

**Shanthi Gears Ltd**
**Rs 60**
**...Company Update**
**BUY**

Industry : Engineering	BSE / NSE code : 522034 / SHANTHIGEAR
Company P/E : 9.5x FY'09E	52-Week H/L (Rs) : Rs115 / Rs48
Market Cap. (Rs) : Rs5160mn	Daily traded volume : 38,500 / 58,000
Face Value (Rs) : 1	Dividend (FY'08) : 120%

**Investment Rationale**

- We re-iterate our BUY recommendation on Shanthi Gears Ltd (SGL) post FY'08 results based on an expected 24% CAGR growth in net profits on the back of a 21% CAGR growth in revenues over the next two years.
- SGL has now emerged as a One-Stop-Shop for Industrial Gears given the fact that it has capabilities to manufacture a diverse and comprehensive range of products across applications.
- Although exports constitute only 10% of its revenues presently, SGL having invested significant money during the last two years at its facilities we remain optimistic on the export prospects to Atlas Copco.
- With an order book of Rs1200mn executable over the next four months SGL supplies standard as well as custom made gears and gearboxes to its clients, which include Tata Steel, SAIL, BHEL, ACC, Siemens, Mitsubishi, Elgi Equipment, Hindustan Aeronautics and Rolls Royce among others.
- SGL invested ~ Rs.180mn in two windmills during FY'07 and now has nine windmills which meets more than 80% of its power needs.
- SGL having a shorter delivery schedule of orders not extending beyond four months is better positioned to factor in the volatility in prices of key raw materials with its customers.
- Although the prospects of SGL are directly linked to the performance of several industries in the economy it remains insulated due to its diverse customer profile spanning across several industries ranging from core sectors right up to the Aerospace Industry.
- SGL trading at 9.5x FY'09E and 7.5x FY'10E earnings with a strong balance sheet has healthy gross margins and return ratios makes the stock attractive and we maintain our positive outlook on the stock with a one year price target of Rs85.

**Table 1: Profit & Loss A/c**

Year End Mar.(Rs. Mn.)	FY'07	FY'08	FY'09E	FY'10E
Net Sales	2014	2441	2991	3574
Other Income	15	12	12	12
Increase / Decrease in Stock	14	50	52	55
<b>Total Income</b>	<b>2043</b>	<b>2503</b>	<b>3055</b>	<b>3641</b>
RM Consumption	835	1001	1226	1465
Staff Cost	154	189	226	268
SG&A Expenses	312	368	458	554
Total Expenditure	1301	1557	1910	2287
<b>Operating Profit</b>	<b>742</b>	<b>946</b>	<b>1146</b>	<b>1354</b>
Interest	48	47	39	24
Depreciation	182	225	269	297
Profit Before Tax	512	675	838	1033
Taxation	176	233	286	352
% of Profit	34%	35%	34%	34%
Profit After Tax	336	442	552	681
Extra ordinary item	23	0	0	0
<b>NPAT</b>	<b>359</b>	<b>442</b>	<b>552</b>	<b>681</b>

**Table 3: Key Ratios**

Year End Mar.	FY'07	FY'08	FY'09E	FY'10E
<b>EPS (Rs)</b>	<b>3.96</b>	<b>5.39</b>	<b>6.43</b>	<b>7.93</b>
P/E (x)	15.1	11.1	9.3	7.6
Book Value (Rs)	16	21	26	34
EBITDA (%)	37%	39%	38%	38%
NPM (%)	18%	18%	18%	19%
ROCE (%)	22%	28%	31%	34%
Debt-Equity	0.9	0.5	0.2	0.1

**Table 2: Balance Sheet**

Year End Mar.(Rs. Mn.)	FY'07	FY'08E	FY'09E	FY'10E
Share Capital	81	82	86	86
Reserves and Surplus	1234	1615	2177	2847
Net Worth	1315	1697	2263	2933
Secured Loans	829	597	370	148
Unsecured Loans	358	304	167	0
Loan Funds	1187	901	537	148
Defered Tax	166	166	166	166
<b>Capital Employed</b>	<b>2668</b>	<b>2764</b>	<b>2966</b>	<b>3246</b>
Gross Block	2652	3184	3470	3783
Depreciation	958	1183	1452	1749
Net Block	1694	2001	2018	2034
CWIP	132	0	0	0
Total	1826	2001	2018	2034
Inventories	537	671	771	887
Receivables	252	302	357	410
Cash and Bank balances	223	38	120	274
Other Current Assets	3	2	2	2
Loans and Advances	176	180	189	198
Total Current Assets	1190	1193	1438	1771
Current Liabilities	251	314	361	415
Provisions	97	116	129	143
Total Current Liabilities	348	431	491	559
Working Capital	842	763	948	1212
<b>Capital Deployed</b>	<b>2668</b>	<b>2764</b>	<b>2966</b>	<b>3246</b>