

## GANDHI SPECIAL TUBES LTD

Result Update (PARENT BASIS): Q3 FY18

**CMP: 411.90**

**MAR 6<sup>th</sup>, 2018**

**Overweight**

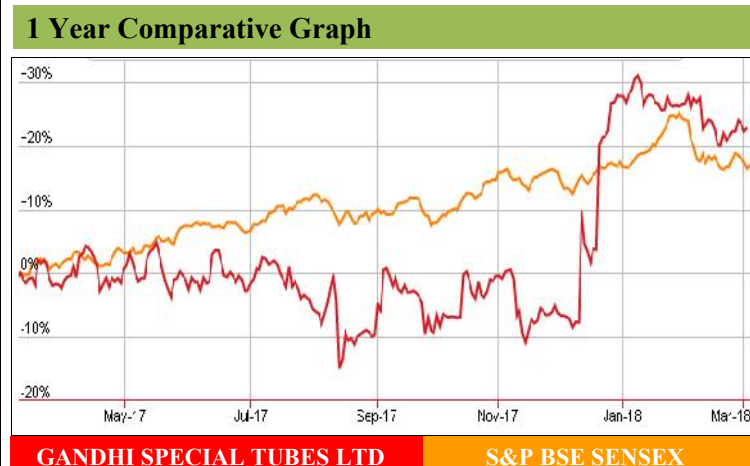
**ISIN:  
INE524B01027**

### Index Details

| Stock Data                     |                       |
|--------------------------------|-----------------------|
| <b>Sector</b>                  | Iron & Steel Products |
| <b>BSE Code</b>                | 513108                |
| <b>Face Value</b>              | 5.00                  |
| <b>52wk. High / Low (Rs.)</b>  | 444.95/280.00         |
| <b>Volume (2wk. Avg.)</b>      | 374                   |
| <b>Market Cap (Rs. in mn.)</b> | 6054.11               |

| Annual Estimated Results(A*: Actual / E*: Estimated) |        |         |         |
|--|--------|---------|---------|
| Years( Rs. In mn)                                    | FY17A  | FY18E   | FY19E   |
| <b>Net Sales</b>                                     | 975.72 | 1153.97 | 1303.98 |
| <b>EBITDA</b>  | 416.13 | 502.58  | 574.21  |
| <b>Net Profit</b>                                    | 297.41 | 348.40  | 402.04  |
| <b>EPS</b>   | 20.23  | 23.70   | 27.35   |
| <b>P/E</b>   | 20.36  | 17.38   | 15.06   |

| Shareholding Pattern (%) |                |                |
|--------------------------|----------------|----------------|
|                          | As on Dec 2017 | As on Sep 2017 |
| <b>PROMOTER</b>          | 73.27          | 73.27          |
| <b>PUBLIC</b>            | 26.73          | 26.73          |
| <b>OTHERS</b>            | --             | --             |



### SYNOPSIS

- Gandhi Special Tubes Ltd manufactures steel tube products consisting of seamless and welded tubes and also manufactures cold forged nuts.
- The company achieved a turnover of Rs. 281.04 mn for the 3<sup>rd</sup> quarter of the FY 2017-18 as against Rs. 250.08 mn in the corresponding quarter of the previous year.
- During the 3<sup>rd</sup> quarter, net profit increased by 22.32% to Rs. 93.09 mn from Rs. 76.10 mn in the corresponding quarter ending of previous year.
- During the 3<sup>rd</sup> quarter, EBIDTA stood at Rs. 121.53 mn as against Rs. 87.24 mn in the corresponding period of the previous year.
- During Q3 FY18, Profit before tax stood at Rs. 111.76 mn against Rs. 76.09 mn in Q3 FY17, rose by 46.89%.
- EPS of the company stood at Rs. 6.33 a share during the quarter, as against Rs. 5.20 per share over previous year period.
- During the quarter, EBIDTA and PAT margins stood at 43.24% and 33.12%, respectively.
- During nine months ended 30 Dec 2017, Net Sales stood at Rs. 892.60 mn as against Rs. 849.06 mn in the nine month ended 31<sup>st</sup> Dec, 2016.
- During 9M FY18, Net profit stood at Rs. 268.42 mn as against Rs. 239.68 mn in 9M FY17.
- Net sales and PAT of the company are expected to grow at a CAGR of 9% and 26% over 2016 to 2019E respectively.

| PEER GROUPS                 | CMP     | MARKET CAP | EPS(TTM) | P/E (X)(TTM) | P/BV(X) | DIVIDEND |
|-----------------------------|---------|------------|----------|--------------|---------|----------|
| Company Name                | (Rs.)   | Rs. in mn. | (Rs.)    | Ratio        | Ratio   | (%)      |
| Gandhi Special Tubes Ltd    | 411.90  | 6054.11    | 23.03    | 19.75        | 2.83    | 180.00   |
| APL Apollo Tubes Ltd        | 2018.00 | 47886.70   | 66.04    | 30.56        | 6.65    | 120.00   |
| Rama Steel Tubes Ltd        | 199.00  | 3342.00    | 5.98     | 33.28        | 6.88    | 0.00     |
| Srikalahasthi Pipes Limited | 338.90  | 15826.10   | 30.89    | 10.97        | 1.93    | 60.00    |

## QUARTERLY HIGHLIGHTS (PARENT BASIS)

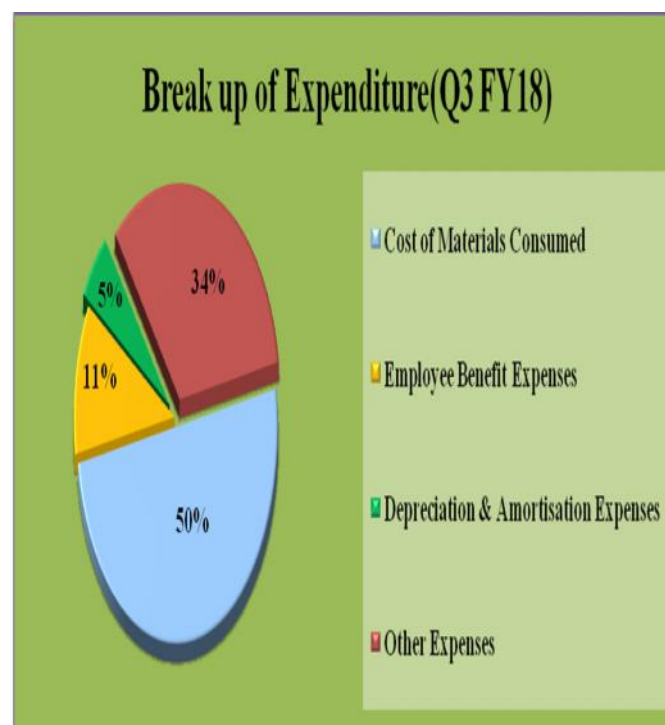
### Results updates- Q3 FY18,

| (Rs. In million)  | Dec-17 | Dec-16 | % Change |
|-------------------|--------|--------|----------|
| <b>Revenue</b>    | 281.04 | 250.08 | 12.38%   |
| <b>Net Profit</b> | 93.09  | 76.10  | 22.32%   |
| <b>EPS</b>        | 6.33   | 5.20   | 21.82%   |
| <b>EBITDA</b>     | 121.53 | 87.24  | 39.30%   |

Gandhi Special Tubes Ltd has achieved a turnover of Rs. 281.04 million for the 3<sup>rd</sup> quarter of the FY 2017-18 as against Rs. 250.08 million in the corresponding quarter of the previous year. During the 3<sup>rd</sup> quarter, net profit increased by 22.32% to Rs. 93.09 million from Rs. 76.10 million in the corresponding quarter ending of previous year. Reported earnings per share of the company stood at Rs. 6.33 in Q3 FY18 as against Rs. 5.20 in the corresponding quarter of the previous year. Profit before interest, depreciation and tax stood at Rs. 121.53 million as against Rs. 87.24 million in the corresponding period of the previous year, up by 39.30%.

### Break up of Expenditure

| Break up of Expenditure              | Value in Rs. Million |         |          |
|--------------------------------------|----------------------|---------|----------|
|                                      | Q3 FY18              | Q3 FY17 | % Change |
| Cost of Materials Consumed           | 92.25                | 77.74   | 19%      |
| Employee Benefit Expenses            | 20.86                | 17.22   | 21%      |
| Depreciation & Amortisation Expenses | 9.77                 | 11.16   | -12%     |
| Other Expenses                       | 61.44                | 66.08   | -7%      |





## COMPANY PROFILE

Gandhi Special Tubes Limited was incorporated in 1985 and is based in Mumbai, India. Gandhi Special Tubes Limited manufactures and markets welded and seamless steel tubes in India. It offers cold drawn bright annealed seamless steel tubes; precision electric resistance welded steel tubes; cold formed coupling nuts; and high pressure diesel fuel injection tubes. The company supplies its products primarily to the original equipment manufacturers of the automotive, farm equipment, construction equipment, refrigerator, and other engineering industries. It also exports its products to various countries, including Germany, the United Kingdom, South East Asian countries, etc. Gandhi Special Tubes Limited is also involved in the wind power generation activities in Maharashtra and Gujarat.

**FINANCIAL HIGHLIGHT (PARENT BASIS)**
**(A\* - Actual, E\* -Estimations & Rs. In Millions)**
**Balance Sheet as of March 31, 2016 -2019E**

|   | FY16A          | FY17A          | FY18E          | FY19E          |
|---|----------------|----------------|----------------|----------------|
| <b>SOURCES OF FUNDS</b>                       |                |                |                |                |
| <b>Shareholder's Funds</b>                    |                |                |                |                |
| Share Capital                                 | 73.49          | 73.49          | 73.49          | 73.49          |
| Reserves and Surplus                          | 1580.18        | 1718.37        | 2066.78        | 2468.81        |
| <b>1. Sub Total - Net worth</b>               | <b>1653.67</b> | <b>1791.86</b> | <b>2140.27</b> | <b>2542.30</b> |
| <b>Non Current Liabilities</b>                |                |                |                |                |
| Long term borrowing                           | 0.00           | 0.00           | 0.00           | 0.00           |
| Deferred Tax Liabilities                      | 74.30          | 74.33          | 108.89         | 121.96         |
| Long Term Provisions                          | 28.00          | 29.00          | 26.68          | 30.95          |
| <b>2. Sub Total - Non Current Liabilities</b> | <b>102.30</b>  | <b>103.33</b>  | <b>135.57</b>  | <b>152.91</b>  |
| <b>Current Liabilities</b>                    |                |                |                |                |
| Short term borrowings                         | 0.00           | 0.00           | 0.00           | 0.00           |
| Trade Payables                                | 9.50           | 8.82           | 16.40          | 19.03          |
| Other Current Liabilities                     | 34.46          | 40.25          | 61.34          | 72.87          |
| Short Term Provisions                         | 1.98           | 6.46           | 5.18           | 4.45           |
| <b>3. Sub Total - Current Liabilities</b>     | <b>45.94</b>   | <b>55.53</b>   | <b>82.92</b>   | <b>96.35</b>   |
| <b>Total Liabilities (1+2+3)</b>              | <b>1801.91</b> | <b>1950.72</b> | <b>2358.76</b> | <b>2791.56</b> |
| <b>APPLICATION OF FUNDS</b>                   |                |                |                |                |
| <b>Non-Current Assets</b>                     |                |                |                |                |
| a) Tangible Assets                            | 589.89         | 551.98         | 543.70         | 560.01         |
| b) Intangible Assets                          | 0.25           | 0.07           | 0.04           | 0.05           |
| c) Non-current investments                    | 620.44         | 797.87         | 1033.24        | 1286.39        |
| d) Long Term Loans and Advances               | 20.22          | 6.51           | 9.31           | 10.19          |
| <b>1. Sub Total - Non Current Assets</b>      | <b>1230.80</b> | <b>1356.43</b> | <b>1586.29</b> | <b>1856.63</b> |
| <b>Current Assets</b>                         |                |                |                |                |
| Current Investment                            | 195.99         | 140.14         | 259.96         | 324.95         |
| Inventories                                   | 169.84         | 243.40         | 223.93         | 244.08         |
| Trade receivables                             | 161.27         | 162.74         | 241.67         | 309.34         |
| Cash and Bank Balances                        | 29.88          | 32.33          | 25.22          | 29.25          |
| Short-terms loans & advances                  | 9.00           | 9.32           | 11.65          | 13.75          |
| Other current assets                          | 5.14           | 6.35           | 10.03          | 13.55          |
| <b>2. Sub Total - Current Assets</b>          | <b>571.12</b>  | <b>594.29</b>  | <b>772.47</b>  | <b>934.93</b>  |
| <b>Total Assets (1+2)</b>                     | <b>1801.91</b> | <b>1950.72</b> | <b>2358.76</b> | <b>2791.56</b> |

**Annual Profit & Loss Statement for the period of 2016 to 2019E**

| Value(Rs.in.mn)         | FY16A         | FY17A         | FY18E         | FY19E         |
|-------------------------|---------------|---------------|---------------|---------------|
| Description             | 12m           | 12m           | 12m           | 12m           |
| Net Sales               | 911.74        | 975.72        | 1153.97       | 1303.98       |
| Other Income            | 30.01         | 86.64         | 84.01         | 91.74         |
| Total Income            | 941.75        | 1062.36       | 1237.97       | 1395.72       |
| Expenditure             | -642.62       | -646.23       | -735.40       | -821.51       |
| <b>Operating Profit</b> | <b>299.13</b> | <b>416.13</b> | <b>502.58</b> | <b>574.21</b> |
| Interest                | 0.00          | 0.00          | 0.00          | 0.00          |
| Gross profit            | 299.13        | 416.13        | 502.58        | 574.21        |
| Depreciation            | -47.06        | -44.56        | -39.35        | -41.71        |
| Profit Before Tax       | 252.07        | 371.57        | 463.23        | 532.50        |
| Tax                     | -66.57        | -74.16        | -114.82       | -130.46       |
| <b>Net Profit</b>       | <b>185.50</b> | <b>297.41</b> | <b>348.40</b> | <b>402.04</b> |
| Equity capital          | 73.49         | 73.49         | 73.49         | 73.49         |
| Reserves                | 1580.18       | 1718.37       | 2066.78       | 2468.81       |
| Face value              | 5.00          | 5.00          | 5.00          | 5.00          |
| <b>EPS</b>              | <b>12.62</b>  | <b>20.23</b>  | <b>23.70</b>  | <b>27.35</b>  |

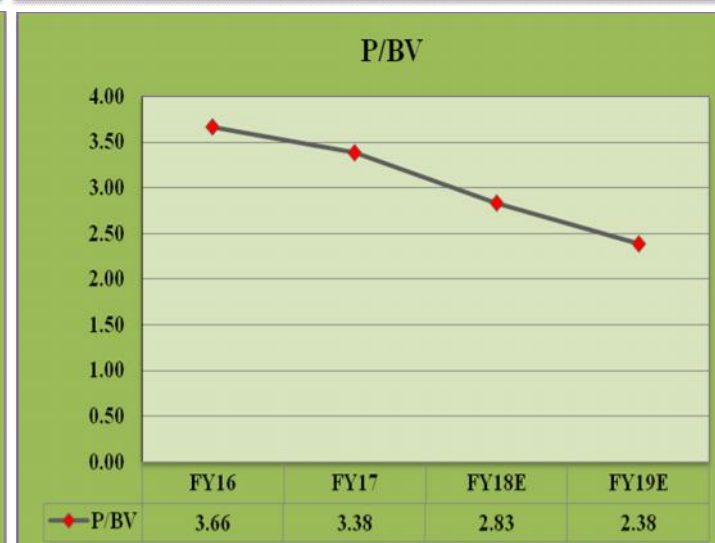
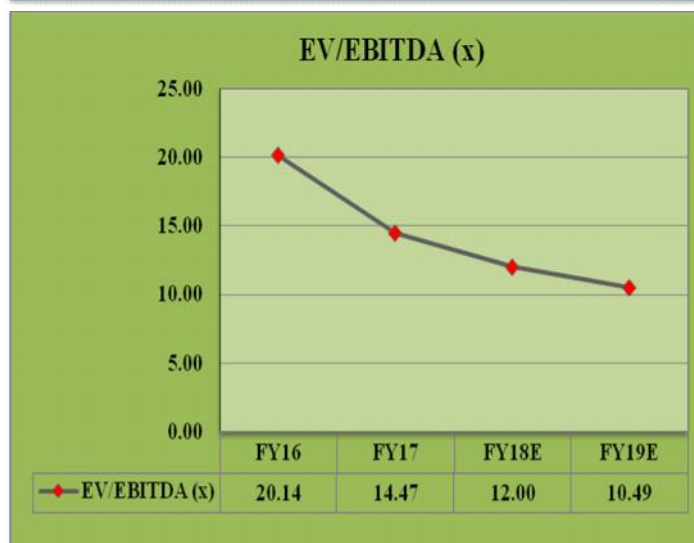
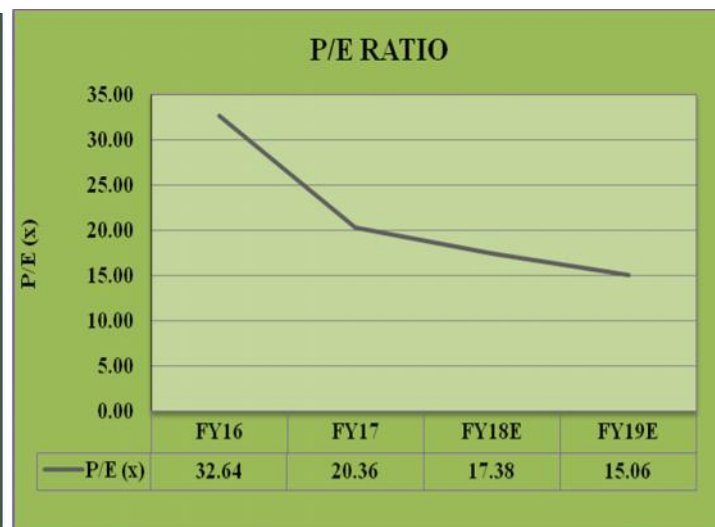
**Quarterly Profit & Loss Statement for the period of 30<sup>th</sup> Jun, 2017 to 31<sup>st</sup> Mar, 2018E**

| Value(Rs.in.mn)         | 30-Jun-17     | 30-Sep-17     | 31-Dec-17     | 31-Mar-18E    |
|-------------------------|---------------|---------------|---------------|---------------|
| Description             | 3m            | 3m            | 3m            | 3m            |
| Net sales               | 313.75        | 297.82        | 281.04        | 261.36        |
| Other income            | 24.92         | 24.36         | 16.15         | 18.58         |
| Total Income            | 338.67        | 322.18        | 297.19        | 279.94        |
| Expenditure             | -208.63       | -183.79       | -175.66       | -167.32       |
| <b>Operating profit</b> | <b>130.04</b> | <b>138.39</b> | <b>121.53</b> | <b>112.61</b> |
| Interest                | 0.00          | 0.00          | 0.00          | 0.00          |
| Gross profit            | 130.04        | 138.39        | 121.53        | 112.61        |
| Depreciation            | -9.66         | -9.77         | -9.77         | -10.16        |
| Profit Before Tax       | 120.38        | 128.63        | 111.76        | 102.46        |
| Tax                     | -31.91        | -41.77        | -18.67        | -22.47        |
| <b>Net Profit</b>       | <b>88.48</b>  | <b>86.85</b>  | <b>93.09</b>  | <b>79.99</b>  |
| Equity capital          | 73.49         | 73.49         | 73.49         | 73.49         |
| Face value              | 5.00          | 5.00          | 5.00          | 5.00          |
| <b>EPS</b>              | <b>6.02</b>   | <b>5.91</b>   | <b>6.33</b>   | <b>5.44</b>   |

## Ratio Analysis

| Particulars       | FY16A  | FY17A  | FY18E  | FY19E  |
|-------------------|--------|--------|--------|--------|
| EPS (Rs.)         | 12.62  | 20.23  | 23.70  | 27.35  |
| EBITDA Margin (%) | 32.81% | 42.65% | 43.55% | 44.04% |
| PBT Margin (%)    | 27.65% | 38.08% | 40.14% | 40.84% |
| PAT Margin (%)    | 20.35% | 30.48% | 30.19% | 30.83% |
| P/E Ratio (x)     | 32.64  | 20.36  | 17.38  | 15.06  |
| ROE (%)           | 11.22% | 16.60% | 16.28% | 15.81% |
| ROCE (%)          | 20.93% | 25.71% | 25.32% | 24.23% |
| Debt Equity Ratio | 0.00   | 0.00   | 0.00   | 0.00   |
| EV/EBITDA (x)     | 20.14  | 14.47  | 12.00  | 10.49  |
| Book Value (Rs.)  | 112.51 | 121.91 | 145.62 | 172.97 |
| P/BV              | 3.66   | 3.38   | 2.83   | 2.38   |

## Charts





## OUTLOOK AND CONCLUSION

- At the current market price of **Rs. 411.90**, the stock P/E ratio is at 17.38 x FY18E and 15.06 x FY19E respectively.
- Earning per share (EPS) of the company for the earnings for FY18E and FY19E is seen at Rs. 23.70 and Rs. 27.35 respectively.
- Net Sales and PAT of the company are expected to grow at a CAGR of 9% and 26% over 2016 to 2019E respectively.
- On the basis of EV/EBITDA, the stock trades at 12.00 x for FY18E and 10.49 x for FY19E.
- Price to Book Value of the stock is expected to be at 2.83 x and 2.38 x for FY18E and FY19E respectively.
- Hence, we say that, we are Overweight in this particular scrip for Medium to Long term investment.

## INDUSTRY OVERVIEW

The Company is engaged in manufacturing and marketing of welded and seamless steel tubes of different sizes and specifications and Cold Formed Coupling Nuts. These products are mainly supplied to the Original Equipment Manufacturers (OEMs) of the automotive sector, Farm Equipment manufacturers, Construction equipment manufacturers, Refrigerator manufacturers and other Engineering Industries. Market conditions continued to be challenging on account of demonetization leading to temporary depression particularly in sale of Farm equipments because of cash crunch. However demand has grown from construction equipment manufacturers.

The Company is also operating in Power Sector through Windmills installed in Maharashtra and Gujarat in a modest way.

### Opportunities:

Forecast of favorable monsoon has further given hope of growth in some major sectors. Construction equipment sector is also expected to grow once after effects of demonetization settles down and once all government projects starts materializing. Lowering of interest rates also will increase demand and the Company expects healthy growth in near future.

### Threats:

Tightening of emission norms could see change in technology and could impact demand for Company's products. With the introduction of BS IV standards from 1<sup>st</sup> April, 2017, there is a major change in specifications for high pressure fuel injection tubes which is one of the applications for which company's products are used. Technology to manufacture these is currently not with the Company. However efforts are on to get this technology.

### Outlook

Improvement in global economy, hopefully a good monsoon and stable political environment in the country should improve investment climate in India which is likely to improve demand for company products in near future.

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|    |  |                          |
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