

Action Construction Equipment (ACTCON)

CMP: ₹ 221

Target: ₹ 290 (32%)

Target Period: 12 months

BUY

February 7, 2022

Strong performance across all segments...

About the stock: Action Construction Equipment (ACE) is a construction equipment and material handling company based in India.

- 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

Q3FY22 Results: ACE reported Q3FY22 results.

- Revenue for the quarter was at ₹ 436.6 crore, up 9.1% YoY, 21.2% QoQ
- Absolute EBIDTA was at ₹ 39.4 crore, up 13.2% QoQ and down 13.3% YoY
- PAT came in at ₹ 27.5 crore vs. ₹ 30.9 crore in Q3FY21 and ₹ 23 crore in Q2FY22

What should investors do? ACE continues to tread on its growth path. 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 ₹ 290 i.e. 18x PE (FY24E).

Key triggers for future price performance:

- 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 ₹ 220 per share



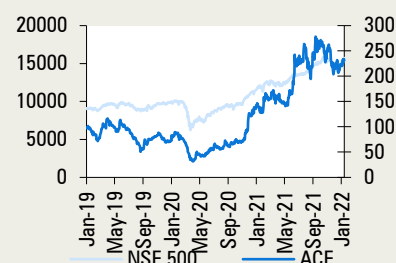
Particulars

Particular	Amount
Market Capitalization	3,593
Total Debt (FY21) (₹ crore)	51
Cash and Inv (FY21) (₹ crore)	62
EV (FY21) (₹ crore)	3,583
52 week H/L (₹) (BSE)	292 / 139
Equity capital (₹ crore)	11.9
Face value (₹)	2

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	70.1%	70.1%	66.8%	66.8%
FII	3.2%	4.2%	5.3%	3.3%
DII	1.4%	2.0%	4.0%	3.9%
Others	25.4%	23.7%	24.0%	26.1%

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

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Yash Panwar
yash.panwar@icicisecurities.com

Key Financial Summary

(Year-end March)	FY19	FY20	FY21	5 Year CAGR (FY16-FY21)	FY22E	FY23E	FY24E	3 Year CAGR (FY21-FY24E)
Revenue	1,343.2	1,156.2	1,227.0	14.0	1,550.0	1,883.7	2,291.6	22.9
EBITDA	98.5	91.6	119.4	31.2	166.6	214.7	272.7	31.3
EBITDA margin (%)	7.3	7.9	9.7		10.8	11.4	11.9	
Net Profit	56.1	52.5	80.2	51.6	117.2	151.7	193.0	33.6
EPS (₹)	4.9	4.6	7.1		9.8	12.7	16.2	
P/E (x)	51.7	56.7	31.3		22.4	17.3	13.6	
EV/EBITDA (x)	29.7	33.1	20.9		14.7	11.2	8.4	
RoCE (%)	25.3	19.3	26.9		22.5	24.4	25.9	
RoE (%)	12.8	11.9	15.3		15.1	16.6	17.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q3FY22 Results: Sturdy performance

- Revenue for the quarter came in at ₹ 436.6 crore, up 9.1% YoY, 21.2% QoQ. Segmental performance was as follows. Crane segment revenue came in at ₹ 268.8 crore vs. ₹ 257.3 crore in Q3FY21 and ₹ 241.4 crore in Q2FY22. EBIT margins for the quarter were at 11.7%. Construction equipment segment revenue came in at ₹ 47.4 crore vs. ₹ 38.8 crore in Q3FY21 and ₹ 39.9 crore in Q2FY22. EBIT margins for the quarter were at 5.5%. Material handling segment revenue came in at ₹ 43.1 crore vs. ₹ 31.3 crore in Q3FY21 and ₹ 37.5 in Q2FY22 with EBIT margins of 11.8%. Agri segment revenue came in at ₹ 77.3 crore vs. ₹ 73 crore in Q3FY21 and ₹ 42.1 crore in Q2FY22
- Gross margins declined ~ 220 bps YoY & ~ 140 bps QoQ. EBIDTA margins came in at 9% vs. 9.6% QoQ and 11.3% YoY, Declining EBIDTA margins are due to declining gross margins. Absolute EBIDTA came in at ₹ 39.4 crore, up 13.2% QoQ and down 13.3% YoY
- Ensuing PAT came in at ₹ 27.5 crore vs. ₹ 30.9 crore in Q3FY21 & ₹ 23 crore in Q2FY22

Q3FY22 Earnings Conference Call highlights

- Revenue guidance has been increased from 18-19% to 23-24% for the current financial year while for FY23 it will be around 17-22%. However, there was pressure on EBIDTA margins mainly due to increased raw material prices (steel, rubber), lacklustre performance in festive season and Omicron variant but it is expected to be back to 11.5-13% in FY23E. Construction equipment business is expected to reach ₹ 500 crore by FY24
- Demand for cranes and material handling equipment should grow in future keeping in mind the capex allocation the government has done in the Budget, apart from government initiatives like Make in India, Atmanirbhar Bharat and Make in India, which were previously launched
- The company has again passed on inflated prices to its customers in November, which is the third time this FY22E. The company is working on two options for inorganic growth and will close the deal in Q4FY22E
- The defence segment is also seeing good traction as two big orders have been received in the last quarter for multipurpose 4X4 tractors, special cranes and cranes for missile launcher. Further, three to four big orders are in the pipeline, which will be executed in the next financial year and defence segment can reach a revenue of ₹ 130-170 crore by FY23 end
- Currently ACE is working on 45-50% of capacity utilisation. Once the utilisation increases it will have positive operating leverage and EBIDTA margins will increase
- Receivables have reduced from 52 days to 46 days YoY with total ₹ 200 crore outstanding. Working capital has increased from 39 days in FY21 end to 44 days in Q3FY22 end, mainly due to excessive inventory (around ₹ 317 crore). It is expected to reach 45 days by the end of the current financial year. Cash on the book is at ₹ 185 crore
- Export has not been performing as expected due to rising freight charges, which have grown to 3x this year. However, it is expected to see good traction in the next financial year
- Currently, the company is working on a paint facility that will be completed in the current quarter. Apart from that, no major capex has been planned for the next financial year

Exhibit 1: Variance Analysis

Year	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	436.6	400.4	9%	360.9	21%	Better performance, both in terms of value and volume due to revival in infra, construction and industrial activities
Other Income	5.0	3.5	44%	2.2	123%	
Total Income	441.6	403.9	9%	363.1	22%	
Cost of materials consumed	353.6	306.4	15%	296.3	19%	Higer material cost primary led by increase in steel prices
Change in inventories	-5.2	4.5	-216%	-13.3	-61%	
Employee cost	24.7	20.3	21%	20.1	23%	Employee cost increased by 23% QoQ and 21% YoY
Other expenses	24.1	24.1	0%	23.0	5%	
EBITDA	39.4	45.2	-13%	34.8	13%	EBITDA de-grew 13% YoY led by higher raw material cost
EBITDA Margin (%)	9.0	11.3	-225 bps	9.6	-60 bps	
Depreciation	3.9	3.5	13%	3.8	5%	
Interest	3.4	2.5	39%	3.3	4%	
PBT	37.1	42.7	-13%	29.9	24%	
Taxes	9.5	11.7	-19%	6.9	38%	
PAT	27.5	30.9	-11%	23.0	20%	

Key metrics	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	
Cranes	268.8	257.3	4%	241.4	11%	Robust performance in crane segment led by revival in infra activities
EBIT Margin %	11.7%	12.9%		11.3%		
EBIT	31.6	33.1	-5%	27.2	16%	
Construction Equipment	47.4	38.8	22%	39.9	19%	Improved performance in CE segment led by revival in infra activities
EBIT Margin %	5.5%	7.0%		5.2%		
EBIT	2.6	2.7	NA	2.1	24%	
Material Handling	43.1	31.3	38%	37.5	15%	Material handling too remained bouyant
EBIT Margin %	11.8%	12.7%		12.0%		
EBIT	5.1	4.0	28%	4.5	13%	
Agri Equipment	77.3	73.0	6%	42.1	83%	Strong traction in rural demand and a good monsoon aided agri equipment performance
EBIT Margin %	8.3%	11.8%		8.0%		
EBIT	6.4	8.6	-26%	3.4	90%	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY19	FY20	FY21	FY22E			FY23E			FY24E
(₹ Crore)	Actual	Actual	Actual	Old	New	% Change	Old	New	% Change	New
Revenue	1343.2	1,156.2	1,227.0	1,492.0	1,550	3.9	1,857.5	1,884	1.4	2,292
EBITDA	98.5	91.6	119.0	164.1	167	1.5	234.0	215	-8.2	273
EBITDA Margin (%)	7.3	7.9	9.7	11.0	10.8	-25 bps	12.6	11.40	-120 bps	11.90
PAT	56.1	52.0	80.0	115.4	117	1.6	165.6	152	-8.4	193
EPS (₹)	4.9	4.6	7.1	9.7	9.8	1.6	13.9	12.7	-8.4	16.2

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-ended-March)	FY21	FY22E	FY23E	FY24E
Revenue	1,227	1,550.0	1,883.7	2,291.6
Total Raw Material Costs	962	1213	1469	1776
Employee Expenses	72	85	100	121
Other expenses	74	85	100	121
Total Operating Expenditure	1,108	1,383	1,669	2,019
EBITDA	119	167	215	273
EBITDA Margins	9.7%	10.8%	11.4%	11.9%
EBITDA Growth %		39.6%	28.9%	27.0%
Other Income	15	12	12	13
Interest	12	3	2	1
PBDT	3	9	10	13
Depreciation	14	13	14	17
PBT before Excep item	108	163	211	268
Total Tax	28	46	59	75
PAT before MI	80	117	152	193
Minority Interest	0	0	0	0
PAT	80	117	152	193
% Growth	52.8	46.3	29.4	27.2
EPS	7.1	9.8	12.7	16.2

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-ended-March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	80	117	152	193
Add: Depreciation	14	13	14	17
Interest	12	3	2	1
(Inc)/decrease in CA	(59)	(170)	(140)	(106)
(Inc)/decrease in CL and prov	42	62	68	39
CF from Operations	106	24	105	153
(Inc)/decrease in Fixed Assets	(18)	(35)	(30)	(31)
Others	5	18	12	13
CF from Investing	(12)	(17)	(18)	(18)
Issue/(Buy back) of Equity	-	136	-	-
Inc/(dec) in loan funds	(23)	(20)	-	(25)
Dividend paid & dividend tax	(6)	(9)	(12)	(15)
Others	(25)	23	(31)	(29)
CF from Financing	(54)	129	(43)	(69)
Net Cash flow	40	136	44	66
Opening Cash/Cash Equivalent	10	50	186	230
Closing Cash/ Cash Equivalent	50	186	230	295

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-ended-March)	FY21	FY22E	FY23E	FY24E
Equity Capital	23	24	24	24
Reserve and Surplus	501	752	892	1069
Total Shareholders funds	523	776	916	1093
Minority Interest	0	0	0	0
Other Non Current Liabilities	18	18	13	13
Total Debt	51	31	31	6
Sources of Funds	593	825	960	1,113
Gross Block	488	526	556	587
Acc: Depreciation	135	148	161	179
Net Block	416	408	420	423
Capital WIP	13	10	10	10
Total Fixed Assets	429	418	430	433
Non Current Assets	36	42	42	42
Inventory	266	340	403	471
Debtors	225	297	361	383
Loans and Advances	0	0	0	0
Other Current Assets	38	62	75	92
Cash & Equivalent	37	186	230	312
Investments	25	25	25	25
Total Current Assets	591	910	1094	1282
Current Liabilities	463	525	593	632
Net Current Assets	128	385	501	651
Application of Funds	593	825	960	1,113

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	FY21	FY22E	FY23E	FY24E
Per Share Data				
EPS	7.1	9.8	12.7	16.2
BV	46.1	65.2	76.9	91.8
Dividend per share	0.5	0.8	1.0	1.3
Dvidend payout ratio	7.1	8.0	8.0	8.0
Operating Ratios				
EBITDA Margin	9.7	10.8	11.4	11.9
PAT Margin	6.5	7.6	8.1	8.4
Return Ratios				
RoE	15.3	15.1	16.6	17.7
RoCE	26.9	22.5	24.4	25.9
RoIC	28.0	29.1	32.4	36.3
Valuation Ratios				
EV / EBITDA	20.9	14.7	11.2	8.4
P/E	31.3	22.4	17.3	13.6
EV / Net Sales	2.0	1.6	1.3	1.0
Market Cap / Sales	2.0	1.7	1.4	1.1
Price to Book Value	4.8	3.4	2.9	2.4
Turnover Ratios				
Asset turnover	2.4	2.0	2.0	2.1
Debtors Turnover Ratio	5.5	5.2	5.2	6.0
Creditors Turnover Ratio	3.7	4.1	4.3	4.7
Solvency Ratios				
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.1	1.3	1.4	1.5
Quick Ratio	0.6	0.7	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)	1885	2,270	Buy	264503	81.9	54.7	55.7	23.0	34.4	33.8	7.4	8.0	9.3	18.8	12.0	11.7
Siemens Ltd	2425	2,855	Buy	86359	29.5	37.8	45.6	82.2	64.2	53.1	13.9	16.1	17.5	10.1	11.9	13.0
AIA Engineering (AIAENG)	1876	1,895	Hold	17695	59.7	56.8	59.9	31.4	33.0	31.3	16.4	14.4	14.2	13.3	11.8	11.3
Thermax (THERMA)	2038	1,800	Buy	24284	17.3	26.7	40.0	117.6	76.4	51.0	9.8	11.8	16.4	7.6	9.2	12.7
Kalpataru Power(KALPOW)	410	455	Hold	6343	41.3	25.8	37.8	9.9	15.9	10.9	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	518	535	Hold	13318	21.5	17.2	25.5	24.1	30.2	20.3	19.4	15.9	18.3	16.5	13.1	15.6
Greaves Cotton (GREAVE)	209	150	Hold	4832	0.4	2.4	5.4	466.4	85.5	38.8	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	419	260	Buy	13278	3.2	3.9	6.2	129.5	107.8	68.1	11.7	12.7	18.1	11.8	13.8	18.7
Bharat Electronics (BHAELE)	201	250	Buy	48976	8.5	9.4	11.2	23.7	21.5	17.9	27.2	26.2	28.7	19.1	19.4	21.4
Cochin Shipyard (COCSHI)	339	500	Buy	4459	46.4	44.0	55.6	7.3	7.7	6.1	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3652	3,960	Buy	18055	67.6	78.1	98.9	54.0	46.8	36.9	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	1943	2,405	Buy	14615	19.0	37.8	43.3	102.0	59.5	46.2	13.7	21.1	27.1	10.7	16.4	21.1
NRB Bearing (NRBBEA)	159	220	Buy	1541	5.6	8.2	9.8	30.2	20.6	17.3	11.8	15.8	16.8	10.4	13.4	13.9
Action Construction (ACTCON)	221	290	Buy	2632	7.1	9.8	12.7	31.1	22.6	17.4	26.9	22.5	24.4	15.3	15.1	16.6

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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