

## Capacity expansion to spur revenue growth...

**About the stock:** Gokaldas Exports (GEL) is one of India's leading apparel exporters with an annual capacity of 30 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 the major contributor to revenues. US contributes ~65% 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

**Q3FY22 Results:** GEL reported its best quarterly performance driven by healthy demand for apparels in the US apparel market.

- On a high base of Q2FY22, sales grew 17% QoQ (up 97% YoY) to ₹ 520.7 crore (highest quarterly revenue)
- On a QoQ basis, the company maintained its gross margin levels at 49.7% (down 560 bps YoY). Despite higher opex, GEL delivered strong EBITDA margin of 11.4% (Q2FY22: 11.7%, Q3FY21: 7.9%)
- PBT grew 36% QoQ (up 6x YoY) to ₹ 38.7 crore

**What should investors do?** Since our initiation report, the stock price has appreciated ~6x (from ₹ 60 in September 2020 to ₹ 370 in January 2022).

- We like GEL as a structural long term story to play the apparel export space. We maintain **BUY** recommendation on the stock

**Target Price and Valuation:** We value GEL at ₹ 480 i.e. 20x FY24E EPS

### Key triggers for future price performance:

- Production currently running at peak utilisation levels with robust order book for the next six months
- Charted out capex of ₹ 340 crore over the next four years (by FY25E), which will have potential to generate incremental revenues worth ~₹ 1300 crore
- GEL is planning to backward integrate and start a fabric processing unit for knitted segment with a capex of ₹ 100 crore. The management believes the knits market is growing faster than the woven's market (97% of sales). It provides an immense opportunity to diversify its product offering
- With the recent fundraise (QIP: ₹ 300 crore), the company has strengthened its balance sheet with repayment of ~₹ 240 crore debt, post which GEL has become net debt free (net cash surplus: ₹ 71 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's largest knitted garment manufacturing capacity of 157 mn pieces
- BUY with target price of ₹ 820



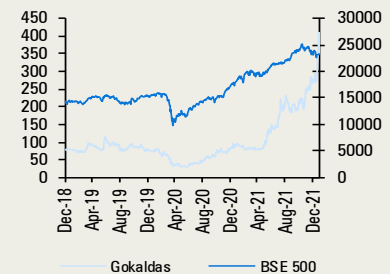
### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,152.0
Total Debt (FY21) (₹ crore)	364.8
Cash & investment (FY21) (₹ crore)	199.2
EV (₹ crore)	2,317.6
52 Week H / L	414 / 73
Equity Capital (₹ crore)	29.2
Face Value (₹)	5.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	33.1	33.1	33.1	32.7	24.1
FII	8.3	8.3	5.5	4.6	12.4
DII	3.7	3.7	3.7	10.1	26.2
Others	54.9	54.9	57.7	52.6	37.3

### Price Chart



### Recent event & key risks

- As on Q3FY22, GEL reported net cash surplus of ₹ 71 crore vs. net debt of ₹ 217 crore in Q1FY22
- **Key Risk:** (i) Pandemic led restriction can lower sales (ii) High RM cost to subdue margin

### Research Analyst

Bharat Chhoda  
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa  
cheragh.sidhwa@icicisecurities.com

## Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	1,174.5	1,365.2	1,210.7	1.2%	1,682.9	2,036.3	2,402.9	25.7%
EBITDA	61.8	67.2	101.5	22.0%	168.5	215.1	279.6	40.2%
Adjusted PAT	25.6	30.4	26.5		77.4	114.5	141.8	
P/E (x)	61.8	52.1	59.7		27.8	18.8	15.2	
EV/Sales (x)	1.5	1.3	1.4		1.3	1.1	0.9	
EV/EBITDA (x)	29.4	26.6	17.2		12.6	10.0	7.6	
RoCE (%)	10.3	7.7	9.3		14.2	16.4	19.0	
RoE (%)	10.7	13.4	9.1		11.6	14.6	15.4	

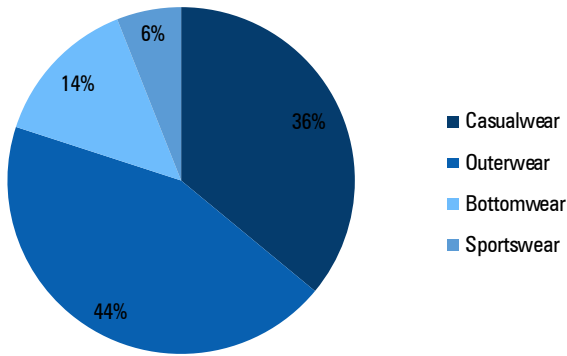
## Key takeaways of recent quarter & conference call highlights

- On a significantly high base of Q2FY22 revenue grew 17% QoQ (up 97% YoY) to ₹ 520.7 crore (highest quarterly revenue). Revenue growth was driven by rapid expansion of production capacity in the existing unit and increase in realisation per piece (~18% YoY). Production is currently running at peak utilisation levels with robust order book for the next six months
- GEL has set up two units in Karnataka (Tumkur and Bommanahalli), which is expected to be ramped up in the next six months (potential annual revenue: ₹ 160 crore). In Q3FY22, the capacity contributed ~₹ 16 crore (40% CU) to the topline. It has also set up a new plant in Tamil Nadu (potential revenue: ₹ 70 crore), which is expected to come on stream by Q4FY22
- On a QoQ basis, the company has maintained its gross margin levels at 49.7%. Opex came in higher (employee and other expenses up 11% and 36% QoQ, respectively) owing to increased logistical cost and pre-operating expenses of new manufacturing units. Despite the same, the company delivered strong EBITDA margin to the tune of ₹ 11.4% (Q2FY22: 11.7%, Q3FY21: 7.9%). Absolute EBITDA grew 15% QoQ to ₹ 59.4 crore
- Robust operational performance resulted in GEL reporting a 36% QoQ jump in PBT at ₹ 38.6 crore (Q3FY21: ₹ 6 crore). Owing to ~ 22% effective tax rate (vs. nil in Q2FY22, Q3FY21), the company reported PAT of ₹ 30.2 crore
- Out of ~ ₹ 140 crore, GEL has received ₹ 69 crore on account of partial release of fixed deposit during January 2022 and is in the process of unlocking the balance fixed deposit during Q4FY22
- Charted out a capex of ₹ 340 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

### Q3FY22 Earnings conference call highlights:

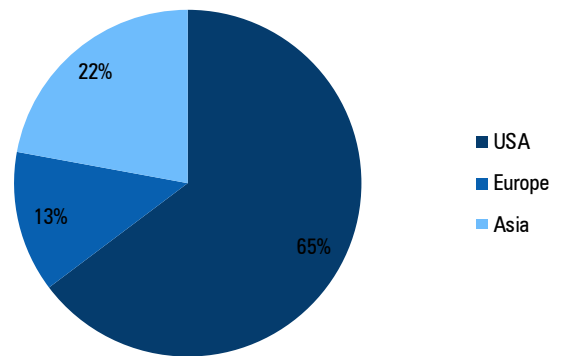
- The company has set up a separate subsidiary to start the knits business. The management believes the knits market is growing faster than the woven's market. It provides the company an opportunity to diversify its product offering. Also, GEL's customers sell both knits and woven garments. Hence, the company can get higher wallet share from customers by catering to both segments
- The company is planning to backward integrate and start a fabric processing unit for knits with a capex of ₹ 100 crore. The fabric from the unit would be utilised for captive consumption to manufacture garments. The management indicated that backward integration is a key requisite in the knitted garments business to have a competitive edge in the global market. The company expects margins in the knitted garment business to be ~ 15%. Though capital employed would be higher than woven segment, on the return ratio front it expects knits to be in-line with the return ratio profile of the woven segment
- On the working capital cycle front, the company normally has working capital cycle of 75 days but in Q3FY22 it increased to 83 days owing to higher inventory and receivables. The company expects to get back to ~ 75 days working capital cycle in the ensuing quarters
- The company is continuously adding capacities to drive revenue growth. GEL's manufacturing facility at Tamil Nadu is expected to come on-stream in Q4FY22 while its facility in Madhya Pradesh is under construction
- With significant increase in RM prices, global brands have attempted to increase the retail prices of apparel to offset these trends

**Exhibit 1: Core competency in manufacturing complex garments. Category wise revenue break-up**



Source: Company, ICICI Direct Research

**Exhibit 2: Global footprint: Exports to more than 50 countries. Geographical break-up of revenues**



Source: Company, ICICI Direct Research

**Exhibit 4: Impressive clientele of international brands (Top three clients contribute ~58% of export revenues)**


Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Net Sales</b>	1,210.7	1,682.9	2,036.3	2,402.9
Growth (%)	(11.3)	39.0	21.0	18.0
Total Raw Material Cost	617.1	844.8	1,030.4	1,215.8
Gross Margins (%)	49.0	49.8	49.4	49.4
Employee Expenses	371.6	535.0	630.0	720.0
Other Expenses	120.6	134.6	160.9	187.4
Total Operating Expenditure	1,109.2	1,514.5	1,821.3	2,123.3
<b>EBITDA</b>	101.5	168.5	215.1	279.6
EBITDA Margin	8.4	10.0	10.6	11.6
Interest	34.5	36.0	26.0	29.0
Depreciation	52.6	57.5	69.4	81.4
Other Income	12.2	12.0	15.0	15.0
Exceptional Expense	-	-	-	-
PBT	26.6	87.0	134.7	184.2
Total Tax	0.1	9.6	20.2	42.4
<b>Profit After Tax</b>	26.5	77.4	114.5	141.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	21.4	29.2	29.2	29.2
Reserve and Surplus	268.6	638.3	752.8	894.6
Total Shareholders funds	290.1	667.5	781.9	923.8
Total Debt	364.8	200.0	200.0	200.0
Non Current Liabilities	113.3	113.3	113.3	113.3
<b>Source of Funds</b>	<b>768.2</b>	<b>980.8</b>	<b>1,095.2</b>	<b>1,237.1</b>
Gross block	225.6	305.6	415.6	515.6
Less: Accum depreciation	100.3	127.8	165.2	211.7
Net Fixed Assets	125.3	177.8	250.4	304.0
Capital WIP	-	-	-	-
Intangible assets	1.9	1.9	1.9	1.9
Investments	183.9	180.0	180.0	180.0
Inventory	259.2	368.9	424.0	480.6
Cash	15.3	44.4	24.6	59.4
Debtors	179.8	230.5	267.8	296.2
Loans & Advances & Other CA	97.5	111.1	114.3	117.8
Total Current Assets	551.8	754.9	830.7	954.1
Creditors	111.7	161.4	195.3	230.4
Provisions & Other CL	132.7	124.0	124.0	124.0
Total Current Liabilities	244.4	285.4	319.3	354.4
Net Current Assets	307.4	469.5	511.4	599.6
LT L&A, Other Assets	149.6	151.5	151.5	151.5
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>768.2</b>	<b>980.8</b>	<b>1,095.2</b>	<b>1,237.1</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	26.5	77.4	114.5	141.8
Add: Depreciation	52.6	57.5	69.4	81.4
Net Increase in Current Assets	13.2	-174.0	-95.6	-88.5
Net Increase in Current Liabilities	-12.1	41.0	33.9	35.1
Others	-30.1	-30.0	-32.0	-35.0
<b>CF from operating activities</b>	<b>50.2</b>	<b>-28.1</b>	<b>90.2</b>	<b>134.9</b>
(Inc)/dec in Investments	-9.3	3.9	0.0	0.0
(Inc)/dec in Fixed Assets	-35.0	-80.0	-110.0	-100.0
Others	17.3	-1.9	0.0	0.0
<b>CF from investing activities</b>	<b>-27.0</b>	<b>-78.0</b>	<b>-110.0</b>	<b>-100.0</b>
Inc / (Dec) in Equity Capital	0.0	7.7	0.0	0.0
Inc / (Dec) in Loan	-26.2	-164.8	0.0	0.0
Others	5.9	292.3	0.0	0.0
<b>CF from financing activities</b>	<b>-20.2</b>	<b>135.2</b>	<b>0.0</b>	<b>0.0</b>
Net Cash flow	3.0	29.1	-19.8	34.9
Opening Cash	12.3	15.3	44.4	24.6
<b>Closing Cash</b>	<b>15.2</b>	<b>44.4</b>	<b>24.6</b>	<b>59.4</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	6.2	13.3	19.6	24.3
Cash EPS	18.4	23.1	31.5	38.3
BV	67.6	114.4	134.1	158.4
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.6	7.6	4.2	10.2
<b>Operating Ratios (%)</b>				
EBITDA margins	8.4	10.0	10.6	11.6
PBT margins	2.2	5.2	6.6	7.7
Net Profit margins	2.2	4.6	5.6	5.9
Inventory days	78.1	80.0	76.0	73.0
Debtor days	54.2	50.0	48.0	45.0
Creditor days	33.7	35.0	35.0	35.0
<b>Return Ratios (%)</b>				
RoE	9.1	11.6	14.6	15.4
RoCE	9.3	14.2	16.4	19.0
<b>Valuation Ratios (x)</b>				
P/E	59.7	27.8	18.8	15.2
EV / EBITDA	17.2	12.6	10.0	7.6
EV / Sales	1.4	1.3	1.1	0.9
Market Cap / Revenues	1.3	1.3	1.1	0.9
Price to Book Value	5.5	3.2	2.8	2.3
<b>Solvency Ratios</b>				
Net Debt / Equity	0.6	0.0	0.0	0.0
Net Debt/EBITDA	1.6	-0.1	0.0	-0.1
Current Ratio	2.2	2.5	2.5	2.5
Quick Ratio	1.1	1.2	1.2	1.2

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

## ANALYST CERTIFICATION

I/We, Bharat Chhoda, MBA, Cheragh Sidhwa MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icidirect.com](http://icidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.