BUY (Maintained)

CMP: **INR 735** Target Price: **INR 855 (INR 595)** ▲ 16%

ICICI Securities

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30 August 2023

India | Equity research | Company update

Gokaldas Exports

Textile

ATRACO acquisition likely to boost revenues

Gokaldas Exports (GEXP) has signed a definitive agreement with the shareholders of UAE-based apparel maker, ATRACO, to acquire 100% of the latter's equity for a total consideration of up to USD 55mn funded through debt (73%) and internal accruals (27%). ATRACO exports 95% of its production to the US (primary market for GEXP) and has nearly mutually exclusive customer base with GEXP. Hence, we believe this deal provides GEXP an opportunity to leverage ATRACO's existing relationships for cross-selling opportunities. Given the duty-free access to US from Kenyan operations coupled with huge cross-selling opportunities, we now value GEXP at 18x FY25E EPS (earlier: 17x) and value the ATRACO business at 20x FY25E EPS to arrive at a revised target price of INR 855/sh (earlier: INR 595). Maintain **BUY**.

Deal at an attractive valuation; Bangladesh capex not on priority

GEXP has agreed to buy ATRACO at an equity value of USD 55mn (~INR 4.5bn). At ATRACO's consolidated PAT of USD 7mn (~INR 590 mn) in CY22, the implied P/E (ex. cash) works out to ~7.6x vs ~18x of GEXP (based on closing price of 28th Aug'23). Ref exhibit 2, we have arrived at FY25E EBITDA of ~INR 1bn implying RoCE of ~22% vs ~18% FY25E RoCE of GEXP's existing business.

Management is not keen on proceeding with the Bangladesh capex currently given the upcoming minimum wage hike (40-50%) in the neighbouring country, which could dilute its cost competitiveness.

ATRACO acquisition is potentially value-accretive

Management aims to add USD 20mn in revenues by CY25 on the back of capital expenditure of USD 4mn (on fresh line at Kenya) in CY24 in ATRACO. Further, led by operating leverage benefits, improvement in operational efficiencies, raw material sourcing synergies (cotton), etc., management expects EBITDA margin improvement of 100-150bps over the next 2-3 years. Ref. exhibit 3, we have consolidated ATRACO's proforma financials and find it potentially EPS-accretive by **30%** in FY25E. We value ATRACO at 20x FY25E EPS and the existing GEXP business at 18x (earlier: 17x) FY25E EPS to arrive at a revised target price of INR 855/sh (earlier: INR 595).

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	17,903	22,222	23,112	28,433
EBITDA	2,055	2,708	2,738	3,761
EBITDA Margin (%)	11.5	12.2	11.8	13.2
Net Profit	1,171	1,669	1,445	2,118
EPS (Rs)	19.9	27.6	23.8	34.9
EPS % Chg YoY	369.3	42.6	(13.5)	46.6
P/E (x)	37.0	26.7	30.9	21.1
EV/EBITDA (x)	21.7	15.7	15.4	10.9
RoCE (%) (Post Tax)	18.8	19.4	14.6	17.8
RoE (%)	23.5	20.9	15.1	18.6

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Market Data

Market Cap (INR)	45bn
Market Cap (USD)	539mn
Bloomberg Code	GEXP IN Equity
Reuters Code	GOKL.BO
52-week Range (INR)	736 /326
Free Float (%)	87.0
ADTV-3M (mn) (USD)	2.4

Price Performance (%)	3m	6m	12m
Absolute	82.4	91.1	106.8
Relative to Sensex	4.3	11.4	13.7

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

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

Source: Bloomberg, I-sec research

Previous Reports

09-08-2023: Q1FY24 results review

19-06-2023: Company Update

Exhibit 1: P/E-based target price of INR 855/sh

Particulars	FY25e
GEXP EPS (INR/sh)	34.9
Target multiple (x)	18.0
Equity Value of GEXP (INR/sh) --- (A)	**630**
ATRACO EPS (INR/sh)	11
Target multiple (x)	20
Equity Value of ATRACO (INR/sh) --- (B)	**225**
GEXP + ATRACO (A+B) (INR/sh)	**855**
CMP (INR/sh)	735
Upside (%)	**16%**

Source: I-Sec research, Company data

Exhibit 2: Proforma P&L of ATRACO

INR mn	CY19	CY20	CY21	CY22	CY23E	CY24E	CY25E	FY24E^	FY25E^
Revenue	5,500	5,190	6,340	8,430	8,430	9,189	10,108	2,872	9,415
YoY Growth (%)		-5.6	22.2	33.0	-	9.0	10.0	NA	NA
EBITDA	640	390	800	770	843	965	1,112	311	1,001
EBITDA margin (%)	*11.6*	*7.5*	*12.6*	*9.1*	*10.0*	*10.5*	*11.0*	*10.8*	*10.6*
Profit after Tax	400	180	700	570	570	649	785	209	682
PAT margin (%)	*7.3*	*3.5*	*11.0*	*6.8*	*6.8*	*7.1*	*7.8*	*7.3*	*7.2*

Source: I-Sec research, Company data, ^Numbers have been rolled over from December to March Quarter in order to consolidate with GEXP financials

Pls. note: FY24E is accounted only for 4 months of operation in FY24.

Exhibit 3: Proforma P&L (GEXP + ATRACO)

INR mn	FY23	FY24e	FY25e
Revenue	22,222	25,984	37,848
YoY Growth (%)		NA	NA
EBITDA	2,708	3,049	4,762
EBITDA margin (%)	*12.2*	*11.7*	*12.6*
Other Income	250	225	225
Depreciation^	718	822	1,024
EBIT	**2,241**	**2,452**	**3,963**
EBIT margin (%)	*10.1*	*9.4*	*10.5*
Interest*	257	327	492
Tax#	314	484	710
Adj. Profit after Tax	**1,669**	**1,641**	**2,761**
PAT margin (%)	*7.5*	*6.3*	*7.3*
O/s Shares	61	61	61
EPS	**28**	**27**	**46**
EPS value accretion		**14%**	**30%**

Source: I-Sec research, Company data, ^ATRACO's estimated depreciation is based on 1.2% (similar to CY22) of ATRACO's sales, * Interest is calculated as cost of debt (7.5%) multiplied by debt raise (USD 40mn), # Tax rate for ATRACO is estimated to be zero as operations based out of UAE and treated as offshore income.

Pls. note: FY24E is accounted only for 4 months of operation in FY24.

Exhibit 4: Kenya enjoys duty free access to USA under AGOA*

Import Duty Structure	Exporting Country					
	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 data, * African Growth & Opportunities Act (AGOA)

Exhibit 5: Kenya and Ethiopia have low labor costs vs peers

Factor Costs	Exporting Country					
	China	Bangladesh	Vietnam	Ethiopia	Kenya	India
Cost of labour (USD/month)	514	139	300	110	150	180
Labour skills	High	High	High	Low-Medium	Low-Medium	High
Cost of electricity (USD/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)

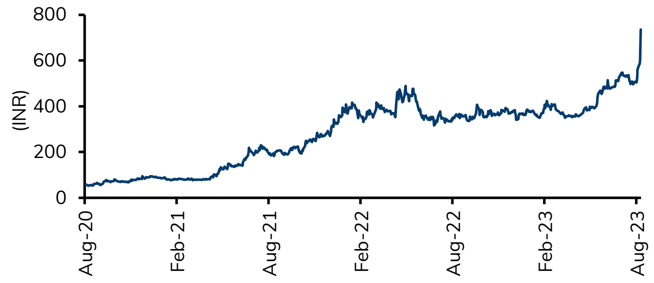
Source: Company data

Exhibit 6: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	21.0	11.1	11.1
Institutional investors	38.9	48.7	48.5
MFs and others	21.9	26.1	26.3
Insurance	0.0	1.3	1.9
FIIs	17.0	21.3	20.3
Others	40.1	40.2	40.4

Source: Bloomberg

Exhibit 7: Price chart



Source: Bloomberg

Financial Summary

Exhibit 8: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	**17,903**	**22,222**	**23,112**	**28,433**
Operating Expenses	6,689	7,624	8,158	9,643
EBITDA	**2,055**	**2,708**	**2,738**	**3,761**
EBITDA Margin (%)	11.5	12.2	11.8	13.2
Depreciation & Amortization	589	718	788	911
EBIT	1,465	1,990	1,950	2,850
Interest expenditure	402	257	247	247
Other Non-operating Income	107	250	225	225
Recurring PBT	**1,170**	**1,983**	**1,929**	**2,828**
Profit / (Loss) from Associates	**-**	**-**	**-**	**-**
Less: Taxes	(1)	314	484	710
PAT	1,171	1,669	1,445	2,118
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	61	-	-
Net Income (Reported)	**1,171**	**1,730**	**1,445**	**2,118**
Net Income (Adjusted)	**1,171**	**1,669**	**1,445**	**2,118**

Source Company data, I-Sec research

Exhibit 9: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	5,385	4,528	5,787	8,997
of which cash & cash eqv.	127	240	575	1,807
Total Current Liabilities & Provisions	1,178	840	1,266	1,947
Net Current Assets	**4,206**	**3,688**	**4,520**	**7,050**
Investments	1,694	3,440	3,440	3,440
Net Fixed Assets	2,879	2,798	3,410	2,999
ROU Assets	-	-	-	-
Capital Work-in-Progress	110	1,079	1,079	1,079
Total Intangible Assets	-	-	-	-
Other assets	122	(597)	(597)	(597)
Deferred Tax assets	-	-	-	-
Total Assets	**9,012**	**10,407**	**11,852**	**13,970**
Liabilities				
Borrowings	**1,930**	**1,544**	**1,544**	**1,544**
Deferred Tax Liability	**-**	**-**	**-**	**-**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	295	303	303	303
Reserves & Surplus	6,787	8,560	10,004	12,123
Total Net Worth	**7,082**	**8,863**	**10,307**	**12,426**
Minority Interest	-	-	-	-
Total Liabilities	**9,012**	**10,407**	**11,852**	**13,970**

Source Company data, I-Sec research

Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	**1,172**	**3,688**	**1,756**	**1,753**
Working Capital Changes	750	(1,108)	497	1,298
Capital Commitments	(782)	(1,264)	(1,400)	(500)
Free Cashflow	**390**	**2,424**	**356**	**1,253**
Other investing cashflow	**259**	**(1,649)**	**225**	**225**
Cashflow from Investing Activities	(523)	(2,914)	(1,175)	(275)
Issue of Share Capital	2,926	43	0	-
Interest Cost	(24,164)	(4,524)	(247)	(247)
Inc (Dec) in Borrowings	21,142	4,148	-	-
Dividend paid	-	-	-	-
Others	-	-	0	-
Cash flow from Financing Activities	(430)	(754)	(247)	(247)
Chg. in Cash & Bank balance	**219**	**20**	**335**	**1,232**
Closing cash & balance	127	240	575	1,807

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	19.9	27.6	23.8	34.9
Adjusted EPS (Diluted)	19.9	27.6	23.8	34.9
Cash EPS	29.8	39.4	36.8	50.0
Dividend per share (DPS)	-	1.0	-	-
Book Value per share (BV)	120.1	146.3	170.0	204.9
Dividend Payout (%)	-	3.6	-	-
Growth (%)				
Net Sales	47.9	24.1	4.0	23.0
EBITDA	102.5	31.8	1.1	37.4
EPS (INR)	369.3	42.6	(13.5)	46.6
Valuation Ratios (x)				
P/E	37.0	26.7	30.9	21.1
P/CEPS	24.6	18.7	20.0	14.7
P/BV	6.1	5.0	4.3	3.6
EV / EBITDA	21.7	15.7	15.4	10.9
P / Sales	2.5	2.0	1.9	1.6
Dividend Yield (%)	-	0.0	-	-
Operating Ratios				
Gross Profit Margins (%)	48.8	46.5	47.1	47.1
EBITDA Margins (%)	11.5	12.2	11.8	13.2
Effective Tax Rate (%)	0.0	15.8	25.1	25.1
Net Profit Margins (%)	6.5	7.5	6.3	7.5
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	4.7	6.7	7.7	9.0
Net Debt / EBITDA (x)	0.1	(0.8)	(0.9)	(1.0)
Profitability Ratios				
RoCE (%) (Post Tax)	18.8	19.4	14.6	17.8
RoE (%)	23.5	20.9	15.1	18.6
RoIC (%)	14.5	18.5	15.3	20.3
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	88	48	60	70
Receivables Days	19	22	22	22
Payables Days	24	14	20	25

Source Company data, I-Sec research

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