



“Action Construction Equipment Limited Q3 FY-22  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day and welcome to the Action Construction Equipment Limited Q3 FY22 Earnings Conference Call hosted by Edelweiss Broking Limited. As a reminder, all participant lines will be in the listen only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to turn the conference over to Mr. Himanshu Yadav from Edelweiss Broking Limited. Thank you and over to you sir.

**Himanshu Yadav:** Thank you. Good afternoon everyone. On behalf of Edelweiss Wealth, I welcome you all to the call. From the management we are joined by Mr. Sorab Agarwal - Executive Director, Mr. Rajan Luthra – CFO and Mr. Vyom Agarwal – Head Investor Relations. We will have opening remarks by the management followed by Q&A session. Thank you and over to you sir.

**Sorab Agarwal:** Good afternoon everybody. I am Sorab Agarwal. And welcome to this Earnings Conference Call for discussing the results for the quarter and nine months ended 31st December 21. We hope that you are all staying safe and healthy. Along with me in today’s earnings call we have our CFO, Mr. Rajan Luthra and our Head of Investor Relations, Mr. Vyom Agarwa. I hope that all of you have had a chance to look at the company’s financial statements and earnings presentation which have been circulated and uploaded at the stock exchanges.

To brief you on the financial performance for the third quarter of FY22. The operational revenue grew by 9% on year-on-year basis to 437 crores which is our best ever quarter three revenue so far. With an EBITDA of Rs.44.50 crores. The EBITDA margins stood at 10.20% (even in the wake of unabated and unprecedented inflationary pressures and lackluster festive season coupled with Omicron scare November onwards). The profit before tax stood at 8.5% that is around 37.06 crores and PAT margin was at 6.3% around 27.54 crores. In the backdrop of continued input cost inflation, we have dynamically manage the business to deliver margins in a consistent range over a period of time.

For the nine months ended FY22, the operational revenue grew by 45% as compared to similar period of FY21 and stood at 1119 crores with EBITDA of 114 crores which is 48% growth on year-on-year basis and PAT of Rs.70 crores which is 69% growth on year-on-year basis. The EBITDA margin of 10.20% and net profit margins of 6.2% are also better as compared to last year, nine months results.

Now, let me give you a sequential perspective. For the third quarter FY22 the operational revenue grew by 21% on quarter-on-quarter basis. The EBITDA during the quarter increased by 20% on quarter-on-quarter basis, and PBT and PAT numbers registered a growth of 24% and 20% respectively. In the crane segment during the quarter gone by, we reiterated our dominant market leadership position and registered revenue of Rs. 269 crores with margins of 11.75%. The construction equipment segment clocked revenue of Rs. 47 crores with EBITDA



of 5.45%. The Material Handling segment recorded revenue of Rs. 43 crores with margins at 11.76% and the agri division registered revenue of Rs. 77 crores while maintaining margins at 8.26%. Thereby registering growth in all of our four segments. In the last quarter the company further expanded its business in the defense sector by getting an order for supply of special mobile cranes to defense R&D organization, and also received an order for supply of special truck mounted Multi-function cranes from prominent electricity department. Our regular innovations and persistent R&D efforts make us capable to deliver such equipment under the Atmanirbhar Bharat initiative of the government.

On the operational side the commodity inflation continues to be a significant headwind for the industry. The prices for many commodities continue to be at multiyear high, steels, metal, crude, rubber and allied product prices continue to be at elevated levels. So, in summary, while the operating environment improved, it has remained challenging. Further we expect that inflationary trend will continue in the current quarter also and it may lead to some pressure on margin profile in the near term. In these challenging times, we are confident that a clear and compelling strategy, together with our growth fundamentals and operational excellence will hold us in good stead. We remain focused to deliver on our growth agenda, growth that is consistent, competitive and profitable. We will try and continue to manage the delicate balance of ensuring competitiveness of our brand and keeping our EBITDA margin in a healthy range.

The past two years were tough for the nation and the economy. Appearance of Omicron variant even before the economy had completely recovered from the shocks of previous two waves, has made the environment more challenging. COVID cases have risen again in January and it is a reminder for all of us that the pandemic is not over yet. In the challenging circumstances, your company has a much stronger, thanks to our team members who kept their focus on serving our customers.

Looking ahead, we raised our revenue growth guidance to at least 23-24% in the current year against our last guidance of 15-20% growth with sustained EBITDA margins. Further, our honorable Finance Minister, has presented the union budget with a focus on digitization infrastructure spends and ease of doing business. The budget is in line with the vision of our Prime Minister to make India Atmanirbhar and a digital giant. Capital expenditure outlay will be stepped up to 35.4% from INR 5.54 lakh crores to INR 7.5 lakh crores in this coming year. Also, the effective capital expenditure of the central government is estimated at INR 10.68 lakh crores in FY23, equivalent to 4.1% of GDP. Allocation towards capital expenditure and infrastructure layout, including the PM Gati Shakti initiatives, that sets our realistic and inclusive vision for the nation. This makes us believe that the demand scenario should be further strengthened and will provide our company's strong growth momentum in the medium to long term. With this, I would like to open the call for question-and-answer sessions. Thank you.



**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Surat Devra from Paladin Capital. Please go ahead.

**Surat Devra:** Your results actually were very strong relative to what we're seeing in the industry in terms of volume growth sequentially, as well as year-on-year. Could you give us some insight as to how you manage to, whether you're taking share or what you're seeing on the ground in terms of demand and activity?

**Sorab Agarwal:** Last quarter, we were expecting a good festive season but somehow it was not up to our expectations. But even then in the wake of that like I mentioned in my address as well. We were able to put together our show, our customers, our orders and we were able to deliver a decent set of numbers. Whereas for most of our competition in similar industry have de-grown and especially with respect to the construction equipment segment, the entire industry in the last quarter has de-grown by around 23% whereas we were still able to make headways and increase our revenue on quarter-on-quarter and year-on-year basis. And that is primarily because I would say that our base is small and there is a lot to be done for us in the construction equipment space. So, that was one of the prime sectors in backhoe loaders and other things we were able to increase and yes with respect to cranes which is our core business about 60- 65% of the company's business we are in any case very aggressive and our country on the lookout to increase market share and I am sure we have been able to manage some extra market share here. Exact quantum will be very difficult to quantify at this juncture. But yes, definitely 1% or 2% gain there looks evident but again, we've done a strong show and we hope to continue that, agri definitely quarter three generally good for us and that has happened again. And then like I said in construction equipment and in agri also our market share, our base is small and then like I've always said in the past for us to be able to grow there should not be very difficult and that is what we are focused on. Thank you.

**Surat Devra:** So, it seems like a lot of the industry players have declined about 30% and you've been able to grow your volume. So, is it because you're offering more lenient credit or offering better pricing, because what we're hearing is that the demand environment is slowed down because there's a lot of slowness in the tendering of orders. So, the contractors are not in a position to come up and pay for the equipment.

**Sorab Agarwal:** Like I've always said in the past, the sales or a customer decision to buy is primarily dependent on obviously the right product, the right price at the right service point level and that has been our focus throughout, to be able to provide a product which is competitively or technically I would say, much superior in terms of parameters, functions or abilities and reliability as well. So, I'm sure that has also played a role apart from that yes, prices are generally competitive, but it is at November again we have raised our prices, increase prices, to be able capture the steel price increase it was happening in October and November. So, it is the right mix of right product, right price and right customer support and customer friendliness .



- Surat Devra:** Got it. And just two quick questions, one is could you give us the receivables number for this quarter?
- Sorab Agarwal:** Which number can you repeat your question?
- Surat Devra:** Accounts receivable on the balance sheet?
- Rajan Luthra:** In terms of DSOs receivables are slightly better compared to previous quarter it is for 33 days as compared to 52 of the last year.
- Surat Devra:** How much is it?
- Rajan Luthra:** DSO is 46 days as compared to 52 of the corresponding last year and 48 for the March ending and in terms of value it is nearly 200 crores.
- Rajan Luthra:** And thank you for that. And lastly any update on the M&A plan for which we have done the – QIP?
- Sorab Agarwal:** Yes, we had raised money for inorganic growth and we are already working on two smaller options, consolidate the market and we have already, a basic understanding is in place and hopefully within this quarter, we should be able to inform the exchanges regarding the activities that are taking place.
- Moderator:** Thank you. The next question is from the line of Vineet Mehta from Sameeksha Capital. Please go ahead.
- Vineet Mehta:** My first question was regarding the end user market as the previous questioner asked that there is a slowdown in the industry. So, I wanted to understand from the end user point of industry where have we seen the demand coming from, whether it comes from the intra space or the real estate space, could you give more color on that?
- Sorab Agarwal:** I feel that the demand at the end user space has not decreased, please mark my words, the demand at the end user has not decreased. Only thing is because of so much input cost increase and inflation coupled with that most of the industry move to BS4 regime where the engine and the machine cost further increase because of the BS4 engines. The rental segment which caters to the end users also, they have been a little slow and it will vary because the prices have really gone up quite a lot for most of the cranes and different types of construction equipment. And that is the main reason, that the market generally on the whole has been a little subdued. But end user demand remains and specifically with respect to sectors if we talk of we have seen traction totally in the infra side especially after monsoon and real estate has picked up very well especially November onwards with respect to our tower cranes and on the whole even industrial and manufacturing side of our business has been doing reasonably okay.



- Vineet Mehta:** Okay, that was helpful and my second question was regarding our agri equipment. So, what is the major constituent of the agri equipment sales and the margins in the agri equipment are increasing but are still lower than our other segments. So, when can we expect the margins of the agri division to reach to our normal average of 10-12%?
- Sorab Agarwal:** The consequence for our agri business are our tractor business and harvester business and also some amount of the Rotavator which is a very, very small quantum primarily it is tractors. And yes, with respect to margins unfortunately, because of all the input cost pressures and whatever we could pass on to the customers, they seem to be on slightly reduced level or there is scope of improvement. So, going forward now that most of the inflation and part has happened, hopefully and yes, with our numbers further increasing and operating leverage further kicking in going forward into the next year, I'm sure we'll be able to bring these margins above 10% into 12%, 13% levels. We are very confident of that.
- Vineet Mehta:** Okay. And could you give the split of agri equipment division between tractors and harvesters and others?
- Sorab Agarwal:** Mr. Luthra in percentage if you could give an idea of the revenue split between harvesters and tractors? what is lying in front me for the last quarter we have done about 43 crores of tractors approximately.
- Rajan Luthra:** Rough, 60% in tractor balance is harvester.
- Vineet Mehta:** Okay, thank you. And my next question, one bookkeeping question, what would be the total working capital requirement last quarter versus this quarter?
- Rajan Luthra:** The total working capital of the last quarter was about roughly about 62 days.
- Sorab Agarwal:** You are saying it the opposite, what the data that I have is, for the last quarter was 76 days and this quarter it is 62 days.
- Rajan Luthra:** Yes, so my current quarter is 62 and the corresponding last quarter was 76. So, we have improved on that.
- Moderator:** Thank you. The next question is from the line of Puneet Anand from Emkay Global. Please go ahead.
- Puneet Anand:** So, as Mr. Sorab told that year probably we will land with a 23-24% sales growth. If I look into nine months number which we have done around 1120 crores. So, this means that 4Q will probably be a 10% decline over last 4Q is that understanding right?
- Sorab Agarwal:** I don't think that will not be the scenario if I'm not wrong, we did about 450 or 460 crores in Q4 last year. I don't have that in front of me, but it was around 460.



**Sorab Agarwal:** In the last March 21 we did 457, most probably the current quarter will be similar to that number. It will decline, but the base was slightly higher than last March 21.

**Puneet Anand:** No, because the 23% that you said just.

**Sorab Agarwal:** More than that for me to answer your question. If it does not happen then we a quite didn't happen.

**Puneet Anand:** I though it should be better than what you are saying, that is the reason I asked.

**Sorab Agarwal:** It will be better.

**Puneet Anand:** Yes. Secondly, sir if you can just highlight that since last year what has been the increase in RM and how much have we been able to pass on the price hike side?

**Sorab Agarwal:** The gap you can very well see in our balance sheet is about close to 2%. We were very hopeful when this year began that we should be at 11-12% EBITDA levels and we are struggling at about 10%. Difference in our sales price realizations and the RM input cost that have gone up is close to about 1.5%, 2% which we have not been able to capture, this is on top of that we have actually increased our cost even, I forgot myself because we keep on increasing them so much in the last six months, one year, but I think 20%, 25% cost, our selling prices have gone up. So, even with that, but yes, still about 1.5%, 2% needs to either increase in the RM or needs to increase in our sales price to bring us to a 12% EBITDA level in the company first thing and hopefully going forward, we are expecting a robust next year. So, that should in any case, even without the sales price going up any further because as it is it is pretty elevated and assuming that the input cost remains similar if it does not go down. So, with operating leverage further kicking in with our revenue increasing in the next year as we feel it will happen. So, that would definitely give us leverage to improve our margins further going into next year.

**Puneet Anand:** And I understand its slightly early, but any broader number where one can look into F23 what could be a sales growth number?

**Sorab Agarwal:** Best time would be middle end of March. Looking at the current scenario, off the top, I can say that doing a 15%, 20% should be easy. But, when I put the numbers together and look at the momentum and look at the overall amount of infrastructure, real estate activity happening, including manufacturing, and three of our main segments cater to these very things as only intra, real estate, manufacturing. So, it can definitely be much faster than that. Sometime around middle end March or let say early April would be the best time but 15%, 20% is what we can easily assume. You would love if it is around 25% 30% of all.

**Puneet Anand:** And sir lastly, on the backhoe side, you guys have been putting a lot of effort to increase the overall shed, if you can just shed some light, how has this nine months been, in terms of the how backhoe as an industry has moved, and how we have been able to do. Thank you.



**Sorab Agarwal:** If we talk of the industry, till September end even the BS3 machines which were in stock were allowed to be sold. But we transition to BS4 in April. So, that means we were selling our machines which were more expensive, as compared to the biggest of the competition first five, six months of the year, and we did a reasonable job. But unfortunately, post September when the actual price effect, I don't know what's gone wrong with the market, the backhoe loader market really savage to squeeze from October, November onwards and November primarily because of the Omicron scare and the financiers were also getting a little jittery. And unfortunately, that continued well into January, because January is also nearly finished. So, there is something wrong with the road construction equipment and the backhoe market as a whole in the country. And like I mentioned, it did go down by 23% year-on-year numbers with respect to similar machines in the last year that is the data we have from ACMI, which is the Association of Construction Manufacturers in India. So, backhoe industry in the last quarter, yes it was squeezed, there's something wrong because like I said our base is small and then our intention is to grow so, we have been able to do that, making a pace of growth might not be what we were looking at in this year, it might be slightly slower than that because of like I said price increases and the market squeezing. But definitely we are on the growth track. So, maybe we start this year, next year we'll show brilliant colors there as well.

**Puneet Anand:** And when you say this 23% de-growth in the industry, this you're saying for the entire sea which includes all our portfolio right?

**Sorab Agarwal:** That basically includes more or less everything because certain aspects have maintained or grown like claims, or even concrete and crushing machines. Certain equipment has maintained or grown but on the whole it has gone on the 23%. I am sure we can dig out data from that report how much exactly backhoe loader has gone down in percentage, somehow I don't remember it off.

**Puneet Anand:** And as you rightly said, to the other participant that while demand remains and demand remains robust, but it's largely the input cost and along with that the BS4 transition of the engines that has impacted the rental segment.

**Sorab Agarwal:** Yes.

**Puneet Anand:** And rental segments is like 50% of the market and how much would be sir?

**Sorab Agarwal:** 50 or more, very difficult to quantify precisely because it keeps on fluctuating but more than 50%. And the rental industry is small, big, organized, unorganized, has still not come to terms with the costing of new machines vis-à-vis the rentals we are getting. So, it is a catch 22 type of situation or a cat and mouse type of thing that as soon as now obviously the demand is pretty robust and we have seen a very strong January and going forward we see a very healthy February, I'm sure March would be good. Now that Omicron is also more or less behind us India is getting less than one lakh cases. So, all in all put together as soon as certain rate



revision start happening pocket wise or area wise within the country with respect to the rentals on a monthly basis for the construction equipment, the demand is only going to go a lot further.

**Moderator:** Thank you. The next question is from the liner Chandrika Siddharth from Rica Enterprises. Please go ahead.

**Siddharth:** Hi, I'm Siddharth here. I have a few questions. My first question is, we did not have a good quarter, primarily because we did not sell enough cranes. Cranes, which is our main segment did not do well. The construction industry did well, only we didn't do well in crane. What is the reason for this and what is your outlook for the cranes segment for the next one year?

**Sorab Agarwal:** I would like to answer that, whatever you're saying is totally contrary to what we have just spoken about. Yes, we have not done blockbuster in our crane business. But yes, we have grown our crane business. And if we talk in terms of percentage, we have been able to grow our crane business if we talk sequentially about 11.5%, 12% and around 4.5%, 5% on a yearly basis. Just for the blockbuster growth, but as far as crane, slightly down considerably. The second part what you said construction equipment has done well, no sir. I totally disagree. I just mentioned it has de-grown by 23% whereas we have still grown. So, your question is totally conflict to the facts.

**Siddharth:** My second question, backhoe loaders grow their own 25% year-on-year this quarter, we were expecting 40% to 50% what's happened, why didn't backhoe loader grow faster. And our strategy of cross selling backhoe loaders to our crane customers working out well or not. Finally, are we still on target to reach the sales of 500 crores from backhoe loaders, 500 crores per year from backhoe loaders within the next two years?

**Sorab Agarwal:** Here, I would like to say is that, on a quarterly basis, sequential basis we have grown 19% in revenue in the construction equipment space, and within our company in the segment and year-on-year basis 22% whereas we had projected 25%. And we were expecting at any faster than that yes, we were able to attain that primarily because like I mentioned most of the construction equipment industry is slowed down. But we've still been able to grow. But by saying this, I would still like to say that our targets to do 500 crores by FY24 end still holds and we are reasonably confident we will attain it, the last quarter has been hiccup. We are basically confident that we will be somewhere around 500 crores in our construction equipment by FY24. There was another question within your questions about cross selling, yes we are already selling our backhoes within our crane segment customers and we are seeing good results.

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



**Sarthak:** Just wanted some detailed explanation about all the products that we have launched for the export market as well as the multi activity cranes that we have. So, there is no revenue breakup for those multi activity cranes and how they are performing currently. So, could you please throw some light on that as well as the export front like how are we performing with the new backhoe loaders that we have launched as well as the tractors.

**Sorab Agarwal:** Our export initiative is definitely taken up well and we are doing pretty okay there. But very, very unfortunately, the container freights out of the country have also become double or triple in quarter two and quarter three, which has seriously affected our export numbers, we have done well, but we could have done even better and that is primarily because of the container freight from a 1500, \$1,000 for example to a destination can become \$7,000 So, there is been a lot of delay which has happened in our existing orders being shipped and then getting delayed and obviously negotiation for fresh orders. And our backhoe as well as our new tractor range for export market otherwise have picked up well. Our multi activity cranes, NX360 and NXT models have picked up well and today they are working with most of the leading manufacturing companies. Already they've been inducted one or two machines there and there and also in all most of the prestigious Metro projects whether it is Delhi or Bombay or Kanpur or Patna or Bangalore. So, yes, I would say a good beginning for these cranes have happened and they have been inducted in most of the leading projects, we would further expect that the numbers will now further start to bloom.

**Sarthak:** Okay, thank you. And could you please put a number for those multi activity cranes like how much of the cranes revenue we are getting from that if at all possible, estimate?

**Sorab Agarwal:** We have it in the breakup available with us right now. But let's see how, maybe you can just drop us a small email and then we'll revert back on that.

**Moderator:** Thank you. The next question is from the line of Puneet Anand from Emkay Global. Please go ahead.

**Puneet Anand:** This engine cost in the overall, crane cost what could that be sir?

**Sorab Agarwal:** With BS4 now it is, BS4 again there are two categories one is less than 74 horsepower, one is more than 101 horsepower. So, the engine cost now is approximately for a machine bigger than 101 horsepower, I would say approximately around 11%, 12% or more, I would say 11% to 13%, 13.5% for engines bigger than 75 horsepower. For engines between 50 and 75 horsepower it is about 10% approximately.

**Puneet Anand:** Okay. And between the BS3 and 4 that increase would be around 20%?

**Sorab Agarwal:** A little more than that, between BS3 and BS4 between 70 and 74 horsepower, our price increase has been to the tune of approximately 60%, 65%.



- Puneet Anand:** The engine cost 65%?
- Sorab Agarwal:** The engine cost has gone up, but it's not only the engine cost apart from the 60%, 65% increase in the cost of the engine, a lot of further electronics also get added into because these engines are ECU based engines and they also require these chips and shortages which we are talking about, ECU, electronic controller unit. So, they also require a lot of further probes in electronics and other things and then the entire electrical harness of the machine to become more electronic, with the cluster becoming electronic. So, there is an additional about 40, 45,000 apart from the cost of engine increase.
- Puneet Anand:** So, if I have to let's assume buy a 75 HP crane, which was earlier BS3 and now from September BS3 is not.
- Sorab Agarwal:** Only because of engine and electronics the cost will go up by around 1.5 lakhs approximately.
- Puneet Anand:** Okay. And in percentage terms what number be?
- Sorab Agarwal:** Again, it depends, see engines are used in machines, which are about 16, 17 lakhs of cost earlier and also in machines which are about 24, 25 lakhs. So, on a 16, 17 lakh machine if you add the percentage would appear to be more and on a 24 lakh machine if you add this cost, the range would be 6% to 10%.
- Puneet Anand:** Okay. So, this is obviously deterring the demand in some sense?
- Sorab Agarwal:** This is there, but the main factor is steel.
- Puneet Anand:** And steel is almost like 50%, 60%.
- Sorab Agarwal:** Steel is about directly, indirectly about 60% of our input cost.
- Puneet Anand:** And one just trying to understand, the interest rates have been quite soft for some time and a lot of people feel that there could be a hardening in that, that could act as another deterrent in demand, because the renter guy actually must not be buying on some interest and for him the cost increases. So, passing on to the end customers again becomes slightly more difficult. Is that understanding right or?
- Sorab Agarwal:** No, I would slightly differ on that, because the interest has really softened by a reasonable percentages here and there. So, even if it goes up nominally 0.5%, 1% here and there I don't think that will affect the demand. The interest cost generally does not, with my past experience that we've seen, it generally does not hamper demand in the rental segment. But yes this time it is the sudden and massive increase in their purchasing cost that has affected the rental industry, I'm sure over the next three, four, five months, six months, they'll come to terms and definitely in some quarters, in terms of the certain segment of customers and end users, we



have seen rental increase by about 5%, 10% in the last two, three months, four months, but yes the demand is for at least about 15%, 20% increase in rentals. So, as soon as that happens, then everything will start to flow again. And without that also when it started to grow because if the end users need the cranes and if they are not getting on rent then they have to buy it. So, with the opening up of further rental it is only going to increase.

**Moderator:** Thank you. The next question is from the line of Mayur from Profit Mart Securities. Please go ahead.

**Mayur:** Thank you for the opportunity. I just want to ask, what is the outlook for our next quarter and how do you see quarter four now. Can you share your thoughts, please?

**Sorab Agarwal:** I'm sure it is definitely going to be better than December quarter. And if we talk on year-on-year basis it would be similar or better than our last year numbers. That is what appears to be as of now, but a little hiccup here and there in the month of March, we really can't guarantee but as of now it appears to be similar or better than our last year's performance definitely better than our Q3 performance.

**Moderator:** Thank you. The next question is from the line of Vipul Sanghvi from Systematix Shares. Please go ahead.

**Vipul Sanghvi:** Sir one question. Basically if you can share your read across on the agri equipment segment, why what we hear from some of the players on say plastic pipe size, who cater to the agri market, they are seeing demand being tepid, but as I see we seem to have done reasonably okay, as far as agri equipment. So, your sense on this particular segment of the market, if you can share some thoughts?

**Sorab Agarwal:** Agri segment in the country has de-grown in the last quarter, because they were abdominal numbers and sales which were happening from one, one and a half years before that. But like I mentioned earlier, our numbers are small, our base is small and the way we intent to grow this business further. So, in that effort of ours, we've still been able to sustain and we were able to increase our number a little. So, that is the main thing and I'm sure we'll continue to do that. Because for us to grow is only by increasing our numbers and a small percentage points in terms of our market share because we have huge market that's our intention.

**Vipul Sanghvi:** Fair point, how have you seen the first say, January and February till date on that particular market, like usually we are expecting that February and March to be better months?

**Sorab Agarwal:** With respect to agri?

**Vipul Sanghvi:** Yes.



- Sorab Agarwal:** Hence forth we should be able to post reasonable growth in this quarter. That's what do with respect to our business.
- Vipul Sanghvi:** Sure. And second question if you can throw some light on how is our working capital behaved in quarter three receivables and inventory?
- Sorab Agarwal:** to give a perspective. Year-on-year basis, it was at about 44 days, which is now at about 62 days. And in September it was 76 days, so it has improved sequentially. But if we talk of year-on-year, definitely there is a need to improve it further. And it is primarily driven that we are as an aspect like I mentioned that we are expecting good or much better sales during the festive season but somehow the our overall scenario remained a little different. And we are carrying a little excess inventories in our system. So, last year, December we were having around 220 crores of inventory, which is now about 317 crores which I'm sure we'd rationalize by end of March. So, the working cap load again fall in place to about hopefully 145 days by end of March right Luthra?
- Rajan Luthra:** That's right.
- Sorab Agarwal:** It is a little elevated as of now specially.
- Vipul Sanghvi:** Okay, so the second number is at 45 days, that's the number, working capital?
- Sorab Agarwal:** The present December end number 62 days.
- Vipul Sanghvi:** So, I'm referring to the page #15 of the presentation, which says our FY21 number was 29 days, that has gone to 62 days and should come down as we draw down our inventory by March.
- Sorab Agarwal:** Yes that's right and.
- Rajan Luthra:** That's right and we have been supporting our vendors in this tough times we have been paying them early also.
- Sorab Agarwal:** Mr. Luthra end of March the data that I have in my hand, it says 39 days was our working capital.
- Rajan Luthra:** Yes, 39 days.
- Sorab Agarwal:** but the gentlemen is referring 29 days, that's what I am asking.
- Rajan Luthra:** I will just check but it is 39 days.



- Vipul Sanghvi:** I am referring to, if you can look at the page #15 FY21, that is March 21 working capital days are at 29.
- Sorab Agarwal:** I will just recheck and confirm to you.
- Rajan Luthra:** Is this the current earnings presentation?
- Vipul Sanghvi:** Yes.
- Sorab Agarwal:** varun check please check if by mistake something wrong has been mentioned.
- Management:** Sure, sir I'll check it up.
- Sorab Agarwal:** It is 39 days I can commit on that. Because before end of March and end of December last year 20 was 44 days, end of December 21 it is 62 days, and we are very hopeful it should be around 45 days by end of March. What Mr. Luthra was mentioning, end of March our creditor days was around 330 crores of the creditor the creditor amount, today it is 282 crores. So, we have a reasonable scope to put it right in the next one or two months.
- Moderator:** Thank you. The next question is from the line of Surat Devra from Paladin Capital. Please go ahead.
- Surat Devra:** I am just trying to understand what's happening on the demand side. So, you mentioned a few times that, post Diwali the demand has just cooled off. And I'm trying to understand if that is due to high prices or if that is due to some weakness that the contractors, that renters who buy from you, or whoever is using the product, are they seeing weakness in their usage of those products, because tenders are not being put out, or there are some other issue, or there's no credit in the market and they're not able to access credit and therefore they cannot buy the equipment?
- Sorab Agarwal:** I don't think so, that is not the reason. There is a definite demand, a good demand in the infra and the construction side with the contractors and the end users even in the manufacturing side. And December, we saw our order books selling up again, November was slow. Because that Omicron thing, internationally globally has started to this thing, and the financial became a little tight in terms of leaving out finance. So, November was a little not so good. December was the order booking was very good, even execution was reasonably okay, January has been very strong. And we have entered with a strong this thing in February. So, the demand is definitely there, it's just that it can be further increased or improved. As soon as most of the rental segment either comes in terms with the current machine pricing vis-à-vis the rentals or if we say the rentals end up increasing a little bit more, which I'm sure will happen, then the free flow will start again. But the demand that the end user is reasonably okay. we have not seen so much supply shortening from end users, contractors, and real estate is going very strong.



- Surat Devra:** Right. And of the total sales what percent, you don't rent anything at all, you might be selling to rentals but you don't rent anything yourself?
- Sorab Agarwal:** Very few we do have rental division where we give to our players which are predominantly for the real estate segment, we have a fleet of tower cranes for rental which contributes about 10, 12 crores to revenue at the year, right Luthra?
- Rajan Luthra:** That's right sir. In nine month we have done around 10.5 crore.
- Sorab Agarwal:** Yes, 14, 15 crores on our year basis. And we have a small fleet of road construction machinery which was initially created as demo machines and to be supplied to bigger projects on rental basis so that to prove the worth of the machine so we still carry that fleet of 20 odd equipment plus, minus in our rental business.
- Surat Devra:** So, say to say there are vast majority of the sale +90% outright sale and out of that 90%, 95% how much is going to renters versus people who are using is, actual users?
- Sorab Agarwal:** You'll have to repeat your question. I was not able to figure that out, sorry.
- Surat Devra:** No, so I am saying out of 95% of your sales which is outright sale, what percentage of the buyers are renters versus actual users?
- Sorab Agarwal:** Okay. So, not 95, I would say 99% of our sales, because if you talk or look at the turnover vis-à-vis with the rental turnover 99% of our sales is the actual sales to end to customers. And, I would say more than 50% or approximately plus minus goes to rental and balance goes to end users directly.
- Surat Devra:** Okay, and what is the financing arrangement that these buyers usually have, how much do they pay from their pockets versus they borrow?
- Sorab Agarwal:** See all the leading NBFCs and banks are funding our equipment. And you are getting depending on the customer profile, the margin requirement could be anywhere between 5% 10% going up to 30%, 35%, depending on the customer profile. So, customers get financing, even they get 100% financing. Certain bigger customers can get 100% financing, but I would say it's 5%, 10% upfront margin requirement going up to 30%, 35%. There are flaps, somewhere LTVs around 70%, 75%, 85% depending on the strength of the balance sheet of the individual customers.
- Surat Devra:** Okay, and the availability of credit, in your opinion is not an issue, is not a reason why there's any issue or there's no challenge you are seeing on that front?
- Sorab Agarwal:** There was an issue in the second half of November, going into till about, I would say mid of December for that one month intervene period, mid-November to mid-December, there was



definitely a credit squeeze by the NBFC. They were scared what will happen because of Omicron or whatever, whatever. But, by the end of December, we saw things were sort of line, yes.

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

**Ashwini Sharma:** Sir my first question is on the defense. So, what is the kind of tender pipeline do you see on the defense side?

**Sorab Agarwal:** See, we have in the last three, four months back some good orders that multipurpose 4x4 tractor and then the DRDO orders with respect to the special cranes, which are going to be modeled on the missile launchers, then certain other cranes for again, missile testing, for the bigger missile that we produce in our country, and then again some DRDO orders. So, that is what we have been able to do in the last three, four months but all of this was based on the hardware of the one and half, two years. So, in the pipeline, we have further reasonable amount of three, four bigger inquiry or let's say requirements which has also been worked upon simultaneously. So, if everything goes well, in the first half of next year, we should see a couple of them reasonably bigger ones maturing. And one or two still left for the second half of next year yes.

**Ashwini Sharma:** So, if I have to see the contribution from defense let say after 23 or 24, what number would you like to give sir?

**Sorab Agarwal:** Can you just repeat your question again please?

**Ashwini Sharma:** So, in terms of revenue contribution, let's say from defense in 23 or 24, what number you would like to put?

**Sorab Agarwal:** In FY23 we should be doing anywhere between 100 to 150 crores in defense if not more. If not more, the possibility is that this 100 to 150 crores can be exceeded in FY23.

**Ashwini Sharma:** Sir, that's helpful. Sir my second question is on the price hike, if you can help me with the price hike which we would have taken in Q3 and also on a nine month basis?

**Sorab Agarwal:** Like I said, even I'm confused and I forgot we took a price hike in November last year, then we took a price hike in January, then we took a price hike in March, then we took a price hike in June. And then finally we took a price hike again in November. I am myself a little confused on the total quantum but should be somewhere between 20% to 26%. I am myself confused about the percentages so many have happened.

**Ashwini Sharma:** This would be predominantly in the crane?



**Sorab Agarwal:** What I am talking about is with respect to crane and something similar little here and there has happened with respect to other machines.

**Ashwini Sharma:** Sir, can we expect another round of price hike in current quarter as well?

**Sorab Agarwal:** No, we don't want to do, luckily steel prices did cool off a little end of December. So, I don't think so, we cannot afford to have another price increase, it will be very detrimental for the market. But if the need be, if the inflation continues unabated, and things further go, then we'll be left with no other option. But we have no intention of increasing our prices at the current juncture further. Just for example, with respect to backhoe loaders, the construction equipment segment, we had a price increase on 1st of January also after November. But yes as of now, whatever we wanted to do has been put in place and now we just want to increase our numbers and just hope that the commodity remains the way it is or further slides down so that we get the benefit in our selling.

**Ashwini Sharma:** Right sir. One last question to Mr. Luthra. Sir what would be the cash on book, end of Q3 quarter?

**Rajan Luthra:** We had nearly 185 crores.

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

**Sarthak:** So, first of all, I just wanted to ask what are the capacity utilizations for segments individually, and if you could throw a light on what type of capacity utilization we are expecting in the next year, as well as because our operating leverage will kick in and we'll have a better margin upfront. So, that's the main reason I wanted to know about this?

**Sorab Agarwal:** In cranes we are currently working at about 50% to 60%. So, we have enough room to further be able to produce more. In construction equipment, we are close to about 35%, but metal handling we are about 80% and we are already planning that we need to expand something quickly to cater to the next year. And, in agri again we are at about 35%.

**Sarthak:** So, basically we are expecting margins to increase when this goes to around 50, 55 in construction equipment and agri as well right. We planning to remain on the same margins to increase our market?

**Sorab Agarwal:** Margin all across, even in cranes and construction equipment and agri will further increase with increasing utilization for sure. operating leverage will kick in, assets which are not to use totally will get utilized and obviously fixed cost remaining similar to what they are definitely operating leverage will come in and in improving utilization the margin profile will start changing in these segments and that's how in cranes we are already about 11%, 12%. So, we



might go to 13%, 14% these segments will come to 10%, 12% so on the whole we will be easily around 11.5, 12% is easily possible.

**Sarthak:** So, by 2025 the target that we have of 2500 crores with around 14% to 15% margin. So, that is on track currently?

**Sorab Agarwal:** I think so, but it is not up to 25 it is FY24. So, in the next two, two and a half years our target is doing 2500 and 13% to 14% I do not know, 14%, 15% is possible but yes 13% to 14% is what we think should be realistically possible.

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

**Sarika Kushashiya:** If you can elaborate we seem to have added some capacities during the quarter under which segment would that be?

**Sorab Agarwal:** No, we have not added any capacity during the quarter. We can produce 800 cranes per month, we can produce 150 construction equipment per month, we had a capacity to produce 175 metal handling per month and about 600 agri per month.

**Sarika Kushashiya:** Okay. So, the CAPEX which actually has been planned for the year have we already send?

**Sorab Agarwal:** I couldn't figure out your question.

**Sarika Kushashiya:** Okay. So, probably we were to undertake some 40, 50 crores of CAPEX during the year.

**Sorab Agarwal:** Yes. That's something different. An ordering is well underway as of now. So, it has got slightly delayed. So, we are planning to set up a world class paint shop, keeping in mind our product quality in India as well as for the export. So, that is under planning and execution as of now. So, some part of it might come in quarter four, but most of it will go into the next year.

**Sarika Kushashiya:** Okay. And at what point would you be comfortable adding significant CAPEX taking into account the union budget and the continuous ongoing?

**Sorab Agarwal:** This should be looking only in FY24.

**Sarika Kushashiya:** FY24?

**Sorab Agarwal:** Yes, once we are on track to our 2500 crore, then we might need to add capacity.

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



**Ashok:** So, a couple of questions. First one is on the side of market share. So, how do you see the market share panning for machine handling products.

**Sorab Agarwal:** We are close to at about 25% right now. And going forward, it is 24%, 25%, yes. And going forward in the next one, two years we should be somewhere around 28%, 30% with respect to market share for machine handling. In mobile cranes, we are already about 62%, 63%, maybe a percentage more within this quarter, which cannot be verified as of now. And we are hopeful that in the next year we should be crossing 65%, 66% there as well. With respect to backhoe loaders and agri obviously, our base is small. There we are not really looking at market share, because not worth mentioning but we are looking at increasing our revenues every year by at least 25%, 50% if not more, what's our target.

**Ashok:** Sure. And as I understand that the capacity utilization is still sub 50% level, how's the demand side pull from the market, so that we can ramp up the capacity utilization, I understand operating leverage will kick in, but unless there is a demand from the market, we may not be able to get much benefit from this. So, how do you see the demand side?

**Sorab Agarwal:** The demand side from middle of December has picked up very well. And January, we saw really good demand going well into February we are already on 7th today. So, the demand seems to be robust. Yes, in the construction equipment segment and agri there is a little slowness. But, like I said in these two segments are base is small. So, we really not worried.

**Ashok:** And the last one on the strategic side, since one of your competitor who is in the crane business is not doing financially well. So, are we also seeing that the Eastern part of market is also getting good for us now?

**Sorab Agarwal:** Which part of the market?

**Ashok:** Eastern part of India, because one of your competitors is not doing well financially. So, I understand that there can be an opportunity for us to grab that market share as well from the competition?

**Sorab Agarwal:** With respect to our bigger cranes and crawler cranes and truck cranes where we compete with them, definitely we are seeing better traction.

**Moderator:** Thank you. Thank you, ladies and gentlemen that was the last question for today. I would now like to hand the conference back to the management for their closing comments.

**Sorab Agarwal:** Yes, thank you. Like I mentioned that we are very hopeful that our Q4 should be similar or slightly better as compared to our last Q4 and we are very hopeful and bullish for the next year. With most of the growth drivers in place and our things seem to be sorted out for us and we are looking at the incremental growth with respect to specially our construction equipment and agri business. And yes, cranes and material landing are also we feel that will contribute in



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a significant way in quarter four and obviously going forward into the next year. So, all-in-all things look good and we are very hopeful that we should be able to do even better in the coming year and also in this quarter. Thanks a lot. Thank you.

**Rajan Luthra:** Thank you everybody.

**Moderator:** Thank you very much. On behalf of Edelweiss Broking Limited we conclude today's conference. Thank you all for joining. You may now disconnect your lines.