

Action Construction Equipment (ACTCON)

CMP: ₹ 230

Target: ₹ 285 (23%)

Target Period: 12 months

BUY

August 15, 2022

Strong performance, construction equipment laggard

About the stock: Action Construction Equipment (ACE) is an Indian construction equipment and material handling company.

- ACE has eight manufacturing and one R&D site in Faridabad, Haryana
- The company has a capacity of 12000 construction equipment and 9000 tractors annually
- ACE's product portfolio is divided into four main categories viz. agricultural equipment, construction equipment, road construction equipment and earth-moving machinery

Q1FY23 Results: ACE reported good Q1FY23 results.

- Revenue for the quarter came in at ₹ 497.7 crore, up 55 % YoY, down 3% QoQ
- Absolute EBIDTA was at ₹ 40.7 crore, down 14% QoQ, up 40.7% YoY
- PAT was at ₹ 45.3 crore vs. ₹ 35.4 crore in Q4FY22 & ₹ 19.3 crore in Q1FY22

What should investors do? ACE continues to tread on its growth path. The management has guided for 15-20% growth across segments

- We continue to remain positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value ACE at ₹ 285 i.e. 18x PE (FY24E).

Key triggers for future price performance:

- Cranes segment doing well. Contract from Government of Ghana and strong traction from the defence sector
- Upcoming government & private capex providing fillip to the sector

Alternate Stock Idea: We also like SKF in our capital goods coverage.

- It is one of the leading bearing manufacturers known for its deep groove ball bearings and has a presence across the industrial & auto sector
- BUY with a target price of ₹ 4920 i.e. 40x P/E on FY24E EPS



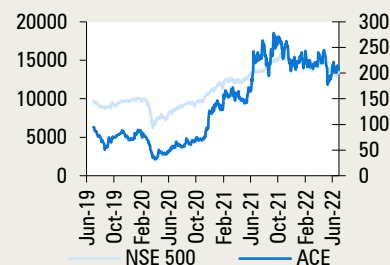
Particulars

Particular	Amount
Market Capitalization	2,739
Total Debt (FY22) (₹ crore)	8
Cash and Inv (FY22) (₹ crore)	185
EV (FY22) (₹ crore)	2,622
52 week H/L (₹) (BSE)	292 / 160
Equity capital (₹ crore)	11.9
Face value (₹)	2

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	66.8%	66.8%	66.8%	66.8%
FII	5.3%	3.3%	4.8%	4.7%
DII	4.0%	3.9%	3.5%	4.2%
Others	24.0%	26.1%	24.9%	24.5%

Price Chart



Recent event & key risks

- Capex plans & infra activities
- **Key Risk:** (i) Rising input cost (ii) Inability to achieve meaningful growth in CE & agri segments

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Key Financial Summary

(Year-end March)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	2 Year CAGR (FY22-FY24E)
Revenue	1,343.2	1,156.2	1,227.0	1,629.6	15.6	1,964.0	2,343.2	19.9
EBITDA	98.5	91.6	119.4	151.4	33.3	206.2	262.4	31.6
EBITDA margin (%)	7.3	7.9	9.7	9.3		10.5	11.2	
Net Profit	56.1	52.5	80.2	105.0	49.6	149.0	186.9	33.4
EPS (₹)	4.9	4.6	7.1	8.8		12.5	15.7	
P/E (x)	51.7	56.7	32.6	26.1		18.4	14.7	
EV/EBITDA (x)	29.7	33.1	21.8	17.3		12.5	9.7	
RoCE (%)	25.3	19.3	26.9	23.0		22.5	23.6	
RoE (%)	12.8	11.9	15.3	13.9		15.6	16.4	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Strong performance, construction equipment laggard...

- Revenue for the quarter came in at ₹ 497.7 crore, up 55% YoY and down 3% QoQ. Segmental performance was as follows. Crane segment revenue was at ₹ 349.2 crore vs. ₹ 370.9 crore in Q4FY22 & ₹ 222.1 crore in Q1FY22. EBIT margins for the quarter were at 10.9%. Construction equipment segment revenue came in at ₹ 52 crore vs. ₹ 52.2 crore in Q4FY22 and ₹ 36.6 crore in Q1FY22. EBIT margins for the quarter were at 4.3%. Material handling segment revenue came in at ₹ 37.9 crore vs. ₹ 38.4 crore in Q4FY22 & ₹ 33.1 in Q1FY22 with EBIT margins of 11.1%. Agri segment revenue came in at ₹ 58.6 crore vs. 49 crore in Q4FY22 & ₹ 29.6 crore in Q1FY22
- Gross margins increased ~ 40 bps QoQ and declined ~ 204 bps QoQ. EBITDA margins came in at 8.2% vs. 9.2% QoQ and 9.4% YoY. Declining EBITDA margins are due to increasing employee cost and other expenses. Absolute EBITDA came in at ₹ 40.7 crore, up 35% YoY and down 14% QoQ
- Ensuing PAT came in at ₹ 45.3 crore vs. ₹ 35.4 crore in Q4FY22 & ₹ 19.3 crore in Q1FY22. PAT is cushioned by other income of ₹ 24.9 crore

Q1FY23 Earnings Conference Call highlights

- Revenue guidance for FY23: Cranes segment 15-20% growth, material handling 20-25% growth, agri segment 15-20% growth and construction equipment 30-35% growth. Total growth is expected to be in the range of 15-20% with sustainable EBITDA margins for FY23, EBITDA margins to further improve on in FY24E on account of operating leverage and cooling of raw material prices and expected to reach 11-12% in FY24E
- In Q1FY23, there was pressure on EBITDA margins due to high inflation, macroeconomic environment and rising cost of material prices
- The company has been awarded with a contract to set up a state-of-the-art assembly plant for manufacturing tractors, backhoe loaders and fabrication of agricultural implements for the Ghana government against a consideration of ₹ 195.8 crore. It will generate a revenue of ~₹ 150-200 crore from FY24
- Till now, operating leverage was utilised for subsidising customers. Export duty on steel has resulted in a price drop by 10-15% in the coming quarters that will benefit ACE on the margins front
- Construction equipment did not perform well in the last quarter due to BS4 norms due to which the industry also de-grew 30% in Q1FY23. Agri segment is expected to see good quarters on account of better monsoons
- The company has completed acquisition of two company for a total sum of ₹ 45 crore. These acquisitions were done in lower segments. With these acquisitions, ACE will now own around 50% market share in lower segment of cranes. One more big acquisition in coming quarters
- Order book is at ₹ 120 crore with three to four more projects also in pipeline worth ₹ 50-100 crore and bidding for ₹ 150-200 crore has been done in recent quarters. Defence will generate a revenue of ₹ 100-150 crore in FY23
- Export side is not performing as expected due to rising freight charges, which have grown to 3x this year. It is expected to be ~₹ 100 crore
- Capacity utilisation for cranes 70%, material handling 65%, construction equipment 35% and agri 40%. Capacity utilisation is expected to increase 10-15% in all segments by FY23 end
- Capex plans for FY23 are at ₹ 45-50 crore with ₹ 30 crore used in installing a new capacity for 100-160 tonnes crawler crane, which will have a potential of around ₹ 350-400 crore revenue. It will be operational by Q4FY23 and is expected to have a revenue of ₹ 100 crore in the first year

Exhibit 1: Variance Analysis

Year	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	497.7	321.5	55%	510.6	-3%	Better performance, both in terms of value and volume due to revival in infra and construction activities
Other Income	24.9	2.4	950%	5.4	361%	
Total Income	522.6	323.9	61%	516.0	1%	
Cost of materials consumed	404.2	249.0	62%	429.6	-6%	
Change in inventories	2.8	7.4	-62%	-10.1	-128%	
Employee cost	22.5	19.1	18%	20.8	8%	Employee cost increased by 8% QoQ and increased by 18% YoY
Other expenses	27.4	15.8	73%	23.1	19%	
EBITDA	40.7	30.2	35%	47.2	-14%	EBITDA degrew 11% QoQ led by higher employee cost and other expenses
EBITDA Margin (%)	8.2	9.4	-122 bps	9.2	-107 bps	
Depreciation	4.7	3.6	28%	4.0	16%	
Interest	2.2	2.7	-21%	4.3	-50%	
PBT	58.8	26.2	124%	44.3	33%	
Taxes	13.5	6.9	95%	8.9	51%	
PAT	45.3	19.3	134%	35.4	28%	

Key metrics	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Cranes	349.2	222.1	57%	370.9	-6%	Robust performance in crane segment led by revival in infra activities
EBIT Margin %	10.9%	11.2%		12.1%		
EBIT	38.2	24.9	53%	45.0	-15%	
Construction Equipment	52.0	36.6	42%	52.2	0%	Laggard performance due to recent price hikes
EBIT Margin %	4.3%	4.9%		5.6%		
EBIT	2.3	1.8	26%	2.9	-23%	
Material Handling	37.9	33.1	14%	38.4	-1%	Material handling to perform better in coming quarters
EBIT Margin %	11.1%	11.6%		12.5%		
EBIT	4.2	3.8	9%	4.8	-13%	
Agri Equipment	58.6	29.6	98%	49.0	20%	Agri segment poised to perform due to better than expected moosoon
EBIT Margin %	2.4%	7.1%		1.5%		
EBIT	1.4	2.1	-32%	0.7	91%	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20	FY21	FY22	FY23E			FY24E		
(₹ Crore)	Actual	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	1,156.2	1,227.0	1,629.6	1,891	1,964.0	3.8	2,184.9	2,343.2	7.2
EBITDA	91.6	119.0	151.4	199	206.2	3.8	228.3	262.4	15.0
EBITDA Margin (%)	7.9	9.7	9.3	10.0	10.5	50 bps	10.5	11.2	70 bps
PAT	52.0	80.0	105.0	137	149.0	9.1	162.4	186.9	15.1
EPS (₹)	4.6	7.1	8.8	11.5	12.5	8.8	13.6	15.7	15.4

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-ended-March)	FY21	FY22	FY23E	FY24E
Revenue	1,227	1,629.6	1,964.0	2,343.2
Total Raw Material Costs	962	1307	1552	1828
Employee Expenses	72	85	102	127
Other expenses	74	86	104	127
Total Operating Expenditure	1,108	1,478	1,758	2,081
EBITDA	119	151	206	262
EBITDA Margins	9.7%	9.3%	10.5%	11.2%
EBITDA Growth %		26.9%	36.2%	27.3%
Other Income	15	15	12	13
Interest	12	14	1	1
PBDT	3	1	11	12
Depreciation	14	15	15	20
PBT before Excep item	108	137	203	254
Total Tax	28	32	54	67
PAT before MI	80	105	149	187
Minority Interest	0	0	0	0
PAT	80	105	149	187
% Growth	52.8	31.0	41.9	25.5
EPS	7.1	8.8	12.5	15.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-ended-March)	FY21	FY22	FY23E	FY24E
Profit after Tax	80	105	149	187
Add: Depreciation	14	15	15	20
Interest	12	14	1	1
(Inc)/decrease in CA	(59)	(71)	(232)	(96)
(Inc)/decrease in CL and prov	42	42	116	28
CF from Operations	106	104	57	150
(Inc)/decrease in Fixed Assets	(18)	(69)	(83)	(83)
Others	5	(83)	18	19
CF from Investing	(12)	(153)	(64)	(64)
Issue/(Buy back) of Equity	-	136	-	-
Inc/(dec) in loan funds	(23)	(43)	-	-
Dividend paid & dividend tax	(6)	(7)	(12)	(15)
Others	(25)	12	(30)	(30)
CF from Financing	(54)	98	(42)	(45)
Net Cash flow	40	49	(49)	41
Opening Cash/Cash Equivalent	10	50	99	50
Closing Cash/ Cash Equivalent	50	99	50	91

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(Year-ended-March)	FY21	FY22	FY23E	FY24E
Equity Capital	23	24	24	24
Reserve and Surplus	501	730	930	1116
Total Shareholders funds	523	754	954	1140
Minority Interest	0	0	0	0
Other Non Current Liabilities	18	17	12	12
Total Debt	51	8	8	8
Sources of Funds	593	779	974	1,161
Gross Block	488	536	630	713
Acc: Depreciation	135	151	165	185
Net Block	416	437	458	498
Capital WIP	13	34	23	23
Total Fixed Assets	429	472	480	520
Non Current Assets	36	106	113	119
Inventory	266	343	404	481
Debtors	225	189	350	353
Loans and Advances	0	0	0	0
Other Current Assets	38	68	79	94
Cash & Equivalent	37	14	50	91
Investments	25	110	120	120
Total Current Assets	591	725	1002	1140
Current Liabilities	463	503	618	646
Net Current Assets	128	222	384	494
Application of Funds	593	779	974	1,161

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	7.1	8.8	12.5	15.7
BV	46.1	63.3	80.1	95.8
Dividend per share	0.5	0.6	1.0	1.3
Dividend payout ratio	7.1	6.8	8.0	8.0
Operating Ratios				
EBITDA Margin	9.7	9.3	10.5	11.2
PAT Margin	6.5	6.4	7.6	8.0
Return Ratios				
RoE	15.3	13.9	15.6	16.4
RoCE	26.9	23.0	22.5	23.6
RoIC	28.0	26.8	26.6	28.2
Valuation Ratios				
EV / EBITDA	21.8	17.3	12.5	9.7
P/E	32.6	26.1	18.4	14.7
EV / Net Sales	2.1	1.6	1.3	1.1
Market Cap / Sales	2.1	1.7	1.4	1.2
Price to Book Value	5.0	3.6	2.9	2.4
Turnover Ratios				
Asset turnover	2.4	2.3	2.0	2.1
Debtors Turnover Ratio	5.5	8.6	5.6	6.6
Creditors Turnover Ratio	3.7	4.5	4.3	4.7
Solvency Ratios				
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	1.1	1.2	1.3	1.4
Quick Ratio	0.6	0.5	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1,850	2,175	Buy	259592	56.8	65.0	76.7	32.6	28.5	24.1	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,835	3,040	Buy	100960	29.5	36.7	48.5	96.1	77.2	58.4	13.9	15.7	18.6	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,555	3,011	Buy	24099	64.6	79.8	86.0	39.6	32.0	29.7	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,111	2,405	Buy	25154	26.2	38.7	53.4	80.5	54.6	39.5	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	391	474	Hold	10053	12.9	15.5	29.6	30.3	25.2	13.2	11.9	13.5	19.3	10.6	10.8	17.6
Greaves Cotton (GREAVE)	172	209	Buy	3977	0.7	3.5	3.6	243.0	48.8	48.1	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	449	474	Hold	14229	5.7	6.6	9.1	78.6	68.1	49.3	18.9	17.8	21.0	18.7	18.5	21.1
Bharat Electronics (BHAELE)	291	315	Buy	70905	9.6	11.3	12.6	30.2	25.8	23.1	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	336	340	Hold	4420	42.9	38.6	42.3	7.8	8.7	7.9	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,500	4,920	Buy	22247	77.0	104.8	122.9	58.4	42.9	36.6	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	3,115	2,810	Buy	23431	43.5	54.8	62.5	103.4	82.1	72.0	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	140	220	Buy	1357	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	230	285	Buy	2739	8.8	12.5	15.7	26.1	18.4	14.6	23.0	22.5	23.6	13.9	15.6	16.4
Data Patterns (DATPAT)	840	900	Buy	4358	18.1	21.7	28.0	46.4	38.7	30.0	23.8	24.4	26.4	16.4	18.1	19.6
HAL (HINAER)	2,282	2,200	Buy	76308	151.9	123.6	137.4	15.0	18.5	16.6	27.4	29.7	30.5	26.3	22.5	23.2

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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