May 18, 2017

Rating matrix		
Rating	:	Hold
Target	:	₹ 335
Target Period	:	12-18 months
Potential Upside	:	-3%

What's changed?	
Target	Unchanged at ₹ 335
EPS FY18E	Changed from ₹ 20.3 to ₹ 18.1
EPS FY19E	Introduced at ₹ 20.8
Rating	Unchanged

Key financials				
₹ crore	FY16	FY17E	FY18E	FY19E
Net Sales	87.2	94.3	99.0	110.9
EBITDA	26.9	32.9	35.3	40.2
Net Profit	18.5	29.7	26.6	30.6
EPS (₹)	12.6	20.2	18.1	20.8

Valuation summary				
	FY16	FY17E	FY18E	FY19E
P/E	27.4	17.1	19.1	16.6
Target P/E	26.6	16.6	18.5	16.1
EV / EBITDA	15.7	12.5	11.2	9.5
P/BV	3.1	2.8	2.7	2.5
RoNW	11.2	16.6	14.0	15.1
RoCE	14.6	19.9	19.2	20.8
ROIC	25.2	31.8	35.5	41.1

Stock data	
Stock Data	
Market Capitalization	₹ 507 crore
Total Debt (FY17)	₹ 0 crore
Cash and Cash Equivalent (FY17)	₹ 97 crore
EV	₹ 410 crore
52 week H/L	375 / 208
Equity Capital	7.4
Face Value	₹ 5
MF Holding (%)	0.0
FII Holding (%)	4.3

Stock data				
	1M	3M	6M	12M
Gandhi Special Tubes	2.1	3.6	17.1	47.8
Maharashtra Seamless	(0.8)	18.6	56.3	73.0
Ratnamani Metals & Tubes	2.1	17.4	38.2	55.7

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Gandhi Special Tubes (GANSPE) ₹ 345

In transition phase, growth challenges remain

- Gandhi Special Tubes (GST) reported a steady Q4FY17 performance, with sales at ₹ 21.7 crore, flat YoY. EBITDA for the quarter was at ₹ 7.5 crore with corresponding EBITDA margins at 34.5%, up 530 bps YoY. A sharp improvement in EBITDA margin is largely tracking savings in power & fuel costs and other expenses
- PAT in Q4FY17 was at ₹ 7.0 crore, up 13% YoY largely tracking expansion in EBITDA margins and lower effective tax rate
- For full year FY17, GST clocked sales of ₹ 97.6 crore, up 7% YoY with EBITDA at ₹ 32.9 crore (EBITDA margins at 33.7%) and PAT at ₹ 29.7 crore. EPS in FY17 was at ₹ 20.2 with dividend per share at ₹ 9
- Our interaction with the management suggests the growth will be a challenge in FY18E as the industry shifts to new emission norms (BS-IV) and transition phase involving GST. M&HCV segment sales are expected to be muted while upbeat tractor sales may come to the rescue. GST is also trying to venture into manufacturing CRDI tubes, which have a much wider application and would be a key thing to watch before any meaningful change in our stance on the company

IMD predicts normal monsoon at 96% of LPA; GST to benefit

The Indian Meteorological Department (IMD) has forecast near normal rainfall at 96% of LPA for upcoming monsoon season 2017. According to senior officials at the IMD, although there does exist neutral El Niño conditions (30% probability) in the Pacific Ocean, positive dipole movement in the Indian Ocean is expected to counter the Pacific move and result in normal monsoon in 2017. Moreover, rainfall is expected to be healthy and spatially well distributed thereby benefiting the whole of the Indian subcontinent. This is likely to result in robust farm production and consequent increase in farm income, boosting rural demand, thereby leading to robust growth in domestic tractor sales. This will benefit GST as its seamless tubes find application in tractors.

Product segment catering to core industrial activity

GST is a manufacturer of small diameter seamless and welded steel tubes, which find application in automotive, hydraulics, refrigeration (condenser tubes) and other engineering services. In the automotive space, the company's products find application as fuel injection tubes in the M&HCV segment. GST is an OEM approved tier-II supplier of seamless tubes, which are eventually used by Tata Motors, Ashok Leyland and M&M, among others. In hydraulics, the company's products find application in material (bulk) handling equipment, which are used for construction & mining purposes. In the hydraulics segment, GST's clientele includes Larsen & Toubro, BEML, Bhel and Bosch Rexroth India, among others. Welded steel tubes find application in refrigeration and automobile (fuel lines, oil lines & air brake lines) segments.

Superlative balance sheet, growth remain key challenge, retain HOLD!

GST has a lean balance sheet with surplus cash & investments of ₹ 97 crore (FY17). With surplus capacity on stream and robust dividend payout (>40%), GST realises robust return ratios with RoCEs & RoICs in excess of 20% & 30%, respectively. Going forward, we have built in conservative sales growth estimates (8.4% CAGR in FY17-19E) largely tracking management commentary. However, PAT is expected to remain largely flat in FY17-19E due to lower effective tax rate (20%) and higher other income in the base year i.e. FY17. We now value GST at ₹ 335, i.e. 16x P/E on FY19E EPS of ₹ 20.8/share and assign a **HOLD** recommendation.

Company Analysis

Gandhi Special Tubes (GST) is a manufacturer of small diameter seamless and welded steel tubes, which find application in automotive, hydraulics, refrigeration (condenser tubes) and other engineering services. The company commenced operations at its Halol (Gujarat) Plant in 1988 and was set up in technical collaboration with Benteler (Germany). GST also manufactures cold formed tube nuts for fuel injection tube assemblies, hydraulic & other tube assemblies, which act as an auxiliary unit for its seamless tube segment. In the automotive space, GST's products find application as fuel injection tubes in the M&HCV segment. In hydraulics, the company's products find application in material (bulk) handling equipment. Welded steel tubes find application in the refrigeration and automobile (fuel lines, oil lines and air brake lines) segments.

GST also owns ~5.3 MW of wind power capacity in India with wind plants based out of Gujarat and Maharashtra. In Gujarat, the generated wind power is consumed captively while in Maharashtra, the generated wind power is sold to the state grid.

Topline directly linked to M&HCV sales

By virtue of seamless tubes contributing majority to the overall topline, the topline can be easily traced to the performance of M&HCV sales by domestic manufacturers (domestic + exports).

GST's topline grew at a CAGR of 23.8% in FY09-12 when M&HCV sales grew at a CAGR of 23.4% in the corresponding period. FY16 was a major miss wherein industry volumes grew 28% YoY while sales at GST were largely flat

Exhibit 1: GST sales vs. M&HCV sales (annual numbers)

Year	GST Total Sales (₹ crore)	M&HCV Sales (units)	YoY Growth (%)	YoY Growth (%)
			GST	MHCV
FY07	60.1	294579		
FY08	76.1	296317	26.7	0.6
FY09	56.2	201072	-26.2	-32.1
FY10	77.7	265369	38.2	32.0
FY11	92.3	351220	18.8	32.4
FY12	106.5	377711	15.5	7.5
FY13	95.9	288233	-9.9	-23.7
FY14	83.5	224432	-12.9	-22.1
FY15	92.0	263407	10.1	17.4
FY16	91.2	337565	-0.8	28.2
FY17	97.6	346182	7.0	2.6

Source: Company, SIAM, ICICIdirect.com Research

GST witnessed healthy topline growth when the M&HCV segment was performing well domestically. In FY17, though M&HCV sales volume for domestic manufacturers grew 2.6% YoY, the topline grew 7.0% YoY largely tracking robust tractor sales (up 18% YoY) in FY17.

Exhibit 2: GST sales vs. M&HCV sales (quarterly numbers)

Quarter	GST Total Sales (₹ crore)	M&HCV Sales Volume (Units)	GST YoY %	M&HCV YoY %
Q2FY15	27.1	61811	16.5	10.6
Q3FY15	23.1	63781	35.6	42.9
Q4FY15	18.6	80550	-13.2	26.2
Q1FY16	25.6	70415	10.7	23.0
Q2FY16	22.8	85566	-14.6	38.4
Q3FY16	21.0	76399	-8.0	19.8
Q4FY16	21.9	105185	20.1	30.6
Q1FY17	26.4	80472	3.4	14.3
Q2FY17	27.5	77073	20.1	-9.9
Q3FY17	22.1	77971	5.9	2.1
Q4FY17	21.7	110666	3.3	5.2

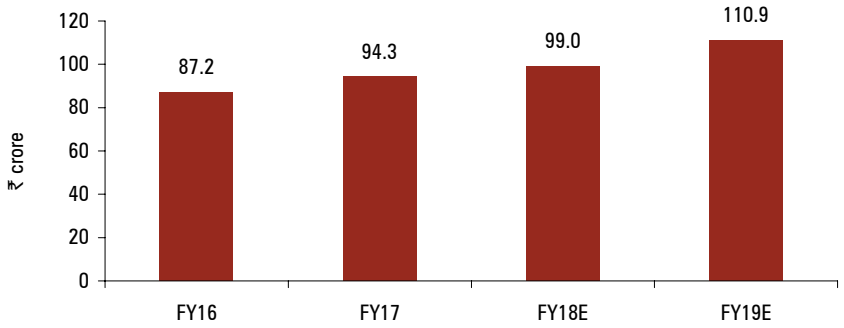
Source: Company, SIAM, ICICIdirect.com Research

On a quarterly basis, the correlation is weak with the company witnessing uneven sales growth. In Q4FY17, M&HCV sales growth was 5.2% while the company witnessed sales growth of 3.3% on a YoY basis.

Sales to grow at 8.4% CAGR in FY17-19E

We expect GST to clock revenue growth of 8.4% CAGR in FY17-19E primarily on a pick-up in tractor sales domestically and rebound expected in M&HCV sales in FY18E-19E.

Exhibit 3: Sales trend

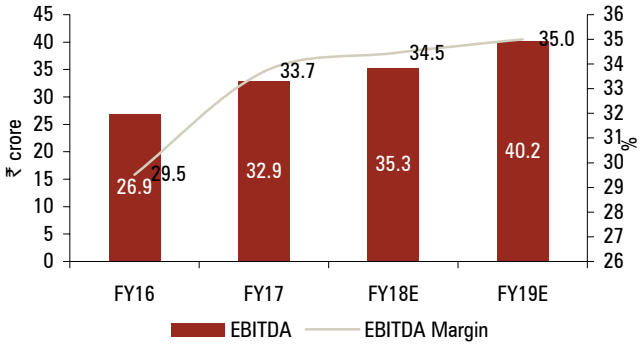


Source: Company, ICICIdirect.com Research

EBITDA, PAT growth to remain largely muted given high base

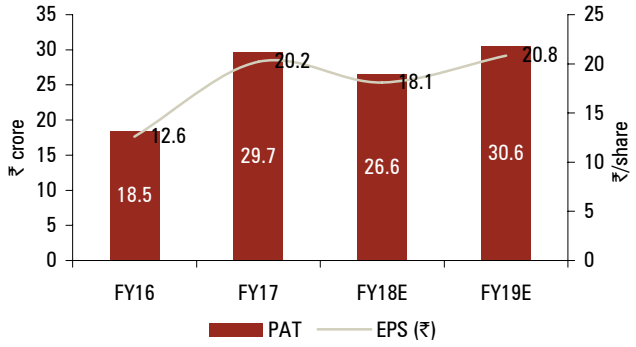
GST recorded a 420 bps improvement in EBITDA margin in FY17 with corresponding EBITDA margin at 33.7%. It was largely tracking lower power & fuel costs and lower expenses. The effective tax rate for FY17 also was at 20% vs. the corporate tax rate at 33%. This will limit EBITDA & PAT growth, going forward, in FY17-19E.

Exhibit 4: EBITDA & EBITDA margins trend



Source: Company, ICICIdirect.com Research

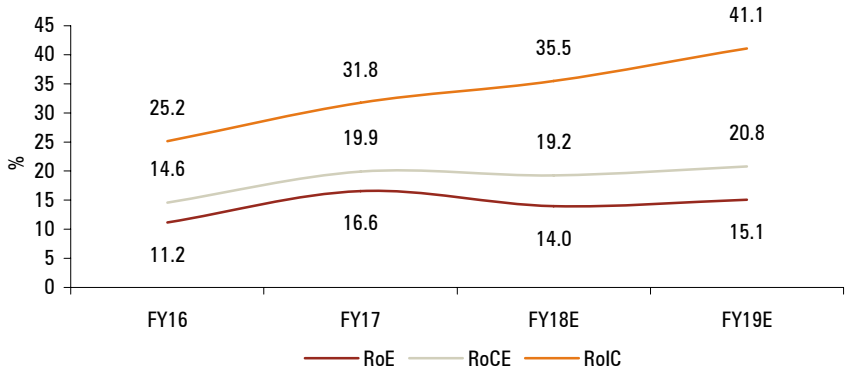
Exhibit 5: PAT & EPS trend



Source: Company, ICICIdirect.com Research

Return ratios had taken a hit due to the subdued demand scenario and consequent de-growth in topline. The return ratios (RoCE, RoE) have declined from a peak of 29.5%, 22.1% in FY11 to about 13.6%, 9.8%, respectively, in FY15. However, with the revival of the M&HCV cycle on the back of enhanced industrial activity, we expect return ratios to improve with RoCE, RoE in FY19E expected at 20.8%, 15.1%, respectively

Exhibit 6: Return ratios set to improve over FY17-19E



Source: Company, ICICIdirect.com Research

Outlook and valuation

Our interaction with the management suggests that growth will be a challenge in FY18E as the industry shifts to new emission norms (BS-IV) and transition phase involving GST. M&HCV segment sales are expected to be muted while upbeat tractor sales are expected to rescue. GST is also trying to venture into manufacturing CRDI tubes, which have a much wider application and would be a key thing to watch before any meaningful change in our stance on the company.

GST has a lean balance sheet with surplus cash & investments of ₹ 97 crore (FY17). With surplus capacity on stream and robust dividend payout (>40%), GST realises robust return ratios with RoCEs & RoICs in excess of 20% & 30%, respectively. Going forward, we have built in conservative sales growth estimates (8.4% CAGR in FY17-19E) largely tracking management commentary. However, PAT is expected to remain largely flat in FY17-19E due to lower effective tax rate (20%) and higher other income in the base year i.e. FY17. We now value GST at ₹ 335, i.e. 16x P/E on FY19E EPS of ₹ 20.8/share and assign a **HOLD** recommendation.

Exhibit 7: What's changed??

Particulars	FY18E			FY19E
	Old	New	% Change	Introduced
Sales	112.6	102.5	(9.0)	114.8
EBITDA	39.4	35.3	(10.4)	40.2
EBITDA Margin %	35.0	34.5	-54 bps	35.0
PAT	29.8	26.6	(10.8)	30.6
EPS	20.3	18.1	(10.8)	20.8

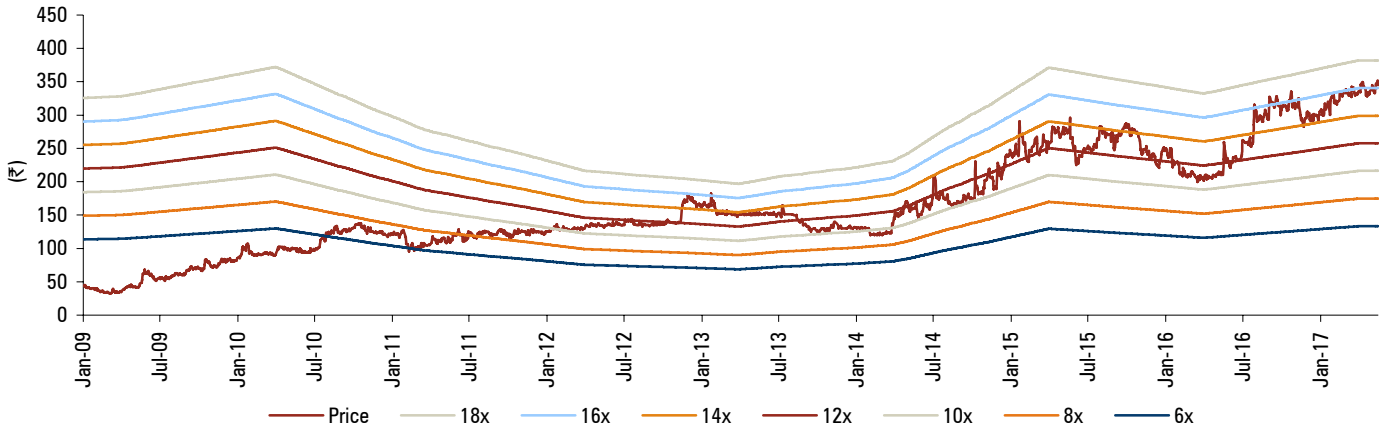
Source: Company, ICICIdirect.com Research

Exhibit 8: Valuation Summary

Year	Sales (₹ cr)	Growth (%)	PAT (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)	RoIC (%)
FY16	91.2	-0.8	18.5	17.5	27.4	15.7	11.2	14.6	25.2
FY17	97.6	7.0	29.7	60.5	17.1	12.5	16.6	19.9	31.8
FY18E	102.5	5.0	26.6	-10.5	19.1	11.2	14.0	19.2	35.5
FY19E	114.8	12.0	30.6	15.1	16.6	9.5	15.1	20.8	41.1

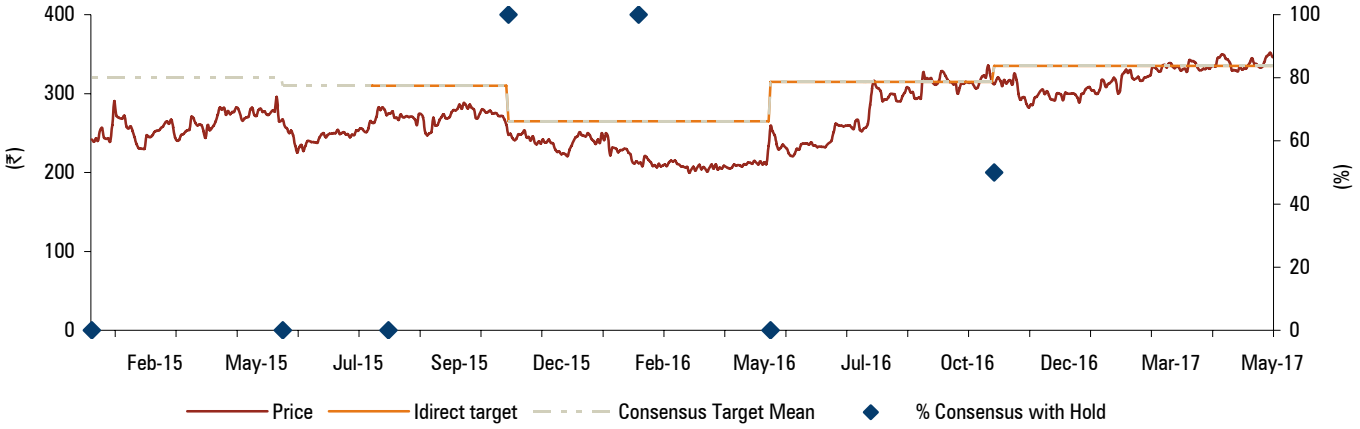
Source: Company, ICICIdirect.com Research

Exhibit 9: Two year forward P/E (GST currently trading at 16.6x)



Source: Reuters, ICICIdirect.com Research

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date/Year	Event
2007	Reports sales of ₹ 60.2 crore, limited due to capacity constraints. GST had undertaken a capex amounting to ₹ 12.8 crore in FY07, out of ₹ 12.6 crore was towards installation of plant and machinery. The entire capex was funded by the company's internal cash accruals
2008	Further undertakes capex amounting to ₹ 18.4 crore, out of which ₹ 3.3 crore was spent towards new factory building, ₹ 8.7 crore towards plant & machinery and ₹ 6.3 crore towards windmill. The entire capex was funded out of the company's internal cash accruals
2008	Closes down its Pune plant with effect from July 25, 2008. The said plant was engaged mainly in assembly of components transferred from the company's Halol plant and supplying the finished products to customers in nearby area. After completion of the expansion project at Halol, the company now had sufficient resources at its Halol Plant to undertake assembly and supply of products to all its customers from the said plant itself
2010	On occasion of silver jubilee year, board of directors of GST declares special interim dividend of ₹ 2.5 per equity shares of ₹ 5/- each. Regular interim dividend of ₹ 2.5 per equity share was also declared
2012	Stops production of refrigeneration condensor coils; as business was highly seasonal. The company embarks upon the new capex plan amounting ₹ 40 crore. GST's planned capex includes capex of ₹ 10 crore for building, ₹ 20 crore for plant & machinery and ₹ 10 crore for new corporate office in Mumbai
2014	In August, Customs department (Government of India) imposes a safeguard duty on import of seamless steel tubes and pipes of external diameter not exceeding 273.1 mm (outer diameter) on imports from developed countries and China. GST would also be a key beneficiary of the said judgement
2015	Reports subdued Q4FY15 with full year FY15 PAT at ₹ 15.8 crore, down 8.7% YoY. The interaction with the management suggests near exhaustion of inventory pertaining to company's product profile in the user market with turnaround in sales expected in Q2FY16
2016	Reports robust Q4FY16 with sales growing 20% YoY and EBITDA margins coming in at 29%. Full year FY16, Sales, EBITDA & PAT were at ₹ 91 crore, ₹ 27 crore & ₹ 19 crore, respectively. The company has also declared and distributed a dividend of ₹ 7.5/share for FY16
2017	For full year FY17, GST clocks sales of ₹ 97.6 crore, up 7% YoY with EBITDA at ₹ 32.9 crore (EBITDA margins at 33.7%) and PAT at ₹ 29.7 crore. EPS in FY17 was at ₹ 20.2 with dividend per share at ₹ 9. Improvement in EBITDA margins was encouraging though management commentary on future sales growth was cautious given transition of M&HCV segment to new emission norms (BS-4) and GST implementation domestically

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Gandhi (Manhar G)	31-Mar-17	14.4	2.1	0.0
2	Gandhi (Bhupatrai G)	31-Mar-17	13.2	1.9	0.0
3	Gandhi (Jayesh M)	31-Mar-17	7.9	1.2	0.0
4	Gandhi (Manoj B)	31-Mar-17	7.5	1.1	0.0
5	Gandhi (Bharati M)	31-Mar-17	5.3	0.8	0.0
6	B M Gandhi Investment Company Pvt. Ltd.	31-Mar-17	3.8	0.6	0.0
7	Gandhi Finance Company Pvt. Ltd.	31-Mar-17	3.5	0.5	0.0
8	Gandhi (Chandra B)	31-Mar-17	3.2	0.5	0.0
9	Gandhi (Gopi J)	31-Mar-17	3.1	0.5	0.0
10	Gandhi (Jigna M)	31-Mar-17	3.1	0.4	0.0

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	73.3	73.3	73.3	73.3	73.3
FII	3.8	4.0	4.1	4.2	4.3
DII	0.1	0.0	0.0	0.0	0.0
Others	23.6	22.8	22.6	22.6	22.4

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
No data provided			No data provided		

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Net Sales	87.2	94.3	99.0	110.9
Other Operating Income	4.0	3.3	3.5	3.9
Total Operating Income	91.2	97.6	102.5	114.8
Growth (%)	-0.8	7.0	5.0	12.0
Raw Material Expenses	33.3	30.9	32.8	36.7
Employee Expenses	6.3	7.3	7.4	8.0
Power & Fuel Expense	9.0	11.0	11.3	12.6
Other Operating Expense	15.8	15.5	15.7	17.2
Total Operating Expenditure	64.3	64.7	67.2	74.6
EBITDA	26.9	32.9	35.3	40.2
Growth (%)	15.6	22.2	7.4	13.8
Depreciation	4.8	4.4	4.6	4.7
Interest	0.0	0.0	0.0	0.0
Other Income	3.0	8.7	7.3	8.2
PBT	25.2	37.1	38.0	43.7
Exceptional Item	0.0	0.0	0.0	0.0
Total Tax	6.7	7.4	11.4	13.1
PAT	18.5	29.7	26.6	30.6
Growth (%)	17.5	60.5	-10.5	15.1
EPS (₹)	12.6	20.2	18.1	20.8

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Profit after Tax	18.5	29.7	26.6	30.6
Add: Depreciation	4.8	4.4	4.6	4.7
(Inc)/dec in Current Assets	7.2	-6.3	-0.3	-3.7
Inc/(dec) in CL and Provisions	0.7	1.1	0.8	1.1
Others	0.0	0.0	0.0	0.0
CF from operating activities	31.1	28.9	31.6	32.7
(Inc)/dec in Investments	-16.3	-12.2	-11.0	-10.0
(Inc)/dec in Fixed Assets	-1.0	-0.7	-2.0	-2.0
Others	0.3	0.0	0.0	0.0
CF from investing activities	-17.0	-12.8	-13.0	-12.0
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-13.3	-15.9	-15.9	-17.6
Inc/(dec) in Share Cap	0.4	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-12.9	-15.9	-15.9	-17.6
Net Cash flow	1.2	0.2	2.7	3.1
Opening Cash	1.8	3.0	3.2	6.0
Closing Cash	3.0	3.2	6.0	9.1

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E
Liabilities				
Equity Capital	7.4	7.4	7.4	7.4
Reserve and Surplus	158.0	171.8	182.6	195.5
Total Shareholders funds	165.4	179.2	189.9	202.9
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	7.4	7.4	7.4	7.4
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	172.8	186.6	197.3	210.3
Assets				
Gross Block	130.2	130.8	132.8	134.8
Less: Acc Depreciation	71.1	75.6	80.2	84.9
Net Block	59.0	55.2	52.6	49.9
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	59.0	55.2	52.6	49.9
Investments	81.6	93.8	104.8	114.8
Inventory	17.0	24.3	23.1	24.3
Debtors	16.1	16.3	17.6	19.8
Loans and Advances	2.9	1.6	2.0	2.2
Other Current Assets	0.5	0.6	0.5	0.6
Cash	3.0	3.2	6.0	9.1
Total Current Assets	39.5	46.1	49.2	55.9
Current Liabilities	4.4	4.9	5.4	6.1
Provisions	3.0	3.6	3.8	4.3
Current Liabilities & Prov	7.4	8.5	9.2	10.3
Net Current Assets	32.1	37.6	39.9	45.6
Others Assets	0.0	0.0	0.0	0.0
Application of Funds	172.8	186.6	197.3	210.3

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	12.6	20.2	18.1	20.8
Cash EPS	15.8	23.2	21.2	24.0
BV	112.5	121.9	129.2	138.0
DPS	7.5	9.0	9.0	10.0
Cash Per Share (Incl Invst)	57.6	66.0	75.4	84.3
Operating Ratios (%)				
EBITDA Margin	29.5	33.7	34.5	35.0
PAT Margin	20.3	30.4	25.9	26.7
Inventory days	71.1	94.2	85.0	80.0
Debtor days	67.5	63.0	65.0	65.0
Creditor days	18.4	19.0	20.0	20.0
Return Ratios (%)				
RoE	11.2	16.6	14.0	15.1
RoCE	14.6	19.9	19.2	20.8
RoIC	25.2	31.8	35.5	41.1
Valuation Ratios (x)				
P/E	27.4	17.1	19.1	16.6
EV / EBITDA	15.7	12.5	11.2	9.5
EV / Net Sales	4.8	4.3	4.0	3.5
Market Cap / Sales	5.8	5.4	5.1	4.6
Price to Book Value	3.1	2.8	2.7	2.5
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	4.9	5.1	4.7	4.5
Quick Ratio	2.6	2.2	2.2	2.2

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: >15%/20% for large caps/midcaps, respectively, with high conviction;
Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;



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