

Action Construction Equipment (ACTCON)

CMP: ₹ 128

Target: ₹ 160 (24%)

Target Period: 12-18 months

BUY

January 30, 2021

All round performance, sustenance key...

Action Construction Equipment (ACE) reported highest ever quarterly numbers led by a revival in infra & construction activities coupled with spillover from Q2. Revenue for the quarter came in at ₹ 400.4 crore, up 38.4% YoY. Segment revenue for crane, CE, material handling & agri equipment were ₹ 257.3 crore, ₹ 38.8 crore, ₹ 31.3 crore, ₹ 73 crore respectively. Gross margins contracted ~96 bps YoY on account of higher input costs. However, price hike in November is expected to have curtailed contraction. Further down the line, positive operating leverage and a decline of 8% YoY in employee cost aided operating performance. Consequently, EBIDTA increased 101.7% YoY to ₹ 45.2 crore with an expansion of ~ 354 bps in EBIDTA margins, which came in at 11.3%. Subsequently, ACE reported a net profit of ₹ 30.9 crore, up 145.3% YoY.

Aiming to achieve ₹ 2500 crore topline in next three years...

The management is quite confident about achieving a revenue target of ₹ 2500 crore within the next three years and expects to grow at about 25-30% CAGR. A larger pie of the growth is expected to come from CE & agri equipment segments where the potential is enormous. ACE aims to achieve a revenue of ~ ₹ 500 crore in agri equipment and between ~ ₹ 400 and ₹ 500 crore in the CE segment in the next two to three years. ACE has a total capacity of 12000 CE's & 9000 tractors annually with current capacity utilisation being 35-40% in CE & 55% in agri equipment.

No major capex, strong FCF generation to aid in deleveraging

Maintenance capex of ₹ 20 crore and at best another ₹ 30 crore capex in a modern paint shop coupled with FY22E CFO generation of ₹ 128 crore should aid ACE to become a debt free company by FY22. This would be another positive for the stock along with the growing topline.

Time to beat the cycle...

ACE has always been at the mercy of infrastructure & construction activity given a major portion of revenue is contributed by the crane segment. However, recent realignment in business fundamentals and more focus on agri & CE segments is expected to usher 25-30% growth in the respective segments thereby contributing a significant portion in topline making ACE a counter cyclical company in the process.

Valuation & Outlook

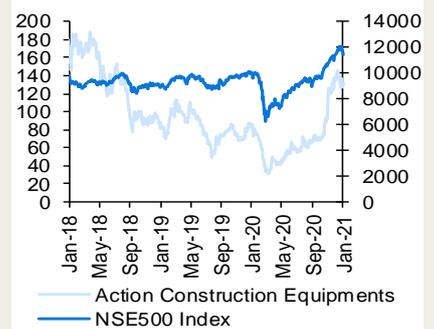
Taking cognisance of Q3FY21 numbers, the management commentary on growth, sustained margins & overall industry scenario, we expect ACE to post revenue, EBIDTA & PAT CAGR of 23%, 32.6% & 41%, respectively, as we roll over and introduce FY23E numbers. Better outlook, improving financials and a healthy balance sheet call for a target price upgrade. Hence, we value ACE at 9x FY23 EV/EBIDTA to arrive at a target price of ₹ 160 (earlier ₹ 100). We maintain our **BUY** rating on the stock.



Particulars

Data	Amount
Market Capitalisation	₹1464 crore
Debt (FY 20)	₹74 crore
Cash & Inv (FY 20)	₹16 crore
EV	₹1522 crore
52 week H/L	149 / 31.5
Equity capital	₹22.7 crore
Face value	₹2

Price Chart



Key risks to our call

- Further increase in steel prices, thereby forcing another price hike, which can be detrimental to demand
- Inability to capture market share in CE & Agri segments could affect overall performance of ACE

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Adil Khan
adil.khan@icicisecurities.com

Key Financial Summary

(₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Revenue	1,342.5	1,156.2	1,150.2	1,458.5	1,748.7	23.3
EBITDA	97.8	91.6	113.9	152.4	192.4	30.0
EBITDA margin (%)	7.3	7.9	9.9	10.5	11.0	
Net Profit	56.0	52.5	70.2	104.3	134.9	38.6
EPS (₹)	4.9	4.6	6.2	9.2	11.9	
P/E (x)	26.1	27.9	20.8	14.0	10.9	
EV/EBITDA (x)	15.0	16.6	12.9	9.4	7.2	
RoCE (%)	25.3	19.3	22.6	25.3	27.5	
RoE (%)	12.8	11.9	13.7	17.1	18.4	

Source: ICICI Direct Research, Company

Exhibit 1: Variance Analysis

Year	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ	Comments
Revenue	400.4	289.3	38%	268.3	49%	Best quarterly performance, both in terms of value and volume. Q2 spill over and revival in infra, construction and industrial activities boosted performance
Other Income	3.5	1.7	105%	1.8	93%	
Total Income	403.9	291.0	39%	270.1	50%	
Cost of materials consumed	306.4	221.2	39%	229.8	33%	Higher material cost primary led by increase in steel prices. Gross margins contracted by ~96 bps
Change in inventories	4.5	0.6	630%	-19.3	-123%	
Employee cost	20.3	22.0	-8%	17.9	13%	Employee cost declined 8% YoY
Other expenses	24.1	23.1	4%	15.6	54%	Operational efficiencies improved on account of cost control measures
EBITDA	45.2	22.4	102%	24.2	86%	EBITDA grew 102% YoY led by positive operating leverage
EBITDA Margin (%)	11.3	7.7	354 bps	9.0	225 bps	Double digit EBITDA margins achieved
Depreciation	3.5	3.2	9%	3.5	-1%	
Interest	2.5	4.2	-41%	3.5	-29%	
PBT	42.7	16.7	156%	19.0	124%	
Taxes	11.7	4.1	188%	4.5	164%	
PAT	30.9	12.6	145%	14.6	112%	Profitability improved led by higher utilisation

Key metrics	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Cranes	257.3	196.4	31%	166.4	55%	Robust performance in crane segment led by revival in infra activities
EBIT Margin %	12.9%	10.9%		9.2%		
EBIT	33.1	21.4	55%	15.2	117%	
Construction Equipment	38.8	25.3	53%	30.8	26%	Improved performance in CE segment albeit on a lower base
EBIT Margin %	7.0%	-0.7%		1.3%		Significant expansion in CE margins
EBIT	2.7	-0.2	NA	0.4	577%	
Material Handling	31.3	18.8	66%	26.5	18%	Material handling too remained buoyant
EBIT Margin %	12.7%	8.4%		13.2%		
EBIT	4.0	1.6	153%	3.5	14%	
Agri Equipment	73.0	48.6	50%	44.7	63%	Strong traction in rural demand and a good monsoon aided agri equipment performance
EBIT Margin %	11.8%	3.8%		13.0%		
EBIT	8.6	1.8	369%	5.8	49%	Improved margins in Agri segment

Source: Company, ICICI Direct Research

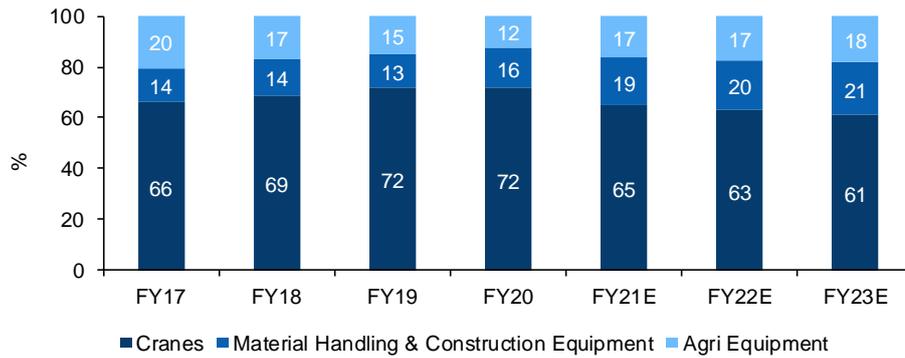
Exhibit 2: Quarterly Volumes

Segment	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Pick and Carry	1,549	1,677	1,440	1,264	1,180	1,142	1,251	280	891	1,506
Mobile Tower Crane	23	25	11	13	16	18	12	2	6	16
Fixed Tower Crane	47	35	6	30	36	44	49	8	42	62
Crawler Crane	5	8	4	1	1	3	2	1	4	10
Tractor		1,168	523	668	522	718	370	382	589	976
Backhoe loader	80	70	115	67	60	69	139	41	104	179
Forklift	235	302	234	234	204	59	233	83	266	331
Compactors	13	12	12	9	11	19	21	1	11	7
Graders		15		4	6	6	5		3	8
Truck Mounted Cranes	7	4	3	8	2	4	5	8	7	1
Harvestors	40	15	24	6	10	64	49	22	66	99
Rotavators	406	242	126	243	156	295	86	266	308	546
Piling Rig				3	1	5	5	3	4	

Source: Company, ICICI Direct Research

Key operating metrics

Exhibit 3: Revenue break-up by segment



Source: Company, ICICI Direct Research

Exhibit 4: 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 5: Product portfolio across segments

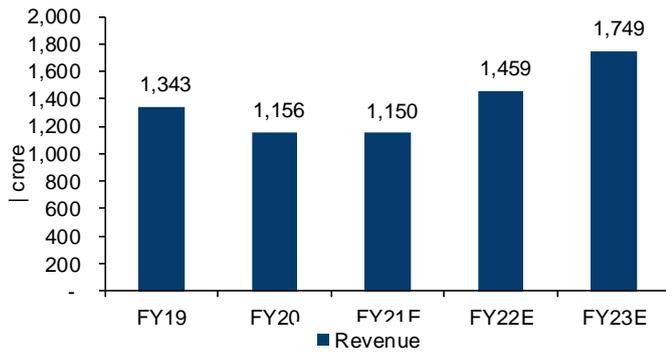
Product Portfolio

- Cranes**
 - Pick & Carry Crane
 - Lorry Loaders Crane
 - Self Erecting Tower Crane
 - Crawler Crane
 - Truck Crane
 - Tower Crane
- Earthmoving & Road Construction**
 - Backhoe Loader
 - Wheel Loader
 - Soil Compactor & Tandem Vibratory Roller
 - Motor Grader
- Material Handling**
 - Forklift Truck
 - Warehousing Equipment
 - Piling Rig
- Agriculture Equipment**
 - Tractor
 - Track Combine
 - Wheel Harvester
 - Rotavator

Source: Company, ICICI Direct Research

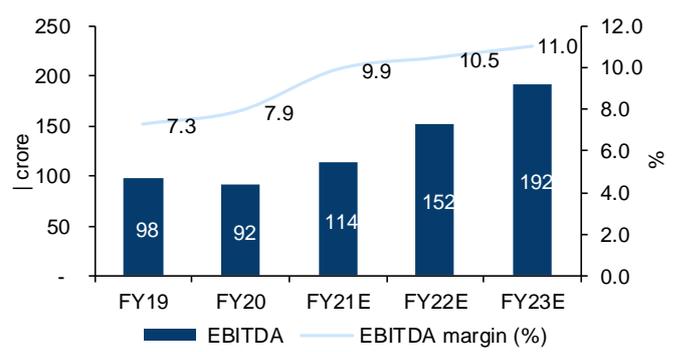
Financial story in charts

Exhibit 6: Net sales trend



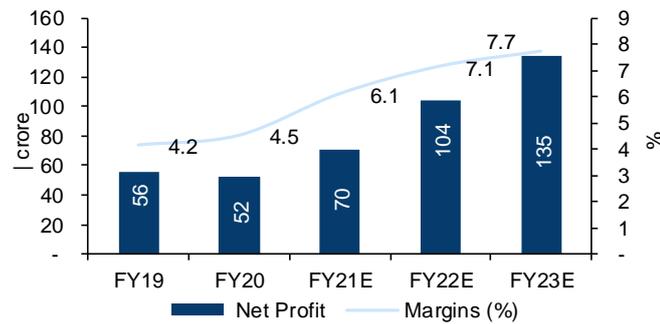
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



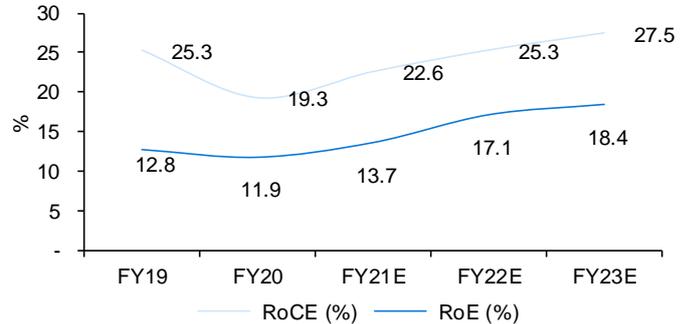
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margin trend



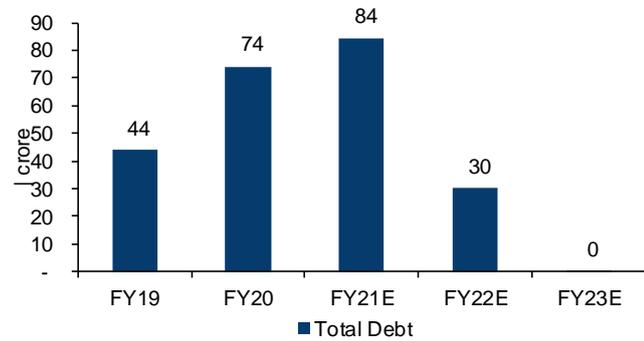
Source: Company, ICICI Direct Research

Exhibit 9: Return ratios trend



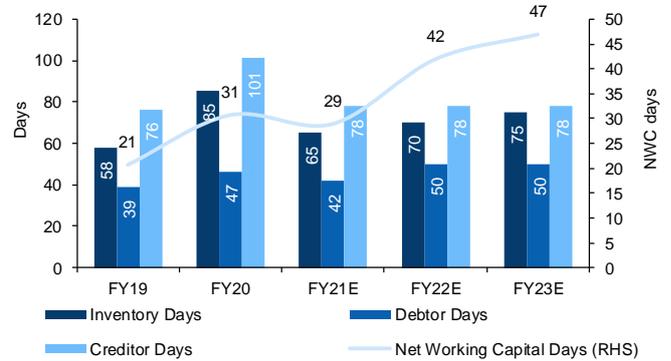
Source: Company, ICICI Direct Research

Exhibit 10: Total debt trend



Source: Company, ICICI Direct Research

Exhibit 11: Working capital trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement (₹ crore)				
(Year-ended-March)	FY20	FY21E	FY22E	FY23E
Revenue	1,156	1,150	1,459	1,749
Total Raw Material Costs	894	888	1130	1355
Employee Expenses	86	77	92	105
Other expenses	85	71	84	96
Total Operating Expenditure	1,065	1,036	1,306	1,556
EBITDA	92	114	152	192
% Growth	-6.3	24.4	33.9	26.2
Other Income	4	10	12	12
Interest	15	13	3	0
PBDT	81	110	161	204
Depreciation	13	13	17	17
PBT before Excep item	68	98	145	187
Total Tax	16	27	41	52
PAT before MI	52	70	104	135
Minority Interest	0	0	0	0
PAT	52	70	104	135
% Growth	-6.3	33.9	48.5	29.3
EPS	4.6	6.2	9.2	11.9

Source: Company, ICICI Direct Research

Exhibit 13: Cash Flow Statement (₹ crore)				
(Year-ended-March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	52	70	104	135
Add: Depreciation	13	13	17	17
Interest	15	13	3	0
(Inc)/decrease in CA	(61)	87	(155)	(131)
(Inc)/decrease in CL and prov	33	(102)	85	80
CF from Operations	51	98	70	117
(Inc)/decrease in Fixed Assets	(39)	(24)	(59)	(39)
Others	9	10	12	12
CF from Investing	(30)	(14)	(47)	(27)
Issue/(Buy back) of Equity	(33)	-	-	-
Inc/(dec) in loan funds	30	10	(54)	(30)
Dividend paid & dividend tax	(6)	(8)	(8)	(11)
Others	(15)	(26)	23	(29)
CF from Financing	(23)	(24)	(39)	(69)
Net Cash flow	(2)	60	(16)	20
Opening Cash/Cash Equivalent	12	9	69	53
Closing Cash/ Cash Equivalent	9	69	53	73

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet (₹ crore)				
(Year-ended-March)	FY20	FY21E	FY22E	FY23E
Equity Capital	23	23	23	23
Reserve and Surplus	420	491	587	711
Total Shareholders funds	443	514	610	734
Minority Interest	0	0	0	0
Other Non Current Liabilities	18	18	18	18
Total Debt	74	84	30	0
Sources of Funds	535	616	658	752
Gross Block	464	488	548	587
Acc: Depreciation	121	134	151	168
Net Block	398	405	394	417
Capital WIP	19	19	19	19
Total Fixed Assets	417	425	413	436
Non Current Assets	50	50	50	50
Inventory	271	205	280	359
Debtors	147	132	200	240
Loans and Advances	0	0	0	0
Other Current Assets	52	46	58	70
Cash & Equivalent	9	69	53	73
Investments	6	6	6	6
Total Current Assets	486	459	597	748
Current Liabilities	419	317	402	482
Net Current Assets	67	141	195	266
Application of Funds	535	616	658	752

Source: Company, ICICI Direct Research

Exhibit 15: Key Ratios				
	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	4.6	6.2	9.2	11.9
BV	39.0	45.3	53.7	64.7
Dividend per share	0.5	0.7	0.7	1.0
Dividend payout ratio	11.0	11.0	8.0	8.0
Operating Ratios				
EBITDA Margin	7.9	9.9	10.5	11.0
PAT Margin	4.5	6.1	7.1	7.7
Return Ratios				
RoE	11.9	13.7	17.1	18.4
RoCE	19.3	22.6	25.3	27.5
RoIC	20.0	25.2	26.8	30.0
Valuation Ratios				
EV / EBITDA	16.6	12.9	9.4	7.2
P/E	27.9	20.8	14.0	10.9
EV / Net Sales	1.3	1.3	1.0	0.8
Market Cap / Sales	1.3	1.3	1.0	0.8
Price to Book Value	3.3	2.8	2.4	2.0
Turnover Ratios				
Asset turnover	2.6	2.2	2.3	2.4
Debtors Turnover Ratio	7.8	8.7	7.3	7.3
Creditors Turnover Ratio	3.6	4.7	4.7	4.7
Solvency Ratios				
Debt / Equity	0.2	0.2	0.0	0.0
Current Ratio	1.1	1.2	1.3	1.4
Quick Ratio	0.5	0.6	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

I/We, Chirag Shah, PGDBM and 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 other 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 is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. 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 and its analysts, persons reporting to analysts and their relatives are generally prohibited 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 and ICICI Securities as a entity 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.