

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs462	35.5	Accumulate	Rs550	19%

*as on 05th May, 2026

About the Company:

Shanthi Gears Limited (SGL) is a leading organized player in the industrial gear segment in India. It is now a part of the USD4.4bn Murugappa group, which is one of India's leading business conglomerates. SGL manufactures a wide range of critical components, involved in power transmission like gears, gear boxes, gear motors and gear assemblies. The company is strongly positioned in the custom-made gears as well as standard gear boxes while catering to different industries like steel, textiles, power, chemical, rubber, paper, mining, cement, sugar etc.

Results: Quick Glance:

- The net sales for the quarter reported a drop of 11.8% at Rs1351mn as compared to Rs1532mn in Q4FY25
- The Ebitda margins for the quarter under review stood at 17.7% as compared to 20.2% in Q4FY25
- The exceptional items of ~Rs32mn in the PnL pertains to the changes in the labour codes
- The company reported profit of Rs163mn as compared to Rs225mn in the same quarter last year
- The EPS for the quarter stood at Rs2.12 as compared to Rs2.93 in the corresponding period of last year
- For FY26, the revenues came in at Rs5187mn as compared to Rs6046mn; drop of 14.2% while the PAT stood at Rs767mn as against Rs960mn. The EPS came in at Rs9.99 as against Rs12.52 in FY25
- The Board has recommended a final dividend of Rs2 per share (200%) for FY26 which is subject to approval at the AGM

Financials:

Performance (Q4&FY26)									
Q4&FY26 Result (Rs mn)	Mar-26	Mar-25	y-o-y	Dec-25	q-o-q	FY26	FY25	y-o-y	FY27E
Total Revenue	1351	1532	(11.8%)	1168	15.6%	5187	6046	(14.2%)	5959
EBITDA	239	310	(22.9%)	230	3.9%	1039	1287	(19.3%)	1305
Other Income	59	40	45.9%	41	43.7%	196	147	33.9%	207
Interest	0	0	-	0	-	0	0	-	0
Depreciation	47	36	31.9%	39	20.5%	161	133	20.8%	182
Exceptional Items	32	0	-	16	-	48	0	-	0
Tax	55	90	(38.1%)	54	2.6%	260	341	(23.5%)	334
Net Profit	163	225	(27.6%)	162	0.5%	767	960	(20.2%)	996

Outlook and Recommendations:

The company has reported a drop in revenues for the quarter under review as well as for the full year. The elevated raw materials prices have impacted the gross margins and the higher depreciation has put a dent on the overall reported profits for the quarter under review. The operating margins of SGL are exposed to volatility in raw material prices and in addition to this, the competitive pressures seems to be increasing in certain business domains which explains the drop in the overall topline. There has been a drop in the overall revenues earned in FY26, however the company has been able to maintain the margins level in 20-21%. The drop in the revenues is due to lower order inflow in H1 and scheduled deferment by customers. The company has reported a de-growth in the top line as well as the bottom-line, however, the orderbook has shown a good surge. The company continues to maintain its capital discipline even in this downturn or schedule deferment by some of its customers. The company has achieved Return on Invested Capital (ROIC) of 39% and Free Cash Flow of Rs298.3mn in this financial year. The company has achieved its highest-ever order booking of Rs1780mn in Q4FY26 with 89% growth over Q4FY25. The unexecuted order book as on 31st March 2026 stood at Rs3490mn. The overall geographic mix consists of ~7-10% from the exports, as a result of which the global headwinds and exports do not impact much to the overall performance of the company; however the domestic market is also feeling the pinch of the global issues. The growth of the industry as well the company is closely linked to the capex cycles with immense cyclical nature where the end-user industries could be facing uncertainty in orderbook due to global trades and other geo-political issues.

Outlook and Recommendations (contd.):

The company has been exploring opportunities in the services business which is also playing a critical role to fetch better margins as well as better RoCE. SGL has been diligently working on the cash conversion cycle. The overall liquidity position of the company has consistently remained strong which is supported by a strong operational and financial profile. NPD and working on competences coupled with quality customer engagement continue to be growth pillars for the company. SGL is currently involved in a capex plan to revamp the core older machines with a vision to fetch better efficiencies and throughput for the future operational excellence. There is a capex already in progress at the plant, while at the same time, the company is also distributing dividends to its stakeholders. Thus there is reinvestment strategy coupled with expansion plans indicating that SGL is a pure cash generator. The Management has expressed its ambitious target to grow by 2x in the next 10-12 quarters which can involve a good capex spend. While we are still cautious on immediate or short-term visibility owing to the macroeconomic uncertainty there seems to be a new wave of strong sectoral demand arising from the major sectors which SGL caters to. SGL continues to grow slowly with steady margins with delayed orders and some global macroeconomic headwinds. The company has been consistent with capital efficiency which is reflected in the ROIC as well as high earning quality. We feel, though there has been a demand weakness/customer deferment, the same appears to be reversing and the growth parameters can be restored. The Management continues to focus on key triggers like strengthening the order booking, new product development, digital marketing, customer connect program, capacity additions in core operations, talent and leadership development. Though we are cautiously optimistic on SGL, we maintain our target price to Rs550.

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Registered Office Address:

Progressive Share Brokers Pvt. Ltd,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai-400053, Maharashtra
www.progressiveshares.com | Contact No.:022-40777500

Compliance Officer:

Ms. Mamatha Poojari,
Email: compliance@progressiveshares.com,
Contact No.:022-40777500

Grievance Officer:

Email: grievancecell@progressiveshares.com