

September 30, 2021

Action Construction Equipment Ltd.: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Fund Based	150.00	150.00	[ICRA]AA- (Positive)/ [ICRA]A1+; Reaffirmed and outlook revised to Positive from Stable
Long-term/Short-term Non-fund Based	185.00	205.00	[ICRA]AA- (Positive)/ [ICRA]A1+; Reaffirmed and outlook revised to Positive from Stable
Long-term/Short-term Interchangeable	(80.00)	(100.00)	[ICRA]AA- (Positive)/ [ICRA]A1+; Reaffirmed and outlook revised to Positive from Stable
Long-term/Short-term Unallocated	35.00	40.00	[ICRA]AA- (Positive)/ [ICRA]A1+; Reaffirmed and outlook revised to Positive from Stable
Short Term Fund Based	25.00	0.00	[ICRA]A1+; Reaffirmed
Total Bank Facilities	395.00	395.00	
Commercial Paper	35.00	35.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook on the long-term rating factors in an expectation of continuation of strong operating performance of Action Construction Equipment Ltd. (ACE) over the near to medium term, aided by its established brand strength (especially in the cranes segment), widespread distribution network, financing tie-ups and diversified product portfolio. The business prospects of the company over the medium term are expected to be aided by the Government's continued focus on infrastructure spending as well as ACE's improving presence in the agricultural equipment and construction equipment (CE) industries. A strong operating performance is expected to translate into healthy earnings for the company, thereby leading to a further strengthening of its financial risk profile.

Despite the subdued financial performance in Q1 FY2021 because of the pandemic induced nation-wide lockdown, the company's sales gradually improved and have remained healthy in the past four quarters, aided by a pickup in construction and infrastructure activities and strong industrial demand. The company's three segments, namely CE, material handling and agriculture equipment, registered a healthy revenue growth in FY2021. Its operational efficiencies improved with OPM at 9.7% (FY2020: 8.0%), despite the increase in commodity prices, aided by a better product mix, cost control measures and price hikes taken by the company during the year.

Aided by healthy cash accruals, low capital expenditure, and pre-payment of long-term debt (~of Rs. 8 crore), the company's credit and coverage indicators also improved with gearing ratio at 0.1x, interest coverage indicator at 9.7x (from 6.3x in FY2020) and DSCR at 5.3x (from 2.6x in FY2020) in FY2021. Its financial profile is further supported by surplus cash and liquid investments and buffer in the working capital facilities, against which it has modest long-term debt repayments and limited capex requirements. Going forward, ICRA expects the company's coverage metrics to further improve, aided by scale up of operations, comfortable profitability indicators and limited capex requirements. ICRA also notes that the company has raised funds, aggregating to Rs. 135.5 crore, through a Qualified Institutional Placement (QIP) to fund any inorganic growth plans,

which is likely to help further strengthen its credit profile over the near-term; while the company intends to fund any acquisition without any major reliance on external debt, the size and nature of any such acquisitions undertaken would remain a monitorable.

The ratings continue to draw comfort from ACE's well-established market position in the CE sector, especially in the crane and forklift segments. Besides its market leading position in the cranes segment, ACE is the third largest player in the material handling segment. Although its market share in CE and tractor segments remains low at present, ACE has been focusing on improving its presence in these two segments by upgrading its products, strengthening its financial tie-ups and expanding its dealership network. Aided by its efforts, the company reported healthy revenue growth, along with an improvement in PBIT margin, in these two segments during FY2021 and Q1 FY2022.

These strengths are, however, partially offset by ACE's exposure to cyclical nature of the industries catered, primarily the CE industry (constituting ~75% of its revenues), wherein growth is directly related to infrastructure investments, and in turn related to the country's economic growth. The company also remains exposed to stiff competition from other established players, especially in the CE and tractor industries. Its profit margins lag behind some of its peers as some of its products, such as backhoe loaders and tractors, are priced at a discount, compared to market leaders in the respective segments. Nevertheless, its profitability indicators in the CE and tractor segments are expected to improve over the medium term, aided by expectation of increase in the scale of operations and benefits of operating leverage.

Key rating drivers and their description

Credit strengths

Well-diversified product portfolio spanning infrastructure, industrial and agricultural sectors – ACE has a diverse portfolio across applications in infrastructure, industrial and agricultural sectors. Its presence in the infrastructure segment is especially strong and it is one of the only companies to have the entire range of products required in the infrastructure sector. In addition, the company has been ahead of the market in introducing new models/variants for specific applications, such as the NX series multi-activity cranes, piling rigs, Li-ion electric forklift and multi-purpose tractors.

Market leader in cranes segment supported by well-established brand and diverse product offerings; among top three players in forklift segment in India – ACE is the market leader in the crane segment with ~60-65% share in the pick-and-carry and fixed tower crane products. It is continuously engaged in innovating and launching new product offerings, to keep its product portfolio up to date. It is also among the top three players in the forklift segment in India, along with Godrej & Boyce Mfg. Co. Ltd. and Kion Group AG. Given the increasing demand from the e-commerce segment, ACE has expanded its product offerings to include new products, such as electric stackers, forkover manual stackers, semi-electric stackers, heavy-duty electric pallet trucks, etc. Moreover, ACE is the first company to develop Li-ion electric forklifts in the country.

Comfortable credit metrics characterised by low leverage and strong liquidity profile – The company has had strong credit indicators supported by low capital expenditure in the past few years and steady improvement in its scale and profitability. In FY2021, the company's interest coverage indicator improved to 9.7x from 6.3x in FY2020 whereas its DSCR improved to 5.3x from 2.6x in FY2020. The gearing ratio and TOL/ TNW ratio also remained strong at 0.1x and 1.0x, respectively. Its financial profile is further supported by surplus cash and liquid investments (Rs. 61.6 crore as on March 31, 2021) and buffer in the working capital facilities (Rs. 111.2 crore against the average drawing power of Rs. 160.8 crore in the 12- month period ending in June 2021). The company has also raised funds through a QIP to fund any inorganic growth plans. Going forward, ICRA expects the company's credit profile to continue to remain healthy, aided by scale up of operations, comfortable profitability indicators and limited capex requirements.

Credit challenges

Exposed to cyclical nature in end-user industries – ACE is exposed to the underlying cyclical nature of its end-user industries, primarily the MCE industry, wherein growth is directly related to infrastructure investments, and in turn related to the country's

economic growth. Nevertheless, supported by the Government's focus on increasing infrastructure spending, construction activity is expected to see sustained recovery in the coming quarters, which will support volumes for the MCE industry, and in turn support ACE's revenues as well.

Stiff competition from established foreign and domestic players, especially in CE and tractor industries – 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 intense competition from JCB in the backhoe loader segment, Escorts, Volvo and Hitachi in the soil compactor segment, apart from Caterpillar and Leeboy in the motor grader segment. The tractor segment is dominated by incumbents, such as Mahindra & Mahindra (M&M), Tractor & Farm Equipment Limited (TAFE) and Sonalika; and ACE faces significant competition from these players. Nevertheless, ACE has been focusing on improving its presence in these two segments by upgrading its product, strengthening its financial tie-ups and expanding its dealership network. Aided by its efforts, the company reported healthy revenue growth, along with an improvement in PBIT margin, in these two segments during FY2021 and Q1 FY2022.

Profitability indicators lag peers owing to limited scale in certain segments; ability to pass on commodity price hardening to customers remains a vulnerability – The company's profit margins lag some of its peers because some of its products are priced at a discount, compared to the market leader in the respective segments. Moreover, ACE's profitability is constrained by low profit margins in its tractors and road equipment segments owing to its small scale of operations. Nevertheless, the company reported a strong performance in FY2021 with OPM improving to 9.7% in FY2021 from 8.0% in FY2020, despite the adverse impact of the pandemic and the increase in commodity prices. The improvement in profitability indicators was aided by a better product mix, cost control measures, improvement in scale of operations and profitability in agricultural equipment and CE segments, and price hikes taken by the company during the year. Going forward, although its profitability indicators are expected to remain at comfortable levels, aided by expectation of improvement in the scale of operations as well as the company's cost control initiatives, its ability to pass on any increase in commodity prices to its customers would remain a monitorable.

Liquidity position: Strong

ACE's liquidity profile is **strong**, supported by bank balances of Rs. 36.5 crore and liquid investments of Rs. 25.1 crore as on March 31, 2021, and average undrawn working capital limits of Rs. 111.2 crore against the average drawing power of Rs. 160.8 crore in the 12-month period ending in June 2021. In relation to these sources of cash, ACE has capex plans of Rs. 30-35 crore p.a. and debt repayments at ~Rs. 3 crore p.a. over the medium term. The company has also raised funds through a QIP to fund any inorganic growth plans. Overall, ICRA expects ACE to be able to meet its near-term commitments through internal sources of cash and available lines of credit and yet be left with sufficient cash surpluses.

Rating sensitivities

Positive factors – The company's ability to sustain an improvement in profitability indicators, while maintaining strong credit metrics could lead to an upgrade in the ratings. In addition, the company's ability to scale up its business in the agriculture equipment and CE segments through meaningful market share traction, while maintaining its solid position in the overall crane segment in India, would be considered favourably for a rating upgrade.

Negative factors – Given the positive outlook, a rating downgrade is unlikely over the near-term. Over the medium term, downward pressure on the ratings could arise in case of weakening of financial risk profile with working capital deterioration, that results in credit metrics such as Total Debt/OPBDITA above 1.5 times on a sustained basis. Additionally, weakening of profitability and return indicators such as ROCE, on a sustained basis, could lead to a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Equipment Manufacturers
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the company. As on March 31, 2021, ACE had two subsidiaries that are enlisted in Annexure 2.

About the company

Incorporated in 1995, ACE is among the leading material handling and construction equipment manufacturers in India, with market leadership in mobile and fixed tower cranes segments. Over the years, the company has diversified its presence by foraying into the CE, material handling (forklifts) and agriculture equipment (tractors and harvesters) industries. The cranes segment remains its mainstay, contributing 64% to its turnover in FY2021, followed by agriculture equipment (16%), CE (11%) and forklifts (8%). 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 emerged among the top three players in the forklift segment in India. However, its share in CE and tractor segments remains low 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 50 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 centre in Faridabad (Haryana). The company went public in 2006 and is currently listed on both BSE & NSE with the promoters controlling 70.05% stake as on June 30, 2021.

Key financial indicators (audited)

ACE Consolidated	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	1,156.2	1,227.2	321.5
PAT (Rs. crore)	52.5	79.8	19.3
OPBDIT/OI (%)	8.0%	9.7%	9.4%
PAT/OI (%)	4.5%	6.5%	6.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	1.0	-
Total Debt/OPBDIT (times)	0.9	0.5	-
Interest Coverage (times)	6.3	9.7	11.1

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; All calculations are as per ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)*				Chronology of Rating History for the past 3 years							
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021				Date & Rating in FY2020	Date & Rating in FY2019		
					Sep 30, 2021	Sep 16, 2020	Sep 4, 2020	May 04, 2020 Apr 13, 2020	Dec 04, 2019	Dec 13, 2018	Oct 01, 2018	
1	Commercial Paper	Short-term	35.00	35.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Fund Based Limits	Long-term and Short-term	150.00	NA	[ICRA]AA-(Positive)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-@/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
3	Non-fund Based Limits	Long-term and Short-term	205.00	NA	[ICRA]AA-(Positive)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-@/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
4	Interchangeable Limits	Long-term and Short-term	(100.00)	NA	[ICRA]AA-(Positive)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-@/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
5	Unallocated Limits	Long-term and Short-term	40.00	NA	[ICRA]AA-(Positive)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-@/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+	[ICRA]AA-(Stable)/ [ICRA]A1+
6	Short-term Fund Based Limits	Short-term	-	NA	-	[ICRA]A1+	-	-	-	-	-	-

@: watch with negative implications; *Update on details of lender facilities was published on August 16, 2021

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term/Short-term Fund Based	Simple
Long-term/Short-term Non-fund Based	Simple
Long-term/Short-term Interchangeable	Simple
Long-term/Short-term Unallocated	Not applicable
Short Term Fund Based	Simple
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: [Click Here](#)

Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
Axis Bank	Long-term/Short-term Fund Based	NA	NA	NA	25.00	[ICRA]AA- (Positive)/ [ICRA]A1+
ICICI Bank	Long-term/Short-term Fund Based	NA	NA	NA	35.00	[ICRA]AA- (Positive)/ [ICRA]A1+
Citi Bank	Long-term/Short-term Fund Based	NA	NA	NA	40.00	[ICRA]AA- (Positive)/ [ICRA]A1+
SBI Bank	Long-term/Short-term Fund Based	NA	NA	NA	50.00	[ICRA]AA- (Positive)/ [ICRA]A1+
Axis Bank	Long-term/Short-term Non-fund Based	NA	NA	NA	70.00	[ICRA]AA- (Positive)/ [ICRA]A1+
ICICI Bank	Long-term/Short-term Non-fund Based	NA	NA	NA	60.00	[ICRA]AA- (Positive)/ [ICRA]A1+
IndusInd Bank	Long-term/Short-term Non-fund Based	NA	NA	NA	35.00	[ICRA]AA- (Positive)/ [ICRA]A1+
SBI Bank	Long-term/Short-term Non-fund Based	NA	NA	NA	10.00	[ICRA]AA- (Positive)/ [ICRA]A1+
HDFC Bank	Long-term/Short-term Non-fund Based	NA	NA	NA	30.00	[ICRA]AA- (Positive)/ [ICRA]A1+
IndusInd Bank	Long-term/Short-term Interchangeable	NA	NA	NA	(30.00)	[ICRA]AA- (Positive)/ [ICRA]A1+
HDFC Bank	Long-term/Short-term Interchangeable	NA	NA	NA	(30.00)	[ICRA]AA- (Positive)/ [ICRA]A1+
Citi Bank	Long-term/Short-term Interchangeable	NA	NA	NA	(40.00)	[ICRA]AA- (Positive)/ [ICRA]A1+
NA	Long-term/Short-term Unallocated	NA	NA	NA	40.00	[ICRA]AA- (Positive)/ [ICRA]A1+
INE731H14358 INE731H14341	Commercial Paper	Aug-21 Sep-21	NA	Nov-21 Dec-21	35.00	[ICRA]A1+

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	ACE Ownership	Consolidation Approach
Action Construction Equipment Ltd.	100.00% (rated entity)	Full Consolidation
SC Forma SA, Botosani (Romania)	89.50%	Full Consolidation
Namo Metals (Partnership Firm)	90.00%	Full Consolidation

Source: ACE annual report FY2021

Note: ICRA has taken a consolidated view of the parent (ACE) and its subsidiaries while assigning the ratings.

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