Action Construction – ADD

29 August 2024

Initiating coverage

Growth from market leading position

Being a market leader in cranes (~60%-63% share in diverse cranes) in domestic market, ACE is well placed to capitalise on the strong capex outlook in infrastructure, manufacturing and real estate. This would be supported by improving product portfolio, and a lean cost structure. Combined with rising exports this should drive 16% volume Cagr and operating leverage led margin expansion. Planned foray in larger size equipments through JV presents upside. We initiate coverage with 35x PER on June'26 with TP of Rs1465 and ADD rating.

Best placed to capital on strong capex with leadership in cranes: Despite a strong presence of global players, ACE has sustained its strong ~63% market share in mobile cranes and 60% in tower crane segment over past many years. And is now well placed to benefit from strong capex in infrastructure, real estate and industrial sectors. The construction equipment segment (primarily backhoe loaders) should also benefit from strong push and a more aligned product portfolio. Combined with higher exports and from new orders from defence should help drive ~16% volume cagr over FY24-27 and operating leverage led improvement in margins.

Focused on expanding & improving product portfolio: ACE management is focused on (i) improving aesthetics and features of existing products (ii) expanding into contract manufacturing for exports and (iii) venturing into higher capacity equipment through JVs to grow volumes faster. The planned JV with Kato Works (Japan) is a step in this direction with final agreement likely to be finalised soon. Gains from these would present further upsides to growth for ACE.

Should delivery healthy return ratios and FCF: Strong growth and profitability along with a favourable operating cycle will translate into healthy 20-25% RoE and strong FCF despite planned Rs3bn capex to boost capacity. While multiple have expanded, we arrive at our TP of Rs1450 by assigning 35x PER to Jun-26 PAT – slight premium to 5yr average 1yr forward PE for capital goods names. This is still a significant discount to current 1yr forward PE for these names.

Company update

CMP	Rs1270
12-mth TP (Rs)	1465 (15%)
Market cap (US$m)	1,801
Enterprise value(US$m)	1,790
Bloomberg	ACCE IN
Sector	Infrastructure

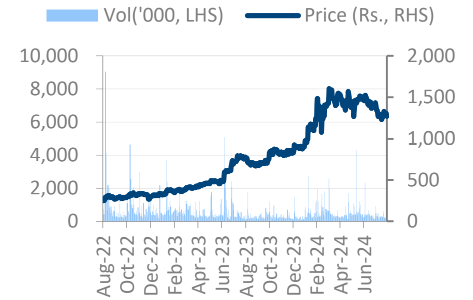
Shareholding pattern (%)

Promoter	65.4
Pledged (as % of promoter share)	0.0
FII	10.1
DII	1.8
52Wk High/Low (Rs)	1604/669
Shares o/s (m)	119
Del Value 3mth avg (US$ m)	3.9
Dividend yield FY25ii (%)	0.0
Free float (%)	34.6

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	(8.7)	(7.8)	65.1
Absolute (US$)	(9.0)	(8.6)	62.5
Relative Perf.	(11.5)	(21.9)	7.0
Cagr (%)		**3 yrs**	**5 yrs**
EPS (Rs)		57.7	42.0

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Revenues (Rs m)	21,597	29,138	34,904	40,518	46,772
Ebitda margins (%)	11.2	14.4	14.6	14.8	15.0
Pre-exceptional PAT (Rs m)	1,730	3,282	3,606	4,219	4,984
Reported PAT (Rs m)	1,730	3,282	3,606	4,219	4,984
Pre-exceptional EPS (Rs)	14.5	27.6	30.3	35.4	41.9
Growth (%)	64.7	89.7	9.9	17	18.1
PER (x)	**87.4**	**46.1**	**41.9**	**35.8**	**30.3**
ROE (%)	20.7	30.6	25.8	23.9	22.6
Net debt/equity (x)	0.0	(0.1)	(0.1)	(0.2)	(0.4)
EV/Ebitda (x)	62.2	35.9	29.5	24.4	20.3
Price/book (x)	16.5	12.3	9.6	7.7	6.2
OCF/Ebitda (x)	1.1	1.0	0.6	0.7	0.7

Source: Company, IIFL Research. Priced as on 28 August 2024

Mudit Bhandari
mudit.bhandari@iiflcap.com
91 22 4646 4715

Anupam Gupta
anupam.gupta@iiflcap.com
91 22 4646 4641

Company Overview

Established in 1995 by Mr Vijay Agarwal, Action Construction Equipment (ACE) has emerged as the dominant player in the mobile cranes market with 63% market share in pick and carry cranes and over 60% market share in tower cranes. It also offers construction equipment (lorry loaders, backhoe loaders etc), material handling equipment (forklifts) and agriculture equipments (tractors & harvesters).

Figure 1: Well diversified Product portfolio

Source: Company, IIFL Research

Figure 2: Segment wise Revenue

Revenue	FY21	FY22	FY23	FY24
Cranes	65%	67%	71%	72%
Construction Equipment	11%	11%	11%	13%
Material Handling	8%	10%	8%	6%
Agricultural Equipment	16%	12%	10%	8%

Source: Company, IIFL Research

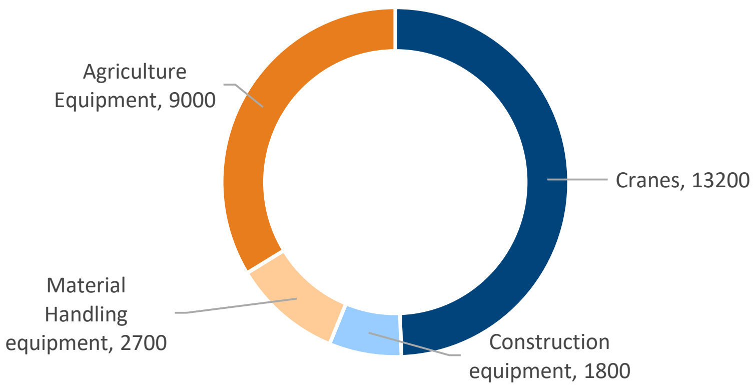
Figure 3: Incorporated in 1995, the company has come a long way over past ~30 years

Year	Particulars
1995	Company Incorporated & Introduced Hydraulic Mobile Cranes
1997	Received ISO-9001 certification and started regional office in Mumbai
1999	Commenced exports and introduced Mobile Tower Crane
2004	Introduced Tower crane
2006	Did IPO and got listed
2007	Introduced Forklift Trucks received CE certification
2008	Introduced Crawler Crane
2009	Entered Construction Equipment market & introduced range of tractors
2010	Developed Advanced Technology for Big Tower Cranes
2011	Commenced in-house Manufacturing of Crawler Cranes
2012	Introduced Next-generation Pick and Move Cranes and Lorry Loaders
2013	Introduced In-house Engine Plant and Track Combine
2014	Introduced Wheel Harvester
2015	Introduced Rotavator and Other Agri Equipment
2016	Introduced Skid Steer Loaders
2017	Introduced Range of Tractors and Material Handling Equipment
2018	Collaborated with Sunward for Pilling Rig
2019	Introduced NX Series Cranes, 55-60 Ton Truck Cranes and Next-gen Backhoe Loaders
2020	Introduced Cranes for Pilling
2021	Developed Lithium-ion Electric Forklifts & Introduced New Models of Backhoe Loaders and Tractors for Export and did QIP of Rs1.35bn
2022	Orders from Defense and BRO started
2023	Unveils fully electric mobile crane which will be sold after formation of motor vehicles rules
2024	Announced 50:50 Joint Venture with Kato Works

Source: Company, IIFL Research

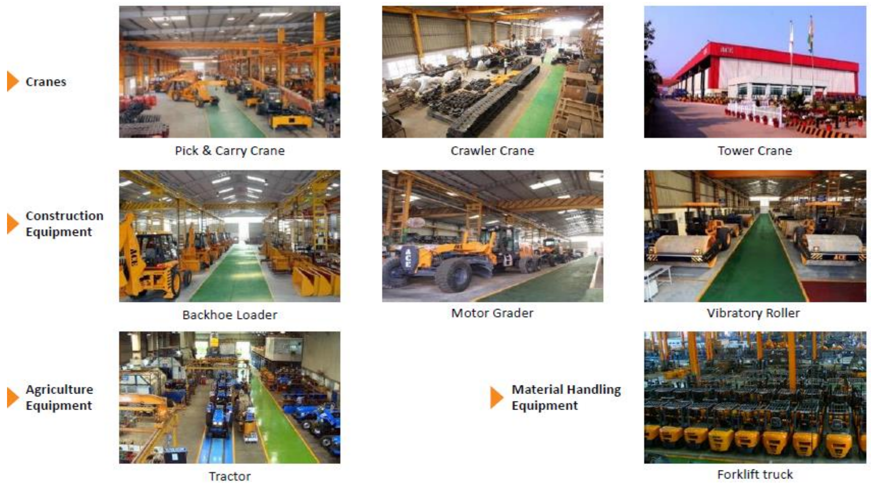
The company has a large manufacturing setup at Faridabad in Haryana with seven units spread across 100 acres of which ~80-85 acres land is currently utilised. Total installed capacity stands at ~21,300 units including 13,200 units of cranes, 1800 construction equipment, 2700 material handling, and ~9,000 tractors.

Figure 4: Overall capacity of 21,000 units has lot of backward fungibility



Source: Company, IIFL Research

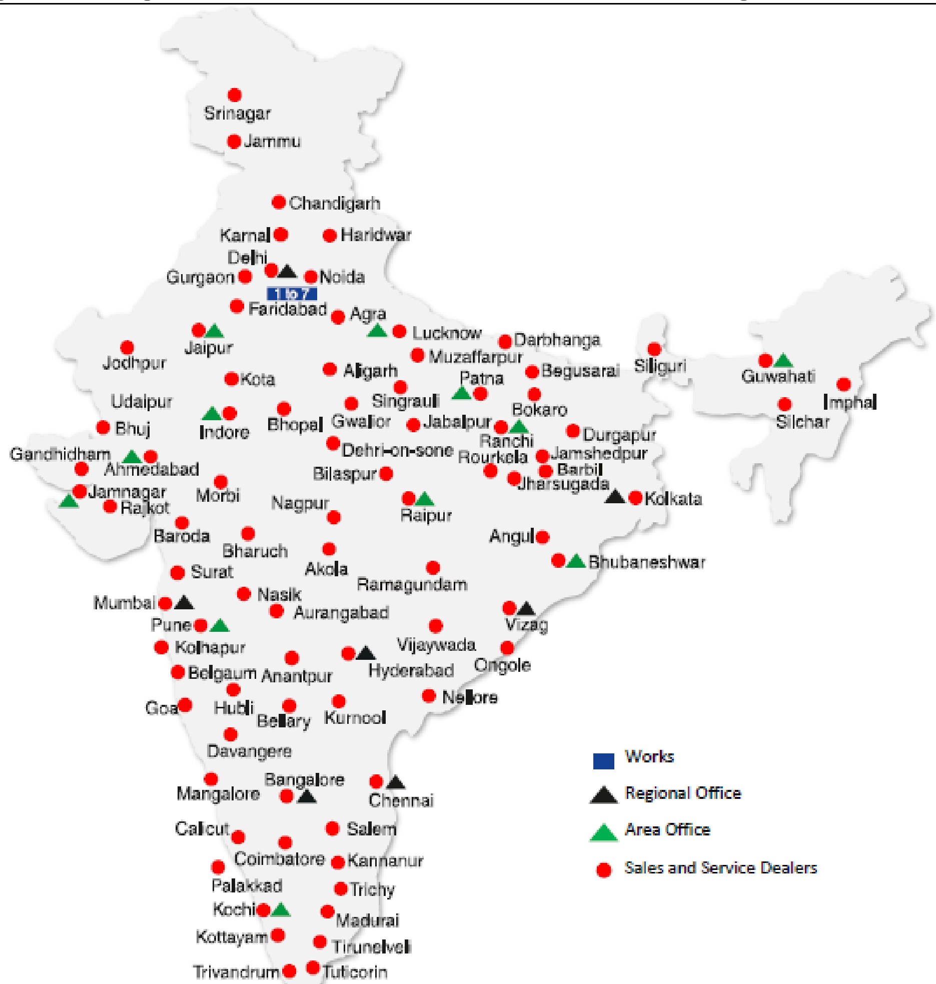
Figure 5: Manufacturing set up



Source: Company, IIFL Research

On the front end, company has built a strong pan India distribution network including 21 regional and area officers, over 100 construction equipment dealers and 200 agri focussed dealers. The outlets are fully equipped to provide genuine spare parts and other required service to ensure long term viable operations for users.

Figure 6: 21 regional offices & 100 dealers to drive S&M and servicing



Source: Company, IIFL Research

Figure 7: Profile of Key Management Personnels

KMP	Particulars
Mr. Vijay Agarwal, CMD	He is promoter of the company having 50years of industry experience in material handling and heavy engineering industry. He is Mechanical Engineer and MBA from FMS Delhi, has track record of single handedly mentoring the company.
Mrs. Mona Agarwal, WTD	She is the promoter, philanthropist and is involved in administration, HR, strategic transformations, business management and employee engagement processes. She is wife of Mr. Vijay Agarwal.
Mr. Sorab Agarwal, WTD	Being associated with the company for past 24 years, is now leading the Cranes and Equipment business. He is a Mechanical Engineer and son of Mr. Vijay Agarwal.
Mrs. Surbhi Garg, WTD	Being associated with the company for past 12 years, is handling administrative and Human Resource affairs. She is daughter of Mr. Vijay Agarwal.
Mr. Rajan Luthra, CFO	Joined in 2010 as CFO and has 38 years of experience in industry where his area of expertise is Strategic Planning, Profit Improvement, Mergers, Investor Relations, Tax, fund raising etc.

Source: Company, IIFL Research

Healthy macro tailwinds

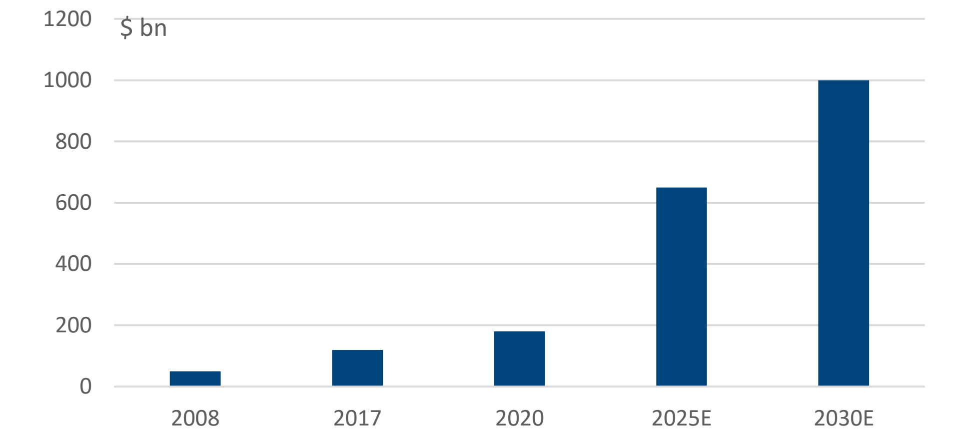
The construction equipment market consisting of earth moving machinery, material handling equipment, road construction equipment, material processing equipment and concrete equipment totalled to US$142bn globally in 2022 off which India's market stood at US$6.6bn. The industry in India has seen a strong growth over past few years led by healthy government funded capex across infrastructure segments (roads, railways, urban infra), affordable housing and push to Make in India which is driving an uptick in industrial capex.

Figure 8: Budget

CG Capex (Rs.Bn)	FY20	FY21	FY22	FY23	FY24E	FY25BE
Road transport and highways	684	892	1133	2060	2645	2722
Railways	678	1093	1173	1591	2400	2520
Defense	1160	1399	1380	1429	1572	1720
Housing and urban affairs	193	103	288	269	265	286
Atomic energy	81	65	153	138	150	139
Space	72	46	69	43	44	56

Source: Company, IIFL Research

Figure 9: Size of India's real estate market to grow to US $1000bn



Source: Keystone, IIFL Research

FY24 volume for the industry stood at 135,650 units growing 26% YoY. Continued healthy spends would entail demand for construction and material handling equipment.

Figure 10: Sectoral growth drivers

Sector	Particulars
Urban Infra	Rs750bn for 100 critical transport infrastructure projects, for last and first mile connectivity for ports, coal, steel, fertilizer, and food grains sectors. Urban Infrastructure Development Fund (UIDF) will be established through use of priority Sector Lending shortfall
Railways	three major economic railway corridor programs and Expansion of Metro Rail and NaMo Bharat; 400 new Vande Bharat trains to be developed in the next three years and 'One Station-One Product'
Manufacturing	PLI in 14 sectors for achieving the vision of 'Atmanirbhar Bharat' with the potential to have additional production of Rs3,000bn during next 5 years; Vocal for Local and China+1 Strategy
Roads	As per Budget FY24, Expansion of the National Highways network by 14,000 km in FY24; Likely to have 18% Capital expenditure over FY19-25 & NHAI coming up with 23 new highways including expressways & economic corridors
Housing	affordable housing to 1 crore families under Pradhan Mantri Awas Yojana (PMAY); Real estate sector in India is expected to reach a market size of US$ 1 trillion by 2030 and contribute 13% to the country's GDP by 2025.
Agriculture	Indian tractor market stands at ~8,74,000 units and the Indian agricultural tractor market is anticipated to grow at a CAGR of 6.7% over the forecast period 2024-2029. Increased budgetary allocation to Rural Development, Irrigation Projects, and Subsidies, along with improved credit availability, is anticipated to stimulate higher demand in these sectors.
Logistics	100 PM Gati Shakti Cargo Terminals for multimodal logistics facilities will be developed till 2025; logistics market in India is forecasted to grow at a CAGR of 10.5% between 2019 and 2025.
Warehousing	Supportive Government policies such as establishment of logistic parks & free trade warehouse zones is expected to spur the market growth through 2025. Warehousing & logistics sector to have $10bn investement over next 4-5 years
Defense	Budget capital outlay increased to Rs 1.7 tn in FY25 (+11% y/y over FY24), while revenue expenditure declined by 5% yoy to Rs 2.8 tn in FY25 as compared to FY24). Major allocations will be towards Aircrafts (23%), Other equipments (36%), Naval fleet, dockyard & projects (18%) and Research & Development
Ports	Government has included 1,537 projects under the ambitious Sagarmala Programme at a cost of Rs6,500bn. Projects worth Rs133bn were awarded in the last three years on upgradation of the major ports.

Source: Company, IIFL Research

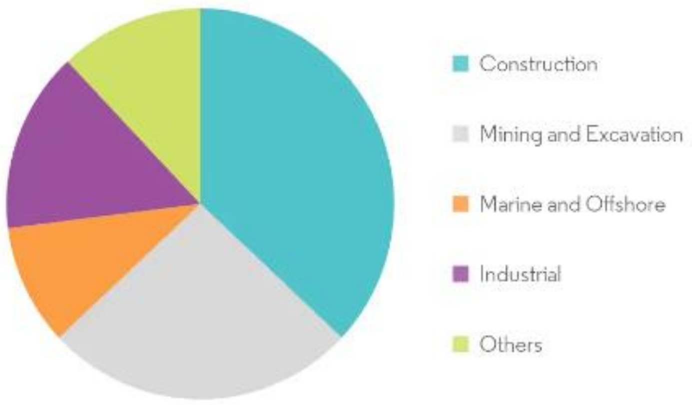
The chain of the industry is such that manufacturer (Caterpillar, ACE) produces the equipment and then sells to a company engaged in renting/leasing of such machinery to actual users (EPC players like L&T, PNC etc) with some exceptions of EPC companies purchasing instead of leasing. The typical life of equipment range within 8-15 years.

ACE – well spread presence

Dominates the domestic crane industry

The market size of Indian crane industry was ~US$1.39bn in FY24 with key end uses spread across construction, mining, excavation, marine & offshore and industrial sectors. The industry has witnessed significant changes in recent years due to technological changes, focus on operational comfort, and increased safety standards due to operations in rough terrain. Overall the industry is expected to grow at ~6.7% Cagr over FY24-29.

Figure 11: India Crane market share is fairy diversified by application type



Source: Mordor Intelligence

ACE has been the leader in the domestic crane industry with a dominant market share of 63%. It is the world's largest pick & carry crane manufacturer with market share of over 63% in mobile cranes and ~60% in tower cranes segment. The current crane business revenue is generated from manufacturing (~40%) and infrastructure (~60%)

sectors and the company has a steady focus on expanding the product portfolio to cater to other use cases as well to drive immunity against business cyclicality.

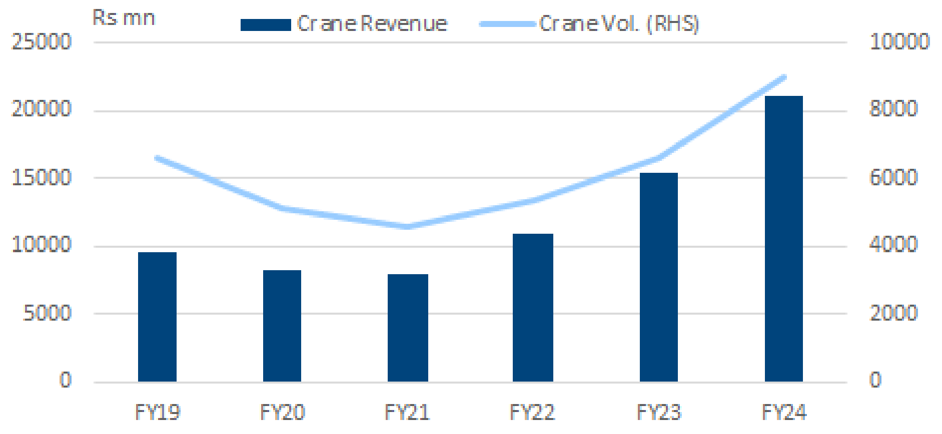
The current product portfolio includes pick and carry cranes, lorry loader crane, self-erecting tower crane, crawler crane, truck crane, tower crane. Majority of revenue is contributed by pick and carry crane as of now. The company has already developed electric cranes even as commercial launch is pending for notification of the formal rules under the Central Motor Vehicles act.

Figure 12: Key products in the crane segment

Crane Type	Use	Market Share	Volume share in FY24
Pick and Carry	Used at job sites and indoor application, and loading unloading including for short distance due to its flexibility, mobility and industrial application	63%	Majority share
Tower	Used for construction of tall buildings due to its loading and lifting capacity at the height while maintaining stability	60%	
Crawler and other crane	Used for large scale construction project requiring lifting and moving heavy loads	-	Small portion

Source: Company, IIFL Research

Figure 13: Revenue and volume growth in Crane segment



Source: Company, IIFL Research

Key strategy for ACE to sustain the leadership in the cranes market includes the following

- Upgrade the market to NX series – multi activity cranes.
- Gain market share in truck cranes by leveraging on strong brand activity.
- Introduce bigger models of crawler cranes.
- Capitalise on demand for bigger capacity tower cranes (precast construction).
- Increase the export contribution to revenue.

The company has recently launched fully electric mobile crane, 180ton crawler crane (largest mobile crane), Aerial work platforms & telehandlers and 35ton 4x4 Next Gen Crane. Overall, this will be backed by the recent capacity expansion from 9000 units to 13200 units which on full utilisation would be able to support incremental revenue of ~Rs40bn based on current prices

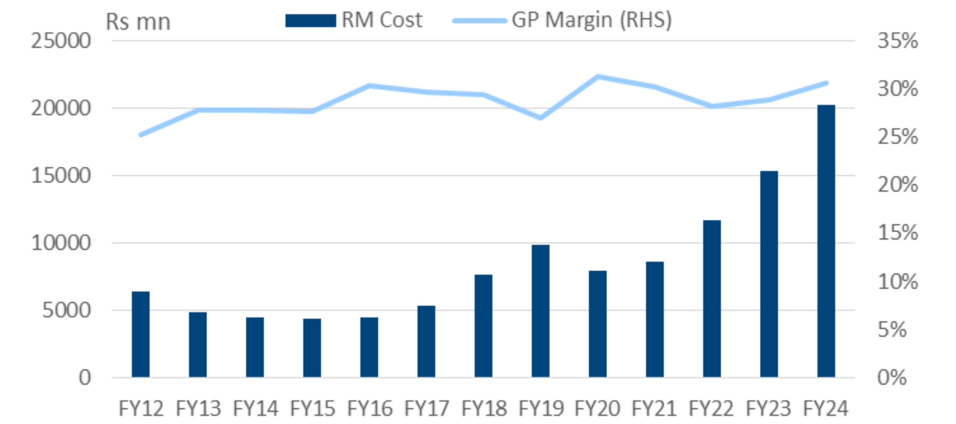
Figure 14: New telehandlers and aerial work platform are targeted for exports

Figure 15: ACE is ready with electric cranes once formal rules are notified

Source: Company, IIFL Research

While ACE was earlier reluctant in terms of raising prices, it now leads the domestic industry in terms of being the price setter. Holding the dominant position in the industry, pricing decision taken by the company has been followed by the market participants. ACE has been consistently increasing prices to cover cost changes while at the same time not taking advantage of customers given the B2B nature of the business. This has provided significant stability to gross margins for the business.

Figure 16:Gross margins have been stable at ~30%



Source: Company, IIFL Research

Growing presence in construction equipment market

India is third largest construction equipment market globally. The growth in recent years has been driven by strong demand for excavators and backhoe loaders led by government investment in infrastructure, uptick in mining activity domestically and revival of real estate projects. Incrementally, the demand would be supported from Tier-2 and Tier-3 cities and rural areas where there will be increased usage of backhoe on back of infra development.

Figure 17: Details of Construction equipment

Average Selling Price: INR ~19 lacs

Backhoe Loaders

- **Application**: Digging, moving, grading and loading earth and other loose aggregates
- **Configuration**: 2WD and 4WD
- **Sectors:** Infrastructure, Construction, Mining, Manufacturing

Average Selling Price: INR ~20 lacs

Vibratory Rollers

- **Application**: Compact aggregates and asphalt and also find application for ground compaction / stabilisation
- **Capacity Class**:
  - Soil compactors - 10 Tons to 12 Tons
  - Tandem Rollers - 3.5 Tons and 9 Tons
- **Sectors:** Infrastructure, Construction

Average Selling Price: INR ~55 lacs

Motor Graders

- **Application**: Levelling and Grading aggregate layers in Road Construction
- **Capacity Class**: 100 – 173 HP
- **Sectors: Infrastructure, Construction, Mining**

Average Selling Price: INR 2~3 crores

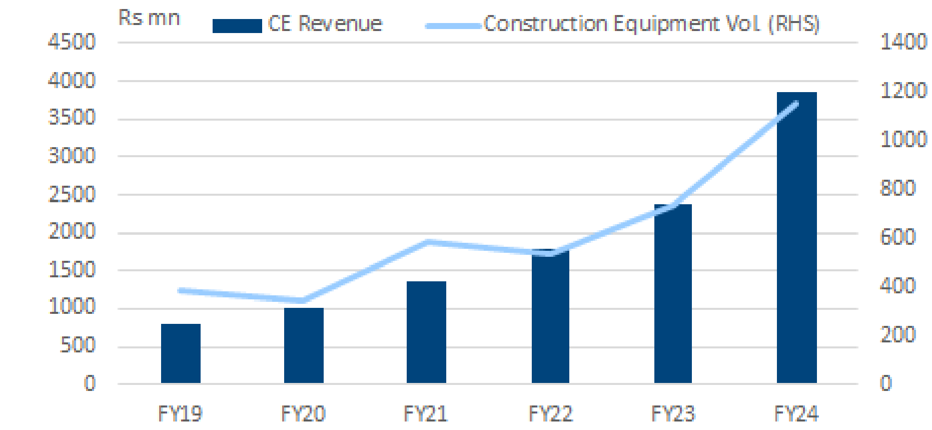
Piling Rigs

- ACE offers Rotary Piling Rigs in tie-up with Sunward
- **Application**: Piling / foundation work
- **Capacity Class**: 60 Kn to 600 Kn Torque
- **Sectors:** Infrastructure, Construction (especially Elevated construction)

Source: Company, IIFL Research *prices of FY22

ACE has product portfolio comprising of backhoe loaders, wheel loader, soil compactor & tandem vibratory roller, motor grader etc with backhoe loaders being the key product in this segment (80% of segment revenue for ACE). India is largest market of backhoe loader globally Currently JCB is the market leader in backhoe loaders with holding almost 80% market share. The company marked its entry in backhoe loader was in 2019 having market size of Rs80-90bn and since then has grown its backhoe business gradually.

Figure 18: Revenue and volume growth in Construction equipment segment



Source: Company, IIFL Research

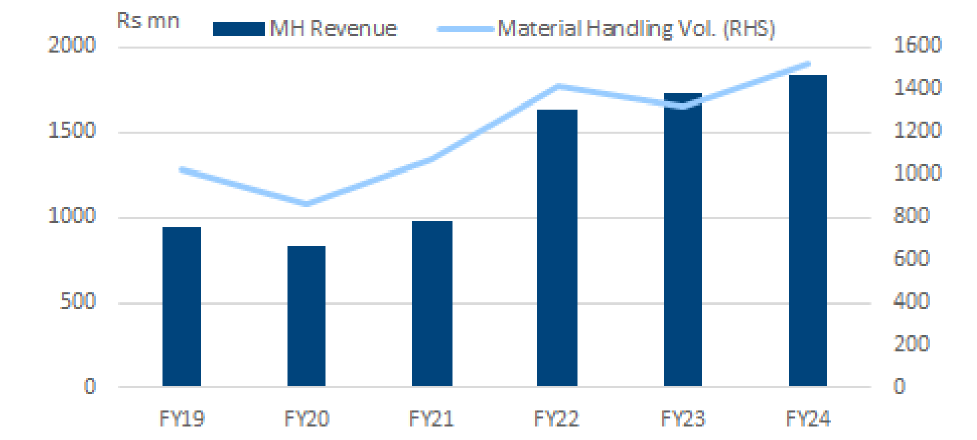
Going forward company will focus upon increasing the utilisation levels of construction equipment division. One challenge for boosting the growth of backhoe loader would be dealing with the brand stickiness of consumer with respect to JCB.

Material Handling

India's automated material handling market is estimated at US$1.47bn in FY24 and is expected to grow at 12.7% Cagr over FY24-29 led by increased investments in logistics and warehousing as industrial capex picks up domestically.

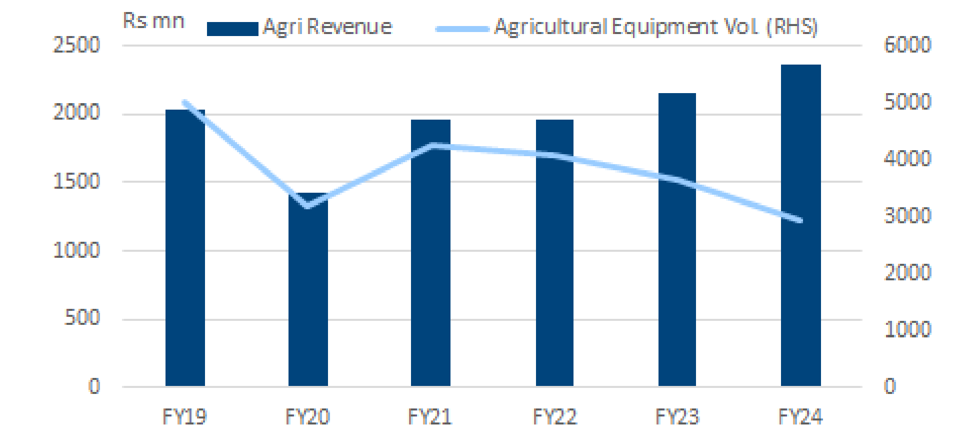
ACE boasts of 23% market share in forklift market backed by a portfolio of wide variety of warehousing equipment catering to manufacturing, defence, ports, power, logistics, infrastructure and aviation. The company is targeting penetration in Pharma, Food and Beverages industry.

Figure 19: Revenue and volume growth in Material Handling segment



Source: Company, IIFL Research

Figure 20: Revenue and volume growth in Agriculture equipment segment



Source: Company, IIFL Research

Agriculture Equipment have been slow

India Agricultural Machinery Market is estimated to be US$16.73bn in FY24 and is expected to grow at 8.5% Cagr over FY24-29. Within this, the Indian tractor market is projected to grow at 8.9% Cagr led by rise in purchasing power of farmers and availability of easier financing options. ACE has a portfolio of tractors, harvestors and rotavators currently.

To capture a larger share of the market, ACE is strengthening its distribution channels, increasing its financial tie ups with banks and NBFCs while also improving the product portfolio. The key challenge remains on building a virtuous cycle of expanding distribution and favourable financing terms for this market.

Figure 21:Details of Agricultural equipment

Average Selling Price: INR 5 lacs

Tractor

- **Application**: Agricultural activities and construction and industrial haulage
- **Capacity Class**: 35 HP to 90 HP (in both 2WD / 4WD configurations)
- Around 200 dealers for tractor across India
- **Major Markets**: Haryana, Uttar Pradesh, Rajasthan and Punjab; have significant presence in Chhattisgarh, Jharkhand, Bihar, west Bengal, Assam, Karnataka, Andhra Pradesh, Maharashtra and Gujarat

Average Selling Price: INR 18 lacs

Harvester Combines

- **No. 2 position in Track Combines in the Country**
- **Application**: Harvesting Wheat, Paddy, Soyabean, Gram, Mustard Sunflower Crops etc.
- **Capacity Class** (engine power) – 62 HP to 101 HP
- **Major Markets** – Andhra Pradesh, Telangana, Karnataka, Odisha and Tamil Nadu

Average Selling Price: INR 0.70 lacs

Rotavator

- Tractor Rotary Tillers are farmers choice for optimum field preparation
- **Application**: Tilling large fields

Source: Company, IIFL Research *prices of FY22

Has tackled competition well all through past many years…

A key concern on ACE has been intensifying of competition especially from larger MNCs. However, most large global MNCs are already present in India with established local production facilities and well spread distribution network. ACE has been able to still grow volume support by a cost competitive offering and an improving distribution and service network.

- Caterpillar (Mkt cap USD161,940mn, BBG Ticker- CAT US) has six manufacturing facilities and two R&D centers, which offer wheel loaders, soil compactors, motor graders, track-type tractors, off-highway trucks, rolling stock, engines (including diesel and gas), rail technologies, infrastructure, solar turbines and compressors, generator, and related financing services.
- JCB – Started in 1979 and has six factories in India manufacturing tracked excavators, wheel loaders, compaction equipment and fabrication mini excavators, telehandlers, backhoe loaders, skid steers and has a network of 60 dealers.
- Komatsu's (Mkt cap USD28,900mn, Ticker – 6301 JP) India business has one manufacturing facility in Chennai and supplies excavators, bulldozers, motor graders, wheel loaders, wheel dozers, dump trucks.
- AB Volvo (Mkt cap USD52,208mn, ticker – VOLVB SS) has been in India for 25 years and has 3 plants manufacturing trucks, buses, construction equipment, power system (for boats, vessel, industrial applications), wheel loaders, motor graders and has partnership with Eicher Motors.
- Liebherr (BBG Ticker – LIEB GR) started from delivering products from Europe in India and now has 3 manufacturing plant and one service station and manufactures gear cutting machines, tower cranes, fridge and freezer units
- Escorts (Mkt cap USD5,231mn, Ticker – ESCORTS IN) offers farming and construction equipment, material handling equipment and railway equipment.

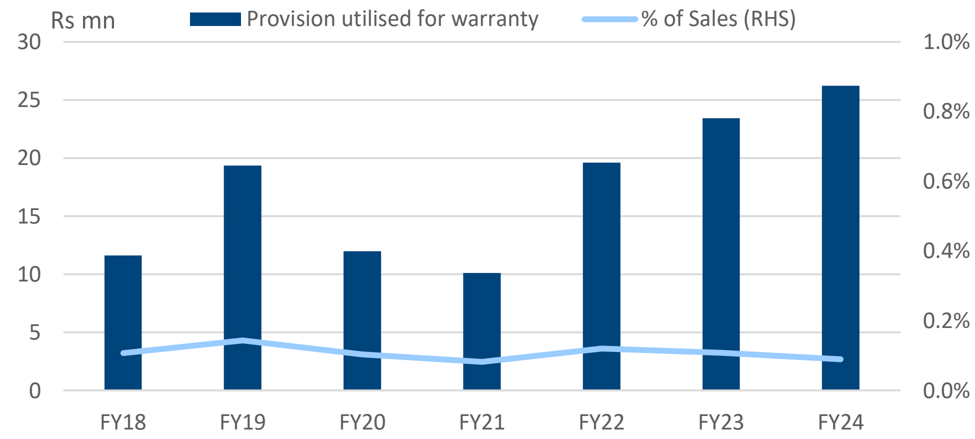
…helped by low cost fungible manufacturing operations…

The manufacturing facilities for ACE are divided in terms of its processing functions wherein all activities related to engine processing is done at one area, all activities related to painting and galvanising is done at one area and so on for all the vehicles. Only the assembly line for each category of vehicle is separate to ensure smooth flow of products at each sub-facility. This process wise fungible capacity ensures optimum utilisation and strong control over costs which aids margins given the cyclical nature of demand for these products.

…and strong focus on quality control

The company has in house quality control system for all vehicles. The test start just after any equipment is manufactured - thought the dedicated system testing. Further when complete vehicle is manufactured – it is completely tested for its actual use (including its weight lifting, movement, fuel consumption, speed etc). This is tested for each and every vehicle before it is offered. The quality is visible through its warranty claims remaining below 1%. It has dedicated R&D centers at Faridabad and Palwal accredited by Ministry of Science and Technology.

Figure 22: Provision as well as it utilization for warranty remains well below 1%



Source: Company, IIFL Research

Expanding offering and reach to drive growth

Gaining traction in defence

With an aim to reduce the cyclicality in business linked to infra and industrial capex, company has developed models for defence sector. The key segments being focussed on include customised cranes, forklifts, skid steer loaders, multipurpose tractors and special mobile equipments. The company has seen some success already and would look to build scale gradually.

- Bagged 30-40 unit order of pick and carry cranes in 2HCY23
- Bagged 60 bigger forklift order costing Rs3-4mn.
- Bagged 2ton-3ton 90 forklift order.
- Currently executing order of 18 higher capacity cranes.
- Developed 40ton and 75ton capacity cranes for Indian Navy.
- Currently looking to bag order of 1,800 units costing Rs3.5-4mn.

Figure 23: Customised cranes, forklifts, loaders and tractors developed for Defense

Source: Company, IIFL Research

Figure 24:Customised cranes, forklifts, loaders and tractors developed for Defense

Source: Company, IIFL Research

Targeting to grow exports at a faster clip

Apart from defence, exports too are a key focus. ACE is targeting to raise the share of exports from the 5.5% levels seen in FY24 to over 15% by FY26-27. It has launched specific products to achieve this including Forma range of tractors and Phantom 4x4 backhoe loaders which are specifically designed for international markets. These are already upgraded to new emission norms and are in compliance with European standards. Focus is to expand volumes and drive operating leverage through entry into new markets and also white label exports for existing brands.

Figure 25: Share of Export has been range bound and the company is targeting ~8% in FY25 and has vision of 20%-25% in medium term

	FY19	FY20	FY21	FY22	FY23	FY24
Export Revenue	6%	5%-6%	5%	4.7%	6.7%	5.5%

Source: Company, IIFL Research

Figure 26: Tractor and backhoe loaders designed for European markets

Forma Range of Tractors

Backhoe Loader – Phantom 4x4

Source: Company, IIFL Research

Improvement in vehicle aesthetics for better placement…

Currently the company is working upon improvement pf aesthetics of the vehicles to place them better in the market. Historically, aesthetics are not the decision changing factor for the consumer but with the changing customer expectations and with the aim provide better product, some changes are being incorporated in vehicles enhancing its superior features.

The company have focused towards cost rather than modernising the plant, which has allowed it to compete better. This strategy has worked well as it has able to deliver high quality products with lower cost. The plant and processes of the company has been steady over the past 2 decades and now it is working towards implementing newer technologies like robotics for processing, automation in assembly etc. For example fabrication is currently handled by combination of labour and machines which will be through robotics from early 2026. Gradual shift towards automation will generate consistent standard products within defined timing and reduce he dependency over labour.

Eyeing the larger capacity crane market through JV

Kato Works (Mkt Cap USD93mn, Ticker – 6390 JP)- Has product portfolio of Mobile cranes (Rough terrain cranes, Cityrange cranes, All terrain cranes, Truck cranes, Craler cranes) Construction Equipment (Excavators, mini excavator, crawler, earth boring rigs) Industrial equipment (vacuum trucks, street sweepers, snow sweepers, compact track loader). Apart from Japanese market, it caters to market of Europe, Asia, Oceania etc.

With the potential 50:50 JV with Kato works, company is eyeing for medium and large size crane (especially truck crane, crawler crane, rough terrain crane) for Indian market and also export of value added products going ahead. This JV will enable the company's range of crane beyond 200 ton capacity crane, access to proven technology and global market.

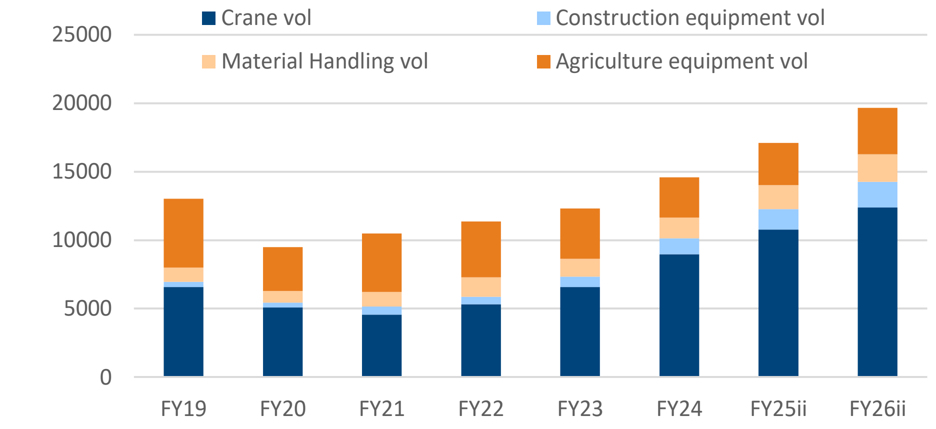
Figure 27: Kato Works existing product portfolio

Source: Kato Works presentation, IIFL Research

We estimate 15% EPS cagr over FY24-27

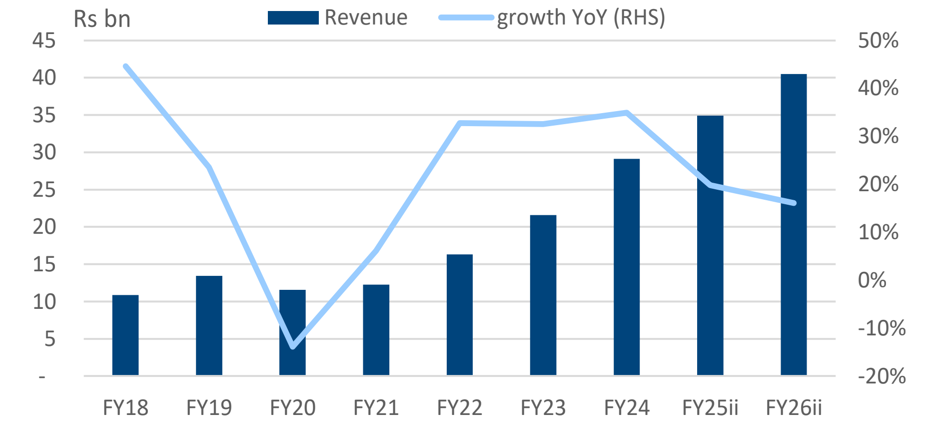
Supported by the expanded capacities, strong market presence and robust demand outlook we expect volume to grow by 15%-20% Cagr over FY24-27ii. Overall growth would be driven by growth in Crane and Construction Equipment being the fastest segment to grow. Healthy volumes growth should aid operating leverage led margin expansion. We have not yet built in higher gross margins which can come through from higher exports. PBT and PAT growth should mirror Ebitda growth

Figure 28: We expect 16% volume growth led by construction equipment and cranes



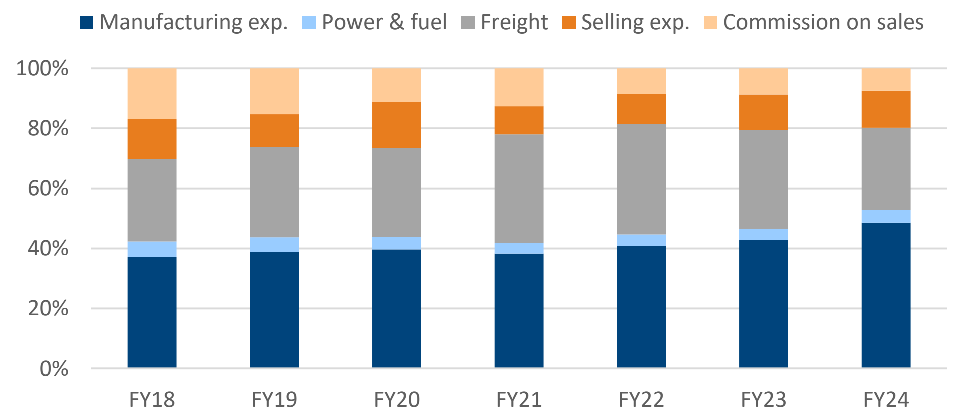
Source: Company, IIFL Research

Figure 29: Strong volume growth will drive revenue with no change in pricing assumed



Source: Company, IIFL Research

Figure 30: Composition of other variable expense which forms around 70% of total other expense

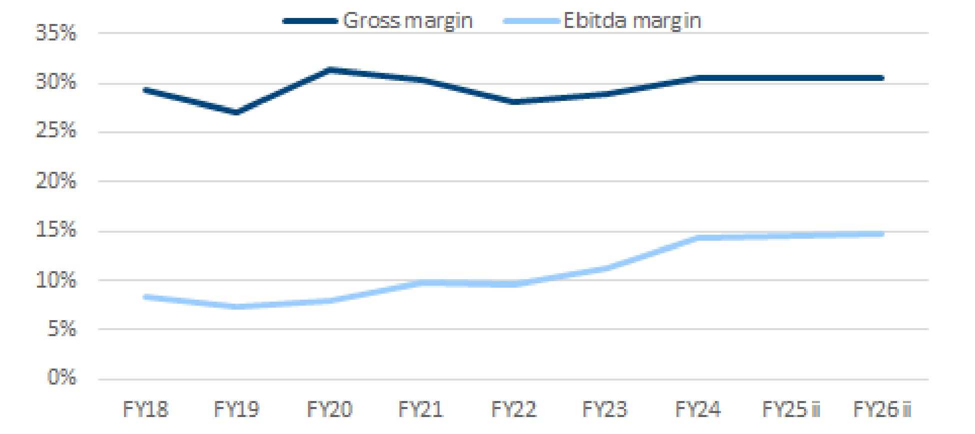


Source: Company, IIFL Research

Steady gains seen from cost control

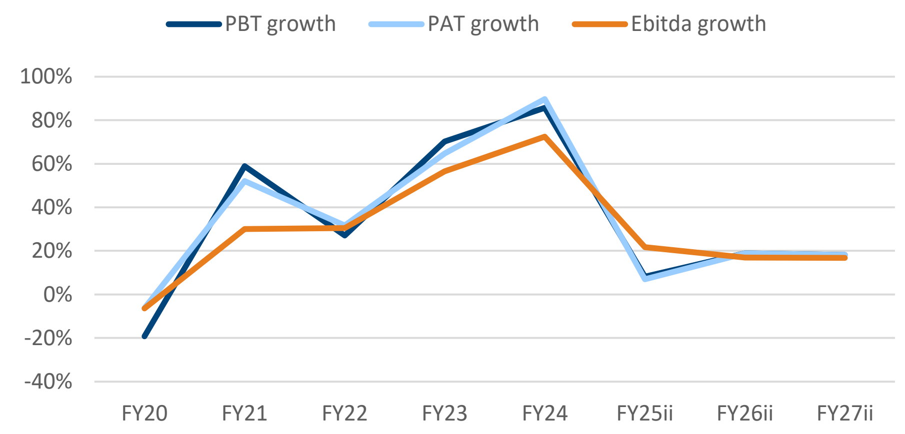
- For a long time, the industry has maintained constant pricing pulled by Chinese imports. The company, holding the dominant position increased its prices in 2018 for its key products which was later followed by the industry. (7%-8% price increase was done in FY19).
- On an average about 60%-70% of raw material is steel and the profitability remains affected by the volatility in the commodity prices and therefore the company has adopted the pass though of commodity prices providing stability to Ebitda over recent years.
- The after sales service are provided by the dealer of the respective area on behalf of company and the company has followed this lean structure by not entering into servicing space.
- There has been change in industry perspective and due to high infrastructure spending in recent years, the company is focusing on infrastructure maintenance equipment and has been launching new products to grab this space.

Figure 31: Margins to maintain slightly improving by operating leverage



Source: Company, IIFL Research

Figure 32: PBT and PAT growth to outpace Ebitda growth



Source: Company, IIFL Research

Figure 33: Price increase taken with increase in steel prices helped when commodity price normalised

	FY19	FY20	FY21	FY22	FY23	FY24
Steel Price	44800	37968	44897	65423	59582	56959
Realisation of Crane	1466	1629	1750	2049	2329	2349
Realisation of CE	2072	2909	2311	3363	3219	3341
Change % YoY						
Steel Price	11%	-15%	18%	46%	-9%	-4%
Realisation of Crane		11%	7%	17%	14%	1%
Realisation of CE		40%	-21%	45%	-4%	4%

Source: IIFL Research

Effective management of Working Capital

The company has very effective control of working capital which has been stable over the years. This is primary because of good supplier and consumer relations and factoring of payables to RM suppliers. The practise of factoring payable with bank or financial institution has allowed company to elongate its working capital cycle aided by low ROI for borrowings.

Figure 34: Working capital cycle

Working capital cycle	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Inventories	55	48	58	85	79	75	71	69
Receivables	51	57	39	47	67	42	29	21
Loans and advances - current	1	1	1	1	1	1	1	1
OCA	11	12	13	15	11	14	9	8
Payables	72	79	76	101	98	92	85	86
OCL	43	37	29	31	39	15	26	28
Current working capital cycle	**2**	**3**	**5**	**16**	**20**	**25**	**-1**	**-15**

Source: Company, IIFL Research

Capex on land to secure longer term capacity growth

The company has planned capex of Rs700m for ongoing expansions in FY25. Additionally ~Rs1bn would be spent towards land acquisition which would also be spent in FY25-26. Further Rs1bn annual capex for maintenance to broadly continue. Mostly this would be funded through internal accruals. Beyond current expansion project, further capex would be announced when company reaches ~80% utilisation.

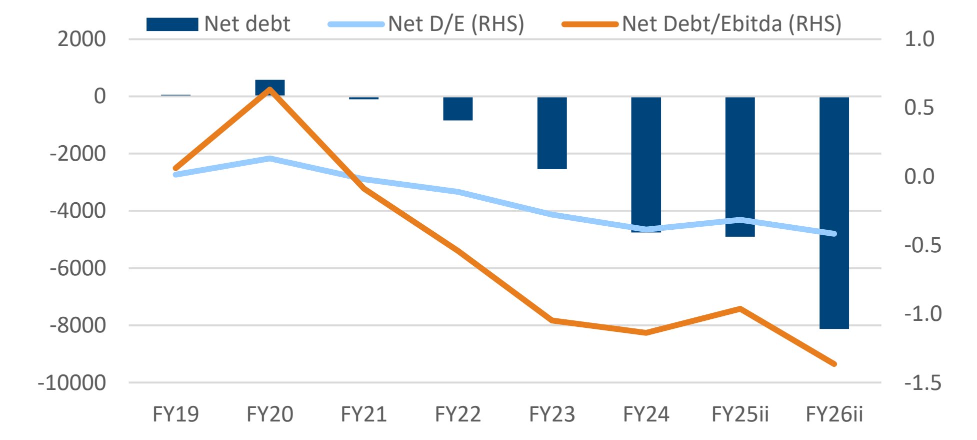
The company would also be keen in inorganic opportunities in India which might help to further affirm its already dominant position in the industry. It will also look for any partnerships or joint venture with MNCs which will aid to explore newer geographies of its product at the same time maintaining its low cost of production in India. Anti-dumping duty would be critical for this model.

Figure 35: Healthy track-record of FCF generation for ACE

Rs mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24
PBT before WC change	1,001	1,049	984	1,352	1,711	2,565	4,446
OCF	894	720	480	861	1,035	2,743	4,334
Capex	(33)	(172)	(828)	(261)	(443)	(364)	(1,653)
FCF	861	548	(348)	600	592	2,379	2,682

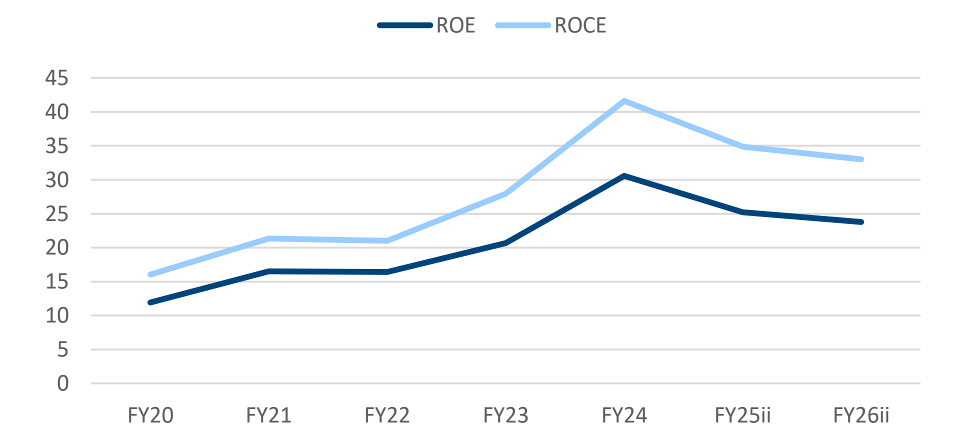
Source: Company, IIFL Research

Figure 36: Helped by strong net cash position in B/S



Source: Company, IIFL Research

Figure 37: Also reflects in Very strong ROE and ROCE



Source: Company, IIFL Research

Valuation

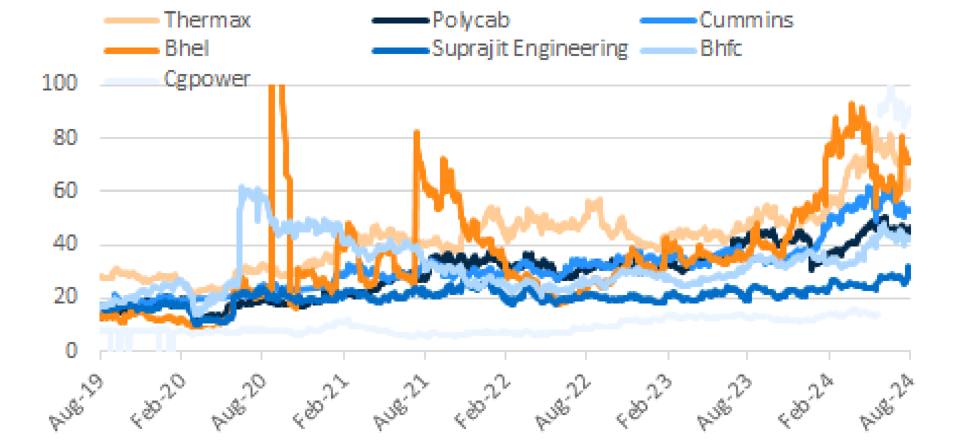
We value ACE at 35x June-26 PAT – slightly ahead of 5yr average of 1yr forward PE for capital goods players (indicated below) in India given similar growth drivers, growth outlook and return ratios. We initiate with ADD. Our target PE multiple is still at a significant discount to the current 1yr forward PE for capital goods names.

Figure 38:Indian capital goods players are trading at over 40x for a matching growth trajectory as ACE

Company	EPS Cagr FY24-26	Rev cagr FY24-26	RoE FY24	RoE FY25	1yr fwd PE (last 5 yr avg)	Current 1yr Fwd PE
Thermax	22.1%	17.0%	14.1%	15.6%	42.8	63.8
Polycab India	17.0%	18.0%	24.1%	22.3%	29.3	46.3
Cummins India	12.8%	14.3%	29.0%	26.3%	33.0	53.4
BHEL	200.0%	33.2%	1.2%	3.3%	38.1	70.9
CG Power	30.0%	23.7%	59.4%	32.5%	49.8	91.5
Suprajit Engineering	36.9%	16.3%	13.0%	16.1%	20.6	30.1
BHFC IN	47.3%	13.3%	12.9%	19.9%	32.1	42.4

Source: Bloomberg, IIFL Research (Estimate from Bloomberg and IIFL)

Figure 39: 1 yr forward PE of domestic players



Source: Bloomberg, IIFL Research

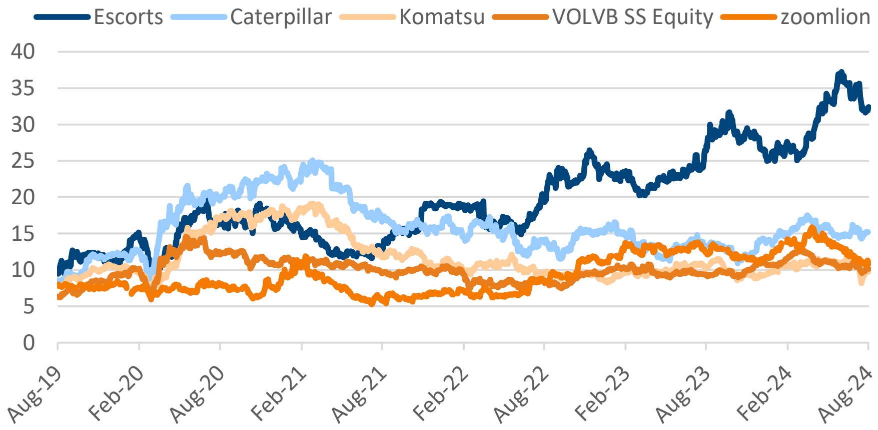
ACE should trade at a premium to global peers given a stronger growth outlook levered to capex in India as well as healthy return ratios.

Figure 40: Global players trade at around 10-20x P/E for a lower projected growth and ROE

Company	EPS Cagr FY24-26	Rev cagr FY24-26	RoE FY24	RoE FY25	1yr fwd PE (last 5 yr avg)
Caterpillar	4.6%	1.1%	58.45	63.15	15.78
Komatsu	2.4%	1.8%	14.11	12.76	11.66
AB Volvo	5.4%	0.7%	29.27	27.92	10.008
Zoomlion	22.1%	16.2%	6.3	7.4	9.2
Escorts	14.3%	13.2%	12.08	12.55	19.624

Source: Bloomberg, IIFL Research

Figure 41: 1 yr fwd PE of global players



Source: Bloomberg, IIFL Research

Figure 42: Valuation

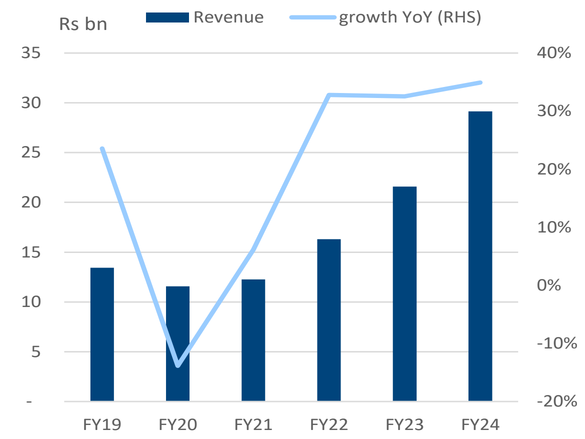
Particulars	Amount Rs mn
Jun26 PAT	4,984
Multiple	35
Mkt cap	174,441
TP (Rs/share)	1,465

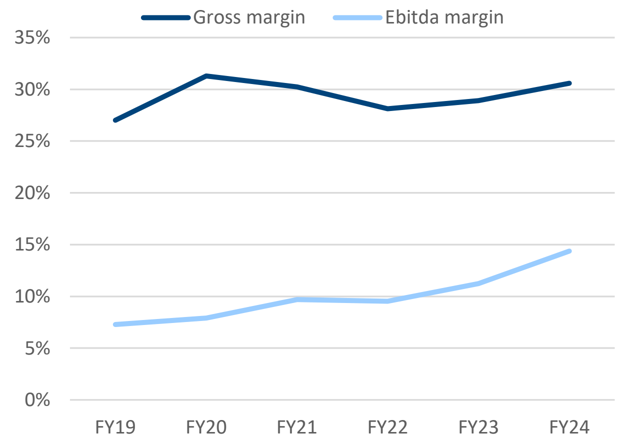
Source: Company, IIFL Research

Background: Action Construction Equipment (ACE) established in 1995 by Mr Vijay Agarwal, has emerged as the dominant player in the mobile cranes market with 63% market share in pick and carry cranes and over 60% market share in tower cranes. It also offers construction equipment (lorry loaders, backhoe loaders etc), material handling equipment (forklifts) and agriculture equipments (tractors & harvesters). The company has large sales and service network, with over 100+ locations supported by 13 regional offices in India and also exports to over 37 countries across Middle East, Africa, Asia and Latin America.

Management

Name	Designation
Vijay Agarwal	Chairman & MD
Sorab Agarwal	Whole Time Director
Rajan Luthra	Chief Financial Officer





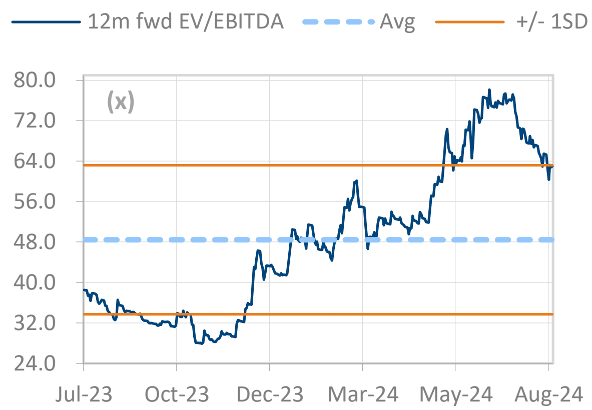
Assumptions

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Crane	23.6	36.2	20.0	15.0	15.0
Construction Equipment	38.5	56.6	30.0	25.0	20.0
Material Handling	(6.8)	14.8	15.0	15.0	15.0
Agricultural Equipment	(10.2)	(19.7)	5.0	10.0	10.0
Total	8.3	18.5	17.2	15.0	14.6

Source: Company data, IIFL Research

PE Chart

EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Revenues	**21,597**	**29,138**	**34,904**	**40,518**	**46,772**
Ebitda	2,428	4,185	5,095	6,012	7,017
Depreciation and amortisation	(399)	(385)	(443)	(479)	(517)
Ebit	2,029	3,800	4,651	5,534	6,500
Non-operating income	411	771	425	400	500
Financial expense	(103)	(232)	(255)	(293)	(337)
PBT	2,337	4,339	4,821	5,640	6,663
Exceptionals	0	0	0	0	0
Reported PBT	2,337	4,339	4,821	5,640	6,663
Tax expense	(608)	(1,057)	(1,215)	(1,421)	(1,679)
PAT	1,730	3,282	3,606	4,219	4,984
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	**1,730**	**3,282**	**3,606**	**4,219**	**4,984**

Ratio analysis

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Per share data (Rs)					
Pre-exceptional EPS	14.5	27.6	30.3	35.4	41.9
DPS	1.0	0.0	0.0	0.0	0.0
BVPS	77.1	103.3	131.6	165.0	204.8
Growth ratios (%)					
Revenues	32.5	34.9	19.8	16.1	15.4
Ebitda	56.5	72.4	21.7	18.0	16.7
EPS	64.7	89.7	9.9	17.0	18.1
Profitability ratios (%)					
Ebitda margin	11.2	14.4	14.6	14.8	15.0
Ebit margin	9.4	13.0	13.3	13.7	13.9
Tax rate	26.0	24.4	25.2	25.2	25.2
Net profit margin	8.0	11.3	10.3	10.4	10.7
Return ratios (%)					
ROE	20.7	30.6	25.8	23.9	22.6
ROCE	27.9	41.6	35.7	33.1	31.4
Solvency ratios (x)					
Net debt-equity	0.0	(0.1)	(0.1)	(0.2)	(0.4)
Net debt to Ebitda	(0.2)	(0.3)	(0.3)	(0.8)	(1.2)
Interest coverage	19.7	16.4	18.2	18.9	19.3

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Cash & cash equivalents	490	1,104	1,336	4,610	8,671
Inventories	4,185	5,534	6,694	7,771	8,970
Receivables	1,693	1,643	2,869	3,330	3,844
Other current assets	2,746	4,447	4,595	4,740	4,901
Creditors	5,009	6,880	8,241	9,566	11,043
Other current liabilities	1,557	2,257	2,704	3,139	3,623
Net current assets	**2,548**	**3,591**	**4,549**	**7,745**	**11,720**
Fixed assets	5,094	6,201	8,512	9,211	9,885
Intangibles	25	31	41	41	41
Investments	1,367	2,245	2,245	2,245	2,245
Other long-term assets	390	483	579	672	775
Total net assets	**9,424**	**12,551**	**15,926**	**19,914**	**24,667**
Borrowings	62	39	39	39	39
Other long-term liabilities	176	214	221	228	235
Shareholders equity	**9,186**	**12,298**	**15,667**	**19,648**	**24,393**
Total liabilities	**9,424**	**12,551**	**15,926**	**19,914**	**24,667**

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Ebit	2,029	3,800	4,651	5,534	6,500
Tax paid	(608)	(1,057)	(1,215)	(1,421)	(1,679)
Depreciation and amortization	399	385	443	479	517
Net working capital change	827	915	(815)	(9)	(10)
Other operating items	(29)	90	(164)	(178)	(192)
Operating cash flow before interest	2,618	4,132	2,900	4,405	5,137
Financial expense	(103)	(232)	(255)	(293)	(337)
Non-operating income	411	771	425	400	500
Operating cash flow after interest	**2,926**	**4,671**	**3,070**	**4,511**	**5,300**
Capital expenditure	**(466)**	**(1,181)**	**(2,600)**	**(1,000)**	**(1,000)**
Long-term investments	(564)	(884)	0	0	0
Others	(1,146)	(1,617)	0	0	0
Free cash flow	**751**	**989**	**470**	**3,511**	**4,300**
Equity raising	0	0	0	0	0
Borrowings	(333)	(255)	0	0	0
Dividend	(71)	(119)	(238)	(238)	(238)
Net chg in cash and equivalents	346	615	232	3,273	4,061

Source: Company data, IIFL Research

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BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

Distribution of Ratings: Out of 279 stocks rated in the IIFL coverage universe, 124 have BUY ratings, 8 have SELL ratings, 94 have ADD ratings, 9 have NR ratings and 43 have REDUCE ratings

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

i. Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
ii. Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.
iii. Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors