ArihantCapital
Generating Wealth

Q4FY22 – Result Update
5th May 2022

Gokaldas Exports Ltd.

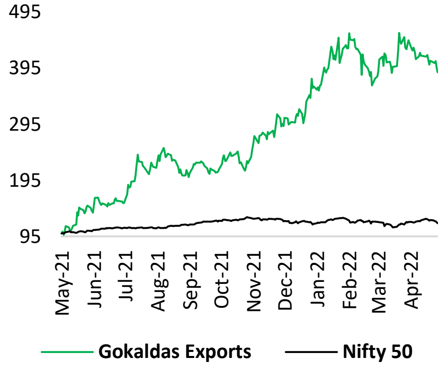
CMP: INR 432
Rating: Hold
Target Price: INR 468

Stock Info	
BSE	532630
NSE	GOKEX
Bloomberg	GEXP:IN
Reuters	GOKL.NS
Sector	TEXTILES
Face Value (INR)	5
Equity Capital (INR cr)	708.2
Mkt Cap (INR cr)	2,494
52w H/L (INR)	438/ 320
Avg Yearly Volume (in 000')	493

Shareholding Pattern % *(As on December, 2021)*	
Promoters	24.09
FII	12.37
DII	26.25
Public & Others	37.29

Stock Performance (%)	1m	3m	12m
GEL	17	87.9	334.1
Nifty 50	5	(3.1)	20.7

GEL Vs Nifty 50



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- The overall performance of the company was stellar, and beat our expectations on all fronts in leaps and bounds despite the cost pressures faced by the industry. The top line growth was healthy, and the company has also reduced its employee costs and work charges QoQ which helped offset the other input cost pressures, and drove margin expansion.
- GEL's Q4FY22 Net Revenue grew by 58.13% YoY to INR 585 Cr (12.36% QoQ). This beat our quarterly revenue estimate of INR 398 Cr by 46.97%.
- Q4FY22 Gross Margin grew by 234bps YoY 47% (-448bps QoQ). This is due to input cost pressures faced by the company as prices of cotton and polyester continue to soar.
- Q4FY22 EBITDA grew by 154.93% YoY to INR 71 Cr (28.01% QoQ). EBITDA Margin expanded by 461bps YoY to 12.15% (149bps QoQ). This beat our quarterly EBITDA estimate of INR 20 Cr by 255%, and beat our EBITDA Margin estimate of 5.08%.
- Q4FY22 Consolidated PAT grew 287.04% YoY to INR 53 Cr (20.58% QoQ). PAT Margin expanded by 537bps YoY to 9.08% (62bps QoQ). This beat our quarterly PAT estimate of INR 61 Cr by 238%. However, a large reason for this is a DTA of ~ INR 12 Cr recognized this quarter which significantly reduced the tax burden.

Q4FY22 Conference Call Highlights:

Increased share of high value products: Gokaldas has been producing more high value- high ASP products like outerwear and sportswear to drive growth this year. There has also been a significant improvement in realization levels, owing to higher worker productivity.

Run rate and margins: The management is confident of maintaining a run rate of ~ INR 500 Cr+ On FY23 quarterly revenues. Stable margins are 12-12.5%, however, these could expand by 1-1.5% over the next 2 years.

Capacity Expansion: The company plans an INR 364 Cr of capacity expansion over FY23 and 24. The return on these capacities is expected to be 4.5-5x the initial investment.

Improved working capital management: The company has brought the WC days down to 70. This is owed to the dynamic receivable and payable management of the company.

Valuation & Outlook: We assign a TP of INR 468, valued at a P/E multiple of 23x on the FY24E EPS of INR 20.33. We believe that the company will be able to hold its ground in the face of macroeconomic adversity due to its robust management systems. However, the heavy capacity expansions along with the volatility in input prices could hamper operations in the next year. At current levels, we recommend that investors Hold the stock.

INR Mn	FY21	FY22	FY23E	FY24E
Revenue	12094	17903	20174	21857
EBITDA	1137	2162	2446	2696
EBITDA Margin (%)	9.3%	12.0%	12.1%	12.3%
PAT	265	1171	1104	1199
PAT Margin (%)	2.2%	6.5%	5.5%	5.5%
EPS (in INR)	6.18	19.85	18.71	20.33
RoE (%)	9.1%	16.5%	13.5%	12.8%
RoCE (%)	11.4%	22.0%	20.5%	18.9%
P/E (x)	69.97	21.77	23.09	21.25
EV/EBITDA (x)	19.38	12.02	10.50	9.84
Net Debt/Equity (x)	0.99	0.90	0.57	-0.15
P/BV (x)	6.39	3.60	3.11	2.72

Source: Company & Arihant Research

Quarterly Result

INR Cr (consolidated)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Net Revenue	**585**	**521**	**370**	***12.36%***	***58.13%***
Raw Material Costs	309	251	204	*22.77%*	*51.43%*
Gross Profit	276	269	166	*2.63%*	*66.37%*
Gross Margin	47.22%	51.70%	44.88%	*-448bps*	*234bps*
Employee costs	154	158	98	*-2.37%*	*56.60%*
Job Work Charges	8	11	4	*-27.87%*	*86.04%*
Other Expenses	44	46	36	*-3.98%*	*21.98%*
EBITDA	**71**	**56**	**28**	***28.01%***	***154.93%***
EBITDA margin %	*12.15%*	*10.67%*	*7.54%*	*149bps*	*461bps*
Other Income	3	3	3	*-13.39%*	*8.56%*
Depreciation	18	15	13	*18.99%*	*42.23%*
EBIT	**56**	**44**	**18**	***27.83%***	***210.45%***
Finance costs	9	9	9	*1.72%*	*1%*
Gain/ Loss on account of foreign exchange fluctuations (net)	5	4	7	*44.56%*	*-26%*
PBT	**52**	**39**	**16**	***35.71%***	***224.00%***
Tax Expense	-9	8	0	*-200.59%*	*-6851%*
Effective tax rate %	-16.29%	21.98%	0.78%	*-3827bps*	*-1707bps*
PAT	**61**	**30**	**16**	***102.28%***	***279.75%***
Add: Other Comprehensive Income	-8	14	-2	*-155.76%*	*-703.50%*
Consolidated PAT	**53**	**44**	**14**	***20.58%***	***287.04%***
PAT margin %	*9.08%*	*8.46%*	*3.71%*	*62bps*	*537bps*
EPS (INR)	**10**	**5**	**4**	***98.65%***	***176.20%***

Source: Company & Arihant Research

<u>Q4FY22 Conference Call Highlights:</u>

FY22 Highlights:

- This quarter was characterized by a recovering market in India, however, many issues continue to persist such as heavy inflation due to the Russian invasion, build-up of inventories in the pipeline due to logistical issues, and increase in price of key RM, especially cotton. All this impacted the Indian textile industry with the government undertaking to control inflation.
- The FTA discussion with the UK is still underway and will open a huge opportunity for India when it is completed by the end of this year,
- FY22 presented many opportunities- with the China+1 strategy, the supply side bounced back quickly in India vs suppliers in other countries. The strengthening dollar, the PLI scheme, and the government supporting job creation are some other supporting factors. However, inflation and volatility continues to be a threat to the Textile and Apparel business. Gokaldas continues to assess risks and operate carefully which is what let it thrive amongst disruption, taking the opportunity to grow market share, and expand the manufacturing footprint.
- Indian apparel export growth was 30% vs Gokaldas's growth of 58%.
- Many capacities for machinery were unlocked and more were added. Operations have commenced for the 3 new units in Karnataka and Tamil Nadu. They are doing well.
- The company has caught up to pre pandemic levels of output through capacity expansion and modernization (also some debottlenecking) of the plants.
- Woven products are likely to gain traction in FY23.
- Management is optimistic about order book in FY23 as they continue to see growth opportunities.
- The base was high in Q3, 12% of the growth in Q4 was volume led.
- Revenues from the Capex undertaken is expected to be 4.5-5x once fully ramped up.
- The cost of cotton yarn, and most man-made fibers are up, however the company has successfully managed to pass on about 90% of this price rise.

EBITDA was significantly higher this FY:

RM costs were up for all operating in manufacturing, especially cotton and some man-made fibers (MMF) being up significantly YoY, but yarn was not up as much, neither was woven fabric, which are the big inputs for Gokaldas. Since the content of pure cotton in the main inputs is small, and the company also has long term supply contracts with suppliers for better prices, they have passed on price increases successfully to customers. Labor costs have remained static here, only inflation linked price rises were seen. The company has seen a labor cost rise which was offset by the rising productivity. The weakening rupee also absorbed factor cost inflation. All this largely neutralized the effects of the price rises.

Inventory and Working Capital Days:

- This time, inventory days were slightly higher due to supply chain disruptions. The company is confident of maintaining 25-28 days going forward.
- Because the company has negotiated better payment terms and got better terms with suppliers- both payment sand receivable days had gone down. But inventory management was not as effective because of logistical problems: they ended up leaving some RM in transit for a while.

Volumes lower, but revenues higher:
Volumes this year are about 22.6 Mn units vs 25 Mn in 2020. This is indicative of the increased share on high value garments like outerwear, and sportswear which is now 41% of total turnover, and has higher margins than regular basic garments. The trend being observed is that high ASP garments are taking over the sales.

GM expansion:
A large reason for the GM expansion was the write back of certain employee provisions from Q3FY22.

Diversity of product base:
The diverse products have different material compositions and mixes of fibre.

Employee Costs:
Ideally should be maintained at 5-10% of revenues. The company has a large employee base of 32,000 employees. Wage increases of 5% are expected from April 2022 due to increase in DA requirements. This could impact EBITDA by 1%.

Sustainable Margins:
The company has guided a sustainable margin of 12-12.5%, with a possible expansion of 1-1.5%.

ESOP Planned:
They will be handed out to employees in FY23. The cost for the same has not yet been pinpointed exactly, but the estimated cost is about INR 5 Cr a quarter, for the next year. This won't have an impact on free cash flows.

Increase in productivity:
The company has seen a 36% gain in productivity YoY. The trend is expected to continue in the future. It has caused realizations to grow significantly this year.

Negotiations:
The process of negotiations and locking in prices for the 2-3 month contract duration for Gokaldas is an organized one. It involves consistent communication with both parties- RM suppliers and buyers of the final product. Once quotations are decided and the order is finalized, the costs are locked. A lot of their suppliers are trusted, nominated ones.

Run rate and Order book for FY23:
They expect a quarterly revenue run rate of INR 500 Cr or more for FY23. It has a healthy order book well set into H1FY23. Generally, H2 is the peak season for the company, because that is when they manufacture summer garments for international markets.

Customers and Market share:
Current customers include players like GAP and Walmart. The total export market of India is worth USD 16 Bn out of which Gokaldas has a share of USD 250 Mn.

Debt Funding:
The company will avail INR 75 Cr of debt over the next 2 years- FY23 to 24.

PLI Scheme:
The company has applied for the PLI scheme and has made a CAPEX outlay of INR 100 Cr at the Madhya Pradesh Plant for the same- this is expected to produce revenues of INR 200 Cr. The government has specified 40 HS codes, some of which the company does operate in. It will take some time for the factories to start producing them. PLI revenue is expected to recognize from FY25.

Material used:
Cotton 60% of total fibre mix. Linen and viscose are about 10-12%. The rest is polyester and nylon. Costing of the final product varies, depending on blends.

The MP Project (for the PLI scheme):
It is still under construction and will be completed by the end of June- early July. Post that, they will undertake a pilot run, and it will ramp up in the next 6-9 months. After that it will begin to fully function. The unit will start to properly contribute to revenues from Q3FY23 onward

Consumption trends expected:

- Recently, UK consumption has been increasing, but the company expects this to reverse once the macroeconomic situation in the US settles down. It will also be beneficial for the company, as the US has a larger, more homogenous market with healthier volumes and profit. Europe on the other hand, has competition from duty free Bangladesh imports, and faces lower volumes due to the Russia- Ukraine war.
- Consumption from the UK is expected to improve once the FTAs get signed tentatively by the end of this year.

Capex in Bangladesh and Bhopal:

- There should be some revenues from Bangladesh in Q2FY23 and onward. The management is still deciding whether to undertake construction or to lease a unit.
- The unit in Bhopal is expected to contribute well to revenues from Q3FY23 onward.

The newly set up plants in Q3:

- The company commissioned 3 plants in Q3; 2 in Karnataka and 1 in Tamil Nadu. The contribution from all 3 plants was INR 16 Cr in Q3 and INR 40 Cr in Q4. They are now running at 50-60% capacity utilization.
- The unit in Tamil Nadu for Knits will be fully commissioned by FY23, and start contributing to revenues in FY24.
- There will also be some additional garmenting capacity set up this year.

Productivity Improvement in FY23:

Added lot of automations to factories - for collars, pockets, etc. They also upgraded cutting, embroidery, printing machines, etc. to give better throughput. This will add to the 3% improvement in productivity mentioned.

Growth driven by realization:

As realizations and ASPs increase, volume growth going ahead will not be as aggressive as price led growth.

Break up of FY23 Capex:

All in all, in FY23 INR 160 Cr is planned: For existing plants INR 20cr (debottlenecking and upgradation), INR 70 cr for the Bhopal unit, and INR 70 Cr in the Tamil Nadu unit. Some new initiatives are also planned in Bangladesh where funds may be siphoned.

Cost of Production in competing countries:

- Counties like China and Vietnam compete in complex outerwear and high value products. However, their cost of production is high and is steadily increasing. The labour cost is about USD 340-350 per month in China, and about USD 240 in Vietnam.
- Comparatively, India’s labour cost of production is USD 150-160 per month, which is attractive to players looking to diversify the supply base away from China as there is clear opportunity for cost arbitrage. Focus on one single supplier also has its geopolitical risks.

Margin Superiority in high value garments:

The normal EBITDA margins are about 12-12.5%. The outerwear and sportswear (and other high value products) have about 1-1.5% higher margins than that, whereas casual wear and simpler garments have margins 1-1.5% less.

Expectations for the US market:

Interest rates are expected to go up. Inflation in US and UK markets are high, and it is necessary to keep a close watch on the same. Mitigation can take place through diversification of the customer base, implementing more high fashion products with good price elasticity. Gokaldas expect some resurgence in woven products as people refresh their wardrobe with the economy opening. Both headwinds and tailwinds exist.

Going into Bangladesh:

All the facilities of the company are focused in the South. In an attempt to diversify production base, the units are being set up in MP, Bangladesh, and Bhopal. Worker presence and productivity is also better in Bangladesh. There is also significant government support- allowing duty free access to European markets.

Expectations from Foreign Markets:

US inflation is going to persist, which poses as a risk factor for exporters to the US. Mitigating measures are being undertaken for the same. Australia and Europe are small markets. UK is a well paying market. The FTA with UK will open this year, and will open a large market and new opportunities for Indian exporters.

Company Financials

Consolidated Statement of Profit and Loss (INR Mn)	FY 2022	FY 2023E	FY 2024E
Revenue	17,903	18,900	20,423
Total Income	18,010	20,189	21,876
Total Expense	15,848	17,744	19,180
EBITDA	2,162	2,446	2,696
Other income			
Depreciation and amortisation expenses	589	700	927
EBIT	1,572	1,746	1,769
Interest expense	402	274	170
Exceptional item			
PBT	1,170	1,472	1,599
Tax expense	(1)	368	400
PAT	1,171	1,104	1,199
Basic earnings per share	20	19	20

Consolidated Balance Sheet (INR Mn)	FY 2022	FY 2023E	FY 2024E
Non Current Assets			
Property, plant and equipment	1,553	3,153	4,353
Capital work-in-progress	110	210	310
Right of Use Asset	1,299	1,199	1,099
Other intangible assets	27	27	27
Financial assets	422	792	884
Deferred tax assets	118	7	7
Non-current tax assets (net)	118	86	86
Other non-current assets	177	64	78
Total non-current assets	3,824	5,539	6,845
Current assets			
Inventories	4,336	4,000	3,700
Financial assets	2,744	3,465	3,255
Other current assets	1,208	1,300	1,647
Total current assets	8,288	8,766	8,602
Total assets	12,113	14,305	15,447
EQUITY AND LIABILITIES			
EQUITY			
Equity share capital	295	295	295
Other equity	6,787	7,891	9,090
Total equity	7,082	8,185	9,385
LIABILITIES			
Non-current liabilities			
Financial liabilities	1,055	1,255	24
Borrowings	24	24	24
Lease liabilities	1,032	1,232	-
Provision for employee benefits	67	111	163
Total non-current liabilities	1,122	1,367	187
Current liabilities			
Financial liabilities	3,406	4,082	4,977
Other current liabilities	130	148	176
Provision for employee benefits	372	522	722
Total current liabilities	3,909	4,752	5,875
Total equity and liabilities	12,113	14,304	15,447

Source: Company Financials and Arihant Research

Consolidated Statement Cash Flow Statement (INR Mn)	FY 2022	FY 2023E	FY 2024E
Profit before tax	1,170	1,472	1,599
Adjustment for:			
Tax	-134	368	400
Depreciation	589	700	927
Other Expenses	-106	0	0
Finance Costs	402	274	170
Cash from operation	1921	2813	3096
Working capital changes	-750	323	464
Net Cash generated /(used) from operation	**1171**	**3136**	**3559**
Cash from Investing			
Purchase of PP&E	-798	-2300	-2127
Proceeds from sale PP&E	16	0	0
Investment in bank deposits	-1499	0	0
Redemption of bank deposits	2818	0	0
Investment in mutual Fund Units	-2700	-115	-106
Proceeds from sale of mutual fund units	1551	0	0
Finance Income	88	0	0
Cash generated /(used) from Investing	**-523**	**-2415**	**-2233**
Cash from Financing			
Proceeds from Issue of Shares	2926	1104	1199
Short Term borrowings	21142	375	375
Repayment of Short term borrowings	-23913	0	0
Payment of other liabilities and lease liabilities	-334	244	-1179
Finance Costs	-251	-274	-170
Cash generated / (used) from Financing	**-430**	**1449**	**225**

Ratios	FY 2022	FY 2023E	FY 2024E
Growth			
Revenue growth	56.3%	5.6%	8.1%
EBITDA Growth	90.1%	13.1%	10.2%
EBIT Growth	157.4%	11.0%	1.3%
Net Profit Growth	-12.8%	342.0%	-5.7%
Profitability			
EBITDA Margin	12.0%	12.1%	12.3%
EBIT Margin	8.3%	8.5%	6.2%
Net Profit Margin	6.5%	5.8%	5.9%
ROE	16.5%	13.5%	12.8%
ROCE	22.0%	20.5%	18.9%
Per Share Data (Rs)			
Basic EPS	19.85	18.71	20.33
BVPS	120.1	138.8	159.1
Gearing Ratio (x)			
Net Debt/Equity	(0.1)	(0.1)	(0.0)
Net Debt/EBITDA	(0.5)	(0.4)	(0.1)
Interest Coverage Ratio	3.9	6.4	10.4
Efficiency Ratios			
Inventory Days	142.4	149.1	127.4
Receivable Days	27.7	18.6	20.0
Payable Days	41.9	49.0	56.6
Cash Conversion cycle	128.2	118.7	90.8
Valuation			
P/E	21.8	23.1	21.2
P/BV	3.6	3.1	2.7
EV/EBITDA	12.0	10.5	9.8
EV/Sales	1.5	1.3	1.2

Source: Company Financials 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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