

# Action Construction Equipment (ACTCON)

CMP: ₹ 464

Target: ₹ 555 (20%)

Target Period: 12 months

BUY

June 1, 2023

## Cranes, construction segment continues to drive growth

**About the stock:** Action Construction Equipment (ACE) is an Indian construction equipment (CE) 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

**Q4FY23 Results:** Strong operational performance continues.

- Revenue for the quarter was at ₹ 613.8 crore, up 20.2% YoY & 10.3% QoQ
- Gross margins improved sharply by 1370 bps YoY and 257 bps QoQ to 31.5%, primarily on account of easing of raw material prices
- EBIDTA margin was at 11.9% (up 269 bps YoY, 82 bps QoQ) leading to absolute EBIDTA growth of 55.2% YoY (up 18.5% QoQ) to ₹ 73.3 crore
- PAT was at ₹ 47.2 crore, up 33.2% YoY

**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 15-20% growth for FY24E.

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

**Target Price and Valuation:** We value ACE at ₹ 555 i.e. 22x PE on FY25E EPS.

**Key triggers for future price performance:**

- Strong growth is expected to continue in the cranes and construction equipment segments. The material handling segment is also expected to grow at a better rate in FY24 led by industrial capex
- Capacity expansion in cranes segment provides revenue potential of ₹ 3800-4000 crore
- Margins to improve led by cost efficiency measures, better realisation and positive operating leverage

**Alternate Stock Idea:** We also like Anup Engineering in our capital goods coverage.

- Anup is on the cusp of entering a new trajectory led by new products and capex, which is expected to lead to strong earnings growth
- BUY with a target price of ₹ 1880 i.e. 20x P/E on FY25E EPS



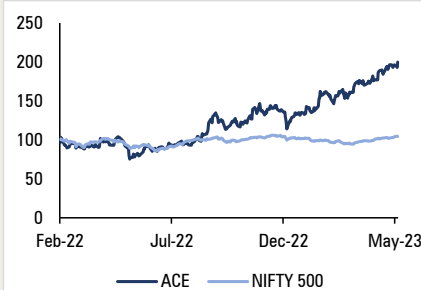
### Particulars

Particular	Amount
Market Capitalization	5,526
Total Debt (FY23) (₹ crore)	6
Cash and Inv (FY23) (₹ crore)	424
EV (FY23) (₹ crore)	5,442
52 week H/L (₹) (BSE)	475 /198
Equity capital (₹ crore)	11.9
Face value (₹)	2

### Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	66.8%	66.8%	66.8%	66.8%
FII	4.7%	4.9%	5.0%	5.6%
DII	4.2%	4.6%	3.5%	3.5%
Others	24.5%	23.8%	24.8%	24.0%

### 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

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### Key Financial Summary

(Year-end March)	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	2 Year CAGR (FY23-FY25E)
Revenue	1,156.2	1,227.0	1,629.6	2,159.7	23.2	2,591.6	3,110.9	20.0
EBITDA	91.6	119.4	151.4	220.9	34.1	309.4	388.9	32.7
EBITDA margin (%)	7.9	9.7	9.3	10.2		11.9	12.5	
Net Profit	52.5	80.2	105.0	173.0	48.8	243.7	301.1	31.9
EPS (₹)	4.6	7.1	8.8	14.5		20.5	25.3	
P/E (x)	56.7	65.7	52.6	31.9		22.7	18.4	
EV/EBITDA (x)	33.1	44.0	35.9	23.9		17.2	13.3	
RoCE (%)	19.3	24.0	19.9	30.6		31.0	30.4	
RoE (%)	11.9	15.3	13.9	18.8		20.0	20.2	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q4FY23 Results: Strong operational performance continues with healthy revenue growth, improvement in margins

- Revenue for the quarter came in at ₹ 613.8 crore, up 20.2% YoY and 10.3% QoQ. The strong YoY growth was mainly led by cranes, construction equipment and material handling segments. Cranes segment revenue, which constitutes 71% of total revenues, grew 17.9% YoY. Revenue from construction equipment and material handling segments, which contributes 13% and 8% to sales, grew 54.7% YoY and 33.8% YoY, respectively. However, agri equipment segment (7% of sales) witnessed a decline of 9.6% YoY in revenue
- FY23 revenue was up 32.5% YoY to ₹ 2159.7 crore. Cranes segment sales (71% of total) increased 38.6% YoY while construction equipment sales (12% of sales) were up 41.5% YoY. Material handling, agri equipment segments (8%, 10% of sales) grew 11.2% YoY, 6.8% YoY, respectively
- Gross margins improved sharply by 1370 bps YoY and 257 bps QoQ to 31.5%, primarily on account of easing of raw material prices. FY23 gross margin was up 912 bps YoY to 28.9%
- The EBIDTA margin was at 11.9% (up 269 bps YoY, 82 bps QoQ) leading to absolute EBIDTA growth of 55.2% YoY (up 18.5% QoQ) to ₹ 73.3 crore. FY23 EBITDA was up 45.7% YoY to ₹ 220.9 crore as the EBITDA margin improved to 10.2% vs. 9.3% in FY22
- EBIT margins for the crane segment improved 300 bps YoY to 14.6% while construction equipment segment EBIT margin improved 830 bps YoY to 13.9%. Agri equipment EBIT margin also improved to 2.6% (up 112 bps YoY) while material handling segment saw a contraction of 82 bps YoY to 11.7%
- PAT increased 33.2% YoY (+1% QoQ) to ₹ 47.2 crore. FY23 PAT was up 64.3% YoY to ₹ 173 crore

### Earnings Call highlights

- **Revenue guidance:** Total 15-20% growth for FY24 with a possible upward revision in coming quarters. Crane, material handling and agri equipment segment growth is expected at 15-20% while construction equipment segment growth is expected at 30-35%
- EBITDA margins for FY24 are expected to be up 100-150 bps YoY considering the company's focus on cost efficiencies, higher operating leverage and better product mix
- Demand has been healthy in the cranes and construction equipment segments led by higher capex allocation for roads, railways and urban infra
- Capacity utilisation has reached peak levels in the cranes and construction equipment segments
- The company is growing better than the industry in cranes and construction equipment as its volume growth was at ~24% YoY and ~38% YoY in cranes and construction equipment segments, respectively
- Volumes in agriculture equipment segment declined in FY23 as the industry is migrating from BS-III norms to BS-IV norms. There was an inventory level of only three to five weeks in agriculture equipment. However, volumes are expected to improve in FY24 led by better crop prices and expected normal monsoon
- Exports revenue share was at 6.7% of sales in FY23 and is expected to increase to 9-10% in FY24. The medium term target of the company in exports is to reach 15-20% of sales

- Capex for new capacity for manufacturing large cranes is ₹ 80-90 crore. The capacity is expected to commence production from Q2FY24
- Potential turnover post commissioning of new capacity is ₹ 3800-4000 crore
- Though there was a rise in imports of larger cranes from China, the company is setting up new capacity as demand has been robust
- The company's focus is on increasing its market share in larger cranes like crawler & truck cranes. Moreover, the focus remains on maintaining its leadership position in pick & carry cranes
- Material handling equipment segment is growing at 10-15% but is expected to increase in the coming period led by industrial capex
- Regarding inorganic growth, the acquisitions that the company was looking for, have been kept on hold due to valuation concerns. However, there are three to four more opportunities, which the company is exploring
- The defence segment is contributing 2.5-3% to total sales at present. The company is aiming to increase this share to 8-10% in the coming period

**Exhibit 1: Variance Analysis**

Particulars (₹ Crore)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Revenue	613.8	510.6	20.2%	556.3	10.3%	Strong performance in cranes and construction equipments segment led by healthy volumes
Raw Material cost	420.3	419.5	0.2%	395.2	6.4%	
Employee cost	26.6	20.8	27.8%	26.8	-0.9%	
Other expenses	93.7	23.1	306.4%	72.5	29.3%	
Total Expenditure	540.6	463.4	16.7%	494.5	9.3%	
EBITDA	73.3	47.2	55.2%	61.9	18.5%	
EBITDA Margin (%)	11.9	9.2	269 bps	11.1	82 bps	Margins improved on positive operating leverage
Other Income	3.1	5.4	-42.2%	7.7	-59.4%	
Depreciation	5.0	4.0	24.3%	4.4	13.9%	
Interest	3.4	4.3	-20.9%	3.1	8.0%	
PBT	68.0	44.3	53.5%	62.0	9.7%	
Taxes	20.9	8.9	134.2%	15.3	36.3%	
PAT	47.2	35.4	33.2%	46.7	1.0%	

Key metrics (₹ Crore)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
<b>Cranes</b>						
Revenue	437.3	370.9	17.9%	385.6	13.4%	Volumes grew 13% YoY; Realisations up 4.4% YoY
EBIT	63.9	43.0	48.6%	50.7	26.0%	
EBIT Margin (%)	14.6%	11.6%	302 bps	13.1%		
<b>Construction Equipment</b>						
Revenue	80.9	52.2	54.7%	62.5	29.4%	Volumes grew 110% YoY; Realisations down 26% YoY
EBIT	11.2	2.9	284.1%	6.4	75.4%	
EBIT Margin (%)	13.9%	5.6%	830 bps	10.3%		
<b>Material Handling</b>						
Revenue	51.3	38.4	33.8%	44.4	15.6%	Volumes grew 10% YoY; Realisation up 22% YoY
EBIT	6.0	4.8	25.1%	7.0	-13.5%	
EBIT Margin (%)	11.7%	12.5%	-82 bps	15.7%		
<b>Agri Equipment</b>						
Revenue	44.3	49.0	-9.6%	63.8	-30.6%	Volumes down 15% YoY, Realisation up 6.5% YoY
EBIT	1.2	0.7	57.0%	2.4	-51.0%	
EBIT Margin (%)	2.6%	1.5%	112 bps	3.7%		

Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

(₹ Crore)	FY23		FY24E		FY25E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,159.7	2,556.6	2,591.6	1.4	2,982.5	3,110.9	4.3
EBITDA	220.9	304.2	309.4	1.7	372.8	388.9	4.3
EBITDA Margin (%)	10.2	11.9	11.9	4 bps	12.5	12.5	0 bps
PAT	173.0	239.8	243.7	1.6	288.7	301.1	4.3
EPS (₹)	14.5	20.1	20.5	1.6	24.2	25.3	4.3

Source: ICICI Direct Research, Company

## Financial Summary

(Year-ended-March)	FY22	FY23E	FY24E	FY25E
Revenue	1,630	2,160	2,592	3,111
Total Raw Material Costs	1171	1536	1840	2209
Employee Expenses	85	100	118	140
Other expenses	222	303	324	373
<b>Total Operating Expenditure</b>	<b>1,478</b>	<b>1,939</b>	<b>2,282</b>	<b>2,722</b>
EBITDA	151	221	309	389
EBITDA Margins	9.3%	10.2%	11.9%	12.5%
EBITDA Growth %	26.9%	45.9%	40.1%	25.7%
Other Income	11	42	50	50
Interest	10	11	11	11
PBDT	153	252	348	428
Depreciation	15	18	19	21
PBT before Excep item	137	234	329	407
Total Tax	32	61	86	106
PAT before MI	105	173	244	301
<b>PAT</b>	<b>105</b>	<b>173</b>	<b>244</b>	<b>301</b>
% Growth	31.0	64.7	40.9	23.5
EPS	8.8	14.5	20.5	25.3

Source: Company, ICICI Direct Research

(Year-ended-March)	FY22	FY23E	FY24E	FY24E
Profit after Tax	105	173	244	301
Add: Depreciation	15	18	19	21
Interest	10	11	11	11
(Inc)/decrease in CA	(60)	(61)	(376)	(223)
(Inc)/decrease in CL and prov	21	175	58	143
<b>CF from Operations</b>	<b>90</b>	<b>315</b>	<b>(45)</b>	<b>253</b>
(Inc)/decrease in Fixed Assets	(47)	(55)	(79)	(59)
Others	(115)	116	56	56
<b>CF from Investing</b>	<b>(162)</b>	<b>61</b>	<b>(23)</b>	<b>(3)</b>
Issue/(Buy back) of Equity	136	-	-	-
Inc/(dec) in loan funds	(22)	(23)	-	-
Dividend paid & dividend tax	(7)	(12)	(19)	(24)
Others	(11)	(306)	50	(26)
<b>CF from Financing</b>	<b>95</b>	<b>(341)</b>	<b>31</b>	<b>(50)</b>
Net Cash flow	23	35	(38)	199
Opening Cash/Cash Equivalent	(13)	10	45	7
<b>Closing Cash/ Cash Equivalent</b>	<b>10</b>	<b>45</b>	<b>7</b>	<b>206</b>

Source: Company, ICICI Direct Research

(Year-ended-March)	FY22	FY23	FY24E	FY25E
Equity Capital	24	24	24	24
Reserve and Surplus	730	895	1193	1470
Total Shareholders funds	754	919	1217	1494
Minority Interest	0	2	2	2
Other Non Current Liabilities	17	17	17	17
Total Debt	29	6	6	6
<b>Sources of Funds</b>	<b>801</b>	<b>943</b>	<b>1,241</b>	<b>1,518</b>
Gross Block	586	641	720	780
Acc: Depreciation	151	169	188	209
Net Block	436	472	508	542
Capital WIP	24	24	24	24
Total Fixed Assets	460	497	532	566
Non Current Assets	120	192	198	204
Inventory	333	419	533	648
Debtors	189	169	391	477
Loans and Advances	0	0	0	0
Other Current Assets	67	63	104	124
Cash & Equivalent	14	49	7	206
Investments	99	212	192	150
Total Current Assets	703	911	1225	1605
Current Liabilities	482	657	715	858
Net Current Assets	221	255	511	748
<b>Application of Funds</b>	<b>801</b>	<b>943</b>	<b>1,241</b>	<b>1,518</b>

Source: Company, ICICI Direct Research

	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>				
EPS	8.8	14.5	20.5	25.3
BV	63.3	77.1	102.1	125.4
Dividend per share	0.6	1.0	1.6	2.0
Dividend payout ratio	6.8	6.9	8.0	8.0
<b>Operating Ratios</b>				
EBITDA Margin	9.3	10.2	11.9	12.5
PAT Margin	6.4	8.0	9.4	9.7
<b>Return Ratios</b>				
RoE	13.9	18.8	20.0	20.2
RoCE	19.9	30.6	31.0	30.4
RoIC	22.5	37.6	32.9	36.0
<b>Valuation Ratios</b>				
EV / EBITDA	35.9	23.9	17.2	13.3
P/E	52.6	31.9	22.7	18.4
EV / Net Sales	3.3	2.4	2.1	1.7
Market Cap / Sales	3.4	2.6	2.1	1.8
Price to Book Value	7.3	6.0	4.5	3.7
<b>Turnover Ratios</b>				
Asset turnover	2.1	2.3	2.1	2.0
Debtors Turnover Ratio	8.6	12.8	6.6	6.5
Creditors Turnover Ratio	3.9	4.3	4.7	4.7
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.0	1.4	1.5
Quick Ratio	0.5	0.4	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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