Gokaldas Exports (GOKEXP)

ICICI direct Research

CMP: ₹ 369 | Target: ₹ 480 (30%) | Target Period: 12 months | **BUY**

January 24, 2022

Result Update

Capacity expansion to spur revenue growth…

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 the 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

Q3FY22 Results: GEL reported its best quarterly performance driven by healthy demand for apparels in the US apparel market.

- On a high base of Q2FY22, sales grew 17% QoQ (up 97% YoY) to ₹ 520.7 crore (highest quarterly revenue)
- On a QoQ basis, the company maintained its gross margin levels at 49.7% (down 560 bps YoY). Despite higher opex, GEL delivered strong EBITDA margin of 11.4% (Q2FY22: 11.7%, Q3FY21: 7.9%)
- PBT grew 36% QoQ (up 6x YoY) to ₹ 38.7 crore

What should investors do? Since our initiation report, the stock price has appreciated ~6x (from ₹ 60 in September 2020 to ₹ 370 in January 2022).

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

Target Price and Valuation: We value GEL at ₹ 480 i.e. 20x FY24E EPS

Key triggers for future price performance:

- Production currently running at peak utilisation levels with robust order book for the next six months
- Charted out capex of ₹ 340 crore over the next four years (by FY25E), which will have potential to generate incremental revenues worth ~₹ 1300 crore
- GEL is planning to backward integrate and start a fabric processing unit for knitted segment with a capex of ₹ 100 crore. The management believes the knits market is growing faster than the woven's market (97% of sales). It provides an immense opportunity to diversify its product offering
- With the recent fundraise (QIP: ₹ 340 crore), the company has strengthened its balance sheet with repayment of ~₹ 240 crore debt, post which GEL has become net debt free (net cash surplus: ₹ 71 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 Mill is among select vertically integrated textile players having one of India' largest knitted garment manufacturing capacity of 157 mn pieces
- BUY with target price of ₹ 820

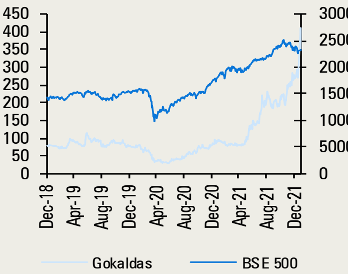
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,152.0
Total Debt (FY21) (₹ crore)	364.8
Cash & invetment (FY21) (₹ crore)	199.2
EV (₹ crore)	2,317.6
52 Week H / L	414 /73
Equity Capital (₹ crore)	29.2
Face Value (₹)	5.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	33.1	33.1	33.1	32.7	24.1
FII	8.3	8.3	5.5	4.6	12.4
DII	3.7	3.7	3.7	10.1	26.2
Others	54.9	54.9	57.7	52.6	37.3

Price Chart



Recent event & key risks

- As on Q3FY22, GEL reported net cash surplus of ₹ 71 crore vs. net debt of ₹ 217 crore in Q1FY22
- **Key Risk:** (i) Pandemic led restriction can lower sales (ii) High RM cost to subdue margin

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ICICI Securities – Retail Equity Research

Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	1,174.5	1,365.2	1,210.7	1.2%	1,682.9	2,036.3	2,402.9	25.7%
EBITDA	61.8	67.2	101.5	22.0%	168.5	215.1	279.6	40.2%
Adjusted PAT	25.6	30.4	26.5		77.4	114.5	141.8	
P/E (x)	61.8	52.1	59.7		27.8	18.8	15.2	
EV/Sales (x)	1.5	1.3	1.4		1.3	1.1	0.9	
EV/EBITDA (x)	29.4	26.6	17.2		12.6	10.0	7.6	
RoCE (%)	10.3	7.7	9.3		14.2	16.4	19.0	
RoE (%)	10.7	13.4	9.1		11.6	14.6	15.4	

Source: Company, ICICI Direct Research

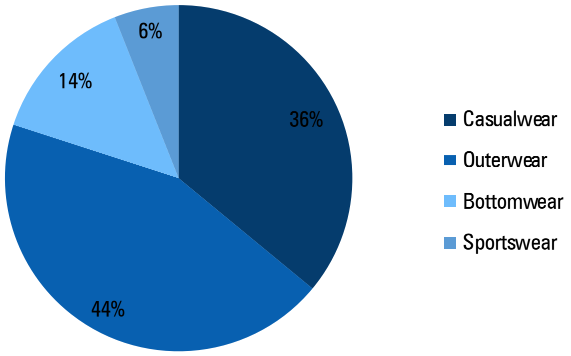
Key takeaways of recent quarter & conference call highlights

- On a significantly high base of Q2FY22 revenue grew 17% QoQ (up 97% YoY) to ₹ 520.7 crore (highest quarterly revenue). Revenue growth was driven by rapid expansion of production capacity in the existing unit and increase in realisation per piece (~18% YoY). Production is currently running at peak utilisation levels with robust order book for the next six months
- GEL has set up two units in Karnataka (Tumkur and Bommanahalli), which is expected to be ramped up in the next six months (potential annual revenue: ₹ 160 crore). In Q3FY22, the capacity contributed ~₹ 16 crore (40% CU) to the topline. It has also set up a new plant in Tamil Nadu (potential revenue: ₹ 70 crore), which is expected to come on stream by Q4FY22
- On a QoQ basis, the company has maintained its gross margin levels at 49.7%. Opex came in higher (employee and other expenses up 11% and 36% QoQ, respectively) owing to increased logistical cost and pre-operating expenses of new manufacturing units. Despite the same, the company delivered strong EBITDA margin to the tune of ₹ 11.4% (Q2FY22: 11.7%, Q3FY21: 7.9%). Absolute EBITDA grew 15% QoQ to ₹ 59.4 crore
- Robust operational performance resulted in GEL reporting a 36% QoQ jump in PBT at ₹ 38.6 crore (Q3FY21: ₹ 6 crore). Owing to ~ 22% effective tax rate (vs. nil in Q2FY22, Q3FY21), the company reported PAT of ₹ 30.2 crore
- Out of ~ ₹ 140 crore, GEL has received ₹ 69 crore on account of partial release of fixed deposit during January 2022 and is in the process of unlocking the balance fixed deposit during Q4FY22
- Charted out a capex of ₹ 340 crore over the next four years (by FY25E) which will have potential to generate incremental revenues worth ~₹ 1300 crore. The company is exploring opportunities in various states to increase its garment capacity. Further, the management indicated that is looking at entering new business segments like technical textiles, knitwear and setting up manufacturing units in cost efficient countries like Bangladesh

Q3FY22 Earnings conference call highlights:

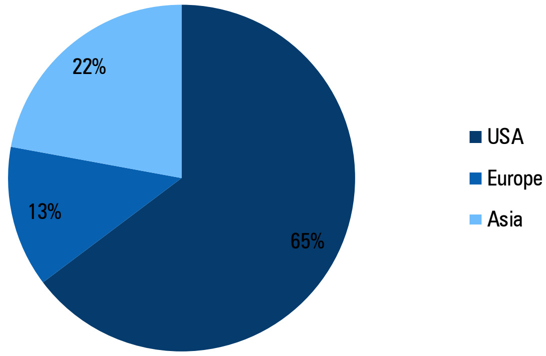
- The company has set up a separate subsidiary to start the knits business. The management believes the knits market is growing faster than the woven's market. It provides the company an opportunity to diversify its product offering. Also, GEL's customers sell both knits and woven garments. Hence, the company can get higher wallet share from customers by catering to both segments
- The company is planning to backward integrate and start a fabric processing unit for knits with a capex of ₹ 100 crore. The fabric from the unit would be utilised for captive consumption to manufacture garments. The management indicated that backward integration is a key requisite in the knitted garments business to have a competitive edge in the global market. The company expects margins in the knitted garment business to be ~ 15%. Though capital employed would be higher than woven segment, on the return ratio front it expects knits to be in-line with the return ratio profile of the woven segment
- On the working capital cycle front, the company normally has working capital cycle of 75 days but in Q3FY22 it increased to 83 days owing to higher inventory and receivables. The company expects to get back to ~ 75 days working capital cycle in the ensuing quarters
- The company is continuously adding capacities to drive revenue growth. GEL's manufacturing facility at Tamil Nadu is expected to come on-stream in Q4FY22 while its facility in Madhya Pradesh is under construction
- With significant increase in RM prices, global brands have attempted to increase the retail prices of apparel to offset these trends

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

Exhibit4: Impressive clientele of international brands (Top three clients contribute ~58% of export revenues)

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	1,210.7	1,682.9	2,036.3	2,402.9
Growth (%)	(11.3)	39.0	21.0	18.0
Total Raw Material Cost	617.1	844.8	1,030.4	1,215.8
Gross Margins (%)	49.0	49.8	49.4	49.4
Employee Expenses	371.6	535.0	630.0	720.0
Other Expenses	120.6	134.6	160.9	187.4
Total Operating Expenditure	1,109.2	1,514.5	1,821.3	2,123.3
EBITDA	101.5	168.5	215.1	279.6
EBITDA Margin	8.4	10.0	10.6	11.6
Interest	34.5	36.0	26.0	29.0
Depreciation	52.6	57.5	69.4	81.4
Other Income	12.2	12.0	15.0	15.0
Exceptional Expense	-	-	-	-
PBT	26.6	87.0	134.7	184.2
Total Tax	0.1	9.6	20.2	42.4
Profit After Tax	26.5	77.4	114.5	141.8

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	26.5	77.4	114.5	141.8
Add: Depreciation	52.6	57.5	69.4	81.4
Net Increase in Current Assets	13.2	-174.0	-95.6	-88.5
Net Increase in Current Liabilities	-12.1	41.0	33.9	35.1
Others	-30.1	-30.0	-32.0	-35.0
CF from operating activities	**50.2**	**-28.1**	**90.2**	**134.9**
(Inc)/dec in Investments	-9.3	3.9	0.0	0.0
(Inc)/dec in Fixed Assets	-35.0	-80.0	-110.0	-100.0
Others	17.3	-1.9	0.0	0.0
CF from investing activities	**-27.0**	**-78.0**	**-110.0**	**-100.0**
Inc / (Dec) in Equity Capital	0.0	7.7	0.0	0.0
Inc / (Dec) in Loan	-26.2	-164.8	0.0	0.0
Others	5.9	292.3	0.0	0.0
CF from financing activities	**-20.2**	**135.2**	**0.0**	**0.0**
Net Cash flow	3.0	29.1	-19.8	34.9
Opening Cash	12.3	15.3	44.4	24.6
Closing Cash	**15.2**	**44.4**	**24.6**	**59.4**

Source: Company, ICICI Direct Research

Exhibit 5: 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	638.3	752.8	894.6
Total Shareholders funds	290.1	667.5	781.9	923.8
Total Debt	364.8	200.0	200.0	200.0
Non Current Liabilities	113.3	113.3	113.3	113.3
Source of Funds	**768.2**	**980.8**	**1,095.2**	**1,237.1**
Gross block	225.6	305.6	415.6	515.6
Less: Accum depreciation	100.3	127.8	165.2	211.7
Net Fixed Assets	125.3	177.8	250.4	304.0
Capital WIP	-	-	-	-
Intangible assets	1.9	1.9	1.9	1.9
Investments	183.9	180.0	180.0	180.0
Inventory	259.2	368.9	424.0	480.6
Cash	15.3	44.4	24.6	59.4
Debtors	179.8	230.5	267.8	296.2
Loans & Advances & Other CA	97.5	111.1	114.3	117.8
Total Current Assets	551.8	754.9	830.7	954.1
Creditors	111.7	161.4	195.3	230.4
Provisions & Other CL	132.7	124.0	124.0	124.0
Total Current Liabilities	244.4	285.4	319.3	354.4
Net Current Assets	307.4	469.5	511.4	599.6
LT L& A, Other Assets	149.6	151.5	151.5	151.5
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**768.2**	**980.8**	**1,095.2**	**1,237.1**

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	6.2	13.3	19.6	24.3
Cash EPS	18.4	23.1	31.5	38.3
BV	67.6	114.4	134.1	158.4
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.6	7.6	4.2	10.2
Operating Ratios (%)				
EBITDA margins	8.4	10.0	10.6	11.6
PBT margins	2.2	5.2	6.6	7.7
Net Profit margins	2.2	4.6	5.6	5.9
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
Return Ratios (%)				
RoE	9.1	11.6	14.6	15.4
RoCE	9.3	14.2	16.4	19.0
Valuation Ratios (x)				
P/E	59.7	27.8	18.8	15.2
EV / EBITDA	17.2	12.6	10.0	7.6
EV / Sales	1.4	1.3	1.1	0.9
Market Cap / Revenues	1.3	1.3	1.1	0.9
Price to Book Value	5.5	3.2	2.8	2.3
Solvency Ratios				
Net Debt / Equity	0.6	0.0	0.0	0.0
Net Debt/EBITDA	1.6	-0.1	0.0	-0.1
Current Ratio	2.2	2.5	2.5	2.5
Quick Ratio	1.1	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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