

Company Name: Action Construction Equipment (ACE) Ltd.**Operational Highlights:**

- Growth was driven by a government push to revive construction and infrastructure activities, and good growth in agricultural and logistics sectors.
- The company was able to pass on the effect of increased steel price to the end customers with the recent price hike in all its equipment's
- The company has one of the widest sales networks, with over 100+ locations supported by 21 regional offices. Apart from the domestic market the company also exports to over 25 countries across the Middle East, Africa, Asia and Latin America.
- They have a R&D department and is recognized by DSIR – GOVT. of INDIA.
- ACE has a strong customer base of 16000+ with a significant presence across Diversified sectors such as Operating across Infrastructure, Construction, Manufacturing, Logistics, Agriculture sectors etc.
- The company owns approximately 90 acres of land of which only 50% is utilised yet.
- Managements focus is on improving its market share and cross the next milestone of 70% market share in pick and carry crane.
- At present the crane segment is working at a 60% capacity utilisation, but with the growth momentum in place it has the potential to ramp up to 100% capacity utilisations.
- ACE plans to upgrade the market to the NX gen cranes which are used for multiple activities. For e.g., An NXP series crane is a manlift cum pick and carry, both these activities are done in one crane and only one equipment need to be purchased which saves 60% of the total cost.
- Backhoe loader is one of the key focus products for ACE due to a significantly large market size of INR 8,000-9,000 crores.
- For Construction equipment ACE has a dealer network in over 100 locations which can be leveraged to increase their market share. ACE also forecasts a good export potential for construction equipment.
- Company targets to capture 25% of market share in material handling over the next 2-3 years by further increasing sales network and customer touchpoints.
- More than 200 Agriculture dealers across the country spread across the sates like Haryana, Uttar Pradesh, Rajasthan and Punjab etc. The company already captured 10% of the market share for tractor in Assam.
- Plans to enhance its international market presence in SAARC markets, Myanmar, Iraq, Sudan, Tunisia, East Africa, Ethiopia and Afghanistan.
- Increased market penetration with launch of Orchard Special Tractor 26 HP, 4 WD and Nextgen Lightweight Harvesters.
- For the Tractor segment, they have Strong financial tie-ups with Scheduled Commercial Banks and NBFC's like SBI PNB IndusInd Bank, Cholamandalam Finance, Sundaram Finance, Magma Fincorp, Adani Finance etc.
- Increased Export Revenue coupled with opportunities in Defence Sector, and increasing utilisation levels of Construction Equipment and Agribusiness are moving the Company away from the countercyclical domain.

Key Questions & Answers discussed during the Conference:

- **How much growth do we expect for cranes in the next 5 years, where we are the market leaders?** Starting with Cranes, its market is going to grow by 142% between FY20-25 and be 3x the existing market by FY30, according to a study by ICEMA. With an increase in govt push for Infra development, several metro and bullet train projects in the pipeline, and huge demand from the manufacturing sector, there will be high demand for cranes. We are market leaders in this segment for almost all types of cranes and we expect to grow steadily and faster than the market, in this segment.
- **Can you throw some light on Material Handling segment?** Moving to Material Handling (MH), we have partnered with Doosan-Korea for Forklifts manufacturing. Forklifts have a good demand in factories, warehouses, etc. MH segment is dominated by 3 players, namely, Voltas, Godrej and ACE. In 1-2 years, we expect to be market leaders. We expect to increase our market share to 25% in MH in next 3 years. This segment will have moderate growth. The world has been talking about EVs for 1-2 years, whereas we have been manufacturing Electric Forklifts for past 8 years. Currently, the market size is 400-500 Cr., but due to "Aatma Nirbhar Bharat Abhiyan", etc. it will grow to ~600 Cr.
- **What is the market size that ACE is tapping into for Backhoe loaders and how are you planning to expand your reach in Agriculture Equipment segment?** For Construction Equipment (CE), Backhoe is our main focus since it has a huge market size of 8000-9000 Cr. JCB is the market leader but there is price arbitrage opportunity in this segment. Demand is huge because it is used in many companies in various sectors. Pricing will be similar to the competition or less. We will be competing on basis of product performance and leverage our brand value in gaining market share. We have overlapping dealers for cranes and CE, but are working over to have exclusive dealers for backhoe and CE as well. Volumes of Motor graders will also increase in the coming years. We have Mr. Manish Handa now in the Management who was with JCB when JCB was becoming a well-known brand. In terms of Agricultural Equipment (AE), Harvester Combines is one of our products, we are already at no.2 position. Harvester segment will be witnessing growth of ~10.6% CAGR between FY 2020-25. We weren't able to find success earlier in the tractor business. We have now got Mr. Ashok Anantharaman in the management past 6-7 months, who is a veteran in this field, and who has been instrumental for turning around things positively for Escorts. We had a small experiment done in Assam where we focussed on getting dealers who can take large orders and get good biz for us. We have been successful in increasing our market share from 0% to 10% in Assam. We will be applying similar approach in other states, with dealer viability and incentivizing them as important aspects of our strategy, to gain market share in other states as well. India is the largest tractor market, selling ~8 Lac tractors/year. It is expected to grow at 4.5% CAGR between FY2020-25. In next 3 years, we expect to increase our market share in this segment to 5-6%.
- **What are your Capex plans in next 2-3 years?** Maintenance Capex- 10-15 Cr./year, growth Capex- 10-15 Cr./year and additional 20-30 Cr. for building a paint shop.
- **What type of orderbook do we have?** Generally, we have an orderbook of around 4-6 weeks for most of our products.

- How are our payment terms from our customers?** Generally, it is around 20-30 days. But, for larger customers, like L&T, it is longer. For Tier-1 cities, we have direct end customer company billing done. For few other cities, we sell through dealers. For backhoe, we have stock and sale model for at least 70% of our volumes and selling is mainly via dealers.
- How do you see growth post economy slowdown last year and COVID-19?** Growth has been increasing sharply since August end onwards. There is lot of demand from manufacturing sector and infrastructure companies. Only, those infrastructure companies which are highly levered, are facing some challenges.
- What is the competition in each segment and what advantage are having over our competitors?** In most of the products in cranes segment, we enjoy market leadership. Our competitor for Pick n Carry crane is Escorts, we have some Chinese players as competitors for some of our other products in this segment. In CE, especially for backhoe, we are competing with JCB. For MH segment, ~70-75% market is equally distributed amongst ACE, Voltas and Godrej. In tractors, there are 6-7 dominant players. With product wise strategic approach, reform in the management structure, highly cost-efficient processes and cost saving initiatives and good R&D team in line, we are very well placed in the market and enjoy no.1-3 positions for most of our products. We have reached this place by simple yet powerful mantra of giving right product at right price with right service.
- Are our new multi-functional cranes going to have a cannibalization effect for our existing products?** Our multi-functional cranes are going to be used at various places where cranes weren't used. There are a lot of shifting, lifting and material handling activities in factories, construction sites, warehouses, etc. These were being done manually along with other machines. These activities will now be done by our new innovative cranes. It will mostly be used in the 2nd hand market and will change consumer habits and patterns positively. Hence, there will be no cannibalization, it will increase our presence in places where we hardly had any.
- What is the lead time for manufacturing cranes?** Generally, it takes just 11 days to manufacture a crane. In fact, assembling of different parts of cranes takes just 2-2.5 hrs. After assembling there are around 2 days, where testing, etc. takes place.
- Can you throw some light on the EBITDA margins that we have in each segment?** In MH and cranes we have generally, 12-13%, in CE around 12-14% and in AE we have around 12%. We expect these to grow and there will be significant margin improvements in CE segment soon.
- What is the proportion of rental(retail):capital buying for cranes and backhoe?** For cranes, this proportion is 50:50 and for backhoe it is 70:30 approx.
- We have clients in the manufacturing, infrastructure and government sectors. Where do we receive most of our revenues for and are increasing our business in the government sector?** Most of our revenues come from the manufacturing as well as infrastructure company clients. We have a huge clientele and we serve all big, small and medium size companies in these sectors. Government sector companies generally delay their payments and hence we don't try to focus much on growing there much as compared to the other two sectors.

- **How are we countering the cyclical nature of our business?** We have taken up projects with Indian Defence. We are providing them Customised Cranes, Forklifts, Skid Steer Loaders, Multi-Purpose Tractors, Telehandlers and special mobile equipment. This demand was earlier catered by imports. Also, we are focussing more on exports now. We see Africa, Middle East, South-East Asia and South America as huge markets for many of our products, especially for the cranes segment. For backhoe, we will be supplying to some European countries. Our target in next 3 years would be having Exports contribute at least 15-20% to our Total Revenues.
- **How is our financing done? Are we using SREI for our finances?** Generally, most of our products, especially in cranes and AE segment, are 80%-90% financed by banks and NBFCs. Over the years, we had hardly used SREI for our finances and we always rely only on good bankers who mostly provide financing for average and prime customers with proper due diligence activities.
- **By when are we expecting to reach full capacity utilization?** We expect to reach full capacity utilization from our current 55-60% levels, in the next 2-3 years or even earlier.
- **Are we backwardly integrated? Do we have any plans for M&A?** We manufacture our engines for most of our crane ranges and some other products. We also do a lot of fabrication In-House. We do manufacture some other components also for our products. Currently, there are no plans for M&A though we keep receiving proposals. We will do only if by doing M&A we can get synergy benefits, new market opportunities, sustainable growth in our margins and ROCE. At present, we are focussing more on organic growth.
- **With the increase in steel prices, are our margins get badly impacted?** 60% of our raw material cost is of steel. We have been generally absorbing most of the increase in Steel prices, for many years. But, being the market leader, we thought of leveraging our brand value and swiftly pass on these increases to customers to protect our margins. The market just followed it. Hence, our margins have been protected even with the increase in steel prices.
- **What are your targets, product wise and consolidated margin and ROCE targets for next 2-3 years?** We expect to grow our market size in Pick n Carry Cranes from 63% to 70%. Steady growth in other products in Cranes segment is expected and with industry growth forecast being 3x by FY30, we are positive for this segment. Revenue from Cranes- 1500-1600 Cr., CE - ~550-600Cr., MH- ~200 Cr. and AE- ~600 Cr. We maintain our stance on reaching 2500 Cr. revenues in next 3 years, on a conservative side. EBITDA margin targets would be 14-15% and ROCE targets would be 20-25% at least.

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