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Gokaldas Exports Ltd (GEXP IN)

Geared up to ride the global opportunity

INDIA | SMALLCAP| INITIATING COVERAGE REPORT

21 February 2023

Why we like the company:

- Post the management change in 2018, the business performance has improved significantly. The company is well placed to cater the humongous opportunity in global apparel Industry.
- The global opportunity for apparel export is around ~$450-500 bn whereas India's export to the world stood at ~$16 bn (~3.5% market share). Gokaldas Exports Ltd (GEXP)'s FY22 revenue stood at $0.22 bn (~ Rs. 17.9 bn) which is only 1.5% of India's total apparel exports.
- India is well positioned to grab the market share in global apparel market. The prevailing situation in other competition markets (China, Sri Lanka, Pakistan and Vietnam) and China + 1 sentiment would strengthen India's position.
- The domestic apparel market is fragmented and GEXP is one of the largest players. The industry demands large number of manpower engagement (GEXP has ~28-30K employees on their payroll) and periodic investments which only large organized player can manage.
- The company has strong relationship with global giants in apparel industry like GAP, Columbia, H&M and Puma. It is exploring opportunity to increase the wallet share by expanding product range / categories.
- GEXP is investing ~Rs. 3.7 bn from FY22-24 period on 1) increasing capacity, 2) entering into knitwear and 3) setting up manufacturing setup in Bangladesh (initially through JV) which would add Rs. 13-14 bn at full capacity.
- FTA with UK & EU would open up new opportunities worth ~$ 1 -1.5 bn for the Industry.

Outlook and view:

GEXP seems to be a classic turnaround in all fronts led by 1) focus on end market, 2) increase the wallet share in existing customers and adding new customers, 3) strengthening manufacturing capabilities with periodic investment, 4) cost optimization and reduction in wastages and 5) fund infusion in two stages. The outcome of such steps is reflecting in consistent revenue growth, gradual margin improvement (from loss to OPM of 10.3% as on FY22) and strong balance sheet.

The steps taken to turnaround the company has changed the direction (and perception among customer) of the company. We believe that company's focus on growth to tap the global opportunity along with India's presence across the textile value chain, favorable policies and weak situation at competing countries would help the company to achieve sustainable growth for mid to long term. We expect sales / EBIDTA / PAT growth of 21% / 28% / 29% for FY22-25 period. At CMP the stock is trading at 13.1x FY25E. We initiate coverage on the company with price target of Rs. 582, implying 38% upside.

Key Financials: **Rs. Mn**

Year	Net Sales	EBIDTA	PAT	EPS	P/E	EV/EBIDTA	P / BV	ROE	ROCE
FY21	12107.3	1030.5	264.9	6.2	68.4	20.9	6.2	9.1	7.7
FY22	17903.2	1844.1	1170.8	19.9	21.3	14.9	3.5	16.5	16.3
FY23E	22897.4	2598.0	1620.4	27.5	15.4	9.7	2.9	18.6	20.1
FY24E	25148.9	2918.1	1521.9	25.8	16.4	8.6	2.4	14.9	19.2
FY25E	29330.0	3519.3	1906.5	32.3	13.1	7.1	2.1	15.7	21.0

BUY

CMP Rs 423
TARGET Rs 582 (+38%)

COMPANY DATA

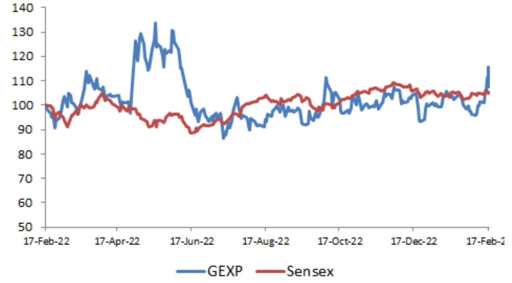
O/S SHARES (MN) :	60.6
MARKET CAP (RS MN) :	25594.0
MARKET CAP (USD MN) :	304
52 - WK HI/LO (RS) :	520/ 301
PAR VALUE (RS) :	5

SHARE HOLDING PATTERN, %

PROMOTERS :	21.0
FII / FPI :	14.7
FI / MF / AIF :	24.2
Corp Bodies:	6.3
PUBLIC & OTHERS :	33.9

As on Dec 22

PRICE Vs. SENSEX



Source: Phillip Capital India Research

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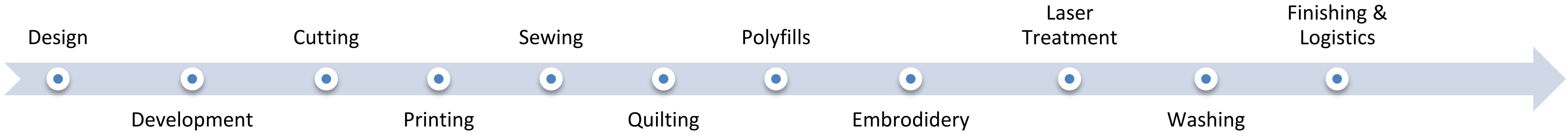
Company Background:

Gokaldas Exports Ltd (GEXP) is one of the largest apparel exporters of India. The company was incorporate in 1979 by Hinduja group, in 2007 Blackstone PE acquired majority stake from promoters at Rs. 275 / share (Rs. 482.5 crs for 50.1% stake) which was followed by open offer. The PE took the operational control around 2011-12 but could not transform the operational performance so they eventually started reducing the stake. In April 2017, Mr. Mathew Cyriac, the former co-head of Blackstone private equity business in India along with other investors through Clear Wealth Consultancy Services LLP acquired Blackstone's pending stake in the company at Rs. 42 / share.

The company deals in broad range of woven apparel products like outerwear, activewear, fashionwear for all weather and seasons. It has 20+ production units across 4 Indian states (Karnataka, Andhra Pradesh, Tamil Nadu, and Madhya Pradesh) with total production capacity to manufacturer 36mn pcs / year. GEXP directly employs ~30000+ employees with 80% of women workforce. The company has long standing relationship with global apparel companies like GAP, H&M, Puma, Adidas, Columbia, Marks & Spencer etc; ~90% of revenue is coming from exports and balance from domestic market. Over the years the company has developed capabilities across the manufacturing processes and thus the value chain.



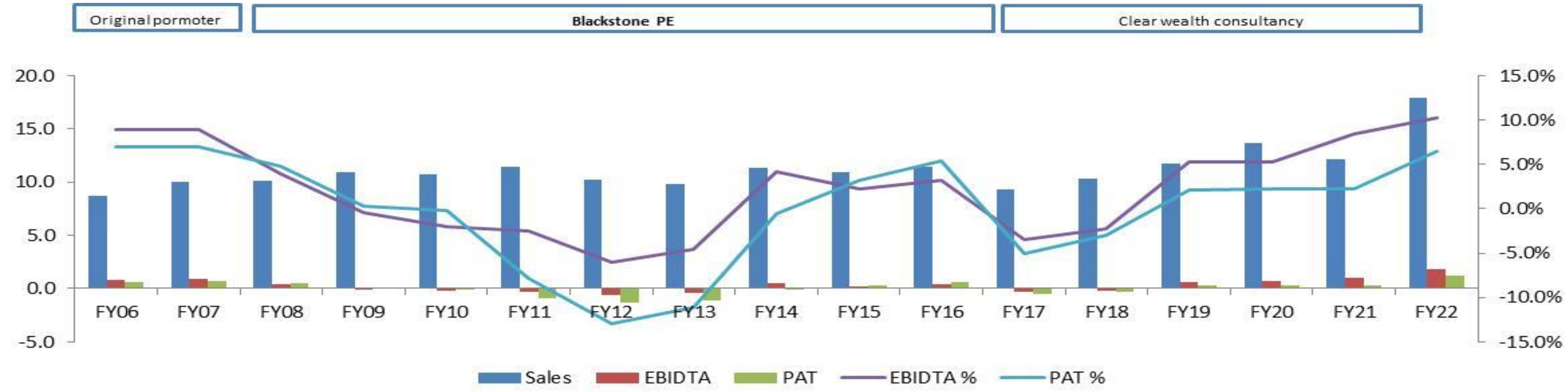
Details of KMP and board of directors

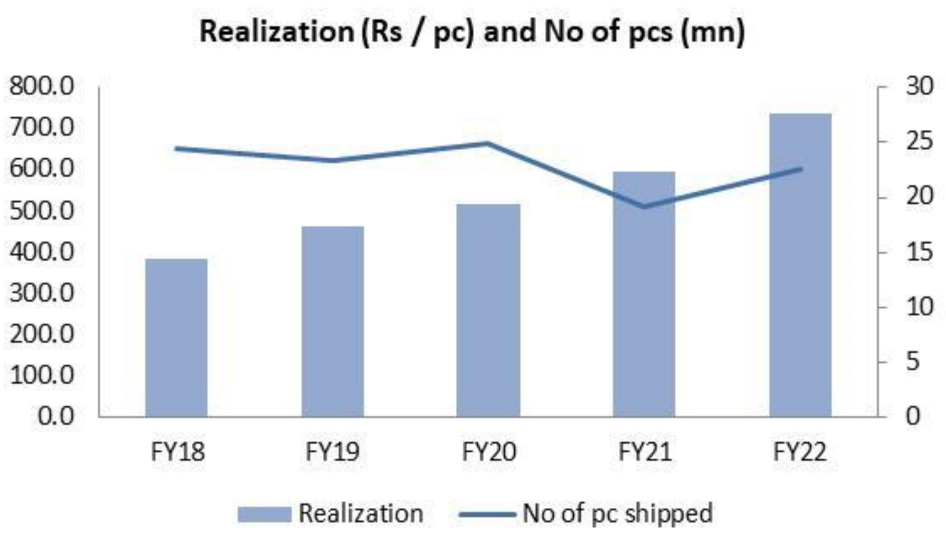
Person Name	Designation	Background
Sivaramakrishnan Ganapathi	Executive VC & MD	Siva has worked with the Aditya Birla Group for over two decades, involved in leadership positions in diverse businesses. He has also been with DSP Merrill Lynch, ICICI, and Uhde India. Siva holds a Master degree in Management from IIM, Bangalore and a Bachelor's degree in Mechanical Engineering from NIT.
A Sathyamurthy	CFO	He has worked with large organizations like EID Parry, Aditya Birla Retail Ltd, Perfetti Vanmelle and Rajshree Sugars & Chemicals. He heads the organization's finance portfolio including shareholder value creation, treasury operations, audit and cost management.
Poorna Seenivasan S	Executive Director	Poorna brings in 28+ years of extensive and rich experience in Marketing, Operations and Projects domain and comes with a strong network of business relationships. He holds responsibility for business operations, including sales and marketing, customer experience and operational excellence. He also leads development and implementation of new business projects.
Prabhat Kumar Singh	Executive Director	He has held several leadership positions in the textile industry as well as industry bodies like Apparel Export Promotion Council (AEPC). He plays a significant role in interfacing with the industry and the various regulatory authorities, including project implementation under the Government schemes, modernization, technology and infrastructure upgradation.

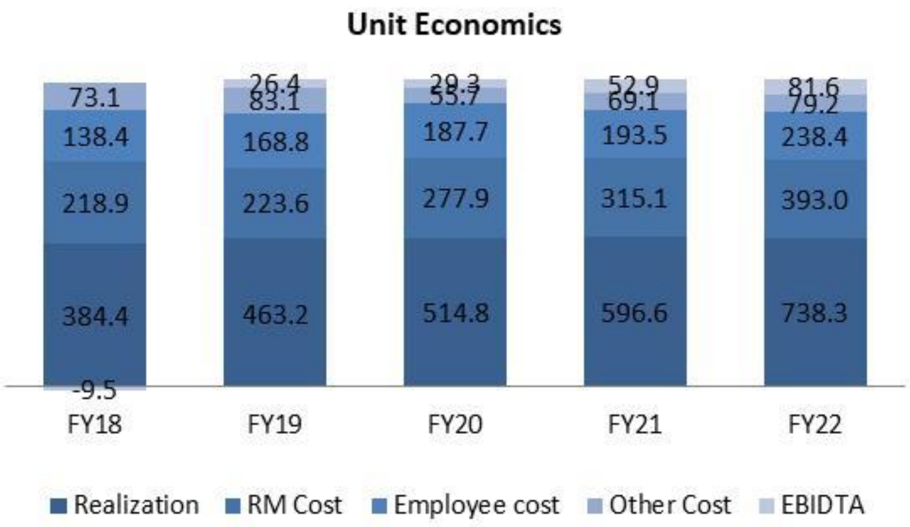
Mathew Cyriac	Chairman & Non-Executive Director	Mr. Mathew Cyriac is currently working with Florintree Advisors. He served as the Managing Director in the Corporate Private Equity Group of Blackstone India based in Mumbai for nearly a decade. He has rich experience in the Investment Banking Division of Bank of America in India and in the Engineering Division of Tata Motors.
Rama Bijapurkar	Non–Executive Independent Director	She is an independent management consultant. She is amongst India's most experienced Independent Board of Directors. She is a Professor of Management Practice at Indian Institute of Management, Ahmedabad.
Anuradha Sharma	Non–Executive Independent Director	She is an HR Practioner, Business Executive and Entrepreneur. Since 2005, at The HR Practice, she had the opportunity to bring this philosophy to over 150 corporations she has consulted for.
George Varughese	Non–Executive Independent Director	Mr. Varughese has completed Mergers and Acquisitions, Financing and Restructuring transactions in various industries over the last 35 years. Mr. George Varughese is the CEO and Managing Director of Alvarez and Marsal Securities, which is the broker-dealer and investment banking unit of Alvarez and Marsal in the USA.
Shivanandan Ashok Dalvie	Non–Executive Independent Director	Mr. Shivanandan Ashok Dalvie is the founder of Cotton Tree Management Limited. Cotton Tree advises on private equity investments in technology enabled companies in the consumer, industrial and business services sectors across Asia and with focus on India.

Source: Company, Phillip Capital India Research

In the following charts we have shown financial performance across three phases of management control (original promoter, Blackstone and clear wealth consultancy), operating metrices, geography wise sales, product mix and product portfolio mix. It also reflects the transition of the organization across the management change and its journey towards profitable growth.




Realization (Rs / pc) and No of pcs (mn)
800.0
700.0
600.0
500.0
400.0
300.0
200.0
100.0
0.0
30
25
20
15
10
5
0
FY18
FY19
FY20
FY21
FY22
Realization
No of pc shipped


Unit Economics
73.1
138.4
218.9
384.4
-9.5
26.4
83.1
168.8
223.6
463.2
29.3
55.7
187.7
277.9
514.8
52.9
69.1
193.5
315.1
596.6
81.6
79.2
238.4
393.0
738.3
FY18
FY19
FY20
FY21
FY22
Realization
RM Cost
Employee cost
Other Cost
EBIDTA


Geography wise sales (%)
26.0%
21.0%
52.0%
21.8%
17.9%
59.1%
24.2%
12.7%
62.0%
19.8%
9.1%
70.4%
11.3%
4.2%
84.3%
FY18
FY19
FY20
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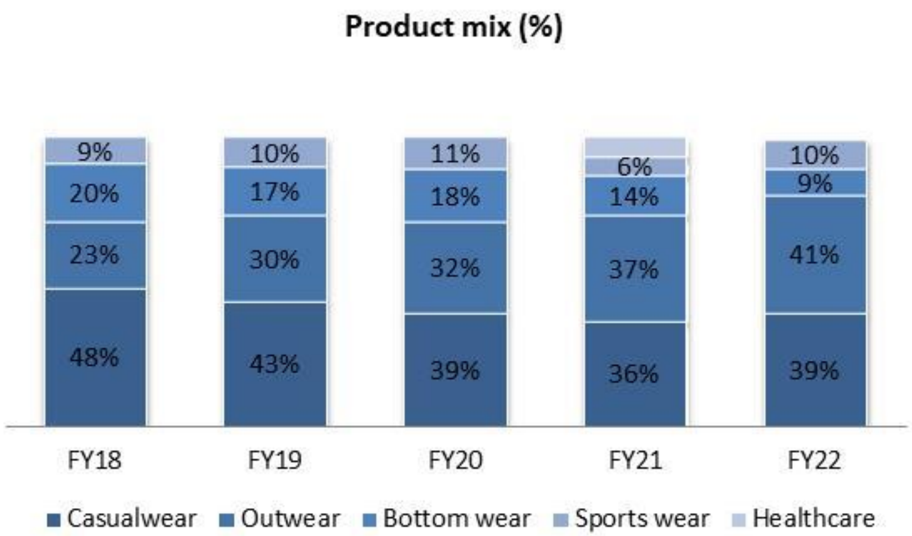
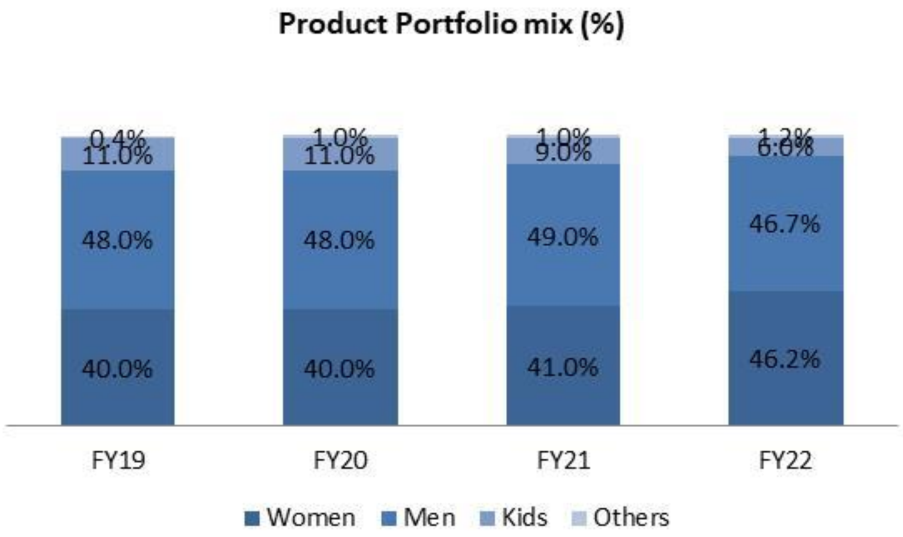
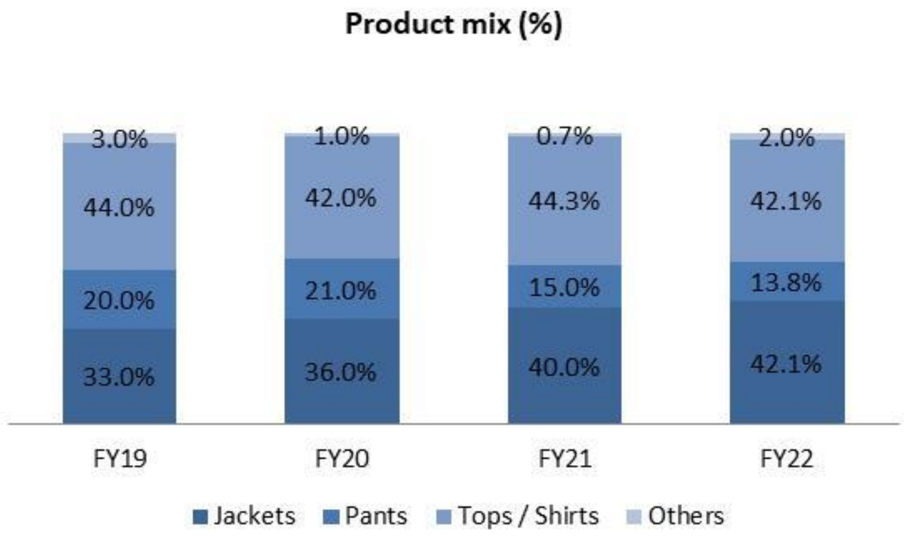
FY22
North America
Europe
Asia
South America
Ocenia
Africa


Product mix (%)
9%
20%
23%
48%
10%
17%
30%
43%
11%
18%
32%
39%
6%
14%
37%
36%
10%
9%
41%
39%
FY18
FY19
FY20
FY21
FY22
Casualwear
Outwear
Bottom wear
Sports wear
Healthcare



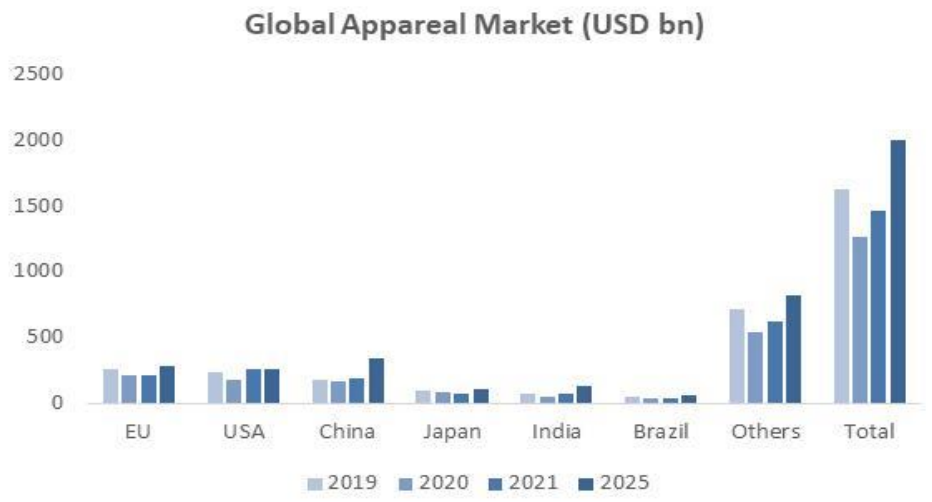


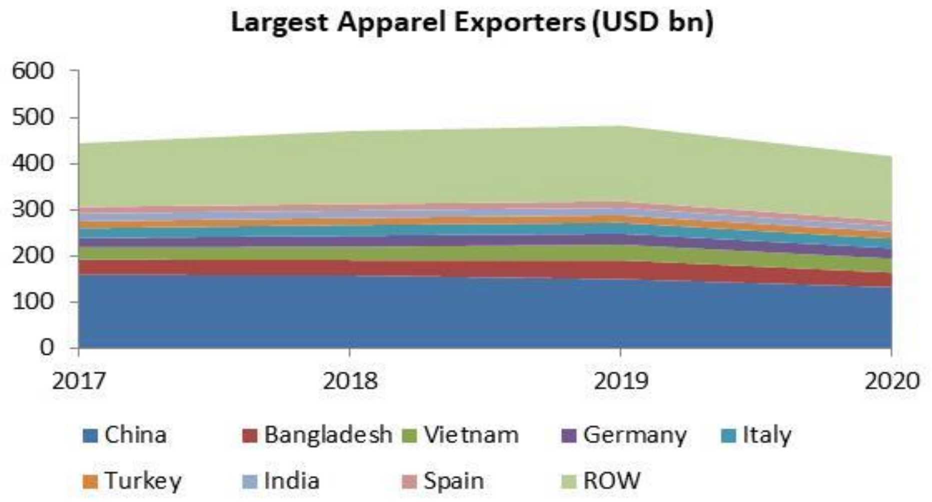
Source: Company, Phillip Capital India Research

Industry Overview:

The finished apparel is an end-product of the three-stage value chain: the first stage of converting raw fibers to yarns; the second stage of converting yarns into fabric; and the final stage of dyeing/printing, stitching and finishing of fabric into an apparel. The success of apparel industry also depends on how efficient and competitive are these backward linkages that operate in the broad textile industry.

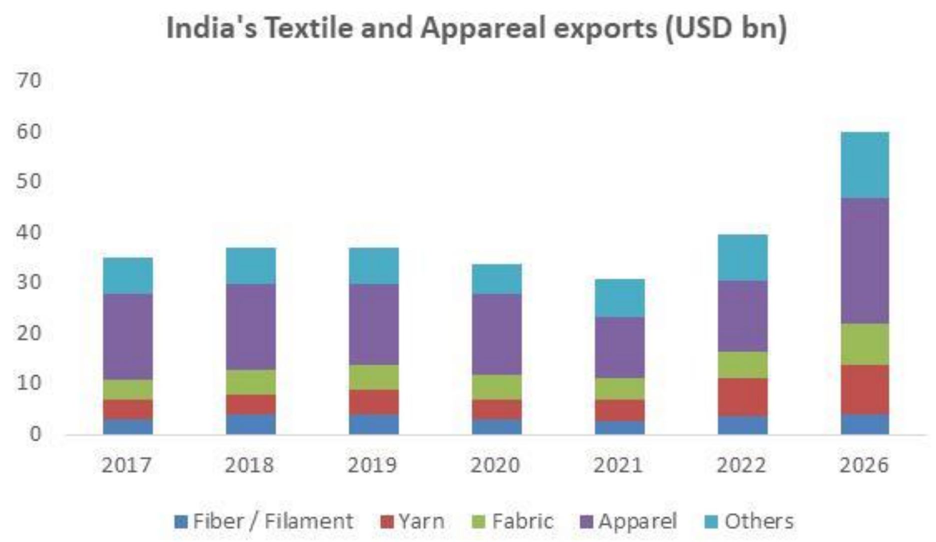
Global Textile and Apparel trade stood at $867 bn in 2021, out of which apparel was $490 bn; the overall T&A trade is expected to reach $1 trillion by 2025 and apparel with a major share is expected to reach $600 bn with a CAGR of 3.6% and 5.2% respectively. The following graph shows the overall apparel market size across various region and largest exporters globally.

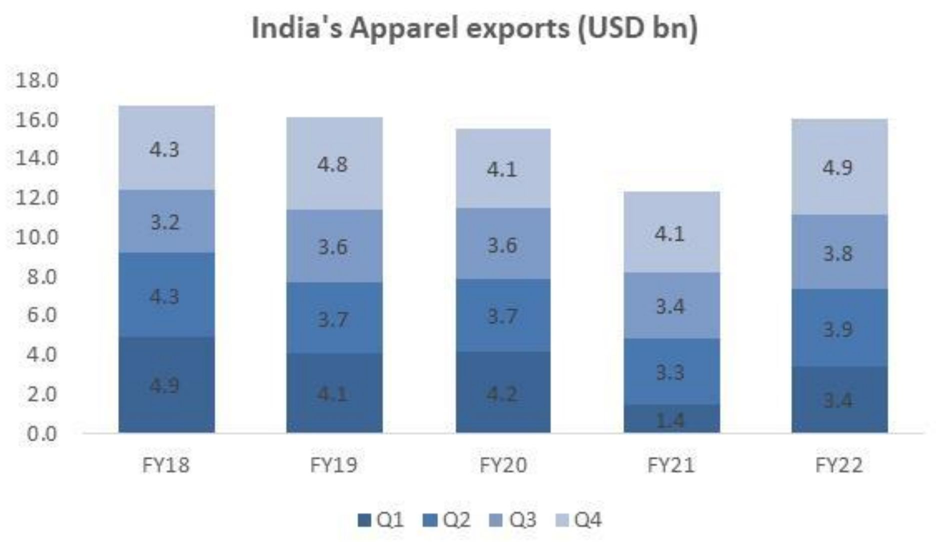




India possesses competitiveness in the global textile & apparel industry due to its inherent strengths like 1) 2nd largest pool of skilled manpower, 2) Abundant availability of key raw materials like cotton, Silk, Jute, Wool etc, 3) Amongst low cost manufacturers and 4) presence across value chain.

As shown in following figures, India's overall Textile & Apparel exports reached to ~ $40bn in FY22, out of that apparel constitutes 37-40% of total exports. The exports are expected to reach $60 bn in FY26 whereas apparel is expected to reach $25bn; the expected CAGR would be 11% and 15% respectively for FY22-26 period. India's apparel exports have stagnated reflecting some underlying issues being faced by the apparel exporters in India. Indian apparel industry is dominated by cotton, with cotton apparels contributing to more than 70% of the apparel exports. However, the global apparel consumption is well diversified across fibres. Therefore, there is a need for India to develop, design and production capabilities in other fibers.





Major challenges for domestic industry:

- The industry is fragmented with large unorganized sector which results in low economics of scale
- Average manufacturing efficiency rate in India is lower than competing nations
- India's manufacturing value chain is more focused on cotton while the global demand is higher towards manmade fibers
- The lending rates are higher than competing countries

The Indian textile industry contributes approximately 15% to the country's export earnings; in FY22 it reached $40 bn. The government aims to reach US$ 100 billion in textile exports by FY30 and has taken steps to achieve this ambitious target.

Major government policies / schemes for Textile sectors

Scheme	Details
ATUFS	The government allocated funds worth Rs. 17,822 crore (US$ 2.38 billion) between FY16 and FY22 for the 'Amended Technology Upgradation Fund Scheme' (A-TUFS) to boost the Indian textile industry and enable ease of doing business.
Scheme for Integrated Textile Parks (SITP)	Grant/Equity up to 40% of the textile park development project cost subject to a ceiling of Rs. 40 Crores. GOI support under the Scheme will be generally in the form of grant to the SPV unless specifically decided by the PAC to be equity. However, the combined equity stake of GOI/State Government/State Industrial Development Corporation, if any, would not exceed 49%.
Integrated Skill Development Scheme (ISDS)	Grant up to 50% of the project cost (excluding land cost) with a ceiling of Rs. 75 Crores for projects with Zero Liquid Discharge Systems and Rs. 10 Crores for projects with conventional treatment systems.

Merchandize Exports from India Scheme (MEIS)	Rewards for export of products shall be payable as percentage of realized FOB value 1) For handloom, jute and coir based products - reward rate is 5% for all countries, 2) For all other eligible textile categories, the reward rate is 2% and for apparel, it is 4%
Duty Drawback	Drawback rates for key textile and apparel categories 1) Cotton yarn: 1% to 1.2%, 2)Cotton fabric: 1.3% to 1.6%, 3) Apparel: 2-2.5%
Rebate on State Levies (ROSL)Scheme	Provision of remission of State Levies on export of garments. The amount will be calculated on the F.O.B value The ROSL rate for apparels is– 1.4% to 1.7%
FDI	Foreign direct investment (FDI) of up to 100% is allowed in the textile sector through the automatic route
SAATHI Scheme	The Ministry of Textiles, Government of India, along with Energy Efficiency Services Ltd. (EESL), has launched a technology upgradation scheme called SAATHI (Sustainable and Accelerated Adoption of Efficient Textile Technologies to Help Small Industries) for reviving the power loom sector of India.
SAMARTH	In 2019, Ministry of Textiles signed a pact with sixteen states for skilling around 400,000 workers under the SAMARTH scheme.
Mega Integrated Textile Region and Apparel (MITRA) Parks Scheme	Under the Union Budget 2021-22, Minister of Finance and Corporate Affairs MITRA Park scheme to establish seven textile parks with state-of-the-art infrastructure, common utilities and R&D lab over a three-year period.
PLI	The scheme is expected to create more than 7.5 lakh jobs directly and help companies emerge as global champions in the textile industry. The scheme plans to provide incentives worth Rs. 10,683 crore (US$ 1.3 billion) over five years. It is also expected to promote investment in the industry by Rs. 19,000 crore (US$ 2.4 billion) and increase production turnover by more than Rs. 3 lakh crore (US$ 37.5 billion) in five years.

Investment argument:

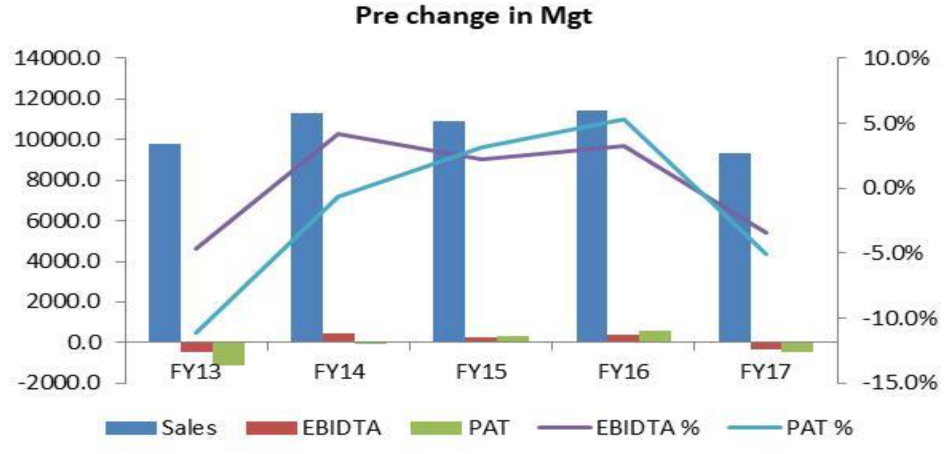
Classic Turnaround:

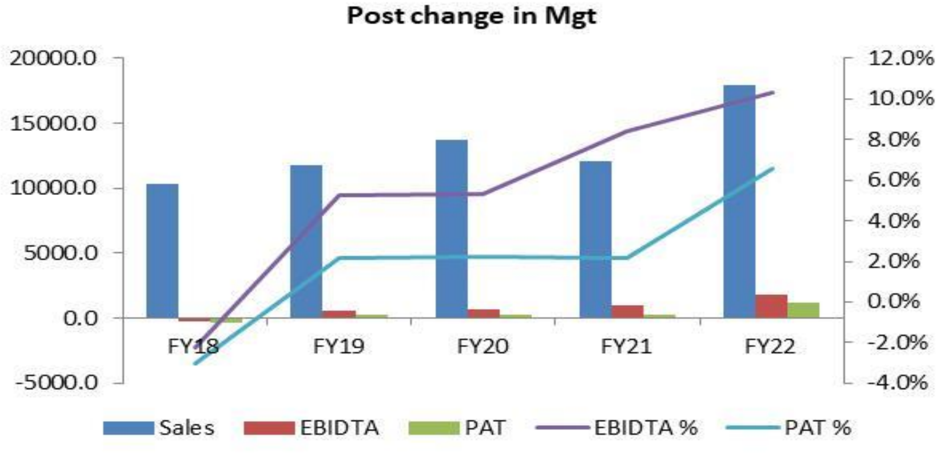
In April 2017, Mr. Mathew Cyriac, the former co-head of Blackstone private equity business in India along with other investors through Clear Wealth Consultancy Services LLP acquired Blackstone's stake in the company at Rs. 42 / share (Rs. 58.6 crs aggregate value). Post-acquisition the new management took number of steps to streamline its operation; since last 6 quarters the company is able to report ~10-12% operating margins.

1) Operational parameters
   a. Cost cutting through reduction of waste and improvement on productivity / efficiency etc.
   b. Focus on key market, strengthening client relationship and adding new clients
   c. Expanding production capabilities, focusing on quality and timely deliver, working on strengthening supply chain
   d. Strengthening team across various departments and with induction of key independent directors to improve corporate governance.
   e. Focusing on high value high margins product range which is reflected in change in product mix and thus change in unit economics
2) Financial parameters
   a. Fund infusion (FY18 & FY22) to strengthen the balance sheet,
   b. Continued capex to strengthen manufacturing,

Operational improvement

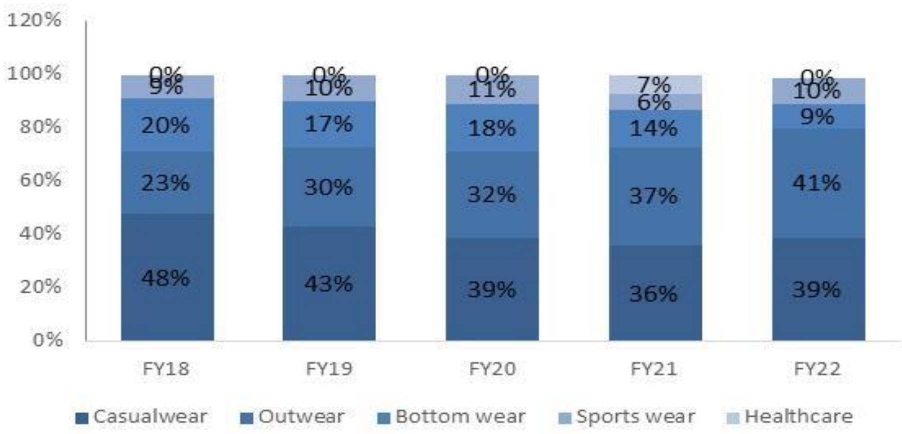
Focus on manufacturing with investment into automation, digitization, working on supply chain, increasing machine utilization, lower unbilled production, reducing wastages which not only increased customer satisfaction (and thus strengthen the customer relation) but also improved profitability. Following charts show operational matrices difference between the current management and the earlier management. Due to various initiatives, the company came out from its stagnating revenue range of Rs. 10-11 bn between FY07 – 18 periods with higher operating margins; 10-12% EBIDTA in last 6 quarters.



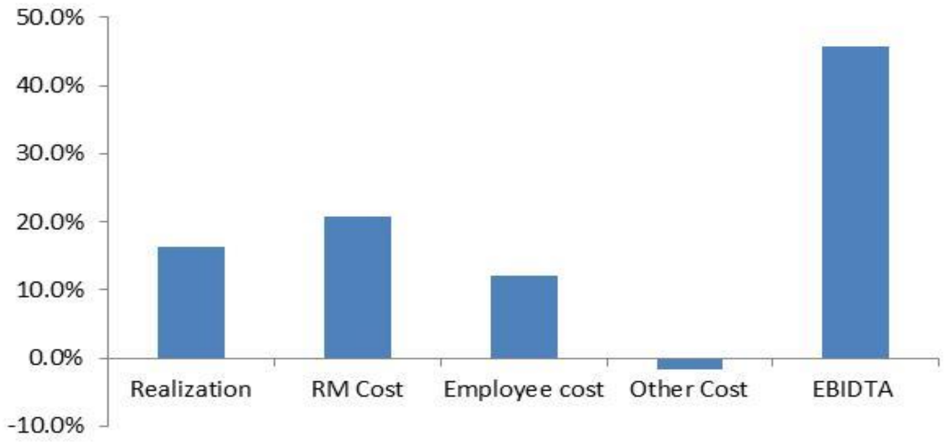


- Focus on change in product categories is reflected in higher realization and better margins: The company took the informed decision to focus on outwear (vs traditional fashionwear) to diversify and smoothen the business cyclicality that changed the unit economies drastically. The outerwear and athleisure is less prone to fast fashion trend thus provides more stable and predictable revenue stream. Following charts reflects the change in product mix, its unit economics and its impact on profitability.

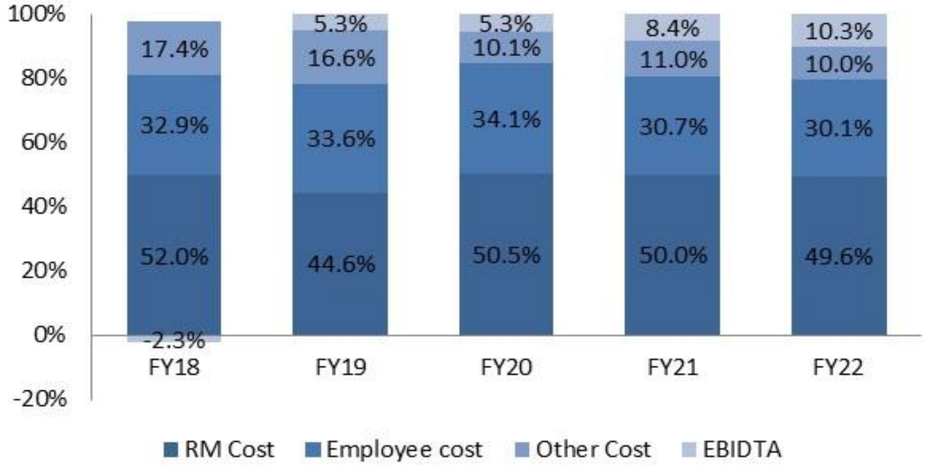
Change in product mix



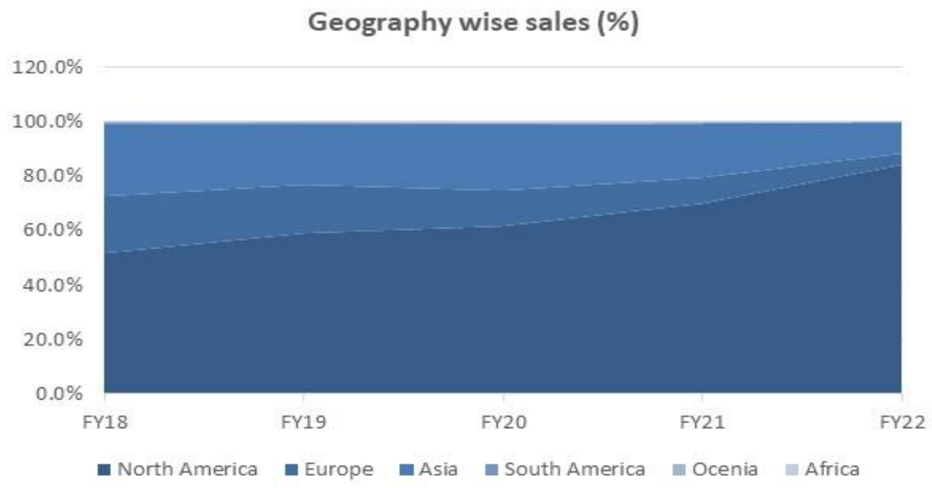
3 Year Cagr (%) Unit economics

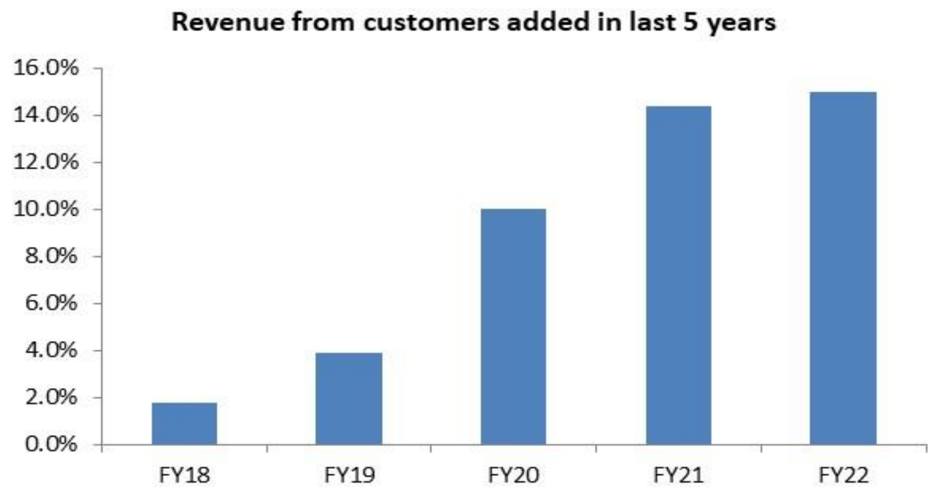


Unit Economics



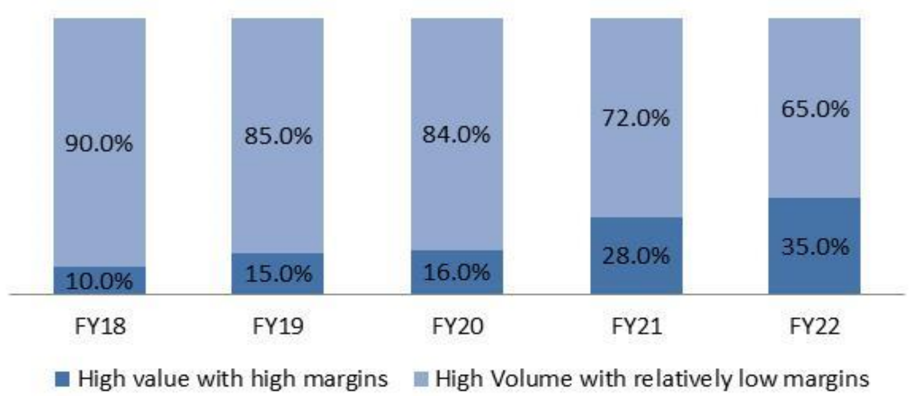
- Focusing on US market, new customers' addition – Amongst the major exports market the trade is more favorable in US market over EU markets; EU has a preferential tariff with few competitive countries which weaken competitive positive of domestic companies. When they acquired the company US was contributing around 50-55% of revenue which was increased to 84% as on FY22. The US market is more stable and company was able to garner higher revenue from US market by 1) getting incremental wallet share from existing clients and 2) new customers' addition. The following charts show its geography wise revenue, revenue from customers added in last 5 years and resilient US market.



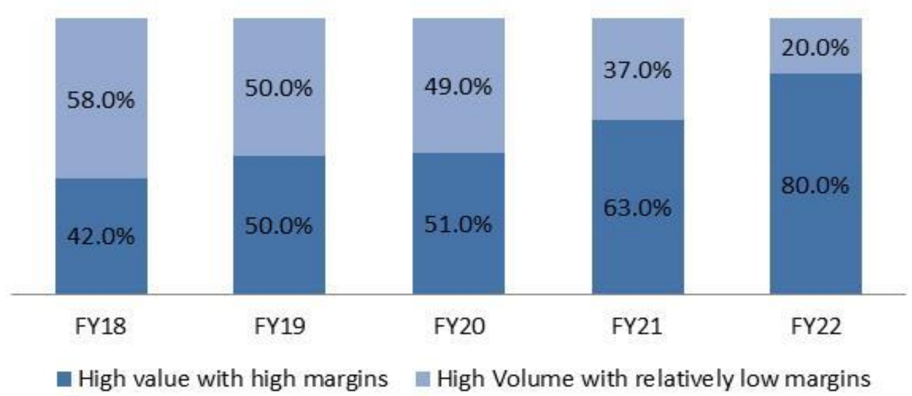


- Capacity optimization through focus on high value high margins products – The management started focusing on high value with high margin products which helped to change the unit economics considerably and report a consistent operating margin of 10-12% in last 6 quarters.

Customer Mix (%)



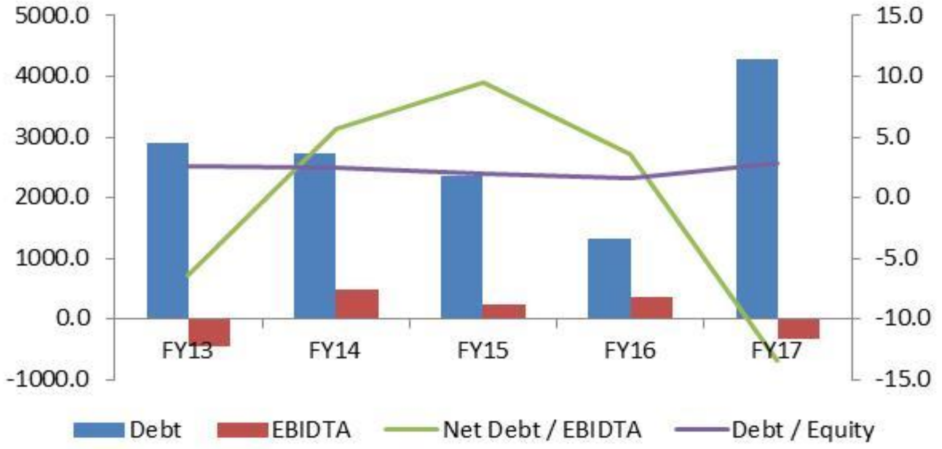
Sales Mix (%)



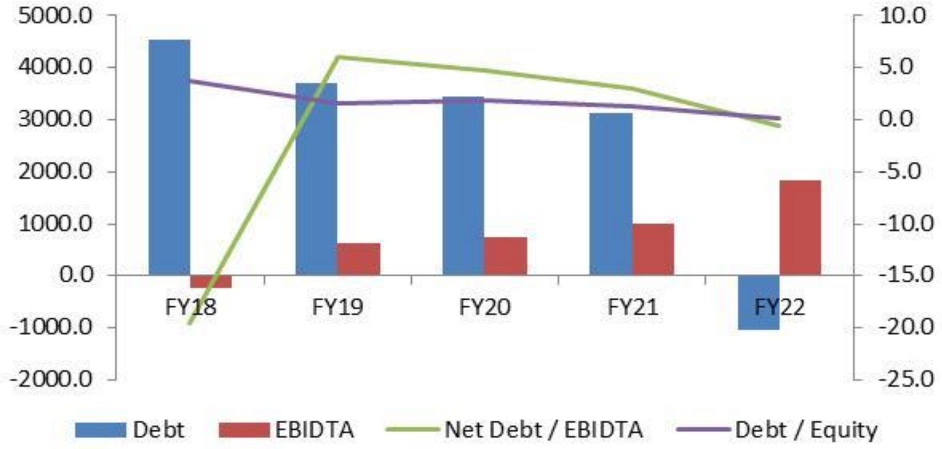
Financial improvement

The improvement is also visible on its balance sheet strength as company was able to balance the debt and growth capex.

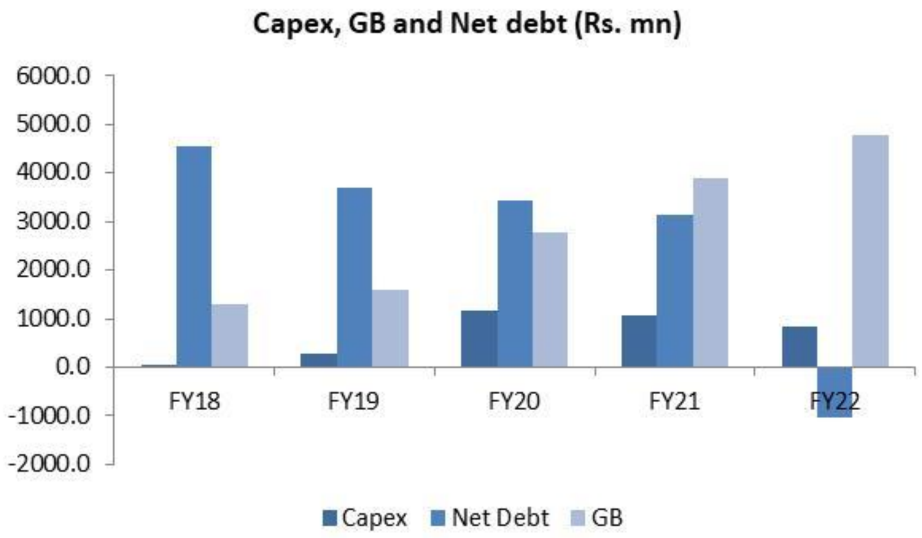
Pre change in Mgt

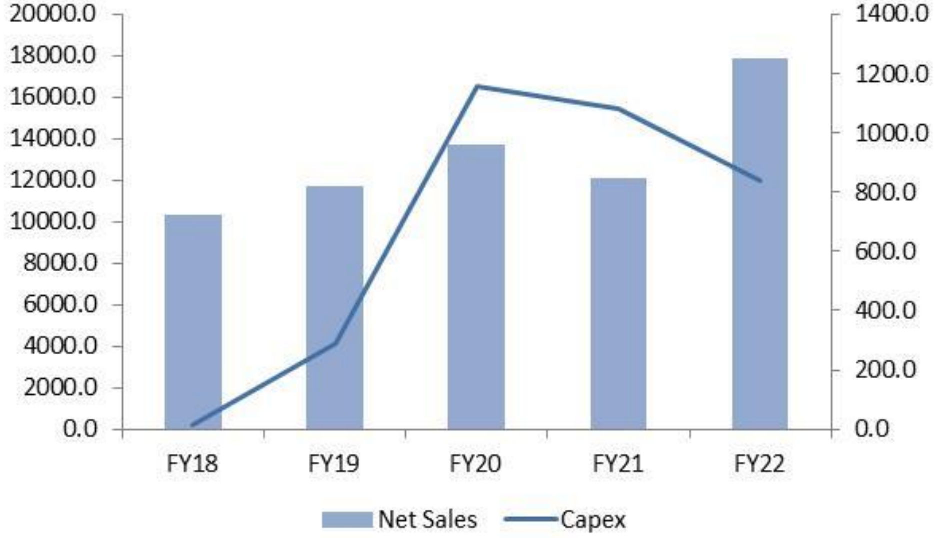


Post change in Mgt



- Balancing debt and growth capex – The company became net debt free in FY22 while it continued to spend on capex to increase the overall capacity, automation and for future growth. It did two fund raisings to strengthen the balance sheet (Rs. 69.4 crs in May 2018 and Rs. 300 crs in Oct 2021). The business demands continuous investment for automation (to improve the productivity) and growth capex.



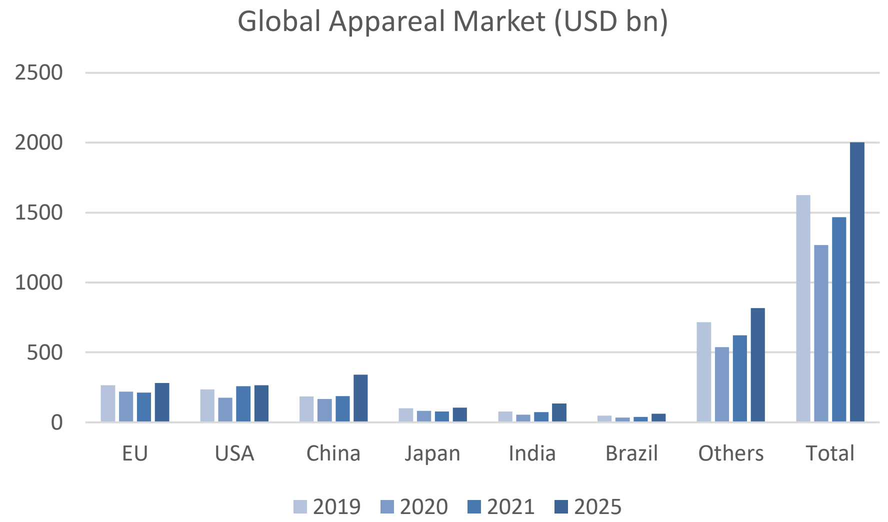


The global apparel market - Humongous opportunity

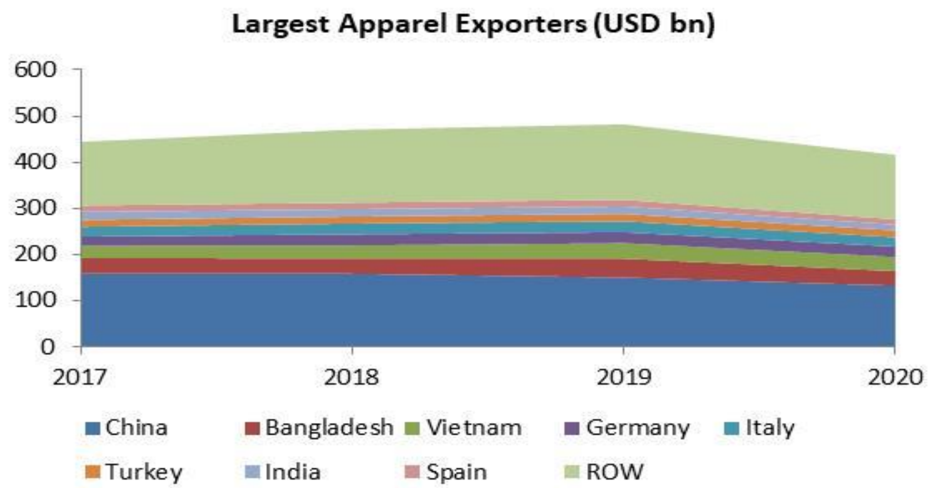
The Textile & Apparel industry is labor intensive which has promoted to shift the production to countries (like China, Vietnam, Bangladesh, Sri Lanka, Pakistan, India, and Cambodia etc.) which has lower labor cost and thus lower manufacturing cost compared to developed countries. Traditionally China was dominating the global T&A trade but with the emergence of other low cost countries its overall trade is coming down gradually. Higher operating cost, trade barriers and appreciating currency is adversely impacting China's global competitiveness; incremental domestic demand and focus on value added products is also impacting China's trade to other countries.

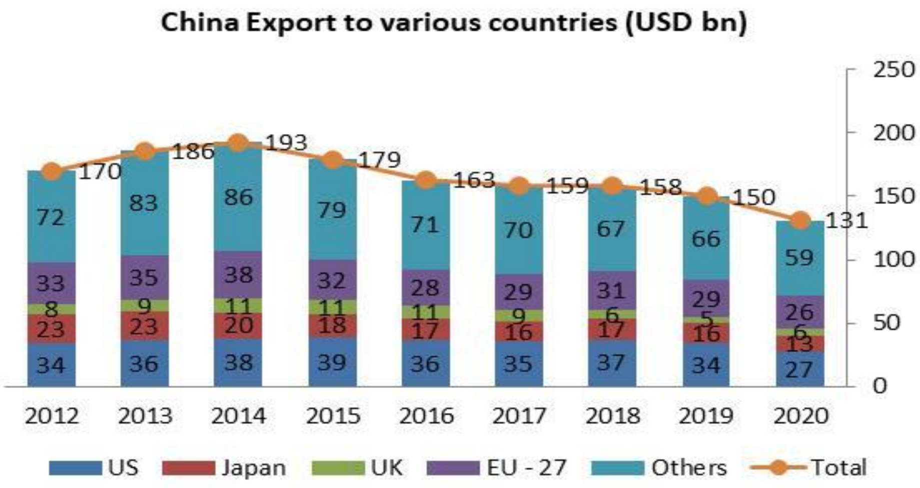
Global Opportunity

The global apparel market is estimated at USD 1.5TN in 2021, which is expected to reach ~USD 2tn by 2025. This constitutes ~2% of global GDP and it would be 3rd largest manufacturing sector globally. The apparel trade was estimated at $490 bn in 2021 which would grow at 5.2% CAGR to $600 bn in 2025. The overall apparel market, the apparel trade and China's dominance is shown in following charts.



As shown in the chart, China is dominating the global apparel trade with ~$132 bn, followed by Bangladesh, Vietnam, Germany and Italy. The exports from developed countries and China is either stagnating or in declining phase whereas countries like Vietnam was able to increase its market share in global apparel exports. Over a period China's market share has reduced to ~31% in 2020 from 40% in 2015 because of 1) Banning of Chinese cotton, 2) increasing duties on products from China and 3) rising labor and manufacturing costs. The Chinese government's stringent Covid policy also disrupted the supply chain for the global apparel giants that added impetus to China + 1 sentiment which would further help the other low cost countries like Bangladesh, India and Cambodia to be a strategic choice for global apparel companies.





India, a strong contender to grab the incremental market share:

Out of total global Apparel market India constitutes only ~3-3.5% of the total market despite of inherent advantage. Looking at current geopolitical scenario, changing cost structure in other competing nations and country specific issues is helping India to emerge as prominent contender for global outsourcing partner.

Competitive Advantage:

- Abundant availability of raw materials like cotton, Jute, Wool, silk and Jute: India is the largest producer of key raw materials and is also the largest exporter of few key raw materials.
- Availability of skilled manpower and cost advantage compared to other competing countries
- Presence across value chain from fiber, yarn, fabric to apparel – India possesses a strong advantage due to its strong presence across value chain unlike any other emerging export destinations. We believe as the downstream Industry / companies strengthen its position in overall value chain the upstream companies would focus more on domestic companies.

Country name	Labor Wage (USD / month)	Power Cost (USD / Kwh)	Water Cost (Usc / m3)	Lending Rage (%)	Avg. production efficiency (%)
China	550-600	0.15-0.16	55-60	6-7%	65-70%
India	160-180	0.0-0.12	16-20	11-12%	50-55%
Bangladesh	110-120	0.09-0.12	20-22	12-14%	45-55%
Vietnam	190-200	0.08-0.10	50-80	7-8%	65-70%
Ethiopia	80-90	0.03-0.04	30-40	8.5-9%	30-35%

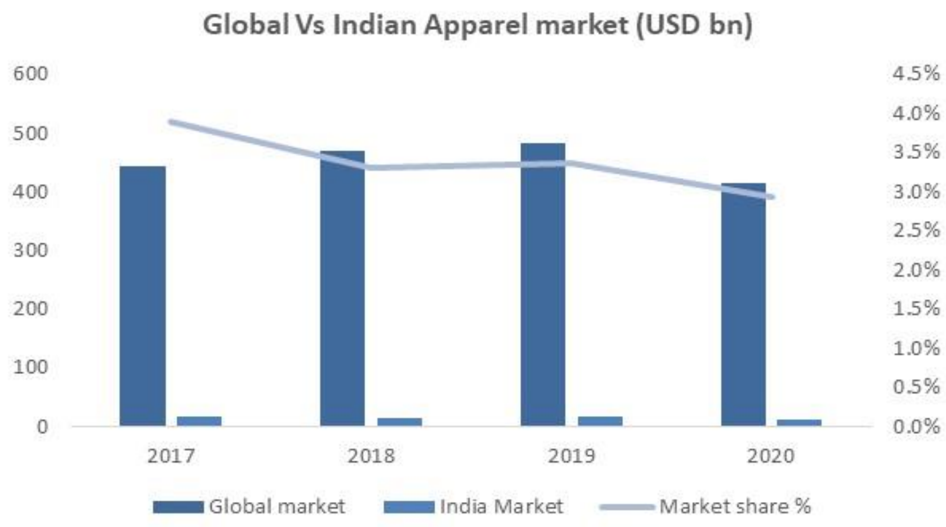
Source: Invest India Textile Report, July 2020, PhillipCapital Research

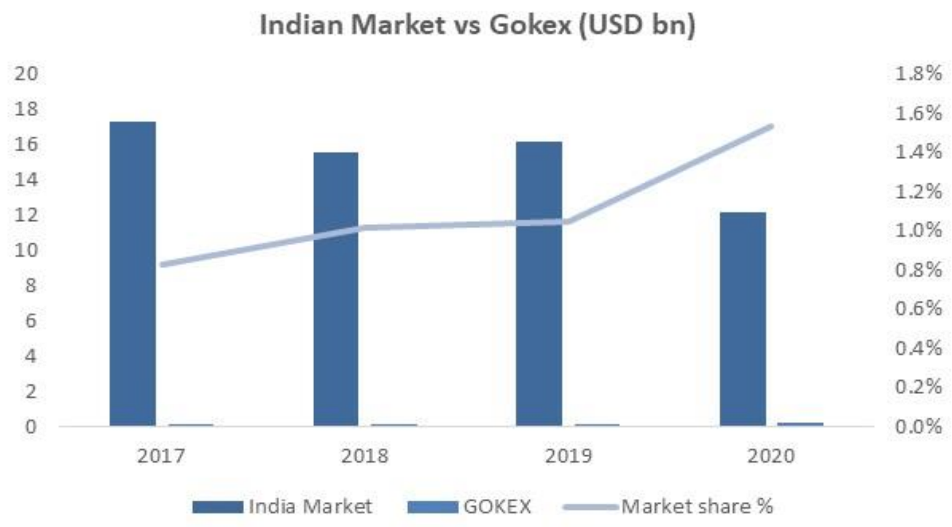
Factors complementing India's competitive advantage:

- The other competitive countries (Vietnam, Sri Lanka, and Pakistan) are facing domestic challenges which would prevent them to gain the incremental market share. The ongoing prevailing sentiment of China + 1 along with weakening position of few of competitive countries would strengthen India's position as a reliable sourcing partner for global apparel companies.
- Post Covid the supply chain disruption is resulting into vendor consolidation and the importance of reliable vendor has improved significantly. Buyers are now looking for strategic partner rather than only vendors.
- The Indian government is actively trying to sign Free Trade Agreement (FTA) with major exports market like EU, US, Australia; any positive development would further strengthen India's competitiveness.
- The domestic T&A industry is fragmented with most of the companies in SME segment and only very few large organized companies. It being a labor and capital intensive industry requires an organized player to tap the opportunity. Looking at the large opportunity, there is enough room for many such large players to co-exist.
- Government's policy support: (refer page no 7)
  - 100% FDI (automatic route) is allowed in the domestic textile sector
  - In October 2021, the government approved a PLI scheme to strengthen India's position in man-made fiber.

India has a tiny market share despite of its inherent advantage:

As shown in following charts, India constitutes ~3.-3.5% of global apparel market and GEXP is only ~1.5% of India's apparel export and is amongst the leading apparel exporter from India. The organized players like GEXP, Shahi exports are expected to benefit the most from the mentioned opportunity.





Case study – Shahi Exports Pvt Ltd

Shahi was found in 1974, is the largest apparel manufacturer and exporter of ready-made garments. Over 48 years Shahi has grown to 115000+ strong workforces across 50+ factories in nine states in India with production capacities of 168+mn pcs per annum. The company has longstanding relationship with large international brands such as Gap, Kohls, Walmart, Benind and H&M. Shahi's backward integration for both knitted garments and woven garments have augmented its ability to offer short lead times, hence providing the company a competitive advantage compared to other garment exporters. Top 10 customers constitute 53.8% / 64.2% of total revenue for FY22 and FY21 respectively. Shahi is able to maintain its growth momentum with 10-13% operating margins. In such business currency plays a vital role, so the operating margins should be seen after adjusting the forex movement during the period.

Financials (Rs bn)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Sales	37.4	44.0	52.0	56.3	59.1	65.8	72.0	57.0	80.0
Yoy Growth		18%	18%	8%	5%	11%	9%	-21%	40%
EBIDTA (incl. forex gain)	3.7	4.7	5.7	8.0	6.3	8.1	7.3	7.4	8.0
EBIDTA %	9.8%	10.7%	11.0%	14.2%	10.7%	12.3%	10.1%	13.0%	10.0%

Source: ACE Equity, Industry, Phillipcapital

The said opportunity due to global sourcing away from china, supplier consolidation etc requires efficient and well capitalized players which can continue to invest in quality (automation, technology, design etc), man power, periodic capacity addition and in compliance management. The Indian industry is fragmented so large players like Shahi Exports, Gokaldas Exports, Orient Craft etc are well placed to get a bigger share in the incremental outsourcing to India.

Key drivers for incremental growth

The Indian Textile & Apparel industry has a formidable presence in domestic economy (2nd largest employers, ~15% export contribution). In recent past the government has taken significant steps to strengthen the ecosystem and to incentivize new investment through introduction of various schemes / policies. We have identified key growth levers for the sector and company which would be complemented by its strong client relationships.

External factors:

- Revival in US, Europe and other user markets: The rising inflation / interest rate across the geographies has impacted the consumption. In anticipation of recession the overall channel inventory was lowered. With revival in economy the apparel consumption would also revive which should benefit the company.
- Any FTA with European countries / UK: Bangladesh, Turkey gets duty free access to EU & UK whereas China and India has to pay 11.8% and 9.6% import duty. Currently China, Bangladesh and Turkey has market share of 17%, 15% and 10% respectively while India holds a market share of 6.3%. Indian garment industry would enjoy a much better position against China and at part with Bangladesh and Turkey which can open additional opportunity worth ~$1-1.5 bn.
- Consolidation of supply chain: Global fashion brands look out for alternate supplier in order to diversify their sourcing mix. Leading apparel brands are increasingly consolidating their supply chain to a few big suppliers.
- Textile PLI scheme: The government of India has launched the PLI scheme with an outlay of Rs. 107 bn to promote the production of MMF apparel, MMF fabrics and products of technical textiles in the country.

Internal factors:

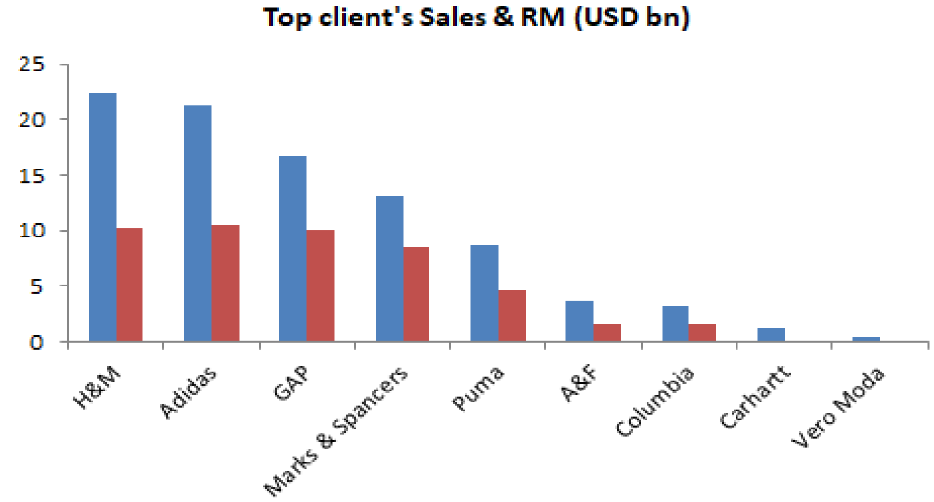
- Geography wise expansion: The company is entering into new geographies to diversify production facility. GEXP was predominantly present in Bengaluru; in last few years it initiated efforts to diversify and successfully entered to Karnataka (Tumkur & Bommanhalli) and Tamilnadu (Krishnagiri). It is further entering into Madhya Pradesh and Bangladesh (initially through JV). This diversification would help them to source adequate manpower with required manufacturing infrastructure to bring down its overall operating cost.
- Diversification to knitwear with backward integration: It has incorporated a wholly owned subsidiary to carry out business in the Knitwear segment. It has taken possession of 10 acres of land in Perundurai, Tamilnadu for its fabric processing unit.
- Increase in Wallet share: GEXP is getting into newer product categories with the customers, to maximize the wallet share within their sourcing from India, with new investment it is trying to get into synthetics products which are manufactured in Vietnam and China.
- New customers addition: GEXP is continuously adding new customers based on their core expertise in product offerings. This would reduce its overall reliance on top customers. This is reflecting from the revenue from customers added in last 5 years, it has increased to 15% of total sales in FY22 against 1.8% in FY18.

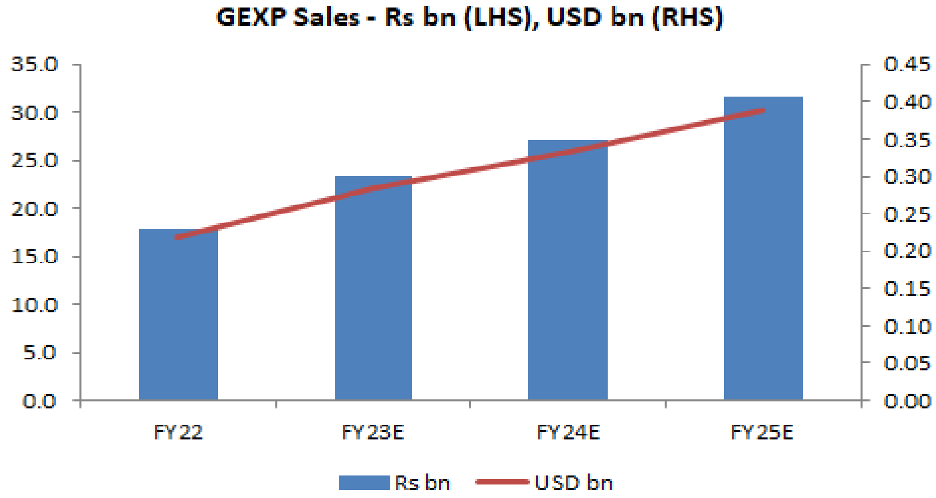
Strong client relationship and list of marquee clients:

Gokaldas has long standing relationship with many global apparel giants (its top customers are listed in below table); the company has adopted multifold strategy of 1) increasing wallet share, 2) targeting other global customers within similar product range / categories and 3) adding knitwear to its product basket to increase its addressable market size. Glimpse of its diversified client base is shown in following table.

Company Name	Details
GAP	Largest specialty retailer in the United States whose products are available in over 90 countries
Columbia	Industry leader in outdoor apparel products like jackets, fleece, pants, shoes and boots
Carhartt	Delivering best in class apparel, respected for rugged construction, innovative design and exceptional standards of quality, durability and comfort for 125 years
H&M	One of the global leaders in fashion with a presence in about 60 countries, along with an online presence in over 35 countries
Puma	German multinational that designs and manufactures athletic and casual footwear, apparel and accessories
Adidas	Global leader in athletic apparel and sportswear
Vero Moda	Brand of choice from Bestseller for the fashion conscious, independent young woman who wants to dress well and pay less
Marks & Spencer's	Iconic British multinational retailer that specialises in clothing, home and food products
A&F	American lifestyle retailer that focuses on casual wear. Operates two offshoot brands Abercrombie & Fitch and Hollister Co. Operates over 1,000 stores
Walmart	US multinational retail corporation engaged in the operations of a chain of hypermarkets, discount department stores and grocery stores. The Company operates over 11,500 stores in 27 countries
Carrefour	French multinational retail corporation global network of about 12,000 stores. Offers consumer with a goods, food and non food products, household supplies, textiles, electronics, home appliances and local products

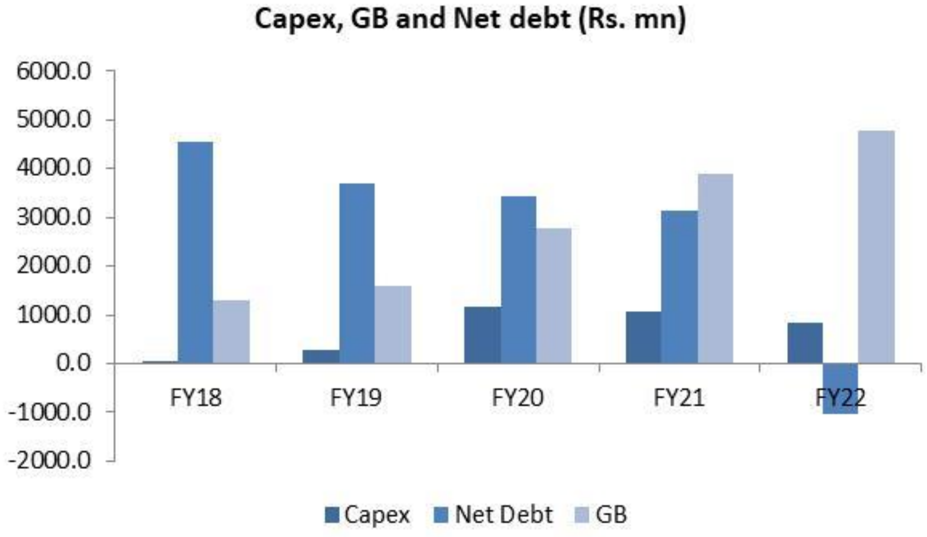
Following chart show revenue and Raw material of its large clients, if we compare their total requirement and look at GEXP's wallet share, it is still at insignificant level. This phenomenon is in favor of the company and allows them to increase their wallet share within respective clients.

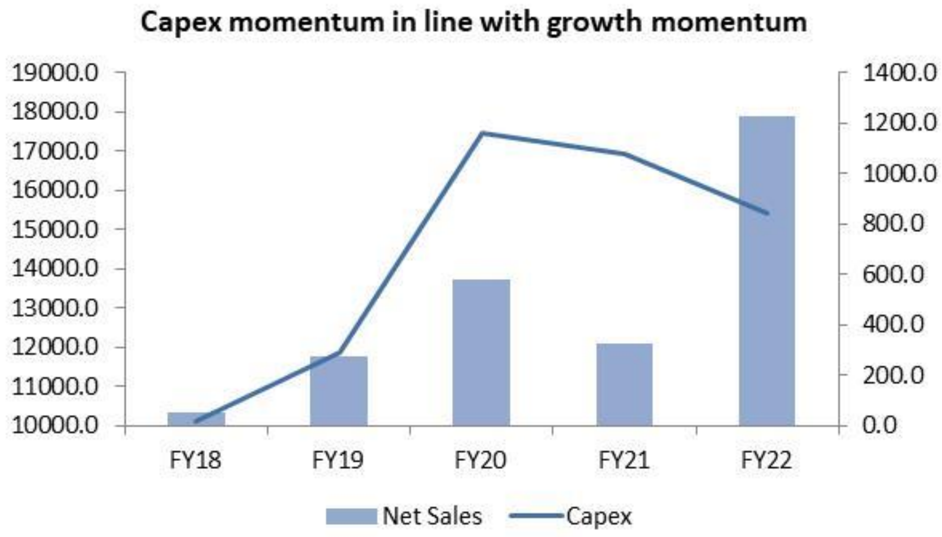




Investments to ride the opportunity:

The business / industry requires periodical investment into creating new capacities and also to upgrade existing facilities to be economical viable to remain competitive in the market. The management was able to balance the incremental capex while maintaining the debt on the balance sheet. It did capex of ~Rs. 3.0 bn during FY20-22 period, which helped the company to continue the revenue momentum along with significant improvement in profitability.





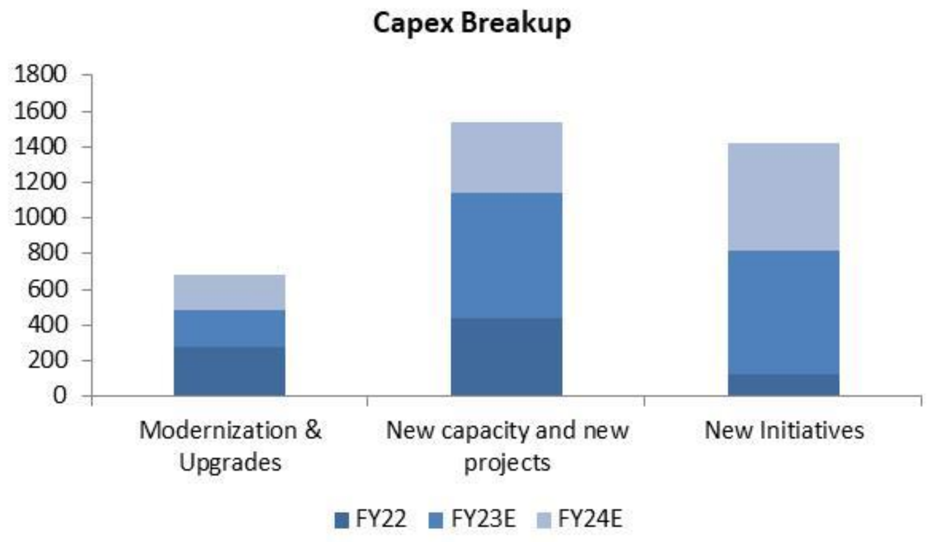
GEXP would spend additional Rs. 3.7 bn for FY22-24 period, which would generate additional revenue worth Rs. 13-14 bn. As per the guidance it would be spent on 1) Modernization and upgrades – Rs. 0.7 bn, 2) New capacity and new projects – Rs. 1.6 bn and 3) New initiatives – Rs. 1.4 bn. Typically the average A/T is around 4-4.5x of total investments.

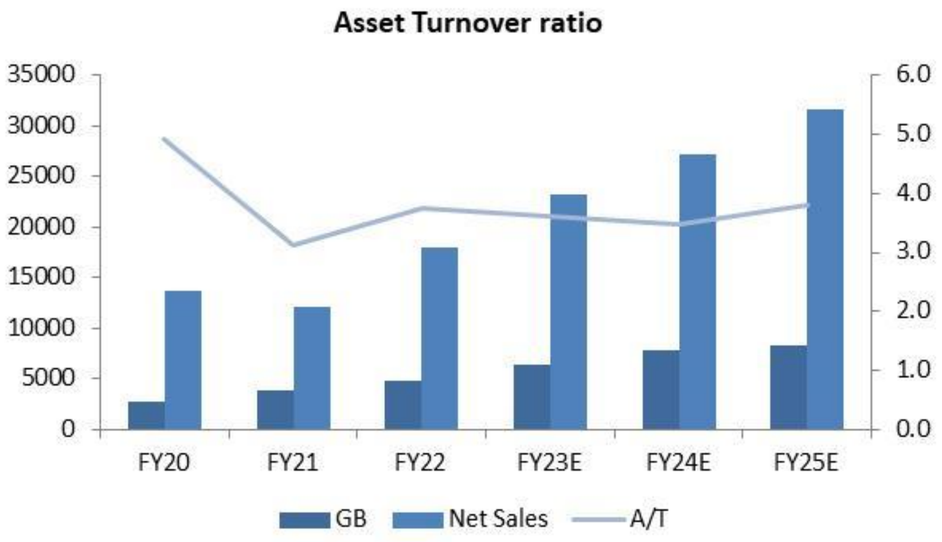
Major Investment areas

- Facility upgradation:
  It is a continuous investment to counter rising labor cost. The investments are made into machineries which can automate like collar attachments, cliff attachments, welt pockets etc. They have upgraded their cutting and fusing machines, embroidery machines, printing machines so these things give a higher throughput and have a lower cost of operations. Not all the growth comes from just capacity addition, even productivity enhancement would add 3-4% to the revenue growth which has got higher contribution to return on Investment.
- New product category / range
  Knitwear: It is lower value garment compared to woven but constitutes ~50% of global apparel market and growing a bit faster than woven due to casualization trend. Knits require an integrated value chain as the value addition on the garmenting side is very low, so the company has to make their own

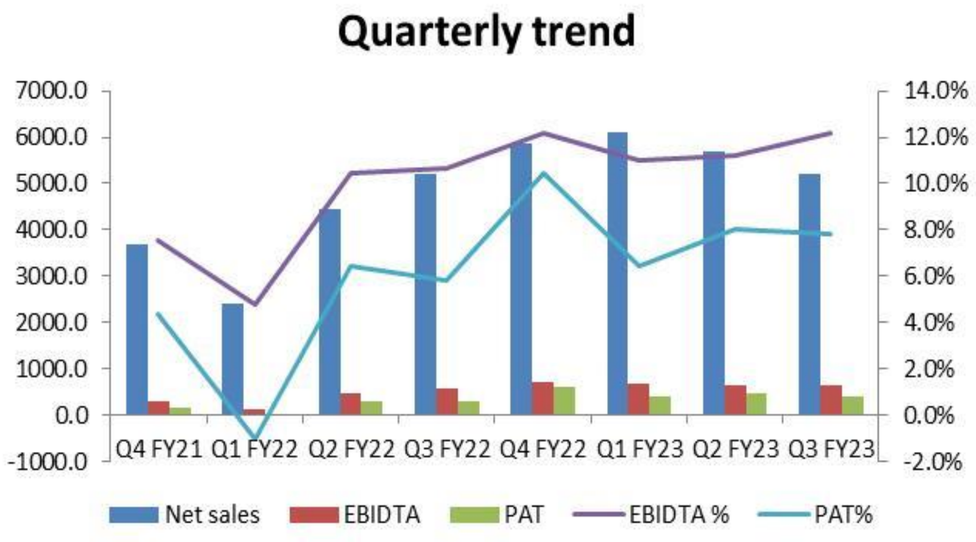
fabric and then convert into garment. It could be a good natural move for the company. Their existing clients / brands also sell both the products, so company got a cross selling opportunity. GEXP would spend ~Rs. 1.2 bn at Perundurai, Tamilnadu to enter into new area.

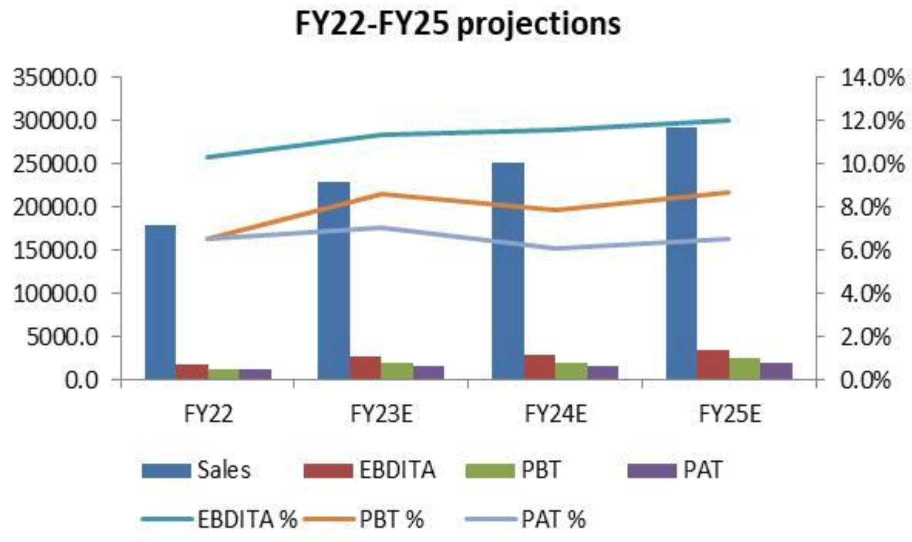
- Manpower / leadership:
  The company has developed a strong leadership team which is also supported by well diversified independent directors (refer page no. 2) to take care of future growth. The management has allotted almost 30 lacs ESOPs to around 300 employees based on their role in the organization. Based on Black Scholes valuation the ESOP charges amounting Rs. 24 crs a year will be applicable for FY23, 24 and 25.
- Geography diversification
  Bangladesh is fairly mature and large market with robust garment manufacturing industries and strong availability of workers'. Bangladesh has the lowest labor & manufacturing cost so it is competitive in its own rights. It would help GEXP to grow faster due to established ecosystem, government support and access to duty free European market. The company is working with a partner to acquirer a sick unit and would invest Rs. 350-500 mn. It is expected to start in early FY24. Initially they will start with existing customers in US and eventually move to cater European market. The company has incorporated a wholly owned subsidiary in the UAE to channel its overseas investments.
  Madhya Pradesh: It would spend Rs. 1 bn and the first phase with capacity of 2.5-3 mn pcs / annum is expected to start by Q1 FY24. The project is part of the PLI scheme (the government has specified 40 specific HS for MMF product category). The chosen destination also offers 1) labor availability, 2) less competitive intensity and 3) the government incentives.

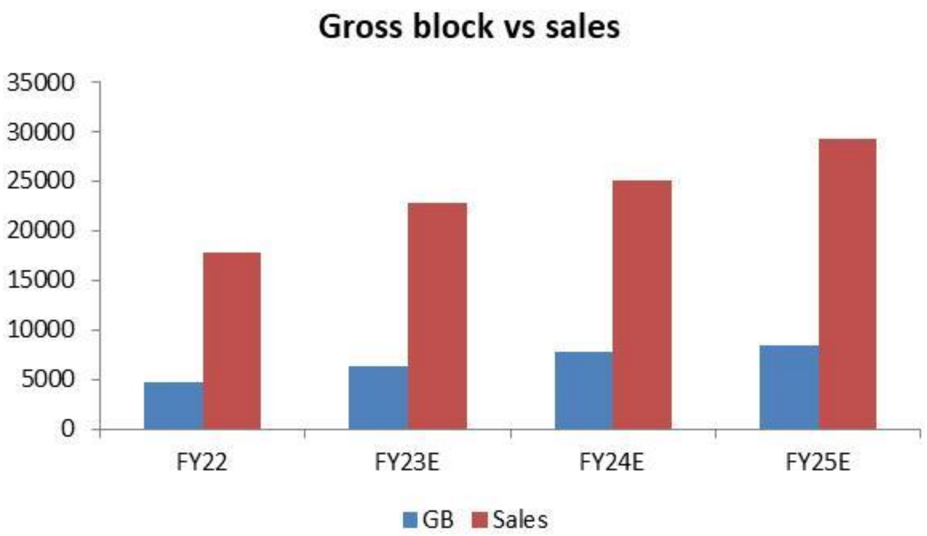


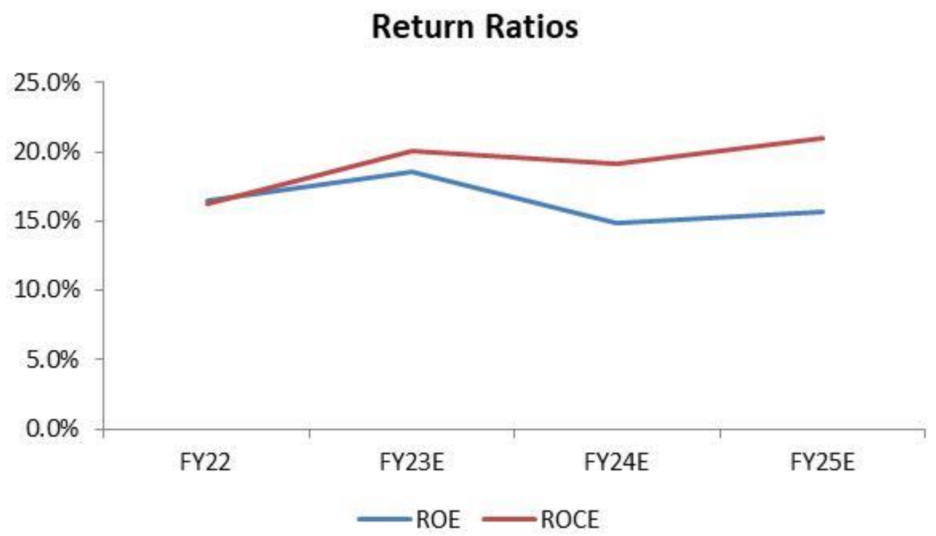


Financials Snapshot:









Valuation:

GEXP is a classic turnaround post the new management took series of operational and financial actions. Purely based on its historic financials it is very difficult to assign a valuation multiple; even there are no comparable listed peer for the company. So we are valuing the company based on PEG multiple; excluding extraordinary item we expect FY22-25 PAT to grow at 25.3% CAGR and based on 0.7x PEG ratio we are assigning 18x FY25E multiple to arrive at price target of Rs. 582, implying 40% upside.

Implied P/E multiple based on PEG						Implied Price Target						% upside					
PEG / Growth	**19**	**21**	**23**	**25**	**27**	**EPS / PEG**	**27.4**	**28.8**	**30.3**	**31.8**	**33.3**	**CMP / PEG**	**410.0**	**410.0**	**410.0**	**410.0**	**410.0**
0.5	10	11	12	13	14	0.5	260	303	348	397	450	0.5	-36%	-26%	-15%	-3%	10%
0.6	11	13	14	15	16	0.6	313	363	418	477	540	0.6	-24%	-11%	2%	16%	32%
0.7	13	15	16	18	19	0.7	365	424	487	556	630	0.7	-11%	3%	19%	36%	54%
0.8	15	17	18	20	22	0.8	417	484	557	636	720	0.8	2%	18%	36%	55%	76%
1.0	19	21	23	25	27	1.0	521	605	696	794	900	1.0	27%	48%	70%	94%	119%

*Excluding extraordinary items
Source: Phillip Capital India Research

RISK:

- Weakening demand in strong export markets like China, Sri Lanka would increase the overall supply in the market.
- Its employee intensive business, so inability to manage large employee base or to add gradually or to manage any union led risk
- Higher dependence on key customers; top 5 customers constitutes 70-75% of overall revenue
- Delay in commissioning of any project may impact the incremental growth
- A prolonged or deep recession in the US could significantly impact the business

Key things to monitor:

- We have not factored any revenue from possible FTA with EU / UK region; it would add up to our expected revenue.
- Sustainability of margins along with growth momentum: In recent past the company is reporting operating margins around ~10-12%, for export business currency movement is one of the important decisions for the end customers as well. So for better comparison operating margins adjusted for forex adjustment would give the right picture
- Progress in Bangladesh: It would open up new opportunity for the company in one of the most competitive manufacturing hub globally; the success of initial plans would layout its strategy for future.

Outlook & View:

GEXP seems to be a classic turnaround in all fronts led by 1) focus on end market, 2) increase the wallet share in existing customers and adding new customers, 3) strengthening manufacturing capabilities with periodic investment, 4) cost optimization and reduction in wastages and 5) fund infusion in two stages. The outcome of such steps is reflecting in consistent revenue growth, gradual margin improvement (from loss to OPM of 10.3% as on FY22) and strong balance sheet. Along with regular growth through capacity expansion, entering into knitwear and Bangladesh would help to explore new growth opportunities.

The steps taken to turnaround the company has changed the direction (and perception among customer) of the company. We believe that company’s focus on growth to tap the global opportunity along with India’s presence across the textile value chain, favorable policies and weak situation at competing countries would help the company to achieve sustainable growth for mid to long term. We expect sales / EBIDTA / PAT growth of 21% / 28% / 29% for FY22-25 period. At CMP the stock is trading at 13.1x FY25E. We initiate coverage on the company with price target of Rs. 582, implying 38% upside.

Income Statement

Y/E March, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue from Operations	**12107.3**	**17903.2**	**22897.4**	**25148.9**	**29330.0**
Growth %	-11.7%	47.9%	27.9%	9.8%	16.6%
Total expenses					
Raw Material Cost	6050.4	8882.0	12021.1	13077.4	15251.6
Employee costs	3715.6	5387.8	6492.2	7141.5	8212.7
Other Manufacturing Cost	1310.8	1789.4	1786.0	2011.9	2346.4
EBITDA	**1030.5**	**1844.1**	**2598.0**	**2918.1**	**3519.3**
Growth %	41.4%	79.0%	40.9%	12.3%	20.6%
EBIDTA margin (%)	8.5%	10.3%	11.3%	11.6%	12.0%
Depreciation	526.2	589.5	727.0	899.5	968.5
EBIT	**-397.6**	**425.8**	**180.7**	**504.3**	**1254.6**
Interest	344.6	402.1	225.1	215.8	209.4
Other income	122.1	106.9	330.2	173.8	207.4
PBT	**281.8**	**959.4**	**1976.1**	**1976.5**	**2548.7**
Less: Taxation	1.3	-0.5	355.7	454.6	642.3
Effective tax rate (%)	0.5%	0.0%	18.0%	23.0%	25.2%
Recurring PAT	**264.9**	**1170.8**	**1620.4**	**1521.9**	**1906.5**
Growth %	-12.8%	341.9%	38.4%	-6.1%	25.3%
PAT margin (%)	2.2%	6.5%	7.1%	6.1%	6.5%
Exceptional items (net of tax)					
Reported PAT	**264.9**	**1170.8**	**1620.4**	**1521.9**	**1906.5**
Wtd. Avg. Shares (Crs)	42.9	59.0	59.0	59.0	59.0

Balance Sheet

Y/E March, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	214.5	294.9	294.9	294.9	294.9
Reserves	2686.2	6786.9	8407.2	9929.2	11835.6
Net worth	2900.7	7081.8	8702.1	10224.1	12130.5
Minority Interest + others					
Total borrowings	3652.2	630.7	606.9	306.9	0.0
Current Liabilities	2438.1	3301.9	4629.7	5084.9	5930.3
Non Current Liabilities	908.2	1098.4	1488.3	1634.7	1906.4
Total liabilities	**9899.2**	**12112.7**	**15427.0**	**17250.5**	**19967.2**
Net block	2373.8	2989.4	3801.9	4402.4	4033.9
Investments	368.1	1544.6	1200.0	1400.0	2600.0
Others	1927.6	834.8	1089.9	1161.7	1345.1
Current assets					
Inventories	2592.0	4336.2	4704.9	5167.6	6026.7
Debtors	1798.4	921.9	2509.3	2756.0	3214.2
Cash	152.6	126.8	403.6	476.6	547.5
Other Current assets	686.7	1359.0	1717.3	1886.2	2199.7
Total assets	**9899.2**	**12112.7**	**15427.0**	**17250.5**	**19967.2**

Source: Company, Phillip Capital India Research

Cash Flow

Y/E March, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
PAT	264.9	1170.8	1620.4	1521.9	1906.5
Depreciation	526.2	589.5	727.0	899.5	968.5
Change in WC	428.5	706.3	-851.8	-348.5	-697.2
Cash Flow from Operating activities	**1219.6**	**2466.6**	**1495.6**	**2073.0**	**2177.8**
Capital Expenditure	-1071.9	-1003.3	-1539.6	-1500.0	-600.0
Change in Investments	-12.9	-1176.4	344.5	-200.0	-1200.0
Other investing activities	0.0	0.0	0.0	0.0	0.0
Cash Flow from Investing activities	**-1084.8**	**-2179.7**	**-1195.0**	**-1700.0**	**-1800.0**
Dividend (incl. Tax)	0.0	0.0	0.0	0.0	0.0
Change in Equity	0.4	80.4	0.0	0.0	0.0
Change in Debt	-257.3	-3021.5	-23.8	-300.0	-306.9
Others	369.6	3010.3	0.0	0.0	0.0
Cash Flow from Financing activities	**112.6**	**69.2**	**-23.8**	**-300.0**	**-306.9**
Net Change in Cash	247.4	356.1	276.8	73.0	70.9

Valuation Ratios

	FY21	FY22	FY23E	FY24E	FY25E
EPS	6.2	19.9	27.5	25.8	32.3
Book NAV / Share	67.6	120.1	147.6	173.4	205.7
DPS	0.0	0.0	0.0	0.0	0.0
Growth Ratios					
Net Sales (%)	-11.7	47.9	27.9	9.8	16.6
EBIDTA (%)	41.4	79.0	40.9	12.3	20.6
PAT (%)	-12.8	341.9	38.4	-6.1	25.3
Return Ratios					
ROA (%)	2.7	9.7	10.5	8.8	9.5
ROE (%)	9.1	16.5	18.6	14.9	15.7
ROCE (%)	7.7	16.3	20.1	19.2	21.0
Turnover Ratios					
Asset Turnover (x)	1.2	1.5	1.5	1.5	1.5
Receivable Days	54.2	18.8	40.0	40.0	40.0
Inventory Days	78.1	88.4	75.0	75.0	75.0
Payable Days	25.9	24.0	30.0	30.0	30.0
Liquidity Ratios					
Current Ratio (x)	0.9	2.1	2.0	2.2	2.5
Interest Cover (x)	1.5	3.1	8.3	9.4	12.2
Total Debt / Equity (x)	1.2	0.1	0.0	0.0	0.0
Valuation Ratios					
PER (x)	68.4	21.3	15.4	16.4	13.1
Price / Book (x)	6.2	3.5	2.9	2.4	2.1
Price / Sales (x)	1.6	1.5	1.1	1.0	0.8
EV / Sales (x)	1.8	1.5	1.1	1.0	0.9
EV / EBIDTA (x)	20.9	14.9	9.7	8.6	7.1

Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year. We have different threshold for large market capitalisation stock and Mid/small market capitalisation stock. The categorisation of stock based on market capitalisation is as per the SEBI requirement.

Large cap stocks

Rating	Criteria	Definition
BUY	>= +10%	Target price is equal to or more than 10% of current market price
NEUTRAL	-10% > to < +10%	Target price is less than +10% but more than -10%
SELL	<= -10%	Target price is less than or equal to -10%.

Mid cap and Small cap stocks

Rating	Criteria	Definition
BUY	>= +15%	Target price is equal to or more than 15% of current market price
NEUTRAL	-15% > to < +15%	Target price is less than +15% but more than -15%
SELL	<= -15%	Target price is less than or equal to -15%.

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