

# Sanghvi Forging and Engineering Ltd

Issue Opens	Issue Closes
04 <sup>th</sup> May'11	09 <sup>th</sup> May'11

Incorporated in 1991, SFEL is in the business of manufacturing and export of forging products for non-automotive sector. It manufactures forged flanges, forgings and machined components for various industries like oil & gas, fertilizers, power, desalination and water treatment, ship building, defence, fabrication of process equipments, instrumentation, etc .

## An Overview

SFEL is in the business of manufacturing and export of forging products for non-automotive sector. The company has an installed capacity of 3600MTPA for manufacturing of forged flanges and precision machined components (with single piece forging up to 4MT) in the area of open and closed die forgings.

SFEL manufactures 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.

Product Category	End-Use Industries
Forged Flanges	Oil and gas, Petrochem, 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

Source: RHP, Arihant Research

SFEL has received all the important approvals for its products from globally renowned OEMs and boasts clientele like GE, BARC, ISRO, TOYO Engineering India Ltd, Project & Development India Ltd, Mazagon Dock Ltd, Engineers India Ltd, Kuwait National Petroleum Corp, Technimont ICB, UHDE India, Department of Atomic Energy India, Nuclear Power Corporation India Ltd, etc.

SFEL is in the process of setting up a 15,000MTPA open die forging unit (with single piece forging up to 40MT) to manufacture open die forging products like stepped shafts, bars and hollows, blocks, flanged shafts, gear blanks, shells, disks etc which are generally imported. It will primarily cater to the wind energy, oil & gas, steel, power, pressure vessel, petrochemical and sugar industry, and nuclear plant, etc.

## Grading

CARE IPO Grade: 3/5

## Issue Summary

Price Band (Rs)*	80	85
Bid Lot	70 shares	
Face Value	Rs.10	
Total no. of shares to be raised*	46.1 lakhs	43.4 lakhs

Pre-issue share capital	Rs 8.35 crs	
Post-issue share capital	Rs 12.96 crs	Rs 12.69 crs
Issue Size*	Rs 36.9 crores	
Post Issue Mkt Cap (Rs cr)	103.7	107.8
P/E on FY11#	15.4	16.3

\* Fixed Size Issue, # annualised for 9mFY11 EPS

## Issue Structure

Net Issue	No. of Shares	%
QIB's	<= 21.7 lakhs	50 %
Non Institutional	>=6.5 lakhs	15 %
Retail	>= 15.2 lakhs	35 %
Employees	n.a	n.a
Total#	43.4 lakhs	100 %

# At upper end of price band

## Book Running Lead Managers

- Arihant Capital Markets Limited

## Objects of the Issue

The main objective of the issue is to part fund SFEL's expansion plan.

Particulars	Amount Proposed (in cr)
Gross Proceeds of the Issue (on higher band) <sup>#</sup>	36.9
Issue related Expenses	3
Offer for Sale portion	-
Net Proceeds	33.9

<sup>#</sup> excluding Pre-IPO placement of Rs 5.6 cr at Rs 80 per share.

## Investment Positives

- **Well diversified customer profile across high growth industries** – SFEL derives its sales through a well diversified business model spanning across high growth industries such as oil and gas, fertilizers, power, water treatment, ship building, defense and fabrication etc. The user industries are on a path of strong capex cycle resulting in robust demand. Diversification of business also allows the company to mitigate the impact of adversities of particular sector unlike other forging companies focused on specific sectors like automobiles.
- **Strong clientele base** – As products being supplied have critical applications in respective segments, they need to undergo stringent quality standards and are approval based. The company, in the last few years, has been successful in obtaining 40 such approvals in both the domestic and international markets. The company shares a good client relationship worldwide where it receives majority of the business from repeat clients. The main customers include GE, BARC, ISRO, TOYO Engineering India, Engineers India Ltd, Kuwait National Petroleum Corp, Technimont ICB, UHDE India, Department of Atomic Energy India, etc.
- **Significant entry barrier:** Specialized nature of products that requires client approvals and certifications, and associated long gestation period for such approval to come into effect gives considerable entry barrier to new entrants in this field and increased bargaining power to the existing players.
- **Skilled Management:** The promoter-directors of the company collectively have about 50 years of experience in this field and command a good customer relationship. Also, the key technical executives for proposed plant have requisite experience and technical expertise to spearhead the commissioning of proposed plant.
- **Strong export presence:** SFEL has strong export market for its products. In the backdrop of global economic recovery, SFEL is likely to get benefited through its critical application products offerings. Major export destinations include USA/Canada, Europe and Middle East countries. Exports contribute 15-20% of its total revenues.

*SFEL's revenues are well diversified across the business segments. The company enjoys strong export market for its products and contributes 15-20% to topline.*

## Concerns

- **Delay in execution of project** – SFEL’s expansion project, for which it is raising capital through IPO, is currently at preliminary stages of implementation. Any delay in implementation of the project in time could lead to cost overruns and would affect profitability going forward.
- **Raw material cost:** Timely and cost effective execution of orders is dependent on the adequate and timely supply of raw materials such as carbon steel, stainless steel, etc. SFEL is sourcing raw materials from multiple vendors but has not entered into any long-term contracts for the purchase of such raw materials. Any significant jump in raw material prices or disruption in supplies could hamper overall profitability of the company.

## Financials

Profit and Loss Account (Rs in crore)

Particulars	FY 2007	FY 2008	FY 2009	FY 2010	9MFY11
Net Sales	18.6	22.2	28.4	28.2	25.8
Operating Expenses	15.3	17.7	24.0	23.2	20.6
EBITDA	3.3	4.5	4.4	5.0	5.3
<i>EBITDA %</i>	<i>18</i>	<i>20</i>	<i>16</i>	<i>18</i>	<i>20</i>
Other income	0.49	0.79	0.97	1.03	0.95
Operating income	3.8	5.3	5.4	6.1	6.3
Depreciation	0.19	0.39	0.55	0.65	0.48
Interest	0.68	0.98	1.34	1.24	1.14
PBT	2.92	3.97	3.50	3.94	4.49
Tax	1.06	1.44	1.18	1.42	1.54
Prior Period Adj	-	(0.1)	(0.1)	-	0
PAT	1.85	2.46	2.27	2.48	2.96
<b>EPS (Pre Issue) (Rs/shr)</b>	<b>2.8</b>	<b>3.6</b>	<b>3.3</b>	<b>3.4</b>	<b>3.9</b>
<b>EPS (Post Issue) (Rs/shr)</b>	<b>1.5</b>	<b>1.9</b>	<b>1.8</b>	<b>2.0</b>	<b>2.3</b>

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**Risk Factors:**

Sanghvi Forging and Engineering Limited is proposing, subject to market conditions and other considerations, a public issue of its equity shares and has filed the Red Herring Prospectus ("RHP") with the Registrar of the Companies, Gujarat and the Securities and Exchange Board of India ("SEBI"). The RHP is available on the website of SEBI at [www.sebi.gov.in](http://www.sebi.gov.in) and at the websites of the Book Running Lead Managers at [www.arihantcapital.com](http://www.arihantcapital.com). Investors should note that investment in equity shares involves a high degree of risk and for details relating to the same, see the section titled "Risk Factors" in the RHP. The equity shares have not been and will not be registered under the US Securities Act of 1933, as amended ("the Securities Act"), or any state securities laws in the United States and may not be offered or sold within the United States except pursuant to an exemption from or in a transaction not subject to, registration requirements of the Securities Act. The equity shares are being offered and sold only outside the United States in offshore transactions in compliance with Regulation Sand the applicable laws of each jurisdiction where such offers and sales occur.

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