

...Well placed to tread on firm growth trajectory

CMP: INR 202

Rating: BUY

Target Price: INR 252

Stock Info

BSE	532630
NSE	GOKEX
Bloomberg	GEXP:IN
Reuters	GOKL.NS
Sector	TEXTILE
Face Value (INR)	5
Equity Capital (INR cr)	21.4
Mkt Cap (INR cr)	868
52w H/L (INR)	226/ 41
Avg Yearly Volume (in 000')	142

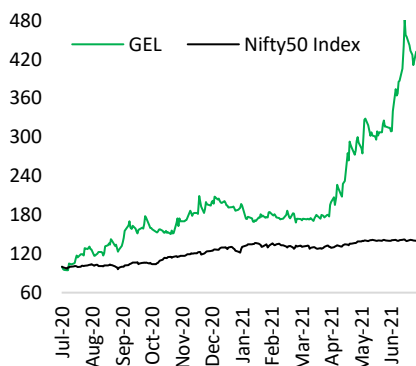
Shareholding Pattern %

(As on June, 2021)

Promoters	33.1
FII	5.4
DII	3.7
Public & Others	57.8

Stock Performance (%)	3m	6m	12m
GEL	150	126	345
Nifty 50	6	16	42

GEL Vs Nifty



Gokaldas Exports reported Result below than our estimates. The revenue came 3% YoY growth to INR241cr and 34.9% QoQ decline. However, the revenue came 6.3% than our estimate. The reason for dismal top-line growth was on the account of production loss due to extended plant shutdown (~6 weeks). The second lockdown in Karnataka was worse than the first lockdown, which majorly affected the operations as the company was running at 46% CU. The orders which the company could not executed got deferred in Q2FY22. Moreover, any orders which does not get fructify, demands penalty from the customers. Hence, GEL has not bid for any new orders as it does not have the enough capacity to facilitate the orders.

Company have accounted RoSCTL to the tune of INR4cr (Q4FY21) during the quarter. The Gross margin stood at 52.7% in Q1FY22. The company had to carry huge RM inventory meant for the planned production, but due to plant shutdown, could not executed. However, GEL able to manage the cashflow. The employee cost shot up by 15.8% YoY and stood at 35.6% as a % of Sales compared to 31.6% in Q1FY21. Despite production was shutdown, the company continue to retain its workers plus lot of overtime work to make-up for the order lag, which impacted the operating margin. Currently, the company has 24,000 workers and 2,000 workers were added in July 2021. In addition, the Other overheads also increased by 22.4% YoY. Hence, the EBITDA margin contracted by 461bps YoY to 4.8% and 132bps lower than our estimate of 6.1%. On account of lower other income and lower operating leverage, GEL reported a loss of INR3cr.

Key Concall Highlights:

- Revenue mix** – Share for Man-made is between 35-40% the rest is cotton. **2) Order Book:** a) At present the company have orders and does not have capacity to facilitate the orders quickly. b) As per management, the company is making up for the lost order book through maximum efforts. c) GEL have not lost orders but have deferred the orders to Q2. The company had to pass on few orders in Q2 as they had huge back log in Q1. **3) Labour:** a) The cost will normalize going forward as the top-line increases. b) Training for new labours happen between 21-25days and than every 6-9 months there are refreshers courses. **4) RoSCTL** is 3.5% rate. **5) CAPEX:** a) Capex is INR120cr for FY22E and FY23E but may expand further. b) Capex for Tumkur unit is INR15cr. Peak annual revenue for this unit is INR80cr. c) Bhopal unit will be ready by Q4 and peak revenue of INR150cr can be achieved from this unit. d) Tumkur will add 4.5% & Bhopal will add 6.5% to the total capacity. e) Exploring options to set up a unit in Bangladesh as well. f) New products will dampen some of the margin due to unproductive level for the first 6-9 months. But the margin will be higher than the previous year. **6) Others:** a) The trade war with China is still continuing – china one is more long term in nature and would help all countries like India, Vietnam, Cambodia and Bangladesh and they are seeing the benefits. b) Bangladesh under lockdown and Vietnam/China/Cambodia witnessing rise in covid cases. c) GEL has been a recipient of China Centric orders and the trend will continue. d) INR64cr of income tax loss to be carry forward. e) India is backward integrated where was Bangladesh still depends on others for their cotton. f) GEL continues to face container availability issue. g) RM cost is largely pass through and its instant. h) PLI scheme will give further boost to the textile sector.

Valuation & Outlook: Management is confident of delivering high revenues INR1500cr for FY22E with improving margins every year. We opine that GEL will be able to sustain growth over the next couple of years with its manufacturing track record & diversified customer base and capabilities. Further, we believe that on the back of enhanced scale and cost optimization measures, the EBITDA margin will improve over the next two years. We had initiated coverage on the stock at INR120 (19th May 2021) and the stock has hit a high of INR226 on (17th July 2021), a return of 88.3%. Given a strong visibility of revenue growth, margin improvement, increased profitability and return ratio profile, we continue to maintain BUY with a TP of INR252 (12x PE on FY23E), 25% upside.

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Quarter Result
Q1FY22 Result Analysis

Particulars	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Net sales	234	370	241	3.0	(34.9)
Net raw material & Purchase of finished goods	111	204	114	2.9	(44.1)
% of sales	47.3	55.1	47.3		
Employee expenses	74	98	86	15.8	(12.7)
% of sales	31.6	26.5	35.6		
Job Work Charges	4	4	1	(63.7)	(64.1)
% of sales	1.7	1.1	0.6		
Other expenses	23	36	28	22.4	(21.0)
% of sales	9.9	9.7	11.8		
Total expenditure	212	342	229	8.3	(32.9)
Operating Profit	22	28	12	(47.5)	(58.6)
OPM(%)	9.4	7.5	4.8		
Interest	10	9	10	2.8	8.0
PBDT	12	19	1	(87.8)	(92.0)
Depreciation	13	13	12	(4.2)	(0.7)
Other income	3	3	2	(40.3)	(26.6)
Exceptional item (Gain)/loss on account of foreign exchange fluctuations (net)	7	(7)	(6)		
PBT	(4)	16	(3)	(40.1)	(115.8)
Tax	-	0	-		
Effective tax rate (%)	-	0.8	-		
Reported PAT	(4)	16	(3)	(40.1)	(115.9)
Comprehensive income	11	(2)	(6)		
Adjusted PAT	7	14	(8)	(224.7)	(160.4)
NPM(%)	(1.8)	4.3	(1.1)		
EPS (Rs.)	(1.0)	3.7	(0.6)	(40.2)	(115.9)
Equity	4	4	4	0.2	-

Source: Company & Arihant Research

Result declared vs Our estimates

Y/E Mar (Rscr)	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)	Arihant Capital estimates	Variation (%)
Net Sales	234	370	241	3.0	(34.9)	257	(6.3)
EBITDA	22	28	12	(47.5)	(58.6)	16	(26.6)
EBITDA (%)	9.4	7.5	4.8	(461)	(274)	6.1	(132)
Reported PAT	(4)	16	(3)	(40.1)	(115.9)	4	(163.8)

Source: Company & Arihant Research

Financial Highlights

INR in Cr	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,175	1,378	1,211	1,500	1,838
EBITDA	62	88	101	135	188
EBITDA Margin (%)	5.3	6.4	8.4	9.0	10.2
PAT	26	30	27	58	100
PAT Margin (%)	2.2	2.2	2.2	3.9	5.4
EPS (in INR)	6.1	7.1	6.2	12.7	21.0
RoE (%)	10.6	13.4	10.5	17.6	22.6
RoCE (%)	10.3	8.9	9.3	13.5	17.7
PE (x)	33.2	28.5	32.5	15.9	9.6
EV/EBITDA (x)	19.8	14.7	12.5	9.8	7.0
Net Debt/Equity (x)	1.5	1.7	1.4	1.3	1.0
P/BV (x)	1.6	0.6	1.2	1.0	0.8

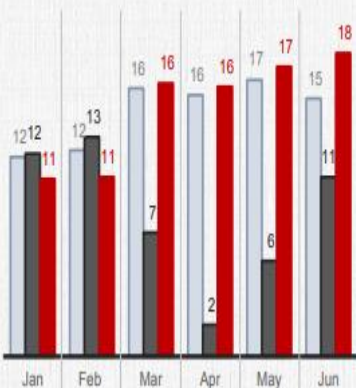
Source: Company & Arihant Research

Market Recovery

APPAREL MARKET IN THE US

US APPAREL STORE SALES

Value in US\$ Billion

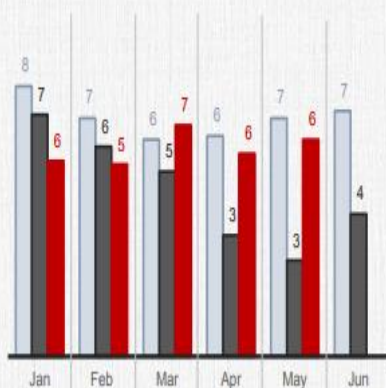


Legend: 2019 (light blue), 2020 (dark grey), 2021 (red)

Data source: U.S. Census Bureau

US APPAREL IMPORTS

Value in US\$ Billion

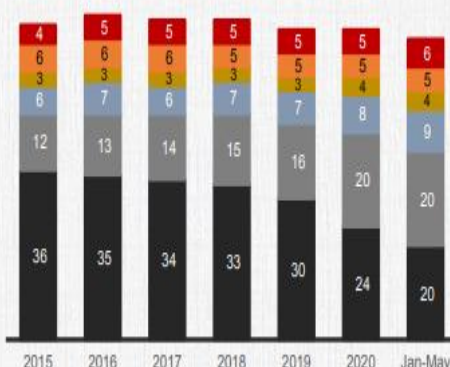


Legend: 2019 (light blue), 2020 (dark grey), 2021 (red)

Data source: The Office of Textiles and Apparel (OTEXA), USA

CHANGE IN SHARE OF MAJOR APPAREL SUPPLIERS TO US

In %



Legend: China (black), Vietnam (grey), Bangladesh (light blue), Cambodia (yellow), Indonesia (orange), India (red)

Data source: The Office of Textiles and Apparel (OTEXA), USA

Source: Company PPT and Arihant 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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