Action Construction Equipment Limited

Corporate & Registered Office
Dudhola Link Road, Dudhola, Distt. Palwal-121102, Haryana, India

Date: November 15, 2024

To,

The Manager Listing	The Manager Listing
BSE Limited	National Stock Exchange of India Ltd.
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Dalal Street,	Bandra (E),
Mumbai-400001	Mumbai-400051
Scrip Code: 532762	**CM Quote: ACE**

Subject: Earnings Call Transcript Q2FY25.

Dear Sir/Madam,

Pursuant to Regulation 30 and 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith, Earnings Call Transcript (Q2FY25) of the Company.

Kindly take the above in your record.

Thanking You.

Yours faithfully,
For Action Construction Equipment Limited

ANIL KUMAR Digitally signed by ANIL KUMAR Date: 2024.11.15 16:26:11 +05'30'

Anil Kumar
Company Secretary & Compliance Officer

“Action Construction Equipment Limited

Q2 FY’25 Earnings Conference Call”

November 11, 2024

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

MODERATOR: **MR. RAGHUNANDHAN – NUVAMA WEALTH MANAGEMENT**

Moderator: Ladies and gentlemen, good day, and welcome to the Action Construction Equipment Limited Q2 FY '25 Earnings Conference Call hosted by Nuvama Wealth Management. As a reminder, all participants' 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 than zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Raghunandhan from Nuvama Wealth Management. Thank you, and over to you, sir.

Raghunandhan: Thank you, Neha. Ladies and gentlemen, good afternoon. On behalf of Nuvama Wealth Management, we are pleased to invite you to the Q2 FY '25 Earnings Call of Action Construction Equipment. We thank the management for giving us the opportunity. From the management team, we have Mr. Sorab Agarwal, Executive Director; Mr. Rajan Luthra, Chief Financial Officer; and Mr. Vyom Agarwal, President, who will represent the company. We will begin with brief opening remarks from the management, and then we can move on to the question-answer session. Over to you, sir.

Sorab Agarwal: Yes, good afternoon. Good afternoon, and welcome, everyone, to this earnings conference call for discussing the results for the quarter and half year ended September 30, 2024. Along with me in today's earnings con-call, we have our CFO, Mr. Rajan Luthra, and our President and Head of Investor Relations, Mr. Vyom Agarwal. I hope all of you have had an opportunity to look at the company's financial statements and the earnings presentation, which has been circulated and uploaded at the stock exchanges.

The company sustained its growth momentum, and it gives me immense pleasure to inform you that this has been yet another quarter of strong performance by our company, wherein we have been able to increase our top line with expanded margin profile. In the backdrop of challenging environment, we were able to record our best ever quarter 2 performance in terms of revenues and best ever margin profile and profits.

By balancing growth initiatives with prudent financial practices, we have been able to deliver strong returns while continuing to invest in capacity expansions with cutting-edge technologies. In the quarter gone by, we have improved our working capital efficiency and further fortified our balance sheet, which gives us the flexibility to seize growth opportunities in the future.

To brief you on the stand-alone financial performance of second quarter FY '25. The operational revenues grew by 12.2% on a year-on-year basis to INR754.34 crores with an EBITDA margin of 18.04%. The EBITDA during the quarter expanded by 268 basis points and increased to INR142 crores in comparison to INR105 crores on a yearly basis, which is a growth of 34.47%. The PBT expanded by 199 basis points to INR126 crores, and the PAT expanded by 127 basis points to INR94 crores on a year-on-year basis. The PBT and PAT margins stood at 16% and 11.97%, respectively. On a sequential basis, the operational revenue was more or less in line with our estimates with a 2.82% growth, and the company was able to grow its EBITDA by 13.3%, PBT by 13.32% and PAT by 12.73% as compared to quarter 1 FY '25 with margin expansion of around 150 basis points during the quarter.

The company has achieved its highest ever EBITDA, PBT and PAT margins for the quarter owing to sustained focus on cost efficiencies and customer-centric approach. In the quarter gone by, we sustained our growth momentum across all operating segments. The contribution of cranes, material handling and construction equipment segments stood at 92% of our total revenue and we reiterated our market-dominant position while registering consolidated revenue of INR693 crores as compared to INR612 crores in quarter 2 FY '24, which is a growth of 13.11%.

The company recorded sales of 2,863 units in the quarter, which is up by 9% year-on-year. The profits also increased to INR127 crores vis-à-vis INR91 crores, thereby registering a growth of 39.77% on a year-on-year basis. The revenue contribution of agri stood at 8%, and we registered a revenue of INR61.27 crores with a margin of 3.85%.

Further, for the first half of FY '25, on a half yearly basis, we've been able to grow our operational revenues by 12.5% to INR1,488 crores. On a half yearly basis, EBITDA grew by 37.72% to INR267 crores and PBT grew 27.9% and PAT grew 26.32% to INR237 crores and INR178 crores, respectively.

Three years back, we had set ourselves a challenging goal of delivering sustained profitable growth, and it gives me immense pleasure to inform you that for first half FY '25, the margin profile of the company stood at 7.28% EBITDA, 15.34% PBT and 11.49% PAT, which is the highest ever in our history.

Our consistent strong performance is reflective of our strategic clarity, strength of our brand, capability of our team and the agility to run the business. We have a clear and compelling strategy. And with our positioning in infra, manufacturing, logistics and agri sectors, underpinned by strong operational excellence and our distinctive capabilities, we will continue to drive growth and build on a purpose-led future-fit organization.

In the last quarter, the company strengthened its presence in the defense sector by securing prestigious orders to supply custom-built forklifts to the Indian armed forces. Further, we are on track to receive our largest ever single order valued at over INR400 crores from the Ministry of Defense. This milestone will drive Defense segment's revenue contribution beyond 5% for the years FY '26 and '27, aligning with our medium to long-term goal of achieving 5% to 10% share of overall revenue from the defense sector.

Looking ahead, India remains as one of the fastest-growing economy and its prospects remain very strong for the period ahead. The FY '25 Union Budget raised capital expenditure to INR11.11 lakh crores, marking a 17% increase from FY '24 estimates of INR9.5 lakh crores.

This capex amount constitutes 3.4% of India's GDP for FY '25, reinforcing the government's commitment to infrastructure development and growth-oriented spending having a multiplier effect on the economy. The budget allocation focuses on critical infrastructure sectors with roads and railways receiving significant portions. The road sector was allocated INR2.78 lakh crores and the railways was allocated INR2.52 lakh crores. This allocation emphasizes the government's strategy to bolster connectivity and logistics, which is critical for sustaining long-term economic growth and supporting Viksit Bharat vision for 2047.

The manufacturing sector has also been recognized as a critical driver for sustainable economic growth, especially as India works towards becoming a global manufacturing hub. The infrastructure and manufacturing focus of the government bodes well for our company and sustained demand of cranes, material handling and construction equipment.

The company currently has a revenue capacity of around INR4,500 crores, which is set to increase by an additional INR600 crores through the ongoing capacity expansion, bringing the total to over INR5,100 crores by quarter 4 of current financial year.

With this enhanced capacity, the company remains optimistic about the medium- to long-term prospects and remain focused to deliver on its sustainable growth agenda. Going forward, we would like to reiterate our earlier guidance of 15%-plus growth in cranes, material handling and construction equipment segments for the current year and expect agri segment to grow 10% to 15% during the year.

On the whole, we are looking at a growth of around 15% plus with stability in EBITDA margins at current levels. In the medium to long term, we are optimistic about the prospects of the company and believe that our building blocks are firmly in place for sustainable growth with a healthy margin profile going ahead. With this, I would like to open the call for question-and-answer session. Thank you.

Moderator: Thank you very much. The first question is from the line of Aman Soni from Nvest Analytics Advisory LLP. Please go ahead.

Aman Soni: Congrats for a decent set of numbers despite extended monsoons. Sir, my first question is on the agri segment. Like in last quarter, we talked about due to extended monsoons this quarter should be good for agri segment and we grew Q-on-Q basis. But if we see Y-on-Y basis, the volume numbers have decreased from 818 to 724 this quarter. So could you please help us to understand the reasons behind the same?

Sorab Agarwal: Yes, Vyom, you'd take that question? Vyom, you're taking that question?

Vyom Agarwal: Yes. Aman, as we compare on quarter-to-quarter, sequentially, our agri numbers have -- the revenue of the agri has increased by 42% as compared to June quarter ending and September, if we compare that, and when you compare with H1 of last year and with respect to the half yearly numbers this year, last year, there was a big export order from an African country, which we were executing in the first year. And because of the global headwinds, some export order has been deferred to the second half of this financial year. So I'm very confident that we'll catch up with that number.

And on the whole, for the year, we are projecting a growth of around 10% to 15% for the agri segment when it comes to the overall revenue. Yes, the numbers might see -- the volume numbers are seeing a little bit of a dip year-on-year that is because one of the segments of rotavators that we have discontinued from last year to this year, so this year, we do not count any rotavators in our agri sales. A little bit of an impact is because of that.

Aman Soni: Understood, sir. Secondly, on our guidance, like in last quarter, we were talking about 15% to 20% range, but now sir has mentioned like 15%-plus. So despite tough first half, we delivered a growth of around 12.5% and second half is expected to be good as far as the construction industry is concerned. So why we are talking about 15%-plus? Why we are not talking about like upper side of the guidance that we have earlier given?

Sorab Agarwal: See, our guidance last year -- in the last quarter was 15% to 20%, and I believe it is still similar. That's why we're saying 15%-plus. Because, unfortunately, we were expecting the momentum to pick up post 15th August in the last quarter because the rains also started to subside, but it kept on raining, and obviously, the election results, the outcome was not as positive as was expected. So we are just planning for a contingency. We are very hopeful of doing 15%-plus. And there is an easy chance it can reach up to 20%. But to be on the conservative side, we are saying 15%-plus.

Aman Soni: Got it, sir. And sir, lastly, if you see CFO EBITDA ratio for first half, this is merely at 8%, majorly due to some current liabilities. So can you tell us that what is the reason for those liabilities getting repaid quickly and the CFO EBITDA ratio is getting down?

Sorab Agarwal: You will have to take that question.

Rajan Luthra: Yes. Basically -- typically, the liability is basically the payments to MSME vendors. So we have been preponing our payments to MSME vendor, which has reduced the liabilities which is part of the current liabilities. Going forward, we expect that probably by the year-end probably the numbers will be as similar to what we did for March '24. So it is only a temporary phenomenon to support our vendors to all those things. But going forward, I think we will be having the same numbers.

Moderator: The next question is from the line of Akshay from C D Integrated Services Limited.

Akshay: Congratulations on the good set of numbers, sir. Sir, my question is what is our competitive edge in the Construction Equipment segment, like in cranes, tower cranes, mobile cranes and all these things? So apart from the other players, domestically -- I think domestically, there is not much competition, there are very few players, but internationally, China's dominance is very strong in this sector.

So how do we see our competition and what is our competitive edge, be it whether it is the quality or the spare part availability or the price, what is our competitive edge? And the follow-up question on that would be, we have consistently seeing the -- our EBITDA margin increase for the last 10 years from 3% to 5% operating EBITDA margin to currently 13% to 15%. So going ahead in the 2, 3 years down the line, where do we see our EBITDA margin?

Sorab Agarwal: Okay, the first part of your question -- rather, I will start with the second part of your question. See, our competition for all the products, we do different types of cranes, whether it is pick-and-carry cranes or tower cranes or crawler cranes or truck cranes or lorry-loader cranes or construction equipment different type, whether it is a backhoe or a road machinery or a forklift, our competition is mixed. Indian companies as well as international companies, which are operating in India.

And obviously, some very few international companies which are importing and selling. So most of these international companies are manufacturing in India, and that is where our competition lies.

And our key strength, ever since we started this company about 29, 30 years back has to be -- has been to focus on the right product, right specifications, good reliability, good performance, better than competition wherever possible, which is one of our strengths, coupled with a very cost-effective value for money proposition of price for the customer because India remains a price-sensitive market.

Now it is becoming a feature sensitive market also, so we are trying to provide those enhanced features even at a better price. And finally, it's a machine. So you need service, payers, product support. And anybody who is able to give a turnaround time of less than 24 hours or ensure that the machine is up and running as soon as possible, if there is any breakdown or any issue which is reported. So I believe that we are doing all the 3 things right, whether it's with the product, offering the right product, offering at the right price, which is cost effective and good support.

And that has been the reason that over the years, we have -- I would say, nearly 20 years now, we have been the market leaders in crane, and we are very hopeful to grow our market share in the current year by at least 1%, 1.5%, if not more. And going forward, we target to reach even Cranes segment up to 70% market share with pick-and-carry, and I'm sure we'll do it. It'll take more effort, it'll take more energy, but I'm sure it's possible.

And the second part of the question was with EBITDA margins, yes, we were struggling 10 years back with our EBITDA margins because the markets before 2014 had become very slow. And then gradually, our margins started to improve with operating leverage and utilizations increasing, which continues to happen even today. So with further operating leverage kicking in, there is definitely more scope of improving our margins further.

But then I think as a company, we have to make a choice whether to remain competitive or cost effective in the market or continue to keep on increasing prices. So that call we will be taking over the next, I would say, 2, 3 quarters that maybe we will -- whatever is the operating leverage benefit, we start passing it out to our customers and not increase our prices further. We have not decided on it so far. But I think over -- by the end of this year or in the first half of next year, we'll have to take a conscious call in that direction.

Akshay: Okay, sir. Okay. Very good explanation on that. And sir, my second question is about the joint venture with the Kato Works. So what is the development on that front? And which type of product segment we are targeting on that?

Sorab Agarwal: Yes. Kato is one of the big Japanese manufacturer for cranes, it is more than a 100-year-old company. And where we are tying up with them in a joint venture to manufacture bigger capacity cranes, especially crawler cranes, truck cranes and rough terrain cranes. And it is -- in principle, we have already informed about our arrangement that we are in the process of setting up a joint venture.

So definitive agreements are being negotiated currently, and we are hopeful that by early quarter 4, all this process would be finished. And we would be setting up a joint venture, maybe within quarter 4 itself or early next financial year in quarter 1 FY '26. And we intend to start producing machines within 6 to 8 months of that. So we will have some revenue from the joint venture in FY '26, and it will start to go full steam in FY '27. That is the plan as of now.

Akshay: Okay, sir. And at the end of the FY '25, our capacity would be around INR5,100 crores revenue. So any further plans on capex on the end FY '25?

Sorab Agarwal: See, our capacity will be INR5,100 crores. In saying this, I would like to add that with a very nominal capex, this can further be increased by INR600 crores, so I think which we will not exercise in the current year. But if it appears so maybe in quarter 4 of this year or quarter 1 of next year, we will think of doing that further enhancing it by another INR500 crores, INR600 crores, but as of now, yes, our capacity is INR5,100 crores revenue capability.

Moderator: The next question is from the line of Saurabh Kataria from Max Life Insurance.

Saurabh Kataria: Just wanted to -- part of the question -- I think, part of the answer you already gave in the previous question, but in the margins that we are seeing in the current quarter, is there a mix angle as well? Is there an element of higher-value cranes also coming in, which are driving the margins higher?

And therefore, sustainability is also going to be higher? And second part is also, as regards, you mentioned that INR600 crores additional to the INR600 crores that you mentioned initially, so INR5,700 crores, INR5,800 crores can be done with minimal capex? And post that, if any, what is the -- do we have land, et cetera, in the current site or do we have to look for that? If you could sort of guide us on that as well.

Sorab Agarwal: Yes. First part of your question regarding -- definitely, there is an angle of product mix, which has added to our EBITDA margins in the last quarter. And going forward, this product mix benefit will be there because higher tonnages crane, even in the pick-and-carry segment, within this segment, are gaining more traction.

And apart from that, another contributor to our good performance with respect to profitability was -- I would say, that the commodity prices, especially steel, were a little off, and we were able to benefit from that, which is still continuing in the current quarter.

But I think post Diwali, there has been some strengthening of prices. But I'm sure we'll be able to manage that with our upcoming price increase, which is due in 1st -- on 1st of January. So product mix did add commodity prices softening with -- especially with respect to steel did help us do a good profitability.

And the second part of your question, INR600 crores will become operational in quarter 4. And with nominal capex, this can be increased by an additional INR600 crores to reach INR5,700 crores. You've understood it right.

And thirdly, with respect to land, at our existing main facility, which is close to about 100 acres. So after these expansions, there will be a scope of constructing more but to a limit of maybe INR500 crores to INR1,000 crores more. So let's say, from our existing piece of land, at best, we will be able to go to close to maybe around INR6,500 crores plus/minus.

But additionally, we have acquired -- because looking at the growth potential and the prices of lands were going up very fast. So we have already done agreements for about 82 acres of land. These are 2 different chunks. One is about, I think, 21 acres, other is about 61 acres. So the 21 acres has already been registered in the company's name and we have possession of that land.

The balance 61 acres chunk, hopefully, we should be in a position to bring it on to the books of the company and take physical possession in quarter 4. So this land would be for future growth of the company, and they are very close to our existing premises. The smaller piece is all of 5, 7 minutes away, and the bigger piece is about 30, 35 minutes away from our main premises. Apart from that, we have also applied for another 48 acres of land with the government in a different state.

We want it to be more centrally located going forward with respect to our exports and to further improve our logistics costs for the supply to South India and East India. So maybe -- and that's the reason we've also asked for another chunk of about 48 acres of land, which we've applied for. And we are very hopeful it will go through. It has been recommended. So that is with respect to lands for future planning. And this land which I'm talking about all put together, 61 acres and 21 acres and the 48 acres would actually be more than what we are currently using. I hope that answered your question.

Saurabh Kataria: Got it, sir. Yes, it does. And best of luck for the future.

Sorab Agarwal: Yes, thank you.

Moderator: The next question is from the line of Mudit from IIFL Securities Limited.

Mudit: Sir, regarding your margin expansion. So you mentioned, firstly, product mix and the commodity prices. So it is possible to quantify, which is the major factor, either in percentage term or anything? Because gross margins itself has increased, whatever the EBITDA margin has increased. And secondly, is there any specific reason for short-term borrowings increase if you see from FY '24 to this half year?

Sorab Agarwal: Yes. See, I think the margin expansion could be equally attributed to both the factors, the product mix as well as the commodity benefit which we got. And the short-term borrowings, I think Luthra-saab, you will be in a better position, but still, I'll give you a flavor. It has more to do with that, again, the MSME payments, which as per the new norms we have brought to par. And generally -- and our creditors have been reduced by about 5, 7 days in the last 1 or 2 quarters. So that is the reason. But the short-term borrowings, again, we'll bring back to nominal or nil level by end of March. Luthra-saab, do you want to add anything there?

Rajan Luthra: I think you have covered all the points. Besides that, we have some -- made some payment for the land also, advanced payments to the -- what land you referred to.

Sorab Agarwal: So it's a mix, but this is, I think, again, by end of quarter 4, I think we would again be back to square one. In any case, we are into negative net debt territory. We have I think, Luthra-saab, investments and cash to the tune of INR700 crores to INR800 crores available on our books.

Rajan Luthra: Yes, we've got investment of INR785 crores and a debt of INR140 crores, so net of INR610 crores...

Sorab Agarwal: So we still have net investments and cash of INR610 crores.

Rajan Luthra: That's right.

Mudit: Okay. Got it, sir. And just a follow-up to that. The higher product mix, the favourable product mix that you said that is entirely because of the higher tonnages crane, right?

Sorab Agarwal: No. Again, see it is a mix. It is not only the higher tonnage crane, but some of our NX-series Cranes, which we had introduced 3, 4 years back. But obviously, they were priced a little higher. They were multi-activity cranes. And after corona around the time, people were a little hesitant in adopting technology at a higher cost, which has started happening now.

So it is attributable to the tonnage mix, obviously, which is shifting as a cycle, it keeps on happening every 5 years, 7 years. And now it is happening 20-tons and above category. And apart from that, also, you can attribute some part of it, not, I would say, a major part of it, to adoption of multi-activity cranes, which our company had introduced 3, 4 years back. And I'm very happy to tell you that we have patents on these cranes, so nobody can literally copy them or introduce them.

Moderator: The next question is from the line of Aditya Kumar from Old Bridge Asset Management.

Aditya Kumar: Congratulations on a very healthy set of numbers. So sir, my question is on the volumes front, first. So this -- especially on the Cranes, Construction Equipment and Material Handling segments that has been consolidated. So there in that segment, we have seen close to 9% volume growth. So can you just elaborate like which are the -- which of the main categories have contributed to that 9% growth? And how -- especially, how has the Cranes segment especially performed here?

Sorab Agarwal: Yes, I think the main contribution has come from forklifts, cranes and I think last quarter, the construction equipment was more or less flattish because construction equipment is primarily used only in infra construction activity that is the backhoe loaders and rollers. And that activity was suffering quite a lot because of rains whole of last quarter. So I would say most of the contribution in growth has come from cranes and forklifts. Right, Luthra, sir?

Rajan Luthra: That's right, sir.

Sorab Agarwal: Yes, yes, yes.

Aditya Kumar: Okay. So if I look at the overall industry and the competition, so this quarter, the industry and the competition has -- if I'm correct, has degrown a bit in the Cranes segment. But if your Cranes segment volume has grown, then how would your market share be -- would be currently in the pick-and-carry cranes?

Sorab Agarwal: Yes. I'm sure our market share would have been affected positively. And I did mention, I think in one of the answers before this that we are very hopeful that in this year, we should be able to increase our market share both in tower cranes as well as pick-and-carry cranes by at least 1% or 2% points, which would be only clear by end of the year. Because last year, we were struggling on account of capacities and especially in the first half of last year, we were losing orders on account of deliveries not available with our company.

And the situation got rectified only end of quarter 3, quarter 4 last year. So our capacities are in place, by Q4 will be further expanded. So we are very hopeful that there will be a positive impact on our market share by end of this year, both in pick and carry as well as tower cranes.

Aditya Kumar: Any sense on market share number, specific number, what would be the current market share number we will be having on the pick-and-carry side? Like you mentioned like 63% market share in the presentation. So is it the same, similar number or has it increased?

Sorab Agarwal: I think it's dynamic. Monthly, quarterly, it keeps on shifting between 62%, 64%, to be very frank. So on an average by the end of the year, it turns out to 63%. I think 1%, 1.5% increase is possible within this year. So it could go to 64%, 65%. That is what is possible and it seems balanced. We'll have to achieve it to confirm it.

Aditya Kumar: Any specific target market share you are having for this segment in the future?

Sorab Agarwal: We want to be 70% in pick-and-carry cranes.

Aditya Kumar: Okay, okay. And sir, on the construction equipment side, backhoe loaders. So for last 2 years, the performance has been -- has significantly improved on -- in this side, on the backhoe loaders side. So what would be -- and you guided like you would be increasing the market share significantly from here on? Like you would -- you were having like 1% or 2% market share and you would be increasing. So what would the would be the current market share in the backhoe loaders segment?

Sorab Agarwal: Market share is still similar, around 2%, 2.5%. And to be very frank with you, in the last quarter, we have not done good numbers in backhoe loaders, primarily because of 2 aspects. Infra activity was very low because of excessive rains, which continued well into September. And also because our exports of this product, the Construction Equipment segment products were a little affected.

So we will do a catch-up in second half of this year with respect to construction equipment. And we would -- generally, we were expecting a higher rate of growth for construction equipment, maybe 30% to 50%, 40%, but this year might be a little sideways with respect to construction equipment maybe only a 10%, 15%, which time will tell once we've finished quarter 3 and quarter 4. But it's prominently due to weak performance, which we were not able to do in the first half of this year.

Moderator: The next question is from the line of CA Garvit Goyal from Nvest Analytics Advisory LLP.

Garvit Goyal: Congrats for a decent set of numbers. Sir, like you mentioned that you will be having capacity of INR5,100 crores by the end of this financial year. My question is like how the ramp-up will happen, like with this kind of capacity at the beginning of FY '26, how do you look at FY '26 and FY '27 in the terms of execution or ramping up this total capacity?

Sorab Agarwal: See, last year, as I was just mentioning, we suffered on account of capacity not being available. And we lost on the opportunity of increasing our market share in our core products in FY '24. So keeping that in mind, we had increased our capacity. And within the current year, we had further planned to increase our capacity, which is already underway. So I believe that in future, whenever we are touching about 80% of our capacity, will be our normal norm that we will try and increase some capacity.

So that we're not taken aback. And luckily, our country is growing fast. And the government has big plans, already INR11 lakh crores in the current year budget, which is 3x of what it used to be 5, 7 years back with respect to capex. And going forward, we believe and understand that by 2030, this INR11 lakh crores would be looking more like INR20 lakh crores, INR22 lakh crores into capex by government.

So we do not want to lose out at any stage with respect to the capacity that we have and that is the reason why we were building it. Yes, this year has been slightly slower as compared to what we would have planned. But it was evident that first half will be slow mainly because of elections and then obviously, monsoons. And second half has already started picking up and about 55% of our revenue generally comes in the second half.

So looking at all that, I think this year, if we do a 15%, 20% growth, so that will be somewhere INR3,400 crores plus/minus. It could be INR100 crores, INR200 crores on either side. I would feel the positive side. And hopefully, we should be getting closer to our capacity that we have created within FY '26 because in any case, we had committed or we had planned that between FY '23 to FY '26 we will triple our revenue. So from INR2,200 crores in any case, we have to somehow try and achieve INR4,400 crores by FY '26.

Garvit Goyal: Understood, sir. Like at the beginning of, I think, FY '24 also we were kind of expecting a growth of 25% CAGR for next 3 years, right, so is that target intact?

Sorab Agarwal: See, first is FY '23 to FY '26, then is FY '24 to FY '27. I feel currently, we are focused on FY '22 to -- FY '23 to FY '26, INR2,200 crores to INR4,400 crores. God willing, if things start to shape up and this whatever the 3, 4 months of tepid growth or -- which has happened post elections because the sentiment has got affected a little. I'm sure everything will catch up in the next 3, 4, 5 months, and things will again start to roll in FY '26. So we will try to achieve both, but the first one seems more doable.

Garvit Goyal: Got it, sir. And sir, in other income, like in last quarter also, you mentioned there is some rental income. So is it like we are renting the cranes or what is this rental income?

Sorab Agarwal: I think in -- within Action Construction Equipment Limited, we have some crawler cranes, which are on rental. Luthra-saab, if you can elaborate this?

Rajan Luthra: That's right, sir. We have very small number for crawler cranes which is given on rent. So that is what that -- as we are not competing with our customers, see, hey probably don't give a products on rent, but because some of the OEMs want us to give us -- want to deal directly on some of the machines we give it. So the revenue is very small. If I look at revenue for the rental income will be as low as INR8 crores to INR9 crores, that's all.

Garvit Goyal: Understood, sir. And sir, you mentioned in your opening remarks about the defense order, single largest defense order that you are expecting. So how much time would it take, like can we expect in this quarter only?

Sorab Agarwal: Yes. I think the indication that we have, it is already in the draft stage, and we should -- if everything goes well, we should be receiving the order within November. It is a INR400 crores-plus, close to about INR420 crores order. It is our single largest order. And also, obviously, the largest order we've ever received from the Army. Apart from that, we are also expecting another INR20 crores, INR25 crores order within November from the Army for a different type of product.

So -- but yes, this -- and this INR400 crores order, we will have close to 3 years to execute it, but we want to execute it within FY '26 and FY '27 in the next 2 years. So INR200 crores additional revenue addition is easily possible on this account from defense, which will take defense business contribution in our overall revenue to more than 5%, maybe close to 6%, 7% in both the years.

Garvit Goyal: Understood, sir. And like it must be based on the tenders, right? So what kind of margins we can expect here?

Sorab Agarwal: The margins are more or less in sync with the company's margins. And -- because, obviously, we cannot be overcharging anything, and we are definitely a very patriotic type of company. So we will -- it is in sync with the company margins.

Garvit Goyal: Got it. And lastly, on the electric cranes, like what are the updates on that? Like by when are we looking to launch that product or scaling up the product?

Sorab Agarwal: The -- see, product is already available. The only thing the regulations are missing. So again, it is expected that within November or latest by December, the notification, which has come with respect to CMVR regulations for this electric construction equipment should get notified and we can sell it and get it registered. The customers can buy and get the machines registered, which is a norm. So I think ramping up will start maybe second half of December or maybe within January, definitely and the electric cranes will start to gain more traction.

Garvit Goyal: Understood, sir. That's it from my side, sir. All the best for the future. Hope you will deliver for -- what you are known for.

Sorab Agarwal: Thank you. We will also try our level best. That's why somebody was asking 15% or 20%, it's better to be cautious than to be over bullish. So if this year has been slow, so there is no harm in accepting it is slow. But like I said, second half is 55% of our revenue and in good years, it can also go beyond 55%. So let us hope a miracle happens in the second half.

Moderator: The next question is from the line of Nirav Vasa from Portfolio Managers. Please go ahead.

Nirav Vasa: This is Nirav here from ASK Investment Managers. Sir, I have a couple of questions. The first question is pertaining to increase in cost of engines. So basically, what we have seen is that there has been rating change and there has been a significant increase in the cost of power gens. So wanted to check, for us, engine being a critical component, what has been the increase in our costs for that part?

Sorab Agarwal: See, I'll tell you, Nirav. With respect to power generation or gen sets, there have been regulations which have come in, and I think they are now controlled by CPCB IV, if I'm not wrong.

Nirav Vasa: Yes.

Sorab Agarwal: We are not in the power generation segment or gen sets, but I think it is CPCB IV. Similarly, in our equipment they are regulated by CMVR, Central Motor Vehicle Rules, under the CEV category, construction equipment vehicle category. And engines less than 50 horsepower are at BS III level, emission -- Euro III, you can see or BS III. And engines bigger than 50 horsepower are currently at BS IV.

On 1st January, there is a transition. BS III engines are going directly to BS V and BS IV engines are going to BS V. And yes, there is going to be a cost increase. The last cost increase was in I think September-October '21 when some engines went from BS III to BS IV. But now all engines are going to BS VI emission norms, which will put us at par with the European norms, better than Japanese and American because they're still at BS IV or Euro IV.

We'll be at Stage V. And there is a significant increase for the engines which are going from BS III to BS V. So the cost of the machine can go up anywhere between, I would say, 11% to 15%. Average, we calculated will be around 12%. The machines which are going from BS IV to BS V, there'll be a cost impact of 5% to 6%. So from 1st January onwards, like I'll just repeat again, engines going from BS III to BS V, there will be a cost impact of around 12%, average. Machines going from BS IV to BS V from 1st January onwards, there will be 5% to 6% increase. And about 60% of our machines are going from BS III to BS V.

Nirav Vasa: Got it. And sir, like because of this price hike, which I believe most of your customers must be knowing. Are we sensing any prebuy to happen or maybe has there a scenario wherein your customer has given you some kind of advance and booked the equipment and has asked for the delivery to be done at a later stage?

Sorab Agarwal: It has already started happening post Diwali till 4th there were holidays. It has already started happening. The number of orders and inquiries have started increasing. And I think in this week itself, we are going to be releasing our new price list, which will become effective from 1st of January, which will give a very clear and realistic indication to customers and we've told all our salespeople to inform all the buyers who are waiting for buying machines over the next 2, 3 months that their cost is going to go up by 5%, 6% to up to 12%.

So in case they want to save on it, they can prebuy. So we are hopeful that we can expect a 15%, 20% additional sales on this account; balance, time will tell. Man proposes, God disposes. We are ready with our inventory. We are ready with our planning.

Nirav Vasa: So effectively, if a customer gives you an advance in December and tells you that machinery needs to be delivered in February, is that possible?

Sorab Agarwal: Technically, it is possible if we have stock available and that stock is uploaded on VAHAN. So I'm sure there will be some carryover stock. Some customers might be able to do it. But the -- but any order for delivery, which we want to take in January or February will be subject to availability. So if we are sold out within December for a particular model, then we cannot. So the best bet for any customer would be to take delivery before 31st of December.

Nirav Vasa: Got it, sir. And sir, with regards to procurement of engines, like are our engine suppliers ready with the stricter compliance engines or how is it? Because they also have to do a lot of testing and compliance from government to get themselves certified.

Sorab Agarwal: Yes. See, it is not only the engine. With those modified engines, let's say, upgraded engines from BS III to BS V or BS IV to BS V, even we have to make machines and get our machines CMVR-approved from ARAI or iCAT, just like automobiles or commercial vehicles. This process has been going on for the last 2, 2.5 years in our engineering and R&D, and obviously, with the engine guys.

So all our protos, I would say most of our models have already received ARAI approval. There are some pending which we are expecting within November. Rather within the month of January, we are making some pilot lots of most of the models. And same will happen again in December to do away with any supply chain issue with respect to regular production when it comes on from January.

Nirav Vasa: Got it. And sir, with effective at the start of calendar year 2025, when we have the -- we will have probably the strictest emission norm compliance, how big can be the export market...

Sorab Agarwal: In the world.

Nirav Vasa: Yes. Yes, how can the big -- how can be the export market for us?

Sorab Agarwal: Yes. See, I'll tell you 2 things. The BS V standard, similar to Euro V, the Indian BS V is even more stricter than the European because, unfortunately, our government has picked out the most stringent norms and put it in our BS V for construction equipment. So our norms are a notch above BS V of Europe. And when we have to go to BS VI, it is going to be very, very easy because actually, most of the things are qualifying for BS VI to be very frank with you, first thing. Yes, definitely -- see, this Tier 5 or Tier 4 is in America -- Americas rather and Europe and Japan and some other developed countries, which are -- which have not been our target markets in the last -- in the past.

But going forward in the next 2 years, 3 years, even these markets, once we have totally adapted to the technology and perfected it, I'm sure these things will also come into our scheme of things, the developed markets with respect to export of our cranes or construction equipment. And we are very seriously looking at it.

And in the same breath, what we are also doing is the whole of this year and going into the next 6 months of the next year, we are working on upgrading the aesthetics and the look and feel of our machines. Most of our models to meet international standards like the machines, the way they are in Europe or in America. So that exercise will also get captured. So hopefully, in 1 or 2 years from now, we will also try and go into the developed part of the world with our machines.

Nirav Vasa: Got it, sir. And sir, with regards to the JV that we are intending to do with the Japanese partner, the scope and nature of the work would be like if you can elaborate a bit more, is it -- would that be restricted to contract manufacturing or how would that scope of work be?

Sorab Agarwal: I have understood your question, and I will answer it. It is not contract manufacturing. This is a 50-50 JV between ACE and Kato of Japan. This would be a manufacturing JV. So this JV will be manufacturing machines with technology from ACE as well as Kato. Kato will work on ACE technology machines to upgrade them at their R&D in Japan. And so the machines would be upgraded machines in sync with international standard and performance. And this is a manufacturing JV.

So this is the first type of machine which will be made, which are upgraded ACE machines with Kato technology. Second type of machines would be machines with Kato technology, which are totally similar to what Kato is doing in Japan. So the machines to be made with ACE and Kato technology will be sold by ACE in India with our current network or enhanced networks and the machines which are made totally on Kato design will be sold by Kato internationally. And if there is any market for those models within the country, ACE will be doing it.

Nirav Vasa: Got it. And sir, my final question is pertaining to the O&M revenues. I understand these are very, very mission-critical equipment's. What kind of potential do you see in the operations and maintenance part? And how big can this piece of revenue be for you?

Sorab Agarwal: See, I think Luthra-saab, our spare parts revenue is close to about INR50 crores, INR60 crores? Luthra-saab?

Rajan Luthra: It is around 4% of our turnover, sir.

Sorab Agarwal: 4% of our turnover. So I've understood your question, I'll answer it in 2 parts. We realize that the sales of our spare parts is reasonably underpenetrated in the market because over the years, a lot of spurious players and alternate parts have come up. So we are working very strictly there so that our spare parts sales or spare parts contribution to our total sales revenue increases and our target is to increase it by 50% to 100% from what it is currently. I think it is possible. That's one part of the question.

And for this, we have come out with our DMS and a lot of other things, the service app is under planning so that a customer does not go out of the fold of our network with respect to service and parts.

Secondly, most of the O&M revenue, I would say, not O&M, we are not into O&M. We don't operate the machines. But most of the maintenance revenue goes to our dealerships, except for products like tower cranes or the bigger crawler cranes, which are sophisticated pieces of technology, and we handle it directly, not through dealerships. There, again, there is a scope of increasing that.

Moderator: The next question is from the line of Pavan Vanukuri, an individual investor.

Pavan Vanukuri: Okay. This is regarding the acquisition which you have -- I mean which you have mentioned in the previous conference call, sir. In Q2 or Q3, we were expecting an acquisition to happen outside India, right? So is it still in plan or are you still working on that or can you give some update on that, please?

Sorab Agarwal: See, we were very aggressively working on some acquisition plans outside India to increase our product portfolio and to also increase our penetration in that market, but something more important or more interesting has come up, a better opportunity of trying to do the same thing which we were trying to do. And so in lieu of that, that acquisition we were looking outside India has currently been put on hold till such time this opportunity is totally understood and implemented by us.

So as of now, that acquisition outside India has been put on hold, and we are working on even a better opportunity. So hopefully, if everything goes well, maybe in quarter 4 or quarter 1 next year, we might be able to announce this -- even a better opportunity, like I said. And I cannot disclose anything more than that at the current juncture because these are very sensitive matters.

Pavan Vanukuri: Sure. Sure. I mean, if the JV with Kato Works going to help us achieve what we are trying to do instead of going with some acquisition, sir? Because Kato itself is going to support us in entering the export markets, right? So if...

Sorab Agarwal: No. Kato JV is a separate thing. It is for bigger cranes. This acquisition was for a different product category to get access to technology and to increase our presence, not only in India, but even in international markets. So the opportunity I'm talking about is totally different. And hopefully, if it goes through, which it will, as it seems, this will be much bigger than whatever anyone of us imagined.

Moderator: Ladies and gentlemen, we'll take this as the last question. I now hand the conference over to the management for closing comments.

Sorab Agarwal: Yes. Thank you. I think we have had a reasonable quarter amidst all the headwinds and excessive rains and the sentiment going a little lower because of the election results. But I think we've been able to pull off a reasonable job with respect to our last quarter results. And we expect that generally in sync which I've mentioned earlier, that 55% of our revenue comes in the second half. So hopefully, that will play again, as it has in the last 29 years for us. And we will be able to maintain our margin profile.

We will be able to increase our revenue. And with some prebuying of BS III and BS IV machines happening as BS V kicks in, in January that should also add to our revenue growth in quarter 3 and on a whole year basis, I think we are committed to at least a 15%-plus scenario with respect to our revenue, which can reach up to 20%, that time will tell. And I think with this, I'd like to close the call, and I thank everybody for attending the call. Thank you.

Rajan Luthra: Thank you, everybody.

Vyom Agarwal: Thank you all.

Moderator: Thank you. On behalf of Nuvama Wealth Management, that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.