Action Construction Equipment Ltd.
Corporate & Regd. Office
Dudhola Link Road, Dudhola, Distt. Palwal - 121102, Haryana, India

Date: November 15, 2021

To,

The Manager Listing
BSE Limited
5th Floor, P.J. Towers,
Dalal Street,
Mumbai-400001
Scrip Code: 532762

The Manager Listing
National Stock Exchange of India Ltd.
Exchange Plaza, Bandra Kurla Complex,
Bandra (E),
Mumbai-400051
CM Quote: ACE

Subject: Earnings Call Transcript Q2-FY22.

Dear Sir/Madam,

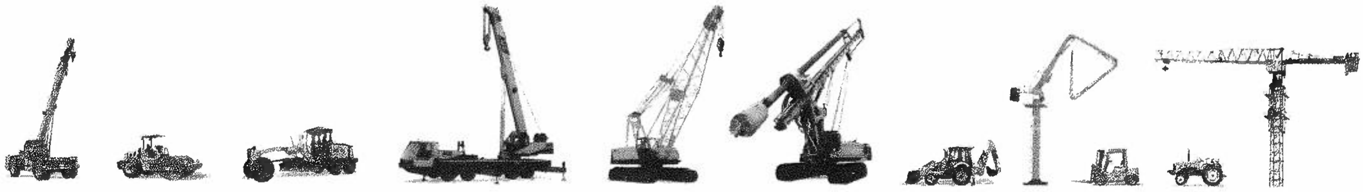
Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith, Earnings Call Transcript (Q2-FY22) of the Company.

Kindly take the above in your record.

Thanking You.

Yours faithfully,
For Action Construction Equipment Limited

Anil Kumar
Company Secretary & Compliance Officer



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"Action Construction Equipment Limited Q2 FY2022 Earnings Conference Call"

November 09, 2021

ANALYST:	**MR. ABHINEET ANAND - EMKAY GLOBAL FINANCIAL SERVICES**
MANAGEMENT:	**MR. SORAB AGARWAL - EXECUTIVE DIRECTOR – ACTION CONSTRUCTION EQUIPMENT LIMITED** **MR. RAJAN LUTHRA – CHIEF FINANCIAL OFFICER - ACTION CONSTRUCTION EQUIPMENT LIMITED** **MR. VYOM AGARWAL – HEAD INVESTOR RELATIONS - ACTION CONSTRUCTION EQUIPMENT LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Action Construction Equipment Limited Q2 FY2022 Earnings Conference Call hosted by Emkay Global Financial Services. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of the day's presentation. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhineet Anand from Emkay Global Financial Services. Thank you and over to you Sir!

Abhineet Anand: Thanks Lizaan. Good afternoon everyone and welcome to 2Q FY2022 Conference Call of Action Construction Equipment Limited. From the management, we have Mr. Sorab Agarwal - Executive Director, Mr. Rajan Luthra – CFO and Mr. Vyom Agarwal – Head Investor Relations. We will have an opening remarks from the management post, which we will open the floor for Q&A. Over to you, Sir!

Sorab Agarwal: Good afternoon everybody. I am Sorab Agarwal, Executive Director at ACE, Action Construction Equipment. I welcome everyone to this early conference call for discussing the results for the quarter and half year ended September 31, 2021. We hope that you are staying safe and healthy.

Along with me in today's earning concall, we have our CFO, Mr Rajan Luthra, and Head of Investors Relation, Mr. Vyom Agarwal. I hope that all of you have had an opportunity to look at the company's financial statements and the earning presentation which has been circulated and uploaded at the stock exchanges.

To brief you on the financial performance of the second quarter of FY2022, the operational revenues grew by 35% on a year-on-year basis to 360 Crores with an EBITDA margin of 10.2%. The EBITDA during the quarter increased to Rs.37 Crores in comparison to the Rs.46 Crores on a yearly basis, which is a growth of around 42%.

The PBT grew by around 57% and PAT grew by 58% year-on-year to Rs.30 Crores and Rs.23. Crores respectively, while the PAT margin stood at 6.4%. In the quarter gone by, the company registered a strong revenue growth across all the segments. In the Crane segment, we deteriorated our dominant market leadership position and registered revenue of 241 Crores with margins of 11.26%. On a year-on-year basis, the crane segment registered a robust revenue growth of 45%.

Similarly we were able to achieve 30% growth in our construction equipment segment with stabilization of EBITDA margins, and 42% growth in our material handling segment with sustained EBITDA margin at 12%. The revenue in agri segment deteriorated by around 6% due erratic and prolonged monsoon seasons, but the EBITDA margin was sustained close to 8% in this segment.

It is important to note that despite the challenging time with prolonged monsoons, the company achieved its highest ever revenue, EBITDA and PAT margins for the second quarter, due to sustained focus on cost efficiencies and customer-centric approach. Further, I would like to state that although in the first quarter of the current financial year, we witnessed ups and down on account of second wave of COVID-19, but the company was able to recover well and thereafter we witnessed sequential growth with every passing month.

For the first half of FY2022, we have been able to grow our revenues by 84%, and our PBT has grown by 281%, PAT by 308% to Rs.56.17 Crores and Rs.42.34 Crores respectively. For the first half of FY2022, the margin profile stood at 10.13 at EBITDA level and 8.18% at PBT level and 6.16% at PAT level.

On the operational side the prices for many commodities continue to be at multiyear high, steel and metal prices continue to be at elevated record levels while crude, rubber, and allied products have also valued significantly.

Further, global supply chains are witnessing massive disruption with shortages of shipping containers, shipping rates, congestion at ports and the recent energy crisis in China. So, in summary, while the operating environment has improved, it has remained challenging in this quarter. Further the inflationary trend is continuing in the current quarter also, especially steel increasing by another 8% to 10% within the current quarter that is October.

The way we will manage this is exactly how we have done in the past few quarters. We will try and continue to manage the delicate balance of ensuring competitiveness of our brand and keeping EBITDA margin in a healthy range. The quarter gone by was also very significant quarter for the company, since we successfully completed our QIP of around 135 Crores, from a diverse mix of marquee investors.

I would like to thank our investors for supporting the company during the QIP. Our strong cash flows and balance sheets as of date will ensure that the company continues to invest in long-term, sustainable growth initiatives through market expansion and consolidation.

We have a clear and compelling strategy. Our strategic position in infra, manufacturing and agriculture sectors underpinned by strong operational excellence and our distinctive capabilities will enable us to drive growth and create a perfectionist future fit ACE. In the last quarter, company expanded its presence in the defence sector by getting a major breakthrough order for multipurpose 4x4 tractor from the Ministry of Defence, Indian Army. We also received orders for manufacturing and supply of special metal boom cranes, which have been designed especially by us for the Ministry of Defence for handling design systems.

The past 18 months were tough for the nation and the economy, but we have been able to emerge stronger out of this. Thanks to our colleagues and team members who kept their focus on cost and serving our customers. The rapid pace of vaccination, continued support from the government and receding set of third wave of COVID gave us confidence. We expect strong pace of economic recovery to continue in the second half of this year. The economy seems to have gotten back on track and monsoon has receded totally although a bit late and now looking ahead as of now, we would like to deteriorate our previous guidance of at least 15% to 20% growth in business revenue for the current year with a possible upside and EBITDA margins to be between 10.5% to 11% during this year.

With this, I would like to open the call for Q&A session. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Homeyar Irani an Investor. Please go ahead.

Homeyar Irani: My first question is there is this company that makes composite PNG cylinders which are ten times lighter than metal cylinders. Has 1.5 times PNG carrying capacity with 50% more after exposure proof. So my question to you is why do not you introduce in the states of Gujarat, Delhi and Maharashtra where there are abundant PNG filling station. PNG running tractors and forklifts, okay, that outfitted with these composite cylinders. It will be a game changer. It could be a game changer for you. That is my first question. And my second question is when it comes to your Agri equipment can you give me a break up between harvester and tractor? And the third question is with regards to the last concall that you are going to do a purchase that will increase your bottomline, so is that a component manufacturer that you are buying that will increase your burden or is it going to be a new technology that you are going to incorporate?

Sorab Agarwal: I am Sorab Agarwal. I will answer the first and third question. And second question, Mr. Luthra will answer, so we already do forklift trucks which are fitted with CNG and LPG kits.

Homeyar Irani: But does it have composite cylinders because we have 10 times lighter, we have a higher carrying capacity as well and they are explosive proof, and they are manufactured by Time Technoplast which is an Indian company.

Sorab Agarwal: Okay, we will also explore this Sir, like we have proposed, but like I was mentioning we are Time Technoplast you said?

Homeyar Irani: They manufacture composite, they just recently better works faster than composite tank. Recently it was passed. So now they can sell it in the open market, okay? Composite cylinders are ten times lighter, okay, they have a 1.5 times carrying capacity for the same size of as compared to a metal tank with the carrying capacity is 1.5 times?

Sorab Agarwal: We will check that out, but like I mentioned, we are already using CNG and LPG kits for our forklifts and currently working on adopting the same to our cranes and backhoe loaders.

Homeyar Irani: Yes but what I am saying the composite cylinders will be a game changer for you.

Sorab Agarwal: I have understood. I understood that and made a note of the company also, and I will be definitely look into it. With respect to our inorganic growth possibilities, we are looking at both at component level also, and complete machinery level and we are at advantage stage of talks with a couple of people. Going forward, we are expecting that we may not be able to something within this quarter, at least one of the possibilities. So, let us see if you are able to finish it in this quarter and regarding the breakup of Agri numbers, Mr. Luthra will just reply.

Rajan Luthra: At present, we are becoming number two in the harvester business and just probably in the coming next year or year after, we will be number one in the harvester also. As regards breakup between the harvester and tractors, nearly 25% of the business is coming from the harvester, and harvester is a very small market as compared to tractors. So in spite of that we are going to be market leaders, just like cranes and hopefully in the coming years.

Homeyar Irani: Thanks. Thank you very much. That is all.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: Thank you very much for the opportunity and my best wishes for the festival just gone by. I have three questions. One is on our per unit profitability, if I look at broader numbers about 60 basis points expansion by in terms of EBITDA margins is what I am actually asking, a significant improvement in per unit profitability across all the product lines except for agri equipment. So what explains that in a significant expansion in EBITDA margins per unit, in let us say, construction equipment and crane and there has been a sharp decline in the Agri equipments, so what again, what explains that for us. Second question is under working capital, you know seemingly it is almost eaten up almost half of the QIP money that we had raised and despite that QIP closing in the end of September; there has not been a marked increase in the cash balances. So, what is your view on the working capital cycle, as we go forward and as we grow much faster? And third question is on our service network. What is the number as of today, as at the end of H1, in terms of service network and dealers?

Sorab Agarwal: I will answer your last question first. Service network with respect to cranes and construction equipment is close to 100 plus locations, maybe another five, six more than hundred, they keep on fluctuating one or two numbers here and there. With respect to working capital requirements, the standard working capital earlier used to be close to be anywhere between 40 and 45 days. It is now at about 76 days, primarily because we were ready to do more business in the last quarter and even the quarter before that. Inventory levels are little bloated up. I would disagree that even after raising the QIP, our cash balance says or our possible capital still is utilized there, because that money has been as of now temporarily into investments, not reflecting, and in any case are borrowing that down to 57 Crores even after that, which by the end of the year, we are hopeful that either we will be close to zero or maybe at this order 15 Crores to 20 Crores.

Kashyap Jhaveri: In case that you mentioned is, I mean, would this go back to the old 44 days number?

Sorab Agarwal: Yes, above the 45 days number, we should as and when we decide to start controlling our inventory, because like I mentioned we would actually do more business since June of this year and unfortunately, yes, the quantum we were able to increase but not up to our expectations. We were expecting to execute more business in the last quarter. Unfortunately, the monsoons got prolonged till October. So, but I think now it is not the time to start controlling inventories, they will get controlled automatically because generally second half of every year is about 55% of our business, I mean there will be an automatic correction in the inventories now and so working capital will start to reduce, the number of the days. And regarding your question of per unit expansion fee, there might be a little bit expansion here and there, only on the account of operating limits because numbers in the current quarter, the quarter just gone by vis-à-vis year-on-year basis, the numbers have increased. So that might be the reason that you are seeing slight expansion there at EBITDA level or per machine level, but yes because, we have been able to somehow counter the drastic input cost release increase with our price increases, which we have been doing every quarter now, as a matter of fact steel prices have gone up again in this quarter already, by about 8% to 10% and which I mentioned in the opening address also and we are already starting to increase the prices there. In Agri, there might have seemed to be a little impacted, primarily on account that there was a slight dip in the revenue around 5% on the year-on-year basis, obviously coupled with that here, because we are a marginal player here in the Agri business, especially tractors. So our ability to push prices totally depends on how the other bigger players are pushing their prices. We have to absorb a little more of the input cost rather than passing it on. That was the main reason that you see a slight dip in the profitability there.

Kashyap Jhaveri: Can one resume that in cranes and material handling, we would have passed on probably your input cost more than more than enough. And in tractor, it would be lower than what was needed because that’s not where we are industry leaders?

Sorab Agarwal: In cranes and forklifts and even in construction equipment, we have passed on more or less the increase which had happened till July, unfortunately, as I mentioned again steel and commodities last one, one and a half months has been increasing drastically. So that again we are pushing as of now. In tractors, yes, the total price increase required was not pushed looking at the competitive scenario in market, but I am sure within this quarter, that will also sort out.

Kashyap Jhaveri: I have more questions but I will come back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Ashwini Sharma from Anand Rathi. Please go ahead.

Ashwini Sharma: Good afternoon Sir, and congratulations for a great set of numbers. I have few questions. First is, where are we in terms of capacity utilization, especially on the crane and the construction equipment side?

Ashwini Sharma: We are unfortunately, grossly underutilized. In cranes, we are about 45%, 50%. And in construction equipments, we are close to 30% as of now.

Ashwini Sharma: Close to 30%. So you have already guided for 15%-20% revenue growth, so what would be your internal targets by end of this year, you know, taking your utilization level?

Sorab Agarwal: See, if I tell you my internal target, you will take it as an external target and then it will be a problem so, definitely more than 15%-20%.

Ashwini Sharma: Got it Sir. Sir, on the price hike, so if you could tell me what was the price hike that was taken during the Q2 and on a YTD basis, how much price hike we have taken in the cranes segment?

Sorab Agarwal: See, last year, in the quarter three and quarter four, we took close to about 10% price increase and in the quarter two, this year, we took close to another 10% price increase to 10%. Now going forward in quarter three, in the month of November, we are again pushing the prices to 5%-6% to compensate for the increase in the input cost.

Ashwini Sharma: Is the similar case we will see also in the construction equipment?

Sorab Agarwal: Yes. It is similar trend we are doing, the factor now increased might have been little different but the overall quantum would be nearly similar.

Ashwini Sharma: Got it, Sir. Yes I have a few more questions. I will comeback in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Surat Devra from Paladin Capital. Please go ahead.

Surat Devra: Good afternoon, I have few questions. Could you just explain the seasonality in this business?

Sorab Agarwal: Good afternoon. See for our core business cranes and construction equipment generally first quarter and second quarter, second quarter primarily because of monsoons. So it is about 40% to 45% of our business and sorry, the second half, the first half of the year and the second half. The second half is about 55% to 60% of our business. This is mainly fueled because of monsoons, because the infra and the construction activity, goes little slow during monsoon and unfortunately monsoons got little prolonged well into October this year. So we are hopeful that October was good and things are looking up. So, let us see how it pans out further with respect to the execution of projects and Agri follows Agri pattern. So there will be for us the second half, they start from quarter two and second half is generally better for us in Agri.

Surat Devra: Is it fair to say that quarter three will see higher volume and higher prices than quarter two?

Sorab Agarwal: Yes, it should be and it should be like that and that is what the numbers we did in October does, make us believe it should be like that, yes.

Surat Devra: Is that also in line with what you are seeing from purchase orders coming from your customers based on whatever order they are getting from government contracts and so on. Are you seeing a month-on-month ramp up?

Sorab Agarwal: Yes, we have seen that happening, even in July, August, September month-on-month, a little bit in 5%-10% here and there, yes, that increase. Then we saw that again little more than that in October. Unfortunately, it is a little too early in November because Diwali was there, more or less in the first week and we just opened up a couple of days' time. So maybe around mid of November, position becomes more clear with respect to orders going into November, but we are hopeful that we should be looking at a sequential growth in October and November. December might be similar or slightly lower, because with respect to cranes and construction equipment the year change thing happens as certain retail segment of the market just holds on their purchases and wait for January. So I would say October and November there will be specifically increase, December might be or slightly lower as compared to October and November.

Surat Devra: What is the logic for the December to January?

Sorab Agarwal: See, because a lot of rental companies are there, 50% of our cranes constructions equipment even more than 50% are sold to rental company hirers, retail market. So they delay their purchases from wherever possible from December to January so that, it helps them in the resale of the machine, just like a car or a truck. So when it is resold, they say which year model it is? If they buy in December, they will say 2021, if they buy in January, they will say 2022.

Surat Devra: Understood, right. Thanks for that. My second question was actually, I missed your opening comments. Somebody asked the question about the M&A plans. Could you just talk about that again? Where you are in the process and what kind of company you are looking to acquire?

Sorab Agarwal: We have some options inorganically being able to increase our topline as well as bottomline, but we are more focused on bottomline. So, at component level is one thing and one of the key things we use and secondly, where we are focused a little more, is, a similar type of product that we are doing, maybe we will be able to consolidate in our space, which will help us in improving our bottomline.

Surat Devra: A similar product as in like a similar company and in different geography at a different part of the country which will help expand your network or it will be overlapping networks?

Sorab Agarwal: Lot of benefits will be there, see, because what is happening is this is a smaller company at lower price point, hardly selling anything but spoiling our prices in the market to be very frank with you. So, that will give us the pricing power to be able to sell the products at the right price. They lose money, but they end up spoiling the market in certain pockets.

Surat Devra: Great. Thank you so much for that.

Moderator: Thank you. The next question is from the line of Raj Mehta, from Raj Mehta and Associates. Please go ahead.

Raj Mehta: Congratulations, Sir for very good set of numbers and thank you for giving me an opportunity again. So apart from the numbers I want to ask you few specific questions. Sir, what is that one thing which excites you, when you come to work every day? So going forward now from being a small midcap company, so you have also raised the QIP where you have brought very well-known investors. So what is that one thing which excites you every day?

Sorab Agarwal: What is the one thing that excites me coming back to work every day, right? I would say the thought of reaching 3000 Crores-3500 Crores at ACE, because I see, it is possible in topline.

Raj Mehta: Sir, what are the improvement areas in the organization and if there are any, then what are the steps you have taken towards the same.

Sorab Agarwal: There are improvement areas in all aspects of any organization and similarly there are lots of these in our organization so there is a continuous ongoing process, which keeps on happening, depending on department, depending on divisions, depending on plants.

Raj Mehta: Can you just give me a brief, maybe one or two which you might have, it might be a very small step, but I just want to have a brief idea where the organization is going?

Sorab Agarwal: You name any department, maybe I can give you because right now it is happening. The improvement is a continuous ongoing process everywhere, improvement and upgradation, so if you talk of our welding, if you talk of our weld shop, paint shop. So there, we are planning to go into some semi-robotics, and robotics depending on where the company's similar components are there in multiple cities. If you talk of our final product finished quality, we are working on setting up a totally world class new paint shop which is still vendor designing. So that we are further able to offer better aesthetics on our products.

Raj Mehta: Sir, the technology which you have bought a few years back for that, electric forklifts how is that panning out right now? Since the demand for the demand in warehouse has been increasing and the forklift is generally used in the warehouse. So, how is that going?

Sorab Agarwal: We did not buy any technology for forklifts. We evolved it on our own. We focused using it for many years. Last year, we were the first in the country to indigenously design and manufacture a lithium ion technology-based electric forklift and it is picking up reasonably well, but still people prefer the standard lead acid battery type electric forklifts because the prices there are more economical.

Raj Mehta: My last question is that what is that one type of segment or the business, which today might not be a huge part of our revenue, but you feel that that segment can do very well in next five years?

Sorab Agarwal: Which is not part of our revenue currently?

Raj Mehta: Might be a small part of your revenue, not a big part?

Sorab Agarwal: So I feel the construction equipment segment of ours.

Raj Mehta: That in the very big story for you.

Sorab Agarwal: It may be bigger than cranes for us.

Raj Mehta: I have a few other questions. I will get back in the queue. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Kashyap Jhaveri from Emkay Investment Managers. Please go ahead.

Kashyap Jhaveri: Sir, just one question from my side. We have done a fairly significant growth in terms of volume in all segments except for Agri, what would be the industry growth for H1 in all these?

Sorab Agarwal: Industry growth, I have understood whether cranes or construction equipments, material handling. I would not have the answer for that right now, but I know for sure the Q1 data which I remember you seeing you were faster than the industry everywhere. But faster, I am not sure, Q2 would also be similar, but unfortunately I have not seen that data, so far so I will not be able to comment.

Kashyap Jhaveri: On a qualitative comment, would our market share gain significant in H1 versus last year?

Sorab Agarwal: Definitely, for cranes I know for sure, it has increased about a percentage. For others, like I said as the data is not handy, I have not looked at it in that perspective, so I will not be able to answer.

Kashyap Jhaveri: In this growth, let us say even versus for example, H2 of last year, at least in cranes we have done, despite monsoon and everything, the volume drop has been so sharp versus about 3300, we still did about 2400 cranes. What would have given that number?

Sorab Agarwal: Reason for volume growth this year?

Kashyap Jhaveri: I m saying which industry would be key driver of that volume number?

Sorab Agarwal: Cranes primarily as I always say is sold to general infrastructure industry and manufacturing industry, ratio is 60:40 and I think both the segments are driving it as of now manufacturing as well as infra, and forklifts and material handling especially into manufacturing and logistics so I think everything is being driven as of now, real estate again is picking up, so cranes are going to real estate as well.

Kashyap Jhaveri: To estimate this MHE revenue can one sustain a sort of look at what is the warehousing capacities which are coming up in the country over the next three to four years?

Sorab Agarwal: Very difficult to put it together because what happens in material handling forklifts are used in most of the plants and factories and with warehousing things which are coming up uses smaller machines, battery operated pallet truck, some starters, they also use forklift, but more of the smaller machines so it is very difficult to put it on that perspective.

Kashyap Jhaveri: That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Aman Rakesh Shah from Jeetay Investments. Please go ahead.

Aman Rakesh Shah: Sir, thank you for the opportunity. I had question on working capacity piece if you see FY2019 we had uptick business in the past, gross current assets inventory and debtors both together were 350 Crores and in H1 it has increased to 500 Crores contributed both by increasing debtors and inventory, so is it only because of our expectation of higher business that we invested lot more in working capital or is there something that our trade credit policy on the better side?

Sorab Agarwal: With respect to inventory, yes, it is our business decision to be because we really suffered last year on an account of supply chain, so it is a temporary decision which we continued forward well into quarter one and quarter two and let us see quarter three is still very much there because a lot of business is going to increase in all probability and with respect to our receivable days, yes, they have increased by about 40 Crores, 50 Crores, 60 Crores over what we used to be, but that is primarily because of COVID 1 and then because of COVID 2 the second wave, the finance and the payments from the financiers which are secured are getting delayed with the normal process by about 15 to 20 days coupled with that our exposure to export is also increasing wherein business is generally done 90 to 120 days LC term, so that is also a reason that you are seeing a little increase in our receivables, but I think all of this is controllable because now it seems that the COVID is waning off so may be Q4 or Q1 next year even the receivables apart from the export exposure of 7% of our revenue, we will try to bring it back to normalcy and we have to work very hard with financiers rather we had started doing this in Q4 of last year, but again in Q1 COVID started, so you know things again rolled back to delays of payments with respect to finances.

Aman Rakesh Shah: Right, exports also would be for this quarter it was 7% of our sales?

Sorab Agarwal: It is about 7%, yes. In the first half it is 7% and I think in the quarter it is not 7%, but yes, we will catch up.

Aman Rakesh Shah: All the best.

Moderator: Thank you. The next question is from the line of Sanjay Satpathy from Ampersand Capital. Please go ahead.

Sanjay Satpathy: Sir thanks a lot for taking my question. Sir, my question is that the guidance of 15% is it for the whole year or for the second half?

Sorab Agarwal: The guidance of?

Sanjay Satpathy: 15% to 20%.

Sorab Agarwal: 15% to 20% is for the whole year.

Sanjay Satpathy: So specifically you are indicating a decline in the next half, right on a like to like basis?

Sorab Agarwal: See, it is a very tricky question; it should at least give the numbers.

Sanjay Satpathy: You asked for it while giving that kind of guidance?

Sorab Agarwal: I cannot do anything more than that because the situation is very tricky, like I said 15% to 20% with the possible upside so I also said that.

Sanjay Satpathy: Because the numbers suggest that you will decline by some 15% to 20% on year-on-year and last year second half benefited from pent up demand so I thought that maybe you are looking at a decline because the pent-up demand is exhausted?

Sorab Agarwal: No, but where I would just like to say that last year we did 1227, we have already done 682 in this year so at least we needed to do 545 to reach there, but like I said 55% of the business at least happen in the second half, so going by that it should actually be more than 20%, but let us see further.

Sanjay Satpathy: Sir, just on that same lines, you have taken almost 7% to 8% price increase and another 3% to 4% so overall almost this year average price increase compared to last year would be something like 8% to 9%, so that means your volume growth is hardly anything?

Sorab Agarwal: Volume growth will be around close to 15%, price growth will be around close to 8% to 10% so it should actually be 20% to 25%. We are just keeping a buffer in place. We are trying to extract the exact, somebody asked the internal targets, so internal target is 25% to 30% let me make it very clear, let us see.

Sanjay Satpathy: Last thing that I wanted to check with you is that, your number one segment is crane and in earlier calls also you had indicated that the growth expectation is the lowest in cranes and higher in other segments, so is that something which you are continuing that you are not really as optimistic about crane as others?

Sorab Agarwal: See what happened that in the last two quarters, second half of last year, crane picked up very nicely, so that is the only reason that we are little slower projecting your those at about 15% to 20%, in the other segments especially construction equipment and in agri you know our base is very small and our penetration for the market is smaller, our market shares are very small, so scope of growth is much bigger, so that is the reason I say that construction equipment will grow faster than cranes, canes will also grow, but construction will grow faster and if everything goes well no third wave coming in and I think quarter four onwards we should be looking at of last.

Sanjay Satpathy: Great and hopefully we will see lot better guidance next time. Thanks a lot.

Moderator: Thank you. The next question is from the line of Siddharth Gautam an Individual Investor. Please go ahead.

Siddharth Gautam: Congratulations on a very good set of numbers. My first question is on EBITDA margin, you have indicated that margins come under pressure in the next half of the year due to inflation, what are they going to do the protect margin, price increase, operating leverage what are we going to do and when we reach the margin of 10.8% that we have reached last year, in this year or will it be lower?

Sorab Agarwal: See, we are trying our level best that when we started this year, we were very hopeful that we will be able to expand our margins, but it looks like a distant dream because in quarter one again commodities particularly led by steel there was huge increase in pricing which has happened again in quarter three now, so currently our main focus is on sustaining our margins between 10.5% and 11% and that is why we are also taking a price increase in November, so I think we should be able to maintain similar to our last year margins and not be able to expand our margins. We will be very lucky if we are able to do it. This again depends totally on the operating leverage part of it, so it is in the balance of this quarter or quarter four if the numbers start to surge with respect to our volumes then maybe we might be able to better a little than last year, but I would say they will be more or less flattish in the current year primarily because the input costs are beyond our control and to be very frank with you, now we are getting huge resistance from our customers also because the prices have already been increased two to three times in the last seven eight months, so it is actually becoming difficult to control our customers and we do not really want to lose our market share to further than expand our margins at the correct stage, so it is a very delicate balance that we are trying to fix up, so that is why it seems that it will be difficult to expand margin this year, but we should be able to maintain them at least, but incentives and all that yes, there might be a possibility, but that only become clear in the quarter four because generally Q4 is the biggest quarter for our industry.

Siddharth Gautam: Sir, in construction equipment we achieved a 30% year-on-year growth, this quarter, but it was good, but we were expecting a 50% growth rate, what happened? What is your guidance for growth rate of construction equipment in the second half of this year? You have a target of reaching 500 Crores of sales from construction equipment in three years, we have targeted, are we on target to do because at current run rate is above 150 Crores per year, so did we reach the target and how many backhoe loaders you did sell in this quarter, in the previous quarter, I mean the same quarter of last year?

Sorab Agarwal: We have done like you said 30% growth in our construction equipment segment and with respect to the current year we will be projecting only 25% to 30% growth in construction equipment, yes, but we are very hopeful that we will start gaining 40% to 50% levels. We could have done more in the last quarter also, but unfortunately for prolonged monsoons were the main deterrent for the sale and also substantial price increase on an account of the BSIV, but yes, still we are hopeful that in the second half, we should be doing better than 30% maybe reaching 40% to 50% if not more and with respect to our backhoe loaders numbers so in the last quarter we have done close to about 98 machines, this quarter we have done 151 machines, same quarter last year we had done 104 machines.

Siddharth Gautam: Anyhow the process of subsidarizing the agri equipment business, where are we in the process, have we completed it, is this the first step towards selling off business or are we going to continue to be in the business?

Sorab Agarwal: Unfortunately, you will have to repeat your question, which was not very clear to me?

Siddharth Gautam: The process of subsidarizing you wanted to make the agri equipment business into a fully owned subsidiary where are we in this process, have we completed it, is that the first step towards selling off the business or are we going to continue to be in the agri equipment business?

Sorab Agarwal: See, we sort of subsidarizing it, but unfortunately we will be with our fund raising plan, so hopefully we should be in a process of doing it and this is being done primarily to bring in more focus into this division and to drive the profitability and topline growth, so as of now we have not sort of selling it or anything, but everything depends on the business dynamics and the type of value addition which is possible by any testing so I will be open to ideas, but as of now we are trying to grow here.

Siddharth Gautam: Last question, we have a target of achieving 2500 Crores of sale in three years, are we on target, right now we are around 1400 Crores run rate or will we reach the target if it is still valid? Second, what are you going to do with the QIP fund? Are you going to reduce debt or do an acquisition and how are you going to use the QIP fund? That is my last question.

Sorab Agarwal: I think we are on track for doubling our business in three years target, which is 2500 Crores. We would have expected this year to be slightly bigger than what we are projecting now, let us see by the end of the year it might be, and we are going to use our QIP money as per the utilization objective, which we have put in our document, which was for general corporate processes and inorganic and organic growth may be some debt reduction, so as per the plan utilizing we will use it.

Siddharth Gautam: Just a last clarification, the target of 500 Crores of sales from construction equipment within three years, we will achieve it right?

Sorab Agarwal: In our probability even if we miss it, it would be by 10%. There is a problem that plus or minus of 10%.

Siddharth Gautam: Thank you very much and congratulations for great quarter and keep up the good work.

Moderator: Thank you. The next question is from the line of Rajendra an Individual Investor. Please go ahead.

Rajendra: I have one question to ask, so you said that you will double that revenue to 2500 Crores, so my question is if we reach that revenue target so will it be through the existing capacity utilization or we envisage any new capex spending to reach that?

Sorab Agarwal: Existing capacity utilization, we do not need capex to reach 2500 Crores.

Rajendra: Thank you. It is all I wanted to know.

Moderator: Thank you. The next question is from the line of Homeyar Irani an Individual Investor. Please go ahead.

Homeyar Irani: I just wanted to ask you with regard to exports, we have seen that you mostly export to developing countries in Africa and elsewhere, are you looking the export to Europe and the US?

Sorab Agarwal: See, recently with the onset of BSIV norms, we are now currently looking at expanding this to Central Asia, but primarily towards Eastern Europe and Russia so that is the first thing we are planning on and not really Mainland Europe or America, but yes, definitely South America.

Homeyar Irani: Not the developed countries because as it there is a lot of competition there that is why?

Sorab Agarwal: Lot of competition and the sophistication they require in this machine that is also possible, but we take it step by step. There are enough opportunities available in Eastern Europe and Russia and Central Asia, so first we will explore that there and then go forward.

Homeyar Irani: But Eastern Europe will be right thing with regards to payments especially Russia and all that the situation over there?

Sorab Agarwal: Totally on secured payments which are counted guaranteed by bigger international banks.

Homeyar Irani: Thanks. That is all.

Moderator: Thank you. The next question is from the line of Raj Mehta from Raj Mehta & Associates. Please go ahead.

Raj Mehta: Sir, you have mentioned that in the year we have received order from the government defence, so if we are going to take the orders from the government then our working capital will be stretched from the current levels?

Sorab Agarwal: Maybe a little bit because generally the payments from Ministry of Defence, Indian Army are pretty good, so we do not really see a problem there and most probably the bigger orders are not supplied in one go, so they are spread over to six months to one year of the delivery period, so we really do not see a problem there.

Raj Mehta: But what is the general payments cycle? How many creditor days we have?

Sorab Agarwal: The Indian defence payments happen within 30 to 60 days of supply of their received goods.

Raj Mehta: Sir, the target which you have given to double the revenue? Is executing the acquisitions, which we will do it is purely on organic basis?

Sorab Agarwal: It is more or less on organic basis, yes.

Raj Mehta: If we do the acquisition then?

Sorab Agarwal: Inorganic growth will supplement more to the bottomline to be very frank to you.

Raj Mehta: So, the bottomline may get doubled, get faster than the topline in the next three to four years?

Sorab Agarwal: Not double, double would mean 20% EBITDA I would love that, but definitely increase.

Raj Mehta: Sir, how is the industry of this manufacturing and apart from that also the infrastructure boom, which is happening right now, is that panning out on ground levels because you always are initiator when the cycle picks up?

Sorab Agarwal: I think things are looking good and I think only time will tell how fast or how big it will become, but things are looking good, we are very excited.

Raj Mehta: The operating leverage which we kicks in when the demand comes back, so can you give us just general multiple or how much if we do it Rs.100 of sale suppose after utilizing 50% capacity utilization in cranes or in material equipment and after that another 10% to 20% utilization levels then what is the profitability that increase, is it at the similar level or how much is the pace of the utilization, how much is the fixed cost and what is the variable cost which are involved, you know I just want a brief number?

Sorab Agarwal: In the current scenario the biggest problem is that the input costs especially material costs are increasing at such drastic levels, so making all these calculations are not very fruitful, but yes, keeping a site that the abnormal increase in input cost which have been happening in the last nine months to ten months, I think for every additional of about 100 Crores we should be beyond the level of let us say after a turnover of 1200 Crores to 1300 Crores for any additional 100 Crores of revenue we should be adding about 17 Crores to 18 Crores to our EBITDA.

Raj Mehta: So that will be 17% to 18% additionally?

Sorab Agarwal: Of about 1200 Crores to 1300 Crores, yes.

Raj Mehta: Because of the operating leverage?

Sorab Agarwal: Yes, obviously, you know the profitability increase much more beyond the point, but obviously we have to keep in mind the input costs because in the last one year we have seen managing between input cost and our margins it is a very thin line.

Raj Mehta: Thank you, Sir and have a great year ahead.

Moderator: Thank you. The next question is from the line of Harsh Bhatia from Emkay Global. Please go ahead.

Harsh Bhatia: Thanks for the opportunity. I was just trying to understand the trend for construction equipment financing interest rate, I think it is between 8% and 10%, but we do not have the exact rates in hand, if you could provide some light on the construction equipment financing rates that will be very helpful?

Sorab Agarwal: Depending on the customer profile today it can range anywhere between 8% and 13%, it totally depends on the papers and the balance sheet strength of the purchasers, so if it is financially sound, good guy or a good company it could be 8% or for retail guy it could be as high as 13% even more than that.

Harsh Bhatia: So, the same range would be five years ago as well like in 2015, it would be in the range of 5% to 13% it is not like housing.

Sorab Agarwal: It was slightly more than that I would say, and at that time it was maybe 9% to 9.5% to may be 14%, there has been a slight reduction, but a very small one.

Harsh Bhatia: Thanks.

Moderator: Thank you. The next question is from the line of Rajiv Maheshwari from Praj Investment. Please go ahead.

Rajiv Maheshwari: Good afternoon, Mr. Agarwal. My question is divided into two parts, the first part is regarding the couple of defense orders which we had won couple of months back, I just wanted to know what is the status on those orders in terms of execution and do we expect some more repeat orders on the same products or some further orders on newer products, which the defense team is looking at because the government is focusing much on the defense part, so how does take it forward?

Sorab Agarwal: One of the bigger order is close to about 75 Crores and the other order is close to about 25 Crores so hopefully, they will be put into execution sometime in the next quarter, Q4, but that should be only initial batches of supply, the actual effect of the deliveries would be coming in the next year I would say 80% to 90% of the revenue part would be in the next year, and yes, first once they get into execution supply start to happen, so the requirement is much more than these numbers, not only for these machines but the other machines for which we have already pitched in for example, our backhoe loader is currently under trial and they will start with the army along with our competitive machines and another machine will be pitched in very soon, one or two other thing have already been done in the past, for which we are expecting orders so yes, we are expecting more others to come in, but I do not think that would be before next year early, I mean next financial year may be Q2, we will be lucky if we are able to get something in Q3, but the effects revenue fact of the current orders would more or less shifted to next year.

Rajiv Maheshwari: That is understandable, but going ahead more orders are expected and maybe that would come into effect maybe sometime next year?

Sorab Agarwal: Yes, definitely.

Rajiv Maheshwari: The next part is how are our farmer brand tractors doing in the export market?

Sorab Agarwal: It has started to pickup well, but unfortunately in exports what has happened in the recent past is that even the freight has gone up three times, four times, five times and that has become a very big deterrent so that is why in the last quarter if you see quarter two, although first half we have done 7% revenue share of exports, but last quarter was slightly lower than that, so it seems slowed down a little because of that, but I am sure it will pick up.

Rajiv Maheshwari: So, the product as a whole is acceptable, the only problem is in terms of the logistics and shipping side?

Sorab Agarwal: Yes, because the prices have gone up so high that the customers even outside India were not able to digest the increase in price, so we are settling in, but the product and the acceptability there is no problem.

Rajiv Maheshwari: Just one question from the academic point of view, there is a lots of discussion regarding the chip shortage and all, so I do not think our company is using chips in our products as such?

Sorab Agarwal: What has happened that all our engines which we are using which are bigger than 50 horsepower have an electronic controller unit, ECU on their engines, the electronic engine so all of these engines use chips in the controller, so we were well aware of that this problem was growing up so far I would say 95% of our supplies have not faced a problem only in engines bigger than 150 horsepower, 130 horsepower which we are sourcing from Ashok Leyland, there has been an acute problem chips in the last one-and-a-half to two months, but because our paucity of those engines are small, so Ashok Leyland has promising that will get us out of this trouble by December.

Rajiv Maheshwari: So our consumption is only in the low power tractors and that is adequately covered as of now?

Sorab Agarwal: Yes and they are all adequately covered, but yes, like I said for 30% to 35% of our cranes and most of our backhoe loaders have electronic engines, but there as of now we have not faced any problem because we are very well planned, and that is also reflecting in our inventory cost.

Rajiv Maheshwari: Right because lots of other people there was hue and cry in terms of the stock of chips and the production in a big hit?

Sorab Agarwal: We have been overstocking engines for about a month, one month extra inventory we have been carrying in the last three, four, or five months to vacate this problem.

Rajiv Maheshwari: You plan things and maybe the inventories on the higher side, but at least the production and dispatch was not hit in terms of what other companies were hitting?

Sorab Agarwal: The inventory carrying cost vis-à-vis the cost of losing revenue is much more, so we plan for certain things components like that.

Rajiv Maheshwari: That is all from my side. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.

Sorab Agarwal: Things are looking good. Economy is coming back in shape after the slowdown on the buoyancy which took a hit post second COVID wave and the buoyancy has been building up a little by little over the last three to four months and we are very hopeful that Q3 should be good, if not great, but we expect a good Q4 definitely a much better because Q4 that only time will tell and like I said in the short-term prospects of the company are good. That is how we are very bullish for the medium term to long-term prospects of the company. With that I would like to end my address. Thanks a lot and thank you everybody.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference call. Thank you for joining us. You may now disconnect your lines.