



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Action Construction equipment Ltd Q4 FY22 consolidated revenues came in at ₹511 Cr, up by 11% YoY and 16.9% QoQ.
- Op Profit for Q4FY22 stood at ₹52 Cr, down by 8.2% YoY and up 19% QoQ.
- Op margins for Q4FY22 came at 10.19%, -213bps YoY and +18bps QoQ.
- PAT for Q4FY22 stood at ₹35.4 Cr, down by 8.3% YoY and up by 29.2% QoQ.

2. MANAGEMENT COMMENTARY:

- Management has given a revenue growth guidance of 15% in crane segment, 20%-25% in material handling, 15%-20% in agricultural equipment and 30%-35% in construction equipment in FY23.
- They are confident of getting 100cr-150cr revenue from defence in FY23.
- Management aims to reach 2500cr revenue by FY24-25.
- Company may not see 500cr topline in Q1 or Q2 as H1 usually contributes 40% to the overall annual topline.

3. SEGMENTAL ANALYSIS:

- Q4FY22 Revenue Breakup: Cranes revenue comprises 73% whereas, Construction equipment, material handling and agricultural equipment contributed 10%, 9.5% and 7.5% respectively.

4. CONCALL SUMMARY

- Company has started execution of 4X4 multipurpose tractors for Indian army.
- Capacity utilization for cranes stands at 70%-75% whereas, utilizations in Material Handling is at 75% and Construction equipment and agriculture stands at 30%-35%.
- Company has faced a DE growth in backhoe loader segment but is lower than the average industry fall in the same segment.
- They have a given a revenue guidance of 15%-20% for FY23.

5. OTHER DEVELOPMENTS:

- ACE has received a breakthrough order of 40 backhoe loaders from Border Road Organization, Ministry of Defence (MoD).
- They have received a contract from the government of The Republic of Ghana for establishing an assembly plant in Ghana for a consideration of USD 24.98 million. The manufacturing facility will have an installed capacity of 4,500 tractors, 600 Backhoe Loaders, 6000 Agricultural implements and 3000 tipping trailers manually.

6. VALUATION AND OUTLOOK:

We believe company will continue to post good results in the coming few quarters on the back of robust construction activities. Company's entry in Ghana will open export markets in Africa region. Steel comprises 60% of the total raw material cost and recent announcements from GOI regarding export duty on steel will reap benefits for the company.

We give a "BUY" rating on the stock and value the stock at 22x of FY23E earnings to arrive at a target price of Rs. 250.

RECOMMENDATION - BUY

CMP – 207

TARGET – 250 (21%)

Industry	Engineering - Industrial Equipments
NSE CODE	ACE
BSE CODE	532762
Market Cap (₹ Cr)	2480
Shares Outstanding (in Cr)	11.91
52 wk High/Low (₹)	291.75 / 175
P/E	23.6
P/BV	3.27
Face Value (₹)	2.00
Book Value (₹)	63.33
EPS (FY22) (₹)	7.03
Dividend Yield (%)	0.32
Debt / Equity	0.10
Interest Coverage	9.84

SHAREHOLDING PATTERN

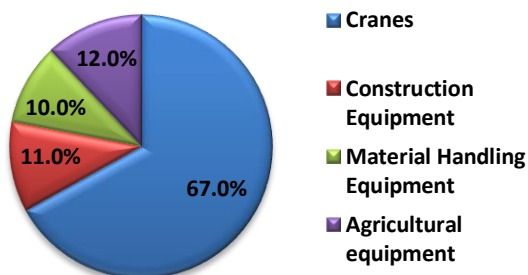
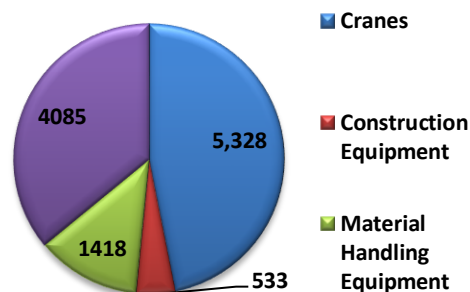
	Mar 22	Dec 21	Sept 21
Promoters	66.76	66.76	66.76
MF/ DII	2.67	2.71	2.69
FII/FPI	4.84	3.26	5.26
Retail & Others	24.92	26.10	24.02
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023E	2024E
Crore			
Sales	1630	1915	2298
Sales Gr. (%)	32.79	17.5	20
EBITDA	151	192	253
EBITDA %	27%	10%	11%
PAT	105	135	180
EPS (₹)	8.82	11.34	15.12
EPS Gr. (%)	25.5%	27.5%	33.3%
BV/Sh. (₹)	63.3	74	88.15
Ratios			
RoE (%)	16.4%	15.3%	17.3%
RoCE (%)	22.5%	20%	22.6%
Valuation			
P/E (x)	24.1	18.84	13.8
P/BV (x)	3.35	2.86	2.4
EV/EBITDA	15.2	12.39	10

Historical & Industrial Val Ratios

Historical P/E	10.63
Industry P/E	22.56
Historical P/B	1.70
Industry P/B	2.52

REVENUE SPLIT (Q4 FY22)
Segmental Mix (FY22)

Total quantity sold across all segments in FY22

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21			FY22				FY23E*	FY22	FY23E*
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1E*		
Net sales	268	400	457	322	361	437	511	400	1630	1915
YoY change (%)	0.07	38.45	49.73	218.41	34.50	9.01	11.63	24	32.79	17.5
Total Expenditures	244	355	408	291	326	397	463	360	1478	1723
EBITDA	24	45	50	30	35	39	47	40	151	192
Margins (%)	9%	11%	11%	9%	10%	9%	9%	10%	9%	10%
Depreciation	4	4	4	4	4	4	4	4	15	16
Interest	3	2	3	3	3	3	4	3	14	10
Other income	2	3	8	2	2	5	5	4	15	14
PBT	19	42	51	25	30	37	44	37	137	180
Rate (%)	23%	28%	24%	26%	23%	26%	20%	25%	24%	25%
Adjusted PAT	15	31	39	19	23	27	35	28	105	135
EPS in Rs	1.29	2.72	3.40	1.70	1.92	2.130	2.97	2.35	8.82	11.34
Key Performance Indicators										
RM cost (% of revenue)	78%	78%	79%	80%	78%	80%	82%	80%	80%	78%
Employee cost (% of revenue)	7%	5%	4%	6%	6%	6%	4%	5%	5%	5%
EBITDA Margins%	9%	11%	11%	9%	10%	9%	9%	10%	9%	10%
PAT Margins %	5.6%	7.75%	8.53%	6%	6.37%	6.17%	6.84%	7%	6.44%	7%

Source: Company, Hem Securities Research.

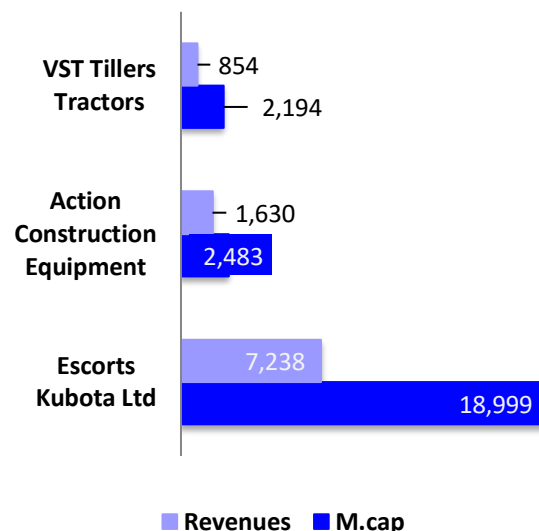
***Insights into the assumptions:**

- We expect revenues to slightly dip on QoQ basis as H1 contributes only 40% to the overall revenue due to monsoons.
- We also believe that operating margins would sustain at these levels and might also improve due to management's strong future guidelines.

INDUSTRY OVERVIEW

- Indian is the 3rd largest construction equipment market in the world and is expected to become 3x in next 10 years
- Asia pacific market is expected to report strong CAGR from 2020-2027 due to growing construction activities in emerging markets in India, China and Philippines.
- Crane market is expected to increase by 142% between FY20-FY25.
- Material handling market is expected to grow due to rising industrial capex and private sector participation.
- India is the largest tractor market in the world and is expected to grow at a CAGR of 4.5% between 2020 and 2025 whereas, harvester segment is expected to grow at a CAGR of 10.6% between 2020-2025.
- The construction machinery market is expected to increase due to increase in road construction activities and real estate construction owing to rising population.
- PM Gati master plan aims at increasing infrastructure activities in the country this can reap benefits for the company.
- Manufacturing sector is expected to reach US\$ 1 trillion by 2025. This will increase demand for cranes.

Key Players in Construction Sector



PEER PERFORMANCE

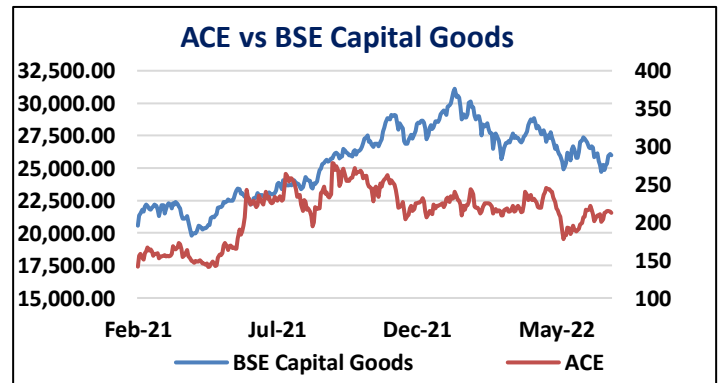
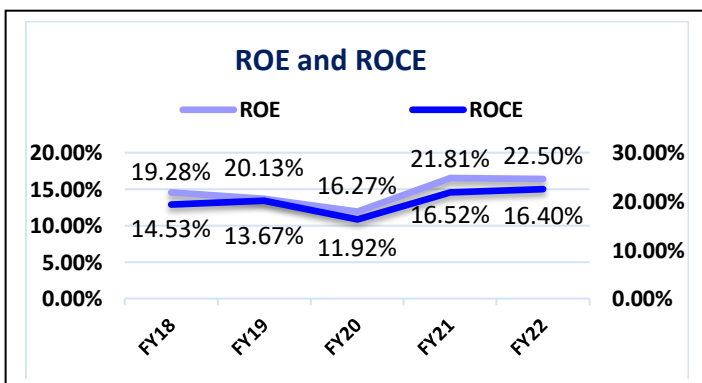
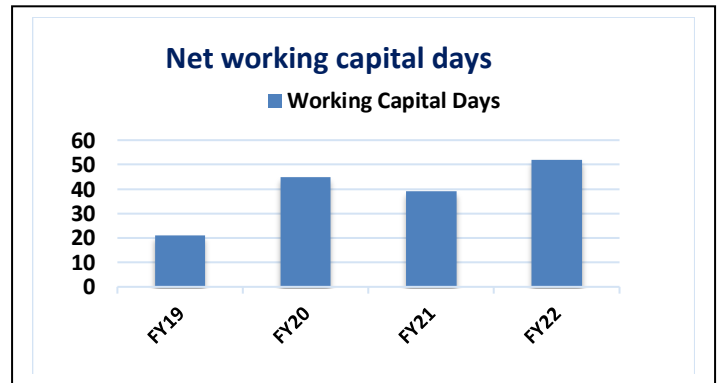
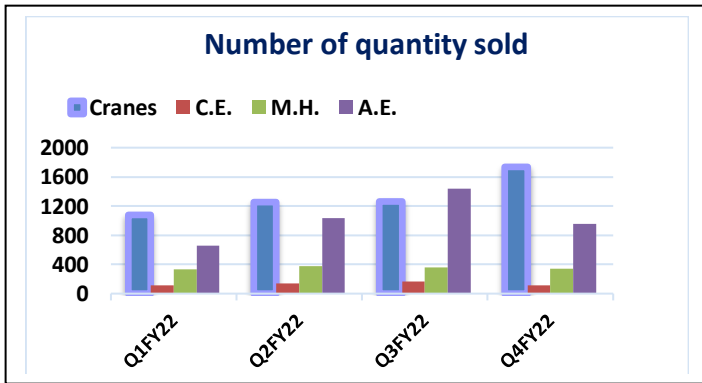
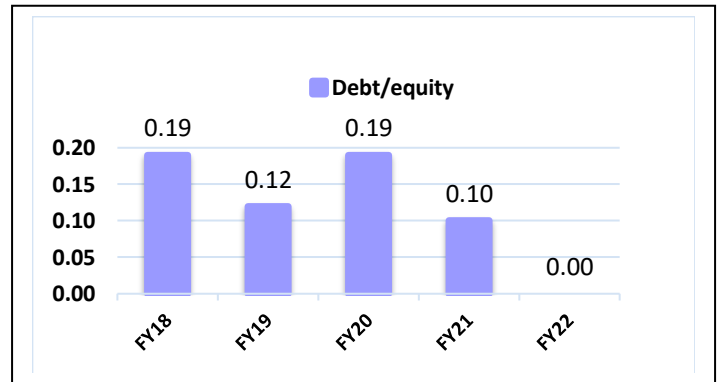
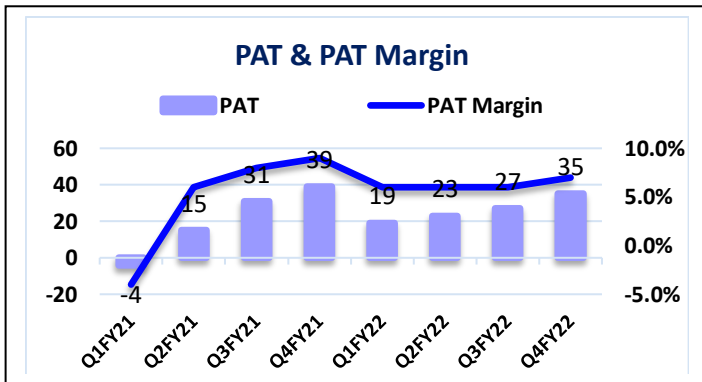
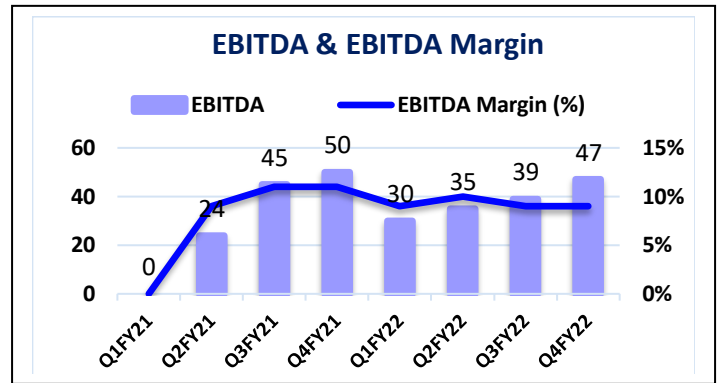
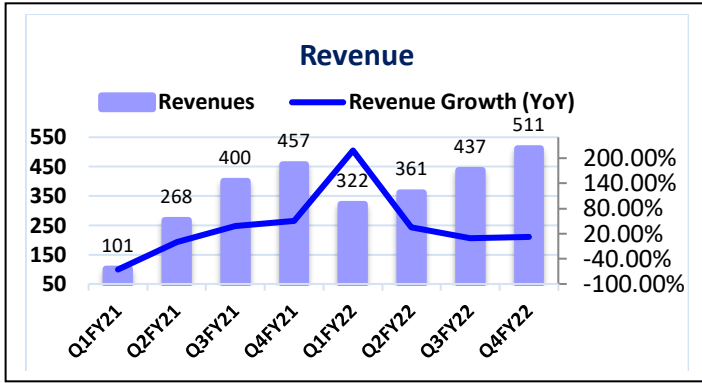
(₹ Cr)

Particulars	Action Construction Equipment Ltd		
	VST Tillers Tractors Ltd	Action Construction Equipment Ltd	Escorts Kubota Ltd
Market Cap	2187	2468	19028
Net Sales	854	1630	7238
EBITDA	124	151	922
PAT	99	105	736
EPS(₹)	114.95	8.82	55.82
EBITDA MARGIN %	15%	9%	13%
PAT MARGIN %	11.59%	6.44	10.16%
ROCE %	18.8%	22.5%	15%
ROE %	14%	16.4%	11%
P/E TTM	22	23,6	26.2
P/B TTM	2.94	3.31	2.42
Dividend Yield %	0.80%	0.24%	0.48%
MCap/ Sales TTM	2.56	1.51	2.62

Source: Company, Hem Securities Research.



STORY IN CHARTS





INVESTMENT RATIONALE:

- The company has the largest market share in mobile cranes and tower crane segment in India.
- They aim to reach 2500 cr revenue by FY24-25 and no capex is required to reach that kind of topline.
- They have a target to achieve 500cr sales in backhoe loaders by FY24.
- The Union Budget 2022-23 focuses on infrastructure and construction activities and has allocated record sum across railway, urban infra and road construction space. This can reap benefits for the company
- They aim to increase their export share over the next 2-3 years and has recently launched “Phantom 4X4” under backhoe loaders especially for international markets.
- They have a target to reach 25% market share in material handling space over next 2-3 years. They have increased their presence through the introduction of electric forklifts especially for food, beverages and pharma industry.
- In agriculture equipment they are strengthening their distribution channel and have launched Forma Range of tractors to cater international markets.
- India is the 3rd largest Construction Equipment market in the world and is expected to grow 3x over the next 10 years.

RISK / NEGATIVE FACTORS:

- Slowness in construction activities can be negative for the company
- Increase in commodity prices and weak economic development can hamper company’s business outlook.
- Stiff competition from international players particularly JCB in backhoe loader segment.

COMPANY RECAP

- Action Construction Equipment Limited was established in 1995 by Mr Vijay Agarwal. The company has a significant presence across diversified sectors like construction, infrastructure, manufacturing, logistics and agriculture.
- ACE is the world’s largest pick and carry crane manufacturer and enjoys over 63% market share in mobile crane segment and 60% market share in tower crane segment in India.
- The Company has global presence in over 25 countries and has a strong customer base of 16000+.
- Their manufacturing facility is located in Faridabad, Palwal and has total installed capacity of 21,300 units, in which cranes comprise 9000 units capacity, agricultural equipment 9000, material handling 1800 and construction equipment has 1500 units capacity.
- Company has 21 regional offices and more than 200 dealers in agriculture space across the country.
- Company has a diverse product portfolio and offers crawler cranes, truck mounted cranes, lorry loaders backhoe loaders, vibratory rollers, motor graders, forklifts, tractors etc.
- Key Management personnel – Mr. Vijay Agarwal (Chairman and MD), Mr. Sorab Agarwal (Whole Time Director), Mrs Mona Agarwal (Whole Time Director), Mr. Rajan Luthra (CFO), and Mr. Manish Mathur (Managing director and CFO).

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Revenue from operations	1,086.55	1,342.53	1,156.23	1,227.15	1630	1915	2298
Growth YoY (%)	44.67	23.56	-13.88	6.13	33	17.5	20
Total Expenditure	995.04	1,244.75	1,064.68	1,108.17	1478	1723	2045
(%) of sales	91.58	92.72	92.08	90.30	91	90	89
EBITDA	91.50	97.77	91.55	118.98	151	192	252
EBITDA Growth (%)	110.48	8.07	-10.96	40.32	27	27	31.25
EBITDA Margin (%)	9.05	8.01	8.28	10.94	9	10	11
Depreciation	11.93	11.75	13.01	13.94	15	16	16
EBIT	87.52	95.73	82.69	120.34	136	176	236
EBIT Growth (%)	148.77	9.38	-13.62	45.54	13.33	29	34
Net Interest Expenses	13.53	11.52	14.66	12.23	14	10	10
Other Income	7.95	9.71	4.15	15.31	15	14	14
Earnings before Taxes	73.99	84.21	68.03	108.11	137	180	240
EBT Margin (%)	6.73	6.27	5.88	8.81	8.4	9.4%	33.33
Tax-Total	21.98	28.18	15.56	28.32	32	45	60
Rate of tax (%)	29.70	33.47	22.87	26.19	24	25	25
Net Profit	52.02	56.02	52.47	79.79	104	135	180
PAT Growth (%)	271.22	7.70	-6.34	52.07	30	30	33.33
PAT Margin (%)	4.73	4.17	4.54	6.50	6.3	7	7.8
Minority Interest	0.07	0.02	0.02	0.04	0.00	0.00	0.00
Adjusted PAT	52.08	56.04	52.49	79.83	104	135	180
EPS	4.44	4.78	4.63	7.03	8.82	11.34	15.12
EPS Growth (%)	310.25	7.60	-3.17	52.09	25.5	28.5	33.3

Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	41	23	23	23	24
Reserves	359	414	420	501	730
Net Worth	382	438	443	523	754
Borrowings	61	53	82	54	9
Other Liabilities	373	396	429	478	519
Total Liabilities & Equity	817	887	954	1,055	1,282
Fixed Assets	337	341	412	429	452
CWIP	5	8	19	13	24
Investments	35	45	28	31	179
Other Assets	439	493	494	582	627
Total Assets	817	887	954	1,055	1,282

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2018	2019	2020	2021	2022
Profitability and return ratios					
Net profit margin (%)	4.73	4.17	4.54	6.50	6.30
EBITDA margin (%)	9.05	8.01	8.28	10.94	9.00
EBIT margin (%)	7.97	7.13	7.15	9.81	8.34
ROE (%)	14.53	13.67	11.92	16.52	16.4
ROCE (%)	19.28	20.13	16.27	21.81	22.5
Working Capital & liquidity ratios					
Payables (Days)	72.59	76.33	104.76	138.79	101
Inventory (Days)	42.84	48.56	76.33	79.82	93.1
Receivables (Days)	45.49	42.69	46.00	55.32	42.3
Current Ratio (x)	1.13	1.13	1.05	1.20	1.40
Valuations Ratios					
EV/sales (x)	1.87	1.04	0.40	1.44	
EV/EBITDA (x)	20.43	12.95	4.88	13.19	14.9
P/E (x)	37.72	24.09	7.49	21.96	23.6
P/BV (x)	5.14	3.08	0.89	3.35	3.27
Dividend Yield (%)	0.30	0.43	1.44	0.32	0.24
Leverage Ratio					
Debt/Equity (x)	0.20	0.12	0.19	0.10	0.01

Cash Flow Statement					
Y/E March	2018	2019	2020	2021	2022
CF from Operating activities (A)	89	72	48	86	109
CF from Investing Activities (B)	-35	-27	-20	-16	-201
CF from Financing Activities (C)	-53	-44	-33	-40	65
Net Cash Flow	1	2	-5	30	-27
Add: Opening Bal.	6	7	8	3	33
Closing Balance	7	9	3	33	6

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
30 th June 2022	Buy	250

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Name of the Research Analyst: MUDIT JAIN

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