Gokaldas Exports (GOKEXP)

CMP: ₹ 365 | Target: ₹ 415 (14%) | Target Period: 12 months | HOLD

July 26, 2022

Headwinds in H2FY23 could subdue performance

About the stock: Gokaldas Exports (GEL) is one of India's leading apparel exporters with an annual capacity of 36 million+ pieces. Gokaldas focuses on manufacturing complex garmenting products that insulate it from other price based competition.

- Impressive clientele of leading international brands with 'GAP' and 'H&M' being major contributor to revenues. US contributes ~80% of sales
- Under the leadership of the new MD (post exit of Blackstone in FY18), Gokaldas has scripted a successful turnaround of its business operations

Q1FY23 Results: Gokaldas Exports (GEL) reported resilient performance in Q1FY23, despite various challenges.

- On a significantly high base of Q4FY22 revenue grew 4% QoQ (up 153% YoY) to ₹ 610.6 crore. The growth is expected to be driven by a mix of price hikes and contribution from its recently commissioned plants in Karnataka.
- On a sequential basis, gross margins remained flattish at 45.4% (down 675 bps YoY). Employee expenses grew 11% QoQ to ₹ 170.7 crore mainly on account of wage hike (~5%) and capacity expansion. Subsequently, EBITDA margins declined by 130 bps QoQ to 11.8% (up 439 bps YoY).
- PBT declined by 3% QoQ to ₹ 50.9 crore.
- **What should investors do?** Since our initiation report, the stock price has appreciated ~6x. GEL witnessed significant re-rating on the back of consistent outperformance despite various headwinds.
- Demand headwinds in key markets in H2FY23 could subdue revenue growth. However, we believe GEL is a long term play in the apparel export space. We maintain **HOLD** recommendation on the stock

Target Price and Valuation: We value GEL at ₹ 415 i.e. 16x FY24E EPS.

Key triggers for future price performance:

- Production currently operating at peak utilisation levels with steady order book for the next quarter. Order book traction for H2FY23 will be critical.
- Charted out capex of ₹ 350+ crore over the next four years (by FY25E) which will have potential to generate incremental revenues worth ~₹ 1300 crore
- With the recent fundraise (QIP: ₹ 300 crore), the company has strengthened its balance sheet with repayment of ~₹ 300 crore debt, post which GEL has become net debt free (net cash surplus: ₹ 105 crore)
- Enhanced government focus on apparel exports and China +1 strategy of global brands provide long term growth opportunity for players like GEL

Alternate Stock Idea: Apart from GEL, in our textile coverage we also like KPR Mill.

- KPR Mill is among select vertically integrated textile players having one of India' largest knitted garment manufacturing capacity of 157 mn pieces
- it has consistently maintained average RoCE of ~20%

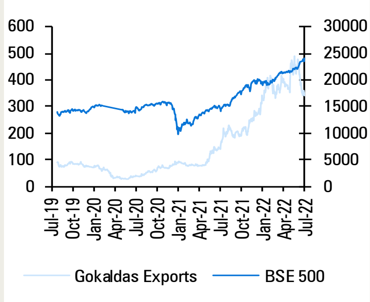
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,152.8
Total Debt (FY22) (₹ crore)	63.1
Cash & invetment (FY22) (₹ crore)	167.1
EV (₹ crore)	2,048.7
52 Week H / L	520 /180
Equity Capital (₹ crore)	29.5
Face Value (₹)	5.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	33.1	32.7	24.1	24.1	23.5
FII	5.5	4.6	12.4	11.0	11.0
DII	3.7	10.1	26.2	27.2	25.5
Others	57.7	52.6	37.3	37.7	40.1

Price Chart



Recent event & key risks

- Invested ₹ 32 crore in Q1FY23 towards capacity expansion
- **Key Risk:** (i) Pandemic led restriction can lower sales (ii) High RM cost to subdue margin.

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Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	1,174.5	1,365.2	1,210.7	1,790.3	14.0%	2,094.7	2,471.7	17.5%
EBITDA	61.8	67.2	101.5	205.5	LP	213.3	291.2	19.0%
Adjusted PAT	25.6	30.4	26.5	117.1	LP	101.2	153.0	14.3%
P/E (x)	61.2	51.5	59.1	18.4		21.3	14.1	
EV/Sales (x)	1.5	1.3	1.4	1.1		1.0	0.8	
EV/EBITDA (x)	29.2	26.3	17.1	10.0		9.7	7.1	
RoCE (%)	10.3	7.7	9.3	20.4		17.3	21.2	
RoE (%)	10.7	13.4	9.1	16.5		12.5	15.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- On a significantly high base of Q4FY22 revenue grew 4% QoQ (up 153% YoY) to ₹ 610.6 crore. The growth is expected to be driven by a mix of price hikes and contribution from its recently commissioned plants in Karnataka. From an average quarterly run-rate of ~₹ 350- 400 crore, company in the last three quarters has been clocking in ₹ 550+ crore revenue. It has been operating at peak utilisation levels.
- GEL has set up two units Karnataka (Tumkur, Bommanahalli), which has a potential annual revenue of ₹ 160 crore and one in Tamil Nadu with potential revenue of ₹ 70 crore. These capacities are getting ramped up rapidly with plants operating at utilisation levels of 60%+. Furthermore, it has also initiated work on a new greenfield unit in Madhya Pradesh (phase 1 potential revenue: ₹ 160 crore), which is expected to come on stream by Q4FY23
- FY22 was a landmark year for the company as it recorded robust revenue growth of ~48% YoY to ₹ 1790 crore (two year CAGR: 15%). The growth was driven by 17% volume and 26% realisation growth. The company has steadily been increasing the share of high value products over the years with contribution of sales from ASP > ₹ 450 increasing from 59% in FY19 to 88% in FY22. The company is currently operating at peak utilisation levels and capacities are fully booked for H1FY23E. It has also guided capex of ~₹ 160 crore in FY23E towards capacity augmentation, new initiatives (backward integration in fabric processing) and modernisation. Given the robust opportunities in apparel export space, we believe GEL has a long runway for growth. We build in revenue CAGR of 18% in FY22-24E
- The company's gross margin remained flattish on a QoQ basis in Q1FY23. The company tries to protect its gross margins as it endeavours to pass on almost entire price hike to customers and tends to factor in current prices while booking the order. Furthermore, it has long term supply contracts with fabric suppliers, which enables it to procure RM at competitive rates. In FY22, the company for the first time clocked double digit EBITDA margins (11.5%), driven by efficiencies and operating leverage. Sighting the recent high RM inflation and ~5% wage hike, we expect EBITDA margins to soften by ~130 bps YoY to 10.2% in FY23. However, better productivity and higher operating efficiencies are expected to lead GEL to report EBITDA CAGR of 19% in FY22-24E
- GEL has charted out capex of ₹ 350+ crore over the next four years (by FY25E), which will have potential to generate incremental revenues worth ~₹ 1300 crore. The company is exploring opportunities in various states to increase its garment capacity. Further, the management indicated that is looking at entering new business segments like technical textiles, knitwear and setting up manufacturing units in cost efficient countries like Bangladesh

Q1FY23 Earnings conference call highlights:

- The company managed to report a resilient performance in a challenging macro economic environment. Seasonally H1 is a weak period for the Indian apparel exports as during this period global retailers tend to source synthetic apparel for Autumn/Winter, whereas India is more strong in the cotton fibre ecosystem which caters largely to Spring/Summer demand.
- The company faced supply chain disruption in Q1FY23 from China which led to delays in receiving imported raw materials and impacted the smooth operation of the manufacturing units. However, the company worked with suppliers and customers to mitigate the impact of these challenges. Also the company faced labour shortage during the quarter owing to the school closure period during which labourers visit their families.
- On the demand front, the company believes that there could be headwinds in H2FY23 due to global retailers being saddled with excess inventory for the spring summer season which could negatively impact the momentum of new orders and could subdue the revenue growth. However, the company expects to post a strong growth from FY24 onwards. The problems faced by competing countries like Sri Lanka and Pakistan are likely to provide opportunity for Indian apparel exporters to garner higher market share. From a long term perspective China+1 strategy of global retailers and signing of FTA with UK, Europe would provide sustained growth opportunities to Indian apparel exporters.
- On the margin front, the company expects some pricing pressure in H2FY23 which the company is looking to mitigate through improved productivity and efficient raw material sourcing. From a long term perspective the company expects to improve its EBITDA margin by 150 bps over FY22 levels in the next three years.
- On the order book front, the company has not witnessed any cancellation/deferment of orders. The company is closely monitoring the demand situation in key markets.
- On the capex front, the company is not slowing down or deferring any capex. Its new factories are expected to start by the end of FY23. Also its Bangladesh factory capex is on track. Its Tumkur & Bangalore plant are operating at utilisation of around 95%
- USA is Gokaldas exports key market and contributes around 75-80% of revenues. Its top 5 clients contribute ~ 70-75% of the revenues. The company is planning to add new clients and diversify its customer base as well as increase the wallet share of existing customers. The company is widening its product portfolio to cater to a wider set of customers.
- The management indicated that signing of FTA with UK/Europe would be beneficial for Indian apparel exporters as it is a large market and European retailers currently source miniscule requirements from India and mainly source from Bangladesh. Post signing of FTA with UK / Europe, Indian Apparel exporters will have the opportunity garner higher market share in those markets.
- On the raw material sourcing front, the management indicated that 30% of raw material is imported (mainly in first half of the year) and 70% is sourced domestically
- The company is not significantly impacted by the volatility in freight cost as all its exports are on Free on Board basis (FOB) with freight cost being borne by the global retailers.

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	1,210.7	1,790.3	2,094.7	2,471.7
Growth (%)	(11.3)	47.9	17.0	18.0
Total Raw Material Cost	617.1	916.0	1,099.7	1,270.0
Gross Margins (%)	49.0	48.8	47.5	48.6
Employee Expenses	371.6	538.8	635.0	740.0
Other Expenses	120.6	130.1	146.6	170.5
Total Operating Expenditure	1,109.2	1,584.8	1,881.3	2,180.5
EBITDA	101.5	205.5	213.3	291.2
EBITDA Margin	8.4	11.5	10.2	11.8
Interest	34.5	40.2	27.7	27.0
Depreciation	52.6	59.0	66.6	80.5
Other Income	12.2	10.7	12.0	15.0
Exceptional Expense	-	-	-	-
PBT	26.6	117.0	131.0	198.7
Total Tax	0.1	(0.1)	29.8	45.7
Profit After Tax	26.5	117.1	101.2	153.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	26.5	117.1	101.2	153.0
Add: Depreciation	52.6	59.0	66.6	80.5
Net Increase in Current Asset	13.2	-156.7	-82.0	-123.4
Net Increase in Current Liabili	-12.1	65.6	63.6	36.2
Others	-30.1	-33.5	-26.0	-30.0
CF from operating activi	**50.2**	**51.5**	**123.4**	**116.2**
(Inc)/dec in Investments	-9.3	29.4	-25.6	0.0
(Inc)/dec in Fixed Assets	-35.0	-77.9	-149.0	-110.0
Others	17.3	-21.5	-0.2	0.0
CF from investing activi	**-27.0**	**-70.0**	**-174.7**	**-110.0**
Inc / (Dec) in Equity Capital	0.0	8.0	0.0	0.0
Inc / (Dec) in Loan	-26.2	-301.7	46.9	-10.0
Others	5.9	309.7	0.0	0.0
CF from financing activi	**-20.2**	**16.0**	**46.9**	**-10.0**
Net Cash flow	3.0	-2.5	-4.4	-3.8
Opening Cash	12.3	15.3	12.7	8.3
Closing Cash	**15.2**	**12.7**	**8.3**	**4.5**

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	21.4	29.5	29.5	29.5
Reserve and Surplus	268.6	678.6	779.8	932.8
Total Shareholders funds	290.1	708.1	809.3	962.2
Total Debt	364.8	63.1	110.0	100.0
Non Current Liabilities	113.3	130.0	130.0	130.0
Source of Funds	**768.2**	**901.1**	**1,049.2**	**1,192.2**
Gross block	225.6	291.6	451.6	561.6
Less: Accum depreciation	100.3	136.3	177.0	227.5
Net Fixed Assets	125.3	155.3	274.7	334.1
Capital WIP	-	11.1	-	-
Intangible assets	1.9	2.7	2.7	2.7
Investments	183.9	154.5	180.0	180.0
Inventory	259.2	433.6	459.1	521.4
Cash	15.3	12.7	8.3	4.5
Debtors	179.8	92.2	200.9	257.3
Loans & Advances & Other CA	97.5	178.0	125.8	130.4
Total Current Assets	551.8	716.5	794.1	913.7
Creditors	111.7	117.8	200.9	237.0
Provisions & Other CL	132.7	192.2	172.7	172.7
Total Current Liabilities	244.4	310.0	373.6	409.8
Net Current Assets	307.4	406.4	420.5	504.0
LT L& A, Other Assets	149.6	171.1	171.4	171.4
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**768.2**	**901.1**	**1,049.2**	**1,192.2**

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	6.2	19.9	17.2	25.9
Cash EPS	18.4	29.8	28.5	39.6
BV	67.6	120.1	137.2	163.1
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.6	2.1	1.4	0.8
Operating Ratios (%)				
EBITDA margins	8.4	11.5	10.2	11.8
PBT margins	2.2	6.5	6.3	8.0
Net Profit margins	2.2	6.5	4.8	6.2
Inventory days	78.1	88.4	80.0	77.0
Debtor days	54.2	18.8	35.0	38.0
Creditor days	33.7	24.0	35.0	35.0
Return Ratios (%)				
RoE	9.1	16.5	12.5	15.9
RoCE	9.3	20.4	17.3	21.2
Valuation Ratios (x)				
P/E	59.1	18.4	21.3	14.1
EV / EBITDA	17.1	10.0	9.7	7.1
EV / Sales	1.4	1.1	1.0	0.8
Market Cap / Revenues	1.3	1.2	1.0	0.9
Price to Book Value	5.4	3.0	2.7	2.2
Solvency Ratios				
Net Debt / Equity	0.6	-0.1	-0.1	-0.1
Net Debt/EBITDA	1.6	-0.5	-0.4	-0.3
Current Ratio	2.2	2.3	2.1	2.2
Quick Ratio	1.1	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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