



### Gokaldas Exports expands its global presence through a US\$ 55 million acquisition

- Gokaldas Exports Limited (GEL) through its wholly owned subsidiaries has entered into an agreement to acquire Atraco Group (Atraco), a leading manufacturer of apparel with a strong market position and customer relationships across U.S. and Europe. Their product range includes shorts, pants, shirts, t-shirts, blouses and dresses catering across age groups.
- Atraco was founded in 1986 and has a strong legacy of over three decades of regional leadership in the apparel business. Headquartered in Dubai, UAE, where it has its marketing, sourcing, product development and corporate function, Atraco operates with a network of four manufacturing units in Kenya and one in Ethiopia producing about 40 million garments annually.
- Atraco Group's revenue is approximately US\$ 107 million with a profit after tax of US\$7.2 million for the calendar year 2022. It has more than 13,000+ workers spread over multiple locations in Kenya, Ethiopia and UAE
- The equity value of the transaction is US\$ 55 million and the same will be funded by a mix of debt and internal accruals. The transaction will comprise of acquisition of shares and assets and will be subject to customary regulatory approvals. The transaction is expected to be closed by Q3 FY24 (Oct-Dec 23)

### Concall Highlights

- Atraco has thrived for over 35 years in a very competitive industry due to a number of key differentiators like focus on cost efficiency, emphasis on profitability and scale, strong sales and marketing expertise and long lasting relationships with its customers.
- The company sources most of its raw materials from China, Indonesia, India, Pakistan, Taiwan, and the U.A.E and exports 95% of its production to the USA. The company specializes in the production of casual wear, including shorts, pants, shirts, blouses, t-shirts, and dresses.
- **Competitive Advantage to Gokaldas Export Ltd:**
  - Duty-free access to the US is a key strength, as duties range from 11% to 28%. Exports from Kenya to the USA are eligible for duty-free concession under African Growth and Opportunities Act (AGOA).
  - Large-scale production facilities in low cost locations, with the possibility for further expansion to drive future growth.
  - Strong manufacturing capabilities, high employee productivity, and machine efficiency built over the years
  - Long-standing relationships with well-recognized global apparel brands, giving the company a strong performance track record.
  - Access to additional skilled resources for growth
  - Leverage the nearly mutually exclusive customer base for cross selling opportunities
  - By obtaining access to efficiently run operations in lower cost regions of Kenya and Ethiopia, Gokaldas Exports expects to be truly globally competitive

### Important Data

Nifty	19,446
Sensex	65,425
CMP	₹780
Market Cap (₹ Cr)	~₹4,690
52W High/Low	₹817.70/328
Shares o/s (cr)	6.06
20D Avg Volume	4,04,839
BSE Code	532630
NSE Code	GOEX
Bloomberg Code	GOEX:IN

### Shareholding Pattern (%) – Jun'23

Promoter	11.06%
FII	16.20%
DII	32.31%
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, Way2Wealth

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- **Risk Factor:**
  - AGOA is due for renewal by December 2025. Given the geopolitical factors and significance of African regions for the USA, such benefits are likely to continue
  - Ethiopia experienced civil unrest in 2021 and 2022. This did not impact the capital Addis Ababa, where the operations are. The peace process is on in the affected region. There was no business impact on the company's operations through this period.
- **Comparative advantage of major alternate exporting countries** – Kenya has duty free access to US under AGOA which is the largest exporting African country under AGOA. In addition it has the duty free access to EU & UK under Economic Partnership Agreement (EPA) & Generalized Scheme of Preference (GSP) with EU & UK. Ethiopia has duty free access to Japan, EU, UK, and Canada because of the Least Developed country Status. It was also under AGOA but was excluded in 2022 and might be included back.

Exporting Country						
Importing Country	China	Bangladesh	Vietnam	Ethiopia	Kenya	India
US	11-28%	11-28%	11-28%	11-28%	0%	11-28%
EU	12%	0%	0%	0%	0%	12%
Japan	9%	0%	0%	0%	9%	0%
UK	12%	0%	0%	0%	0%	12%
Canada	18%	0%	0%	0%	18%	18%

**Factor Cost** – Kenya and Ethiopia have low labor costs and an abundant labor pool with low to medium skills.

Exporting Country						
Cost Elements	China	Bangladesh	Vietnam	Ethiopia	Kenya	India
Coat of labour (US\$ per month)	514	139	300	110	150	180
Labour Skills	High	High	High	Low-mid	Low-mid	High
Cost Electricity (US\$/KWH)	9-15	9	8	2-5	16-18	7-12
Lead Time (days)	30-45	50-70	35-50	60-90	60-90	40-60
Textile Integration	High	Med	Med	Low	Low	High

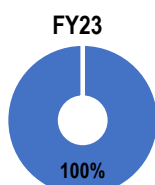
**Atraco Valuation (CY22):**

EV/EBITDA Multiple	Amount (cr)
Consolidated EBITDA	81
<b>Enterprise Value</b>	
Equity Value	454
Debt	136
Less: Cash	(1.2)
EV of Atraco	589
<b>Implied EV/EBITDA Multiple</b>	<b>7.3x</b>

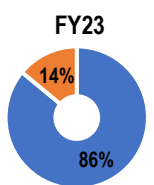
**Peer Comparison**

List	Sales (FY23)	EBITDA (FY23)	PAT (FY23)	Net Debt (31-03-23)	EV	EV/EBITDA	PE
Gokaldas Export	2247	296	173	(333)	3384	11.4	21.5
Kitex Garments	601	105	57	(58)	1223	11.7	22.5
Pearl Global Ind	3181	278	153	119	1615	5.8	9.8
SP Apparels	1101	166	83	43	1401	8.4	16.4
KPR Mills Ltd	6248	1336	814	1108	25842	19.3	30.4

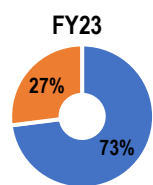
### Revenue Mix



Gex

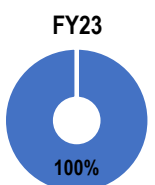


Gex ATRACO

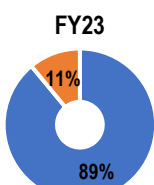


Gex ATRACO

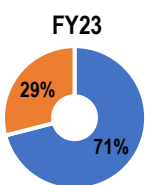
### PAT Mix



Gex



Gex ATRACO



Gex ATRACO

### Risk

- 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. Gokaldas Exports Limited (GEL) through its wholly owned subsidiaries has entered into an agreement to acquire Atraco Group (Atraco), a leading manufacturer of apparel with a strong market position and customer relationship across U.S. and Europe.

The acquisition of Atraco is an important step in this direction as it is strategically relevant, possesses a good complementary customer base, operationally strong, and above all, a leader in its own sphere. With this acquisition, GEL will gain access to low-cost duty-free locations for manufacturing.

This acquisition brings in one of the largest and highly efficient manufacturing capability in the MEA region to Gokaldas Exports, allowing the company to leverage low-cost regions for growth.

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.

**The stock has moved up by ~30 percent from our Quick Insight note as per our expectation. Investors can consider it an opportunity to book profits at the current valuation. We thus recommend investors to BOOK PROFIT.** However, with the industry uptrend and strong market positioning, GEL is on course to deliver better earnings, going ahead. **Investors with risk appetite can stay invested for a long term.**

## Q1FY24 FINANCIALS

(₹ 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>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

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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
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