

# Sanghvi Movers Ltd

Lifting India's Infrastructure growth



# Content Index

- Sanghvi Movers – Investment Snapshot :- Slide #3
- Crane Rental – Industry Dynamics :- Slide #5
- Sanghvi Movers – Business Overview :- Slide #11
- Sanghvi Movers – Financials:- Slide #18
- Concerns – Slide #23
- Conclusion – Slide #25

# Sanghvi Movers – Investment Snapshot (As on August 29, 2011)

**Recommendation :- BUY**

**Accumulation Range :- 110-125**

**1<sup>st</sup> Profit Booking :- Sell 50% at Rs 230**

**2<sup>nd</sup> Profit Booking :- Hold remaining for further updates.**

**Current Market Price – Rs. 122**

**BSE Scrip Code – 530073**

**NSE Code – SANGHVIMOV**

**Market Cap (INR Crores) – Rs 529 crores**

**Total Equity Shares [Mn]– 43.28**

**Face Value – Rs. 2**

**52 Week High / Low – Rs. 199.50 / Rs. 103.65**

**Promoter's Holding – 45.52%**

Sanghvi Movers Limited (SML) is engaged in providing crane rental services to companies in India and is one of the largest cranes hiring company in India, located in Pune.

SML has lion's share with ~40% market share in the overall domestic crane hiring market and ~75% market share in the high-end crane market. It is the largest crane hiring company in India and 9th largest in the world.

It owns the fleet of 387 medium to large size hydraulic truck mounted telescopic and lattice boom cranes and crawler cranes with lifting capacity of 20 Tons to 1000 Tons. It caters to the crane requirements of major industries like power, steel, refinery, cement and wind power.

Sanghvi management has guided a strong growth on top line of about 18-20% on the back of huge volume growth expected over the next few years.

**We believe that SML is the best proxy play on India's infrastructure growth theme and like it more in the light of wide and expanding moat which was non-existent a few years back.**

# Key Investment Highlights

**Strong Operations** – Sanghvi Movers is a largest company in the Crane Rental segment and has grown at a scorching pace over the last decade. Sanghvi has a strong domain focus with adequate technical expertise and skilled manpower. Besides giving cranes on hire, SML provides an entire gamut of services which includes movement of materials, erection of equipment, assisting in fabrication, skilled personnel and the required engineering services.

**Significant Competitive Advantage** – Sanghvi has a strong moat in the form of client's trust which is a very big entry barrier for newer players. It has nurtured this relationships over the years and hence been able to work on important projects of its customers.

**Pan India presence** – SML has maintained a good track record in terms of effective deployment of Cranes at competitive rates with due regard to time schedule as well as safety and efficiency in operations through it's pan India presence through number of depots. The area under coverage through depots stands at 95 acres and in order to save on time and cost aspects, and increase its operational efficiency, SML is in the further process to set up few more depots at strategic locations.

**Near monopoly in higher capacity cranes** – SML focuses on the higher capacity cranes market, since the below 100 MT capacity segment has many players operating in it. SML has approximately 65% market share in the above 100-150 MT crane segment and approximately 80% market share in the above 250 MT crane segment.

**Attractive Valuations** – Sanghvi is trading at very attractive valuations considering its earnings quality, its leadership status and historical valuations. Company is trading at a EV/EBIDTA of 3.94 on FY 12(E) which is cheap for a company which has a ROCE of around 15%. Sanghvi deserves a premium and hence ready for a re-rating in its price.

# Crane Rental – Industry Dynamics

# Crane Rental vis – a – vis Out right Purchase

Opting for crane rental services is a wise decision as compared to buying the crane itself

## Why Crane Rental ?

The very first conception which harbors many a minds is that owning a crane is far more cost effective than choosing a service which proffers crane on rent. But this is not completely true.

Some of the imperative connotations of crane rental services are as below:

- Equipment rental is advantageous because the responsibility of operation, maintenance, transportation and other administrative formalities like RTO registration and insurance lies with the supplier.
- The crane operation requires skilled operators, technicians and engineers for execution as well as crane maintenance. This burden can be passed on to the crane renting company.
- The most important thing is that capital is not blocked if a crane is rented instead of outright purchase.
- By renting equipment there is optimal utilization of equipment against idle time when there is no work in case of outright purchase.
- The requirement of cranes differs from project to project. This can be avoided if a crane is rented from a rental company where they (crane rental company) undertake the responsibility of providing suitable crane as per client's requirements.

# An earthmoving opportunity

Machinery Demand (\$ billion)



SOURCE: Freedonia Group

- The construction equipment rental business is at a nascent stage and is a mere 2% of the total equipment market.
- Large construction projects require deployment of heavy equipment such as cranes, bulldozers, loaders and dumpers. Purchasing such equipment only adds to the costs of construction companies, who are already battling soaring commodity prices, particularly those of cement and steel.
- Many companies thus look around for such equipment on lease. This has helped in the growth of construction equipment banks, which provide machinery on rent and make it easier for developers to contain project costs.

- Construction equipment rental is one of the emerging growth areas of the Indian construction equipment industry. The services segment in the construction equipment business is still nascent and presents good opportunities for growth.
- The current size of equipment rental in India is approximately \$2.3 billion. As per a McKinsey study the earthmoving and construction equipment industry has the potential to grow fivefold from its current size of \$2.3 billion to approximately \$12-13 billion by 2015, growing at a 24 per cent compound annual growth rate considering upcoming power projects, refineries, cement units, metros and windmill erection. **In the US, the rental market is 65% of the total construction equipment market.**

# Crane Rental – Industry Characteristics

## Industry Characteristics

- Highly Service oriented industry.
- The condition of crane, prior experience, track record about maintenance of cranes is the biggest USP.
- The rentals largely depend upon the term of the contracts, the availability of crane at that point of time, criticality of the project, clients' past record etc.
- Transportation charges – A big cost. If not reimbursed by the client, then it dents the yield of the machine.
- Clients prefer to rent cranes which are located near by their location, thus reducing the transit time and the transit cost.

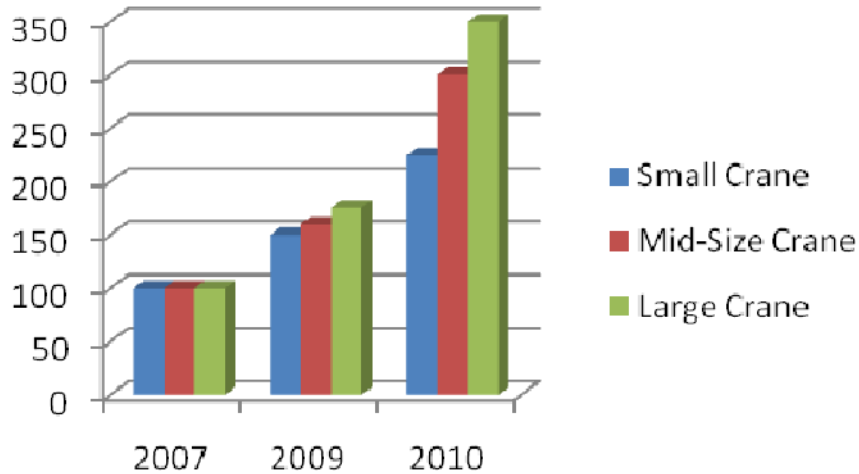
## SML – competitive advantage over peers

- SML one of the oldest company in the segment has the best track record.
- If the equipment is too old, there may be technical fault or things may go wrong while old equipments are in use. Thus, it becomes important that equipment provider should have the ability to provide the parts which have been broken down in a short notice, for which SML has the ability.
- SML has one of the shortest debtor days in the windmill segment, thus reflecting the eagerness of the clients to appoint SML as their crane rental partner.
- SML has about 15 depots across India, thus maintaining a good track record in terms of effective deployment of Cranes at competitive rates with due regard to time schedule.



# Lower yields – Entry barrier for new players

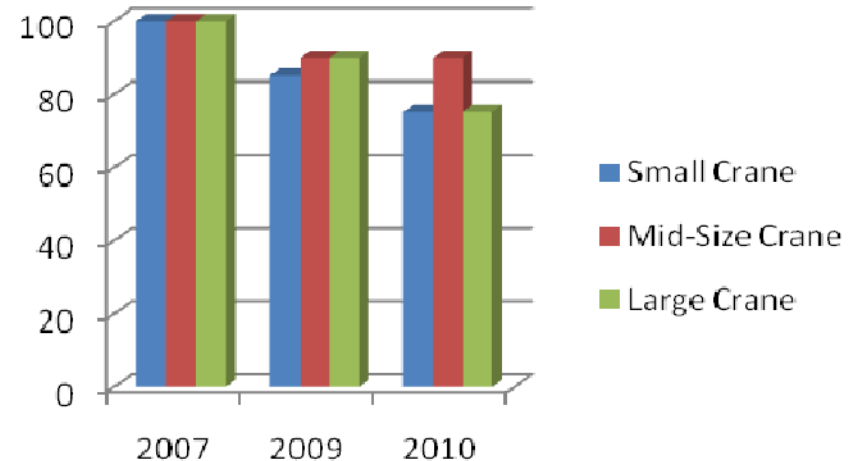
## Crane Purchase Prices (assuming 100 as base price)



- The purchase prices have gone up because in 2007 companies in India were still open to buying older cranes. In 2009, companies started realizing that newer cranes would be much more needed. Right now, existing players are only looking to buy 2005 plus models. Hence, there is a huge increase in the average purchase prices of the cranes.
- Few companies have already started demanding for newer cranes, having a cutoff year of manufacturing of 2005.

- Basically in 2007, companies were expecting a yield (rental per month/cost price of crane) of about 4% per month. Today composite yield (old + new cranes) of 2.5% is sustainable.
- Existing crane rental companies like Sanghvi can sustain these blended lower yields and even manage higher than industry standards on account of their past record, **but for new players the market isn't lucrative with yield of just 1.2-1.5% on new cranes and thus serving huge entry barriers to new players.**

## Crane Rentals (assuming 100 as base price)



# Low ROCE profile for new entrants – Expanding moat for SML

- The yields in Crane rental service are defined as rental per month/cost price of crane. A brand new German crane being costly (though more preferred by clients) yields 1.2% per month while Chinese cranes yield 1.5% per month.
- Thus on an investment of 100 crores, new players can earn a yield of 18 crores per annum. With EBIDTA margins in the range of 70-75%, Rs 14 crores would be the expected EBITDA. With interest, depreciation costs the ROCE (return on capital employed) in crane rental business has gone down significantly for all the new players.
- Indirectly, entry barrier in Crane rental business from here on looks far tougher and the economic sense will not prevail for a new company to come in. Going forward we expect to see a very few players coming into this business.
- It also true that the existing players who have their assets well depreciated, will be able to report a far better ROE and the business economic sense for them is much viable vis-à-vis a new player coming into the market.
- **Given the scenario where we are foreseeing a very good volume growth and the fact that the crane prices have increased and as the qualification of past experience of working with the client counts, we expect Sanghvi Movers with an average yield of 2.90-3.00%, a very diversified client base and a good track record would be able to demonstrate a far better volume growth than the market.**

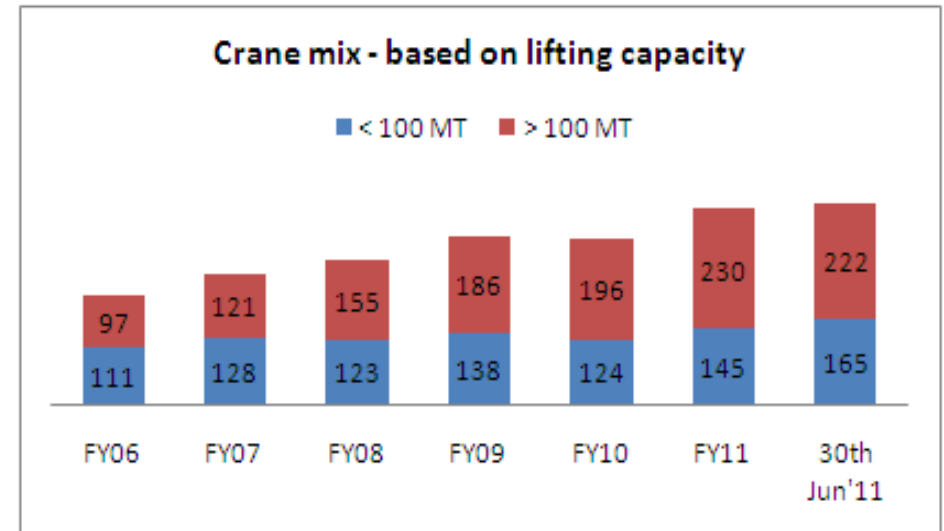
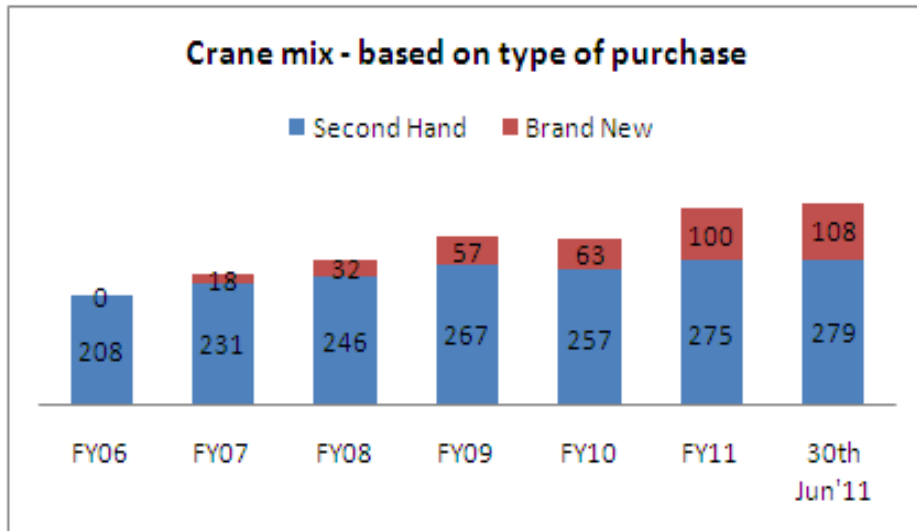
# Sanghvi Movers – Business Overview

# Sanghvi Movers – An introduction

Valued Clientele of Sanghvi Movers				
Suzlon	Aditya Birla	Toyo	BHEL	Gail
Reliance	Vedanta	Siemens	Tata Steel	GNFC
Grasim Cement	Samsung	Gujarat Ambuja	ACC	Shapoorji & Pallonji
ICCL	MRPL	Rolls Royce	L & T	ITC
Hyundai	Ispat	ONGC	Sterlite	Hindalco
Enercon	GE Power	BGR	Thermax	Delhi Metro
NTPC`	Lanco	Tata Projects	IPCL	IOCL

- A Pune based company, SML was founded in 1989 and was promoted by C.P Sanghvi and A.P Sanghvi as a private limited company.
- SML is engaged in providing cranes rental services in India. It owns a fleet of 387 medium to large size hydraulic truck mounted telescopic and lattice boom cranes and crawler cranes with lifting capacity of 20 tons to 1000+ tons. It provides hydraulic and crawler cranes and logistic services. The company's major clients include Suzlon, Reliance Industries, ONGC, L&T, Betchel International, BHEL, MRPL, Hyundai, ACC and TISCO.
- SML is a great proxy on the surge in India Inc's Capex cycle. Cranes are an essential component for infrastructure building and with the massive investments lined up both by the government and private sector in India, the company is bound to benefit from the increased demand.

# Major player in the organized sector - ~40% market share



- The crane hiring industry is divided between the organized and unorganized sector in the ratio of ~70:30. With a market share of around 40% in the organized sector, SML is one of the leaders in the business of operating medium to large sized heavy duty hydraulic and crawler cranes.
- Having gained an expertise in sourcing imported second hand quality cranes at attractive prices and spare parts at low cost, **SML is shifting its focus to higher capacity brand new cranes, where the demand is growing from customers end.**
- SML has ~40% market share in the overall domestic crane hiring market and ~75% market share in the high-end crane market i.e. > 100 MT. SML focuses on the higher capacity cranes market, since the below 100 MT capacity segment has many players operating in it. **As at 30<sup>th</sup> Jun'11, 222 cranes with more than 100 MT capacity constitute more than 90% gross block while 108 brand new cranes constitute 60% of the gross block of the company.**

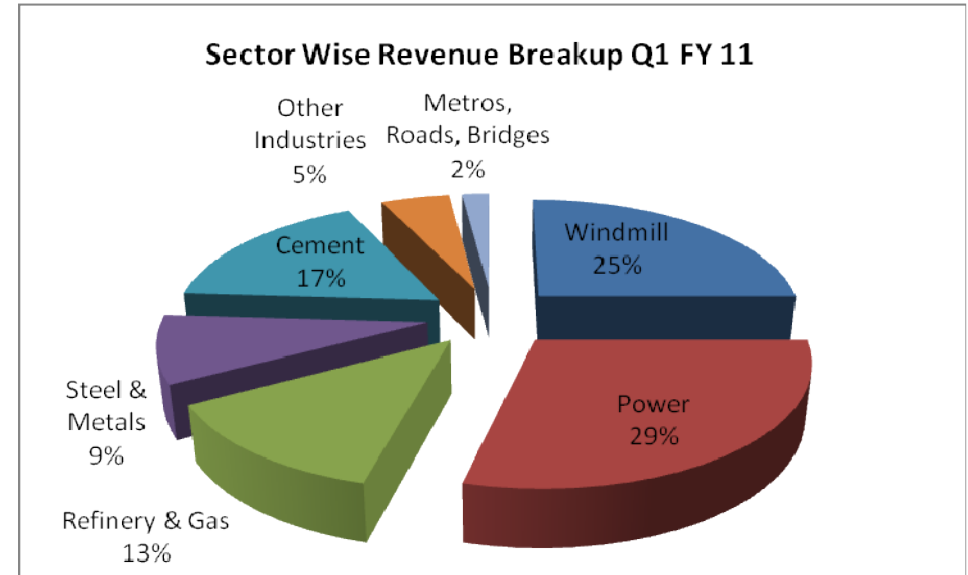
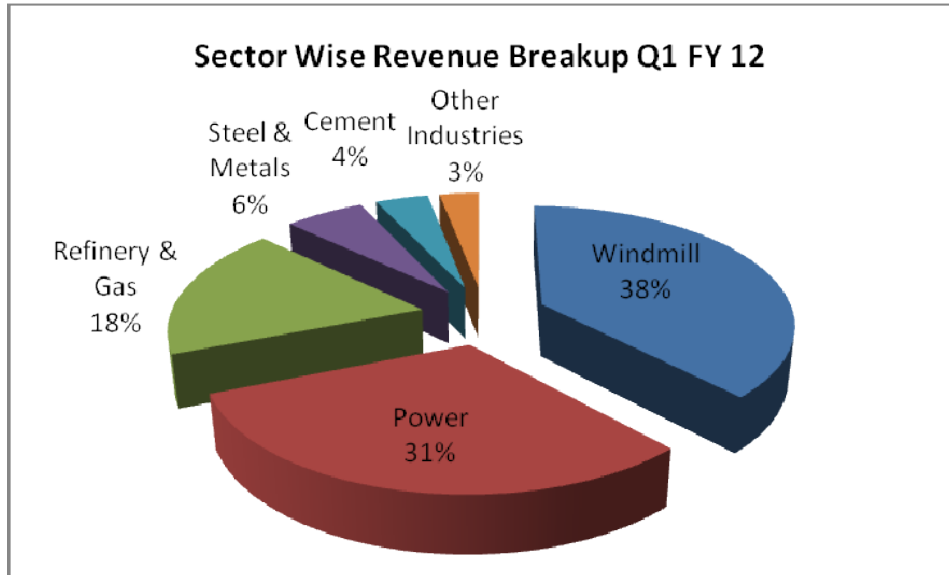
# Sanghvi – Amongst the top 10 Crane hiring companies

2008 Rank	2007 Rank	Company	Depots	Areas of Operation
1	1	Mammoet	68	Worldwide
2	2	Lampson	6	Worldwide
3	4	All erection & Cranes	30	Continental
4	3	Maxim Crane	33	National
5	5	Sarens	50	Worldwide
6	6	Essex Crane	8	Worldwide
7	7	TAT Hong	25	Worldwide
8	9	Al Jaber	4	Worldwide
9	27	Deep South Crane	4	Continental
10	12	Sanghvi	20	National

2009 Rank	2008 Rank	Company	Depots	Areas of Operation
1	1	Mammoet	68	Worldwide
2	2	Lampson	6	Worldwide
3	5	Sarens	54	Worldwide
4	4	Maxim Crane	32	National
5	3	All erection & Crane	30	Continental
6	8	Al Jaber	5	Worldwide
7	7	TAT Hong	35	Worldwide
8	6	Essex Crane	8	Worldwide
9	10	Sanghvi	25	National
10	13	Am Quip Crane	13	National

- Sanghvi Movers is one of the largest crane hiring company in India, 3<sup>rd</sup> largest in Asia and ranked 9<sup>th</sup> largest in the world by Cranes International (June 2009 issue).

# Segment wise revenue break up



## Major Contribution from Windmill and Power Sector

- During Q1FY12 i.e. quarter ending 30<sup>th</sup> Jun'11, windmill sector contributed around 38% to the total revenues and Suzlon contributed around 28% to the revenues from the power sector. SML expects Suzlon's share to the revenues from the power segment to increase to above 30% for FY12E.
- Higher traction in Suzlon orders and increase in orders from new customers like Sinovel, Gamesa, Vestas, etc has led to improved outlook on SML's windmill business. In Wind mill sector, the cranes are hired for longer duration, usually 18 months against 6-12 months in other sectors, thus SML derives major portion of it's revenues from windmill segment.
- The longer duration contracts helps the company overcome transportation cost of cranes from one project site to another and also improve upon it's crane utilization rate.

# Sanghvi Movers – On an expansion spree

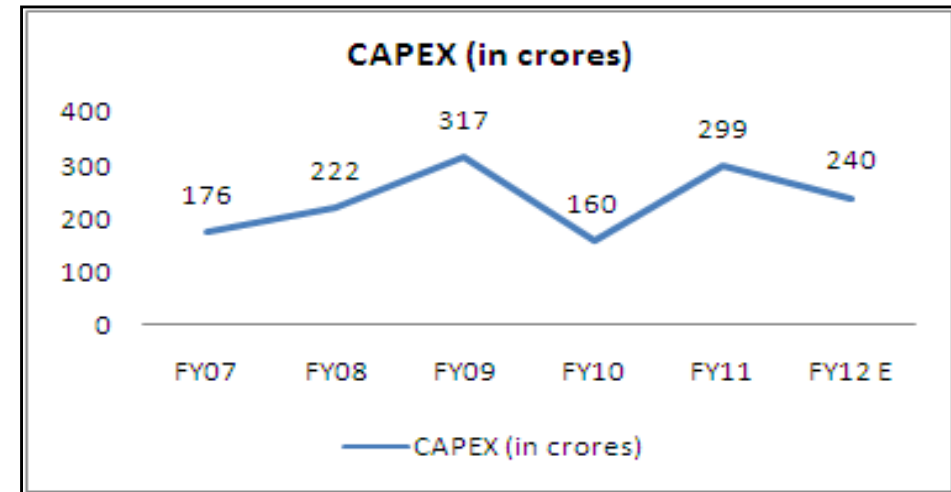
Sanghvi Movers has earmarked Rs 240 crores for FY12



Chandrakant P. Sanghvi, chairman and managing director, Sanghvi Movers (centre) with Kevin Bradley, president Terex Cranes (r) and Thomas Hartmann, sales director, Terex Cranes, Zweibrücken (l)

Kevin Bradley, the recently appointed president of Terex Cranes said: "India is an important market for us and we are excited to be part of what Sanghvi is seeking to accomplish. We look forward to a long-lasting, supportive partnership and are honored to be associated with such a great company and great people."

Thomas Hartmann, sales director, Terex Cranes, Zweibrücken added: "The distribution of wind-generated energy on such a massive, long-term scale is a truly impressive, life-changing development that will have a strong effect on India's future economic growth. We are delighted to support our customer

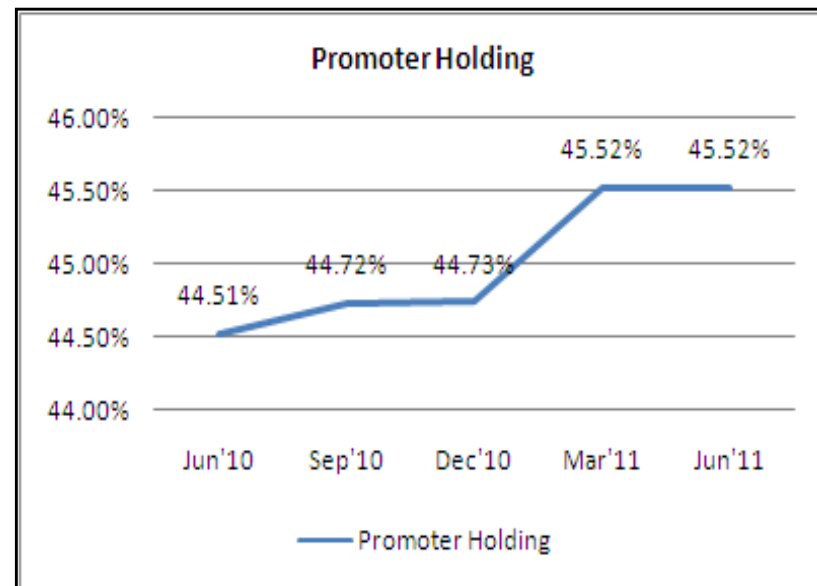


- SML's management is foreseeing strong growth prospects in the power and windmill sector and is incurring a regular capex towards the purchase of new cranes. The management is expecting longer term contracts from the two segments.
- SML ordered eight large Terex crawler cranes all for delivery in 2011. The eight cranes will be used for a future wind-energy project. The new order is in addition to the 22 big crawler cranes that the company ordered in Oct'10 for the construction of power stations, wind-energy projects and refineries.



# Management profile & Shareholding pattern

Sanghvi Movers Ltd.Shareholding Pattern -Condensed-All	Jun-11	Mar-11	Dec-10	Sep-10	Jun-10
<b>Promoter and Promoter Group</b>	<b>45.52%</b>	<b>45.52%</b>	<b>44.73%</b>	<b>44.72%</b>	<b>44.51%</b>
Indian Promoters	45.52%	19706187	45.52	19706187	600000
Foreign Promoters	0	0	0	0	0
<b>Public Shareholding</b>	<b>54.58%</b>	<b>54.48%</b>	<b>55.27%</b>	<b>55.28%</b>	<b>55.49%</b>
Institutions	24.25%	25.69%	27.95%	28.14%	29.43%
FII	20.71%	21.27%	21.98%	22.75%	24.49%
DII	3.54%	4.42%	5.97%	5.39%	4.94%
Non-Institutions	30.23%	28.79%	27.32%	27.14%	26.06%
Bodies Corporate	4.35%	3.11%	2.77%	2.85%	2.97%
Custodians	0	0	0	0	0
<b>Grand Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



Increase in Promoter Shareholding

- **SML is promoted by Mr. Chandrakant P. Sanghvi, Chairman and Managing Director**, who has been one of the pioneers in the cranes hiring industry in India. He is a Graduate in Engineering and completed his Masters in Engineering from the United States.
- Having started the Company back in 1989, he brings with him mammoth experience of more than 20 years in the crane business. Under his leadership, the Company has maintained its monopolistic position in the industry since inception.
- It is a professionally run organization with high focus on corporate governance and strong board processes.

# Sanghvi Movers – Financials

# Sanghvi Movers – Annual Performance

DESCRIPTION	Mar-11	Mar-10	Mar-09	Mar-08	Mar-07
No Of Months	12.00	12.00	12.00	12.00	12.00
Net Sales	359.29	328.76	354.69	254.32	178.63
Other operating income	1.95	2.77	2.81	0.00	0.00
<b>Net Sales &amp; Other Operating Income</b>	<b>361.25</b>	<b>331.53</b>	<b>357.50</b>	<b>254.32</b>	<b>178.63</b>
Total Expenditure	105.45	78.87	83.54	68.19	48.42
Operating & Manufacturing Expenses	91.42	66.64	70.44	56.52	42.12
Employee Cost	14.03	12.24	13.10	11.67	6.30
PBIDT (Excl OI)	255.80	252.66	273.96	186.13	130.21
Other Income	12.28	11.20	4.02	2.64	1.54
<b>Operating Profit</b>	<b>268.08</b>	<b>263.86</b>	<b>277.98</b>	<b>188.77</b>	<b>131.75</b>
Interest	49.20	47.47	53.01	30.72	24.63
PBDT	218.88	216.39	224.97	158.05	107.12
Depreciation	92.89	78.73	67.97	47.46	34.83
<b>PBT</b>	<b>125.99</b>	<b>137.66</b>	<b>157.00</b>	<b>110.59</b>	<b>72.29</b>
Tax	39.68	47.23	55.95	37.85	25.11
<b>Profit After Tax</b>	<b>86.31</b>	<b>90.42</b>	<b>101.05</b>	<b>72.75</b>	<b>47.18</b>
Extraordinary Items	0.00	0.00	0.00	0.00	17.12
<b>Net Profit (after Extraordinary Items)</b>	<b>86.31</b>	<b>90.42</b>	<b>101.05</b>	<b>72.75</b>	<b>64.30</b>
Equity Capital	8.66	8.66	8.66	8.66	8.06
Reserves	547.28	460.99	385.69	0.00	195.89
Diluted EPS after Extraordinary Items	19.94	20.89	23.34	17.75	64.25
PBIDTM%	74.21	79.59	77.76	74.23	73.75
PATM%	23.89	27.27	28.27	28.60	26.41

- The company has a policy of depreciating the cranes in 7-8 years whereas the economic life of the cranes is more than 20 years.
- This results in front loading the depreciation costs and suppressing the reported EPS, while the cash flow from operations are substantially higher as can be observed in the next slide.

# Sanghvi Movers – Quarterly Performance

Sanghvi Movers Ltd. Quarterly Performance-Standalone [INR-Crore]						
	Quarterly			Sequential Quarterly		
Description	Jun-11	Jun-10	Var%	Jun-11	Mar-11	Var%
Net Revenues	105.49	86.14	22.46	105.49	104.66	0.79
Total Expenses	29.89	21.88	36.61	29.89	34.89	-14.33
Operating Expenses	25.54	18.56	37.61	25.54	30.84	-17.19
Employee Cost	4.35	3.33	30.63	4.35	4.05	7.41
EBIDTA	75.6	64.26	17.65	75.6	69.77	8.36
EBIDTAM%	71.66	74.6	-3.94	71.66	66.67	7.48
Other Income	14.14	3.86	266.32	14.14	1.44	881.94
PBDIT	89.74	68.12	31.74	89.74	71.21	26.02
Depreciation	25.82	21.36	20.88	25.82	25.27	2.18
Interest	14.91	12.09	23.33	14.91	13.03	14.43
PBT	49.01	34.67	41.36	49.01	32.91	48.92
Tax	12.4	10.65	16.43	12.4	11.19	10.81
PAT	36.61	24.03	52.35	36.61	21.72	68.55
Adjusted NPM (%)	36.04	27.89	29.22	36.04	20.76	73.6
Equity Capital	8.66	8.66	0	8.66	8.66	0
EPS	0.85	0.56	51.79	0.85	0.5	70

- For Jun'11 SML posted a very good performance. The management not only surpassed the analysts' expectations but outperformed their own guidance of 15-18% revenue growth with 22.50% growth.
- The operating expenses were significantly lower on sequential basis because of the placement of cranes at the allocated sites and thus saving on freight and transportation cost.
- For Jun'11 quarter, the average utilization of fleet was 86% which is way above 82% for the entire FY11.
- For the remaining 3 quarters of FY12, the management has guided for 85% utilization and 15-20% growth on conservative estimates.

# Sanghvi Movers – Sustainable Cash Flows

Sanghvi Movers Ltd. CashFlow - Standalone - Actual - Schedules- [INR-Crore]						
DESCRIPTION	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06	Mar-05
<b>Profit Before Tax</b>	<b>137.66</b>	<b>157.00</b>	<b>110.59</b>	<b>72.29</b>	<b>49.85</b>	<b>20.06</b>
Adjustment	117.27	119.89	75.78	59.25	49.37	25.96
Depreciation	78.73	67.97	47.46	34.83	35.64	21.28
Interest Expenses	47.47	53.01	30.72	24.63	13.72	4.67
<b>Changes In working Capital</b>	<b>1.75</b>	<b>-59.04</b>	<b>-20.82</b>	<b>-19.67</b>	<b>-17.83</b>	<b>-13.35</b>
Trade & Other receivables	5.31	-72.42	-26.41	-12.42	-30.59	-13.26
Trade & Other payables	-3.56	13.38	5.59	-7.25	12.76	-0.09
<b>Cash Flow after changes in Working Capital</b>	<b>256.68</b>	<b>217.85</b>	<b>165.55</b>	<b>111.87</b>	<b>81.40</b>	<b>32.67</b>
Interest Paid	-48.78	-54.46	-31.83	-25.59	-13.37	-4.92
Tax Paid	-37.19	-41.63	-29.92	-16.25	-17.46	-3.70
<b>Cash From Operating Activities</b>	<b>170.71</b>	<b>121.77</b>	<b>103.79</b>	<b>70.03</b>	<b>50.58</b>	<b>24.05</b>
<b>Cash Flow from Investing Activities</b>	<b>-138.87</b>	<b>-231.59</b>	<b>-222.30</b>	<b>-175.89</b>	<b>-178.91</b>	<b>-84.44</b>
Purchase of Fixed Assets	-163.43	-233.09	-225.02	-176.23	-179.36	-84.58
Sale of Fixed Assets	23.91	1.27	2.37	0.09	0.00	0.31
<b>Cash from Financing Activities</b>	<b>-33.45</b>	<b>109.33</b>	<b>123.26</b>	<b>107.97</b>	<b>121.47</b>	<b>53.69</b>
Proceeds from Long Term Borrowings		124.50	99.26	39.09	125.56	55.70
Repayment of Long Term Borrowings	-23.36					

- The best part about the investment idea in SML is it's Cash flows from operations (CFO).
- The company generates positive cash flows to the tune of Rs 200 crore (FY11) from operations, while if we assume buying out the whole company then it would cost us ~ Rs 1200 crores (Market cap + Debt).
- Once the company is done with it's aggressive CAPEX or the CAPEX is in line with cost of depreciation, the cash flows can be used to pay down debt which would further amplify CFO, resulting in an increase in ROI and thus the re-rating of the company.
- Over the last 5-6 years, the taxes paid by the company have increased 10 fold, signifying the growth achieved and clear accounting practices.

# Sanghvi Movers – Balance Sheet

DESCRIPTION	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06	Mar-05	Mar-04
<b>SOURCES OF FUNDS:</b>							
Share Capital	8.66	8.66	8.78	8.18	7.30	7.30	7.30
Total Reserves	460.97	385.69	294.84	195.89	73.46	49.46	39.86
<b>Shareholder's Funds</b>	<b>469.63</b>	<b>394.35</b>	<b>303.62</b>	<b>210.31</b>	<b>80.76</b>	<b>56.76</b>	<b>47.15</b>
Secured Loans	474.47	499.32	370.86	275.13	234.22	101.91	41.28
Unsecured Loans					3.08	2.45	
<b>Total Debts</b>	<b>474.47</b>	<b>499.32</b>	<b>370.86</b>	<b>275.13</b>	<b>237.30</b>	<b>104.36</b>	<b>41.28</b>
<b>APPLICATION OF FUNDS :</b>							
<b>Gross Block</b>	<b>1186.09</b>	<b>1048.27</b>	<b>733.60</b>	<b>593.38</b>	<b>405.64</b>	<b>236.57</b>	<b>155.70</b>
Freehold Land	12.52	8.59	7.77	6.63	4.14	2.32	1.52
Buildings / Premises	10.34	10.12	8.64	6.33	5.52	2.95	2.35
Plant & Machinery	1134.89	1001.83	690.80	554.24	370.38	207.72	128.33
Furniture & Fixtures & Office Appliances	2.26	2.07	1.78	1.54	1.44	0.43	0.47
Electrical installations & plants	21.99	21.99	21.94	21.98	21.96	21.91	21.90
Water System and Sanitation							
Vehicles	3.77	3.36	2.38	2.39	1.91	0.96	0.86
Less: Accumulated Depreciation	306.40	240.39	173.82	128.64	119.86	84.23	64.76
<b>Net Block</b>	<b>879.69</b>	<b>807.88</b>	<b>559.77</b>	<b>464.73</b>	<b>285.77</b>	<b>152.34</b>	<b>90.94</b>
<b>Current Assets, Loans &amp; Advances</b>							
Inventories	2.89						
Sundry Debtors	130.72	120.64	64.59	50.32	32.74	19.72	11.37
Cash and Bank	5.87	7.49	7.98	5.26	3.78	3.27	2.60
Loans and Advances	64.83	88.01	60.92	36.71	45.16	14.30	7.33
<b>Total Current Assets</b>	<b>204.31</b>	<b>216.14</b>	<b>133.48</b>	<b>92.30</b>	<b>81.68</b>	<b>37.29</b>	<b>21.31</b>
<b>Less: Current Liabilities and Provisions</b>							
Current Liabilities	26.15	29.89	16.40	10.76	18.36	4.92	4.96
Provisions	49.64	52.08	45.82	29.89	26.94	8.16	3.51
<b>Total Current Liabilities</b>	<b>75.80</b>	<b>81.97</b>	<b>62.22</b>	<b>40.64</b>	<b>45.30</b>	<b>13.08</b>	<b>8.47</b>
<b>Net Current Assets</b>	<b>128.52</b>	<b>134.18</b>	<b>71.26</b>	<b>51.66</b>	<b>36.38</b>	<b>24.21</b>	<b>12.84</b>
<b>Book Value</b>	<b>108.49</b>	<b>91.10</b>	<b>70.11</b>	<b>50.62</b>	<b>22.47</b>	<b>15.78</b>	<b>13.07</b>

- Though in a Capital intensive industry, management has not resorted to aggressive equity dilution, thus saving the interest of existing shareholders.
- As can be noticed from the highlighted portion, the company has been consistent with its investment towards freehold land for development of depots and thus fortifying its Pan-India presence.
- Most of the Gross block of the company constitutes of cranes and other machinery and most of the debt of the company goes towards aggressive expansion plans.
- The working capital intensity of the industry is low, however since the slowdown starting 2008, the payments have got delayed and the debtor days have increased.

# Concerns

# Concerns

- **Non materialization/cancellation** of contracts or loss of any of the major clients may have an adverse impact on the Company's revenue.
- **Any non availability or delay** in delivery of cranes will have a negative impact on Company's leading position in the crane hiring industry.
- **Slowdown in CAPEX** could prove to be a major negative for SML. The capacity utilization of its assets can come under stress, which will adversely effect its margins and can also affect its debt servicing capabilities.
- **Substantial institutional shareholding** in excess of 30% (most of it in the form of long term investment) is indicative of the confidence of institutions in SML's prospects. However during times of global liquidity crisis, a major pull out by institutions can cause a substantial downward pressure on the stock.
- **Competition from International players** who may try to dump their cranes in India can affect both the utilization levels and margins for SML.



# Conclusion

# Price chart



- In the light of on-going market correction and carnage on most of the infrastructure stocks, SML's stock price has corrected by ~50% from its highs of 240 in Jan'10, thus offering great value in the current price range.
- One is suggested to buy the stock on dips, because during market corrections the stocks correct irrespective of their valuations and fundamentals, while over the longer term the stocks prices converge in line with fundamentals.

## Conclusion – Attractive valuations

Sanghvi Movers Ltd. Bulk Deals - All- [INR-Crore]							
STK_EXCHANGE	Deal Date	Client Name	Transaction	Qty	Close Price (Unit Curr)	Trade Price (Unit Curr)	Value
NSE	10-May-11	SANGHVI ERECTORS PVT LTD	BUY	500000	123.70	125.00	6.25
NSE	10-May-11	JM MF A/C JM BASIC FUND	SELL	498018	123.70	125.00	6.23
NSE	21-Mar-11	SAFE ENTERPRISES	BUY	224769	105.10	106.11	2.39
NSE	21-Mar-11	SAFE ENTERPRISES	SELL	43263	105.10	106.08	0.46

- Since there aren't any pure-play Crane Rental companies it would not be prudent to draw a comparison with any other listed company. However we believe that Sanghvi Movers is quoting at attractive valuations on an absolute basis and it seems even the management is using the current market turmoil as an opportunity to shore up it's holding.
- SML has a healthy dividend payout ratio of 15% and the stock is currently quoting at a dividend yield of 2.5% and P/B of 0.91.
- The stock is currently available at an enterprise value of 6 times the cash flow from operations. The cash flows from operations can get further amplified once the company's CAPEX falls in line with annual depreciation.
- SML is currently trading at 5.40 times it's TTM earnings, while historically it has mostly traded in excess of 10-12 times TTM earnings and twice the book value.

# Katalyst Wealth – Alpha Portfolio



Katalyst Wealth Alpha Portfolio service is focused on helping individual investors/institutions beat market returns by a wide margin without taking large risks through in-depth research, analysis and follow up on the stock.

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