"Action Construction Equipment Limited hosted by Emkay Global Financial Services Limited"

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MANAGEMENT: **MR. SORAB AGARWAL – EXECUTIVE DIRECTOR, ACTION CONSTRUCTION EQUIPMENT LIMITED**
MR. RAJAN LUTHRA – CFO, ACTION CONSTRUCTION EQUIPMENT LIMITED

MODERATOR: **MR. ANAS DADARKAR – EMKAY GLOBAL FINANCIAL SERVICES**

Moderator: Ladies and Gentlemen, Good day and welcome to Q1 FY21 Earnings Conference Call of Action Construction Equipment Limited hosted by Emkay Global Financial Services Limited. We have with us today Mr. Sorab Agarwal – Executive Director and Mr. Rajan Luthra – CFO. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Anas Dadarkar of Emkay Global. Thank you and over to you, sir.

Anas Dadarkar: Good evening everyone. I would like to welcome the management and thanks them for giving us this opportunity to host the first quarter FY21 Results Earnings Call. I would now hand over the call to the management for their opening remarks. Over to you, sir.

Sorab Agarwal: Good evening everybody. I am Sorab Agarwal this side. All of us are currently dealing under the ill effects of COVID which has caused a lot of pain and disruptions here and there even in businesses. Our topline for Quarter 1 has been adversely affected due to the lockdown and slump in the market conditions, but the overall sentiment and business quantum has started improving since July 2020 which is good news and we are definitely looking at a better Quarter 2 as compared to Quarter 1 of FY21. During the last quarter, we have taken all possible liquidity conservation and cost control measures to minimize the effects of reduced revenues which we have already faced in the last quarter and hence this quarter again will be some reduction in revenue. But unfortunately despite our best efforts, we did suffer a loss in the last quarter being the first ever in the history of our company.

We witnessed a 67% degrowth in our revenues on quarter-on-quarter basis and about a 65% degrowth on year-on-year basis. Even in this tough situation of 67% revenue degrowth we were able to remain EBITDA positive at the rate of 2.4% as compared to 8.5% on quarter-on-quarter basis. We did suffer loss at PBT levels to the tune of around 4 crore 31 lakhs versus a profit of around 18 crores 27 lakhs in Quarter 4 of financial year 20. As mentioned earlier business has definitely started gaining some traction from the month of July onwards and we are hopeful of reaching 65% to 70% revenue levels as compared to last year average sales within Quarter 2 of the current year. We have been able to successfully lower down our breakeven levels which will ensure that the company remains profitable even at reduced revenue levels.

The economy we feel it is still in uncharted territories but going forward we should be able to attain at least a 70%, 80% of last year average revenues from Quarter 3 onwards. Owning to the increase in infra activities with ending of monsoon and availability of migrant labor. As conveyed earlier, we have undertaken all possible measures to remain in the black on full year basis and still continue to work on the same that is it from the opening comments.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Anas Dadarkar.

Anas Dadarkar: Can you give us the number of units for this quarter as compared to the last quarter the way you give it for every quarter?

Rajan Luthra: The pick and carry crane is 280 numbers, mobile tower crane is 2 fixed tower crane 8, 1 crawler crane, 382 tractors, 41 backhoe loaders, 83 fork lift, 1 compactor, 8 truck mounted cranes, 22 harvesters, 266 rotavator and 3 pilling rigs. So just for everybody sake the quarter numbers are not comparable as compared to corresponding quarter or last quarter keeping in with the COVID-19 and so apples and apples are not same similar in this quarter so these are the numbers and we had a first month to the totally lockdown so it did not happen very minor. It has started picking on the June onwards only.

Moderator: Thank you. The next question is from the line of Rajiv Maheshwari from Raj Investment. Please go ahead.

Rajiv Maheshwari: Just wanted a quick question in terms of I saw the numbers the agri equipment and the road construction figures are looking fine, but what was more visible in the crane the pick and carry crane segment, so just wanted because that is a bread and butter of the entire sales, so just wanted to know any analysis you guys have done where the sale has fallen to around 50 crores for the quarter and another question which I see going ahead what is the percentage of normality which we have already reached in the current month of July and the half of August?

Sorab Agarwal: With respect to yes we definitely did miserably in cranes and we are down about close to 76%, 77% in the first quarter. Construction equipment and tractor segment of ours in both these segments our market share is quite minuscule as compared to the overall market size. So even though for example construction equipment in the market size was squeezed, but still we were able to manage some basic numbers in the month of May and June or April was practically NIL because everything was in lockdown. Tractor market really did not take a hit on the contrary last one or two months have been good. So that is how we were able to take we still have some hit in the tractor segment, but it is reduced. Now for the second part of your question it seems that cranes are also falling in sink with other equipment lines of our other segments and July was not bad looking at the circumstances the way things were in the month of May and even in June. So and that is why we feel that in this quarter doing a 65% to 70% revenue level as compared to our last year average sale should be possible easily. It can only go up from 65% to 70%.

Rajiv Maheshwari: So as of now for the maybe the 45 days we are already pretty 65% to 70% of the average sales what we did in last quarter?

Sorab Agarwal: I think the monsoon is in full effect so as soon as the monsoon starts to die down end of August it will start to improve further.

Rajiv Maheshwari: So then I think it is a relatively good figure because what you had mentioned that we would be reaching around 50%, 55% in the last concall?

Sorab Agarwal: Yeah, that was in the month of June and everything seem to be sinking.

Rajiv Maheshwari: Yeah, lots of uncertainties were also there at that time?

Sorab Agarwal: As a matter of fact so many mini lockdown and city lockdowns have happened even in the last one and half months which definitely have hampered to be very frank with you Bombay and Pune is one of the big markets even Bangalore and Chennai. So they have been continuously in and out of lockdown and mainly in the lockdown. So activities have still not restored to anywhere near 50%, 60% also in these cities with respect to our business. So as things start to further improve and people start already getting adjusted to this fear of COVID I am sure going forward when some of the other major locations and markets which contribute to our revenue start to wake up, things will definitely look even better from here.

Rajiv Maheshwari: So these locations of Pune and Mumbai are they also impacting the raw material supply to the plant or it is only for the finished good sales that is more?

Sorab Agarwal: Bombay, Pune have definitely hurt us for some supplies which we get from Bombay region as well and this Pune, Aurangabad this side also. So, we have remained hand to mouth for quite some items from this region and it still continuous to be like that, but luckily they open and they close, they open and they close. So in bits and pieces things are happening and we are trying to manage as of now.

Rajiv Maheshwari: Just a quick question that how has exports picked up in this COVID times and after the open up of the activities?

Sorab Agarwal: See if you put it at the ratio of revenue it is quite similar to what it was happening. So that means obviously it is also slow by about 65%, 70%, but on a whole year basis we feel that whatever revenue we were able to do in this year which we anticipate that there can be degrowth of anywhere between 30% to 35%. So I think as of now it seems that export will also fall in the same sink of degrowth. We might be able to do little better may be increase our 6% revenue share of exports to 7%, 8% maybe slightly higher, but it is too early to say anything on that.

Rajiv Maheshwari: And the final part is the impact on the hike of steel price because couple of companies have taken the hike in last two months, so how did you see the effect on our working as such?

Sorab Agarwal: Last time we were discussing that the steel prices have moderated a little and now they are nearly at pre COVID or even slightly higher than that. So I am sure some impact will come it comes generally to us with a lag of one or two months. So during this quarter as of now we are still maintaining it whatever steel we buy directly yes there is already some impact which will be utilized in whatever inventories we are carrying. So, yes if at all there is any price impact due to COVID and there is a respect to our consumption should be happening sometime end of September or October onwards.

Rajiv Maheshwari: But from the economy perspective I believe it is a good thing that the prices are forming up then maybe demand is also picking up and when the steel prices are hiking you guys produce more what you told in the last call, so one way I think it is a sign of green shoots and improvement also?

Sorab Agarwal: Yes, it is definitely a sign, but here I would say that also that at all the stockyards of the steel companies and most of the traders during COVID times and after that everybody I think was also working on inventory control and inventory reduction that is also a reason which has definitely caused some scarcity of especially slightly higher grade steel and abnormal sizes which is also adding a little fuel to the fire. So it is a mix of yes definitely something see because we have not reached pre COVID levels. So there is no reason for the steel prices to be forming up.

Rajiv Maheshwari: So even I was surprised to find how come in these scenario steel companies are raising their prices maybe the China factor where things not getting?

Sorab Agarwal: I think more to do with inventories which have been cleared off in May and June at the destination location here and there and coupled with but see eventually if we go in detail steel prices need to remain around the current prices for the steel companies to remain profitable. If it goes down by 10%, 15% then it is a bigger mess so it is okay that they are increasing a little, but I just hope unlike 2018 where steel prices just rocked it does not happen like that and it goes to 48, 50 without the demand going up that high.

Rajiv Maheshwari: That was a one off case which impacted all the companies and just a quick question in terms of what I saw the reports of exports and Mahindra and all the tractor part is booming for these companies, so what is the strategy which we guys are taking up in terms of pushing our tractor in the market because it is again a high margin service line so what is the take on that?

Sorab Agarwal: There are two aspects to this I am sure that we will definitely increase our revenue from our agri segment in this year maybe to the tune of at least 10%, 15% if not more and apart from that if you look at even the quarter results which was definitely on a much smaller number and you would see that our profitability there is only improved even with lower number. So we are doing a lot of work as of now to ensure that at EBITDA or EBIT levels we do a 8%, 10%, 12% and then start focusing on increasing the numbers because of the last so many years we have been trying to increase the numbers and on the counter of that is not making any profit impact the business. So right now our focus is to make profit and then increase numbers, but in this scenario I am hopeful like I said about 10% increase should happen this year but definitely with profitability in place. So next year again we will try and take some leap and jump and see if we can increase our numbers drastically or not, but as of now the focus is to work on the profitability part.

Rajiv Maheshwari: I think it should happen seeing the rural demand and the rural things and all picking up I think maybe we push something more on the rural side on the tractor side then I think let us hope it goes fine.

Sorab Agarwal: I agree Tier 2 cities, Tier 3 cities and rural has again where construction equipment is happening Tier 1 has been more or less dead to be very frank with you.

Moderator: Thank you. The next question is from the line of Sanjay Dam from Old Bridge Capital. Please go ahead.

Sanjay Dam: Sir, one question I have at the end of FY19 that was a good year, so at the end of FY19 the addressable space that we have in cranes and construction equipment, how large were these two segments the product categories where we are present?

Sorab Agarwal: If we talk of the numbers, I think cranes was close to about 9,000 to 10,000 units they might be little here and there. The cranes was close to about 9,000 to 10,000 units and for construction equipment it was close to about 40,000 units.

Sanjay Dam: So if we convert it through the value that would be?

Sorab Agarwal: See for cranes it was a good year for us and like I said we did I think 62%, 63% market share in that year so we would have done close to about 6,300 machines. So each multiplied by about a 13 lakh, 14 lakh so that is the size of crane. So crane market is about 1,300 to 1,400 crores which was in 2019 and for the other side you can multiply it by 17 or 18 so 18 into 4 it is about a 7,000, 8,000 crores.

Sanjay Dam: So 7,000, 8,000 crore was construction equipment and 1,300 crore of cranes?

Sorab Agarwal: Yes addressable because construction equipment is much bigger because we do not do Excavators and all addressable I mean where we are what we are doing.

Sanjay Dam: So roughly around 9,000, 9,500.

Sorab Agarwal: Yeah but in cranes I have forgotten one thing you also need to put in place some crawler cranes, tower cranes and truck cranes and maybe this would be an additional 300, 400 crores, 300 crores at least. So the crane segment all types of cranes put together will go to maybe 1,600, 1,700 crores a little plus minus here and there addressable.

Sanjay Dam: So roughly around say all put together cranes and construction equipment about 10,000 crores?

Sorab Agarwal: Yeah 9, 000 to 9,500 crores.

Sanjay Dam: And the way we are positioned now and suppose we go back to I mean we will go back to normalization at some point in time, so you keep on talking about launching new product lines and some new staff would that expand addressable space meaningfully?

Sorab Agarwal: See currently what we are looking at whatever products we have brought in and what is in the pipeline is to further improve, upgrade or add to the existing market let us say the addressable size are revenue we were talking about, but yes we are about to bring in maybe over the next six, seven months a different type of machine which nobody manufactures in India, but there I would say the addressable space is as of now put together hold a new machine is about 250 to 300 crores so which is currently being dealt by only by imports I would 40%, 50% is new machines and balance would be about the used machines which are coming into the country. So we are about to enter into that space if everything goes well within this financial year.

Moderator: Thank you. The next question is from the line of Arvind Joshi from Bateleur Advisors**.** Please go ahead.

Arvind Joshi: I had a few questions on some broad topics I wanted to understand your reading on the Chinese impact on our portfolio currently I think only our pilling machines were coming from China other than that I think most of our portfolio was largely inhouse right?

Sorab Agarwal: Yes most of everything we do is done in India around 8 months, 10 months back about year back whenever we had tied up with this one of the leading companies there to sell pilling rigs in India because they are not manufactured in India and apart from that we do not anything from China. We have components imports here and there from China, but in the last one and half two months we have already started working on alternates within India and from other countries.

Arvind Joshi: So you see our product mix changing a little bit considering the changed opportunity and the landscape that now so much wider with some import restrictions coming on Chinese product probably Sany and Liugong also coming under some pressure you feel additional opportunities in the market what is your call on the development?

Sorab Agarwal: Yes, definitely see what China had done for example Sany or XCMG or Zoomlion but especially Sany. So there were these truck crane market they had practically squeezed Tractors India Limited by bringing these truck cranes at lower prices and offering one or two year credit which obviously Tractor India Limited India cannot do because one year credit would mean 8% to 10%. So they had definitely started seeing and we have also entered into this big space truck cranes in the last one two years. So I do see that there is definitely a negative sentiment in the market with respect to the Chinese products and I cannot say with certainty that most of us will stick to that, but at least a 30%, 40%, 50% will not want to buy Chinese if they are restricted or not which sentiment I can already see let us say about a 40% 50%. So this will definitely add some benefit to our truck crane sales where we are in inception stage you just come out with the entire self-propelled range only about last year as well TIL will benefit because of this and see LiuGong practically not been causing any harm to us if you talk as such, but yes they do sell some motor graders and obviously that will definitely go down so obviously some benefit will come to us, some will go to caterpillar or wherever, but yes for the loader segment where LiuGong did start to sell some numbers. I am sure Tata and L&T equipment division will definitely gain on account of this.

Arvind Joshi: And also there has been talk of manufacturing capacities migrating to other locations like India where some Chinese people might want to come to India or the European or the Americans might want to get it manufactured in India considering a learning curve that we have gone through and also the large capacities that we now have, are there any likelihood chances of that materializing into some serious tieups for us to manufacture for the world?

Sorab Agarwal: I am sure opportunities like this will crop up and there already are one or two in the pipeline here and there which time will only tell, but rather than complete equipment which I feel because see already most of the multinationals of the world in construction equipment segment whether it is Komatsu, whether it is Kobelco, whether it is Hitachi they are all in India or whether it is Caterpillar. So most of them are already in India, but one thing is for sure that definitely for higher end machines and Excavators and lot of other things a lot of components were still being imported from China because of the cost parity and to be very frank with you in the last one and half two months when we have started relooking at the components that we import which started 5, 10 years back looking at the cost or let us say the quality advantage or whatever that was there. We are very surprised that now they are not as competitive as they were seven, eight years back and there was a thrust from Malaysia and even from Europe they are ready to match the cost.

Arvind Joshi: And what about our domestic capabilities matching cost and matching quality?

Sorab Agarwal: Domestic capacities even better we actually found some of them to be cheaper of better quality in India which you were not looking out for within last three, four years.

Arvind Joshi: My other question was on this Swadeshi or Atma Nirbhar Bharat and all that you have been talking, so in that context how does our defense footprint place us we had some ancillary work to do for defense, so any chances of extending the footprint in that?

Sorab Agarwal: Yes see last five, six years we have been trying and doing a lot of things and also spending a lot of money into R&D and developing machines here and there for the army, but fortunately unfortunately the system and the procurement processes and way litigations are in our country it was a very slow process and somebody get in with some litigation at the last minute when you are getting the order or something, but I am sure things will improve quite a lot and only in the last one and half months we have seen under I am forgetting what the army calls it you know some emergency procurement type of provision they have I am forgetting the technical word for that. So under which they want to buy cranes all of a sudden and types of cranes which they are never buying earlier because now they realize that they need equipment to be there at site and not just planning it for 10 years and then not buy it. So yes, definitely things have started moving let us hope it also translates into actual business as soon as possible.

Arvind Joshi: And my last question was you have almost all the top contractors as your customers, how do you see the change in their mood over the last two, three months especially government being a little easy in giving the payment, NHAI being very liberal in the payments, the income tax refund have also started coming, do you see a slightly more upbeat mood for them to add to their equipment banks or the machinery banks or general offbeat attitude improving a little bit or you feel just a little concerned about the overall ambience?

Sorab Agarwal: See we work with everybody. So I would say there are two types healthy and unhealthy. Healthy I have always been bullish and were quite okay. Unhealthy are the way they were unhealthy or slow ones, but what I see is definitely leaving out hardcore road construction companies which are still continuing to do a reasonable amount of work and I am sure you will not see quite a dip in their revenues, but all other EPC companies are infra companies. I feel working only at 40% to 60% levels because this migrant labor problem and the monsoon which is going to start July onwards they have more or less delayed and postponed some or most of their sites till post monsoon.

Arvind Joshi: Labor issues apart there was a major issue that the payments were not coming, so do you get a feel that the payment cycle has started improving in their favor because the migrant labor I think will definitely?

Sorab Agarwal: Yes, I think it has started to normalize and NHAI especially in roads and all they are taking a lot of pain to make sure that the payments are released that has definitely started improving.

Arvind Joshi: So that should provide some kind of tailwind to us also?

Sorab Agarwal: Yes, it will definitely, and I feel that post September or you know within September things will also start to improve further. As there are lot of sites which are currently on hold will start to function either because of labor or because of monsoon. So what they have done is they have clubbed it. Labor was less and the monsoon in any case the work is slow. So they have just forgotten those sites for three, four months which will now start again in September and October mainly in September.

Moderator: Thank you. The next question is from the line of Pradeep Sethi from Axis Bank Capital Limited. Please go ahead.

Pradeep Sethi: My question is regarding your dependency on China, so we are quite dependent on China as of now, so looking to the current situation are we having some alternate for that?

Sorab Agarwal: We are not quite dependent on China I do not know from where you get that conception. We do imports certain components and certain things from China for which definitely throughout the world anywhere in India there are alternates we are already working on it and hopefully by October, November whatever small, big components maybe to the tune of 4%, 5%, 6% of this thing which we might be getting from there. I am sure 70%, 80% of them will be deleted from our list to get from China. So the work is already on process, we are not dependent on China I mean that is a misconception.

Moderator: Thank you. The next question is from the line of Sandesh Shetty from PhillipCapital. Please go ahead.

Sandesh Shetty: Sir, in the earlier one of the earlier quarters you said about multi activity crane, so looking at the improved sentiment so you do foresee any improvement in demand for this multi activity crane in the coming times let's say 6 to 12 months?

Sorab Agarwal: Pre COVID in the two quarters definitely traction was there on these multi activity cranes. There still continuous to be, but obviously everything is so slow that is also a little slow. They are game changing cranes, they will change the way we use cranes and work with cranes in India eventually. So I am sure going forward the things start to normalize which we are seeing that already in the current quarter it will be definitely better than last quarter and Quarter 3 should be at least 70%, 80% if not more. So things will start to improve even from those cranes for everything rather.

Moderator: Thank you. The next question is from the line of Yash Tanna an Individual Investor. Please go ahead.

Yash Tanna: We spoke about consolidation in the crane segment answer where we said that only four to five unorganized players now, so where are we on that point are we gaining more markets were there?

Sorab Agarwal: There are basically two big players we do about 60% to 63% market share and to be very frank with you we have taken it up to 65%, 66% in the last four months and there are two to three small unorganized players they hardly do anything. So I am sure one or two of them will get knocked out maybe not checked during this slow times because they were practically doing very little numbers and with that smaller business it is very difficult to survive. So in all put together would be 2%, 3% of the market so I think that is not a pain at all.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for closing comments.

Sorab Agarwal: Like we said that this quarter definitely we seem to be getting some grip on the things and we are looking at a 65%, 70% revenue as compared to our earlier quarters and it can only better from here the way we see it and definitely infra and construction activity is going to gain more traction once the monsoons are done and hopefully Quarter 3 will be even better as compared to Quarter 2 and we are trying to do all our best to ensure that the company remains in black. Last quarter was practically impossible we did whatever best we could do to avoid it, but the revenue was so less and the market was so less forthcoming that we could not do anything and that is it and a whole year basis we will be in black should be able to do a 6%, 7% at EBITDA level also that is what we foresee and that is it. I think let us hope the country gets well the economy gets well as soon as possible and all of us have happy faces. Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Services that concludes this conference. Thank you all for joining us and you may now disconnect your lines.