Action Construction Equipment Limited

Corporate & Registered Office
Dudhola Link Road, Dudhola, Distt. Palwal-121102, Haryana, India

Date: June 06, 2023

To,

The Manager Listing	The Manager Listing
BSE Limited	National Stock Exchange of India Ltd.
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Dalal Street,	Bandra (E),
Mumbai-400001	Mumbai-400051
Scrip Code: 532762	**CM Quote: ACE**

Subject: Earnings Call Transcript Q4-FY23/FY23.

Dear Sir/Madam,

Pursuant to Regulation 30 and 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith, Earnings Call Transcript (Q4-FY23/FY23) of the Company.

Kindly take the above in your record.

Thanking You.

Yours faithfully,
For Action Construction Equipment Limited

ANIL KUMAR Digitally signed by ANIL KUMAR Date: 2023.06.06 10:42:41 +05'30'

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"Action Construction Equipment Limited Q4 FY'23 Earnings Conference Call"

May 31, 2023

MANAGEMENT: **MR. SORAB AGARWAL – EXECUTIVE DIRECTOR – ACTION CONSTRUCTION EQUIPMENT LIMITED**
MR. RAJAN LUTHRA – CHIEF FINANCIAL OFFICER – ACTION CONSTRUCTION EQUIPMENT LIMITED
MR. VYOM AGARWAL – SENIOR VICE PRESIDENT – ACTION CONSTRUCTION EQUIPMENT LIMITED

MODERATOR:	**MS. VEDIKA SINGH – MONARCH NETWORTH CAPITAL LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Action Construction Equipment Limited Q4 FY '23 Earnings Conference Call hosted by Monarch Networth Capital Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the call to Ms. Vedika from Monarch Networth Capital Limited. Thank you, and over to you, ma'am.

Vedika Singh: Thanks, Calvin. Good evening, everyone. I would first like to thank the management of Action Construction Equipment for giving Monarch Networth Capital the opportunity to host this call. We have with us the senior management of Action Construction. We have Mr. Sorab Agarwal, Executive Director; Mr. Rajan Luthra, CFO; and Mr. Vyom Agarwal, Senior Vice President. I will now hand it over to Sorab Sir for giving the opening remarks, post which we will open the floor for Q&A. Over to you, sir.

Sorab Agarwal: Yes. Thank you. Good afternoon, and welcome, everybody, to this Earnings Conference Call for the Fourth Quarter and Year Ended March '23. Along with me in today's earnings con call we have our CFO, Mr. Rajan Luthra, and our Head of Investor Relations, Mr. Vyom Agarwal. I hope all of you have had the opportunity to look at the company's financial statements and the earnings presentation which has been circulated and uploaded at the stock exchanges.

This has been yet another year of strong and resilient performance by our company, and the results are a testimony to our clear and compelling strategy backed by the strength of our biggest assets, our people and our brand. We not only navigated the short-term challenges with agility, but also made progress on our long-term strategic priorities. Let me take you through some of the highlights of this fiscal to begin with. It gives me immense pleasure to report that we have crossed INR2,150 crores operational revenue mark in this fiscal and also recorded our highest-ever sales and profits in the quarter gone by.

Our growth of 33% is significantly ahead of the market in our sector. Our EBITDA margins for the year expanded to 11.4% from 10% last year. And our EBITDA grew by 51.5% to INR247 crores on a standalone basis as against INR163 crores in the preceding year. We were able to increase our PBT by 58.4% from INR138 crores in FY '22 to INR220 crores in the last year. Similarly, our PAT also increased from INR106 crores to INR161 crores, thereby registering a growth of 52.2% in the last year.

To brief you on the financial performance of the fourth quarter of last year, the operational revenue stood at INR613 crores for the quarter, which is up by 10.4% sequentially and grew by 20% as compared to the same quarter last year. Our company was able to expand the EBITDA margin to 13.2%, PBT margin to 12% and PAT margin to 8.5% in the last quarter.

This was led by better product mix, improved price realizations, efficient cost control measures and softening of the commodity prices.

The EBITDA and PBT for the quarter stood at about INR81 crores and INR73 crores, respectively. We continue to be a debt-free company with sufficient availability of liquidity for growth. The Board of Directors has recommended final dividend of 50%, that is INR1 per share for the year ended March '23. The Board has also proved to grant ESOPs to the employees. The ESOP program has been designed in a manner that employees are incentivized and their interests are aligned with those of the company's performance.

Now moving on to segmental business performance. We have strengthened our role as a market leader in Indian crane industry. And with our consistent efforts, we have scaled the business to over INR1,525 crores in this fiscal. Last year, our cranes business has registered a strong growth of 38.4%. The growth was both in value and volume terms. Our number of cranes have increased from 5,328 in FY '22 to 6,584 in FY '23. In cranes segment, we have been able to grow our profits by 53% to INR195 crores, with a margin expansion to 12.77% versus 11.58% for the year before that.

Our margins for quarter 4 stood at nearly 14%. Our cranes business is at its strongest in terms of size, scale, profitability capabilities and its impact on the nation's development. Further, we are very pleased with the growth momentum in the CE segment, wherein we have surpassed our projected growth. The segment has clocked a yearly growth of 42% with a revenue of approximately INR250 crores and increased margins at around 9.5% on a whole year basis versus a 5.3%. And our margins for quarter 4 FY '23 stood at 13.9%, owing to the operating results. The metal handling segment recorded revenue growth of 11.2% and stood at INR170 crores, with margins at 12.33% as compared to 12% the year before.

The agri division also registered growth in revenue of around 7%, but the margins came under pressure owing to inflationary impact during the year. We have also expanded our global footprint and increased our export sales by 90% year-on-year. The contribution of export sales have increased to 6.7% as compared to 4.7% the year before. Further, we expect that going forward, the export segment will contribute about 9% to 10% of the overall volumes -- overall revenues within this year, which is in line with our medium-term target of 15% to 20% contribution from exports.

After 2 years of pandemic-led disruptions, FY '23 marked a return to normalcy in operations. However, geopolitical tensions and continued supply chain disruptions resulted in unprecedented inflation and volatility in commodity and energy prices. Central banks across the world responded swiftly with sharp increase in interest rates within a relatively short time frame. The Indian economy remained a bright spot in FY '23 amidst the global slowdown.

Real GDP growth for the year is estimated at 7% against the backdrop of a challenging environment, operating environment, as I first stated, the company's customer centricity, agility in seizing market opportunities, focus on execution and proactive strategic intervention enabled it to post strong numbers, strong performance across all operating segments.

Our model is crafted in a manner that enables us on each business -- enables us to focus on each business while harnessing the diversity of portfolio to create unique sources of competitive advantage. Our strategic positioning in the core sectors of infrastructure, manufacturing, logistics and agri will provide necessary impetus to our growth trajectory.

Looking ahead, India is one of the fastest-growing economies and its prospects remain very strong for the period ahead. The infrastructure growth story continues to play a significant role in the economic growth and will have its multiplier effect on the economy. We believe that going forward, the strong demand scenario should sustain itself, supported by government's unweaving focused on urban infra and rural development. The increased capital expenditure announced in the Union Budget 2023 will further aid this growth in FY '24.

Going forward, in the current year, we expect a growth of at least 15% to 20% in our cranes, metal handling and agri portfolios. For the construction equipment segment, we are looking at accelerated growth rates of 30% to 35% on an increased pace. In terms of capacities, our cranes and metal handling segments are reaching their peak utilization levels. And in order to fuel further growth, we are currently incurring a capital expenditure of INR80 crores to INR90 crores to enhance our capacity. The expansion will take shape from Q2 onwards and will enhance our installed capacity and will have a potential to propel us to reach a turnover level of INR3,800 crores to INR4,000 crores in the near future.

On the whole, as a company, we are looking at a 15% to 20% growth in our top line for the current year, with further margin expansion of 100, 250 basis points. We hope we are in a position to revise these projections by end of second quarter, which will predominantly depend on the onset and intensity of the monsoons. Further, we remain optimistic about the medium- to long-term prospects of the company and remain focused to deliver on our growth agenda.

We will continue to drive cost savings harder and take calibrated pricing actions while ensuring we protect and grow our markets. We believe that our building blocks are firmly in place and are on path of sustainable growth in all our segments where we operate, leading to expansion in top line, bottom line and the margin profile of the company. With this, I would like to open the call for question-and-answer session. Thank you.

Moderator: The first question is from the line of Mr. Himanshu Upadhyay from O3 PMS.

Himanshu Upadhyay: I'll just go ahead with my questions. The agriculture equipment has been on the downhill in terms of units for the last 3 years and market was strong. Can you elaborate on what happened and the way forward here?

Sorab Agarwal: We are talking about -- I just missed the beginning, which segment?

Himanshu Upadhyay: Agriculture equipment.

Sorab Agarwal: Yes, we have been in a little doldrums here, as I had mentioned in the last call last quarter. And Vyom, I think you'll be able to clarify better here with respect to what really happened in the last quarter.

Vyom Agarwal: Yes. Hi, good afternoon, Himanshu. And as we all know that the tractor industry has grown by around 10% in last fiscal, and we have been able to register a growth of 6% in this space. When we talk about numbers in Q4, our deliveries have been higher than our billings. That goes to show that our inventory with our channel partners at the end of Q4 is lesser as compared to the previous quarters. Currently, our inventory levels with our channel partners is close to 3 to 5 weeks only. And one of the reasons that we have been reducing our inventories is the migration from BS III norms to BS IV norms.

So post July, the registration of the BS III tractor inventory will not be permissible. So we have to reduce the inventory at the channel level. Owing to that, the volumes which you are seeing has shown a little dip. However, going forward, the crop prices, which is the MSP, the monsoon and the water reservoir levels remain at normal levels, and we expect to experience a growth of around 10% to 15% in this segment in the current FY.

Himanshu Upadhyay: And I'll go on to my second question. Sir, on the material handling, last time we stated that we were having some issues, and that was the reason for low growth in that business. Can we now assume that we are back on track and can do more than FY '22 sales and numbers in this next year? Also, how has been our market penetration in that segment and the share of the market?

Sorab Agarwal: Yes, market penetration has been very good. Our share is around 25%, 26%. And going forward, I think easily, in the current year, we're looking at a 15% to 20% growth here in numbers, if not more than that because we have overcome those plant as well as supply chain issues. And you see positive result of that even in the last quarter. Even on a sequential basis, we were able to increase 15%. And going forward in this whole year, I think we should easily be able to do out 15%, 20%.

Himanshu Upadhyay: Okay, okay. And my last question is that, how has the backhoe loader done for us in FY '23 versus FY '22? And in EBIT, is now EBIT is now at 10% of the construction business. Would we like to grow the share from here on? Or the margins will be the focus in the construction segment?

Sorab Agarwal: I think I also mentioned in our last con call, on our quarterly results that as we start to go around INR250 crores and beyond that, our margins will start to fall in sync, similar to cranes. And if you look at the quarter 4 numbers of INR80 crores revenue, we have nearly touched 14% EBITDA margin here as well. So and this is what I had mentioned earlier, that once we start to cross INR300 crores going towards INR350 crores on an annual basis, the margins would normalize to the crane levels, and we are already experiencing it. So hopefully, I think in the current year, yes, we will grow our business at least 30%, 35%. It can only be faster than that, that time will tell. But the margin profile is, I think, here to stay now. It can only increase from here.

Moderator: Our next question is from Mr. Harshh Saraswat from Elegant Family Office.

Harshh Saraswat: Congratulations on great year. My first question would be, how does ACE prices in a comparable product compared to companies like JCB, Sansui and other MNC players? Is there a price differential which benefits us also other than having service centers across the country and all?

Sorab Agarwal: See, depends from product to product. I mean backhoes is one category where obviously JCB is the market leader. There are 7, 8 players. And cranes are there where we primarily compete with Escorts Kubota, and tower cranes with Potain. So here I would say that if we especially talk of backhoes, we are definitely better priced than JCB. And so are the other players as well, leaving aside 1 or 2 like Caterpillar. All of them are positioned at 10%, 12% lower than JCB. So we are also pretty similar there.

With respect to cranes, we are more or less similar in most of the sales with respect to our competition. But yes, there are ups and downs depending on the customer profile or the size of the orders and also depends on our competition, how much we are willing to play with respect to gaining the market. So we have to maintain that balance of market share as well.

Forklifts again, I would say that the main players are Godrej and Voltas and also Toyota to some extent. And Toyota is definitely slightly higher priced than all of us. And the Voltas, Godrej and us guys we are nearly similar bracketed with respect to price as of now. So a little here and there depending on models, depending on customers.

Harshh Saraswat: Got it. Got it. Got it. And another question was how does import work in this segment? Like can you import a whole crane or it is broken up and assembled here in India? And what are the import duties on this?

Sorab Agarwal: See, if I talk of backhoe loaders, India is perhaps, I think, the world's largest producer of backhoe loaders. So there are practically no imports. And something even with respect to road machinery, very few units here and there, sizes and things which are not made in India might be getting imported. But most of the global players are also present in India. And India is producing its own road machinery as guys that are competitors.

If I talk of pick-and-carry cranes, we are the world's largest producer of pick-and-carry cranes. So we only export some of them from India. And going forward, those numbers are only going to increase. So there is nothing to worry about with respect to imports. But when I talk of cranes as a whole, see, pick-and-carry is the biggest chunk player.

But then again, tower cranes are there where we are market leaders. And here we do get some Chinese imports. Very few European, I would say, especially in a very high tonnage or a very sensitive type of model, which is not made in India. For crawler cranes and truck cranes, which is a growing -- which has been a growing segment within the crane segments in the last, I would say, 10 years, 8 years, but especially in the last 4 or 5 years, yes, there a lot of imports happen from the Chinese.

And to be very frank at ridiculous prices and ridiculous payment terms. So the capex we are doing is currently to enhance our capacity in these crawler cranes and truck trains, which is the higher tonnage cranes. The quantities comparatively are much lower as compared to pick-and-carry cranes.

But yes, India is moving towards high tonnage cranes because so much construction, elevated construction is happening, all the metros and the bullet trains and the flyovers. So, yes, we need bigger cranes. And we are increasing our capacity there. So yes, but the bigger cranes, currency, yes, the imports are dominating. But the numbers are miniscule as compared to pick-and-carry cranes.

Harshh Saraswat: Got it. Got it. So also on the export side, when you say that we will take our revenue to 10% of the total revenue of export revenues, how do we compete against these Chinese players in the international markets like on the prices and all? What do we tell the customers that we are giving more that they buy from us?

Sorab Agarwal: See, like I mentioned, the Chinese players are dominant only in the crawler cranes and the truck crane segment which even we are evolving in the country as of now. So we are rather focusing on our strength, let's say, pick-and-carry cranes. We are the largest producer in the world. And India is the largest pick-and-carry producing country. India is one of the largest backhoe producing countries in the world.

And especially a product like backhoe has, the product is well-established in more or less all the countries. So we are focusing more on products with our company or our country as a strength with respect to the product. As of now, we are not at all trying to compete in the crawler crane or the truck crane segments because here the market size is smaller.

The ticket size is big, but the market size is small. And we still have to create our strength there. I mean we have strengths. We want to increase those strengths in the country to be able to compete effectively with the Chinese. So like I said, we are focusing on backhoes. We are focusing on pick-and-carry cranes. We are focusing on some higher horsepower tractors, 80-, 90-horse-power tractors with respect to exports, where India is really good at.

Moderator: Our next question is from Mr. Devesh Kasliwal from Antique Stock Broking.

Devesh Kasliwal: Congratulation on a good set of numbers. I just wanted to understand the overall market size, the addressable market share that we have in the crane segment as well as in the forklift segment. And how has it grown over the past 2 years? And what are we expecting the industry growth to be in the coming 2 to 3 years, given by the overall industrial activities that are going on? What is the expected growth rate in the industry as such?

Sorab Agarwal: If you look at cranes, pick-and-carry cranes because in our cranes segment we report numbers for our pick-and-carry cranes, tower cranes and also crawler cranes truck cranes. But there I will say that crane segment has been -- pick-and-carry segment has been growing at a good rate about 20%, 25%. Tower cranes even faster than that, about, I would say, maybe 35%, 40%. And something similar for the bigger cranes where obviously we are building our capacities now to bring Indian products into the market.

And going forward, I think at least similar momentum should sustain looking at the overall scenario, if not faster. And even the construction equipment overall market size in the country has gone up by about 25% approximately in the last year, which gels very well with because we are also focusing now on construction equipment to bring in additional growth.

And we feel that it might be the fastest-growing segment for us for a good amount of time now going forward. Material handling has been little, I do not know why, growing only at about 10%, 20%. I believe that would have been faster. But I'm sure with the mechanization and manufacturing growing in our country, it will catch up very fast.

Devesh Kasliwal: So is it right to assume that the entire cranes market that is there, so it will be ballpark figure around INR2,500 crores, INR3,000 crores and hopefully it's between INR700 crores, INR800 crores as of now?

Sorab Agarwal: Yes. The entire crane market may be close to about INR3,000 crores or less than that, I would say. Maybe around INR2,500, INR2,600, INR2,700. And forklift may be at about I would say about 7,000-odd units because the models again range. So the pricing goes plus and minus -- plus, minus than that. But I would say maybe about INR600 crores, INR700 crores.

Devesh Kasliwal: Okay. And sir, one last question. We had actually rolled out some products in the crane segment. So the traditional products that we had, we have rolled out like a man list attached to a pick-and-carry crane and products like that, 2 to 3 products. So what is the overall traction on that side? Are we -- like what is the overall demand as well as how much of that -- if at all you have those numbers, how much of that is contributing to the cranes revenue right now.

Sorab Agarwal: Yes. I think about 3 years back, just around COVID, we had brought in these multi-activity cranes NX series. And yes, some time was wasted during COVID, 1 or 2 years because people were not willing to spend money and there was, in any case, hyperinflation happening all around. But yes, in saying that, in the last year, we have seen really good traction there. And to be very frank with you, although the numbers there are small maybe it's all about 3%, 4% of the entire pick-and-carry cranes that we are doing as of now.

But we've already started contributing to our bottom line, and you can also see increase in our bottom line here and there. So this is primarily due to this changing product mix and obviously some realization. And going forward, already the type of traction and order booking which is happening for these NX, the new type of cranes, this is very encouraging. And I think in the next 2 years, 3 years, they can really become 10%, 20% of our portfolio of pick-and-carry cranes. And there the margin profile is really good because of the innovation part.

Devesh Kasliwal: Congratulations again on the good set of number.

Moderator: Our next question is from Ms. Jyoti Singh from Arihant Capital Markets Ltd.

Jyoti Singh: Congratulations on the great set of numbers. So my question is on the -- yes, like you have guided 15% to 20% growth in crane and agri. So also you guided to 20% to 25% that I missed for which part? And second question, I wanted to know your view overall industry, how is it going? And what's our expectation going forward?

Sorab Agarwal: Yes. See, we have projected 15% to 20% growth for cranes for material handling and for agri. And 30%, 35% growth for construction equipment, the CE segment. And I think the overall industry is also growing, but we have been lucky enough to grow faster than the industry.

And see, especially in cranes, we were able to grow 38%, construction equipment 41% and against the industry growth of around 20%, 25%. So that is the advantage we've been able to gain even in the last year. And we hope we continue to gain that advantage because that's how our market share will keep on increasing. What was the second part of your question?

Jyoti Singh: Yes. So and sir, there on the margin side, like we are targeting, it will expand 100, 150 bps. So what are your strategy to lead this EBITDA margin expansion? Basically, it is to be very frank with you we purely coming in from operating leverage. And as a matter of fact, it can be more than that. Pricing is sensitive, if you have to maintain market share.

So it is a mix of operating leverage coupled with wherever possible, if we can increase our prices, coupled with the changing product mix because, yes, within the pick-and-carry range, again, there is a shift towards slightly higher tonnage where realizations get better.

Moderator: Our next question is from Mr. Rajeev Maheshwari from Praj Investments.

Rajeev Maheshwari: I had a couple of questions. Like in terms of we were planning some acquisitions, as we discussed in the last couple of con calls. So what is the current state on that? And if you can throw some light in terms of the utilization of the QIP amount?

Sorab Agarwal: Yes. I think QIP amount utilization, Mr. Luthra will take that question. And regarding acquisitions, Vyom, you want to elaborate?

Vyom Agarwal: Yes. Good afternoon, Rajiv. And as we had indicated earlier that there were a couple of exciting opportunities for us, one in the backward integration space and one in the forward integration space. Coming to the backward integration, there was a company which had gone to NCLT. It was an SME company where we were trying to bid for the company.

However, unfortunately, the bankers and the COC have decided to grant that in favor of the existing promoters being an MSME. So that thing for the time being, it has been kept on abeyance. For the forward-linkage part, there was an acquisition which we were targeting.

But seeing how this space, especially the cranes and the construction equipment space is behaving, the valuations currently are not logical enough to go ahead with that acquisition as of now. Although we still are trying on that to keep the valuations at a logical level. And if in case something happens in this phase, we will keep everyone informed.

Rajan Luthra: Apart from these two, there is nothing new in the pipeline which has come up, I believe.

Vyom Agarwal: No, there are three, four other opportunities which we are working upon quite aggressively. But these were the two on the very advanced stages, which we had discussed in our earlier con calls as well. Apart from these two, there are three, four other opportunities in some related space, which we are working on.

Sorab Agarwal: Vyom, but I think his question was very specific on something, which I think I have been able to figure out. No, nothing as of now, but we are expecting something.

Rajeev Maheshwari: Okay. Yes, to put it straight. And with regards to the utilization of the QIP amount?

Sorab Agarwal: Yes. As regard to QIP we raised about INR135 crores which was is lying as such as -- just for us for the -- whenever we acquire this company. And if you have noticed that our investment has grown up to INR400 crores. Not only the QIP proceeds, but as well as the, whatever the profit we are generating and has been conservatively used and has been put into the liquid investment for -- as and when the time opportunity comes, we are able to encash them and still remain a debt-free company after acquiring any of the companies which we have.

Rajan Luthra: Matter of fact, we are also saving up this money for the opportunity maybe you were talking about.

Rajeev Maheshwari: Okay. Okay. That's good. The amount has gone up, so maybe it's for maybe something good may come up. One thing I noticed that in the quarterly results, there is a difference in the other income mentioned in the stand-alone as well as in the consolidated. So what's the reason for that? I think it's -- the difference is close to INR4 crores.

Rajan Luthra: Yes, actually that difference is basically because of the -- in the earlier in June quarter, something that money has moved from the -- wrongly stated as reserves, which has moved to -- from -- reduced from income and gone into translation result because that was because of the change in currency value.

Rajeev Maheshwari: But why is it then not that part not shown in the consolidated profit and loss account?

Rajan Luthra: It is already mentioned, I will -- if you can give me your e-mail, I will probably explain there much better. Okay.

Rajeev Maheshwari: I'll share my email ID. And one quick question. How is the electric crane going on in terms of the -- any commercial production, the orders? And how have things gone?

Sorab Agarwal: We were waiting 3, 4 months to commercialize it. So hopefully in the next quarter we will commercialize it. The excitement is very much there. We want to be very sure once we release the product in the market. We had launched it, showcased it.

And currently the endurance testing and all the cycles are being done up. And obviously the facility is being geared up to be able to produce. And we are also on the capex because we are totally consumed in our capacities with our existing products. So I think in Q2, we should be able to commercialize it.

Rajeev Maheshwari: So still maybe 3, 4 months down the line?

Moderator: Our next question is from Ms. Vedika Singh from Monarch Networth Capital Limited.

Vedika Singh: Sir, what is the likely traction in the CE space that we are seeing? And what is our target revenue mix for the business in FY '25 or '26?

Sorab Agarwal: I think we should easily be able to grow this business at 30%, 35% every year to be a little conservative. And I'm saying that, so I think we should definitely be looking at INR325 crores, INR350 crores or little more than that in the current fiscal. And I'm going at a 30%, 35% increase ratio. So I think we should be hitting INR500 crores in the next 1.5 to 2 years.

Vedika Singh: Sir, okay, sir. And what would be the overall revenue mix coming from the MHC cranes? Would there be a deviation from our current product mix in 2 years down the line?

Sorab Agarwal: Which cranes are we talking about, Vedika?

Vedika Singh: Sir, the overall revenue mix coming from construction equipment cranes. Since we are so bullish on the construction equipment, would the revenue mix change?

Sorab Agarwal: Yes, maybe a little bit in favor of construction equipment at the cost of especially, I would say, metal handling and agri because they'll be growing slower. Yes, the crane, the base itself is big. So might be a small -- very small 1 or 2, 3 percentage there. But I think over the next 2, 3 years, construction equipment currently is our second biggest segment already at 11%. So that should definitely start to look something like maybe at about, let's say, next 2, 3 years of INR4,000 crores revenue, INR5,000 crores revenue and this being maybe about 12%, 13%, 14%, something like that.

Vedika Singh: Okay, sir. Okay. Sir, could you also share the progress on the Ghana plan, what's happening and what's the time line that we are following at present?

Sorab Agarwal: Yes. Unfortunately, we were looking at -- to start execution in quarter 1. But due to -- Luthra Sir, would you want to answer that? You are more abreast with the Ghana news.

Rajan Luthra: Yes. Basically, there has been some discussions going on between the Ghana government and the Indian government and which -- because it was -- the project was funded by the Indian government through Exim Bank of India, and we were -- and we would have -- although payments were secured from the Exim Bank including advanced payment and all those things, there have been some regulatory issue between Ghana government and the Indian government which is, I understand, is under discussions.

So once that is -- which we expect to be resolved very soon. Once we resolve them, once the Indian government gives clearance, then the Exim Bank will start making payments to us. Once we -- and we will start the project only when we get the advanced payments because we don't want to take risk on the government asset, but we only because of the secured payment we do the business.

Sorab Agarwal: So hopefully the situation should -- I mean, whatever, should be resolved in the next 1 or 2 months. And we are looking at our payments going through the Exim Bank most probably in the coming quarters. So we are hopeful that -- I mean, we were expecting quarter 1 to start execution. So hopefully quarter 2, we should be in a position to start execution at some time.

Vedika Singh: Still, sir, for now we have not put in any capital towards Ghana, right, from our end?

Sorab Agarwal: Not really capital, but a lot of intellectual capital, I would say, because all the planning and with respect to the plant that is going to be set up there and with respect to the proposed ordering for that, most of the homework has been done by us, finished by us.

Rajan Luthra: Yes. But we have not spent any financial commitment as such to vendors and everything, so.

Sorab Agarwal: We have not deployed any capital assets.

Moderator: Our next question is from Mr. Suhrid Deorah from Paladin Capital.

Suhrid Deorah: Just one quick question, accounting question. Could you explain what is impairment losses of financial assets?

Sorab Agarwal: Impairment losses of financial assets, Luthra Sir?

Rajan Luthra: Yes, basically this is the -- making a provision for the expected credit loss because recently the accounting standard has been revised from last 1 or 2 years and which has made a stringent -- we have made a stringent policy of making provisions for overdues which are more than 6 months or so. So depending on those policies and because on the historical trend and all those things, we have made an expected loss. This may not happen, but we have made a position. So that isn't shown separately as an impairment of the receivables basically.

Sorab Agarwal: To be very frank, in short, DSR, where KPMG has become our audit firm now and so they wanted to make the provisioning very transparent and very clear. So although most of these payments are recoverable, but they have a provision for it under this.

Suhrid Deorah: Okay. So is it fair to assume that the receivables that are shown in the books, the rest of them are likely to materialize over the next 12 months and you won't see such a large write-off going forward?

Sorab Agarwal: Yes, anything possible, BSR has made sure it is provisions. But in saying that, most of the provisioning is actually recoverable, to be very frank with you. And whatever vessels which are balance are 100% recoverable.

Suhrid Deorah: Okay. Got it. So this is a one time?

Sorab Agarwal: They have got delayed a little beyond 6 months or whatever like Luthra sir was saying and they have been provided for.

Moderator: Our next question comes from Mr. Jitendra Petkar from JD Capital. Mr. Petkar, please go ahead with your question, sir.

Management: I think we can skip and go to the next one.

Moderator: Our next question is from Indumati Rangan, an individual investor.

Indumati Rangan: I have a few questions. My first question is, in the last conference call you said that the Chinese are selling large cranes in India at very low prices and giving 1 year credit to buyers, but we are entering the large crane segment by building a new plant for it. So how are you going to compete with the Chinese players who are selling at such low prices and also offering 1 year's credit?

Sorab Agarwal: In all probability by doing the same thing, by offering competitive prices and wherever possible credit terms, obviously secured credit terms to LC and all. First I'll start with the credit terms. We have tied up for -- with some banks at very good interest rates with respect to sale bill discounting and healthy discounting, wherein I think we should be able to compete with the Chinese on the credit terms.

And I'm sure as soon as there is an alternative available, the customers will start to prefer Indian buyers. Yes, with respect to bigger cranes, their prices are really ridiculous with respect to margin profile. We would have thought that bigger trains should not be less than 20%, 25% EBITDA levels. But still they are not that bad once we produce them in good quantity in India. I think in the last 4, 5 years, what was holding us back was the possible margin profile. But once we calculated that after increasing our business by around 5x and competing at same prices.

So because of the operating leverage part of it which will come. I think last year we did the bigger cranes -- just pulling out a paper, just a second -- close to about INR130 crores, INR140 crores approximately. And obviously once we are doing INR400 crores, INR500 crores and operating leverage that will come along with it, I'm sure will help us compete with the Chinese.

Indumati Rangan: And my second question is, the Chinese products are now being imported but you will be manufacturing the large cranes in India itself. So that will give you a logistic cost advantage, correct? Is that logistics cost advantage going to be an important part of your competitive advantage? And what percentage from advantage will you have because of the logistic cost?

Sorab Agarwal: The logistics will give us anywhere between 7% to 8% advantage. But apart from logistics, another part is the Chinese machines which are being imported they also attract a 7.5% custom duty. So that barrier is also there. But even after calculating all of that, they are still being very competitive.

And in a way, you can say some sort of dumping. So we are also -- we've been in talks with MHI and DGFT with regards to practices of the Chinese companies. And they are also planning to act on that. And if something like that happens, then it can be much more beneficial in our favor.

Moderator: Our next question is from Mr. Apurva from Phillip Capital, PCG.

Apurva Shah: Congratulations for the really good job. Sir, two things, I just make a clarification on like when we are guiding for crane segment to grow at maybe 15 to 20 percentage. So are we considering the incremental revenue from crawler crane or it is not factored in this guidance?

Sorab Agarwal: As of now, no, to be very frank with you, because the plant will become operational next quarter. And obviously we will have some incremental revenue with respect to crawler cranes and truck cranes. I'm sure the numbers will double up at least in the second half. Yes, so it could be additional INR30 crores, INR40 crores, INR50 crores, which might trickle in, but we have not factored that in, and…

Apurva Shah: Probably that could come in Q3 or Q4, right?

Sorab Agarwal: Yes, Q3, Q4. And to answer your question very frankly, we have pegged it at 15%, 20%, the crane segment, but I think it is going to be bigger than that.

Apurva Shah: Fantastic. And sir, another thing on agri side. So like as we have reached the optimum revenue for construction equipment, which is reflected in your margins as well, which is similar to your crane segment. So for agri what could be that option revenue side revenue where we can see some margin improvement because that is the one of the segment where we are not able to show the margin improvement. So any thought on that?

Sorab Agarwal: And it is also our pain point.

Apurva Shah: Exactly. So like once the margin improvement is visible in that segment, then probably you would be -- you would have all 4 product buckets, which is roughly 10% to 12% kind of EBIT margin. So that's why need some -- your thoughts on that?

Sorab Agarwal: When Agri starts to perform, believe me, we will start doing more than 15% -- 14%, 15%. But in saying that, I think they're similar to backhoe loaders, I mean this construction equipment. As soon as we start doing a INR70 crores, INR75 crores, I would say INR75 crores at least on a quarterly basis, let's say, INR300 crores on an annual basis, which I think is really not possible in this coming year, but definitely in the year after that. Our margin profile can be similar to other segments like cranes and construction equipment.

And similar questions, we was being asked 2 years back regarding our construction equipment, and we've been able to solve that and bring it to normalcy. So hopefully, I mean, not in the next 1 year, definitely you'll see improvement in the agri. But I think FY '25, if you are able to do a INR300 crores, INR350 crores turnover, I think the margin profile will start to look very different.

Moderator: Our next question is from Mr. Jitendra Petkar from JD Capital.

Jitendra Petkar: I have 2 questions. One is about Note 11 in the annual result, which mentioned some corrections that have been made for the previous year's consolidated results. Is it because of changing in the accounting practices? What is it? Is there any impact, financial impact on that?

Sorab Agarwal: No financial -- yes, actually, there is no financial impact. There are certain regrouping only from one head to another head. So these are basically all balance sheet items only where some loans have moved to advances and all those. These are small corrections, you can say, as per the -- because with the change in auditors different view has been taken on that it should be shown as security deposit or rather than advances and -- so this is -- if you have noticed that there has been no change in the financial profit and loss in the -- no restatement on the profit and loss for the previous year.

Yes, definitely, balance sheet has been restated, but very minutely in certain heads, moving from one head to another in the similar category. Some assets from, financial assets have gone to other assets.

No significant impact on the net worth and the book value of the share.

Jitendra Petkar: And my second question is about defense as a new sector. Is there any possibility of business growing rapidly there in that sector?

Sorab Agarwal: Yes, there are definitely possibilities. I think 2.5% to 3% revenue contribution has come from defense in the current year. And internally, we have targeted 8% to 10% revenue going forward as soon as possible to come in from defense sector. So hopefully I think this year would be better than last year with respect to defense business.

And we are working on different projects, different requirements. The station is slightly longer, sometimes they click quickly sometimes -- but generally will take longer. So that's where we stand. Internally we plan to take revenue contribution from defense to 8% to 10%. Eventually, currently we are working at about approximately 2.5%.

Jitendra Petkar: So going forward, we hope to get more traction and a little better margins in the defense?

Sorab Agarwal: Yes. I mean, good margins. Margins are reasonable generally in the defense business because the products and the environments are pretty typical and sort of tailor-made. So I think they will be in sync with the profile of the segment we are working in.

Jitendra Petkar: Fine. Congratulations for good numbers. And I hope the impact of this Note 11 is not more than about INR4 crores as it can be generally seen broadly as I can see.

Sorab Agarwal: Yes, I think, again, because of the new auditors. So wherever, you understand very well, wherever they thought maybe some grouping or whatever Mr. Luthra was explaining. But there is really no financial impact, right, Mr. Luthra?

Rajan Luthra: Yes, there is no. As I stated, there has been no impact on the profit loss of the last year also. And the only restatement was basically in taking some investment as current or to non-current. And only this movement has been from one head to another head. And no, there will be no future adjustment because now the -- we have aligned number as per the KPMG requirements.

Moderator: Thank you. As there are no further questions, I would like to hand the conference over to the management for closing comments.

Sorab Agarwal: Yes. Thank you. About 2, 2.5 years back we planned and conceived that by FY '24 we will double our turnover from about INR1,100 crores, INR1,200 crores and take the company to about INR2,500 crores. So as of now, we seem to be on track to take our company beyond INR2,500 crores in the current financial year.

And going forward, I think this would again be our endeavor, to double ourselves in the forthcoming 3 years. And as conveyed, we are looking at 15% to 20% growth on the conservative side in the current year, which will be driven by cranes, metal handling and agri with about a 15%, 20% contribution and construction equipment at a slightly better pace. And more importantly, I think double-digit margins for us are here to stay.

And within the coming quarters and this year, I'm sure we'll be able to further increase our margin profile by at least 100 to 150 basis points, if not more. And the scenario in the country seems to be good and buoyant. Slight dependency on the monsoons, I would say, because that does impact the buying pattern a little. But on the whole, things seem to be on the right track. And we seem to be heading in the right direction as per our plan. Yes. Thank you, everybody, and good evening.

Vyom Agarwal: Thank you, everybody.

Moderator: I will now hand over the conference to Ms. Vedika Singh from Monarch Networth Capital Limited. Over to you, ma'am.

Vedika Singh: To the management for taking us through the FY '23 results and a promising future outlook. Thanks to all the participants for joining us today. We would now like to close the call.

Moderator: Thank you. On behalf of Monarch Networth Capital Limited, that concludes the conference. Thank you for joining us, and you may now disconnect your lines.