

# Action Construction Equipment (ACTCON)

CMP: ₹ 54

Target: ₹ 65 ( 22% )

Target Period: 12-18 months

**BUY**

June 18, 2020

## Sluggish demand to lead to short-term pain...

Action Construction Equipment (ACE) reported a sturdy Q4FY20 performance clocking 2% YoY revenue growth. Margins expanded YoY on account of a reduction in input costs. Revenue for the quarter was at ₹ 305.5 crore, up 2% YoY. Crane segment revenue, which contributes ~70% to topline, was at ₹ 217.4 crore, down 2.5% YoY. Total crane volumes were at ~1319 units vs. ~1464 units in Q4FY19. Gross margins expanded ~285 bps YoY due to lower input costs. Consequently, EBIDTA margins were at 9%, expanding ~100 bps YoY. ACE registered absolute EBIDTA of ₹ 27.4 crore, up 15% YoY. On the expenses side, employee expenses increased 15% YoY to ₹ 23.3 crore while other expenses increased 20% YoY to ₹ 20.2 crore. Thus, due to increased expenses, the benefit of higher gross margins to the bottomline was partially negated. PAT came in at ₹ 13.8 crore, up 12.6% YoY. Tax rate during the quarter came in at 24.6%.

## Revival expected by Q4FY21E...

ACE's operations were disturbed on account of an unprecedented lockdown but partial operations started in April. During May, the company operated at 35% revenue level while June seems to be progressing better. For FY21E, the management expects the company to function at ~35%, 55%, 75% and 100% revenue levels in Q1, Q2, Q3 and Q4, respectively. ACE lost ₹ 65 crore worth of revenue. Of this 50-60% may get executed while the rest may get delayed or cancelled. Out of the current order book, 40-45% may get delayed (in abeyance) or cancelled. The demand scenario remains sluggish. In order to reduce working capital stress and improve liquidity scenario, the management is making efforts towards reducing debtors and inventory level by October. This would free up ₹ 170-180 crore cash from working capital. Further, the management has guided towards EBIDTA margin of 4-4.5% for FY21E given lower capacity utilisation levels making way for negative operating leverage. ACE has successfully brought down its breakeven levels to 55% of last year's average revenue from 60% previously. Given the current scenario, we expect a revival in infrastructure sector (contributes 60-65% to the topline) to be a key monitorable for the company, going ahead.

## Valuation & Outlook

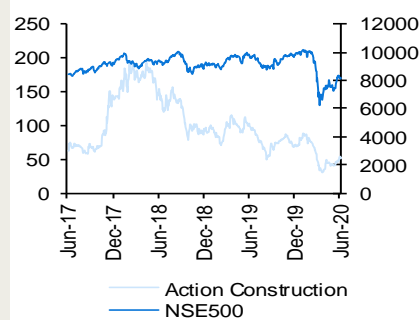
Given the recent events, ACE is likely to face headwinds in the short to medium term on account of sluggish demand and low capacity utilisation. At present, ACE is trading at 6.5x FY22E EV/EVITDA, with most of the near term uncertainty priced in the stock. Going ahead, market leadership in the 'pick & carry' cranes (>60% market share) with a healthy balance sheet, foreseeable improvement in working capital, growing agri and construction equipment segment is expected to augur well for the company in the long term. However, short & medium term pain is expected to weigh on profitability in FY21E. In light of all the above, we value the stock at 8x FY22E EV/EBIDTA to arrive at a target price of ₹ 65 per share with a **BUY** rating.



### Particulars

| Data                  | Amount      |
|-----------------------|-------------|
| Market Capitalisation | ₹613 crore  |
| Debt (FY 20)          | ₹74 crore   |
| Cash & Inv (FY 20)    | ₹16 crore   |
| EV                    | ₹671 crore  |
| 52 week H/L           | 100 / 31.5  |
| Equity capital        | ₹22.7 crore |
| Face value            | ₹2          |

### Price Chart



### Key Highlights

- Total cranes volume at 1319 units, down ~10% YoY in Q4FY20
- Total ₹ 170-180 crore to get freed from working capital by October, providing much needed cushion
- Maintain BUY rating on stock with target price of ₹ 65 per share

### Research Analyst

Chirag Shah  
shah.chirag@icicisecurities.com

Adil Khan  
adil.khan@icicisecurities.com

### Key Financial Summary

| ( ₹ crore )       | FY18    | FY19    | FY20    | FY21E | FY22E   | CAGR (FY20-22E) |
|-------------------|---------|---------|---------|-------|---------|-----------------|
| Revenue           | 1,086.5 | 1,342.5 | 1,156.2 | 810.1 | 1,183.0 | 1.1             |
| EBITDA            | 91.5    | 97.8    | 91.6    | 38.1  | 95.8    | 2.3             |
| EBITDA margin (%) | 8.4     | 7.3     | 7.9     | 4.7   | 8.1     |                 |
| Net Profit        | 53.4    | 56.0    | 52.5    | 8.9   | 59.6    | 6.6             |
| EPS (₹)           | 4.7     | 4.9     | 4.6     | 0.8   | 5.3     |                 |
| P/E (x)           | 11.5    | 10.9    | 11.7    | 68.7  | 10.3    |                 |
| EV/EBITDA (x)     | 6.9     | 6.3     | 7.3     | 17.3  | 6.6     |                 |
| RoCE (%)          | 25.9    | 25.3    | 19.3    | 7.0   | 19.6    |                 |
| RoE (%)           | 14.0    | 12.8    | 11.9    | 1.9   | 11.6    |                 |

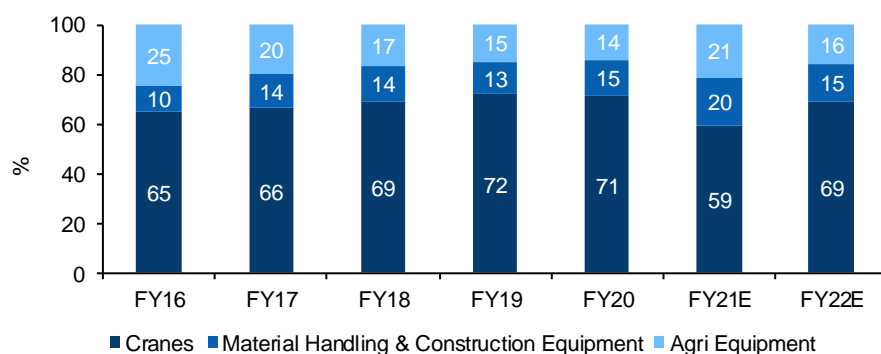
Source: ICICI Direct Research, Company

## Conference call Highlights

- The business faced unprecedented disruption due to Covid-19. Q4FY20 showed some improvement in January but February and March were largely disrupted due to the pandemic
- Revenue worth ₹ 65 crore was lost in March. Out of this, 50-60% may get executed while the rest may get delayed or cancelled
- Out of the current order book, 40-45% may get delayed (in abeyance) or cancelled. The demand scenario remains sluggish
- ACE started partial operations in April. During May, the company functioned at 35% revenue levels whereas June is progressing slightly better
- ACE has undertaken various measures to improve its internal efficiency and has successfully reduced breakeven levels from 60% earlier to 55% currently
- Government order of ₹ 75 crore from a neighbouring country is currently in abeyance
- The company has no capex plans in the foreseeable future. Currently, ACE is operating at 15-20% utilisation level
- In order to improve the liquidity scenario, the management has laid down plans to bring down the inventory from ₹ 270 crore to ₹ 170 crore by October. Furthermore, debtors are expected to come down by ₹ 70 to ₹ 80 crore. Thus, ₹ 170-180 crore is expected to get freed from working capital, providing much needed liquidity cushion to the company
- Enquiry and conversion of new orders are at ~40-45% of normal levels, reflecting a weak demand scenario
- The management has guided for the following percentage revenue levels at which the company would be functioning in FY21E:
  - Q1FY21 - 30-35% of normal revenue levels
  - Q2FY21 – 50-55% of normal revenue levels
  - Q3FY21 – 70-80% of normal revenue levels
  - Q4FY21 - Normal levels
- Overall, in the worst case scenario, FY21E may see revenues falling 40%
- On the margin front, the management has guided for 4-4.5% EBIDTA margins for FY21. Further, softening of steel prices, which form 60% of raw material of the company may benefit margins by 1-2%. The effect of this can be visible in Q2FY21
- Infrastructure contributes 60-65% to ACE's revenue. The management expects the infra sector to normalise by Q2FY21
- Heavy industries contribute 20-25% in ACE's revenue. The management expects this sector to fall back in place by Q4FY21 or Q1FY22
- Agri segment is expected to do well. Growth of 15% can be seen here

## Key operating metrics

Exhibit 1: Revenue break-up by segment



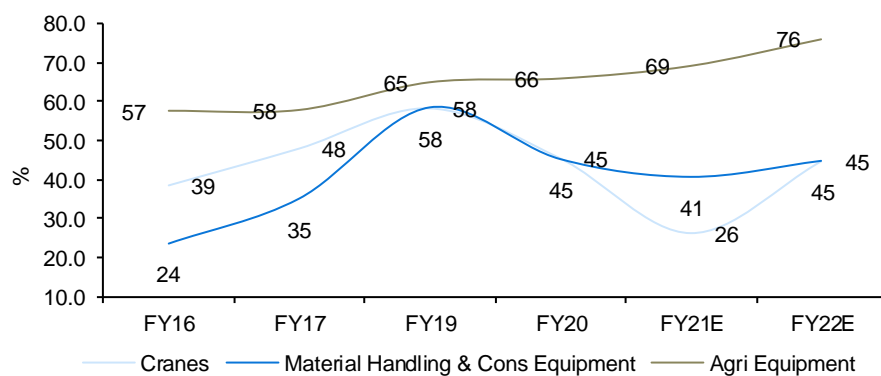
Source: Company, ICICI Direct Research

Exhibit 2: Cranes segment continues to dominate

| Key segment performance  | FY15  | FY16  | FY17  | FY18  | FY19  | FY20  |
|--------------------------|-------|-------|-------|-------|-------|-------|
| Cranes (₹crore)          | 360.7 | 398.2 | 496.2 | 749.0 | 964.3 | 828.7 |
| Revenue contribution (%) | 61.2  | 64.9  | 66.1  | 68.9  | 71.8  | 71.7  |
| EBIT margins (%)         | 8.2   | 9.9   | 8.0   | 11.0  | 9.3   | 11.2  |
| EBIT contribution (%)    | 92.5  | 100.2 | 82.8  | 82.2  | 81.5  | 95.8  |

Source: Company, ICICI Direct Research

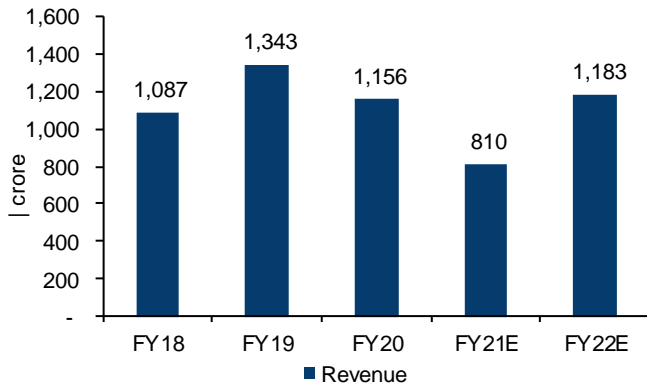
Exhibit 3: Capacity utilisation trend



Source: Company, ICICI Direct Research

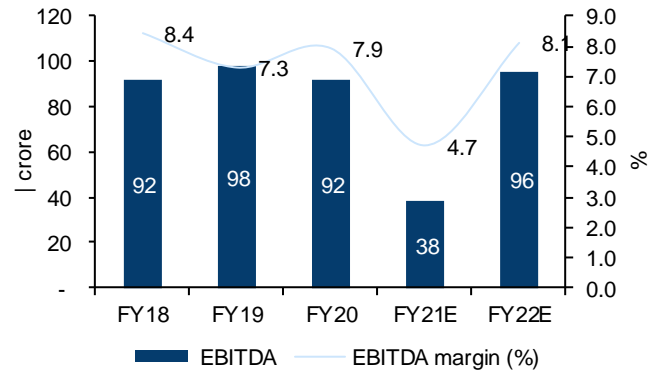
## Financial Story in Charts

Exhibit 4: Net sales trend



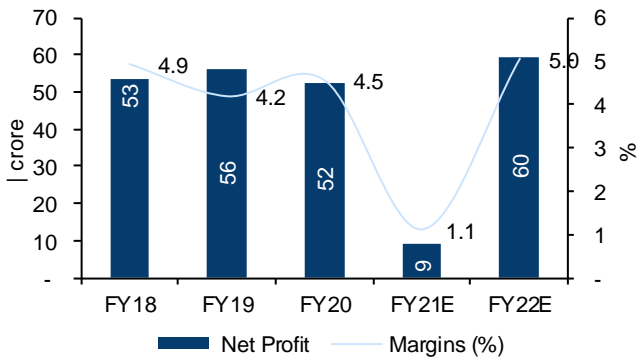
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



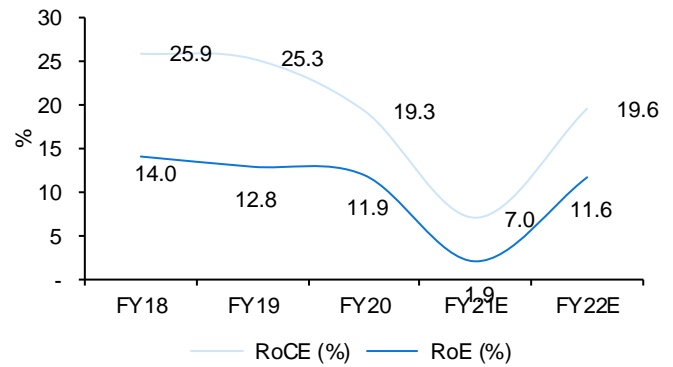
Source: Company, ICICI Direct Research

Exhibit 6: PAT and PAT margin trend



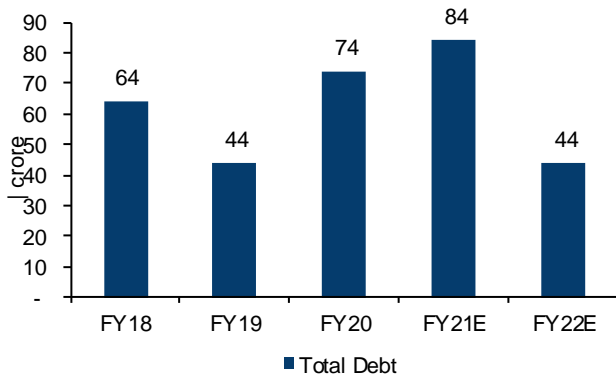
Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



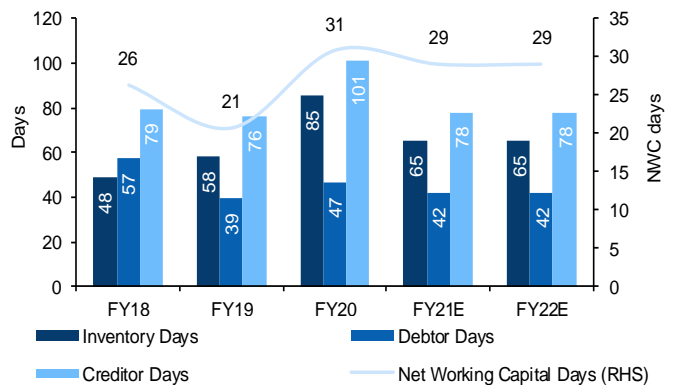
Source: Company, ICICI Direct Research

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)                              | FY19          | FY20E         | FY21E        | FY22E         |
| <b>Revenue</b>                                  | <b>1342.5</b> | <b>1170.3</b> | <b>810.1</b> | <b>1183.0</b> |
| Total Raw Material Costs                        | 1084.5        | 894.2         | 615.7        | 910.9         |
| Employee Expenses                               | 75.1          | 85.7          | 79.4         | 88.1          |
| Other expenses                                  | 85.1          | 84.7          | 77.0         | 88.1          |
| Total Operating Expenditure                     | 1244.8        | 1064.7        | 772.0        | 1087.2        |
| <b>EBITDA</b>                                   | <b>97.7</b>   | <b>105.6</b>  | <b>38.1</b>  | <b>95.8</b>   |
| % Growth  | 6.8           | -6.3          | -58.4        | 151.7         |
| Other Income                                    | 9.7           | 4.1           | 4.0          | 10.0          |
| Interest  | 11.5          | 14.7          | 16.8         | 8.8           |
| PBDT  | 95.9          | 95.1          | 25.2         | 97.0          |
| Depreciation                                    | 11.8          | 13.0          | 12.9         | 14.2          |
| PBT before Excep item                           | 84.2          | 68.0          | 12.4         | 82.8          |
| Total Tax                                       | 28.2          | 15.6          | 3.5          | 23.2          |
| PAT before MI                                   | 56.0          | 52.5          | 8.9          | 59.6          |
| Minority Interest                               | 0.0           | 0.0           | 0.0          | 0.0           |
| <b>PAT</b>                                      | <b>56.0</b>   | <b>52.5</b>   | <b>8.9</b>   | <b>59.6</b>   |
| % Growth  | 4.9           | -6.3          | -83.0        | 567.9         |
| EPS   | 4.9           | 4.6           | 0.8          | 5.3           |

Source: Company, ICICI Direct Research

| Exhibit 11: Cash Flow Statement (₹ crore) |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| (Year-ended-March)                        | FY19          | FY20          | FY21E         | FY22E         |
| Profit after Tax                          | 56.0          | 52.5          | 8.9           | 59.6          |
| Add: Depreciation                         | 11.8          | 13.0          | 12.7          | 14.2          |
| Interest                                  | 11.5          | 14.7          | 16.8          | 8.8           |
| (Inc)/decrease in CA                      | (55.4)        | (61.5)        | 200.5         | (132.4)       |
| (Inc)/decrease in CL and prov             | 28.2          | 32.8          | (195.5)       | 102.8         |
| <b>CF from Operations</b>                 | <b>51.4</b>   | <b>50.7</b>   | <b>59.6</b>   | <b>69.2</b>   |
| (Inc)/decrease in Fixed Assets            | (21.0)        | (39.4)        | (24.4)        | (39.4)        |
| Others                                    | 25.0          | 9.5           | 4.0           | 10.0          |
| <b>CF from Investing</b>                  | <b>4.0</b>    | <b>(29.9)</b> | <b>(20.4)</b> | <b>(29.4)</b> |
| Issue/(Buy back) of Equity                | -             | (33.0)        | -             | -             |
| Inc/(dec) in loan funds                   | (20.3)        | 30.2          | 10.0          | (40.0)        |
| Dividend paid & dividend tax              | (6.2)         | (5.8)         | (1.0)         | (4.8)         |
| Others                                    | (24.2)        | (14.7)        | (25.6)        | (8.8)         |
| <b>CF from Financing</b>                  | <b>(50.7)</b> | <b>(23.2)</b> | <b>(16.6)</b> | <b>(53.6)</b> |
| Net Cash flow                             | 4.7           | (2.4)         | 22.7          | (13.8)        |
| Opening Cash/Cash Equivalent              | 6.9           | 11.6          | 9.3           | 31.9          |
| Closing Cash/ Cash Equivalent             | 11.6          | 9.3           | 31.9          | 18.1          |

Source: Company, ICICI Direct Research

| Exhibit 12: Balance Sheet (₹ crore) |       |       |       |       |
|-------------------------------------|-------|-------|-------|-------|
| (Year-ended-March)                  | FY19  | FY20  | FY21E | FY22E |
| Equity Capital                      | 23.5  | 22.7  | 22.7  | 22.7  |
| Reserve and Surplus                 | 414.1 | 419.9 | 436.7 | 491.5 |
| Total Shareholders funds            | 437.5 | 442.6 | 459.3 | 514.2 |
| Minority Interest                   | 0.3   | 0.3   | 0.3   | 0.3   |
| Other Non Current Liabilities       | 18.2  | 17.7  | 17.7  | 17.7  |
| Total Debt                          | 43.9  | 74.1  | 84.1  | 44.1  |
| Sources of Funds                    | 499.9 | 534.7 | 561.4 | 576.3 |
| Gross Block                         | 435.7 | 464.0 | 488.4 | 527.7 |
| Acc: Depreciation                   | 108.3 | 121.3 | 134.1 | 148.4 |
| Net Block                           | 327.5 | 398.1 | 405.3 | 396.0 |
| Capital WIP                         | 8.3   | 19.4  | 19.4  | 19.4  |
| Total Fixed Assets                  | 335.7 | 417.5 | 424.6 | 415.4 |
| Non Current Assets                  | 104.2 | 50.0  | 50.0  | 50.0  |
| Inventory                           | 212.9 | 270.7 | 144.3 | 210.7 |
| Debtors                             | 144.1 | 147.3 | 93.2  | 136.1 |
| Loans and Advances                  | 0.0   | 0.0   | 0.0   | 0.0   |
| Other Current Assets                | 51.9  | 52.4  | 32.4  | 55.5  |
| Cash & Equivalent                   | 11.4  | 9.3   | 31.9  | 18.1  |
| Investments                         | 26.7  | 6.5   | 6.5   | 6.5   |
| Total Current Assets                | 447.0 | 486.1 | 308.3 | 426.9 |
| Current Liabilities                 | 387.0 | 418.9 | 223.3 | 326.1 |
| Net Current Assets                  | 60.0  | 67.3  | 84.9  | 100.8 |
| Application of Funds                | 499.9 | 534.7 | 561.4 | 576.3 |

Source: Company, ICICI Direct Research

| Exhibit 13: Key Ratios   |      |      |       |       |
|--------------------------|------|------|-------|-------|
|                          | FY19 | FY20 | FY21E | FY22E |
| <b>Per Share Data</b>    |      |      |       |       |
| EPS                      | 4.9  | 4.6  | 0.8   | 5.3   |
| BV                       | 38.6 | 39.0 | 40.5  | 45.3  |
| Dividend per share       | 0.5  | 0.5  | 0.1   | 0.4   |
| Dividend payout ratio    | 11.0 | 11.0 | 11.0  | 8.0   |
| <b>Operating Ratios</b>  |      |      |       |       |
| EBITDA Margin            | 7.3  | 7.9  | 4.7   | 8.1   |
| PAT Margin               | 4.2  | 4.5  | 1.1   | 5.0   |
| <b>Return Ratios</b>     |      |      |       |       |
| RoE                      | 12.8 | 11.9 | 1.9   | 11.6  |
| RoCE                     | 25.3 | 19.3 | 7.0   | 19.6  |
| RoIC                     | 25.9 | 20.0 | 7.0   | 19.3  |
| <b>Valuation Ratios</b>  |      |      |       |       |
| EV / EBITDA              | 6.3  | 7.3  | 17.3  | 6.6   |
| P/E                      | 10.9 | 11.7 | 68.7  | 10.3  |
| EV / Net Sales           | 0.5  | 0.6  | 0.8   | 0.5   |
| Market Cap / Sales       | 0.5  | 0.5  | 0.8   | 0.5   |
| Price to Book Value      | 1.4  | 1.4  | 1.3   | 1.2   |
| <b>Turnover Ratios</b>   |      |      |       |       |
| <b>Asset turnover</b>    | 3.2  | 2.6  | 1.7   | 2.3   |
| Debtors Turnover Ratio   | 9.3  | 7.8  | 8.7   | 8.7   |
| Creditors Turnover Ratio | 4.8  | 3.6  | 4.7   | 4.7   |
| <b>Solvency Ratios</b>   |      |      |       |       |
| Debt / Equity            | 0.1  | 0.2  | 0.2   | 0.1   |
| Current Ratio            | 1.0  | 1.1  | 1.2   | 1.2   |
| Quick Ratio              | 0.5  | 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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

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