

Action Construction Equipment (ACTCON)

CMP: ₹ 362

Target: ₹ 435 (21%)

Target Period: 12 months

BUY

February 8, 2023

Strong growth in cranes, construction equipment...

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
- The company has a capacity of 12000 construction equipment and 9000 tractors annually
- ACE's product portfolio is divided into four main categories viz. agricultural equipment, construction equipment, road construction equipment and earth-moving machinery

Q3FY23 Results: ACE reported a strong operational performance.

- Revenue for the quarter was at ₹ 556.3 crore, up 27% YoY & 13% QoQ
- EBITDA margin improved 208 bps YoY led by easing of raw material cost and positive operating leverage. Absolute EBITDA was at ₹ 61.9 crore, up 57% YoY & 37% YoY
- PAT was at ₹ 46.7 crore; up 70% YoY & 38% QoQ

What should investors do? ACE continues to move on its growth path led by strong demand, focus on increasing share in exports, defence and improving product mix. The management's guidance is at 28-30% growth for FY23E

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

Target Price and Valuation: We value ACE at ₹ 435 i.e. 18x PE on FY25E EPS

Key triggers for future price performance:

- Cranes segment is doing well. Contract from Government of Ghana and strong traction from the defence sector
- Upcoming government & private capex are providing fillip to the sector

Alternate Stock Idea: We also like SKF in our capital goods coverage.

- It is one of the leading bearing manufacturers known for its deep groove ball bearings and has a presence across the industrial and auto sector
- BUY with a target price of ₹ 5215 i.e. 40x P/E on FY24E EPS



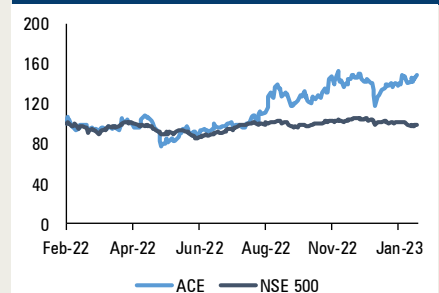
Particulars

| Particular | Amount |
|-------------------------------|----------|
| Market Capitalization | 4,311 |
| Total Debt (FY22) (₹ crore) | 8 |
| Cash and Inv (FY22) (₹ crore) | 185 |
| EV (FY22) (₹ crore) | 4,194 |
| 52 week H/L (₹) (BSE) | 365 /175 |
| Equity capital (₹ crore) | 11.9 |
| Face value (₹) | 2 |

Shareholding pattern

| | Mar-22 | Jun-22 | Sep-22 | Dec-22 |
|-----------|--------|--------|--------|--------|
| Promoters | 66.8% | 66.8% | 66.8% | 66.8% |
| FII | 4.8% | 4.7% | 4.9% | 5.0% |
| DII | 3.5% | 4.2% | 4.6% | 3.5% |
| Others | 24.9% | 24.5% | 23.8% | 24.8% |

Price Chart



Recent event & key risks

- Capex plans & infra activities
- **Key Risk:** (i) Delay in acquisition (ii) Inability to achieve meaningful growth in CE & agri segments

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

Key Financial Summary

| (Year-end March) | FY20 | FY21 | FY22 | 5 Year CAGR (FY17-FY22) | FY23E | FY24E | FY25E | 2 Year CAGR (FY22-FY25E) |
|-------------------|---------|---------|---------|-------------------------|---------|---------|---------|--------------------------|
| Revenue | 1,156.2 | 1,227.0 | 1,629.6 | 15.6 | 2,111.1 | 2,556.6 | 2,982.5 | 22.3 |
| EBITDA | 91.6 | 119.4 | 151.4 | 33.3 | 228.0 | 304.2 | 372.8 | 35.0 |
| EBITDA margin (%) | 7.9 | 9.7 | 9.3 | | 10.8 | 11.9 | 12.5 | |
| Net Profit | 52.5 | 80.2 | 105.0 | 49.6 | 183.5 | 239.8 | 288.7 | 40.1 |
| EPS (₹) | 4.6 | 7.1 | 8.8 | | 15.4 | 20.1 | 24.2 | |
| P/E (x) | 56.7 | 51.2 | 41.1 | | 23.5 | 18.0 | 14.9 | |
| EV/EBITDA (x) | 33.1 | 34.3 | 27.7 | | 18.0 | 13.1 | 10.2 | |
| RoCE (%) | 19.3 | 26.9 | 23.0 | | 29.8 | 29.7 | 28.1 | |
| RoE (%) | 11.9 | 15.3 | 13.9 | | 18.6 | 19.6 | 19.4 | |

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY23 Results: Strong operational performance with 27% YoY revenue growth and 208 bps improvement in EBITDA margin

- Revenue for quarter came in at ₹ 556.3 crore, up 27% YoY & 13% QoQ. The YoY growth was mainly led by crane segment, which constituted 69% of total revenues (as against 62% last year) and witnessed growth of 43% YoY (+8% QoQ) to ₹ 385.6 crore. Construction equipment segment (11% of total revenue) also saw 32% YoY growth (+15% QoQ) to ₹ 62.5 crore. Material handling segment witnessed muted growth of 3% YoY to ₹ 44.4 crore while agri equipment segment revenue declined 17% YoY to ₹ 63.8 crore. However, material handling and agri equipment segments have shown better performance on a QoQ basis with 25% and 43% growth, respectively
- Gross margins increased 876 bps YoY and 128 bps QoQ to 29.0%, primarily on account of easing of raw material prices. EBITDA margin was at 11.1% (+208 bps YoY and +196 bps QoQ) leading to absolute EBITDA growth of 57% YoY (+37% QoQ) to ₹ 61.9 crore
- EBIT margins for crane segment improved to 13.9% (+220 bps YoY, +115 bps QoQ). Construction equipment and material handling segments have also witnessed improvement in EBIT margins by 481 bps YoY (+362 bps QoQ) and 389 bps YoY (+525 bps QoQ) respectively. Only agri equipment segment saw contraction in EBIT margin on a YoY basis and were at 3.7% (vs. 8.3% in Q2FY23)
- PAT increased 70% YoY (+38% QoQ) to ₹ 46.7 crore

Q3FY23 Earnings Conference Call highlights

- Revenue guidance: 28-30% growth for FY23 with crane segment growth at 25-30%, construction equipment 30-35% growth, material equipment at 10% growth and agricultural equipment at 15% growth. Revenue guidance for FY24E is 15-20% (with high possibility of upward revision in further quarters)
- EBITDA margins for FY23 are expected at ~11% and 12-13% for FY24E considering the company's focus on cost efficiencies, higher operating leverage and better product mix
- Demand has been robust in cranes and construction equipment segments. Demand for agriculture equipment was muted during the quarter but expected to improve in Q4FY23 and FY24E
- In cranes segment, infrastructure and manufacturing constitutes ~45% each to the revenue while real estate constitutes ~10%
- Higher capex allocation for roads, railways and urban infra will benefit the whole crane and construction equipment industry
- Raw material prices have seen moderation during the 9MFY23 while the average commodity prices are still at elevated levels
- Exports revenue was at ₹ 50 crore in Q3FY23 and ₹ 74 crore in 9MFY23
- The company's focus is on increasing exports share as percentage of total revenue. Currently exports share is 6% and is expected to increase to 10-15% by FY24E/25E
- Potential revenue from defence industry can be ₹ 700-800 crore in the longer term considering the focus on defence sector from government
- Capex for FY23E was at ₹ 35 crore for installing a new capacity for manufacturing large cranes. The capacity is expected to commence production from June/July 2023. Capex for FY24E is expected at ₹ 40 crore
- Capacity utilisation in cranes segment was at ~70% while it was 50% in construction equipment segment

Exhibit 1: Variance Analysis

| | Q3FY23 | Q3FY22 | YoY (%) | Q2FY23 | QoQ (%) | Comments |
|----------------------------|--------|--------|---------|--------|---------|---|
| Revenue | 556.3 | 436.6 | 27% | 491.8 | 13% | Strong performance in cranes and construction equipments segment led by healthy volumes |
| Other Income | 7.7 | 5.0 | 53% | 6.0 | 29% | |
| Total Income | 564.0 | 441.6 | 28% | 497.8 | 13% | |
| Cost of materials consumed | 410.4 | 353.6 | 16% | 358.8 | 14% | |
| Change in inventories | -15.3 | -5.2 | 192% | -3.1 | 388% | |
| Employee cost | 26.8 | 24.7 | 9% | 23.8 | 13% | |
| Other expenses | 72.5 | 24.1 | 201% | 67.4 | 8% | |
| EBITDA | 61.9 | 39.4 | 57% | 45.0 | 37% | |
| EBITDA Margin (%) | 11.1 | 9.0 | 208 bps | 9.2 | 196 bps | Margins improved on positive operating leverage |
| Depreciation | 4.4 | 3.9 | 11% | 4.0 | 10% | |
| Interest | 3.1 | 3.4 | -9% | 2.1 | 47% | |
| PBT | 62.0 | 37.1 | 67% | 44.9 | 38% | |
| Taxes | 15.3 | 9.5 | 61% | 11.0 | 39% | |
| PAT | 46.7 | 27.5 | 70% | 33.9 | 38% | |

| Key metrics | Q3FY23 | Q3FY22 | YoY (%) | Q2FY23 | QoQ (%) | Comments |
|------------------------|--------|--------|---------|--------|---------|---|
| Cranes | 385.6 | 268.8 | 43% | 357.4 | 8% | Volumes grew 27% YoY; Realisations up 13% YoY |
| EBIT Margin % | 13.9% | 11.7% | | 12.8% | | |
| EBIT | 53.8 | 31.6 | 70% | 45.7 | 18% | |
| Construction Equipment | 62.5 | 47.4 | 32% | 54.2 | 15% | Volumes grew 22% YoY; Realisations up 8% YoY |
| EBIT Margin % | 10.3% | 5.5% | | 6.6% | | |
| EBIT | 6.4 | 2.6 | 148% | 3.6 | 78% | |
| Material Handling | 44.4 | 43.1 | 3% | 35.6 | 25% | Volumes down 6% YoY; up 20% sequentially |
| EBIT Margin % | 15.7% | 11.8% | | 10.4% | | |
| EBIT | 7.0 | 5.1 | 37% | 3.7 | 88% | |
| Agri Equipment | 63.8 | 77.3 | -17% | 44.7 | 43% | Volumes down 30% YoY; up 15% sequentially |
| EBIT Margin % | 3.7% | 8.3% | | 1.0% | | |
| EBIT | 2.4 | 6.4 | -63% | 0.4 | 456% | |

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

| | FY22 | FY23E | | | FY24E | | | FY25E |
|-------------------|---------|-------|---------|----------|---------|---------|----------|---------|
| (₹ Crore) | Actual | Old | New | % Change | Old | New | % Change | New |
| Revenue | 1,629.6 | 2,053 | 2,111.1 | 2.8 | 2,518.3 | 2,556.6 | 1.5 | 2,982.5 |
| EBITDA | 151.4 | 250 | 228.0 | -9.0 | 319.8 | 304.2 | -4.9 | 372.8 |
| EBITDA Margin (%) | 9.3 | 12.2 | 10.8 | -140 bps | 12.7 | 11.9 | -80 bps | 12.5 |
| PAT | 105.0 | 180 | 183.5 | 1.9 | 228.8 | 239.8 | 4.8 | 288.7 |
| EPS (₹) | 8.8 | 15.1 | 15.4 | 1.9 | 19.2 | 20.1 | 4.8 | 24.2 |

Source: ICICI Direct Research

Financial Summary

| (Year-ended-March) | FY22 | FY23E | FY24E | FY25E |
|------------------------------------|--------------|--------------|--------------|--------------|
| Revenue | 1,630 | 2,111 | 2,557 | 2,983 |
| Total Raw Material Costs | 1307 | 1499 | 1815 | 2118 |
| Employee Expenses | 85 | 103 | 125 | 146 |
| Other expenses | 86 | 281 | 312 | 346 |
| Total Operating Expenditure | 1,478 | 1,883 | 2,252 | 2,610 |
| EBITDA | 151 | 228 | 304 | 373 |
| EBITDA Margins | 9.3% | 10.8% | 11.9% | 12.5% |
| EBITDA Growth % | 26.9% | 50.6% | 33.4% | 22.5% |
| Other Income | 15 | 48 | 50 | 50 |
| Interest | 14 | 10 | 10 | 10 |
| PBDT | 1 | 38 | 40 | 40 |
| Depreciation | 15 | 18 | 20 | 23 |
| PBT before Excep item | 137 | 248 | 324 | 390 |
| Total Tax | 32 | 64 | 84 | 101 |
| PAT before MI | 105 | 183 | 240 | 289 |
| Minority Interest | 0 | 0 | 0 | 0 |
| PAT | 105 | 183 | 240 | 289 |
| % Growth | 31.0 | 74.7 | 30.7 | 20.4 |
| EPS | 8.8 | 15.4 | 20.1 | 24.2 |

Source: Company, ICICI Direct Research

| (Year-ended-March) | FY22 | FY23E | FY24E | FY24E |
|--------------------------------------|--------------|-------------|-------------|-------------|
| Profit after Tax | 105 | 183 | 240 | 289 |
| Add: Depreciation | 15 | 18 | 20 | 23 |
| Interest | 14 | 10 | 10 | 10 |
| (Inc)/decrease in CA | (71) | (294) | (119) | (185) |
| (Inc)/decrease in CL and prov | 42 | 162 | 40 | 117 |
| CF from Operations | 104 | 88 | 202 | 265 |
| (Inc)/decrease in Fixed Assets | (69) | (83) | (83) | (83) |
| Others | (83) | 54 | 56 | 56 |
| CF from Investing | (153) | (28) | (27) | (27) |
| Issue/(Buy back) of Equity | 136 | - | - | - |
| Inc/(dec) in loan funds | (43) | - | - | - |
| Dividend paid & dividend tax | (7) | (15) | (19) | (23) |
| Others | 12 | (39) | (39) | (39) |
| CF from Financing | 98 | (53) | (58) | (62) |
| Net Cash flow | 49 | 6 | 117 | 177 |
| Opening Cash/Cash Equivalent | 50 | 99 | 105 | 223 |
| Closing Cash/ Cash Equivalent | 99 | 105 | 223 | 399 |

Source: Company, ICICI Direct Research

| (Year-ended-March) | FY22 | FY23E | FY24E | FY25E |
|-------------------------------|------------|--------------|--------------|--------------|
| Equity Capital | 24 | 24 | 24 | 24 |
| Reserve and Surplus | 730 | 962 | 1197 | 1463 |
| Total Shareholders funds | 754 | 986 | 1221 | 1486 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Other Non Current Liabilities | 17 | 12 | 12 | 12 |
| Total Debt | 8 | 8 | 8 | 8 |
| Sources of Funds | 779 | 1,006 | 1,241 | 1,507 |
| Gross Block | 536 | 630 | 713 | 796 |
| Acc: Depreciation | 151 | 169 | 189 | 211 |
| Net Block | 437 | 454 | 494 | 531 |
| Capital WIP | 34 | 23 | 23 | 23 |
| Total Fixed Assets | 472 | 477 | 517 | 554 |
| Non Current Assets | 106 | 113 | 119 | 125 |
| Inventory | 343 | 434 | 525 | 621 |
| Debtors | 189 | 376 | 385 | 458 |
| Loans and Advances | 0 | 0 | 0 | 0 |
| Other Current Assets | 68 | 84 | 102 | 119 |
| Cash & Equivalent | 14 | 105 | 223 | 399 |
| Investments | 110 | 120 | 120 | 120 |
| Total Current Assets | 725 | 1120 | 1356 | 1718 |
| Current Liabilities | 503 | 665 | 705 | 822 |
| Net Current Assets | 222 | 455 | 651 | 895 |
| Application of Funds | 779 | 1,006 | 1,241 | 1,507 |

Source: Company, ICICI Direct Research

| | FY22 | FY23E | FY24E | FY25E |
|--------------------------|------|-------|-------|-------|
| Per Share Data | | | | |
| EPS | 8.8 | 15.4 | 20.1 | 24.2 |
| BV | 63.3 | 82.8 | 102.5 | 124.8 |
| Dividend per share | 0.6 | 1.2 | 1.6 | 1.9 |
| Dividend payout ratio | 6.8 | 8.0 | 8.0 | 8.0 |
| Operating Ratios | | | | |
| EBITDA Margin | 9.3 | 10.8 | 11.9 | 12.5 |
| PAT Margin | 6.4 | 8.7 | 9.4 | 9.7 |
| Return Ratios | | | | |
| RoE | 13.9 | 18.6 | 19.6 | 19.4 |
| RoCE | 23.0 | 29.8 | 29.7 | 28.1 |
| RoIC | 26.8 | 33.1 | 36.1 | 37.7 |
| Valuation Ratios | | | | |
| EV / EBITDA | 27.7 | 18.0 | 13.1 | 10.2 |
| P/E | 41.1 | 23.5 | 18.0 | 14.9 |
| EV / Net Sales | 2.6 | 1.9 | 1.6 | 1.3 |
| Market Cap / Sales | 2.6 | 2.0 | 1.7 | 1.4 |
| Price to Book Value | 5.7 | 4.4 | 3.5 | 2.9 |
| Turnover Ratios | | | | |
| Asset turnover | 2.3 | 2.1 | 2.0 | 1.9 |
| Debtors Turnover Ratio | 8.6 | 5.6 | 6.6 | 6.5 |
| Creditors Turnover Ratio | 4.5 | 4.3 | 4.7 | 4.7 |
| Solvency Ratios | | | | |
| Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 1.2 | 1.3 | 1.4 | 1.5 |
| Quick Ratio | 0.5 | 0.7 | 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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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