



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Jul 08, 2023

20.94

Medium Risk

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

Source: Morningstar

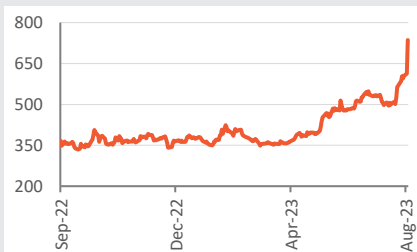
Company details

Market cap:	Rs. 4,463 cr
52-week high/low:	Rs. 736 / 491
NSE volume: (No of shares)	3.7 lakh
BSE code:	532630
NSE code:	GOKEX
Free float: (No of shares)	5.4 cr

Shareholding (%)

Promoters	11.1
FII	17.2
DII	32.3
Others	39.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	39.1	67.8	91.4	107.1
Relative to Sensex	40.7	63.9	81.0	94.8

Sharekhan Research, Bloomberg

Gokaldas Exports Ltd

Atracto - An attractive buy

Textiles

Sharekhan code: GOKEX

Reco/View: Buy



CMP: Rs. 736

Price Target: Rs. 865



Upgrade



Maintain



Downgrade

Summary

- Gokaldas Exports (GKEL) has acquired Atracto, an apparel manufacturer having a scale of business equivalent to 40% of GKEL's existing business. Peak revenue potential of ~Rs. 4000 crore by FY2025 post consolidation.
- Acquisition value of \$55 million is valued at 0.6x EV/Sales and 7.6x P/E, which is at discount to GKEL and close textile peers with equivalent scale of operations (production capacity of 40 million garments p.a.)
- Funding of acquisition will be done through mix of debt and internal accruals. Acquisition is expected to earnings accretive from year one of the consolidation (likely to add Rs. 5-6 per share in FY2025E based on rough-cut calculations).
- The stock has moved up by ~20% on August 29 with the acquisition enhancing scale to explore more opportunities in key export markets. The stock currently trades at 27.6x/20.6x its FY2024E/25E earnings. We maintain our Buy rating with revised PT of Rs. 865.

Gokaldas Exports Limited (GKEL), through its wholly-owned subsidiaries, has entered into an agreement to acquire Atracto Group (Atracto), a leading manufacturer of apparel with a strong market position and customer relationships across US and Europe. Their product range includes shorts, pants, shirts, t-shirts, blouses and dresses catering to varied age groups. Atracto operates with a network of four manufacturing units in Kenya and one in Ethiopia producing about 40 million garments (almost equivalent to existing capacity of Gokaldas Exports). The acquisition is done at a value of \$55 million (~Rs. 454 crore at current \$/INR rate of Rs. 82.5). The acquired company did revenues of \$107 million (~Rs. 843 crore) and PAT of \$7.2 million (~Rs. 57 crore) in CY2022. Deal is valued at 0.6x EV/Sales and 7.6x price to earnings ratio, which looks to be attractive considering the scale of the business and valuation of domestic peers. Acquisition will be funded thru mix of debt (\$40 million) and internal accruals. GKEL currently has cash ~Rs. 350 crore on-its books. Our rough calculations indicate that the acquisition is likely to be earnings accretive by Rs. 5-6 per share by FY2025.

- Atracto - A glimpse:** GKEL has signed a definitive agreement with the shareholders of Atracto to acquire 100% of the equity of the business for a total consideration of up to \$55 million, with \$45 million being paid upon closure of the transaction and the remainder at the end of Mar,24. It is headquartered in Dubai with a network of 5 manufacturing units (4 in Kenya and 1 in Ethiopia) with a production capacity of 40 million garments (capacity utilisation of ~90%). It has strong customer base in the global markets with 95% of revenues coming from the US markets. Woven to Knitted garment ratio is 76:24 with ~50% revenues comes from kids garments. It did revenues of Rs. 843 crore with adjusted EBITDA margins of 10.5% and PAT of Rs. 57 crore in CY2022.
- Key synergies provide potential to double revenues by FY2025:** Atracto operates with network of four manufacturing unit in Kenya and one in Ethiopia producing ~40 million garments equivalent to GKEL existing capacity with utilisation of rate of ~90%. The company gets duty-free access to key export markets with Kenya going duty free in US and Ethiopia going duty free in Europe. Atracto exports 95% of products to the US market which will enhance GKEL presence in North America market in the coming years. Add-on to existing customer base as only one customer is common in nature. Further there is a large cross-selling opportunities in the near future. Considering the current revenue run-rate and muted FY2024, we expect GKEL revenues to doubled close to Rs. 4000 crore by FY2025 post consolidation of Atracto.
- Deal valuations attractive; acquisition to be earnings accretive:** GKEL acquired 100% of Atracto for value of \$55 million (Rs. 454 crore; enterprise value of Rs. 589 crore). The deal is attractively valued at EV/Sales of 0.6x and price to earning ratio of 7.6x in view of the valuations of domestic garment manufacturing companies (including GKEL). The funding of the acquisition will be done through mix of debt (\$40 million or Rs. 330cr) and internal accrual. Management expects EBITDA margins of acquired entity to improve by 100-150 bps by FY2025 and will help company to reach revenues of Rs. 4000 crore. Thus we expect the acquisition to be earnings-accretive by Rs. 5-6 per share in view of base case scenario.

Our Call

View – Retain Buy with revised PT of Rs. 865: Acquisition of Atracto improves the long term growth prospects of the company with bigger scale. With newly acquired African business, the company can focus on scaling up its US business while the India business can focus on gradual expansion in UK/EU (especially post FTA signing with UK in the coming months). Expansion in the new facility in Kenya provides incremental revenue benefit of Rs. 200-250 crore in FY2025. This provides further earnings accretion to the current rough estimates. The stock has already run-up by 20% in today's session and is currently trading at 28x/21x its FY2024E/25E earnings. In view large scale benefits and renewed opportunities in key export markets, we maintain our Buy on GKEL with a revised PT of Rs. 865 (valuing the stock on potential earnings accretion from the current levels).

Key Risks

No Renewal of AGOA (trade agreement between US-African countries including Kenya) would act as a risk to the significant earnings upside from the current levels. Further sustained slowdown in the US/European market due to inflation would further moderate the growth in the coming quarters.

Valuation (Consolidated)

Rs cr

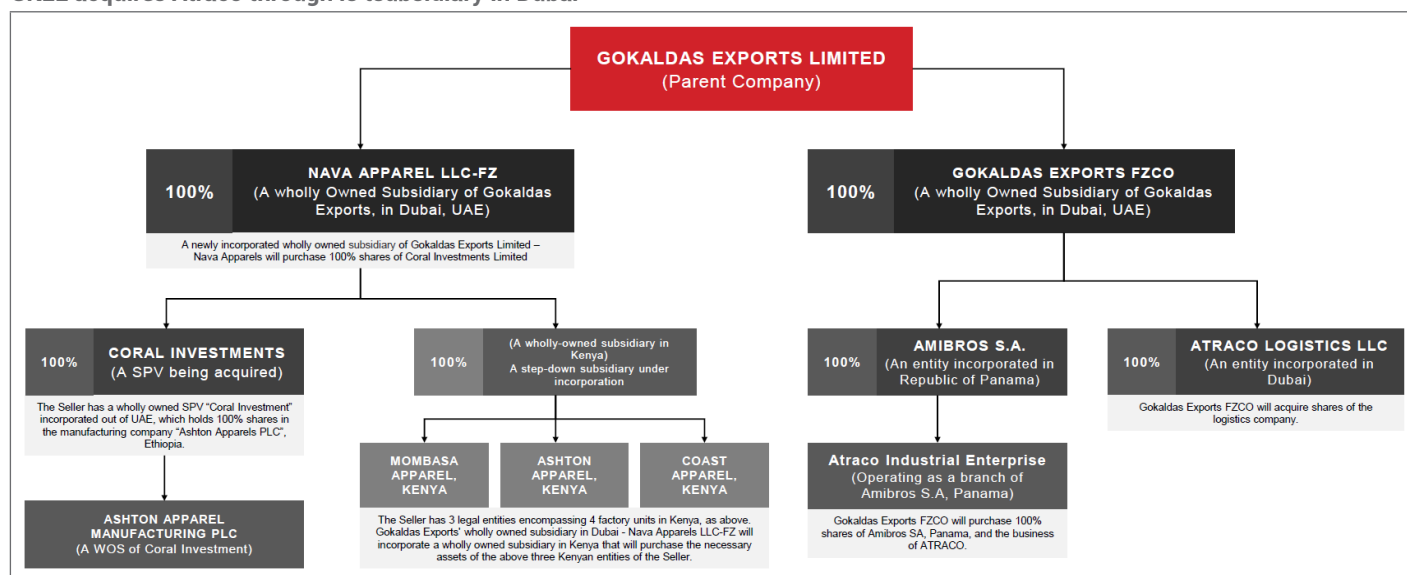
Particulars	FY22	FY23	FY24E	FY25E
Revenues	1,790	2,222	2,393	2,982
EBITDA margin (%)	10.3	11.9	12.3	12.7
Adjusted PAT	117	168	161	217
% YoY growth	342.0	43.6	-4.0	34.3
Adjusted EPS (Rs.)	19.9	27.8	26.6	35.8
P/E (x)	37.1	26.5	27.6	20.6
P/B (x)	6.1	5.0	4.3	3.6
EV/EBITDA (x)	23.7	16.1	14.1	10.7
RoNW (%)	23.5	21.7	16.7	18.9
RoCE (%)	19.2	22.5	21.3	24.0

Source: Company; Sharekhan estimates

About the acquisition

Gokaldas Exports Limited (GKEL), through its wholly owned subsidiaries has entered into an agreement to acquire Atraco Group (Atraco), a leading manufacturer of apparel with a strong market position and customer relationships across US and Europe. Their product range includes shorts, pants, shirts, t-shirts, blouses and dresses catering across age groups. Atraco operates with a network of four manufacturing units in Kenya and one in Ethiopia producing about 40 million garments (almost equivalent to existing capacity of Gokaldas Exports). The acquisition is done at a value of \$55 million (~Rs. 454 crore at current \$/INR rate of Rs. 82.5). Around \$45 million being paid upon closure of the transaction and the remainder at the end of March-24. Acquisition is likely to be closed by end of Oct,23 based on the regulatory approval received by the company. Atraco did revenues of \$107 million (~Rs. 843 crore) and PAT of \$7.2 million (~Rs. 57 crore) in CY2022. Deal is valued at 0.6x EV/Sales and 7.6x price to earnings ratio, which looks to be attractive considering the scale of the business and valuation of domestic peers. Acquisition will be funded thru mix of debt (\$40 million) and internal accruals.

GKEL acquires Atraco through its subsidiary in Dubai



Source: Sharekhan Research

About Atraco

Atraco is leading apparel manufacturer since 1986. It has headquarter in Dubai, UAE with network of 5 manufacturing units (4 in Kenya and one in Ethiopia) with a production capacity of 40 million garments (capacity utilisation of ~90%). The company sources most of its raw materials from China, Indonesia, India, Pakistan, Taiwan, and the U.A.E and exports 95% of its production to the USA. The company specializes in the production of casual wear, including shorts, pants, shirts, blouses, t-shirts, and dresses. It has employee base of 13,000 workers. Woven to Knitted garment ratio is 76:24 with ~50% revenues comes from kids garment. It did revenues of Rs. 843 crore with adjusted EBIDTA margins of 10.5% and PAT of Rs. 57 crore in CY2022.

Atraco - Trend in financials

Particulars	2019	2020	2021	2022
Revenues	550	519	634	843
EBIDTA	64	39	80	77
EBDITA margin (%)	11.6	7.5	12.6	9.1
PAT	40	18	70	57

Source: Company; Sharekhan Research; * Excluding one-time expenditure EBIDTA margin was 10.5% in CY2022

Competitive advantage and synergistic benefits

Competitive advantage of the acquisition

- ◆ Duty-free access to the US is a key strength, as duties range from 11-28%. Exports from Kenya to the USA are eligible for duty-free concession under African Growth and Opportunities Act (AGOA).
- ◆ Access to the EU through EPA and LDC.
- ◆ Large-scale production facilities in low cost locations, with the possibility for further expansion to drive future growth.
- ◆ Strong manufacturing capabilities, high employee productivity, and machine efficiency built over the years.
- ◆ Long-standing relationships with well-recognized global apparel brands, giving the company a strong performance track record.

Import duty structure

Importing country	Exporting countries					
	China	Bangladesh	Vietnam	Ethiopia	Kenya	India
US	11-28%	11-28%	11-28%	11-28%	0%	11-28%
EU	12%	0%	0%	0%	0%	12%
Japan	9%	0%	0%	0%	9%	0%
UK	12%	0%	0%	0%	0%	12%
Canada	18%	0%	0%	0%	18%	18%

Source: Company presentation

Cost structure based on various countries

Cost element	Exporting countries					
	China	Bangladesh	Vietnam	Ethiopia	Kenya	India
Cost of labour (US\$ per month)	514	139	300	110	150	180
Labour Skill	High	High	High	Low-Medium	Low-Medium	High
Cost of electricity (US\$ / Kwh)	9-15	9	8	2-5	16-18	7-12
Lead Time (days)	30-45	50-70	35-50	60-90	60-90	40-60
Textile integration	High	Medium	Medium	Low	Low	High (cotton)

Source: Company presentation

Key synergies provide potential to double revenues by FY2025

Atraco operates with network of four manufacturing units in Kenya and one in Ethiopia producing around 40 million garments equivalent to GKEL existing capacity with utilisation of rate of 90%. The company gets duty free access to key export markets with Kenya going duty free in US and Ethiopia going duty free in Europe. Acquired company exports 95% of products to the US market, which will enhance GKEL presence in the North American market in the coming years. Add-ons to existing customer base as only one customer is common in nature. Further there is a large cross-selling opportunities in the near future. Considering the current revenue run-rate and muted FY2024, we expect GKEL revenues to doubled close to Rs. 4000 crore by FY2025 post consolidation of Atraco.

IMPROVES CUSTOMER VALUE PROPOSITION AND DRIVES SYNERGY

Expand customer base

- Brings in new global brands with long-standing relationships to the combined company.
- Gokaldas Exports can benefit from synergies in cross-selling and as increased product portfolio.
- Provides a better product mix to customers and the opportunity to leverage India's traditional strength in cotton textiles, ability to cater to fast fashion needs, and offer efficient, high-volume, and mass manufacturing, especially in synthetics, from new regions.

Cost advantages and efficient production

- Brings in one of the largest and highly efficient manufacturing capability in the MEA region to Gokaldas Exports, allowing the company to leverage low-cost regions for growth.
- Newly launched factory in Kenya provides opportunity for future growth and margin enhancement.
- By obtaining access to efficiently run operations in lower cost regions of Kenya and Ethiopia, Gokaldas Exports expects to be truly globally competitive.

Growth opportunity and geographical diversification for a superior customer value proposition

- Atraco's considerable experience in the MEA region can be leveraged by Gokaldas Exports for future growth. Will allow greater organizational agility and responsiveness.
- Offers a diversified production capability to all customers enhancing the value proposition to customers. Address geographical risks in any one region through a global network of operations to serve our customers.

Trade agreements, Concessions and Tax holidays

- Duty-free access to the US market from Kenya under AGOA and to the EU from both Kenya and Ethiopia through GSP.
- Manufacturing entity operating in Kenya Export Processing Zone will enjoy 10 years of corporate-tax holiday.

Source: Company presentation

Potential risk factors going ahead

- ♦ The AGOA is due for renewal by December 2025. Given the geopolitical factors and significance of African regions for the USA, such benefits are likely to continue.
- ♦ AGOA benefits for Ethiopia have been suspended since 2022 and are likely to get restored in the near term.
- ♦ The company may need to consider some upgradation of machines, though not immediately.
- ♦ Ethiopia experienced civil unrest in 2021 and 2022. This did not impact the capital Addis Ababa, where the operations are. The peace process is on in the affected region. There was no business impact on the company's operations through this period.

Source: Company presentation

Deal valuations attractive; acquisition to be earnings accretive

GKEL acquired Atraco completely for value of \$55 million (Rs. 454 crore; enterprise value of Rs. 589 crore). The deal is attractively valued at EV/Sales of 0.6x and price to earning ratio of 7.6x in view of the valuations of domestic garment manufacturing companies (including GKEL). The funding of the acquisition will be done through mix of debt (\$ 40 million or Rs. 330 crore) and internal accrual. Management expects EBITDA margins of acquired entity to improve by 100-150 bps by FY2025 and will help company to reach revenues of Rs. 4000 crore. Thus we expect the acquisition to be earnings accretive by Rs. 5-6 per share in view of a base-case scenario.

Acquisition is earnings accretive from year one of consolidation

Particulars	Rs. Cr
PAT of Atraco (CY2022)	59.4
Less: cost of fund for acquisition (40 million \$) @7.5%	31.2
Incremental PAT accretion to GKEL	28.2
Total shares outstanding of GKEL (cr)	6.1cr
EPS accretion	Rs. 4.64
Accretion to FY2023 earnings	~17%

Source: Company; Sharekhan Research

Key highlights of the conference call

- ◆ Previous owner is selling business to pass on the legacy to well-managed textile entity like GKEL.
- ◆ GKEL has an opportunity to ramp-up the new set-up unit in the Kenya by adding new units in CY2024. The company is expecting incremental revenues of \$30 million from investment of around \$4-5 million capex and additional investment in working capital requirement.
- ◆ GKEL is seeing strong upward trend in export demand starting Q3FY2024. Atraco has strong order booking till April, 2024. The company is likely to do revenues in-line with CY2024 with capacity utilisation of a little less than 90%.
- ◆ Excluding the working capital of \$20 million, the acquisition value is around \$35 million.
- ◆ Atraco has higher working capital days of 110 days with debtors days standing at 50 days and inventory days are also higher due to procurement of raw material from other countries. Post consolidation GKEL will be focusing on reducing the working capital days in the coming years.
- ◆ No tax on profits for acquired Africa business as the group is headquartered in UAE which enjoys tax benefit for 10 years.
- ◆ Acquired entity has strong customer base in the north India. Top 3 customers contributes around 65% of revenues of the company. Around 75-80% customers are big box retailers.
- ◆ Post the consolidation of acquisition and required investment behind capacity expansion in India, the net debt on books will stand at around Rs. 150-200 crore.

Outlook and Valuation

■ Sector Outlook – Gradual recovery on cards; long-term growth prospects intact

In the past few quarters, inflation, rising interest rates, and geopolitical disturbances impacted export demand and led to inventory pile-up at the retailers' end. However, textile companies are expected to gain momentum from Q2FY2024, with global retail shelves getting empty. In the long term, growth prospects of the Indian textile industry are strong, aided by augmentation of capacity with value-added products, China + 1 factor, the government entering into a trade agreement in various countries, incremental benefits from the PLI scheme, and market share gains in export markets. Textile companies would benefit and report higher profitability with the government extending the RoSCTL scheme until March 2024 and keeping rates unchanged. Margins are expected to improve in the quarters ahead due to lower raw-material prices and supply costs.

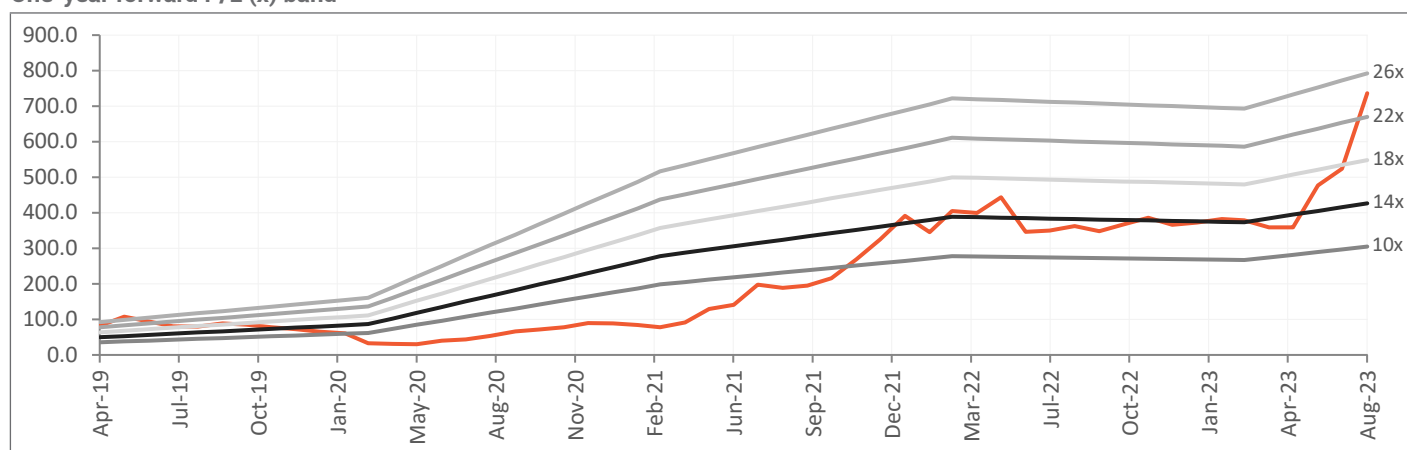
■ Company Outlook – Medium to long-term earnings growth prospects intact

After the management change in FY2018, the company has transformed itself into one of the strongest partners for global retailers. Results were strong with revenue and PAT growing at a CAGR of 17% and 54% over FY2019-FY2023 (EBITDA margin 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 21% CAGR over FY2023-FY2025E), riding on favourable industry tailwinds in the medium to long run. Acquisition of Atraco provide large scale and will help to grab in more opportunities in the key export markets. The acquired entity is likely to add Rs. 5-6 per share incrementally to the existing earning expectation in FY2025.

■ Valuation – Retain Buy with revised PT of Rs. 865

Acquisition of Atraco improves the long term growth prospects of the company with bigger scale. With new acquired African business, the company can focus on scaling up its US business while the India business can focus on gradual expansion in UK/EU (especially post FTA signing with UK in the coming months). Expansion in the new facility in Kenya provides incremental revenue benefit of Rs. 200-250 crore in FY2025. This provides further earnings accretion to the current rough estimates. The stock has already run-up by 20% in today's session and is currently trading at 28x/21x its FY2024E/25E earnings. In view large scale benefits and renewed opportunities in key export markets, we maintain our Buy on GKEL with a revised PT of Rs. 865 (valuing the stock on potential earnings accretion from the current levels).

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
KPR Mill	31.4	25.5	19.6	20.9	16.5	13.1	24.3	25.7	28.4
SP Apparels	17.3	11.9	8.7	10.8	7.3	5.3	17.7	21.5	25.0
Gokaldas Exports	26.5	27.6	20.6	16.1	14.1	10.7	22.5	21.3	24.0

Source: Company, Sharekhan estimates

About company

Established in 1979, GKEL has evolved to become a 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. Exporting to more than 50 countries, GKEL has fully integrated apparel manufacturing operations with 20+ production units consisting of 15,000+ advance machines supported by a strong workforce of 29,000+ employees that produce 3.0 million garments in a month.

Investment theme

GKEL is one of the largest integrated apparel manufacturers in India with a 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 revenue and PAT reporting CAGRs. of 17% and 54%, respectively, over FY2019-FY2023 (EBITDA margin expanded to 11.9% in FY2023 from 5.3% in FY2019). The company has made itself future-ready by planning to invest ~Rs. . 370 crore in building capacities (over FY2022-FY2024E) and improving product mix (outerwear share expanding). Revenue and PBT are expected to grow report at CAGRs. of 16% and 21%, respectively, over FY2023-FY2025E. However acquisition of Atraco provides further edge to the earnings upside of the company.

Key Risks

- ♦ **Large dependence on a limited customer base:** The company depends on a limited number of customers for a significant portion of export revenue. 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 revenue.
- ♦ **Increased 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 growth:** GKEL generates a significant amount of its revenue from key export markets such as the U.S. and Europe. Any slowdown in these markets will lead to muted order booking from key customers and impact growth in the coming years.

Additional Data

Key management personnel

Mathew Cyriac	Chairman
Sivaramakrishnan Ganapathi	Executive Director-Managing Director
A Sathyamurthy	Chief Financial Officer
Gourish Hegde	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd.	8.12
2	Nippon Life India Asset Management Ltd.	6.77
3	Goldman Sachs Group Inc.	4.67
4	Aditya Birla Sun Life Asset Management Co. Ltd.	4.21
5	Emirate of Abu Dhabi UAE	3.80
6	Siddhant Commercials Pvt Ltd	3.76
7	HSBC Holdings PLC	3.56
8	L&T Mutual Fund Trustee Ltd.	2.89
9	Tata Asset Management Pvt. Ltd.	2.25
10	Ganapathi Sivaramakrishnan Vilayur	2.14

Source: Bloomberg (Old data)

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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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Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/ CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669.

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