



“Sanghvi Movers Limited
Q1 FY '24 Earnings Conference Call”
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LIMITED**

Moderator:

Ladies and gentlemen, good day and welcome to the Sanghvi Movers Ltd Q1 FY24 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rishi Sanghvi, Managing Director, Sanghvi Movers Ltd. Thank you and over to you Mr. Sanghvi.

Management:

Thank you very much for the introduction, Rayo. Good afternoon, ladies and gentlemen, and thank you very much for attending our Q1 FY24 Analyst and Investor Call. This is Rishi Sanghvi, Managing Director, and I have with me Mr. Sham Kajale, who is the Joint Managing Director and Chief Financial Officer. So, I will quickly take you through the highlights across the board and then open up for Q&A.

In terms of financial performance, our top line for Q1 has grown to INR147 crores, which is a 50% growth year on year and a quarter-on-quarter growth of 15%. The net profit after tax was INR42 crores, which is a 280% growth year on year and a quarter-on-quarter growth of 24%. This represents a historical high for our company. During the quarter, we have showcased robust operating performance due to increase in business volume and coupled with a boost in pricing power.

Our efforts on the EPC front are beginning to materialize and we should see sizable growth in these business verticals in the upcoming quarters. For this quarter, the EPC business has contributed 5% to the top line. We have also secured orders worth INR150 crores from eminent independent power producers, IPPs, in the renewable energy sector. The total order value translates to 539 megawatts of new capacity addition by our esteemed customers, and these orders will be executed till H1 FY25.

Our EBITDA for the quarter has grown to INR94 crores, which is a 180% growth year-on-year and a quarter-on-quarter growth of 16%. EBITDA has improved primarily because of volume growth, pricing power, and persistent cost optimization efforts adopted by the company. Our average capacity utilization has increased to 84% for the quarter, with an average blended yield of 2.21% per month. This year demonstrates the company's ability to close contracts with good pricing power, and this is notwithstanding the fact that the majority of the capex has been anchored in brand new cranes which typically translates to lower yields.

Here I would like to give a word of caution, I would like to inform everyone that our crane capacity utilization may come down in the next quarter on account of heavy rains across the country during the monsoon period. This may impact the numbers for the next quarter. However, we feel that for the last two quarters, our capacity utilisations will be restored to the current levels.

On the international front, due to lack of business opportunity in Vietnam and robust demand for cranes in the domestic market, the board has approved to voluntarily wind up our wholly owned subsidiary of SML, Inc. in Vietnam. In terms of growth, we have strengthened our

position by adding 23 new cranes and 6 multi-axle lines in our portfolio, having incurred a capex of INR242 crores during the quarter.

A majority of the capex has been put to use directly from docks to the jobsites, and we will continue to experience incremental revenue for the top line in the remaining three quarters. Furthermore, the Board of Directors in yesterday's Board meeting has approved a revised capex plan of INR297 crores for the full year, which will be utilised for buying new cranes in the light of increasing demand. Finally, our order book stands at INR450 crores as of 1st August 2023, which will be executed until the end of this financial year. I would now like to open up the floor to Q&A and hand it back to Rayo.

Moderator: Thank you everyone. Thank you very much. The first question is from the line of Deepan Sankara Narayanan from Trustline PMS. Please go ahead.

Deepan Narayanan: Good evening, everyone, and thanks a lot for the opportunity. And congratulations for a great set of numbers. So firstly, on yield front, so yield of 2.21% is it a reflection of a higher contribution of wind power segment or lesser competitive intensity in the field?

Management: So good afternoon. So, as we have mentioned, yields are flat across all sectors. The yield going up is a function of demand for cranes, the fact that there is a lot of focus on infrastructure development across the country and that all core sectors like steel, thermal power, renewable power, nuclear power, cement, railways, metros, bridges, all core sectors are firing on all cylinders.

Deepan Narayanan: Okay, okay. And do we have a scope for increasing these yields better? So, I think in the previous cycle we used to have 2.4% to 2.6% kind of highest yield. Is that possible to reach again given the very strong capex recovery cycle we are seeing currently?

Rishi Sanghvi: So, historical yields were achieved due to a healthy overtime. Of late, because of the competitive landscape, the terms and conditions negotiated by the customers with rental agencies, the general industry trend has shifted to no overtime. So, two point, what you were mentioning 2.5% to 2.6% may not be achievable now, but the management is confident that we will have yields around, in and around 2%.

Deepan Narayanan: Okay, okay. So, the current capex plan is it enough for us to meet the demand for over next two years or we are further looking at increasing the capacity for it?

Rishi Sanghvi: The capex plan of INR297 crores has been approved by the Board of Directors for this financial year, of which we have already executed INR242 crores and all of this, a majority of this capex has already been put to use and is contributing to the top line. So going forward subject to board approval, the management will take the necessary decision at that time.

Deepan Narayanan: Okay, okay. And we are seeing a sharp increase in our EPC contribution from this wind power and also the other power segment. So, what kind of margins in this segment is possible and so what kind margin achievable in this segment?

Sham Kajale:

So, consolidate basis that is wind and project EPC put together we expect EBITDA margin between 30% to 35% based on the recent EPC contract that we have executed. See in EPC business as you know you cannot a margin more than 30% or 40% during the trend. But let me tell you we are not executing the entire EPC project.

Currently, we are just servicing one of the element of that EPC, which is a C, C element that is a construction element which includes supply of manpower, tools and tackles, spares, lifting and alignment in equipment erection activities. While in wind EPC we are just providing allied services like surface logistics, inter-cutting, supply of manpower for erection and commissioning of WTG, that is up to mechanical erection.

And also, we are doing WTG foundation. So, we are not doing the entire EPC as such because EPC itself is a very vast subject and we are not doing anything relating to engineering and design or procurement of equipment.

Deepan Narayanan:

Okay, okay. Thanks a lot, and all the best.

Moderator:

Yes, thank you. The next question is from the line of Rohit Potti from Marshmallow Capital. Please go ahead.

Rohit Potti:

Thank you for the opportunity and great set of numbers. I think probably the best quarter we've had in a very long time. So, congratulations on that. Just following up on EPC, one question I have is, will we do the C thing that we're doing right now in places where our cranes are not deployed, or the customer doesn't want cranes but just a C part of our expertise? Will we do that? That is the first part.

And the second part of the question is, when you mentioned the order book of INR450 crores, does that include the EPC part of the business as well and if it does, where do you see our EPC part of business, the contribution to the total revenues go over the next two years, three years?

Rishi Sanghvi:

Yes, so I'll take the first question. Typically, what we look for in EPC contracts is what we call as composite works. So, crane has to be an integral part of the business, of the order. We have secured INR150 crores worth of EPC contracts which need to be executed which roughly translates to around 550-megawatts of new capacity addition.

Now 50% of this order value is in crane and typically going forward we will like to maintain that crane be an integral part of the EPC business that we are looking at or rather the construction business that we are looking at. With respect to the order book, yes it is INR450 crores and Sham I do believe that includes the EPC numbers correct?

Sham Kajale:

Yes, it is including EPC contracts.

Rohit Potti:

So, how much is the EPC part of the INR450 crores?

Sham Kajale:

Currently it is roughly around INR42 crores, but on year on total on yearly basis we may achieve turnover of INR50 crores for this current financial year.

Rohit Potti:

Okay, understood. So, you see this 5% EPC go up to 10% is what you are indicating, right?

- Sham Kajale:** Yes.
- Rohit Potti:** Understood. So, I mean, probably somewhere in the Annual General Meeting that in the Annual Report, it seemed to indicate that so far our revenues have been very heavily linked to the capex that we do, right? I mean, we put more cranes and we generate more revenue of the gross block. It seemed to indicate that we might be doing more of business along these EPC lines. Is that right I mean, could you speak more about that, do we see a non-gross block related revenue base for the company increasing with time?
- Rishi Sanghvi:** So, of the total capex we have done, it has been majority of it has been for incremental capacity addition. So, incremental capacity addition obviously means purchasing of cranes which adds to the top line on the crane business. For non-revenue, non-gross block related revenue growth, it may come, but again, there the margin is significantly lower and in single digits. So, the EBITDA margin will come down for any non-gross block related EPC revenue.
- Rohit Potti:** No, no, so fair enough. So, what I was trying to understand was that some of the resolutions in the Annual Report coupled with the fact that our EPC business is growing. So, historically Sanghvi revenues have been linked to the gross block of the company. Do you see yourself or do you see us broad basing our revenue base from just capex sources to non-capex, I mean, it might be EPC, it might be something else also. Do you see something else happening? Do you see the EPC scope broadening further down the line?
- Rishi Sanghvi:** As of today, 50% of the EPC order that we are taking will be linked to our co-business, which is cranes. Going forward, it's very difficult to comment on how that would evolve. But in a directional sense, we would like to generate some amount of revenue of the top line which is not capex related.
- Rohit Potti:** Understood. Fair enough. So that's it from me for now. Thank you so much and I appreciate the conference calls. Thank you.
- Moderator:** Thank you. The next question is from Sunil Jain from Nirmal Bang Securities. Please go ahead.
- Sunil Jain:** Yes, thank you very much for taking my question and congratulations on good numbers. Sir, my question again relates to EPC work. You said that 30%, 35% of margin you can do. So, that is including crane plus EPC together when you do the job of say 150 crores order what you got there you can do that type of margin?
- Sham Kajale:** See this EBITDA margin the question is what kind of margin you foresee in EPC business. So, my answer was EBITDA margin of 30%, 35% is excluding the crane rental because crane business is having different EBITDA margin and the EPC business what we are doing right now is generating EBITDA margin between 30%, 35% so this is excluding crane rental.
- Sunil Jain:** Ok fine so pure play INR50 crores if you are looking at doing the revenue in this crores, then this year, then 35% on that?
- Sham Kajale:** Correct.

Sunil Jain: Okay, great. That is very great, sir. And second thing about since you had a high share of wind in this year, this quarter, now moving up, is there you're looking to limit that so you don't want to go over that particular percentage of bid business or there is not a problem at all because last, historically we had gone up to 70%, 75%, 70% and then we had seen a fall in that particular line of business and we got impacted.

Rishi Sanghvi: So, I'd like to reiterate that yields are flat across sectors. So, as far as a crane rental company we are agnostic to the sector that we cater to because more or less yields are flat across sectors. What we do look at as a strategy while building our order book is to focus on crane utilization as yield is flat across sectors, build up a healthy order book and then take in on a first come first. So, in order to do that we take in customers on a first-come, first-served basis.

We also look at things such as creditworthiness of the customer, the duration of the contract, the location of the crane, our operating costs, etcetera and then take a call on who it is that we choose to give the crane to in the industry.

Now, the exposure to the wind sector is going up because wind as a overall as an industry is adding a lot of capacity. The expected capacity addition is, will be anywhere between 3-gigawatt to 4-gigawatts this year, which is a significant increase from the previous year.

Going forward, depending on how all the other sectors perform, management will take a strategic call on how to and on what percentage of revenue will come from each of these sectors, again keeping a focus on capacity utilization and yield.

Sunil Jain: Yes, okay, okay and...

Sham Kajale: Nirmal, I would like to add a few more clarification on this. See recently SECI has scrapped the method of bidding for wind sector. We saw a quantum jump in the investment and erection of windmills all over India. Government has set an aggressive target of nearly 8-gigawatt wind installation on annualized basis and going forward this has ensured the robust demand for cranes from this sector.

As of today, that is till 30th June based on the information available in India already 1.13 gigawatt wind installation has already happened. So, you can take a clue based on this number how much wind installation is likely to happen in the current financial year and going forward.

Sunil Jain: Okay, great sir. And just a last question, in this EPC, what is the working capital cycle, means how much debtors or credit period is there involved in that?

Sham Kajale: Normally we allow credit period of 30 days to 45 days maximum and since the crane is also integral part of the EPC contract, normally these clients they honour their payment commitment. And as Rishi has already mentioned, we are working with eminent independent power producers. So, payment, getting a payment received from the client will not be a major issue as such.

Rishi Sanghvi: In most of these independent power producers are platforms which are backed by sovereign funds or pension funds or investment funds from abroad. The entire project risk and financial

closure is completed before a single decision takes place on site. So, we are extremely comfortable with our payment cycle with these customers and therefore it has not put any additional burden on our working capital..

Sham Kajale: Okay so as such... Sorry, if you see the presentation that we have circulated, the cash credit utilization is zero for the quarter ended 30th June, that itself shows that even though this EPC business is working capital intensive, we are very cautious while giving cranes or doing this business.

Sunil Jain: Yes, so as such you'll be doing around 30%, 35% margin if we take about pure EPC business and money involved in that even in working capital also will be very low. So, it will be very high ROCE generating business. Am I correct?

Sham Kajale: Yes.

Sunil Jain: Great sir. Thank you very much.

Moderator: Thank you. The next question is from Aditya Nahar from Alpna Enterprises. Please go ahead.

Aditya Nahar: Thanks Rishi and Sham sir for the conference calls. Rishi, I think you dropped off a little bit when you were giving your opening remarks. At least for a minute, I could not hear you. So, if you could just talk about what you were saying in terms of quarter two, you expect yields because of monsoon and that's where you dropped off from. So, if you could just repeat that if you don't mind?

Rishi Sanghvi: Sure. So, this quarter, we have seen a capacity utilization at 84% and with an average blended yield of 2.21%. As a word of caution, what I was trying to explain to everyone is that we are currently in the monsoon period and there are heavy rains across the country. So, we see a slowdown in the deployment and demand of cranes in the second quarter.

And this may have an impact on the numbers for the next quarter. However, we are confident that in the last two quarters our capacity utilization will be restored to our current levels.

Sham Kajale: So, Aditya, just to add what Rishi has told, if you see the historical numbers, financial performance of the company last four years, Q2 numbers are always on the lower side as compared to Q3 and Q4. So, this is not a unique case that we are seeing, except last year, last financial year, where Q2 number was reasonably good in comparison to Q1 and Q3 and Q4.

But if you see the financial for last four years, five years, Q2 turnover was always on the lower side.

Aditya Nahar: Absolutely sir. Thank you so much. I wish you all the very best.

Moderator: Thank you. The next question is from Chandresh Malpani from Niveshaay Investment Advisors. Please go ahead.

Chandresh Malpani: Hello am I audible?

Rishi Sanghvi: Yes please go ahead.

Chandresh Malpani: Yes thank you for the opportunity sir and congratulations on the good set of numbers. So, sir basically my first question is like the capexes which we have done so I wanted to understand in which category is it is it basically on the tyre side or the crawler side type of cranes?

Rishi Sanghvi: The capex breakup has been given in our investor presentation and you can see the breakdown of cranes there.

Sham Kajale: These are all crawler cranes.

Chandresh Malpani: Okay, so you mean that this will be a long-term contract and that's why you are going into crawler?

Sham Kajale: See there are 8 numbers 750 ton that we bought is crawler crane and we bought almost 15 numbers tyre mounted telescopic crane which is 110 and 160 ton capacity.

Chandresh Malpani: Okay, okay. And sir secondly on the wind energy side, so our ground research suggests that the rentals have increased by 40 to 50 -- higher. How do you see in the near term this trend going and you are like for wind installation, more than 800 tons of cranes – 800-ton capacity cranes will be required. So, where are we as in the industry?

Sham Kajale: Sir, I could not hear . I could not hear you actually.

Rishi Sanghvi: Sorry, you are not audible. Can you please repeat yourself?

Chandresh Malpani: Okay, am I audible now? Hello.

Rishi Sanghvi: Go ahead.

Sham Kajale: Please go ahead.

Chandresh Malpani: Yes so my question was on the wind energy side. So, our ground level research suggests that the rentals are higher by 40% to 50%. So, how do you see this trend going forward?

Sham Kajale: I don't know where from you got this information as Rishi has told you yields are flat remain flat across all the sectors where the cranes are deployed.

Chandresh Malpani: Okay so like 50% of your cranes are deployed on wind, but the rentals are more or less are same that is what you are suggesting?

Sham Kajale: Correct.

Chandresh Malpani: Okay. Okay. And lastly on the like for wind, if you see like more 800 tons of capacity cranes are required. So, if you can brief on that part also will be helpful?

Rishi Sanghvi: So, it's not that 800-ton capacities are required. Generally, the capacity of the crane is determined by the hub height. India in 2007, it was doing 70- and 80-meter hub height, and that has now

gone all the way to 140-meter hub height. There is a mix between 600, 650, 750, and 800 ton capacities.

And we have adequate fleet mix to cater to all the demand that is coming from all these various hub heights.

Chandresh Malpani: Okay, so like the new --- like 140 or 125 metres above?

Rishi Sanghvi: You are not audible.

Moderator: Mr. Malpani, I guess your cell phone is breaking up as in the middle when you're speaking.

Chandresh Malpani: Okay, no problem. My questions are answered. Thank you.

Moderator: Sure. Thank you. We'll move to the next question. The next question is from the line of Himanshu Upadhyay from O3 PMS. Please go ahead.

Himanshu Upadhyay: Yes. Hi. Good afternoon and congrats on good set of numbers. See all the 23, have we sold any cranes because at the yearend we had 394 cranes and with the addition of 23, we are still at 407 cranes. So, has there been any sales or something like that?

Sham Kajale: See we have sold 7 number cranes and in the presentation we have mentioned that we have added 23 cranes but that is up to July 2023, but till June we have added only 17 cranes which has been capitalized. So that is why there is a difference actually. So, we have sold, to give you an answer we have sold seven cranes in the first quarter.

Himanshu Upadhyay: Okay and any change of a capex target for FY '24? You have already done a significant portion...

Sham Kajale: The capex has gone up to INR297 crores.

Himanshu Upadhyay: And this is also for what? For cranes only?

Sham Kajale: For additional new cranes.

Himanshu Upadhyay: Okay, and how do we see? Is there any debt equity ratio or any figure where you want to keep your capex committed because historically also we did capex big time and then the cycle just reversed okay. It may not happen in this year but next year and then we don't know. Infrastructure build up is generally a cyclic business. So how are you thinking about managing risks?

Sham Kajale: So our current debt equity ratio is 0.34 is to 1, based on the order visibility and the positive business outlook and based on the repayment schedule that we have, we are in next 4 to 5 years, our average debt repayment obligation is only INR75 crores, see historically if you look at the numbers, we have made average debt repayment of more than INR100 crores and currently we see lot of demand not only from the vent sector but also from the other sector.

So lot of capex is happening not only from the government side but also from the private sector, so yes your point is well valid in FY '16 and '17 we did a huge capex, saddle with huge amount

of debt but that cycle is was slightly different, was majorly different than what we are currently having, as I mentioned to you, because of the regulatory issues, more particularly with the wind sector, there was a major disruption happening in wind erection in India.

And that has taken a huge toll, not only for the wind sector in totality but also to Sanghvi Movers also. But this time the business outlook and the overall sentiment and the order visibilities quite better than what it was in 2016 or '17.

Rishi Sanghvi:

To add on, the debt to equity in 2016-17 was roughly point, Sham, point 8 or point 6? Yes. Point 7. Today we are even with a INR300 crores capex in this financial year, our debt to equity still remains at point 34. That is the first point. The second point as Sham has mentioned and I would like to reinforce is that the average debt obligation repayment is less than INR75 crores per year.

Historically, in the last 5 years, we have repaid to the banks more than INR100 crores. So, even if you use the performance of the company during the last down cycle, we still have adequate buffer in terms of our debt repayment obligations to the banks and therefore our risk is mitigated by low yearly debt repayment installments to the banks.

Himanshu Upadhyay:

Okay, and our debt receivables have reduced from 99 to 83 days. Is it because of change in makes or it is from, for EPC are the receivables better or what would be the reason for this fall?

Sham Kajale:

No, this is the average receivable days across all the sectors where the cranes are deployed including EPC business. See, historically these days have gone up to 150 days also. However, with vigorous payment follow and better control over the credit period that we are giving to our customers, receivable days have come down to 83 days. But on overall basis, the receivable days may likely to remain between 90 days to 110 days going forward.

Himanshu Upadhyay:

Okay, and one last question. You were saying that last time the orders when would get delayed and hence the yields would be generally better. But if we look at this year and you are stating that rain has been prolonged, look, you're very heavy rains are there, and a lot of work is not happening. Will not it lead to a similar situation which used to be there historically when means this work at site would get delayed and hence better payments for there? Just a though it is a short-term question, but just trying to understand?

Rishi Sanghvi:

So, your question is, will yields improve due to bunching up of demand?

Himanshu Upadhyay:

Not bunching of demand, because delay of orders or delay of execution of things.

Rishi Sanghvi:

Yes, yield may go up because if demand goes up, then your pricing power goes up.

Moderator:

Thank you. The next question is from the line of Vivek Gautam from GS Investment. Please go ahead.

Vivek Gautam:

Yes. Let me just find out. Any capex lined up for the future, sir, number one? Number two, is there a potential tightness in the wind energy sector which may lead to potential rental increase? And what is the fraction you are – one is experiencing from C&I and green hydrogen sector wind energy? And lastly, how is the size of the pond in which we are operating? So, our Maruti,

can it become a Mercedes in years to come or is it an asset-heavy model so that it might be a bit difficult for us to become large in this sector, sir? Thank you.

Sham Kajale: So, we have already increased our capex size to INR297 crores as I have mentioned now already in this call out of which we have executed INR242 crores of capex, and a majority of this capex has been put to use directly from the docks to the job site. Could you repeat your second question please?

Vivek Gautam: Yes, the second question was, is there a tightness in the wind energy sector with turbine sector so that the potential rental increase can happen for us? And tightness in the wind energy sector, wind turbine sector, availability of a lot of big demand is there so that our rental can increase?

Rishi Sanghvi: I am not able to understand the question. Sham?

Sham Kajale: What do you mean by tightness in wind sector...

Vivek Gautam: What I meant to say is that there is a big demand for wind turbines and as such demand for our cranes.

Sham Kajale: Yes, to answer your question, the demand for wind turbines has gone up because there is overall demand from independent wind producers from OEMs. And will that result in an increase in rental rates? It will result in an increase in demand for cranes. And based on the timing of the project, availability, competition, it may lead to an increase in rental rates, which may reflect in the yield in future. What was your third question, please?

Vivek Gautam: This was regarding the – yes, basically you answered it on the – due to the C&I and green hydrogen, the big demand is there for the wind energy. And so that is, I think, already answered. And lastly was about the size of the pond in which we are operating. Basically, the opportunity size for our sector in which we are, because we are the India's biggest grain producer. And, but most of the market is still unorganized. And you mentioned in one of the past calls that almost 70%, 80% is still unorganized. So due to this GST implementation other things tailwinds again appear for us in this particular sector.

Sham Kajale: So again, what is your question?

Vivek Gautam: My question is regarding the opportunity size for us so if the what is the what do you call in our investment terminology is the size of the pond, how is the opportunity size and can we keep on growing at 15%-20% CAGR in time to come?

Sham Kajale: Okay, see, as we are buying the cranes, our nearest competitor, they are also buying the crane because they also study the market, correct. So, though we are the largest, all our competitors say competitor number two to competitor number 10, they are also buying the crane. So overall market share of Sanghvi Movers Limited will remain more or less same, although we are the leader in the heavy-duty crane which is 600 ton or 400 ton and above segment. So that will give some kind of added advantage over our competitors.

- Vivek Gautam:** Okay, but you mentioned one of the past call that there is a lot of unorganized segment in the crane hiring. So, we are the organized, we are among the biggest among the organized players. So, with this GSTN implementation and other things, so we'll be in a better position?
- Rishi Sanghvi:** GSTN implementation has already done, sir. Whatever impact it had to have on the industry, it is already been accounted for.
- Vivek Gautam:** Unorganised, these are also now 100% GSTN compliant you mean to say?
- Rishi Sanghvi:** Yes, absolutely. They don't work with -- our end customers will not work with them otherwise.
- Vivek Gautam:** Got it, sir. Thank you. Keep up the good work, sir. Very good numbers.
- Rishi Sanghvi:** Thank you.
- Moderator:** Thank you. The next question is from Pritesh Chedda from Lucky Investment Managers. Please go ahead.
- Pritesh Chedda:** Yes, hello sir. Sir, wanted to understand the readiness of you and the industry, with respect to this, the higher hub cranes, higher hub machines now, this 303.25 megawatt. So, in the past cycle, we had put up these large crane, large height crane. So, what happens to that block? Was it got utilized and for which particular? Do you have to put some new block or it's a fungible arrangement that you can make it with your own machines today?
- Rishi Sanghvi:** I think, what you are asking is, if we purchase cranes for the hub...
- Pritesh Chedda:** So, first question is, were lot of machine which were purchasing in the past cycle, which were meant for the 70 or 80 meters of heights and now the industry is moving to 140 meters of heights. So first of all, what has happened to that block of the machines of the 70 meters of heights? And do you have machines today in your gross block to do the execution of site direction for the 3.25 megawatt?
- Rishi Sanghvi:** OK, so let's answer the first question. See, the beauty of cranes is that they are fungible across sectors. So, they are used in steel, cement, thermal power, nuclear power, wind energy, oil and gas, petrochemical and refineries, railways, metros, bridges. And so, across all these core infrastructure sectors, if a crane that was utilized for a lower hub height, cannot do that hub height today, it is utilized in another sector. That is why, we have achieved a 84% capacity utilization.
- Otherwise, the utilization numbers would be significantly lower. Therefore, these lower hub height cranes are fungible to different sectors, and they have been utilized for them. To the second point, we are the largest crane rental company in India, Asia and the sixth largest in the world. Now in the, we have capabilities to do a 6-megawatt, 160-meter WTG erection. We already have those capabilities right now. We represent roughly 65% to 70% of the supply of cranes to the wind energy market.

- Pritesh Chedda:** Okay, so for this 4000 megawatt of installation planned this year, let's say versus whatever 1500 or 1800, 1500-megawatt max, 1200-megawatt max, that industry would have done last year. You have the necessary machines and the block in your balance sheet, or you have to buy it?
- Rishi Sanghvi:** Sham?
- Sham Kajale:** No, we have, that's why, we are doing the capex. We had done capex last year in anticipation of the demand from the sector. So, we have a enough capability to do the hub height erections.
- Rishi Sanghvi:** We have already invested INR250 crores odd in purchasing cranes that are fungible not only for wind led sector but also the other sector. And this a part of the capacity building exercise, that we have done, in order to cater to this demand.
- Pritesh Chedda:** So, let's say, in last two years, a large portion of the capex would have gone to get this machines for a higher heights?
- Rishi Sanghvi:** So, let me reiterate this. Cranes are fungible across all sectors...
- Pritesh Chedda:** Sir, I understand they are fungible...
- Rishi Sanghvi:** When we use them in other sector as well as this hub height. And yes, we have built capacity, where we are owning about 65% to 70% of the market share to do this higher hub height.
- Pritesh Chedda:** Rishi, I understand that they are fungible but getting other industry might not need on a regular basis such heightened cranes, right?
- Rishi Sanghvi:** 65% to 70% of the market share for higher hub heights is owned by Sanghvi Movers.
- Pritesh Chedda:** Okay. I will take it separately. The other question is, let say the INR250 crores capex that we have done in the first three months, four months, any guess how much industry would have added at the same time and what would be your market share?
- Rishi Sanghvi:** Sham?
- Sham Kajale:** See our competitors also purchased some 750 tons, 650-ton cranes from other players or the vendors. So, our market share overall will remain between 50% to 55% overall market share and more than 65% market share in 400 tons in above capacity cranes.
- Pritesh Chedda:** Okay. I will just again clarify one thing. When you buy these now the higher hubs, the 140-meter, 160 meter, is it safe, can one assume that, though they are fungible but largely they might land up getting used in wind and if wind projects were not there, then the utilization of these cranes would be lower?
- Rishi Sanghvi:** Sham, should I take that, or you want to take that?
- Sham Kajale:** You take it.

- Rishi Sanghvi:** I mean, when the overall capacity addition in the sector was low, we were still able to deploy those cranes in various infrastructure projects like petrochemicals, there is the HSR that has been taken under construction, where these heavy-duty cranes are used to launch girders. There are power plants, there is about 10 gigawatts of power plants being built across the sector, country.
- There is almost a 100 million tons per annum of cement, which is being added in this and next financial year for which these cranes are required to complete the clinker and cyclone unit of a cement plant. So, we see that, there is sufficient demand beyond the wind industry for these cranes. Of course, not all components required for the wind industry may be used in the alternate sectors, but definitely the cranes itself could be used.
- Pritesh Chedda:** So, which part will the yield get affected or the number of days that these cranes which we have utilized gets affected, what they are effective?
- Rishi Sanghvi:** Sir, yield is flat across sector. I mention this now, number of times in the call.
- Pritesh Chedda:** And based on the utilization, if wind was not there...
- Rishi Sanghvi:** Contract duration is similar, approximately between six months to nine months.
- Pritesh Chedda:** Okay, sir. Thank you very much.
- Rishi Sanghvi:** That's the beauty of the technology or the cranes that we own.
- Pritesh Chedda:** perfect, sir. Thank you very much, sir.
- Moderator:** Thank you. The next question is from the line of Harsh Saraswat, who's an individual investor. Please go ahead.
- Harsh Saraswat:** Hello, hi. So, my first question is, can you talk a little bit on how the contracts work during the monsoon period? Do we get paid the rentals, when cranes are not used also?
- Rishi Sanghvi:** Sham?
- Sham Kajale:** So basically, when the crane is being given on rental basis, we get paid irrespective, whether client uses the crane or not. But in case of heavy monsoon, where no work can happen at the site, we allow certain amount of levy to our customers and we give some kind of waiver for certain days, when there is extreme monsoon happen at the site. So, because of that, there might be a drop in the utilization, which Rishi was mentioning during his opening remarks.
- But in normal terms, whenever we give the crane on rental basis, client is required to ensure the job for the crane. If the job is not available, we will still get paid in normal situation.
- Harsh Saraswat:** So, you mean that, prices and the lease contracts don't vary, but the days you give them as a levy, that brings down the utilization.
- Sham Kajale:** Correct.

- Harsh Saraswat:** Thank you so much. That was my question.
- Moderator:** Thank you. The next question is from the line of VP Rajesh from Banyan Capital. Please go ahead.
- VP Rajesh:** Hi. Thanks for the opportunity and congratulations for an excellent set of results. My first question was regarding the capacity utilization from 84%. How far do you think that can be pushed to?
- Sham Kajale:** So, Rajesh, historically we achieved capacity utilization in excess of 87%- 88%, so that is the maximum ceiling that we can achieve in terms of capacity utilization.
- Rishi Sanghvi:** I would like to clarify like in our business that, when a equipment is in transit from A location to B location or it is shifting job sites, then you basically lose out on the effective rental at that time. So, I would say 90% utilization, 87% what is historic, is a theoretical 100% utilization.
- VP Rajesh:** Understood. And then on the EPC business, you said out of INR450 crores of backlog, you have about INR42 crores coming from the construction side, so which is about roughly, let's say 10%. So, do you see this proportion increasing as you get more of the construction projects as well, which are attached to a construction of a windmill?
- Rishi Sanghvi:** Yes, we expect the -- are you talking about this year or next year?
- VP Rajesh:** I'm talking about next year and the year after, because I think what you're trying to do is increase your non-gross block related revenue. So, the attached rate will go up, right? So, for example, you are doing 50% of your revenue from the wind industry, right? And therefore, at this proportion, this quarter was only 5%. So where do you see it going? Like, do you see it going to be 25%, 30% of your total revenue, let's say, three years down the road?
- Rishi Sanghvi:** So, this year our EPC revenue seems to be anywhere between 5% to 10% of the entire top line. Next year we expect it to increase between 10%, 15%, 20% is the number. Again, I would not like to give forward guidance in terms of how far we are going to scale the EPC business. We are extremely cautious and conservative. We look at the type of project, the customer credit worthiness, how the contract relates to our core business, what is the value-add we can give to the customer, what are the constraints on our working capital, and then we take a very conscious decision on whether to enter the contract or not.
- So, there's a lot that goes into it, but looking forward, it could be said that directionally, yes, EPC would have a larger percentage in the total top line.
- VP Rajesh:** Got it. And then, you talked about the scope of the construction projects you take on. Can you also talk about the duration of them? Is it typically the duration of the contract that you have for the crane or is it shorter? If you can just give some colour on that.
- Rishi Sanghvi:** In Wind EPC, the duration of the contract, the duration of the crane rental contract is typically the duration of the EPC contract, give or take one month or two months for setting up the project and closing out the project and it is similar in the project industry.

- VP Rajesh:** Okay, and what about the non-wind areas, are you doing it over there or not? And is it the similar kind of operation?
- Rishi Sanghvi:** That is what we call as project EPC. So, we are working in the heavy lift and equipment, fabrication and structure. Those are a few things that we're focused on right now.
- VP Rajesh:** Okay, and just one clarification, you said you're doing capex of INR297 crores or INR300 crores this year. What was this number in the Q4 call? I just was trying to remember that. How much has it gone up?
- Sham Kajale:** INR254 crores.
- Rishi Sanghvi:** It's gone up by about INR50 crores.
- Sham Kajale:** It was INR254 crores, roughly.
- VP Rajesh:** Okay. Thanks.
- Moderator:** Thank you. The next question is from the line of Samyak Shah from Dinero Capserv. Sir, please go ahead.
- Samyak Shah:** Hi, sir. Thanks for the opportunity. So, my first question was on the revenue. So, we've done INR146 crores in Q1. So, do you think, we would cross about INR600 crores in FY '24? What is your expectation?
- Sham Kajale:** We don't give revenue guidance...
- Rishi Sanghvi:** I would like to cross INR600 crores most definitely but typically I would not like to give any forward guidance. You can see how our quarter-on-quarter top line looks with respect to the first quarter and then projected out to arrive at an estimated total.
- Samyak Shah:** Right, so usually quarter 4 is the best for us. So that is what I was thinking. So that probably if Q1 is only INR146 crores then Q4 should be much higher. So, would you agree with that?
- Rishi Sanghvi:** Again, I would like to stay away from giving any forward guidance.
- Samyak Shah:** Okay, no issues. And anything you would like to comment on the margins as far as operating leverage is concerned given that we operate at high utilization, so any colour on that on the margins side?
- Rishi Sanghvi:** EBITDA has gone up which was discussed during my opening remarks. We had EBITDA for Q1 at INR94 crores which represents a 180% growth year-on-year and a 16% growth quarter-on-quarter.
- Samyak Shah:** So, given that, about wind that we've been talking about, given that 8 gigawatt would be added every year. So, I was thinking that if the industry itself is growing so fast, then probably, our utilization should remain elevated for the years to come. So, any comments on that sir?

Rishi Sanghvi: Yes, if there is demand for cranes, the utilization will remain high. Sham, anything you would like to add to this point?

Sham Kajale: Consequently, the EBITDA margin will also slightly improve.

Samyak Shah: Okay, sir, no problem. That's all from my side.

Moderator: Thank you. The next question is from the line of Ria Mehta from Aquitas Invest. Please go ahead.

Ria Mehta: Thank you for giving me the question.

Sham Kajale: Hi Ria.

Ria Mehta: Hi. Thank you for giving me the opportunity. My first question would be in terms of what are the payment terms recently since our exposure to wind has increased?

Sham Kajale: 30 days.

Ria Mehta: For all the players?

Sham Kajale: Yes, for majority.

Ria Mehta: And what are the intervals at which the pricing is reset for a particular long duration contract?

Rishi Sanghvi: So, there is no provision to increase the price once the rate is locked in. So, we have contracts that are 12 months in duration, we have contracts which are short term in duration, which is three months etcetera. What we try to do is we allocate a certain percentage of the entire fleet towards building up our order book and securing long-term orders.

What we do with the balance fleet is to play in the spot market, as you would call it, or play in the short-term market to take advantage of dynamic pricing. And that's how we build up our order book and yield.

Ria Mehta: Got it. And what would the percentage of long-term contracts in our current order book?

Sham Kajale: We can't disclose that, Ria.

Rishi Sanghvi: Because we don't give this data out.

Ria Mehta: Okay. And what kind of expansion do we see in our industry, fleet expansion?

Rishi Sanghvi: In our company?

Ria Mehta: Yes, in the industry.

Rishi Sanghvi: So, I would say, as we are doing capex our competition has access to the same competitors, same suppliers, etcetera. So, as we are growing our competition is also growing. But we still continue to retain our market share in 400 and above as well as in the overall lifting industry. I think the

guidance we have given is about 50% to 55% in the overall market and 65% to 70% in the 400 and above. Bear in mind that this is an unorganized market and therefore, getting definitive data on the industry side is very difficult.

Ria Mehta: Right. Thank you, that's it from my side.

Rishi Sanghvi: Thank you.

Moderator: Thank you. The next question is from Anuj Sharma from M3 Investment. Please go ahead.

Anuj Sharma: Yes, thank you for this opportunity. Two questions, primarily around risk. So, you know our capacity building is generally based on demand, which we have seen is subject to quick changes and forecasting errors. And ratios which we base on capacity building is based on hindsight, which again can reverse quickly. So, how does the management think of model the capacity building such that it is more objective rather than being subjective? And we have -- we would have seen many cycles in past. What has changed in our modelling now?

Sham Kajale: Rishi, should I take this question?

Rishi Sanghvi: Yes, please do.

Sham Kajale: See, basically we do the risk assessment, there is a risk committee also being a listed company, we assess the risk before we take any capital decision and we submit the financial projection with underlying assumption to the board of directors, they evaluate the financial projections also. See, basically if you see, if you are comfortable with the business outlook if you have a robust pipeline if you have a robust order book, the chances of getting youth earlier is very less. See if you see, in the past we have taken some amount of risk by doing a huge capex and eventually saddled with huge amount of debt but taking a lesson from those, I would not say it is a mistake, but taking a clue from those capex decisions that we had taken in the past, now we have a robust system of doing the risk assessment before we are taking any capex decision.

For example, we internally decided that our debt equity should not go beyond certain threshold. We should not take any capex decision where we see that the overall debt repayment should not go beyond certain threshold. We also see the order pipeline also. We also see what is the investment happening across all the sectors. So based on certain robust information, we take the capex decision. So, if you see last year our total cash accrual was more than INR230 crores.

So, and under debt repayment of INR75 crores going forward. So, we have a sufficient cushion in terms of cash flow where we can take the amount of risk and there's a cushion available even if something goes wrong with respect to any particular industry. We have inbuilt cushion where we can easily repay or rebate and we bring down, what is important is that we bring down the debt to a sustainable level.

Anuj Sharma: All right. That's great that we are evaluating past and making our models. But one request, could you make these more, I mean, could you disclose these thresholds so that we could also track where are we in terms of...

- Sham Kajale:** No, these are internal decision....
- Rishi Sanghvi:** No, these are internal markers, and they also involve a lot of industrial knowledge, so we are not comfortable disclosing this.
- Anuj Sharma:** Sure. And one more follow-up question, so you know, wind last time as you rightly said went more than 70% of our capacity, would we want to artificially cap it or we will go with the flow because you said the yields are common and the money...
- Rishi Sanghvi:** So, we have a hybrid strategy in terms of building our order book. We try and secure a large portion of our order book through long term orders and then we earmark a portion of our fleet for playing in the spot market.
- Now typically, large mega infrastructure projects be it a wind farm or a petrochemical refinery or for that matter the elevated, the high-speed railway or a cement plant or a steel plant, we typically look at the duration of the contract, that customer profile, the creditworthiness, etcetera, and then we deploy cranes across such sectors. And then we use the remainder of our fleet on a first come first serve basis to push up the utilization and increase our pricing power.
- So artificially capping any one sector would be detrimental because it would have an overall impact on our pricing strategy.
- Anuj Sharma:** All right. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Raj Rishi from DCPL. Please go ahead.
- Raj Rishi:** Yes, hi. Do you have any plans for fundraising, equity or something?
- Rishi Sanghvi:** No. Right now, all our funding requirements are met by the bank. We are borrowing 70% of our capex requirements and funding 30% from our internal accruals. But as of today, we don't have any plans. If there is any need subject to board approval, we may raise funds.
- Raj Rishi:** Okay, thanks.
- Rishi Sanghvi:** So, Rayo, I think that's the hour. So, I would like to conclude by thanking everyone for participating in this Q1 FY '24 Analyst and Investor Call. It has been our pleasure to answer questions and we sincerely appreciate the faith and trust that our shareholders have put in us. This is Rishi Sanghvi, Managing Director of the Company and with me was Mr. Sham Kajale, Joint Managing Director and Chief Financial Officer. Thank you, everyone.
- Sham Kajale:** Thank you, everyone.
- Moderator:** Thank you very much. On behalf of Sanghvi Movers Limited, that concludes this conference. Thank you for joining us, you may now disconnect your lines.