

Impressive Q4 print; long runway for growth...

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 ~80% 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

Q4FY22 Results: GEL reported its best quarterly performance driven by growing order book and ability to weather supply chain disruptions.

- On a high base of Q4FY22, sales grew 12% QoQ (up 97% YoY) to ₹ 585 crore (highest quarterly revenue). The growth is supported by new capacity expansion in Karnataka and Tamil Nadu (~₹ 40 crore)
- Recent increase in fabric price and change in product mix resulted in gross margins declining by 380 bps QoQ to 46.0%. However, better operating efficiency and lower employee provisioning led to EBITDA margins improving 170 bps QoQ to 13.1% (not sustainable in the near term)
- PBT grew 36% QoQ to ₹ 52.4 crore (Q4FY21: ₹ 16.2 crore)

What should investors do? Since our initiation report, the stock price has appreciated ~7.5x (from ₹ 60 in September 2020 to ₹ 450 in April 2022). GEL witnessed significant re-rating on the back of consistent outperformance despite various headwinds. For FY22, GEL exports grew 58% YoY vs. 36% India exports.

- 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 ₹ 570 i.e. 19x FY24E EPS.

Key triggers for future price performance:

- Production currently operating at peak utilisation levels with robust order book for the next six months
- Charted out capex of ₹ 350+ crore over the next four years (by FY25E) 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: ₹ 105 crore)
- Enhanced government focus on apparel exports and China +1 strategy of global brands provide long term growth opportunity for players like GEL

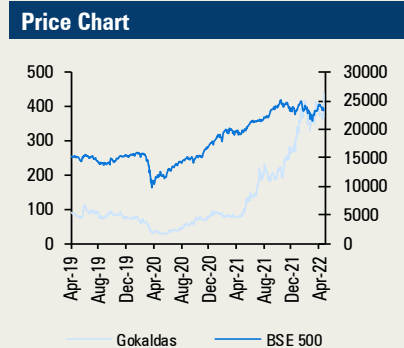
Alternate Stock Idea: Apart from GEL, in our textile coverage we also like KPR Mill.

- KPR Mill is among select vertically integrated textile players having one of India's largest knitted garment manufacturing capacity of 157 mn pieces
- BUY with target price of ₹ 815



Particulars	
Particulars	Amount
Market Capitalisation (₹ crore)	2,719.0
Total Debt (FY22) (₹ crore)	63.1
Cash & investment (FY22) (₹ crore)	169.7
EV (₹ crore)	2,612.3
52 Week H / L	475 / 89
Equity Capital (₹ crore)	29.5
Face Value (₹)	5.0

Shareholding pattern					
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	33.1	33.1	32.7	24.1	24.1
FII	8.3	5.5	4.6	12.4	11.0
DII	3.7	3.7	10.1	26.2	27.2
Others	54.9	57.7	52.6	37.3	37.7



- ### Recent event & key risks
- Improved working capital cycle from 105 days to 83 days
 - **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	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	1,174.5	1,365.2	1,210.7	1,790.3	14.0%	2,166.3	2,556.2	19.5%
EBITDA	61.8	67.2	101.5	205.5	LP	238.0	322.9	25.4%
Adjusted PAT	25.6	30.4	26.5	117.1	LP	134.9	177.4	23.1%
P/E (x)	77.3	65.0	74.6	23.2		20.2	15.3	
EV/Sales (x)	1.9	1.6	1.8	1.5		1.2	1.0	
EV/EBITDA (x)	35.8	32.5	21.1	12.7		11.0	8.0	
RoCE (%)	10.3	7.7	9.3	20.4		19.6	23.0	
RoE (%)	10.7	13.4	9.1	16.5		16.0	17.4	

Key takeaways of recent quarter & conference call highlights

- On a significantly high base of Q3FY22 revenue grew 12% QoQ (up 58% YoY) to ₹ 585 crore. The growth is expected to be driven by a mix of price hikes and contribution from its recently commissioned plants in Karnataka (Tumkur, Bommanahalli) and Tamil Nadu. From an average quarterly run-rate of ~₹ 350-400 crore, the company in the last two quarters has been clocking ₹ 520+ crore revenue. It has been operating at peak utilisation levels while improvement in product mix has led to realisation growth
- GEL has set up two units Karnataka (Tumkur, Bommanahalli), which has a potential annual revenue of ₹ 160 crore and one in Tamil Nadu with potential revenue of ₹ 70 crore. These capacities are getting ramped up rapidly with plants operating at utilisation levels of 60%+. Furthermore, it has also initiated work on a new greenfield unit in Madhya Pradesh (phase 1 potential revenue: ₹ 160 crore), which is expected to come on stream by Q3FY23
- FY22 was a landmark year for the company as it recorded robust revenue growth of ~48% YoY to ₹ 1790 crore (two year CAGR: 15%). The growth was driven by 17% volume and 26% realisation growth. The company has steadily been increasing the share of high value products over the years with contribution of sales from ASP > ₹ 450 increasing from 59% in FY19 to 88% in FY22. The company is currently operating at peak utilisation levels and capacities are fully booked for H1FY23E. It has also guided capex of ~₹ 160 crore in FY23E towards capacity augmentation, new initiatives (backward integration in fabric processing) and modernisation. Given the robust opportunities in apparel export space, we believe GEL has a long runway for growth. We build in revenue CAGR of 20% in FY22-24E
- Recent increase in fabric prices led gross margins to decline 380 bps QoQ (up 214 bps YoY) to 46.0% in Q4FY22. The company tries to protect its gross margins as it endeavours to pass on almost entire price hike to customers and tends to factor in current prices while booking the order. Furthermore, it has long term supply contracts with fabric suppliers, which enables it to procure RM at competitive rates. In FY22, the company for the first time clocked double digit EBITDA margins (11.5%), driven by efficiencies and operating leverage. Sighting the recent high RM inflation and ~5% wage hike, we expect EBITDA margins to marginally soften by ~50 bps YoY to 11.0%. However, better productivity and higher operating efficiencies are expected to lead GEL to report robust EBITDA CAGR of 25% in FY22-24E
- Out of ~ ₹ 146 crore, GEL has received ₹ 132 crore on account of release of fixed deposit during Q4FY22 and is in the process of unlocking the balance fixed deposit during FY23
- On the balance sheet front, inventory days increased from 78 to 88 days in FY22 while better collections resulted in receivable days declining sharply from 54 to 19 days. The company enhanced garmenting capacity in FY22 and incurred capex of ₹ 80 crore vs. ₹ 36 crore in FY21. On the back of FCF and capital infusion worth ₹ 300 crore, the company became net cash surplus worth ₹ 104 crore in FY22 vs. net debt of ₹ 165 crore in FY21. Robust operating performance in FY22 has resulted in the company delivering RoCE of ~20% (vs. 9% in FY21)
- GEL has charted out capex of ₹ 350+ 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

Q4FY22 Earnings conference call highlights:

- The management highlighted that FY22 has been characterised by supplier consolidation by global retailers and a shift in sourcing from China to other low cost sourcing destinations like India. Other multiple factors like strengthening of the dollar vs rupee, Government of India's initiatives like production linked scheme and bilateral trade agreements with many textile consuming countries provide a long term growth opportunity for cost efficient apparel manufacturers like Gokaldas Exports
- On the raw material cost front, the management indicated that costs have been rising for everyone and cotton yarn prices have not risen similarly in tandem with the cotton prices. On the fabric front, the company indicated that prices were up 10% YoY and the company has been reasonably successful in passing on the cost inflation to its customers
- On the EBITDA margin front, the management expects to improve the EBITDA margin in FY24 from FY22 level driven by improved efficiency and operating leverage
- The company indicated that it had a good order book while its capacity is fully booked till H1FY23. Gokaldas Exports is producing complex garments, which are typically produced in China and Vietnam. The management indicated that owing to Covid disruptions and increasing cost metrics in both these nations, India was becoming more competitive and global retailers were shifting their sourcing base to India. The company is expecting improved order flow, which could lead to faster shift of sourcing by global clients from these countries to Indian players like Gokaldas Exports
- The current fibre mix of the company is dominated by cotton, which is around 60% while polyester and other manmade fibres is around 30% while linen and viscose is 10%
- The company has been able to improve the working capital cycle from 105 days to 83 days. The management highlighted that working capital improvement was on account of better negotiations with customers, improved terms with supplier and efficient inventory management. The management indicated that the FY22 working capital cycle could have been better had it not been impacted with logistics and supply chain issues. Hence, the company had to keep higher stock of inventory to ensure production continuity and meet client delivery schedules
- On the product front, the company is focusing on products with higher average selling price. GEL's shift to higher ASP products can be gauged from the fact that contribution of products with ASP greater than ₹ 450 has increased from 59% in FY19 to 88% in FY22
- Over the last five years, Gokaldas has successfully worked towards growing its customer base, and has enhanced the share of revenue generated from clients added in last five years from 1.8% in FY18 to 15% in FY22
- On the capex front, the company invested ₹ 84 crore in FY22 on modernisation and capacity augmentation of existing units and new capacity addition. These investments are expected to increase revenue and improve operational productivity. The three new capacities (two in Karnataka and one in Tamil Nadu) are expected to have a revenue potential of ~ ₹ 230 crore per year. Currently, these three units are operating at 60% utilisation level and are expected to contribute to revenue growth in FY23. Further, the company is planning to spend ~ ₹ 160 crore in FY23. Of the same ₹ 20 crore would be on modernisation, ₹ 70 crore on the Bhopal garment facility and another ₹ 70 crore on the fabric processing unit in Tamil Nadu

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	1,210.7	1,790.3	2,166.3	2,556.2
Growth (%)	(11.3)	47.9	21.0	18.0
Total Raw Material Cost	617.1	916.0	1,128.6	1,313.9
Gross Margins (%)	49.0	48.8	47.9	48.6
Employee Expenses	371.6	538.8	635.0	720.0
Other Expenses	120.6	130.1	164.6	199.4
Total Operating Expenditure	1,109.2	1,584.8	1,928.3	2,233.3
EBITDA	101.5	205.5	238.0	322.9
EBITDA Margin	8.4	11.5	11.0	12.6
Interest	34.5	40.2	27.7	27.0
Depreciation	52.6	59.0	66.6	80.5
Other Income	12.2	10.7	15.0	15.0
Exceptional Expense	-	-	-	-
PBT	26.6	117.0	158.7	230.4
Total Tax	0.1	(0.1)	23.8	53.0
Profit After Tax	26.5	117.1	134.9	177.4

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	26.5	117.1	134.9	177.4
Add: Depreciation	52.6	59.0	66.6	80.5
Net Increase in Current Asset	13.2	-156.7	-104.5	-127.5
Net Increase in Current Liabili	-12.1	65.6	70.4	37.4
Others	-30.1	-33.5	-26.0	-30.0
CF from operating activities	50.2	51.5	141.4	137.8
(Inc)/dec in Investments	-9.3	29.4	-25.6	0.0
(Inc)/dec in Fixed Assets	-35.0	-77.9	-149.0	-110.0
Others	17.3	-21.5	-0.2	0.0
CF from investing activities	-27.0	-70.0	-174.7	-110.0
Inc / (Dec) in Equity Capital	0.0	8.0	0.0	0.0
Inc / (Dec) in Loan	-26.2	-301.7	46.9	-10.0
Others	5.9	309.7	0.0	0.0
CF from financing activities	-20.2	16.0	46.9	-10.0
Net Cash flow	3.0	-2.5	13.6	17.8
Opening Cash	12.3	15.3	12.7	26.3
Closing Cash	15.2	12.7	26.3	44.1

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	21.4	29.5	29.5	29.5
Reserve and Surplus	268.6	678.6	813.5	990.9
Total Shareholders funds	290.1	708.1	843.0	1,020.4
Total Debt	364.8	63.1	110.0	100.0
Non Current Liabilities	113.3	130.0	130.0	130.0
Source of Funds	768.2	901.1	1,082.9	1,250.3
Gross block	225.6	291.6	451.6	561.6
Less: Accum depreciation	100.3	136.3	177.0	227.5
Net Fixed Assets	125.3	155.3	274.7	334.1
Capital WIP	-	11.1	-	-
Intangible assets	1.9	2.7	2.7	2.7
Investments	183.9	154.5	180.0	180.0
Inventory	259.2	433.6	474.8	539.3
Cash	15.3	12.7	26.3	44.1
Debtors	179.8	92.2	207.7	266.1
Loans & Advances & Other CA	97.5	178.0	125.8	130.4
Total Current Assets	551.8	716.5	834.6	980.0
Creditors	111.7	117.8	207.7	245.1
Provisions & Other CL	132.7	192.2	172.7	172.7
Total Current Liabilities	244.4	310.0	380.5	417.9
Net Current Assets	307.4	406.4	454.2	562.1
LT L& A, Other Assets	149.6	171.1	171.4	171.4
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	768.2	901.1	1,082.9	1,250.3

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	6.2	19.9	22.9	30.1
Cash EPS	18.4	29.8	34.2	43.7
BV	67.6	120.1	142.9	173.0
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.6	2.1	4.5	7.5
Operating Ratios (%)				
EBITDA margins	8.4	11.5	11.0	12.6
PBT margins	2.2	6.5	7.3	9.0
Net Profit margins	2.2	6.5	6.2	6.9
Inventory days	78.1	88.4	80.0	77.0
Debtor days	54.2	18.8	35.0	38.0
Creditor days	33.7	24.0	35.0	35.0
Return Ratios (%)				
RoE	9.1	16.5	16.0	17.4
RoCE	9.3	20.4	19.6	23.0
Valuation Ratios (x)				
P/E	74.6	23.2	20.2	15.3
EV / EBITDA	21.1	12.7	11.0	8.0
EV / Sales	1.8	1.5	1.2	1.0
Market Cap / Revenues	1.6	1.5	1.3	1.1
Price to Book Value	6.8	3.8	3.2	2.7
Solvency Ratios				
Net Debt / Equity	0.6	-0.1	-0.1	-0.1
Net Debt/EBITDA	1.6	-0.5	-0.4	-0.4
Current Ratio	2.2	2.3	2.1	2.2
Quick Ratio	1.1	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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