

Action Construction Equipment (ACTCON)

CMP: ₹ 76

Target: ₹ 100 (31%)

Target Period: 12-18 months

BUY

November 10, 2020

Better than expected performance...

ACE's Q2FY21 performance was outright better than our estimates and management guidance. Underperformance of crane segment was largely due to unexpected supply chain constraints faced by the company due to which ACE lost 10-15% of revenue during the quarter. Nonetheless, upbeat numbers in material handling & agri equipment segment aided overall margins and bottomline. Revenue for the quarter was at ₹ 268.3 crore, flat YoY. Gross margins fell ~180 bps YoY due to higher input costs. However, cost rationalisation efforts led to a decline of 15% & 27% in employee & other expenses, respectively. Hence, EBIDTA increased 19.8% YoY to ₹ 24.2 crore, with a margin expansion of ~ 150 bps. Subsequently, ACE reported a net profit of ₹ 14.59 crore vs. a loss of ₹ 4.2 crore in Q1FY21.

Resurgence in demand, guidance revised upwards...

ACE, from August witnessed revival in demand with improved order inflows. Given the visible green shoots & improvement in economic activities, the management has revised their guidance (previously down 30-35% YoY) and is now expecting ACE to report revenues within touching distance of last year while guiding operating margins to be in double digits.

Cranes to make comeback in H2...

H1 was largely marred by lockdown and supply chain issues, thus impacting the performance of ACE's principle segment in H1. However, with monsoons over, infra activity picking up and ACE gaining market share (gained ~3% market share during the quarter) from other players, we expect cranes to make a comeback in H2. Further, the management also expects 20-25% YoY growth in Q3.

Sizeable opportunity in construction equipment, going ahead...

The current market size of construction equipment is ~₹ 7000-8000 crore. This is expected to go up to ₹ 10000-12000 crore in the next three to five years. The management is cautiously positive on tapping into this opportunity and, thus, expects to achieve growth of 70-80% CAGR in the next five years. This could very well be the much awaited growth catalyst for ACE in the coming three to five years.

Valuation & Outlook

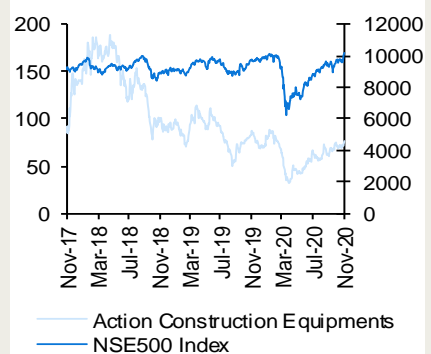
The worst seems to be over for ACE as post-monsoon resumption in infrastructure activities led by return of migrant labour has resurrected demand. ACE with a strong balance sheet, improved working capital and leadership position in crane segment is well placed to benefit from the same. Currently, ACE is trading at 6.9x FY22E EV/EVITDA, which calls for an upward revision in our target price given the better than expected recovery in demand. Thus, we value ACE at 9x FY22E EV/EBIDTA to arrive at a target price of ₹ 100 per share. We revise our rating from HOLD to **BUY**.



Particulars

Data	Amount
Market Capitalisation	₹862 crore
Debt (FY 20)	₹74 crore
Cash & Inv (FY 20)	₹16 crore
EV	₹921 crore
52 week H/L	94 / 31.5
Equity capital	₹22.7 crore
Face value	₹2

Price Chart



Key Highlights

- Total cranes volume at 950 units
- Q3 expected to grow 20%-25% YoY
- Revise our rating from HOLD to BUY with target price of ₹ 100 per share

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Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenue	1,086.5	1,342.5	1,156.2	1,104.1	1,282.4	5.3
EBITDA	91.5	97.8	91.6	92.7	124.4	16.6
EBITDA margin (%)	8.4	7.3	7.9	8.4	9.7	
Net Profit	53.4	56.0	52.5	51.2	78.7	22.5
EPS (₹)	4.7	4.9	4.6	4.5	6.9	
P/E (x)	16.1	15.4	16.4	16.9	11.0	
EV/EBITDA (x)	9.7	8.9	10.1	9.5	6.7	
RoCE (%)	25.9	25.3	19.3	18.5	22.1	
RoE (%)	14.0	12.8	11.9	10.3	13.8	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

Year	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ	Comments
Revenue	268.3	268.1	0%	100.9	166%	Upbeat numbers in material handling, agri & CE segment
Other Income	1.8	1.8	2%	2.4	-26%	
Total Income	270.1	269.9	0%	103.4	161%	
Cost of materials consumed	229.8	212.2	8%	71.6	221%	
Change in inventories	-19.3	-6.5	195%	6.7	NA	
Employee cost	17.9	21.0	-15%	14.8	21%	ACE confident of sustaining employee cost
Other expenses	15.6	21.3	-27%	7.9	98%	Cost rationalisation and reduction in breakeven point
EBITDA	24.2	20.2	20%	0.0	NA	
EBITDA Margin (%)	9.0	7.5	149 bps	0.0	NA	Expect margins to be in double digits, going ahead
Depreciation	3.5	3.1	15%	3.4	2%	
Interest	3.5	3.4	4%	3.3	6%	
PBT	19.0	15.6	22%	-4.3	NA	
Taxes	4.5	1.2	258%	-0.1	NA	
PAT	14.6	14.3	2%	-4.2	NA	Better margins in agri & material handling coupled with improved efficiency assist ACE's bottomline

Key metrics	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Cranes	166.4	199.4	-17%	49.8	234%	Cranes segment affected on account of supply chain issues
EBIT Margin %	9.2%	12.3%		-4.1%		
EBIT	15.2	24.5	-38%	-2.1	NA	
Construction Equipment	30.8	19.9	55%	18.0	71%	
EBIT Margin %	1.3%	-6.0%		2.9%		
EBIT	0.4	-1.2	NA	0.5	-24%	
Material Handling	26.5	20.1	32%	7.7	243%	Improved margins in Material Handling segment
EBIT Margin %	13.2%	12.7%		3.1%		
EBIT	3.5	2.6	37%	0.2	1365%	
Agri Equipment	44.7	28.8	55%	25.5	75%	
EBIT Margin %	13.0%	-11.6%		8.9%		
EBIT	5.8	-3.4	-273%	2.3	156%	Improved margins in Agri segment

Source: Company, ICICI Direct Research

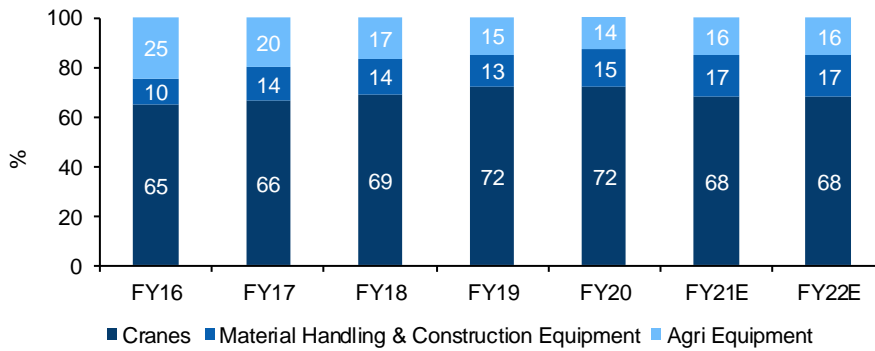
Exhibit 2: Quarterly Volumes

Segment	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Pick and Carry	1,549	1,677	1,440	1,264	1,180	1,142	1,251	280	891
Mobile Tower Crane	23	25	11	13	16	18	12	2	6
Fixed Tower Crane	47	35	6	30	36	44	49	8	42
Crawler Crane	5	8	4	1	1	3	2	1	4
Tractor	1,168	523	668	522	718	370	382	589	
Backhoe loader	80	70	115	67	60	69	139	41	104
Forklift	235	302	234	234	204	59	233	83	266
Compactors	13	12	12	9	11	19	21	1	11
Graders	15		4	6	6	5			3
Truck Mounted Cranes	7	4	3	8	2	4	5	8	7
Harvestors	40	15	24	6	10	64	49	22	66
Rotavators	406	242	126	243	156	295	86	266	308
Piling Rig				3	1	5	5	3	4

Source: Company, ICICI Direct Research

Key operating metrics

Exhibit 3: Revenue break-up by segment



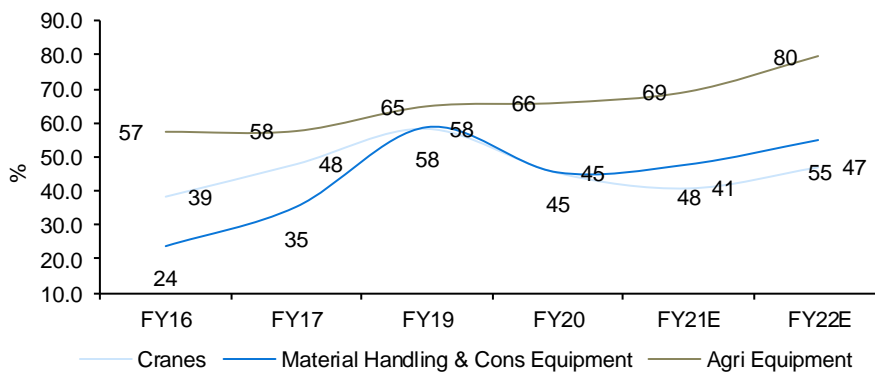
Source: Company, ICICI Direct Research

Exhibit 4: 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

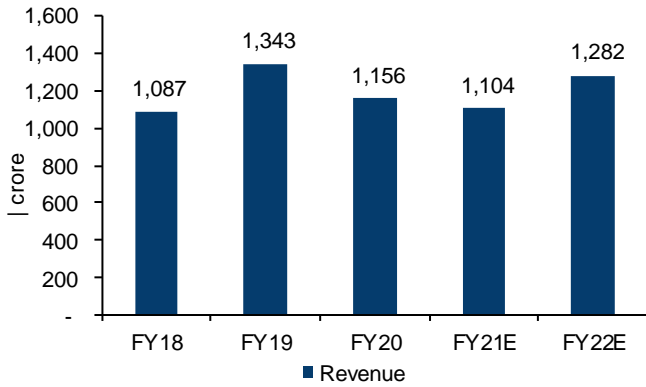
Exhibit 5: Capacity utilisation trend



Source: Company, ICICI Direct Research

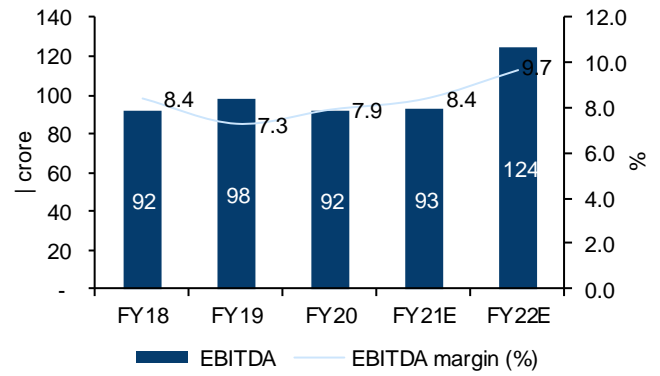
Financial story in charts

Exhibit 6: Net sales trend



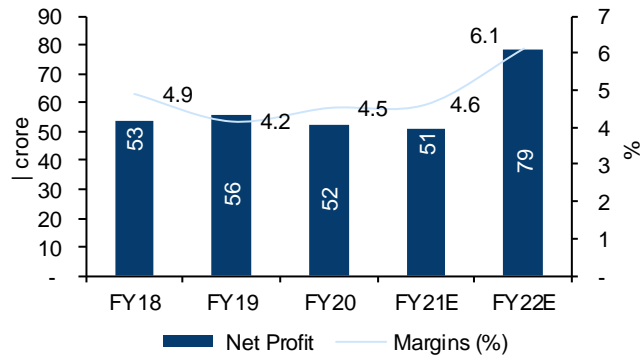
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



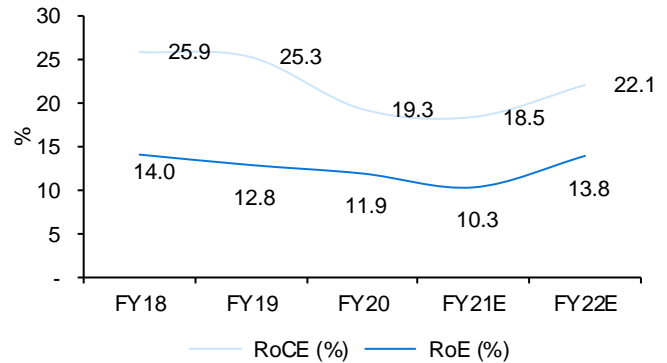
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margin trend



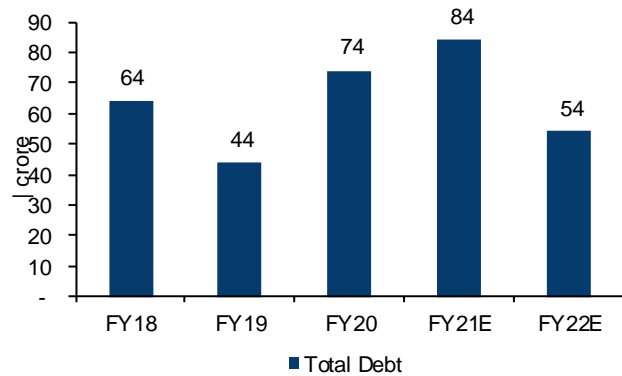
Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



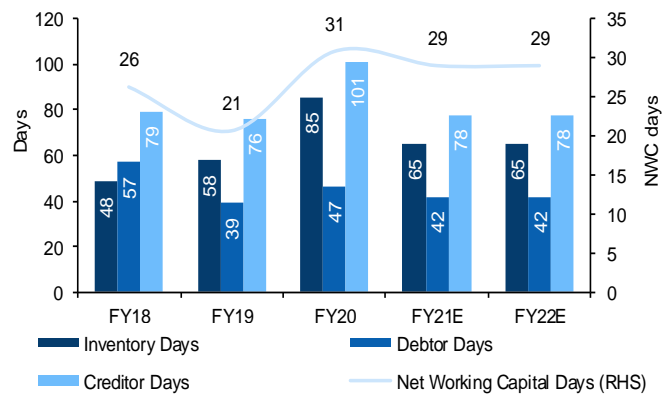
Source: Company, ICICI Direct Research

Exhibit 10: Total debt trend



Source: Company, ICICI Direct Research

Exhibit 11: Working capital trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement (₹ crore)				
(Year-ended-March)	FY19	FY20	FY21E	FY22E
Revenue	1342.5	1156.2	1104.1	1282.4
Total Raw Material Costs	1084.5	894.2	850.2	991.3
Employee Expenses	75.1	85.7	79.5	83.4
Other expenses	85.1	84.7	81.7	83.4
Total Operating Expenditure	1244.8	1064.7	1011.4	1158.0
EBITDA	98	92	93	124
% Growth	6.8	-6.3	1.3	34.1
Other Income	9.7	4.1	8.0	10.0
Interest	11.5	14.7	16.8	10.8
PBDT	95.9	81.0	83.9	123.6
Depreciation	11.8	13.0	12.9	14.2
PBT before Excep item	84.2	68.0	71.1	109.3
Total Tax	28.2	15.6	19.9	30.6
PAT before MI	56.0	52.5	51.2	78.7
Minority Interest	0.0	0.0	0.0	0.0
PAT	56.0	52.5	51.2	78.7
% Growth	4.9	-6.3	-2.5	53.9
EPS	4.9	4.6	4.5	6.9

Source: Company, ICICI Direct Research

Exhibit 13: Cash Flow Statement (₹ crore)				
(Year-ended-March)	FY19	FY20	FY21E	FY22E
Profit after Tax	56.0	52.5	51.2	78.7
Add: Depreciation	11.8	13.0	12.7	14.2
Interest	11.5	14.7	16.8	10.8
(Inc)/decrease in CA	(55.4)	(61.5)	102.6	(67.6)
(Inc)/decrease in CL and prov	28.2	32.8	(114.5)	49.2
CF from Operations	51.4	50.7	85.0	101.5
(Inc)/decrease in Fixed Assets	(21.0)	(39.4)	(24.4)	(39.4)
Others	25.0	9.5	8.0	10.0
CF from Investing	4.0	(29.9)	(16.4)	(29.4)
Issue/(Buy back) of Equity	-	(33.0)	-	-
Inc/(dec) in loan funds	(20.3)	30.2	10.0	(30.0)
Dividend paid & dividend tax	(6.2)	(5.8)	(5.6)	(6.3)
Others	(24.2)	(14.7)	(25.6)	(10.8)
CF from Financing	(50.7)	(23.2)	(21.2)	(47.1)
Net Cash flow	4.7	(2.4)	47.4	25.0
Opening Cash/Cash Equivalent	6.9	11.6	9.3	56.6
Closing Cash/ Cash Equivalent	11.6	9.3	56.6	81.6

Source: Company, ICICI Direct Research

Exhibit 14: 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	474.2	546.7
Total Shareholders funds	437.5	442.6	496.9	569.4
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	54.1
Sources of Funds	499.9	534.7	599.0	641.5
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	196.6	228.4
Debtors	144.1	147.3	127.0	147.6
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	51.9	52.4	44.2	59.5
Cash & Equivalent	11.4	9.3	56.6	81.6
Investments	26.7	6.5	6.5	6.5
Total Current Assets	447.0	486.1	430.9	523.5
Current Liabilities	387.0	418.9	304.4	353.6
Net Current Assets	60.0	67.3	124.4	176.2
Application of Funds	499.9	534.7	599.0	641.5

Source: Company, ICICI Direct Research

Exhibit 15: Key Ratios				
	FY19	FY20	FY21E	FY22E
Per Share Data				
EPS	4.9	4.6	4.5	6.9
BV	38.6	39.0	43.8	50.2
Dividend per share	0.5	0.5	0.5	0.6
Dvidend payout ratio	11.0	11.0	11.0	8.0
Operating Ratios				
EBITDA Margin	7.3	7.9	8.4	9.7
PAT Margin	4.2	4.5	4.6	6.1
Return Ratios				
RoE	12.8	11.9	10.3	13.8
RoCE	25.3	19.3	18.5	22.1
RoIC	25.9	20.0	20.1	25.0
Valuation Ratios				
EV / EBITDA	8.9	10.1	9.5	6.7
P/E	15.4	16.4	16.9	11.0
EV / Net Sales	0.6	0.8	0.8	0.6
Market Cap / Sales	0.6	0.7	0.8	0.7
Price to Book Value	2.0	1.9	1.7	1.5
Turnover Ratios				
Asset turnover	3.2	2.6	2.1	2.2
Debtors Turnover Ratio	9.3	7.8	8.7	8.7
Creditors Turnover Ratio	4.8	3.6	4.7	4.7
Solvency Ratios				
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%



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