

CMP: ₹ 400

Target: ₹ 440 (10%)

Target Period: 12 months

HOLD

May 30, 2023

Not out of the woods yet; 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 ~85% 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

Q4FY23 Results: Moderate operational performance aided by healthy margins.

- Amid a slowdown in India's overall textile exports (due to slackening of demand in key export markets), revenue for GEL declined 11% YoY (stagnant QoQ) to ₹ 523.0 crore
- Despite weak sales, GEL has continued to maintain double digit EBITDA margins for the seventh consecutive quarter at 13.4% through various cost saving initiatives. EBITDA de-grew 9% YoY (up 10% QoQ) to ₹ 70.1 crore
- Finance cost declined by 34% YoY owing to repayment of debt while other income more than doubled. PAT was at ₹ 47.2 crore vs. ₹ 60.9 crore (base quarter had deferred tax credit)

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: ₹ 330 crore as on FY23)
- 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



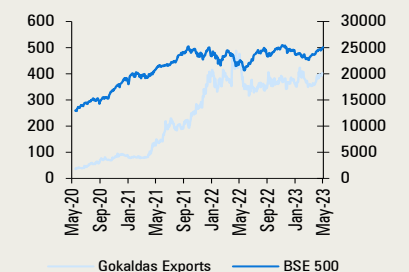
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,423.2
Total Debt (FY23) (₹ crore)	35.5
Cash & investment (FY23) (₹ crore)	368.3
EV (₹ crore)	2,090.4
52 Week H / L	487 / 301
Equity Capital (₹ crore)	30.3
Face Value (₹)	5.0

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	24.1	23.5	21.0	21.0	11.1
FII	11.0	11.0	11.7	14.7	17.2
DII	27.2	25.5	25.9	24.2	31.4
Others	37.7	40.1	41.4	40.2	40.4

Price Chart



Recent event & key risks

In FY23, GEL incurred capex of ₹ 135 crore

- **Key Risk:** (i) High RM cost to subdue margin, (ii) Faster than expected recovery in key export markets

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Key Financial Summary

Financials	FY19	FY20	FY21	FY22	FY23E	4 year CAGR (FY19-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	1,174.5	1,365.2	1,210.7	1,790.3	2,222.2	17.3%	2,288.9	2,700.8	10.2%
EBITDA	61.8	67.2	101.5	205.5	270.8	44.7%	275.1	349.2	13.6%
Adjusted PAT	25.6	30.4	26.5	117.1	173.5	61.3%	145.2	190.9	
P/E (x)	67.0	56.4	64.7	20.2	14.0		16.7	12.7	
EV/Sales (x)	1.7	1.4	1.6	1.3	0.9		0.9	0.7	
EV/EBITDA (x)	31.6	28.6	18.5	11.3	7.7		7.5	5.7	
RoCE (%)	10.3	7.7	9.3	20.4	24.3		20.2	22.2	
RoE (%)	10.7	13.4	9.1	16.5	19.6		14.1	15.6	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

- On account of a slowdown in the order book for spring-summer production (owing to previous year's high inventory levels with the global retailers), revenue declined 11% YoY to ₹ 523.0 crore in Q4FY23 (grew marginally by 1% QoQ). On the demand front, the global scenario continues to be volatile. The brands, which had been stuck with higher inventory last year are at various stages of liquidation of the inventory and accordingly releasing new orders to their suppliers. The overall ordering scenario by global brands continues to be cautiously optimistic with most buyers buying closer to date and in smaller lots than earlier. On a three-year CAGR basis, GEL reported revenue CAGR of 13% in Q3FY23. Despite challenging scenario GEL for FY23 registered healthy topline growth of 24% YoY to ₹ 222.2 crore led by strong order book in H1FY23. Overall, India's garment exports during FY23 grew by ~1% YoY, which signifies sustained market share gains for GEL. While we expect the revenue trajectory to remain muted in FY24E (owing to significantly high base of H1FY23), we build in sales growth of 18% in FY25E driven by steady capacity additions and gradual decline in inventory at the retailer's level (especially for spring-summer 2024)
- For FY23, GEL incurred capex of ₹ 135 crore. 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 Madhya Pradesh capacity has come on stream by Q4FY23 (pilot orders), with commercial production to begin from Q1FY24 onwards (should contribute ₹ 50 crore in FY24E). 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 ~ ₹ 300 crore revenues by FY25E. The company has guided for capex of ₹ 145 crore for FY25E. On the balance sheet front, owing to a significant decline in inventory days (from 88 days in FY22 to 48 days in FY23) the company generated robust operating cashflow of ~ ₹ 350 crore in FY23 (FCF: ₹ 220 crore). GEL continues to have healthy net cash reserves of ₹ 332 crore, which would assist in funding future growth capex
- During Q4FY23, the company has acquired two new prestigious customers (one each from US and UK) with good revenue potential and both should start contributing to the revenues in later part of FY24. The management said that the ramp up of customers was gradual and in the initial two quarters the order quantum is low. It takes at least a year to reach a revenue between ₹ 50 and ₹ 100 crore
- On the margin front, the management indicated that Q4FY23 margin was higher than normal due to excess provision written back during the quarter. The company expects EBITDA margins to improve from FY23 levels by 150 bps over the next three years. We expect EBITDA margins to remain flattish in FY24E at 12.0% (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 90 bps YoY expansion)
- The company's products are high value products with ASP ranging between \$8 and \$10. The management expects the recovery in its products to be sharper than lower priced products. For FY23, average realisation for GEL grew 8% YoY to ₹ 797/piece with volume growth of 19% to 27.9 million pieces

- The management highlighted that it was able to secure orders from global clients that were earlier being supplied by Vietnam and Chinese vendors and also has been able to replace some Indian vendors also. The global brands purchases are down by around 25% while Gokaldas revenues are lower by 10% indicating gain or wallet share for the company
- The demand for knitwear is currently muted compared to the woven segment. The company's knitwear unit is expected to start in September 2023 and the company expects the demand to improve from Q3FY24
- The effective tax rate would be 25.1% from FY24 onwards
- On its planned Bangladesh JV, the management indicated that the work on the facility could start in FY24 and the company is talking to customers for product offtake from the facility
- The management highlighted that most US customers could start buying from Q3FY24 for the next season and overall demand should improve from Q4FY24. On UK based customers, the management highlighted that most customers are awaiting clarity of the FTA between India and UK to benefit from the duty advantage they could get post signing of the FTA

Financial Summary

Exhibit 1: Profit and loss statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	1,210.7	1,790.3	2,222.2	2,288.9	2,700.8
Growth (%)	(11.3)	47.9	24.1	3.0	18.0
Total Raw Material Cost	617.1	916.0	1,189.0	1,213.1	1,417.9
Gross Margins (%)	49.0	48.8	46.5	47.0	47.5
Employee Expenses	371.6	538.8	619.3	645.0	750.0
Other Expenses	120.6	130.1	143.1	155.6	183.7
Total Operating Expenditure	1,109.2	1,584.8	1,951.4	2,013.7	2,351.6
EBITDA	101.5	205.5	270.8	275.1	349.2
EBITDA Margin	8.4	11.5	12.2	12.0	12.9
Interest	34.5	40.2	25.7	25.9	28.9
Depreciation	52.6	59.0	71.8	78.7	88.9
Other Income	12.2	10.7	25.0	23.0	23.0
Exceptional Income	-	-	6.5	-	-
PBT	26.6	117.0	204.9	193.6	254.5
Total Tax	0.1	(0.1)	31.4	48.4	63.6
Profit After Tax	26.5	117.1	173.5	145.2	190.9

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					
	₹ crore				
(Year-end March)	FY21	FY22	FY23	FY24E	FY25E
Profit/(Loss) after taxation	26.5	117.1	173.5	145.2	190.9
Add: Depreciation	52.6	59.0	71.8	78.7	88.9
Net Increase in Current Asset	13.2	-156.7	164.1	-119.6	-101.3
Net Increase in Current Liabili	-12.1	65.6	-8.7	58.6	31.6
Others	-30.1	-33.5	-42.0	-30.0	-34.0
CF from operating activities	50.2	51.5	358.6	132.9	176.1
(Inc)/dec in Investments	-9.3	29.4	-189.8	164.3	0.0
(Inc)/dec in Fixed Assets	-35.0	-77.9	-135.7	-132.1	-80.0
Others	17.3	-21.5	12.2	18.7	0.0
CF from investing activities	-27.0	-70.0	-313.3	50.8	-80.0
Inc / (Dec) in Equity Capital	0.0	8.0	0.8	0.0	0.0
Inc / (Dec) in Loan	-26.2	-301.7	-27.6	19.6	0.0
Others	5.9	309.7	-7.1	0.0	0.0
CF from financing activities	-20.2	16.0	-33.9	19.6	0.0
Net Cash flow	3.0	-2.5	11.3	203.2	96.1
Opening Cash	12.3	15.3	12.7	24.0	227.2
Closing Cash	15.2	12.7	24.0	227.2	323.3

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					
	₹ crore				
(Year-end March)	FY21	FY22	FY23	FY24E	FY25E
Equity Capital	21.4	29.5	30.3	30.3	30.3
Reserve and Surplus	268.6	678.6	856.0	1,001.1	1,192.0
Total Shareholders funds	290.1	708.1	886.3	1,031.4	1,222.3
Total Debt	364.8	63.1	35.5	55.0	55.0
Non Current Liabilities	113.3	130.0	119.0	119.0	119.0
Source of Funds	768.2	901.1	1,040.7	1,205.4	1,396.2
Gross block	225.6	291.6	346.3	541.3	631.3
Less: Accum depreciation	100.3	136.3	180.2	228.9	283.8
Net Fixed Assets	125.3	155.3	166.1	312.4	347.5
Capital WIP	-	11.1	107.9	45.0	35.0
Intangible assets	1.9	2.7	1.1	1.1	1.1
Investments	183.9	154.5	344.3	180.0	180.0
Inventory	259.2	433.6	293.0	407.6	481.0
Cash	15.3	12.7	24.0	227.2	323.3
Debtors	179.8	92.2	135.8	138.0	162.8
Loans & Advances & Other CA	97.5	178.0	110.9	113.7	116.8
Total Current Assets	551.8	716.5	563.7	886.5	1,083.9
Creditors	111.7	117.8	84.0	175.6	207.2
Provisions & Other CL	132.7	192.2	217.3	184.3	184.3
Total Current Liabilities	244.4	310.0	301.4	359.9	391.5
Net Current Assets	307.4	406.4	262.4	526.6	692.4
LT L& A, Other Assets	149.6	171.1	158.9	140.3	140.3
Other Assets	0.0	0.0	0.0	0.0	0.0
Application of Funds	768.2	901.1	1,040.7	1,205.4	1,396.2

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY21	FY22	FY23	FY24E	FY25E
Per share data (₹)					
EPS	6.2	19.9	28.6	24.0	31.5
Cash EPS	18.4	29.8	40.5	37.0	46.2
BV	67.6	120.1	146.3	170.3	201.8
DPS	0.0	0.0	0.0	0.0	0.0
Cash Per Share	3.6	2.1	4.0	37.5	53.4
Operating Ratios (%)					
EBITDA margins	8.4	11.5	12.2	12.0	12.9
PBT margins	2.2	6.5	9.2	8.5	9.4
Net Profit margins	2.2	6.5	7.8	6.3	7.1
Inventory days	78.1	88.4	48.1	65.0	65.0
Debtor days	54.2	18.8	22.3	22.0	22.0
Creditor days	33.7	24.0	13.8	28.0	28.0
Return Ratios (%)					
RoE	9.1	16.5	19.6	14.1	15.6
RoCE	9.3	20.4	24.3	20.2	22.2
Valuation Ratios (x)					
P/E	64.7	20.2	14.0	16.7	12.7
EV / EBITDA	18.5	11.3	7.7	7.5	5.7
EV / Sales	1.6	1.3	0.9	0.9	0.7
Market Cap / Revenues	1.4	1.4	1.1	1.1	0.9
Price to Book Value	5.9	3.3	2.7	2.3	2.0
Solvency Ratios					
Net Debt / Equity	0.6	-0.1	-0.4	-0.3	-0.4
Net Debt/EBITDA	1.6	-0.5	-1.2	-1.3	-1.3
Current Ratio	2.2	2.3	1.8	1.8	1.9
Quick Ratio	1.1	0.9	0.8	0.7	0.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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