



“Action Construction Equipment Limited Q1 FY2020 Earnings Conference Call”

August 06, 2019



ANALYST:

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MANAGEMENT:

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Moderator: Ladies and gentlemen, welcome to the Q1 FY2020 Results call of Action Construction Equipment, hosted by Emkay Global Financial Services. We have with us today on the call, Mr. Sorab Agarwal, Executive Director and Mr. Rajan Luthra, CFO. 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 “*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Nilesh Soni of Emkay Global. Thank you and over to you Sir!

Nilesh Soni: Good evening everyone. I would like to welcome the management of Action Construction Equipment Limited and thanks them for giving us this opportunity. I would now hand over the call to the management for their opening remarks. Over to you Sir!

Sorab Agarwal: Good evening everybody. To begin this quarter with headwinds in terms of mild slowdown may be owing to different factors like NBFC crisis, some liquidity issues declining GDP and obviously the elections, and accordingly in Q1 we had a subdued quarter and we have seen a negative revenue growth of 2.1% on quarter-on-quarter basis and 12.8% on year-on-year basis. Our margins have also been affected and have degrown from 8.6% to 8.1% on year-on-year as well as quarter-on-quarter basis at EBITDA level.

Looking at the current economic scenario and a lackluster budget, we feel that it will be prudent to revise our guidelines for FY2020 to flattish from an earlier projected 10% growth rate and projected margins accordingly for FY2020 we feel will be similar to last year and I think it should be around 8% to 8.5%, which earlier we have projected at about 9% plus. There is also little good news in terms of steel prices, and steel prices have started cooling of, this should actually be affecting our margins positively over the coming quarters and the extent would be known in the coming future.

On the product front, we have been able to successfully introduce our new NX series multi activity cranes in the market in Q1 and look forward to realizing better margins on these latest technologically superior cranes. We feel that over the next two to three years 15% to 20% of the mobile crane market will migrate to these game changing multi activity NX series cranes. Before I finish my address, I would like to add that we are definitely facing some short-term pain with respect to growth currently, but the prospects for medium and long term remained good as our capacities are in place and most of our infrastructure and hard work is in place, so I mean as soon as we see some green shoots again from the negative territories, so we should start to grow back again. Yes I think that is it from my side as of now.

Moderator: Sir may we open the line for questions now?

Sorab Agarwal: Yes. Sure.



Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Rajeev Maheshwari of Praj Investment. Please go ahead.

Rajiv Maheshwari: Good afternoon Mr. Agarwal. In the current scenario and the slowdown in all the industries, I feel that a flattish result what was expected in fact to be very honest sale of around Rs.300 Crores and a profit of may be Rs.11 to Rs.12 Crores range, but going ahead I have two or three queries how do you see the current quarter, the Q2 quarter panning up in terms of the election has gone back in terms of the order coming into play and do we expect to maintain this around Rs.300 Crores of sales or Rs.11 to Rs.12 Crores of profit or do you see the impact in the next quarter also and next question is, is this slowdown basically a cyclical slowdown or it is a structural slowdown where the pain may be extent for a couple of quarters?

Sorab Agarwal: Okay. See with respect to your first question, I feel that our order flow and order booking in the last one or two months, even post the Q1 has been flattish and execution in the last month again, so going by that I think on a quarter-on-quarter basis I am talking of Q2 it should again be more or less flattish and may be 5% here and there that we cannot say, but as of now it looks flattish and holding on to similar profitability should be the order of the day, but here I feel that there is a slight possibility that going forward maybe into Q3, Q4, the profitability might increase on account of steel price reductions, which has started and happening especially in Q2 at a decent speed, the way they went up last year so that can actually, maybe help us to go beyond 8 to 8.5% also at EBITDA level, but that time will tell.

Secondly with respect to slowdown or this being cyclical or structural, to be very frank, I would not be able to comment on that because I am not the right guy and we have been thinking for the last two to three months and especially after elections especially in the month of June and even most of July that we are really not able to pinpoint a reason why it is happening. Yes a little bit here and there was expected, so to be very frank with you, ourselves in our company and reading all the report that we read in the paper and even on television, we have really not been able to pinpoint what is going wrong where, yes there are some issues with NBFC where there are certain things here and there and globally also something is happening but why is our country getting affected that even the auto sales and the car sales have declined so much in the last one or two months especially so we have really not been able to pinpoint anything, I will be very frank.

Rajiv Maheshwari: Okay and the second part of my question is relating to the buyback of the shares, you had set aside a certain amount of buyback of share considering the price range of may be 100 to 125, but now since the share price has fallen considerably and I think as on date around 57 about that, so is there plan wherein we may exceed the number of shares in buyback considering the prices which has come down drastically?

Sorab Agarwal: Yes, there is a possibility. You see because the buyback amount was fixed on the basis of our net worth, which was 34.25 Crores and out of which we have already bought around Rs.17 Crores, about Rs.17 Crores worth of sales approximately, so yes if the share price which is at its current level or I do not know whether it will go up or go down from here because we are supposed to



spend Rs.34.25 Crores, so definitely let us say assuming an average price, which we had thought earlier of Rs.100, Rs.110 and the share remaining at 70 the average price come to about 80, 85 then definitely the number of share will go up.

Rajiv Maheshwari: So basically it should be the total amount of shares, which you can purchase from these 34 Crores?

Sorab Agarwal: Yes.

Rajiv Maheshwari: Okay right and any timeframe within which you need to end this buyback or how is it like?

Sorab Agarwal: Yes. It is six months from when we started, so we started sometime, November 25, 2019 it has to finish.

Rajiv Maheshwari: Okay and the last point is how come interest cost has gone up from quarter-to-quarter, last year it was around one point something suddenly there was a jump to three points something, any specific reason?

Sorab Agarwal: Yes. I think one of the main reasons being that there has been an increase in our inventory level, again primarily that we were very hopeful that May election results and thing will bounce back so we were a little extra loaded, but I think another one quarter here and there will put it back in place.

Rajiv Maheshwari: Okay Sir. That is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Sanjay Dam of Old Bridge Capital. Please go ahead.

Sanjay Dam: Good afternoon Sir. Sir just extending the last question if you could give us a sense of how the working capital stood at the end of first quarter?

Sorab Agarwal: Yes. Working capital days from 38 gone up 54 in the last quarter and from Rs.76 Crores it has gone to about 130 Crores, so may be another one or two months, two to three months we will bring it back in place because the inventory levels have gone up, so most of it will be done in this quarter but some part might take a two quarter or three.

Sanjay Dam: Yes and the steel price actually could be of help to you?

Sorab Agarwal: Yes, it will be a bigger to us rather before starting the call, I was thinking, what a funny business we are in, when steel prices are going up we are trying on one side and selling more cranes. When the steel prices are going down we are again crying because of selling less cranes, but on the fly we are happy because our profitability will get maintained or increased That is an advantage.



- Sanjay Dam:** Sure and Sir could you elaborate a little bit on the agri equipment profitability?
- Sorab Agarwal:** Yes. We have had a little suffering there even in the last quarter and I think at EBIT level we are negative 2.8, but I am sure we will cover up because of some reason the sale was subdued, but still better on quarter-on-quarter basis I am sure we will catch up.
- Sanjay Dam:** Sure. Thanks. That is all from my side.
- Moderator:** Thank you. We will take a next question from the line of Shashi Dhar of EPC&I Magazine. Please go ahead.
- Shashi Dhar:** Good evening Sir. I wanted to understand from you, what is your growth in your aftermarket revenue for the construction equipment?
- Sorab Agarwal:** I do not think we will not have a quarter-on-quarter for aftermarket. It will be again flattish I think, we do not really have the data as of now.
- Shashi Dhar:** Okay. My next question is coupled with the NBFC crisis that is happening right now and also the fact that shift is taking place from BS-IV to BS-VI, in your opinion this had any impact on your sale or people deferring purchase?
- Sorab Agarwal:** See with respect to BS-IV to BS-VI for CV, construction equipment vehicles we are currently at BS-III and we go to BS-IV only next year, October 1, 2020 onwards.
- Shashi Dhar:** 2020 that is right yes.
- Sorab Agarwal:** Yes, so obviously we are working on those models and will come out in due time and get them approved within early half of the next year, so I do not think with respect to construction equipment vehicle there is anything weighing in the mind of buyers with respect to BS-IV or BS-III and both to do with commercial vehicles.
- Shashi Dhar:** Right. Okay. That is what I wanted to clarify. Thank you very much.
- Moderator:** Thank you. Next question is from the line of Nitin Awasthi of ITI Securities. Please go ahead.
- Nitin Awasthi:** Could you shed some light on the debt scenario of the company, like was there how was the movement during the quarter and what is expected in the whole year, are you expecting repayments, if so by how much?
- Sorab Agarwal:** See our debt quarter-on-quarter basis, I think our overall borrowings have gone up about Rs.40 Crores to Rs.50 Crores, which is predominantly like I mentioned increase in inventory and there was slightly misbalancing because offtake was less. We were ready for more post election results. So I am sure over the next two to three months, we would put it back in place and on a



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year end basis, I think we will most probably maintain what we are doing and we may be able to deduce it little more as compared to last year level, which was around approximately Rs.50 Crores at the end of last year.

Nitin Awasthi: In about let us say by 2021, should the company be able to reduce the debt substantially and be debt free?

Sorab Agarwal: That is one of our prime aims because five, seven, eight years back we never used to have any, hardly very little amount, which we used from the bank. So that is our endeavour. So it is not in FY2020, definitely sometime in FY2021, we are aiming for that that is one of our top priorities in our mind as of now.

Nitin Awasthi: Okay Sir. Thank you Sir. That is all from my side.

Moderator: Thank you. Next question is from the line of Pritesh Chheda of Lucky Investment. Please go ahead.

Pritesh Chheda: Sir on the gross margin side, we had taken price increase last year of about 8-9% and had taken another round in January 2019, but I do not see the gross margin improvement on a Q-o-Q basis, and steel price itself has softened from January 2019 so your comments?

Sorab Agarwal: See last year we had taken 7%-8% price increase to offset about 12% price increase, which happened on account of steel and the balance we got from operating leverage because last year the numbers of our production were good, but still we were left with a deficit of around 1%-1.5% by the end of FY2019 and going into this year, this 1-1.5% deficit, which was left on account of steel price increase will get corrected because of the steel price reduction, which has predominantly had started I think not from January, but sometime around I would say March, April and yes some tiny-winy effect would have come in the last quarter because what happens is that inventory with us and inventory with our suppliers to suppliers from fabricated components, and also with respect to some order booking, which is done with all the OE steel suppliers, which is one or two months in advance, so the net effect of an increase or decrease actually, we start to get that benefit with about two months lag plus, minus. So we should definitely see some better result in this current quarter with respect to the effect of steel prices, which have cooled off around 10% to 15% now and are expected to cool up further because the spot rate is already 5-6% lower than the OE rates. So the OE suppliers whether it is Tata or SAIL I am not able to digest this quick reduction in price so hopefully within this month and going forward into September they will cool up further maybe another 3, 4, 5%.

Pritesh Chheda: Do you have to take higher discount or cut the price now?

Sorab Agarwal: See for us it is simple, we unable to fix the price for one or two months in the beginning of every month with the OE suppliers.



- Pritesh Chheda:** No, finished good prices. I said do you have to cut the finished goods prices?
- Sorab Agarwal:** Luckily no. Luckily I do not think that will be the scenario. We are going to retain the benefit because whole of last year we have been totally paid by selling on a higher raw material cost, input cost, I do not think so and the last price increase we did was in January, which was put into effect full force in February so yes if we had done a price increase one or two months back then obviously customers start to ask for that you have just increased the price, steel prices have gone down and all that and all that, but yes, it was done about six months back, seven months back, so I do not see any problem, we need not roll back any prices.
- Pritesh Chheda:** And in the quarter for the topline decline that we have, I joined a bit late in the call, so what was your volume decline, so is it fair to assume that your volume decline will be closer to 20%?
- Sorab Agarwal:** You are talking on year-on-year basis?
- Pritesh Chheda:** Year-on-year.
- Sorab Agarwal:** There has been a decline of about 20%.
- Pritesh Chheda:** Right could you give just a total volume number versus the total volume number for this quarter?
- Sorab Agarwal:** For pick & carry cranes, Q1 in 2018 were 1639.
- Pritesh Chheda:** Q1 2019?
- Sorab Agarwal:** For 2019 it is 1264 and last year in FY2019 Q1 was 1639.
- Pritesh Chheda:** So right now it is 12..
- Sorab Agarwal:** 1264.
- Pritesh Chheda:** Okay that is 1264 versus 1639?
- Sorab Agarwal:** Yes.
- Pritesh Chheda:** Okay and total volume if you could give?
- Sorab Agarwal:** Total volume including tractor from 3410 it has gone down to 2549.
- Pritesh Chheda:** Okay. Lastly on the past call, you had this aspiration of exports growing up this year from 4% to 10% being a growth driver and some improvement in tractors and backhoe loader, where are we on those three growth drivers and why have those growth drivers not panned out?



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Sorab Agarwal: See with respect to exports we were at about 6% in the last quarter and yes in the whole of last year we were around 4%. So this quarter we have done about little over 9% with respect to export so that is one thing that has started happening which we were envisaging and planning for obviously on a slightly smaller base because sales have shrunk a little, and with respect to construction equipment sector if you see the segment there has been a slight growth, obviously we would have thought we would have done 60%-70% growth in revenue, but I think between 30% and 40% would still be possible in this year with respect to backhoe loaders and construction equipment, which also includes some road machinery. With respect to tractors, we were looking at about 20% growth and it is slightly difficult question to answer, but I think still we should be able to do about 5% to 10% in this year.

Pritesh Chheda: How were the enquiry levels and what is your take on when the enquiries will start picking up and your growth should start looking better?

Sorab Agarwal: See you have to understand two things that we primarily supply about 55% to 60% of our revenue overall comes from the infra and the construction sector and about 40% directly, indirectly comes from manufacturing or industrial sector for our product, yes, agri is there, but that is another 13%-15% of our revenue we will just put it aside. So with respect to infra, the feelers that I am getting because obviously we work and talk with all the big and small companies, all possible companies in India but especially the bigger one, so most of the contracting which was tender and even bids were open, let us say the Q4 of last year that is January to March, they have also not been finalized for some good reason till date and one of my very recent meetings with couple of bigger EPC companies and contractors, so they are very hopeful and the indication they are getting that within August itself now these new jobs will start to rollout so I am very hopeful that with respect to infra sector of our side, we should be seeing some improvement in offtake and demand by let us say middle end of Q3 in this year or Q4 that is my feeling on this because it takes two, three, four months for things to come on track as soon as even the ordering starts, so that is with respect to the infra side. Now with respect to industry side, it is dependent, I will be very frank, more to do with the GDP and the growth and the consumption that you see, that is why the manufacturing of the industry side produces more than, now it has required more cranes. So that I feel that till such time we see improvement in overall economic scenario maybe I do not know happens in two quarters, one quarter, four quarter, five quarter, I really cannot say, I am not an expert on that. So then we should see our company as a whole doing slightly better, better than slightly better, but I think Q3 second half or let us say Q4 onwards with respect to the infra side of our business we should start to, that is what I feel, balance only time will tell.

Pritesh Chheda: Thank you Sir.

Moderator: Thank you. Next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.



- Jasdeep Walia:** Thanks for taking my question. Sir in the last quarter's call you said that 30 Crores of sales of tractors have been deferred to 1Q of 2020, but in this quarter, in the tractor segment I see sales of only some 30-40 odd Crores which implies that mostly in this quarter, very little of tractors are sold?
- Sorab Agarwal:** See it is not that and most of the 30 Crores are not tractor, yes tractor was part of it. It is more to do with the RTO and even a lot of construction equipment was there, in that sales has got deferred because of RTO logistics problem and fortunately, unfortunately not RTO, but there still has been deferment of sales in this current quarter so I think it will become a cycle because end of the month and quarter somehow logistics is becoming difficult to ship out all the machines especially in the last two to three days, so it is not that most of that affected because that 30 Crores are not all tractors. Yes may be about 40% of that was tractors.
- Jasdeep Walia:** Okay. Got it and Sir with respect to exports what are your targets for FY2020 in terms of rupees Crores?
- Sorab Agarwal:** I think we really not put a target to it, but I think something around 125 to 150 Crores is what it seems we should be able to do and in the first quarter we have done close to about 28 Crores.
- Jasdeep Walia:** Got it and what has been the trend in the first quarter on Y-o-Y basis in exports?
- Sorab Agarwal:** First quarter on Y-o-Y. FY2019 first quarter it was 16.7, so there is a 65% increase.
- Jasdeep Walia:** Okay. Got it Sir. Thank you Sir. That is all from my side.
- Moderator:** Thank you. Next question is from the line of Kaushal Shah of Dhanki Securities. Please go ahead.
- Kaushal Shah:** Sir, thank you very much. My questions have been answered.
- Moderator:** Thank you. The next question is from the line of Sarvesh Gupta of Maximal Capital. Please go ahead.
- Sarvesh Gupta:** If I net of the export sales I think the domestic volume numbers would have degrown by more than 25% odd is that right?
- Sorab Agarwal:** Yes plus, minus, if you can say that.
- Sarvesh Gupta:** Yes, so Sir on the infra side particularly manufacturing of course I can understand that because of the slowdown in demand may be things would have got stretched in terms of the timeline, but on the infrastructure side government was building a lot of roads at least that was the focus of Mr. Gadkari in the previous regime and similarly all other infrastructure projects also tend to be long the gestation projects, and they are tendering, etc., is also long gestation, so what are you exactly



hearing from your customers as to why so much of slowdown is there, which is visible in terms of your numbers?

Sorab Agarwal: See like I said infra is about 60% of our business and to be very frank with you it would have slow down lesser than the industrial side of our business it is 40% and with respect to our customers, what like I mentioned, what we able to understand from the bigger customers that around now the government has understood the urgency and for the last five, six months, the system was slow in awarding new contract, which had already been tendered and L1 and all those things had been done, so they were quite upbeat that in August, September, a lot of new work which has already been tendered last 8, 10 months, 12 months that will start to get released and that is what give me confidence that Q4 should slightly look up definitely if not Q3.

Sarvesh Gupta: Okay and so your assessment of the scenario on the basis of the customer interaction is that this is very temporary or may be one or two quarters type slowdown rather than something more structural?

Sorab Agarwal: With respect to infra side.

Sarvesh Gupta: With respect to infra side only I am talking about.

Sorab Agarwal: Yes. See another element that happened that I do not know why but the new government in Andhra Pradesh, they cancelled all the projects all of a sudden, they came to power and they cancelled everything, even a lot of ongoing stuff, they stopped it for verification of whatever the purpose be, so I am sure that in Q3 those works will start again that is another impact and lot of big companies are also working whether it was L&T or whether it was Nagarjuna or whether even so many of them I remember many more name, so what happens is that something, what happened, so they tend to squeeze everywhere. That will affect spreads. So I think in Q3 that should also come back on track for whatever good that reason for analysis whether they have done at right prices or right terms or whatever, the contracts were stopped even ongoing one, so that effect should also come back here.

Sarvesh Gupta: Understood Sir and if you can throw some color on the manufacturing side as well where basis your customer interactions what are you hearing, where were you doing primarily a lot of sales and what has changed in those bigger segments of viewer actually being able to sell a lot of your equipments?

Sorab Agarwal: On the manufacturing side, industrial side is huge, it covers everything, each and every segment you can think of where there is any type of lifting or shifting, but yes what I definitely foresee that for a good two, three, four quarters, there is going to be pain in the auto sector where we primarily supply forklifts and I would feel that 10% to 15% of our forklift would directly, indirectly be going only in the auto sector, may be slightly more. So that is definitely going to be impacted over the next three to four quarters, if not more. Balance things are going on people are working, people are dilly-dallying, but everybody on the contrary was very hopeful that post the



elections things will start to look even better. So that has been a sudden wrong thing that have done, and the things have not looking up rather looking down, and that is also one of the main reasons that it might not be that bad, but all of us together are talking much more worse than that regarding the scenario and the economy. I do not think it is that bad but yes there are problems, there are pains, and I am sure will get over there.

Sarvesh Gupta: And Sir last time you had also discussed something about the new line of I think multi-cranes, etc., so what has been the progress on that side this quarter, have we been able to do something more?

Sorab Agarwal: In the last quarter, we had just started delivering, so we delivered our first unit, they went to some of the most prestigious customers in the country because that was our intention that they should be placed with the best in construction and even in manufacturing. So that has happened, and we are seeing good response for these machines and our numbers will definitely be much better in this current quarter if at all and last quarter was just the beginning, but going forward I am very sure which I had mentioned last time also that over the next two to three years I think 15% to 20% of the crane market, if not more will migrate to the cranes where our gross margins are also much better and they close to, we are working at about 62% RMC, so they are about 38%, 40%. So it is two, three years, one-and-a-half years from now, our mix with respect to crane start to change with 15-20% of these pitching in, it will not happen in day one, it will happen over a period of three months. I am sure our overall gross margin profile with respect to cranes and the company will start to look much better.

Sarvesh Gupta: I understood Sir and the other thing that I wanted to know is that you mentioned about the buyback, I think out of 34 Crores you have already bought around 15 Crores worth of shares is that right?

Sorab Agarwal: About 17 Crores.

Sarvesh Gupta: So half you have got and what is the average price for this half that you have bought?

Sorab Agarwal: Rs.95.

Sarvesh Gupta: Thank you for answering all the questions patiently and I will join back in the queue.

Moderator: Thank you. Next question is from the line of Sachin Kasera of Sven Investments. Please go ahead.

Sachin Kasera: Good afternoon Sir. Sir for FY2020, what is the capex plan Sir, how much we are planning to spend in capex?



Sorab Agarwal: I think all put together maybe about 15 to 20 Crores, 7-8 Crores will go into maintenance capex and some more paint line and all we wanted to do so that will not stop but go ahead this year, but very soon we will require to make more crane.

Sachin Kasera: Sure secondly Sir you mentioned about the slowdown that we are witnessing, is it primarily because of the demand not been there or it has also still been contributed by the fact that due to the NBFC crunch, the fund availability and the financing is also an issue?

Sorab Agarwal: See I will be very, very frank with you, we have not been able to pinpoint because the NBFC crisis with respect to our business is when we see that availability of funding to customers. One or two of the big private NBFCs have gone down, in our sector also, they have stopped lending, they are only working on collections, but that has been replaced by HDB, which is an arm of HDFC itself, IndusInd and all that so to say that any of our customers to fund the equipment they are buying from us or anybody for that matter are having pain with respect to funding I will not agree it is available very much there and I have seen some change also in the last two to three months, four months, even PSU banks have started to become aggressive in equipment lending, the NBFC way through smaller direct sale agents or whatever you can call them, so with respect to our business NBFC funding I really do not think, but yes, some of these NBFCs also used to fund infra projects, so that way there might be some impact, some part lending or some part funding was being done.

Sachin Kasera: My question is more towards that is it that because of the funding availability, most of the infra projects are not able to have financial closure or maybe even if the financial closure has been done they are not raising the disbursements and in turn it is leading to maybe a slowdown in demand for our equipment?

Sorab Agarwal: NBFCs like SREI and even for that matter IL&FS, they were definitely doing this aspect. So SREI I do not think doing any fresh lending on its own as of now if I am not wrong, I can be wrong but that is what I know, and IL&FS again everybody knows big mess there already. So definitely that could be hampering some part of activity, but on the other hand all the banks whether private or PSUs, I totally see that with respect to the customers ability and willingness, this I am talking with respect to contractors, the bigger one, I do not see a problem there at all, so if the customer has the ability with most of the ones, which are still working and surviving has the ability and obviously the willingness, so there I do not see a problem, but yes, definitely some part of it would have got affected directly, indirectly because some small tranches and some small money was definitely coming in from these two of these NBFCs, which are going to be affected.

Sachin Kasera: Sure. Sir my next question is regarding this multi activity crane that you mentioned and you said that in three years it has been roughly around 15-20% of the volumes from you, so is not that it is going to cannibalize and substitute some of our existing sales of cranes or is it going to be a new segment and it will be an expansion of market?



Sorab Agarwal: See I am sure over the next year, overall will be an expansion of market, but definitely it will be eating into those cranes only because see the overall number of cranes required are going to be, they are going to be increasing, but yes out of those will be a shift towards these models. Apart from that in this NX series we have three types of cranes, so one of them is actually a substitute for another product segment, which is not a crane. So this particular machine offers likely called the multi activity it is like a two in one machine so it is also a crane and it is also aerial work platform or man lift. Yes it will be eating into some other products pie as well and also somewhere eating into our own pie, but at a much better gross margin.

Sachin Kasera: So this year Sir could we make 15-20% from this?

Sorab Agarwal: Yes, I would think we will do. We should be doing about 35-40 Crores.

Sachin Kasera: Sure and Sir one question regarding exports, you are confident that despite some correction in the initial estimates you will still see a growth in exports and even the inflow in the global front is not good we are continuously hearing news of trade was heading to slowdown in the global economy, so is it that we are not fairly confident about achieving 30-40% growth or that is also subject to the environment related condition?

Sorab Agarwal: No. See we are very much confident, we were doing about 1.5-2% of our revenue in exports then we did 4% then we did 6% that was last year and first quarter we have already done about 9% plus in exports, so on a whole year basis I am sure that we will do 9-10% of revenue contribution from exports, which would be a significant increase over the last year's exports. We will nearly double it nearly I mean plus minus let us say if you want I can put a number to it from 82 Crores easily go up to 125, 130 Crores, it is not more.

Sachin Kasera: And Sir one question regarding construction equipment, you had been mentioning at one of the concall?

Sorab Agarwal: We will get about plus, minus 70% growth in our export revenues, yes.

Sachin Kasera: And this export continues to grow on this pace from here also or that is like our optimum which we will reach?

Sorab Agarwal: I think so because earlier we were never trying to do it. Last one to one-and-a-half years we have been in organized fashion trying to do it, organizing ourselves in, whether it is African continent or Middle East or some parts of South America and even South East Asia, I am sure we should be able to maintain this pace. Another good news is that these multi activity cranes, which we have introduced, we are seeing a lot of interest from outside, more than our regular pick & carry cranes that we do. I think that gives a lot of confidence that doing a 10% and then over the next two to three years even taking it up to 15 to 20% of our revenue should be possible, balance time will tell.



Sachin Kasera: Sure Sir and in material handling I believe you had mentioned that the competitor was very aggressive on pricing and that should subside at some point of time, so we started to witness it or the competition is putting pressure on margins?

Sorab Agarwal: I do not remember when was this because competition generally keeps on putting pressure on price or something or the other, but there is nothing as such because last year most of everybody suffered because of steel prices and for most of the equipment manufacturers steel is one of the main inputs and in the current year they are already suffering from a little reduced volumes. Our volumes have gone down, but I know all of my competitors have gone down even further. Just to give an example in cranes we were doing about 62%, 63%, 64% market share and last month we were able to do 67% market share. So on a slightly degrowing numbers I really do not see a reason that there will be a problem on the price part because that will affect everybody very badly.

Sachin Kasera: Sure Sir. Thank you very much.

Moderator: Thank you. Next question is from the line of Prakhar B from Kedaara Capital Advisors. Please go ahead.

Prakhar B: I just wanted to deep dive a bit more on the region specific aspects like you touched upon AP where the government is reviewing contract, I just wanted your view on any other specific reasons, which are contributing to the pain and how does it look like in terms of the central versus the state outlets for the year?

Sorab Agarwal: To be very frankly like I mentioned two to three times, we have not been really able to pinpoint why this is happening, not only with our sector but on the whole because I frankly not able to find a reason, yes there were some pain in NBFC government moved very fast, they tried to restrict it and I think it is just a breather market is taking without any reason.

Prakhar B: No but like in AP, the new government has put a lot of projects, do you see some similar effects in Karnataka?

Sorab Agarwal: No. This is specific to Andhra Pradesh and we were all very surprised rather on the small contractors who were very surprised. So yes, there have been a couple of, which is that one very big development site in Delhi, in the hot of Delhi that for some season, the NGT panel has put on hold so that is the very big site that was coming up because I think it is called some global trade center or world trade center. Then similarly you must have read Mumbai had costal road project again because of some Supreme Court or NGT I do not remember that has just got deferred a little. Yes these one or two things keep on happening, but nothing as such.

Prakhar B: Okay and also one more thing that we keep hearing about and you can tell us if you are seeing this in ground is that the fiscal position of the government does not seem to be very particularly



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strong to promote a lot of capex, are you beginning to see kind of some struggle on capex rent in execution or do you believe it is just due to our push which is missing?

Sorab Agarwal: Yes I am really not competent to answer that question, but I feel that government take a call very quickly that is what my feeling is and they would not mind losing 0.5% on the fiscal deficit to ensure growth in the country that is my feeling.

Prakhar B: Okay. Thank you Sir.

Moderator: Thank you. Next question is from the line of Sandesh Shetty from PhillipCapital. Please go ahead.

Sandesh Shetty: I just wanted to ask on the different volume numbers for different categories of our products for the current quarter?

Rajan Luthra: For our Pick & carry crane it is 120, mobile tower crane 30, fixed tower crane 30, crawler cane 1, tractor 668, backhoe loader 67, forklift 234, 9 compactors, 4 graders, 8 truck mounted cranes, six Harvester, 243 rotavators and two piling rigs. Piling Rig is a new product, which we have launched in the current year only. These are the volume numbers.

Sandesh Shetty: Thank you Sir.

Moderator: Thank you. Next question is from the line of Nitin Awasthi from ITI Securities. Please go ahead.

Nitin Awasthi: Sir just one more question I had like we are seeing a lot industries get totally disrupted because of technology, now you have now introduced a new product where you are combining two features that you used to offer in two different product now I see that is lot of investment going in there, but are there some other changes, which are happening in the space because you are the leader already here, so there are not other people to find out from where there are major technological shift either happening or potentially could happen in this space that is what I just wanted to get a little light on that?

Sorab Agarwal: You said a word, which I really did not want to use, these products that we brought about are actually disruptive in nature and they will change the way our country uses cranes over the next five to 10 years. I am being little conservative when I say 15-20%, my mind tells me it will go up to 30-50% now, it will happen in five years or seven years I really cannot say and also to increase or also to make let us say the cost effectiveness or the viability better because we do not want to compromise on gross margins for so many years we have sold products at less gross margins and made less profits. So what we are also doing is in two to three of these categories, which we have introduced NX 360, NXT and NXP, we are coming out with subsequent models, which are more cost effective without compromising the gross margins, so these models should also be out in the next about four to six months, and they will further induce numbers because today let us say a customer used to using a crane, which is costing us give an example similar 20 tonne crane,



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which is costing at about 23, 24 lakhs and with our new offering we are asking for 36 lakhs but it is a dual purpose, it is two in one. So we are coming out with another model which is going to cost about 31 lakhs without compromising our gross margin, so the affordability or the cost effectiveness will increase further, which will further induce numbers. So this concept will sooner or later started to become popular, which it is already started, see the main advantage is India, we can probably say that we are the world's largest pick & carry crane manufacturers, but in the balance parts of world they do not use the pick & carry crane, they use a telehandler, so what we have done is we combined a pick & carry crane with a telehandler, so both the features are there, it is a five minute change over. Similarly, most of the world is used to using leaving out Italy, South Africa and Australia, they are used to using slew crane full 360 degree rotation crane, so one of the model we have introduced is a pick & carry crane as well as 360 degrees slew cranes, so with all these foreign consultants and experts and even a lot of all the metro sites are most of the L&T sites I would say that one to two years from now this will become the norm because they are very keen on safety, all the refinery sites whether it is HPCL, BPCL or Reliance. This will become the norm in the next one to two years and I have already seen that happening. We have supplied some machines to JSW. We have supplied some machines to BALCO. One or two of our machines have entered into L&T. It is a matter of time. See it will not happen overnight, but the potential is huge and I hope it causes the disruption they have been made for.

Nitin Awasthi: Okay Sir. Thank you for answering the question and this is good to know that you are the one causing the disruption rather than being impacted by that, anyway thank you Sir.

Sorab Agarwal: It is always better but the second part of it is that yes sooner or later over the next 10 to 15 years as soon as our automobile sector is already moving towards electric vehicles and I am sure in the next five to six years, some buses have already started moving towards electric, Tata has already developed fuel cell technology that hydrogen fuel cell, which I think will supersede electric finally, but my mind tells me in the next five to six years even construction equipment will start moving towards that side and by that time for these heavy batteries and bigger hot power requirements, the thing would have evolved, technology would be present, so that is one thing we will have to look forward to in the next five to 10 years but not for the next five years but after five years yes.

Moderator: Mr. Awasthi, do you have any more questions?

Nitin Awasthi: No that is all from my side. Thank you.

Moderator: Thank you. We will take a next question from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir overall in terms of replacement cycle what is the contribution of replacement demand right now Sir?



Sorab Agarwal: Very difficult to put a number to that but I can tell you that the crane market size has actually started to increase sometime in 2004-2005, 2005-2006, but obviously it was half that of today size and I would say that 50% of those cranes being sold in 2006, 2007 must be under replacement right now.

Sarvesh Gupta: So on an average, how many years does it take to replace it?

Sorab Agarwal: I would say that people use cranes as old as 20 years, 25 years, this is I am talking of pick & carry cranes because tower cranes will last for 15 to 20 years, crawler cranes will last for 15 to 20 years, but for a pick & carry crane ideally I would say that in 10 to 12 years, the cost of operation and maintenance cost become nonconductive and the cranes actually become very old because they were put to very rough use so ideally 10 to 12 years they need replacement, yes but people do end up extending their life up to 15 to 20 years, already there is some people who maintain them better, who use them better, who really do not abused the crane, but ideally I would say 10 to 12 years should be economic life of pick & carry crane. Apart from that 10 year, 15 year diesel engine all those things are also happening here or there in bigger cities so 10 to 12 year I would put as a life of a crane, but yes some extent also.

Sarvesh Gupta: I understood and Sir on the other expenses, we saw some spike this quarter on Y-o-Y basis given that I was under the impression that around half of our operational costs are more of variable and we had such massive volume decline, I was thinking that we could have done much better in the control of other expenses?

Sorab Agarwal: I think Mr. Luthra will be the right person to answer this other expenses.

Rajan Luthra: If you are comparing with year-on-year basis in the March quarter we had to reverse about 4 Crores of expenses of which we have made provision in the earlier quarter for the merger. If you exclude that we are in the same line with whatever we are spending so if you compare with June also we are slightly lower as compared to June 2018 and if you analyze the expenses of 20 Crores in June probably we are touching the March, slightly lower than the March full year, so as a company we are always conscious of the other expenses and all type of expenses so with the change in the scenario, and the topline we just tightened of belt, so I think we will be able to maintain all the expenses in line with whatever numbers are. March quarter was just one off of the reversal of the first what are the provisions we are made in the earlier quarters.

Sarvesh Gupta: No, in June quarter, was there any one-off?

Rajan Luthra: June 2019?

Sarvesh Gupta: Yes.



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Rajan Luthra: No. there is no one-off except for the some expenses, which we have to pay for the buybacks that we have to pay about 20 lakhs for buyback and similar forms for the BSE and NSE and all those about 30, 40 lakhs, not more than that.

Sarvesh Gupta: Okay Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the floor back to the management for closing comments. Over to you Sir!

Sorab Agarwal: Yes. I think we have discussed most of whatever could have been said. I just hope and pray that one quarter, two quarters are in fast as possible things start to get back on track, but irrespective of that I can tell you that we are already gearing up to bring our working capital back on track over the next two to three months it will take, which has gone a little awful because of the inventory increase and we will be working very hard to maintain 8-8.5% EBITDA it is not more, if steel prices play our way we might be able to do better than that and we are giving a guidance of flattish this thing, but in our heart we feel that it should be more, so let us see.

Moderator: Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.