professional clients group

Gokaldas Exports Ltd

Weaving the opportunities together

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Long Term Recommendation
Gokaldas Exports

Weaving the opportunities together

Gokaldas Exports (GEXP) specialises in design, manufacture, and export of diverse apparel products for all seasons, with an annual capacity of 36mn pieces. It exports to various fashion brands and retailers in over 50 countries. This leading apparel manufacturer is a classic turnaround story after the change of guard in FY18. Since then, its overall operational metrics have improved driven by i) an increase in wallet share of existing customers and improved productivities, ii) average realisation of 14% CAGR over FY18–23, iii) improvement in margin profile led by a change in the product mix, and iv) government support in the form of continuation of export incentives (RoSCTL). We expect revenue/EBITDA/PAT to grow by 16%/21%/20% over FY23-26E on account of: i) the addition of new customers and higher spends from existing customers, ii) incremental capex leading to steady volume growth, iii) expansion into margin accretive knitwear, iv) higher potential revenue on FTAs with the UK and the EU, and v) margin expansion driven by productivity improvements.

A classic turnaround story

GEXP was acquired by Clear Wealth Consultancy Services from Blackstone in 2017, and Mr Siva Ganapathi was appointed as Managing Director. Since then, it has improved operational margin by focusing on high value and margin products and cut costs via waste reduction and better productivity. The focus is on expanding production capabilities by enhancing its supply chain while simultaneously strengthening its balance sheet through fund infusions. Due to these initiatives, **it clocked 17% revenue CAGR, with an improvement in operating margin to ~11% in FY23 from -2% in FY18 and a profit of INR173cr from a loss of INR31cr. With strong operating cash flows and an equity infusion, it has significantly pared down its debt over the years and has become net debt free.**

India to gain market share in apparel exports; new capex to aid GEXP's growth

Over the years, China has been losing market share in global apparel trade due to higher costs, ban on cotton from the Xinjiang region, and trade wars. India is poised to benefit from the abundant availability of cotton and spinning capacities and government support (RoSCTL, textile PLI, and PM *MITRA* schemes). Given these favourable tailwinds, **GEXP incurred a capex of INR320cr (INR165cr+ towards modernization & upgradation, ~INR155cr towards capacity expansion) over FY19–23, resulting in improved productivity and capacity additions of 6mn units. It plans to further invest INR165cr over FY24–25. We expect 13% volume CAGR over FY23–26 to reach 40mn pieces.**

Customer additions and a favourable product mix driving revenue growth

Though GEXP has more than a decade long relationship with 50% of its clients, which helped it garner adequate export orders over the years, steady client additions drove incremental revenue. **Revenue contribution from customers added in the last five years grew to ~16% in FY23 from ~4% in FY19**. As a result, its **market share in apparel exports grew ~80bps to 1.7% as revenue CAGR has been 17% versus global apparel growth of 3% over the same period.** Moreover, share of higher margin segments (outerwear and sportswear) grew to 45% in FY23 from 32% in FY18, outgrowing erstwhile dominant segments (casualwear and bottom wear), resulting in an increase of ~2x in average realisations over this period.

Growth levers in place; initiate coverage with a 'BUY' rating

The textile sector faced a tumultuous phase in the last five years on fears of a recession in the US, higher inventory with global retailers due to supply chain issues, and a surge in cotton prices and freight costs. With most of these events receding, we expect the textile export segment to return to the growth track and see volume driven revenue growth from here on. Backed by renewed optimism, it plans to add capacity over the next two years. Its entry into the knitwear segment will open new growth avenues. We expect GEXP to benefit from the China+1 theme and potential FTAs with the UK and Europe. With all growth levers in place and multiple industry tailwinds, GEXP will be one of the foremost beneficiaries. We forecast a 16%/21%/20% growth in revenue/EBITDA/PAT over FY23–26E. We initiate coverage with a 'BUY' rating and a TP of INR650 (17x FY25E P/E, an upside of 21%) given its execution capabilities, growth opportunities, and quality management.

Key financials

(INR cr)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,790	2,222	2,402	2,918	3,486
Revenue growth (%)	48%	24%	8%	21%	19%
EBITDA	205	271	297	382	481
EBITDA margin (%)	11%	12%	12%	13%	14%
Net profit	117	155	165	227	298
EPS (INR)	20	28	27	37	49
EPS growth (%)	221	43	-4	37	31
P/E ratio (x)	27	19	20	14	11
RoE (%)	23	22	17	19	21
RoCE (%)	21	24	22	25	28

CMP: INR535

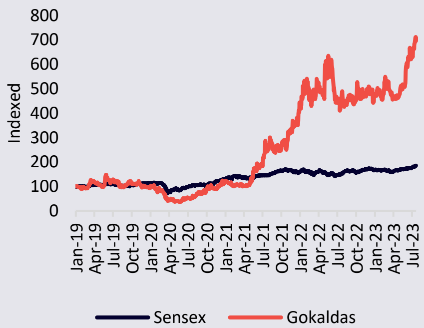
Rating: BUY

Target price: INR650

Upside: 21%

Date: July 24, 2023

Bloomberg:	GEXP:IN
52-week range (INR):	326/559
Shares in issue (cr):	6.06
M-cap (INR cr):	3,323
Promoter holding (%)	11.06



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Business structure

GEXP is one of India's leading apparel manufacturers and exporters. The company is present across the apparel value chain and sells its products to big brands such as GAP, Banana Republic, Abercrombie & Fitch, H&M, Adidas, Marks & Spencer, Columbia Sportswear, and Puma. It has an annual capacity of 36mn pieces across 20 manufacturing facilities. It has a trained workforce of over 30,000, with more than 15,000 stitching machines. GEXP's focus on manufacturing, investments in automation, enhancement of the supply chain, and reduction in wastages has resulted in customer satisfaction (thus strengthening its relationships with clients) and improved profitability. Due to various initiatives, revenue, which was stagnating at INR1,000–1,100cr between FY07 and FY18, improved to over INR2,200cr, with a higher (12.2%) operating margin in FY23. Over the years, it has invested INR320cr to install new capacities and modernise existing plants. It further plans to invest INR165cr by FY25 on incremental capacity additions.

INR cr	FY23	FY24E	FY25E	FY26E
Revenue	2,222	2,402	2,918	3,486
EBITDA	271	297	382	481
EBITDA margin	12%	12%	13%	14%
PAT margin	7%	7%	8%	9%

INR cr	FY23	FY24E	FY25E	FY26E
RoCE (%)	24	22	25	28
RoE (%)	22	17	19	21

INR	FY25E	CMP/target
P/E ratio (x)	17	650

We expect 16% revenue CAGR over FY23–26, led by: i) volume growth aided by capex, ii) wallet share gains from existing customers, iii) healthy realisations, and iv) entry into the knitwear segment

We see operating margin touching ~14% in FY26, with a 160bp margin expansion over FY23–26, aided by productivity gains and operating leverage

We forecast 20% PAT CAGR over FY23–26. With improved financials, we expect a RoCE/RoE of 28%/21% by FY26

At the CMP, FY25E P/E is ~14x + **FY25E RoCE of 25%** + **At the TP, the FY25E P/E ratio is 17x**

Upside: 21%

Focus charts

Exhibit 1: Strong volume (13% CAGR) and realisation growth…

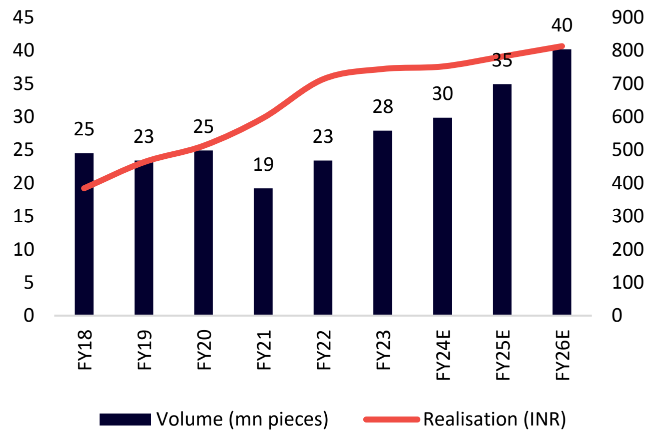


Exhibit 2: …aided by incremental capex of ~INR370cr…

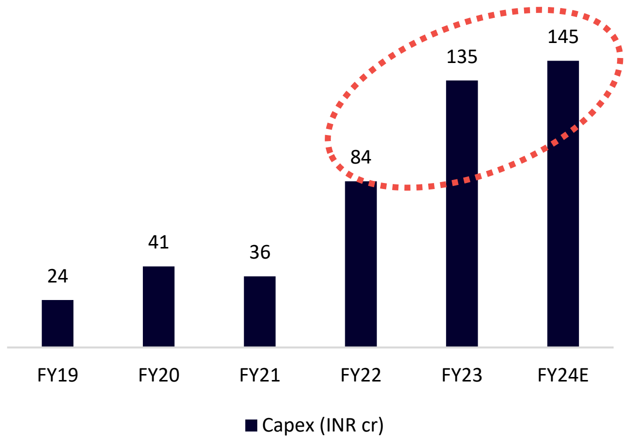


Exhibit 3: …leading to 16% revenue CAGR…

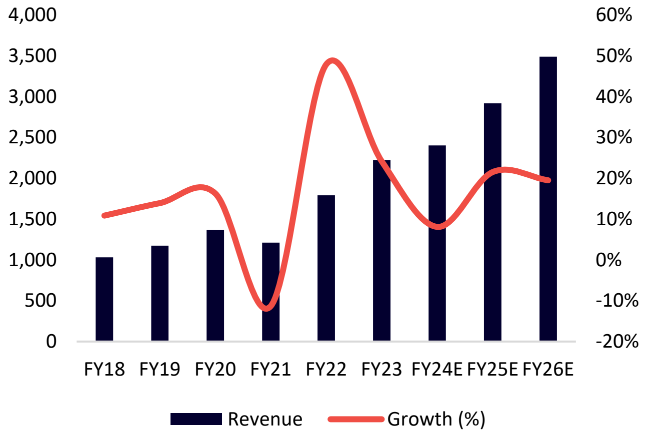


Exhibit 4: …EBITDA margin (%) expansion of 160bps…

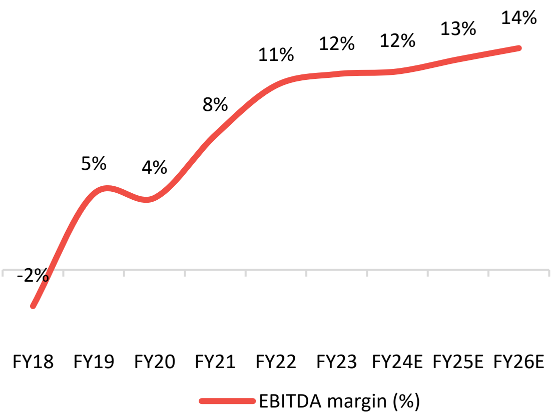


Exhibit 5: …1.7x growth in PAT (INR cr) over FY23–26E and…

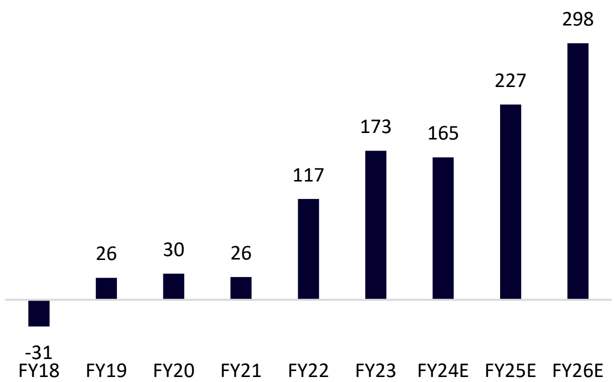
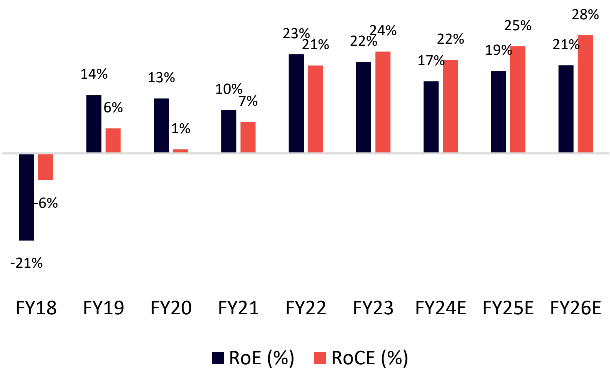


Exhibit 6: …high double-digit return ratios



Source: Nuvama Wealth Research

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Company at a glance

Exhibit 7: Gokaldas Exports

	FY18	FY19	FY20	FY21	FY22	FY23
Capacity (mn pieces)	30	30	30	30	36	36
Volume (mn pieces)	**25**	**23**	**25**	**19**	**23**	**28**
Volume growth (%)		*-4%*	*6%*	*-23%*	*22%*	*19%*
Realisations (INR)	**384**	**463**	**512**	**597**	**713**	**744**
Realisation growth (%)		*21%*	*11%*	*16%*	*20%*	*4%*
Revenue	**1,031**	**1,175**	**1,365**	**1,211**	**1,790**	**2,222**
Growth (%)	*11%*	*14%*	*16%*	*-11%*	*48%*	*24%*
EBITDA margin (%)	**-2.3%**	**4.7%**	**4.5%**	**8.4%**	**11.5%**	**12.2%**
PAT	-31	26	30	26	117	173
PAT growth (%)	*NA*	*NA*	*19%*	*-13%*	*342%*	*48%*
RoE (%)	-21%	14%	13%	10%	23%	22%
RoCE (%)	-6%	6%	1%	7%	21%	24%
Net D/E	3.5	1.5	1.9	1.2	0.1	0.0
WC days	85	83	56	93	71	44
Product-wise revenue mix (%)						
Casualwear / Fashionwear	48%	43%	39%	36%	39%	46%
Outerwear	23%	30%	32%	37%	41%	36%
Bottomwear	20%	17%	18%	14%	9%	9%
Sportswear	9%	10%	11%	6%	10%	9%
Healthcare*	0%	0%	0%	7%	1%	0%
ASP-wise revenue mix (%)						
ASP>INR450	NA	59%	62%	72%	88%	89%
ASP<INR450	NA	41%	38%	28%	12%	11%
Geography-wise revenue mix (%)						
North America (NA)	52%	59%	62%	70%	84%	85%
Europe (EU)	21%	18%	13%	9%	4%	4%
Asia (AS)	26%	22%	24%	20%	11%	11%
South America (SA)	1%	1%	1%	0%	0%	0%
Others	1%	1%	1%	0%	0%	0%
Sale contribution from new customers	NA	4%	10%	14%	15%	16%
Workforce	23,000	25,580	26,600	23,470	31,480	32,000
Machines	13,000	13,500	13,000	13,000	15,000	15,000
Production Units	22	21	15	14	20	20

*Discontinued

Source: Company, Nuvama Wealth Research

Investment rationale

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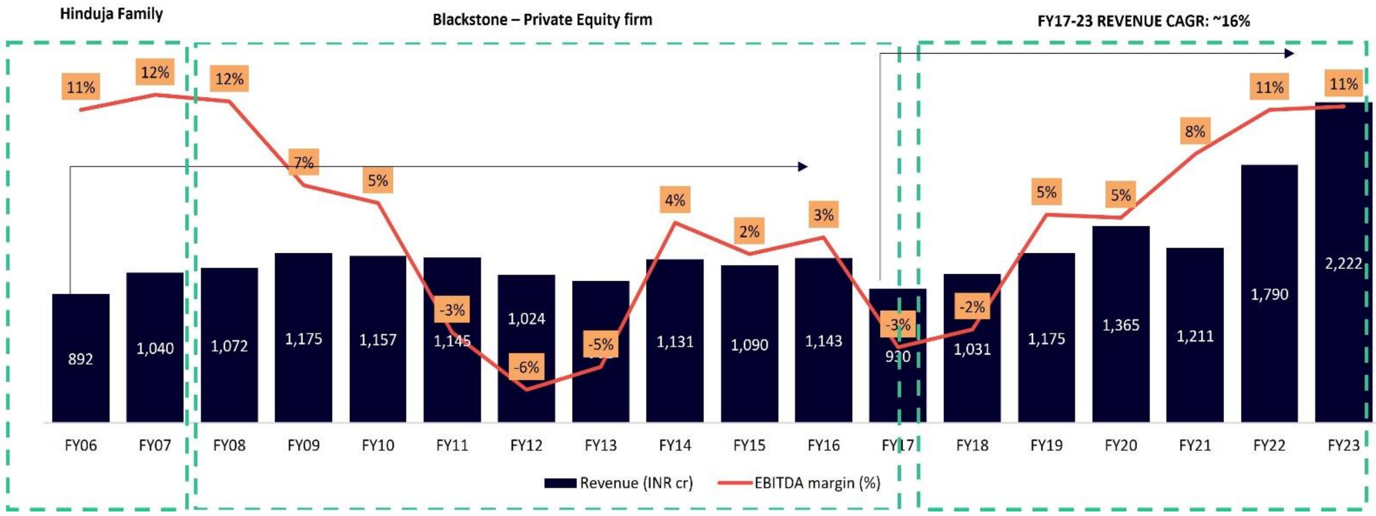
I. A classic turnaround story

GEXP was acquired by Clear Wealth Consultancy Services from Blackstone in 2017. Mr Siva Ganapathi was appointed as Managing Director and one of his early decisions was to announce an operational restructuring.

- When the Hindujas were at the helm, each Hinduja brother had a clear role, focusing on sourcing, operations, and the finance functions. But with Blackstone in the picture, this focus got diluted.
- With GEXP being acquired by Blackstone in FY08 from the Hindujas, its business strategies underwent drastic changes, resulting in a change in execution. **During the Blackstone era, revenue growth was flat and the company incurred losses.**
- Mr Ganapathi and his team turned around GEXP after taking over (in October 2017). This is visible in all its financial metrics. GEXP's operational overhaul has been an outstanding turnaround story.

Exhibit 8: GEXP's financial performance under various managements



Source: Nuvama Wealth Research

What went wrong in the Blackstone era?

- Turnover was significantly impacted, and the business suffered losses due to inefficiencies.
- The factories were focusing customer-wise and not product-wise, which impacted the business as not all factories had the expertise to produce all kinds of garments.
- If a factory was running at peak capacity, no further orders could be taken from a particular customer, leading to financial losses.
- A factory-wise P&L was prepared, and loss-making units were sold or shut down. GEXP had the ability to produce a variety of products, but due to lack of synergy, it had to shut down many units.

What went right under Clear Wealth Consultancy Services?

- The new management undertook data-driven initiatives like monthly data analysis from factories to help understand the reasons for low efficiency and high wastage. It simultaneously took measures to improve them.
- Apparel manufacturing is a high attrition and absenteeism industry, which impacts efficiency. GEXP addressed this by paying an 'attendance bonus' to employees which led to better attendance and productivity. The management also introduced a mentor-mentee programme 'Hello Sakhi', where experienced employees mentored new employees for the first six months which resulted in a better working atmosphere.
- Under the new management, GEXP has moved to a single ERP, which was missing under the erstwhile management, leading to significant mismatches in the supply and demand of raw materials.
- The new management has been able to improve productivity and reduce wastage to <3% from 4% in FY17. **Productivity has improved by 3% CAGR over the last five years.**
- **Subsequently, GEXP has been able to grow its revenue by 17% CAGR. EBITDA turned positive at INR271cr in FY23 from an operating loss of INR23cr in FY18. Debt has reduced, with an improvement in working capital and healthy operating cash flows.**

Weaving the opportunities together

Exhibit 9: Equity history

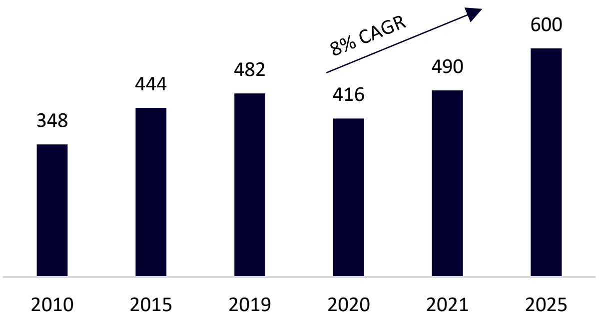
August 2007	Blackstone FP Capital acquired 50.1% stake from the Hinduja family for USD116mn (~INR4.8bn)
January 2008	Subsequently, the PE fund raised its holding to 68.2% via an open offer at an investment of ~USD45mn (~INR1.9bn)
June 2014	Blackstone sold a 5.6% stake in June 2014 for INR161.9mn (at INR83.9 per share). In 2014, it sold a further 4.5% stake for INR104.8mn (at INR67.65 per share)
June 2016	Blackstone sold ~10% stake for INR435mn (at INR126.2 per share)
July 2016	Blackstone sold a 7.4% stake for INR292mn (at INR113.5 per share)
March 2018	Blackstone sold 13.96mn shares (39.9% stake) to Clear Wealth Consultancy Services (owned by Mr Mathew Cyriac, former co-head of Blackstone) at INR42 per share
May 2018	GEXP raised INR694mn (7.71mn shares at INR90 each) through a qualified institutional placement (QIP) to fund infrastructure and technology upgrades
September 2021	Promoter group — Clear Wealth Consultancy Services — pared down its stake to ~24% from 33%
October 2022	Clear Wealth Consultancy Services pared down its stake to ~21% from 24%
March 2023	Promoter holding in GEXP fell to 10.6% from ~21%

Source: Nuvama Wealth Research

II. India to gain market share in global apparel trade; GEXP to be one of the biggest beneficiaries

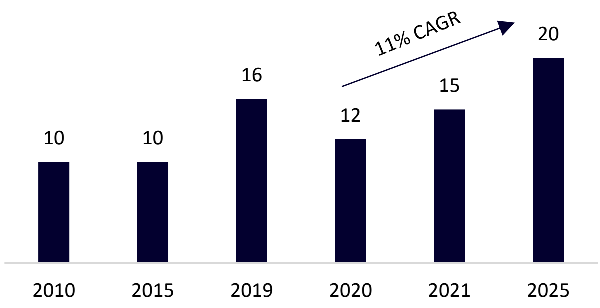
Exhibit 10: Opportunity snapshot for GEXP

Global apparel trade (USD bn)



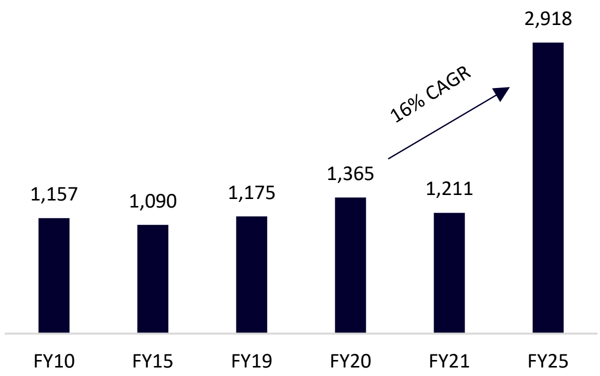
The size of the opportunity: Global apparel trade stood at USD490bn in 2021 and clocked 3% CAGR over FY17–21. It is set to accelerate by ~4% CAGR and touch USD600bn by 2025. Woven and knitwear have followed similar growth trends over the years

India's RMG exports (USD bn)



India's competitive advantage: India's market share (RMG exports) in global apparel trade increased to 4% in FY21 from 3% in FY17. Market share gains are bound to accelerate due to the signing of various FTAs; support schemes such as PLI, RoSCTL and PM *MITRA* parks; and the presence of a strong supply chain

Revenue (INR cr)



Exports for GEXP: India's apparel market share remained rangebound at 3–4%. Despite this, GEXP's share in India's exports is continuously on the rise (it rose to 1.7% in FY23 from 0.9% in FY18). Its share is bound to increase, driven by higher export orders to large, organised players like GEXP due to the China+1 theme, possible FTAs with the UK and the EU, and aggressive capacity additions to grab this opportunity.

Optionality: GEXP has come up with a knitwear facility and will be scaling it up going forward. This provides it a huge opportunity as the size of the knitwear industry is almost equal to woven garments. The management expects knitwear (fabric) to contribute upto 15% of total sales

Source: Nuvama Wealth Research

Despite India's apparel market share remaining range bound over the years, we expect large exporters to gain market share at an accelerated pace, given multiple sectoral tailwinds in the medium to long term. Within the apparel export segment, we expect the growth trajectory of GEXP to continue.

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Global apparel trade scenario: China leads the world in apparel exports with 33% share. However, it has been losing market share. Rising labour and factor cost, geopolitical tensions, and a relatively appreciating currency have resulted in a shift of exports from China, creating new opportunities and growth for other Asian countries.

Exhibit 11: Major exporting countries to the US

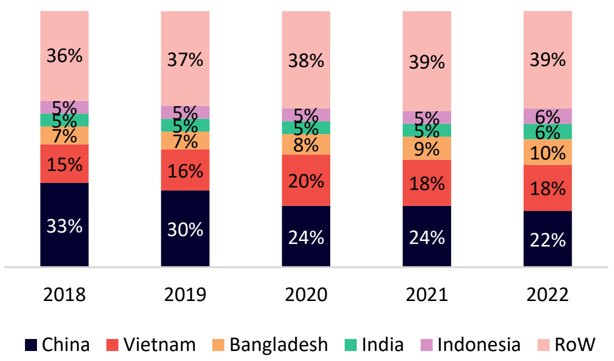
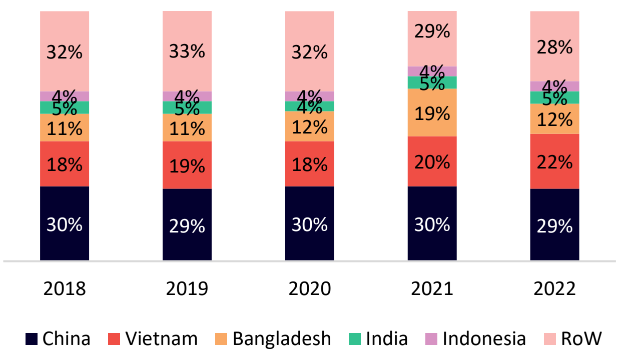


Exhibit 12: Major exporting countries to the EU-27



Source: Company, Nuvama Wealth Research

Vietnam and Bangladesh have been the paramount beneficiaries, grabbing market share from China

i) Vietnam benefitted as it is the nearest destination with similar traits to China. It is also backed by Chinese investors, allowing for vital progress in its exports and continuity for retailers. It was also least affected by the COVID-19 pandemic.

ii) Bangladesh gained due to the strong partnership between apparel exporters (represented by the Bangladesh Garment Manufacturers and Exporters Association or BGMEA) and its government, which resulted in exponential growth for the country's textile sector.

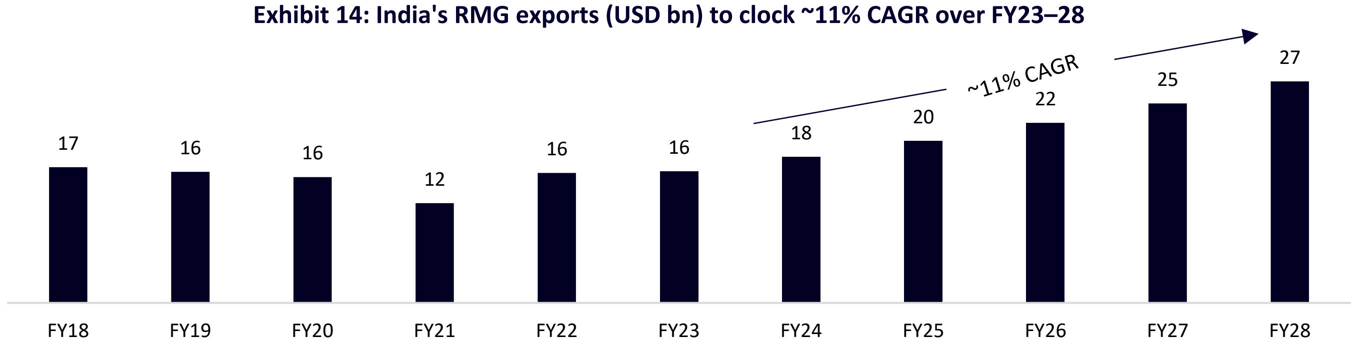
Exhibit 13: Cost structure for apparel exporting countries

	Exporting countries			
Cost structure	**China**	**Bangladesh**	**Vietnam**	**India**
Cost of labour (USD/month)	514	139	300	180
Labour skills	High	High	High	High
Cost of electricity (cents/kWh)	9-15	9	8	7-12
Lead time (days)	30-45	50-70	35-50	40-60
Textile integration	High	Medium	Medium	High (cotton)

Source: Company, Nuvama Wealth Research

India has not gained materially from China+1. Its RMG exports have stagnated at ~USD16bn for years. However, it **can gain materially due to i) the availability of an end-to-end textile supply chain (has abundant raw material and the largest spinning capacity after China), ii) FTAs being signed with various countries, and iii) support from the government (RoSCTL and PM *MITRA* scheme). India's presence across the entire-value chain reduces transportation costs and lead time, thus providing customers a cost-effective solution.**

Exhibit 14: India's RMG exports (USD bn) to clock ~11% CAGR over FY23–28

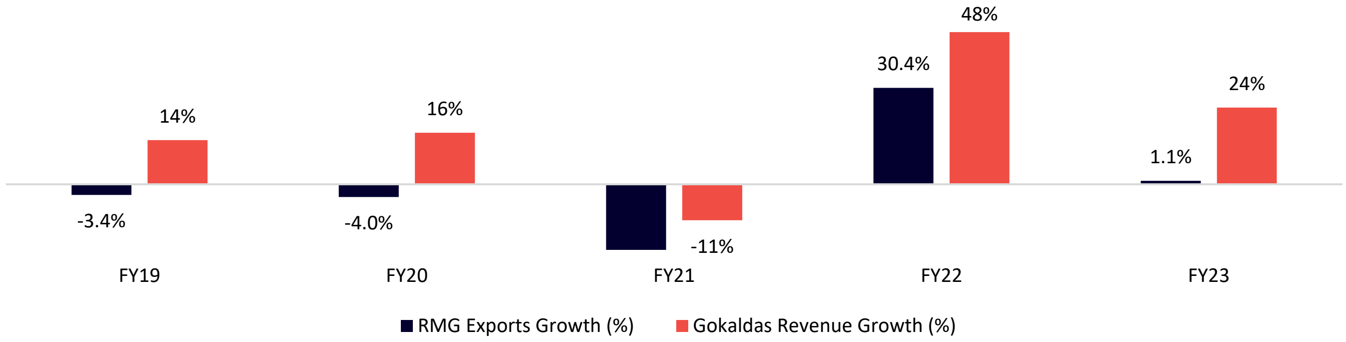


Source: Company, Nuvama Wealth Research, Apparel Export Promotion Council

Weaving the opportunities together

Despite India's RMG exports hovering ~USD16bn for many years, GEXP has been able to grow its revenue at an impressive rate. This shows that it has been increasing its market share especially over the last five years.

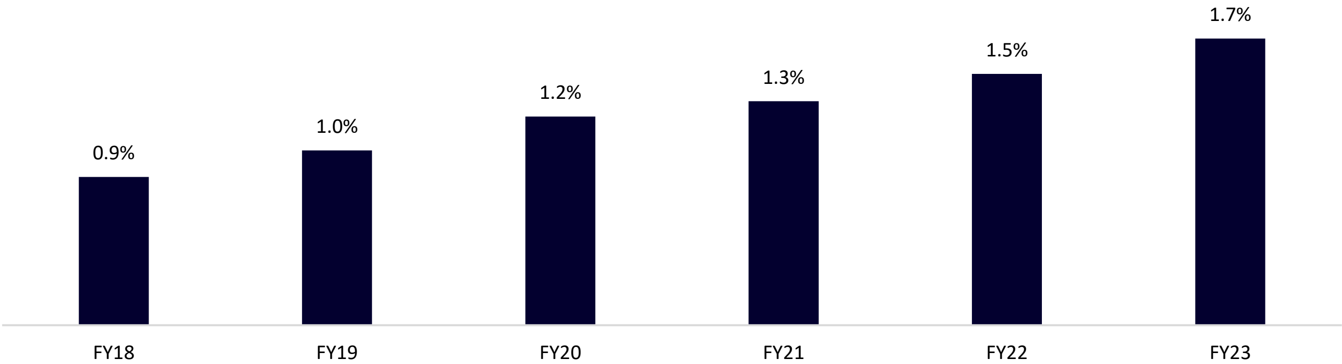
Exhibit 15: Trend in apparel trade growth



Source: Company, Nuvama Wealth Research

Gain in market share is driven by growth in volume and realisation (better realisation due to change in the product mix)

Exhibit 16: GEXP's share in India RMG exports (%)



Source: Company, Nuvama Wealth Research

Exhibit 17: Capacity and volume trend

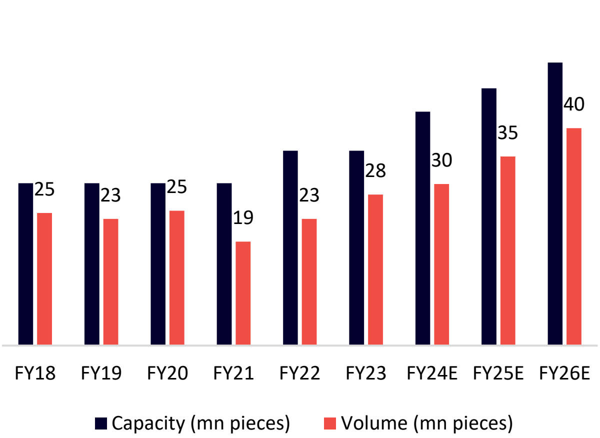
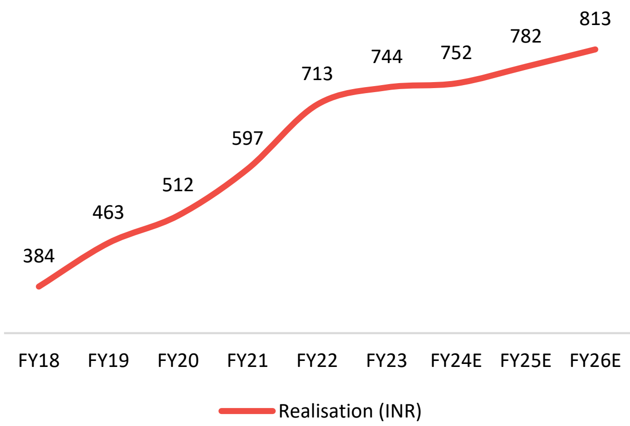


Exhibit 18: Trend in realisation



Source: Company, Nuvama Wealth Research

III. Capex ready for the demand spike expected from H2FY24

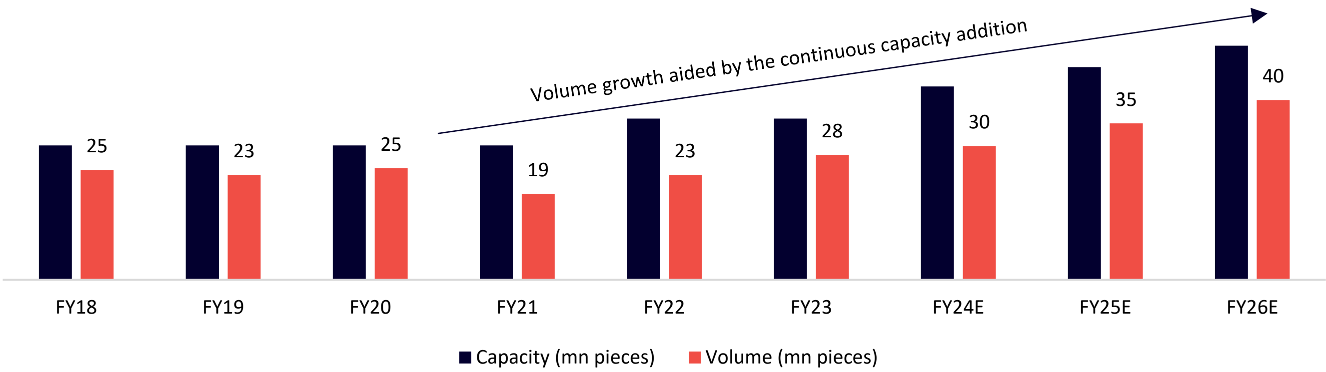
GEXP has been on an expansion spree for the last four years given the favourable business environment. ***Over FY19–23, it incurred a cumulative capex of INR320cr for adding new capacities and modernising its factories (capacity increased to 36mn pieces in FY23 from 30mn pieces in FY18)***. As a result, revenue/PAT grew 17%/61%, driven by volume growth and productivity gains. ***GEXP is planning to invest INR165cr by FY25 for capacity expansion and modernisation.***

Exhibit 19: Capex breakdown

INR cr	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
New initiatives				12	97	115	
New capacities and projects				44		75	
Modernisation and upgrades	24	41	36	28	38	30	20
Capex	**24**	**41**	**36**	**84**	**135**	**145**	**20**

Source: Company, Nuvama Wealth Research

Exhibit 20: Expect 13% volume CAGR by FY26



Source: Company, Nuvama Wealth Research

Madhya Pradesh plant *(part of the PLI scheme)*: GEXP has invested INR100cr in its Madhya Pradesh plant. Phase I will commence production in Q1FY24. At full capacity, it will be able to manufacture 2.5–3mn units in Phase I. Based on the demand environment, GEXP will decide on expanding capacities and ramping up of this unit in Phase II. **The management said labour is abundant in Madhya Pradesh as there are not enough jobs. Labour force availability is one of the biggest constraints in ramping up capacities in apparel manufacturing, so availability of labour gives GEXP a clear advantage.**

Tamil Nādu plant *(knitwear facility)*: GEXP invested INR140cr (as part of its ongoing capex) in knitwear manufacturing and the plant started production in June-23. At full capacity, knitwear will contribute 10–15% to total revenue. As this facility is backward integrated into the fabric, it will result in superior margins for the company.

Karnataka plant: GEXP has set up two new units in Tumkur and Bommanahalli which are ramping up well. At full capacity, both plants will be able to generate ~INR220cr in revenue.

Exhibit 21: Revenue potential across new facilities

Potential revenue	Capex (INR cr)	Potential revenue (INR cr)
Karnataka plants	40	220
Tamil Nadu (knitwear)	140	380
Madhya Pradesh (part of PLI) — garments	120	490
Bangladesh	50	135
New facility in South India	20	90
Total	**370**	**1,315**

Source: Company, Nuvama Wealth Research

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Exhibit 22: Capex trend

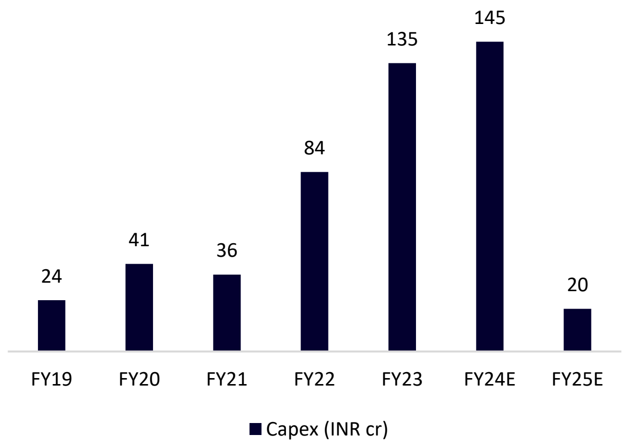
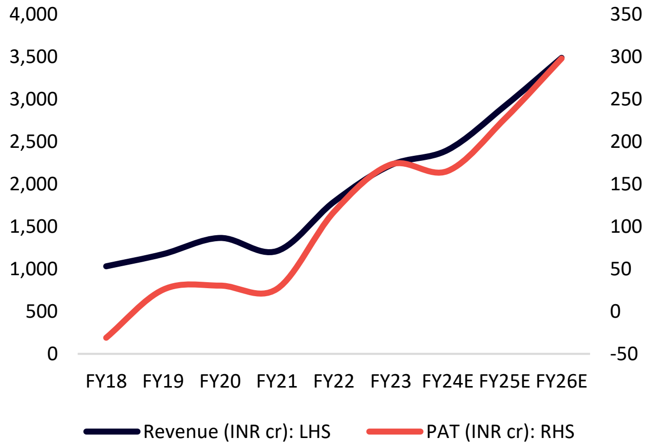


Exhibit 23: Revenue and PAT trend



Source: Company, Nuvama Wealth Research

With new capacity turning operational and capex in the next couple of years, we expect GEXP to generate over INR1,300cr in additional revenue. As a result, we expect a 16%/21% CAGR in revenue/EBITDA over FY23–26.

Despite the slowdown in global apparel trade, GEXP posted a healthy growth in volumes due to:

i) **An increase in wallet share from existing customers:** GEXP has been gaining wallet share from weaker suppliers in the ecosystem. A slowdown in demand will result in the shutdown of weaker suppliers, with GEXP able to grab this incremental wallet share.

ii) **Addition of new customers:** Over the years, GEXP added new customers, which has resulted in increased revenue contribution from new customers. Revenue contribution from customers added in the last five years grew to ~16% in FY23 from ~4% in FY19.

Exhibit 24: Sales contribution

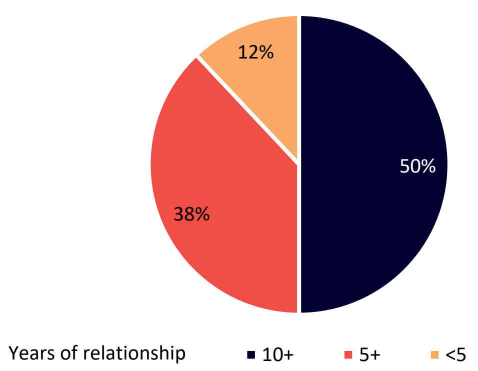
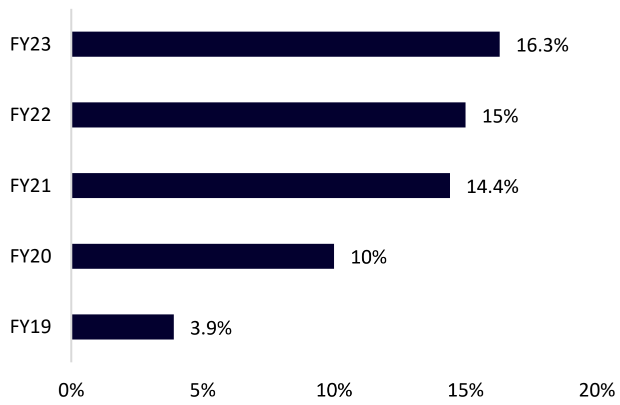


Exhibit 25: Contribution from customers added in the last five years



Source: Company, Nuvama Wealth Research

The company is planning to set up its own facility in Bangladesh via a joint venture to explore export opportunities to the Europe and the UK. At present, it is manufacturing through leased facilities.

IV. Better product mix and gains in productivity to enhance margins

Product mix: Casualwear and bottom wear had a dominant share in revenue. But in recent years, outerwear and sportswear (both high-value products) have been outpacing overall growth. **Revenue contribution from outerwear and sportswear rose to 54% in FY23 from 32% in FY18, although bottom wear and casualwear clocked ~12% CAGR over FY18–23.** As a result, average realisation grew by ~2x in the last five years as the contribution from high-value products is increasing. This can also be seen from greater contribution from higher ASP products.

Exhibit 26: Product mix

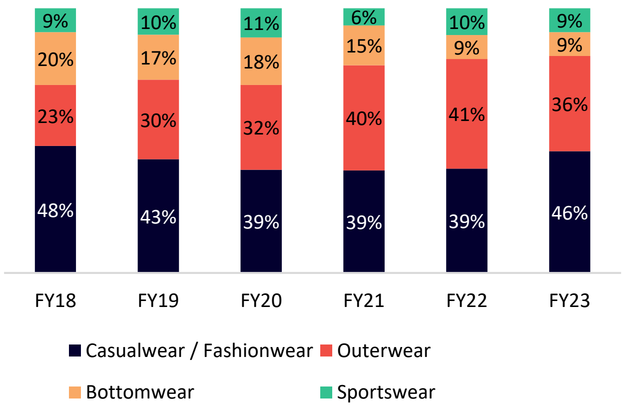
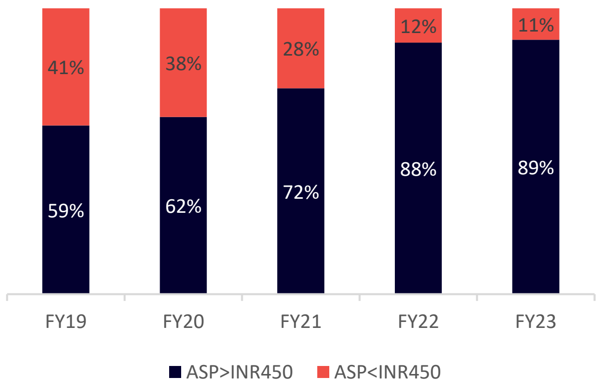


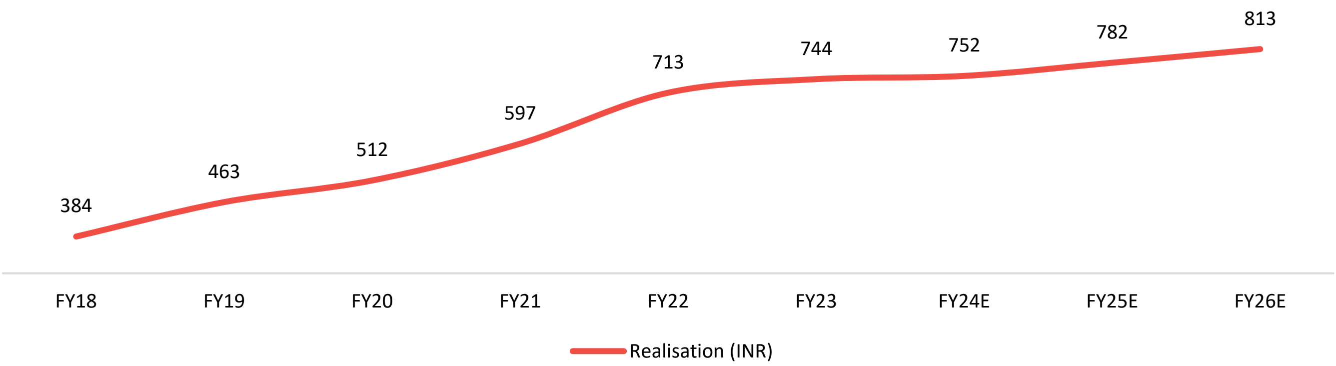
Exhibit 27: ASP mix



Source: Company, Nuvama Wealth Research

Despite a correction in cotton prices, we expect realisation to sustain on the back of a healthy product mix.

Exhibit 28: Realisation trend



Source: Company, Nuvama Wealth Research

After the acquisition by Clear Wealth Consultancy Services, GEXP moved to a single ERP for requisition and procurement of raw materials to reduce production delays. This led to a timely receipt of raw materials from various suppliers and consistent delivery to its customers. Despite supply-chain disruptions during the COVID-19 pandemic, it was able to improve its inbound and outbound supply chain efficiencies.

Weaving the opportunities together

Exhibit 29: Inbound supply chain efficiency

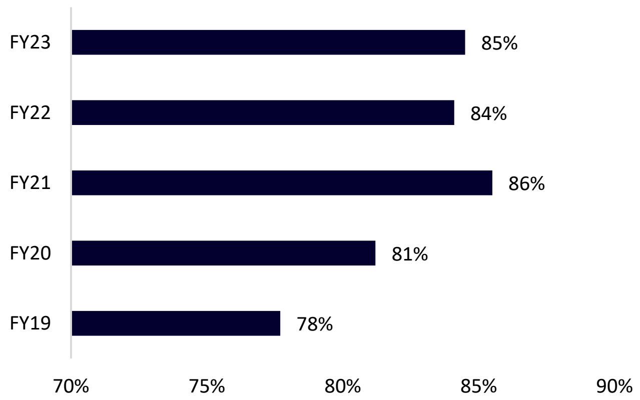
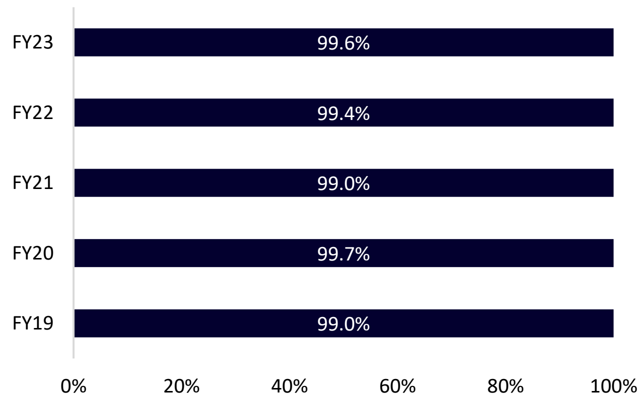


Exhibit 30: Outbound supply chain efficiency

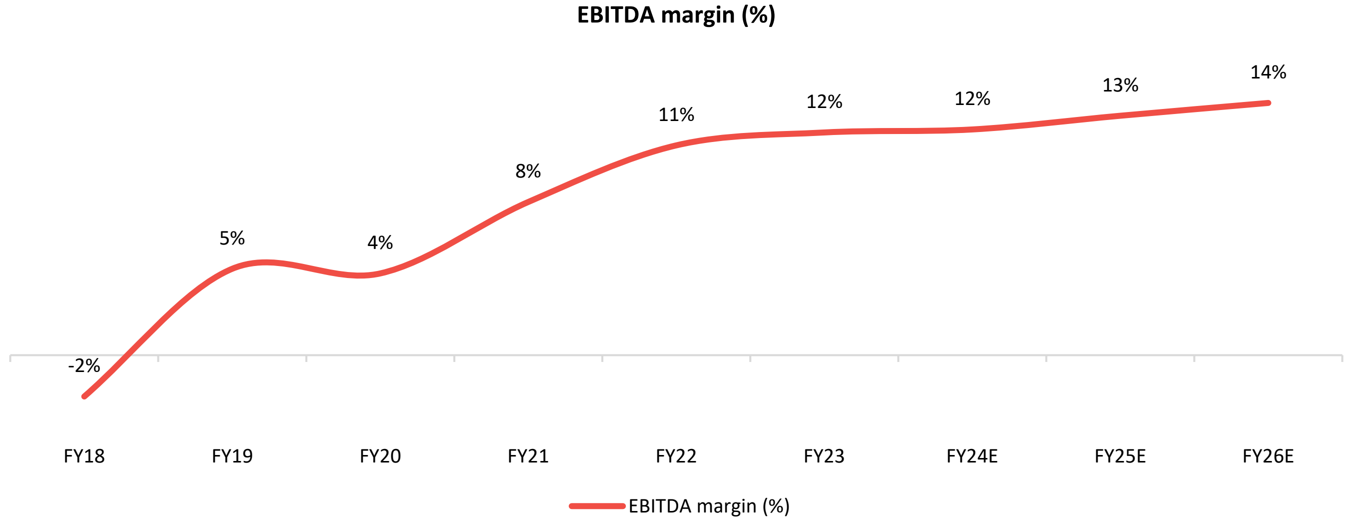


Source: Company, Nuvama Wealth Research

To curb employee attrition and absenteeism, GEXP offered incentives like attendance bonus. It introduced a mentor-mentee programme 'Hello Sakhi' where experienced employees mentored new employees for the first six months which resulted in a better working atmosphere. The company posted healthy (3% CAGR) productivity gains over the last five years. We expect this trend to continue going forward. Along with improving productivity, it also focused on reducing wastage which has resulted in wastage falling to sub-3% from over 4%.

Increase in realisation, which was driven by changes in the product mix, higher productivity, and reduction in wastage, led to an increase in gross and EBITDA margin over the years. Between FY18 and FY23, it clocked 17% revenue CAGR and costs increased by 13% CAGR. Going forward, we expect EBITDA margin to expand by 160bps due to volume growth and productivity improvements.

Exhibit 31: EBITDA margin

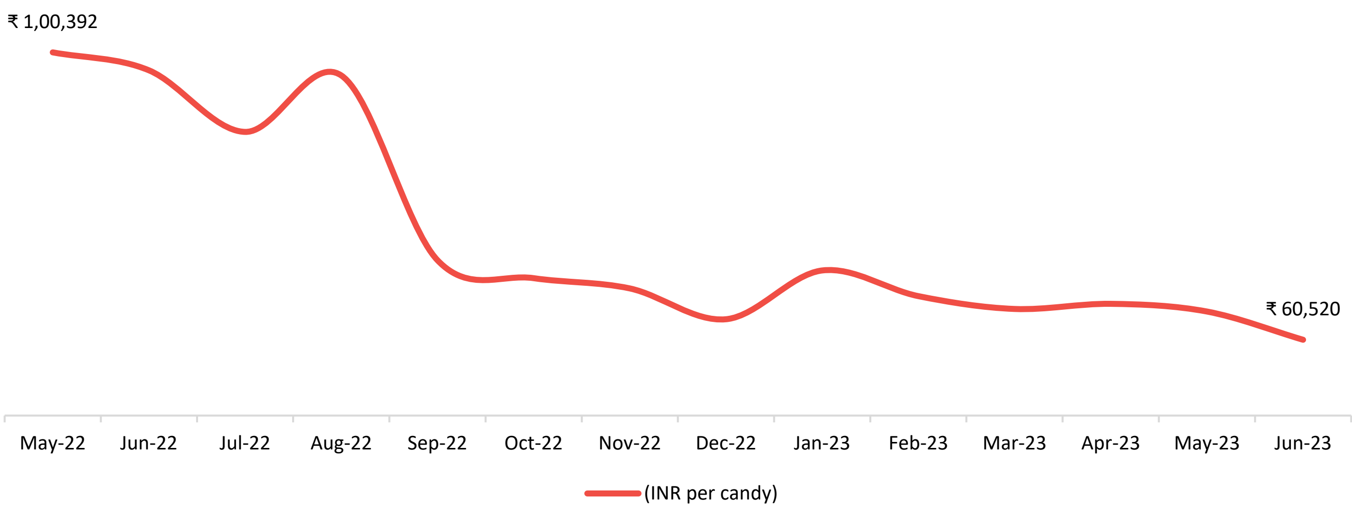


Source: Company, Nuvama Wealth Research

V. Volumes to grow, led by an overall improvement in the business environment

The apparel sector faced a perfect storm in 2022: i) slowdown in demand in export markets due to higher inflation, ii) supply chain disruptions during the COVID-led lockdowns, which affected inventory levels, and iii) record high commodity costs which resulted in lower margin. After navigating these unpleasant events, the sector is seeing signs of a revival. The commentary from textile companies have been positive as they expect a sequential improvement in demand due to normalised inventory levels at the retailers' end, correction in cotton prices and freight costs (amid the cool off in inflation), and better utilisation to boost EBITDA margin.

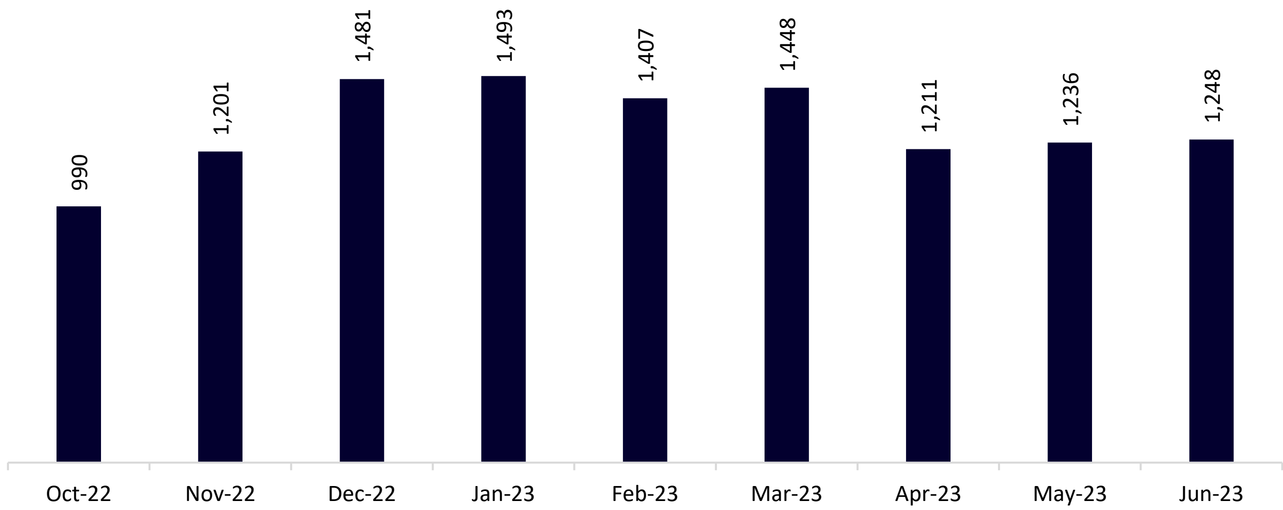
Exhibit 32: Correction in cotton prices



Source: Bloomberg

India's RMG exports hit a low of USD989mn in October 2022 on higher inventory levels at the retailers' end and a slowdown in demand due to rising inflation. Improvement in inventory levels and the cool-off in inflation resulted in RMG exports of USD1,448mn/USD1,248mn in March/June. This is in line with the commentary given by GEXP. We expect this trend to continue going forward.

Exhibit 33: India's RMG exports (USD mn)



Source: Apparel Export Promotion Council

Exhibit 34: This is in line with the commentary given by global retailers:

Company	Commentary
GAP	• **In the first quarter, inventory declined by 27% YoY. Last year's supply-chain challenges were addressed, which helped lower the stick-in-transit by 17%.** • Efforts are made to lower inventory levels. It is planning for inventory to be significantly lower than sales as compared to FY22. Net cash from operating activities was USD15mn in the quarter, driven by improved inventory levels and leaner buys.
H&M	• **Inventory level was well managed in Q1CY23. It increased by 4% YoY in this quarter versus a sales increase of 12% while the stock-in-trade decreased by 16% QoQ.** • The company expects a low single-digit increase in revenue as compared to last year, with a stagnant growth in margin.
Adidas	• **Inventories are still too high but are EUR300mn lower than that at the start of the year.** • For 2023, it expects a high single-digit decline in revenue due to uncertainty and challenges. Revenue will be impacted in FY23 due to the significant reduction in inventory levels. The management expects increased sales productivity in their stores.
Zara	• In Q1CY23, inventory rose 5% YoY versus a sales increase of 13%. The initial phase of the second quarter saw a constant performance.
Walmart	• **Inventory fell 7% at the end of the quarter, with an over 9% decline in Walmart US.** • It expects positive net sales growth of ~4% in constant currency terms.
Target	• At the conclusion of the first quarter, inventory fell 16% YoY due to its cautious approach in discretionary categories and surplus inventory carried over from last year. • It expects second-quarter sales to exhibit a broad range, with a slight decline in the low single digits.
Levi Strauss	• It substantially reduced inventory in monetary value and volume terms. The company reduced purchases in the first half of the year and successfully cleared existing inventory.
TJX	• As of April 29, total inventory amounted to USD6.4bn, a decrease from USD7bn recorded at the conclusion of Q1CY23. • The management aims to achieve a 2–3% increase in overall comparable store sales.
Nike	• During Q3, there was a YoY decline in the number of apparel units.
Abercrombie & Fitch	• Inventory fell a significant 20% YoY. The management is confident of meeting demand through restoration of chase capabilities. Total company sales experienced a 3% growth.

Source: Company, Nuvama Wealth Research

Revenue growth for all players is outpacing inventory growth, which indicates that inventory levels have fallen. Commentary from GEXP indicates that the demand environment should improve from here on. "The long-term macroeconomic factors are favourable to the growth of the business. Revenue will start growing sequentially in FY24. We expect the demand situation to improve in H2FY24."

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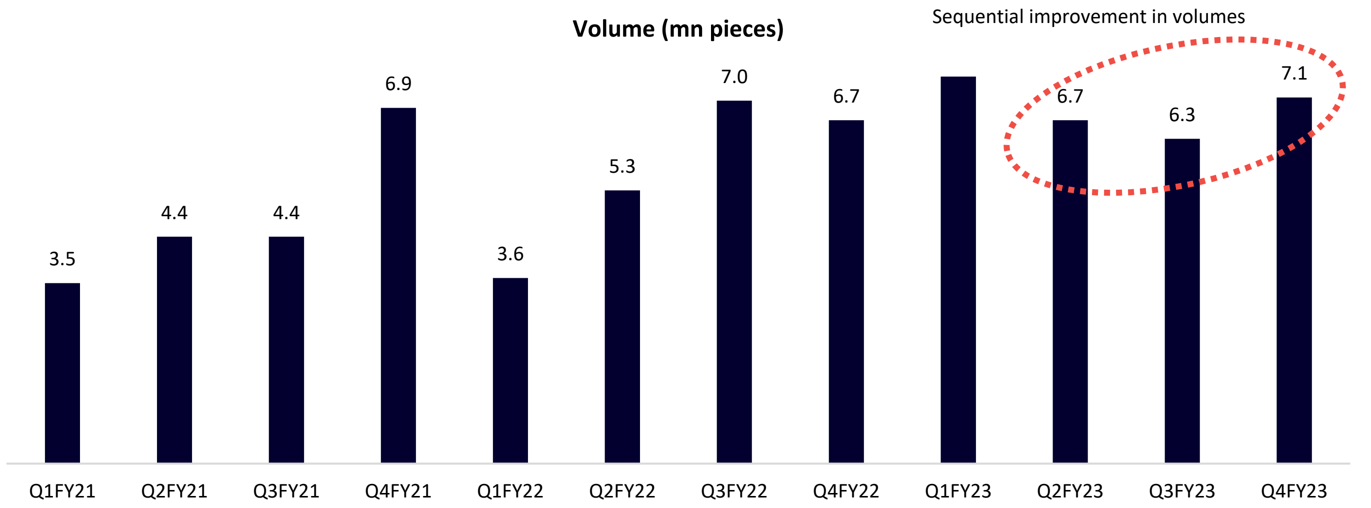
This is already visible in the volumes posted by GEXP in Q4FY23.

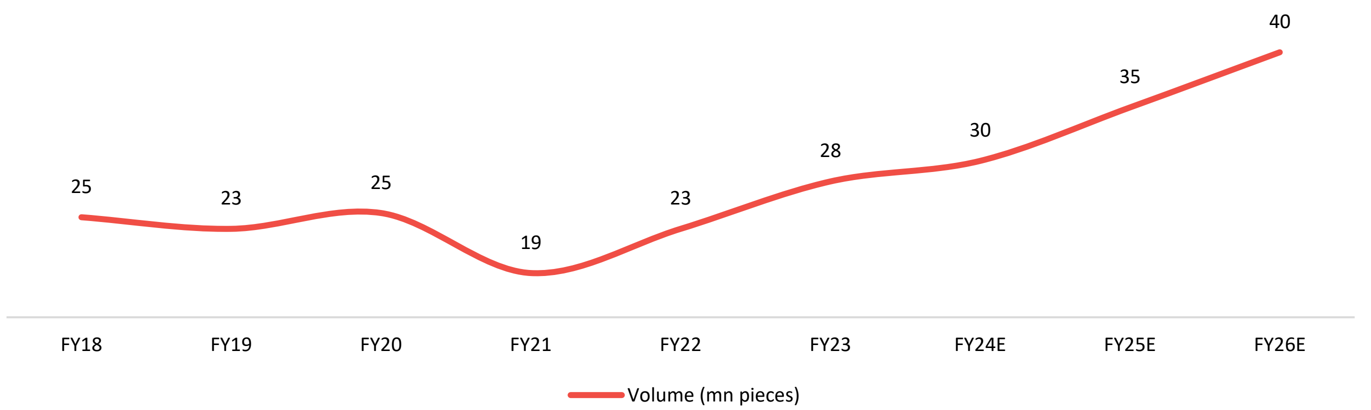
Exhibit 35:



Source: Company, Nuvama Wealth Research

We expect this improvement in trend to continue and GEXP to post healthy volumes in FY24. We expect volume growth to be driven by i) an increase in wallet share of existing customers, ii) addition of new customers, iii) higher contribution from the UK and EU on account of the FTA. Volume growth will be aided by aggressive capex.

Exhibit 36: Volumes (Mn pieces)



Source: Company, Nuvama Wealth Research

Peer analysis

Exhibit 37: Financial comparison of GEXP versus its peers

	Gokaldas Exports			KPR Mill (Garment division)			Arvind Fashion			Pearl Global		
	FY19	FY22	FY23	FY19	FY22	FY23	FY19	FY22	FY23	FY19	FY22	FY23
Vertical Integration	Partial			Full			Partial			Partial		
Knit/Woven Garment	Knit/Woven			Knit/Woven			Knit/Woven			Knit/Woven		
Range of products	Casual wear, bottom wear, Outer wear, Sportswear			Casualwear			Ethnic wear, shirts, jeans, Athleisure, Sportswear			Fashionwear, Casual Wear, Bottom wear,		
Capacity (mn pieces)	30	36	36	105	147	147	50	50	50	69	81	81
Volume (mn pieces)	23	23	28	94	122	128	34	36	32	41	54	51
Realisations (INR)	463	713	744	125	154	198	407	441	530	429	503	621
Revenue	1175	1790	2222	1171	1,693	2,309	1385	1588	1695	1,758	2,714	3,158
Growth - YoY (%)	13.9%	47.9%	24.1%	35%	36%	5%	13%	28%	7%	17%	82%	16%
EBITDA margin (%)	5%	11%	12%	23%	25%	23%	11.3%	10.7%	9.8%	6%	6%	8%
ROE (%)	14%	23%	22%	20%	30%	24%	10%	9%	10%	14%	12%	21%
RoCE (%)	6%	21%	24%	20%	29%	23%	10%	12%	12%	14%	13%	18%
D/E	1.5	0.1	0.0	0.4	0.3	0.3	1	0.6	0.4	0.5	0.8	0.4
W.C. days	83	71	44	142	113	129	77	61	54	40	82	80

Source: Company, Nuvama Wealth Research

*EBITDA for Arvind is for the textile division, which include its garment and the fabric division

*RoE, RoCE, D/E ratio, and working capital days for ARVND and KPR are for the consolidated entity

i) All four players clocked more than 15% CAGR over FY19–23, except ARVND (5% versus 17%/21%/16% for GEXP/KPR/PGIL).

ii) In terms of volume growth over FY19 levels, KPR leads the pack (at 1.4x), followed by GEXP (at 1.2x), PGIL (at 1.2x) and ARVND (at 0.9x).

iii) GEXP has grown its realisation by more than 1.6x followed by KPR (~1.6x), ARVND (1.3x), and PGIL (1.4x). All four players have shown a healthy growth in realisation driven by a favourable product mix. This shows that Indian players are moving towards higher realisation apparels.

iv) Knitwear is a lower value garment compared to woven. This is the reason why the realisation for KPR is lower than that of others. Knitwear is growing a bit faster than woven due to the trend towards casual wear. Hence, KPR's volume and revenue growth is slightly ahead of others. With a recovery in the economy, return to the workplace, and normalisation of formal occasions, we expect demand for formal wear and occasional wear to improve in the years ahead.

v) Margin for KPR is higher as it is fully backward integrated, whereas the other three are not. When we look at the margin improvement over FY19–23, the margin expansion for GEXP is the highest among its peers.

vi) With its healthy cash flows and fund infusion, GEXP can reduce its debt. In addition to this, there is a margin improvement of ~650bp for GEXP which has resulted in better return ratios.

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Shahi Exports: A clear outlier among apparel exporters *(but from unlisted space)*

Founded in 1974, Shahi Exports is the largest apparel manufacturer and exporter of ready-made garments. In over 48 years, its workforce has grown to more than 115,000 spread over 50 factories in nine states, with production capacities of more than 168mn pieces. The company has a longstanding relationship with large global brands such as GAP, Kohl's, Walmart, and H&M. It is backward integrated for knitted and woven garments and has augmented its ability to offer shorter lead times. Its top 10 customers constituted 64%/54% of total revenue in FY21/FY22.

Exhibit 38:

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Revenue	3,923	4,517	5,384	5,830	6,054	6,614	7,179	5,791	8,000
Growth		15%	19%	8%	4%	9%	9%	-19%	40%
EBITDA margin	9%	9%	11%	15%	11%	13%	13%	14%	11%
PAT	151	172	304	487	376	375	471	406	NA
PAT growth		14%	76%	60%	-23%	0%	26%	-14%	NA
RoE (%)	26	22	29	33	20	16	18	13	NA
RoCE (%)	21	19	29	37	22	21	19	14	NA
D/E ratio	1.1	0.5	0.1	0.1	0.4	0.5	0.2	0.0	NA
Working capital days	53	29	46	80	99	124	113	144	NA

**Data for FY22 and FY23 is not available*

Source: Company, Nuvama Wealth Research

The opportunity arising from retailers looking to shift their sourcing away from China will require efficient and well-capitalised players like Shahi Exports who can invest in quality, workforce, periodic capacity addition, and compliance management.

We think GEXP has showcased its ability to execute well under the current management. The domestic industry is fragmented, so large players like GEXP are well placed to garner a bigger share in incremental outsourcing to India.

Risks

Change in key management personnel
Mr. Sivaramakrishnan Ganapathi (CEO and MD) is largely responsible for turning around GEXP since his appointment in October 2017. His data driven approach and focus on productivity have been the key reason for its success. Any change in its key management personnel can hurt its operations and plans.

Concentrated customer base
Its top five customers account for ~75% of revenue and the largest customer accounts for more than 20%. So, any loss of its existing customers can lead to lower revenue and margin.

Concentrated geographical base
Almost 85% of total revenue accrues from North America. This exposes GEXP to significant geographic concentration risk. Any slowdown in the US economy will hamper sales and volumes.

Change in government policies
The government has provided several production and export-related incentives for the textile sector (RoSCTL, EPCG, advance authorisation scheme, duty drawback credit, etc.). So, any modification or removal of these schemes will adversely affect GEXP's business and profitability.

Availability and training of manpower
Availability and training of skilled labour is one of the biggest challenges for GEXP in scaling up its capacities. Its business performance and production can be affected due to strikes by workers. GEXP is planning to set up an apparel manufacturing unit in Bangladesh, where strikes are common as the average wage rate is lower as per labour unions.

Volatility in forex rates
GEXP is an exporter of apparel products and earns majority of its revenue from the international market. It also imports ~30% of raw materials from China, Korea, and Taiwan. So, any sharp fluctuation in forex rates can affect realisation and margin.

Valuation and view

GEXP has been a classic turnaround story under Clear Wealth Consultancy Services-led MD Mr Sivaramakrishnan Ganapathi and team, with a sharp focus on high value and margin products, strengthening of the supply chain, reduction in wastage, and an improvement in productivity. The result has been spectacular as: i) revenue grew 17% over the last five years from almost stagnant growth under the Blackstone-led management, ii) it turned profitable and achieved double-digit margin (a first in its operating history) from negative to low single-digits, and iii) it clocked 61% PAT CAGR over the last four years, reaching triple-digit PAT figures twice over the last two years.

The management has strategised well to focus on the US market and reducing its dependence on the European market, where India garners a lower margin (due to the lack of an FTA with the EU region) vis-à-vis other apparel exporting countries such as Bangladesh and Vietnam. With an FTA on the cards with the UK and the EU, GEXP will start focusing on this region as it already has relationships with global retailers based in those regions. The company is setting up capacities to the tune of INR370cr (of this, it has incurred INR165cr) to grab higher export orders given the normalisation in global retail and as retailers are looking to export markets such as India to meet their fresh order requirements. The launch of the textile PLI and textile parks schemes will help large, organised players such as GEXP gain significantly in the years to come.

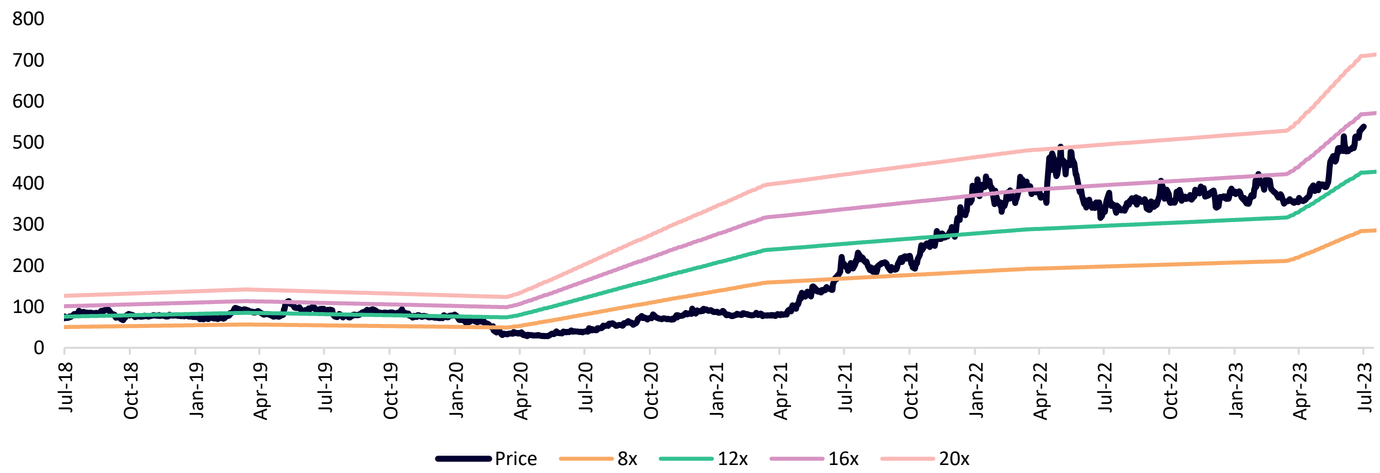
Though promoter entity — Clear Wealth Consultancy Services — reduced its stake to ~10% from ~40% in 2018, it has no further plans to reduce its stake. This led to ~50% rally in GEXP's share price in the last three months. **With all growth levers in place and multiple industry tailwinds, we expect it to be one of the foremost beneficiaries. We forecast a 16%/20%/21% growth in revenue/EBITDA/PAT over FY23–26. We initiate coverage with a 'BUY' rating and TP of INR650 (17x FY25E P/E, an upside of 21%) given its execution capabilities, growth opportunities, and quality management.**

Exhibit 39: Valuation matrix

Company	CMP	M-cap	Revenue (INR cr)			EBITDA margin			PAT (INR cr)			P/E ratio (x)			RoE (%)		
			FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Gokaldas Exports	535	3,323	2,222	2,390	2,876	12%	12%	13%	173	160	216	19.3	20.8	15.5	21.7	16.6	18.7
Arvind	135	35,237	8,363	8,779	9,948	10%	10%	11%	331	374	507	11	9.0	7.0	11.0	11.0	13.0
Pearl Global Industries	616	1,335	3,158	NA	NA	8%	NA	NA	153	NA	NA	9.3	NA	NA	21.0	NA	NA
KPR Mill	643	21,994	5,684	6,293	6,957	22%	23%	24%	814	950	1116	21.2	18.2	15.7	22.7	21.7	23.5
SP Apparels	463	1,161	1,062	1230	1440	13%	16%	17%	82	115	150	14.4	10.3	7.9	13.7	14.8	17.8

Source: Company, Nuvama Wealth Research

Exhibit 42: One-year foreword P/E band (x)



Source: Company, Nuvama Wealth Research

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Company Description

GEXP is one of India's leading apparel manufacturers and exporters with an annual capacity of 36mn pieces. It has an extensive range of apparels, such as outerwear, activewear, and fashion wear, and caters to the needs of leading international retailers such as GAP, Banana Republic, Columbia, Carhartt, Marks & Spencer, Old Navy, Puma, Walmart, JC Penny, Adidas, and H&M. The company operates 20 facilities with a workforce of more than 32,000 (mostly women). It was initially promoted as a partnership firm by late Mr Jhamandas H. Hinduja in 1978 and incorporated as a public limited company in 2004. In August 2007, Blackstone invested USD165mn to acquire upto 70.1% stake. Clear Wealth Consultancy Services, led by Mr Mathew Cyriac (erstwhile business co-head of Blackstone India), acquired 39.97% stake from Blackstone FP Capital on July 10, 2017.

Exhibit 40: Value chain

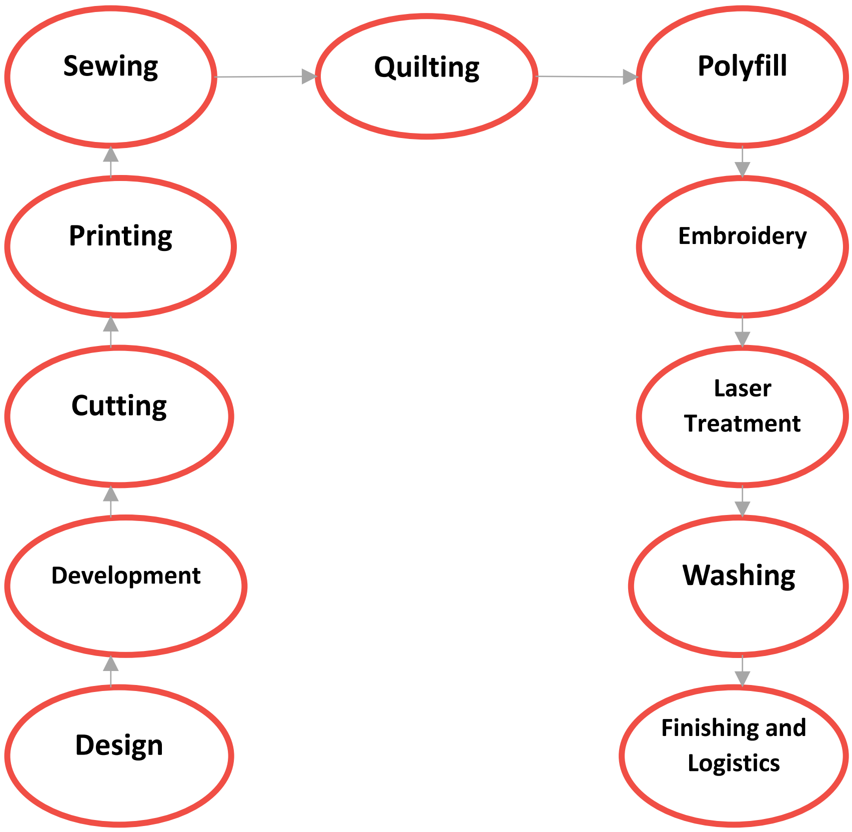


Exhibit 41: List of customers

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

Source: Company, Nuvama Wealth Research

Exhibit 42: Raw material break-up

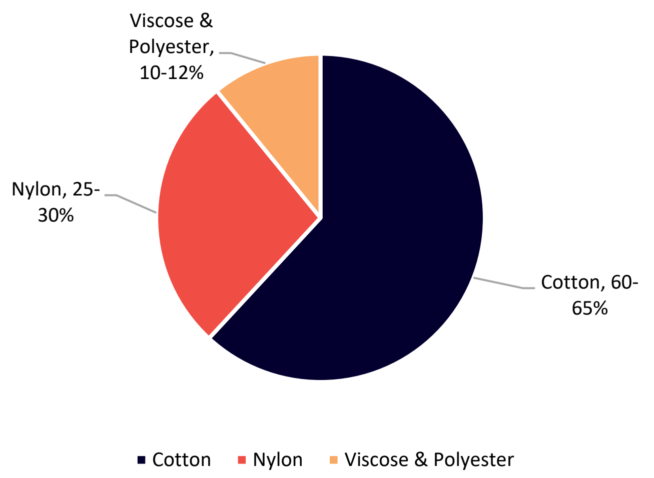
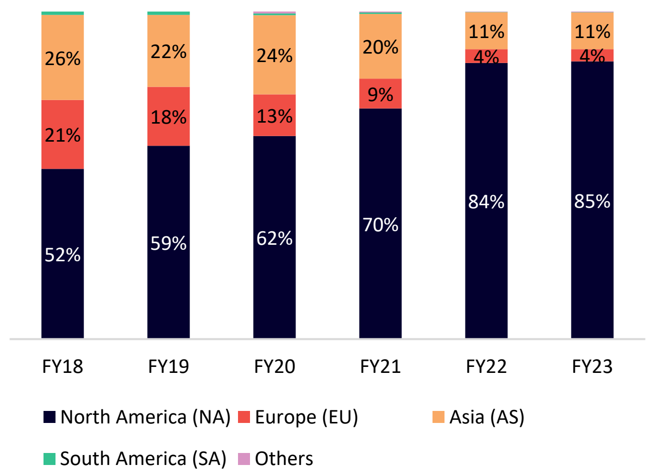


Exhibit 43: Geography-wise revenue mix (%)



Source: Company, Nuvama Wealth Research

Timeline

1947

Mr. Jhamandas Hinduja and his two brothers, Mr. Naraindas and Mr. Devkishendas, moved their Sindhbased silk trading business GokaldasHarbhagwandas Partners to India.

1979

Business was split among the 3 brothers, with Mr. Jhamandas Hinduja taking control of Gokaldas Exports. The company was run by his 3 sons, Mr. Madanlal, Mr. Rajendra, & Mr. Dinesh Hinduja

1979-96

Expansion through Partnership businesses as the regulatory environment, labor laws, and reservations for small-scale industries made it conducive for partnership-led growth

2003-04

Corporatization of all the 17 different Partnership businesses engaged in apparel manufacturing by forming Gokaldas Exports and 12 subsidiaries

2005

The Company went public in 2005 and was listed on Indian stock exchanges.

2007

Blackstone, the global private equity giant, acquired a controlling stake of approximately 70% in the Company.

2008

First to adopt Lean Manufacturing System in 2008 across plants

2017

Blackstone reduced its investment and finally exited its investment by selling its stake to Clear Wealth Consultancy Services LLP.
Mr. Sivaramakrishnan Ganapathi takes over as the Managing Director of the company

2018

Merger of 9 wholly owned subsidiaries with the Holding company Gokaldas Exports Ltd.

2021

The company raises Rs.3bn through a Qualified Institutional Placement (QIP)

The company outlines a CAPEX investment of Rs.3bn in a woven facility in Bhopal, Knit Fabric processing Unit in Tamil Nadu and a unit in Bangladesh

2022

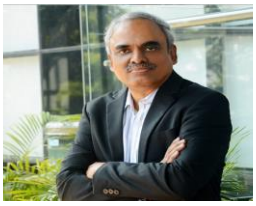
Promoters brought down the stake from 33% to 24%

2023

Started pilot facility in MP for Knitwear in Q4FY23 and started production in Q1FY24.

Promoter stake reduced to 11%

Key management personnel

Name and designation	Profile
 **Mr Sivaramakrishnan Ganapathi** CEO and Managing Director	Mr Sivaramakrishnan Ganapathi took over as CEO and MD in October 2017 after having led several high-growth businesses in diverse industries in Asia, North America, and Europe. He helped turn around the organisation after 2017. Before joining GEXP, he was COO at Idea Cellular. In his career spanning over 27 years, his longest stint (21 years) was with the Aditya Birla Group. Prior to that, he worked at DSP Merrill Lynch, ICICI Bank, and Uhde India. He has a B. Tech degree from NIT and holds a post-graduate diploma in management studies from IIM, Bangalore.
 **Mr Mathew Cyriac** Chairman & Non-Executive Director	Mr. Mathew Cyriac served as the Managing Director in the Corporate Private Equity Group of Blackstone India based in Mumbai for nearly a decade. After leaving Blackstone, he floated a private investment firm Florintree Advisors. He partnered with Clear Wealth Consultancy and bought stake in GEXP from Blackstone. He brought in his IIM, Bangalore batchmate Mr S Ganapathy as MD of GEXP. He is currently working with Florintree Advisors. He has rich experience in the Investment Banking Division of Bank of America in India and in the Engineering Division of Tata Motors. He also served as Head Corporate Development Strategy of iGate Global Solutions Limited. Mr. Mathew Cyriac holds a bachelor's degree in engineering and an MBA from the Indian Institute of Management, Bangalore.
 **Mr A Sathyamurthy** Chief Financial Officer	Mr A Sathyamurthy has an extensive domain experience in manufacturing, FMCG, retail, and food processing. He has worked with large organisations like EID Parry (India), Aditya Birla Retail, Perfetti Van Melle, and Rajshree Sugars & Chemicals. He holds a bachelor's degree in commerce from the University of Madras and an MBA from Symbiosis. He is a fellow member of the Cost and Management Accountants of India. He heads the organisation's finance portfolio, including shareholder value creation, treasury operations, audit, and cost management. He also spearheads information technology, commercial, ESG, and corporate governance in the organisation.
 **Mr Poorna Seenivasan** Executive Director	Mr Poorna Seenivasan S has over 28 years of experience in marketing, operations, and the projects domain. He was earlier associated with Sanghi Spinners India, GTN Textiles, Shahi Exports, and Scott Garments in various capacities. He is a textile technology professional and has earned his MBA in marketing from Madurai Kamaraj University. He was bestowed the 'Outstanding Alumnus Award' for his exemplary contribution to the profession. He is responsible for business operations, including sales and marketing, customer experience, and operational excellence. He also leads the development and implementation of new business projects.
 **Mr Prabhat Kumar Singh** Executive Director	Mr Prabhat Kumar Singh is responsible for corporate development at GEXP. He plays a significant role in interfacing with the industry and various regulatory authorities, including project implementation under government schemes, modernisation, technology and infrastructure upgradation for textiles, and funding support. He has four decades of experience in the apparel and textile sector and possess a strong knowledge of the apparel market. He has held several leadership positions in the textile industry as well as industry bodies like Apparel Export Promotion Council (AEPC). He has a bachelor's degree in business management from Banaras Hindu University; an MBA from XLRI, Jamshedpur; and a Diploma in International Marketing from Buckinghamshire College (UK).

Key management personnel

Person	Position
Mr Sivaramakrishnan Ganapathi	CEO and Managing Director
Mr Mathew Cyriac	Chairman & Non-Executive Director
Mr A Sathyamurthy	Chief Financial Officer
Mr Poorna Seenivasan	Executive Director
Mr Prabhat Kumar Singh	Executive Director

Shareholding

Shareholder's name	% of holding
Promoter group	**11.0**
DIIs	**32.3**
SBI Magnum Fund	8.5
Nippon Life India Trustee	6.8
Aditya Birla Sun Life Trustee	4.2
HSBC Small Cap Fund	3.2
Tata Mutual Fund	2.3
SBI Life Insurance	1.6
Motilal Oswal Growth Opportunities Fund	1.6
FIIs	**16.2**
Goldman Sachs funds	5.8
Abu Dhabi Investment Authority	3.8
HSBC Global Investment Fund	2.1
Public	**40.4**

Appendix

Weaving the opportunities together

Free trade agreements (FTA)

i) Australia: The India-Australia FTA came into force from December 29, 2022 and offered Indian exporters zero duty access to Australia (earlier 5%). This has provided Indian exporters a level-playing field at par with China, Vietnam, and Bangladesh. Apparel imports in Australia were valued at USD7.4bn in 2021, with India having a market share of ~4%. India's RMG exports to Australia have clocked ~12% CAGR in the last five years. AEPC believes that India's RMG exports to Australia will grow by ~3x by 2025, which should be aided by the FTA.

ii) UAE: India commands ~43% share in UAE's apparel imports, which makes the emirate one of the major buying destinations for the Indian apparel export industry. India's apparel exports to UAE stood at USD4.9bn. AEPC believes the signing of the FTA will net additional exports of USD2bn over the next five years.

iii) UK: India is in active discussions with the UK for an FTA (currently an export duty of 9.5% is being levied). If the FTA with the UK goes through (expected in 2023), it will provide India a level-playing field with Vietnam and Bangladesh as **UK's apparel imports stood ~USD24bn in 2022 and it had only a 6% market share. GEXP has started aggressive discussions with some retailers in the UK. The signing of the FTA with the UK can provide a huge boost as it offers India a USD1–1.5bn opportunity.**

Exhibit 44: UK apparel imports (USD bn)

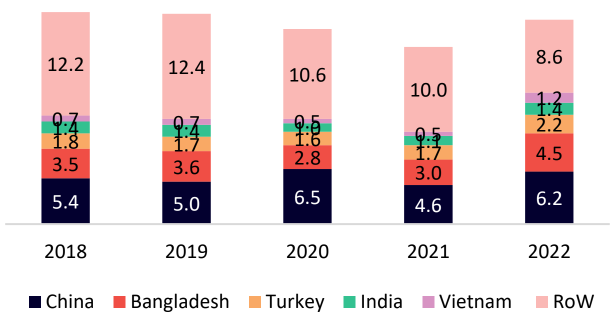
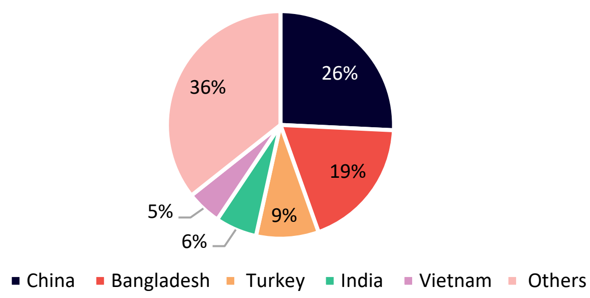


Exhibit 45: Top UK apparel exporters



Source: Company, Nuvama Wealth Research

iv) Europe is India's second largest market for apparel exports. India exported USD4.8bn worth of RMG to the EU in 2022 while Bangladesh accounted for ~USD23bn. The average tariff applied on imports of textile and clothing products from India into the EU is ~9.6%, whereas Bangladesh enjoys duty free access. The EU-India FTA will help expand apparel exports from Indian factories to EU nations.

Exhibit 46: Major exporting countries to EU-27

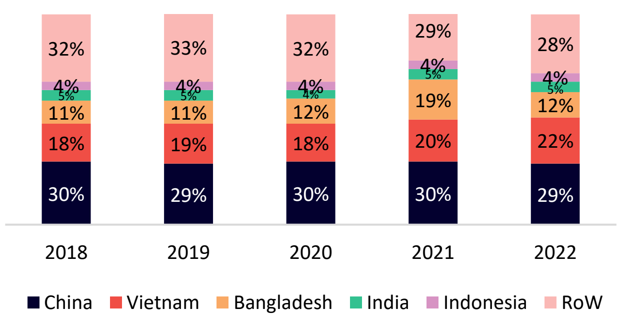
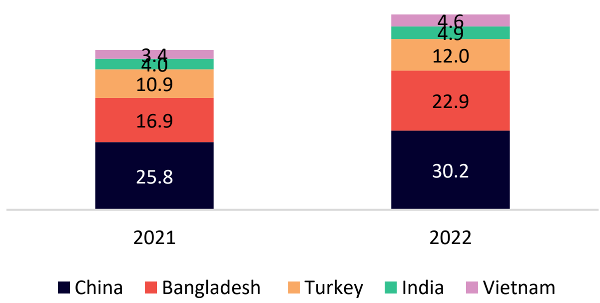


Exhibit 47: EU RMG imports (USD bn)



Source: Nuvama Wealth Research

RoSCTL: *The government in 2022 decided to extend the Rebate of State and Central Taxes and Levies (RoSCTL) scheme till 2024, providing a major relief to textile exporters. The maximum rate of rebate on apparel under this scheme is 6.05%.*

PM MITRA scheme: *The establishment of PM MITRA parks represents a unique model, where the Centre and the state will work together to increase investment, promote innovation, create job opportunities, and make India a global hub for textile manufacturing and exports. It envisages an outlay of ~INR70,000cr and employment generation of 20lk. These parks offer excellent infrastructure, plug and play facilities, and training and research facilities to the industry.*

Financials

Income statement (INR crs)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Income from operations	1,790	2,222	2,402	2,918	3,486
Direct costs	907	1,177	1,272	1,530	1,820
Employee costs	539	619	672	810	959
Other expenses	139	155	161	195	227
Total operating expenses	1,585	1,951	2,105	2,536	3,005
EBITDA	205	271	297	382	481
Depreciation and amortisation	59	72	75	79	83
EBIT	147	199	221	303	398
Interest expenses	40	26	28	31	34
Other income	11	25	28	30	33
Extraordinary items	0	6	0	0	0
Profit before tax	117	192	221	302	397
Provision for tax	-0	31	55	76	99
Core profit	117	161	165	227	298
Extraordinary items	0	-6	0	0	0
Profit after tax	117	155	165	227	298
Share from associates	0	0	0	0	0
Adjusted net profit	117	155	165	227	298
Equity shares outstanding (cr)	6	6	6	6	6
EPS (INR) basic	19.9	28.5	27.2	37.3	49.0
Diluted shares (Cr)	6	6	6	6	6
EPS (INR) fully diluted	19.9	28.5	27.2	37.3	49.0
Dividend per share	0	0	0	0	0
Dividend payout (%)	0	0	0	0	0

Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Operating expenses	88.5	87.8	87.7	86.9	86.2
Depreciation	3.3	3.2	3.1	2.7	2.4
Interest expenditure	2.2	1.2	1.2	1.1	1.0
EBITDA margins	11.5	12.2	12.4	13.1	13.8
Net profit margins	6.5	7.0	6.9	7.8	8.5

Growth metrics (%)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Revenues	47.9	24.1	8.1	21.5	19.5
EBITDA	102.5	31.8	9.5	28.9	25.9
PBT	339.7	64.3	14.7	37.1	31.4
Net profit	342.0	37.4	2.8	37.1	31.4
EPS	221.4	43.4	(4.4)	37.1	31.4

Balance sheet (INR cr)

As on 31st March	FY22	FY23	FY24E	FY25E	FY26E
Equity share capital	29	30	30	30	30
Preference Share Capital	0	0	0	0	0
Reserves & surplus	679	856	1,021	1,248	1,546
Shareholders funds	708	886	1,052	1,278	1,576
Secured loans	63	35	85	35	15
Unsecured loans	0	0	0	0	0
Borrowings	63	35	85	35	15
Minority interest	0	0	0	0	0
Sources of funds	**771**	**922**	**1,137**	**1,314**	**1,592**
Gross block	263	282	432	482	532
Depreciation	108	116	191	270	353
Net block	155	166	241	212	179
Capital work in progress	11	108	118	128	138
Total fixed assets	166	274	359	340	316
Right of Use Assets	130	113	133	153	173
Investments	42	372	382	387	437
Inventories	434	293	382	481	555
Sundry debtors	92	136	186	242	270
Cash and equivalents	13	24	16	19	147
Loans and advances	170	83	91	100	110
Other current assets	0	0	0	0	0
Total current assets	708	536	676	842	1,083
Sundry creditors and others	293	244	308	329	363
Provisions	37	44	49	54	59
Total CL & provisions	330	288	357	383	422
Net current assets	378	248	319	460	660
Net Deferred tax	12	31	31	31	31
Misc expenditure	43	-116	-86	-56	-26
Uses of funds	**771**	**922**	**1,137**	**1,314**	**1,592**
Book value per share (INR)	120	146	173	210	259

Cash flow statement (INR crs)

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Net profit	104	160	165	227	298
Add: Depreciation	59	72	75	79	83
Add: Misc expenses written off/Other Assets	30	26	-30	-30	-30
Add: Deferred tax	0	0	0	0	0
Gross cash flow	192	258	211	276	351
Less: Changes in W. C.	-75	111	79	138	73
Operating cash flow	267	147	132	138	278
Less: Capex	80	135	150	50	50
Free cash flow	**187**	**12**	**-18**	**88**	**228**

Ratios

Year to March	FY22	FY23	FY24E	FY25E	FY26E
ROAE (%)	23.5	21.7	17.1	19.5	20.9
ROACE (%)	20.8	24.1	22.2	25.4	28.0
Debtors (days)	19	22	28	30	28
Current ratio	2	2	2	2	3
Debt/Equity	0.1	0.0	0.1	0.0	0.0
Inventory (days)	88	48	58	60	58
Payable (days)	36	26	25	24	23
Cash conversion cycle (days)	71	44	61	66	63
Debt/EBITDA	0	0	0	0	0
Adjusted debt/Equity	0.1	0.0	0.1	0.0	(0.1)

Valuation parameters

Year to March	FY22	FY23	FY24E	FY25E	FY26E
Diluted EPS (INR)	19.9	28.5	27.2	37.3	49.0
Y-o-Y growth (%)	*221.4*	*43.4*	*(4.4)*	*37.1*	*31.4*
CEPS (INR)	29.8	40.3	39.6	50.3	62.7
Diluted P/E (x)	*26.9*	*18.8*	*19.7*	*14.3*	*10.9*
Price/BV(x)	4.5	3.7	3.1	2.5	2.1
EV/Sales (x)	*1.8*	*1.5*	*1.3*	*1.1*	*0.9*
EV/EBITDA (x)	15.6	12.1	10.9	8.3	6.3
Diluted shares O/S	*5.9*	*6.1*	*6.1*	*6.1*	*6.1*
Basic EPS	19.9	28.5	27.2	37.3	49.0
Basic PE (x)	*26.9*	*18.8*	*19.7*	*14.3*	*10.9*
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

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