



“Action Construction Equipment Limited
Q4 FY’24 Earnings Conference Call”
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MODERATOR: **MR. ANUPAM GUPTA - IIFL SECURITIES LIMITED**



Moderator: Ladies and gentlemen, good day, and welcome to the Action Construction Equipment Limited Q4 FY '24 Earnings Conference Call hosted by IIFL Securities 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 star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anupam Gupta from IIFL Securities Limited. Thank you, and over to you, sir.

Anupam Gupta Yes. Thanks, Muskan. And it's my pleasure to host the management of Action Construction Equipment to discuss the fourth quarter FY '24 results. Representative management, we have Mr. Sorab Agarwal, Executive Director at Action Construction; Mr. Rajan Luthra, CFO; and Mr. Vyom Agarwal, President at Action Construction. To start off, I'll hand it to Mr. Agarwal for the opening remarks, post which we'll have the Q&A. Over to you, sir.

Sorab Agarwal: Yes. Thank you, Anupam. Yes Good afternoon, and welcome, everyone, to this earnings conference call for the fourth quarter and the year ended March '24. Along with me in today's earnings con call, we have our CFO, Mr. Rajan Luthra, and our Head of Investor Relations, Mr. Vyom Agarwal.

I hope 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. This has been yet another year of strong and relevant performance by our company, and we have been able to deliver [aspirational 01:44] return ratios with better quality and consistency in earnings while maintaining a strong balance sheet position.

Our ROCE and ROE for the last year stands at upwards of 42% and 30%, respectively. Let me take you through some of the highlights of these results. To begin with, it gives me immense pleasure to report that we have achieved INR2,911 crores operational revenue in this fiscal and recorded our highest ever sales, profits and margins in the year gone by. Our growth of 35% is significantly ahead of the market in our 4 sectors.

Our EBITDA margin for the year expanded by 510 basis points to 16.5% from 11.4% last year. And PBT expanded by 470 basis points to 14.9% and PAT increased by 380 basis points to 11.3%. In absolute terms, EBITDA grew by 94% to INR479 crores as against INR247 crores in the preceding year. We were able to increase our profit before tax by 97% from INR219 crores in FY '23 to INR433 crores in FY '24.

Similarly, our PAT also increased from INR161 crores to INR328 crores, whereby registering a growth of 103% in the last year. To brief you on the financial performance of the fourth quarter of FY '24, the stand-alone operational revenues stood at INR836 crores for the quarter, which is up 11% sequentially and grew by 36.4% year-on-year basis.



The EBITDA for the quarter stood at INR150 crores, whereas the PBT and PAT were at INR132 crores and INR98 crores, respectively. Our company was able to expand EBITDA margins to 17.53%, which is an expansion of 131 basis points sequentially and 446 basis points year-on-year. The PBT grew to 15.51% which is an expansion of 75 basis points sequentially and 377 basis points year-on-year. And the PAT grew to 11.46% which is an expansion of 308 basis points year-on-year. The strong margin profile was led by capacity utilization, favourable product mix, improved price realizations, along with efficient cost control measures and softening of commodity prices. We continue to be long-term debt free with sufficient availability of liquidity for the future.

Further, the Board of Directors have recommended final dividend of 100%, that is INR2 per share for the year ended 31st March '24. Now moving on to segmental business performance. We have strengthened our role as a market leader in crane industry with our consistent efforts. We are scaled the business to over INR21,06 crores in this fiscal -- in the last fiscal. Last year, our Cranes business has registered a strong growth of 37.75%.

The growth was both in value and volume terms. Our number of Cranes has increased by 37% from 6,584 cranes in FY '23 to 8,970 cranes in FY '24. In Cranes segment, we have been able to grow our profit by 76% to INR343 crores with a margin expansion to 16.3% versus 12.77% for the last year. Further, we maintained the growth momentum in 3 segments, wherein we have surpassed our projected growth.

The Construction Equipment segment has clocked a yearly growth of 55% with revenue of approximately INR387 crores and increased margins at around 12.84% versus 9.5% on a yearly basis. The Material Handling segment recorded revenue of 8.6%. And so that INR184 crores is margined at 13.2% as compared to 12.33% last year.

The Agri division registered revenue of around INR237 crores, growing by 12%, with a marginal improvement of 75 basis points at EBITDA levels. The company has also expanded its global footprint and increased export sales by 72% year-on-year. The contribution of export sales to the overall revenues has increased to 8.5% as compared to 6.7% in the last year. We expect that going forward in the medium term, the export segment will contribute 10% of the overall revenue, which is in line with our long-term target of 15% to 20% contribution.

Looking ahead, India is one of the fastest growing economy in the world and its prospects remain very strong for the medium to long-term ahead. The infrastructure growth story continues to play a significant role in the economic growth and will have a multiplier effect on the economy. Our strategic positions in 4 sectors of infrastructure, manufacturing, logistics and agri will provide necessary emphasis to our growth trajectory.

It is crucial for us to highlight that our organization revenue is supported by all the above 4 sectors. Manufacturing and logistics contribute approximately 25% of our revenue, while agriculture and export each account for 8% to 9%. The real estate sector makes up at around 10% and institutional sales is about 3%. The Construction & Infrastructure represents the remaining 35%.



This balanced revenue distribution is the outcome of our strategic effort over the past year to steer the company towards countercyclical domains. Further in the last year, company has expanded its business in the defence sector by securing prestigious orders to supply specialty design forklifts, rough terrain cranes and truck mounted cranes for the Indian Armed Forces.

Our relentless innovation and commitment towards developing new products empower us to deliver such specialized equipment under the government's Atmanirbhar Bharat and Make in India initiative. We are confident that going forward, this dynamic line of activity will contribute in excess of 5% to our revenue in the medium to long term. It will not be out of place to mention that we are expecting some of our biggest orders so far from the Indian Defence Forces over the next few months.

In the past year, we have successfully completed our capital expenditure as planned, and our Cranes division's capacity has increased by 46% from 9,000 units to 13,200 units annually of different types of cranes, while the Material Handling segment's capacity has grown by 50% from 1,800 units to 2,700 units annually. This expansion underscores our commitment to strengthen our core business.

Looking ahead, within the current year, we plan to further enhance our operational capabilities with modernization and automation, aimed at boosting our capabilities and market competitors. In line with our focus on product improvement, we are upgrading our offerings to meet the revised CEV IV emission norms, it will be effective from January of 2025. This transition is not only about compliance but also about elevating the overall performance and eco-friendliness of our products. Our proactive approach and relentless focus on quality and reliability enhancement will facilitate to position us well in the export markets for sustained growth and long-term success.

Going forward, in the first few months of FY '25, we expect muted growth due to ongoing General Election in the country, followed by monsoon season. However, on a whole year basis, we are optimistic and expect a growth of at least 15%, 20% in our Cranes, Material Handling, and Agri portfolios. For the Construction Equipment segment, we are looking at a growth rate of 30% to 40% on an increase basis.

On the whole, we are looking at a 15% to 20% growth in our top line for FY '25 with further possibility of margin expansion. We hope we are in a position to revise these projections at the end of second quarter, which will predominantly depend on the results of the General Elections, policy continuity and the onset and intensity of the monsoons. Furthermore, we remain highly optimistic about the medium to long-term prospects of our company, and are committed to deliver our growth projection.

We will continue to aggressively pursue cost savings and implement strategic pricing actions, ensuring that we both protect and expand our market. We believe that our foundational strategies are firmly in place, setting us on a path of sustainable growth across all our operational segments. This approach will lead to expansion in our top line, bottom line and overall margin profile, driving value for our investors as well as stakeholders.



Thank you. And now I'd like to open the call for the question-and-answer session.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Garvit Goyal from Nvest Analyst Advisors. Please go ahead.

Garvit Goyal: Good evening sir, Congratulations for good set of numbers. Sir, basically, you have reduced our guidance for FY '25 due to some external factors. But the factors that you have mentioned may result in deferment of demand for few months, but it should accordingly end up with higher demand in second half, considering the positive demand from the industry, which you also mentioned in last quarter con call. So, considering this, why are we giving a very conservative guidance of 15% to 20% for FY '25.

Sorab Agarwal: If you notice, we generally give a conservative guideline because for our base to be very clear with respect to what is achievable easily and what can be achieved. So that is why going by our trend, we are seeing 15% to 20%. And I believe we should be able to exceed it, primarily for the reason that, hopefully, the current government will continue again. So, all the focus and impetus on the growth of the country will continue.

And secondly, from 1st of January 2025, we have five norms. For construction equipment, they are called CEV V. So, CEV V, CMVR norms will be applicable. So we expect that in the end of quarter two and especially quarter three, there will be a lot of pre-buying for machines, which are moving straight from BS-III to BS-V. Currently, we have two types of machines. One, we are already in BS-IV regime and about -- I would say, about 40% of the company's machines which are in BS-III regime.

So all of this is going to BS V and there is going to be a substantial price increase, especially from BS-III to BS-V. So the numbers, there'll be a lot of pre-buying. So we are very hopeful, it will definitely be better than that. But on the safer side, I think the middle end of second quarter is the best time to project the more easily possible growth trajectory.

Garvit Goyal: Understood, sir. And sir, previously mentioned that upcoming loans of some new products like Electric Crane and Aerial Work Platform, so where the company anticipate gaining a first mover advantage in India. So could you please provide an update on the status of these product launches?

Sorab Agarwal: Yes, the Electric Crane has been ready with us. Unfortunately, the government regulation -- wherein the regulation would have been formulated for the registration of this license with Indian RTOs. It got delayed and now it will happen only after elections. We have been trying to meet and I've also met the Ministry of Road Transport and Highways for a number of times on this. So we are very hopeful that this will go through in June now.

So hopefully, we will be able to start to sell our Electric Cranes by July onwards, which has been ready with us for quite some time now. The Aerial Work Platforms, more or less everything is in place and the product has productionized. So we expect to start delivering this product. Earlier, we are planning to do it beginning of March, but due to some supply chain constraints. But now I think this will start to happen in the month of June with respect to deliveries of our new product Aerial Work Platform.



And in the same breadth, I would like to say that we are also working on a new model of next-generation cranes, which we believe can be a game changer. So that we're already working on and within this current financial year, we expect to introduce that. Apart from a Reach Stacker, which is a much bigger version of a forklift, you can say in a way, capacity of 40, 45 tons for container handling.

And we are also working on a special model of Backhoe Loaders. As a matter of fact, it is currently under and we expect to launch it sometime in July, August. So this is a very special Backhoe Loader equal wheel, all-wheel steering, which is popular outside the India -- outside the country, and we are especially designed it for the export market. It has no market in India.

Similarly, we are very hopeful that in July, August, we'll be able to launch new telehandler, which has been designed again, especially for the export market. It has no market in India. It is again equal-wheel and all-wheel steering and all-wheel drive.

Garvit Goyal:

Following up this discussion, basically, last quarter, you mentioned, I think, a product crane that is currently getting imported from China, and we were expecting to launch that product in two to three months. So, what is the status of that?

Sorab Agarwal:

See those products up to 75 tons capacity, 80 tons capacity, we have been manufacturing for the last 10 years. It is just that in the last 4 years, 5 years the market has increased. The Chinese were able to sell more than us because of their very aggressive pricing. So herein we were expanding our capacity from 4, 5, 6 units a month or let's say, 50, 60 units in a year to 400 units. It has already happened and our capacity is in place now.

So this year we will see increased results. So we will be able to if not triple actually double our sales in these bigger cranes within the current year that is what we believe. We should from a figure of approximately around 40, 50 units I think we will cross a figure of 100 units can be much more for this year.

Garvit Goyal:

Understood. Sir, and just last question on our margin. So you mentioned last quarter like margin sustainability basically depends upon how the commodity prices will prevail. So looking at the current scenario where commodity prices are rising so can you help me to understand how do you -- how do you think EBITDA margins to shape up in FY '25 from current levels of 14%?

Sorab Agarwal:

See, obviously, if the commodity prices are increasing you see they are within range 2%, 3%, 5%, 7% up down that is easily manageable, but obviously like in the year FY '22 or -- I mean FY '23, sorry the Ukraine war or just before that then it was mayhem. So those types of scenarios are very difficult to immediately manage, but generally we are able to pass on any commodity increase with the lag of 2 months, 3 months for our customers.

In any case, we take our annual pricing. We're still looking at all the actions that we take to control our pricing -- our selling prices, I think the 16% plus scenario is hopefully here to stay. And with our revenue further increasing in this year there is only scope of further improving our margins.



- Garvit Goyal:** Understood sir. Thank you very much sir and all the best for the future.
- Moderator:** Thank you. The next question is from the line of Jaspreet Waliya from Clock Wine. Please go ahead.
- Jaspreet Waliya:** Sir in the last couple of calls you have been mentioning of the changes you're doing in the material handling business. So if you could just tell us what changes have been done and what do you think would be the impact of those changes in the coming years? Would you be able to drive higher growth in this business in the coming 2 years, 3 years?
- Sorab Agarwal:** Yes. We are very sure that the rate of growth in the material handling segment is about INR180 crores, INR190 crores for us, it will be faster than what it has been in the last 1 year or 2 years and primarily it was inefficiencies within the system of the company and we worked all across within the segment with respect to our plant manufacturing and upgradation and now things are on line with respect to, I would say, the quantity of production as well as further improve quality and performance of the machine.
- And going forward from first of January onwards with the new BSV regime, we also plan to introduce a totally new range of material handling machines especially forklifts which will be even better upgraded to meet international level of performance as well as styling. So that is also in the pipeline to happen in January next year.
- So everything is on track and we are very hopeful that this year we'll grow faster than what we've been doing. It has been growing, but at a slower pace. So hopefully we might even exceed 20% growth this year in that category.
- Jaspreet Waliya:** Got it, sir. Sir, as of now what part of the forklift market in India are you able to address and the products that you are going to introduce going forward, would they increase the addressable market size?
- Sorab Agarwal:** See, currently we are doing forklifts up to 12-ton capacity which we're manufacturing in India. And obviously there is also a niche market about 20%, 25% of the market which is addressed by forklifts imported into India from premium brands like Toyota or even Hyundai or [Volvo](#). So it will also give us access to the premium segment with our upgraded machines and our intention is to sell the upgraded machine not only in the premium segment, but even in the regular segment to gain the market share.
- Jaspreet Waliya:** Got it, sir. Sir, in the last call, you mentioned that you're talking to a big brand for manufacturing a particular product in India for the Indian market as well as for the world, so what is the status of that initiative, sir?
- Sorab Agarwal:** It is in very advanced stages. More or less everything is true. It is just that we have an NDA so really can't disclose. There is some further, I would say, a technical -- it's not really a technical problem, but it's something in the interest of the joint venture that we'll be delaying this formation of the joint venture of announcement by maybe another two quarters, three quarters which I really can't disclose to you. But it is in the interest of the joint venture and the overall sustenance and profitability of the venture.



Jaspreet Waliya: Got it. So you also alluded to some -- making some large announcement in the crane market, which would have an implication on the -- on your business in cranes, so has there been any progress on that front?

Sorab Agarwal: See, in cranes we are leaders. Pick and carry cranes, tower cranes and now trying to become big in the bigger segment cranes that is 60 tons, 70 tons and bigger where the Chinese have taken over the market in India and we have set up and expanded our capacity. So that is only news in place, but yes in saying this definitely something -- some big things are lined up in defence sector because last year about 2.5% of our revenue came from defence at about approximately INR68 crores.

And in the opening of this year we had pending orders worth about INR65 crores and in the next -- over the next 2 months, 3 months we are expecting some really big orders from the defence which I also mentioned in my opening address. So they could be variable in the tune of INR400 crores to INR700 crores, maybe slightly more. So maybe this year can be the game changing year for us with respect to contribution of defence with respect to our company.

Jaspreet Waliya: So, I think you were referring to some acquisition in the crane segment?

Sorab Agarwal: I was referring to what?

Jaspreet Waliya: Some acquisition opportunity in the crane segment.

Sorab Agarwal: Yes. Things are going on. They are in the liquid state. As soon as they solidify and something is up for obviously we are a listed company so it will be informed, but...

Jaspreet Waliya: That will be outside India or in India?

Sorab Agarwal: We are actually open for inorganic growth in the country and outside country also. We have a couple of targets in mind within the country and obviously which is work in progress. And outside the country we want to acquire a smaller company with a good product which we have in mind. I can't say any more than that. We have already located some companies.

And so that - they can help us swing more faster into the export markets. So that we can start doing white labelling for our own company outside India and also moved some of the specific export products to that company apart from their own products which are manufactured in their country.

Moderator: The next question is from the line of Ankur Jain from Future Investment Private Limited. We can't hear you. Hello?

Sorab Agarwal: I think we can go to the next question and maybe he can come back in the queue.

Moderator: The next question is from the line of Aman Soni from Nvest Analytics Advisory.

Aman Soni: Sir, we were supposed to get some crane license for export. So, what is the update on that?

Sorab Agarwal: You're talking about some crane license for export?



- Aman Soni:** Yes, sir.
- Sorab Agarwal:** I don't think there's any such requirements. In India, we follow BIS standards. And obviously, the countries wherein we are exporting to, we make sure that we are meeting the regulations of that country. But there is no requirement for any specific export licenses.
- Aman Soni:** Particularly about the newer crane products that we are targeting into the export market. So, are we noting any requirement to getting the export license for those products that we are looking for?
- Sorab Agarwal:** There is no need of any export license apart from maybe some export benefits that we get, if you're talking about those licenses, then obviously -- Luthra sir, what are the different -- we get some benefit on exporting, right, 1% or 2%?
- Rajan Luthra:** But I don't think there is any requirement of any license for exporting. This is a freely exportable product. As regards export incentives, definitely, these all products are covered in that export authenticity. So, once we start exporting, we will get the export benefit automatically. So, there is no requirement for any export
- .Sorab Agarwal:** There's no requirement as such for any export license from the country. And we take adequate care, whichever country we are supplying the machines to whether cranes or any other machine, to make sure that we meet their homologation requirements. And as a matter of fact, we -- over the last 3, 4 years, we've evolved special left-hand and right cranes also for some of the Middle East and African markets.
- Moderator:** The next question is from the line of Garvit Goyal from Nvest Analyst Advisors.
- Garvit Goyal:** My question is answered. Thank you very much.
- Moderator:** The next question is from the line of Rajeev M from Raj Investments.
- Rajeev M:** First of all, I would like to congratulate on the very good set of results. I have a couple of questions. First question is, I see a rise in interest expenditure. So any specific reason for that if you compare it with the previous quarter or the Y-o-Y comparison?
- Sorab Agarwal:** I think primarily it is more to do with the interest rate being higher in the last year, but I think Mr. Luthra will be a better person to take that question.
- Rajan Luthra:** Yes, there are 2 reasons for increasing interest expenditure. One is the increase in the average cost of borrowing because you must be aware that RBI has been giving the rates steadily for last 1.5 years, that is 1 factor. Second thing, we have gone aggressively on discounting of supporting our vendors, especially MSME vendors and which payment terms have been brought in faster, not at free of cost, but definitely, we are getting discounts on the payments. So, we are leveraging the alpha between the cost and the discount for that. So that is why the interest cost is slightly higher.
- Rajeev M:** So would this be a one-off effect in this quarter or going ahead it will come in the same range of INR8 crores, INR10 crores?



Rajan Luthra: It will be in the similar range because the practice is still continuing, and we are trying to further leverage our financial stand to get a more discount from a vendor by gaining the advanced payments and supporting them to maintain our supply chain issues.

Rajeev M: So we are benefiting in terms of the discount channel?

Rajan Luthra: Yes, that's right.

Rajeev M: Okay. Another thing is, Mr. Agarwal, you had mentioned about the election effect. So I would like to know, if we compare the month of April and May, so has it been materially impacted in terms of the work because of the election? Or how is it lying going forward means for the first 2 months?

Sorab Agarwal: That is only what happens. First 2 months have definitely been slightly muted as compared to the momentum that was there till March. And what we have also noticed in the past is during the election month, those 2, 3 months, the market, let's say, the buyers, even if they have requirements of work, they just go on to wait and watch more -- parts of the market. So that is what we are experiencing. I'm sure 4th June onwards things should come back to normalcy.

Rajeev M: Okay. So the impact will be for the first 2 months and then maybe the demand would again come back for those who have built it up?

Sorab Agarwal: Sure, because there is no material change aspects, which has happened. And we are also very confident that on a year-on-year basis, we should be doing reasonably well even in the current quarter.

Rajeev M: And the final question is any update on the Ghana part, which was stuck up, I think, because of some funding from the World Bank or something. So any update on that?

Sorab Agarwal: Yes, Ghana has not bottomed through so far. We were very hopeful that was the commitment which we were getting from Government of Ghana. Current situation is that there has been some default from Government of Ghana with respect to certain credit lines given by Exim Bank. And this project was supposed to be funded by Exim Bank.

So that default or the dispute between the Government of Ghana and Exim Bank has not been resolved. And Ghana is about to get some IMF release package with -- on the basis of which they are going to fulfil their requirements with Exim Bank. So, right now, it is in a status quo type of scenario that even we do not know whether it will happen in 1 month, one quarter, or 2 quarters. But the order on us very much stands. And but even we are not getting any clarity that when it will get solved within this quarter and next quarter. So that is the current situation.

Rajeev M: It is still in the pipeline, or it's stuck up as of now?

Sorab Agarwal: As of now it is stuck up, but one thing which I can tell you is that because, obviously, we do not want to go ahead or do anything without our payments being secured, so that will be very foolish because this line of credit, our security was coming from Exim Bank for all our



payments although we have signed agreements with EXIM Bank, but the disbursements are not happening because of the default of Government of Ghana.

So everything has gone into a limbo as of now. So maybe in the next one or two quarters, if improved or as soon as their IMF thing goes through, something will happen. But yes, on the brighter side, whenever, let's say, over the next 3 months, 6 months, we are not in a position to answer now. But whenever this happens, we will stand at a slight advantage because the commodity cycle, you know the way it was 1 or 2 years, has turned in our favour. So our additional setting of the plant and supplies -- our margin profile will become even better as and when it happens.

Rajiv M: And this year, sales was close to INR900 crores. So when do you expect to touch the one four-figure mark in which quarter on the lighter note? What's your expectation?

Sorab Agarwal: My mind would tell me quarter 3, but we would love it if it happens in quarter 2, which I don't think it will happen, but -- and also monsoons are there, but you never know. Right now, the markets are like stock markets, anything can happen.

Rajiv M: But hopefully everything going well, Q3 we'll be able to touch the INR1,000 crores?

Sorab Agarwal: I think we should come in close vicinity or should be in a position to touch. I see no reason why it should not happen. In any case, first of our any year is about 45%. Second half is 55%, H1 versus H2. And the range is 40%, 45% going up to 60%, 65%. 40%, 45% in the first half, 60%, 65% in the second half. So I'm sure we should be somewhere there in the second half.

Rajiv M: But off late, we are doing very good even in the monsoon quarter, which was observed last year. So you never know, keeping fingers crossed.

Sorab Agarwal: That's what I said, you never know because what is happening, what I feel is because of this election quarter, there would be pent-up demand. So you never know that second quarter might also turn out to be even better than our expectations.

Rajiv M: Yes, yes, because the demand for the April and May maybe postponed to the second quarter.

Sorab Agarwal: Yes. So I mean all possibilities are there. But due such time it converts into Action, really can't say much.

Rajiv M: Well, Action is known for action. So hopefully, it would happen maybe Q2 or Q3.

Sorab Agarwal: Yes. We are also taking out a way to how at least August onwards things can start improving fast because the CEV -- BS V transition, so we will make all the customers aware by July or August that they are going to have a cost impact of 12% to 15% from January onwards. I'm sure things will look up. We have been managing to do it. We'll manage to do it again. The scenario is supporting us so I see no reason.

Moderator: The next question is from the line of Anupam Gupta from IIFL Securities. Over to you, sir.



Anupam Gupta:

Sir, the first question is on the margin front. If we look at this year, the expansion, which you have seen sold 300 basis points at EBITDA level. Almost half has come from gross margin expansion and the half has come from operating leverage broadly. So within -- so within, let's say, if we look at the gross margin part, how much would you attribute to, let's say, better pricing environment because of the strong demand, how much could be, let's say, a better mix between the products since you are gradually upgrading your product portfolio as well.

So if you can just give a picture there. And within that as well, how do you see that changing in the next couple of years in terms of, let's say, if it is strong demand, how do you see that in the next couple of years in your pricing ability?

Sorab Agarwal:

I think, Anupam, you've really asked a very hard question. And that was detail with respect to product mix or with respect to our pricing vis-a-vis operating leverage and obviously commodity pricing, I think to put the exact percentage, I have not seen that data so far. But maybe Vyom or Luthra Sahab, if we have any light on that?

Rajan Luthra:

So the major impact has come because of the two factors. One is the volume increase and the shift towards the higher or new generation conveniently higher tonnage cranes. That is the 1 which has contributed.

Sorab Agarwal:

We can -- because of our operating leverage and let's say, customers shifting towards product mix, towards higher tonnage, our margins are slightly better. But I showed some part exactly, not able to quantify right now. We can calculate that and get back to you. It also come from commodity, which definitely happened a little bit in the quarter 4.

Rajan Luthra:

And definitely, there was some advantage of the price also, and which I think was numbers...

Sorab Agarwal:

Like I said, Anupam, I think we don't have an exact answer as of now. We can work on it and get back.

Anupam Gupta:

Sure. That I understand, number is fine. But let's say, in your sense when you are actually selling the product to the customers, has your pricing power improved or that is not the right inference one should make?

Sorab Agarwal:

So it has definitely improved. We also improved our prices by 2%, 3% on first of January. And the total effect would have started coming in the month of March on the deliveries. So pricing power is very much with us. But to be very frank with you, at the EBITDA levels, at which we are, our intention in the current year is not to focus mainly on further expanding the margins.

I'm sure it will happen automatically with operating usage. But our focus in the current year is to increase our market share in pain, which has been stagnant. And last year, primarily due to - - because our capacity -- additional capacity, especially for Pick-n-Carry cranes only came into play December end. Now with capacities in hand, I think we are looking more towards numbers then expanding margin, which will happen automatically. The number of cranes increasing. So our fixed cost getting distributed.



Anupam Gupta: Understood. That's helpful sir. Second question is on the future capex, which may come in. So we obviously now are well covered for cranes and material handling. I think construction equipment, you have reached about 70% or 75% sort of utilization if actually the number right now...

Sorab Agarwal: Probably we're at about 55% to 60% in construction equipment right now.

Anupam Gupta: So capacity is 1,500, right? And we did you -- that you did 1,100 something approximately total...

Sorab Agarwal: But I'm talking about the current utilization. I mean, this is not the last year's utilization. It is top of last year, then obviously, I think about 1,150 -- what is the total number of construction equipment?

Anupam Gupta: The last year, the total construction equipment numbers were around 1,156.

Sorab Agarwal: So last year, it was close to 63%, 64%. Currently, it is at 55%, 60%. So what I'll do, I'll quickly elaborate all the 4. In cranes, currently, we are working at about 75%. We can produce, let's say, close to about 1,100 cranes in a month of different types put together. Total capacity -- annual capacity is 13,200. And we are working on it to take this capacity beyond 18,000. And this will happen within this year, hopefully by Q3. This is work in progress, on which we'll be spending about INR70 crores, INR80 crores in this year.

Material handling, earlier our capacity was 1,800, which is now 2,700 units. And last year, we did about 1,500, 1,600 units. So there, again, we have enough space for the current year. Construction equipment, our capacity is 1,800, and we did 1,150. So we feel we are comfortable there.

And our plan for construction equipment with minor capex with respect to our fabrication capacity and assembly capacity. This can easily increase 50% further from here or maybe slightly more at a very short notice 2, 3 months. So Construction Equipment, I feel we are -- we are covered. And as and when we feel that we are touching peak capacity about 150 units per month, we will immediately start to work on expanding this, which is possible in 3 months, as I told you. And in Agri, in any case, we are working at less than 50% -- about 35%, 40%. So there is no issue there.

Anupam Gupta: Understood. And all of this is happening at the same 3 locations which you have? There's no additional location that you plan for?

Sorab Agarwal: One main location is about 100 acres complex, where most of the activity is happening. And our current revenue capability is about INR4,500 crores with all the expanded facilities currently. So -- and we did close to INR2,911 crores last year operating revenue. We have capacity to go up to INR4,500 crores which is available to us already. And by the end of quarter 3, I believe this will be announced close to INR5,500 crores of revenue.

Anupam Gupta: Okay. Understand. And sir, just 1 last question. So obviously, exports is a big focus and you talked about some white labelling which you are wanting to do and possibly some acquisitions



which you want to boost your exports. So the question is why is inorganic required, why can't it be done in-house with you? So is there any technical requirement or a market reach related requirement which forces you to do an acquisition? Or is there something else?

Sorab Agarwal:

I'll take this question in 2 ways. First is current white labelling. We are doing for an American company. I think we discussed last time also in our conference call, and also for a Turkish company for backhoe, as well as tractors. with American company for backhoe. And the second part of your question was -- acquisition.

All said and done. A product going out of let's say, American or a European continent to South America, South Africa or Middle East, there is a better price and perception. So that is what we want to capitalize on. Our intention is to spend maybe up to INR100 crores, INR200 crores. We have identified some targets and take over that company. They are already doing a good job in their own products at about 10%, 12% EBITDA level.

So that continues whatever we are doing. Some of the specific export models and products we white label for this company. And use the brand name to send out to different parts of the world through their network, before further we expand it. So we believe that the time to penetrate into different markets with the European or American brand -- for the brand. And the possibility of margins being expanded is much more if we use the strategy.

And these products, obviously, which we are a white label, most of everything will be produced in India. So it is Indian cost and selling price becomes European or American which is much higher than anything. So we say we have a lot of advantage. Apart from that, this particular company will take over. So obviously, at a component level or even some machine model level, the same can also be done in India and send there. So the cost itself for this company will reduce. It will either help this company to further increase their margins or we'll be able to sell more because of being more competitive.

Anupam Gupta:

Understood. That is pretty clear. And just one last question, if I may, sir. On the transition the BS V from January '25, so in all the transition basically, especially for the engines part of it, in-house you have achieved that level of emission Right? Or is it still pending -- how will you source that new engine?

Sorab Agarwal:

We use some in-house engines, but primarily -- for construction equipment, I'm talking about. But primarily construction equipment and cranes, I mean, all type of equipment. But we buy engines or use engines right from Simpsons, which is a Amalgamation Group company, to Kirloskar, to Mahindra, to Cummins, to Tata Motors, Ashok Leyland, Volvo, Eicher, maybe one or two names I might have missed out so obviously, the engine wherein we use from these manufacturers because they are already even currently fulfilling a BS VI, so it's not an issue.

And our BS V engine, currently, we had upgraded our own engines to BS IV, which was more to do with tractors. And it is work in progress as of now. So hopefully, by quarter 3, we should have our own BS V engines as well.

Management:

Anupam, Vyom this side. I would like to answer to your first question, wherein you had asked for the breakup of the incremental EBITDA levels of approximately 500 basis points. So see,



we have been saying that with the increased capacity utilization, every INR500-odd crores of revenue at around 75 basis points to our bottom line 75 to 100. Owing to that, we can see incremental EBITDA levels of around 125 to 150 basis points because of increased capacity utilizations.

Commodity and cost controls results in another 150-odd basis points, and the balance is because of the market price increases and the better product mix that we have been able to deliver to the customers.

Moderator: Thank you. The next question is from the line of Mehul Mehta from Nuvama PCG. Please go ahead.

Mehul Mehta: Congrats on great set of numbers. Can you please update in terms of market share at the end of the year in Backhoe Loaders? Where do we stand?

Sorab Agarwal: See, unfortunately, we do not have right now the exact number of machines till March end. But hypothetically, putting it, it would be more or less correct. I think it would be somewhere close to 2.6%, 2.7%. I think 2.6% to 2.7%, something like this, maybe 10 basis points on the upside only.

Mehul Mehta: And, the final question in terms of narrow down of pricing gap compared to our leader market share in backhoe loaders? How would we have narrowed down over the year?

Sorab Agarwal: Sir, you will have to repeat your question. I couldn't figure out what you're trying to ask.

Mehul Mehta: Our leader, in order, how would we have narrowed price gap? Like how would we have like over the year?

Sorab Agarwal: But see, there's a reasonable price gap between the market leader and us. And we have currently no intention of narrowing the price gap because we want to increase our numbers. And that is a model we have been following for the last one year because at the current price -- because about 80% of the Backhoe Loaders are sold in the retail segment or the hiring segment, which is run it on a monthly or a yearly basis.

So at the prices of our -- let's say, the main market leader -- prices that they are selling. So the viability of a rental company or a small or a small hirer is becoming very difficult in current stage. Whereas at our pricing level, there's a liability to the product on running it on rental or a monthly or a yearly basis.

So I think currently, we are comfortable with our pricing. Last year, we were also able to expand our margin to more than 12% in the backhoe loader segment. And going forward with further increase in numbers, I'm sure this will expand further. I think we are competitively placed as of now, and we are not trying to narrow down the market.

Mehul Mehta: Yes, sorry for this. I'm done. Thanks for your explanation. Thank you.

Moderator: Thank you. The next question is from the line of Zubin from Ambit Investment Advisors. Please go ahead.



Zubin: Hi, sir. So, you've spoken about all the segments. If you could just speak about the agriculture side. So basically, the agri equipment side for FY'25, how do you see this segment, going through, and also, if you could break it down in terms of tractors separate and for farm equipment separate and in the terms of the harvester sides separate. So what is the outlook for FY'25, if I ask from your point of view?

Sorab Agarwal: We are again looking at 15% to 20% growth on revenue basis. And last year, again, we had planned for that, and we were quite confident, but unfortunately, it did slow down quite a lot in the -- in quarter 4, March quarter. And we also had some announced inventory management with respect to our dealers carrying the number of tractors and all that.

So on account of that, we did not reach out 15%, 20% mark, but had to stop at 12% growth. But we are hopeful this year, we'll cover up. And we are also focusing quite a lot here with our bigger horsepower tractor models for the export market. And our recently evolved 20, 25 horsepower smaller model, which is very popular, outside India for smaller applications and off-grid applications.

So we are hopeful that we will do a 15%, 20%. Obviously, we would love to do it faster than that, but somehow, we've not been able to do it. So I really don't want to commit or say anything. And with respect to the -- second part of the question was with respect to Harvester and...

Zubin: Yes, sir. So I just wanted to know, one, if we could provide the breakup in terms of the total -- you've given the total volumes. But for Harvester separately, if I can get the volumes? And what is the sense with respect to the farm mechanization. Are we seeing farm mechanization taking place? Or how -- or is it slow? So what is the outlook going forward?

Sorab Agarwal: I think the mechanization part is definitely happening and happening at a good speed. And that is happening not only in farm, all across to be very frank with you. And for the breakup part of it, I think Vyom you can answer. And also one more thing that I'd like to inform that we were doing small implementing rotavators, which we have discontinued in the middle of the year because we realize that was really not much revenue accretive or it was more of a burden than this thing. So we've discontinued the rotavators part. I think Vyom you can elaborate it.

Vyom Agarwal: So, tractor numbers for the last financial year stands at around 2,462 and harvesters is 137. Now the balance number was a little bit of rotavators that we did in the last year in the first half but as already explained, because of the low ticket and low-profit nature of that business, in principally, the management decided that we would like to come out of these small ticket implements business. And focus more on the larger tractors and the smaller garden tractors of 22, 25 horsepower. So, this was the breakup in year.

Zubin: And if I could just add, so apart from harvesters, as you spoke about rotavators, you've exited. Do you all plan to introduce any further products in this farm mechanization space since you said that this is a segment which is seeing good traction?

Vyom Agarwal: Yes. So, definitely, we had 1 big harvester, which was a ACT60 model. And then we have now started developing ultra-lightweight combines because in the paddy fields, these



lightweight combines are gaining more popularity in the Indian market as well. And we see that there is a market gap which can be fulfilled by us. So now we have 3 models in Harvester. One is the normal Harvester, then we have Ultra and then we have Ultra Plus combined. So we are now going into the lightweight category of the Harvester.

Sorab Agarwal: And we have started to deliver it, right, Vyom?

Vyom Agarwal Yes. Sir.

Sorab Agarwal: We've started delivering.

Zubin: Right, sir. Thank you so much, sir.

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

Suhrid Deorah: Hi, sir. Congrats on continuous strong performance. I had a question regarding calendar year 2025 with this transition to the BS5. So two points. One is that I would imagine that there will be a lot of pre-buying and you also talked about Q2, Q3 being strong because of this pre-buying. So in effect, you are basically pulling forward demand from next year as a result of this. So is it not fair to expect that the volume next year will generally be not as exciting in terms of growth?

Sorab Agarwal: I don't think so. It never happens like that. We've seen a lot of pre-buying but that will be in 40% of the number of equipment we do. The balance, 60%, we don't expect any much pre-buying because transition from BS4 to BS5, the price gap would be maybe 2% to 5%. It is to be more in the 40% segment. And especially, I would say they're in the return or smaller focus category and the Pick-n-Carry cranes, the Hydra type. So I don't foresee that.

Suhrid Deorah: You're saying 60% of products will not be affected?

Sorab Agarwal: Yes, because another thing is because I'm sure we'll be short on deliveries in quarter 3 because as it is, the demand scenario starts to increase September onwards, September and onwards. So it will be coupled with this prebuying. So maybe there'll be a lot of order booking, a lot of things happening, whatever best we can deliver will be happening. But post that also, genuine requirements are not delayed. It is just that something will get preponed. I don't think it will affect as such.

Suhrid Deorah: You said BS IV to BS V, the price effect is 2% to 3%, which is 40% of your product portfolio?

Sorab Agarwal: 2% to 5%.

Suhrid Deorah: And 60% of your product portfolio is BS III to BS V?

Sorab Agarwal: No, it's the other way around. 60% is 2% to 5% and 40% will be 12% to 15% where we can expect a lot of prebuying.



- Suhrid Deorah:** Okay, 12% to 15%. Got it. And the other question was, you were mentioning in the last quarter's call about a potential tie-up with a foreign company for white labelling or some sort of partnership in India. Is there any update on that, that you would like to share?
- Sorab Agarwal:** It is also work in progress and things are going in the right direction. But we have -- in the meantime, in the last, I think, in three quarters, we have started white labelling, like I mentioned earlier also, for one American company and one Turkish company. That has already initiated in the last two quarters. And there are some more opportunities, even bigger than these ones, which are currently under negotiation.
- Suhrid Deorah:** So the white labelling is you manufacture on your exports under their brands. Is there any other -- are you exploring other partnerships for the Indian market also?
- Sorab Agarwal:** Yes. There is -- today, everybody wants to come to India. And if they're not selling in India or if they are selling, they still want to partner with somebody to be able to produce the right cost to take it out of India. If you practically look around in our space, whichever Indian companies over there in the last 10, 15 years being taken over by foreign brands or multinationals, even Tata Hitachi is now more Hitachi than Tata or L&T Komatsu is more Komatsu than L&T or JCB long back has taken over Scot's equity or L&T Case now becoming totally CASE Construction, plus, plus, plus.
- Any small, big company outside India, if they are looking for development of their products or white labelling any one of our existing products, if they come to India, perhaps we are one of the only options. So a lot of things are happening on multiple fronts, and I'm sure we'll keep on adding value to our export portfolio.
- Moderator:** The next question is from the line of Dhvij Patel from Finterest Capital.
- Dhvij Patel:** Congratulations on a great set of numbers.
- Sorab Agarwal:** Thank you.
- Dhvij Patel:** Sir, I just wanted to understand, since we are foraying into the defence as well...
- Sorab Agarwal:** Could you speak a bit louder please?
- Dhvij Patel:** So I was saying, as we are foraying into defence as well, so can you shed some light on what orders we are expecting? And how much we expect it to contribute to the top line?
- Sorab Agarwal:** For the defence business, right?
- Dhvij Patel:** Yes. Just for the defence business, for FY'25.
- Sorab Agarwal:** Yes. See, I'll start with last year. Last year, we executed a business worth approximately INR68 crores, which is approximately 2.5% of our total revenue. But this year, we started with orders and order backlog of INR65 crores. So definitely, our defence business is going to be much more than what we did last year. So, I think it easily -- we started with INR65 crores, it will easily cross INR80 crores, INR100 crores, maybe more.



But simultaneously, let's say, certain specific requirements or bids which were being pursued in the last one to two years. So we are expecting two, three very big orders, one of them being our biggest ever from defence. And these combined orders can be to the tune of INR400 crores to INR700 crores. So we expect to receive these orders over the next maybe 2 months, 3 months max, maybe even earlier than that.

So that could change the contribution of defence drastically. We were targeting 5%. So we will easily exceed that, hopefully, in this year if these orders go through firstly. And then our pipeline for future is nice because again, these big orders are again repetitive type of purchases.

But out of this INR400 crores to INR700 crores, all of it will not be executed in this year. So maybe about INR50 crores to INR100 crores we might be able to catch in this year and the balance will take it down to next year, but still already INR65 crores in hand, another INR30 crores, INR40 crores, INR50 crores will come and let's say these bigger orders were able to execute INR1,500 crores. So we can actually do INR100 crores to INR200 crores worth of defence business in this year. If I just calculate the percentage it might go beyond 5% in the revenue contribution.

Dhvi Patel: Yes. So I was asking is because, for example, let's say, we conservatively figure out that monsoon might not be that great for us. So do you think defence might carry our order book during those crucial months?

Sorab Agarwal: Your voice is actually a little less, and I could not figure out, monsoon and whatnot?

Dhvi Patel: So I was saying, let's say, we are being conservative and monsoon is muted for us -- the monsoon months, they're muted. So do you expect defence to carry our order book for those months?

Sorab Agarwal: See, because if we get this order over the next two months to start execution for one of the orders can start, yes. It can play a role in quarter 3, if you get it in the next one or two months, one of the orders. But the other order will require actually three months of preparation before we can start execution because of certain components and different set of components with respective supply chain.

But I don't expect quarter 2 to be muted even with or without defence, because I believe that there will be enough pent-up demand from quarter 1. So I don't expect quarter 2 to be muted. That's my gut feel. Rather I feel 4 June onwards, things will go back to track.

Moderator: Ladies and gentlemen, due to the time constraint, we will take this as the last question for the day. I now hand the conference over to the management for closing comments. Over to you, sir.

Sorab Agarwal: Thank you. I think last year was one of our best years with respect to our largest maximum revenue, record profits, and even with respect to margin profile, we've been able to do a good job. And going forward, we'll be working very hard to maintain and obviously also focus on



increasing our market share as well as margin profile in the right mix to be able to further increase our revenue and maintain our growth profile.

And we are currently further working on adding new products like we discussed during our meeting, like Reach Stackers and rough terrain crane, we have introduced special models for export market for backhoe and telehandlers. So we'll not only be adding new products, we will also be adding new geographies internationally within the current year so that our export drive into a larger number of countries continues.

And we are hopeful that we will be able to double our revenues over the next three years, and we'll be targeting that. And in saying this, I would also like to say that -- we are also targeting a 3x over five years. So from the current levels going up to a 3x level over the next five years is what we're targeting at. And hopefully, the election results will be positive for the country, and the growth momentum will continue. Thank you.

Moderator: Thank you. On behalf of IIFL Securities Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Rajan Luthra: Thank you, everybody.

Vyom Agarwal: Thank you, all.