

Sanghvi Forging & Engineering Ltd

Results above expectations

Fundamental Grade 2/5 (Moderate fundamentals)
Valuation Grade 5/5 (CMP has strong upside)

Industry Construction & Engineering

Sanghvi Forging & Engineering Ltd's (Sanghvi's) Q2FY12 revenues outperformed CRISIL Research's expectations due to faster execution of existing orders and new orders received in the quarter. Q2FY12 revenues increased ~60.8% q-o-q to Rs 123 mn. EBITDA margins however declined by 150 bps q-o-q to 15.9% due to increase in raw material cost. Reported PAT increased ~ 105.8% q-o-q to Rs 12.5 mn. As quarterly data prior to the IPO (May 2011) is unavailable, we could not compare the results on a y-o-y basis. We maintain our fundamental grade of **2/5**.

Q2FY12 result analysis

- Revenues increased by 60.8% q-o-q to Rs 123 mn due to faster execution of existing orders and new orders received by the company from the oil and gas and the shipbuilding sectors. Also, as per management, revenue contribution from Q1 is generally the lowest and hence the high q-o-q growth in Q2 is on a lower base.
- Raw material cost as a percentage of sales increased by ~1150 bps q-o-q to 63.5% due to mixed impact of rupee depreciation, increase in steel prices and change in product mix which necessitated high cost raw material. EBITDA margin however declined by just 150 bps q-o-q to 15.9% due to lower other expenses (~9% up q-o-q) in spite of sharp increase in revenue (~61% up q-o-q).
- Adjusted PAT increased 66% q-o-q to Rs 10.2 mn in Q2FY11 as against Rs 6.2 mn in Q1FY11, resulting in PAT margin to rise 30 bps q-o-q to 8.3%. Depreciation and interest cost remained almost same as in the previous quarter. The company had made foreign exchange gain of Rs 2.3 mn on export sales due to rupee depreciation, which has resulted in reported PAT of Rs 12.5 mn for Q2FY12.
- Inventory has increased to Rs 127 mn, ~ 60% over FY11 end levels because of increase in raw materials required for the execution of new orders.
- The company has utilised a portion of its IPO proceeds for reducing its debt from Rs 150 mn at FY11 end to Rs 66 mn in Q2FY11.
- According to the management, capacity expansion project is going as per the schedule.

Valuations: Current market price has 'strong upside'

We continue to apply price-to-earnings method to value Sanghvi. We maintain our fair value estimate at Rs 43 per share. At the current market price of Rs 29, the valuation grade is **5/5**.

KEY FORECAST

(Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Operating income	292	291	401	426	614
EBITDA	51	61	82	76	117
Adj PAT	26	27	39	31	21
Adj EPS-Rs	3.8	3.8	4.9	2.5	1.6
EPS growth (%)	10.5	NM	31.0	(49.7)	(34.6)
RoCE (%)	24.9	25.8	27.3	7.5	5.9
RoE (%)	33.8	26.2	26.2	7.9	3.3
PE (x)	-	-	6.0	11.8	18.1
P/BV (x)	-	-	1.3	0.6	0.6
EV/EBITDA (x)	2.2	1.7	4.6	15.4	10.8

NM: Not meaningful; CMP: Current market price

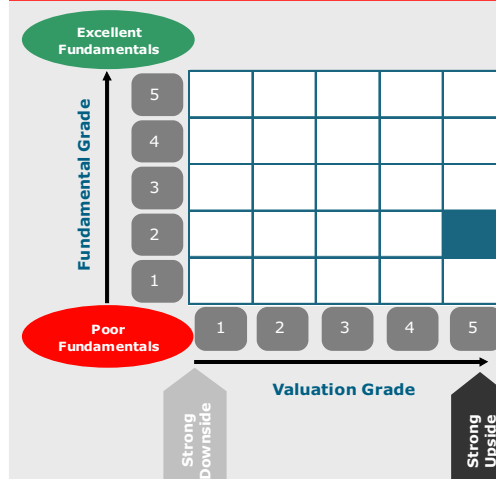
Source: Company, CRISIL Research estimate

November 15, 2011

Fair Value Rs 43

CMP Rs 29

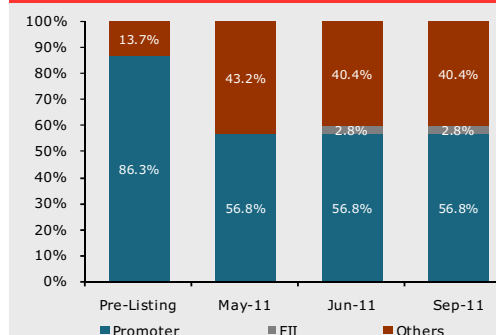
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5069/16883
NSE / BSE ticker	SANGHVIFOR /SANFORG
Face value (Rs per share)	10
Shares outstanding (mn)	8
Market cap (Rs mn)/(US\$ mn)	234/5
Enterprise value (Rs mn)/(US\$ mn)	379/7
52-week range (Rs) (H/L)	145/22
Beta	NA
Free float (%)	43.2%
Avg daily volumes (30-days)	28,404
Avg daily value (30-days) (Rs mn)	0.8

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	Since listing	12-m
SANGHVI	20%	5%	-74%	NM
NIFTY	-1%	0%	-6%	-17%

ANALYTICAL CONTACT

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