April 29, 2024

# Action Construction Equipment Ltd.: Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long term / Short term - Fund based - Cash credit** | 175.00 | 195.00 | [ICRA]AA(Stable)/[ICRA]A1+; reaffirmed/assigned for enhanced amount |
| **Long term / Short term – Interchangeable limits** | (125.00) | (150.00) | [ICRA]AA(Stable)/[ICRA]A1+; reaffirmed/assigned for enhanced amount |
| **Long term / Short term – Non fund based** | 295.00 | 461.00 | [ICRA]AA(Stable)/[ICRA]A1+; reaffirmed/assigned for enhanced amount |
| **Long term / Short term – Unallocated limits** | 20.00 | 0.00 | - |
| **Total** | **490.00** | **656.00** | |
| **Commercial paper** | 35.00 | 35.00 | [ICRA]A1+; reaffirmed |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings continue to take into consideration Action Construction Equipment Ltd.'s (ACE) strong operational and financial performances, aided by its 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 leading market position in the cranes segment, ACE is also one of the leading players in the material handling segment. The strong market position across product segments, provides healthy earning visibility, and is likely to help the company maintain a strong credit profile.

The ratings further take into consideration the company's strong financial risk profile with interest coverage indicator of 24.6x and Total Debt/ OPBITDA of 0.2 times in H1 FY2024. Aided by healthy cash accruals 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 liquid investments (~Rs. 350 crore as of February 29, 2024) 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 be 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 FY2024, the company's sales volume grew by ~17% on yearly basis (partially impacted by moderation in tractor sales) aided by increased Government focus on the infrastructure sector and healthy demand across the industrial, manufacturing, logistics and agriculture sectors. 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 efforts to improve 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 expectations 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.

## 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; 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, fork-over-manual stackers, semi-electric stackers, heavy-duty electric pallet trucks, etc.

**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 healthy improvement in its scale and profitability. In 9M FY2024, the company's interest coverage indicator remained strong at 21.9 times. Its financial profile is supported by surplus cash and liquid investments (~Rs. 350 crore as on March 31, 2023) and buffer in the working capital facilities of Rs. 90-100 crore against drawing power. Going forward, ICRA expects the company's credit profile to remain strong, 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 segments, 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. However, near-term impact might be visible owing to the ongoing General Elections in India, which are expected to impact the revenues and profitability in Q1 FY2025.

**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 in segments such as construction equipment (backhoe loader) and tractors as its products are priced at a discount, compared to the market leader in the respective segments leading to small scale of operations in these segments. Nevertheless, ACE's OPM improved to 12.6% in 9M FY2024 from 10.6% in FY2023, which has been supported by cost-control measures, improvement in scale of operations. Going forward, its profitability indicators are expected to remain at comfortable levels, aided by expectations of improvement in the scale of operations as well as the company's cost-control initiatives.

## Liquidity position: Strong

ACE's liquidity profile is expected to remain **strong**, supported by healthy cash flows, cash and liquid investments of ~Rs. 350 crore as on February 29, 2024 (out of total investments of about ~Rs. 640 crore) and average undrawn working capital limits of Rs. 107.2 crore against the average drawing power of Rs. 138.7 crore in the 15-month period ending in February 2024. In relation to these sources of cash, ACE has nil debt repayments and capex requirements of ~Rs. 200 crore in FY2025 against expected retained cash flows of Rs. 175-200 crore per annum. 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 long-term rating in case of scale-up in business in the agriculture equipment and CE segments through meaningful market share traction, while maintaining its strong 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 led by 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<br>Construction vehicles |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | The ratings are based on the consolidated financial statements of the company. As on December 31, 2023, ACE had four subsidiaries who are enlisted in Annexure II. |

## About the company

Action Construction Equipment Limited, incorporated in 1995, is one of the leading cranes and material handling manufacturers 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 ~70% to its turnover in 9M FY2024, followed by CE (14%), agriculture equipment (9%) and forklifts (7%). In India, ACE is 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 emerged among the top-three players in the forklift segment in India. However, its share in the 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 the BSE and NSE with the promoters controlling 66.8% stake as on December 31, 2023.

### Key financial indicators (audited)

| ACE Consolidated | FY2022 | FY2023 | 9M FY2024* |
|---|---|---|---|
| **Operating income** | 1,629.6 | 2,159.7 | 2,078.0 |
| **PAT** | 105.0 | 173.0 | 229.8 |
| **OPBDIT/OI*** | 9.6% | 10.6% | 13.2% |
| **PAT/OI** | 6.4% | 8.0% | 11.1% |
| **Total outside liabilities/Tangible net worth (times)** | 0.7 | 0.7 | - |
| **Total debt/OPBDIT (times)** | 0.2 | 0.0 | - |
| **Interest coverage (times)*** | 16.5 | 22.3 | 21.9 |

*Source: Company, ICRA Research; *limited audit; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; OPBITDA and interest cover adjusted for loss on sale of assets*

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

## Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2025) | | | | Chronology of Rating History for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. Crore) | Amount Outstanding as of Dec 31, 2023 (Rs. crore) | Date & Rating in FY2025 | Date & Rating in FY2024 | Date & Rating in FY2023 | Date & Rating in FY2022 |
| | | | | | Apr 29, 2024 | Apr 26, 2023 | Apr 7. 2022 | Sep 30, 2021 |
| 1 | **Commercial paper** | Short term | 35.00 | Yet to be placed | **[ICRA]A1+** | [ICRA]A1+ | [ICRA]A1+ | [ICRA]A1+ |
| 2 | **Fund based limits** | Long term and short term | 195.00 | - | **[ICRA]AA (Stable)/ [ICRA]A1+** | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA- (Positive)/ [ICRA]A1+ |
| 3 | **Non fund-based facilities** | Long term and short term | 461.00 | - | **[ICRA]AA (Stable)/ [ICRA]A1+** | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA- (Positive)/ [ICRA]A1+ |
| 4 | **Interchangeable** | Long term and short term | (150.00) | - | **[ICRA]AA (Stable)/ [ICRA]A1+** | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA- (Positive)/ [ICRA]A1+ |
| 5 | **Unallocated limits** | Long term and short term | 0.00 | -- | -- | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA (Stable)/ [ICRA]A1+ | [ICRA]AA- (Positive)/ [ICRA]A1+ |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long term / Short term - Fund based - Cash credit** | Simple |
| **Long term / Short term – Interchangeable limits** | Simple |
| **Long term / Short term – Non fund based** | Simple |
| **Commercial paper*** | 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 | 195.00 | [ICRA]AA(Stable)/[ICRA]A1+ |
| NA | Non fund-based facilities | NA | NA | NA | 461.00 | [ICRA]AA(Stable)/[ICRA]A1+ |
| NA | Interchangeable limits | NA | NA | NA | (150.00) | [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: Not applicable

| Company Name | ACE Ownership | Consolidation Approach |
|---|---|---|
| Action Construction Equipment Ltd. | 100.00% (rated entity) | Full Consolidation |
| SC Forma SA, Botosani (Romania)* | 89.52% | Full Consolidation |
| Namo Metals (Partnerhip Firm) | 90.00% | Full Consolidation |
| Crane Kraft India Private Limited | 100.00% | Full consolidation |
| Action Construction Equipment Limited Employees Welfare Trust | 1000.00% | Full consolidation |

*Source: ACE financial results for 9M FY2024; Under liquidation**

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## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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