



JV CAPITAL SERVICES PVT. LTD

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Sanghvi Movers

CMP: 188.70

BUY

INDUSTRY: Equipment Leasing

RISK PROFILE: Medium

TARGET: 280

Data Table

CMP (Rs)	188.70
Target price(Rs)	280
Upside (%)	48
52 Week H/L (Rs)	272 / 138.05
P/E Ratio	9.06
P/BV Ratio	1.70
Dividend Yield %	1.06
Market cap (Rs. Cr)	819.02
6m Avg volume (nos)	10874
No. of o/s shares (nos)	24018911
FV (Rs)	2.00
NSE code	SANGHVIMOV

Sanghvi Movers is one of the largest cranes hiring companies in India, third largest in Asia and ranked ninth largest in the world. The company's main business is operation and leasing of cranes. Sanghvi Movers provides hydraulic and crawler cranes to various industries in the infrastructure areas with a fleet of 330 medium to large size hydraulic truck-mounted telescopic and lattice boom cranes and crawler cranes with lifting capacity ranging from 20 tons to 800 tons.

Key Investment Themes

Huge opportunity in crane hiring

The infrastructure of India is set to witness strong investments over the next five years. Large investments in core sectors like refineries, windmills, petrochemicals, cement and power will create huge demand for cranes. Sanghvi Movers which is the largest player in crane hiring business in the country is likely to corner a large share of the opportunity. With 0.5-0.6% of the investments meant for crane hiring, Sanghvi a leader in the space should corner a large share. On a favorable business outlook, it is set to witness steady revenues and earnings growth, and we continue to remain positive on the stock.

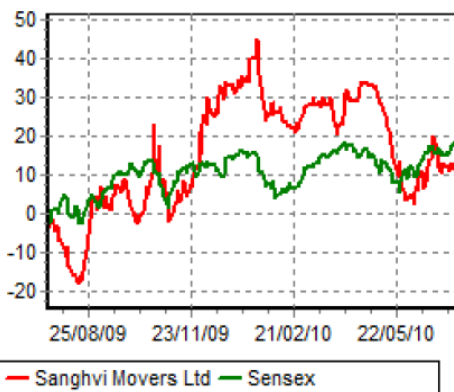
Prudent Capex Plan

The company had earlier planned an aggressive capex of Rs.360 crore for FY11. However, the company is revisiting its capex plan in light of the projects in the user industries getting delayed and increased competition. The company is now considering undertaking capex in range of Rs.180 crore to Rs.250 crore, much lower than planned earlier. This cautious approach towards capacity addition appears prudent in these times as it will not only help Sanghvi put its existing fleet to better use and keep utilization levels steady (currently pegged at about 85%), it will also help it divert funds towards reducing its debt burden, which it plans to wipe away completely in three years. This calibrated move will serve the company well in future as it can reduce the interest burden, increase utilization level and use the cash generated more productively when the industrial cycle turns strong.

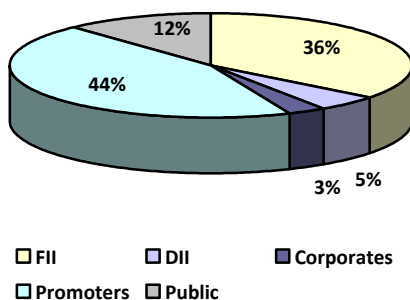
Strong industry linkages

The company's long-standing business liaisons with companies such as Reliance Industries, Suzlon Energy and BHEL stand it in a good stead, as these companies are less vulnerable to a slowdown in investments in their core business.

Relative Performance Analysis



Shareholding Pattern



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Business Environment

Global slowdown had an impact on the Indian economy. This led to a deferral of projects. The curtailment in the capex plan of clients led to a reduction in the utilization rate (currently 85%) of the cranes. So, the slowdown squeezed both top line and bottom line growth.

However during last few months the industrial growth has picked up. IIP Index indicates strong rebound in Indian economy. After a decline to negative territory for most part of FY09-10, IIP has rebounded sharply from Oct-09 with significant contribution from the manufacturing sector. The IIP has had sustainable double digit growth since Oct-09. Whereas IIP has lodged double digit growth, capital goods has outperformed by registering a growth of 11%, 11.8%, 38.8%, 56.6% & 44.4% in Oct-09, Nov-09, Dec-09, Jan-10, Feb-10. We expect all-around buoyancy in the economy with IIP expected to remain strong during FY11 & FY12.

A pick up in industrial capex and large investments in core sectors like refineries, windmills, petrochemicals, cement and power will create huge demand for cranes. Sanghvi Movers which is the largest player in crane hiring business in the country is likely to corner a large share of the opportunity.

Change in capex outlay

The company had drawn up a capital expenditure plan amounting Rs.350 crore for 2010-11. However, seeing sluggish demand in first quarter of 2010, the company has scaled down its plans. The company has already placed an order for 56 new cranes with a Chinese crane manufacturer. These cranes are of various capacities ranging from 80 tonne, 150 tonne, 250 tonne and 630 tonne and are expected to find usage in power sector. Delivery of these cranes has commenced from April 2010 and will be completed by October 2010. So as to ensure the cranes are manufactured with the best of the components and to alleviate the concerns about quality of Chinese equipments, it has given a list of preferred suppliers of prime-movers and other critical component to the Chinese manufacturer. It has not paid any advance for the order and just opening a line of credit is required.

The company also plans to increase depots to 16 by FY2011 with each depot spread across an area of approx 3 acres.

The worst is over for the company – good results likely in coming quarters

Highlights of Q4 FY10 results

- Sanghvi's revenue declined by 9.2% to Rs.85.36 crore in Q4 FY10, from Rs.94.01 crore in Q4 FY09, due to lower utilization rate (less than 80%).
- Blended yield also dropped to less than 3% in Q4 FY10.
- Operating margin was 77.2% in Q4 FY10 vs. 80% in Q4 FY09.
- Other income stood at Rs.6.18 crore as Sanghvi sold

cranes and booked profit.

- Depreciation increased to 21.51 crore in Q4 FY10 as against Rs18.86 crore in Q4 FY09, on account of new crane addition.
- PAT declined by 2.6% y-o-y to Rs.24.92 crore, mainly due to fall in revenue.
- Sanghvi undertook capex worth Rs.160 crore during FY10. The company purchased 18 (above 80 tonnes) cranes; out of which 6 are brand new and the rest 12 are second-hand cranes. It also sold 22 old cranes during the same period.
- As of FY10, Sanghvi's fleet comprised of 320 cranes.
- For FY10, power sector contributed 38% to the company's total revenue followed by wind power, cement and refinery & gas at 22%, 18% and 10%, respectively.

However, we believe that the worst is over for the company. In the coming quarters, due to a rebound in industrial activity the company is likely to report higher sales, higher operating ratio and higher profits.

Good clientele relations

Sanghvi has good track record in terms of:

- Effective deployment of Cranes at optimal rates.
- Efficiency in operations.
- Adherence to time schedules.
- Low mobilization time.

Some of the esteemed clients of the company include RIL, Suzlon, ONGC, Samsung, Aditya Birla Group, BHEL, Vedanta, Siemens, Tata Steel, GE Power, MRPL, NTPC, Lanco etc

Valuations

At the CMP of Rs.188.70 the stock trades at a P/E ratio of 9.14 and a P/BV ratio of 1.71. We believe that considering the strong rebound in construction activity in the coming quarters the company is likely to post good results in the FY10 financial year. Discounting the EPS by long run average P/E ratio of 12 gives us a price target of 279.6.

Rs. crore	2011E	2010	2009	2008
Net Sales	394.51	328.76	354.69	251.71
Other Operating Income	2.50	2.77	2.81	2.61
Other Income	3.50	11.20	4.02	2.64
Total Income	400.51	342.73	361.52	256.96
Total Expenditure	92.92	78.88	83.54	68.19
PBIDT	307.59	263.85	277.98	188.77
Interest	54.59	47.47	53.01	30.72
Depreciation	90.54	78.73	67.97	47.46
Tax	48.06	34.52	41.67	30.05
Deferred Tax	13.50	12.71	13.96	7.51
Fringe Benefit Tax	0.00	0.00	0.32	0.28
PAT (after extraordinary items)	100.90	90.42	101.05	72.75
EPS (adjusted) (Rs/share)	23.30	20.88	23.34	16.80
Equity	8.66	8.66	8.66	8.66

Source: Capitaline, JV Capital estimates

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Risk Profile

Low Risk: Fundamentally sound companies, with low beta. Expected market out performance is 0-10%

Medium Risk: Expected market out performance is 10-20%. Preferably for investors with a maximum time frame of about 6 months.

High Risk: High Beta Stocks, expected market out performance is more than 20%, preferably for the investors willing to take advantage of market momentum & are aggressive in nature.

Disclaimer Appendix

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