

# Action Construction Equipment (ACTCON)

₹ 172

## Strong growth momentum continues...

- Action Construction (ACE) reported a strong Q4FY18 wherein revenue grew ~60% YoY to ₹ 367.5 crore driven by growth across all segments. EBITDA margin rose 643 bps YoY to 10.4% largely driven by higher capacity utilisation leading to benefit of operating leverage while PAT grew ~8.9x to ₹ 21.5 crore
- FY18 revenues rose ~45% YoY to ₹ 1087 crore, EBITDA grew over 2.3x to ₹ 91.5 crore while PAT grew 3.5x to ₹ 53.4 crore. Cranes segment recorded revenue of ₹ 749 crore growing 51% YoY driven by 45% increase in volume sold i.e. 5225 units
- Buoyed by demand for forklifts (~934 units) and backhoe loaders (~230 units) in FY18, material handling, construction equipment segment grew 52.6%, 47.2% YoY, respectively. EBIT margins expanded ~150 bps YoY to 12.1% for material handling segment while construction equipment margins rose 350 bps YoY to 4.8%
- ACE recently entered into an MoU with Ursus SA, one of leaders in tractors, agricultural machinery and electric buses, for localisation of their range of tractors based on Massey Ferguson-Ursus technology. The tractors manufactured with this technology will be branded as ACE-Ursus and will also be promoted and sold by ACE in the local market along with the Indian subcontinent

### Cranes to 'pick & carry' ACE's strong performance!

ACE derives ~69% revenues from the cranes segment. It continued to witness strong demand traction with 45% growth in volume of cranes sold to 5,225 units in FY18 (pick and carry cranes – 5000 units, tower cranes - 147 units and mobile tower cranes – 78 units). Tower cranes have a better realisation profile compared to others. ACE has a market leadership position of over 60% market share across mobile cranes, crawler cranes (below 75 tonnes) and tower cranes. Even on the profitability front, cranes contributed ~82% of the company's overall EBIT margins indicating a higher profitability mix for cranes over other products sold by the company. In FY19, the company plans to enhance its capacity by 50% citing strong demand over the years.

### Incremental capacity utilisation, strong demand to drive growth!

Across all its product segments, currently, ACE is operating at ~60% capacity utilisation. Further, the company also have surplus land available for future expansion. Hence, ACE is favourably placed to benefit from the current & future demand outlook. With a fillip in sales for backhoe loaders & forklifts, the company is aiming at sustained profitability in both these segments. Overall, incremental utilisation levels are expected to result in disproportionate bottomline growth for the company driven by operating leverage benefits playing out.

### Leadership position in cranes, demand tailwind & solid fundamentals

ACE, the market leader in the cranes segment (~69% revenues) currently enjoys a demand tailwind. Material handling and construction equipment segments have seen sustained profitable growth. Going forward, improving utilisations will drive revenues while benefits of operating leverage will disproportionately boost ACE's profitability. Accordingly, we estimate 21.4% growth in topline, with 35.6% growth in EBITDA and 44% growth in PAT for ACE in FY18-20E. At an estimated EBITDA of ₹ 14.3/share, we value ACE at ~16x EV/EBITDA and maintain our target price of ₹ 240. We reiterate our **BUY** recommendation on the company.

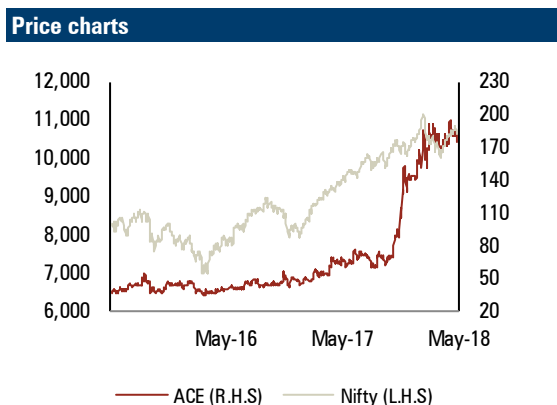
| Rating matrix    |   |              |
|------------------|---|--------------|
| Rating           | : | Buy          |
| Target           | : | ₹ 240        |
| Target Period    | : | 12-15 months |
| Potential Upside | : | 40%          |

| What's changed? |                           |           |
|-----------------|---------------------------|-----------|
| Target          |                           | Unchanged |
| EPS FY19E       | Changed from ₹5.7 to ₹7.7 |           |
| EPS FY20E       | Changed from ₹8.0 to ₹9.4 |           |
| Rating          |                           | Unchanged |

| Key financials |       |         |         |         |
|----------------|-------|---------|---------|---------|
| ₹ crore        | FY17  | FY18    | FY19E   | FY20E   |
| Net Sales      | 751.0 | 1,086.5 | 1,354.5 | 1,602.0 |
| EBITDA         | 39.4  | 91.5    | 140.9   | 168.2   |
| Net Profit     | 15.3  | 53.4    | 89.9    | 110.7   |
| EPS (₹/share)  | 1.3   | 4.6     | 7.7     | 9.4     |

| Stock data                |              |
|---------------------------|--------------|
| Particular                | Amount       |
| Market Capitalisation     | ₹ 2018 crore |
| Debt (FY18)               | ₹ 64 crore   |
| Cash & equivalents (FY18) | ₹ 42 crore   |
| EV                        | ₹ 2040 crore |
| 52 week H/L               | 204 / 57     |
| Equity capital            | ₹ 23.5 crore |
| Face value                | ₹ 2          |

| Shareholding Pattern |                |
|----------------------|----------------|
| Particular           | March 2018 (%) |
| Promoter Holding     | 68.9           |
| DII                  | 1.5            |
| FII                  | 3.6            |
| Public               | 26.0           |



| Research Analyst |                                 |
|------------------|---------------------------------|
| Chirag J Shah    | shah.chirag@icicisecurities.com |
| Rohan Pinto      | rohan.pinto@icicisecurities.com |

### Demand tailwind, unutilised capacity to drive growth!

ACE continues to benefit from increased focus of the government on developing infrastructure, railways, roads, etc. This has translated into steady and strong demand for equipment across the infrastructure and construction value chain. As per the company's estimates, the Indian construction equipment industry is estimated to grow to \$5 billion by FY20. While infrastructure spending is also expected to rise to 9% of GDP in the same period, upward of 7.2% was spent in FY17 indicating significant incremental addressable market demand for the near future. With plenty of scope for capacity utilisation to improve even further compared to the present ~60% levels, ACE is placed favourably to benefit from the growth ahead across its three segments of cranes, material handling, construction equipment and agri equipment.

**Exhibit 1: Capacity utilisation levels to improve across the board**

| Unit volume/realisation breakup                 | FY16  | FY17  | FY18  | FY19E | FY20E |
|-------------------------------------------------|-------|-------|-------|-------|-------|
| <b>Cranes</b>                                   |       |       |       |       |       |
| Volume (nos)                                    | 2,890 | 3,599 | 5,225 | 6,531 | 7,511 |
| Revenues (₹ crore)                              | 398   | 496   | 749   | 955   | 1,120 |
| Capacity Utilisation (%)                        | 39%   | 48%   | 70%   | 58%   | 67%   |
| <b>Material Handling/Construction Equipment</b> |       |       |       |       |       |
| Volume (nos)                                    | 571   | 846   | 1,164 | 1,397 | 1,746 |
| Revenues (₹ crore)                              | 63    | 102   | 153   | 192   | 243   |
| Capacity Utilisation (%)                        | 24%   | 35%   | 49%   | 58%   | 73%   |
| <b>Agri Equipments</b>                          |       |       |       |       |       |
| Volume (nos)                                    | 3,447 | 3,460 | 3,597 | 3,777 | 4,343 |
| Revenues (₹ crore)                              | 153   | 152   | 185   | 196   | 228   |
| Capacity Utilisation (%)                        | 57%   | 58%   | 60%   | 63%   | 72%   |

Source: Company, ICICI Direct Research

Due to surplus land being available for expansion, the company plans to spend ~₹ 15-20 crore and expand its crane capacity by 50% over the next six months. Thus, incremental utilisation levels are expected to result in disproportionate bottomline growth for the company driven by operating leverage benefits playing out.

### Cranes continue to drive strong performance!

The cranes segment once again witnessed strong demand traction wherein growth in volume of cranes sold rose 45% to 5,225 units in FY18. Over the years, revenue contribution from the cranes segment has increased from 61.2% to 68.9% in FY15-18. Infrastructure related demand such as direct government demand (roads, railways, etc) constitutes ~60% of overall cranes business.

**Exhibit 2: Cranes segment continues to dominate**

| Key segmental performance | FY15  | FY16  | FY17  | FY18  |
|---------------------------|-------|-------|-------|-------|
| Cranes (₹ crore)          | 360.7 | 398.2 | 496.2 | 749.0 |
| Revenue contribution (%)  | 61.2  | 64.9  | 66.1  | 68.9  |
| EBIT margins (%)          | 8.2   | 9.9   | 8.0   | 11.0  |
| EBIT contribution (%)     | 92.5  | 100.2 | 82.8  | 82.2  |

Source: Company, ICICI Direct Research

ACE primarily sells 'pick and carry' cranes & tower cranes. Tower cranes have higher realisation than others. ACE has a market leadership position of over 60% market share across mobile cranes, crawler cranes (below 75 tonnes) and tower cranes. Lifecycle for cranes are generally 10-12 years. In FY18, ACE saw 7-8% of its revenues come from this segment. This is expected to improve further. The cranes segment also contributed ~82% of the company's overall EBIT margins indicating a higher profitability mix for cranes over other products sold by the company.

**Exhibit 3: Financial Performance (Consolidated)**

| (Year-end March) P&L     | FY16  | FY17  | FY18    | FY19E   | FY20E   |
|--------------------------|-------|-------|---------|---------|---------|
| Total Revenues (₹ crore) | 646.9 | 758.8 | 1,094.5 | 1,362.6 | 1,611.6 |
| EBIDTA (₹ crore)         | 30.7  | 39.4  | 91.5    | 140.9   | 168.2   |
| Net Profit (₹ crore)     | 10.0  | 15.3  | 53.4    | 89.9    | 110.7   |
| <b>Balance Sheet</b>     |       |       |         |         |         |
| Equity (₹ crore)         | 23.5  | 23.5  | 23.5    | 23.5    | 23.5    |
| Net worth (₹ crore)      | 312.8 | 334.0 | 382.1   | 412.0   | 507.6   |
| Debt (₹ crore)           | 106.4 | 92.7  | 64.2    | 38.2    | 11.2    |
| <b>Ratios</b>            |       |       |         |         |         |
| RoNW (%)                 | 3.2   | 4.6   | 14.0    | 21.8    | 21.8    |
| RoCE (%)                 | 8.9   | 11.1  | 22.6    | 34.3    | 35.1    |
| RoIC (%)                 | 7.1   | 10.0  | 23.3    | 36.6    | 43.6    |
| Fixed Assets (₹ crore)   | 314.9 | 346.3 | 375.0   | 391.6   | 407.4   |
| Asset turnover (x)       | 1.5   | 1.9   | 2.6     | 3.2     | 3.2     |
| Earnings per share (₹)   | 0.9   | 1.3   | 4.6     | 7.7     | 9.4     |
| Dividend per share (₹)   | 0.2   | 0.3   | 0.5     | 0.8     | 1.0     |
| EV/EBIDTA (x)            | 68.4  | 52.7  | 22.3    | 14.3    | 11.4    |
| P/E (x)                  | 201.6 | 131.6 | 37.8    | 22.4    | 18.2    |

Source: Company, ICICI Direct Research

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**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**

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