

Healthy b/s to weather near term challenges...

About the stock: Gokaldas Exports (GEL) is one of India's leading apparel exporters with an annual capacity of 36 million+ pieces. GEL 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), GEL has scripted a successful turnaround of its business operations

Q2FY23 Results: In a seasonally weak quarter, Gokaldas Exports (GEL) reported a steady operational performance in Q2FY23

- Owing to a strong order book, revenue for the quarter grew 28% YoY to ₹ 569.7 crore. On a sequential basis, as anticipated, revenue for GEL declined 7% (owing to seasonality effect)
- The company has continued to maintain double digit EBITDA margins for the fifth consecutive quarter at 11.5% (Q2FY22: 11.7%, Q1FY23: 11.8%)
- Finance cost declined further by 10% QoQ (down 50% YoY) owing to repayment of debt. PBT grew 71% YoY (down 3% QoQ) to ₹ 49.0 crore

What should investors do? Since our initiation report, the stock price has appreciated ~6x. GEL witnessed a significant re-rating on the back of consistent outperformance despite various headwinds.

- Demand headwinds in key markets in H2FY23 could subdue revenue growth. However, we believe GEL is a long term play in the apparel export space. Hence, we maintain our **HOLD** recommendation on the stock

Target Price and Valuation: We value GEL at ₹ 425 i.e. 16x FY24E EPS (earlier target price: ₹ 415).

Key triggers for future price performance:

- Order book for spring production (Q3FY23E) at reasonable levels. It could witness flattish growth. Excess spring-summer inventory at retailer's level (major US retailers) could slacken the tempo of order flows in H2FY23
- It charted out a capex of ₹ 350+ crore over the next three years, 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: ₹ 369 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



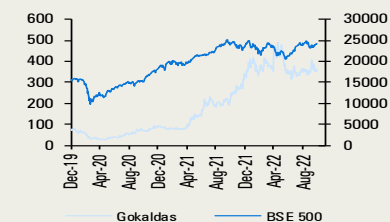
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,271.8
Total Debt (FY22) (₹ crore)	63.1
Cash & invetment (FY22) (₹ crore)	167.1
EV (₹ crore)	2,167.7
52 Week H / L	520 / 199
Equity Capital (₹ crore)	30.3
Face Value (₹)	5.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	32.7	24.1	24.1	23.5	21.0
FII	4.6	12.4	11.0	11.0	11.7
DII	10.1	26.2	27.2	25.5	25.9
Others	52.6	37.3	37.7	40.1	41.4

Price Chart



Recent event & key risks

- Invested ₹ 51 crore in H1FY23 towards capacity expansion. Generated OCF worth ₹ 305 crore in H1FY23
- **Key Risk:** (i) High RM cost to subdue margin, ii) Faster than expected recovery in key export markets

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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%	2,209.3	2,540.6	19.1%
EBITDA	61.8	67.2	101.5	205.5	LP	234.7	299.2	20.7%
Adjusted PAT	25.6	30.4	26.5	117.1	LP	128.0	159.0	16.5%
P/E (x)	62.8	52.9	60.7	18.9		17.7	14.3	
EV/Sales (x)	1.6	1.3	1.5	1.2		0.9	0.8	
EV/EBITDA (x)	29.9	27.0	17.5	10.5		8.9	7.0	
RoCE (%)	10.3	7.7	9.3	20.4		19.2	21.2	
RoE (%)	10.7	13.4	9.1	16.5		14.5	15.3	

Key takeaways of recent quarter & conference call highlights

- Owing to a strong order book, revenue for the quarter grew 28% YoY to ₹ 569.7 crore. Q2 is generally a weak quarter for India's garment industry as a whole owing to higher proportion of synthetic fabric garments exported (Autumn-Winter wear), as India's strength mainly lies in cotton wear (H2FY23). Overall, India's garment exports during Q2FY23 declined ~6% YoY, which signifies sustained market share gains for GEL. From an average quarterly run rate of ~₹ 350-400 crore, the company, in the last four quarters, has been clocking ₹ 550+ crore revenue. It has been operating at peak utilisation levels
- In H2FY22, GEL had set up two units in 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 contributed ~₹ 56 crore in FY22 (25% capacity utilisation). The units are getting ramped up rapidly with plants operating at utilisation level of 90%+ (peak revenue: ₹ 220 crore)
- As on H1FY23, GEL incurred capex of ₹ 51 crore and maintained its guidance for incurring capex worth ₹ 160 crore in FY23E. Majority of capex is towards setting up a new greenfield unit in Madhya Pradesh (phase 1 potential revenue: ₹ 160 crore) and backward integration in fabric processing for knitted garments (currently revenues are dominated by woven segment). The MP capacity is expected to come on stream by Q4FY23 (pilot orders), with commercial production to begin from Q1FY24 onwards (volumes: 2.5-3 million pieces). Also, the commissioning of fabric processing capacity for knitting to start from Q1FY24 (capex: ₹ 100 crore). The company may invest another ₹ 35-40 crore towards establishing new downstream units to produce knitted garments or may engineer existing downstream capacity in the near term. Both these projects have a potential to generate ~ ₹ 500 crore revenues. Capex for FY24E worth ₹ 130-140 crore could be deferred owing to a challenging demand scenario in export markets
- On the outlook front, the company expects slowdown in order book for spring production (Q3FY23) owing to excess inventory of previous year at retailer's level in US and Europe. Early trends indicate Q3FY23 revenues to be similar to that of Q3FY22 (₹ 520 crore). With gradual inventory re-stocking for summer collection, the company expects a gradual pick-up in orders from Q4FY23 onwards. On account of better than anticipated H1FY23 performance, we revise our revenue estimate upwards by 6-3% for FY23-24E. Despite expected near term headwinds, given the robust opportunities in apparel export space, we believe GEL has a long runway for growth. We build in revenue CAGR of 19% in FY22-24E
- 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. On a sequential basis, gross margins improved 70 bps YoY to 46.1% (down 385 bps YoY) in Q2FY23. Enhanced productivity and cost control measures have resulted in GEL maintaining double digit EBITDA margins (11-12%). Absolute EBITDA grew 26% YoY to ₹ 65.3 crore (down 10% QoQ). We expect H2FY23 EBITDA margins to be under pressure owing to slowdown in revenues (negative operating leverage) and pre-operating expenses. We expect EBITDA margins to soften by 90 bps YoY to 10.6% in FY23E. Better productivity and higher operating efficiencies in FY24 are expected to lead GEL to report EBITDA CAGR of 20% in FY22-24E
- With enhanced working capital management (generated OCF worth ₹ 305 crore in H1FY23, NWC days reduced to 57), the company continues to strengthen its balance sheet with net cash surplus of ₹ 369 crore (FY22: ₹ 119 crore). We expect the company to generate positive OCF in FY23 despite increased working capital and capex requirements in H2FY23. We expect the company to maintain RoCE of ~20% owing to prudent working capital management (NWC days: 65 days) and decent asset turn (~4.5x)

Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	1,210.7	1,790.3	2,209.3	2,540.6
Growth (%)	(11.3)	47.9	23.4	15.0
Total Raw Material Cost	617.1	916.0	1,170.9	1,321.1
Gross Margins (%)	49.0	48.8	47.0	48.0
Employee Expenses	371.6	538.8	655.0	745.0
Other Expenses	120.6	130.1	148.6	175.3
Total Operating Expenditure	1,109.2	1,584.8	1,974.6	2,241.4
EBITDA	101.5	205.5	234.7	299.2
EBITDA Margin	8.4	11.5	10.6	11.8
Interest	34.5	40.2	23.9	25.9
Depreciation	52.6	59.0	67.1	81.9
Other Income	12.2	10.7	12.0	15.0
Exceptional Income	-	-	6.5	-
PBT	26.6	117.0	162.3	206.5
Total Tax	0.1	(0.1)	34.3	47.5
Profit After Tax	26.5	117.1	128.0	159.0

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22E	FY23E	FY24E
Equity Capital	21.4	29.5	30.3	30.3
Reserve and Surplus	268.6	678.6	849.6	1,008.6
Total Shareholders funds	290.1	708.1	879.9	1,038.9
Total Debt	364.8	63.1	55.0	55.0
Non Current Liabilities	113.3	130.0	130.0	130.0
Source of Funds	768.2	901.1	1,064.8	1,223.8
Gross block	225.6	291.6	456.6	576.6
Less: Accum depreciation	100.3	136.3	177.4	229.3
Net Fixed Assets	125.3	155.3	279.2	347.3
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	435.8	522.0
Cash	15.3	12.7	61.9	55.2
Debtors	179.8	92.2	121.1	153.1
Loans & Advances & Other CA	97.5	178.0	155.0	159.7
Total Current Assets	551.8	716.5	773.7	890.0
Creditors	111.7	117.8	169.5	194.9
Provisions & Other CL	132.7	192.2	172.7	172.7
Total Current Liabilities	244.4	310.0	342.2	367.6
Net Current Assets	307.4	406.4	431.5	522.4
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	1,064.8	1,223.8

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	128.0	159.0
Add: Depreciation	52.6	59.0	67.1	81.9
Net Increase in Current Asset	13.2	-156.7	-8.1	-123.0
Net Increase in Current Liabili	-12.1	65.6	32.2	25.4
Others	-30.1	-33.5	-26.0	-30.0
CF from operating activities	50.2	51.5	193.2	113.3
(Inc)/dec in Investments	-9.3	29.4	-25.6	0.0
(Inc)/dec in Fixed Assets	-35.0	-77.9	-154.0	-120.0
Others	17.3	-21.5	-0.2	0.0
CF from investing activities	-27.0	-70.0	-179.7	-120.0
Inc / (Dec) in Equity Capital	0.0	8.0	0.8	0.0
Inc / (Dec) in Loan	-26.2	-301.7	-8.1	0.0
Others	5.9	309.7	43.0	0.0
CF from financing activities	-20.2	16.0	35.7	0.0
Net Cash flow	3.0	-2.5	49.2	-6.7
Opening Cash	12.3	15.3	12.7	61.9
Closing Cash	15.2	12.7	61.9	55.2

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹)				
EPS	6.2	19.9	21.1	26.2
Cash EPS	18.4	29.8	32.2	39.8
BV	67.6	120.1	145.2	171.5
DPS	0.0	0.0	0.0	0.0
Cash Per Share	3.6	2.1	10.2	9.1
Operating Ratios (%)				
EBITDA margins	8.4	11.5	10.6	11.8
PBT margins	2.2	6.5	7.3	8.1
Net Profit margins	2.2	6.5	5.8	6.3
Inventory days	78.1	88.4	72.0	75.0
Debtor days	54.2	18.8	20.0	22.0
Creditor days	33.7	24.0	28.0	28.0
Return Ratios (%)				
RoE	9.1	16.5	14.5	15.3
RoCE	9.3	20.4	19.2	21.2
Valuation Ratios (x)				
P/E	60.7	18.9	17.7	14.3
EV / EBITDA	17.5	10.5	8.9	7.0
EV / Sales	1.5	1.2	0.9	0.8
Market Cap / Revenues	1.3	1.3	1.0	0.9
Price to Book Value	5.5	3.1	2.6	2.2
Solvency Ratios				
Net Debt / Equity	0.6	-0.1	-0.2	-0.2
Net Debt/EBITDA	1.6	-0.5	-0.8	-0.6
Current Ratio	2.2	2.3	2.1	2.3
Quick Ratio	1.1	0.9	0.8	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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