

Action Construction Equipment Ltd.

Corporate & Regd. Office

Dudhola Link Road, Dudhola, Distt. Palwal - 121102, Haryana, India



Date: August 17, 2022

To,

The Manager Listing
BSE Limited
5th Floor, P.J. Towers,
Dalal Street,
Mumbai-400001
Scrip Code: 532762

The Manager Listing
National Stock Exchange of India Ltd.
Exchange Plaza, Bandra Kurla Complex,
Bandra (E),
Mumbai-400051
CM Quote: ACE

Subject: Earnings Call Transcript Q1-FY23.

Dear Sir/Madam,

Pursuant to Regulation 30 and 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith, Earnings Call Transcript (Q1-FY23) of the Company.

Kindly take the above in your record.

Thanking You.

Yours faithfully,

For Action Construction Equipment Limited

Anil Kumar
Company Secretary & Compliance Officer





“Action Construction Equipment Limited Q1 FY-23
Earnings Conference Call”

August 12, 2022



MANAGEMENT: **MR. SORAB AGARWAL - EXECUTIVE DIRECTOR,
ACTION CONSTRUCTION EQUIPMENT LIMITED.
MR. RAJAN LUTHRA – CHIEF FINANCIAL OFFICER,
ACTION CONSTRUCTION EQUIPMENT LIMITED.
MR. VYOM AGARWAL - HEAD, INVESTOR RELATIONS,
ACTION CONSTRUCTION EQUIPMENT LIMITED.**

MODERATOR: **MR. VIKRAM SURYAVANSHI –PHILLIPCAPITAL (INDIA)
PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY23 Earnings Conference Call for Action Construction Equipment Limited hosted by PhillipCapital (India) Private Limited. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vikram Suryavanshi from PhillipCapital (India) Private Limited. Thank you and over to you sir.

Vikram Suryavanshi: Thank you again Faizan. Good afternoon and very warm welcome to everyone. Thank you for being on a call of Action Construction Equipment Limited. We are happy to have management with us here today for question-and-answer session with investment community. Management is represented by Mr. Sorab Agarwal – Executive Director, Mr. Rajan Luthra – Chief Financial Officer and Mr. Vyom Agarwal – Head, Investor Relations.

Before we start with the question-and-answer session, we’ll have opening comments from the management. Now, I hand over call to Mr. Sorab Agarwal for opening comments. Over to you, sir.

Sorab Agarwal: Good afternoon. And welcome, everyone to this earnings conference call for discussing the results for the quarter ended June 22. Along with me in today’s earnings call, we have our CFO Mr. Rajan Luthra, and our Head of Investor Relations, Mr. Vyom Agarwal. I hope all of you have had an opportunity to look at the company’s financial statements and the earnings presentation, which have been circulated and uploaded as the stock exchanges.

In the current quarter gone by the external signals were mixed. We entered the quarter with strong demand, but due to higher than expected inflation, and the macroeconomic headwinds, there was a moderation in demand as a quarter went by. We at ACE took these uncertainties as opportunities, and have move forward with the intent which reflects in our best ever quarter one performance in terms of revenue and profits. To brief you on the financial performance of the first quarter of financial year 23. On a yearly standalone basis, the operational revenue grew by 55% approximately to 501 crores with an EBITDA margin of 9.3%.

The EBITDA during the quarter increased by 42% to Rs.46.23 crore. The profit before tax grew by 51% to 39.51 crore and PAT grew by 49% to Rs.28.85 crore as compared to last year’s corresponding quarter. The PAT margins now standard 5.8% for the quarter on a standalone basis. Due to onetime exceptional income of about 19.8 crores. The consolidated profitability numbers have increased to 12.55% at EBITDA level, totaling to 65.6 crores and 8.67% at PAT level, totaling to 45 crores.

Moving on to the segmental business performance. For the quarter gone by our cranes business has illustrated a growth of 58% year-on-year. This is on the low base of last year, especially of April, May 21, when a large part of the country was heavily impacted due to COVID 19 second wave. In this segment, we have sustained our margins at around 11%. Further as compared to the last corresponding quarter, the construction equipment segment clocked a growth of 42% and we did a revenue of 52 crores with margins of around 4.5%. The material handling segment recorded revenue growth of 15% and stood at 38 crores with margins at 11%. The agri division registered revenue of 59 crores while recording margins at 2.5%. With the expectations of a good monsoon and a likely record Kharif crop yield. We expect tractor industry to perform better in the current year as compared to last year.

As anticipated and conveyed earlier. Inflation worsen during the last quarter, and prices of many commodities went to their all-time highs during the quarter. Despite this, we have been able to hold EBITDA margins at a reasonable level, due to our clear focus on fundamentals of investing in our products and giving better value to customers. And we continue to calibrate our pricing actions. And the most important thing to drive saving and optimize all cost through approval mindset and growth leverage.

On the operational side in the last quarter, the company was awarded with a contract to set up a state of the art assembly plant. For manufacturing of tractors, backhoe loaders and fabrication of agricultural implements for the Government of the Republic of Ghana. Again against a consideration of US \$24.98 million, which is approximately 200 crores. The said contract is secured through a credit agreement between the government of Ghana and the export import Bank of India. The project will be owned and operated by the Government of Ghana. The project involves designing, engineering, commissioning of assembly supply lines and supply of plant and machinery for the manufacturing in addition to transferring the technical know how, establishing best in class manufacturing processes and quality control system, along with the training of engineers and technicians from the Republic of Ghana for future operations. The manufacturing unit will be designed or an installed capacity of 4500 tractors, 600 backhoes, 600 agricultural equipment's is implements and 300 tipping trailers annually.

The contract also includes the supply of an initial pilot lot of tractors, backhoe and agriculture implements in CKD form for the assembly lines for manufacturing. Subsequently, after commissioning of the plant, the prices of CKD kits shall be applicable as per the prevailing market rate at the time of supply. On completion, the project will play a vital role in opening up of export markets in Western African region for our products and augmenting the companies export efforts.

Further in our endeavor to work closely and effectively with the ministry of defense in the last quarter, we got a breakthrough order for supply of about 40 backhoe loaders for auto road organization Ministry of Defense, and the same shall be supplied during the current quarter. In addition to that, we continue executing the pilot order of 4x4 multipurpose tractors, along with special attachments, which was specifically designed for the Indian Army.

Going forward, inflation continues to be a significant challenge. As you can see, market prices of most of the commodities have increased sequentially in June quarter. And were at very high levels. But the recent softening of commodity especially steel due to policy decisions, augurs well for us, and if this fails it will positively impact our sequential margins from quarter two onwards. Needless to say, we will continue to extensively drive productivity improvements in our business and take calibrated pricing actions. Further, the board of the company has approved appointment of KPMG as the statutory auditors subject to shareholders approval.

With the current focus of government towards infrastructure development, and efforts to strengthen the manufacturing sector, we expect a growth of 15% to 20% in crane and agri segments for the current year, and a 30%, 35% and 20%, 25% growth across our other two business segments that is construction improvement and material handling. On the whole, we are looking at, at least 15% to 20% increase in our top line for the current year with better EBITDA margins. We hope that we are in a position to revise these projections by end of second quarter, which will predominantly depend on how the macroeconomic and inflation scenarios PAN out. We remain optimistic about the medium to long term prospects of the company and believe that our building blocks are firmly in place and our own path of sustainable growth in all the four segments where we operate leading to expansion in top line, bottom line and margins of the company. With this, I would like to request the moderator to open the call for question-and-answer session. Thank you.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Himanshu Upadhyay from 03 Securities. Please go ahead.

Himanshu Upadhyay: My first question was on acquisition, is there any probability that those acquisitions which you were targeting will happen or it is now a low probability event looking at the situation and the market conditions what they?

Management: Recently we have concluded two aspects, two things rather. One we have taken over a new startup crane company to operate in the price sensitive zone, the lower zone of the market. So, that activity has been completed and operations have been taken over. And secondly, another company a much smaller company operating in the pick and carry cranes and power train segments specially, we have also taken over that company and it is operating under our fold as of now, these two things have happened in the last one month or two months.

Himanshu Upadhyay: So, have we bought these companies or we will be running these companies?

Management: So, for the first company we have taken over the entire shareholding of the company and it is 100% subsidiary, nearly 100%, 99.99% and obviously, we'll be running that company in the bottom most space of pricing place and for the second company we have taken over their business and assets and have started operating that at a different locations.

- Himanshu Upadhyay:** Both these companies are manufacturing companies?
- Management:** Yes, both of them are manufacturing companies, operating in the crane space.
- Himanshu Upadhyay:** But the price points will be lower?
- Management:** Yes, alternate brands at slightly lower prices. So, basically out of the three, four players two have been in a way eliminated as competition for us and they will take care of the balance one or two which operate in the market at a lower price point.
- Himanshu Upadhyay:** And generally what is the price discount between us and these lower players or the lower end of the market we want to cater to?
- Management:** Can be anywhere between 5% to 10% in some cases even more.
- Himanshu Upadhyay:** And they will be a separate brand, they will not?
- Management:** Totally separate brand, not ACE brand at all.
- Himanshu Upadhyay:** And the distribution structure would be what for these companies?
- Management:** It is going to be pan India these companies are on regional level, area level so, distribution is generally through some companies staff and some small dealerships. So they will continue to operate the way they were operating.
- Himanshu Upadhyay:** Okay. So, what would be the synergies which we bring to the table in these two companies?
- Management:** I would say nearly half of the lower end of the market is with us now. And with the help of these companies we will also take up the balance half. So, over a period of next six months to one year and going forward this will help us in improving our pricing capability in the market with respect to the current cost of our operations as well as inflation which is very jittery as of now. This will give us pricing power going forward.
- Himanshu Upadhyay:** But in terms of cost of operation would be also reduced because many of the parts we are already manufacturing?
- Management:** That is also one of the main reasons that these companies will be able to reduce their costs and would eventually start making profits even the smaller companies.
- Himanshu Upadhyay:** And what is the size of these businesses in terms of revenue?

Management: 10, 15 crores, 10, 15 crores each. One of them would be, it will reach about 25, 30 crores and one of them would be 10, 15 crores.

Himanshu Upadhyay: Okay. And one thing I was just looking at the Sanghvi movers results okay. And we had seen that a lot of crane rental companies have started going for CAPEX. They are also giving orders in the market to buy more cranes and they given a projection of nine to 10, they can carry cranes. So are we seeing crane renters starting to buy or become more aggressive for the CAPEX in the market, is inquiry level significantly higher than what we would have seen in last three years?

Management: Enquiry level has been high in the last one and a half, two years. And I would say especially between December, January to April this year, the situation was very bullish. But due to this unprecedented inflation and interest rate hike and overall sentiment in the economy, the inquiries and order conversion did dip in the month of May and June, and even in July I would say, but it looks like the things are back on track. And definitely with the growth in infrastructure, which is happening all around and also coupled with the growth in manufacturing sectors leading to establishment of new factories and expansion and whatever, whatever. So, we see that these rental companies, their requirements because 50% of our business is indirectly to rental company. So all of that is definitely increasing and will increase further, as the sentiment and the overall economic outlook further improves from here.

Moderator: Thank you. The next question is from the line of Devesh Kasliwal from Antique Stock Broking. Please go ahead.

Devesh Kasliwal: Actually, I had a query regarding the exceptional gain, the other income gain that we had by selling the land for around 19.8 crores. If we exclude that we see an EBITDA margin of around 9.1% to 9.2%. So is this drop it's around a 100 bps drop year-on-year. So is this because of the commodity price is increasing or is there something else to be concerned about?

Management: Yes, our EBITDA margins at around 9.3% for this quarter as compared to 10.1% on a year-on-year basis, drop of around 80 basis points primarily due to inflation and commodity prices because it was havoc last quarter, we started to ease in June. And, as a matter of fact, anticipating this havoc which had actually started in March, we did increase our prices on 1st of April for most of our products in the range of 3% to 4% which did help us offset some of this. But yes, it is primarily because of totally unprecedented inflation that we saw in the last quarter.

Devesh Kasliwal: So, for the entire year, we are expecting the margins to be like double digits only but then not as per what it was last year or it might even cross the last year's margin?

Management: Hopefully in quarter two itself we should see double digits and on a last full year basis we did about close to 10.2%, 10.3%. Last year bargain with the commodities now eventually cooling off.

- Management:** I would like to add that unfortunately yes steel prices have cooled off pretty well about 15% to 20%. But in steel prices this is mainly to do with plates long products have gone down only by 10%, 12%. And unfortunately casting and alloy steel there has hardly been any price reduction. So within steel segment we have seen the price reduction and where we have seen less price reduction and hardly any price reduction. But on all I can say yes, it has gone down by at least 10%, 12% with respect to the steel spectrum of different things we use.
- Devesh Kasliwal:** Okay. And another thing that I wanted to ask, I don't know if the ICMI has yet released the report, but like last year you have given the overall industry marketable size, addressable marketable size for us, like for the crane segment it was around 1300, 1400 crores so do you have the data with the total market what it was for FY22 overall?
- Management:** Not as of now, but we can definitely provide that data to you, what happened, but FY22 we have our numbers before as of now what we did.
- Devesh Kasliwal:** Okay. So you have the market share overall?
- Management:** Yes, we keep on revolving as of now between 63% to 65% market share, and I'm sure even in the last quarter we were at about 64%, 65% market share with respect to pick and carry crane and even higher than 65% with respect to tower cranes.
- Moderator:** Thank you. The next question is from the line of Chandrika Venkatesh from Rica Enterprises. Please go ahead.
- Chandrika Venkatesh:** I have two questions. One you have set a target of 2500 crores on the sale by FY24. Is the target still valid or are we going to take more time to reach there?
- Management:** Sir can you repeat your question target of how much for what?
- Chandrika Venkatesh:** So, we have set a target of 2500 crores of sales by financial year 24. Is the target guidance, is the still valid or are we going to take more time to reach that target?
- Management:** With cooling off of commodities and slight inflation coming under control and sentiment being neutral, we are very much on target to achieve 2500 crore sales by FY24 which we have set for ourselves. As of now it appears we are totally and very much on the target to achieve it.
- Chandrika Venkatesh:** Okay. My second question is, we have not been very successful in backhoe loader, despite our optimism about the same, our construction equipment sale are only around 200 crores per year, you have given a guidance of 500 crores by FY24. Why are we not so successful in backhoe loaders, despite having the advantage of cross selling and will we reach the target of 500 crores of sales by FY24 or will it take longer?
- Management:** Somehow it has been very unfortunate, even in the last year, the overall backhoe industry, grew by 28% to 30% in number terms, and unfortunately again in the first quarter of this year,

the backhoe loader industry is down more than 30%, I don't have the exact numbers it can be somewhere between 30% to 40% year-on-year basis. So looking at that we were really not able to grow in the last year on backhoe. And last year our segment revenue was at 176 crores, but we are very hopeful that we'll grow this segment by 30%, 35% in this year looking at our auto inflow backlog whatever. So that will take us through anywhere between 225 to 250 crores. Yes, there is a question mark that we might not be able to attain 500 crores by FY24 and we might get stuck somewhere between 300 to 400 crores by FY24.

Moderator: Thank you. We'll move on to the next question from the line of Suraj Deora from Paladin Capital. Please go ahead.

Suraj Deora: I have two questions. One is on the backhoe loader you mentioned the market is down 30% to 40% what is the reason for that?

Management: See, what has happened last year April when BS4 kick in, till September you were allowed to sell the stock which you had in March. So, people made extra all, made extra machines and the pricing effect because of BS4 totally did not trickle in for the first half of last year. But then, when the prices increasing drastically because of BS4 transition coupled with other inflation, whether in steel whatever. So, the price viability of the machines, with the rentals hardly going up is a question mark. So, that is one of the main reasons that backhoe has been suffering for, the entire market rather, we definitely increase our numbers last year we will increase our numbers significantly this year also because we have a much smaller base. But overall as an industry it has been suffering on account of exceptional price increases because of BS4 and commodities, vis-à-vis the rental revenue and about 75%, 80% of the backhoe loader market is based on rentals and retail. That is the main reason that the business viability is slightly suffering but yes, with continued increase in activity sooner or later we will cover states that the rentals will have to increase because the market there is definitely requirement of backhoe loaders. So as soon as the rentals further increase by 10%, 20%, 25% from here the viability will be back again. And then the ball should start to roll. So, I expect that it will start to happen Q3, Q4 onwards this year.

Suraj Deora: Okay. And the second question was that in exactly a year ago, September last year you were done with QIP for 120 odd crores and I thought the purpose of that QIP was to make acquisitions, but the acquisition that you made are substantially smaller than the amount of money raise, so could you share your thoughts on that?

Management: Yes, currently we spent close to anywhere between 12 to 15 crores as of now, and two, three other things are on the annual, they are taking time. So which are definitely bigger than this. Reasonably bigger than this. So that's all I can tell you that we have created our watches for these acquisitions which would help us significantly in our bottom line. And hopefully, I really can't say three, four months, six months, seven months. But yes, we are on track things are happening.

Suraj Deora: And those acquisitions are getting delayed because of pricing negotiations or some other reasons?

Management: Everything put together because the situation is so ziffy. And even the balance sheet number of it's very difficult to negotiate in a scenario when your results are changing. So quickly, with respect to what you want to acquire, obviously coupled with certain other regulatory things, I really can't discuss much in detail, but I'm sure at least one of them should go through in this year.

Suraj Deora: And when you think about your 2500 crore turnover target, what part of that will come from inorganic growth?

Management: Nothing, that has been calculated without this.

Suraj Deora: So, 2500 crores is your organic growth target from the level that you are today. So if you make an acquisition, thing could be sizable. And sizable I am guessing at least 200, 300 crores of revenue. So that will be over and above 2500?

Management: You can say that, but one of the acquisitions is backward integration. So that will affect us more in the bottom line than on the top line. So it could be 80, 100 crores of top line and definitely benefit on the bottom line.

Moderator: Thank you. The next question is from the line of Himanshu Upadhyay from 03 Securities. Please go ahead.

Himanshu Upadhyay: This construction equipment, we have seen for us at least Y-o-Y some growth is there. And even Q-on-Q so what percentage of this would be from backhoe loaders or do you have stagnant for us, can you just elaborate on how much of a backhoe loader?

Management: 15%, 20% would be from backhoe loaders and I'm sure in this quarter, you'll see by backhoe loader once you put in much more towards quarter two and quarter three, further or 15%, 20% of this would be from backhoe loaders.

Himanshu Upadhyay: Okay. It is moving, the product is moving at a slower pace than what we expected?

Management: Yes, unfortunately because of the overall backhoe loader market size, although we are a smaller player, but when the market contracts by 25%, 30%, everything gets affected. And that's the reason but we still, last year also we were able to grow and I'm sure this year again we'll be able to grow at least 30%, 35% But we would have thought the pace of growth could have been faster.

Himanshu Upadhyay: Okay. And one of the challenges what we faced few years back in agricultural equipment was that dealers were not profitable when the cycle turned and that impacted us very negatively. But what is the situation now for agricultural equipment and even construction equipment.

Management: Construction equipment, there is no real problem as such, because 60%, 70% of the dealer network is common with cranes and also common with metal handling so this basic viability is definitely in place. And for agriculture, yes the cycle turns and things happen. Some dealerships do get knocked out. But as of now the number of dealers that we have an operation with are financially sound reasonably good dealerships. And going forward of the addition of the dealers is also happening. So, I'm sure even the agriculture segments will turn around soon.

Himanshu Upadhyay: Okay. And one last thing, on the material handling equipment. What we hear is a lot of manufacturing activity getting started, new factories getting put. Are we seeing those sentiments being positive on the material handling equipment or the inquiry levels or you don't see something of that sort because the numbers have been flattish or downward, Y-o-Y and Q-on-Q both in material handling. So, can you elaborate what is happening in the market on that?

Management: The industrial segment and the manufacturing segments, whenever the overall economic outlook is a little weak are the first to react and that is what you see. So, on a year-on-year basis, we've been able to grow only 14% there and nearly flattish on a quarter-on-quarter basis. But if you look at our last year FY22 whole year vis-à-vis FY21, you will see a growth of around 47%, 48%. So, I'm sure with the economic sentiment improving quarter three, quarter four would be pretty good, including maybe even quarter two, but especially quarter three, quarter four for metal handling. So that sentiment and the buying decisions and everything just gets suspended. That's what happened in the last three, four months.

Himanshu Upadhyay: And one last thing on the defense side we have given thought that we should be in triple digits for this year okay FY23. So, we continue to maintain this and we will reach to that number?

Management: Yes, end this year.

Himanshu Upadhyay: And anything else than what orders we have got backhoe loaders for defense. Anything else we can do specialize in the market where the entry barriers are high and we can get better value addition?

Management: Yes, in the last two, three years we've been working very closely with Indian defense and as a matter of fact, one of the orders, rather two of the orders which are under execution as of now, our special purpose specially built cranes for missile handling system. One of them is called MRSAL Medium Range Surface to AIR missile system where in these cranes were earlier only imported into our country. And we have developed these cranes have already started supplies to Tata Advance System and L&T Defense and also DRDO and also a very specific type of crane which has gone to the Orissa missile firing ranges I cannot give more details for the bigger missiles for loading and unloading activity. So, all these special type of machines being required, rather, in the last quarter we announced that you got an order of around 482 multipurpose, 4x4 tractors so these are purpose based 4x4 tractors, not standard 4x4 tractors of a slightly higher horsepower, 74, 75 horsepower with three, four specialized attachments only

for the army application. Yes, we do continue to work with them on specialized machines and requirements.

Moderator: Thank you. The next question is from the line of Tanuj Khiyani from Kamayakya Wealth Management. Please go ahead.

Tanuj Khiyani: I just had one question regarding the contract with the Republic of Ghana, how much could the revenue potential be?

Management: In FY 23 and FY24 put together the initial revenue would be to the tune of 200 crore maybe 20%, 30% coming in this year and the balance about 70%, 80% going into the next year. That is the initial potential and post that we do have a revenue potential of anywhere between I can say 150, 200 crore to 400 crores on a yearly basis. On account of supply of CKDs and SKDs for the machines which are going to be manufactured there. So that is the potential currently.

Moderator: Thank you. The next question is from the line of Devesh Kasliwal from Antique Stock Broking. Please go ahead.

Devesh Kasliwal: Actually, I had a question regarding the export potential that we had because of the Russia Ukraine. So, I was just asking about the export potential like last year, we had an order from Bangladesh for the export, on the export side. And we launched two separate types of products. One was the range of tractors as well as the phantom the backhoe loaders. So, we actually could not do what we expected because of the Russia Ukraine crisis. So what I was asking over here is like this year, what is the overall potential that we have from the export segment like as a percentage of revenue, as well as because it's a higher margin like we gain a lot of margin on this more than what we do in the domestic field is there a potential that overall, our margins might look better with this in place?

Management: Seen, in FY21 we did 64 crores of exports in FY22 we did 75 crores of exports. And I'm very hopeful that in the current year, we should be able to exceed 100 crore sales. So it is on the growing trajectory, and things seem to be moving on track.

Devesh Kasliwal: And both the products that you launched have been getting a good response?

Management: Right. The machines are doing well. Things seem to be on track, so we are also opening up some more geographies and focusing on the ones which we had opened in the last three years. So unfortunately, everything got slowed down because of COVID and a lot of international travel and things and even demand scenario everything was warped. Going forward, with COVID stabilizing globally our export business should only look northward.

Devesh Kasliwal: As a percentage of revenue, it can go up to around 10% odd?

- Management:** Internally we have targeted 10% to 15% on the minimum side 10, and on the higher side 15. And then we wanted to do that by FY24, but I am sure will be 10% that what it appears to be.
- Moderator:** Thank you. The next question is from the line of Deepak Mehta, Retail Investor. Please go ahead.
- Deepak Mehta:** Sir, I wanted to ask what is the current utilization?
- Management:** See in the credit segment currently we are working at 65% to 70%, construction equipment, we are working at around 35%, material handling 25% utilization in construction equipment material handling we are working at about 65%.
- Deepak Mehta:** Okay. And sir outlook for this financial year?
- Management:** Outlook with respect to our revenue growth?
- Deepak Mehta:** No sir for utilizations I am asking.
- Management:** Going forward the Q3, Q4 cranes should reach about 75%, 80% utilization. Construction equipment should also reach about 50%, 60% utilization, material handling earlier we were doing 75%, 80% utilization, I am sure in Q3, Q4 we should be touching that. And agri we were about 40%, 45% currently so going forward, we should be touching 50% utilization there also in this year.
- Moderator:** Thank you. The next question is from the line of Rajesh Jain from NB Investments. Please go ahead.
- Rajesh Jain:** My question is, you have given a very ambitious growth. What I just wanted to know is with the increase in inflation and also rise of interest rate, do you think that demand will get subdued since most of the customer buying the machine on credit or loan from the bank?
- Management:** With inflation, definitely we would have thought demand would get subdued. But luckily, inflation in our type of machinery started to go away that is steel. So, the sentiment is again turning towards a little positivity. And you see a 0.5%, 1% interest cycle here and there really does not bother our business or the retail or inter segment. So both these aspects, the first one is definitely more troublesome that is inflation, which seems to be coming under control. And because of the interest rates, I really do not see anything negative happening.
- Rajesh Jain:** Okay. That is very helpful sir. My second question is regarding the construction segment, as and when we have around five products for the growth target that you have kept for yourself, do we have to introduce any more new machines in this segment?
- Management:** See, in this segments obviously the biggest product is the backhoe loader, where the potential to increase our numbers are enormous. And where we are definitely trying to work and like I

did mention that it has been slightly unfortunate that for the last nearly one and a half years, or one year or less, it's 15 months the market has been very much subdued. But over the next six months to nine months, we are evolving a couple of other products. And one of them is not made in our country and it's currently being imported into the country and has a good amount of potential and much better margins. Because as of now, our country relies only on import of that. So, these two products segments we should be introducing probably by Q4 if not Q1 of next year.

Rajesh Jain: Okay. So, my third question is regarding the Ghana project, you said that the revenue potential over a period of two years is around 200 crores all of which this financial year we are expected to do around 30 to 40 crores So, my question is, after this FY24 what would be the revenue potential from there that is one and second question is, what is the margin expected from this business?

Management: Once the plant is set up, which is expected to be finished by FY24. So, FY25 onwards, like I mentioned our revenue potential is anywhere between 150, 200 crores to 400 crores and that is the capacity that has been set up. So, I would say that the average the potential should be around at least 150, 200 crores if not more but the potential is up to 400 crores looking at the capacity that has been set up there first thing and definitely the margins there would be at least I would say 5% to 6% better than our current company level margins.

Rajesh Jain: So, that means at the company level we are doing around 10% or so, it will be to the tune of 15% operating?

Management: Yes should be at least.

Rajesh Jain: And what you said is this is expected to commercial next year. So, that means there will be no revenues from this in during the current and next financial year?

Management: In the current and next financial year, we will get revenue from setting up of this factory because we are getting paid 200 crores to do this activity. So, that revenue will come this year and next year and from FY25 onwards we can expect a steady stream of 150 to 200 crore at least.

Rajesh Jain: Got it sir. Sir, my last question is about the agri segment. Most of the players have shown good sales after a post May or so, but somehow we have not got good sales in this segment so how is this, the rest of the year is going to be?

Management: If you look at our year-on-year sales, we have increased 98% on a yearly basis, if you look at revenue from 29, 30 crores going to 58 crores. But on a whole year basis we are, last year we finished with about 200 crores of revenue approximately. By the end of this year we should be somewhere around 240, 250 at least a 20% growth.

- Moderator:** Thank you. The next question is from the line of Jaspreet Walia from Clockwise Capital. Please go ahead.
- Jaspreet Walia:** Sir, this EPC contract that you have taken from Ghana government, so is it a fixed price contract and the risk of commodity prices or any other cost going up, is on you, is that the right understanding?
- Management:** Yes, but while quoting and it is not purely an EPC, yes you can call it EPC because we are setting up a plant to manufacture this machine but it is also coupled with training them and also providing the entire technical knowhow of the products and obviously the main components and aggregates and fabrication beings supplied from India. So yes, the risk is on us. But all of that was put in place when we were quoting the prices have already started escalating quite a lot in the second half of FY20. So luckily, we did price in a reasonable amount of inflation at that time.
- Management:** And want to add that when we quoted the dollar price was also much lower, now it's nearly Rs.80 and when we did the costing the dollar was around Rs.70, Rs.72 only. So that advantage we are also getting on the price.
- Management:** There is additional buffer because of our currency devaluing.
- Jaspreet Walia:** But the pricing of CKD kits, that you would be, the price that you quoted is now in dollars?
- Management:** Yes.
- Jaspreet Walia:** Got it. And the pricing of the CKD kits that you will be supplying will be decided after two years or has it been already kind of finalized?
- Management:** If I'm not wrong, initial pilot lot of 30, 40 or 50 kits, I don't remember. So, initial pilot lot very small lots 30, 40, 50 unit is already included in this 200 crores. But for the balance, the pricing will happen in FY24 once we commission the plant because to that effect. And obviously inflation and standard yearly increase has to be built in because we are already supplying some kits to the initial branch setup activity.
- Jaspreet Walia:** Got it. And sir currently the market of Ghana is being supplied through import in the product segments that you are setting up in this plant?
- Management:** That was the main reason, Ghana has some agriculture, some mining whatever. They hardly have any manufacturing and everything is being fed through imports, which are also expensive Western imports. So the government wanted to, create and evolve manufacturing. So they're doing it in different aspects of their economy. And they wanted to set up a tractor and construction equipment backhoe loader manufacturing plant because these machines are used there in reasonable number. And that is the main reason everything started and it shaped up

like this. And apart from that, they are also reasonably keen on making them in Ghana and supplying to their neighboring countries also.

Jaspreet Walia: Got it. And sir on a ballpark basis, the pricing of these products is intended to be at what discount over imports?

Management: Pricing of these products are intended to be?

Jaspreet Walia: This would be supplied at a discount to the current imports price. So, I was just wondering, at what kind of discount would?

Management: There's hardly any discounts because generally as of now, we do not export any CKDs or SKDs we only export complete machines.

Jaspreet Walia: No, sir in the Ghana market what would be the price positioning of the products that would be manufactured from the site?

Management: It will be much better than what is being currently sold, maybe 30%, 40% lower than the current pricing point at which they are sold. Made there, because that benefit we are getting from buying the kits from India at Indian prices and competing with the Westerner that completely built machines there.

Moderator: Thank you. The next question is from the line of Aman Shah from Jeetay Investments. Please go ahead.

Aman Shah: Congratulations on good set of numbers especially in the maintenance of margins in this environment.

Management: Yes, it was a very, very difficult balancing act.

Aman Shah: I agree completely. Hopefully, on margin since we start from Q2 onwards, with softening of commodity and the marginal players that we have acquired. We should see though you have guided for a double digit margin, but we should see a strong support to our margins from here on?

Management: Yes, quarter two onwards second half of quarter two onwards, because a lot of inventories were still there in the beginning of the quarter, the margin profile will start to improve. We should see that benefit in quarter two and slightly magnified benefit in quarter three and quarter four.

Aman Shah: And because of this acquisition, structurally our margins should also be positively impacted by some basis points?

Management: Yes, see what was happening about 10% to 15% of our sales in the crane segment was getting affected by these marginal players but like I said still some of them are existing so they will be taken care of in the next six months, one year, one and a half years but definitely we'll start to see improvement in our margins because of what we have done in our tower crane business also and in our pick and carry business also.

Aman Shah: Okay, great. Second question was on construction equipment if I heard you right, like year-on-year growth which has been some 40%, 41% out of which 15% to 20% is attributed to backhoe loaders?

Management: Yes, approximately.

Aman Shah: Okay. What would be the things that you feel would be required to bring this on a high growth path because we have a good positioning of the product quality, brand name is good and a pricing of our product is much better than the leading competitor. And I suppose we are going more of centralized, more of a concentrated distribution in regions specific area. Is there any change required or what will it take to bring this in a high growth part because we are still very small player compared to the market size. Yet because of the market swings our sales are the affected.

Management: To be very frank with you, you have touched on our pain point, after doing everything our product is right, our price is right, our service is right, our accessibility has been created, financials are in place, our brand is good we have the largest in placers. And coincidentally this is what we were discussing internally. Also a few days back that we should know why it is not on that path, yes in the last one, one and a half years we can definitely attribute it because overall there is not such good momentum around this product category in the entire country. But, we are ready geared up and all fired up it's a matter of time we can very, very pleasantly surprise even ourselves very soon that is what I feel. We are on the right track we have got everything right and whatever was possible to be done has been done in the last one and a half, two years whatever was possible or any shortcoming, fall back or change in approach or whatever you can think of. So, I not know we define luck as when preparedness meets opportunity, we are prepared opportunity is definitely there. So if luck is going to happen, I'm sure.

Aman Shah: It should happen and our product quality and the pricing is better.

Management: It will happen our product pricing is even in the current rental prices, there is definitely viability for the buyer. So, we are just round the corner and I do not know which powers are natural, supernatural I do not know something else but it's a matter of time.

Aman Shah: I was just wondering is there something which is none pricing related decision, maybe say repairs and spare parts available of the leading competitor every time?

Management: Nothing, we have taken care of everything we are similar or better in every possible aspect. Matter of time and we are putting all our hard work, determination in it and 70%, 80% of the race we have already run so we have to put in our maximum in managing in the balance part of it to become successful because there's a very thin line between success and failure so I am sure we will be successful. We are still trying very hard and we are on it.

Aman Shah: How much proportion of construction equipment is backhoe loaders?

Management: Slightly tricky question to answer all of a sudden, but in numbers it is the biggest. So for about let's say 80, 90,000 construction equipment about 40, 45,000 nearly 50% is backhoe loaders and about 20, 25,000 are excavators, plus 2000, 3000 of them concrete machinery, whatever. So about 50% of the total construction equipment market in numbers is backhoe loaders today in the country I'm not counting cranes and this.

Aman Shah: Actually I mean to say from our division so that even?

Management: The overall market size you can easily multiply by 25, 26 lakhs into 40, 45,000 so it's about a 10,000, 12,000 crore market.

Aman Shah: No, sir from our division of this 52 crore sales in this quarter construction equipment, backhoe loaders how much would that be?

Management: Backhoe loaders will be about, I would say about 60%, 70% of this.

Moderator: Thank you. The next question is from the line of Jaspreet Walia from Clockwise Capital. Please go ahead.

Jaspreet Walia: Sir, Kubota taking over cost, have you seen a difference in the way they approach pricing for their various products in the market or it's too early to not to be looking at those kinds of things, as of now?

Management: Their approach towards pricing was reasonably logical and rigid, in the first half of this year, to be very frank with you and that is the way it should be because unfortunately, this construction equipment division of cranes division really does not make any profits there. So they were reasonably firm on their pricing and a lot of inflation happening. But, in the last one and a half, two months we've again started to slip back on their pricing just to retain their market share or whatever. So, something which we have been seeing in the past, because it is being handled by a similar set of people and I really don't know Kubota being primarily an agriculture company. So, I do not know what is the strategy there but yes, they were rigid and things were going in the right direction they are not rigid again that's what I understand in the last one, one and a half months.

Moderator: Thank you. Next question is from the line of Deepak Mehta, Retail Investor. Please go ahead.

Deepak Mehta: Sir, my question is around government is forcing for infra and real estate is also picking up. So, in the best case scenario what can be our utilizations of crane and assets and what can be then turnover, asset turnover?

Management: Ideally, we should have been the way things were in the second half of FY21 and again pre this war, I would say in end of Q3 and Q4 of last year, I would have thought we should have been nearly as 90%, 100% utilization for cranes and about 70%, 80% for construction equipment, but after the war sentiment did go off a little April onwards, May onwards that is when we start to build up again. And if you look at our utilization and then going full bore, we can easily add about \$1,000 of revenue from here onwards also by utilizing ourselves. To reach a turnover of around 2500 crore, 2600 crores, we really do not need to do any different CAPEX.

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

Sorab Agarwal: We have discussed most of everything. And I would just like to finish the call by reiterating that, we are looking at a 15% to 20% growth in our revenue this year, with at least a double digit if not slightly more with respect to our margins. And definitely with the inflation cooling off and specially a steel which is one of our main commodities. So we should expect at least 1.5%, 2% maybe slightly more expansion in our margins on quarterly basis, especially quarter three onwards, but yes definitely we can see some benefit in quarter two also. On the whole our government is very much focused on developing infrastructure and infrastructure assets and also increasing manufacturing in the country. And then we are definitely seeing positive effects of that all around. So, going by that, we are ourselves very much bullish on the medium to long term prospects of our company with increasing revenues as well as increasing margins, that's it. Thanks a lot, everybody, good evening.

Management: Thank you everybody.

Moderator: Thank you. Ladies and gentlemen on behalf of PhillipCapital (India) Private Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.