

19 July, 2010

**Moderator:**

Good afternoon ladies and gentlemen. I am Gopal, the moderator for this conference. Welcome to the conference call on the domestic Crane Rental Industry hosted by Emkay Global Financial Services Limited. We have with us today an Industry Expert on the Indian Crane Rental Industry. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press \* and 1 on your telephone key pad. Please note this conference is being recorded. I now would like to hand over the conference to Mr. Pritesh Chheda of Emkay Global for opening comments. Please go ahead, sir.

**Pritesh Chheda:**

Thank you Gopal. On behalf of Emkay Global, I welcome you all to the conference call on the Indian Crane Rental Industry. We have with us an Industry Expert. He will give a brief on the Indian Crane Rental Industry at this stage followed by his outlook on the industry. Over to you sir.

**Industry Expert:**

Thank you Pritesh. Good afternoon gentlemen. I would like to share my views about the mobile crane rental business in India. I would like to discuss the industry structure - Cranes can be broadly classified into Tyre Mounted Hydraulic Cranes and Crawler Mounted Cranes. These cranes are used in all infrastructure projects like refinery and gas, windmills, cement and steel, road and bridges and currently the most attractive power sector. These cranes are not sector specific. So, these cranes can be used in any sector depending on the demand. Currently, there are very few listed companies; one of them is Sanghvi Movers. ABG and All Cargo have a division of crane rental which are listed. In the unorganized sector, the strength of the unorganized sector in respect to number of cranes and capacity of cranes is equivalent to these listed companies. So, you can rate 50 : 50 for the organized as well as these unorganized sectors.

How does this industry function? The purchase power of these cranes would mainly depend on the age of the machine, the make, the model. The European cranes, American cranes are much more expensive than the Chinese counterparts. These cranes have to be transported from our warehouses to the client site. The tyre mounted cranes would travel on their own power, while crawler cranes have to be transported, dismantled and then loaded on trailers and transported to client site. Transporting these cranes across various State borders is the biggest challenge right now currently what we are facing. Various States are imposing various types of taxes on this transit. For USP of selling, I would rate our prior experience with our clients is our major USP. This is a highly service oriented industry. The condition of our crane, past experience, our track record about maintenance of these cranes is the biggest USP for selling. The rental and the pricing of these cranes mainly depend upon the demand and the supply. The rental would depend upon the term of the contracts, the availability of that crane at that given point of time. Traditionally, rentals of these cranes are much lower during monsoon, since there will not be major projects which would come up and existing projects would also be on a slower track. Rentals will start picking up in September-October quarter and would be at peak by January. Again, depending upon the client and the term of the contracts, clients might stream us the transportation transit charges or might not. Also these transportation charges is a big cost, if not reimbursed would have a big impact on the yield of the machine.

Chinese cranes are now flooding the markets, which is having a hard hitting on the rental prices of the existing cranes. Chinese cranes currently do not have much track record. So, speaking on the yield, even though they might be cheaper than the German cranes, but we do not have track record. These German cranes, even though they are 20-30 years old, they still give a better performance than the Chinese counterpart. Brand new German cranes are about 40 to 50% more expensive than the Chinese ones. Speaking on yield per month on the rentals, Chinese cranes would definitely give a better yield. But again, looking at the longer term, we do not know how these Chinese cranes would perform after say 10 to 15 years. In today's scenario of crane capacity, about below 150 tons have a good occupancy level.

Occupancy levels for larger cranes, say about 200 tons, if they utilize 80% during the year, would be considered good. I would like to make a few comparisons about the rentals of these machines. I would classify cranes as smaller cranes, mid size cranes and larger cranes. Smaller cranes size would be between 0 to 100 tons, mid size cranes would be 100 to 400 tons and larger cranes would be 400 plus. Base of 100, if the rental of a smaller crane was Rs.100 in 2007, it would be Rs.85 in 2009 and currently 2010, it is Rs.75. For a mid size crane, for a base of 100 in 2007, it would be 90 in 2009 and 90 in 2010. For a larger crane, in 2007 if it was 100, it was 90 in 2009 and about 75 in 2010. On the utilization front, in 2007 for smaller cranes were 100% utilized, in 2009 there was a utilization of 90%, and in 2010 about 80%. For mid size cranes, 2007 - 90%, 2009 -

75% and 2010 - 90% again. Again for the larger cranes, the utilization in 2007 was 75%, 2009 was bad, it was about only 50%, 2010 currently there are about 85% utilization level. Comparing the purchase sizes, in 2007 if smaller crane was purchased at Rs.100, in 2009 the cost price has gone up to Rs.150. Currently, they would be available at Rs.225. For a mid size crane, 2007 if it was priced at Rs.100, 2009 would be Rs.160 and 2010 they are Rs.300. For larger cranes, Rs.100 cranes in 2007, was costing Rs.175 in 2009 and currently it would be Rs.350.

Mainly increase in this price factor is one reason. In 2007 industry was accepting second hand cranes which were more than 10 to 15 years old. But in the current trend, existing players would like prefer buying much newer cranes, say about 2003 year of manufacture as the purchase prices increased a lot. The emerging trend in the market, few clients have already started demanding for newer cranes, having a cutoff of year of manufacturing of 2005, but would pay only about 10% higher than any other rental prices for any other cranes. On selection of cranes, clients prefer to rent cranes which are located near by to their location, hence reducing the transit time and the transit cost. Existing companies, crane rental companies can sustain these lower yields. About the yield, I would define the yield per month as the rental price upon the cost price. If we buy a brand new crane today, brand new crane, a German crane would give a yield of about 1.2. Chinese crane would give a yield of about 1.5. But, from a company's point of view on a gross block, a composite yield of 2.5 can be sustainable because of the older cranes.

Small size crane category has become highly competitive, but they still have to be included in the fleet size to keep a range of cranes. In large size cranes there is still a small gap in this category. For a very new company, if it has to purchase all the cranes today and give it on rent, it would be difficult to sustain because of this lower yield. Rental price is very difficult to increase. Today's price, I feel are much stable, may not increase from here on, because of increase in number of cranes and new cranes entering the market. Looking at power sector and looking at Government's commitment on power sector, existing players are having a huge CAPEX keeping in power sector in mind. Looking forward I feel the power sector, refinery and infrastructure are expected to pick up. Not very sure about steel and cement.

My few concerns in this industry, one is the transit from one State to another. Second concern, existing clients themselves are now purchasing cranes on their own. Another, international players have already started making footprints in India. We have about 3 to 4 players who are already in and a few expected in the pipeline. Companies like Reliance who already have their cranes and for their expansion of refinery projects have started entering the rental market. They have started giving their cranes on rentals today, because of pair capacity with them. There are about thirty of their Reliance cranes are already been supplied to other clients. Within their group company about 75 more cranes are already there, they have already given 75 cranes to their group companies which were our potential customers. Another concern is, if the Government do not implement the project what it has committed, then there would be a huge gap between demand and supply, there will be huge supply because of the current CAPEX and less demand. Debtor numbers are always rising. Cash flow is a bit concern.

To conclude, I would say the rentals and yields look flat, they will not increase. Though the crane demand is strong and hence we expect a volume growth. For a new crane, crane availability waiting time is about medium, say 3 to 4 months. For Chinese cranes, it can be procured in two months. Stiff competition, high competition. And another to conclude, clients like Reliance entering the market and clients buying their own crane, hence the rental market, rentals might not pick up. Thank you, gentlemen. I would like to conclude my speech here and I should be open to question and answers.

**Pritesh Chheda:**

Thank you Sir. I think we can start the Q&A session Gopal.

**Moderator:**

Certainly sir.

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**Question and Answer Session**

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**Moderator:**

Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone key pad and wait for your turn to ask the question. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing # key.

The first question comes from, Mr. Shalabh Agarwal from Sundaram Mutual Fund.

**Shalabh Agarwal:**

Hello, good afternoon sir.

**Industry Expert:**

Good afternoon.

**Shalabh Agarwal:**

First of all thank you for taking time out and enlightening us on the crane hiring industry. The first question is sir on the, you gave certain indexes on the hiring cost as well as on the purchase price, there seems to be a complete mismatch in terms of the purchase price which has gone to 200-300% over the last two years, whereas the rentals have only declined by 10 to 20 odd percent across the various categories. So, does that mean that the yield has more than halved over the last 2-3 years?

**Industry Expert:**

Right, in 2007, few companies were expecting a yield of about 4% per month. But, today composite yield of 2.5 is sustainable. So, yield has decreased, has had a great impact.

**Shalabh Agarwal:**

Okay, okay. And this has happened across the three categories?

**Industry Expert:**

Across the three categories.

**Shalabh Agarwal:**

Okay, okay. Sir, is it like in this market the purchase price of the crane is not really dependent upon the rentals of the crane which would in effect depend upon the demand and supply?

**Industry Expert:**

This would only depend upon demand and supply and the availability of crane at that given point of time.

**Shalabh Agarwal:**

Right. But, if my demand is higher which in effect would mean steady kind of rentals and that would also, should also percolate into higher purchase price because more people would be willing to enter into the industry, whereas the situation where we have given, the purchase prices have risen, but the rentals have come down.

**Industry Expert:**

Right. Sorry, I did not get your question then.

**Shalabh Agarwal:**

No, I am saying sir, from 2008 to 2009 when the demand was lower, we saw rentals coming down. But, still the purchase price went up.

**Industry Expert:**

Right, the purchase price did go up, because people in India were still, there was a huge gap between what I told you before, in 2007 we were still open to buying older cranes, say about twenty years old, fifteen years old. 2009, we started realizing that newer cranes would be much more needed looking forward. And say 2010, right now, existing players are only looking to buy 2005 plus models. Hence, there is a huge gap between this purchase price.

**Shalabh Agarwal:**

Right, right. But, are these customers willing to pay a higher price for new cranes?

**Industry Expert:**

No, they are not. About 10%, this is the maximum what we can expect.

**Shalabh Agarwal:**

Okay, okay. Sir, for each of the categories space, small, medium and large, especially medium and large, what kind of rental yields would be sustainable for the businesses going forward?

**Industry Expert:**

Composite yield for a company would be about 2.5%. Company who is already having a fleet base with older cranes also can expect a yield of 2.5% per month.

**Shalabh Agarwal:**

And what is the typical yield on the older cranes?

**Industry Expert:**

Older cranes can give you an yield about 3%, 3 to 3½%.

**Shalabh Agarwal:**

Okay, great sir. Thank you for taking my questions. In case if I have anything else, I'll come back to you. Thank you.

**Industry Expert:**

Thank you.

**Moderator:**

Ladies and gentlemen, to ask a question please press \* and 1 on your telephone key pad.

Next question comes from Mr. Ashi Anand from Kotak India Focus.

**Ashi Anand:**

Yeah Sir, thank you so much for first of all being on this call, we appreciate industry experts actually coming and talking to people from the financial markets.

**Industry Expert:**

Right Ashi.

**Ashi Anand:**

The first question is you kind of mentioned new cranes entering the market, you mentioned certain international players have also started coming into India.

**Industry Expert:**

Right.

**Ashi Anand:**

Just wanted to kind of understand in terms of if I am looking at the new players and say 2007 to about 2010 right now and if we exclude Reliance from this analysis, what is the kind of fleet or how large is the fleet that the new players have in? How ambitious are their plans? I am trying to understand are they still a small part of the market or are they growing very significantly?

**Industry Expert:**

The more is growing, rather than new domestic players not many have entered, the existing players have been growing. Yes, international players have been entering the market right now.

**Ashi Anand:**

We had understood in terms of international players entering the market, they basically between, they are single digit numbers in terms of certain very large cranes have come into the Indian market from international players.

**Industry Expert:**

Correct.

**Ashi Anand:**

But, there seems to be more sectional base 2 or 3 large cranes as compared to serious entry into the market. Do you see that changing or do you see them?

**Industry Expert:**

No, no, I feel what now, right now they have done, they have just, they are getting the feel of the Indian market with these bigger cranes which have come in. Once they get the feel of this Indian market, I am sure they will come in with bigger numbers, with more cranes.

**Ashi Anand:**

Okay sir. So, basically this is the initial part, between a year or two, between 1 to 2 years you could see them actually coming in.

**Industry Expert:**

I expect them to come in with more cranes in India.

**Ashi Anand:**

And are these primarily the kind of Asian cranes, these companies you are speaking of or they also other western operators who are likely to enter?

**Industry Expert:**

Western operators are also likely to enter.

**Ashi Anand:**

Okay sir. So, basically in a couple of years international competition should become significant.

**Industry Expert:**

Yeah, I expect with 1-1½ years.

**Ashi Anand:**

Sir, secondly you had mentioned Reliance and you kind of said 70 cranes which have been given to other group companies about 30 cranes which have been supplied to external clients. Then total of about 100 cranes. Would you have a sense on the breakup between small, middle, large?

**Industry Expert:**

These 100 cranes would comprise from a capacity of 100 tons to say 1000 tons. Fairly would not have a great breakup of this number.

**Ashi Anand:**

Okay. But sir just want to kind of understand, are they significant amount in the 400 ton plus category or are they more competing in the smaller kind of cranes?

**Industry Expert:**

No, 400 plus category.

**Ashi Anand:**

So, they are a decent amount in the 400 plus category.

**Industry Expert:**

Yes.

**Ashi Anand:**

And from what I understood that they initially had certain providence because when they had got the cranes in, they had actually got it in for SEZ project. And therefore, they didn't have to pay duties and something and therefore there were some issues with them taking the crane out of that SEZ project. Are those now been resolved?

**Industry Expert:**

I am not aware of this issue being resolved or not. But, currently these cranes are already in market.

**Ashi Anand:**

Already in the market. And do you see this increasing as in, is this 100 likely to go to 200 or this is what they were using for the Jamnagar market and they are now free. So, there were 100 cranes in the market and are likely to expand from here or do you see Reliance actually expanding in this space?

**Industry Expert:**

No, it all depends on how Reliance themselves would expand. If Reliance has their third phase coming in, then all these cranes would go for their own use. If their nuclear power is coming in, since the power is now open to the Reliance industries also, so all these cranes would go back to their own use, so they might not again come up within the rental market. They would first profile their own requirement. But, if there is no expansion of Reliance and if they had a good feel in the market with these 30 odd plus cranes rented to other companies, they might increase their numbers.

**Ashi Anand:**

Okay. And just in terms of the existing players in the market, just wanted to know, do you have any sense on how aggressive are the capacity expansion plans across players? Because one of the things, say for example oil cargo has its own CFS businesses which they are trying to expand. ABG has got a crane, they have got their port operations which require capital, are they actually deploying further capital into the crane rental business or yours is a market that are expanding? What is the sense on (not sure) expansion of the existing players?

**Industry Expert:**

Existing players, I am expecting a 10% growth for each and every company from today, including the unorganized sector. I see the unorganized sector much more aggressive rather than the organized sector baring Sanghvi Movers.

**Ashi Anand:**

Okay. Sir and then speaking of unorganized sector, how do you define the unorganized sector? Say, take for example a company like yours, would you classify yourselves as organized or unorganized? Or is the organized, unorganized definition based on whether the company is a listed company?

**Industry Expert:**

Listed. Listed or not listed.

**Ashi Anand:**

Okay, listed or not listed, that is the kind of.

**Industry Expert:**

Right, right. I've just classified between listed companies and non listed companies.

**Ashi Anand:**

Okay. Just to understand in terms of the non listed companies, who are the larger players on the non listed space?

**Industry Expert:**

There would be quite a few to name.

**Ashi Anand:**

Okay, there are quite a few kind of.

**Industry Expert:**

Yes.

**Ashi Anand:**

But, are they large companies or are they?

**Industry Expert:**

They would be more than 15 companies who have a fleet size of about 80 to 100 cranes.

**Ashi Anand:**

Okay. And just in terms of you've kind of spoken about realizations and realization currency which are down. We appreciate the explanation given in terms of the requirements for newer cranes and customers not willing to pay for them and those kind of reasons pushing, putting pressure on realization. The only point I wanted to ask is, as I am just looking ahead, supposedly if there are any significant investments coming up in the power sector. So 2007 for example, the demand supply balance is very, very favorable for the crane industry. Do you see a potential for this going forward happening, based on the kind of power sector investments? And could realizations therefore kind of pick up and say that 3-3½% levels for demand, supply?

**Industry Expert:**

No, speaking of yields, then I don't feel they will go up to 3½ levels. Yes, there would be volume growth within all the companies.

**Ashi Anand:**

Okay, but you are saying yields are likely to go up further?

**Industry Expert:**

No, they are not likely to go up further, because rental rate will not, I do not see it go up further because with all new companies coming in.

**Ashi Anand:**

Okay, so that will accordingly take care of the demand?

**Industry Expert:**

Yes.

**Ashi Anand:**

And sir just the last question from my part, post the certain kind of incidents been taken by the renewable energy department, putting generation base centers and portfolio mandates etc. are we seeing the windmill sector pick up as of right now or is it still kind of relatively subdued?

**Industry Expert:**

Windmill sector, not very sure how much that will pick up. It would all depend upon how serious the Government is implementing on these policies.

**Ashi Anand:**

Sure, this is fairly early season. Okay, so there is no great clarity on that segment right now.

**Industry Expert:**

No, not great clarity on the windmill segment.

**Ashi Anand:**

Great sir. Thank you so much. Appreciate your time in answering our questions.

**Industry Expert:**

Thank you.

**Moderator:**

Next question comes from Mr. Samir Rachh from Reliance Mutual Fund.

**Samir Rachh:**

Hello good afternoon sir.

**Industry Expert:**

Good afternoon.

**Samir Rachh:**

Sir, you mentioned that this yields on new cranes have come down, so can we assume that the yields on the new cranes would be in the range of say 1.5% kind of per month?

**Industry Expert:**

Yeah, you can assume that. Again, new cranes I would like to classify it as German cranes and Chinese cranes. If you go for German cranes, say German or Japanese cranes, the yield would be a little less than 1.5 also.

**Samir Rachh:**

Okay, but on Chinese cranes you can make around 1.5%?

**Industry Expert:**

Yes, yes.

**Samir Rachh:**

So, basically on an annualized basis, you can get yield of around 18% that would mean.

**Industry Expert:**

Right.

**Samir Rachh:**

What would be the operating expenses per annum of this crane? Suppose if I invest 100 crores kind of, on which you make a gross yield of 18 crores and what would be the annual operating expenses of this crane?

**Industry Expert:**

EBITDA should be around 75%.

**Samir Rachh:**

But sir EBITDA used to be 75% when yields were as high as 3%-4%. But, if yields have come down to as low as 1.5%, so has the expenditure also come down by that proportion?

**Industry Expert:**

Expenditure will not have any relation with rentals, so the cost which are there, the interest costs are the cost which are there, the running operating cost.

**Samir Rachh:**

No, apart from interest cost I am asking.

**Industry Expert:**

Yeah right, sorry. The operating cost would be there.

**Samir Rachh:**

So, how much? Say if somebody would be having cranes worth 100 crores, what will be the annual operating expenses would be like?

**Industry Expert:**

Annual operating expense would be around 20%.

**Samir Rachh:**

20% of yield or 20% of investments? I think it will be 20% of...

**Industry Expert:**

Rentals.

**Samir Rachh:**

Yeah, rentals only. Okay and this crane you would be depreciating on what period?

**Industry Expert:**

In books?

**Samir Rachh:**

Yeah.

**Industry Expert:**

Should be depreciation rate is about 15%.

**Samir Rachh:**

Okay. And actual life of the crane would be like?

**Industry Expert:**

German established cranes; life is more than 30 years. It all depends on how well these cranes are maintained, but minimum of 13 years. Chinese cranes still do not have any track record, so would not like to comment on that Chinese front.

**Samir Rachh:**

Okay. Basically you said what it means like if you invest 100 crores, you can make a yield of 18 crores on which you could incur expenditure of say around 4 crores. So, that will leave 14 crores kind of number, which even if you pay interest of 10%, that number would come something like 7 crores per annum. And then if you pay depreciation and tax, so actually ROE in this business seems to have gone down significantly to say around 10-11%. Is it correct?

**Industry Expert:**

Correct. Very true.

**Samir Rachh:**

Okay sir. That's all from my side. Thanks.

**Industry Expert:**

Thank you.

**Moderator:**

Next question comes from Ms. Aparna Shanker from SBI Mutual Fund.

**Aparna Shanker:**

Good afternoon sir.

**Industry Expert:**

Good afternoon.

**Aparna Shanker:**

I just want to understand the demand, of the total market size what could be the demand from the cranes which are owned by the client and the rental?

**Industry Expert:**

Sorry Aparna. I did not get your question.

**Aparna Shanker:**

I would like to know how many clients as a percentage of the total market would be owning the cranes and those who are going ahead for the rentals.

**Industry Expert:**

As compared to 2009, I expect 10% of the clients have already started purchasing cranes on their own.

**Aparna Shanker:**

No, the market mix would be, some percentage would be going for rentals, some would be buying on their own, so what is that mix?

**Industry Expert:**

Sorry Aparna, I would not have the numbers.

**Aparna Shanker:**

Okay, no issue. No issues. Thank you. But, you have seen that going forward, the trend is that people are buying the cranes rather than going for rentals, is it?

**Industry Expert:**

Yeah, the trend, bigger clients like BHEL would definitely buy cranes on their own.

**Aparna Shanker:**

Okay, thanks a lot sir.

**Industry Expert:**

Thank you.

**Moderator:**

Next question comes from Mr. Zubin Tampal from IDFC.

**Zubin Tampal:**

Hi sir. Question on the games, the Commonwealth games work is coming to an end, end of this year. You think a lot of capacity from there will come in?

**Industry Expert:**

Yes. Even that will be a free flow; there will be a lot more supply after the Commonwealth games.

**Zubin Tampal:**

Last time after the Reliance refinery, it took quite a bit of time for the system to work the excesses out. What do you think the scenario will be this time?

**Industry Expert:**

Not as bad as what happened after with Reliance, because I think after Reliance there were not many projects coming up. But, looking forward after this Commonwealth we still expect many more projects coming up. So, it should not be as bad as Reliance, post Reliance.

**Zubin Tampal:**

Thanks.

**Moderator:**

Any more questions Mr. Zubin?

**Zubin Tampal:**

No none, thanks.

**Moderator:**

Ladies and gentlemen, to ask a question please press \* and 1 on your telephone key pad.

Next is a follow up question by Mr. Shalabh Agarwal from Sundaram Mutual Fund.

**Shalabh Agarwal:**

Hello.

**Industry Expert:**

Yes, Mr. Shalabh.

**Shalabh Agarwal:**

Sir just wanted to check, you mentioned that industry is also facing problems in terms of debtors and cash flow. So, is it because the clientele or the clients that the industry services, they have had a problem because of these slowdown or the recession or is this like a characteristic of the industry wherein payments are really delayed and cash?

**Industry Expert:**

First one is more relevant in this, because the clients themselves are having few problems because of the slowdown. Minimum payment would be about 90 days.

**Shalabh Agarwal:**

Okay, okay. So, this was probably not the situation two years back or three years back when there was a significant amount of number of projects?

**Industry Expert:**

Right, so I would again relate this to demand and supply. If there is more demand, so the rental companies could demand their terms for cash flow. But now it is the other way round, where there is more supply today.

**Shalabh Agarwal:**

Right. And sir, over a period of time last 2-3 years have we seen any change in terms of the contracts in terms of whether it is a three year contract or a one year contract. Has there been any change in that?

**Industry Expert:**

One major change has been the mobilization cost, the transport cost. If a client gives a company a one year contract, what it would then press is for a low charging of this transportation cost. So, it has to be borne by the rental company.

**Shalabh Agarwal:**

Okay. So, typically in shorter contracts 3-4 months it will be borne by?

**Industry Expert:**

By the client.

**Shalabh Agarwal:**

In longer contracts it will be typically borne by the rentals.

**Industry Expert:**

By the rental companies.

**Shalabh Agarwal:**

And in terms of the yields, typically longer contracts and shorter contracts, what is the difference currently?

**Industry Expert:**

Shorter contracts would have much more yield.

**Shalabh Agarwal:**

Yeah, so what will be the typical difference sir? If we are saying today on an average, it's around 2.5% or say a new crane on a shorter yield or on a shorter duration or a longer duration contract, what will be the yield difference typically?

**Industry Expert:**

If the contract is as short as one month, the yield can jump up to, for a new crane what I am saying 1.5, this 1.5 can jump up to 3% also, if the contact is about one month.

**Shalabh Agarwal:**

Okay, okay. So, again that is more like a spot market and opportunistic catering to the demand.

**Industry Expert:**

Correct. But, what we would also have to consider for this one month contract, then over the time what is taken to mobilize this crane from one site to another. So, in this there will be no rentals, so there is zero yield. So, again if you take the whole year, so again it comes up to be the same number.

**Shalabh Agarwal:**

Okay great sir. Thank you for taking our questions sir. Thank you.

**Industry Expert:**

Thank you.

**Moderator:**

Ladies and gentlemen, to ask a question please press \* and 1 on your telephone key pad.

Next question comes from Mr. Kenin Jain from Voyager Investments.

**Kenin Jain:**

Good afternoon sir.

**Industry Expert:**

Good afternoon.

**Kenin Jain:**

Sir, you were mentioning that the ROE profile for a new income and who buys the cranes from the market today is very poor. So, does it mean that going forward we will see a very few players coming into this business? And is it also true that the existing players who is having an assets which are well depreciated, they 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?

**Industry Expert:**

Right and very true.

**Kenin Jain:**

So, given the scenario where you are foreseeing a very good volume growth and the fact that the crane prices have increased and as you were mentioning in past also that the qualification of your past experience of working with the clients count. Is it right to presume that the existing players who have a very diversified client base and a good track record would be able to demonstrate a far better volume growth than the market? See, because the new ROE for a new guy would not be compelling for him even to think to enter into this business, am I right?

**Industry Expert:**

You are right. That is what I said; it would be very difficult for new players to sustain the lower yield.

**Kenin Jain:**

Right, right. Also, let me ask you like what kind of volume growth you are seeing structurally say over the next 2 to 4 years? See, because as I understand over the last two years, lots of sub segments got dried up, which are seeing a new light. For example, if you see on the wind side, which dried up in India, since last eighteen months is coming back. Apart from Suzlon, there are 6 to 7 other players who are offering the same kind of services. Even the power side is back with a big foray; power side private players have come in. Even the cement and refineries and petroleum projects are catching up. So, if you could just give us the understanding of what kind of a volume and what kind of a size of opportunity you are seeing over next say 2 to 3 years?

**Industry Expert:**

For next one year, I am not expecting great growth, because of ground realities, not any projects getting commissioned in say for one year. Next 2 to 4 years I expect a growth of minimum of 10%, taking refinery, power into consideration. That would be the main focus.

**Kenin Jain:**

Right, one simple question. If today you buy a crane, a single crane for yourself, in a normal business sense if a traditional proprietor guy takes, what is your payback period for you - broadly, if you spent 10 crores rupees on a crane.

**Industry Expert:**

Correct. Broadly, if I am proprietor, if this is my first crane, I am not sure if I'll get a payback or not. If it's an existing company, having a composite yield of about 2.5%, I expect a payback within five years.

**Kenin Jain:**

So, indirectly are you giving a message that entry barrier in this business from here on looks far tougher and the economic sense will not prevail for a new guy to come in? Are you trying to say indirectly that message?

**Industry Expert:**

Yeah. I feel that.

**Kenin Jain:**

And if this maths is so apparent to us, then why some of the captive users are buying the cranes on their own?

**Industry Expert:**

No, existing company would definitely buy because of the fleet size and volume growth.

**Kenin Jain:**

No, not existing companies, existing developer basically. Why the clients are buying the cranes on their own? If you know the ROE profile for these crane guys like you is so bleak and if there is such a big supply and there is lots of fragmentation, why the companies like BHEL or for that example companies like Adani are buying the cranes on their own?

**Industry Expert:**

Currently BHEL has order book say of five years. So, what it is looking right now, for five years a single crane, a brand new crane is with them for the next five years. So, that is why they are purchasing these cranes on their own.

**Kenin Jain:**

Right, right. And these cranes also have your usage on the road segment, like the road and the urbanization which happens in the country, does it also get deployed there?

**Industry Expert:**

Very small numbers; small number in bridges and not really significant in roads.

**Kenin Jain:**

Right, right. Sir, the volume inch up which may happen from the power side, has it been demonstrated to the market or the market is still waiting for the power side demand to be seen?

**Industry Expert:**

There has already been CAPEX planned by many companies looking at considering power segment. So, that is what I said, if this power segment does not really happen, there would be much more supply than the demand.

**Kenin Jain:**

But it does not look impossible, because all the private guys they have raised the equity, their plans are full on. So, it does not look improbable to that extent.

**Industry Expert:**

No, it does not look. It looks much more probable, that is why there is CAPEX expansion by all the exiting clients.

**Kenin Jain:**

Right. So, the last thing from my side, basically how critical is it, how critical the service of the crane provider is for a developer? And in that process, does the developer distinguish between two players? If say tomorrow I am setting up a 250 mega watt plant and I had an option of getting a crane from you and Sanghvi and a third person, so what is the criticalness as a developer I think of deciding whom to give the contract? What are those three factors which determine the awardation of contracts?

**Industry Expert:**

One would be the prior experience. In the previous job, what kind of services these companies have given. Cranes are machineries, so there is always a breakdown, it cannot be neglected, so how these breakdowns were attended and one, if the crane had to be replaced, do these companies have the power, capacity to replace these cranes. For a bigger crane, this would be a main criteria to bifurcate. And next is always the rates.

**Kenin Jain:**

So, if I understand rightly, suppose a crane is required for a 250 mega watt power plant, there is not a requirement of a single crane, but it is a bunch of cranes. Some days a particular configuration of crane is required, am I right? So, you require to have a fleet of cranes, rather than one individual crane.

**Industry Expert:**

Right.

**Kenin Jain:**

So to that extent the developer thinks that it is better to give these orders to a diversified player who has a larger fleet, right?

**Industry Expert:**

Larger fleet.

**Kenin Jain:**

Then onsite understanding of the mechanics of how to lift the cranes, you know how to, does that mechanics on the onsite also plays a vital role?

**Industry Expert:**

Not deciding whom to give the contract, because (not sure) is a promoter who would have their own consultants. A player like Adani who has been planning power projects would have their own consultants to do this.

**Kenin Jain:**

So, Adani does not solicit the direct bids on their own, they tell to agent and agent scouts the player for them?

**Industry Expert:**

I am sorry, can you come again please?

**Kenin Jain:**

Suppose, if Adani is requiring a crane, they float an enquiry through a project consultant rather than directly?

**Industry Expert:**

No, no, they would float an enquiry directly. But the matter of the enquiry might be prepared by a project consultant. What capacity cranes to be procured would be given by a project consultant?

**Kenin Jain:**

Sir, this unorganized player like, as you were mentioning the unlisted players like you, when you go to buy a new crane, what kind of a debt does you guys factor in, like is it pure equity you put in or banks lend you something also?

**Industry Expert:**

There is always debt.

**Kenin Jain:**

What proportion?

**Industry Expert:**

Debt would be around 75%. I consider debt interest to be one of the raw materials in this industry. So, banks are willing to always deal with us.

**Kenin Jain:**

Oh really. Just one thing more, that you know what would be the second hand value of these cranes? Is there a concept of second hand value to that? Out of your 40-50 cranes, if tomorrow you want to dispose off 10-12 cranes, do you get a good realization value?

**Industry Expert:**

Good question again, depending on the make and the model of the crane. If I have a German crane, or say German or a Japanese or an American crane, I will still get a good second hand value, re-sale value. But, since these Chinese cranes are very new in the market, there is no great re-sale value for these cranes right now. He has to still wait for another five years to see what happens.

**Kenin Jain:**

And who are the end users who are typically availing the services of the Chinese cranes according to you?

**Industry Expert:**

No, it can be anybody. It can be anybody. See, there is very few, maybe one, maybe 2 to 3 clients who have rejected Chinese cranes, that we would not take Chinese cranes for the project.

**Kenin Jain:**

Why? Why sir?

**Industry Expert:**

Not sure about the safety standards, that's the only reason because, if the Chinese cranes break down, the project delay would be much more expensive for them. But still they are picking up, it's not that they are bad, they are still a little skeptical about that, there should be improvement, they should turn out good.

**Pritesh Chheda:**

Gopal, can we take the last two questions, if there are?

**Kenin Jain:**

That's all from my side.

**Moderator:**

Ladies and gentlemen, to ask a question please press \* and 1 on your telephone key pad.

There are no further questions. Now I hand over the floor to Mr. Pritesh Chheda for closing comments.

**Pritesh Chheda:**

On behalf of Emkay, I thank you Sir for taking time out and enlightening us on the Indian Crane Rental Industry. I expect everyone must have learnt a lot from this interaction. On behalf of Emkay, I even extend all the good luck to you for all your future endeavors. Thank you.

**Industry Expert:**

Thank you.

**Moderator:**

Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant evening.

**Note:**

- 1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.

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