Gokaldas Exports – BUY

10 January 2023

Initiating coverage

IIFL SECURITIES

Proven in Woven; fit for Knit

We initiate coverage on Gokaldas Exports (GEXP) with a BUY reco and Rs537 TP. GEXP is one of the leading Apparel manufacturers and exporters in India. The Indian Textile and Apparel industry would benefit from China+1 strategy of global Apparel brands, supportive government policies and US ban on cotton grown in Xinjiang province in China. GEXP is well-placed for market share gains, thanks to supplier consolidation, improved execution and foray into knitted garments (which potentially doubles addressable market). Despite near-term headwinds from a potential recession in developed markets, we project 22% EPS Cagr over FY22-25ii, driven by capacity additions and efficiency improvements. The stock trades at an attractive 14.7x 1YF PE.

Confluence of multiple enablers for Indian Textile industry: Though China+1 has been a theme for almost a decade, Vietnam and Bangladesh have mostly benefited from this. However, things are finally looking up for India due to a host of supportive government policies such as progress on Free Trade Agreements (FTAs), PLI scheme to develop man-made fibre ecosystem (where India is relatively weak, unlike cotton) and State government incentives. Impending FTA with the UK and potentially with the EU, could significantly improve India's competitiveness vs Bangladesh (which enjoys zero tariffs); help India capitalise on its lower labour cost advantage vs most emerging markets.

GEXP well-placed for market share gains: A significant turnaround under the current management has driven strong customer addition, higher wallet share and improved capabilities on higher value-added products. Strong execution credentials makes GEXP well-positioned to capitalise on ongoing supplier consolidation. GEXP's presence, so far, has been largely limited to the Woven Apparel market. Recent foray into the Knit segment potentially expands the company's addressable market by enhancing cross-selling opportunities.

Attractive valuation; BUY with Rs537: Ongoing capex program (Rs3.6bn over FY22-24) could yield 4x revenue at full utilisation. We estimate 22% EPS Cagr over FY22-25ii. GEXP is a net cash company with healthy return ratios. Our Dec'23 TP is based on 16x 1YF PE.

Company update

CMP	Rs363
12-mth TP (Rs)	537 (48%)
Market cap (US$m)	267
Enterprise value(US$m)	242
Bloomberg	GEXP IN
Sector	Textiles

Shareholding pattern (%)

Promoters	21.0
Pledged (as % of promoter share)	0.0
FII	11.7
DII	25.9

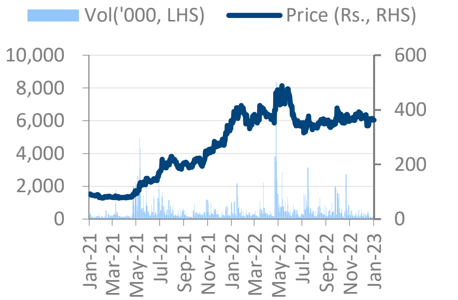
52Wk High/Low (Rs)	489/316
Shares o/s (m)	61
Daily volume (US$ m)	1.8
Dividend yield FY24ii (%)	0.0
Free float (%)	79.0

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	(1.7)	(8.8)	0.7
Absolute (US$)	(1.8)	(8.8)	(9.1)
Rel.to Smallcap	0.5	(7.9)	4.4

Cagr (%)	3 yrs	5 yrs
EPS (Rs)	38.7	NA

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY21A	FY22A	FY23ii	FY24ii	FY25ii
Revenues (Rs m)	12,107	17,903	22,021	26,720	32,200
Ebitda margins (%)	*8.4*	*11.5*	*10.9*	*11.9*	*12.3*
Pre-exceptional PAT (Rs m)	265	1,171	1,203	1,604	2,176
Reported PAT (Rs m)	265	1,171	1,264	1,604	2,176
Pre-exceptional EPS (Rs)	6.2	19.8	19.9	26.5	35.9
Growth (%)	*153.1*	*NM*	*0.1*	*33.3*	*35.7*
IIFL vs consensus (%)			*(10.5)*	*1.0*	*5.4*
PER (x)	**58.7**	**18.3**	**18.3**	**13.7**	**10.1**
ROE (%)	*10.3*	*23.5*	*16.0*	*18.4*	*20.5*
Net debt/equity (x)	0.5	(0.2)	(0.2)	(0.3)	(0.3)
EV/Ebitda (x)	16.7	9.7	8.5	6.1	4.6
Price/book (x)	5.4	3.0	2.8	2.3	1.9
OCF/Ebitda (x)	1.2	0.6	0.7	0.7	0.7

Source: Company, IIFL Research. Priced as on 09 January 2023

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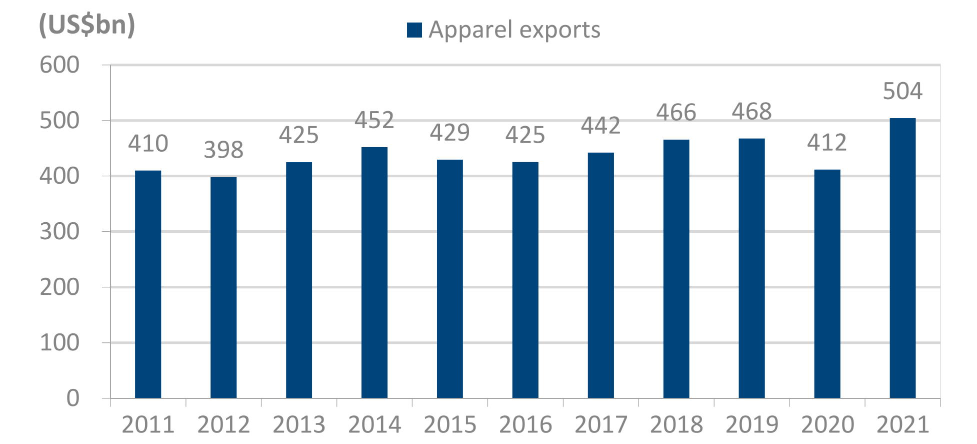
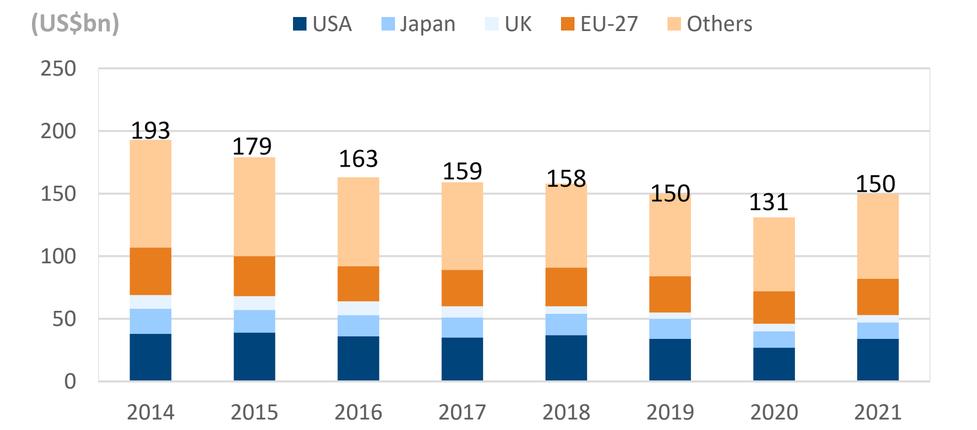
Key charts

Figure 1: Global Apparel exports: US$500bn market that has been growing in low single digits



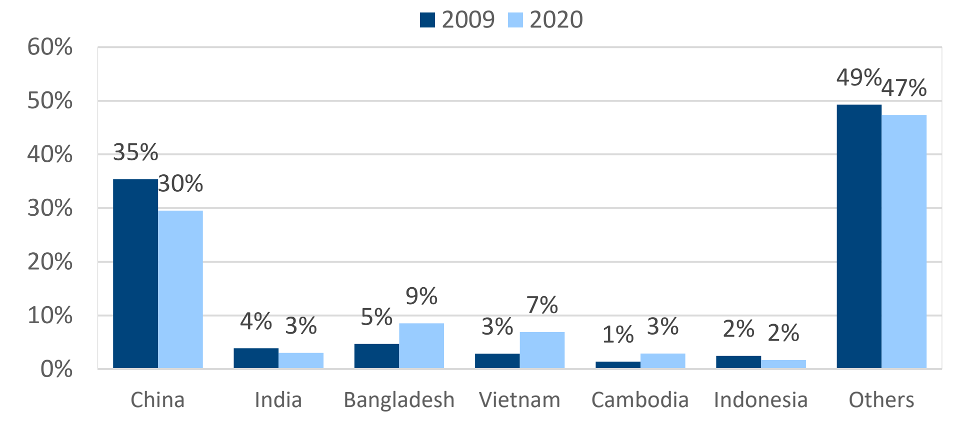
Source: OEC, IIFL Research

Figure 2: China's exports to various countries: Not only have total exports fallen, but exports to each of the key markets have fallen too



Source: Company, IIFL Research

Figure 3: Apparel export market share: China's loss was Bangladesh's and Vietnam's gain

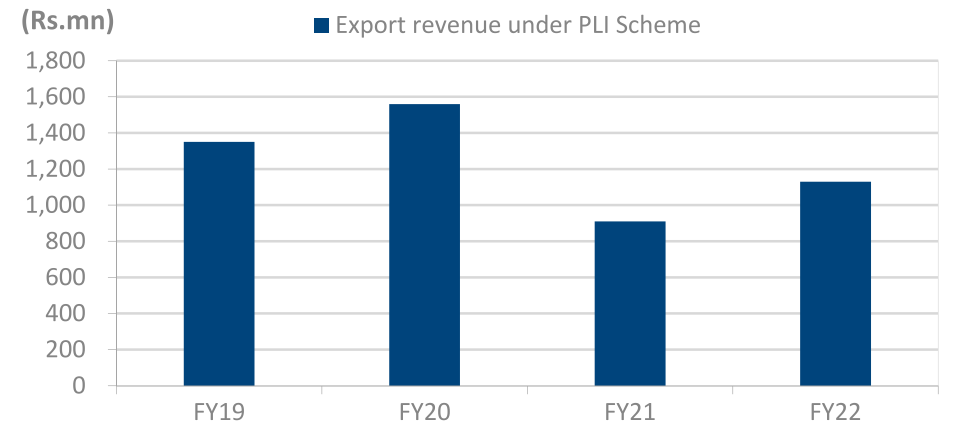


Source: OEC, IIFL Research

Figure 4: Labour cost (FY21): Among leading Apparel exporters, India ranks second to Bangladesh

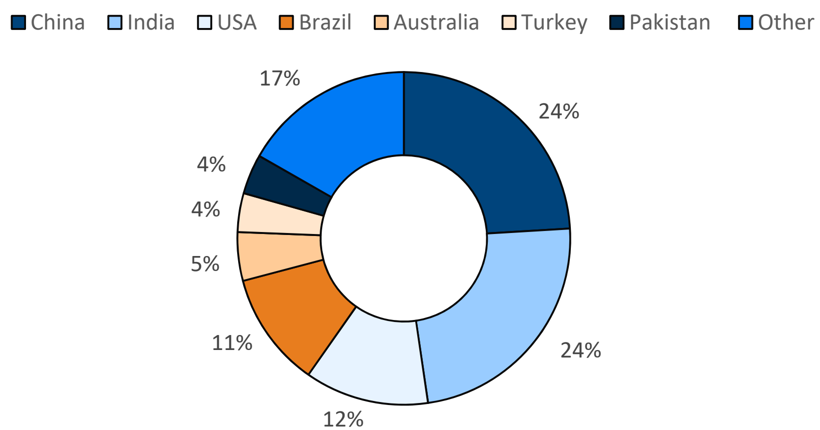
Source: Company, IIFL Research

Figure 5: GEXP's export revenue under 40 PLI MMF codes



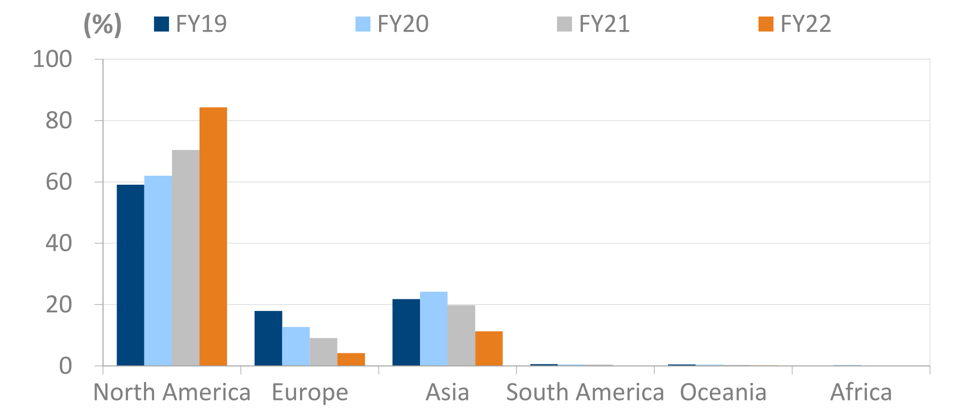
Source: Company, IIFL Research

Figure 6: Cotton production in CY22: 84% of the cotton produced in China is from Xinjiang region and has been banned by the USA



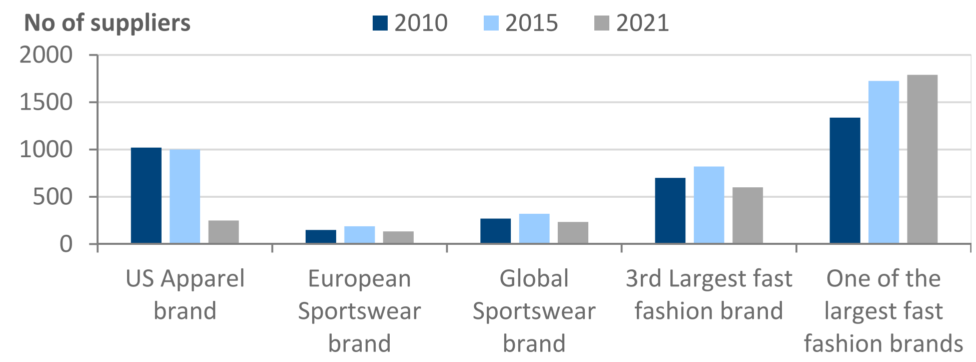
Source: USDA, IIFL Research

Figure 7: Revenue contribution from different geographies: Under the current management, GEXP has concentrated more on the US, while EU's share has come down



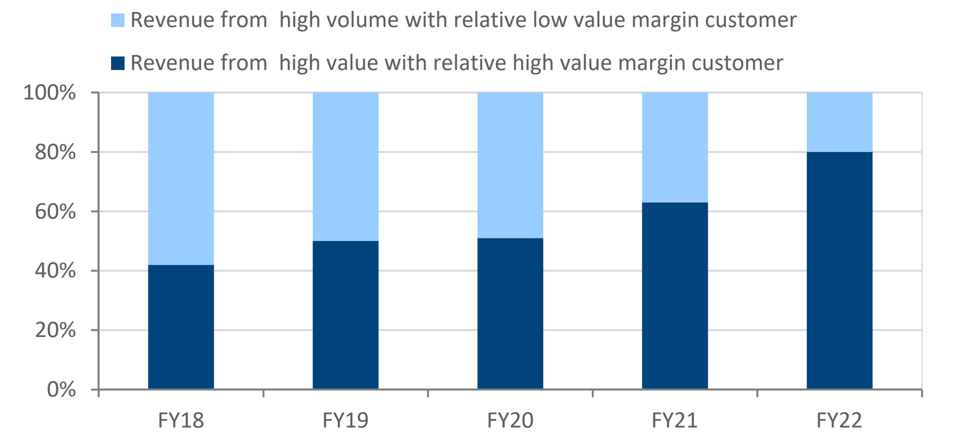
Source: Company, IIFL Research

Figure 8: Consolidation of suppliers among top brands globally



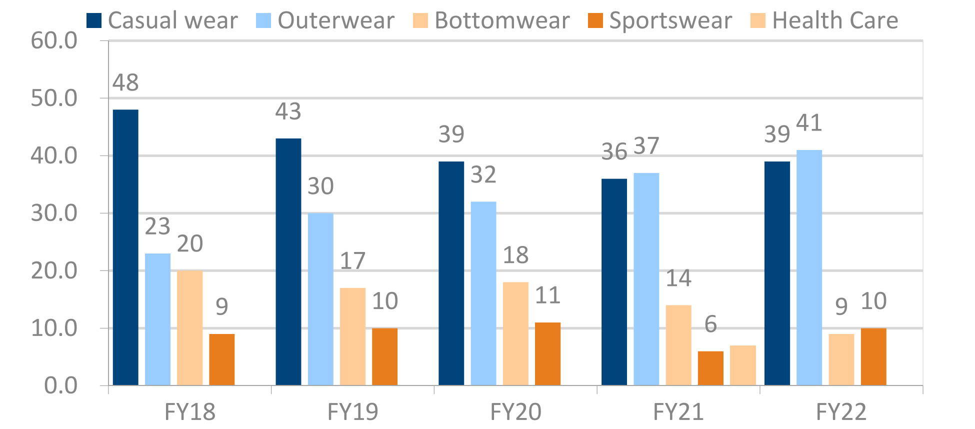
Source: Company, IIFL Research

Figure 9: Over the years, GEXP has witnessed its revenue contribution from better value-added products. The company has shifted focus from volume to profitability in the last two years.



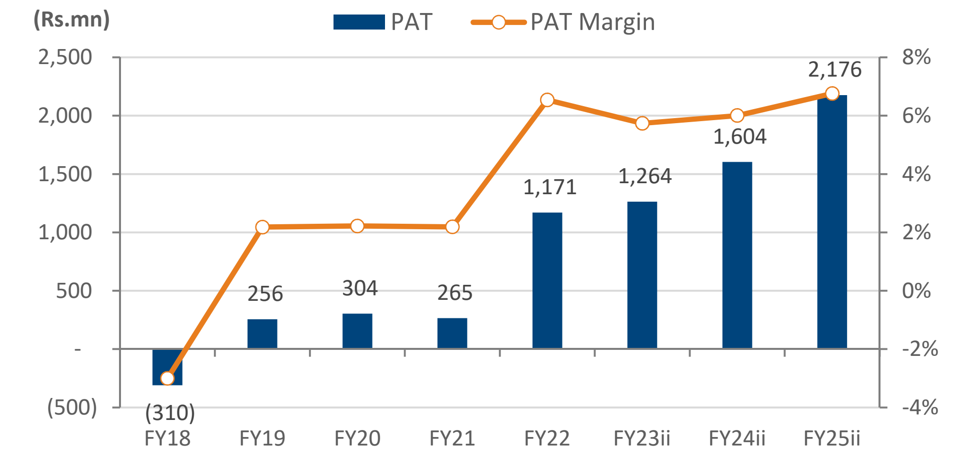
Source: Company, IIFL Research

Figure 10: GEXP's mix: Share of outerwear went up sharply between FY18 and FY22



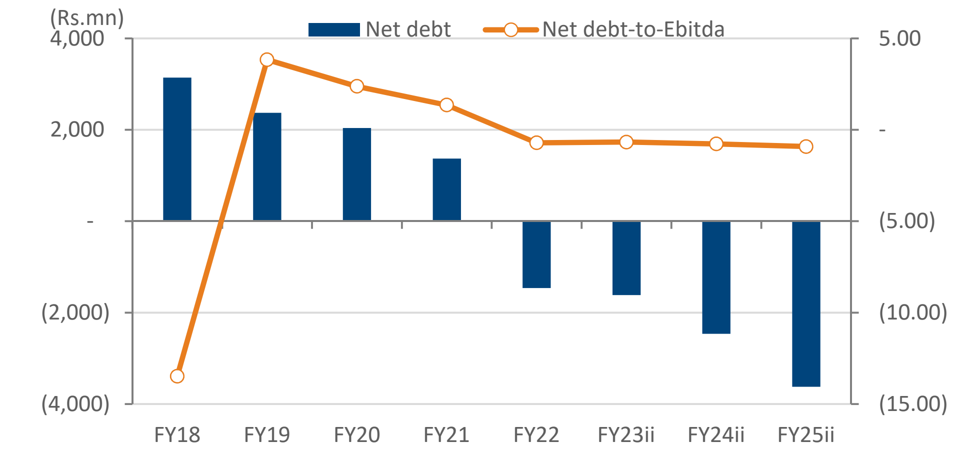
Source: Company, IIFL Research

Figure 11: GEXP: We expect 23% PAT Cagr over FY22-25ii



Source: Company, IIFL Research

Figure 12: GEXP is a net cash company as of end-FY22.



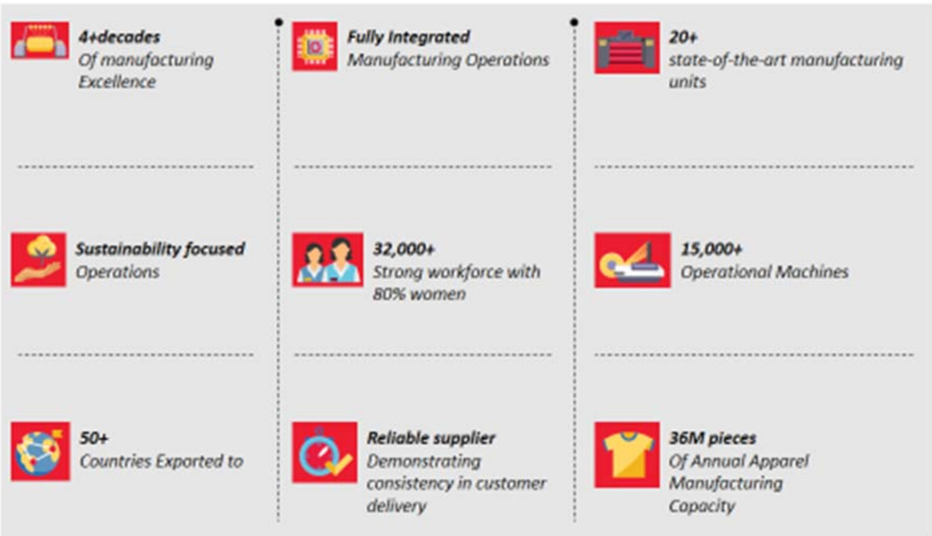
Source: Company, IIFL Research

Company background

Gokaldas Exports Limited (GEXP) is one of the leading Apparel manufacturers and exporters in India. The company deals in a broad range of apparel products that include outerwear, active wear and fashion wear for all weather and seasons. Present across all continents and within a delivery network of 50+ countries, GEXP caters to some of the most prominent fashion brands and retailers across the globe.

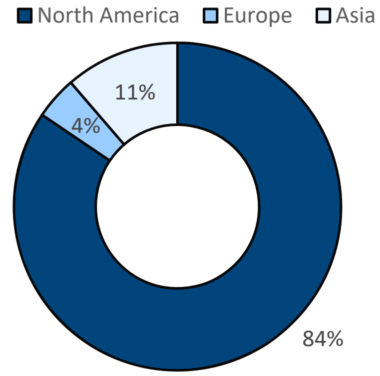
GEXP is one of the largest Organised Apparel manufacturers in the country, with a total manufacturing capacity of 36mn apparel pieces per annum. It shipped over 23mn apparel pieces in FY22. Being a labour-intensive business, the company has a workforce of ~32,000 people, of whom a vast majority are women. Gokaldas currently operates in 20+ state-of-the-art production facilities with 15,000+ advanced machines.

Figure 13: GEXP – Company snapshot



Source: Company, IIFL Research

Figure 14: Revenue contributions region-wise. North America remains the largest geography; Europe remains a strong prospect, especially with FTAs expected in near future



Source: Company, IIFL Research

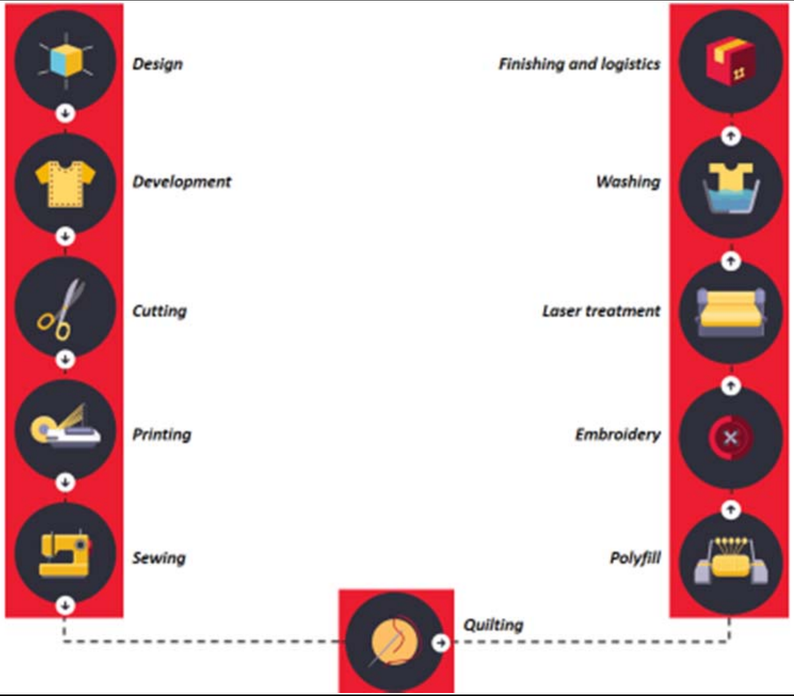
Figure 15: List of key customers of GEXP

GAP (GAP, Banana Republic, Old Navy)
Carharrt
Columbia Sportswear
TJ Maxx
JC Penney
Abercrombie & Fitch
Adidas
Puma
H&M
Mark & Spencer
Walmart
Carrefour

Source: Company, IIFL Research

GEXP's customers are well-known international Apparel brands such as GAP, Carharrt, Puma, TJ Maxx and Columbia Sportswear, among others. It also supplies apparel to large Retailer chains like Walmart and Carrefour.

Figure 16: GEXP is involved in a number of activities in the fabric-to-apparel value chain; Its engagement with the customer goes all the way from design and development to finishing and shipping



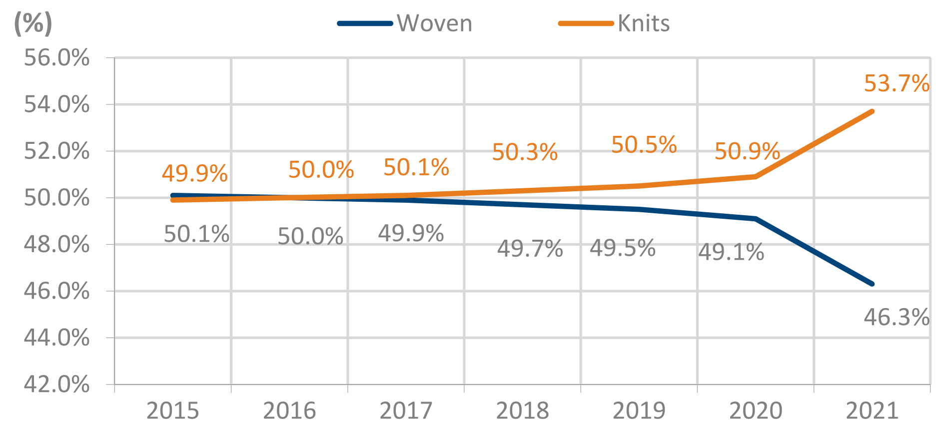
Source: Company, IIFL Research

GEXP operates in the following segments:

- **Woven segment**: Woven clothes are produced by weaving two sets of yarn. Examples include shirts, trousers, jeans, denim, and jackets. GEXP is predominantly present in the Woven segment. A shift in consumer preferences is being seen post-pandemic towards woven, as people seek more formal clothes. Gokaldas procures woven fabrics from outside suppliers and converts it into garments for customers. The company is not looking to enter into woven fabric manufacturing, as sheer variety in the type of fabric makes it difficult for a single player to manufacture all types.

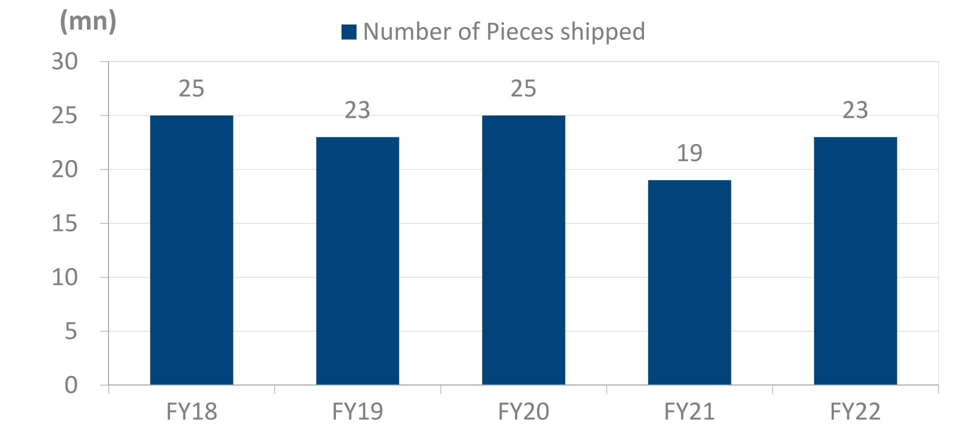
- **Knitted segment:** Knitted clothes are produced by knitting one set of yarn. Examples include leggings, T-shirts, sweaters and innerwear. GEXP is foraying into the Knitted segment. Given lower variety in knitted fabric, GEXP is also setting up a manufacturing facility for the same. This backward integration would result in improved Ebitda margin for the Knitted segment vs Woven, though ROCE would be similar.

Figure 17: Share of Knits and Woven in global Apparel exports: GEXP mostly caters to the Woven segment, still foraying into Knitted



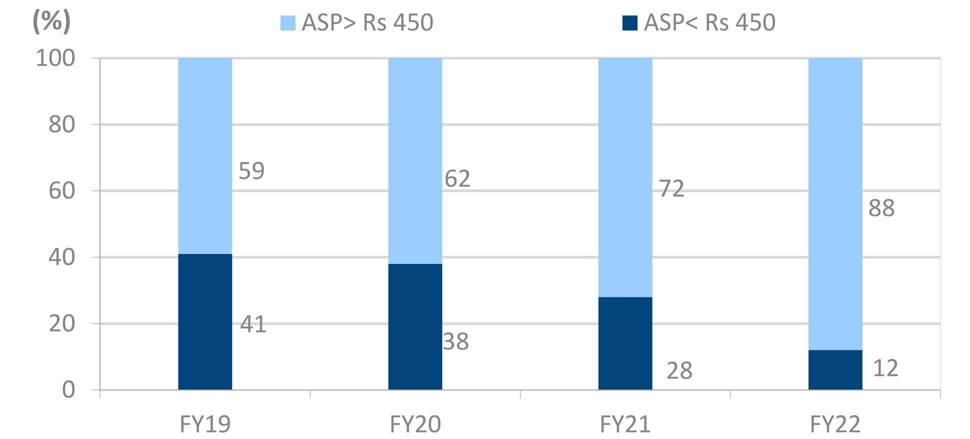
Source: Company, IIFL Research

Figure 18: GEXP's volume bounced back in FY22, but has seen modest decline since FY18



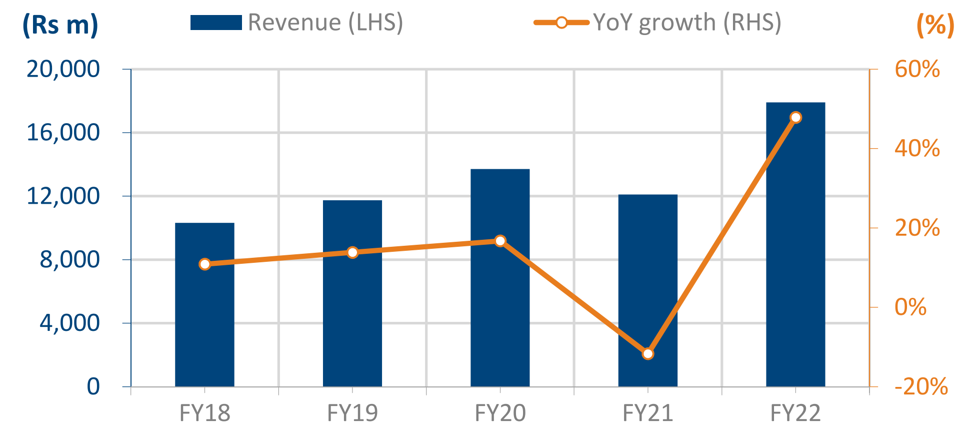
Source: Company, IIFL Research

Figure 20: ..driven by higher contribution of apparel with ASP above Rs450



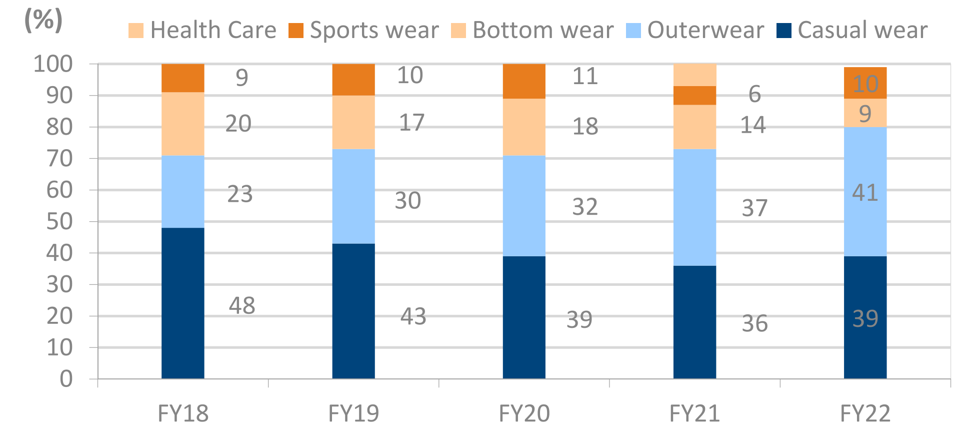
Source: Company, IIFL Research

Figure 19: FY22 revenue was ~74% higher than FY18 level..



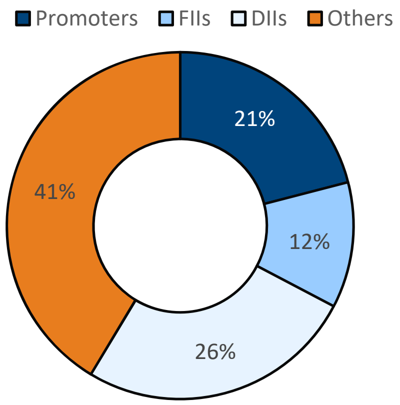
Source: Company, IIFL Research

Figure 21:Mix improved as the proportion of outerwear climbed from 23% to 41%



Source: Company, IIFL Research

Figure 22: Shareholding pattern: September 30, 2022



Source: Company, IIFL Research

Figure 23: Management profile

Name	Designation	Profile
Sivaramakrishnan Ganapathi	Executive Vice-Chairman and Managing Director	He has 30+ years of experience and has previously worked with Aditya Birla Group, DSP Merrill Lynch, ICICI and Uhde India. He holds a Master degree in Management from IIM, Bangalore and a Bachelor's degree in Mechanical Engineering from NIT.
A Sathyamurthy	Chief Financial Officer	Sathyamurthy has worked with organisations like EID Parry, Aditya Birla Retail, Perfetti Vanmelle and Rajshree Sugars & Chemicals. He holds a Bachelor's degree in Commerce from University of Madras and MBA from Symbiosis and is a member of Cost and Management Accountants of India.
Poorna Seenivasan S	Executive Director	Poorna has 28+ years of experience and was earlier associated with Sanghi Spinners, GTN Textiles, Shahi Exports and Scott Garments in various capacities. He is a Textile Technology professional and earned his MBA in Marketing from Madurai Kamaraj University.
Prabhat Kumar Singh	Executive Director-Corporate development	Prabhat has 40+ years of experience and has held several leadership positions in the textile industry as well as industry bodies like Apparel Export Promotion Council (AEPC). He is a Bachelor of Business Management from Banaras Hindu University and earned his MBA from XLRI, Jamshedpur.

Source: Company, IIFL Research

Company history

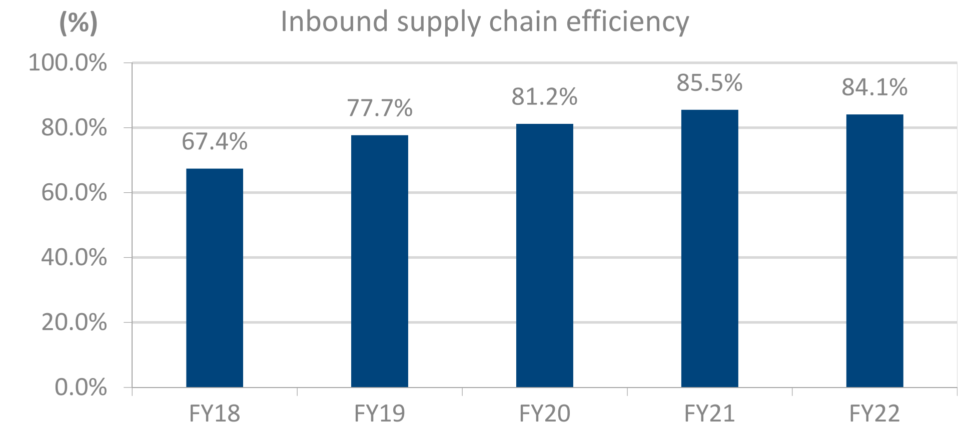
GEXP's roots lay before India's partition. After India's partition in the year 1947, Jhamandas Hinduja and his two brothers, Naraindas and Devkishendas, moved their Sindh-based Silk trading business Gokaldas Harbhagwandas Partners to India. In 1979, the business was split among the three brothers, with Jhamandas Hinduja taking the lead of the major successor, Gokaldas Exports. The Company was subsequently run by his three sons, Madanlal, Rajendra, and Dinesh Hinduja, who were involved since its inception.

In 2005, the company went public and was listed on Indian Stock Exchanges. In March 2007, GEXP crossed the Rs10bn sales milestone, a first for an Indian apparel company. Looking at the growing potential of Textile industry, Blackstone acquired a controlling stake of ~70% in GEXP.

Over the next 10 years until 2017, under Blackstone's management, the company confronted a changing business environment ushered in by abolition of Multi Fibre Agreement imposed Quotas and a growing Apparel business in Bangladesh. GEXP's revenue have flatlined between FY08 and FY18 and it made PAT losses in seven out of these 10 years. Blackstone steadily reduced investment in the company and in 2017, it finally exited from its decade-long investment by selling stake to another Private Equity firm Clear Wealth Consultancy Services LLP.

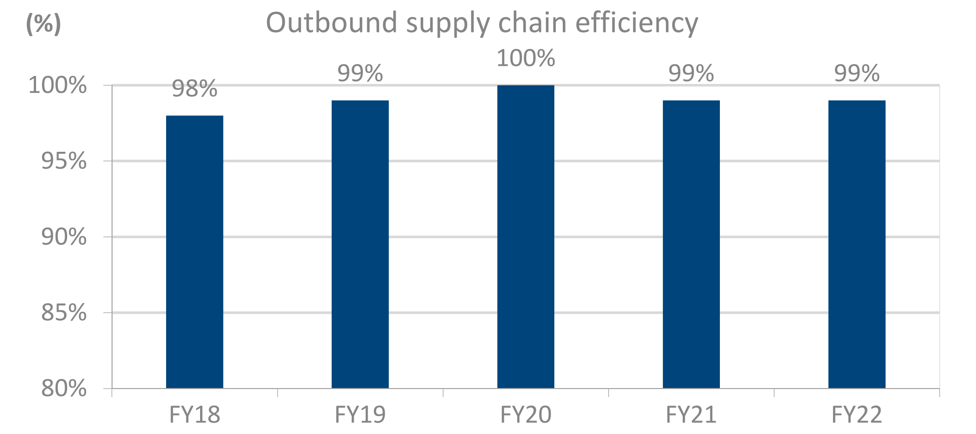
In late 2017, GEXP's Board appointed Sivaramakrishnan Ganapathi as the Managing Director. Under his leadership, the company witnessed a significant improvement in operational and financial parameters. GEXP saw 15% revenue Cagr between FY18-22, improved its Ebitda margin from -2.3% to +11.5%, turned PAT positive and became a net cash company. It now stands well positioned to benefit from structural growth drivers for the industry.

Figure 24: Inbound supply chain efficiency has improved significantly under the current management. On-time sourcing of raw material from suppliers is critical to ensure on-time delivery of finished goods



Source: Company, IIFL Research

Figure 25: Outbound supply chain efficiency : This is a measure of on-time shipping; FY21 and FY22 were impacted by pandemic-related disruptions

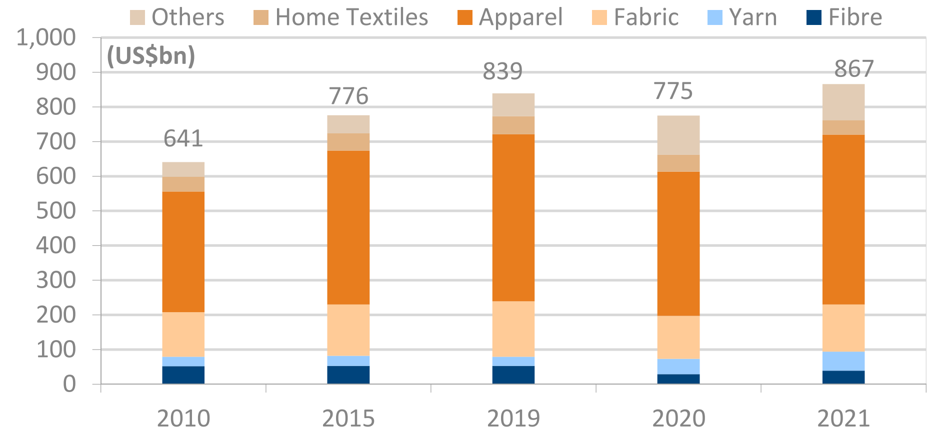


Source: Company, IIFL Research

India to gain from China+1

With GEXP deriving ~89% of its revenue from exports, we look at the global Textile and Apparel trade, which has grown at ~3% Cagr over 2010-2021 to US$867bn. Within this, the largest category by far is apparel comprising ~57%, followed by fabric (16%), yarn (6%), fibre (5%), home textiles (5%) and others (12%). GEXP operates in the Apparel export market.

Figure 26: Global textile and apparel trade: This has grown at ~3% Cagr over 2010-2021; Apparel is the largest category that accounts for ~57% of the total market

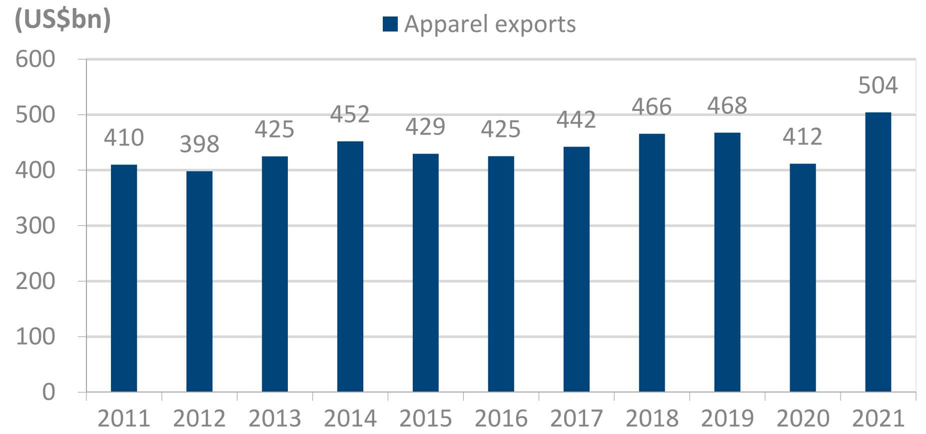


Source: Company, IIFL Research

Shift of business away from China in global Apparel trade

Global Apparel trade market was US$504bn in 2021, after witnessing ~2% Cagr in the past decade. The key trend has been a serious decline in China's export market share during this period, led by higher factor costs, relatively stronger currency and trade barriers. Other low-cost markets such as Vietnam and Bangladesh, so far, have benefited the most from this trend; while India's gain has been modest. However, the ingredients for accelerating India's share are gradually falling in place.

Figure 27: Global Apparel exports: US$500bn market which has been growing in low single digits

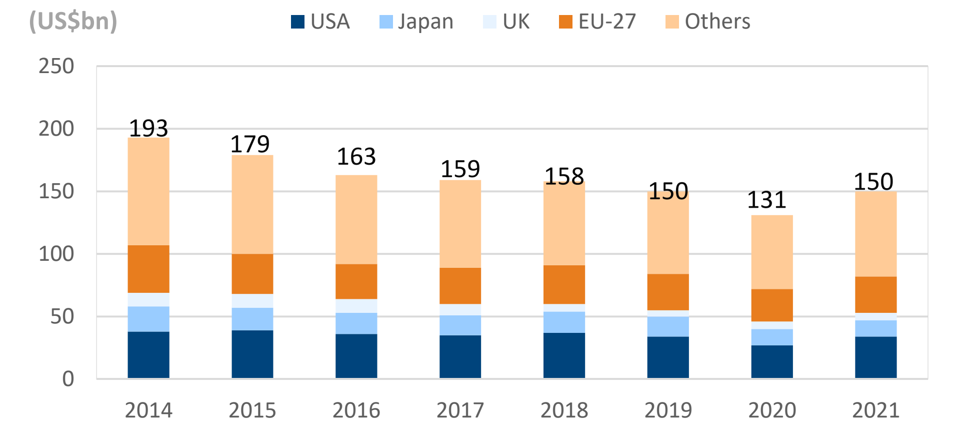


Source: OEC, IIFL Research

China's exports steadily declining in recent years: China Plus One strategy of diversifying manufacturing and production to new locations — already underway in the past ten years — gained momentum since the pandemic. Supply chain disruptions amidst Covid-19 lockdowns, rising labour costs and growing strategic concerns around the concentration of production, provided a fresh impetus to this shift.

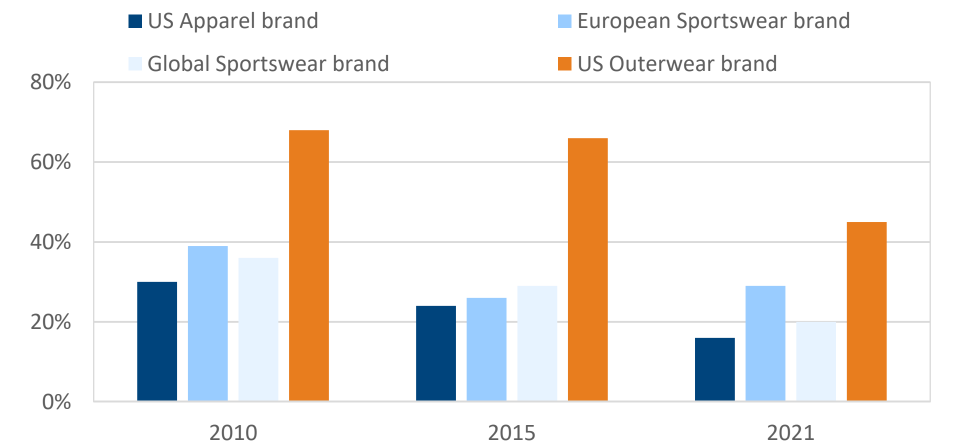
Commentary from China: "The trade environment and cost differences has weakened the export competitiveness of China's products, which led to a shifting of demand from China to overseas countries. The global layout of the industrial chain and the cross - border collaboration of supply chain have become a trend in the development of the textile and garment industry, brand customers also establish global supply chain network to diversify procurement risks." - One of the largest Chinese Textile and Apparel Exporters.

Figure 28: China's exports to various countries: Not only have total exports fallen, but exports to each of the key markets have fallen too



Source: Company, IIFL Research

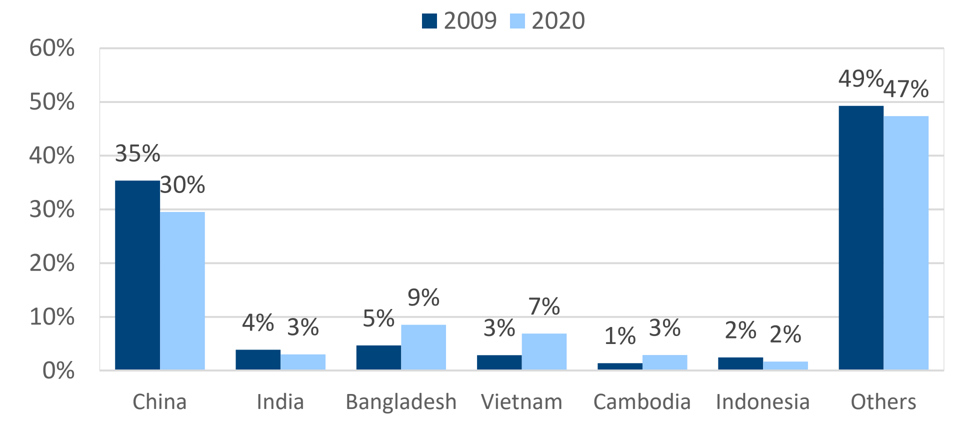
Figure 29: Brands' procurement from China, as percentage of their overall procurement, has reduced over the years



Source: Company, IIFL Research

Bangladesh, Vietnam benefited the most in last decade

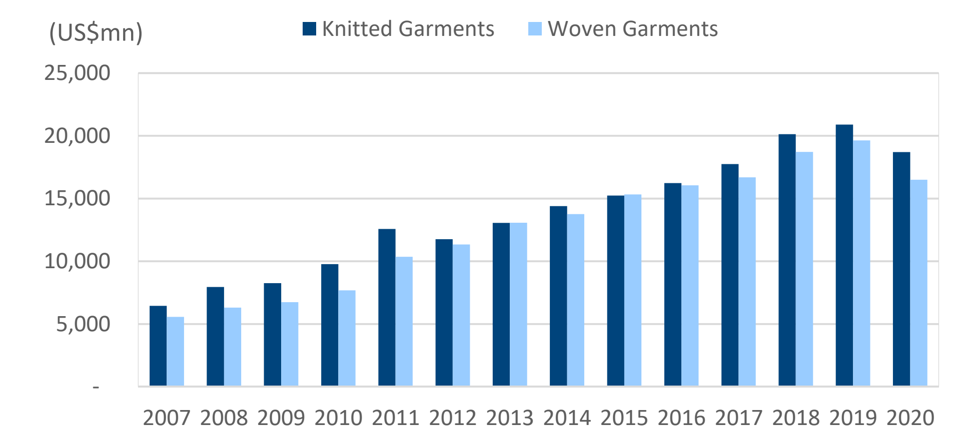
Figure 30: Apparel export market share: China's loss was Bangladesh's and Vietnam's gain



Source: OEC, IIFL Research

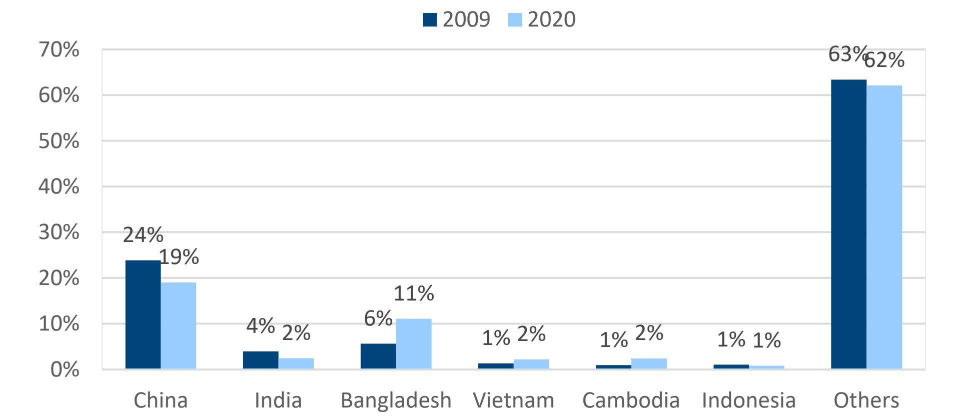
Bangladesh gained from quota-free, duty-free trade with EU: As a Least Developed Country (LDC), Bangladesh benefits from the most favourable regime available under EU's Generalised Scheme of Preferences Plus (GSP+), granted in 2001. Bangladesh enjoys duty-free, quota-free access to the EU for exports of all products, except for arms and ammunition. Bangladesh exports have grown at Cagr of 11% from CY07 to CY19. CY20 saw a decline in exports due to Covid-19.

Figure 31: Bangladesh exports saw 11% Cagr from 2007 to 2019



Source: OEC, IIFL Research

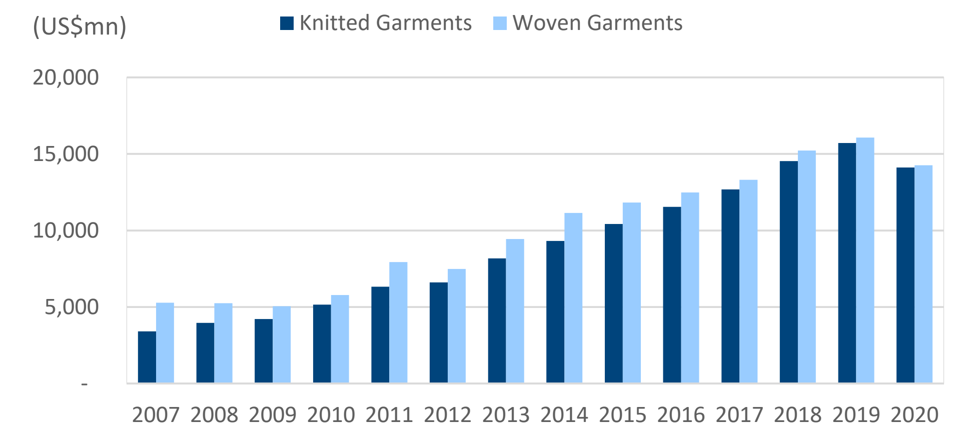
Figure 32: Share of exports to EU: Bangladesh's share jumped from 6% to 11%



Source: OEC, IIFL Research

Vietnam also benefited from favourable trade treaties: EU and Vietnam signed a Trade Agreement and an Investment Protection Agreement on 30 June, 2019. This agreement came into force on August 1, 2020 and gives Vietnam duty-free access to the European market.

Figure 33: Vietnam's Textile exports grew at 11% Cagr between 2007 and 2019



Source: OEC, IIFL Research

Figure 34: Vietnam and Bangladesh enjoy zero tariffs in EU, thanks to Free Trade Agreements (FTAs)

	Textile import duty in the US	Tariff in the EU
China	18.4%	12.0%
Vietnam	13.3%	0.0%
India	9.5%	9.6%
Bangladesh	11.0%	0.0%

Source: Industry sources, IIFL Research

Things finally looking up for India

Cheaper labour in India: With labour costs being the key differentiator in overall cost structure for Textile and Apparel exporters, we compare India's labour costs vs key competing markets. India ranks second, in terms of labour cost, after Bangladesh. Monthly labour cost in India is US$168 per head vs US$245/US$514 in Vietnam/China. However, Bangladesh remains cheaper than India, at US$136.

Figure 35: Labour cost (FY21): Among leading Apparel exporters, India ranks second to Bangladesh

Source: Company, IIFL Research

Bangladesh could lose its GSP+ status by 2026. Since EU allows for an additional 3yr transitional period after graduation, Bangladeshi exporters may continue enjoying the current duty-free market access until 2029. This could eventually work to India's advantage.

Favourable government interventions, sops: Considering the fragmented nature of Textile and Apparel industry and sharp market-share gains witnessed by Bangladesh and Vietnam in the wake of signing Free Trade Agreements (FTAs), it is evident that government interventions and signing of FTAs with large markets, are crucial for Indian industry to be competitive with Bangladesh and Vietnam.

Supportive government policies

Supportive government policies —FTAs, tax sops, incentives and duty drawbacks — are critical in ensuring India's competitiveness in the global Textile and Apparel market. With Piyush Goyal taking charge as Minister of Commerce & Industry in 2019, there has been increased thrust on improving India's competitiveness, as per industry sources. Enabling factors for Indian Textile and Apparel industry to capitalise better on China Plus One shift, are slowly but surely falling in place.

Signing FTAs to enhance India's export share

In an effort to improve the country's exports, Indian government has been actively pursuing bilateral trade agreements with potential countries. It successfully concluded FTAs with the UAE and Australia; and is in final stages of discussion with the UK, which is expected to be completed early FY24. In addition, government plans to launch the trade discussion with 16 new and enhancing several other nations as diverse as the EU, US, Canada and South Korea.

Figure 36: India's progress and setbacks on trade agreements in recent years

Year	Move
2015	FTA with ASEAN
2016-18	Bilateral treaties with 20+ EU countries expired, but not renewed
2019	Walked out of RCEP (Regional Comprehensive Economic Partnership)
2022	Comprehensive Economic Partnership Agreement with the UAE
2022	FTA with Australia

Source: Industry, IIFL Research

FTA with the UK likely by early FY24; could potentially add US$1bn to Indian Textile exports: Industry sources see the possibility of India signing FTA with the UK by 2QFY24. The UK market imported apparel worth US$23bn — of which — US$1bn was from India.

Once FTA with UK is signed, Indian Textile industry will have a level-playing field against those in Bangladesh and Vietnam, which enjoy GSP+ status and FTA with EU respectively. Lower cost of raw material vs both Bangladesh and Vietnam, and lower labour cost vs Vietnam would also add teeth to India's prospects. Industry interactions suggest that Indian exports to UK could potentially double, once FTA is signed and initial modalities are completed.

Figure 37: FTA with the UK could potentially double India's exports to the UK to US$2bn

Apparel Exports to the UK (US$mn)	2009	2014	2015	2019	2020
China	7,088	9,059	9,376	4,890	6,246
India	1,579	1,891	1,785	1,546	1,026
Bangladesh	1,632	2,825	3,330	3,642	2,790
Vietnam	377	614	723	735	517
Cambodia	381	1,270	1,232	1,044	793
Indonesia	243	238	241	228	240
Others	10,631	13,416	12,454	13,654	11,883
Total	**21,932**	**29,313**	**29,141**	**25,738**	**23,495**

Source: OEC, IIFL Research

FTA with EU may take longer, though the upside could be substantial: Industry sources mention that the Indian government is also working on an FTA with EU. EU is a substantially bigger market with US$191bn of apparel imports in 2020. However, considering the higher overall complexity of negotiations with EU vs UK, this is likely to take longer.

Figure 38: EU is a large export market; India is working on FTA with EU, though it may take longer

Apparel Exports to the EU (US$mn)	2009	2014	2015	2019	2020
China	33,833	45,304	38,025	37,994	34,490
India	5,164	5,693	5,173	5,463	4,183
Bangladesh	7,970	15,609	16,015	23,252	20,930
Vietnam	1,855	3,318	3,392	4,728	4,144
Cambodia	1,169	3,453	3,732	5,674	4,335
Indonesia	1,477	1,473	1,433	1,490	1,438
Others	98,049	114,719	100,296	129,387	121,278
Total	**149,516**	**189,569**	**168,066**	**207,989**	**190,798**

Source: OEC, IIFL Research

PLI scheme targeted at developing MMF ecosystem

Announcement of Production Linked Incentive (PLI) Scheme focuses on man-made fibre (MMF) apparel, MMF fabrics, and products of technical textiles, to enhance India's manufacturing capabilities and exports with an estimated outlay of Rs107bn.

India strong in cotton; weak in man-made fibre (MMF): Indian Textile and Apparel industry uses cotton as the key fibre. Cotton accounts for ~60% of total fibre, with the rest being man-made fibre (MMF). Within MMF, polyester accounts for ~90% of fibre with viscose rayon and other MMF comprising the rest.

The aforementioned dependence on cotton is also reflected in trade data, where cotton-based apparel makes up 70% of India's exports. On the other hand, MMF-based apparel accounts for 60% of global trade.

Figure 39: India's salience in MMF-based apparel exports is quite low; PLI scheme is focused on improving this

	India	Global
Share of cotton based apparel export	70%	40%
Share of MMF based apparel export	30%	60%

Source: Industry, IIFL Research

With increasing shift of business from China and other markets, India's need to focus on MMF segment has gone higher. PLI scheme is designed to improve India's presence in MMF-based apparel and generate large-scale employment opportunities.

MMF PLI Scheme

The MMF PLI Scheme has two parts:

Under Part-1, minimum investment required is Rs3bn and 15% incentive will be provided on attaining required turnover in the first year.

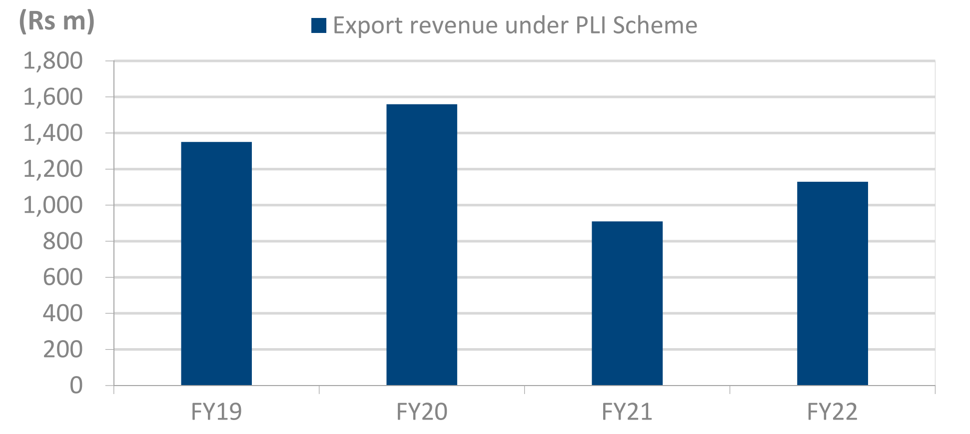
Under Part-2, minimum investment is Rs1bn and 11% incentive will be provided on attaining required turnover in the first year.

The incentive will be reduced by 1 ppt every year, from second year onwards till the fifth year, under both parts of the Scheme.

GEXP is among the few companies that can work on complex products involving MMF; hence, will have an edge over other market players.

Specifically, the PLI applies to 40 HS codes consisting of MMF-based apparel. GEXP's revenue under PLI Scheme is captured below.

Figure 40: GEXP's export revenue under 40 PLI MMF codes



Source: Company, IIFL Research

A multitude of other govt initiatives to also help

Extension of RoSCTL till 2024 lends to improved clarity: Indian government's recent announcement to continue the Rebate of State and Central Taxes and Levies (RoSCTL) scheme till 2024, has provided major relief to export companies. Such policy stability clears uncertainty and encourages Indian exporters to increase investment.

GEXP gets rebate of duty drawback on export sales made, which is equivalent to 5-5.5% of export sales. Rebate under RoSCTL Scheme shall be given to exporter, in the form of duty credit scrips, which will be maintained in the electronic duty credit ledger. Scrips shall be issued electronically on Customs automated system. GEXP sells this scrips at 98% of its value to other exporters.

RoSCTL
RoSCTL scheme intends to compensate the State and Central Taxes and Levies, in addition to Duty Drawback Scheme on export of apparel/ garments and Made-ups by way of rebate. Rebate of State Taxes and Levies includes VAT on fuel used in transportation, captive power, farm sector, mandi tax, duty of electricity, stamp duty on export documents, embedded SGST paid on inputs such as pesticides, fertilisers etc., used in production of raw cotton, purchases from unregistered dealers, coal used in production of electricity and inputs for Transport sector. Rebate of Central Taxes and Levies includes central excise duty on fuel used in transportation, embedded CGST paid on inputs such as pesticides, fertiliser etc., used in production of raw cotton, purchases from unregistered dealers, inputs for Transport sector and embedded CGST and Compensation Cess on coal used in production of electricity.

GEXP setting up a facility in Madhya Pradesh to avail State govt incentive scheme: GEXP is setting up a plant in MP. Since MP is not part of the three large Textile and Apparel industry clusters in India (NCR, Tiruppur and Bangalore), GEXP would face the prospects of improving Textile industry ecosystem in MP.

On the other hand, the incentives offered by MP government and diversification of concentration risk (currently, GEXP's most facilities are in South India) are positives. MP government offers employment-generation assistance of Rs5,000 per employee per month for a maximum period of 5 years for new employees, from the date of commercial production applicable for 10 years.

Initiatives such as MITRA and TTDS may offer limited near-term benefits: In its efforts to increase investment and create a large Textile ecosystem within the country, government in FY22 announced the Mega Integrated Textile Region and Apparel (MITRA) Parks Scheme. It plans to establish seven such parks with state-of-the-art facilities, common utilities and R&D labs over a period of three years, with total outlay of ~Rs44bn. Government envisages MITRA Parks with world-class industrial infrastructure that would boost FDI and local investment in Textiles sector.

While MITRA scheme looks promising on paper, key challenge is that the Textile industry requires higher human capital than other industries; setting a large number of facilities in a concentrated geography will require vast labour supply.

Government is working on a new scheme called Textiles Technology Development Scheme (TTDS) to replace the earlier scheme of TUFS. TTDS aims to promote integrated manufacturing facilities and technology adoption, with Rs166bn budgeted over five years. The allocation is split as: Rs51bn for textile machinery, Rs20bn for technology upgrade to current units, Rs48bn for integrated manufacturing, Rs46bn for TUFS arrears; and the remaining for administrative expenses.

Beneficiaries of PLI scheme for textiles are not eligible for benefits under TTDS. Since GEXP is a beneficiary of PLI scheme, it will be unable to avail the benefits of TTDS.

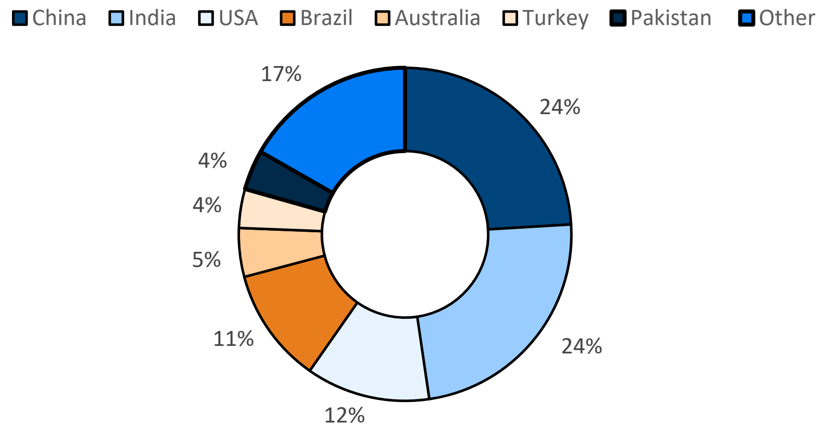
Xinjiang cotton ban: Opportunity for India

Cotton is one of the key raw materials for the Textile and Apparel industry at 30-40% globally. China and India are the largest cotton producers in the world, accounting for ~24% each of global production. 84% of cotton produced in China is produced in the Xinjiang province.

China's Xinjiang accounts for ~20% of global cotton production

US President Joe Biden recently signed a law banning products, including cotton originating from China's Xinjiang Uyghur Autonomous region. Under the Uighur Forced Labour Prevention Act signed by Biden on December 23, 2021, garments from competing countries like Bangladesh, Vietnam and Philippines, would also not be able to enter the US, if they are made using the cotton that is grown in Xinjiang province.

Figure 41: Cotton production in CY22: 84% of the cotton produced in China is from Xinjiang region and has been banned by USA



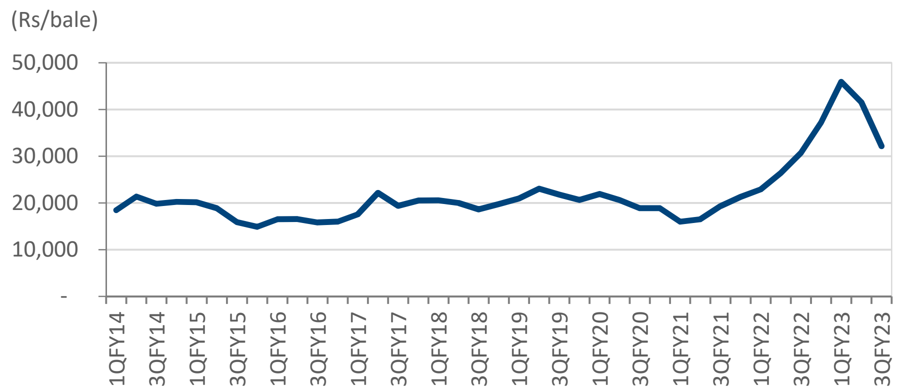
Source: USDA, IIFL Research

PLI scheme to help India capitalise on Xinjiang ban: Xinjiang cotton ban could benefit the Indian Textile industry, but India needs to rapidly develop capacity, both in terms of volume and quality, to get more access for its textile products in the US. In this context, the recently announced PLI scheme will go some way in improving competitiveness.

Demand for Indian cotton has risen following the Xinjiang ban..: India is currently exporting cotton worth US$8bn without any value addition. Demand for Indian cotton has increased after the ban on Xinjiang region cotton. The Xinjiang ban has forced large apparel exporters like Bangladesh, Vietnam, and Cambodia (highly dependent on China for cotton/yarn) to relook their cotton supplies. GEXP believes India's raw cotton exports partly represent a lost opportunity and that the country's exports could double if cotton is converted domestically to finished products. This can improve the competitiveness of Indian Textile players.

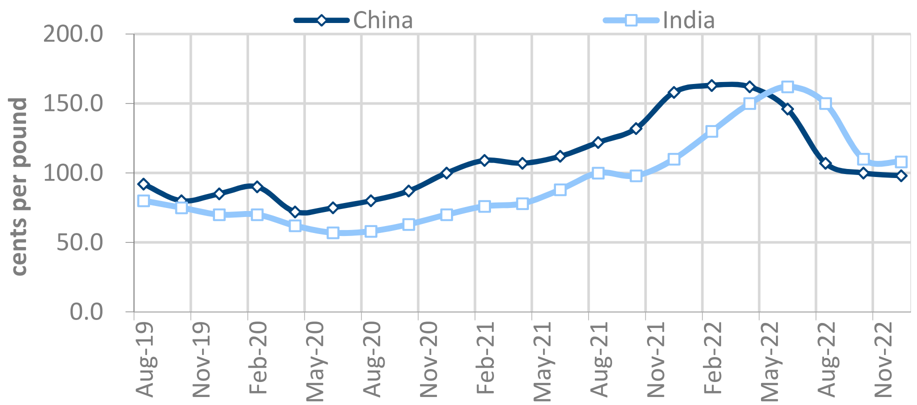
...and this has driven prices up: Cotton prices in China were historically higher than that in India. In the wake of Xinjiang cotton ban, demand for Indian cotton has increased at the expense of that for Chinese cotton. Consequently, Indian cotton prices have crossed Chinese cotton prices. Surge in cotton prices in India was partly due to Chinese vendors importing Indian cotton to fulfil orders.

Figure 42: Cotton prices in India have seen a sharp increase in price, due to increased demand



Source: Bloomberg, IIFL Research

Figure 43: Cotton prices in China and India: Xinjiang ban led to Indian cotton prices trading at a premium to Chinese cotton



Source: USDA, IIFL Research

Xinjiang cotton ban has opened a US$7-8bn opportunity

China accounts for 25% of US apparel imports. The Xinjiang cotton ban has opened up a US$7-8bn opportunity in the US market, for players in India, Pakistan, Bangladesh and Vietnam. India, being the second largest producer of cotton in the world, has a good chance to benefit from this.

Note that there is no ban imposed by the EU on Xinjiang cotton. We would expect China to try to capture higher share of the EU market, mounting a challenge to Indian firms in the same.

That said, a shift of business can happen from China to India, as China's MMF business would be impacted. Also for Indian exporters who works on MMF based products, Chinese players would be unable to import Indian cotton and send it back to India in the form of MMF.

GEXP well-placed for market share gains

As seen in previous sections, India's share in the global Textile and Apparel trade has a number of tailwinds, including China+1, impending conclusion of FTA with key markets, PLI scheme and Xinjiang cotton ban. We now look at GEXP's competitive advantages and how the company is well-placed to capitalise on emerging opportunities.

Supplier consolidation towards efficient, well-capitalised players

Leading apparel brands are increasingly consolidating their supply chain to a few big suppliers. This trend is mainly driven by the brands' engagement with large vertically integrated suppliers. This streamlines end-to-end product journey, ensures meeting higher expectations of quality, and facilitates a smooth transition of their supply chain to meet the ever-increasing ESG standards.

The shift in manufacturing by apparel brands from the Unorganised Textile players to Organized Textile players, will benefit GEXP. Unorganised players are mainly family oriented business, in which the current generation is losing interest.

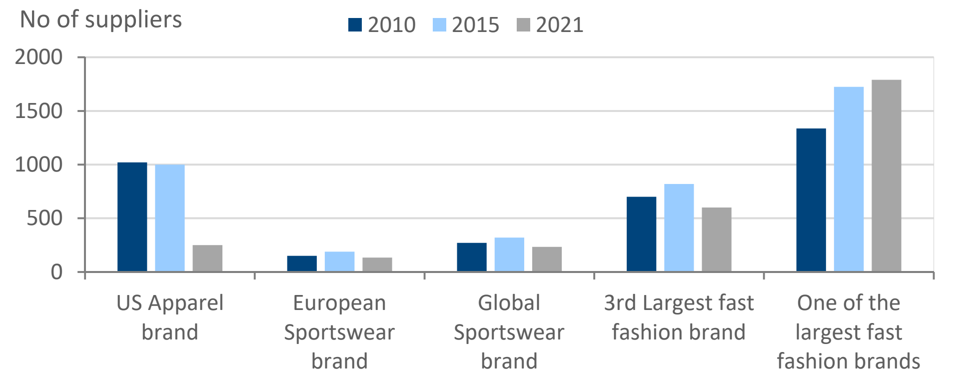
GEXP has significantly outdone Indian Woven Apparel exports: Covid-19 has resulted in suppliers consolidating as smaller, Unorganised players lost share to large, Organised players in the domestic market. Moreover, export market suppliers too consolidated as part of China+1 sourcing strategy, since an increased number of apparel brands are attempting to reduce their sourcing from China, due to geopolitical challenges and related uncertainties.

Figure 44: GEXP has significantly outperformed Woven Apparel export market

	2017	2018	2019	2020	2021	Cagr
Woven apparel exports from India (US$bn)	9.0	8.3	8.7	6.4	7.8	-3.5%
GEXP export revenue (US$mn)	117.2	130.0	145.9	126.7	200.5	14.4%
Implied market share	1.3%	1.6%	1.7%	2.0%	2.6%	

Source: OEC, Company, IIFL Research; For GEXP, the number for 2017 denotes FY18 and so on

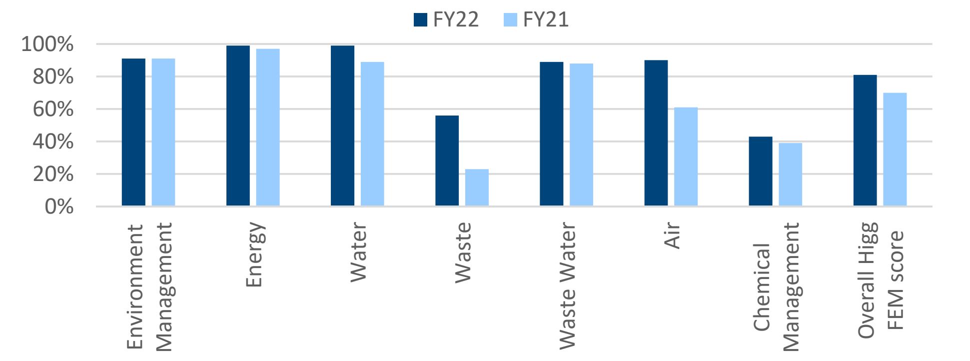
Figure 45: Consolidation of suppliers among top brands globally



Source: Company, IIFL Research

GEXP also scores high on sustainability initiatives: Gokaldas is steadily increasing its Higg FEM score. The Higg Facility Environmental Module (Higg FEM) is a global sustainability assessment tool that standardizes how industrial facilities measure and evaluate their environmental performance, year over year. The Higg FEM is designed to measure and quantify the sustainability impacts of a facility. The company is consistent in achieving better scores across all sustainability parameters.

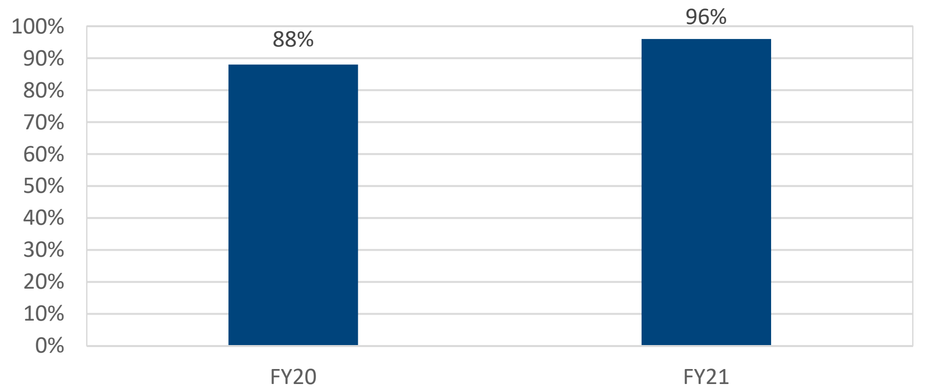
Figure 46:Higg FEM Score: GEXP has seen YoY improvement



Source: Company, IIFL Research

GEXP's Social & Labour Convergence Program (SLCP) score has shown improvement in FY21, as compared to FY20. The SLCP is an initiative designed to streamline auditing of labour standards in apparel and footwear facilities and improve working conditions by using a Converged Assessment Framework (CAF). Conforming to the Social and Labour Convergence Program involves a self-assessment followed by independent verification by SLCP approved verifiers. The company conducts SLCP in all its facilities, to assess working conditions as well as quality of improvement.

Figure 47:SLCP score, FY21 has shown improvement, as compared to FY20



Source: Company, IIFL Research

Improved execution has driven strong customer addition and higher wallet share

Getting the basics right has improved customer retention: For a customer (apparel brand), the reasons to change a vendor could be one or more of the following:

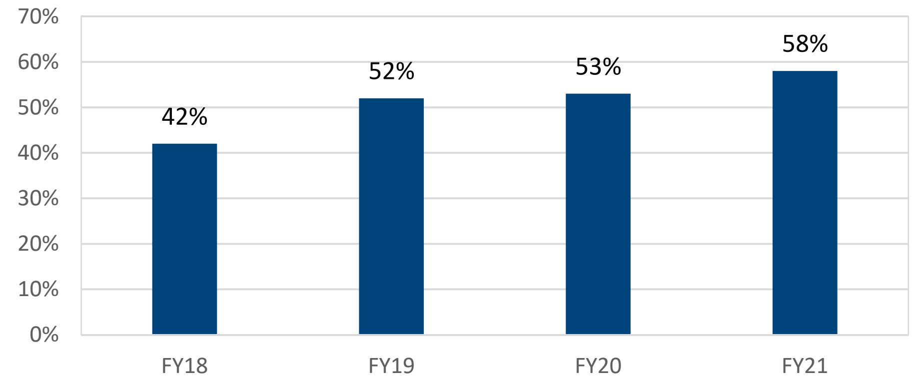
- Higher cost vs other vendors – these are mainly related to material cost and labour cost, which may depend on global demand for cotton and labour laws across states.
- Not meeting the desired quality.
- Lack of compliance around ESG standards.
- Multiple instances of failing to deliver "on-time and in-full".

GEXP has significantly improved on all these counts under the current management; this has enabled garnering a higher customer wallet share.

Better monetisation of long-time customers: GEXP's revenue from long-term customers has seen an increase over the years. In FY22, 43% of its revenue came from customers who have been associated with the company for 10+ years — much higher than 38% in FY21. GEXP has nurtured these long-term relationships by continuously upgrading its skills, technology and processes, to meet the evolving demands of customers.

It takes usually three to five years for GEXP to ramp up a new customer. A new customer usually gives order for a season and increases it gradually, if satisfied with the quality. Opex for GEXP related to a new customer is high at the outset, but comes down gradually.

Figure 48: Wallet share of top three customers has steadily risen

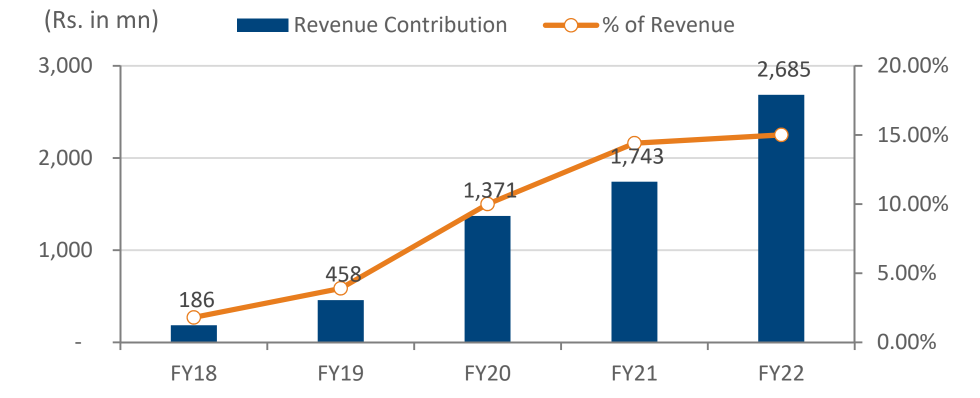


Source: Company, IIFL Research

Customers added in last five years have significantly added to revenue: GEXP have proactively worked towards expanding its customer base. In the last five years, their share of contribution to revenue has steadily risen. As the company continues to add more brands and geography to its list of clientele, it has also focused on delivering superior customer service to all existing clients. During FY22, GEXP was under pressure from the growing demand from all its customers and had to judiciously allocate capacity to ensure all-round customer satisfaction. The company balanced its capacities well, utilised those at its maximum and efficiently executed, shipped well on time to ensure year-round customer satisfaction.

GEXP is expected to onboard more customers in the coming years, once FTA with the UK and EU are signed. China+1 narrative will also benefit GEXP in getting more customers onboard. It is also investing in new plants that will further ramp up capacities to serve more customers.

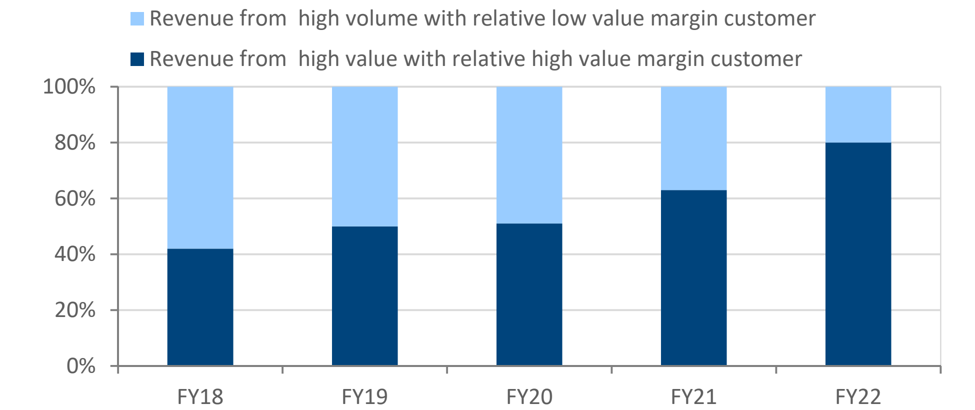
Figure 49: Revenue contribution from customers added in last five years, has expanded steadily



Source: Company, IIFL Research

GEXP has stepped up presence in higher value-added products: GEXP has honed capabilities in producing complex garments, such as jackets, which are mainly used in western countries. The fabric availability (mainly MMF) for these products is less and is mainly imported from China and Vietnam. The biggest entry barrier for new players is the variety of garments that needs to be produced, which arises from different permutations and combinations of colours, sizes and some products being country-specific. This makes shipping products on time and in full quantity, a challenge, benefiting players like GEXP that have superior execution prowess. Even market leader Shahi Exports has a much smaller presence in jackets compared to GEXP.

Figure 50: Over the years, GEXP has witnessed revenue contribution from better value-added products. The company has shifted its focus from volume to profitability in the last two years



Source: Company, IIFL Research

GEXP will also benefit from growing domestic Apparel market

While ~89% of GEXP's revenue comes from exports, the remaining 11% comes from domestic market. The domestic Apparel market grew at 10% Cagr between FY16 and FY20 to reach ~US$60bn. However, it saw a sharp contraction to ~US$40bn in FY21, owing to the pandemic. It has now bounced back to ~US$70bn annualised run-rate.

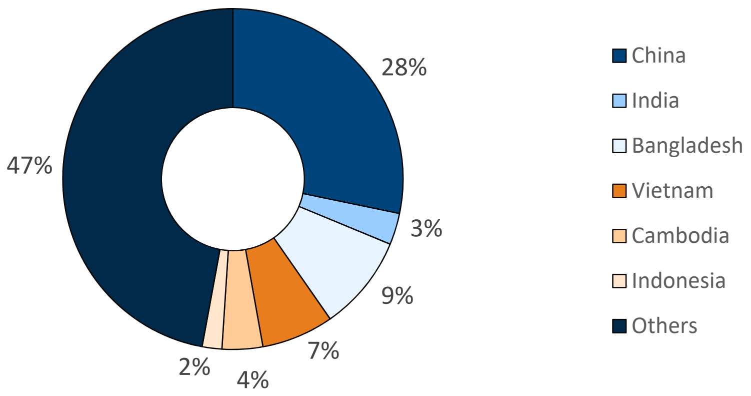
A growing young population: India has one of the world's largest young populations and the median age is estimated at around 28 years — younger than most large countries. This age group is one of the biggest consumer groups of Textiles and Apparel, therefore it is expected to drive consumer spend.

Advent of e-commerce: Online shopping and e-commerce enable the industry to reach a larger base of consumers more effectively, and also facilitate ease of shopping, multiple options, better discounts and easy return policies.

Knits fabric processing potentially doubles GEXP's addressable market

Knits segment is a US$206bn market globally as of CY20 (~50% of apparel trade), and India has mere ~3% market share of US$6.1bn. China is leading the Knits segment with a share of ~28% amounting to US$58bn.

Figure 51: India has a mere 3% share in global Knits market, as of CY20

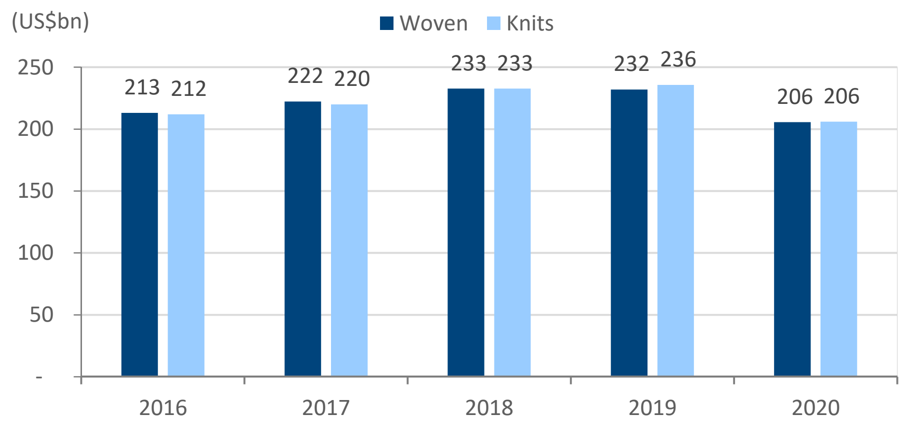


Source: OEC, IIFL Research

Knit market as large as Woven

With a ban on Xinjiang region cotton, demand for Indian cotton has increased, and so has the opportunity for India to foray into the Knits segment. We believe the opportunity in the Knit fabric segment can be significant. India's share is lagging neighbours like China or Bangladesh. GEXP is investing in a fabric manufacturing facility for knitted garments in Tamil Nadu, to tap into this market.

Figure 52: Knits market is as big as Woven



Source: OEC, IIFL Research

GEXP foraying into Knits: Fabrics used in knitted garments are more or less of similar kind; the company feels it can source most of the fabrics for Knitted segment by itself. GEXP intends to buy yarn and convert it into fabric in its new upcoming facility, and this fabric will be used to produce garments in Knitted segments. It will increase value addition for the company. Capex for the new unit is expected to be around ~Rs1bn.

Knits - higher margin, but similar ROCE as Woven: The Ebitda margin for Knits segment is ~15% — higher than that for Woven segment (~10-11%). The new manufacturing facility is expected to augment revenue of knits to Rs5-6bn over the next three years. At the ROCE level, there is not much difference between Knits and Woven segments in the initial years, as higher Ebitda margin of Knits is set-off by higher depreciation in the same, due to its capital-intensive nature.

Cross selling to existing customers: GEXP's better relationship with customers can lead to cross selling of knitted garments to them after the opening of new facility. It can do so on back of lower cost due to in-house fabric manufacturing facility.

Capacity expansion to drive revenue growth

In FY22, GEXP added three new production units — two in Karnataka (Tumkur and Bommanahalli) and one in Tamil Nadu (Krishnagiri). All three units are expected to add about 12% of total production capacity of the company, on reaching full utilisation. Further, the company has also incorporated a wholly-owned subsidiary in UAE to channel overseas investment projects and efficiently service international customers.

Rs3.6bn capex over FY22-24; 4x fixed asset turnover

During FY22, the company initiated work on a new factory in Madhya Pradesh. The company is in process of setting up an apparel manufacturing unit in Madhya Pradesh, a fabric processing unit in Tamil Nadu; and is also working on entering Bangladesh for apparel manufacturing. The company incurred a capital expenditure of Rs840mn in FY22 and plans to invest Rs2.8bn over the next two years to sustain growth.

Bangladesh facility will have multiple advantages: Bangladesh facility is expected to open in 2QCY23 (i.e. 1QFY24). The company is aiming to target EU markets after opening of this facility, as Bangladesh enjoys GSP+ status while exporting to EU. The company will benefit in two ways: 1) Bangladesh has the lowest wage cost in Textile industry (20% lower than India) and the company expects this to result in 4-5 ppt higher Ebitda margin. 2) GEXP will enjoy duty-free access to EU markets.

Capex incurred by GEXP typically translates into 4x sales at full utilisation.

From FY25 onwards, GEXP stated that it would incur maintenance capex of Rs200-250mn. Management is yet to frame its plans for capacity expansion and new facilities, other than those already mentioned.

Figure 53: Capital expenditure for next two years. The company continues to Invest in machinery for expansion and upgrade

	FY22	FY23e	FY24e
New initiatives	120	700	600
New Capacity and new projects	440	700	400
Modernisation and upgrades	280	200	200
Total	**840**	**1,600**	**1,200**

Source: Company, IIFL Research

Upstream expansion may be warranted, once revenue crosses US$500mn: Currently, all fabrics are bought out. However, management stated that more capabilities will be required once revenue reaches US$500mn. This may require expansion into upstream supply chain, which could dilute ratios a little bit.

Figure 54: Key financial metrics from FY07 to FY22: GEXP had a rough patch between FY07 to FY18; after the leadership change, GEXP has been on the mend

(Rsmn)	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Revenue	10,051	10,066	10,958	10,724	11,451	10,243	9,810	11,312	10,902	11,429	9,305	10,318	11,745	13,709	12,107	17,903
YoY growth		0.1%	8.9%	-2.1%	6.8%	-10.6%	-4.2%	15.3%	-3.6%	4.8%	-18.6%	10.9%	13.8%	16.7%	-11.7%	47.9%
Ebitda	899	587	(32)	(217)	(287)	(611)	(452)	477	248	373	(199)	(233)	618	858	1,015	2,055
YoY growth		-34.7%	-105.4%	580.1%	32.3%	113.0%	-26.0%	-205.4%	-48.0%	50.4%	-153.4%	16.9%	-365.3%	38.9%	18.3%	102.5%
Ebitda%	9%	6%	0%	-2%	-3%	-6%	-5%	4%	2%	3%	-2%	-2%	5%	6%	8%	11%
PAT	705	478	34	-18	-900	-1,324	-1,094	-67	347	613	-491	-310	256	304	265	1,171
YoY growth		-32.2%	-92.8%	-153.2%	4840.1%	47.1%	-17.4%	-93.9%	-617.6%	76.8%	-180.1%	-36.9%	-182.5%	18.8%	-12.8%	341.9%
FCF	(946)	(518)	7	392	192	825	(1,010)	193	345	1,000	(174)	(148)	77	207	687	(341)
Net debt	2,530	3,129	3,334	2,942	2,716	1,817	2,862	2,703	2,148	1,019	1,649	3,141	2,370	2,041	1,372	-1,463
Net debt-to-Ebitda	2.82	5.33	(104.47)	(13.56)	(9.46)	(2.97)	(6.33)	5.67	8.66	2.73	(8.28)	(13.48)	3.84	2.38	1.35	(0.71)
ROCE	14%	12%	5%	4%	-7%	-16%	-15%	8%	9%	10%	-1%	1%	10%	7%	9%	19%

Source: Company, IIFL Research

FY07 to FY18: Testing times: In FY07, GEXP saw a change in leadership, with promoter family moving out and Blackstone taking over. In next 10 years until FY18, under the management of Blackstone, the company confronted a changing business environment ushered in by abolition of Multi Fibre Agreement imposed quotas and a growing Apparel business in Bangladesh. GEXP's revenue flatlined between FY08 and FY18 and its Ebitda margin declined from 9% to -2%. It made PAT losses in seven out of these 10 years. The company's ROCE also declined in these years from 14% in FY07 to 1% in FY18. Blackstone steadily reduced investment in the company and in FY17, it finally exited from its decade-long investment by selling stake to another Private Equity firm Clear Wealth Consultancy Services LLP.

In late 2017, GEXP's Board appointed Sivaramakrishnan Ganapathi as Managing Director. Under his leadership, the company witnessed a significant improvement in operational and financial parameters. GEXP saw 15% revenue Cagr between FY18-22, improved Ebitda margin from -2.3% to +11.5%, turned PAT positive and became a net-cash company. It now stands well-positioned to benefit from structural growth drivers for the industry.

In FY21, the revenue was affected due to Covid-19 pandemic. Even with manufacturing days being limited due to the multiple lockdowns, the company achieved its highest-ever Ebitda Rs1.01bn (till FY21) and Ebitda margin of ~8.4%.

In October 2021, the company raised Rs3bn via QIP. As of end-FY22, GEXP has utilised Rs2.52bn towards repayment or prepayment of borrowings, financing working capital requirements in line with the objectives of which funds were raised, as per the placement document. This has led the company to become a net-cash company from a net-debt company.

We estimate 22% EPS Cagr over FY22-25ii

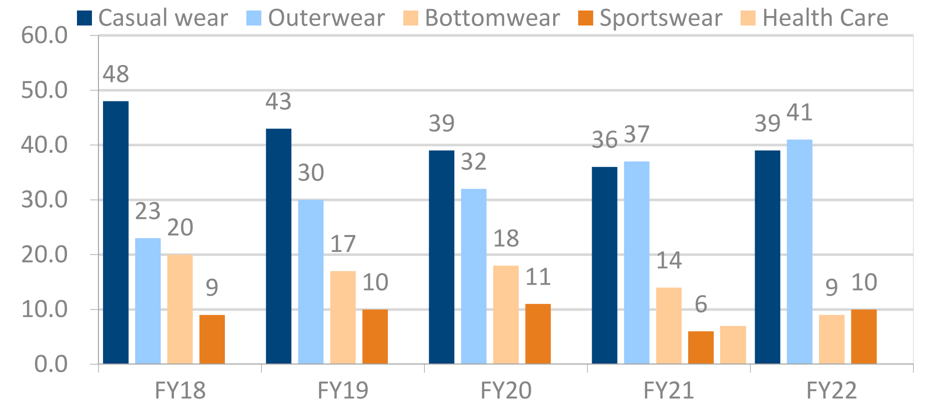
We estimate GEXP's revenue to grow at 22% Cagr over FY22-25ii, driven by new capacity additions and continued market-share gains. Tight cost control and operational improvements should drive 24% Ebitda Cagr. EPS Cagr is likely due to slightly lower at 22% on higher tax rate.

Capacity additions to drive revenue growth

Between FY18 and FY22, GEXP's revenue grew 15% (despite some impact from the pandemic in FY22). Although the units shipped declined at a Cagr of -2% to 22.6mn in FY22, realisation sharply went up as the mix changed favourably towards higher value outerwear.

Outwear drove up realisations between FY18-22: Management mentioned that Outerwear segment has higher Ebitda (in absolute terms) as compared to other product segments. The realisation per piece has increased from Rs421 per piece in FY18 to Rs792 per piece in FY22 at a Cagr of 17%. Management attributed this rise to the increase in share of Outerwear segment from 23% in FY18 to 41% in FY22.

Figure 55: GEXP's mix: Share of Outerwear went up sharply between FY18 and FY22



Source: Company, IIFL Research

We estimate units shipped to rise to ~36.7mn at a Cagr of ~17% through FY25ii, driven by new capacity additions, new order wins and GEXP's continued strong execution. With mix change unlikely to be significant going forward, we build in ~4% Cagr in ASP (most of this due to depreciation of INR vs USD) which yields ~21% revenue growth.

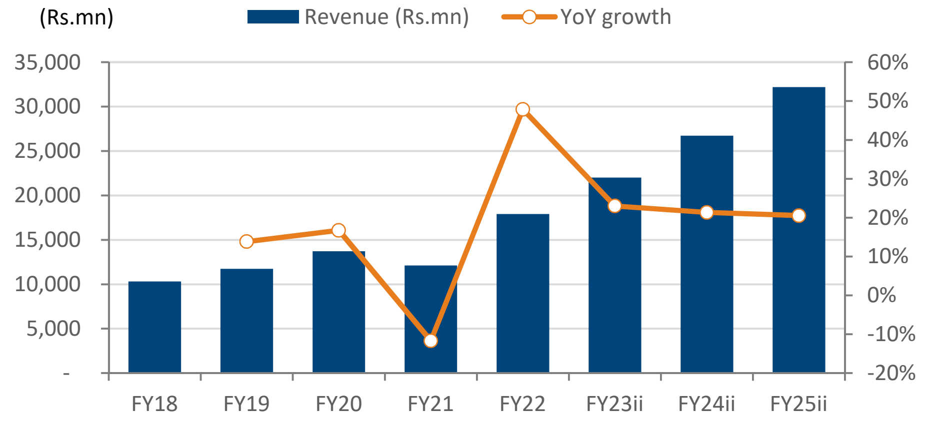
The units shipped have not gone up from FY18 to FY22, but revenue grew at Cagr of ~15%. This is due to GEXP's increased focus on outerwear segment. Outerwear segment takes more time to manufacture than other segments and have higher ASP than all other segments.

Figure 56: Revenue projections: We expect incremental growth to be largely driven by volumes, going forward

	FY18	FY19	FY20	FY21	FY22	FY23ii	FY24ii	FY25ii
Units shipped (mn)	24.50	23.40	24.90	19.20	22.60	26.86	31.49	36.66
YoY growth		-4%	6%	-23%	18%	19%	17%	16%
Unit realisation (Rs)	421	502	551	631	792	820	849	878
YoY growth		19%	10%	15%	26%	4%	4%	4%
Revenue (Rsmn)	10,318	11,745	13,709	12,107	17,903	22,021	26,720	32,200
YoY growth		14%	17%	-12%	48%	23%	21%	21%

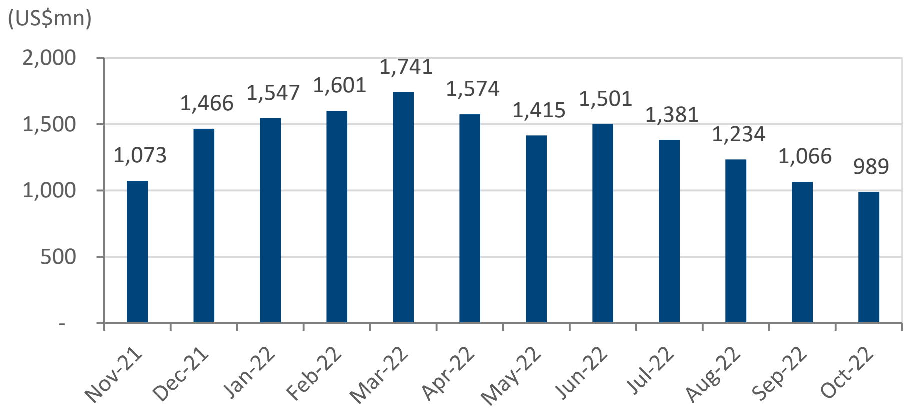
Source: Company, IIFL Research

Figure 57: Revenue expected to grow at a Cagr of ~21% over FY22-25ii



Source: Company, IIFL Research

Figure 58: Indian Textile exports have declined in the 1HFY23



Source :Ministry of Textiles , IIFL Research

Near-term slowdown in global markets: The Textile and Apparel industry is witnessing a few near-term demand headwinds of excess inventory with the retailers, consequent to logistical disruption impacting delivery of goods, and weakening demand amid inflationary pressures.

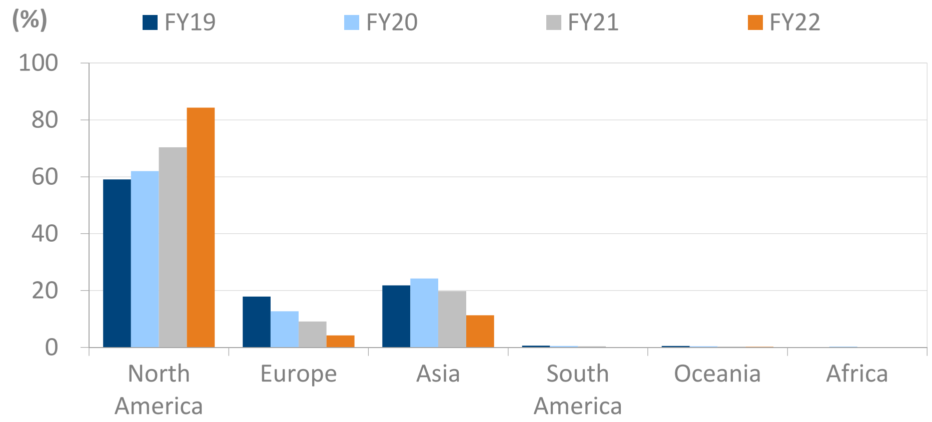
Further, the war between Russia and Ukraine exacerbated existing near-term challenges, especially for the EU region. Roll-back of central bank's quantitative easing and increase in interest rates in pursuit to control rising inflation, may shrink the disposal income impacting consumer's discretionary spending, which may create demand challenges in the near term. However, long-term trends may remain positive for the Indian industry, with renewed interest in office wear and occasional wear across the globe, structural shift from China, and consolidation of suppliers among brands.

Decline in Indian exports is attributable to US inventory level, which has peaked in last six months. Consumers did excess buying after reopening of offices and due to shipping chokepoints. Exports are now normalising.

Inventory of garments has a shelf-life, due to loss of shine and yellowing, most of which is liquidated on discount. Inventory of customers is down from 30% levels to 10% levels. Most inventory was in Knits and hence, has less impact on GEXP. Management expects the inventory issues to be resolved by spring of 2023.

GEXP's two key markets, the US and Europe saw diverging recovery trends. Under the current management's leadership,, the company's focus on US market paid off, as it was not only quick to rebound, but also showed faster recovery, while European markets are yet to reach the pre-pandemic levels.

Figure 59: Revenue contribution from different geographies: Under the current management, GEXP has concentrated more on the US, while EU's share has come down

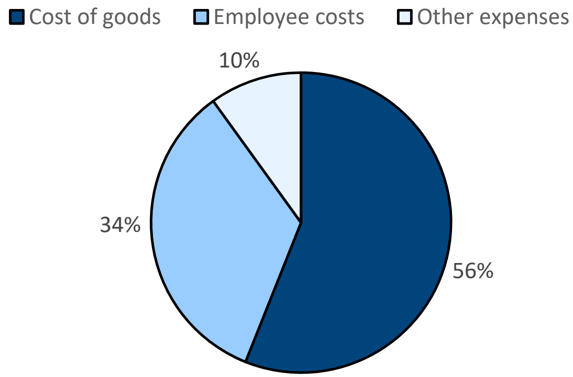


Source : Company, IIFL Research

GEXP gets a level-playing field in North America, against exporters in Bangladesh, Vietnam and China. On the other hand, exporters in Bangladesh and Vietnam enjoy FTA benefit in the EU market. Moreover, Chinese exporters are also stepping up competitive pressure in the EU, especially following the Xinjiang cotton ban imposed by the US.

Raw material and employee costs key opex line items

Figure 60: COGS (raw material cost) and employee cost are the main costs for GEXP, accounting for ~90% of total cost in FY22

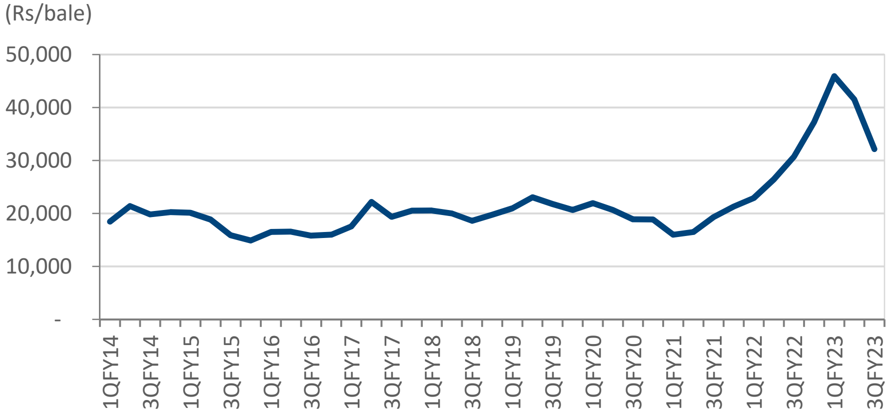


Source: Company, IIFL Research

COGS: Raw material prices spiked recently: Raw material costs have historically ranged between 49-53% of revenue. High raw material prices for both cotton and MMF products, war in Europe, and inflation in key markets were additional headwinds.

Cost of raw material of both cotton and yarn grew manifold this year, but have cooled off a bit in 2QFY23. Shipping logistics stayed disrupted through FY22, raising costs and building an inventory of goods in the supply pipeline. Supply chain disruption increased factor costs, compromising availability and price of raw material. Cotton was also in short supply globally, resulting in an extraordinary price inflation impacting Indian Textile industry.

Figure 61: Cotton prices in India have seen a sharp rise in price, due to increased demand

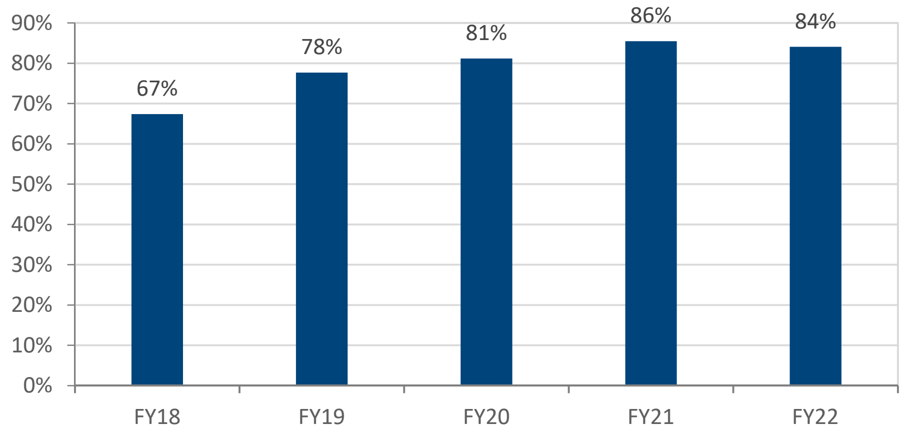


Source: Bloomberg, IIFL Research

Due to Xinjiang cotton ban, exporters from China, Bangladesh, Vietnam and other countries have turned towards India for cotton supply. Indian cotton prices have seen sharp increase from end of FY21.

Increase in inbound efficiency an ongoing process: The inbound supply chain efficiency has improved from 67% in FY18 to 86% in FY21. Supply chain disruptions were rampant in FY22, limiting further improvement. Improving supply chain efficiency can reduce COGS, given that the company can identify and reduce inefficiencies in the workflow, streamline ordering process, utilise space efficiently etc.

Figure 62: Inbound supply chain efficiency has improved significantly under the current management; on-time sourcing of raw material from suppliers is critical to ensure on-time delivery of finished goods

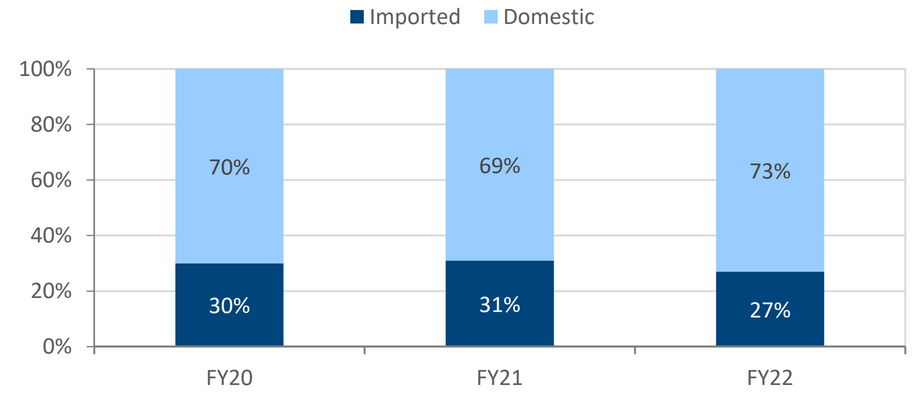


Source: Company, IIFL Research

Change in procurement mix towards domestic sources can also boost margin: GEXP promotes local sourcing of raw materials, which involves less use of transportation, resulting in lower inbound freight cost and cheaper raw materials cost. The company has been shifting from procuring raw material from outside India, to procuring raw materials from India, as cheaper substitutes are available in Indian market. Imports as % of raw material costs have fallen from 30% in FY20 to 27% in FY22.

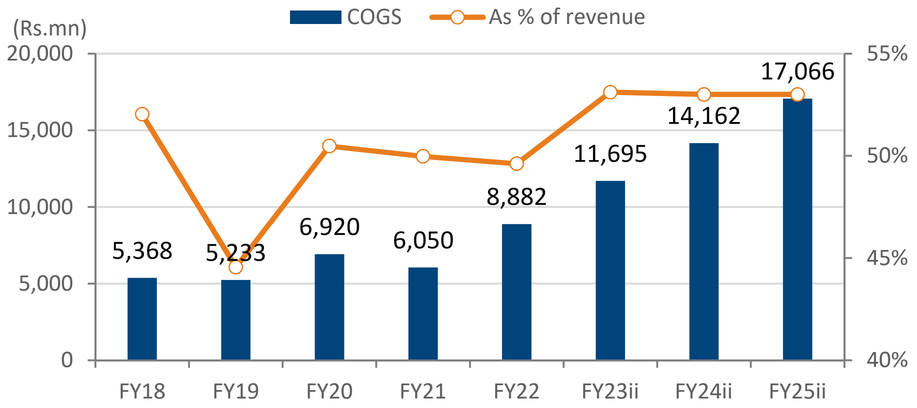
Sourcing more material from local markets can reduce COGS for GEXP and drive margin expansion.

Figure 63: Increased focus on domestic sourcing allows the company to be more cost effective in material consumption



Source: Bloomberg, IIFL Research

Figure 64: We expect GEXP to maintain COGS at ~53% of revenue over next three years

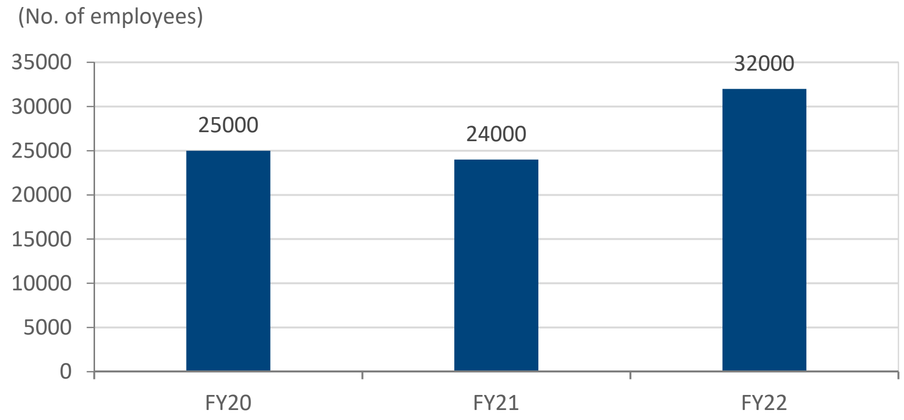


Source: Company, IIFL Research

We build in flattish gross margin; efficiency gains in in-bound sourcing and higher procurement from local sources, could potentially lead to gross margin upside.

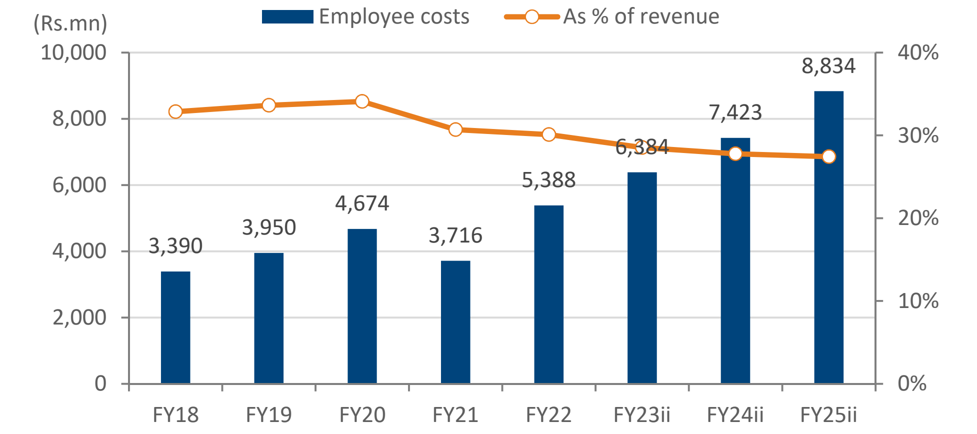
Employee Costs: Wage hike expected in FY24: Being a labour-intensive business, GEXP has a workforce of ~32,000 people, of whom a vast majority are women. Number of employees over the years has increased. All employees are on its payroll and statutory dues (PF, ESIC) have to be paid to the government.

Figure 65: Employee count has gone up, as GEXP operates in a labour-intensive business, FY21 saw a dip due to Covid-19 pandemic.



Source: Company, IIFL Research

Figure 66: Employee cost is ~30% of revenue in FY22, and is expected to be near 28-29% for coming years. Employee cost saw a dip in FY21 due to Covid-19. As GEXP is focusing on increasing capacity, employee cost is expected to rise



Source: Company, IIFL Research

High attrition an advantage, as also a disadvantage: Management mentioned the industry attrition rate is 10-11% per month. For GEXP, attrition rate is 7-8% per month. This is an advantage as well as a disadvantage for the company.

The advantage is that GEXP can moderate employee capacity as and when required, thus managing its employee cost efficiently and improving flexibility in managing workforce. Disadvantage is that recruitment happens continuously, for which the new employees need to be trained, educated about their roles and it takes time for new employees to ramp up to desired productivity levels.

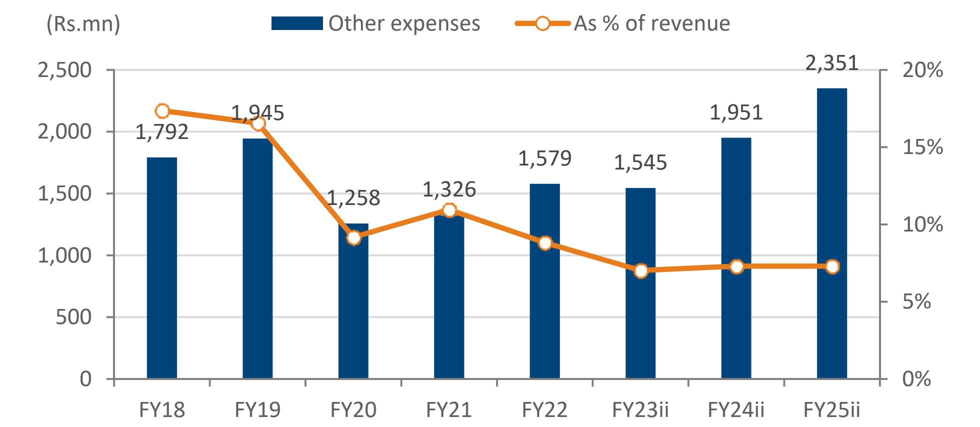
ESOP – Rs240mn annual P&L impact: ESOP 2022 increases the employee benefit expenses by Rs240mn for the next three years. The company has already taken a hit of Rs120mn in 1HFY23.

Minimum Wage hike around the corner: 5-6% annual wage hike is linked to inflation. Minimum wage is also revised by State government every five years. Next rate revision is expected to happen in April 2024. Normal rate revision is 9-10% in every five years, but it may be worse in 2024 — the latter being an election year.

Incentives in MP may not move the margin needle much: The MP government provides employment generation assistance of Rs5,000 per employee per month for a maximum period of five years for new employees, from the date of commercial production applicable for 10 years. GEXP will be entitled to this benefit. However, with MP facility accounting for a small proportion of overall revenue, Ebitda margin expansion on account of this will be minuscule.

Other expenses falling due to improved execution: Other expenses have decreased from Rs1.79bn in FY18 to Rs1.57bn in FY22. Other expenses were ~17% of revenue in FY18 and have declined to ~9% of revenue in FY22. As per management, this reduction was possible due to various wastage reduction techniques to increase the company's efficiency.

Figure 67: Other expenses, as a percentage of revenue, have reduced from 17% in FY18 to 9% in FY22. We expect Other expenses to be ~7% of revenue for coming years



Source: Company, IIFL Research

Other expenses also benefitted from depreciating INR. As only 65% of net foreign transactions are hedged, a depreciating INR against dollar is a positive for GEXP.

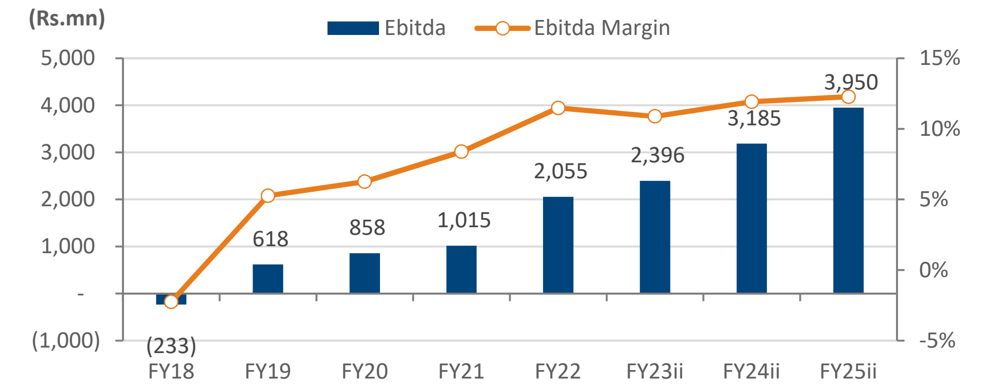
We expect other expenses to remain around ~7% of revenue over the next three years.

12.5% Ebitda margin targeted in FY25

Ebitda improved from a loss of Rs233mn in FY18 to Rs2.05bn in FY22, with the margin improving from -3% in FY18 to ~11% in FY22.

GEXP is currently operating at 11% Ebitda margin and targets 150bps margin expansion in the next three years (notwithstanding a slight moderation in FY23) after absorbing Rs240mn ESOP hit every year.

Figure 68: Ebitda of Rs2.06bn in FY22 is expected to increase to Rs3.95bn in FY25ii



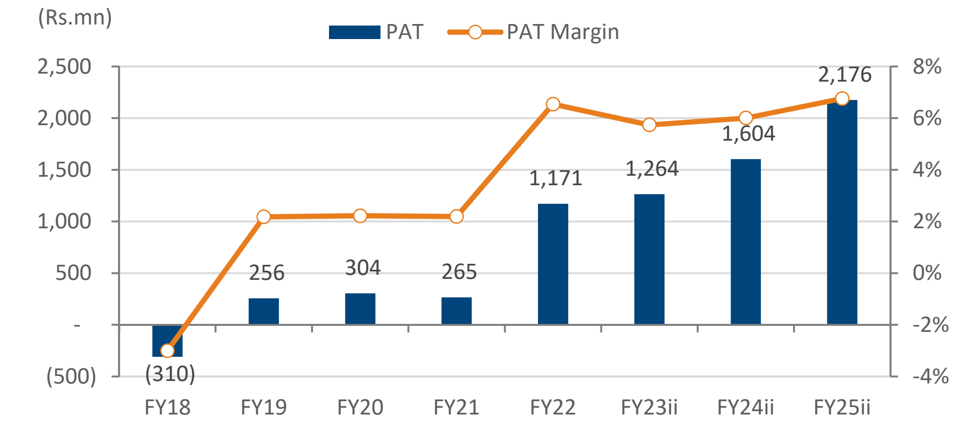
Source: Company, IIFL Research

Tax rate to rise as GEXP exhausted accumulated losses

GEXP's brought forward losses got exhausted in FY22, and the company paid Income Tax of Rs134mn in FY22. The company has opted for Section 115BAB of Income-tax Act, 1961.

As per this section, any new facility which is added by GEXP under a new subsidiary company will be taxed at 15% plus a surcharge of 10% and health and education cess of 4% — bringing total tax rate for the new company to 17.16%.GEXP's effective tax rate is expected to be ~22.75%.

Figure 69: GEXP: We expect 23% PAT Cagr over FY22-25ii



Source: Company, IIFL Research

Working Capital: Improvement in past, now steady

GEXP's WC cycle has improved from 102 days in FY18 to 73 days in FY22. Improvement in WC is attributable to better management of inventory, receivables and payables. However, further improvement in WC cycle is unlikely.

Figure 70: WC Cycle have improved from 102 days in FY18 to 73 days in FY22. Going forward, management expects WC cycle to be steady

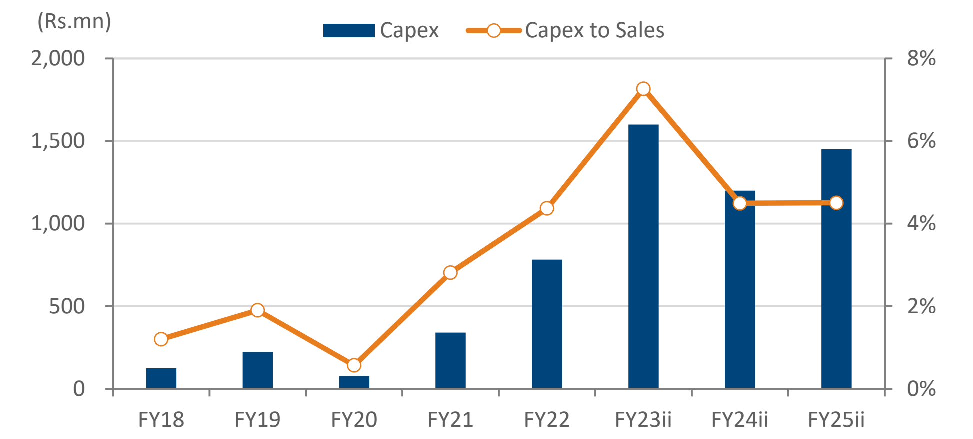
	FY18	FY19	FY20	FY21	FY22	FY23ii	FY24ii	FY25ii
Debtor days	77	50	38	54	19	30	30	30
Inventory Days	62	80	76	78	88	72	72	72
Payables days	35	27	30	34	24	25	25	25
Loans and advances days	3	7	2	4	3	3	3	3
OCA days	28	22	20	16	25	25	25	25
OCL days	32	35	36	30	38	40	40	40
WC Cycle	102	98	69	89	73	65	65	65

Source: Company, IIFL Research

Rs3.6bn capex over FY22-24

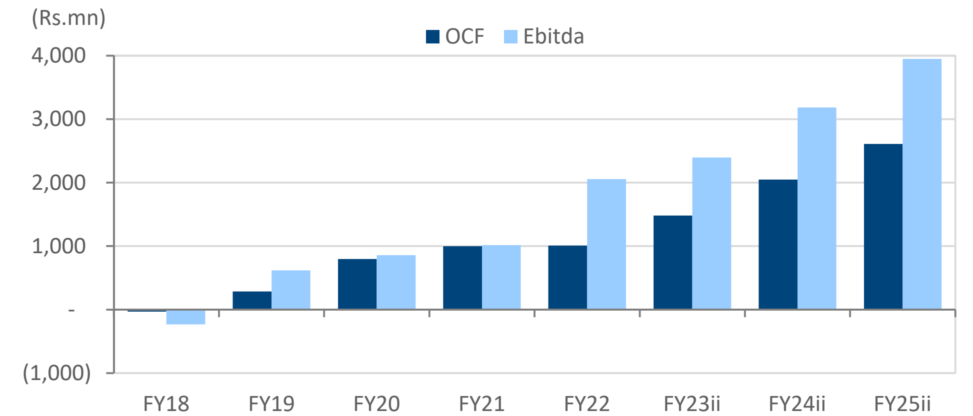
As mentioned earlier, GEXP targets Rs3.6bn capex over FY22-24 as it augments capacity.

Figure 71: Capex projection



Source: Company, IIFL Research

Figure 72: OCF-to-Ebitda ratio has been ~60%; we expect this to improve to ~66%



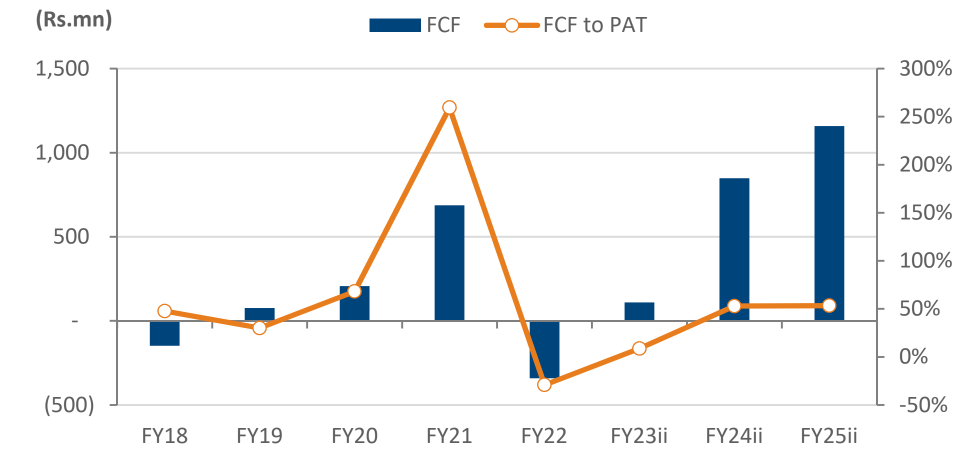
Source: Company, IIFL Research

Net-cash company with healthy return ratios

GEXP is a net-cash company with Rs2.09bn cash and cash equivalents and debt of Rs29mn as of end-FY22. It has been a net-cash company since FY22. In October 2021, the company raised Rs3bn via QIP.

FCF generation has improved from negative Rs32mn in FY18 to Rs687mn in FY21. FCF was negative in FY22 due to high capex. Going forward, we expect FCF generation to be healthy.

Figure 73: FCF generation should improve, going ahead, on improved profitability, better WC and higher margins



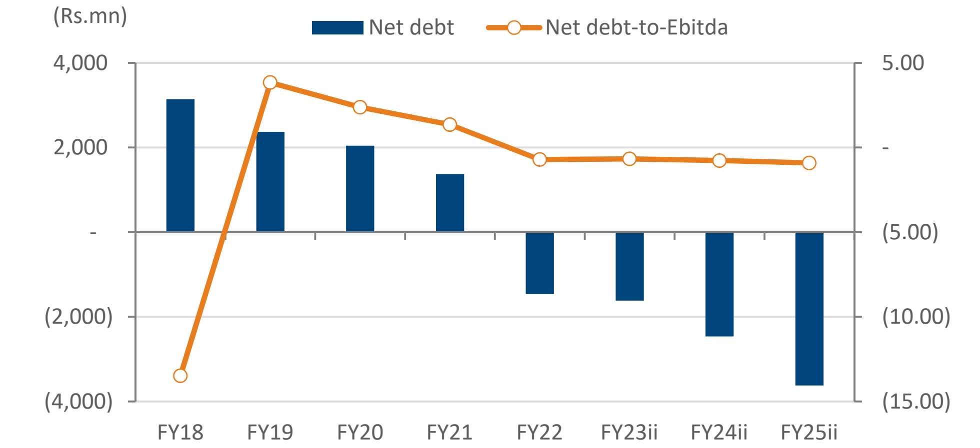
Source: Company, IIFL Research

Figure 74: Elements of DuPont Analysis

	FY18	FY19	FY20	FY21	FY22	FY23ii	FY24ii	FY25ii
Asset Turnover	1.83	1.91	2.15	1.73	2.20	2.44	2.67	2.71
Ebit margin	-4%	4%	2%	4%	8%	7%	8%	9%
Interest Burden	0.76	0.74	0.34	0.54	0.80	0.93	0.93	0.97
Financial Leverage	3.70	3.32	2.73	2.71	1.63	1.20	1.15	1.12
Tax burden	1.03	1.02	1.00	1.00	1.00	0.79	0.77	0.77
ROE	-20%	17%	4%	10%	23%	16%	18%	21%

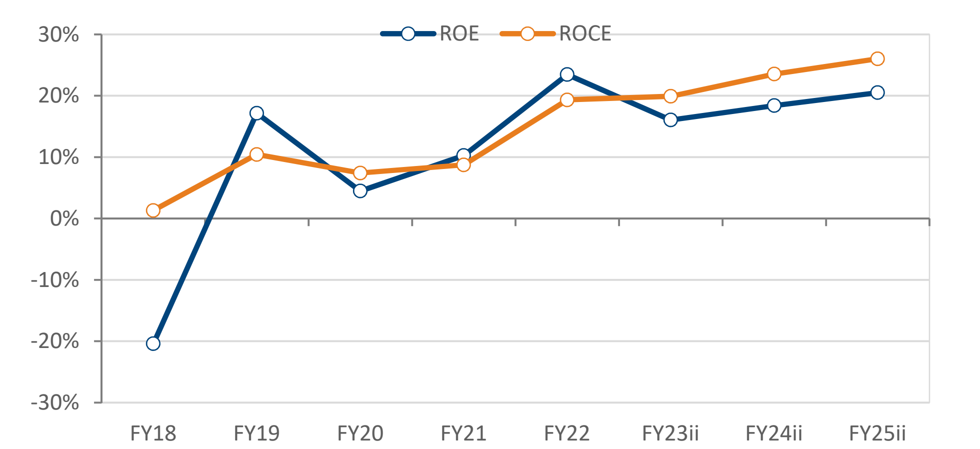
Source: Company, IIFL Research

Figure 75: GEXP is a net-cash company, as of end-FY22



Source: Company, IIFL Research

Figure 76: GEXP's return ratios have improved after the change in leadership. ROE has improved from negative 20% in FY18 to 20% in FY22. ROCE has improved from 1% in FY18 to 19% in FY22



Source: Company, IIFL Research

Figure 77: Consolidated P&L

Rsmn	FY18	FY19	FY20	FY21	FY22	FY23ii	FY24ii	FY25ii
Revenue	**10,318**	**11,745**	**13,709**	**12,107**	**17,903**	**22,021**	**26,720**	**32,200**
Growth YoY %	**11%**	**14%**	**17%**	**-12%**	**48%**	**23%**	**21%**	**21%**
Cost of goods sold	5,368	5,233	6,920	6,050	8,882	11,695	14,162	17,066
As % of revenue	52%	45%	50%	50%	50%	53%	53%	53%
Employee costs	3,390	3,950	4,674	3,716	5,388	6,384	7,423	8,834
As % of revenue	33%	34%	34%	31%	30%	29%	28%	27%
Other expenses	1,792	1,945	1,258	1,326	1,579	1,545	1,951	2,351
As % of revenue	17%	17%	9%	11%	9%	7%	7%	7%
Total Cost	10,551	11,127	12,851	11,092	15,848	19,625	23,535	28,250
Ebitda	**(233)**	**618**	**858**	**1,015**	**2,055**	**2,396**	**3,185**	**3,950**
Ebitda %	**-2%**	**5%**	**6%**	**8%**	**11%**	**11%**	**12%**	**12%**
Depreciation	165	192	548	526	589	749	959	1,033
Ebit	(398)	426	310	489	1,465	1,647	2,226	2,916
Ebit %	-4%	4%	2%	4%	8%	7%	8%	9%
Finance Charges	375	329	368	345	402	262	280	280
Other income	471	154	362	122	107	207	131	181
Profit before Tax	(301)	251	304	266	1,170	1,592	2,076	2,817
Tax expenses	9	-5	0	1	-1	328	472	641
Tax rate	-3%	-2%	0%	0%	0%	21%	23%	23%
PAT	**(310)**	**256**	**304**	**265**	**1,171**	**1,264**	**1,604**	**2,176**
Exceptional gains/(losses) net of tax	-	63	(199)	-	-	(61)	-	-
Pre-exceptional PAT	**(310)**	**318**	**104**	**265**	**1,171**	**1,203**	**1,604**	**2,176**
# shares (m)	35	43	43	43	59	61	61	61
EPS (Rs.)	(8.9)	7.4	2.4	6.2	19.8	19.9	26.5	35.9

Source: Company, IIFL Research

Initiate with BUY and Rs537 TP

Since GEXP made PAT losses for many years until FY19 and had limited analyst coverage until recently, we do not have 1YF PE and EV/Ebitda for a meaningful historical period. We note that 1YF PE at 14.7x is below its historical average. This is despite 18% EPS Cagr over FY22-24ii and 22% over FY22-25ii. The average 1YF PE of peers is 18.5x and 9% EPS Cagr over FY22-24ii. Thus, GEXP trades at a discount, despite a superior growth profile. GEXP's ROE of 23.5% is similar to peers, while its ROCE of 19% is better than peers' average of 18%.

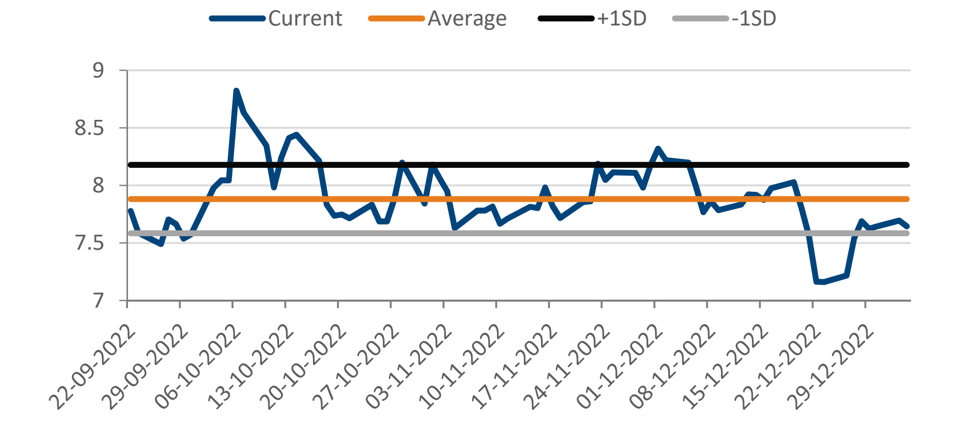
Our Dec'23 TP for GEXP is Rs537 based on 16x target PE, which yields 48% total return. With growth capex likely to sustain, GEXP may not pay dividends in the near future. We initiate coverage with BUY.

Figure 78: Our Dec'23 TP of Rs537, based on 16x target PE

Item	Value
Target PER	16.0
2YF PAT(Rsmn)	2,034
Mcap (Rsmn)	32,536
#shares (mn)	61
TP (Rs)	**537**
CMP (Rs)	363
Upside	48.1%
Dividend per share (Rs)	0.0
Total Return	48.1%

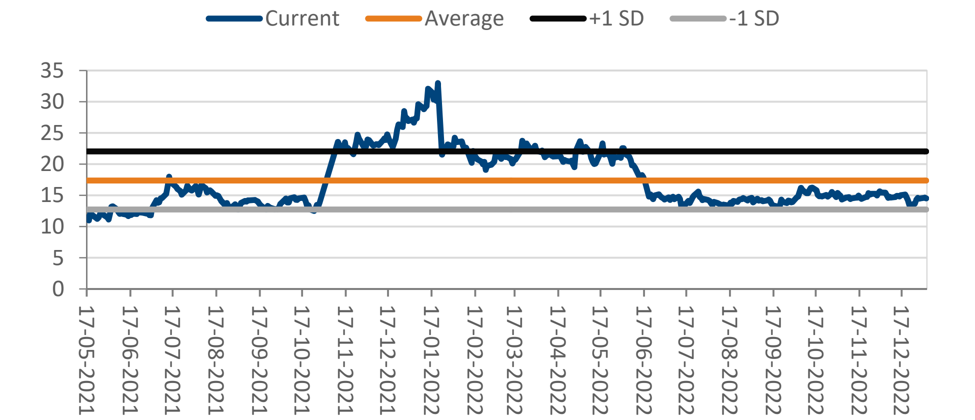
Source: IIFL Research

Figure 79: GEXP 1YF EV/Ebitda



Source: Bloomberg, IIFL Research

Figure 80: GEXP 1YF PE



Source: Bloomberg, IIFL Research

Figure 81: Peer valuation matrix

Company	BBG Ticker	M-cap (US$mn)	FY22-24 Cagr (%)			EV/Ebitda (x)		PER (x)		PBV (x)		FY20-22 Cagr (%)			FY22		
			Revenue	Ebitda	EPS	FY23	FY24	FY23	FY24	FY23	FY24	Revenue	Ebitda	EPS	Ebitda margin (%)	ROE (%)	ROCE (%)
Gokaldas Export*	GEXP IN Equity	267	22.2	24.5	15.5	8.6	6.2	18.4	13.8	2.8	2.3	14.3	54.7	185.2	11.5	23.5	19.3
KPR Mill	KPR IN Equity	2,182	17.0	10.2	9.7	12.5	10.7	20.6	17.9	3.9	NM	20.8	40.0	52.1	26.1	30.4	21.2
Welspun India	WLSI IN Equity	871	6.4	1.6	(1.4)	6.7	5.7	35.3	12.3	1.5	1.3	17.7	5.9	9.5	16.3	15.8	9.2
Vardhman Textiles	VTEX IN Equity	1,088	6.3	(6.3)	(60.0)	4.5	4.0	8.1	7.1	0.9	NM	18.1	55.7	265.4	24.2	21.8	15.1
Indo Count	ICNT IN Equity	320	19.1	16.9	(0.6)	5.8	5.4	9.5	7.4	1.2	1.0	12.0	53.9	120.4	16.6	25.0	11.9
Arvind Ltd	ARVND IN Equity	280	13.7	22.4	33.6	3.9	4.2	6.9	5.4	0.6	0.6	3.6	2.2	57.4	9.5	8.4	5.8
Trident	TRID IN Equity	2,076	4.4	(5.0)	(8.4)	13.3	NM	55.9	24.0	3.5	NM	21.7	34.0	56.5	21.3	23.2	16.0
PDS	PDSL IN Equity	545	22.8	32.6	7.4	8.3	NM	19.5	15.6	NM	NM	15.4	30.4	132.3	3.7	32.7	15.9
Garware Technical Textiles	GTFL IN Equity	760	13.9	21.6	22.8	18.8	16.1	34.2	25.5	5.3	4.6	11.7	12.6	11.6	18.8	18.5	15.1
Dollar Industries	DOLLAR IN Equity	286	(3.5)	(2.4)	8.5	12.4	15.6	17.8	13.6	2.5	NM	18.3	45.0	60.0	16.6	24.4	19.4
Page Industries	PAG IN Equity	5,606	24.2	28.9	30.1	35.3	29.8	61.8	50.8	25.2	18.9	15.9	21.5	25.0	20.2	54.4	49.4
Siyaram Silks	SIYA IN Equity	292	12.1	9.9	9.8	6.5	-	10.7	9.2	1.9	NM	5.9	40.0	76.7	17.5	25.4	19.6
Raymond	RW IN Equity	1,158	19.0	36.0	60.7	8.3	7.8	17.2	14.2	2.6	2.1	(2.4)	16.5	11.5	11.5	11.7	9.1
Lux Industries	LUX IN Equity	584	12.8	(0.4)	(2.5)	10.9	8.9	24.2	14.9	2.9	2.5	17.0	32.8	38.3	20.8	29.3	24.3
Average						**11.1**	**14.3**	**24.3**	**16.5**	**5.5**	**4.2**						

Source: Bloomberg, IIFL Research
*indicates IIFL estimates, the remaining are Bloomberg estimates

Risks

Changes in government policies: The Government of India has provided production and export-related incentives to the Textile sector such as RoSCTL, EPCG, Advance authorisation scheme, duty drawback credit, etc. These incentives could be modified or removed at any time, which could adversely affect GEXP.

FTA delay benefitting other countries: FTA with UK and EU hasn't been signed yet. Though FTA with UK is expected to be signed in early FY24, the risk of delay persists. Majority of the Asian countries have free trade agreements with the large consumer markets of EU, which makes them more competitive than India for exports to EU.

Significant portion of revenue dependent on limited customers: GEXP depends on a limited number of customers for a significant portion of its export revenues. Loss of one or more customers may result in a reduction in production and sales, and may adversely affect its business and financial position. To mitigate this risk, the company maintains customer relationship, delivery of quality products, and timely dispatch of goods.

Raw materials availability: GEXP depends on timely receipt of its supply of raw materials from overseas markets. Any delay in receiving raw materials could adversely impact the delivery timeline.

Dependence on key management: 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 potentially impact GEXP's business.

Geographical risk in production: Out of GEXP's 20 plants, 18 plants are situated in Karnataka, 1 in Tamil Nadu and 1 in Andhra Pradesh. If any unrest happens in Karnataka, this could potentially impact GEXP's operations. It could incur financial losses and shutdowns, impact normal working, margins and plans. To mitigate this risk, the company is moving its operations to other states, and is also opening a new manufacturing facility in Madhya Pradesh.

Labour unrest: Labour strikes can potentially impact the company's operation, as GEXP operates in a labour-intensive industry. Wages also depend on Labour Law, amended by State government, giving no control on wage hikes to GEXP.

Fast-changing nature of industry: With rapidly changing fashion and consumer preferences, if the company is unable to respond to such changing trends, it may adversely affect the business. The Apparel manufacturing market is highly dynamic and success is dependent on anticipating consumer preferences or industry changes.

Increase in factor cost: Fabric is the largest component of GEXP's input costs, and any increase in input costs such as cotton, yarn, or fabric price, or rising wage costs and inflation — could cause a decline in the company's profitability. To mitigate this risk, the company prepares and makes adequate plans well ahead of the event so as to reduce the impact of such risks.

Geographical risk in sales: Client concentration is highest in USA, which accounts for ~85% of the company's revenue. If recession hits US, it could potentially impact GEXP's revenue.

Inventory risk: Inventory risk of the finished products lies with customers and not with GEXP. If any extra finished products are produced, the company can sell it after a waiting period of 1-2 years, depending on the contract with customers. Outbound freight cost is borne by the customer, while inbound freight cost is taken care of by the company. Inbound freight cost is ultimately charged to the customer, while making quotation for a product.

Forex risk: GEXP derives a significant portion of its revenue in USD, Euro and hence, is exposed to risks associated with fluctuations in foreign exchange rates. It is also dependent on imported raw material, which exposes it to international currency risks. Although the company takes adequate measures in hedging the current fluctuation risk to moderately mitigating risks, adverse movement in exchange-rate fluctuation risks may have a material effect on the profitability condition. To mitigate this risk, the company has hedged ~65% of its net foreign currency transactions.

Annexure 1: List of GEXP's plants

Figure 82: Gokaldas operated 19 plants as of FY22

Sr. No	Particulars
1	Carnival Clothing Co. No.2/A-1,Chikkaveeranna Road Cross, Bannimantap Etn, Mysore – 570015, Karnataka
2	Euro Clothing Co - I No.122/1, Doddabidarakallu Village, Yeshwanthpur Hobli, Bangalore North Taluk, Bengaluru 560073. Karnataka
3	Global Garments Near Ring Road, Gubbi Gate Tumkur - 572 101, Karnataka
4	Global Garments-III No.44, 3rd Cross, Industrial Suburb, Yeshwanthpur, Bengaluru -560 022. Karnataka
5	Gokaldas India No.21C & 21B, Survey No.34,35,36 & 37, Nallakadaranahalli, Peenya II Stage, Industrial Area, Peenya, Bengaluru -560 058. Karnataka
6	Hinduja Processing & Finishing Unit No.2, 5th Cross, Mysore Road, Bengaluru -560 023. Karnataka
7	International Clothing Company – I #B2, B3 & B4, Indl Estate, Madanapalli -517 325. Chittoor District, Andhra Pradesh
8	Indigo Blues Plot No-2, KIADB Industrial Area, Doddaballapur - 581 203. Karnataka
9	J.D.Clothing Company No.9, Rajajinagar Industrial Estate, Bengaluru -560 010. Karnataka
10	Sri Krishna Industries No.25/26, 3rd Main Road, Industrial Suburb, Yeshwanthpur, Bengaluru -560 022. Karnataka
11	Triangle Apparels – VI # 25/26,3rd Main Road, Industrial Suburb, Yeshwanthpur, Bengaluru – 560 022, Karnataka
12	Venkateshwara Clothing Company No.10, KHB, Colony Industrial Area, Yelahanka, Bengaluru – 560 064, Karnataka
13	Wearcraft Apparels – I No.17/1-38/4-1, Industrial Suburb, Yeshwanthpur, Bengaluru -560 022, Karnataka

Contd

Sr. No	Particulars
14	The Wearwel I (Unit of SNS Clothing Pvt Ltd) Industrial Estate N.H-206,Hindiskere Gate, Tiptur-572 201, Karnataka
15	Gokaldas Exports Ltd – Unit I (Hassan) Plot No.119, KIADB Growth Centre, SH – 57, Hassan – 573 201, Karnataka
16	Atlantic Apparels Plot No.28D & 28E, Belavadi Industrial Area, Mysore-570 018, Karnataka
17	Gokaldas Exports Ltd -Unit 3 Plot No. 1 and 2, Sathyamangalam Industrial Area, NH4, Tumakuru Karnataka-572103
18	Gokaldas Exports Ltd- Unit 4 No.23/2, Khata No.157/152/121, Yellukunte Old Mangammanapalaya Road Bommanahalli, Bengaluru Urban, Karnataka- 560068
19	Gokaldas Exports Ltd- Unit 5 No.182/4, 182/5, 183/1, 183/2K, Thippanapalli Post, Billana Kuppam Panchayath, Vepanapalli Main Road, Krishnagiri - 635 115, Tamil Nadu

Source: Company, IIFL Research

Annexure 2: Shahi's financials

Figure 83: Shahi's Consolidated P&L

Rsmn	FY17	FY18	FY19	FY20
Net revenue	56,342	59,466	65,593	69,498
Growth YoY %		6%	10%	6%
Cost of goods	21,462	24,767	26,841	30,143
As % of revenue	38%	42%	41%	43%
Employee costs	17,619	17,841	19,050	21,040
As % of revenue	31%	30%	29%	30%
Other expenses	10,700	11,508	11,645	11,020
As % of revenue	19%	19%	18%	16%
Total Cost	49,782	54,116	57,535	62,202
Ebitda	**6,560**	**5,351**	**8,058**	**7,296**
Ebitda %	12%	9%	12%	10%
Depreciation	1,438	1,379	2,461	2,986
Ebit	**5,122**	**3,971**	**5,596**	**4,310**
Ebit %	9%	7%	9%	6%
Finance Charges	360	369	742	931
Other income	1,960	1,394	551	2,245
Profit before Tax	**6,722**	**4,997**	**5,405**	**5,623**
Tax expenses	1,855	1,229	1,653	785
Tax rate	28%	25%	31%	14%
Reported PAT	**4,867**	**3,768**	**3,752**	**4,838**

Source: Shahi Financials, IIFL Research

Figure 84: Shahi's balance sheet extract

Rs.mn	FY17	FY18	FY19	FY20
Cash & Cash Equivalents	3,790	4,662	4,020	6,358
Gross Debt	2,924	9,484	12,474	10,814
Net Debt/ (Cash)	(866)	4,822	8,454	4,456
Total Current Assets	20,689	27,449	28,576	31,437
Total Non-Current Assets	11,259	16,643	22,028	21,701
Total Assets	31,948	44,092	50,604	53,138
Total Equity	17,308	21,048	24,566	29,095

Source: Shahi Financials, IIFL Research

Figure 85:Shahi's Cash flow extract

Rsmn	FY17	FY18	FY19	FY20
OCF before interest	2,915	2,610	4,930	6,967
Interest expense	(360)	(369)	(742)	(931)
OCF after interest	2,554	2,241	4,187	6,036
Capex	1,066	7,541	8,164	2,596
FCF	3,620	9,781	12,352	8,632

Source: Shahi Financials, IIFL Research

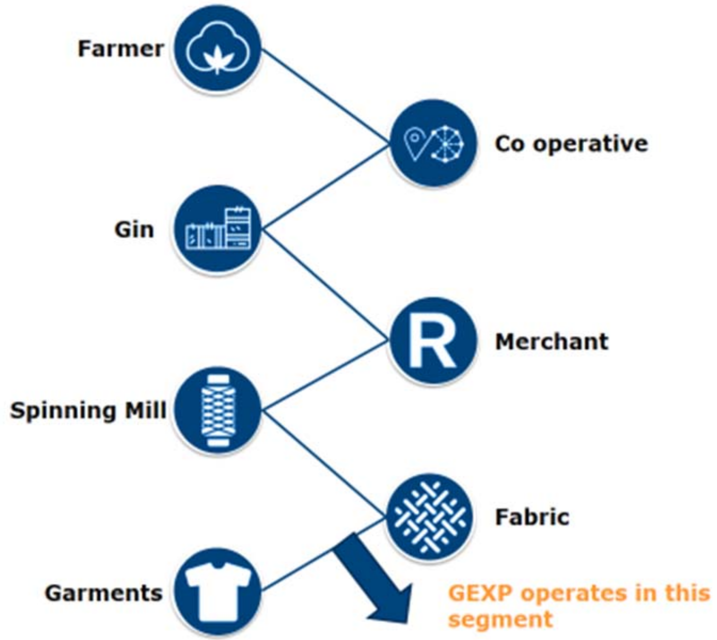
Figure 86:Shahi's Financial ratios

	FY17	FY18	FY19	FY20
Gross Margin	31%	28%	30%	26%
PAT Margin	9%	6%	6%	7%
ROE	28%	20%	16%	18%

Source: Shahi Financials, IIFL Research

Annexure 3: Value chain for Textile industry

Figure 87: Value chain for Textile industry



Source: IIFL Research

GEXP deals with fabric suppliers: Fabric supplier works either directly with customers or with GEXP. Customers enter into contract with the fabric supplier. Fabric supplier supplies the fabric as specified by customer to GEXP. In some cases, the customer specifies GEXP on the type of fabric to be used and the company procures this from fabric suppliers. The fabric is first approved by the customer and then the company starts working on it to produce garments. The liability pertaining to any defect lies with the fabric supplier and not with GEXP. Once the company manufactures clothes from the approved fabric with no defects, inventory risk lies with the customer. It is the company's responsibility to ensure performance of fabric supplier.

GEXP's entry into fabric manufacturing: Fabric manufacturing facility for woven goods can be a large capex for the company; hence, the company has no intention of entering into fabric manufacturing for Woven segment, as of now. The company is in process of setting up a knits fabric manufacturing unit.

GEXP not to foray into own apparel brand: Having own apparel brand is the last link of the Textile industry value chain. GEXP is of the view that manufacturing garments and having an own apparel brand is a completely different business with different capabilities and mindset; and does not have plans to foray into the same in the near future.

Annexure 4: Detailed valuation matrix

Figure 88: Peer valuation matrix

Company	BBG Ticker	Mcap (US$mn)	FY22-24 Cagr (%)			EV/Ebitda (x)		PER (x)		PBV (x)		FY20-22 Cagr (%)			FY22		
			Revenue	Ebitda	EPS	FY23	FY24	FY23	FY24	FY23	FY24	Revenue	Ebitda	EPS	Ebitda margin (%)	ROE (%)	ROCE (%)
Gokaldas Export*	GEXP IN Equity	267	22.2	24.5	15.5	8.6	6.2	18.4	13.8	2.8	2.3	14.3	54.7	185.2	11.5	23.5	19.3
KPR Mill	KPR IN Equity	2,182	17.0	10.2	9.7	12.5	10.7	20.6	17.9	3.9	NM	20.8	40.0	52.1	26.1	30.4	21.2
Welspun India	WLSI IN Equity	871	6.4	1.6	(1.4)	6.7	5.7	35.3	12.3	1.5	1.3	17.7	5.9	9.5	16.3	15.8	9.2
Vardhman Textiles	VTEX IN Equity	1,088	6.3	(6.3)	(60.0)	4.5	4.0	8.1	7.1	0.9	NM	18.1	55.7	265.4	24.2	21.8	15.1
Indo Count	ICNT IN Equity	320	19.1	16.9	(0.6)	5.8	5.4	9.5	7.4	1.2	1.0	12.0	53.9	120.4	16.6	25.0	11.9
Arvind Ltd	ARVND IN Equity	280	13.7	22.4	33.6	3.9	4.2	6.9	5.4	0.6	0.6	3.6	2.2	57.4	9.5	8.4	5.8
Trident	TRID IN Equity	2,076	4.4	(5.0)	(8.4)	13.3	NM	55.9	24.0	3.5	NM	21.7	34.0	56.5	21.3	23.2	16.0
PDS	PDSL IN Equity	545	22.8	32.6	7.4	8.3	NM	19.5	15.6	NM	NM	15.4	30.4	132.3	3.7	32.7	15.9
Garware Technical Textiles	GTFL IN Equity	760	13.9	21.6	22.8	18.8	16.1	34.2	25.5	5.3	4.6	11.7	12.6	11.6	18.8	18.5	15.1
Dollar Industries	DOLLAR IN Equity	286	(3.5)	(2.4)	8.5	12.4	15.6	17.8	13.6	2.5	NM	18.3	45.0	60.0	16.6	24.4	19.4
Page Industries	PAG IN Equity	5,606	24.2	28.9	30.1	35.3	29.8	61.8	50.8	25.2	18.9	15.9	21.5	25.0	20.2	54.4	49.4
Siyaram Silks	SIYA IN Equity	292	12.1	9.9	9.8	6.5	-	10.7	9.2	1.9	NM	5.9	40.0	76.7	17.5	25.4	19.6
Raymond	RW IN Equity	1,158	19.0	36.0	60.7	8.3	7.8	17.2	14.2	2.6	2.1	(2.4)	16.5	11.5	11.5	11.7	9.1
Lux Industries	LUX IN Equity	584	12.8	(0.4)	(2.5)	10.9	8.9	24.2	14.9	2.9	2.5	17.0	32.8	38.3	20.8	29.3	24.3
Kewalkiran Clothing	KEKC IN Equity	385.2	NM	NM	NM	NM	NM	NM	NM	NM	NM	7.4	2.6	5.7	16.5	17.9	14.7
Kitex Garments	KTG IN Equity	151.8	NM	NM	NM	NM	NM	NM	NM	NM	NM	3.7	13.7	10.0	22.9	16.6	13.5
Alok Industries	ALOK IN Equity	922	NM	NM	NM	NM	NM	NM	NM	NM	NM	48.9	NM	NM	7.7	-	1.6
Nitin Spinners	NSPL IN Equity	150	NM	NM	NM	NM	NM	NM	NM	NM	NM	36.8	78.2	269.9	26.1	45.3	25.9
Comefly Outdoor	603908 CH Equity	609.3	47.2	NM	27.3	13.7	10.5	26.8	18.6	6.1	4.9	NM	NM	NM	NM	NM	NM
Huafon Microfibre	300180 CH Equity	1,069.8	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Anhui Huamao	000850 CH Equity	514.8	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Jiangsu Huaxicun	000936 CH Equity	676.7	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Zhewen Pictures	601599 CH Equity	544.1	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Huafu Fashion	002042 CH Equity	769.8	7.3	NM	21.7	6.8	6.2	9.8	8.2	0.7	0.6	NM	NM	NM	NM	NM	NM
Xinjiang Guanno	600251 CH Equity	983.4	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Jiangsu Sunshine	600200 CH Equity	830.9	9.2	NM	NM	38.7	16.3	(143.8)	226.0	3.1	2.9	NM	NM	NM	NM	NM	NM
Guangdong Hongxing	001209 CH Equity	290.9	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Ribo Fashion Group	603196 CH equity	264.3	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Tainan Spinning	1440 TT Equity	917.7	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Aksa Akrilik	AKSA TI Equity	1,385.1	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Bossa Ticaret	BOSSA TI Equity	258.4	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Eagle Nice	2368 HK Equity	277.6	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Delta Israel	DLTI IT Equity	318.7	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Yondoshi Holdings	8008 JP Equity	316.2	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM

Source: Company, IIFL Research

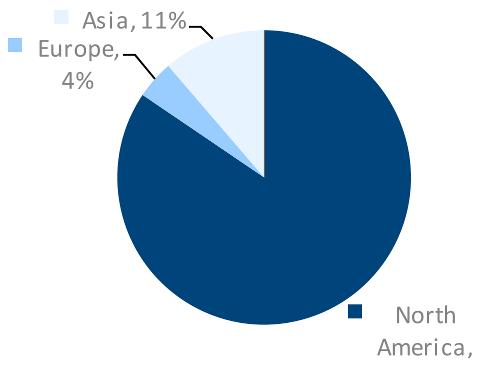
Background: Gokaldas Exports is one of the largest organised apparel manufacturers in the country, with a total manufacturing capacity of 36mn apparel pieces per annum. The company deals in a broad range of apparel products that include outerwear, active wear and fashion wear for all weather and seasons. Present across all continents and within a delivery network of 50+ countries, Gokaldas Exports caters to some of the most prominent fashion brands and retailers across the globe. Gokaldas shipped more than 23mn apparel pieces in FY22.

Management

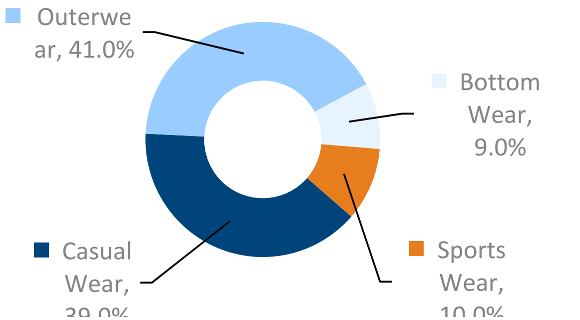
Name	Designation
Sivaramakrishnan Ganapthi	Executive Vice-Chairman and Managing Director
A Sathyamurthy	Chief Financial Officer
Poorna Seenivasan S	Executive Director

Suppliers: Vardhman Textiles, Arvind Mills:
Customers: GAP, Columbia Sportwear, Carharrt, Puma, TJ Maxx, Wal-Mart:
Competitors: Shahi Exports, KPR Mill:

Geography-wise rev break-up (FY22)



Category-wise rev break-up (FY22)

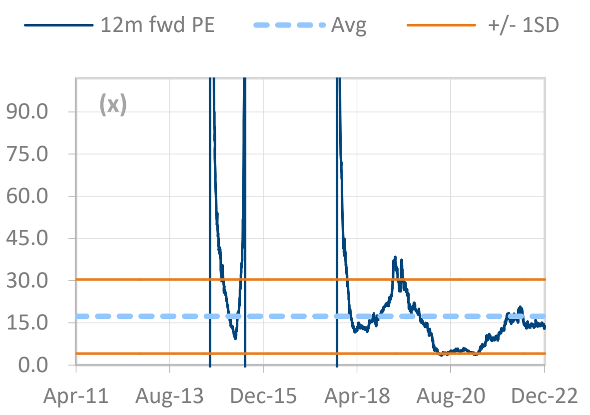


Assumptions

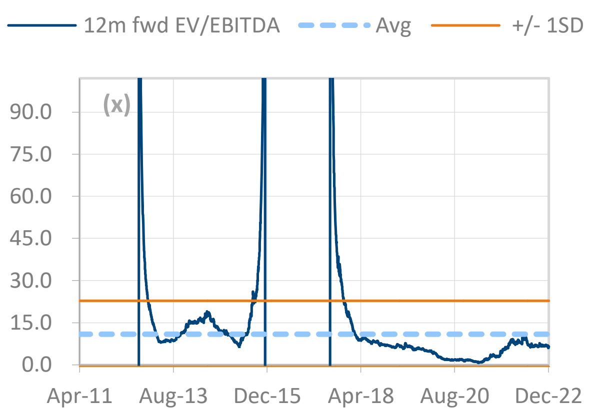
Y/e 31 Mar, Consolidated	FY21A	FY22A	FY23ii	FY24ii	FY25ii
Revenue growth rate	(11.7)	47.9	23.0	21.3	20.5
Gross margin (%)	50.0	50.4	46.9	47.0	47.0
Ebitda margin (%)	8.4	11.5	10.9	11.9	12.3
Capex (Rs m)	340.8	782.2	1,600.0	1,200.0	1,450.0

Source: Company data, IIFL Research

PE Chart



EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY21A	FY22A	FY23ii	FY24ii	FY25ii
Revenues	**12,107**	**17,903**	**22,021**	**26,720**	**32,200**
Ebitda	1,015	2,055	2,396	3,185	3,950
Depreciation and amortisation	(526)	(589)	(749)	(959)	(1,033)
Ebit	489	1,465	1,647	2,226	2,916
Non-operating income	122	107	146	131	181
Financial expense	(345)	(402)	(262)	(280)	(280)
PBT	266	1,170	1,531	2,076	2,817
Exceptionals	0	0	61	0	0
Reported PBT	266	1,170	1,592	2,076	2,817
Tax expense	(1)	1	(328)	(472)	(641)
PAT	265	1,171	1,264	1,604	2,176
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	**265**	**1,171**	**1,264**	**1,604**	**2,176**

Ratio analysis

Y/e 31 Mar, Consolidated	FY21A	FY22A	FY23ii	FY24ii	FY25ii
Per share data (Rs)					
Pre-exceptional EPS	6.2	19.8	19.9	26.5	35.9
DPS	0.0	0.0	0.0	0.0	0.0
BVPS	67.6	120.1	130.7	157.2	193.1
Growth ratios (%)					
Revenues	(11.7)	47.9	23.0	21.3	20.5
Ebitda	18.3	102.5	16.6	32.9	24.0
EPS	153.2	221.4	0.1	33.3	35.7
Profitability ratios (%)					
Ebitda margin	8.4	11.5	10.9	11.9	12.3
Ebit margin	4.0	8.2	7.5	8.3	9.1
Tax rate	0.5	0.0	20.6	22.8	22.8
Net profit margin	2.2	6.5	5.7	6.0	6.8
Return ratios (%)					
ROE	10.3	23.5	16.0	18.4	20.5
ROCE	8.7	19.3	19.9	23.5	26.0
Solvency ratios (x)					
Net debt-equity	0.5	(0.2)	(0.2)	(0.3)	(0.3)
Net debt to Ebitda	1.4	(0.7)	(0.7)	(0.8)	(0.9)
Interest coverage	1.4	3.6	6.3	7.9	10.4

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY21A	FY22A	FY23ii	FY24ii	FY25ii
Cash & cash equivalents	2,280	2,093	1,850	2,698	3,858
Inventories	2,592	4,336	4,344	5,271	6,352
Receivables	1,798	922	1,810	2,196	2,647
Other current assets	687	1,359	1,031	1,070	1,115
Creditors	1,117	1,178	1,508	1,830	2,205
Other current liabilities	1,321	2,123	2,783	3,298	3,898
Net current assets	**4,919**	**5,409**	**4,744**	**6,107**	**7,867**
Fixed assets	2,355	2,962	3,901	4,142	4,558
Intangibles	19	27	20	20	20
Investments	0	0	0	0	0
Other long-term assets	168	413	544	544	544
Total net assets	**7,461**	**8,811**	**9,209**	**10,813**	**12,990**
Borrowings	3,652	631	235	235	235
Other long-term liabilities	908	1,098	1,057	1,057	1,057
Shareholders equity	**2,901**	**7,082**	**7,917**	**9,521**	**11,697**
Total liabilities	**7,461**	**8,811**	**9,209**	**10,813**	**12,990**

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY21A	FY22A	FY23ii	FY24ii	FY25ii
Ebit	489	1,465	1,647	2,226	2,916
Tax paid	26	(134)	(299)	(472)	(641)
Depreciation and amortization	526	589	749	959	1,033
Net working capital change	12	(750)	(498)	(515)	(601)
Other operating items	134	1	0	0	0
Operating cash flow before interest	1,187	1,172	1,599	2,197	2,708
Financial expense	(286)	(251)	(262)	(280)	(280)
Non-operating income	96	88	146	131	181
Operating cash flow after interest	**998**	**1,009**	**1,483**	**2,048**	**2,609**
Capital expenditure	**(341)**	**(782)**	**(1,600)**	**(1,200)**	**(1,450)**
Long-term investments	0	0	0	0	0
Others	30	(568)	227	0	0
Free cash flow	**687**	**(341)**	**110**	**848**	**1,159**
Equity raising	0	2,926	43	0	0
Borrowings	(276)	(2,771)	(396)	0	0
Dividend	0	0	0	0	0
Net chg in cash and equivalents	411	(187)	(243)	848	1,159

Source: Company data, IIFL Research

Disclosure : Published in 2023, © IIFL Securities Limited (Formerly 'India Infoline Limited') 2023

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