

Action Construction Equipment (ACTCON)

CMP: ₹ 1094

Target: ₹ 1440 (31%)

Target Period: 12 months

BUY

February 9, 2024

Well positioned for solid growth ahead...

About the stock: Action Construction Equipment (ACE), established in 1995, is India's leading Material Handling and Construction Equipment manufacturing company and are market leaders in Mobile Cranes & Tower Cranes segment

- As of 9MFY24, cranes contributed ~70% to total revenue followed by construction equipment (~14% of total), agri equipment (~9% of total) & material handling (~6% of total)

Q3FY24/9MFY24 performance: Revenue increased by 35.4% YoY (+11.9% QoQ) to ₹ 753.1 crore, led by strong growth in cranes and construction equipment segments. Cranes revenue (73% of total) increased 43.2% YoY, led by ~45% YoY volume growth. Construction equip (12% of total) revenue is up 44.6% YoY, led by ~34% YoY volume growth. Material handling (6% of total) revenue is up 8.8% YoY (led by 19% YoY volume growth) while Agri equipments revenue (8% of total) declined 2.3% YoY. EBIDTA margin improved to 13.6% (+252 bps YoY and +40 bps QoQ) led by positive operating leverage. EBIDTA increased 66.1% YoY (+15.2% QoQ) to ₹ 102.7 crore. PAT was up 89.0% YoY (+19.3% QoQ) to ₹ 88.2 crore

Investment Rationale:

- Strong manufacturing capabilities with diversified & strong focus on improving product portfolio:** With strong manufacturing & R&D capabilities & strong brand reputation, company is present across diversified sectors like construction, infrastructure, manufacturing, logistics and agriculture. The company already has market share of over 60% in mobile and tower cranes segment in India. With the aim to remain competitive in the market and sustain its leadership position, company continues to invest in new products development, technology upgradations and increasing its channel reach
- Poised for a strong growth ahead across the key segments:** We believe that buoyant capex prospects across the manufacturing & infrastructure presents substantial opportunity for the company's products. Moreover, India's emergence as one of the best choices in manufacturing capital goods equipments provides a sizable opportunity to company to increase its exports segment. For FY24E, management expect overall revenue growth of ~32% with EBIDTA margin of 13.5% (excluding other income). By FY27E, company aims to reach revenue of ₹ 5500-5600 crore by FY27E. In terms of exports, company intends to increase its exports share to 10-15% of revenues in medium term (from ~7% of revenues in FY23)

Rating and Target Price

- We believe company's operational and financial performance to improve significantly in the coming period. We estimate revenue, EBIDTA and PAT to grow at ~24%, ~38% and ~40% CAGR respectively over FY23-26E
- Valuations look attractive considering the strong industry tailwinds and growth in profitability over FY24-26E, strong balance sheet with healthy return ratios. We value ACE at ₹ 1440 i.e. 36x FY26E P/E



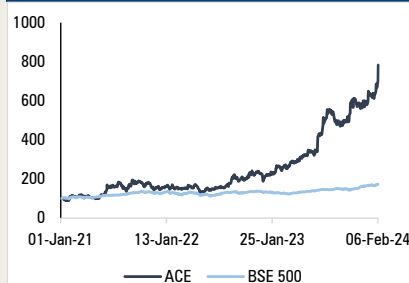
Particulars

Particular	Amount
Market Capitalization	13,708
Total Debt (FY23) (Rs crore)	6
Cash and Inv (FY23) (Rs crore)	424
EV (FY23) (Rs crore)	13,624
52 week H/L	174 / 337
Equity capital (Rs crore)	23.8
Face value (Rs)	2

Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	66.8%	66.8%	66.8%	66.8%
FII	5.6%	6.5%	9.0%	8.8%
DII	3.5%	3.5%	2.8%	2.6%
Others	24.0%	23.2%	21.5%	21.8%

Price Chart



Key risks

- slowdown in domestic & global capex
- increase in commodity prices
- shortage of skilled labour

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

Key Financial Summary

Rs Crore	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	FY26E	3 Year CAGR (FY23-FY26E)
Revenue	1,156.2	1,227.0	1,629.6	2,159.7	23.2	2,824.4	3,454.0	4,114.9	24.0
EBITDA	91.6	119.4	151.4	220.9	34.1	374.2	466.3	576.1	37.6
EBITDA margin (%)	7.9	9.7	9.3	10.2		13.3	13.5	14.0	
Net Profit	52.5	80.2	105.0	173.0	48.8	308.9	383.6	475.4	40.1
EPS (Rs)	4.6	7.1	8.8	14.5		25.9	32.2	39.9	
P/E (x)	56.7	154.9	124.1	75.3		42.2	34.0	27.4	
EV/EBITDA (x)	33.1	103.9	85.5	57.8		34.1	26.9	21.9	
RoCE (%)	19.3	24.0	19.9	30.6		37.4	35.3	41.6	
RoE (%)	11.9	15.3	13.9	18.8		24.2	23.5	29.9	

Source: Company, ICICI Direct Research

Earnings Call Highlights

- Management expect overall revenue growth of ~32% in FY24E to ~Rs 2800 crore, led by ~30% growth in cranes segment, ~50% growth in construction equipments, 15-20% growth in material handling and agriculture equipments
- Company targets to reach expects revenue of Rs 4400 crore by FY26E and Rs 5500-5600 crore by FY27E
- EBITDA margin has improved during the quarter and nine months of FY24 led by positive operating leverage, new product mix and cost efficiencies. For FY24, management guides EBITDA margin (including other income) of 15.5% and expect margins to improve further led by operating leverage
- Overall demand has been strong for company's products led by infrastructure, construction and manufacturing activities
- Company is awaiting CMVR (Central Motor Vehicle Rule) certification for its new product in electric cranes
- Company is in process of acquiring land parcel of 80 acres at the existing manufacturing location for future expansion and growth. Post this, total land parcel of the company would be 180 acres
- New crane manufacturing capacity is expected to be operational by March 2024 end. Capex for FY24E would be Rs 90-100 crore. FY25E capex is estimated to be Rs 80-100 crore (excluding land)
- In Defence segment, company has been supplying many products (like cranes, forklifts, tractors) to armed forces. Company targets defence revenue share at 5% in the next 2-3 years
- Company is in process of exploring inorganic opportunities (in mainland Europe) which is likely to be finalised in next 6-12 months
- Company is also in process to tie-up with a big global player for manufacturing key products in India

Financial summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-ended-March)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,630	2,160	2,824	3,454	4,115
Total Raw Material Costs	1171	1536	1971	2418	2860
Employee Expenses	85	100	121	155	185
Other expenses	222	303	357	414	494
Total Operating Expenditur	1,478	1,939	2,450	2,988	3,539
EBITDA	151	221	374	466	576
EBITDA Margins	9.3%	10.2%	13.3%	13.5%	14.0%
EBITDA Growth %	26.9%	45.9%	69.4%	24.6%	23.5%
Other Income	11	42	76	87	100
Interest	10	11	18	16	14
PBDT	153	252	432	537	662
Depreciation	15	18	23	26	28
PBT before Excep item	137	234	409	512	634
Total Tax	32	61	100	128	158
PAT before MI	105	173	309	384	475
PAT	105	173	309	384	475
% Growth	31.0	64.7	78.6	24.2	23.9
EPS	8.8	14.5	25.9	32.2	39.9

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet ₹ crore

(Year-ended-March)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	24	24	24	24	24
Reserve and Surplus	730	895	1253	1606	1568
Total Shareholders funds	754	919	1276	1629	1591
Minority Interest	0	2	2	2	2
Other Non Current Liabilities	17	17	17	17	17
Total Debt	29	6	6	6	6
Sources of Funds	801	943	1,301	1,654	1,616
Gross Block	586	641	720	795	869
Acc: Depreciation	151	169	192	218	246
Net Block	436	472	504	533	555
Capital WIP	24	24	24	24	24
Total Fixed Assets	460	497	528	558	579
Non Current Assets	120	192	198	204	210
Inventory	333	419	580	719	868
Debtors	189	169	426	530	643
Loans and Advances	0	0	0	0	0
Other Current Assets	67	63	113	138	165
Cash & Equivalent	14	49	69	355	257
Investments	99	212	192	150	151
Total Current Assets	703	911	1380	1893	2083
Current Liabilities	482	657	779	952	1134
Net Current Assets	221	255	601	940	948
Application of Funds	801	943	1,301	1,654	1,616

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-ended-March)	FY22	FY23	FY24E	FY25E	FY26E
Profit after Tax	105	173	309	384	475
Add: Depreciation	15	18	23	26	28
Interest	10	11	18	16	14
(Inc)/decrease in CA	(60)	(61)	(468)	(268)	(288)
(Inc)/decrease in CL and prov	21	175	122	174	182
CF from Operations	90	315	3	330	411
(Inc)/decrease in Fixed Assets	(47)	(55)	(79)	(74)	(74)
Others	(115)	116	82	93	106
CF from Investing	(162)	61	3	19	32
Issue/(Buy back) of Equity	136	-	-	-	-
Inc/(dec) in loan funds	(22)	(23)	-	-	-
Dividend paid & dividend tax	(7)	(12)	(25)	(31)	(513)
Others	(11)	(306)	43	(31)	(28)
CF from Financing	95	(341)	18	(62)	(542)
Net Cash flow	23	35	24	287	(99)
Opening Cash/Cash Equivaler	(13)	10	45	69	355
Closing Cash/ Cash Equivalen	10	45	69	355	257

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	8.8	14.5	25.9	32.2	39.9
BV	63.3	77.1	107.2	136.8	133.6
Dividend per share	0.6	1.0	2.1	2.6	43.1
Dividend payout ratio	6.8	6.9	8.0	8.0	108.0
Operating Ratios					
EBITDA Margin	9.3	10.2	13.3	13.5	14.0
PAT Margin	6.4	8.0	10.9	11.1	11.6
Return Ratios					
RoE	13.9	18.8	24.2	23.5	29.9
RoCE	19.9	30.6	37.4	35.3	41.6
RoIC	22.5	37.6	40.3	43.6	47.4
Valuation Ratios					
EV / EBITDA	85.5	57.8	34.1	26.9	21.9
P/E	124.1	75.3	42.2	34.0	27.4
EV / Net Sales	7.9	5.9	4.5	3.6	3.1
Market Cap / Sales	8.0	6.0	4.6	3.8	3.2
Price to Book Value	17.3	14.2	10.2	8.0	8.2
Turnover Ratios					
Asset turnover	2.1	2.3	2.1	2.0	2.3
Debtors Turnover Ratio	8.6	12.8	6.6	6.5	6.4
Creditors Turnover Ratio	3.9	4.3	4.7	4.7	4.7
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.0	1.4	1.5	1.5
Quick Ratio	0.5	0.4	0.7	0.7	0.7

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

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,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Chirag Shah, PGDBM, Vijay Goel, PGDBM, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.