

Go Fashion (India) | BUY



Resilient performance; SSSG uptick will be key monitorable

Go Fashion June-Q operating performance was better than our expectation. Revenue performance was inline but resilient in current challenging market context – primarily driven by store additions in EBOs and strong performance in LFS channel. SSSG was flat (+0.2%) for EBOs due to sluggish demand, but relatively better vs peers who have reported so far (Shoppers Stop saw SSS decline of c.5-6% in 1Q). However, initial signs of recovery were visible with some improvement seen in June/July; management remains cautiously optimistic on trajectory and expects the same to pick up from H2 with onset of festive season (targeting 4-5% SSSG by end of FY25E). On store expansion, management reiterated its guidance of 120-150 net additions in FY25E. On profitability side, benign RM continues to aid GMs and further 40-50bps expansion for FY25E is possible which along with cost saving initiatives & gradual uptick in SSSG should drive operating performance (targeting Pre-IND AS margins of 19-20% vs 17.7% in FY24). Execution on inventory reduction remains healthy with further optimisation seen in the quarter. From long term perspective, given that Go Fashion is way ahead of the pack in the bottom-wear and its intrinsic strengths remain intact, this provides assurance on its ability to navigate the tough environment. SSSG uptick in FY25, faster store expansion & pledge reduction (targeting to fully release over Aug-Dec period) will be key monitorables, in our view.

- **Resilient revenue performance in challenging operating environment:** Sales grew by 15.8% yoy to INR 2.2bn, while EBITDA and PAT grew by 12.3% and 9% yoy to INR 721mn and INR 287mn respectively. Net sales were largely inline, driven by store additions as SSSG remained flattish (harsh summers/elections had impact on retail footfalls). Although GMs were lower than envisaged, well-controlled other expenses drove a 1.5% beat on operating profits. EBO sales grew by 9.5% yoy led by 12.1% growth in store count (added 20 stores taking store count to 734), as sales per store declined by 2.9% yoy. SSSG was 0.2%, ASPs were up marginally (up c.1%) on yoy basis. LFS channel growth (+43.2%: led by door additions +26.9% & sales/store +13.6%) was aided by higher footfall due to offer run by one of the partners. Management expects door additions and growths to normalise in coming quarters. MBO channel grew by +32.3% yoy while online channel sales were down 29% yoy.
- **Favourable input cost benefit more than offset by scale deleverage:** Gross margins (incl sub-contracting charges) were up 44bps yoy aided by lower cotton prices. Staff cost (+20.6%) grew at faster pace vs revenue growth, owing to store additions. Growth in other expenses (+23.5% yoy) was higher too – a function of store additions as well as increase in ad spends (c.+82% yoy to 2% of sales). Hence, reported EBITDA margins were down 100bps yoy to 32.8% (JMFe: 32.5%). Going ahead, management expects benign RM-led benefit to continue (expects 40-50bps GM expansion for FY25E) which along with leverage benefit & improving SSSG trajectory in coming quarters should drive EBITDA margins. On the balance sheet side, inventory days saw further reduction to 97 days (on TTM sales) from 104 days as on Mar'24 led by reduction in inventory (both RM & FG) at warehouse level.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	3,998	6,634	7,615	8,799	10,516
Sales Growth (%)	59.9%	65.9%	14.8%	15.5%	19.5%
EBITDA	1,222	2,123	2,424	2,818	3,453
EBITDA Margin (%)	30.6%	32.0%	31.8%	32.0%	32.8%
Adjusted Net Profit	355	826	828	949	1,324
Diluted EPS (INR)	6.6	15.3	15.3	17.6	24.5
Diluted EPS Growth (%)	NA	132.7%	0.2%	14.6%	39.5%
ROIC (%)	14.1%	22.5%	19.1%	22.6%	26.6%
ROE (%)	10.6%	17.2%	14.7%	14.6%	17.3%
P/E (x)	NA	71.7	71.6	62.4	44.7
P/B (x)	13.5	11.4	9.8	8.5	7.1
EV/EBITDA (x)	47.2	27.3	23.6	19.9	16.0
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Company data, JM Financial. Note: Valuations as of 24/Jul/2024

JM Financial Institutional Securities Limited

Mehul Desai
mehul.desai@jmfl.com | Tel: (91 22) 66303065

Sumanyu Saraf
sumanyu.saraf@jmfl.com | Tel: (91 22) 66303077

Pooja Kubadia
pooja.kubadia@jmfl.com | Tel: (91 22) 66303074

Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,220
Upside/(Downside)	11.2%
Previous Price Target	1,220
Change	0.0%

Key Data – GOCOLORS IN

Current Market Price	INR1,097
Market cap (bn)	INR59.1/US\$0.7
Free Float	47%
Shares in issue (mn)	52.2
Diluted share (mn)	54.0
3-mon avg daily val (mn)	INR73.9/US\$0.9
52-week range	1,405/933
Sensex/Nifty	80,149/24,414
INR/US\$	83.7

Price Performance

%	1M	6M	12M
Absolute	4.2	-2.3	-6.3
Relative*	1.5	-13.8	-22.4

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
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. 1QFY25 result snapshot: Slight miss on GM more than offset by lower overhead costs resulting in EBITDA beat (INR mn)

	1QFY25	1QFY24	YoY growth	1QFY25E	% Var
Net Sales	2,201	1,901	15.8%	2,187	0.6%
Gross Profit	1,360	1,166	16.6%	1,363	-0.2%
Gross Profit Margin %	61.8%	61.3%	44 bps	62.3%	-52 bps
Staff Cost	371	308	20.6%	367	1.0%
Other Expenses	267	216	23.5%	284	-6.1%
EBITDA	721	642	12.3%	711	1.5%
EBITDA margin %	32.8%	33.8%	-100 bps	32.5%	28 bps
Depreciation	295	249	18.4%	311	-5.1%
EBIT	427	393	8.5%	400	6.6%
Interest Expense	110	82	34.4%	114	-2.9%
Financial Other Income	58	37	56.3%	46	26.2%
PBT	374	348	7.5%	332	12.6%
Taxes	88	85	2.8%	84	4.8%
Net Profit	287	263	9.0%	249	15.2%

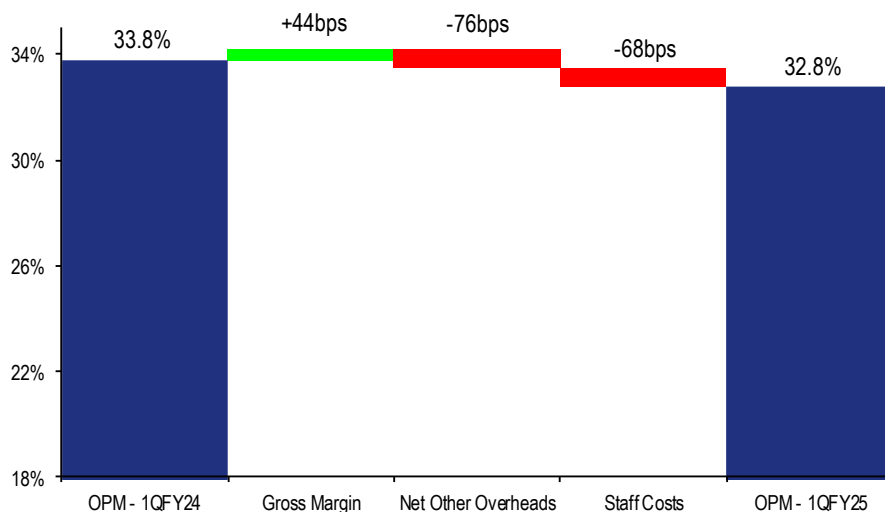
Source: Company, JM Financial

Exhibit 2. 1QFY25 costs breakdown

% of revenue	1QFY25	1QFY24	1QFY25E
Cost of Goods Sold	38.2%	38.7%	37.7%
Staff Cost	16.9%	16.2%	16.8%
Other Expenses	12.1%	11.4%	13.0%
Depreciation	13.4%	13.1%	14.2%

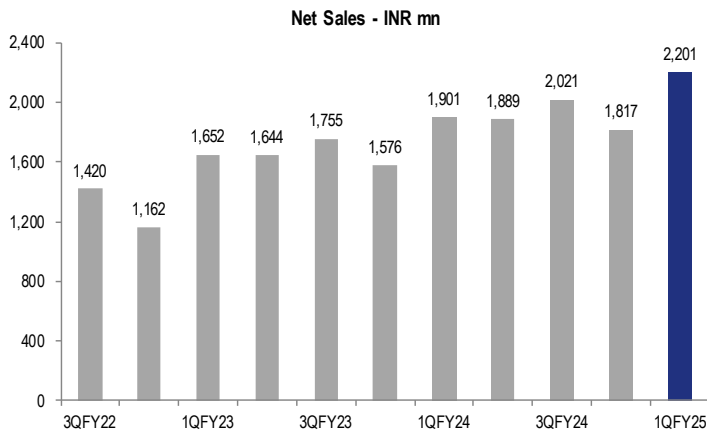
Source: Company, JM Financial

Exhibit 3. Operating margins contracted 100bps owing to higher staff costs and ad spends



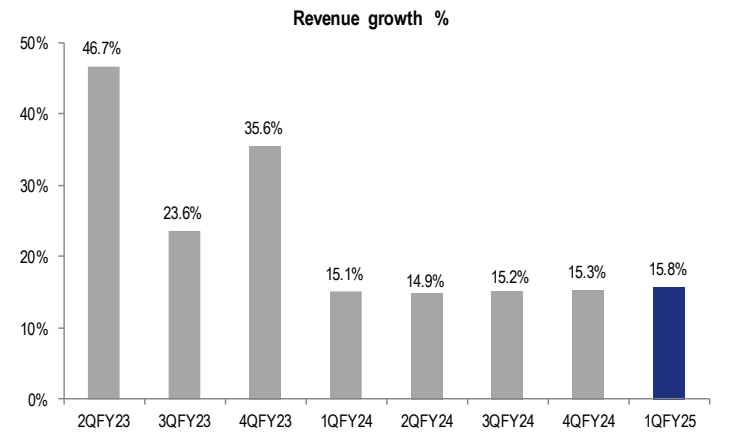
Source: Company, JM Financial

Exhibit 4. Net sales grew 15.8% yoy during Jun-Q



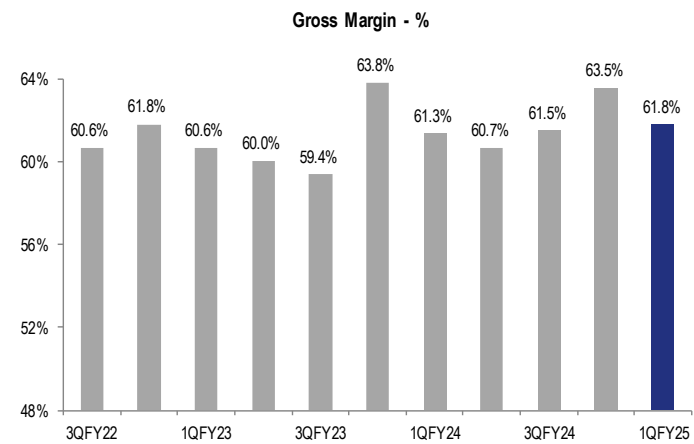
Source: Company, JM Financial

Exhibit 5. Revenue growth continued to be driven by store additions



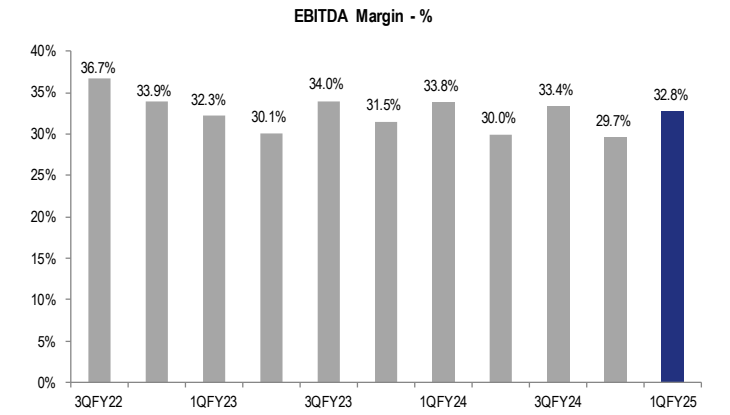
Source: Company, JM Financial

Exhibit 6. Gross margin* up 44bps yoy led by lower cotton prices



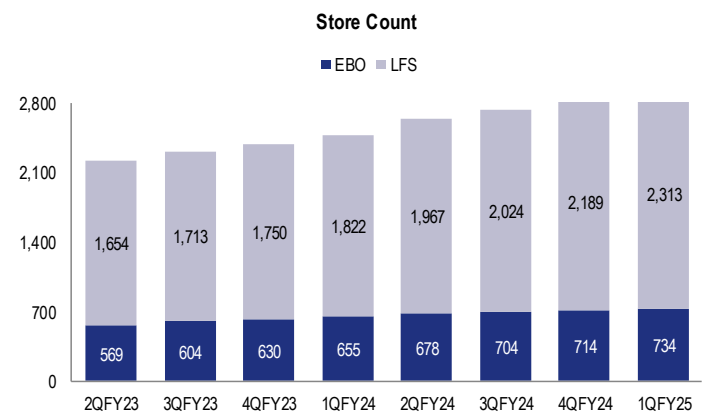
Source: Company, JM Financial
*Including sub-contracting charges

Exhibit 7. Scale deleverage and higher ad expenses led to operating margin compression though GPM expanded



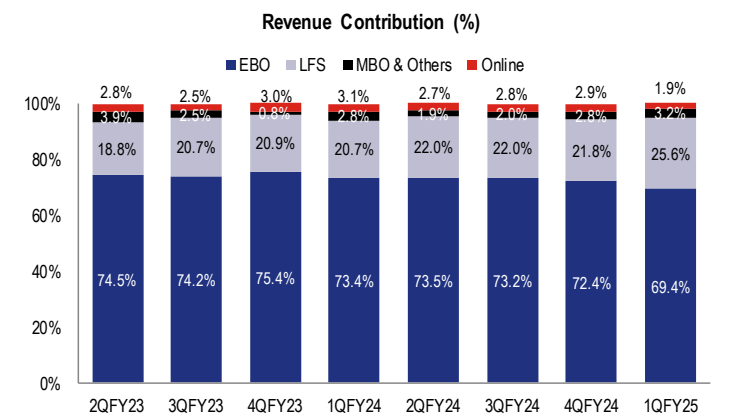
Source: Company, JM Financial

Exhibit 8. EBO store/LFS door additions remains healthy with 23% yoy growth



Source: Company, JM Financial

Exhibit 9. Share of LFS now up to c.1/4th (one-off impact, expected to revert back)



Source: Company, JM Financial

Exhibit 10. Our 12-month DCF based price target works out to INR 1,220/share

	(INR mn)																
(INR mn)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E	FY32E	FY33E	FY34E	FY35E
Revenue	2,852	3,920	2,507	4,013	6,653	7,628	8,824	10,546	12,405	14,407	16,577	18,882	21,134	23,381	25,803	28,404	31,206
yoy growth		37.4%	-36.1%	60.1%	65.8%	14.7%	15.7%	19.5%	17.6%	16.1%	15.1%	13.9%	11.9%	10.6%	10.4%	10.1%	9.9%
Comparable EBITDA (Pre Ind As 116)	502	842	128	678	1,280	1,347	1,564	1,951	2,358	2,789	3,295	3,858	4,418	4,974	5,595	6,281	7,043
EBITDA margin %	17.6%	21.5%	5.1%	16.9%	19.2%	17.7%	17.7%	18.5%	19.0%	19.4%	19.9%	20.4%	20.9%	21.3%	21.7%	22.1%	22.6%
Comparable EBIT	454	770	38	559	1,118	1,141	1,319	1,671	2,041	2,433	2,899	3,420	3,938	4,452	5,027	5,663	6,373
EBIT margin %	15.9%	19.7%	1.5%	13.9%	16.8%	15.0%	14.9%	15.8%	16.5%	16.9%	17.5%	18.1%	18.6%	19.0%	19.5%	19.9%	20.4%
Tax Rate	26.7%	22.9%	-12.9%	25.6%	23.8%	24.9%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%	25.2%
NOPAT	333	594	43	416	852	857	986	1,250	1,527	1,820	2,169	2,558	2,945	3,330	3,760	4,236	4,767
Depreciation	48	71	90	118	162	206	245	280	316	355	396	437	480	523	569	618	670
Capex	-616	-244	-61	-159	-346	-366	-282	-290	-310	-343	-350	-383	-375	-410	-446	-482	-520
Net working capital investment	-1,244	-607	298	-745	-820	-32	-118	-505	-674	-725	-789	-840	-823	-820	-886	-953	-1,029
Free Cash Flow	-1,479	-185	370	-370	-152	665	832	735	859	1,108	1,425	1,773	2,227	2,623	2,997	3,419	3,888
YoY Growth - %					-58.8%	-537.0%	25.1%	-11.6%	16.9%	28.9%	28.7%	24.4%	25.7%	17.8%	14.3%	14.1%	13.7%
Discounting Factor							1.00	0.95	0.86	0.78	0.71	0.64	0.58	0.52	0.47	0.43	0.39
Present Value of FCF							832	699	740	863	1,005	1,131	1,286	1,371	1,417	1,463	1,506
Fade period forecast	FY36E	FY37E	FY38E	FY39E	FY40E	FY41E	FY42E	FY43E	FY44E	FY45E	FY36-45 CAGR						
FCF	4,396	4,939	5,518	6,126	6,761	7,416	8,085	8,759	9,431	10,091	10%						
Discounting Factor	0.35	0.32	0.29	0.26	0.24	0.21	0.19	0.17	0.16	0.14							
Present Value of FCF	1,541	1,567	1,584	1,592	1,589	1,578	1,557	1,526	1,487	1,440							
12M Forward Equity Valuation																	
PV of Cash Flow - Explicit Period	12,313																
PV of Cash Flow - Fade Period	15,460																
PV of Terminal Value	33,922																
Enterprise Value	61,696																
Debt - Mar'26	0																
Cash - Mar'26	4,127																
Net Debt	-4,127																
Equity value	65,823																
Mn no of shares	54																
12M Target (DCF value) - Rs per share	1,220																

Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Sales	3,998	6,634	7,615	8,799	10,516
Sales Growth	59.9%	65.9%	14.8%	15.5%	19.5%
Other Operating Income	15	19	13	25	30
Total Revenue	4,013	6,653	7,628	8,824	10,546
Cost of Goods Sold/Op. Exp.	1,355	2,215	2,550	2,912	3,470
Personnel cost	731	1,023	1,302	1,522	1,792
Other expenses	705	1,292	1,352	1,572	1,831
EBITDA	1,222	2,123	2,424	2,818	3,453
EBITDA (%)	30.6%	32.0%	31.8%	32.0%	32.8%
EBITDA Growth (%)	163.8%	73.7%	14.2%	16.2%	22.5%
Comparable EBITDA	678	1,277	1,347	1,564	1,951
Comparable EBITDA (%)	17.0%	19.3%	17.7%	17.8%	18.6%
Depn & Amort	718	871	1,104	1,317	1,476
EBIT	504	1,252	1,321	1,501	1,977
Other Income	208	119	173	250	344
Finance Cost	233	285	391	482	550
PBT before Excep & Forex	479	1,087	1,102	1,269	1,770
Excep & forex Inc/Loss(-)	0	0	0	0	0
PBT	479	1,087	1,102	1,269	1,770
Taxes	123	259	274	320	446
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net profit	356	828	828	949	1,324
Adjusted Net Profit	355	826	828	949	1,324
Net Margin (%)	8.9%	12.5%	10.9%	10.8%	12.6%
Diluted share capital (mn)	54.0	54.0	54.0	54.0	54.0
Diluted EPS (Rs)	6.6	15.3	15.3	17.6	24.5
Diluted EPS Growth	-1042.7%	132.7%	0.2%	14.6%	39.5%
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

Balance Sheet					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shareholders' Fund	4,384	5,204	6,039	6,988	8,312
Share capital	540	540	540	540	540
Reserves & Surplus	3,844	4,664	5,499	6,448	7,772
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	-226	-226	-226
Total - Equity & Liab	4,270	5,036	5,813	6,762	8,087
Net Fixed Assets	501	615	685	422	187
Gross Fixed Assets	991	1,351	1,682	1,964	2,254
Intangible Assets					
Less: Depn. & Amort.	347	494	660	905	1,186
Capital WIP & Net lease asset:	-144	-242	-337	-636	-881
Investments	459	217	61	73	87
Current Assets	3,940	4,868	5,733	7,086	8,779
Inventories	1,659	2,303	2,163	2,290	2,593
Sundry Debtors	602	722	793	916	1,095
Cash & Bank Balances	1,058	1,122	1,923	3,000	4,040
Loans & Advances	351	413	531	528	631
Other Current Assets	269	308	321	352	421
Current Liab. & Prov.	630	664	665	819	967
Current Liabilities	515	554	598	740	875
Provisions & Others	115	110	67	78	92
Net Current Assets	3,310	4,204	5,068	6,267	7,812
Application of Funds	4,270	5,036	5,813	6,762	8,087

Source: Company, JM Financial

Cash Flow statement					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profit before Tax	479	1,087	1,102	1,269	1,770
Depn. & Amort.	718	871	1,104	1,317	1,476
Net Interest Exp. / Inc. (-)	25	165	218	232	207
Inc (-) / Dec in WCap.	-847	-873	87	-118	-505
Others	65	111	42	0	0
Taxes Paid	-110	-324	-366	-325	-446
Operating Cash Flow	330	1,037	2,187	2,376	2,501
Capex	-198	-349	-434	-282	-290
Free Cash Flow	132	688	1,753	2,094	2,211
-Inc/dec in investments	-357	119	-253	-12	-15
Other current assets	-29	-45	-44	250	344
Investing Cash Flow	-584	-276	-731	-45	39
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	-1,078	-1,255	-1,501
Financing Cash Flow	642	-841	-1,078	-1,255	-1,501
Inc / Dec (-) in Cash	388	-79	378	1,077	1,040
Opening cash balance	670	1,201	1,545	1,923	3,000
Closing cash balance	1,058	1,122	1,923	3,000	4,040

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Margin	8.9%	12.5%	10.9%	10.8%	12.6%
Asset Turnover (x)	1.1	1.4	1.4	1.4	1.4
Leverage Factor (x)	1.1	1.0	1.0	1.0	1.0
RoE	10.6%	17.2%	14.7%	14.6%	17.3%
Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
BV/Share (Rs)	81.2	96.4	111.8	129.4	153.9
ROIC (%)	14.1%	22.5%	19.1%	22.6%	26.6%
ROE (%)	10.6%	17.2%	14.7%	14.6%	17.3%
Net Debt-equity ratio (x)	-0.3	-0.3	-0.3	-0.4	-0.5
PER	NA	71.7	71.6	62.4	44.7
PBV	13.5	11.4	9.8	8.5	7.1
EV/EBITDA	47.2	27.3	23.6	19.9	16.0
EV/Net Sales	14.4	8.7	7.5	6.4	5.2
Debtor days	55	40	38	38	38
Inventory days	151	127	104	95	90
Creditor days	67	45	42	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
5-Oct-23	Buy	1,385	3.4
1-Nov-23	Buy	1,340	-3.2
6-Feb-24	Buy	1,285	-4.1
26-Feb-24	Buy	1,285	0.0
4-May-24	Buy	1,220	-5.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

Registered Office: 7th Floor, Cnergy, Appasaheb Marathe Marg, Prabhadevi, Mumbai 400 025, India.

Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com

Compliance Officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: sahil.salastekar@jmfl.com

Grievance officer: Mr. Sahil Salastekar | Tel: +91 22 6224 1073 | Email: instcompliance@jmfl.com

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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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