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India | Equity Research | Q2FY24 Result Review

Gokaldas Exports

Textile

Temporary blip; bigger picture intact

Gokaldas Exports (GEXP)'s Q2FY24 consolidated EBITDA, at INR 470mn (down ~28% YoY), was below our expectations. Revenue at ~INR 5bn was down ~12%/3% YoY/QoQ owing to continued demand softness and inventory liquidation in GEXP's end-market (US). Management maintains its guidance of demand revival in the US and expects flat YoY revenue growth in FY24. EBITDA margin declined 205/229bps YoY/ QoQ to 9.4% owing to: 1) higher employee costs; 2) one-time costs pertaining to ATRACO acquisition and 3) start-up costs at Bhopal, MP unit. We cut our FY24E/25E EBITDA by ~6%/18% on account of higher costs. We introduce FY26E numbers and value GEXP/ATRACO at 18x/20x (both unchanged) FY26E EPS and arrive at a higher TP of INR 973 (earlier INR 855). Maintain **BUY**.

Green shoots in demand; higher operating costs

Consolidated revenue is down ~12%/3% YoY/QoQ to ~INR 5bn. As per management, due to the mild winter last year, retailers had higher inventory this year, which led to lower purchase orders being placed. GEXP expects decent momentum in H2FY25, particularly with Q3 production for spring 2024, as retailers have largely destocked their inventory and are increasing their order placements.

Consolidated EBITDA declined ~28% YoY to INR 470mn; EBITDA margin was at 9.4% versus 11.5%/11.7% YoY/QoQ. GEXP reported one-time cost of INR 52mn owing to: 1) acquisition-related expense (INR16mn); and 2) initial start-up expense (employee training) in MP-unit (INR36mn). Further, GEXP's employee cost was up ~12%/13% YoY / QoQ owing to higher employee base (in anticipation of higher volumes in H2FY24) and increase in the statutory wages for factory employees. The above factors led to a decline in margins.

ATRACO deal execution expected by Q3FY24-end

As per management, ATRACO acquisition shall be executed by Q3FY24-end as GEXP is awaiting regulatory approvals and management expects incremental revenue Q4FY24-onwards. The newly commissioned Bhopal unit shall be optimally utilised in the next ~two quarters and shall contribute ~INR 1.7bn p.a. on stable operations. Similarly, fabric processing unit in Tamil Nadu is expected to be commissioned by early-Q4FY24. On UK FTA, management said, discussions between the two governments are in advance and conclusive stages and the deal is expected anytime soon. Key Risk: Prolonged demand dullness in US markets.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	22,222	22,048	25,695	31,011
EBITDA	2,708	2,577	3,101	4,021
EBITDA Margin (%)	12.2	11.7	12.1	13.0
Net Profit	1,669	1,455	1,752	2,378
EPS (Rs)	27.6	24.0	28.9	39.2
EPS % Chg YoY	42.6	(12.8)	20.4	35.8
P/E (x)	30.3	34.8	28.9	21.3
EV/EBITDA (x)	17.7	18.4	14.7	10.8
RoCE (%) (Post Tax)	19.4	14.6	15.1	17.2
RoE (%)	20.9	15.2	15.7	17.9

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Market Data

Market Cap (INR)	51bn
Market Cap (USD)	608mn
Bloomberg Code	GEXP IN
Reuters Code	GOKL.BO
52-week Range (INR)	989 /328
Free Float (%)	87.0
ADTV-3M (mn) (USD)	6.9

Price Performance (%)	3m	6m	12m
Absolute	56.0	129.6	127.8
Relative to Sensex	59.6	124.0	121.3

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(4.6)	(9.6)
EBITDA	(5.9)	(17.5)
EPS	0.7	(17.3)

Previous Reports

30-08-2023: [Company Update](#)

09-08-2023: [Q1FY24 results review](#)

Conference call key takeaways

Demand

- Q2FY24 volumes: 7.7mn pieces versus 6.7mn pieces in Q2FY23.
- US apparel import has been trending 23% lower in CY23 – retailers have been controlling their purchases, leading to a subdued demand environment.
- Mild winter last year led to inventory stocking, hence, lower demand for warm products this year.
- Q3 and Q4 of a financial year are strong for Indian cotton and viscose-based manufacturers.
- Discussion on UK FTA are in advanced stages and shall lead to ~USD1bn business opportunity for Indian cotton-based garment exporters.
- GEXP expects FY24 revenues to be flat YoY.

Prices

- Q2FY24 Average Selling Price (ASP): INR610/piece versus INR850/piece in Q2FY23.
- GEXP will not pursue higher volumes by reducing prices.
- The company expects some degree of pricing power in FY25.

Cost

- GEXP expects ~INR80mn of one-time costs in H2FY24 owing to: 1) Payments (lawyers and bankers) for ATRACO acquisition. 2) Start-up costs (training of manpower) of MP unit.
- Owing to recruitment of manpower in Q2FY24 and statutory cost of factory employees, led to an increase of INR50mn in employee expenses.
- GEXP expects employee costs to be in the range of INR1.8–1.9bn going ahead.
- GEXP expects 12–12.5% EBITDA margin (including other income) for FY24.
- RoSCTL Scheme is set to be applicable until Mar'24. The company expects the scheme to continue beyond Mar'24. It forms 3.5% of EBITDA margin.
- However, if the scheme is not continued, GEXP expects a EBITDA margin hit of 1.75–2% initially. It expects to recover the impact in two–four quarters.

Capacity

- Phase-2 of MP capacity is work-in progress and GEXP will soon commence construction. Commissioning is expected in H2FY25.
- Tamil Nadu fabric processing unit is expected by early Q4FY24. It is expected to ramp-up in 15–18 months.
- GEXP expects ~INR1.7bn of revenues from each phase of MP plant.

Others

- ATRACO deal execution is expected by Q4FY24. ATRACO shall achieve 100% capacity utilisation by Q2FY25.
- Unions in Bangladesh are set to renegotiate for 35–40% wage hike by CY23-end.
- GEXP has not invested in Bangladesh capex as of now.
- GAP, Columbia, Adidas, PUMA, Walmart etc. are major customers of GEXP.
- Pure synthetic garments contribute 25-30% to overall volumes for GEXP.

Exhibit 1: Q2FY24 result review

(INR mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Net sales	5,003	5,697	-12.2	5,146	-2.8
Raw materials	2,357	3,073	-23.3	2,556	-7.8
Employee cost	1,804	1,611	12.0	1,602	12.7
Others	371	360	2.9	387	-4.2
Total Expenses	4,532	5,044	-10.2	4,545	-0.3
EBITDA	470	652	-27.9	602	-21.9
Interest	57	58	-1.7	55	3.5
Depreciation	208	171	21.6	191	8.8
Other income	87.6	67	31.7	76	15.5
Recurring pre-tax income	293	490	-40.1	432	-32.1
Extraordinary income/(expense)	-	61	NA	-	NA
Taxation	56	93	-39.3	106	-47.1
Effective tax rate (%)	19.2	18.9		24.6	
Reported Net Income	237.1	397.5	-40.3	325.5	-27.2
Recurring Net Income	237.1	458.0	-48.2	325.5	-27.2
Ratios (%)			bps		bps
Gross margin	52.9	46.1	682	50.3	255
EBITDA margin	9.4	11.5	-205	11.7	-229
Net profit margin	4.7	7.0	-224	6.3	-158

Source: I-Sec research, Company data

Exhibit 2: Valuation Table

Particulars	FY26e
GEXP EPS (INR/sh)	39.2
Target multiple (x)	18.0
Equity Value of GEXP (INR/sh) --- (A)	706
ATRACO EPS (INR/sh)	13.4
Target multiple (x)	20.0
Equity Value of ATRACO (INR/sh) --- (B)	267
GEXP + ATRACO (A+B) (INR/sh)	973
CMP (INR/sh)	826
Upside (%)	18%

Source: I-Sec research, Company data

Exhibit 3: Earnings revision

INR mn	FY24E			FY25E		
	Revised	Earlier	% chg	Revised	Earlier	% chg
Revenue	22,048	23,112	-4.6	25,695	28,433	-9.6
EBITDA	2,577	2,738	-5.9	3,101	3,761	-17.5
PAT	1,455	1,445	0.7	1,752	2,118	-17.3

Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Mar'23	Jun'23	Sep'23
Promoters	11.1	11.1	11.1
Institutional investors	48.7	48.5	49.6
MFs and others	26.1	26.3	26.0
FIs/Banks	0.0	0.0	0.0
Insurance	1.3	1.9	2.5
FIIIs	21.3	20.3	21.1
Others	40.2	40.4	39.3

Source: Bloomberg

Exhibit 5: Price chart

Source: Bloomberg

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	22,222	22,048	25,695	31,011
Operating Expenses	7,624	8,776	10,004	11,485
EBITDA	2,708	2,577	3,101	4,021
EBITDA Margin (%)	12.2	11.7	12.1	13.0
Depreciation & Amortization	718	813	957	1,074
EBIT	1,990	1,764	2,144	2,948
Interest expenditure	257	224	224	224
Other Non-operating Income	250	325	325	325
Recurring PBT	1,983	1,865	2,246	3,049
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	314	410	494	671
PAT	1,669	1,455	1,752	2,378
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	61	-	-	-
Net Income (Reported)	1,730	1,455	1,752	2,378
Net Income (Adjusted)	1,669	1,455	1,752	2,378

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	4,528	5,715	8,475	11,791
of which cash & cash eqv.	240	743	2,681	4,798
Total Current Liabilities & Provisions	840	1,208	1,760	2,124
Net Current Assets	3,688	4,507	6,715	9,667
Investments	3,440	3,440	3,440	3,440
Net Fixed Assets	2,798	3,634	3,378	3,404
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,079	879	679	79
Total Intangible Assets	-	-	-	-
Other assets	(597)	(597)	(597)	(597)
Deferred Tax assets	-	-	-	-
Total Assets	10,407	11,862	13,614	15,992
Liabilities				
Borrowings	1,544	1,544	1,544	1,544
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	303	303	303	303
Reserves & Surplus	8,560	10,015	11,766	14,145
Total Net Worth	8,863	10,318	12,070	14,448
Minority Interest	-	-	-	-
Total Liabilities	10,407	11,862	13,614	15,992

Source Company data, I-Sec research

Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	5,189	5,230	5,146	5,003
% growth (YOY)	-0.3	-10.6	-15.7	-12.2
EBITDA	632	701	602	470
Margin %	12.2	13.4	11.7	9.4
Other Income	92.1	71.1	75.8	87.6
Extraordinaries	0	0	0	0
Adjusted Net Profit	405.8	471.9	325.5	237.1

Source Company data, I-Sec research

Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	3,688	1,851	2,336	2,516
Working Capital Changes	(1,108)	316	271	835
Capital Commitments	(1,264)	(1,450)	(500)	(500)
Free Cashflow	2,424	401	1,836	2,016
Other investing cashflow	(1,649)	325	325	325
Cashflow from Investing Activities	(2,914)	(1,125)	(175)	(175)
Issue of Share Capital	43	0	-	-
Interest Cost	(4,524)	(224)	(224)	(224)
Inc (Dec) in Borrowings	4,148	-	-	-
Dividend paid	-	-	-	-
Others	-	0	0	0
Cash flow from Financing Activities	(754)	(224)	(224)	(224)
Chg. in Cash & Bank balance	20	503	1,938	2,117
Closing cash & balance	240	743	2,681	4,798

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	27.6	24.0	28.9	39.2
Adjusted EPS (Diluted)	27.6	24.0	28.9	39.2
Cash EPS	39.4	37.4	44.7	56.9
Dividend per share (DPS)	1.0	-	-	-
Book Value per share (BV)	146.3	170.1	199.0	238.2
Dividend Payout (%)	3.6	-	-	-
Growth (%)				
Net Sales	24.1	(0.8)	16.5	20.7
EBITDA	31.8	(4.8)	20.3	29.7
EPS (INR)	42.6	(12.8)	20.4	35.8
Valuation Ratios (x)				
P/E	30.3	34.8	28.9	21.3
P/CEPS	21.2	22.3	18.7	14.7
P/BV	5.7	4.9	4.2	3.5
EV / EBITDA	17.7	18.4	14.7	10.8
P / Sales	2.3	2.3	1.9	1.6
Dividend Yield (%)	0.0	-	-	-
Operating Ratios				
Gross Profit Margins (%)	46.5	51.5	51.0	50.0
EBITDA Margins (%)	12.2	11.7	12.1	13.0
Effective Tax Rate (%)	15.8	22.0	22.0	22.0
Net Profit Margins (%)	7.5	6.6	6.8	7.7
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	6.7	7.7	8.8	10.4
Net Debt / EBITDA (x)	(0.8)	(1.0)	(1.5)	(1.7)
Profitability Ratios				
RoCE (%) (Post Tax)	19.4	14.6	15.1	17.2
RoE (%)	20.9	15.2	15.7	17.9
RoIC (%)	18.5	15.5	17.9	24.3
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	48	60	60	60
Receivables Days	22	22	22	22
Payables Days	14	20	25	25

Source Company data, I-Sec research

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