

SSG Turnaround in sight; other concerns exaggerated; BUY

Retail ▶ Visit Note ▶ July 12, 2024

TARGET PRICE (Rs): 1,350

We visited multiple Go Colors (GO) stores across Mumbai to validate our thesis around the bottom-wear category and its TAM. Our conviction on category relevance got strengthened when we saw customers walking in with their tops to find their perfect color match. GO's expanding portfolio (>50 styles) enables a strong cross/up-selling opportunity and TAM expansion with focus on Active/Denims/Girls/Plus categories, reflecting in healthy units per bill of ~2.3. We were pleasantly surprised with the kind of traction GO receives in both premium locations (Lokhandwala/Linking Road) and mass hubs (Borivali/Dadar), suggesting that its consumers are across income brackets. In line with evolving consumer preferences, the stock allocation to non-core categories has now increased to >70% in its stores. Demand trends (SSG) and store expansion are also improving, providing confidence on ~30% PAT CAGR over FY24-27E. The stock is currently trading at attractive valuations and further WC optimization/pledge reduction should be potential triggers. We maintain BUY.

Go Fashion: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	6,653	7,628	8,915	10,847	13,044
EBITDA	2,123	2,424	2,848	3,668	4,486
Adj. PAT	828	828	1,020	1,422	1,762
Adj. EPS (Rs)	15.3	15.3	18.9	26.3	32.6
EBITDA margin (%)	31.9	31.8	31.9	33.8	34.4
EBITDA growth (%)	78.4	14.2	17.5	28.8	22.3
Adj. EPS growth (%)	127.4	0.0	23.2	39.4	23.9
RoE (%)	17.3	14.7	15.6	18.3	18.8
RoIC (%)	30.0	26.9	30.7	38.2	42.7
P/E (x)	69.4	69.4	56.3	40.4	32.6
EV/EBITDA (x)	26.4	22.9	19.3	14.7	11.8
P/B (x)	11.0	9.5	8.1	6.8	5.6
FCFF yield (%)	1.3	3.0	3.1	4.1	5.1

Source: Company, Emkay Research

Diversification of portfolio should expand TAM: In line with evolving consumer preferences, the stock/space allocation has been shifting toward non-core categories like Pants, Jeggings, Active/Yoga/Joggers, Denims, Linen, and Girls (age group of 8-18 years). Our store visits suggest that stock of core categories (leggings/churidar) is now <30% of overall stock at the stores. With these new innovations, we believe that GO is positioning itself as a complete bottom-wear solution in consumer minds vs a leggings/churidar player earlier. Such diversification should help it address more consumption occasions and bring millennials/GenZ into its customer base.

Early signs of SSG turnaround: Our recent Go Colors store visits suggest early signs of demand reversal in Jun-24 and an increasing mix of premium non-core categories, which should reflect in improved SSG trends beyond Q1. While SSG would remain muted in Q1, the outperformance vs peers should continue. WC optimization has been significant, resulting in a pre-Ind AS operating cash flow of >Rs1bn in FY24. There is scope for further improvement which should drive healthy cash flow generation in FY25E and beyond. Store additions are also expected to pick up, with 120-150 new stores expected in FY25, after 84 additions in FY24.

Women bottom wear (WBW) is a tough nut to crack: WBW involves more than 50 styles with some requiring 80-90 color options and 4-6 size variants, making the supply chain highly complex. Additionally, women are relatively more price sensitive. Maintaining equilibrium between working capital optimization and prevention of stock-out situations is a key moat, along with remaining relevant to evolving consumer preferences and maintaining attractive pricing. We believe GO's ahead of the curve technology investments and strong understanding of consumer behavior are helping it ace this category and shield it from entry of new players.

Valuations comfortable vs peers: After a dream listing (90% premium) in Nov-21, the stock has since given muted returns. We believe the sluggish performance is due to muted demand, medially elevated working capital, and delay in reduction of pledged shares. In our view, we should start seeing improvement across all these fronts in coming quarters, providing scope for a healthy re-rating. We expect GO to register ~30% PAT growth over FY24-27E. We retain BUY with TP of Rs1,350/sh (30x Jun-25E EBITDA).

Target Price – 12M	Jun-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	26.9
CMP (11-Jul-24) (Rs)	1,063.6

Stock Data	Ticker
52-week High (Rs)	1,405
52-week Low (Rs)	933
Shares outstanding (mn)	54.0
Market-cap (Rs bn)	57
Market-cap (USD mn)	687
Net-debt, FY25E (Rs mn)	-2,608
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	66.3
ADTV-3M (USD mn)	0.8
Free float (%)	47.0
Nifty-50	24,316
INR/USD	83.6
Shareholding, Mar-24	
Promoters (%)	52.8
FPIs/MFs (%)	12.2/31.9

Price Performance

(%)	1M	3M	12M
Absolute	2.1	(8.7)	(5.2)
Rel. to Nifty	(2.3)	(14.6)	(24.2)

1-Year share price trend (Rs)



Devanshu Bansal

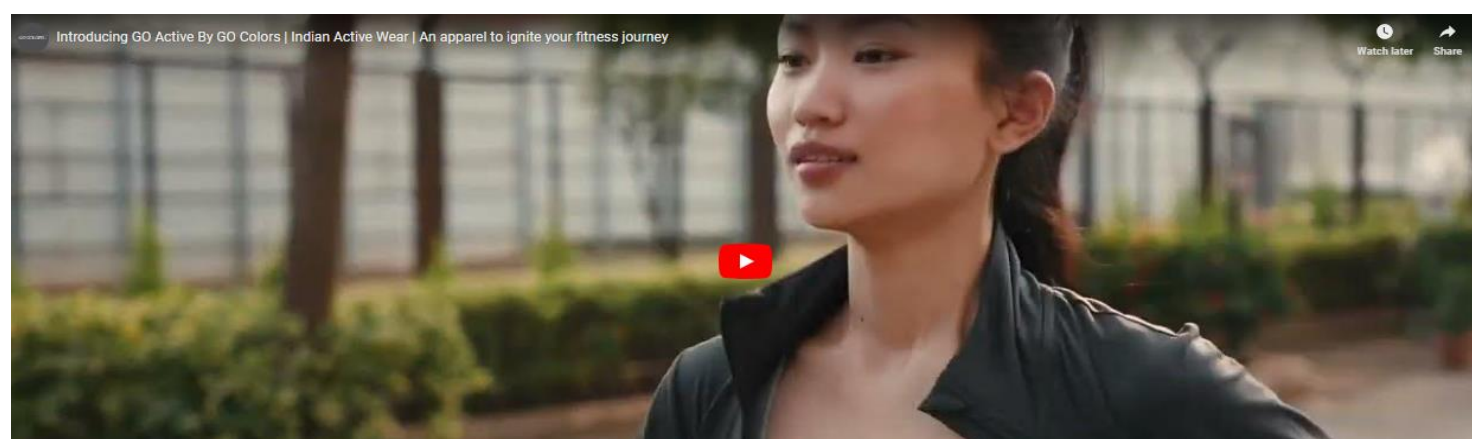
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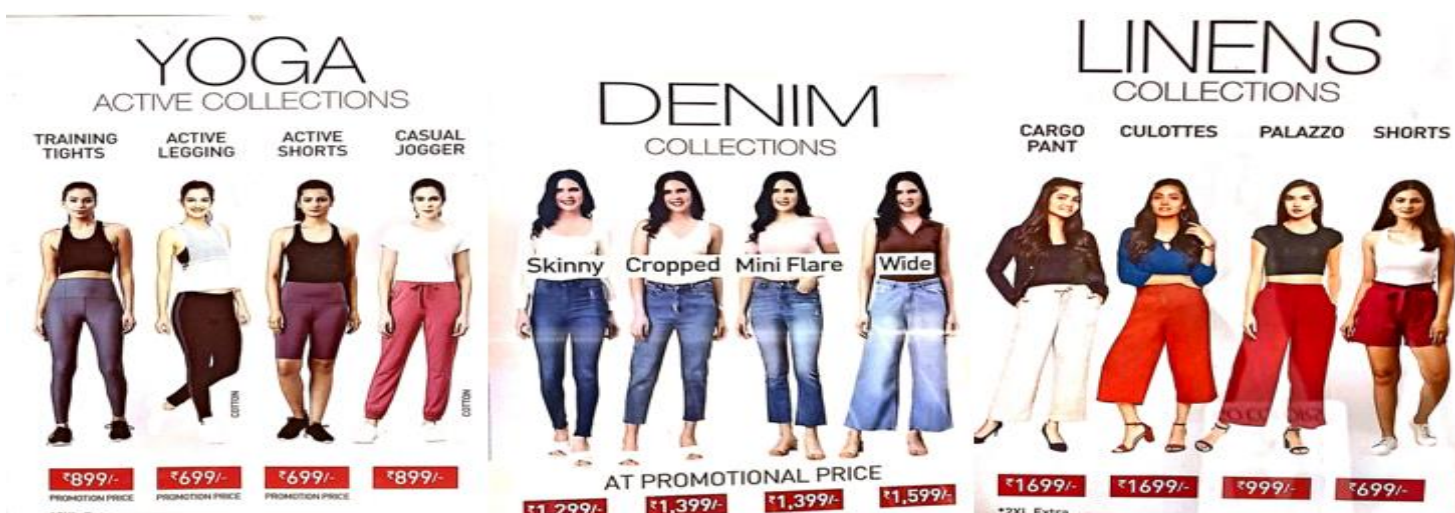
Story in Charts

Exhibit 1: GO has launched its GO! ACTIVE marketing commercials over social platforms to expand TAM and gain traction among Millennial/GenZ consumers



Source: Emkay Research; **Note:** Link to GO ACTIVE Commercial: [Click Here](#)

Exhibit 2: GO is focused on new styles in Active, Denim, and Linen collections by offering promotional pricing to gain traction



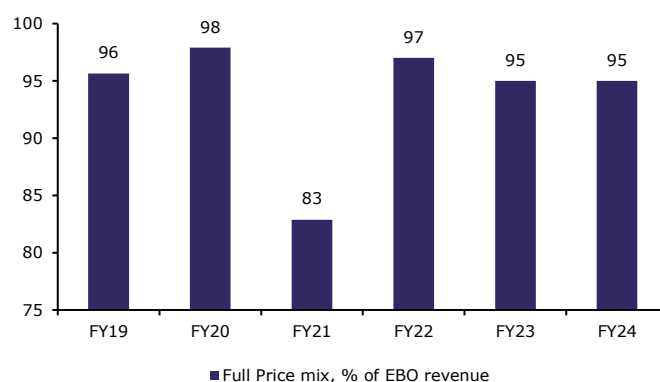
Source: Emkay Research

Exhibit 3: EOSS mix is relatively smaller for Go Fashion; each store typically suggested sale of 1,000-1,200 pieces during the EOSS period, which is <5% of annual business



Source: Emkay Research

Exhibit 4: Full price mix remains best in class for the EBO channel at ~95%

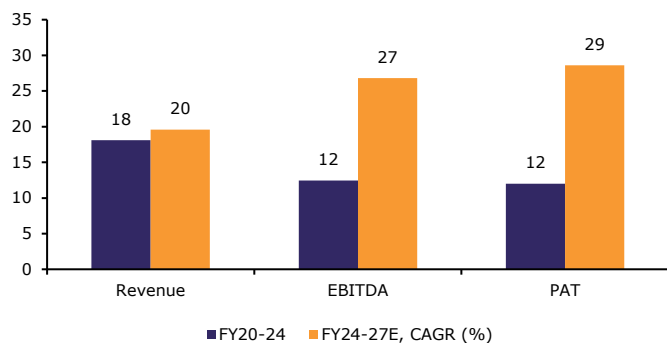
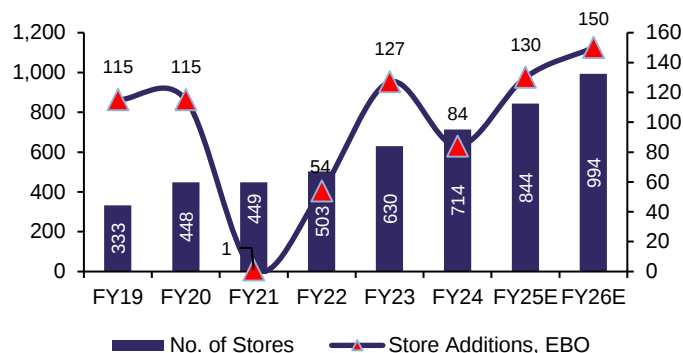


Source: Company, Emkay Research

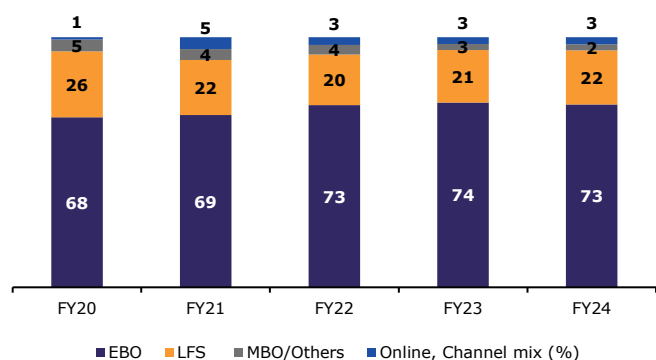
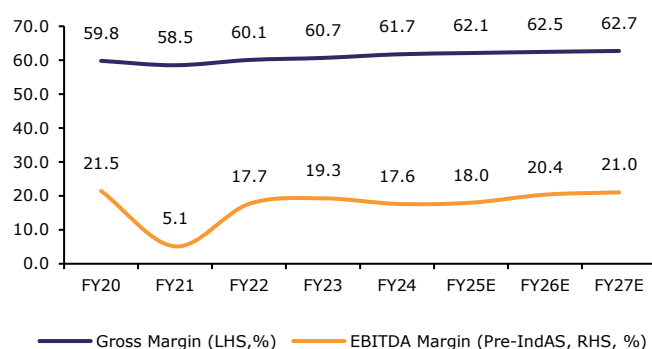
Exhibit 5: Unit metrics per store for Mumbai region

Ballpark Unit Metrics (Mumbai)	
Daily Footfalls (no. of)	20
Conversion (%)	80
ASP (Rs)	800
Units per bill (no. of)	2.3
Bill size (Rs)	1,850
Yearly Bill cuts (no. of)	6,000
Annual units sold (no. of)	13,500
Avg. annual revenue per store (Rs mn)	11
COGS (Rs mn)	4
Gross Profit (Rs mn)	7
Gross margin (%)	65
Rentals (Rs mn)	2.4
Employee cost (Rs mn)	1.5
Others (Rs mn)	0.6
Store EBITDA (Rs mn)	2
Store EBITDA Margin (%)	23
Total stock units (no. of)	7,500
Total stock value (Rs mn)	2.1
Capex per store (Rs mn)	1.9
Rental deposits (Rs mn)	1.0
Total invested value per store (Rs mn)	5.0
Payback period (years)	2.0

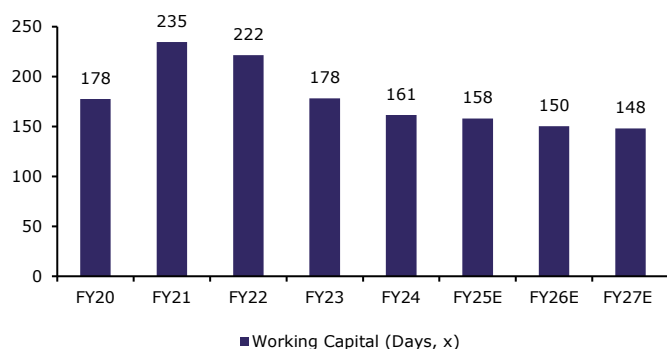
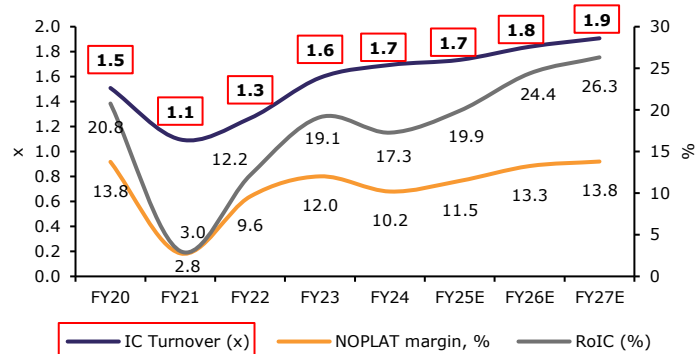
Source: Emkay Research

Exhibit 6: Growth prospects remain robust with 20-29% CAGR for Revenue/EBITDA/PAT over FY24-27ESource: Company, Emkay Research **Note: EBITDA is pre-Ind AS 116****Exhibit 7: We expect GO to add 130 stores over FY25E, in line with guidance of 120-150 store add**

Source: Company, Emkay Research

Exhibit 8: EBO remains the dominant sales channel with 73% revenue contribution; offline formats are key in mix-match categorySource: Company, Emkay Research; **Note: EBITDA is pre-Ind AS 116****Exhibit 9: We expect margins to improve with better mix and operating leverage**

Source: Company, Emkay Research

Exhibit 10: WC days to optimize further to sub-150 days with focus on reducing warehouse inventorySource: Company, Emkay Research; **Note: EBITDA is pre-Ind AS 116****Exhibit 11: ROIC to improve with WC optimization and improvement in margins**

Source: Company, Emkay Research

Exhibit 12: Peer Comparison

Companies	Price (Rs/sh)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	EPS (Rs)			P/E (x)			EV/EBITDA (x)*		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Titan Company	3,249	2,884	Buy	4,000	44.4	57.4	73.0	73.2	56.6	44.5	48.0	38.4	31.2
Page Industries	39,380	439	Reduce	37,300	595.0	711.0	845.3	66.2	55.4	46.6	43.1	36.6	31.0
Jubilant FoodWorks	582	384	Add	600	5.0	7.5	10.0	115.6	77.7	58.1	23.1	19.8	17.2
Devyani International	163	196	Reduce	165	0.7	1.3	2.2	240.9	122.8	74.8	22.6	17.4	14.0
ABFRL	323	328	Sell	260	-3.1	-1.5	0.1	NA	NA	NA	19.2	14.9	11.7
Westlife Foodworld	853	133	Reduce	875	2.9	8.9	12.4	294.2	96.0	68.6	36.0	24.9	20.5
Sapphire Foods	1,554	99	Add	1,700	11.3	25.1	35.0	136.9	61.9	44.4	17.7	13.2	10.6
Go Fashion	1,064	57	Buy	1,350	18.9	26.3	32.6	56.3	40.4	32.6	19.6	15.2	12.4
Ethos	2,954	72	Buy	3,200	42.5	55.7	75.0	69.5	53.0	39.4	35.8	26.2	19.8
Senco Gold	980	76	Buy	1,150	27.6	35.4	43.9	35.5	27.7	22.3	18.1	14.6	12.0
Varun Beverages	1,592	2,069	Add	1,600	20.1	25.8	32.3	79.1	61.8	49.3	45.2	37.1	31.5
Aditya Vision	4,427	57	Buy	5,800	99.2	137.9	184.8	44.6	32.1	24.0	23.8	18.7	14.6

Source: Company, Emkay Research; Note: *Post-Ind AS-116 EBITDA

Go Fashion: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	6,653	7,628	8,915	10,847	13,044
Revenue growth (%)	65.8	14.7	16.9	21.7	20.3
EBITDA	2,123	2,424	2,848	3,668	4,486
EBITDA growth (%)	78.4	14.2	17.5	28.8	22.3
Depreciation & Amortization	871	1,104	1,248	1,475	1,756
EBIT	1,252	1,321	1,599	2,194	2,730
EBIT growth (%)	148.4	5.5	21.1	37.2	24.4
Other operating income	0	0	0	0	0
Other income	119	173	240	265	290
Financial expense	285	391	479	562	671
PBT	1,087	1,102	1,360	1,896	2,349
Extraordinary items	0	0	0	0	0
Taxes	259	274	340	474	587
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	828	828	1,020	1,422	1,762
PAT growth (%)	132.6	0.0	23.2	39.4	23.9
Adjusted PAT	828	828	1,020	1,422	1,762
Diluted EPS (Rs)	15.3	15.3	18.9	26.3	32.6
Diluted EPS growth (%)	127.4	0.0	23.2	39.4	23.9
DPS (Rs)	0.0	0.0	0.0	0.0	0.0
Dividend payout (%)	0.0	0.0	0.0	0.0	0.0
EBITDA margin (%)	31.9	31.8	31.9	33.8	34.4
EBIT margin (%)	18.8	17.3	17.9	20.2	20.9
Effective tax rate (%)	23.8	24.9	25.0	25.0	25.0
NOPLAT (pre-IndAS)	954	992	1,200	1,645	2,047
Shares outstanding (mn)	54.0	54.0	54.0	54.0	54.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,087	1,102	1,360	1,896	2,349
Others (non-cash items)	871	1,104	1,248	1,475	1,756
Taxes paid	(259)	(274)	(340)	(474)	(587)
Change in NWC	(814)	(123)	(488)	(604)	(832)
Operating cash flow	1,050	2,027	2,020	2,590	3,067
Capital expenditure	(361)	(430)	(391)	(445)	(456)
Acquisition of business	0	0	0	0	0
Interest & dividend income	119	173	240	265	290
Investing cash flow	0	(100)	(151)	(180)	(166)
Equity raised/(repaid)	2	0	0	0	0
Debt raised/(repaid)	0	0	0	0	0
Payment of lease liabilities	(840)	(1,078)	(1,243)	(1,459)	(1,741)
Interest paid	(4)	(6)	0	0	0
Dividend paid (incl tax)	0	0	0	0	0
Others	(145)	(43)	0	0	0
Financing cash flow	(987)	(1,128)	(1,243)	(1,459)	(1,741)
Net chg in Cash	64	798	627	951	1,160
OCF	1,050	2,027	2,020	2,590	3,067
Adj. OCF (w/o NWC chg.)	1,864	2,150	2,508	3,194	3,899
FCFF	690	1,597	1,630	2,145	2,611
FCFE	524	1,378	1,390	1,848	2,230
OCF/EBITDA (%)	49.5	83.6	70.9	70.6	68.4
FCFE/PAT (%)	63.3	166.5	136.3	129.9	126.6
FCFF/NOPLAT (%)	72.3	161.0	135.9	130.4	127.5

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	540	540	540	540	540
Reserves & Surplus	4,664	5,499	6,519	7,941	9,703
Net worth	5,204	6,039	7,059	8,481	10,243
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(132)	(220)	(254)	(292)	(335)
Total debt	0	0	0	0	0
Total liabilities & equity	5,072	5,818	6,806	8,190	9,908
Net tangible fixed assets	850	1,014	1,162	1,316	1,427
Net intangible assets	7	8	8	8	7
Net ROU assets	(315)	(446)	(689)	(975)	(1,316)
Capital WIP	74	109	109	109	109
Goodwill	0	0	0	0	0
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	1,340	1,981	2,608	3,559	4,720
Current assets (ex-cash)	3,746	3,812	4,278	4,989	5,943
Current Liab. & Prov.	628	660	671	816	981
NWC (ex-cash)	3,118	3,153	3,607	4,173	4,962
Total assets	5,072	5,818	6,806	8,190	9,908
Net debt	(1,340)	(1,981)	(2,608)	(3,559)	(4,720)
Capital employed	5,072	5,818	6,806	8,190	9,908
Invested capital	3,659	3,728	4,088	4,521	5,079
BVPS (Rs)	96.4	111.8	130.7	157.0	189.7
Net Debt/Equity (x)	(0.3)	(0.3)	(0.4)	(0.4)	(0.5)
Net Debt/EBITDA (x)	(0.6)	(0.8)	(0.9)	(1.0)	(1.1)
Interest coverage (x)	0.2	0.3	0.3	0.2	0.2
RoCE (%)	29.2	27.4	29.1	32.8	33.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	69.4	69.4	56.3	40.4	32.6
P/CE(x)	32.8	28.9	24.6	19.3	15.9
P/B (x)	11.0	9.5	8.1	6.8	5.6
EV/Sales (x)	8.4	7.3	6.2	5.0	4.0
EV/EBITDA (x)	26.4	22.9	19.3	14.7	11.8
EV/EBIT(x)	43.5	40.7	33.2	23.8	18.7
EV/IC (x)	14.9	14.4	13.0	11.6	10.1
FCFF yield (%)	1.3	3.0	3.1	4.1	5.1
FCFE yield (%)	0.9	2.5	2.5	3.3	4.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
DuPont-RoE split					
Net profit margin (%)	12.4	10.9	11.4	13.1	13.5
Total asset turnover (x)	1.4	1.4	1.4	1.4	1.4
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	17.3	14.7	15.6	18.3	18.8
DuPont-RoIC					
NOPLAT margin (%)	14.3	13.0	13.5	15.2	15.7
IC turnover (x)	2.1	2.1	2.3	2.5	2.7
RoIC (%)	30.0	26.9	30.7	38.2	42.7
Operating metrics					
Core NWC days	59.3	55.5	48.3	44.7	43.0
Total NWC days	171.0	150.8	147.7	140.4	138.8
Fixed asset turnover	7.7	6.5	6.5	7.1	7.8
Opex-to-revenue (%)	28.8	29.9	30.2	28.6	28.3

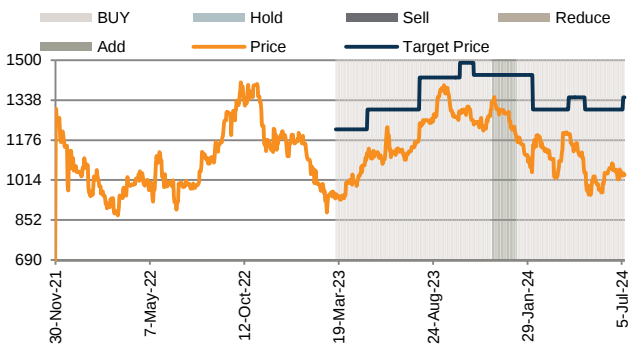
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Jul-24	1,033	1,350	Buy	Devanshu Bansal
04-May-24	1,043	1,300	Buy	Devanshu Bansal
07-Apr-24	1,200	1,350	Buy	Devanshu Bansal
07-Feb-24	1,154	1,300	Buy	Devanshu Bansal
10-Jan-24	1,188	1,440	Buy	Devanshu Bansal
30-Nov-23	1,330	1,440	Add	Devanshu Bansal
31-Oct-23	1,239	1,440	Buy	Devanshu Bansal
08-Oct-23	1,293	1,490	Buy	Devanshu Bansal
01-Aug-23	1,243	1,430	Buy	Devanshu Bansal
10-Jul-23	1,106	1,300	Buy	Devanshu Bansal
06-May-23	1,123	1,300	Buy	Devanshu Bansal
09-Apr-23	1,015	1,220	Buy	Devanshu Bansal
14-Mar-23	940	1,220	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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