Q4FY21 – Result Update
19th May 2021

Gokaldas Exports Ltd

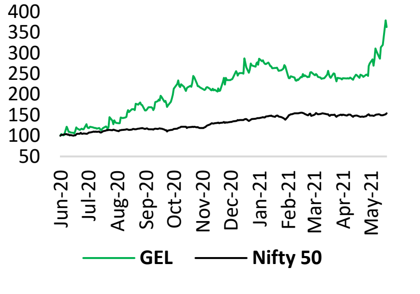
CMP: INR 120
Rating: BUY
Target Price: INR 252

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)	521
52w H/L (INR)	139/ 28
Avg Yearly Volume (in 000')	302

Shareholding Pattern % *(As on March, 2021)*	
Promoters	33.12
FII	8.31
DII	3.69
Public & Others	54.89

Stock Performance (%)	3m	6m	12m
GEL	51.2	38.9	323.6
Nifty 50	(2.9)	14.7	61.6

GEL Vs Nifty



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Gokaldas Exports Limited (GEL) , one of the leading apparel exporters in India with an annual capacity of 30mn pieces (200 odd lines), has been supplying garments to large global retailers since its inception in the year 1978. The company operates predominantly in Karnataka with a few operation facilities in the neighbouring Andhra Pradesh and Tamil Nadu. GEL focuses on manufacturing of complex garmenting products and designs that insulate it from other price based competition. Its functions comprise of cutting, sewing, embroidery, quilting and printing. It has an impressive clientele of leading international brands with 'GAP' and 'H&M' being the major contributor to revenues.

The buy-out by Blackstone (exit in FY18) and the change in management brought about a sea change towards business execution. The new management has taken a several initiatives which translated into robust revenue growth of CAGR 15% over FY18-FY20. GEL has witnessed a massive turnaround since management change and has turned into profit making since Q4FY18. Over the last two years, GEL has improved process efficiencies, expanded capacities both effectively and efficiently, increased wallet share with existing clients as well as added new clients to the basket.

However, GEL reported a decline in revenue growth by 11.7% YoY in FY21 to INR12.1bn on the account of business impact due to Covid led to border seal, lockdown in US, unavailability of labours and decline in exports.

Key Concall Highlights:

1) US market contributes ~65% of revenues. Demand from the US market is showing strong traction with opening up of the economy. GEL is getting good order flow and expects H2FY22 to be strong. Q2 already have a strong order book. 2) EBITDA Margins will improve 200bps over 2 years by: a) increase in high value product, b) operational efficiency, c) capacity expansion, and d) operating leverage. 3) Margins may be negatively impacted in Q1FY22 on the account of overtime of workers, increased job charges and time loss. 4) GEL has reduced the exposure of Indian customers on the line of increased credit risk and increasing focus on international customers who are financially sound. 5) Due to Covid, the mgmt has sought extension of delivery deadlines and does not foresee immediate risk of cancellation of orders. 6) GEL continued to outperform the industry as India's exports of apparels declined 17% YoY in FY21 vs 8.8% decline for GEL. 7) GEL enjoys a strong order book with higher value margin accretive order. 8) The mgmt has guided to manage the input cost inflation due to large buying capacity and secure at reasonable prices. GEL will pass on the increase to customers and will absorb some inflated cost. 9) Net debt reduced by INR38cr to INR166cr in FY21.

Outlook: GEL is planning a capex of INR1.2bn (INR0.5bn funded by debt and balance through internal accruals) over a period of FY22 and FY23. Out of INR1.2bn, INR0.3bn will be used for modernization. This capex has the potential to generate revenue of INR4-4.5bn. Further, we believe that on the back of enhanced scale and cost optimization measures, the EBITDA margin will improve over the next two years. However, the immediate margins will be under pressure on the account of increased overtime and higher job charges once lockdown eases.

In addition, the company is increasing its focus in US business and reducing the Europe. Bangladesh has a strong foothold in the Europe as it enjoys duty free access of 11% which India doesn't. However, the duty deferral for India and Bangladesh in US is same, giving level playing field to both the countries.

Over the years, the company has made a cautious effort to reduce the dependence of Spring Summer season and diversifying it more towards a value added products by increasing the contribution of outerwear (44% in FY21 vs 23% in FY23).

Given a strong visibility of revenue growth, margin improvement, increased profitability and return ratio profile, assign a value of PE 12x on FY23E EPS, and arrive at a target price of INR252 per share, a potential upside of 109%.

Why GEL was a loss making company?

During Blackstone era, GEL turnover almost halved in USD terms and suffered losses led by inefficiencies in operating the business:

1. The management divided the business into 6 SBUs and each SBUs were made responsible from procuring material to manufacturing.
2. The factories were focussing on the customer-wise and not the product-wise which impacted the business immensely as not all factories has the expertise to produce all kinds of garments and if a production is running at a peak capacity, no further order can be taken from an other customer, leading to financial losses.
3. Factory-wise P&L was prepared and loss making units were subsequently sold or shut down. The company did not put an effort in improving the operational efficiencies and thereby generate profits.
4. GEL had the ability to produce bouquet of products, but due to mismanagement the company had to shut down many of its units including state-of-art blazer manufacturing unit.
5. The garment is a low margin business, and thus, any increasing inefficiencies, higher wastage and rising input cost will result in incurring losses for the business.

10 year of mismanagement was turnaround in 2 years

In 2017, Blackstone exited and sold their 39.9% stake to Clear Wealth Consultancy Services LLP (owned by Mathew Cyriac, former Co-head Private Equity, Blackstone) for INR586mn. GEL appointed, Mr Siva Ganpathi as MD of the company who enjoys a reputation of turning loss making business into profitable one.

How Mr Siva turned GEL into a profitable company?

1. Data driven analysis of each factory was done to address the low efficiency and high wastages and simultaneously took measures to address them.
2. Employee attrition and absenteeism was addressed by paying 'Attendance bonus' leading to better attendance and productivity.
3. The management introduced programs like 'Hello Sakhi' to improve working atmosphere. Under this program, the experienced employees mentor the new employees for the first six months.
4. Single ERP system was introduced to streamline the requisition of raw-materials and procurement to reduce the mismatches.
5. The improvement of material-on-time performance was given emphasis on to improve the sewing efficiency and reduce the wastage, resulting into better efficiency.

All these initiatives resulted into a successful turnaround of the business. The company from loss making has been reporting profits since Q4FY18.

New Textile Policy is a boon for textile sector

1. Under Union Budget 2020-21, a National Technical Textiles Mission is proposed for a period from 2020-21 to 2023-24 at an estimated outlay of INR14.8bn (US$ 211.76 million).

2. The government to introduce the National Textile Policy and will invest INR100bn in the sector in the next 5 years. The textile industry will get a fillip, which could potentially help exports worth about INR2000bn over five years or longer.

Valuation & Recommendation

On the back of healthy order book, opening up of US, better product mix, capacity expansion and cost optimization measures, we expect a company to report a strong revenue growth, improvement in operating margins, enhanced profitability and improved return ratio profile. We expect a Revenue/EBITDA/PAT CAGR of 23.2%/36.0%/83.7%, over FY21E-FY23E. We assign a value of PE 12x on FY23E EPS, and arrive at a target price of INR252 per share, a potential upside of 109%.

Quarterly Result

INR in Cr.	Q4FY21	Q3FY21	Q4FY20	YoY	QoQ
Revenue	**370**	**265**	**358**	**3.3%**	**39.6%**
COGS	204	118	186	**9.8%**	**72.5%**
Gross Profit	**166**	**147**	**172**	**(3.6%)**	**13.1%**
Gross Profit (%)	**44.9%**	**55.4%**	**48.1%**	(3bps)	(11bps)
Employee Cost	98	98	112	**(12.1%)**	**0.2**
Job Work Charges	4.1	0.2	1.9	**115.2%**	**1773.3%**
(Gain)/Loss on foreign exchange fluctuations	1.1	0.1	0.5	**-**	**-**
Other Expenses	36	29	31	**14.8%**	**23.8%**
EBITDA	**35**	**21**	**26**	**34.7%**	**67.4%**
EBITDA Margin (%)	**9.5%**	**7.9%**	**7.3%**	222bps	158bps
Other Income	3	3	4	**(30.4%)**	**(9.2%)**
Depreciation	13	13	15	**(17.4%)**	**(0.6%)**
EBIT	**25**	**12**	**15**	**70.3%**	**121.5%**
Finance Cost	9	5	9	**3.6%**	**70.7%**
PBT	**16**	**6**	**6**	**170.8%**	**167.3%**
Tax Expense	0	0	0	-	-
Effective tax rate %	0.8%	0%	0%	-	-
PAT	**16**	**6**	**6**	**156.2%**	**160.8%**
PAT margin (%)	4.3%	2.3%	1.8%	259bps	202bps
EPS (INR)	**3.7**	**1.4**	**1.5**	**156.2%**	**160.8%**

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
PATM (%)	2.2	2.2	2.2	3.9	5.4
EPS(in Rs)	6.1	7.1	6.2	12.7	21.0
ROE(%)	10.6	13.4	10.5	17.6	22.6
PE(x)	24.3	20.9	23.8	11.7	7.1
EV/EBITDA	16.0	11.9	10.1	8.0	5.7

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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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