



“Sanghvi Movers Limited Q4 FY11 Results Conference Call”

June 1, 2011



**MODERATORS MR. C.P. SANGHVI
MR. SHAM KAJALE**



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Moderator: Ladies and gentlemen, good day and welcome to the Sanghvi Movers Limited Q4 FY11 Results Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference call please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.. I would now like to hand the conference over to Mr. Sham Kajale. Thank you. And over to you, sir.

C.P. Sanghvi: We welcome you all to the Q4 financial year 11 earnings call of Sanghvi Movers Limited. I will brief you on the snapshot of the financial performance of the company. Our total income for the financial year ended 31st March 2011 is Rs. 373 crores, as compared to Rs. 342 crores for the year ended 31st March 2010. The Net profit after tax for the year ended is Rs. 86.31 crores as compared to Rs. 90.42 crores for the year ended 31st March 2010. EBITDA margin (including other income) for the year ended is 72% while PAT margin is around 23%. The company has done capital expenditure of Rs. 299 crores for Financial Year 2011.

The sector wise breakup of revenue for the financial year 2011 is as under: Wind Mill contribution is around 30%, Power sector 28%, Refinery and Gas 16%, Cement 12%, Steel and Metal 12%, Metro 1%, Other Industries 1%.

The board has recommended a dividend of Rs. 3 per share.

Guidance for the financial year 2011, our average utilization of fleet was somewhere in the range of 82% while the average blended yield was around 2.97% per month. The average utilization for the quarter ended 31st March 2011 was around 85% while the blended yield was 2.97% per month.

We are hopeful to achieve the top-line growth between 15% to 18% in financial year 2012 while bottom-line growth (including other income) of 15% to 16%. We expect average capacity utilization to remain in excess of 85% for the whole of the next year and average in blended yield in the range of



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3% to 3.02% per month. For the year to come, we shall be doing a capex of around Rs. 240 crores depending upon the market conditions.

With this brief overview on the financial performance. I hand over the floor to Mr. Sham Kajale as you all know he is our Executive Director and CFO for detailed financial performance followed by a question and answers.

Sham Kajale:

For the quarter ended 31st March 2011, the company has done capital expenditure of Rs. 93 crores and have imported 25 cranes, out of which are 4 are brand new while 21 are used cranes. The company has done total capital expenditure of 299 crores for the financial year 2011 and have bought 80 cranes, some crane attachment as well as some trailers and the prime movers. The breakup of the CapEx done is under.

Brand new cranes 38 numbers, total cost incurred Rs. 212.74 crores. Used cranes 42, cost incurred Rs. 70.42 Crores. Boom Inserts, Hook block and other attachment required for the crane is Rs. 6.63 Crores, Prime Movers, trailers and multi-axle trailers Rs. 9.26 Crores. The total Capital expenditure done is 299 crores.

As on 31st March 2011, the company has a fleet of 374 cranes aggregating to Rs. 1,360 crores. Out of which 221 cranes are above 100 tonnes which constitute 90% of the gross block while 153 cranes are less than 100 metric tonnes. Further, the company has 101 new cranes which constitute 60% of the Crane Gross Block. The cumulative lifting capacity of the fleet as on 31st March 2011 is 11,714 tonnes.

The breakup of cranes purchased during the financial year 2011 is under: less than 100 tonnes capacity cranes 46, more than 100 tonnes capacity cranes 34 aggregating to 80 cranes. The average utilization of the fleet for the full year was 82% while the average blended yield per month for the full year was 2.97% per month. The total debt as on balance sheet is Rs. 639 crores. The average cost of debt as on date is 12.31% per annum. The net worth of the company as on 31st March 2011 is Rs. 540 crores. The cash and bank balance as on balance sheet date is Rs. 18.71 crores. The net debt to equity as on 31st



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March 2011 is 1.15. The company has written off bad debts to the tune of Rs. 5.61 crores for the full year and has made a provision for doubtful debt to the tune of Rs. 98.13 lakhs. The receivable debt has come down from its peak level of 140 days to 124 days as on balance sheet date.

During the year the company has sold 24 cranes and 23 prime movers and trailers and has generated profit to the tune of Rs. 977 lakhs, out of which 9 cranes are 100 tonnes and above. The gross block of the cranes sold was 30 crores. Hence the Net CapEx for the financial year is 269 crores.

The proposed CapEx plan for FY12, the company proposes to do a CapEx of Rs. 240 crores subject to the approval of the Board of Directors and market conditions. Out of which Rs. 160 crores will be spent for buying brand new cranes, Rs. 35 crores for used cranes, the total number of cranes to be purchased out of this CapEx would be around numbers will be 40. This also includes CapEx to the tune of Rs. 35 crores for the purchase of prime movers and multi-axle trailers.

The funding of CapEx would be done through the conventional method of 75% bank finance and 25% internal accruals. The principal amount of secured loans which is due for repayment in financial year 2012 is Rs. 163 crores. And the incremental debt will be to the tune of 20 crores. The estimated debt as on 31st March 2012 will be around 670 crores while the net worth of the company after the return on earnings would be around 630 crores.

Till date the company has committed CapEx to the tune of 110 crores for 28 cranes. The EBITDA margin (after considering the other income) for the full year has decreased from 77% to 72% primarily because of the increase in the operating expenses as Freight Cost, repairs and maintenance as well as the bad debts under provision for doubtful debts.

Going forward, we expect the EBITDA margin (after considering Other Income) will remain in the range of 72% to 73% while PAT margins will remain in the range of 23% to 25% to the total income. The income tax rate would be around 32%.



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For the quarter ended March 2011, the EBIDTA has decreased primarily because of the increase in the operating expenses mainly the freight cost to the tune of 400 lakhs, diesel expenses more by 80 lakhs while the other side expenses 90 lakhs and repairs and maintenance costs have shoot up by almost 150 lakhs.

With this I would like to hand over the floor for the question and answers from your end. Thank you.

Moderator: Thank you very much sir. The first question is from the line of Anup Maheshwari from Avendus Securities. Please go ahead.

Anup Maheshwari: My first question is regarding utilization and yield for the last year that is for FY10. Can you share that sir?

Sham Kajale: FY10, the blended yield was somewhere in the range of 2.85 to 2.9% where the average utilization was in the range of 73% to 74%.

Anup Maheshwari: Going ahead, we are expecting the same utilization to apply even to our new cranes which we are just going to procure or is it applicable just to the current set of cranes?

Sham Kajale: We have started giving now the blended yield which comprises of the used as well as the brand new cranes. Going forward, in the current financial year, we expect the yield in the range of 3.01% to 3.02% per month, while the average utilization is expected in the range of 85% plus.

Anup Maheshwari: Sir, what is the average age of these cranes?

Sham Kajale: Average age of the cranes of entire fleet will be around 17-18 years, while the economic life is more than 40 years.

Anup Maheshwari: Sir, regarding the EBIDTA levels which have come down significantly, the operating cost like you have said have gone up. So what is going to bring it back up to say 73% to 74%? Any significant changes that you can foresee in the future?



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Sham Kajale: The EBIDTA margin has come down primarily because of increase in operating expenses, bad debt to the tune of Rs. 5.61 crores as well as provision for doubtful debt to the tune of nearly Rs. 1 crores, Going forward, we expect the EBIDTA margin (considering other income) in the range of 73-74% plus/minus 1 or 2% which we have been telling since last three or four quarters earnings call.

C.P. Sanghvi: And hopefully the bad debt will not be to the same tune that we have to written down last year.

Moderator: Thank you. The next question is from the line of Vihang Naik from MF Global. Please go ahead.

Vihang Naik: First question is like this quarter has reported exceptionally strong revenue growth on YoY basis, probably the strongest in the last eight quarters. Could you just give me the drivers for this kind of revenue growth for which sector contributed to it? And secondly, what are the drivers for the next year's 15-18% that we are expecting?

Sham Kajale: The revenue for the quarter ended March 2011 has been increased primarily from Wind Mill, Power as well as Refinery. We mentioned in the last quarter earnings call also that the Q4 will be good because of order booking was very promising. Going forward, we expect the growth to happen on the Wind Mill sector as well as Power as well as Refinery. Presently, we have a presence with almost all the Wind Mill companies like Suzlon, Gamesa, Kenersys, Region Power, Cinovel Gujarat Fluoro Chemicals, similarly, we are working with BHEL, NTPC, Lanco, BGR Energy and in refineries we are working with Bhatinda, that is HEML plus we are working with Dahej with ONGC and Paradip. Going forward, we expect that the 35% of the revenue will come from Wind Mill; maybe 35% equal amount of percentage contribution we make up from the Power, 35 + 35 = 70%; 10% will likely to come from Refineries, 8-10% from the Steel plant.

Vihang Naik: And I just missed the EBIDTA margin target for FY12.



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- Sham Kajale:** It will be 72-73% (including other income).
- Vihang Naik:** So I mean this is a pretty steep rise from the 67% EBIDTA margin that we have right now. So are we expecting I mean out of this almost I think around 5 percentage points have come from bad debt provisioning, so we are assuming the EBIDTA margins to provision bad debt it to remain constant at the 4Q level?
- Sham Kajale:** Vihang, I agree with you that EBIDTA margin has taken bit but if you compare the EBIDTA margin for the whole of year that has been 72% and we expect that the same level will continue.
- Vihang Naik:** And this bad debt provisioning of around 5 crores, I mean was it from one particular large client or how was it? Because I think this has probably be second quarter in the year where we have taken a significant amount of bad debt provisioning.
- Sham Kajale:** In the second quarter of the last financial year we have written Off Bad Debts to the tune of 5 crores. Additional Rs. 61 lakhs we have provided in the Q4 of the last financial year, in addition to this we have made a provision of Rs. 98 lakhs in Q4 FY11. These are not from any single client, but from multiple clients across various sectors excluding Wind Mill clients.
- Moderator:** Thank you. The next question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.
- Pritesh Chedda:** Just on the fleet side I missed out on few numbers. So if you could tell us again the number in the tonnage terms and the new cranes numbers and the percentage to block?
- Sham Kajale:** I will just repeat. As of 31st March 2011, we have a fleet of 374 cranes aggregating to Rs. 1,360 crores. Out of which 221 cranes are 100 tonnes and above which constitute 90% of the gross block, while 153 cranes are less than 100 tonnes. We have 101 brand new cranes which constitute 60% of



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the gross block and cumulative lifting capacity of the entire fleet as of 31st March 2011 is 11,714. Anything else?

Pritesh Chedda: And secondly, we have been spending on CapEx since the last three years and it has been a very aggressive number that we have been doing. When do you think probably on the yield side and the utilization, maybe more on the yield side considering your CapEx is and the industry CapEx would you see an uptrend on the yield moving say above the 3.2 or 3.3% levels?

C.P. Sanghvi: We work hard to say that the yield increases but in a particular category by the cranes the demand is from another category. And also there is what you call the pressure from foreign players. The foreign players had not come but now, recently, two, three players have come and they have been dumping their equipment which are redundant in Far East or in the Middle East, bringing the equipment to India so that is putting a little pressure on the margins. We expect the margins to go up by up to 3.05% per month this year. Actually, historically, our margins are very high, 3.25% to 3.5%. So now it is more or less realistic margin of 3.00%.

Pritesh Chedda: How is your competitive landscape shaping up and how has been your experience so far in Power segment? Because we have done a very aggressive crane addition specifically for Power as well in terms of the larger size cranes. So far what is the progress in experience?

C.P. Sanghvi: We have Power sector as well as in the wind power sector. Wind Power sector, the cranes are interchangeable, it is not that it can be used in thermal power, the same cranes can be used in the wind power. Coming back to the thermal power station, there has been what you call problems with coal linkages, financial closures, then environmental clearances, so what we expected to be a big boost in the Power sector which is there but it is not there up to our expectation. That is why utilization is to the tune of 85%, otherwise, it will be more than 88%.

Pritesh Chedda: So do you believe that the CapEx that we have put in were much ahead of what the market wanted or is any other reason that you could highlight?



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- C.P. Sanghvi:** What we have done is there are two, three factors. We have sold a lot of our used cranes and replace them with newer technology, new cranes. Now, these new cranes, the yields are lower. But they have a long economic life. So we are not taking a short-term view of one year or two years, we are in this business to stay for a long time to come. So in the interest of the company in the long-term we are replacing the older fleet with a new technology and much expensive equipment. Yes, we were slightly ahead as far as the thermal power sector was concerned that the demand has not come to our expectation and also you see sporadic foreign players coming, new entrants also coming from the Indian side also. Hence, the utilization is lower.
- Pritesh Chedda:** Few quarters back you flagged off some issues from the UMPP side in terms of your offtake. Have those issues resolved from the power side for your utilization or are they still continuing? Some of your cranes were idle
- C.P. Sanghvi:** Some of our cranes are 600 tonnes, we found some work for them.
- Pritesh Chedda:** Those have been deployed?
- C.P. Sanghvi:** Those have been deployed.
- Pritesh Chedda:** But they have been deployed for a shorter term or they have been deployed, typically how it happens in the business?
- C.P. Sanghvi:** Some of them for long-term period for 12 months, some of them within four to six months.
- Pritesh Chedda:** Okay. Lastly, on the utilization side, what could be a higher number possible in your kind of businesses in terms of utilization? And looking at the current business environment, are those kinds of utilizations possible?
- C.P. Sanghvi:** In the cranes business we have to mobilize some of the bigger cranes which require about 40-50 trailers. So the mobilization time is also there. Taking that into consideration, the maximum utilization will be around 87%.



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- Pritesh Chedda:** And what was the peak that we enjoyed in FY08 and 097, when the market was really good?
- Sham Kajale:** It was 86%, 87% in FY 08 & FY 09.
- Pritesh Chedda:** That was the peak?
- Sham Kajale:** Yeah.
- Pritesh Chedda:** Okay. Do you foresee the current market could drive up the utilization to 87% in near future or?
- C.P. Sanghvi:** No, we are quite happy and content with 85%, before we used to get a lot of overtime, now, people are more what you call careful in utilization the time during the overtime because the money goes out of the pocket, so overtime has come down and some of the contracts we have taken unilaterally for 22 hours in a day, so there is no overtime over there. So we do not expect the utilization to go over 85%, 87%.
- Pritesh Chedda:** Any diversification that we are planning at the business level?
- C.P. Sanghvi:** No, not at the moment.
- Moderator:** Thank you. The next question is from the line of Shefali Doshi from KJMC Capital Markets. Please go ahead.
- Shefali Doshi:** Sir, in Q4, we had done a CapEx of 93 crores for buying 25 cranes. In the Q1 of FY11 we had done a CapEx of 80 crores for buying 32 cranes. So sir, lesser number of cranes with a higher CapEx in Q4. So is there any significant rise in the cost of the cranes?
- Sham Kajale:** Shefali, this is a number are what actually commensurate with the size of capacity. For higher capacity cranes we buy the lesser number will be there
- Shefali Doshi:** But sir, in Q4, whatever brand new cranes you purchased was only just four, but in Q1 it was 18 cranes. I mean if you take the brand new and second hand cranes.



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- Sham Kajale:** It is a mix of brand new. Versus second hand as well as lower end
- Shefali Doshi:** Correct, but specifically it were 18 cranes in Q1 and just four cranes in Q4. I really do not have the numbers about what are the numbers on the quarterly basis for higher tonnage and lower tonnage. So if you can just help me out?
- Sham Kajale:** You wanted breakup?
- Shefali Doshi:** Yeah, above 100 tonnes and below 100 tonnes for Q1 as well as Q4 if you can help me out?
- Sham Kajale:** Can you just hold the line or you ask me another question, I will get back to you.
- Shefali Doshi:** And sir it was mentioned earlier by you that you are seeing good contribution from Wind Mill, Power, Refinery for the current quarter and these will be the sectors which will be driving the growth in future. So whatever new cranes we have purchased during Q4 FY11 and whatever CapEx we have committed for FY12 for buying 28 cranes, are those cranes to be deployed in the same sectors or like where specifically you see to deploy these cranes?
- Sham Kajale:** It will be deployed in sectors, like Wind Mill, Power, some of it already deployed. There is 28 cranes of what we have committed till date is amounting to Rs. 110 crores. For FY12 subject to Board approval, market conditions, we will be buying somewhere around 40 cranes. But that includes the prime movers and trailers to the tune of Rs. 35 crores. So effective CapEx for cranes is Rs. 205 crores.
- Shefali Doshi:** This is you are talking for FY12 or FY11?
- Sham Kajale:** FY12 only.
- Sham Kajale:** Now Q4FY11, we bought 4 brand new cranes aggregating to Rs. 58 crores and we bought 21 used cranes aggregating to Rs. 35 crores, so that makes 28 Cranes for Rs. 93 crores.



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- Shefali Doshi:** I just wanted to know whether there is any significant increase in the cost of the cranes or the type of the cranes which we have purchased are, the product mix which you have purchased and different like?
- Sham Kajale:** Product mix is different. Nothing to do with the price rise.
- Shefali Doshi:** So there is no major price rise in the cost of the cranes?
- Sham Kajale:** No.
- Moderator:** Thank you. The next question is from the line of Nishith Master from ING Investments. Please go ahead.
- Nishith Master:** One question on CapEx. Now, we have been going through the high CapEx model for the last three, four years. When do we actually see CapEx stabilizing at around depreciation levels? Probably that is what is going to drive the RoE for the company. So when do we see CapEx stabilizing?
- C.P. Sanghvi:** By stabilizing you mean that when we stop doing CapEx.
- Nishith Master:** Not stop doing CapEx, but CapEx is generally equal to your depreciation.
- C.P. Sanghvi:** CapEx to the depreciation.
- Nishith Master:** You will be replacing your old assets.
- C.P. Sanghvi:** Right. We foresee that to happen after two years.
- Nishith Master:** So for another two years, you will be on a high CapEx mode?
- C.P. Sanghvi:** Yes. On a CapEx mode.
- Nishith Master:** What is the kind of gross block which you believe would be manageable should you end up with after two years?
- C.P. Sanghvi:** Right now, our gross block is around....



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- Sham Kajale:** Rs. 1360 crores plus 240 crores, so somewhere around 1600 crores by the year end and we do a CapEx of Rs.1800 to Rs.1900 for the next two years.
- Nishith Master:** And in terms of financing, are you facing any problems with the new capacity additions which are happening? Are the lenders increasing rates, apart from obviously whatever increase you see in terms of higher interest rates across the industry but has the increase in interest rates been far higher than the average increase of interest rates?
- Sham Kajale:** Interest rates are hardening because banks are increasing their prime lending rate, because RBI is sucking the liquidity from the market. It has nothing to do with our business model. In fact, lenders are more than willing to lend us money I would say they are charging us reasonable rate of interest and comparing apple to apple in the similar industry the banks are 1.5%-2% more than what they are charging to us. We have already tied up the loans more than what we required. We already tied up more than 300 crores already been done.
- Nishith Master:** This provisioning for bad debt which has happened over the last one year, you said there was some Wind Mill clients...
- Sham Kajale:** This is excluding Wind Mill.
- Nishith Master:** Okay, this is excluding Wind Mill? I thought it includes Wind Mill.
- Sham Kajale:** There is no single Wind Mill client in that category.
- Nishith Master:** Okay. And in terms of your fixed orders for the next year, how much revenue has already been fixed in terms of contracts for over the next 12 months?
- Sham Kajale:** Based on the order whatever we have bagged till date, the confirmed order book is to the tune of Rs. 210 crores. Our Order book is very fluid. It keeps on changing. so if you ask what was your order book last year in the same month I would have come up with an answer of 140 or 150 crores which is



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now at 210 crores plus. Rest of the order we have bagged during the course of the last financial year. The same thing will happen.

Nishith Master: So this 210 crores is what? You already booked for the whole year. So any additional revenues would basically be bookings or spot bookings or bookings which would happen right now in cranes being deployed over the next 12 months?

Sham Kajale: See, some of the cranes having contract for three months, six months, that is only comprising of this Rs. 210 crores order book. Again, the Crane may get deployed with same client on a renewable basis or maybe it will be deployed with some other clients. So it is based on the confirm order booking, based on the short-term as well as the duration having about 12 months or above.

Nishith Master: Sir, how this pricing move? Because obviously diesel cost has increased and I believe most of the contracts would not have pass-through of diesel.

Sham Kajale: Yes.

Nishith Master: So has the pricing increased commensurate with the cost increase, at least in FY11 has not happened and that is why you are seeing margin contraction but what is the scenario in FY12?

C.P. Sanghvi: FY12 the margins is to the same region.

Sham Kajale: We have already renewed with the increment of 5-6%. In most of the cases what we do the diesel is that we ask the our Clients to bear diesel cost up to certain liters, say, 1000 litres or 1200 litres a month. These expenses we pass on to the client and over and above if some diesel is required to be consumed then Client charged us by raising Debit Note. So increase in diesel cost does not have a major significant impact on the operating margin. Going forward, yes, considering the fleet size is also growing, there will be incremental fuel cost which might go up.



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- Nishith Master:** And there was this one concern with Wind Mill players had was they want adequate trailers available for them to transport their own equipments. Do we do a third-party logistics for other guys using our trailers?
- C.P. Sanghvi:** We are using other trailers also in addition to our Trailers. We have got some multi-axle or hydraulic-axle trailers. We were proposing to use initially for our own transportation because gradually the laws are changing in India, the RTO laws, we have been approached by some Wind Mill players for the transportation of the nacelle as well as the bottom towers. So we are thinking about going to it but we have not yet firmed up.
- Nishith Master:** And typically the payback period for these trailers if you move into that business would be similar to the crane payback of around seven years?
- C.P. Sanghvi:** No, for the trailers it should be around between 4-4.5 years.
- Nishith Master:** And typical life also would be close to 7-8 years max?
- C.P. Sanghvi:** Yeah, the life will not be as long as the cranes.
- Nishith Master:** If I have anything I will let you know.
- Moderator:** Thank you. The next question is from the line of Chinmay Gandre from Asit C Mehta. Please go ahead.
- Chinmay Gandre:** Earlier actually I missed your initial remarks on the EBITDA margin for the quarter. Why has it gone down?
- Sham Kajale:** It has gone down primarily because of the freight expenses as well as the operating expenses at the site as well as the repairs and maintenance cost.
- Chinmay Gandre:** No major write-off in this quarter?
- Sham Kajale:** Bad Debts written off is Rs. 61 lakhs while we made a Provision for Doubtful Debts to the tune of Rs. 98 lacs in the March quarter.



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- Chinmay Gandre:** But other than that I mean the replacement was it is just for the last quarter, I mean because you are saying again the margins would be going back to like 72% level, so the replacement cost and basically the operating cost do you expect to come down again?
- Sham Kajale:** Because inflation and other costs are also shooting up plus salary increment, all those things are also there. So, we expect the EBIDTA margins (considering other income) in the range of 72-73% going forward.
- Chinmay Gandre:** And sir, regarding the competition in the industry, could you throw some light on like the Reliance, the cranes which Reliance had? You also mentioned like foreign players are dumping in, so who are those players and what is the scene right now?
- C.P. Sanghvi:** Reliance is giving cranes on hire and also two companies, one is Sarens from Belgium has come and TWC from Singapore has come. So these two companies are active in India and sporadically some new companies are coming in India. So there is competition but we are above that or we are facing competition and taking it head long.
- Chinmay Gandre:** And regarding market share I believe you used to say like 60% earlier, if I am not wrong. What is I mean right now is it like similar levels have come down or what is the scene?
- C.P. Sanghvi:** Right now, our market share would be around 40 to 45%.
- Chinmay Gandre:** Sir and could you give us the debtors figures right now as of Q4?
- Sham Kajale:** As on 31st March 2011, the total debtors outstanding is 134 crores.
- Moderator:** Thank you. The next question is a follow-up from the line of Nishith Master from ING Investments. Please go ahead.
- Nishith Master:** Sir, just a small question. You gave these debtor figures of 134 crores. Now how much of this would be over six months?



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- C.P. Sanghvi:** Over six months to the tune of 20 crores.
- Sham Kajale:** It is Rs. 20 cores 64 lakhs
- Nishith Master:** And any chances of this figure also being sticky and probably again a hit next year?
- Sham Kajale:** We have recovered almost Rs 6 crores till date, out of this Rs. 20 crores we are taking rigorous steps to make the collection from Debtors more effective. We have taken a detailed scrutiny and we have some balance information from each and every party, so I do not think any major hit will happen plus we have provided additional provision for doubtful debt which is around 98 lakhs. I do not think major hit will happen in next year P&L.
- Nishith Master:** Okay. And this Rs. 20.64 crores of above six months debtors, is any of this amount being actually disputed by clients?
- Sham Kajale:** No.
- Moderator:** Thank you. The next question is from the line of Rahul Soni from SKS Capital & Research. Please go ahead.
- Rahul Soni:** I just want to know your domestic competitors of Sanghvi Movers.
- Sham Kajale:** The name is Allcargo Logistics Limited, it is a listed company. They have other business pockets also but some part of their revenue is coming from the crane hiring. Then ABG Infralogistics is again a listed company. And there are some small players from unorganized sectors.
- C.P. Sanghvi:** Sethia Cranes is there, another crane company started is Ideal Crane, Ideal Movers, then Dewanchand Ramcharan.
- Sham Kajale:** These are from unorganized sector, they are not listed company. They are partnership firm., proprietary company.
- Rahul Soni:** And tracking the company for the first time, can you please highlight this blended yield ratio? I mean what does this syndicate?



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- Sham Kajale:** It is revenue divided by the gross block of the company.
- Moderator:** Thank you. The next question is a follow-up question from the line of Vihang Naik from MF Global. Please go ahead.
- Vihang Naik:** Just on these foreign players, are they making the yields a bit irrational in the market or are you seeing predatory pricing from these guys at the current level?
- Sham Kajale:** To be frank with you, in order to get some market share of Sanghvi Movers, they are doing undercutting. And they have a huge fleet of cranes idle in their countries; hence they are just dumping some of their cranes in India just to take the market share. To enter the market and to get the business or to grab the business opportunity, they have to undercut which they are presently doing.
- Vihang Naik:** And roughly as in Sarens, these players would be competing in more than 500 tonnes space?
- Sham Kajale:** No, they have having 200, 300, 400 tonnes or even 600 tonnes also.
- Vihang Naik:** So the fact they would not be having at least the infrastructure that you have considering the depots you have. So is that a disadvantage for them in any sense or they are different?
- Sham Kajale:** Yeah, definitely, it would be disadvantage for them. See, initially, when Reliance entered this business, they have undercut like anything, they undercut to the tune of 25, 30% of the normal price. Same thing happens with other foreign players also. Initially, they are undercutting, but eventually they will realize that this is not going to sustain in long term.
- Vihang Naik:** And I missed out, in this current quarter, can you just enlist the cost due to which the margin to cut it, I mean just the breakup?
- Sham Kajale:** See, EBITDA margins have come down in the quarter was Rs. 61 lakhs bad debt, that is being additional thing written-off, then Rs. 98 lakhs provision for



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doubtful debt, the increase in freight cost nearly to the tune of Rs. 4 crores. See the last quarter of Q3 FY11, we have revenue of Rs. 80 crores, in Q4 of FY11, we have a revenue of nearly Rs. 04 crores. So there is a jump in revenue to the tune of Rs. 24 crores. And when this deployment happens automatically the freight cost also shoot up to that level. So the freight cost has gone up because of the mobilization cost. And operating expenses and repairs and maintenance also shot up. So these are the prime major drivers for the EBIDTA margin to get pull down.

Vihang Naik: So say this freight cost impact of about 400 basis points on the margins, 4 crores on 100 crores that would not be there in the next quarter, assuming that you would not have such a high jump in the revenues?

Sham Kajale: See, instead of doing a meticulous calculation, I would say we will safely assume that EBIDTA margin (including other income) will be in the range of 72-73% going forward. The last year also we have mentioned that EBIDTA margin of 77% is a little abnormal and it will be sustained at the level of 73-74% going forward. We never mentioned that we will catch the EBIDTA margin of 76 or 77% going forward.

Vihang Naik: And potentially this number of 16-18% in revenue growth, would you believe that this is the visibility at the current level and this has potential to slightly go upwards as we move along? What is your sense on the general market conditions right now?

Sham Kajale: I would say this is a conservative estimate that we have given and we will throw more visibility on these numbers at the end of the second quarter.

Moderator: Thank you. The next question is a follow-up question from the line of Shefali Doshi from KJMC Capital Markets. Please go ahead.

Shefali Doshi: Just one question regarding you have mentioned earlier about the debt as on FY12. If you can just share it once again?



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- Sham Kajale:** The principal amount of term loan due for payment in the current financial year that is FY12 is Rs.163 crores. We are going with a formula of 75-25% for the proposed CapEx of Rs. 240 crores. 75% of Rs. 240 crores will be Rs. 180 crores, additional debt that we are taking, we are repaying simultaneously the debts to the tune of Rs. 163 crores. So the incremental debt will be Rs. 20 crores only. As on today, our debt is Rs. 640 crores. So the total debt will be Rs. 660 crores at the end of the financial year 2012. But my equity that is net worth is we will shoot up by another say Rs. 90 crores on the lower side which is presently Rs. 540 plus Rs. 90, Retained Earnings, hence Net Worth will be around Rs. 630 crores, Hence Rs. 660 Crores divided by Rs. 630 Crores, our estimated debt to equity ratio will be 1.05.
- Shefali Doshi:** And this total fleet size you mentioned after selling the 24 cranes comes to 375?
- Sham Kajale:** 374.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** I just wanted to know what would be the Suzlon's contribution for the whole year.
- Sham Kajale:** Nearly 24% of the revenue.
- Tejas Shah:** And are we seeing any traction from that side?
- Sham Kajale:** In fact, they have already renewed the contract for another 21 months, they have already given the increment and they are asking for more packages and their order book is quite sound and they are making payment in time earlier they used to follow, a bill discounting method now they are making a direct payment, we have reduced their credit period also from
- C.P. Sanghvi:** 90 days to 60 days.



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- Sham Kajale:** These are the good times actually. We are comfortable working with Suzlon as far as business and cash flow is concerned.
- Tejas Shah:** So if I am understanding correctly then, your Wind Mill contribution is around 30%, right?
- Sham Kajale:** 30%.
- Tejas Shah:** And out of that 26% is coming from Suzlon?
- Sham Kajale:** 24%.
- Tejas Shah:** So are we not able to make any breakthrough with other clients, as you mentioned that Gamesa and all are very active in India. So are we seeing any major traction or the 4% is good enough, are we seeing any traction from other clients also on the Wind Mill side?
- C.P. Sanghvi:** Yes, we are rigorously following with Gamesa and whatever cranes we have CapEx we have done, we are catering first to Suzlon, second, we are catering to Kenersys, third to GFL. And if there are any cranes left then we cater to them but we are trying to keep and Gamesa as the fourth company. We are trying to give the best service possible to them. So we are trying to give as many cranes as possible to them for catering their needs and then if there is any surplus we will think about afterwards.
- Sham Kajale:** Suzlon Contribution is 24% of the Revenue last year.
- Tejas Shah:** 24%. Okay. I believe in last con call you mentioned that Sarens when they came to India, initially they were aggressive but after that you did not see any gross block addition from their side. This was in Q4 FY09 they came to India. So are you seeing again any revive competition from that side?
- C.P. Sanghvi:** No, to the best of our knowledge in the last six months they have added only 1 crane to the fleet, 600 tonnes
- Tejas Shah:** Who is the another player from Singapore?



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- C.P. Sanghvi:** TWC, Tiong Woong Corporation.
- Tejas Shah:** And according to you all these players are right now doing credit pricing just to get the market share?
- C.P. Sanghvi:** Right.
- Tejas Shah:** So just wanted to know since you must be having this information, are these players well funded to take this losses for next couple of years?
- C.P. Sanghvi:** I am sorry; I did not get your question.
- Sham Kajale:** Basically, what they do, they have idle fleet of Cranes which most likely being paid off, so I do not think there is any liability in respect of those cranes which they are own. Hence they have done price undercutting. You might be comfortable initially making some small profit margins, you can continue the business.
- Tejas Shah:** So you do not see intensity going down drastically or sanity again coming back on pricing front soon?
- Sham Kajale:** The intensity of competition?
- Tejas Shah:** Yeah.
- Sham Kajale:** In short-term, I would say yes, however, in long-term, they will not sustain this kind of price cutting eventually.
- Tejas Shah:** And typically how long is the long-term?
- Sham Kajale:** Maybe two years and above.
- Tejas Shah:** See, apart from good margins in India, what is attracting them to India? Is it there is no demand in the domestic market?
- Sham Kajale:** Yes, that is also one of the primary reasons.
- Tejas Shah:** So they do not mind deploying it in India at whatever cost?



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- Sham Kajale:** Correct.
- Tejas Shah:** Is there any rethink on our dividend policy? Are we planning to increase in the coming years?
- C.P. Sanghvi:** If the profit goes up we will definitely consider.
- Tejas Shah:** But not at expense of reducing CapEx?
- C.P. Sanghvi:** Yeah, I would rather take a long-term view for the company
- Tejas Shah:** Makes sense. There are two contradictory signs when we listen to a commentary, one is that you yourself are saying that there is increasing intensity, competition intensity plus the power scenario did not play out the way you thought it to be and on the other hand, you are not reducing your CapEx by huge amount, it continues to be 200 plus crores of annual CapEx. So what gives you this confidence that even though the concerns that you also mentioned you are continuing with your CapEx plan?
- C.P. Sanghvi:** As I mentioned earlier, that we are trying to replace our older fleet with a newer fleet. But we are constantly upgrading our fleet. And this demand will be temporary phenomena and we have gone for volume purchase, we have got 10, 15% size advantage than what others would get in terms of volume. So, we would like to compete that and we definitely see that the demand is going to come and we are replacing the older fleet with the newer fleet, if the older fleet can give us 3.5%, new fleet gives us 2.3%, we are sacrificing a little bit but long-term this will be a very good for the company.
- Tejas Shah:** Okay. And sir, is there any specifications which are coming into new projects, where they specifically ask for new fleets only?
- C.P. Sanghvi:** The multinational company or refinery is they ask for certification for a newer fleet also and RTO, now they are insisting on hydraulic axle to transport the heavier loads. So there is some changes coming in the country.



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- Moderator:** Thank you. The next question is from the line of Manish Gunwani from ICICI Prudential. Please go ahead.
- Manish Gunwani:** You said some of the cranes have been redeployed from the UMPP project. Just wanted to check if these have been deployed in UMPP itself or they have been moved out of UMPP because the projects are not progressing?
- Sham Kajale:** No, it is being deployed in the UMPP, UMPP once you start you cannot stop in between.
- Manish Gunwani:** So overall are the UMPP projects progressing satisfactorily?
- Sham Kajale:** I am not able to give the answer correctly. Let Mr. Sanghvi answer that question.
- C.P. Sanghvi:** Yeah, the projects are going on. UMPP projects are going on in Sasan where we are already working, Tata projects also.
- Manish Gunwani:** It is broadly on schedule or it is the utilization is less than what you had anticipated?
- C.P. Sanghvi:** The utilization is less than what we had anticipated.
- Manish Gunwani:** See, lot of our CapEx is to replace the old fleet. So when we are selling the old cranes are we selling it generally at a price more than the book value or less than the book value?
- Sham Kajale:** We are selling above the book value. That is why there is a profit on sale of cranes to the tune of Rs. 9.77 crores, last year also same kind of profit we generated.
- Manish Gunwani:** So FY11 is 373 crores includes about...?
- Sham Kajale:** Rs. 9.77 crores we have generated from the sale of cranes in FY11, last year (FY 10) it was Rs. 8.35 crores.



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- Manish Gunwani:** And sir, finally just a thought on the capital structure. The stock price seems to be fairly low. On a cash EPS basis we are probably trading at less than 3 on a PE basis. So in terms of capital allocation, would it not make sense to do some kind of share buyback, especially when we are spending CapEx of 240 crores, small amount of share buyback maybe more better from a ROCE or ROE perspective rather than the CapEx itself?
- C.P. Sanghvi:** We have done this analysis. Lot of companies have gone into share buyback. The share price is still much below than what they bought the shares at. So in a way it is rather than investing and reducing the capital structure methodically do in capital expenditure in the long-term it is much better.
- Manish Gunwani:** My only thought was once we set a precedent for rewarding shareholders, the cost of capital, that is if we have to do equity raising later, then reduces, so effectively, we will be reducing the cost of capital?
- Sham Kajale:** I understand your point. But at the most we can do 10% of the share capital as a buyback, right?
- Manish Gunwani:** Right.
- Sham Kajale:** We will come back to you on this at appropriate time.
- Manish Gunwani:** You would need to do the maximum, right? Even if you buy...
- Manish Gunwani:** You can keep buying from the market till Rs. 150 or something?
- Sham Kajale:** We will come back to you on this.
- Manish Gunwani:** It does not need to be tender shares buyback. You get the sale of permission and keep buying whenever....
- Sham Kajale:** Yeah, I do agree with you.
- Manish Gunwani:** I mean just a feedback probably.



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- Sham Kajale:** I know. We are working on that. But we have not come to any conclusion. We have just thought about it. But we have not taken any decision on that so far.
- Moderator:** Thank you. The next question is from the line of Nidhi Agarwal from Sharekhan. Please go ahead.
- Nidhi Agarwal:** Just I wanted an update on that Reliance Infrastructure order. How it is progressing and is there a renewal of order there?
- Sham Kajale:** It is already deployed. We have deployed two heavy duty cranes, for Sasan project in the month of March. And the project is on actually. In addition to this 4 Cranes are also working.
- Nidhi Agarwal:** Okay. You got this order in Feb and I think it is a six-month order with a vision of extension?
- Sham Kajale:** Correct.
- Nidhi Agarwal:** So any further orders there coming?
- C.P. Sanghvi:** We have received order for three more cranes subsequently. So at the moment there are about six cranes, four medium and two very, very large cranes are working there.
- Nidhi Agarwal:** Last question on the payment cycle. I just wanted to understand how the payment come from the client in tranches or what is the mode of the payment?
- Sham Kajale:** We do monthly billing and there is a credit period of say 30-45 days, in some cases, 60 days also and we get bill-to-bill payment.
- Moderator:** Thank you. The next question is from the line of Abhir Pandey from Parag Parekh Finance. Please go ahead.



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- Abhir Pandey:** My question is related to the size of fleets which is being used by the competition. In a sense, since they are dumping, I wanted to know is the size of the fleet much bigger than ours, is it smaller?
- C.P. Sanghvi:** No, at the moment, Sarens has got about 26 and one more crane, 27 cranes, Tion Woong Singapore has about 5 or 7 cranes, so there is nowhere no comparison to the size of our fleet. But they keep denting on the price.
- Sham Kajale:** Reliance must be having some 40, 50 cranes
- C.P. Sanghvi:** About 60 cranes in Reliance must be having.
- Abhir Pandey:** My question was in the sense if they are also using credit pricing could you also in order to maintain market share also, reduce prices?
- C.P. Sanghvi:** It is very easy to reduce the prices, but then to bring it to the more expected level, it is very difficult. We are trying to hold on to the trade-off. We keep monitoring the prices versus idle cranes over here.
- Abhir Pandey:** So my next question would be on contribution of the top five clients. Could you give me the percentage terms?
- Sham Kajale:** Top five clients contribute almost 43% of the revenue.
- Abhir Pandey:** My next question is what is the policy on selling of cranes? Because I believe that you sold some cranes for a profit. In a sense the recent cranes which you have bought assuming payback is probably seven years or something. When would the cranes be sold again?
- Sham Kajale:** No, I could not get your question right.
- Abhir Pandey:** No, you sold some cranes and booked some gain on it, right?
- Sham Kajale:** Yeah.
- Abhir Pandey:** This quarter? So what is the policy? In a sense what determines for a particular batch of cranes to be sold?



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- Sham Kajale:** We are selling old cranes which are typically we already used for say 15 years or above. For the technology reasons or due to some other reasons for example some cranes are bulky in size which are difficult to transport. These cranes are we are selling actually. I think we have achieved a maximum level where we want to dispose of the cranes. So almost 50, 55 cranes we have sold in last 27 months. So going forward, very less cranes we are likely to sell.
- Moderator:** Thank you. The next question is from the line of Jaspreet Singh from Tactica Capital. Please go ahead.
- Jaspreet Singh:** Could you tell me what is the gross block which is greater than 250 tonnes?
- Sham Kajale:** I need to check that. I do not have ready answer for this. I will tell you afterwards. Is that okay?
- Jaspreet Singh:** Secondly, I wanted to understand you said you will be achieving something like 15-18% of growth this year. And last year also you had I guess similar expectations. Is it on something which you already have in hands on which you build this expectation or is it a very fluid situation?
- Sham Kajale:** We have a better visibility as compared to last year. We have better order book as compared to last year. So based on these two things we have given this guidance.
- Jaspreet Singh:** And you also mentioned that you had 50% of the industry market share.
- Sham Kajale:** 40 to 45%.
- Jaspreet Singh:** Can you tell me at what rate the rest of the industry is growing?
- C.P. Sanghvi:** Everybody is also growing. That is why our market share has come down.
- Jaspreet Singh:** Is it something like the entire industry is growing at 10, 15% only?
- Sham Kajale:** I do not have ready answer for this, because the data is not available, because most of the players they are from unorganized sectors and even from



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organized sectors, they do not publish the data about how much fleet they are expanding.

- C.P. Sanghvi:** We are very transparent and open. Everybody does not give the same data.
- Jaspreet Singh:** And you also mentioned that some cranes are coming from Saudi Arabia and other parts of the world, but last time I guess you mentioned that most of the cranes deployed there was our cranes.
- C.P. Sanghvi:** No, I had mentioned from Far East cranes have been coming.
- Jaspreet Singh:** Were they not tower cranes specially used to build towers?
- Sham Kajale:** No, those are not tower cranes. They are regular cranes what we have.
- Jaspreet Singh:** Mr. Sanghvi, you mentioned that your focus would be more towards capital expenditure the kind of growth which you are foreseeing in the industry. Presently somebody also mentioned earlier that you are already building some 200 crores of cash profit and there is hardly any debt on your books, which is 600 crores. Would it not make sense to finance your further growth with more leverage and probably distribute of the cash earnings that you are making in form of dividend or buyback or anything else?
- C.P. Sanghvi:** No, we still see lot of growth opportunity that is why we are trying to conserve the cash. We have declared dividend of Rs. 3 a share that is 150% subject to approval of the shareholders. So balance between dividend payout ratio as well as keeping in mind the future capital expenditure that we propose to do.
- Jaspreet Singh:** No, for capital expenditure you are hardly taking any leverage. I mean on a gross block of something like 1600 crores or 1500 crores, you have Rs. 600 crores of debt. And you are already producing Rs. 200 crores of cash profit. Would it not make sense to probably increase your dividend payout and finance further capital expenditure with more leverage?



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- C.P. Sanghvi:** Our debt to equity ratio is 1.15:1 so which is quite healthy and now if you take a higher debt to equity ratio, then during the bad period you may come into a debt trap. It is better to conserve cash.
- Jaspreet Singh:** Would the banks not allow you to take your debt to equity ratio higher?
- Sham Kajale:** There is no financial covenant as such.
- C.P. Sanghvi:** We can go up to 1.5:1 but that is with such high debt it will be very difficult. So we are comfortable between 1.15 or up to 1.25 we can go up to.
- Jaspreet Singh:** I also heard that these people like Reliance Power who are putting up UMPPs they are buying their own cranes, they are not willing to give orders to Sanghvi or any other service provider?
- C.P. Sanghvi:** They have given us order for 6 cranes which will constitute around Rs. 150 lakhs a month. But you are right, even I have heard that they are purchasing their own cranes.
- Moderator:** Thank you. The next question is a follow-up question from the line of Chinmay Gandre from Asit C. Mehta. Please go ahead.
- Chinmay Gandre:** Sir, what was our gross block of cranes as of FY10? Only the sales like. Now, it is 1360 crores.
- Sham Kajale:** Rs. 1113 crores.
- Chinmay Gandre:** And all the debt is long-term debt, no working capital in that side?
- Sham Kajale:** Rs. 639 crores include working capital of Rs. 36 crores.
- Moderator:** Thank you. The next question is a follow-up question from the line of Shefali Doshi from KJMC Capital Markets. Please go ahead.
- Shefali Doshi:** Sir, what is your number of depots as of 31st March?
- C.P. Sanghvi:** We are having around 12 depots as of today.



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- Shefali Doshi:** And sir, regarding Suzlon, is it possible for you to quantify as to what percentage of the total fleet size in numbers or in tonnage terms is deployed with Suzlon on an average?
- C.P. Sanghvi:** Number of fleet size would be around nearly 90 cranes out of 375 cranes are working with Suzlon.
- Shefali Doshi:** And sir they are all high tonnage cranes?
- C.P. Sanghvi:** Yeah. Typically the crane sizes are 400 tonnes, package is 400 tonnes and we have to give 100 tonnes crane and then 50 tonnes crane. So they vary from 50, 100 and 400 tonnes but basically require a big crawler of 400 tonnes.
- Shefali Doshi:** Versus one specifically wind mill project for 100 tonnes crawler cranes.
- Sham Kajale:** We have to give the full package.
- Moderator:** Thank you. Our last question comes from the line of Girish Solanki from Anand Rathi. Please go ahead.
- Girish Solanki:** Sir, my question was pertaining more to the competition. You mentioned about some of the companies. But you have not mentioned about the Era Infras crane hiring division. Do we also compete with them because even they have some crawler cranes up to 250 tonnes, 150 tonnes?
- C.P. Sanghvi:** All these people who are erecting power station. They do by their own cranes also. If they are long-term players in this Power sector like Power Mach, Sunil HiTech, Era, they have all bought their cranes. But they still take cranes from us. The projects are much more than the cranes that they have.
- Sham Kajale:** I think there is some miscommunication. Era do not let out the cranes in the market on a rental basis. They bought some cranes for their own consumption. Like L&T they are having own cranes. Petron, they are having their own cranes.



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Girish Solanki: Right, but on their web site they have mentioned, they basically use in-house and external demand as well. So that is the reason I thought it they may. Because even the numbers they show they get in hiring or the equipment hiring top-line of about 45 crores on a quarterly basis and the EBIDTA of around 31 crores. So I guess that is a very big number that is almost close to 40% of our quarterly top-line.

C.P. Sanghvi: I am not aware of that. I will check it up this time.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the floor back to Mr. Sham Kajale for closing comments. Thank you.

Sham Kajale: Thank you everyone for joining this call. Thank you.

Moderator: Thank you sir, thank you members of the management. On behalf of Sanghvi Movers Limited that concludes this conference call. Thank you for joining us