Action Construction Equipment (ACTCON)

CMP: ₹ 96 Target: ₹ 100 (⬆ 4%) Target Period: 12-18 months

HOLD

May 20, 2019

Growth slowdown mars near term outlook…

Action Construction (ACE) reported a weak Q4FY19 performance wherein topline, EBITDA, PAT de-grew 18.5%, 37.8%, 43.1% respectively, YoY. The topline mainly got impacted by cranes & tractors i.e. agri-equipment segment. EBITDA margins declined ~250 bps YoY to 7.9% largely due to impact of higher steel prices (COGS, up ~260 bps YoY) while higher employee expenses were offset by lower other operational expenses. Overall, EBITDA, PAT were at ₹ 23.9 crore, ₹ 12.2 crore, respectively. Softened demand for cranes led revenue for cranes segment down 15.1% YoY to ₹ 223 crore driven by 18% decline in volume sold to ~1,485 units. Sales were sluggish for forklifts (234 units), backhoe loaders (115 units) and tractors (622 units) as well. According to the management, ACE has planned a buyback of shares worth ₹ 34.25 crore.

Subdued demand across cranes, CE clouds visibility

A sharp slowdown in macro environment has impacted the sale of cranes, backhoes loaders, forklifts (cranes contributed ~71% of ACE's topline and 82% of overall EBIT) and impacted the overall performance of the company. Volume of cranes sold grew ~26% YoY to 6,558 units in FY19, albeit at a slightly higher base. For future growth, the company launched value-added multi-activity cranes (NX360, NXT & NXP). It also plans to enter the 'high tonnage truck cranes' (> 100 tonne category, average realisation ₹ 1.2 crore/unit). Both these initiatives will help cater to future growth supporting higher blended realisation profile. However, near term headwinds with regard to the macro environment is expected to continue to impact ACE over the next three to six months.

Elevated input prices may impact profitability further

In FY19, revenues grew at a robust pace of 23.6% YoY. However, raw material costs increased ~270 bps YoY. Sustained hardened steel prices through the past year adversely impacted ACE's operational performance. It has also taken 3% additional price hikes in product prices during January 2019, in addition to 4-5% price hike carried out over FY19. We think further volatility in steel prices could put pressure on margins as the company would find it difficult to unilaterally increase prices further and risk losing its market share.

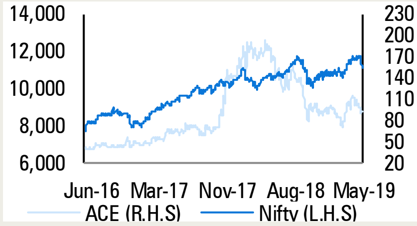
Valuation & Outlook

ACE, market leader in the 'pick & carry' cranes segment (>60% market share) is currently witnessing headwinds. **On a long term basis, the demand environment for construction equipment, cranes, etc, continues to look robust. Near term sluggishness in the infrastructure space is expected to remain an overhang for ACE.** Accordingly, we estimate 7.1% growth in topline, with 10.1% growth in EBIDTA and 16.4% growth in PAT over FY19-21E. At an estimated EPS of ₹ 6.5/share in FY21E, we value ACE at 15x P/E for a target price of ₹ 100. We change our stance on the stock to **HOLD**.

Particulars

Data	Amount
Market Capitalisation	₹ 1126 crore
Debt (FY19)	₹ 44 crore
Cash & Inv (FY19)	₹ 38 crore
EV	₹ 1132 crore
52 week H/L	181 / 71
Equity capital	₹ 23.5 crore
Face value	₹ 2

Price Chart



Key Highlights

- Total cranes volume at 6558 units, up 25.5% in FY19
- Overall, demand in near term is expected to remain sluggish
- Profitability is expected to remain under pressure.
- Factoring uncertainties, change our stance to HOLD

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Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenue	751.0	1,086.5	1,342.5	1,402.9	1,540.0	7.1
EBITDA	39.4	91.5	97.8	102.4	118.6	10.1
EBITDA margin (%)	5.3	8.4	7.3	7.3	7.7	
Net Profit	15.3	53.4	56.0	63.9	75.9	16.4
EPS (₹)	1.3	4.6	4.8	5.4	6.5	
P/E (x)	73.5	21.1	20.1	17.6	14.8	
EV/EBITDA (x)	30.1	12.6	11.6	11.0	9.2	
RoCE (%)	11.5	25.9	25.3	23.6	24.2	
RoE (%)	4.6	14.0	12.8	13.0	13.6	

Source: ICICI Direct Research, Company

Key operating metrics - ACE

Exhibit 1: Revenue break-up by segment

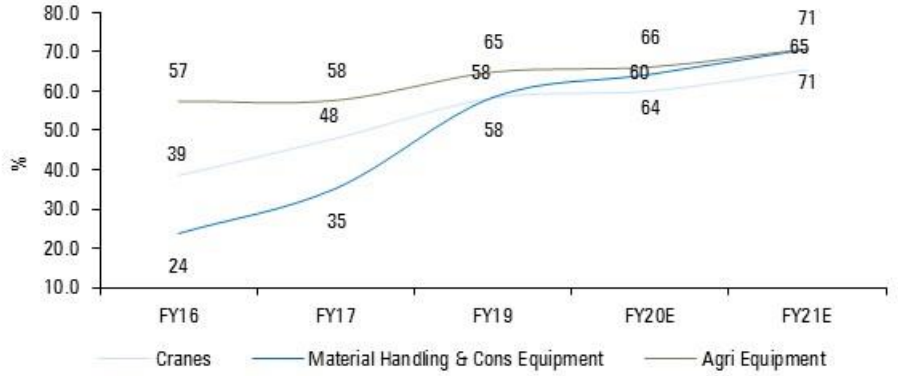
Source: Company, ICICI Direct Research

Exhibit 2: Cranes segment continues to dominate

Key segment performance	FY15	FY16	FY17	FY18	FY19
Cranes (₹ crore)	360.7	398.2	496.2	749.0	964.3
Revenue contribution (%)	61.2	64.9	66.1	68.9	71.8
EBIT margins (%)	8.2	9.9	8.0	11.0	9.3
EBIT contribution (%)	92.5	100.2	82.8	82.2	81.5

Source: Company, ICICI Direct Research

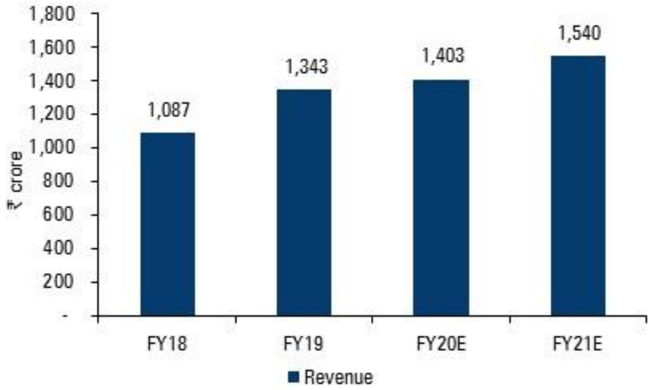
Exhibit 3: Capacity utilization trend



Source: Company, ICICI Direct Research

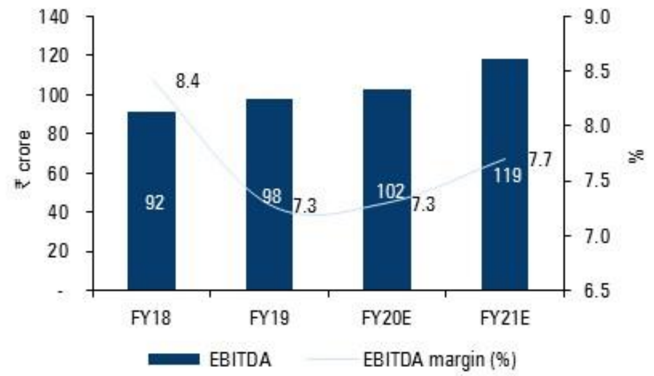
Financial Story in Charts

Exhibit 4: Net sales trend



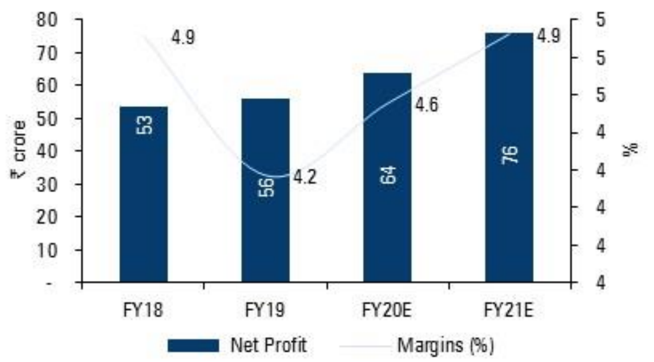
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



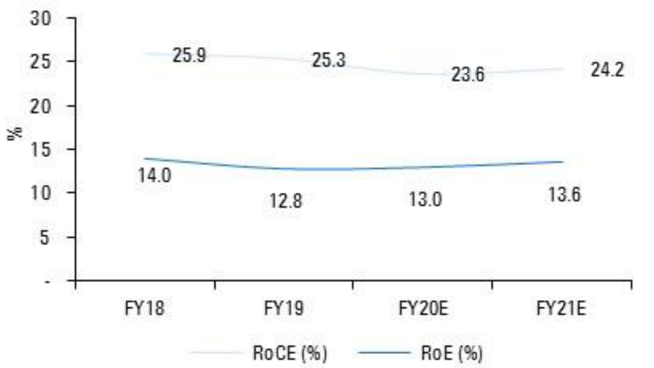
Source: Company, ICICI Direct Research

Exhibit 6: PAT and PAT margin trend



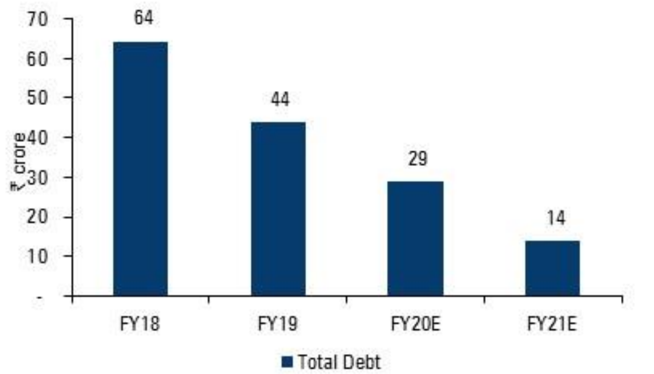
Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



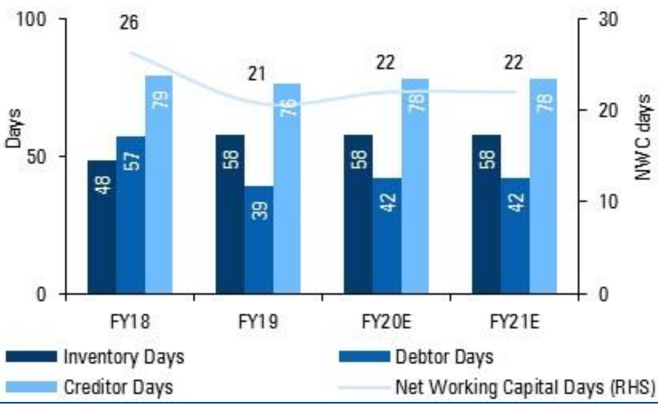
Source: Company, ICICI Direct Research

Exhibit 8: Total debt trend



Source: Company, ICICI Direct Research

Exhibit 9: Working capital trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement (₹ Crore)

(Year-ended-March)	FY18	FY19	FY20E	FY21E
Revenue	**1086.5**	**1342.5**	**1402.9**	**1540.0**
Total Raw Material Costs	848.3	1084.5	1136.3	1247.4
Employee Expenses	67.7	75.1	74.4	81.6
Other expenses	79.1	85.1	89.8	92.4
Total Operating Expenditure	995.0	1244.8	1300.4	1421.5
EBITDA	**91.4**	**97.7**	**102.4**	**118.6**
% Growth	*132.1*	*6.8*	*4.8*	*15.8*
Other Income	8.0	9.7	9.8	10.8
Interest	13.5	11.5	3.5	1.7
PBDT	85.9	95.9	108.8	127.7
Depreciation	11.9	11.8	13.6	14.8
PBT before Exceptional Items	74.0	84.2	95.1	112.9
Total Tax	22.0	28.2	31.2	37.0
PAT before MI	52.0	56.0	63.9	75.9
Minority Interest	-1.4	0.0	0.0	0.0
PAT	**53.4**	**56.0**	**63.9**	**75.9**
% Growth	*248.3*	*4.9*	*14.1*	*18.7*
EPS	4.6	4.8	5.4	6.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash Flow Statement

(Year-ended-March)	FY18	FY19	FY20E	FY21E
Profit after Tax	53.4	56.0	63.9	75.9
Add: Depreciation	11.9	11.8	13.5	14.7
Interest	13.5	11.5	3.5	1.7
(Inc)/decrease in CA	(112.0)	(55.4)	(38.6)	(51.5)
(Inc)/decrease in CL and prov	115.8	28.2	11.0	38.9
CF from Operations	**80.4**	**51.4**	**57.4**	**83.9**
(Inc)/decrease in Fixed Assets	(38.8)	(21.0)	(38.3)	(38.3)
Others	7.0	25.0	9.8	10.8
CF from Investing	**(31.8)**	**4.0**	**(28.5)**	**(27.5)**
Issue/(Buy back) of Equity	-	-	-	-
Inc/(dec) in loan funds	(28.4)	(20.3)	(15.0)	(15.0)
Dividend paid & dividend tax	(5.9)	(6.2)	(7.0)	(8.3)
Others	(13.5)	(24.2)	(15.9)	(10.5)
CF from Financing	**(47.8)**	**(50.7)**	**(37.9)**	**(33.8)**
Net Cash flow	0.8	4.7	(9.0)	22.6
Opening Cash/Cash Equivalent	5.9	6.7	11.4	2.5
Closing Cash/ Cash Equivalent	6.7	11.4	2.5	25.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet

(Year-ended-March)	FY18	FY19	FY20E	FY21E
Equity Capital	23.5	23.5	23.5	23.5
Reserve and Surplus	358.7	414.1	469.0	534.3
Total Shareholders funds	382.1	437.5	492.5	557.8
Minority Interest	0.3	0.3	0.3	0.3
Other Non Current Liabilities	20.3	18.2	18.2	18.2
Total Debt	64.2	43.9	28.9	13.9
Sources of Funds	467.0	499.9	539.9	590.2
Gross Block	417.8	435.7	474.0	512.3
Acc: Depreciation	96.5	108.3	121.9	136.7
Net Block	321.3	327.5	348.8	364.0
Capital WIP	5.2	8.3	8.3	8.3
Total Fixed Assets	326.5	335.7	357.1	372.3
Non Current Assets	94.7	104.2	104.2	104.2
Inventory	144.3	212.9	222.9	244.7
Debtors	169.9	144.1	161.4	177.2
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	39.3	51.9	63.1	77.0
Cash & Equivalent	6.7	11.4	2.5	25.0
Investments	35.3	26.7	26.7	26.7
Total Current Assets	395.6	447.0	476.6	550.6
Current Liabilities	349.8	387.0	398.0	436.9
Net Current Assets	45.7	60.0	78.6	113.7
Application of Funds	467.0	499.9	539.9	590.2

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios

	FY18	FY19	FY20E	FY21E
Per Share Data				
EPS	4.6	4.8	5.4	6.5
BV	32.6	37.3	42.0	47.5
Dividend per share	0.5	0.5	0.6	0.7
Dvidend payout ratio	11.0	11.0	11.0	11.0
Operating Ratios				
EBITDA Margin	8.4	7.3	7.3	7.7
PAT Margin	4.9	4.2	4.6	4.9
Return Ratios				
RoE	14.0	12.8	13.0	13.6
RoCE	25.9	25.3	23.6	24.2
RoIC	27.3	25.9	23.4	25.0
Valuation Ratios				
EV / EBITDA	11.8	10.9	10.3	8.6
P/E	19.8	18.9	16.5	13.9
EV / Net Sales	1.0	0.8	0.8	0.7
Market Cap / Sales	1.0	0.8	0.8	0.7
Price to Book Value	2.8	2.4	2.1	1.9
Turnover Ratios				
Asset turnover	2.9	3.2	3.1	3.0
Debtors Turnover Ratio	6.4	9.3	8.7	8.7
Creditors Turnover Ratio	4.6	4.8	4.7	4.7
Solvency Ratios				
Debt / Equity	0.2	0.1	0.1	0.0
Current Ratio	1.0	1.0	1.1	1.1
Quick Ratio	0.6	0.5	0.6	0.6

Source: Company, ICICI Direct Research

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Hold : -5% to 15%;

Reduce : -5% to -15%;

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