

# Action Construction Equipment (ACTCON)

CMP: ₹ 76

Target: ₹ 90 ( 18% )

Target Period: 12-18 months

**BUY**

February 6, 2020

## Green shoots in mid-December bring respite...

Action Construction (ACE) reported a weak Q3FY20 performance wherein topline, EBITDA, PAT de-grew 20.2%, 13.8%, 15.1%, respectively, YoY. Headwinds in the cranes, tractors and material handling segment led to topline de-growth. EBITDA margins expanded ~58 bps YoY to 7.7% largely on the back of lower input cost. Overall, EBITDA, PAT were at ₹ 22.4 crore, ₹ 12.6 crore, respectively. Softened demand for cranes led revenue of cranes segment to fall 21.2% YoY to ₹ 196.4 crore driven by ~31% decline in volume sold to ~1211 units. Construction equipment grew 14.5% YoY while material handling de-grew 33.3% YoY. On the share buyback front, out of the planned buyback amount of ₹ 34.2 crore, the management indicated that it had bought 38 lakh shares at an average price of ₹ 86.7.

## Revival expected Q4 onwards...

With the slowdown bottoming out in November, ACE saw an uptick in demand from construction & infrastructure segments leading to enhanced order inflows beginning December, which continued to improve in January (up 15% MoM). The management has guided at 15-20% growth for FY21 in light of new product launches, higher exports and revival in the overall economic scenario coupled with demand arising due to pre buying before the industry shifts to BSIV. Thus, the improved topline and resultant positive operating leverage has paved the way for 10-11% EBITDA guidance by the management for medium term. The company seemed positive towards the execution of ₹ 70 crore export order from neighbouring countries, the revenue for which should start flowing in coming quarters after the company receives more colour on the payment instruments. ACE's new launch, the Telehandler, did reasonable sales in November and December. Going ahead, the company envisages capturing 20-30% market share with the new products. ACE has also made efforts to reduce its dependency on the domestic economy. Thus, the company is making efforts to export to CIS, Middle East and SEA regions. The company has also taken a pre-emptive price hike of 2-5% effective January 1 depending on the models to set off rising steel prices.

## Valuation & Outlook

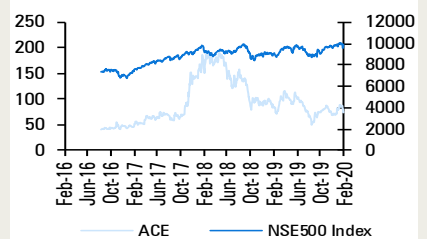
At present, ACE is trading at 7.5x FY21E EV/EBITDA, with most of the near term uncertainty priced in the stock. This has translated to a favourable risk reward scenario for the company. ACE, market leader in the 'pick & carry' cranes (>60% market share) with a healthy balance sheet, lean working capital, new product launches with a higher realisation & margin profile is poised to benefit from a pickup in infrastructure and industrial segment. In light of above, we expect recovery in profitability beginning FY21, which should improve ROE and ROCE to 13.3% & 22.4% respectively in FY21E, thus making scope for upside. We maintain our **BUY** rating on the stock with a revised target price of ₹ 90 at 9x FY21E EV/EBITDA.



### Particulars

Data	Amount
Market Capitalisation	₹ 884 crore
Debt (FY19)	₹ 44 crore
Cash & Inv (FY19)	₹ 38 crore
EV	₹ 889 crore
52 week H/L	125 / 49
Equity capital	₹ 22.7 crore
Face value	₹ 2

### Price Chart



### Key Highlights

- Total cranes volume at 1211 units, down ~31% YoY in Q3FY20
- Expect new product launch, demand pickup to drive future growth
- With a favourable risk reward, we maintain our BUY rating

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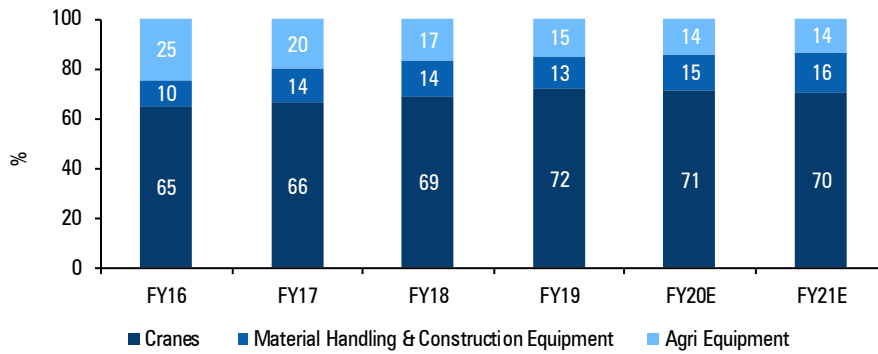
### Key Financial Summary

( ₹ crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenue	751.0	1,086.5	1,342.5	1,170.3	1,321.5	(0.8)
EBITDA	39.4	91.5	97.8	90.1	112.3	7.2
EBITDA margin (%)	5.3	8.4	7.3	7.7	8.5	
Net Profit	15.3	53.4	56.0	49.3	67.2	9.5
EPS (₹)	1.3	4.6	4.8	4.2	5.8	
P/E (x)	57.6	16.5	15.8	17.9	13.1	
EV/EBITDA (x)	24.0	9.9	9.1	10.5	8.0	
RoCE (%)	11.5	25.9	25.3	19.1	22.4	
RoE (%)	4.6	14.0	12.8	11.0	13.3	

Source: ICICI Direct Research, Company

## Key operating metrics

Exhibit 1: Revenue break-up by segment



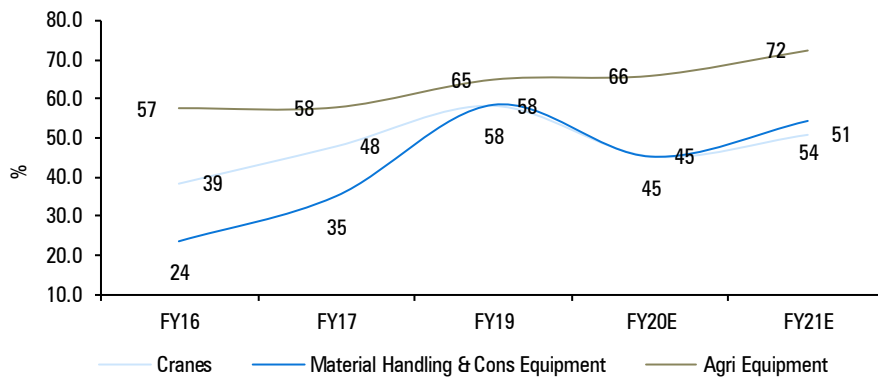
Source: Company, ICICI Direct Research

Exhibit 2: Cranes segment continues to dominate

Key segment performance	FY15	FY16	FY17	FY18	FY19
Cranes (₹ crore)	360.7	398.2	496.2	749.0	964.3
Revenue contribution (%)	61.2	64.9	66.1	68.9	71.8
EBIT margins (%)	8.2	9.9	8.0	11.0	9.3
EBIT contribution (%)	92.5	100.2	82.8	82.2	81.5

Source: Company, ICICI Direct Research

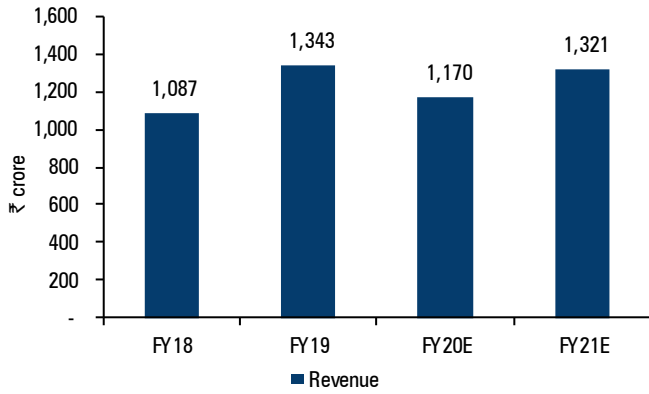
Exhibit 3: Capacity utilisation trend



Source: Company, ICICI Direct Research

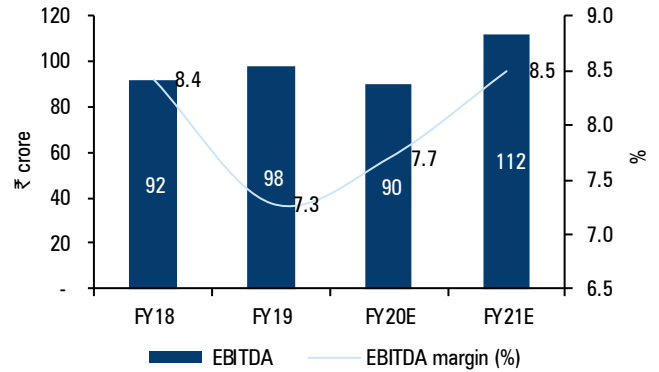
## Financial Story in Charts

Exhibit 4: Net sales trend



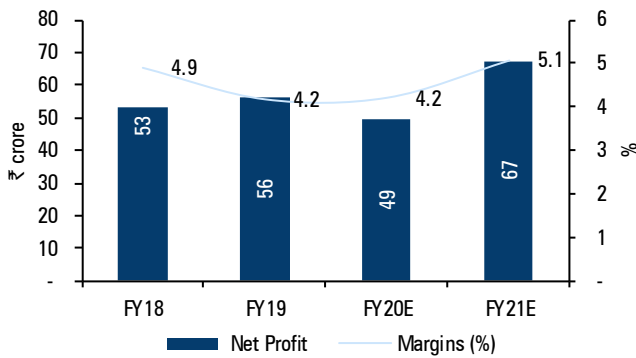
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



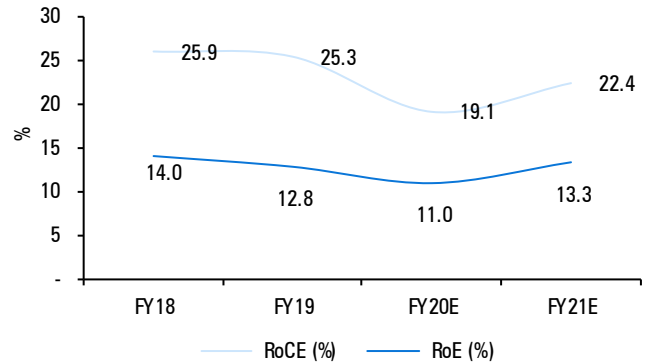
Source: Company, ICICI Direct Research

Exhibit 6: PAT and PAT margin trend



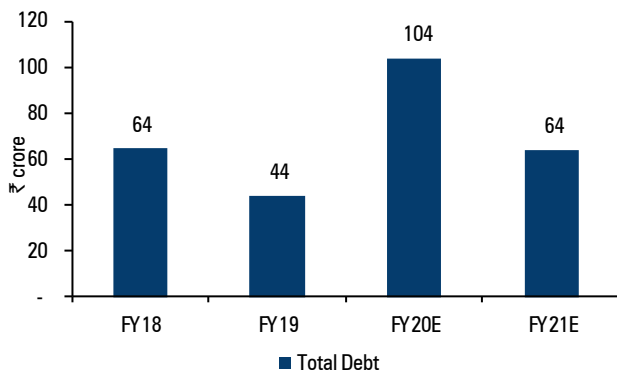
Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



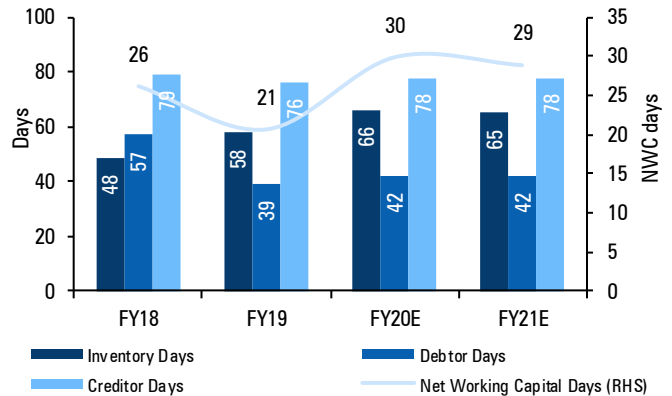
Source: Company, ICICI Direct Research

Exhibit 8: Total debt trend



Source: Company, ICICI Direct Research

Exhibit 9: Working capital trend



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement (₹ crore)

(Year-ended-March)	FY18	FY19	FY20E	FY21E
<b>Revenue</b>	<b>1086.5</b>	<b>1342.5</b>	<b>1170.3</b>	<b>1321.5</b>
Total Raw Material Costs	848.3	1084.5	904.6	1024.2
Employee Expenses	67.7	75.1	85.4	89.9
Other expenses	79.1	85.1	90.1	95.1
Total Operating Expenditure	995.0	1244.8	1080.1	1209.2
<b>EBITDA</b>	<b>91.4</b>	<b>97.7</b>	<b>90.1</b>	<b>112.3</b>
% Growth	132.1	6.8	-7.8	24.7
Other Income	8.0	9.7	7.0	9.3
Interest	13.5	11.5	20.8	12.8
PBDT	85.9	95.9	76.4	108.8
Depreciation	11.9	11.8	12.4	15.5
PBT before Excep item	74.0	84.2	64.0	93.3
Total Tax	22.0	28.2	14.7	26.1
PAT before MI	52.0	56.0	49.3	67.2
Minority Interest	-1.4	0.0	0.0	0.0
<b>PAT</b>	<b>53.4</b>	<b>56.0</b>	<b>49.3</b>	<b>67.2</b>
% Growth	248.3	4.9	-12.0	36.4
EPS	4.6	4.8	4.2	5.8

Source: Company, ICICI Direct Research

Exhibit 11: Cash Flow Statement (₹ crore)

(Year-ended-March)	FY18	FY19	FY20E	FY21E
Profit after Tax	53.4	56.0	49.3	67.2
Add: Depreciation	11.9	11.8	12.2	15.3
Interest	13.5	11.5	20.8	12.8
(Inc)/decrease in CA	(112.0)	(55.4)	15.8	(47.2)
(Inc)/decrease in CL and prov	115.8	28.2	(64.3)	41.7
<b>CF from Operations</b>	<b>80.4</b>	<b>51.4</b>	<b>31.9</b>	<b>106.0</b>
(Inc)/decrease in Fixed Asset:	(38.8)	(21.0)	(28.3)	(38.3)
Others	7.0	25.0	7.0	9.3
<b>CF from Investing</b>	<b>(31.8)</b>	<b>4.0</b>	<b>(21.3)</b>	<b>(29.0)</b>
Issue/(Buy back) of Equity	-	-	(33.0)	-
Inc/(dec) in loan funds	(28.4)	(20.3)	60.0	(40.0)
Dividend paid & dividend tax	(5.8)	(6.2)	(5.4)	(7.4)
Others	(13.5)	(24.2)	(33.2)	(21.6)
<b>CF from Financing</b>	<b>(47.8)</b>	<b>(50.7)</b>	<b>(11.6)</b>	<b>(69.0)</b>
Net Cash flow	0.8	4.7	(1.0)	8.0
Opening Cash/Cash Equivalen	5.9	6.8	11.5	10.5
Closing Cash/ Cash Equivalen	6.7	11.4	10.5	18.5

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet (₹ crore)

(Year-ended-March)	FY18	FY19	FY20E	FY21E
Equity Capital	23.5	23.5	22.7	22.7
Reserve and Surplus	358.7	414.1	425.0	482.8
Total Shareholders funds	382.1	437.5	447.7	505.5
Minority Interest	0.3	0.3	0.3	0.3
Other Non Current Liabilitie	20.3	18.2	18.2	18.2
Total Debt	64.2	43.9	103.9	63.9
Sources of Funds	467.0	499.9	570.1	587.9
Gross Block	417.8	435.7	464.0	502.3
Acc: Depreciation	96.5	108.3	120.6	136.1
Net Block	321.3	327.5	350.1	354.6
Capital WIP	5.2	8.3	8.3	8.3
Total Fixed Assets	326.5	335.7	358.4	362.9
Non Current Assets	94.7	104.2	104.2	104.2
Inventory	144.3	212.9	211.6	235.3
Debtors	169.9	144.1	134.7	152.1
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	39.3	51.9	46.8	52.9
Cash & Equivalent	6.7	11.4	10.5	18.5
Investments	35.3	26.7	26.7	26.7
Total Current Assets	395.6	447.0	430.2	485.4
Current Liabilities	349.8	387.0	322.6	364.3
Net Current Assets	45.7	60.0	107.6	121.0
Application of Funds	467.0	499.9	570.1	587.9

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios

	FY18	FY19	FY20E	FY21E
<b>Per Share Data</b>				
EPS	4.6	4.8	4.2	5.8
BV	32.9	37.6	38.5	43.5
Dividend per share	0.5	0.5	0.5	0.6
Dvidend payout ratio	10.9	11.0	11.0	11.0
<b>Operating Ratios</b>				
EBITDA Margin	8.4	7.3	7.7	8.5
PAT Margin	4.9	4.2	4.2	5.1
<b>Return Ratios</b>				
RoE	14.0	12.8	11.0	13.3
RoCE	25.9	25.3	19.1	22.4
RoIC	27.3	25.9	19.5	22.9
<b>Valuation Ratios</b>				
EV / EBITDA	9.9	9.1	10.5	8.0
P/E	16.5	15.8	17.9	13.1
EV / Net Sales	0.8	0.7	0.8	0.7
Market Cap / Sales	0.8	0.7	0.8	0.7
Price to Book Value	2.3	2.0	2.0	1.7
<b>Turnover Ratios</b>				
<b>Asset turnover</b>	2.9	3.2	2.4	2.6
Debtors Turnover Ratio	6.4	9.3	8.7	8.7
Creditors Turnover Ratio	4.6	4.8	4.7	4.7
<b>Solvency Ratios</b>				
Debt / Equity	0.2	0.1	0.2	0.1
Current Ratio	1.0	1.0	1.2	1.2
Quick Ratio	0.6	0.5	0.6	0.6

Source: Company, ICICI Direct Research

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Hold : -5% to 15%;

Reduce : -5% to -15%;

Sell : < -15%



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