

Action Construction Equipment Ltd.

Corporate & Regd. Office

Dudhola Link Road, Dudhola, Distt. Palwal - 121102, Haryana, India



Date: June 04, 2021

To,

The Manager Listing
BSE Limited
5th Floor, P.J. Towers,
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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 FY21/Q4-FY21.

Dear Sir/Madam,

Pursuant to Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith, Earnings Call Transcript (FY21/Q4-FY21) 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



ACE EARNINGS CALL-Q4 FY 2021

Moderator: Ladies and gentlemen, good afternoon, and welcome to Q4 FY '21 earnings, **Action Construction Equipment Ltd (ACE)** call, organised by Batlivala and Karani securities India Private Limited. At this moment, all participants are in listen only mode. Later we will conduct a question and answer session. At that time. If you have a question, please press star. But please note that this conference is recorded. I will now like to turn the conference over to Mr. Kunal Sheth. Thank you and over to you.

Kunal: Thank you and I would like to welcome the management of Action Construction Equipment on the call and thank you for giving us this opportunity. From the management we have Mr. Sorab Agarwal, Executive Director, Mr. Rajan, Luthra, Chief Financial Officer, and Mr. Vyom Agarwal, head investor relations. Now, I will request Sorab sir to give us some opening remarks post which, we will open the floor for any q&a.

Sorab Agarwal: Good Afternoon and welcome everyone to this earnings conference call for the fourth quarter and financial results for the year ended March 2021. I do hope that you and your loved ones are safe and keeping well in these exceptionally trying times. I, on behalf of ACE would like to express our gratitude to all our frontline heroes who are fighting tirelessly to help keep others safe. I would also like to thank every member of ACE for their relentless commitment and dedication in these difficult circumstances.

Along with me in today's earnings concall we have our CFO Mr. Rajan Luthra 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 the earnings presentation which have been circulated and uploaded at the stock exchanges.

FY21 was an extremely challenging year for India. We at ACE, adapted and persevered through the Global crises to fortify our balance sheet and deliver a healthy financial performance. It gives me immense pleasure to inform you that the 4th Qtr. of FY21 was our best quarterly performance in the history of the company. We registered our highest quarterly revenues, EBITDA and net profits. On the yearly basis, we have achieved our best margins ever at EBIDTA and net profit levels.

To brief you on the financial performance of the 4th quarter of FY 21, the operational revenues grew by 49.7% on a YoY basis to approx. Rs. 457 Crs. with an EBIDTA margin of 12.4%. The EBIDTA during the quarter increased to Rs. 57.5 Crs. in comparison to Rs. 26 Crs. on a yearly basis, which is a growth of around 121%. The PBT grew by 189% and the net profit grew by 183% year on year to Rs. 51 crores and Rs. 39 crores respectively while the PAT margins stood at 8.4%.

Further I would like to state that although the first quarter of FY21 was a wash out and for the first time ever, we did suffer a quarterly loss in Q1 FY21 but the company was able to recover well and thereafter, we witnessed strong sequential growth with every passing quarter. For the Financial year ended March 21, we have been able to grow our revenues by 6% to Rs.1227 Crs. with approx. 11% EBIDTA, 8.8% PBT and 6.5% PAT margins.

We were able to increase our EBIDTA from Rs. 96 Crs. in FY20 to Rs. 135 Crs. in the last year. Similarly our PBT increased from Rs. 68 Crs. to Rs. 108 Crs. and PAT increased from Rs. 53 Crs. to Rs. 80 Crs. for the last year.

It will not be out of place to mention that owing to certain supply chain constraints which continued in the last quarter, we were not able to fully capitalize on the potential of revenue increase and were left wanting for further improvement in topline and bottomline in the last quarter.

In FY21, the company's growth was driven mainly by revival in construction and infrastructure activities in the last three quarters and also strong growth was witnessed in the Industrial and

Batlivala & Karani Securities India Private Limited
May 31, 2021

Logistics sectors. We were also able to grow our Agri business by around 40% in the last year with whole year EBIDTA margin positioned at 12%.

Similarly, we were able to achieve 33% growth in our Construction equipment segment with betterment and stabilization of EBIDTA margins and 23% growth in our Material Handling segment with increase in EBIDTA margin to more than 12%.

Unfortunately, the Crane segment where our company is the market leader, we did suffer 4.5% degrowth due to reduction in overall size of the market owing to a wash out during Qtr.1. But our company was able to showcase its resilience by maintaining the EBIDTA margins above 11% despite relentless inflationary pressures due to a sudden and drastic surge in commodity prices in the last two quarters of FY21.

Further, in our pursuit to offer world class products with contemporary technology, in the last quarter of FY21, we introduced new models of Tractors and Backhoe Loaders especially focused for the export market.

In the quarter gone by, we also upgraded and achieved certification for our Cranes and Construction equipment models to BSIV CEV emission norms as they were set to kick in from 1st April, 2021.

The growth and momentum at which the company had started to perform, unfortunately took a 'U' turn in the latter half of April 21, as Covid-19 stuck again with a more virulent and deadlier form in the second wave bringing most parts of the country to a grinding halt. Most of our lives and companies have been affected in some form by the second wave of Covid-19. The mobility restrictions will, of course, have an impact on economic growth in the short term and May'21 appears to be 65% slower as compared to our average speed during the last Quarter. Unfortunately, Southern and Eastern parts of the country are still reeling under the Covid influx. However, we are hopeful this will be short-lived with coordinated action and support from all the relevant authorities and by the second half of June we should expect some sanctity with respect to our business operations.

Looking at the resilience and the spirit in our country from the experiences after the first wave last year, we feel that business should start to normalise from 2nd Quarter onwards and we are looking forward to atleast a 10% growth in business revenue in the current year with sustained EBIDTA margins between 11-12%.

We are expecting a growth of 10-15% in the Crane segment for the current year and a 25% growth across our other three business segments i.e. Construction equipment, Material Handling and Agri. We hope we are in a position to revise these projections by the end of 2nd Qtr. which will predominantly depend on how the economic scenario pans out post the 2nd wave.

Further, we remain optimistic about the medium to long term prospects of the company and believe that our building blocks are firmly in place. In the last two years, we have taken concrete actions towards strengthening the business core around processes, controls, and operations. This along with our strong focus on execution has enabled us to continue on path of sustainable growth in all the four segments where we operate leading to expansion in the topline, bottom line and margins of the company.

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

Moderator:

Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press star one on your phone and wait your turn to ask the question when guided by me. If your question has been answered before your turn, and you wish to withdraw your request, you may do so by pressing star one again. We have first question from Mr. Raj Mehta from Raj Mehta and Associate. You can go ahead.

Raj:

Thank you, sir, for giving me the opportunity and our congratulations for a great set of numbers. So my first question is respect to your Agri business that there is significant turnaround which has

happened this year and as compared to your losses was made in previous financial year. So what is your growth outlook? And can you sustain this momentum in agribusiness?

Sorab Agarwal: Yes, with respect to our 4 segments and right now, for every segment, I think even in the current year, we are looking at 25 % growth across these 3 segments, that is agri, As well as construction equipment and material handling. And cranes might be a little slower, maybe 10 to 15% but maybe by second half we will be in a better position to answer this question perfectly. First quarter is again going to be slow, but definitely faster than what it was last year. Last year we de grew by around 70% in the first quarter. This year I think the de growth will be limited to 40 to 50%.

Raj: Okay and will you be able to maintain the EBIT margin?

Sorab Agarwal: Yes, I'm very sure. Steel prices have been going up and we are about to take a significant price hike in the next one month by end of June. We have delayed it primarily because the markets were in turmoil as it is and things have slowed down in the last one and a half months. So just to give a breather to genuine buyers, so by end of June we are again looking at a price increase so that it takes care of our margin. Hence we are looking at 10 to 15% increase in our revenue current year so that will also aid in maintaining or increasing our margin.

Raj: Current year in Jan 2021 you made a price hike. So, if you go again for a price hike, then will the customers will be able to you know, digest that price hike?

Sorab Agarwal: No customer ever likes or able to digest a price hike and specially with the increase in prices that the steel companies have made along with other commodities but I would say steel, it has increased by 90% now as compared to July August of last year. So we have digested it, there is no other way so the customers will have to digest it, there is no other way.

Raj: Okay. My second question is with respect to your capacity utilization. What is the current utilization? And can you give me that capital utilization all 4 segments?

Sorab Agarwal: With respect to cranes in the last quarter it was 68 to 70%, construction equipment 50%, material handling 75% and agri equipment 40%. In the current quarter, obviously, it is much more reduced than this because like I said, we are expecting at least about a 40% slowdown as compared to last quarter, maybe 40-45%. So, capacity utilization is obviously running nearly half of it what I had said for the quarter 4

Raj: Okay, and my last question is with respect to working capital, currently working capital has been at a higher end so have you decided to come back to the normal levels?

Sorab Agarwal: Yes, I'm sure, see unfortunately, what has happened is primarily because of two factors. One because of increase in inventory and second, because increase in our debtors or receivable. Inventory, because you even with our best planning and keeping in mind the supply chain constraint which was still continuing, there is a mismatch and the inventory is a little bloated. And secondly, because post the COVID scenario last year, the finance companies disbursement of payments cycle has been delayed by about 15 days, so it has led to increase in our debtor cycle. But only in the month of March we were discussing with them to bring it back to normalization and if it was to happen and now it will happen only in the second quarter. So from second quarter onwards, I think working capital utilization will start to improve.

Raj: Okay, so for next one or two years we'll be back to the normal levels.

Sorab Agarwal: Yes hopefully within this year, I mean if third wave doesn't come.

- Raj:** Because even the COVID has impacted you this year. So your inventory levels will be at higher this year too.
- Sorab Agarwal:** I know but I think we should be able to manage because we had already discussed with respect for receivables and most of the leading nbfc's were in sync with our thoughts. So I really don't see a problem, receivables we should be able to start to improve from quarter two onwards. There still might be supply chain issues which we are hopeful that it should start to improve. So working capital from quarter two onwards it will start to look better.
- Raj:** Okay, but last year the same thing has happened, after quarter two there was a surge in demand and that led to your decrease in inventory levels. But the same thing can happen this year also.
- Sorab Agarwal:** Inventory will automatically be put back in place. And we are actively working with our receivables working capital cycles will fall in place.
- Raj:** Okay, thank you.
- Moderator:** We have questions from the line of Mr. Sanjay S. from Ampersand. You can go ahead.
- Sanjay:** I just want to understand a couple of things like your segment wise performance that you have reported. I just noticed that while most segments have seen very significant improvement quarter on quarter, your tractor and farm implement have seen some 20 to 30% decline in the March quarter which was not the case for the industry actually. And any particular reason for that?
- Sorab Agarwal:** Yes, our agri business quarter on quarter has gone down by about 21.7%. The main reason was that we do sell a reasonable number of our farm equipment in the Eastern parts of the country. And with the elections especially in West Bengal and Assam that did affect our sales. Apart from certain supply chain which we were not able to control in the month of March. So, that led to some production loss. And another main reason that you have to understand that in our agriculture, we have tractors as well as track combine which are primarily used for paddy fields. So, track combine seasons ends in January onwards the season was finishing so for the sales of Combine within the agri segment also reduced in quarter 4. So coupled with the decline in the sales in the eastern region because of election and coupled with the harvester sale going down which is seasonal which will again start to go up from June July onwards. And obviously, some production losses, that is a reason, but of course impacted.
- Sanjay:** What could be the outlook because as such very small market share in that in those. So, the expectation is that your growth should not be dictated by industry, but rather your market share gains. So, what really is the outlook there?
- Sorab Agarwal:** Again, like I said in our agri segment, we have tractors and we have the harvest segment. So tractor business our market share is very limited. So, we will not be affected on our tractor sale even if the market declines. In our harvest segment, we are already number two in the track combine in the country. So which I said is seasonal. And on the whole we are very confident that in this year we should be able to grow at least by 25% again in the agri segment.
- Sanjay:** In the second segment where you have been seeing significant improvement, but on a quarter on quarter basis it is kind of become flat is this backhoe loader. So any particular reason or it is the nature of the business?
- Sorab Agarwal:** With respect to our backhoe loader or construction equipment, our agri as well as construction equipment have started delivering in the last one or two years and, on quarter on quarter basis again we witnessed a growth of 19% in our backhoe loader segment or construction equipment because backhoe is the main product there. This would have been much more unfortunately one of our key suppliers of transmissions and axles which is actually an Italian company making in India, they were

totally constrained in their supply chain because of one particular component. Otherwise, the growth instead of 19% could have easily been 30-35% quarter on quarter. That was one of the main reasons why construction equipment otherwise we could have done even better growth but it was restricted. So hopefully it will triple in now not in the quarter one because here things are already quite slow and most of the market where we sell are sleeping and most of the supply chain has been affected here and there and we were severely affected because of the oxygen supply because oxygen was very important industry use in the second half of April. And we very swiftly moved most of our vendor base including ourselves because we do most of our fabricating. So to do fabricating without oxygen so we went on to plasma cutting and portable plasma cutting and lcv heating instead of oxygen heating. So we've taken care of things and hopefully in construction equipment and the times to come and again in the on a whole year basis especially for construction equipment we are looking at least 25% growth.

- Sanjay:** Is that including of exports because you have also talked about exports for your backhoe loader.
- Sorab Agarwal:** Once we are talking about a segment that includes domestic as well as export.
- Sanjay:** Okay. And, of course, you mentioned that your receivables which have gone up will improve probably by quarter two. And also you have given some segment wise kind of growth, guidance. But apart from the fact that your own activity in terms of production and supply chain is affected, but most of your users are not really restricted by lockdown like building construction, road construction, and all these things are really going on. So what really is to that extend one should expect that at the moment we will be able to produce you should be able to sell but your guidance doesn't really reflecting this kind of sentiment.
- Sorab Agarwal:** You know, that's why in my opening address also, I said very clearly, that the best time to give a guidance would be second quarter and not this quarter, because generally certain uncertainties which will be left. And if you talk of construction, if you talk of road construction, yes, they are also affected a bit we are working at about 75-80% of the manpower and not 100%. Building construction is actually even a little more, we're working with our 60-65% manpower, because most of that is happening within cities. So, we have to let the things unfold. COVID is something which is beyond us, we can't do anything about it. And unfortunately, in this particular way, I would say that, more or less, everybody was affected in some form or the other because of COVID. And luckily the situation is getting better. North and West India it's coming out of it more or less, Delhi has become so better, our weekly average cases have halved, as compared to the peak over 20-25 days back. So things are coming back on track. And luckily, with the experience of last time, when the unlocking started happening and thing were further more delayed, because even businesses and customers everybody becomes a little uncertain. So hopefully, they this time that uncertainty would be short lived or would not be there in more places. And that's what we realized also in the last one week, that as the things are starting to look better in north and west, the inquiry levels and the conversion levels as all of a sudden started increasing in the last one week. So things have to pan out, I mean 10-15% growth what we are projecting is on a conservative side. It can definitely be more than that, god forbid you know, something the COVID extends or a third wave comes it might be lower than that. These are unpredictable times so whatever best possible guideline we can give looking at the scenario is what we have given.
- Moderator:** We have a question from Mr. Rajesh S. Swiss fund management Private Limited, you can go ahead.
- Rajesh:** I just wanted to get some input on the tractor and the backhoe loader launched by you dedicated for the export market. I think that's a phantom product in the tractors, what are the different features vis a vis tractors of the local market and how much is the price differential in both the categories.
- Sorab Agarwal:** So, the price differential first because primarily what happens most of the pricing for the export market is generally 5 to 10% better than the domestic market some cases even higher, I was able to

put on an averaging 5 to 10% better than the domestic market. Second thing both these products whether the former range of tractors or phantom backhoe loaders are equipped with certain features and characteristics in the machine which the export market lies and are willing to pay for it. So, those particular features as well as refinements have been added in these vehicles when we made them especially for the export market and also keeping in mind you know something so simple even a color combination or the specifics to the export market like. So, all that have been kept in mind and definitely 5 to 10% additional price benefits is there in the export market.

Rajesh: I think it would be too early to ask but any good positive response can be seen by you? I think you launched in March only.

Sorab Agarwal: Yes we launched in March only and to be very frank with you the backhoe loader phantom we had envisaged keeping in mind specially the Eastern European PIS countries and middle Asia. So, it was basically done on request from some of our channel partners which we had established in these parts or were in the verge of establishing. So the result will be postponing to quarter 2 quarter 3 and then the machines have been received and now they will be delivered and will work, you understand how the cycle works. So maybe the next one or two quarters the scenario will be even much more clearer.

Rajesh: Thank you very much. Best of luck.

Moderator: Thank you. We have a question from the line of Vibha Batra FairConnect. You can go ahead.

Vibha: Yeah, thank you for taking my question. My question was on backhoe loader if you can give some sense on geographical sales and growth in especially the second half of last year, and your outlook.

Sorab Agarwal: Unfortunately, I don't think we are carrying the data as of now. But it is more or less equally spread out throughout the country. That what we had planned for. Our initial seeding, lofting of the machines has been done, the machines have been very well received. The financials are supporting us very well, in the last one or two years ever since we have seen the performance and once you are have upgraded machines. And, obviously, the quarter three, quarter four, we were able to do good numbers in both the quarter we could have done 30-40% numbers more. We were constrained because of our actual supply, actual end transmission supplies coming from the company in Maharashtra. Otherwise, things would have been better even in the quarter three, quarter four for construction equipment segments especially backhoe loader. And going forward in this year, even though the first quarter is going to be slow, we still expect that 30% growth here in this segment. It can be faster, I'm sure and I hope that once we interact after quarter two, we are able to further increase the projections but as of now I think we will fix it to 25-30.

Vibha: Which geographies you are seeing higher pace of construction activity at macro level?

Sorab Agarwal: Everywhere. North-South-East-West, see work is happening in our country everywhere. On top is cranes, the fastest geography because the cranes are main construction equipment in a way that was North, followed by South, followed by West. So obviously the trend for backhoe loaders would also be similar. But again, our market share is miniscule in backhoe loaders. So geography or market size is not the issue. I mean we have to increase our business by using our penetration, increasing our acceptability of the products against the market leaders and that is what is in process. We got good results in the last year. I'm very hopeful that the thing that we are continuing to do, we will get even better results in this year. That's how the thing is. So the geography is really not bothering us at all with respect to backhoe loaders or tractors also, as of now because of the market share.

Vibha: Okay, and can you give some sense on your debt and interest expenses and also depreciation for coming year? Would they be more or less the same as you know, if you were to extrapolate your Q4 numbers would that be a fair estimate?

- Sorab Agarwal:** We were able to bring our borrowings to a level where we were a year before about 54 crores and hopefully this year we could be able to bring it down to 22-30 crores if not finish it in totality.
- Rajan Luthra:** Depreciation for the current year FY '22 will be more or less similar to what we have this year and definitely will be a reduction in the interest expenses on a full year basis as compared to FY '21 because we are in the process of reducing debt which will also significantly go down in the current financial year.
- Vibha:** Okay, and your trade payables, they seem huge and they are in excess of borrowings quite substantially. So, what are these? Are they interest bearing and you know, how do you expect these to move? Your trade payables there are 330.6 crores as on March '21. Are they interest bearing?
- Sorab Agarwal:** The revenue cycle that you see we did our peak revenue in quarter four and accordingly our creditors have increased because generally with vendors there is a 15 day 30 day 60 days credit with most of them, not leaving out some of the bigger ones. So accordingly as the production has gone up as the machine inflow has gone up, the trade payables and the debtors have gone up.
- Rajan Luthra:** Most of them are not interest bearing so we don't pay any interest for taking credit from a vendor.
- Vibha:** Okay, and you don't expect any reduction in these. You will be able to get these kind of creditor days going forward as well.
- Sorab Agarwal:** This is the proper flow of cycle. See if we buy more materials the credit increases, we buy less material the credit decreases. So maybe in this first quarter, we might find a reduction.
- Vibha:** Okay, broadly these will be how many days of your raw materials?
- Sorab Agarwal:** On average 70 to 80 days.
- Vibha:** Okay thank you.
- Moderator:** We have next question from Ms. Sheetal Kapoor from Capital Insight, you can go ahead.
- Sheetal:** Hi sir, if you can highlight the like investments and capex plan for this year, and how much was the raw material prices impacted the margin?
- Sorab Agarwal:** About the raw material prices, the raw material prices did go up like crazy, starting October, November last year, they did increase in September but those are very fancy trait and increase. In the month of April, it is especially steel which is one of our main commodity that we use, gone up about 8-10% within the month of April. So it did affect us in the last year, tremendously. And accordingly, we had taken our price increases. If not, for this abrupt steel increase prices, our margins would have been better by maybe about 1.5 to 2% even last year. But nevertheless, like I said, again, they will increase in the month of April. So we are planning to increase our prices by end of June again to compensate for that. And hopefully, when the steel prices starts to come down, then we will be able to get some additional advantage with respect to our margins. Because we might not have to pass on those benefits once when the steel prices start to cool off. And luckily in the last weekend steel prices have started cooling off in the international markets. So hopefully very soon there should be some effect on the Indian prices as well. So second part of the question related to Capex so apart from the maintenance Capex we really don't envisage any capex in this year apart from setting up a paint shop which we have been planning for the last one and a half years, it's already planned but not been able to go to execute it because again COVID happened. So that 20-25 crores of capex here and there is what we envisaged this year nothing more than that, we are already very tight there. Because we have enough capacity. So even if I talk about quarter 4 revenue which was 450 crores and if you multiply that by 4 that becomes 1800 crores. We do have capacities in place to do a turnover of close to 2500

crore. So where we really don't need any incremental capex, maybe very little here and there, so we don't have any plans of capex in this year. Apart from utilizing our capacity further as soon this wave goes down quarter 2 onwards.

Moderator: We have questions from Mr. Sanjay S. from Ampersand. You can go ahead.

Sanjay: Basically, fiscal '21 after the first wave got over, when the demand jumped up, as you have pointed out that you had a lot of supply chain issues, so we cannot really produce in good quantity. So have you kind of taken any kind of initiative, which will ensure that you will not have same supply chain issues yet again?

Sorab Agarwal: Yes, we have taken care of most of the things and unlike last time, where it was a complete lockdown and some state and things open, you know got lockdown in April, but only opened or started to normalise in the month of June or July. This time the lockdown has been very difficult, I think apart from Delhi most of the states the industry has been allowed to operate. So most of our supplier base and vendor base was not shut down completely. And we still had schedules on them to deliver that's different that because of their further constraints in supply chain here and there and obviously manpower constraint and like I said, everybody was personally affected by COVID here and there because of that the supplies have not been forthcoming, but there was not a total lockdown on supplies or the system did not stop. We did stop producing in May. So, this gives us a lot of confidence that this time when we come out the system will not have to start from zero, it is already at 40-50-60% level. To ramp up from there and getting moving will be much easier.

Sanjay: And then last question is that so, we see that you have you know a really huge product range for the size of your organization and the total top line. And you have starting to see some success in backhoe loaders etc. So, for what really will be one or two big products which you will really be pushing and making a big dent in terms of market share and positioning yourself in the relatively bigger league. What really will be those products and will you be really be looking at your company from a point of view of targeting product with increased product, increased focus or you will continue to be in so many products?

Sorab Agarwal: Like you said we have a large product range. So, you can very well visualize you know in crane we are already market leaders and with respect to construction equipment, which primarily consists of backhoe loaders and some road machinery and our agri consist of tractors and harvesters. Crane we are already market leaders and we have already started delivering with respect to our construction equipment and agribusiness. Now, both of these segments have potential to become huge, bigger than cranes over the next three to five years. And that is where our entire focus is. So that you know what I can you know envisage or predict is that, maybe three to five years from now, the crane business obviously with the country growing infra and trade industry increasing will continue to grow, but the agri as well as construction equipment businesses would be similar size in terms of revenue contribution. So, our entire focus right now is on increasing our market share and our numbers in both agri as well as construction equipment because there is a huge potential. About 2000 to 3000 crores of revenue can be unlocked easily over the next three to four years if not more.

Sanjay: As we understand that most of the equipment and most of the components like say engine, many things you really depend, you basically outsource. To improve your market share will it be more about expanding your reach and distribution or it will be some kind of improvement in your own product quality and product features or product something related to you know like the value add that you are doing. What really will drive market share?

Sorab Agarwal: See it has to be a combination of all the aspects that you mentioned and some more. The product, the performance, the reliability and acceptability which we have to create in the market price is a very big driver and good service supports, spare parts availability and uptime of the machine. So, every aspect of this has to be worked on. Whether it is the price at which we are selling which is a primary driver

apart from a good reliable product, which is acceptable in the markets. So as soon as acceptability is attained the number starts to grow and we are nearly on the threshold of that accessibility with respect to our construction equipment and tractors. Our harvesters got accepted in the market two years back. And we've already become number two there. So, we are more or less at the angle or at an inflection point from here onwards. You know, I've mentioned 25%, things can be much faster than that. Unfortunately COVID happened otherwise our projections if we would have talked about the same projections in first half of April, they will look very much different and we are working on all the aspects. Especially to answer your question with respect to engines. See for our tractors, primarily we make our own engines. And apart from that, we have now started to use those engines in some models of our crane, even in one model of backhoe loader and even a fork lift. So, we are spreading with our own engine into our other equipment's apart from tractors. That have started to happen in the last one-one and a half years.

Sanjay: Understood. Your management bandwidth is very much there or you are looking to add there.

Sorab Agarwal: We have our management bandwidth very much in place to get safe to this maybe in our investor presentation, will upload now or when we first done in March, you can have a look at the key personnel and then you can reflect on that. So, you know, to drive on our businesses, we have good people aligned with the company name and the direction and I think we are working out, it has shown last one year in our results. Even in a down year, we were able to pull out our construction equipment, do better in our agri, maintain our numbers in crane, increase the company's profitability forklift again, we have been able to grow our business. So everything is aligned moving in the right direction. We don't get any more hiccups, hiccups come then that's on us. So we are moving towards I think till we are on track like what I was saying last year that in the next three years, we could be able to double up our revenue, I think we are still on that track. And significantly more than that.

Sanjay: Thank you and all the best.

Moderator: Next question from Mr. Venkat Subramaniam from Organic capital. You can go ahead.

Venkat: Hi, thanks for taking my question. Our vision for agri has always been there for the last three years. And admittedly, I think it's been quite delayed. And, you know, there's been some management changes as well there in terms of people who are going to head that etc. What would you say have been the reasons and how quickly do you think you can actually achieve your vision, an expectation on that?

Sorab Agarwal: Last year for our agri business was the transition year wherein alignments was done not only at the management or operation level, even in the field with respect to distribution and even in the product, what needs to be upgraded or what needs to be done or not done. So the transition part of it, most of it has finished in the last year and during that we have seen growth which has happened. In the last quarter we have been able to grow the aggregators by about 78% and on a whole year basis we have been able to grow the agri business by 40%. So, and this was done when the transition was happening. Now most of that has happened, things are in place, and I alignments are right. So hopefully we will grow again in this year, I'm projecting 25%, it can be much faster than that maybe in quarter 2 we are able to give you a better number on that. So things are in place and I would say that our immediate and urgent vision on this segment is to take it to 1000 crores as soon as possible.

Venkat: Second is on export opportunity, both on China plus one kind of level and India's standalone manufacturing prowess. There's been some movement that we see selectively in some segments. What's your take on this? Are you seeing something on the ground with respect to this and how quickly we think we can be beneficiaries of this?

Sorab Agarwal: The export traditionally was contributing only 1 to 2% of our revenue. And in the last two to three years, with some proactive effort, we were able to take it to about 6%. And we were actually targeting

8 to 10% revenue from exports in the last year because of COVID and whatever happened we couldn't do it. So hopefully this year we could be making to 7-8% with respect to our increase revenue which we will do in this year. As far as China goes see you have to understand our main bread and butter product is pick and carry crane where China does not compete. China competes primarily in the bigger cranes, truck cranes and the bigger tower cranes, where Yes, I will agree that they are pricing wise much more competitive than what we were able to do in India. But things are changing fast, because of the commodity prices increasing and then China the manpower costs, which has increased so much in the last two three years and continues to increase. And the shipping costs increasing by close to 8 to 10 times out of China. A container which was costing \$300 to \$400 is now costing nearly \$3500 to \$4,000. So all this gradually will make China uncompetitive and he might be able to compete in these bigger cranes and the bigger crawler cranes are the bigger truck cranes with China, outside India. But with respect to cranes and with respect to the construction equipment segments, especially backhoe loader and the tractor segment, I think India is much more competitive as compared to China for smaller cranes, backhoe loaders and tractors. So there definitely traction will come to India in the times to come.

- Venkat:** Wonderful. That was very helpful. Thanks a lot.
- Moderator:** Next we have questions from Mr. Raj Mehta from Raj Mehta and Associates, you can go ahead.
- Raj:** My question is with respect to construction equipment segment, their EBIT margin is around 5 to 6% and our crane segment we have EBIT around 10 to 10.5%. So if we grow construction equipment the profitability will be at a much lower pace. So, are you expecting the EBIT to be at a company's level maybe around 10-10.5% in next three to four years in construction equipment segment. And whether we have been able to capture the market share and this segment.
- Sorab Agarwal:** With respect to the company we are already above 12% EBIT level.
- Sorab Agarwal:** EBIT level in the company we are at 11.5-12% and in crane segment EBIT we were in the last quarter we were 12.9% and on a whole year basis we were at 11% and you're clarifying that construction equipment has started to come up in the last 1-1.5 year for us. In FY '20 it was a breakeven business there was practically no profitability looking at the numbers we were doing because we were grow our revenue by 30-35% we have now got a 5% EBIT level margin in this business and in the last quarter was close to 7%. So as our numbers double up from here the revenue as it starts to touch about 60-65 crores over the coming quarters, be in quarter 3 quarter 4 so the profitability will start to fall in place in 11-12% levels.
- Raj:** This profitability will come because of the operating leverage you have.
- Sorab Agarwal:** Yes, because the fixed costs will start to get leveraged. Right now obviously there is much more fixed cost than the revenue that is coming and as soon as the revenue increases, operating leverage will start to play in and we'll be at about 11 to 12% level comfortably. We've seen that happen in tractors, we've seen that happen in material handling, and I'm sure it will happen here again.
- Raj:** So when can it happen? It can happen in next two years?
- Sorab Agarwal:** It can start to happen in quarter three, quarter four this year, if we are really unlucky then next year it will definitely happen.
- Raj:** Okay, that's great. And so my next question is with respect to your export. Now currently, what is the percentage? It's 7-8%?
- Sorab Agarwal:** About 6% approximately currently.

- Raj:** You are aiming to increase it to 7-8% in next year, this year?
- Sorab Agarwal:** In the current year it should go up to 8% but internally we have targeted to take it 15-20% of our increased revenue base over the next three years. We are in that direction and that was the main reason we launched those specific models for the export market 2 months back.
- Raj:** But sir how's the margin shaping in export? Whether we are able to capture higher margin as compared to domestic?
- Sorab Agarwal:** Like I said the selling prices are generally 5 to 10% higher in the export market. So, accordingly definitely the margins are 5 to 7% better in the export market.
- Raj:** Okay, so that the export margin will be much higher than the company's margin. And if you grow your export sales and basically you PAT margin will also increase.
- Sorab Agarwal:** Our margin profile to start to improve by about 50 to 100 basis points as soon as our export revenue starts.
- Raj:** In construction equipment right now the current market size is around 7000 to 8000 crores and what will be your market share in construction equipment segment? Can you have that number?
- Sorab Agarwal:** Markets share is minisule because last year we did revenue of only 133 crores out of this 8000-9000 crores. So and that is a potential we have to increase and we are working on. And that's why I always believe that if the second wave wouldn't have happened I would have been saying 70-80% growth rate in this segment. But nevertheless, we will grow at least by 25-30% and if everything goes up, we should be able to upgrade that in quarter 2.
- Raj:** In agri segment, we do compete with players well established players like escorts. So, how do you think about growing that share, because right now, we are not what are the products which we are offering that the listed companies which are dominant, like escorts are not been able to deliver to the customers?
- Sorab Agarwal:** Our agri business consists of tractors and track combine harvesters. So in the tractor combine in the last 2 years, we've already attained a number 2 position with respect to our product and market acceptability and market shares. Now, with respect to tractors, that's a huge market and all possible big players are there and competing. As a customer, they look for product, price, service. If your barriers are product acceptability, and problem. So product accessibility and finance, I think we are more or less at the threshold of breaking both barriers. We have attained enough headroom there. So going forward are productive were better, our prices, definitely better, service and support is equally good if not better. And the initial barriers which we have taken care of in the last few years. So hopefully that has given us a lot of confidence that going ahead, we will be able to increase our numbers and in any case, we are not projecting 100%-200%-300% increase in our numbers. In fact it will only be faster than that. Even last year we are projected 25% growth in Agri but we were able to do more than 40%. Harvesters as soon as we got a chance, as soon as acceptability was in place, we became number 2 from number four or number five, it's a long way to go in the agri business.
- Raj:** So basically you're gaining market share from the listed dominant players because of your product profile, because the customers are more attracted to your product and services, which they might lag in giving to the customers.
- Sorab Agarwal:** Only 1 in 10 get the get who are very good enough for us. Our numbers will become very big and that is what we are trying to do.
- Raj:** Okay, thank you, sir.

- Moderator:** The next question from Mr. Aditya Dave from CAO Capital, you can go ahead.
- Aditya:** Thank you very much for the opportunity. I have one request, when you release the quarterly numbers, the individual line items don't really match with the line items we see in the annual reports. So, it is very difficult to compare, especially the year end numbers. There is a reclassification, which happens within the cost of materials and other expenses, so, can you please make it uniform across quarterly reporting and annual reports? Otherwise, it becomes slightly difficult to understand how the various costs are moving. That is one small request, sir. Second, can you please repeat the growth numbers? I missed your, the crane numbers I get the guidance given for the crane business. But for the other segments, can you please repeat the growth numbers again?
- Sorab Agarwal:** Okay, with respect to the reporting, part of your question, the screen you are looking at least a 10% growth in this year can be faster that time will tell because unfortunately the first quarter was evenly slow. And for other segment you are looking at, agri is a 25% growth. Construction equipment, I would say 25 to 30%. Metal handling 25%. And agri 25%.
- Rajan Luthra:** I think we collect separately because I don't think we have any change in the format because the format of the reporting is as provided by the SEBI, the format is constant and consistent for year.
- Aditya:** For the quarterly numbers if you look at your consolidated other expenses and you...
- Sorab Agarwal:** If you could just drop a mail to Luthra or BnK we will look into it and if there is any description or problem we could solve it.
- Aditya:** There is no problem, it is just 2 different formats. One we use in the quarterly reporting the others that we use in annual reports. It's perfectly okay. Next sir, can you give some macro commentary on what's happening with the mining and metallurgy side, because government has been talking a lot about reforming mining sector, especially Coal India, but nothing seems to be happening. So can you give some macro commentary on that?
- Sorab Agarwal:** We really don't work in the mining space. We do supply cranes and some machines to all the Coal India subsidiary, whether it is WCL, SECL or even Singareni or Neyveli. But you need mainly bigger excavators, scrappers, dumper and that's not our line. But from what I know and understand the government is trying very hard and things are happening and even a lot of even coal mining those have started to work out. Tata is going to be a big beneficiary, so things are moving, but it really does not meets us at a tariff level.
- Aditya:** Is it something that you are exploring because globally mining sector is a very profitable business for all the equipment manufacturers. So I was just wondering from that angle, government saying a lot of things. So then private sector people...
- Sorab Agarwal:** I think I did mention it earlier somewhere as soon as we start to do 2000 backhoe loaders in a year, this we are anticipating we will do by end of FY '23, we are anticipating and as soon as we start to do 2000 backhoe loaders in a year, I think our next step would be to bigger excavators, but I think we still have 1.5-2 years away from that because we have to you know the client has stepped in sequence so we expected a smaller machines and then go for the bigger machines with respect to that segment. Definitely about 1.5 to 2 years away.
- Aditya:** One final question this is again an industry level question because all the company questions, you have already addressed. So if I if I look at the broader trend in the capital goods industry, 2018 was the most recent high point and since then, every segment and sub segment of capital goods has been suffering for one reason or the other. So for the last 3 years growth has been suffering for, for the entire industry for one reason or the other. So I was just wondering, when you have a prolonged

downcycle where three, four years are lost what kind of pent up demand do we see when those finally return? So when the rebound happens how much further can we grow from the previous peak?

Vyom Agarwal: So basically, what I could gather the question was, because in the last four or five years, we have seen a lot of growth disruptions in the economy, so there is an effect of demand. So what happens is this pent up demand, it generally you know, snowballs into higher peaks in our sales, we want to have a view on the fact that how this pent up demand goes up.

Sorab Agarwal: I am sure that what you are saying is right because in the last four or five years, something or the other has always been happening. And we've always seen pent up demand being there and a rebound coming in very quickly. So whatever has happened in April, May, and it will continue to June this year. So pent up demand not only now, but even in future, I think India is already at a level that the country will have to grow, the country will have to develop its infrastructure. And with this aatmanirbhar was not really aatmanirbhar I would say that the substitution of the global supply chain towards India, I think a lot of things are happening, are going to happen coupled with some pent up demand which give us us sudden thrust like what we saw in quarter, two, quarter three last year also. So things are looking good in that sense. And like for last four, five years, a lot of companies and corporates have really been able to grow in the way they wanted to grow. Specially construction industrial side. So as soon as the COVID scenario is behind us in totality, because yesterday only I was reading and feeling really happy that we are going to vaccinate 12 crore people monthly from June onwards. So I'm sure it is going to be a blast. But obviously, there's some jinx on India for last 5-6 years, something or other, either our own creation or external strikes.

Aditya: Right. Thank you very much. All the best.

Moderator: We have a next question from Viba Batra from Fare Connect, please go ahead.

Vibha: Yeah, I have two questions. The first one is on other income for the year 15.3 crores and for the quarter it was 7.58 crores. What is this income and what's your outlook for next year? And also, on your employee expenses, they dropped in FY '21. So how would they move for going forward?

Sorab Agarwal: The employ expenses did drop because we did actually work towards controlling our costs wherever possible, and we will continue to do same so you can see it in a similar trend again this year with respect to percentages maybe 20-30-40 basis points here and there.

Rajan Luthra: As we got other income say in the current year definitely there has been some one time income has come, as we have sold one of our office because we were trying to control expenses and control operations so we have sold one office where we had one time gain of 6 crore profit. Otherwise rest all the other expenses are merely after the recurring nature and we will continue to have it year after year because they are investments of more, SMP's and the investment what we have made and other income. So we can expect that for the FY '22 and going forward actually we will have other income of recurring nature of 8 to 10 crore every year. Only one time expenses this year is only have one property which we sold where we had a gain which will not happen again otherwise rest all are normal.

Moderator: We have next question from Mr. Anurag Jain from Aart Ventures. Please go ahead sir.

Anurag: If we can highlight how much revenue do we derive from leasing of construction equipment's? I believe it would be a very small number. But if you can just help with a number and how has it moved over the years and any view on this going forward?

Sorab Agarwal: About 20 Crore revenue is coming from equipment rental and leasing. And going forward, you know, we are reasonably keen on increasing his revenue here. But unfortunately, we end up competing with the most of our retail segment, especially the bigger hiring company. So, you know, on a case to case



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May 31, 2021

basis, we are increasing our equipment fleet if we are, actually not competing with any of our customers on the other end. So that's why it's not been growing too fast.

Moderator: Yeah, there are no more questions so I would like to hand over the call to you for closing remarks.

Sorab Agarwal: I think we've discussed most of the outlook for the coming year. It was very unfortunate that the COVID struck us again and very hard. And this quarter, we are expecting 40-45% lower as compared to quarter 4. Hopefully things will get sanctity, gain sanctity and things start to improve quarter two onwards. We are still very confident that we'll do 10 to 15% increase in our revenue and would be able to maintain or increase our margin profile. And, again, just to add on that, that we're very hopeful that by end of quarter two, we should be in a position to upgrade our projection, if nothing adverse happens any further. Thanks a lot, everybody.

Moderator: Ladies and gentlemen, this concludes your conference for today. We thank you for your participation and for using Junxion conference service. You may disconnect your lines now. Thank you and have a great day.