Gokaldas Exports

11 October 2022

Flight for apparel exports ready for take off

INITIATING COVERAGE

Sector: Textile	Rating: BUY
CMP: Rs 385	Target Price: Rs 629

Stock Info

Sensex/Nifty	57,991/17,241
Bloomberg	GEXP IN
Equity shares	61mn
52-wk High/Low	Rs 520/186
Face value	Rs 5
M-Cap	Rs 24bn/ USD 0.3bn
3-m Avg value	USD 13mn

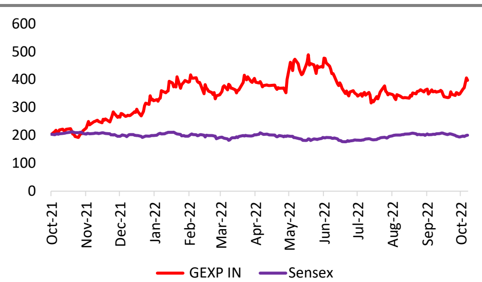
Financial Snapshot (Rs mn)

Y/E March (Rs mn)	FY23E	FY24E	FY25E
Net sales	22,001	26,108	31,542
EBITDA	2,119	2,878	3,928
PAT (adj.)	1,265	1,523	2,237
EPS (adj.) (Rs)	20.7	24.6	35.0
PE (x)	17.7	15.0	10.6
P/B (x)	2.7	2.3	1.9
EV/EBITDA (x)	11.3	8.4	6.2
RoE (%)	15.1	15.4	18.4
RoCE (%)	11.1	13.9	17.5
D/E (x)	0.2	0.2	0.1
OPM (%)	9.6	11.0	12.5

Shareholding pattern (%)

	Jun-22	Mar-22	Dec-21
Promoter	23.5	24.1	24.1
–Pledged	-	-	-
FII	11.0	11.0	12.4
DII	25.4	27.2	26.2
Others	40.1	37.7	37.3

Stock Performance (1-year)



Pratik Tholiya
pratiktholiya@systematixgroup.in
+91 22 6704 8028

Varun Gajaria
varungajaria@systematixgroup.in
+91 22 6704 8081

Gokaldas Exports (GEXP) has emerged as a reliable and trusted supplier of apparels to some of the leading and prominent global brands across all 6 continents. In FY18, GEXP changed its management team after which its fortunes multiplied, as is apparent from its healthy 15% revenue and 46% PAT CAGR over FY18-22. The stupendous growth was driven by 1) acquisition of high-value high-margin customers (15% in FY18 to 35% in FY22), 2) average realisation clocking 18% CAGR over FY18-22, 3) a widening customer base, 4) expanding footprint in the US, its key market, and 5) an augmenting share in outerwear (high-value business). We forecast revenue, EBITDA and PAT CAGR at 21%/29%/24%, respectively, over FY22-25E, as the company is well poised to benefit from multiple industry tailwinds, which include (i) continuing shift of global sourcing, away from China, (ii) supplier consolidation towards efficient and well-capitalised players, (iii) supply-side instabilities in countries like China, Vietnam, Sri Lanka, and Pakistan, (iv) strengthening dollar, (v) announcement of PLI, and (vi) signing of FTAs with key markets. To take advantage of the rising opportunities, GEXP has earmarked a capex of Rs 3.8bn over FY23-25E, which could yield Rs ~14bn of incremental revenue at optimum utilisation. We expect the GEXP to clock CAGR of 14% volume and 8% average realisation over FY22-25E. We initiate coverage on GEXP with a BUY rating and a target price of Rs 629, based on 18x FY25E P/E. High cotton prices, freight costs, energy issues, geopolitical tensions, and inflation could pose challenges in the ensuing year.

Global apparel market offers huge opportunity to Indian exporters: The global textiles trade is estimated to touch USD 1trn by 2025 as per Apparel Export Promotion Council, of which apparel alone could garner a lion's share at USD 600bn, both compounding at 4% and 5%, respectively, on a 2021 base year. The humungous global demand presents huge opportunity to Indian exporters who currently function in an apt environment of abundant raw material, consolidated supply chain of leading apparel brands, shift of business away from China and a favourable policy regime. The domestic textile industry is envisaged to clock 10% CAGR over FY20-26 to USD 190bn, with here too apparel amassing a dominant share.

Scale to improve significantly in the next 3 years: GEXP's intention to commission ~Rs 3.8bn of capex over FY23-25E could cause its gross block to double to ~Rs 8bn in FY25E. A large part of this capex would be deployed to meet the rising demand for woven, as also to build its footprint in knits to cater to high-value high-margin products. This sums our estimate of robust 21% revenue CAGR over FY22-25E vs 15% CAGR during the last 4 years. We believe scale would generate sufficient cash flows for the company to power future capex. With all the capex planned, we believe GEXP is yet to unlock its full potential and create value for its investors.

EBITDA margins to jump 220bps over FY22-25E: Our estimate of 220bps expansion in EBITDA margin to 12.5% in FY25E factors in (i) capacity expansion and better utilisation of its existing capacity, (ii) 24% CAGR in outerwear and sportswear revenues, (iii) contribution of knitwear business, plus other capex plans kicking in FY24-25 onwards, and (iv) benefits of EU and UK FTA flowing in.

Initiate with a BUY: We attribute GEXP's sharp rerating in the last 2 years to strong customer relationships, investment into capabilities and expanding opportunities. A strong balance sheet and significant improvement in return ratios support valuations, in our view. We forecast revenue and PAT CAGR of 21% and 24%, respectively, over FY22-25E, and estimate higher return ratios (RoE to improve from 16.5% in FY22 to 18.7% in FY25E). We have assigned GEXP a PE of 18x FY25E EPS of Rs 35 to arrive at our target price of Rs 629. We initiate coverage on the stock with a BUY rating.

Contents

Story in charts 3

Capex plans to enlarge scale significantly....................4

High value, high margin segments to boost profitability....................6

Venturing into knitwear to create value 7

Strong customer engagement....................9

A stable and experienced management team 11

Financial Outlook 13

Outlook and Valuation 17

Valuation charts....................17

Peer Comparison 18

Key Risks 19

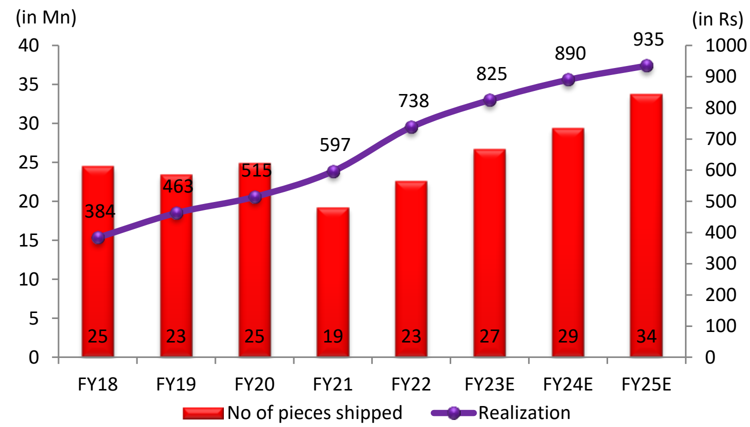
Company overview 20

Overview of the textile and apparel industry 22

Financials....................31

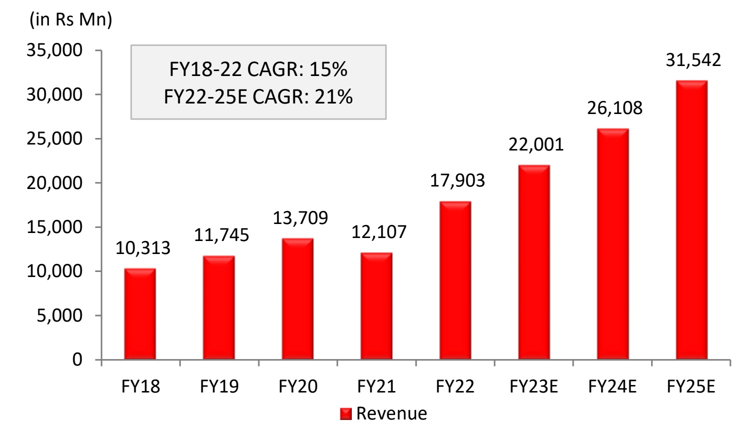
Story in charts

Exhibit 1: Healthy volume and realisation growth…



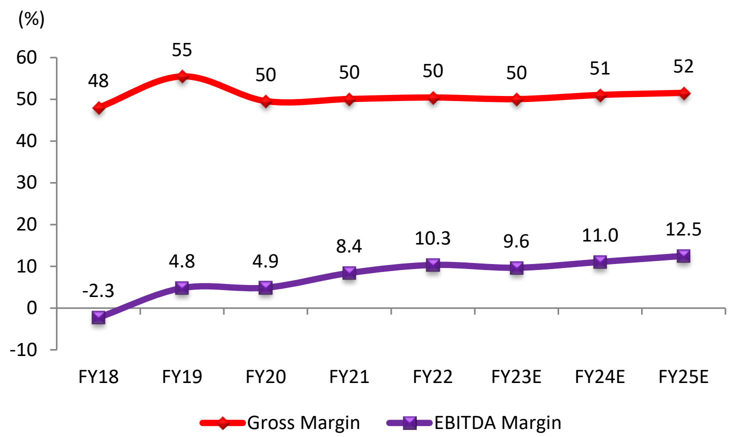
Source: Company Data, Systematix Institutional Research

Exhibit 2: …to drive 21% revenue CAGR over FY22-25E…



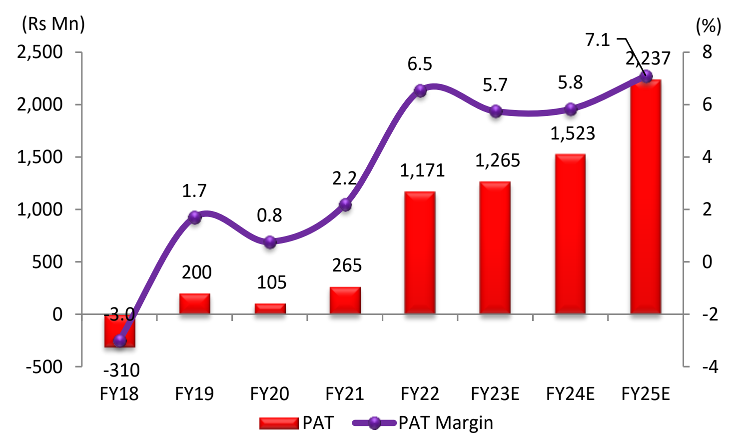
Source: Company Data, Systematix Institutional Research

Exhibit 3: …and lead to margin expansion despite FY23 headwinds



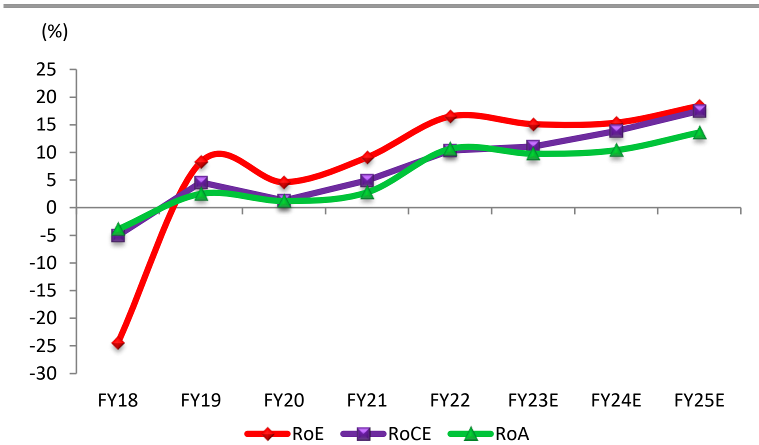
Source: Company Data, Systematix Institutional Research

Exhibit 4: Earnings to register 24% CAGR over FY22-25E…



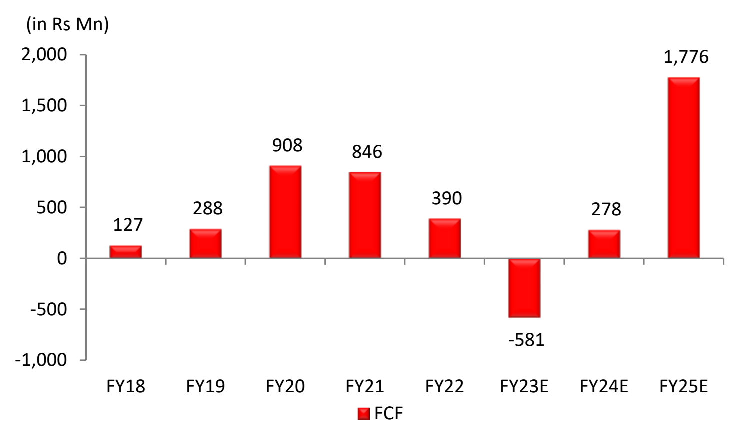
Source: Company Data, Systematix Institutional Research

Exhibit 5: …resulting in expansion of return ratios



Source: Company, Systematix Institutional Research

Exhibit 6: Healthy FCF in FY25 post completion of major capex



Source: Company, Systematix Institutional Research

Capex plans to enlarge scale significantly

Planned capex of Rs 2.8bn in FY23-24E

GEXP has always been upgrading itself to fulfill the myriad needs of its customers. From installing world-class equipment to acquiring new units, the company has been consistently demonstrating its intent to invest in its future. In last 15 months, GEXP spent Rs 1.16bn towards capex, and plans to invest Rs 2.8bn on various new initiatives, existing and ongoing projects over the next two years.

Its new greenfield project in Madhya Pradesh with the capacity to produce 1.95mn garments is slated to begin trial runs in October'22, and slowly ramp up by 4QFY22. The company had submitted application for PLI scheme with the government for which it received approval on 14th April 2022.

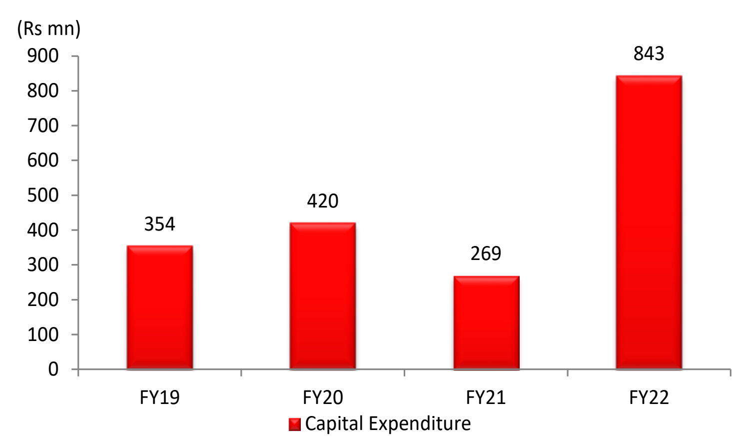
Additional capacity in knits for backward integration

The company plans to augment production capacities in the new line of business in other territories of India as well. To manage the new business segment, the company has incorporated a new wholly owned subsidiary to carry out business in the Knits segment. The company has taken possession of 10 acres of land for the fabric processing unit in SIPCOT, Perundurai, Tamil Nadu and the registration of the building and machinery for the unit completed. Expected capex will be to the tune of ~Rs 1bn in the next 12 months. The company has also received the In-principal sanction for the necessary credit lines for banks

Three new capacities add in FY22, enhancing the total capacity by 12%

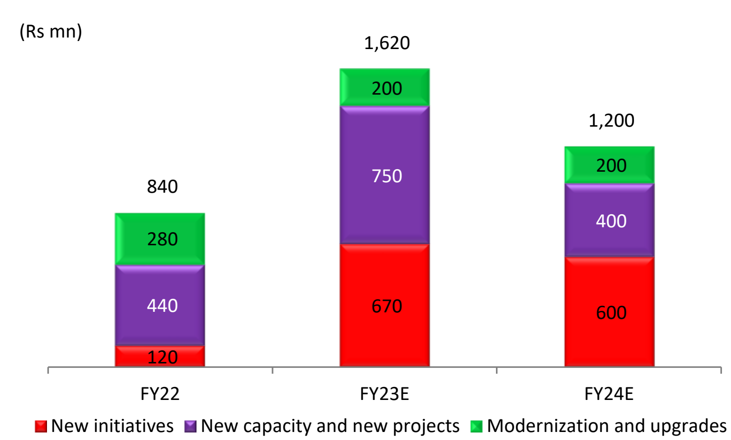
The company commissioned three new production units in FY22, two in Karnataka (Tumkur and Bommanahalli) and one unit in Tamil Nadu (Krishnagiri). All the three units are expected to add about 12% of total production capacity of the company if operate at optimum level. The company has enhanced its capacity adding a leased unit at Tumkur This will aid the capacity expansion plans as envisaged in the company's overall business plan. The unit is expected to add 4.5% of capacity. The company leased another manufacturing unit at Bommanahalli, Bangalore and commenced its commercial production This will cater to woven and knit segments. The new unit is expected to add another 4.5% production capacity.

Exhibit 7: Cumulative capex of Rs 1.9bn spent in FY19-22



Source: Company Data, Systematix Institutional Research

Exhibit 8: Announced capex of Rs 3.66bn over FY22-24



Source: Company Data, Systematix Institutional Research

Evaluating international manufacturing facilities

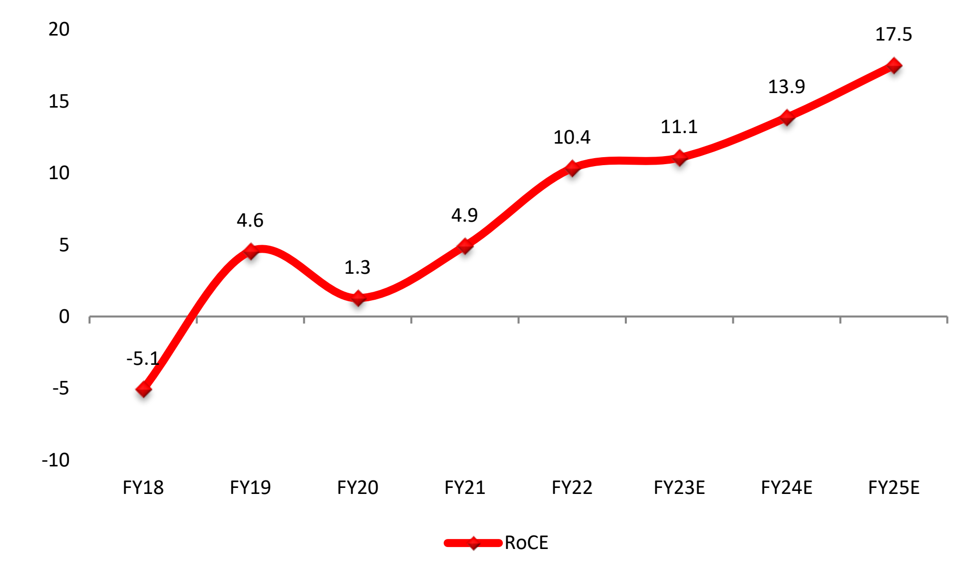
The company is actively exploring possibilities of setting up international manufacturing facilities. Incorporated a wholly owned subsidiary in Dubai, UAE to channel overseas investment projects and efficiently service international customers.

Bangladesh: Due to the inherent advantages Bangladesh based textile manufactures, the company is also exploring at setting up a facility there. GEXP would like to go through the JV route with GEXP holding major stake in the JV. Management says it is still scouting for a reliable partner and would like to close the deal before Q4FY23. The company is open to acquire any good, distressed assets or might take asset on lease. We expect the revenues to flow from FY24 onwards.

Scale and margins to improve over medium to long term

In line with the capex the company expects incremental revenues of Rs ~14bn over FY22-25E from incurred/planned capex of ~Rs 3.8bn. This is likely to be driven by a ramp up of Tumkur, Bommanahalli and Krishnagiri facilities, new capex in knits and contribution from high value segment. We expect revenues to grow at CAGR 21% over FY22-25E in line with higher export volume and better realization going forward.

Exhibit 9: ROCE improvement expected as capacity augments



Source: Company Data, Systematix Institutional Research

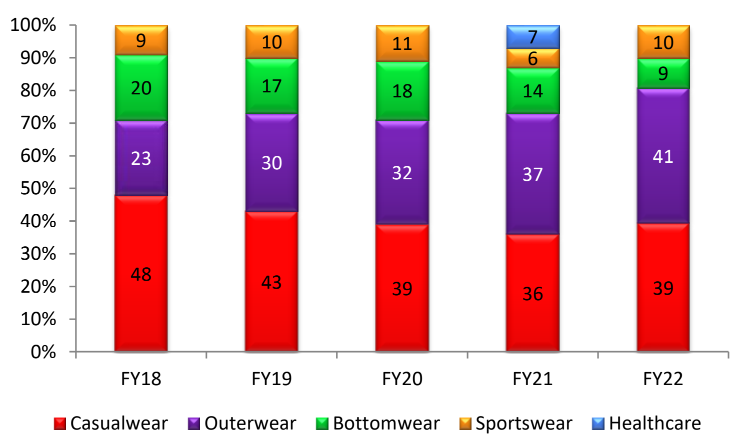
High value, high margin segments to boost profitability

The high value, high margin client base to move in line with contribution of outerwear and sportswear as these categories command high value and account for 51%' of sales

The company is engaged in manufacturing of outerwear, sportwear, casualwear and bottom wear garments for men (46% of sales), women (47%) and kids (6%). The company is present across the apparel value chain from design, development to embroidery and polyfill of fabric to convert it to readymade garment which is further sold to big brands such as GAP, Banana Republic, Abercrombie & Fitch, H&M, Reebok, Adidas, Zara, Columbia Sportswear Company, Marks and Spencer and Puma. We note that while casualwear has had a dominant share in revenues in the past (48% of revenue in FY18), its contribution has been declining (39% of revenue in FY22) while that of outerwear and sportswear has been increasing (from 32% in FY18 to 51% in FY22).

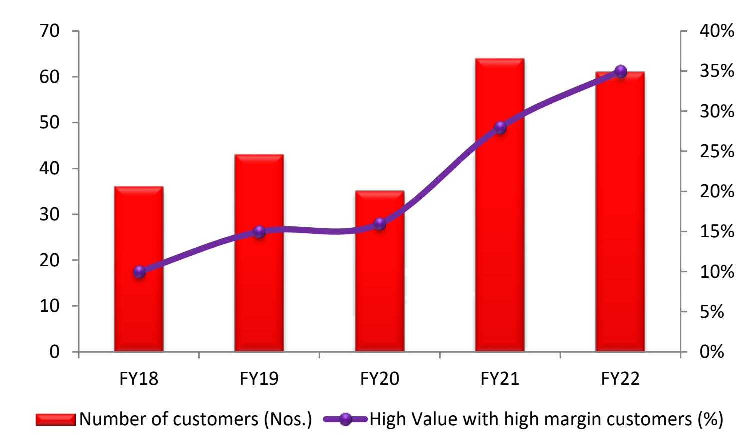
Over FY18-22 outerwear and sportswear revenues have increased at CAGR of 33% and 18% respectively, thereby contributing to higher revenues and higher margins. A steady growth in outerwear segment helps balance seasonality of the business. The drop in sportswear contribution in FY21 was due to reduced demand from key customers. It has since picked up in FY22 and is further expected to rise in FY23. Casual wear category has also registered a healthy 9% CAGR while only the bottom wear category has remained stagnant due to commodity nature of the products. GEXP's high value business has grown at a CAGR of 30% over FY18-22 and its contribution improved from 42% to 80% over the same period. We expect the mix to further improve in favor of high value businesses over FY22-25E in line with expanding customer base and change in product mix.

Exhibit 10: Outerwear & sportswear share at 51% in FY22



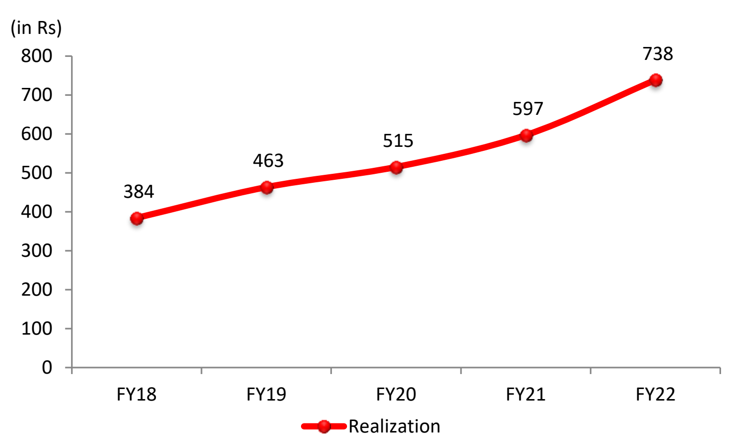
Source: Company, Systematix Institutional Research

Exhibit 11: High value, high margin clients to have increased



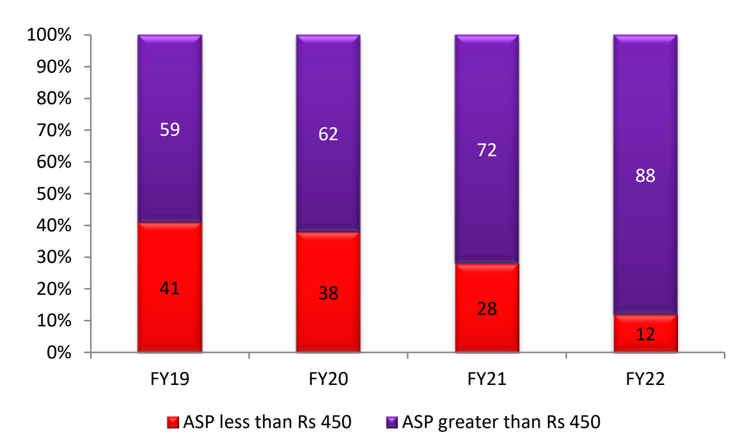
Source: Company, Systematix Institutional Research

Exhibit 12: Per piece realizations have doubled in last 5 years



Source: Company, Systematix Institutional Research

Exhibit 13: High value products have led to growth in exports



Source: Company, Systematix Institutional Research

Venturing into knitwear to create value

Management expects 15% margin in the knits business and although the capital employed is expected to be higher than woven, the return profile would be in line with the woven business. Further, management believes backward integration is pertinent in the knitted garments business to have a competitive edge in the global market

Knits is a USD 206bn market globally

Knit trade is a USD 206bn market globally (~50% of apparel trade), and India has mere ~4% market share. Even though opportunities in the knit fabric segment is huge, India's share is lagging is immediate neighbors like China or Bangladesh. Pakistan and Sri Lanka account for 2-3% in world knits trade each**. B**oth these countries currently facing financial crisis, additionally, floods in Pakistan have destroyed a major portion of the cotton crops. In this backdrop, India is a relatively stable economy, with a fully integrated infrastructure for manufacturing apparels.

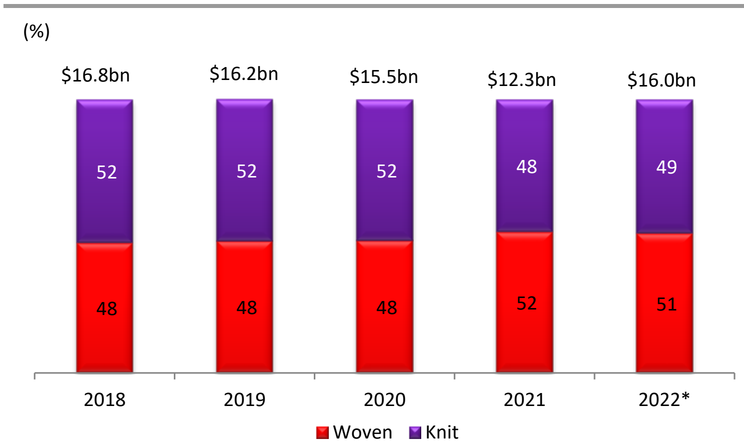
GEXP to invest Rs 1bn in a knit fabric processing unit

The company is now jumping into the knitwear segment, in which the company plans to set up a vertically integrated knit fabric processing unit in Tamil Nadu. The facility is expected to be commissioned in March 2023. We expect an asset turnover of 3.5x and revenue of Rs 3.5-3.7bn that we believe would eventually constitute 11-12% of FY25 revenue. This should help in eliminating seasonality and allow the company to leverage its existing client portfolio, given that its top clients (such as GAP, Banana Republic, GAP, H&M, Abercrombie and Fitch, Walmart, etc.) hold strong presence in knit fabric apparel articles.

Superior margins in knits to improve overall margin profile

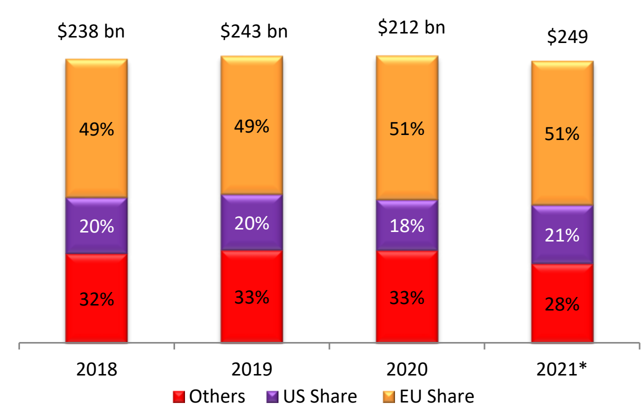
GEXP will likely foray into manufacturing t-shirts, sportswear, leggings, etc., widening its product portfolio from shirts, jackets, skirts, and dresses that currently form a part of its woven fabric business. The backward integrated knit wear processing unit would enable the company to stay relatively competitive in global markets and enhance margins. We expect the company to generate 15% margin from the knits business, 300bps better than the woven business. Further, the FTA with UK and later with Europe will likely allow GEXP to compete better with Bangladesh-based manufacturers.

Exhibit 14: Woven to knit split in line with the industry



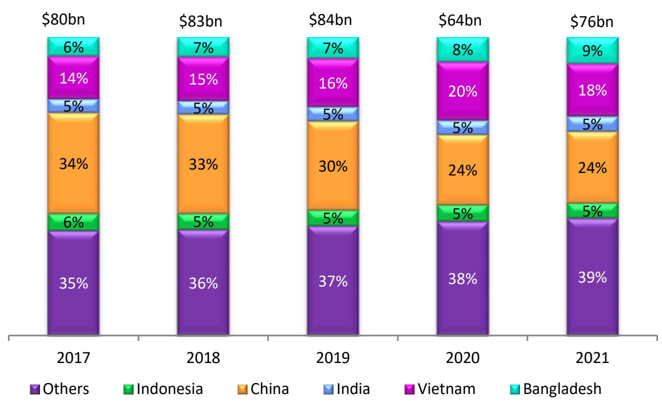
Source: Company Data, Systematix Institutional Research

Exhibit 15: EU and US are the largest markets for knitwear



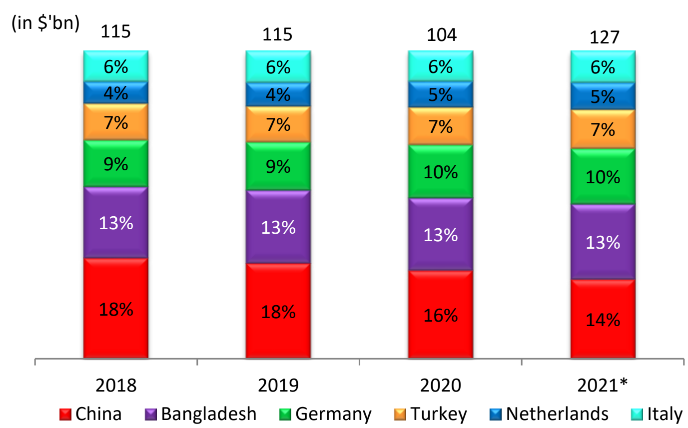
Source: Company Data, Systematix Institutional Research

Exhibit 16: India has tremendous export potential in the US



Source: Company Data, Systematix Institutional Research

Exhibit 17: EU remains unchartered waters for Indian exporters



Source: Company Data, Systematix Institutional Research

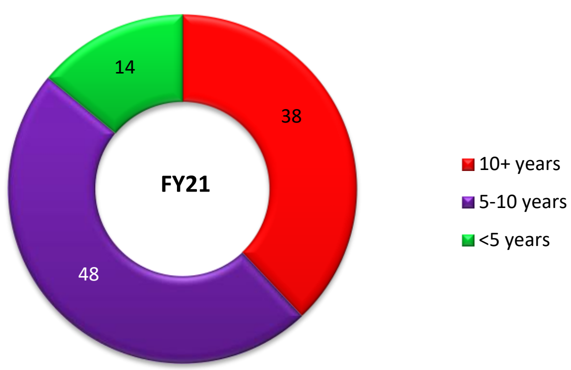
Strong customer engagement

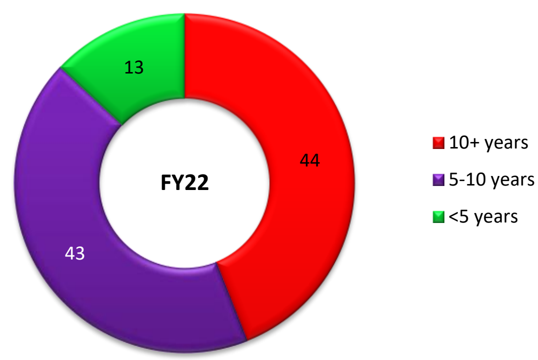
Leveraged specialized resources for superior customer engagement

Over the last 4 years, the company has deepened its pool of talented professionals that have a strong track record, to manage its key operations in and outside of India. GEXP's designers have proved that they are capable of maintaining relations with brands and providing products that tailor fit their demand. Management has also strengthened its IT infrastructure owing to which, the corresponding teams have been able to back various processes like production planning, line design, resource allocation and performance monitoring. The company prioritizes on providing a seamless customer experience and is dedicated to building and maintaining long-lasting relationship with its customers.

The company has 60+ clients across major markets of US, Europe, Asia, Australia and New Zealand, and emerging markets of Africa. Over the years, the company has been able to build a strong client base that has doubled since 2018. GEXP enjoys long-standing relations with most marquee global brands. In FY22, 43% of its revenue came from customers who have been associated with the company since 10+ years, much higher than 38% in FY21. The company has nurtured these long-term relationships by continuously upgrading its skills, technology and processes to meet the evolving demands of its customers.

Exhibit 18: Long-standing relationships with global brand (in %)





Source: Company, Systematix Institutional Research

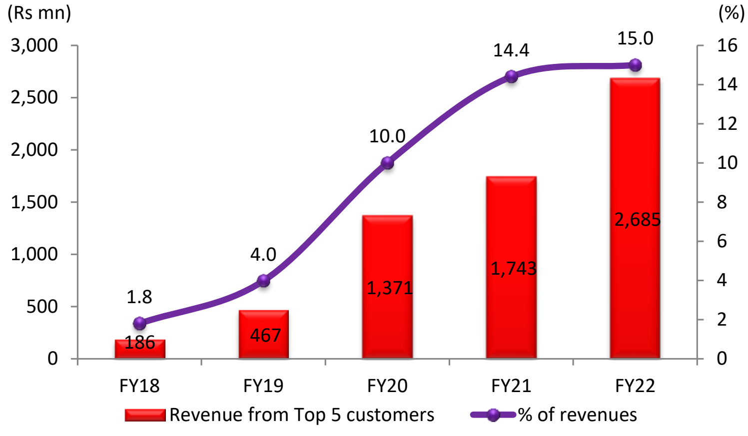
Top 5 customers who contributed mere 1.8% revenue in FY18, have now increased to 15% in FY22

Contribution from marquee customers increasing, more brands may onboard

Over the last five years, GEXP has successfully worked towards growing its customer base, which has resulted in enhanced share of contribution to the revenue. Top 5 customers, who contributed mere 1.8% revenue in FY18, have now increased to 15% in FY22. During this period, the company was under pressure to meet the growing demand of all its customers, and had to judiciously allocate capacity to ensure all-round customer satisfaction. We expect the company to onboard more customers in FY23, as it continues to leverage the China+1 narrative in the US and European markets.

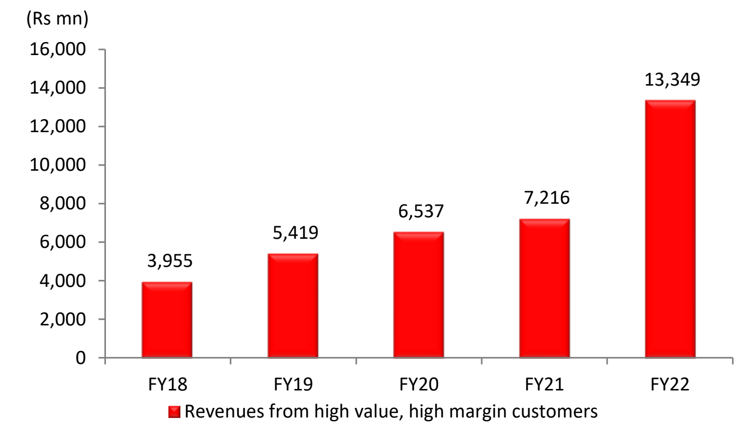
We note that while servicing existing clients with its widespread operations and business expertise, GEXP is also in the process of undertaking a sizable capex over the next 2 years. This would not only enable capacity expansion in the woven wear space, but also pave the way for the company's entry into the knitwear segment. With its foray into the knitwear segment, we expect the company to onboard more high-value clients. Over the years, it has significantly increased the number of its high-value high-margin clients, as it made efforts to expand the share of its outerwear garments within its revenue stream. We expect this trend to continue, in line with revenue growth and capacity addition.

Exhibit 19: Contribution from customers added in last 5 years



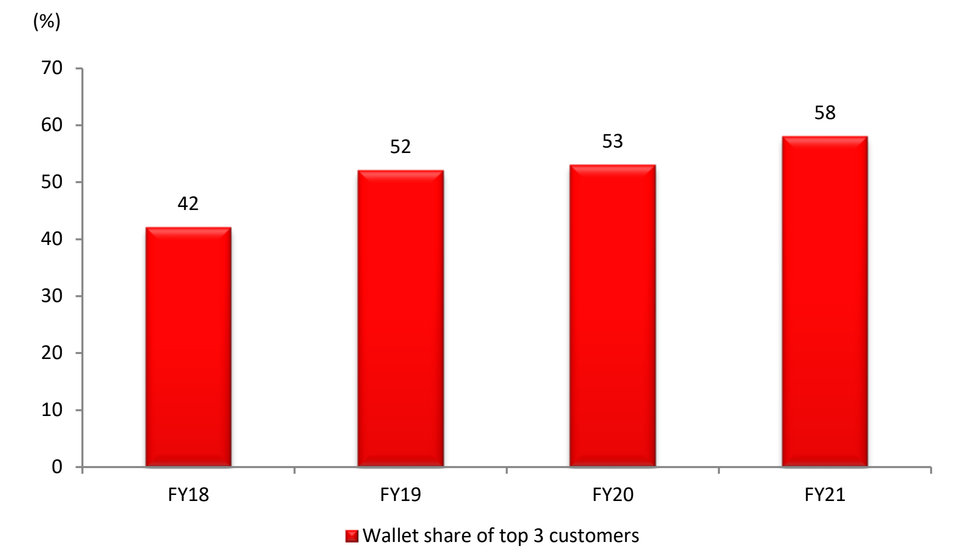
Source: Company Data, Systematix Institutional Research

Exhibit 20: Strong customer base drives revenue at 35% CAGR



Source: Company Data, Systematix Institutional Research

Exhibit 21: Wallet-share from top 3 customers rose meaningfully



Source: Company Data, Systematix Institutional Research

Exhibit 22: Serving marquee global brands for over decades

Source: Company Data, Systematix Institutional Research

A stable and experienced management team

With the commissioning of new capex, management margins to improve by 150 bps by FY25 and incremental revenue of Rs 13bn, which translates into revenue CAGR of 21% over FY22-25E

After a turbulent past, GEXP's management team has been stable since FY18, when Mr. Sivaramakrishnan Ganapathi took charge as the CEO and Mr. Sathyamurthy A as the CFO. The new management team has taken various bold and tactical decisions in the last four years that has yielded positive results for the company. Rightsizing its operations (factories pruned to 19 in FY22 from 22 in FY18), improving realisation levels, paring down debt, improving cost efficiency and customer relations were some of the key steps taken. These measures resulted in revenue CAGR of 15% over FY15-22. In FY17 and FY18 the company had reported EBITDA loss, after which period it did not report a single year of loss. Management's commitment and diverse experience have enabled GEXP to position itself as one of the leading apparel exporters in India, with a strong client base and order book. As per management, 25% of the orders booked by brands in India are booked at GEXP.

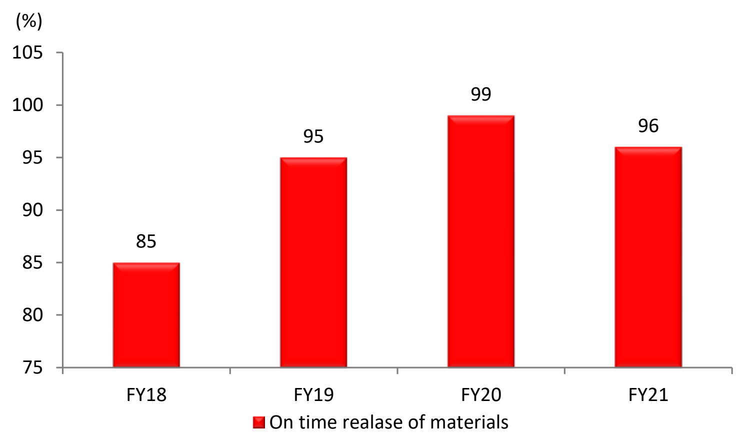
Invested in upgrading business infrastructure to sustain performance

Over the last four years, GEXP has been investing immensely in modernising machinery to meet global productivity standards. It implemented advanced production operation control systems for extensive data capture and analytics for effective decision making. It has continuously upgraded factories with state-of-the-art technology to automate various process to support fabric management and control leakage, as well as to reduce production defects and effectively track the same. It has also been upgrading health and safety related facilities and equipment to enhance compliance standards. Over FY22-24E, GEXP has earmarked a capex of Rs 680-700mn towards modernising and upgrading its business.

Driving operational excellence through improved supply chain, integrated process

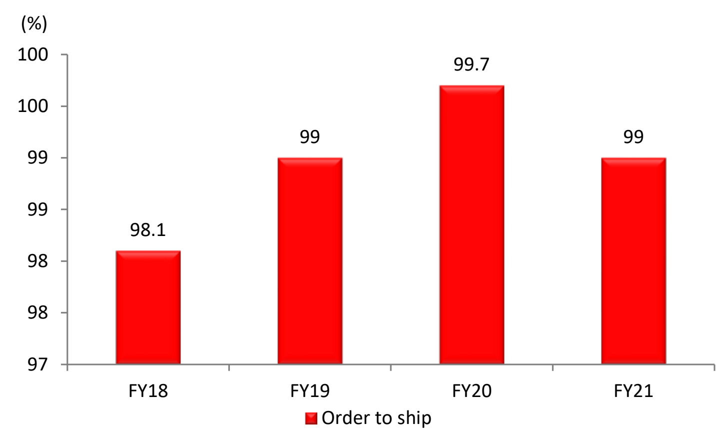
On-time sourcing of raw material from various suppliers internationally is critical in ensuring timely delivery of finished goods. Supply chain disruptions were rampant in FY22, limiting improvement. Over time, the company included array of new processes within its manufacturing setup, and this integrated setup has facilitated its presence across the entire value chain. While manufacturing facilities help in catering to diverse customer needs, it also enables the company in becoming the preferred partner of choice for some of the most distinguished brands across the globe.

Exhibit 23: On-time release of material has improved since FY18



Source: Company Data, Systematix Institutional Research

Exhibit 24: Order to ship has improved over the years



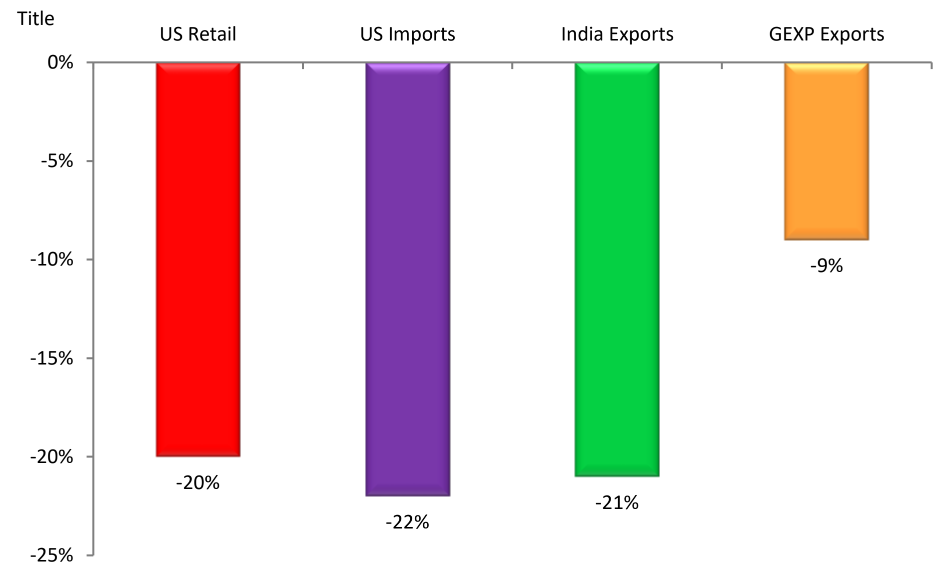
Source: Company Data, Systematix Institutional Research

Agile management able to convert adversity (COVID-19) into opportunity

COVID-19 impacted garment manufacturers in multiple ways. While demand for woven reduced due to lockdowns and work-from-home culture, supply chain disruption caused delays in shipments. GEXP's agile management took preemptive steps to reduce the impact of COVID-19-led disruption on the business. Management addressed these challenges by (i) initiating structural correction by realigning capacities to market demand. This helped in lowering the fixed expenses, (ii) improving operational efficiency and focusing on reducing wastages, (iii) right sizing operations by regulating and supporting infrastructure as per business needs, and (iv) tightening the cash management by deferring capex, renegotiating terms of suppliers and ensuring extra line of credit from banks.

This way the company has been able to stay ahead of the industry, evident from the fact that GEXP's export growth is ahead of retail sales in the US.

Exhibit 25: GEXP's export growth ahead of retail sales in the US (YoY FY21)



Source: Company, Systematix Institutional Research

Exhibit 26: COVID-19 outbreak paved opportunity for GEXP

COVID impact	Opportunity for GEXP
Shutdowns in the principal markets of the US and EU caused retail sales to slump, especially for fashion garments. It also impacted the order pipeline and resulted in cancellations and deferment of customer orders	The company consolidated its supplier base and stayed ahead of demand slump
Supply chain disruptions affected raw material availability	Strengthened operations anticipating a rebound in growth
Manufacturing shutdown in India	Managed customer deliveries throughout the challenging period without significant loss of performance metrics
Online sales and low-value casuals led the recovery	Entered the healthcare segment by designing and manufacturing Personal Protective Equipment (PPE kits)

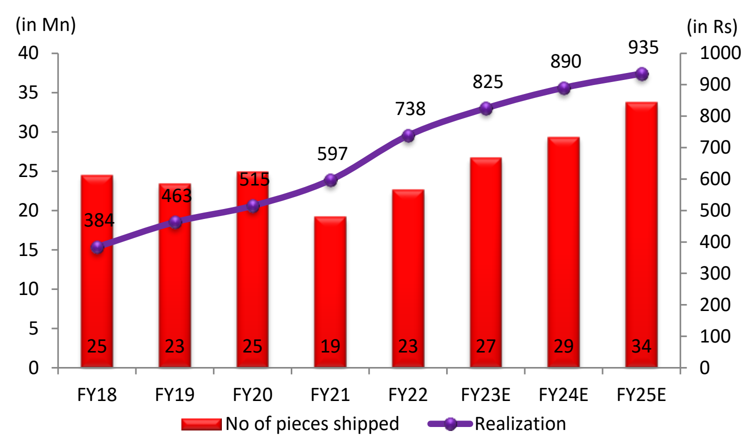
Source: Company, Systematix Institutional Research

Financial Outlook

Sales CAGR of 21% over FY22-25E

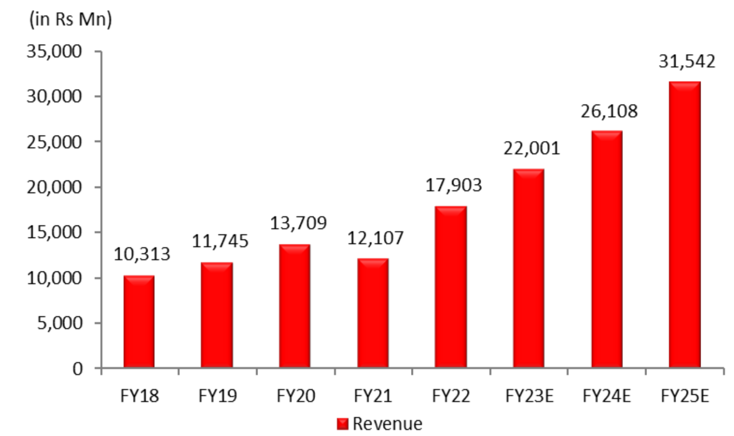
GEXP's faster-than-industry topline CAGR of 15% over FY18-22 was driven by i) improved productivity, ii) a strengthened design team to manage relationships with brands internationally, and iii) superior customer engagement. We believe GEXP's 21% revenue CAGR over FY22-25E would be spurred by 1) scale up in existing facilities, 2) capex in knits, and 3) new customer addition for high-value products.

Exhibit 27: Healthy volume and realisation growth over FY22-25E…



Source: Company Data, Systematix Institutional Research

Exhibit 28: …will likely result in 21% revenue CAGR

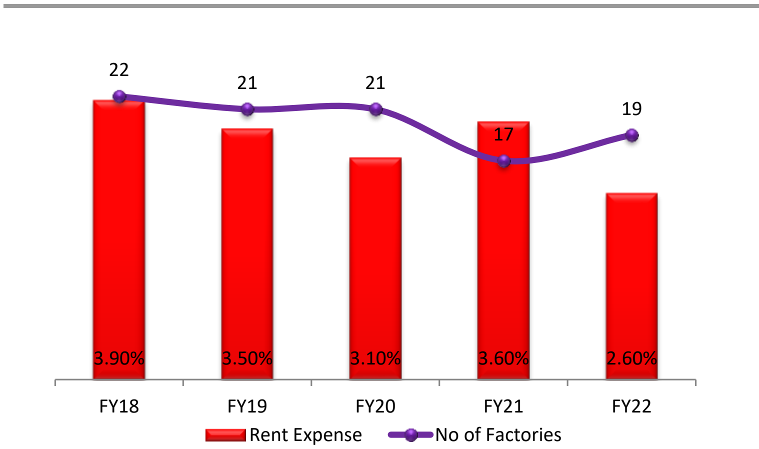


Source: Company Data, Systematix Institutional Research

Better product mix to drive margins

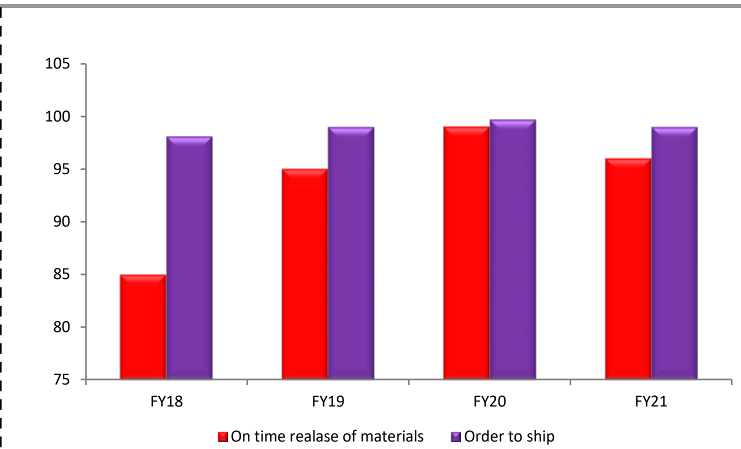
GEXP posted EBITDA losses in FY17 and FY18, after which it changed its management in FY18. The new management successfully turned around the fortunes of the company, evident from the 550bp improvement in its EBITDA margin to 10.3% in FY22 from 4.8% in FY19, primarily through lower wastages and operating leverage. Gross margin increased from 48% in FY18 to 50.4% in FY22, led by change in product mix and smart sourcing of raw materials. With management further improving its product mix in favour of high-value high-margin products, we estimate gross margin to touch 51.5% by FY25E. Driven by operating leverage (proportionate lower increase in staff cost and other expense), the company's other expenses and staff cost as a percentage of revenue declined from 50.3% in FY18 to 40.1% by FY22. We expect this trend to continue, and aid further 220bp EBITDA margin expansion to 12.5% by FY25E from 10.3% in FY22.

Exhibit 29: Lower rent expense led by factory rightsizing



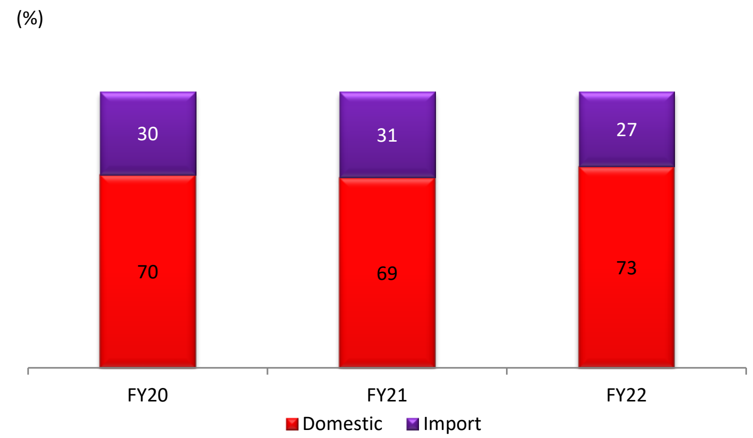
Source: Company Data, Systematix Institutional Research

Exhibit 30: Supply chain efficiency improving since FY18



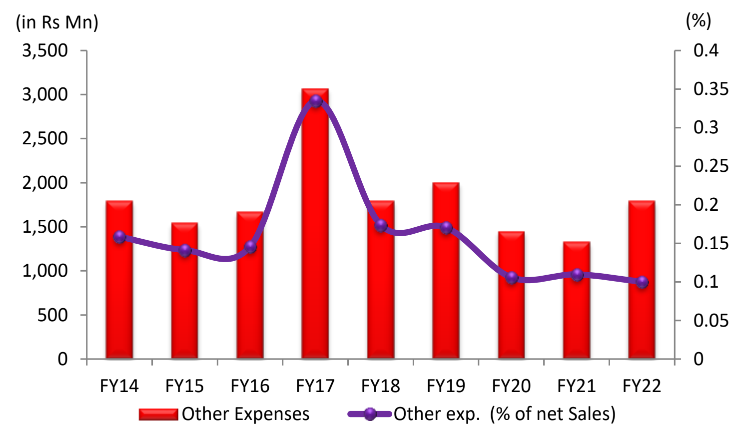
Source: Company Data, Systematix Institutional Research

Exhibit 31: Currency risk reduced with more domestic sourcing



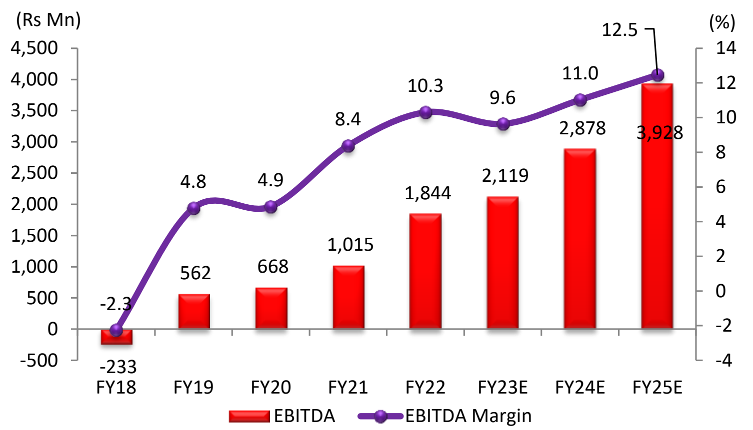
Source: Company Data, Systematix Institutional Research

Exhibit 32: Factory rightsizing led to lower overheads



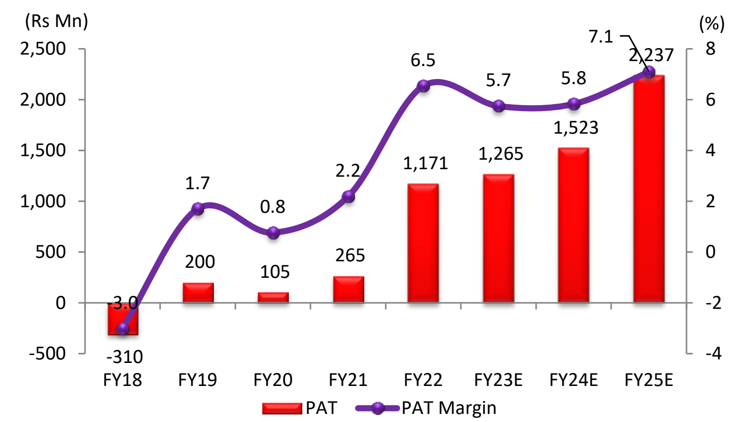
Source: Company Data, Systematix Institutional Research

Exhibit 33: EBITDA margin to improve 220bps over FY22-25E



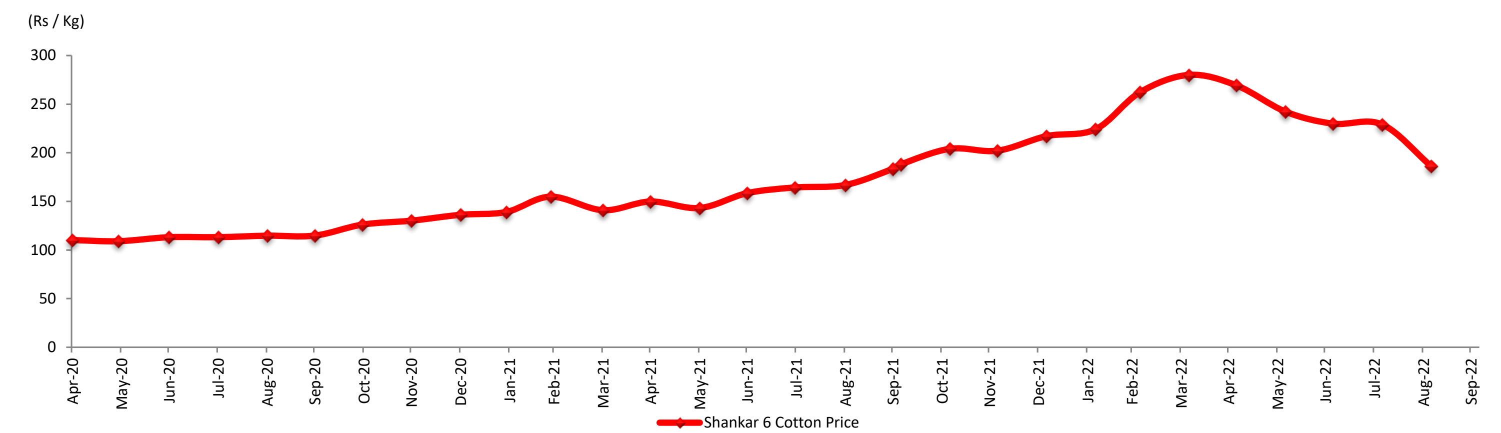
Source: Company Data, Systematix Institutional Research

Exhibit 34: PAT to expand at 24% CAGR over FY22-25E



Source: Company Data, Systematix Institutional Research

Exhibit 35: Cotton prices cooling-off after peaking in April 2022

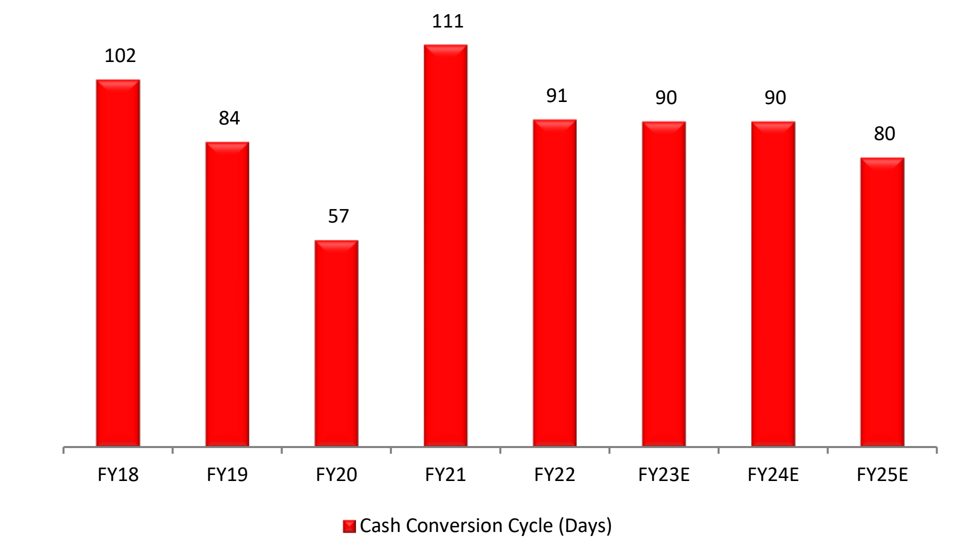


Source: Company, Systematix Institutional Research

Working capital cycle to improve

We expect GEXP's working capital (WC) cycle to improve in the upcoming years. Softening cotton prices and a healthier demand environment in domestic and international markets should aid in easing the inventory situation. Inventory days are thus expected to slide from 100 in FY22 to 90 by FY25E. Receivables and payables would remain broadly steady at 20 and 30 days, respectively, in FY22 and FY25E. As a result, the cash conversion cycle could likely drop from 91 days in FY22 to 80 days by FY25E.

Exhibit 36: WC cycle to improve over time

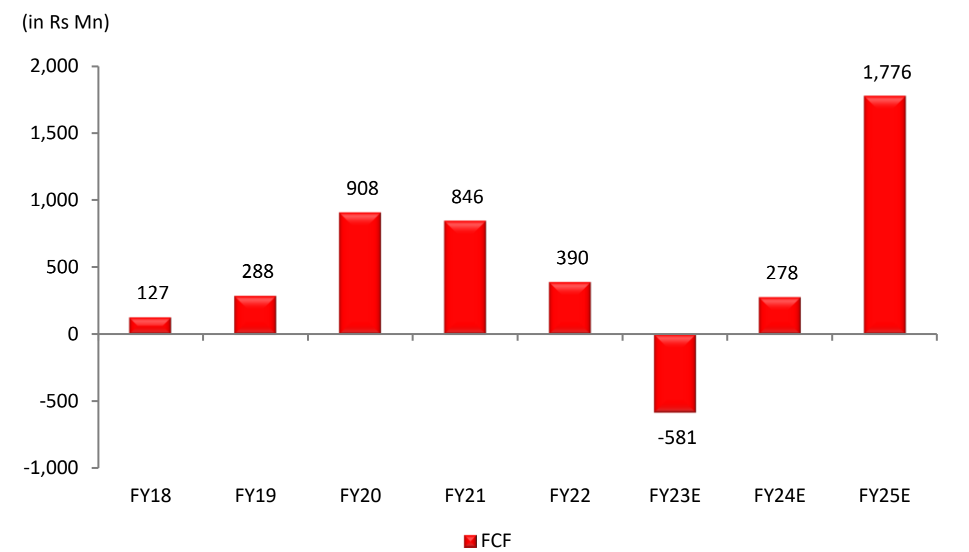


Source: Company, Systematix Institutional Research

Healthy free cash flow generation to continue

A higher capex in FY23 will likely erode GEXP's healthy FCF into the negative zone. But we expect FCF to improve significantly FY24 onwards as capex would be minimal and profitability higher; we estimate cumulative FCF of Rs 1.7bn over FY22-25E.

Exhibit 37: GEXP to generate healthy FCF despite capex over FY22-25E

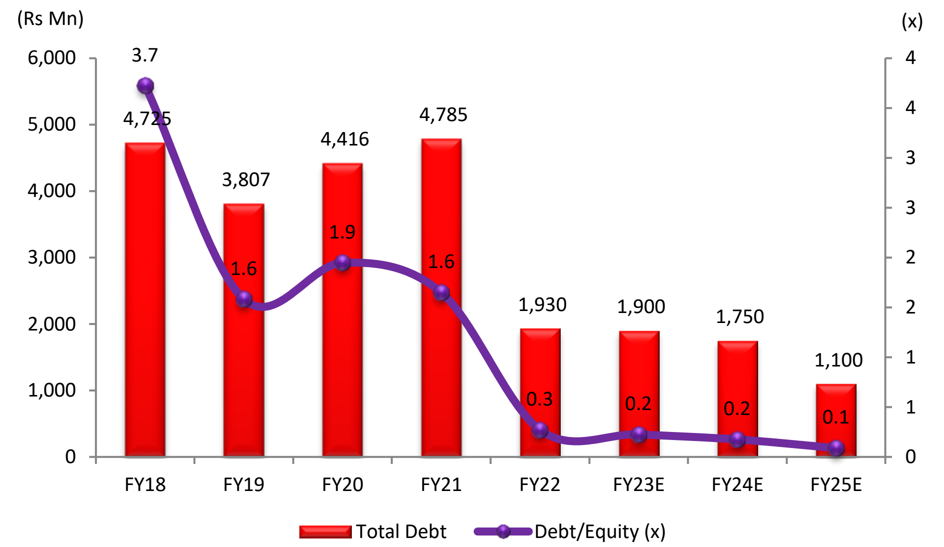


Source: Company, Systematix Institutional Research

Clean balance sheet with high cash reserve

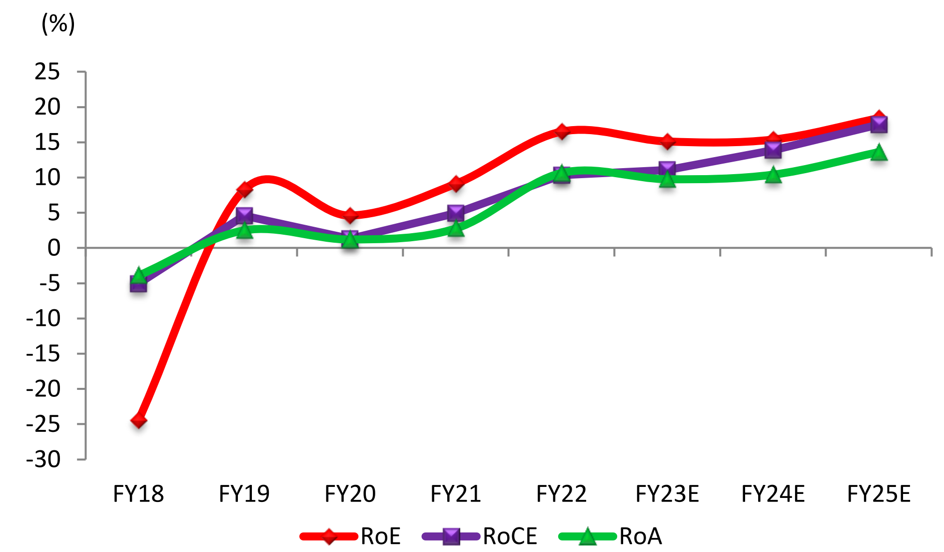
GEXP raised Rs 3bn via QIP in October 2021. As a result, its gross debt as on 31st March'22 reduced to Rs 1.9bn from Rs 4.8bn in FY21. Net debt stood at Rs 0.25bn vs. Rs 4.2bn in FY22. We expect its cash reserve to surge further to Rs 1.5bn by FY25E on strong cash flow generation from the business, notwithstanding the planned capex of Rs 3.8bn. The company could utilise the large cash pile to further enhance capacity.

Exhibit 38: Debt reduction led by QIP and internal accruals



Source: Company, Systematix Institutional Research

Exhibit 39: Return ratios to improve as profitability improves



Source: Company, Systematix Institutional Research

Outlook and Valuation

BUY with a target price of Rs 629

Medium-term earnings visibility is intact, boosted by new product launches, robust export orderbook and scale up in high-value high-margin products. We expect cash reserve to increase and strengthen the balance sheet over the medium term, with expected significant FCF. The stock has corrected ~20% in last five months, and currently trades at 11x FY25E EPS of Rs 35. We initiate coverage on the stock with a **BUY** rating to arrive at our target price of Rs 629, valuing the stock at 18x FY25E P/E.

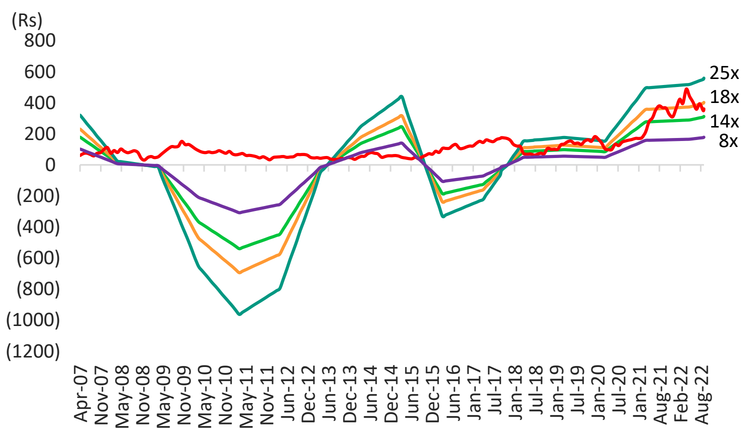
Exhibit 40: Valuation overview

	FY25E
EPS (Rs)	35
Current market cap (Rs mn)	24,608
No of shares (mn)	64
Target multiple (x)	18
TP (Rs)	**629**
CMP (Rs)	385
Upside (%)	64

Source: Systematix Institutional Research; Note: pricing as on 7 October 2022

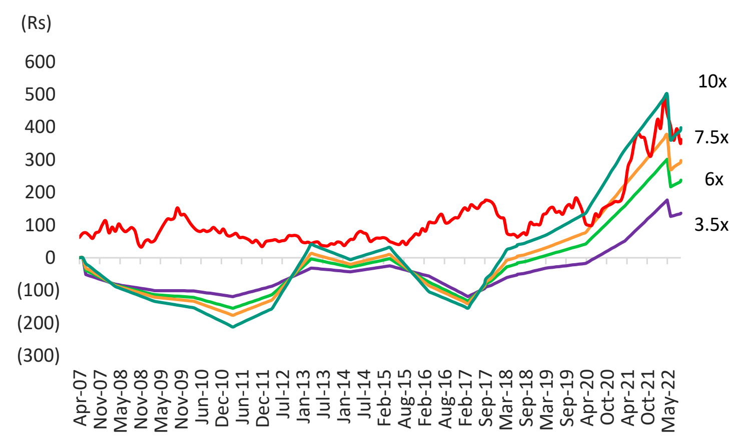
Valuation charts

Exhibit 41: Trading at a one-year forward P/E of 16.2x



Source: Company, Systematix Institutional Research

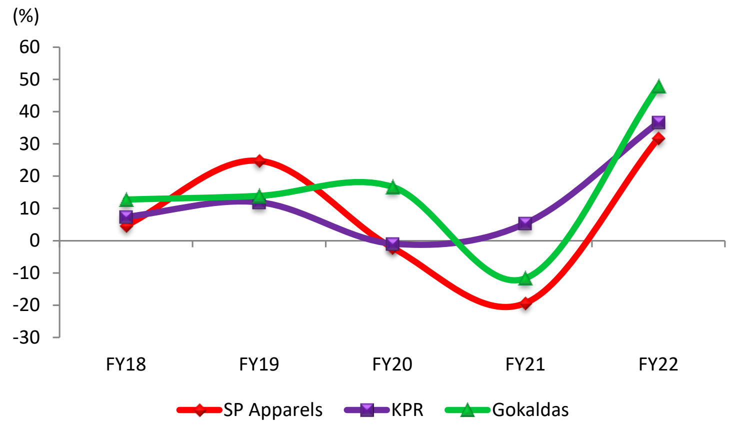
Exhibit 42: Trading at a one-year forward EV/EBITDA of 9.1x



Source: Company, Systematix Institutional Research

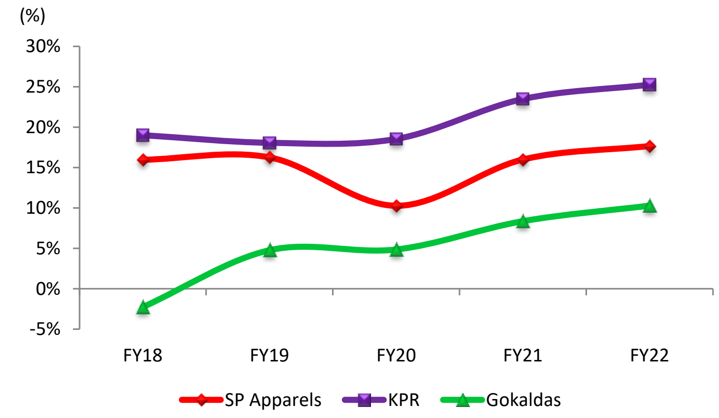
Peer Comparison

Exhibit 43: GEXP revenue growth (in %) in line with peers



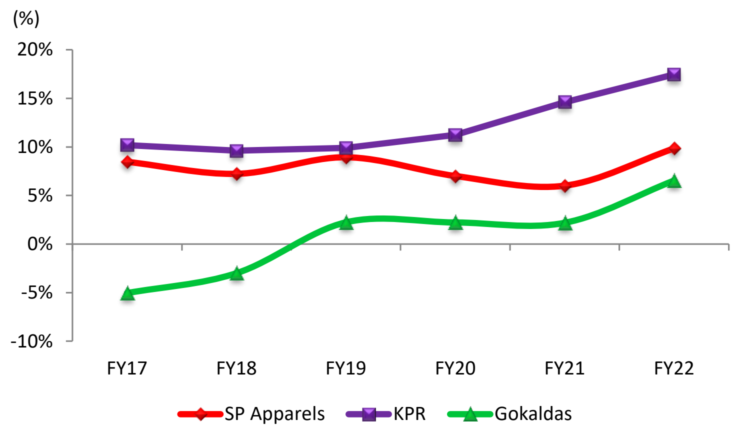
Source: Company Data, Systematix Institutional Research

Exhibit 44: KPR has better EBITDA margins (in %) due to scale



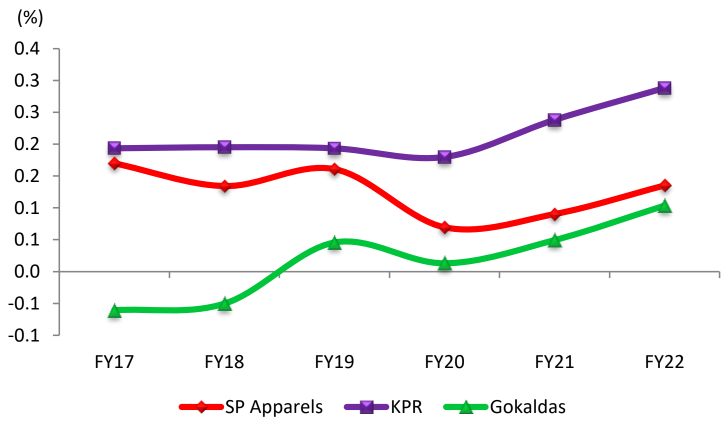
Source: Company Data, Systematix Institutional Research

Exhibit 45: GEXP earnings growth (in %) is picking up with peers



Source: Company Data, Systematix Institutional Research

Exhibit 46: GEXP's ROCE is inching closer to peers



Source: Company Data, Systematix Institutional Research

Key Risks

Key risks that could impact the business in the long run

- **Key management risk:** Mr. Sivaramakrishnan Ganapathi (CEO and MD) has been largely responsible for turning around the company since his appointment in 2018; any change in the top management could hurt GEXP's operations and plans.
- **Changes in labor laws and lack of manpower due to strikes and socioeconomic and political factors:** The company could incur financial losses and shutdowns could impact normal working, margins, and plans if labour laws undergo any change or the manpower goes on strike. Further, GEXP plans to set up an apparel manufacturing unit in Bangladesh where strikes are common as the average wage rate in the country is lower per union.
- **Delay in commissioning new facilities and modernisation plans:** The company plans to commission a knit fabric processing and a woven wear manufacturing unit by 2024. Any delay in commissioning the commissioning the same could have a bearing on the company's profitability.
- **Currency fluctuation and geopolitical challenges in import markets:** The company imports 30% of raw materials from China, Korea and Taiwan. Any geopolitical tensions in these regions would severely affect the supply chain and related costs.
- **Changes in leasing/factory ownership structure**: Most of the company's factories are on lease, and any change in the leasing structure could impact GEXP's volume and margin expectations.
- **Geographical risk arising from high client concentration in the US:** US, which is currently witnessing inflationary pressures, accounts for ~85% of the company's apparel sales, rendering GEXP vulnerable to geographical concentration.

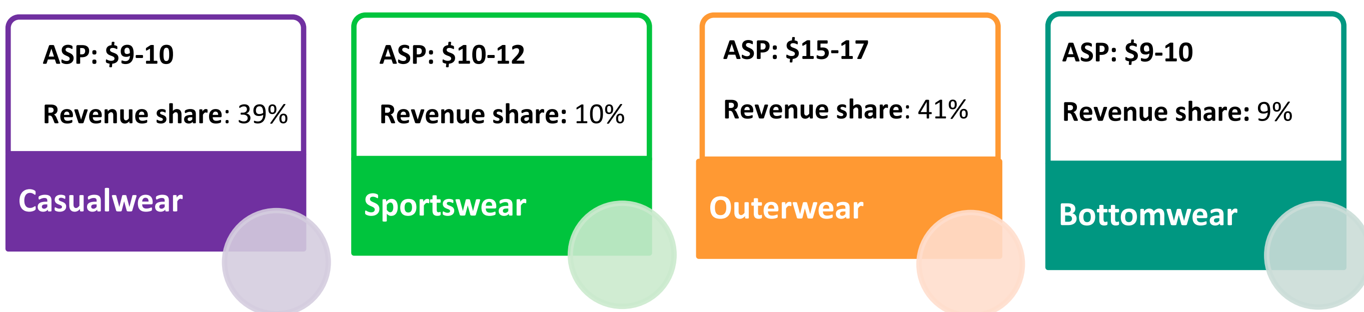
Company overview

Gokaldas Exports (GEXP) is a leading readymade garment manufacturer and exporter in India, engaged in the design, manufacture and sale of a wide range of readymade garments in outerwear (41% of revenues), casualwear (39%), sportswear (~10%) and bottom wear (~9%) categories for men (47% of revenues), women (46%), and kids (6%), for all seasons. Through exports of woven wear garments (~2.8% market share of as FY22), GEXP caters to several leading international fashion brands and retailers across 50 countries. Their customers include prominent international brands like GAP, Carhartt, Columbia Sportswear, Puma, JC Penney, etc. The company generates 89% of its revenues from exports to North America (~84.3% of revenues), Asia (~11.3%), Europe (~4.2%), and others – South America, Oceania and Africa (~0.2%). The company has 19 manufacturing facilities (18 leased and 1 owned) spread across Tier-1 and Tier-2/3 cities with 15,000+ sewing machines and a total capacity of 36mn pcs of garments in Karnataka (17 units), Andhra Pradesh (1) and Tamil Nadu (1). The manufacturing facilities are complemented by integrated ancillary units providing services like laundry, embroidery, printing, quilting, and poly-wadding for garments manufactured by the company. The company has a large manpower pool of 31,483 full-time employees (as of FYE22) across its units.

Exhibit 47: Leveraging its integrated value chain to manufacture superior quality garments

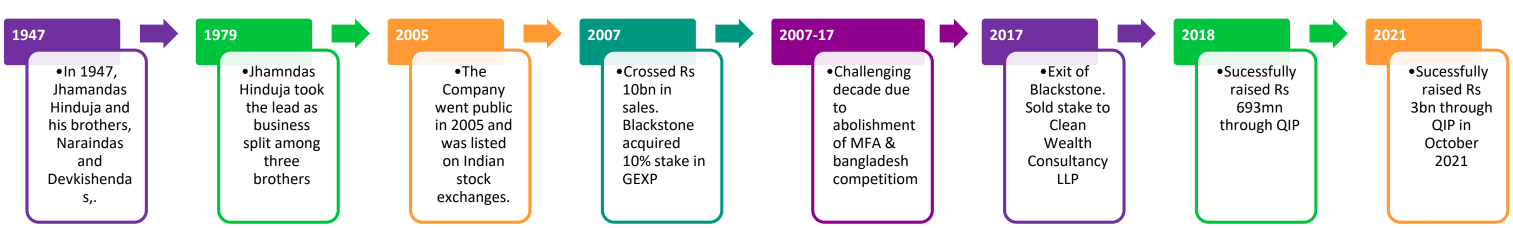
Source: Company Data, Systematix Institutional Research

Exhibit 48: High-value high-margin business commands a larger share of revenues



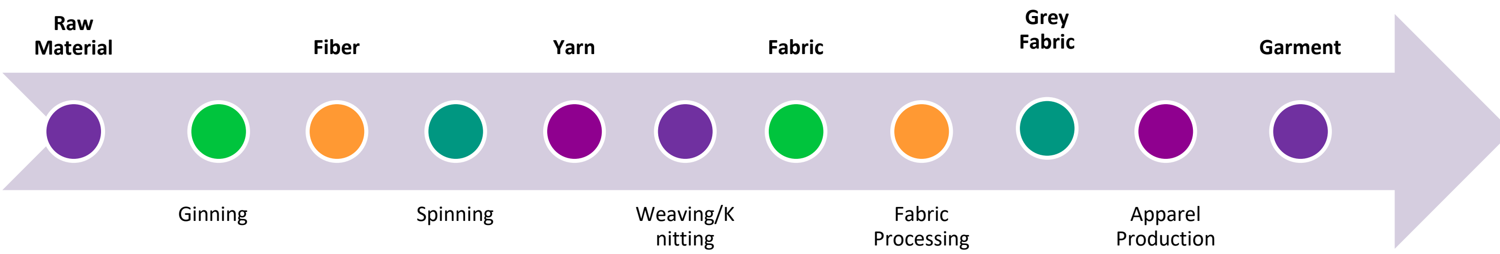
Source: Company Data, Systematix Institutional Research

Exhibit 49: Two successful QIPs since 2017 shows confidence of institutions in the organization



Source: Company Data, Systematix Institutional Research

Exhibit 50: Garmenting process – GEXP caters only to the garmenting segment



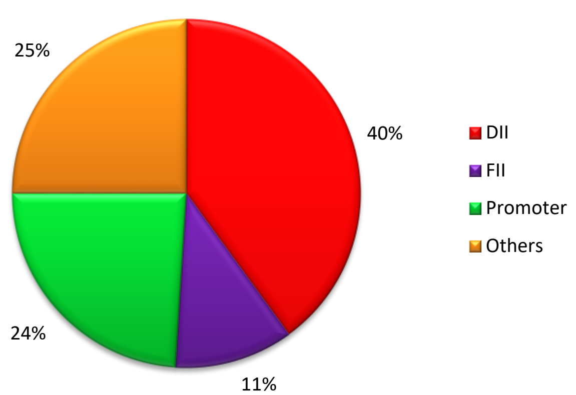
Source: Industry, Systematix Institutional Research

Exhibit 51: Key management personnel

Name	Designation	Experience
Sivaramakrishnan Ganapathi	CEO and Managing Director	After having led several high-growth businesses in diverse industries across several countries in Asia, North America, and Europe over 27 years, he took over GEXP in Oct'17 as its CEO and MD. He has been credited with turning around the organization post 2017. Prior to joining Gokaldas, he was the COO of Idea Cellular, which was part of his 21-year long career with the Aditya Birla Group. Prior to joining Aditya Birla Group, he worked at DSP Merril Lynch, ICICI, and Uhde India. He has a B. Tech degree from NIT and holds a PG Diploma in Management studies from IIM, Bangalore.
Mathew Cyriac	Non-Executive Director	He is an ex-MD of Corporate Private Equity Group of Blackstone India with a decade-long rich experience in Investment Banking at Bank of America (India), co-heading Development Strategy of iGATE Global Solutions Limited and working in the Engineering division of Tata Motors. Mr. Cyriac's career trajectory has been full of rich and varied experiences. He is an engineer and holds an MBA from IIM, Bangalore.
Richard B Saldanha	Chairman & Non-Executive Independent Director	He is a Mechanical Engineer and has 30+ years of experience with organisations like Hindustan Lever & Unilever plc. He served as the Vice Executive Director and later Vice Chairman with the Blackstone Group in India for 6 years, where he was responsible for operational excellence in a range of portfolio companies. He currently serves as the Chairman of Trans Maldivian Airways and Gokaldas Exports and is on the Boards of a few of the Blackstone Portfolio companies. He is also on the Board of Bennett, Coleman & Co Ltd and a few of The Times Group subsidiaries, including Radio and Television.
A Sathyamurthy	Chief Financial Officer	His experience in manufacturing, FMCG, retail and food processing with organisations like Rajshree Sugars, EID Parry, Perfetti Vanmelle and Aditya Birla Retail, have helped him in aligning his role at Gokaldas as a CFO. He holds an MBA in Finance from Symbiosis University and is a fellow member of Cost and Management Accountants of India.

Source: Company, Systematix Institutional Research

Exhibit 52: Shareholding pattern as of June 31, 2022



Source: Company Data, Systematix Institutional Research

Exhibit 53: Top shareholders as of June 31, 2022

Key Institutional Holders (as of Jun'22)	%
Mutual Funds	
SBI Consumption Opportunities Fund	8.6%
Nippon India Small Cap Fund	5.7%
PGIM India Mid Cap Opportunities Fund	4.3%
L&T MF	2.8%
Tata MF	2.2%
Quant MF	1.5%
Foreign Portfolio Investors	
Goldman Sachs Funds	4.7%
HSBC Global Investment Funds	3.0%
Can Lah Investments Pte Ltd.	1.2%

Source: Company Data, Systematix Institutional Research

Overview of the textile and apparel industry

> *"With global apparel market size expected to grow from USD 551.36bn in 2021 to USD 605.4bn in 2022 to USD 843.13bn in 2026, at a growth of 8.6% and the Ministry support through government incentives, PLI and PM-MITRA, India is all poised to produce more to cater to rising global demands. India with its core strength on availability of variety of raw material with minimal import dependence leading to short lead times, becomes a preferred manufacturing hub for the major international brands and retailers"*
>
> *– AEPC, Chairman*

Global apparel textile and apparel industry

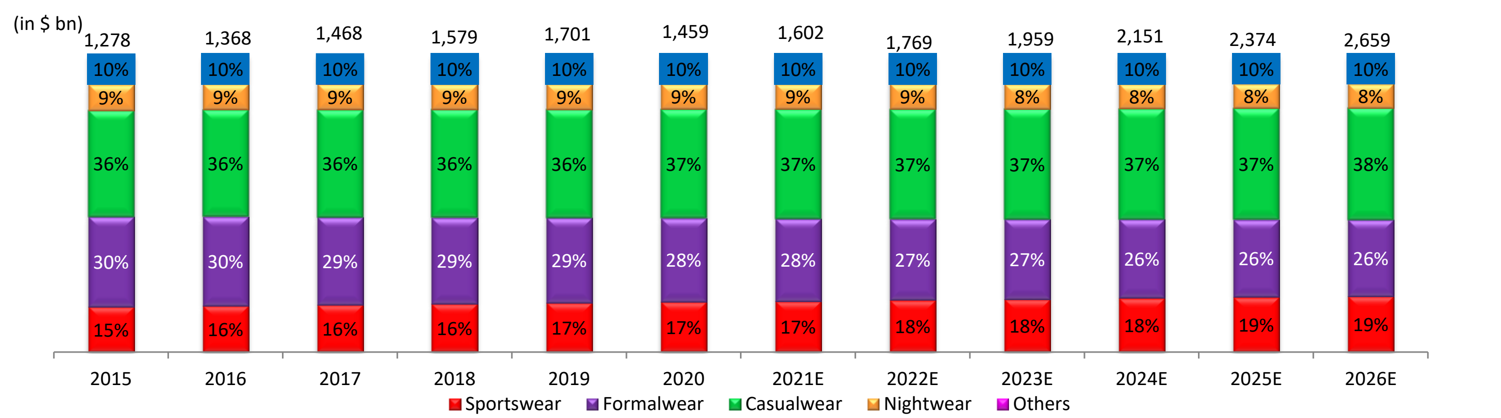
The global textile and apparel trade has been growing at 3% CAGR over 2005-2021. In 2021, the industry registered 12% growth YoY, a sharp rebound from the pandemic low base and surpassed the pre-pandemic levels by clocking trade worth USD 867bn, driven by 18% YoY growth in apparel trade of USD 490bn, USD 8bn higher than pre-pandemic levels. Fabrics accounted for 16% of the global apparel and textile trade.

China, a dominant player globally has 32-34% share in trade in CY21. At distant second and third positions are Vietnam and Bangladesh at 5% share each. India holds 3-4% share in global trade. Among the top importers, US and Europe combined hold ~50% market share, followed by other smaller markets like Australia, UAE and China holding 1-2% of the total import market.

Outlook

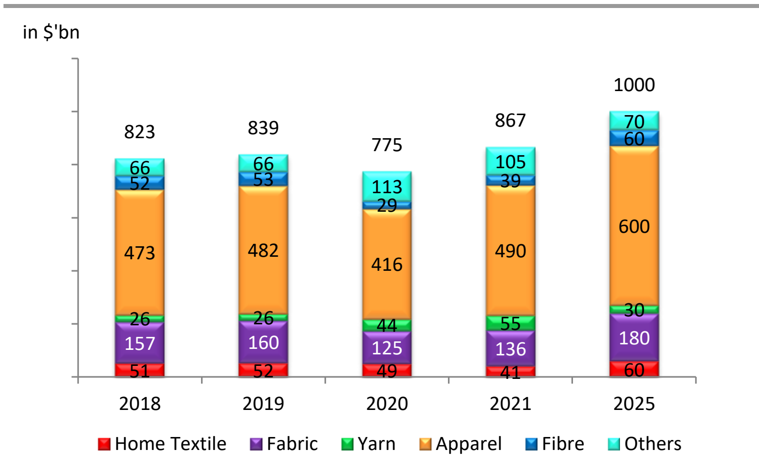
By 2025, the industry expects the textile and apparel trade market to grow to USD 1trn, at 4% CAGR. The industry believes apparel trade would continue to dominate the mix with apparel trade slated to touch USD 600bn by FY25 at 5% CAGR, driven by increasing demand for clothing. Non-apparel trade is estimated to record 1% CAGR over 2021-25 to USD 400bn as per the management. The apparel industry is expected to post 10-12% CAGR over 2021-26 to USD 2.7trn from US 1.8trn in 2021.

Exhibit 54: Global apparel industry poised to register 10-12% CAGR over 2021-26



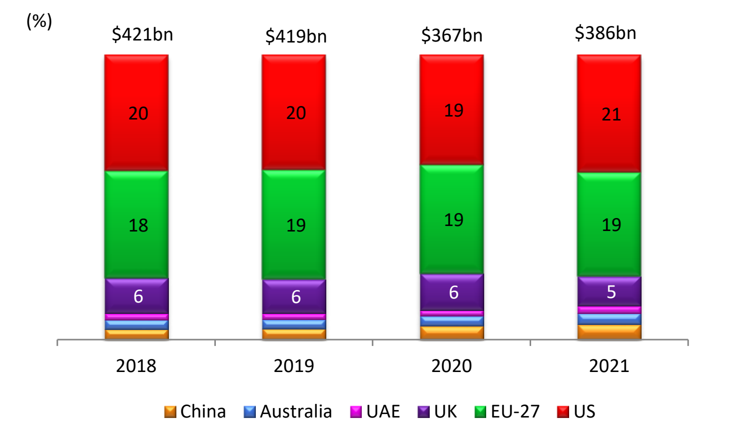
Source: Company Data, Systematix Institutional Research

Exhibit 55: T&A trade CAGR at 4% over CY21-25 to USD 1trn



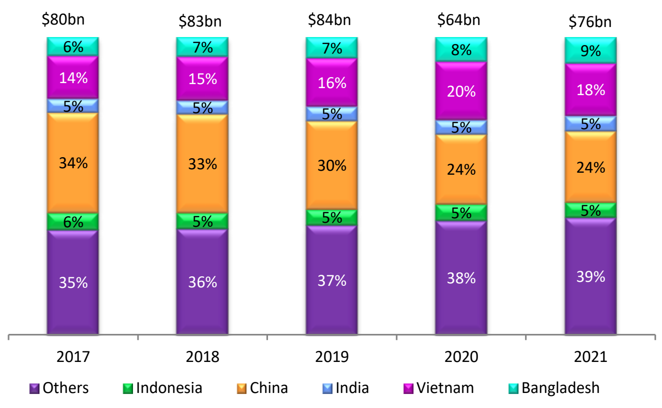
Source: Company Data, Systematix Institutional Research

Exhibit 56: US and Europe account for ~50% of apparel imports



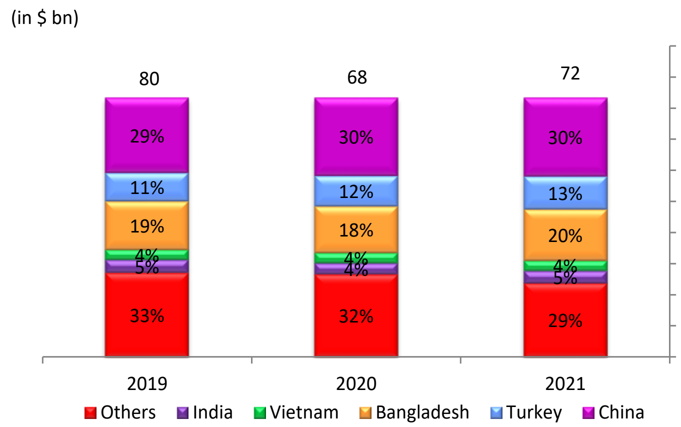
Source: UN Comtrade, Systematix Institutional Research

Exhibit 57: China's loss but Bangladesh and Vietnam's gain in US



Source: Company Data, Systematix Institutional Research

Exhibit 58: China dominates EU exports, Bangladesh follows



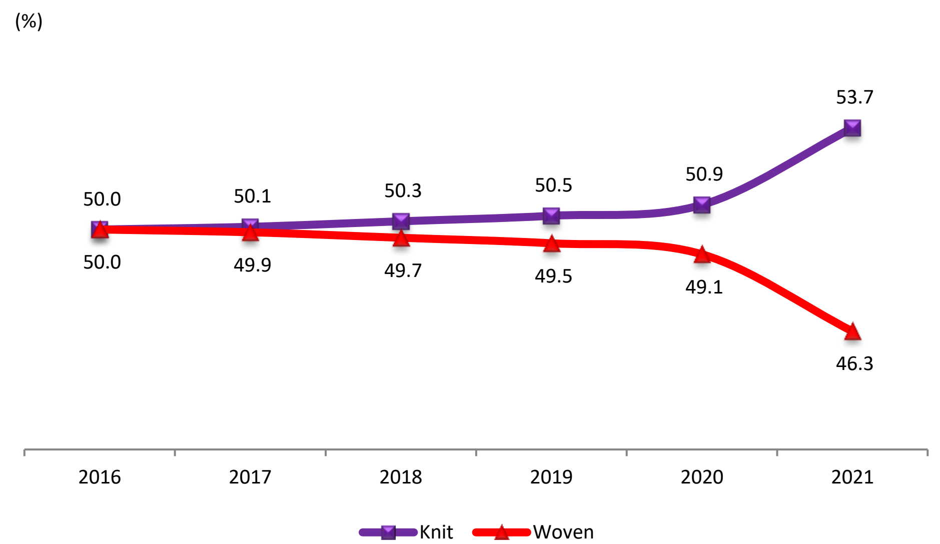
Source: Company Data, Systematix Institutional Research

Knits and woven industry

The apparel industry can be subdivided into knits garments and woven garments, depending on the fabric used to manufacture the garment. The knit fabric is relatively stretchy and less durable compared to the woven fabric. The stretchy nature of knit fabric makes it more comfortable and breathable to wear. Knit fabric is used in t-shirts, sweatshirts, sportswear, leggings, socks, underwear, swimsuits while woven is used in shirts, jackets, pants, dresses, skirts.

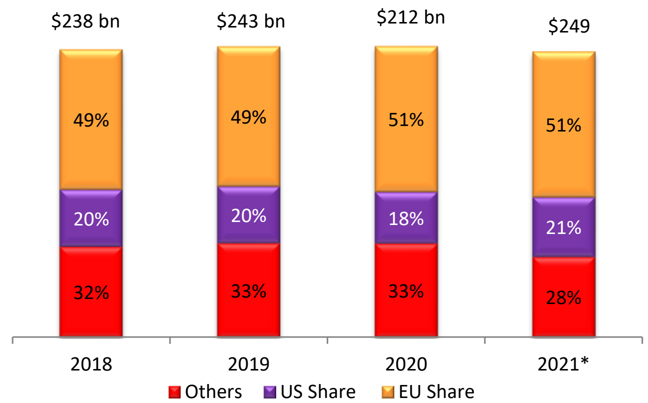
With the gradual recovery of the economy, return to the workplace, and formal occasions normalising, demand for formalwear and occasional wear should improve in the years ahead. This bounce back is expected after a brief focus on the likes of loungewear and sportswear for nearly two years. Consumers may reallocate wallet share to other categories, as pent-up demand for newness coincides with more social freedom outside the home.

Exhibit 59: Share of knitwear outpacing woven



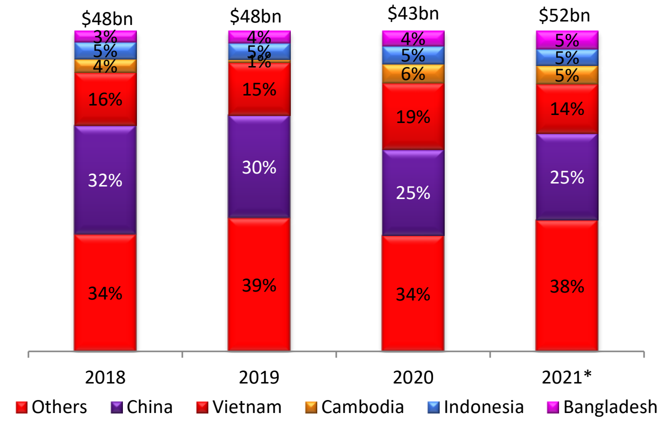
Source: Company Data, Systematix Institutional Research

Exhibit 60: US and Europe are major knitwear importers



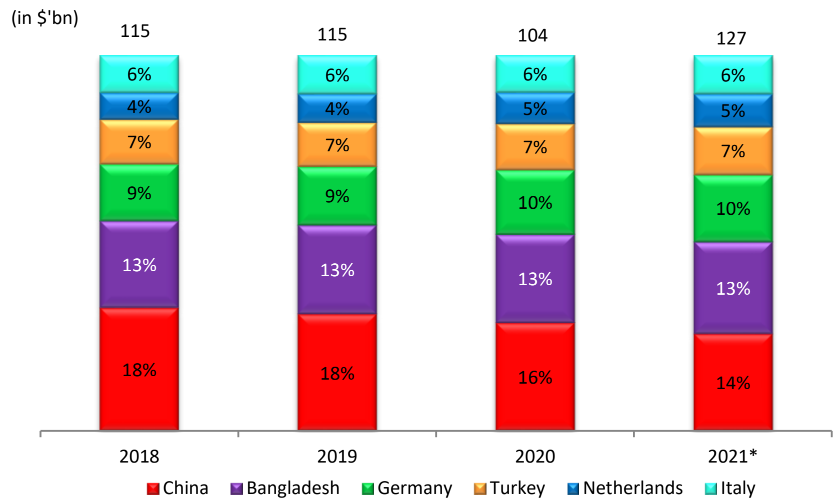
Source: Comtrade and OEC, Systematix Institutional Research

Exhibit 61: Knitwear imports in the US from China have dipped



Source: OEC, Systematix Institutional Research

Exhibit 62: China's share of exports to Europe in knitwear is falling



Source: OEC, Systematix Institutional Research

Indian textile and apparel industry

The Indian textile and apparel industry is pegged at USD 105bn, with ~71% of the market cornered by domestic consumption and 29% by exports. By 2026, the industry is likely to expand to USD 250bn at 17-19% CAGR over 2021 (USD 105bn).

This growth would be driven by swelling domestic appetite for garments and demand for apparel in western countries, resulting in higher sourcing from India by international brands to meet the demand.

Industry performance in FY22

India's domestic textile and apparel industry witnessed a strong bounce back in FY22. This recovery was aided by the increased vaccination drive, a gradual return to normalcy post pandemic, and the release of pent-up demand for the apparel. The overall domestic industry is estimated to have grown at 30% in FY22 to USD 99bn compared with USD 80bn in FY21; however, it could not fully recover to pre-pandemic levels of USD 106bn in FY20.

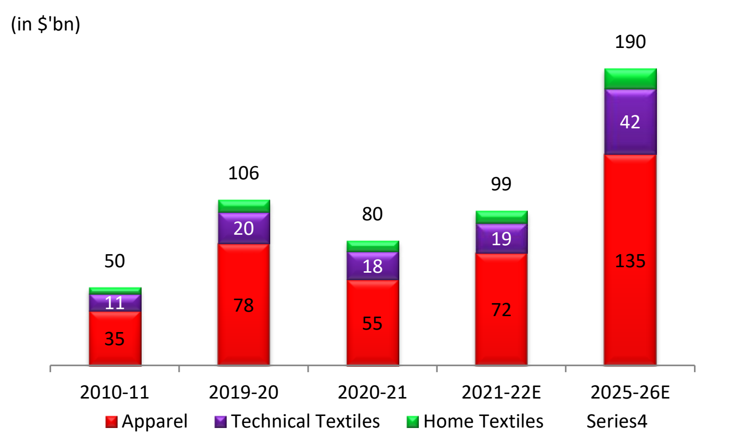
Indian textile and apparel exports touched an estimated value of USD 44bn in FY22 registering 41% growth compared to pandemic induced FY21 value of USD 31bn. The share of apparel remained dominant in India's overall textile and apparel trade at 37% in FY22.

> *"We can have at least a quarter of a trillion-textile ecosystem in India in the next 5-7 years and become a developed nation" – Piyush Goyal, Minister of Textiles*

Outlook

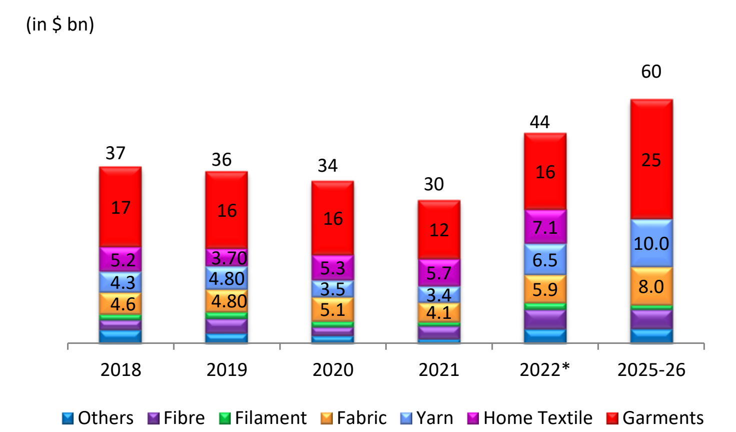
The Confederation of Indian Industry (CII) expects the industry to achieve production levels of USD 250bn by FY25, at 12% CAGR over FY22-25. This target would help India in doubling its share of the global textile and apparel trade from 5% currently. By FY26, India's domestic textile industry is estimated to touch USD 190bn, expanding at 15-17% CAGR over the FY22 base, with apparel holding a dominant share and exports touching USD 60bn in FY26 at 8% CAGR over FY22. Factors that would drive this growth are 1) demographic dividend, 2) an increasing tendency to spend more on lifestyle products, and 3) the spread of e-retailing and organised retailing in smaller towns and rural areas, boosting domestic demand. Growth in the industry would maximise value creation and employment generation, and lure investments to the tune of USD 180bn in the industry.

Exhibit 63: 17% CAGR in the textile industry over 2022-26



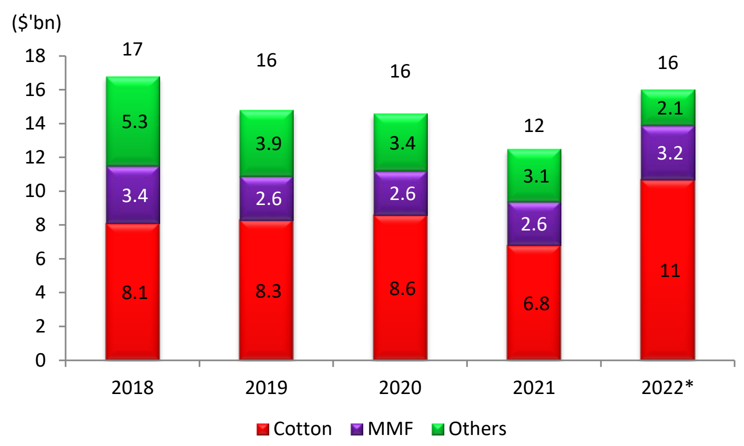
Source: Company Data, Systematix Institutional Research

Exhibit 64: 8% CAGR in the apparel industry over 2022-26



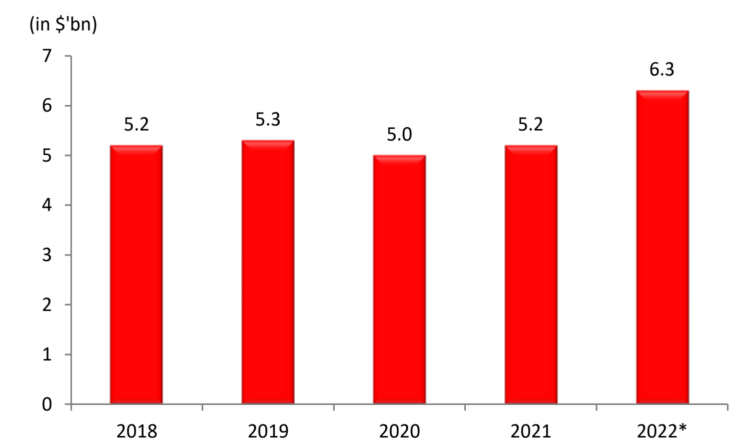
Source: Company Data, Systematix Institutional Research

Exhibit 65: Exports remain more or less flat



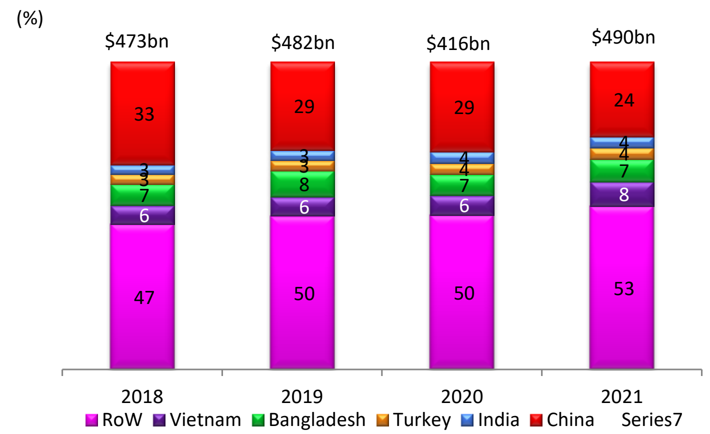
Source: UN Comtrade, Systematix Institutional Research

Exhibit 66: Made up exports are flat except in 2022



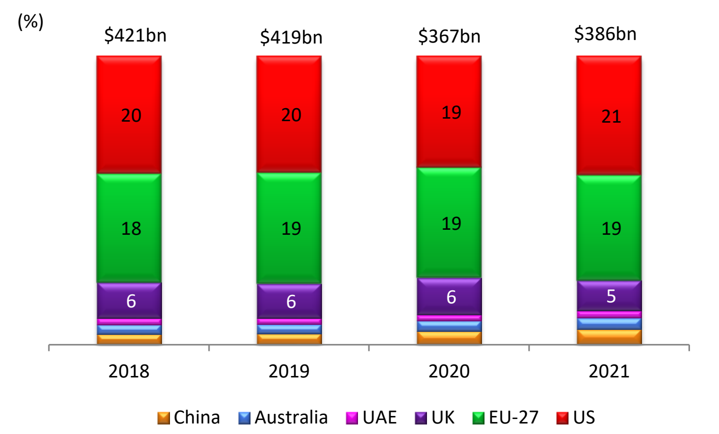
Source: UN Comtrade, Systematix Institutional Research

Exhibit 67: China opportunity lost to Vietnam and Bangladesh



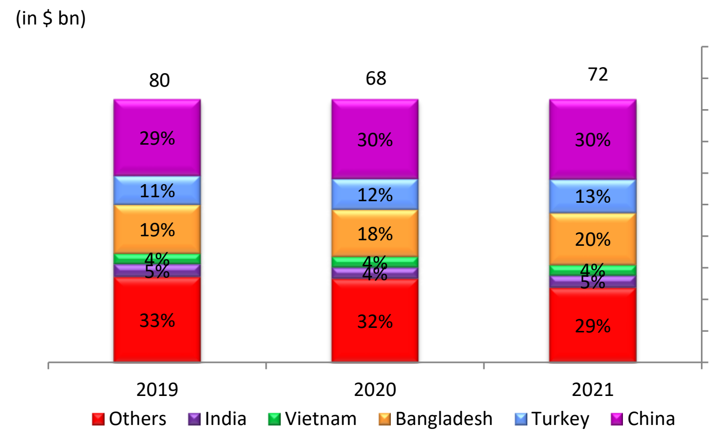
Source: UN Comtrade, Systematix Institutional Research

Exhibit 68: Sizable opportunity in western markets



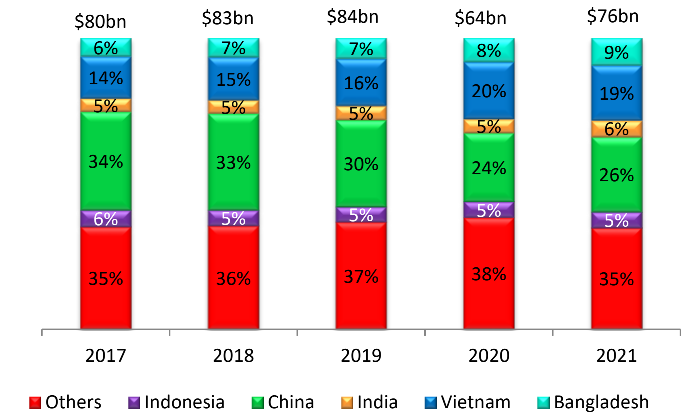
Source: UN Comtrade, Systematix Institutional Research

Exhibit 69: India's share in EU flat at 4%



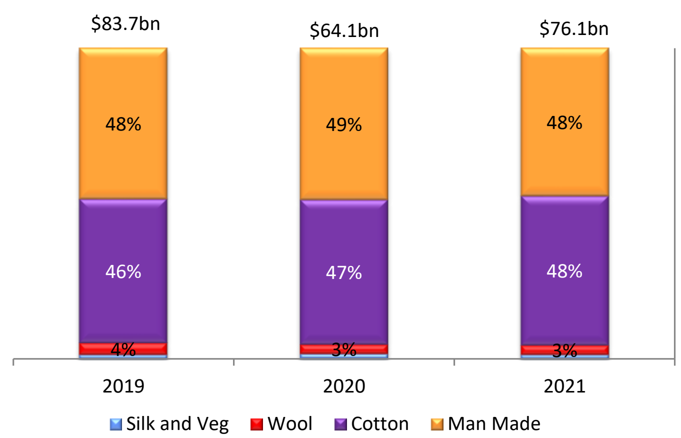
Source: UN Comtrade, Systematix Institutional Research

Exhibit 70: Limited benefit to India in the US from China+1 so far



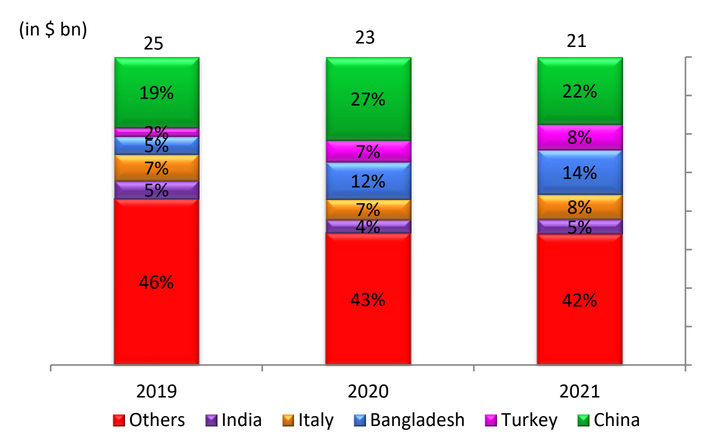
Source: UN Comtrade, Systematix Institutional Research

Exhibit 71: Sizable cotton garment export opportunity in the US



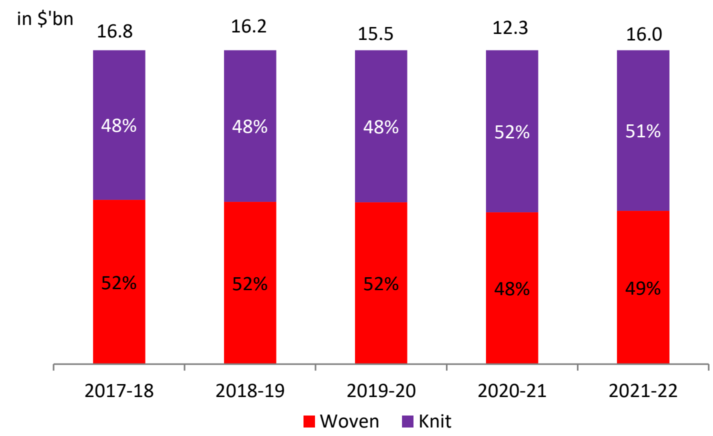
Source: OTEXA, Systematix Institutional Research

Exhibit 72: UK FTA to open gates for Indian exporters in the UK



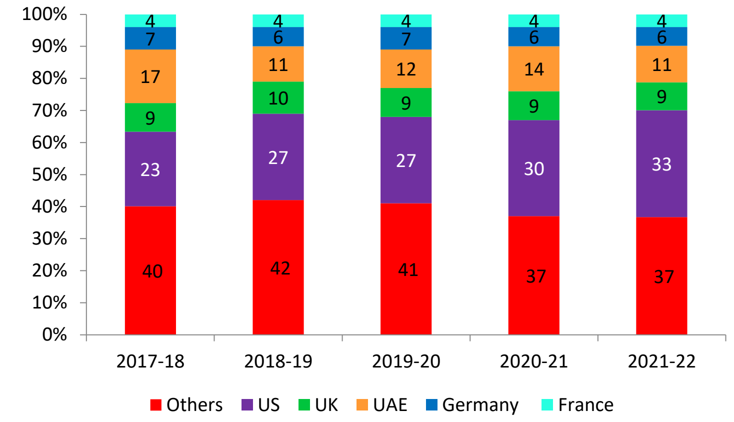
Source: UN Comtrade, Systematix Institutional Research

Exhibit 73: Indian woven and knit exports are evenly poised



Source: DGFT, Systematix Institutional Research

Exhibit 74: Share of US in Indian exports has grown sizably



Source: DGFT, Systematix Institutional Research

Indian apparel industry poised to benefit from macroeconomic changes

Apparels (garmenting), the fastest growing segment accounts for 63% of the USD 892bn global textile industry, which has been growing at 4% per annum. Of the total USD 490bn global garment trade, India accounts for USD 16bn (v/s China/ Vietnam/ Bangladesh at USD 119/ 39/ 36bn) and is expected to post 8% CAGR over 2022-26. By 2026, India hopes to garner 10% of the apparel export market (exports of USD 60bn vs export market of USD 600bn) from 4% currently. This incremental market share would be driven by:

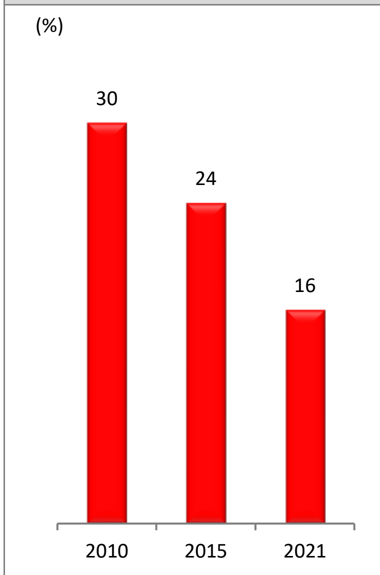
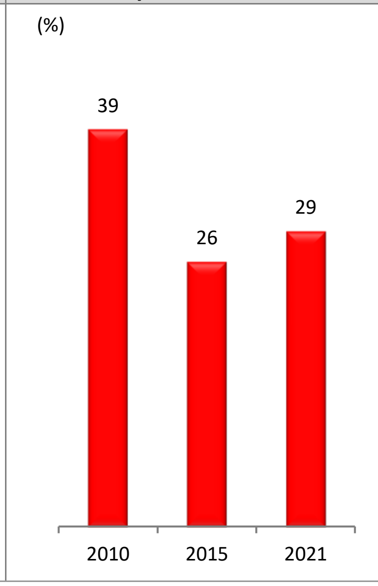
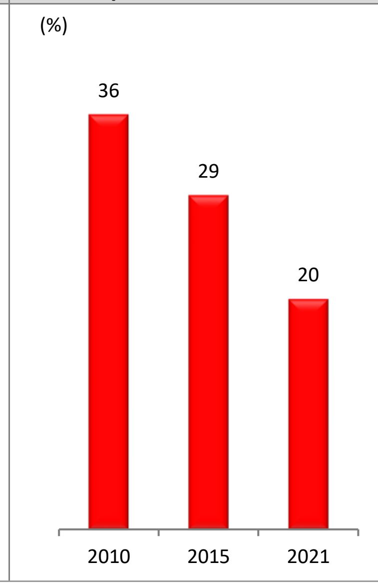
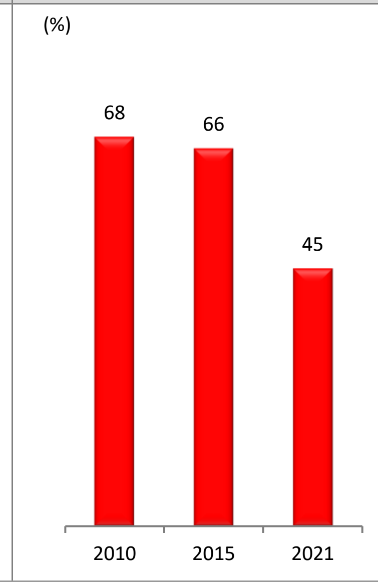
- **Favourable labor dynamics:** Among leading apparel exporters, India ranks only second to Bangladesh in terms of labor cost. The labor cost in Vietnam ranges between USD 220 and USD 270 per person**,** whereas labor costs in India ranges from USD 160-170; Bangladesh is 20% cheaper than India, enabling apparel players there to enjoy 5% better EBITDA. However, Indian players are well integrated with access to raw materials, given the cotton self-sufficiency in the country. This should help in lowering the cost of production, going forward.

- **Ease of raw material availability:** India is the largest producer of jute and cotton and the second-largest producer of silk. Due to abundance of raw materials and cheap labor costs, the cost of manufacturing textile and apparel is relatively lower than in many other competing countries. Moreover, the ban on cotton from the Xinjiang region (85% of China's cotton produce) by the US makes India the next biggest and primary cotton producer and preferred supplier.

- **Supplier consolidation:** The pandemic has resulted in suppliers in apparel retail consolidating, as smaller, unorganised players lost share to large, organised players in the domestic market. Moreover, export market suppliers too consolidated as part of China+1 sourcing strategy, as an increased number of apparel brands are attempting to reduce their sourcing from China due to geopolitical challenges and related uncertainties. Bangladesh and Vietnam have been the two most profitable regions, given their FTAs with western countries. However, Vietnam's raw material sourcing has also come under doubt, given its stance to reduce reliance on China and the resultant labor cost inflation in the region. Bangladesh is still a contender considering its labor costs are still 20% lower than India's, and thereby enjoys lower cost of production. However, we note here that Bangladesh still relies on India for their raw material needs, i.e., cotton and manufacturers are not as backward integrated there as in India. Cambodia is another contention area, but the country has limited capacities and may not be able to meet the rising demand. Other countries like Pakistan and Sri

Lanka are currently facing economic crisis, and flooding in Pakistan has exacerbated its condition, as the nation's cotton crop is severely hit, with the country having banned cotton exports.

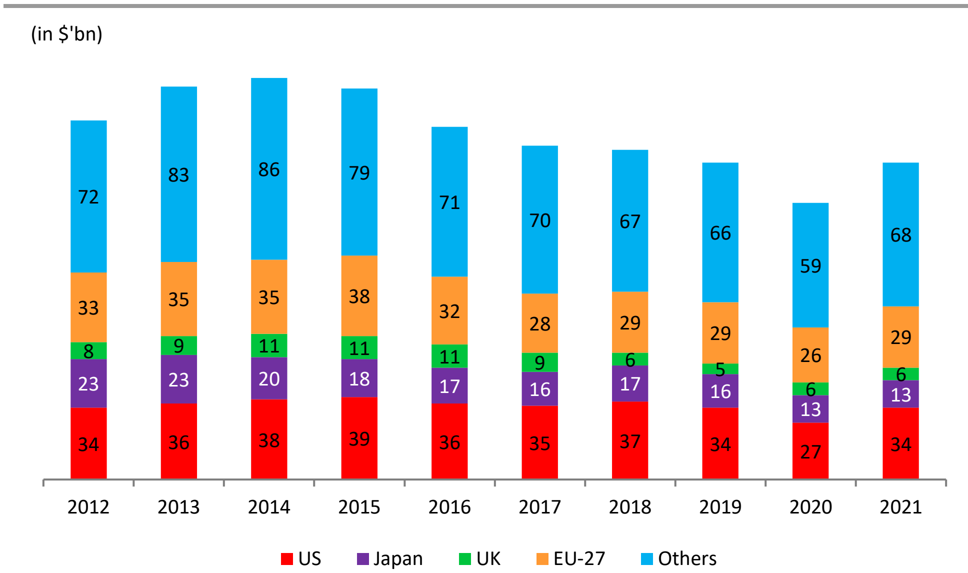
Exhibit 75: Supplier consolidation among top brands globally

China Sourcing by a leading US Brand	Sourcing by a leading European Sports brand	Sourcing by a global sportswear brand	Sourcing by a US Outerwear brand
			

Source: Company Data, Systematix Institutional Research

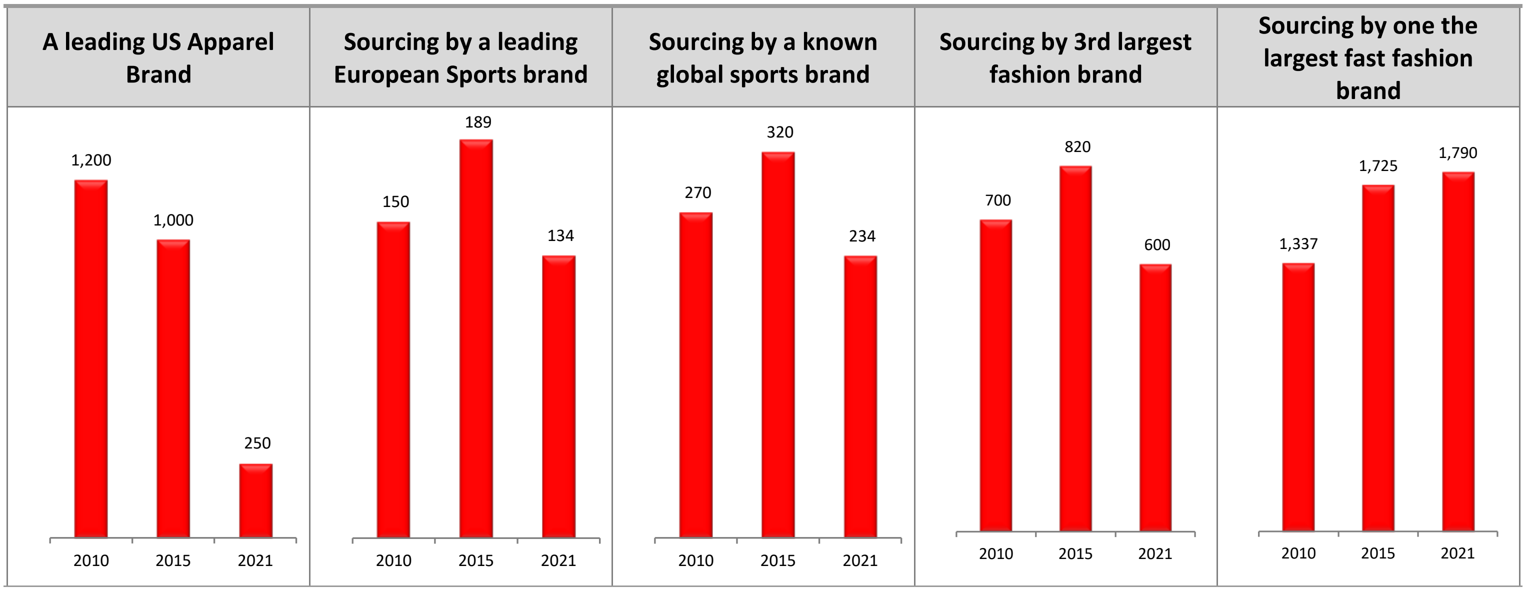
- **China+1 theme playing out:** US put a ban on China which will provide short-term support to Indian RMG exports. The US imposed a ban on cotton and cotton-based products originating from China's Xinjiang region that constitutes more than 80% of China's cotton production. The ban is capable of impacting the entire textile value chain, as the region is the largest cotton-producing area, contributing almost 20% of the global requirements. This has caused readymade garment brands to scout for global alternatives, which led to a rise in Indian-originated RMG since March 2021. This is a much-need opportunity that India should look to re-establish.

Exhibit 76: China's exports to countries is on the decline



Source: Company Data, Systematix Institutional Research

Exhibit 77: Procurement from China falling



Source: Company, Systematix Institutional Research

- **Government support through FTAs and other policies:** India is seeking free trade agreement (FTA) with the EU; this combined with the possibility that Bangladesh could lose the Most Favored Nation (MFN) status with the EU by 2026 could cause India's exports to increase to the EU. India is working on getting an FTA with both, the United Kingdom (UK) and the European Union (EU). However, the FTA between Vietnam and the EU, which went into effect in August 2020, has strengthened Vietnam's position in the EU market, and may prove to be a competitive barrier for Indian exports in the EU region. Vietnam however is relatively more expensive in terms of cost of production due to labor and raw material inadequacy, given the country is endeavoring to reduce its dependence on China and boost other sectors that require skilled labor. This makes India the obvious choice if the trend continues.

Performance linked incentive (PLI) scheme

PLI applies to 40 HS codes consisting of MMF-based apparel. GOKEX generated Rs 1.1bn (+19% YoY and 8% of FY22 revenues) from the apparels with these HS codes

The PLI scheme was launched by GoI across key sectors to improve India's manufacturing scale and increase the export competitiveness in these sectors. The PLI scheme for textile focuses on improving India's export competitiveness in MMF and technical textile segments. In both these segments, India has an insignificant share in global trade at present. This scheme covers both brownfield and greenfield capacity expansions. The brownfield project has two categories, i) players having turnover of Rs 1.0-4.0bn, where the incentive is fixed at 9%, and ii) those with a turnover of more than Rs 4.0bn, for which the incentive stands at 7% for the first year. While for greenfield projects, players need to commit a minimum of Rs 5.0bn investment, whereby they would be offered a higher incentive of 11% in the first year. Subsequently, the rate of incentive would keep declining by 1% over the next 5 years. As the details for the scheme for textiles is yet not out, we have made an attempt to evaluate the impact of the scheme on India's export potential.

The scheme provides an incentive of approximately Rs 107bn, which translates into a revenue potential of Rs 1.5trn at an average 9% incentive. So far, the textile ministry has approved 64 applications, including those from the likes of Shahi Exports, Arvind Mills, Gokaldas Exports and Monte Carlo, having an investment potential of Rs 198bn with a projected turnover Rs 1.9trn. Incentives of Rs 60bn would be extended to these players under PLI 1.0, and rest may form part of the second instalment of this scheme (PLI 2.0).

"We are keen to support the apparel manufacturing sector… Talks are going on between the Ministry of Textiles, the Department for the Promotion of Industry and Internal Trade (DPIIT) and Niti Aayog. We will be shortly devising a scheme after consulting the industry. We will then put up a proposal for Cabinet approval."

– Piyush Goyal, Minister of Textiles, GoI

PLI 2.0: Reports suggest that GoI in the process of launching the second edition of the PLI scheme for textiles, whereby the government may introduce incentives for manufacturing of garments and home textiles such as blankets and bedspreads, and textile accessories like lace, button, and zippers. As such, the Ministry of Textiles is said to be considering three investment thresholds of Rs 150mn, Rs 300mn and Rs 450mn, with double turnover, as the criteria for incentives would range between 8% and 10% under the Rs 42bn scheme.

Mega investment textile parks scheme

GoI has announced the establishment of 7 mega textile parks over the next 3 years over 1,000 acres of land to boost production, and to support export competitiveness. Even in 2005 the government had launched SITP (Scheme for Integrated Textile Parks), with 40 announced integrated textile parks across the country. While India gained share in cotton yarn exports in the interim till FY15, the share dropped in subsequent 5 years, as countries like Vietnam and China gained due to better incentives and facilities provided by their governments under textiles park schemes. Other than few challenges faced under the SITP scheme, the key challenge was relatively smaller size of these parks compared to those set up in rival exporting nations. Except for one park of 1000 acres, the remaining parks under this scheme were of smaller sizes with approximately 27 parks under 50 acre and 20-25 parks between 50 and 70 acres. In comparison, global competitors such as China, Bangladesh or Vietnam have parks of larger area of average100 acres or more. Also, incentives offered in Bangladesh are far better than those offered in India. Also, it could benefit Indian players, if along with PLI scheme, these parks are executed in a timely manner as rival nations would also continue to build scale.

Remission of Duties or Taxes on Export Product (RoDTEP)

In September 2019, GoI introduced a new scheme, RoDTEP, which came into effect by March 13, 2020 with a budget allocation of Rs 500bn, in a bid to replace MEIS and RoSL (which only refunds state taxes). As and when the rates under the RoDTEP Scheme are announced for a tariff line/ item, the Merchandise Exports from India Scheme (MEIS) benefits on such tariff line/item would be discontinued. Indian government's recent announcement to continue the Rebate of State and Central Taxes and Levies (RoSCTL) scheme till 2024 provided a major relief to export companies. Such policy stability clears the uncertainties and encourages Indian exporters to increase their investments, thereby generating employment.

"I think we have high ambition on completing the FTA by Diwali. The FTA will create more jobs, more growth, and more opportunities for India to grow and develop"

UK High Commission on FTA with India

Textiles Technology Development Scheme (TTDS)

The Indian government is planning to introduce a new scheme called Textiles Technology Development Scheme (TTDS), replacing the earlier TUFS scheme. TTDS aims to promote integrated manufacturing facilities and technology adoption in a big way in the country and plans to allocate to the tune of Rs 166bn under it. Aimed to be spread across 5 years, the breakup of the allocation is as follows: Rs 51bn towards textile machinery, Rs 20bn for technology upgrade to current units, Rs 48bn for integrated manufacturing, Rs 46bn allocated to TUFS arrears and Rs 1.2bn for administrative expenses. The beneficiaries of the PLI scheme for textiles won't be able to tap the TTDS.

Forging bilateral relationships to enhance exports

In its efforts to improve India's exports, government is actively pursuing bilateral trade agreements with potential countries. It successfully concluded FTAs with UAE and Australia, and is in the last stage of discussions with the UK, which is expected to be completed in October 2022. In addition, the government plans to launch the trade discussion with 16 countries and enhancing existing relationships with several other nations. Given the opportunity size that these markets present, an FTA would provide the needed boost to the apparel export industry, going forward.

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues	**12,107**	**17,903**	**22,001**	**26,108**	**31,542**
Revenue growth (%)	-1,168.7	4,787.1	2,288.9	1,866.7	2,081.5
- Op. expenses	11,093	16,059	19,882	23,230	27,614
EBITDA (Excl. OI)	**1,015**	**1,844**	**2,119**	**2,878**	**3,928**
EBITDA margins (%)	8.4	10.3	9.6	11.0	12.5
- Interest expenses	345	402	230	219	171
- Depreciation	526	589	588	729	874
+ Other income	122	318	300	100	100
- Tax	1	-0	336	508	746
Effective tax rate (%)	0	-0	21	25	25
Reported PAT	265	1,171	1,265	1,523	2,237
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	**265**	**1,171**	**1,265**	**1,523**	**2,237**
EPS (Rs/share)	6.2	19.9	20.7	24.6	35.0

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	214	295	305	310	320
Reserves & Surplus	2,686	6,787	8,052	9,574	11,811
Networth	2,900	7,082	8,357	9,884	12,131
Minority interest	-	-	-	-	-
Total Debt	4,785	1,930	1,900	1,750	1,100
Def. tax liab. (net)	-	-	-	-	-
Capital employed	**7,685**	**9,012**	**10,257**	**11,634**	**13,231**
Net Fixed assets	2,373	2,989	4,126	4,723	4,973
Investments	368	1,545	500	500	1,400
Net Working capital	4,792	4,351	5,290	6,157	6,539
Cash and bank balance	152	127	340	255	319
Capital deployed	**7,685**	**9,012**	**10,257**	**11,634**	**13,231**
Net debt	4,633	1,804	1,560	1,495	781
WC (days)	111	91	90	90	80
DE(x)	1.6	0.3	0.2	0.2	0.1

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	266	1,170	1,601	2,030	2,983
Add: Non cash items	909	752	482	440	300
Cash profit	1,175	1,922	2,083	2,470	3,283
Add/Less : WC Changes	12	-750	-938	-867	-382
Operating Cash Flow	**1,187**	**1,172**	**1,144**	**1,603**	**2,901**
Less:- Capex	-341	-782	-1,725	-1,325	-1,125
Free Cash Flow	**846**	**390**	**-581**	**278**	**1,776**
Financing Cash Flow	-862	-430	-250	-364	-811
Investing Cash Flow	-322	-523	-680	-1,325	-2,025
Net change in Cash	3	219	214	-86	65
Add: Opening cash	-95	-92	127	340	255
Closing Cash	**-92**	**127**	**340**	**255**	**319**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	59.8	18.6	17.8	15.0	10.6
P/BV (x)	5.5	3.1	2.7	2.3	1.9
EV/EBITDA (x)	20.2	12.8	11.4	8.5	6.2
RoE (%)	9.1	16.5	15.1	15.4	18.4
RoCE (%)	4.9	10.4	11.1	13.9	17.5
Fixed Asset turnover (x)	3.1	3.7	4.5	3.9	4.0
Dividend (%)	-	-	-	-	-
Debtors days	54	19	20	20	20
Creditor days	28	27	30	30	30
Inventory days	85	99	100	100	90
Revenue growth (%)	-12	48	23	19	21
EBITDA growth (%)	52	82	15	36	37
PAT growth (%)	-13	343	8	20	47

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in

Equity Research

Analysts	Industry Sectors	Desk-Phone	E-mail
Dhananjay Sinha	Co Head of Equities & Head of Research - Strategy & Economics	+91-22-6704 8095	dhananjaysinha@systematixgroup.in
Ashish Poddar	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8039	ashishpoddar@systematixgroup.in
Himanshu Nayyar	Consumer Staples & Discretionary	+91-22-6704 8079	himanshunayyar@systematixgroup.in
Pradeep Agrawal	NBFCs & Diversified Financials	+91-22-6704 8024	pradeepagrawal@systematixgroup.in
Pratik Tholiya	Specialty & Agro Chem, Fertilisers, Sugar, Textiles and Select Midcaps	+91-22-6704 8028	pratiktholiya@systematixgroup.in
Rahul Jain	Metals & Mining, Cement	+91-22-6704 8066	rahuljain@systematixgroup.in
Rakesh Kumar	Banking, Insurance	+91-22-6704 8041	rakeshkumar@systematixgroup.in
Ronak Sarda	Auto, Auto Ancillaries	+91-22-6704 8059	ronaksarda@systematixgroup.in
Sudeep Anand	Oil & Gas , Telecom, Logistics	+91-22-6704 8085	sudeepanand@systematixgroup.in
Vishal Manchanda	Pharmaceuticals and Healthcare	+91-22-6704 8064	vishalmanchanda@systematixgroup.in
Bezad Deboo	Pharmaceuticals and Healthcare	+91-22-6704 8046	bezaddeboo@systematixgroup.in
Girija Ray	Cement, Building Materials, Paints	+91-22-6704 8098	girijaray@systematixgroup.in
Hena Vora	NBFCs & Diversified Financials	+91-22-6704 8045	henavora@systematixgroup.in
Poorvi Banka	Auto, Auto Ancillaries	+91-22-6704 8063	poorvibanka@systematixgroup.in
Pranay Shah	Consumer Durables, Building Materials, Small & Midcaps	+91-22-6704 8017	pranayshah@systematixgroup.in
Pratik Oza	Midcaps	+91-22-6704 8036	pratikoza@systematixgroup.in
Purvi Mundhra	Macro-Strategy	+91-22-6704 8078	purvimundhra@systematixgroup.in
Rajesh Mudaliar	Consumer Staples & Discretionary	+91-22-6704 8084	rajeshmudaliar@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Varun Gajaria	Midcaps	+91-22-6704 8081	varungajaria@systematixgroup.in

Equity Sales & Trading

Name		Desk-Phone	E-mail
Vipul Sanghvi	Co Head of Equities & Head of Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Nirbhay Kumar Singh	Sales	+91-22-6704 8061	nirbhaysingh@systematixgroup.in
Sidharth Agrawal	Sales	+91-22-6704 8090	sidharthagrawal@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8003	rahul@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Karan Damani	Sales Trading	+91-22-6704 8053	karandamani@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8087	vipulchheda@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Rahul Singh	Dealer	+91-22-6704 8054	rahulsingh@systematixgroup.in

Corporate Access

Audrey Leolyn Mendonca	Assistant Vice President	+91-22-6704 8088	audreymendonca@systematixgroup.in

Production

Madhu Narayanan	Editor	+91-22-6704 8071	madhunarayanan@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in

Operations

Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Sushant Chavan	Manager	+91-22-6704 8056	sushantchavan@systematixgroup.in

DISCLOSURES/APPENDIX

I. ANALYST CERTIFICATION

I, **Pratik Tholiya, Varun Gajaria;** hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	Varun Gajaria (Yes) | Others Nil
Served as an officer, director or employee	No

II. **ISSUER SPECIFIC REGULATORY DISCLOSURES,** unless specifically mentioned in point no. 9 below:

1. The research analyst(s), SSSIL, associates or relatives do not have any financial interest in the company(ies) covered in this report.
2. The research analyst(s), SSSIL, associates or relatives collectively do not hold more than 1% of the securities of the company(ies) covered in this report as of the end of the month immediately preceding the distribution of the research report.
3. The research analyst(s), SSSIL, associates or relatives did not have any other material conflict of interest at the time of publication of this research report.
4. The research analyst, SSSIL and its associates have not received compensation for investment banking or merchant banking or brokerage services or any other products or services from the company(ies) covered in this report in the past twelve months.
5. The research analyst, SSSIL or its associates have not managed or co-managed a private or public offering of securities for the company(ies) covered in this report in the previous twelve months.
6. SSSIL or its associates have not received compensation or other benefits from the company(ies) covered in this report or from any third party in connection with this research report.
7. The research analyst has not served as an officer, director or employee of the company(ies) covered in this research report.
8. The research analyst and SSSIL have not been engaged in market making activity for the company(ies) covered in this research report.
9. Details of SSSIL, research analyst and its associates pertaining to the companies covered in this research report:

Sr. No.	Particulars	Yes / No.
1	Whether compensation was received from the company(ies) covered in the research report in the past 12 months for investment banking transaction by SSSIL.	No
2	Whether research analyst, SSSIL or its associates and relatives collectively hold more than 1% of the company(ies) covered in the research report.	No
3	Whether compensation has been received by SSSIL or its associates from the company(ies) covered in the research report.	No
4	Whether SSSIL or its affiliates have managed or co-managed a private or public offering of securities for the company(ies) covered in the research report in the previous twelve months.	No
5	Whether research analyst, SSSIL or associates have received compensation for investment banking or merchant banking or brokerage services or any other products or services from the company(ies) covered in the research report in the last twelve months.	No

10. There is no material disciplinary action taken by any regulatory authority that impacts the equity research analysis activities.

STOCK RATINGS

BUY (B): The stock's total return is expected to exceed 15% over the next 12 months.
HOLD (H): The stock's total return is expected to be within -15% to +15% over the next 12 months.
SELL (S): The stock's total return is expected to give negative returns of more than 15% over the next 12 months.
NOT RATED (NR): The analyst has no recommendation on the stock under review.

INDUSTRY VIEWS

ATTRACTIVE (AT): Fundamentals/valuations of the sector are expected to be attractive over the next 12-18 months.
NEUTRAL (NL): Fundamentals/valuations of the sector are expected to neither improve nor deteriorate over the next 12-18 months.
CAUTIOUS (CS): Fundamentals/valuations of the sector are expected to deteriorate over the next 12-18 months.

III. DISCLAIMER

The information and opinions contained herein have been compiled or arrived at based on the information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy completeness or correctness.

This document is for information purposes only. This report is based on information that we consider reliable; we do not represent that it is accurate or complete and one should exercise due caution while acting on it. Description of any company(ies) or its/their securities mentioned herein are not complete and this document is not and should not be construed as an offer or solicitation of an offer to buy or sell any securities or other financial instruments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. All opinions, projections and estimates constitute the judgment of the author as on the date of the report and these, plus any other information contained in the report, are subject to change without notice. Prices and availability of financial instruments are also subject to change without notice. This report is intended for distribution to institutional investors.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity that is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject to SSSIL or its affiliates to any registration or licensing requirement within such jurisdiction. If this report is inadvertently sent or has reached any individual in such country, especially USA, the same may be ignored and brought to the attention of the sender. Neither this document nor any copy of it may be taken or transmitted into the United States (to U.S. persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. Any unauthorized use, duplication, redistribution or disclosure of this report including, but not limited to, redistribution by electronic mail, posting of the report on a website or page, and/or providing to a third party a link, is prohibited by law and will result in prosecution. The information contained in the report is intended solely for the recipient and may not be further distributed by the recipient to any third party.

SSSIL generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, SSSIL generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that they cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. Our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. The views expressed in this research report reflect the personal views of the analyst(s) about the subject securities or issues and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The compensation of the analyst who prepared this document is determined exclusively by SSSIL; however, compensation may relate to the revenues of the Systematix Group as a whole, of which investment banking, sales and trading are a part. Research analysts and sales persons of SSSIL may provide important inputs to its affiliated company(ies).

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations which could have an adverse effect on their value or price or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies, effectively assume currency risk. SSSIL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on the basis of this report including but not restricted to fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

SSSIL and its affiliates, officers, directors, and employees subject to the information given in the disclosures may: (a) from time to time, have long or short positions in, and buy or sell, the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation (financial interest) or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential material conflict of interest with respect to any recommendation and related information and opinions. The views expressed are those of the analyst and the company may or may not subscribe to the views expressed therein.

SSSIL, its affiliates and any third party involved in, or related to, computing or compiling the information hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any of this information. Without limiting any of the foregoing, in no event shall SSSIL, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. The company accepts no liability whatsoever for the actions of third parties. The report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of the company, the company has not reviewed the linked site. Accessing such website or following such link through the report or the website of the company shall be at your own risk and the company shall have no liability arising out of, or in connection with, any such referenced website.

SSSIL will not be liable for any delay or any other interruption which may occur in presenting the data due to any technical glitch to present the data. In no event shall SSSIL be liable for any damages, including without limitation, direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by SSSIL through this presentation.

SSSIL or any of its other group companies or associates will not be responsible for any decisions taken on the basis of this report. Investors are advised to consult their investment and tax consultants before taking any investment decisions based on this report.

Systematix Shares and Stocks (India) Limited:
Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051
CIN - U65993MH1995PLC268414 | BSE SEBI Reg. No.: INZ000171134 (Member Code: 182) | NSE SEBI Reg. No.: INZ000171134 (Member Code: 11327) | MCX SEBI Reg. No.: INZ000171134 (Member Code: 56625) | NCDEX SEBI Reg. No.: INZ000171134 (Member Code: 1281) | Depository Participant SEBI Reg. No.: IN-DP-480-2020 (DP Id: 34600) | PMS SEBI Reg. No.: INP000002692 | Research Analyst SEBI Reg. No.: INH200000840 | Investment Advisor SEBI Reg. No. INA000010414 | AMFI : ARN - 64917