

Action Construction Equipment (ACTCON)

CMP: ₹ 1299

Target: ₹ 1575 (21%)

Target Period: 12 months

BUY

August 5, 2024

Well poised for strong growth...

About the stock: Action Construction Equipment (ACE), established in 1995, is India's leading Material Handling and Construction Equipment manufacturing company and are market leaders in Mobile Cranes & Tower Cranes segment

- As of FY24, cranes contributed ~72% to total revenue followed by construction equipment (~13% of total), agri equipment (~8% of total) & material handling (~6% of total)

Q1FY25 Performance: Revenue increased by 12.7% YoY to ₹ 734.3 crore, led by 20% YoY growth in cranes, construction equipment & material handling segment. These three segments put together (94% of total revenue), witnessed ~20% volume growth YoY while the blended realization remained flat YoY. Agri equipments revenue (6% of total) declined by 42.9% YoY on lower volumes & realizations. Sequentially, revenue declined 12.2% on lower volumes across segments. EBITDA margin improved to 13.4% (+90 bps YoY, -208 bps QoQ), mainly led by positive operating leverage. Subsequently, EBITDA increased by 20.8% YoY (-23.9% QoQ) to ₹ 98.6 crore. PAT increased by 24.6% YoY (-14.5% QoQ) to ₹ 84.2 crore

Investment Rationale:

- Robust capex scenario augurs well for company's products:** We believe that buoyant capex prospects (public & private) across the manufacturing & infrastructure segments, presents substantial opportunity for the company's products in cranes, construction equipments, material handling etc. The company, already a market leader in cranes segment with 60%+ market share, is well poised to capture the Industry's strong growth potential. Also, India's emergence as one of the best choices in manufacturing capital goods equipments provides a sizable opportunity to company to increase its exports
- Focus on increasing capacities and improving product portfolio:** ACE is focused on improving its market shares in both domestic and export markets in its key segments like cranes and construction equipments through capacity additions & improving product portfolio (like medium to large cranes, electric cranes, backhoe loaders, telehandlers etc) and exploring JVs and acquisitions
- Poised for a strong growth ahead across the key segments:** For FY25E, management expect overall revenue growth of 15-20% with sustainable EBITDA margins. By FY27E, company aims to reach revenue of ₹ 5500-5600 crore which implies ~24% CAGR (FY24-27E). In terms of exports, company intends to increase its exports share to 15-20% of revenues in medium term (from ~8% at present)

Rating and Target Price

- With strong focus on increasing competitive strength through augmenting capacities and improving product ranges, we believe company's operational performance to improve significantly in the coming period
- We maintain BUY on ACE with a target price of ₹ 1575 per share (based on 40x FY26E EPS)

Key Financial Summary

Rs Crore	FY20	FY21	FY22	FY23	FY24	3 Year CAGR (FY20-FY24)	FY25E	FY26E	2 Year CAGR (FY24-FY26E)
Revenue	1,156.2	1,227.0	1,629.6	2,159.7	2,913.8	26.0	3,433.3	4,064.0	18.1
EBITDA	91.6	119.4	151.4	220.9	403.3	44.9	478.3	575.9	19.5
EBITDA margin (%)	7.9	9.7	9.3	10.2	13.8		13.9	14.2	
Net Profit	52.5	80.2	105.0	173.0	328.2	58.1	388.0	468.7	19.5
EPS (Rs)	4.6	7.1	8.8	14.5	27.6		32.6	39.4	
P/E (x)	56.7	183.9	147.3	89.4	47.1		39.9	33.0	
EV/EBITDA (x)	33.1	123.4	101.6	68.9	37.2		30.7	25.7	
RoCE (%)	19.3	24.0	19.9	30.6	44.2		39.3	47.2	
RoE (%)	11.9	15.3	13.9	18.8	26.7		24.1	29.8	

Source: Company, ICICI Direct Research



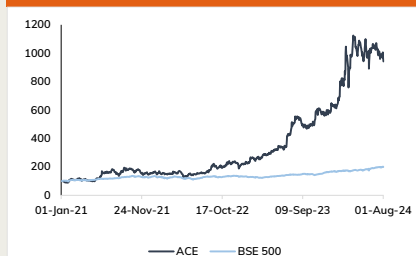
Particulars

Particular	Amount
Market Capitalization	15,471
Total Debt (FY24) (Rs crore)	4
Cash and Inv (FY24) (Rs crore)	624
EV (FY24) (Rs crore)	15,387
52 week H/L	1695 / 644
Equity capital (Rs crore)	23.8
Face value (Rs)	2

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	66.8	66.8	66.8	65.4
FII	9.0	8.8	9.4	10.1
DII	2.8	2.6	2.2	1.8
Others	21.5	21.8	21.7	22.7

Price Chart



Key risks

- slowdown in domestic & global capex
- increase in commodity prices
- shortage of skilled labour

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Q1FY25 earnings call highlights

- Cranes, Construction Equipments and Material Handling segments have been consolidated together from Q1FY25, with an objective of simplifying the structure
- There was some shortfall in revenues during the quarter because of elections, which also restricted the improvement in margins
- Cranes capacity expected to increase to 15000-18000 by Q3FY25 (from 13,200 at present)
- There is enough legroom in capacity utilisation improvement in cranes segment as the capacity utilisation stood at 65% in Q1FY25
- Agricultural equipment segment expected to see recovery in coming period, led by better monsoon and improvement in liquidity
- EBITDA margin has improved YoY during the quarter led by positive operating leverage, realisation improvement on new product mix and lower commodity prices
- Though overall demand for company's products has been healthy led by infrastructure, construction and manufacturing activities, overall demand is expected to pick-up further substantially post monsoon
- Management guides revenue growth of 15-20% for FY25E, led by ~30% growth in construction equipments, 15-20% growth in cranes & material handling and ~15% in agriculture equipments
- JV with Japanese company, Kato Works, is in finalisation stages and the venture would start function by next year
- The JV intends to produce medium & large sized cranes (mainly truck cranes, crawler cranes and rough terrain cranes) for the growing Indian market
- JV also plans to utilize the technology which will be cultivated in the company's development and introduce wide range of value added products for exports to other countries from India
- Market is shifting towards bigger cranes and new generation cranes where the realisations are relatively better. Power cranes market is also booming as 90% of the demand is from growing real-estate market
- Exports contribution stood at ~8% in Q1FY25 and expected to remain 8-8.5% for FY25. Company targets exports contribution at 15-20% in the next 3-4 years
- Defence contribution stands at 2.5% at present and expected to increase to 3.5-4% for full year FY25E as company expect big orders in defence during Q2/Q3FY25
- Electric Vehicles (EV) cranes product development is ready from the company's side but the CMVR (Central Motor Vehicle Rule) certification from government is awaited. There is strong interest for EV cranes from many private companies
- Operating margins are expected to be better in EV cranes as compared to existing product portfolio

Exhibit 1: Q1FY25 result snapshot (₹ crore)

Particulars (Rs Crore)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Revenue from operations	734.3	651.6	12.7%	835.8	-12.2%	Revenue growth restricted to ~13% YoY due to general elections
Raw Material cost	513.6	451.8	13.7%	572.1	-10.2%	
Employee cost	31.6	26.5	19.4%	30.7	2.9%	
Other expenses	90.4	91.7	-1.4%	103.4	-12.5%	
Total Expenditure	635.6	570.0	11.5%	706.2	-10.0%	
EBITDA	98.6	81.7	20.8%	129.7	-23.9%	
EBITDA Margin (%)	13.4	12.5	90 bps	15.5	-208 bps	Margins improved YoY on better product mix and positive operating leverage
Other Income	27.6	16.2	69.6%	20.9	31.7%	
Depreciation	6.9	5.2	31.5%	6.7	2.1%	
Interest	7.3	3.1	133.8%	10.7	-31.4%	
PBT	112.0	89.5	25.1%	133.2	-15.9%	
Taxes	27.8	22.0	26.6%	34.7	-19.9%	
PAT	84.2	67.6	24.6%	98.5	-14.5%	

Segmental Break-up (Rs Crore)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Cranes, CE, MH*						
Revenue	691.3	576.3	19.9%	796.0	-13.2%	Overall demand remains healthy in cranes, construction equipments and material handling
EBIT	104.3	83.8	24.5%	134.2	-22.3%	
EBIT Margin (%)	15.1%	15.0%	6 bps	17.7%	-265 bps	
Agri Equipment						
Revenue	43.0	75.3	-42.9%	39.9	7.8%	Revenue de-growth in agri segment continues but expected to see recovery post monsoon
EBIT	1.3	4.4	-70.8%	-0.1		
EBIT Margin (%)	3.0%	5.9%	-287 bps	-0.3%	330 bps	

Source: Company, ICICI Direct Research *CE and MH denotes Construction Equipments and Material Handling respectively

Financial summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-ended-March)	FY22	FY23	FY24	FY25E	FY26E
Revenue	1,630	2,160	2,914	3,433	4,064
Total Raw Material Costs	1171	1536	2023	2359	2763
Employee Expenses	85	100	121	145	174
Other expenses	222	303	367	451	551
Total Operating Expenditur	1,478	1,939	2,511	2,955	3,488
EBITDA	151	221	403	478	576
EBITDA Margins	9.3%	10.2%	13.8%	13.9%	14.2%
EBITDA Growth %	26.9%	45.9%	82.5%	18.6%	20.4%
Other Income	11	42	77	93	111
Interest	10	11	23	28	32
PBDT	153	252	457	543	655
Depreciation	15	18	23	26	30
PBT before Excep item	137	234	434	517	625
Total Tax	32	61	106	129	156
PAT before MI	105	173	328	388	469
PAT	105	173	328	388	469
% Growth	31.0	64.7	89.7	18.2	20.8
EPS	8.8	14.5	27.6	32.6	39.4

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-ended-March)	FY22	FY23	FY24	FY25E	FY26E
Equity Capital	24	24	24	24	24
Reserve and Surplus	730	895	1206	1587	1549
Total Shareholders funds	754	919	1230	1611	1573
Minority Interest	0	2	2	2	2
Other Non Current Liabilities	17	17	13	13	13
Total Debt	29	6	4	4	4
Sources of Funds	801	943	1,249	1,629	1,592
Gross Block	586	641	751	895	1039
Acc. Depreciation	151	169	192	217	247
Net Block	436	472	560	645	715
Capital WIP	24	24	44	44	44
Total Fixed Assets	460	497	603	688	758
Non Current Assets	120	192	293	293	293
Inventory	333	419	553	658	779
Debtors	189	169	164	207	245
Loans and Advances	0	0	0	0	0
Other Current Assets	67	63	75	89	106
Cash & Equivalent	14	49	110	411	327
Investments	99	212	370	370	370
Total Current Assets	703	911	1273	1735	1827
Current Liabilities	482	657	921	1087	1287
Net Current Assets	221	255	352	648	540
Application of Funds	801	943	1,249	1,629	1,592

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(Year-ended-March)	FY22	FY23	FY24	FY25E	FY26E
Profit after Tax	105	173	328	388	469
Add: Depreciation	15	18	23	26	30
Interest	10	11	23	28	32
(Inc)/decrease in CA	(60)	(61)	(142)	(162)	(175)
(Inc)/decrease in CL and prov	21	175	264	166	200
CF from Operations	90	315	496	445	554
(Inc)/decrease in Fixed Assets	(47)	(55)	(130)	(144)	(144)
Others	(115)	116	146	93	111
CF from Investing	(162)	61	17	(51)	(33)
Issue/(Buy back) of Equity	136	-	-	-	-
Inc/(dec) in loan funds	(22)	(23)	(2)	-	-
Dividend paid & dividend tax	(7)	(12)	(24)	(31)	(506)
Others	(56)	(306)	(425)	(63)	(99)
CF from Financing	50	(341)	(451)	(94)	(605)
Net Cash flow	(22)	35	61	300	(83)
Opening Cash/Cash Equivaler	37	14	49	110	411
Closing Cash/ Cash Equivalen	14	49	110	411	327

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

	FY22	FY23	FY24	FY25E	FY26E
Per Share Data					
EPS	8.8	14.5	27.6	32.6	39.4
BV	63.3	77.1	103.3	135.2	132.1
Dividend per share	0.6	1.0	2.0	2.6	42.5
Dvidend payout ratio	6.8	6.9	7.3	8.0	108.0
Operating Ratios					
EBITDA Margin	9.3	10.2	13.8	13.9	14.2
PAT Margin	6.4	8.0	11.3	11.3	11.5
Return Ratios					
RoE	13.9	18.8	26.7	24.1	29.8
RoCE	19.9	30.6	44.2	39.3	47.2
RoIC	22.5	37.6	66.8	68.3	74.0
Valuation Ratios					
EV / EBITDA	101.6	68.9	37.2	30.7	25.7
P/E	147.3	89.4	47.1	39.9	33.0
EV / Net Sales	9.4	7.0	5.1	4.3	3.6
Market Cap / Sales	9.5	7.2	5.3	4.5	3.8
Price to Book Value	20.5	16.8	12.6	9.6	9.8
Turnover Ratios					
Asset turnover	2.1	2.3	2.4	2.1	2.5
Debtors Turnover Ratio	8.6	12.8	17.7	16.6	16.6
Creditors Turnover Ratio	3.9	4.3	4.2	4.2	4.2
Solvency Ratios					
Debt / Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	1.2	1.0	0.9	0.9	0.9
Quick Ratio	0.5	0.4	0.3	0.3	0.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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