

Action Construction Equipment (ACTCON)

CMP: ₹ 737

Target: ₹ 910 (23%) Target Period: 6-12 months

BUY (HIGH CONVICTION IDEA)

October 23, 2023

Well positioned to benefit from strong industry tailwinds ...

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

- ACE has eight manufacturing units and one R&D site at Faridabad (Haryana)
- The company has a capacity of 12000 construction equipment and 9000 tractors annually
- Product portfolio is divided into four main categories viz. cranes (~71% of total revenue as of FY23), construction equipment (~11% of total), agricultural equipment (~11% of total) and material handling (~8% of total)

Investment Rationale:

- **Strong manufacturing capabilities with diversified & strong product portfolio and with focus on new product launches:** ACE has strong manufacturing and R&D capabilities across its segments like cranes, construction equipments, material handling equipments. With strong brand reputation, company is present across diversified sectors like construction, infrastructure, manufacturing, logistics and agriculture. The company, being the world's largest pick & carry cranes manufacturer with market share of over 60% in mobile and tower cranes segment in the country. With the aim to remain competitive in the market and sustain its leadership position, company continues to invest in new products development, technology upgradations and increasing its channel reach
- **Poised for a strong growth from buoyant capex prospects in manufacturing & infrastructure segments; focus on increasing exports:** We believe that buoyant capex prospects across the manufacturing & infrastructure presents substantial opportunities for the company's products. Moreover, India's emergence as one of the best choices in manufacturing capital goods equipments provides a sizable opportunity to company to increase its exports segment. Company expect strong growth across its segments in the coming period, led by 45-50% growth in construction equipments segment followed by cranes & agri (18-20% growth) and material handling (15-20% growth). Company expect overall growth of 20-25% in FY24E and aims to double its revenue by FY27E from FY24E level. In terms of exports, company intends to increase its exports share to 10-15% of revenues in medium term (from ~7% of revenues in FY23)

Rating and Target Price

- ACE is well positioned to ride the strong demand cycle in its product segments in both domestic & exports market, new product developments. We believe company's operational and financial performance to improve significantly in the coming period. We estimate revenue, EBITDA and PAT to grow at ~20%, ~35% and ~36% CAGR respectively over FY23-25E
- Valuations look attractive considering the industry tailwinds, strong growth in profitability over FY24-25E, strong balance sheet with healthy return ratios. We value ACE at ₹ 910 i.e. **34x FY25E P/E**

ACE

Action Construction Equipment Limited

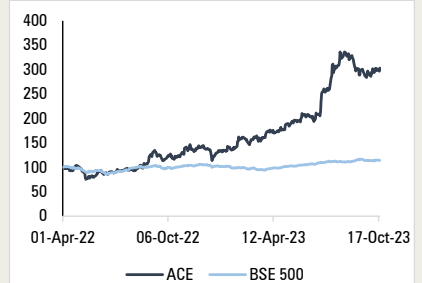
Particulars

Particular	Amount
Market Capitalization	8,778
Total Debt (FY23) (₹ crore)	6
Cash and Inv (FY23) (₹ crore)	424
EV (FY23) (₹ crore)	8,694
52 week H/L (₹) (BSE)	821 / 265
Equity capital (₹ crore)	23.8
Face value (₹)	2

Shareholding pattern

	Dec-22	Mar-23	Jun-23	Sep-23
Promoters	66.8%	66.8%	66.8%	66.8%
FII	5.0%	5.6%	6.5%	9.0%
DII	3.5%	3.5%	3.5%	2.8%
Others	24.8%	24.0%	23.2%	21.5%

Price Chart



Key risks

- (i) slowdown in domestic and global capex
- (ii) increase in commodity prices
- (iii) shortage of skilled labour

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Key Financial Summary

(Year-end March)	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-FY23)	FY24E	FY25E	2 Year CAGR (FY23-FY25E)
Revenue	1,156.2	1,227.0	1,629.6	2,159.7	23.2	2,591.6	3,110.9	20.0
EBITDA	91.6	119.4	151.4	220.9	34.1	309.4	404.4	35.3
EBITDA margin (%)	7.9	9.7	9.3	10.2		11.9	13.0	
Net Profit	52.5	80.2	105.0	173.0	48.8	243.7	318.7	35.7
EPS (₹)	4.6	7.1	8.8	14.5		20.5	26.8	
P/E (x)	56.7	104.3	83.6	50.7		36.0	27.5	
EV/EBITDA (x)	33.1	70.0	57.4	38.6		27.7	20.8	
RoCE (%)	19.3	24.0	19.9	30.6		31.0	31.8	
RoE (%)	11.9	15.3	13.9	18.8		20.0	21.1	

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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