

Inventory pile ups no longer to be an issue from hereon; growth will be modest

CMP: INR 838

Rating: BUY

Target Price: INR 1,012

Stock Info

BSE	532630
NSE	GOKEX
Bloomberg	GEXP:IN
Reuters	GOKL.NS
Sector	TEXTILES
Face Value (INR)	5
Equity Capital (INR cr)	30.3
Mkt Cap (INR cr)	5,082
52w H/L (INR)	989/ 329
Avg Daily Volume (in 000')	401

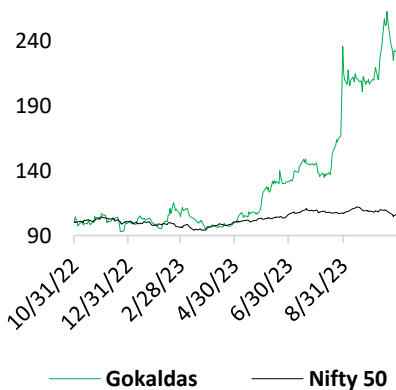
Shareholding Pattern %

(As on September 2023)

Promoters	11.05
FII	16.96
DII	32.66
Public & Others	39.31

Stock Performance (%)	1m	3m	12m
Gokaldas	11.9	60.6	124.0
Nifty 50	(2.7)	(2.7)	7.5

GEL vs Nifty 50



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Gokaldas delivered an unremarkable quarterly performance, with misses on all fronts. Revenue de- grew 12.19% YoY to INR 500 Cr (-2.80% QoQ), missing our revenue estimate of INR 581 Cr by 14%. Gross Margin expanded 623bps YoY 52.91% (+239bps QoQ) **indicative of the previously volatile input cost environment starting to settle down.** EBITDA de-grew 27.98% YoY to INR 46 Cr (-24.61% QoQ), missing our estimate of INR 77 Cr. EBITDA Margin contracted 201bps YoY to 9.18% (-266bps QoQ), missing our estimate of 13.25% by 407bps. PAT de- grew 29.04% YoY to INR 24 Cr (-27.12% QoQ), missing our estimate of INR 112 Cr. **Demand from international retailers remained subdued due to inventory clearouts still taking place. There were also ramp-ups in the labor force given the opening of new units and the growing order book for H2. This resulted in sluggish revenue growth and higher operating costs.**

Guidance: The demand scenario for H2 is expected to be much more robust than H1, given that inventory clear-ups have been completed in Q2, and the company has built up a good order book for H2. For FY24, the company has guided for low double-digit top-line growth and EBITDA Margins to the tune of ~12%.

Atraco Acquisition: The procedure has not yet been completed, but will be by Q3. The company expects this to lead to incremental revenues that will flow in from Q4. It already has a decent-sized order book built up.

Wage hikes: The company has operations concentrated in South India which has much higher wages than the rest of the country. Considering that overall wages may hike by ~5% within India, and more than that in other competing countries, Gokaldas will have to diversify its manufacturing operations.

ROSCTL Benefits: They are supposed to cease by FY24, though major textile players in India are working to get it extended. If it doesn't get extended, there may be a hit of ~2% on margins in the short term (1-2 quarters), until the loss can be priced in, post which it will be recovered.

Valuation & Outlook: We assign a TP of INR 1,012 valued at a P/E multiple of 30x the FY26E EPS of INR 33.7, and a 'Buy' rating with an upside of 21%. Given that the company is investing in capacities, expanding organically and inorganically, has built up a good order book, and the operational environment will improve drastically from here on, we see the medium to long-term prospects of the company are bright.

INR Mn	FY22	FY23	FY24E	FY25E	FY26E
Revenue	17,903	22,392	24,171	27,234	30,764
Growth	48.03%	25.07%	7.95%	12.67%	12.96%
EBITDA	2,162	2,958	2,844	3,322	3,833
EBITDA M	12.0%	13.2%	11.7%	12.2%	12.5%
PAT	1,171	1,730	1,422	1,696	2,043
EPS (INR)	19.9	28.6	23.5	28.0	33.7
RoE	16.5%	19.5%	13.8%	14.2%	14.6%
RoCE	22.0%	34.7%	27.7%	31.2%	33.6%
P/E (x)	42.2	29.3	35.7	29.9	24.9
EV/EBITDA (x)	23.1	17.2	17.7	14.8	12.6
Net D/E (x)	0.9	0.6	-0.1	-0.4	-0.4
P/BV (x)	7.0	5.7	4.9	4.2	3.6

Source: Company & Arihant Research

Quarterly Result

INR Cr (Consolidated)	Q2FY24	Q1FY24	Q2FY23	Q-o-Q	Y-o-Y
Net Revenue	500	515	570	-2.80%	-12.19%
Raw Material Costs	236	255	304	-7.49%	-22.45%
Gross Profit	265	260	266	1.80%	-0.45%
<i>Gross Margin</i>	<i>52.91%</i>	<i>50.52%</i>	<i>46.67%</i>	<i>239bps</i>	<i>623bps</i>
Employee costs	180	160	161	12.66%	11.97%
Job Work Charges	0	1	3	-86.94%	-96.45%
Other Expenses	38	38	37	0.58%	1.84%
EBITDA	46	61	64	-24.61%	-27.98%
<i>EBITDA margin %</i>	<i>9.18%</i>	<i>11.84%</i>	<i>11.20%</i>	<i>-266bps</i>	<i>-201bps</i>
Other Income	9	8	7	15.50%	31.72%
Depreciation	21	19	17	8.75%	21.60%
EBIT	34	49	53	-31.34%	-36.40%
Finance costs	6	6	6	3.46%	-2%
Exceptional Items	-	-	-6	-	-100%
Gain/ Loss on account of foreign exchange fluctuations (net)	-1	1	-1	-249.96%	-23%
PBT	29	43	43	-32.04%	-31.69%
Tax Expense	6	11	10	-47.10%	-41%
<i>Effective tax rate %</i>	<i>19.15%</i>	<i>24.61%</i>	<i>22.18%</i>	<i>-545bps</i>	<i>-303bps</i>
PAT	24	33	33	-27.12%	-29.04%
<i>PAT margin %</i>	<i>4.66%</i>	<i>6.23%</i>	<i>5.80%</i>	<i>-157bps</i>	<i>-114bps</i>
Basic EPS (INR)	3.91	5.37	7.56	-27.19%	-48.28%

Source: Company & Arianth Research

Operational Highlights:

- Price growth took precedence over volume growth as brands were selling at full price with no discounting.
- Volume growth was sluggish due to lower demand.
- There was an expense of INR 3.6 Cr for the start of the MP plant, and INR 1.6 Cr for the acquisition, both of which will be present in H2 as well.
- The MP plant should be completed by Q3 and will reach 100% utilization by Q2 of next year depending on how well the manpower gets trained by then.
- There was a drop in ASP from 850 to 610 in Q2 as the company had lower outerwear and higher innerwear sales.
- Cost of wages in Bangladesh may hike 35-40% next year on account of the elections and pressures put by unions.

Consolidated Statement of Profit and Loss (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	17,903	22,222	22,750	25,200	27,740
Total Income	18,010	22,472	24,211	27,234	30,764
Total Expense	15,848	19,514	21,367	23,912	26,931
EBITDA	2,162	2,958	2,844	3,322	3,833
Depreciation and amortisation expenses	589	718	827	932	1,000
EBIT	1,572	2,241	2,018	2,391	2,833
Interest expense	402	257	240	270	280
Exceptional item	-	-61	-	-	-
PBT	1,170	1,983	1,778	2,121	2,553
Tax expense	-1	314	356	424	511
PAT	1,171	1,730	1,422	1,696	2,043
Basic earnings per share	19.9	28.6	23.5	28.0	33.7

Consolidated Balance Sheet (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Non Current Assets					
Property, plant and equipment	1,553	1,661	2,961	3,761	4,761
Capital work-in-progress	110	1,079	979	779	479
Right of Use Asset	1,299	1,125	1,025	925	825
Other intangible assets	27	11	14	17	20
Financial assets	422	282	292	302	312
Deferred tax assets	118	306	356	406	456
Non-current tax assets (net)	118	41	43	45	47
Other non-current assets	177	116	121	126	131
Total non-current assets	3,824	4,622	5,792	6,362	7,032
Current assets					
Inventories	4,336	2,930	2,500	2,400	2,500
Financial assets	2,744	5,049	5,351	6,288	7,310
Other current assets	1,208	819	819	819	819
Total current assets	8,288	8,798	8,670	9,506	10,629
Total assets	12,113	13,420	14,462	15,869	17,661
EQUITY AND LIABILITIES					
EQUITY					
Equity share capital	295	303	303	303	303
Other equity	6,787	8,560	9,982	11,678	13,721
Total equity	7,082	8,863	10,285	11,981	14,024
LIABILITIES					
Non-current liabilities					
Financial liabilities	1,055	964	744	524	304
Borrowings	24	96	76	56	36
Lease liabilities	1,032	868	668	468	268
Provision for employee benefits	67	135	115	95	75
Total non-current liabilities	1,122	1,099	859	619	379
Current liabilities					
Financial liabilities	3,406	2,897	2,757	2,707	2,697
Other current liabilities	130	122	122	122	122
Provision for employee benefits	372	440	440	440	440
Current tax liability	-	-	-	-	-
Total current liabilities	3,909	3,459	3,319	3,269	3,259
Total equity and liabilities	12,113	13,420	14,462	15,869	17,661

Consolidated Statement Cash Flow Statement (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,170	1,983	1,778	2,121	2,553
Adjustment for:					
Tax	-134	-385	-356	-424	-511
Depreciation	589	718	827	932	1,000
Other Expenses	-106	-	-	-	-
Finance Costs	402	257	240	270	280
Cash from operation	1,921	2,580	2,489	2,898	3,323
Working capital changes	-750	1,108	408	90	-110
Net Cash generated / (used) from operation	1,171	3,688	2,897	2,988	3,213
Cash from Investing					
Purchase of PP&E	-798	-1,354	-1,930	-1,435	-1,603
Proceeds from sale PP&E	16	90	-	-	-
Investment in bank deposits	-1,499	-553	-	-	-
Redemption of bank deposits	2,818	610	-	-	-
Investment in mutual Fund Units	-2,700	-3,650	-67	-67	-67
Proceeds from sale of mutual fund units	1,551	1,914	-	-	-
Finance Income	88	30	-	-	-
Cash generated / (used) from Investing	-523	-2,913	-1,997	-1,502	-1,670
Cash from Financing					
Proceeds from Issue of Shares	2,926	43	-	-	-
Short Term borrowings	21,142	4,148	-240	-240	-240
Repayment of Short term borrowings	-23,913	-4,426	-	-	-
Payment of other liabilities and lease liabilities	-334	-421	-	-	-
Finance Costs	-251	-98	-240	-270	-280
Cash generated / (used) from Financing	-430	-754	-480	-510	-520
Cash Generated during the year	218	21	420	976	1,023
Opening Balance	-92	127	147	567	1544
Closing Balance	126	147	567	1,544	2,566

Source: Company & Arianth Research

Ratios	FY22	FY23	FY24E	FY25E	FY25E
Growth					
Revenue growth	56.3%	24.1%	2.4%	10.8%	10.1%
EBITDA Growth	90.1%	36.8%	-3.8%	16.8%	15.4%
EBIT Growth	157.4%	42.5%	-10.0%	18.5%	0.0%
Net Profit Growth	-12.8%	342.0%	47.7%	-17.8%	19.3%
Profitability					
EBITDA Margin	12.0%	13.2%	11.7%	12.2%	12.5%
EBIT Margin	7.1%	9.8%	8.0%	8.8%	0.0%
Net Profit Margin	6.5%	7.8%	6.3%	6.7%	7.4%
ROE	16.5%	19.5%	13.8%	14.2%	14.6%
ROCE	22.0%	34.7%	27.7%	31.2%	33.6%
Per Share Data (INR)					
Basic EPS	19.85	28.55	23.47	28.00	33.72
BVPS	120.1	146.3	169.8	197.8	231.5
Gearing Ratio (x)					
Net Debt/Equity	(0.1)	(0.4)	(0.4)	(0.4)	(0.4)
Net Debt/EBITDA	(0.5)	(1.1)	(1.3)	(1.5)	(1.5)
Interest Coverage Ratio	3.9	8.9	8.4	8.9	10.1
Efficiency Ratios					
Inventory Days	142	113	78	66	59
Receivable Days	28	19	21	18	16
Payable Days	42	31	23	22	20
Cash Conversion cycle	128	100	75	61	54
Valuation					
P/E	42.2	29.3	35.7	29.9	24.9
P/BV	7.0	5.7	4.9	4.2	3.6
EV/EBITDA	23.1	17.2	17.7	14.8	12.6
EV/Sales	2.8	2.3	2.1	1.8	1.6

Source: Company & Arian 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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