

# Action Construction Equipment

Refer to important disclosures at the end of this report

## Growth outlook intact; margin stability in H2 key

- ACE reported sales/EBITDA growth of 35%/44% yoy in Q2FY22, aided by growth across most of its business segments. For H1FY22, revenue grew 85%. Even with the commodity inflation in key raw materials (steel), gross margins (~22%) were stable yoy on account of steady price hikes, but clients are now exhibiting signs of discomfort.
- For H1FY22, Cranes/Construction Equipment (CE)/Material Handling (MH) segments delivered strong sales growth of 114%/57%/107%, while Agriculture Equipment (AE) reported a marginal 2% growth. Exports stood at ~7% of sales in H1.
- Management has maintained its conservative sales growth outlook of 15-20% and expects EBITDA margin in the range of 10.5-11% for FY22. QIP proceeds (Rs1.35bn) would be used to strengthen profitability through the acquisition of a local component manufacturer or small competitor.
- We reiterate Buy on ACE and assign 20x 1-year fwd PE to arrive at a Mar'23 TP of Rs300 (unchanged). Our 20x PE represents a 10% premium to 5-year avg PE (~18x), resulting from a comparable premium baked in our projected RoE of ~16% (over FY22-24E). Read our recent initiation note on ACE for more details (<https://bit.ly/ACEICEmkay>).

**Cranes and CE businesses showcase buoyancy; growth guidance maintained in mid to high teens:** Cranes/CE/MH businesses continued to deliver healthy performance on account of market share gains and price hikes. Although AE delivered a marginal 2% sales growth in H1, segment margins fell to ~8% in H1 (from 12%) on the limited pass-through of higher costs and lower market share in Tractors. ACE has already taken an 18-22% cumulative price hike in H2FY21-H1FY22 and plans an additional 5-6% increase in the near term to counter high input costs. ACE expects better momentum in H2 vs. H1, considering business seasonality and visibility in infrastructure activity.

**Working Capital (WC) intensity to normalize; QIP proceeds directionally positive for bottom line:** In response to increased business visibility, management deployed more working capital in inventory, which was impacted by a longer monsoon season. Additionally, delayed payments from financed equipment and exports led to higher receivables. WC should normalize from 70-75 days in H1 to the usual 40-45 days in the medium term. QIP capital is expected to be used for inorganic options, which should support the bottom line. This includes the possibility of an acquisition of a small-sized local manufacturer, operating in one of ACE's key existing businesses and benefiting the company's pricing power and market share.

**Maintain Buy:** We reiterate Buy with a Mar'23 TP of Rs300 (unchanged) and assign a 1-year fwd PE of 20x, which is at a 10% premium to 5-year average PE. Key risks: higher commodity inflation, value dilutive QIP capital allocation and infrastructure slowdown.

### 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)	56.6	37.2	27.2	21.3	17.5
EV/EBITDA (x)	33.1	24.9	17.6	14.4	11.8
P/BV (x)	6.7	5.7	4.1	3.5	2.9

Source: Company, Emkay Research

CMP	Target Price
Rs 262 as of (November 9, 2021)	Rs 300 (■) 12 months
Rating	Upside
BUY (■)	14.2 %

### Change in Estimates

EPS Chg FY22E/FY23E (%)	-/-
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	Buy

### Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	9.7	12.3
Consensus	9.6	13.0
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 / 71
M Cap (Rs bn/USD bn)	31 / 0.42
Daily Avg Volume (nos.)	12,08,074
Daily Avg Turnover (US\$ mn)	4.1

### 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	(2)	11	85	244
Rel. to Nifty	(2)	-	52	137

### Relative price chart



Source: Bloomberg

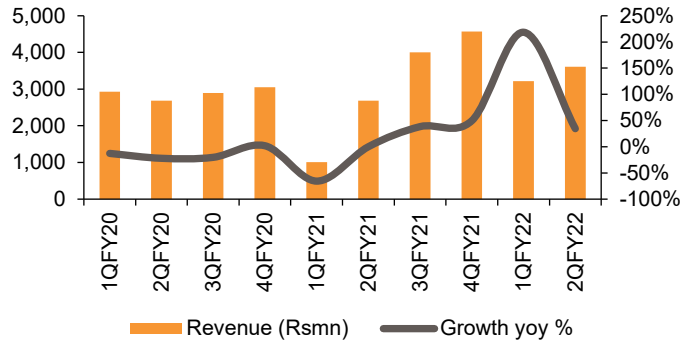
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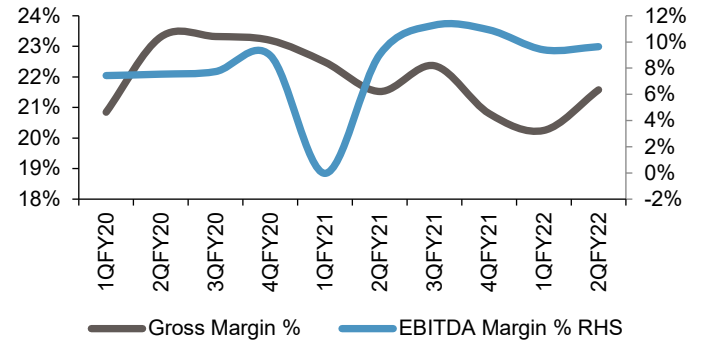
# Story in Charts

**Exhibit 1: Revenue growth stood at 35% yoy in Q2 and 85% in H1FY22**



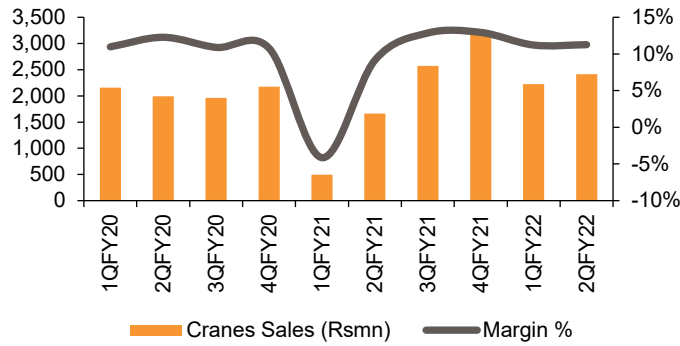
Source: Company, Emkay Research

**Exhibit 2: Gross margin steady yoy, while EBITDAM improved marginally**



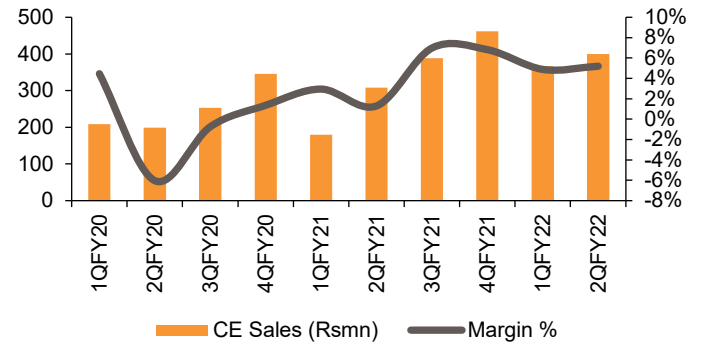
Source: Company, Emkay Research

**Exhibit 3: Cranes sales grew 114% in H1FY22**



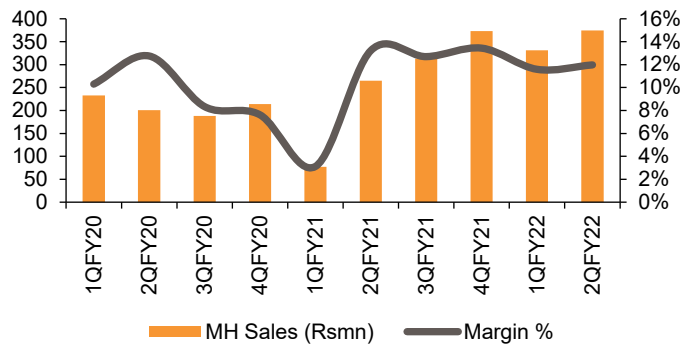
Source: Company, Emkay Research

**Exhibit 4: CE sales grew 57% in H1FY22**



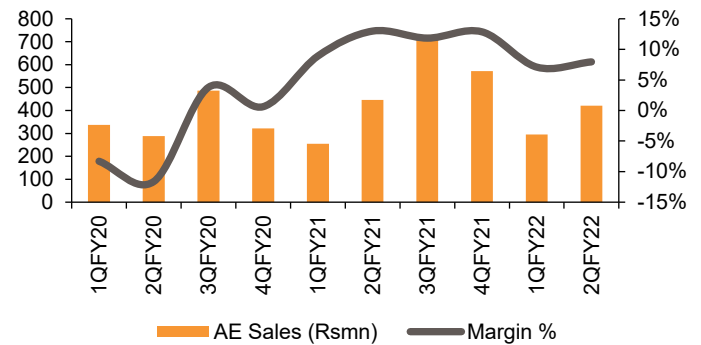
Source: Company, Emkay Research

**Exhibit 5: MH sales grew 107% in H1FY22**



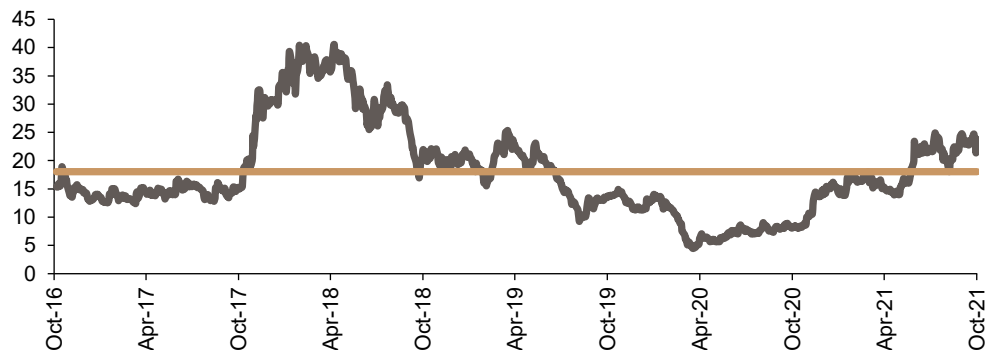
Source: Company, Emkay Research

**Exhibit 6: AE sales marginally up by 2% for H1FY22**



Source: Company, Emkay Research

**Exhibit 7: 1-year forward PE (5-year average: 18x)**



Source: Company, Emkay Research

**Exhibit 8: Quarterly performance (standalone)**

Rs mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	YoY (%)	QoQ (%)	YTDFY22	YTDFY21	YoY (%)
Revenue	1,009	2,683	4,004	4,574	3,215	3,609	35	12	6824	3692	85
Total Revenues	1,009	2,683	4,004	4,574	3,215	3,609	35	12	6824	3692	85
Expenditure	1,010	2,440	3,553	4,074	2,913	3,261	34	12	6174	3450	79
as % of sales	100	91	89	89	91	90			90	93	
Consumption of RM	782	2,105	3,109	3,622	2,564	2,830	34	10	5394	2888	87
as % of sales	78	78	78	79	80	78			79	78	
Employee Cost	149	179	203	190	191	201	12	5	392	328	20
as % of sales	15	7	5	4	6	6			6	9	
Other expenditure	79	156	241	262	158	230	47	45	388	235	65
as % of sales	8	6	6	6	5	6			6	6	
EBITDA	0	242	452	500	302	348	44	15	650	242	169
Depreciation	34	35	35	35	37	38	7	3	74	70	7
EBIT	-35	207	417	465	266	310	50	17	576	173	234
Other Income	24	18	35	76	24	22	25	(5)	46	42	9
Interest	33	35	25	30	27	33	(5)	23	60	68	(11)
PBT	-43	190	427	510	262	300	57	14	562	147	281
Total Tax	-1	45	117	122	69	69	55	(0)	138	44	217
Adjusted PAT	-42	146	310	388	193	231	58	19	424	104	308
(Profit)/loss from JV's/Ass/MI							0	0	0	0	NA
PAT after MI	-42	146	310	388	193	231	58	19	424	104	308
Extra ordinary items	0	0	0	0	0	0	0	0	0	0	0
Reported PAT	-42	146	310	388	193	231	58	19	424	104	308

Source: Emkay Research, Company

**Exhibit 9: Margin performance (standalone)**

Margins (%)	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	bps	bps	YTDFY22	YTDFY21	bps
Gross margins	22.5	21.5	22.4	20.8	20.2	21.6	5	133	21.0	21.8	(83)
EBIDTA	(0.0)	9.0	11.3	10.9	9.4	9.6	61	24	9.5	6.6	297
EBIT	(3.4)	7.7	10.4	10.2	8.3	8.6	88	33	8.4	4.7	377
EBT	(4.3)	7.1	10.7	11.2	8.2	8.3	121	14	8.2	4.0	424
PAT	(4.2)	5.4	7.7	8.5	6.0	6.4	95	38	6.2	2.8	340
Effective Tax rate	2.1	23.4	27.5	23.9	26.4	23.0	(34)	(338)	24.6	29.6	(498)

Source: Company, Emkay Research

**Exhibit 10: Business segment performance**

Segment Performance	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	YoY (%)	QoQ (%)	YTDFY22	YTDFY21	YoY (%)
<b>Sales (Rs mn)</b>											
Cranes	498	1,664	2,573	3,167	2,221	2,414	45	9	4635	2162	114
Construction Equipment	180	308	388	462	366	399	30	9	766	487	57
Material Handling	77	265	313	374	331	375	42	13	706	342	107
Agri Equipment	255	447	730	571	296	421	(6)	42	717	701	2
<b>Operating Profit (Rs mn)</b>											
Cranes	(21)	152	331	410	249	272	79	9	521	132	296
Construction Equipment	5	4	27	32	18	21	419	16	39	9	316
Material Handling	2	35	40	50	38	45	28	17	83	37	123
Agri Equipment	23	58	86	74	21	34	(42)	60	55	81	(32)
<b>Margin (%)</b>											
Cranes	(4)	9	13	13	11	11	211	5	11	6	515
Construction Equipment	3	1	7	7	5	5	390	31	5	2	314
Material Handling	3	13	13	13	12	12	(125)	39	12	11	85
Agri Equipment	9	13	12	13	7	8	(504)	86	8	12	(391)

Source: Company, Emkay Research

**Exhibit 11: Key growth assumptions**

Sales (Rs mn)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Cranes	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	719	802	1,007	1,337	1,749	2,274	2,842
Growth yoy %	47%	12%	26%	33%	31%	30%	25%
Material handling	808	944	836	1,028	1,228	1,412	1,624
Growth yoy %	53%	17%	-11%	23%	19%	15%	15%
Agriculture Equipment	1,848	2,036	1,433	2,002	2,402	2,763	3,177
Growth yoy %	21%	10%	-30%	40%	20%	15%	15%
<b>Total</b>	<b>10,986</b>	<b>13,425</b>	<b>11,562</b>	<b>12,270</b>	<b>16,319</b>	<b>19,029</b>	<b>22,111</b>
Growth yoy %	38%	22%	-14%	6%	33%	17%	16%

Source: Company, Emkay Research

## Con-call highlights

- Persistent commodity inflation continues to hamper margins, especially in the steel segment. ACE has taken a 10-12% price hike in H2FY21 and a further 8-10% in H1FY22. It may undertake an incremental 5-6% hike in the near term, considering the inflation environment and the need to maintain margins in the range of 10.5-11%. Management has maintained its conservative revenue growth guidance of 15-20%. Exports accounted for 7% of the overall business in H1FY22.
- Capacity utilization was still below adequate levels: ~30% for CE and 45-50% for Cranes. Management believes that operating leverage will be key to driving any margin upside. Customers across the board have recently become uncomfortable with price hikes and management is cognizant of this fact and wishes to maintain the market share right now.
- The Agriculture business has seen muted growth in the recent quarter due to the delayed monsoon. The company's ability to undertake price hikes is dependent on other market leaders in the business. So far, the pass-through has been limited. Nearly 25% of the Agri Equipment business comes from Harvester, wherein the company holds the No. 2 position and expects to close in on No. 1 soon.
- ACE is closely looking at inorganic opportunities to deploy its recent QIP proceeds. It is exploring both component-level and whole machinery-level players to strengthen its bottom-line. A related announcement is possible in the next few months. One of the possibilities includes a small-market Crane manufacturer, in order to improve pricing power and consolidate market share.
- Management expects the CE segment to grow faster than the Cranes segment as it has very high upside potential going ahead. CE is expected to grow by at least 25-30% in a year and has prospects of 40-50% growth.
- Working capital requirements have increased on account of delayed payments from financed equipment and increasing exports, which carry longer receivable terms. Management will initially cater to Eastern EU and Russia markets as new opportunities open on account of emission upgrades. It has also pitched other products, including Backhoe Loader, to the Indian Army, all of which are under trials and ACE expects results soon. Existing defence orders to the tune of Rs1bn should support revenue in FY22. The Forma tractor brand has done well in the export market, although high freight costs have deterred such purchases as well.
- Semiconductor issues have hampered availability of 130hp+ engines (sourced from Ashok Leyland). The issue should subside in the next 1-2 months. A majority of the business is less dependent on semiconductors, so the issue is limited.
- CE financing rates have been in the range of 8-13% for long and vary depending on the borrower's profile.

**Key Financials (Standalone)****Income Statement**

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

**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
<b>Net worth</b>	<b>4,425</b>	<b>5,235</b>	<b>7,669</b>	<b>9,055</b>	<b>10,743</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Loan Funds</b>	<b>737</b>	<b>511</b>	<b>160</b>	<b>110</b>	<b>110</b>
Net deferred tax liability	140	159	159	159	159
<b>Total Liabilities</b>	<b>5,303</b>	<b>5,904</b>	<b>7,988</b>	<b>9,324</b>	<b>11,012</b>
<b>Net block</b>	<b>3,926</b>	<b>4,090</b>	<b>4,145</b>	<b>4,490</b>	<b>5,019</b>
<b>Investment</b>	<b>467</b>	<b>499</b>	<b>499</b>	<b>499</b>	<b>499</b>
<b>Current Assets</b>	<b>4,936</b>	<b>5,813</b>	<b>8,096</b>	<b>9,434</b>	<b>11,336</b>
Cash & bank balance	93	364	1,848	2,569	3,417
Other Current Assets	0	0	0	0	0
<b>Current liabilities &amp; Provision</b>	<b>4,208</b>	<b>4,623</b>	<b>4,878</b>	<b>5,224</b>	<b>5,968</b>
<b>Net current assets</b>	<b>728</b>	<b>1,190</b>	<b>3,218</b>	<b>4,209</b>	<b>5,368</b>
Misc. exp	0	0	0	0	0
<b>Total Assets</b>	<b>5,303</b>	<b>5,904</b>	<b>7,988</b>	<b>9,324</b>	<b>11,012</b>

**Cash Flow**

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

Source: Company, Emkay Research

**Key Ratios**

<b>Profitability (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
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

<b>Per Share Data (Rs)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
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

<b>Valuations (x)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
PER	56.6	37.2	27.2	21.3	17.5
P/CEPS	40.3	28.1	21.4	17.1	14.2
P/BV	6.7	5.7	4.1	3.5	2.9
EV / Sales	2.6	2.4	1.8	1.5	1.3
EV / EBITDA	33.1	24.9	17.6	14.4	11.8
Dividend Yield (%)	0.5	0.0	0.2	0.3	0.3

<b>Gearing Ratio (x)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
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

<b>Growth (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
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

<b>Quarterly (Rs mn)</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>	<b>Q1FY22</b>	<b>Q2FY22</b>
Revenue	2,683	4,004	4,574	3,215	3,609
EBITDA	242	452	500	302	348
<b>EBITDA Margin (%)</b>	<b>9.0</b>	<b>11.3</b>	<b>10.9</b>	<b>9.4</b>	<b>9.6</b>
PAT	146	310	388	193	231
<b>EPS (Rs)</b>	<b>1.3</b>	<b>2.7</b>	<b>3.4</b>	<b>1.7</b>	<b>2.0</b>

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-20</b>	<b>Dec-20</b>	<b>Mar-21</b>	<b>Jun-21</b>	<b>Sep-21</b>
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

**RECOMMENDATION HISTORY TABLE**

Date	Closing Price	TP	Period (months)	Rating	Analyst
01-Nov-21	251	300	12m	Buy	Abhineet Anand

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research



## 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: 10 Nov 2021 01:09:27 (SGT)

Dissemination Date: 10 Nov 2021 01:10:27 (SGT)

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