

Action Construction Equipments

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Stable margin a positive

- ACE reported sales growth of 12% yoy in Q4FY22, led by growth of 17%/13% in construction equipment (CE)/cranes segments. The company reported its highest-ever quarterly revenue in Q4. Despite a lower gross margin, EBITDAM improved to 9.4% from 9% in Q3FY22 on account of operational efficiency.
- For FY22, ACE reported 33%/28% YoY growth in sales/EBITDA, outperforming the construction equipment industry. It is evaluating backward integration or acquisition of smaller companies.
- ACE expects to grow its revenue by 15% given the present demand scenario. Lower steel prices could in the future help to improve the gross margin. We cut our FY23E/FY24E EPS by ~2.5%/5.6% and introduce FY25E EPS of Rs14.4. We build in sales/EBITDA/ PAT CAGRs of 13%/15%/17% during FY22E-FY25E. We roll forward our valuation to Jun'23 and lower the TP to Rs240 from Rs270. Maintain Buy.

Decent quarter: For Q4FY22, ACE reported sales growth of 17%/13%/3% in the Crane/CE/MH segments, leading to overall 12% growth for the firm. Agri sales declined by 14% YoY. The gross margin has been affected by higher commodity prices (mainly steel) for the last few quarters. Q4 gross margin fell to 17.8% from 20.2% QoQ. Despite this hit, EBITDAM rose to 9.4% from 9% in Q3FY22 on account of operational efficiency. For the year, sales grew by 33% YoY, with the crane segment growing by 40%.

CE industry performance: ACE's CE segment grew by 39% YoY vs. 27% growth for Escorts's CE segment. EBIT margin stood at 10.8% for ACE in FY22 (FY21:10.2%) vs. 2.4% for Escorts (FY21: 3.6%). Overall, the industry reported 2% growth in crane volume, while ACE reported 17% YoY growth. The backhoe industry posted a 28% fall in volume, while ACE's CE segment witnessed a 9% YoY drop in volume. ACE outperformed the industry in both these segments, and seems to have fared well on the margin side.

Valuation, outlook and risks: We believe that we are in the initial stage of a larger infrastructure and industrial capex cycle. Hence, the medium-term outlook remains bullish for the CE sector. We cut our FY2E/FY24E EPS by 2.5%/5.6%. With expectations of lower steel prices, the margin is likely to improve (also from better CE sales) in the second half of FY23. We build in EBITDAM of 9.3%/9.9% for FY23E/FY24E vs. 9.3% in FY22. We roll forward our valuation to Jun'23 and revise the TP to Rs240 (earlier Rs270), based on 18x one-year forward PE (from 20x to factor higher business risk and cost of equity). **Risks** include any delay/deferment of capex and higher steel prices.

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	12,270	16,303	18,097	21,014	23,243
EBITDA	1,194	1,523	1,691	2,088	2,334
EBITDA Margin (%)	9.7	9.3	9.3	9.9	10.0
APAT	802	1,059	1,212	1,517	1,710
EPS (Rs)	7.1	8.9	10.2	12.7	14.4
EPS (% chg)	52.3	25.9	14.5	25.1	12.8
ROE (%)	16.6	16.6	14.9	16.2	15.7
P/E (x)	26.4	21.0	18.3	14.7	13.0
EV/EBITDA (x)	17.7	13.8	11.9	9.3	7.9
P/BV (x)	4.0	2.9	2.6	2.2	1.9

Source: Company, Emkay Research

CMP	Target Price
Rs 187 as of (May 25, 2022)	Rs 240 (▼) 12 months
Rating	Upside
BUY (■)	28.3 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(2.5)/ (5.6)
Target Price change (%)	(11.2)
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	10.2	12.7
Consensus	11.4	14.9
Mean Consensus TP (12M)	Rs 270	

Stock Details

Bloomberg Code	ACCE IN
Face Value (Rs)	2
Shares outstanding (mn)	119
52 Week H/L	292 / 161
M Cap (Rs bn/USD bn)	22 / 0.29
Daily Avg Volume (nos.)	5,01,946
Daily Avg Turnover (US\$ mn)	1.5

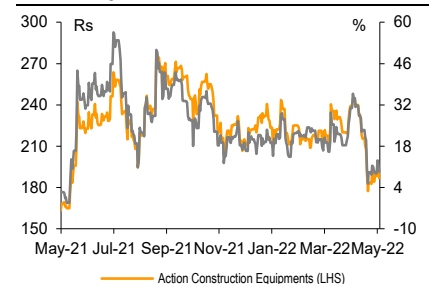
Shareholding Pattern Mar '22

Promoters	66.8%
FIIIs	4.8%
DIIIs	3.5%
Public and Others	24.9%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(24)	(13)	(18)	8
Rel. to Nifty	(19)	(10)	(10)	3

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Quarterly performance (Standalone)

Rs mn	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Revenue	4,574	3,215	3,609	4,366	5,114	12	17	16303	12270	33
Total Revenues	4,574	3,215	3,609	4,366	5,114	12	17	16303	12270	33
Expenditure	4,074	2,913	3,261	3,971	4,635	14	17	14780	11077	33
as % of sales	89	91	90	91	91			91	90	
Consumption of RM	3,622	2,564	2,830	3,484	4,201	16	21	13079	9619	36
as % of sales	79	80	78	80	82			80	78	
Employee Cost	190	191	201	247	206	8	(17)	845	721	17
as % of sales	4	6	6	6	4			5	6	
Other expenditure	262	158	230	241	228	(13)	(5)	857	737	16
as % of sales	6	5	6	6	4			5	6	
EBITDA	500	302	348	394	479	(4)	21	1523	1193	28
Depreciation	35	37	38	39	39	12	(1)	153	139	10
EBIT	465	266	310	355	440	(5)	24	1370	1054	30
Other Income	76	24	22	50	54	(29)	8	150	153	(2)
Interest	30	27	33	34	42	42	23	137	122	12
PBT	510	262	299	371	451	(12)	22	1383	1085	28
Total Tax	122	69	69	95	91	(26)	(4)	324	283	15
Adjusted PAT	388	193	230	275	360	(7)	31	1059	801	32
(Profit)/loss from JV's/Ass/MI						0	0	0	0	NA
PAT after MI	388	193	230	275	360	(7)	31	1059	801	32
Extra ordinary items	0	0	0	0	0	0	0	0	0	0
Reported PAT	388	193	230	275	360	(7)	31	1059	801	32

Margins (%)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	bps	bps	FY22	FY21	bps
Gross margins	20.8	20.2	21.6	20.2	17.8	(295)	(236)	19.8	21.6	(183)
EBIDTA	10.9	9.4	9.6	9.0	9.4	(156)	33	9.3	9.7	(38)
EBIT	10.2	8.3	8.6	8.1	8.6	(156)	47	8.4	8.6	(18)
EBT	11.2	8.2	8.3	8.5	8.8	(234)	33	8.5	8.8	(35)
PAT	8.5	6.0	6.4	6.3	7.0	(145)	74	6.5	6.5	(4)
Effective Tax rate	23.9	26.4	23.1	25.7	20.2	(379)	(552)	23.4	26.1	(266)

Source: Company, Emkay Research

Exhibit 2: Segment Performance (Standalone)

Rs mn	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Sales										
Cranes	3,167	2,221	2,414	2,688	3,717	17	38	11040	7902	40
Construction Equipment	462	366	399	474	522	13	10	1762	1337	32
Material Handling	374	331	375	431	384	3	(11)	1521	1029	48
Agri Equipment	571	296	421	773	490	(14)	(37)	1980	2002	(1)
Operating Profit										
Cranes	410	249	272	316	459	12	45	1295	872	48
Construction Equipment	32	18	21	26	29	(7)	13	94	68	38
Material Handling	50	38	45	51	48	(4)	(5)	182	127	43
Agri Equipment	74	21	34	64	7	(90)	(88)	126	241	(48)
Margin										
Cranes	12.9	11.2	11.3	11.7	12.3	(60)	60	12	11	69
Construction Equipment	6.8	4.9	5.2	5.5	5.6	(122)	15	5	5	24
Material Handling	13.4	11.6	12.0	11.8	12.5	(91)	76	12	12	(41)
Agri Equipment	12.9	7.1	8.0	8.3	1.5	(1135)	(674)	6	12	(567)

Source: Company, Emkay Research

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Exhibit 3: Change in estimates

Rs mn	New			Old			Introducing FY25
	FY23	FY23	Chg %	FY24	FY24	Chg %	
Sales	18,097	18,330	(1.3)	21,014	21,289	(1.3)	23,243
EBITDA	1,691	1,696	(0.3)	2,088	2,120	(1.5)	2,334
PAT	1,212	1,243	(2.5)	1,517	1,606	(5.6)	1,710
EPS (Rs)	10.2	10.4	(2.5)	12.7	13.5	(5.6)	14.4

Source: Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	12,270	16,303	18,097	21,014	23,243
Expenditure	11,077	14,780	16,406	18,927	20,908
EBITDA	1,194	1,523	1,691	2,088	2,334
Depreciation	139	153	156	171	184
EBIT	1,054	1,370	1,535	1,917	2,150
Other Income	153	150	108	132	157
Interest expenses	122	137	27	27	27
PBT	1,085	1,383	1,616	2,022	2,281
Tax	283	324	404	506	570
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	802	1,059	1,212	1,517	1,710
Adjusted PAT	802	1,059	1,212	1,517	1,710

Balance Sheet

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity share capital	227	238	238	238	238
Reserves & surplus	5,008	7,313	8,442	9,863	11,454
Net worth	5,235	7,551	8,680	10,101	11,693
Minority Interest	0	0	0	0	0
Loan Funds	511	76	77	77	76
Net deferred tax liability	159	137	137	137	137
Total Liabilities	5,904	7,764	8,893	10,315	11,906
Net block	4,090	4,308	4,553	5,082	5,198
Investment	499	1,979	1,979	1,979	1,979
Current Assets	5,813	6,264	7,651	9,334	10,952
Cash & bank balance	364	140	1,029	1,731	2,703
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	4,623	5,031	5,533	6,324	6,467
Net current assets	1,190	1,233	2,118	3,010	4,485
Misc. exp	0	0	0	0	0
Total Assets	5,904	7,764	8,893	10,315	11,906

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	932	1,233	1,508	1,890	2,124
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(171)	(290)	3	(190)	(503)
Operating Cashflow	861	905	1,290	1,392	1,261
Capital expenditure	(447)	(489)	(400)	(700)	(300)
Free Cash Flow	414	416	890	692	961
Investments	(33)	(1,480)	0	0	0
Other Investing Cash Flow	164	0	0	0	0
Investing Cashflow	(162)	(1,819)	(292)	(568)	(143)
Equity Capital Raised	0	1,317	0	0	0
Loans Taken / (Repaid)	(226)	(435)	1	0	0
Dividend paid (incl tax)	0	(57)	(83)	(95)	(119)
Other Financing Cash Flow	(56)	0	0	0	0
Financing Cashflow	(404)	689	(110)	(122)	(146)
Net chg in cash	294	(224)	889	702	972
Opening cash position	93	364	140	1,029	1,731
Closing cash position	364	140	1,029	1,731	2,703

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	9.7	9.3	9.3	9.9	10.0
EBIT Margin	8.6	8.4	8.5	9.1	9.3
Effective Tax Rate	26.1	23.4	25.0	25.0	25.0
Net Margin	6.5	6.5	6.7	7.2	7.4
ROCE	21.5	22.3	19.7	21.3	20.8
ROE	16.6	16.6	14.9	16.2	15.7
RoIC	16.4	20.3	20.9	24.0	24.2

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	7.1	8.9	10.2	12.7	14.4
CEPS	8.3	10.2	11.5	14.2	15.9
BVPS	46.1	63.4	72.9	84.8	98.2
DPS	0.0	0.5	0.7	0.8	1.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	26.4	21.0	18.3	14.7	13.0
P/CEPS	22.5	18.4	16.3	13.2	11.7
P/BV	4.0	2.9	2.6	2.2	1.9
EV / Sales	1.7	1.3	1.1	0.9	0.8
EV / EBITDA	17.7	13.8	11.9	9.3	7.9
Dividend Yield (%)	0.0	0.3	0.4	0.4	0.5

Gearing Ratio (x)	FY21	FY22	FY23E	FY24E	FY25E
Net Debt/ Equity	0.0	(0.2)	(0.2)	(0.3)	(0.3)
Net Debt/EBIDTA	(0.1)	(0.8)	(1.2)	(1.3)	(1.6)
Working Cap Cycle (days)	24.6	24.5	22.0	22.2	28.0

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	6.1	32.9	11.0	16.1	10.6
EBITDA	30.0	27.6	11.0	23.5	11.8
EBIT	33.7	30.0	12.0	24.9	12.2
PAT	52.3	32.1	14.5	25.1	12.8

Quarterly (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Revenue	4,574	3,215	3,609	4,366	5,114
EBITDA	500	302	348	394	479
EBITDA Margin (%)	10.9	9.4	9.6	9.0	9.4
PAT	388	193	230	275	360
EPS (Rs)	3.4	1.7	1.9	2.3	3.0

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	70.1	70.1	66.8	66.8	66.8
FIs	3.2	4.2	5.3	3.3	4.8
DIs	1.4	2.6	4.0	3.9	3.5
Public and Others	25.4	23.1	24.0	26.1	24.9

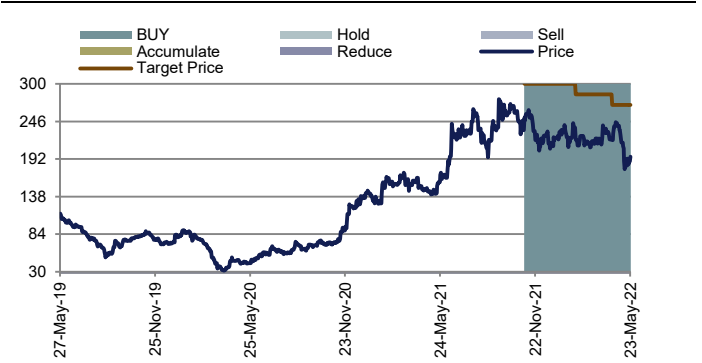
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
18-Apr-22	219	270	12m	Buy	Abhineet Anand
07-Feb-22	221	285	12m	Buy	Abhineet Anand
09-Nov-21	262	300	12m	Buy	Abhineet Anand
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: 25 May 2022 21:47:19 (SGT)

Dissemination Date: 25 May 2022 21:48:19 (SGT)

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