

26th April 2024

Sanghvi Movers – BUY

CMP :Rs.1,377.0
Target Price :Rs.1,800.0
Upside : 30%+
Stop Loss :Rs.1,150.0 (Closing basis)

Investment Thesis

- Sanghvi Movers Ltd. (SML) is engaged in the business of providing hydraulic and crawler cranes to various industries in the infrastructure sector and has a fleet of medium to large-size cranes and crawler cranes with lifting capacity ranging from 20 tons to 800 tons.
- As the largest crane rental company in India and ranked 5th globally, SML showcases its significant presence in the heavy-duty crane rental market.
- SML provides comprehensive lifting solutions that include not just crane rental, but also end-to-end handling and transport solutions. This one-stop-shop approach offers clients convenience and cost-efficiency, distinguishing SML from competitors who may only offer segmented services.
- SML has over 40-45% of the market share in the overall domestic crane rental market, and around 60-65% market allocation in the high-end crane market of >400 MT.
- The Indian Government's target of achieving 500 GW of clean energy by 2030 with wind power contributing 140 GW, presents an opportunity for the heavy equipment and machinery industry to expand its business in the wind power sector which will help to boost the demand.
- EPC business is expected to contribute 10-15% of the total revenue in the next year with secured orders worth Rs.150 crore in the renewable energy sector, translating to 539 MW of capacity addition.
- The company demonstrates robust financial health with increased revenue, effective debt management, and strategic capital investments aimed at long-term growth.
- Some of the key customers of the company include Adani Renewables, JSW steel, BHEL, GRSE, Ambuja Cement, NovaAir, SPIC, Indian Oil Corporation and DilipBuildcon.

Financials

- SML has exhibited remarkable revenue growth over the past few years, with revenue increasing from Rs. 224 crore in FY21 to Rs. 456 crore in FY23. The revenue is projected to continue its upward trajectory to reach Rs. 882 crore in FY25E, indicating a robust demand for the company's services.

Consl. (Rs.Cr)	FY21	FY22	FY23	FY24E	FY25E
Revenue	224	335	456	735	882
EBITDA	87	138	257	470	618
EBITDA Margin (%)	38.8%	41.2%	56.4%	64.0%	70.1%
PAT	-22	29	112	187	262
EPS (Rs.)	-5.2	6.8	25.9	43.5	60.9
P/E (x)	-266.4	202.9	53.3	31.7	22.7
RoE (%)	31.6%	45.6%	54.2%	80.9%	88.3%

Stock Data

Market Cap (Rs. Cr)	5,962
Market Cap (\$ Bn)	713.9
Shares O/S (in Cr)	4.33
Avg. Volume (3 month)	2,85,000
52-Week Range (Rs.)	1,433 / 366

Shareholding Pattern

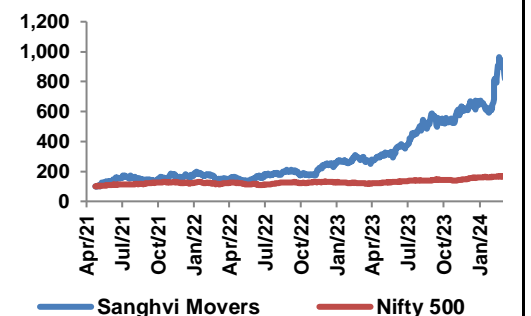
Promoters	47.25%
FII's	2.49%
Institutions	2.59%
Others (incl. body corporate)	47.67%

Key Ratios

Div Yield	0.28%
TTM PE	34.2x
ROE	12.4%
TTM EPS (Rs.)	40.2/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	9.6	81.6	245.4
NIFTY 500	3.6	6.6	38.3



- SML has consistently maintained healthy EBITDA margins, which has improved from 38.8% in FY21 to an impressive 56.4% in FY23. The projected EBITDA margins for FY24E and FY25E stand at 64.0% and 70.1%, respectively, suggesting operational efficiencies and cost control measures in place.
- The company's net profit (PAT) has also shown a significant turnaround, from a loss of Rs. 22 crore in FY21 to a profit of Rs. 112 crore in FY23, and is expected to reach Rs. 262 crore in FY25E.
- The company's EPS has improved substantially, from a negative Rs. 5.2 in FY21 to a positive Rs. 25.9 in FY23, and is projected to reach Rs.60.9 in FY25E. The P/E ratio, which stood at 202.9x in FY22, has also declined to 53.3x in FY23 and is expected to further decline to 22.7x in FY25E, indicating an attractive valuation with upside potential.

Key Business Highlights

- SML is the largest crane rental company in India and ranks fifth globally. This dominant market position provides a competitive advantage in securing large-scale projects across various industries.
- The company maintains a diverse fleet of over 400 cranes, including high-capacity cranes capable of handling up to 1,000 tonnes. This modern and versatile fleet meets a broad range of industrial needs, enhancing its market appeal.
- SML has long-standing relationships with major players across industries such as construction, energy, and infrastructure. These relationships help in securing repeat business and maintaining a stable revenue stream.
- SML is involved in numerous infrastructure projects critical to India's development, such as metros, highways, and renewable energy projects. This involvement not only ensures business growth but also aligns with national economic priorities.

Valuation

We are expecting strong future outlook of SML which will be driven by key developments such strategic initiatives, market strength, and growth trajectory into EPC segment and renewable wind energy projects.

The higher valuation multiples reflect SML's strong growth outlook across its business segments. Management has guided for 10-15% segmental growth in total revenue in the upcoming year, with secured orders worth Rs.150 crores in the renewable energy sector, expected to add 539 MW of capacity. The company is well positioned to capitalize on India's infrastructure and power sector capex cycle over the medium to long term with help of favourable government schemes.

The stock is currently trading at TTM P/E of 34.2x while its median PE is 22.6x, which seems reasonable given its growth prospects. We are valuing SML at 22.7x FY25E EPS of Rs.60.9 to arrived at a target price of Rs. 1,800, an upside of 30%.

Risk & Concern

- The crane rental industry is closely tied to the overall health of the economy, especially the construction and manufacturing sectors. Economic downturns can lead to reduced demand for rental services, impacting revenue.
- Changes in government regulations related to construction, environmental standards, and equipment usage can impose additional costs or limit the company's operational flexibility.
- Rapid technological advancements in the crane and lifting equipment sector could render part of Sanghvi's fleet obsolete, requiring heavy investments in upgrading or replacing equipment.

Graphs & Charts

Figure 1: Net Sales Trend

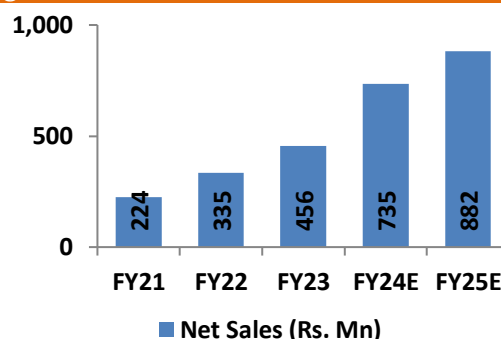


Figure 2: EBITDA & EBITDA Margin Trend

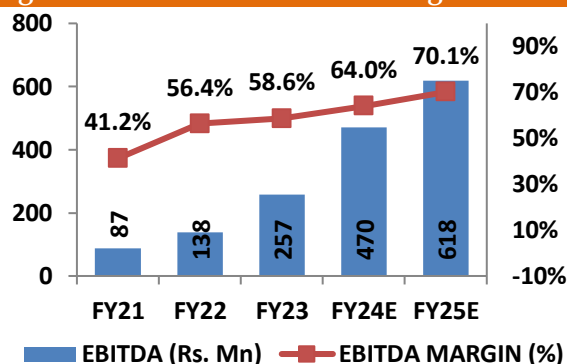


Figure 3: PAT Trend

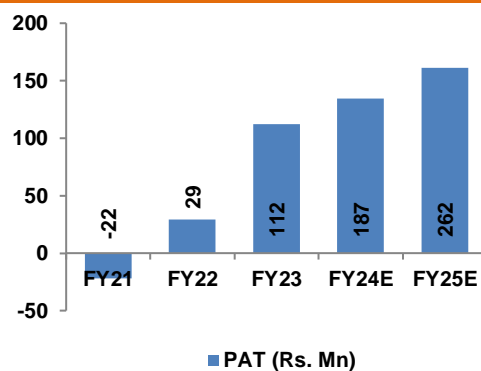
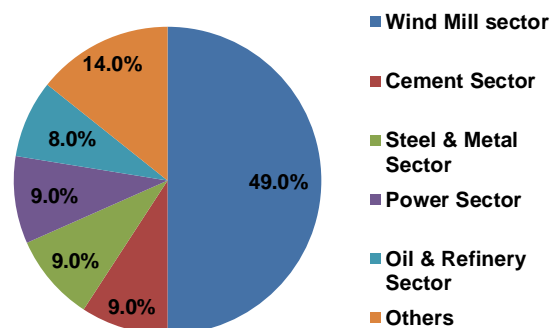


Figure 4: Segment-wise Revenue (FY23)



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