

**CMP: INR 252**

**Rating: BUY**

**Target Price: INR 327**

**Stock Info**

BSE	532630
NSE	GOKEX
Bloomberg	GEXP:IN
Reuters	GOKL.NS
Sector	TEXTILE
Face Value (INR)	5
Equity Capital (INR cr)	21.7
Mkt Cap (INR cr)	1,136
52w H/L (INR)	262/ 68
Avg Yearly Volume (in 000')	456

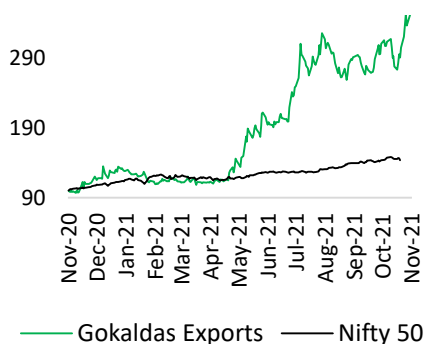
**Shareholding Pattern %**

(As on September, 2021)

Promoters	32.7
FII	-
DII	-
Public & Others	67.3

Stock Performance (%)	1m	3m	12m
GEL	19.4	17	270.6
Nifty 50	1	11.2	45

**GEL Vs Nifty**



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- **Gokaldas Exports Ltd.** reported a Q2FY22 Revenue of INR 446 cr vs INR 344.89 cr in Q2FY21, +29.3% Y-o-Y (+83.5% Q-o-Q).
- Their Q2FY22 EBITDA was INR 53.93 cr vs INR 33.11 cr in Q2FY21, +62.9% Y-o-Y (+170.5% Q-o-Q).
- Their EBITDA Margin was 12.1% in Q2FY22 vs 9.6% in Q2FY21, +250 bps Y-o-Y (+390 bps Q-o-Q).
- Their PAT was INR 28.6 cr in Q2FY22 vs INR 8.66 cr in Q2FY21, +230% Y-o-Y (+1221% Q-O-Q).
- Their Retail apparel sales in the US- their largest market +6% YTD, and their Ecommerce sales in the US were +41% over 2019 levels this quarter.
- Their Export Revenue Growth was +34.6% Q-o-Q.

**Q2FY22 Conference Call Highlights:**

- **CAPEX plans:** The Company is setting up 4 factory units- total INR 340cr of CAPEX. A Greenfield investment in Madhya Pradesh which will begin operations in FY23, a new leased unit in Tamil Nadu which will be finalized by the end of FY22, as well as new units in Tumkur and Bommanahalli set up in Q2 will reach peak production in FY23. These will increase capacity and revenue, cater to their increasing order flow, and improve EBITDA Margins.
- **Outlook on Margins:** The company has stated that they will deliver a double digit growth on their EBITDA margins in the years to come as their topline growth is gaining momentum that will persist into the future, because India has an advantage in the global textile market due to the easy availability of low cost raw material and labor.
- **Expansion into Bangladesh:** Bangladesh is one of the largest apparel manufacturing countries with an abundance of labor and favorable government policies. It has a lot of business from the EU, Canada and Australia. It also has a cost advantage as a growing apparel industry base. The company should be able to take a call about the Bangladesh expansion before end of FY22.

**Valuation & Outlook:** We maintain a BUY rating with a TP of INR 327 (15x P/E on FY24E EPS), with a 30% upside. We are optimistic because of the recent CAPEX is expected to double their turnover in the next 4 to 5 years. They are also looking into expanding into Bangladesh to improve their efficiency, volumes and competitive position. Their order book is showing considerable growth, and we expect their export market to become more robust in FY23.

INR Mn.	FY21	FY22E	FY23E	FY24E
Revenue	11455	14108	17739	22146
EBITDA	1137	1295	1976	2897
EBITDA Margin (%)	9.30%	8.56%	10.46%	12.28%
PAT	265	329	656	1272
PAT Margin (%)	2.31%	2.33%	3.70%	5.75%
EPS (in INR)	6.18	5.63	11.25	21.82
RoE (%)	9.13%	5.27%	9.53%	15.60%
RoCE (%)	13.43%	11.84%	17.41%	24.69%
P/E (x)	40.38	44.27	22.17	11.43
EV/EBITDA (x)	12.49	13.07	8.85	5.96
Net Debt/Equity (x)	0.99	0.90	0.57	0.00
P/BV (x)	3.69	2.33	2.11	1.78

Source: Company & Arihant Research

## Quarterly Result

INR Mn (consolidated)	Q2FY22	Q1FY22	Q2FY21
<b>Net Revenue</b>	<b>444</b>	<b>241</b>	<b>342</b>
Raw Material Costs	214	114	172
Gross Profit	230	127	170
Gross Margin	52%	53%	50%
Employee costs	142	86	101
Job Work Charges	8	1	4
Other Expenses	34	28	31
<b>EBITDA</b>	<b>46</b>	<b>12</b>	<b>33</b>
<i>EBITDA margin %</i>	<i>10.4%</i>	<i>4.8%</i>	<i>9.8%</i>
Other Income	2	2	3
Depreciation	14	12	15
<b>EBIT</b>	<b>35</b>	<b>1</b>	<b>22</b>
Finance costs	12	10	10
Exceptional Items	-	-	-
Gain/ Loss on account of foreign exchange fluctuations (net)	-5	-6	3
<b>PBT</b>	<b>18</b>	<b>-15</b>	<b>15</b>
Tax Expense	-	-	-
Effective tax rate %	0.0%	0.0%	0.0%
<b>PAT</b>	<b>18</b>	<b>-15</b>	<b>15</b>
Add: Other Comprehensive Income	7	-6	13
<b>Consolidated PAT</b>	<b>24</b>	<b>-21</b>	<b>29</b>
<i>PAT margin %</i>	<i>5.5%</i>	<i>-8.7%</i>	<i>8.4%</i>

Source: Company & Arianth Research

**Conference Call Highlights:**

- **CAPEX Structure:** The INR 340 cr CAPEX will be structured as following- INR 110cr in FY22 (INR 80 cr remaining in H2), INR 115 cr in FY23, INR 95 cr in FY24, and INR 20 cr in FY25.
- **Revenue Contribution:** The 2 units in Tumkur and Bommanahalli set up in Q2 will contribute INR 20 to 25 cr each in H2, and at their peak, will contribute INR 80 cr each (expected in FY23). The unit in Tamil Nadu is expected to contribute INR 60 to 70 cr (expected in FY23). The greenfield project in Madhya Pradesh is expected to contribute INR 150 cr in phase 1 of its completion (expected in FY23) and 150cr after its Phase 2 completion.
- **Export Market:** Most of their market is outside of India. They faced difficulties this year- logistical problems due to the lack of availability of containers for exports, which caused supply chain problems. Despite that, their export market was healthy for H1, and is expected to be robust for H2 as well.
- **Well-handled price increases:** The inflation they experienced were mostly in Raw material and Labor Cost. The company has been able to pass the incremental increases in raw materials to the consumers. The labor inflation costs can be absorbed with better utilization and productivity which they are working on. Y-o-Y cotton prices went up by 40 to 50%, yarn prices went up by 24% and fabric price went up by 8%. The company uses mostly fabric and not cotton.
- **Sustained Turnover:** Their order backlog in the May and June months pushed up their sales figures for September. The company is confident they will be able to maintain these figures due to their additional capacities with their new plants.
- **Inventories:** They are currently holding an excess inventory of 15 days (a total of 98 days). This is due to the order backlog from the past quarter. They are also holding extra inventory by way of raw material and finished good as they expect to use this in the future. It has led to an excess of working capital, and the company has stated that this trend will continue till the end of FY22.
- **Margin Advantages:** The company estimates they have an EBITDA margin advantage of about 2-4% over its international competitors- Vietnam, China, Bangladesh.
- **Short term focus:** They are still looking out for additional capacity creation and improving capacity utilization through better productivity. A big reason for this is that their order book is getting overloaded and they need to cater to all of their clientele.

## Industry And Company Outlook

US Retail Clothing Sales (in US\$ Bn)				
Month	2019	2020	2021	Growth Over 2019
Q1	40.7	33.3	37.5	-7.80%
Q2	48.4	18.3	51	-5.30%
July	16	12.1	17.9	11.90%
August	17	12.9	17.3	1.60%
CY Total	122.1	76.7	123.6	1.30%

Source: Company PPT and Arihant Research, US Census Bureau, Euro Stats

US E-Commerce clothing and accessories sales (in US\$ Bn)				
Month	2019	2020	2021	Growth Over 2019
Q1	9.5	10.4	13.1	37.50%
Q2	9.9	14.5	14.4	45.10%
CY Total	19.5	24.8	27.5	41.40%

Source: Company PPT and Arihant Research, US Census Bureau, Euro Stats

- US monthly apparel store sales have been on the rise for 5 months in a row consistently crossing pre- COVID levels.
- YTD sales in 2021 are 61% higher than 2020 and are above 2019 level.
- US e- commerce sales have grown significantly post the pandemic indicating growing shift in consumer trends.
- US continues to be the largest market for the company.

EU 27 Retail textile, Clothing, Footwear & Leather Sales Index (2015 Base)				
Month	2019	2020	2021	Growth Over 2019
Q1	105.1	85.6	77.2	-26.50%
Q2	104.6	58.5	80.2	-23.30%
July	103.8	92	92.2	-11.20%

Source: Company PPT and Arihant Research, US Census Bureau, Euro Stats

- EU apparel retail sales are yet to catch up to the pre pandemic sales. However, the gap over pre- pandemic level is narrowing.

**Overall Outlook:**

- They are maintaining a robust order book for FY22. All their customers are seeing growth in their business. With consistent delivery track record and strong product development capability, their customers see them as a partner vital to their future.
- Their largest market continues to be the US where monthly apparel retail sales for CYTD 2021 is 6% higher than pre-covid 2019 level. Online sales of clothing and accessories for this period is 41% over pre-covid level. European Union apparel import data also indicates that 2021 is catching up with 2019 level steadily.
- China continues to be hobbled by trade restrictions, Covid resurgence and high cost of labor.
- Vietnam is also experiencing a flare up of Covid.
- All of these impose additional constraints on global supply chain and presents an opportunity for India.
- With the Government of India coming up with a strong support for Indian textile industry by announcing a stable policy regime, a new PLI scheme and initiating discussions with several countries for FTA, they can expect a good future for the industry in India.

## Company Financials

Consolidated Statement of Profit and Loss (INR Mn)	2021	2022E	2023E	2024E
<b>Revenue</b>	<b>11,455</b>	<b>14,108</b>	<b>17,739</b>	<b>22,146</b>
Total Income	12,229	15,119	18,891	23,584
Total Expense	11,092	13,824	16,914	20,687
<b>EBITDA</b>	<b>1,137</b>	<b>1,295</b>	<b>1,976</b>	<b>2,897</b>
Depreciation and amortisation expenses				
<b>EBIT</b>	<b>526</b>	<b>548</b>	<b>594</b>	<b>673</b>
Interest expense	<b>611</b>	<b>747</b>	<b>1,383</b>	<b>2,224</b>
<b>PBT</b>	<b>345</b>	<b>419</b>	<b>508</b>	<b>528</b>
Tax expense				
<b>PAT</b>	<b>266</b>	<b>329</b>	<b>875</b>	<b>1,696</b>
<b>Basic earnings per share</b>	<b>6</b>	<b>6</b>	<b>11</b>	<b>22</b>

Consolidated Balance Sheet (INR Mn)	2021	2022E	2023E	2024E
<b>Non Current Assets</b>				
Property, plant and equipment	1,253	2,483	3,633	4,583
Right-of-use assets	-	1	2	3
Capital work in progress	-	9	9	9
Other intangible assets	19	15	12	9
Other non-current assets	1,928	491	526	540
<b>Total Non Current Assets</b>	<b>3,200</b>	<b>2,998</b>	<b>4,181</b>	<b>5,141</b>
<b>Current Assets</b>				
Inventories	2,592	3,044	3,666	4,333
Trade receivables	1,798	1,797	2,191	2,545
Cash and cash equivalents	153	140	176	240
Other current financial assets	515	2,560	2,460	2,493
Other current assets	540	1,265	1,300	1,647
<b>Total Current Assets</b>	<b>5,598</b>	<b>8,806</b>	<b>9,794</b>	<b>11,258</b>
<b>Total Assets</b>	<b>8,798</b>	<b>11,804</b>	<b>13,975</b>	<b>16,400</b>
<b>Equity</b>				
Share capital	214	292	292	292
Other Equity	2,686	5,938	6,594	7,866
<b>Total Equity</b>	<b>2,901</b>	<b>6,229</b>	<b>6,885</b>	<b>8,158</b>
<b>Non Current Liabilities</b>				
Borrowings	453	718	864	845
Provision	53	56	111	163
Deferred Tax liability	-	1	2	3
Lease Liabilities	31	-	-	-
<b>Total Non Current Liabilities</b>	<b>537</b>	<b>774</b>	<b>975</b>	<b>1,008</b>
<b>Current Liabilities</b>				
Borrowings	3,200	1,799	2,254	2,114
Trade Payables	1,117	1,373	1,660	1,961
Other financial liabilities	641	1,061	1,281	1,511
Other current liabilities	124	120	148	176
Provision	279	448	771	1,472
Current tax liabilities	-	1	2	3
<b>Total Current Liabilities</b>	<b>5,360</b>	<b>4,801</b>	<b>6,114</b>	<b>7,234</b>
<b>Total Equity and Liabilities</b>	<b>8,798</b>	<b>11,804</b>	<b>13,975</b>	<b>16,400</b>

Source: Company Financials and Arian Research

## Company Financials

Consolidated Statement Cash Flow Statement (INR Mn)	FY 2021	FY 2022E	FY 2023E	FY 2024E
<b>Profit before tax</b>	<b>266</b>	<b>329</b>	<b>875</b>	<b>1,696</b>
Adjustment for:				
Depreciation & Amortization	526	548	594	673
Non Cash Expenses	41	-	(0)	-
Working capital change	44	(398)	(446)	(105)
Direct taxes refunded/ (paid) (net of refund/payments)	(1)	-	(219)	(424)
<b>Cash generated from operations</b>	<b>876</b>	<b>478</b>	<b>804</b>	<b>1,840</b>
Purchase of Property, Plant & Equipment	(245)	(1,517)	(1,468)	(1,293)
Leased Assets	(252)	(266)	(273)	(327)
Fixed Deposits Invested/ Realized	(79)	1,469	-	-
Other non-current asset movement	38	(32)	(36)	
<b>Net cash outflow from investing activities</b>	<b>(538)</b>	<b>(346)</b>	<b>(1,776)</b>	<b>(1,634)</b>
Equity receipts	-	3,328.6	656.0	1,272.4
Proceeds from term loans	453	266	146	(19)
Non-current liabilities	(37)	(28)	55	52
Receipts (payment) of borrowings	(710)	(1,400)	455	(140)
<b>Net cash generated/ (used) in financing activities</b>	<b>(295)</b>	<b>2,166</b>	<b>1,312</b>	<b>1,165</b>
<b>Net increase in cash and cash equivalents</b>	<b>43</b>	<b>2,298</b>	<b>340</b>	<b>1,372</b>
<b>Opening cash and cash equivalents</b>	<b>478</b>	<b>521</b>	<b>2,818</b>	<b>3,158</b>
<b>Closing cash and cash equivalents</b>	<b>521</b>	<b>2,818</b>	<b>3,158</b>	<b>4,530</b>

Source: Company Financials and Arihant Research

## Company Financials

Ratios	FY 2021	FY 2022E	FY 2023E	FY 2024E
<b>Growth</b>				
Revenue growth	-10.6%	23.2%	25.7%	24.8%
EBITDA Growth	11.4%	13.9%	52.6%	46.6%
EBIT Growth	29.2%	22.3%	85.0%	60.9%
Net Profit Growth	18.8%	-12.8%	24.0%	99.6%
<b>Profitability</b>				
EBITDA Margin	9.3%	8.6%	10.5%	12.3%
EBIT Margin	4.3%	4.2%	6.2%	7.7%
Net Profit Margin	2.3%	2.3%	3.7%	5.7%
ROE	9.1%	5.3%	9.5%	15.6%
ROCE	13.4%	11.8%	17.4%	24.7%
<b>Per Share Data (Rs)</b>				
Basic EPS	6.18	5.63	11.25	21.82
BVPS	67.6	106.8	118.1	139.9
<b>Gearing Ratio (x)</b>				
Net Debt/Equity	0.6	0.0	0.1	0.1
Net Debt/EBITDA	1.5	0.0	0.5	0.2
Interest Coverage Ratio	1.8	1.8	2.7	4.2
<b>Efficiency Ratios</b>				
Inventory Days	165.4	134.4	129.8	123.2
Receivable Days	51.5	46.5	41.0	39.0
Payable Days	68.2	59.4	58.6	55.8
Cash Conversion cycle	148.8	121.5	112.2	106.5
<b>Valuation</b>				
P/E	40.4	44.3	22.2	11.4
P/BV	3.7	2.3	2.1	1.8
EV/EBITDA	12.5	13.1	8.8	6.0
EV/Sales	1.2	1.2	1.0	0.8
<b>CMP</b>	<b>249.4</b>	<b>249.4</b>	<b>249.4</b>	<b>249.4</b>

Source: Company Financials and Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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