

4 May 2024

Go Fashion (India)

In-line results, SSSG improvement to be the key; maintaining a Buy

Go Fashion's FY24 revenue/EBITDA grew ~15%/14% y/y. The challenging demand situation kept SSSG flat y/y. In FY24 84 stores (net) were opened, below the ~100 guidance, due to more closures. Lower raw material prices aided the FY24 gross margin expansion of 105bps y/y to 61.7%. For this reason, management expects a further 50bp rise in the gross margin. Better inventory management led to consistently better WC days, leading to healthy cashflows. The company guided to 120-150 stores (net) in FY25, and targets 2-3% SSSG in Q1. Subdued demand leads us to lower our FY25e/26e revenue/EBITDA ~6.1% on average. Our EPS cut is sharper due to higher interest and depreciation expenses on stores added. We are positive on the company as it maintains its growth trajectory and strong operational efficiencies. Ahead, promoter pledge release, SSSG improvement are key. We retain our Buy, at a lower 12-mth TP of Rs1,377, 22x FY26e EV/EBITDA (earlier Rs1,499, 22x FY26e EV/EBITDA).

In-line performance. Q4 revenue grew ~15% y/y to Rs1.8bn. Demand was sluggish across segments, while SSSG rose 1% q/q (flat the prior quarter, 17% a year ago). SCSG was 10% y/y. EBO sales grew 10.7% y/y, led by new stores (10 net EBOs in Q4; count at 714), sales per EBO falling 3.6% y/y. LFS channel sales grew 20.3% y/y, led by ~25% new doors. The gross margin (incl. sub-contracting expenses) fell 27bps y/y to 63.5%. EBITDA grew ~9% y/y to Rs539m. The EBITDA margin slid 186bps y/y to 29.7%. PAT fell ~12% y/y to Rs131m.

Better cashflow. WC days fell to 124 (149 in FY23) on 23 days lower inventory. This led to consistently higher cashflows, with pre-INDAS OCF/FCF at Rs1,110m/675m (Rs195m/-154m in FY23). Cash reserves were Rs2bn (Rs1.3bn in FY23).

Valuation. We retain our Buy, at a 12-mth TP of Rs1,377, 22x FY26e EV/EBITDA. The core product portfolio, higher gross margin and return ratios make it a good long-term investment idea. **Risks:** Dependence on a single brand/category, no entry barriers in women's bottom-wear.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	4,013	6,653	7,628	8,696	10,400
Net profit (Rs m)	356	828	828	1,050	1,452
EPS (Rs)	6.6	15.3	15.3	19.5	26.9
P/E (x)	153.4	65.5	78.6	53.8	38.9
EV / EBITDA (x)	45.5	26.6	28.0	20.5	16.8
P/BV (x)	12.5	10.4	10.8	8.0	6.6
RoE (%)	8.1	15.9	13.7	14.8	17.0
RoCE (%)	6.7	13.4	11.0	11.4	13.5
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	-0.3	-0.2	-0.3	-0.3	-0.3

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price (12-mth): Rs.1,377

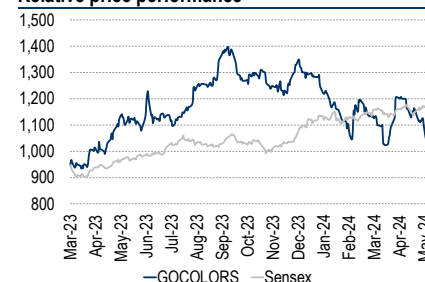
Share Price: Rs.1,046

Key data	GOCOLORS IN
52-week high / low	Rs.1,405 / 933
Sensex / Nifty	73878 / 22476
3-m average volume	\$1.2m
Market cap	Rs.56bn / \$675.4m
Shares outstanding	54m

Shareholding pattern (%)	Mar'23	Dec'23	Sept'23
Promoters	52.8	52.8	52.8
- of which, Pledged	16.3	16.3	16.3
Free float	47.2	47.2	47.2
- Foreign institutions	12.2	12.1	11.0
- Domestic institutions	31.9	31.0	32.1
- Public	3.2	4.1	4.1

Estimates revision (%)	FY25e	FY26e
Sales	(5.8)	(6.5)
EBITDA	(5.8)	(6.5)
EPS	(19.5)	(15.5)

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	4,013	6,653	7,628	8,696	10,400
Growth (%)	60.1	65.8	14.7	14.0	19.6
Direct costs	1,355	2,215	2,550	2,852	3,401
SG&A	1,436	2,315	2,654	2,974	3,536
EBITDA	1,222	2,123	2,424	2,870	3,463
EBITDA margins (%)	30.5	31.9	31.8	33.0	33.3
- Depreciation	718	871	1,104	1,261	1,338
Other income	208	119	173	217	260
Interest expenses	233	285	391	426	449
PBT	479	1,087	1,102	1,400	1,936
Effective tax rate (%)	25.6	23.8	24.9	25.0	25.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	356	828	828	1,050	1,452
Adjusted income	356	828	828	1,050	1,452
WANS	54	54	54	54	54
FDEPS (Rs)	6.6	15.3	15.3	19.5	26.9
FDEPS growth (%)	-1,072.5	132.6	0.0	26.9	38.2
Gross margins (%)	66.2	66.7	66.6	67.2	67.3

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	479	1,087	1,102	1,400	1,936
+ Non-cash items	809	1,107	1,364	1,687	1,788
Oper. prof. before WC	1,287	2,194	2,466	3,087	3,723
- Incr. / (decr.) in WC	847	833	-87	420	643
Others incl. taxes	110	324	366	350	484
Operating cash-flow	330	1,037	2,187	2,317	2,596
- Capex (tang. + intang.)	198	349	434	556	650
Free cash-flow	132	688	1,753	1,761	1,946
Acquisitions					
- Div. (incl. buyback & taxes)	-0	-	-	-	-
+ Equity raised	1,187	2	-	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	357	-119	253	-	-
- Misc. (CFI + CFF)	574	887	1,122	1,402	1,426
Net cash-flow	388	-79	378	359	520

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	540	540	540	540	540
Net worth	4,384	5,204	6,039	7,089	8,541
Debt (incl. Pref.)	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)*	2,384	3,227	4,465	4,465	4,465
Capital employed	6,768	8,431	10,504	11,555	13,007
Net tangible assets**	2,908	3,929	5,258	5,539	5,827
Net intangible assets	4	7	9	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	87	74	109	109	109
Investments (strategic)	-	-	-	-	-
Investments (financial)	459	217	61	61	61
Current assets (excl. cash)	2,882	4,002	3,812	4,190	4,955
Cash	1,058	872	1,921	2,279	2,799
Current liabilities	630	670	665	623	744
Working capital	2,252	3,332	3,147	3,567	4,210
Capital deployed	6,768	8,431	10,504	11,555	13,007
Contingent liabilities	-	-	-	-	-

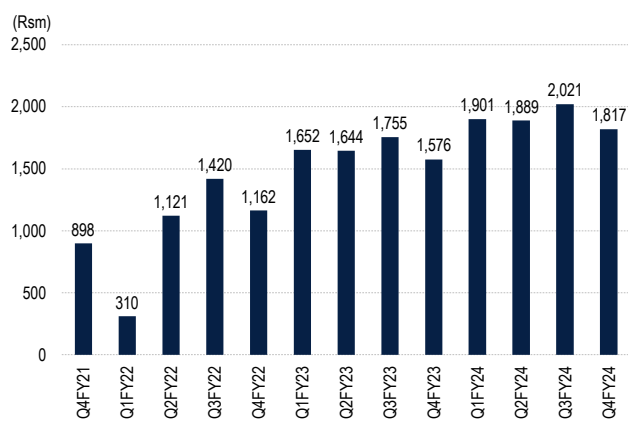
* including lease liabilities ** including right-to-use assets

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	153.4	65.5	78.6	53.8	38.9
EV / EBITDA (x)	45.5	26.6	28.0	20.5	16.8
EV / Sales (x)	13.9	8.5	8.9	6.8	5.6
P/B (x)	12.5	10.4	10.8	8.0	6.6
RoE (%)	8.1	15.9	13.7	14.8	17.0
RoCE (%) - after tax	6.7	13.4	11.0	11.4	13.5
RoIC	7.1	13.5	11.3	12.4	15.1
DPS (Rs)					
Dividend yield (%)	-	-	-	-	-
Div. payout (%) - incl. DDT					
Net debt / Equity (x)	-0.3	-0.2	-0.3	-0.3	-0.3
Receivables (days)	55	35	38	38	38
Inventory (days)	151	126	104	97	95
Payables (days)	16	20	18	12	12
CFO: PAT (%)	92.7	125.3	264.2	220.6	178.8

Source: Company, Anand Rathi Research

Fig 6 – Q4 revenue grew ~15% y/y to Rs1.8bn



Source: Company

Q4 and FY24 results highlights

Q4 revenue grew ~15% y/y to Rs1,817m. The gross margin (incl. sub-contracting expenses) fell 27bps y/y to 63.5%. Employee/other expenses were up ~24%/17% y/y. EBITDA grew 8.5% y/y to Rs539m, while the margin declined 186bps y/y to 29.7%. Depreciation/interest expenses rose ~25%/36% y/y, other income, ~112% y/y to Rs55m. PAT fell ~12% y/y to Rs131m.

FY24 sales grew ~15% y/y to Rs7.6bn. The gross margin (incl. sub-contracting expenses) grew 105bps y/y to 61.7%. EBITDA grew ~14% y/y to Rs2.4bn; the EBITDA margin was flat y/y at 31.8%. PAT was flat y/y at Rs828m.

FY24 post-INDAS OCF climbed to Rs2,187m (from Rs1,037m in FY23), resulting in higher FCF of Rs1,752m (Rs688m in FY23).

FY24 net cash reserves were Rs1,984m (Rs1,340m the year prior).

FY24 working capital days were lower at 124 (149 in FY23) led by 23 days y/y reduction in inventory days to 104. Receivables days fell to 38 (40 in FY23), while payables days were 18 (17 in FY23).

Fig 7 – Quarterly and full-year results

(Rs m)	Q4 FY24	Q4 FY23	Y/Y (%)	Q3 FY24	Q/Q (%)	FY24	FY23	Y/Y (%)
Revenue	1,817	1,576	15.3	2,021	-10.1	7,628	6,653	14.7
Gross margin (%) - incl. sub-contracting exp.	63.5	63.8	-27bps	61.5	205 bps	61.7	60.7	105 bps
Employee expenses	350	282	24.2	324	7.8	1,302	1,026	26.9
Other expenses	266	227	17.0	243	9.4	982	888	10.7
EBITDA	539	497	8.5	675	-20.2	2,424	2,123	14.2
EBITDA margins (%)	29.7	31.5	-186bps	33.4	-375 bps	31.8	31.9	-13 bps
Interest expense	115	84	36.4	105	9.5	391	285	37.5
Depreciation	307	246	25.0	289	6.3	1,104	871	26.8
Other income	55	26	112.4	42	32.7	173	119	45.2
PBT	172	193	-10.6	323	-46.7	1,102	1,087	1.4
Tax	42	45	-7.2	89	-53.1	274	259	6.0
Tax rates (%)	24.2	23.3	89 bps	27.5	-332bps	24.9	23.8	108 bps
PAT	131	148	-11.7	234	-44.2	828	828	-0.0

Source: Company

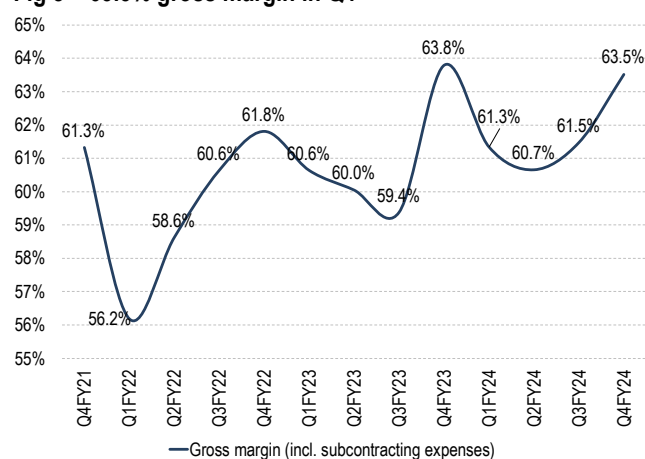
Other Highlights

- **Demand.** Management saw sluggish demand across segments. During the quarter, Jan and Feb saw negative comparable growth, while Mar was good. Apr'24 was even better; however, compared to the corresponding month last year, it was decent.
- **Channel mix.** EBOs brought 73.2% to overall revenue in FY24, LFS 21.6%, online 2.9% and MBOs & others 2.4%. EBO channel sales grew 13.6% y/y, led by 84 net stores added in the year. Revenue per EBO fell 9.9% y/y. LFS channel sales grew 18.5% y/y, led by ~25% y/y doors added in FY24. Revenue/LFS dipped 12.8% y/y. Online grew ~23% y/y, while MBOs and others grew 5.8% y/y in FY24.
- The company received a credit note of Rs77m from one of its LFS partners in Q4 (Rs85m the previous year). The note referred to discount promotions given by the LFS partner in the year. This, however, was accounted for in Q4. FY24 saw under-utilised discounts due to poor demand. Excl. this, LFS growth was ~30% y/y in Q4.
- **The online channel** contributed 2.9% to revenue in FY24, one-third coming from its own website. The company aims at a 5% share of online revenue in the short term.
- **Network expansion.** 10 EBOs (net) were added in Q4 (84 in FY24), taking the count to 714 across 160 cities. The company closed 23 EBOs during the year, including 13 stores which failed to recover post-Covid. The remaining 10 closures were chiefly kiosks and airport stores where footfalls were fewer and not adding any advertising mileage. 165 LFS doors (net) were added in Q4 (439 in FY24), taking the total to 2,189.
- **Same-store sales growth.** Q4 SSSG was 1% y/y and volume SSSG was -1.45%. FY24 SSSG was flat y/y, led by negative 3.46% volume SSSG. Management targets low single-digit SSSG in FY25. Its SSSG guidance has dipped based on dull demand.
- **Same cluster sales growth.** SCSG was 10% in Q4 and in FY24. FY24 volume SCSG was 6.5%.
- **Overall FY24 volume growth** was 9% y/y.
- **ASP** rose to Rs752 (Rs727 in FY23), led by a better sales mix. Full price sales were 95% of FY24 revenue. Management expects 4-5% y/y increase in ASP ahead, led by a change in the product mix. It has no plans to hike prices. It intends to keep the ASP below Rs1,000.
- **Product mix.** Category-wise, *churidars* and leggings account for 45% of the overall product mix. Denims and loungewear account for a low single-digit share. The company will be launching 3-4 athleisure products in May/Jun'24.
- **The FY24 gross margin** (incl. sub-contracting expenses) expanded 105bps y/y, benefiting from lower cotton prices. Ahead, management expects another 50bp expansion in the gross margin. It guided to steady a gross margin of 61.5%.
- **Expenses.** Employee expenses grew y/y, led by salary/wage increments and more front-end employees on the EBO and LFS network expansions in the year. Rent for EBOs was higher at Rs1.18bn (Rs0.9bn in FY23), led by elevated lease amounts and 84 EBOs (net) added. Overall rent expense as percent of sales was higher y/y due to flattish

SSSG impacting growth. Further, interest expense was ~38% higher y/y in FY24, on the increase in lease liabilities from stores added.

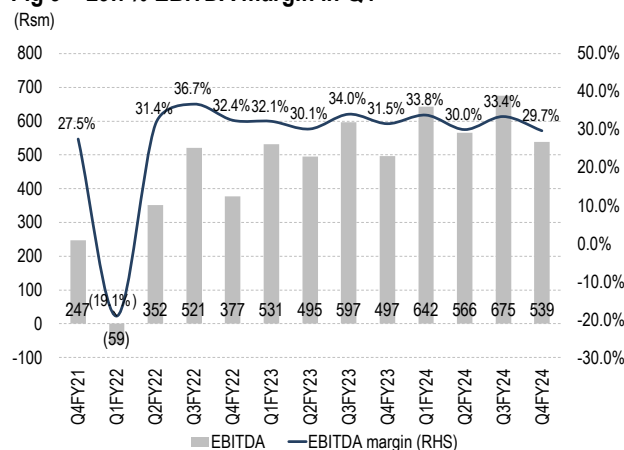
- **Net capex** grew ~24% y/y to Rs435m, led by 84 stores (net) added, renovations & relocations, investments in warehouse equipment and expansion of warehouse. Capex per store rose to Rs1.7m-1.8m.
- **The pre-INDAS OCF stepped up to** Rs1.11bn (from Rs195m in FY23) led by better inventory management and inventory rationalisation at warehouse. FCF grew to Rs675m (-Rs154m in FY23).
- **Outlook.** Management says its focus is on evolving the product mix and incentivising store staff to drive growth ahead. It plans to add 120-150 stores in FY25 (net), while closures would be in low single digits. It aims at 2-3% SSSG in Q1 FY25. It further guided to 2% ad-spends in FY25.

Fig 8 – 63.5% gross margin in Q4



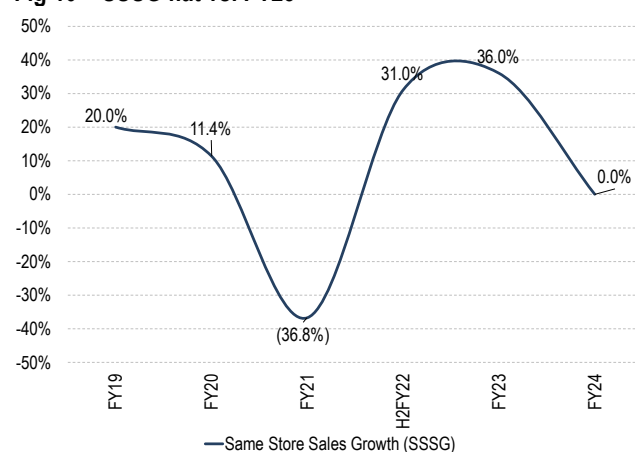
Source: Company

Fig 9 – 29.7% EBITDA margin in Q4



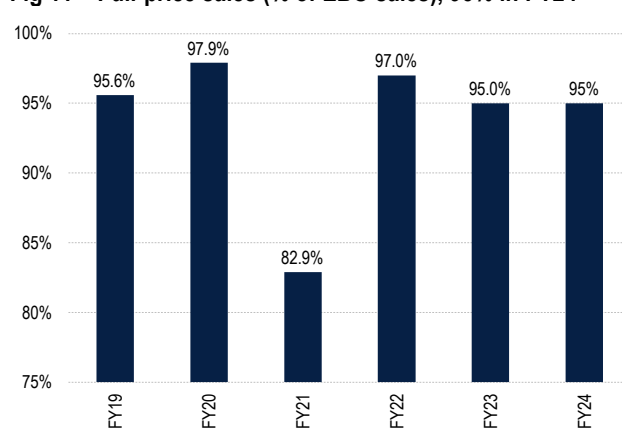
Source: Company

Fig 10 – SSSG flat vs. FY23

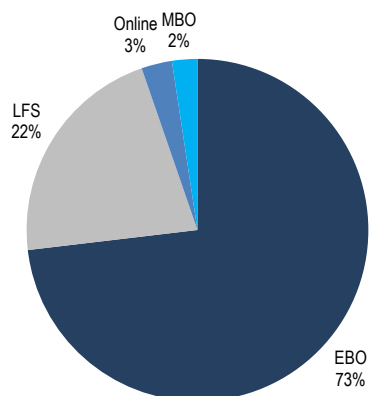


Source: Company

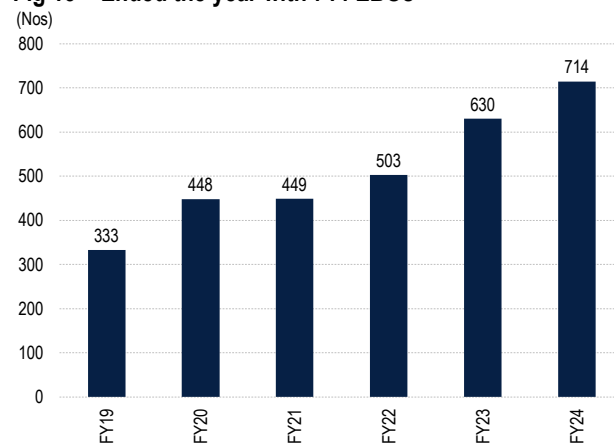
Fig 11 – Full-price sales (% of EBO sales), 95% in FY24



Source: Company

Fig 12 – The EBO channel brought ~73% to revenue in FY24

Source: Company

Fig 13 – Ended the year with 714 EBOs

Source: Company

Change in estimates

We lower our FY25e/26e revenue/EBITDA 5.8%/6.5% each year because of the continuously muted demand environment.

Our FY25e/26e EPS cut is sharper at 19.5%/15.5% due to higher interest and depreciation expenses because of store openings.

Fig 14 – Estimate revisions

	Old estimates		New estimates		Change (%)	
	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e
Revenue	9,234	11,120	8,696	10,400	(5.8)	(6.5)
EBITDA	3,047	3,703	2,870	3,463	(5.8)	(6.5)
PAT	1,304	1,718	1,050	1,452	(19.5)	(15.5)
EPS	24.2	31.8	19.5	26.9	(19.5)	(15.5)

Source: Anand Rath Research

Valuation

We like Go Fashion because of its 1) 8% market share in women's branded bottom-wear, 2) core category, with high full-price sales pushing up gross margins (~95% full-price EBO sales in FY24), 3) strong retail network and operations across channels and a robust EBO network giving it an edge (In FY24, it had 714 EBOs with very strong unit economics) and 4) an efficient and technology-driven supply chain, allowing it to source products at competitive prices; hence, it can market them competitively.

At the CMP, the stock quotes at 20.5x/16.8x FY25e/FY26e EV/EBITDA and 53.8x/38.9x P/E. We maintain our Buy rating on it with a lower 12-mth TP of Rs1,377, 22x FY26e EV/EBITDA (previously Rs1,499, 22x FY26e EV/EBITDA). We believe the valuation is justified given the company's leading position in women's bottom-wear, zero-debt status, efficient working-capital management and high cash-generating ability.

Fig 15 – Valuation parameters

	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	153.4	65.5	78.6	53.8	38.9
EV / EBITDA (x)	45.5	26.6	28.0	20.5	16.8
EV / Sales (x)	13.9	8.5	8.9	6.8	5.6
RoE (%)	8.1	15.9	13.7	14.8	17.0
RoCE (%)	6.7	13.4	11.0	11.4	13.5

Source: Company, Anand Rath Research

Fig 16 – Valuation table (Rs m) – FY26e

EBITDA	3,463
Multiple (x)	22
Enterprise value	76,193
Gross debt	4,691
Cash balance	2,860
Market cap	74,362
No. of shares (m)	54.0
TP (Rs)	1,377
CMP (Rs)	1,046
Upside / (Downside) %	32

Source: Anand Rath Research

Risks

- Dependence on a single brand/category. All products are sold under a single brand, 'Go Colors', and a single category ie, women's bottom-wear. Rival brands can cross-sell in multiple categories.
- Women's bottom-wear is highly fragmented and keenly competitive.
- With no entry barriers, women's bottom-wear is easy for competitors to enter, especially the larger manufacturers.
- Growth in online retailers and the current trend of discounting and pricing strategies may cut into profitability.

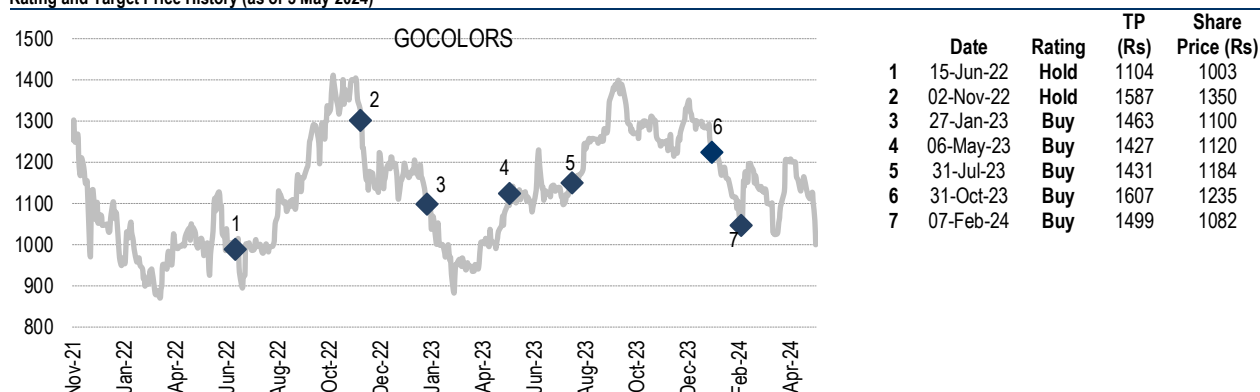
Appendix

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	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
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