April 26, 2023

Action Construction Equipment Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	210.00	175.00	[ICRA]AA (Stable)/ [ICRA]A1+; Reaffirmed
Non Fund-Based Facilities	270.00	295.00	[ICRA]AA (Stable)/ [ICRA]A1+; Reaffirmed
Interchangeable Limits	(70.00)	(125.00)	[ICRA]AA (Stable)/ [ICRA]A1+; Reaffirmed
Unallocated Limits	10.00	20.00	[ICRA]AA (Stable)/ [ICRA]A1+; Reaffirmed
Total Bank Facilities	**490.00**	**490.00**	
Commercial Paper	35.00	35.00	[ICRA]A1+; Reaffirmed

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation continues to take into consideration Action Construction Equipment Ltd.'s (ACE) well-established market position in the crane and forklift segments. 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 the mobile and fixed tower crane segment. In this segment, the company has 60-65% market share, which is supported by the well-established ACE brand, wide product offerings, frequent product innovations and cost competitive products. Besides its market leading position in the cranes segment, ACE is also one of the leading players in the material handling segment.

The ratings also take into consideration the company's strong financial risk profile with interest coverage indicator of 21.4x and total Debt/ OPBITDA of 0.1 time in 9M FY2023. Aided by healthy cash accruals, unutilised funds from the Qualified Institutional Placement (QIP) completed in September 2021 and limited capital expenditure (capex) over the last few years, the company continues to maintain a net negative debt position. Further, the company's liquidity profile is supported by surplus cash and investments (~Rs. 375 crore as of March 31, 2023) and buffer in the working capital facilities, against which it has nil long-term debt repayments and moderate capex requirements. Going forward, ICRA expects ACE's credit profile to continue to remain healthy, aided by gradual scale up of operations and comfortable profitability indicators. Its moderate capex requirements are expected to be funded from internal accruals and available cash and investments, thus keeping dependence on incremental borrowings low.

In 9M FY2023, the company's sales volume grew by ~9% aided by increased Government focus on the infrastructure sector and healthy demand across the industrial, manufacturing, logistics and agriculture sectors. In addition, its average realisation increased by ~27% aided by ~10% price hikes across the portfolio and higher share of high realisation products.

Although its market share in construction equipment (CE, wherein it offers products such as backhoe loaders, soil compactors, graders and piling rigs) 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. Going forward, the company's business prospects 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 CE industries. A strong operating performance is expected to translate into healthy earnings for the company, thereby aiding it in maintaining its strong financial risk profile.

The ratings are constrained by ACE's exposure to the cyclicality of its end-user industries, primarily in the cranes and CE segments (together constituting ~75-80% of its revenues), wherein growth is directly related to infrastructure investments and indirectly 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.

The Stable outlook on the long-term rating reflects ICRA's opinion that ACE will continue to maintain its healthy financial profile, going forward, supported by healthy cash accruals, moderate capex plans and ample liquidity buffer. Moreover, ICRA believes that the company will maintain its strong market share in the cranes and forklift segments, aided by its well-established brand, widespread distribution network, financing tie-ups and diversified product portfolio.

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 few companies to offer the entire range of products for the infrastructure sector. In addition, ACE has been ahead of the market in introducing new models/ variants for specific applications, such as the electric mobile crane, crawler crane with 180T capacity, the NX series multi-activity cranes, 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.

Strong credit metrics characterised by low leverage and strong liquidity profile – The company has strong credit indicators supported by low capex in the past few years and steady improvement in its scale and profitability. In addition, the company had raised funds via QIP of Rs. 135.5 crore in September 2021, which helped in paring down the debt and improving the liquidity position. The company had utilised part of the funds to repay its long-term debt of ~Rs. 20-22 crore and for acquiring two small entities at a total consideration of Rs. 12-15 crore. In 9M FY2023, the company's interest coverage indicator improved to 21.4x from 11x in FY2022 and total Debt/ OPBITDA remained strong at 0.1 time. Its financial profile is supported by surplus cash and investments (~Rs. 375 crore as on March 31, 2023) and buffer in the working capital facilities. Going forward, ICRA expects the company's credit profile to continue to remain healthy, aided by scale up of operations and comfortable profitability indicators; its moderate capex requirements are expected to be funded from internal accruals and available cash and investments, thus keeping dependence on incremental borrowings low.

Credit challenges

Exposed to cyclicality in end-user industries – ACE is exposed to the underlying cyclicality of its end-user industries, primarily in the CE and cranes segment, wherein growth is directly related to infrastructure investments and, in turn, to domestic economic growth. Nevertheless, supported by the Government's focus on increasing infrastructure spending, construction activity is expected to see growth in the coming quarters, which will support volumes for the cranes and CE segment 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 CE and tractor industries. In the CE segment, it faces intense competition from JCB India in the backhoe loader segment, Escorts Kubota India, Volvo Construction Equipment and Hitachi Construction Machinery 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 International Tractors Limited; 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.

Profitability indicators lag peers owing to limited scale in certain segments; ability to pass on commodity price hardening to customers remains a monitorable – The company's profit margins lag behind 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, ACE's OPM improved to 9.5% in 9M FY2023 from 9.3% in 9M FY2022, despite the increase in commodity prices. The profitability indicators have been supported by cost control measures, improvement in scale of operations 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.

Environmental and Social Risks

Environmental considerations: Construction/ agricultural equipment OEMs remain exposed to climate transition risks emanating from a likelihood of tightening emission control requirements, with the Government focused on reducing the adverse impact of vehicular emissions. Accordingly, an OEM's prospects remain linked to its ability to meet tightening emission requirements. The companies in the sector may need to invest materially to develop products to cater to the regulatory thresholds or expected transition to electric vehicles (EVs), which may have a moderating impact on their return and credit metrics. The exposure to litigation/ penalties from issues related to waste and water management for manufacturers remains relatively low.

Social considerations: Construction/ agricultural equipment OEMs have a healthy dependence on human capital and retaining human capital, maintaining healthy employee relationships as well as a supplier ecosystem remain essential for disruption free operations. Another social risk that such OEMs face pertains to product safety and quality, wherein instances of product recalls and high warranty costs may not only lead to financial implications but could also harm the reputation and create a more long-lasting adverse impact on demand.

Liquidity position: Strong

ACE's liquidity profile is strong, supported by healthy cash flows, cash and investments of ~Rs. 375 crore as on March 31, 2023 and average undrawn working capital limits of Rs. 108.3 crore against the average drawing power of Rs. 155.6 crore in the 12-month period ending in January 2023. In relation to these sources of cash, ACE has nil debt repayments and capex requirements of ~Rs. 50-60 crore in FY2024, besides any acquisitions that it may undertake. Overall, ICRA expects ACE to meet its near-term commitments through internal sources of cash, available cash balances and available lines of credit and yet be left with healthy cash surpluses.

Rating sensitivities

Positive factors – ICRA could upgrade ACE's rating in case of scale up in business in the agriculture equipment and CE segments through meaningful market share traction, while maintaining its solid position in the overall cranes segment in India. A sustained improvement in profitability indicators, while maintaining strong credit metrics could also lead to an upgrade in the ratings.

Negative factors – ICRA could downgrade ACE's rating in case of weakening of financial risk profile with working capital deterioration or large debt-funded capex that results in credit metrics such as Total Debt/OPBDITA remaining above 1.2 times on a sustained basis. Additionally, weakening of profitability and return indicators such as ROCE, on a sustained basis, could lead to a downgrade in the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology- Construction Equipment
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the company. As on March 31, 2023, ACE had three subsidiaries who are enlisted in Annexure 2.

About the company

Incorporated in 1995, Action Construction Equipment Limited is among the leading cranes and material handling manufacturer in India, with market leadership in the mobile and fixed tower cranes segment. Over the years, the company has diversified its presence by foraying into the CE (backhoe loaders, soil compactors, graders and piling rigs), 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 FY2022, followed by agriculture equipment (12%), CE (11%) and forklifts (9%). 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, manufacturing, 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 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. ACE has four manufacturing units with the mother plant located in Palwal (Haryana), two fabrication units and an R&D centre in Faridabad (Haryana). The company went public in 2006 and is currently listed on both BSE and NSE with the promoters controlling 66.76% stake as on December 31, 2022.

Key financial indicators (audited)

ACE Consolidated	FY2021	FY2022	9M FY2023*
Operating income	1,227.2	1,629.6	1,545.8
PAT	79.8	105.0	125.8
OPBDIT/OI	9.7%	9.3%	9.5%
PAT/OI	6.5%	6.4%	8.1%
Total outside liabilities/Tangible net worth (times)	1.0	0.7	-
Total debt/OPBDIT (times)	0.5	0.1	0.1
Interest coverage (times)	9.7	11.0	21.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

*Source: Company, ICRA Research; *Provisional numbers; 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 (FY2024)				Chronology of rating history for the past 3 years					
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022*	Date & rating in FY2021			
					Apr 26, 2023	Apr 7. 2022	Sep 30, 2021	Sep 16, 2020	Sep 4, 2020	May 04, 2020 Apr 13, 2020	
1	Commercial Paper	Short term	35.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
2	Fund Based Limits	Long term and short term	175.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- @/ [ICRA]A1+	
3	Non Fund-Based Facilities	Long term and short term	295.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- @/ [ICRA]A1+	
4	Interchangeable Limits	Long term and short term	(125.00)	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- @/ [ICRA]A1+	
5	Unallocated Limits	Long term and short term	20.00	-	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable) [ICRA]A1+	[ICRA]AA- @/ [ICRA]A1+	
6	Fund Based Limits	Short term	-	-	-	-	-	[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
Fund Based Limits	Simple
Non Fund-Based Facilities	Simple
Interchangeable Limits	Simple
Unallocated Limits	Not applicable
Commercial Paper Programme	Very Simple

*The complexity indicator for the CP Programme is based on ICRA's assumptions and is subject to change when the terms are eventually finalized.

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 analysing 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 are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	175.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Non Fund-Based Facilities	NA	NA	NA	295.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Interchangeable Limits	NA	NA	NA	(125.00)	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	20.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Commercial Paper	Yet to be placed			35.00	[ICRA]A1+

Source: Company

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: 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 (Partnerhip Firm)	90.00%	Full Consolidation
Crane Kraft India Private Limited	100.00%	Full consolidation

Source: ACE annual results

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91-44-45964318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Arushi
+91 124 4545 396
arushi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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