

Structural long term play in apparel export space...

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 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

Q1FY22 Results: Strict lockdown measures in Karnataka (factories shut) for most of the period in Q1FY22 had a material impact on production for Gokaldas Exports.

- Revenue declined 35% QoQ to ₹ 241.0 crore (up 3% YoY)
- Recognised RoSCTL incentives for Q1FY22 and also recognised the balance income to the extent previously not recognised in Q4FY21 (~₹ 4 crore)
- EBITDA margins remained flattish QoQ at 7.4%, with absolute EBITDA declining 35% QoQ to ₹ 17.9 crore

What should investors do? Since our initiation report, the stock price has appreciated ~3.4x (from ₹ 60 in September 2020 to ₹ 202 in August 2021).

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

Target Price and Valuation: We value GEL at ₹ 280 i.e. 15x FY23E EPS.

Key triggers for future price performance:

- Production currently operating at peak utilisation levels with robust order book for the next six months
- Demand from the US apparel market (key market from GEL) continues to remain healthy (trading ahead of pre-Covid levels)
- Planned capex of ₹ 120 crore over the next two years that will have potential to generate incremental revenue worth ₹ 450 crore (asset turn: ~4.0x)
- B/s strength continues to remain stable with net debt/equity: 0.6x
- 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 in India having one of India's largest knitted garment manufacturing capacity of 157 million pieces. It has two major capex projects in the pipeline worth ₹ 750 crore towards garmenting facility (₹ 250 crore) and ethanol facility (₹ 500 crore)
- BUY with a target price of ₹ 2310



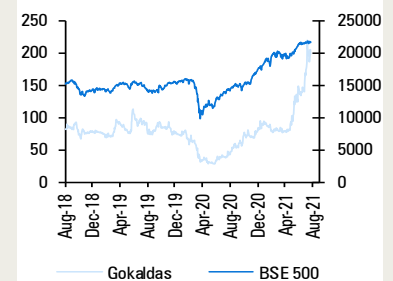
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	866.6
Total Debt (FY21) (₹ crore)	364.8
Cash & investment (FY21) (₹ crore)	199.2
EV (₹ crore)	1,032.2
52 Week H / L	226 / 41
Equity Capital (₹ crore)	21.4
Face Value (₹)	5.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	33.2	33.2	33.1	33.1	33.1
FII	8.4	8.4	8.3	8.3	5.5
DII	4.4	3.7	3.7	3.7	3.7
Others	54.1	54.8	54.9	54.9	57.7

Price Chart



Recent event & key risks

- As on Q1FY22, net debt was at ₹ 134 crore vs. ₹ 166 crore in Q4FY21
- **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	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-22E)
Net Sales	1,174.5	1,365.2	1,210.7	1.2%	1,452.9	1,808.8	22.2%
EBITDA	61.8	67.2	101.5	22.0%	134.5	189.4	36.6%
Adjusted PAT	25.6	30.4	26.5		47.9	80.4	
P/E (x)	33.9	28.5	32.7		18.1	10.8	
EV/Sales (x)	0.9	0.8	0.9		0.7	0.6	
EV/EBITDA (x)	17.9	15.9	10.2		7.7	5.5	
RoCE (%)	10.3	7.7	9.3		12.3	16.7	
RoE (%)	10.7	13.4	9.1		14.2	19.2	

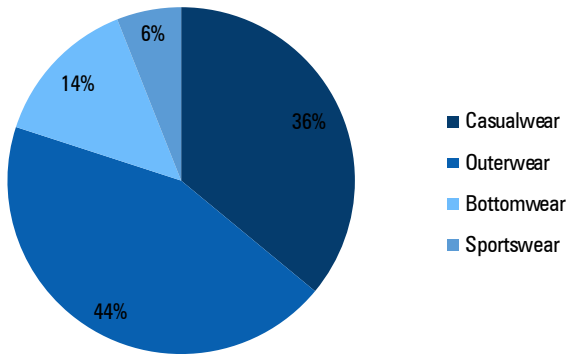
Key takeaways of recent quarter & conference call highlights

- Owing to stringent lockdown measures in Karnataka, the company's manufacturing units were completely -shut/severely -restricted between April 29 and July 4, 2021. Operations remained shut for most of May and worked at 30% capacity in June. Effectively, the company lost about 54% of its total capacity in the quarter to the lockdown. On account of the lockdown, the company could not ship all of what it produced in the quarter
- GEL has successfully managed to realign its delivery consequent to the disruption and is in the process of catching up on its Q1 production loss
- Retail stores and e-commerce demand in key markets like the US and EU are strong. Consequently, apparel imports by these regions are growing. With China's export share on the decline, particularly to the US market, the management believes there are robust opportunities for Indian players to gain market share
- Also, the recent extension of rebate of state and central levies and taxes (RoSCTL) rates (~3.5-4% for apparels) till FY24 is another step towards promoting textile exports that would be instrumental in enhancing the global competitiveness of Indian apparel players
- The company has a strong order book and is in the process of augmenting its capacity in the near term to meet the demand and clear the backlog of production from the first quarter of this year
- Net working capital days in Q1FY22 increased to 91 days (vs. 85 days in Q4FY21) mainly on account of higher RM inventory holding and goods produced could not be dispatched due to lockdown. Despite a challenging scenario, the company has efficiently managed its cash flows with net debt/equity ratio declining marginally to 0.5x in Q1FY22 (0.6x in Q4FY21)

Q1FY22 Earnings conference call highlights:

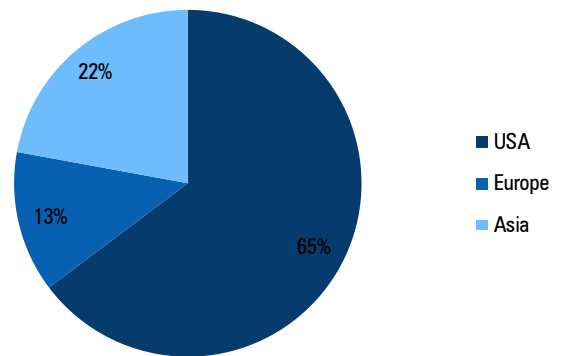
- The management indicated that it had ramped up manpower to deliver orders that were supposed to be delivered in Q1FY22 but were deferred due to the second wave of pandemic in India. The management expects the majority of the production loss to be recouped by augmenting capacity and increasing efficiency. Orders that were supposed to be delivered in Q2FY22 have also been realigned so the same can be delivered on time
- Cotton based products contribute 60-65% of the revenue mix while man-made fibre based products contributed around 35-40%
- The management indicated that it had a strong order book that had grown significantly compared to last year. The company has benefited from China +1 strategy of the global brands. The business from both existing and new clients is good with new client's business growing at a faster rate. However, even large existing clients are looking to enhance their quantum of orders
- The capex for FY22 and FY23 is around ₹ 120 crore with new garment capacities to be added in Tumkur and Bhopal
- The company has exited the domestic market and is not looking to participate in the same
- Container availability for export business continues to be a problem along with higher inbound logistics cost. The company does not bear the outbound freight, which is handled by clients
- On input cost inflation, the management indicated that it has been able to manage the same due to its large buying capacity and been able to secure reasonable prices

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 3 clients contribute ~58% of export revenues)

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	1,365.2	1,210.7	1,452.9	1,808.8
Growth (%)	(40.4)	(11.3)	20.0	24.5
Total Raw Material Cost	702.6	617.1	746.8	915.3
Gross Margins (%)	48.5	49.0	48.6	49.4
Employee Expenses	467.4	371.6	435.0	545.0
Other Expenses	128.1	120.6	136.6	159.2
Total Operating Expenditure	1,298.0	1,109.2	1,318.3	1,619.4
EBITDA	67.2	101.5	134.5	189.4
EBITDA Margin	4.9	8.4	9.3	10.5
Interest	36.8	34.5	40.0	42.0
Depreciation	54.8	52.6	64.3	72.8
Other Income	34.9	12.2	23.0	20.0
Exceptional Expense	(19.9)	-	-	-
PBT	30.4	26.6	53.3	94.6
Total Tax	-	0.1	5.3	14.2
Profit After Tax	30.4	26.5	47.9	80.4

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	21.4	21.4	21.4	21.4
Reserve and Surplus	205.2	268.6	316.5	397.0
Total Shareholders funds	226.6	290.1	338.0	418.4
Total Debt	391.0	364.8	418.8	400.0
Non Current Liabilities	50.7	113.3	113.3	113.3
Source of Funds	668.2	768.2	870.1	931.7
Gross block	199.9	225.6	285.6	345.6
Less: Accum depreciation	72.7	100.3	134.6	175.4
Net Fixed Assets	127.1	125.3	151.0	170.2
Capital WIP	0.8	-	-	-
Intangible assets	2.2	1.9	1.9	1.9
Investments	174.6	183.9	180.0	180.0
Inventory	289.2	259.2	298.5	361.8
Cash	12.3	15.3	64.2	41.3
Debtors	143.5	179.8	175.1	208.1
Loans & Advances & Other CA	117.0	97.5	111.1	114.3
Total Current Assets	562.1	551.8	649.0	725.5
Creditors	114.3	111.7	139.3	173.4
Provisions & Other CL	142.2	132.7	124.0	124.0
Total Current Liabilities	256.5	244.4	263.3	297.4
Net Current Assets	305.6	307.4	385.7	428.0
LT L& A, Other Assets	57.9	149.6	151.5	151.5
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	668.2	768.2	870.1	931.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/(Loss) after taxation	30.4	26.5	47.9	80.4
Add: Depreciation	54.8	52.6	64.3	72.8
Net Increase in Current Assets	-42.3	13.2	-48.2	-99.4
Net Increase in Current Liabilities	73.9	-12.1	18.9	34.1
Others	-37.2	-30.1	-30.0	-32.0
CF from operating activities	79.6	50.2	52.9	55.9
(Inc)/dec in Investments	-41.9	-9.3	3.9	0.0
(Inc)/dec in Fixed Assets	-20.3	-35.0	-60.0	-60.0
Others	2.6	17.3	-1.9	0.0
CF from investing activities	-59.5	-27.0	-58.0	-60.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan	10.3	-26.2	54.1	-18.8
Others	-29.2	5.9	0.0	0.0
CF from financing activities	-18.9	-20.2	54.1	-18.8
Net Cash flow	1.1	3.0	48.9	-22.9
Opening Cash	11.2	12.3	15.3	64.2
Closing Cash	12.3	15.2	64.2	41.3

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	7.1	6.2	11.2	18.7
Cash EPS	19.9	18.4	26.2	35.7
BV	52.8	67.6	78.8	97.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	2.9	3.6	15.0	9.6
Operating Ratios (%)				
EBITDA margins	4.9	8.4	9.3	10.5
PBT margins	2.2	2.2	3.7	5.2
Net Profit margins	2.2	2.2	3.3	4.4
Inventory days	77.3	78.1	75.0	73.0
Debtor days	38.4	54.2	44.0	42.0
Creditor days	30.6	33.7	35.0	35.0
Return Ratios (%)				
RoE	13.4	9.1	14.2	19.2
RoCE	7.7	9.3	12.3	16.7
Valuation Ratios (x)				
P/E	28.5	32.7	18.1	10.8
EV / EBITDA	15.9	10.2	7.7	5.5
EV / Sales	0.8	0.9	0.7	0.6
Market Cap / Revenues	0.6	0.7	0.6	0.5
Price to Book Value	3.8	3.0	2.6	2.1
Solvency Ratios				
Net Debt / Equity	0.9	0.6	0.5	0.4
Net Debt/EBITDA	3.0	1.6	1.3	0.9
Current Ratio	2.1	2.2	2.2	2.3
Quick Ratio	1.0	1.1	1.1	1.1

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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