

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
EBIDTA	2,528	2,558	3,099	3,364	3,485
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
Capital employed	10,098	12,514	14,010	12,986	13,452
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
Capital deployed	10,098	12,514	14,010	12,986	13,452
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)

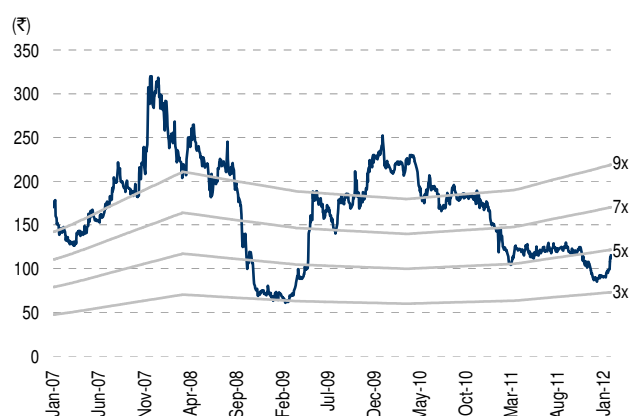
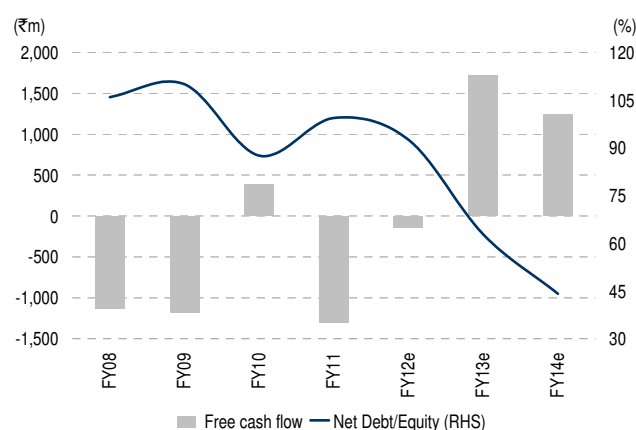
Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
PAT	906	863	972	1,070	1,242
+ Non-cash items	914	1,051	1,105	1,201	1,259
Cash profit	1,820	1,914	2,077	2,271	2,500
- Incr./decr. in WC	(40)	314	290	157	57
Operating cash-flow	1,861	1,600	1,787	2,115	2,443
- Capex	1,475	2,907	1,923	400	1,200
Free-cash-flow	385	(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.

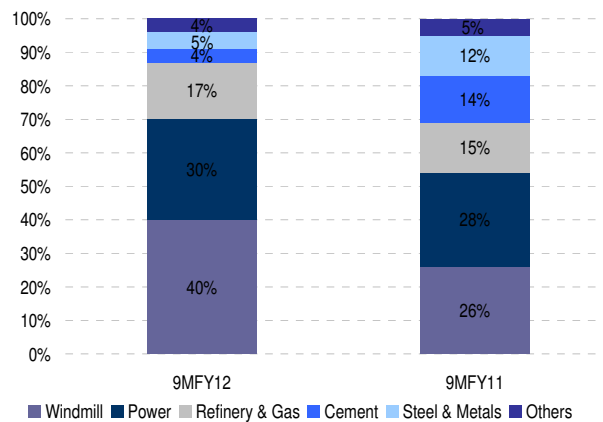
3QFY12 performance strong

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).

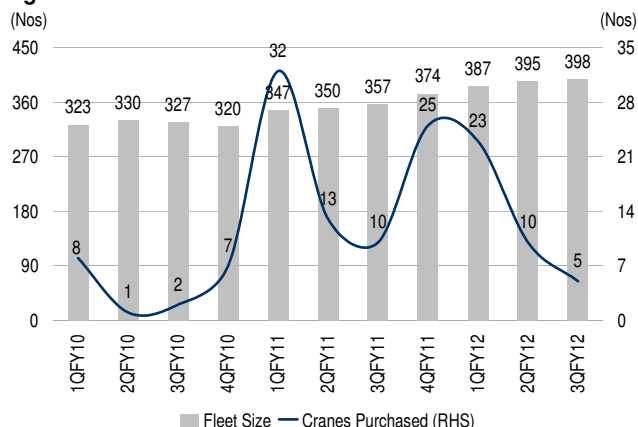
However, delays in a few power projects, where high-capacity cranes were to be deployed, have been seen. Management expects a slowdown in several other sectors besides wind energy and power. In 9MFY12, the wind-turbine segment contributed the most to revenues, followed by the power segment. Comparative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

Fig 7 – Revenue break-up



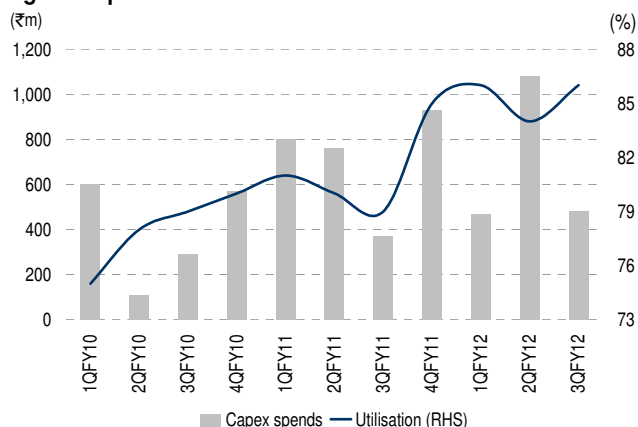
Source: Company, Anand Rathi Research

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

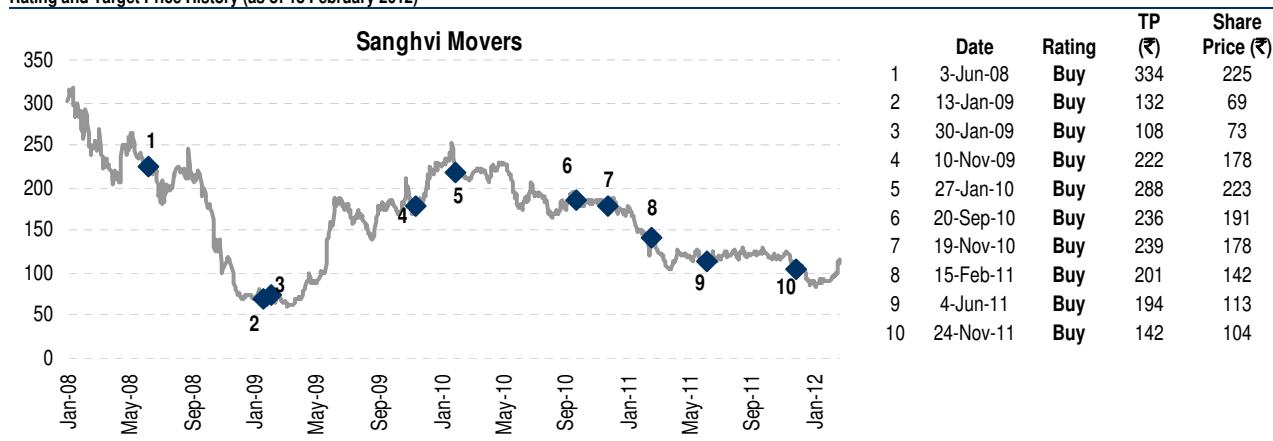
Appendix 1

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

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