

2<sup>nd</sup> May 2024

## Action Construction Equipment – BUY

**CMP** : Rs. 1,498  
**Target Price** : Rs. 1,995  
**Upside** : ~33%+  
**Stop Loss** : Rs. 1,341 (Closing basis)

### Investment Thesis

- Action Construction Equipment Ltd. (ACE) is a market leader in the mobile tower cranes segment which caters to the infrastructure and manufacturing sector with contribution from these user industries to mobile tower cranes segment of 55%/45% respectively. ACE sells pick n carry cranes, fixed tower cranes as well as mobile tower cranes under this segment. The prospective growth in the user industry as well as the leadership position of the company in this segment augurs well for ACE.
- ACE boasts a marquee clientele ranging from Adani, Reliance, KEC in construction, ACC, Ambuja in the manufacturing, NTPC in infrastructure as well as other clients from the agriculture segment.
- ACE has achieved milestones such as being the first company to manufacture fully electric cranes. ACE is also the first to do 180 tons capacity of fully indigenous crawler cranes and the first to manufacture aerial work platforms of 20-27m height with plans to foray into the 40-44m height aerial work requirement.
- ACE has received orders in the defence space to the tune of ~Rs. 700 crs. which will be executed in 2-3 years time. The orders are received from navy and the army for rough terrain cranes worth ~Rs. 25 crs., 8 tons forklifts for 60 nos., 60 tons special purpose truck mounted cranes, to name a few.
- Recently started the OEM business for backhoe loaders (white labelling) in the North American region and are expected to earn 10-15% growth in the topline from this segment.
- Management Guidance:
  - Management has forecasted the FY24E-FY26E revenue growth of 26.7% with segmental growth for MT/CE at 30%/50%, respectively.
  - Foraying into the electric truck segment, awaiting CMVR approval.

### Financials

- ACE has reported its highest ever Revenue/EBITDA/PAT/PATM at Rs. 776Crs./Rs. 126 Crs./ Rs.88 Crs./11.36% in Q3FY24. Quarterly YoY Revenue growth driven by increased volumes, better product mix and focus shift towards high margin product.

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue* (Rs in Crs)	1227.15	1629.58	2159.68	2737.82	3458.69
EBITDA*(Rs in Crs)	118.98	151.44	220.92	372.54	565.94
Adj. PAT * (Rs in Crs)	79.79	105.00	172.98	281.09	431.65
Adj. EPS (Rs.) *	7.03	8.82	14.41	23.62	36.27
PE Multiple (x)	213.02	169.91	103.99	65.00	55.00
RoE (%)	16.52	16.44	20.68	23.43	26.47

### Stock Data

Market Cap (Rs. Crs)	17,839
Market Cap (\$ Mn)	2,137
Shares O/S (in Mn)	119
Avg. Volume (3 month)	6,46,469
52-Week Range (Rs.)	1,695 / 430

### Shareholding Pattern

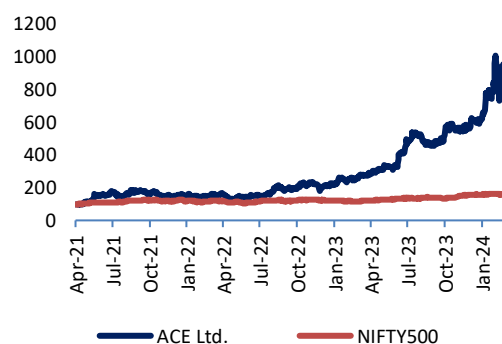
Promoters	66.76%
FII's	9.35%
Institutions	2.21%
Others (incl. body corporate)	21.68%

### Key Ratios

Div Yield	0.07%
TTM PE	64.4x
ROE	18.8%
TTM EPS (Rs.)	23.3

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	7.7	100	268.3
NIFTY500	3.6	24.8	37.9



- ACE reported robust segmental revenue growth of 43%/45% for Cranes/CE space, respectively.
- Additionally, ACE has reported a strong ROCE for 9MFY24 at 39.60% showcasing consistent growth since FY21.
- ACE has also reduced its Working capital days to 40 from 52 days in FY22 signalling robust efficiency in operations.
- ACE reported a significant expansion in the EBITDA margin by 388 bps due to focus on cost efficiencies, higher operating leverage and better product mix which has higher margin. The PBT/PAT margins expanded by 373 bps/380 bps, respectively.

## Key Business Highlights

- Since 1995, Action Construction Equipment Ltd. (ACE) has been a leading manufacturer of construction and material handling equipment in India. Their product range includes cranes (mobile hydraulic and mobile tower), forklifts, road construction equipment (backhoe loaders, compactors, graders), and agricultural equipment (tractors, harvesters, rotavators, and more). The company went public with its initial public offering (IPO) in 2006.
- ACE's product portfolio includes – **Construction Equipments (CE) (14% Rev)**: Backhoe loaders, wheel loaders, soil compactors, tandem vibratory rollers, and motor graders tackle tough construction jobs efficiently. **Material Handling (MHE) (8-10% Rev)**: Forklift trucks, warehousing equipment, and piling rigs ensure smooth operation in warehouses and for specialized lifting tasks. **Mobile Tower Cranes (MTC) (70% Rev)**: Pick & Carry cranes, Lorry loaders, Self-erecting tower cranes, crawler cranes, and truck cranes provide powerful lifting solutions for diverse applications. **Agriculture Equipment (AE) (6%-8% Rev)**: Tractors, track combines, wheel harvesters, and rotavators empower agricultural businesses to cultivate and harvest their crops effectively.
- ACE is a global leader in Pick & Carry Cranes, with a dominant presence in India and serving over 37 countries worldwide.
- New Product Launches:
  - A) India's First Fully Electric Mobile Crane
  - B) India's Largest Mobile Crane - 180 Tons Crawler Crane
  - C) Aerial Work Platforms and Telehandlers.
  - D) 35 Tons 4X4 Next-Gen Crane.

## Valuation

Given the robust government initiative for infrastructure with a capital outlay stepping up by 11.11% to Rs. 11.11 lakh crore would mean increased construction activity, further increasing the demand for cranes and other lifting equipments. This augurs well for ACE which is in a starkling position to gain from the prospective increase in demand from user industry. Adding to it the robust competitive advantage that ACE brings through leadership position in the crane segment with ~63% market share. ACE is currently trading at a PE of 66.6x signalling a premium from the industry PE which is evident from the advantageous position that ACE enjoys in the market.

Therefore, in light of above, we ascribe a **BUY** rating for **ACE** with a **target price** of **Rs.1,995.00**, translating to an **upside** of **~33%**.

## Risk & Concern

- Risks from commodity inflation can affect the prices of the raw materials, which in turn can affect ACE's margins.
- Geopolitical tension can create headwinds.

## Graphs & Charts

Figure 1: Net Sales Trend (Rs. in Crs)

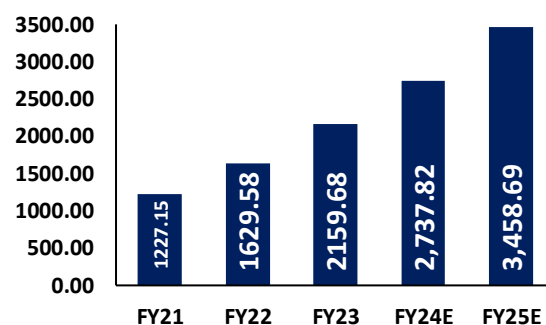


Figure 2: EBITDA & EBITDA Margin Trend

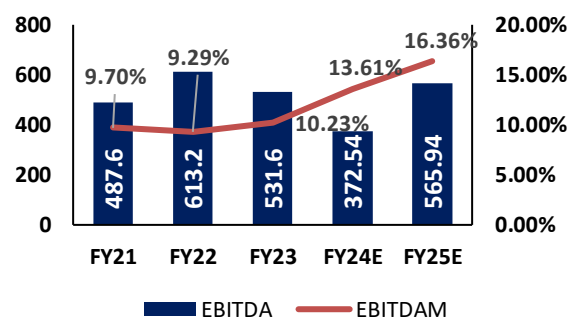


Figure 3: Net Debt to Equity (x)

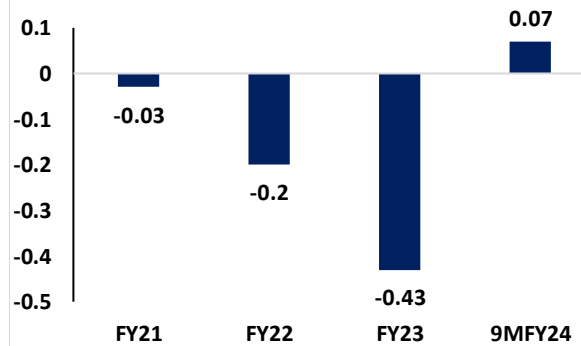
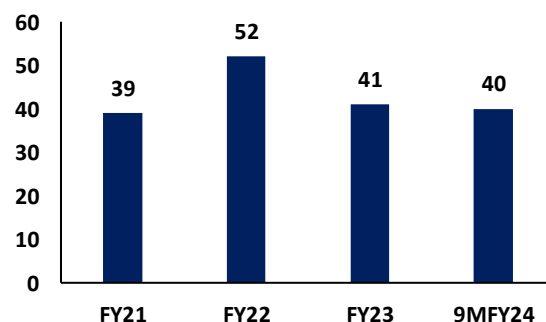


Figure 4: Working Capital Days



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