Sharekhan by BNP PARIBAS

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Gokaldas Exports Ltd

Q1 impacted by one-offs; better outlook for H2FY2025

Textiles	Sharekhan code: GOKEX
Reco/View: Buy ↔	CMP: Rs. 949 / Price Target: Rs. 1,140 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

Summary

- Gokaldas Exports Limited's (GKEL's) Q1 performance was affected by lower margins due to higher freight costs and labour costs. Revenue grew ~13% on like-for-like (LFL) basis, while adjusted EBITDA margin stood at 10.5%.
- U.S. retail sales grew 3% in H1CY2024. Global retailers have optimised inventory holdings. GKEL's capacity utilisation was ~78% in Q1; with strong order booking, GKEL expects 100% utilisation in H2.
- Several one-off factors impacted EBITDA margin in Q1. Management expects margins to be high in H2. Benefits of integration of the recent acquisitions, better pricing power, and stable freight rates might help EBITDA margin to inch up to 12% in FY2026.
- The stock has corrected by 16% from its highs and trades at 38x/23x its FY2025E/FY2026E earnings, respectively. We maintain our Buy rating with a revised PT of Rs. 1,140.

GKEL's Q1FY2025 financials are not strictly comparable with previous periods due to the consolidation of Atraco and Matrix during the quarter.

GKEL's Q1FY2025 performance was affected by lower margins due to higher freight cost and lower production because of labour shortfall in April-May 2024, resulting in a 15% decline in reported PAT. Revenue on a like-for-like (LFL) basis grew by ~13% y-o-y to Rs. 581 crore, driven by double-digit volume growth. Like-for-like adjusted EBITDA margin stood at 10.5%. Acquired entities (Atraco and Matrix) registered revenue of Rs. 359 crore and adjusted EBIDTA margin of 9.9%. On a reported basis, consolidated revenue grew by 81% y-o-y to Rs. 932 crore. Gross margin decreased by 236 bps y-o-y to 48.2%. EBITDA margin decreased by 450 bps y-o-y to 8.8%. However, adjusting for one-time expenses of Rs. 14 crore (includes airfreight expense of Rs 8.6 crore in Atraco, Rs. 3.4 crore in GKEL, and other one-time expenses of Rs. 2 crore in GKEL), the consolidated EBIDTA margin came in at 9.6%, down by 246 bps y-o-y. Adjusted EBITDA grew by 44% y-o-y to Rs. 89 crore. Higher interest cost and depreciation charges led to 13% y-o-y growth in adjusted PAT to Rs. 37.5 crore. After raising Rs. 600 crore through QIP, the company has a net cash position of Rs. 58 crore.

Key positives

- Q1FY2025 was the fourth consecutive quarter of double-digit volume growth in GKEL's standalone business.
- U.S. retail growth stood at 3%; India apparel exports grew by 4.2% in YTD CY2024.
- India's export share to the U.S. improved by 100 bps and that to EU-27 improved by 200 bps in January-May 2024.

Key negatives

- Several one-off factors affected the profitability with adjusted EBITDA margin down by 246 bps y-o-y to 9.6%.

Management Commentary

- The company witnessed several headwinds, including disruption of production in a majority of factories in April and May, leading to delays in shipment incurring extra costs in overtime and airfreight, huge ramp-up of employees in anticipation of volume growth in the second half of the year, and higher airfreight cost.
- The company manufactured 17.6 million garments at a combined utilisation rate of ~78% at all its units in India and externally. Management has strong order booking for H2FY2025 and, hence, expects utilisation rate to go up to 100% in H2.
- U.S. retailers have optimised their inventory levels. The retailers are cautiously filling up the shelves, taking the view of the macro environment in the U.S. market.
- GKEL is playing on the diversification strategy to reduce its dependency on one market by adding more clients in the EU region and exploring other markets as well.
- Uncertainty in Bangladesh is a long-term opportunity for Indian textile players. Most of the retailers started shifting base from last year itself. If India wants to take a large pie of the opportunity, then the companies have to invest in adding capacities.
- GKEL will decide on capacity addition by next year. The company will add capacities in existing low-cost areas such as Madhya Pradesh (MP), Jharkhand, and Ranchi. The newly commissioned MP unit will be 100% utilised from Q3FY2025, with orders from two new clients in the EU region getting manufactured in the plant. The company will be investing in setting up a second unit in MP plant, which will be operational by H2FY2026.
- Integration of the acquired entities – Atraco and Matrix is going on ahead of plans. Management expects EBITDA margins of the acquired entities to reach GKEL's standalone level margins in H2FY2025.
- Investment in BRF Textile (BTPL) allows to derive utmost benefit through vertical integration into critical raw materials. GKEL can consume 20-25% quality fabric produced by BTPL for in-house production. This will help to add to the margins in the coming years. The decision on the merger of the entity will be taken in FY2026.
- Consolidated revenue can touch close to Rs. 4,000 crore in FY2025 and can grow in double digits in FY2026. Although benefits of integration and improving demand outlook would come in from H2FY2025, a large benefit would flow in FY2026, which will help EBITDA margins to reach closer to 12% in FY2026.
- The company expects pricing power to return in FY2026 with global demand expected to improve further.

Revision in estimates – We have reduced our earnings estimates for FY2025 by ~3% to factor in little lower margins than earlier expected, while we have maintained them for FY2026. H2FY2025 performance will provide better visibility of performance over the next two years.

Our Call

View –Retain Buy with a revised PT of Rs. 1,140: With inventories receding on the shelves, the industry is expecting a good recovery in demand in H2FY2025. Market share gains in existing markets, diversification by adding clients in new markets, and capacity expansion would help GKEL achieve consistent double-digit revenue growth in the near term. Rising apparel consumption in developed economies, shift of base from China/Bangladesh, and potential FTA signing with the U.K. will provide large opportunities in the long run. The stock has corrected by 16% from its recent high and is trading at 38x/23x its FY2025E/FY2026E, respectively. We maintain our Buy rating on the stock with a revised PT of Rs. 1,140.

Key Risks

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

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 6,754 cr
52-week high/low:	Rs. 1,124 / 491
NSE volume: (No of shares)	3.1 lakh
BSE code:	532630
NSE code:	GOKEX
Free float: (No of shares)	6.4 cr

Shareholding (%)

Promoters	9.4
FII	27.4
DII	31.8
Others	31.4

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.3	15.1	5.0	88.1
Relative to Sensex	1.1	7.7	-5.4	68.3

Sharekhan Research, Bloomberg

Valuation (Consolidated)

Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenues	2,222	2,379	3,989	4,615
EBITDA margin (%)	11.9	11.3	10.5	12.0
Adjusted PAT	168	144	158	258
% YoY growth	43.6	-14.3	9.4	63.9
Adjusted EPS (Rs.)	27.8	22.7	24.9	40.7
P/E (x)	34.2	41.8	38.2	23.3
P/B (x)	6.5	4.7	4.2	3.5
EV/EBITDA (x)	21.0	24.2	15.5	11.5
RoNW (%)	21.7	12.0	11.5	16.5
RoCE (%)	22.5	12.3	15.0	19.8

Source: Company; Sharekhan estimates; # Including the consolidation of recently acquired Atraco and Matrix

Q1 – LFL revenue growth at 13%; EBITDA margin down by 246 bps y-o-y

GKEL's Q1FY2025 financials are not strictly comparable with previous periods due to the consolidation of Atraco and Matrix. GKEL's revenue grew by 81.1% y-o-y (13% y-o-y growth on an LFL basis) to Rs. 932 crore, ahead of our expectation of Rs. 835 crore. The company faced several challenges such as disruption of production in a majority of factories in April and May, leading to delays in shipment, incurring extra costs in overtime and airfreight, huge ramp-up of employees in anticipation of volume growth in H2FY2025, slower ramp-up of new units, and continuing airfreight costs at Atraco, which impacted profitability. One-time expense of Rs. 14 crore as a result of the above headwinds has been considered in the exceptional items. Gross margin and EBITDA margin declined by 236 bps and 246 bps y-o-y to 48.2% and 9.6%, respectively. EBITDA margin missed our estimate of 11.9%. EBITDA grew by 44% to Rs. 89.2 crore. However, adjusted PAT grew by just 13.4% y-o-y to Rs. 37.5 crore due to higher interest expense and depreciation charges (up by 3.4x and 45% y-o-y, respectively). Reported PAT came in at Rs. 27.2 core.

Key industry and business updates

- **Green shoots in the global apparel market:** U.S. retail store sales continued to exhibit growth and posted 4% y-o-y growth in H1CY2024. As per the latest data, uptrend in consumer demand continued, supported by cooling inflation numbers. U.S. monthly apparel imports declined by 22% in CY2023, but a y-o-y decline during January-May 2024 suggests that the decline has moderated. Similarly, the decline in U.K. monthly apparel imports moderated to 14% during January-May 2024 compared to a 26% decline in CY2023. Further, Indian apparel exports grew by 4.2% y-o-y in Q1FY2025. India's share in major import markets is growing as buyers seek alternative production bases outside China due to rising labour costs and geopolitical tensions, Bangladesh due to internal issues, and Vietnam due to high factor costs.
- **Input prices moderating:** The recent development in the macroeconomic factors signals that key textile commodities like cotton and crude oil prices have stabilised post-peak prices witnessed in 2022 and have declined by 56% and 36%, respectively, from the peak easing price pressure on the textile value chain. Further, the freight cost, which increased recently due the early peak season shipments and Red Sea diversions, is expected to cool down in the coming months.
- **Net cash positive at Q1FY2025-end though QIP:** GKEL raised capital of Rs. 600 crore through QIP in April 2024. The company had a net cash of Rs. 58 crore as of June 30, 2024.
- **Capex of Rs. 100 crore planned for FY2025:** GKEL plans to incur capex of Rs. 100 crore in FY2025 (already spent Rs. 33 crore in Q1), including Rs. 50 crore for modernisation and upgrades and Rs. 50 crore for additional capacities and new projects.

Results (Consolidated) **Rs cr**

Particulars	Q1FY25	Q1FY24	Y-o-Y (%)	Q4FY24	Q-o-Q (%)
Total revenue	**932.1**	**514.6**	**81.1**	**812.4**	**14.7**
Raw-material cost	483.3	254.7	89.8	400.4	20.7
Employee cost	291.7	160.2	82.1	242.0	20.5
Job Work Charges	4.3	0.9	-	3.4	27.9
Other expenses	63.7	36.9	72.4	74.5	-14.6
Total operating cost	842.9	452.7	86.2	720.3	17.0
EBITDA	**89.2**	**61.9**	**44.0**	**92.1**	**-3.2**
Other income	7.6	7.1	6.4	5.6	36.9
Interest and other financial cost	18.8	5.5	-	19.6	-4.3
Foreign exchange gain/loss	0.2	0.7	-67.4	-1.3	-
Depreciation	27.7	19.1	45.0	27.4	0.8
Profit before tax	**50.1**	**43.7**	**14.6**	**51.8**	**-3.3**
Tax	12.6	10.6	18.2	0.9	-
Adjusted PAT	**37.5**	**33.1**	**13.4**	**51.0**	**-26.3**
Extraordinary item	10.4	1.0	-	6.7	55.2
Reported PAT	**27.2**	**32.1**	**-15.4**	**44.3**	**-38.6**
Adj. EPS (Rs)	5.9	5.5	8.2	8.0	-26.3
			BPS		**BPS**
GPM (%)	48.2	50.5	-236	50.7	-256
EBITDA Margin (%)	9.6	12.0	-246	11.3	-177
NPM (%)	2.9	6.2	-332	5.5	-253
Tax rate (%)	6.9	5.6	124	8.2	-136

Source: Company; Sharekhan Research

Contribution of Atraco and Matrix

(₹ CRORES)

KEY PERFORMANCE METRICS	GEX	ACQUIRED ENTITIES[1]	Total
TOTAL INCOME	580.6	359.1	939.7
EBITDA	55.6	26.9	82.6
EBITDA MARGIN	9.6%	7.5%	8.8%
ADJUSTED EBITDA	61.0	35.5	96.6
ADJUSTED EBITDA MARGIN	10.5%	9.9%	10.3%

[1]Includes results of Atraco & Matrix
Adjusted EBIDTA and EBITDA margin is after eliminating the one-off expenses

Source: Company presentation

Outlook and Valuation

■ Sector Outlook – Global uncertainties would weigh on near-term growth; long-term prospects intact

In the past few quarters, inflation, rising interest rates, and geopolitical disturbances hit export demand and led to inventory pile-up at the retailers' end. Home textile companies have witnessed m-o-m improvement in order booking, while the garment business is yet to see a demand revival. However, recent unrest in the Red Sea will hold back the recovery, especially for garment players with large exports to Europe. The unavailability of the container or a long route to supply might lead to a delay in the supply of products. Further, the recent spike in freight rate will put pressure on the margins of the textile companies in the quarters ahead. In the long term, growth prospects of the Indian textiles 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.

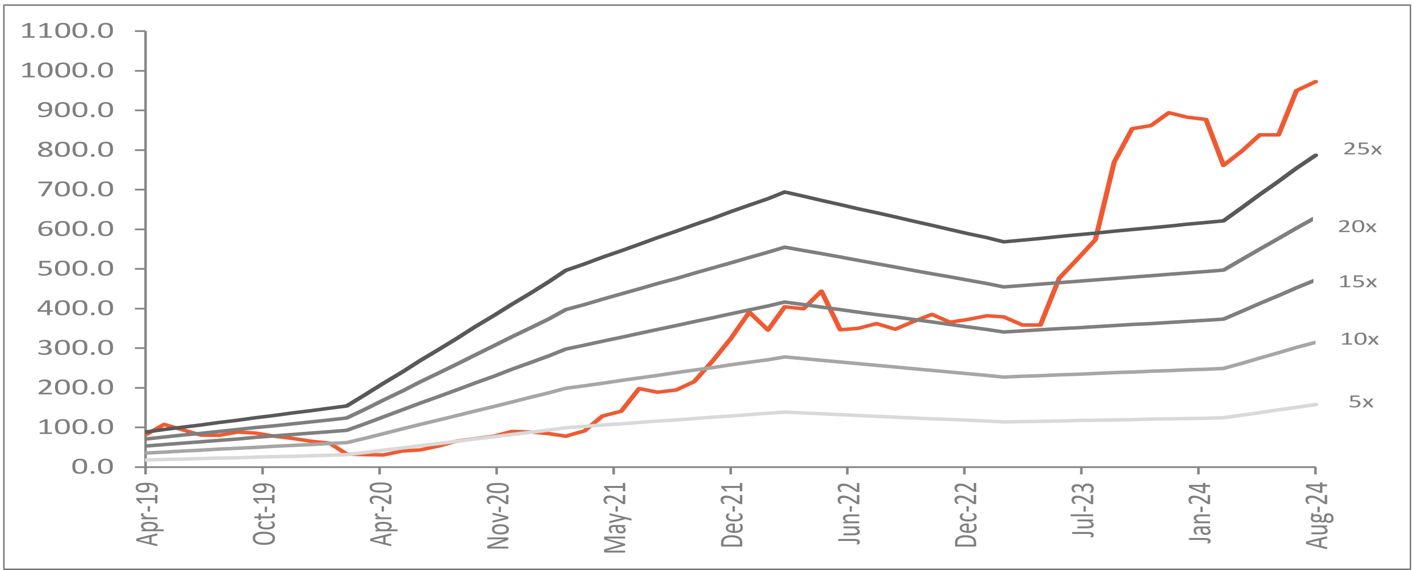
■ Company Outlook – Medium to long-term earnings growth prospects intact

U.S. clothing retail sales continued to grow, registering moderate growth of 3% in H1CY2024. Inventory destocking with global retailers is at its last phase. The company expects strong traction from its existing clients in the quarters ahead. FY2025 will be the year of integration, while the large integration benefits in terms of revenue and profitability would flow in FY2026. Management is confident of achieving 15% revenue growth (largely volume-led) in the stable demand environment. EBITDA margins in FY2025 will remain flat to slightly low, while the same is expected to improve substantially in FY2026 and will provide a good push to earnings growth.

■ Valuation – Retain Buy with a revised PT of Rs. 1,140

With inventories receding on the shelves, the industry is expecting a good recovery in demand in H2FY2025. Market share gains in existing markets, diversification by adding clients in new markets, and capacity expansion would help GKEL achieve consistent double-digit revenue growth in the near term. Rising apparel consumption in developed economies, shift of base from China/Bangladesh, and potential FTA signing with the U.K. will provide large opportunities in the long run. The stock has corrected by 16% from its recent high and is trading at 38x/23x its FY2025E/FY2026E, respectively. We maintain our Buy rating on the stock with a revised PT of Rs. 1,140.

One-year forward PE multiple



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
KPR Mill	38.9	33.1	26.6	26.1	21.3	17.3	20.7	22.3	24.2
SP Apparels	25.2	16.8	12.4	14.8	10.3	7.6	14.1	18.4	21.3
Gokaldas Exports	41.8	38.2	23.3	24.2	15.5	11.5	12.3	15.0	19.8

Source: Company, Sharekhan estimates

About the company

Established in 1979, GKEL has evolved into a one-stop solution for some of the world's most recognized apparel brands. With an annual turnover of USD 290 million in FY2024, GKEL is one of India's largest manufacturers and exporters of apparel, exporting to more than 50 countries. Following the acquisition of Atraco and Matrix, the company currently has over 30+ production units and more than 30,000+ advanced machines supported by a strong workforce of >51,000 employees that can produce about 87 million garments annually.

Investment theme

GKEL is one of the largest integrated apparel manufacturers in India. The company acquired two entities – Atraco and Matrix in FY2024, which complemented GKEL's existing portfolio, taking the company's combined manufacturing capacity to 87 million apparel pieces per annum. The company has made itself future-ready through its focus on entering new categories and geographies, improving product mix (outerwear share expanding) and establishing in low-cost manufacturing locations. Revenue and PAT are expected to report CAGRs of 39% and 34% (including recent acquisitions), respectively, over FY2024-FY2026E.

Key Risks

- 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 lower production and sales and may adversely affect GKEL's business and financial position.
- Fabric is the largest component of the company's input costs and any increase in input costs such as cotton, yarn, or fabric or rising wage costs and inflation could cause a decline in the company's profitability.
- 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.	8.30
2	Nippon Life India Asset Management Ltd.	7.58
3	Goldman Sachs India Pvt. Ltd.	5.7
4	The Goldman Sachs Group Inc.	5.47
5	Matrix Clothing Private Ltd.	3.84
6	L&T Mutual Fund Trustee Ltd.	3.45
7	Aditya Birla Sun Life Asset Management Co. Ltd.	3.44
8	Siddhant Commercials	2.77
9	Emirate of Abu Dhabi United Arab Emirates	2.52
10	Sumitomo Mitsui Trust Holdings Inc.	2.43

Source: Bloomberg

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 detoriating 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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by BNP PARIBAS

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