

Action Construction Equipment (ACTCON)

CMP: ₹ 54

Target: ₹ 65 (22%)

Target Period: 12-18 months

BUY

June 18, 2020

Sluggish demand to lead to short-term pain...

Action Construction Equipment (ACE) reported a sturdy Q4FY20 performance clocking 2% YoY revenue growth. Margins expanded YoY on account of a reduction in input costs. Revenue for the quarter was at ₹ 305.5 crore, up 2% YoY. Crane segment revenue, which contributes ~70% to topline, was at ₹ 217.4 crore, down 2.5% YoY. Total crane volumes were at ~1319 units vs. ~1464 units in Q4FY19. Gross margins expanded ~285 bps YoY due to lower input costs. Consequently, EBIDTA margins were at 9%, expanding ~100 bps YoY. ACE registered absolute EBIDTA of ₹ 27.4 crore, up 15% YoY. On the expenses side, employee expenses increased 15% YoY to ₹ 23.3 crore while other expenses increased 20% YoY to ₹ 20.2 crore. Thus, due to increased expenses, the benefit of higher gross margins to the bottomline was partially negated. PAT came in at ₹ 13.8 crore, up 12.6% YoY. Tax rate during the quarter came in at 24.6%.

Revival expected by Q4FY21E...

ACE's operations were disturbed on account of an unprecedented lockdown but partial operations started in April. During May, the company operated at 35% revenue level while June seems to be progressing better. For FY21E, the management expects the company to function at ~35%, 55%, 75% and 100% revenue levels in Q1, Q2, Q3 and Q4, respectively. ACE lost ₹ 65 crore worth of revenue. Of this 50-60% may get executed while the rest may get delayed or cancelled. Out of the current order book, 40-45% may get delayed (in abeyance) or cancelled. The demand scenario remains sluggish. In order to reduce working capital stress and improve liquidity scenario, the management is making efforts towards reducing debtors and inventory level by October. This would free up ₹ 170-180 crore cash from working capital. Further, the management has guided towards EBIDTA margin of 4-4.5% for FY21E given lower capacity utilisation levels making way for negative operating leverage. ACE has successfully brought down its breakeven levels to 55% of last year's average revenue from 60% previously. Given the current scenario, we expect a revival in infrastructure sector (contributes 60-65% to the topline) to be a key monitorable for the company, going ahead.

Valuation & Outlook

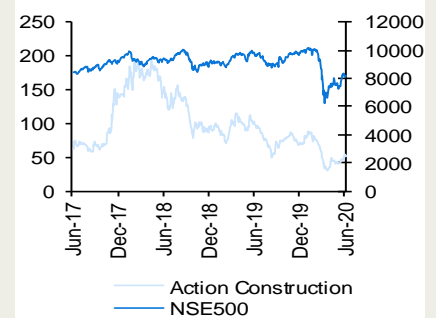
Given the recent events, ACE is likely to face headwinds in the short to medium term on account of sluggish demand and low capacity utilisation. At present, ACE is trading at 6.5x FY22E EV/EVITDA, with most of the near term uncertainty priced in the stock. Going ahead, market leadership in the 'pick & carry' cranes (>60% market share) with a healthy balance sheet, foreseeable improvement in working capital, growing agri and construction equipment segment is expected to augur well for the company in the long term. However, short & medium term pain is expected to weigh on profitability in FY21E. In light of all the above, we value the stock at 8x FY22E EV/EBIDTA to arrive at a target price of ₹ 65 per share with a **BUY** rating.



Particulars

Data	Amount
Market Capitalisation	₹613 crore
Debt (FY 20)	₹74 crore
Cash & Inv (FY 20)	₹16 crore
EV	₹671 crore
52 week H/L	100 / 31.5
Equity capital	₹22.7 crore
Face value	₹2

Price Chart



Key Highlights

- Total cranes volume at 1319 units, down ~10% YoY in Q4FY20
- Total ₹ 170-180 crore to get freed from working capital by October, providing much needed cushion
- Maintain BUY rating on stock with target price of ₹ 65 per share

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Adil Khan
adil.khan@icicisecurities.com

Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Revenue	1,086.5	1,342.5	1,156.2	810.1	1,183.0	1.1
EBITDA	91.5	97.8	91.6	38.1	95.8	2.3
EBITDA margin (%)	8.4	7.3	7.9	4.7	8.1	
Net Profit	53.4	56.0	52.5	8.9	59.6	6.6
EPS (₹)	4.7	4.9	4.6	0.8	5.3	
P/E (x)	11.5	10.9	11.7	68.7	10.3	
EV/EBITDA (x)	6.9	6.3	7.3	17.3	6.6	
RoCE (%)	25.9	25.3	19.3	7.0	19.6	
RoE (%)	14.0	12.8	11.9	1.9	11.6	

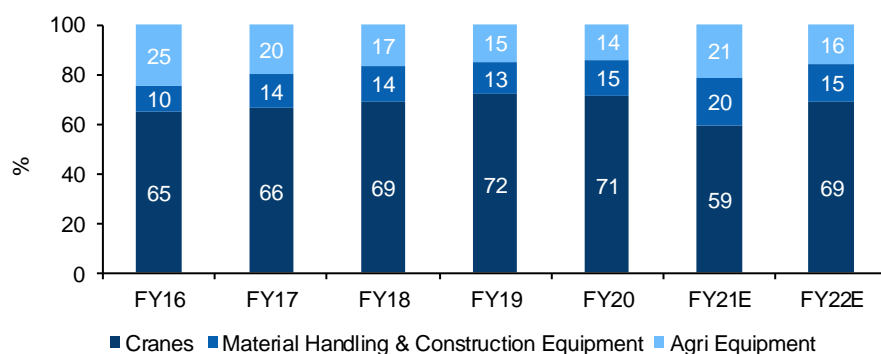
Source: ICICI Direct Research, Company

Conference call Highlights

- The business faced unprecedented disruption due to Covid-19. Q4FY20 showed some improvement in January but February and March were largely disrupted due to the pandemic
- Revenue worth ₹ 65 crore was lost in March. Out of this, 50-60% may get executed while the rest may get delayed or cancelled
- Out of the current order book, 40-45% may get delayed (in abeyance) or cancelled. The demand scenario remains sluggish
- ACE started partial operations in April. During May, the company functioned at 35% revenue levels whereas June is progressing slightly better
- ACE has undertaken various measures to improve its internal efficiency and has successfully reduced breakeven levels from 60% earlier to 55% currently
- Government order of ₹ 75 crore from a neighbouring country is currently in abeyance
- The company has no capex plans in the foreseeable future. Currently, ACE is operating at 15-20% utilisation level
- In order to improve the liquidity scenario, the management has laid down plans to bring down the inventory from ₹ 270 crore to ₹ 170 crore by October. Furthermore, debtors are expected to come down by ₹ 70 to ₹ 80 crore. Thus, ₹ 170-180 crore is expected to get freed from working capital, providing much needed liquidity cushion to the company
- Enquiry and conversion of new orders are at ~40-45% of normal levels, reflecting a weak demand scenario
- The management has guided for the following percentage revenue levels at which the company would be functioning in FY21E:
Q1FY21 - 30-35% of normal revenue levels
Q2FY21 – 50-55% of normal revenue levels
Q3FY21 – 70-80% of normal revenue levels
Q4FY21 - Normal levels
- Overall, in the worst case scenario, FY21E may see revenues falling 40%
- On the margin front, the management has guided for 4-4.5% EBIDTA margins for FY21. Further, softening of steel prices, which form 60% of raw material of the company may benefit margins by 1-2%. The effect of this can be visible in Q2FY21
- Infrastructure contributes 60-65% to ACE's revenue. The management expects the infra sector to normalise by Q2FY21
- Heavy industries contribute 20-25% in ACE's revenue. The management expects this sector to fall back in place by Q4FY21 or Q1FY22
- Agri segment is expected to do well. Growth of 15% can be seen here

Key operating metrics

Exhibit 1: Revenue break-up by segment



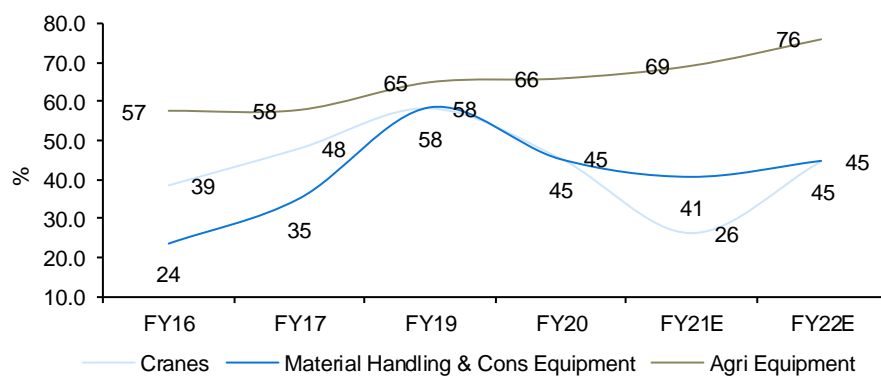
Source: Company, ICICI Direct Research

Exhibit 2: Cranes segment continues to dominate

Key segment performance	FY15	FY16	FY17	FY18	FY19	FY20
Cranes (₹crore)	360.7	398.2	496.2	749.0	964.3	828.7
Revenue contribution (%)	61.2	64.9	66.1	68.9	71.8	71.7
EBIT margins (%)	8.2	9.9	8.0	11.0	9.3	11.2
EBIT contribution (%)	92.5	100.2	82.8	82.2	81.5	95.8

Source: Company, ICICI Direct Research

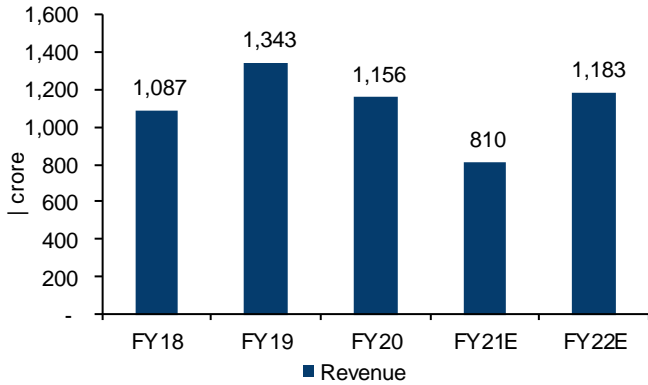
Exhibit 3: Capacity utilisation trend



Source: Company, ICICI Direct Research

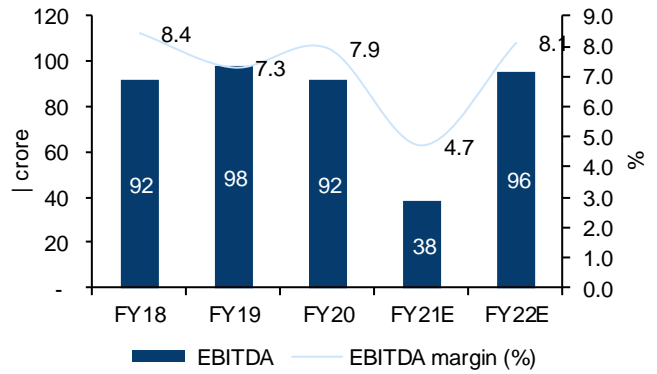
Financial Story in Charts

Exhibit 4: Net sales trend



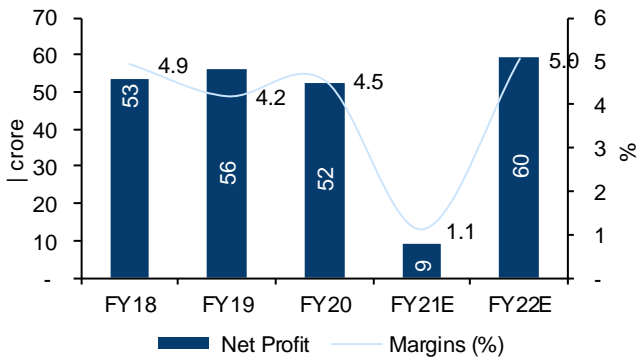
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



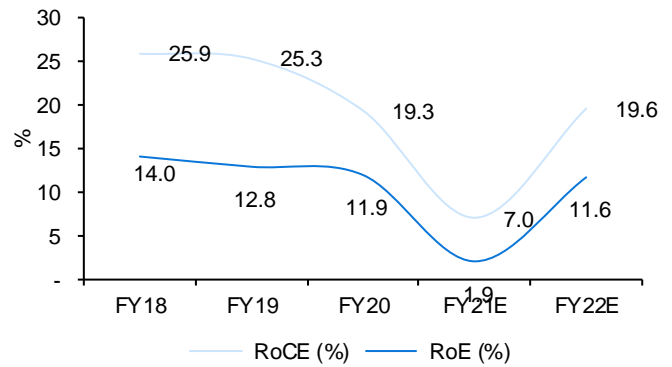
Source: Company, ICICI Direct Research

Exhibit 6: PAT and PAT margin trend



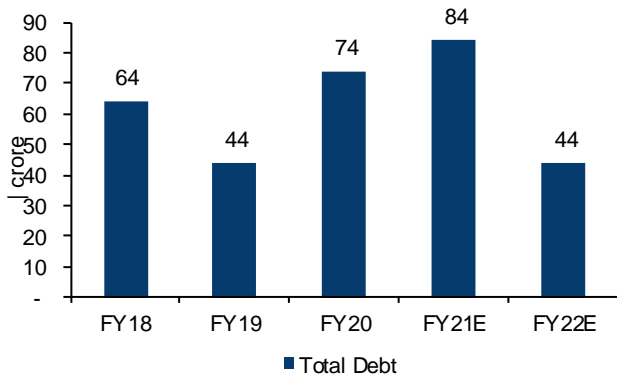
Source: Company, ICICI Direct Research

Exhibit 7: Return ratios trend



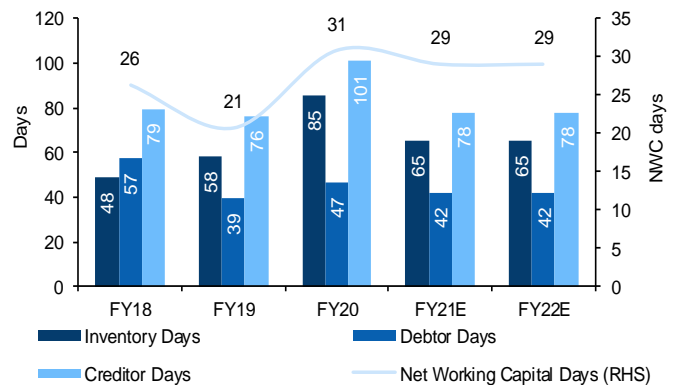
Source: Company, ICICI Direct Research

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)	FY19	FY20E	FY21E	FY22E
Revenue	1342.5	1170.3	810.1	1183.0
Total Raw Material Costs	1084.5	894.2	615.7	910.9
Employee Expenses	75.1	85.7	79.4	88.1
Other expenses	85.1	84.7	77.0	88.1
Total Operating Expenditure	1244.8	1064.7	772.0	1087.2
EBITDA	97.7	105.6	38.1	95.8
% Growth	6.8	-6.3	-58.4	151.7
Other Income	9.7	4.1	4.0	10.0
Interest	11.5	14.7	16.8	8.8
PBDT	95.9	95.1	25.2	97.0
Depreciation	11.8	13.0	12.9	14.2
PBT before Excep item	84.2	68.0	12.4	82.8
Total Tax	28.2	15.6	3.5	23.2
PAT before MI	56.0	52.5	8.9	59.6
Minority Interest	0.0	0.0	0.0	0.0
PAT	56.0	52.5	8.9	59.6
% Growth	4.9	-6.3	-83.0	567.9
EPS	4.9	4.6	0.8	5.3

Source: Company, ICICI Direct Research

Exhibit 11: Cash Flow Statement (₹ crore)				
(Year-ended-March)	FY19	FY20	FY21E	FY22E
Profit after Tax	56.0	52.5	8.9	59.6
Add: Depreciation	11.8	13.0	12.7	14.2
Interest	11.5	14.7	16.8	8.8
(Inc)/decrease in CA	(55.4)	(61.5)	200.5	(132.4)
(Inc)/decrease in CL and prov	28.2	32.8	(195.5)	102.8
CF from Operations	51.4	50.7	59.6	69.2
(Inc)/decrease in Fixed Assets	(21.0)	(39.4)	(24.4)	(39.4)
Others	25.0	9.5	4.0	10.0
CF from Investing	4.0	(29.9)	(20.4)	(29.4)
Issue/(Buy back) of Equity	-	(33.0)	-	-
Inc/(dec) in loan funds	(20.3)	30.2	10.0	(40.0)
Dividend paid & dividend tax	(6.2)	(5.8)	(1.0)	(4.8)
Others	(24.2)	(14.7)	(25.6)	(8.8)
CF from Financing	(50.7)	(23.2)	(16.6)	(53.6)
Net Cash flow	4.7	(2.4)	22.7	(13.8)
Opening Cash/Cash Equivalent	6.9	11.6	9.3	31.9
Closing Cash/ Cash Equivalent	11.6	9.3	31.9	18.1

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet (₹ crore)				
(Year-ended-March)	FY19	FY20	FY21E	FY22E
Equity Capital	23.5	22.7	22.7	22.7
Reserve and Surplus	414.1	419.9	436.7	491.5
Total Shareholders funds	437.5	442.6	459.3	514.2
Minority Interest	0.3	0.3	0.3	0.3
Other Non Current Liabilities	18.2	17.7	17.7	17.7
Total Debt	43.9	74.1	84.1	44.1
Sources of Funds	499.9	534.7	561.4	576.3
Gross Block	435.7	464.0	488.4	527.7
Acc: Depreciation	108.3	121.3	134.1	148.4
Net Block	327.5	398.1	405.3	396.0
Capital WIP	8.3	19.4	19.4	19.4
Total Fixed Assets	335.7	417.5	424.6	415.4
Non Current Assets	104.2	50.0	50.0	50.0
Inventory	212.9	270.7	144.3	210.7
Debtors	144.1	147.3	93.2	136.1
Loans and Advances	0.0	0.0	0.0	0.0
Other Current Assets	51.9	52.4	32.4	55.5
Cash & Equivalent	11.4	9.3	31.9	18.1
Investments	26.7	6.5	6.5	6.5
Total Current Assets	447.0	486.1	308.3	426.9
Current Liabilities	387.0	418.9	223.3	326.1
Net Current Assets	60.0	67.3	84.9	100.8
Application of Funds	499.9	534.7	561.4	576.3

Source: Company, ICICI Direct Research

Exhibit 13: Key Ratios				
	FY19	FY20	FY21E	FY22E
Per Share Data				
EPS	4.9	4.6	0.8	5.3
BV	38.6	39.0	40.5	45.3
Dividend per share	0.5	0.5	0.1	0.4
Dividend payout ratio	11.0	11.0	11.0	8.0
Operating Ratios				
EBITDA Margin	7.3	7.9	4.7	8.1
PAT Margin	4.2	4.5	1.1	5.0
Return Ratios				
RoE	12.8	11.9	1.9	11.6
RoCE	25.3	19.3	7.0	19.6
RoIC	25.9	20.0	7.0	19.3
Valuation Ratios				
EV / EBITDA	6.3	7.3	17.3	6.6
P/E	10.9	11.7	68.7	10.3
EV / Net Sales	0.5	0.6	0.8	0.5
Market Cap / Sales	0.5	0.5	0.8	0.5
Price to Book Value	1.4	1.4	1.3	1.2
Turnover Ratios				
Asset turnover	3.2	2.6	1.7	2.3
Debtors Turnover Ratio	9.3	7.8	8.7	8.7
Creditors Turnover Ratio	4.8	3.6	4.7	4.7
Solvency Ratios				
Debt / Equity	0.1	0.2	0.2	0.1
Current Ratio	1.0	1.1	1.2	1.2
Quick Ratio	0.5	0.5	0.6	0.6

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy : > 15%

Hold : -5% to 15%;

Reduce : -5% to -15%;

Sell : < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

ANALYST CERTIFICATION

We /I, Chirag Shah PGDBM, Adil Khan PGDM (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc. as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.