

# **Action Construction Equipment Limited**

# Earnings Conference Call Transcript May 31, 2013

#### Moderator

Ladies and gentlemen, good day and welcome to Action Construction Equipment Limited, Q4 and FY13 earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during this conference call, please signal an operator by pressing \* and then 0 on your touchtone phone. Please note that this conference is being recorded. I would like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you sir.

#### **Gavin Desa**

Good morning everyone and thank you for joining us on Q4 FY2013 conference call and we propose to discuss the company's performance and outlook for the coming year. We have with us Mr. Vijay Agarwal – the Managing Director of the Company and Mr. Rajan Luthra – the CFO. I request Mr. Vijay Agarwal to share some opinion and his views on performance and outlook, after which we will throw the floor open to guestion and answer.

## Vijay Agarwal

I am delighted to join you on this call. Some of you may be interacting for the first time with ACE. I would devote a few moments in introducing ACE to you. We are at present in four business segments - Cranes and material handling, construction equipment, earth moving and road construction and agri equipment. Our portfolio comprises of an extensive range of products which are all branded under the wellestablished ACE Brand. Almost all our products are developed indigenously and are ISO 9001 certified. We are No.1 in hydraulic mobile cranes and tower cranes. We also have a major market share in the crawler crane segment. Our presence in material handling and road construction too has been growing steadily. I am sure you would have seen some of our equipment on roads at some time. We also have a relatively smaller but extremely fast growing agri equipment business. This business is at present concentrated in North India. Over the current year we propose to swiftly expand this presence across the Country with better and wider range of product. We have a robust dealer network throughout the country and have developed strong customer relationships guided by strategic views of a strong management team. Over the last 15 years we have built a strong customer relationship with leading and well regarded industry players and have established our position as a high quality and extremely cost efficient player.

The year gone by, as you know was a very difficult one for the industry with several impediments which included high interest cost, slowdown in policy making and slowdown in the environmental clearances all of which resulted in delays and reduced order inflow. At the commencement of the year it was believed that the worst was over, as there were visible improvements in the environment. We built up our capacity in anticipation of improving demand and as a result incurred heavy capex and also build up our inventories. Concurrently we have seen significant volatile foreign exchange rates which have resulted in forex losses. Thus a combination of low demand and heavy operating leverage along with forex



exposure and financial leverage hurt our performance. However, the things have now started improving. We have taken a slew of measures to boost productivity and control cost.

During the quarter and the year under review our focus has been on increased disciplined on the cost front, new product launches, models and improving our mix. We have taken steps to strategically reduce raw material cost by maintaining the right balance between our designs requirements and raw materials. Our focus has also been on rationalizing manpower cost in an endeavor to be leaner and efficient. The management has placed special emphasis on improving market share on the back of better product mix and new launches. Recently we have introduced new models of tractors in the premium and economy segment. Our agri products also like rotavators, bailers, rice transplanters and combined harvesters have been added in our portfolio and we will continue to add more agriculture automation machinery to our portfolio.

In the material handling segment we have introduced tele handlers. In our cranes segment we have introduced new upgraded models. We have introduced a new range of loaders. All our products are designed with superior technology taking feedback from customers and trying to make it at very affordable prices. Our constant thrust for innovation has led us to develop an indigenous engine technology. It will be used primarily for tractors and some of our crane models. This is one of the many initiatives the company will take in coming years to generate value for its customers as well as stakeholders. This will boost our margin and also boost demand for spares. For agri and construction equipment segment the extensive pan India network of crane business will be very helpful to the company and give us optimum coverage. We are taking a measured approach in expansion of our agri business which focuses on consolidating our operations in existing geographies and then expanding to new territories.

I am sure you would have gone through our numbers and the presentation we shared. So I will not spend time talking about the individual numbers, I will however like to highlight our improved operating margin driven specially by material handling and road construction and agri equipment business which I believe are a reflection of both of an improving environment as well as several measures we have taken that I have discussed earlier. Our finished goods inventories presently stand at a very low level which is an indication of the strength of our portfolio and an improving environment. Lastly I may add that our sales are practically on zero credit basis. This is our regular practice which we have maintained despite the difficult environment. I believe this is the testimony to our well established brand and high quality of product portfolio. We are optimistic of the opportunities we enjoy going forward. Our capacity utilization levels are presently well below fifty percent which means we are adequately prepared to respond to any improvement in the environment and demand without much investment in capex. Our liquidity position is too extremely comfortable in line with our credit policy. Improvement in interest rates is expected to show improve the environment further. I look forward to a strong growth in the current year. With this I would open the floor for question and answer.

Moderator

Thank you very much sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Tanuj Mukhija from Ambit Capital.

Tanui Mukhija

As you rightly mentioned that the demand for the construction equipment has been very slow and slightly improving, I want to understand the demand outlook in the future specifically for construction equipment. How do you see the demand from real estate, infrastructure, irrigation and industrial sectors for your construction equipment in the next couple of years?



Vijay Agarwal

ACE has very expansive portfolio of products. So in case one product goes down the other product picks up and that's the reason we are hoping that we will at least try to match our FY12 figures at around 800 plus crore. But when you look at the demand I see now that the building construction equipment has started increasing. But as everybody is aware demand for road projects, power and mining are still stagnating, with not much initiative on this side. Like I mentioned earlier we are concentrating a little bit more on to agriculture where the market is growing. Tractors are increasing by 15-30% percent per annum at present. We have to take a slice out of that.

Tanuj Mukhija

Going forward what do you think would be your growth target for say equipment in construction sector, because that constitutes 60% of your total sales if I am not mistaken?

Vijay Agarwal

A little bit more will be taken by agri division, whereas the construction equipment even if it remains stagnant we should still meet our 800 crore plus sales target.

Tanuj Mukhija

As you mentioned you are shifting to agriculture, how do you see demand in the irrigation sectors for your equipment's?

Vijay Agarwal

When you talk of irrigation that means canals and dams, isn't it?

Tanuj Mukhija

Yes.

Vijay Agarwal

If the Government goes ahead and carries out projects, all our products are useful from mobile cranes, to compactors, excavators, loaders, crawler cranes, so we are just waiting for the skies to open.

Tanuj Mukhija

Are you hopeful that the Government will open investments?

Vijay Agarwal

That is the indication, we are expecting RBI to ease up a little bit every few months and if things carry on like that I am pretty sure demand can pick up. India is a country where infrastructure is required, everybody knows that, so there is no way to stop its growth. It's only the current scenario which has in the last one year slowed everything down; there is no reason why it should continue for long.

Tanuj Mukhija

My next question is how has been the enquiries from your clients for the construction equipment, have you seen the enquiries go up or go down in the last three to six months for your construction equipment.

Vijay Agarwal

I would like to answer this product wise. In agri the enquiries are very strong. In our tower crane business the enquiries are increasing, the business is growing whereas in crawler crane it is stable, nothing significant is happening.. With regard to forklifts as you know the factories are not expanding capacities very quickly, so forklifts are not growing, rather it has reduced by 30-40%.

Tanuj Mukhija

I think financing is right now a big issue for all the construction players. Do you think that the demand has slowed down because of lack of financing availability? Have you seen any payment pressures from your clients?

Vijay Agarwal

No. If our clients wants a machine, they buy the machine. The financiers have their own targets, and are ready to finance. That is not the problem, here the problem is requirement. If I already have ten excavators lying with me and if I don't have a job I wont come to buy more. That is the situation.



Tanuj Mukhija And lastly I am trying to understand your client profile, is the demand coming from

companies who are into construction or from organized players who lease construction equipment or from small retail unorganized players. Where do you see

more demand coming for your construction equipment?

Vijay Agarwal All three actually, but off late I find that the bigger corporates are investing a little bit

more into the equipments. But for ACE, hirers are our main backup, because we

give value for money.

**Moderator** The next question is from the line of Sumit Kishore from JP Morgan.

Sumit Kishore My question is specifically on your tower crane business where I believe ACE is

one of the leading players in the country. How many units of tower cranes did you actually sell in FY13, how does this compare with FY12. What is the growth you have seen in this business and as a sector how the tower crane business has grown and more particularly I would also like to hear your views on how have you seen traction in the residential and commercial and tower construction business in

FY13 and what is the outlook for FY14?

Vijay Agarwal We did 160 plus cranes last year.

**Sumit Kishore** And how many in FY12.

Vijay Agarwal About the same.

**Sumit Kishore** Okay, so you did not see any growth, but was there any growth for the industry?

Vijay Agarwal No. In fact we took shares from our competitors. During last year the building

construction equipment industry came down a bit. But this year we should achieve

about 230 - 240 cranes.

**Sumit Kishore** Okay, so it is a quantum jump from where you were last year.

Vijay Agarwal We have that type of an order backlog, There is also another reason - we have

developed new models of cranes in between, to cater to demand. We were losing

to competition earlier because we didn't have those models.

Sumit Kishore Okay, but you see that kind of market demand in FY14 vs. FY13 which is almost

like a 40% jump.

Vijay Agarwal No. As earlier I was saying that we are trying to build market share. We want to

increase our market share despite the lack of demand. So I cannot say the demand would become forty or fifty percent more. But the demand is stable and growing at present that I can certify, because as I told that some models we have developed which competition had & we did not possess, so that will add to our kitty even if

everything remains as it is.

Sumit Kishore Okay and what would your market share be in the tower crane business as of now

in the country.

Vijay Agarwal About 55%.

**Sumit Kishore** Okay that is a substantial market share.

**Moderator** The next question is from the line of KS Batra, an individual investor.

**KS Batra** 

We have seen numbers of other tractor manufacturers for the month of April, there was substantial growth in some of the competitors, how we stand in the current year so far, April and May month. How many tractors have we sold?

Vijay Agarwal

Our share forms a very small portion of the tractor market. The segment however forms a significant share of our revenues. We sell our tractors only on cash. We do not give credit on tractors even to dealers. We have a stable market share and a have been regularly selling a fixed number of tractors, around 450, month after month. So yes, we have stabilized our operations and as I mentioned we have the manufacturing capacity and market experience, service set ups and very good team at hand. So the moment my engine is ready, which I am hoping will be the case in three months, we should do fairly well. So I cannot compare myself with the giants. But I am definitely giving a very good tractor and getting repeat & regular business. So that is the story here. I would target about 800 tractors per month. I am exactly doubling what I am doing now at present.

**KS Batra** How many tractor we sold last year?

Vijay Agarwal About 4000.

**KS Batra** So what is the target for current year?

Vijay Agarwal Between 7000 to 8000 that is the figure we target, may do better.

**KS Batra** How is the current inventory position overall in each of the products?

Vijay Agarwal

Like I mentioned we hardly have any finished inventory. Most of the inventories are iust raw materials. We basically have inventories of crawler cranes, because we

were the market leaders & there was demand from power projects.

**KS Batra**Have you noticed some movement in the power sector now with the restructuring

of the loans in the SEBs?

Vijay Agarwal Not yet. It has not caught on. Because first they will utilize their existing equipments

then they will go for the new ones. There is a huge inventory with us, because

there is a lot of import content.

**KS Batra** How are we faring in tower cranes segment? As you said there is good demand, I

just wanted to know whether this demand is from the Tier-2 or Tier-3 cities or from

the other places like metro cities?

Vijay Agarwal No, the major demand is still from metropolitan areas like Greater Noida, Gurgaon,

that sides are growing. But now the smaller cities have also started using them. We have a smaller model of cranes which is going to the Tier-2 cities, 7-8 storey

buildings, etc. We are the only one in India who is makes this machine.

KS Batra Coming back to tractors how do we stand price wise, competitiveness wise, plus

fuel efficiency wise, in comparison with the bigger names?

Vijay Agarwal We are giving value for money that means we are economical than others.

Overheads are well-controlled, our tractor models are very fuel efficient, that is the reason we are stably selling wherever we have started, in few states, I am even

number two in the 35 - 45 HP segment.

KS Batra How is our business going on in the forklift segment, is there any pick up in the

demand?



Vijay Agarwal No, forklift has reduced by about 40%. Reason is forklifts are used in factories and

workshops. We have got a lot of orders but deliveries are held up because unless they see some pickup in business they would not take deliveries. We are already

No. 3 in forklifts.

**KS Batra** Godrej is the market leader?

Vijay Agarwal Yes, Godrej and very close is Voltas. Our aim is to overtake them.

**KS Batra** Is there any pick up in the coal mining sector or demand for our product?

Vijay Agarwal Of late I have seen tenders coming out by Coal India and all. Good tenders for

mobile cranes. Otherwise I do not see any traction.

KS Batra Just wanted to check whether our loaders are being used by municipal

corporations in Delhi or near by area?

Vijay Agarwal Yes few of our backhoe loaders and loaders are being used by municipal

corporations. These are not given directly to municipal corporation they are given to big companies which get the contracts for cleaning up. They take them on hire.

**KS Batra** How is the overall response from there?

Vijay Agarwal The response has been good.

**Moderator** The next question is from Shaukat Ali from Quantum Securities.

Shaukat Ali In agri equipment segment, despite the sales being quite flat quarter-on-quarter,

there is significant increase in segmental profit in agri equipment sector. Is there

any one-off item or it is a sustainable EBIT margin that is going to go on?

Vijay Agarwal No, there is no one-off item. The numbers are stable rather increasing a little bit

every month.

Rajan Luthra What has happened is that as the volumes are increasing our fixed cost is getting

absorbed at much better rate. So margins are improving.

Vijay Agarwal Previously we had only 35-45 HP tractors. Now we have increased the range to 50

HP tractors. So the numbers remains the same but the cost of those tractors are much more because they have a hydraulic steering, wet breaks and further

attachments. So they give more revenue and more profits.

Shaukat Ali And this kind of EBITDA margin in the agri equipment's business is sustainable

going further?

Vijay Agarwal Yes.

**Shaukat Ali** Can you share with us the product wise volume date for at least major segments.

Vijay Agarwal We can send the data to you by e mail.

**Moderator** The next question is from Yashesh Mukhi of Morgan Stanely. .



Yashesh Mukhi

If I may like to know your views on the tractor industry outlook for the coming year and what has led to the strong growth in the segment?

Vijay Agarwal

What we have observed is there is a regular growth going on and in the first quarter the business has suddenly grown quite a lot but it is not all over the country. Demand from Maharashtra has reduced drastically. MP has grown by 40%. So it is very difficult, the reason may be government subsidies, easier bank loans considering the election is round the corner, but obviously people are buying more tractors.

Yashesh Mukhi

What would be your outlook for volume growth this year?

Vijay Agarwal

We are actually planning 60-70% growth in tractors. Because there is a market and the market also is growing and we are just sitting in a small area up till now and marketing, we have not even expanded our activities. We will expand now.

Moderator

The next question is from the line of Ankush Kedia from Avendus.

Ankush Kedia

When we look at the segmental results we find with the profits of tractor has dramatically gone up this quarter, so is there any reason is to how the profits are going up?

Vijay Agarwal

I just explained that and I will tell you again. We have introduced the 50 HP range also. Up till now we had only 35-45 HP tractors. A 50 HP tractor sells for a better price. It has more hydraulics and value add features, so that is the reason. Volumes may be constant as of now but we have moved to higher value products.. Gradually we are expanding even into Punjab and those places where they are buying bigger tractors so that is why even with the same quantities, the profit and sales increase.

Ankush Kedia

And in terms of expanding the dealer network are we looking at other states going forward or are we going focus on these states?

Vijay Agarwal

We have started little bit penetration in Gujarat, MP and Punjab. You see the problem is that we have to at first have everything laid out - our engine, our spare part systems and all that we have managed and within three months I think we should be able to come out with some new models which are already in testing phase. With these in place we can go into new states. Every state also has a different type of requirement, the soil conditions, and so on, accordingly we have to ensure that the tractor works there, so that is how we go about one by one, but we do plan 60-70% growth this year.

Ankush Kedia

With regards to the Pick & Carry Cranes, what is the outlook in that segment and are there any steps we are taking to improve our position in that segment?

Vijay Agarwal

We are taking a lot of steps in aspects of improving our productivity, rationalizing material cost, improving our service because it takes time to do all that. So all that is being done but the level of requirement is pretty flat. All you can gain is market share from your competitors.

Moderator

The next question is from Gaurav Malik from Locus Investment Group...

**Gaurav Malik** 

I wanted to understand about rice transplanter. Could you just share some more information about what kind of market is it? What is the potential size of that particular market? How is it expected to be? And what kind of traction, if at all, you are seeing in that market?



# Vijay Agarwal

Rice transplanter is self-propelled. That means a driver sits on it and he just drives like a small tractor through the rice field where the seeding has to be done. What happens is you have to build a nursery of rice separately and that nursery pieces are put on to that transplanter and you just drive through the field and automatically small plants are planted into the ground. We do not have to have the women knee deep into the water and trying to put the plants in and also paddy is put into very systemic rows. The machine has been launched recently and our effort today is to train people. A lot of effort is going in demos and training people about the use of this type of equipment. You are correct, market is not huge today but with the labor problems, especially in agriculture, now it is right time to put this thing in order and that is what we have started.

# **Gauray Malik**

Could you also share just on an overall basis as a company, your strategy in terms of the next three to five odd years, what is that you are looking at and what is that you aspire to be, where do you aspire to be as a Company?

### Vijay Agarwal

We plan about 800 crore plus and if things improve significantly then maybe we can do 1200 -1600 crore sales next year.

### **Gaurav Malik**

Is there particular thrust on or a particular area that you might be wanting to focus at?

#### Vijay Agarwal

No, you see each one of our products, if you look at our range is capable of achieving these volumes. All we have got to look at is the market that is in front of us, as soon as the market just shifts gears we have got the products to match the demand. And except for hydraulic cranes and tower cranes where we are market leaders, other products we are only sitting on the tip of the icebergs so all we have to do is grab market share as a company.

#### **Gauray Malik**

And in terms of your capex, is it mostly done for the next year or next couple of years or it is really maintenance capex that you are expecting over next two years?

# Vijay Agarwal

Like I mentioned in my address initially we already have spent a lot on capex and are currently at 50% capacity utilisation everywhere and we have already spent the capex that is required so only a little bit of bottleneck here or there 20-25 crore is all that we are looking for to meet all these requirements.

## Moderator

The next question is from Nikunj Doshi, from Bay Capital.

# Nikuni Doshi

Just wanted the margin outlook overall for the Company considering that the raw material prices are coming off, but on the other end industry is plagued with overcapacity, I would say there could be pricing pressure also. So where do you see your margins in the current year and going forward?

## Vijay Agarwal

EBITDA margins last year was 5.3%, our effort is to take it atleast to 8%.

# Nikunj Doshi

Time and again there are some rumors coming in the market about management selling out stake in the company to some other larger player, is there any kind of thought process to sell out on the promoters side?

# Vijay Agarwal

No. ACE is a well-known brand not only in India, it is well known abroad also. Under these circumstances a lot of foreign companies do want to come and take a slice of our market here in India which is a huge market they anticipate. So a lot of talks keep on happening regarding they want us to sell their products, they want some technology tie-ups and things like that. But these are all rumors that we are hearing. We do a lot of meetings but that does not mean anything.



**Moderator** The next question is from the line of KS Batra an individual investor.

KS Batra I just wanted to know the lease rental business like Sanghvi Movers, whether they

are our customer?

Vijay Agarwal Yes anybody who is using the cranes has to buy from us also.

**Moderator** Thank you. As there are no further questions from the participants I would now like

to hand over the conference back to the management for closing comments.

Vijay Agarwal I wish to thank everybody. I hope I have clarified the Company's position. The

Company is very hopeful, we have very strong products, strong brand and are

pretty sure we will be able to do justice to our shareholders.

Moderator Thank you very much. On behalf of Action Construction Equipment Limited that

concludes this conference call. Thank you for joining us.

