



“Action Construction Equipment Limited  
Q3 FY2021 Earnings Conference Call”

January 29, 2021



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q3 FY2021 earnings call of Action Construction Equipment Limited, hosted by Emkay Global Financial Services Limited. We have with us today, Mr. Sorab Agarwal, Executive Director, Mr. Rajan Luthra, CFO, and Mr Vyom Agarwal, Head Investor Relations. 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 now hand the conference over to Mr. Karan Shah from Emkay Global. Thank you and over to you Sir!

**Karan Shah:** Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity to host the earnings call. I would now hand over the call to the management for their opening remarks. Over to you Sir!

**Sorab Agarwal:** Good evening and welcome everyone to this earnings conference call. I am Sorab Agarwal, Executive Director at ACE and along with me today in the call are Mr. Rajan Luthra our CFO and our Head Investor Relations, Mr Vyom Agarwal. I hope all of you have had an opportunity to look at the company’s financial statements and the earnings presentations, which has been circulated and also uploaded to the stock exchange. It gives me immense pleasure to inform you that this is the first quarter that has been the best quarterly performance in the history of our company so far with highest quarterly revenues, EBITDA and net profits.

To brief you on the financial performance for the third quarter of the financial year ended FY2021, the operational revenue grew by 38% on a year-on-year basis to approximately Rs.400 Crores with an EBITDA of 45 Crores, which grew by around 102% year-on-year. The EBITDA margins stood at 11.29% excluding other income. The profit before tax grew by 154% and the net profit grew by 143% year-on-year to 42.7 Crores and 31 Crores respectively while the PAT margin stood at 7.72%. For 9 months ended FY2021, the operational revenue stood at 770 Crores with the operating EBITDA of Rs.69 Crores, EBITDA margins at 8.99%, a net profit at 41 Crores, which again is better as compared to last year 9 months results even though the first quarter of the current year was a washout with some losses.

It will not be out of to news to mention that owing to certain supply scheme constrains, we were not able to fully capitalized on the potential of revenue in December quarter as well, otherwise our topline, bottomline and profit margins would have been tat bit better. The company’s growth was mainly driven by revival in construction and infrastructure activity and also strong growth was witnessed in the industrial and logistics segment. Growth in the agri and construction equipment segment was driven by realignment of our business fundamentals, which we carried on in the last 2 to 3 quarters. The company’s operational efficiency also improved due to the cost control measures taken by us in the past few quarters.



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Although the steel prices continue to increase in the quarter, the company was able to pass on the price increase to the customers ensuring that our margins were not compromised. Further in our pursuit to offer world-class products with contemporary technology we have now developed a lithium ion electric forklifts for our valuable customers. It is relatively clean and user-friendly technology and it is the proud moment for us at ACE as we are the first indigenous manufacture to develop this advanced technology product for commercial and industry use.

In the quarter gone by the company has also given in principle approval for an employee staff option scheme to motivate the coming employees and align their efforts towards long-term value creation in the organization and to attract new talent.

Looking ahead, we believe India recovery will be stronger aided by government focus on urban infra and rural development with fiscal expansionary policies. The vaccination drive shall also contribute to the healing from the damage done due to COVID-19. The green shoots of economic revival and healthy order flows makes us believe that the demand scenario to continue to remain strong in the fourth quarter as well. As conveyed earlier and looking at the current momentum of economic activities, we should be in touching distance of our last year's revenues with better margins by the end of current financial year. Further we remain optimistic about the medium to long-term prospects of the company and expect recurring growth in construction equipment and agri segments coupled with sustained growth in cranes and metal handling segments to support the function in topline, bottomline and margins of the company. With this I would like to open the call for the question and answer session. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Sanjay Dam from Old Bridge Capital. Please go ahead.

**Sanjay Dam:** Congratulations on a wonderful set of numbers and congratulations to entire team, it is a very, very proud moment for you.

**Sorab Agarwal:** Yes, all of us have worked very hard and keeping in mind that COVID is still around and was especially around in October-November, so there was also a risk but we performed.

**Sanjay Dam:** Yes, used to always discuss internally that, so think over just what this company has done quarterly best, so used to always say that is to wonder, so where does the journey leads from here, so you have done 30 Crores, that is an amazing number to achieve and I would like to multiplied by 4, but we know life is not so simply like that, but on a most serious note, when I look at your segment revenues, you have indeed done extremely well in cranes, but agri equipment fired like nothing never before so 73 Crores agri equipment so question number one is that how do you see going ahead in the next 4 quarters, so to give you of our perspective, 175 Crores is what you have done in the last 4 quarters and if I look at your FY2020, you had did 145 Crores, right so 145 Crores in last FY and 175 Crores from the last 4 quarters, what is the road ahead because this has also contributed reasonably good profitability segment a bit, question



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number one. Question number two is that when look at construction equipment, you have always maintained that the segment can become larger than crane sometimes and we sincerely believe that. So very crucial juncture in this journey is that you secure highest construction equipment revenue almost about 40 Crores odd almost and not only that it started to contribute to profitability also, so if you give some sense of what is the next four quarters you think will look like given that we see a exclusion in not only public capex, but also private capex is reasonably picking up I mean lot of private capex is happening across that is the public space and third is that the cranes themselves, you again hit a kind of very good number, I think this would be the highest ever quarterly crane revenue also and EBITDA that you have done, so some sense of you because all these three are at a juncture we have never seen before. So your sense on this?

**Sorab Agarwal:** I would forget the infection point rather.

**Sanjay Dam:** Yes, I have never seen this numbers, we have been tracking it for sometime, we have not seen you do so well and each has its own, so I agree this is not something which is the main line, but you have done something out of the ordinary, cranes is again you have done the highest ever, construction equipment, which can become as big or may be larger than cranes you have become reasonable profitable, 8 Crores to 9 Crores EBITDA is visibly good starting point and 39 Crores to 40 Crores construction equipment quarterly revenue is a serious number to start with so?

**Sorab Agarwal:** To answer all your questions, but let me start what you said initially that getting 30 Crores I can multiplying it by 4 is what you would want, I would want, but I would say, I would rather want that  $30 \times 4$  is another increasing factor because I think which is possible, the demand has to be sustained and our performance has to be sustained because coming to your question now, with respect to agri or construction equipment both of them, the demand potential or the scope of company's growth or increase in revenue, so if you put the agri it would be somewhere like may be about 50000 Crores to 70000 Crores market wherein we are practically doing all of may be the end of December of about 180 Crores, 190 Crores or 200 Crores revenue, so the potential or the available market size is huge, it shows that for so many years now it was there, and internally we have done whatever possible and especially in the COVID time and after that and we had started to do that just before that to organize, reorganize to ensure that effective results come because unnecessarily lot of money was spent in areas where there was no growth in these divisions and the results are not forthcoming so the teams have also been reset, the focus has been brought in and to be very frank with you, I am personally involved with the construction equipments segment, we were leading it and driving it so that the potential that is there because the construction loan I think with the slight price increase here and there in the 9000 to 10,000 Crores segment now, which obviously 8000 Crores to 9000 Crores, which will go to about 10000 Crores to 12000 Crores in the next one or two years, three years, so potential there again is there and we were just languishing. So what really has happened is that we have been able to our go to market strategy or to increase in a particular area we have been very successful with what we have been doing, and what we have done in the last one or two quarters and we are pursuing hard and following the same set models in the other areas geographies where we are present. Now, to



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answer your core question that I see that in both the segments for the next quarters, 4 quarters, 5 quarters let say the next financial year, I see that we should be for construction equipment we should definitely be looking at sequential growth quarter-on-quarter basis, definitely on year-on-year basis that we have sequential growth and if everything goes on we should be able to hit a 40% to 50% revenue over the current revenue, which is close to 120 Crores plus or minus possibly in the current financial year may be going up to 170 Crores to 180 Crores even touching 200 Crores may be more than that is possible, but only time will tell and the base increases and sales price with simple formula so going by that if you are able to do 200 Crores then 300 Crores, 400 Crores will become easily possible, 500 Crores, 700 Crores, 800 Crores so that is how things happens, and like I said and I said earlier that in this 8000 Crores to 9000 Crores, 9000 Crores to 10000 Crores possible market space it should not be difficult for us to, you know even go to 2000 Crores to 2500 Crores over the next 3 to 5 years that is long on this, but yes, our immediate target is 200 Crores, then 400 Crores, then 800 Crores it looks like that we are in the right place, the ball in rolling, there are no stoppages in the ways the team is well trained, well groomed, the market in the way the acceptability has been established and something similar for practice, here I would say that yes, demand are picking up and improving, but may be in the current quarter we might not see a sequential increase may be flattish or may be a slight increase, but going forward you will see much more because we just finished the tractor harvester season and we were able to do pretty reasonably well in the tractor segment in the last quarter and the quarter before that, so on the whole it will be flattish or slightly more, but yes, I am sure in the next year let us say starting from the FY2022 onwards we should see may be 25% to 30% to 35% increase if not more on a yearly basis and you will see sequential increase in the quarter, so obviously that happens then our utilization improve obviously our margins expand, our ROC also improve, so everything starts to happen, which we have seen happening in this quarter and some part of it in the last quarter because even if you look at the quarter two, September quarter, rains did take off, but they are still very slow because we are market leader and our market was dormant initially when quarter two started, but we were able to save quarter two with respect to some numbers and profitability primarily again because of equipment and agri even in quarter two here again, so as in our bigger rain because our company more like a cyclical in nature so to come out of this cyclical thing we primarily worked on a lot of factors, so the tractor business, agri business starts including harvester starts delivering because it is not a constant cyclical, construction equipment again is more to do with infra and less to do with the industry, so with our agri business shining with our construction equipment business coming up some level and growing from here onwards coupled with our increased focus on exports, I am sure with this diversified portfolio and crane sustaining with the growth of the economy or everything industry I think with the diverse portfolio even the cyclical nature of our business will diminish and it will become more like a cyclical over the next 2 to 3 years. Apart from obviously the economy and the basic fundamentals remaining okay on the micro factors, I think 25% to 30% for the next year and may be we will be to further accelerate that phase should not be difficult because the availability or the potentials of growth is much more than what we have been able to capitalize so far. Mr. Sanjay I was able to answer your question?



- Sanjay Dam:** Yes, Sir. Thank you so much for that perspective.
- Sorab Agarwal:** One second, Sorry, the third part was crane, see what I also understand and also some webinar and some discussions here and there, the China plus 1 strategy and interest cost being low and the effect cycle is sort of kicking in and \$100s millions worth of manufacturing setups are going to come into the country or have already started in the next 3 to 4 years, so I think cranes will grow much faster than what we could have imagined. I think we should be utilized by end of next year that is what I would think may be it happens faster, so agri will contribute, construction will contribute, cranes will grow nearly at the same phase as agri businesses, which are new for us to it could actually be much better than what I am envisaging, but only time will tell.
- Sanjay Dam:** Thank you so much for that comprehensive answer. Just one question I have before I come back in the queue, is that if you do a 1000 Crores of topline, you do a 5% net margins, the next 1000 Crores of topline would it be similar 5% net margin?
- Sorab Agarwal:** No, I think net margin when you say after tax right?
- Sanjay Dam:** Yes, Sir.
- Sorab Agarwal:** Yes, I can talk, I think Mr. Luthra can help me, but let us say profit before tax type of a scenario, so 1000 Crores whatever we do 5% to 6%, but for the next 1000 Crores, I think it will be 17% to 18% if not more, 17% to 18% for every 1000 Crores, 1000 Crores still bigger I would say 100 Crores to 200 Crores over 1200 Crores it would be at least 17% to 18%.
- Sanjay Dam:** Your capacity how much, Sir?
- Sorab Agarwal:** I will go up to 2000 Crores to 2500 Crores or little more than that because as of now we are utilized about 60%, 40%, 55% here and there, so doing 2500 Crores, which is also little fungible here and there, I think it is possible to go to even 2500 Crores may be a little more than that obviously some minor capex will be required for some very smaller machineries and some certain, but nothing substantial, no actual capex utilized as such and when it comes to doing that we have a reasonable amount of land available about 40% odd of our land is still available for further expansion afterwards we have done already, the capacity that we have set up. The key is that ROC should go up substantially as our utilization increases, so I think it is a mix, it is a amplification of everything, construction will do well, agri will do well, everything will starts up go well, utilization will improve, ROC will improve, so obviously everything is connected and I think we are at that infusion point where we should not be missing this right now where we brought ourselves.
- Sanjay Dam:** Sir, your outsourcing in the first 1000 Crores to develop outsourcing that you have would that remain the same when you hit the next 1000 Crores?



**Sorab Agarwal:** Obviously in terms of additional alternate vendors I think primarily it will remain the same, but whenever there is a capacity constraint or any other foreseeable issue that will be addressed to the alternate vendor or whatever needs to be done so that is a ongoing process, so we have already faced problems in supply chain in September and then in the last quarter again, things did improve, but not to the extent we wanted them to improve, so even for some bigger things we had luckily for us we were getting trouble in one of our major engine suppliers because of their own capacity, but yes, they were struggling for the castings so they have improved this, but additionally sometime about a year back we had introduced an alternate Mahindra engine to one of our machines, so we just ramped up supply from Mahindra and similarly we are suffering with cylinders both being one of the biggest and two, three of the biggest in the country, so we have rather had create a new setup for cylinders for our industry number, so that setup should be operational sometime in March-April, so that problem will go for ever and this is new vendor coming in who will probably be dedicated to us, so it is a ongoing process, so wherever we see that capacity can be sustained in our endeavor to reach may be about 2500 Crores over the next 3 to 4 years I should say 3 years, but not 4 years, but let us say 3 to 4 years, which look evident so that is being tackled on the go. What happened in the last quarter or in the month of September it happened very unexpectedly, so we did not have time to breathe, we still do not have time to breathe, morning to evening I am not talking to our sales guys, I am only talking to my plants what are you doing.

**Sanjay Dam:** Do I have space to ask one more question?

**Sorab Agarwal:** Yes, why not?

**Sanjay Dam:** So, basically we know now that your 1000 Crores, pardon me if actually more than 1000 Crores last year just for the sake of simplicity like say 1000 Crores we know about the breakup of your agri, construction, crane and metal handling is, so in the next 1000 Crores would that picking out change very dramatically?

**Sorab Agarwal:** For the second 1000 Crores, yes, definitely because I think they would be contributing more or less in similar ratio and somewhere I think construction equipment might contribute a little more, so this for the next 1000 Crores?

**Sanjay Dam:** Yes.

**Sorab Agarwal:** So, I think it will be somewhere between 30-35, 40-45, 30-35 another 4-5 going to much lagging it would be similar, cranes still might lead because what I understand and the feeling that get with respect to the overall infra space and government already doing DPR for the next 6 to 7 bullet train projects and all that I think crane could still be slightly more than others because other will be growing drastically, but that is the time to tell I would have seen that will be somewhere similar for the next 1000 Crores.

**Sanjay Dam:** Thank you very much and wish you all the best.



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- Moderator:** Thank you. The next question is from the line of Anuj Sharma from M3 Investment. Please go ahead.
- Anuj Sharma:** Thank you and congratulations for the good set of numbers. I had three questions, one is as we evolve to a larger company introducing your equipments we always had the policy of standard spares and equipment, do you see that scenario changing and do you also have pressure that may be 4 to 5 years down the line contribution spares and services could be much higher than what it is today or we continue out to be in our own strategy of using standard equipments?
- Sorab Agarwal:** Wherever possible we believe in using the standardized components and spares, but yes, definitely when we are evolving machines even in the current machines, I would say that 40% to 50%, 50% to 60% of the components are unique to us and for our design, so going forward as per our philosophy I do not think we will be wanting to change it for the next 2 to 3 years because we want our machine and our products to be user friendly and easily repairable even in a worst case of a scenario because especially for construction equipment and crane they do even work in the remote areas, but yes, I would still think about 60% or even more than that is made by us or made by others as per our design so in any case we cannot find replacement for that in the market, but yes, I will keep the hard way of may be some filters and then certain hoses and smaller things are like tyres and rims the way of generic, yes.
- Anuj Sharma:** But for us is that an important variable that it was 3 years, 5 years down the line, 30% or 50%, 50% would be higher that 30% to 40% contribution coming from spares and services is that a hard number, which we are working upon?
- Sorab Agarwal:** To be very frank with you we are really not working on hard number for spares, yes, spare sale have been increasing year-on-year with machine population and base increasing and like I said our intention is to sell more machines than spares, in order to make reliable and require less spares.
- Anuj Sharma:** Sure, thanks. My second question is historically when we have seen that the material prices have increased it has been difficult for us to pass on or we have been able to pass on with a lag, however this time around pass on has been relatively seasonable, any structural change or any thing that you changed, which we will continue going forward?
- Sorab Agarwal:** See, what happened is that prior to 2018, we used to be generally very practical about passing all the commodity price increase and we used to struggle with and where is to be a lag, but in 2018 for the first time we did a lot of price increase because the steel prices are going up again even at that time, and in 2019 again in early 2019, we did put in inflation price increase, so going by that last 2 to 3 years our experience has given us a lot of confidence if the price increase is genuine and it is commodity based so the market also accepts it because we had major price increase coming in January 1, 2021, there is still some risk in pricing, the enquiry level is not less, yes, the convergent has slowed down slightly because the price increase to the tune of 9% to 10% for





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some buyers, so there is a little resistance, but it will fall through, it is already falling through in most of the areas it has already been accepted so we are very confident that in February again the order flow would be just like the way it was in December, so structurally changing our thought process with respect to price increases is playing out.

**Anuj Sharma:** Alright, so you believe part of it could be structural in terms of passing on the price increase?

**Sorab Agarwal:** Yes.

**Anuj Sharma:** My third question is on the bullet train project we are seeing across what is our equipment suitability to this I mean most of these Mumbai Ahmedabad structure so our machines or cranes suitable or they may require higher capacity cranes, there is some suitability of our product to those projects, thank you?

**Sorab Agarwal:** See for an elevated projects what you require were obviously are to us initially and then you require smaller cranes 10, 15, 20 tonnes to be doing most of the raw material handling, loading and shifting movements so our products are totally suitable and then as the structure is elevated then you do require bigger cranes, so as a matter I am very proud to tell you that the first crawler crane on the bullet trains project working with L&T has been supplied by our company this happened 2 months back, 2 or 3 months back rather sometime in October or November, so that was bullet trains project so that is a 75 tonne crawler crane, but yes, for final placement of structures we do require 150 to 250 tonne or even bigger crane and as of now we are developing 160 tonne crane if every thing goes well we should be able to offer it very soon to the market, so we do have the range, but yes, for the final placement of the grids or certain things you do require 100, 200, 300 tonne or even bigger crane and we are also moving towards that range.

**Anuj Sharma:** Alright. Thank you so much.

**Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor & Co. Please go ahead.

**Saket Kapoor:** Thank you for the opportunity. Sir, firstly on this part due to this COVID factor there has been disruption in terms of the weaker players exiting their market or not able to performance due to XYZ reasons, so how much you have been able to garner the market shares on these grounds and how much is the new growth that has emerged due to the increased economic activity?

**Sorab Agarwal:** See, if you talk of pick and carry crane, which is our single biggest segment and then tower cranes, so in the pick and carry cranes there were main players one is our company and the competition Escorts where we control about 96% to 97% of the market, so definitely even in the last quarter we did increase our market shares about 2% odd here and there, which obviously remains as of now and there are some very smaller companies or unorganized players 2, 3, 4 of them they keep on coming, keep on going that is the trend, so obviously they do trouble us in the price somewhere here and there but eventually everybody understand that they do not last long



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enough, their liability with their numbers and whatever they do and even in the tower crane segment currently there are 2 main companies because all the other Chinese, they are still very much there, but they are hardly doing any business, so we are the leaders in that segment again and we competed with Manitowac Potain it is French American owned company, which are globally one of the most prominence so the vision is like that in the crane segment, so we do control the markets in a reasonable way with respect to market share and bank loyalty or customer loyalty and our effective service and spare parts setup all of that we can that adds a lot of value to this and for the other segments whether it is construction equipment or agri, we are a very small player ourselves player and have tried to setup a foothold for ourselves, but it will be the scenario 3 years down the line, once we have increased our businesses in these segments by another 200% to 300% or whatever over the next 2 to 3 years.

**Saket Kapoor:** Right and if you look at the finance cost part also that has also been trending lower and I think this is because of the lower interest rate, could you please give us how the cost of funding behaved for this quarter and 9 months compared to last year?

**Sorab Agarwal:** I think I will request Mr. Luthra to answer to that question regarding cost of funding because he is the one who organizes it.

**Rajan Luthra:** Thank you and you are right the cost of funding has gone down, but may be the cost of financing is basically two factors, one we have been able to manage our working capital also, and went for cheaper funding of options, at present if you look at I am borrowing at somewhere about as low as 5% to maximum of 6.5% as compared to last year of 8%, that is one of the reasons and we being the double rated company; however, short-term rate comes to rating of A1+ is the highest rating and have a good rating and even during the COVID times we did not take any deferment for many of the liabilities so we got a very good reputation in the markets and banks and other players are willing to lend at a very competitive rate and then we have been able to take advantage of this intense scenario and not only this and we have been supporting all our vendors to support us in this COVID time.

**Sorab Agarwal:** Sorry to interrupt, Luthra, but here I would say that what you are saying is correct, I think it is time to build up a creditor base, so the working capital further improves, we are 30% to 40% lower on creditor on year-on-year basis or if we look at 2 years back, so we somehow over paying, but let us get our cycle back.

**Rajan Luthra:** That is right, I am following the philosophy of the Chairman which we needed to support our vendors first during the tough time so we are there we first want to support our vendors, employees and all those things, so that is the way and luckily we were able to get good financing and we are able to control financials and that is the reason we are seeing the reduction in the interest cost and going forward also as we are committed in the past also probably in the next year or so we will be a debt free company as such that is the one we are looking at.



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- Sorab Agarwal:** So, that is also what we target so that we would have ideally done this in this year if COVID has not happened so if everything goes on, in the next financial year we should be nearly debt free.
- Saket Kapoor:** What is the current debt, working capital requirement and the term loans pending?
- Rajan Luthra:** Right now we have got a term loan of outstanding is about around Rs.40 Crores and the working capital utilization as of now is around Rs.60 Crores, which we intent to bring it down to probably by the end of the March current year, the total borrowing including long-term debt as well as short-term debt somewhere should be around in the range of between Rs.50 Crores to Rs.60 Crores.
- Saket Kapoor:** Now to be very precise, we have seen that players particularly in the eastern region if I could name the company also, Tractor India Limited do they fall in the category of any competitor fair comparison can be drawn with them with their business profile overlapping with any of your products?
- Sorab Agarwal:** Yes, about one-and-a-half to 2 years back we have started truck cranes, which are self propelled truck cranes where we do complete with them, so certain portion of the business, what TII does mainly is truck cranes, rough terrain cranes and reach stackers, which are used for container handling so we do not compete there, in rough terrain cranes we do not compete right now because the overall market size is less, but we are developing that product line, but yes, in the last one-and-a-half to 2 years we have started competing in the truck crane segment.
- Saket Kapoor:** That product portfolio does not suite the market currently that is what you are telling that it is not correct to enter that profile segment at all because of the lower demand or the reason, which you are specifying?
- Sorab Agarwal:** No, I never said that we are doing the truck crane, we have already entered into the truck crane segment and to be very frank with you we are not only, but even Tractors India Limited are facing very fierce competition from 3 to 4 Chinese suppliers who in a way global leaders for truck crane by numbers because the product they are offering and with very lucrative payment terms of one to two years and a very lucrative price, which is beyond how we are able to do it so yes, definitely in the truck crane segments there is a lot of competition from the Chinese it is a good segment to be in, so that why we have entered and I am sure just like what we have done with the power cranes with the Chinese because they were again very good with pricing and whatever they would do it will take some more time, but I am sure we will establish our foothold and take on the Chinese.
- Saket Kapoor:** Sir, if you take the eastern market as the footprint what kind of customer percentage of your total revenue are you garnering from the segment to very precise this is a company that is lacking, I am talking about TIL to be named they are lacking the leadership at top and our understanding is that they may be looking up for JVs or people in the same interest if collaborate with them in form JVs because they have surplus land with them and they have 2 to 3 land parcels and one in



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the eastern region so any strategic collaboration can happen, you have done the good work and now you are about to scale up and if things mature because there are some legacy issue with that company, but that could be looked into it, it could translate into a good story, I was just studying about that company?

**Sorab Agarwal:** I understand what you are saying and I am also aware of this and obviously we are open to all such alliances and acquisitions as and when anything happens or progress in the right direction. To be very frank with you unfortunately there in Eastern India, there in Bengal which is highly humanized so on the face of it, it might appear to be a good thing, but there are more troubles that to take it or productivity issues with that company, but let us see, I mean what you saying is definitely everybody has to keep all their options open.

**Saket Kapoor:** In order to pursue that proposal, is there any green lights that you are looking or is due to the unionized pattern the subject is not to be taken?

**Sorab Agarwal:** Why would you want me to answer a question like that, I think I will refrain from answering that.

**Saket Kapoor:** I know that, but if you want to dwell further into it, it could be win win situation for both the organizations you being there in the system for a longer period of time?

**Sorab Agarwal:** Would you like if the debt will reflect on my book, you will not like.

**Saket Kapoor:** No, it is not about the debt, it should be the business model that could be adopted and you could amplify the same with your skills which they are lacking today because of some business reasons, which you people would be understanding better than we the investor?

**Sorab Agarwal:** I understand what you are saying and to be very frank with you like I said we have already entered into the truck crane business and obviously it will take some time to set our, we have already set our foots in the ground and over the next 2 to 3 years we will end up capitalizing on what we are doing and perhaps whatever opportunity you are talking like I said we have all our eyes and ears and everything open and we will let water flow.

**Saket Kapoor:** Right and the agriculture part, now you were talking that this is a big market and our presence is very nascent in that segment so what kind of ground work you have done and going forward what kind of market share are you looking to garner in this agri equipment part because the mechanization is the game going forward this is very much evident to increase the yield the productivity this has been the order?

**Sorab Agarwal:** I would say our first benchmark is by the end of this year we should be somewhere around 180 Crores to 200 Crores revenue with the agri, so our first benchmark over the next 2 years or 3 years fastest possible would be to take it to 400 Crores to 500 Crores it might happen in 2 years or it might happen in 3 years may be in 4 years but we think it is possible in 3 years because as a company also we want to develop our revenue over the next 3 years so form 1200 Crores to 1300



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Crores we want to go to 2500 Crores to 2600 Crores are the target which we have set for ourselves, our first target would be that in this market space availability may be little more than 50000 Crores to 60000 Crores first to go to 500 Crores, and then 1000 Crores and next to go to 1500 Crores and that is how things progress, so currently in the next 2 to 3 years this is what we are targeting and something similar I would say for construction equipment may be somewhere between 400 Crores to 500 Crores over the next 3 years and we are currently working towards that and once we are there and obviously then we go forward, but yes, all I can tell you that if all our cards play out well and things remain in positive territory like they are I am sure with respect to our agri business over the next 5 years to 10 years let us say we should be a formidable player that I can tell you for sure, we would be in the top seven.

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

**Shyam Sundar:** Congratulations on a good set of numbers. What I want to know is what is the current capacity utilization, can you give us the breakup for all segments?

**Sorab Agarwal:** For the cranes we are currently working at little over 60%, construction equipment we are working at a 35% to 40%, for metal handling we are working at a 50% to 60% utilization right now and for agri we are working at about 55%.

**Shyam Sundar:** Agri is 45%?

**Sorab Agarwal:** Agri is 55%.

**Shyam Sundar:** So, what is the capital work in progress for the 20 Crores capital work in progress?

**Sorab Agarwal:** See some routine capex here and there we are adding a little bit of painting there, a little bit of some machinery, some plasma cutting machines because we are forecasting increase in crane business, fabrication needs to go up, I would be with respect to all such small, small things that are happening all across plants with a little capex just multiply the capacity.

**Shyam Sundar:** So, why you have purchased land in the last year?

**Sorab Agarwal:** Which particular land are you referring to Jola area?

**Shyam Sundar:** That is right.

**Rajan Luthra:** When we built up this plant in Jola we have been buying land from PCs and if you look at the factor also this is not a rectangle factory because some of the farmers who have not sold their land who are lying in between, so as and when they want the money, so we keep adding some lands although we do not require it, but to make our factory proper rectangle factory that is why whatever the land which come in between in our covered area we will buy that land so then even



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the farmer will not have any buyer for that and as a company it is a good strategy to have a complete piece of land so that whatever...

**Sorab Agarwal:** We are consolidating our land holding in the same area, I think some nooks and corners or intrusions which are in our land.

**Shyam Sundar:** Because I think it affects the ROE, ROE still at the lower end?

**Sorab Agarwal:** Do not worry about it, as soon as our utilization which are going up we will just calculate our quarterly ROE and ROC, I think it is as good as it can get and just because I have the number in front of me, in the current quarter it is 26% and ROC is about 36%, so I am very sure that as the utilization increases, there are certain things you need to do in order to have that overall setup and getup in place as well.

**Moderator:** Thank you. The next question is from the line of Tushar Sarda from Athena Investments. Please go ahead.

**Tushar Sarda:** Thank you for the opportunity. I wanted to understand your next 3 to 5 years growth plan I think in reply to couple of questions you said that you see a huge growth from construction equipment growing to 400 Crores to 500 Crores, I think last year it was around 100 Crores, so if you can throw a little more light on the segment and your competition and how do you plan to grow the segment and the second question is on the agri equipment, last 3 to 4 years it has been flat, but now you are seeing some momentum and you expect turnover to double in 3 to 4 years, so little more light on that also would be helpful, thank you?

**Sorab Agarwal:** Let us say 3 years plan, which we have already envisaged is reaching a revenue of at least about 2500 Crores if not more over the next 3 years, we are very hopeful that it should be possible over the next 3 years and if not earlier, we had already reached close to about 1350 Crores the year before and then there were some slippage because of our overall scenario in the last year, so we went back to 1150 Crores, so all we have to do is 2500 Crores to 3000 Crores for the next 3 years as a company to attain that 2500 Crores, which looks pretty doable and then doing this the crane we are already market leaders and we will grow with the country, with the economy where with things, yes, this thing might be able to increase our market share a little ahead on this, but yes, the main impetus with respect to the possibility will come from the space where the potential is available and we are not addressing it properly that was the construction equipment and the agri side wherein we have reasonable order footfall, which has been created and right thing, right strategy working in the right direction, which is happening over the last 3 quarters, 4 quarters and unfortunately COVID started, otherwise the result would have been even earlier so with the building the contract and with the potential being enormous in these two segments specifically, so we think that our majority of the future growth might come from these two segments apart from crane segment growing along with the country along with the economy along the with infrastructure growth and the industry growth, and luckily for us if we look at the sectors where



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we are addressing or where we are working, infrastructure, hardcore industrials or manufacturing where everybody needs to lift, shift, move some goods whether forklifts, whether cranes then real estate, again I was very surprised in the 6 to 8 months the number of power cranes have increased all of a sudden, so real estate seem to be bouncing back a little here and there then look at the agri sector, which is recently diversified so it is infrastructure, it is manufacturing, some part of it is logistics where we supply then agri and obviously further derisking we are doing by increasing our export setup, we already have a reasonable export setup in about 25 countries, which is going to expand further in FY2022, the one setup will start delivering even better, the numbers will increase, the volumes will increase, we are helping then pushing them and supporting them and certain new areas we were about 12 to 15 will open up including some CIS country and Eastern Europe in FY2022, so all the planning and everything is happening so that we are really able to attain our 2500 Crores at least if not more within 3 years or earlier so that is what we are working at and going in the same process it seems that the way things are in the momentum is we should be looking at, at least 25% to 30% growth overall in the company in this coming year if not faster that I will tell, yes

**Tushar Sarada:**

I agree with you, I wanted a little more insight on construction equipment because I think March 2020, your turnover was 100 Crores and you are targeting around 400 Crores to 500 Crores so what is the competitive scenario, what is the size of the market, which specific product will be able to grow?

**Sorab Agarwal:**

The biggest product in this segment is the back haul loader, which currently JCB is leading the market and addressable size there I would say would be close to about 7000 Crores approximately wherein you can see the numbers what we are doing with practically nothing, so for us the three main advantages, right product, right size and right service. So our products today is as good as competition if not better, our price is definitely better than competition and our service, support and spare system that we have evolved around this product even that in competition and there is a lot of cross selling market, which is available for this products that would be with respect to the infra space, so we are using, channelizing whatever strength we have in our existing cranes business coupled with a focus on evolving a separate bedrock of sales or service wherever required to increase this product, our biggest bottleneck here just like tractors used to be the financing part now the machine is stable, the machine price is good, service is as good, easy finance by all finance company all across the country and our network is increasing, our visibility is increasing so that is what we are doing all across to ensure that we increase our volumes and numbers and whatever small bit of market share there.

**Moderator:**

Thank you. The next question is from the line of Sagar Naik from Equentis Wealth Advisory. Please go ahead.

**Sagar Naik:**

Thank you for the opportunity. So just wanted to understand the margin profile so if we look historical we have done somewhere in the range of 6% to 9% and this quarter our margins are at



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11%, so it this just operating leverage playing or something else that has contributed and also going forward what will be the sustainable range of margins?

**Sorab Agarwal:** I would see that going forward to see some more margin expansion because some of our operating leverage will play, but at the current juncture we have been able to attain this by controlling our cost wherever possible, by spending the money in the right direction so that the business increases and because of that operating leverage kicks in and also by I think transferring the commodity price increase at the right time and not waiting for it, so these are thing which we have done and obviously capacity utilization or operating leverages playing a important role here and going forward, I think there is still scope to increase it by another take it up to 13% the 14% EBITDA level that seems possible because the construction equipment I expect still has to leave some more margins to our overall kitty and obviously the numbers of cranes and agri going up further there will be some more operating leverages so there is still potential to increase it by at least 2% odd.

**Sagar Naik:** Sir, what would be your maintenance capex for the year?

**Sorab Agarwal:** Between 10 Crores to 20 Crores.

**Sagar Naik:** As you mentioned current capacity can generate around 2500 Crores of revenue, so for the next two years we would not have any heavy capex going on right?

**Sorab Agarwal:** Nothing major expect we intent to spend 20 Crores to 30 Crores on a model paint shop, we have been planning pre-COVID it was postponed because of COVID we were still a little skeptical, so that might go through in the next year if at all, but nothing substantial apart from that.

**Moderator:** Thank you. The next question is from the line of Shaleen Seth from Seers Fund Management Ltd. Please go ahead.

**Shaleen Seth:** Sir, congratulations on these great number. I had quick question in on power cranes I just wanted to know that could you just give us some ideas as to where the demand is really coming from, I just want a geographic understanding like which part of India?

**Sorab Agarwal:** Slightly difficult for me to answer at this juncture because I do not, like I said I was hardly looking at the sales side in the last 3 to 4 months, focused more on the plant sites so that we are able to send those tower cranes also apart from other machine, but if I say is west, north and south it has been all across.

**Shaleen Seth:** For that possibly get a monthly number as to how much was the number in December?

**Sorab Agarwal:** It is in the range of around 21 to 22 cranes per months, quarterly we have done 62 cranes.

**Shaleen Seth:** Thank you very much.





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**Sorab Agarwal:** I was very surprised because post lock down and you open end of April, so somehow tower cranes were strong from May-June, June-July onwards, they were the first ones to be, it was very surprising why people were buying tower cranes, even we did not know.

**Shaleen Seth:** Probably the affordable housing is doing a good push?

**Sorab Agarwal:** And also see what has happened now a lot of tower cranes are also getting consumed into infra projects, with so much elevated construction happening, so with metros being built you need to built stations, the bullet train now coming you need to build stations, so a lot of elevated construction is happening and the contractors realize that using a tower crane they will be able to do it much faster at a lower cost, so apart from the traditional use of building it is also going into the infra sites in a way.

**Shaleen Seth:** That is very useful. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

**Sorab Agarwal:** This has been a good quarter for us, reasonably unexpected. Like I said we could have done better and we would have been able to deliver better, but like I said the momentum maintains the order flow is still there, things are looking up, the vaccine is also coming around, people are getting vaccinated and hopefully COVID will be behind us over the next 2 to 3 to 4 months for sure and the economy will pickup, we look forward to a good budget and we are doing all the hard work required to ensure that we are able to attain our 3 years target, which we have envisaged for ourselves, which is to be 2500 Crores as soon as possible, so we are doing all the right thing in that direction. Thank you.

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