

# Action Construction Equipment (ACTCON)

CMP: ₹ 128

Target: ₹ 160 ( 24% )

Target Period: 12-18 months

January 30, 2021

## All round performance, sustenance key...

Action Construction Equipment (ACE) reported highest ever quarterly numbers led by a revival in infra & construction activities coupled with spillover from Q2. Revenue for the quarter came in at ₹ 400.4 crore, up 38.4% YoY. Segment revenue for crane, CE, material handling & agri equipment were ₹ 257.3 crore, ₹ 38.8 crore, ₹ 31.3 crore, ₹ 73 crore respectively. Gross margins contracted ~96 bps YoY on account of higher input costs. However, price hike in November is expected to have curtailed contraction. Further down the line, positive operating leverage and a decline of 8% YoY in employee cost aided operating performance. Consequently, EBIDTA increased 101.7% YoY to ₹ 45.2 crore with an expansion of ~ 354 bps in EBIDTA margins, which came in at 11.3%. Subsequently, ACE reported a net profit of ₹ 30.9 crore, up 145.3% YoY.

## Aiming to achieve ₹ 2500 crore topline in next three years...

The management is quite confident about achieving a revenue target of ₹ 2500 crore within the next three years and expects to grow at about 25-30% CAGR. A larger pie of the growth is expected to come from CE & agri equipment segments where the potential is enormous. ACE aims to achieve a revenue of ~ ₹ 500 crore in agri equipment and between ~ ₹ 400 and ₹ 500 crore in the CE segment in the next two to three years. ACE has a total capacity of 12000 CE's & 9000 tractors annually with current capacity utilisation being 35-40% in CE & 55% in agri equipment.

## No major capex, strong FCF generation to aid in deleveraging

Maintenance capex of ₹ 20 crore and at best another ₹ 30 crore capex in a modern paint shop coupled with FY22E CFO generation of ₹ 128 crore should aid ACE to become a debt free company by FY22. This would be another positive for the stock along with the growing topline.

## Time to beat the cycle...

ACE has always been at the mercy of infrastructure & construction activity given a major portion of revenue is contributed by the crane segment. However, recent realignment in business fundamentals and more focus on agri & CE segments is expected to usher 25-30% growth in the respective segments thereby contributing a significant portion in topline making ACE a counter cyclical company in the process.

## Valuation & Outlook

Taking cognisance of Q3FY21 numbers, the management commentary on growth, sustained margins & overall industry scenario, we expect ACE to post revenue, EBIDTA & PAT CAGR of 23%, 32.6% & 41%, respectively, as we roll over and introduce FY23E numbers. Better outlook, improving financials and a healthy balance sheet call for a target price upgrade. Hence, we value ACE at 9x FY23 EV/EBIDTA to arrive at a target price of ₹ 160 (earlier ₹ 100). We maintain our **BUY** rating on the stock.

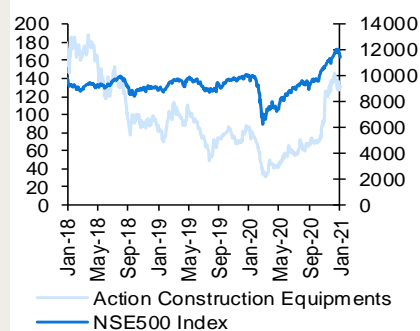
**BUY**



### Particulars

Data	Amount
Market Capitalisation	₹1464 crore
Debt (FY 20)	₹74 crore
Cash & Inv (FY 20)	₹16 crore
EV	₹1522 crore
52 week H/L	149 / 31.5
Equity capital	₹22.7 crore
Face value	₹2

### Price Chart



### Key risks to our call

- Further increase in steel prices, thereby forcing another price hike, which can be detrimental to demand
- Inability to capture market share in CE & Agri segments could affect overall performance of ACE

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### Key Financial Summary

( ₹ crore )	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Revenue	1,342.5	1,156.2	1,150.2	1,458.5	1,748.7	23.3
EBITDA	97.8	91.6	113.9	152.4	192.4	30.0
EBITDA margin (%)	7.3	7.9	9.9	10.5	11.0	
Net Profit	56.0	52.5	70.2	104.3	134.9	38.6
EPS (₹)	4.9	4.6	6.2	9.2	11.9	
P/E (x)	26.1	27.9	20.8	14.0	10.9	
EV/EBITDA (x)	15.0	16.6	12.9	9.4	7.2	
RoCE (%)	25.3	19.3	22.6	25.3	27.5	
RoE (%)	12.8	11.9	13.7	17.1	18.4	

Source: ICICI Direct Research, Company

**Exhibit 1: Variance Analysis**

Year	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ	Comments
Revenue	400.4	289.3	38%	268.3	49%	Best quarterly performance, both in terms of value and volume. Q2 spill over and revival in infra, construction and industrial activities boosted performance
Other Income	3.5	1.7	105%	1.8	93%	
Total Income	403.9	291.0	39%	270.1	50%	
Cost of materials consumed	306.4	221.2	39%	229.8	33%	Higher material cost primary led by increase in steel prices. Gross margins contracted by ~96 bps
Change in inventories	4.5	0.6	630%	-19.3	-123%	
Employee cost	20.3	22.0	-8%	17.9	13%	Employee cost declined 8% YoY
Other expenses	24.1	23.1	4%	15.6	54%	Operational efficiencies improved on account of cost control measures
EBITDA	45.2	22.4	102%	24.2	86%	EBITDA grew 102% YoY led by positive operating leverage
EBITDA Margin (%)	11.3	7.7	354 bps	9.0	225 bps	Double digit EBITDA margins achieved
Depreciation	3.5	3.2	9%	3.5	-1%	
Interest	2.5	4.2	-41%	3.5	-29%	
PBT	42.7	16.7	156%	19.0	124%	
Taxes	11.7	4.1	188%	4.5	164%	
PAT	30.9	12.6	145%	14.6	112%	Profitability improved led by higher utilisation

Key metrics	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Cranes	257.3	196.4	31%	166.4	55%	Robust performance in crane segment led by revival in infra activities
EBIT Margin %	12.9%	10.9%		9.2%		
EBIT	33.1	21.4	55%	15.2	117%	
Construction Equipment	38.8	25.3	53%	30.8	26%	Improved performance in CE segment albeit on a lower base
EBIT Margin %	7.0%	-0.7%		1.3%		
EBIT	2.7	-0.2	NA	0.4	577%	Significant expansion in CE margins
Material Handling	31.3	18.8	66%	26.5	18%	Material handling too remained buoyant
EBIT Margin %	12.7%	8.4%		13.2%		
EBIT	4.0	1.6	153%	3.5	14%	
Agri Equipment	73.0	48.6	50%	44.7	63%	Strong traction in rural demand and a good monsoon aided agri equipment performance
EBIT Margin %	11.8%	3.8%		13.0%		
EBIT	8.6	1.8	369%	5.8	49%	Improved margins in Agri segment

Source: Company, ICICI Direct Research

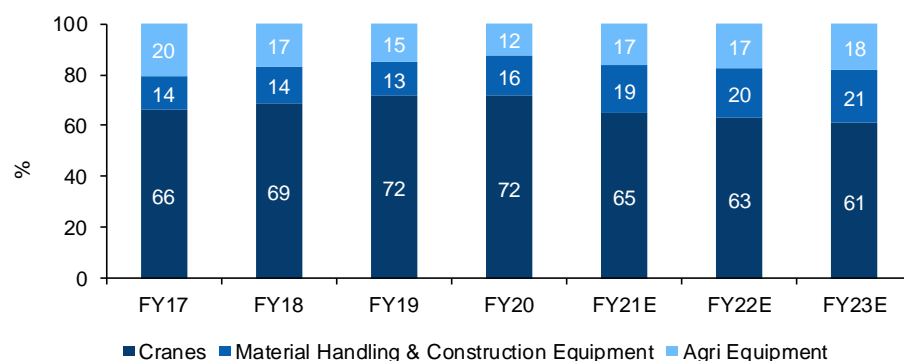
**Exhibit 2: Quarterly Volumes**

Segment	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Pick and Carry	1,549	1,677	1,440	1,264	1,180	1,142	1,251	280	891	1,506
Mobile Tower Crane	23	25	11	13	16	18	12	2	6	16
Fixed Tower Crane	47	35	6	30	36	44	49	8	42	62
Crawler Crane	5	8	4	1	1	3	2	1	4	10
Tractor		1,168	523	668	522	718	370	382	589	976
Backhoe loader	80	70	115	67	60	69	139	41	104	179
Forklift	235	302	234	234	204	59	233	83	266	331
Compactors	13	12	12	9	11	19	21	1	11	7
Graders		15		4	6	6	5		3	8
Truck Mounted Cranes	7	4	3	8	2	4	5	8	7	1
Harvestors	40	15	24	6	10	64	49	22	66	99
Rotavators	406	242	126	243	156	295	86	266	308	546
Piling Rig				3	1	5	5	3	4	

Source: Company, ICICI Direct Research

## Key operating metrics

Exhibit 3: Revenue break-up by segment



Source: Company, ICICI Direct Research

Exhibit 4: Cranes segment continues to dominate

Key segment performance	FY15	FY16	FY17	FY18	FY19	FY20
Cranes (₹crore)	360.7	398.2	496.2	749.0	964.3	828.7
Revenue contribution (%)	61.2	64.9	66.1	68.9	71.8	71.7
EBIT margins (%)	8.2	9.9	8.0	11.0	9.3	11.2
EBIT contribution (%)	92.5	100.2	82.8	82.2	81.5	95.8

Source: Company, ICICI Direct Research

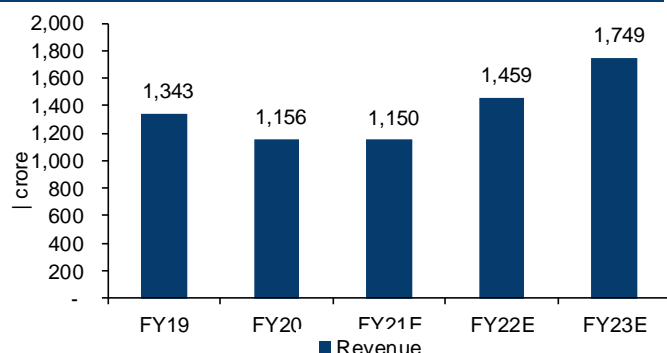
Exhibit 5: Product portfolio across segments



Source: Company, ICICI Direct Research

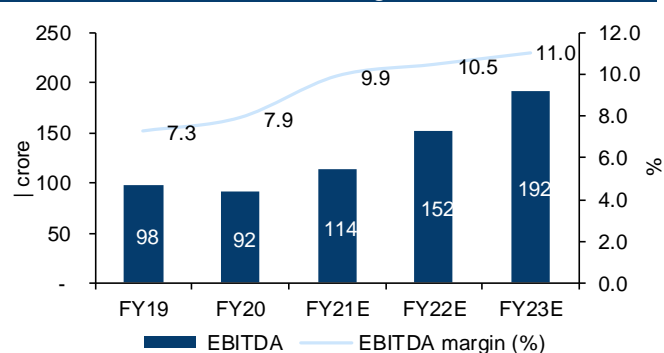
## Financial story in charts

**Exhibit 6: Net sales trend**



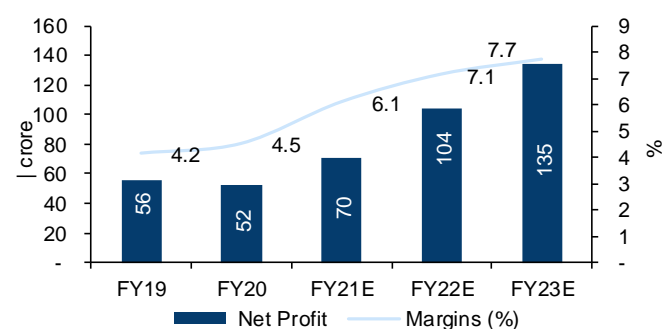
Source: Company, ICICI Direct Research

**Exhibit 7: EBITDA and EBITDA margin trend**



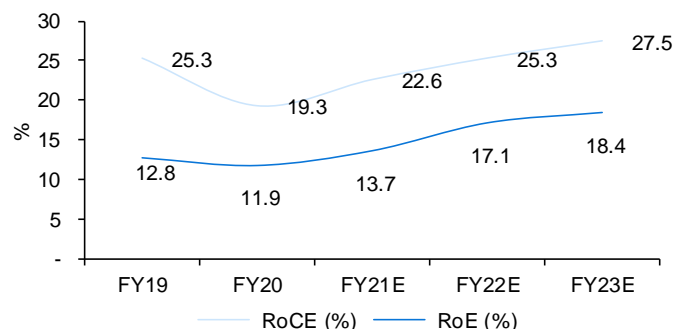
Source: Company, ICICI Direct Research

**Exhibit 8: PAT and PAT margin trend**



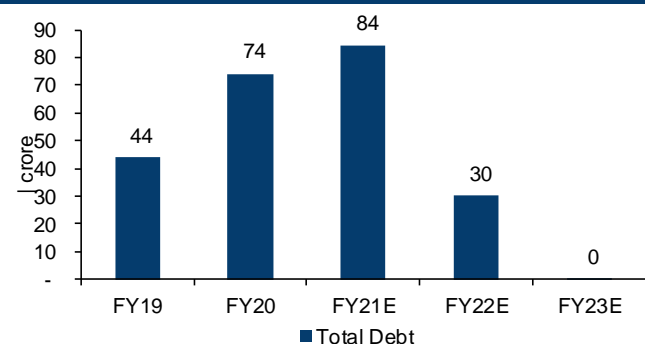
Source: Company, ICICI Direct Research

**Exhibit 9: Return ratios trend**



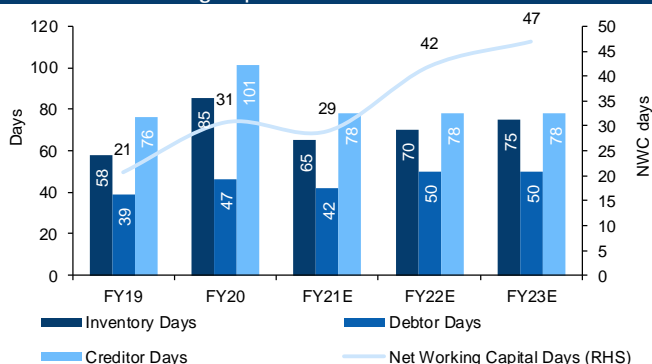
Source: Company, ICICI Direct Research

**Exhibit 10: Total debt trend**



Source: Company, ICICI Direct Research

**Exhibit 11: Working capital trend**



Source: Company, ICICI Direct Research

## Financial Summary

**Exhibit 12: Profit and loss statement** (₹ crore)

(Year-ended-March)	FY20	FY21E	FY22E	FY23E
Revenue	1,156	1,150	1,459	1,749
Total Raw Material Costs	894	888	1130	1355
Employee Expenses	86	77	92	105
Other expenses	85	71	84	96
Total Operating Expenditure	1,065	1,036	1,306	1,556
EBITDA	92	114	152	192
% Growth	-6.3	24.4	33.9	26.2
Other Income	4	10	12	12
Interest	15	13	3	0
PBDT	81	110	161	204
Depreciation	13	13	17	17
PBT before Excep item	68	98	145	187
Total Tax	16	27	41	52
PAT before MI	52	70	104	135
Minority Interest	0	0	0	0
PAT	52	70	104	135
% Growth	-6.3	33.9	48.5	29.3
EPS	4.6	6.2	9.2	11.9

Source: Company, ICICI Direct Research

**Exhibit 13: Cash Flow Statement** (₹ crore)

(Year-ended-March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	52	70	104	135
Add: Depreciation	13	13	17	17
Interest	15	13	3	0
(Inc)/decrease in CA	(61)	87	(155)	(131)
(Inc)/decrease in CL and prov	33	(102)	85	80
CF from Operations	51	98	70	117
(Inc)/decrease in Fixed Assets	(39)	(24)	(59)	(39)
Others	9	10	12	12
CF from Investing	(30)	(14)	(47)	(27)
Issue/(Buy back) of Equity	(33)	-	-	-
Inc/(dec) in loan funds	30	10	(54)	(30)
Dividend paid & dividend tax	(6)	(8)	(8)	(11)
Others	(15)	(26)	23	(29)
CF from Financing	(23)	(24)	(39)	(69)
Net Cash flow	(2)	60	(16)	20
Opening Cash/Cash Equivalent	12	9	69	53
<b>Closing Cash/ Cash Equivalent</b>	<b>9</b>	<b>69</b>	<b>53</b>	<b>73</b>

Source: Company, ICICI Direct Research

**Exhibit 14: Balance Sheet** (₹ crore)

(Year-ended-March)	FY20	FY21E	FY22E	FY23E
Equity Capital	23	23	23	23
Reserve and Surplus	420	491	587	711
Total Shareholders funds	443	514	610	734
Minority Interest	0	0	0	0
Other Non Current Liabilities	18	18	18	18
Total Debt	74	84	30	0
<b>Sources of Funds</b>	<b>535</b>	<b>616</b>	<b>658</b>	<b>752</b>
Gross Block	464	488	548	587
Acc: Depreciation	121	134	151	168
Net Block	398	405	394	417
Capital WIP	19	19	19	19
Total Fixed Assets	417	425	413	436
Non Current Assets	50	50	50	50
Inventory	271	205	280	359
Debtors	147	132	200	240
Loans and Advances	0	0	0	0
Other Current Assets	52	46	58	70
Cash & Equivalent	9	69	53	73
Investments	6	6	6	6
Total Current Assets	486	459	597	748
Current Liabilities	419	317	402	482
Net Current Assets	67	141	195	266
<b>Application of Funds</b>	<b>535</b>	<b>616</b>	<b>658</b>	<b>752</b>

Source: Company, ICICI Direct Research

**Exhibit 15: Key Ratios**

	FY20	FY21E	FY22E	FY23E
<b>Per Share Data</b>				
EPS	4.6	6.2	9.2	11.9
BV	39.0	45.3	53.7	64.7
Dividend per share	0.5	0.7	0.7	1.0
Dividend payout ratio	11.0	11.0	8.0	8.0
<b>Operating Ratios</b>				
EBITDA Margin	7.9	9.9	10.5	11.0
PAT Margin	4.5	6.1	7.1	7.7
<b>Return Ratios</b>				
RoE	11.9	13.7	17.1	18.4
RoCE	19.3	22.6	25.3	27.5
RoIC	20.0	25.2	26.8	30.0
<b>Valuation Ratios</b>				
EV / EBITDA	16.6	12.9	9.4	7.2
P/E	27.9	20.8	14.0	10.9
EV / Net Sales	1.3	1.3	1.0	0.8
Market Cap / Sales	1.3	1.3	1.0	0.8
Price to Book Value	3.3	2.8	2.4	2.0
<b>Turnover Ratios</b>				
Asset turnover	2.6	2.2	2.3	2.4
Debtors Turnover Ratio	7.8	8.7	7.3	7.3
Creditors Turnover Ratio	3.6	4.7	4.7	4.7
<b>Solvency Ratios</b>				
Debt / Equity	0.2	0.2	0.0	0.0
Current Ratio	1.1	1.2	1.3	1.4
Quick Ratio	0.5	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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Buy : > 15%

Hold : -5% to 15%;

Reduce : -5% to -15%;

Sell : < -15%



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