



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral - Negative

## ESG Disclosure Score

NEW

ESG RISK RATING  
Updated May 08, 2023

20.94

## Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

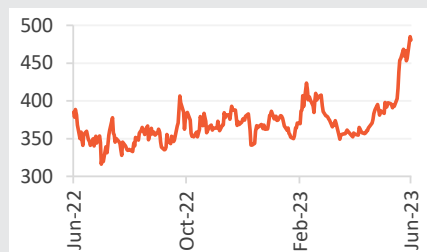
## Company details

Market cap:	Rs. 2,899 cr
52-week high/low:	Rs. 497/301
NSE volume: (No of shares)	3.2 lakh
BSE code:	532630
NSE code:	GOKEX
Free float: (No of shares)	5.4 cr

## Shareholding (%)

Promoters	11.1
FII	18.2
DII	31.4
Others	39.4

## Price chart



Source: Sharekhan Research

## Price performance

(%)	1m	3m	6m	12m
Absolute	25.3	27.1	27.7	24.9
Relative to Sensex	24.1	17.4	26.8	5.5

Source: Sharekhan Research, Bloomberg

## Textiles

## Sharekhan code: GOKEX

## Reco/View: Buy

CMP: Rs. 478

Price Target: Rs. 635



Upgrade



Maintain



Downgrade

## Summary

- We initiate coverage on Gokaldas Exports (GKEL) with a Buy assigning a target price of Rs. 635. Stock trades at 18x/14x its FY24E/FY25E earnings.
- Investment on capacity expansion, a better product mix and sustained client additions will help the company post double-digit earnings growth (PBT CAGR at 20% over FY23-25E) riding on favorable industry tailwinds in the medium to long run.
- Capex of ~Rs. 370 crore over FY22-24E is expected to generate revenues of Rs. 1,100-1,300 crore (asset-turnover at ~3.0-3.5x). EBITDA margins would consistently improve in the coming years.
- The company is likely to generate cumulative FCF of close to Rs. 180 crore over the next two years; RoCE will stand high at ~24% versus 22.5% in FY23.

Gokaldas Exports Ltd (GKEL) is one of India's largest integrated apparel manufacturers with manufacturing capacity of 36 million pieces per annum. It caters to eminent international customers across over 50 countries. After a management change in FY2018, the company has transformed itself into one of the strongest partners for global retailers by improving on-time delivery to customers, augmenting supply chain of key inputs, expanding capacities and increasing the focus on product quality, which helped lower rejections by ~1.5%. The company's efforts yielded strong results with revenues and PAT clocking a CAGR of 17% and 54% over FY19-23 (EBITDA margins rose to 11.9% in FY23 from 5.3% in FY19). With strong operating performance, improved working capital management and a QIP issue of Rs. 300 crore, the company reduced debt on books. It has made itself future ready by planning to invest ~Rs. 370 crore in capacity expansion (over FY22-24E) and improving product mix (outer wear share expanding). Revenues and PBT are expected to post a CAGR of 17% and 20% over FY2023-25E (tax rate to normalize in FY24).

- Expanding capacities to help grab large chunk of growth pie:** GKEL has planned to invest Rs. 370 crore to unlock capacity in existing facilities, upgrade machinery for productivity and ensure optimal capacity utilization. This step would add incremental revenues of Rs. 1,100-1,300 crore at asset turnover of ~3-3.5x. A new facility in Madhya Pradesh would add Rs. 50 crore to revenues in FY2024 while a new unit of knitted garments would add Rs. 300 crore incremental revenues in FY2025E.
- Trust established with eminent global brands; higher revenue contribution from new customers:** GKEL prioritized its focus on providing a seamless customer experience and dedicated in building and maintaining long-lasting relationships with its clients. The company has added several new clients in the last five years. Around 12% of clients added in the last five years are contributing 16% of revenues, improved from ~4% in FY19. Around 85% of the company's revenues is generated from US market. This happened on the back of better distribution of capacity and improved utilization in the past few years.
- Demand pick-up, capacity expansion to drive growth in FY2024 and FY2025:** GKEL's H2FY2023 performance was affected by muted demand conditions in international markets and liquidation of excess inventory by major brands. With excess inventory depleting, the management is confident of demand recovery from Q3FY2024. Thus, revenues are expected to grow in low double digits in FY2024, while with stable demand environment and expanded capacities, revenues are expected to grow by over 20% in FY2025. The long-term prospects for the industry remain intact with a continuing of global sourcing away from China, supplier consolidation towards efficient and well-capitalised players, and supply-side instabilities in several countries.

## Our Call

**View – Initiate coverage with Buy; assign PT of Rs. 635:** GKEL has transformed itself into a large integrated apparel manufacturer in India in past 3-4 years. Revamped focus of top management, enhanced capacities, a better product mix aided in adding new clients and helped in gaining share in key exports markets such as the US. The company registered a strong earnings CAGR of 50%+ in the last five years. It is now focusing on next league of growth by expanding capacities to grab opportunities of industry tailwinds such as China + 1 strategy and likely signing of an FTA with the UK. Thus, we expect the double-digit earning growth trajectory to sustain, which will help in improving cash flows and return profile over the next three to four year. The stock is trading at attractive valuation of 17.8x and 13.5x its FY2024E and FY2025E EPS. We initiate coverage on the stock with Buy recommendation assigning a price target of Rs. 635.

## Key Risks

Any shift of top clients to domestic or international clients, sustained slowdown in some of the key international markets or a sharp rise in key input prices will act as a risk to earnings estimates.

## Valuation (consolidated)

Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenues	1,790	2,222	2,456	3,033
EBITDA margin (%)	10.3	11.9	12.0	12.4
Adjusted PAT	117	168	162	214
% YoY growth	-	43.6	-3.4	31.9
Adjusted EPS (Rs.)	19.9	27.8	26.8	35.4
P/E (x)	24.1	17.2	17.8	13.5
P/B (x)	4.0	3.3	2.8	2.3
EV/EBITDA (x)	15.4	10.2	8.8	6.6
RoNW (%)	23.5	21.7	16.8	18.7
RoCE (%)	19.2	22.5	21.4	23.7

Source: Company; Sharekhan estimates

## Executive Summary

### 3R Research Positioning Summary

- **Right Sector:** China +1 strategy, likely FTA with UK and Europe, uncertainties in neighbouring export countries coupled with supportive government policies will create log-term growth opportunities in the coming years.
- **Right Quality:** Integrated apparel manufacturer to deliver double-digit earnings growth driven by investment in expanding capacities, improved product mix and sustained client addition.
- **Right Valuation:** Riding on industry tailwinds and strong internal drivers, double-digit earnings growth trajectory is expected to sustain, making it one of the better investment option in the textile space.

### Valuation and return potential

- **Valuations:** The stock is currently trading at attractive valuation of 18x/14x its FY24E/FY25E earnings.
- **Valuation will consistently improve ahead:** With transformation into large integrated apparel exports along with potential opportunities in the key export markets, GKEL is expected to post consistent performance in the medium to long run, which will further improve the valuations ahead.

### Catalysts

#### Long-term triggers

- Industry tailwinds in the form of global sourcing away from China, supplier consolidation towards efficient and well-capitalized players, likely signing of the FTA with UK and supply-side instabilities in several countries.
- Gaining market share in key export markets by adding new clients with focus on revamped focus of top management, enhanced capacities and improved product mix.

#### Medium-term triggers

- Capex of ~Rs. 370 crore over FY22-24E is expected to generate revenues of Rs. 1,100-1,300 crore (asset-turnover ~3.0-3.5x).
- Revenues are expected to grow in low double-digits in FY2024, while with stable demand and expanded capacities, revenues are expected to grow by over 20% in FY2025.

**Key Risks:** Any shift of top clients to domestic or international clients, sustained slowdown in some of the key international markets or a sharp rise in key input prices will act as a risk to earnings estimates.

### Earnings and Balance sheet highlights

- **Consistent earnings growth:** GKEL's revenues and PBT are expected to grow at a CAGR of 17% and 20% over FY2023-25E.
- **Strong growth levers:** Investment in expanding capacities, improved product mix and sustained addition of new clients will be key growth levers in the medium term.
- **Strong FCF generation; RoCE to improve:** The company is likely to generate cumulative FCF of close to Rs. 180 crore over the next two years; RoCE will stand high at ~24% vs. 22.5% in FY23.

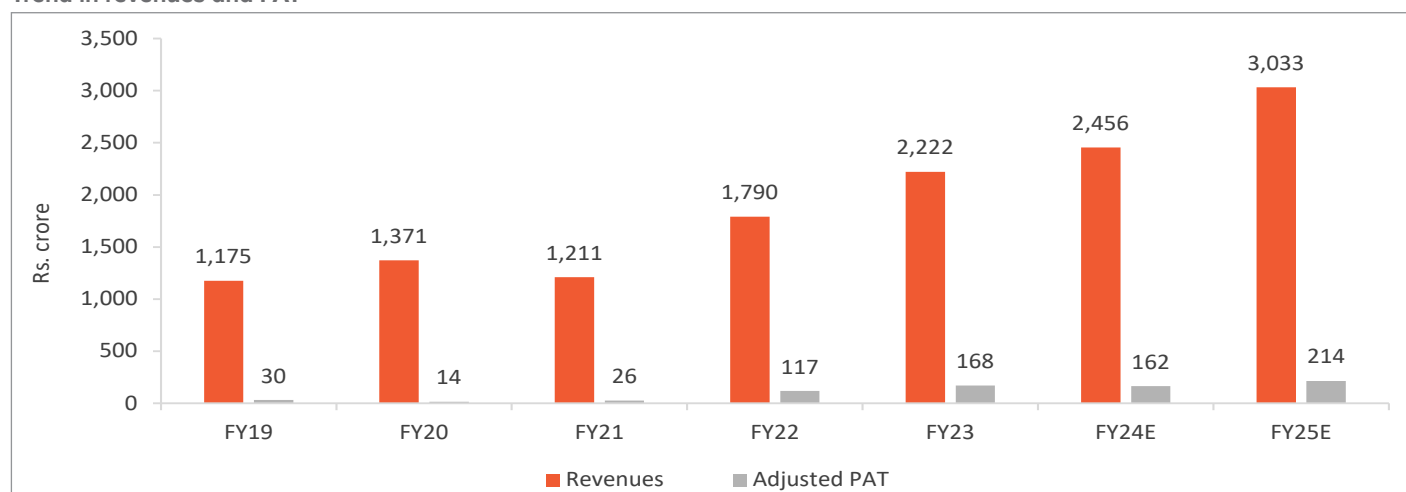
## Why we like the company

**GKEL is one of India's largest integrated apparel manufacturers with manufacturing capacity of 36 million pieces per annum. After a management change in FY2018, the company has transformed itself into one of the strongest partners for global retailers resulting in stark improvement in its financials with revenues/PAT growing at CAGR of 17%/54% over FY19-23 and became Net cash Positive. With strong expansion and potential opportunities in the export markets, the company is gearing up for next league of growth in the coming years.**

### Transformed itself into integrated textile player

After a management change in FY2018, the company has transformed itself into one of the top integrated textile players focusing on operational excellence, strengthening customer relationships, improving business infrastructure and low-cost capacity addition. The company worked hard on improving its on-time delivery performance for customers through a deep focus on operational excellence. This improvement was achieved by a deep understanding of the interplay of various processes. GKEL standardised process flows, augmented supply chains and made strides in controlling raw material consumption. Besides, it focused on process effectiveness by getting a number of subprocesses and functions right and reducing product rejections. GKEL's supply chain efficiency improved considerably over the years from lows ~50% of orders to 75%+ after the year of transformation. Investments in superior industrial engineering, people-practice and automation led to 3% improvement in productivity cost. A relentless focus on product quality helped reducing rejections by ~1.5%. Efforts put in have provided strong results with revenues and PAT growing at CAGR of 17% and 54% over FY19-23 (EBITDA margins expanded to 11.9% in FY23 from 5.3% in FY19).

### Trend in revenues and PAT

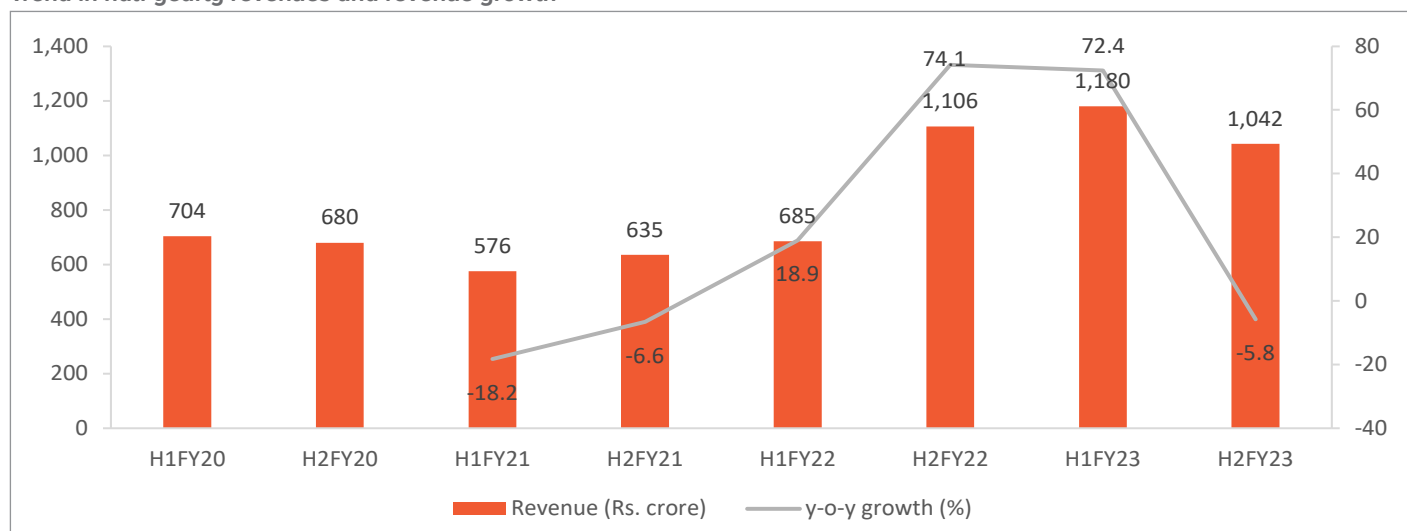


Source: Company; Sharekhan Research

### Demand pick-up, capacity expansion to drive growth in FY2024 and FY2025

FY2023 started with strong revenue and profit growth resulting from a robust order book and effective capacity utilization. In H1FY2023, the company's revenues grew by 72% y-o-y. H2FY2023 performance was affected by muted demand in international markets and a conscious effort by major brands in liquidating excess inventory. Its revenues decreased by 5.8% y-o-y in H2FY2023. Overall, in FY2023, GKEL's revenues grew by 24% y-o-y as against industry growth of 1%, which suggests market share gains in key markets. There are some customers who have liquidated inventories and are quite hopeful of demand picking up from next spring season in 2024. Such clients have hinted of coming back and are likely to start buying from Q3FY2024 (will be building inventory for spring season). General consensus suggest that the strong recovery should happen by Q4FY2024 before the start of summer season 2024. With some of the brands having fully liquidated the inventory and some on the verge of liquidating in next two quarters, management is confident of demand recovery from Q3FY2024. Thus, GKEL's revenues are expected to grow in low double-digits of 10-12% in FY2024. However, with recovery in demand of key international markets and expanded capacity, the management is confident of achieving a ~20% growth in FY2025E. The long-term prospects for the industry remain intact with a continuing shift of global sourcing away from China, supplier consolidation towards efficient and well-capitalized players, and supply-side instabilities in several countries.

### Trend in half yearly revenues and revenue growth

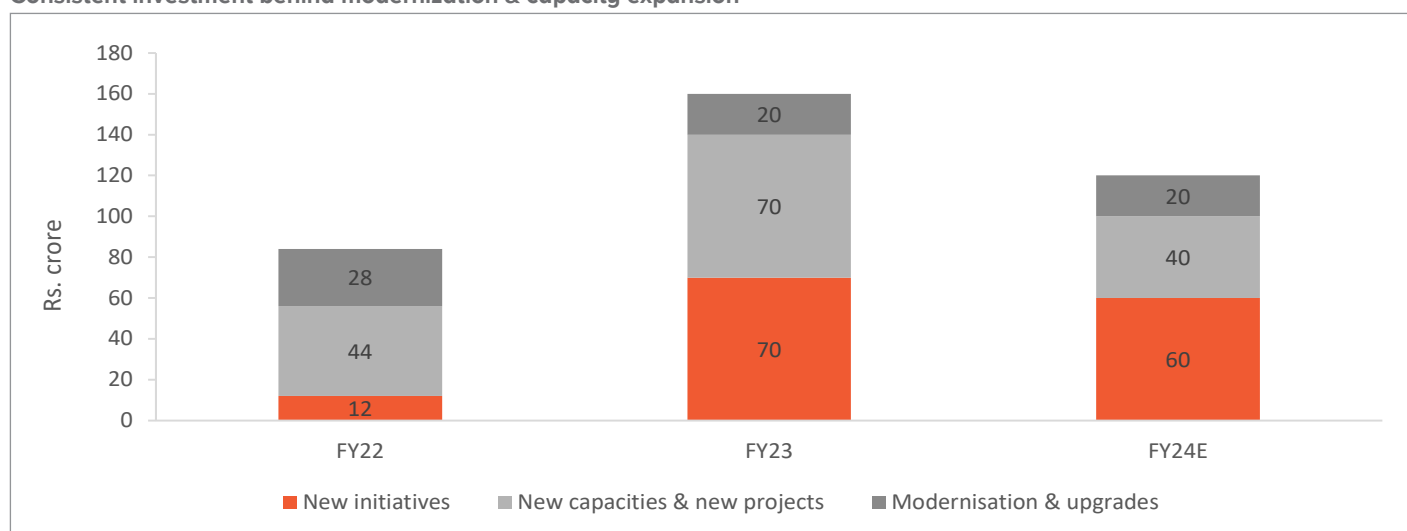


Source: Company; Sharekhan Research

### Expanding capacities to grab large pie in growing opportunities

GKEL plans to invest Rs. 370 crore to unlock capacity in its existing facilities, upgrade machinery for productivity and ensure optimal utilization of capacity. This investment in new capacities would add incremental revenues of Rs. 1,100-1,300 crore at asset turnover of ~3-3.5x. In FY2023, the company invested Rs. 160 crore towards setting up a new greenfield project in Madhya Pradesh and backward integration in fabric processing for knitted garments. The MP capacity started on pilot phase in Q4FY2023 and commercial production will begin from Q1FY2024. It will add incremental revenues of Rs. 50 crore in FY2024E. Addition of a knitted garment facility in Tamil Nadu (capex of Rs. 75-100 crore) will help in generating incremental revenues of Rs. 300 crore in FY2025E. Overall capacity is expected to go up by 1.5x over the next two years. The company is also planning to enter into a joint venture to make an investment in Bangladesh to explore export opportunities there. GKEL is planning to make an investment of Rs. 35-50 crore for setting up the own facility. However, at present, the company is manufacturing through leased facilities and revenue generation from this operation is expected from Q2FY2024.

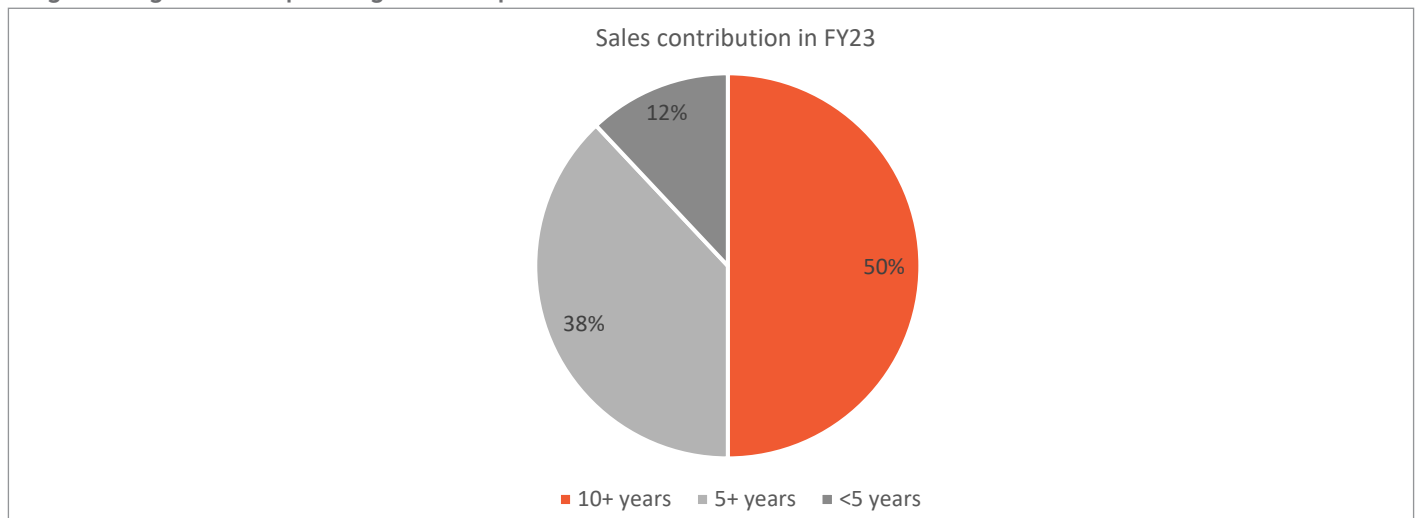
### Consistent investment behind modernization & capacity expansion



Source: Company; Sharekhan Research

**Trust established with eminent global brands; revenue contribution from customer added increased GKEL** prioritised its focus on providing a seamless customer experience and dedicated in building and maintaining long-lasting relationships with its clients. Over the years, it innovated and upskilled its production capabilities to ensure that its clients remain satisfied with the products. The company has added several new clients in the last five years. It has a strong relationship of over 10 years with 50% of its existing clients. Around 12% of clients added in the last five years are contributing 16% of revenues, improved from ~4% in FY2019. This happened on the back of better distribution of capacity and improved utilization in the past few years.

#### Long standing relationships with global marquee brands



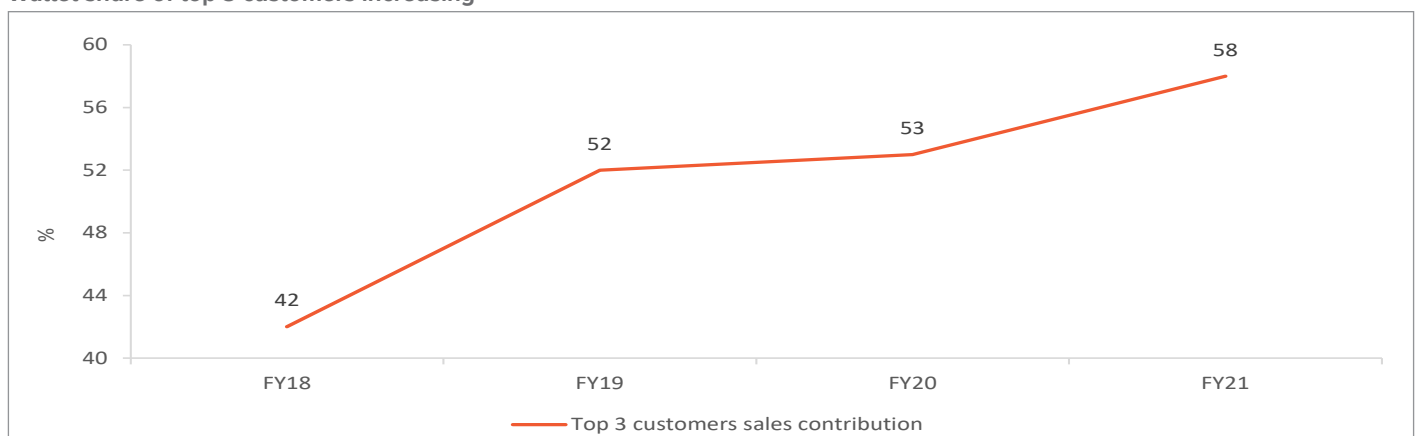
Source: Company; Sharekhan Research

#### Increased revenue contribution from customers added in last 5 years



Source: Company; Sharekhan Research

#### Wallet share of top 3 customers increasing

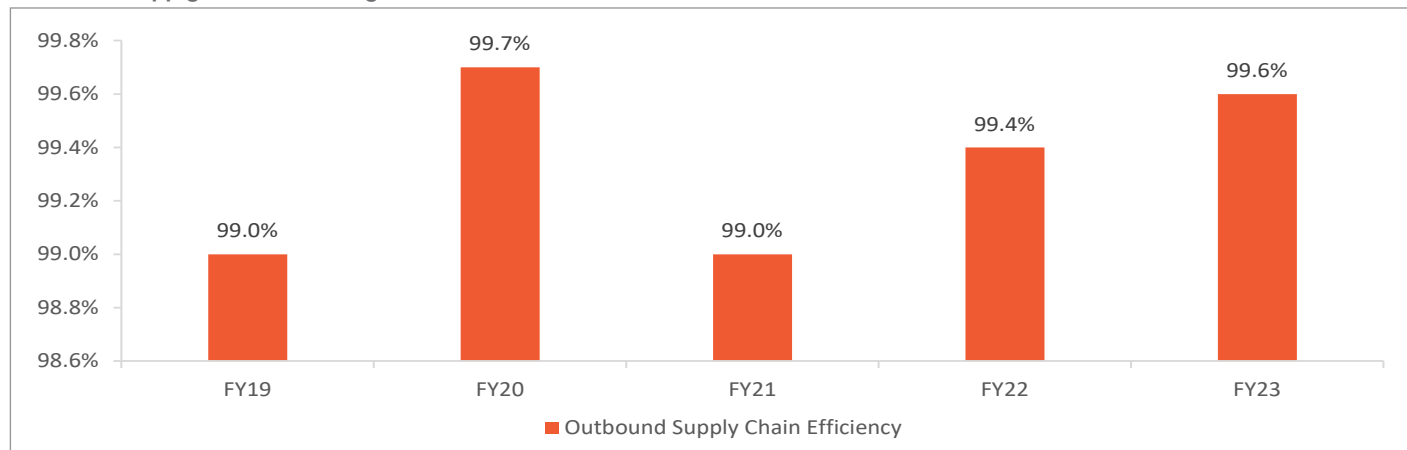


Source: Company; Sharekhan Research

## Strong inbound - outbound supply chain efficiency

The company consistently shipped on time, thereby demonstrating its commitment to service excellence to its clients. This strong performance in client-serving metrics makes GKEL the preferred choice of partner for brands across the globe.

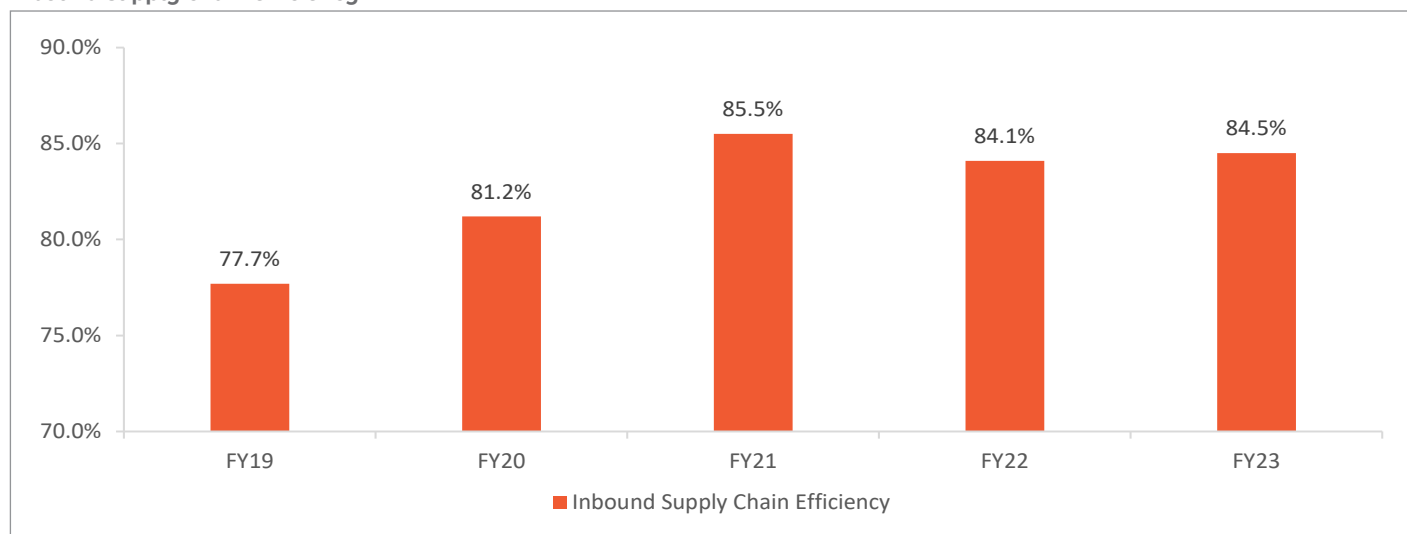
### Outbound supply chain efficiency



Source: Company; Sharekhan Research

On-time receipt of raw materials from various suppliers internationally is critical to ensure on-time delivery of finished goods. Supply chain disruptions were rampant in FY2022, limiting further improvement.

### Inbound supply chain efficiency

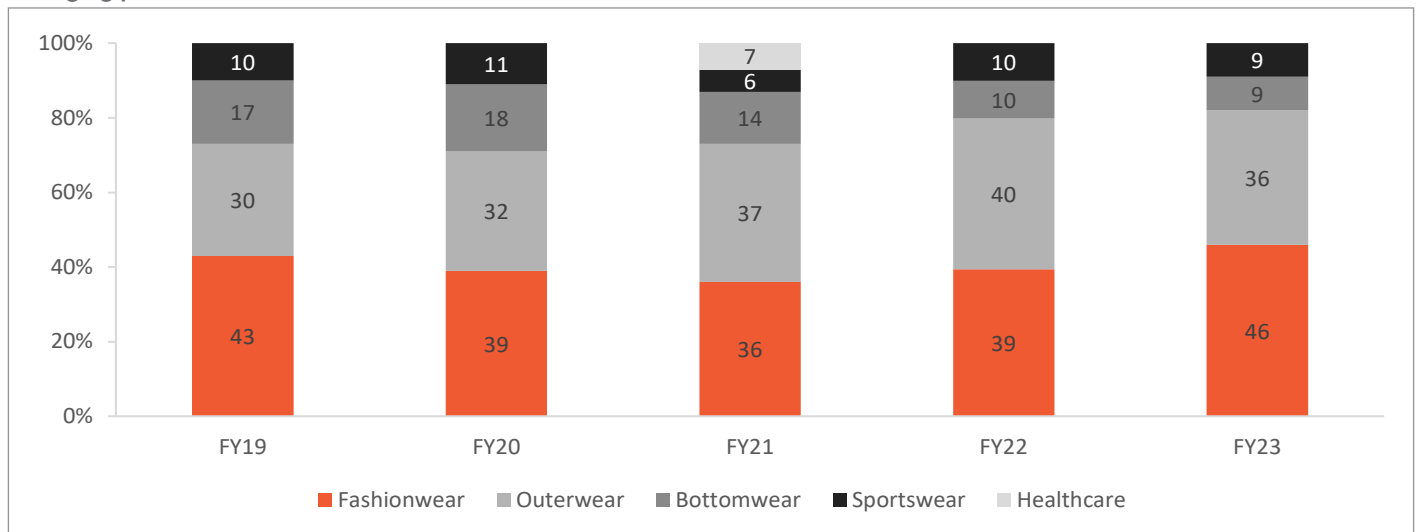


Source: Company; Sharekhan Research

## Product mix improving with outerwear gaining good traction

Continuous growth in the outerwear segment is a positive sign for the business, as it balances the seasonality of business and delivers better margins. A drop in sportswear contribution in FY2021 was due to reduced demand from key customers. It saw pick-up in FY2022 and remained steady in FY2023. Excess inventory with brands in outerwear resulted in somewhat muted demand from that segment in FY2023. However, it is expected to recover in the coming years.

### Changing product mix

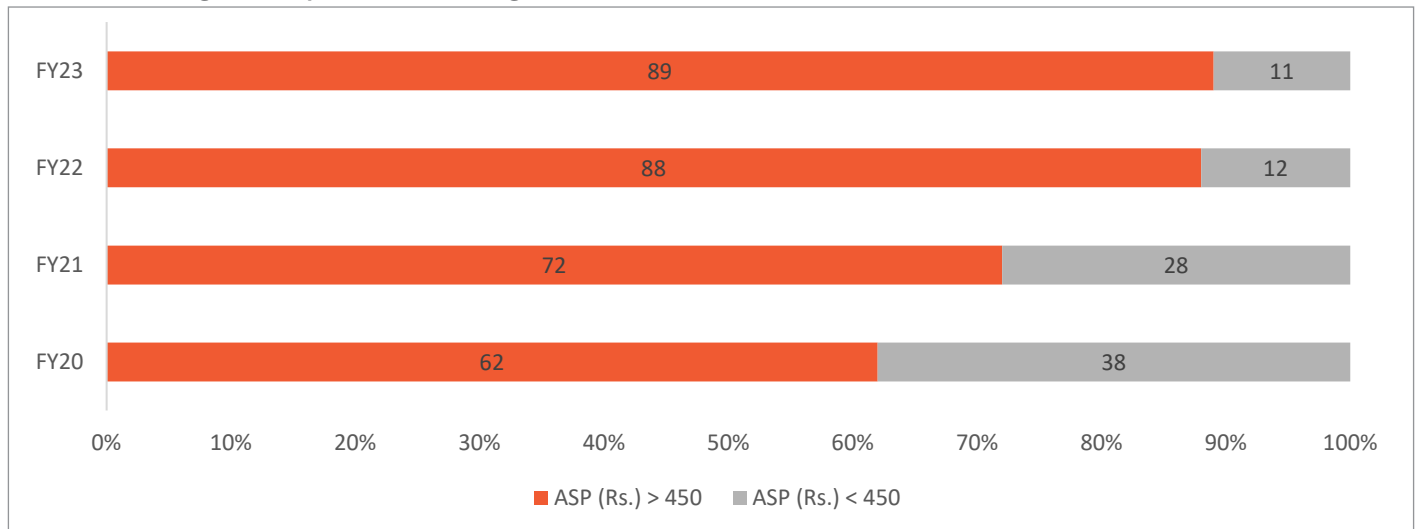


Source: Company; Sharekhan Research

### Scale up in the sales of higher ASP products

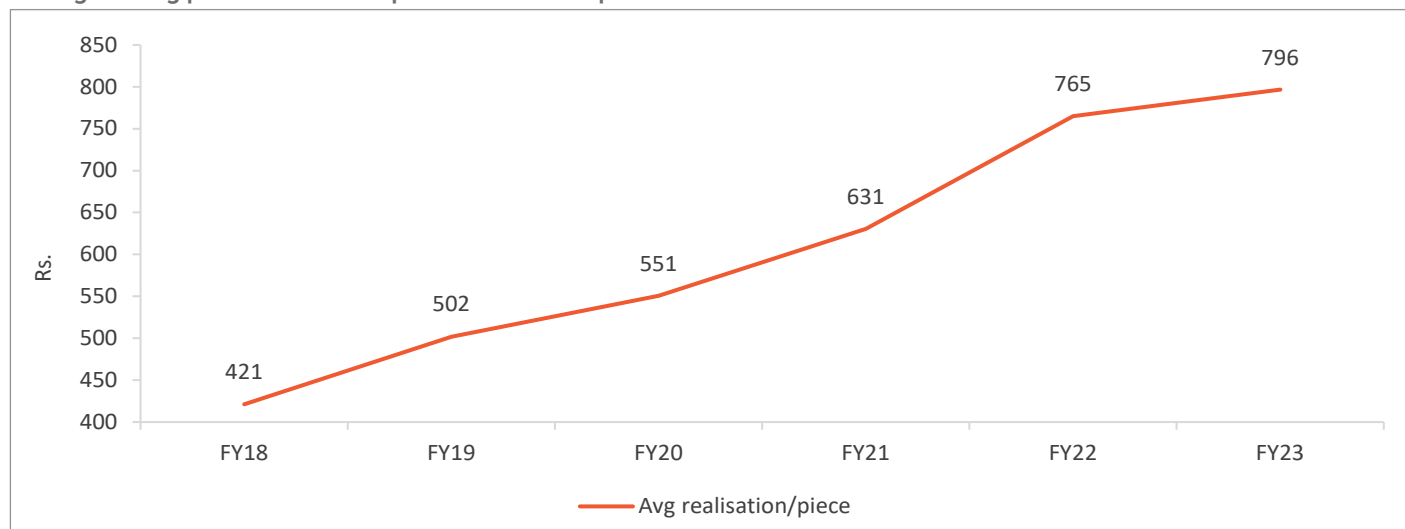
With a better product mix tilt towards outerwear, the contribution of products having average selling price (ASP) above Rs. 450 has gone up to 89% in FY2023 from 62% in FY2020. Average selling price of the company has grown at a CAGR of 13% over FY2020-2023E.

### Contribution of higher ASP products increasing



Source: Company; Sharekhan Research

#### Average selling price consistent improved with better product mix



Source: Company; Sharekhan Research

#### EBITDA margins saw consistent improvement in past five years

Post transformation, the management prioritised cost moderation as one of key drivers to improve financial performance. The company encouraged employees to locate process inefficiencies. It focused on finding better ways of doing routine things, replaced products with equivalent lower cost substitutes, generated disproportionately superior value out of moderate investments. This along with operating efficiencies aided the company to post a 660-bps improvement in the OPM to 11.9% Over FY2020-23. Management expects OPM to further expand by 1-1.5% over the next three to four years. EBITDA margins will remain flat in FY2024 due to increased employee expenses due to full commissioning of two new facilities and lower operating leverage led by muted demand in H1FY2024. However, EBITDA margin is expected to improve by ~40 bps y-o-y in FY2025. With operations at new facilities likely to stabilise, margin improvement will be higher in the subsequent years.

#### Revenues and PBT expected to grow at CAGR of 17% and 20% over FY2023-25E

With excess inventory depleting, management is confident of demand recovery from Q3FY2024. Thus, revenues are expected to grow in low double digits in FY2024, while with stable demand environment and expanded capacities, revenues are expected to grow by over 20% in FY2025. The long-term prospects for the industry remain intact with a continuing of global sourcing away from China, supplier consolidation towards efficient and well-capitalized players, and supply-side instabilities in several countries. We expect revenues to grow at CAGR of 17% over FY2023-25E. This along with reduction in the interest cost, the PBT is expected to grow at CAGR of 20% over FY2023-25E. Tax rate is expected to normalise in the FY2024 to 25%. Thus, we expect the PAT to remain flat in FY2024 and will grow in double-digits in FY2025.

#### Supply efficiencies led to reduction in working capital; net debt on books reduced substantially

Supply efficiencies and focus on improving working capital aided GKEL to reduce debtor days and inventory days by half in last five years with debtors' days standing at 22 days in FY2023 versus 50 days in FY2019 and inventory days reduced to 48 days from 82 days in FY2019. This led to a substantial decline in working capital to 57 days in FY2023 from 105 days in FY2019. The company repaid substantial debt in FY2022 through improvement in the operating cash flow and raised around Rs. 330 crore through QIP. Thus, the company became net cash positive at Rs. 214 crore compared to net debt of Rs. 370 crore in FY2019. Return profile of the company improved substantially over FY2020-23 with RoE and RoCE standing at 21.7% and 22.5% respectively in FY2023 from 13.0% and 18.1% in FY2020. The same is expected to consistently improve in the coming years with consistent improvement in the operating performance. The company is likely to generate cumulative free cash flow (FCF) of Rs. 180 crore in the next two years, which can be utilized for future capex requirement.



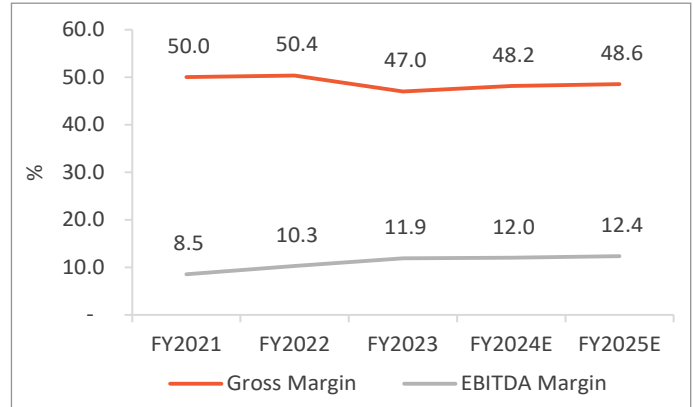
## Financials in charts

### Sales volume improving



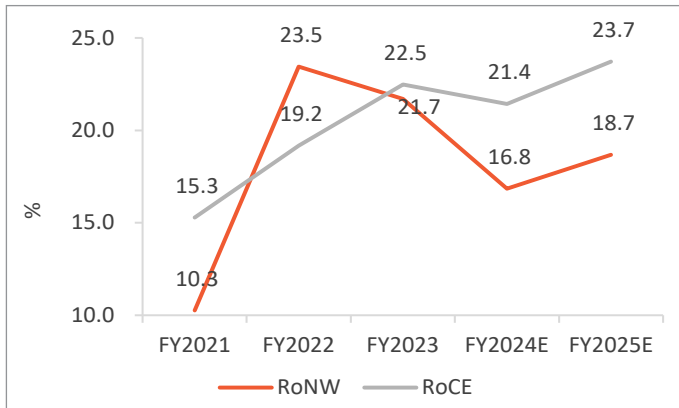
Source: Company, Sharekhan Research

### Margins to rise in the coming years



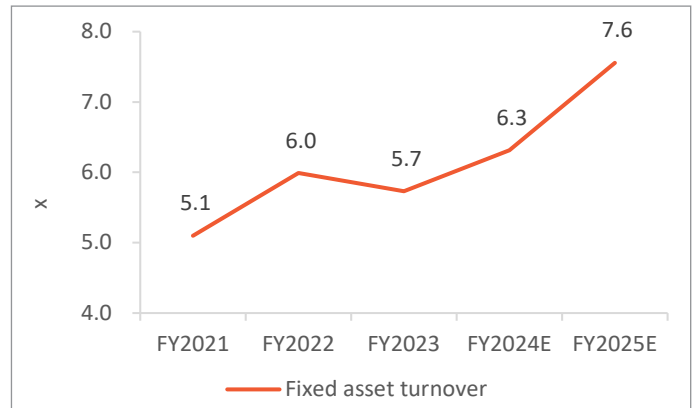
Source: Company, Sharekhan Research

### Trend in return ratios



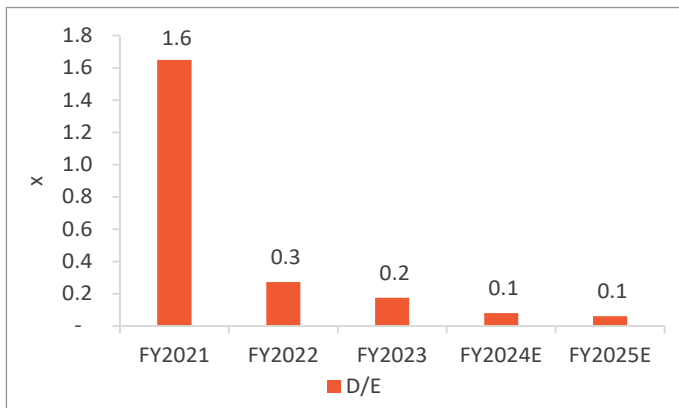
Source: Company, Sharekhan Research

### Sharp improvement in turnover ratio



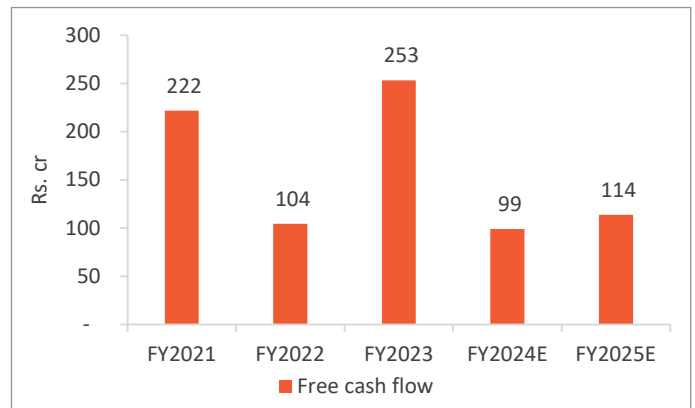
Source: Company, Sharekhan Research

### Debt/equity to reduce ahead



Source: Company, Sharekhan Research

### Strong free cash flow generation

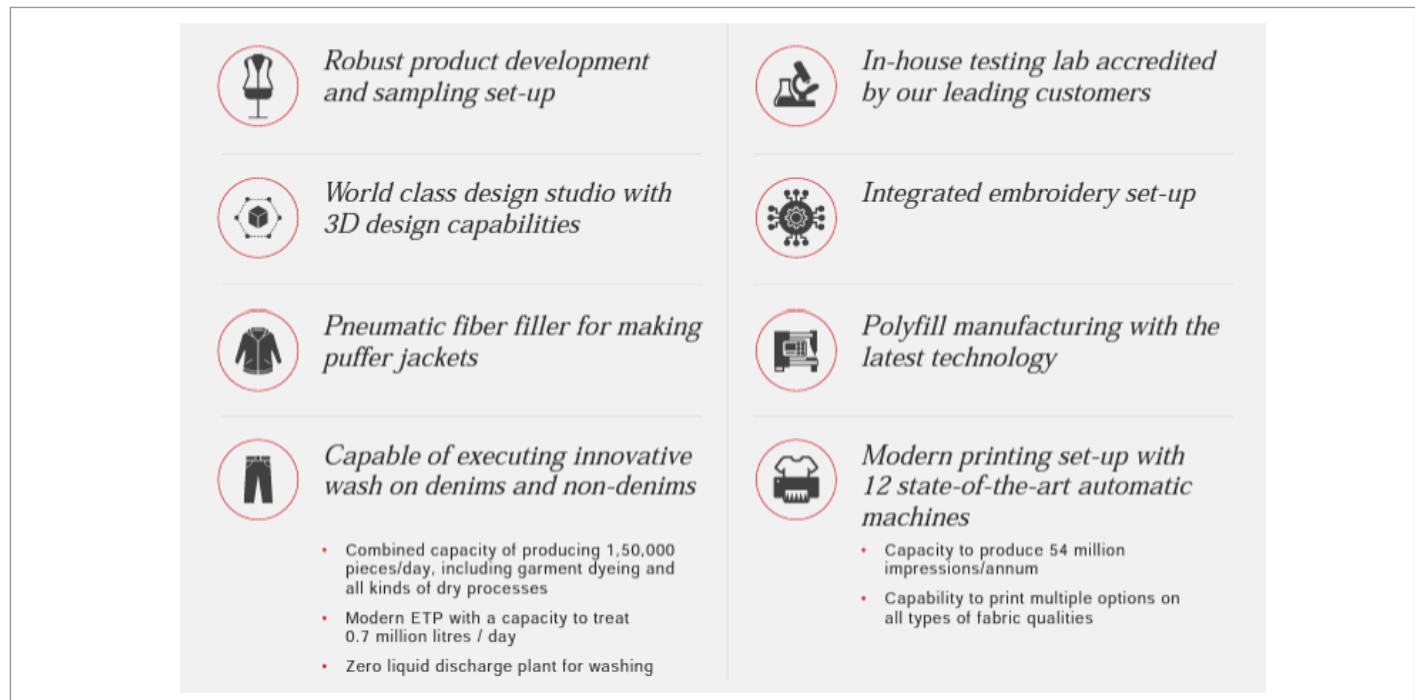


Source: Company, Sharekhan Research

## About the company

GKEL is the leading apparel market player since 1979, involved in designing, manufacturing and exporting a diverse range of apparel brands for all seasons. The company exports to some of the world's prestigious fashion brands and retailers in more than 50 countries. It has 20+ state-of-the-art manufacturing units with 26,000+ strong workforce with 80% women and 15,000+ operational machines. Its manufacturing capacity of 36 million pieces per annum is expected to go up to over 50 million in the next two years on back of expanded capacities. GKEL's strength lies in its robust in-house capabilities, which encompass its skilled labour and its manufacturing facilities, that are equipped with state-of-the-art technologies.

### Integrated manufacturing facilities



Source: Company

Over the years, the company enhanced its capabilities to include a vast array of processes within its manufacturing set-up. The strong presence across the value chain, enables it to become the preferred partner of choice for some of the most distinguished brands across the globe.

### Integrated value chain



Source: Company

June 13, 2023

#### Key management personnel

Name	Designation	Background
Mathew Cyriac	Chairman & Non-Executive Director	He is currently working with Florintree Advisors and has served as the Managing Director in the Corporate Private Equity Group of Blackstone India based in Mumbai for nearly a decade. He has rich experience in the Investment Banking Division of Bank of America in India and in the Engineering Division of Tata Motors.
Sivaramakrishnan Ganapathi	Executive Director-MD	He has worked with the Aditya Birla Group for over two decades, involved in leadership positions in diverse businesses. He has also been with DSP Merrill Lynch, ICICI, and Uhde India. He holds a Master's degree in Management from IIM, Bangalore and a Bachelor's degree in Mechanical Engineering from NIT.
A Sathyamurthy	Chief Financial Officer	He has worked with large organizations like EID Parry, Aditya Birla Retail Ltd, Perfetti Vanmelle and Rajshree Sugars & Chemicals. He heads the organization's finance portfolio including shareholder value creation, treasury operations, audit and cost management.
Poorna Seenivasan S	Executive Director	He brings in 28+ years of extensive and rich experience in Marketing, Operations and Projects domain and comes with a strong network of business relationships. He holds responsibility for business operations, including sales and marketing, customer experience and operational excellence. He also leads development and implementation of new business projects.
Prabhat Kumar Singh	Executive Director	He has held several leadership positions in the textile industry as well as industry bodies like Apparel Export Promotion Council (AEPC). He plays a significant role in interfacing with the industry and the various regulatory authorities, including project implementation under the Government schemes, modernization, technology and infrastructure upgradation.

Source: Company

## Right valuation - Riding on industry tailwinds and strong internal drivers; valuation attractive

### ■ Sector view - Near-term prospects improving; upgrade to positive

The Indian textiles sector is strategically consolidating its position in key export markets such as home textiles and readymade garments, capitalising on opportunities arising from the US-China trade war. India has witnessed a notable increase in its share of exports in these segments to the US. After challenging and subdued FY2023 affected by muted demand, higher retailer inventory, supply constraints, and rising cotton prices, the textile companies believe the worst is over and anticipate a demand revival by Q3FY2024 with reducing inventories on global retailers' shelves. Further, factors such as the "China + 1" strategy, geopolitical uncertainties in competitor countries, and potential free-trade agreements (FTAs) with the UK and Europe offer promising prospects for consistent earnings growth and improved cash flows. With material capex already completed, textile players are poised to leverage their expanded capacities. Moreover, falling cotton and crude prices are expected to bolster margins and enhance India's competitiveness in export markets. The Indian textile sector is well positioned to overcome challenges and looks forward to ride the next upcycle.

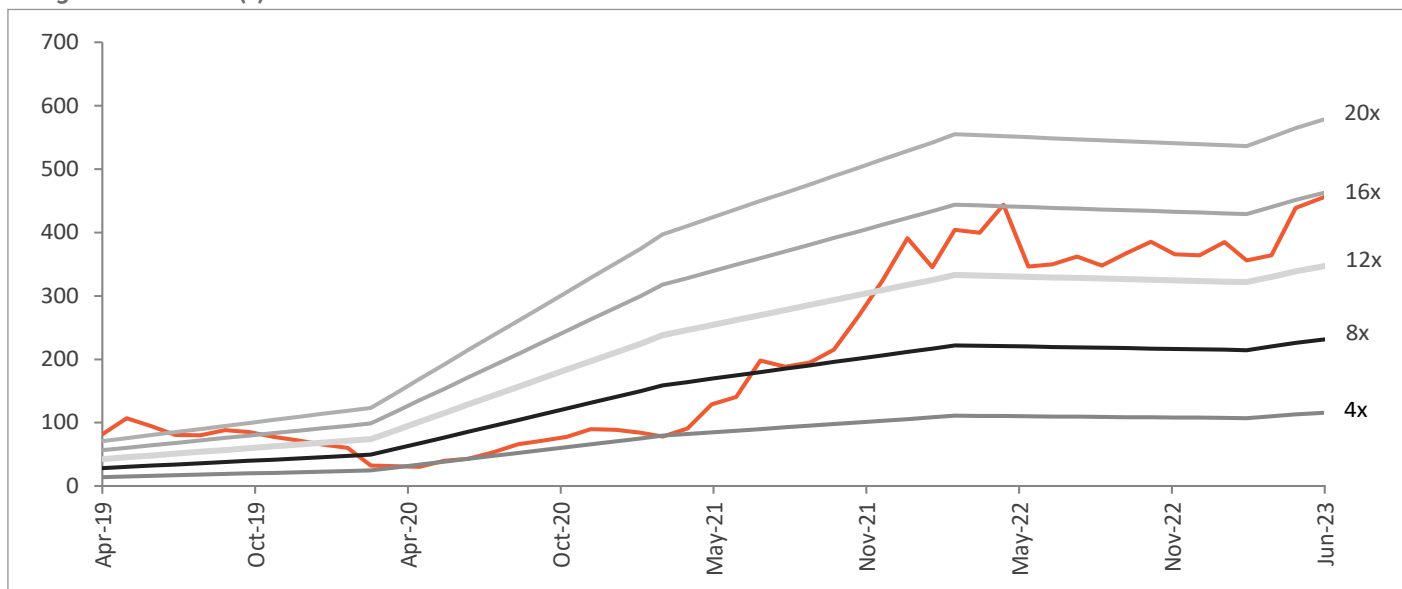
### ■ Company outlook - medium to long term earnings growth prospects intact

After a management change in FY2018, the company has transformed itself into one of the strongest partners for global retailers. GKEL's results were strong with revenues and PAT growing at CAGR of 17% and 54% over FY19-23 (EBITDA margins expanded to 11.9% in FY2023 from 5.3% in FY2019). Investment in expanding capacities, improved product mix and a sustained addition of new clients will help the company to post double-digit earnings growth (PBT CAGR at 20% CAGR over FY2023-25E) riding on the favorable industry tailwinds in the medium to long run.

### ■ Valuation - Initiate coverage with Buy; assign a PT of Rs. 635

GKEL has transformed itself into a large integrated apparel manufacturer in India in past 3-4 years. Revamped focus of top management, enhanced capacities, a better product mix aided in adding new clients and helped in gaining share in key exports markets such as the US. The company registered a strong earnings CAGR of 50%+ in the last five years. It is now focusing on next league of growth by expanding capacities to grab opportunities of industry tailwinds such as China + 1 strategy and likely signing of an FTA with the UK. Thus, we expect the double-digit earning growth trajectory to sustain, which will help in improving cash flows and return profile over the next three to four year. The stock is trading at attractive valuation of 17.8x and 13.5x its FY2024E and FY2025E EPS. We initiate coverage on the stock with Buy recommendation assigning a price target of Rs. 635.

### One year forward PE (x) band



Source: Sharekhan Research

### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Avind	9.7	8.4	6.1	5.8	5.1	4.0	8.1	9.0	11.1
KPR Mill	26.8	20.9	16.6	18.0	13.5	10.9	24.3	26.7	28.4
Gokaldas Exports	17.2	17.8	13.5	10.2	8.8	6.6	22.5	21.4	23.7

Source: Company, Sharekhan estimates

## Key Financials

### Statement of Profit and Loss

	Rs cr			
Particulars	FY2022	FY2023	FY2024E	FY2025E
<b>Total Revenue</b>	<b>1,790.3</b>	<b>2,222.2</b>	<b>2,455.5</b>	<b>3,032.5</b>
y-o-y growth (%)	47.9	24.1	10.5	23.5
Raw Material Cost	888.2	1,177.2	1,273.2	1,560.2
Employee Cost	538.8	619.3	712.2	854.7
Job Work expenses	27.8	11.9	12.3	15.2
Other Expenses	151.2	149.8	163.3	227.4
<b>Total Operating Cost</b>	<b>1,605.9</b>	<b>1,958.1</b>	<b>2,161.0</b>	<b>2,657.5</b>
<b>Operating Profit</b>	<b>184.4</b>	<b>264.1</b>	<b>294.6</b>	<b>375.0</b>
y-o-y growth (%)	69.3	48.2	9.3	26.0
Other Income	10.7	25.0	21.4	23.0
Interest & Other Financial Cost	40.2	25.7	15.4	14.8
Foreign exchange (gain) / loss	-21.1	-6.7	0.0	0.0
Depreciation	58.9	71.8	84.0	97.8
<b>Profit Before Tax</b>	<b>117.0</b>	<b>198.3</b>	<b>216.5</b>	<b>285.5</b>
Tax Expense	-0.1	30.2	54.1	71.4
<b>Adjusted PAT</b>	<b>117.1</b>	<b>168.1</b>	<b>162.4</b>	<b>214.2</b>
y-o-y growth (%)	-	43.6	-3.4	31.9
Exceptional items	0.0	-4.8	0.0	0.0
<b>Reported PAT</b>	<b>117.1</b>	<b>173.0</b>	<b>162.4</b>	<b>214.2</b>

Source: Company; Sharekhan estimates

### Balance sheet

	Rs cr			
Particulars	FY2022	FY2023	FY2024E	FY2025E
Equity Capital	29.5	30.3	30.3	30.3
Reserves & Surplus	678.7	856.0	1,012.3	1,220.4
<b>Shareholders' Funds</b>	<b>708.2</b>	<b>886.3</b>	<b>1,042.6</b>	<b>1,250.7</b>
<b>Net Worth</b>	<b>708.2</b>	<b>886.3</b>	<b>1,042.6</b>	<b>1,250.7</b>
Total Borrowings	199.7	167.9	97.1	89.8
<b>Capital Employed</b>	<b>907.9</b>	<b>1,054.1</b>	<b>1,139.7</b>	<b>1,340.5</b>
Net Block	285.2	278.6	302.5	314.7
Intangible Assets	2.7	1.1	1.5	1.5
Capital WIP	11.0	107.9	85.0	85.0
Deferred Tax Assets (Net)	11.8	30.6	32.2	33.8
Non-current tax assets	11.8	4.1	4.3	4.5
<b>Current Assets</b>	<b>888.8</b>	<b>919.7</b>	<b>1,021.1</b>	<b>1,241.3</b>
Current Investments	154.5	344.0	325.0	350.0
Inventories	433.6	293.0	336.4	415.4
Sundry Debtors	92.2	135.8	161.5	191.1
Cash and Bank Balance	12.7	24.0	63.1	136.1
Other Current Assets	195.8	122.9	135.1	148.7
<b>Less: Current Liab. &amp; Provisions</b>	<b>303.4</b>	<b>287.9</b>	<b>306.8</b>	<b>340.2</b>
Trade Payables	117.8	84.0	90.7	111.1
Other Current Liabilities	148.3	159.9	169.5	179.7
Provisions	37.2	44.0	46.6	49.4
<b>Net Current Assets</b>	<b>585.4</b>	<b>631.8</b>	<b>714.3</b>	<b>901.1</b>
<b>Net Assets</b>	<b>907.9</b>	<b>1,054.1</b>	<b>1,139.7</b>	<b>1,340.5</b>

Source: Company; Sharekhan estimates

#### Cash flow statement

Rs cr

Particulars	FY2022	FY2023	FY2024E	FY2025E
Cash flow from operating activities	225.0	408.8	184.5	223.7
Cash flow from investing activities	-243.1	-378.1	-58.7	-136.6
Cash flow from financing activities	15.6	-28.7	-77.5	-14.1
<b>Net change in cash and cash equivalents</b>	<b>-2.6</b>	<b>2.0</b>	<b>48.4</b>	<b>73.0</b>
Opening cash balance	15.3	12.7	14.7	63.1
<b>Closing cash balance</b>	<b>12.7</b>	<b>14.7</b>	<b>63.1</b>	<b>136.1</b>

Source: Company; Sharekhan estimates

#### Key ratios

Particulars	FY2022	FY2023	FY2024E	FY2025E
<b>Margins &amp; tax rate (%)</b>				
GPM	50.4	47.0	48.2	48.6
EBITDA Margin	10.3	11.9	12.0	12.4
NPM	6.5	7.6	6.6	7.1
Tax rate	0.0	15.2	25.0	25.0
<b>As percentage of revenues (%)</b>				
Raw material cost	49.6	53.0	51.9	51.5
Employee cost	30.1	27.9	29.0	28.2
Job work charges	1.6	0.5	0.5	0.5
Other expenses	8.4	6.7	6.7	7.5
<b>Total operating cost</b>	<b>89.7</b>	<b>88.1</b>	<b>88.0</b>	<b>87.6</b>
<b>Growth ratios (%)</b>				
Revenues	47.9	24.1	10.5	23.5
Operating profit	69.3	48.2	9.3	26.0
PBT	-	43.6	-3.4	31.9
Adjusted PAT	-	43.6	-3.4	31.9
Reported PAT	-	47.7	-6.1	31.9
<b>Per share (Rs.)</b>				
CMP	478.0	478.0	478.0	478.0
Adjusted EPS	19.9	27.8	26.8	35.4
Reported EPS	19.9	28.6	26.8	35.4
BVPS	120.1	146.3	172.1	206.5
<b>Valuation ratios (x)</b>				
P/E	24.1	17.2	17.8	13.5
Price / Book value (P/BV)	4.0	3.3	2.8	2.3
EV / EBIDTA	15.4	10.2	8.8	6.6
Market cap / Sales	1.6	1.3	1.2	1.0
<b>Financial ratios</b>				
Inventory days	88	48	50	50
Debtors Days	19	22	24	23
Creditors Days	48	26	26	26
<b>Operating cash cycle (days)</b>	<b>59</b>	<b>44</b>	<b>48</b>	<b>47</b>
Debt / Equity (x)	0.3	0.2	0.1	0.1
Fixed asset turnover (x)	6.0	5.7	6.3	7.6
RoNW (%)	23.5	21.7	16.8	18.7
RoCE (%)	19.2	22.5	21.4	23.7

Source: Company; Sharekhan estimates

## About company

Established in 1979, Golkaldas Exports (GKEL) has evolved to become one stop solution for some of the world's most recognised apparel brands. The company deals in a broad range of apparel products that include outerwear, activewear and fashion wear for all weather and seasons. Present across all continents and within a delivery network of 50+ countries, GKEL exports to some of the most prominent fashion brands and retailers across the globe. It has dedicated workforce of 32,000+ people working in over 20 state-of-the-art fully integrated production units.

## Investment theme

GKEL is one of the largest integrated apparel manufacturers in India with manufacturing capacity of 36 million apparel pieces per annum. After a change in the management in FY2018, the company has transformed itself into one of the strongest partners for global retailers aiding to post strong results with revenues and PAT growing at CAGR of 17% and 54% over FY2019-23 (EBITDA margins expanded to 11.9% in FY2023 from 5.3% in FY2019). It has made itself future ready by planning to invest around Rs. 370 crore in building capacities (over FY2022-24E) and improving product mix (outer wear share expanding). The revenues and PBT are expected to grow at CAGR of 17% and 20% over FY2023-25E (tax rate to normalise in FY24).

## Key Risks

- ♦ **Large dependence on a limited customer base:** The company depends on a limited number of customers for a significant portion of export revenues. The loss of one or more customers may result in a reduction in production and sales and may adversely affect GKEL's business, and financial position. Contribution of customers with more than 10 years of relationship is 50% to the revenues.
- ♦ **Increase in cotton prices to impact margins:** Fabric is the largest component of the company's input costs, and any increase in input costs such as cotton, yarn, or fabric price, or rising wage costs and inflation could cause a decline in the company's profitability.
- ♦ **Slowdown in key export markets to affect the growth:** GKEL generates significant amount of its revenues from key export markets such as US and Europe. Any slowdown in these markets will lead to muted order booking from key customers, which will impact growth in the coming years.

## Additional Data

### Key management personnel

Mathew Cyriac	Chairman & Non-Executive Director
Sivaramakrishnan Ganapathi	Executive Director-MD
A Sathyamurthy	Chief Financial Officer
Gourish Hegde	Company Secretary & Compliance Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd.	8.13
2	Nippon Life India Asset Management Ltd.	6.77
3	Goldman Sachs Group Inc.	4.66
4	Goldman Sachs India Pvt. Ltd.	4.66
5	Aditya Birla Sun Life Asset Management Co. Ltd.	3.81
6	Teesta Retail Pvt. Ltd.	3.76
7	HSBC Holdings PLC	3.56
8	L&T Mutual Fund Trustee Ltd.	2.89
9	ICICI Securities Holdings Inc.	2.49
10	Tata Asset Management Pvt. Ltd.	2.25

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

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