"Action Construction Equipment Limited Q4 FY2019 Results Conference Call"

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ANALYST: **MR. NILESH SONI – EMKAY GLOBAL FINANCIAL SERVICES**

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

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY2019 results call of Action Construction Equipment Limited hosted by Emkay Global Financial Services. Today, we have with us Mr. Sorab Agarwal, Executive Director and Mr. Rajan Luthra, CFO. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note this conference is being recorded. I would like to hand the conference over to Mr. Nilesh Soni of Emkay Global Services. Thank you and over to you Sir!

Nilesh Soni: Good evening everyone. I would like to welcome the management of Action Construction Limited and thank them for giving us this opportunity to host the earnings call for Q4 and full year FY2019. I would now hand over the call to the management for opening remarks. Over to you Sir!

Sorab Agarwal: Good afternoon everybody. In the last financial year ending March 2019, we have seen a revenue growth of 24% and our revenue has increased to Rs.1343 Crores as compared to Rs.1087 Crores for FY2018. Our EBITDA margin for the year is at 8% as compared to 9.2% for FY2018 and the PAT margin is at about 4.2% against 4.8% for FY2018.

For the quarter ended March 2019 that is Q4 our revenue has reduced by 18% on year-on-year basis as well as quarter-on-quarter basis, but we have been able to improve our EBITDA margins to 8.6% basis from 7.9% on a quarter-on-quarter basis although there was a slight reduction in revenue.

The year which has passed was full of negative surprises for us and I am sure for the economy like abnormal steel prices and input cost escalations and for the first time in the history of our company, the second half of last financial year was slightly smaller than the first half that is H2 was smaller than H1 whereas generally the second half contributes to about 55% to 60% of our full year revenue and also Q4 was also the smallest quarter for our company in the last year whereas for all the time it has always been the biggest quarter for us.

We have been able to realize the third price increase of around 3% for the last financial year, which was made effected in January 2019 to offset the increase input cost especially steel. As targeted, we have been able to increase our export revenue to 6% up from 4% in FY2019 and going forward in the current year FY2020, we are confident of achieving 9% to 10% of our revenue from exports.

For the current year FY2020, we are looking at a conservative growth rate of 10% owing to the current macroeconomic scenario with an EBITDA margin of around 9% to 9.5% and PAT margin of around 5%, but there is a rider here. In case, our country if we are able to get a majority political mandate at the centre, I am sure we would be revising our growth guidance in Q2.

In the short term, we have experienced some turbulence, but the prospects for the company remain good for the medium as well as long term. At our recently concluded board meeting, our board has also approved the buyback scheme to buy back shares worth up to Rs.34.25 Crores from the open market as per SEBI guidelines and regulations.

I think that is it with respect to the opening remark and I think we can open the question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Sanjay Dam from Old Bridge Capital Management. Please go ahead.

Sanjay Dam: Good evening Sir. I just had one question, so if I look at your nine months after that so you had a 44% to 45% growth YoY for the first nine months, so you just fell of the cliff so this is not slowdown, so I just had only query was it that you were impacted by acute shortage of financing at the client end? Was that the reason?

Sorab Agarwal: To be very frank with you, not really, because as conveyed earlier also with respect to our business most of the equipment we sell is funded by NBFCs so we really did not face any serious problem in that aspect. I think it was that the order book started to slow in January. It slowed in February. It continued to slow in March and then execution started to really slow down sometime middle of February.

Sanjay Dam: Because it just seems that you guys stopped selling in the sense that possibly it was our inability of the buyers to find funding because your balance sheet seems to be in a pink of health?

Sorab Agarwal: Everything is fine. Rather if you look our inventories have gone up.

Sanjay Dam: That is because you are not able to sell, so which is why I am wondering because if I look at your much larger competitors they have also shown some slowdown in their product segments, but that impact is far lower maybe because they had the financing arm, which did some sort of financing for your clients whereas for you all was fine till December and suddenly so what we saw in Q4 is usually we do not term it as slowdown? It is just complete stoppage of activity, which is why I wondering?

Sorab Agarwal: It is not stoppage of activity. We still did about Rs.300 Crores of revenue, but yes it was turbulent times and to be very frank we have not been able to pinpoint reason ourselves. All that we have been able to attribute this because you have to understand with respect to our company about 85% of our revenue comes from equipment business, which is cranes and construction equipment and all other similar and 15% approximately comes from agri and most probably the competitor you are referring to, there I would say that 80% of the revenue comes from agri and maybe 15% to 20% comes from equipment. If you go into the detail of the equipment business I am sure you would find a similar trend and we work in the industry. We are also members of ICEMA that is Indian Construction Equipment Manufacturing Education so yes there has been somehow a sharp reduction in the numbers all across whether it is the largest backhoe loader manufacture or the largest excavator numbers. We shared our numbers and we have that data, but yes after doing a lot of thinking, I think we have been able to attribute this only that in the month of December the full state elections obviously the result and the outcome was really not a welcome outcome with respect to whatever, but yes January was still okay, but I think February and March and March onwards everything just seems to be in a wait and watch type of scenario and I will be very frank even in current month of May we have orders. We have always had orders. Yes, order booking has slowed down a bit, but the orders are there, but the financial clearances for delivery or our sales team all across the country are saying Sir we will get to know everything on May 23, 2019 or May 24, 2019, so which are getting executed, which will be delayed, so I think it is a much bigger phenomenon, which is happening, which is severely affected us without our doing anything.

Sanjay Dam: Sure, so one thing, which was very heartening was that your balance sheet it is in a very nice position? The debtors came down by Rs.26 Crores YoY, your payables went up by Rs.45 Crores YoY, so basically whatever inventory pileup happened how Rs.68 Crores to Rs.69 Crores that was balanced by the debtors decrease and payable increase?

Sorab Agarwal: Everything is just fine. Everything is in pink of health. Even our customers are in pink of health. They have requirements. We can sense that requirement, but I think especially last two to three months, it is just everybody is somehow managing to delay their requirement. Even if some other government is formed they will stop working though they will not do that.

Sanjay Dam: Basically the slowdown that we have seen at your end, we have not seen at the construction end yet although there also orders have kind of stopped coming in, but they fortunately have a very large order book, so may be the nature of the business is very different, but by looking at that business one cannot get a sense of the stress at your end?

Sorab Agarwal: I will tell you. We work with everybody in the construction industry whether it is hardcore construction or even heavy engineering or even building construction for that matter and obviously all our customers are flushed with work. They have all been trying to somehow manage and scrape through and economize with the buying minimum out of equipment in the last three to four months. May be just in anticipation that if the electoral result is not in line with the countries expectation as of now, so there might be some squeeze in this whole year and they might end up with increasing their capex with respect to construction equipment. I would in a way put it like that and there seems to be no probable reason. I have myself talked to 15 to 20 of the leading companies in the last two to three months and I could easily sense this feeling in their thinking.

Sanjay Dam: That is all from my end. Let us all hope for the good outcome from your perspective Sir and wish you all the best.

Sorab Agarwal: Even from your perspective.

Sanjay Dam: All the best Sir.

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

Rajiv Maheshwari: Good afternoon Mr. Agarwal. I have a couple of questions. One is relating to the books of accounts. In this quarter, there was one reversal of Rs.4 Crores, which was supposed to be made and which was done provision in the last quarter in relation to your subsidiary so has the entry been taken care of?

Sorab Agarwal: I think Mr. Luthra will answer that.

Rajan Luthra: Yes basically what all merger process is already complete and we got the necessary court approvals and the approval from the Supreme Court of Mauritius for the merger. The merger is complete and the accounting entry for the proper merger is already accounted for and when you will go through the details of the merger entries when you get a full balance sheet, you will note that everything has largely to retained earnings rather than reversals in the current profit and loss account, so whatever provisions we have made as per the Ind-AS accounting standards once you have made a provision you cannot write back and show it as an income so it has go back directly to the reserve and surplus rather than routing through the profit and loss account, so you will find it has gone to retained earning account.

Rajiv Maheshwari: So that is shown as part of retained earnings as of now?

Rajan Luthra: That is right.

Rajiv Maheshwari: Another thing is I see recently a couple of month's back you had a tie up with the MAX Group of Bangladesh?

Sorab Agarwal: May be. We are actually not aware of this.

Rajiv Maheshwari: Because your website is showing something because even I was not aware, but I saw something in your website that you have had a tie up with some MAX Group of Bangladesh?

Sorab Agarwal: May be we have made or appointed a new sales partner or a dealership in Bangladesh. We are not aware of hands on.

Rajiv Maheshwari: The important question is that you have told that lots of things went unexpected in turbulence and also how do you see the steel prices going ahead and how do you see the revenue of Q1 of this year? Will we able to match the Q4 of last month and the impact of the rising steel prices or it has cooled down or going ahead how do you take it forward?

Sorab Agarwal: The steel prices in the last two to three months has definitely cooled off a little and are maintained there from a peak of around Rs.49 to Rs.50 a kg yes they are hovering around Rs.44 to Rs.50 a kg and the indication is that they might go down further another 3% to 4% over the next or two months, so the steel price pressure is currently not on us and as a policy principally also we have decided that if there is still price increase of anything more than 3% to 4% then we are going to pass that on to the customer in the very next month. As a policy, we will change our selling prices for our machines and what was the second part of your question?

Rajiv Maheshwari: The second part was like this quarter the sales was around Rs.300 Crores so do you expect to beast the sales in Q1 also or all depends on the results of the elections and how things go ahead?

Sorab Agarwal: If I look April went off okay and May as of now is slow, but we are very hopeful so if the results are positive, I think, we should be in a position to match or better Q4 and if the results I feel if I am not in line it can be slightly slower than Q4.

Rajiv Maheshwari: More or less it could be plus or minus may be 5% in what you did in Q4?

Sorab Agarwal: Max I would put I would say +5% minus 10%.

Rajiv Maheshwari: Depending on and final question is regarding to the buyback what is the rationale of getting this buyback as of now and can you throw some light on that?

Sorab Agarwal: Primarily, we are very, very like I said confident about the medium or the long term prospects of the company and we had some cash available in our books so that was the principle reason we decided to go ahead with this because the valuation also appeared to be fair and that was the main reason we went ahead with this looking at the medium and long term prospects of the company.

Rajiv Maheshwari: You did some capacity expansion sometime in December and January so is that complete right now or how is it current status?

Sorab Agarwal: The capacity expansion is in place and we are totally ready for the next incremental demand as and when it happens.

Rajiv Maheshwari: In case the new government comes and things move up so that may come into play?

Sorab Agarwal: Yes, we are already equipped to produce more, yes.

Rajiv Maheshwari: Right Mr. Agrawal thanks a lot.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir just wanted to know a bit where have, we spent this capex in the last year and on the cash flow side if you could give what is the operating cash flow and how much of capital expenditure did we do?

Sorab Agarwal: I think I will pass this on to Mr. Luthra.

Rajan Luthra: As regards to the operating cash flow as already from the first question of the Sanjay Dam you must have noted that the debtors have gone down or the creditors have gone so in terms of operating cash flow we have been and always positive in the past and we will continue to remain positive and in the current year and also the total borrowing has also gone down, which also gives an indication that our operating cash flows are positive and we will continue to remain positive cash flows. As regards to spending in the capital for this year, this year we have already spent about Rs.29 Crores on the capex.

Pritesh Chheda: Where have we spent?

Rajan Luthra: Mainly for the crane business section.

Pritesh Chheda: I can see Rs.29 Crores being spent on capex?

Sorab Agarwal: This includes maintenance capex of Rs.8 Crores to Rs.10 Crores.

Pritesh Chheda: There is a long term advance, which is being paid off of about Rs.15 Crores to Rs.16 Crores?

Sorab Agarwal: Actually we had preference shares in the company, which on the accounting standard are not shown as capital, but shown as borrowing. Out of those preferential shares, we have repaid that Rs.11.04 Crores of preferential. Last year, we repaid Rs.13 Crores. This year, we have repaid Rs.11 Crores, so balance, which was only remaining preferential share, is about Rs.6 Crores. That also we have repaid in the month of April, so now all the preferential stands repaid.

Pritesh Chheda: We have paid debt of how much? It looks like a number?

Rajan Luthra: If we exclude the preferential debt then the total borrowings including long term and short term here we are able to reduce by Rs.14 Crores.

Pritesh Chheda: That will be Rs.14 Crores and lastly on the margin expansion side, which we called out FY2020 on a 10% revenue growth just wanted to understand what is driving that expansion and on the steel price increase and the product price increase that we have taken so far where do we stand and have we taken any price increase after the January price increase?

Sorab Agarwal: Our EBITDA margin, which we feel we are projecting at 9%. I am sure it will be much better than that because with respect to the steel prices our raw material cost went up close to about 12%.

Pritesh Chheda: In FY2019?

Sorab Agarwal: Yes and with the steel prices cooling off a little and our overall price increase in the last year, which is to the tune of 7% to 8% so the net affective difference between the steel price increase and the price increase that we have done over the whole of last in phases, the differential left is only 1% to 1.5%, so looking at that and getting confidence from our March balance sheet wherein in January we had increased our prices and they were made affective in January, but yes there was a order backlog so actually the delivery prices started happening sometime in the middle of February to the end of February, so we are very confident that even if let us say maintaining the same level of operations doing a 9% plus should be easy and with a 10% increase in revenue or maybe even a better increase in revenue that we will see once the year unfolds so I think it should easily go up much beyond 9%.

Pritesh Chheda: You said you took a price increase of 8% in FY2019 and 3% was taken in January 2019?

Sorab Agarwal: Yes 7% to 8% in total in FY2019 and 3% were taken in January yes.

Pritesh Chheda: There is no price increase after that?

Sorab Agarwal: As of now no price increase after that, but yes like I said a differential of around 1.5% is still pending, so may be sometime in the next quarter we would take our last and final price increase with respect to steel of 2% to 3% that is what we are planning.

Rajan Luthra: Here I would like to add that in tractor we have taken 1% price increase from April 1, 2019.

Pritesh Chheda: You have taken in tractors?

Rajan Luthra: Agri business we have taken 1% price increase from April last month onwards.

Sorab Agarwal: That means the differential will only be for equipment.

Pritesh Chheda: I will come back in the queue Sir. I just missed a question.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: Sir a few questions. Sir first of all your guidance for a 9% EBITDA margin as opposed to around 7.5% average quarterly EBITDA margins in FY2019 and that 1.5% is primarily flows through the price increase that you are going to take? Is that right Sir?

Sorab Agarwal: You will have to repeat your question because your voice was not very clear, so we really could not figure out most of it?

Sarvesh Gupta: If I see your average quarterly EBITDA margins is hovering around 7.5% in this year now you are saying that you will reach 9% in FY2020? Again 7.5% EBITDA margins in FY2019 you are guiding for 9% in FY2020 and this 1.5% will flow from a future price increase that you are going to take?

Sorab Agarwal: Yes. In the whole of last year, we have done about 8% EBITDA margin and if you look at Q4, we have managed 8.6% whereas the price increase the actual delivery that higher prices started happening only at the end of February, so let us say in the current quarter let us Q1 of this year we are very confident with the increased prices and our expenses remaining at the same level of controlled level achieving a 9% should be easy.

Sarvesh Gupta: Sir this is not including any future price increase? This is only taking in account the past price increase?

Sorab Agarwal: Yes. This is not including any future price increase yes and this also assuming that the steel prices remain similar at the current level and yes like I said earlier if the steel prices increase then we will immediately follow it up with a price increase in the very next month.

Sarvesh Gupta: Understood. If they increase by more than 3% then you will immediately increase it and pass it on to the customers?

Sorab Agarwal: Yes because the increase of 3% is steel price actually translates into increase of around little more than 1% for our raw material cost overall, so we will immediately pass it on yes.

Sarvesh Gupta: Understood Sir and another thing is your other expenses has also fallen a lot so wanted to understand what is the variable component of this other expense and what is this fixed component of the other expense?

Sorab Agarwal: I will pass that on to Mr. Luthra.

Rajan Luthra: Basically our fixed cost is nearly about 12% or so not more than that because my industry is all variable and in the variable portion we have costs like freight, selling expenses, commission to dealers and all those other expenditures and fixed cost is more or less because we work on a variable mode of even the contractual labor, we work on a variable mode and our labor force is on piece set basis so fixed cost is very low and that is why we are able to take the benefit of additional volumes whenever we get it out. Our breakeven point is also very less in case of eventuality our breakeven point is also less.

Sarvesh Gupta: Let us say last year it was around Rs.82 Crores odd the other expense how much of that is fixed?

Rajan Luthra: Out of Rs.82 Crores the salaries alone constitute nearly about.

Sarvesh Gupta: No I am not counting employee expense Sir only the other expenses?

Rajan Luthra: You are talking about out of that Rs.85 Crores. Out of the other expenses of Rs.85 Crores, I will have to work it out. If you can mail me I will give you the exact cost later on. You can call me again.

Sarvesh Gupta: This quarter, I think we also saw a lot of degrowth in the tractor segment. I think of course we can understand that with respect to the election, the infrastructure and construction segments are highly benefitted, but what happened in the agri segment why did we see such a huge fall?

Sorab Agarwal: What actually happened was that unfortunately in the end of March month most of the machines including tractors, which are transported by road we need to provide a temporary registration for transportation. Unfortunately, there was a glitch in our local RTO office and temporary registrations for the last one or two years are being issued online, so we were not able to really dispatch a lot of tractors and even some cranes and construction equipment as well and on account of that we actually sale of about Rs.30 Crores, which could have been included in the last month, but due to the accounting policy and the standard we could not account for that sale, which we had not dispatched from our factory. Unfortunately, most of them were tractors so that is the reason you are seeing a steep downfall otherwise the scenario would not have been that bad.

Sarvesh Gupta: Did Rs.30 Crores now flow in the Q1?

Sorab Agarwal: Hopefully yes. Rs.30 would add into this quarter.

Sarvesh Gupta: Thanks a lot. I will join back in the queue.

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

Sanjay Dam: Thank you again Sir for taking my question. This is a just followup to the previous question. If Rs.30 Crores most of it is agri equipment back that puts us back to that Rs.60 odd Crores run rate that we have been doing for the last two quarters, so would that mean that we will be able to get into that Rs.4 Crores to Rs.5 Crores kind of a segment EBIT that we have been doing?

Sorab Agarwal: Yes definitely. I think so that should be possible easily. It was an unforeseen thing, which happened.

Sanjay Dam: That is fine Sir. My only limited point was that even in the December quarter, we had done our segment EBIT of Rs.5 Crores to Rs.5.5 Crores and that against that we had a Rs.3.6 Crores of segmental EBIT loss, so if that was swing of about Rs.9 Crores? In that alone, which is 15% of your topline, so if that were to normalize we will go back to that Rs.4 Crores to Rs.5 Crores segment EBIT again?

Sorab Agarwal: Yes. What I am seeing is yes, year-on-year it was Rs.3.5 Crores and in December it was Rs.5.5 Crores. I am very sure that will happen yes.

Sanjay Dam: Because in December we hit Rs.5.5 Crores and Rs.63 Crores of agri equipment sale, so if we normalize this Rs.30 Crores then we should be able to go back to that level right?

Sorab Agarwal: Yes.

Sanjay Dam: That is about it Sir. Thanks so much.

Moderator: Thank you. The next question is from the line of Ashish Kumar from Infinity Alternatives. Please go ahead.

Ashish Kumar: Thank you Sir and it is a good set of numbers in a very tough environment. I had a question in relation to your capital expenditure and need of cash over the next two to three years when will you be required to have a significant capex let us say over a two to three years if you topline continues to grow at 10% to 15% then would you need how much capex would you need or there was a significant capex which will be required let us say in the next two to three years?

Sorab Agarwal: To be very frank with you, I do not think we will be requiring significant capex and even in the current year, which has started FY2020, I think we will be doing a capex close to about Rs.15 Crores to Rs.20 Crores and Rs.8 Crores of that would be approximately maintenance capex.

Rajan Luthra: May be something here and there because with respect to cranes our capacities have now increased and we have capacities to double up from here available with us and we also have spare capacities available for all our other businesses and we are working at approximately 50% to 60% there as well, so at least over the next one and one and a half years we are not looking any significant capex and even if that is the case I think to double up the capacity for any of our products we can easily do that in about Rs.20 Crores to Rs.30 Crores.

Ashish Kumar: In terms of the working capital do you expect any changes in working capital if the environment were to slow down or do you expect a similar?

Sorab Agarwal: No really because accordingly we work very hard with our inventories, debtors and creditors and we would be maintaining it between our 30 to 35 days average, which we have been doing over the last so many years, so we very consciously take a call on our working capital and try to keep it control. Rather we are actually to squeeze that cycle further in the current year and further reduce our working capital days, so hopefully we should see some benefit out of that over the next two quarters.

Ashish Kumar: Sir would it be fair to assume that a Rs.20 Crores say capex for the next couple of years and 30 days or 35 days on incremental sales as a working capital and this meaning will be free cash, which will be either distrusted as buy back or dividence to the shareholders would that be a fair assumption to make?

Sorab Agarwal: Buyback I cannot say. I really will not know about the share price at that time.

Ashish Kumar: I am saying distribution to the shareholders depending on the price whether it can be a buyback or distribution as additional dividend or whatever else?

Sorab Agarwal: As a policy what we have thought that about 25% to 30% of the free cash we want to distribute as dividends and the dividend in the slightly lower than that if you see that is primarily for the reason that we are also looking at that in this current year. We would try and make our company totally debt free so keeping that in mind, we have reduced the dividend distribution, but yes as a policy we would try and pull a 25% to 30% of the free cash available.

Ashish Kumar: Thanks a lot and wish you all the best in going forward Sir.

Sorab Agarwal: Thank you and it was very heartening at least somebody said that the year was not that bad.

Ashish Kumar: It is a tough market environment especially when the NBFCs are not disbursing loans and stuff like that.

Sorab Agarwal: Luckily for us and I do not want to name anybody or any company, but luckily for us the people who are in real trouble, we were not working with them.

Ashish Kumar: Not may be you, but some of your buyers may be having loans right?

Sorab Agarwal: We have shifted them if they wanted a machine to better ones.

Ashish Kumar: That is very heartening to hear.

Moderator: Thank you. The next question is from the line of Kush Gangar from Care Portfolio Managers. Please go ahead.

Kush Gangar: During the last call you mentioned that we are about to launch three new multiactivity cranes? Have you launched any and how has been the response so far?

Sorab Agarwal: Yes we have started delivering and as a matter of fact, we delivered very few units last month because of some production constraint and in this month May again we are delivery more units. We have got a very heartening response. Those machines are currently being produced in limited numbers and things look very good and we are very, very confident that over the next three months, six months, one year and let us say one to two years a lot of way India actually cranes or uses cranes is going to change drastically. We are very, very confident.

Kush Gangar: I understand that those machines would also have higher margins?

Sorab Agarwal: Yes. Those machines will definitely have much better margins than what we currently have because those machines again we were keeping in mind. I am sure, you are aware of the Red Ocean and the Blue Ocean strategy. Keeping in mind that we cannot remain in the Red Ocean, we have to have something with the Blue Ocean and I am as confident as I can be to say over the next two to three years at least 15% to 20% of the Indian crane market will be move towards those cranes.

Kush Gangar: Have we seen any competitors developing some of these products because if the market moves towards them then others will also follow and develop those products so anything on that?

Sorab Agarwal: I am sure that our competitors realize that these products and the final product pricing at which we have been able to package them will be a game changer for the crane industry and they would definitely be working on similar things, but we have been wise enough this time and we have ensured that we apply for all the necessary patents with respect to his new technology because this technology that we have evolved that are pick and carry cranes with articulation can also slew 360 degrees and a pick and carry crane with articulation can also have a man lift hydraulically operated basket because these new for the world rather. They are nowhere in the world these multiactivity cranes so we have ensured that all the necessary patents are filed and so even if somebody's tries to copy what we are doing, I am sure we will not let them do it for the next 20 years.

Kush Gangar: Can you give the volume numbers for the quarter?

Sorab Agarwal: For these machines?

Kush Gangar: No for overall volume, which you normally give?

Sorab Agarwal: I think for the quarter. Mr. Luthra will just tell you the numbers.

Rajan Luthra: Our numbers for the second carry crane is 1440, mobile tower crane is 11 numbers, six tower is 26, crawler crane four, tractors is 523, backhoe loaders 115, forklift 234, 12 compactors, truck mounted three, harvester 24 and rotovator 126. These are the numbers for the quarter. To answer to my earlier one of you have asked what is the variable cost of Rs.85 Crores out of that roughly 50% is variable and 50% is fixed cost. Nearly Rs.40 Crores is the variable component of the Rs.85 Crores.

Sorab Agarwal: Coming back to what you were just asking apart from these three types of cranes that we have introduced in June we are also introducing our new series truck cranes, which are as good and very competitive as compared to the imported cranes, so in the current year, we expect to do a reasonable numbers for these truck cranes as well, which we have made on our own truck chassis. We have made a truck chassis to make this crane ourselves.

Kush Gangar: Thank you.

Moderator: Thank you. The next question is from the line of Saurabh Ginodia from Stewart And Mackertich Wealth Management. Please go ahead.

Saurabh Ginodia: Thank you Sir for the opportunity. Sir on the agri equipment side, your margin seems to be around 3% to 4% at the PBIT level what steps are you taking to improve this margin and what aspiration do you have in terms of margin in agri equipments?

Sorab Agarwal: I think as soon as we start to do close to about 5000 units and we are very confident that this year that will happen. These margins should stabilize easily at about 7% to 8% at EBIT level and going forward with increase in number and operating leverage coming in, I am sure they will come at par at 10% to 11% with the company, so I think the main prerogative that needs to be done to increase our margins there is to increase the sales numbers and we are definitely working very hard on that aspect.

Saurabh Ginodia: On the export side, you mentioned in your opening commentary that you want to increase the share of exports to about 9%, so which are the key geographies, which you are targeting?

Sorab Agarwal: It will come from some parts of Africa, some parts of South America, some parts of South East Asia. I would say especially Africa four to five countries. South America three countries and two to three countries in the South East Asia where were recently set up some distribution channels. We are very confident that they will start to deliver in this year.

Saurabh Ginodia: How would be margins in the exports?

Sorab Agarwal: They are definitely better than the domestic market yes, but because it is only at about 6% contribution to revenue right now so they do not make really a significant impact, but yes at 10% to 20% going forward they will start to make a much better impact to our bottom line.

Saurabh Ginodia: If spare parts sales on the domestic side a very significant part of your sales?

Sorab Agarwal: Last year, we did close to about Rs.42 Crores of spare part sales and this year it is about Rs.52 Crores, so I would say that is close to about a little over 3% for us the spare parts sales, so it is not very significant yes.

Saurabh Ginodia: How are the margins generally in the spare parts business?

Sorab Agarwal: At gross margin level, we can easily put it at about 30% to 40%.

Saurabh Ginodia: 40% gross margins?

Sorab Agarwal: Yes.

Saurabh Ginodia: It is possible for you to separately give the rental business breakup in terms of sales and EBITDA?

Sorab Agarwal: May be not at this juncture, but we can definitely tell you the revenue. We did Rs.13 Crores of revenue from this activity yes.

Saurabh Ginodia: Rs.13 Crores in FY2019?

Sorab Agarwal: FY2019 yes.

Saurabh Ginodia: Similar number for last year?

Sorab Agarwal: Mr. Luthra is just digging that out yes. FY2018 is close to about Rs.19 Crores to Rs.20 Crores rental.

Saurabh Ginodia: So there has been a decline in the rental business compared to FY2018?

Sorab Agarwal: Yes because of the fleet is for building construction and there is definitely not a pickup there rather a lot of payments and everything is getting stuck, so we have been playing it very safe.

Saurabh Ginodia: Even for the fixed targets?

Sorab Agarwal: Yes fixed targets.

Saurabh Ginodia: All the best.

Moderator: Thank you. The next question is from the line of Rohit Potti from Marshmallow Capital. Please go ahead.

Rohit Potti: Thank you for the opportunity. My question is on the working capital reduction that has been planned, so I was just remembering that in the beginning of last year or at the end of the previous financial year you had mentioned that you had gotten consultant along to bring down the delivery period for cranes to three days? As soon as somebody orders you want to try and deliver it in three days, so is that the primary driver for your confidence in reducing the working capital going forward?

Sorab Agarwal: Yes definitely that is also one of, it has already been put in place and it is already working and for any type of model of pick and carry crane now we are trying to do it in three to five days. It has definitely improved as compared to the past, so that will also help a lot in controlling our inventories whether it is raw material or finished goods, so that definitely add to that.

Rohit Potti: Understood and generally we have seen in the past that during slowdown and let us hope it is temporary, but generally during times of slow down the receivable cycle tends to lengthen because clients tend to pay later? What do you see the confidence that will not happen this time around?

Sorab Agarwal: I would say that 80% to 85% of our payments are secured through banks and NBFCs and delivery orders and we get paid anywhere five to 15 days generally from these NBFCs and banks, so that is 80% to 85% of our payments so already that is secured. 10% to 15% is open credit to the bigger really the bigger construction companies and in any case our government business is only 2% to 3%, so which is the most painful actually. 80% to 85% of our business is secured. We will get our payments in five to 15 days, so I am sure we will be able to manage and rather better our debtors going forward because even with the corporate companies and with these big customers we have started becoming very strict and fidgety with respect to the payment terms because they never honor it. They say 30 or 60 days, but it is always double or tripled, so in any case even in the purchase orders we have started to negotiate to reduce it further or to make sure that they pay in time. We are making them realize this. Rather to two to three of the big companies, we delayed the dispatches from our factory. They said they will give us a written confirmation that they will pay us in time.

Rohit Potti: Understood. That is helpful and on the services side, I just was curious to know is it possible to get an understanding of what percentage of Action Equipment Cranes that are out there is serviced by the company itself?

Sorab Agarwal: Most of our equipment is serviced by the dealerships or the dealers, which are there in the field, which are more than 100 if we talk of cranes. Most of the service avenue goes to them. Rather whenever we sell a new crane and obviously there is a free service schedule for service, second service, third service, fourth service, warranty installation all that, so we reimburse our dealers for these expenses further. Most of the incoming service revenue goes to our dealerships, but still we could have some Rs.2 Crores to Rs.3 Crores worth of service revenue directly in the company especially for the tower cranes business because they may be close to about Rs.2.5 Crores to Rs.3 Crores because that is specialized business and where the customer tends to take service from us by installing or dismantling these big cranes and we would also rather leave it to the dealerships because it is risky business in terms of safety requirements, so that the service revenue we do directly.

Rohit Potti: That is helpful, but the angle I was coming from was this is more to understand what percentage of cranes have to come to Action Construction dealerships for servicing or is it like in the case of it may not be a very question, but like in the case of normal vehicles, is it possible for them to go to an unauthorized service shop to get it serviced or is it the nature of the repairs are such that they have to come to an authorized dealer to get the crane serviced?

Sorab Agarwal: Here, I would answer this question slightly differently. There are two type of customers organized and unorganized. Organized customers are the bigger ones. They are construction companies and manufacturing or industrial units of bigger size, which have their own in-house maintenance departments and teams and plant and machinery departments, so generally after the warranty period most of these companies want to do the basic servicing and the repair work themselves. It is only when they get stuck and something critical or crucial, which they are not able to do on their own they approach our dealerships and even sometimes our company and then we redirect them to the dealerships and with respect to the unorganized sector after warranty it is actually very difficult because they are just hunting to get the jobs done anyway meaning for free and so post warranty even the service revenue is reasonably meager.

Rohit Potti: Understood and the last question from my end I cannot help the feeling that the company has so many levers for growth, so we started the tractor segment I think around 10 years back? We have excavators for the same amount of time? We have the rental business, which I think, which my senses that there is great potential, but somehow we have not been able to scale these businesses up in an exceptional way that you have scaled up the cranes business both tower and a pick and carry? What do you think specifically that is something, which ACE needs to work on? Is it the middle management of the sales team because I think manufacturing wise we are very good, but some gap and we have the capacity as well, but there is some gap between the operational capability and what we have been able to deliver in the market, so why are the customers not coming to us despite us having such a great history in related fields like cranes?

Sorab Agarwal: I will answer it segment by segment. If I talk of construction equipment or backhoe loaders, yes we did fail between 2009, 2010, 2013, and 2014 and in 2015 rather we were contemplating to terms to switch on this business, but we realized that we have done all the hard work and the set of people and the team that we had working on this especially for the sales and service side. May be it was there in capability that we were not able to make a success out of it and in the year 2016 and I would say in the year 2017 and 2018 now with respect construction equipment business it has been handled by the crane team itself and I am sure that this year 2020 is going to be a breakout year for construction equipment and we have been targeting and planning 50% to 60% in revenue for this business in the last one or two years, but everything seems to be in place and this year we will do that maybe even much higher. When I put the numbers together before this call it was coming to 80% to 100%, but obviously I would not like to commit that, but doing a

50% to 60% increase in this year itself and then in sales there is a simple formula, that whatever we sell is sold, so yes once the basic numbers starts to increase and then that is how further more incremental sales happen so this was thing on account of which we were suffering. With respect to tractors, yes we have done a lot of hard work, lot of planning and lot of things whether at the backend or in the front-end that is the market site and somehow we have not been able to taste success, but yes may be at a very slow pace 10% to 20% and 15% we continue to grow, but we are still continuing to work hard. We are still continuing to refresh our sales and marketing effort with respect to people or even with respect to our strategy and I am sure sooner or later it is going to pay us rich dividends. In y case we do not lose money and in any case we continue to grow there, so yes but at the moment to lose money or we stop to grow at all then yes then I would yes there is an alarm bell, but yes I am agreeing to very basic fact that we are not been very successful in tractor so far. We are still working hard in the right direction, but struggling. With respect to rental business, we would love to grow at much bigger, but if you look around there is a hardly very few big organized rental companies. There are so many of the smaller ones, but unfortunately most of them are still struggling with their payments and everything because the market cycle somehow in the last two to three years really has not improved with respect to the payments, so we do not want to take any undue risk with respect to our payments going bad. We can definitely increase the fleet size, start giving more, so I think we are just waiting that if the payment cycle of the industry that is X number of customers available if it does not start to improve there is no point pumping in good money, we will just be chasing bad money.

Rohit Potti: That was a very helpful answer. Thank you. That is it from me Sir.

Moderator: Thank you. The next question is from the line of Jasdeep Walia from Infina Finance. Please go ahead.

Jasdeep Walia: Good evening Sir. Thanks for taking my question. Sir just wanted to understand how do you segment the cranes market and in which segment is Action Construction Equipment already present and which segment are you targeting incrementally for your growth in this business and what is the competition in those segments?

Sorab Agarwal: Our main portion in the crane business, which will account for I would say close to about 50% to 55%. I do not have the exact number as of now would be pick and carry cranes. There we have close to 63% to 64% market share and we compete with Escorts. The second biggest segment in the cranes is tower cranes, which is used for building construction primarily civil construction that will contribute close to about 10% to 12% to our revenue may be slightly more where we compete primarily with lot of Chinese imports of big companies and small companies Chinese. Apart from that main players in India I would name as Manitowoc Potain or Lever and I am again very proud to say that we do about 60% of that market as well that is tower cranes. Then we are into crawler cranes. We are manufacturing only up to 75 tons capacity and again we are doing close to about 60% to 70% market shares. Unfortunately, the overall market size of these cranes has declined post 2011-2012 drastically and yes, but if you look at last year and this year’s number there is increase, but this way below potential. I am sure in the near future as some more mega projects, bigger refineries. Unfortunately, the power plant business has gone to dogs because most of these cranes would ideally be used in power plants or bigger refineries or big chemical factories and obviously in some bridges and flyovers and metro projects also, but there is enough inventories available in the country to take care, but I am sure, may not this year next year, but this will pick up again crawler cranes, but again we do more than 60% to 70% of the crawler cranes up to 75 tons and now are contemplating and we are already working on bringing in bigger crawler cranes that is 100 ton to 150 ton capacity crane so hopefully if everything goes well within this financial year we should be looking bringing out these models. Our engineering department is already working on it for the last six months.

Jasdeep Walia: Sir how big is this market 100 tons to 150 tons?

Sorab Agarwal: That would be close to about another 40 to 50 units. Earlier the biggest market size was for up to 75 tonnes, but somehow in the last three to four years there has been a shift to the bigger tonnage, so India is relying only on used machines, which are coming from abroad or new machines, which are coming from China, so we will enter that and each of these machines is costing anywhere between Rs.2 Crores and Rs.2.5 Crores going up to Rs.5 Crores. Then truck cranes. We were never serious about this business because it was being primarily driven by used cranes, which were 10, 15 and 20 year old cranes, which were coming from all over the world especially Europe, America, Japan and even Middle East, but in the last two to three years it is looking at the surge with respect to more safety, road registration norms because these imported used machines really cannot be registered. They are only registered illegally and also a clamp down by the DRI customs department with respect to people brining in these cranes at lower valuation to save duty and all. In the last two years, there has been a surge for these truck cranes in India, which has primarily right being led by the Chinese manufactures. We have evolved our range of these cranes in the last four to six months and currently we are up to a 60 ton model, which we have come out with. We will start delivering next month onwards, so we will have a self dedicated proper 25 ton, 30 ton, 45 ton, 55 ton, and 60 ton model and within this calendar year we are also coming out with 80 ton, so we will have entire range, which is 90% of the truck cranes and we are very confident that cranes is our forte so within this year we will start to grab market share there, which currently would be only at about 10% to 12% because we were not focused and we did not have the right products to work in the market. Rather we never had a crane bigger than 40 tons also.

Jasdeep Walia: How big is this market Sir?

Sorab Agarwal: It is close to about I would say about 150 units as of now, truck cranes annually, which is only going to grow bigger because used crane imports is on the decline at a very, very, very fast pace. Eventually it will go to 200 to 300 and to be very frank these high speed bullet trains the projects whether it is Mumbai to Ahmedabad and there at least 30 to 40 more DPR detailed project reports, which are being prepared. 10 to 15 of them are from Delhi connecting to Amritsar, Chandigarh, Lucknow, and Bhopal so if such projects and with increase in metro works not only this 100 to 150 ton crawler cranes, which I was talking about. These truck cranes will go in droves and so I am sure that we are getting ourselves prepared to enter this market otherwise it should be left to the Chinese, so our journey into this market will actually start in this year and I am sure by next year we will start to control it. I am very confident. Then there are some smaller cranes, which are called lorry loader cranes, knuckle cranes, head boom cranes small market. We are there just in case because Europe, America and Japan lives on these cranes for smaller applications, but in India people use pick and carry cranes, so we had entered there just to be there so that just in case if there is a market shift we are not left sleeping and the three new sites of cranes like one is pick and carry cum slew crane. One is a pick and carry cum telly ladder and the third is a pick and carry cum a man lift, which we have introduced, which we have just started delivering so that is a new segment because there is no competition globally there let us forget India so I am sure not only in India those cranes will find a lot of big market especially in the southern hemisphere.

Jasdeep Walia: Got it Sir. Sir where do SANY and Lubang compete with you in which segment of these cranes?

Sorab Agarwal: Lubang manufactures they do loaders, motor graders and last two to three years they started excavators. We do not make excavators. The excavator leader in India is Tata and Hitachi followed by L&T, Komatsu and so and all that.

Jasdeep Walia: Lubang is not into cranes?

Sorab Agarwal: Lubang is not into cranes no. Lubang does manufacture some truck trains in China, but I think they started there and may be they have shut it also. This is five to 10 years back.

Jasdeep Walia: And SANY is there in which segment Sir?

Sorab Agarwal: Lubang we compete with in motor grader, which is a road machinery and with SANY we compete like I was talking about the truck cranes, so that market has actually been captured in India by SANY and some other Chinese like Xugong and XCMG and even TIL is doing something, but I do not think they are capable of arresting this loss or erosion of Indian market to the Chinese, so we have taken on that onus six months to eight months back principally that India cannot have the bigger cranes to be Chinese cranes and it is flooded already, so I am sure we will set the balance right very soon.

Jasdeep Walia: And SANY is not there in any other category of cranes?

Sorab Agarwal: Yes SANY is definitely there in crawler cranes, but they also do much bigger ones like 250 tons and 500 tons and 600 tons, the market for which is limited and again SANY is ruling the roost with respect to 100 ton to 150 ton along with Tadano of Japan so once these 100 tons and 150 tons crawler cranes are out in the next six, eight to nine months I think our game there we will easily capture 50% to 60% market.

Jasdeep Walia: Sir what is your outlook for exports next year FY2020?

Sorab Agarwal: This year, which has ended, we have done close to about 6% revenue from exports. Next year we are targeting close to 9% to 10% of our revenue to come from exports here.

Jasdeep Walia: Got it Sir. Thank you Sir. That is from my side.

Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question for today. I now like to hand the conference over to the line of management for closing comments.

Sorab Agarwal: Like I said, currently we would be looking at about 10% growth in revenue and stabilization of our EBITDA margin at least at 9%, but I am sure things will start to look much better, if not Q2, but Q3 onwards and we are definitely hoping and praying for the same, but in case if there is anything adverse with respect to our country and the economy we will try to keep ourselves fit with respect to our working capital and do whatever best to somehow manage and maintain our ROCE. That is it. Thank you.

Moderator: Thank you. On behalf of Emkay Global Financial Services that concludes this conference. Thank you for joining us and you may now disconnect your line.