

18 February 2012

## Sanghvi Movers

Revenue growth strong, net profit above estimates; we retain a Buy

Rating: **Buy**

Target Price: ₹148

Share Price: ₹115

Despite the challenging environment, Sanghvi Movers reported a strong set of figures. Business from the wind-energy and power sectors continues to grow, with fleet utilization up to 86%. Sanghvi has curtailed capex for FY13 to ₹0.4bn, after having allocated ~ ₹2.25bn for capex in FY12. We retain a Buy but revise our price target to ₹148 (earlier ₹142).

- 3Q revenue up 41.7%; despite a dip in the margin, profit grew 53.1%.** Sanghvi's 3Q revenue growth came in at 41.7% yoy (16% over our estimate). Demand for cranes in the power and wind turbine segments continues, and resulted in 86% utilization in 3Q for Sanghvi. The EBITDA margin was 70.2%, a 176bps yoy contraction, due to an additional ₹46m in bad-debt provisioning. During 3Q, overtime revenue was 6.75% of sales (9.2% in 3QFY11); for 9MFY12, it was 6.6% (10.1% in 9MFY11). Despite the higher bad-debt provisioning, profits rose 53.1% yoy.
- Key segments see growth despite challenging environment; Sanghvi cuts FY13 expansion.** Due to delays in power-project execution and a slowdown in steel and cement capacity build-up, Sanghvi curtailed capex in FY13 to ₹0.4bn.
- We raise FY12, FY13 estimates.** We increase FY12 and FY13 earning estimates, by 4.6% and 4.6%, respectively, on assumptions of lower capex and higher debt repayment ahead. We increase FY12 and FY13 revenue estimates by 3.1% and 3.6%, respectively, to factor in higher utilization and stabilized yield.
- Valuation.** The stock trades at 5.1x FY12e and 4.7x FY13e earnings. We reiterate a Buy. **Risks:** lower demand, higher interest rates.

Key data	SGM IN / SNGM.BO
52-week high / low	₹154 / ₹84
Sensex / Nifty	18289 / 5564
3-m average volume	US\$0.1m
Market cap	₹5bn / US\$101m
Shares outstanding	43.3m

Shareholding pattern (%)	Dec '11	Sep '11	Jun '11
Promoters	45.5	45.5	45.5
- of which, Pledged	3.1	3.1	3.0
Free Float	54.5	54.5	54.5
- Foreign institutions	19.8	20.7	20.7
- Domestic institutions	3.7	3.7	3.6
- Public	31.0	30.1	30.2

Estimates revision (%)	FY12e	FY13e	FY14e
Sales	3.1	3.6	0.3
EBITDA	2.4	2.1	-0.4
EPS	4.6	4.6	5.9
Target multiple (x)	6.6	6.0	5.2

Financials (YE: Mar)	FY12e	FY13e
Sales (₹m)	4,395	4,771
Net profit (₹m)	972	1,070
EPS (₹)	22.5	24.7
Growth (%)	12.6	10.0
PE (x)	5.1	4.7
PBV (x)	0.7	0.6
RoE (%)	14.8	14.4
RoCE (%)	16.7	16.6
Dividend yield (%)	3.0	3.3
Net gearing (%)	92.5	62.8

Source: Anand Rathi Research

Quarterly results (YE: Mar)	3QFY11	3QFY12	% yoy	9MFY11	9MFY12	% yoy
Sales (₹m)	805	1,141	41.7	2,549	3,278	28.6
EBITDA (₹m)	579	801	38.2	1,844	2,323	26.0
EBITDA margin (%)	72.0	70.2	(176) bps	72.3	70.9	(147) bps
Interest (₹m)	123	191	55.8	362	597	65.0
Depreciation (₹m)	236	269	14.2	676	801	18.5
Other income (₹m)	17	25	48.3	125	204	62.8
PBT (₹m)	237	365	53.7	931	1,128	21.2
Tax (₹m)	77	119	54.9	285	371	30.3
Tax rate (%)	32.4	32.7	25 bps	30.6	32.9	229 bps
PAT (₹m)	161	246	53.1	646	757	17.2

Source: Company, Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
Net revenues	3,315	3,612	4,395	4,771	4,908
Revenue growth (%)	(7.3)	9.0	21.7	8.6	2.9
- Op. expenses	787	1,054	1,297	1,407	1,423
<b>EBIDTA</b>	<b>2,528</b>	<b>2,558</b>	<b>3,099</b>	<b>3,364</b>	<b>3,485</b>
EBITDA margin (%)	76.3	70.8	70.5	70.5	71.0
- Interest expenses	475	492	795	681	534
- Depreciation	787	929	1,105	1,201	1,259
+ Other income	112	123	220	80	120
- Tax	472	397	447	492	571
Effective tax rate (%)	34	31	32	32	32
Reported PAT	906	863	972	1,070	1,242
+/- Extraordinary items	0	0	0	0	0
+/- Minority interest	0	0	0	0	0
Adjusted PAT	902	862	972	1,070	1,242
Adj. FDEPS (₹/share)	20.9	19.9	22.5	24.7	28.7
Adj. FDEPS growth (%)	(10.7)	(4.7)	12.6	10.0	16.1

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
Share capital	87	87	87	87	87
Reserves & surplus	4,610	5,320	6,116	6,991	8,008
Net worth	5,354	6,186	6,981	7,857	8,873
Minority interest	0	0	0	0	0
Total debt	4,745	6,328	7,028	5,128	4,578
Def. tax liab. (net)	657	779	779	779	779
<b>Capital employed</b>	<b>10,098</b>	<b>12,514</b>	<b>14,010</b>	<b>12,986</b>	<b>13,452</b>
Net fixed assets	8,813	10,791	11,609	10,807	10,749
Investments	0	0	0	0	0
- of which, Liquid	0	0	0	0	0
Net working capital	1,226	1,540	1,830	1,987	2,044
Cash and bank balance	59	183	571	191	659
<b>Capital deployed</b>	<b>10,098</b>	<b>12,514</b>	<b>14,010</b>	<b>12,986</b>	<b>13,452</b>
Net debt	87.5	99.3	92.5	62.8	44.2
WC days	137.3	139.8	139.9	146.0	149.9
Book value (₹/sh)	123.7	142.9	161.3	181.5	205.0

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

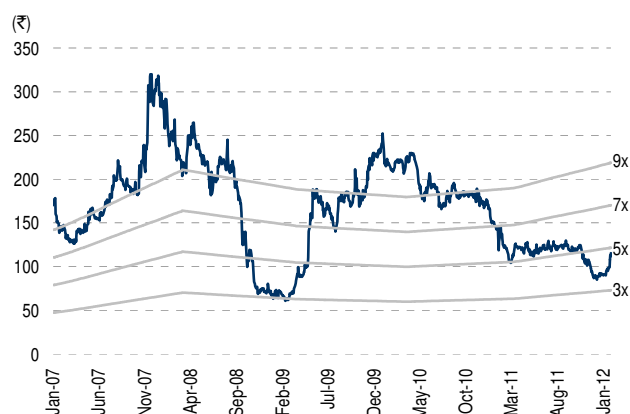
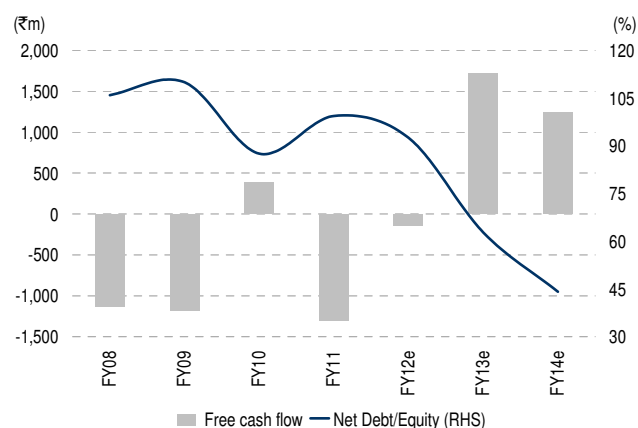
Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
PAT	906	863	972	1,070	1,242
+ Non-cash items	914	1,051	1,105	1,201	1,259
Cash profit	1,820	1,914	2,077	2,271	2,500
- Incr./decr. in WC	(40)	314	290	157	57
Operating cash-flow	1,861	1,600	1,787	2,115	2,443
- Capex	1,475	2,907	1,923	400	1,200
Free-cash-flow	385	(1,307)	(136)	1,715	1,243
- Dividend	151	151	176	194	225
+ Equity raised	2	0	0	0	0
+ Debt raised	(249)	1,584	700	(1,900)	(550)
- Investments	0	0	(0)	0	0
- Misc. items	4	1	0	0	0
Net cash-flow	(17)	124	388	(379)	468
+ Op. cash & bank bal.	76	59	183	571	192
Cl. cash & bank bal.	59	183	571	192	659

Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹115**

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
P/E (x)	5.5	5.8	5.1	4.7	4.0
P/B (x)	0.9	0.8	0.7	0.6	0.6
EV/sales (x)	2.9	3.1	2.6	2.1	1.8
EV/EBITDA (x)	2.9	2.9	2.3	2.2	2.1
RoAE (%)	18.4	15.0	14.8	14.4	14.8
RoACE (%)	18.9	15.5	16.7	16.6	17.7
Dividend yield (%)	2.6	2.6	3.0	3.3	3.9
Dividend payout (%)	16.7	17.6	18.1	18.1	18.1
EBITDA growth (%)	(5.1)	1.5	23.8	3.8	4.7
EPS growth (%)	(10.7)	(4.7)	12.6	10.0	16.1
Gross margins (%)	84.8	75.6	82.0	82.0	82.3
EBIT margins (%)	55.9	48.5	50.4	47.0	47.8
PAT margin (%)	27.3	23.9	22.1	22.4	25.3
Asset turn (x)	3.2	3.3	3.2	3.0	2.9
Debtor turn (days)	138.4	134.2	128.5	139.3	143.0

Source: Company, Anand Rathi Research

**Fig 5 – Valuation chart (PE)**

**Fig 6 – Net debt-to-equity and free cash-flow**


## Results Review

Despite the challenging environment, Sanghvi Movers reported a strong set of figures. Business from the wind energy and power segments continues to grow, with fleet utilization up to 86%. The company has curtailed its capex for FY13 to ₹0.4bn, after having allocated ~ ₹2.25bn for capex by end-FY12. We retain a Buy.

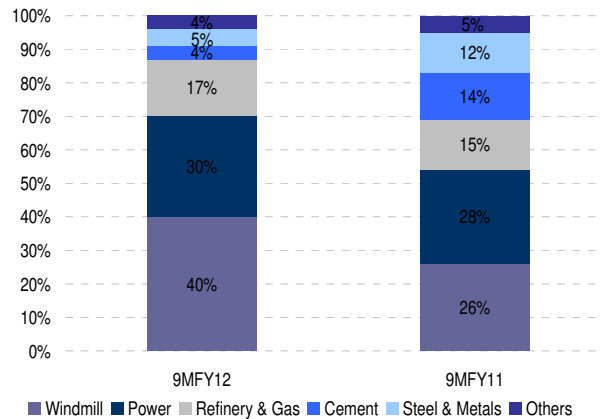
### 3QFY12 performance strong

#### Wind and power businesses aid revenue growth

Sanghvi’s 3Q revenue growth was a strong 41.7% yoy, 16% more than our estimate. Demand for cranes continues in sectors such as power and wind turbines, resulting in 86% utilization in 3QFY12 (up from 84% in 2Q). 3Q EBITDA margin was 70.2%, contracting 176bps yoy, 40bps below our estimate. Expenditure rose sharply, by 51% to ₹340m, including ₹46m in provision for doubtful debt. In 3Q, overtime revenue was 6.75% of sales (9.2% a year ago).

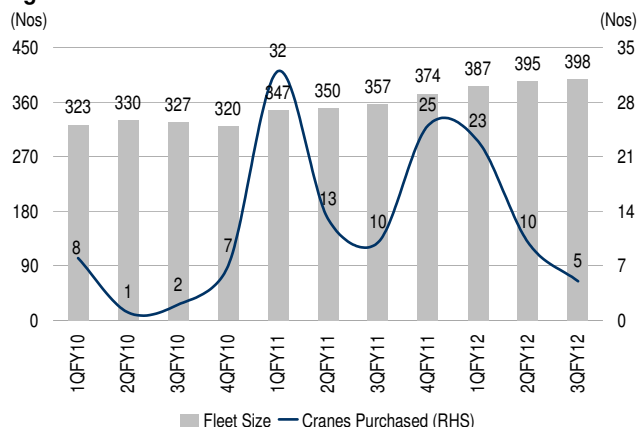
However, delays in a few power projects, where high-capacity cranes were to be deployed, have been seen. Management expects a slowdown in several other sectors besides wind energy and power. In 9MFY12, the wind-turbine segment contributed the most to revenues, followed by the power segment. Comparative shares are shown in the chart below.

Fig 7 – Revenue break-up



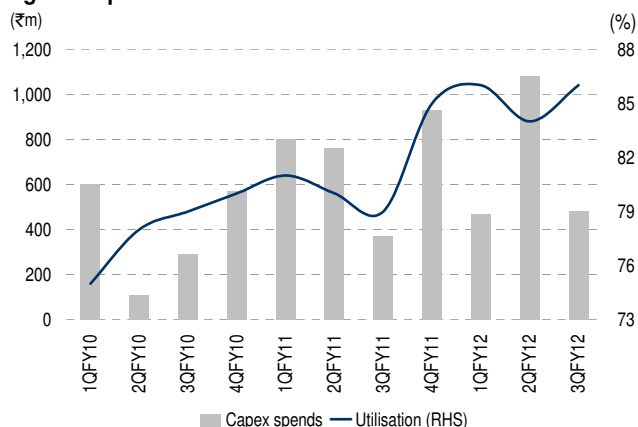
Source: Company, Anand Rathi Research

Fig 8 – Fleet size



Source: Company, Anand Rathi Research

Fig 9 – Capex and utilization trend



Source: Company, Anand Rathi Research

In the last three quarters the company has incurred capital expenditure of ₹1.98bn and, in 4QFY12, will be adding cranes worth another ₹0.3bn-0.4bn to its fleet. It also indicated mounting competition from both domestic and foreign players, which would hold yields in check, at 2.5-2.8%.

We lower our estimate of Sanghvi's FY13 capex plans to ₹0.4bn (from our earlier ₹1bn) on the prevailing weak demand environment. Delays have been seen in the execution of power projects and a slowdown in steel and cement capacity build-up.

Earnings grew by a smart 53.1 % despite increased bad-debt provisioning.

Fig 10 – Quarterly performance vs Anand Rathi estimates

(₹m)	3QFY12e	3QFY12	Diff. (%)
Revenue	982.4	1,092.8	16
EBITDA	693.8	801	15.5
EBITDA margin (%)	70.6	70.2	(40bp)
PAT	183.0	245.8	34.3

Source: Company, Anand Rathi Research

## Valuation

We maintain a Buy on Sanghvi Movers, with a revised price target of ₹148 (based on 6x FY13e earnings, a 20% discount to the three-year average one-year-forward PE multiple), from ₹142 earlier.

### Change in estimates

To factor in the robust 3QFY12 figures and lower capex outlay, we slightly raise our FY12 and FY13 estimates, by 4.6% and 4.6%, respectively.

Fig 11 – Change in estimates

Year-end: Mar (₹m)	FY12e			FY13e		
	New	Old	% Change	New	Old	% Change
Net sales	4,395	4,264	3.1	4,771	4,605	3.6
EBITDA	3,099	3,027	2.4	3,364	3,293	2.1
EBITDA margins (%)	70.5	71.0	(50 bps)	70.5	71.5	(150 bps)
PAT	972	929	4.6	1,070	1,023	4.6

Source: Anand Rathi Research

### Valuation

The company has indicated a slowdown in some sectors. This slowdown in spending is attributed to environmental clearance and funding issues, rising interest-rate concerns, coal-linkage issues and slowness in policy decision-making by the government. Due to this, the company has reduced its capex for FY13 to ₹0.4bn.

We maintain a Buy on Sanghvi Movers, with a revised price target of ₹148 (₹142 earlier). At the ruling price, the stock trades at a PE of 4.7x FY13e EPS. **Risks:** slowdown in infrastructure demand and increasing interest rates.

Fig 12 – One-year-forward PE: Mean and standard deviation



Source: Bloomberg, Anand Rathi Research

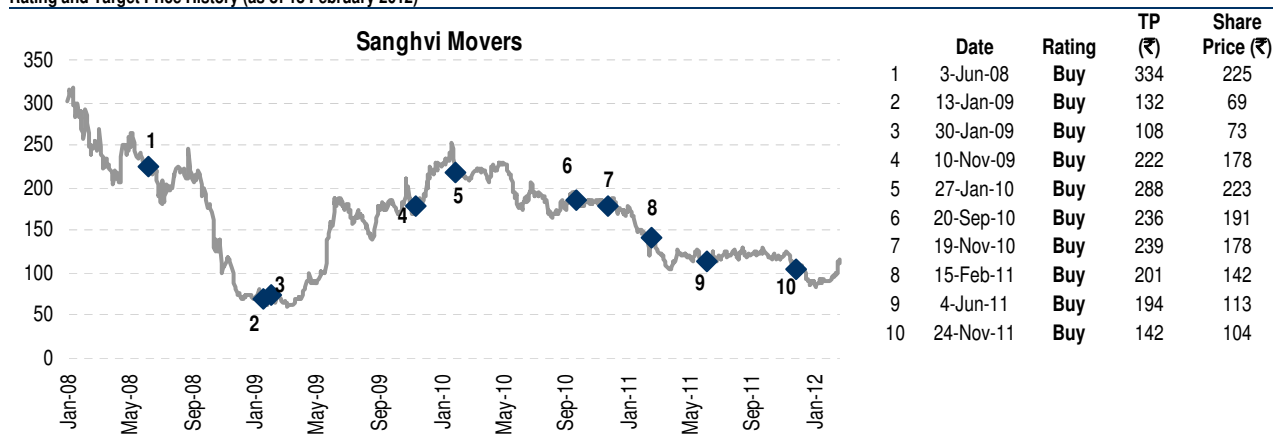
## Appendix 1

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Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

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