the Indian consumer.

In the export sector, removal of MFA has given a boost to the Indian textile entrepreneurs, a trend which has only been augmented by the progressive dismantling of spinning and weaving from the developed world. Added to this, the quota limitations to China till 2008 are another incentive to the Indian industry to strengthen itself in the meantime.

The Indian textile industry plays a vital role in the Indian economy by contributing to GDP, generating employment and earning foreign exchange. An estimated 38 million people are directly employed in the textile industry in India and contributes to 4% of GDP and 20% of total export earnings. India currently exports more than one hundred garment product categories and out of this, cotton apparel exports dominate, contributing nearly 76% by value and synthetic constitutes 12%. Indian textile exports are expected to grow from the current levels to US\$ 50 billion by 2010, consequent to quota removal, apparel being US\$25 billion.

### Opportunities and Threats

After dismantling of quotas, India seems to benefit due to raw material, design skills and skilled labour advantages. India is the world's third 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.

In spite of above advantages that India has, there would be pricing pressures in view of dismantling of quotas as new small and medium manufacturers would crop in not only within India but also from other countries where similar quotas were imposed earlier. Also India has geographical disadvantage which take little longer time to reach its products to the key markets. It seems the price has been, more or less, stabilized and the buyers are looking for quality manufactures, even it costs little more. Appreciation of Rupee is also a major concern for the growth of the industry.

### 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 net turnover of Rs.99981.33 lakhs, out of which 99.70% is in the form of foreign exchange. The Company posted a strong top line performance due to good order book. Profit before tax was at Rs 7799.11 lakhs and net profit after tax stood at Rs.7028.27 lakhs.

The higher net profit is due to our most of sales are to the foreign buyers, which enjoys higher margins. During 2006-07, USA & Canada dominated with a share of 53% of total turnover and Europe stood in the second with 39%.

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### Graphical representation of revenues from various geographical locations / countries:



Earnings per equity share (face value Rs.5/-) was also significantly higher from Rs. 17.88 to Rs. 20.45 on year on year basis.

Some of the key performance indications are given below:

|                                   | (Rs. in lakhs) |             |
|-----------------------------------|----------------|-------------|
| <b>Particulars</b>                | <b>2007</b>    | <b>2006</b> |
| Gross revenue                     | 103950.64      | 88881.59    |
| Profit before tax (PBT)           | 7799.11        | 6794.04     |
| Ratio of PBT to Gross revenue (%) | 7.50%          | 7.64%       |
| Profit After Tax (PAT)            | 7028.27        | 6088.35     |
| Ratio of PAT to Gross revenue     | 6.76%          | 6.85%       |
| Earnings Per Share (EPS) (Rs.)    | 20.45          | 17.88       |

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### Risks and Concerns

We are exposed to foreign currency risk. The company is an export oriented apparel manufacturer and approx. 95% 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, Mysore and Tumkur.

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.

However, the Company has put in place a Risk Management Document which has the objective to create awareness about various risks associated with the business of the Company. It defines the risk policies, lays out the risk strategies and methodology to decide on the risk taking ability of the Company. The risk management process involves risk identification, risk measurement, risk prioritization, risk monitoring, risk escalation and risk mitigation. The Audit Committee and Board have approved this risk management document during last fiscal.

### Internal Control Systems and their adequacy

The Company is committed to maintaining an effective system of internal control for facilitating 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 organization 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 conduct audit in 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 auditors with reference to significant risk areas and adequacy of internal controls.

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### **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 and human asset refreshal 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 about 52,000 employees as on March 31, 2007 as against 42,979 employees as on March 31, 2006.

### **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.*