

## Action Construction Equipment Ltd.

December 13, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Fund Based	NA	90.00	[ICRA]AA-(Stable)/A1+; Assigned
Long-term/Short-term Non-fund Based	NA	160.00	[ICRA]AA-(Stable)/A1+; Assigned
Long-term/Short-term Interchangeable	NA	(40.00)	[ICRA]AA-(Stable)/A1+; Assigned
Long-term/Short-term Unallocated	NA	45.00	[ICRA]AA-(Stable)/A1+; Assigned
<b>Total</b>	<b>NA</b>	<b>295.00</b>	
Commercial paper	25.00	25.00	[ICRA]A1+; Outstanding

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has assigned a long-term rating of [ICRA]AA- (pronounced ICRA double A minus) and a short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) to the Rs. 295.00-crore<sup>1</sup> bank facilities of Action Construction Equipment Ltd. (ACE or the company)<sup>2</sup>. The outlook on the long-term rating is Stable. ICRA also has rating outstanding of [ICRA]A1+ (pronounced ICRA A one plus) on the Rs. 25.00-crore commercial paper programme of the company.

### Rationale

The assigned rating favourably factors in the company's well-established market position in the construction equipment sector, especially in the crane and forklift segments, strong financial profile characterised by comfortable liquidity position and healthy credit metrics, and favourable growth prospects aided by pick up in the infrastructure sector.

ACE's strong business profile is supported by a well-diversified portfolio spanning applications in infrastructure, industrial and agriculture sectors. The company's presence in the infrastructure sector is especially strong and it is a market leader in mobile and fixed tower crane segment. In this segment, the company has over 60% market share and its strong market position is supported by the well-established ACE brand, wide product offerings, strong sales network and cost competitive products. Besides its market leading position in the cranes segment, the company is the third largest player in the material handling segment, which includes forklifts with load a bearing capacity of 1-10 tonnes.

ACE is also present in the road construction and agriculture equipment segments but has miniscule market share in both segments. The company had entered the tractor segment in CY2008 with products in the 35-50 horse power (HP) with focus in the northern Indian region. However, the company was not able to significantly scale up its business because of issues related to the imported engine, lack of availability of spare parts and lack of availability of financing. To address these issues, the company has developed a local engine supplier as well as its own engine which helped it grow its sales in the last two years. ACE's tractors have started to find acceptance among customers and financiers having seen one

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

complete product life cycle. Additionally, the company has also developed 75 HP and 90 HP tractors, which will help it increase its export sales. The ability of the company to expand its sales in an industry dominated by incumbents will be a key challenge.

The company entered the road construction equipment segment in CY2011 but has not met with much success because of limited financing support for its customers and strong foothold of foreign players, especially JCB, the market leader in the backhoe loader segment. In addition, the industry also witnessed a downturn between CY2011 and CY2016, which lowered the demand. To showcase its product performance, ACE started leasing out its backhoe loaders, which has helped it gain credibility in the market and some NBFC's have started providing financing to its customers. Although ACE will continue to face competitive pressure, ICRA expects the revenues from this segment to grow significantly in the near-term.

The assigned rating also factors in the strong financial profile backed by healthy credit indicators and surplus liquidity. The company's financial profile has strengthened in the past three years supported by margin improvement due to benefits of operating leverage and higher localisation, and low capital expenditure. The financial profile is also supported by liquid investments of Rs. 42.0 crore (as on March 31, 2018) and moderate working capital utilisation. Moreover, the capital expenditure requirements related to capacity expansion of some of its segments is expected to be moderate because the company has surplus land bank at the existing facility.

ICRA expects the company to maintain its strong business and financial profile in the near term, supported by underlying growth in the domestic infrastructure sector and moderate capital expenditure requirements.

## Outlook: Stable

ICRA believes the company will continue to maintain its strong market share in the cranes and forklift segments and it will maintain its strong credit metrics. The outlook may be revised to Positive if the company is able to garner a sizeable market share in the road construction equipment and agriculture equipment segments. The outlook may be revised to Negative if the company loses sizeable market share in the cranes and forklift segments or if there is a material deterioration in its credit indicators.

## Key rating drivers

### Credit strengths

**Well diversified product portfolio across applications in infrastructure, industrial and agricultural sectors** - The company has a diverse product portfolio with applications spanning infrastructure, industrial and agriculture sectors. The company is one of the few companies to have the entire range of products required in the infrastructure sector.

**Market leadership in the cranes segment supported by well-established brand and diverse product offerings** - ACE is a market leader in the crane segment with over 60% share in the mobile and fixed tower crane products. Its market position is supported by an established brand, wide product offerings, well-entrenched sales network and cost competitive products.

**Among the top three players in the forklift segment in India** - The company is the third largest manufacturer of forklifts, behind Godrej and Voltas (now Kion) with a market share of 18%. While the forklifts in ACE's portfolio is in the 1-10 tonne capacity range, the company is increasing its product offering in the sub 1-ton category because of increasing demand from the e-Commerce sector.

**Favourable growth prospects aided by pick-up in investments in infrastructure sector** - The domestic infrastructure sector is expected to grow at a healthy pace in the near term supported by projects in the roads, railways and metro rails. As a result, ICRA expects ACE's revenue to grow at a healthy pace.

**Improving profitability and credit metrics** - ACE's financial profile has improved in the last three years, supported by improvement in the profit margins due to benefits of operating leverage and higher localisation, and low capital expenditure.

**Sound management team with extensive experience in relevant sectors** - ACE's promoters have close to five decades of experience in the construction equipment sector. The head of its different business units have significant experience of working in their respective segments.

## Credit challenges

**Stiff competition from established foreign and domestic players, especially in the Road Equipment & Tractor Industry** - The company faces stiff competition from established foreign and domestic players in the road equipment and tractor industries. In the road equipment segment, it faces stiff competition from JCB in the backhoe loader segment, Escorts, Volvo and Hitachi in soil compactor segment, and Caterpillar and Leeboy in motor grader segment. The tractor segment is dominated by incumbents such as Mahindra & Mahindra, Tractor & Farm Equipment Limited (TAFE) and Sonalika, and ACE will face significant competition from these players.

**Profitability indicators lag peers owing to limited scale in certain segments and limited backward integration** - The profit margins of the company lag some of its peers because the products in its road equipment, material handling and agriculture segments sell at a discount as compared to the market leader in the respective segments. Also, the company's profitability is constrained by low profit margins in its tractors and road equipment segments because of its small scale of operations.

**Exposed to cyclical downturn in the Construction Equipment Industry** - ACE is exposed to the underlying cyclicity of the construction equipment industry because growth in the sector is directly related to infrastructure investments, which is related to the country's economic growth and, therefore, cyclical in nature.

**Profitability of the company is susceptible to volatility to raw material prices** - ACE's profitability is dependent on steel price movement because it accounts for close to 60% of the total raw material cost. As a result, the profitability of the company will depend on the degree to which it can pass on the adverse commodity price impact to its customers.

## Liquidity Position:

ACE has comfortable liquidity position supported by healthy cash flow generation, cash balances and unutilized working capital limits. The free cash flow generated by the company in FY2018 was Rs. 43.8 crore and it had Rs. 48.3 crore cash and equivalents in its balance sheet. Moreover, the company's average working capital utilization was 41% (last twelve-month average) which provides additional liquidity support.

## Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Construction Equipment Manufacturers</a>
Parent Support	Not Applicable
Consolidation/ Standalone	The rating for Action Construction Equipment Limited is based on the consolidated financial statements of the company.

## About the company:

Incorporated in 1995, Action Construction Equipment Ltd. is among the leading material handling and construction equipment manufacturing company with market leadership in mobile and fixed tower cranes segment in India. Over the years, the company has diversified its presence by foraying into the construction equipment, material handling (forklifts) and agriculture equipment (tractors and harvesters) industries. The cranes segment remains the mainstay of the company, contributing 68% to its turnover in FY2018, followed by agriculture equipment (18%), forklifts (7%) and construction equipment (7%). In India, ACE is positioned as a market leader (60-65% share) in the mobile and fixed tower cranes segment, which find applications in sectors like metro construction, mining, industrial development and the railways. The company's market position is supported by its well-established brand, ACE, its diverse product offerings as well as its extensive and cost competitive after-sales footprint.

Apart from cranes, the company has also emerged among the top three players in the forklift segment in India. However, its share in the construction equipment and tractor segments stands miniscule at present, where it faces stiff competition from foreign and domestic players, respectively.

ACE is promoted by Mr. Vijay Agarwal, a first-generation entrepreneur with over 48 years of industry experience. Mr. Agarwal is supported by his son, Mr. Sorab Agarwal, who is responsible for overall marketing and new product initiatives of the company. ACE has four manufacturing units with the mother plant located in Palwal (Haryana) and two fabrication units and R&D in Faridabad (Haryana). The company went public in 2006 and is currently listed on both BSE and NSE with the promoters controlling 68.95%.

## Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	751.1	1,086.5
PAT (Rs. crore)	14.0	52.0
OPBDIT/OI (%)	5.4%	8.7%
RoCE (%)	8.9%	22.0%
Total Debt/TNW (times)	0.3	0.2
Total Debt/OPBDIT (times)	2.8	0.8
Interest coverage (times)	2.5	7.0

**Status of non-cooperation with previous CRA: Not applicable**

**Any other information: None**

### Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating		Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
				Dec 2018	Oct 2018			
1 Commercial Paper	Short Term	25.00	NA	[ICRA]A1+	[ICRA]A1+	-	-	-
2 Fund-based Limits	Long & Short Term	90.00	NA	[ICRA]AA-(Stable)/A1+	-	-	-	-
3 Non-fund based Limits	Long & Short Term	160.00	NA	[ICRA]AA-(Stable)/A1+	-	-	-	-
4 Interchangeable Limits	Long & Short Term	(40.00)	NA	[ICRA]AA-(Stable)/A1+	-	-	-	-
5 Unallocated	Long & Short Term	45.00	NA	[ICRA]AA-(Stable)/A1+	-	-	-	-

### Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

### Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper	NA	NA	7-365 days	25.00	[ICRA]A1+
NA	Fund Based Limits	NA	NA	NA	90.00	[ICRA]AA-(Stable)/A1+
NA	Non-Fund Based Limits	NA	NA	NA	160.00	[ICRA]AA-(Stable)/A1+
NA	Interchangeable	NA	NA	NA	(40.00)	[ICRA]AA-(Stable)/A1+
NA	Unallocated	NA	NA	NA	45.00	[ICRA]AA-(Stable)/A1+

Source: Company

### Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Frested Limited	100.00%	Full Consolidation
SC Forma SA	89.50%	Full Consolidation

Source: Annual Report

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For more information, visit [www.icra.in](http://www.icra.in)

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