Action Construction Equipment Ltd.

Investment Thesis:

Resilient Growth Despite Industry Headwinds

ACE delivered its best-ever Q1 performance despite a challenging operating environment marked by geopolitical tensions, commodity inflation, elevated freight costs and supply chain disruptions. Management remains confident of delivering growth in FY27, supported by recovery in Hydra cranes, defense execution and continued momentum across construction equipment, although formal guidance will only be provided after Q2 due to macro uncertainties.

JVs, Defense & Strategic Partnerships

The Kato Works JV represents a significant strategic milestone, combining ACE's domestic manufacturing leadership with Kato's global technology. The JV is expected to become operational by the end of July, with initial revenues from Q3 and meaningful contribution from FY28 onwards. Beyond domestic heavy cranes, the partnership creates export opportunities, localization of Japanese products (targeting 50-60% localization), component sourcing for Kato, and technology upgrades. Alongside this, defense manufacturing is ramping up with rough-terrain forklifts entering production and management expecting defense and exports together to contribute 10-12% of FY27 revenues, providing multiple structural growth drivers beyond the core construction equipment business.

Near-Term Outlook Remains Weak

Management acknowledged that Q2 is likely to remain challenging, with the market entering its seasonally weak monsoon period while customers absorb nearly 10% cumulative price hikes implemented over the first half of CY26. Commodity inflation of 11-12%, led by steel and other industrial inputs, continues to pressure costs, with some inflation expected to spill over into Q2.

Strong Structural Drivers Support Long-Term Growth

Management remains highly constructive on the long term outlook, driven by sustained government infrastructure spending, manufacturing expansion, and high-speed rail projects. In addition, exports, inorganic acquisitions and the Kato JV are expected to become major incremental growth drivers over the next few years. ACE has already expanded manufacturing capabilities, invested in automation and retains sufficient capacity to support future demand while maintaining disciplined capital allocation and profitability.

Outlook: We expect FY27 to remain a transitional year for ACE, with near-term performance likely to be constrained by monsoon-led demand softness, elevated commodity costs, customer resistance to successive price hikes and an uncertain geopolitical backdrop. However, the company's long-term fundamentals remain compelling. Coupled with India's structural infrastructure and manufacturing capex cycle, ACE is well positioned to deliver sustainable growth over the medium to long term, although meaningful benefits from several strategic initiatives are likely to accrue gradually rather than immediately.

We project Revenue/EBITDA/PAT CAGR growth of 20%/22%/23% over FY26-FY28E, with DCF based methodology we arrive to a TP of ₹1,232, implying an upside of 18.5%, with ACCUMULATE rating for the stock.

CMP: ₹1,040
Reco: ACCUMULATE
Target Price: ₹1,232

Stock Info	
BSE	532762
NSE	ACE
Sector	Construction Vehicles
Face Value (₹)	2
Equity Capital (₹ Cr)	23.8
Mkt Cap (₹ Cr)	12,392
Avg volume (1 year)	3,64,392
Dividend yield (%)	0.20
52w H/L (₹)	1,170/ 745

Source: Company filings, PESB research

Shareholding Pattern (March 2026)	
Promoters	65.42%
FII	7.82%
DII	2.59%
Public	24.12%

Source: Company filings, PESB research

Returns	ACE (%)	NIFTY 500 (%)
1M	-1.65	0.33
3M	10.0	2.07
1 year	-12.54	-0.17

Source: Company filings, PESB research

ACE IC link:

[Action Construction Equipment Ltd.IC report.pdf]

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Concall Highlights

Demand Environment

Management stated that demand remained stable during Q1 despite an uncertain macro environment. While monsoon season has naturally softened activity entering Q2, the company expects growth to resume in H2 as construction activity improves. Hydra crane demand has started recovering after last year's disruption caused by BS-V emission norms and price increases, while construction equipment, forklifts, road machinery and tower cranes continue to witness healthy demand. However, management will wait until September before providing full-year growth guidance due to geopolitical uncertainties and demand visibility.

Pricing & Competitive Landscape

Competitive intensity remains largely unchanged across product categories. The primary challenge is recovering higher input costs without affecting demand. Management noted that customer acceptance of multiple price hikes remains difficult in the current environment, particularly during the seasonally weak monsoon period, although ACE believes its strong market position allows it to navigate these pressures better than many peers.

Commodity Inflation & Margins and Volumes

Steel and virtually every major input material witnessed significant inflation during the quarter, with overall raw material inflation expected to reach 11-12%. ACE has already implemented nearly 10% cumulative price hikes across products and may take another small increase if commodity inflation persists. On the operating front, the Cranes, Construction Equipment & Material Handling segment reported volume growth of 17.3% YoY in Q1, while backhoe loader sales remained steady at ~150-160 units during the quarter. Management expects Q2 volumes to remain slightly weak due to monsoon seasonality and customer resistance following multiple price hikes. However, volumes are expected to strengthen in H2 FY27, supported by a recovery in Hydra crane demand, commencement of defence order execution from August, and improving construction activity.

Kato Joint Venture

The strategic JV with Kato Works, Japan, is expected to become operational by end-July. Initial revenues should begin from Q3 FY27, although meaningful financial contribution is expected only from FY28. The partnership will focus on truck cranes, crawler cranes and rough-terrain cranes, bringing Japanese technology, product upgrades, localization and export opportunities. ACE targets 50-60% localization for dedicated Kato export models while also supplying components from India to Kato's global operations.

Defense Business

Execution of the large defense order is set to begin from August, with rough-terrain forklift manufacturing already commencing during the current quarter. Defense is expected to contribute 5-6% of FY27 revenues, while exports should contribute another 6-7%, taking their combined contribution to around 10-12%. Management also expects repeat defense orders over the coming quarters as execution progresses.

Exports

Export revenues were temporarily weak during Q1 due to shipping disruptions and logistics issues, particularly affecting deliveries to Saudi Arabia. Management emphasized that these orders remain intact and expects exports to normalize over the coming quarters, targeting 6-7% revenue contribution for FY27. Over the medium term, exports remain one of ACE's biggest growth priorities, particularly with support from the Kato JV.

Capacity Expansion & Capex

ACE has already increased crane manufacturing capacity to around 1,000 cranes through optimization and leased facilities. The planned greenfield expansion remains ready for execution but management will decide in September whether to proceed immediately or defer by six months depending on market conditions. FY27 capex is expected at ₹200-250 crore, including land acquisition, automation, robotics and a new defense manufacturing facility capable of generating around ₹500 crore of annual revenue over time.

Backhoe Loaders

Management remains optimistic about the backhoe loader business despite modest current volumes of around 150-160 units per quarter. A financing-related proof of concept implemented in select markets has shown encouraging results, and management expects backhoe loaders to become one of ACE's fastest-growing product categories over the next few years, supported by both domestic demand and export opportunities.

Growth Drivers

Management identified exports and inorganic acquisitions as the largest medium-term growth drivers, alongside India's structural infrastructure expansion. The company is actively evaluating acquisition opportunities and intends to deploy its strong cash position only into businesses with sustainable competitive advantages and significant growth potential. High-speed rail, data centres, renewable energy, logistics, manufacturing and defense are expected to remain important demand drivers over the coming years.

Action Construction Equipment Ltd.

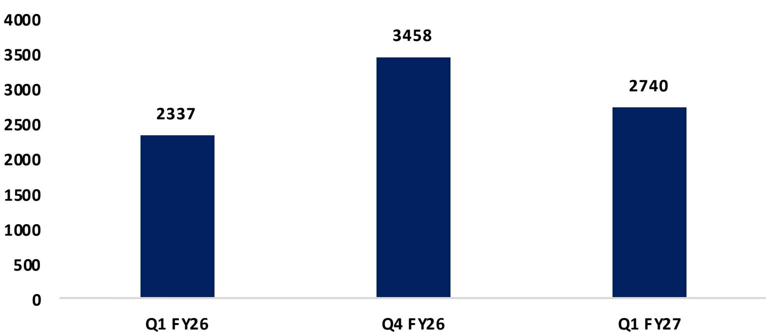
Q1 FY27 Financials

Particulars	Q1 FY27	Q4 FY26	Q1 FY26	YoY (%)	QoQ (%)
In ₹ Crore					
Operational Income	**786**	**1029**	**652**	*20%*	*-24%*
COGS	530	711	431	*23%*	*-25%*
Employee Expense	39	40	36	*8%*	*-3%*
Other Expense	99	106	92	*7%*	*-7%*
EBITDA	**118**	**172**	**93**	*27%*	*-32%*
EBITDA Margin	*15.00%*	*16.7%*	*14.2%*	*77bps*	*-174bps*
Depreciation and Amortization	9	10	8	*14%*	*-4%*
Finance Costs	5	3	8	*-40%*	*47%*
Other Income	55	-6	51	*7%*	
exceptional items	0	0	0		
EBT	**158**	**153**	**128**	*24%*	*3%*
EBT Margin	*20.16%*	*14.9%*	*19.6%*	*58bps*	*526bps*
Tax Expense	39	43	30	*30%*	*-8%*
PAT	**119**	**111**	**98**	*22%*	*8%*
PAT Margin	*15.21%*	*10.8%*	*15.0%*	*22bps*	*444bps*

Source: Company filings, PESB research

Cranes, construction equipment and material handling volumes remained strong this quarter despite weak demand due to the product quality and market leadership of ACE

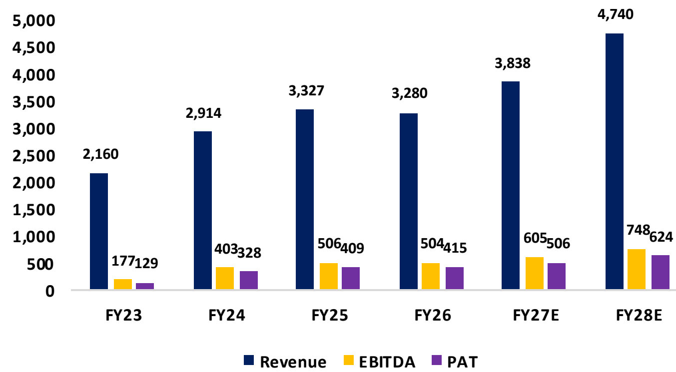
Cranes, Construction Equipment and Material Handling Sales Volumes QoQ (units)



Source: Company filings, PESB research

Operational Performance is expected to start picking up pace post FY27, with market demand normalization and operational efficiencies kicking in as capacity utilization increases.

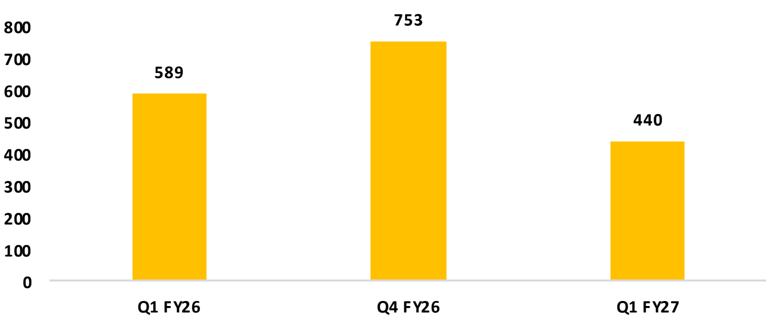
Revenue, EBITDA and PAT (₹ Cr)



Source: Company filings, PESB research

Agriculture Equipment volumes saw a drop due to weak demand in the industry, coupled with the seasonally weak quarter.

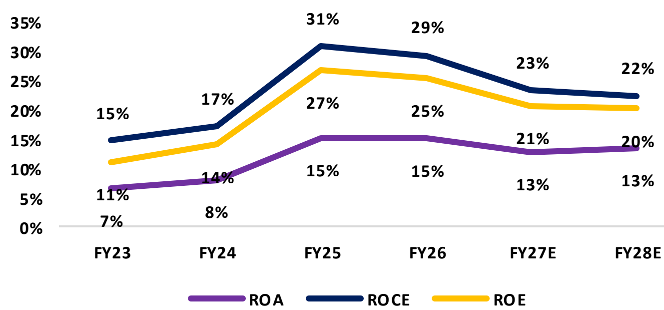
Agriculture Equipment Sales Volume QoQ (units)



Source: Company filings, PESB research

Return ratios expected to remain broadly stable as the company does not plan to raise any funds via any method nor invest heavily in capacity expansion until demand visibility is strong gain.

Return Ratios (%)



Source: Company filings, PESB research

Consolidated Financials

INCOME STATEMENT

Particulars (₹ Cr)	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Revenue from Operations	1,630	2,160	2,914	3,327	3,280	3,838	4,740
Expenses							
Cost of Materials	1192	1580	2023	2273	2214	2591	3200
Employee Expense	85	100	121	138	160	167	204
Other Expense	222	303	367	409	402	475	588
EBITDA	**130**	**177**	**403**	**506**	**504**	**605**	**748**
EBITDA Margin	***8%***	***8%***	***14%***	***15%***	***15%***	***16%***	***16%***
EBITDA Growth rate		***36%***	***128%***	***25%***	***0%***	***20%***	***24%***
Depreciation and Amortization	15	18	23	28	35	43	53
EBIT	**115**	**159**	**380**	**477**	**469**	**562**	**695**
EBIT Margin	***7%***	***7%***	***13%***	***14%***	***14%***	***15%***	***15%***
EBIT Growth rate		***38%***	***140%***	***26%***	***-2%***	***20%***	***24%***
Finance Cost	10	10	23	29	22	27	36
Other Income	11	41	77	100	110	143	177
Exceptional items	0	0	0	0	0	0	0
EBT	**116**	**189**	**434**	**549**	**557**	**679**	**836**
EBT Margin	***7%***	***9%***	***15%***	***17%***	***17%***	***18%***	***18%***
EBT Growth rate		***63%***	***129%***	***27%***	***1%***	***22%***	***23%***
Tax expense	32	61	106	140	142	173	213
PAT	**84**	**129**	**328**	**409**	**415**	**506**	**624**
PAT Margin	***5%***	***6%***	***11%***	***12%***	***13%***	***13%***	***13%***
PAT Growth rate		***54%***	***155%***	***25%***	***1%***	***22%***	***23%***
EPS	***7***	***11***	***28***	***34***	***35***	***42***	***52***

	FY23- 25	FY26-28E
Revenue CAGR	24%	20%
EBITDA CAGR	69%	22%
PAT CAGR	78%	23%

Source: Company filings, PESB research

BALANCE SHEET

Particulars (₹ Cr)	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Assets							
Net Block	440	476	563	702	767	1109	1383
Capital WIP	24	24	44	28	49	49	49
Other Non Current Assets	23	38	48	101	89	89	89
Inventories	333	419	553	515	605	668	825
Investments	92	150	242	558	723	723	723
Trade Receivables	189	169	164	265	284	274	411
Cash and Bank	14	49	110	55	77	198	417
Other Current Assets	166	275	445	487	657	657	657
Total Assets	**1,282**	**1,600**	**2,169**	**2,711**	**3,252**	**3,767**	**4,553**
Equity							
Equity Share Capital	24	24	24	24	24	24	24
Other Equity	731	896	1208	1593	1987	2493	3117
Total Equity	**754**	**920**	**1,232**	**1,616**	**2,011**	**2,517**	**3,141**
Liabilities							
Borrowings	1	1	0	1	7	7	7
Other Non Current Liabilities	16	16	13	12	16	16	16
Borrowings	30	7	4	15	1	4	1
Trade Payables	413	501	688	809	917	924	1088
Other Current Liabilities	69	155	232	258	300	300	300
Total Equity and Liabilities	**1,282**	**1,600**	**2,169**	**2,711**	**3,252**	**3,767**	**4,553**

Source: Company filings, PESB research

RATIOS

	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Margin Analysis							
Gross Margins	27%	27%	31%	32%	32%	33%	33%
EBITDA Margin	8%	8%	14%	15%	15%	16%	16%
PAT Margin	5%	6%	11%	12%	13%	13%	13%
	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Profitability							
ROA	7%	8%	15%	15%	13%	13%	14%
ROCE	15%	17%	31%	29%	23%	22%	22%
ROE	11%	14%	27%	25%	21%	20%	20%
	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Liquidity and Solvency							
Current ratio (x)	1.6	1.6	1.6	1.7	1.9	2.1	2.2
Quick ratio (x)	0.9	1.0	1.0	1.3	1.4	1.5	1.6
fixed asset turnover (x)	3.5	4.3	4.8	4.6	4.0	3.3	3.3
Total Debt/ Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Coverage Ratio (x)	12.1	15.4	16.4	16.7	21.2	20.8	19.3
	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Valuation Ratios							
EV/EBITDA (x)					24	20	17
P/E (x)					29.9	24.5	19.9
P/B (x)					6.2	4.9	3.9
EV/Sales (x)					3.7	3.1	2.6

Source: Company filings, PESB research

CASH FLOW

Particulars (₹ Cr)	FY22	FY23	FY24	FY25	FY26	FY27E	FY28E
Net cash from operations	104	274	433	412	417	533	581
Net cash from Investing	-201	-218	-368	-383	-350	-385	-326
Net cash from Financing	71	-41	-39	-29	-52	-27	-36
Closing Cash flow	6	21	48	49	64	185	404

Source: Company filings, PESB research

Disclosures and Disclaimers:

Rating Guide:

Stock Rating	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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