Gokaldas Exports

11 September 2025

Margins under strain; diversification strategies offer support

MANAGEMENT MEET UPDATE

Sector: Textiles | **Rating: HOLD**

CMP: Rs 778 | **Target Price: Rs 812**

Stock Info

Sensex/Nifty	81,425/24,973
Bloomberg	GEXP IN
Equity shares (mn)	71
52-wk High/Low	Rs 1,262/ Rs 668
Face value	Rs 5
M-Cap	Rs 57bn/ USD 0.6bn
3-m Avg traded value	USD 4.2mn

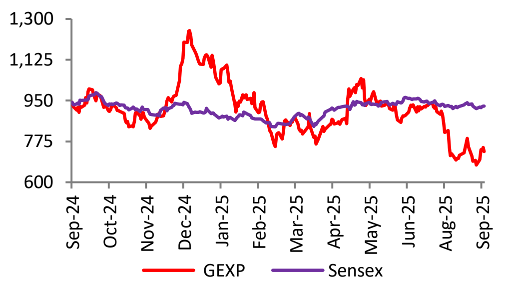
Financial Snapshot (Rs mn)

Y/E Mar	FY25	FY26E	FY27E
Net sales	38,642	41,601	47,720
EBITDA	3,710	4,160	5,249
PAT	1,585	1,742	2,325
EPS (Rs)	22.2	24.4	32.5
PE (x)	36.3	32.9	24.7
P/B (x)	2.8	2.5	2.3
EV/EBITDA (x)	17.3	15.4	12.3
RoE (%)	7.6	7.7	9.3
RoCE (%)	6.9	6.9	8.5
D/E (x)	0.41	0.35	0.36
DPS (Rs)	-	-	-
OPM (%)	9.6	10.0	11.0

Shareholding pattern (%)

	Jun'25	Mar'25	Dec'24
Promoter	9.2	9.4	9.4
–Pledged			
FII	24.9	25.8	26.5
DII	37.2	36.8	37.0
Others	28.7	28.0	27.1

Stock Performance (1-year)



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We present key takeaways from our meeting with the senior management of Gokaldas Exports (GEXP IN). Our discussions centered around the impact of US tariffs, the company's mitigation strategies, and its long-term growth outlook. Management indicated that ~55% of its revenue is directly exposed to US tariffs. The company is engaging with its customers to share the financial impact of the 25% penal tariff. The company might have to absorb 15%-18% of this cost, with the customer bearing the remainder. This discount will result in a negative margin of approximately 4-6% on the impacted 55% of the business (based on a normal margin of 12%). To protect customer relationships and order book visibility, the company is absorbing this burden, which could weigh on near-term margins. The balance 45% of revenue remains unaffected. Kenya operations are scaling with incremental capacities coming onstream in 2HFY26. Management expects the business to deliver ~20% RoCE in a year, on higher profitability aided by a) duty-free US access, b) better labour availability, and c) faster ramp-up. Part of the Indian order book is also being shifted to Kenya to mitigate the tariff headwinds. Europe revenue has doubled, albeit on a low base, and management is looking to double growth over the next two years. The company is also focusing on product diversification, particularly synthetics, where it sees strong long-term potential. It is exploring subcontracting and asset-light models to add flexibility, while expecting to raise prices by 10-15% from Spring 2026 onwards. We have cut FY26E EBITDA margin by 200bps to factor in the near term margin squeeze from higher tariffs, resulting in 22%/40% cut in EBITDA/PAT. FY27E numbers are retained, as we expect the penal tariff to be rescinded before end CY25, with some part of the reciprocal tariff likely passed on to the end customer by way of price increases. Maintain HOLD with an unchanged target price of Rs 812, based on 25x FY27E earnings (unchanged).

Higher tariffs to have significant near-term impact: Management explained that while underlying tariffs of 20-25% across nations would get absorbed into the system over the next few quarters, India continues to face a punitive 25% additional penal tariff, which creates a significant disadvantage. The company expects to absorb 15-18% of the impact through discounts. With base operating margins of 12-13%, the affected revenues (~55 of total revenues) could have a negative 4-6% bearing on profitability. Business is as usual in the remaining 45%. Customers have agreed to share part of the burden, but management has decided to absorb the balance to protect volumes and ensure customer stickiness. 2H order book is strong, but margins could stay under pressure until tariff headwinds ease.

Company's strategic response to US penalty tariffs: The company is prioritizing on immediately protecting its order book to avoid losing business. Management expects punitive tariffs on India to be removed by end CY25; however, if these persist, the company could pivot towards other geographies and operating models. To mitigate the impact, the company is actively pursuing diversification across Kenya, Sri Lanka, and Bangladesh, while evaluating subcontracting and asset-light models.

Strategically focusing on Kenya operations: Kenya currently contributes ~22% of GEXP's overall revenue. The business is showing strong traction, aided by duty-free access, labour availability, and fast ramp-up of new facilities. The company is shifting 5-10% of Indian orders to Kenya to reduce its tariff exposure. While product realizations in Kenya are lower than those in India for GEXP, the duty arbitrage supports competitiveness, and the management expects this business to deliver ~20% RoCE within a year. Incremental capacity is expected to come onstream in 3QFY26. Management has not planned further expansion immediately but would wait for the business to scale before making new investment decisions.

Diversifying manufacturing base: GEXP is looking to diversify its manufacturing base beyond India and Kenya. It hopes to leverage neighboring countries like Sri Lanka and Bangladesh in a bid to explore subcontracting as a viable tactic to gain flexibility. The company's currently does not have any subcontracting business but expects to venture into it. Although Bangladesh operations have the potential to deliver ~4% higher EBITDA margins than India, the region is more suited for generic products. It expects to make the highly customized and embellished products in India. Longer term, the company plans to build capacities in other Asian and African countries to reduce tariff dependence, though this could take another 12-18 months to materialize.

European market expansion: Europe now contributes ~13% to GEXP’s revenue, growing more than 100% YoY on a low base. Management expects this business to double over the next two years, supported by strong customer relationships and ease in capacity ramp-up. If FTA with the EU materialize, these would provide a strong hedge against US tariffs and boost competitiveness.

Order book and seasonal dynamics: Spring season orders are slated to begin from mid-September, with summer orders starting from January. During 1Q and 2Q, the company produces for the autumn/winter season, which generates 13-14% margins, while 3Q and 4Q focus on spring/summer, during which competition intensifies, with margins slipping to 11-12%. Management indicated that it would pass on 10-15% price hike from Spring 2026 onwards, which should improve margins.

Raw material outlook: The import duty benefit on cotton announced by the government applies to US long-staple cotton, which is used in premium home textile products rather than garments. Management noted that if tariff rebates are introduced in garments, these could meaningfully offset the impact of US tariffs for apparel players.

Bombay Rayon transaction update: The acquisition of Bombay Rayon Fashions Ltd (BRFL) is expected to close by end-1QFY27. Management expects BRFL to be profitable by FY26, generating Rs 12bn topline in FY26 and Rs 18bn by FY28, with one-third of the production consumed internally. BRFL’s fabrics are being used for all customers, unless customer specifications dictate otherwise.

Diversification of product and business models: The company continues to explore subcontracting and an asset-light model as short-term solutions, though management sees limited viability for these in the long run. Focus would remain on expanding product and geography diversification, with particular emphasis on synthetics. Kenya is already largely producing synthetic apparels, while India has ~25% share in synthetics. Management believes GEXP is well positioned to capture growth in synthetics, given it has similar capabilities as China.

Productivity gains: Management believes its ongoing productivity measures, driven primarily by automation and technology adoption, could result in ~4% CAGR in output.

FINANCIALS - CONSOLIDATED

Profit & Loss Statement

YE: Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Net revenues	**22,222**	**23,789**	**38,642**	**41,601**	**47,720**
Revenue growth (%)	24.1	7.1	62.4	7.7	14.7
- Op. expenses	19,514	21,249	34,933	37,441	42,471
EBITDA	**2,708**	**2,540**	**3,710**	**4,160**	**5,249**
EBITDA margins (%)	12.2	10.7	9.6	10.0	11.0
- Interest expenses	257	363	774	819	842
- Depreciation	718	888	1,284	1,658	1,858
+ Other income	250	301	529	550	550
- Tax	314	280	595	491	775
Effective tax rate (%)	15.8	17.6	27.3	22.0	25.0
Adjusted PAT	**1,669**	**1,310**	**1,585**	**1,742**	**2,325**
+/- Extraordinary items	61	-	-	-	-
Reported PAT	**1,730**	**1,310**	**1,585**	**1,742**	**2,325**
EPS (Rs/share)	28.6	20.7	22.2	24.4	32.5

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Share capital	303	317	357	357	357
Reserves & Surplus	8,560	12,596	20,449	22,191	24,516
Networth	8,863	12,913	20,807	22,548	24,873
Minority interest	-	-	-	-	-
Total debt	1,544	8,049	8,452	7,932	8,899
Def. tax liab. (net)	-	-	-	-	-
Capital employed	**10,407**	**20,962**	**29,259**	**30,480**	**33,772**
Net fixed assets	3,876	12,639	14,159	15,501	17,143
Investments	3,440	1,591	4,971	3,471	3,471
Net working capital	2,851	5,459	8,468	10,127	11,521
Cash and bank balance	240	1,273	1,662	1,381	1,638
Capital deployed	**10,407**	**20,962**	**29,259**	**30,480**	**33,772**
Net debt	1,304	6,775	6,791	6,550	7,261
WC (days)	61	126	87	91	91
DE (x)	0.17	0.62	0.41	0.35	0.36

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
PBT	**1,983**	**1,590**	**2,181**	**2,233**	**3,100**
Add: Non cash items	597	653	1,477	1,986	1,925
Cash profit	**2,580**	**2,243**	**3,657**	**4,219**	**5,024**
Add/Less: WC changes	1,108	(4,014)	(3,085)	(1,660)	(1,393)
Operating cash flow	**3,688**	**(1,771)**	**572**	**2,559**	**3,631**
Less: Capex	(1,264)	(6,880)	(1,880)	(3,000)	(3,500)
Free cash flow	**2,424**	**(8,650)**	**(1,308)**	**(441)**	**131**
Financing cash flow	(754)	7,532	4,735	(1,339)	125
Investing cash flow	(2,914)	(5,374)	(4,207)	(1,500)	(3,500)
Net change in cash	**20**	**388**	**1,100**	**(280)**	**256**
Add: Opening cash	127	147	542	1,662	1,381
Closing cash	**147**	**542**	**1,647**	**1,381**	**1,638**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY23	FY24	FY25	FY26E	FY27E
P/E (x)	12.5	34.3	36.3	32.9	24.7
P/BV (x)	2.4	3.5	2.8	2.5	2.3
EV/EBITDA (x)	8.4	20.3	17.3	15.4	12.3
RoE (%)	19.5	10.1	7.6	7.7	9.3
RoCE (%)	14.8	6.0	6.9	6.9	8.5
Fixed asset turnover (x)	4.3	1.6	2.0	2.0	2.1
DPS (Rs)	1.0	-	-	-	-
Dividend (%)	20	-	-	-	-
Dividend yield (%)	0.3	-	-	-	-
Dividend payout (%)	4	-	-	-	-
Debtor days	22	54	41	45	45
Creditor days	16	32	25	25	25
Inventory days	55	104	71	71	71
Revenue growth (%)	24	7	62	8	15
EBITDA growth (%)	32	(6)	46	12	26
PAT growth (%)	43	(22)	21	10	33

Source: Company, Systematix Institutional Research

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