



"Sanghvi Movers Limited Q3 FY12 Earnings Conference Call"

February 15, 2012



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MOVERS LTD**
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Moderator: Ladies and gentlemen good day and welcome to the Sanghvi Movers Limited Q3 FY'12 results conference call. As a reminder for the duration of this conference, 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 you need assistance during this conference call please signal an operator by pressing * followed by "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. C. P Sanghvi, Chairman Sanghvi Movers Limited. Thank you and over to you Sir.

C P Sanghvi: Good afternoon everybody. I welcome all of you for the Q3 financial year 12 earnings call of Sanghvi Movers Limited. I will quickly give you a snapshot of the financial performance of the company for the quarter ended December 31, 2011.

Our total income for the quarter ended December 31, 2011 is Rs.114 Crores as compared to 81 Crores for the quarter ended December 31, 2010 thus registering a topline growth of 41%. Our net profit after tax for the quarter ended December 31, 2011 is 24.58 Crores as compared to 16 Crores for the quarter ended December 31, 2010 thus registering a bottomline growth of 53%.

Our EBITDA margin for the quarter ended is 73% while PAT margin is around 21%. The company has done a capital expenditure of around Rs. 203 Crores during the nine months period up to December 31, 2011. The sector wise revenue breakup for the nine months period December 31, 2011 is as under - windmill sector 40%, power sector 30%, refinery and gas 17%, steel and metal 5%, cement 4%, other industries 4%. We proposed to do a Capex of around Rs. 225 Crores for the full financial year 2011-2012. With this brief review on the financial year performance now I hand over the floor to Mr. Sham Kajale for the detailed financial performance followed by question and answers.



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Sham D. Kajale: Thank you Sir. For the quarter ended December 31, 2011, the company has done a capital expenditure of Rs. 49 Crores towards of purchase of five Cranes, counter weights, Multi-axle trailers etc. The break up of this Capex is as under: We have purchased one brand new crane amounting to Rs. 19.51 Crores, we have purchased four used cranes Rs. 3.27 Crores, counter weights Rs. 13.47 Crores, Prime movers, trailers and multi-axle Rs. 12.6 Crores, Total Rs. 49 Crores.

As on December 31, 2011, the company has a fleet of 398 cranes aggregating to Rs. 1507 Crores out of it 226 cranes are 100 tonnes and above which constitutes nearly 90% of the gross block of the company. While 172 cranes are less than 100 metric tonnes capacity cranes. Further the company has 115 brand new cranes, which constitutes 64% of the gross block of the company. The cumulative lifting capacity of the fleet as on December 31 is 66342 tonnes. The breakup of the crane purchased during Q3 of financial year 2012 is as under: Less than 100 tonnes we purchased four cranes, more than 100 tonnes we purchased one crane.

The average utilization of the fleet for the quarter is 86% while the average blended yield per month for the quarter was 2.87% per month. The total gross debt as on December 31, 2011 is Rs. 755 Crores while the average cost of borrowing is 12.37% per annum. The networth of the company as on December 31, 2011 is 618 Crores. Net cash and bank balances as on December 31, 2011 is 12.54 Crores. The net debt to net equity as on December 31 is 1.22.

The company has written of bad debts to the tune of Rs. 1.45 Crores during the quarter and as made addition provision for doubtful debts to the tune of Rs. 4.62 Crores. For the nine months ended December 31, 2011 the total amount of bad debts written off is Rs. 2.73 Crores while the provision for doubtful debt is Rs. 6.38 Crores. The receivable days were 145 days.



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During the quarter the company has sold two cranes and generated profit of Rs. 194 lakhs out of which one crane was more than 100 tonne capacity while the other crane was less than 100 tonnes. The gross block of the crane sold is Rs. 4.62 Crores. During the quarter, the Company has worked out the impact of Cranes purchased by it from FY 2004-05 till 31st December, 2011 due to change in its accounting practice for Accounting of Borrowing Costs, resulting in a prior period impact of Rs. 646.68 Lakhs which was already provided in September-2011..

The company has followed the effective tax rate of 32.45%. The company will be doing a CapEx of Rs. 225 Crores for the full year out of which Rs. 203 Crores is already completed up to December 2011 and the balance Rs. 23 Crores will be completed in the last quarter of the current financial year. We propose to purchase 39 cranes out of which 15 cranes will be a brand new crane, 24 cranes will be used cranes. The estimated EBITDA margin for the current financial year will be in the range of 70% to 72%, while the PAT margin will remain in the range of 21% to 23%. With this I hand over the floor for your question and answer regarding our earnings. Thank you.

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

Vihang Naik: Hi Sham. Nice set of numbers. My first question is for Mr. Sanghvi, can you just summarize the demand situations that you are looking right now you posted some great numbers this quarter how do we see the CapEx scenario go ahead and how does that pan out for us?

C P Sanghvi: The CapEx scenario, we understand from the market sources, well wishers and from the banker that these days investors are more interested in looking at the left hand side of the balance sheet rather than the right than side of the balance sheet. Going forward we are going to take little conservative approach there are two three reasons why we have decided to take a conservative approach. As of December 31, our bank borrowings is to tune of 750 Crores



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it is still a manageable debt and we wish to bring a debt low and become a near debt free company. The reasons for this are a) we have done substantial capital expenditure during last 4/5 years b) Whether you like it or not, whether one like that or not there is a slow down in the economy plus where it affects us more is that there is a slowdown in power sector, and c) our utilization is very good at 86% but there is a lot of entrants are also coming from overseas as well as from in domestic so instead of getting in to the rat race and dropping your rate all the time we decided to reduce the capital expenditure and consolidate our positions today also our yields are in the range of 2.87% which is in this given scenario with competition is very good so it is better to lose some orders than get in to a debt trap.

Vihang Naik:

In this particular situation how do you look at your CapEx expectations for FY'13 and there will be definitely less than your 230 Crores guided for FY'12 right?

C P Sanghvi:

Even if there are opportunities we would rather let the opportunities go away and would once and for all try to bring our debt to a near 0 situation. Now for FY'12-13 or for the next two to three years there are some balancing equipments required some trailers required, some accessories required for crane, so we would not be doing on an average for the next three years average yearly capital expenditure not more than Rs.25 Crores.

Vihang Naik:

So it is just the maintenance CapEx of probably just for the trailers and supporting equipments that you will do the CapEx is it?

C P Sanghvi

Right. Let me add one more thing for the FY'12-13 definitely in that range of 25 but was FY'13-14 if the market is good we may consider but we would like to take a conservative approach as of now.

Vihand Naik:

So given that you will not add to this gross block of about 1500 Crores of cranes and considering the fact utilizations might not move on significantly from here and with the competition being yields might not cross that 3%



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range. Are we saying that we are looking at near muted growth for FY'13 & 14 as well?

C P Sanghvi: Our utilizations are good. Our interest costs are coming down so the figures will improve not at a very big numbers; we will have a growth of topline bottom and between 5% and 10 %.

C P Sanghvi: What will happen we have done some CapEx for the current year it is 225 Crores and the income effect of those cranes is not reflected on full year basis for the current financial year so part of that is already reflected and it will be reflected in the next year. So there will be some kind of growth will happen in terms of topline but bottomline in terms of being we have trying to reduce the debt so there will be savings in the interest cost because of that there will be some 10% bottomline growth.

Vihang Naik: But definitely then the topline growth I am just bit confused, how can it be at around be 15%?

Sham D. Kajale: We can roughly say around 5 to 10%, it is too early to comment on that because we can able to comment more in the second half of the next financial year.

Vihang Naik: On the debt part I just missed that numbers what is that again?

Sham D. Kajale: 755 Crores gross debt.

Vihang Naik: On the DSO's you said that the DSO's were 145 this quarter what was that the number last quarter?

Sham D. Kajale: 126 days.

Vihand Naik: So what is this rise for you know has it become difficult to get back the payments in this particular quarter or has it been volatile in the last 4-5 quarter?



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- Sham D. Kajale:** It was in the range of say 121 days to 130 days during last two to three quarters. Now the situation is getting little adverse as our clients are holding on the payment because of the overall liquidity situation in the market and people are scared, they want to conserve some cash and they would like postpone the payment as much as they can, so because of that it has shoot up from 126 to 145 days we are taking every effort to get the payment from the client. Going forward it will remain the same range for next two quarter.
- Vihang Naik:** At 145 days odd.
- Sham D. Kajale:** 145 days to 150 days which was eventually the receivables days in the financial year 2009-10, if you remember that. Then it has come down to 126 to 121 days and now again it is going back to the same level.
- Vihang Naik:** Secondly what was the contribution from the Suzlon in this quarter?
- Sham D. Kajale:** It is roughly around 29% of our revenue upto December.
- Vihang Naik:** Last quarter also it was around similar level?
- Sham D. Kajale:** More or less same.
- Vihang Naik:** Just a part of these bad debts is it from Suzlon as well?
- Sham D. Kajale:** Suzlon is zero. There is lot of short certification issues which pertains to last year and some are arising out of one-time settlement with the clients. So such bad debts is arising out of it short certification settlement issues with the clients.
- Vihang Naik:** They have been no accounting adjustments in the current quarter right apart from the last quarter?
- Sham D. Kajale:** Whatever adjustments we have to do or we have started from 2004-2005 till December, 2011 has been worked out and necessary effect has been given the



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books of accounts. So the net impact works out to 647 lakhs, which was eventually being provided in the September quarter itself.

Vihang Naik: I will come up for follow up later.

Moderator: Thank you. The next question is from the line of Kaushal Shah from Dhanki Securities. Please go ahead.

Kaushal Shah: Thank you for the opportunity. I had two questions really. I joined the call a little late so if you can please clarify about the outstanding order book as on December?

Sham D. Kajale: I can tell you that in terms of Q4 topline we can able to maintain the topline what we have achieved in the Q3 FY 12.

Kaushal Shah: Correct but we earlier pattern goes of some disclosure on the order book so that is the management is not following that system now?

Sham D. Kajale: Normally we give the order book position in the month of June, let's see the visibility in terms of order renewals and other order that we may bagged in the first quarter of next financial year.

Kaushal Shah: So you know the question relative was that the traction on the top line has obviously grown over the last two quarters December quarter we saw 40% year-on-year jump, so that kind of a jump is likely to be sustained in the following quarters, this quarter, the next quarter and so on?

Sham D. Kajale: See if you see the Q2 number, Q2 number topline was Rs. 109 crores, which has gone up to Rs. 114 crores, so there is a jump of only Rs. 5 Crores, so quarter-on-quarter if you look at there is hardly any jump in terms of topline. It is just gone up by 5 Crores. In terms of year-on-year, yes we have done reasonably well in the current financial year as compared to the last Q3 of the last financial year.



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- Kaushal Shah:** So the question really was that this kind of traction that we are seeing if I look back historically the March quarter you had done 105 Crores topline so is it possible for the company to really grow at 30% on that 100 Crores or that will be a tough task?
- Sham D. Kajale:** I do not think it will be 30% quarter-on-quarter.
- Sham D. Kajale:** Year-on-year I will say we will grow 10% for the next financial year and we will revise this number after the end of the first quarter.
- Kaushal Shah:** Sure. Also Mr. Sanghvi mentioned just now about a plan to reduce the overall debt, so any repayments that you are planning because given that you have decent cash flows and with negligible CapEx in next year, any tangible targets as to where you would like the debt to settle at by the end of next year?
- Sham D. Kajale:** We normally avail a bank loan for at the time of purchase of the crane. The average tenure of the loan is 5.5 year to six years, so there is a defined repayment schedule for each of the term loan that we avail, so next year we are planning to do the repayment as for the normal bank repayment schedule.
- Kaushal Shah:** How much would that be?
- Sham D. Kajale:** It would be in the range of Rs. 190 Crores to Rs. 200 Crores. We are repaying 170 Crores in the current financial year.
- Kaushal Shah:** So is it correct to put the absolute debt volume at may be around 500 Crores or less than 500 Crores by the end of 2012-13?
- Sham D. Kajale:** Yes it will be plus or minus Rs. 10 crores. It will be in the range of Rs. 490 Crores to Rs. 510 Crores next year.
- Kaushal Shah:** Thank you so much.
- Moderator:** Thank you. The next question is from the line of Dheeraj Devata from ICICI Prudential Assets Management. Please go ahead.



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- Dheeraj Devata:** Congratulations for the good set of numbers. What I wanted to know is what would be our present order book based on the mining sector and given the impending CapEx in the sector would it contribute any further volumes or utilization rates would go higher?
- C P Sanghvi:** We are not in the mining sector per say. But in the power sector, yes, we cater and our revenue pie chart is 30% sector wise, so even if there is a huge capital expenditure in procuring mining equipment it is not going to help us. We are only focused in cranes and not into other construction equipment.
- Dheeraj Devata:** So the impending CapEx in the power sector would help you but not in the coal mining part?
- C P Sanghvi:** Right.
- Dheeraj Devata:** How do you see the utilization rates going forward?
- C P Sanghvi:** Presently it is 86%.
- Dheeraj Devata:** For the quarter or for the year?
- Sham D. Kajale:** For the quarter it is 86%. Last quarter it was 86 and before that it was 85. So average we can say 85% to 86% can be the average utilization for the full year. Going forward we expect that it will be in the range of 83% to 85% at least for the next two quarters that is till September.
- Dheeraj Devata:** Sir, basically assuming the CapEx in the sector, so you expect these rates to go upwards of 90% to 95%?
- Sham D. Kajale:** It normally does not cross more than 90% ideally considering the time spent on mobilization of cranes and down time i.e. time required to repair and maintenance of cranes.
- Dheeraj Devata:** That is more clarifying. I will get back to you incase if any question.



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- Moderator:** Thank you. The next question is from the line of Subhankar Ojha from SKS Capital and Research. Please go ahead.
- Subhankar Ojha:** Good set of numbers. Sir I just wanted to continue with last caller you want to make it near debt free company in FY'13 and repayment of nearly 200 Crores so next year also see FY'14 also you will have a similar kind of repayment?
- Sham D. Kajale:** We have Rs. 165 Crores in 2013-14 financial year.
- Subhankar Ojha:** And this will be the order for the cash flows?
- Sham D. Kajale:** On an average in last two three years we have repaid debt to the tune of 170 Crores that has been done through the internal cash accruals only.
- Subhankar Ojha:** Sir you said 2013-14 you will have topline guidance growth of nearly 10% is that because of the high base that you have in FY'12 because if you look at the quarter next quarter numbers or the next quarter you have spoken about nearly 30%-40% of year on year growth I think so in FY'12 being a high base you think 13&14 will be a 10% growth?
- Sham D. Kajale:** Yes.
- Subhankar Ojha:** Thank you.
- Moderator:** Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.
- Tejas Shah:** Congratulation on good set of numbers. Sir just missed out a yield for the quarter utilization levels?
- Sham D. Kajale:** 2.87% per month, it is gross yield
- Tejas Shah:** Utilization?
- Sham D. Kajale:** Utilization 86%.



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- Tejas Shah:** Taking from your commentary that we will be focusing on reducing our debt from here on and will try to reduce or restrict our CapEx as much as possible I believe there is been more cash to reduce your debt plus at the same time is there any rethinking on dividend distribution policy?
- Sham D. Kajale:** We will think at the appropriate time. It all depends on the liquidity and receivable days. We have already crossed 145 days and it will likely to remain in the range of 145-150 days going forward for next couple of quarters. If that improves will definitely consider that thing but first priority will be to reduce the debt and eventually it will reduce our interest cost.
- Tejas Shah:** Let us say Sham just a hypothetical is if from here on your yield doesn't improve so how much room does utilization has more to drive your growth from here to the next year when you are not doing any CapEx?
- Sham D. Kajale:** We already reached the peak utilization level which is 86%-87% at the most we can go up to 90%. But that is considering the overall scenario in the market, unless the major traction happens in the power sector we do not see that utilization will cross 90% plus which is any way not possible ideally.
- Tejas Shah:** So basically whatever guidance you are right now giving is assuming that there will some improvement in yield?
- Sham D. Kajale:** Yes, but bottom line growth will happen from saving in interest cost due to reduction in debt and interest rates which will improve the EPS and will drive EPS growth.
- Tejas Shah:** Just couple of question sir what would be your cash on book as on now?
- Sham D. Kajale:** Rs. 12.54 Crores.
- Tejas Shah:** I just missed out a number of Suzlon contribution for nine months?
- Sham D. Kajale:** 29% of the Revenue.



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- Tejas Shah:** Thanks a lot and all the best.
- Moderator:** Thank you the next question is from the line of Nidhi Agarwal from Sharekhan. Please go ahead.
- Nidhi Agarwal:** Sir, congratulations for good set of numbers. Wanted to have your view on this news that there is news that tax benefit incentives have been taken from wind power so how will you impact because I think Suzlon is one of your main customers?
- C P Sanghvi:** This policy has not yet been cleared. It will take one or two months to clear the policy but nowadays the IPP who are putting up windmills they are not going for major they are not interested in tax credit but they are interested in the power generation and the rates with State Electricity Boards are paying it is quite good so they are not going only for depreciation.
- Nidhi Agarwal:** But are you seeing is there any hurry from the IPPs to close the project before the tax benefit goes away or is the demand in the recent time we are seeing quite uptake in wind power so is the demand questionable?
- C P Sanghvi:** See we are providing the crane for erecting the windmills now we do not know whether it is for in a rush or anything but usually February - March month are the months where the cranes utilization is highest.
- Sham D. Kajale:** Personally I feel that it will go to the direct tax proposal which is scheduled in the month of March in the budget session, so it is very unclear from our side to give any comment on that and personally I feel that will not withdraw the entire accelerated depreciation of 80%. They will definitely try to keep something
- Nidhi Agarwal:** From the users perspective which industries are looking promising for FY'13?
- Sham D. Kajale:** Again windmill and power sector we are more focused on it they are the two sectors where most of the activities are currently happening.



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- Nidhi Agarwal:** Okay sir thank you.
- Moderator:** Thank you. The next question is from the line of Saurav Jain from Sushil Finance. Please go ahead.
- Saurav Jain:** I just had one question what would be the sectoral break up for the quarter and windmill power, refinery, steel, cement and others?
- Sham D. Kajale:** We do not give on quarter on quarter we give that cumulative figures, September we had for six months now for nine months I am just repeating once again. Windmill up to nine months has contributed 40% of the revenue, power 30%, refinery and gas 17%, steel and metal 5%, cement 4%, other industries 4%.
- Saurav Jain:** That should be all. Thank you.
- Moderator:** Thank you. The next question is from the line of Mithun Soni from GeeCee Investments. Please go ahead.
- Mithun Soni:** Sir, wanted to have one clarification, you said that this quarter, your quarter-on-quarter we had a growth of 5 Crores, capacity utilization has gone up from approximately 85% to 86%. So there has been an improvement in the yield also or the realization increases what has been the realization increase altogether?
- Sham D. Kajale:** For the last quarter the average blended yield was 2.83%, which has increased to 2.87% and the utilization has increased from 85% to 86%. These are the quarter-on-quarter.
- Mithun Soni:** As you said that your competition is increasing then going forward for the Q4 as well as for the next financial year how do you see that panning out? Do you see that coming into pressure in anyway or you are likely to maintain at this level, how do you see that?



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- Sham D. Kajale:** I think competition is there and it will remain there for the next two quarters or three quarters, but the intensity of the competition and the impact of competition over pricing power is slightly stabilized. I would say, people are not dropping the rate like crazy what they used to do in the past, and the interest rates also has shot up in the last three four quarters. So they also realized that you cannot just cut down the prices just to get some market share. Eventually, you have to make some profit.
- Mithun Soni:** Sir, when you say 10% growth year-on-year for the next year, you are factoring in what sort of increase in the realization of the yield?
- Sham D. Kajale:** I would say it will remain in the range of say 2.85 to somewhere around 2.95% and the utilization should be in the range of 86% to 87%.
- Mithun Soni:** The contribution is going also to come from the new cranes what we will be adding for the quarter?
- Sham D. Kajale:** Yes, in the current quarter.
- Mithun Soni:** Sir, coming to debt we have about 755 Crores of debt, we have about 23 Crores of CapEx which is lined up for the Q4, should we say we will close the year with about 775 Crores of debt approximately or 770 Crores for FY'12?
- Sham D. Kajale:** FY'12 we will close somewhere around Rs. 720 crores because of repayment of principle amount of debt which is due for repayment in the last quarter. It is not that we are doing some ballooning kind of repayment. It is a monthly repayment obligation and in this quarter we will be repaying a debt of 30-40 Crores. That will bring down the debt to somewhere around Rs. 720 crores or may be slightly less.
- Mithun Soni:** Sir 30-40 Crores of debt is what we will repay as well as 24 Crores of CapEx?
- Sham D. Kajale:** It will be in the range of Rs. 710 to Rs. 720 Crores.
- Mithun Soni:** Plus this is after factoring the CapEx also?



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- Sham D. Kajale:** Rs. 10 Crores additional debt will be there on account of Capex for Q4 FY 12. However, this figure of Rs. 710 to Rs. 720 crores includes the working capital loan also.
- Mithun Soni:** For the next year when we say that we will be closing the year with approximately 500-510 Crores of debt you are saying we will do about 225 Crores to 250 Crores of cash inflow from which we will pay off 25 Crores to 27 Crores of maintenance CapEx and use the balance to repay the debt?
- Sham D. Kajale:** Right.
- Mithun Soni:** So about 200 Crores of debt so that will help us to bring to about 520 Crores of closing debt?
- Sham D. Kajale:** Yes.
- Mithun Soni:** What is the sort of savings you are looking for the interest expense, also, are you looking at any interest cost coming down? What would be your interest cost as of now and is there any chance of that coming down to some extent?
- Sham D. Kajale:** Our average cost of borrowing as of today is somewhere around 12.37%. Going forward there is some indications from the market that banks may reduce the breakup say at least by 0.25% or may be 0.50% going forward may be in tranches, not overnight. That will definitely help us. Secondly we are repaying our loan also to the tune of nearly about 200 Crores next year, so that will also bring down my interest cost. Thirdly we are also going for a buyers credit, which is available in hedge cost say 9% or 9.5% including hedging cost against rupee cost of around 12.5% per annum, so again there is a clearcut saving of 3% in terms of interest cost.
- Mithun Soni:** This is towards our receivables?
- C P Sanghvi:** I am talking about the capital goods, the LC which we have opened we have reduced the supplier rate for one year, so at the time of repayment of the LC



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we may go for a buyer sale of about two years for my average cost say 9.5% including the hedging cost and as against the rupee cost say 12% we will be saving around 2.5%. So all these three things put together we definitely do some kind of savings in terms of interest cost.

Mithun Soni: One last question on the maintenance, the CapEx of 25 Crores for the next year will be all towards only maintenance, which is balance equipments, nothing towards capacity addition of any sort?

Sham D. Kajale: I have not used this word as maintenance CapEx. I would say this is balancing equipment CapEx which we will be doing. These cranes will be typically support cranes which go in a Package along with Heavy Duty Cranes. These will be 40-tonne crane or 80-tonne cranes. We might do some Rs. 10 crores to Rs. 15 Crores worth of CapEx for purchase of small cranes ie. less than 100-and balance amount of Capex will be for multi-axle trailers for the movement of our own cranes and its parts.

Mithun Soni: But Sir, otherwise what is the normal maintenance sort of CapEx required for these 390 cranes what we have?

Sham D. Kajale: We are doing a regular maintenance of our cranes and it is charged to revenue. So these repairs and maintenance cost is already considered as revenue expenditure and it is debited to the P&L account. There is no separate budget for the repairs and maintenance.

Mithun Soni: That is it from my side. Thank you very much Sir.

Moderator: Thank you. The next question is from the line of Rajat Bhudiraja from Banyan Capital. Please go ahead.

Rajat Bhudiraja: First of all congrats for a good set of numbers. Like for the nine months this quarter windmill is contributing near about 40% of the total revenues, and you are saying Suzlon is contributing 29%, so is it a new client in this segment?



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- Sham D. Kajale:** We are providing cranes to various clients in the windmill sector, not only to Suzlon and this is the case since the beginning of the last financial year that is 2011 as well as the current financial year so we are providing cranes to say Gamesa, Gujarat Fluoro-chemicals, Kenerses, Regen Power, Sinovel, now we are providing cranes to Vestas also, so there are mix of clients. We are providing these cranes to almost nine to ten windmill clients who are doing this windmill erection.
- Rajat Bhudiraja:** The number has increased from 30% to 40% that is why I was asking?
- Sham D. Kajale:** If you see last quarter it was 39%, it has increased to 40%. It is just 1% increase in the contribution. If you see the numbers for the September it was 39% windmills.
- Rajat Bhudiraja:** In terms of like top five to 10 clients how much are they contributing?
- Sham D. Kajale:** around 45% to 48%.
- Rajat Bhudiraja:** In terms of your target you make the company a debt free and next time you are going to repay to the tune of 200 Cr (ph), so I think it will take another three years to go debt free. In the meantime you cannot have a CapEx so it would be difficult to have growth so maintaining in between these two things, growth versus debt free status, so how do you manage that?
- Sham D. Kajale:** Even if there were no topline growth I would say there would be definitely bottomline growth because of the interest rates saving. Because at present interest cost will be around Rs. 68 cores for the full year it will be around Rs. 80 Crores. if you take Rs. 200 Crores as debt repayment next year then on an average we can say roughly around Rs. 10 crores on account of interest saving due to debt repayment which will straight away go to bottom line net of effect tax there on. So bottom line will improve and in turn there will be some EPS growth.



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- Rajat Bhudiraja:** But still it will take three years, I think, so maybe after one year you will have to consider to go for some kind of CapEx?
- Sham D. Kajale:** We will decide at the appropriate time, because we would like to consolidate first by reducing debt first and unless we have some clear visibility of income, there is no point taking additional risk especially in the current business scenario of slowing down in the industrial capex, interest rates at its peak level, competition mounting, receivable days are increasing. We have a fleet of almost 400 Cranes, which itself is a large fleet with investment of around Rs. 1500 crores in cranes only. This itself is a voluminous business to handle. So we will wait and watch to see the things to improve on the ground level more particularly in the power sector, more particularly in the windmill sector and receivable days improving, and these things will definitely boost our confidence to do additional CapEx.
- Rajat Bhudiraja:** The second question is that you have been selling the second hand cranes, so I just want to have an idea. Can you please provide me the recent value of the cranes in terms of the original price and like after how many years do you sell it and what are the factors do you consider before selling your cranes?
- Sham D. Kajale:** Typically we sell old cranes, which we find that we have got substantial revenue out of those cranes and those are typically difficult to maintain going forward. We have so far sold almost 60 cranes in the last three years and earned good amount of profit from sale of such cranes which is eventually ploughed back in the business by investing in new cranes.
- Rajat Bhudiraja:** Has some business from the industry is like take a case of 220 MP cranes that would cost 7 Crores. The average rental would be 11.5 lakhs per month, so your recovery amount in number of years it would come five years or something. Is this the right amount and this is the right calculation?
- Sham D. Kajale:** I could not hear that number?



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- Rajat Bhudiraja:** For 220 MP cranes that would cost 7 Crores for new cranes and average rental would be 11.5 lakhs per month, so is this a right calculation that I am getting?
- Sham D. Kajale:** It depends upon which crane model also whether it is used cranes or whether it is brand new crane. For brand new cranes typically the yields are low. I will tell you, how will calculate the yield it is revenue divided by the cost of the crane.
- Rajat Bhudiraja:** You said book value?
- Sham D. Kajale:** Revenue divided by the cost of acquisition of the crane. Not the book value, not the depreciated value, the original cost of acquisition of the crane.
- Rajat Bhudiraja:** Sir, one more thing, like which one of your costliest crane as of now and how much is the average rental for that crane per month?
- Sham D. Kajale:** We do not disclose this number.
- Rajat Bhudiraja:** Can you tell me like what is the average contract lands for the company?
- Sham D. Kajale:** It depends on clients on clients. As far as power plants are concern they may require this heavy duty cranes for six to nine months, lower duty cranes being 80 tonnes to 150 cranes for a period of 18 months to 24 months, windmill particularly if they book the crane for a period of 15 months to 18 months so it all depends on the client requirements Steel sector they require cranes say for five to six months, cements industry is the same case.
- Rajat Bhudiraja:** In case of EBITDA margins like what is the realistic figure for next one or two years?
- Sham D. Kajale:** It would be in the range of 71% to 72%
- Rajat Bhudiraja:** That is pretty much from my side thanks a lot.



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- Moderator:** Thank you. We have a follow-on question from the line of Kaushal Shah from Dhanki Securities. Please go ahead.
- Kaushal Shah:** Thank you once again. The provisions that we have made of 6.5 Crores for the prior period interest expenses that is a repeat provision in this quarter also because in September quarter also there was a 6.5 Crores provision?
- Sham D. Kajale:** We had provided Rs. 6.5 Crores in September quarter. We have done detailed exercise starting from 2004-05 till December 2011, so interest and finance cost, which was wrongly capitalized is now being reversed to P and L account similarly, there is reinstatement of assets cost because earlier we used to capitalize the Cranes of the LC rate and not as per bill of entry rate, so such reversal of rates also we have worked out it. So the impact of all this exercise comes to Rs. 6.47 crores which was eventually provided in 2nd quarter of current financial year itself. Hence there is no additional provision warranted hence not made.
- Kaushal Shah:** Which means that the figure of interest of 19 Crores is the actual interest?
- Sham D. Kajale:** Yes.
- Kaushal Shah:** Would you have any further possibility of any such?
- Sham D. Kajale:** We have completed exercise for last 8 years starting from FY 2004-2005, because we did major capex in last 7/8 years only. Hence in future there is no such one off item will come.
- Kaushal Shah:** Which also means that the interest in the December quarter was flat? If I exclude the 6 Crores debt, September was also 19 Crores, so it is flat?
- Sham D. Kajale:** Exactly and because of that the bottomline has shoot up.
- Kaushal Shah:** Absolutely, sort of some more color on the question, which I had asked earlier was this kind of growth that we have seen on a year-on-year basis in each of the quarters you think this kind of a year-on-year growth pattern



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around may be 20% to 30% is likely in the March quarter and subsequently in the June quarters?

Sham D. Kajale: I need to check the last.

Kaushal Shah: December quarter year-on-year was 40% growth but obviously the corresponding December last year was a little dull quarter in the sense about 80 Crores revenue so we have done around 114 Crores, which is obviously a better number, but like you yourself had pointed out on a quarter-on-quarter basis this is a very modest growth, so are we looking at this kind of a modest growth on a quarter-on-quarter basis or do you think we can actually move up based on the demand scenario, is it possible for us to sort of post a higher growth?

Sham D. Kajale: I do not see that second alternative to happen. It will be a flat kind of growth in the Q4 also.

C P Sanghvi: For the full year for the next couple of years coming we see a growth of around 5 to 10%. Topline growth.

Kaushal Shah: Right. Which means that the major gains could come from reduction in financial expenses to the bottomline?

C P Sanghvi: Right.

Kaushal Shah: Thank you so much.

Moderator: Thank you. We have a follow-up question from the line of Vihang Naik from MF Global. Please go ahead.

Vihang Naik: Hi, again. Just to clarify another thing, just on this CapEx decision, this sudden curtailment of CapEx in 2013, while it makes a lot of financial sense I mean I just wanted to know the main motivation behind it, is that we think that loading the company with further debt would not be financially sensible or do you think that you know more so that the utilizations would significantly drop



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in FY'13 because of a slower demand that has actually made you take this decision?

C P Sanghvi:

The thing is that in the last four years, consecutively we have grown very, very rapidly. Secondly the reality is that the competition is there, it is now ahead of the debt. Debt is still in a manageable situation, we have 1.1 or 1.2 debt to equity ratio is quite good and healthy. The demand is there, it is like this that we lose orders or make less money then rather come into a debt trap if things go bad and honestly I should have said in my opening remarks that the ground reality is that the economy will not grow as per our expectations. This is my estimate. It is better to be conservative. When we were aggressive we were extremely aggressive and we are conservative, might have become extremely conservative and taking one year break is not going to make the heaven and earth turn around. So it is better to consolidate and instead of going for a price war.

Vihang Naik:

But you have spoken about this price war more than once during the call. I mean, do you think that despite curtailing on the CapEx, there could still be because of the competition, there would still be room for the yields dropping below the current levels, may be say at 2.5 or 2.4 levels?

C P Sanghvi:

We will not go below 2.4 % level. If we want to kill competition, we can go up to 2.4%, but by cutting competition or killing competition, we kill ourselves also, so we would like to maintain our yields at 2.8% and grow forward.

Vihang Naik:

The question is whether even after this curtailment of CapEx and not really going for growth is there a room for yields to go down may be because of your irroration competitive behavior by your competitors?

C P Sanghvi:

We do not care what they go up to, but we will try to maintain it at 2.8%.

Vihang Naik:

In FY'13 given that some of the cranes as you admitted about 10 to 15 years of usage is becoming expensive to maintain and you know you were getting a good cost that is why you sold it in FY'13 is there a chance to do that because



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some of the cranes will also be old in that year end and would you incrementally sell those cranes?

C P Sanghvi: We are taking a call on our year-to-year basis. If we sell them, replacement costs are very high, so we will be selling some few cranes, because you please try to understand we have a fleet of 400 cranes at all over the country, some of them are old cranes, some of them are new cranes, now the infrastructure in the country even if a new crane is there, if it travels on the road with all the potholes etc., it is totally electronics in that, we too have maintenance problems, because of infrastructure. Now if the crane is too old lot of energy gets sucked into maintaining this very old cranes and we have a fleet of mix of some of the cranes for all our some of Americans, so ours is a very broad classified cranes, and still that demand is there, so it is better to sell when there is demand for the used cranes and rather than to sell when there is no demand.

Vihang Naik: Sure that was really helpful. Thanks a lot.

Moderator: Thank you. The last question is from the line of Aditya Khemani from HSBC Mutual Fund. Please go ahead.

Aditya Khemani: Thanks Sir. Sir, could you share the demand you are seeing at the ground level for different sectors you operate in and more precisely wind power and thermal power?

Sham D. Kajale: The revenue contribution, which was given 40, 30, remains more or less the same going forward for next two to three quarters. We do not see any major traction happen like we may go to even 40 to 50 or power mill come down from 30 to 20 something like that.

Aditya Khemani: But in terms of incremental demand from wind power and power are you seeing some slackening or they are what we are seeing right now?



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- Sham D. Kajale:** The Power plants which are already announced and who have already completed their financial closure and waiting for coal / fuel linkage or environmental clearance if start their civil and other work in next 2 quarters then of course there will be incremental demand for cranes. For wind mill sector lot of players are entering in this business so there might be chances that we may get some incremental orders from these new players.
- Aditya Khemani:** Secondly, you mentioned in terms of yield being 2.7% could you share it qualitatively in terms of yield on new cranes versus old cranes?
- Sham D. Kajale:** We stopped giving that data. We are giving the average blended yield, which is 2.87% per month.
- Aditya Khemani:** Will it be fair to assume that newer cranes will have lower yields than older?
- Sham D. Kajale:** Yes.
- Aditya Khemani:** Lot of CapEx you are doing is on new cranes, inspite of that your yield is remaining same at around the same number? So optically does it mean your yields are going up actually?
- Sham D. Kajale:** Yields are going up, we have mix up of two things, we have used as well as brand new, so for the brand new cranes, the yields are less and for used cranes it is higher which offset each others' yield.
- Aditya Khemani:** But the greatest share of your new CapEx is going for new cranes?
- Sham D. Kajale:** It was intentional strategy, a decision that we have taken some where around 2005-06. Before FY 2005, we were not having any brand new crane. So gradually, we have increased our fleet and as of today we 115 brand new cranes which constitutes 64% of the gross block of Cranes. We have strategically taken this decision and going forward also we will be doing major capex in brand new crane segment. Even though the yield is low but life is assured for 40-45 years plus you have new and better technology. We have



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intentionally taken that decision, even though we have compromised ourselves yield but we will have a better visibility, less operational headaches, less maintenance headaches.

Aditya Khemani: Sir, finally what is the trend in terms of overtime?

Sham D. Kajale: See the trend is declining quarter-on-quarter. For this quarter we have average overtime of 6.75%.

Aditya Khemani: So that remains a very low number. That has continued declining?

Sham D. Kajale: Continue to decline. It was 6.6% for 1st quarter, and then it was 6.35% for September quarter, which has slightly improved to 6.75% during 3rd quarter.

Aditya Khemani: But probably you assume it will be in the same range?

Sham D. Kajale: It will be in the range of 6.5% to 7% going forward.

Aditya Khemani: Thank you.

Moderator: Thank you. Ladies and gentlemen that was the last question. I would like to hand the conference over to the management for any closing comments.

Sham D. Kajale: Thank you for attending this earnings call of Sanghvi Movers Limited. Thank you very much.

Moderator: Thank you. On behalf of Sanghvi Movers Limited that concludes the conference. Thank you for joining us. You may now disconnect your lines. Thank you.