

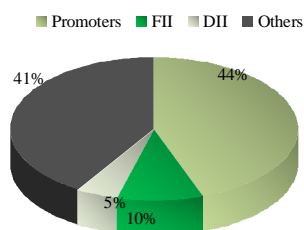
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Investment Details	
CMP (Rs.)	185.3
Target (Rs.)	230
Upside Potential (%)	
From CMP	24.1
From initiating coverage price	19.3
Horizon (Months)	12 M

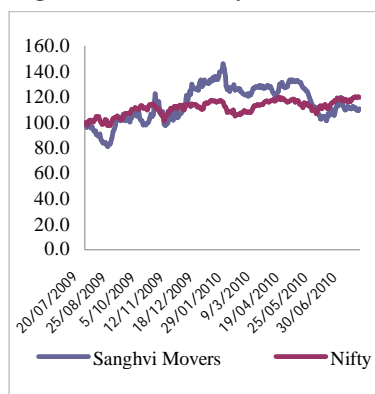
Profile	
Industry	Capital goods
Market Cap (Rs cr.)	802.4
Face Value (Rs.)	2
52-week high/low (Rs.)	281.9/138
Book Value (Rs.)	111.9
Price / Book Value	1.7
PE Ratio (TTM)	8.9
Dividend (%)	150
Average Daily Volume (6 m)	10,874

Shareholding pattern



Source: BSE. Figures as on June 30, 2010.

Sanghvi Movers V/s Nifty



BUY Sanghvi Movers Limited

Sanghvi Movers Ltd (SML) belongs to the Sanghvi Group, promoted by C P Sanghvi and A P Sanghvi and is the largest domestic crane hiring company. In fact, as per Cranes International magazine, it ranked third in Asia and ninth largest company in the world. It is engaged in the business of providing hydraulic and crawler cranes to various industries in the infrastructure space with a fleet size of 320 cranes with lifting capacity ranging from 20 tons to 800 tons.

It operates from numerous depots located at Pune, Vadgaon, Chakan, Nagpur, Jamnagar, Bharuch, Delhi, Cuttack, Bangalore, Chennai and others. Most of the sectors that SML caters to are priority sectors for the government and attracts sizable investment every year. Wind power, steel, power, refinery, cement, metals, construction and paper are major industries, which it services. The company also has operations in power generation wind mills of 5.05 megawatts installed in states of Rajasthan and Karnataka. However, company does not have any plan to expand the power business in near future and cranes operation remains its main business as it contributes over 98% of total revenues.

KEY INVESTMENT ARGUMENTS

➤ Large Market share

SML is the market leader in this segment with a fleet size of 320 cranes. In fact, as per Cranes International magazine, it ranked third in Asia and ninth largest company in the world. In the domestic crane market, its overall market share is around 45-50%. In the high-end segment (above 100 tonnes), it enjoys above 60% market share, whereas, in the ultra high end category its market share is as high as 70-75%. It is well poised to take advantage of pick up in the pace of expansion in infrastructure sector.

➤ Turnaround in Capex cycle to benefit

FY10 was a muted year so far Capex is concerned mainly due to overall slowdown in the economy. However, we expect the pace of turnaround in the Capex cycle to increase on the back of gradual economic recovery, easing credit market and expected higher investment from government. Orders from construction industry is picking up. SML is a major beneficiary of this turnaround in the Capex cycle.

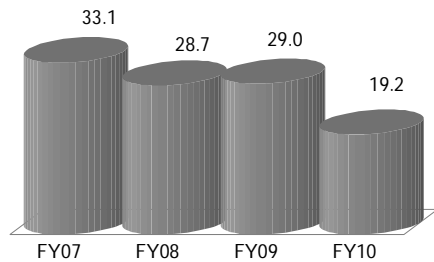
➤ Continuous expansion shows managements' strong business confidence

The continuous investment in business reflects managements' confidence in the business. In FY05 it invested Rs 81 cr and Rs 170 cr during FY06. Further, it invested around Rs 180 cr and Rs 220 cr during FY07 and FY08. Even during FY10, it completed expansion of Rs 160 cr. **For the next financial year, FY11, it has a Capex plan of around Rs 180 cr to Rs 200 cr.** However, it is relatively lesser than planned earlier due to delay in projects in user industries. This money will be mainly utilized to increase the number of cranes. Not more than Rs 5 cr will be invested in increasing the number of depots. Currently, it has 12 depots. We expect the higher sales growth due to increase in fleet size and improved business prospects.

➤ Large beneficiary of growth in power sector

The company's strategy to focus on power sector, which is growing exponentially and is a major revenue contributor, augurs well. Over 20,000 mega watt of power is planned to be added during FY11. Alone, public sector companies engaged in power business has a Capex plan of over Rs 50,000 cr in FY11. **Crane wise SML has the capability of putting up 100,000 MW power stations at various power projects.** Also, its current business relation with major companies engaged in

RONW (%)

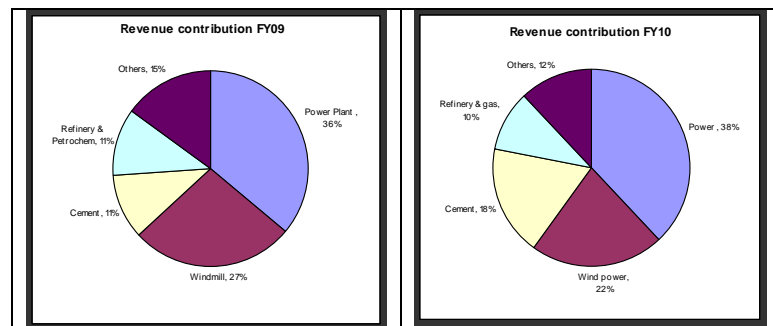
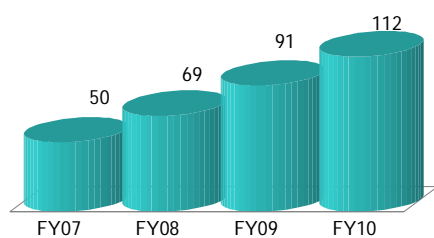


power sector such as BHEL, Reliance Infrastructure, NTPC, Lanco, BGR Energy, SEEPSCO and JSW Energy including many others is likely to help it reaping the benefit.

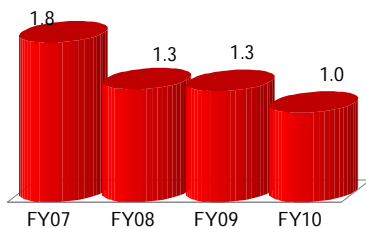
➤ **Business diversification across sectors**

The company’s revenues are well diversified in terms of sectoral contribution. Four sectors—power, wind power, cement and refinery & gas—contributed around 88% of the overall revenues of the company for FY10. The contribution from power sector was highest at 38%. Wind power, cement and refinery & gas contributed around 22%, 18% and 10%, respectively to the total revenues. The revenue contribution from wind power segment has decreased substantially in comparison to last year, when it accounted for 27% of the revenues. Same time, contribution from cement sector increased significantly to 18% in FY10 from 11% in FY09. Currently, company focuses more on power sector owing to its huge potential for growth.

Book Value



Debt to Equity



➤ **Strong clientele**

SML has a decent list of clients such as Suzlon, Reliance, Aditya Birla Group, Vedanta Group, BHEL, Tata Steel, ONGC, NTPC, Lanco, BGR Energy etc and is expected to be benefited the most from the turnaround in the investment cycle.

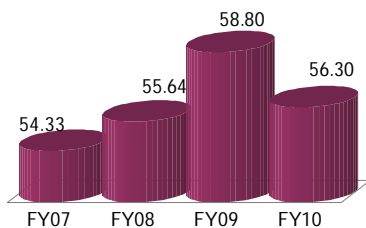
➤ **Improvement in debt/equity ratio – lower interest cost – better margins**

As on March 31, 2010, SML’s debt and equity mix stood at 1.01:1. We expect debt to equity ratio to improve on the back of repayment of debt and increase in reserves. The company intends to repay its debt to the tune of around Rs 160 cr during FY11. The Capex planned will be partly financed by long term loans.

➤ **Robust growth expected in FY11**

For the last five years, it posted a net sales and net profit CAGR of 34.2% and 45.9%. But during FY10, both top line and bottom line was hurt on the back of lower utilization. A few heavy duty cranes remained idle for a few months. Despite this, EBIDTA and APAT margins stood at decent levels at 80.3% and 27.5% for FY10. Return on net worth was 19.2% relatively lower than that of previous year. Going forward in FY11, we expect net sales and net profit to grow by around 13-15% on the back of increase in fleet size, improving economic condition and turnaround in Capex cycle.

EBIT Margin (%)



KEY CONCERNS

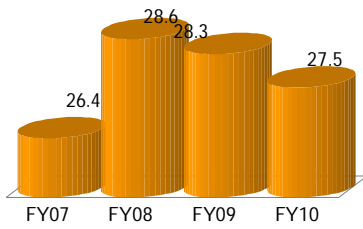
➤ **Any slowdown in pace of economic recovery may hurt revenues**

Slowdown in the pace of economic recovery may result in postponement of their Capex. Also, this may result in lower utilization level translating into lower revenues.

➤ **High depreciation to hurt profit margins**

We expect profit margins to decline by around a percentage points on the back of high depreciation cost. However, the EBIDTA margins are likely to remain more or less stable.

APAT Margin (%)



CONCLUSION

Sanghvi Movers Ltd has a market capitalization of Rs. 802.4 cr and is trading at a share price of Rs. 185.3. At the FY10 EPS of Rs 20.9 it is available at PE of 8.9 times. In terms of price to book value and market cap to sales ratio, it is available at 1.7 times and 2.4 times, respectively. In FY11, we expect net sales and net profit to grow by around 13-15% on the back of increase in fleet size, improving economic condition and turnaround in Capex cycle. The stock is an attractive buy considering the growth prospects of the company. The PE and other valuation parameters ensure that one is not overpaying for the growth.

We recommend a “BUY” on the stock with an investment horizon of 12 month and target price of Rs 230.

FINANCIAL STATEMENTS:

Income Statement:		Rs. Crores			
Particulars	Q4FY10	Q3FY10	Q4FY09	QoQ (%)	YoY (%)
Net Sales	85.7	82.8	94.4	3.6	-9.2
Other Income	6.2	1.1	0.2	477.6	2,990.0
Total Income	91.9	83.8	94.6	9.6	-2.8
Total Expenditure	19.6	20.2	18.9	-3.4	3.7
% of sales	22.8	24.4	20.0	-1.6	2.8
PBIDT	72.4	63.6	75.8	13.8	-4.5
PBIDT margin (%)	84.4	76.9	80.2	7.6	4.2
Interest	11.4	12.0	14.5	-5.4	-21.7
PBDT	61.0	51.6	61.2	18.2	-0.4
Depreciation	21.5	20.0	18.9	7.8	14.1
PBIT	50.9	43.7	56.9	16.5	-10.6
PBIT margin (%)	59.3	52.7	60.3	6.6	-0.9
Tax	8.8	8.0	12.0	9.5	-26.6
Adjusted Profit	24.9	20.9	25.6	19.1	-2.7
NPM (%)	29.1	25.3	27.1	3.8	1.9

Financials:		Rs. Crores				
	201003E	200903	200803	200703	3 yr CAGR %	
Share Capital	8.7	8.7	8.8	8.2		
Networth	469.6	394.4	303.6	204.1		
Total Income	342.7	361.5	257.0	206.0	18.5	
Total Expenditure	78.9	83.3	68.0	48.3	17.8	
Revenues	331.5	357.5	254.3	178.6	22.9	
EBITDA	363.9	278.2	189.0	157.7	32.1	
Other Income	11.2	4.0	2.6	27.4	-25.7	
APAT	90.4	99.1	71.3	47.1	24.3	
Operating Cash Flows		121.8	103.8	70.0		
Free Cash Flows		-109.8	-118.5	-105.9		
Dividend %	150.0	100.0	150.0	125.0		
CEPS (Rs.)	39.1	38.7	26.9	23.8	17.9	
EPS (Rs.)	20.9	23.0	16.1	15.3	10.9	
Debt-Equity Ratio	1.0	1.3	1.3	1.8		
Interest Coverage Ratio	3.9	4.0	4.6	3.9		
RoNW %	19.2	29.0	28.7	33.1		
EBITDA Margin %	80.3	77.8	74.3	73.8		
EBIT Margin %	56.3	58.8	55.6	54.3		
APAT Margin %	27.5	28.3	28.6	26.4		
Cost of debt	9.8	12.2	9.6	9.7		
Market Cap/Sales	2.4					
PE Multiple	8.9					
P/BV Ratio	1.7					

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