24 November 2011

Sanghvi Movers

Rating: **Buy**
Target Price: ₹142
Share Price: ₹104

Demand sluggish, margins retained; we maintain a Buy at lower PT

Despite attractive valuations, the environment and outlook for Sanghvi Movers is challenging. However, business from the wind-energy and power sectors continues to grow, with fleet utilization up, to 84%. Despite lower yields, it holds to plans for ₹2.3bn capex in FY12. We retain a Buy but at a lower price target of ₹142 (earlier ₹194).

- **Challenging environment; Sanghvi rethinks FY13 expansion.** Due to the recession, foreign competition is looking to hire out cranes in India, at cheaper rates. Within India too, there have been delays in the execution of power projects and a slowdown in steel and cement capacity build-up. Sanghvi had bought 33 cranes for ₹1.5bn in 1HFY12, and is going ahead with its planned ₹2.3bn capex for FY12. However, considering the current challenging environment, it has not finalized FY13 capex.

- **2Q revenue up 22.6%; margin maintained, profit down 40.8%.** Sanghvi's 2Q revenue growth was 22.6% yoy, in line with our estimate. Demand for cranes continues in power and wind turbines, and resulted in 84% utilization in 2Q for Sanghvi. The EBITDA margin was 71%, a 32bps yoy contraction, in line with our estimate. During the quarter overtime revenue was 6.2% of sales (~10% a year ago). Profitability was down 40.8% yoy, owing to one-offs during the quarter. Adjusted for this, net profit was 14.4% lower.

- **We introduce FY14 estimates.** For FY14, we expect revenue growth of 6.3% over FY13, with capex of ₹1.2bn in FY14 (₹1bn in FY13e). We estimate 14.5% earnings growth in FY14 over FY13.

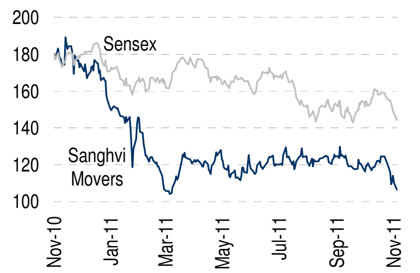
- **Valuation.** We lower FY12 and FY13 earning estimates 0.7% and 14.7%, respectively, to factor in an expected demand slowdown. The stock trades at 5x FY12e and 4.5x FY13e earnings. We re-iterate a Buy. **Risks:** lower demand, higher interest rates.

Key data	SGM IN / SNGM.BO
52-week high / low	₹199 / ₹103
Sensex / Nifty	15946 / 4778
3-m average volume	US$0.1m
Market cap	₹5bn / US$96m
Shares outstanding	43.3m

Shareholding pattern (%)	Sep '11	Jun '11	Mar '11
Promoters	45.5	45.5	45.5
- of which, Pledged	3.1	3.0	3.0
Free Float	54.5	54.5	54.5
- Foreign institutions	20.7	20.7	21.3
- Domestic institutions	3.7	3.6	4.4
- Public	30.1	30.2	28.8

Estimates revision (%)	FY12e	FY13e	FY14e
Sales	1.9	(8.5)	-
EBITDA	1.2	(8.8)	-
EPS	(0.7)	(14.7)	-
Target multiple (x)	6.6	6.0	5.2

Relative price performance



Source: Bloomberg

Key financials (YE: Mar)	FY010	FY11	FY12e	FY13e	FY14e
Sales (₹m)	3,315	3,612	4,264	4,605	4,896
Net profit (₹m)	906	863	929	1,023	1,172
EPS (₹)	20.9	19.9	21.5	23.6	27.1
Growth (%)	(10.7)	(4.7)	7.7	10.1	14.5
PE (x)	5.0	5.2	4.8	4.4	3.8
P/BV (x)	0.9	0.7	0.7	0.6	0.5
RoE (%)	18.4	15.0	14.2	13.9	14.2
RoCE (%)	18.9	15.5	15.6	16.0	16.8
Dividend yield (%)	2.9	2.9	3.2	3.5	4.0
Net gearing (%)	87.5	99.3	91.0	69.0	50.5

Source: Company, Anand Rathi Research

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
Net revenues	3,315	3,612	4,264	4,605	4,896
Revenue growth (%)	(7.3)	9.0	18.0	8.0	6.3
- Op. expenses	787	1,054	1,236	1,312	1,395
EBIDTA	**2,528**	**2,558**	**3,027**	**3,293**	**3,500**
EBITDA margin (%)	76.3	70.8	71.0	71.5	71.5
- Interest expenses	475	492	685	696	608
- Depreciation	787	929	1,105	1,223	1,301
+ Other income	112	123	120	120	120
- Tax	472	397	427	470	539
Effective tax rate (%)	34	31	32	32	32
Reported PAT	906	863	929	1,023	1,172
+/- Extraordinary items	0	0	0	0	0
+/- Minority interest	0	0	0	0	0
Adjusted PAT	902	862	929	1,023	1,172
Adj. FDEPS (₹/share)	20.9	19.9	21.5	23.6	27.1
Adj. FDEPS growth (%)	(10.7)	(4.7)	7.7	10.1	14.5

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	6,081	6,918	7,878
Net worth	5,354	6,186	6,947	7,784	8,743
Minority interest	0	0	0	0	0
Total debt	4,745	6,328	6,728	5,928	5,128
Def. tax liab. (net)	657	779	779	779	779
Capital employed	**10,098**	**12,514**	**13,675**	**13,713**	**13,872**
Net fixed assets	8,813	10,791	11,609	11,386	11,284
Investments	0	0	0	0	0
- of which, Liquid	0	0	0	0	0
Net working capital	1,226	1,540	1,659	1,766	1,878
Cash and bank balance	59	183	408	560	710
Capital deployed	**10,098**	**12,514**	**13,675**	**13,713**	**13,872**
Net debt	87.5	99.3	91.0	69.0	50.5
WC days	137.3	139.8	136.9	135.7	135.8
Book value (₹/sh)	123.7	142.9	160.5	179.8	202.0

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
PAT	906	863	929	1,023	1,172
+ Non-cash items	914	1,051	1,105	1,223	1,301
Cash profit	1,820	1,914	2,034	2,246	2,473
- Incr./(decr.) in WC	(40)	314	119	108	111
Operating cash-flow	1,861	1,600	1,916	2,138	2,362
- Capex	1,475	2,907	1,923	1,000	1,200
Free cash-flow	385	(1,307)	(7)	1,138	1,162
- Dividend	151	151	169	186	213
+ Equity raised	2	0	0	0	0
+ Debt raised	(249)	1,584	400	(800)	(800)
- Investments	0	0	(0)	0	0
- Misc. items	4	1	0	0	0
Net cash-flow	(17)	124	225	153	149
+ Op. cash & bank bal.	76	59	183	408	561
Cl. cash & bank bal.	59	183	408	561	710

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹104

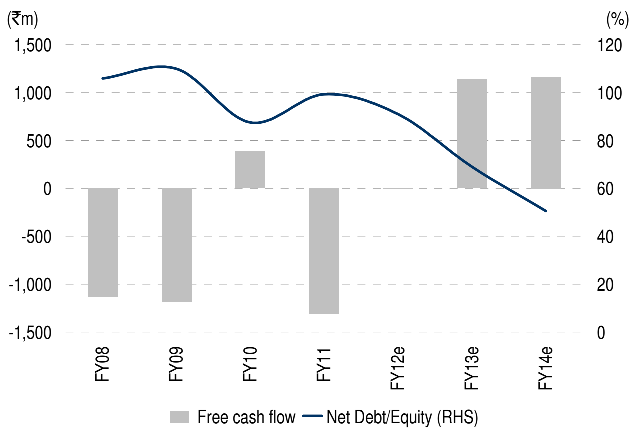
Year-end: Mar	FY10	FY11	FY12e	FY13e	FY14e
P/E (x)	5.0	5.2	4.8	4.4	3.8
P/B (x)	0.8	0.7	0.6	0.6	0.5
EV/sales (x)	2.8	2.9	2.5	2.1	1.8
EV/EBITDA (x)	2.7	2.7	2.3	2.1	2.0
RoAE (%)	18.4	15.0	14.2	13.9	14.2
RoACE (%)	18.9	15.5	15.6	16.0	16.8
Dividend yield (%)	2.9	2.9	3.2	3.5	4.0
Dividend payout (%)	16.7	17.6	18.1	18.1	18.1
EBITDA growth (%)	(5.1)	1.5	17.4	8.4	6.1
EPS growth (%)	(10.7)	(4.7)	7.7	10.1	14.5
Gross margins (%)	84.8	75.6	82.3	82.5	82.5
EBIT margins (%)	55.9	48.5	47.9	47.6	47.4
PAT margin (%)	27.3	23.9	21.8	22.2	23.9
Asset turn (x)	3.2	3.3	3.2	3.2	3.0
Debtor turn (days)	138.4	134.2	125.2	129.0	129.1

Source: Company, Anand Rathi Research

Fig 5 – Valuation chart (PE)

Source: Bloomberg, Anand Rathi Research

Fig 6 – Net debt-to-equity and free cash-flow



Source: Company, Anand Rathi Research

Slowdown prospects curb FY13 capex

Uncertain expansion plans point to management's expectations of a slowdown in demand, excluding in wind energy and power. Further, in addition to local players, the company is also facing competition from foreign players.

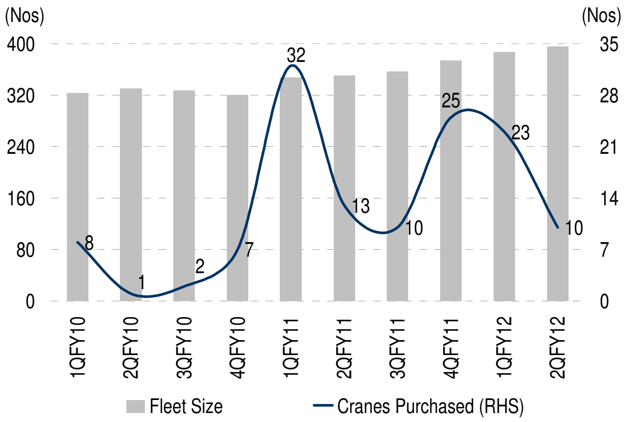
The company has incurred capital expenditure of ₹1.5bn in the last two quarters and will be adding, in 2HFY12, cranes worth another ₹0.8bn-0.9bn to its fleet.

It has also indicated mounting competition from both domestic and foreign players, which would hold yields in check, at 2.5-2.8%. Due to the recession the world over, new projects have been put on hold, and foreign players are looking to hire out cranes in India, at cheaper rates.

We lower our FY12 earnings estimate by 0.7%, following expected higher interest outgo and lower capacity utilization in 2HFY12. We also lower FY13 revenue and earning estimates, by 8.5% and 14.7%, respectively, on the back of lower capital expenditure plans for FY13.

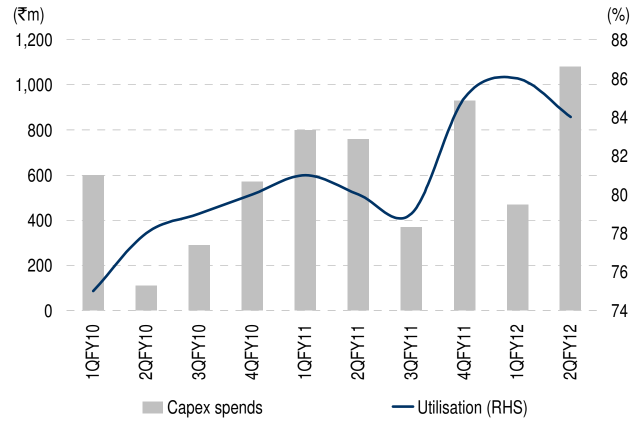
We lower our estimate of Sanghvi's FY13 capex plans to ₹1bn against our earlier estimate of ₹2.4bn, on the prevailing weak demand environment. There have been delays in the execution of power projects and a slowdown in steel and cement capacity build-up.

Fig 7 – Fleet size



Source: Company, Anand Rathi Research

Fig 8 – Capex and utilization trend



Source: Company, Anand Rathi Research

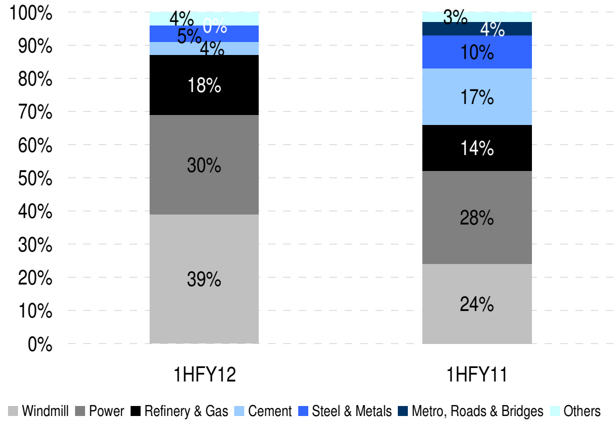
Quarterly performance

Slightly disappointing 2QFY12 adjusted results

Sanghvi's 2Q revenue growth was a strong 22.6% yoy, in line with our estimate. Demand for cranes continues in sectors such as power and wind turbines, resulting in 84% utilization in 2Q (down from 86% in 1QFY12). 2Q EBITDA margin was 71%, contracting by 32bps yoy, in line with our estimate. Expenditure rose 21.3%, to ₹316.6m. In 2QFY12, overtime revenue was 6.2% of sales (~10% a year ago).

However, there were delays in a few power projects where high-capacity cranes were to be deployed. Management also expects a slowdown in several sectors, apart from wind energy and power. The company expects similar utilization in 2HFY12. In 1HFY12, the wind-turbine segment contributed the most to revenues, followed by the power segment. The comparative contribution is shown in the chart below.

Fig 9 – Revenue break-up



Source: Anand Rathi Research, Company

Earnings growth impacted by one-offs

Profitability was down 40.8% yoy, owing to one-offs during the quarter. 'Other expenditure' in 2Q, of ₹17.7m, stemmed from the re-statement of short-term foreign currency loans and Sanghvi's change in accounting practice for borrowing cost, which resulted in ₹64.6m in interest cost. Earlier, Sanghvi capitalized borrowing cost (loan processing fees, stamp duty paid and interest on term loans till a crane was put to use). Though this was allowed by the Income-Tax Act, cranes are not considered a qualifying asset according to the accounting standard. Hence, this has now been de-recognized. Adjusted for this, net profit was 14.4% lower.

Fig 10 – Quarterly performance

Year-end: Mar	2QFY11	2QFY12	% yoy	1HFY11	1HFY12	% yoy
Sales (₹m)	891	1,093	22.6	1,744	2,137	22.5
EBITDA (₹m)	630	776	23.2	1,264	1,522	20.4
EBITDA margin (%)	70.7	71.0	32.1bps	72.5	71.2	(128.6)bps
Interest (₹m)	118	256	117.4	239	405	69.7
Depreciation (₹m)	227	274	20.7	441	532	20.8
Other income (₹m)	61	27	(55.7)	109	179	65.0
PBT (₹m)	347	273	(21.2)	693	763	10.1
Tax (₹m)	102	128	26.1	208	252	21.2
Tax rate (%)	29.3	46.9	1,757.8bps	30.0	33.0	302.1bps
PAT (₹m)	245	145	(40.8)	485	511	5.3

Source: Company, Anand Rathi Research.

Fig 11 – Quarterly performance vs Anand Rathi estimates

(₹m)	2QFY12e	2QFY12	Diff. (%)
Revenue	1086.2	1092.8	0.6
EBITDA	771.2	776.2	0.7
EBITDA margin (%)	71.0	71.0	3.1
PAT	268.0	145.1	(45.9)
Adj PAT (adj for one-off interest expenditure)	268.0	209.7	(21.7)

Source: Company, Anand Rathi Research

Valuation and View

Despite compelling valuations, the stock may not perform well on account of a slowdown in demand and keen competition. We maintain a Buy on Sanghvi Movers, but lower our price target to ₹142 (based on 6x FY13e earnings, a 20% discount to the three-year average one-year-forward PE multiple), from ₹194 earlier.

Change in estimates

To factor in the demand slowdown expected ahead, we lower our FY12 and FY13 estimates, by 0.7% and 14.7%, respectively.

We introduce FY14 estimates

For FY14, we expect revenue growth of 6.3% over FY13, with capex of ₹1bn in FY13 and ₹1.2bn in FY14. We expect 14.5% earnings growth in FY14 over FY13.

Fig 12 – Change in estimates

	FY12e			FY13e		
Year-end: Mar (₹m)	New	Old	% Change	New	Old	% Change
Net sales	4,264	4,183	1.9	4,605	5,034	(8.5)
EBITDA	3,027	2,991	1.2	3,293	3,612	(8.8)
EBITDA margins (%)	71.0	71.5	0.5 bps	71.5	71.7	0.2 bps
PAT	929	935	(0.7)	1,023	1,200	(14.7)

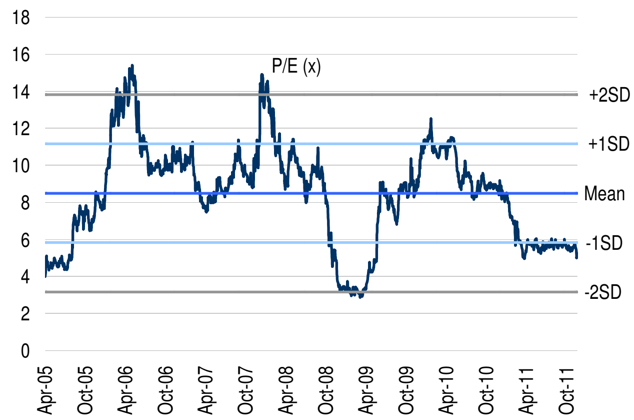
Source: Anand Rathi Research

Valuation

The company has indicated that growth in infrastructure spending would dip and has hinted at 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. This in turn is expected to result in 11% earnings CAGR over FY11-14.

We maintain a Buy on Sanghvi Movers, but lower our price target to ₹142 (6x target PE, a 20% discount to its past three-year average). At the ruling price, the stock trades at a PE of 4.5x FY13e EPS. **Risks:** slowdown in infrastructure demand and increasing interest rates.

Fig 13 – One-year-forward PE - Mean and standard deviation



Source: Bloomberg, Anand Rathi Research

Appendix 1

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The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

Important Disclosures on subject companies
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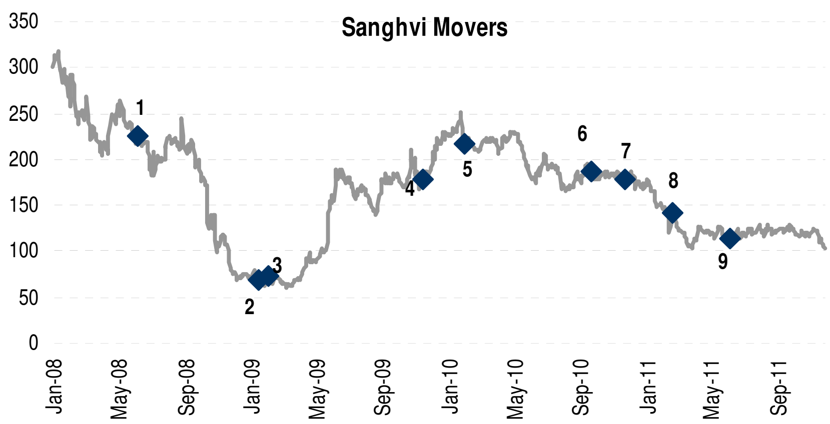

	Date	Rating	TP (₹)	Share Price (₹)
1	3-Jun-08	Buy	334	225
2	13-Jan-09	Buy	132	69
3	30-Jan-09	Buy	108	73
4	10-Nov-09	Buy	222	178
5	27-Jan-10	Buy	288	223
6	20-Sep-10	Buy	236	191
7	19-Nov-10	Buy	239	178
8	15-Feb-11	Buy	201	142
9	4-Jun-11	Buy	194	113

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Large Caps (>US$1bn)	>20%	5-20%	<5%
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