

Industry	Engineering
CMP (Rs)	221
FY21E Target Price (Rs)	251
52 Week H/L (Rs)	292/140
Volumes (BSE+NSE)*	784045
Shares O/S (mn)	119.1
Market Cap (Rs mn)	26436
Free Float (%)	33.2
Bloomberg	ACCE IN
Reuters	ACEL.BO

\*Three month daily average

### Share Holding Pattern (31/12/2021)

Particulars	Shares (mn)	Holding (%)
Promoters	79.5	66.8
FIIIs	2.3	1.9
DIIIs	6.2	5.2
Others	31.1	26.1
<b>Total</b>	<b>119.1</b>	<b>100.0</b>

Source : BSE

### Financial Highlights

(Rs mn)	FY21	FY22E	FY23E
Sales	12,270	15,598	18,003
Sales Growth	6.1%	27.1%	15.4%
EBITDA	1,194	1,440	1,793
EBITDA Margin	9.7%	9.2%	10.0%
PAT	801	960	1279
EPS (Rs)	6.9	8.3	11.1
P/E (x)	31.9	26.6	20.0
EV/EBITDA (x)	18.3	16.3	12.6
ROE	16.6%	14.7%	15.2%
RoCE	13.8%	13.5%	13.8%

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 Q3FY22, 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 9.0% Y-o-Y to Rs 4,366mn, much above our estimate of Rs 4,130mn. This was mainly driven by increase in per unit price of ACE products as volumes declined by 13.7% Y-o-Y. The Material Handling division experienced significant increase and reported a growth of 9.7% Y-o-Y in the sales volume to 363 units.

### Segmental Sales Volume

Sales Volumes (Units)	Q3FY22	Q3FY21	Variance (Y-o-Y)	Q2FY22	Variance (Q-o-Q)
Cranes	1265	1595	-20.7%	1250	+1.2%
Construction Equip.	167	196	-14.8%	140	+19.3%
Materials Handling	363	331	+9.7%	379	-4.2%
Tractors	1436	1621	-11.4%	1037	+38.5%

- The Cranes segment showed healthy revenue growth and increased by 4.4% Y-o-Y to Rs 2688mn.
- The Construction Equipments segment reported 22.1% Y-o-Y growth to Rs 474mn.
- Materials Handling segment revenue increased from Rs 313mn in Q3FY21 to Rs 431mn in Q3FY22, a growth of 37.5% Y-o-Y.
- Tractor segment's revenue increased slightly from Rs 730mn in Q3FY21 to Rs 773mn in Q3FY22 due to weak demand, a growth of 5.9% Y-o-Y.
- EBITDA during the quarter declined by 12.7% Y-o-Y to Rs 394mn, compared to our estimate of Rs 478mn.
- Overall EBITDA margin during the quarter declined by 230bps Y-o-Y and 60bps Q-o-Q to 9.0% in Q3FY22. EBITDA margin was below our estimate mainly due to more than expected increase in the Raw Material and staff Costs.
- Further, net profit during the quarter declined by 11.0% Y-o-Y to Rs 275mn, compared to our estimate of Rs 320mn.

## Outlook and Valuations

Demand for ACE equipments is expected to recover in Q4FY22, as most of the Covid-19 related restrictions have been lifted after the abatement of the Omicron variant wave of Covid-19. Management expects that demand will gain momentum in H1FY23 led by strong capital expenditure by Govt. However, a sharp increase in steel prices resulted in pressure on the margins. At a current price of Rs 221, ACE trades at an EV/EBITDA of 16.3x FY22E and 12.6x FY23E earnings. On the back of sustained 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 251. We maintain our recommendation of an "Accumulate" rating on the company.

Quarterly Results

Particulars (Rs mn)	Q3FY22	Q3FY21	Variance (Y-o-Y)	Q2FY22	Variance (Q-o-Q)	9MFY22	9MFY21	Variance (Y-o-Y)
<b>Total Operating Income</b>	<b>4,366</b>	<b>4,004</b>	<b>9.0%</b>	<b>3,609</b>	<b>21.0%</b>	<b>11,189</b>	<b>7,696</b>	<b>45.4%</b>
<b>Expenditures:</b>								
Materials & Trading Expenses	3,484	3,109	12.1%	2,830	23.1%	8,878	5,997	48.1%
Staff Cost	247	203	21.4%	201	22.7%	639	531	20.3%
Other Expenses	241	241	0.1%	230	4.9%	628	475	32.2%
<b>Total Expenditure</b>	<b>3,971</b>	<b>3,553</b>	<b>11.8%</b>	<b>3,261</b>	<b>21.8%</b>	<b>10,145</b>	<b>7,002</b>	<b>44.9%</b>
<b>EBITDA</b>	<b>394</b>	<b>452</b>	<b>-12.7%</b>	<b>348</b>	<b>13.3%</b>	<b>1,045</b>	<b>694</b>	<b>50.5%</b>
<b>EBITDA Margin</b>	<b>9.0%</b>	<b>11.3%</b>	<b>-230bps</b>	<b>9.6%</b>	<b>-60bps</b>	<b>9.3%</b>	<b>9.0%</b>	<b>+30bps</b>
Depreciation	39	35	12.7%	38	4.5%	114	104	8.8%
Other Income	50	35	43.7%	22	123.2%	96	77	24.4%
Interest	34	25	38.9%	33	3.6%	95	92	2.5%
<b>PBT</b>	<b>371</b>	<b>427</b>	<b>-13.2%</b>	<b>299</b>	<b>23.8%</b>	<b>932</b>	<b>574</b>	<b>62.3%</b>
Taxes	95	117	-19.0%	69	37.8%	233	161	44.6%
<b>Net Profit</b>	<b>275</b>	<b>309</b>	<b>-11.0%</b>	<b>230</b>	<b>19.6%</b>	<b>699</b>	<b>413</b>	<b>69.3%</b>
<b>Net Profit Margin</b>	<b>6.3%</b>	<b>7.7%</b>	<b>-130bps</b>	<b>6.4%</b>	<b>-10bps</b>	<b>6.2%</b>	<b>5.4%</b>	<b>+80bps</b>
<b>EPS (Rs)</b>	<b>2.4</b>	<b>2.7</b>	<b>-11.0%</b>	<b>2.0</b>	<b>19.6%</b>	<b>6.1</b>	<b>3.6</b>	<b>69.3%</b>

Quarterly Segmental Performance

Particulars (Rs mn)	Q3FY22	Q3FY21	Variance (Y-o-Y)	Q2FY22	Variance (Q-o-Q)	9MFY22	9MFY21	Variance (Y-o-Y)
Cranes	2,688	2,573	4.4%	2,414	11.4%	7,323	4,735	54.7%
Construction Equipments	474	388	22.1%	399	18.7%	1,240	876	41.6%
Materials Handling	431	313	37.5%	375	15.1%	1,137	655	73.6%
Agricultural Equipment	773	730	5.9%	421	83.5%	1,490	1,431	4.1%
<b>Net Sales</b>	<b>4,366</b>	<b>4,004</b>	<b>9.0%</b>	<b>3,609</b>	<b>21.0%</b>	<b>11,189</b>	<b>7,696</b>	<b>45.4%</b>
<b>EBIT Margin</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>
Cranes	11.7%	12.9%	-112	11.3%	48	7.1%	2.8%	433
Construction Equipments	5.4%	7.0%	-151	5.2%	25	3.1%	1.1%	206
Materials Handling	11.8%	12.7%	-90	12.0%	-21	7.3%	5.7%	163
Tractor	8.3%	11.8%	-357	8.0%	29	3.7%	5.6%	-197

**Income Statement**

Y/E March (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Net Sales</b>	<b>10,543</b>	<b>11,561</b>	<b>12,270</b>	<b>15,598</b>	<b>18,003</b>
<i>Sales Growth</i>	-3.0%	9.7%	6.1%	27.1%	15.4%
<b>Expenditures:</b>					
Raw Materials	10,845	8,942	9,619	12,400	14,188
Employees Cost	750	856	721	903	1,043
Selling and Distribution	850	845	737	854	979
<b>Total Expenses</b>	<b>12,406</b>	<b>10,643</b>	<b>11,077</b>	<b>14,158</b>	<b>16,210</b>
<b>EBITDA</b>	<b>-1,863</b>	<b>918</b>	<b>1,194</b>	<b>1,440</b>	<b>1,793</b>
EBITDA Margin	-17.7%	7.9%	9.7%	9.2%	10.0%
Depreciation	118	130	139	153	149
<b>EBIT</b>	<b>-1,981</b>	<b>788</b>	<b>1,054</b>	<b>1,287</b>	<b>1,644</b>
Other Income	97	40	153	127	127
Interest Expenses	115	147	122	129	59
<b>PBT</b>	<b>-1,999</b>	<b>682</b>	<b>1,085</b>	<b>1,286</b>	<b>1,713</b>
Taxes	282	156	284	326	434
<b>Net Profit</b>	<b>-2281</b>	<b>526</b>	<b>801</b>	<b>960</b>	<b>1279</b>
Net Profit Margin	-21.6%	4.6%	6.5%	6.2%	7.1%
EPS (Rs)	-19.7	4.6	6.9	8.3	11.1

**Balance Sheet**

Y/E March (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	7,613	8,788
<b>Total Shareholders' Fund</b>	<b>4,372</b>	<b>4,425</b>	<b>5,235</b>	<b>7,851</b>	<b>9,026</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>8,317</b>	<b>9,496</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	1,564	1,713
<b>Net Block</b>	<b>3,213</b>	<b>3,917</b>	<b>4,077</b>	<b>4,282</b>	<b>4,334</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	3,377	3,206
Sundry Debtors	1,439	1,473	2,246	2,855	2,811
Cash and Bank	114	93	364	2,221	3,151
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>9,149</b>	<b>9,934</b>
<b>Current Liabilities &amp; Provisions</b>	<b>3,917</b>	<b>4,169</b>	<b>4,603</b>	<b>5,687</b>	<b>5,354</b>
<b>Net Current Assets</b>	<b>540</b>	<b>688</b>	<b>1,297</b>	<b>3,462</b>	<b>4,580</b>
Miscellaneous	0	-35	-18	74	72
<b>Total Assets</b>	<b>4,926</b>	<b>5,309</b>	<b>5,907</b>	<b>8,317</b>	<b>9,496</b>

**Cash Flow Statement**

Y/E March (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
<b>PBT Before Extraordinary Items</b>	<b>-2281</b>	<b>682</b>	<b>1085</b>	<b>960</b>	<b>1279</b>
Adjustments for:					
Depreciation	118	130	139	153	149
Interest Expenses	115	146	122	129	59
Other Adjustments	-97	-40	-153	-127	-127
<b>Operating Profit before WC changes</b>	<b>-2145</b>	<b>917</b>	<b>1193</b>	<b>1115</b>	<b>1359</b>
Change in Working Capital	-351	-343	-254	-273	-149
<b>Cash generated from Operations</b>	<b>-2496</b>	<b>574</b>	<b>939</b>	<b>842</b>	<b>1211</b>
Direct Taxes (Net)	-282	-164	-241	-326	-434
<b>Net Cash from Operating activities</b>	<b>-2778</b>	<b>410</b>	<b>698</b>	<b>516</b>	<b>777</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	-129	-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>1305</b>	<b>-162</b>
Net Change in Cash & Equivalents	-2900	-120	132	1619	413
Cash & Equivalents as at the beginning	108	114	93	364	2,221
<b>Cash &amp; Equivalents as at the end</b>	<b>114</b>	<b>93</b>	<b>364</b>	<b>2221</b>	<b>3151</b>

**Key Ratios**

Ratios	FY19	FY20	FY21	FY22E	FY23E
<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	10.0	28.1
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%	9.2%	10.0%
Net Profit Margin	-21.6%	4.6%	6.5%	6.2%	7.1%
Return on Capital Employed	-46.5%	11.9%	13.8%	13.5%	13.8%
Return on Equity	-54.1%	12.0%	16.6%	14.7%	15.2%
<b>Valuation Ratios</b>					
EPS (Rs)	-19.7	4.6	6.9	8.3	11.1
Dividend Yield	0.3%	0.3%	0.3%	0.3%	0.3%
P/E	-11.2	48.5	31.9	26.6	20.0
P/BV	4.7	4.6	3.9	2.6	2.3
EV/Sales	2.1	1.9	1.8	1.3	1.1
EV/EBITDA	-11.8	24.4	18.3	16.3	12.6

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