Action Construction Equipment Ltd.

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

Date: May 26, 2022

To,

The Manager Listing	The Manager Listing
BSE Limited	National Stock Exchange of India Ltd.
5th Floor, P.J. Towers,	Exchange Plaza, Bandra Kurla Complex,
Dalal Street,	Bandra (E),
Mumbai-400001	Mumbai-400051
Scrip Code: 532762	**CM Quote: ACE**

Subject: Earnings Call Transcript Q4/FY22.

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&FY22) of the Company.

Kindly take the above in your record.

Thanking You.

Yours faithfully,
For Action Construction Equipment Limited

Anil Kumar
Company Secretary & Compliance Officer

Corporate Office & Regd. Office : Phone : +91-1275-280111 (50 Lines), Fax :+91-1275-280133, E-mail : works2@ace-cranes.com
Mktg. H.Q.: 4th Floor, Pinnacle, Surajkund, Faridabad, NCR-121009, Phone: +91-129-4550000 (100 Lines), Fax : +91-129-4550022, E-mail: marketing@ace-cranes.com
Customer Care No.: 1800 1800 004 (Toll Free), **CIN :** L74899HR1995PLC053860

www.ace-cranes.com

"Action Construction Equipment Limited Q4 FY-22 Earnings Conference Call"

May 24, 2022

MANAGEMENT:	**MR. SORAB AGARWAL – EXECUTIVE DIRECTOR, ACTION CONSTRUCTION EQUIPMENT LIMITED** **MR. RAJAN LUTHRA – CFO, ACTION CONSTRUCTION EQUIPMENT LIMITED** **MR. VYOM AGARWAL – HEAD, INVESTOR RELATIONS, ACTION CONSTRUCTION EQUIPMENT LIMITED**
MODERATOR:	**MR. VIKRAM SURYAVANSHI – PHILLIPCAPITAL (INDIA) PRIVATE LIMITED**

Moderator: Ladies and gentlemen good day and welcome to Q4 FY22 Earnings Conference Call for Action Construction Equipment Limited hosted by PhillipCapital (India) Private 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 operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

This conference may contain forward-looking statements about the Company which are based on the beliefs, opinions and expectations of the Company as on the date of this call. These statements are not guarantees of future performance and involves risk and uncertainties that are difficult to predict.

I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Vikram Suryavanshi: Thank you Hemant. Good afternoon and very warm welcome to everyone. Thank you for being on the call of Action Construction Equipment Limited. We are happy to have the management with us here today for question-and-answer session with investment community. Management is represented by Mr. Sorab Agarwal – Executive Director, Mr. Rajan Luthra – Chief Financial Officer and Mr. Vyom Agarwal – Head, Investor Relations.

Before we start with the question-and-answer session we'll have opening comments from the management. I will handover call to the Mr. Sorab Agarwal for the opening comments. Over to you sir.

Sorab Agarwal: Thank you Vikram. Good afternoon, everybody. Welcome to this Earnings Conference Call for the Fourth Quarter and Financial Results for the year ended March '22.

Last financial year was yet another extraordinary year. We had the impact of COVID second wave in the first half, a strong rebound thereafter and macroeconomic headwinds because of war and rising inflation by the time we ended the year.

At ACE we took these uncertainties as opportunities to gain market share and we made significant progress on our strategic priorities. This has been possible through the collective efforts of our employees and partners who serves the needs and aspirations of our customers. Along with me today in the con-call we have Mr. Rajan Luthra, who is our CFO and our Head of Investor Relations – Mr. Vyom Agarwal.

I hope you all have had an opportunity to look at the Company's Financial Statements and Earnings Presentation which have been circulated and uploaded at the stock exchanges.

To begin with, it gives me immense pleasure to report that we have crossed the Rs. 1,600 crores turnover mark in this fiscal and also recorded our highest ever sales in the quarter gone by. Our growth of 33% was significantly ahead of the market. We consistently grew our brand and gained market share in the last year.

Our EBITDA margins for the year was sustained at 10.3% and we delivered a performance of balancing growth and profitability in the backdrop of extremely challenging inflationary scenario. Our EBITDA for the year grew by 24.3% to approximately Rs. 168 crores as against Rs. 135 crores in the preceding year.

We were able to increase our profit before tax from about Rs. 108 crores in FY21 to approximately Rs. 138 crores in FY22 which is a growth of 27.5%. Similarly, our PAT also increased from Rs. 80 crores in the last year to Rs. 106 crores thereby registering a growth of 32% in the last year.

To brief you on the financial performance of fourth quarter of last year – the operational revenues grew by 11.8% on a year-on-year basis to approximately Rs. 512 crores. Despite the unprecedented inflationary pressures your Company was able to sustain the EBITDA level of 10.4% and PBT at 8.8% in the last quarter. The EBITDA and PBT for the quarter stood at Rs. 53 crores and Rs. 45 crores respectively.

Now moving on to segmental business performance – For the year gone by our crane business has registered a strong growth of 40%. The growth was both in value and volume terms. Our numbers for cranes increased from 4,558 in FY21 to 5,328 in FY22. In the crane segment we have been able to sustain our margins at around 12% under hyperinflationary scenario.

Further, the construction equipment segment clocked the yearly growth of 32% and we did a revenue of Rs. 172 crores with sustained margins of around 5% to 6%. The material handling segment recorded revenue growth of 48% and stood at Rs. 152 crores with margins at 12%. The agri division registered revenue of Rs. 198 crores while recorded margins at 6.5%. The tractor industry remained subdued in the second half of FY22. The outlook remains positive due to good crop prices and prediction of normal monsoon going forward.

On the operational side in our endeavor to closely and effectively work with the Ministry of Defence, we have started executing the pilot order of 4x4 multipurpose tractors along with special attachments which are being specifically designed for the Indian Army.

Further, the operating environment remains challenging, commodity inflation continues to be a significant headwind for the industry. The recent global developments have added further volatility to commodity markets and have pushed the prices of various commodities including Brent, steel and light metals to an all-time high level. CPI inflation has also been increasing. It has now breached the RBI's threshold for last 3 months in a row thereby encouraging an interest rate hike by the Central Bank. In such a challenging macro environment, robust performance of the Company is reflective of our strategic clarity, strength of our brand and our execution prowess along with our agility and adaptability.

Looking ahead, in the near-term operating environment will remain challenging. But we expect to see some moderation in the inflationary pressures due to recent government actions regarding steel duty structures and fuel, etc. which would enable us to expand our margin profile in the second half of this year.

Having said that the drivers for value creation at ACE remain same. We remain focused to deliver on our growth agenda, growth that is consistent, competitive and profitable. We will try and continue to manage the delicate balance of ensuring competitiveness of our brand and keeping EBITDA margins in a healthy range. We will continue to drive cost savings harder and take calibrated pricing actions whilst ensuring we protect and grow our markets. Further, with the continuous focus of government on infrastructure development and their efforts to strengthen the manufacturing sector, we do expect a growth of at least 15% in crane segment in the coming year along with 20%-25% in the material handling segment. For our agri and construction equipment portfolios we are looking at growth rates of around 15% to 20% and 30%-35% respectively.

On the whole we are looking at a 15% to 20% increase in our topline for FY23 with better EBITDA margins. We hope we are in a position to revise these projections by end of second quarter which will predominantly depend on how the economic scenario pans out post the recent disruptions. Further we remain optimistic about the medium to long-term prospects of the Company and believe that our building blocks are firmly in place and are on path of sustainable growth in all the core segments where we operate, leading to expansion in top line, bottom line and margins of the Company.

With this I would like to open the call for question-and-answer session. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Himanshu Upadhyay with O3 Securities.

Himanshu Upadhyay: I had a question on construction equipment. Can you break this 533 what we did in what was backhoe loaders and what was others? Again, for FY21 also and what we are seeing a significant amount of CAPEX being announced. What are you seeing on both construction equipment and crane segment? Any thoughts on that and your order books type of situation or enquiries.

Sorab Agarwal: with respect to CAPEX and construction activity I think it is in full swing and things specially in April were looking very good. Yes, they are slightly subdued in May, primarily because of people start looking at stock markets and with RBI increasing some interest rates. There is a small breather in the month of May but I think April was very good and we are sure this trend will continue. With respect to detailed breakdown of that number I think Luthra Sahab with respect to the numbers for construction segment product wise if you can just provide that.

Rajan Luthra: I will tell volume wise, so backhoe loaders we did about 466 backhoe loader. And Piling Rigs we have done 29 numbers, compactors we have done 28, motor graders we have done 9.

Himanshu Upadhyay: 466 backhoes?

Rajan Luthra: Yes.

Himanshu Upadhyay: And forklifts?

Rajan Luthra: Forklift comes in the material handling.

Himanshu Upadhyay: What is the total of CE?

Rajan Luthra: The total number of all this volume I think we have given in the presentation also.

Himanshu Upadhyay: Yes, so that is a 533. Similarly, can you break for FY21? What growth have we seen in backhoe loaders because that was one of the special emphasis for the Company? That is what I am trying to understand. What is happening in that segment because that is the large market also and we have been focusing on that segment? This 466 is versus what was there last year?

Sorab Agarwal: If I'm not wrong last year the numbers were 500.

Himanshu Upadhyay: For backhoe loaders?

Sorab Agarwal: Last year they were 500. There's a small de-growth there, very unfortunate the industry for backhoe loaders has degrown by about 28%-30% in the last year. Unfortunately, because of that BS-IV becoming prevalent in the second half of last year and the pricing and inflation. So, there has been a slight pullback in the overall market. Like I mentioned the overall market has also gone down a little. We could have still done better but I think we got stuck at this number. On the whole everything seems to be in place. The numbers in this segment are also appearing to be less because with respect to our BS-IV soil compactors and motor graders again there was a delay with which we could bring it in the market. The numbers there are again slightly reduced but I'm sure we'll more than make up on the whole in this year. In any case on revenue front in this segment we have been able to grow by 32% in the current year.

Himanshu Upadhyay: The number of dealers who would be selling our backhoe loaders would be how much currently versus last year and what further penetration on distribution side we are trying to do?

Sorab Agarwal: Now we are trying to reach each and every corner of the country. I don't have the exact number of dealers between last year and this year but I can for sure tell you that the 15 to 20 more locations have been added in this year which has gone by and it is a continuous process. Hopefully by end of this year the current FY23, we should be in a position to be offering this machine in every nook and corner of the country.

Himanshu Upadhyay: How much would be our distribution reach versus the market leader, the number of distribution points?

Sorab Agarwal: We were talking about 70%-80% of the area. But the only difference is that the market leader again has further lot many outlets as compared to us even at smaller city levels. This process, every state we will have main dealership which we have in most of the areas. In certain biggerstates maybe 3-4 dealerships and they keep on increasing further outlets, so that the touch points keep on increasing. Our current touch points would be a little over 100 with respect to backhoe loader which I think in this year again we should be increasing by about 40-50 more.

Himanshu Upadhyay: One thing, on the crane side we saw pretty significant growth rate. Do we think it will continue and what product is driving this growth and what is the scenario?

Sorab Agarwal: Cranes already, we are market leaders in pick and carry cranes with now close to about 65% market share and tower cranes again which is a little more than 65%. These two are the leading product segments within the cranes where we do, our maximum number I would say 96% of our numbers come from these two products. And going forward I'm sure that this year is going to better than last year. As I mentioned in my address, we are looking at least 15% growth here in numbers, it can definitely be much more than that. But the prudent time to project that will be I think another 3-4 months down the line because on the whole with respect to infrastructure activity in the country and also the focus is the government has on manufacturing and pick and carry cranes are used in both. We are on a very good slate with respect to the demands coming up. Luckily in the last year real estate segment has also started to pick up. So the numbers of tower cranes are also increasing which are definitely higher ticket size as compared pick and carry cranes.

Himanshu Upadhyay: Till what height do we make tower cranes?

Sorab Agarwal: Currently what we're doing is maximum required in the country is about 230-240 meters cranes which we are doing. But yes, if people want to go higher than that then special solutions can be provided for 300-400 meters also.

Moderator: The next question comes from the line of Jasdeep Walia with Newmark Capital.

Jasdeep Walia: You've been mentioning in over the last few quarters that you wanted to close an acquisition and as per your comment in the third quarter's call you said that you will definitely close something by fourth quarter which is the quarter just gone by. So, could you just update us with the status with respect to M&A on the M&A front?

Sorab Agarwal: Yes. We were very hopeful that we will be able to do it in the last quarter. Unfortunately, it has trickled into this quarter. If everything goes well 100%, I think we are on track to be able to announce something. Both of these acquisitions we are looking at are smaller ones based on our philosophy to consolidate the market at the lower end. I think over the next 15-20 days, 30 days we should be in a position to close and announce.

Jasdeep Walia: Like you just mentioned, you want to consolidate the market at the lower end and I guess you mean that you want to acquire companies with 2% to 5% kind of market share in the crane segment. To me the rationale is not clear because the market is already consolidated with top 2 companies having more than 80% market share. If I go back let's say 1-1.5 years you, yourself used to say on the call that you don't bother about competition from smaller companies in the crane segment because they have insignificant market share. Every couple of years some new Company comes up and then it dies an automatic kind of death in 2-3 years. Why to acquire a small Company in the crane segment?

Sorab Agarwal: We are looking at couple, rather there's another third target fringe players and we'll merge it with our business. The main aim is that what has happened in the recent past that this input commodity price increase and inflation which has been happening, a certain price movements and we are forced increase our prices, so there is utter confusion in this market and the smaller fringe players end up getting some benefit there, maybe not with their selling price but at least with the numbers with which they are able to do slightly better in some months because we have increased our prices. We thought it is an opportune time to probably consolidate the market wherever possible and which eventually will hand us more power to price our products suitably in certain smaller regional markets. That is the main contention behind this and obviously some numbers will get added.

Jasdeep Walia: You will acquire some small Company in that.

Vyom Agarwal: I would just like to add one more thing, that we operate in four segments; cranes, agri, construction equipment and material handling. So, acquisition can be in any of the lines. I think you have pointed cranes so it won't be right on our part to comment on that.

Moderator: The next question comes from the line of Mudit Jain with HEM Securities.

Mudit Jain: We have witnessed strong growth in crane segment but there is substantial decline in number of quantities sold in construction equipment and agricultural equipment in Quarter 4 as compared to Quarter 3. So, I just wanted to know what is the reason for that?

Sorab Agarwal: Crane we have definitely done good (a) because of price increase, (b) because of the numbers increasing. Unfortunately, the construction equipment side, the market overall tanked by 28%-30% and especially in the second half as soon as the BS-IV thing happened. So that was the main reason that in the second half we were really not able to increase our numbers and surpass our numbers by 30%-40% but nevertheless due to our product mix we have been able to grow that segment by about 32% in the last year which I just mentioned. This I am talking about the construction equipment sector. Where from about 133 crores of turnover in FY21 we've been able to do 176. Yes, this could have been much better unless we would have enabled to do some more numbers in the construction equipment sector and something similar, I would say with respect to the agri, especially Q4 our numbers are really not good. They've reduced, our revenue has reduced on a year-on-year basis by about 14%-15%. On a whole year basis as revenue for agri is flattish and that is the main reason because the markets were quite subdued. Also coupled with the continuous price increase that we have been trying to take every 2-3 months in the last year that has also easily destabilized the market but I'm sure the worst is behind us with respect to these inflationary tendencies and government taking such positive and drastic steps to at least bring the biggest commodity under control which has been playing havoc and has more than doubled in the last 1-1.5 years. I am sure going forward these things will fall in place.

Mudit Jain: My second question was regarding raw material handling. In the previous con-call you have mentioned that around 60% of the input costs is of steel. Recently Government of India has announced export duties and reduction in import duties of certain raw materials which are used in steel manufacturing. How will it affect our raw material costs?

Sorab Agarwal: In the month of April and early May steel had peaked touching about Rs. 79 to 80 a kg even slightly higher in some cases. I'm talking of MS, mild steel, our flat products. In the last 15-20 days they have definitely reduced by about Rs. 4-5 a kg and OE prices of Tata Steel or ArcelorMittal which was Essar earlier or Steel Authority of India have already gone down by Rs. 4-5. The market prices, the trader prices are already Rs. 3-4 lower than that and have been like that in the last two weeks. With this introduction of 15% export duty and especially again with the 45% export duty on iron ore, we feel that there is a scope of at least 10% to 15% correction from here onwards. So, the steel prices could be anywhere between Rs. 65 to 70 maybe quickly, maybe in the next 1 or 2 months. That will bode very well for us because what has happened in the last year that we increased our revenue by 33% and whatever operating leverage we got out of that that was also sunk into subsidizing the machines for our customers. Even then if you look at our balance sheet, our raw material costs have gone up by 2%-2.5%. I think in such a scenario, it should be easy for us especially in the second half of this year if the steel prices continue to go down to increase our profitability by at least 2%-2.5% if not more. But this is something time will tell because a lot of factors are involved here because it's a supply demand game and who bends first. But we are hopeful that from the current levels of Rs. 75-76 it should go down by at least 10% to 15% which will bode very good for our Company. Our profitability, our margin expansion will happen. The sacrifice in the last 1 or 2 years we've done on account of our operating leverage which have given away to the inflationary pressures and our raw material costs COGS, cost of goods sold increasing that should start to definitely improve in the next 1 or 2 months provided the steel prices go down.

Mudit Jain: My last question is can you give the CAPEX guidelines for this year?

Sorab Agarwal: In the current, year we have already started to expand our facilities because in the current year we intend to launch 100 ton and 160-ton crawler crane and some more bigger crane going up to 80 ton and slightly bigger in the truck crane variety which needs a bigger facility for fabrication, for machining and even for assembly. We have started investing in this project already. In the current year apart from 15-20 crores our maintenance CAPEX I think another about 30-35 crores should go into setting up this plant. We already have a lot of plants so, we are expanding in that. Keeping in mind that India is growing as a country, now in the last 6-8 months bullet train project has also taken off very well and so much elevated construction is happening all over the country whether it is Metro, bridges, flyovers or increasing connectivity. So, lot of these bigger cranes 100 ton and 60 ton are going to be required in the country. Currently Indian market is depending on import specially from China. Now to enter into this bigger crane segment and to further expand our portfolio for truck cranes and crawler cranes, we are doing this CAPEX. All in all by the end of the year we should be somewhere around 40 to 50 crores, right Luthra Sahab?

Rajan Luthra: That's right.

Moderator: The next question comes from the line of Abhishek Mody with Emkay Global.

Abhishek Mody: My question pertains to the investment, if I look at your balance sheet. I think from 13 crores it appears to jump to around 76 crores if I am right, standalone basis and consol also from its jumped. Can the management please explain the jump there with regards to the investments?

Sorab Agarwal: Yes, because the surplus money that is available with us and the cash accruals which are happening on account of the profitability easing in the Company. Those have been parked as very safe and sound investments and if you need any more details than that then Mr. Luthra would be the right person to answer.

Rajan Luthra: Yes, you are right but what number you are talking about it is a long-term investmeny. But there were current investment also which is 110 crores. I was telling what you spoke about the numbers what you spoke about is only for the long-term investments. But beside that we have got the short-term investments also which is nearly Rs. 110 crores. So total investment in the Company roughly about (+208). Specially because we want to flow our profits back into the surplus cash available and not put in the business and just keeping it as a safeguard for future as an investment or future acquisition or something like that. if we become slightly low then this money will probably go up and adding up the inventories. So as a Company policy whatever we are earning we are just putting into investments and all those things as of now.

Sorab Agarwal: So really to not let it lose in the Company and it will get consumed in the working capital. We want to keep our working capital well in control. That is also the reason we are parking our of money in short-term and long-term investment. This what Luthra Sahab is trying to say.

Abhishek Mody: Now the question was asked earlier, this is regarding the hoping to be one of the upcoming acquisitions.

Sorab Agarwal: Yes, the upcoming acquisitions and obviously our CAPEX plan and obviously our plans to grow the Company further. This is the kitty we have in the Company to use for all these activities.

Abhishek Mody: And just going to my first question, this is you have put money from…this is the completely operating income which is being put into long-term and short-term investment.

Sorab Agarwal: That is also the money we raised through QIP in September.

Abhishek Mody: So QIP money and so it is 50-50 or of course not a fixed but a broad breakup, largely its QIP but the operating money we would…

Sorab Agarwal: It should be close to about 60-40, right Luthra Sahab?

Rajan Luthra: QIP money was only Rs. 130 crores and balance is this is because mainly this is for reducing of debt also, term loan debt also. So, we have become a debt free Company as on 31st March and rest was the flowing back of the operating profits.

Abhishek Mody: So, of the total 200 crores is for 130 approximate is the QIP portion and so around 60-70 crores will be the profit which the Company has booked?

Rajan Luthra: Yes.

Sorab Agarwal: What Luthra Sahab is also saying that our short-term borrowings and long-term which was standing at 54 crores last year. They also have been more or less nullified.

Abhishek Mody: Yes, I think 7-8 crores if I'm right looking at the balance sheet?

Sorab Agarwal: That is also be nullified. In making us not use any debt.

Moderator: The next question comes from the line of Kushal Churi, with an individual investor.

Kushal Churi: Just wanted to know that last year in the last quarter you had mentioned that generally the run rate which we have for the entire year is what we achieve in Q4 of that particular year. Can we expect a similar run rate of revenue of around 500 crores going forward per quarter, so as per your top line of around 2000 crores?

Sorab Agarwal: Whenever the economic scenario is okay or good, we are generally able to multiply Quarter 4 into 4 and derive our upcoming revenue for the next year. Accordingly, we are giving a guideline from about 630 crores of operating revenue and 15% to 20%. I think on a whole year basis doing upwards of 1,900 crores should be possible easily but yes, you have to keep one thing in mind that in our business always Q1 and Q2 are about 40% of the revenue 40% to 45% and second half is about 55% to 60%. Maybe Q1 and Q2 you might not see 500 crores, maybe less than that but then that is generally made up in the second half of the year. Because 3 months are nearly lost because of monsoons and the demand gets little subdued in the second quarter.

Moderator: The next question comes from the line of Aman Shah with Jeetay Investments.

Aman Shah: My question is what was our CAPEX for FY22 full year?

Rajan Luthra: We did about 40 crores.

Aman Shah: Basically, our annual maintenance CAPEX of 15-20 crores and over that would be the paint shop that we did.

Sorab Agarwal: Yes, paint shop and we did expand in-house some cabin manufacturing facilities, apart from maintenance CAPEX it has gone into the paint shop and the paint shop work is still continuing and expanding into one of the other plants which will be done in this year. On the whole this year we should be looking at close to 50 crores.

Aman Shah: A second is the QIP money that we have raised around 130 crores, where is this acquisition actually take? It will take a lesser part of the QIP money, right?

Sorab Agarwal: Yes. So they will be miniscule, yes. The smaller ones.

Aman Shah: Post that will we be looking another acquisition or something too?

Sorab Agarwal: Yes. These two we have nearly lined up and there would be another one which we are trying which would be slightly larger in size as compared to these two. Let's see how and when it happens in the next 2-3-4 months. So, it's just we are not reaching a consensus with respect to valuation with respect to that particular the acquisition. If it happens it can go through in the next 2-3 months.

Aman Shah: Would you want to share like the line of activity that the potential is in ?

Sorab Agarwal: Like Vyom have mentioned out of the four segments we operate in it is not arbitrary it is totally related, it will help us add value to our existing business.

Aman Shah: It will be on the product side or more on the backward integration?

Sorab Agarwal: There are two more options, one on the product side, one on the backward integration side. Like I said two smaller ones are more or less we have identified and they are sort of done. We just need to be finalizing that, nearly final. There are other two options which will unfold in the next 2 to 3 months. Rather we have three options to be very frank with you, two on the product side and one on the backward side.

Aman Shah: Lastly on agri equipment; basically, how do we plan to increase and deepen our engagement because it's actually stagnant at this level for quite some time?

Sorab Agarwal: I know, again in the last 1.5 years. We have kneaded our teams our financial tie-up has even strengthened; everything seems to be in place. We are very hopeful that although we are projecting with the segment of about 15% to 20% growth in this FY23 but we should be able to do more than that, much more than that.

Moderator: The next question comes from the line of Krishna Agrawal with Niveshaay.

Krishna Agrawal: In the last call you had guided that around Rs. 100 crores of Defence orderbook you have, what will be the expected orderbook right now and what opportunities do we see in the Defence?

Sorab Agarwal: At the current juncture we have a little over Rs. 100 crores of orderbook from Defence which will be executed in this year. And there are another 3-4 projects where we are actively working and engaged. Rather we have close to about 120 crores if I'm not wrong. Sorry I have to calculate. Rs. 110-120 crores as of now from the Defence for the current year already which will get executed in this year. Apart from that there are certain other projects in the pipeline to the tune of Rs. 50 crores to 100 crores at least. Sometimes it takes time in Defence to realize these orders. We have bid for another about, apart from this pipeline project maybe another Rs. 150-200 crores of similar equipment that we do which is slightly specialized to meet the Army requirements. So, I'm sure I think Rs. 50 crores-100 crores of fresh business would come in this year apart from the one that we already have.

Krishna Agrawal: In Defence if you get the order for like one product, then repeat order like how does that shape up?

Sorab Agarwal: Once we have executed some orders then within 1 to 2 years for similar generic machines which Army requires in bigger numbers, so they provide the inflation adjustment with respect to their formula with their sector and if it is acceptable then they release repeat orders. In the current year we are also expecting some repeat orders for certain products.

Krishna Agrawal: In the coming years we can expect that around 200-300 crores of order from Defence, right?

Sorab Agarwal: We already have about (+100) and we are expecting at least 50 to 100 in this year. Execution will be about 125 to 150 at least in this year, more orders could also be from 50 to 100 fresh orders, could also go to 150 but that time will tell because it's a slightly time-consuming process.

Moderator: Mr. Himanshu Upadhyay your line is unmuted. Please go ahead and ask your question.

Himanshu Upadhyay: My question was on the financing side. Have NBFCs and everyone raised rates and at what rate the rates would have been increased for construction equipment and even cranes?

Sorab Agarwal: The NBFC rates for construction equipment before the RBI rate increase was anywhere between the range of 7.25% reducing rate going up to 12%-12.5% depending on the customer profile and post this we are hearing that another 0.25% to 0.5% rate increase would be affected by the NBFCs. So that is what is done.

Himanshu Upadhyay: Is there any mix expected to change versus customer directly buying or rental means the proportion between people who want to rent and who want to run the equipment will remain the same or it does get impacted when interest rates go up?

Sorab Agarwal: Interest rates really do not bother this to be very frank with you. Overall has increased in the last 1.5 years. We feel that and what we're seeing in the past that in the current year it will more be of end users. There will be a little shift in the share of end users buying little more machines as compared to rental companies because the rental prices have gone up for different equipment in the industry but not at par with the increase in costing because of BS-IV or the commodity prices going up. Looking at that we feel that in this year the share would move a little more towards end users buying directly because they might not get certain equipment on rental if they're not willing to increase the price.

Himanshu Upadhyay: We have seen commodity prices moving up. What are our plans for exports and some of these African countries and even Middle East are very heavily dependent on commodities and we were thinking about growing that business and with CAPEX which might increase; what are your plans on that side and how focused are we on that part of the business?

Sorab Agarwal: Commodities we only buy and especially steel and in different forms. We don't export any commodities.

Himanshu Upadhyay: No, I am not saying you are exporting but the geographies are very dependent on the commodity prices. Are we seeing increased demand from Africa and some of those geographies?

Sorab Agarwal: To be very frank in the last year the demand for export was similar or muted to the year before that although we have done 18% more revenue in exports. In the last year we are definitely much better placed with respect to our presence in different countries of Africa which are worthwhile and in the Middle East also. We have positioned ourselves in the right places.

Moderator: The next question comes from the line of Akshay Kothari with Envision.

Akshay Kothari: What would be our export revenue this year?

Sorab Agarwal: The year which has gone by?

Akshay Kothari: Yes.

Sorab Agarwal: The export revenue is about close to Rs. 76 crores vis-à-vis around Rs. 64 crores of last year.

Akshay Kothari: During the rainy season, how is our business impacted; like during two quarters we get some less orders and then post that we get more orders so regarding that?

Sorab Agarwal: Like I mentioned that the first two quarters are about 40% of our business 40%-45%. The second half is about 55%-60% of our business primarily because March is generally strong and then it tapers off a little in Q1 and then in Q2. Primarily it is raining in most of the parts of the country and as the construction activity slows down so it just gets a little subdued in Quarter 2 but then in Quarter 3 and Quarter 4, the second half of the year it picks up. As with the festival season coming in and the buying season coming in, so the things started, September onwards, October onwards they start to increase again.

Akshay Kothari: For agricultural equipment also just the same?

Sorab Agarwal: For agriculture generally Quarter 3 is the biggest month. Vyom you can add here with respect to agri, if you want.

Vyom Agarwal: Agri going forward this quarter, as well as the next quarter it should do well because of good crop prices as well as prediction of a reasonably good monsoons. Apart from that even in the export side, we are targeting some good geographies which will add numbers in the coming year.

Sorab Agarwal: I mean but seasonality in agri with respect to tractors. I think Q4 is generally a slower month, slower quarter. Q1-Q2-Q3 are fast quarters, right?

Vyom Agarwal: Q3 is the best, Q4 is generally slightly slower.

Moderator: The next question comes from the line of Anshul Saigal with Kotak AMC.

Anshul Saigal: One is that on the four segments that we have, how do we see the mix between these segments changing over say in the next 3 to 5 years? Which segment will become larger in size and why? And second if I look at the last 10 years, our margins in this year are amongst the highest that we have been in the last 10 years. Of course, it has been on the back of a weak industry environment but is this the peak that we anticipate on margins or say 3-5 years out, there are reasons for margins to be higher?

Sorab Agarwal: The first part of your question, our current mix is about cranes is about 67% and construction equipment is about 11% and material handling is about 9% and agri is about 13%. That's total of 100%. Going forward over the next 3-5 years, we feel that and obviously on an increasing base so when I say that certain segment if the contribution is going down does not mean it will not grow but the others will grow faster. We feel that in the next 3 to 5 years, cranes would still be the leader at about 50% but another 20% each will be added by agri and construction equipment specially and forklifts will remain at 9%-10%. That is what how we see it as because the potential to grow in agri as well as construction equipment is much more because our market shares and our presence there, there is a lot of scope of growth. That's how the mix would look maybe 3 to 5 years from now. 50% on cranes, 20% on construction equipment 10% on material handling and 20% on agri. I have forgotten the second part of your question. You will have to repeat.

Anshul Saigal: Yes please. I was saying that the margins that we have seen over the last 10 years have been in this year the highest. Is this a peak or is there likelihood that margins because of either this product mix change or other reasons scale etc. that margins will be higher again for 3-4 years out?

Sorab Agarwal: What I'll do is first I'll talk a little on the past. So, 7-8 years let's say between '13-14 and slightly before that and till '18, '17-18 these 5-6-7 years were visibly slow years and operating leverage was not playing in. We were stuck around 5%-7%-8% EBITDA margins levels because somehow country was not growing and at the pace of speed at which we were ready to service it with our fixed expenses in place. Now that in the last 3-4 years our revenue has crossed Rs. 1,000 crores and is increasing further. So definitely operating leverage is playing in. Operating leverage alone can easily add 2% to 4% to our margins in the next 2-3 years provided we are able to grow the Company 20%-30% every year. Apart from that our margins as of now has been adversely affected at least 2%-2.5% on account of input cost because finally we have to ensure reasonability and of viability of the end product. Whatever benefit we got out of operating leverage the last 2-3 years, the last 1.5-2 years and that has also gone away in discounting or subsidizing the price for our customers. Going forward there is a clear scope of 2% to 3% increase in margins on account of commodity prices. If they cool off specially steel coupled with our revenue going to Rs. 2,400-2,500 crores possibly by FY24 if not FY25. I think the next 2 years there's a possibility that we can reach there. If that happens then another 2%-3% or maybe slightly more on account of operating margin. There is a scope of expansion of anywhere between 2% to 4% maybe slightly more than that.

Moderator: The next question comes from the line of Sarika Kukshya, an Individual Investor.

Sarika Kukshya: You have been vocal in the past that M&A activities are going to be affecting our operating margins more. So, since we are pretty close to closing one.

Sorab Agarwal: Sarika you will have to a bit louder and a bit clearer please.

Sarika Kukshya: Just wanted to understand since we are pretty close to acquiring two of the companies, what impact would it bring to our margins over and above the heavier cranes which are definitely going to be margin accretive for the year?

Sorab Agarwal: I think these two-three acquisitions are going to affect or help us improve margins in at least 8% to 10% of our business in the crane segment primarily. Vyom will get offended with me on that but, nevertheless. So, there's a possibility to rev it up. On the whole on a Company basis about 0.5% to 1% is possible with these two that we have lined up.

Sarika Kukshya: Over and above the products….

Sorab Agarwal: Yes. Over and above that.

Sarika Kukshya: And the impact could be felt during the year itself?

Sorab Agarwal: Should be felt in the second half of this year.

Moderator: The next question comes from the line of Anik Mitra with Wallfort Research.

Anik Mitra: Like the expansion what you were doing, what is the timeline of commercialization this facility, this is one question. Second one is, what sort of revenue addition can we expect post commercialization of this new facility?

Sorab Agarwal: The timeline would be that we want to commercialize and start producing something as soon as December-January. So, we are already May is finishing. In all probability it will be Q4 when it gets commercialized into production and the revenue that can be generated from the CAPEX that we are doing would be close to maybe about creating the capability would be to generate revenue of Rs. 300 to 400 crores. But yes, let's say in the next year we should expect Rs. 100 crores because the capacity we are building up is more than what we will require immediately. There's no point building a small plant and then trying to increase it after 1 or 2 years. Most of our capacity otherwise are also fungible so even if it is required for some other activity, it can be used. The total capacity that's a revenue addition possible after this about Rs. 30 crores CAPEX would be close to about Rs. 300 to 400 crores at least.

Anik Mitra: What is our current capacity utilization?

Sorab Agarwal: In cranes we are utilized about 70%-75%, in material handling we are utilized about 75% and for construction equipment and agri we are utilized 30%-35%.

Anik Mitra: Is there any possibility of improvement in utilization in agri segment in this year?

Sorab Agarwal: Yes, I think 15%-20% we are looking at increase in revenue. It can be much more, it can also be 25%-30% but we would like to peg it at 15%-20%, 100% with capacity utilization will go to 40%-50% in this year itself.

Moderator: The last question comes from the line of Somnath Pal, an Individual Investor.

Somnath Pal: This is good to hear that you are positive and the business and outlook looks good. I just wanted to know what is your biggest fear that you think which you would have given the uncertainties persist which something which bothers you probably or which you can share probably for the next two-three quarters or so?

Sorab Agarwal: Nothing to do with business per se, I'll be very frank more to do with China attacking India. That is our biggest fear. Pakistan has gone to the dump, so I think China is a fear factor. God knows the way they're being pressed and oppressed all over the world, I do not know how they will react.

Somnath Pal: But I think that would be kind of unexpected event right. I mean I was just trying to understand from the business perspective, do you think anything which worries you given the raw materials are cooling and demand is coming up and everything looks good?

Sorab Agarwal: No, nothing really because I think we are rightly placed. There is no fear as such. The only worry is that it has been sometime we have not been able to rev up our agri business. I think we need to work harder there. That is one worry that we have. Apart from that I think the way our country is poised at the current juncture with respect to the possible growth in all our operating segments; I think if you are not able to capitalize in the next 3-4-5 years and maybe 10 years and become double-triple or even get bigger and bigger than that so, we would have missed an opportunity.

Somnath Pal: So, it's just not in the books? You yourself feel quite confident and you think that this is the right time to catch the bus otherwise we would miss it. That'd be the correct understanding?

Sorab Agarwal: We are already on the bus. We are on the driver's seat. We are market leaders in two of the segments and going forward very soon we want to be the market leader in the material handling as well and leave our mark in the construction equipment space. One thing very proudly I can tell you that today after Kubota taking over majority stake in Escorts, we are out of the big 15-20 construction equipment Company. We are the only Indian Company. All other are multinationals and we are giving them a run for their money right.

Somnath Pal: So very encouraging. I will just put up a couple of more points and questions. Do you think that there is scope for any kind of cash sales in our machines and hence by improving the working capital even further? I mean or is there any plan from the management side to do that?

Sorab Agarwal: See definitely more needs to be done on our debtor side and upfront payment sales also do happen but I think at the current juncture what has happened with us to further improve our working capital but definitely for some good-bad reason we are carrying a little extra inventory because the last COVID wave was there within this year and before that we had seen a lot of supply chain problems happening. We are carrying at least Rs. 50-80 crores excess inventory which when things start to normalize over 3-6 months-nine months' supply chain is totally settled and semiconductor issue is settled, then perhaps we can work on reducing this.

Somnath Pal: Other than the inventory you think the debtor and the payable can be negotiated?

Sorab Agarwal: Our debtors are very well in control and one thing that can be improved in debtor and we are already working on it that post the lockdowns in '20 and '21, the financers have been delaying payments on some pretext or the others of 15-20 days. Earlier we would get paid as soon as the machine is dispatched from the financers but now, they want the machine to reach its destination and get registered in half of the cases and then pay us. We have taken it up very strongly with all our NBFC partners and they have accepted it. Hopefully, our debtors will start to improve further but as it is we are in sync with our traditional pattern. Even if after lot of squeezing, I really do not know how much we can improve there. But definitely on the creditor side because the whole of last 1.5-2 years from 2020 onwards, we were okay pay masters but now we have become very prompt pay masters because of two things. Because actually the vendor base and the suppliers have suffered during the COVID time. We do not want that they go out of business or delay because of lack of payments or cashflow. Secondly with the commodity and the cycle increasing, input cost increasing so the working capital requirements of our vendors have increased actually by 50%-60%-80% with prices increasing. That's why you would see that our creditors for this year are although we've done more revenue but the creditors are less as compared to the year before that FY21. That is a very conscious decision we've taken to support our vendor support structure because finally these are the people who will help us grow further when we need to make more.

Somnath Pal: Very thoughtful. In terms of acquisition or whenever you plan to acquire, so what is the kind of ROCEs or your internal IARs just on a rough estimate kind of?

Sorab Agarwal: The two smaller ones we are doing will help us increase our bottom line.

Somnath Pal: My point was on the cost of in terms of, not in terms of how they will help, in terms of finances, in the terms of evaluation at what you buy just some sense of what are your IARs.

Sorab Agarwal: We are working on something even better than that to be very frank with you. We are just I really can't, I really don't want to give out those details but we are hardly paying anything for that. We have brought them in a situation that we are releasing them of the misery.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand over the conference over to Mr. Vikram Suryavanshi for closing comments.

Vikram Suryavanshi: We thank the management of Action Construction Equipment for giving us an opportunity to host the call and taking time out for interacting with the stakeholders. Thank you all for being on the call.

Moderator: Thank you. On behalf of PhillipCapital (India) Private Limited that concludes the conference call. Thank you for joining us and you may now disconnect your lines.