

Action Construction Equipment (ACTCON)

CMP: ₹ 170

Target: ₹ 215 (27%)

Target Period: 12-18 months

BUY

March 15, 2021

Permanent upcycle in play...

Action Construction (ACE) hosted an analyst meet (virtual) wherein the management brought us up to speed on the recent business updates and also provided us an outlook on the sector. The infrastructure industry is witnessing robust traction with upcoming capex in metro, rail, manufacturing, road and real estate sector. Hence, demand for cranes and construction equipment is expected to see a significant improvement. The management remained assertive on the fact that ACE would become a counter cyclical company powered by 50-60% growth in CE & 25-30% growth in crane, agri equipment & material handling segments.

Operating leverage to curtail commodity impact...

We believe the recent price hikes in November and January coupled with positive operating leverage should aid margins. In addition, the growth highlighted by the management will be achieved with an increase of less than 10% in fixed cost. However, being conservative, we pencil in 11% and 11.9% EBIDTA margins for FY22E and FY23E, respectively.

Exports, CE segment to help become counter cyclical

The current share of exports in the topline is at 6-7%. It is expected to grow to the 10-11% range in the next three years. A higher mix of export in revenue would assist ACE in beating the domestic cyclicity. Furthermore, we expect backhoe loader to play a pivotal role in achieving the targeted growth in CE segment. It is important to note how the competition in the backhoe loader reacts to ACE's aggressive stance.

Better profitability to entail superior CFO

PAT is estimated to grow 56% & 37.3% to ₹ 110 crore & ₹ 150 crore, respectively. We expect this to generate CFO to the tune of ₹ 76 crore, ₹ 127 crore, respectively. Going ahead, we do not see any major capex apart from the paint shop that would need ~ ₹ 25 crore and maintenance capex of ₹ 10-15 crore per year. The company is operating at ~50% utilisation. Hence, there is headroom for growth without any major investment. With CFO flowing through, we expect debt to be pared completely by FY23E.

Valuation & Outlook

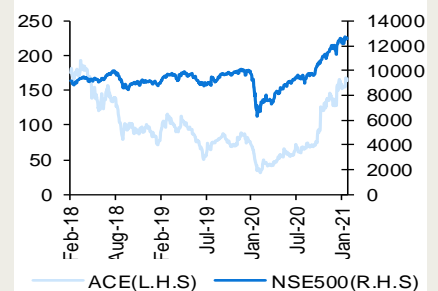
Till now, ACE was largely reliant on the crane segment. The key catalyst for the company from here on is how CE and agri equipment perform. With the current outlook and recent quarter numbers, we believe ACE is set to fire on all cylinders. Taking cognisance, we revise our FY22E & FY23E estimates upwards and expect ACE to post revenue, EBIDTA & PAT CAGR of 25.3%, 37.1% & 46.3% respectively. At this juncture, ACE is trading at 8.6x FY23E EV/EBIDTA against an historical up-cycle range of 15-20x. Hence, this calls for a multiple upgrade given the company is on the cusp of posting historically high growth rate. We value ACE at 11x FY23E EV/EBIDTA and maintain **BUY** rating with a revised target price of ₹ 215 (earlier ₹ 160).



Particulars

Data	Amount
Market Capitalisation	₹ 1929 crore
Debt (FY20)	₹ 74 crore
Cash & Inv (FY20)	₹ 16 crore
EV	₹ 1988 crore
52 week H/L	176 / 31.5
Equity capital	₹ 22.7 crore
Face value	₹ 2

Price Performance



Key risks to our call

- Further increase in steel prices, forcing another price hike, which can be detrimental to demand
- Inability to capture market share in CE & agri segments may affect its overall performance

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Revenue	1,343	1,156	1,150	1,459	1,805	25.3
EBITDA	98	92	114	160	214	37.1
EBITDA margin (%)	7.3	7.9	9.9	11.0	11.9	
Net Profit	56	52	70	110	150	46.3
EPS (₹)	4.9	4.6	6.2	9.7	13.3	
P/E (x)	34.4	36.8	27.5	17.6	12.8	
EV/EBITDA (x)	19.8	21.7	17.0	11.9	8.6	
RoCE (%)	25.3	19.3	22.6	26.3	29.7	
RoE (%)	12.8	11.9	13.7	17.8	20.0	

Source: ICICI Direct Research. Company

Financial Summary

Exhibit 1: Profit and loss statement (₹ crore)				
(Year-ended-March)	FY20	FY21E	FY22E	FY23E
Revenue	1,156	1,150	1,459	1,805
Total Raw Material Costs	894	888	1128	1395
Employee Expenses	86	77	88	99
Other expenses	85	71	83	97
Total Operating Expenditure	1,065	1,036	1,299	1,591
EBITDA	92	114	160	214
% Growth	-6.3	24.4	40.3	34.0
Other Income	4	10	12	12
Interest	15	13	3	0
PBDT	81	110	169	226
Depreciation	13	13	17	17
PBT before Excep item	68	98	152	209
Total Tax	16	27	43	58
PAT before MI	52	70	110	150
Minority Interest	0	0	0	0
PAT	52	70	110	150
% Growth	-6.3	33.9	55.9	37.3
EPS	4.6	6.2	9.7	13.3

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)				
(Year-ended-March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	52	70	110	150
Add: Depreciation	13	13	17	17
Interest	15	13	3	0
(Inc)/decrease in CA	(61)	87	(155)	(153)
(Inc)/decrease in CL and prov	33	(102)	85	96
CF from Operations	51	98	76	127
(Inc)/decrease in Fixed Assets	(39)	(24)	(59)	(39)
Others	9	10	12	12
CF from Investing	(30)	(14)	(47)	(27)
Issue/(Buy back) of Equity	(33)	-	-	-
Inc/(dec) in loan funds	30	10	(54)	(30)
Dividend paid & dividend tax	(6)	(8)	(9)	(12)
Others	(15)	(26)	23	(29)
CF from Financing	(23)	(24)	(40)	(71)
Net Cash flow	(2)	60	(11)	29
Opening Cash/Cash Equivalent	12	9	69	58
Closing Cash/ Cash Equivalent	9	69	58	86

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet (₹ crore)				
(Year-ended-March)	FY20	FY21E	FY22E	FY23E
Equity Capital	23	23	23	23
Reserve and Surplus	420	491	592	730
Total Shareholders funds	443	514	615	753
Minority Interest	0	0	0	0
Other Non Current Liabilities	18	18	18	18
Total Debt	74	84	30	0
Sources of Funds	535	616	663	771
Gross Block	464	488	548	587
Acc: Depreciation	121	134	151	168
Net Block	398	405	394	417
Capital WIP	19	19	19	19
Total Fixed Assets	417	425	413	436
Non Current Assets	50	50	50	50
Inventory	271	205	280	371
Debtors	147	132	200	247
Loans and Advances	0	0	0	0
Other Current Assets	52	46	58	72
Cash & Equivalent	9	69	58	86
Investments	6	6	6	6
Total Current Assets	486	459	602	783
Current Liabilities	419	317	402	498
Net Current Assets	67	141	200	285
Application of Funds	535	616	663	771

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	4.6	6.2	9.7	13.3
BV	39.0	45.3	54.2	66.4
Dividend per share	0.5	0.7	0.8	1.1
Dividend payout ratio	11.0	11.0	8.0	8.0
Operating Ratios				
EBITDA Margin	7.9	9.9	11.0	11.9
PAT Margin	4.5	6.1	7.5	8.3
Return Ratios				
RoE	11.9	13.7	17.8	20.0
RoCE	19.3	22.6	26.3	29.7
RoC	20.0	25.2	28.1	33.1
Valuation Ratios				
EV / EBITDA	21.7	17.0	11.9	8.6
P/E	36.8	27.5	17.6	12.8
EV / Net Sales	1.7	1.7	1.3	1.0
Market Cap / Sales	1.7	1.7	1.3	1.1
Price to Book Value	4.4	3.8	3.1	2.6
Turnover Ratios				
Asset turnover	2.6	2.2	2.3	2.4
Debtors Turnover Ratio	7.8	8.7	7.3	7.3
Creditors Turnover Ratio	3.6	4.7	4.7	4.7
Solvency Ratios				
Debt / Equity	0.2	0.2	0.0	0.0
Current Ratio	1.1	1.2	1.3	1.4
Quick Ratio	0.5	0.6	0.6	0.6

Source: Company, ICICI Direct Research

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Buy : > 15%

Hold : -5% to 15%;

Reduce : -5% to -15%;

Sell : < -15%



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