

## Q2FY22 Result Update

**Accumulate**

Industry	Engineering
CMP (Rs)	256
FY21E Target Price (Rs)	283
52 Week H/L (Rs)	292/73
Volumes (BSE+NSE)*	386120
Shares O/S (mn)	119.1
Market Cap (Rs mn)	31045
Free Float (%)	33.2
Bloomberg	ACCE IN
Reuters	ACEL.BO

\*Three month daily average

### Share Holding Pattern (30/09/2021)

Particulars	Shares (mn)	Holding (%)
Promoters	79.5	66.8
FIIs	6.3	5.2
DIIs	4.7	4.0
Others	28.6	24.0
<b>Total</b>	<b>119.1</b>	<b>100.0</b>

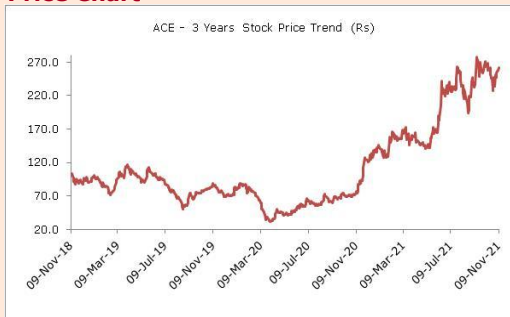
Source : BSE

### Financial Highlights

(Rs mn)	FY21	FY22E	FY23E
Sales	12,270	15,361	17,719
Sales Growth	6.1%	25.2%	15.4%
EBITDA	1,194	1,653	2,030
EBITDA Margin	9.7%	10.8%	11.5%
PAT	801	1102	1434
EPS (Rs)	6.9	9.5	12.4
P/E (x)	37.0	26.9	20.7
EV/EBITDA (x)	21.3	16.7	13.0
ROE	16.6%	16.7%	16.6%
RoCE	13.8%	15.5%	15.3%

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 Q2FY22, 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 34.5% Y-o-Y to Rs 3,609mn, much above our estimate of Rs 3,309mn. This was driven by 21.9% Y-o-Y increase in Q2FY22 total sales volumes to 2,806 units. The Material Handling division experienced significant increase and reported a growth of 42.5% Y-o-Y in the sales volume to 379 units.

#### Segmental Sales Volume

Sales Volumes (Units)	Q2FY22	Q2FY21	Variance (Y-o-Y)	Q1FY22	Variance (Q-o-Q)
Cranes	1250	950	+31.6%	1080	+15.7%
Construction Equip.	140	122	+14.8%	111	+26.1%
Materials Handling	379	266	+42.5%	334	+13.5%
Tractors	1037	963	+7.7%	654	+58.6%

- The Cranes segment showed strong revenue growth and increase by 45.1% Y-o-Y to Rs 2414mn.
- The Construction Equipments segment reported 29.8% Y-o-Y growth to Rs 399mn.
- Material Handling segment revenue increased from Rs 265mn in Q2FY21 to Rs 375mn in Q2FY22, a growth of 41.6% Y-o-Y.
- Tractor segment's revenue decreased slightly from Rs 447mn in Q2FY21 to Rs 421mn in Q2FY22 due to weak demand, a degrowth of 5.7% Y-o-Y.
- EBITDA during the quarter increased 43.3% Y-o-Y to Rs 348mn, compared to our estimate of Rs 390mn.
- Overall EBITDA margin during the quarter improved by 60bps Y-o-Y and 20bps Q-o-Q to 9.6% in Q2FY22. EBITDA margin was below our estimate mainly due to increase in the Raw Material Cost and Other Expenses.
- Further, net profit during the quarter increased by 57.9% Y-o-Y to Rs 230mn, compared to our estimate of Rs 255mn.

### Outlook and Valuations

Demand for ACE equipments recovered in Q2FY22 as most of the Covid-19 related restrictions were lifted after abatement of second wave of Covid-19. Management expects that demand will gain momentum in H2FY22. However a sharp increase in steel prices resulted in pressure on the margins. At a current price of Rs 256, ACE trades at an EV/EBITDA of 16.7x FY22E and 13.0x 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 and arrive at a FY23E price target of Rs 283. We maintain our recommendation of an "Accumulate" rating on the company.

**Quarterly Results**

Particulars (Rs mn)	Q2FY22	Q2FY21	Variance (Y-o-Y)	Q1FY22	Variance (Q-o-Q)	H1FY22	H1FY21	Variance (Y-o-Y)
<b>Total Operating Income</b>	<b>3609</b>	<b>2683</b>	<b>34.5%</b>	<b>3215</b>	<b>12.3%</b>	<b>6824</b>	<b>3692</b>	<b>84.8%</b>
<b>Expenditures:</b>								
Materials and Trading Exp	2,830	2,105	34.4%	2,564	10.4%	5394	2,888	86.8%
Staff Cost	201	179	12.2%	191	5.3%	392	328	19.6%
Other Expenses	230	156	47.3%	158	45.5%	387	235	65.2%
<b>Total Expenditures</b>	<b>3,261</b>	<b>2,440</b>	<b>33.6%</b>	<b>2,913</b>	<b>12.0%</b>	<b>6,174</b>	<b>3,450</b>	<b>79.0%</b>
<b>EBITDA</b>	<b>348</b>	<b>243</b>	<b>43.3%</b>	<b>302</b>	<b>15.1%</b>	<b>650</b>	<b>242</b>	<b>168.4%</b>
<b>EBITDA Margin (%)</b>	<b>9.6%</b>	<b>9.0%</b>	<b>+60bps</b>	<b>9.4%</b>	<b>+20bps</b>	<b>9.5%</b>	<b>6.6%</b>	<b>+300bps</b>
Depreciation	38	35	7.3%	36	3.4%	74	69	6.8%
Other Income	22	18	24.2%	24	-5.4%	46	42	8.5%
Interest	33	35	-4.7%	27	22.4%	60	68	-10.8%
<b>PBT</b>	<b>299</b>	<b>191</b>	<b>56.9%</b>	<b>262</b>	<b>14.1%</b>	<b>562</b>	<b>148</b>	<b>280.7%</b>
Taxes	69	45	53.7%	69	-0.2%	138	44	214.1%
<b>Net Profit</b>	<b>230</b>	<b>146</b>	<b>57.9%</b>	<b>193</b>	<b>19.2%</b>	<b>424</b>	<b>104</b>	<b>309.0%</b>
Net Profit Margin	<b>6.4%</b>	<b>5.4%</b>	<b>+100bps</b>	<b>6.0%</b>	<b>+40bps</b>	<b>6.2%</b>	<b>2.8%</b>	<b>+340bps</b>
<b>EPS (Rs)</b>	<b>2.0</b>	<b>1.3</b>	<b>57.9%</b>	<b>1.7</b>	<b>19.2%</b>	<b>3.7</b>	<b>0.9</b>	<b>309.0%</b>

**Quarterly Segmental Performance**

Particulars (Rs mn)	Q2FY22	Q2FY21	Variance (Y-o-Y)	Q1FY22	Variance (Q-o-Q)	H1FY22	H1FY21	Variance (Y-o-Y)
Cranes	2,414	1,664	45.1%	2,221	8.7%	4,635	2,162	114.4%
Construction Equip.	399	308	29.8%	366	9.0%	766	487	57.1%
Materials Handling	375	265	41.6%	331	13.1%	706	342	106.6%
Agricultural Equipment	421	447	-5.7%	296	42.4%	717	702	2.2%
<b>Net Sales</b>	<b>3,609</b>	<b>2,683</b>	<b>34.5%</b>	<b>3,215</b>	<b>12.3%</b>	<b>6,824</b>	<b>3,692</b>	<b>84.8%</b>
<b>EBIT Margin</b>								
Cranes	11.3%	9.2%	211	11.2%	5	11.2%	6.1%	514
Construction Equip.	5.2%	1.3%	390	4.9%	31	5.0%	1.9%	314
Materials Handling	12.0%	13.2%	-121	11.6%	40	11.8%	10.9%	88
Tractor	8.0%	13.0%	-499	7.1%	86	7.6%	11.5%	-387

**Income Statement**

Particular (In Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Net Sales</b>	<b>10,543</b>	<b>11,561</b>	<b>12,270</b>	<b>15,361</b>	<b>17,719</b>
Sales Growth(%)	-3.0%	9.7%	6.1%	25.2%	15.4%
<b>Expenditures:</b>					
Raw Materials	10,845	8,942	9,619	11,968	13,677
Employees Cost	750	856	721	904	1,049
Selling and Distribution	850	845	737	836	964
<b>Total Expenses</b>	<b>12,406</b>	<b>10,643</b>	<b>11,077</b>	<b>13,708</b>	<b>15,689</b>
<b>EBITDA</b>	<b>-1,863</b>	<b>918</b>	<b>1,194</b>	<b>1,653</b>	<b>2,030</b>
EBITDA Margins	<b>-17.7%</b>	<b>7.9%</b>	<b>9.7%</b>	<b>10.8%</b>	<b>11.5%</b>
Depreciation	118	130	139	150	149
<b>EBIT</b>	<b>-1,981</b>	<b>788</b>	<b>1,054</b>	<b>1,503</b>	<b>1,881</b>
Other Income	97	40	153	103	103
Interest Expenses	115	147	122	127	59
<b>PBT</b>	<b>-1,999</b>	<b>682</b>	<b>1,085</b>	<b>1,480</b>	<b>1,926</b>
Taxes	282	156	284	378	492
<b>Net Profit</b>	<b>-2281</b>	<b>526</b>	<b>801</b>	<b>1102</b>	<b>1434</b>
Net Profit Margins	<b>-21.6%</b>	<b>4.6%</b>	<b>6.5%</b>	<b>7.2%</b>	<b>8.1%</b>
EPS (Rs)	-19.7	4.6	6.9	9.5	12.4

**Balance Sheet**

Particular (In Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Sources of Funds</b>					
Equity Capital	235	227	227	238	238
Reserves & Surplus	4,137	4,199	5,008	7,755	9,084
<b>Total Shareholders' Fund</b>	<b>4,372</b>	<b>4,425</b>	<b>5,235</b>	<b>7,993</b>	<b>9,322</b>
<b>Total Loans</b>	<b>373</b>	<b>741</b>	<b>512</b>	<b>300</b>	<b>300</b>
<b>Deferred Tax Liabilities</b>	<b>156</b>	<b>142</b>	<b>161</b>	<b>165</b>	<b>170</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,926</b>	<b>5,309</b>	<b>5,907</b>	<b>8,458</b>	<b>9,793</b>
<b>Application of Funds</b>					
<b>Gross Block</b>	<b>4,355</b>	<b>5,260</b>	<b>5,582</b>	<b>5,846</b>	<b>6,046</b>
Accumulated Depreciation	1,141	1,271	1,411	1,560	1,709
<b>Net Block</b>	<b>3,213</b>	<b>3,917</b>	<b>4,077</b>	<b>4,286</b>	<b>4,337</b>
Capital Work-in-Progress	71	182	124	60	60
Investments	125	122	120	123	127
Others	976	434	306	315	324
<b>Current Assets:</b>					
Inventories	2,125	2,703	2,657	3,326	3,155
Sundry Debtors	1,439	1,473	2,246	2,812	2,767
Cash and Bank	114	93	364	2,319	3,414
Loans and Advances	474	109	276	303	334
<b>Total Current Assets</b>	<b>4,457</b>	<b>4,856</b>	<b>5,900</b>	<b>9,153</b>	<b>10,103</b>
<b>Current Liabilities &amp; Provisions</b>	<b>3,917</b>	<b>4,169</b>	<b>4,603</b>	<b>5,553</b>	<b>5,230</b>
<b>Net Current Assets</b>	<b>540</b>	<b>688</b>	<b>1,297</b>	<b>3,600</b>	<b>4,873</b>
Miscellaneous	0	-35	-18	74	72
<b>Total Assets</b>	<b>4,926</b>	<b>5,308</b>	<b>5,907</b>	<b>8,458</b>	<b>9,793</b>

**Cash Flow Statement**

<b>Y/E March (Rs Mn)</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
<b>PBT Before Extraordinary Items</b>	<b>-2281</b>	<b>682</b>	<b>1085</b>	<b>1102</b>	<b>1434</b>
Adjustments for:					
Depreciation	118	130	139	150	149
Interest Expenses	115	146	122	127	59
Other Adjustment	-97	-40	-153	-103	-103
<b>Operating Profit before WC changes</b>	<b>-2145</b>	<b>917</b>	<b>1193</b>	<b>1275</b>	<b>1538</b>
Change in Working Capital	-351	-343	-254	-312	-139
<b>Cash generated from Operations</b>	<b>-2496</b>	<b>574</b>	<b>939</b>	<b>963</b>	<b>1400</b>
Direct Taxes (Net)	-282	-164	-241	-378	-492
<b>Net Cash from Operating activities</b>	<b>-2778</b>	<b>410</b>	<b>698</b>	<b>585</b>	<b>907</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
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
<b>Net Cash used in Investing activities</b>	<b>363</b>	<b>-196</b>	<b>-162</b>	<b>-203</b>	<b>-202</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Equity Share Capital	0	0	0	0	0
Net Borrowing	-270	348	-277	-212	0
Buy-back of Equity Share	0	-333	0	1750	0
Interest Paid	-115	-146	-122	-127	-59
Dividend and Dividend Tax Paid	-100	-203	-4	-104	-104
<b>Net Cash from Financing activities</b>	<b>-486</b>	<b>-334</b>	<b>-404</b>	<b>1308</b>	<b>-162</b>
Net Change in Cash & Equivalents	-2900	-120	132	1690	544
Cash & Equivalents as at the beginning	108	114	93	364	2,319
<b>Cash &amp; Equivalents as at the end</b>	<b>114</b>	<b>93</b>	<b>364</b>	<b>2319</b>	<b>3414</b>

**Key Ratios**

<b>Ratios</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>
<b>Liquidity Ratios</b>					
Current Ratio	1.1	1.2	1.3	1.6	1.9
Quick Ratio	0.6	0.5	0.7	1.0	1.3
<b>Leverage Ratios</b>					
Total Debt/Networth	0.1	0.2	0.1	0.0	0.0
Interest Coverage Ratio	-17.2	5.4	8.6	11.9	32.1
Working Capital/Sales	0.1	0.1	0.1	0.2	0.3
<b>Activity Ratios</b>					
Inventory Days	74	85	79	79	65
Debtors Days	50	46	67	67	57
Creditors Days	87	110	109	109	87
<b>Profitability Ratios</b>					
Operating Profit Margin	-17.7%	7.9%	9.7%	10.8%	11.5%
Net Profit Margin	-21.6%	4.6%	6.5%	7.2%	8.1%
Return on Capital Employed	-46.5%	11.9%	13.8%	15.5%	15.3%
Return on Equity	-54.1%	12.0%	16.6%	16.7%	16.6%
<b>Valuation Ratios</b>					
EPS	-19.7	4.6	6.9	9.5	12.4
Dividend Yield	0.3%	0.3%	0.3%	0.3%	0.3%
P/E	-13.0	56.4	37.0	26.9	20.7
P/BV	5.5	5.4	4.6	3.0	2.6
EV/Sales	2.4	2.3	2.1	1.5	1.3
EV/EBITDA	-13.7	28.3	21.3	16.7	13.0

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