

25 July 2024

Go Fashion (India)

In-line results, effective inventory management; maintaining a Buy

Go Fashion's Q1 revenue came in line with our estimates but the EBITDA margin was ~80bps lower than ARe at 32.8%, on the 0.2% y/y SSSG as sluggish demand was further hurt by the elections and searing heat. Beneficial RM prices pushed up the gross margin 44bps y/y. Continuing efforts to improve inventory health resulted in consistently better WC days and healthy cashflows. Net cash reserve was Rs2.2bn (~2bn at end-FY24). Management maintained its guidance to add 120-150 (net) stores in FY25 and targets 4-5% SSSG on the greenshoots in Jun and July. It guided to 19-20% pre-IND AS EBITDA margin in FY25 (17.7% in FY24), driven by SSSG, cost rationalisation and better gross margins. Our FY25e/26e revenues are largely unchanged, while our FY25e/26e EBITDA is on average ~1.2% lower. Promoter pledge release and SSSG improvement are key ahead. We retain our Buy, at a lower 12-mth TP of Rs1,366 (earlier Rs1,377), 22x FY26e EV/EBITDA.

LFS channel drives healthy growth. Q1 revenue grew 15.8% y/y to Rs2.2bn. SSSG was 0.2% (1% in Q4 FY24; 2% in Q1 FY24). EBO sales grew 9.5% y/y to Rs1.5bn, led by 20 net EBOs added; revenue per EBO fell ~3% y/y. LFS channel sales grew ~43% y/y to Rs563m, led by offers being run by one of its LFS partners; this is expected to normalise in Q2. Sales per LFS grew ~14% y/y. The gross margin (incl. sub-contracting expenses) expanded 44bps y/y to 61.8%, driven by favourable RM prices. EBITDA grew ~12% y/y to Rs721m, while the margin contracted 100bps y/y to 32.8%. PAT grew 9% y/y to Rs287m.

Continued improvement in working capital. WC days continued to improve, falling to 113 (124 at end-FY24), led by 17 days reduction in inventory to 87. Management guided to stable inventory in FY25 at 90-95 days. Better WC resulted in healthy cashflows with pre-IND AS OCF of Rs319m (Rs246m in Q1 FY24).

Valuation. We retain our Buy rating, at a 12-mth TP of Rs1,366, 22x FY26e EV/EBITDA. The core product portfolio, higher gross margin and return ratios make it a good long-term investment idea. **Risks:** Dependence on a single brand/category, no entry barriers in women's bottom-wear.

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	4,013	6,653	7,628	8,694	10,472
Net profit (Rs m)	356	828	828	1,043	1,453
EPS (Rs)	6.6	15.3	15.3	19.3	26.9
P/E (x)	153.4	65.5	78.6	56.7	40.7
EV / EBITDA (x)	45.5	26.6	28.0	21.8	17.8
P/BV (x)	12.5	10.4	10.8	8.4	6.9
RoE (%)	8.1	15.9	13.7	14.7	17.0
RoCE (%)	6.7	13.4	11.0	11.4	13.5
Dividend yield (%)	-	-	-	-	-
Net debt / equity (x)	-0.3	-0.2	-0.3	-0.3	-0.3

Source: Company, Anand Rathi Research

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Rating: Buy

Target Price (12-mth): Rs.1,366

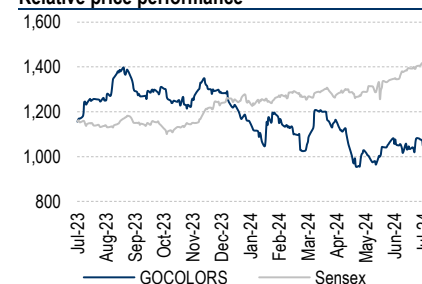
Share Price: Rs.1,096

Key data	GOCOLORS IN
52-week high / low	Rs1405 / 933
Sensex / Nifty	80149 / 24414
3-m average volume	\$0.9m
Market cap	Rs59bn / \$705.8m
Shares outstanding	54m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	52.8	52.8	52.8
- of which, Pledged	16.3	16.3	16.3
Free float	47.2	47.2	47.2
- Foreign institutions	12.7	12.2	12.1
- Domestic institutions	31.4	31.9	31.0
- Public	3.1	3.2	4.1

Estimates revision (%)	FY25e	FY26e
Sales	(0.0)	0.7
EBITDA	(1.5)	(0.8)
EPS	(0.7)	0.0

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	4,013	6,653	7,628	8,694	10,472
<i>Growth (%)</i>	60.1	65.8	14.7	14.0	20.4
Direct costs	1,355	2,215	2,550	2,852	3,424
SG&A	1,436	2,315	2,654	3,017	3,613
EBITDA	1,222	2,123	2,424	2,826	3,435
<i>EBITDA margins (%)</i>	30.5	31.9	31.8	32.5	32.8
- Depreciation	718	871	1,104	1,237	1,313
Other income	208	119	173	217	262
Interest expenses	233	285	391	424	447
PBT	479	1,087	1,102	1,383	1,937
<i>Effective tax rate (%)</i>	25.6	23.8	24.9	24.5	25.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	356	828	828	1,043	1,453
Adjusted income	356	828	828	1,043	1,453
WANS	54	54	54	54	54
FDEPS (Rs)	6.6	15.3	15.3	19.3	26.9
<i>FDEPS growth (%)</i>	(1,072.5)	132.6	(0.0)	26.0	39.2
<i>Gross margins (%)</i>	66.2	66.7	66.6	67.2	67.3

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	479	1,087	1,102	1,383	1,937
+ Non-cash items	809	1,107	1,364	1,660	1,760
Oper. prof. before WC	1,287	2,194	2,466	3,043	3,697
- Incr. / (decr.) in WC	847	833	-87	419	673
Others incl. taxes	110	324	366	339	484
Operating cash-flow	330	1,037	2,187	2,285	2,540
- Capex (tang. + intang.)	198	349	434	470	650
Free cash-flow	132	688	1,753	1,815	1,890
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-0	-	-	-	-
+ Equity raised	1,187	2	-	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	357	-119	253	-	-
- Misc. (CFI + CFF)	574	887	1,122	1,400	1,423
Net cash-flow	388	-79	378	415	466

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	540	540	540	540	540
Net worth	4,384	5,204	6,039	7,082	8,535
Debt (incl. Pref.)	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)*	2,384	3,227	4,465	4,465	4,465
Capital employed	6,768	8,431	10,504	11,548	13,000
Net tangible assets**	2,908	3,929	5,258	5,476	5,789
Net intangible assets	4	7	9	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	87	74	109	109	109
Investments (strategic)	-	-	-	-	-
Investments (financial)	459	217	61	61	61
Current assets (excl. cash)	2,882	4,002	3,812	4,190	4,989
Cash	1,058	872	1,921	2,335	2,801
Current liabilities	630	670	665	623	750
Working capital	2,252	3,332	3,147	3,567	4,240
Capital deployed	6,768	8,431	10,504	11,548	13,000
Contingent liabilities	-	-	-	-	-

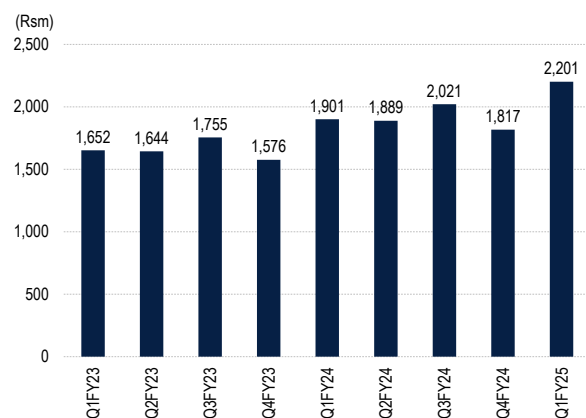
* including lease liabilities ** including right-to-use assets

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	153.4	65.5	78.6	56.7	40.7
EV / EBITDA (x)	45.5	26.6	28.0	21.8	17.8
EV / Sales (x)	13.9	8.5	8.9	7.1	5.8
P/B (x)	12.5	10.4	10.8	8.4	6.9
RoE (%)	8.1	15.9	13.7	14.7	17.0
RoCE (%) - after tax	6.7	13.4	11.0	11.4	13.5
RoIC	7.1	13.5	11.3	12.4	15.1
DPS (Rs)	-	-	-	-	-
Dividend yield (%)	-	-	-	-	-
Div. payout (%) - incl. DDT	-	-	-	-	-
Net debt / Equity (x)	-0.3	-0.2	-0.3	-0.3	-0.3
Receivables (days)	55	40	38	38	38
Inventory (days)	151	126	104	97	95
Payables (days)	16	20	18	12	12
CFO: PAT (%)	92.7	125.3	264.2	219.0	174.8

Source: Company, Anand Rathi Research

Fig 6 – Q1 revenue grew ~16% y/y to Rs2.2bn



Source: Company

Q1 FY25 results highlights

Q1 revenue grew ~16% y/y, ~21% q/q to Rs2,201m. The gross margin (incl. subcontracting expenses) expanded 44bps y/y to 61.8%. Employee/other expenses rose ~21%/24% y/y. EBITDA grew ~12% y/y, ~34% q/q to Rs721m. The EBITDA margin fell 100bps y/y (though up q/q 312bps) to 32.8%. Depreciation/interest expenses/other income rose ~18/34/56% y/y. PBT grew 7.5% y/y to Rs374m. The tax rate was 23.5% (vs. 24.5% last year). PAT grew 9% y/y, ~2.2x q/q to Rs287m.

Post-IND AS OCF was Rs617m in Q1 FY25 (Rs488m in Q1 FY24).

Q1 FY25 net cash reserves were Rs2.2bn (~Rs2bn at end-FY24).

Fig 7 – Quarterly results

(Rs m)	Q1 FY25	Q1 FY24	Y/Y(%)	Q4 FY24	Q/Q (%)	FY24	FY23	Y/Y(%)
Revenue	2,201	1,901	15.8	1,817	21.1	7,628	6,653	14.7
Gross margin (%) - incl. sub-contracting exp.	61.8	61.3	44bps	63.5	-174 bps	61.7	60.7	105 bps
Employee expenses	371	308	20.6	350	6.2	1,302	1,023	27.3
Other expenses	267	216	23.5	266	0.5	982	891	10.3
EBITDA	721	642	12.3	539	33.8	2,424	2,123	14.2
EBITDA margins (%)	32.8	33.8	-100bps	29.7	312 bps	31.8	31.9	-13 bps
Interest expense	110	82	34.4	115	-4.0	391	285	37.5
Depreciation	295	249	18.4	307	-4.1	1,104	871	26.8
Other income	58	37	56.3	55	4.5	173	119	45.2
PBT	374	348	7.5	172	117.4	1,102	1,087	1.4
Tax	88	85	2.8	42	110.6	274	259	6.0
Tax rates (%)	23.5	24.5	-107 bps	24.2	-75bps	24.9	23.8	108 bps
PAT	287	263	9.0	131	119.5	828	828	-0.0

Source: Company

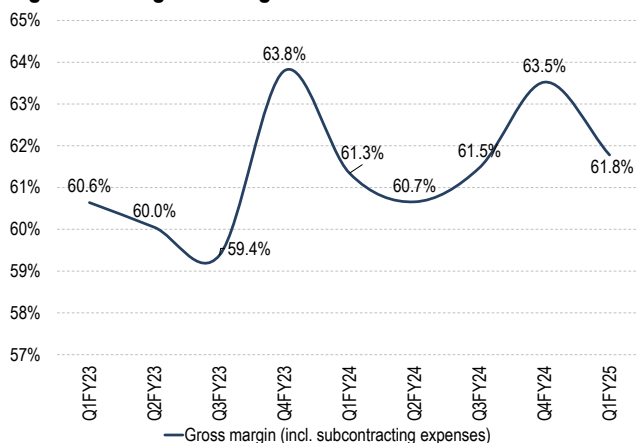
Other Highlights

- **Channel mix.** EBO channel sales grew 9.5% y/y, led by store additions; contributing 69.4% to overall revenue (73.4% in Q1 FY24). Revenue per EBO fell ~3% y/y to Rs2.1m. LFS channel sales grew ~43% y/y, resulting in the higher contribution to overall revenue at 25.6% (20.7% in Q1 FY24). This was driven by offers being run by one of the LFS partners, leading to higher footfalls in May and June. Management expects this to normalize in Q2. Revenue per LFS rose 13.6% y/y to Rs0.3m in Q1 FY25. The online channel grew 19.5% y/y, contributing 3.2% to sales (3.1% in Q1 FY24). MBO & others accounted for the remaining 1.9% share of overall revenue.
- **Store network.** 20 EBOs (net) were added in Q1, taking the total to 734 stores. The company entered four new cities in Q1, expanding its presence to cover 164 cities in India. Some store openings were delayed in Q1 and shifted to Q2. On the LFS front, 124 doors (net) were added in Q1, taking the total to 2,313. LFS doors added were more in Q1 and would normalise over the rest of the year. Management guided to add 100-150 LFS doors (net) in FY25.
- **SSSG/SCSG.** SSSG was flat at 0.2% (1% in Q4 FY24; 2% in Q1 FY24). SCSG was 8.3% (10% in Q4 FY24). Demand improved in Jun, resulting in single-digit positive SSSG in Jun and Jul so far. As a result of this, management expects SSSG to improve ahead.
- **Volumes** grew 14-15% y/y; SSSG volume was -0.4%.
- **ASP** was Rs777 (up from Rs752 at end-FY24), led by the better sales mix. Full price sales were 97%, despite tough market conditions.
- **Product portfolio.** The company launched activewear collection in the bottom-wear category during the quarter and received good feedback. In the value-added products category, pants and jeggings are doing well. Per management, its new merchandise is focused on the younger audience. The repeat purchases share is largely unchanged at 40-45%.
- **The gross margin** (incl. subcontracting expenses) expanded 44bps y/y to 61.8%, led by favourable raw material prices and y/y lower liquidation of products in EoSS through exhibitions.
- **Cost rationalization.** The company has been focusing on cost-control measures to maintain its margins. As a part of this, it renegotiated rentals for its stores located at malls and high Streets which are delivering flat to negative SSSG.
- **Ad spends** were 2% of sales in Q1. Management guided to 2% of ad spends in FY25.
- **The pre-IND AS EBITDA margin** was 19.2% (21% in Q1 FY24).
- **Other income** was higher y/y, led by fixed deposit income and a higher cash balance.
- **The pre-IND AS OCF** rose to Rs319m (Rs246m in Q1 FY24), consistently better, led by improvement in working capital.
- **The working capital cycle shortened** to 113 days (124 at end-FY24), led by 17 q/q fewer inventory days to 87. Reduction in inventory was largely at the warehouse level in finished goods and fabric inventory. Management guided to working capital days stabilising at 115-120 in the short term with inventory at 90-95 days.

- Pledge.** Per management, a major part of its pledge will be cleared over Aug-Dec'24.
- Partnership with the Apparel Group.** The company partnered with the Apparel Group to expand its operations in GCC countries. It will initiate its expansion strategy through 13 new stores across the UAE and Saudi Arabia, with further plans to extend throughout the GCC. Stores will be operated on the FOFO model and no investment will be made by the company. However, inventory will be controlled by the company and pricing/ discounting will be decided mutually. The first store will be opened this financial year.
- Outlook.** Management guided to 19-20% pre-IND AS EBITDA margin for FY25, led by SSSG, cost rationalisation and continued improvement in gross margin over the next few quarters, driven by lower raw material prices.

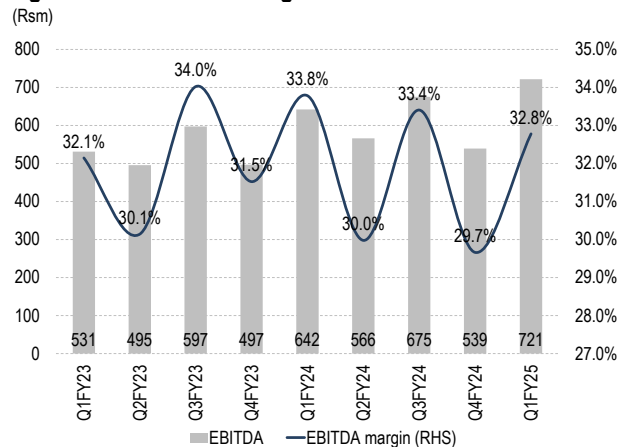
The company plans to add 120-150 (net) stores in FY25 and 6-7 closures. It targets to grow EBO sales by 15% y/y with 4-5% SSSG in FY25. It expects to achieve SSSG, led by visible greenshoots in June and July. Volume SSSG to be 2-3%. It expects 75% revenue contribution from the EBO channel in the short term; the balance would come from the remaining channels.

Fig 8 – 61.8% gross margin in Q1



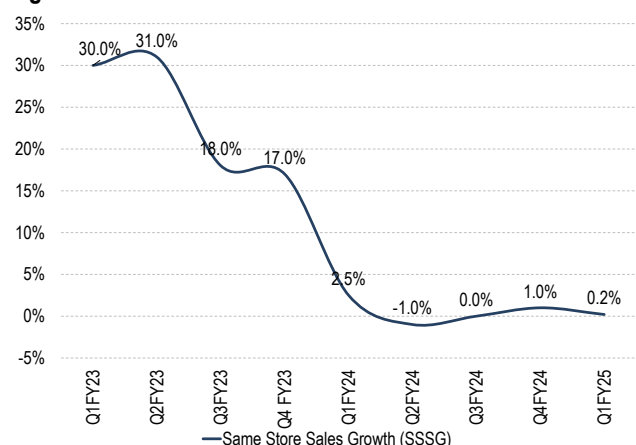
Source: Company

Fig 9 – 32.8% EBITDA margin in Q1



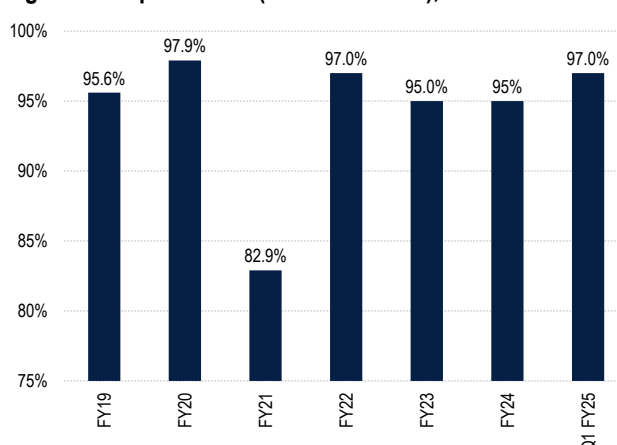
Source: Company

Fig 10 – SSSG at 0.2% in Q1 FY25



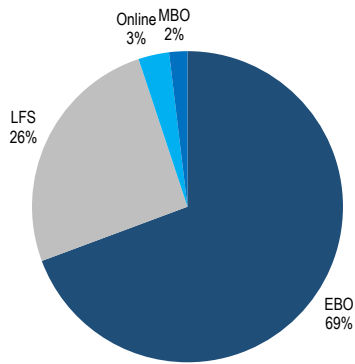
Source: Company Note: Q1, Q2 and Q3 FY23 are vs. pre-Covid

Fig 11 – Full-price sales (% of EBO sales), 97% in Q1 FY25



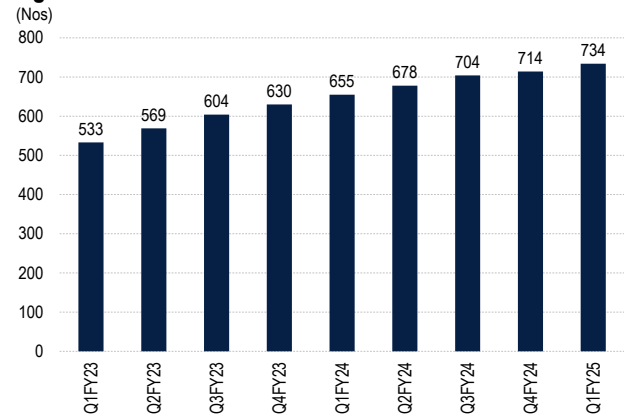
Source: Company

Fig 12 – The EBO channel brought ~69% to revenue in Q1



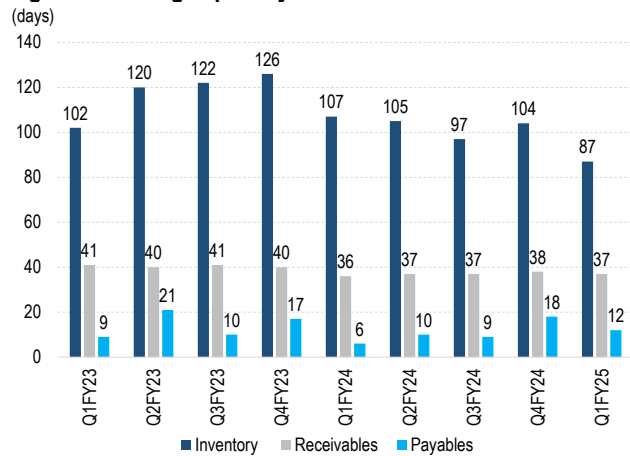
Source: Company

Fig 13 – Ended Q1 with 734 EBOs



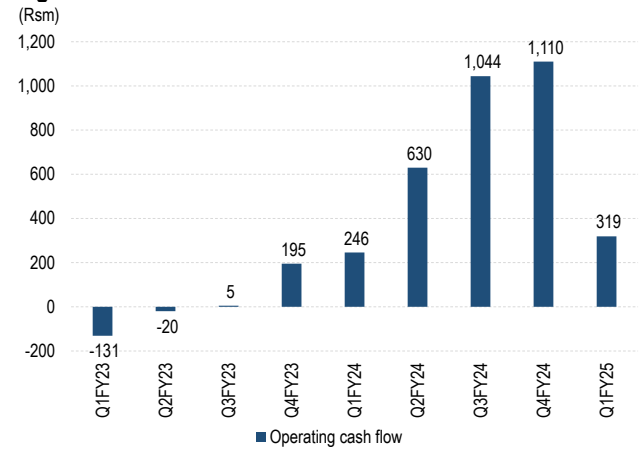
Source: Company

Fig 14 – Working capital cycle



Source: Company

Fig 15 – Pre-IND AS OCF



Source: Company

Change in estimates

Our FY25e revenue is unchanged, while our FY26e revenue is 0.7% higher. We lower our FY25e/26e EBITDA ~1.5%/0.8%. Our FY25e/26e EBITDA margins are 50bps lower for each year at 32.5%/32.8% vs. earlier.

Our FY25e EPS cut is 0.7%, led by the lower EBITDA margin.

Fig 16 – Estimate revisions

	Old estimates		New estimates		Change (%)	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Revenue	8,696	10,400	8,694	10,472	(0.0)	0.7
EBITDA	2,870	3,463	2,826	3,435	(1.5)	(0.8)
PAT	1,050	1,452	1,043	1,453	(0.7)	0.0
EPS	19.5	26.9	19.3	26.9	(0.7)	0.0

Source: Anand Rathi Research

Valuation

We like Go Fashion because of its 1) 8% market share in women's branded bottom-wear, 2) core category, with high full-price sales pushing up gross margins (~97% full-price EBO sales in Q1 FY25), 3) strong retail network and operations across channels and the robust EBO network giving it an edge (in Q1 FY25, it had 734 EBOs with very strong unit economics) and 4) an efficient and technology-driven supply chain, allowing it to source products at competitive prices; hence, it can market them competitively.

At the CMP, the stock quotes at 21.8x/17.8x FY25e/FY26e EV/EBITDA and 56.7x/40.7x P/E. We maintain our Buy rating with a lower 12-mth TP of Rs1,366, 22x FY26e EV/EBITDA (earlier Rs1,377, same as previously). We believe the valuation is justified given the company's leading position in women's bottom-wear, zero-debt status, efficient working-capital management and high cash-generating ability.

Fig 17 – Valuation parameters

	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	153.4	65.5	78.6	56.7	40.7
EV / EBITDA (x)	45.5	26.6	28.0	21.8	17.8
EV / Sales (x)	13.9	8.5	8.9	7.1	5.8
RoE (%)	8.1	15.9	13.7	14.7	17.0
RoCE (%)	6.7	13.4	11.0	11.4	13.5

Source: Company, Anand Rathi Research

Fig 18 – Valuation table (Rs m) – FY26e

EBITDA	3,435
Multiple (x)	22
Enterprise value	75,568
Gross debt	4,691
Cash balance	2,862
Market cap	73,739
No. of shares (m)	54.0
TP (Rs)	1,366
CMP (Rs)	1,096
Upside / (Downside) %	25%

Source: Anand Rathi Research

Risks

- Dependence on a single brand/category. All products are sold under a single brand, 'Go Colors', and a single category ie, women's bottom-wear. Rival brands can cross-sell in multiple categories.
- Women's bottom-wear is highly fragmented and keenly competitive.
- With no entry barriers, women's bottom-wear is easy for competitors to enter, especially the larger manufacturers.
- Growth in online retailers and the current trend of discounting and pricing strategies may cut into profitability.

Appendix

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Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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