

Sector – Castings/Forgings
Recommendations - Subscribe
Bidding Details

Price Band – Rs 80- Rs 85

Face value – Rs 10

Bid Size – 70 and in multiple thereof

Issue Opens –May 04, 2011

Issue Closes –May 09, 2011

Retail Applications Details

No. of Shares – 2310 shares or 33 lots

Application Money – Rs 1, 96,350

(At the higher side of the band)

Issue Size – Rs 36.90 Cr
Issue Allocation

Category	% of Issue	Shares
Net Issue to Public	100%	4341176
QIB's	50%	2170588
Non Institutional	15%	651176
Retail	35%	1519411

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoters	86.28%	56.77%
Public	13.72%	43.23%

Shares Outstanding (Cr.)

Pre-Issue	Post-Issue
83,51,072	1,26,92,248

Issue Type - 100% Book Built Issue
Grade

CARE Rating -

3/5 indicating average Fundamentals

Book Running Lead Managers

Arihant Capital Markets Ltd.

Registrar - Big share Services Private Ltd.
Listing

BSE, NSE

IPO of Sanghvi Forging and Engg. Provides an opportunity to invest in casting/ forging business in India. The company has strong track record with business experience of 20 years in manufacturing and marketing of Stainless Steel Forged and Machined Subtends, Forged Flanges, Forged Fittings and CNC Machined Forged Parts & Automobile Components in India. The company has distinct focus on non-automotive sector. The company is focused on heavy engineering industrial segment like Refineries, Fertiliser, Power, Engineering, Defense industries etc. From low margin activities, the company has shifted its focus to low volume high margin segment of the market to attain high margins. The company has a strong management team comprises of experienced and qualified professionals. At the higher end of the price band, the issue is available 16.2x its FY'10.

Focusing on Open Die Forging Segment

The company has distinct focus on non-automotive sector. The project is planned to set up capacities in higher tonnage open die forging segment. The proposed open die forging will reduce the lead time for major customers in India who are currently importing majority of their forging requirements.

Diversified Revenue - Mix

The company is focused on heavy engineering industrial segment like Refineries, Fertiliser, Power, Engineering, Defense industries etc. With the existing capacity and proposed addition through New Project, the company would be extending its market horizon to meet the needs of the major industries which includes power generation projects, wind turbine manufacturer, shaft of sugar mills, gear blanks & shaft for marine applications, oil & petrochemical and heavy engineering.

Focused on High Growth Margin Segment of the Market

Earlier the company was focusing on low value products which were fetching low margin. Now, the company has shifted its focus to low volume high margin segment of the market. According to international standards, the company is striving to make customized products which can directly be delivered to OEM suppliers and will fetch them higher margins.

Strong Management

The company has a strong management team comprises of experienced and qualified professionals. The company requires application of high levels of technology at key stages of design, engineering and manufacturing processes. The company is able to succeed in recruiting, training and retaining a highly skilled employee base.

To Become One-Stop Solution Provider

The company intends to position themselves as "one-stop shop". The strategy is to increase its business by increasing its customers through 3 major steps:

- Expand Machining Facilities to offer a wider range of value added products.
- Increase exports by targeting global OEMs.
- Reducing lead time for delivery of products.



Business Analysis

Diverse Product Portfolio Catering to Various Industries

The company has a diverse product line catering various industries. The company has also obtained international accreditations certifying the quality of its various products. These accreditations and approvals enable them to bid for various forging tenders where these or similar accreditations/vendor approvals are pre-requisites.

Product Category	End-User Industries
Forged Flanges	Oil and gas, petrochemicals, fertilizers and process plants
Closed Die Forgings	Valve manufacturers and OEMs
Open Die Forgings	OEM fabricators and power sector
Machined Components	OEMs for instrumentation and valves

In-depth Understanding of the Client Requirements

The company has better understanding of the requirement of the customer which involves understanding of the technical requirements like tensile strength, permitted levels of corrosion, pressure and heat levels, intended life of the product etc. This in-depth understanding of the client requirements coupled with manufacturing capabilities has helped them to deliver the products as per the client requirements which have stringent specifications. Some of the major customers include Mazagon Dock Limited, IOCL, HPCL and GAIL.

Strong Track Record

The company is into forging business for last twenty years. The company has acquired sound knowledge of forged products, the technology & engineering applied in manufacture of these products, the selection and maintenance of plant and machinery that is best suited for ensuring high quality and productivity and about the market for these products.

Peer Analysis

Peers	Sanghvi Forging	Bharat Forge	MM Forging	Ramkrishna Forgings
Sale (Rs Cr)	28.00	3,327	158.40	285
EBITDA (Rs Cr)	4.80	334	22.70	45.20
EBITDA Margins (%)	17%	10%	14%	16%
PAT (Rs Cr)	2.50	(76.4)	10.40	10.90
PAT Margins (%)	9%	NA	7%	4%
CMP (Rs)	85.0	348	76	114.20
Equity Cap (Rs cr)	4.80	44.50	12.10	16.40
Networth (Rs Cr)	11.80	1,463	103.70	126.60
Face Value (Rs)	10.00	2.00	10.00	10.0
Shares outstanding (Rs Cr)	0.48	22.30	1.20	1.60
EPS (Rs)	5.30	-3.40	8.60	6.60
PE (x)	16.2	NA	8.80	17.20

* At higher price of the stock

At the higher side of the price band, the issue is available at a P/E of 16.2x to its annualized EPS of Rs 5.30.

Recommendations

The company has business experience of 20 years in manufacturing and marketing of Stainless Steel Forged and Machined Subtends, Forged Flanges, Forged Fittings and CNC Machined Forged Parts & Automobile Components in India. The company has a strong and proven track record while delivering products to its customers.

The company has an average fundamental with a strong asset base. Overall, the company has great prospects ahead in future. We recommend "Subscribe" to this issue for long term gains.

About the Company

Sanghvi Forging & Engineering Limited (SFEL), incorporated in 1989, has an operational track record of around 20 years, engaged exclusively in manufacturing of Non-Automotive Industrial Forging products. Presently, the company is having an installed capacity of 3,600 MTPA (with single piece forging up to 4 MT) in the area of open and closed die forging.

The company manufacture forged flanges, forgings and machined components for various industries like oil & gas, fertilizers, power, desalination & water treatment, ship building, defence, fabrication of process equipments, instrumentation etc. The company is capable of manufacturing both standardized as well as customized products. The company has also established market for their products overseas and regularly exports various countries mainly to Europe, Middle East and Canada.

The existing manufacturing plant consists of forging shop, die shop, heat treatment shop, conventional and CNC machining shop backed by related quality assurance equipments. Presently, the company is using steam hammer technology for the open die forging and can produce single forged piece upto 4 MT.

The products have been inspected and accepted by third party inspection agencies like Lloyds (LRIS), BVIS, SGS, TOYO, PDIL, DNV, ABS, TICB, UHDE India, DAE, NPCIL, etc. The quality of products has been certified to be satisfactory in third party inspections.

Income Statement

Income Statement (Rs Cr.)				
	Full Year Ending	31-Mar-08	31-Mar-09	31-Mar-10
Net Revenue		22.21	28.40	28.0
	<i>Net Revenue Growth</i>	<i>NA</i>	<i>27.9%</i>	<i>-1.5%</i>
Total Expenditure		17.66	24.0	23.2
	<i>As a % age of Net Revenue</i>	<i>0.80</i>	<i>84.4%</i>	<i>82.9%</i>
EBITDA		4.55	4.43	4.79
	<i>EBITDA Margins</i>	<i>20%</i>	<i>15.6%</i>	<i>17.1%</i>
Depreciation & Amortization		0.39	0.6	0.7
Total operating Exp.		18.05	24.5	23.8
EBIT		4.16	3.9	4.1
	<i>EBIT Margins</i>	<i>19%</i>	<i>13.7%</i>	<i>14.8%</i>
Other Income		0.79	0.97	1.03
Interest		0.98	1.34	1.24
EBT		3.97	3.51	3.93
	<i>EBT Margins</i>	<i>0.18</i>	<i>12.4%</i>	<i>14.0%</i>
Provision for tax		1.45	1.18	1.42
PAT		2.52	2.33	2.51
	<i>PAT Growth</i>	<i>NA</i>	<i>-7.5%</i>	<i>7.7%</i>
	<i>PAT Margins</i>	<i>11.35%</i>	<i>8.20%</i>	<i>8.97%</i>
No. of shares outstanding (cr)		0.39	0.39	0.48
EPS (Basic) (Rs)		6.41	5.93	5.25

Balance Sheet

Balance Sheet	12M	12M	12M
As on	31-Mar-08	31-Mar-09	31-Mar-10
SOURCES OF FUNDS:			
Share Capital	3.93	3.93	4.78
Total Reserves	2.56	4.83	7.05
Shareholder's Funds	6.49	8.76	11.83
Secured Loans	8.54	9.87	9.66
Unsecured Loans	1.49	1.47	0.80
Total Debts	10.03	11.34	10.46
Total Liabilities	16.52	20.10	22.29
APPLICATION OF FUNDS :			
Gross Block	10.68	12.41	13.22
Less: Accumulated Depreciation	1.26	1.82	2.25
Net Block	9.42	10.60	10.97
Capital Work in Progress	0.01	0.01	0.04
Current Assets, Loans & Advances			
Inventories	4.94	4.73	5.50
Sundry Debtors	4.31	6.90	10.21
Cash and Bank	0.24	0.34	0.33
Other Current Assets			
Loans and Advances	0.72	1.46	0.68
Total Current Assets	10.21	13.43	16.73
Less : Current Liabilities and Provisions			
Current Liabilities	1.97	2.39	3.80
Total Current Liabilities	1.97	2.39	3.80
Net Current Assets	8.24	11.03	12.93
Deferred Tax Assets / Liabilities	-1.15	-1.54	-1.65
Total Assets	16.52	20.10	22.29

For Further Details/Clarifications please contact

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