



Gokaldas Exports

STOCK INFO.	BLOOMBERG
BSE SENSEX: 14,338	GEXP IN
S&P CNX: 4,248	REUTERS CODE
	GOKL. BO

25 May 2007

Buy

Previous Recommendation: Buy

Rs199

Equity Shares (m)	34.4
52-Week Range (Rs)	359/186
1,6,12 Rel.Per. (%)	-8/-40/-69
M.Cap (Rs. b)	6.9
M.Cap (US\$ b)	0.2

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	10,344	703	17.7	15.6	9.8	1.7	18.9	15.7	0.9	7.5
3/08E	11,963	747	21.7	6.2	9.2	1.5	17.3	14.5	0.8	7.0
3/09E	13,674	880	25.6	17.8	7.8	1.3	17.6	15.1	0.7	6.1

- 4QFY07 results were better than our estimates. Revenues were up 15.7% YoY to Rs2.8b. EBITDA stood at Rs367m (v/s our est. of Rs343m). EBITDA margins improved by 174bp YoY to 13.3% (v/s est. of 11.4%), aided by better product mix and improved productivity. PAT grew 20.6% YoY to Rs181m (v/s est. of Rs214m). Subdued PAT was due to higher tax provisioning of Rs52m (v/s est. of Rs22m).
- During FY07 the company also added close to 11,000 employees taking overall employee headcount to 54,000 employees. The company has completed Rs1b capex, added five new factories and a washing facility. Further, it has expanded capacity by 30% at two of its old factories. Post this expansion, effective capacity stands increased by 36% from 22m pieces p.a. in FY06 to 30m pieces p.a. in FY08.
- Management has indicated that they have a robust order book for 1QFY08 of ~Rs2.5b and expects revenues to grow at 15% for next few years.
- Despite limited risks, the sharp appreciation in the rupee will impact earnings. We are lowering our PAT estimates for Gokaldas for FY08 and FY09 by 18.7% to Rs747m and 18.3% to Rs880m respectively to reflect the negative impact from the appreciating rupee. Our revised EPS estimates are Rs21.7 for FY08 and Rs25.6 for FY09.
- The stock trades at attractive valuations of 9.2x FY08E and 7.8x FY09E earnings. We are also lowering our price target to Rs260/share based on 12x FY08 EPS of Rs21.7. We reiterate **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

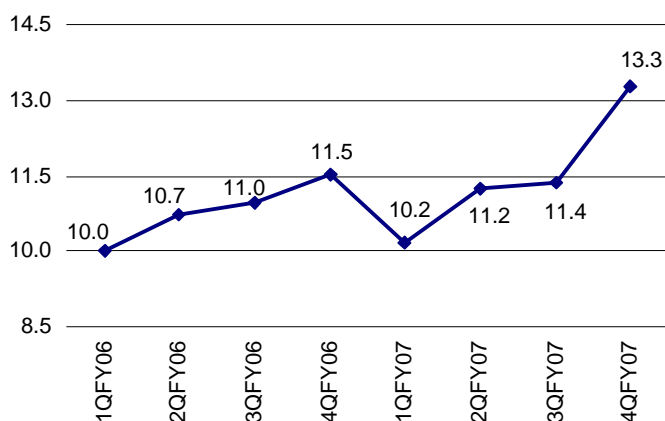
Y/E MARCH	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Sales	1,790	2,471	2,193	2,391	2,216	2,810	2,553	2,766	8,845	10,344
Change (%)	N.A.	N.A.	N.A.	N.A.	23.8	13.7	16.4	15.7	22.2	17.0
Total Expenditure	1,611	2,207	1,952	2,115	1,991	2,494	2,263	2,398	7,885	9,146
EBITDA	179	265	240	276	225	316	290	367	960	1,198
Change (%)	N.A.	N.A.	N.A.	N.A.	26	19	21	33	64	25
As % of Sales	10.0	10.7	11.0	11.5	10.2	11.2	11.4	13.3	10.9	11.6
Depreciation	34	42	50	54	52	60	68	70	181	250
Interest	33	38	37	35	46	54	55	65	143	220
Other Income	8	5	12	17	22	16	12	1	43	51
PBT	120	190	166	204	150	218	179	234	679	780
Tax	4	5	8	54	14	10	1	52	71	77
Effective Tax Rate (%)	2.9	2.6	5.1	26.3	9.7	4.4	10.2	22.4	10.4	9.9
Reputed PAT	116	185	157	150	135	208	178	181	609	703
Change (%)	N.A.	N.A.	N.A.	N.A.	16.3	12.4	13.4	20.6	53.0	15.4

E: MOST Estimates

EBITDA up sharply

4QFY07 results were better than our estimates. EBITDA stood at Rs367m (v/s our est. of Rs343m). EBITDA margins improved by 174bp YoY and stood at 13.3% (v/s est. of 11.4%), aided by better product mix and improved productivity. PAT grew 20.6% YoY to Rs181m (v/s est. of Rs214m). PAT growth was subdued due to higher tax provisioning of Rs52m (v/s est. of Rs22m).

IMPROVING EBITDA MARGINS (%)

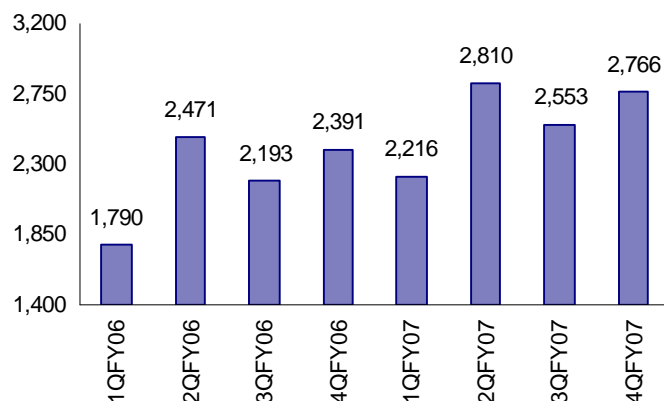


Source: Motilal Oswal Securities

Gains from capex to accrue ahead

The company has completed Rs1b capex and has added five new factories and a washing facility. Further, it has also expanded capacity by 30% at two of its old factories. Post this expansion, effective capacity of the company has increased by 36% from 22m pieces p.a. in FY06 to 30m pieces p.a. in FY08. Management has indicated that they have a robust order book for 1QFY08 of ~Rs2.5b and expects revenues to grow at 15% for the next few years. During FY07 the company also added close to 11,000 employees taking its overall employee headcount to 54,000 employees.

REVENUES QOQ (RS M)



Source: Motilal Oswal Securities

Impact of rupee appreciation to be limited

Though the appreciating rupee is a significant negative for the company, we believe Gokaldas would be partially insulated due to the following factors: (1) it imports nearly 60-65% of its raw material requirement in US\$ (raw materials accounted for 60% of revenues in FY07), which provides it with a natural hedge against rupee appreciation; (2) it derives 10-15% of its revenues in Euros; and (3) risk mitigation - management hedges close to 20-25% of its revenues.

Lowering estimates

Despite the limited risks, the sharp appreciation in rupee will impact earnings. We are lowering our PAT estimates for Gokaldas for FY08 by 18.7% to Rs747m and for FY09 by 18.3% to Rs880m respectively to reflect the negative impact of the appreciating rupee. Our revised EPS estimates are Rs21.7 for FY08 and Rs25.6 for FY09.

REVISED ESTIMATES (RS M)

	OLD	NEW	CHG. (%)
Revenues			
FY08	12,719	11,963	-5.9
FY09	14,885	13,674	-8.1
PAT			
FY08	918	747	-18.7
FY09	1,077	880	-18.3

Source: Motilal Oswal Securities

Preferred vendor for some of the world's largest brands

Gokaldas Exports is one of the largest and most respected garment manufacturers in India. It has been accorded a preferred vendor status by some of the world's best known brands – GAP, Nike, Old Navy, Tom Tailor and Lebek International. With quotas now abolished, international trade in apparel is expected to increase significantly. Most studies indicate that India and China will be the biggest beneficiaries. We believe that Gokaldas Exports is well placed to leverage this huge opportunity.

Valuation and view

Gokaldas Exports is one of the best proxies of the quota-outsourcing story in the Indian textiles space. It is one of the largest and most respected garment manufacturers in India. We anticipate sharp improvement in productivity levels, aided by longer runs, implementation of modern scientific shop floor management techniques and increased mechanization. Management has indicated that they have a visibility of 15% CAGR. Though the company's margins would be negatively impacted in the medium-term due to the strengthening rupee, core business continues to remain robust. The stock trades at attractive valuations of 9.2x FY08E and 7.8x FY09E earnings. We are also lowering our price target to Rs260/share based on 12x FY08 EPS of Rs21.7. We reiterate **Buy**.

Gokaldas Exports: an investment profile

Company description

Gokaldas Exports is one of the best proxies of the quota outsourcing story in the Indian textiles sector. It is one of the largest and most respected garment manufacturers in India. It has global scale capacities and established relationships with leading global retailers and buyers, which, we believe, it can leverage to its advantage in the post-quota era.

Key investment arguments

- ✍ Preferred vendor for some of the world's largest brands.
- ✍ Global sourcing capabilities and integrated facilities.
- ✍ Superior design capabilities.
- ✍ Specialization in outerwear enables it to earn higher margins.
- ✍ High non-quota country sales.

Key investment risks

- ✍ High dependence on GAP.
- ✍ Margins under pressure.
- ✍ Differential tariffs to be a crucial issue.
- ✍ Constricting labor laws.

Recent developments

- ✍ Has expanded capacity to 296 lines.
- ✍ Plans to set up three factories in FY07 and change its product mix to cover all categories.
- ✍ Likely to benefit substantially from safeguard measures against China by USA and EU.

Valuation and view

- ✍ Expected to register revenue and PAT CAGR of 15% and 12%, over FY06-FY08.
- ✍ The management has indicated that they have a visibility of 15% CAGR.
- ✍ The stock trades at attractive valuations of 9.2x FY08E and 7.8x FY09E earnings. We are also lowering our price target to Rs260/share based on 12x FY08 EPS of Rs21.7. We reiterate **Buy**.

Sector view

- ✍ Exports from China are likely to be severely constrained due to safeguard measures imposed by the US and EU.
- ✍ India textile export growth in FY07 was flat due to increased competition from neighboring countries.
- ✍ Global buyers are focusing on building vendor partners that have high product development skills.

COMPARATIVE VALUATIONS

		GOKALDAS	ALOK	RAYMOND
P/E (x)	FY08E	9.2	6.6	12.4
	FY09E	7.8	5.9	8.8
P/BV (x)	FY08E	1.5	1.9	1.3
	FY09E	1.3	1.8	1.2
EV/Sales (x)	FY08E	0.8	7.9	1.0
	FY09E	0.7	7.9	0.8
EV/EBITDA (x)	FY08E	7.0	3.0	6.4
	FY09E	6.0	2.6	4.8

SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	70.1	70.1	76.9
Domestic Inst	10.7	11.1	7.4
Foreign	11.3	11.7	6.0
Others	7.9	7.1	9.7

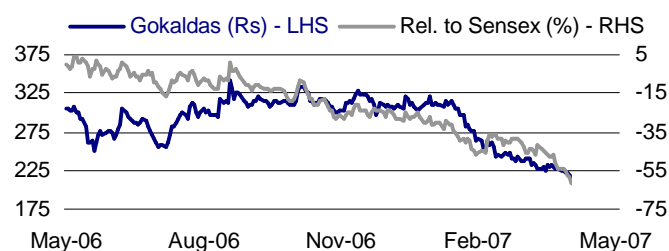
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	21.7	28.1	-22.8
FY09	25.6	33.3	-23.1

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
199	260	30.4	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Net Sales	7,240	8,845	10,395	11,963	13,674
Change (%)	35.1	22.2	17.5	15.1	14.3
Total Expenditure	6,654	7,885	9,146	10,886	12,690
EBITDA	587	960	1,198	1,304	1,490
Change (%)	117	63.6	24.8	8.8	14.3
% of Net Sales	8.1	10.9	11.5	10.9	10.9
Depreciation	129	181	250	306	343
EBIT	457	779	949	998	1,148
Interest & Finance Charges	119	143	220	259	260
Other Income	105	43	51	90	90
PBT	439	679	780	830	978
Tax	41	71	77	83	98
Effective Rate (%)	9.4	10.4	9.9	10.0	10.2
Reported PAT	398	609	703	747	880
Change (%)	6.6	53.0	15.4	6.2	17.8
Adjusted PAT	398	609	703	747	880

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Equity Capital	141	172	172	172	172
Share Capital	141	172	172	172	172
Reserves	1,525	3,283	3,828	4,456	5,218
Net Worth	1,666	3,455	4,000	4,628	5,390
Loans	1,906	2,190	2,340	2,640	2,365
Deferred Tax Liability	35	53	73	93	118
Capital Employed	3,606	5,699	6,413	7,362	7,872
Gross Fixed Assets	1,448	2,036	3,036	3,536	3,836
Less: Depreciation	410	570	820	1,125	1,468
Net Fixed Assets	1,038	1,465	2,216	2,410	2,367
Capital WIP	29	137	0	0	0
Investments	1	932	500	500	500
Curr. Assets	3,135	3,893	4,510	5,347	6,033
Inventory	1,870	2,675	3,007	3,579	4,172
Sundry Debtors	590	562	709	819	937
Cash & Bank Balances	225	193	239	306	180
Loans & Advances & Other	451	463	556	643	744
Current Liab. & Prov.	598	728	813	896	1,027
Sundry Creditors	598	728	813	896	1,027
Net Current Assets	2,537	3,164	3,697	4,452	5,005
Application of Funds	3,606	5,699	6,413	7,362	7,873

E: MOST Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	14.1	17.7	20.4	21.7	25.6
Cash EPS	37.5	45.9	27.7	30.6	35.6
Book Value per Share	59.2	100.5	116.4	134.6	156.8
DPS	0.0	4.0	3.0	3.0	3.0
Payout (Incl. Div. Tax) %	0.0	13.0	22.5	15.9	13.5
Valuation (x)					
P/E		11.3	9.8	9.2	7.8
Cash P/E		4.3	7.2	6.5	5.6
EV/EBITDA		9.2	7.5	7.0	6.1
EV/Sales		1.0	0.9	0.8	0.7
Price to Book Value		2.0	1.7	1.5	1.3
Dividend Yield (%)		2.0	1.5	1.5	1.5
Profitability Ratios (%)					
RoE	25.8	23.8	18.9	17.3	17.6
RoCE	14.5	16.7	15.7	14.5	15.1
Turnover Ratios					
Debtors (Days)	30	24	25	25	25
Inventory (Days)	103	124	120	120	120
Creditors (Days)	23	35	30	30	30
Working Capital (Days)	128	131	130	136	134
Asset Turnover (x)	2.0	1.6	1.6	1.6	1.7
Fixed Asset Turnover (x)	5.0	4.3	3.4	3.4	3.6
Leverage Ratio					
Debt/Equity (x)	11	0.6	0.6	0.6	0.4

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007E	2008E	2009E
PBT before E.O. Items	439	679	780	830	978
Add : Depreciation	129	181	250	306	343
Less : Direct taxes paid	41	71	77	83	98
(Inc)/Dec in WC	-753	-659	-487	-688	-680
CF from Operations	-304	-120	436	298	481
CF from Oper. Incl. EO	-304	-120	436	298	481
(Inc)/dec in FA	-222	-480	-1,137	-500	-300
CF from Investments	-281	-695	-863	-500	-300
(Inc)/Dec in Shares	0	1	-2	-3	-4
(Inc)/Dec in Debt	-665	-285	-150	-300	275
Less : Interest Paid	0	0	0	0	0
Dividend Paid	32	79	158	118	118
CF from Fin. Activity	502	783	473	269	-307
Inc/Dec of Cash	-83	-32	46	67	-126
Add: Beginning Balance	308	225	193	239	306
Closing Balance	225	193	239	306	180



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Gokaldas Exports

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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