# **Action Construction Equipment**

### Q1FY12 Post Result Conference Call Transcript

### Representative:

Mr. Sorab Agarwal – MD Mr. Rajan Luthra – Financial Advisor

Date: August 2, 2011

### **Operator**

Ladies and gentleman good day and welcome to the Q1 FY12 Results Conference Call of Action Construction. As a reminder for the duration of this conference, all participants' line will be in the listen-only mode. There will be an opportunity for you ask to questions at the end of today's presentation. If you should need assistance during this conference please signal an Operator by pressing "\*" and then "0" on your touchtone telephone. Joining us on the call today from Prabhudas Lilladher are Ms. Amisha Vora and Mr. Dilip Bhatt, Joint Managing Directors, along with Mr. Kunal Sheth. I would now like to hand the conference over to Mr. Sheth. Thank you and over to you Sir.

#### Mr. Kunal Sheth - Prabhudas Lilladher

Thank you. I would like to welcome the management of Action Construction on the call. From the management we have Mr. Saurav Agarwal the Managing Director and Mr. Rajan Luthra, Financial Advisor. I would request Mr. Agarwalto give us some opening remarks and then we will open the floor for a Q&A. Over to you sir.

### Mr. Saurav Agarwal - Managing Director

Yeah good afternoon everybody. Last quarter was usually good for us with respect to topline growth and we were able to manage a 65% growth quarter on quarter basis on our revenue and a bottom-line growth of around 40%. And in the last quarter we also physically started delivering our indigenously manufactured Crawler Cranes and we got a very thumping response for that product with respect to order booking and future growth. And our new crane plant is also now fully functional in Faridabad which has a much enlarged capacity as of now and our another new plant in Kashipur has also become functional in the last quarter; it will gear up totally in this current quarter but it has started functioning in the last quarter. Seeing the response for our new indigenously produced products like Tower cranes and Crawler cranes we are already expanding although we have just started this we have already started expansion on capacity front because I would say that more or less we have been booked for the next 8 to 10 months with respect to these machines and going forward with respect to our growth and numbers I think growth can easily be sustained in the current atmosphere also because there is lot of demand that is still coming up and we are very hopeful of doing about a 40 to 45% topline growth within this year and followed by a bottom line growth of around 60 to 70%. Thank you.

# **Operator**

Thank you, Sir. Can we begin the question and answer session now?

Mr. Kunal Sheth - Prabhudas Lilladher

Yeah please.

# **Operator**

Ladies and gentleman, we will now begin the question and answer session. Anyone who wishes to ask a question may press "\*" and then "1" on their touchtone telephone. Participants are requested to use only handset while asking a question. Anyone who has a question at this time may press "\*" and then "1".

The first question is from Kartik Subramani from Unifi Capital. Please go ahead

Kartik Subramani - Unifi Capital

Hi Mr. Saurav how are you?

Mr. Saurav Agarwal - Managing Director

Lam fine.

Kartik Subramani - Unifi Capital

Congrats for good set of numbers.

Mr. Saurav Agarwal - Managing Director

Yeah. Thank you.

#### Kartik Subramani - Unifi Capital

Sir could you just share with us the volume details and some details on acquisition and some improvements on the margins which are forecasting because you are forecasting a much better improvement in margins, that your margins are about 7.5 – 7.7% which is still down on year-on-year basis so could you give me all those details sir with the volumes and pricing and could you also tell whether have you; you know because we are talking about price hike during the quarter have you done that?

#### Mr. Saurav Agarwal - Managing Director

Yeah. First of all I will start with the numbers. For in the last quarter for Pick n carry cranes mobile cranes we have done about 1165 units, for mobile tower cranes we have done 75 units, for fixed tower cranes we have done 46 units, for Backhoe loaders we have done 90 units, for forklifts we have done 161 units, for crawler cranes we have done 5 units out of which I think 2 of them are indigenously produced as of now and for the tractor division we have done about 886 units, road making machinery rollers is about 19 units and motor graders are 8 units. These are the numbers we have done in the last quarter finishing June.

# Kartik Subramani - Unifi Capital

And realization sir of average of all the products?

#### Mr. Saurav Agarwal - Managing Director

For Pick n Carry cranes we have realized approximately about 8.75lakhs basic, for mobile tower cranes we have realized 14.4 lakh basic, for fixed tower cranes we have realized 50.5 lakhs basic, for Backhoe Loaders it is about 12.8 lakh basic, for forklift trucks it is

6.55 lakhs basic, for crawler cranes it is 1.24 crores per machine basic price, for tractor we have got about 3.55 lakhs basic realization and for the rollers it is 4.5 lakhs basic realization for all across the range for rollers and for motor graders we have achieved realization of 42 lakhs per machine.

### Kartik Subramani - Unifi Capital

So it looks you have taken a price hike right across all your products?

# Mr. Saurav Agarwal - Managing Director

Yeah we have been able to manage atleast about let's say 1.5 to 2.5% price hike and but still keeping in mind the raw material cost pressure and the employee cost pressure, other administration costs and specifically I would say in manufacturing basically logistics cost which is incoming and outgoing goods cost; as of now we are pushing in another 2 and 2.5% price increase which is currently already we started doing this in July.

### Kartik Subramani - Unifi Capital

How has the response been for that sir?

# Mr. Saurav Agarwal - Managing Director

A bit tough but yes finally market has also to absorb in and because you know everybody understands that cost of everything has gone up you know a Tata Truck which was costing like 8 and 8.5 lakhs that is now costing 12 lakhs so going by that formula we are asking for 40, 50, 60, 70,000 where as you know other let's say commercial vehicle has gone up by 20 to 30% in the last three years.

#### Kartik Subramani - Unifi Capital

So the numbers you are looking for the full year sir for each of the division?

# Mr. Saurav Agarwal - Managing Director

Yeah for mobile cranes I think we should be able to meet our target of 4800, as a matter of fact exceed it.

# Kartik Subramani - Unifi Capital

You are talking about Pick N Carry right?

#### Mr. Saurav Agarwal - Managing Director

Pick N Carry and mobile cranes together 4800 units.

# Kartik Subramani - Unifi Capital

Ok.

# Mr. Saurav Agarwal - Managing Director

Mobile tower cranes should be 325; fixed tower cranes should be 180, backhoe loaders about 600, and forklift trucks about 850 units. Crawler cranes I think should be about 30 to 32 units. And for the tractors we should do in excess of around 5000 somewhere between 5000 to 5500 and the vibratory rollers, road making rollers should be somewhere between 130 to 140 units.

### Kartik Subramani - Unifi Capital

And for motor graders?

# Mr. Saurav Agarwal - Managing Director

Motor graders should be around 40 units.

# Kartik Subramani – Unifi Capital

But with the you know with the slowdown in infrastructure as a whole do you think you will be able to achieve this kind of numbers?

# Mr. Saurav Agarwal - Managing Director

I think it is easily done because you know just giving an example what I read in the morning regarding the car sale, Maruti is suffering and the other big one Hyundai is suffering but if you look at the others let us say Toyota or General Motors or you know one or two more names I am forgetting they have still showed growth in numbers because of their newer models and newer products. So going by that same you know that what I have always been saying like Pick N Carry cranes maybe ok they may not grow by 30 to 35% as a segment 25%, still it will grow about 15 to 20%. So the increase in sales we are projecting is only 20%.

### Kartik Subramani – Unifi Capital

So the general feel of this the order intake in infrastructure industry is very poor except for bit of road projects which are being awarded the other projects are actually literally on a standstill so how would your customers you know take this kind of products? That's what I am you know.

# Mr. Saurav Agarwal - Managing Director

I don't think so because you see when we talk of infrastructure first of all I would like to tell you that infrastructure constitutes about let's say about 55 to 60% of our sale, another about 30% odd comes from heavy engineering industry, industrial projects, factories or you know wherever there is any material handling movement and the balance 8 to 10% comes from agriculture where we are selling the tractors as of now. So going by that you know there is a misconception that in infra I would say in Infra road is still in slow pace but if you look at the metros happening in different cities; if you look at airports which are under expansion or if you look at the refinery projects you know our tractors units which are being setup or already under progress and specially power plants and you know the upcoming nuclear that still is bit distance away or the hydroelectric projects or the pipelines or the urban infrastructure like sewage of water I don't think there is as such a slowdown in infrastructure. Why this conception is created I primarily feel is that maybe some of the big companies 4 to 5 to 6 companies in this sector are not able to grow or increase their profitability but if you look at the other 80 – 100 companies you know between a let's say a turnover of around 500 crores to 1500 crores I would say to 300 crores to 1500 crores there are atleast 80 to 100 companies which are full of work and are continuously growing. So our conception is getting smoked out because of the 4, 5 or 6 big companies that you know most of us hear the names and see their results and counting all I don't feel that there is as such slowdown or something like that in infrastructure. Yes it might not be

growing that fast or there might be those many clearances but yes at ground level if you look at the city wherever you are present you will see a lot of work happening whether it is urban infrastructure whether you leave the city or go out.

# Kartik Subramani – Unifi Capital

And this 2 to 2.5% price increase is going to across all the products again?

# Mr. Saurav Agarwal - Managing Director

More or less.

# Kartik Subramani – Unifi Capital

More or less, ok, and so that would be the target for the year right? There wouldn't be any more increases after that?

# Mr. Saurav Agarwal - Managing Director

You know I don't think so because what has started happening is that the prices of steel has started cooling off, power plate prices of even transportation freight has also started cooling off a little so what we are doing is that simultaneously we are trying to reduce our raw material cost or input cost by around 2 and 2.5% owing to commodity price especially steel which has come cooled off in the last one and one and a half months slightly. And apart from that even the logistics cost also so we are looking at a cost reduction of our expenses as well as raw material to the tune of around anywhere between 2 to 3% which should take effect by you know middle of August and on the price increase front again we are increasing by 2 and 2.5% so hopefully I don't think within this year there should be a need for price increase to attain our you know about atleast about a 10% PBT level.

#### Kartik Subramani - Unifi Capital

Do you expect to still maintain 10% PBT level?

# Mr. Saurav Agarwal - Managing Director

I would say 9 to 10%, 9 looks very realistic.

### Kartik Subramani - Unifi Capital

Even this time Q1 being weak at 7% do you expect the full year to be at 9%?

#### Mr. Saurav Agarwal - Managing Director

Yes I am very sure about that.

# Kartik Subramani - Unifi Capital

Ok and could you just throw some light on the acquisition, these two companies?

# Mr. Saurav Agarwal - Managing Director

Yeah you see we have been talking to as a matter of fact we were planning to acquire a company in 2008 itself in China but unfortunately because of the global meltdown and everything we just stayed away from it. so now we are going ahead we are plan to go ahead with it and hopefully in the next one month or one and a half month we should sign a definitive agreement with them to fulfill this transaction. And this is a company of already in the same sector where we are we you know we already are producing that products in India. So rather than further increasing our capacities in India we are going to do this in China.

### Kartik Subramani - Unifi Capital

Which products it is would you be able to tell?

# Mr. Saurav Agarwal - Managing Director

Not at this stage I think but we are doing the product, we are increasing the capacity in China. Why we are doing this because the main reason is that the technology for this product available in China is far superior than what is being used in India or even produced in India. So there will be a technological edge on this product immediately and secondly the price for this product you know of better quality of better technical specifications being produce there is also slightly lower than India so even on the margins front there can be an expansion.

# Kartik Subramani – Unifi Capital

How is the market in china for these products?

### Mr. Saurav Agarwal - Managing Director

Yeah that's what and the third thing is that this company is already selling this product in the domestic market it's not a very big player but it's already selling it there as well as exporting it to some other countries including Africa and South East; South America. So luckily for us we will have a captive market in India and so we can easily you know double or triple up the business of this company bringing those products into India selling it into India through our network. Apart from that we can definitely try to increase the sales further the domestically in China as well as the other countries to which they are exporting.

# Kartik Subramani - Unifi Capital

What would be the cost of acquisition? And is it going to be 100% stake in the company?

#### Mr. Saurav Agarwal - Managing Director

Yeah see the what has been proposed is about 80% stake in the first go and 20% within 3 years the so total cost for that will be in the tune of I would say somewhere between 30 to 40 crores. And but 80% initially and 20% within 3 years.

# Kartik Subramani – Unifi Capital

80% of cost will be between 30 to 40 crores?

# Mr. Saurav Agarwal - Managing Director

Yeah and the price for the balance 20% would also be fixed in the initial phase only.

### Kartik Subramani - Unifi Capital

And that would be how much sir?

### Mr. Saurav Agarwal - Managing Director

It will be included in the 30 to 40 crores.

# Kartik Subramani – Unifi Capital

Ok and how are you going to fund this?

### Mr. Saurav Agarwal - Managing Director

See we do have some cash available on our books so we will use that and we are still maintain a nearly debt free status so we might go in for some ECB or some external borrowing at a lower rate because acquisitions can be funded with ECB outside India.

#### Kartik Subramani – Unifi Capital

The net of 71 crores in your balance sheet is predominantly working capital or?

### Mr. Saurav Agarwal - Managing Director

That's working capital and buyers credit that basically cash credit limit is about 20 to 25 crores and may be about 40 to 50 crores of buyers credit for the import that we do.

### Kartik Subramani – Unifi Capital

Ok so the last question is upon the India acquisition?

### Mr. Saurav Agarwal - Managing Director

Yeah you know there is another opportunity has come to us about two to three months back so this is the reasonably good company it is number one in the field in which they are and it is more or less related to our product segments but you know we don't do that and the company is number one in that product line so the problem is that it is privately held by the promoters, couple of them three of them and they have not been funding the CapEx for the growth of this company so you know it is being strangulated as of now and you know they are booked for about a year but they have just but you know they have not expanded in the last one or two years. now couple of promoters want to get out of this company so we thought you know this can add to our product portfolio and the company hardly has any sales or service network so you know with our sales and service network ok we can do wonder with this product I think they are already number one but I think we can make them number one by far; even in comparison to the foreign company which are competing for the products in India.

#### Kartik Subramani - Unifi Capital

So we would not be again taking 100% on this or how is it going to be?

Initially it is going to be somewhere close to about 65 to 70%.

# Kartik Subramani – Unifi Capital

What would be the cost again in this?

# Mr. Saurav Agarwal - Managing Director

You know the cost is what is being negotiated as of now to be very frank with you so I can't say it will somewhere between I would say about 55 to 70 crores.

# Kartik Subramani - Unifi Capital

So that would be again same; some internal debt would be done?

# Mr. Saurav Agarwal - Managing Director

Yeah

### Kartik Subramani - Unifi Capital

And so both the companies are profit making sir China and the Indian company?

# Mr. Saurav Agarwal - Managing Director

China Company is profit making similar to our unit and the Indian company is at about 15 to 16% PBT level.

#### Kartik Subramani – Unifi Capital

Ok 15 to 16% PBT level that's good. Ok all the best sir.

#### Mr. Saurav Agarwal - Managing Director

Thank you.

# **Operator**

Thank you. Before taking the next question we would like to remind participants the press "\*" and "1" to ask a question. The next question is from the line of Saurabh Ginodia from Smifs Securities. Please go ahead.

Saurabh Ginodia - Smifs Securities

Good evening sir.

Mr. Saurav Agarwal - Managing Director

Yeah. Good evening.

Saurabh Ginodia - Smifs Securities

Most of the questions have been answered just one question can you throw some light on the tax rate for this year?

Mr. Saurav Agarwal - Managing Director

Yeah you see our tax rate in this year should be somewhere around Luthra around 25%?

Mr. Rajan Luthra - Financial Advisor

25% Yes sir.

Mr. Saurav Agarwal - Managing Director

It should be somewhere around 25% for this year

Saurabh Ginodia - Smifs Securities

Ok sir, thanks sir.

Mr. Saurav Agarwal - Managing Director

Yeah ok.

# **Operator**

Thank you. The next question is from Amyn Pirani from Deutsche Bank. Please go ahead

#### Amyn Pirani - Deutsche Bank

Thank you for taking my question sir. Sir I have two - three questions. Sir first of all on the fact that you mentioned that on the infrastructure side even though a lot of large projects or the large companies may not be you know giving any order guidance you said that that's at the smaller level lot of projects are happening. so just wanted to get a sense I mean it is like that a large number of smaller projects are happening in the tier-II or tier-III cities or in rural areas or can you give us some more color on where exactly and what are the kinds of projects that are happening at smaller scale? If you could help us with that.

# Mr. Saurav Agarwal - Managing Director

Yeah I will tell what is happening is earlier these big 10 to 15 names used to take away the chunk of the business if you look at 4-5 years back they were at maybe 1000 crores or 1500 crores revenue and they these bigger companies grew very fast and it became 4000, 5000, 6000 7000 crores companies in the last 3, 4, 5 years. now their scale and size is such that inefficiencies have crept in and

that's I feel primarily the reason that they are not able to and their base has become so big that they are not able to increase substantially or you know manage their profitability.

#### Amyn Pirani - Deutsche Bank

Ok.

### Mr. Saurav Agarwal - Managing Director

Whereas you know if you look at examples I will also take some names examples like whether it is a McNally Bharat or whether it is a ARSS or whether it is Ashoka Buildcon or whether it is this ERA for this matter or J&C or other similar companies you know in every major city you will find 4-5 of them so they have you know let's say about 80-100 of these companies they are still brimming with work they are still growing at 20,30,40,50,%; they are still able to maintain their profitability or even increase it. It is these smaller companies which are giving the big ones a fight for their money because they are able to because of their efficiencies; the promoter is also being directly involved in most of the cases. They are able to quote for the same projects at a lower cost and still make money.

# Amyn Pirani - Deutsche Bank

Ok. Ok.

# Mr. Saurav Agarwal - Managing Director

So this is actually the main problem which the bigger infra companies are facing because so many of the smaller ones are able to qualify now and who are able to do the same job at a lower cost that they are not able to make money or they have to take projects at a lower cost.

# Amyn Pirani - Deutsche Bank

Ok that's helpful sir. Sir and then on the road side you said that some slowdown has happened but could you give us any sense if you are involved in some of the rural road build projects which where I think there is still something happening if I am right?

#### Mr. Saurav Agarwal - Managing Director

You see traditionally also what happens is in the first quarter and in the rainy thing the road construction is quite subdued and apart from that I think the bigger problem is that now with the interest cost going up people are finding a lot of problem in closing the projects or making it financially viable or somebody may have got some job finding money at good rate has become difficult. And see we never get associated directly with any project as such; we do get associated with the builders or the contractors who are doing it and you know maybe the hiring company we would provide the equipment to that. So keeping that in mind especially for our small vibratory roller we have been supplying the smallest one that we have 3.5 tonnes. We are supplying that directly or indirectly through contractors and hirers at various sites.

# Amyn Pirani - Deutsche Bank

Ok and sir maybe you mentioned this before and maybe I missed it on your tractor side if I look at your segmental result there has been a significant increase in the capital employed sir any particular reason why that has happened?

Luthra saheb you will have to answer that,

### Mr. Rajan Luthra - Financial Advisor

Basically we are going for expansion, capacity input lot of machine and all those things in the tractor business.

### Amyn Pirani - Deutsche Bank

Ok sir and just on the related tractor side I mean obviously even though you have increased your capital employed if I just look at your segment results, the ROCE on this business still seems to be one of the highest amongst your segment something which like 90 to 100%, is that something which is inherent in that kind of the business or is it something which will come down as we go forward?

# Mr. Saurav Agarwal - Managing Director

You see I would to answer that question. Primarily now we have to understand why we started this tractor business about two and a half years back. We were doing these bigger machines like Pick N Carry cranes and loaders and other equipment and some of them used to use a tractor type of transmission and an similar engine modified to be slightly higher duty and so you know we actually started this business with hardly any CapEx. We were able to do it from our existing setup and yes definitely going forward let's say when we have some dedicated investments coming over the next one or two years for further expanding our capacities from about 6000 – 7000 to maybe about 12000 – 15000, then definitely the ROC or certain aspects might go down but on the whole I think we should still be one of the best.

### Amyn Pirani - Deutsche Bank

So would you say that structurally the tractor business will have like 50 to 60% kind of ROC, I am just trying to understand from your segment point of view?

# Mr. Saurav Agarwal - Managing Director

Yeah you see that calculation perhaps Luthra saheb will be able to do better but I am sure that with the CapEx of additional CapEx of around 25 to 30 crores we should be in a position to add capacity of atleast about 10 to 12,000 tractors. Am I right Luthra saheb?

#### Mr. Rajan Luthra - Financial Advisor

That's right. Going forward the ROCE will be in line with other business what we have but as of now definitely it is now on the higher side.

# Mr. Saurav Agarwal - Managing Director

And as a matter of fact I am very sure that by the end of this current year, even on a full company basis our ROCE and return on net worth should be somewhere in the tune of around 25% within this year itself.

### Amyn Pirani - Deutsche Bank

Ok and just on tractor are you would you be able to help us I mean obviously the numbers are still ramping up but are they mostly for agricultural use because I guess most of these tractors are used for non-agricultural uses also so?

# Mr. Saurav Agarwal - Managing Director

10 to 15% of tractors are used for non-agricultural use but what we are selling for as of now is primarily agriculture only. Some of the customers do ask us you know our existing equipment customers especially loaders and all sometimes you know very few units are also sold to commercial market also very few but primarily there is no focus on commercial market it is for agriculture that we are selling as of now.

#### Amyn Pirani - Deutsche Bank

And this would be mostly in northern India?

# Mr. Saurav Agarwal - Managing Director

Yeah predominantly in Haryana, UP, some parts of Rajasthan and some part of Madhya Pradesh. Madhya Pradesh and Punjab.

### Amyn Pirani - Deutsche Bank

And like sorry for taking so much of your time sir but are you seeing any trends as in tractor growth has been quite strong over the last two years and it continues to be so right now, so are you like I mean any sense of what whether it could be something like 15 to 20% growth in the medium term or would it like come up?

### Mr. Saurav Agarwal - Managing Director

I would say that in the medium term it would not be less than 50% growth,

# Amyn Pirani - Deutsche Bank

That is for you?

#### Mr. Saurav Agarwal - Managing Director

Yeah that is for us over the next three to five years I see no reason why we should not be able to 50 to 100% growth in this segment over the next three to five years because you see our base is small and the products that we are offering is again a very rightly priced and the product has some inherent technical benefit. So I see no reason and we are one of the only although we sell a very few numbers as of now this year we are targeting only 5500 but we are the only tractor company in the country which sells on cash we give not even a single rupee to a dealer or for the end product.

#### Amyn Pirani - Deutsche Bank

And sir just sir last question from my end, I mean obviously there has been a lot of you know ban on the mining segment in our country so are you or any of your business lines like heavily leveraged on the mining side in terms of you know material handling or you know loaders and all that?

### Mr. Saurav Agarwal - Managing Director

Luckily we are not into heavy mining machinery that are primarily used in the mine and yes one of the machines which is our wheel loaders which we started about two to three years back but as of now most of the wheel loads I mean all of them practically we are selling in the construction and infrastructure segment and in the industrial segment for loose aggregate handling and so far we have never gone to mines with that. So more or less we remain unaffected with regards to the mining aspect.

# Amyn Pirani – Deutsche Bank

Ok sir thanks a lot sir. Thank you for answering my questions.

### Mr. Saurav Agarwal - Managing Director

Okay. Thank you.

# **Operator**

Thank you. The next question is from Kamlesh Kotak from Asian Markets. Please go ahead.

# Kamlesh Kotak - Asian Markets

Hello

# Mr. Saurav Agarwal - Managing Director

Yeah hello.

#### Kamlesh Kotak - Asian Markets

Good afternoon sir, just wanted to understand our business model, are we also going on for retail I mean the rental of equipment or we out and out sell kind of a business model?

# Mr. Saurav Agarwal - Managing Director

No you see ours is designing, manufacturing and supplying to end users. And providing service and spare parts and our end users can be direct end users like contractors of construction companies or infrastructure industries and I would say about 40% of our sale also goes to the hiring rental and leasing company who further give it to the end users for use. We don't lease out or rent out our equipment directly.

# Kamlesh Kotak - Asian Markets

So sir could you give the profile of our customers in terms of percentage breakup as to who all are those constituents?

You see that about 60% of the customers in the segments are end users themselves and about 40% directly or indirectly goes to rental and leasing companies.

#### Kamlesh Kotak - Asian Markets

And if these end users if you can break up across different categories?

### Mr. Saurav Agarwal - Managing Director

End users yeah, end users is you know this is on the whole basis of the company about 55 to 60% of our equipment goes for infrastructure, construction, infrastructure or construction activity which would also include real-estate and real estate would form maybe about 5% to 7% out of this and the balance about 30% goes for heavy engineering or industrial units whether it is ABB or Siemens or BHEL or the steel rolling mill or a cement plant; these are the bigger ones even the smaller factories wherever there is any material movement and the balance 10% would be for agriculture side where the tractor figures in.

#### Kamlesh Kotak - Asian Markets

Ok and these are all negotiated contracts or is it long term contracts, how we do it?

# Mr. Saurav Agarwal - Managing Director

It is more or less like a retail sell and you know we have more than 96 locations all over the country where we have our sales and service setup available and these people you know our people sell the products more or less like the retail basis; in a very few cases 2 to 3% I would say that yes we do have a rate contract type of thing for equipment on a yearly basis but that is merely to pre-price for a yearly basis and payment terms with bigger corporates that would also be very few you know maybe like a Essar or in Delhi if you talk about you know or somebody maybe 5 to 7 people maybe have a rate contract or have frozen rates over the year. But that's only nearly one or two percent of our sale. It goes like that.

#### Kamlesh Kotak - Asian Markets

Ok and how much of the revenue comes from the sale of spares and parts?

# Mr. Saurav Agarwal - Managing Director

Luthra Sahab how much it come last time?

Mr. Rajan Luthra – Financial Advisor

Rs. 12 crores

### Mr. Saurav Agarwal - Managing Director

Rs. 20 crores come from oh! Sorry 12 crores,

### Mr. Rajan Luthra - Financial Advisor

12 crores per year.

# Mr. Saurav Agarwal - Managing Director

Yeah 12 crores per year, that was last year I think

#### Kamlesh Kotak - Asian Markets

Ok and sir many of the segments are now finding problems in terms of the project resolution like power real estate construction and infra. And also the rates are hardening and so the rental side also there maybe some impact. So do you see that kind of slowdown at ground level?

### Mr. Saurav Agarwal - Managing Director

See definitely nothing can be ruled out but luckily for us in our country you know there are certain things and projects which are taken up at a stage when it is not mere a luxury it is a necessity. I stay in Faridabad and you know the Faridabad road during Commonwealth Games in a very fast process they made a 4 kilometer flyover to connect Faridabad to Delhi because it was always blocked for about an hour. And but now the problem has come that on either side of this 4 kilometer flyover there is an half an hour jam because the roads are narrow which are only 4 lane. So it is a necessity that they have started to 6-lane it. So I agree with you that if planned infrastructure development is done maybe our growth can be even much faster but even as of now out of compulsion whatever infrastructure growth needs to be done it should help us attaining our target of about 40 to 45% topline growth. Apart from that there is another thing that I would like to say leaving out our traditional products that is mobile cranes all our products segments are more orless new maybe 5, 4, 3, 2 years old wherein our market share are much smaller as compared to the overall industry size even if the market for these products does not expand on the whole or there is slow industry growth, we still have potential to grow in this product line because you know of our priced product and service advantage.

#### Kamlesh Kotak - Asian Markets

So even on the rental side you don't see any kind of slowdown because of interest rate kind of hardening?

#### Mr. Saurav Agarwal - Managing Director

Just before I answer that question you will be taking example of a tractor you know tractor market is about 5 lakhs tractor a year and to sell 5000 or 6000 tractors which is 1% is a problem that the market is going to pose for us. Yeah with respect to interest yes definitely there will be an issue because this eventually will have to be passed onto the end user but the end user which are taking it for one, two or six month time may still prefer to take it for rental maybe at a slightly higher cost rather than owning it at a higher cost. So what eventually happens is if the interest rate stays higher for a let's say 6 months one year period that there will be a shift between the market segment between end users and rental companies. And maybe the rental companies will end up buying slightly more than as compared to end user.

#### Kamlesh Kotak - Asian Markets

Ok and what kind of credit terms would be offered to the infrastructure companies vis-à-vis this rental ones?

What happens is that about 85 to 90% of our sale is you know it's complete through NBFC non-banking finance companiesmore or less all the big banks everybody has an NBFC arm now and about 10 to 15% is direct sale whether it is to government or to bigger corporates where definitely the payments get you know between 30 days to 60 days in the standard and most of the time it will still get delayed by around the same amount and in government generally it is 30 days term but it never gets paid before 6 months and this is 8 to 10% of our business.

#### Kamlesh Kotak - Asian Markets

Government business.

#### Mr. Saurav Agarwal - Managing Director

Government is only about 2 to 3% in which the payments get delayed anywhere between 30 days to 6 months and in private bigger corporates you know payment is between 30 to 60 days, balance is more or less secured as soon as the machine goes within 8 to 15 days of that we get our payment.

#### Kamlesh Kotak - Asian Markets

Through NBFC funding?

# Mr. Saurav Agarwal - Managing Director

Through the bankers for the machines which is aside and vis-à-vis our invoices the cycle time I would say average about 15 days will come out.

#### Kamlesh Kotak - Asian Markets

So sir in the current context what is the our growth to be putting for the current year?

# Mr. Saurav Agarwal - Managing Director

Current year I think we should be able to grow our topline by atleast about 40%; it can be more if we look at our profitability or bottom-line we should be able to grow by about 60 to 70%, 70% is possible; 60% is easily achievable.

# Kamlesh Kotak - Asian Markets

And what is the CapEx plan for the year and for the next year maybe?

# Mr. Saurav Agarwal - Managing Director

Luthra sahib we are planning about 35 to 40 crores in the current year? yeah I think it is about 35 to 40 crores CapEx in the current year which is primarily going to go into the another plant which we have started in Kashipur CapEx is going there and we are further expanding our offices some CapEx will go there because you know the number of people have increased so we need bigger offices

especially in Bombay, Delhi. And for our tower cranes and crawler crane unit again we are expanding our capacities to be able to get into this market next year so on the whole it willsomewhere around 35 to 40 crores CapEx.

#### Kamlesh Kotak - Asian Markets

And that includes your tractor CapEx also?

# Mr. Saurav Agarwal - Managing Director

Yeah current year CapEx also.

#### Kamlesh Kotak - Asian Markets

Ok and another 40 to 50 crores will go into the acquisition right?

# Mr. Saurav Agarwal - Managing Director

In the Chinese acquisition about 30 to 40 crores and if the Indian acquisition also goes through then it will be another about I would say about 60 crores approximately plus minus.

#### Kamlesh Kotak - Asian Markets

So then you will be needing substantial funds to fund this kind of CapEx and acquisition?

#### Mr. Saurav Agarwal - Managing Director

Acquisition we would like to do a leverage type of buyout and we would like to use foreign funds which come at a low cost and there would also be a benefit of you know gaining on the dollar benefit maybe the interest cost will be wiped out you know because the Indian rupee is expected to appreciate eventually over the dollar and in any case the Chinese are also appreciating to the dollar so the interest cost can be wiped out against the currency appreciation. And for the Indian this thing yes there might be a slight cost but that company is highly profitable and so that would be countered in that way.

#### Kamlesh Kotak - Asian Markets

So it will extend our product portfolio with that acquisition which you are mentioning the domestic one?

# Mr. Saurav Agarwal - Managing Director

Yeah domestic will expand our product portfolio into a very niche segment; this company is already the number one in that segment.

#### Kamlesh Kotak - Asian Markets

Ok. All right sir. Thank you very much.

# **Operator**

Thank you. The next question is from Mayur Gathani from OHM Group. Please go ahead

### Mayur Gathani - OHM Group

Hi. Good evening. Sir you said the targets for FY12 for the different product lines what numbers you did for FY11 for these product lines if you could help us in that?

# Mr. Saurav Agarwal - Managing Director

FY11 for Pick N Carry cranes we did close to about for mobile cranes about 4095 for mobile tower cranes 216, for fixed tower cranes 102, backhoe loaders about 279, forklifts about 592, crawler cranes about 19, tractors about 3440 and rollers about 98 and motor graders about 25.

# Mayur Gathani - OHM Group

And just to repeat sir I mean which states have been more dominant in the tractor business sir?

# Mr. Saurav Agarwal - Managing Director

See mainly in North Indian states of Haryana, UP, and some parts of Rajasthan, MP and Punjab. This is where we are working. And Haryana and UP are our main markets as of now.

# Mayur Gathani - OHM Group

Ok so are we looking at expanding more or be consolidating here?

### Mr. Saurav Agarwal - Managing Director

Not over the next 6 months; we further want to increase our penetration into these states and you know I think in the current year we would be limited to these states only and wherein we will achieve our attain our 5500 number atleast.

#### Mayur Gathani - OHM Group

Ok so it's Haryana UP primarily and Rajasthan and MP and Punjab?

# Mr. Saurav Agarwal - Managing Director

Yeah. Rajasthan MP and Punjab yes.

# Mayur Gathani - OHM Group

Ok. And the CapEx in Kashipur is about what's sir that towards the crane business sir?

#### Mr. Saurav Agarwal - Managing Director

Yeah we are this is for the cranes business this is a new plant which we set up because the first plant is in the 6th year and the income tax benefit is you know on 100% of the income for only 5 years. So we had land available there which we had bought in 2008. So we just set up a factory there that will A. help us to reduce our income tax with respect to the cranes that we produce from

there and apart from that the tower crane and crawler crane components also we will also produce there which will also help us in reducing our liability. Another thing I would like to add here is that you know recently our R&D division has also had to be registered with the Government of India for income tax benefits so hopefully some income tax benefits will also come in from there in the current year.

# Mayur Gathani - OHM Group

Ok. And we are still looking at a 2 to 2.5% price hike in I mean?

# Mr. Saurav Agarwal - Managing Director

Yes. That is already there 2 to 2.5% price hike and about 2 to 2.5% reduction in raw material cost as well as expenses both of combined together.

# Mayur Gathani - OHM Group

Ok so both ways we will be get benefitted.

### Mr. Saurav Agarwal - Managing Director

So that you know our margin expansion can be there to the tune of 4 to 5% and we want to give it effect maybe in this quarter so half of the effect will be definitely we can see within this quarter and it should be normalizing.

# Mayur Gathani - OHM Group

Ok. So can you tell me you are saying that to the effect that you will have more downside in quarter two because the rains and everything?

# Mr. Saurav Agarwal - Managing Director

Yeah it will slightly slower and traditionally also about 40 to 45% of our revenue comes from then in the first half and about I would say about 55 to 60% revenue comes in the second half of the year. so but I still feel that this second quarter would be slightly that should be slightly bigger than the first quarter it is always like that 5 to 10% bigger than the first quarter but that is on the topline front the margins normalized and the profitability will increase much more.

# Mayur Gathani - OHM Group

Ok fair enough, Thank you very much and good luck sir.

# Mr. Saurav Agarwal – Managing Director

Ok. Thank you.

### **Operator**

Thank you. The next question is from Preeti Trivedi from Vantage Securities. Please go ahead.

# **Preeti Trivedi – Vantage Securities**

Sir my question is on topline of 221 crores. What is the quantum of exports sir?

# Mr. Saurav Agarwal - Managing Director

Export would constitute 1 to 1.5 odd percent of that. We primarily are not an export based company and that we are focused in the domestic market.

# **Preeti Trivedi – Vantage Securities**

And if our understanding is correct that you are targeting to sell about 5500 trucks for FY12 right?

# Mr. Saurav Agarwal - Managing Director

We are targeting to sell? 5500 tractors.

### **Preeti Trivedi – Vantage Securities**

Yeah.

# Mr. Saurav Agarwal - Managing Director

5500 tractors yeah in FY12.

# **Preeti Trivedi – Vantage Securities**

Yeah 5-5-0-0 right?

#### Mr. Saurav Agarwal – Managing Director

5000 to 5500 tractors in the in this current year.

# **Preeti Trivedi – Vantage Securities**

Ok sir and one more question, regarding the details in markets, sir in general in your industry what is the replacement cycle of the products and how do you see the demand from that side?

#### Mr. Saurav Agarwal - Managing Director

You are talking of the replacement cycle?

#### **Preeti Trivedi – Vantage Securities**

Yeah

See generally life of a mobile crane because that is the biggest segment that we have is somewhere between 8 to 10 years. And in India the market for these products started to increase in big numbers in 2001-2002 onwards. So hopefully from next year onwards we would see that 8 to 10% of the revenue atleast will start to come from replenishment cycle. It already does come in some part of it I would say you know maybe about 2 to 3% as of now but from next year onwards it will start to grow in a much bigger form. So 8 to 10% or even upto 15% incremental revenue can be there in replacement market because as when the numbers started increasing in 2001 to 2002 to 2003, they had taken shape from Fy11 to FY12 onwards.

### **Preeti Trivedi - Vantage Securities**

Ok sir and one more thing is that you said that your 40% of the sale is to Rental companies?

# Mr. Saurav Agarwal - Managing Director

Approximately yes

### **Preeti Trivedi – Vantage Securities**

Yeah like hearing the comments from those companies who are in rental business they have the view that tough competition in increasing in this field and?

# Mr. Saurav Agarwal - Managing Director

You see again this is the same thing and the two companies that you are talking of primarily are Sanghvi and ABG.

### **Preeti Trivedi – Vantage Securities**

Yeah correct.

# Mr. Saurav Agarwal - Managing Director

They have more equipment than that can be deployed and in every city there are atleast 25 mini Sanghvi and ABGs available now which are more efficiently able to deploy lesser number of equipment's with more profit.

# **Preeti Trivedi – Vantage Securities**

So you are selling to those?

### Mr. Saurav Agarwal - Managing Director

Yeah we are selling to everybody. See I have more than 10,000 customers; rather Sanghvi and ABG we sell very few.

# **Preeti Trivedi – Vantage Securities**

Ok do you sell anything to Reliance also?

# Mr. Saurav Agarwal - Managing Director

Yeah we supply to both Reliance industries as well as Reliance this other ADAG group; for Reliance Power we are supplying regularly in the last 6 to 8 months for the power project. Reliance Industries is slightly slow because they expecting a new refinery big project to come up in that site so maybe their big requirement may start to come up over the next hopefully that's what we understand over the next 6 months to one year. And apart from that but currently Reliance Industries at the refinery especially they have more than 500 cranes of our type working.

### **Preeti Trivedi – Vantage Securities**

Yes, yes.

# Mr. Saurav Agarwal - Managing Director

They want to replace them with the latest generation Pick N Carry type cranes that we have introduced in the market in the last six months to one year. If that goes through then we could look at a big order only for the existing refineries to replace the older refineries which have become you know anywhere between 4-5 years to 10-12 years old. So that should be kicking in because for the last 2-3 months they have been talking to us very aggressively you know replacing them with much more safer and latest technology type of equipment.

# **Preeti Trivedi – Vantage Securities**

Yes. Yes. Ok sir and one last question is, is it possible to break this revenue segment wise I mean mining?

### Mr. Saurav Agarwal - Managing Director

See that is possible I don't have it handy as of now but on a broad basis like I have mentioned earlier about 55 to 60% comes from infrastructure and infrastructure construction related activity and about 30% approximately comes from heavy engineering, industrial units, factories, ports wherever.

# **Preeti Trivedi - Vantage Securities**

And 10% is from agriculture? That is tractor.

#### Mr. Saurav Agarwal - Managing Director

Yeah.

# **Preeti Trivedi – Vantage Securities**

Ok sir thanks a lot and wish you all the best for next quarter. Thanks.

# Mr. Saurav Agarwal - Managing Director

Thank you.

### **Operator**

Thank you. The next question is from the line of Vinay Khattar from Edelweiss Securities. Please go ahead.

### **Vinay Khattar – Edelweiss Securities**

Hello Saurav. That are a good set of numbers. There are couple of concerns just at the cost of being repetitive if you were to look at the increase in the volumes that we are doing for Pick N Carry and for mobile towers and if you were to go product by product the numbers are ranging from an increase of about 17% volume gross to anywhere between 100% plus in case of Backhoe loaders and this is the difference between the actuals that we have done in and what we are guiding for next year. Nowagain the given the macroeconomic environment especially in the infra side which contributes to almost 50 to 55% of our numbers, is it, doesn't it look a bit too aggressive to achieve?

# Mr. Saurav Agarwal - Managing Director

I don't think so Vinay, you know if we go product by product if we look at Pick N Carry cranes you know we are already doing approximately about 400 cranes a month which is eventually going to go up in the second half you know in October-November around Diwali, Dassheras and all that and the last guarter is the biggest. Now an another thing that is happening with us even on Pick N Carry front I would say that the labor shortage and the labor issues and everything is getting mechanized eventually in our country as well, so the labor cost is also going up, so more and more machines usage is also increasing. People who are managing without machines also want machines specially for mobile tower cranes and fixed tower cranes segment and forklifts this is increasing drastically you know there is no construction site that starts without a mobile tower crane and a fixed tower crane it has nearly come to that. There are hardly very few sites that you know which will not have an equipment; earlier projects used to be finished without cranes. So with the Pick N Carry, that's why even if we are able to grow about 20% which we are projecting and which is already evident because four months have gone by I see that you know we will eventually be exceeding the 4800 what I am guiding; whereas on the mobile tower cranes and the fixed tower cranes front; fixed tower cranes if you look we are talking about 80% growth and you know even in the current scenario even though Noida Extension is under problem which is one of the biggest single area for construction in the country as of now we have got order backlog of 60 cranes, executable 60 cranes and my year quidance is 180. We have already done 46. So I think it is and we are expecting some again big orders from Shobha and JMC and Nagarjuna for tower cranes and so you know and all these numbers has been planned keeping that in mind. So they are easily achievable. Now leaving out Pick N Carry cranes and tower cranes where we are already market leaders if we go to forklifts now forklift market is close to 3500 to 4000; last year we did 592 so again it's a better price increase coverage our setup and system from marketing and services is also penetrated now deep enough into areas which were unpenetrated because of new products with us. So going from about 600 odd units 592 units to about 850 – 900 units will be very easy. And we can already see that happening in our numbers; if you look on guarter over quarter sale with respect to forklifts in the same quarter last year already we have done better and this is even for some reason we were not able to execute otherwise we could have crossed 200 and the order booking that are coming in another thing with respect to forklift what has happened is we have got a DGS&D rate contract for the first time this year otherwise it was you know primarily Voltas or Godrej who were managing it for the last tens of years. And this year we are the only ones who have registered with DGS&D so most of the government sale let's say about 400 to 500 units which was being affected by either Godrej or Voltas in the past this year the onus is on us how much we can sell because there is no tender if they have a requirement they buy it so attaining these numbers seem to be easy. On the backhoe front last year the market was 25000 even if it remains same or even goes down a bit increasing our numbers to 600 you know that's our onus in such a big market size so again you would see a growth of 80 to 100% in this segment. Crawler cranes, are you there Vinay? Now if you look at Crawler cranes last year we did 19 units in which most of the units I mean all the units practically were traded units and we started manufacturing our own and we had a held a very you know all India launch customer meet in Delhi in 16th of July itself and for this entire year I am booked already for crawler cranes. I am projecting 30 to 32 but I already have 42 confirmed orders between you and me. So now tractors again you know from 3500 going to 5500 maybe even 6000 but yes 5500 or 5000 is realistic is easily done because the market size is so huge for us to drag out these small units and even if the market does not grow even for one more year to again drag our 4000 to 5000 is very simple it's just penetrating into the market it's not the market is growing or you know agriculture will grow or not grow but we can still grow ourselves in three to five year.

### Vinay Khattar - Edelweiss Securities

Ok. Ok.

# Mr. Saurav Agarwal - Managing Director

Similarly for rollers and motor graders if you go to motor graders the machines which are being offered I mean let's say 70% of the market is controlled between Caterpillar and KOMATSU and their machines are costing between 60 lakhs to 75 lakhs whereas our machine is costing about you know 48 to 49 lakhs on a landed basis to a customer so price and this is still a market for about 600 units in a year even if it slows down it will be 500 units; not dragging out because our last year we started sometime in the middle this is our first full year dragging out 40 to 50 units will be peanuts and we are already doing it and customers are getting attracted to us for this particular products I mean we are not we are also trying to push and sell so eventually maybe we might be able to sell even more than this but these are very realistic numbers which are easily attainable unless and until something like what happened in 2008 September – October happens again in the world. Or you know it affects India. Otherwise I see no reason why this should not be done or cannot be exceeded products by products. I hope I have been able to satisfy you; if I have not been able to then you can talk again on this.

### Vinay Khattar - Edelweiss Securities

No I think the numbers are quite clear. The next question pertains to the increase in the debt; our debt has increased from over 35 crores to 75 crores this year and we understand that there is an increase in the buyer's credit to certain extent and so on. Can you throw some more light on that?

#### Mr. Saurav Agarwal - Managing Director

It is primarily our inefficiency in the company I will put it like that. In our endeavor to produce more; in our endeavor because you know last year we went up from our turnover of approximately 425 crores to about 700 crores. So in our endeavor to produce more we have ended up increasing our inventories from about 60 to 70 crores to about 125 crores in the last 6 to 7 months and we have already started working on it. So to bring down our inventory levels without affecting production or delivery so about 80 to 90 crores because we are carrying excess inventory for the last four to five months.

#### Vinay Khattar - Edelweiss Securities

Is it raw material inventory or finished good?

# Mr. Saurav Agarwal - Managing Director

Raw material inventory; I would say some in finished good, very few in finished good because generally we are hand to mouth with respect to finished goods but raw material inventory so I am very sure by end of September I mean the result that comes out in October you would see a shift of 25 crores of inventory going down atleast and our cash credit limits going down from 75 to maybe 50 or 40. Apart from that our debtor days although they are much better I mean from 40 to 45 days we have brought it down to 35 days already still we are acting on it; another 5 to 7 days benefit to come from there. So I think this will go back to about 35 to 40

crores by October; if not by October then definitely by December. That is our inherent inefficiency of ordering material and stocking it even though we didn't require it. One of the perils of growing big. But we will come over it we have already caught it.

### **Vinay Khattar – Edelweiss Securities**

Another point pertains to the cash flow part of it, can you just throw some light on that because our cash flow expectation was about 30 crores plus for the year it's come down to just about 2.8 crores.

# Mr. Saurav Agarwal - Managing Director

In the last year or current year?

# **Vinay Khattar – Edelweiss Securities**

Yeah last year. Last year the balance sheet that got released.

# Mr. Saurav Agarwal - Managing Director

I think Mr. Luthra will be better person to answer that.

# Mr. Rajan Luthra - Financial Advisor

Yeah Vinay as I discussed the cash flow was such because of mainly because as Mr. Saurav has claimed inefficiency due to inventories and the only reason is last year we did not focus frankly if I say in; we were focusing more on sales rather more on other areas and so that is why the inventory that has eaten up over cash and if you look at the cash flow and the major chunk of it is because of the inventories and so definitely as Mr. Saurav said we are taking actions and it should be line with he has said.

#### **Vinay Khattar – Edelweiss Securities**

Right sir. And the next question pertains to about the acquisition that we are looking at, two aspects one is, is there a debt which is there or any other liabilities which are there in either these two companies?

### Mr. Saurav Agarwal - Managing Director

See I tell you for the Chinese acquisition this company what we have because you know China is a again a country where you know there can be a lot of hidden perils so while this transaction we will have to wait till January February and January would be that this the promoters of this company in china are setting up a fresh company and they will be transferring all the assets business inventory and you know everything into a fresh company and we are going to take the fresh company without any debt without any creditors. So that there is nobody who comes up and asks and says that you need to give me money or I need to take money. So it's a totally a fresh company we will be buying all the assets and current business will be moved to that company including inventories. So that takes care of the debt or anything it will be totally debt free it will be totally debtor free when we enter into that company.

# **Vinay Khattar – Edelweiss Securities**

So anything on the Indian side?

What side?

### **Vinay Khattar – Edelweiss Securities**

The Indian company that we are looking at?

# Mr. Saurav Agarwal - Managing Director

Yeah the Indian company is totally debt free.

### **Vinay Khattar – Edelweiss Securities**

Fine Thank you so much.

### Mr. Saurav Agarwal - Managing Director

Yeah ok.

### **Operator**

Thank you. The next question is from Abhir Pandit from Parag Parikh Financial Services. Please go ahead.

# **Abhir Pandit – Parag Parikh Financial Services**

Hello sir my question is basically to your general strategy so like my question is related since so many competitors are entering the construction equipment space with let's say JVs with international companies, how do you think you will compete with all of them since?

# Mr. Saurav Agarwal - Managing Director

I will tell you see unfortunately-fortunately we have the widest product range for material handling and construction equipment in the country and practically everybody leaving out the concrete machinery manufacturers like Putzmeister are not our competitors but everybody else is a competitor. Now you know it will be I will rather put it in a slightly humorous fashion that this question they are pondering about how to compete. If we look at the mobile crane segment we are already the leader and in the last 15 years there are about 17 to 18 companies big and small which are trying to enter into this segment and failed. Even three years back JCB also entered into Pick N Carry cranes and they have not been able to do with their numbers because eventually it is a product price and service. For mobile tower cranes we already have more than 90% of the market share so there is no problem as such and imported products foreign products even Potain is coming in India, a very highly priced and even technically not suitable in a way how an Indian builder or a contractor uses at site with Indian workforce. And if you look at fixed tower cranes you know in India there is two things one is Chinese import and the Indian manufacturer which has been there for nearly 30 years that is Potain which is based out of Pune.

### **Abhir Pandit – Parag Parikh Financial Services**

Ok POTAIN Shift Gear right?

### Mr. Saurav Agarwal - Managing Director

It used to be Shift Potain Gear earlier now for last three years it is POTAIN. And I am very proud to say that ever since we have started producing our machines one and a half years back we have run them down and we have around 65% market share in tower cranes now. And for backhoe loaders our numbers are small, the market is very big, JCB is the market leader, we just trying to build our numbers maybe double than this year and again try to double them the next year. For forklifts we compete with Godrej and Voltas, our product is much superior technologically as compared to Godrej and Voltas and we have already made a dent; we control about 17 to 18% of the market; hopefully this year it will go to about 25%. Now for crawler cranes the market earlier used to be mainly second hand machines which were coming from Middle-East, Europe and America. In the last three to four years there was a trend of Chinese crawler cranes coming into India and we were only selling them you know one of the companies but now we have started doing our own indigenous cranes and we have been able to offer it at nearly similar to Chinese price and that's the reason that we are booked over the next one year so you know as a matter of fact whatever outflow will be there to the Chinese companies will be about we will not be able to cater to in India and in India already TATA manufactures that product and Tata makes 30 machines every year and within our first year of making it here in India we will do more than Tata.

# **Abhir Pandit – Parag Parikh Financial Services**

Tata makes it through Telco is it?

#### Mr. Saurav Agarwal - Managing Director

Yes and we will be doing more than Tata. If you see that the tractors as I said market size is huge we are not competing with anybody we are just trying to sell in cash whatever we can produce and that's why you know anywhere between 5000 to 5500 which will be growth of around 60 to 70% even on the tractors looking at the current what we did last year. And motor graders I just explained regarding Caterpillar and KOMATSU. So there is a product which Bharat Earth Movers offer and has been selling for the last 25 to 30 years but it has its own inherent problems and the technology is slightly old. Bharat Earth Movers services and spares attitude for private customers and even for government customers is very slow being a government organization; so that's the reason people are buying much more expensive Caterpillar and KOMATSU but now they have a good option available which we will offer to them.

# **Abhir Pandit – Parag Parikh Financial Services**

Ok so my second question would be sir related to the Chinese acquisition which you are thinking, sir from whatever news we have read currently even China has been slowing down it's infra spend so would your basically target be the Indian market and export markets if the acquisition is done?

# Mr. Saurav Agarwal - Managing Director

Primarily yes because you see even for the products that the company does China market again works on credit and we would not like to do much more business in credit so and for whatever capacity that this factory will have this company will have we have a captive market in India which will be catered so rather than expanding our capacity here we are doing it in China.

### **Abhir Pandit – Parag Parikh Financial Services**

Ok. Ok.

# Mr. Saurav Agarwal - Managing Director

So that is primarily to serve Indian market and yes whatever exports that can be generated from there or here to Africa and to Middle East and Middle East is very slow or let's say South America. Or some in Europe because that products is of that technology caliber. That can go to Europe from there.

# **Abhir Pandit – Parag Parikh Financial Services**

Sir my next question would be sir seeing the current interest rates scenario how do you feel the NBFCs would be charging the players in the sense charging your clients? Do you see a slowdown in demand due to the interest rate hike if the NBFC also start taking greater price hike?

### Mr. Saurav Agarwal - Managing Director

Yeah NBFCs have already increased their prices and with every increase because NBFCs are also taking money and then lending it forward. So all the NBFCs immediately increased their price as soon as any hike from the government side. What happens is two things happens primarily if the interest rates go very high which it already is nearly the demand is satisfied you know there is shift between purchase between end users and hinging companies so hiring what happens is end users produce a little; but a little less and the hiring companies demand goes up because they want that you know they would rather take the equipment on rent at just a slightly higher monthly rental rather than you know investing more in CapEx and at a higher cost.

# **Abhir Pandit – Parag Parikh Financial Services**

Ok. Ok and yeah continue sir.

### Mr. Saurav Agarwal - Managing Director

I forgot what I was saying.

#### **Abhir Pandit – Parag Parikh Financial Services**

Sir my next question would be sir is it our basic strategy to be price orient since from whatever I have seen the realization rates ours probably is the lowest in the industry so is it that this is our strategy to be the lowest price player and then gain market share and then probably increase price?

# Mr. Saurav Agarwal - Managing Director

Here about I would just like to say that if you look at mobile tower cranes or fixed tower cranes or crawlers cranes, our prices are similar or better than the industry for similar products and if we look at yes mobile cranes or backhoe loaders or forklifts see again

the average price that I am giving to you is basically based on a lot of models you know one machine might be 5.5 lakhs and the other machine in the same category would be 8.5 lakhs. So it also depends on the model make but yes our strategy from the very beginning has been very simple the right product which is technically superior functionally better at a better cost with equally good or better services and spare support and that's how we have been able to grow over the years.

# **Abhir Pandit – Parag Parikh Financial Services**

Ok. Thank you very much sir. Thank you that all from my side.

# Mr. Saurav Agarwal - Managing Director

Thank you.

### **Operator**

Thank you. The next question is from the line of Kamlesh Kotak from Asian Markets. Please go ahead.

#### Kamlesh Kotak - Asian Markets

Hello?

# Mr. Saurav Agarwal - Managing Director

Hi.

#### Kamlesh Kotak - Asian Markets

Thank you sir. My questions have been answered. Thank you sir.

#### Mr. Saurav Agarwal - Managing Director

Ok. Thank you.

#### **Operator**

Thank you. Ladies and gentleman that was the last question. I would now like to hand the conference over to the management for closing comments.

#### Mr. Saurav Agarwal - Managing Director

Yeah. Like I said that you know things revealing normal and America not bubbling out like what we have been reading in the papers last 4, 5, 6 years or 4, 5, 6 days we should easily be able to do about 40 to 45% topline and about 60-70% bottom-line growth and our margin which is under pressure for the last two quarters hopefully they will be a breakout within the current quarter and we should be able to attain about a 9 to 10% profit before tax levels on a whole year basis in this year. That's it. Thank you.

# **Operator**

Thank you. That concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.