

Go Fashion (India) | BUY

Better placed than peers amidst challenges

Due to challenging market dynamics in the Fashion retail segment, SSSG and sales per store have moderated over the past few quarters across players, especially in the value segment. Our checks suggest that demand for bottom-wear was tepid in 2QFY24E, like it was in 1QFY24. To that extent, we expect SSSG growth to be in low-single digit in 2QFY24E, lower vs. earlier expectation of mid-single digit growth. However, on relative basis, overall revenue trajectory is still likely to be ahead of its peers, in our view. RM environment remains stable to benign; this, along with better product mix will, we believe, continue to aid gross margin. Further, store additions continue to be healthy and company is on track to achieve its FY24E guidance. We believe near-term issues are more transient in nature; industry opportunity in bottom-wear and Go Fashion's capabilities in it remain strong which, we believe, will ensure it stays ahead of the pack ([link](#)). This, along with the company's aim to reduce working capital and the promoter's assurance on pledge closure by end-FY24 allays key investor concerns. Any volatility in the near term should be seen as an opportunity to add.

- Demand trends remain challenging:** Given tepid consumer sentiment, we expect the SSSG trend in 2Q to remain broadly similar to that seen in 1Q (Exh:1). However, the company remains strong on the innovation front (salience of value-added products at c.50% of sales now vs. c.20% 4-5 years back). Also, given that these products are priced c.20-25% higher vs. base ranges, the benefit is visible in healthy ASP growth over the past few quarters; we believe this trend will continue in the coming quarters. So, despite subdued volumes in the near term, we expect low-single digit SSSG led by mid-single digit ASP growth in 2QFY24. While it is weaker than our earlier expectation of mid-single digit SSSG, we believe it will still be relatively better compared to peers in the value fashion segment such as V-mart, Pantaloons, etc., due to essential nature of the bottom-wear category, and better product and geography mix (higher presence in Metro/Tier1 for Go Fashion where demand conditions are relatively better vs. small towns).
- Better mix & lower A&P to aid margins in near term:** While input cost has moderated and recent purchases have been at lower prices, the full benefit is still not visible given that the company is utilising high-cost inventory. Higher ASP growth due to favourable product mix (Exh:3/4) and better channel mix (higher growth in EBO channel) will, we believe, continue to drive gross margins. Also, A&P spend in the base quarters was high (1HFY23 A&P as % to sales was c.4.5%) while it was sub-2% in 1QFY24 and is likely to remain at that level in 2Q too, thereby driving EBITDA margin (Exh:6/7).
- Pace of store expansion to remain healthy, on track to achieve FY24 guidance:** In terms of EBOs, the company remains on track (added 25 in 1Q, and we expect 28-30 store additions in 2QFY24) to achieve its guidance of additions of c.120 stores p.a. Further, given the thrust on value-added products, the newer stores are larger in size (c.450+ sqft) to provide optimum space for these product lines. It is also in the process of beefing up its business development team, in line with its strategy to accelerate store expansion to 150-170 stores p.a. from FY25 (higher vs. our current estimate of 120 stores p.a.).



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,385
Upside/(Downside)	10.0%
Previous Price Target	1,340
Change	3.4%

Key Data – GOCOLORS IN

Current Market Price	INR1,263
Market cap (bn)	INR68.1/US\$0.8
Free Float	47%
Shares in issue (mn)	52.2
Diluted share (mn)	54.0
3-mon avg daily val (mn)	INR96.2/US\$1.2
52-week range	1,453/876
Sensex/Nifty	65,226/19,436
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	-8.1	25.3	-7.7
Relative*	-7.3	14.7	-17.9

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	3,998	6,626	8,097	10,092	12,116
Sales Growth (%)	59.9%	65.7%	22.2%	24.6%	20.1%
EBITDA	1,190	2,123	2,633	3,325	4,077
EBITDA Margin (%)	29.8%	32.0%	32.5%	32.9%	33.6%
Adjusted Net Profit	355	826	1,022	1,466	1,959
Diluted EPS (INR)	6.6	15.3	18.9	27.1	36.3
Diluted EPS Growth (%)	NA	132.7%	23.7%	43.5%	33.7%
ROIC (%)	17.9%	22.6%	24.6%	28.5%	31.2%
ROE (%)	10.6%	17.2%	17.9%	21.1%	22.6%
P/E (x)	NA	82.6	66.8	46.5	34.8
P/B (x)	15.6	13.1	11.0	8.9	7.1
EV/EBITDA (x)	56.0	31.5	25.1	19.7	15.7
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

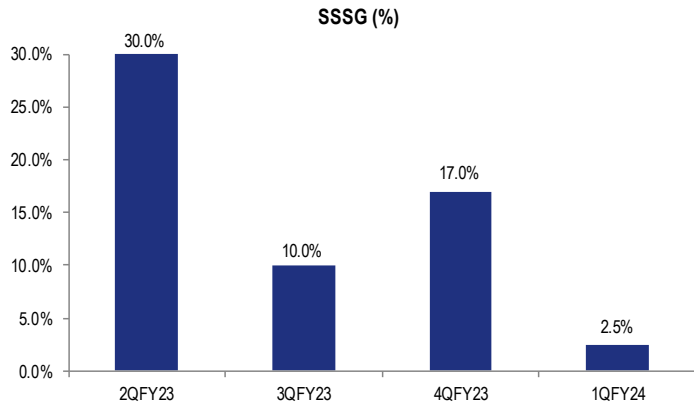
Source: Company data, JM Financial. Note: Valuations as of 05/Oct/2023

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Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

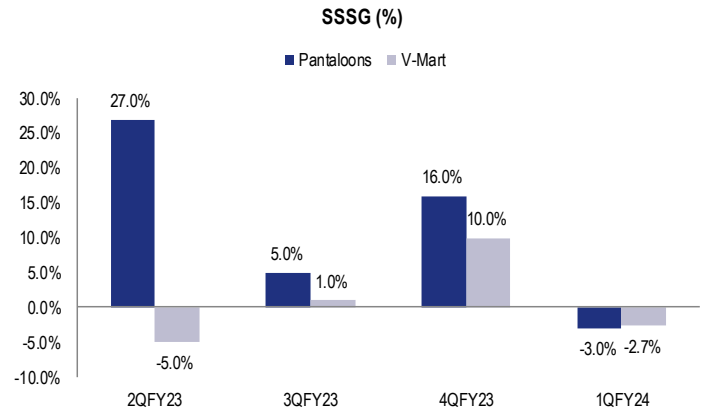
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. SSSG under pressure for Go Fashion lately on account of challenging macro environment...



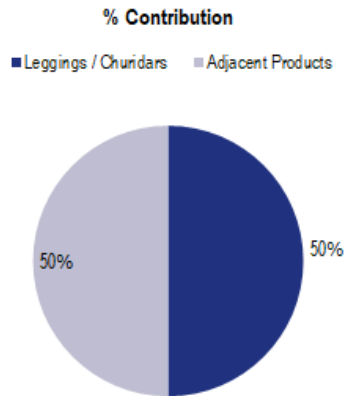
Source: Company, JM Financial

Exhibit 2. ...however, it has fared better in comparison with its peers in value fashion segment



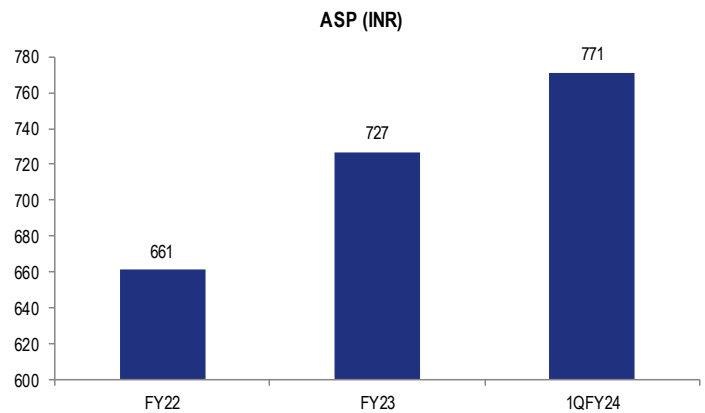
Source: Company, JM Financial

Exhibit 3. Innovation strength visible from increasing salience of value added adjacent products (account for to c.50% of sales)...



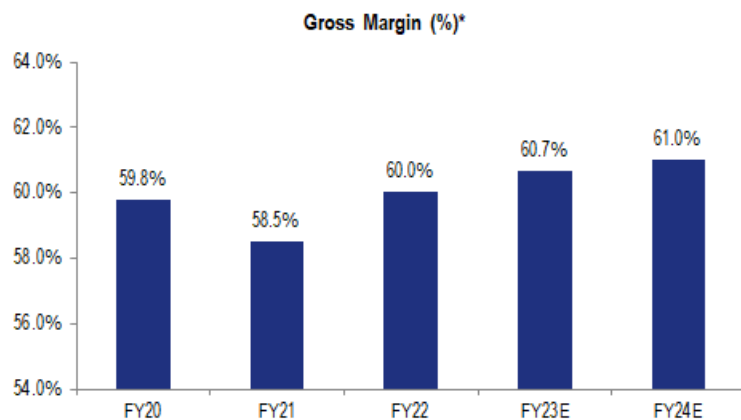
Source: Company, JM Financial

Exhibit 4. ...benefit visible in healthy uptick in average selling price



Source: Company, JM Financial

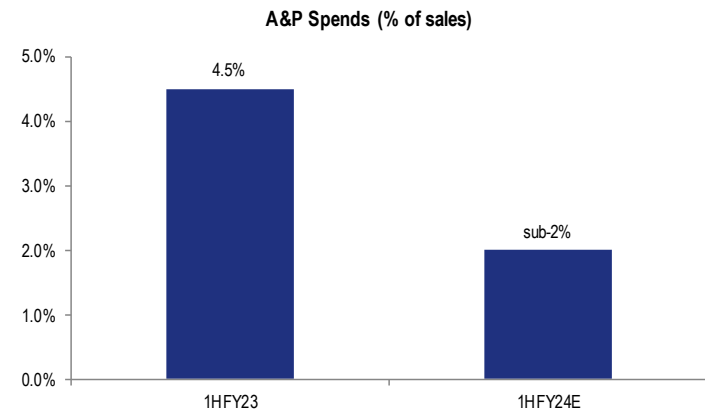
Exhibit 5. Better product mix & stable to benign RM will continue to aid gross margins



Source: Company, JM Financial

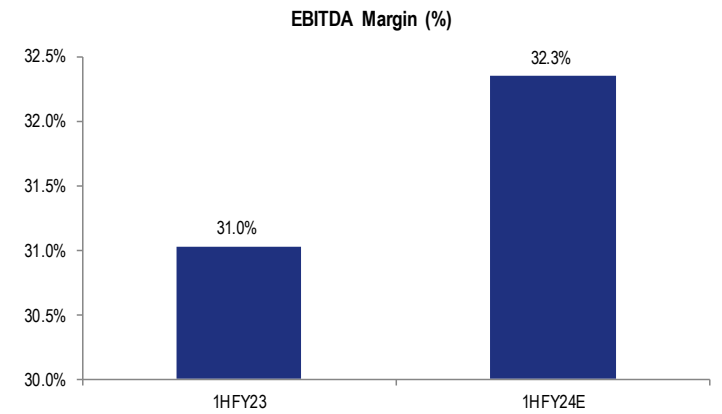
* Sub-contracting charges taken as part of COGS

Exhibit 6. ...which along with lower A&P spends in near term..



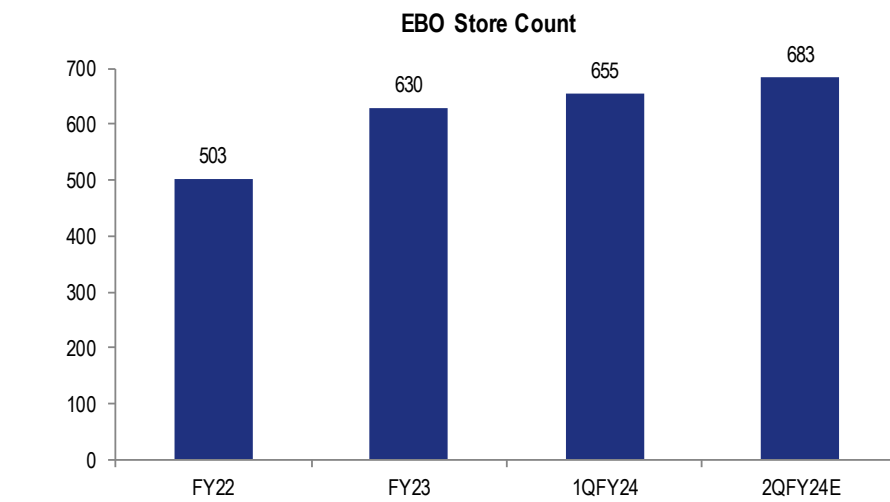
Source: Company, JM Financial

Exhibit 7. ...will drive overall operating performance



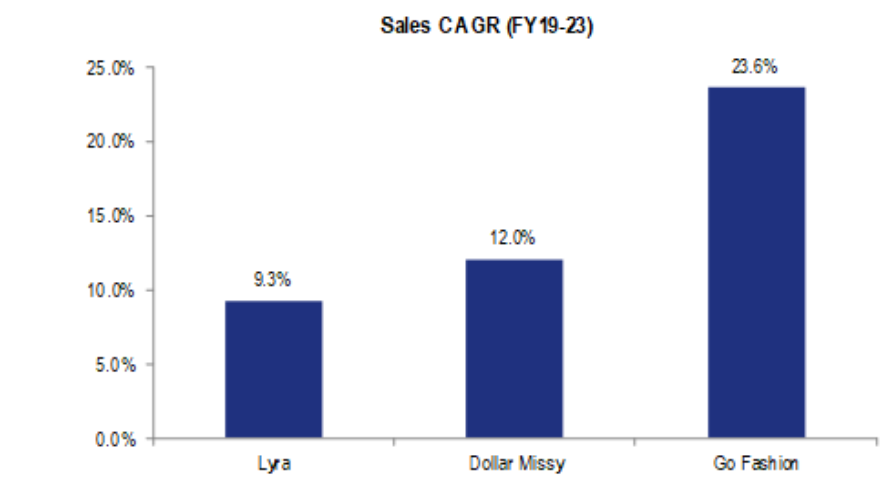
Source: Company, JM Financial

Exhibit 8. Pace of store additions continues to remain strong, inline with stated management guidance



Source: Company, JM Financial

Exhibit 9. Intrinsic strengths intact – visible from strong revenue outperformance over peers - Sales CAGR (FY19-23) at 23.6%



Source: Company, JM Financial

Exhibit 10. Our 12-month DCF based price target works out to INR 1,385/share

(INR mn)

(INR mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Revenue	2,852	3,920	2,507	4,013	6,653	8,129	10,132	12,164	14,100	16,255	18,568	20,804	23,181	25,754	28,541	31,561	34,833
yoy growth		37.4%	-36.1%	60.1%	65.8%	22.2%	24.6%	20.1%	15.9%	15.3%	14.2%	12.0%	11.4%	11.1%	10.8%	10.6%	10.4%
Comparable EBITDA (Pre Ind As 116)	502	842	128	840	1,291	1,604	2,085	2,632	3,126	3,710	4,365	4,967	5,619	6,325	7,113	7,992	8,971
EBITDA margin %	17.6%	21.5%	5.1%	20.9%	19.4%	19.7%	20.6%	21.6%	22.2%	22.8%	23.5%	23.9%	24.2%	24.6%	24.9%	25.3%	25.8%
Comparable EBIT	454	770	38	722	1,133	1,406	1,852	2,367	2,832	3,386	4,007	4,572	5,185	5,849	6,592	7,424	8,354
EBIT margin %	15.9%	19.7%	1.5%	18.0%	17.0%	17.3%	18.3%	19.5%	20.1%	20.8%	21.6%	22.0%	22.4%	22.7%	23.1%	23.5%	24.0%
Tax Rate	26.7%	22.9%	-12.9%	25.6%	23.8%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%	25.5%
NOPAT	333	594	43	537	863	1,047	1,380	1,763	2,110	2,522	2,985	3,406	3,863	4,357	4,911	5,531	6,224
Depreciation	48	71	90	118	158	198	233	265	293	324	358	395	434	476	521	568	617
Capex	-616	-244	-61	-159	-357	-259	-297	-237	-254	-285	-315	-348	-376	-405	-436	-468	-502
Net working capital investment	-1,244	-607	298	-816	-749	-341	-722	-851	-808	-902	-972	-550	-953	-1,031	-1,119	-1,215	-1,319
Free Cash Flow	-1,479	-185	370	-319	-85	645	594	940	1,342	1,660	2,056	2,903	2,968	3,397	3,876	4,416	5,020
YoY Growth - %			-300.2%	-186.2%	-73.3%	-857.7%	-8.0%	58.4%	42.7%	23.7%	23.9%	41.2%	2.2%	14.5%	14.1%	13.9%	13.7%
Discounting Factor			1.00	1.00	1.00	0.95	0.86	0.78	0.71	0.64	0.58	0.52	0.47	0.43	0.39	0.35	
Present Value of FCF				-319	-85	645	565	810	1,045	1,170	1,312	1,676	1,551	1,606	1,659	1,710	1,760
Fade period forecast	FY36E	FY37E	FY38E	FY39E	FY40E	FY41E	FY42E	FY43E	FY44E	FY45E	FY36-45 CAGR						
FCF	5,674	6,375	7,120	7,905	8,723	9,567	10,429	11,298	12,165	13,016	10%						
Discounting Factor	0.32	0.29	0.26	0.24	0.21	0.19	0.17	0.16	0.14	0.13							
Present Value of FCF	1,800	1,830	1,850	1,858	1,856	1,842	1,817	1,782	1,736	1,681							

12M Forward Equity Valuation	Mar'24
PV of Cash Flow - Explicit Period	14,864
PV of Cash Flow - Fade Period	18,051
PV of Terminal Value	39,596
Enterprise Value	72,512
Debt - Mar'23	0
Cash - Mar'23	2,099
Net Debt	-2,099
Equity value	74,611
Mn no of shares	54
12M Target (DCF value) - Rs per share	1,385

Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					
	(INR mn)				
Y/E March	FY22A	FY23	FY24E	FY25E	FY26E
Sales	3,998	6,626	8,097	10,092	12,116
Sales Growth	59.9%	65.7%	22.2%	24.6%	20.1%
Other Operating Income	15	27	33	41	49
Total Revenue	4,013	6,653	8,129	10,132	12,164
Cost of Goods Sold/Op. Exp.	1,355	2,215	2,666	3,313	3,972
Personnel cost	731	1,026	1,285	1,548	1,812
Other expenses	737	1,289	1,544	1,946	2,303
EBITDA	1,190	2,123	2,633	3,325	4,077
EBITDA (%)	29.8%	32.0%	32.5%	32.9%	33.6%
EBITDA Growth (%)	156.8%	78.4%	24.0%	26.3%	22.6%
Comparable EBITDA	840	1,290	1,604	2,085	2,632
Comparable EBITDA (%)	21.0%	19.5%	19.8%	20.7%	21.7%
Depn & Amort	686	871	1,063	1,166	1,285
EBIT	504	1,252	1,571	2,158	2,791
Other Income	208	119	142	199	272
Finance Cost	233	285	341	390	434
PBT before Excep & Forex	479	1,087	1,371	1,967	2,629
Excep & forex Inc/Loss(-)	0	0	0	0	0
PBT	479	1,087	1,371	1,967	2,629
Taxes	123	259	350	502	670
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net profit	356	828	1,022	1,466	1,959
Adjusted Net Profit	355	826	1,022	1,466	1,959
Net Margin (%)	8.9%	12.5%	12.6%	14.5%	16.2%
Diluted share capital (mn)	54.0	54.0	54.0	54.0	54.0
Diluted EPS (Rs)	6.6	15.3	18.9	27.1	36.3
Diluted EPS Growth	-1042.7%	132.7%	23.7%	43.5%	33.7%
Total Dividend + Tax	0	0	0	0	0
Dividend Per Share (Rs)	0.0	0.0	0.0	0.0	0.0

Source: Company, JM Financial

Cash Flow statement					
	(INR mn)				
Y/E March	FY22A	FY23	FY24E	FY25E	FY26E
Profit before Tax	479	1,087	1,371	1,967	2,629
Depn. & Amort.	686	871	1,063	1,166	1,285
Net Interest Exp. / Inc. (-)	25	165	199	191	162
Inc (-) / Dec in WCap.	-815	-661	-341	-722	-851
Others	65	-101	0	0	0
Taxes Paid	-110	-324	-386	-502	-670
Operating Cash Flow	330	1,037	1,906	2,101	2,556
Capex	-198	-349	-259	-297	-237
Free Cash Flow	132	688	1,647	1,804	2,318
-Inc/dec in investments	-357	119	-43	-52	-63
Other current assets	-29	-45	142	199	272
Investing Cash Flow	-584	-276	-161	-150	-28
Inc/(dec) in capital	1,187	2	0	0	0
Dividend+Tax Thereon	0	0	0	0	0
Inc/dec in loans	0	0	0	0	0
Other assets	-545	-843	-1,029	-1,239	-1,445
Financing Cash Flow	642	-841	-1,029	-1,239	-1,445
Inc / Dec (-) in Cash	388	-79	716	712	1,082
Opening cash balance	670	1,202	1,122	1,838	2,550
Closing cash balance	1,058	1,123	1,838	2,550	3,632

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23	FY24E	FY25E	FY26E
Shareholders' Fund	4,384	5,204	6,226	7,692	9,651
Share capital	540	540	540	540	540
Reserves & Surplus	3,844	4,664	5,686	7,152	9,110
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Def. Tax Liab / Assets (-)	-114	-168	-168	-168	-168
Total - Equity & Liab	4,270	5,036	6,058	7,524	9,483
Net Fixed Assets	430	615	500	480	444
Gross Fixed Assets	991	1,362	1,621	1,919	2,156
Intangible Assets					
Less: Depn. & Amort.	347	505	703	936	1,201
Capital WIP & Net lease asset:	-214	-242	-417	-502	-511
Investments	459	217	261	313	376
Current Assets	4,010	4,868	6,026	7,632	9,733
Inventories	1,659	2,303	2,329	2,765	3,319
Sundry Debtors	602	722	887	1,106	1,328
Cash & Bank Balances	1,058	1,122	1,838	2,550	3,632
Loans & Advances	351	413	526	656	788
Other Current Assets	340	308	445	555	666
Current Liab. & Prov.	630	664	729	901	1,070
Current Liabilities	515	554	678	839	997
Provisions & Others	115	110	52	62	73
Net Current Assets	3,380	4,204	5,297	6,730	8,663
Application of Funds	4,270	5,036	6,058	7,524	9,483

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23	FY24E	FY25E	FY26E
Net Margin	8.9%	12.5%	12.6%	14.5%	16.2%
Asset Turnover (x)	1.1	1.4	1.5	1.5	1.4
Leverage Factor (x)	1.1	1.0	1.0	1.0	1.0
RoE	10.6%	17.2%	17.9%	21.1%	22.6%

Key Ratios					
Y/E March	FY22A	FY23	FY24E	FY25E	FY26E
BV/Share (Rs)	81.2	96.4	115.3	142.4	178.7
ROIC (%)	17.9%	22.6%	24.6%	28.5%	31.2%
ROE (%)	10.6%	17.2%	17.9%	21.1%	22.6%
Net Debt-equity ratio (x)	-0.3	-0.3	-0.3	-0.4	-0.4
PER	NA	82.6	66.8	46.5	34.8
PBV	15.6	13.1	11.0	8.9	7.1
EV/EBITDA	56.0	31.5	25.1	19.7	15.7
EV/Net Sales	16.7	10.1	8.2	6.5	5.3
Debtor days	55	40	40	40	40
Inventory days	151	127	105	100	100
Creditor days	67	45	45	45	45

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
12-Dec-22	Buy	1,410	
25-Jan-23	Buy	1,360	-3.5
6-Mar-23	Buy	1,360	0.0
6-May-23	Buy	1,340	-1.5
16-Jun-23	Buy	1,340	0.0
31-Jul-23	Buy	1,340	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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