

CMP: INR 409

Rating: Buy

Target Price: INR 502

Stock Info

BSE	532630
NSE	GOKEX
Bloomberg	GEXP:IN
Reuters	GOKL.NS
Sector	TEXTILES
Face Value (INR)	5
Equity Capital (INR cr)	21.7
Mkt Cap (INR cr)	2,228
52w H/L (INR)	414/ 73
Avg Yearly Volume (in 000')	445

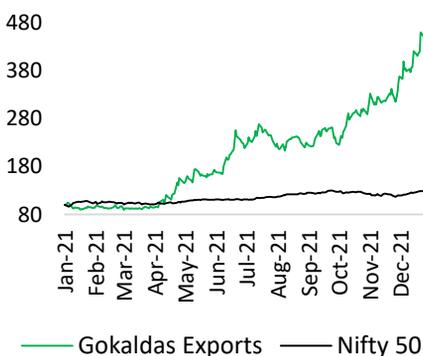
Shareholding Pattern %

(As on December, 2021)

Promoters	24.09
FII	12.37
DII	26.25
Public & Others	37.29

Stock Performance (%)	1m	3m	12m
GEL	17	87.9	334.1
Nifty 50	5 (3.1)	20.7	

GEL Vs Nifty 50



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- Gokaldas Exports Q3FY22 Consolidated Revenue grew 17% QoQ to INR 521 Cr (+96% YoY).
- Q3FY22 EBITDA grew 20% QoQ to INR 56 Cr (+182% YoY). Q3FY22 EBITDA Margin expanded by 25bps QoQ to 11% (+324bps YoY).
- Q3FY22 PAT grew 5% QoQ to INR 30 Cr (+398% YoY). Q3FY22 PAT Margin expanded by 52bps QoQ to 8% (+246bps YoY).
- During the last nine months, the company has incurred CAPEX of INR 52 Crores towards capacity expansion and modernization.
- The Company has reduced its net debt to INR (71.3) Crores Vs INR 166.2 Crores as of FY21. As a result, the Finance costs for Q3FY22 were down 20% to INR 9 Cr.

Q3FY22 Conference Call Highlights:

- **New international Subsidiary:** A new wholly owned subsidiary will be set up in Dubai. This will be used as a vehicle/ holding company for international expansions, like the one being considered in Bangladesh.
- **PLI Scheme:** The company is applying for the PLI Scheme under man-made fiber based businesses, and the request submission is due next month.
- **Margin Guidance:** Margins are directionally targeted to improve by 1-2% over the next 2 years. Raw material prices are putting pressure on them. So far cost increases have been pushed onto customers, and they hope to keep pushing them down in the future. Substantial increases might cause a negative impact on growth.
- **Rising Input costs:** Input prices are up 50% YoY. This is a problem for cotton and cotton blends. Most of this rise will be pushed onto customer. Some of it can be pushed to suppliers, however it may curtail quantities. Some of it might be absorbed by the company too. Most of the price increases this quarter have been pushed on.
- **Customers Added:** In the past 9 months the company has added 2 customers. This could be more, if not for the pandemic which curtailed their ability to effectively reach out to customers, as global travel slowed down.

Valuation & Outlook: We maintain a BUY rating with a TP of INR 502 (20x P/E on FY24E EPS), with a 23% upside. Gokaldas Exports is on a road to growth with its constant expansion initiatives and robust order book to back it up. The company delivered a +96% YoY growth in Revenue this quarter despite the supply chain issues and rising input costs that set back a lot of players. This is indicative of their efficiency and good financial management. We remain optimistic on their performance.

INR Mn	FY21	FY22E	FY23E	FY24E
Revenue	12094	16107	19268	23145
EBITDA	1137	1843	2270	2849
EBITDA Margin (%)	9.3%	11.4%	11.8%	12.3%
PAT	265	927	1100	1464
PAT Margin (%)	2.2%	5.8%	5.7%	6.3%
EPS (in INR)	6.18	15.90	18.86	25.11
RoE (%)	9.1%	13.6%	13.9%	15.6%
RoCE (%)	13.4%	20.2%	21.9%	23.6%
P/E (x)	66.23	25.73	21.69	16.29
EV/EBITDA (x)	18.51	14.23	11.80	9.33
Net Debt/Equity (x)	0.99	0.90	0.57	0.00
P/BV (x)	6.05	3.83	3.46	2.92

Source: Company & Arihant Research

Quarterly Result

INR Mn (consolidated)	Q3FY22	Q2FY22	Q3FY21	Q-o-Q	Y-o-Y
Net Revenue	5206	4438	2650	17.32%	96.43%
Raw Material Costs	2515	2140	1182	17.49%	112.79%
Gross Profit	2,691	2,297	1,469	17.15%	83.26%
Gross Margin	52%	52%	55%	-7bps	-371bps
Employee costs	1575	1417	980	11.16%	60.73%
Job Work Charges	105	82	2	28.04%	4731.34%
Other Expenses	455	336	289	35.60%	57.32%
EBITDA	555	462	197	20.17%	182.21%
<i>EBITDA margin %</i>	<i>11%</i>	<i>10%</i>	<i>7%</i>	<i>25bps</i>	<i>324bps</i>
Other Income	35	22	30	55.04%	13.78%
Depreciation	150	138	126	8.52%	18.86%
EBIT	440	347	101	27.04%	334.63%
Finance costs	92	115	55	-20.10%	69%
Gain/ Loss on account of foreign exchange fluctuations (net)	38	55	14	-31.15%	175%
PBT	386	286	60	34.89%	538.27%
Tax Expense	85	-	-	#DIV/0!	#DIV/0!
Effective tax rate %	22%	0%	0%	2198bps	2198bps
PAT	301	286	60	5.24%	397.98%
Add: Other Comprehensive Income	139	67	99	109.54%	-32.55%
Consolidated PAT	441	353	159	24.93%	176.83%
<i>PAT margin %</i>	<i>8%</i>	<i>8%</i>	<i>6%</i>	<i>52bps</i>	<i>246bps</i>
EPS (INR)	5	7	1	-21.45%	268.79%

Source: Company & Arian Research

Q3FY22 Conference Call Highlights:

Q3FY22 Overview:

- Gokaldas Exports Ltd. is one of India's largest apparel makers and exports to over 50 countries, and employs 32,000 people in India. It operates in a key industry for social upliftment.
 - Export Revenue grew 118% YoY, and Consolidated PAT grew 5x YoY.
 - There was an increase in operating input costs for a few reasons: (i) Costs associated with training and relocation of employees was high, because the company moved them to dormitories which implied higher job work charges, (ii) Logistics costs were higher this quarter as supply chain restrictions persisted, (iii) New factories were set up which led to higher 'other expenses'.
 - The supply chain restrictions led to higher inventory levels. The current focus is to bring WC days down to 75.
 - The company has grabbed market shares despite the pandemic, and CAPEX is taking place according to schedule. The new unit in Tamil Nadu is expected to commence operations now, and the new unit in MP is still under construction expected to be operational next year. The company has also forayed into Knits by setting up a new fabric processing unit for the same. A new subsidiary unit is being set up in Dubai for international investment purposes.
 - The order book continues to be strong going into FY23. USA continues to be the big market, leading in apparel sales.
 - The company has faced mass absenteeism in January due to the new wave. This has hampered productivity to a great degree. They expect this to normalize soon.
 - The GOI continues to support the industry with its FTA discussion and the PLI Scheme. FTA discussions with the UK is underway and could provide additional impetus for demand.
 - Logistic issues will take a while to resolve. China is also being aggressive with Omicron- shutting down ports. There are many such disruptions which will stay and increase costs. There are prevailing inbound logistic issues too.
- **Order Book:** Order book is strong now and is well booked into the next 2 quarters. All factories are at full capacity right now.
 - **Competition:** The largest player in the business is Shahi Exports. Gokaldas Exports puts itself at a #2 position to them.

Q3FY22 Conference Call Highlights:

- **Turnover and Profitability:**
 - The ATR is usually 4 to 4.5x. Since they have been investing in CAPEX this year- 2 new factories in September that are still in ramp up mode expected to ramp up by Q4FY22 and be fully by Q1FY23 (Tumkur and Bommanahalli), it is lower. As of Q3, they are already contributing but not to full capacity. They is now at40% production. At full capacity, they will contribute INR 80 Cr each (total INR 160 Cr) to topline. Revenue can be in the range of INR 500-550cr going ahead once this happens.
 - All this is expected to bring ATR to normal levels.
 - The general target ROCE for company target is upward of 20%. They are trying to push that.

- **The new Knit Wear Entry (Fabric Processing Unit):**
 - The new fabric processing unit for knits business is in line with the CAPEX plan. Since their customers sell both woven and knits garments, they entered knits to diversify since they are already present in woven garments. Knits also has a higher value in the market. The company has identified a place in Tamil Nadu where they will set it up by FY23 and it will start production by FY24. The fabric processing unit will be used to make garments. This segment will have 18% margins. However, the business might provide just 14 to 15% margins, which is still higher than current levels.
 - This entry was because the company wants to grow customers and cannibalize other suppliers too. It will allow them to participate in incremental growth in other areas. Currently, GEL is in many segments; outerwear, casuals, etc. Over the last 2 year knits has grown fast because people wear more casuals since they stay home more. It will work as long as they are able to produce at an appropriate cost.
 - GEL is not sure whether it wants to enter yarns yet (backward integration), as right now their focus is on knits

- **Demand Scenario:**
 - Retail demand has grown sharply in USA in this CY, it could be because of pent up demand. The whole world is not coming out of COVID just yet, ergo, other markets have displayed a slower demand growth. USA is still leading demand growth.
 - Eventually they will leverage the other markets demand as well, however they do not foresee any demand market emerging as a key market to demonstrate growth.

- **CAPEX Plans:**
 - The Greenfield project in MP which is still under construction is expected to begin production by Q3- Q4FY23, and will ramp up production in a year. CAPEX for this purpose will be INR 50 Cr.
 - There is another production unit set up in Tamil Nadu (Krishnagiri) which will start production now, CAPEX for this will be INR 15 to 20 Cr.
 - The Knits production unit is expected to commence operations by next year. CAPEX for this will be INR 100 Cr.
 - During the past 9 months, CAPEX spends were INR 52 Cr. This is in line with the schedule for the INR 340 Cr CAPEX plan.
 - The INR 340 Cr CAPEX plan is also inclusive of the international unit to be set up in Dubai.
 - INR 50cr out of the total planned INR 340cr has already been spent. The company will spend the remaining INR 290 going ahead.

- **Revenue Growth, Volume and Value:**
 - The current run rate of INR 520 Cr is sustainable because it was delivered organically. The company has expanded units and capacity wherever possible, and has added lines of production wherever possible, and all the capacities are being utilized to the hilt. The idea behind this is to diversify offering to customers. Knits especially are a huge business in value terms and will drive additional value growth.
 - They are still trying to bring in additional capacities and ramp up existing ones. Annual volume is 60 to 65% and rest is value.
 - This quarter displayed good order book with strong growth. The management hopes the production constraints ease up soon, and they expect steady growth in Q4FY22 and Q1FY23.
 - They do not focus on niche customers, and are more focused on volume customers.

Industry And Company Outlook

US Retail Clothing Sales (in USD Bn)				
Month	2019	2020	2021	Growth Over 2019
CYQ1	40.7	33.3	37.5	-7.80%
CYQ2	48.4	18.3	51	-5.30%
CYQ3	47.4	37.9	51	7.70%
October	16.1	14.2	17.2	7.00%
November	19	15	20.4	7.30%
Total	171.5	118.8	177	3.20%

Source: Company PPT and Arihant Research, US Census Bureau, Euro Stats

US E-Commerce clothing and accessories sales (in USD Bn)				
Month	2019	2020	2021	Growth Over 2019
CYQ1	9.5	10.4	13.2	38.30%
CYQ2	9.9	14.5	14.4	45.20%
CYQ3	10.4	13.4	14.1	35.40%
Total	29.9	38.2	41.7	39.60%

Source: Company PPT and Arihant Research, US Census Bureau, Euro Stats

- US monthly store sales have consistently been on rise for 9 months in a row, crossing pre-COVID levels.
- YTD November sales in 2021 are 49% higher than 2020 and 3.2% higher than the 2019 pre-COVID level.
- US e-commerce sales have grown significantly post the pandemic indicating a growing shift in consumer trends.
- The US continues to be the largest market for the company

EU 27 Retail textile, Clothing, Footwear & Leather Sales Index (2015 Base)				
Month	2019	2020	2021	Growth Over 2019
CYQ1	105.1	85.6	77.4	-26.40%
CYQ2	104.6	58.5	80.5	-23.10%
CYQ3	104.4	95.4	93.7	-10.20%
October	104.8	93.2	95.7	-8.50%

Source: Company PPT and Arihant Research, US Census Bureau, Euro Stats

- EU apparel retail sales are yet to catch up to the pre pandemic sales. However, the gap over pre pandemic level is narrowing.

Overall Outlook:

- The order book continues to be strong for Q4FY22.
- Apparel sales growth in the target market- USA, is robust with in-store and e-commerce sales showing good growth YoY, and over 2019.
- The new COVID variant continues to hamper processes by causing supply chain issues with shipping logistics yet to be normalized. There has also been incrementally higher absenteeism among the workforce impacting short term productivity.
- The management hopes that this current wave would ebb soon, allowing Gokaldas Exports to resume full production levels soon.
- Raw material prices have gone up substantially recently. Global brands have attempted to increase the retail prices of apparel to offset these trends.
- The Government of India continues to support the industry. The FTA with UK is under discussion. When it gets finalized, it will provide additional impetus to demand.
- With the pandemic slowly ending, the outlook for the industry beyond FY22 looks promising

Company Financials

Consolidated Statement of Profit and Loss (INR Mn)	FY 2021	FY 2022E	FY 2023E	FY 2024E
Revenue	11,455	15,143	18,038	21,646
Total Income	12,229	16,219	19,283	23,164
Total Expense	11,092	14,376	17,013	20,315
EBITDA	1,137	1,843	2,270	2,849
Other income				
Depreciation and amortisation expenses	526	566	530	727
EBIT	611	1,277	1,740	2,122
Interest expense	345	350	274	170
Exceptional item				
PBT	266	927	1,466	1,952
Tax expense	1	-	367	488
PAT	265	927	1,100	1,464
Basic earnings per share	6	16	19	25
Consolidated Balance Sheet (INR Mn)	FY 2021	FY 2022E	FY 2023E	FY 2024E
Non Current Assets				
Property, plant and equipments	1,253	2,483	3,633	4,583
Right-of-use assets	-	243	619	719
Capital work in progress	-	9	9	9
Other intangible assets	19	15	12	9
Other non-current assets	1,928	846	950	1,056
Total Non Current Assets	3,200	3,354	4,604	5,657
Current Assets				
Inventories	2,592	3,044	3,666	4,333
Trade receivables	1,798	1,797	2,191	2,545
Cash and cash equivalents	153	140	176	240
Other current financial assets	515	2,560	2,460	2,493
Other current assets	540	1,265	1,300	1,647
Total Current Assets	5,598	8,806	9,794	11,258
Total Assets	8,798	12,403	15,017	17,634
Equity				
Share capital	214	292	292	292
Other Equity	2,686	6,536	7,636	9,100
Total Equity	2,901	6,828	7,927	9,392
Non Current Liabilities				
Borrowings	453	718	864	845
Provision	53	56	111	163
Deferred Tax liability	-	1	2	3
Lease Liabilities	31	-	-	-
Total Non Current Liabilities	537	774	975	1,008
Current Liabilities				
Borrowings	3,200	1,799	2,254	2,114
Trade Payables	1,117	1,373	1,660	1,961
Other financial liabilities	641	1,061	1,281	1,511
Other current liabilities	124	120	148	176
Provision	279	448	771	1,472
Current tax liabilities	-	1	2	3
Total Current Liabilities	5,360	4,801	6,114	7,234
classified as held for sale				
Total Equity and Liabilities	8,798	12,403	15,017	17,634

Source: Company Financials and Arianth Research

Company Financials

Consolidated Statement Cash Flow Statement (INR Mn)	FY 2021	FY 2022E	FY 2023E	FY 2024E
Profit before tax	266	927	1,466	1,952
Adjustment for:				
Depreciation & Amortization	526	566	530	727
Non Cash Expenses	41	-	(0)	-
Working capital change	44	(398)	(446)	(105)
Direct taxes refunded/ (paid) (net of refund/payments)	(1)	-	(367)	(488)
Cash generated from operations	876	1,094	1,184	2,086
Purchase of Property, Plant & Equipment (Including Capital Advances)	(245)	(1,535)	(1,477)	(1,347)
Leased Assets	(252)	(266)	(200)	(327)
Fixed Deposits Invested/ Realized	(79)	1,469	-	-
Other non-current asset movement	38	(388)	(104)	-
Net cash outflow from investing activities	(538)	(720)	(1,780)	(1,779)
Equity receipts	-	3,927.2	1,099.7	1,464.3
Proceeds from term loans	453	266	146	(19)
Non-current liabilities	(37)	(28)	55	52
Receipts (payment) of borrowings	(710)	(1,400)	455	(140)
Net cash generated/ (used) in financing activities	(295)	2,765	1,756	1,357
Ratios	FY 2021	FY 2022E	FY 2023E	FY 2024E
Growth				
Revenue growth	-10.6%	32.2%	19.1%	20.0%
EBITDA Growth	11.4%	62.1%	23.2%	25.5%
EBIT Growth	29.2%	109.1%	36.3%	22.0%
Net Profit Growth	18.8%	-12.8%	250.0%	18.6%
Profitability				
EBITDA Margin	9.3%	11.4%	11.8%	12.3%
EBIT Margin	4.0%	7.1%	8.0%	7.0%
Net Profit Margin	2.3%	6.1%	6.1%	6.8%
ROE	9.1%	13.6%	13.9%	15.6%
ROCE	13.4%	19.2%	20.8%	22.3%
Per Share Data (Rs)				
Basic EPS	6.18	15.90	18.86	25.11
BVPS	67.6	112.9	125.3	148.7
Gearing Ratio (x)				
Net Debt/Equity	0.6	0.0	0.1	0.1
Net Debt/EBITDA	1.5	0.0	0.4	0.2
Interest Coverage Ratio	1.8	3.6	6.4	12.5
Efficiency Ratios				
Inventory Days	165.4	125.8	128.8	127.3
Receivable Days	51.5	43.3	40.4	39.9
Payable Days	68.2	55.6	58.2	57.6
Cash Conversion cycle	148.8	113.6	111.0	109.6
Valuation				
P/E	66.2	25.7	21.7	16.3
P/BV	6.0	3.6	3.3	2.8
EV/EBITDA	18.5	14.2	11.8	9.3
EV/Sales	1.7	1.6	1.4	1.1
CMP	409	409	409	409

Source: Company Financials and Arihant Research

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return**Research Analyst
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