



SANGHVI[®]
FORGING & ENGINEERING LTD.

THE NEXT BIG THING


ANNUAL REPORT 2012-13





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The year 2012-13 was marked by high capital costs, declining national growth and sluggish international offtake.

In this difficult environment, Sanghvi Forging did something that people really did not expect.

The Company quadrupled its production capacity.

The Company catered to growing Indian and international demand.

The Company serviced large demanding downstream sectors.

The Company climbed the value chain successfully.

Reasons enough to safely claim that Sanghvi Forging is...

**THE NEXT
BIG THING**



Sanghvi Forging is a respected forging Company in Western India with pan-Indian and global clients.

In 2012-13, the Company commissioned a landmark expansion that was perhaps the largest undertaken by any Company in its sector during that year.

With the objective to build on its established

customer relationships, widen its market presence, strengthen margins and reinforce its competitive advantage.

With the complete impact of its expansion is visible, the Company is expected to emerge as the next big thing in its space and sector resulting in attractive benefits for its stakeholders.

BACKGROUND

Sanghvi Forging & Engineering Limited (established in 1989) is engaged in the forging and engineering sector, headquartered in Vadodara, Gujarat (India) with two plants in Waghodia (Gujarat).

The Company possessed an installed capacity of 18,600 MTPA at the close of 2012-13, which was commissioned in November, 2012.

PRESENCE

The Company has emerged as one of the leading manufacturers of forging and machine components with diverse industrial applications.

LISTING

The shares of the Company are listed in the BSE and NSE. The Company enjoyed a market capitalisation of ₹31.41 crore on March 31, 2013.

OUR VISION...

- To be a pioneer and leading supplier in Forging Industry by providing one-stop solution for forged product where we can be a preferred product development partner with our customer.

- To be focused on high quality through quest for perfection and innovative approach which shall help us in maintaining leadership position in business.

OUR VALUES...

- We must constantly strive to achieve the highest possible standards in our day-to-day work and in the quality of goods we provide.

- We must work in close coordination with our colleagues across the Company and are honest and straightforward in our interaction with all our stakeholders.

- We hold each and every individual involved in

the organisation while meeting the demands of our customers, improve our systems and help others improve their effectiveness.

- We believe that people work best when there is a foundation of trust.

- We have a compelling desire to propagate change and take advantage of that in the marketplace.

OUR PRODUCTS

Products	Applications
Open die forgings	EM fabricators and power sector
Forged flanges	Oil and gas, petrochemicals, fertilisers and process plants.
Closed die forgings Instrument forgings, ball forgings, components	Valve manufacturers and OEMs
Machined components	OEMs for instrumentation and valves
Heavy forgings Forged bars, plain shaft, stepped shaft rings, flange discs and hollow cylinders	Oil and gas, power, ship building and defence among others





MILESTONES

1992

Set up the factory at Vadodara with an installed capacity of 300 MTPA for closed die forgings

1996

Obtained first major approval from the Technical Development Committee of India

2002

Obtained Canadian Registration Number (CRN) applicable for 13 provinces of Canada, enabling the Company to market its products in that country

2005

Enhanced its closed die forgings installed capacity to 1,200 MTPA

2006

Established a new open die forgings plant with an installed capacity of 2,400 MTPA

2008

Implemented SAP ECC 6.0

2009

Obtained product approvals from GE, PDIL and EIL

2010

Placed a firm order for the import of a forging press and manipulators for capacity expansion

2011

Successfully completed Initial Public Offering

2013

Commenced production at the new heavy forging division



CHAIRMAN'S REVIEW

IN A CAPITAL-INTENSIVE BUSINESS LIKE FORGINGS, SANGHVI FORGING EMBARKED ON A DARING INITIATIVE TO QUADRUPLE ITS CAPACITY IN 2012-13 WITH THE OBJECTIVE TO ACQUIRE SCALE, ECONOMY AND VISIBILITY.

The nature of the economic slowdown and the significant capacity addition made it imperative for the Company to commission its new plant within schedule and estimated cost. We commenced production at our expanded facility in February 2013 and scaled our expanded facility to the maximum capacity utilisation possible towards the close of the financial year under review. Moreover, we were also able to grow our export sales from about 25% of turnover in 2011-12 to 27% in 2012-13. However, despite weak economic growth and an overall market sluggishness, we were able to contain our topline de-growth to about 10% (to ₹4522.56 lac) in 2012-13, a credible achievement in a challenging operating environment.

The company reported a bottomline of ₹136.63 lac, which was 71.27% lower than the previous year's ₹475.62 lac owing to a significant increase in interest from ₹141.82 lac in 2011-12 to ₹352.23 lac in 2012-13 and an increase in depreciation from ₹71.17 lac in 2011-12 to ₹192.72 lac in 2012-13.

I must take this opportunity to assure our shareholders that the Company did well to commission its capacities during the challenging circumstances of the financial year under review. The decline in performance must be considered

as temporary in view of the relatively un-scaled production on the one hand and the full interest-depreciation impact on the other. This we feel will correct as soon as we can increase production and amortise fixed costs more effectively across a larger throughput.

ONE-STOP SHOP

Even as the performance of the Company may be perceived as disappointing from a short-term perspective, the long-term prospects of the Company were reinforced following the expansion.

At Sanghvi Forging, we believe that the new 15,000 MTPA open die forging unit is the right capacity expansion at the right time. Globally, the larger customers are selecting to widen purchases from a smaller number of vendors. As a result, these vendors need considerably larger capacities to be able to produce a wider number of products. This makes it possible for large customers to buy a majority of their requirements from fewer vendors, creating the prospect of a single-stop solution.

In view of this, the decision of Sanghvi Forging to quadruple its capacity was a business-strengthening decision that will enable the Company to emerge as a trusted provider of a range of value-added products for global OEMs. The plant possesses cutting-edge technology that will enhance productivity on the one hand and make it possible to deliver products with turnarounds in half the time taken by conventional forging companies.

Despite the prevailing challenges, the Company generated 26.79% of its revenues from exports in 2012-13.

SOLUTIONS FOCUS

At Sanghvi Forging, we recognise that in

a competitive global environment, mere product delivery is passé. The emerging industry standard gives us the ability to solve problems and graduate to a higher delivery capability. Sanghvi Forging's expansion will make this transition a reality. In the past, the Company focused on the manufacture of large volumes of standard products for the oil and gas sector; the Company will shift to the manufacture of low volume, high margin products customised and benchmarked to demanding international standards making it possible for the Company to cater to the growing needs of OEM customers.

Besides, the Company plans to widen its customer base from traditional sectors to demanding, growing and value-added sectors like oil and gas, shipbuilding and defence.

OPERATIONAL STREAMLINING

The Company has taken significant steps to streamline the operations of the Company. This becomes especially relevant in context of the fact that the Company's new plant will be manufacturing big forging products. As a means to the aforementioned end, the Company has roped in skilled and experienced personnel, a rare combination in this niche industry space. To ensure the consistent influx of such quality intellectual resources, the Company has tied up with certain educational institutions to provide proper training in this field at the grassroots level.

We understand the importance of approvals to procure new orders and the Company has been putting in concerted efforts towards getting new vendor approvals for our new heavy forging plant. We have so far obtained approvals from such reputed clients like Voith Hydro Pvt Ltd, Samsung

Engineering, BHEL Bhopal, BHEL Trichy, BHEL Hyderabad, BHEL Ranipet, Mazagon Dock Ltd, B.Foures (P) Ltd., Bangalore, Gujarat State Petronet Ltd, Andritz, ISRO, and NPCIL and expects to get more approvals in the near future.

OUTLOOK, 2013-14

At Sanghvi Forging, we recognised the criticality in getting client approvals for our facilities, processes and capacity as a lead to order booking, production and profits. In view of this, the Company engaged with large international buyers of forging products and was successful in getting some important approvals for 2012-13.

In view of this, the Company's principal 2013-14 objective will be to maximise utilisation of its expanded capacity while enhancing capacity utilisation of its old plant in 2013-14.

Based on the enhanced productivity coming out of the two plants, the Company expects to double its revenue in the coming two years. Correspondingly, the Company expects to enhance operating efficiencies, reinforced with training, process discipline and procurement efficiency, which translated into lower production costs on the expanded modern capacity.

In view of these realities, we expect to generate higher revenues and profits translating into enhanced value in the hands of all those own shares in our Company.



Babulal S Sanghvi
Chairman

OUR STRENGTHS

Quality

In the business of forgings, our products address the demanding requirements of large downstream sectors and clients. The Company's plant is certified for ISO 9001:2008, ISO 14001:2004 and OHSAS 18001:2007. Its products are certified by TUV, Germany, for Pressure Equipments Directive. Sanghvi Forging's quality commitment has ensured that its products are well-accepted in India and the world over.

Scale

Following the expansion to 18,600 MPTA, the Company is one of the largest open die forgings companies in India.

Technology

The Company invested in cutting-edge technologies from Italy and Germany, resulting in superior quality, lower production costs and higher capacity utilisation.

Relationships

The Company's superior value proposition is reflected in a growing proportion of revenues derived from long-standing customers. In 2012-13, 75% of the Company's revenues were derived from customers enjoying relationships with the Company for three years or more.

De-risked

The Company addresses the growing needs of sectors like oil & gas, shipbuilding, defence and power, among others, reducing its dependence on any single sector for revenue.

Expertise

The Company has established a reputation in providing critical products customised around client needs.

Wide market

The Company generated around 25% of revenues from exports, reducing its excessive dependence on the Indian geography. Nearly 80% of its international revenues were derived from long-standing clients generating repeat orders. The Company's products were exported to Canada, Germany, The Netherlands, UK, France, Belgium, Italy, Oman, Kuwait, Qatar, Argentina, the US and Australia among others.

Brand-enhancing customers

Some prominent Indian customers comprised Siemens, AUDCO India Ltd, Indian Oil, HP, BP, BHEL, GNFC, EIL, Essar, Godrej, IFFCO, BHPV, IFCL, MDL, Kirloskar, RIL, BFL, Linde, ISRO, NPCIL and L&T among others.



DOWNSTREAM CUSTOMERS

Petrochemical industry

Tube sheets, channel shells, flanges, nozzles, valves, stub-end among others

Shipbuilding and railway industry

Propeller shafts, intermediate shafts, thrust bearing, components of marine diesel engines, motor shafts, casings among others

Oil & gas

Tee-connectors, Y-connectors, lateral trees, X-mas tree forgings, casing heads, wellhead forgings flanges, tube sheets, nozzles, valves among others

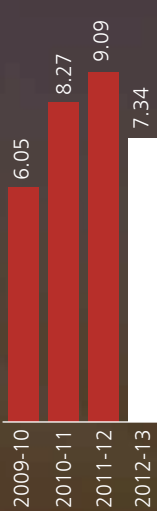
Defence

Parts like warship, gun barrels, missiles components among others

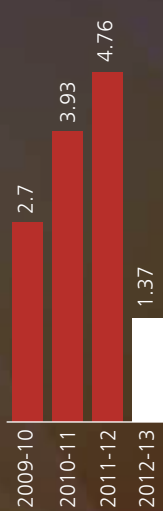
OUR STORY IN NUMBERS



Revenue from operations
(₹ crore)



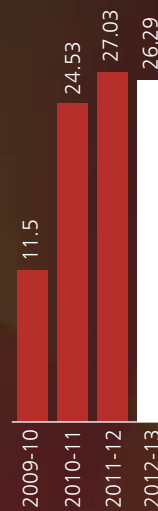
EBITDA
(₹ crore)



Profit after tax (PAT)
(₹ crore)



Net worth
(₹ crore)



ROCE
(%)



Book value per share
(₹)



STATE-OF-THE-ART TECHNOLOGY

	Machineries	Capacity	Supplier	Use
1	Open-die hydraulic forging press	4,500 tonnes	Danieli and C-Breda division, Italy	It is used to exert large enough force to press the metal into required shape.
2	Rail bound manipulator	60 tonnes	Dango & Dienenthal, Maschinenbau GMBH, Germany	It is used for holding and rotating the hot ingot while forging. It can hold ingot of 60 MT weight.
3	Furnaces	Five	Schlager Industrieofenbau, GmbH, Germany	Out of the five, two will be used in reheating and three will be used for heat treatment.
4	Lathe machines	Horizontal turning diameter: 1200 MM. Vertical turning diameter: 2000MM. Weight: 40 MT	Fermat CZ S.R.O, Germany. Epsilon Machinetools Limited, Dubai, United Arab Emirates	Proof making of forged products
5	Mechanical tongs	20 MT 40MT 60MT	Ace Heavy Industry Co. Ltd., Changwon, South Korea	Lifting of hot and cold motors

