

Action Construction Equipment (ACTCON)

CMP: ₹ 185

Target: ₹ 230 (25%)

Target Period: 12 months

BUY

May 25, 2022

Strong performance in cranes; rest disappoint...

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

Q4FY22 Results: ACE reported decent Q4FY22 results.

- Revenue for the quarter came in at ₹ 510.6 crore, up 12.2% YoY & 17.3% QoQ
- Absolute EBIDTA was at ₹ 47.2 crore, up 20% QoQ, down 12.3% YoY
- PAT was at ₹ 35.4 crore vs. ₹ 38.8 crore in Q4FY21 & ₹ 27.5 crore in Q3FY22

What should investors do? ACE continues to tread on its growth path. The management has guided for 15-20% growth across segment

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

Target Price and Valuation: We value ACE at ₹ 230 i.e. 17x PE (FY24E).

Key triggers for future price performance:

- Construction equipment segment growing and occupying a larger pie in overall revenue contribution & cranes segment doing well
- 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



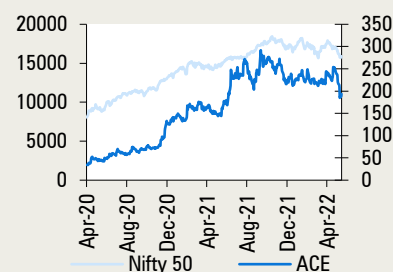
Particulars

Particular	Amount
Market Capitalization	2,633
Total Debt (FY21) (₹ crore)	8
Cash and Inv (FY21) (₹ crore)	185
EV (FY21) (₹ crore)	2,516
52 week H/L (₹) (BSE)	292 /139
Equity capital (₹ crore)	11.9
Face value (₹)	2

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	70.1%	66.8%	66.8%	66.8%
FII	4.2%	5.3%	3.3%	4.8%
DII	2.0%	4.0%	3.9%	3.5%
Others	23.7%	24.0%	26.1%	24.9%

Price Chart



Recent event & key risks

- Capex plans & infra activities
- **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	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Revenue	1,343.2	1,156.2	1,227.0	1,629.6	15.6	1,891.3	2,184.9	15.8
EBITDA	98.5	91.6	119.4	151.4	33.3	189.1	228.3	22.8
EBITDA margin (%)	7.3	7.9	9.7	9.3		10.0	10.5	
Net Profit	56.1	52.5	80.2	105.0	49.6	136.5	162.5	24.4
EPS (₹)	4.9	4.6	7.1	8.8		11.5	13.6	
P/E (x)	51.7	56.7	26.3	21.1		16.2	13.6	
EV/EBITDA (x)	29.7	33.1	17.6	13.9		10.8	8.7	
RoCE (%)	25.3	19.3	26.9	23.0		20.9	21.3	
RoE (%)	12.8	11.9	15.3	13.9		14.5	14.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Strong performance in cranes, rest disappoint...

- Revenue for the quarter came in at ₹ 510.6 crore, up 12.1% YoY & 17.2% QoQ. Segmental performance was as follows: Crane segment revenue came in at ₹ 370.9 crore vs. ₹ 316.7 crore in Q4FY21 & ₹ 268.8 crore in Q3FY22. EBIT margins for the quarter was at 12.1%. Construction equipment segment revenue came in at ₹ 52.2 crore vs. ₹ 46.2 crore in Q4FY21 & ₹ 47.4 crore in Q3FY22. EBIT margins for the quarter were at 5.6%. Material handling segment revenue came in at ₹ 38.4 crore vs. ₹ 37.3 crore in Q4FY21 & ₹ 43.1 in Q3FY22 with EBIT margins of 12.5%. Agri segment revenue was at ₹ 49 crore vs. ₹ 57.1 crore in Q4FY21 & ₹ 77.3 crore in Q3FY22
- Gross margins declined ~ 300 bps YoY & ~ 240 bps QoQ. EBIDTA margins came in at 9.2% vs. 9% QoQ and 10.9% YoY, Declining EBITDA margins are due to falling gross margins led by higher raw material costs. Absolute EBIDTA came in at ₹ 47.2 crore, up 20.1% QoQ and down 6.2% YoY
- Ensuing PAT came in at ₹ 35.4 crore vs ₹ 38.8 crore in Q4FY21 & ₹ 27.5 crore in Q3FY22

Q4FY22 Earnings Conference Call highlights

- Revenue guidance for FY23 cranes segment was 15% growth, material handling 20-25% growth, agri segment 15-20% growth and construction equipment 30-35% growth. Total growth is expected to be in the range of 15-20% with sustainable EBITDA margins for FY23, EBITDA margins to further improve on in FY24E on account of operating leverage and cooling of raw material prices and expected to reach 10.5-12% in FY24E
- Till now operating leverage was utilised for subsidising customers, export duty on steel would make steel prices drop 10-15% in coming quarters. This will benefit ACE on the margins front
- Manufacturing, infra & constructing activities and capex plans of government will also aid in improving revenues
- Construction equipment did not perform well in the last quarter due to BS4 norms due to which industry also de-grew. Agri segment also saw subdued numbers due to continuous price rise in the first three quarters
- The company is debt free as on March 31 and has investment to the tune of ₹ 200 crore, which will be used for acquisition. The company is planning for two small and one large acquisition in the coming quarters
- Agri segment is all poised to do better in the coming quarters, Defence order book is at ₹ 120 crore with three to four more projects also in the pipeline worth ₹ 50-100 crore and bidding for ₹ 150-200 crore has been done in recent quarters. Defence will generate revenue of ₹ 100-150 crore in FY23
- Receivables have reduced from 66 days to 42 days YoY with total ₹ 189 crore outstanding. Working capital has increased from 39 days in FY21 end to 52 days in FY22, mainly due to excessive inventory (~₹ 343 crore). It is expected to reach 45 days by end FY23
- Export is slow and not performing as expected due to rising freight charges which has grown to 3x this year but will see good traction next financial year
- Capex plans for FY23 are at ₹ 45-50 crore with ₹ 30 crore used in installing a new capacity for 100-160 tonnes crawler crane, which will have a potential of around ₹ 350-400 crore revenue. It will be operational by Q4FY23 and is expected to have a revenue of ₹ 100 crore in the first year

Exhibit 1: Variance Analysis

Year	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	510.6	457.4	12%	436.6	17%	Better performance, both in terms of value and volume due to revival in infra and construction activities
Other Income	5.4	7.6	-29%	5.0	8%	
Total Income	516.0	465.0	11%	441.6	17%	
Cost of materials consumed	429.6	381.3	13%	353.6	22%	Higer material cost primary led by increase in steel prices
Change in inventories	-10.1	-19.1	-47%	-5.2	93%	
Employee cost	20.8	19.0	9%	24.7	-16%	Employee cost decreased by 16% QoQ and increased by 9% YoY
Other expenses	23.1	26.2	-12%	24.1	-4%	
EBITDA	47.2	50.0	-6%	39.4	20%	EBITDA degrew 13% YoY led by higher raw material cost
EBITDA Margin (%)	9.2	10.9	-168 bps	9.0	21 bps	
Depreciation	4.0	3.5	15%	3.9	2%	
Interest	4.3	3.0	43%	3.4	24%	
PBT	44.3	51.1	-13%	37.1	20%	
Taxes	8.9	12.2	-27%	9.5	-6%	
PAT	35.4	38.8	-9%	27.5	29%	

Key metrics	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Cranes	370.9	316.7	17%	268.8	38%	Robust performance in crane segment led by revival in infra activities
EBIT Margin %	12.1%	12.9%		11.7%		
EBIT	45.0	41.0	10%	31.6	43%	
Construction Equipment	52.2	46.2	13%	47.4	10%	Improved performance in CE segment led by revival in infra activities
EBIT Margin %	5.6%	6.8%		5.5%		
EBIT	2.9	3.2	NA	2.6	13%	
Material Handling	38.4	37.3	3%	43.1	-11%	Material handling too remained bouyant
EBIT Margin %	12.5%	13.4%		11.8%		
EBIT	4.8	5.0	-4%	5.1	-5%	
Agri Equipment	49.0	57.1	-14%	77.3	-37%	Laggard performance in Agri segment
EBIT Margin %	1.5%	12.9%		8.3%		
EBIT	0.7	7.4	-90%	6.4	-88%	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20	FY21	FY22	FY23E			FY24E		
(₹ Crore)	Actual	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	1,156.2	1,227.0	1,629.6	1,884	1,891.3	0.4	2,292	2,184.9	-4.7
EBITDA	91.6	119.0	151.4	215	189.1	-11.9	273	228.3	-16.3
EBITDA Margin (%)	7.9	9.7	9.3	11.4	10.0	-12.3	11.90	10.5	-12.2
PAT	52.0	80.0	105.0	152	136.5	-10.0	193	162.5	-15.8
EPS (₹)	4.6	7.1	8.8	12.7	11.5	-10.0	16.2	13.6	-15.8

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-ended-March)	FY21	FY22	FY23E	FY24E
Revenue	1,227	1,629.6	1,891.3	2,184.9
Total Raw Material Costs	962	1307	1504	1726
Employee Expenses	72	85	98	115
Other expenses	74	86	100	116
Total Operating Expenditure	1,108	1,478	1,702	1,957
EBITDA	119	151	189	228
EBITDA Margins	9.7%	9.3%	10.0%	10.5%
EBITDA Growth %		26.9%	24.9%	20.7%
Other Income	15	15	12	13
Interest	12	14	1	1
PBDT	3	1	11	12
Depreciation	14	15	14	19
PBT before Excep item	108	137	186	221
Total Tax	28	32	49	59
PAT before MI	80	105	136	163
Minority Interest	0	0	0	0
PAT	80	105	136	163
% Growth	52.8	31.0	30.0	19.1
EPS	7.1	8.8	11.5	13.6

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-ended-March)	FY21	FY22	FY23E	FY24E
Profit after Tax	80	105	136	163
Add: Depreciation	14	15	14	19
Interest	12	14	1	1
(Inc)/decrease in CA	(59)	(71)	(201)	(65)
(Inc)/decrease in CL and prov	42	42	93	7
CF from Operations	106	104	53	135
(Inc)/decrease in Fixed Assets	(18)	(69)	(73)	(43)
Others	5	(83)	18	19
CF from Investing	(12)	(153)	(54)	(24)
Issue/(Buy back) of Equity	-	136	-	-
Inc/(dec) in loan funds	(23)	(43)	-	-
Dividend paid & dividend tax	(6)	(7)	(11)	(13)
Others	(25)	12	(30)	(30)
CF from Financing	(54)	98	(41)	(43)
Net Cash flow	40	49	(42)	69
Opening Cash/Cash Equivalent	10	50	99	56
Closing Cash/ Cash Equivalent	50	99	56	126

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-ended-March)	FY21	FY22	FY23E	FY24E
Equity Capital	23	24	24	24
Reserve and Surplus	501	730	919	1083
Total Shareholders funds	523	754	943	1106
Minority Interest	0	0	0	0
Other Non Current Liabilities	18	17	12	12
Total Debt	51	8	8	8
Sources of Funds	593	779	963	1,127
Gross Block	488	536	620	663
Acc: Depreciation	135	151	165	184
Net Block	416	437	458	489
Capital WIP	13	34	23	23
Total Fixed Assets	429	472	481	511
Non Current Assets	36	106	113	119
Inventory	266	343	389	449
Debtors	225	189	337	329
Loans and Advances	0	0	0	0
Other Current Assets	38	68	76	87
Cash & Equivalent	37	14	56	126
Investments	25	110	120	120
Total Current Assets	591	725	978	1112
Current Liabilities	463	503	596	602
Net Current Assets	128	222	382	509
Application of Funds	593	779	963	1,127

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	7.1	8.8	11.5	13.6
BV	46.1	63.3	79.1	92.9
Dividend per share	0.5	0.6	0.9	1.1
Dividend payout ratio	7.1	6.8	8.0	8.0
Operating Ratios				
EBITDA Margin	9.7	9.3	10.0	10.5
PAT Margin	6.5	6.4	7.2	7.4
Return Ratios				
RoE	15.3	13.9	14.5	14.7
RoCE	26.9	23.0	20.9	21.3
RoIC	28.0	26.8	24.9	26.6
Valuation Ratios				
EV / EBITDA	17.6	13.9	10.8	8.7
P/E	26.3	21.1	16.2	13.6
EV / Net Sales	1.7	1.3	1.1	0.9
Market Cap / Sales	1.7	1.4	1.2	1.0
Price to Book Value	4.0	2.9	2.3	2.0
Turnover Ratios				
Asset turnover	2.4	2.3	2.0	2.0
Debtors Turnover Ratio	5.5	8.6	5.6	6.6
Creditors Turnover Ratio	3.7	4.5	4.3	4.7
Solvency Ratios				
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.1	1.2	1.3	1.4
Quick Ratio	0.6	0.5	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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1611	1,930	Buy	226056	50.2	65.5	72.9	32.1	24.6	22.1	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2370	2,900	Buy	84401	29.5	36.6	48.2	80.4	64.7	49.2	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	1815	1,895	Hold	17119	56.8	59.9	67.8	32.0	30.3	26.8	14.4	14.2	14.5	11.8	11.3	11.6
Thermax (THERMA)	1988	2,449	Buy	23688	26.2	39.3	54.4	75.8	50.6	36.5	11.3	15.6	19.2	9.0	12.2	14.9
KEC International (KECIN)	371	379	Hold	9538	12.7	15.8	25.3	29.2	23.5	14.7	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	149	179	Buy	3445	0.7	2.8	3.3	210.5	54.1	45.2	2.7	10.6	12.5	1.4	7.5	8.9
Elgi Equipment (ELGEQU)	329	390	Buy	10426	5.7	6.6	8.7	57.6	49.9	37.8	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	229	250	Buy	55798	9.4	11.2	12.5	24.5	20.4	18.4	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	327	500	Buy	4301	44.0	55.6	-	7.4	5.9	-	15.2	16.0	-	13.0	14.7	-
SKF (SKFIND)	3245	3,720	Buy	16043	77.0	89.6	103.5	42.1	36.2	31.4	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	2001	2,405	Buy	15051	37.8	43.3	50.1	59.5	46.2	46.2	21.1	27.1	31.3	16.4	21.1	24.4
NRB Bearing (NRBBEA)	112	220	Buy	1086	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	186	230	Buy	2215	9.8	11.5	13.6	19.0	16.2	13.7	22.5	20.9	21.3	15.1	14.5	14.7

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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