

Action Construction Equipment

Refer to important disclosures at the end of this report

Strong earnings trajectory

- ACE reported 36%/30%/55% YoY growth in Sales/EBITDA/PAT for the quarter, on the back of strong growth in the Cranes and Construction-Equipment (CE) segments. Sales growth in the Cranes/CE segments stood at 48%/36%, respectively. Cranes saw 28% volume growth.
- Management has revised its revenue guidance to >25% for the year which requires a growth of ~5% for H2. ACE saw ~10% YoY growth in H2FY22; hence, the base is not low. We assume 28% YoY revenue growth for FY23. ACE expects gross-margin expansion in coming quarters due to softening commodity prices. We estimate EBITDAM at 9.7-10.1% over the next 2 years vs 9.3% currently.
- Given the current sales run-rate, expectation of improvement in gross margin, uptick in buying activity and enquiry conversions, we revise FY23E/24E EPS by 16%/15%, respectively, on the back of similar revenue growth. We roll forward our valuation to Dec-23 and arrive at TP of Rs345/share (Rs240 earlier), based on 21x PER. Our increase in TP factors-in the EPS increase (~15%), roll over and the PER upgrade. Our PE of 21x is a 10% premium to 5-year average P/E of ~19x, owing to FY23E-25E RoE of ~16% vs ~13.5% in the past 5 years.

- Considerably strong revenue growth in the last 2 quarters; buying activity picks up:** The past 2 quarters saw ACE clock strong revenue growth across Cranes (53% YoY for 1HFY23) and CE (40%), despite heavy rains, which typically have a negative impact on purchase. Mgmt indicated uptick in buying activity and higher conversion of enquiries.
- Easing commodity prices to result in gross-margin expansion:** While EBITDAM has been flatish, Management expects improvement in margin due to easing commodity prices. Steel forms 60% of ACE's raw material. While Management believes a 100-150bps improvement is possible, we conservatively factor-in only 80bps over the next 2 years.
- Further expansion via a higher-tonnage Cranes-facility:** ACE is putting up a facility for higher-tonnage Cranes which will have revenue potential of Rs3-5bn, with capex of Rs350mn.
- Negotiations on acquisition and backward integration ongoing:** ACE had raised Rs1.35bn last year which it intends to deploy through acquisition(s); it is also exploring products that will lead to better backward integration. Negotiations are ongoing from the valuations perspective.
- Valuation, outlook and risk:** We roll forward our valuation to Dec-23 and arrive at our new TP of Rs345/share, based on 21xPER. Average P/E for the FY18-22 period stands at ~19x. Our 10% premium factors-in a higher RoE. Risks include any slowdown in infrastructure and manufacturing activity in the country.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Eng. & Cap. Goods, Infra, Power \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	12,270	16,303	20,905	24,150	26,696
EBITDA	1,194	1,523	1,953	2,352	2,709
EBITDA Margin (%)	9.7	9.3	9.3	9.7	10.1
APAT	802	1,059	1,409	1,739	2,017
EPS (Rs)	7.1	8.9	11.8	14.6	16.9
EPS (% chg)	52.3	25.9	33.0	23.5	16.0
ROE (%)	16.6	16.6	17.1	17.9	17.6
P/E (x)	44.7	35.5	26.7	21.6	18.6
EV/EBITDA (x)	29.9	23.9	18.3	14.8	12.5
P/BV (x)	6.8	5.0	4.2	3.6	3.0

Source: Company, Emkay Research

CMP	Target Price
Rs 316 as of (November 10, 2022)	Rs 345 (▲) 12 months
Rating	Upside
BUY (■)	9.4 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	16.2/14.7
Target Price change (%)	43.9
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	11.8	14.6
Consensus	12.1	15.5
Mean Consensus TP (12M)	Rs 340	

Stock Details

Bloomberg Code	ACCE IN
Face Value (Rs)	2
Shares outstanding (mn)	119
52 Week H/L	342 / 175
M Cap (Rs bn/USD bn)	38 / 0.46
Daily Avg Volume (nos.)	9,76,608
Daily Avg Turnover (US\$ mn)	3.5

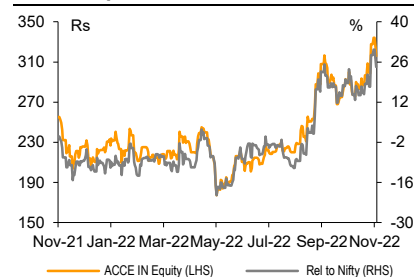
Shareholding Pattern Sep '22

Promoters	66.8%
FIIIs	4.9%
DIIIs	4.6%
Public and Others	23.8%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	39	52	23
Rel. to Nifty	1	35	37	23

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 Results - Standalone

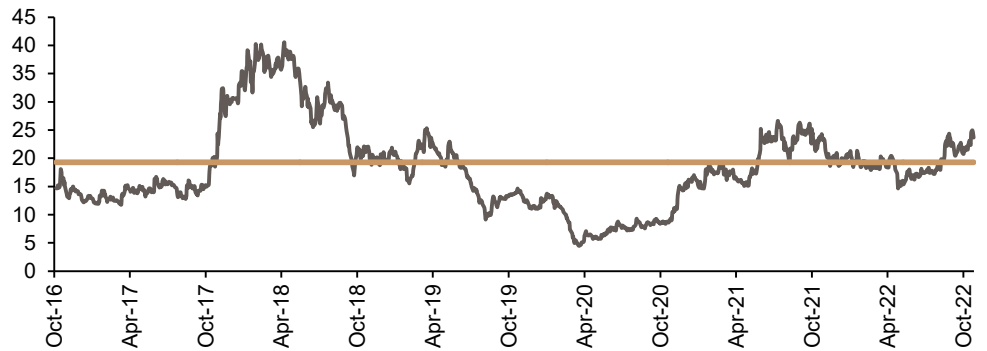
Rs mn	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)
Revenue	3,609	4,366	5,114	4,986	4,913	36	(1)
Total Revenues	3,609	4,366	5,114	4,986	4,913	36	(1)
Expenditure	3,261	3,971	4,635	4,551	4,460	37	(2)
as % of sales	90	91	91	91	91		
Consumption of RM	2,830	3,484	4,201	3,649	3,555	26	(3)
as % of sales	78	80	82	73	72		
Employee Cost	201	247	206	223	235	17	5
as % of sales	6	6	4	4	5		
Other expenditure	230	241	228	679	670	192	(1)
as % of sales	6	6	4	14	14		
EBITDA	348	394	479	435	454	30	4
Depreciation	38	39	39	46	39	3	(15)
EBIT	310	355	440	389	415	34	7
Other Income	22	50	54	23	72	220	216
Interest	33	34	42	16	21	(36)	31
PBT	299	371	451	395	466	55	18
Total Tax	69	95	91	107	109	58	2
Adjusted PAT	230	275	360	288	357	55	24
(Profit)/loss from JV's/Ass/MI						0	0
PAT after MI	230	275	360	288	357	55	24
Extra ordinary items	0	0	0	0	0	0	0
Reported PAT	230	275	360	288	357	55	24
Margins (%)	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	bps	bps
Gross margins	21.6	20.2	17.8	26.8	27.6	607	84
EBIDTA	9.6	9.0	9.4	8.7	9.2	(40)	52
EBIT	8.6	8.1	8.6	7.8	8.4	(15)	65
EBT	8.3	8.5	8.8	7.9	9.5	118	155
PAT	6.4	6.3	7.0	5.8	7.3	88	147
Effective Tax rate	23.1	25.7	20.2	27.0	23.4	34	(361)

Source: Company, Emkay Research

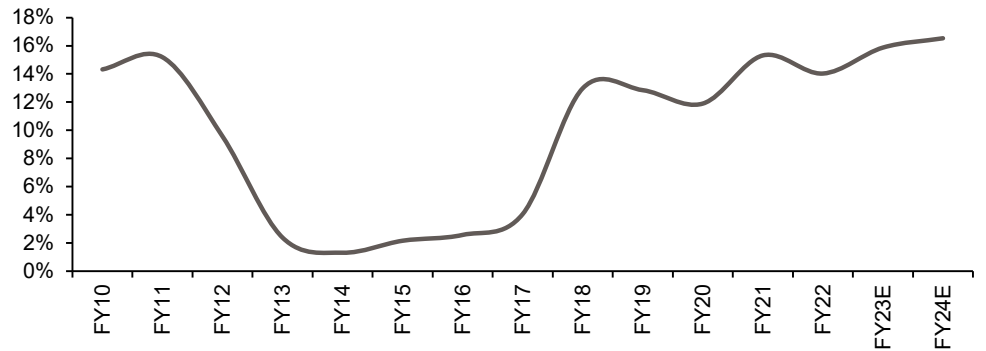
Exhibit 2: Segmental Results

Segment Performance	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	YoY (%)	QoQ (%)
Sales (Rs mn)							
Cranes	2,414	2,688	3,717	3,501	3,569	48	2
Construction Equipment	399	474	522	520	542	36	4
Material Handling	375	431	384	379	356	(5)	(6)
Agri Equipment	421	773	490	586	447	6	(24)
Operating Profit (Rs mn)							
Cranes	272	316	459	388	457	68	18
Construction Equipment	21	26	29	23	36	73	59
Material Handling	45	51	48	42	37	(18)	(12)
Agri Equipment	34	64	7	14	4	(87)	(70)
Margin (Rs mn)							
Cranes	11.3	11.7	12.3	11.1	12.8	154	173
Construction Equipment	5.2	5.5	5.6	4.3	6.6	145	230
Material Handling	12.0	11.8	12.5	11.1	10.4	(157)	(65)
Agri Equipment	8.0	8.3	1.5	2.4	1.0	(699)	(146)

Source: Company, Emkay Research

Exhibit 3: Average P/E over the last 5 years at ~19x

Source: Bloomberg, Emkay Research

Exhibit 4: FY18-22 RoE at 13.5%; we expect FY23E-25E at ~16%

Source: Company, Emkay Research

Exhibit 5: Change in Estimates

Rs mn	New FY23	Old FY23	Chg %	New FY24	Old FY24	Chg %	New FY25	Old FY25	Chg %
Sales	20,905	18,097	15.5	24,150	21,014	14.9	26,696	23,243	14.9
EBITDA	1,953	1,691	15.5	2,352	2,088	12.6	2,709	2,334	16.1
PAT	1,409	1,212	16.2	1,739	1,517	14.7	2,017	1,710	18.0
EPS (Rs)	11.8	10.2	16.2	14.6	12.7	14.7	16.9	14.4	18.0

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	12,270	16,303	20,905	24,150	26,696
Expenditure	11,077	14,780	18,952	21,798	23,986
EBITDA	1,194	1,523	1,953	2,352	2,709
Depreciation	139	153	161	176	193
EBIT	1,054	1,370	1,792	2,175	2,516
Other Income	153	150	146	170	200
Interest expenses	122	137	60	27	27
PBT	1,085	1,383	1,878	2,319	2,689
Tax	283	324	470	580	672
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	802	1,059	1,409	1,739	2,017
Adjusted PAT	802	1,059	1,409	1,739	2,017

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	8,638	10,282	12,180
Net worth	5,235	7,551	8,876	10,520	12,418
Minority Interest	0	0	0	0	0
Loan Funds	511	76	76	76	76
Net deferred tax liability	159	137	137	137	137
Total Liabilities	5,904	7,764	9,089	10,732	12,630
Net block	4,090	4,308	4,547	5,071	5,378
Investment	499	1,979	1,979	1,979	1,979
Current Assets	5,813	6,264	7,992	9,900	11,630
Cash & bank balance	364	140	873	1,755	2,844
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	4,623	5,030	5,673	6,461	6,600
Net current assets	1,190	1,233	2,319	3,439	5,031
Misc. exp	0	0	0	0	0
Total Assets	5,904	7,764	9,089	10,733	12,631

Cash Flow

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT (Ex-Other income) (NI+Dep)	932	1,233	1,732	2,149	2,490
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(171)	(290)	(353)	(238)	(502)
Operating Cashflow	861	905	1,130	1,534	1,536
Capital expenditure	(447)	(488)	(400)	(700)	(500)
Free Cash Flow	414	416	730	834	1,036
Investments	(33)	(1,480)	0	0	0
Other Investing Cash Flow	164	0	0	0	0
Investing Cashflow	(162)	(1,818)	(254)	(530)	(300)
Equity Capital Raised	0	1,317	0	0	0
Loans Taken / (Repaid)	(226)	(435)	0	0	0
Dividend paid (incl tax)	0	(57)	(83)	(95)	(119)
Other Financing Cash Flow	(56)	0	0	0	0
Financing Cashflow	(404)	689	(143)	(122)	(146)
Net chg in cash	294	(224)	733	882	1,089
Opening cash position	93	364	140	873	1,755
Closing cash position	364	140	873	1,755	2,844

Source: Company, Emkay Research

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Key Ratios

Profitability (%)	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin	9.7	9.3	9.3	9.7	10.1
EBIT Margin	8.6	8.4	8.6	9.0	9.4
Effective Tax Rate	26.1	23.4	25.0	25.0	25.0
Net Margin	6.5	6.5	6.7	7.2	7.6
ROCE	21.5	22.3	23.0	23.7	23.3
ROE	16.6	16.6	17.1	17.9	17.6
RoIC	16.4	20.3	23.6	25.6	26.4

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	7.1	8.9	11.8	14.6	16.9
CEPS	8.3	10.2	13.2	16.1	18.6
BVPS	46.1	63.4	74.5	88.3	104.3
DPS	0.0	0.5	0.7	0.8	1.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	44.7	35.5	26.7	21.6	18.6
P/CEPS	35.3	28.8	22.2	18.2	15.8
P/BV	6.8	5.0	4.2	3.6	3.0
EV / Sales	2.9	2.2	1.7	1.4	1.3
EV / EBITDA	29.9	23.9	18.3	14.8	12.5
Dividend Yield (%)	0.0	0.2	0.2	0.3	0.3

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)	(1.0)	(1.2)	(1.4)
Working Cap Cycle (days)	24.6	24.5	25.3	25.5	29.9

Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	6.1	32.9	28.2	15.5	10.5
EBITDA	30.0	27.6	28.2	20.4	15.2
EBIT	33.7	30.0	30.8	21.4	15.7
PAT	52.3	32.1	33.0	23.5	16.0

Quarterly (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Revenue	3,609	4,366	5,114	4,986	4,913
EBITDA	348	394	479	435	454
EBITDA Margin (%)	9.6	9.0	9.4	8.7	9.2
PAT	230	275	360	288	357
EPS (Rs)	1.9	2.3	3.0	2.4	3.0

Source: Company, Emkay Research

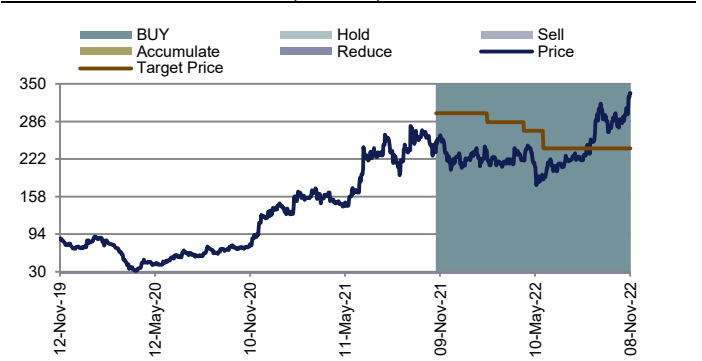
Shareholding Pattern (%)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	66.8	66.8	66.8	66.8	66.8
FIs	5.3	3.3	4.8	4.7	4.9
DIs	4.0	3.9	3.5	4.2	4.6
Public and Others	24.0	26.1	24.9	24.4	23.8

Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
18-Aug-22	246	240	12m	Buy	Abhineet Anand
25-May-22	187	240	12m	Buy	Abhineet Anand
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 (Rs/share)

Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Eng. & Capital Goods, Infra, Power



Analyst: Abhineet Anand

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Sector

Engineering, Infra and Power

Analyst bio

Abhineet has experience of over 19 years in Engineering, Infrastructure and Power sectors as Analyst, Consultant and Engineer. Abhineet has completed his B.E. in Mechanical Engineering and PGDM in Finance from IIM Kozhikode.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
Engineering & Capital Goods, Infra, Power	3.80	3.63	-5%	-18	100.00	
Action Construction Equipments	0.00	0.00	NA	0	0.00	0
HG Infra Engineering	0.00	0.10	NA	10	2.54	0
Kalpataru Power	0.00	0.24	NA	24	6.33	0
KEC International	0.00	0.18	NA	18	4.79	0
Larsen & Toubro	2.24	1.58	-30%	-66	41.44	0
CESC	0.00	0.15	NA	15	4.06	0
NHPC	0.11	0.10	-10%	-1	2.59	0
NTPC	0.76	0.76	0%	0	20.03	0
Power Grid Corporation	0.69	0.52	-25%	-18	13.57	0
Cash	0.00	0.18	NA	18	4.65	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	10-Nov-21	11-May-22	10-Aug-22	7-Oct-22	9-Nov-22
EAP - Engineering & Capital Goods, Infra, Power	100.0	144.6	117.6	115.6	115.4	124.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	139.1	117.1	114.4	117.0	122.6

*Performance measurement base date 1st April 2019

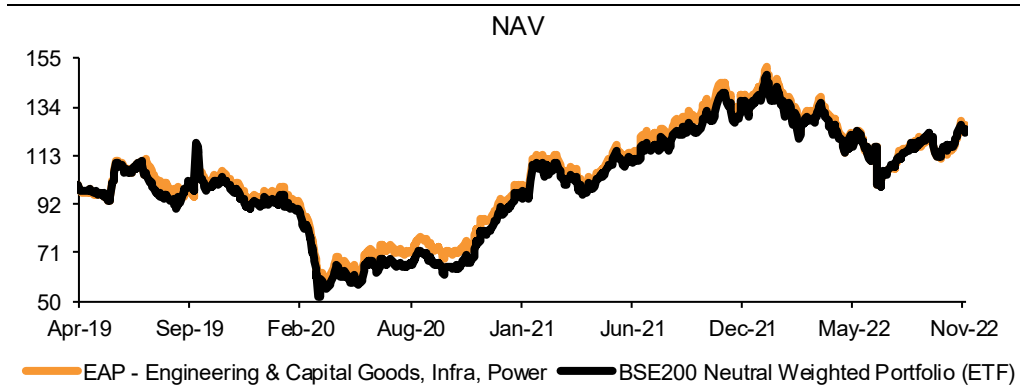
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - Engineering & Capital Goods, Infra, Power	8.2%	8.0%	6.2%	-13.6%
BSE200 Neutral Weighted Portfolio (ETF)	4.8%	7.2%	4.7%	-11.9%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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