



“Action Construction Equipment Limited
Q1 FY2022 Earnings Conference Call”

August 02, 2021



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Moderator: Ladies and gentlemen, good day and welcome to the Action Construction Equipment Limited Q1 FY2022 Earnings Conference Call hosted by Motilal Oswal Financial Services 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, please signal an operator by pressing “*” and then “0” on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nilesh Bhaiya from Motilal Oswal. Thank you and over to you Sir!

Nilesh Bhaiya: Thank you Inba. Welcome everyone to the Q1 FY2022 earnings conference call of Action Construction Equipment Limited. Representing the management, we have Mr Sorab Agarwal, Executive Director, Mr Rajan Luthra the CFO and Mr Vyom Agarwal, the Head IR. May I request the management for the opening remarks on the latest quarter financials, post which we will open the forum for question and answers. Over to you Sir!

Sorab Agarwal: Good afternoon. I am Sorab Agarwal this side. Welcome everyone to this earnings conference call for discussing the results for this quarter ended June 30, 2021. I do hope that you and your loved ones are keeping safe and getting vaccinated. We at ACE have facilitated vaccination of all our employees and dealer personal to ensure safety against the pandemic.

On behalf of ACE, I would like to express our gratitude to all the frontline workers who have stood up against adversities to help keep others safe. I would also like to thank every member of the ACE family for their relentless commitment and dedication in these difficult and trying times. 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 that all of you have had the opportunity to look at the company’s financial statements and the earnings presentation, which has been circulated and uploaded at the stock exchanges. We started the financial year on the back of a strong momentum generated in the second half of last year. Consumer sentiments were improving and the economy was on the path to recovery; however, in April 2021, COVID stuck again with a more virulent and deadlier form in the second wave. The spread of infections was much faster this time with significantly higher fatalities recorded. The case of transmission put pressure on the healthcare system across the country.

] Unlike the national lockdown announced last year this time around we witnessed regional local lockdowns in order to curtail the rising infections and as you are aware, historically the Q1 is seasonally lower for our sector and top of that it was further impacted due to COVID-19 so accordingly sales in April started slowing down considerably and the month of May was severely impacted both for sales as well as from supply chain point of view since the last part of the country was under localized lockdowns.



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This time the virus spread into the rural hinterlands notwithstanding this. Rural continues to remain virulent with a decent start to the monsoon. Urban markets that showed signs of recovery in the last year were also impacted severely, but as the restrictions lifted progressively in the month of June the demand scenario started to bounce back again. Recovery in the month of June led us to post a decent set of numbers even in adversity. Our numbers are not only better than Q1 of last year but also reasonably better than Q2 that is September 2020 in terms of both topline and bottomline.

To brief you on the Q1 of FY2022 the operational revenues grew by 213% on a year-on-year basis to Rs.324 Crores with an EBITDA margin of 10.1%. The EBITDA during the quarter increased to Rs.32.6 Crores in comparison to Rs.2.4 Crores on a yearly basis. The PBT and net profit grew to Rs.26.24 Crores and Rs.19.31 Crores against a small loss of Rs.4.3 Crores and Rs.4.22 Crores, during the same period last year.

Our current PBT and PAT margins stand at 8.2% and 6% respectively. It is important to note that despite the headwinds, the company achieved its highest EBITDA and PAT margins both in absolute and percentage terms for the Q1 ever due to sustained focus on cost efficiencies and better product mix.

On the operational side exports sales witnessed a growth of 47% quarter-on-quarter and a 260% on a year-on-year basis contributing to 9% of our overall revenue for the quarter. In the crane segment, we reiterated our dominant market leadership position with a year-on-year revenue growth of 346% to Rs.223 Crores with a margin of 11.2%. In construction equipment segment we clocked sales of Rs.37 Crores, registering a year-on-year growth of 104%.

In material handling segment there has been a 330% growth in revenue on a year-on-year basis to Rs.33 Crores while maintaining an EBIT margin of 11.6%. In the agri segment too the company recorded revenue of Rs.30 Crores, which is close to 16% growth on year-on-year basis. In the quarter gone by, we upgraded our cranes and construction equipment to BSIV CEV norms thereby increasing the fuel efficiencies and environmental friendliness of our machines. This shift towards CEV stage IV regime will further help us in opening additional international markets over the years to come.

The second wave of COVID has brought into focus the unpredictable times we live in. It tested the resilience of our business, flexibility of our operations and depth of our financial year strength. Our three growth fundamentals right product, right price, and right aftersales and service support have helped us remain close to our customers. Our customer oriented approach and deep penetration helped us to navigate the crisis well and come out stronger.

Today our supply chain has become more agile and resilient. We have debottlenecked our production lines, made them more flexible to quickly adapt to the changing requirements should there be a surge in demand. Steel which is our biggest input material remained volatile and at



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elevated levels with further increase in prices during the last quarter and we continue to look for all levers like savings judicious and calibrated pricing whilst maintaining right growth equation to protection our business model.

Our focus remains on driving volume led competitive growths with right balance on pricing. We will continue to dynamically manage our EBITDA margins broadly in the existing range owing to carnage cost by steel prices and the inflationary pressures. The macro picture suggests that India has taken the second COVID way in its stride. Looking at the resilience and the spirit of our country the economic activity has returned by mid July.

We feel that business should start to normalize in the Q2 and we are looking forward to at least a 15% to 20% growth in business revenue in the current year, which is a slight upgrade from 10% to 15% we had conveyed earlier with sustained EBITDA margins. We are very hopeful that the crane and CE market will further bounce back meaningfully post August 2021 on account of receiving monsoons and our reasonably sure that the short term turbulence is already behind us.

We are confident about the medium to long term prospects of the company. We are expecting a growth of 15% in the crane segment for the current year and a 25% growth across our other three business segments that are construction equipment, metal handling and agri. We hope that we are in a position to revise these projections by the end of Q2, which will predominately depend upon the progress of the current and future COVID waves across the country.

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

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. Ladies and gentleman, we will wait for a moment while the question queue assembles. Our first question is from the line of Raj Mehta from Raj Mehta & Associates. Please go ahead.

Raj Mehta: Congratulations for the very good set of numbers. Sir in the last quarter if you remember I asked the question with respect to your exports. Last year export was around 6% and now it went up to 9% in this quarter? You gave us the target to reach 8% for the entire year and internally you are also aiming to get at 15% to 20% so what was that trigger that allowed you to grow your export order? Was that the new product which you launched few months back especially for export market picked up?

Sorab Agarwal: I think it was a combination of two things. Definitely, the new products have now been floated in the market and sales have started happening and apart from that there was an order special order we received from Bangladesh for export of certain type of cranes, which immediately perked it up, but we are very confident that on a whole year basis we should be able to attain a 7% to 8% or maybe a little more than that with respect to export contributing to our revenue.



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- Raj Mehta:** Sir but followup on that is that your margins tend to be higher on export compared to domestic and you mentioned in your presentation that you achieved highest ever Q1 EBITDA and PAT margin so when I compare your segment results you have achieved around 11% to 11.5% in your cranes and MHE segment and on CE it was roughly around 5% and agri roughly around 7% and overall you did a margin of 10% so then how is that that highest ever? Is it what I am missing here is that it is for the Q1 or because your last quarter was around 12.32%? Your margin was 12.32% it got degrew and it came back to 10% so what is that I am missing? You said that it is the highest ever EBITDA margin?
- Sorab Agarwal:** Highest ever EBITDA margin for our Q1 results so in terms of percentage our EBITDA margin above 10% and our PBT margin of around 8.2% is the highest ever margins we have done for Q1 results in terms of percentage and also in terms of the quantum so we have never ever before done a Rs.32.6 Crores in EBITDA profitability ever and similarly in PBT. This is our best ever.
- Raj Mehta:** You are giving a guidance of maintaining this 12% which was there last year to be maintained in current year also on an overall basis?
- Sorab Agarwal:** We are trying our level best and I think it can be anywhere between 11% and 12% because steel prices and commodity and inflationary pressures are playing havoc. We are definitely trying to neutralize them wherever possible even by price increases. Even in the end of June we have done a substantial price increase. So the first came in October, then it came January, then in April because of steel but especially because of BSIV transition and again we have done a price increase in June so we are trying to set it off but steel prices are unabated and they are still about Rs.65 Crores with respect to HR. Let us hope. If the steel prices sustain at current levels then definitely doing between let us say 11% to 12% should be possible, if this continues to increase further because we have really increased our prices for products in the last six to eight months. We are already on top.
- Raj Mehta:** Last quarter also you told that you will give? You are just not increasing because the consumer sentiment was not good at that time so you increased at the end of June?
- Sorab Agarwal:** The prices have come to such a level that we did face a resistance in the month of July from the customers because they are significantly increased. We have had three to four meaningful price increases in the last eight to nine months. We are on track to do an 11% to 11.5% for sure and yes if steel prices do not play spoil sport we can be touching 12% or more than that. That time will tell.
- Raj Mehta:** Sir I would like to appreciate the guidance you gave in the last concall where you said you will degrow by 40% to 50% and you exactly delivered on that so my second question is with respect to your thinking to raise equity of Rs.175 Crores so can you mention the reason for the same? Have you been talking because you have been talking to various investors like Malabar Funds so



is that they want to invest into company and they do not want to buy from open market and they are requesting you to do QIP?

Sorab Agarwal: No it is not with respect to any particular funds. Our intention for raising funds from the market is very clear that we want to cut down on the process of filling, time and whatever is required to raise funds and be ready to hit the market anytime over the next six months to one year because we keep on getting on opportunities for inorganic growth and also to safeguard ourselves a little against the volatility which comes because of COVID and raise some funds for general corporate purposes so keeping that in mind because our AGM was due to be held in early September so we have gone for this approvals and we shall be exercising this at an opportune time over the next one year whenever we feel that the price and the opportunity to use the money for growth is right so accordingly we will and it is not dependant on any particular fund that is why we are doing a QIP.

Raj Mehta: Sir one small question since you have always very good on corporate governance so I would always request you that whatever meetings you do with various investors, which you often publish in BSE and NSE if you can possible can record those meetings or phone calls and provide the link into it so that retail investor like me can understand your business more deeply because you do not publish insensitive information to them so it will be much more transparent with your minority shareholders also so if you can take as a recommendation.

Sorab Agarwal: I am sure Luthra Sir is taking note of what your input is and Luthra Sir if the guidelines or the regulations allow us we can do it.

Raj Mehta: Sir last question if I can squeeze in Sir your current capacity utilization if you can provide in all the four things?

Sorab Agarwal: Obviously, we have been grossly underutilized in the last quarter. So currently with respect to cranes, we are working in the last quarter especially in the month of June we are working at about 45% to 50%, construction equipment about 30%, metal handling 70% to 75% and agriculture about 35% to 40% utilization.

Raj Mehta: Sir the same utilization is Q4 also and in material handling and equipments because you gave guidance in Q4 that you might degrew almost by 150% of your capacity also, but you are almost the same in material and agri? So would that not change the outlook?

Sorab Agarwal: The equipment is primarily forklift and warehousing equipment and for some good reason we did not see a dip there because I would say the broader economy or the logistic parks was still continuing to work in the country and rather if there is a shortage of labor so mechanization increase so I think that is the reason we really did not degrew in our material handling business.



Moderator: Thank you. We will take the question from the line of Sanjay Satpathy from Merrill Lynch. Please go ahead.

Sanjay Satpathy: Sir thank you for taking my question and congratulations on second for a good set of Q1 because after Q4 result, we felt that (inaudible) 17:09 without the outlook. What I want to know that compared to the kind of guidance that you had given at the end of Q4, are you in a position to increase guidance now and second thing is that you are obviously present in several segments and I clearly see you doing much better in the material handling segment? Is there any particular reason which you can ascribe there?

Sorab Agarwal: To answer the first part of your question, earlier we are giving of about 10% to 15% growth in revenue and maintain EBITDA margins close to I think between 11% and 12%. A) I can say that still it is a little too early because we are in the middle of monsoons and unfortunately half of the country is flooded. Flooded well is there is excess water and especially all the infra site and construction and this part of the activity nearly comes to a standstill, but still we feel that we should be able to grow 15% to 20% within this year. It can be faster than that but the exact guidance, I think middle end of September would be the right thing or August end when the monsoons have receded and we can get a much clearer picture. I would say currently it would stand at 15% to 20% for the current year and EBITDA margins anywhere between 11% and 12% and if you talk of segment wise, I think we should be looking at a 15% growth in cranes followed by a 25% growth in all three other segments whether it is metal handling, construction equipment or agriculture segment of ours. With respect to MHE, material handling I think the business over the years last 12 to 13 years has matured enough that now it has become self sustaining and our philosophy of right product, right price and right service, which is what a customer wants has played out very well and I feel that it shall continue to grow with all our efforts and the maturity that has been built up in the business in the 10 to 12 years ever its inception of this line for us. So that is the thing why it is growing and it will continue to grow rather we are continuing to increase our market share here and there in bits and pieces in this business.

Sanjay Satpathy: If I can just ask last question you have announced this fund raising of Rs.175 Crores but you are still not clear exactly what will be the utilization and also couple of months back promoters had some shares to certain funds so we have not been able to kind of understand what really is the driving factor for this decision?

Sorab Agarwal: Like I said and I will be very frank with you, we are very clear of the utilization. It is just that it has not been conveyed in that fashion. Primarily, these funds are going to be used for some inorganic growth opportunities, which we are already seeing and obviously, we will raise funds depending on the opportunity how it fructifies in future and may be some Rs.40 Crores to Rs.50 Crores here and there for general corporate purposes or to retire the debt that is our aim.

Sanjay Satpathy: Thanks a lot Sir.



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Moderator: Thank you. Our next question is from the line of Naga Raja Rao from Sun Corporate Financial. Please go ahead.

Naga Raja Rao: Good afternoon Mr Agarwal and again I congratulate you on another good quarter. These days wherever we go in India we see your equipment and especially cranes and construction equipment of course material handling and agri are interior so we cannot see them? I just want to understand now you are not only in construction but you are into material handling and agri equipment is there any plan to change the name of the company to reflect overall business of the company than construction alone number one? Number two at the moment you are only in Haryana any plans to go? I know you told that you have less capacity at the present location, but still any other plans to go pan India into let us say South or somewhere? Thank you.

Sorab Agarwal: With respect to name change to be very frank with you we have really not thought about it. Yes we are called Action Construction Equipment so that more reflects on crane construction equipment and to some extent I would say MHE can be included in it but yes construction equipment is not synonymous with agriculture but in any case as a company we have principally decided that we will subsidiarize our agri business and take into a subsidiary. Already we are starting to think on that to bring in more focus in that business and to capture onto the growth potential of that business. With respect to expanding to our manufacturing or set up to other parts we already have capacities in place and forever revenue we have been doing nearly double of that we can attain from the capacities. So as of now there is no such plan in the mind but I am sure that when further the capacity expansion needs to happen we would definitely be looking at Central India or South India to save on the logistics cost.

Naga Raja Rao: Thank you.

Moderator: Thank you. We will take the next question from the line of Nilesh Bhaiya from Motilal Oswal Financial Services Limited. Please go ahead.

Nilesh Bhaiya: Thanks. I have couple of questions. The first question is about the gross margins? I think you mentioned in your opening remarks or one of the answer to one of the participants that steel prices and all these commodities are moving here and there, so I just wanted to understand that when you are discussing with your clients what is the response from the clients that are we able to pass on the input cost pressure to them or they are also reluctant to take equipments as of now? How are you looking at the ground level situation as of now?

Sorab Agarwal: Obviously, whenever there is a price increase there is reluctance so even when we buy steel and whether it is Essar Steel which is now I think ArcelorMittal or Tata Steel or Steel Authority of India, we also offer a lot of resistance, when they increase prices abruptly and because steel is one of our main input material and more or less most of the commodities and similar things have gone up in costing so our customers also do show a lot of resistance with price increase and like I mentioned earlier in October and November we increased, in January, then April and again at the



end of June we had to increase and the price increase has been substantial. Anyway between 20% and 30% now depending on models also putting in the BSIV factor, which is substantial so after the last price increase yes we have seen a lot of resistance and luckily for the customers I would say that because July comparatively is a leaner month due to excessive monsoons generally in most of the years, so they also get a breathing time, we also get a breathing time with respect to price to settle in because we have asked for a price increase and obviously they also know that their requirement is actually going to be there more or less in August or September so the instance and the negotiation in July were very hectic. Customers are not liking it, but all of them understand that it is because of steel and so they understand it but they are not willing to except it, but eventually they accept it so I am very sure it has already started happening in July in the second half of July and in August it will be pushed in.

Nilesh Bhaiya: Sir taking out the seasonality factor out of the business do you need to take more price hikes to offset the commodity price inflation or we have mostly taken the price hikes as of now?

Sorab Agarwal: With the last price hike which was close to up to about 8% to 9% which we did at the end of June, I think we have take care of most of everything with steel at the current prices. With respect to the commodity or inflationary pressure, I do not think we need to take any more price increases price hikes. I just need to push this in smoothly, which has already started happening and I am sure within August it will happen.

Nilesh Bhaiya: Sir one from a business perspective, I just do not want near term answer but from a three to five year perspective, I think construction equipment is supposed to be the next big foray for us where we can see significant market share gain that has been my understanding, so can you share some light how you are reading the competitive intensity there and are we on track to gain market share in the construction equipment as well and if you want to give a number how that business can be same three years down the line?

Sorab Agarwal: In the last two to three years rather we have done all the right thing in the construction equipment business and we are projecting growth of around 25% for that segment in the current year for us, but I am sure it will be faster than that. Construction equipment rather I feel it would be the fastest out of all the segments. We have positioned our product, the market acceptance is okay, we are now increasing our penetration and even our network with respect to these machines, so everything seems to be on place. I see that we should be looking at a 40% to 50% CAGR for this over the next three to five years with respect to construction, last year we were at 133, this year we should with somewhere around Rs.180 Crores to Rs.200 Crores or let us say something close to Rs.280 Crores, Rs.300 Crores, so hopefully may be around in three to five years, I would say anywhere between Rs.400 Crores to Rs.500 Crores from Rs.133 Crores is what we are looking at for this business. It can be faster than this, but I think this will happen what I am conveying to you, Rs.400 Crores to Rs.500 Crores anywhere between three to five years, it happen in three years, but definitely in five years it will happen, it can be bigger than that.



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Nilesh Bhaiya: I am assuming that there is lot of cross selling right or you are existing customers to whom you sell three are the same set of customers that you can market your construction equipment right?

Sorab Agarwal: There would be reasonable amount of cross selling between the sales team as well as customers yes that is the advantage we will get.

Nilesh Bhaiya: Thank you and just one last question if I may squeeze in, I just wanted to understand from a cost structure perspective, if you can throw some light on how the employee cost is supposed to move in, I am assuming that if there is a lot of operating leverage which is there in the business if the topline grows, there can be a lot of operating leverage so, if you can throw some light if you want to build around employee cost etc., is that an investment that you would need to do in your business or it does not operate leverage in the year?

Sorab Agarwal: Not really. Most of our cost and with the employee cost being one of the significant one are already in place, so any increase in revenue which is already envisaged in the current year and going forward at a much faster pace. This is only going to help us in providing us operating leverage and increasing our margins. Eventually I think we will settle somewhere between 4.5% and 5% with respect to our employee cost and if you talk about crane business, we are generally hovering around 3% to 4%. As a company I think we are closed to about 7%, 8% if I am not wrong, so going forward in the next one-and-a-half years this is only going to come down to around 5%, 6% and add to the operating leverage, because we are already more or less, all the key positions, locations are taken care of we will need not be increasing employee cost on any front.

Nilesh Bhaiya: Thanks. Those were the questions from my side. I will back in the queue. Thank you.

Moderator: Thank you. We will take a next question from the line of Chandrika Venkatesh an Individual Investor. Please go ahead.

Siddharth: I am Siddharth an Individual Investor. I have three or four questions for you. My first question is sales of agri equipment are declining every quarter, we are losing market share even in June 2021, our tractor sales were down 25% in volume compared to June 2020 sales, every other tractor maker showed an increase, we are the only one with the decline, why are you performing so poorly in agri equipment, will we meet the guidance of 25% growth in FY2022 for agri equipment?

Sorab Agarwal: If you look at the numbers compare it to last year, there is not a degrowth, there is a 16% and I am sure by end of this year as conveyed about 25% growth, we should be seeing, this is also happened last year and it will happen this year also, because again loss links are in place, yes we did lose a little bit of sales in the last quarter, but that was primarily as compared to other bigger players, our network is smaller with respect to our dealers and locations and because of COVID unfortunately lot of our network got affected, the selling network in the rural side, but yes



everything is back in place and you see the results in this quarter, this quarter onwards like it happened last year as well.

Siddharth: Okay, even for the other tractor makers COVID was there, but all of them showed an increase in the sales in number of tractors, we have got only one with the decline, why it is that happen?

Sorab Agarwal: I have explained to you my position and I really do not know about other companies, because we are working for our company. If you want to jump it is very difficult for me to answer right and I want to answer if you want to listen. Do you want to listen?

Siddharth: Targeting sales of Rs.2000 Crores in two to three years, if this possible competitors like JCB and Caterpillar why should anyone buy our backhoe loader, are we targeting the lower end of the backhoe loader market, are we priced our backhoe loader, at the lower end of the market.

Moderator: I am sorry Mr. Siddharth. I have muted your line. Sir is asking you something we would request you to just limit your questions and once the response may be you can move out of the question queue.

Sorab Agarwal: The name is Mr. Siddharth right. If you want to make allegations, we are totally open to it, you can definitely call me on my landline separately and we can have a long chat, but we are running our company, we have been running it successfully and we will continue to run it successfully and we will grow our businesses which is evident in the last year and the year before that, so with respect to agri like I said we will grow by about 25% and construction will be faster than that and we are catering to the entire sector even the higher end, lower end everywhere. Thank you.

Moderator: Thank you. We will take a next question from the line of Surhid Deora from Paladin Capital. Please go ahead.

Surhid Deora: Good afternoon. You remain by your strong guidance. I just wanted to clarify you mentioned you upped your guidance from 10% to 15% to 20%, is that volume guidance or overall revenue guidance?

Sorab Agarwal: I would put it together even considered as a volume guidance or let us say revenue guidance, yes the prices have increased, so it will pitch in, so it can definitely be in terms of it will be more than what I am saying, but it will play out through the year, but as of now I would say that you could consider to be the revenue guidance.

Surhid Deora: Because I think you mentioned you have taken several price increases may be in the last quarter or may be that will sustain, but given the price increases already versus a last year the base is much higher, so if you are saying 20% volume growth and of course revenue growth will be much higher than that?

Sorab Agarwal: Definitely, possible and that is safety fall back which you have exposed.



Surhid Deora: The second question I have once you are planning is fund raise and if I recall you mentioned in the past that your utilization levels are still quite low may be 50%, 60%, so you certainly do not need this money to expand your capacity and therefore inorganic is the primary use for this cash, are you already in the process something already on the table how eminent is the transaction?

Sorab Agarwal: We have couple of opportunities and to be very frank some keep on cropping up here and there and we just let them go by, this time let us do this activity, let us take the approval put them in place as it was happening and as we see any of these things fructifying or coming close to it, we will just to go ahead and raise money for that. I feel that things should happen in this year something should happen in this year.

Surhid Deora: Could you just tell me how much debt you have in the book at the moment?

Sorab Agarwal: As of now we are utilizing about Rs.124 Crores of short-term borrowings. It was around Rs.31 Crores end of March. So we are utilizing about Rs.100 Crores more than what we were utilizing three months back primarily again because of some working capital requirement which are all, because our creditors have gone down by Rs.100 Crores and our inventories have gone up by Rs.30 Crores, Rs.40 Crores, primarily we did not want to be stopped because we learnt from the last COVID wave that there is no point trying to control inventory at this juncture because the sale bounces back, we took a conscious call and that is how the creditors have gone down and our inventory levels are slightly more than what they were, because we are a little over stocked, which we wanted to be.

Surhid Deora: I just wanted to understand suppose on Rs.175 Crores of equity gain, but you could fund this acquisition using your debt if you wanted to, so I was just wondering what the logic is?

Sorab Agarwal: Okay, we do not like that. That is the logic. Honestly, we do not like that.

Surhid Deora: Okay, understood and broadly you are saying that post July you are seeing the recovery and all?

Sorab Agarwal: It is a dream company, yes.

Surhid Deora: I am sorry I lost you.

Sorab Agarwal: I said that we just want to run very neat and clean company and we are very debt averse so that is the key.

Surhid Deora: Got it and you are generally seeing post the second wave we are saying that recovery being stronger than you anticipate which is why you have upped the guidance up, so basically if I were to look ahead organic growth is looking quite good and we are looking at some inorganic opportunity as well and if I may last question on the inorganic, is there any particular segment or any capability or geography that you would like to close your gap in?



- Sorab Agarwal:** I will be very frank, the inorganic we are looking at will primarily may not be adding that much to the topline in any comparison, but it will help us in the bottomline, so we would be doing it in a different logic.
- Surhid Deora:** Will it be in terms of capability or product portfolio addition or in terms of geography we are not present in a certain area or something like that?
- Sorab Agarwal:** I would refrain from answering that.
- Surhid Deora:** Thank you so much. I appreciate it.
- Moderator:** Thank you. The next question is from the line of Pawandeep Singh from Ambit Capital. Please go ahead.
- Pawandeep Singh:** I just wanted some clarity about your construction equipment sales, you say that we will grow at 30%, 35% which is a very good number, but I can see the margins are the lowest in construction equipment space compared to cranes and recently agri has also turned around along with material handling, so is it an operating leverage play once our capital utilization goes up, the margins will also turnaround or it is just a very low margin segment because we are the most bullish in construction equipment, we are currently getting the lowest margins there, so we just needed some clarity on that particular segment?
- Sorab Agarwal:** What has happened in construction equipment, our fixed costs are comparatively higher, so as soon as we start do Rs.50 Crores quarter revenue, let us say Rs.200 Crores on a yearly basis most of the things are fall in place as an operating leverage kicks in and at Rs.200 Crores plus revenue on a yearly basis it could be in sync with 11%, 12% EBITDA of the company, so it is just that we need some more time may be another one or two quarters to built it up to that level may be about two quarters.
- Pawandeep Singh:** Exactly, is my assumption right, it is a fixed cost business obviously manufacturing so as and when we improve our capacity utilization, operating leverage will kick in and in turn better margins can we expect lower double-digit on the lines of other segments also?
- Sorab Agarwal:** Yes, because if you look at our RMC to selling price of the gross margin ratio, it is reasonably similar, so it is just that the numbers in the division have to pick up so that operating leverage kicks in and profitability improves.
- Pawandeep Singh:** Sir one last question if I have the liberty, with my understanding the agri business, the non-tractor space has done well, the harvester I forgot the other name of the product?
- Sorab Agarwal:** Rotameters are small yes.
- Pawandeep Singh:** Pardon me.



- Sorab Agarwal:** It is mainly harvesters. Rotameters also we have started doing, but that is small quantum yes.
- Pawandeep Singh:** So harvester has better margins versus tractors, am I correct?
- Sorab Agarwal:** If you look at gross margins, I would say similar and fixed cost tractors for us is definitely much higher as compared to harvesters so that is why harvesters been even the numbers, the overall market size being obviously much smaller as compared to the tractor market size, so there things have started to play out and in tractor as soon as again similar to construction as soon as we start to it more numbers let us say Rs.50 Crores, Rs.55 Crores only the tractors on a quarterly basis, again it will go 12%, 13%, we did start to do that in the last year when we started doing about Rs.50 Crores, Rs.55 Crores. This will happen Q2, Q3 onwards.
- Pawandeep Singh:** So 11%, 12% even if harvester which being a small segment, subsegment in the agri segment even if it is not doing well and tractors are doing well, can we expect 10%, 12% on a sustainable basis?
- Sorab Agarwal:** Yes, we can and if you look at our last year, we were able to attain about 12%.
- Pawandeep Singh:** Yes.
- Sorab Agarwal:** It is possible. Rather surprisingly we did less in cranes as compared to the other two material handling and agri and cranes unexplainably primarily because of the steel price which really hits it hard, but I am sure it is a dynamic situation something will happen, something will not happen so man proposes, God disposes but on the whole yes, doing 10%, 12% on the agri side, we should be able to do it easily.
- Pawandeep Singh:** Thank you for your time.
- Moderator:** Thank you. The next question is a followup from Nilesh Bhaiya from Motilal Oswal. Please ago ahead.
- Nilesh Bhaiya:** Thanks for giving me the opportunity again. Sir, I have couple of questions. Can you throw some light on the equipment financing situation as of now in India I am assuming that it is an enabler for your business, because we have seen two waves of COVID and lot of banks have also reported NPAs etc., just wanted to understand how the equipment financing scenario as of now what we are witnessing June or July and are we seeing equipment on those lines?
- Sorab Agarwal:** I would go about a year back, so when the first wave or let us say the first lockdown happened last year Q1 and then Q2 it was a little constraint there, and then things started to flow back again very nicely in Q3 and Q4. Q1 again there was no problem as such equipment financing rightly as you mentioned, it is an enabler for us, everything was in place, but somehow we are very surprising in July this year, there were few constraints and the financing was not going through as swiftly or easily as it was happening for the last three quarters, four quarters before that and I



have not been able to pinpoint the reason, but somehow end of July again it normalized, there was some lull for 10, 12, 15 days during July and it did normalize end of July, so as of now we do not see any constraint with equipment financing and things seemed to be stable and moving ahead.

Nilesh Bhaiya: My second question was more on sales services, this is a value added services, lot of construction companies are now using GPS and lot of automation tools for the equipment, is there opportunity for you to provide such services to the construction equipment and this can be a very high margin for you? Are you thinking on those lines?

Sorab Agarwal: If I talk about automation and the services, fortunately, unfortunately with respect to GPS, we also source out from some local suppliers we do on a pan India basis and the devices come very cheap, now all of about Rs.4000 Crores, Rs.5000 Crores where you can control or get a lot of data about your machines. We call them telematics, so on a Rs. 4000 Crores, Rs.5000 Crores, Rs.6000 Crores, a lot of thing can be done on machine, the GPS location and fuel consumption etc., etc., and there are on a 2G, 3G or 4G chip depending on what device, which we use and a very small 100, 200 bucks rental on a monthly basis, so I do not see it as any opportunity to increase margins, because it is miniscule in the entire scheme of thing that is how it is and secondly with respect to automation, yes, cranes and equipment are now aggressively I would say in the use of safe load indicators, electronic devices to control or to prevent the use of machines is happening, but that cost of those devices is one time and it is built in at the time of the sale, if any customer chooses to use it, so I believe do not see any margin gain or substantial gains from these activities as of now.

Nilesh Bhaiya: Thank you. Those were two questions from my side. Thanks for the opportunity.

Moderator: Thank you. We will take a next question from the line of Naga Raja Rao from Sun Corporate Financial. Please go ahead.

Naga Raja Rao: Thanks. Mr. Agarwal, you did mention about a little while ago in one of the questions that you were talking about your agri business, can you throw some light on that number one. Number two, since there is special enforces for your crane business and construction equipment business are more or less stable and your control, any special enforces for material handling and agri equipment from we feel a lot of growth is going to come from?

Sorab Agarwal: I think that our crane business like you rightly said material handling is growing and it is imperfect for the reasons with respect to margins. Construction equipment definitely lacking in terms of margin which I am sure it will start to improve in Q2 or latest by Q3 as the numbers go up and operating leverage kicks in and with respect to our agri business and like I mentioned to bring in more focus and more attention to drive it independently because the potential of growth there is immense so we are contemplating moving it into a subsidiary rather than a division so



that holistic approach can be there with respect to driving this business with profession team so that is what we are contemplating as of now.

Naga Raja Rao: What is the brand name of our practice Mr. Agarwal?

Sorab Agarwal: We sell it with ACE brand name only.

Naga Raja Rao: Any plans when you go for some sort of advertising because one of the questions came in related to this only, because we know other tractors, but we do not know other company tractors, I wanted to know what is the advertising revenue going for marketing?

Sorab Agarwal: I am sure strategies will come out and play out as soon as we subsidiarize this business over the next six months, one year and we are reasonably committed and aggressive with respect to this business and that is why we take out this activity, so yes with respect to branding, advertising whatever will happens, it will happen. To say, I am not directly involved in that activity, so really I cannot answer much more than this at this juncture, but yes whatever needs to be done to take this forward, we will do.

Naga Raja Rao: My question was with regard to agri business that is what we see lot of potential, so I think you answered.

Sorab Agarwal: If you could repeat it?

Naga Raja Rao: Probably next question, it is okay, line is not clear.

Moderator: We will take next question from Sarika Kukshya an Individual Investor. Please go ahead.

Sarika Kukshya: Wanted to know the impact of COVID in the first two months of this fiscal, the topline and operating margin, if you can quantify that?

Sorab Agarwal: If I talk of the month of April we did definitely lose at least half of the revenue for that month, which should have been averaging around Rs.130 Crores to Rs.140 Crores at least, so we did I think close to only Rs.60 Crores, Rs.65 Crores so I would say that we lost half of the revenue of that month. Sorry, I think April Rs.90 Crores, we lost about 30%, 40% revenue in April and half of the revenue in the month of May, so if that would not have happened I think on the overall topline we could have easily added another about Rs.80 Crores or Rs.100 Crores in this year, but that lost happened from early because of COVID and with the gross margin of around 30%, 32% so that could have translated very well by the end of this year, but nevertheless.

Sarika Kukshya: Right, so considering that scenario in the top of the crane business, there is a high potential for yet to supersede the growth rates other divisions which you actually have happened of 25% and this year we can easily clock over 30% for that specific division?



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Sorab Agarwal: For cranes, we are expecting 15%, but I am sure it totally depends on how it starts to pan out as soon as the monsoon finish, so may be early September or middle end September would be the right time to just explain the market scenario what is panning out, but as a 15% growth looks evident in the crane sector and it can only be faster than this that is what I can say.

Sarika Kukshya: Perfect. Thank you so much.

Moderator: Thank you. That was the last question. I now hand the floor back to Mr. Nilesh Bhaiya from Motilal Oswal.

Nilesh Bhaiya: Thank you Inba. Thank you everyone for the participation. May I request the management for any closing comments? Over to you Sorab Sir!

Sorab Agarwal: Sorry for the inconvenience. I think the call got disrupted, some technical issues at our end and like I said in the opening address, I hope that the worst is behind us with respect to the COVID and the second wave that happened and things have been improving progressively from June onwards and I am sure they will further improve as soon as the monsoon recedes, so we will look forward to a good year may be not as good as what we would have envisaged but a good year with sustained margins and let us hope and pray that this was the last wave that happened and we do not have to face any third wave. Thank you everyone.

Nilesh Bhaiya: Thank you everybody.

Moderator: Thank you members of the management. Ladies and gentlemen on behalf of Motilal Oswal Financial Services Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.