

Action Construction Equipment Limited

Corporate & Registered Office

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



Date: November 16, 2023

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

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

Subject: Earnings Call Transcript Q2-FY24.

Dear Sir/Madam,

Pursuant to Regulation 30 and 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith, Earnings Call Transcript (Q2-FY24) of the Company.

Kindly take the above in your record.

Thanking You.

Yours faithfully,
For Action Construction Equipment Limited

Anil Kumar
Company Secretary & Compliance Officer



Corporate Office: Phone: +91-1275-280111 (50 Lines), Fax: +91-1275-280133, E-mail: works2@ace-cranes.com

Mktg. H.Q.: 4th Floor, Pinnacle, Surajkund, Faridabad, NCR-121009, Phone: +91-129-4550000 (100 Lines), Fax: +91-129-4550022, Email: marketing@ace-cranes.com **Customer Care No.:** 1800 1800 004 (Toll Free), **CIN:** L74899HR1995PLC053860, **Website:** www.ace-cranes.com



“Action Construction Equipment Limited

Q2 FY’24 Earnings Conference Call”

November 10, 2023



MANAGEMENT: **MR. SORAB AGARWAL – EXECUTIVE DIRECTOR –
ACTION CONSTRUCTION EQUIPMENT LIMITED
MR. RAJAN LUTHRA – CHIEF FINANCIAL OFFICER –
ACTION CONSTRUCTION EQUIPMENT LIMITED
MR. VYOM AGARWAL – SENIOR VICE PRESIDENT
ACTION CONSTRUCTION EQUIPMENT LIMITED**

MODERATOR: **MS. TINA – MOTILAL OSWAL FINANCIAL SERVICES
LIMITED**



Moderator:

Ladies and gentlemen, good day, and welcome to Action Construction Equipment Limited Q2 FY '24 Earnings Conference Call. 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 star and then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Tina from Motilal Oswal Financial Services Limited. Thank you, and over to you, ma'am.

Tina:

Good afternoon, everyone. We have with us the management of Action Construction Equipment today. And from the management team, we have Mr. Sorab Agarwal, Executive Director; Mr. Rajan Luthra, Chief Financial Officer; Mr. Vyom Agarwal, President.

So we'll start with the opening comments from management, and then we'll open the floor for question and answer. Over to you, sir.

Sorab Agarwal:

Yes. Good afternoon, and welcome, everyone, to this Earnings Conference Call for discussing the results for the quarter and half year ended September 30, 2023. Along with me in today's earnings call, we have our CFO, Mr. Rajan Luthra and our President and Head of Investor Relations, Mr. Vyom Agarwal.

I hope that all of you have had an opportunity to look at the company's financial statements and the earnings presentation, which have been circulated and uploaded at the stock exchanges. The company sustained its growth momentum, and it gives me immense pleasure to inform you that this has been yet another quarter of strong performance by our company, wherein we have again surpassed our projected growth targets.

We were yet again able to record our best ever quarterly performance in terms of revenues and profits. We continue to remain a long-term debt-free company, and the P&L performance and the balance sheet strength of the company is now significantly improved from the past, which seems to be sustainable across business cycles.

To brief you on the standalone financial performance of the second quarter of FY '24, the operational revenues grew by 36.83% on a year-on-year basis to INR672 crores with an EBITDA margin of 15.73%. The EBITDA during the quarter increased to INR105.75 crores in comparison to INR52.56 crores on a yearly basis, which is a growth of more than 101%.

The PBT, and PAT, grew by 106% year-on-year to INR96.59 crores and INR73.71 crores, respectively while the PBT and PAT margin stood at 14.37% and 10.96%. This has resulted in our best ever ROE and ROCE levels at 28% and 38%, respectively, on annualized basis.

On a sequential basis, the operational revenue was more or less flat with 3.4% growth. However, EBITDA grew by 8.5%, PBT grew by 8.25%, and our PAT grew by 9.6%, as compared to quarter 1 FY '24 with margin expansion of 75 basis points during the quarter.



It is important to note that despite the increased baseline, the company achieved its highest ever revenues, EBITDA, PBT, and PAT margins for the quarter owing to industry tailwinds and our sustained focus on cost efficiencies and customer-centric approach.

In the quarter gone by, we reiterated our dominant market leadership position and registered revenue of INR460 crores with margins of 15.5% on a year-on-year basis. The Crane segment registered a robust revenue growth of close to 30%.

Similarly, on a year-on-year basis, we were able to achieve almost 100% growth in our Construction Equipment segment, clocking a revenue of INR108 crores with margins at 12.72%. The Material Handling segment grew by 26% to INR44.72 crores with margins at 12.81%. And Agri segment, the revenue grew by 33% with a 4% margin profile.

Further, for H1 FY '24, we've been able to grow our revenues by 33.61% to INR1,323 crores on a half yearly basis. On a half yearly basis, EBITDA grew by 107% to INR203 crores. PBT grew by 116%, and PAT grew by 118% to INR186 crores and INR141 crores, respectively.

A couple of years back, we had set ourselves a challenging goal of delivering sustained profitable growth, and it gives me immense satisfaction to inform you that for the first half FY '24, the margin profile of the company stood at 15.3% EBITDA level, 14% PBT, and 10.6% PAT, which represents a healthy margin expansion of 500 basis points year-on-year.

Our consistent strong performance is reflective of our strategic clarity, strength of our brand, capabilities of our team, and our ability to run the business. We have a clear and compelling strategy. And with our positioning in infra, manufacturing, logistics, and agri sectors, underpinned by strong operational excellence on our distinctive capabilities, we will continue to drive growth and create a purpose-led, future-fit organization.

On the operational side, the global economy remains in a grip of marked slowdown. However, India remains a bright spot with buoyant tax collections, moderating inflation, credit growth uptick being some of the key positives amongst various other indicators.

While public investment remains strong, consumption and demand has been relatively subdued, especially in the rural market on back of subpar monsoons and persistent food inflation, which saw a sharp slide during the quarter.

Green shoots of recovery are visible with prospects of improved agri output, onset of festive season, increased FDI in manufacturing, sustained government spending on infrastructure, and private sector capex revival. All this augers well for our company.

We believe that going forward, the demand scenario should remain strong, aided by government's unwavering focus on urban infra and rural infra. Further, we have completed 75% of the envisaged brownfield capex of INR90 crores to INR100 crores for the current year.

And the expanded as well as the new facilities has been made partially operational in quarter 3. And we would be completely -- and would be completely commissioned in quarter 4 of the current financial year. The new manufacturing facility for higher capacity slow cranes that is



truck cranes, crawler cranes, and rough terrain cranes will increase our capability to manufacture higher capacity slow cranes by approximately 4 to 5x, as we aspire to grow in the higher capacity crane segment in India with continuing infrastructure growth in the country.

This new plant will simultaneously enable us to reduce capacities of forklift and tower crane business by about 40% to 50% each. Since currently, these activities are combined -- are in a combined plant and by shifting to a new plant we would unlock the capacity of these 2 segments as well. That is forklift and tower cranes.

This capex will expand our capacities and will enable us to attain a revenue in the range of INR4,000 crores at full utilization levels. Going forward, we would like to revise our earlier guidance, and now we expect a growth of at least 25% in Cranes segment for the current year and reiterate the growth rates of at least 50% in Construction Equipment segment, 15% to 20% growth in Material Handling and Agri segments during this year.

On the whole, we are now looking at a growth in excess of 25% with expansion into EBITDA margins as compared to last year. We hope that we are in a position to further revise these projections by the third quarter, which will be -- which will predominantly depend on the overall macroeconomic scenario, especially with the impending elections and the higher base effect.

Further, we remain optimistic about the medium to long-term prospects of the company and believe that our building blocks are firmly in place for sustainable growth in all the 4 segments where we operate, leading to expansion in top line, bottom line, and margins of the company.

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

Moderator:

We will now begin the question-and-answer session. First question is from the line of Satadru Chakraborty from Chakraborty Family Office.

Satadru Chakraborty:

Congratulations to the management on a very good set of numbers. I have a couple of questions, more on the accounting side rather than the operational pieces. My first question is really around the inventory picture. So 2 things. I see there is a provision for slow-moving inventory taken out in the statement of cash flows for this quarter.

And I also see that there is certain increased inventories in this quarter as compared to the last quarter, also for this half year as compared to the last half year. Can you just provide me in general what exactly is happening on the inventory picture? Are we producing much more than we are able to sell? Or is this really the raw material prices, which is hitting us or whatever clarification you can provide on this?

Sorab Agarwal:

Yes. Regarding the slow inventory -- slow-moving inventory, Mr. Luthra will answer. But regarding the balance of the inventory, yes, our inventory in the current quarter has increased from about 90 days to 107 days. This is owing to the extra demand that we expected because of the upcoming festive season at the end of September. So this was taken care of in October.

And so that's why the extra inventory build-up at the end of September because of festival season beginning from October and November, where we see increased sales. That is the main reason. And I'm very sure that in Q3 or tentatively end of Q4, we will be at normal levels and would be somewhere around 90, 95 days, where we generally are. And Luthra sab, regarding that provision or whatever for slow-moving inventory, you can answer that.

Rajan Luthra:

Yes. As you said, basically, we keep on verifying more order inventories regarding whether it be a slow or they have not moved for a certain number of days or months, so -- and based on our review of these 6 months. Although there was not -- no such number coming for the last year, but there -- and we reviewed the number, it is a continuous affair, which we will do on a quarterly basis.

And when we observed that there are some of the inventories that have not moved for more than 9 months or so, so we have made just a provision. It is just a provision probably, and it is basically for 1 or 2 models, which are slightly -- has not sold in the previous 6 months or so.

Sorab Agarwal:

Luthra sab, just to elaborate there, I would like to add. See, we do a lot of different types of machines and a lot of different capacities and variants within each type of range of cranes or equipment that we do. So sometimes, yes, certain slow-moving components get stuck, that we are expecting some orders, and then, they don't turn up in time. So yes, that is the provision. How much is the value for that, Luthra sab?

Rajan Luthra:

Yes, basically, as Mr. Sorab informed, this is only a provision. And once the machine will be used, which we are confident, it will be written off -- returned back to the books of accounts, and it is just a provision only, INR4.5 crores, INR4 crores or so.

Sorab Agarwal:

INR4 crores. I hope we're able to answer your questions.

Moderator:

It seems that we have lost the connection from the current participant. Next question is from the line of [Rashmika from Rekha Enterprises].

Rashmika:

Congratulations on a good quarter. I have a few questions. My first question is European competitors like Liebherr are entering the large scale business in India by setting up manufacturing facility. These European competitors have better technology than we do. So how are we going to compete with these European competitors in the large scale business given their better technology?

Sorab Agarwal:

Okay. I'll answer your first question first. Sir, in the last 30, 40 years in our country, all possible competitors that can come, whether European, whether American, even Japanese are in the country. It depends. See, Liebherr, again, is one of the largest companies in the world as far as construction equipment.

I suppose they should be #2 after Caterpillar. They have a very wide range. So I'm sure they are planning for specialized mining equipment and -- to bring into India. Because in other segments like tower cranes and similar to us, they have tried to compete in the last 15, 20 years. They already had a facility, a small one.

Practically, if I talk of tower cranes, we are the market leader there. Going there -- going to the technology part, whatever we are manufacturing in India and certain equipment, there's high-end technology. So our ability and especially, I would say, the factor of safety and safety devices, everything is at par to global standards. And going by that, we were also the first in the country to come out with an electric construction company in the form of a 15-tonne Pick & Carry cranes.

And also, aerial work platforms -- self-propelled aerial work platform working at height of 21 and 27 meters -- 27 meters, which are perhaps one of the most complicated piece of equipment that we have evolved so far. It has a very complicated electronics involved because of the safety aspect because people are working at heights on these machines of 21 meters and 27 meters.

So we are abreast with technology in the world rather and started exporting machines in the last 2, 3 years. Our exports even in the current quarter surpassed our own expectations. And I think the first half itself, we have done actually more than 10% of our revenue from product sales.

As of now, rather, we are working on evolving 2 specific models of backhoe loaders and machine called telehandler, which is not sold in India, only for the export market. Technology is not an issue anymore, and most of the leading hydraulics and other similar technology companies have already start working and advancing in India. So we get support from them as well.

Rashmika:

We were accounting for Chinese dumping. What is the minimum EBITDA margins we are expecting in the large crane business? Even accounting for Chinese dumping, what is the minimum EBITDA margin we are expecting in the large crane business?

Sorab Agarwal:

Yes, sir. I will answer your question in 2 parts. I totally agree with you that in the large crane business, it is absolute Chinese dumping, which is happening. I mean the cranes are priced at half the price of what they were 15 years back, which was also a very competitive price.

With steel going up from INR25, INR30 a kg to an average of INR60 a kg. With their import prices taking a hit because dollar was INR40, INR42 at that time in 2008-09. And dollar is INR82 now, more than doubled. Absolutely, Chinese are dumping, and our government is also observing that very closely. We are very hopeful that in short to medium term, certain actions will be taken in that aspect.

But yes, even looking at the dumping and everything, we are still hopeful of doing an EBITDA of upwards of 10% against these. This is in the current scenario, when they are dumping at crazy prices, and they've been doing that for the last 4, 5 years.

But with our experience of Chinese in the past, to capture the market and to control the market, they carry on this activity for 4, 5, 6 years, and it has already been 4, 5 years. So one of the sales already started increasing the prices in the last 6 months. Going forward, over the next 1, 2 years, the pricing has to move northwards, even for the Chinese. And definitely, for sure, some government support will also come in.

Rashmika:

We have not done well in the Materials Handling business and the Agri Equipment business for some time now. Materials Handling is particularly surprising because manufacturing is booming in India, and you would expect the Materials Handling business to do well, but it has not done so.

So what is going to be our plan to reverse these 2 businesses and bring them back to growth and profitability? And what is your outlook for these 2 businesses, Materials Handling and Agri Equipment, for the next 2 to 3 years?

Sorab Agarwal:

I agree that Materials Handling could have grown faster. If you look at the current year and especially starting with the current quarter, I think we've been able to grow at 26% on a year-on-year basis, compared to our Crane, which is at 29% a year. So it's actually lower than Crane, but growth in all facts can be faster.

And even in the beginning of the year, we have projected about 15% to 20% growth for our Material Handling segment. So I totally agree with you it can be faster than that. And we are working on all possible fronts to see that it grows faster than whatever rate we are growing at.

Current year, we're expecting it to be in between 15% to 20%. But definitely, Q3 and Q4, I think we feel that the growth can be faster than this with all the corrections that we have put in place. And if I talk of the Agri Equipment, in a typical yearly basis, it has grown by about 33% there.

And on a whole year basis, we expect to grow by about 15%, 20%. In fact, going forward, the Material Handling will be faster than 15%, 20%. Agri will -- I believe that in the current scenario we'll be somewhere around 15% to 20% in the next 2 to 3 years.

Rashmika:

Finally, we are already 1 month into the current quarter. How is demand shaping up? And how do you expect demand will shape up in the next few quarters?

Sorab Agarwal:

Demand in October also with available festive season started and with the graph rising and everything falling. So demand was very good in October. We have moved into November. And generally, in the Diwali month, slightly tapers off primarily because people get busy in the festivities and the festival and about 3 to 5 days are lost for the holidays. It slightly tapers off, then picks up again in December.

So October was good. November is in line with what happens every time in the Diwali month. The demand is very much there and staying strong. So we expect December to be -- it might top up the quarter. Quarter 3, definitely it is going to be reasonably bigger and better as compared to quarter 2 with the type of orders that we have in hand and the execution that is happening.

And also, with our additional capacities coming into play in this quarter, that can also help us in doing definitely a much better top line than what we did in quarter 2, seemed to be in line. Quarter 4, if you look at our company, traditionally, about 55% to 60% of the business happens in the second half of a year, that is quarter 3 and quarter 4.

And going by that -- and this has been happening for the last 27, 28 years year-on-year. So looking at that, definitely, second half will be bigger as compared to the first half. How big that would be? I think January will be the best time I'll be able to answer that, but definitely it is going to be bigger than the first half.

And then looking at that and what we have been able to achieve in the first half, we feel that earlier we had projected a growth of 20% to 25% annually. But I think it will be in the range of 25%. It can be even higher, but I think January will be a better time to answer that question.

Moderator:

Next question is from the line of Amol Rao from Kitara Capital.

Amol Rao:

Congratulations on very good numbers. We seem to be outstripping our previous quarter's performance now by habit. So just a couple of questions, sir. One is, there was some chatter about change in emission norms for construction equipment. Is this still on the anvil? Or has the timeline not been finalized till now, sir?

Sorab Agarwal:

Okay. Thanks for your lovely comments. And then, regarding the remission question. The BS-V emission norms for CEV, construction equipment vehicles, is supposed to kick in from April 1. And obviously, we are getting ready to be preparing for that. Most of our R&D bandwidth right now is occupied there.

And -- but yes, our association has moved with the ministry 3, 4 months back that this needs to be postponed by at least 6 months to 1 year, and we have had positive indications from them. We have had meetings at the topmost level with the Ministry of Road Transport and Highways.

And I was also personally there in 1 or 2 of the last meetings. So, hopefully, post-Diwali, we should see this getting deferred by at least 6 months, if not more. So this is the indication that we have. So this might get deferred to September or December next year instead April.

Amol Rao:

And sir, because why I ask this question is because several years back when we had the transition to BS-IV, there was an increase in the cost of the equipment. So since we deal with the OEM -- engine of OEMs. What is the indication that they are providing that what could be the cost -- increase in cost for this compliance on their end?

Sorab Agarwal:

See, I think it will be close to about a 5% increase, 4% to 5% depending on different engines and models. Because this is for engines, which are bigger than 50 horsepower. BS-IV norms for construction equipment vehicles were made applicable for engines, which are bigger than 50 horsepower. But once it is -- and 50 horsepower and smaller ones are left at BS-III.

But with this next upcoming days, the smaller 50-horsepower from BS-III are going direct to BS-V and 50-horsepower and bigger engines of BS-IV are going to BS-V. So BS-IV to BS-V, we are expecting 4% to 5%. But from BS-III to BS-V, 50-horsepower, I think the impact is going to be even higher and should be in the tune of -- I think it's about, let's say, 10% less -- 5% to 10% depending on engines.



Amol Rao:

Okay, sir. Sir, you alluded to the capex concluding in Q4. So that should basically help us with the high-capacity cranes. Sir, so should we be seeing some rollout this year or probably the rollout should be in quarter 1 or quarter 2 of next year?

Sorab Agarwal:

See, there are things that we have done, sir. I will explain everything. One is that our -- like 100-acre investment park where we had land available. So we have set up a new facility, which is for high-capacity cranes -- slow cranes. This is one.

And then with respect to our fabrication capabilities, we have expanded and nearly doubled them with respect to our other equipment, somewhere we receive about 50%, somewhere 100%. So -- and in this new -- the 2 things I mentioned, one is expansion of capacity in our existing plants by expanding our areas and adding machinery where we have space available and land available with our 2 assets.

Now, going to the high-capacity crane, already we've started some work in this new facility. But it will be totally commissioned only by January, February. So should be -- we will actually start rolling out machines from there sometime in, I would say, maybe February or January, close to that, even plus/minus 30, 40 days, here and there.

But we've already started work there with respect to the other components and fabrication, that has already been moved to the new plant. Now, what is going to happen, once the entire activity of the bigger capacity crane shift to the new plants in our existing plants, where we were doing these bigger cranes, higher capacity cranes and tower cranes and forklift?

So this was 1 big single plant. So this will help us increase our capacity for tower cranes, which we have already been able to increase in this current quarter because, like I said, some part of the bigger cranes has already moved to the new plant.

And in the next quarter, again, our forklift capacity will increase. So not only that we'll have capacity to make 4 to 5x more numbers of bigger cranes. Our capacity to make tower cranes and forklifts will also increase by 40%, 50% by this redoing -- restructuring of a new plant coming in and the existing being used for other activities with the required machines, is 1 part.

And second part is wherein we are -- for our existing capacities for smaller cranes and backhoe loaders and other machinery. So that capacity has already been put in. It has been made partially functional, and by December, it will be fully functional.

So from about 700 Pick & Carry cranes in a month, our capacity will be 1,000 to 1,100 in a month, okay? Let's say, from 8,000 or something annual capacity for Pick & Carry cranes, we will be upwards of 12,000 per year. So which is we partially activated with which we will be able to feed the current quarter, and we will be fully functional in the -- by end of this quarter.

Simultaneously, our main assembly plant for the Pick & Carry crane, they are also under expansion. So that can also -- that will finish by end of quarter 4. So once that is done, then we are 1000 to 1,100 cranes capable totally. Today, we are capable of 800 to 900 cranes per month.

- Amol Rao:** That was most helpful. Sir, my last question was, we were hopeful that the resolution of that small confusion on the funding of the Ghana project -- government to government funding of the Ghana project, sir. So, sir, is there any development on that end? Or it's probably another 2, 3 months down the line?
- Sorab Agarwal:** Yes, as per the latest updates I have from my export team, people who are looking after this project, so everything seems to be on track. We were expecting clearance within quarter 3. So as of now, this is the indication that we have. And it will be very unfortunate if it gets shifted to quarter 4.
- Amol Rao:** So we start shipping -- not shipping out, sorry, we help in the setting up of that plant probably in quarter 4, right? That's what you are testing, sir?
- Sorab Agarwal:** Only after -- you know our credit lines have been signed, they are available with us, but only after we receive our mobilization advances. We are not going to invest any money in Africa without the payment fee totally upfront.
- Moderator:** Next question is from the line of Suhrid Deorah from Paladin Capital.
- Suhrid Deorah:** First of all, congrats on a simply superb performance. I hope you continue to do well in the years to come.
- Sorab Agarwal:** We are working very hard, trying very hard.
- Suhrid Deorah:** Sir, actually, I missed your commentary, I dialled in a little late, but did you provide any visibility for FY '25? Or do you have any visibility for how next year might look considering it's an election year?
- Sorab Agarwal:** See, going by the overall feelings and sense, things are very boiled in the country. So I think that around the election year, election quarter, there might be some hiccups here and there between 10%, 20%. We really can't predict. But all of us have always noted that before the elections are over, the results, whichever way they go, and -- we are -- all of us are very hopeful that they'll go the right way.
- I really don't see a problem and doing a 15%, 20% should not be an issue even in the next year. But saying that, again, I would say that Q1 would be a much better time next year to be talking on this. But I think we will still plan for a 15%, 20%, whichever way.
- Suhrid Deorah:** And do you retain your longer-term revenue was to get to double of FY '24 by FY '27?
- Sorab Agarwal:** Yes. From whatever level we finish at in this year, we'll be targeting to double our revenue in 3 to 4 years after that, so FY '24 finishes, so FY '27 will be 3 years. So FY '27, 3 to 4 years, again doubling of our revenue. It will totally depend not only on us, but also on the overall situation around the economic situation in the country, in the world.
- And if the current government comes on in the form and -- the way they have been working and doing, I think it should be possible within FY '27, if not FY '28. Because if I start now for next 21-year plan for FY '24, we will double up. So from INR1,200 crores, we are looking at

INR2,400 crores, INR2,500 crores, and I'm sure we will end up much higher than that within the 3 years.

So it's anybody's guess that doubling up in 3 to 4 years would be there, should be happening. And we're also opening up these biggest 2 cranes. That will also add a new chicken in our new aerial work platform, so it will be good for us. We will be changing the market to electric cranes, the realizations are that to some extent BS-IV to BS-V upgradation will help us in further improving our prowess across the range because lot of machines are going from BS III to BS V.

And FDI in manufacturing, like I said in article 2 to 3 days back in The Economic Times, so that is also where we are increasing at some point of all time high. Again, releasing them in China. Infrastructure is our forte about 50%, 60% of our revenue. That has to continue. There's no other way our country can improve. So looking at all these positives, I believe it's doable, easily doable.

Suhrid Deorah: You mentioned the larger cranes, and I remember there was a -- there was some discussion of ADD or some announcement of ADD in the last months. So the impact of that will be beneficial to us, I'm guessing, you will be having higher volumes and higher margins as a result.

Sorab Agarwal: I would say higher margins because the market today, about 800 to 1000 units, is divided between new imports and used imports with used imports coming from Middle East, Europe, and America, which is more than the new machines. And the main factor is the prohibitive costs of import from Europe and America. We're the leading company for the product side.

So with our expanded facilities, we have already delivered some machines, but we will be starting them in quarter 4 in a much more substantial way. So yes, the number will increase, but they are more bottom-line aggressions with respect to the margins we have had.

Suhrid Deorah: And then also, I'm guessing as construction equipment does better and is one with sort of phenomenal growth. So as construction equipment also becomes a larger piece of the pie, is it fair to expect margins to overall move towards 20% EBITDA margins?

Sorab Agarwal: I would love to do that, but then we'll end up losing a lot of scope for competition. So I think we are already at about 15%. So sustaining and maintaining rate would be our first aim. And then, yes, if the market aligns we would definitely want to increase it by another 2%, 3%, 4%. We will not leave the chance, but we are going to be very calculated in doing that.

Suhrid Deorah: And are you saying -- costs will -- at any rate is clear, right?

Sorab Agarwal: Other products which are more margin accretive, if it is 20%, I can't really say or comment. But yes, the margins and further...

Suhrid Deorah: Okay. And lastly, on the M&A side. Are all the transactions complete? Or is there something still pending?

Sorab Agarwal: Two small ones, as conveyed earlier, they have been done. And one is one off where it was a company, it was an NCLT, but being more SME, the promoters have got a chance to again take it over and try to run it.

There are still 1 or 2 in the pipeline, which we've been discussing last 1.5 years. So that slow movement on account of -- the valuation trends between the 2 of us. It seemed we were closed about 1 year back. So let's see how it pans out. But we have kept our eyes and ears open, and we are right now also looking at -- because we want to -- this year, our exports will go to 8% to 9% of revenue.

And we have to take it to 10%, 15%, even higher going forward. So looking at that, we are also looking at -- and India will go to Tier 5 or we must say CEV-V emission standards, which are similar to European standards in the next year.

So keeping all that in mind, we are definitely looking at some small acquisition, even outside the country, wherein we can go to mainland areas and different parts of the world. So, let's see, a lot of things are happening. It's a dynamic volume, so let's see how it pans out.

Suhrid Deorah: No requirements for any further equity, right? I hope.

Sorab Agarwal: We -- not as of now. We are -- actually, we have enough cash available with us. So nothing as of now for any of these things unless and until something major comes up, which I would imagine should happen in the next 1 or 2 years, but not in the next immediate future at least.

Moderator: Next question is from the line of Rajiv Maheshwari from Praj Investment.

Rajiv Maheshwari: Good afternoon, everyone. The first part of question is regarding there was some buzz in the media regarding some PLI scheme being given to the construction equipment sector. So can you update what's going on or whether it's still under discussion? Or is there any plan that the government is extending?

Sorab Agarwal: Yes. It is being discussed at the highest level as of now with the government. And the revised proposals with respect to different types of machineries and also including some components for construction footprint, which are still not done in the country or are required in high numbers going forward. So all that discussion is happening, and the government is also -- seems to be reasonably keen on the PLIs. So things are going on. So I think we should expect something over the next 2 quarters, I believe.

Rajiv Maheshwari: So it still will take around 2 quarters to materialize, that is the earliest we can expect.

Sorab Agarwal: The way things are moving, it can happen faster.

Rajiv Maheshwari: And in case if it happens, so what are the products which will be covered in that scheme as far as our product line is concerned?

Sorab Agarwal: We have tried to ensure that everything we are doing and certain things which we intend to do are covered in that.



- Rajiv Maheshwari:** Okay. So majority of the product line will be covered?
- Sorab Agarwal:** I would say nearly everything, yes.
- Rajiv Maheshwari:** And what is the update in terms of the commercial production of electric cranes? How are we going on that in terms of any orders or something?
- Sorab Agarwal:** Yes, you see it has been very unfortunate. We brought this in January. We showcased it at the exhibition. But I think the Government of India never expected that India will evolve its own electric construction equipment nearly at a similar pace with the world.
- So our CMV announced, Central Motor Vehicle rules or electric CE, construction equipments, are still under formulation. They are nearly at finalization stage. Earlier, we were given to understand that they'll be done by June, the end of September. So we are very hopeful that we will finish in this quarter.
- And without that, the only issue is that we will not be able to -- we are not going to sell the machines because there'll be no registration on it, and they cannot fly without the registration numbers. So hopefully, this should finish off in this quarter, and we should actually be closely be able to produce our electric cranes from Q4 onwards. That's what it seems as of now, but things can get delayed another 1 month or 2, here and there.
- Rajiv Maheshwari:** Okay. And any further orders or things in the pipeline in terms of government or defense sector?
- Sorab Agarwal:** It is a continuous process. Even in the last 2, 3 months -- 2 months, I would say, September, October, we have got orders for -- I think, 30, 40 orders for Pick & Carry cranes, and I think it was for the cranes higher because these workshops are the value add for getting another 60 -- the bigger-size forklifts, so each one of them costing about INR30 lakhs, INR40 lakhs from the airport were surfaced.
- Another order for about 90 forklifts, I think, for 2 tonnes or 3 tonnes, that's more or less gone through. So it's a continuous process. It is happening. I mean, like I did mention earlier, certain things which probably gets invested early than the Army and the performance as well, then it like keeps on repeating.
- So these things have been -- like I mentioned last 2 months, we've got orders of nearly the size essentially of 150 to 200 units of different types of machines from the Army and the Air Force, Indian Defense Services. And as I mentioned prior, currently, we are executing order of 18 numbers of the higher capacity slow cranes.
- So these are rough terrain cranes, 40-tonne capacity and 75-tonne capacity, which actually we had to -- and this was new development for us, these 2 models, 40 tonnes and 75 tonnes, which are required by Indian Navy. So we were actually scheduled to finish execution within December. But I think it will finish within Q4, so Q3 and Q4.

So that was also a sizable order because the 40-tonne machine, the bigger ones, they were each machine about INR2.5 crores, the followers about INR1.5 crores, together INR40 crores, INR50 crores, which is under execution as of now.

Rajiv Maheshwari: That's great. Good to see things moving on a regular basis on this side also, right? That's okay from my side. And once again, congratulations for the super set of results.

Sorab Agarwal: Yes. As a matter of fact, if we talk of defense, just post-Diwali, we are building a machine for no-cost, no-commitment size. It happens in the Army's new development. And I think the cost of each of those machines is about INR35 lakhs, INR40 lakhs, and -- for machine, and the requirement is 1,800 units.

Rajiv Maheshwari: Okay. Because of late...

Sorab Agarwal: INR700 crores to INR1,000 crores worth of requirement for a particular specialized machine, which Army has got developed. We would be big player from the industry competing. We are one of them. And -- but yes, that will fructify and things will happen only in the next 1, 1.5 years because now it will go for trials, and it will happen for 6, 7 months, and then commercials. So I feel it is still 1, 1.5 years away. But once that comes out, again, I do lot of...

Rajiv Maheshwari: And in case if we get through, it will be very prestigious for the company as such also.

Sorab Agarwal: Yes, yes, yes. And most importantly, the type of work what these machines are doing. These machines are meant for the ammunition dumps, underground ammunition dumps retested all over the country for moving the ammunition in and out. It is also a very hardcore production machine, which will be used during wartime.

Rajiv Maheshwari: Because nowadays, what's happening in the market is any company linked to different sectors is running like anything. I'm talking in terms of the stock price. So that's the flavor nowadays. So any media report linking to defense is always good for the shareholders' efforts also. Any...

Sorab Agarwal: We have not printed anything on Defense and Air Force, so...

Rajiv Maheshwari: Actually, I was wondering that even in the -- we did not get any update from the -- this...

Sorab Agarwal: Sir, we were too busy making machines, increasing capacity. But I think all this news we will put it together on the website immediately.

Rajiv Maheshwari: Because normally, either it's shared with the stock exchanges or we can get it on the website. So many things have happened in the last few months, but we were not aware. But anyway, if you can update it on the website, we are updated with it.

Sorab Agarwal: Sure, we'll do that.

Moderator: Next question is from the line of Deepak, an individual investor.

Deepak: Congratulations on a good set of results. In the last quarter, there were some discussions around some sort of outsourcing opportunity in a white labelling for export and maybe a kind of a play-around in the developed markets. Has anything been materialized there?

Sorab Agarwal: Nothing materialized so far. But like we did mention 2, 3 such prospects are in really good stages, so let's see. I really can't put a timeline to it, but with respect to certain sophisticated, complicated components as well as machines, these discussions are going on. And if everything goes well, we should be able to announce something in Q4.

Deepak: And the last question, sir, I mean -- sorry, I joined the call a little late, so if this was already answered. Any further update on the Ghana project where I know it got delayed by 1 or 2 quarters? But when can we see a materialistic revenue recognition in the coming...

Sorab Agarwal: We have seen a lot of advances in this current quarter, so that's what the update is. If that happens, then obviously, execution will start Q4 onwards. And -- but I think enough has been - - a lot of delay has happened from the government side in Ghana.

And I think the latest indication we have is that it will go through within this quarter with respect to our advances because all the credit lines have been established, the mobilization is on, so hopefully, it should go through in this quarter, and we should be able to start our execution in next quarter.

Moderator: Ladies and gentlemen, as there are no further questions from the participants, I would now like to hand the conference over to the management for the closing comments.

Sorab Agarwal: Yes. Like we discussed, things are going good, and we should be able to lock at least 25% revenue growth in this year. And -- but I believe that it can be faster than that. And obviously, our margins have expanded and will continue to expand further. Let's see wherever that we can take them to.

And our capacities will totally be expanded and increased. Capacity will be put in place totally in quarter 3 and whatever is left within quarter 4. So that will also give us the ability to take our revenue to INR4,000 crores with respect to our capacity.

And in all probability, our electric cranes and aerial work platforms deliveries should also start off from quarter 4 onwards. Our focus on exports remains very much, and we'll definitely increase our revenue in the current year, contribution coming from exports, wherein our long-term targets are actually 10% to 15% if not more.

Defense business is robust, and we will continue to get orders more or less on a regular basis from different defense entities as of now. And we are going to be increasing our presence in the higher capacity cranes very soon. And our short-term, medium-term prospects look to be okay. Long-term, everything is in place. So we're looking at 25% growth. That's it.

And thanks a lot to everybody for joining on the call. Yes. That's it from my side. Thank you.



Moderator:

On behalf of Motilal Oswal Financial Services Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.