KHANDWALA SECURITIES LIMITED

Sanghvi Forging & Engg. Ltd

Emerging Leader in Heavy Industrial Forging

2nd May, 2011

IPO Note

IPO Details

Price Band: INR 80-85 per share

Issue Size: INR 36.90 Crores

Issue Size: 4,612,525-4,341,200 (no. of shares)

Bid/Issue Opens on: 4th May 2011

Bid/Issue Closes on: 6th May 2011

Pre-issue Share Capital: INR 8.35 Crores

Post-issue Share Capital:

To List on: BSE, NSE

Promoters: Mr. Babulal Sanghvi, Mr. Jayanti Sanghvi, Mr.Naresh Sanghvi, Mr. Vikram Sanghvi

BRLM: Arihant Capital Markets Ltd.

Syndicate Member: Khandwala Securities Ltd.

IPO Grading: "CARE IPO Grade 3"

Share Holding Pattern (%)

Description	Pre-Issue	Post-Issue#
Promoter & Promoter Grp	**86.28**	**58.89**
Others	13.72	9.36
Public Issue	-	31.75
Total	**100**	**100**

 # At higher-end of price band

Bankers to the Company

State Bank of India & Bank of Baroda

Means of Finance

Description	(INR Cr)
Proceeds of the Issue	42.50
Term Loans	72.00
Unsecured Loans	0.64
Internal Accruals	5.25
Total	**120.39**

The break-up of project cost

Description	(INR Cr)
Setting up of New Project	105.14
Margin money requirement for working capital	8.25
Pre-operative Expenses	4.00
Issue Expenses	3.00
Total Project Cost	**120.39**

Ankit Kothari
Tel. No. +91-22-420 07 300/366/364
Email: ankit.kothari@kslindia.com

Investment Rationale

- ✓ SFEL, incorporated in 1989, has an operational track record of 21 years, is engaged exclusively in manufacturing heavy industrial forging products.
- ✓ Today, India's forging requirement is substantially imported. Post expansion, the installed capacity of SFEL will become 18,600 MTPA (with single piece open die forging up to 40 MT) thus reducing the nation's import intensity and minimize the lead time for many customers.
- ✓ 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 commercialization of the new project in May-12, with state-of-the art technology, will help SFEL an assured leadership status in the Indian Heavy Industrial forgings.
- ✓ SFEL has diversified revenue – mix and focused in heavy engineering, industrial segment like Refineries, Fertiliser, Power, Engineering, Defense industries etc- which has a stable revenue outlook and hence it is relatively insulated from the cyclical economic effects.
- ✓ The company has received approvals from clients across the globe 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- which acts as high entry barrier for other competitors to catch up with SFEL.
- ✓ The Company has International Quality Approvals: Certified by TUV(Germany) for Pressure Equipment Directive (PED); Certified by URS, UK for ISO 9001:2008; ISO 14001: 2004 & OHSAS 18001:2007 (TUV-Germany)

Financial Summary

(INR Cr)	FY07	FY08	FY09	FY10	Dec-10
Sales	19.66	23.87	29.53	28.90	29.33
EBITDA	3.79	5.34	5.40	5.83	6.12
EBITDA (%)	***19.25***	***22.38***	***18.28***	***20.17***	***20.87***
PAT	1.85	2.46	2.27	2.48	2.96
PATM (%)	***9.39***	***10.30***	***7.67***	***8.58***	***10.08***
EPS (INR) *	2.78	3.62	3.33	3.42	3.86

**Diluted & Adjusted*

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Investment Rationale

- ✓ Today in India, only a few players have specialized assets & skill-sets to manufacture sound quality forgings, which is technically customised & highly competitive. SFEL is having established good reputation in execution capabilities with all the leading global players, as mentioned above.
- ✓ We do not suggest any peer comparison as most of the forging companies in the public domain are into automotive forgings and SFEL is focused exclusively into heavy industrial forgings. Further, please read competitors analysis for an emerging competition in the heavy industrial space.
- ✓ **Heavy Industrial Forging Capacity:** The Company is exclusively into manufacturing of heavy industrial forging products. Presently, it has an installed capacity of 3,600 MTPA for manufacturing of forged flanges and precision machined components (with single piece forging up to 4 MT) in the area of open and closed die forgings having capacity of 2,400 MTPA and 1,200 MTPA, respectively.
- ✓ **Untapped Domestic Demand:** Considering the large investment /capex plans undertaken across the various industrial sectors, the present requirement of forge items are largely met from imports-a lengthy & tedious process. Hence, execution of many power projects could not take place on schedule. This paves the way for SFEL to become a force to reckon with.
- ✓ Due to the reasons mentioned above, the company has taken into account the facts:-
  - the vast untapped domestic potential market;
  - the import substitution prospects for customers;
  - stringent quality control measures imposed by the customers in each and every phase of production activity;
  - likely reduction of customer's lead time and cost rationalization;

  Hence, to further explore their own potentialities and to target heavy forgings requirements, the company plans to increase its capacity by setting up 15,000 MTPA (with single piece forging up to 40 MT) to improve on its present performances and reap benefits of economies of scale from the existing & new relationships.
- ✓ **Diverse Application in User Industry:** With the Existing Capacity and the coming up of the New Project in May-12, 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.

- **Established Overseas Demand:** The Company has an established overseas market for their products. It regularly exports to US/Canada, Europe & Middle East countries. The exports contributed to 29%, 26%, 16% and 15% of the total revenue in FY08, FY09, FY10 and nine months ending Dec. 2010, respectively.

- **Approvals from various clients & industry bodies:** The key factor in the forging business is the vendor/consultant approval, given the critical end use of the product. 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.

  Apart from the ISO 9000:2008 certification, the company is enlisted/approved with well known and reputed clients / consultants like BPCL, HPCL, BHEL, BARC, ISRO, TOYO Engineering India Ltd., Technimont ICB, Project & Development India Ltd., Mazagon Dock Ltd., UHDE India, Department of Atomic Energy, Nuclear Power Corporation India Ltd., GNFC in India and GE , PED approval from TUV Rhineland Industry (for supply of whole European Market), Kuwait National Petroleum Corp., Certified by URS (UK) etc for exports customer.

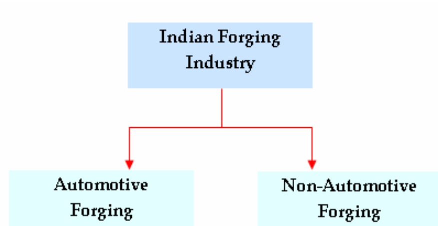
- **Significant Entry Barrier:** Certifications / vendor approvals are the outcome of significant long-standing efforts to produce quality products consistently & diligently. The long gestation for receipt of these accreditations and approvals are significant entry barriers for new players.

Indian Non Automotive Forging Industry

The Indian Forging industry has emerged as a major contributor to the manufacturing sector, and it is highly dominated & prominent in the automotive segment.

As imports of industrial forgings are very high, due to the need for specialized skill set and deep understanding of the metallurgical engineering, SFEL has taken the lead to explore the virgin market for the import substitution of non-automotive industrial forgings.

Composition of the Indian Forging Industry can be categorized into two broad sectors.

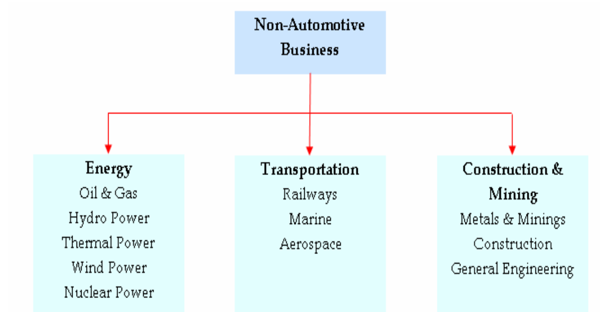


As company's strategy is to become a major player in Non Automotive Sector, Positive outlook of different user sectors will drive the growth of the Industry as well as Company.

The Non-Automotive Forging sector caters to the heavy engineering infrastructure development space with focus on the following verticals i.e. Aerospace, Energy, Oil & Gas and Heavy engine parts.

Initially, the Non-Automotive Forging business was primarily catering to international markets. However, market developments, especially in FY2010, have altered and significant new opportunities have emerged in the infrastructure business in India.

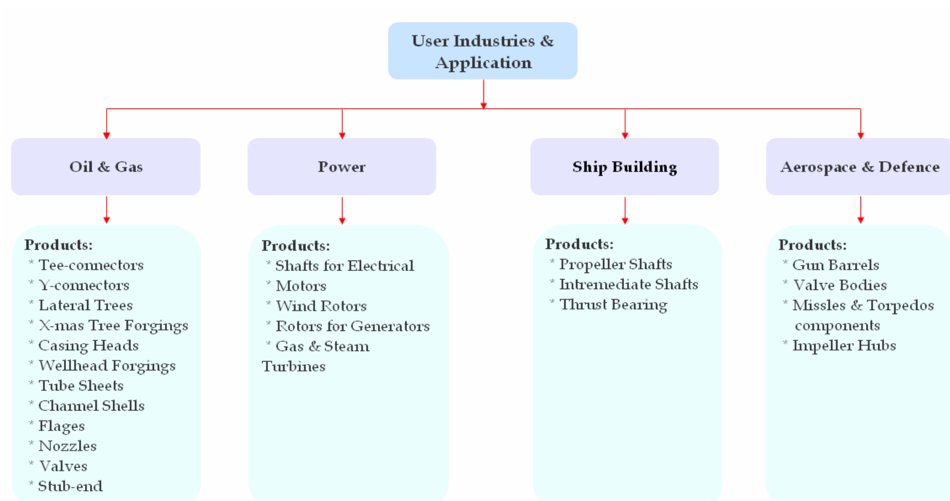
In addition, mining activities especially in coal and metal ores continues to be an important industry segment. There is significant domestic demand for forgings in the mining and construction equipment industry. With an overall investment plan of Rs 2,550 billion in the 11th Five year Plan, the railways, too, are a potential source of demand. Internationally, too, it is important to note that the demand for minerals and metals continues to be strong. So, too, the oil industry which is again seeing growing demand for exploration and drilling.



Key Growth Drivers for the Company

The major opportunities for the Heavy Forgings products of the Company are in the following Industries

- Oil and Gas
- Power – Thermal, Hydro, Wind power and Nuclear
- Ship Building
- Aerospace & Defence



Business Overview

Incorporated in the year 1989, Sanghvi Forgings and Engineering Ltd. in Vadodara, started with a capacity of 300 MTPA and expanded to 3,600 MTPA in 2010 for manufacturing of forged flanges and precision machined components. These products are being manufactured from carbon steel, alloy steel and stainless steel conforming to international standards.

The product portfolio includes forged flanges and precision machine components mainly used by the end-user industries such as Oil and Gas, Fertilizers, Power, Defence, Ship Building, etc., establishing a market for Europe, Middle East and Canada as well.

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, it is using steam hammer technology for the open die forging and produces single forged piece upto 4 MT.

Diverse product portfolio catering to various industries

The product profile includes forged flanges, closed die forgings, open die forgings and machined components:

Sr. No.	Product Category	End-Use Industries	Names of Major Customer
1	Forged Flanges	Oil and Gas, petrochemicals, fertilizers and process plants	IOCL, GAIL, RIL, MRPL, GSFC, KRIBHCO etc
2	Closed Die Forgings	OEMs for Valve manufacturers	Kirloskar Ebara Pump, Dorr Oliver, Dresser Rand, GEA Tuchenhagen, Patel Airtemetc.
3	Open Die Forgings	OEM for fabricators and power sector	Mazagon Dock, L&T, IOT, Punj Loyd, CINDA , Emerson Group, etc.
4	Machined Components	OEMs for instrumentation and valves	BGE Energy, Samsung Engineering, Technimont etc.

Forged Flanges

Instrumentation Forgings

CNC Machined components

Open and Closed Die Forgings

Strategy

- ✓ **SFEL puts India as a strong contender for heavy industry forging –** Presently, Italy, France, Germany and Korea are the major destination for forging industry. SFEL – post expansion in May 2012 - will emerge as a serious contender to supply and support various forging requirements of Global OEMs to manufacture the critical equipments in India. Hitherto, all critical forging components are fully imported.

- ✓ **To evolve as complete solution provider of forging products:** SFEL's success will depend on a series of value added services. Taking into account the sensitiveness of the end-use application; to understand the metallurgical value that suites to the technical requirements & specification; sharing the experience & expertise with customers, it plans to offer the following to become the complete solution provider:

  - Offer higher end grades of raw material selection
  - Offer products having Metallurgical Characters according to the end use of the product
  - Forging of complex shape
  - Post forging heat treatment to remove imperfection in microstructure
  - Customized Machining process

- ✓ **Enhancing relationship with global player;** To increase its visibility and to enhance their product and service offerings, the management participates in all the major global trade fairs & exhibitions to remain in touch with latest technological development, for forward-looking trends and worldwide contacts with the industry's top decision makers on location.

  - Wire and Tube exhibition, Dusseldorf (Germany)
  - Abu Dhabi International Petroleum Exhibition and Conference (ADIPEC) Conference, West Asia
  - Gastech Conference & Exhibition - European cities (revolving)
  - ACHEMA- technology summit in chemical engineering, environmental protection – Frankfurt (Germany)

Due to the attendance & visits, the management has been able to cultivate good relationships- which help them to show case their technology prowess- which deepens their understanding of user base, technology development and improves over all performance.

Objects of the Issue

The objects of this issue are to part finance the New Project (which will be operational in May-12) and achieve the benefits of listing on the stock exchanges, which will increase the corporate image.

The proceeds of the issue are as under:

- ✓ To part finance the cost of setting up 15,000 MTPA open die forging unit (with single piece forging up to 40 MT) to manufacture proof machined products viz. stepped shafts, bars and hollow, block, flanged shafts, gear blanks, forging items etc at G.I.D.C. Industrial Estate, Waghodia, District Vadodara.
- ✓ To meet the requirement of margin money for working capital for the New Project.
- ✓ To meet the pre-operative expenses including Issue expenses.

The break-up of project cost

Description	INR Cr
Setting up of New Project	105.14
Margin money requirement for Working Capital	8.25
Preliminary & Pre-operative Expenses	4.00
Issue Expenses	3.00
Total Project Cost	**120.39**

Means of Finance

Description	INR Cr
Proceeds of the Issue	42.50
Term Loans	72.00
Unsecured Loans	0.64
Internal Accruals	5.25
Total	**120.39**

Schedule of Implementation

Activities	Commencement	Completion
Acquisition of Land	Already Allotted and possession received from GIDC	
Site Development	Completed in February 2011	
Civil construction & Building	Already started	Jul-11
Plant & Machinery		
Placement of firm order		
Imported	Jul-10	Sep-10
Indigenous	Sep-10	Oct-10
Delivery at Site		
Imported	Mar-11	Oct-11
Indigenous	Apr-11	Oct-11
Erection & Installation	Nov-11	Jan-12
Trial Runs	Apr-12	
Commercial Operations	**May-12**	

Commercial operation of the new project to start from May 2012.

Details of the New Project

The Company proposes to set-up a manufacturing unit based on Open-die forging facility, situated at GIDC Industrial Estate, Waghodia, district Vadodara.

- ✓ The new facility will have a total capacity of 15,000 MTPA with a maximum size of a single piece forging unit upto 40 MT.
- ✓ Under this project, Company would be installing
  - **One state-of-the-art 4,000T Open-die Hydraulic Press:** The function of the hydraulic pressure is to exert large enough force to press the metal into required shape.
  - **One 60T Rail Bound Manipulator:** It holds & rotate the hot ingot while forging. In this case it can hold ingot of 60 MT weight.
  - **Six Furnaces:** Out of this, three will be used in heating the ingot at pre forging stage and three will be used for post forging heat treatment. Each furnace will have capacity of 100 T.
- ✓ The New Project has been appraised and part-financed by State Bank of India to the tune of Rs 50 crores. Bank of Baroda has financed term loan of Rs. 22 crores. This fulfills the total debt requirement of Rs 72 Crores for the New Project, for which the estimated cost is at Rs. 120.39 crores.

As per the current schedule of Implementation, the commercial production is expected to commence from May 2012.

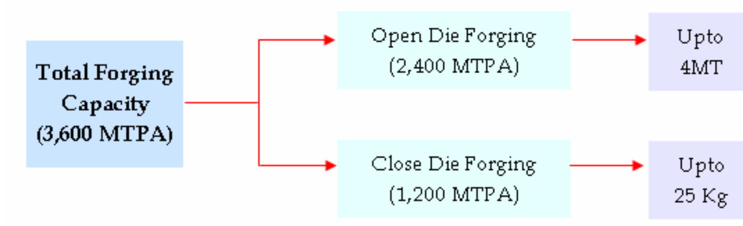
Rationale for the New Project

- ✓ The domestic forging requirements are presently met largely by imports.
- ✓ With the capacity addition of 15,000 MTPA, Company can be assured of a reasonable share of import substitution market and the huge capital expenditure and expansion programme laid down by the user industries will also benefit SFEL.
- ✓ The incremental capacity of 18,600 MTPA will help in expanding the reach to more sophisticated and larger segment of industry - in terms of size of single-piece forging, in terms of range and volume of products and in terms of criticality of end-use of the product.
- ✓ This will reduce the lead time for customers in India who are currently importing majority of their forging requirements.
- ✓ Forging press and Manipulator, most critical equipments of the projects, have been ordered from M/s Danieli Breda, Italy and M/s Dango & Dienenthal, Germany respectively, as they are the leading specialized machinery manufacturer for the metallurgical industry.
- ✓ Project will take lesser time to commercialize as orders of these two critical machineries have already placed in the month of July-10 (Expected delivery time is 14 months from the date of placing the order).

- ✓ As company is also involved in exports, it will get benefit of buyer's credit for the first three years on imports of machineries. This will result in lowering the effective interest rate on the term loan for this New Project from 12% (approx.) to 6.00% p.a.
- ✓ Further the company will leverage the existing clientele network to market the proposed heavy forging products. Couple of existing and prospective clients viz. L&T, IOCL, Himalaya Machineries etc. have already shown their interest on the proposed product and also shared Letter of Interest for upcoming project.
- ✓ The proposed capacity of single piece forging up to 40MT can be easily upgradeable to 60MT in a short span with minimum resources.
- ✓ The proposed capacity of open die forging of 15,000 MTPA is also upgradeable upto 24,000 MTPA by setting up more furnaces.

Current Capacity

Description	FY08	FY09	FY10	FY11	FY12	FY13
Installed Capacity (MT)	1,650	3,600	3,600	3,600	3,600	3,600
Capacity Utilization (%)	72.9	53.3	57.5	62.5	65.0	65.0



Proposed Capacity & Utilisation

Company manufactures highly customized industrial forging products as compared to standardised products. This requires intense inspection, scrutiny & customisation at each & every stage, thereby, taking more time for the desired products.

Globally the conventional wisdom is that heavy industrial forging plants operate maximum @60-70% capacity utilization due to the enormous scale of operations; customised product profile and the treatment of the product which is determined by the pre-heating and heating treatment of the furnaces. The furnace capacity is the important component in the operation of the forging plants the world over.

Description	FY12	FY13	FY14	FY15
Installed Capacity (MT)	15,000	15,000	15,000	15,000
Capacity Utilization (%)	-	55	65	65

Proposed Products and the User Industry

Industry	Application of the Forging Products
Power, Conventional and Nuclear Industry	Shafts for Electrical Motors, Wind Rotors, Rotors for Generators, Gas and Steam Turbines etc.
Petrochemical Industry	Tube Sheets, Channel Shells, Flanges, Nozzles, Valves, Stub-end
Gas Pipelines	Bodies, Spheres, Flanges
Iron & Steel Industry	Rims, Couplings, Rolls, Shafts
Compressors & Pumps	Shafts, Covers, Crank Shaft
Ship Building Industry	Propeller Shafts, Intermediate Shafts, Thrust Bearing, Components of Marine diesel engines etc.
Mechanical Industry	Shafts, Columns for Presses, Die Blocks, Components for Extrusion equipment such as Castings, Cylinder Liners
Railway industry	Motor Shafts, Casings
Oil & Gas	Tee-connectors, Y-connectors, Lateral Trees, X-mas Tree Forgings, Casing Heads, Wellhead Forgings.

Competition

Bharat Forge:

- ✓ BFL has invested over US$ 100 million in setting up a modern state-of-the-art non-auto forging and complementary machining facility.
- ✓ It is taking key initiatives to develop leadership talent that is required to support its ambitious growth objectives in the non-automotive space.
- ✓ It is targeting 40% revenue contribution from the non auto business by 2012. In FY10 Company clocked (standalone) Net Sales of Rs. 1804.49 Crores.
- ✓ It's non-auto business was impacted — and saw its contribution marginally decline from 21% in FY2009 to 20% in FY2010.
- ✓ High cash reserves and low Debt to Equity ratio supports Company's plan to use for investment in new business forays in the non-automotive and capital goods sectors.

(source : Company website and the annual report of FY2010)

Promoter & Management

Promoter Name	Designation	Experience	Responsibilities
Mr. Babulal Sagarmal Sanghvi	Chairman and Director	21 yrs.	Implementing Business Strategy
Mr. Jayanti Babulal Sanghvi	Managing Director	13 yrs.	Domestic marketing, Finance and Sales Function
Mr. Naresh Babulal Sanghvi	Director	12 yrs.	All export related activities and identification of overseas growth potentials
Mr. Vikram Babulal Sanghvi	Director	4 yrs.	Supervision of the Factory and Production activities

Financial Summary Information

Consolidated Statement of Assets and Liabilities (As restated)

S.No	Description (INR Cr)	FY2006	FY2007	FY2008	FY2009	FY2010	Dec.2010
A.	**Fixed Assets**						
	Gross Block	3.64	7.03	10.68	12.41	13.22	13.74
	Less : Depreciation	0.77	0.96	1.26	1.82	2.25	2.73
	Net Block	**2.87**	**6.07**	**9.42**	**10.60**	**10.97**	**11.01**
	Capital Work In Progress	0.01	0.01	0.01	0.01	0.04	11.25
	TOTAL	**2.88**	**6.08**	**9.43**	**10.61**	**11.01**	**22.26**
B.	**Investment**	-	-	-	-	-	-
C.	**Current Assets, Loans & Advances**						
	Inventories	2.47	3.35	4.94	4.73	5.50	9.12
	Sundry Debtors	2.62	4.56	4.31	6.90	10.21	8.68
	Cash and Bank Balance	0.18	0.18	0.24	0.34	0.33	0.60
	Loans & Advances	1.01	1.45	0.72	1.46	0.68	1.12
	TOTAL	**6.29**	**9.55**	**10.21**	**13.43**	**16.73**	**19.53**
D.	**Liabilities & Provisions**						
	Secured Loans	3.30	5.82	8.54	9.87	9.66	11.87
	Unsecured Loans	1.04	1.30	1.49	1.47	0.80	3.49
	Deferred Tax Liability	0.35	0.60	1.15	1.54	1.65	1.76
	Current Liabilities & Provisions	2.37	3.87	1.97	2.39	3.80	7.58
	TOTAL	**7.07**	**11.59**	**13.14**	**15.27**	**15.90**	**24.69**
E.	**Net Worth (A+B+C-D)**	**2.10**	**4.03**	**6.49**	**8.76**	**11.83**	**17.09**
F.	**Represented by**						
	Share Capital	0.80	0.98	3.93	3.93	4.78	7.99
	Reserves & Surplus	1.30	3.05	2.56	4.83	7.05	9.59
	Less : Miscellaneous Expenditure(To the extent not written off)	-	-	-	-	-	0.50
	Net Worth	**2.10**	**4.03**	**6.49**	**8.76**	**11.83**	**17.09**

Balance Sheet Summary

- ✓ Networth has grown with a CAGR of 54.07%, over the last five years (Base year FY06) due to high profit margins.
- ✓ The company is less leveraged with its D/E ratio at 0.88 in FY10, due to ploughing of high NPM.
- ✓ The asset base of the company determines the future revenue potential and hence it is with reason that the company's Net fixed asset base has grown with a CAGR of 39.82% over the last four years. (Base year FY06).
  - Company has increased its capacity from 300 MTPA in year 1992 to 1200 MTPA in year 2005 and from there to 3600 MTPA in 2006-07.
- ✓ Book Value per Share stood at Rs. 22.32 for the nine months ended Dec.2010
- ✓ Cash flow generation from operations has been positive in last 5 Years-which is a significant achievement.

Consolidated P&L Statement (As restated)

S.No	Description (INR Cr)	FY2006	FY2007	FY2008	FY2009	FY2010	Dec.2010
A.	**Income**						
I.	**Sales :**						
	a. Manufactured Products	10.88	16.69	19.52	25.83	25.29	22.57
	b. Scrap Products	1.97	1.88	2.66	2.40	2.42	3.01
	c. Sale of Power	-	-	0.02	0.17	0.27	0.17
II.	Other Income	0.48	0.49	0.79	0.97	1.03	0.95
III.	Increase/(Decrease) in Stock	0.65	0.60	0.87	0.16	-0.12	2.63
	Total Income (I+II+III)	**13.99**	**19.66**	**23.87**	**29.53**	**28.90**	**29.33**
B.	**Expenditure**						
I.	Raw Material Consumption	9.29	12.75	14.66	17.86	15.72	16.80
II.	Manufacturing Expenses	1.32	1.48	1.70	3.65	3.59	3.09
III.	Personal Expenses	0.30	0.37	0.53	0.70	1.14	1.21
IV.	Administration and Other Expenses	0.92	1.27	1.64	1.92	2.62	2.11
	Total Expenditure (I+II+III+IV)	**11.84**	**15.87**	**18.53**	**24.13**	**23.70**	**23.21**
C.	**Net Profit before Interest Depreciation, Tax and Extraordinary Items (EBITDA)**	**2.15**	**3.79**	**5.34**	**5.40**	**5.83**	**6.12**
	Financial Expenses	0.38	0.68	0.98	1.34	1.24	1.14
	Depreciation	0.15	0.19	0.39	0.55	0.65	0.48
	Profit Before Tax	**1.62**	**2.92**	**3.97**	**3.50**	**3.94**	**4.50**
	Provision for Taxation:						
	Current Tax	0.43	0.81	0.88	0.77	1.32	1.42
	Deferred Tax	0.11	0.25	0.55	0.40	0.10	0.12
	Fringe Benefit Tax	0.01	0.01	0.01	0.01	-	-
D.	**PAT but before Extra Ordinary Items**	**1.07**	**1.85**	**2.52**	**2.32**	**2.52**	**2.96**
	Add/(Less): Excess Income Tax Provision made in last years	-	0.00	-0.06	-0.05	-0.04	0.00
	Net Profit as per restated P&L Account	**1.07**	**1.85**	**2.46**	**2.27**	**2.48**	**2.96**

P&L Summary

- ✓ Due to measures taken to maintain high quality standards, wider acceptability and highly defined products, the Sales have grown with a CAGR of 21.48% over the last five years. (Base year FY06)
- ✓ The operating profit as measured by EBITDA has grown with a CAGR of 30.37%. With increase in economies of scales, high customization and a good control over raw material procurement has been instrumental in increase the EBITDA margins.
- ✓ Sales have witnessed a drop of 1.48% in FY10 (YoY) on consolidated basis while the cost of raw material consumed has decreased by 10.47% in FY10 (YoY). This signifies that the Company has reduced other direct expenses and improved on process efficiency.
- ✓ The sales cycle is arduous as it takes into account intense scientific and engineering aspects of the production undertaken.

Consolidated Cash Flow Statement (As restated)

Description (INR Cr)	FY2006	FY2007	FY2008	FY2009	FY2010	Dec.2010
Net Profit before tax and Extra Ordinary items	**1.62**	**2.92**	**3.97**	**3.50**	**3.94**	**4.49**
Adjustment For:						
Depreciation/Amortisation	0.15	0.19	0.39	0.55	0.65	0.48
Interest Expense	0.38	0.68	0.98	1.34	1.24	1.14
Interest Income	-0.01	-0.01	-0.01	-0.03	-0.09	-0.03
Preliminary Expenditure written off	-	-	0.05	-	-	-
Loss on sale of Assets	-	-	-	-	0.15	0.00
Impairment Loss	-	-	-	-	0.02	-
Extra Ordinary Items-Gratuity Provision	-0.02	-	-	-	-	-
Foreign Exchange Fluctuation in P & L Account	-	-	-	-	-	0.02
Foreign currency translation reserve	-	-	-	0.00	0.02	-0.01
Operating Profit Before Working capital Changes	**2.12**	**3.77**	**5.48**	**5.37**	**5.93**	**6.10**
Adjustment for changes of Working Capital						
Decrease/(Increase) in Inventories	-0.81	-0.88	-1.59	0.21	-0.77	-3.56
Decrease/(Increase)Sundry Debtors	-0.71	-1.94	0.25	-2.59	-3.31	1.86
Decrease/(Increase) in Other Receivables	-0.49	-0.44	0.73	-0.73	0.77	-0.43
Increase/(Decrease) in Trade and Other Payables	0.69	1.33	-1.63	0.50	0.67	3.18
Cash Generated From Operations	**0.79**	**1.84**	**3.25**	**2.76**	**3.30**	**7.13**
Income Tax Paid	-0.28	-0.57	-1.13	-0.91	-0.91	-0.87
Net Cash Generated from Operating Activities	**0.51**	**1.28**	**2.12**	**1.84**	**2.39**	**6.27**
Cash Flow From Investing Activities						
Acquisition of Fixed Assets	-1.45	-3.39	-3.95	-1.73	-1.25	-11.74
Purchase of Investment in Sanghvi Middle East	-	-	-	-	-	-
Interest Received	0.01	0.01	0.01	0.03	0.09	0.03
Sale of Fixed Assets	-	-	0.11	-	0.03	0.01
Preliminary Expenses incurred during the year	-	-	-0.05	-	-	0.50
Net Cash Used in Investing Activities	**-1.45**	**-3.37**	**-3.88**	**-1.72**	**-1.13**	**-12.20**
Cash Flow from Financing Activities						
Increase in Share Capital	-	0.18	-	-	0.85	0.34
Security Premium	-	-	-	-	-	2.39
Repayment of Term Loan	-0.17	1.94	1.74	-0.14	-1.04	-1.03
Repayment of/borrowing from Unsecured Loan	0.02	0.26	0.19	-0.02	-0.66	2.69
Repayment of /borrowing from Working Capital Loan	1.59	0.59	0.98	1.47	0.83	3.24
Interest Paid	-0.38	-0.68	-0.98	-1.34	-1.24	-1.14
Dividend Paid	-0.13	-0.18	-0.09	-	-	-0.28
Net Cash used in Financing Activities	**0.94**	**2.10**	**1.82**	**-0.04**	**-1.27**	**6.20**
Net Increase/(Decrease) in Cash an Cash Equivalents	**0.00**	**0.00**	**0.06**	**0.10**	**-0.00**	**0.27**
Cash & Cash Equivalents at the beginning of the year	**0.18**	**0.18**	**0.18**	**0.24**	**0.34**	**0.33**
Cash and Cash Equivalents at the end of the year	**0.18**	**0.18**	**0.24**	**0.34**	**0.33**	**0.60**

Ratio Analysis (Based on Consolidated Financial Statement as restated)

Description	FY2006	FY2007	FY2008	FY2009	FY2010	Dec.2010
Profitability Ratio (%)						
Gross Profit	22.46	26.56	30.25	24.82	30.57	32.97
EBITDA(operating margin)	12.92	17.75	20.49	15.59	17.14	20.08
EBIT	11.76	16.73	18.73	13.65	14.82	18.20
Net Profit (PAT)	8.02	9.69	10.69	7.72	8.54	11.07
Return Ratio (%)						
ROCE (EBIT)	23.44	27.83	25.18	19.29	18.60	14.23
RONW (PAT)	50.94	45.77	37.88	25.87	20.95	17.30
Balance Sheet Ratio						
D/E	2.07	1.77	1.54	1.29	0.88	0.90
Book value Per Share	3.17	6.08	9.55	12.88	16.33	22.32
EPS	1.62	2.78	3.62	3.33	3.42	3.86
Liquidity Ratio						
Current ratio(with provisions)	1.15	1.26	1.54	1.57	1.95	1.10
Interest Coverage Ratio	4.00	4.58	4.22	2.88	3.34	4.10
Efficiency Ratio						
Asset Turnover	4.70	3.16	2.45	2.69	2.54	2.58
Inventory						
Average Inventory	2.47	2.91	4.15	4.83	5.12	7.31
Inventory Turnover	4.04	4.68	3.74	4.42	3.80	2.36
Inventory Turnover days	90.45	77.92	97.69	82.63	96.11	154.62
Debtors						
Average Debtors	2.62	3.59	4.43	5.60	8.55	9.44
Debtors Turnover	4.90	5.17	5.01	5.07	3.27	2.73
Debtors Days	74.43	70.60	72.89	72.01	111.56	133.82
Creditors						
Average Creditors	2.37	3.12	2.92	2.18	3.10	5.69
Creditors Turnover	4.21	4.37	5.31	9.78	6.28	3.04
Creditors Days	86.76	83.43	68.76	37.30	58.15	120.21

- ✓ Company's adjusted & diluted Book value per shares has grown with a CAGR of 29.88% over the last five year (base year FY 2006) even after the increasing base of equity shares from 0.22 lakh shares in FY06 to 0.76 lakh shares in FY10.
- ✓ Interest coverage ratio of more than 4 times shows the strong ability to pay-off their financial leverage obligation.
- ✓ Increasing customization has resulted in increasing EBITDA & PAT margins in FY10 & nine months ending Dec-2010.
- ✓ Avg. Debtors has increased due to a single order worth Rs 4.90 Cr. of Mazagon Dock Ltd has been delivered in the last days of the FY10 and the payment has been received in June-FY11.

INDIA

Name	Designation	Sectors	E-mail
INSTITUTIONAL DEALING	**TEL NO. +91 22 4076 7342-47/56**		**FAX NO. +91 22 4076 73 77-78**
Biranchi Sahu	Head	Institutional Equity	bsahu@kslindia.com
Gopi Doshi	Senior Dealer	Institutional Equity	gopi.doshi@kslindia.com
Mayank Patwardhan	Dealer	Institutional Equity	mayank.patwardhan@kslindia.com
Bhadresh Shah	Dealer	Institutional Equity	bhadresh.shah@kslindia.com
BRANCH OFFICE (PUNE)	**TEL NO. +91 20 2567 1404/06**		**FAX NO. +91 20 2567 1405**
Ajay G Laddha	Vice President		ajay@kslindia.com

Head Office	Corporate Office	Branch Office
Khandwala Securities Limited Vikas Building, Ground Floor, Green Street, Fort, MUMBAI - 400 023. Tel. No. +91 22 4076 7373 Fax No. +91 22 4076 7377/78 E-mail: research@kslindia.com	**TruMonee Financial Limited** 1st Floor, White House Annexe, White House, 91, Walkeshwar Road, Walkeshwar, MUMBAI – 400 006 Tel No.: +91 22 4200 7300 Fax No.: +91 22 4200 7399 Email: advice@trumonee.com	**Khandwala Securities Limited** C8/9, Dr. Herekar Park, Off. Bhandarkar Road, PUNE - 411 004 Tel. No. +91 20 2567 1404/06 Fax. No. +91 20 2567 1405 Email: pune@kslindia.com
Logon to www.kslindia.com	**www.trumonee.com**	

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