

Sanghvi Forging & Engineering Ltd

Q3FY12 First cut – Results beat expectations

Fundamental Grade 2/5 (Moderate fundamentals)

Valuation Grade 4/5 (CMP has upside)

Industry Construction & Engineering

Sanghvi Forging & Engineering Ltd's (Sanghvi's) Q3FY12 revenues outperformed CRISIL Research's expectations due to faster order book execution. Revenues increased by ~11.9% q-o-q to Rs 138 mn. EBITDA margin improved by 44 bps to 16.4% due to lower raw material cost arising from favourable product mix, partially offset by increase in other expenses. Adjusted PAT increased ~3.9% q-o-q to Rs 10.6 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 will revise our estimates upwards post detailed interaction with the management. We maintain our fundamental grade of **2/5**.

Q3FY12 result analysis

- Sanghvi's Q3FY12 revenues increased by ~11.9% q-o-q to Rs 138 mn due to faster order book execution. The company has bagged orders worth Rs 190 mn in five months ending December 2011, whose execution provided momentum to the top line. The growth is significant on the high base of Q2FY12, which grew 61% q-o-q.
- EBITDA margin improved by 44 bps to 16.4% due to fall in raw material cost because of change in product mix. The gain was, however, limited by an increase in other expenses, which increased 342 bps as a percentage of sales to 20% because of an increase in the job work sourced by the company.
- Interest expense increased ~63.6% q-o-q to Rs 5.3 mn because of the increase in loan and Letter of credit (LC) limit for funding working capital requirements.
- Increase in EBITDA was netted off by increase in interest expense and adjusted PAT increased by 3.9% to Rs 10.6 mn. Adjusted PAT margin declined by 59 bps to 7.7%. EPS was Rs 0.8 in Q3FY11.

Valuation: Current market price has upside

We continue to apply the price-to-earnings method to value Sanghvi. We maintain our fair value estimate of Rs 43 per share. At the current market price of Rs 36, the valuation grade is **4/5**.

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)
Dividend yield (%)	24.9	25.8	27.3	7.5	5.9
RoCE (%)	33.8	26.2	26.2	7.9	3.3
RoE (%)	-	-	7.2	14.3	21.9
PE (x)	-	-	1.6	0.7	0.7
P/BV (x)	2.2	1.7	5.2	16.4	11.4
EV/EBITDA (x)	292	291	401	426	614

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimate

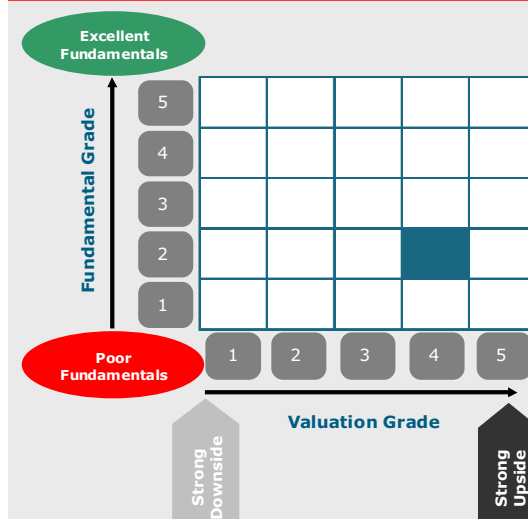


February 13, 2012

Fair Value Rs 43

CMP Rs 36

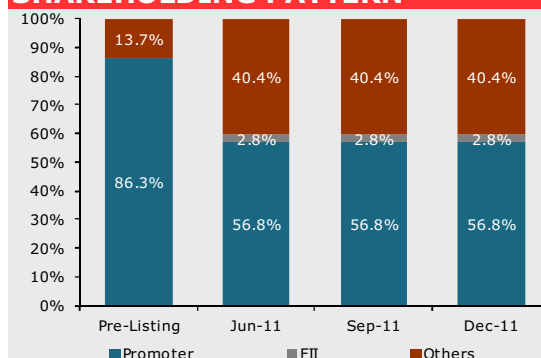
CFV MATRIX



KEY STOCK STATISTICS

NIFTY / SENSEX	5390/17773
NSE / BSE ticker	SANGHVIFOR / SANFORG
Face value (Rs per share)	10
Shares outstanding (mn)	8
Market cap (Rs mn)/(US\$ mn)	284/6
Enterprise value (Rs mn)/(US\$ mn)	428/8
52-week range (Rs) (H/L)	145/22
Beta	NA
Free float (%)	43.2%
Avg daily volumes (30-days)	48,310
Avg daily value (30-days) (Rs mn)	1.4

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	Since Listing
SANGHVI	33%	17%	27%	-68%
NIFTY	11%	4%	6%	0%

ANALYTICAL CONTACT

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