

## Well placed to tread on firm growth trajectory...

Gokaldas Exports reported a good set of Q4FY21 numbers with sharp sequential revenue growth of 40% YoY to ₹ 369.9 crore (up 3.3% YoY). The previous quarter was significantly impacted as international retailers were saddled with excess spring-summer 2020 inventory. With a gradual recovery in US retail sales (~65% of revenues), the inventory situation seems to have normalised post being impacted by Covid-19 led lockdown. On account of higher raw material prices, gross margins for the quarter fell 380 bps YoY to 43.8%. However, significant cost saving initiatives (employee expenses down 12% YoY) led EBITDA margins to expand marginally by 23 bps YoY to 7.5%. On account of lower depreciation and higher other income (includes gain of forex fluctuations), PAT came in at ₹ 16.0 crore (Q4FY20: ₹ 5.9 crore, Q3FY21: ₹ 6.0 crore). Gokaldas has successfully navigated through challenging times with enhanced profitability and ensured on-time delivery. On the b/s front, it managed to reduce net debt by ₹ 38 crore to ₹ 166 crore (net D/E: 0.6x vs. 1.0x in FY20).

### Key conference call takeaways:

i) US market contributes ~65% of revenues. Demand from the US market is showing strong traction with opening up of the economy. Gokaldas is getting good order flow and expects H2FY21 to be strong in revenue terms, ii) on the pandemic related issues, the management indicated it is engaging with the clients and has sought formal extension of delivery deadlines and does not foresee immediate risk of cancellation of orders, iii) margins may be negatively impacted in Q1FY21 as the management may need to operate extra shifts and pay overtime to workers post lifting of lockdown, iv) the company has reduced exposure to domestic clients. It is being selective and working with strong solvent customers, v) Gokaldas continued to outperform the industry as India's exports of apparels declined 17% YoY in FY21 vs. 8.8% decline for Gokaldas, vi) order book of the company is strong. In terms of quality of order book, Gokaldas indicated that it had higher proportion of value added products orders (outerwear), vii) on the margins front, it expects an improvement of ~200 bps in the next two years driven by operating leverage and higher proportion of value added products, viii) on input cost inflation, the management indicated that it has been able to manage the same due to its large buying capacity and able to secure reasonable prices. Also, it has partially been able to pass on the increase to customers while it has absorbed a small proportion of the inflated input cost.

### Valuation & Outlook

Gokaldas is planning a capex of ₹ 120 crore over next two years with ₹ 50 crore to be funded by debt and the rest coming from internal accruals. The new capacity has the potential to generate incremental revenues worth ₹ 400-450 crore (asset turnover: 3.5-4.0x). The company has over the last few years exhibited a strong performance with better than industry revenue growth through addition of scalable marquee clients (13% revenue contribution from customers added in the last four years) and with diversification of its revenue streams by reducing over-dependence on spring summer season (outerwear now contributes 44% of revenue vs. 23% in FY18). On the back of healthy order book and new capacity expansion, we bake in revenue and EBITDA CAGR of 23% and 35%, respectively, in FY21-23E. Strong revenue growth, enhanced profitability and upgradation of RoCE profile (~14% by FY23E) warrant a re-rating of the stock. Despite the recent rally in the stock price, Gokaldas continues to trade at reasonable valuations of 4.0x FY23E EV/EBITDA and 7.0x FY23E EPS. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 160 (9.0x FY23E EPS, earlier TP: ₹ 100).

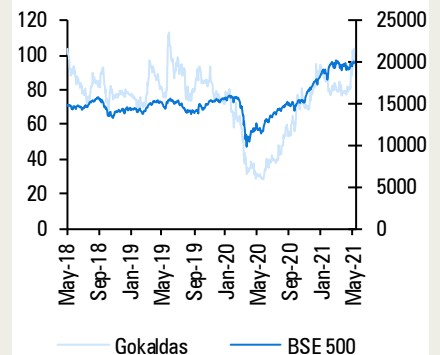


### Particulars

Particular	Amount
Market Capitalization (₹ crore)	544.8
Total Debt (FY21) (₹ crore)	364.8
Cash & investments (FY21) (₹ crore)*	199.2
EV (₹ crore)	710.5
52 week H/L (₹)	127 / 28
Equity capital (₹ crore)	21.4
Face value (₹)	5.0

\* Cash & investment includes fixed deposit of ₹ 135 crore which is currently kept as a collateral with a bank

### Price Performance



### Key Risks

- Extension of lockdown can lead to deferral of revenues and/or cancellation of orders from clients
- Input cost inflation and inability to pass on the same to customers can negatively impact margins

### Research Analyst

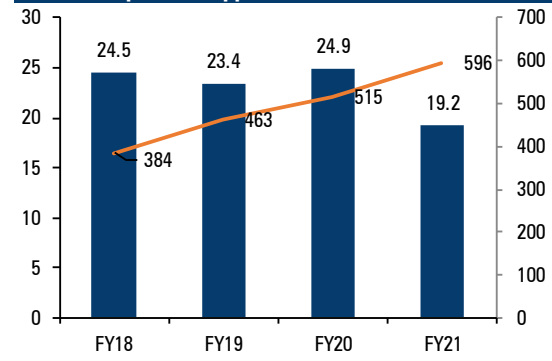
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Exhibit 1: Financial Performance

(Year-end March)	FY18	FY19	FY20	FY21A	FY22E	FY23E
Revenues (₹ crore) *	1,031.9	1,174.5	1,365.2	1,210.7	1,501.3	1,831.6
Growth (%)		13.8	16.2	(11.3)	24.0	22.0
EBITDA (₹ crore)	(23.3)	61.8	67.2	101.5	128.5	185.0
EBITDA (%)	(2.3)	5.3	4.9	8.4	8.6	10.1
Net Profit (₹ crore) *	(31.0)	25.6	30.4	26.5	42.5	76.7
Earnings per share (₹)	(8.2)	6.0	7.1	6.2	9.9	17.9
<b>Balance Sheet</b>						
Equity (₹ crore)	17.5	21.4	21.4	21.4	21.4	21.4
Net worth (₹ crore)	126.9	219.0	205.2	268.6	311.1	387.8
Total Debt (₹ crore)	472.5	380.7	391.0	364.8	400.0	400.0
Net Debt (₹ crore) *	314.3	236.8	204.1	165.6	176.4	206.9
<b>Ratios</b>						
RoNW (%)	(24.4)	11.7	14.8	9.9	13.7	19.8
RoCE (%)	1.2	10.7	2.1	7.7	9.0	14.2
Net Debt/Equity (x)	2.5	1.1	1.0	0.6	0.6	0.5
NWC (days)	104.1	105.2	85.1	98.7	84.0	82.0
P/E (x)	-	21.2	17.9	20.6	12.8	7.1
EV/EBITDA (x)	(36.9)	12.6	11.1	7.0	5.6	4.1

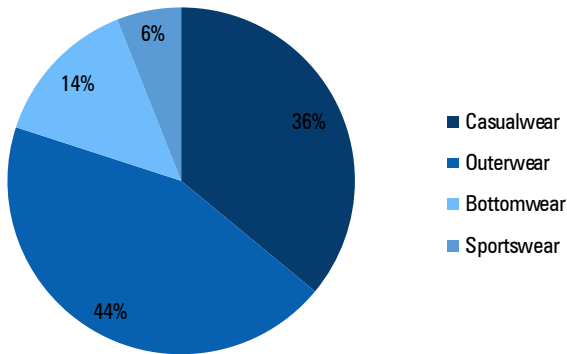
Number of pieces shipped and realisation trend



Source: Company, ICICI Direct Research

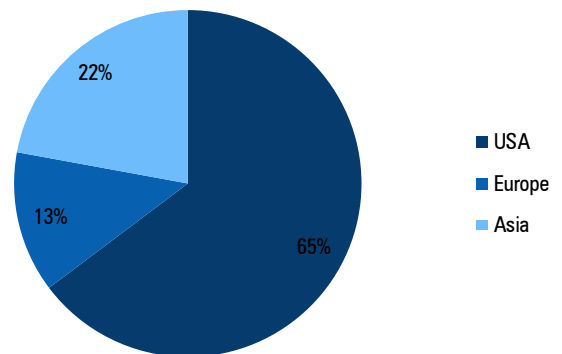
Source: Company, ICICI Direct Research. Net debt includes fixed deposit worth ₹ 135 crore which is currently kept as collateral with the bank. Adjusting for the MEIS impact revenue growth would have been ~20%+, with PAT of ₹ 54 crore in FY20

Exhibit 2: Core competency in manufacturing complex garments. Category wise revenue break-up



Source: Company, ICICI Direct Research

Exhibit 3: Global footprint: Exports to more than 50 countries. Geographical break-up of revenues



Source: Company, ICICI Direct Research

Exhibit 4: Impressive clientele of international brands (Top three clients contribute ~58% of export revenues)

GAP	BANANA REPUBLIC	Columbia Sportswear Company.	carhartt
MARKS SPENCER	OLD NAVY	Abercrombie & Fitch	MOUNTAIN HARD WEAR
PUMA	Walmart	JCPenney	BESTSELLER
Garrefour	adidas	H&M	TJ-maxx

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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