

Q1FY23 Result Update

Hold

Industry	Engineering
CMP (Rs)	246
FY24E Target Price (Rs)	269
52 Week H/L (Rs)	292/175
Volumes (BSE+NSE)*	343240
Shares O/S (mn)	119.1
Market Cap (Rs mn)	29663
Free Float (%)	33.2
Bloomberg	ACCE IN
Reuters	ACEL.BO

*Three month daily average

Share Holding Pattern (30/06/2022)

Particulars	Shares (mn)	Holding (%)
Promoters	79.5	66.8
FIIIs	5.5	4.7
DIIIs	5.0	4.1
Others	29.1	24.4
Total	119.1	100.0

Source : BSE

Financial Highlights

(Rs mn)	FY22	FY23E	FY24E
Sales	16,303	19,257	22,080
Sales Growth	32.9%	18.1%	14.7%
EBITDA	1,523	1,829	2,148
EBITDA Margin	9.3%	9.5%	9.7%
PAT	1059	1299	1628
EPS (Rs)	9.2	11.2	14.1
P/E (x)	26.8	21.9	17.5
EV/EBITDA (x)	18.5	15.4	13.3
ROE	16.6%	15.9%	17.1%
RoCE	15.4%	15.0%	15.6%

Source : Company Data, QS Research

Price Chart


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Quarterly Result Review

Action Construction Equipment Ltd (ACE) reported higher than expected growth in its topline in Q1FY23. The EBITDA margin was below our estimates, as higher raw material and other expenses continued to impact the profitability.

Key Highlights:

- ACE's revenues increased by 55.1% Y-o-Y to Rs 4,986mn, much above our estimate of Rs 3,641mn. This was mainly driven by Y-o-Y increase in volume growth of 39.3% as well as per unit price increase. The Cranes and Tractors divisions experienced significant increase and reported a Y-o-Y growth of 47.3% and 49.2% respectively in the sales volumes.

Segmental Sales Volumes

Sales Volumes (Units)	Q1FY23	Q1FY22	Variance (Y-o-Y)	Q4FY22	Variance (Q-o-Q)
Cranes	1591	1080	47.3%	1733	-8.2%
Construction Equip.	146	111	31.5%	115	27.0%
Materials Handling	319	332	-3.9%	344	-7.3%
Tractors	976	654	49.2%	958	1.9%

- The Cranes segment showed strong revenue growth and increased by 57.6% Y-o-Y to Rs 3501mn.
- The Construction Equipments segment reported 41.9% Y-o-Y growth to Rs 520mn.
- Materials Handling segment's revenue increased from Rs 331mn in Q1FY22 to Rs 379mn in Q1FY23, a growth of 14.3% Y-o-Y despite of decline in volumes.
- Tractor segment's revenue increased from Rs 296mn in Q1FY22 to Rs 586mn in Q1FY23 due to strong demand, an increase of 98.2% Y-o-Y.
- EBITDA during the quarter increased by 43.7% Y-o-Y to Rs 435mn, compared to our estimate of Rs 347mn.
- Overall EBITDA margin during the quarter declined by 70bps Y-o-Y to 8.7% in Q1FY23, mainly due to more than expected increase in raw material and other expenses.
- Further, net profit during the quarter increased by 49.3% Y-o-Y to Rs 289mn, compared to our estimate of Rs 230mn.

Outlook and Valuations

Management expects to generate a revenue growth of 15-20% in FY24 with 15-20% growth in the Crane and Tractor segments and 20-25% growth in the Material Handling and Construction Equipment segments. Management expects EBITDA to improve due to cooling off of commodity prices and increase in the operating leverage.

At a current price of Rs 246, ACE trades at an EV/EBITDA of 15.4x FY23E and 13.3x FY24E earnings. On the back of sustained improvement in the market share in a tough operating environment, we assign an EV/EBITDA multiple of 15x FY24E and arrive at a target price of Rs 269. The stock has given 25.9% returns in the last 3 months; hence we revise the rating of the company to "Hold" from an "Accumulate" earlier.

Quarterly Results

Particulars (Rs mn)	Q1FY23	Q1FY22	Variance (Y-o-Y)	Q4FY22	Variance (Q-o-Q)
Total Operating Income	4986	3215	55.1%	5113	-2.5%
Expenditures:					
Materials and Trading Expenses	4,075	2,564	58.9%	4,201	-3.0%
Staff Cost	223	191	16.8%	206	8.4%
Other Expenses	253	158	60.6%	228	11.1%
Total Expenditures	4,551	2,913	56.2%	4,635	-1.8%
EBITDA	435	302	43.7%	479	-9.2%
EBITDA Margin	8.7%	9.4%	-70bps	9.4%	-70bps
Depreciation	46	36	25.3%	39	16.9%
Other Income	28	24	17.4%	54	-48.5%
Interest	21	27	-21.1%	42	-49.5%
PBT	395	262	50.6%	451	-12.4%
Taxes	107	69	54.3%	91	17.4%
Net Profit	289	193	49.3%	360	-19.9%
Net Profit Margin	5.8%	6.0%	-20bps	7.0%	-120bps
EPS (Rs)	2.5	1.7	49.3%	3.1	-19.9%

Quarterly Segmental Performance

Particulars (Rs mn)	Q1FY23	Q1FY22	Variance (Y-o-Y)	Q4FY22	Variance (Q-o-Q)
Cranes	3,501	2,221	57.6%	3,717	-5.8%
Construction Equipments	520	366	41.9%	522	-0.5%
Materials Handling	379	331	14.3%	384	-1.3%
Agricultural Equipments	586	296	98.2%	490	19.6%
Net Sales	4,986	3,215	55.1%	5,113	-2.5%
EBIT Margin					
Cranes	11.1%	11.2%	-10bps	12.3%	-120bps
Construction Equipments	4.4%	4.9%	-50bps	5.6%	-120bps
Materials Handling	11.1%	11.6%	-50bps	12.5%	-140bps
Tractors	2.4%	7.1%	-470bps	1.5%	90bps

Income Statement

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	10,543	11,561	12,270	16,303	19,257	22,080
<i>Sales Growth</i>	<i>-3.0%</i>	<i>9.7%</i>	<i>6.1%</i>	<i>32.9%</i>	<i>18.1%</i>	<i>14.7%</i>
Expenditures:						
Raw Materials	10,845	8,942	9,619	13,079	15,497	17,738
Employees Cost	750	856	721	844	936	1,120
Selling and Distribution	850	845	737	856	995	1,074
Total Expenses	12,406	10,643	11,077	14,780	17,428	19,933
EBITDA	-1,863	918	1,194	1,523	1,829	2,148
EBITDA Margin	-17.7%	7.9%	9.7%	9.3%	9.5%	9.7%
Depreciation	118	130	139	153	183	152
EBIT	-1,981	788	1,054	1,370	1,646	1,995
Other Income	97	40	153	150	154	154
Interest Expenses	115	147	122	137	86	0
PBT	-1,999	682	1,085	1,383	1,714	2,149
Taxes	282	156	284	324	416	521
Net Profit	-2281	526	801	1059	1299	1628
Net Profit Margin	-21.6%	4.6%	6.5%	6.5%	6.7%	7.4%
EPS (Rs)	-19.7	4.6	6.9	9.2	11.2	14.1

Balance Sheet

Y/E March (Rs mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
Sources of Funds						
Equity Capital	235	227	227	238	238	238
Reserves & Surplus	4,137	4,199	5,008	7,313	8,507	10,030
Total Shareholders' Fund	4,372	4,425	5,235	7,551	8,745	10,268
Total Loans	373	741	512	8	8	8
Deferred Tax Liabilities	156	142	161	137	141	145
Total Equity & Liabilities	4,926	5,309	5,907	7,695	8,893	10,421
Application of Funds						
Gross Block	4,355	5,260	5,582	5,846	6,439	7,105
Accumulated Depreciation	1,141	1,271	1,411	1,563	1,746	1,899
Net Block	3,213	3,917	4,077	4,281	4,693	5,206
Capital Work-in-Progress	71	182	124	243	316	411
Investments	125	122	120	120	123	127
Others	976	434	306	1,012	1,042	1,072
Current Assets:						
Inventories	2,125	2,703	2,657	3,325	3,429	3,932
Sundry Debtors	1,439	1,473	2,246	1,897	3,007	3,448
Cash and Bank	114	93	364	140	64	577
Loans and Advances	474	109	276	30	33	36
Total Current Assets	4,457	4,856	5,900	7,138	8,332	9,845
Current Liabilities & Provisions	3,917	4,169	4,603	5,076	5,589	6,216
Net Current Assets	540	688	1,297	2,062	2,743	3,629
Miscellaneous	0	-35	-18	-23	-23	-24
Total Assets	4,926	5,309	5,907	7,695	8,893	10,421

Cash Flow Statement

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22	FY23E	FY24E
CASH FLOW FROM OPERATING ACTIVITIES						
PBT Before Extraordinary Items	-2281	682	1085	1383	1714	2149
Adjustments for:						
Depreciation	118	130	139	153	183	152
Interest Expenses	115	146	122	137	86	0
Other Adjustments	-97	-40	-153	-150	-154	-154
Operating Profit before WC changes	-2145	917	1193	1523	1829	2148
Change in Working Capital	-351	-343	-254	-277	-705	-320
Cash generated from Operations	-2496	574	939	1246	1124	1828
Direct Taxes (Net)	-282	-164	-241	-328	-416	-521
Net Cash from Operating Activities	-2778	410	698	918	708	1307
CASH FLOW FROM INVESTING ACTIVITIES						
Net Purchase of Fixed Assets	-65	-417	-338	-377	-666	-761
Net Purchase of Investments	370	214	169	-1653	-4	-4
Interest Received	58	7	6	11	70	74
Net Cash used in Investing Activities	363	-196	-162	-2018	-599	-690
CASH FLOW FROM FINANCING ACTIVITIES						
Change in Equity Share Capital	0	0	0	0	0	0
Net Borrowings	-270	348	-277	-466	0	0
Buy-back of Equity Shares	0	-333	0	1306	0	0
Interest Paid	-115	-146	-122	-137	-86	0
Dividend and Dividend Tax Paid	-100	-203	-4	-48	-104	-104
Net Cash from Financing Activities	-486	-334	-404	655	-189	-104
Net Change in Cash & Equivalents	-2900	-120	132	-446	-80	513
Cash & Equivalents as at the beginning	108	114	93	364	140	64
Cash & Equivalents as at the end	114	93	364	140	64	577

Key Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E
Liquidity Ratios						
Current Ratio	1.1	1.2	1.3	1.4	1.5	1.6
Quick Ratio	0.6	0.5	0.7	0.8	0.9	1.0
Leverage Ratios						
Total Debt/Networth	0.1	0.2	0.1	0.0	0.0	0.0
Interest Coverage Ratio	-17.2	5.4	8.6	10.0	19.2	NA
Working Capital/Sales	0.1	0.1	0.1	0.1	0.1	0.2
Activity Ratios						
Inventory Days	74	85	79	74	65	65
Debtors Days	50	46	67	42	57	57
Creditors Days	87	88	89	90	87	87
Profitability Ratios						
Operating Profit Margin	-17.7%	7.9%	9.7%	9.3%	9.5%	9.7%
Net Profit Margin	-21.6%	4.6%	6.5%	6.5%	6.7%	7.4%
Return on Capital Employed	-46.5%	11.9%	13.8%	15.4%	15.0%	15.6%
Return on Equity	-54.1%	12.0%	16.6%	16.6%	15.9%	17.1%
Valuation Ratios						
EPS (Rs)	-19.7	4.6	6.9	9.2	11.2	14.1
Dividend Yield	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
P/E	-12.5	54.0	35.5	26.8	21.9	17.5
P/BV	5.2	5.2	4.4	3.0	2.6	2.2
EV/Sales	2.3	2.2	2.0	1.5	1.3	1.1
EV/EBITDA	-13.1	27.1	20.4	18.5	15.4	13.3

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