

# Gandhi Special Tubes (GANSPE)

CMP: ₹ 475

Target: ₹ 550 (16%)

Target Period: 12 months

BUY

July 23, 2021

## Encouraging growth prospects lie ahead...

**About the stock:** Gandhi Special Tubes (GST) manufactures small diameter welded and seamless steel tubes that primarily find application in farm equipment (tractor), construction equipment and commercial vehicle (CV) space among others.

- Given the specialised nature of product profile, GST realises high EBITDA margins (~40%) with resultant high capital efficiency (RoIC at ~50%)
- Unlevered b/s with surplus cash of ~₹ 100 crore (~15% of MCap)

**FY21 Results:** GST reported a robust operational performance in FY21.

- Net sales for the year were at ₹ 114 crore, up 40% YoY
- EBITDA in FY21 was at ₹ 45 crore with attendant margins at 39.4%
- Consequent PAT in FY21 was at ₹ 36 crore, up 70% YoY

**What should investors do?** GST's stock price has grown at ~8% CAGR over the past five years (from ~₹ 315 in July 2016 to ~₹ 475 levels as of July 2021).

- We upgrade GST from REDUCE to **BUY**

**Target Price and Valuation:** We value GST at ₹ 550 i.e. 15x P/E on FY23E EPS

**Key triggers for future price performance:**

- With a cyclical recovery under way in its key user segments (construction equipment, commercial vehicles) and steady prospects in the tractor space, we expect GST to report sales CAGR of 15% over FY21-23E
- EBITDA margins are slated to remain elevated at ~38% with RoCE inching up to 30% in the aforesaid timeframe (FY21-23E)
- With low capex spends, GST has a history of rewarding shareholders with healthy dividends and buybacks. We expect the trend to continue with recent dividend declaration of ₹ 9/share for FY21 & buyback announcement amounting to ₹ 42 crore at ₹ 550/share for 6% equity capital (yet to open)

**Alternate Stock Idea:** In mid,-small cap coverage we also like Phillips Carbon Black.

- The company is domestic leader in the carbon black space (key RM for tyres) with healthy margin profile (~20%) as well as capital efficiency (~20%)
- BUY with a target price of ₹ 260



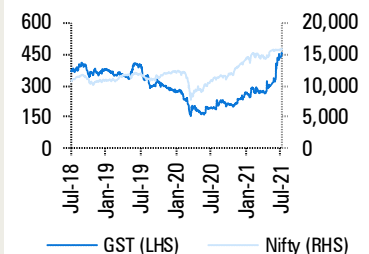
### Particulars

Particular	₹ crore
Market Capitalization	613.7
Total Debt (FY21)	0.0
Cash and Investments (FY21)	96.7
EV (FY21)	517.0
52 week H/L (₹)	500 / 180
Equity capital (₹ crore)	6.5
Face value (₹)	₹ 5

### Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21
Promoter	73.4	73.4	73.4	73.3
FII	1.3	1.3	0.7	-
DII	0.0	0.0	0.0	0.0
Other	25.3	25.3	25.9	26.7

### Price Chart



### Recent event & key risks

- Buyback announced at ₹ 550/share for ~6% of equity capital
- Key Risk:** (i) Delayed recovery in CV segment, (ii) More than anticipated rise in RM costs

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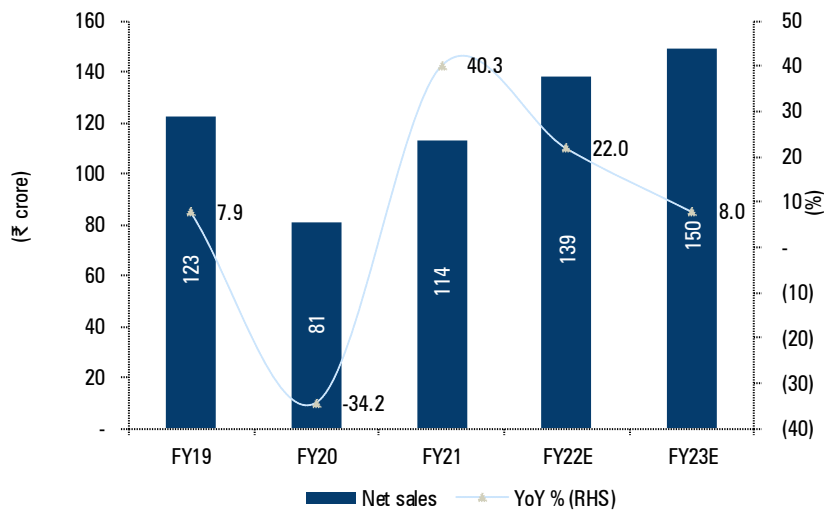
### Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23)
Net Sales	122.9	80.9	113.5	5.4%	138.5	149.6	14.8%
EBITDA	45.8	23.9	44.7	10.7%	52.6	56.8	12.7%
EBITDA Margins (%)	37.2	29.5	39.4		38.0	38.0	
Net Profit	38.6	21.3	36.1	14.3%	40.3	44.8	11.3%
EPS (₹)	27.9	16.5	28.0		33.2	36.8	
P/E	17.0	28.8	17.0		14.3	12.9	
RoNW (%)	19.2	14.5	21.0		25.5	23.8	
RoCE (%)	20.0	13.2	23.1		29.7	27.3	

Source: Company, ICICI Direct Research

Financial story in charts....

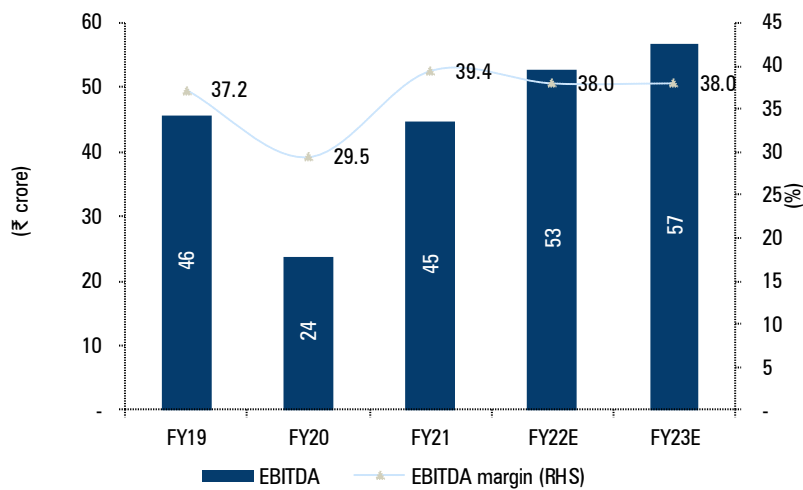
Exhibit 1: Trend in topline



We expect net sales to grow at 14.8% CAGR over FY21-23E

Source: Company, ICICI Direct Research

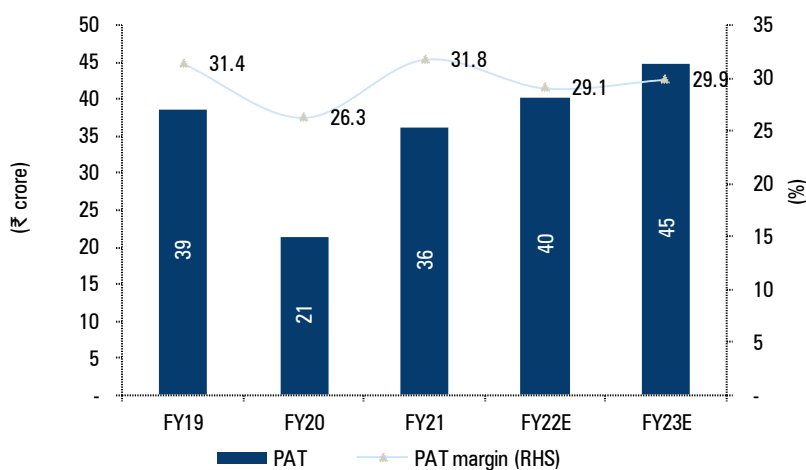
Exhibit 2: Trend in EBITDA and EBITDA margins



Margins are seen remaining steady at the ~38% mark over FY22E & FY23E

Source: Company, ICICI Direct Research

Exhibit 3: Trend in profitability



PAT is expected to grow at 11.3% CAGR over FY21-23E to ₹ 45 crore

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Net Sales	80.9	113.5	138.5	149.6	
Other Operating Income	0.0	0.0	0.0	0.0	
<b>Total Operating Income</b>	<b>80.9</b>	<b>113.5</b>	<b>138.5</b>	<b>149.6</b>	
Growth (%)	-34.2	40.3	22.0	8.0	
Raw Material Expenses	29.9	37.5	47.1	50.9	
Employee Expenses	6.6	8.3	10.4	11.2	
Power & Fuel Expense	8.4	10.7	13.2	14.2	
Other Operating Expense	12.1	12.2	15.2	16.5	
Total Operating Expenditure	57.1	68.8	85.9	92.7	
<b>EBITDA</b>	<b>23.9</b>	<b>44.7</b>	<b>52.6</b>	<b>56.8</b>	
Growth (%)	-47.8	87.4	17.6	8.0	
Depreciation	3.6	3.3	3.4	3.4	
Interest	0.0	0.0	0.0	0.0	
Other Income	5.7	6.1	4.5	6.3	
<b>PBT</b>	<b>26.0</b>	<b>47.6</b>	<b>53.8</b>	<b>59.7</b>	
Exceptional Item	0.0	0.0	0.0	0.0	
Total Tax	4.7	11.4	13.4	14.9	
<b>PAT</b>	<b>21.3</b>	<b>36.1</b>	<b>40.3</b>	<b>44.8</b>	
Growth (%)	-44.8	69.5	11.6	11.0	
<b>EPS (₹)</b>	<b>16.5</b>	<b>28.0</b>	<b>33.2</b>	<b>36.8</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit after Tax	21.3	36.1	40.3	44.8	
Add: Depreciation	3.6	3.3	3.4	3.4	
(Inc)/dec in Current Assets	3.8	-8.0	-11.5	-5.0	
Inc/(dec) in CL and Provisions	-2.2	4.6	2.2	1.2	
Others	0.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>26.5</b>	<b>36.0</b>	<b>34.4</b>	<b>44.5</b>	
(Inc)/dec in Investments	51.0	-25.0	20.0	-28.0	
(Inc)/dec in Fixed Assets	-0.7	-0.3	-1.0	-1.0	
Others	-2.4	0.7	0.0	0.0	
<b>CF from investing activities</b>	<b>47.9</b>	<b>-24.6</b>	<b>19.0</b>	<b>-29.0</b>	
Issue/(Buy back) of Equity	-0.5	0.0	-0.4	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tax	-14.0	-11.6	-12.2	-14.6	
Inc/(dec) in Share Cap	-61.4	0.9	-41.8	0.0	
Others	0.0	0.0	0.0	0.0	
<b>CF from financing activities</b>	<b>-75.8</b>	<b>-10.7</b>	<b>-54.3</b>	<b>-14.6</b>	
<b>Net Cash flow</b>	<b>-1.4</b>	<b>0.7</b>	<b>-0.9</b>	<b>0.9</b>	
Opening Cash	3.5	2.1	2.8	1.9	
<b>Closing Cash</b>	<b>2.1</b>	<b>2.8</b>	<b>1.9</b>	<b>2.8</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
(Year-end March)	FY20	FY21	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	6.5	6.5	6.1	6.1	
Reserve and Surplus	140.1	165.5	151.9	182.1	
<b>Total Shareholders funds</b>	<b>146.6</b>	<b>172.0</b>	<b>158.0</b>	<b>188.2</b>	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	6.8	7.5	7.5	7.5	
Minority Interest / Others	0.0	0.0	0.0	0.0	
<b>Total Liabilities</b>	<b>153.4</b>	<b>179.5</b>	<b>165.5</b>	<b>195.7</b>	
<b>Assets</b>					
Gross Block	134.4	134.7	135.7	136.7	
Less: Acc Depreciation	85.9	89.3	92.6	96.1	
<b>Net Block</b>	<b>48.4</b>	<b>45.4</b>	<b>43.0</b>	<b>40.6</b>	
Capital WIP	0.0	0.0	0.0	0.0	
Total Fixed Assets	48.4	45.4	43.0	40.6	
Investments	68.9	93.9	73.9	101.9	
Inventory	25.2	21.0	28.5	30.7	
Debtors	14.7	25.5	28.5	30.7	
Loans and Advances	1.5	2.1	2.8	3.0	
Other Current Assets	0.9	1.8	2.2	2.4	
<b>Cash</b>	<b>2.1</b>	<b>2.8</b>	<b>1.9</b>	<b>2.8</b>	
Total Current Assets	44.4	53.2	63.8	69.6	
Current Liabilities	4.3	9.7	11.4	12.3	
Provisions	4.0	3.2	3.8	4.1	
Current Liabilities & Prov	8.3	13.0	15.2	16.4	
<b>Net Current Assets</b>	<b>36.1</b>	<b>40.2</b>	<b>48.6</b>	<b>53.3</b>	
Others Assets	0.0	0.0	0.0	0.0	
<b>Application of Funds</b>	<b>153.4</b>	<b>179.5</b>	<b>165.5</b>	<b>195.7</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	16.5	28.0	33.2	36.8
Cash EPS	19.3	30.5	36.0	39.7
BV	113.5	133.1	130.0	154.9
DPS	9.0	9.0	10.0	12.0
Cash Per Share (Incl Invst)	54.9	74.8	62.3	86.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	29.5	39.4	38.0	38.0
PAT Margin	26.3	31.8	29.1	29.9
Inventory days	113.7	67.5	75.0	75.0
Debtor days	66.4	82.0	75.0	75.0
Creditor days	19.6	31.2	30.0	30.0
<b>Return Ratios (%)</b>				
RoE	14.5	21.0	25.5	23.8
RoCE	13.2	23.1	29.7	27.3
RoIC	24.6	50.0	54.8	58.6
<b>Valuation Ratios (x)</b>				
P/E	28.8	17.0	14.3	12.9
EV / EBITDA	22.7	11.6	10.2	9.0
EV / Net Sales	6.7	4.6	3.9	3.4
Market Cap / Sales	7.6	5.4	4.4	4.1
Price to Book Value	4.2	3.6	3.7	3.1
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	5.1	3.9	4.1	4.1
<b>Quick Ratio</b>	<b>2.1</b>	<b>2.3</b>	<b>2.2</b>	<b>2.2</b>

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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