

Near term headwinds will impact top line growth and profitability into H2FY24.

CMP: INR 391

Rating: Buy

Target Price: INR 613

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) | 2,500 |
| 52w H/L (INR) | 487/ 301 |
| Avg Daily Volume (in 000') | 391 |

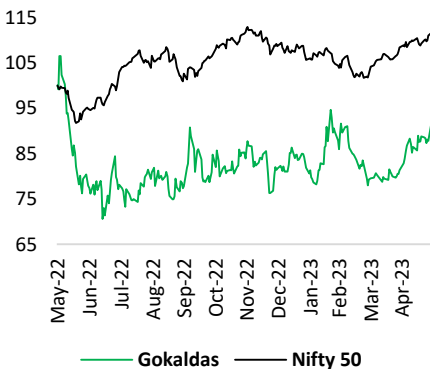
Shareholding Pattern %

(As on March 2023)

| | |
|-----------------|-------|
| Promoters | 11.07 |
| FII | 17.22 |
| DII | 31.35 |
| Public & Others | 40.36 |

| Stock Performance (%) | 1m | 3m | 12m |
|-----------------------|----|-----|-------|
| Gokaldas | 13 | 2.9 | (7.3) |
| Nifty 50 | 3 | 6.6 | 13.7 |

GEL vs Nifty 50



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Gokaldas Exports (GEL) Q4FY23 Revenue de- grew by 10.59% YoY to INR 523 Cr (+0.80% QoQ) vs our revenue estimate of INR 534 Cr due to inventory build-ups with global retailers discouraging buying during the quarter. Gross Margin expanded 5bps YoY 47.27% (-101bps QoQ) indicative of the previously volatile input cost environment starting to settle down. EBITDA grew 0.54% YoY to INR 71 Cr (+16.06% QoQ) vs our estimate of INR 58 Cr. EBITDA Margin expanded 151bps YoY to 13.67% (+180bps QoQ) vs our estimate of 10.8%. PAT de- grew 22.52% YoY to INR 47 Cr (+16.29% QoQ) vs our estimate of INR 44 Cr. **During The year, growth was price-led and volume growth was muted. This is because of high inflation in input costs which had to be passed down, and inflation in the consumer basket which pinched pockets and discouraged discretionary purchases during the year.**

Guidance: The demand scenario for H1FY24 is expected to remain similar to H2FY23 as different buyers are in different stages of inventory liquidation and it is expected to fully abate by then owing to spring and summer demand for which most buyers begin to place orders in H2FY24 from both the US and the UK. In the next 3 years, there will be a margin expansion of 1-1.5% on EBITDA. The current year had high margins but these are not sustainable. In the medium- long term, the company has targeted growth of ~20%. Rupee depreciation is also a factor to aid in this.

Knitwear unit: It is expected to get commissioned by September 2024, but will take ~2 years before it can contribute meaningful revenues of INR 50-100 Cr to the top line. Once it has ramped up it will contribute ~10-15% of revenues, and the remaining will be from woven. This will change ASPs and improve the margin profile.

Capacities Planned for FY24/FY25: The units in Madhya Pradesh and Tamil Nadu are expected to commission in FY24 and can add revenues of INR 300 Cr to the top line once fully ramped up in FY25. During the year the capex figure was INR 135 Cr and is expected to be INR 145 Cr in FY24.

Bangladesh JV: The majority of the work for the JV has been completed.

Cost pressures during the year: There was an increase in employee expenses as wages in Karnataka were increased during the year There was also an expense on account of an ESOP expense. This will be countered with increasing efficiencies and productivity.

Valuation & Outlook: We believe the company will have a sluggish H1 as its major customers are still working on inventory liquidation which will put downward pressure on the top line. However, the medium to long-term performance of the company looks promising as its capacities ramp up, volumes begin to pick up, and inflation begins to ease. The prospective FTA with the UK will also aid sales momentum to those geographies if and when it materializes. The China +1 strategy also helped them gain wallet shares with major clients with vendor base diversification away from China and Vietnam. We assign a TP of INR 613 valued at a P/E multiple of 20x the FY25E EPS of INR 30.6, and a 'Buy' rating.

| INR Mn | FY22 | FY23 | FY24E | FY25E | FY26E |
|-------------------------|--------|--------|--------|--------|--------|
| Revenue from Operations | 17,903 | 22,392 | 24,625 | 28,647 | 30,170 |
| Growth (%) | 48.03% | 25.07% | 9.97% | 16.33% | 5.32% |
| EBITDA | 2,162 | 2,958 | 3,109 | 3,728 | 4,060 |
| EBITDA Margin (%) | 12.0% | 13.2% | 12.6% | 13.0% | 13.5% |
| PAT | 1,171 | 1,730 | 1,434 | 1,855 | 2,070 |
| EPS (in INR) | 19.9 | 28.6 | 23.7 | 30.6 | 34.2 |
| RoE (%) | 16.5% | 19.5% | 13.9% | 15.3% | 14.6% |
| RoCE (%) | 22.0% | 34.7% | 29.9% | 35.1% | 35.1% |
| P/E (x) | 19.7 | 13.7 | 16.5 | 12.8 | 11.4 |
| EV/EBITDA (x) | 10.9 | 8.1 | 7.5 | 5.9 | 5.2 |
| Net Debt/Equity (x) | 0.9 | 0.6 | -0.1 | -0.4 | -0.4 |
| P/BV (x) | 3.3 | 2.7 | 2.3 | 1.9 | 1.7 |

Source: Company & Arihant Research

Quarterly Result

| INR Cr (consolidated) | Q4FY23 | Q3FY23 | Q4FY22 | Q-o-Q | Y-o-Y |
|--|---------------|---------------|----------------|----------------|----------------|
| Net Revenue | 523 | 519 | 585 | 0.80% | -10.59% |
| Raw Material Costs | 276 | 268 | 309 | 2.77% | -10.68% |
| Gross Profit | 247 | 251 | 276 | -1.32% | -10.49% |
| <i>Gross Margin</i> | <i>47.27%</i> | <i>48.29%</i> | <i>47.22%</i> | <i>-101bps</i> | <i>5bps</i> |
| Employee costs | 137 | 151 | 154 | -9.29% | -11.09% |
| Job Work Charges | 2 | 2 | 8 | 0.14% | -72.75% |
| Other Expenses | 37 | 36 | 44 | 2.21% | -15.50% |
| EBITDA | 71 | 62 | 71 | 16.06% | 0.54% |
| <i>EBITDA margin %</i> | <i>13.67%</i> | <i>11.87%</i> | <i>12.15%</i> | <i>180bps</i> | <i>151bps</i> |
| Other Income | 7 | 9 | 3 | -22.80% | 137.86% |
| Depreciation | 19 | 19 | 18 | 2.09% | 6.76% |
| EBIT | 60 | 52 | 56 | 14.18% | 5.86% |
| Finance costs | 7 | 6 | 9 | 22.67% | -21% |
| Gain/ Loss on account of foreign exchange fluctuations (net) | 1 | -2 | -5 | -186.93% | -126% |
| PBT | 51 | 48 | 52 | 6.31% | -3.08% |
| Tax Expense | 4 | 7 | -9 | -50.18% | -142% |
| <i>Effective tax rate %</i> | <i>7.04%</i> | <i>15.02%</i> | <i>-16.29%</i> | <i>-798bps</i> | <i>2333bps</i> |
| PAT | 47 | 41 | 61 | 16.29% | -22.52% |
| <i>PAT margin %</i> | <i>8.90%</i> | <i>7.68%</i> | <i>10.36%</i> | <i>122bps</i> | <i>-146bps</i> |
| EPS (INR) | 7.79 | 6.70 | 10.33 | 16.27% | -24.59% |

Source: Company & Arianth Research

Q4FY23 Concall Highlights:

- During the year they generated adequate cash and will pay dividends in the coming year.
- As buying momentum from over-ordering was high in H1, they displayed high revenue growth, but the following H2 was muted and in line with the industry as retailers pulled back on order momentum.
- ROCE was high at 26%.The capacity additions are in line with the order book growth momentum.
- The current ASP is in the USD 8-10 range, which makes their positioning one for value instead of luxury.
- Going forward, the tax rate is expected to be in the range of 25%.The new units being commissioned in FY24- FY25 will be more margin friendly than the existing ones.
- Other income comprises investment income from mutual funds and FD investments.

| Consolidated Statement of Profit and Loss (INR Mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---------------|---------------|---------------|---------------|---------------|
| Revenue | 17,903 | 22,222 | 23,180 | 26,520 | 27,200 |
| Total Income | 18,010 | 22,472 | 24,665 | 28,647 | 30,170 |
| Total Expense | 15,848 | 19,514 | 21,556 | 24,919 | 26,110 |
| EBITDA | 2,162 | 2,958 | 3,109 | 3,728 | 4,060 |
| Depreciation and amortisation expenses | 589 | 718 | 927 | 1,032 | 1,100 |
| EBIT | 1,572 | 2,241 | 2,182 | 2,696 | 2,960 |
| Interest expense | 402 | 257 | 270 | 222 | 200 |
| Exceptional item | - | -61 | - | - | - |
| PBT | 1,170 | 1,983 | 1,912 | 2,474 | 2,760 |
| Tax expense | -1 | 314 | 478 | 618 | 690 |
| PAT | 1,171 | 1,730 | 1,434 | 1,855 | 2,070 |
| Basic earnings per share | 19.9 | 28.6 | 23.7 | 30.6 | 34.2 |

| 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 | 5,364 | 6,459 | 7,509 |
| Other current assets | 1,208 | 819 | 819 | 819 | 819 |
| Total current assets | 8,288 | 8,798 | 8,682 | 9,677 | 10,827 |
| Total assets | 12,113 | 13,420 | 14,474 | 16,040 | 17,860 |
| EQUITY AND LIABILITIES | | | | | |
| EQUITY | | | | | |
| Equity share capital | 295 | 303 | 303 | 303 | 303 |
| Other equity | 6,787 | 8,560 | 9,994 | 11,849 | 13,919 |
| Total equity | 7,082 | 8,863 | 10,297 | 12,152 | 14,222 |
| 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 | 14,474 | 16,040 | 17,860 |

Source: Company & Arian Research

| Consolidated Statement Cash Flow Statement (INR Mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|--|--------------|---------------|---------------|---------------|---------------|
| Profit before tax | 1,170 | 1,983 | 1,912 | 2,474 | 2,760 |
| Adjustment for: | | | | | |
| Tax | -134 | -385 | -478 | -618 | -690 |
| Depreciation | 589 | 718 | 927 | 1,032 | 1,100 |
| Other Expenses | -106 | - | - | - | - |
| Finance Costs | 402 | 257 | 270 | 222 | 200 |
| Cash from operation | 1,921 | 2,580 | 2,631 | 3,109 | 3,370 |
| Working capital changes | -750 | 1,108 | 408 | 90 | -110 |
| Net Cash generated /(used) from operation | 1,171 | 3,688 | 3,039 | 3,199 | 3,260 |
| Cash from Investing | | | | | |
| Purchase of PP&E | -798 | -1,354 | -2,030 | -1,535 | -1,703 |
| 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 | -2,097 | -1,602 | -1,770 |
| Cash from Financing | | | | | |
| Prceeds 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 | -270 | -222 | -200 |
| Cash generated / (used) from Financing | -430 | -754 | -510 | -462 | -440 |
| Cash Generated during the year | 218 | 21 | 432 | 1,135 | 1,050 |
| Opening Balance | -92 | 127 | 147 | 580 | 1715 |
| Closing Blance | 126 | 147 | 580 | 1,715 | 2,765 |
| Ratios | FY22 | FY23 | FY24E | FY25E | FY26E |
| Growth | | | | | |
| Revenue growth | 56.3% | 24.1% | 4.3% | 14.4% | 2.6% |
| EBITDA Growth | 90.1% | 36.8% | 5.1% | 19.9% | 8.9% |
| EBIT Growth | 157.4% | 42.5% | -2.6% | 23.6% | 0.0% |
| Net Profit Growth | -12.8% | 342.0% | 47.7% | -17.1% | 29.4% |
| Profitability | | | | | |
| EBITDA Margin | 12.0% | 13.2% | 12.6% | 13.0% | 13.5% |
| EBIT Margin | 7.1% | 9.7% | 8.2% | 9.4% | 0.0% |
| Net Profit Margin | 6.5% | 7.8% | 6.2% | 7.0% | 7.6% |
| ROE | 16.5% | 19.5% | 13.9% | 15.3% | 14.6% |
| ROCE | 22.0% | 34.7% | 29.9% | 35.1% | 35.1% |
| Per Share Data (INR) | | | | | |
| Basic EPS | 19.85 | 28.55 | 23.67 | 30.63 | 34.17 |
| BVPS | 120.1 | 146.3 | 170.0 | 200.6 | 234.8 |
| Gearing Ratio (x) | | | | | |
| Net Debt/Equity | (0.1) | (0.4) | (0.4) | (0.4) | (0.4) |
| Net Debt/EBITDA | (0.5) | (1.1) | (1.2) | (1.4) | (1.5) |
| Interest Coverage Ratio | 3.9 | 8.9 | 8.1 | 12.1 | 14.8 |
| Efficiency Ratios | | | | | |
| Inventory Days | 142 | 113 | 77 | 61 | 60 |
| Receivable Days | 28 | 19 | 20 | 17 | 16 |
| Payable Days | 42 | 31 | 23 | 21 | 21 |
| Cash Conversion cycle | 128 | 100 | 74 | 57 | 55 |
| Valuation | | | | | |
| P/E | 19.7 | 13.7 | 16.5 | 12.8 | 11.4 |
| P/BV | 3.3 | 2.7 | 2.3 | 1.9 | 1.7 |
| EV/EBITDA | 10.9 | 8.1 | 7.5 | 5.9 | 5.2 |
| EV/Sales | 1.3 | 1.1 | 0.9 | 0.8 | 0.7 |

Source: Company & 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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