

Neutral

CMP: 350

BSE Code	532710
NSE Code	SADBHAV

Key Data

Sensex	9385
52 week H/L (Rs)	1600/350
Market Cap (Rs Cr)	438.25
Avg. daily vol. (6m)	5538
Face Value (Rs)	10

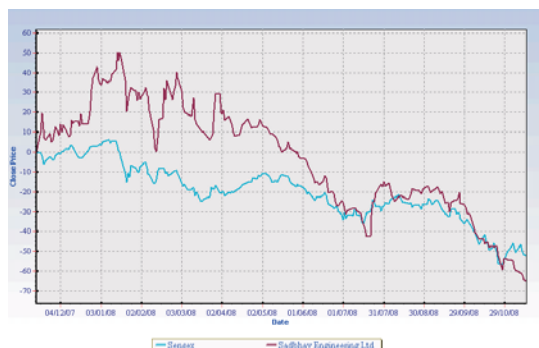
Source: Capitaline

Shareholding Pattern (%)

Promoters	47.56
Institution	13.39
Foreign holding	25.81
Non-promoter corp. holding	10.12
Public & Others	3.14

Source: Capitaline

One-Year Performance (Rel. to Sensex)



Source: Capitaline

RESULTS HIGHLIGHTS

- SADBHAV Engineering Ltd (SEL) reported a 22% (yoy) increase in revenues to 124.21 Cr, slightly lower than our expectation of 132 Cr. Operating profit and PAT witnessed 16.9% (yoy) and -9% (yoy) growth respectively to Rs 14.3 Cr and Rs 5 Cr.
- Operating margins were down by 50 bps (yoy) to 11.54% however, they were up 36 bps on sequential basis. As expected, margin pressure has eased and margins are likely to expand for the rest of the year due to decline in commodity prices.
- Interest and Depreciation costs soared 49% and 24% (yoy).
- The order book of the company stands at Rs 2950 Cr i.e. 3.08 × TTM sales of Rs 955.52 Cr.

FINANCIALS

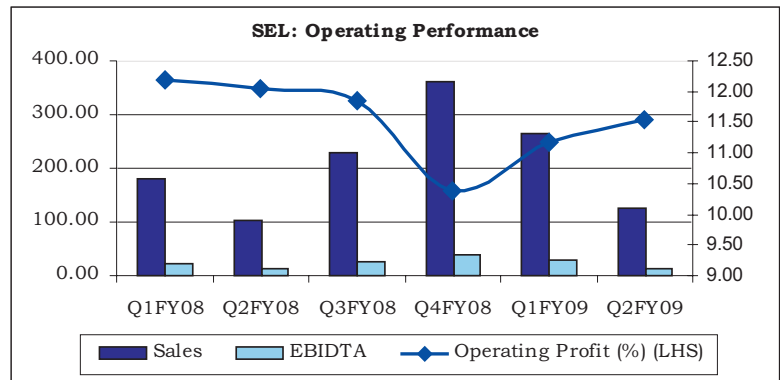
(Rs crores)	Q2 FY09	Q2 FY08	YoY (%)	Q1 FY09	QoQ (%)
Net Sales	124.21	101.80	22.01	262.97	-52.77
Total Expenditure	109.88	89.54	22.72	233.56	-52.95
Core EBITDA	14.33	12.26	16.88	29.41	-51.28
EBITDA Margins (bps)	11.54	12.04	-50.63	11.18	35.69
Other Income	0.43	0.62	-30.65	0.24	79.17
Depreciation	4.04	3.25	24.31	3.82	5.76
EBIT	10.72	9.63	11.32	25.82	-58.48
Interest	4.19	2.81	49.11	4.26	-1.64
Profit Before Tax	6.53	6.82	-4.25	21.56	-69.71
Tax	1.49	1.27		6.68	
Reported Net Profit	5.04	5.55	-9.19	14.88	-66.13
Extra Ordinary Items	0.00	0.00		0.00	
Adjusted Net Profit	5.04	5.55	-9.19	14.88	-66.13
NPM (%)	4.06	5.45		5.66	
No of shares	1.25	1.25		1.25	
EPS (Ann.)	4.03	4.44		11.90	

Strong Execution Continues

Sadbhav Engineering reported 22% and 16.9% growth in topline and EBITDA which was slightly lesser than our estimates. As expected, the operating margins expanded sequentially, though were lower by 50 bps on yoy basis. We expect margins to further improve as commodity prices have sharply declined over Q2FY09. The net profit was 9% lower on yoy basis owing to high financing costs and low operating margins.

During the quarter, work which was performed worth Rs 26 Cr could not be booked as client did not certify it and will be booked in Q3FY09.

Out of the total sales of Rs 124.2 Cr, 65.2% was attributed to roads, 18% to water and irrigation and 20.4% to mining work.



The order book of Rs 2950 Cr continues to be dominated by road projects at 47% with the rest being equally divided between Irrigation and Mining. The company is having lowest bidder status L1 for about Rs 2400 Cr worth of projects.

The execution of BOT projects continues as planned and currently the only operation BOT project is Ahmedabad Ring Road which collected revenues worth Rs 3.88 Cr.

The management is at advance level talks for stake sell in SEL's 100% subsidiary Sadbhav Infrastructure Projects Ltd (SIPL). Last quarter the management has indicated around 12-15% stake sell in the subsidiary for around Rs 100 Cr. **Now we expect the stake sell to happen at much lower valuation due to the crisis witnessed by markets over the last quarter.**

Valuation and Recommendation

Currently Sadbhav trades at $7.5 \times$ TTM EPS of Rs 46.5 i.e almost at par to its industry peers. The company's order book stands at more than $3 \times$ its TTM sales and revenue visibility will be further improved due to its L1 status on Rs 24k projects. Though developments during Q2FY09 are encouraging, we continue to maintain our 'Neutral' considering the ongoing credit crisis and financial markets conditions.

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RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period
Accumulate Expected to appreciate up to 20% over a 12-month period
Hold Expected to remain in a narrow range
Avoid Expected to depreciate up to 10% over a 12-month period
Exit Expected to depreciate more than 10% over a 12-month period

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