

Action Construction Equipment (ACTCON)

CMP: ₹ 171

Target: ₹ 205 (20%)

Target Period: 12-18 months

BUY

May 31, 2021

Robust performance but small bump ahead...

Action Construction Equipment (ACE) reported robust Q4FY21 numbers led by strong performance from all segments. Margins improved on a YoY basis but were down sequentially on account of higher input cost. Revenue for the quarter came in at ₹ 457.4 crore, up 49.7% YoY, 14% QoQ. Gross margins contracted ~239 bps YoY, ~156 bps QoQ on account of the recent run up in steel prices. Employee cost was down 18% YoY while other expenses increased 30% YoY. Consequently, EBIDTA increased 82.4% YoY to ₹ 50 crore with an expansion of ~196 bps YoY & contraction of 36 bps QoQ in EBIDTA margins which came in at 10.9%. Subsequently, PAT came in at ₹ 38.8 crore, up 182% YoY. For FY21, ACE posted a revenue increase of 6% led by robust performance in H2. The company reported cash flow to the tune of ₹ 86.05 crore during the period.

All-round performance...

Crane segment revenues grew 45.7% to ₹ 316.7 crore with an EBIT margin of 12.9%. The company sees crane segment growing 10% in FY22 even though Q1FY22 is expected to be a potential drag on overall FY22 crane segment revenues. CE segment revenue grew 33.6%, with an EBIT margin of 6.8%. Material handling, agri equipment segment grew 74.6%, 77.9% to ₹ 37.3 crore, ₹ 57.1 crore, respectively. Going ahead, the management expects CE, material handling & agri segment to also grow at a pace of 25-30% in FY22E. We believe better execution pickup in H2FY22, new product launches and higher exports would aid ACE achieve its targeted growth of 15% in FY22E.

Margins to sustain, even with commodity inflation

Q4FY21 margins came in at 10.9%, up 196 bps YoY despite a decline of ~239 bps YoY in gross margins. This was largely due to a decline in employee cost and positive operating leverage, to an extent. Going ahead, the management has guided margins to be in the range of 11-12%. We believe this can be accomplished given the upcoming price hike in June end. Also, a potential decline in commodity prices will improve the company's overall margin spreads considering the price hikes would not be rolled back.

Valuation & Outlook

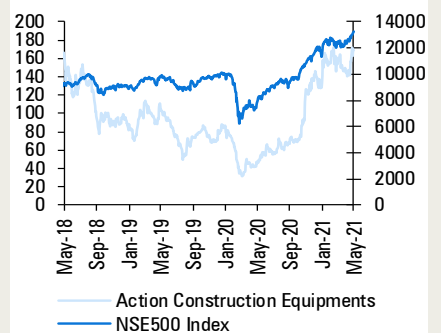
Till now, ACE was largely reliant on the crane segment. The key catalyst for the company from here on is how CE and agri equipment perform. With the current outlook and recent quarter numbers, we believe ACE is set to post a strong FY22 despite a sluggish Q1. We revisit our estimates to incorporate a dismal Q1. However, our stance remains positive on the company. At this juncture, ACE is trading at 9x FY23E EV/EBIDTA against a 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 ₹ 205 (earlier ₹ 215).



Particulars

Data	Amount
Market Capitalisation	₹ 1941 crore
Debt (FY21)	₹ 51 crore
Cash & Inv (FY21)	₹ 62 crore
EV	₹ 1930 crore
52 week H/L	179 / 45
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	FY21	FY22E	FY23E	CAGR (FY21-23E)
Revenue	1,343	1,156	1,227	1,419	1,758	19.7
EBITDA	98	92	119	156	207	31.8
EBITDA margin (%)	7.3	7.9	9.7	11.0	11.8	
Net Profit	56	52	80	107	146	34.8
EPS (₹)	4.9	4.6	7.1	9.4	12.8	
P/E (x)	34.6	37.0	24.2	18.2	13.3	
EV/EBITDA (x)	19.9	21.8	16.2	12.3	9.0	
RoCE (%)	25.3	19.3	26.9	25.8	29.2	
RoE (%)	12.8	11.9	15.3	17.1	19.2	

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	1,419	1,758
Total Raw Material Costs	894	962	1107	1361
Employee Expenses	86	72	78	95
Other expenses	85	74	78	95
Total Operating Expenditure	1,065	1,108	1,263	1,550
EBITDA	92	43	156	207
% Growth	-6.3	30.4	30.7	32.9
Other Income	4	15	12	12
Interest	15	12	3	1
PBDT	81	46	165	219
Depreciation	13	14	16	17
PBT before Excep item	68	108	148	202
Total Tax	16	28	42	57
PAT before MI	52	80	107	146
Minority Interest	0	0	0	0
PAT	52	80	107	146
% Growth	-6.3	52.8	33.3	36.2
EPS	4.6	7.1	9.4	12.8

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement (₹ crore)				
(Year-ended-March)	FY20	FY21	FY22E	FY23E
Profit after Tax	52	80	107	146
Add: Depreciation	13	14	16	17
Interest	15	12	3	1
(Inc)/decrease in CA	(61)	(59)	(33)	(158)
(Inc)/decrease in CL and prov	33	42	(72)	94
CF from Operations	51	106	21	107
(Inc)/decrease in Fixed Assets	(39)	(18)	(53)	(33)
Others	9	5	12	12
CF from Investing	(30)	(12)	(41)	(21)
Issue/(Buy back) of Equity	(33)	-	-	-
Inc/(dec) in loan funds	30	(23)	(20)	(25)
Dividend paid & dividend tax	(6)	(6)	(9)	(12)
Others	(15)	(25)	23	(29)
CF from Financing	(23)	(54)	(5)	(66)
Net Cash flow	(2)	40	(25)	21
Opening Cash/Cash Equivalent	12	10	50	24
Closing Cash/ Cash Equivalent	10	50	24	45

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	501	602	735
Total Shareholders funds	443	523	624	758
Minority Interest	0	0	0	0
Other Non Current Liabilities	18	18	18	18
Total Debt	74	51	31	7
Sources of Funds	535	593	674	783
Gross Block	464	488	541	573
Acc: Depreciation	121	135	152	168
Net Block	398	416	405	428
Capital WIP	19	13	13	13
Total Fixed Assets	417	429	417	440
Non Current Assets	50	36	36	36
Inventory	271	266	272	361
Debtors	147	225	233	289
Loans and Advances	0	0	0	0
Other Current Assets	52	38	57	70
Cash & Equivalent	9	37	24	45
Investments	6	25	25	25
Total Current Assets	486	591	611	791
Current Liabilities	419	463	391	485

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios				
	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	4.6	7.1	9.4	12.8
BV	39.0	46.1	55.0	66.8
Dividend per share	0.5	0.5	0.8	1.0
Dividend payout ratio	10.8	7.1	8.0	8.0
Operating Ratios				
EBITDA Margin	7.9	9.7	11.0	11.8
PAT Margin	4.5	6.5	7.5	8.3
Return Ratios				
RoE	11.9	15.3	17.1	19.2
RoCE	19.3	26.9	25.8	29.2
RoIC	20.0	28.0	26.5	31.1
Valuation Ratios				
EV / EBITDA	21.8	16.2	12.3	9.0
P/E	37.0	24.2	18.2	13.3
EV / Net Sales	1.7	1.6	1.4	1.1
Market Cap / Sales	1.7	1.6	1.4	1.1
Price to Book Value	4.4	3.7	3.1	2.6
Turnover Ratios				
Asset turnover	2.6	2.4	2.2	2.4
Debtors Turnover Ratio	7.8	5.5	6.1	6.1
Creditors Turnover Ratio	3.6	3.7	4.7	4.7
Solvency Ratios				
Debt / Equity	0.2	0.1	0.0	0.0
Current Ratio	1.1	1.1	1.4	1.5
Quick Ratio	0.5	0.6	0.7	0.7

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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