

Action Construction Equipment

Refer to important disclosures at the end of this report

When it turns, it turns

- We initiate coverage on ACE with a Buy rating and a TP of Rs300, as we estimate FY21-FY24E EPS CAGR of 28%, driven by continued leadership in cranes, along with growing market share in the construction, material handling, and farm equipment arenas.
 - With the GOI's strong focus on Roads, Metro, High-Speed Rail, Water, Renewable Power and Airports, investments in the infra space are expected to pick up further. In addition, the government's higher thrust on local manufacturing and PLI schemes for various sectors, along with 'China plus one' tailwinds, have made the prospects of the Indian manufacturing sector attractive. We believe this will be a major driver for the construction equipment sector. ICEMA estimates that the CE sector will see ~10% CAGR in FY20-30.
 - In the medium term, defense and exports together have the potential to contribute ~15% to ACE's topline. It could also help balance against the inherent cyclical nature in domestic infrastructure spending. Moreover, exports are margin-accretive.
 - We believe that the current uptick in infrastructure and industrial capex in India has further legs to it. Hence, construction equipment demand should grow further. ACE's average RoE (last 5 years) was ~13.5%. For FY22-24, we estimate a RoE of ~16% and hence assign 10% premium to average PE of 18x (last 5 years). Our March'23 TP of Rs300 is based on a 20x one-year forward PE.
- Construction equipment industry's medium-term growth outlook is strong:** The government's 'Gati Shakti Plan' envisages investments in sectors such as roads, railways, urban infrastructure, airports and ports. The PLI schemes announced for various sectors, as well as capex in steel, cement and power sectors, should drive equipment demand from industries. ICEMA estimates that the CE industry will see 9.5-11.5% CAGR in FY20-FY30.
 - Leadership in cranes to continue; Backhoe loaders offer a large opportunity:** ACE enjoys a leadership position in the cranes segment, with ~60% market share in Pick and Carry and Tower cranes, which form a large part of the overall crane market. The company is also trying to increase higher-tonnage market penetration. ACE's established brand, R&D, in-house manufacturing and strong sales network are key factors contributing to its leadership. It has adopted a new strategy through an efficient product line of backhoe loaders and has obtained approval from most financiers. Backhoe loaders offer a large addressable market worth ~Rs90bn. ACE's existing dealer network, pricing, and leadership in cranes should help it gain share in the backhoe loader space as well.
 - Defense and exports hedge against cyclical nature in the sector:** Export revenue is expected to account for ~10-11% of total revenue in the medium term vs. 5-6% in FY19-FY21. This should be driven by global expansion efforts and new region-specific product launches on timely basis. Similarly, for defense needs, ACE is working on customized cranes, forklifts, skid-steer loaders, multipurpose tractors, tele-handlers, and special mobile equipment. It recently became an L1 vendor for supplying 482 multi-purpose tractors. It has also developed an indigenous Special Low-silhouette Knuckle Boom Crane for DRDO. ACE has received a LoI from Tata Advanced Systems for the manufacturing and supply of these cranes for integrating them with TATA HMV 8*8 chassis. In the medium term, together defense and exports should contribute ~18-20% to the topline. This should also provide protection from the cyclical nature in the CE space to some extent.
 - Valuation and capital raise:** We believe the infrastructure and industrial capex cycle has just begun. Hence, the medium-term outlook remains bullish for the CE sector. Our FY23 TP of Rs300 is based on 20x one year forward PE (10% premium to last 5 year avg.) as we estimate ~16% RoE during FY22-FY24E vs. ~13.5% RoE during last 5 years. ACE has raised Rs1.35bn through QIP for long-term growth (organic or inorganic), strategic acquisitions, financing capital requirements, working capital, and repayment of loans.

CMP	Target Price
Rs 233 as of (October 29, 2021)	Rs 300 12 months
Rating	Upside
BUY	28.4 %

Change in Estimates	
EPS Chg FY22E/FY23E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NA

Emkay vs Consensus		
EPS Estimates		
	FY22E	FY23E
Emkay	9.7	12.3
Consensus	-	-
Mean Consensus TP (12M)	Rs 300	

Stock Details	
Bloomberg Code	ACCE IN
Face Value (Rs)	2
Shares outstanding (mn)	119
52 Week H/L	292 / 68
M Cap (Rs bn/USD bn)	28 / 0.37
Daily Avg Volume (nos.)	12,30,269
Daily Avg Turnover (US\$ mn)	4.2

Shareholding Pattern Sep '21	
Promoters	66.8%
FIIIs	5.3%
DIIIs	4.0%
Public and Others	24.0%

Price Performance				
(%)	1M	3M	6M	12M
Absolute	(8)	(10)	57	238
Rel. to Nifty	(9)	(19)	30	123



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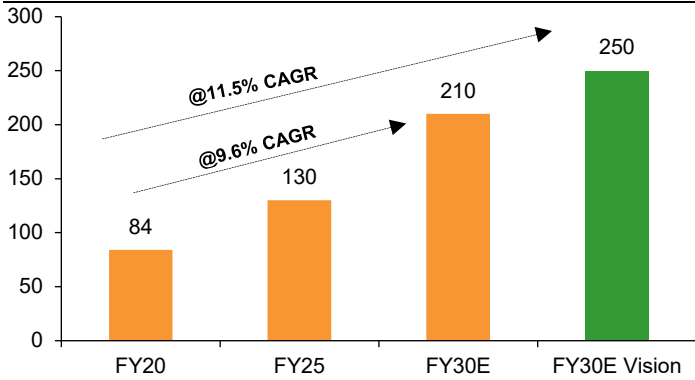
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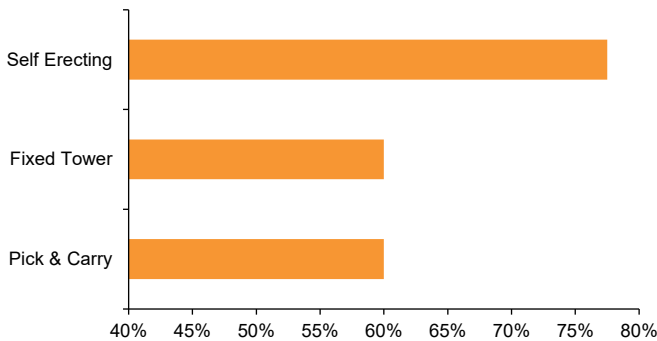
Story in Charts

Exhibit 1: India's construction equipment volumes ('000) expected to see ~9-11% CAGR in 2020-30E



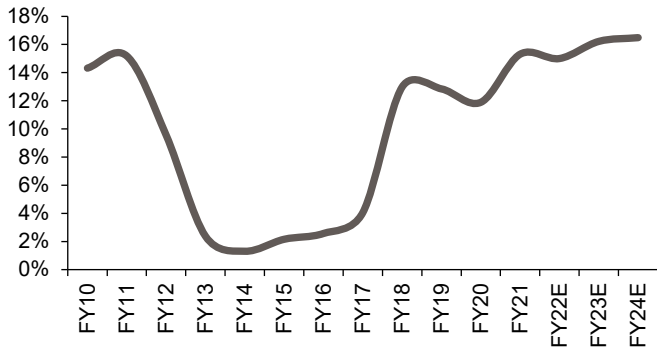
Source: ICEMA report, Emkay Research

Exhibit 3: Domestic market leadership in Crane offerings



Source: Company, Emkay Research

Exhibit 5: We expect RoE to improve to ~17% by FY24E on improving margins and operating utilization levels



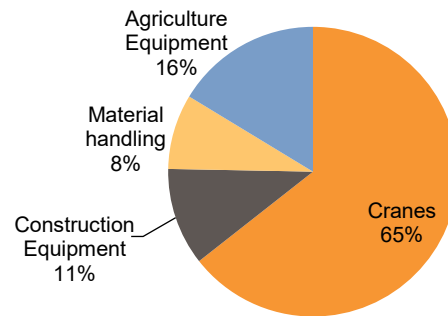
Source: Company, Emkay Research

Exhibit 2: Market share across key equipment sold

Key Equipment	Market Share in India
Pick & Carry Cranes	60%+
Crawler Cranes	Leader (Up to 75tons)
Truck Cranes	No. 3 position
Fixed Tower Cranes	60%+
Self-Erecting Tower Cranes	75-80%
Lorry Loader Cranes	No. 2 position
Forklifts	23%
Tractors	0.50%
Harvester	No. 2 position

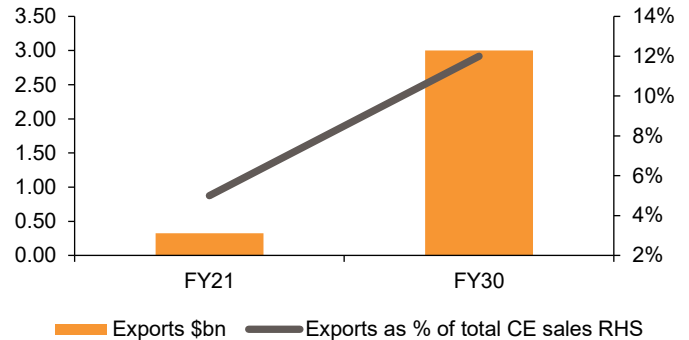
Source: Company, Emkay Research

Exhibit 4: provides for a large part of revenue share (Revenue breakdown FY21)



Source: Company, Emkay Research

Exhibit 6: CE exports offer large addressable opportunity on India's attractive low cost manufacturing base and regulated emission upgrades



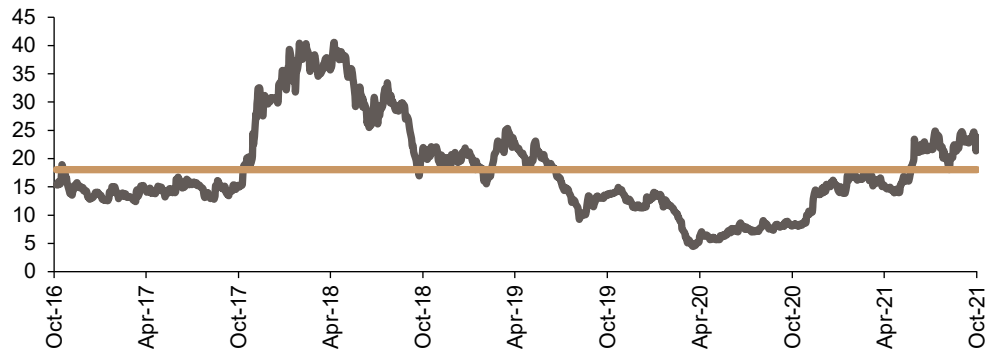
Source: ICEMA report, Emkay Research

Exhibit 7: Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	11,562	12,270	16,319	19,029	22,111
EBITDA	918	1,194	1,670	1,981	2,354
EBITDA Margin (%)	7.9	9.7	10.2	10.4	10.6
APAT	526	802	1,151	1,469	1,784
EPS (Rs)	4.6	7.1	9.7	12.3	15.0
EPS (% chg)	(3.1)	52.3	36.8	27.7	21.4
ROE (%)	12.0	16.6	17.8	17.6	18.0
P/E (x)	54.2	35.6	24.1	18.9	15.6
EV/EBITDA (x)	31.7	23.8	15.5	12.7	10.3
P/BV (x)	6.4	5.4	3.6	3.1	2.6

Source: Company, Emkay Research

Exhibit 8: One-year forward PE (5-year average: 18x)



Source: Company, Emkay Research

Construction equipment industry to see strong growth in the medium term

India is at the cusp of a massive capex cycle, powered by both central and state governments (35-40% each for the next 5 years) as well as private sector companies (balance 20-30%). Core sectors such as cement, metals, oil refining, power (clean energy) and transportation (roads and metro) are seeing huge capex commitments. These are aimed at transforming the Indian economy's positioning as a global manufacturing hub in the longer run, further softening the pandemic impact and making the most from China's intermittent but worrying issues. The aggressive private sector stance has been further supported by the government's PLI schemes (~Rs1.9tn commitment) and the NIP scheme (~Rs111tn for 7,400 projects - <https://bit.ly/NIPrevised>). Projects such as Sagarmala (~Rs4tn outlay for waterways and coastline development), Bharatmala (~Rs5.3tn for 35,000kms roadways) and Jal Marg Vikas (~Rs53bn for national waterways) together lent budgetary support and showcase the government's intent, not just dialogue, to upgrade the country's infrastructure.

Exhibit 9: Major sectors to see healthy growth led by various factors

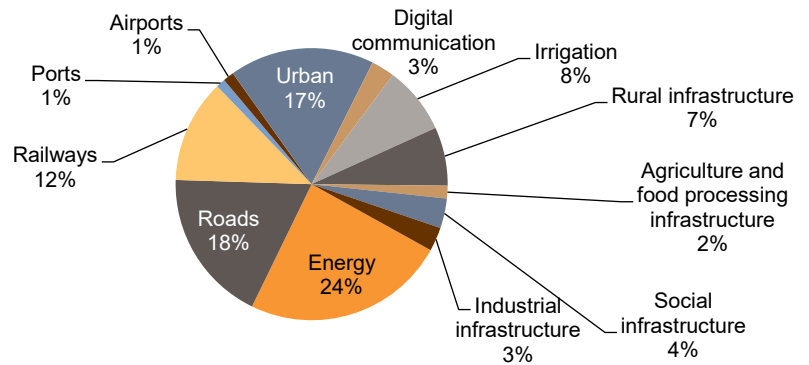
Sectors	Growth Drivers
Urban Infra	<ul style="list-style-type: none"> Upcoming Metro Projects across all major cities Development of City Roads, Bridges, Flyovers, Elevated Road Corridors, Water Sewerage, Transmission Lines and Distribution Infrastructure etc. 100 Smart Cities being developed and rejuvenation of 500 others
Railways	<ul style="list-style-type: none"> As per Union Budget 2021-22, the Ministry of Railways have been allocated Rs1.1tn (US\$15.19bn) 7 new DPRs for Bullet Trains are under consideration apart from the Mumbai-Ahmedabad Link Construction of Dedicated Freight Corridor will be getting an allocation of Rs160.86bn and National High Speed Rail Corporation Limited will be allocated Rs140bn. Also, 40,000km rail line is planned till FY30 with an average of 3,600km/year
Manufacturing	<ul style="list-style-type: none"> The manufacturing sector of India has the potential to reach US\$1tn by 2025 India's National Manufacturing Policy aims at increasing the share of manufacturing's in GDP to 25% by 2025, augmenting growth The industrial capex cycle has revived, owing to initiatives such as 'Atmanirbhar Bharat', 'Vocal for Local' and 'China +1 Strategy'
Roads	<ul style="list-style-type: none"> The roads sector is likely to account for 18% capital expenditure over FY 2019-25 and Roads worth US\$200bn to be built in next 2 years NHAI is coming up with 23 new highways, including network of expressways and economic corridors by March 2025 The Central Government awarded a total of 322 projects to construct more than 13,000km roads under the 'Bharatmala Pariyojana' and 3,71,000km under the PMGSY
Housing	<ul style="list-style-type: none"> Real estate sector in India is expected to reach a market size of US\$1tn by 2030 and contribute 13% to the country's GDP by 2025 Retail, hospitality, and commercial real estate are also growing significantly, providing the much-needed infrastructure for India's growing needs The vision of 'Housing For All' and the ambitious PMAY will further bolster the growth in this segment
Agriculture	<ul style="list-style-type: none"> Indian tractor market stands at ~8,00,000 units and is anticipated to see a CAGR of 4.5% over the next five years, owing to increase in demand for mechanization in agriculture & logistics industry Budgetary allocation to Rural Development, Irrigation Projects and Subsidies coupled with credit availability will induce increased demand Prediction of a normal Monsoon in 2021 will further boost the sentiments of the sector
Logistics	<ul style="list-style-type: none"> The size of the logistics industry in India is US\$215bn The logistics market in India is forecasted to witness a CAGR of 10.5% between 2019 and 2025 Deeper penetration into Tier II, III & IV towns and the National Logistics Policy promise an efficient and integrated logistics industry in coming years
Warehousing	<ul style="list-style-type: none"> Supportive government policies such as establishment of logistics parks and free-trade warehouse zones is expected to spur the market growth through 2025 Total supply of warehousing space is likely to almost double by 2022 with the addition of around 200mn sq. ft. Indian warehousing and logistics sector is expected to attract ~US\$10bn investments in the next 4-5 years
Airports	<ul style="list-style-type: none"> 200 low-cost airports being built in next 20 years India's aviation industry is expected to witness Rs350bn (US\$4.99bn) investment in the next four years The Indian government is planning to invest US\$1.83bn for the development of airport infrastructure and aviation navigation services by 2026
Ports	<ul style="list-style-type: none"> The capacity addition at ports is expected to see a CAGR of 5-6% till 2022, adding 275-325 MT of capacity Under the Sagarmala Programme, the government has envisioned a total of 189 projects for the modernization of ports, involving an investment of Rs1.42trn (US\$22bn) by the year 2035 Projects worth Rs133.08bn were awarded in the last three years to upgrade major ports

Source: Industry, Emkay Research

Exhibit 10: National Infrastructure Pipeline-led sector wise capital expenditure (Rs tn)

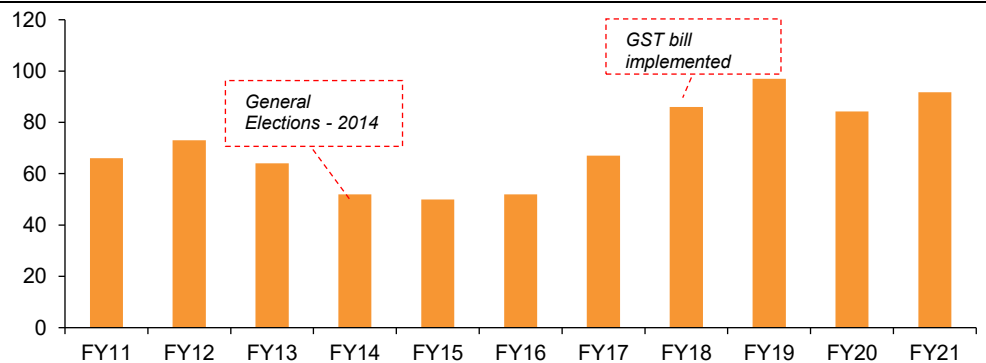
Sector-wise allocation	FY20	FY21	FY22	FY23	FY24	FY25	No phasing	FY20-25
Energy	2.34	4.42	4.42	4.68	4.98	4.67	1.40	26.90
Roads	3.33	3.83	3.57	2.53	2.41	3.33	1.35	20.34
Railways	1.33	2.62	3.09	2.74	2.21	1.68	0.00	13.68
Ports	0.13	0.18	0.21	0.16	0.08	0.10	0.35	1.21
Airports	0.19	0.22	0.25	0.21	0.25	0.05	0.26	1.43
Urban	2.98	4.62	4.04	2.35	2.17	1.60	1.43	19.19
Digital communication	0.78	0.62	0.55	0.39	0.38	0.38	0.00	3.10
Irrigation	1.14	2.01	1.76	1.37	1.15	0.70	0.81	8.94
Rural infrastructure	1.40	1.77	2.11	1.12	1.07	0.27	0.00	7.74
Agriculture and food processing infrastructure	0.04	0.04	0.04	0.02	0.01	0.01	1.54	1.69
Social infrastructure	0.57	0.78	0.85	0.55	0.46	0.26	0.46	3.93
Industrial infrastructure	0.19	0.43	0.45	0.35	0.23	0.11	1.39	3.15
Total	14.42	21.54	21.32	16.47	15.41	13.15	8.99	111.30

Source: NIP document, Emkay Research

Exhibit 11: Sector-wise breakdown of capital expenditure of Rs111tn in FY20-25

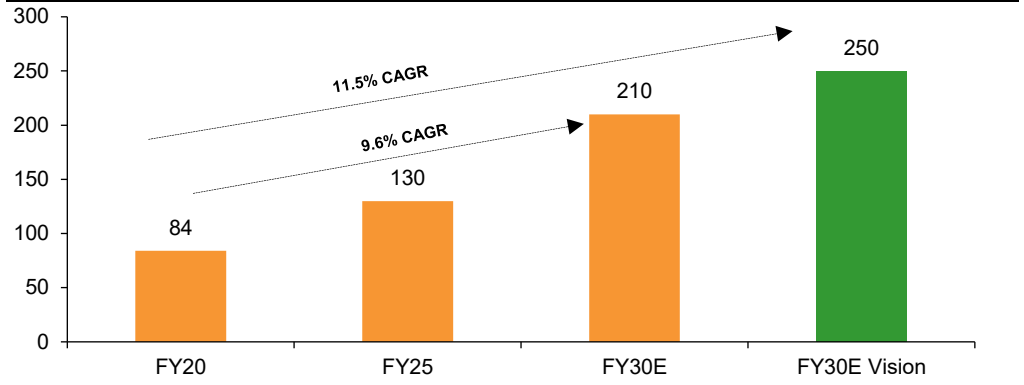
Source: NIP document, Emkay Research

In FY20-21, the domestic CE industry did not perform well due to issues such as the pandemic, aftereffects of the IL&FS default, state elections, and changes in the land acquisition process by NHAI/MoRTH. H1FY21 saw a massive slump in CE sales due to the restrictions on business activity, while sales bounced back fairly quickly in H2FY21, delivering ~35% growth.

Exhibit 12: Construction Equipment Units sold in India ('000)

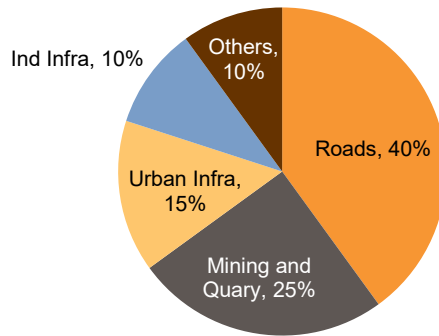
Source: ICEMA report, Emkay Research

Exhibit 13: CE sold in FY21 stood at US\$6.5bn to reach US\$25bn by 2030; Exports to account for 12% by 2030 from current 5%



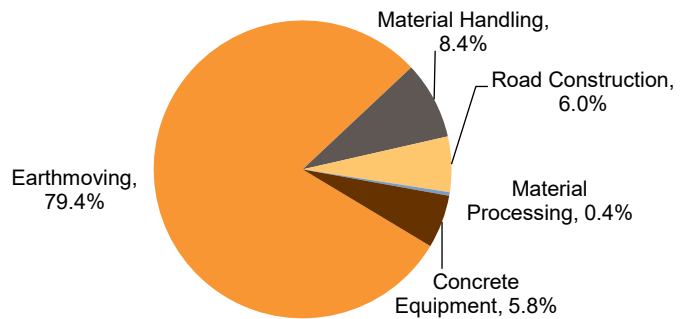
Source: ICEMA report, Emkay Research

Exhibit 14: Breakdown of industry proportion for CE sold in India



Source: ICEMA report, Emkay Research

Exhibit 15: Breakdown of construction equipment type based on end-usage (FY21)



Source: ICEMA Report, Emkay Research

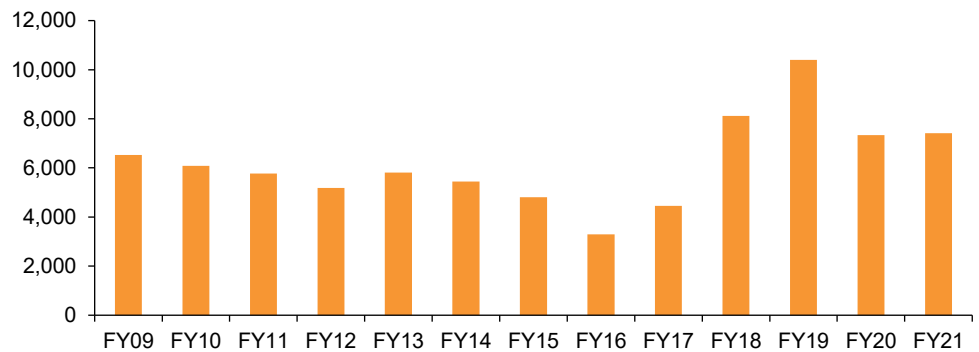
Leadership in cranes to continue; Backhoe loaders offer large opportunity

The government-led push that is being felt across the infrastructure space bodes well for ACE's key equipment such as pick & carry cranes, tower cranes and backhoe loaders. Cranes are widely used in industries such as oil & gas, power, civil engineering, construction and petrochemicals to lift and transport heavy materials. Mobile cranes are the third-largest type of construction equipment sold in India after backhoe loaders and excavators.

In pick & carry cranes, the company has a dominant market share in the domestic market (~63%). It is expected to be a key beneficiary of the ongoing demand revival, as these types of cranes are versatile across a broad range of lifting needs and are cost-competitive. In tower cranes too, ACE holds around 70-85% market share. As large projects in the country gradually implement vertical lift in project planning and implementation (due to congested urban areas), demand for such cranes should see an uptick.

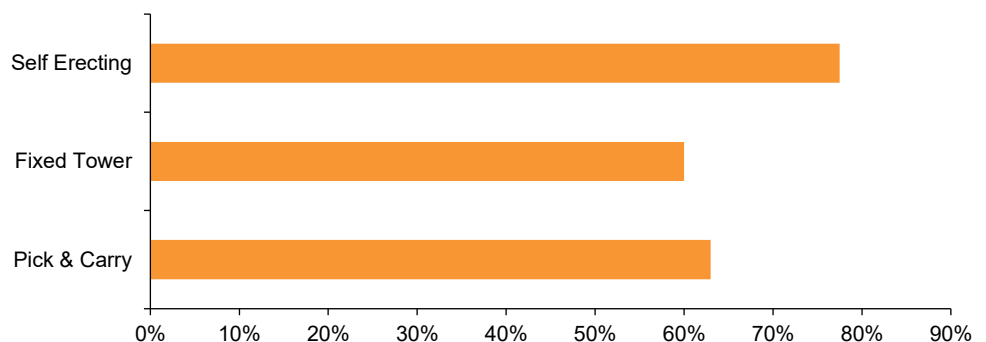
Since the value for money per ton increases for higher tonnage, the company is simultaneously working on product expansion in the higher-tonnage cranes. This is in response to changing market dynamics. Higher-tonnage cranes have higher margins as well, as the base manufacturing capacity for such equipment broadly remains the same and requires only marginal incremental investment.

Exhibit 16: Pick & Carry cranes' total India sales volume; Pick & Carry cranes make up almost 90% of the total mobile cranes market



Source: Company, Emkay Research

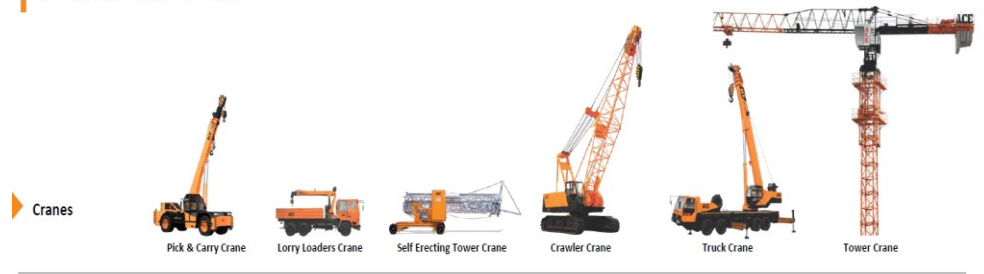
Exhibit 17: ACE's Domestic market share in Pick & Carry cranes and Tower (Self and Fixed) cranes



Source: Company, Emkay Research

Exhibit 18: ACE's crane portfolio

Product Portfolio



Source: Company, Emkay Research

Exhibit 19: Usage of various types of Cranes across sectors

	Pick N Carry Crane	Tower Crane	Truck Crane	Crawler Crane	All terrain Crane	Rough Terrain Crane
Roads	Medium	No/Low	Medium	No/Low	No/Low	No/Low
Mining	No/Low	No/Low	No/Low	High	High	Medium
Railways	Medium	No/Low	Medium	Medium	Medium	Medium
Real Estate	High	High	Medium	No/Low	No/Low	No/Low
Quarry	No/Low	No/Low	No/Low	No/Low	No/Low	No/Low
Irrigation	No/Low	No/Low	No/Low	No/Low	No/Low	No/Low
Urban Services	High	Medium	Medium	No/Low	No/Low	No/Low
Others	High	Medium	Medium	No/Low	No/Low	No/Low

Source: ICEMA report, Emkay Research

In order to maintain its market leadership in the cranes segment, the company constantly innovates and refreshes its catalogue to include new products. These offerings have decent price points compared with older variants, as well as against competitors. They also have additional features that may reduce O&M costs, improve monitoring and surveillance at project site, reduce fuel costs, etc., as these tech-features have become important to improve safety and performance.

Exhibit 20: ACE's recent launches in the cranes segment



Source: Company, Emkay Research

Exhibit 21: Highlights of key developments in the cranes business**R&D developments undertaken in FY21 for the crane division**

F350 4 wheel drive 35 ton pick & carry new gen crane
 F150-HD 4 wheel drive 15 ton pick & carry new gen crane
 Man Basket On NX360-P degree slew crane
 F250 4 wheel drive 25 ton pick & carry new gen crane
 18XW with 2 part boom 2 wheel drive 18 ton pick & carry on Hydra crane
 TX-130 2 wheel drive 13 ton pick & carry new gen crane
 F230 4 wheel drive 23 ton pick & carry new gen crane
 Development of 20 ton NX-360 with wireless hydraulic operations
 Design and development of 5/10 crane for defense
 AB 113, knuckle boom crane for electricity boards
 202L crane for Defense- technical issues and improvements there
 Development of Crawler Crane 50 Ton Capacity
 Development of Crawler Crane 160 Ton Capacity
 Self-propelled truck mounted crane 80 Ton Capacity
 Self-propelled truck mounted crane 25 Ton Capacity with Mahindra Drive line
 Development of Crawler Crane 80 Ton Capacity
 Tower crane TC6040 with Mast size 1200 mm
 Tower Crane 5540/5040/6040/Flat top with split type Mast

R&D developments planned for FY22 for Cranes division

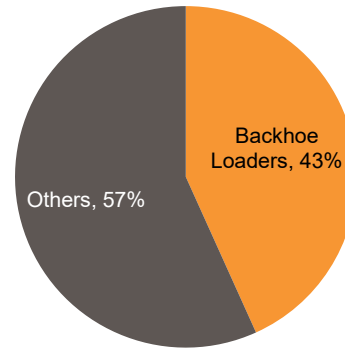
Design and development of RT 40 Crane
 Design and development of TM 602 crane
 Development of Crawler Crane 25 Ton Capacity
 Development of Crawler Crane 120 Ton Capacity
 Tower Crane 20/25 Ton
 Development of 30 ton Pick & carry crane with 360 degree slew(Model-F300NX)

Source: Company, Emkay Research

Backhoe loaders (BHL) are considered as essential equipment in the construction industry due to their price point and the variety of functions they can perform. They are an extremely versatile construction equipment which can be used in digging, moving, grading and loading earth and other loose aggregates. The Indian construction and mining equipment industry continues to be highly dependent on backhoe loader demand. They make up 40% of the overall CE volumes. BHL is a **pure domestic play** as demand for this equipment in countries such as North America and China is relatively low (8.5% and 0.5% of CE volumes, respectively).

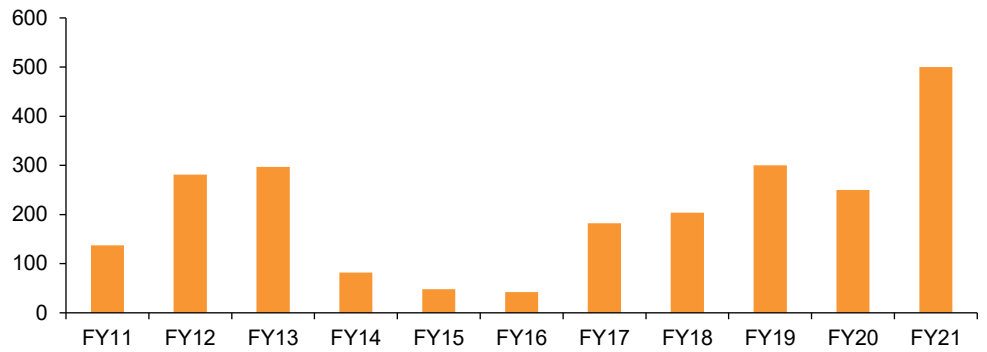
ACE has undertaken a renewed strategy through a new & efficient product line in the backhoe loader segment and has obtained approval from most financiers. Backhoe loaders have a large addressable market in India, estimated at ~Rs90bn. ACE's existing dealer network, lower pricing and leadership in the cranes market should aid the company gain market share in backhoe loaders as well. Its main competitor in this market is JCB India Ltd., which dominates the domestic BHL market (~60-70%). JCB enjoys first-mover advantage (starting in 1979) and provides innovative offerings and upgrades, as well as after-sales services. ACE plans to capture a healthy share in this market, leveraging its lower price point (cheaper by ~12-20% after BS4 upgrades) and higher efficiency.

Exhibit 22: BHL makes up close to ~40% of the total CE sale volumes in FY21



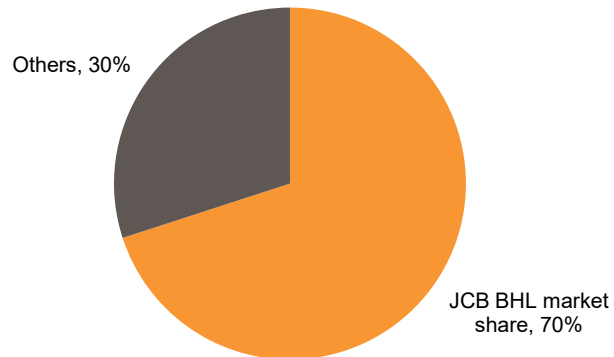
Source: ICEMA report, Emkay Research

Exhibit 23: BHL sales volumes delivered by ACE in the last decade



Source: Company, Emkay Research

Exhibit 24: JCB Backhoe loaders hold a dominant position in India's BHL market



Source: Industry, Emkay Research

Exhibit 25: Usage of various types of earthmoving equipment across sectors

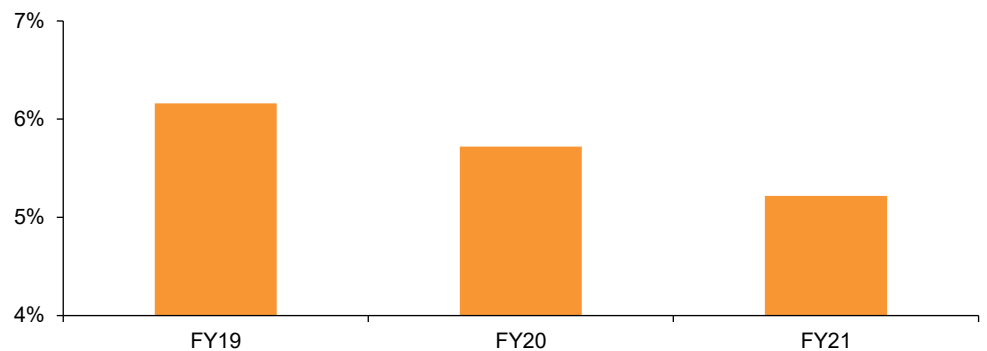
	Backhoe Loaders	Crawler Excavators	Wheel Loaders	Skid Steer	Motor Graders	Off Highway Trucks
Roads	Medium	High	No/Low	No/Low	High	No/Low
Mining	No/Low	High	High	No/Low	Medium	High
Railways	Medium	Medium	No/Low	No/Low	High	No/Low
Real Estate	High	High	No/Low	No/Low	No/Low	No/Low
Quarry	Medium	High	Medium	No/Low	No/Low	No/Low
Irrigation	Medium	High	No/Low	No/Low	No/Low	No/Low
Urban Services	High	Medium	No/Low	No/Low	No/Low	No/Low
Others	Medium	No/Low	No/Low	No/Low	No/Low	No/Low

Source: ICEMA report, Emkay Research

Defense and exports offer protection from sector cyclicality

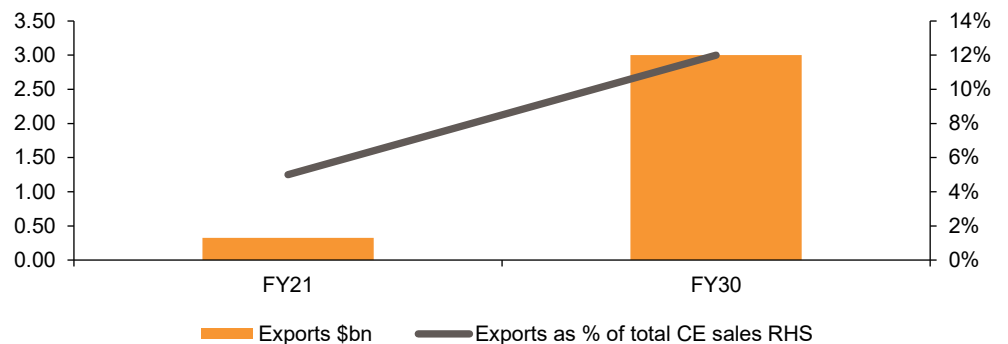
In addition to focusing on maintaining its domestic market share, ACE is trying to grow its export business gradually. The company wants to increase the revenue contribution of exports to ~10-11% in next 2-3 years from ~5-6% currently, by tapping into large markets such as the Middle East, Africa, and LATAM. This should be driven by its proven low-cost manufacturing base in India and an ability to meet customized requirements across geographies. This should not only provide incremental growth, but also minimize the impact during a downturn in the domestic economy. At present, the company sells products to customers in countries such as Bangladesh, Kuwait, Mauritius, Nigeria, Tanzania, Uganda, Dubai, Mexico, Kenya, Sri Lanka and Ghana. Further, management sees immense opportunities in segments such as cranes, backhoe loaders and tractors for export purposes.

Exhibit 26: Total exports in the last three years averaged ~5-6% of overall topline for ACE



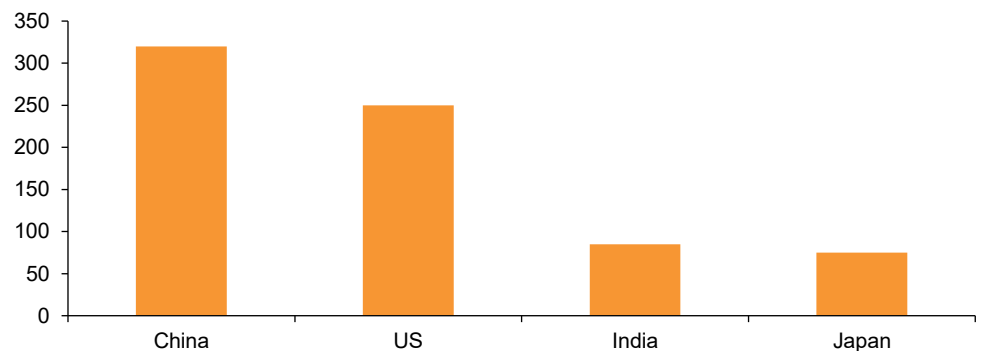
Source: Company, Emkay Research

Exhibit 27: CE exports from India to touch US\$3bn annually by FY30 and contribute low-double digits of total CE sales



Source: Company, Emkay Research

Exhibit 28: Construction equipment sales volumes across developed and developing economies ('000 units); this is indicative of the large untapped market (as of 2019)



Source: Company, Emkay Research

The transition from Bharat (CEV) Stage 3 for Non-Road Mobile Machineries (NRMM) to Bharat (CEV) Stage 4 in 2021 and then to Bharat (CEV) Stage 5 by 2024 should further add to the already large export opportunity. These standards, which are **consistent with EU Stage 4 and Stage 5 standards**, open up significant market opportunities in previously untapped markets such as North America, the EU and the UK.

As per management, for ACE, the cost for such emission upgrades is lower than that of competitors. It is because ACE, over the last decade, has optimized many in-house processes (through its strong R&D team) over the years. This maintains the cost competitiveness and overall economic positioning of ACE's products in the long run.

Further, the company introduced two products in March'2021 which are specifically for the export markets: 1) Forma range of tractors with advanced features and 2) Backhoe loader Phantom 4x4 with latest technology and powered by the Perkins engine.

Exhibit 29: Recent launches primarily cater to export markets



Forma Range of Tractors

Backhoe Loader – Phantom 4x4

Source: Company, Emkay Research

Exhibit 30: Key developments regarding the BS IV and BS V upgrades

R&D developments undertaken in FY21 for BS IV upgrades

60hp, 75hp engine as per BS-IV with standyne FIE's- LPDMS

60hp, 75hp tractor with BSIV engine

BS IV Engine(above 50 HP) implementation in all models (10 models)

BS IV Engine(above 50 HP) implementation in Forklift models

Development of Forklift 100D - BS-IV

TM 450/550/600/800 with BS-IV CEV Engine

R&D developments planned for FY22 for BS IV/V upgrades

Development of 60HP/ 75HP/ 90HP/ 110HP engine with common rail (CRDI Bharat stage Trem V/EURO V

Development of 60hp/ 75hp/ 90hp/ 110HP 4WD Tractor model with common rail (CRDI) Bharat Stage V/EURO V for Export

Upgrade of engine 25HP/ 32HP/ 40HP/ 45HP and 50HP for next emission level -Bharat stage Trem IV

Development of Forklift 80D - BS-IV

Development of Forklift 60D - BS-IV

Source: Company, Emkay Research

Exhibit 31: New launches by foreign and domestic players in response to BS IV compliance

Date	Player Name	Segment	BS 4 compliant?
Aug'21	Volvo Construction Equipment	Pavers, Compactors, Wheel loaders and Pneumatic Rollers	Yes
July'21	JCB	Backhoe Loaders, Compactors, Telehandlers	Yes
Aug'21	Ajax Engineering	Self-Loading Concrete Mixers	Yes
Sept'21	Tata Hitachi	Wheel Loaders	Yes
June'21	Mahindra & Mahindra	Motor Grader, Backhoe Loader	Yes
May'21	SANY India	Cranes	Yes

Source: Industry, Emkay Research

Defense: To reduce the impact of cyclicity in the Indian construction sector, the company has diversified into customized cranes, forklifts, skid loaders, multi-purpose tractors, tele-handlers and special mobile equipment for the Indian government, especially for the defense sector. The Ministry of Defense, in Aug'20, introduced an **import embargo** on 101 items to push Aatmnirbhar Bharat and increase the indigenization of defense production. This was then supplemented with an additional list of 108 items, all of which should be locally procured by 2025, in a phased manner.

ACE has benefited from these regulatory changes. The company was declared an L1 supplier for the supply of 482 multipurpose tractors with special attachments from the Indian Army. In addition, it has developed an indigenous Special Low-Silhouette Knuckle Boom Crane for DRDO. It has also received a Lol from Tata Advanced Systems Limited for manufacturing and supplying such cranes for integrating with TATA HMV 8X8 chassis. This equipment is the first of its kind to be developed by an Indian company. These all show the company's capability to provide innovative and cost-effective solutions and grab a healthy share of government orders.

Exhibit 32: Defense-related product offerings from ACE

Source: Company, Emkay Research

Peer comparison

Exhibit 33: Broad comparison of key profitability metrics against comparable MNC players operating in India

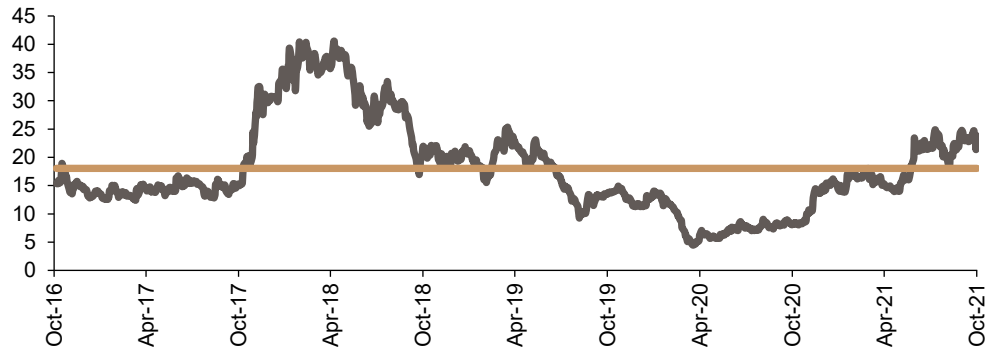
Financial Performance	FY17	FY18	FY19	FY20	FY21
Sales (Rs mn)					
Action Construction Equipment Ltd.	7,971	10,986	13,425	11,562	12,270
JCB India Ltd.	7,120	9,387	12,131	10,027	-
Caterpillar India Pvt Ltd.	4,077	5,944	8,392	6,526	-
Hyundai Construction Equipment India Pvt Ltd.	1,391	1,816	1,992	1,390	-
L&T Construction Equipment Ltd.	455	1,142	493	350	298
Komatsu India Pvt Limited	2,120	2,437	2,437	-	-
Operating Profit Margin %					
Action Construction Equipment Ltd.	5.0%	8.4%	7.3%	7.9%	9.7%
JCB India Ltd.	16.0%	15.0%	15.1%	18.0%	-
Caterpillar India Pvt Ltd.	12.4%	21.2%	26.2%	21.5%	-
Hyundai Construction Equipment India Pvt Ltd.	9.0%	6.4%	3.8%	-1.0%	-
L&T Construction Equipment Ltd.	2.2%	58.2%	4.3%	-0.4%	-1.2%
Komatsu India Pvt Limited	4.3%	8.1%	7.8%	-	-
Net Profit Margin %					
Action Construction Equipment Ltd.	1.8%	4.8%	4.2%	4.6%	6.5%
JCB India Ltd.	9.3%	8.9%	8.8%	11.7%	-
Caterpillar India Pvt Ltd.	5.6%	11.9%	15.4%	13.2%	-
Hyundai Construction Equipment India Pvt Ltd.	5.2%	3.5%	1.3%	-5.0%	-
L&T Construction Equipment Ltd.	-1.5%	44.6%	11.4%	-0.5%	-0.8%
Komatsu India Pvt Limited	0.1%	4.7%	8.2%	-	-

Source: ACE Prospectus, Emkay Research

Valuations

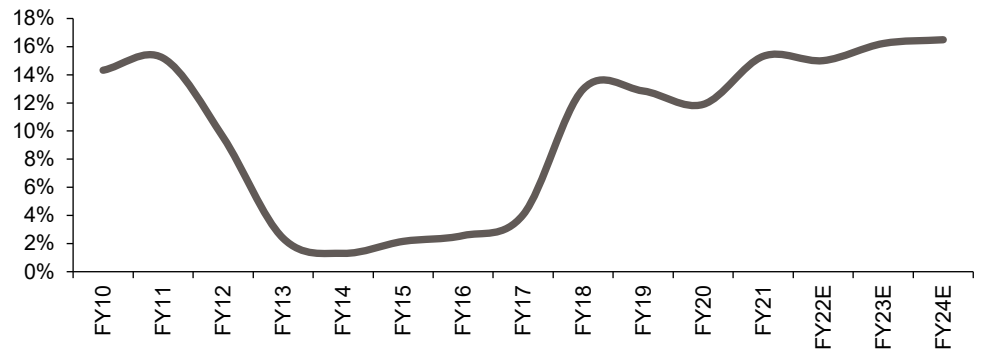
We believe that the infrastructure and industrial capex cycle has just begun in India. Hence, the medium-term outlook remains bullish for the CE sector. We estimate FY21-FY24E EPS CAGR of 28% with RoE of ~16% vs. ~13.5% RoE in the past 5 years. Average one year forward PE for last 5/10 years have been ~18x/~26x respectively. Our March'23 TP of Rs300 is based on a 20x one-year forward PE. We have assigned 10% premium to the 5 year average PE on expectation of superior RoE.

Exhibit 34: One-year forward PE (5-year average: 18x)



Source: Company, Emkay Research

Exhibit 35: We expect RoE to touch ~17% by FY24 from current 15% level



Source: Company, Emkay Research

Exhibit 36: Segment revenue performance and forecasts (Rsmn)

	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Cranes	4,962	7,490	9,643	8,287	7,902	10,939	12,580	14,467
Growth yoy %		51%	29%	-14%	-5%	38%	15%	15%
Construction Equipment	489	802	802	1,007	1,337	1,749	2,274	2,842
Growth yoy %		64%	0%	26%	33%	31%	30%	25%
Material handling	529	944	944	836	1,028	1,228	1,412	1,624
Growth yoy %		78%	0%	-11%	23%	19%	15%	15%
Agriculture Equipment	1,531	1,848	2,036	1,433	2,002	2,402	2,763	3,177
Growth yoy %		21%	10%	-30%	40%	20%	15%	15%
Total	7,971	10,986	13,425	11,562	12,270	16,319	19,029	22,111
Growth yoy %		18%	38%	22%	-14%	6%	33%	17%

Source: Company, Emkay Research

Fundraising

QIP: Recently, the company raised ~Rs1.35bn through QIP via fresh issuance of 5.6mn shares at an issue price of Rs242/share (after a 5% discount on the floor price). Management plans to deploy the fresh capital for funding 1) long-term growth of existing businesses, 2) organic or inorganic growth opportunities, 3) strategic acquisitions, and 4) other long-term capital or debt management. This capital raise should help ACE solidify its positioning in the market by plugging any potential gaps.

Exhibit 37: Overview of change in promoter holding post recent QIP

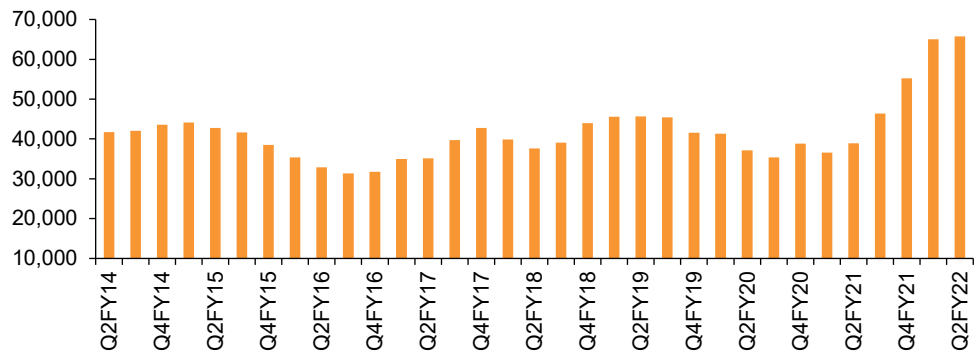
Particulars	Shares (mn)
Fresh Issuance	5.6
Shares outstanding pre-issuance	113.4
Shares outstanding post-issuance	119.0
Promoter Holding (Pre-issuance)	70%
Promoter Holding (Post-issuance)	67%

Source: Prospectus, Emkay Research

Key risks

- Pricing environment for key raw materials:** Steel is one of the primary inputs in the construction equipment business. With steel prices remaining at elevated levels, the ability to procure the related steel products on timely basis and reasonable prices remains paramount to the profitability of the company. Any further increase in the price or delay in price normalization is a key risk to our earnings assumptions.
- Ease of system credit availability:** A large part of the construction equipment business is driven by third-party financing due to the high upfront costs of the equipment. This is one of the reasons why almost all construction equipment manufacturers have tied up with financiers and constantly work with them to provide comfortable borrowing options for purchasers. Any system-wide liquidity hampering credit event or tightening of financing release, will impact the purchasing power of buyers, and in turn ACE's sales.
- Constant innovation with targeted investments:** Products in the CE space have become more and more characterized by technological advances, evolving industry standards, changing customer preferences, and cost efficiency. ACE has constantly infused capital to deliver new offerings. However, plugging relevant gaps in offerings amid intense competition from foreign players in certain end-segments requires management to consistently deploy capital in the most efficient way.

Exhibit 38: Steel prices trend (HRC) Rs per ton

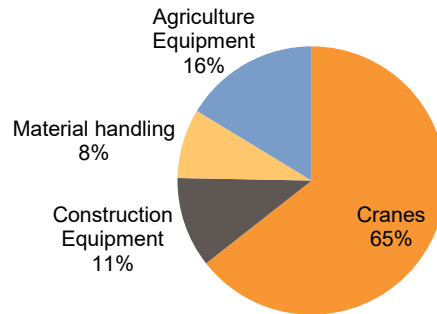


Source: Industry, Emkay Research

Company background and Management details

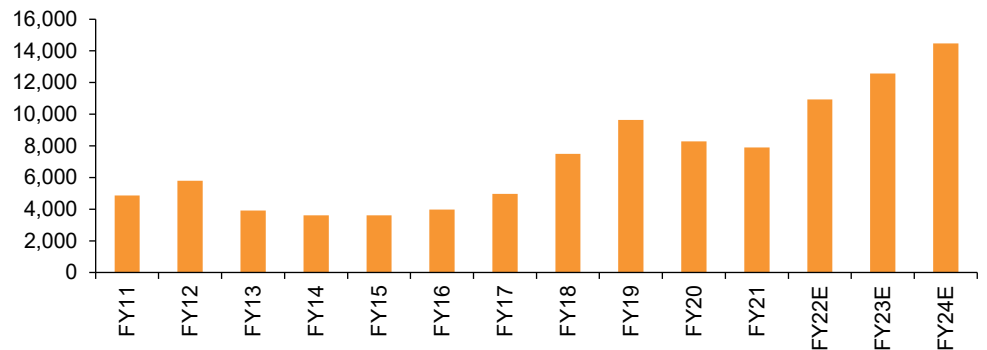
ACE, established in 1995, is one of the largest material handling and construction equipment players in India. It has a leading market share in mobile cranes (63%) and tower cranes (60%). The company has four verticals: Cranes, Material Handling, Construction Equipment and Agri-Equipment. It is present in all major infrastructure, construction, heavy engineering and industrial projects across the country. ACE is run by experienced professionals and has production facilities in Faridabad (Haryana), with an annual capacity of 9k units for cranes/agri, 1.5k for CE and 1.8k for MH. The manufacturing units are also engineered to be flexible in production and capacity. The fabrication, engine and transmission manufacturing lines are capable of manufacturing different products.

Exhibit 39: Revenue Contribution from various segments (FY21)



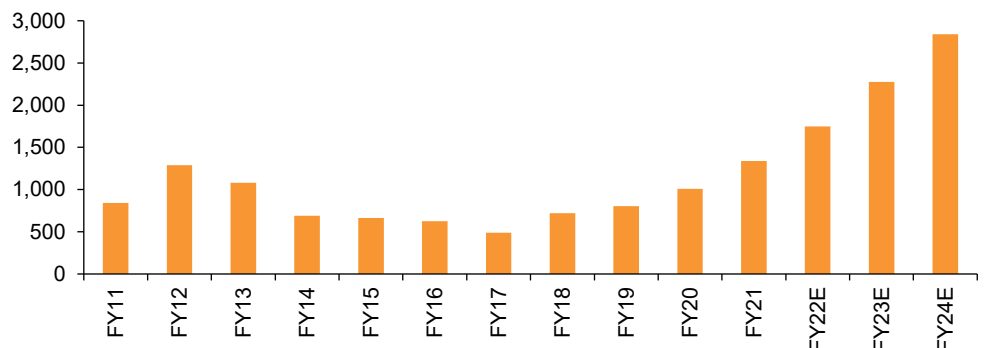
Source: Company, Emkay Research

Exhibit 40: Cranes division revenue forecast (Rs mn)



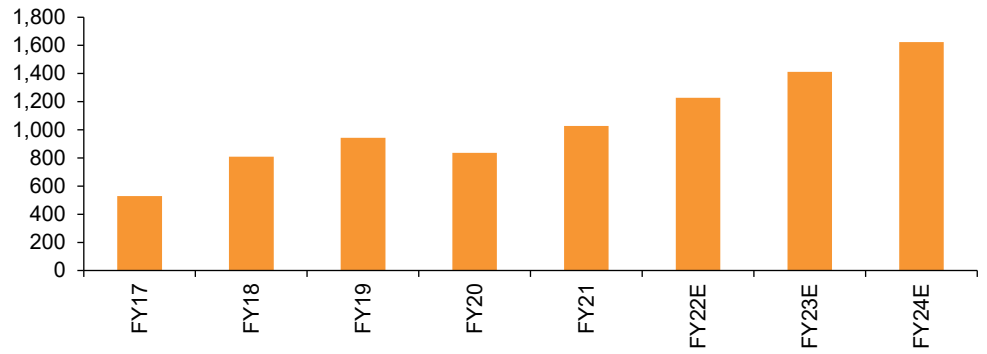
Source: Company, Emkay Research

Exhibit 41: Construction Equipment division revenue forecast (Rs mn)



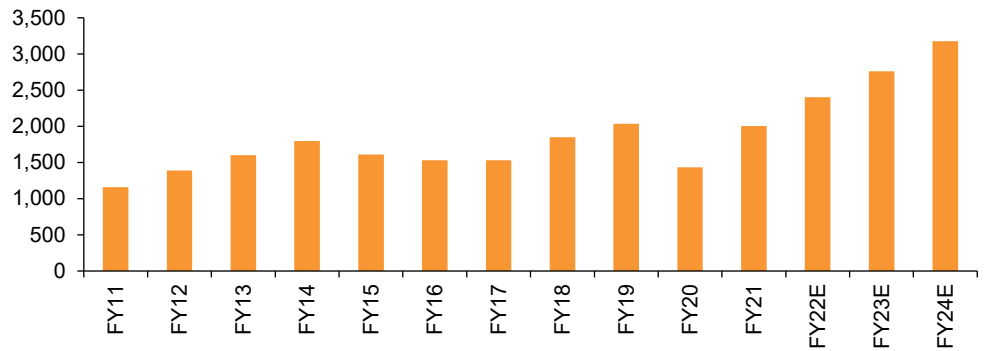
Source: Company, Emkay Research

Exhibit 42: Material Handling division revenue forecast (Rs mn)



Source: Company, Emkay Research

Exhibit 43: Agriculture Equipment division revenue forecast (Rs mn)



Source: Company, Emkay Research

Exhibit 44: Portfolio Snapshot



Source: Company, Emkay Research

Exhibit 45: Overview of the company's division and key metrics

Segment	Products	Market Size (Rs bn)	Market share	Expected Industry volume growth FY20-FY25e	Competition
Cranes	Pick & Carry, Crawler, Truck, Fixed Tower, Self-Erecting, Lorry Loader	15-20	45%	19%	JCB, SANY, TIL India, Escorts, Kobelco, Liebherr, Schwing Stetter, etc.
Construction Equipment	Backhoe Loaders (30% of the CE market), Vibratory Rollers, Motor Graders, Piling Rigs	80-90	2%	12%	JCB, Case New Holland, CAT, Mahindra Construction Equipment, Tata Hitachi, Doosan Bobcat
Material Handling	Forklift Trucks, Warehousing Equipment	10	10%	-	Godrej, Toyota, Voltas (KION), Jungheinrich, Hyundai
Agriculture Equipment	Tractor, Harvester Combines, Rotavator	-	0.50%	4.5% - Tractor; 10.6% - Harvester	Mahindra, Escorts, TAFE, New Holland

Source: Company, Emkay Research

Exhibit 46: Key management personnel details

Name	Designation	Experience
Mr. Vijay Agarwal	Chairman & Managing Director	He is the promoter, Chairman & Managing Director of the company. Mr. Agarwal has over 50 years of industry experience in the field of material handling and heavy engineering industry to his credit. He has a degree in Mechanical Engineering & MBA from the Faculty of Management Studies (FMS), Delhi.
Mrs. Mona Agarwal	Whole Time Director	She is the Promoter and Whole-Time Director of the company. She has been associated with the company since its inception and is actively involved in the administrative and Human development, strategic transformations, business management and employee engagement processes.
Mr. Sorab Agarwal	Whole Time Director	Mr. Sorab Agarwal has a degree in Mechanical Engineering and is leading the Cranes and Equipment side of the business. Mr. Agarwal has been associated with the company for last 23 years. He has played a major role in setting up all India competent sales and services network.
Mr. Rajan Luthra	CFO	He has been associated with the company since 2010 and appointed as Chief Financial Officer with effect from July 31, 2014. He is a member of Institute of Company Secretary of India and Institute of Cost and Works Accountants of India. Prior to joining ACE, he was associated with Aryan Cargo Express Private Limited.
Mr. Ashok Anantharaman	COO- Agriculture	He is the Chief Operating Officer- Sales & Marketing (Tractor & AED Vertical) of the company since September 2, 2020. He holds a bachelor's degree in Engineering from The Birla Institute of Technology and Science and PGDM from Indian Institute of Management, Bangalore. Prior to ACE, he was associated with CNH Industrial (India).
Mr. Chetan Kumar Gole	CEO - Forklifts	He has been associated with ACE since March 21, 2007. He has 30 years of experience in companies such as Elecon Engg. Ltd and Godrej & Boyce mfg. Co. Ltd. He holds a bachelor's degree in Engineering from Sardar Patel University.
Mr. Mohammad Imteyaz Ahmed	Head Manufacturing (Tractor & AED Vertical)	He has 38 years in the Agricultural Equipment division with Escorts Limited and M/S Carraro India and led manufacturing verticals of assembly and testing of Tractors, Engines, Transmissions and Axles.
Mr. Manish Mathur	CEO – Cranes and Construction Equipment	He joined ACE in 1997 and under his leadership, ACE has been a dominant market leader in the crane segment.

Source: Company, Emkay Research

Exhibit 47: Details of key developments over the years

Year	Major Development
1995	Incorporation of Company Introduced Hydraulic Mobile Crane
2006	IPO listing on Stock Exchanges
2010	Developed Advanced Technology with lifting height 68 meter Tower Cranes
2011	In house Manufacturing of Crawler Cranes Recognition of in-house Research and Development Centre
2012	Introduced Next-gen Pick & Carry Cranes and Lorry Loaders
2013	Started in-house Engine Plant Initiated Ambulance Service (CSR)
2014	Introduced Wheel Harvester
2015	Introduced Rotavator and other Agri equipment
2016	Introduced Skid Steer Loaders
2017	Introduced range of Tractors up to 90 HP Introduced range of Material Handling Equipment
2018	Tie up with Sunward for Piling Rigs
2019	Introduced NX Series Cranes Introduced 55-60 Tons Truck Crane Launched Next-gen upgraded Backhoe Loader
2020	Introduced Cranes for Piling Application
2021	Developed Li-Ion Electric Forklifts Introduced dedicated export models of Backhoe Loaders and Forma range of Tractors.

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	11,562	12,270	16,319	19,029	22,111
Expenditure	10,644	11,077	14,649	17,048	19,757
EBITDA	918	1,194	1,670	1,981	2,354
Depreciation	130	139	145	155	171
EBIT	788	1,054	1,525	1,827	2,183
Other Income	40	153	77	159	217
Interest expenses	147	122	67	27	22
PBT	682	1,085	1,534	1,959	2,379
Tax	156	283	384	490	595
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	526	802	1,151	1,469	1,784
Adjusted PAT	526	802	1,151	1,469	1,784

Balance Sheet

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity share capital	227	227	238	238	238
Reserves & surplus	4,198	5,008	7,431	8,816	10,505
Net worth	4,425	5,235	7,669	9,055	10,743
Minority Interest	0	0	0	0	0
Loan Funds	737	511	160	110	110
Net deferred tax liability	140	159	159	159	159
Total Liabilities	5,303	5,904	7,988	9,324	11,012
Net block	3,926	4,090	4,145	4,490	5,019
Investment	467	499	499	499	499
Current Assets	4,936	5,813	8,096	9,434	11,336
Cash & bank balance	93	364	1,848	2,569	3,417
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	4,208	4,623	4,878	5,224	5,968
Net current assets	728	1,190	3,218	4,209	5,368
Misc. exp	0	0	0	0	0
Total Assets	5,303	5,904	7,988	9,324	11,012

Cash Flow

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT (Ex-Other income) (NI+Dep)	642	932	1,457	1,800	2,161
Other Non-Cash items	0	0	0	0	0
Chg in working cap	281	(171)	(545)	(270)	(310)
Operating Cashflow	480	861	742	1,222	1,449
Capital expenditure	(948)	(447)	(200)	(500)	(700)
Free Cash Flow	(468)	414	542	722	749
Investments	164	(33)	0	0	0
Other Investing Cash Flow	548	164	0	0	0
Investing Cashflow	(196)	(162)	(123)	(341)	(483)
Equity Capital Raised	(8)	0	1,355	0	0
Loans Taken / (Repaid)	298	(226)	(351)	(50)	0
Dividend paid (incl tax)	(138)	0	(71)	(83)	(95)
Other Financing Cash Flow	(340)	(55)	0	0	0
Financing Cashflow	(334)	(404)	866	(160)	(117)
Net chg in cash	(51)	294	1,484	720	849
Opening cash position	114	93	364	1,848	2,569
Closing cash position	92	365	1,848	2,569	3,418

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY20	FY21	FY22E	FY23E	FY24E
EBITDA Margin	7.9	9.7	10.2	10.4	10.6
EBIT Margin	6.8	8.6	9.3	9.6	9.9
Effective Tax Rate	22.8	26.1	25.0	25.0	25.0
Net Margin	4.6	6.5	7.1	7.7	8.1
ROCE	16.1	21.5	23.1	22.9	23.6
ROE	12.0	16.6	17.8	17.6	18.0
RoIC	18.1	22.2	29.2	31.4	33.3

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	4.6	7.1	9.7	12.3	15.0
CEPS	5.8	8.3	10.9	13.6	16.4
BVPS	39.0	46.1	64.4	76.0	90.2
DPS	1.2	0.0	0.6	0.7	0.8

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	50.3	33.0	24.1	18.9	15.6
P/CEPS	40.3	28.1	21.4	17.1	14.2
P/BV	6.0	5.1	3.6	3.1	2.6
EV / Sales	2.3	2.1	1.6	1.3	1.1
EV / EBITDA	29.5	22.1	15.5	12.7	10.3
Dividend Yield (%)	0.5	0.0	0.3	0.3	0.3

Gearing Ratio (x)	FY20	FY21	FY22E	FY23E	FY24E
Net Debt/ Equity	0.1	0.0	(0.3)	(0.3)	(0.3)
Net Debt/EBIDTA	0.6	(0.1)	(1.2)	(1.4)	(1.5)
Working Cap Cycle (days)	20.1	24.6	30.6	31.5	32.2

Growth (%)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	(13.9)	6.1	33.0	16.6	16.2
EBITDA	(6.2)	30.0	39.9	18.7	18.8
EBIT	(8.5)	33.7	44.6	19.8	19.5
PAT	(6.3)	52.3	43.5	27.7	21.4

Quarterly (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Revenue	1,009	2,683	4,004	4,574	3,215
EBITDA	-	242	452	500	302
EBITDA Margin (%)	-	9.0	11.3	10.9	9.4
PAT	(42)	146	310	388	193
EPS (Rs)	(0.4)	1.3	2.7	3.4	1.7

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoters	73.0	73.1	70.1	70.1	66.8
FIs	0.6	1.0	3.2	4.2	5.3
DIs	0.7	0.7	1.4	2.6	4.0
Public and Others	25.6	25.1	25.4	23.1	24.0

Source: Capitaline

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 01 Nov 2021 21:23:26 (SGT)

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Sources for all charts and tables are Emkay Research unless otherwise specified.

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