

A tough macroeconomic environment proves to be challenging

**CMP: INR 378**

**Rating: Accumulate**

**Target Price: INR 419**

**Stock Info**

BSE	532630
NSE	GOKEX
Bloomberg	GEXP:IN
Reuters	GOKL.NS
Sector	TEXTILES
Face Value (INR)	5
Equity Capital (INR cr)	29.5
Mkt Cap (INR cr)	2,270
52w H/L (INR)	520/ 195
Avg Yearly Volume (in 000')	512

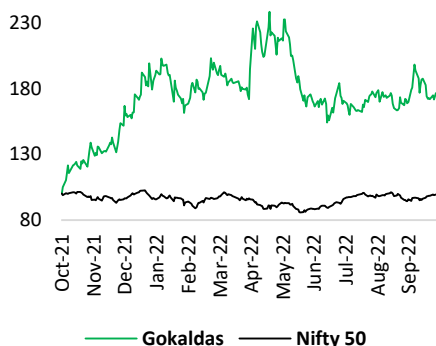
**Shareholding Pattern %**

(As on September, 2022)

Promoters	21.0
FII	11.7
DII	25.9
Public & Others	41.4

Stock Performance (%)	1m	3m	12m
Gokaldas	11.2	13.2	90.5
Nifty 50	5.6	5.2	(0.3)

**Gokaldas vs Nifty 50**



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- **GEL's** Q2FY23 Net Revenue grew by 28.37% YoY to INR 570 Cr (-6.71% QoQ), failing to meet our quarterly revenue estimate of INR 626 Cr by 9.82%.
- Q2FY23 Gross Margin contracted 509bps YoY to 46.67% (+60bps QoQ). This is due to input cost pressures faced by the company as fixed operating costs still remain high.
- Q2FY23 EBITDA grew by 38.02% YoY to INR 64 Cr (-5.13% QoQ). EBITDA Margin expanded by 78bps YoY to 11.2% (+19bps QoQ), failing to meet our quarterly EBITDA estimate of INR 72 Cr by 11.4%, and our EBITDA Margin estimate of 12%.
- Q2FY23 PAT grew 60.08% YoY to INR 46 Cr (+16.27% QoQ), beating our quarterly PAT estimate of INR 40 Cr by 14.5%.
- During the year, there was a non cash ESOP Charge of INR 6 Cr. There was also an exceptional income of INR 6cr on account of sale of land.
- The overall performance of the company was subpar, failing to meet our expectations on almost all fronts. The top line growth was lower than expected due to demand constraints in key markets, but the bottom line performance has significantly beat our estimates.

**Q2FY23 Conference Call Highlights:**

**Capacities Planned for FY24:** The units in Madhya Pradesh are expected to commission by Q1FY24 followed by some pilot rounds, post which phase 2 will be rolled out later in FY24. The units should have a capacity of 2.5- 3mn pieces p.a. The knitting plant is also expected to commission by Q1FY24. Both these units will begin ramping up after that. When these units become fully operational in the next 1-1.5 years (along with some additional fabric processing capacity), they should add INR 500-600 Cr to topline.

**Bangladesh:** Opening of the unit in Bangladesh is still on the radar, and they are in talks to set it up with their local partner. The country has duty free access to Europe which makes it a suitable investment.

**Guidance:** Considering the current macroeconomic and pricing environment, the company can attain INR 2,400 Cr this year (Q1FY23 levels). Margins will be maintained in the range of ~12%. Q3FY23 revenues will be similar to that of last year.

**Valuation & Outlook:** We assign a TP of INR 419, valued at a P/E multiple of 17x on the FY24E EPS of INR 24.7. The current macroeconomic scenario is challenging, we expect Q3 to be a rough one with little growth- however, this is not expected to last more than a couple of quarters. Customers are facing issues with inventory hangover which has put a cork in demand flow from the US & European markets. Q4 is expected to be a good one for the company as summer demand will kick in. The diversified customer base and healthy order book of Gokaldas is expected to protect it from demand pinches. We recommend that investors Accumulate the stock.

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue	12094	17903	23167	26129	30413
EBITDA	1137	2162	2836	3244	3885
EBITDA Margin (%)	9.3%	12.0%	12.2%	12.4%	12.8%
PAT	265	1171	1330	1454	1809
PAT Margin (%)	2.2%	6.5%	5.7%	5.6%	5.9%
EPS (in INR)	6.2	19.9	22.5	24.6	30.7
RoE (%)	9.1%	16.5%	15.8%	14.7%	15.49%
RoCE (%)	11.4%	22.0%	25.1%	24.7%	33.72%
P/E (x)	61.2	19.0	16.8	15.3	12.3
EV/EBITDA (x)	17.3	10.5	7.9	6.8	4.6
Net Debt/Equity (x)	1.0	0.9	0.6	-0.1	-0.1
P/BV (x)	5.6	3.1	2.7	2.2	1.9

Source: Company & Arihant Research

Quarterly Result

INR Cr (consolidated)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>570</b>	<b>611</b>	<b>444</b>	<b>-6.71%</b>	<b>28.37%</b>
Raw Material Costs	304	329	214	-7.74%	41.93%
Gross Profit	266	281	230	-5.50%	15.74%
<i>Gross Margin</i>	<i>46.67%</i>	<i>46.08%</i>	<i>51.77%</i>	<i>60bps</i>	<i>-509bps</i>
Employee costs	161	171	142	-5.59%	13.71%
Job Work Charges	3	4	8	-18.76%	-57.77%
Other Expenses	37	39	34	-4.31%	11.60%
<b>EBITDA</b>	<b>64</b>	<b>67</b>	<b>46</b>	<b>-5.13%</b>	<b>38.02%</b>
<i>EBITDA margin %</i>	<i>11.20%</i>	<i>11.01%</i>	<i>10.41%</i>	<i>19bps</i>	<i>78bps</i>
Other Income	7	2	2	222.63%	198.75%
Depreciation	17	17	14	-0.07%	23.87%
<b>EBIT</b>	<b>53</b>	<b>52</b>	<b>35</b>	<b>2.21%</b>	<b>53.97%</b>
Finance costs	6	6	12	-9.72%	-50%
Exceptional Items	6	0	0	-	-
Gain/ Loss on account of foreign exchange fluctuations (net)	-1	-5	-5	-71.25%	-74%
<b>PBT</b>	<b>55</b>	<b>51</b>	<b>29</b>	<b>8.35%</b>	<b>92.43%</b>
Tax Expense	9	11	0	-18.94%	#DIV/0!
<i>Effective tax rate %</i>	<i>16.82%</i>	<i>22.48%</i>	<i>0.00%</i>	<i>-566bps</i>	<i>1682bps</i>
<b>PAT</b>	<b>46</b>	<b>39</b>	<b>29</b>	<b>16.27%</b>	<b>60.08%</b>
Add: Other Comprehensive Income	-28	-32	7	-13.25%	-577.23%
<b>Consolidated PAT</b>	<b>18</b>	<b>8</b>	<b>35</b>	<b>139.29%</b>	<b>-48.29%</b>
<i>PAT margin %</i>	<i>3.20%</i>	<i>1.25%</i>	<i>7.95%</i>	<i>195bps</i>	<i>-475bps</i>
<b>EPS (INR)</b>	<b>8</b>	<b>6</b>	<b>7</b>	<b>16.49%</b>	<b>14.20%</b>

Source: Company & Arianth Research

**Q2FY23 Conference Call Highlights:**

**Macroeconomic environment:** Supply dependencies on China for some products caused some problems for a seasonally weak quarter. The company did manage to find other suppliers. The ongoing military conflicts hampered European demand, and the inventory overhand with US retailers was also problematic. Despite that, the company displayed a growth of 21% through exports as the Indian apparel industry de grew by 6%. This was done by maintaining good relationships with customers (as well as having a good quality customer base with no financial problems), operating in markets with growth potential, and in good product categories to produce what is in demand.

**Inventory hangover:** Especially in the US markets is causing demand to be slightly constrained this quarter, and for the next as well. Buyers are trying to liquidate inventories due to their seasonal nature and limited shelf life. The current excess supply in the market is putting pressure on prices.

**Summer volumes:** Volumes in Q4 are expected to be better as that is when summer demand will kick in. It is higher due to the higher proportion of fashion garments and summer products.

**Capex plan on track:** Out of the planned ~INR 160 cr of Capex, the company has spent INR 51 cr in H1. INR 125 Cr of capex is planned for FY24.

**Price hikes:** Any increases in cotton prices are passed on, hence margins are kept relatively stable. Margin pressures are attributed to high fixed operating costs which are to be optimized.

**Lower receivables:** This is due to a lot of shipments that took place in Q1, leading to quicker deliveries and collections.

**Customers:** The top 5 customers comprise 70% of the revenues.

**Knits business:** Is set up mainly to offer a diverse choice to buyers, as knits are usually 50-55% of their demand. The will be a small part of revenues. The unit will be commissioned by Q1FY24.

Company Financials

Consolidated Statement of Profit and Loss (INR Mn)	FY22	FY23E	FY24E	FY25E
<b>Revenue</b>	17,903	21,700	24,400	28,560
Total Income	18,010	23,182	26,147	30,413
Total Expense	15,848	20,346	22,904	26,528
<b>EBITDA</b>	2,162	2,836	3,244	3,885
Other income				
Depreciation and amortisation expenses	589	700	927	1,082
<b>EBIT</b>	1,572	2,136	2,317	2,803
Interest expense	402	474	500	542
Exceptional item				
<b>PBT</b>	1,170	1,662	1,817	2,261
Tax expense	(1)	332	363	452
<b>PAT</b>	1,171	1,330	1,454	1,809
<b>Basic earnings per share</b>	20	23	25	31

Consolidated Balance Sheet (INR Mn)	FY22	FY23E	FY24E	FY25E
<b>Non Current Assets</b>				
Property, plant and equipment	1,553	3,123	4,373	4,573
Capital work-in-progress	110	210	310	410
Right of Use Asset	1,299	1,199	1,099	999
Other intangible assets	27	27	27	6
Financial assets	422	792	884	369
Deferred tax assets	118	7	7	7
Non-current tax assets (net)	118	86	86	86
Other non-current assets	177	64	78	182
<b>Total non-current assets</b>	3,824	5,509	6,865	2,968
<b>Current assets</b>				
Inventories	4,336	4,000	3,700	5,056
Financial assets	2,744	3,690	4,817	9,913
Other current assets	1,208	1,300	1,647	1,937
<b>Total current assets</b>	8,288	8,991	10,164	16,905
<b>Total assets</b>	12,113	14,500	17,029	19,874
<b>EQUITY AND LIABILITIES</b>				
<b>EQUITY</b>				
Equity share capital	295	295	295	295
Other equity	6,787	8,116	9,570	11,379
<b>Total equity</b>	7,082	8,411	9,865	11,674
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Financial liabilities	1,055	1,225	1,125	1,269
Borrowings	24	294	294	538
Lease liabilities	1,032	932	832	732
Provision for employee benefits	67	111	163	64
<b>Total non-current liabilities</b>	1,122	1,337	1,289	1,333
<b>Current liabilities</b>				
Financial liabilities	3,406	4,082	4,977	6,074
Other current liabilities	130	148	176	200
Provision for employee benefits	372	522	722	594
Current tax liability	-	-	-	-
<b>Total current liabilities</b>	3,909	4,752	5,875	6,867
<b>Total equity and liabilities</b>	12,113	14,500	17,029	19,874

Source: Company Financials and Arihant Research

Consolidated Statement Cash Flow Statement (INR Mn)	FY22	FY23E	FY24E	FY25E
<b>Profit before tax</b>	1,170	1,662	1,817	2,261
Adjustment for:				
Tax	-134	332	363	452
Depreciation	589	700	927	1082
Other Expenses	-106	0	0	0
Finance Costs	402	474	500	542
<b>Cash from operation</b>	<b>1921</b>	<b>3168</b>	<b>3608</b>	<b>4339</b>
Working capital changes	-750	323	464	-2869
<b>Net Cash generated / (used) from operation</b>	<b>1171</b>	<b>3491</b>	<b>4072</b>	<b>1470</b>
<b>Cash from Investing</b>				
Purchase of PP&E	-798	-2270	-2177	-1260
Proceeds from sale PP&E	16	0	0	0
Investment in bank deposits	-1499	0	0	0
Redemption of bank deposits	2818	0	0	0
Investment in mutual Fund Units	-2700	-115	-106	411
Proceeds from sale of mutual fund units	1551	0	0	0
Finance Income	88	0	0	0
<b>Cash generated / (used) from Investing</b>	<b>-523</b>	<b>-2385</b>	<b>-2283</b>	<b>-849</b>
<b>Cash from Financing</b>				
Proceeds from Issue of Shares	2926	1330	1454	1809
Short Term borrowings	21142	375	375	342
Repayment of Short term borrowings	-23913	0	0	0
Payment of other liabilities and lease liabilities	-334	-56	-48	-200
Finance Costs	-251	-474	-500	-542
<b>Cash generated / (used) from Financing</b>	<b>-430</b>	<b>1175</b>	<b>1281</b>	<b>1409</b>

Ratios	FY22	FY23E	FY24E	FY25E
<b>Growth</b>				
Revenue growth	56.3%	21.2%	12.4%	17.0%
EBITDA Growth	90.1%	31.2%	14.4%	19.8%
EBIT Growth	157.4%	35.8%	8.5%	21.0%
Net Profit Growth	-12.8%	342.0%	13.6%	9.3%
<b>Profitability</b>				
EBITDA Margin	12.0%	12.2%	12.4%	12.8%
EBIT Margin	7.2%	8.8%	8.1%	9.2%
Net Profit Margin	6.5%	6.1%	6.0%	6.3%
ROE	16.5%	15.8%	14.7%	15.5%
ROCE	22.0%	25.1%	24.7%	33.7%
<b>Per Share Data (Rs)</b>				
Basic EPS	19.85	22.54	24.65	30.67
BVPS	120.1	142.6	167.3	197.9
<b>Gearing Ratio (x)</b>				
Net Debt/Equity	(0.1)	(0.1)	(0.1)	(0.4)
Net Debt/EBITDA	(0.5)	(0.3)	(0.5)	(1.1)
Interest Coverage Ratio	3.9	4.5	4.6	5.2
<b>Efficiency Ratios</b>				
Inventory Days	142.4	119.8	97.6	102.7
Receivable Days	27.7	16.2	16.8	27.0
Payable Days	41.9	39.4	43.4	48.8
Cash Conversion cycle	128.2	96.6	71.0	80.8
<b>Valuation</b>				
P/E	19.0	16.8	15.3	12.3
P/BV	3.1	2.7	2.3	1.9
EV/EBITDA	10.5	7.9	6.8	4.7
EV/Sales	1.3	1.0	0.8	0.6
<b>CMP</b>	<b>378</b>	<b>378</b>	<b>378</b>	<b>378</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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