



“Action Constructions Equipment Limited
Q4 FY2020 Earnings Conference Call”

June 17, 2020



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LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to Q4 FY2020 Earnings Conference Call of Action Constructions Equipment Limited hosted by Emkay Global Financial Services. We have with us today Mr. Sorab Agarwal – Executive Director and Mr. Rajan Luthra – Chief Financial Officer. 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. Anas Dadarkar from Emkay Global. Thank you and over to you Sir!

Anas Dadarkar: Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now handover the call to the management for the opening remarks. Over to you Sir!

Sorab Agarwal: Good evening everybody. All of us are currently reeling under the ill effects of COVID-19 which has caused unprecedented disruptions in personal as well as business and economic set ups.

Overall, the business set ups and business quantum had started improving since January 2020, and we were looking at our biggest single quarter sales in Q4 of FY2020 but unfortunately and with sudden lockdown in the second half of March, all of us were caught unaware and we lost close to about Rs.65 Crores of revenue for the month of March additional revenue which we could have done easily.

This was about 20% of our revenue for March quarter. Even in this tough situation, we were able to grow our revenue for quarter four of the last year by 5.6% on quarter-on-quarter basis and 1.9% on year-on-year basis.

On a whole year basis, our revenue last year has declined by 13.9% as compared to FY2019 as overall economic activity was a little sluggish throughout most of last year. Even on a falling revenue base owing to the market conditions we have been able to marginally improve our EBITDA margins to 8.3% as compared to 8% on year-on-year basis. Similarly our profit after tax stands at 4.6% of the last year as compared to 4.2% of financial year 2019.

Fourth lockdown we were able to start our partial operation in the last week of April and we were able to function at about 35% revenue levels for the month of May and June looks to be slightly better than May as the country unlocks.



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For the current quarter, we expect overall sales to be at around 30%-32% just for the quarter, of the last year average sale as most of the country remained in lockdown through most of April and working parts of it. In the interim, we have taken all possible liquidity preservation and cost control measures to minimize the effects of COVID-19 and lockdown on the performance of the company. We have been able to reduce our breakeven levels from 70% of last year's average revenue to around 55% level currently which will help us wave through the current times.

Going forward, we expect revenue levels to reach around 50%-55% in quarter two, around 70% in quarter three and hopefully things should normalize to normal pre-COVID levels in quarter four provided no further disruption takes place. We have undertaken all possible measures to remain in the black on a full year basis for financial year 2021 and still continue to work on the same.

That is it. I think we can start Q&A session.

Moderator:

Thank you very much. We will now begin the question and answer session. The first question is from the line of Rajiv Maheshwari from Praj Investment. Please go ahead.

Rajiv Maheshwari:

Good afternoon Mr. Agarwal and Mr. Luthra. Considering the environment, the result was quite good because as you told you lost around 65 Crores of revenue so may be in that case the revenue would have gone in terms of around 370 odd Crores but still things were not in our hand so that way it is, so I have a couple of questions, this 65 Crores of revenue should have been again any forward to the month of may be next quarter when the operation started sometime in April or we have lost some part of sales on that account?

Sorab Agarwal:

Apart from this 65 Crores there were lot of other pending orders which would have been executed in due course of April but unfortunately I would say that quite a part of the order book has gone into abeyance because people are undecided with respect to their current and future activity levels, so I would say that at least 40%-50% of the order book has gone into against abeyance, delayed and some part of it cancelled also but yes in the interim there are already some fresh order booking has started well in the month of May and June obviously it is the demand scenario is nowhere near what it was pre-COVID levels but yes that is the true fact but yes out of that 65 Crores I would say that at least 50%-60% of the business is getting executed would have already happened in May or would be continuing well into June.

Rajiv Maheshwari:

Okay so the rest may be the people are postponing it as of now or may be cancelling it anyway because in these uncertain times lots of issues would have been there even on their



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side and the second part is how is the condition of this COVID and all in terms of the factory campus or in the Faridabad area in and around and is it impacting the labor supply as such, in labor supply in terms of the factory as well as labor supply in terms of the contractors and infrastructure companies which are using our product as of now?

Sorab Agarwal:

We were lucky enough and I think we were one of the first construction equipment companies to start functioning. We got our approvals on April 23, 2020 and we started functioning in a small way on April 24, 2020. We have put all possible checks and balances in place in order to avoid any spread of COVID within the premises and outside and in Faridabad especially where we are looking at Faridabad and (inaudible) 07:44, COVID instances are very less, very limited to may be only 150-200 till about 8-10 days back but unfortunately about 150 odd cases have started happening in the recent past so obviously the COVID scenario is increasing as soon as most of the things have gone into not come out of the lockdown in the last 15-20 days so yes the spread is definitely increasing but till date we really do not have a problem on the labor front rather with the such reduced quantum of work, there was actually no need for a lot of workers so about during this lockdown period about 15%-20% of the workforce did vanish and obviously we are also not interested in getting them back because we do not need them and a contrary about 10%-15% of the work force we have the temporary contractual workforce which we engage through contractors so we are actually laid off about 10%-15% of them in the last one month – one and a half month. As of now the situation is okay yes but if it worsens again then obviously it is anybody's guess what will happen.

Rajiv Maheshwari:

That is in nobody's hand and the second part is how is the status in terms of the people whom you supply in terms of the labor shortage those guys are facing or how is it?

Sorab Agarwal:

There are two things happening. Definitely there is labor shortage especially in the cities so for all the projects which were happening within the city limits there is definitely a labor shortage because most of the labor is migrant labor and lot of them have moved away or have still not returned to the sites, so obviously I would say 30%-40% of the sites are finding it difficult or it is not viable to carry on operations if there is no productivity at the site so yes if that problem exists as of now and I think it will take another 15 days to one month for that problem to smoothen out but on the sidelines of this problem another thing that we have noticed with respect to the biggest of the construction companies or contractors that the work generally slows down in the monsoon time so that is around July till mid of August, so some of the companies with respect to some of their projects where they have had labor issues they have principally decided not to restart or has shut down the sites and will start only sometime in middle of August so by that time the labor problem



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would also finish and the monsoon would have passed by so that is also not actions taken by some of the companies for some of their sites.

Rajiv Maheshwari: Basically when everything is in place the work will start at full swing?

Sorab Agarwal: Yes, so hopefully August or September construction activity should get back to full swing or at least 90%-95% levels.

Rajiv Maheshwari: That is fair enough. Out of curiosity, I just wanted to know suppose there is a supply shortage of labor in the sites and all so does it not indirectly mean that the dependence would be more on the equipment's rather than the labors because anyways the labor supply is short so how do you see that as a may be a prospect going forward?

Sorab Agarwal: In a small way specially with respect to earthmoving machines and all yes it will definitely add to the bid for the more equipment but specially smaller equipment like skid steer loaders or smaller machines which can actually contribute to a labor but finally there are so many jobs and things which practically people has to do whether it is including operating the machine so I would say that in 90%-95% of the places the replacement would not be there because as it is construction sector is getting mechanized and mechanization is always cheaper and more efficient way of doing work than actually using labors so wherever mechanization is or was possible was happening in our country in the last five years to ten years so there would be a very small impact I would say because of that.

Rajiv Maheshwari: Just a quick update in the last concall you had mentioned some government order from some neighboring country of around 70 odd Crores so what is the status? Is it done or stuck up?

Sorab Agarwal: Unfortunately, into abeyance. I mean the status is not clear. We have achieved a small part of that order I will very frank but the main order is still in abeyance, so we really do not know the status.

Rajiv Maheshwari: So that is because COVID or some commercial negotiations or something like that?

Sorab Agarwal: Primarily that will be because of COVID.

Rajiv Maheshwari: That is, it from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Anas Dadarkar. Please go ahead.



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- Anas Dadarkar:** I just wanted to know what is the outlook for the agri segment because even though the infrastructure and other industrial segment may be down, the outlook for the tractors and the prices should not be that much impacted?
- Sorab Agarwal:** Yes, I totally agree with you and we have seen that effect in the month of May and going into June so hopefully in the agri segment we should be looking at, at least 10%-15% growth in this year.
- Anas Dadarkar:** Sir I will come back in the queue.
- Moderator:** Thank you. The next question is from the line of Kishore B, a retail investor. Please go ahead.
- Kishore B:** Congratulation on a good set of numbers in the tough times. Sir, I would like to know the portion of the agri segment, agri equipment's in total net sales for this quarter and year?
- Sorab Agarwal:** Whole of last year it was in the order of around 13%. That was the contribution of agri last year in our total segment results and in this quarter I think, it will definitely increase to about 17% to 18%.
- Kishore B:** Okay and any plans related to the equipments of agri segment in the pipeline that to launch are any plans for future?
- Sorab Agarwal:** We are already Cactus from 25 horsepower to 90 horsepower including four wheeled. We have already started the wheel harvester apart from the harvesting combine so I think the product portfolio which we wanted to created is already there such that we need to cut the penetrate into the market.
- Kishore B:** Okay. Thank you.
- Moderator:** Thank you. The next question is from the line of L.V Shetty from Philip Capital. Please go ahead.
- L.V Shetty:** Good evening Sir. I wanted to have the numbers for the equipment that you sold for the quarter like the pick and carry that you give out every quarter?
- Rajan Luthra:** I this quarter we have done 1251 in the pick and carry cranes, mobile tower cranes is 12, fixed tower crane is 49, 2 no. for caller cranes, tractor is 370, backhoe loaders 139, forklift 233, compactor 21, 5 graders, 5 peg mounted cranes, 49 harvesters, 86 the rotameters and 5 piling rigs.



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L.V Shetty: Sir one more thing I wanted to ask from you as construction equipment because construction is subdued because of this COVID situation, when do you exactly see things returning to normalcy across India?

Sorab Agarwal: That is with respect to construction?

L.V Shetty: Yes Sir because that would drive your construction equipment sales?

Sorab Agarwal: I think over the next one month to two months most of the labor problem should get settled and sometime around like I mentioned earlier August-September construction activity should be back to whatever closest possible normalcy I would say 90%-95% by August-September but definitely end June onwards and July onwards it will start to improve further it will start to improve but it should come to sometime in early September.

L.V Shetty: That was helpful. Thank you. I will join the queue if I have any other question.

Moderator: Thank you. The next question is from the line of Mahendra Jain from Way2Wealth. Please go ahead.

Mahendra Jain: Thank you for giving this opportunity. Sir I just wanted to understand how is the unorganized market in this crane business and in the next few years how we can eat market of unorganized peer like this is there any possibility or in short how we can grow our topline will grow next few years in two or three?

Sorab Agarwal: In the crane segment there two-three unorganized players. There used to be many over the last 25 years there are at least 30-40 small unorganized and 5-6 big players which have come in and walked out of the crane business and as of now there are 2-3 small players, one or two of them are very, very small so I think they will perish in this time or would have perished or would on the verge of perishing and for one player which still does some basic numbers, I am sure they are going to find they are going very difficult with this type of revenue as it is they were losing money so I really do not know how they will be able to continue.

Mahendra Jain: Okay means whenever the opportunity will come definitely we will grow?

Sorab Agarwal: Yes even in this time we are working hard to increase our market share and it is a joke but in the month of April we still sold 31 cranes so for the first time we had 100% market share because everybody else was not working.

Mahendra Jain: Sir what is the export planning like we were doing on the export, so how is it shaping up?



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Sorab Agarwal: We were bullish and we were wanting that our revenue would have reached about 8%-9% from exports but unfortunately export markets also got hit and started to get it a little earlier even before India went to lockdown so I think last year we were able to close again at about 6% which was similar to the year before export contribution to our total revenue but yes we are very much focused and I think we should be in a position to take it to about 8% level in this year if not more.

Mahendra Jain: Sir which countries you are like planning to export?

Sorab Agarwal: Mainly we are working in the Gulf Area, Middle East Asia and African Continent. We have also started exporting to some countries in South America and very recently we have also started some work in Mexico apart from the SAARC nations living out Pakistan.

Mahendra Jain: I think in last two concalls we are not doing any government business but indirectly we are getting orders through some player, so is it like 30%?

Sorab Agarwal: No. We do some government business. I think it is 2%, 3% of our revenue. That is direct. We really do not have any intermediary for this. We quote for government tenders and the government directly and through the GeM portal and do our business, but indirect business is that obviously the government does all the infrastructure investment and development and the contractors, so that is totally indirect route of infrastructure investment and we supply to the contractors and the companies, but whatever small amount of business comes from government we do directly, rather for the last so many years we have been trying to work on various different defense projects for their material handling requirements and we have executed two, three sizable orders in the last three years and still we are working on some defense projects, for some special cranes which have been tailor-made for the defense requirement even as of now that is happening.

Mahendra Jain: Okay. How much percentage of demand we are getting from road constructions something like that or real estate and road construction what is the ratio can you just give the figures?

Sorab Agarwal: It is difficult to quantify but I would say that 10% – 15% of our business would indirectly been contributed through the road industry.

Mahendra Jain: From real estate Sir?

Sorab Agarwal: Real estate again contributes about 7% to 8% to our revenue.

Mahendra Jain: We are totally derisked model like we are not dependent on only one real estate or road construction industry?



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- Sorab Agarwal:** I hope so, we are derisked.
- Mahendra Jain:** Sir, from where you are expecting major demands in next two-three quarters from which side?
- Sorab Agarwal:** What I see that infrastructure will fall in place the fastest and about 60%-65% of our business comes from infrastructure activity. So, that part of business should normalize by end of quarter two. About 20%-25% of our business comes directly-indirectly from hardcore industrial companies or manufacturing companies where they buy a lot of material handling and cranes for their in-house use. So, that part of the business I think will take at least six-eight-nine months may be even more to come back to any sort of normal level so that part of business will remain in pain and I expect that only some time in quarter four or quarter one next year this 20%-25% of our business will start to fall back in place and like I said approximately 15% is agri so that should be in place even as of now. So, hopefully by end of let us say some time in the second quarter we should be looking at about let us say about 70%-75% of our business falling back in place and for the balance 25% about 30%-40% will remain. So hopefully we should be at 70%-80% levels in quarter three.
- Mahendra Jain:** Sir, do we see any capex in next two years, any planning or something like that?
- Sorab Agarwal:** No Sir. No chance. We are already working at 15%-20%- 25% utilization levels that has what has come down to and we are still happy that we have been able to produce something although lot of inventories were available with us because the lockdown happened abruptly in the second half of March. So, in this current month we are still producing something so many of our peers, are producing only 2%-3% not even that because they have also inventories available. But I think the actual churning of the cycle and actual production for most of the companies will start from July onwards even with the low demand because the inventories would have sort of moved out and be liquidated by that time so, I am sure whether it is our industry, whether it is commercial vehicle or whether it is automotive the production level and the factory utilization levels in July will definitely start to improve.
- Mahendra Jain:** Thank you.
- Moderator:** Thank you. Next question is from the line of Neerav Shah from Prabhudas Lilladher. Please go ahead.
- Neerav Shah:** Yes just two questions when you look at in terms of our inventory levels and we must mention that we had good amount of inventory levels on the file. Could you quantify that number in terms of inventory what was the inventory and how much we have included over last two-two and half months and whether we have received all the payments as well?



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Sorab Agarwal: What has happened because the business switch was turned off roughly around 20th – 21st because Faridabad went into lock down one or two days prior than the national lockdown. So, generally in the last one or two years inventory levels were somewhere around Rs.200 Crores. We are bloated with about Rs.270 Crores end of March and obviously with the new normal of business being lower as compared to our normal levels, I would say that Rs.70 Crores inventory correction has to happen with respect to finished inventories and extra WIP or stores available with us and to adjust to the new normal cycle of reduced business we will have to shelve off another Rs.30 Crores-Rs.40 Crores of inventory. So, by September- October, October-November our inventory levels from about Rs.270 Crores will come down to around Rs.170 Crores and we would be able to free about Rs.100 Crores in the list.

Neerav Shah: This Rs.100 Crores of liquidation will be more towards which sector Infra and Agri or it is Infra of course?

Sorab Agarwal: Everywhere it will be all across the plants because we have already started working on inventory control. We have put target of Rs.170 Crores for ourselves by October if not September and I am sure it will happen so that will free that much liquidity into the company over the next three four months and second part of your question with respect to debtors obviously which was hovering around approximately Rs.145 Crores-Rs.150 Crores. So I am sure by September or October our debtor levels will also be around may be Rs.60 Crores- Rs.70 Crores, Rs.70 Crores plus, minus. So I would say about Rs.70 Crores-Rs.80 Crores would be freed from that side also.

Neerav Shah: In terms of demand, in terms of domestic market have you started seeing that some amount of at least enquiry levels have picked up and the pricing is lower, higher or may be flat in terms of enquiry level and in terms of conversions?

Sorab Agarwal: Obviously, the enquiry and conversion is nowhere close to what it was before COVID and as of now I would say it is at about 40%-45% level but yes in the month of May and in the month of June enquiries and orders have started to happen obviously at a much lower pace and with respect to price and price realization there is no way under this circumstance we can because as it is we are suffering from locust due to you can very well imagine operating leverage has worked in the other direction it is not possible for us to reduce any prices and we will not be selling on prices.

Neerav Shah: That is very true. Just to understand this further if I may in the month of May and June you just mentioned that there was some pick up which has been witnessed in terms of conversions. Sir could you quantify that number whether it is Rs.50 Crores- Rs.100 Crores



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kind of number and the orders which you had in the past are you reconfirming them with the clients and still clients are liable to pick the order or not?

Sorab Agarwal: I would say that the orders which were pending once we stopped booking. So, about 70% of those orders are approximately alive. It is just that they are getting delayed. Obviously, some part of it, I cannot quantify right now we would have executed in May, some part of it will get executed in July and for example even in the current quarter we would be getting orders to the tune of around approximately plus, minus Rs.50 Crores and last month again we were able to manage orders somewhere in the tune of Rs.30 Crores-Rs.35 Crores which is approximately correlated to the amount of revenue we will be doing in the month or so.

Neerav Shah: Lastly on sectors where you have seen some amount of pick up which is happening. Infrastructure we agree but anything specific Roads, Water, Railways, Power?

Sorab Agarwal: Probably roads is one of the keys because there has been a lot of focus in our country on road especially in the last 2-3-4 years apart from that I would say that your metro construction happening within the cities but unfortunately they are plagued with the problem of labor otherwise the traction in the metro construction and within the city limits construction would have been much more and faster. But that will only normalize in the next one or two months because they actually troubled by the labor issues.

Neerav Shah: That we agree there has been labor problem. But when you talk to them and you understand them they are of the opinion that at least 60%-70% of the work has started there feeling the levels are close to around 50% for most of them?

Sorab Agarwal: Today morning only we had modus operand of interacting with customers. So, we were having a videoconference with one of our very old and very big and very renowned construction company of India and now probably doing lot of work within Mumbai also. So unfortunately they have some sites of metro where they are working in Bombay and Pune as well. Unfortunately, at four locations they got four COVID case within their sites although smaller metro sites. So different types of things are happening I mean it will happen it will go through. So normalization will take time but definitely things have started improving and moving.

Neerav Shah: Fair enough Sir. Thank you so much and all the best Sir.

Moderator: Thank you. Next question is from the line of Ajay Kumar from ICICI Bank. Please go ahead.



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Ajay Kumar:

Good evening Sir. Sir now we are in mid of June so I just wanted for Q1 and Q2 of this year if we compare the revenue with the first two quarters of the last fiscal year, how that numbers will come right and overall the revenue for this year, this is the first question. Sir and second thing you are saying that you will not increase the prices so will the price of raw material turn in your favor may be a reduction in raw material prices. Can you please?

Sorab Agarwal:

Like I said that this quarter we will be doing about 30% of our normal revenue so that means in this quarter our business will be down by approximately 70% that is quarter one. But in quarter two we are looking that we would be able to do what we foresee is about 50%-55% of the business so Q2 will be down approximately 50% and thereafter I think quarter three should be 20%-30% down and quarter four should be normal. But as per the CRISIL has also done a survey and study on construction equipment as well as infrastructure and construction side. As per CRISIL they feel that quarter three should be near normal may be 5% - 10% here and there and quarter four they are expecting a growth of 15%-20% actually. But obviously we are discounting that because it is uncertain time so we do not want to be caught unaware that we are planning for a little extra revenue and growth. So we have budgeted in the worst case scenario that over all our business in this year can go down by 40%. I am using the word can go down so whether it goes to 40%-45% or it might goes down only 25% that time will tell. But in the interim what we have done that keeping in mind that our revenue will go down by at least 40%. We have reworked all our fixed and variable costs and ensured that our breakeven level which was at 70% level we have brought it to 55% level. So, that means we are looking at a business drop of 40% that means we will be doing 60% business and our breakeven level we have brought at 55% level of the day. Hopefully even in the worst case scenario we will remain in black, we will remain in profit. Yes it will be miniscule profit if we talk of PBT, PAT level but at EBITDA level from 8%-8.5% it will drop to may be 4.5%-5%. So, this is the first part of the question, the second side was obviously in the market like this there is no scope to increase prices rather there will be tremendous stress to be solved already is on us to reduce the prices and we have presently decided that we are not going to reduce prices and sell because it is impossible to survive with reduced business and further reducing prices. There will be some benefit available to us in due course may be on account of steel which is about 60% of our raw material input. So, we might already the steel prices pre-COVID and post-COVID down by about 5%-6% so that will translate into 1.5%-2% benefit in the raw material cost. I am sure these benefits we will start to enjoy some time in July-August because as of now there were so man inventories we were carrying and generally there is one or two months lag. So, the inventory which were at higher steel prices obviously will get liquidated by June-July and there one or two months lag. So hopefully end of quarter two or early quarter three 1% or 2% benefit with respect to raw material or



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may be more time will tell will start to reflect. But I would say primarily from quarter three onwards.

Moderator: Thank you. Next question is from the line of Rajeev Maheshwari from Praj Investments. Please go ahead.

Rajeev Maheshwari: Just wanted a quick update on how the supply chain like in terms of domestic raw material as well as any part of product which we are procuring may be from countries like China and all. So is it still close to normal or we are facing still difficulties in getting those things once the stock get replenished?

Sorab Agarwal: Most of everything has opened up and things have started to work. Yes there is I would say 5%-10% problem here and there and but I sure over a period a time it will get normalized and luckily for us leaving out some few critical components for most of the supplies we generally work on a single vendor policy. So, we do have two-three options for most of the supplies. Yes there are few specific 10%-20% of critical components which are supplier specific. But then again these are bigger companies and bigger set ups. So, as of now we are really not facing a problem we did face a little in the month of May because specially companies in Bombay who have are not opening the supply chain was an issue because the company is working from there if you are not functioning how you can supply. But I think most of that will normalize within June, I really do not see a problem on that front as of now.

Rajeev Maheshwari: In terms of any product being imported may be some countries like China or some other countries that will be a normal?

Sorab Agarwal: We had started doing piling rigs from China and last year we sold some units.

Rajeev Maheshwari: That was bit tumbled.

Sorab Agarwal: With the startups we did have some orders in the month of February-March and China was under a strict lockdown end of January till nearly most of February. So, as soon as they opened they opened we rushed in and exported a lot of machines which are lying unutilized right now as our inventory. So, as of now I do not see a problem because most of the imports some part of it may be from China or some other parts of the world. When we realized that the countries are closing down outside, we never expected we will close down so abruptly. But that is also one of the reasons our import inventories is related by our Rs.20 Crores-Rs.30 Crores in April and May because of extra imports we did carryout thinking that there might be trouble in the forth coming months so, as of now there is really no problem.



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- Rajeev Maheshwari:** To be comfortable from that sense.
- Sorab Agarwal:** Yes we are okay I think that part of it.
- Rajeev Maheshwari:** Just a quick update this time the construction equipment segment has really done very well after so many quarters. So, is this the construction equipment market expanding or maybe we are not getting into the mode which we were expecting and we are eating up market share of the already existing players who are a bigger players in this area?
- Sorab Agarwal:** I think it is a mix of both definitely quarter 4 was better for construction equipment and the economy on the whole. It was very unfortunate the way things stopped in the month of March so obviously there is some impact of that and our market share in the construction equipment segment is very miniscule and there is a tremendous scope of growth so whatever hard work we have been doing the last one or two years, two and half years to put this back in place that is also started to play along and as a matter of fact even in the current year, even in the subdued scenario we are still looking at growth in our company from two segments so one of them is agri where we think 10% to 15% growth from current levels should be possible easily and the second is construction equipment segment where we see 5% to 10% growth from last year's number should be possible even in this scenario.
- Rajeev Maheshwari:** So, it is heartening to say at least the construction equipment because you guys have put tremendous amount of focus in this but the results finally came in so that was the good part?
- Sorab Agarwal:** Yes, and I am sure this will continue to improve, I am saying 5% to 10% but my heart tells me it can be much more than that it just totally depends on how much we are able to capitalize.
- Rajeev Maheshwari:** Because normally you were more from the pessimistic side and you play safe and if things are good it is always better to tell people that okay we exceeded that has taken?
- Sorab Agarwal:** It is not only about telling it is by basic nature of my own nature and the company's nature we plan for the worst and try to do the best.
- Rajeev Maheshwari:** That is always the best part so that at least people are aware that the things may not turn up and if it turns up it is fine from the company side.
- Sorab Agarwal:** That should also be done with respect to the company. We have worked on our fixed cost and variable cost, planned for the worst and the revenue can go down to 50% to 55% also.
- Rajeev Maheshwari:** Yes, anything can happen in fact.



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Sorab Agarwal: That is how we have reworked so that our breakeven levels to 50% to 55% and then we will do our best so if you are able to 70% revenue it will be profit, if you are able to 60% barely breakeven but at least the intention this year is stay in the black.

Rajeev Maheshwari: Important thing is you are staying in the black and survive in the next six months so after that anyway the benefit and how the liquidity is position where in terms of the working capital front and all those stuff in the normal finance side.

Sorab Agarwal: There is definitely a little stress because obviously the inventories are high and one and half month was pure lockdown so debtors collection was also very weak and debtors were also high when we closed because the month had not finished so all the collections had not happened which was to happen in March, as soon as we opened in May and June our collections have started flowing in and obviously with the sale increasing let us say 30% to 35% last month and 50% to 55% so the inventory liquidation is happening so temporarily I would feel that between June-July-August there will be a temporary stress creation in the system and our short-term utilization of our bank CC limits and all might go up but eventually by September-October or latest by November everything will fall in place because about 150 Crores will get freed into the system from inventory and debtors so that will compensate for the stress which has been created as of now, there is definitely stress but yes not something that which is not bearable I mean totally it is in control.

Rajeev Maheshwari: Means maybe in terms of there may be some tightening but you can still manage it that is how things would work?

Sorab Agarwal: Because obviously our unused limits in the banks and all because see being a prudent company we also want to pay our creditors in time, yes it will get delayed by one month or two month or three months here are there because one and half to two months country was in lockdown so everybody should imagine an expect of two months delay in a normal cycle but obviously at some point in time we want to bring it back so putting everything together I think by September-October or latest by November when the entire inventory effect will come into play, the debtors effect will come into play and the creditors would be reduced to the minimum level, situation will come back to normalcy and bank utilizations will also come back to normalcy. I think that in October-November we should be at similar levels as March.

Rajeev Maheshwari: Thank you so much and hope you carry on with the good work which you had been doing.

Sorab Agarwal: Even I hope so. It needs a lot of encouragement.



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- Rajeev Maheshwari:** Definitely, it will happen. Seeing the way you guys have managed till now, you have survived the toughest part so may be next two months to three months I hope that things do fall in place.
- Sorab Agarwal:** I hope so Sir, not only for us but for the whole country I think it is a miserable situation to be in problem that which has been created.
- Rajeev Maheshwari:** Let us hope we pass these times also and again the glorious time comes back.
- Sorab Agarwal:** They will definitely come back, same time next year we will be enjoying.
- Rajeev Maheshwari:** That is good for us, people like us shareholders.
- Moderator:** Thank you. The next question is from the line of Chander Bhatia from Seers Fund Management. Please go ahead.
- Chander Bhatia:** Thanks for giving me the opportunity. Congratulations to the management team. Congratulations for the good set of numbers in spite of such a tough time. I had three questions that have already been answered, the one question is about the new Bharat norms which were supposed to be implemented from October 2020 so how is the company planning to launch new product as per the new norm and if you can get some color on that?
- Sorab Agarwal:** See, obviously our company and most of our peers everybody was working towards proto development which was more or less complete by February-March, April-May-June the ARIA and I-CAAD CMGR approval testing was to take place because before March these approval agencies were totally busy for testing the automobiles and commercial vehicles because they were moving from BS4 to BS6. So, they could have only given us time in April-May-June when these testing and approvals would have happened and subsequently the inventory adjustment and from October 1, BS4 sales would have happened but because of the COVID the testing agencies and approval agencies have also been shut down and proto work and testing work even within the manufacturers premises have been affected so definitely the entire cycle has been delayed and we are still on track in terms of that like I said most of our proto are ready or nearing finishing and we will be trying and working hard to get them approved in time but in the meantime as most of the industry was suffering so ICEMA, our Apex Association for Indian Construction Equipment Manufacture Association made a request to the Ministry of Road Transport and Highways and five-six seniors members we did have a videoconference meeting with Mr. Gadkari also, this was what happened 20 days back and he has been trying enough to give us a six month leverage, a six month extension owing to the COVID scenario. The official notification has not come out obviously the notification part takes time so we are expecting to achieve it over the next



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one or two or three weeks but in principle it has been agreed to extend the deadline by six months.

Chander Bhatia: Okay so this will be implemented from April 2020-2021?

Sorab Agarwal: That is what it is.

Chander Bhatia: Thank you and all the best for the good work.

Sorab Agarwal: We need a lot of good luck wishes, not only us, but everybody.

Chander Bhatia: Thank you.

Moderator: Thank you. The next question is from the line of Anas Dadarkar. Please go ahead.

Anas Dadarkar: Sir, I just wanted to know how long we faring in the backhoe loader and associated with that I also wanted to know what was the total market size for this backhoe loader in this year gone back that is FY2020 and how much did we sell for the full year?

Sorab Agarwal: See, we sold practically I think to somewhere close to about 250 to 260 units. Market size exact numbers I would not have as of now because the data has not been circulated amongst us because of this COVID and everything. It stopped midway but should we do that tune of somewhere around 28,000 to 30,000 if not more and this year I am sure our numbers will double up or more than that although we are projecting only 10% to 15% growth and not only backhoe loaders but even for our rollers and graders I am sure we should be able to do better than 10% to 15%. Everything seems to be on track. We have also started exporting from machines so hopefully if everything goes well, April was a washout because everything was closed. We did some reasonable numbers in May, in June again we are looking at reasonable numbers, if everything goes well we should be somewhere around 500 units to 600 units at least by end of this year, hopefully may be a little plus here and there I really I cannot say and similarly we should be in a position to may be nearly double our road machinery numbers also in this situation.

Anas Dadarkar: That is it from side.

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

Sorab Agarwal: I think it is a very tough time that most of everybody is going through because the survival of two things, one is your own self, your family, your friends and everybody around you



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and everybody has to be safe and beware of COVID and simultaneously also financially people have to stay alive so they have to struggle and toil and make sure that there individuals as well as organizations are able to wave through this tough time so these are very trying time and I am sure unprecedented at least in our lifetime. So, hopefully we are doing whatever best we can by reducing our cost, expenses, taking extra precautions for COVID and trying to go forward in this. We hope we are successful, and I would wish safety and good health to everybody who is on the line here. Thank you.

Moderator:

Thank you very much. On behalf of Emkay Global Financial Services Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.