

Action Construction Equipment (ACTCON)

CMP: ₹ 260

Target: ₹ 320 (22%)

Target Period: 12 months

BUY

November 10, 2021

Strong performance led by cranes segment...

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

Q2FY22 Results: ACE reported its Q2FY22 results.

- Revenue for the quarter came in at ₹ 360.9 crore, up 35% YoY & 12% QoQ
- Absolute EBIDTA came in at ₹ 34.8 crore, up 15.2% QoQ and 43.8% YoY
- PAT came in at ₹ 23 crore vs. ₹ 14.6 crore in Q2FY21 & ₹ 19.3 crore in Q1FY22

What should investors do? ACE continues to tread on its growth path. Even with a disrupted H1FY22, the management has guided for 20-25% growth

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

Target Price and Valuation: We value ACE at ₹ 320 i.e. 15x EV/EBIDTA (FY23E).

Key triggers for future price performance:

- Strong growth in FY22E & 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: We also like NRB in our capital goods coverage.

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



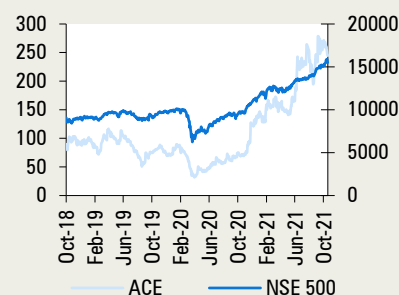
Particulars

Particular	Amount
Market Capitalization	3,370
Total Debt (FY21) (₹ crore)	51
Cash and Inv (FY21) (₹ crore)	62
EV (FY20) (₹ crore)	3,360
52 week H/L (₹) (BSE)	292/71
Equity capital (₹ crore)	22.7
Face value (₹)	2

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	73.1%	70.1%	70.1%	66.8%
FII	1.0%	3.2%	4.2%	5.3%
DII	0.7%	1.4%	2.0%	4.0%
Others	25.1%	25.4%	23.7%	24.0%

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

(Year-end March)	FY19	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	2 Year CAGR (FY21-FY23E)
Revenue	1,343.2	1,156.2	1,227.0	14.0	1,492.0	1,857.5	23.0
EBITDA	98.5	91.6	119.4	31.2	164.1	234.0	40.0
EBITDA margin (%)	7.3	0.08	0.097		0.11	0.13	
Net Profit	56.1	52.5	80.2	51.6	115.4	165.6	43.7
EPS (₹)	4.9	4.6	7.1		9.7	13.9	
P/E (x)	51.7	56.7	37.1		27.0	18.8	
EV/EBITDA (x)	29.7	33.1	24.8		17.9	12.3	
RoCE (%)	25.3	19.3	26.9		22.3	26.2	
RoE (%)	12.8	11.9	15.3		14.9	17.9	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q2FY22 Results: Sturdy performance

- Revenue for the quarter came in at ₹ 360.9 crore, up 35% YoY & 12% QoQ. Segmental performance was as follows. Crane segment revenue came in at ₹ 241.4 crore vs. ₹ 166.4 crore in Q2FY21 and ₹ 222.1 crore in Q1FY22. EBIT margins for the quarter were at 11.3%. Construction equipment segment revenue came in at ₹ 39.9 crore vs. ₹ 30.8 crore in Q2FY21 and ₹ 36.6 crore in Q1FY22. EBIT margins for the quarter were at 5.2%. Material handling segment revenue came in at ₹ 37.5 crore vs. ₹ 26.5 crore in Q2FY21 and ₹ 33.1 in Q1FY22 with EBIT margins of 12%. Agri segment revenue came in at ₹ 42.1 crore vs. 44.7 crore in Q2FY21 and ₹ 29.6 crore in Q1FY22
- Gross margins increased ~10 bps YoY and ~135 bps QoQ. EBIDTA margins came in at 9.6% vs. 9.4% QoQ and 9.0% YoY. Absolute EBIDTA came in at ₹ 34.8 crore, up 15.2% QoQ and 43.8% YoY
- Ensuing PAT was at ₹ 23 crore vs. 14.6 crore in Q2FY21 & ₹ 19.3 crore in Q1FY22

Q2FY22 Earnings Conference Call highlights

- The company has generated highest ever Q2 revenue, EBITDA and PAT mainly on back of strong demand from infra and manufacturing sectors. ACE has seen sequential growth in every month since May 2021
- The company has guided for 12-15% increase in volumes and 8-10% increase in price of its products with revenue increment of around 20-25%
- EBITDA will be in the range of 10-13% for FY22
- Despite having a good quarter ACE is facing issues on rising raw material process, supply chain disruption (shortage of container)
- The company has passed on higher raw material prices to its customers twice this year and is planning to increase prices once again in November
- ACE has received two orders from the defence industry with the order size of around ₹ 100 crore and is confident of securing more such orders in coming quarters
- Money raised will be used for inorganic growth
- The company is optimistic about 40% CAGR in construction equipment and estimates it will reach ₹ 400-500 crore by FY25

Exhibit 1: Variance Analysis

Year	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	360.9	268.3	35%	321.5	12%	Better performance, both in terms of value and volume due to revival in infra, construction and industrial activities
Other Income	2.2	1.8	24%	2.4	-5%	
Total Income	363.1	270.1	34%	323.9	12%	
Cost of materials consumed	296.3	229.8	29%	249.0	19%	Higher material cost primarily led by increase in steel prices
Change in inventories	-13.3	-19.3	-31%	7.4	-280%	
Employee cost	20.1	17.9	12%	19.1	5%	Employee cost declined 45% YoY
Other expenses	23.0	15.6	47%	15.8	45%	
EBITDA	34.8	24.2	43%	30.2	15%	EBITDA grew 43% YoY led by positive operating leverage
EBITDA Margin (%)	9.6	9.0	60 bps	9.4	24 bps	
Depreciation	3.8	3.5	7%	3.6	3%	
Interest	3.3	3.5	-5%	2.7	23%	
PBT	29.9	19.0	57%	26.2	14%	
Taxes	6.9	4.5	55%	6.9	0%	
PAT	23.0	14.6	58%	19.3	19%	Profitability improved led by higher utilisation

Key metrics	Q2FY22	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Cranes	241.4	166.4	45%	222.1	9%	Robust performance in crane segment led by revival in infra activities
EBIT Margin %	11.3%	9.2%		11.2%		
EBIT	27.2	15.2	79%	24.9	9%	
Construction Equipment	39.9	30.8	30%	36.6	9%	Improved performance in CE segment led by revival in infra activities
EBIT Margin %	5.2%	1.3%		4.9%		
EBIT	2.1	0.4	NA	1.8	16%	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY19	FY20	FY21	FY22E			FY23E		
	Actual	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	1343.2	1,156.2	1,227.0	1,419.0	1,492	5.1	1,758.0	1,858	5.7
EBITDA	98.5	91.6	119.0	156.0	164	5.2	221.0	234	5.9
EBITDA Margin (%)	7.3	7.9	9.7	11.0	11.0	0 bps	12.6	12.60	0 bps
PAT	56.1	52.0	80.0	107.0	115	7.9	156.0	166	6.2
EPS (₹)	4.9	4.6	7.1	9.4	9.7	3.1	13.7	13.9	1.5

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-ended-March)	FY20	FY21	FY22E	FY23E
Revenue	1,156	1,227	1,492.0	1,857.5
Total Raw Material Costs	894	962	1164	1427
Employee Expenses	86	72	82	98
Other expenses	85	74	82	98
Total Operating Expenditure	1,065	1,108	1,328	1,623
EBITDA	92	119	164	234
EBITDA Margins	7.9%	9.7%	11.0%	12.6%
EBITDA Growth %	-6.3%	30.4%	37.5%	42.6%
Other Income	4	15	12	12
Interest	15	12	3	2
PBDT	-10	3	9	10
Depreciation	13	14	13	14
PBT before Excep item	68	108	160	230
Total Tax	16	28	45	64
PAT before MI	52	80	115	166
Minority Interest	0	0	0	0
PAT	52	80	115	166
% Growth	-6.3	52.8	44.0	43.5
EPS	4.6	7.1	9.7	13.9

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-ended-March)	FY20	FY21	FY22E	FY23E
Profit after Tax	52	80	115	166
Add: Depreciation	13	14	13	14
Interest	15	12	3	2
(Inc)/decrease in CA	(61)	(59)	(144)	(155)
(Inc)/decrease in CL and prov	33	42	43	80
CF from Operations	51	106	29	116
(Inc)/decrease in Fixed Assets	(39)	(18)	(35)	(30)
Others	9	5	18	12
CF from Investing	(30)	(12)	(17)	(18)
Issue/(Buy back) of Equity	(33)	-	136	-
Inc/(dec) in loan funds	30	(23)	(20)	-
Dividend paid & dividend tax	(6)	(6)	(9)	(13)
Others	(15)	(25)	23	(31)
CF from Financing	(23)	(54)	129	(45)
Net Cash flow	(2)	40	141	54
Opening Cash/Cash Equivalent	12	10	50	191
Closing Cash/ Cash Equivalent	10	50	191	244

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-ended-March)	FY20	FY21	FY22E	FY23E
Equity Capital	23	23	24	24
Reserve and Surplus	420	501	751	903
Total Shareholders funds	443	523	774	927
Minority Interest	0	0	0	0
Other Non Current Liabilities	18	18	18	13
Total Debt	74	51	31	31
Sources of Funds	535	593	824	971
Gross Block	464	488	526	556
Acc: Depreciation	121	135	148	161
Net Block	398	416	408	420
Capital WIP	19	13	10	10
Total Fixed Assets	417	429	418	430
Non Current Assets	50	36	42	42
Inventory	271	266	327	397
Debtors	147	225	286	356
Loans and Advances	0	0	0	0
Other Current Assets	52	38	60	74
Cash & Equivalent	9	37	191	244
Investments	6	25	25	25
Total Current Assets	486	591	888	1097
Current Liabilities	419	463	505	585
Net Current Assets	67	128	383	512
Application of Funds	535	593	824	971

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	FY20	FY21	FY22E	FY23E
Per Share Data				
EPS	4.6	7.1	9.7	13.9
BV	39.0	46.1	65.0	77.8
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	7.7	8.9
Return Ratios				
RoE	11.9	15.3	14.9	17.9
RoCE	19.3	26.9	22.3	26.2
RoIC	20.0	28.0	29.0	35.5
Valuation Ratios				
EV / EBITDA	33.1	24.8	17.9	12.3
P/E	56.7	37.1	27.0	18.8
EV / Net Sales	2.6	2.4	2.0	1.6
Market Cap / Sales	2.6	2.4	2.1	1.7
Price to Book Value	6.7	5.7	4.0	3.4
Turnover Ratios				
Asset turnover	2.6	2.4	1.9	2.0
Debtors Turnover Ratio	7.8	5.5	5.2	5.2
Creditors Turnover Ratio	3.6	3.7	4.1	4.3
Solvency Ratios				
Debt / Equity	0.2	0.1	0.0	0.0
Current Ratio	1.1	1.1	1.3	1.4
Quick Ratio	0.5	0.6	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 7: 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)	1943	2,150	Buy	272642	81.9	51.9	52.9	23.7	37.4	36.7	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2408	2,550	Buy	85754	28.3	37.9	45.1	85.2	63.5	53.4	13.5	16.3	17.4	9.9	12.1	13.0
AIA Engineering (AIAENG)	1906	2,230	Buy	17977	59.7	60.4	69.7	31.9	31.5	27.3	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1337	1,680	Buy	15931	17.3	26.8	40.0	77.1	49.9	33.5	9.8	11.9	16.3	7.6	9.3	12.7
Kalpataru Power(KALPOW)	420	455	Hold	6498	41.3	25.8	37.8	10.2	16.3	11.1	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	467	550	Buy	12007	21.5	19.9	32.3	21.7	23.4	14.4	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	140	150	Hold	3237	0.4	2.4	5.4	312.4	57.2	26.0	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	219	260	Buy	6940	3.2	3.9	6.2	67.7	55.9	35.6	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	220	250	Buy	53605	8.5	9.6	11.3	26.0	22.8	19.5	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	365	500	Buy	4964	46.4	44.0	55.6	7.9	8.3	6.6	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3940	3,960	Buy	20882	67.6	78.1	98.9	58.3	50.4	39.8	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	1812	1,740	Hold	11597	19.0	28.2	36.3	95.2	64.3	49.9	13.7	18.3	23.5	10.7	14.0	18.0
NRB Bearing (NRBBEA)	137	175	Buy	1329	5.6	8.0	9.8	24.5	17.1	14.0	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	258	320	Buy	2915	7.1	9.7	13.9	36.3	26.6	18.6	26.9	22.3	26.2	15.3	14.9	17.9

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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