

ICICI Securities Ltd.  
is the author and  
distributor of this report

Initiating coverage

## Apparels

Target price Rs560

### Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	23.5	21.0	21.0
Institutional investors	36.4	37.6	38.9
MFs and others	25.4	24.4	21.9
FII	11.0	13.2	17.0
Others	40.1	41.4	40.1

Source: BSE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	-
Environment	NA	NA	-
Social	NA	NA	-
Governance	NA	NA	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

## Gokaldas Exports

BUY

Weaving each piece (scale, margins, FCF) together; initiate with **BUY**

Rs370

Gokaldas Exports (GEXP), under its new management (since FY18), has witnessed significant changes including marquee client additions, richer product mix, higher margins, etc., leading to robust shareholder returns. We believe, India – with its stable economy, abundant cotton availability, cheaper labour vs China and control over covid – is well placed to wrest a chunk of apparel market share from China and other competitive economies. Hence, India's textile and apparel industry stands to benefit in the medium term. Further, the government of India's (GoI) signing of FTAs with various countries (UK FTA likely in H1CY23) and incentive schemes is likely to boost the domestic textile ecosystem and catalyse further growth. GEXP, in the next leg of its growth, is executing a capex of ~Rs3.7bn over FY22-FY25, which includes new greenfield projects and upgrading its existing machineries. This will help: a) diversify its revenue sources (foray into knitwear), and b) potentially boost the topline by ~Rs8bn-9bn over FY23-25E. We estimate EBITDA margin to expand by 100bps on the back of operating leverage benefits and adjusted PAT to register ~18% CAGR over FY22-FY25E. Initiate with a BUY rating and P/E-based (17.5x FY25E) target price of Rs560/sh. Key risks: input cost inflation, logistic bottlenecks, geopolitical tensions.

- India well placed to wrest market share:** Over the past few years, China's market share in the global apparel market (~US\$490bn) has been declining due to higher production costs, trade barriers (ban on Xinjiang cotton), persistent covid issues, etc. As a result, the global apparel supply-chain was primarily realigned to countries like Vietnam and Bangladesh owing to lower factor costs and geographical proximity to China while India's export sales stagnated. However, we believe, India – by virtue of its inexpensive labour vs China, stable economic conditions, sufficient availability of raw materials, etc. – is well placed to gain from the shift of supply-chain from China. Based on industry data, India apparel exports are expected to reach ~US\$25bn by FY26 implying ~15% CAGR over FY21-FY26. Further, GoI's initiatives like MITRA, extension of export incentives (RoSCTL) and introduction of PLI scheme for MMF-RMG exports is likely to boost the domestic textile ecosystem and catalyse further growth.
- Capex to diversify revenue sources and upgrade existing assets:** In order to service larger export orders and upgrade its designing capabilities, GEXP is executing a capex of ~Rs3.7bn spread over FY22-FY25. Majority (Rs1.6bn) of the total capex is allotted towards setting up of new capacities and projects. Company plans to enter the knitwear segment with its integrated knit fabric processing unit in Tamil Nadu at a capex of ~Rs1.3bn. We expect GEXP to report incremental revenues of Rs8bn-9bn (on optimal utilisation of assets) over FY23-35E, from the new capacities given the average asset turn of ~3x. We expect GEXP to generate operating cashflows of ~Rs6bn over FY23E-FY25E, which will allow the company to fund its capex through internal accruals.

Market Cap	Rs22.4bn/US\$272mn	<b>Year to Mar</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Bloomberg	GOKL.BO/GEXP IN	Revenue (Rs bn)	17,903	22,232	25,651	30,398
Shares Outstanding (mn)	60.6	EBITDA (Rs bn)	2,055	2,602	3,049	3,793
52-week Range (Rs)	489/316	EPS (Rs)	20	22	25	32
Free Float (%)	79.0	% Chg YoY	241	10	13	30
FII (%)	17.0	P/E (x)	19	17	15	12
Daily Volume (US\$/'000)	2,223	CEPS (Rs)	30	34	40	49
Absolute Return 3m (%)	(4.0)	EV/E (x)	11	9	7	5
Absolute Return 12m (%)	4.3	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	3.8	RoCE (%)	19	20	19	21
Sensex Return 12m (%)	0.8	RoE (%)	23	17	16	18

### Research Analyst:

Harsh Mittal

harsh.mittal@icicisecurities.com

+91 22 6807 7565

- ▶ **EBITDA margin estimated to improve by 100bps over FY22-FY25E:** We estimate EBITDA margin to expand by 100bps by FY25E from FY22 owing to: a) continued thrust towards a better-yielding product mix, b) operating leverage benefits in staff and other operating expenses, c) ramping-up of recently commissioned units, and d) better margins in knitwear (14-16%) vs woven garments (11-12%). GEXP is expected to witness near-term margin headwinds owing to inflation and recessionary sentiment in its export markets (primarily the US).
- ▶ **Initiate with BUY:** GEXP has, over the last few years, exhibited strong performance with robust revenue growth through addition of scalable marquee clients and by reducing over-dependence on spring summer season (outerwear accounted for 41% of FY22 revenue vs 23% in FY18). In order to prepare itself for the next leg of growth, GEXP is doing a capex of ~Rs3.7bn over FY22-FY25, which we believe should boost the topline by Rs8bn-9bn (over FY23-25E) on stabilisation of units. In addition, GEXP could benefit from the operating leverage benefits and will likely improve its EBITDA margin by 100bps over FY22-FY25E. Hence, on the back of healthy orderbook and ramping-up of newly commissioned units, we bake in revenue/EBITDA/PAT CAGRs of ~19%/23%/18%, respectively, for FY22-FY25E. We forecast stable RoEs of ~17%/16%/18% in FY23E/24E/FY25E respectively.

We initiate coverage on the stock with a **BUY** rating and target price of Rs560/share, valuing the stock at 17.5x FY25E EPS. We believe GEXP deserves to be valued at a higher multiple vs its current 1-year forward P/E multiple (~15x) owing to healthy PAT growth of ~18% CAGR over FY22-25E and stable RoEs in the range of 16-18%.

---

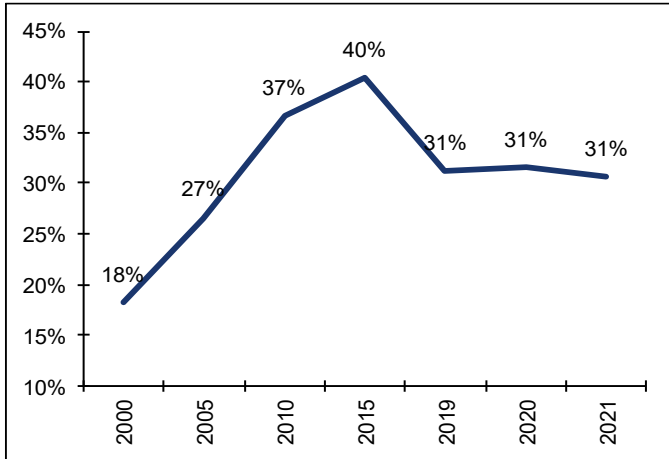
**TABLE OF CONTENT**


---

<b>Initiate with BUY and P/E-based target price of Rs560/sh.....</b>	<b>5</b>
<b>Investment rationale .....</b>	<b>7</b>
# Shift in sourcing from China offers ample growth headroom to India.....	7
# FTAs and other policies shall act as catalyst in increasing exports.....	11
# Ongoing/planned capex to enhance scale.....	13
# Strengthening existing and new client engagements .....	15
# Foray in the knitwear segment.....	19
# Financial analysis and outlook .....	20
# Corporate governance .....	26
<b>Company background .....</b>	<b>27</b>
#GEXP's manufacturing value chain .....	28
<b>Experienced and professional-led management team .....</b>	<b>31</b>
<b>Key risks .....</b>	<b>32</b>
<b>Appendix.....</b>	<b>33</b>
Financial summary – Consolidated.....	36
<b>Index of Tables and Charts .....</b>	<b>37</b>

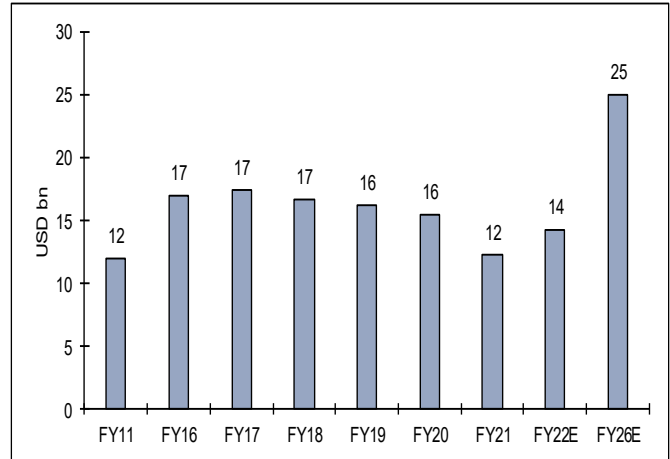
### Focus Charts

**Chart 1: China world apparel exports share**



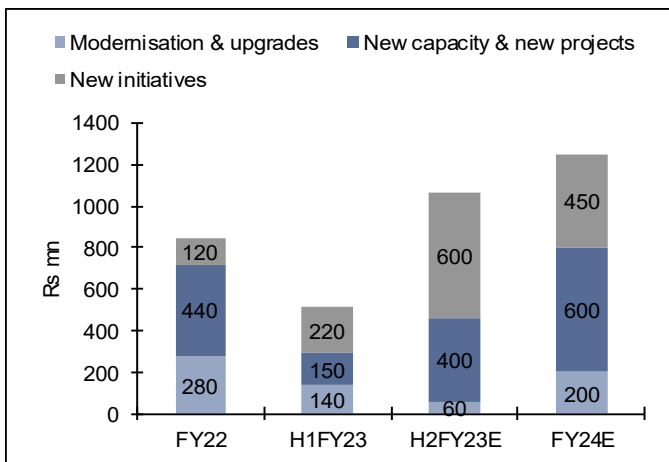
Source: WTO, I-Sec research

**Chart 2: India apparel exports**



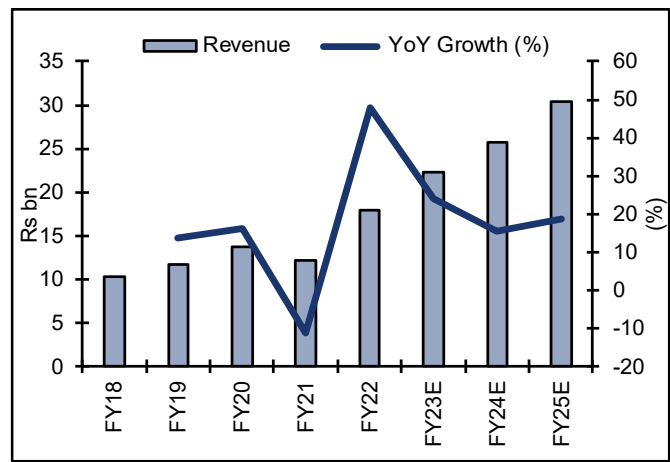
Source: Ministry of Commerce and Wazir advisors, I-Sec research

**Chart 3: Capex of ~Rs3bn over FY23-25E**



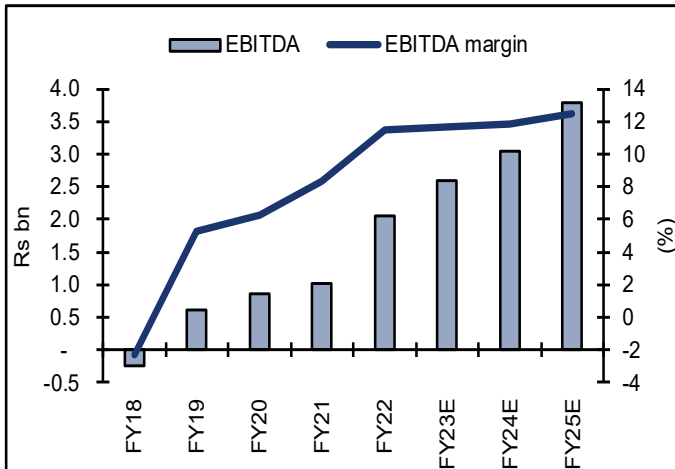
Source: Company data, I-Sec research

**Chart 4: Revenue CAGR at ~19% expected over FY22-FY25E**



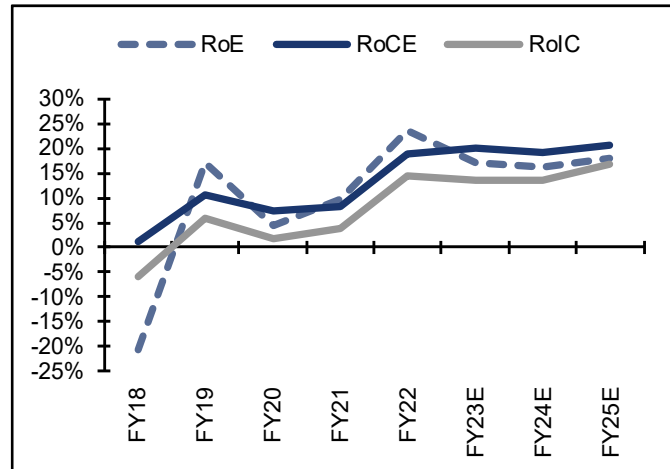
Source: Company data, I-Sec research

**Chart 5: Margin to improve by 100bps by FY25E**



Source: Company data, I-Sec research

**Chart 6: Return ratios likely to remain stable**



Source: Company data, I-Sec research

## Initiate with BUY and P/E-based target price of Rs560/sh

Gokaldas Exports (GEXP) has, over the last few years, exhibited strong performance with robust revenue growth through addition of scalable marquee clients and by reducing over-dependence on spring summer season (outerwear accounted for 41% of FY22 revenues vs 23% in FY18). In order to prepare itself for the next leg of growth, the company is doing a capex of ~Rs3.7bn over FY22-FY25, which we believe should boost the topline by Rs8bn-9bn (over FY23-25E) on stabilisation of units. In addition, we expect GEXP to gain from operating leverage benefits and improve its EBITDA margin by 100bps over FY22-FY25E. Hence, on the back of a healthy orderbook and ramping-up of newly commissioned units, we bake in revenue/EBITDA/PAT CAGRs of ~19%/23%/18%, respectively, for FY22-FY25E. We forecast stable RoEs of ~17%/16%/18% in FY23E/24E/FY25E respectively.

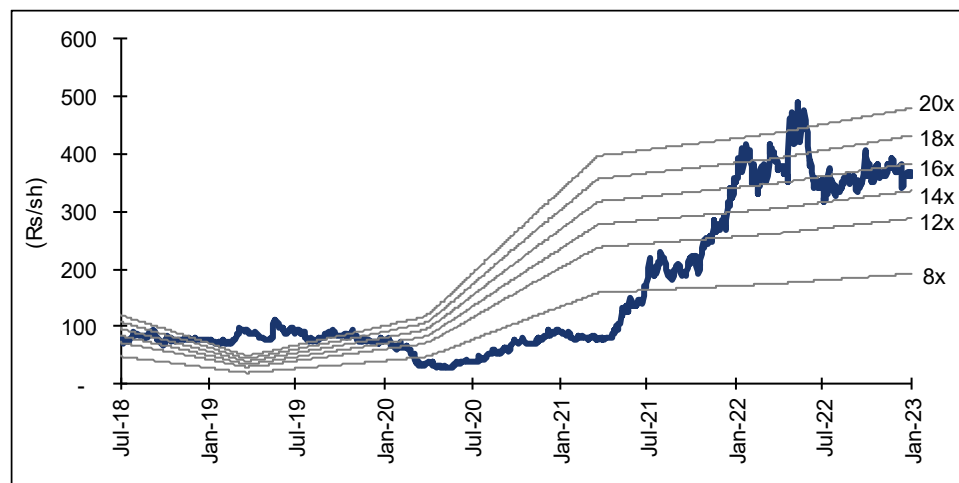
We initiate coverage on the stock with a **BUY** rating and target price of Rs560/share, valuing the stock at 17.5x FY25E EPS. We believe GEXP deserves to be valued at a higher multiple vs its current 1-year forward P/E multiple (~15x) owing to healthy PAT growth of ~18% CAGR over FY22-25E and stable RoEs in the range of 16-18%.

**Table 1: P/E-based target price of Rs560/sh**

Particulars	FY25E
EPS (Rs/sh)	32.0
Current m-cap (Rs bn)	22.4
Target multiple (x)	17.5
<b>Target price (Rs/sh)</b>	<b>560</b>
CMP	370
Upside (%)	51%

Source: I-Sec research

**Chart 7: Trading at a 1-year forward P/E of ~15x**



Source: Company, I-Sec research

**Table 2: Comparative valuation^ vs peers**

Company Name	M-cap (Rs bn)	Revenue (Rs mn)	EBITDA Margin (%)	PAT Margin (%)	P/E (x)	RoCE (%)	RoE(%)
Arvind Ltd.	23	80,337	10.4	3.2	9.8	12.0	9.0
KPR Mills*	180	41,132	26.0	NA	NA	NA	NA
S.P. Apparels	8	8,594	18.8	9.9	9.8	16.3	14.2
Gokaldas Exports	22	17,903	10.3	6.5	18.4	18.8	23.5

Source: ^FY22 Annual reports of respective companies, I-Sec research; \*Textile division only

**Table 3: Consensus Estimates**

Company Name	Revenue (Rs bn)		EBITDA Margin (%)		PAT Margin (%)		P/E (x)		RoE (%)		EPS CAGR (%)
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY22-24E
Arvind Ltd.	89.9	98.2	10.7	11.0	4.4	5.1	6.7	5.3	10.9	12.6	33.6
KPR Mills*	59.4	64.0	22.5	23.2	14.7	15.8	20.3	17.6	24.6	23.5	9.7
Gokaldas Exports	23.0	26.7	10.9	11.7	5.8	6.0	16.3	13.8	16.4	16.3	6.6

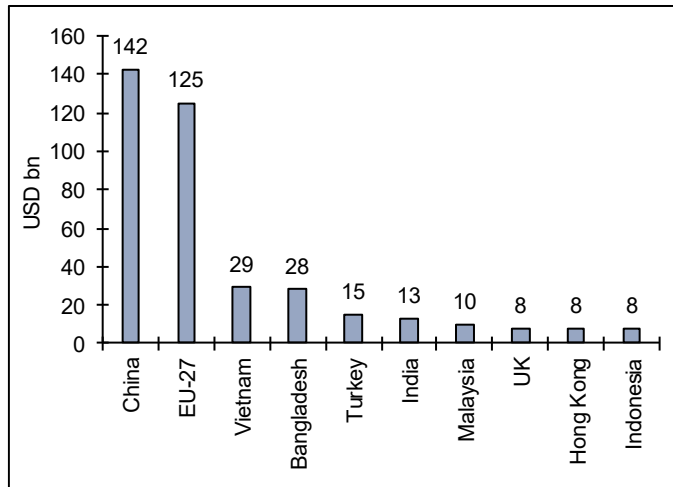
Source: Bloomberg (incl. GEXP), I-Sec research; \*Includes all business segments.

## Investment rationale

### # Shift in sourcing from China offers ample growth headroom to India

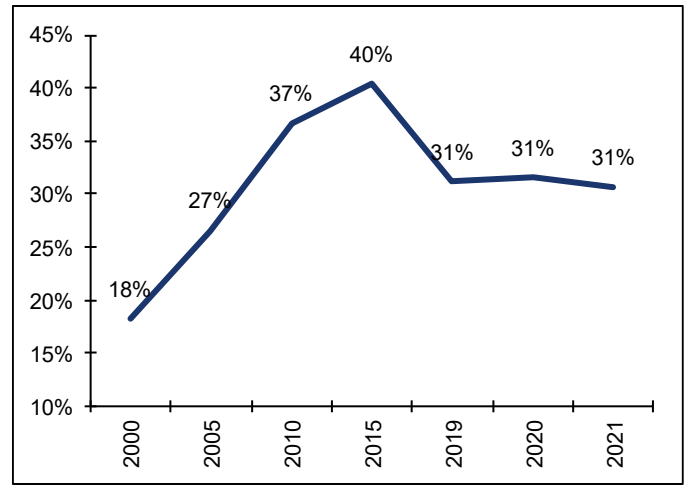
Over the past 6-7 years, China's world export share in the apparel segment has declined to ~31% in CY21 from ~40% in CY15 led by: a) expensive and ageing labour; b) rising manufacturing costs; c) trade barriers (banning of cotton from Xinjiang region, etc.); and, more recently, c) persistent covid-induced supply-side bottlenecks.

**Chart 8: Major apparel exporting countries in CY20**



Source: WTO, I-Sec research

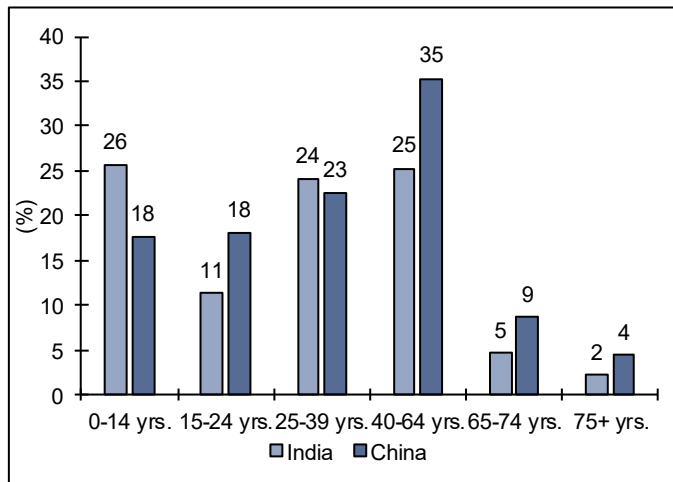
**Chart 9: China world apparel exports share**



Source: WTO, I-Sec research

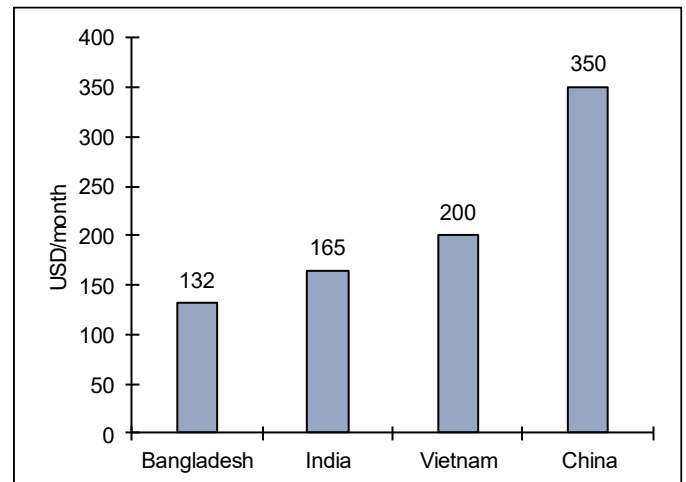
Consequently, in search of alternatives, businesses have mostly shifted to countries like Vietnam and Bangladesh owing to their proximity to China and availability of cheap labour.

**Chart 10: Ageing labour in China vs India**



Source: UNCTAD, I-Sec research

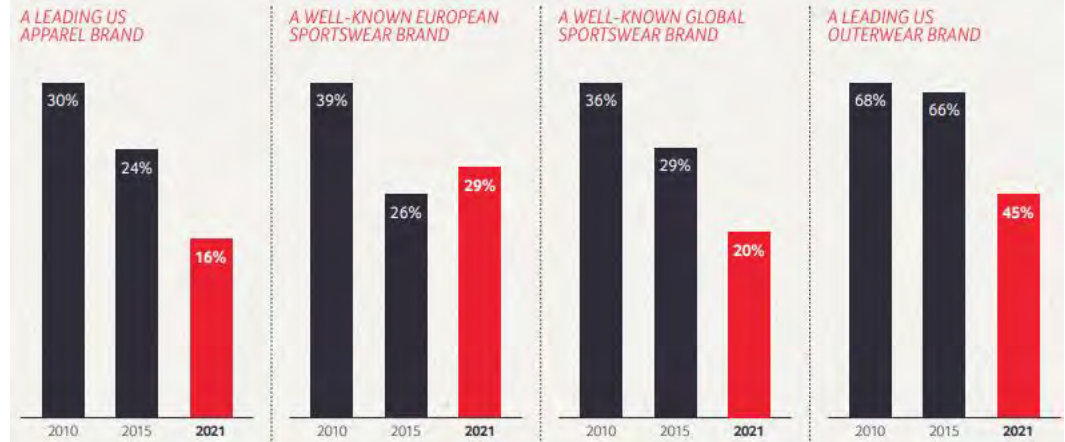
**Chart 11: Average labour cost in EMEs vs China**



Source: Industry Data, I-Sec research, Data as on FY21

As evident from *chart-6*, some of the biggest brands across the globe are reducing their exposure to China over time. We believe, the above trend is expected to continue going ahead. Global brands are continuing to develop alternate suppliers in other regions as they seek to reduce the cost of procurement and de-risk themselves.

**Chart 12: Brands' procurement from China as a % of their overall procurement**

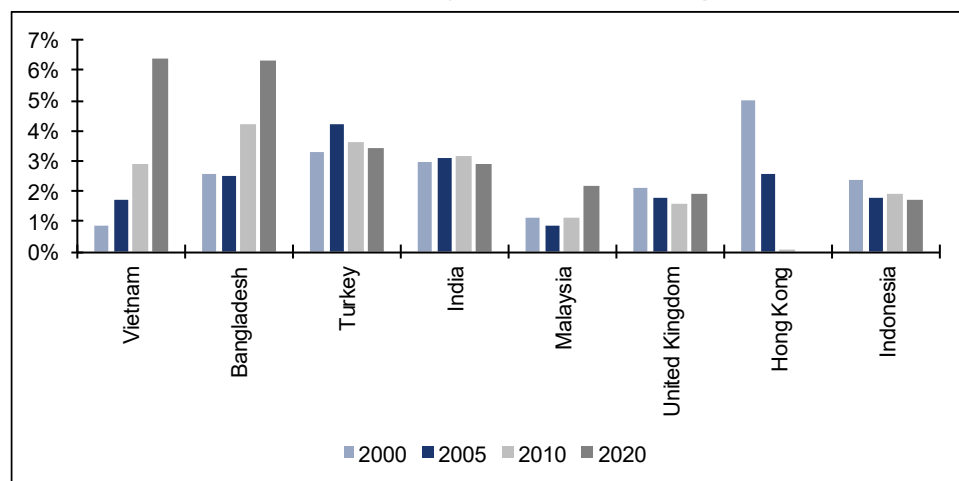


Source: Company data, I-Sec research

Though India has not explicitly gained from the shift in the business, the opportunity is yet to be fully played out. We believe, sufficient availability of raw materials and lower labour costs place India as an attractive alternative to China. In addition, favourable demographic dividend, stable economic conditions, increasing disposable income, growing population, increased urbanisation and higher brand consciousness are acting as growth drivers for India's domestic market.

Sighting the robust opportunities, Gol has recently shown more focus on the sector. Some of the initiatives include, approval of mega textile parks, extension of export incentives (RoSCTL) and introduction of PLI schemes for MMF (man-made fibre) and RMG (ready-made garments) exports.

**Chart 13: Increasing dominance of emerging market economies in global apparel export market particularly Vietnam and Bangladesh**

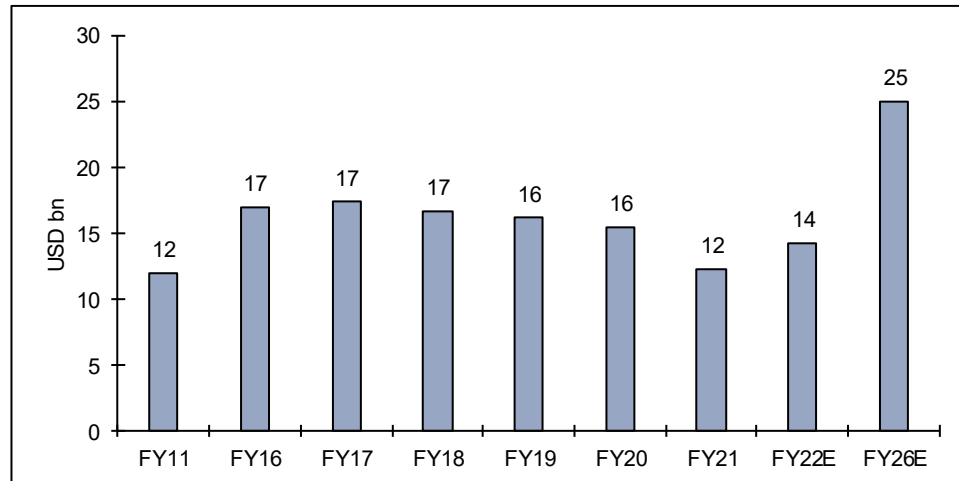


Source: WTO, I-Sec research



The China+1 theme has been playing out well as seen in H1FY22 when India reported 53% YoY growth in apparel exports. However, it still lags the pre-covid level by 7%. As per industry data, India’s apparel exports are expected to reach US\$25bn by FY26 implying ~8% CAGR over FY20-FY26 and ~15% CAGR over FY21-FY26. Meanwhile, India’s overall textile and apparel exports continue to report robust growth (71% YoY in H1FY22, 10% CAGR over the past two years).

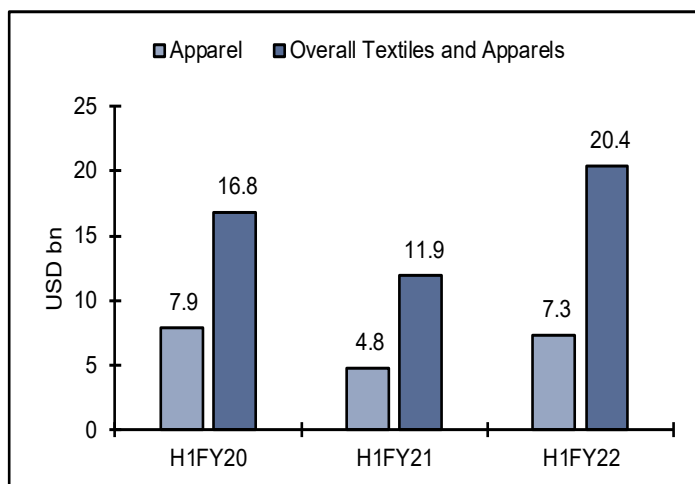
**Chart 14: India’s apparel exports**



Source: Industry data, I-Sec research

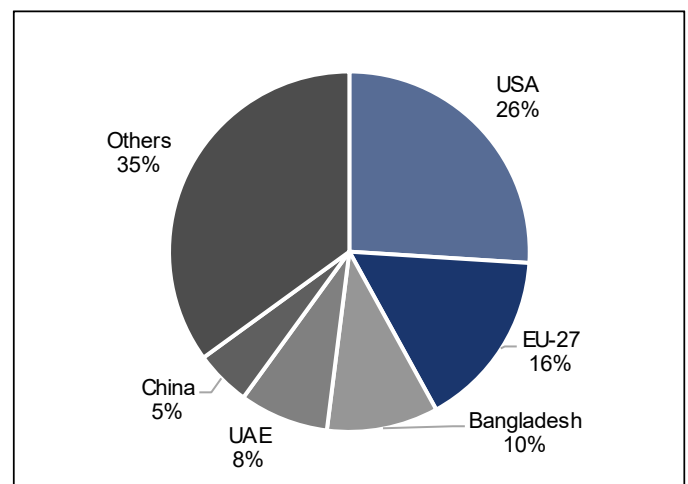
The US is India’s biggest export textile and apparels market and accounts for 26% of the overall value. As of FY22, the US contributed 84% of GEXP’s export revenues and 75% of total revenues.

**Chart 15: India’s textile & apparel exports**



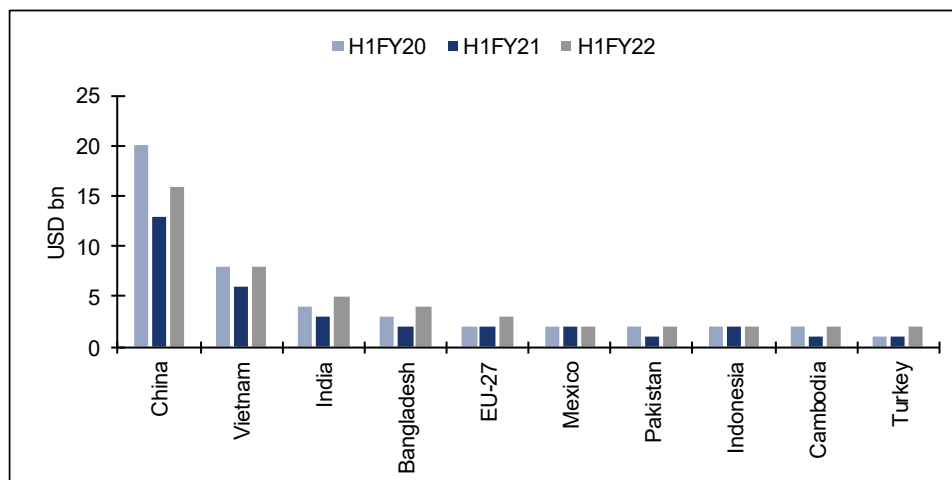
Source: DGCI&S, Wazir Advisors, I-Sec research

**Chart 16: India’s top T&A markets (% value share) as on H1FY22**



Source: DGCI&S, Wazir Advisors, I-Sec research

India has improved its apparel export market share to the US to 8.3% in H1FY22 from 6.8% in H1FY20 – exceeding its pre-covid level of US\$4bn. In contrast, China’s share in US imports has declined to ~27% in H1FY22 from ~34% in H1FY20. India with ~US\$5bn worth of apparel exports is the US’s third-largest trading partner.

**Chart 17: Top import countries of the US (without PPE kits)**

Source: OTEXA, UN Comtrade, Wazir and I-Sec research

### India's advantage in the textile and apparel industry

- Abundance of raw materials:** India is the world's largest producer of jute and cotton and the second-largest producer of silk. Due to the high abundance of raw materials and cheap labour, the cost of manufacturing textiles and apparels is lower than that in many other competing countries.
- Advent of e-commerce:** Online shopping and e-commerce has picked-up in India. This segment witnessed strong growth patterns, and it enables the industry to reach a larger base of consumers more effectively.
- Consolidation of supplier base:** Leading apparel brands are increasingly consolidating their supply-chain to a few big suppliers. This is a result of the pandemic as smaller / unorganised players lost share to large / organised players in the domestic market. Most of India's competitors are facing either economic issues or economic output marred by natural calamities. For example, the sharp rise in fuel costs post the Russia-Ukraine war has led to ~20% increase in electricity costs from 1<sup>st</sup> Dec'22. Sri Lanka and Pakistan are facing unprecedented inflationary scenarios, which shall lead to high manufacturing costs. The recent floods in Pakistan have come as a double whammy as it has destroyed cotton crops resulting in only 5mn bales available this year vs industry demand of 14mn bales.

## # FTAs and other policies shall act as catalyst in increasing exports

In an effort to improve India's exports, Gol is actively pursuing bilateral trade agreements with potential countries. It successfully concluded free trade agreements (FTAs) with the UAE and Australia and is in final discussions with UK, which is expected to be completed in H1CY23. In addition, Gol plans to launch trade discussions with 16 other countries and is enhancing trade ties with several nations/jurisdictions as diverse as the EU, US, Canada and South Korea.

India is also now actively pursuing FTA with the EU and other nations, which could lend another fillip to textile exports (currently, India pays ~9.5% as import duty vs no import duty paid by countries such as Bangladesh and Pakistan). Meanwhile, Bangladesh's FTA with EU will come for review in 2026 and we believe this could lead to higher exports from India to the EU.

### **RoSCTL to continue till 2024**

India government's recent announcement about continuing the Rebate of State and Central Taxes and Levies (RoSCTL) scheme till 2024, provides major relief to export companies.

### **PLI scheme for man-made fibre (MMF)**

The PLI scheme was launched by Gol across key sectors to improve the country's manufacturing scale and increase export competitiveness in these sectors. The PLI scheme for textile focuses on improving India's export competitiveness in MMF and technical textile segments. In both these segments, India accounts for an insignificant share in global trade at present. Under the PLI scheme, both brownfield and greenfield capacity expansions have been covered. For brownfield projects, there are two categories – players with turnover of Rs1bn-4bn where incentive is fixed at 9%, and >Rs4bn for which incentive stands at 7% for the first year. For greenfield projects, players need to commit a minimum of Rs5bn investment and will be offered higher incentive of 11% in the first year. The rate of incentives will keep declining by 1% over the next 5 years. The scheme provides an incentive of ~Rs107bn, which translates into a revenue potential of Rs1.5trn at an average incentive of 9%.

### **MITRA scheme**

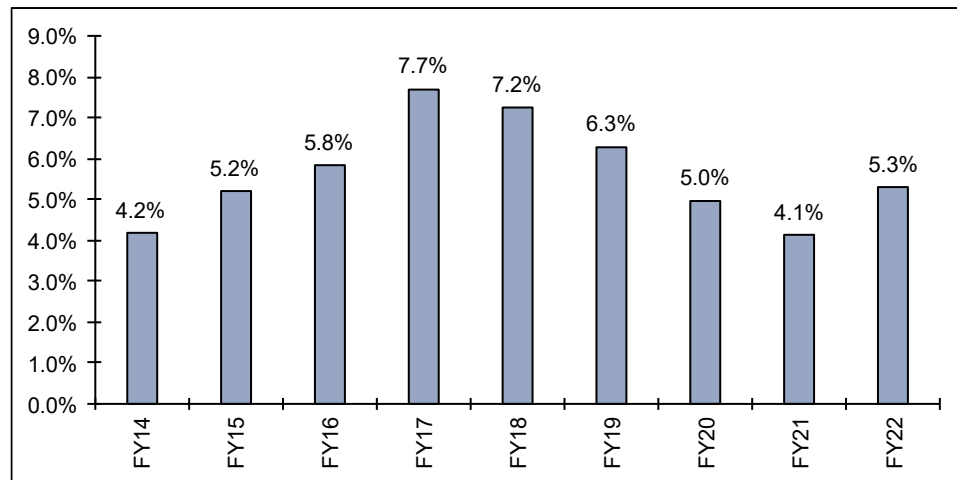
In its efforts to increase investment and create a large textile ecosystem within the country, the government in the union budget 2021-22 announced the Mega Integrated Textile Region and Apparel (MITRA) Parks Scheme. It plans to establish seven such parks with state-of-the-art facilities, common utilities and R&D labs over a period of three years.

### Textiles Technology Development Scheme (TTDS) to roll out soon

Gol is planning to introduce a new scheme called Textiles Technology Development Scheme (TTDS) replacing the earlier 'Technology Upgradation Fund Scheme' (TUFS). TTDS aims to promote integrated manufacturing facilities and technology adoption in the country and envisages allocation of ~Rs166bn under the scheme. It is aimed to be spread across five years and the segmental breakup of the outlay is ~Rs51bn for textile machinery, ~Rs20bn technology upgradation for current units, ~Rs48bn for integrated manufacturing, ~Rs46bn allocated to TUFS arrears and Rs1.2bn for administrative expenses.

According to the management, GEXP shall receive export incentives of ~5-5.5% of garment sales going forward.

**Chart 18: GEXP's export incentives as % of garment sales**

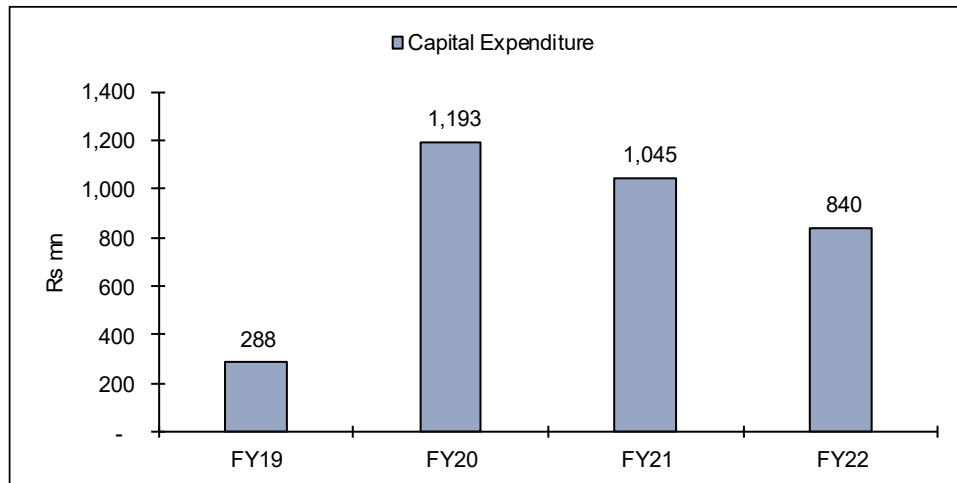


Source: Company data, I-Sec research

## # Ongoing/planned capex to enhance scale

GEXP has incurred cumulative capital expenditure of Rs3.4bn during FY19-FY22. Also, revenue CAGR was at 15% vs 1% over FY10-FY19. The revenue buoyancy witnessed during past four years can be attributed to the company's focus on expanding customer base, shift towards better-yielding product mix, etc. In order to cater to the above requirements, GEXP unlocked its existing capacity through brownfield expansion.

**Chart 19: Cumulative capex of ~Rs3bn over FY19-FY22**

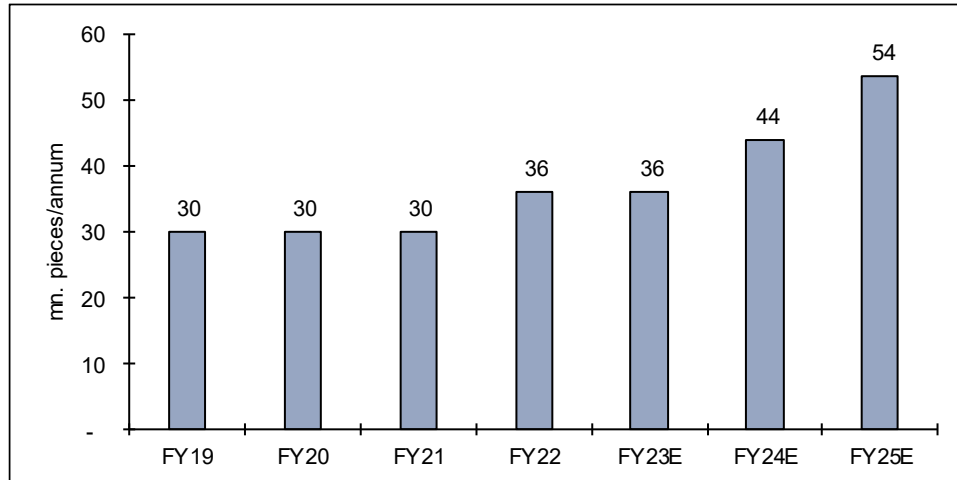


Source: Company data, I-Sec research

In FY22, GEXP made capital investment of Rs840mn and commissioned three new units {two in Karnataka (Tumkur and Bommanahalli) and one in Tamil Nadu (Krishnagiri)}, which together, as per management, are expected to increase the company's total production capacity by ~12% at optimum utilisation. In addition to the three completed units, GEXP has initiated work on its new greenfield project in Bhopal with capacity to produce 1.95mn garments per annum; the plant is slated to begin trial runs in Q3FY23 and slowly ramp up by Q4FY23.

Further, to strengthen GEXP's presence in Europe, the company plans to enter into a JV agreement to make an investment in a company in Bangladesh. The investment shall be in the range of Rs350mn-500mn and shall initially cater to existing clients in the US from H2FY24 and then cater to the European markets from FY25. Meanwhile, GEXP has also incorporated a wholly-owned subsidiary in the UAE to channel overseas investment projects and efficiently service international customers.

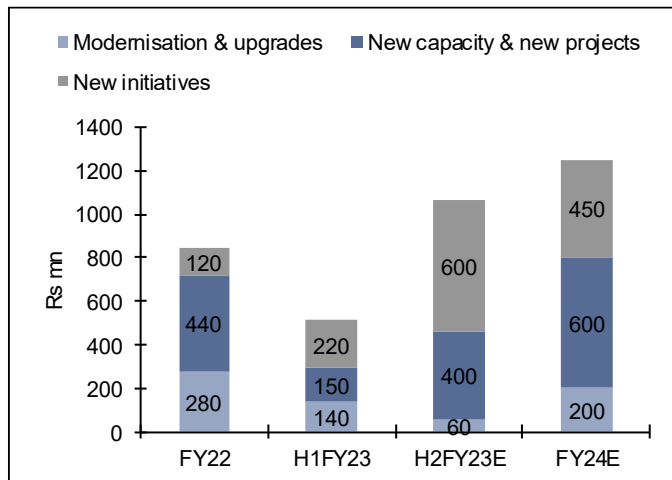
**Chart 20: GEXP's garment production capacity to rise by ~50% in next 2 years**



Source: Company data, I-Sec research

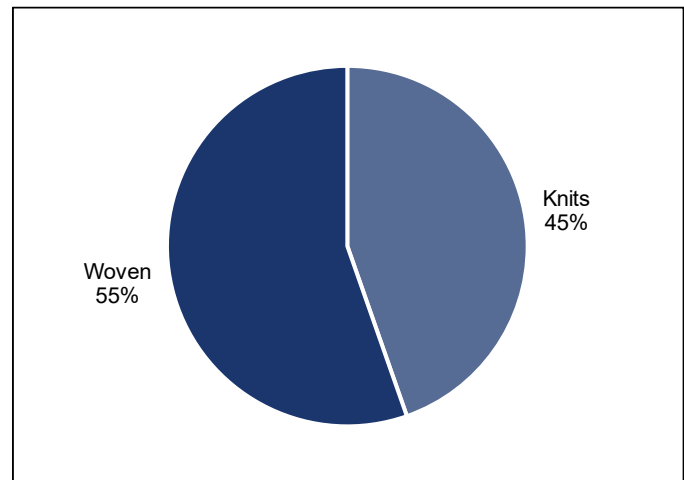
Going ahead, GEXP plans to invest ~Rs1.3bn on knitwear manufacturing (in Tamil Nadu), which is expected to be commissioned by Mar'23-end. Further, it aims to deploy an additional Rs1.1bn on enhancing its existing and ongoing projects. As per management, GEXP can achieve an average asset turnover of ~3x from stabilised assets implying that the company could report an incremental turnover of Rs8bn-9bn, over FY23-25E, from ~Rs3bn capex over FY23-25E. We estimate GEXP to report ~17% and ~19% CAGR in revenues over FY23-25E and FY22-25E respectively.

**Chart 21: Capex of ~Rs3bn over FY23-25E...**



Source: Company data, I-Sec research

**Chart 22: ...of which 45% will be for knitwear unit**

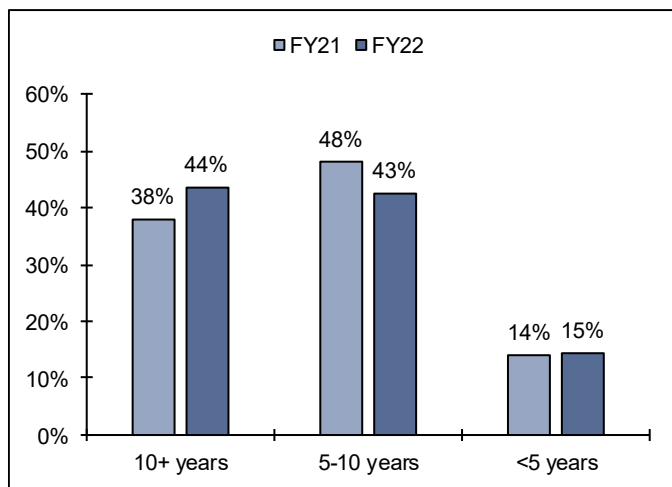


Source: Company data, I-Sec research

## # Strengthening existing and new client engagements

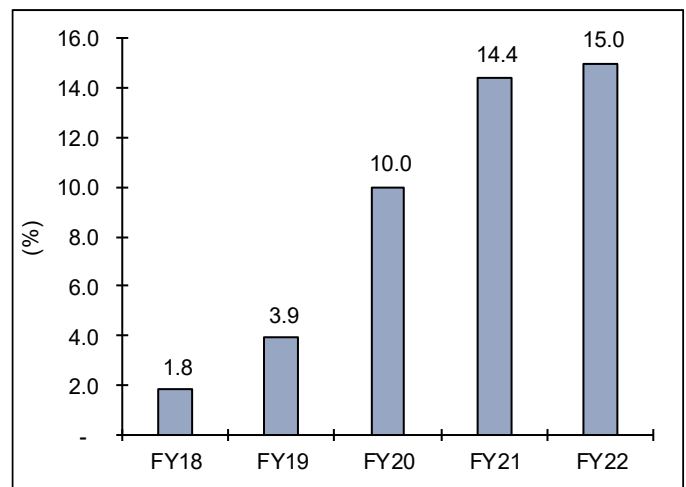
Over the past few years, GEXP has: a) upgraded and commissioned new manufacturing facilities to serve the increased demand, b) improved its designing capabilities, c) enhanced its in-bound and out-bound supply chain efficiency, and d) innovated and upskilled staff in order to compete internationally. As a result, GEXP has not only strengthened its existing client relationships, but also added few marquee clients like Walmart and M&S. In FY22, 44% of its revenues came from customers who have been associated with the company for >10 years vs 38% in FY21. Moreover, the contribution from customers with association of <5 years has improved significantly from just 1.8% in FY18 to 15% in FY22.

**Chart 23: 43% of FY22 revenues came from customers associated for >10 years...**



Source: Company data, I-Sec research

**Chart 24: ...and 15% of revenues came from customers with association of <5 years**

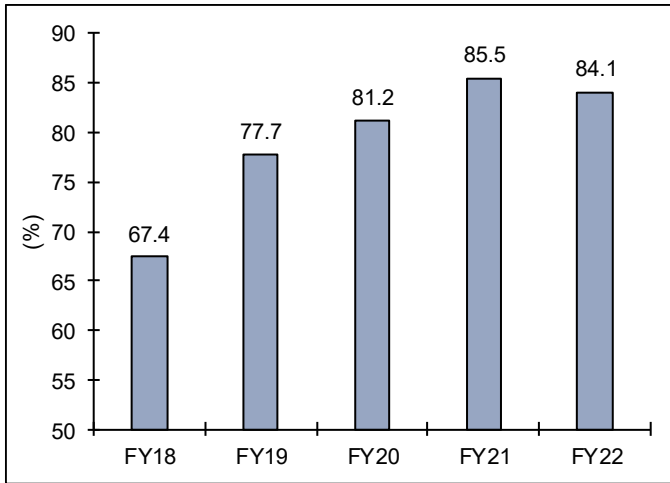


Source: Company data, I-Sec research

## Improving operational processes

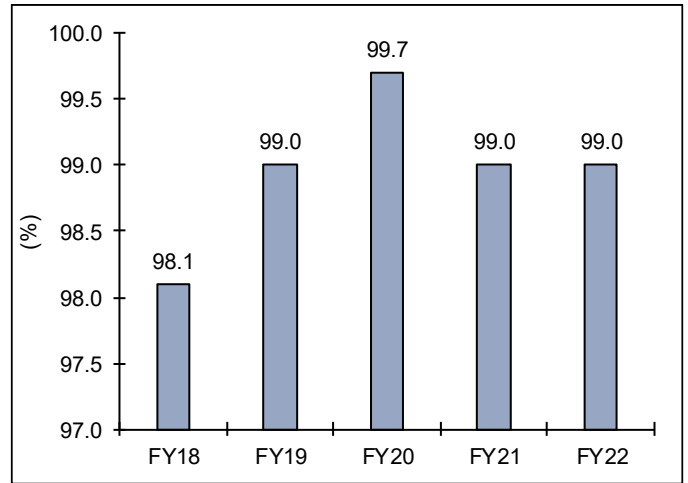
Delay-in-delivery was one of the major pain points for GEXP before FY18. Company, presently, sources its input materials from both domestic (~73%) and international markets (~27%) and, given the shorter fashion cycles, warrants suppliers to deliver goods on time. Prior to FY18, only 54% of raw materials were being delivered on time, which has improved to ~90% under the new management.

**Chart 25: In-bound supply chain efficiency**



Source: Company data, I-Sec research

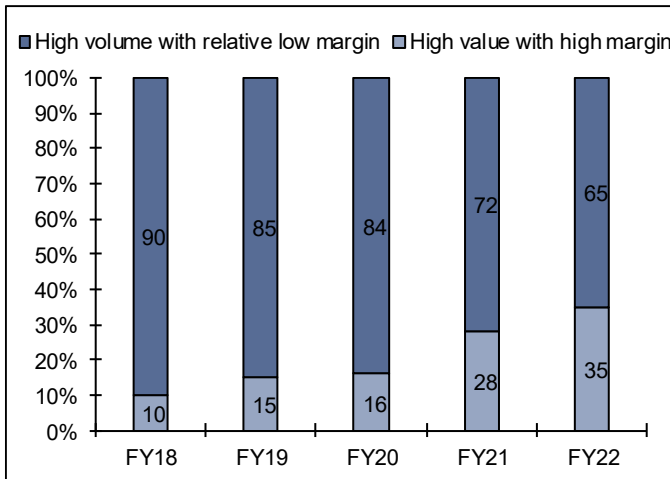
**Chart 26: Outbound supply chain efficiency**



Source: Company data, I-Sec research

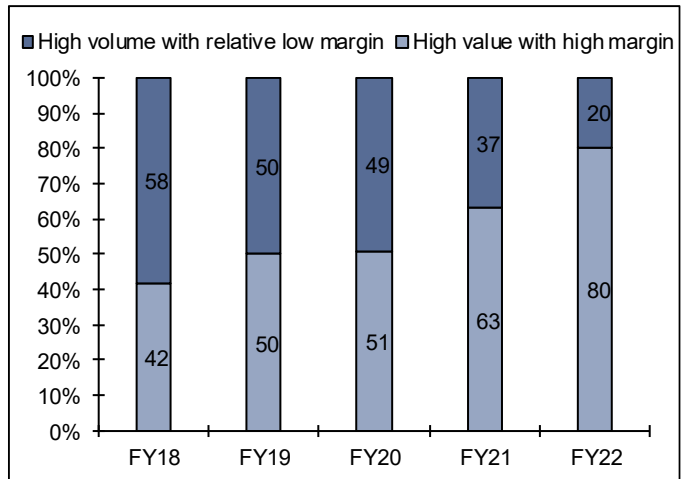
Management has also strengthened its IT infrastructure owing to which, the corresponding teams have been able to back various processes such as production planning, line design, resource allocation and performance monitoring. In addition to ramping-up the operational processes, the company has also improved its design capabilities as required in woven-garment products. Design-heavy garments carry higher margins and account for 15-20% of revenues vs 3-4% when the management took over from Blackstone. With its foray into the knitwear segment, we expect GEXP to onboard more high-value clients. Over the years, it has significantly increased the number of its high-value / high-margin clients as it made efforts to expand the revenue share of its outerwear garment segment. We expect this trend to continue, in line with revenue growth and capacity addition.

**Chart 27: In FY22, 35% of high-value customers...**



Source: Company data, I-Sec research

**Chart 28: ...accounted for 80% of revenues**

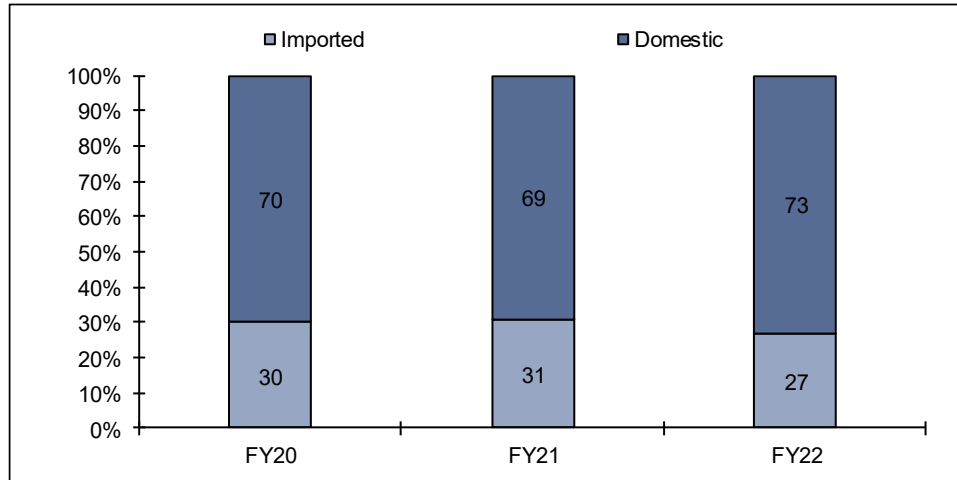


Source: Company data, I-Sec research

Company has increased its domestic sourcing of input materials over the past two years. Higher domestic sourcing allows it to service demand orders at a faster pace and reduces foreign currency risk.



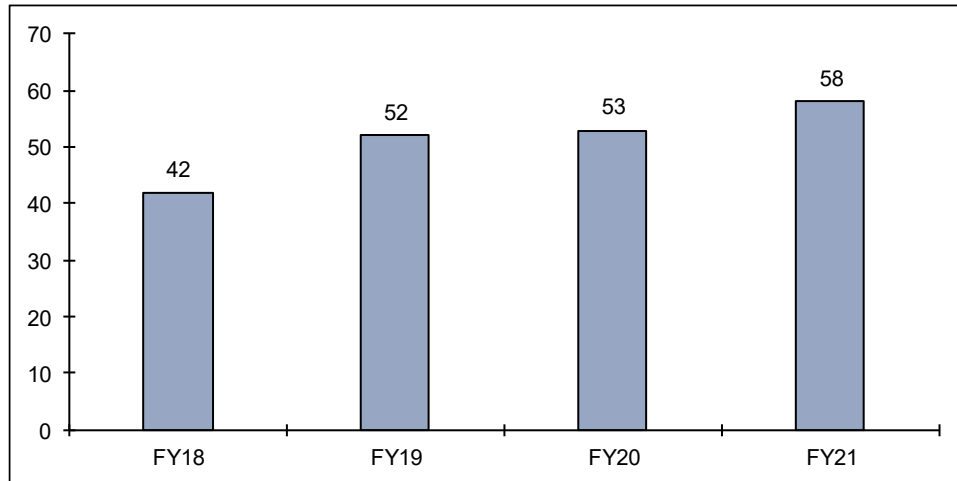
**Chart 29: Higher domestic sourcing allows faster servicing**



Source: Company data, I-Sec research

As a result, over the last 3-4 years, GEXP expanded its share of top customers’ wallet as is depicted in chart-24 below. This approach has helped smoothen the seasonality impact on the business through optimum capacity utilisation throughout the year. GEXP plans to continue work towards enlarging its customer base, while deepening its customer wallet share.



**Chart 30: Wallet share of top-3 customers**



Source: Company Data, I-Sec research

The top-5 clients are *GAP, Columbia, Carhartt, H&M* and *Puma*. They together account for 70-75% of revenues. *GAP* is the largest customer and contributes 20-22% of revenues. We expect GEXP to onboard more customers (like *C&K, Tommy Hilfiger*, etc.), as it continues to leverage the China+1 theme in the US and Europe markets.

Chart 31: Established relationship with marquee brands

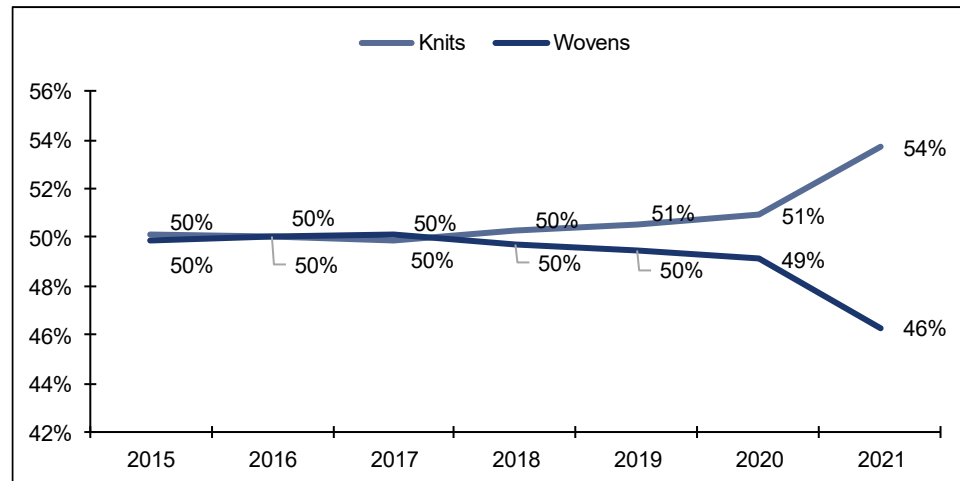
Source: Company filings, I-Sec research

## # Foray in the knitwear segment

GEXP is investing ~Rs1.2bn to set up a vertically integrated knit fabric processing unit in Tamil Nadu. It shall be commissioned by Mar'23-end and trial production is scheduled to begin by Q1FY24. The knit unit is expected to generate incremental revenues of ~Rs3-4bn on optimal utilisation. The unit shall start contribution from H2FY24. To manage the new business segment, GEXP has incorporated a new wholly-owned subsidiary, *Sri Susamyuta Knits Private Limited*, particularly to carry out business in knitwear segment.

Based on industry data, knitware trade is a ~US\$250bn market globally and India has a mere ~5% market share. The global apparel market is largely a 50:50 split between knits and woven garments. 'Work from home' scenario during the pandemic resulted in lower woven garments sale, hence share of knitwear in the global apparel exports increased in 2021. Knitwear comprises lounge wear, T-shirts (round neck, polo neck, etc.), jogger pants, etc.

**Chart 32: Share of knits and wovens in global apparel exports**



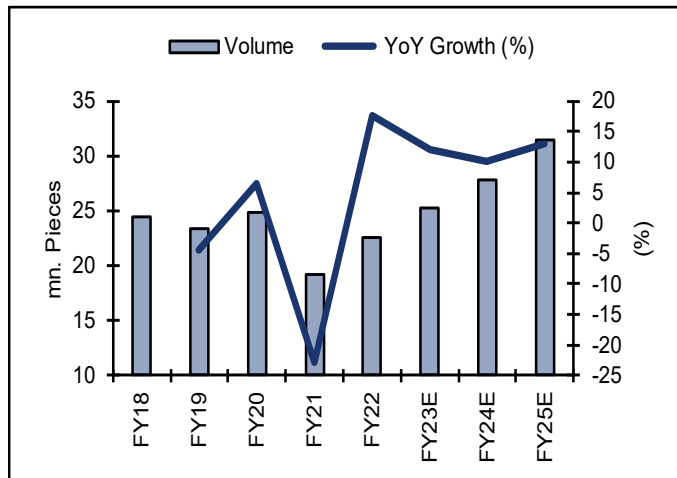
Source: Company Data, I-Sec research

An integrated unit shall provide GEXP an edge to compete with international players in the knitwear business. Knits, unlike woven garments, have low scope of value-addition in the garmenting segment. Management expects 14-16% EBITDA margin in the knits business, which is higher compared to the woven garments business (11-12%) owing to lower material costs and higher volumes. Despite higher capital employed than woven, the return profile would be in line with the woven business. GEXP's top clients (such as *GAP, Banana Republic, GAP, H&M, Abercrombie & Fitch, Walmart*, etc.) have strong presence in knit fabric apparel articles.

## # Financial analysis and outlook

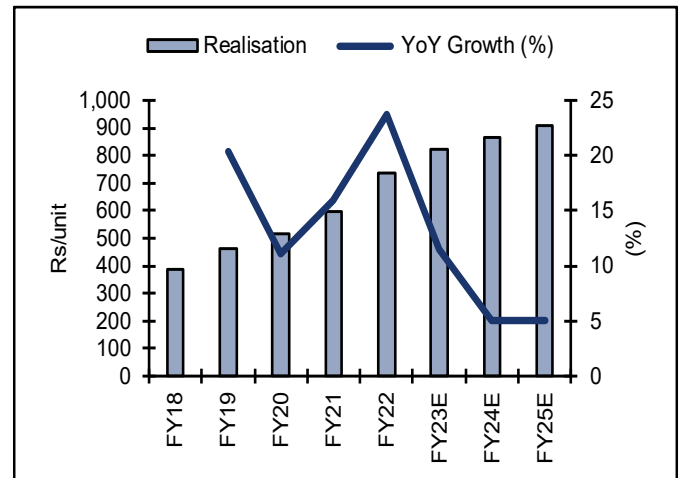
We expect GEXP's sales volume CAGR at ~12% over FY22-FY25E vs a negative 1% over FY19-FY22E. Volume growth is likely to be robust over the next three years owing to: a) woven apparel consumption to pick up led by *back to office* pent-up demand, b) GEXP's foray into knitwear segment, and c) likely higher volumes from UK/Europe driven by the Bangladesh JV unit, etc. GEXP has witnessed sharp rise in realisation over the past four years driven by sale of high-value / high-margin products (e.g. outerwear). Over FY19-FY22, realisation CAGR was at 17% and, despite high base, we estimate realisation of ~7% over FY22-FY25E led by better yielding product mix.

**Chart 33: Expect volume CAGR of ~12% over FY22-FY25E...**



Source: Company data, I-Sec research

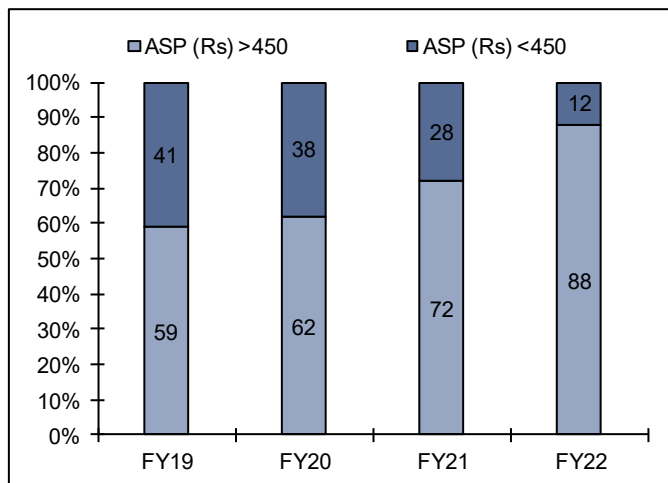
**Chart 34: ...and realisation CAGR of ~7% during the same period**



Source: Company data, I-Sec research

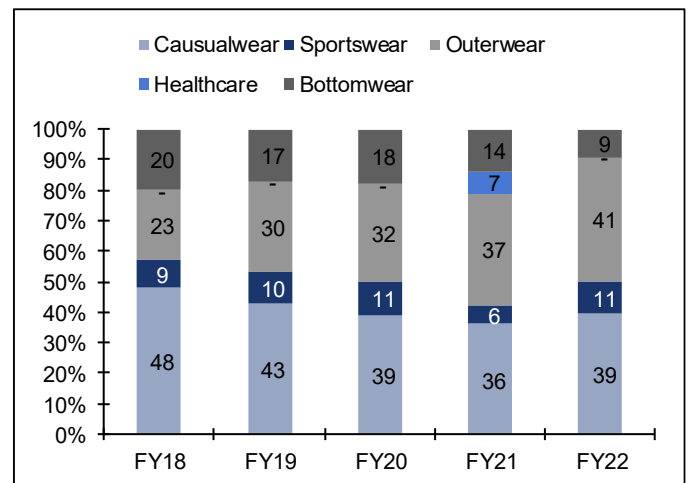
We believe NSR growth would likely be led by higher sales in outerwear (ASP US\$15-20/unit) and sportswear (ASP US\$10-12/unit), which are high yielding compared to casualwear and bottom wear (ASP US\$9-10/unit). Woven apparel consumption is likely to be led by *back to office* pent-up demand.

**Chart 35: Higher realisation driven by higher ASP...**



Source: Company data, I-Sec research

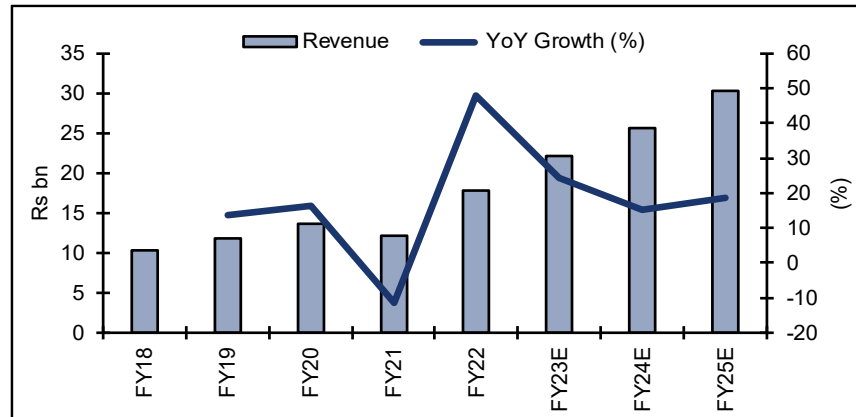
**Chart 36: ...and better-yielding product mix...**



Source: Company data, I-Sec research

With healthy growth in realisations and volumes, we estimate GEXP revenues to register ~19% CAGR over FY22-FY25E and reach ~Rs22bn / Rs26bn / Rs30bn in FY23E / FY24E / FY25E respectively.

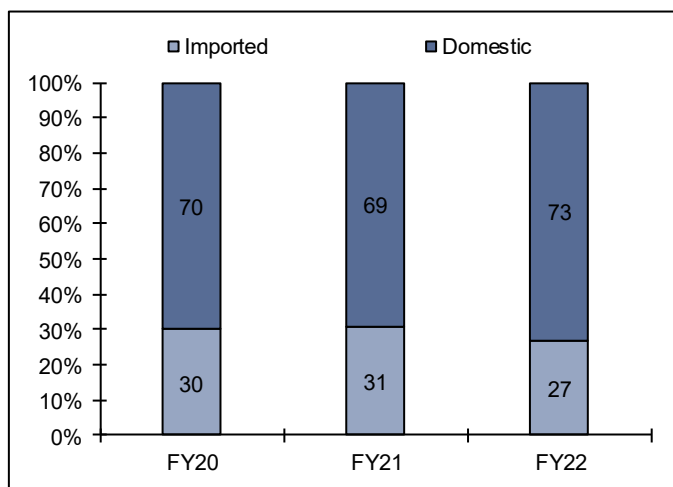
**Chart 37:....resulting in revenue CAGR of ~19% over FY22-FY25E**



Source: Company Data, I-Sec research

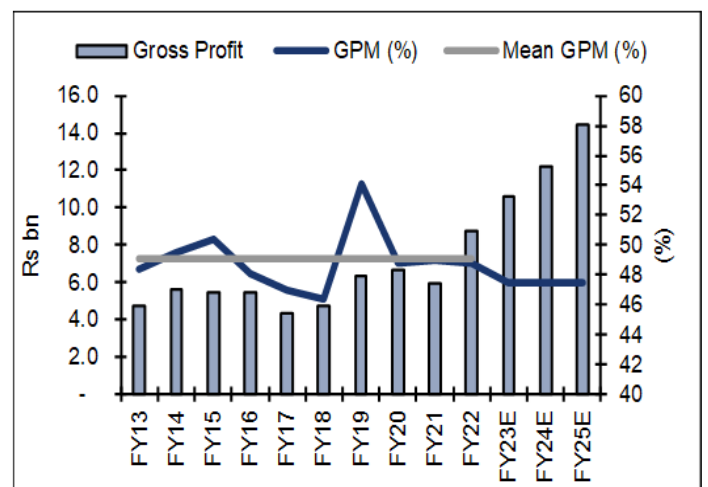
GEXP has maintained 10-year average gross profit margin (GPM) at 49% and, except for 54% in FY19, GPM has been in band of 48-49% each year. Cotton fabric, GEXP’s key input material, is used in manufacturing cotton-based woven garments. These garments account for ~70% of exports revenue, while exports contributed ~90% to GEXP’s overall revenues in FY22. As per management, volatility in cotton prices are passed on to customers, hence the company is able to maintain GPM in a stable range. Going forward, the margin may dip slightly, given GEXP’s focus on garments with greater value-add. Further, domestic sourcing of raw materials stands at 73% and, according to management, GEXP shall increase its domestic procuring as it enhances cost-effective material consumption.

**Chart 38: Domestic sourcing to increase and shall be more cost-effective**



Source: Company data, I-Sec research

**Chart 39: 10-year average gross profit margin (GPM) at 49%**

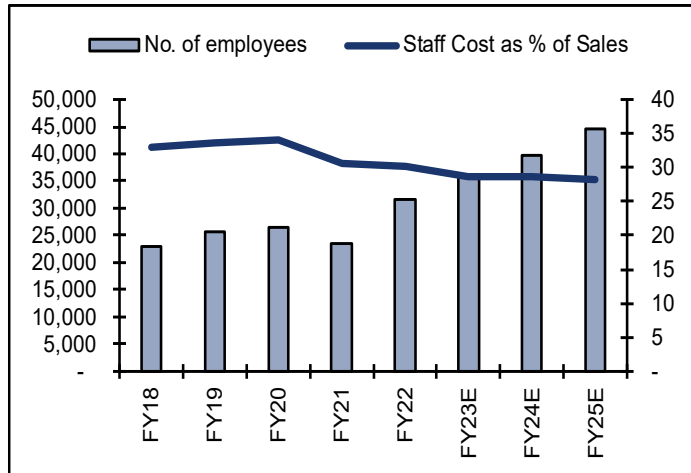


Source: Company Data, I-Sec research

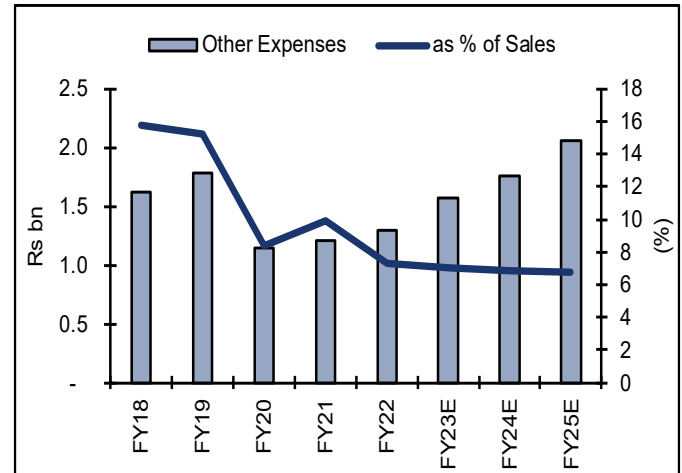
Garment manufacturing is a labour-intensive business (requires ~2,000 employees per factory). GEXP had an employee base of ~31,500 as of FY22 and plans to add 13,000-14,000 by FY25 for the upcoming plants in Madhya Pradesh and Tamil Nadu. Company does not hire labour on contractual basis in order to adhere to strict compliance requirements of its customers. Management estimates staff cost to be 28-29% of sales, going forward. Further, we believe GEXP will likely accrue operating leverage benefits from fixed overheads, in the near future.

**Chart 40: Staff cost shall remain at 28-29% of sales**

**Chart 41: Overheads as % sales shall taper down**



Source: Company data, I-Sec research

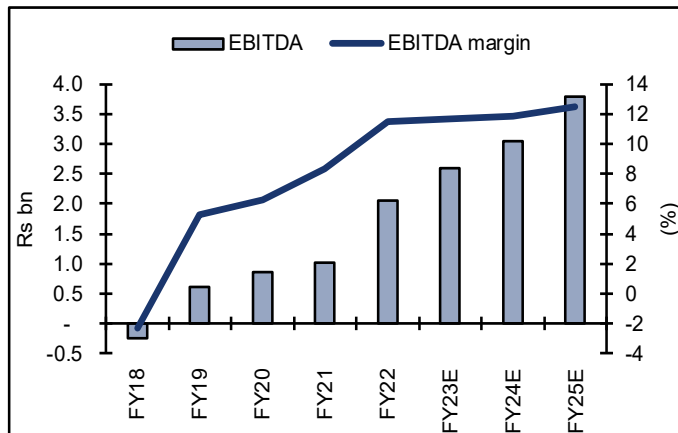


Source: Company Data, I-Sec research

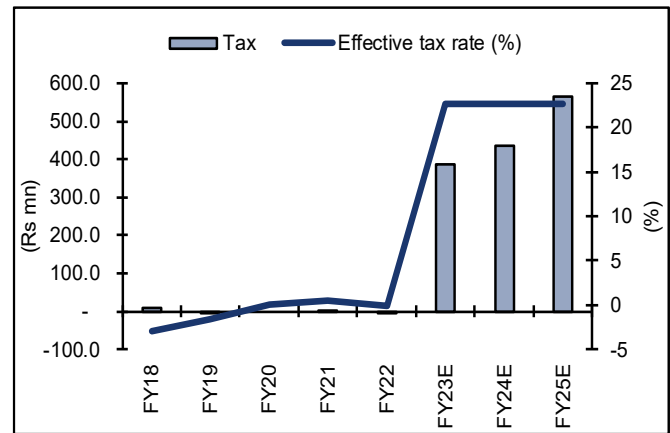
Over the past few years, the new management has cut down on low-margin domestic apparel orders and increased the share of exports. Furthermore, initiatives such as hiring of industrial engineers for improving processes, have enhanced efficiencies and increased focus in the introduction of newer IT solutions to monitor factory productivity. The benefits of these initiatives are visible with the company's EBITDA margin up by ~600bps in past 3 years with EBITDA CAGR at 49% over FY19-FY22. Going ahead, we expect GEXP to continue reaping operating leverage benefits coupled with better ASP for its products. Hence we estimate an EBITDA CAGR of 23% over FY22-FY25E to reach Rs2.6bn / Rs3bn / Rs3.8bn in FY23E/ FY24E / FY25E. EBITDA margin is likely to improve by 100bps to 12.5% by FY25E from 11.5% in FY22.

**Chart 42: Margin to improve by 100bps by FY25E**

**Chart 43: Effective tax rate of 22.6%**



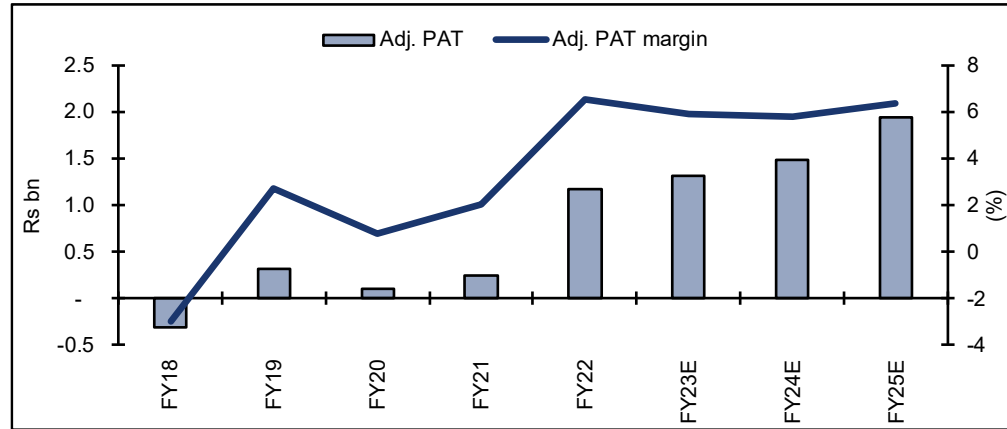
Source: Company data, I-Sec research



Source: Company data, I-Sec research

GEXP has exhausted its tax losses and shall now be taxed at ~25.2%. However, its upcoming knit unit (housed under subsidiary) at Tamil Nadu shall be taxed at ~19.2% leading to a blended effective tax rate fro GEXP at ~22.6%. We estimate adjusted PAT CAGR of ~18% over FY22-FY25E.

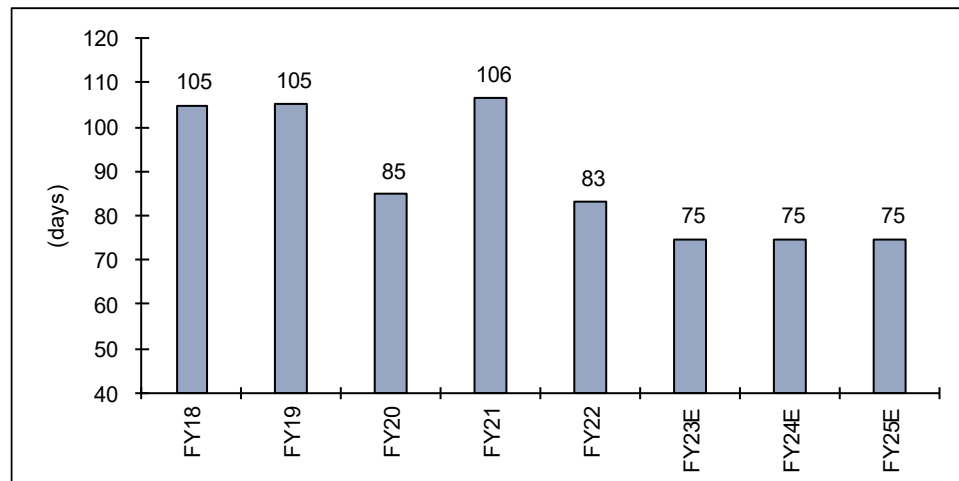
**Chart 44: Adjusted PAT CAGR is estimated at ~18%**



Source: Company data, I-Sec research

GEXP reported a sharp decline in receivable days to 19 days in FY22 from 54 in FY21 owing to better payment terms with the customers leading to decline in overall working capital cycle days. We estimate improvement in the company’s working capital cycle to 75 days from 83 in FY22. As per management, the cycle shall be longer for newly added clients (than existing clients) in order to be competitive. Inventory days are estimated at 80 while receivable and payable days are estimated at ~20 and ~25 respectively.

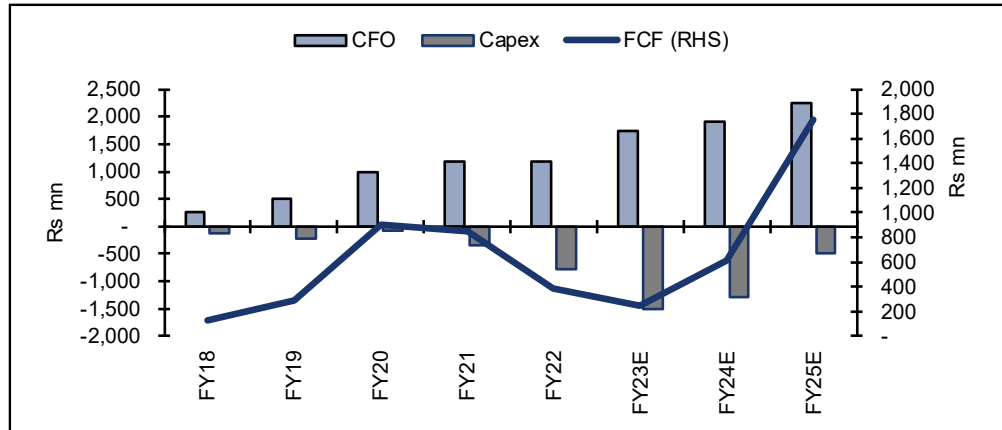
**Chart 45: Working capital cycle estimated at 75 days**



Source: Company data, I-Sec research

Given the strong topline growth and continued focus on controlling opex, we expect GEXP to generate robust operating cashflows (CFO) of ~Rs6bn between FY23E-FY25E. Higher CFO will help it fund future capex through internal accruals and likely dividend payment. We expect FCF of Rs2.6bn between FY23E-FY25E.

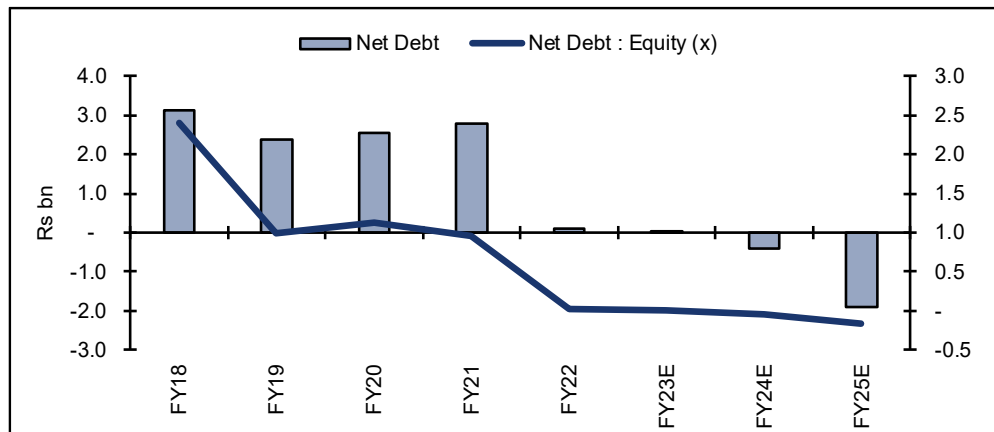
**Chart 46: Robust cashflows to ensure capex funding through internal accruals**



Source: Company data, I-Sec research

GEXP raised Rs3bn via QIP in Oct'21. As a result, its gross debt as of Mar'22 reduced to Rs1.9bn from Rs4.8bn in FY21. We expect the company to turn net-cash early FY24E. Excess cash may be utilised to fund additional capacity or likely dividend payment.

**Chart 47: Company is expected to turn net-cash early FY24E**



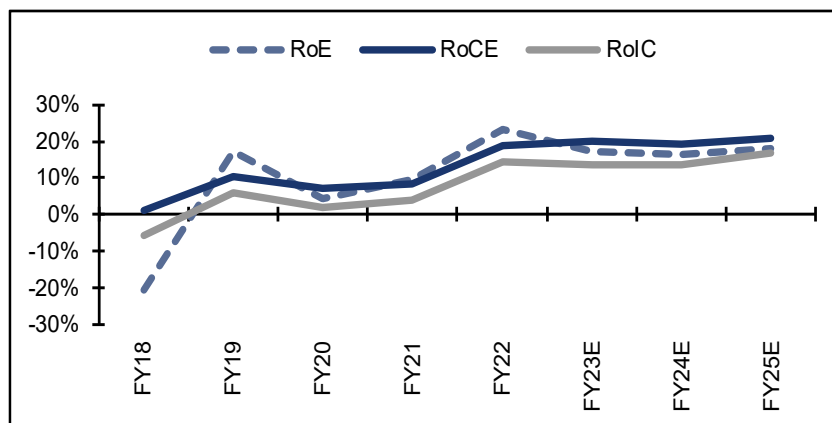
Source: Company data, I-Sec research

Going forward, we expect GEXP's RoE to remain range-bound at 16-18% led by better realisation owing to better-yielding product mix, foray into high-margin knitwear segment, disciplined cost management and ramp-up of newly commissioned units.

Furthermore, we estimate RoCE (pre-tax) between 19-21% over FY23E-FY25E and RoIC to improve to ~17% in FY25E from 14% in FY22.



Chart 48: Stable return ratios



Source: Company data, I-Sec research

Table 4: DuPont analysis

	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
PAT/PBT	1.0	1.0	1.0	1.0	0.8	0.8	0.8
PBT/EBIT	0.5	0.2	0.4	0.7	0.9	0.9	0.9
EBIT/Sales	0.1	0.0	0.0	0.1	0.1	0.1	0.1
Asset Turnover (x)	8.1	6.3	3.7	4.2	4.0	3.7	3.9
Assets/Equity (x)	0.8	0.9	1.3	0.9	0.7	0.8	0.7
<b>RoE (%)</b>	<b>17.2</b>	<b>4.5</b>	<b>9.7</b>	<b>23.5</b>	<b>17.0</b>	<b>16.3</b>	<b>17.8</b>

Source: Company data, I-Sec research

## # Corporate governance

**Table 5: Contingent liability**

(Rs mn)	FY19	FY20	FY21	FY22
Bank Guarantees + Tax Litigation	159	111	58	55
<b>Total</b>	<b>159</b>	<b>111</b>	<b>58</b>	<b>55</b>
<i>% of net worth</i>	7%	5%	2%	1%

Source: Company data, I-Sec research

**Table 6: Other key monitorables**

(Rs mn)	FY19	FY20	FY21	FY22
Remuneration to Directors & KMPs	67	106	84	107
<i>% of PBT</i>	21.2	101.4	31.4	9.2
Auditors Remuneration	3.7	3.1	3.4	3.5
<i>% of PBT</i>	1.2	3.0	1.3	0.3

Source: Company data, I-Sec research

**Table 7: Board independence and structure**

Criterion	
Size of the Board	6
Number of independent directors	2
Number of independent directors having industry experience	2
Is the CEO/MD a member of the compensation committee?	No
Is the CEO /MD the chairman of the compensation committee?	No
Is the CEO/MD a member of the audit committee?	No
Number of independent directors in the audit committee	2
Number of independent directors in the audit committee having experience in accounting	0
Is the CEO/MD the chairman of the Board?	No
Number of years for which the auditor has been the auditing the company?	4
Name of auditor	MSKA & Associates

Source: Company data, I-Sec research

On the sustainability front, GEXP has successfully installed and commissioned a 400 kWp rooftop solar panel at one of its manufacturing units, which has helped offset ~384 tons of CO<sub>2</sub>. The excess power generated is currently being sent to the grid. Further, in order to reduce energy consumption, GEXP has installed variable-frequency drives in compressors. This has enabled reduction of energy consumption by 4% YoY, thereby contributing to reduced carbon footprint as well.

GEXP is actively reducing its dependence on fossil fuels by switching to organic biomass. Company has been able to reduce its diesel consumption by 13% over a period of four years. Furthermore, it has reduced its fabric wastage with improved design and plotting operations.

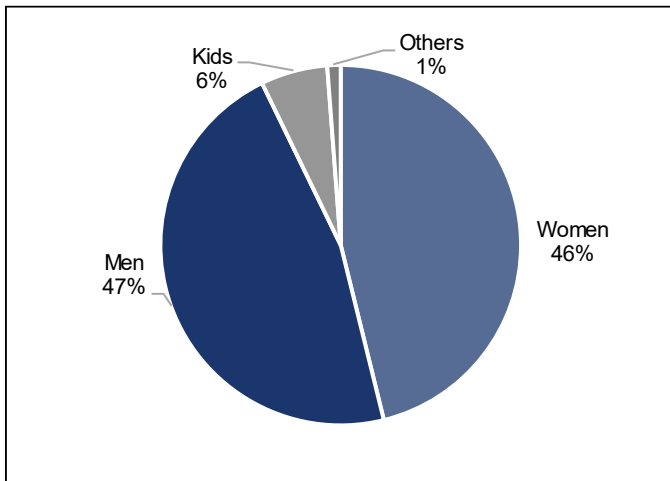
E-flow washing machines have been installed at the company's laundry facilities to reduce water consumption, as well as to reduce chemical consumption and waste water generation. GEXP has also setup a 'zero liquid discharge unit' at one of its manufacturing units.

## Company background

Gokaldas Exports (GEXP) was established as a partnership firm by Mr. Jhamandas H. Hinduja in 1978 and later got converted in a public limited company in 2004. It is engaged in manufacturing and exporting of readymade garments for men (~47% of revenues), women (~46%), and children (~6%) and caters to the needs of several leading international fashion brands and retailers. In FY18, Clear Wealth Consultancy Services LLP, led by Mr. Mathew Cyriac, acquired 39.94% stake in the company from Blackstone FP Capital Partners (Mauritius) VB Subsidiary Ltd, which has reduced to 23.66% post QIP infusion in Oct'21. GEXP has more than 20 manufacturing facilities, primarily in and around Bengaluru.

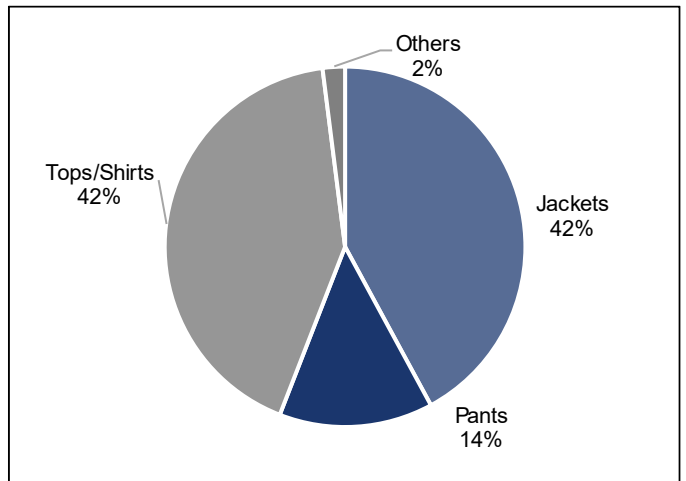
Company's customers include prominent international brands like GAP, Carhartt, Columbia Sportswear, Puma, JC Penney, etc. It generates 89% of its revenues from exports to North America (~84.3% of revenues), Asia (~11.3%), Europe (~4.2%) and the balance from South America, Australia and Africa (~0.2%).

**Chart 49: Product category (% of FY22 revenues)**



Source: Company data, I-Sec research

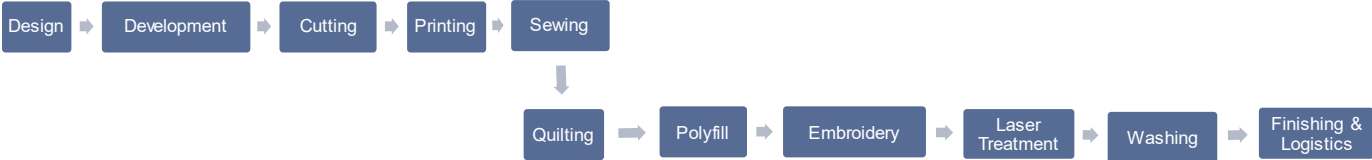
**Chart 50: Product mix (% of FY22 revenues)**



Source: Company data, I-Sec research

### #GEXP's manufacturing value chain

Chart 51: Integrated value chain...



Source: Company data, I-Sec research

Chart 52: ...leading to value-added garments



Source: Company data, I-Sec research

Chart 53: Images of the equipment / stages of garment manufacturing



Source: Company filings, I-Sec research

**Table 8: Plant locations**

<b>Sr. no</b>	<b>Plants</b>	<b>City</b>	<b>State</b>
1	Carnival Clothing Co.	Mysore	Karnataka
2	Euro Clothing Co – I	Bengaluru	Karnataka
3	Global Garments	Tumkur	Karnataka
4	Global Garments – III	Bengaluru	Karnataka
5	Gokaldas India	Bengaluru	Karnataka
6	Hinduja Processing & Finishing Unit	Bengaluru	Karnataka
7	International Clothing Company – I	Chittoor District	Andhra Pradesh
8	Indigo Blues	Doddaballapur	Karnataka
9	J. D. Clothing Company	Bengaluru	Karnataka
10	Sri Krishna Industries	Bengaluru	Karnataka
11	Triangle Apparels – VI	Bengaluru	Karnataka
12	Venkateshwara Clothing Company	Bengaluru	Karnataka
13	Wearcraft Apparels – I	Bengaluru	Karnataka
14	The Wearwel I (Unit of SNS Clothing Pvt Ltd)	Tiptur	Karnataka
15	Gokaldas Exports Ltd – Unit I (Hassan)	Hassan	Karnataka
16	Atlantic Apparels	Mysore	Karnataka
17	Gokaldas Exports Ltd – Unit 3	Tumakuru	Karnataka
18	Gokaldas Exports Ltd – Unit 4	Bengaluru Urban	Karnataka
19	Gokaldas Exports Ltd – Unit 5	Krishnagiri	Tamil Nadu

Source: Company data, I-Sec research

## Experienced and professional-led management team

**Table 9: Key Managerial Personnel**

Name	Designation	Experience
Mr. Mathew Cyriac	Chairman & Non-Executive Director	Is an ex-MD of corporate private equity group of Blackstone India and has rich experience in the investment banking division of Bank of America in India and in the engineering division of Tata Motors. He holds a bachelor's degree in engineering and an MBA from IIM Bangalore.
Mr. Sivaramakrishnan Ganapathi	Executive VC & Managing Director	Has three decades of global experience, leading several high-growth businesses in diverse industries across countries in Asia, North America and Europe. Mr. Ganapathi took over GEXP in Oct'17 as its CEO and MD and has been credited with turning around the organisation.  Prior to joining GEXP, he was the COO of Idea Cellular, which was part of his 21-year long career with the Aditya Birla Group. He has a B. Tech degree from NIT and holds a master degree in management from IIM Bangalore.
Mr. A Sathyamurthy	Chief Financial Officer	Prior to joining GEXP, he worked in manufacturing, FMCG, retail and food processing sectors with organisations like Rajshree Sugars, EID Parry, Perfetti Vanmelle and Aditya Birla Retail. He holds an MBA in finance from Symbiosis University and is a fellow member of Cost and Management Accountants of India.
Mr. Poorna Seenivasan	Executive Director	Has 28+ years of extensive and rich experience in marketing, operations and projects domain coupled with strong network of business relationships. He was earlier associated with Sanghi Spinners, GTN Textiles, Shahi Exports and Scott Garments in various capacities. Mr. Poorna is a Textile Technology professional and is MBA in Marketing from Madurai Kamaraj University.
Mr. Prabhat Kr. Singh	Executive Director	Has more than 35 years of experience in the field of Textiles and manufacturing and held different positions as Development Manager in various promotion councils. He comes with the rich experience in garment manufacturing industry, handled different roles as Head of Projects, Manufacturing Head, Marketing Head & Strategic advisor at different points of time. Mr. Singh is a PG in Business Management from XLRI, Jamshedpur.

Source: Company data, I-Sec research

## Key risks

- **Input cost inflation:** Any significant increase in input cost (cotton and synthetic fibre / fabric) can negatively impact profitability if the company is unable to pass on the inflation to customers.
- **Resurgence of pandemic-related risks:** Increased number of covid cases on a sustained basis in key markets (US and China) can impact demand from these regions and thereby hamper the revenue growth trajectory.
- **Vulnerability of operating margin to volatility in forex rates:** Majority of GEXP's revenues comes from the international market. Further, the company also imports 27% of raw materials from China, Korea and Taiwan. Hence, any sharp fluctuation in forex rates affects realisations/accrual and margins. This exposes the operating margin to fluctuations in forex rates.
- **Changes in incentive policies:** The government of India has provided production and export-related incentives to the textile sector (e.g. RoSCTL, EPCG, advance authorization scheme, duty drawback credit, etc). These incentives could be modified or removed at any time, which could adversely affect GEXP's business / profitability.
- **Concentrated client pool:** GEXP's top-5 customers account for 70-75% of revenues while the largest customer accounts for 20-22%. Any loss of these clients to competition shall lead to lower revenues/margins.
- **Geographic risk:** The US accounts for 75% of GEXP's total sales and ~85% of export sales. Thus, dependence on the US market is high thereby exposing the company to significant geographic concentration risk.

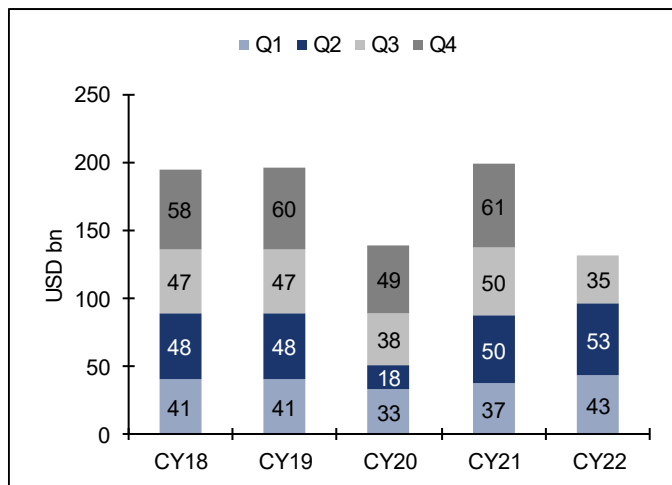


## Appendix

US monthly apparel store sales have been on the rise consistently crossing the pre-covid level. CY22-YTD (Aug) sales was 8.3% higher YoY and 7.9% higher than the 2019 pre-covid level. Retail offtake in the H1CY22 was higher than the H1 of any of the past years. The present trend may slow down in the near term in response to inflation and recessionary sentiment in the US market.

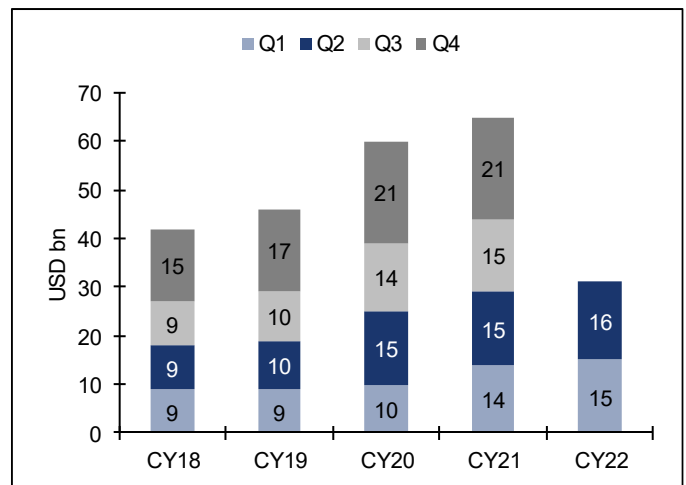
US e-com clothing and accessories sales continues to witness stable growth over a high base. CY22 e-com YTD (Aug) sales witnessed a moderate growth of 7.5% YoY.

**Chart 54: US clothing retail store sales**



Source: Company data, US Census Bureau, I-Sec research

**Chart 55: US e-com clothing sales**

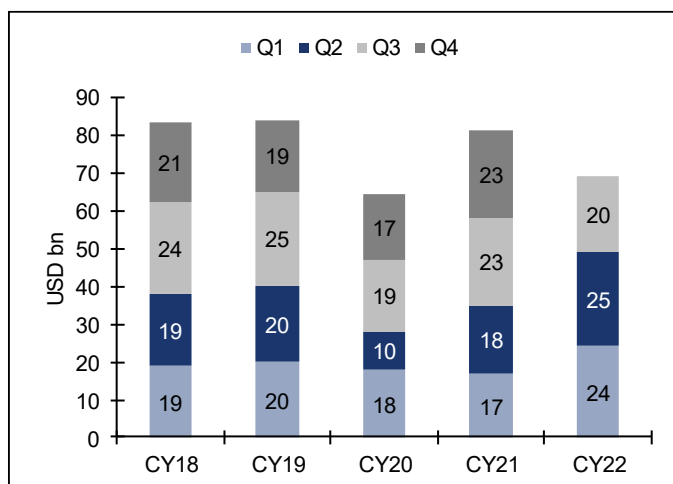


Source: Company data, US Census Bureau, I-Sec research

US apparel imports for CY22-YTD (Aug) higher by 37.4% YoY. Higher inventories and rising inflation may pose a challenge in the near term. India’s share of US apparel imports has increased from 4.3% in CY15 to 5.1% in CY21 and 6.0% in CY22-YTD (Aug) vs 5.3% YoY.

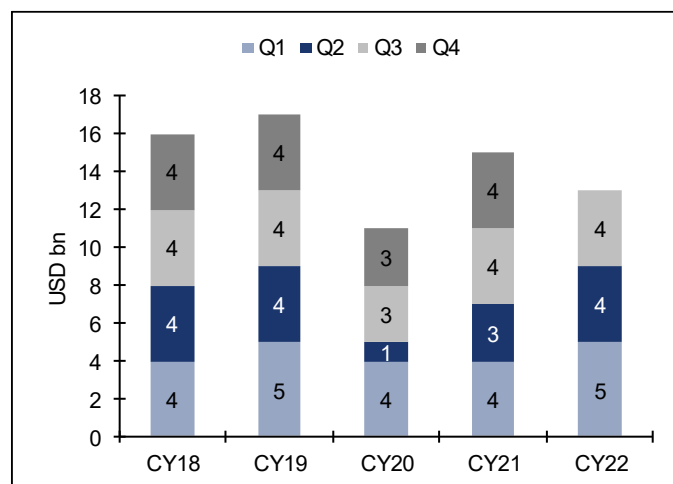
India’s apparel exports grew 14% in the first nine months (Jan-Sep’22) to US\$13bn compared to US\$11.4bn YoY.

**Chart 56: US apparel imports**



Source: Company data, US Census Bureau, I-Sec research

**Chart 57: India apparel exports**



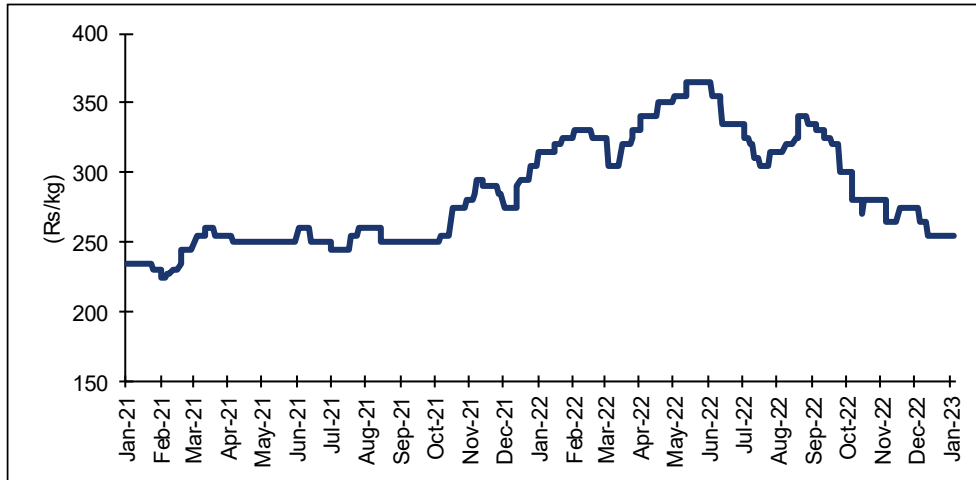
Source: Company data, US Census Bureau, I-Sec research

**Table 10: FTAs/Agreements signed by Gol in past five years**

Sr. No.	Name of the Agreement
1	India-Sri Lanka Free Trade Agreement (FTA)
2	Agreement on South Asian Free Trade Area (SAFTA) (India, Pakistan, Nepal, Sri Lanka, Bangladesh, Bhutan, the Maldives and Afghanistan)
3	India-Nepal Treaty of Trade
4	India-Bhutan Agreement on Trade, Commerce and Transit
5	India-Thailand FTA - Early Harvest Scheme (EHS)
6	India-Singapore Comprehensive Economic Cooperation Agreement (CECA)
7	India-ASEAN CECA - Trade in Goods, Services and Investment Agreement (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam)
8	India-South Korea Comprehensive Economic Partnership Agreement (CEPA)
9	India-Japan CEPA
10	India-Malaysia CECA
11	India-Mauritius Comprehensive Economic Cooperation and Partnership Agreement (CECPA)
12	India-UAE CEPA (*)
13	India-Australia Economic Cooperation and Trade Agreement (ECTA)

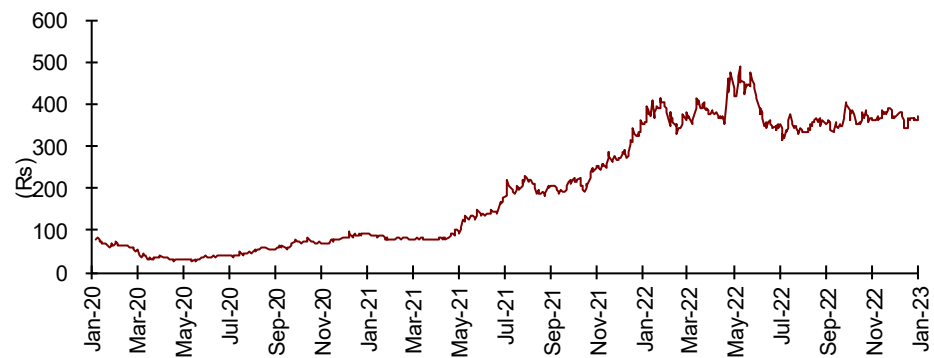
Source: Ministry of Commerce & Industry, I-Sec research

**Chart 58: Cotton yarn (30-count) prices down ~30% from its peak in Jun'22**



Source: Bloomberg, I-Sec research

**Price chart**



Source: Bloomberg

## Financial summary – Consolidated

Table 11: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Operating Income (Sales)</b>	17,903	22,232	25,651	30,398
Operating Expenses	15,848	19,631	22,602	26,605
<b>EBITDA</b>	<b>2,055</b>	<b>2,602</b>	<b>3,049</b>	<b>3,793</b>
% margin	11.5	11.7	11.9	12.5
Depreciation & Amortisation	589	732	925	1,044
Gross Interest	402	266	304	352
Other Income	107	103	106	109
<b>Recurring PBT</b>	<b>1,170</b>	<b>1,706</b>	<b>1,926</b>	<b>2,506</b>
Add: Extraordinaries	-	61	-	-
Less: Taxes	-0	386	435	566
<b>Net Income (Reported)</b>	<b>1,171</b>	<b>1,381</b>	<b>1,491</b>	<b>1,940</b>
<b>Recurring Net Income</b>	<b>1,171</b>	<b>1,320</b>	<b>1,491</b>	<b>1,940</b>

Source: Company data, I-Sec research

Table 12: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Assets</b>				
Total Current Assets	7,429	8,813	10,314	13,179
Current Liab. & Prov.	3,101	3,386	3,611	3,923
<b>Net Current Assets</b>	<b>4,328</b>	<b>5,427</b>	<b>6,704</b>	<b>9,256</b>
<b>Investments of which</b>	<b>1,694</b>	<b>1,556</b>	<b>1,796</b>	<b>2,128</b>
Marketable	1,545	1,545	1,545	1,545
<b>Net Fixed Assets*</b>	<b>2,989</b>	<b>3,757</b>	<b>4,132</b>	<b>3,587</b>
of which				
CWIP	110	-	-	-
<b>Total Assets</b>	<b>9,012</b>	<b>10,740</b>	<b>12,631</b>	<b>14,971</b>
of which cash & cash equivalents	127	751	1,327	2,907
<b>Liabilities</b>				
<b>Borrowings</b>	<b>1,930</b>	<b>2,330</b>	<b>2,730</b>	<b>3,130</b>
Equity Share Capital	295	303	303	303
Face value per share (Rs)	5	5	5	5
Reserves & Surplus	6,787	8,107	9,598	11,538
<b>Net Worth</b>	<b>7,082</b>	<b>8,410</b>	<b>9,901</b>	<b>11,840</b>
<b>Total Liabilities</b>	<b>9,012</b>	<b>10,740</b>	<b>12,631</b>	<b>14,971</b>

Source: Company data, I-Sec research

Table 13: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Operating Cashflow</b>	<b>1,922</b>	<b>2,216</b>	<b>2,614</b>	<b>3,227</b>
Working Capital changes	-750	-475	-700	-972
Capital Commitments	-782	-1,500	-1,300	-500
<b>Net Operating FCF</b>	<b>390</b>	<b>242</b>	<b>614</b>	<b>1,755</b>
<b>Investing Activities</b>	<b>259</b>	<b>241</b>	<b>-134</b>	<b>-223</b>
Issue of Share Capital	2,926	8	-	-
Buyback of shares	-	-	-	-
Inc(Dec) in Borrowings	-2,771	400	400	400
Dividend paid	-	-	-	-
Others	-585	-266	-304	-352
<b>Extraordinary Items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank</b>	<b>219</b>	<b>624</b>	<b>576</b>	<b>1,579</b>

Source: Company data, I-Sec research

Table 14: Key ratios

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
<b>Per Share Data (Rs)</b>				
EPS(Basic)	20	22	25	32
Diluted Recurring EPS	20	22	25	32
Diluted Recurring CEPS	30	34	40	49
Dividend per share	-	-	-	-
Book Value	120	139	163	195
<b>Growth Ratios (% YoY)</b>				
Operating Income	48	24	15	19
EBITDA	102	27	17	24
Recurring Net Income	369	13	13	30
Diluted Recurring EPS	241	10	13	30
Diluted Recurring CEPS	65	14	18	24
<b>Valuation Ratios (x)</b>				
P/E	19	17	15	12
P/CEPS	12	11	9	8
P/BV	3	3	2	2
EV / EBITDA	11	9	7	5
EV / Sales	1	1	1	1
EV / Operating FCF	56	93	36	12
<b>Operating Ratios (%)</b>				
Raw Material / Sales	51	53	53	53
Other Income / PBT	9	6	5	4
Effective Tax Rate	-0	23	23	23
Core NWC / Total Assets	45	42	42	42
Inventory (days)	88	80	80	80
Receivables (days)	19	19	19	19
Payable (days)	24	24	24	24
Net D/E Ratio (x)	0.0	0.0	-0.0	-0.2
<b>Profitability Ratios (%)</b>				
Rec. Net Income Margins	7	6	6	6
RoCE	19	20	19	21
RoNW	23	17	16	18
Dividend Payout	-	-	-	-

Source: Company data, I-Sec research

## Index of Tables and Charts

### Tables

Table 1: P/E-based target price of Rs560/sh.....	5
Table 2: Comparative valuation^ vs peers.....	6
Table 3: Consensus Estimates.....	6
Table 4: DuPont analysis.....	25
Table 5: Contingent liability.....	26
Table 6: Other key monitorables.....	26
Table 7: Board independence and structure.....	26
Table 8: Plant locations.....	30
Table 9: Key Managerial Personnel.....	31
Table 10: FTAs/Agreements signed by Gol in past five years.....	34
Table 11: Profit and Loss statement.....	36
Table 12: Balance sheet.....	36
Table 13: Cashflow statement.....	36
Table 14: Key ratios.....	36

### Charts

Chart 1: China world apparel exports share.....	4
Chart 2: India apparel exports.....	4
Chart 3: Capex of ~Rs3bn over FY23-25E.....	4
Chart 4: Revenue CAGR at ~19% expected over FY22-FY25E.....	4
Chart 5: Margin to improve by 100bps by FY25E.....	4
Chart 6: Return ratios likely to remain stable.....	4
Chart 7: Trading at a 1-year forward P/E of ~15x.....	5
Chart 8: Major apparel exporting countries in CY20.....	7
Chart 9: China world apparel exports share.....	7
Chart 10: Ageing labour in China vs India.....	7
Chart 11: Average labour cost in EMEs vs China.....	7
Chart 12: Brands' procurement from China as a % of their overall procurement.....	8
Chart 13: Increasing dominance of emerging market economies in global apparel export market particularly Vietnam and Bangladesh.....	8
Chart 14: India's apparel exports.....	9
Chart 15: India's textile & apparel exports.....	9
Chart 16: India's top T&A markets (% value share) as on H1FY22.....	9
Chart 17: Top import countries of the US (without PPE kits).....	10
Chart 18: GEXP's export incentives as % of garment sales.....	12
Chart 19: Cumulative capex of ~Rs3bn over FY19-FY22.....	13
Chart 20: GEXP's garment production capacity to rise by ~50% in next 2 years.....	14
Chart 21: Capex of ~Rs3bn over FY23-25E.....	14
Chart 22: ...of which 45% will be for knitwear unit.....	14
Chart 23: 43% of FY22 revenues came from customers associated for >10 years.....	15
Chart 24: ...and 15% of revenues came from customers with association of <5 years.....	15
Chart 25: In-bound supply chain efficiency.....	16
Chart 26: Outbound supply chain efficiency.....	16
Chart 27: In FY22, 35% of high-value customers.....	16
Chart 28: ...accounted for 80% of revenues.....	16
Chart 29: Higher domestic sourcing allows faster servicing.....	17
Chart 30: Wallet share of top-3 customers.....	17
Chart 31: Established relationship with marquee brands.....	18
Chart 32: Share of knits and wovens in global apparel exports.....	19
Chart 33: Expect volume CAGR of ~12% over FY22-FY25E.....	20
Chart 34: ...and realisation CAGR of ~7% during the same period.....	20

Chart 35: Higher realisation driven by higher ASP...	20
Chart 36: ...and better-yielding product mix.....	20
Chart 37: ...resulting in revenue CAGR of ~19% over FY22-FY25E .....	21
Chart 38: Domestic sourcing to increase and shall be more cost-effective.....	21
Chart 39: 10-year average gross profit margin (GPM) at 49% .....	21
Chart 40: Staff cost shall remain at 28-29% of sales.....	22
Chart 41: Overheads as % sales shall taper down.....	22
Chart 42: Margin to improve by 100bps by FY25E.....	22
Chart 43: Effective tax rate of 22.6% .....	22
Chart 44: Adjusted PAT CAGR is estimated at ~18% .....	23
Chart 45: Working capital cycle estimated at 75 days.....	23
Chart 46: Robust cashflows to ensure capex funding through internal accruals.....	24
Chart 47: Company is expected to turn net-cash early FY24E .....	24
Chart 48: Stable return ratios.....	25
Chart 49: Product category (% of FY22 revenues).....	27
Chart 50: Product mix (% of FY22 revenues).....	27
Chart 51: Integrated value chain... ..	28
Chart 52: ...leading to value-added garments.....	28
Chart 53: Images of the equipment / stages of garment manufacturing .....	29
Chart 54: US clothing retail store sales .....	33
Chart 55: US e-com clothing sales .....	33
Chart 56: US apparel imports .....	34
Chart 57: India apparel exports .....	34
Chart 58: Cotton yarn (30-count) prices down ~30% from its peak in Jun'22 .....	35

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)  
**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

#### ANALYST CERTIFICATION

I/We, Harsh Mittal, MBA, CFA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

#### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report. ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.