Earnings Conference Call Highlights

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INVESTOR RELATIONS MANAGEMENT SERVICES

Company Name: Action Construction Equipment Ltd.

Quarter under review: Q1-FY27

Action Construction Equipment Ltd – Q1 & FY27 Concall Highlights:

ACE Ltd (Consolidated)					
INR In Mn	Q1-FY27	Q1-FY26	Y-o-Y	Q4-FY26	Q-o-Q
Total Income	8,403	7,032	19.5%	10,234	-17.9%
EBITDA	1,725	1,439	19.9%	1,663	3.7%
EBITDA M (%)	20.53%	20.46%	7 bps	16.25%	428 bps
PAT	1,195	977	22.3%	1,109	7.8%
PAT M (%)	14.22%	13.89%	33 bps	10.84%	338 bps
Diluted EPS	10.04	8.21	22.3%	9.31	7.8%

Operational Highlights:

- Delivered the best-ever Q1 performance, with revenue growing ~19% YoY while maintaining strong profitability despite a challenging macroeconomic environment.
- The Cranes, Construction Equipment & Material Handling business remained the primary growth driver, registering 22% YoY revenue growth supported by 17% volume growth and healthy margin expansion.
- Continued focus on manufacturing efficiency, product quality, cost optimization and calibrated pricing enabled the company to sustain industry-leading profitability despite inflationary pressures.
- The ACE–Kato Works 50:50 Joint Venture is set to commence operations by end-July, creating a dedicated platform for truck, crawler and rough terrain cranes while accelerating technology transfer, localization and export opportunities.
- Entered the execution phase for the defence business with manufacturing of rough terrain forklifts commencing during the quarter, while continuing to develop specialized defence equipment.
- Continued investments in capacity expansion, automation and plant modernization have enhanced manufacturing flexibility, operational efficiency and product quality, positioning the company to cater to future demand without significant capacity constraints.
- Successfully navigated sharp inflation in steel, rubber, oil and freight costs through operational improvements and phased pricing actions, while maintaining a balanced approach between volume growth and profitability.
- Structural demand drivers remain favourable, supported by sustained government infrastructure spending, manufacturing investments, logistics development and continued public capital expenditure across key end-user sectors.
- Management expects existing manufacturing infrastructure, a diversified product portfolio and disciplined capital allocation to support sustainable long-term growth while preserving profitability.
- The company continued to strengthen its innovation pipeline by launching next-generation AI-enabled cranes, India's first clutchless cranes, new flat-top tower cranes (6T & 16T), construction elevators, truck-mounted aerial platforms, and the ADD 95 tandem roller, reinforcing its strategy of expanding the product portfolio with technology-led, higher-value offerings.

Key Questions & Answers discussed during the Concall:

- **What is the outlook for defence and export businesses, and when will the Kato JV begin contributing meaningfully?** Export contribution remained subdued at around 3% during the quarter due to shipping disruptions, while defence contributed approximately 5% of revenue. For FY27, we expect exports to contribute 6–7% and defence 5–6%, taking their combined share to around 10–12%. The Kato JV will become operational by the end of July, with initial revenues starting in Q3, while meaningful revenue contribution is expected from FY28 as upgraded and new products are commercialized.
- **How is demand evolving, and when will the company provide FY27 growth guidance?** Demand remained healthy through May and June before slowing seasonally during the monsoon, which is consistent with historical trends. Supply chain issues have largely remained under control except for temporary shortages in engines and castings. We expect growth to be supported by improving Hydra cranes, construction equipment, defence execution and pricing actions.
- **Has the competitive environment changed and are contractors facing payment delays?** Competitive intensity has remained largely unchanged across the industry. The bigger challenge currently is commodity inflation, which has increased equipment prices and could impact overall economic activity. On receivables, we have not observed any significant payment delays from contractors, although isolated delays at certain state government projects continue to occur from time to time.
- **How do you see the pick-and-carry crane market evolving after the BS-V transition?** The temporary slowdown in Hydra crane demand following BS-V implementation was largely driven by customer hesitation toward higher prices and new engine technologies. That hesitation has now eased, and we expect the market mix to move back toward 60% Hydra and 40% new-generation cranes this year before gradually stabilizing near 50:50 over the medium term. We also expect average realizations to continue improving due to higher-capacity products and premium product mix.
- **What quantum of price increases has been implemented, and how much is commodity inflation impacting margins?** We implemented price increases of around 1–1.5% in January, 3–4% in May, and another 5–6% in June, taking cumulative increases to nearly 10%. Commodity inflation is expected to be around 11–12%, primarily driven by steel and other input materials. Our objective is not to expand margins but to recover higher costs and maintain EBITDA margins around last year's level.
- **What is the progress on tower crane capacity expansion and the backhoe loader strategy?** The proposed tower crane expansion has been fully planned, but execution will be reviewed in September after assessing market conditions. Meanwhile, internal capacity enhancements have already increased annual tower crane capacity to around 1,000 units, which is adequate for current demand. For backhoe loaders, financing-related initiatives are showing encouraging early results and could accelerate growth, making it one of our fastest-growing product segments.
- **What is the outlook for the defence business and planned capital expenditure?** We expect defence revenue to exceed INR 200 crore during FY27, contributing around 5–6% of total revenue. A dedicated defence manufacturing facility is under construction with an investment of INR 40–50 crore and an eventual revenue capacity of around INR 500 crore. Overall FY27 capex is expected to be INR 200–250 crore, including land acquisition, facility expansion, automation and maintenance capex.
- **How has demand planning evolved amid an uncertain business environment?** We continue to prepare rolling production plans while refining them every month based on dealer demand and market conditions. Additional inventories of semi-finished and finished goods are maintained to respond quickly to fluctuations in demand. However, geopolitical developments, tariff uncertainties and global conflicts have reduced demand predictability, which is why we remain cautious on issuing full-year guidance.

Key Questions & Answers discussed during the Concall:

- **What will be the key long-term growth drivers for the company?** We believe inorganic acquisitions and exports will be the biggest growth drivers over the next three years, supported by continued domestic infrastructure development. The Kato joint venture will strengthen our heavy crane portfolio, increase localization to around 50–60% for export-oriented models, and also create additional revenue opportunities through component sourcing for Kato's global operations.
- **What is the capital structure of the Kato JV and what is the status of anti-dumping duties?** The JV involves a total investment of approximately INR 200 crore, with Kato contributing INR 100 crore in cash, while our contribution comprises technology, existing products and manufacturing infrastructure. No royalty will be payable on India-specific products, while export-oriented Kato-designed models will attract a 3% royalty.
- **How do commodity price cycles and monsoons affect pricing and demand?** If commodity prices normalize within 6–8 months, part of the earlier price increase is typically passed on to customers. However, prolonged inflation generally results in higher pricing being retained across the industry. Similarly, deficient monsoons can temporarily slow rural construction activity and equipment demand, with the impact usually becoming visible during the second half of the financial year.
- **What is the outlook for the backhoe loader business over the next few years?** We currently sell around 150–160 backhoe loaders per quarter, but we believe the segment has significant long-term potential in both domestic and export markets. We are optimistic that backhoe loaders could become one of the fastest-growing businesses within our construction equipment portfolio as our product strategy and financing initiatives gain traction.
- **How much of the recent realization improvement has come from price hikes versus product mix?** The improvement has been driven by a combination of both factors. During Q4 FY26, product mix contributed more meaningfully, while in Q1 FY27 the impact was largely from price increases implemented during May and June. We expect a more visible improvement in average realizations during Q2 as the full benefit of these price hikes flows through.
- **How much commodity inflation impacted Q1, and when will the full cost increase be reflected?** Around 5–6% of commodity inflation impacted Q1, while nearly 7–8% of vendor cost increases have already flowed through. The remaining cost impact will be reflected during Q2 as supplier price revisions and inventory cycles are fully absorbed. Our pricing actions have been timed to broadly offset these higher input costs over the next couple of months.
- **Have you received any meaningful new defence orders during the quarter?** We continued to receive several smaller defence orders during the quarter, although no major order was booked. We are optimistic about securing a repeat order exceeding INR 100 crore over the next two to three months, as execution of the earlier large defence order has already commenced.
- **Which end-user industries are expected to contribute most to revenue going forward?** We expect manufacturing & logistics and infrastructure & construction to remain our two largest end-user segments, each contributing roughly 40–45% of revenue. Defence should account for around 5–6%, exports around 6–7%, while agriculture will continue to remain an important contributor to the overall business mix.
- **How will the mix between Hydra and new-generation cranes evolve for ACE specifically?** While we expect the industry mix to gradually move toward **50:50** over the medium term, our own sales mix is currently around 60% Hydra and 40% new-generation cranes. We have established a strong leadership position in the new-generation segment over the last two years and expect to further increase our market share during FY27

- **What opportunities are driving demand across end-user industries?** We continue to see strong opportunities arising from investments in high-speed rail, solar projects, energy storage infrastructure, manufacturing, logistics, and data centres. These sectors, together with government infrastructure spending, are expected to remain important demand drivers for construction equipment over the medium term.
- **What is the expected localization roadmap under the Kato partnership?** Existing ACE crane models will progressively be upgraded using Kato technology, while dedicated Kato-designed export models are expected to enter production over the next two years. We are targeting 50–60% localization for these export-oriented products, while also supplying components from India to Kato's global operations, creating an additional revenue stream beyond equipment manufacturing.
- **How do customer purchasing patterns change when monsoons are weak or delayed?** Normal monsoons are important for overall economic activity and construction demand, particularly in Tier-2 and rural markets. A deficient monsoon typically leads to customers deferring equipment purchases rather than cancelling them outright, with the impact generally becoming visible during the second half of the same financial year.

Key Participants:

- *Mohit Kumar – ICICI Securities*
- *Mudit Bhandari – IIFL Capital*
- *Divyam Jain – 360 One Captial*
- *Aniket Jain – Anand Rathi*
- *Yash Parmar – Grow Mutual Fund*
- *Aditya – Old Bridge Mutual Fund*
- *Aman Saifee – Stallion Asset Management*
- *Harsh Shah – Helios Mutual Fund*
- *Vedanta Bhadani – Canara Bank Securities*
- *Rushabh Patel – Navi Mutual Fund*