

December 28, 2021

## Re-rating to sustain for RMG exporters...

Textile stocks, in the past one year, have witnessed a significant re-rating with readymade garment exporters (RMG) stocks like KPR Mills and Gokaldas Exports (GEL) rallying ~6x since our initiation reports. A material improvement in financial performance (RoCE for KPR improved 440 bps to ~24% in FY21), deleveraging of b/s (D/E for GEL declined from 0.9x to 0.5x) and robust order book for the companies have been key triggers for the re-rating. We continue to like KPR and GEL to play the structural long term story in the apparel export space owing to their strong business models and long standing relationships with marquee global clients.

### Capacity enhancement to support long term growth story

Apparel exporters, in the past couple of quarters, have witnessed strong customer interest owing to many large global retailers diversifying their sourcing and reducing dependence on China. Overall order booking from India has increased rapidly due to the China+1 strategy of global retailers. Indian apparel players are exploring opportunities to expand their garmenting capacities to capitalise on long term growth opportunities. Both KPR and GEL have embarked upon greenfield capacity expansion. We bake in cumulative capex worth ₹ 700 crore for both companies (KPR ~₹ 480 crore, GEL ~₹ 220 crore) in FY22-24E. Majority of the capex requirements are expected to be funded through internal accruals. With an average asset turnover of ~3x we expect companies to generate incremental revenue worth ~₹ 2000 crore (KPR garmenting division ₹ 1250 crore and GEL ₹ 750 crore).

### Large capacity positions KPR to benefit from enhanced demand

KPR is among select vertically integrated textile players in India having India's largest knitted garment manufacturing capacity. In Q3FY22, it commissioned one of its largest garmenting capacity in Tamil Nadu (42 million pieces) post which its total capacity has grown by 37% to 157 mn pieces. With robust demand for athleisure wear, the company expects new capacity to be fully ramped up in the next eight to 12 months. Post 50% ramping up of new capacity, KPR will continue on its trajectory of adding ~40 mn pieces. We expect KPR's garmenting division to benefit from enhanced global demand and report revenue CAGR of 27% in FY21-24E.

### Gokaldas Exports scripting turnaround

Gokaldas focuses on manufacturing complex garmenting products (mainly woven garments) with capacity of ~30 million pieces (220 manufacturing lines). It has embarked on a capex of ₹ 340 crore over the next four years (FY25E), which will have the potential to generate revenue worth ₹ 1300 crore. Its production is currently operating at peak utilisation with capacity fully booked for Q3FY22E, Q4FY22E. During the quarter, GEL set up two units in Karnataka (potential revenue worth ₹ 160 crore) and initiated work on a new greenfield unit that is expected to be commissioned in early FY23E. We build in revenue CAGR of 21% in FY21-24E.

### Valuation and Outlook

We believe robust opportunities for Indian apparel exporters (current market share of ~5%) warrant a re-rating given strong and sustainable earnings visibility. We roll our estimates to FY24E and build in EBITDA CAGR of 21% and 36% in FY21-24E for KPR and GEL, respectively. Subsequently, high asset turnover and capital efficient business model is expected to translate to enhanced RoCE for KPR (~29%) and GEL (~17%) by FY24E. We maintain our **BUY** rating on KPR Mill and Gokaldas Exports with a revised target price of ₹ 820 and ₹ 425, respectively.

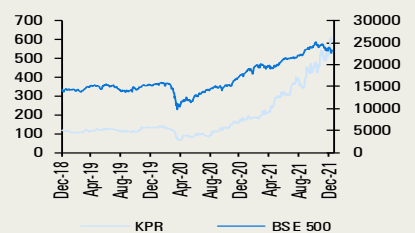
#### Particulars (KPR Mill)

Particulars	Amount
Market Capitalisation (₹ crore)	23,226.8
Total Debt (FY21) (₹ crore)	657.1
Cash (FY21) (₹ crore)	310.7
EV (₹ crore)	23,573.2
52 Week H / L	699 / 169
Equity Capital (₹ crore)	34.4
Face Value (₹)	1.0

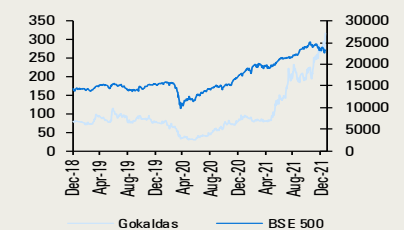
#### Particulars (Gokaldas Exports)

Particulars	Amount
Market Capitalisation (₹ crore)	1,953.7
Total Debt (FY21) (₹ crore)	364.8
Cash & investment (FY21) (₹ crore)	199.2
EV (₹ crore)	2,119.3
52 Week H / L	334 / 273
Equity Capital (₹ crore)	29.2
Face Value (₹)	5.0

#### Price Chart (KPR Mill)



#### Price Chart (Gokaldas Exports)



#### Key Risks

- (i) Re-imposition of lockdown in key export markets
- (ii) Significant rise in cotton price can subdue margins

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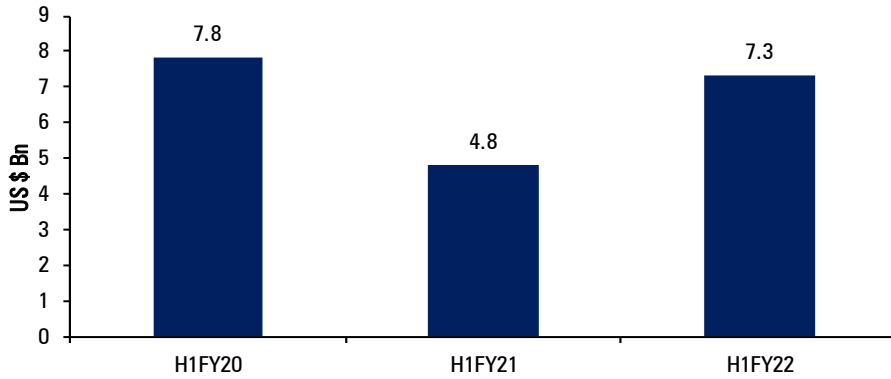
#### Valuation and Target Price

Company	Earlier TP (₹)	Earlier P/E multiple (x)	New TP (₹)	New P/E multiple (x)	CMP (₹)	Upside (%)
KPR Mill (KPRMIL)	575.0	26.0	820.0	29.0	670.0	22.4
Gokaldas Exports (GOKEXP)	300.0	18.0	425.0	20.0	335.0	26.9

Source: Company, ICICI Direct Research

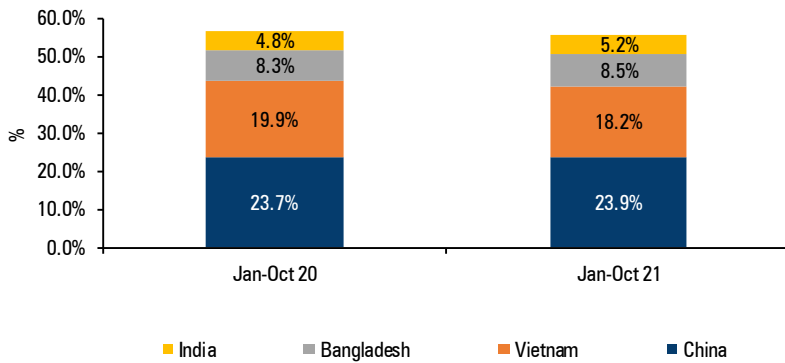
### Financial story in charts....

**Exhibit 1: India's overall apparel exports at ~93% of pre-Covid levels in H1FY22**



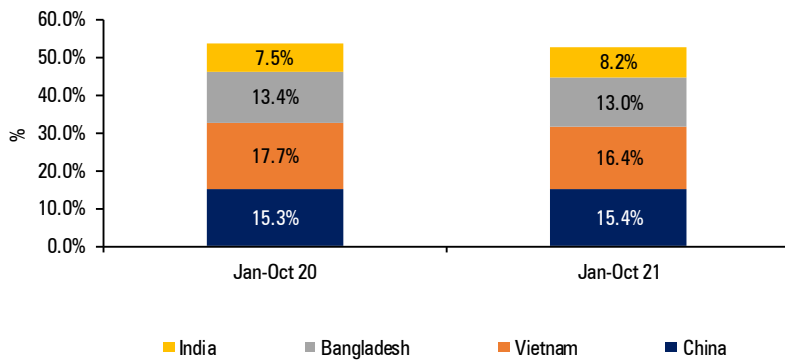
Source: DGCIIS, Wazir advisors, ICICI Direct Research

**Exhibit 2: India's share in overall US apparel imports improves 40 bps...**



Source: Otexa, ICICI Direct Research

**Exhibit 3: ...led by increase in share of cotton apparel imports by ~70 bps**



Source: Otexa, ICICI Direct Research

## Financial summary (KPR Mill)

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	3,530.2	4,572.1	5,295.3	5,989.7
Growth (%)	5.3	29.5	15.8	13.1
Total Raw Material Cost	1,962.9	2,446.1	2,933.6	3,294.3
Gross Margins (%)	44.4	46.5	44.6	45.0
Employee Expenses	393.7	534.9	571.9	658.9
Other Expenses	344.0	470.9	529.5	575.0
Total Operating Expenditure	2,700.6	3,452.0	4,035.0	4,528.2
<b>EBITDA</b>	<b>829.6</b>	<b>1,120.2</b>	<b>1,260.3</b>	<b>1,461.5</b>
EBITDA Margin	23.5	24.5	23.8	24.4
Interest	32.8	50.1	33.5	28.5
Depreciation	146.7	196.5	200.4	213.8
Other Income	38.8	40.0	40.0	45.0
Exceptional Expense	-	-	-	-
PBT	688.9	913.6	1,066.5	1,264.2
Total Tax	173.6	219.3	245.3	290.8
<b>Profit After Tax</b>	<b>515.3</b>	<b>694.3</b>	<b>821.2</b>	<b>973.4</b>

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	34.4	34.4	34.4	34.4
Reserve and Surplus	2,315.8	2,871.2	3,363.9	3,948.0
Total Shareholders funds	2,350.2	2,905.6	3,398.3	3,982.4
Total Debt	657.1	820.6	548.6	475.7
Non Current Liabilities	47.7	47.9	48.2	48.4
<b>Source of Funds</b>	<b>3,055.0</b>	<b>3,774.2</b>	<b>3,995.1</b>	<b>4,506.5</b>
Gross block	2,090.3	2,890.3	2,990.3	3,190.3
Less: Accum depreciation	836.4	1,033.0	1,233.3	1,447.1
Net Fixed Assets	1,253.9	1,857.4	1,757.0	1,743.3
Capital WIP	28.6	2.0	2.0	2.0
Intangible assets	1.7	1.7	1.7	1.7
Investments	234.9	141.6	155.6	171.0
Inventory	913.3	1,227.6	1,378.2	1,608.2
Cash	77.3	53.2	172.0	355.8
Debtors	321.0	501.1	551.3	656.4
Loans & Advances & Other CA	209.5	220.0	242.0	266.2
Total Current Assets	1,521.0	2,001.8	2,343.4	2,886.5
Creditors	122.2	187.9	217.6	246.2
Provisions & Other CL	87.9	92.3	96.9	101.8
Total Current Liabilities	210.1	280.2	314.6	347.9
Net Current Assets	1,310.9	1,721.6	2,028.9	2,538.6
LT L& A, Other Assets	225.0	50.0	50.0	50.0
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>3,055.0</b>	<b>3,774.2</b>	<b>3,995.1</b>	<b>4,506.5</b>

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	515.3	694.3	821.2	973.4
Add: Depreciation	146.7	196.5	200.4	213.8
Net Increase in Current Assets	-94.8	-504.9	-222.9	-359.3
Net Increase in Current Liabilities	20.7	70.1	34.3	33.4
<b>CF from operating activities</b>	<b>587.8</b>	<b>456.1</b>	<b>833.0</b>	<b>861.3</b>
(Inc)/dec in Investments	-225.8	93.4	-14.0	-15.4
(Inc)/dec in Fixed Assets	-270.9	-598.4	-100.0	-200.0
Others	0.0	0.0	0.0	0.0
<b>CF from investing activities</b>	<b>-496.7</b>	<b>-505.0</b>	<b>-114.0</b>	<b>-215.4</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	-130.5	163.5	-272.0	-73.0
Others	-37.5	-138.6	-328.2	-389.1
<b>CF from financing activities</b>	<b>-168.0</b>	<b>24.9</b>	<b>-600.2</b>	<b>-462.1</b>
Net Cash flow	-77.0	-24.0	118.7	183.8
Opening Cash	154.2	77.3	53.2	172.0
<b>Closing Cash</b>	<b>77.3</b>	<b>53.2</b>	<b>172.0</b>	<b>355.8</b>

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	15.0	20.2	23.9	28.3
Cash EPS	19.2	25.9	29.7	34.5
BV	68.3	84.4	98.8	115.7
DPS	0.9	4.0	9.5	11.3
Cash Per Share	2.2	1.5	5.0	10.3
<b>Operating Ratios (%)</b>				
EBITDA margins	23.5	24.5	23.8	24.4
PBT margins	19.5	20.0	20.1	21.1
Net Profit margins	14.6	15.2	15.5	16.3
Inventory days	94.4	98.0	95.0	98.0
Debtor days	33.2	40.0	38.0	40.0
Creditor days	12.6	15.0	15.0	15.0
<b>Return Ratios (%)</b>				
RoE	21.9	23.9	24.2	24.4
RoCE	24.0	25.9	27.9	29.0
RoIC	27.1	27.3	30.4	32.9
<b>Valuation Ratios (x)</b>				
P/E	44.7	33.2	28.1	23.7
EV / EBITDA	28.2	21.1	18.5	15.7
EV / Sales	6.6	5.2	4.4	3.8
Market Cap / Revenues	6.5	5.0	4.4	3.8
Price to Book Value	9.8	7.9	6.8	5.8
<b>Solvency Ratios</b>				
Debt / Equity	0.3	0.3	0.2	0.1
Debt/EBITDA	0.8	0.7	0.4	0.3
Current Ratio	6.9	7.0	6.9	7.3
Quick Ratio	2.5	2.6	2.5	2.7

Source: Company, ICICI Direct Research

## Financial summary (Gokaldas Exports)

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	1,210.7	1,513.4	1,846.4	2,160.2
Growth (%)	(11.3)	25.0	22.0	17.0
Total Raw Material Cost	617.1	771.8	934.3	1,093.1
Gross Margins (%)	49.0	49.0	49.4	49.4
Employee Expenses	371.6	480.0	570.0	650.0
Other Expenses	120.6	121.1	147.7	170.7
Total Operating Expenditure	1,109.2	1,372.9	1,652.0	1,913.7
EBITDA	101.5	140.5	194.4	246.5
EBITDA Margin	8.4	9.3	10.5	11.4
Interest	34.5	32.0	30.2	33.2
Depreciation	52.6	55.7	64.0	75.1
Other Income	12.2	23.0	20.0	20.0
Exceptional Expense	-	-	-	-
PBT	26.6	75.8	120.2	158.2
Total Tax	0.1	7.6	18.0	36.4
<b>Profit After Tax</b>	<b>26.5</b>	<b>68.2</b>	<b>102.2</b>	<b>121.8</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	26.5	68.2	102.2	121.8
Add: Depreciation	52.6	55.7	64.0	75.1
Net Increase in Current Assets	13.2	-113.6	-91.4	-74.6
Net Increase in Current Liabilities	-12.1	24.7	31.9	30.1
Others	-30.1	-30.0	-32.0	-35.0
<b>CF from operating activities</b>	<b>50.2</b>	<b>5.1</b>	<b>74.7</b>	<b>117.4</b>
(Inc)/dec in Investments	-9.3	3.9	0.0	0.0
(Inc)/dec in Fixed Assets	-35.0	-60.0	-70.0	-90.0
Others	17.3	-1.9	0.0	0.0
<b>CF from investing activities</b>	<b>-27.0</b>	<b>-58.0</b>	<b>-70.0</b>	<b>-90.0</b>
Inc / (Dec) in Equity Capital	0.0	7.7	0.0	0.0
Inc / (Dec) in Loan	-26.2	-146.0	41.2	0.0
Others	5.9	292.3	0.0	0.0
<b>CF from financing activities</b>	<b>-20.2</b>	<b>154.1</b>	<b>41.2</b>	<b>0.0</b>
Net Cash flow	3.0	101.1	45.8	27.4
Opening Cash	12.3	15.3	116.4	162.2
<b>Closing Cash</b>	<b>15.2</b>	<b>116.4</b>	<b>162.2</b>	<b>189.6</b>

Source: Company, ICICI Direct Research

Exhibit 10: 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	629.1	731.3	853.1
Total Shareholders funds	290.1	658.3	760.5	882.3
Total Debt	364.8	218.8	260.0	260.0
Non Current Liabilities	113.3	113.3	113.3	113.3
<b>Source of Funds</b>	<b>768.2</b>	<b>990.4</b>	<b>1,133.8</b>	<b>1,255.6</b>
Gross block	225.6	285.6	355.6	445.6
Less: Accum depreciation	100.3	126.0	158.0	198.2
Net Fixed Assets	125.3	159.6	197.6	247.5
Capital WIP	-	-	-	-
Intangible assets	1.9	1.9	1.9	1.9
Investments	183.9	180.0	180.0	180.0
Inventory	259.2	331.7	384.4	432.0
Cash	15.3	116.4	162.2	189.6
Debtors	179.8	207.3	242.8	266.3
Loans & Advances & Other CA	97.5	111.1	114.3	117.8
Total Current Assets	551.8	766.5	903.8	1,005.8
Creditors	111.7	145.1	177.0	207.1
Provisions & Other CL	132.7	124.0	124.0	124.0
Total Current Liabilities	244.4	269.1	301.0	331.1
Net Current Assets	307.4	497.4	602.7	674.6
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>990.4</b>	<b>1,133.7</b>	<b>1,255.6</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	6.2	11.7	17.5	20.9
Cash EPS	18.4	21.2	28.5	33.8
BV	67.6	112.9	130.4	151.3
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.6	20.0	27.8	32.5
<b>Operating Ratios (%)</b>				
EBITDA margins	8.4	9.3	10.5	11.4
PBT margins	2.2	5.0	6.5	7.3
Net Profit margins	2.2	4.5	5.5	5.6
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	10.4	13.4	13.8
RoCE	9.3	12.3	14.7	16.8
<b>Valuation Ratios (x)</b>				
P/E	54.2	28.6	19.1	16.0
EV / EBITDA	15.8	13.4	9.6	7.5
EV / Sales	1.3	1.2	1.0	0.9
Market Cap / Revenues	1.2	1.3	1.1	0.9
Price to Book Value	5.0	3.0	2.6	2.2
<b>Solvency Ratios</b>				
Net Debt / Equity	0.6	-0.1	-0.1	-0.1
Net Debt/EBITDA	1.6	-0.6	-0.4	-0.4
Current Ratio	2.2	2.4	2.5	2.5
Quick Ratio	1.1	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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