

September 16 2020

Action Construction Equipment Ltd.: Rating assigned to enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term Fund Based	105.00	150.00	[ICRA]AA- (Stable)/A1+; Assigned to enhanced amount
Long-term/Short-term Non-fund Based	165.00	185.00	[ICRA]AA- (Stable)/A1+; Assigned to enhanced amount
Long-term/Short-term Interchangeable	(45.00)	(80.00)	[ICRA]AA- (Stable)/A1+; Assigned to enhanced amount
Long-term/Short-term Unallocated	25.00	35.00	[ICRA]AA- (Stable)/A1+; Assigned to enhanced amount
Short Term Fund Based	0.00	25.00	[ICRA]A1+; Assigned
Total	295.00	395.00	
Commercial paper	25.00	35.00	[ICRA]A1+; Assigned to enhanced amount

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings continue to draw comfort from Action Construction Equipment Ltd.'s (ACE) well-established market position in the construction equipment sector, especially in the crane and forklift segments. The company'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, it 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 the third largest player in the material handling segment.

The ratings are also supported by ACE's healthy financial risk profile, characterised by low leveraging, comfortable credit metrics and an adequate liquidity position. The company has comfortable credit indicators with gearing ratio at 0.2 times as on March 31, 2020 (0.1 times as on March 31, 2019) and DSCR at 2.6 times in FY2020 (3.4 times in FY2019). Going forward also, with minimal capex requirements and scheduled repayment of existing term debt, the credit metrics are expected to improve gradually over the medium term. Further, company enjoys a comfortable liquidity profile, supported by surplus cash and liquid investments (Rs. 21.8 crore as on July 31, 2020) and moderate utilisation in the working capital facilities (average buffer of Rs. 62.5 crore in the working capital facilities against the drawing power in the 12-month period ending in July 2020). It also generates comfortable cash flows from operations, and has certain long-term investments in fixed maturity plans (FMPs) and debentures (Rs. 22.8 crore as on July 31, 2020), which lends it financial flexibility. Against these, the company has debt repayments of Rs. 33.7 crore (including buyer's credit) and modest capex requirements in FY2021, which are likely to be serviced comfortably.

These strengths are, however, partially offset by ACE's exposure to cyclical in the Construction Equipment (CE) industry, the impact of Covid-19 outbreak and lockdowns on the demand for construction equipment and stiff competition from established players.

Following the rapid proliferation of Covid-19 cases in India, the Government was mandated to undertake strict lockdown measures, leading to production shutdowns at most manufacturing units, including that of construction equipment (CE) manufacturers like ACE. Given the two months of disruption and contraction in macro-economic activity, ACE's revenues had contracted sharply by 66% YoY in Q1 FY2021 to Rs. 100.9 crore, resulting in a loss of Rs. 4.2 crore at the PBT level during the same period.

Notwithstanding the subdued financial performance in Q1 FY2021, the company's sales have gradually improved over the past two to three months with pickup in construction activity. The demand is almost back to approximately 90% of the pre-pandemic average monthly sales. While sequential improvement in demand is favourable, its sustainability remains contingent on the underlying economy, headroom for infrastructural spending and any challenges in the supply-chain due to intermittent lockdowns, which will remain a key rating monitorable. While ACE's earnings in the current fiscal is likely to remain weak owing to a muted first quarter performance and gradual recovery in sales, ICRA expects its credit metrics and liquidity position to remain comfortable, supported by low debt levels and surplus cash and liquid investments respectively. Moreover, given the expected contraction in revenues during the current fiscal, the management has undertaken several cost control measures, which can partially offset the impact of lower volumes.

The Stable outlook on the long-term rating reflects ICRA's opinion that ACE will continue to maintain its comfortable financial profile going forward, despite the slowdown in the industry in the current fiscal, supported by its modest debt repayment obligations and capex plans and ample liquidity buffers. Moreover, ICRA believes that the company will maintain its strong market share in the cranes and forklift segments, aided by its well-established brand and frequent product innovations.

Key rating drivers and their description

Credit strengths

Market leader in cranes segment supported by well-established brand and diverse product offerings – ACE is a market leader in the crane segment with 60-65% share in the mobile and fixed tower crane products. It is continuously involved in innovating the product offerings. In FY2020, the company launched its NX series multi-activity cranes in three variants- NX 360 degree, NXP 150 and NXT 150, as well as a new model in the truck mounted cranes segment, which has a capacity of 40T- 70T.

Well-diversified product portfolio spanning across infrastructure, industrial and agricultural sectors – ACE has a diverse portfolio spanning across applications in infrastructure, industrial and agricultural sectors. In addition, the company has been ahead of the market in introducing new models/variants for specific applications. In FY2020, it introduced multiple new products and variants in order to support its market presence.

Positioned among top three players in forklift segment in India – The company is the third largest manufacturer of forklifts, behind Godrej and Voltas (now Kion). Given the increasing demand from the e-commerce segment, ACE has

expanded its product offerings to include new products such as electric stacker, forkover manual stacker, semi-electric stacker, heavy-duty electric pallet truck, etc.

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.

Comfortable credit metrics characterised by low leverage and adequate liquidity profile – The company has comfortable credit indicators with gearing ratio at 0.2 times as on March 31, 2020 (0.1 times as on March 31, 2019) and DSCR at 2.6 times in FY2020 (3.4 times in FY2019). Its financial profile is further supported by surplus cash and liquid investments (Rs. 21.8 crore as on July 31, 2020), buffer in the working capital facilities (Rs. 62.5 crore against the average drawing power of Rs. 129.6 crore in the 12- month period ending in July 2020), FMPs and debentures worth Rs. 22.8 crore as on July 31, 2020. Against this, it has limited long-term debt repayments of Rs. 8.6 crore (in FY2021) and modest capex requirements.

Credit challenges

Earnings to weaken over near-term due to lockdown and its impact on demand for CE; however, credit metrics to remain comfortable supported by low leverage and adequate liquidity profile – With the lockdown-induced disruption and an overall contraction in macro-economic activity, the company’s earnings would weaken during the current fiscal. However, its credit metrics are likely to remain comfortable given the low leverage and adequate liquidity profile.

Exposed to cyclicity in CE industry; revenues likely to remain subdued in FY2021 due to muted demand – ACE is exposed to the underlying cyclicity of the construction equipment industry, wherein the growth is directly related to infrastructure investments, which is related to the country’s economic growth. In line with the slow economic activity in the infrastructure and industrial sectors, ACE registered 14% decline in revenues in FY2020. Given the pandemic and the overall macro-economic weakness, the company’s revenues are likely to remain subdued during the current fiscal as well.

Stiff competition from established players, especially in CE and 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 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, Tractor & Farm Equipment Limited (TAFE) and Sonalika and ACE faces significant competition from these players.

Profitability indicators lag peers owing to limited scale in certain segments – The company’s profit margins lag some of its peers because some of its products such as backhoe loaders and tractors 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.

Liquidity position: Adequate

Despite moderation in cash flows from operations, ACE’s liquidity profile remains **adequate**, supported by cash and liquid investments of Rs. 21.8 crore as on July 31, 2020 and average buffer of Rs. 62.5 crore in the working capital facilities against the average drawing power of Rs. 129.6 crore in the 12-month period ending in July 2020. In addition, the company’s financial flexibility is supported by presence of FMPs and debentures worth Rs. 22.8 crore as on July 31,

2020. Against this, it has limited long-term debt repayments of Rs. 8.6 crore (in FY2021) and modest capex requirements.

Rating sensitivities

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

Negative triggers – Negative pressure on the ratings could arise in case of weakening of financial risk profile with continued working capital deterioration, that results in credit metrics such as TD/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 rating for Action Construction Equipment Limited is based on the consolidated financial statements of the company.

About the company

Incorporated in 1995, ACE is among the leading material handling and construction equipment manufacturers 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 its mainstay, contributing to 72% of its turnover in FY2020, followed by the agriculture equipment (12%), forklifts (7%) and construction equipment (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 metro construction, mining, industrial development and the railways. ACE’s market position is supported by its well-established brand and 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 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 the overall marketing and new product initiatives of the company. It has four manufacturing units with the mother plant located in Palwal (Haryana) and two

fabrication units and R&D in Faridabad (Haryana). It went public in 2006 and is, at present, listed on both the BSE and NSE with the promoters controlling 72.4% stake.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	1,342.5	1,156.2
PAT (Rs. crore)	56.0	52.5
OPBDIT/OI (%)	7.3%	8.0%
PAT/OI (%)	4.2%	4.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.0	1.2
Total Debt/OPBDIT (times)	0.5	0.9
Interest Coverage (times)	8.5	6.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)							Rating History for the Past 3 Years			
		Type	Amount Rated	Amount Outstanding*	Current Rating	Earlier Rating			FY2020	FY2019		FY2018
					16-Sep-2020	4-Sep-2020	4-May-2020	13-Apr-2020		4-Dec-2019	13-Dec-2018	
1	Commercial paper	Short Term	35.00	15.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-
2	Fund-based Limits	Long & Short Term	150.00	NA	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-@/ A1+	[ICRA]AA-@/ A1+	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-(Stable)/ A1+	-	-
3	Non-fund based Limits	Long & Short Term	185.00	NA	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-@/ A1+	[ICRA]AA-@/ A1+	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-(Stable)/ A1+	-	-
4	Interchangeable Limits	Long & Short Term	(80.00)	NA	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-@/ A1+	[ICRA]AA-@/ A1+	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-(Stable)/ A1+	-	-
5	Unallocated	Long & Short Term	35.00	NA	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-@/ A1+	[ICRA]AA-@/ A1+	[ICRA]AA-(Stable)/ A1+	[ICRA]AA-(Stable)/ A1+	-	-
6	Short Term Fund Based	Short Term	25.00	NA	[ICRA]A1+	-	-	-	-	-	-	-

Amount in Rs. crore; @:watch with negative implications; *As on July 31, 2020

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

Annexure-1: Instrument details

ISIN	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	35.00	[ICRA]A1+
NA	Fund Based Limits	NA	NA	NA	150.00	[ICRA]AA-(Stable)/A1+
NA	Non-Fund Based Limits	NA	NA	NA	185.00	[ICRA]AA-(Stable)/A1+
NA	Interchangeable	NA	NA	NA	(80.00)	[ICRA]AA-(Stable)/A1+
NA	Unallocated	NA	NA	NA	35.00	[ICRA]AA-(Stable)/A1+
NA	Short Term Fund Based	NA	NA	NA	25.00	[ICRA]A1+

Source: Action Construction Equipment Ltd.

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
SC Forma SA	89.50%	Full Consolidation

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