Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Gokaldas Exports Ltd

Q2 – Good like for like performance

Textiles	Sharekhan code: GOKEX
Reco/View: Buy ↔	CMP: Rs. 830	Price Target: Rs. 1,140 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

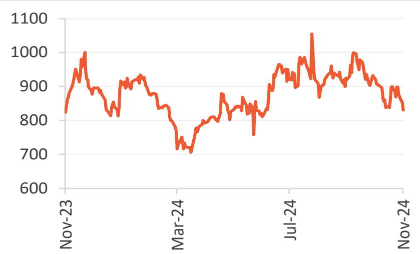
Company details

Market cap:	Rs. 5,927 cr
52-week high/low:	Rs. 1,124/683
NSE volume: (No of shares)	2.5 lakh
BSE code:	532630
NSE code:	GOKEX
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	9.4
FII	27.8
DII	33.8
Others	29.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-9.7	-8.4	-0.2	0.8
Relative to Sensex	-4.5	-6.8	-6.9	-18.8

Sharekhan Research, Bloomberg

Summary

- Gokaldas Exports's (GKEL's) LFL performance was good with revenues growing strongly by 28% y-o-y to Rs. 652 crore, EBIDTA margins stood flat y-o-y at 11%.
- Incremental volumes from new capacity in MP and better performance by acquired entities will help performance to substantially improve in H2. Consolidated EBIDTA margins to improve by 100-150 bps in H2. Strong performance expected in FY2026.
- GKEL's standalone entity is generating RoCE of 25%, with improved performance of acquired entities, consolidated RoCE is expected to improve to 20% in FY27 from current 15%.
- Stock has corrected by 26% from its highs and trades at 32x/20x/16x its FY25E/FY26E/FY27E earnings, respectively. We maintain our Buy rating with an unchanged PT of Rs. 1,140.

GKEL's Q2FY2025 financials are not strictly comparable with previous periods due to the consolidation of Atraco and Matrix.

GKEL's Q2FY2025 performance was good on like-for-like basis with revenues growing by 28% y-o-y and EBIDTA margins standing flat y-o-y at 11%. Strong double-digit revenue growth is attributable to decline in US apparel imports moderating and a strong preference of customers for GKEL. On a consolidated basis (including the acquired entities - Atraco and Matrix), revenues grew by 85.7% y-o-y to Rs. 929 crore. Consolidated sales volume during the quarter stood at 14.95 million. Gross margins decreased by 492 bps y-o-y to 48% and EBIDTA margins fell by 310 bps y-o-y to 7.1%. Higher wage expenses, increased air freight cost excluding acquired entities, acquired entities experiencing lowest seasonal demand and ramp-up of employees in wake of expected better H2 led to sharp decline in the EBIDTA margin on a consolidated basis. Consolidated EBIDTA grew by 29.3% y-o-y to Rs. 66 crore and adjusted PAT grew by 2.3% y-o-y to Rs. 28 crore.

Key positives

- Q2FY2025 was the fifth consecutive quarter of double-digit volume growth in GKEL's standalone business.
- GKEL's export revenues grew by 33% versus India's garment export growth of 13.5% in Q2.

Key negatives

- EBIDTA margins fell by over 300 bps, affected by higher wage expenses, increased in airfreight cost and lower seasonal demand for acquired entities.

Management Commentary

- On a YTD basis, US reported 3% growth in retail sales in 9MCY2024. With inventory at retailers at lower levels, purchases have started. In Q2, GKEL reported export revenue growth of 33% versus India's export growth of 13.5%.
- Revenue potential of existing capacity is Rs. 700 crore (quarterly) for standalone business and Rs. 1,000 crore for consolidated business. Further, MP unit 2 has a potential to generate annualised revenue of Rs. 175 crore while capacity addition at Atraco and Matrix would generate annualised revenue of Rs. 80-85 crore and Rs. 100 crore, respectively. GKEL targets to grow revenue at ~15% driven by multiple macro tailwinds and capacity additions.
- EBIDTA margins were impacted in Q2 due to seasonality, lower revenue at Atraco and Matrix, currency fluctuation, and higher air freight cost. Management expects margins to be better in quarters ahead (consolidated EBITDA margin to rise over 1-1.5% in H2) led by production efficiency and robust order traction. Standalone EBIDTA margins to improve to 12% in H2.
- Acquired entities' EBIDTA margins are expected to reach 10% by Q4FY2025 or Q1FY2026. Consolidated EBIDTA margins are expected to improve by 1% in FY2026 and 0.75% in FY2027.

Revision in estimates - We have broadly maintained our earnings estimates for FY2025 and FY2026. Management is confident of improved performance in H2FY2025 with improvement in the profitability. We have introduced FY2027E earnings estimates through this note.

Our Call

View – Retain Buy with an unchanged PT of Rs. 1,140: GKEL's management expects a strong recovery in the performance in H2FY2025 and expect the momentum to sustain with improving demand in the global markets. Market share gains in existing geographies, diversification by adding clients in new markets, and capacity expansion would help GKEL achieve consistent double-digit revenue growth in the near to medium term (revenues to grow at 15% CAGR). Rising apparel consumption in developed economies, shift of base from China/Bangladesh, and potential FTA signing with the UK will provide large opportunities in the long run. The stock has corrected by 26% from its recent high and is trading at 32x/20x/16x its FY2025E/FY2026E, respectively. We maintain our Buy rating on the stock with an unchanged PT of Rs. 1,140.

Key Risks

Any shift of top clients to domestic or international competitors, slow recovery in some of the key international markets, or a sharp rise in key input prices will act as a risk to our earnings estimates.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenues	2,222	2,379	3,989	4,615	5,086
EBITDA margin (%)	11.9	11.3	9.9	11.3	11.5
Adjusted PAT	168	144	183	295	360
% YoY growth	43.6	-14.3	27.0	61.1	22.0
Adjusted EPS (Rs.)	27.8	22.7	25.7	41.4	50.6
P/E (x)	29.8	36.4	32.2	20.0	16.4
P/B (x)	5.7	4.1	2.8	2.5	2.2
EV/EBITDA (x)	18.2	21.4	14.5	10.6	8.8
RoNW (%)	21.7	12.0	10.9	13.3	14.2
RoCE (%)	22.5	12.3	12.1	16.2	17.0

Source: Company; Sharekhan estimates
#Including the consolidation of recently acquired Atraco and Matrix