

SANGHVI MOVERS

INR 787

Not as bad as it looks

BUY



Sanghvi Movers' Q3FY07 numbers were significantly lower than our estimates in terms of revenues and profitability. Net revenues declined by 12.8% Y-o-Y and 18% sequentially. The key reason for this Y-o-Y underperformance is absence of any one-time revenues as it was in Q3FY06 when the company earned INR 225.8 mn (51% of total revenues) due to shutdown of Reliance Industries refinery; in Q2FY07 too Sanghvi Movers earned one-time revenues (overtime) of INR 90.1 mn (19% of total revenues in Q2FY07) from Suzlon Energy. Adjusting for these one-time revenues, the results do not seem disappointing.

Sanghvi Movers has maintained healthy EBITDA margin of 72.2%, a 520bps improvement on a Y-o-Y basis, as a result of its cost cutting initiatives and employee rationalisation. Net profits, however, declined by 31% Y-o-Y due to higher interest and depreciation charges. The company recently raised INR 726 mn through private placement to Goldpeak investment at INR 825. This has helped Sanghvi Movers address one of its major concerns of high leverage. The debt-equity ratio has now reduced to 1.6x from 2.9x in FY06.

We are revising our revenue forecast in FY07E and FY08E downwards by 14.2% and 15.2%, respectively, and our net profit forecast (excluding extraordinary items) by 12.8% and 17.5% in FY07E and FY08E, respectively. Adjusting for the dilution effect, the EPS forecast is revised downwards by 22.2% and 26.3% in FY07E and FY08E, respectively. On our revised EPS of INR 54.1 and INR 75.2, the stock trades at a PE of 14.6x and 10.5x our estimates for FY07E and FY08E, respectively. With no let up in demand due to infrastructure creation and continuous capacity expansion by Sanghvi Movers to cater to this growing demand, we maintain our 'BUY' recommendation.

Key Highlights

- Net revenues in Q3FY07 stood at INR 389 mn, down 12.8% Y-o-Y and 18% sequentially. Adjusting for the overtime earned from Suzlon Energy in the last quarter, revenues are flat this quarter.
- EBITDA, at INR 281 mn, de-grew 6.0% Y-o-Y. However, the EBITDA margins stood at 72.2% as against 67% in Q3FY06 and 72.5% in Q2FY07 because of the following reasons:
 - Substantial reduction in cost as a result of company's cost cutting measures and employee rationalisation.
 - Reduction in other operating expenses by 30% Y-o-Y.

Financials

Year to March	Q3FY07	Q3FY06	Y-o-Y%	Q2FY07	Q-o-Q%	FY07E	FY08E
Sales (INR mn)	389	446	(12.8)	473	(17.8)	1,807	2,411
EBITDA (INR mn)	281	299	(6.0)	343	(18.1)	1,249	1,658
Net profit (INR mn)	84	121	(30.8)	131	(35.9)	442	615
EPS (INR)	18.0	9.4	90.2	14.5	24.0	54.1	75.2
P/E (x)						14.6	10.5
EV/ EBITDA (x)						7.0	5.3
ROE (%)						33.1	29.3

February 2, 2007

Harish Sharma
+91-22-2286 4307
harish.sharma@edelcap.com

Krishnakant Thakur
+91-22-2286 4318
krishnakant.thakur@edelcap.com

Reuters : SNGM.BO
Bloomberg : SGM IN

Market Data

52-week range (INR) : 913 / 563
Share in issue (mn) : 7.4
M cap (INR bn/USD mn) : 5.8 / 132.4
Avg. Daily Vol. BSE ('000) : 19.0

Share Holding Pattern (%)

Promoters : 47.2
MFs, FIs & Banks : 0.9
FIs : 32.5
Others : 19.3

- PBIT, at INR 196 mn, declined 12.3% Y-o-Y and 24.7% sequentially on account of 14% Y-o-Y increase in depreciation cost.
- Net profit (at INR 84 mn) was down 31% Y-o-Y, resulting in net margin of 21.5% as against 27.2% in Q3FY06, on account of 75% Y-o-Y rise in interest cost.

*** Strong demand growth and capacity expansion**

Sanghvi Movers continues to get orders from Suzlon, Enercon, BHEL, and various other players from the cement and steel sectors. To cater to the strong demand in various sectors, Sanghvi Movers has already added cranes worth INR 1.2 bn in 9MFY07. We expect the company to end the financial year with a total gross block addition of INR 1.8 bn. We expect Sanghvi Movers to reach gross block of INR 7.3 bn in FY08E.

Financial snapshot								(INR mn)
Year to March	Q3FY07	Q3FY06	Y-o-Y%	Q2FY07	Q-o-Q%	FY06	FY07E	FY08E
Net sales	389	446	(12.8)	473	(17.8)	1,490	1,807	2,411
Employee Expenses	15	15	2.1	17	(6.7)	52	69	89
Operating & other expenditure	93	132	(29.7)	114	(18.3)	453	490	663
EBITDA	281	299	(6.0)	343	(18.1)	986	1,249	1,658
Depreciation	88	77	13.7	85	3.4	356	412	523
EBIT	196	185	5.8	260	(24.8)	630	837	1,135
Other income	2	1	98.0	2	37.9	6	15	15
Interest (Net)	67	38	74.5	62	7.9	137	220	271
PBT	129	185	(30.2)	198	(35.0)	499	632	879
Taxes	45	63	(29.0)	67	(33.2)	177	189	264
PAT	84	121	(30.8)	131	(35.9)	322	442	615
Extra-ordinary items	-	-		(171)	(100.0)	-	-	-
Adjusted PAT	84	121	(30.8)	131	(35.9)	322	442	615
Tax Rate (%)	0.3	0.3		0.3		35.3	30.0	30.0
% of sales								
Operating & Other expense (%)	23.9	29.7		24.1		30.4	27.1	27.5
Employee expense (%)	4.0	3.4		3.5		3.5	3.8	3.7
EBITDA margins (%)	72.2	67.0		72.5		66.2	69.1	68.8
NPM (%)	21.5	27.2		27.6		21.6	24.5	25.5

Company Background

Incorporated in 1989, Sanghvi Movers is one of the largest crane hiring companies in India and nineteenth largest in the world as per International Cranes magazine. It supplies two main types of cranes — hydraulic and crawler. It also undertakes turnkey projects, which includes providing equipment, technical services, and skilled manpower. Its clients include ONGC, Reliance, L&T, NFC, BHEL, IOCL, TISCO, ACC, Gujarat Ambuja, Hyundai, Ispat, Indogulf Fertilisers, Balco, Skanska Construction, Suzlon Energy, Delhi Metro, and Petron Engineering. It caters to the oil and gas, power, steel, refinery, cement, automobile, chemicals, wind mill, and power sectors (among others).

Investment Theme

Sanghvi Movers' largest clients are in the wind mills, refineries and petrochemicals, and power sectors. We believe that the market opportunity for hiring cranes in its client sectors is likely to be more than INR 28 bn, of which, Sanghvi Movers is likely to corner a lion's share because of its established market position.

Risks and Concerns

Sanghvi Movers is in the business of buying cranes and giving them on hire. This seems to be a low entry business and any significant scale up from the competitors pose a big threat to the company's business. Also, Sanghvi Movers derives ~55% of its revenues from the wind power sector. Hence, any slowdown in this user industry may drastically affect the company's performance and its business prospects.

Financial Statements

Income statement					(INR Mn)
Year to March	FY05	FY06E	FY07E	FY08E	FY09E
Income from operations	754	1,490	1,807	2,411	2,991
Direct costs	231	375	428	582	737
Employee costs	26	52	69	89	116
Other expenses	41	78	62	81	105
Total operating expenses	299	504	558	753	959
EBITDA	455	986	1,249	1,658	2,032
Depreciation and amortisation	213	356	412	523	580
EBIT	242	630	837	1,135	1,452
Interest expenses	47	137	220	271	312
Other income	5	6	15	15	15
Profit before tax	201	499	632	879	1,155
Provision for tax	64	177	189	264	358
Extraordinary items	-	-	-	-	-
Reported profit	137	322	442	615	797
Adjusted net profit	137	322	442	615	797
Shares outstanding	8	8	8	8	8
Dividend per share	4.4	8.8	13.5	18.8	24.4
Dividend payout (%)	26.2	22.3	25.0	25.0	25.0

Common size metrics- as % of net revenues

Year to March	FY05	FY06E	FY07E	FY08E	FY09E
Operating expenses	39.6	33.8	30.9	31.2	32.1
Depreciation	28.2	23.9	22.8	21.7	19.4
Interest expenditure	6.2	9.2	12.2	11.3	10.4
EBITDA margins	60.4	66.2	69.1	68.8	67.9
Net profit margins	18.2	21.6	24.5	25.5	26.6

Growth metrics (%)

Year to March	FY05	FY06E	FY07E	FY08E	FY09E
Revenues	64.7	97.7	21.3	33.4	24.1
EBITDA	79.9	116.6	26.6	32.8	22.5
PBT	108.3	148.4	26.7	39.1	31.5
Net profit	122.0	134.8	37.4	39.1	29.6
EPS	122.0	134.8	37.4	39.1	29.6

Cash flow statement

Year to March	FY05	FY06E	FY07E	FY08E	FY09E
Net profit	137	322	442	615	797
Add: Depreciation	213	356	412	523	580
Add: Misc expenses written off	1	-	-	-	-
Add: Deferred tax	22	(11)	-	-	-
Gross cash flow	373	667	854	1,138	1,377
Less: Dividends	36	72	111	154	199
Less: Changes in W. C.	107	116	13	36	15
Operating cash flow	230	479	730	948	1,163
Less: Change in investments	4	(4)	-	-	-
Less: Capex	845	1,797	1,800	1,500	1,200
Free cash flow	(619)	(1,314)	(1,070)	(552)	(37)

Balance sheet

As on 31st March	FY05	FY06E	FY07E	FY08E	FY09E
Equity capital	73	73	82	82	82
Reserves & surplus	495	735	1,783	2,245	2,842
Shareholders funds	568	808	1,865	2,326	2,924
Secured loans	1,019	2,342	3,042	3,542	4,042
Unsecured loans	25	31	31	31	31
Borrowings	1,044	2,373	3,073	3,573	4,073
Sources of funds	1,611	3,181	4,938	5,899	6,997
Gross block	2,366	4,056	5,856	7,356	8,556
Depreciation	842	1,199	1,610	2,134	2,714
Net block	1,523	2,858	4,246	5,223	5,843
Capital work in progress	18	124	124	124	124
Total fixed assets	1,541	2,982	4,370	5,347	5,967
Investments	4	0	0	0	0
Sundry debtors	197	327	473	631	782
Cash and equivalents	33	38	394	342	805
Loans and advances	143	282	325	357	393
Other current assets					
Total current assets	373	648	1,192	1,330	1,980
Sundry creditors and others	49	184	222	283	355
Provisions	82	100	237	329	430
Total CL & provisions	131	284	458	612	785
Net current assets	242	364	733	718	1,195
Net Deferred tax	(177)	(165)	(165)	(165)	(165)
Uses of funds	1,611	3,181	4,938	5,899	6,997
Book value per share (BV)	69	99	228	284	358

Ratios

Year to March	FY05	FY06E	FY07E	FY08E	FY09E
ROE (%)	26.4	46.8	33.1	29.3	30.4
ROCE (%)	19.8	26.5	21.0	21.2	22.8
Current ratio	2.9	2.3	2.6	2.2	2.5
Debtors (Days)	95	95	95	95	95
Fixed assets t/o (x)	0.6	0.7	0.5	0.5	0.5
Debt/Equity	1.8	2.9	1.6	1.5	1.4

Valuations parameters

Year to March	FY05	FY06E	FY07E	FY08E	FY09E
EPS (INR)	16.8	39.4	54.1	75.2	97.4
Y-o-Y growth (%)	122.0	134.8	37.4	39.1	29.6
CEPS (INR)	47.9	92.9	104.4	139.2	168.4
PE (x)	47.0	20.0	14.6	10.5	8.1
Price/BV(x)	11.3	8.0	3.5	2.8	2.2
EV/Sales (x)	9.9	5.9	4.9	3.6	2.9
EV/EBITDA (x)	16.4	8.9	7.0	5.3	4.3

Edelweiss Securities

14th Floor, Express Towers,
Nariman Point, Mumbai – 400 021
Board: (91-22) 2286 4400
Email: research@edelcap.com



Naresh Kothari – 2286 4246

Head, Institutional Equities

Vikas Khemani – 2286 4206

Head, Institutional Equities

INDIA RESEARCH

SECTOR

INSTITUTIONAL SALES

Shriram Iyer - 2286 4256	Head – Research	Nischal Maheshwari - 2286 4205
Gautam Roy - 2286 4305	Airlines, Textile	Rajesh Makharia - 2286 4202
Ashutosh Goel - 2286 4287	Automobiles, Auto Components	Shabnam Kapur - 2286 4394
Vishal Goyal, CFA - 2286 4370	Banking & Finance	Amish Choksi - 2286 4201
Revathi Myneni - 2286 4413	Cement	Balakumar V - (044) 4263 8283
Sumeet Budhraj - 2286 4430	FMCG	Monil Bhala - 2286 4363
Harish Sharma - 2286 4307	Infrastructure, Auto Components, Mid Caps	Ashish Agrawal - 2286 4301
Priyanko Panja - 2286 4300	Infrastructure, Engineering, Telecom	Nikhil Garg - 2286 4282
Hitesh Zaveri - 2286 4424	Information Technology	Swati Khemani - 2286 4266
Parul Inamdar - 2286 4355	Information Technology	Neha Shahra - 2286 4276
Priyank Singhal - 2286 4302	Media, Retail	Priya Ramchandran - 2286 4389
Prakash Kapadia - 2286 4432	Mid Caps	Anubhav Kanodia - 2286 4361
Niraj Mansingka - 2286 4304	Oil & Gas, Petrochemicals	Tushar Mahajan - 2286 4439
Nimish Mehta - 2286 4295	Pharmaceuticals, Agrochemicals	Harsh Biyani - 2286 4419
Manika Preamsingh - 4019 4847	Economist	Nirmal Ajmera - 2286 4258
Sunil Jain - 2286 4308	Alternative & Quantitative	Ankit Doshi - 2286 4671
Yogesh Radke - 2286 4328	Alternative & Quantitative	Ravi Pilani - 4009 4533
		Dipesh Shah - 2286 4434

Email addresses: firstname.lastname@edelcap.com

e.g. naresh.kothari@edelcap.com

unless otherwise specified

RATING INTERPRETATION

Buy	Expected to appreciate more than 20% over a 12-month period	Reduce	Expected to depreciate up to 10% over a 12-month period
Accumulate	Expected to appreciate up to 20% over a 12-month period	Sell	Expected to depreciate more than 10% over a 12-month period
Trading Buy	Expected to appreciate more than 10% over a 45-day period	Trading Sell	Expected to depreciate more than 10% over a 45-day period

This document has been prepared by Edelweiss Securities Private Limited (Edelweiss). Edelweiss and its holding company and associate companies are a full service, integrated investment banking, portfolio management and brokerage group. Our research analysts and sales persons provide important input into our investment banking activities. This document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. Edelweiss or any of its affiliates shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. We and our affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates to any registration or licensing requirements within such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law, and persons in whose possession this document comes, should inform themselves about and observe, any such restrictions. The information given in this document is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. Edelweiss reserves the right to make modifications and alterations to this statement as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries. Neither Edelweiss nor any of its affiliates, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Analyst holding in stock: no.