

# Action Construction Equipment (ACTCON)

CMP: ₹ 255

Target: ₹ 300 (18%)

Target Period: 12 months

BUY

August 3, 2021

## Sturdy performance...

**About the stock:** Action Construction Equipment (ACE) is an Indian construction equipment and material handling company.

- ACE has eight manufacturing and one R&D site in Faridabad, Haryana
- The company has a capacity of 12000 construction equipment and 9000 tractors annually
- ACE's product portfolio is divided into four main categories viz. agricultural equipment, construction equipment, road construction equipment and earth-moving machinery

**Q1FY22 Results:** ACE reported Q1FY22 results.

- Revenue for the quarter came in at ₹ 321.5 crore, up 218% YoY & down 29.7% QoQ.
- Absolute EBIDTA came in at ₹ 30.2 crore, down 39.5% QoQ vs a loss in Q1FY21
- PAT came in at ₹ 19.3 crore vs. 38.8 crore in Q4FY21 & a loss in Q1FY21

**What should investors do?** ACE continues to tread on its growth path. Even with a disrupted Q1, the management has guided for 15-20% growth

- We continue to remain positive and retain our BUY rating on the stock

**Target Price and Valuation:** We value ACE at ₹ 300 i.e. 15x EV/EBIDTA (FY23E).

### Key triggers for future price performance:

- Strong growth in FY22 & FY23E with sustained EBIDTA margins.
- Construction equipment segment growing and occupying a larger pie in overall revenue contribution
- Upcoming government & private capex providing fillip to the sector

**Alternate Stock Idea:** Apart from ACE, in our capital goods coverage, we also like NRB Bearings.

- It offers a play on needle roller bearings, which are largely used in auto applications
- BUY with a target price of ₹ 175 per share



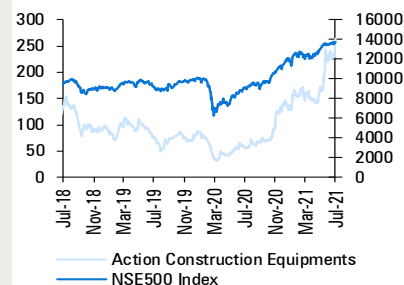
### Particulars

Data	Amount
Market Capitalisation	₹ 2894 crore
Debt (FY21)	₹ 51 crore
Cash & Inv (FY21)	₹ 62 crore
EV	₹ 2883 crore
52 week H/L	271/ 53
Equity capital	₹ 22.7 crore
Face value	₹ 2

### Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	72.4	73.0	73.1	70.1	70.1
FII	0.7	0.6	1.0	3.2	4.2
DII	0.8	0.7	0.7	1.4	2.0
Others	26.1	25.6	25.1	25.4	23.7

### Price Chart



### Recent event & key risks

- Demand revival post monsoon
- **Key Risk:** (i) Rising input cost (ii) Inability to achieve meaningful growth in CE & Agri segments

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### Key Financial Summary

( ₹ crore)	FY19	FY20	FY21	5 Year CAGR	FY22E	FY23E	CAGR (FY21-23E)
Revenue	1,343	1,156	1,227	14.0	1,419	1,758	19.7
EBITDA	98	92	119	31.2	156	221	36.2
EBITDA margin (%)	7.3	7.9	9.7		11.0	12.6	
Net Profit	56	52	80	55.9	107	156	39.4
EPS (₹)	4.9	4.6	7.1		9.4	13.7	
P/E (x)	51.7	55.2	36.1		27.1	18.6	
EV/EBITDA (x)	29.7	32.2	24.2		18.4	12.7	
RoCE (%)	25.3	19.3	26.9		25.8	30.7	
RoE (%)	12.8	11.9	15.3		17.1	20.3	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q1FY22 Results: Sturdy performance

- ACE reported a decent set of numbers amid a disrupted quarter. Revenue for the quarter came in at ₹ 321.5 crore, up 218% YoY & down 29.7% QoQ.
- Gross margins contracted ~ 220 bps YoY & ~ 55 bps QoQ. EBIDTA margins came in at 9.4% vs. 10.9% QoQ
- Absolute EBIDTA came in at ₹ 30.2 crore, down 39.5% QoQ vs. a loss in Q1FY21
- Ensuing PAT came in at ₹ 19.3 crore vs. 38.8 crore in Q4FY21 and a loss in Q1FY21
- The board has considered and approved raising of funds via private placement or QIP for an aggregate amount of ₹ 175 crore

### Q1FY22 Earnings Conference Call highlights

- Export has increased 47% YoY mainly because of a crane, which has been shipped to Bangladesh but the company estimates that export will contribute 9% to revenue in the current fiscal year
- Consumer sentiments are improving on the back of a revival in Indian economy but regional lockdown due to second wave has negatively impacted revenues with estimates of ₹ 80 crore revenue lost in first quarter
- The management has guided for 15-20% growth guidance for FY22, which would be further reiterated or revised post Q2. We are expecting a strong rebound post monsoons. Crane segment is expected to grow 15% whereas the remaining segment should grow 25%
- Another price hike was taken at the end of June. Four price hikes in the past nine months have been taken to negate the impact of higher steel prices. The management reiterated their margin guidance of 11-12%
- ACE is planning to raise ₹ 175 crore through a QIP, which it will use for inorganic growth, debt payment and general purpose
- The company is optimistic about 40% CAGR in construction equipment and estimates it will reach ₹ 400-500 crore by FY25

## 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	1350
Employee Expenses	86	72	78	93
Other expenses	85	74	78	93
Total Operating Expenditure	1,065	1,108	1,263	1,536
EBITDA	92	43	156	221
% Growth	-6.3	30.4	30.7	41.9
Other Income	4	15	12	12
Interest	15	12	3	1
PBDT	81	46	165	233
Depreciation	13	14	16	17
PBT before Excep item	68	108	148	216
Total Tax	16	28	42	61
PAT before MI	52	80	107	156
Minority Interest	0	0	0	0
PAT	52	80	107	156
% Growth	-6.3	52.8	33.3	45.7
EPS	4.6	7.1	9.4	13.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-ended-March)	FY20	FY21	FY22E	FY23E
Profit after Tax	52	80	107	156
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	117
(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)	30
Opening Cash/Cash Equivalent	12	10	50	24
<b>Closing Cash/ Cash Equivalent</b>	<b>10</b>	<b>50</b>	<b>24</b>	<b>55</b>

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	745
Total Shareholders funds	443	523	624	767
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	792
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	55
Investments	6	25	25	25
Total Current Assets	486	591	611	800
Current Liabilities	419	463	391	485
Net Current Assets	67	128	220	316

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	4.6	7.1	9.4	13.7
BV	39.0	46.1	55.0	67.6
Dividend per share	0.5	0.5	0.8	1.1
Dividend payout ratio	10.8	7.1	8.0	8.0
Operating Ratios				
EBITDA Margin	7.9	9.7	11.0	12.6
PAT Margin	4.5	6.5	7.5	8.9
Return Ratios				
RoE	11.9	15.3	17.1	20.3
RoCE	19.3	26.9	25.8	30.7
RoIC	20.0	28.0	26.5	33.2
Valuation Ratios				
EV / EBITDA	32.2	24.2	18.4	12.7
P/E	55.2	36.1	27.1	18.6
EV / Net Sales	2.6	2.3	2.0	1.6
Market Cap / Sales	2.5	2.4	2.0	1.6
Price to Book Value	6.5	5.5	4.6	3.8
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

Exhibit 5: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1614	1,870	Buy	226661	39.7	46.7	52.9	40.7	34.6	30.5	7.4	8.0	8.8	18.8	10.2	11.0
AIA Engineering (AIAENG)	1966	2,275	Buy	19543	60.0	58.7	71.0	34.6	35.3	29.2	16.5	15.1	16.7	13.3	12.2	13.3
Thermax (THERMA)	1407	1,685	Buy	17075	17.3	26.8	37.0	82.7	53.6	38.7	9.8	12.5	15.9	7.6	9.8	12.4
Kalpataru Power(KALPOW)	479	470	Buy	6591	40.3	32.6	40.5	10.6	13.1	10.5	15.6	14.8	16.2	12.4	11.3	12.6
KEC International (KECIN)	419	445	Buy	10777	21.5	23.3	32.2	19.4	17.9	13.0	19.4	18.3	20.9	16.5	15.9	18.3
Greaves Cotton (GREAVE)	164	210	Buy	3884	0.4	4.7	6.5	374.9	35.4	25.7	6.5	16.5	21.9	3.3	12.0	16.0
Elgi Equipment (ELGEQU)	225	260	Buy	6782	3.2	4.3	6.5	66.2	50.2	33.2	11.7	13.7	18.7	11.8	14.8	19.2
Bharat Electronics (BHAELE)	184	205	Buy	44102	8.5	9.5	10.8	21.4	19.0	16.7	27.1	26.7	27.7	19.1	19.7	20.5
Cochin Shipyard (COCSHI)	375	500	Buy	5089	46.4	44.0	55.6	8.4	8.8	7.0	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	2850	3,300	Buy	14100	60.2	72.0	94.0	54.8	45.8	35.1	24.8	25.0	28.0	19.0	19.0	21.0
Timken India (TIMIND)	1546	1,235	Hold	11729	19.0	31.2	35.3	80.9	49.4	43.7	15.4	19.4	21.9	11.9	14.8	16.8
NRB Bearing (NRBBEA)	141	175	Buy	1466	5.6	8.0	9.8	26.3	18.4	15.0	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	255	300	Buy	2894	7.1	9.4	13.7	35.9	27.1	18.6	26.9	25.8	30.7	15.3	17.1	20.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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