



**Buy Range** ₹560 – 580

**Target** ₹700 – 720

**Recommendation** Buy

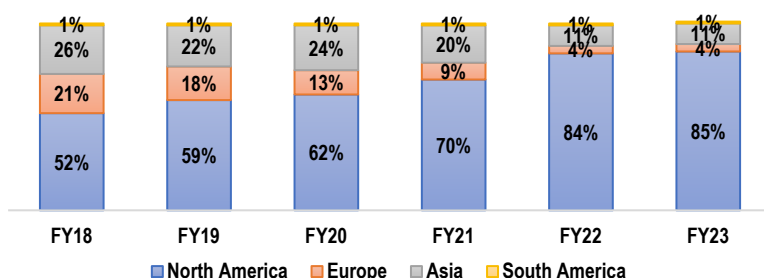
### Highlights

- **Significant competitive advantage** – Gokaldas Export Ltd (GEL) has a long presence of over three decades in the apparel export business. An established track record in the woven garment exports with large production capacities helped GEL obtain business from reputed global retailers.
- GEL enjoys established relationships with reputed global apparel retailers in the markets of North America and Europe, as evident from repeat orders received and a steady increase in the wallet share with key customers.
- The company registered a strong earnings CAGR of 50%+ in the last five years. It is now focusing on the next league of growth by expanding capacities to grab opportunities of industry tailwinds such as the China + 1 strategy and likely signing of an FTA with the UK.
- Management team has been stable since FY18, when Mr. Sivaramakrishnan Ganapathi took charge as the CEO and Mr. Sathyamurthy A as the CFO. The new management team has taken various bold and tactical decisions in the last four years that have yielded positive results for the company.
- The company is actively exploring possibilities of setting up international manufacturing facilities. Incorporated a wholly owned subsidiary in Dubai, UAE to channel overseas investment projects and efficiently service international customers. The Bangladesh unit was deliberately put on a slower track or on hold to wait for the demand revival. And once that happens, the company will start. So more likely, revisit this in the H2FY24 when the business prospects are much better.
- Better Product mix to enhance margins. The Average realization grew by ~2x in the last five years as the contribution from high-value products is increasing. That can also be seen from greater contributions from higher ASP products.
- The long-term prospect for the industry remains strong with the continuing shift of global sourcing away from China, supplier consolidation towards efficient and well-capitalized players and supply-side instabilities in several countries. Favorable currency, PLI, and FTAs with key markets should drive the company to a strong future. The India-U.K. FTA negotiations have made good progress. India is also negotiating FTA with Canada and EU. All of these moves has the potential to open up large markets for preferential trade

**Gokaldas Exports Ltd.**
**Company Background**

Gokaldas Exports Ltd (GEL) has transformed itself into a large integrated apparel manufacturer (with annual capacity of 36mn pieces) in India in past 3-4 years. Revamped focus of top management, enhanced capacities, and a better product mix aided in adding new clients and helped in gaining share in key exports markets such as the US. Initially promoted as a partnership firm by Mr. Jhamandas H. Hinduja in 1978 and incorporated as a public limited company in 2004, GEL is one of the largest apparel exporters from India.

Clear Wealth Consultancy Services LLP, led by Mr. Mathew Cyriac, acquired a 39.94% stake in the company from Blackstone FP Capital Partners (Mauritius) VB Subsidiary Ltd. in FY18. Post the equity infusion in Q1 FY19, and the recent QIP in Oct'21, the shareholding of Clear Wealth Consultancy Services LLP reduced to ~11% as on March 10, 2023 and the remaining is held by institutional investors, corporate bodies, public and others.

**Geography-wise Revenue Mix**

**Key Management Team**
**Mr Sivaramakrishnan Ganapathi (MD)**

Took over as CEO and MD in October 2017 after having led several high-growth businesses in diverse industries in Asia, North America, and Europe.

**Mr Mathew Cyriac (Chairman)**

He is currently working with Florintree Advisors. He has rich experience in the Investment Banking Division of Bank of America in India and in the Engineering Division of Tata Motors.

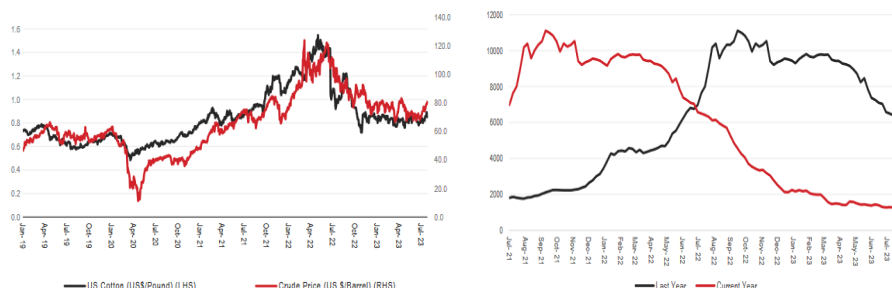
**Mr A Sathyamurthy (CFO)**

He has worked with large organisations like EID Parry (India), Aditya Birla Retail, Perfetti Van Melle, and Rajshree Sugars & Chemicals

**Value Chain to Benefit from Easing Input Costs:**

Commodity Prices Started Correcting

The Freight Prices Started Correcting in the Current Fiscal  
(FREIGHT PRICE PER CONTAINER)



Source: Company Data, Way2Wealth

**Important Data**

Nifty	19,310
Sensex	64,949

**Key Stock Data**

CMP	₹564
Market Cap (₹ bn)	34.17bn
52W High/Low	₹593 / 325
Shares o/s (crs)	6.06
Daily Vol. (3M NSE Avg.)	3,36,762
BSE Code	532630
NSE Code	GOKEX
Bloomberg Code	GEXP:IN

**Shareholding Pattern (%) – Jun'23**

Promoter	11.06
DII's	32.31
FII's	16.20
Public	40.44

**Financials**

Particulars	FY21	FY22	FY23
Revenue	1211	1790	2222
EBITDA	101	206	271
EBITDA Margin (%)	8	11	12
Net Profit	26	117	173
EPS (₹)	6.2	19.9	28.6
RoE (%)	9.1	16.5	19.5
RoCE (%)	15.3	19.2	22.5
P/E (x)	156.2	31.4	20.1
EV/EBITDA (x)	5.8	11.3	7.3
P/BV (x)	1.2	3.4	2.4

Source: Company Data, Way2Wealth

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## Investment Arguments

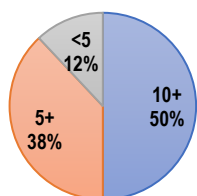
### 1. Established market position and diversified product offerings

- (i) GEL has a long presence of over three decades in the apparel export business. An established track record in woven garment exports with large production capacities helped GEL obtain business from reputed global retailers over the years. GEL's product profile remains diversified across the products and end-user segments. Its main products include bottom wear, outerwear (including sportswear and winter wear), activewear and casual wear for men, women and children. These operational strengths have supported GEL's revenue growth over the years.

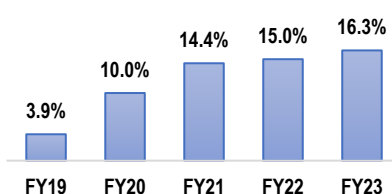
### 2. Strong customer base

- (i) GEL enjoys established relationships with reputed global apparel retailers in the markets of North America and Europe, as evident from repeat orders received and a steady increase in the wallet share with key customers. The volume offtake has remained steady over the years as these brands enjoy healthy value share in their respective markets. In addition, an expected shift in sourcing by large retailers from the other large competing supplier nations to India and product/ customer diversification initiatives undertaken by GEL are likely to support the long-term revenue growth potential of the company
- (ii) An increase in wallet share from existing customers. Also prioritised its focus on providing a seamless customer experience and is dedicated in building and maintaining long-lasting relationships with its clients. **Revenue contribution from customers added in the last five years grew to ~16% in FY23 from ~4% in FY19**

**Years of relationship  
(Sales Contribution)**



**Revenue contribution from  
customers added in last 5 years**



Source: Company Data, Way2Wealth

### 3. Expanding capacities to grab large proportion in growing opportunities

- (i) Over FY19–23, it incurred a cumulative capex of `320Cr for adding new capacities and modernising its factories (capacity increased to 36mn pieces in FY23 from 30mn pieces in FY18). As a result, revenue/PAT grew 17%/61%, driven by volume growth and productivity.
- (ii) Also company is planning to invest `165Cr by FY25 for capacity expansion and modernization.
- (iii) **MP Plant:** The Company invested ₹160Cr towards setting up a new greenfield project in Madhya Pradesh and backward integration in fabric processing for knitted garments. The MP capacity started on the pilot phase in Q4FY23 and company expect the production to ramp up in next 9 months. It is likely to add incremental revenues of ₹50Cr in FY24E
- (iv) **Tamil Nadu:** The addition of a knitted garment facility in Tamil Nadu (capex of ₹75-100Cr) is estimated to generate incremental revenues of ₹300Cr in FY25E. Overall capacity is expected to go up by 1.5x over the next two years. At full capacity, knitwear will contribute 10–15% to total revenue. As this facility is backward integrated into the fabric, it will result in superior margins for the company.

- (v) **Karnataka plant:** GEL has set up two new units in Tumkur and Bommanahalli which are ramping up well. At full capacity, both plants will be able to generate ~₹220cr in revenue
- (vi) This investment in new capacities is likely to add incremental revenues of ₹1,100-1,300cr

#### Capital Expenditure (₹ Cr)

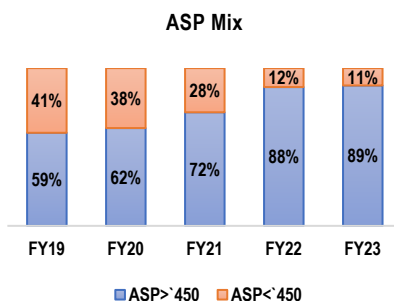
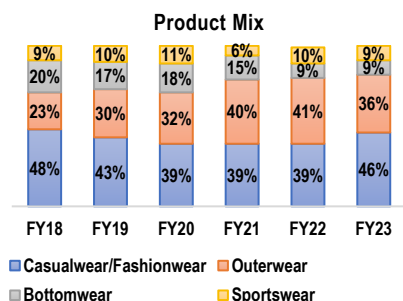
YEAR	MODERNIZATION AND UPGRADES	NEW CAPACITY AND NEW PROJECTS	TOTAL
FY22	28	56	84
FY23	38	97	135
Q1 FY24	16	27	43
9MFY24 planned	15	87	102
<b>Total</b>	<b>97</b>	<b>267</b>	<b>364</b>

Source: Company, Way2Wealth

#### 4. Better Product mix to enhance margins

- (i) Average realisation grew by ~2x in the last five years as the contribution from high-value products is increasing. This can also be seen from greater contribution from higher ASP products.
- (ii) Steady growth in the outerwear segment helped balance the seasonality of the business. The drop in sportswear contribution in FY21 was due to reduced demand from key customers. It has since picked up in FY22 & in FY23.

	FY18	FY19	FY20	FY21	FY22	FY23
<b>Realisation Trend (₹)</b>	384	463	512	597	713	744



Source: Company, Way2Wealth

#### 5. Industry to balance near-term obstacles with long-term prospects favouring India

- (i) India is well-positioned to capitalize on the opportunity: Government incentives and support from state governments for low-cost locations, Policy regime in place till FY24, PLI scheme to boost investments in MMF & technical textile ecosystem, Proposed Textile Technology Development Scheme (TTDS) with an allocation of ₹16,634 Cr, and FTAs with the UK, Canada and EU, has a huge potential for increased textiles trade.
- (ii) US, EU & China to drive apparel consumption in the coming decade and China is losing market share due to rising labour costs, geopolitical tensions, and US-China trade issues.
- (iii) Hence buyers seeking alternate production bases outside China, creating opportunities for major Asian suppliers like India. Bangladesh is impacted by the foreign exchange crisis and Vietnam by high factor costs.
- (iv) Q3FY24 will pivot towards India, as the product category during this period is dominated by cotton. A revival in demand from Spring 2024 is expected.

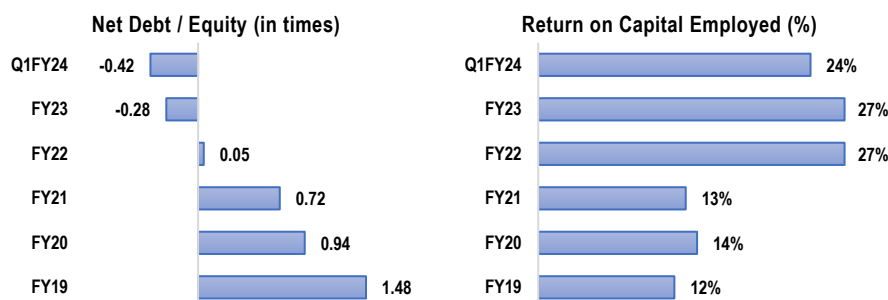
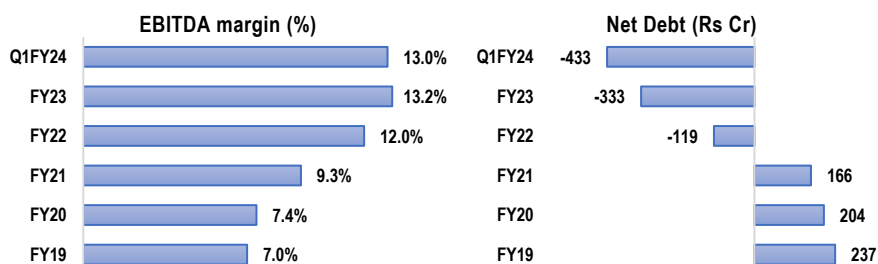
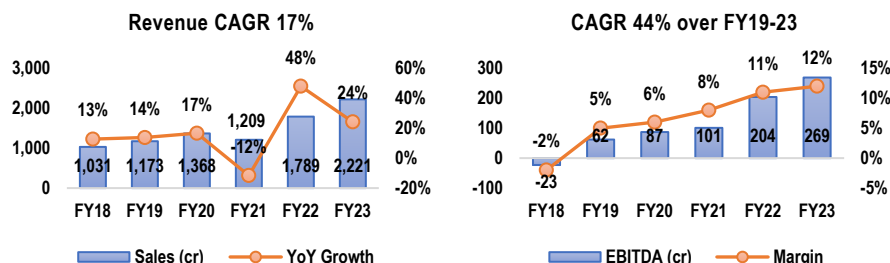
## 6. A stable and experienced management team

- (i) After a turbulent past, GEL's management team has been stable since FY18, when Mr. Sivaramakrishnan Ganapathi took charge as the CEO and Mr. Sathyamurthy A as the CFO. The new management team has taken various bold and tactical decisions in the last four years that have yielded positive results for the company.
- (ii) Rightsizing its operations improving realisation levels, paring down debt, improving cost efficiency and customer relations were some of the key steps taken.
- (iii) These measures resulted in a revenue CAGR of 17% over FY18-23. In FY17 and FY18 the company had reported EBITDA loss, after which period it did not report a single year of loss. Management's commitment and diverse experience have enabled GEL to position itself as one of the leading apparel exporters in India, with a strong client base and order book.

## 7. Evaluating international manufacturing facilities

- (i) The company is actively exploring possibilities of setting up international manufacturing facilities. Incorporated a wholly owned subsidiary in Dubai, UAE to channel overseas investment projects and efficiently service international customers.
- (ii) **Bangladesh:** Due to the inherent advantages of Bangladesh-based textile manufacturers, the company is also exploring setting up a facility there. However the Bangladesh unit was deliberately put on a slower track or on hold to wait for the demand revival. And once that happens, the company will revisit this in the 2HFY24 when the business prospects are much better.

## 8. Financials in Chart



Source: Company, Way2Wealth

## 9. Q1FY24 Performance

- (i) Operating margin for Q1FY24 was 13%, up from 12.1% in Q1FY23. Capital expenditure of ₹43Cr during the quarter. Gross margins improved in Q1FY24 due to a decrease in raw material costs and a shift in product mix.
- (ii) On the cost front, an increase in minimum wage and dearness allowance of factory work employees resulted in an impact of ~ 2% (QoQ) on the operating margin.
- (iii) With an extraordinary focus on operations excellence, the company has offset the additional cost through productivity improvements, generating an operating margin of ~12%
- (iv) Long-term prospects for the industry remain strong due to the shift of global sourcing away from China and supplier consolidation. Expect a 1.5% improvement in EBITDA margins in the next 3-5 years.
- (v) Bangladesh plant is on hold, as management is waiting for demand revival which is likely to happen in 2HFY24
- (vi) Weak retail demand in autumn winter '22 due to inflationary trends, high interest rates and a mild winter contributed to excess inventory impacting offtake for this year.
- (vii) Management is optimistic about the revival of the business in 2HFY24 and is bullish on the long-term prospects of the company. The company is also committed to gaining market share and preparing for business growth when market conditions turn more favourable as capacity addition is in line with this.

## Risks

- Any slowdown in demand would affect sales of key categories, resulting in a moderation of sales volume growth.
- Key management risk: Mr. Sivaramakrishnan Ganapathi (CEO and MD) has been largely responsible for turning around the company since his appointment in 2018; any change in the top management could hurt GEXP's operations and plans.
- Inflationary pressure on raw material prices
- Concentrated customer & Geographical base. The US, which is currently witnessing inflationary pressures, accounts for ~85% of the company's apparel sales, rendering GEXP vulnerable to geographical concentration.

## View

The company has established a market position and strong relationship enjoyed with large international customers. Along with the ongoing capacity expansion, this is expected to aid the company in achieving healthy revenue growth in the ensuing financial years. Medium-term earnings visibility is intact, boosted by new product launches, robust export order book, and scale-up in high-value high-margin products

Despite large capex being incurred towards capacity expansion and upgradation, the debt protection metrics are expected to be strong as the capex is proposed to be funded largely by QIP receipts and internal accrual.

RoCE continues to remain high at 23.5%. The long-term prospect for the industry remains strong with the continuing shift of global sourcing away from China, supplier consolidation towards efficient and well-capitalized players and, supply-side instabilities in several countries. Favourable currency, PLI, and FTAs with key markets should drive the company to a strong future. The India-U.K. FTA negotiations have made good progress. India is also negotiating FTA with Canada and the EU. All of these moves have the potential to open up large markets for preferential trade.

**We remain positive on the stock and see a gradual re-rating towards ₹700-720. Hence we recommend investors *BUY* at the current valuation.**



## Q1FY24 Performance

(₹ Cr)

Particulars	Q1FY24	Q1FY23	VAR	Q4FY23	VAR	FY23
Net Sales	514.7	610.6	-15.7%	523.0	-1.6%	2,222.2
Other Income	7.6	2.1	266.2%	7.1	6.6%	25.0
<b>TOTAL INCOME</b>	<b>522.2</b>	<b>612.7</b>	<b>-14.8%</b>	<b>530.1</b>	<b>-1.5%</b>	<b>2,247.2</b>
Cost Of Materials Consumed	224.6	295.1	-23.9%	241.1	-6.8%	1,052.4
Purchase of stock in trade	0.3	0.0	2800.0%	1.0	-71.6%	1.2
Stock Adjustment	29.8	34.1	-12.8%	33.7	-11.6%	123.6
<i>RMC as a %age of sales</i>	<i>49.5%</i>	<i>53.9%</i>		<i>52.7%</i>		<i>53.0%</i>
Employee Benefit Expenses	160.2	170.7	-6.2%	136.7	17.1%	619.3
<i>EPC as a %age of sales</i>	<i>31.1%</i>	<i>28.0%</i>		<i>26.1%</i>		<i>27.9%</i>
Job work charges	0.9	4.3	-78.0%	2.1	-54.6%	11.9
<i>job work charges as a %age of sales</i>	<i>0.2%</i>	<i>0.7%</i>		<i>0.4%</i>		<i>0.5%</i>
(Gain)/loss on account of foreign exchange	0.7	(5.0)	-114.7%	1.4	-47.1%	(6.7)
<i>job work charges as a %age of sales</i>	<i>9.8%</i>	<i>-243.0%</i>		<i>19.7%</i>		<i>-26.7%</i>
Other Expenses	38.0	39.2	-3.1%	37.0	2.7%	149.8
<i>Other Expenses as a %age of sales</i>	<i>7.4%</i>	<i>6.4%</i>		<i>7.1%</i>		<i>6.7%</i>
<b>TOTAL EXPENDITURE</b>	<b>454.5</b>	<b>538.4</b>	<b>-15.6%</b>	<b>452.9</b>	<b>0.3%</b>	<b>1,951.4</b>
<b>EBIDTA</b>	<b>60.2</b>	<b>72.3</b>	<b>-16.7%</b>	<b>70.1</b>	<b>-14.1%</b>	<b>270.8</b>
<i>EBIDTA Margins %</i>	<i>11.7%</i>	<i>11.8%</i>		<i>13.4%</i>		<i>12.2%</i>
Finance Costs	5.5	6.4	-14.3%	7.4	-25.8%	25.7
<b>PBDT</b>	<b>62.3</b>	<b>67.9</b>	<b>-8.3%</b>	<b>69.8</b>	<b>-10.7%</b>	<b>270.1</b>
Depreciation	19.1	17.1	11.7%	19.0	0.5%	71.8
<b>Profit before exception item</b>	<b>43.2</b>	<b>50.8</b>	<b>-15.0%</b>	<b>50.8</b>	<b>-14.9%</b>	<b>204.4</b>
Exceptional items		0.0	#DIV/0!		#DIV/0!	
<b>PBT</b>	<b>43.2</b>	<b>50.8</b>	<b>-15.0%</b>	<b>50.8</b>	<b>-14.9%</b>	<b>204.4</b>
Tax	10.6	11.4	-7.0%	3.6	197.5%	31.4
<i>Tax Rate</i>	<i>24.6%</i>	<i>22.5%</i>		<i>7.0%</i>		<i>15.4%</i>
<b>Reported Profit After Tax</b>	<b>32.6</b>	<b>39.4</b>	<b>-17.3%</b>	<b>47.2</b>	<b>-31.0%</b>	<b>173.0</b>
<i>PATM %</i>	<i>6.3%</i>	<i>6.5%</i>		<i>9.0%</i>		<i>7.8%</i>
Other Comprehensive Income	20.3	(31.8)		32.1		(22.2)
<b>Total Comprehensive Income</b>	<b>52.9</b>	<b>7.6</b>	<b>593.1%</b>	<b>79.2</b>	<b>-33.3%</b>	<b>150.7</b>
Basic:						
<b>EPS</b>	<b>5.4</b>	<b>6.5</b>	<b>-17.5%</b>	<b>7.8</b>	<b>-31.1%</b>	<b>28.6</b>
Equity	30.3	30.3		30.3		30.3
Face Value	5.0	5.0		5.0		5.0

Source: Company, Way2Wealth

## FINANCIALS &amp; VALUATION

(₹ Cr)

in crs	FY22	FY23	FY24E	FY25E	FY26E	CAGR
Revenues	1,790	2,222	2411	2869	3443	16%
Opt Profit	197	267	313	373	461	20%
<b>Margin %</b>	<b>11%</b>	<b>12%</b>	<b>13%</b>	<b>13.1%</b>	<b>13.5%</b>	
PBT	109	200	239	293	372	
<b>Margin</b>	<b>6%</b>	<b>9%</b>	<b>10%</b>	<b>10%</b>	<b>11%</b>	
Net Profit	109	170	184	219	277	18%
<b>Margin %</b>	<b>6%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	
EPS	18.0	28.0	30.3	36.1	45.7	
<b>PE</b>	<b>31.4</b>	<b>20.1</b>	<b>18.6</b>	<b>15.6</b>	<b>12.3</b>	

Source: Company, Way2Wealth

**TECHNICAL VIEW**

The consumer discretionary stock GOKEX has given a breakout on the upside from key resistance level of 519 on weekly chart and closed above its key resistance level of 519 on monthly closing basis with steady volumes suggesting that buying momentum may continue. The trend indicator ADX indicates the current trend is expected to witness further upside. The momentum indicators such as MACD & RSI on the daily and weekly chart confirms the stock would continue to move uptrend. On the weekly chart, the bullish support line continues to remain strong which suggests buying pressure in GOKEX during dips. The monthly chart structure on GOKEX expects sustainable up move from current levels and it can test at 680/720 levels. **Overall, we would remain positive on GOKEX in short to medium term scenario and advocate to buy GOKEX around 540-580 and add on dips till 520-510 for the short to medium term target of 680/720. On the downside 500-482 would act as strong support and slip below that would negate above positive view.**





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### Disclosure of Interest Statement GOKALDAS EXPORTS LTD. as on 21<sup>st</sup> August 2023

Name of the Security	GOKALDAS EXPORTS LTD.
Name of the analyst	Ashwini Sonawane
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

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