Sanghvi Movers Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**SML maintains a dominant position in the heavy lifting sector, achieving a 600 bps improvement in fleet utilization to 82% and a healthy blended yield of 1.97%.**	—
2	**Top-line growth of 36% YoY to □456 Cr reflects strong demand across wind and infrastructure sectors, supported by a □299 Cr order book.**	—
3	**Operating margins expanded to 56% as the business benefited from high operating leverage, with fixed costs remaining largely stagnant against rising volumes.**	—
4	**PAT surged 286% to □112 Cr, driving a dramatic ROCE recovery from 0% to 15%, signaling a peak operational cycle.**	—
5	***While the D/E ratio remains conservative at 0.22x with a 9.76x interest coverage, current maturities of long-term debt have doubled to 88.29 Cr, tightening near-term liquidity.***	—
6	**Cash generation is exceptional, with CFO at □257 Cr representing a 2.29x conversion of PAT, providing a significant margin of safety.**	—
7	**The company successfully self-funded an aggressive □232 Cr growth capex through internal accruals, with an additional □111.84 Cr in unexecuted capital commitments.**	—
8	**Earnings quality is high, characterized by clean related-party transactions, flat unbilled receivables, and profits heavily backed by depreciation and cash.**	—
9	**Governance standards are pristine, marked by a 10/10 scorecard, 0% promoter pledge, and the complete liquidation of □13.88 Cr in promoter loans.**	—
10	***Key concerns include a spike in receivables older than six months to 11.42 Cr and a 6.22 Cr FX loss, alongside execution risks from the new EPC services pivot.***	—
11	Strong visibility is maintained through energy transition tailwinds, though the suspension of Vietnam operations suggests a strategic retreat to high-demand domestic markets.	—
12	**Maintain ACCUMULATE stance; monitor blended yields (threshold 1.70%) and aging receivables (threshold □20 Cr) as primary indicators of cyclical reversal.**	—

1. Business overview (In Bullet Points)

- **Business Segments & Model:** Sanghvi Movers Ltd (SML) is India’s largest and the world’s sixth-largest crane rental company. It is transitioning from a pure-play equipment provider to an integrated "Engineering Solution Partner," offering EPC (Engineering, Procurement, and Construction) services.
- **Revenue Drivers:** Primary drivers include the Wind Energy sector, followed by Steel, Cement, Power, and Oil & Gas. Revenue is influenced by "Blended Yield" (1.97% in FY23) and fleet utilization rates (82% in FY23).
- **Cost Drivers:** Characterized by high operating leverage; key costs include maintenance, logistics (supported by an in-house fleet of 95+ trailers), employee costs, and significant non-cash depreciation.
- **Industry Position:** Dominant market leader with a "fungible" fleet of 400+ units (40 MT to 1,000 MT), allowing for rapid pivoting between sectors based on demand.

- **Expansion Plans:** Focused on "Capacity Building" through higher-tonnage cranes. The company has a ₹299 Cr order book as of May 2023 and unexecuted capital commitments of ₹111.84 Cr.
- **Acquisitions & Capacity Additions:** Invested ₹162 Cr in FY23 to add 12 new high-tonnage units to the fleet.
- **Segment Performance:** Massive jump in PAT (286% YoY) vs. Revenue (31% YoY) confirms powerful operating leverage.
- **Geographical Presence:** Almost entirely dependent on the Indian market. A strategic expansion into Vietnam via a Wholly Owned Subsidiary has been suspended until December 2023 due to high domestic demand and missed project windows.

2. Management commentary & outlook

- Management is pivoting from a defensive "debt-reduction" mode to an offensive "growth and diversification" strategy, capitalizing on the domestic capex cycle.
- The strategic shift toward "EPC Wind" and "EPC Projects" aims to capture a larger share of the project wallet and increase customer stickiness through turnkey solutions.
- The demand environment is described as "firing on all cylinders," with significant tailwinds in Wind (4GW target), Cement (80 MT addition), and Steel (13.7 MT addition).
- Short-term revenue assurance is supported by a robust ₹299 Cr order book.
- Implementation of "Project Samagra" (SAP S4 HANA) is underway to optimize scheduling, maintenance, and billing to reduce asset idle time.
- Management demonstrated financial discipline by reducing debt by ₹122 Cr and liquidating all unsecured loans from related parties.
- The increase in Authorised Share Capital from ₹10 Cr to ₹25 Cr signals preparation for a significant next leg of capital-intensive growth.
- The suspension of Vietnam operations reflects a pragmatic choice to prioritize 90%+ domestic utilization over international expansion risks.
- The shift into EPC introduces new execution risks, such as civil and electrical work, and a structural change in the risk profile as SML takes on project delay risks previously borne by clients.
- **Management Tone:** Strategically Aggressive & Operationally Disciplined. Management is clearly confident in the domestic infrastructure upcycle and is aggressively expanding capacity while maintaining a tight grip on costs and asset utilization. They are successfully transitioning the business model toward specialized services, though they remain mindful of opportunity costs, as seen in the Vietnam suspension.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	456	335
Sales Growth %	35.95	49.84
Expenses	199	197
Manufacturing Cost %	29.09	37.56
Employee Cost %	7.12	7.42
Other Cost %	7.43	13.89
Operating Profit	257	138
OPM %	56	41
Other Income	30	37
Exceptional items	18.77	5.62
Other income normal	11	31.37
Interest	17	17
Depreciation	121	118
Profit before tax	149	39
Tax %	25	26
Net Profit	112	29
Exceptional items AT	14	4
Profit excl Excep	98	25
Profit for PE	98	25
Profit for EPS	112	29
Profit Growth %	289	212
EPS (□)	12.94	3.39
Dividend Payout %	15	15

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	9	9
Reserves	833	725
Borrowings	183	167
Long term Borrowings	94	120
Short term Borrowings	89	47
Other Liabilities	96	64
Trade Payables	17	21
Advance from Customers	4	4
Other liability items	74	39
Total Liabilities	1,121	964
Fixed Assets	858	769
Land	21.33	21.33
Building	25.30	25.26
Plant Machinery	1,705.20	1,509.32
Equipments	2.53	2.18
Furniture n fittings	1.49	1.41
Vehicles	3.56	3.45
Intangible Assets	0	0
Other fixed assets	3.51	3.51
Gross Block	1,762.92	1,566.46
Accumulated Depreciation	904.42	797.19
CWIP	7	0
Investments	35	30
Other Assets	220	165
Inventories	4	5
Trade receivables	99	79
Receivables over 6m	22	24
Receivables under 6m	132	118
Prov for Doubtful	-55	-63
Cash Equivalents	21	10
Loans n Advances	5	5
Other asset items	90	66
Total Assets	1,121	964

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	257	130
Profit from operations	264	160
Receivables	-13	-30
Inventory	0	2
Payables	0	0
Loans Advances	0	-2
Other WC items	7	1
Working capital changes	-6	-30
Direct taxes	-1	0
Cash from Investing Activity	-237	-76
Fixed assets purchased	-232	-58
Fixed assets sold	27	8
Investments purchased	-184	-71
Investments sold	179	47
Interest received	1	0
Other investing items	-28	-2
Cash from Financing Activity	-15	-48
Proceeds from borrowings	150	85
Repayment of borrowings	-143	-117
Interest paid fin	-18	-16
Dividends paid	-4	0
Net Cash Flow	5	6
Free Cash Flow	52	80
CFO/OP	101	94

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	79	86
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	79	86
Working Capital Days	16	49
ROCE %	15	0

3.2 Financial analysis summary

- **Revenue** from operations grew by 35.95% to ₹456.00 Cr, driven by a recovery in infrastructure and wind energy sectors, which translated into a massive 289% jump in Net Profit to ₹112.00 Cr as the company benefited from high operating leverage where fixed Depreciation costs of ₹121.00 Cr remained relatively flat despite the volume surge.
- **Operating Profit** margins (OPM %) expanded significantly from 41.00% to 56.00% because Operating Expenses grew only 4.85% (₹131.54 Cr) against the 36% revenue jump, while Other Income normalized to ₹30.00 Cr following a reduction in the reversal of provisions for doubtful debts.
- **Employee Benefit Expenses** rose by 30.95% to ₹32.11 Cr, reflecting performance-linked pay and headcount expansion to support the higher business activity seen in the ₹456.00 Cr Sales, while Finance Costs remained stable at ₹17.00 Cr despite a shift in Total Debt composition toward supplier finance arrangements.
- **Trade Receivables** grew by 24.75% to ₹98.89 Cr, which is slower than Revenue growth, signaling high-quality earnings and efficient collections; however, undisputed receivables outstanding for >6 months increased to ₹7.07 Cr, which remains a key audit matter (KAM) due to the management judgment required in estimating Expected Credit Loss provisions of ₹13.35 Cr.
- **Working Capital** efficiency improved as Working Capital Days dropped from 49.00 to 16.00, with CFO of ₹257.00 Cr easily covering the ₹6.00 Cr Working Capital drag, largely because Trade Payables were supplemented by ₹68.95 Cr in "Import Letter of Credit" supplier financing which the company prudently reclassified from payables to Borrowings.
- **Fixed Assets** (Net Block) increased to ₹858.00 Cr following a significant Capex of ₹232.00 Cr for fleet expansion, primarily in Plant Machinery which reached a Gross Block of ₹1,705.20 Cr; this aggressive expansion is set to continue as Capital Commitments surged 110% to ₹111.84 Cr.
- **Total Debt** rose to ₹182.77 Cr, but the Debt/Equity ratio remained stable at 0.22 due to the ₹112.00 Cr accretion to Reserves; however, a liquidity risk is noted as Short term Borrowings and current maturities of long-term debt nearly doubled to ₹88.29 Cr, creating a high repayment obligation for the next fiscal year.
- **Cash Flow** quality is exceptionally high with a CFO/PAT ratio of 2.29x, as the non-cash Depreciation charge of ₹121.00 Cr provides a significant buffer, allowing the company to generate ₹52.00 Cr in Free Cash Flow even after the massive ₹232.00 Cr reinvestment in Fixed Assets.
- **ROCE %** staged a dramatic recovery to 15.00% from 0.00% in the prior year, while ROE % reached 13.30%, driven by the sharp expansion in PAT Margin to 24.56% and improved Asset Turnover as the existing crane fleet was utilized more intensively.
- The company demonstrated strong governance by completely repaying **₹13.88 Cr** in unsecured loans from related parties, shifting its capital structure toward formal institutional debt with Interest Rates ranging from 7.75% to 9.35%.
- **Other Assets** were impacted by a jump in long-term Fixed Deposits to ₹24.31 Cr, which are lien-marked against bank guarantees for equipment imports, confirming the company's transition into a high-growth, capital-intensive phase.
- **Other Liabilities** saw a spike in Capital Creditors (₹4.29 Cr) and Statutory Dues Payable (₹6.09 Cr), while Other Expenses were distorted by a prior-year ₹20.37 Cr bad debt write-off; excluding this, structural expenses like travel and professional fees increased due to higher business activity.
- Sanghvi Movers has transitioned into a high-growth phase characterized by a 36% **Revenue** surge and significant margin expansion to 56% OPM, utilizing its high operating leverage to convert infrastructure demand into a 2.29x CFO/PAT ratio, while simultaneously embarking on an aggressive ₹232 Cr Capex program funded by a mix of strong internal accruals and a restructured, institutional debt profile.

3.3 Contingent liabilities & commitments

- **Capital Commitments (Unexecuted):** ₹111.84 Cr (FY23) vs ₹53.14 Cr (FY22), signaling a 110% increase in planned expansion.
- **Indirect Taxes Paid Under Protest:** ₹8.65 Cr tied up in disputes, acting as a liquidity drag.
- **Pending Litigations:** Disclosed in the notes; however, the auditor expects no material foreseeable losses on long-term contracts.
- **Guarantees:** Long-term Fixed Deposits of ₹24.31 Cr are lien-marked against bank guarantees for equipment imports.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↑ — high depreciation non-cash charge of ₹121 Cr drives 2.29x CFO/PAT conversion.	—	Note 27: Depreciation is 26.5% of revenue, significantly boosting operating cash flow.
2	Receivables & channel-stuffing signal	Revenue ↑ — receivables grew 25% vs 36% sales growth, indicating healthy collection cycles.	—	Note 10: Net receivables growth lags revenue growth; inventory is negligible stores/spares.
3	Revenue timing (unbilled/advances)	Revenue ↑ — flat unbilled receivables despite 36% revenue jump suggests improved billing efficiency.	—	Note 10: Unbilled receivables remained stagnant, signaling faster conversion to billed invoices.
4	Revenue from related parties %	Neutral — minimal related party transactions ensure top-line integrity and low leakage risk.	—	Note 35: Transactions limited to KMP and loan liquidation; no major RPT revenue.
5	Inventory vs revenue growth	Profit ↑ — inventory consists of spares; 20% decline against rising revenue indicates efficiency.	—	Note 9: Inventory is entirely stores and spares, not finished goods, reducing obsolescence risk.
6	Inventory valuation method change	Profit ↓ — conservative provisioning for slow-moving stores exceeds net carrying value of inventory.	—	Note 9: Prudent valuation policy for old crane components prevents overstatement of current assets.
7	Exceptional items in operating profit	Profit ↑ — non-recurring exceptional gains of ₹18.77 Cr inflate reported PAT over core earnings.	—	P&L: Exceptional items account for ~12.5% of PBT, requiring adjustment for core valuation.
8	Depreciation rate vs useful life policy	Profit ↓ — double-shift depreciation policy for cranes prevents profit overstatement from asset wear.	—	Note 2(b)(iii): SLM used with double-shift adjustments, reflecting realistic economic usage of rental fleet.
9	Provision reversals boosting PAT	Profit ↑ — reduction in provision reversals (₹8.12 Cr) indicates earnings are becoming more structural.	—	Note 26: Other income normalized as massive "catch-up" recoveries from previous years subsided.
10	Tax rate consistency	Neutral — effective tax rate of 24.7% aligns with statutory corporate tax norms.	—	P&L: Tax rate is consistent YoY (25% vs 26%), indicating no aggressive tax maneuvering.
11	CWIP age and stalling projects	Neutral — fresh CWIP and high capital commitments signal active and aggressive fleet expansion.	—	Note 7: 110% jump in capital commitments confirms a massive upcoming capex cycle.
12	Deferred tax asset recognition	Neutral — standard tax treatment suggests no artificial profit boosting through aggressive DTA recognition.	—	Accounting Policy: Standard deferred tax treatment applied; no unusual DTA/DTL movements noted.
13	RPT quantum and trend	Neutral — complete repayment of related party loans signals a move toward institutional governance.	—	Note 18 & 19: Shift from promoter-funding to formal bank debt improves transparency.
14	Dividend paid vs FCF adequacy	Neutral — FCF of ₹52 Cr comfortably covers ₹4 Cr dividend, ensuring payout sustainability.	—	Cash Flow: Strong operating cash flows support both aggressive capex and modest dividend payouts.
15	Supplier Finance Reclassification	Neutral — Reclassifying supplier finance from payables to borrowings prevents understating leverage.	—	Note 19(iii): High-quality accounting practice ensures debt transparency.
16	Impairment Policy Thresholds		—	

#	Check	Impact	Status	Notes detail
		Profit ↑↓ — Relaxed credit risk threshold (>360 days) reflects industry norms but requires monitoring.		Note 2(b)(vii): Slower infrastructure payment cycles are baked into the impairment policy.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion: Unqualified Opinion**. The consolidated financial statements give a true and fair view in conformity with Ind AS.
- **Key Audit Matters (KAM):**
  - ***Expected Credit Loss (ECL) for Trade Receivables***: Identified as a KAM due to significant management judgment in estimating default rates and forward-looking factors. The auditor specifically verified recovery plans for receivables >180 days. Management maintained a provision of ₹13.35 Cr against gross receivables of ₹112.24 Cr.
- **Internal Financial Controls:** Clean opinion provided.
- **Other Matter:** Vietnam subsidiary financial information (Total Assets: ₹0.26 Cr) was unaudited but deemed immaterial.

B. Related party transactions

Party	Relationship	Nature	Amount (₹Cr)	Concern
Promoters/KMPs	**Promoter Group**	**Repayment of Loans**	**11.38 Cr**	**Positive**
Rishi C. Sanghvi	Managing Director	Remuneration	4.03 Cr	Neutral
Sham D. Kajale	JMD & CFO	Remuneration	2.71 Cr	Neutral

- **Concern:** The company has completely liquidated unsecured loans from related parties (₹13.88 Cr in FY22). This is a high-quality governance signal.
- **RPT Risk Checks:** % of Revenue: 1.48%; % of CFO: 2.63%. Trend is decreasing.
- **RPT Verdict:** **Clean ** — Elimination of promoter debt reduces tunneling risk.

C. Shareholding

Line item	Mar 2023	Mar 2022
Promoters	**47.25%**	**47.25%**
FIIs	2.05%	1.81%
DIIs	2.01%	1.15%
Public	48.69%	49.79%

- **Pledged Shares:** 0% pledge.

D. Board composition + KMP compensation

- **Total Directors:** 9 | **Independent %:** 66.67% | **Women Directors:** 2.
- **KMP Compensation:**
  - **Rishi C. Sanghvi (MD):** ₹4.03 Cr (15.14% YoY growth).

- **Sham D. Kajale (JMD & CFO):** □2.71 Cr (13.39% YoY growth).

- **Analysis:** Aggregate KMP compensation grew ~14.5%, significantly lagging the **86.23% growth in Operating Profit**, showing high discipline. Rishi C. Sanghvi and Maithili R. Sanghvi are from the same family. MD commission is capped at 1.5% of Net Profit.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Capex	**232.00 Cr**	**58.00 Cr**	**90.27%**	—
Dividends	**4.00 Cr**	**0.00 Cr**	**1.56%**	—
Net Debt Change	**16.00 Cr**	**-32.00 Cr**	**6.23%**	—
Working Capital Investment	**6.00 Cr**	**30.00 Cr**	**2.33%**	—

Capex analytical notes: * **Nature of Capex:** Primarily **Growth Capex**, adding 12 new cranes. * **Deployment Efficiency:** Revenue grew 35.95% on a 12.4% increase in Gross Block, signaling high asset turn. * **Key Takeaway: The unexecuted capital commitment of 111.84 Cr suggests the expansion phase will continue into FY24, likely targeting the wind energy and refinery sectors.** CFO (257 Cr) covers Capex (232 Cr) at 1.11x, indicating self-funded expansion.

H. Risks

- ***Economic Slowdown***: High dependency on Infra/Wind. 1% drop in utilization impacts margins by ~2%. (High)
- ***Receivable ECL***: Slow-paying infra clients; □13.35 Cr provisioned. (Medium)
- **Foreign Exchange**: Import of cranes via LC; □6.22 Cr loss in FY23. (**Medium**)
- **Interest Rate**: Floating rate loans; 1% hike = ~□1.8 Cr impact on PBT. (**Low**)
- **Operational Safety**: Heavy lifting accidents could lead to significant financial/reputational loss. (**High**)

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	↑	82% utilization; 1.97% yield; dominant market share.	Strong moat in heavy lifting with high operating leverage and sector diversification.
Financial health	5	↑	D/E 0.22x; Interest Coverage 9.76x; CFO > PAT.	Exceptional cash generation and low leverage despite aggressive capex.
Earnings quality	5	→	CFO/PAT 2.29x; Unbilled receivables flat; Clean RPT.	High-quality earnings backed by massive depreciation and efficient collections.
Management & governance	5	↑	Zero RPT loans; 67% Independent Board; 0% Pledge.	Exemplary shift toward institutional governance and disciplined executive pay.
Capital allocation & earnings visibility	4	↑	□232 Cr Capex; □299 Cr Order Book; ROCE 15%.	Disciplined, self-funded growth with strong visibility in wind and infra sectors.

Business positives (for this company this year) * **Explosive Profitability:** PAT grew 286% YoY to □112 Cr, driven by powerful operating leverage. * **Cash Flow Strength:** Generated CFO of □257 Cr, representing a 2.29x conversion of PAT. * **Deleveraging & Governance:** Completely liquidated □13.88 Cr in promoter loans, moving to institutional debt. * **Asset Utilization:** Fleet utilization improved 600 bps to 82%, while blended yield remained healthy at 1.97%. * **Self-Funded Growth:** CFO of □257 Cr fully covered the massive □232 Cr growth capex. * **Order Visibility:** Secured an order book of □299 Cr as of May 2023, providing strong short-term revenue assurance.

Business negatives / concerns (for this company this year) * **Liquidity Pressure:** Current maturities of long-term debt doubled to □88.29 Cr, creating high near-term repayment obligations. * **Aging Receivables:** Undisputed receivables > 6 months increased to □11.42 Cr, signaling a slight slowing in older collections. * **FX Risk:** Net Foreign Exchange Fluctuation loss spiked to □6.22 Cr due to equipment import arrangements. * **Execution Risk:** Transition to EPC services introduces new operational risks (civil/electrical) outside core lifting competency. * **International Delay:** Suspension of Vietnam operations indicates a potential lag in international execution agility.

Overall scorecard summary Sanghvi Movers is in a prime "sweet spot" of the Indian infrastructure and wind energy cycle, evidenced by its 15% ROCE recovery and 56% OPM. The company's financial health is robust, with a low 0.22x D/E ratio and exceptional earnings quality (CFO/PAT 2.29x). Governance has significantly improved through the elimination of promoter debt and transparent accounting for supplier finance. The business is on a clear improving trajectory, successfully using its dominant market position to self-fund an aggressive expansion phase.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 10/10 — Governance Rating: 5

Part c: investor verdict

Thesis: SML is a high-operating-leverage play on India's energy transition and infra capex, currently converting peak utilization into massive free cash flow. **Overall stance:** ACCUMULATE **Rationale:** Dominant market share and 2.29x CFO/PAT conversion provide a high margin of safety during this aggressive expansion phase. **Re-evaluate when:** Blended yield falls below 1.70% or fleet utilization drops below 70%. **BULL CASE:** Wind sector installations exceed 5GW in FY24, driving yields above 2.10% and ROCE toward 20%. **BEAR CASE:** A sharp slowdown in infra spending leads to "idle time" for the new high-tonnage fleet, compressing OPM below 40%. **Key monitorable:** Receivables > 6 months: Current □11.42 Cr → Watch threshold □20 Cr.