Batlivala & Karani

B&K SECURITIES
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VISIT NOTE

Sanghvi Movers

Not Rated

Price: Rs. 666 | **BSE Index: 13049** | **9th March 2007**

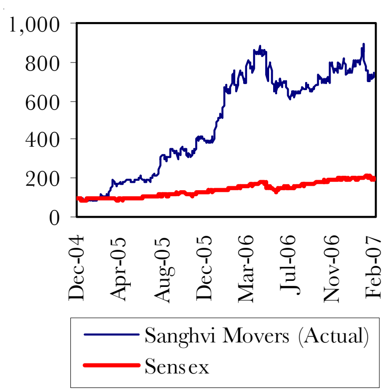
Share Data

Reuters code	SNGM.BO
Bloomberg code	SGM IN
Market cap. (US$ mn)	108
6m avg. daily turnover (US$ mn)	0.1
Issued shares (mn)	8.1

Performance (%)	**1m**	**3m**	**12m**
Absolute	(11)	(7)	4
Relative	(3)	(2)	(16)

Major shareholders (%)	
Promoters	47
FIIs	33
MFs	1
Public & Others	19

Relative performance



We met the management of Sanghvi Movers, and the key highlights of the discussion are as under:

- Sanghvi Movers is in the business of "only renting" cranes since 1989. The company buys (imports) cranes from global players and gives them on rent for use. The company 'does not manufacture' cranes of any form.
- Until FY06, SML was mainly buying second hand cranes. However, starting FY07, the company has started buying brand new cranes. This decision is driven by the shortage of quality second hand cranes and a reducing differential in prices between second hand and new cranes (approximately 15%).
- The company is carrying out a capex of Rs. 1.8 bn in FY07 and Rs. 1.3 bn in FY08 for buying new cranes. This is being funded by a combination of debt, equity, internal accruals and promoters' preferential allotment.
- The company is highly dependent in windmill manufacturers who contribute to nearly 60% of its revenue. While balance is contributed by power sector (15%), plant maintenance activities (15%) and other core industries (10%).
- The company is also planning to merge the cranes and trailers renting activities of its group company Sanghvi Projects Ltd. to bring synergies in operations and improve margins.

About the company

Background

Sanghvi Movers Limited was incorporated in the year 1989. It is one of the largest cranes hiring company in India. The company is ranked 19th in the world by Cranes International. It claims to have a fleet of 233 cranes of medium to large size Hydraulic Truck based Mounted Telescopic and Lattice Boom Cranes and Crawler Cranes with lifting capacity of 20 to 800 tonnes. The company's services find application in core sector projects like Steel, Refinery and Power.

Business overview

SML has been providing cranes for heavy lifting, plant erection and maintenance services to various large scale projects and industrial activities. It is one of the major players in the renting business and virtually has no competition. The company's clientele includes, Suzlon, ONGC, L&T (ECC group), Reliance Industries, Bechtel International, Essar group, Birla Technical Services and the Rourkela plant.

The company also undertakes implementation of turnkey projects, which includes providing equipments, technical services and skilled manpower.

It also has a fleet of 70 trailers which are used for transporting various parts of cranes from one location to another, which are then assembled at site for operations. A typical 450 tonne crane, which can reach up to 164 meters height, requires 30 trailers to move various parts of the crane, which are then assembled on site for utilisation.

The company has installed windmills of capacity 4.7 MW in Jaisalmer, Rajasthan and 0.75 MW in Chitradurga, Karnataka for a total capex of Rs. 220 mn in FY04. The segment however contributed to only 2% of revenue.

Network in India

8 depots across India

SML currently has 8 depots at Bharuch, Chennai, Nagpur, Delhi, Bangalore, Gaziyabad, Cuttack and Jamnagar. The company has recently acquired 13 acre land on Mumbai-Pune highway, which will be used for parking of cranes and trailers.

Increasing presence in multiple locations will lead to saving in transportation cost of cranes from one point to another. This will ultimately lead to better utilisation of available assets.

Capex

In the past, the company anticipated a significant rise in demand for cranes on account of increased infrastructural activities. Keeping this vision in mind the company has been actively carrying out capex as under:

Continuous capex required to grow

- FY05: Rs. 800 mn – towards purchase of second hand cranes.
- FY06: Rs. 1,700 mn - towards purchase of second hand and new cranes.
- FY07: Rs. 1.8 bn - towards purchase of 17 new cranes.
- FY08: Rs. 1.25-1.3 bn – mainly towards purchase of brand new cranes.

Capex funding

Funding capex through combination of debt, equity and internal accruals

The company is funding its capex plan as under:

1) FY07: Rs. 1,800 mn for buying 17 new cranes and some second hand cranes. Will be funded through:
   i. Rs. 700 mn through debt.
   ii. Rs. 726 mn through equity placement done to Goldpeak for 880,000 new shares at Rs. 825 per share.
   iii. Promoter's contribution of Rs. 60 mn (promoter shall be contributing totally Rs. 420 mn of which Rs. 60 mn is being brought in FY07 and the balance Rs. 360 mn shall be brought in FY08 for further capex).
   iv. Rs. 200-300 mn through internal accruals.
2) FY08: Rs. 1,250-1,300 mn for purchase of brand new cranes which will be funded through:
   i. Rs. 360 mn of promoters contribution.
   ii. Rs. 500 mn through debt.
   iii. Rs. 500 mn through internal accruals.

Other developments

Merging SPL

SPL's crane and trailer business may be merged

The company is planning to merge the cranes and trailers business of its group company Sanghvi Projects Ltd. (SPL). Presently, Sanghvi Movers Limited (SML) takes small sized cranes and trailers from SPL on rent, paying service charges on this account.

Going forward in FY08, SML plans to merge this crane and trailer business of SPL with itself. The cost of this merger is expected to be in the range of Rs. 10-20 mn. This will in turn lead to savings on account of cranes and trailer renting charges.

Co-promoter exits business to PE investors

Settlement of co-promoter

As part of the family settlement, Mr. Anil Sanghvi, who was also the Joint Managing Director of the company, had sold his 23% holding (1.63 mn share) in the company at Rs. 825 per share (totaling to Rs. 1.34 bn) to three Hong Kong-based private equity investors i.e. Olympus, Clearwater Capital and Voyager. The other promoter continues to retain 47% stake in the company. SML is now led by Chandrakant P Sanghvi, the current Chairman & Managing Director.

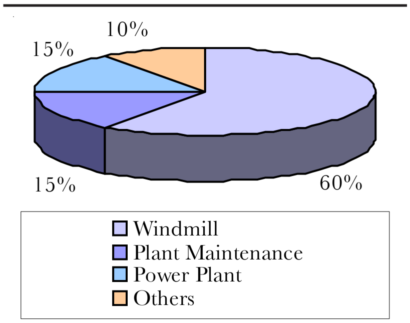
New vs. second hand cranes

New to second hand crane prices differential of 15% only

In the past company was purchasing second hand cranes from the international markets, which gave it a cost advantage, since these cranes were available at a discount of 30-40% of the price of brand new cranes. However, with an increase in competition and demand for second hand cranes, the benefit of price difference has reduced to approximately to 15%.

Seeing this drop in price differential between second hand and new cranes coupled with the fact that good quality second hand cranes were not easily available, SML has started buying new cranes since FY07. This will ultimately lead to lower cost of operation even though higher cost of ownership. A typically 400 hydraulic tyre mounted crane cost approximately Rs. 100 mn as against a new one which cost approximately Rs. 135 mn.

Revenues



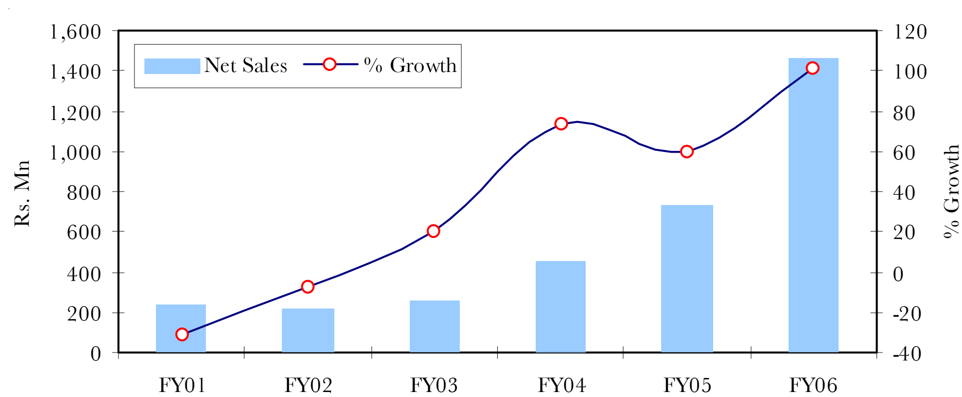
Source: Company

Financials

Revenues

The revenues of the company have shown an increasing trend over the past five years. The topline has grown at a CAGR of 61% for the period FY03-06. The revenues from FY01 to FY03 were stagnant in the range of Rs. 230-250 mn, owing to slugishness in economic activity. However, with an upsurge in the core sector in the FY04, the company's revenues have witnessed an increasing trend. For FY06, the company registered a growth of 97.7% y-o-y in revenues from Rs. 754 mn to Rs. 1,490 mn.

Sales trend



Source: Company

Revenue mix

55-60% of revenues contributed by windmill manufacturers

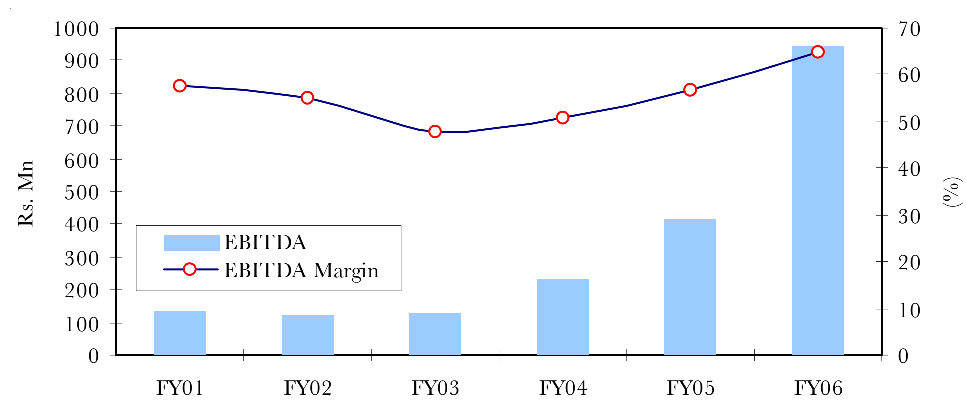
55-60% of the total revenues of the company are contributed by windmill manufacturers, (mainly Suzlon) who use these cranes for assembly of windmills at the windmill farms. The cranes are used to assemble the 3 parts of the windmill namely the tower, the Nacelle (which houses the gear box and gear motors) and the rotor assembly. A single windmill would have an average height of approximately 75 meters and the total weight handled by these cranes to assemble various parts would be approximately 175 MT. this gives an idea about the size of operations executed with these cranes.

15% of the revenues are contributed by various applications in the power sector and 15% of the revenues are contributed by plant activities. The balance 10% of revenues is contributed by various other sectors such as steel, cement and metro-rail constructions.

EBITDA

For 9MFY07, operating margins have improved by 650 bps from 65.3% in 9MFY06 to 71.8% in FY07. The improvement in EBITDA is largely attributed to better realisation and revenues in FY07.

EBITDA trend



Earnings growth driven by:

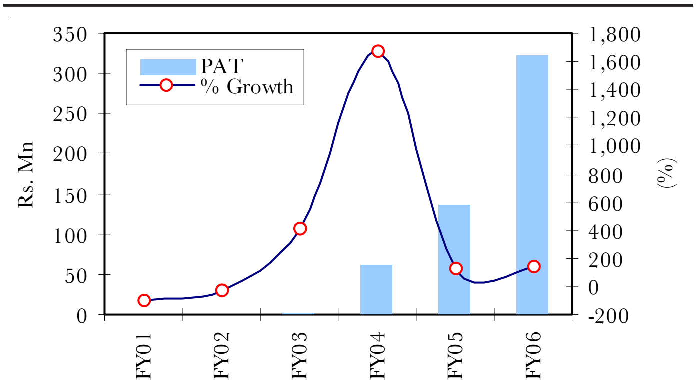
Revenue and margin growth

Net profit has grown at a CAGR of 352% for the period FY03-06 from Rs. 3 mn in FY03 to Rs. 322 mn in FY06. The significant growth in PAT is largely because of growth in revenues which have grown at a CAGR of 79% for the same period. On account of this EBITDA margins have also improved from 54.5% in FY03 to 66.2% in FY06.

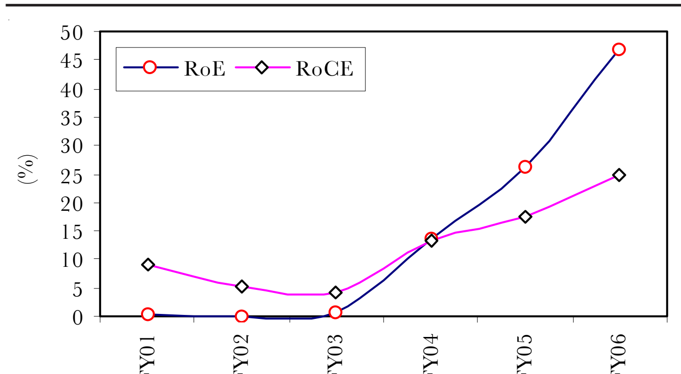
Change in depreciation policy

For 9MFY07 there is an extraordinary item of Rs. 171 mn (incurred in 1Q) which is mainly on account of change in depreciation policy from Written Down Value (WDV) to Straight Line Method (SLM) with retrospective effect for assets purchased between 1st April 2002 to 31st March 2005. Previously, the company was charging depreciation on WDV method @ 20.87% which has now changed to SLM @ 7.42%.

PAT trend



Return ratio



Quarterly financial highlights/Analysis

Overtime use of cranes generally leads to major fluctuation in 2Q and 4Q

Fluctuations in the quarter revenue

There is a significant fluctuation in the quarterly revenues and earning, especially in the 2nd and 4th quarters, since most of the companies are looking to set up windmills do so preferably in the last week of September (2Q) and March (4Q) to get the maximum depreciation benefits. This leads to a sudden spurt in the revenues in 2Q and 4Q as compared to other quarters. Fluctuations in the quarters can also be triggered by major maintenance activities taken up by bid industrials units. In 3QFY06, the company had earned higher revenue, because of the shutdown at the Reliance Refinery at Jamnagar, where the company had deployed 85 cranes round the clock. This led to total revenue generation of Rs. 206 mn from a single project execution. Hence, additional overtime earnings are major drivers for revenue estimated in such projects.

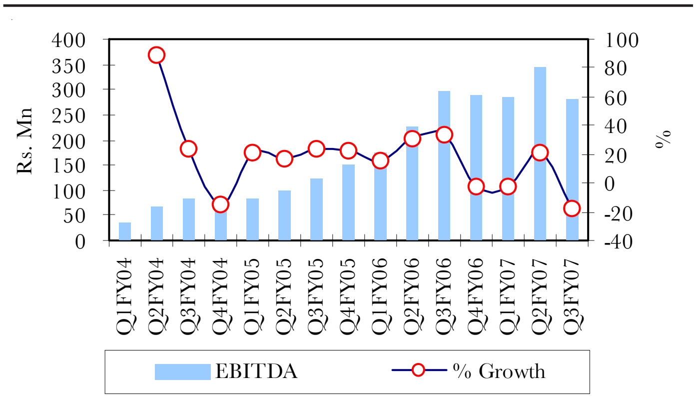
Profits for 3QFY07 was Rs. 84 mn as against Rs. 121 mn in 3QFY06, projecting a decline of 31% on q-o-q basis, because of higher depreciation and interest cost, since depreciation has been changed to SLM, while interest cost rise is attributed to higher debt for capex funding.

Financial highlights

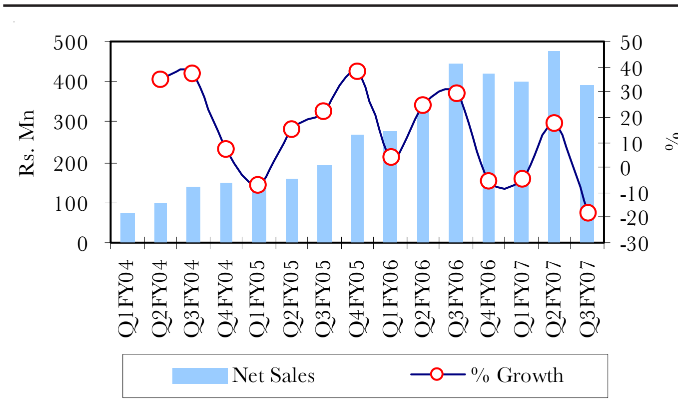
(Rs. mn)	3QFY06	3QFY07	Y-o-Y (%)	9MFY06	9MFY07	Y-o-Y (%)	FY05	FY06	Y-o-Y (%)	FY07A	Y-o-Y (%)
Net Sales	446	389	(13)	1068	1265	18	754	1,490	98	1,687	13
EBITDA	299	281	(6)	697	908	30	455	986	117	1,211	23
Other Income	1	2	100	4	11	175	5	6	24	15	144
Depreciation	77	88	14	253	248	(2)	213	356	67	331	(7)
Interest	38	67	76	93	182	96	47	137	194	243	77
PBT	185	129	(30)	355	488	37	201	499	149	651	31
Tax	64	45	(30)	124	167	35	64	177	178	223	26
PAT	121	84	(31)	231	321	39	137	322	135	428	33
EPS (Rs.)	–	–	–	32.2	44.8	–	19.1	44.8	–	53.1	–
PER (x)	–	–	–	–	–	–	34.9	14.8	–	12.5	–

A: Annualised

EBITDA growth

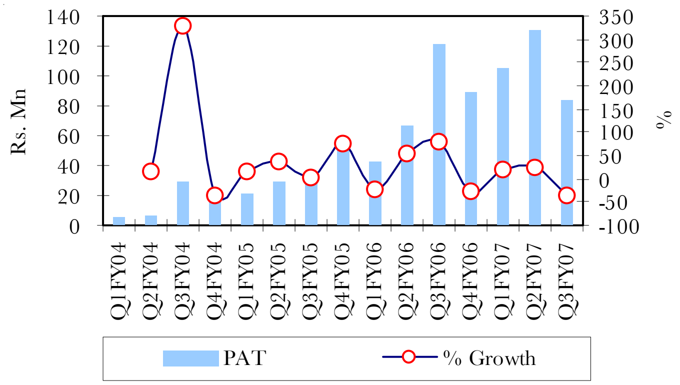


Revenue growth

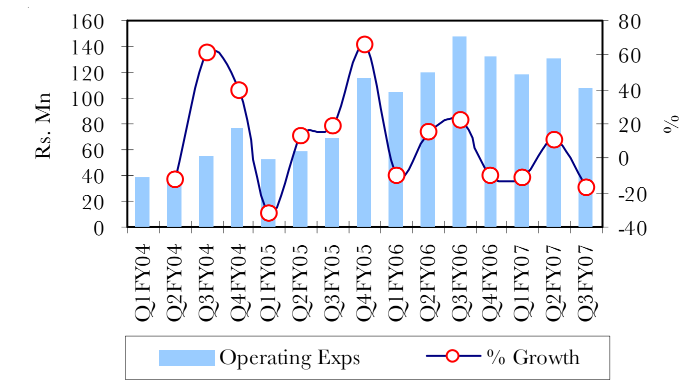


Source: Company

PAT growth



Expenditure growth



Source: Company

Risks/Concerns

Net asset turnover of 0.44

Capital intensive: The growth in the revenue is dependent on the amount of capex done. In order to sustain growth, the company has to infuse additional capital. The net asset turnover of the company for FY06 is 0.44 times while the RoCE is 24.7% versus the EBITDA and EBIT margins for the same period which are around 66.2% and 42.7%, respectively.

60% of revenues from windmill manufacturers

Concentration of revenue: 60% of the total revenues are contributed by the windmill sector, Suzlon being their largest customer. Any change in the regulatory norms for windmill procurement and installation, having an impact on the windmill sector, would ultimately affect their revenues, inline with the high contribution of the sector to the revenues of the company.

Delivery time for new cranes is one year

Anticipating demand in advance: The company has to anticipate the demand in advance. Commitments for acquiring the cranes are to be made before contracts materialise and hence could lead to under-utilisation of cranes on account of inability to deploy the new cranes.

B&K's view

Sanghvi Movers is one of the biggest players in the crane renting business, and virtually has no major competition in the market of renting business at present.

SML has already spotted demand in the renting industry and are expanding their asset base. With an improvement in the industrial environment and new projects being set up in core and infrastructure areas such as Steel, Refinery and Power sectors, the company is poised to grow on the back of increasing rental incomes.

At the current market price of Rs. 666, the stock is trading at 14.8x FY06 earnings of Rs. 44.8 and at 12.5x FY07 annualised earnings of Rs. 53.1.

We presently do not have a rating on the stock.

Financials

Income Statement

(Rs. mn)	FY01	FY02	FY03	FY04	FY05	FY06
Net Sales	234	217	261	458	754	1,490
Growth (%)		(7.1)	20.5	75.1	64.7	97.7
Operating Expenses	**87**	**84**	**119**	**205**	**299**	**504**
% to net sales	37.3	38.8	45.5	44.7	39.6	33.8
Power & fuel	10	9	10	11	21	40
% of net Sales	4.2	4.1	3.7	2.4	2.8	2.7
Employee expenses	10	9	11	17	26	52
% of net sales	4.4	4.0	4.1	3.7	3.5	3.5
Selling & Distribution exp.	3	4	4	7	9	12
Administrative expenses	18	21	36	75	86	144
% of net sales	8	10	14	16	11	10
Other expenses	45	42	58	94	156	257
EBITDA	**146**	**133**	**143**	**253**	**455**	**986**
EBITDA Margin (%)	62.7	61.2	4.5	55.3	60.4	66.2
Depreciation	86	95	117	143	213	356
Other Income	7	8	6	6	5	6
PBIT	**67**	**46**	**31**	**116**	**247**	**636**
Interest paid	58	43	24	20	47	137
PBT	**9**	**3**	**7**	**96**	**201**	**499**
Tax (current+deferred+FBT)	8	2	3	35	64	177
Net Profit	**1**	**1**	**3**	**62**	**137**	**322**
PAT Margin (%)	0.4	0.3	0.3	13.5	18.2	21.6
EPS (Rs.)	0.1	0.1	0.5	8.6	19.1	44.9

Balance Sheet

(Rs. mn)	FY01	FY02	FY03	FY04	FY05	FY06
Current Assets	**118**	**113**	**119**	**198**	**337**	**648**
Cash & bank	12	11	9	26	33	38
Debtors	51	48	68	114	197	327
Loans and Advances	55	54	42	58	107	282
Investments	0	0	0	0	4	0
Net fixed assets	818	711	604	910	1,542	2,982
Other non-current assets	–	16	1	2	2	2
Total assets	**936**	**840**	**723**	**1,110**	**1,885**	**3,632**
Current liabilities	38	18	13	70	95	284
Total debt	339	244	146	413	1,044	2,373
- Short Term	–	1	4	99	74	158
- Long Term	339	243	143	314	970	2,215
Other non-current liabilities	–	156	136	157	178	167
Total liabilities	**377**	**418**	**295**	**640**	**1,317**	**2,824**
Share capital	73	73	73	73	73	73
Reserves & surplus	491	354	357	399	495	735
- Retained Earnings	291	153	156	198	294	534
- Share Premium	201	201	201	201	201	201
Less: Misc. expenditure	(5)	(4)	(3)	(1)	0	0
Shareholders' funds	**557**	**421**	**426**	**469**	**566**	**806**
Total equity & liabilities	**936**	**840**	**723**	**1,110**	**1,885**	**3,632**
Capital employed	**898**	**821**	**710**	**1,040**	**1,790**	**3,348**

Cash Flow

(Rs. mn)	FY01	FY02	FY03	FY04	FY05	FY06
Pre-tax profit	9	3	7	96	201	499
Depreciation	74	83	96	108	195	356
Chg in working capital	(8)	(11)	(13)	(26)	(133)	(171)
Total tax paid	(3)	134	(9)	(15)	(37)	(175)
Other operating activities	–	(138)	–	–	–	–
Cash flow from oper. (a)	**72**	**70**	**82**	**164**	**226**	**509**
Capital expenditure	(1,178)	23	11	(414)	(827)	(1,797)
Chg in investments	–	–	–	(0)	(4)	4
Cash flow from inv. (b)	**(1,178)**	**23**	**11**	**(414)**	**(830)**	**(1,793)**
Free cash flow (a+b)	**(1,106)**	**94**	**93**	**(251)**	**(605)**	**(1,283)**
Equity raised/(repaid)	268	1	1	1	1	(0)
Debt raised/(repaid)	(103)	(95)	(98)	267	631	1,329
Dividend (incl. tax)	(12)	–	–	–	(20)	(41)
Cash flow from fin. (c)	**153**	**(94)**	**(96)**	**268**	**612**	**1,288**
Net chg in cash (a+b+c)	**(953)**	**(0)**	**(4)**	**17**	**7**	**5**

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