

## Exhibits smart recovery amid challenging times...

Gokaldas Exports delivered a strong performance with healthy profitability growth in Q2FY21 and strengthened b/s through debt reduction. Post a 32% fall in revenue in Q1FY21, it has seen a swift recovery in Q2FY21, posting de-growth of 5.9% YoY to ₹ 340.5 crore (up 46% QoQ). The base quarter (Q2FY20) included MEIS income worth ₹ 8.7 crore that was reversed in December 31, 2019. Adjusting for the same, the decline in revenue would have been 3.6%. The decline was also owing to the company cutting down low margin domestic business and pivoting to exports markets (exports grew by 8% YoY in Q2FY21). Gross margins improved 208 bps YoY to 48.3%. Furthermore, significant cost saving initiatives (employee expenses, other expenses down 17%, 4% to ₹ 101 crore, ₹ 31 crore, respectively) led operating margins to expand 474 bps YoY to 8.4%. Despite other income declining 65% YoY to ₹ 4.4 crore (base quarter had forex gain worth ₹ 7.5 crore), healthy operational performance led the company to report PAT of ₹ 8.7 crore vs. ₹ 4.1 crore (up 111% YoY). Better working capital management (release of cash worth ₹ 65 crore) led to OCF worth ₹ 131 crore in H1FY21 vs. ₹ 55 crore in H1FY20. Hence, net debt declined by ~₹ 78 crore to ₹ 125 crore (D/E: 0.7x).

### Key conference call takeaways:

i) Capacity utilisation has risen gradually from 15% in April to 80% in September, ii) global demand outlook for apparels from major brands has been encouraging due to increased demand from end consumers. Demand has seen an increasing trend on a MoM basis, iii) the management indicated that shifting of supply chain from China to other countries has gradually started. Global brands both in US and Europe are looking at de-risking their sourcing destinations, iv) Indian players have started to receive orders from new clients and over the longer term would benefit from the China +1 sourcing strategy of global brands, v) Gokaldas continued to outperform the industry as India's exports of apparels fell 39.3% YoY in H1FY21, vi) the company has a decent orderbook for Q3FY21 while it continues to get new incremental orders, vii) Gokaldas has significantly brought down fixed costs (mainly employee expenses) and expects it to be partly structural in nature, viii) the management believes it can improve operating margins by 100-200 bps from current levels, ix) total imports by the company (mainly synthetic fabrics) are to worth ₹ 200 crore, out of which 50% is imported from China. Gokaldas believes any risk due to embargo on Chinese imports can be mitigated by shifting to alternative sourcing destinations or changing the product profile to products that need less raw material imports from China, x) it has deferred capex to FY22E that will come on stream in FY23 (at current capacity, it can generate peak revenue worth ₹ 1500 crore).

### Valuation & Outlook

Currently the company has ~215 manufacturing lines with each line having potential to generate ~₹ 6-7 crore revenues. We expect Gokaldas to add 50 incremental garmenting lines in FY20-23 and bake in revenue worth ₹ 1800 crore by FY23E (revenue CAGR: 10% in FY20-23E). On the back of better than anticipated cost control measures (that according to the management is sustainable in nature), we revise our earnings estimates upwards for FY22, FY23E by ~ 10%, ~ 12%, respectively. With significant improvement in operating margins and stringent working capital policy (NWC days: 90), we expect the company to generate 14% RoCE by FY23E. Net D/E ratio is expected to remain below 1.0x. Gokaldas trades at reasonable valuations of 3.1x FY23E EV/EBITDA and 4.7x FY23E EPS. We reiterate **BUY** rating with a revised target price of ₹ 100 (6.0x FY23E EPS, previous TP: ₹ 75).

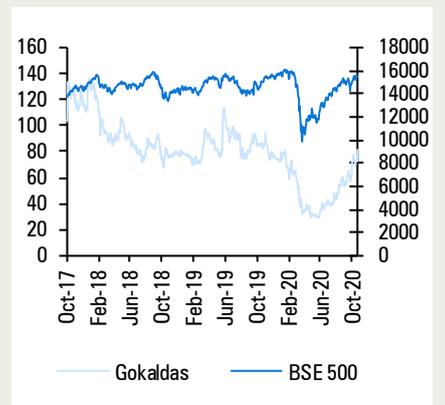


#### Particulars

Particular	Amount
Market Capitalization (₹ crore)	342.6
Total Debt (FY20) (₹ crore)	391.0
Cash & investments (FY20) (₹ crore)*	186.9
EV (₹ crore)	546.7
52 week H/L (₹)	96 / 27
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 Chart



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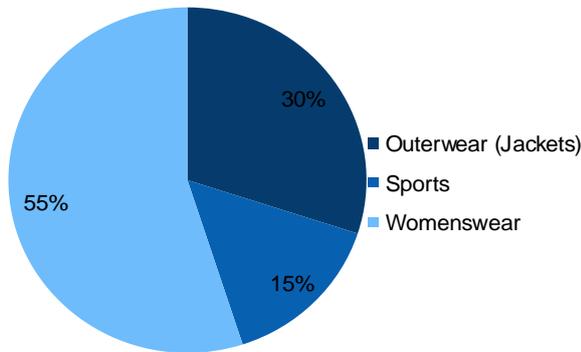
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**Exhibit 1: Financial Performance**

(Year-end March)	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues (₹ crore) *	1,031.9	1,174.5	1,365.2	1,242.4	1,565.4	1,800.2
Growth (%)		13.8	16.2	(9.0)	26.0	15.0
EBITDA (₹ crore)	(23.3)	61.8	67.2	90.0	136.8	189.1
EBITDA (%)	(2.3)	5.3	4.9	7.2	8.7	10.5
Net Profit (₹ crore) *	(31.0)	25.6	30.4	16.2	47.1	71.2
Earnings per share (₹)	(8.2)	6.0	7.1	3.8	11.0	16.6
<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	221.4	268.6	339.8
Total Debt (₹ crore)	472.5	380.7	391.0	425.0	440.0	450.0
Net Debt (₹ crore) *	314.3	236.8	204.1	221.6	241.5	241.0
<b>Ratios</b>						
RoNW (%)	(24.4)	11.7	14.8	7.3	17.6	21.0
RoCE (%)	1.2	10.7	2.1	5.1	10.2	14.2
Net Debt/Equity (x)	2.5	1.1	1.0	1.0	0.9	0.7
NWC (days)	104.1	105.2	85.1	95.0	90.0	87.0
P/E (x)	-	13.4	11.3	21.1	7.3	4.8
EV/EBITDA (x)	(28.2)	9.4	8.1	6.3	4.3	3.1

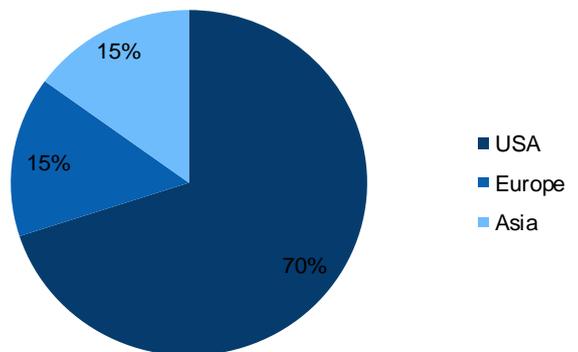
Source: Company, ICICI Direct Research. Net debt includes fixed deposit worth ₹ 135 crore which is currently kept as collateral with the bank. Adjusting for the MEIS impact revenue growth would have been ~20%+, with PAT of ₹ 54 crore in FY20

**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 five clients contribute ~65% of export revenues)**

<p><b>GAP</b> Largest specialty retailer in the United States whose products are available in over 90 countries.</p>	<p><b>H&amp;M</b> One of the global leaders in fashion with a presence in about 60 countries, along with an online presence in over 35 countries.</p>	<p><b>Adidas</b> Global leader in athletic apparel and the second-largest sportswear manufacturer in the world.</p>	<p><b>Vero Moda</b> One was the first brands to launch within the family-owned Bestseller company. Emerged as the brand of choice for the fashion-conscious, independent young woman who wants to dress well</p>	<p><b>Marks &amp; Spencer</b> Iconic British multinational retailer that specialises in selling clothing, home and food products</p>	<p><b>A&amp;F</b> American lifestyle retailer that focuses on casual wear. Operates two offshoot brands, Abercrombie Kids and Hollister Co., with 1,049 stores across all three brands</p>
<p><b>Columbia</b> Industry leader in outdoor apparel products like jackets, fleece, pants, shoes and boots.</p>	<p><b>Carhartt</b> Delivering best-in-class apparel, respected for rugged construction, innovative design and exceptional standards of quality, durability and comfort for 125 years.</p>	<p><b>Puma</b> German multinational that designs and manufactures athletic and casual footwear, apparel and accessories. Third largest sportswear manufacturer in the world.</p>	<p><b>Zara</b> Biggest fashion retailer globally that launches over 12,000 designs every year</p>	<p><b>Walmart</b> US multinational retail corporation engaged in the operations of a chain of hypermarkets, department stores and grocery stores. The Company operates over 11,500 stores under 56 banners in 27 countries</p>	<p><b>Carrefour</b> French multinational retail corporation with a global network of over 12,000 stores. Offers consumer goods, food and non-food products, household supplies, textiles, electronics, home appliances and local products</p>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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