

Performance on expected lines; recovery anticipated from H2FY24 onwards...

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

Q3FY23 Results: Gokaldas Exports reported a resilient performance in a demanding business environment.

- Amid slowdown in India's overall textile exports (due to slackening of demand in key export markets), revenue for GEL came in flattish YoY (down 9% QoQ) to ₹ 518.9 core (after successive quarters of robust growth)
- Despite weak sales, GEL continued to maintain double digit EBITDA margins for a sixth consecutive quarter at 12.2% through various cost saving initiatives. EBITDA grew 7% YoY (down 3% QoQ) to ₹ 63.2 crore
- Finance cost declined 34% YoY owing to repayment of debt while other income more than doubled. Hence, PAT grew 35% YoY to ₹ 40.6 crore

What should investors do? Since our initiation report, the stock price has appreciated ~6.5x. GEL witnessed a significant re-rating on the back of consistent outperformance despite various headwinds.

- Demand headwinds in key markets in H1FY24 could subdue revenue growth. However, we believe GEL is a long term play in the apparel export space. Hence, we maintain our **HOLD** recommendation on the stock

Target Price and Valuation: We value GEL at ₹ 440 i.e. 14x FY25E EPS

Key triggers for future price performance:

- Charted out capex of ₹ 350+ crore over the next three years, 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: ₹ 369 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 Mills is among select vertically integrated textile players having one of India's largest knitted garment manufacturing capacity of 157 mn pieces



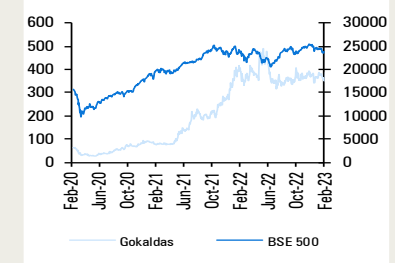
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,362.6
Total Debt (FY22) (₹ crore)	63.1
Cash & investment (FY22) (₹ crore)	167.1
EV (₹ crore)	2,258.6
52 Week H / L	520 / 301
Equity Capital (₹ crore)	30.3
Face Value (₹)	5.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	32.7	24.1	24.1	23.5	21.0
FII	4.6	12.4	11.0	11.0	11.7
DII	10.1	26.2	27.2	25.5	25.9
Others	52.6	37.3	37.7	40.1	41.4

Price Chart



Recent event & key risks

- As on 9MFY23, GEL incurred a capex of ₹ 80 crore
- **Key Risk:** (i) High RM cost to subdue margin, (ii) Faster than expected recovery in key export markets

Research Analyst

Bharat Chhoda
bharat.chhoda@icicisecurities.com

Cheragh Sidhwa
cheragh.sidhwa@icicisecurities.com

Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-24E)
Net Sales	1,174.5	1,365.2	1,210.7	1,790.3	14.0%	2,255.8	2,481.4	2,903.2	17.5%
EBITDA	61.8	67.2	101.5	205.5	LP	258.3	284.9	350.6	19.5%
Adjusted PAT	25.6	30.4	26.5	117.1	LP	150.5	151.8	190.8	17.7%
P/E (x)	65.4	55.0	63.1	19.6		15.7	15.6	12.4	
EV/Sales (x)	1.6	1.4	1.5	1.3		1.0	0.9	0.7	
EV/EBITDA (x)	30.9	27.9	18.1	11.0		8.5	7.6	5.9	
RoCE (%)	10.3	7.7	9.3	20.4		21.8	20.1	21.3	
RoE (%)	10.7	13.4	9.1	16.5		16.7	14.4	15.3	

Key takeaways of recent quarter & conference call highlights

- On account of a slowdown in the order book for spring production and higher inventory levels with retailers, the revenue trajectory decelerated in Q3FY23. The management in the previous quarter had indicated a flattish YoY growth for the current quarter. Overall, India's garment exports during Q3FY23 declined ~3% YoY, which signifies sustained market share gains for GEL. The management highlighted that global retailers are still saddled with earlier inventory though the same has reduced from six months' inventory to about three months' inventory. From an average quarterly run rate of ~₹ 350-400 crore, the company, in the last five quarters, has been clocking ₹ 500+ crore revenue. On a three year CAGR basis, GEL reported revenue CAGR of 17% in Q3FY23
- As on 9MFY23, GEL incurred a capex of ₹ 80 crore. The company maintained its guidance for incurring capex worth ₹ 160 crore in FY23E. Majority of the capex is towards setting up a new greenfield unit in Madhya Pradesh (phase 1 potential revenue: ₹ 160 crore) and backward integration in fabric processing for knitted garments (currently revenues are dominated by woven segment). The MP capacity is expected to come on stream by Q4FY23 (pilot orders), with commercial production to begin from Q1FY24 onwards (volumes: 2.5-3 million pieces). Also, the commissioning of fabric processing capacity for knitting to start from Q1FY24 (capex: ₹ 100 crore). The company may invest another ₹ 75-100 crore towards establishing new downstream units to produce knitted garments or may engineer existing downstream capacity in the near term. Both these projects have a potential to generate ~ ₹ 500 crore revenues. Capex for the next 18 months (Q1FY24 to Q2FY25) is worth ₹ 150 crore
- On the outlook front, the management highlighted that it could report a sequential improvement in revenue performance with H1FY24 expected to be better than H2FY23 and H2FY24 to be better than H1FY24. With inventory levels for retailers gradually on a declining trend, we expect GEL to register ~20% YoY growth in H2FY24E. We bake in revenue CAGR of 14% in FY23-25E, driven by steady capacity additions. The management indicated that at the current capacity the company has a revenue potential of ₹ 2400 crore and new capacities post stabilisation have a revenue potential of ~ ₹ 1400 crore (on a capex of ₹ 370 crore). GEL aspires to reach revenues of ~ ₹ 3800 crore by FY26
- 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. On a sequential basis, gross margins improved 180 bps YoY to 46.1% (down 180 bps YoY) in Q2FY23. Enhanced productivity and cost control measures have resulted in the company maintaining double digit EBITDA margins (11-12%). Absolute EBITDA grew 7 YoY to ₹ 65.3 crore. We expect EBITDA margins to remain flattish in FY24E at 11.5% (YoY) on account of a slowdown in revenues and pre-operating expenses. Better productivity and gradual contribution from knitting segment (which yields enhanced margins) should propel margins in FY25E (build in 60 bps YoY expansion)
- The management indicated that at the current capacity the company has a revenue potential of ₹ 2400 crore and the new capacities post stabilisation have a revenue potential of ~ ₹ 1400 crore. The company aspires to reach revenues of ~₹ 3800 crore by FY26

Financial Summary

Exhibit 1: Profit and loss statement					
	₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E	FY25E
Net Sales	1,210.7	1,790.3	2,255.8	2,481.4	2,903.2
Growth (%)	(11.3)	47.9	26.0	10.0	17.0
Total Raw Material Cost	617.1	916.0	1,195.6	1,300.2	1,492.3
Gross Margins (%)	49.0	48.8	47.0	47.6	48.6
Employee Expenses	371.6	538.8	650.0	725.0	860.0
Other Expenses	120.6	130.1	151.9	171.2	200.3
Total Operating Expenditure	1,109.2	1,584.8	1,997.5	2,196.5	2,552.6
EBITDA	101.5	205.5	258.3	284.9	350.6
EBITDA Margin	8.4	11.5	11.5	11.5	12.1
Interest	34.5	40.2	23.9	25.9	28.9
Depreciation	52.6	59.0	69.8	81.9	94.0
Other Income	12.2	10.7	20.0	20.0	20.0
Exceptional Income	-	-	6.5	-	-
PBT	26.6	117.0	191.1	197.2	247.8
Total Tax	0.1	(0.1)	40.6	45.4	57.0
Profit After Tax	26.5	117.1	150.5	151.8	190.8

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					
	₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E	FY25E
Profit/(Loss) after taxation	26.5	117.1	150.5	151.8	190.8
Add: Depreciation	52.6	59.0	69.8	81.9	94.0
Net Increase in Current Asset	13.2	-156.7	-50.7	-64.6	-117.2
Net Increase in Current Liabili	-12.1	65.6	17.2	35.8	32.4
Others	-30.1	-33.5	-26.0	-30.0	-34.0
CF from operating activities	50.2	51.5	160.8	175.0	166.0
(Inc)/dec in Investments	-9.3	29.4	-25.6	0.0	0.0
(Inc)/dec in Fixed Assets	-35.0	-77.9	-154.0	-120.0	-90.0
Others	17.3	-21.5	-0.2	0.0	0.0
CF from investing activities	-27.0	-70.0	-179.7	-120.0	-90.0
Inc / (Dec) in Equity Capital	0.0	8.0	0.8	0.0	0.0
Inc / (Dec) in Loan	-26.2	-301.7	-8.1	0.0	0.0
Others	5.9	309.7	43.0	0.0	0.0
CF from financing activities	-20.2	16.0	35.7	0.0	0.0
Net Cash flow	3.0	-2.5	16.8	55.0	76.0
Opening Cash	12.3	15.3	12.7	29.5	84.5
Closing Cash	15.2	12.7	29.5	84.5	160.4

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					
	₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E	FY25E
Equity Capital	21.4	29.5	30.3	30.3	30.3
Reserve and Surplus	268.6	678.6	872.1	1,023.9	1,214.7
Total Shareholders funds	290.1	708.1	902.4	1,054.2	1,245.0
Total Debt	364.8	63.1	55.0	55.0	55.0
Non Current Liabilities	113.3	130.0	130.0	130.0	130.0
Source of Funds	768.2	901.1	1,087.4	1,239.2	1,430.0
Gross block	225.6	291.6	456.6	576.6	666.6
Less: Accum depreciation	100.3	136.3	180.2	232.1	292.1
Net Fixed Assets	125.3	155.3	276.5	344.6	374.6
Capital WIP	-	11.1	-	-	-
Intangible assets	1.9	2.7	2.7	2.7	2.7
Investments	183.9	154.5	180.0	180.0	180.0
Inventory	259.2	433.6	475.9	509.9	596.6
Cash	15.3	12.7	29.5	84.5	160.4
Debtors	179.8	92.2	123.6	149.6	175.0
Loans & Advances & Other CA	97.5	178.0	155.0	159.7	164.8
Total Current Assets	551.8	716.5	784.0	903.6	1,096.8
Creditors	111.7	117.8	154.5	190.4	222.7
Provisions & Other CL	132.7	192.2	172.7	172.7	172.7
Total Current Liabilities	244.4	310.0	327.2	363.1	395.5
Net Current Assets	307.4	406.4	456.8	540.5	701.3
LT L& A, Other Assets	149.6	171.1	171.4	171.4	171.4
Other Assets	0.0	0.0	0.0	0.0	0.0
Application of Funds	768.2	901.1	1,087.4	1,239.2	1,430.0

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	FY25E
Per share data (₹)					
EPS	6.2	19.9	24.8	25.1	31.5
Cash EPS	18.4	29.8	36.4	38.6	47.0
BV	67.6	120.1	149.0	174.0	205.5
DPS	0.0	0.0	0.0	0.0	0.0
Cash Per Share	3.6	2.1	4.9	13.9	26.5
Operating Ratios (%)					
EBITDA margins	8.4	11.5	11.5	11.5	12.1
PBT margins	2.2	6.5	8.5	7.9	8.5
Net Profit margins	2.2	6.5	6.7	6.1	6.6
Inventory days	78.1	88.4	77.0	75.0	75.0
Debtor days	54.2	18.8	20.0	22.0	22.0
Creditor days	33.7	24.0	25.0	28.0	28.0
Return Ratios (%)					
RoE	9.1	16.5	16.7	14.4	15.3
RoCE	9.3	20.4	21.8	20.1	21.3
Valuation Ratios (x)					
P/E	63.1	19.6	15.7	15.6	12.4
EV / EBITDA	18.1	11.0	8.5	7.6	5.9
EV / Sales	1.5	1.3	1.0	0.9	0.7
Market Cap / Revenues	1.4	1.3	1.0	1.0	0.8
Price to Book Value	5.8	3.2	2.6	2.2	1.9
Solvency Ratios					
Net Debt / Equity	0.6	-0.1	-0.2	-0.2	-0.2
Net Debt/EBITDA	1.6	-0.5	-0.6	-0.7	-0.8
Current Ratio	2.2	2.3	2.3	2.3	2.4
Quick Ratio	1.1	0.9	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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

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