

**RESULT UPDATE ✓**

# Sanghvi Movers Ltd (SANMOV)

**WHAT'S CHANGED...**

PRICE TARGET.....	Changed to Rs 107 from Rs 162
EPS (FY09E).....	Changed to Rs 21.40 from Rs 18.20
EPS (FY10E).....	Changed to Rs 17.89 from Rs 20.27
RATING.....	Unchanged

<b>Current Price</b> Rs 67	<b>Target Price</b> Rs 107
<b>Potential upside</b> 60%	<b>Time Frame</b> 12-15 months

**OUTPERFORMER**
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## Slowdown causes deferral of capex plans...

Sanghvi Movers Ltd (SML), India's largest crane-hiring company, declared its Q3FY09 results. SML reported net sales of Rs 88.75 crore in Q3FY09 compared to Rs 64.40 crore in Q3FY08, an increase of 37.8% YoY and decline of 7.2% QoQ. Net profit grew 34.8% at Rs 23.94 crore, as compared to Rs 17.76 crore posted in Q3FY08.

### Highlight of the quarter

SML has incurred a capex of Rs 55 crore in Q3FY09. Of the planned capex of Rs 250 crore for FY09, it has completed a capex of Rs 226 crore in the first nine months of FY09. SML's growth is linked to the industrial and infrastructure boom in the country. The GDP target has been revised to 7%, down from 9%. Considering the global slowdown, the company has narrowed its capex plans for FY10E from Rs 200 crore to Rs 50-100 crore. The company is expected to do a capex of Rs 24 crore in Q4FY09E.

### Valuations

At the current price of Rs 67, the stock is trading at a P/E multiple of 3.13x its FY09E EPS of Rs 21.40 and 3.75x its FY10E EPS of Rs 17.89. The stock is available at 2.50x FY09E EV/EBITDA and 2.65x FY10E EV/EBITDA. Given the delay in projects due to the slowdown in the economy, the company will face headwinds in its earnings. Taking into account the deterioration in the stock markets and FY10E earnings downgrade we have changed the target price to Rs 107 from Rs 162 at a P/E multiple of 6x (refer report dated 23/10/2008). We maintain our **OUTPERFORMER** rating. It is trading at a FY10E P/BV ratio of 0.64x, which makes the stock attractive at current levels.

**Stock data**

Market Cap.	Rs 296 Crore
Debt (FY08)	Rs 371 Crore
Cash (FY08)	Rs 8 Crore
EV	Rs 659 Crore
52 week H/L	Rs 305 / 66
Equity capital	Rs 4.39 Cr
Face value	Rs 2
MF Holding	5.66%
FII Holding	4.55%

**Price performance (%)**

Company	Returns (%)			
	1M	3M	6M	12M
Sanghvi Movers	-10	-52	-67	-74
Allcargo	22	-5	-13	-10
TCL	-16	-34	-56	-75
Gateway Distriparks	-17	-8	-11	-39

**Exhibit 1: Key Financials**

	(Rs Crore)								
	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr. (%)	QoQ Gr. (%)	YTD FY09	FY09E	FY10E
Net Sales	88.75	80.05	64.40	95.65	37.81	-7.21	263.09	346.64	332.05
EBITDA	67.23	58.42	46.91	73.56	43.31	-8.61	198.41	263.07	247.60
EBITDA Margin (%)	75.75	72.98	72.84	76.91	291 bps	(116) bps	75.41	75.89	74.57
Depreciation	17.94	17.24	11.67	16.47	53.73	8.93	49.11	65.65	77.76
Interest	14.68	16.20	7.54	13.66	94.75	7.51	38.48	56.20	51.80
Other Income/Extraordinary item	2.14	0.83	0.07	0.38	2961.86	469.42	3.82	4.16	3.32
Reported Net Profit	23.94	17.73	17.76	28.81	34.80	-16.91	75.45	93.91	78.50
EPS (Rs)	5.46	4.04	4.05	6.57	34.80	-16.91	17.19	21.40	17.89
<b>Valuation</b>									
PE (x)	-	-	-	-	-	-	-	3.13	3.75
Target PE (x)	-	-	-	-	-	-	-	5.00	5.98
EV/EBITDA (x)	-	-	-	-	-	-	-	2.50	2.65
Price to book (x)	-	-	-	-	-	-	-	0.78	0.64
RoNW (%)	-	-	-	-	-	-	-	24.38	17.39
RoCE (%)	-	-	-	-	-	-	-	22.03	18.42

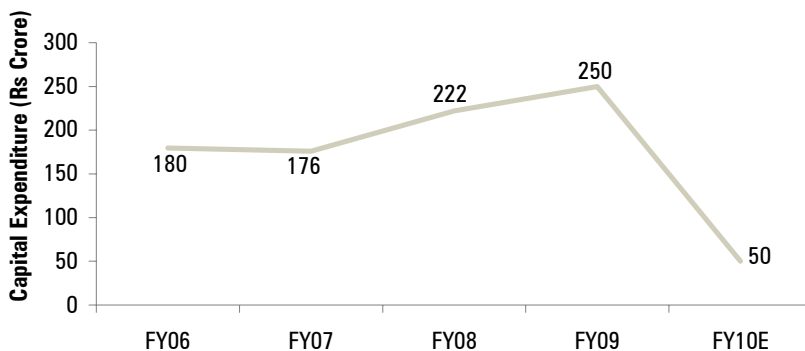
Source: ICICIdirect Research, Company

## Result analysis

### Deferring capex plans

Sanghvi is the fastest growing equipment hiring company in India. SML has been adding capacities and ramping-up its fleet size in the past few years. Sanghvi had mapped out a capex of Rs 450 crore for FY09E-10E. With the slowdown in the economy a large number of infrastructure projects are expected to be deferred. Hence, SML is also cautious about the future expansion plans. Sanghvi, which has previously been eager to add capacity to meet the global crane requirement, had narrowed its capex plans for FY10E from Rs 200 crore to Rs 100 crore in Q2FY09. Now it has further brought it down to Rs 50 crore considering the demand-supply imbalance. Sanghvi's topline growth is directly related to the increase in carrying capacity. With constant fleet size the growth of the company will slow down.

### Exhibit 2: Capex Outflow

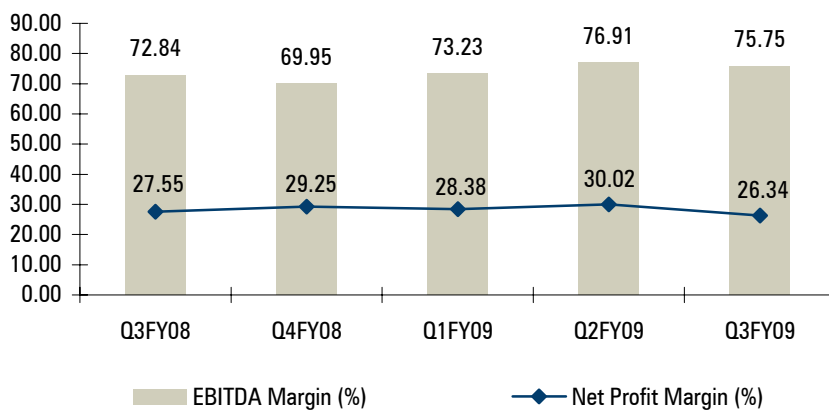


Source: Company, ICICIdirect.com Research

### Maintaining high margins

Soaring fuel prices kept the operating cost high throughout the first nine months of FY09 but repairs and maintenance cost has been low compared to the previous years as they have been adding more new cranes to their fleet. Net profit margin has declined in Q3FY09 on account of high interest expenses. However, the recent cut in diesel prices will reduce the operating cost of SML.

### Exhibit 3: Profit Margins (%)



Source: Company, ICICIdirect.com Research

## Risk & Concern

### High interest rates hamper growth plans

Sanghvi Movers has been able to maintain a healthy net profit margin (NPM) from 18.1% in FY05 to 28.3% in FY08. SML has completed a capex of Rs 226 crore in the first nine months of FY09, consequently increasing the debt. We believe the company will face pressure on its NPM due to higher borrowing costs and change in depreciation policy.

### Slowdown in economy

We expect the global slowdown will have an impact on the Indian economy. This will lead to a deferral of projects in India. Any curtailment in the capex plan of client companies will lead to a reduction in the utilisation rate (currently 85%) of the cranes. There is less probability of any increase in rentals. So, the slowdown may squeeze both topline and bottomline growth. We believe it would be difficult for Sanghvi to maintain such high growth in topline and bottomline, as it is directly related to the GDP growth.

Considering the deferral of capex plan and the above concerns we have revised our estimates.

#### Exhibit 4: Change in Estimates

	FY09E		FY10E	
	Old	Revised	Old	Revised
<b>Net Sales</b>	334.43	346.64	362.38	332.05
<b>EBITDA</b>	245.55	263.07	263.72	247.60
<b>EBITDA Margin (%)</b>	73.42	75.89	72.77	74.57
<b>Depreciation</b>	67.13	65.65	81.01	77.76
<b>Interest</b>	60.03	56.20	54.15	51.80
<b>Other Income/Extraordinary item</b>	3.34	4.16	3.62	3.32
<b>Reported Net Profit</b>	79.89	93.91	88.94	78.50
<b>EPS (Rs)</b>	18.20	21.40	20.27	17.89

Source: Company, ICICIdirect.com Research

## Valuations

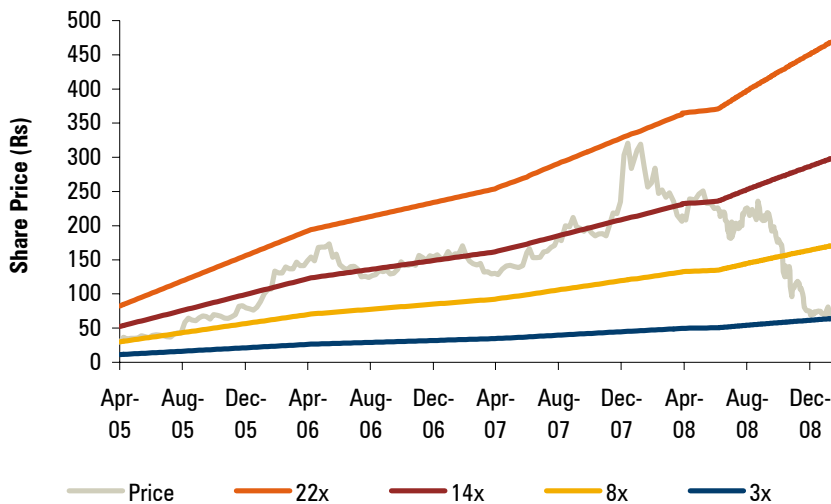
At the current price of Rs 67, the stock is trading at a P/E multiple of 3.13x its FY09E EPS of Rs 21.40 and 3.75x its FY10E EPS of Rs 17.89. The stock is available at 2.50x FY09E EV/EBIDTA and 2.65x FY10E EV/EBIDTA. Given the delay in projects due to the slowdown in the economy, the company will face headwinds in its earnings. Historically, the stock was trading at a P/E of 14x its earnings. However, now taking into account the deterioration in the stock markets and FY10E earnings downgrade we have changed the target price to Rs 107 from Rs 162 at a P/E multiple of 6x. It is trading at a FY10E P/BV ratio of 0.64x, which makes the stock attractive at current levels.

### Exhibit 5: Valuation Table

	Sales (Rs Crore)	Growth(%)	EPS (Rs)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
<b>FY08</b>	254.32	42.37	16.58	43.67	4.04	3.48	23.96	20.95
<b>FY09E</b>	346.64	36.30	21.40	29.07	3.13	2.50	24.38	22.03
<b>FY10E</b>	332.05	-4.21	17.89	-16.41	3.75	2.65	17.39	18.42

Source: Company, ICICIdirect.com Research

### Exhibit 6: P/E Chart



Source: Company, ICICIdirect.com Research

## ICICIdirect.com Coverage Universe

### Exhibit 7: Valuation Matrix

Transport Corporation of India				Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	TRACOR	CMP	33 FY08	1198.52	3.93	8.40	6.18	10.83	11.53
		Target	31 FY09E	1309.87	2.95	11.17	5.82	6.77	9.96
MCap	256 % Upside		-6 FY10E	1433.40	2.84	11.61	5.23	6.43	9.42
Gateway Distriparks Ltd				Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	GATDIS	CMP	71 FY08	271.14	6.36	11.23	6.43	10.98	12.93
		Target	95 FY09E	464.62	9.48	7.54	4.62	14.99	16.89
MCap	826 % Upside		33 FY10E	611.20	10.58	6.75	3.72	12.93	12.98
Allcargo Global Logistics Ltd				Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	ALLGLO	CMP	684 CY07	1613.46	34.20	19.99	11.21	16.21	20.40
		Target	- CY08	2176.19	43.22	15.82	6.91	19.30	23.02
MCap	1531 % Upside		- CY09E	2561.15	53.18	12.86	5.93	13.04	18.19
Sanghvi Movers Ltd				Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	SANMOV	CMP	67 FY08	254.32	16.58	4.04	3.48	23.96	20.95
		Target	107 FY09E	346.64	21.40	3.13	2.50	24.38	22.03
MCap	294 % Upside		60 FY10E	332.05	17.89	3.75	2.65	17.39	18.42

Source: Company, ICICIdirect.com Research

## RATING RATIONALE

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