

Action Construction Equipment (ACTCON)

CMP: ₹ 285

Target: ₹ 365 (28%)

Target Period: 12 months

BUY

September 7, 2022

Long term outlook positive...

About the stock: Action Construction Equipment (ACE) is an Indian construction equipment and material handling company.

- ACE has eight manufacturing and one R&D site in Faridabad, Haryana
- ACE's product portfolio is divided into four main categories viz. agricultural equipment, construction equipment, road construction equipment and earth-moving machinery

Rationale: Significant traction in tendering activity points to a strong capex cycle.

- Tendering activity has seen a robust pace as tenders worth ₹ 369031 crore have been issued despite macro concerns. Tendering activity has seen 58% YoY growth. From a pre Covid level, the tendering activity is up 240% YoY
- Fresh projects investments have almost doubled from FY20 levels, with private share coming with a strong rebound. Order inflow in Q1FY23 was at ₹ 52090 crore vs. ₹ 36138 crore in Q1FY22. We believe ACE is likely to benefit in terms of strong volumes, operating leverage and strong b/s
- With construction equipment, agri segment expected to perform better in coming quarters coupled with focus on backward integration, ACE is on course to achieve its ₹ 2500 crore revenue target by 2024E. We build in revenue, EBITDA, PAT to grow 23.1%, 41.6, 43.7%, respectively, in FY22-24E

What should investors do? For the past year, ACE has remained richly valued given its clean balance sheet, above 65% market share in cranes, contract from Ghana government and introduction of newer products, which will drive strong double-digit volume growth in the medium term.

- We continue to remain positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value ACE at ₹ 365 i.e. 20x P/E on FY24E EPS.

Alternate Stock Idea: Apart from ACE, in our capital goods & power coverage, we like NRB. It offers a play on needle roller bearings. We recommend **BUY** with a target price of ₹ 220 per share i.e. 18x P/E on FY24E EPS.

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Revenue	1,343.2	1,156.2	1,227.0	1,629.6	15.6	2,012.7	2,468.3	23.1
EBITDA	98.5	91.6	119.4	151.4	33.3	231.5	303.6	41.6
EBITDA margin (%)	7.3	7.9	9.7	9.3		11.5	12.3	
Net Profit	56.1	52.5	80.2	105.0	49.6	166.0	216.8	43.7
EPS (₹)	4.9	4.6	7.1	8.8		13.9	18.2	
P/E (x)	51.7	56.7	40.3	32.3		20.4	15.7	
EV/EBITDA (x)	29.7	33.1	27.0	21.6		13.9	10.4	
RoCE (%)	25.3	19.3	26.9	23.0		24.0	25.8	

Source: Company, ICICI Direct Research



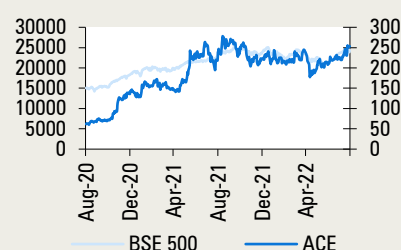
Particulars

Particular	Amount
Market Capitalization	3,394
Total Debt (FY22) (₹ crore)	8
Cash and Inv (FY22) (₹ crore)	185
EV (FY22) (₹ crore)	3,277
52 week H/L (₹) (BSE)	292 /160
Equity capital (₹ crore)	11.9
Face value (₹)	2

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	66.8%	66.8%	66.8%	66.8%
FII	5.3%	3.3%	4.8%	4.7%
DII	4.0%	3.9%	3.5%	4.2%
Others	24.0%	26.1%	24.9%	24.5%

Price Chart



Recent event & key risks

- New acquisitions; Decreasing Raw material prices
- **Key Risk:** (i) Muted CE and agri segment, (ii) Capex and infra spending

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Financial Summary

Exhibit 1: Profit and loss statement				
₹ crore				
(Year-ended-March)	FY21	FY22	FY23E	FY24E
Revenue	1,227	1,629.6	2,012.7	2,468.3
Total Raw Material Costs	962	1307	1570	1901
Employee Expenses	72	85	105	131
Other expenses	74	86	107	133
Total Operating Expenditure	1,108	1,478	1,781	2,165
EBITDA	119	151	231	304
EBITDA Margins	9.7%	9.3%	11.5%	12.3%
EBITDA Growth %		26.9%	52.8%	31.2%
Other Income	15	15	8	10
Interest	12	14	1	1
PBDT	3	1	8	10
Depreciation	14	15	15	20
PBT before Excep item	108	137	224	293
Total Tax	28	32	58	76
PAT before MI	80	105	166	217
Minority Interest	0	0	0	0
PAT	80	105	166	217
% Growth	52.8	31.0	58.1	30.6
EPS	7.1	8.8	13.9	18.2

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
₹ crore				
(Year-ended-March)	FY21	FY22	FY23E	FY24E
Profit after Tax	80	105	166	217
Add: Depreciation	14	15	15	20
Interest	12	14	1	1
(Inc)/decrease in CA	(59)	(71)	(253)	(125)
(Inc)/decrease in CL and prov	42	42	131	47
CF from Operations	106	104	69	169
(Inc)/decrease in Fixed Assets	(18)	(69)	(83)	(83)
Others	5	(83)	14	16
CF from Investing	(12)	(153)	(68)	(67)
Issue/(Buy back) of Equity	-	136	-	-
Inc/(dec) in loan funds	(23)	(43)	-	-
Dividend paid & dividend tax	(6)	(7)	(13)	(17)
Others	(25)	12	(29)	(29)
CF from Financing	(54)	98	(43)	(47)
Net Cash flow	40	49	(42)	56
Opening Cash/Cash Equivalent	10	50	99	57
Closing Cash/ Cash Equivalent	50	99	57	113

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
₹ crore				
(Year-ended-March)	FY21	FY22	FY23E	FY24E
Equity Capital	23	24	24	24
Reserve and Surplus	501	730	946	1160
Total Shareholders funds	523	754	970	1183
Minority Interest	0	0	0	0
Other Non Current Liabilities	18	17	12	12
Total Debt	51	8	8	8
Sources of Funds	593	779	990	1,204
Gross Block	488	536	630	713
Acc: Depreciation	135	151	165	185
Net Block	416	437	458	498
Capital WIP	13	34	23	23
Total Fixed Assets	429	472	480	520
Non Current Assets	36	106	113	119
Inventory	266	343	414	507
Debtors	225	189	358	372
Loans and Advances	0	0	0	0
Other Current Assets	38	68	81	99
Cash & Equivalent	37	14	57	113
Investments	25	110	120	120
Total Current Assets	591	725	1030	1211
Current Liabilities	463	503	634	681
Net Current Assets	128	222	396	530
Application of Funds	593	779	990	1,204

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	7.1	8.8	13.9	18.2
BV	46.1	63.3	81.4	99.4
Dividend per share	0.5	0.6	1.1	1.5
Dividend payout ratio	7.1	6.8	8.0	8.0
Operating Ratios				
EBITDA Margin	9.7	9.3	11.5	12.3
PAT Margin	6.5	6.4	8.2	8.8
Return Ratios				
RoE	15.3	13.9	17.1	18.3
RoCE	26.9	23.0	24.0	25.8
RoIC	28.0	26.8	29.1	31.9
Valuation Ratios				
EV / EBITDA	27.0	21.6	13.9	10.4
P/E	40.3	32.3	20.4	15.7
EV / Net Sales	2.6	2.0	1.6	1.3
Market Cap / Sales	2.6	2.1	1.7	1.4
Price to Book Value	6.2	4.5	3.5	2.9
Turnover Ratios				
Asset turnover	2.4	2.3	2.1	2.1
Debtors Turnover Ratio	5.5	8.6	5.6	6.6
Creditors Turnover Ratio	3.7	4.5	4.3	4.7
Solvency Ratios				
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.1	1.2	1.3	1.4
Quick Ratio	0.6	0.5	0.7	0.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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