

April 07, 2022

Action Construction Equipment Ltd.: Long-term rating upgraded to [ICRA]AA; short-term rating reaffirmed; outlook revised to Stable; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	150.00	210.00	[ICRA]AA (Stable)/ [ICRA]A1+; Long-term rating upgraded from [ICRA]AA-; Short-term rating reaffirmed; Outlook revised to Stable from Positive
Non Fund-Based Facilities	205.00	270.00	[ICRA]AA (Stable)/ [ICRA]A1+; Long-term rating upgraded from [ICRA]AA-; Short-term rating reaffirmed; Outlook revised to Stable from Positive
Interchangeable Limits	(100.00)	(70.00)	[ICRA]AA (Stable)/ [ICRA]A1+; Long-term rating upgraded from [ICRA]AA-; Short-term rating reaffirmed; Outlook revised to Stable from Positive
Unallocated Limits	40.00	10.00	[ICRA]AA (Stable)/ [ICRA]A1+; Long-term rating upgraded from [ICRA]AA-; Short-term rating reaffirmed; Outlook revised to Stable from Positive
Total Bank Facilities	395.00	490.00	
Commercial Paper	35.00	35.00	[ICRA]A1+; Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The upgrade in the long-term rating of Action Construction Equipment Ltd. (ACE) takes into consideration sustained improvement in its financial risk profile, aided by healthy cash accruals, infusion of ~Rs. 136 crore via a Qualified Institutional Placement (QIP), low capital expenditure, and pre-payment of long-term debt; the coverage indicators remain strong with the company having an interest coverage indicator of 11x (from 9.7x in FY2021) in 9M FY2022. ACE's financial profile is further supported by surplus cash and liquid investments (~Rs. 178.5 crore as of December 31, 2021) and buffer in the working capital facilities, against which it has nil long-term debt repayments and limited capex requirements. Going forward, ICRA expects the company's coverage metrics to continue to remain strong, aided by scale up of operations, comfortable profitability indicators and limited capex requirements.

Even though the company's performance was impacted by the second wave of the Covid-19 and lockdown restrictions in April-May 2021, the demand rebounded subsequently, and the company has reported a healthy revenue growth of 45% to Rs. 1,119 crore in 9M FY2022. Further, its operating profit margin (OPM) remained comfortable at 9.3% in 9M FY2022 despite the increase in raw material prices, aided by better product mix, cost control measures and price hikes taken by the company during the year. While the company's earnings are expected to remain under pressure during Q4 FY2022 and Q1 FY2023 due to raw material price hardening and expected moderation in demand due to price hikes necessitated by the transition to CEV BS 4 norms, it is expected to continue to remain comfortable.

The ratings continue to take into consideration ACE's well-established market position in the construction equipment (CE) sector, especially 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 approximately 60% 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. 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 in these two segments during FY2021 and 9M FY2022. 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 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.

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 nil debt repayment obligations, limited 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, 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 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.

Strong credit metrics characterised by low leverage and strong liquidity profile – The company has strong credit indicators supported by low capital expenditure in the past few years and steady improvement in its scale and profitability. In H1 FY2022, the company's interest coverage indicator improved to 10.7x from 9.7x in FY2021 whereas its DSCR improved to 7.3x from 5.2x in FY2021. The gearing ratio and TOL/ TNW ratio also remained strong at 0.1x and 0.7x, respectively. Its financial profile is further supported by surplus cash and liquid investments (Rs. 178.5 crore as on December 31, 2021) and buffer in the working

capital facilities. Against this, it has nil long-term debt repayments as it has pre-paid all its outstanding long-term debt from the proceeds of the funds raised via QIP. 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 cyclicality in end-user industries – ACE is exposed to the underlying cyclicality of its end-user industries, primarily the MCE industry, wherein growth is directly related to infrastructure investments, and in turn related to domestic 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 moderate revenue growth in these two segments during 9M FY2022.

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, the company reported a comfortable profitability with OPM of 9.3% in 9M FY2022 (9.7% in FY2021), 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.

Liquidity position: Strong

ACE's liquidity profile is **strong**, supported by cash and liquid investments of ~Rs. 178.5 crore as on December 31, 2021 and average undrawn working capital limits of Rs. 128.3 crore against the average drawing power of Rs. 197.1 crore in the 12-month period ending in January 2022. In relation to these sources of cash, ACE has capex requirements of Rs. 35-40 crore p.a. over the medium term and nil debt repayments. 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 sufficient 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 crane segment in India
- a sustained improvement in profitability indicators, while maintaining strong credit metrics

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 time on a sustained basis

- or weakening of profitability and return indicators such as ROCE, on a sustained basis

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, Action Construction Equipment Limited is among the leading material handling and construction equipment manufacturers in India, with market leadership in mobile and fixed tower crane segments. 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 crane segment remains the mainstay of the company, contributing 64% to its turnover in FY2021, followed by agriculture equipment (16%), construction equipment (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 also emerged among the top two 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 at 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, 2021.

Key financial indicators (audited)

ACE Consolidated	FY2020	FY2021	9M FY2022
Operating Income (Rs. crore)	1,156.2	1,227.2	1,119.0
PAT (Rs. crore)	52.5	79.8	69.6
OPBDIT/OI (%)	8.0%	9.7%	9.3%
PAT/OI (%)	4.5%	6.5%	6.2%
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	11.0

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 (FY2023)				Chronology of Rating History for the past 3 years					
	Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020	
				Apr 7, 2022	Sep 30, 2021	Sep 16, 2020	Sep 4, 2020	May 04, 2020 Apr 13, 2020	Dec 04, 2019	
1 Commercial Paper	Short-term	35.00	0.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2 Fund Based Limits	Long-term and short term	210.00	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- @/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	
3 Non Fund-Based Facilities	Long-term and short term	270.00	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- @/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	
4 Interchangeable Limits	Long-term and short term	(70.00)	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- @/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	
5 Unallocated Limits	Long-term and short term	10.00	NA	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA- (Positive)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- (Stable)/ [ICRA]A1+	[ICRA]AA- @/ [ICRA]A1+	[ICRA]AA- (Stable)/ [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	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: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	210.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Non Fund-Based Facilities	NA	NA	NA	270.00	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Interchangeable Limits	NA	NA	NA	(70.00)	[ICRA]AA (Stable)/ [ICRA]A1+
NA	Unallocated Limits	NA	NA	NA	10.00	[ICRA]AA (Stable)/ [ICRA]A1+
INE731H14366	Commercial Paper	Dec 2021	4.15%	March 2022	35.00	[ICRA]A1+

Source: Company

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

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.

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

Jayanta Chatterjee
+91 80 4332 6401
[jayantac@icraindia.com](mailto:jyantac@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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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



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