

Q1FY22 Result Update

Accumulate

Industry	Engineering
CMP (Rs)	223
FY21E Target Price (Rs)	253
52 Week H/L (Rs)	272/52
Volumes (BSE+NSE)*	386120
Shares O/S (mn)	113.5
Market Cap (Rs mn)	25318
Free Float (%)	29.9
Bloomberg	ACCE IN
Reuters	ACEL.BO

*Three month daily average

Share Holding Pattern (30/06/2021)

Particulars	Shares (mn)	Holding (%)
Promoters	79.5	70.1
FIIs	4.8	4.2
DIIs	2.3	2.0
Others	26.9	23.7
Total	113.5	100.0

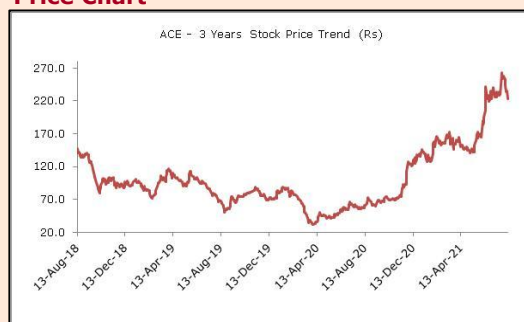
Source : BSE

Financial Highlights

(Rs mn)	FY21	FY22E	FY23E
Sales	12,270	14,359	16,096
Sales Growth	6.1%	17.0%	12.1%
EBITDA	1,194	1,612	1,847
EBITDA Margin	9.7%	11.2%	11.5%
PAT	801	1076	1283
EPS (Rs)	6.9	9.3	11.1
P/E (x)	32.2	24.0	20.1
EV/EBITDA (x)	18.5	15.7	13.1
ROE	16.6%	18.8%	18.9%
RoCE	13.8%	17.2%	17.2%

Source : Company Data, QS Research

Price Chart


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Quarterly Result Review

Action Construction Equipment Ltd (ACE) reported growth in its topline in Q1FY22, above our expectation. The EBITDA margin was below our estimates and higher raw material cost continued to impact the profitability.

Key Highlights:

- ACE's revenues increased by 218.6% Y-o-Y to Rs 3,215mn, much above our estimate of Rs 2,744mn. This was driven by 101.4% Y-o-Y increase in Q1FY22 total sales volumes to 2,179 units. The Material Handling division experienced significant increase and reported a growth of 302.4% Y-o-Y in the sales volume to 334 units.

Segmental Sales Volume

Sales Volumes (Units)	Q1FY22	Q1FY21	Variance (Y-o-Y)	Q4FY21	Variance (Q-o-Q)
Cranes	1080	291	+271.1%	1719	-37.2%
Construction Equip.	111	42	+164.3%	220	-49.5%
Materials Handling	334	83	+302.4%	338	-1.2%
Tractors	654	666	-1.8%	1017	-35.7%

- The Cranes segment showed strong revenue growth and increase by 346.4% Y-o-Y to Rs 2,221mn.
- The Construction Equipments segment reported 104.0% Y-o-Y growth to Rs 366mn.
- Material Handling segment revenue increased from Rs 77mn in Q1FY21 to Rs 331mn in Q1FY22, a growth of 330.2% Y-o-Y.
- Tractor segment's revenue increase slightly from Rs 255mn in Q1FY21 to Rs 296mn in Q1FY22 due to weak demand, a growth of 16.1% Y-o-Y.
- EBITDA during the quarter declined 39.5% Q-o-Q to Rs 302mn, compared to our estimate of Rs 293mn.
- Overall EBITDA margin during the quarter improved by 940bps Y-o-Y and decline by 150bps Q-o-Q to 9.4% in Q1FY22. Decline in Q-o-Q EBITDA margin was mainly due to increase in the Raw Material Cost.
- Further, net profit during the quarter increased by 557% Y-o-Y to Rs 193mn, compared to our estimate of Rs 195mn.

Outlook and Valuations

Lower demand and supply side issue on the account of the Covid-19 related lockdown impacted the sales of equipments, though management expects that demand will pick up in Q2FY22. A sharp increase in steel prices also increased pressure on the margin. At a current price of Rs 223, ACE trades at an EV/EBITDA of 15.7x FY22E and 13.1x FY23E earnings. On the back of sustained superior return ratios and improvement in the market share in a tough operating environment, we assign an EV/EBITDA multiple of 15x FY23E. As management believes that the demand has bottomed out and we will witness growth in Q2FY22, we have arrived at a FY23E price target of Rs 253, giving an absolute return of 13.4% from the current levels. We maintain our recommendation of an "Accumulate" rating on the company.

Quarterly Results

Particulars (Rs mn)	Q1FY22	Q1FY21	Variance (Y-o-Y)	Q4FY21	Variance (Q-o-Q)
Total Operating Income	3215	1009	218.6%	4574	-29.7%
Expenditures:					
Materials and Trading Exp	2,564	782	227.7%	3,622	-29.2%
Staff Cost	191	148	28.6%	190	0.4%
Other Expenses	158	79	100.5%	262	-39.7%
Total Expenditures	2,913	1,010	188.5%	4,074	-28.5%
EBITDA	302	-1	60569.2%	500	-39.5%
EBITDA Margin (%)	9.4%	0.0%	+940bps	10.9%	-150bps
Depreciation	36	34	6.3%	35	4.2%
Other Income	24	24	-3.0%	76	-68.8%
Interest	27	33	-17.3%	30	-9.3%
PBT	262	-43	707.7%	511	-48.6%
Taxes	69	-1	7784.4%	122	-43.4%
Net Profit	193	-42	557.0%	388	-50.2%
Net Profit Margin	6.0%	-4.2%	+1020bps	8.5%	-250bps
EPS (Rs)	1.7	-0.4	557.0%	3.4	-50.2%

Quarterly Segmental Performance

Particulars (Rs mn)	Q1FY22	Q1FY21	Variance (Y-o-Y)	Q4FY21	Variance (Q-o-Q)
Cranes	2,221	498	346.4%	3,167	-29.9%
Construction Equipments	366	180	104.0%	462	-20.6%
Materials Handling	331	77	330.2%	374	-11.3%
Agricultural Equipment	296	255	16.1%	571	-48.2%
Net Sales	3,215	1,009	218.6%	4,574	-29.7%
EBIT Margin					
Cranes	11.2%	-4.1%	1533bps	12.9%	-172bps
Construction Equipments	4.9%	2.9%	194bps	6.8%	-194bps
Materials Handling	11.6%	3.1%	849bps	13.4%	-186bps
Tractor	7.1%	8.9%	-179bps	12.9%	-576bps

Income Statement

Particular (In Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	10,543	11,561	12,270	14,359	16,096
Sales Growth(%)	-3.0%	9.7%	6.1%	17.0%	12.1%
Expenditures:					
Raw Materials	10,845	8,942	9,619	11,145	12,416
Employees Cost	750	856	721	860	952
Selling and Distribution	850	845	737	742	882
Total Expenses	12,406	10,643	11,077	12,747	14,250
EBITDA	-1,863	918	1,194	1,612	1,847
EBITDA Margins	-17.7%	7.9%	9.7%	11.2%	11.5%
Depreciation	118	130	139	145	149
EBIT	-1,981	788	1,054	1,467	1,698
Other Income	97	40	153	99	99
Interest Expenses	115	147	122	108	59
PBT	-1,999	682	1,085	1,457	1,738
Taxes	282	156	284	381	455
Net Profit	-2281	526	801	1076	1283
Net Profit Margins	-21.6%	4.6%	6.5%	7.5%	8.0%
EPS (Rs)	-19.7	4.6	6.9	9.3	11.1

Balance Sheet

Particular (In Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Equity Capital	235	227	227	227	227
Reserves & Surplus	4,137	4,199	5,008	5,982	7,164
Total Shareholders' Fund	4,372	4,425	5,235	6,209	7,391
Total Loans	373	741	512	300	300
Deferred Tax Liabilities	156	142	161	165	170
Total Equity & Liabilities	4,926	5,309	5,907	6,674	7,861
Application of Funds					
Gross Block	4,355	5,260	5,582	5,846	6,046
Accumulated Depreciation	1,141	1,271	1,411	1,556	1,705
Net Block	3,213	3,917	4,077	4,290	4,341
Capital Work-in-Progress	71	182	124	60	60
Investments	125	122	120	123	127
Others	976	434	306	315	324
Current Assets:					
Inventories	2,125	2,703	2,657	3,109	2,866
Sundry Debtors	1,439	1,473	2,246	2,628	2,514
Cash and Bank	114	93	364	653	1,683
Loans and Advances	474	109	276	303	334
Total Current Assets	4,457	4,856	5,900	7,086	7,829
Current Liabilities & Provisions	3,917	4,169	4,603	5,263	4,884
Net Current Assets	540	688	1,297	1,823	2,945
Miscellaneous	0	-35	-18	63	64
Total Assets	4,926	5,308	5,907	6,674	7,861

Cash Flow Statement

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22E	FY23E
CASH FLOW FROM OPERATING ACTIVITIES					
PBT Before Extraordinary Items	-2281	682	1085	1076	1283
Adjustments for:					
Depreciation	118	130	139	145	149
Interest Expenses	115	146	122	108	59
Other Adjustment	-97	-40	-153	-99	-99
Operating Profit before WC changes	-2145	917	1193	1231	1392
Change in Working Capital	-351	-343	-254	-202	-53
Cash generated from Operations	-2496	574	939	1029	1339
Direct Taxes (Net)	-282	-164	-241	-381	-455
Net Cash from Operating activities	-2778	410	698	648	884
CASH FLOW FROM INVESTING ACTIVITIES					
Net Purchase of Fixed Assets	-65	-417	-338	-199	-198
Net Purchase of Investments	370	214	169	-4	-4
Interest Received	58	7	6	0	0
Net Cash used in Investing activities	363	-196	-162	-203	-202
CASH FLOW FROM FINANCING ACTIVITIES					
Equity Share Capital	0	0	0	0	0
Net Borrowing	-270	348	-277	-212	0
Buy-back of Equity Share	0	-333	0	0	0
Interest Paid	-115	-146	-122	-108	-59
Dividend and Dividend Tax Paid	-100	-203	-4	-100	-100
Net Cash from Financing activities	-486	-334	-404	-421	-159
Net Change in Cash & Equivalents	-2900	-120	132	24	523
Cash & Equivalents as at the beginning	108	114	93	364	653
Cash & Equivalents as at the end	114	93	364	653	1683

Key Ratios

Ratios	FY19	FY20	FY21	FY22E	FY23E
Liquidity Ratios					
Current Ratio	1.1	1.2	1.3	1.3	1.6
Quick Ratio	0.6	0.5	0.7	0.8	1.0
Leverage Ratios					
Total Debt/Networth	0.1	0.2	0.1	0.0	0.0
Interest Coverage Ratio	-17.2	5.4	8.6	13.5	29.0
Working Capital/Sales	0.1	0.1	0.1	0.1	0.2
Activity Ratios					
Inventory Days	74	85	79	79	65
Debtors Days	50	46	67	67	57
Creditors Days	87	110	109	109	87
Profitability Ratios					
Operating Profit Margin	-17.7%	7.9%	9.7%	11.2%	11.5%
Net Profit Margin	-21.6%	4.6%	6.5%	7.5%	8.0%
Return on Capital Employed	-46.5%	11.9%	13.8%	17.2%	17.2%
Return on Equity	-54.1%	12.0%	16.6%	18.8%	18.9%
Valuation Ratios					
EPS	-19.7	4.6	6.9	9.3	11.1
Dividend Yield	0.3%	0.3%	0.3%	0.3%	0.3%
P/E	-11.3	49.0	32.2	24.0	20.1
P/BV	4.7	4.7	4.0	3.3	2.8
EV/Sales	2.1	2.0	1.8	1.5	1.3
EV/EBITDA	-11.9	24.6	18.5	15.7	13.1

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