

Go Fashion (India) | BUY

Building on strengths amid weak macro

Go Fashion's 9MFY24 performance has been below expectation, especially on the SSSG front, which, we believe, is more a function of the weak macro environment. Having said that, the decline in SSSG has been arrested and the company has outperformed peers in the fashion retail segment. Moreover, Go Fashion continues to sharpen its focus on areas that are under its control – for eg: store expansion, new product launches and strengthening the balance sheet. While the company is beefing up its business development team to accelerate store expansion to 150 stores p.a. from the current run-rate of 120 stores p.a., the execution on refining working capital is quite commendable as it has resulted in positive FCF generation. Further, the raw material situation is benign and the benefit of that is now seen in gross margin (which wasn't reflected in earlier quarters as the company was optimising inventory), which should help cushion some of the impact of weak SSSGs in the near term on operating profitability. While the near-term market context remains challenging, SSSG decline has been arrested and recovery here will also bring back scale efficiencies. We believe it's more a question of when and not if. We continue to like Go Fashion's execution machinery and recommend that investors not get too carried away by short-term weakness.

- Store economics intact with majority of stores being profitable, management confident of acceleration in FY25E...**: In terms of EBOs, net addition in FY24 is likely to be c.100-110, lower vs. guidance of c.120 stores; primarily on account of higher store closures (closed 13 stores that were not profitable). Currently, barring a few stores (airport stores), most of the EBOs are profitable; hence, store closures are unlikely to be higher going ahead. Further, the company has been beefing up its business development team and, given the strong store economics, the management remains confident about acceleration in store expansion to 150 stores p.a. from FY25 (which is higher vs. our estimate of 120 stores).
- ...which, along with gradual recovery in volumes and uptick in ASP, will drive revenue growth**: Go Fashion's ASP growth has seen healthy improvement (+4%) in 9MFY24 predominantly driven by improved mix. Further, full price sales haven't seen any moderation and accounted for 96.3% of EBO sales in the same period, despite the challenging demand scenario and moderation in input costs. Currently, ASP is INR 752 and there is enough headroom to grow it closer to the targeted level of INR 1,000. While the market context remains challenging, the volume decline has been arrested, as is visible from flattish volumes in 3QFY24.
- Healthy execution on working capital optimisation**: Post sharp increase in WC in FY22, Go has been optimising the same especially through better inventory management. The results are visible with inventory days down from 151 days in FY22 to 127 days in FY23 and down further to 102 days (on TTM basis) in Dec'23. Also, in FY24, a large part of the optimisation is through reduction in warehouse inventory – especially the FG inventory and not because of fall in fabric prices or by compromising on store level inventory. Better WC management has led to strong uptick in CFO (INR 1bn in 9MFY24 vs. INR 195mn in FY23). Pre-Covid, it has operated at 90 days of inventory levels, and the same is likely to be achieved over FY25/26E, which will boost CFO & help fund store expansion.



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,285
Upside/(Downside)	13.5%
Previous Price Target	1,285
Change	0.0%

Key Data – GOCOLORS IN

Current Market Price	INR1,132
Market cap (bn)	INR61.8/US\$0.7
Free Float	47%
Shares in issue (mn)	52.2
Diluted share (mn)	54.0
3-mon avg daily val (mn)	INR131.8/US\$1.6
52-week range	1,405/876
Sensex/Nifty	72,790/22,122
INR/US\$	82.9

Price Performance

%	1M	6M	12M
Absolute	2.5	-10.6	23.2
Relative*	-0.9	-20.7	0.2

* To the BSE Sensex

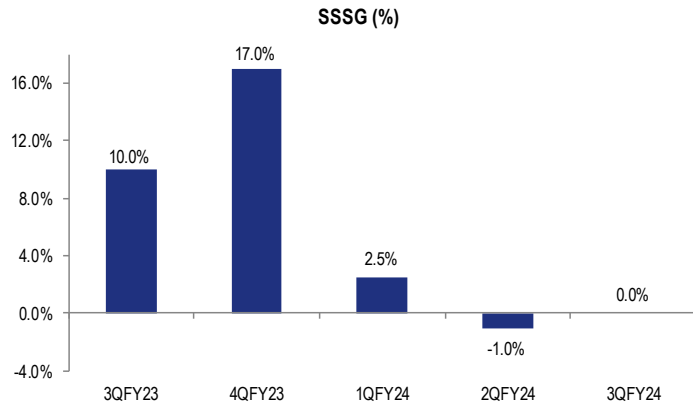
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	3,998	6,634	7,634	9,223	11,149
Sales Growth (%)	59.9%	65.9%	15.1%	20.8%	20.9%
EBITDA	1,222	2,123	2,430	3,008	3,698
EBITDA Margin (%)	30.6%	32.0%	31.8%	32.6%	33.2%
Adjusted Net Profit	355	826	822	1,198	1,627
Diluted EPS (INR)	6.6	15.3	15.2	22.2	30.1
Diluted EPS Growth (%)	NA	132.7%	-0.5%	45.7%	35.9%
ROIC (%)	14.1%	22.6%	22.5%	27.0%	30.4%
ROE (%)	10.6%	17.2%	14.6%	18.1%	20.2%
P/E (x)	NA	74.1	74.4	51.1	37.6
P/B (x)	14.0	11.8	10.2	8.5	6.9
EV/EBITDA (x)	48.8	28.2	24.2	19.3	15.4
Dividend Yield (%)	0.0%	0.0%	0.0%	0.0%	0.0%

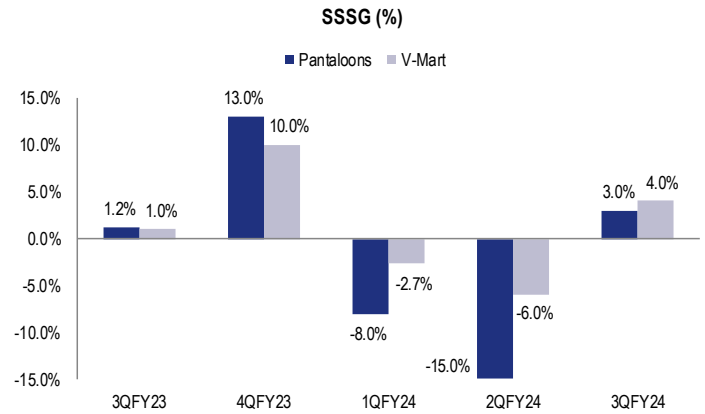
Source: Company data, JM Financial. Note: Valuations as of 26/Feb/2024

Exhibit 1. Go Fashion's SSSG was impacted due to challenging macro trends in FY24...



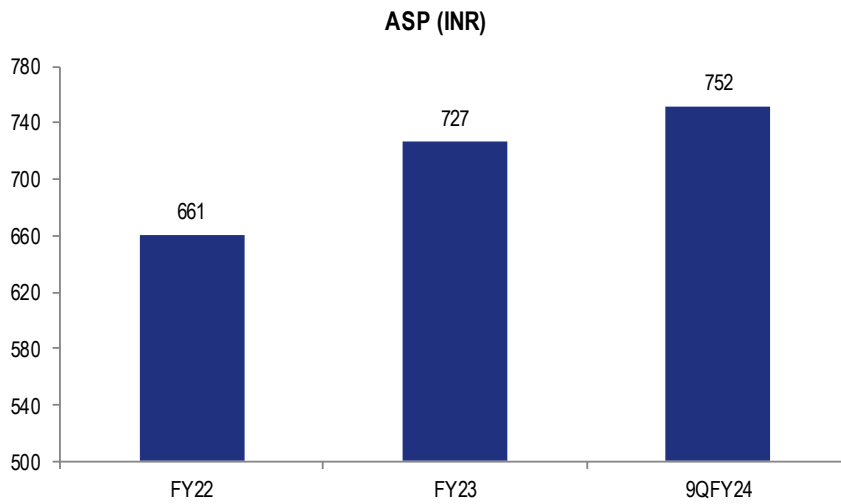
Source: Company, JM Financial

Exhibit 2. ...but was relatively better than peers in value fashion segment over 9MFY24



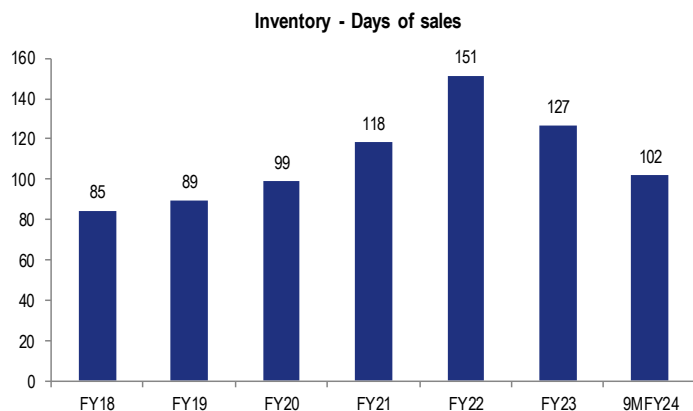
Source: Company, JM Financial

Exhibit 3. ASP continues to see a steady improvement



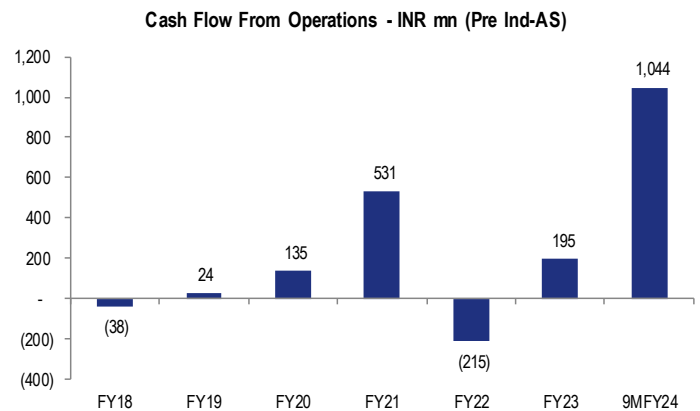
Source: Company, JM Financial

Exhibit 4. Healthy execution on optimisation of inventory...



Source: Company, JM Financial

Exhibit 5. ...resulted in healthy improvement in cash flow from operations



Source: Company, JM Financial

Exhibit 6. Our 12-month DCF based price target works out to INR 1,285/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	7,665	9,260	11,194	13,021	14,936	16,902	19,031	21,327	23,835	26,374	29,121	32,093
yoy growth		37.4%	-36.1%	60.1%	65.8%	15.2%	20.8%	20.9%	16.3%	14.7%	13.2%	12.6%	12.1%	11.8%	10.7%	10.4%	10.2%
Comparable EBITDA (Pre Ind As 116)	502	842	128	678	1,280	1,417	1,795	2,263	2,702	3,194	3,681	4,224	4,831	5,528	6,211	6,974	7,824
EBITDA margin %	17.6%	21.5%	5.1%	16.9%	19.2%	18.5%	19.4%	20.2%	20.8%	21.4%	21.8%	22.2%	22.7%	23.2%	23.5%	23.9%	24.4%
Comparable EBIT	454	770	38	559	1,118	1,214	1,557	1,991	2,399	2,859	3,310	3,815	4,380	5,033	5,670	6,384	7,182
EBIT margin %	15.9%	19.7%	1.5%	13.9%	16.8%	15.8%	16.8%	17.8%	18.4%	19.1%	19.6%	20.0%	20.5%	21.1%	21.5%	21.9%	22.4%
Tax Rate	26.7%	22.9%	-12.9%	25.6%	23.8%	25.2%	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	908	1,165	1,489	1,795	2,139	2,476	2,853	3,276	3,765	4,241	4,775	5,372
Depreciation	48	71	90	118	162	203	237	272	303	335	371	409	450	494	541	590	642
Capex	-616	-244	-61	-159	-346	-237	-300	-255	-254	-286	-314	-348	-377	-406	-437	-469	-503
Net working capital investment	-1,244	-607	298	-745	-820	60	-520	-605	-691	-726	-744	-807	-873	-957	-967	-1,048	-1,137
Free Cash Flow	-1,479	-185	370	-370	-152	934	582	902	1,153	1,462	1,789	2,108	2,477	2,896	3,378	3,848	4,375
YoY Growth - %					-58.8%	-713.6%	-37.6%	54.9%	27.8%	26.8%	22.4%	17.8%	17.5%	16.9%	16.7%	13.9%	13.7%
Discounting Factor							1.00	0.90	0.82	0.74	0.67	0.61	0.55	0.50	0.45	0.41	0.37
Present Value of FCF							582	816	944	1,083	1,200	1,279	1,361	1,440	1,520	1,567	1,612
Fade period forecast	FY36E	FY37E	FY38E	FY39E	FY40E	FY41E	FY42E	FY43E	FY44E	FY45E	FY36-45 CAGR						
FCF	4,946	5,557	6,207	6,892	7,605	8,342	9,094	9,852	10,608	11,351	10%						
Discounting Factor	0.33	0.30	0.27	0.25	0.22	0.20	0.18	0.17	0.15	0.14							
Present Value of FCF	1,649	1,677	1,695	1,703	1,701	1,688	1,666	1,633	1,591	1,541							
12M Forward Equity Valuation			Mar'25														
PV of Cash Flow - Explicit Period			13,404														
PV of Cash Flow - Fade Period			16,545														
PV of Terminal Value			36,297														
Enterprise Value			66,246														
Debt - Mar'25			0														
Cash - Mar'25			3,220														
Net Debt			-3,220														
Equity value			69,466														
Mn no of shares			54														
12M Target (DCF value) - Rs per share			1,285														

Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					(INR mn)
YE March	FY22A	FY23A	FY24E	FY25E	FY26E
Sales	3,998	6,634	7,634	9,223	11,149
Sales Growth	59.9%	65.9%	15.1%	20.8%	20.9%
Other Operating Income	15	19	31	37	45
Total Revenue	4,013	6,653	7,665	9,260	11,194
Cost of Goods Sold/Op. Exp.	1,355	2,215	2,583	3,083	3,722
Personnel cost	731	1,026	1,302	1,547	1,821
Other expenses	705	1,289	1,351	1,621	1,953
EBITDA	1,222	2,123	2,430	3,008	3,698
EBITDA (%)	30.6%	32.0%	31.8%	32.6%	33.2%
EBITDA Growth (%)	163.8%	73.7%	14.4%	23.8%	22.9%
Comparable EBITDA	678	1,280	1,417	1,795	2,263
Comparable EBITDA (%)	17.0%	19.3%	18.6%	19.5%	20.3%
Depn & Amort	718	871	1,106	1,197	1,328
EBIT	504	1,252	1,323	1,812	2,370
Other Income	208	119	160	223	287
Finance Cost	233	285	384	433	482
PBT before Excep & Forex	479	1,087	1,099	1,601	2,176
Excep & forex Inc/Loss(-)	0	0	0	0	0
PBT	479	1,087	1,099	1,601	2,176
Taxes	123	259	277	403	548
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net profit	356	828	822	1,198	1,627
Adjusted Net Profit	355	826	822	1,198	1,627
Net Margin (%)	8.9%	12.5%	10.8%	13.0%	14.6%
Diluted share capital (mn)	54.0	54.0	54.0	54.0	54.0
Diluted EPS (Rs)	6.6	15.3	15.2	22.2	30.1
Diluted EPS Growth	-1042.7%	132.7%	-0.5%	45.7%	35.9%
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)
YE March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	4,384	5,204	6,026	7,224	8,852
Share capital	540	540	540	540	540
Reserves & Surplus	3,844	4,664	5,486	6,684	8,311
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	5,858	7,056	8,684
Net Fixed Assets	501	615	375	258	138
Gross Fixed Assets	991	1,351	1,588	1,888	2,142
Intangible Assets					
Less: Depn. & Amort.	347	494	697	935	1,207
Capital WIP & Net lease asset:	-144	-242	-516	-695	-798
Investments	459	217	261	313	376
Current Assets	3,940	4,868	5,933	7,333	9,184
Inventories	1,659	2,303	2,092	2,400	2,749
Sundry Debtors	602	722	837	1,011	1,222
Cash & Bank Balances	1,058	1,122	2,165	2,907	3,987
Loans & Advances	351	413	458	553	669
Other Current Assets	269	308	382	461	557
Current Liab. & Prov.	630	664	710	848	1,015
Current Liabilities	515	554	645	771	924
Provisions & Others	115	110	65	77	91
Net Current Assets	3,310	4,204	5,223	6,485	8,170
Application of Funds	4,270	5,036	5,858	7,056	8,684

Source: Company, JM Financial

Cash Flow statement					(INR mn)
YE March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	479	1,087	1,099	1,601	2,176
Depn. & Amort.	718	871	1,106	1,197	1,328
Net Interest Exp. / Inc. (-)	25	165	224	211	195
Inc (-) / Dec in WCap.	-847	-873	60	-520	-605
Others	65	111	0	0	0
Taxes Paid	-110	-324	-313	-403	-548
Operating Cash Flow	330	1,037	2,176	2,085	2,545
Capex	-198	-349	-237	-300	-255
Free Cash Flow	132	688	1,940	1,785	2,291
-Inc/dec in investments	-357	119	-43	-52	-63
Other current assets	-29	-45	160	223	287
Investing Cash Flow	-584	-276	-121	-129	-30
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	-1,013	-1,214	-1,435
Financing Cash Flow	642	-841	-1,013	-1,214	-1,435
Inc / Dec (-) in Cash	388	-79	1,043	742	1,080
Opening cash balance	670	1,201	1,122	2,165	2,907
Closing cash balance	1,058	1,122	2,165	2,907	3,987

Source: Company, JM Financial

Dupont Analysis					
YE March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	8.9%	12.5%	10.8%	13.0%	14.6%
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%	14.6%	18.1%	20.2%
Key Ratios					
YE March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (Rs)	81.2	96.4	111.6	133.8	163.9
ROIC (%)	14.1%	22.6%	22.5%	27.0%	30.4%
ROE (%)	10.6%	17.2%	14.6%	18.1%	20.2%
Net Debt-equity ratio (x)	-0.3	-0.3	-0.4	-0.4	-0.5
PER	NA	74.1	74.4	51.1	37.6
PBV	14.0	11.8	10.2	8.5	6.9
EV/EBITDA	48.8	28.2	24.2	19.3	15.4
EV/Net Sales	14.9	9.0	7.7	6.3	5.1
Debtor days	55	40	40	40	40
Inventory days	151	127	100	95	90
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
5-Oct-23	Buy	1,385	3.4
1-Nov-23	Buy	1,340	-3.2
6-Feb-24	Buy	1,285	-4.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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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.
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