



## Action Construction Equipment Ltd.

STOCK INFO.	BLOOMBERG
BSE Sensex: 18,197	ACCE.IN
	REUTERS CODE
S&P CNX: 5,482	ACEL.BO

1 August 2011

**BUY**

*Previous Recommendation: Buy*

₹49

		YEAR	SALES	RPAT	ADJ.EPS	EPS	PE	P/BV	EV/	DIV. YLD	ROE	RoCE
		END	(₹Cr)	(₹Cr)	(₹)	Gr.(%)	(X)	(X)	EBITDA(X)	(%)	(%)	(%)
Shares Outstanding (cr)	9.3	FY10	427	23.4	2.6	22	19.0	2.8	11.5	2.0	15.5	18.3
52-W H/L Range (₹)	75/37	FY11E	688	39.9	4.4	68	11.5	2.1	6.9	4.0	21.3	26.1
1/6/12 Rel. Perf (%)	8/4/-14	FY12E	939	52.9	5.7	30	8.7	1.9	5.4	4.0	22.9	29.0

### Results - Brief Overview

- Action Construction Equipments Ltd.'s 1QFY12 results were above estimates but pressure on margins continue.
- In 1QFY12, revenue growth of 65% was driven by 67%+ growth in cranes and doubling of material handling revenues.
- Operating margins have been under pressure due to higher raw material costs and change in mix towards lower margin products. % margins in 1QFY12 have improved q/q as the company raised prices towards the end of 4QFY11.
- Despite higher interest cost due to higher working capital requirements, profits have grown by 40% on account of 75% rise in other income.
- We have tinkered with our earnings marginally to account for the change in mix and lower margins.

₹ Cr. (Consolidated)	QE Jun-10	QE Mar-11	QE Jun-11	% y/y	% q/q
Revenue	129.2	221.9	213.6	65	-4
Expenditure	118.3	208.9	198.5	68	-5
EBITDA (excl. Other inc.)	10.9	13.1	15.1	39	16
Other Income	1.8	6.1	3.1	75	-50
Interest	0.5	0.9	1.0	102	11
Depreciation	1.3	2.1	2.1	57	-1
Profit before tax	10.8	16.2	15.1	40	-7
Tax	2.8	3.2	3.9	39	24
RPAT	8.0	13.0	11.2	40	-14
EBIDTA (%)	8.4	5.9	7.1		
Tax rate (%)	26.3	19.7	26.0		
<b>Revenue</b>					
Cranes	92.8	150.5	154.8	67	3
Material Handling	13.3	31.4	26.5	100	-16
Tractors	23.1	40.0	32.3	40	-19
<b>EBIT</b>					
Cranes	10.4	17.3	13.1	26	-24
Material Handling	-0.2	-0.5	1.3	NM	NM
Tractors	1.9	2.3	2.5	27	5

### Valuation and view

We recommended ACE Ltd. as a mid cap opportunity to play the infrastructure and construction theme. ACE remains a top bet in the segment and the duopolistic nature of its crane business has the potential to keep surprising as in this quarter. The tractor business is likely to see ramp up volumes from 3500 units in FY11 to 6000 units by the end of FY13.

Acquisitions are likely to add to organic growth, with a potential Chinese acquisition providing low cost manufacturing base. Equity dilution for acquisitions is a possibility. The stock is trading at attractive valuations with a dividend yield of 4% after having risen 34% from the bottom. We reiterate our target of ₹80 and our BUY rating on the stock.

## Action Construction Equipment Ltd.- Financial &amp; Valuation

INCOME STATEMENT (Consolidated)						(₹CRORE)
Y/E MARCH	FY09A	FY10A	FY11A	FY12E	FY13E	
<b>Net Sales</b>	<b>428</b>	<b>427</b>	<b>688</b>	<b>939</b>	<b>1,128</b>	
growth (%)	5	0	61	37	20	
Other Income	17	6	15	15	15	
<b>Total Income</b>	<b>445</b>	<b>433</b>	<b>703</b>	<b>954</b>	<b>1,143</b>	
Staff Costs	18	21	33	38	80	
Mfg. & other expenses	366	348	564	775	893	
Admn, S&D Exp.	18	19	33	45	54	
Other Expenses	8	5	8	12	14	
<b>Total Expenditure</b>	<b>409</b>	<b>394</b>	<b>639</b>	<b>870</b>	<b>1,041</b>	
<b>EBITDA</b>	<b>36</b>	<b>40</b>	<b>64</b>	<b>85</b>	<b>102</b>	
% of Net Sales	8.5	9.2	9.3	9.0	9.0	
Depreciation/Amortization	6	5	7	8	10	
Finance Charges	5	4	4	5	6	
<b>PBT</b>	<b>26</b>	<b>31</b>	<b>54</b>	<b>71</b>	<b>86</b>	
Tax	7	8	14	18	22	
Minority Interest	1	1	0	0	0	
<b>PAT</b>	<b>19</b>	<b>22</b>	<b>40</b>	<b>53</b>	<b>64</b>	
growth (%)	-45	19	79	33	21	
<b>PAT MARGIN (%)</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>6</b>	<b>6</b>	

RATIOS					
Y/E MARCH	FY09A	FY10A	FY11A	FY12E	FY13E
<b>Adjusted EPS</b>	<b>2.1</b>	<b>2.6</b>	<b>4.4</b>	<b>5.7</b>	<b>6.9</b>
Growth (%)	-44	22	68	30	21
Cash EPS	1.9	4.2	2.8	3.2	5.1
Book Value	15.9	17.7	23.3	26.5	31.2
DPS	0.4	1.0	2.0	2.0	2.0
Payout (Incl. Div. Tax)(%)	22	45	54	41	34
<b>Valuation (x)</b>					
P/E	23.1	19.0	11.5	8.7	7.2
Cash P/E	17.8	15.5	9.6	7.5	6.2
Price/Book Value	3.1	2.8	2.1	1.9	1.6
EV/EBITDA	12.8	11.5	6.9	5.4	4.4
EV/Sales	1.1	1.1	0.6	0.5	0.4
Div. Yld(%)	0.8	2.0	4.0	4.0	4.0
<b>Return Ratios (%)</b>					
RoE	14	15	21	23	24
RoCE	18	18	26	29	31
<b>Leverage (x)</b>					
Debt/Equity (x)	0.3	0.2	0.1	0.1	0.1

BALANCE SHEET (Consolidated)						(₹CRORE)
Y/E MARCH	FY09A	FY10A	FY11A	FY12E	FY13E	
Equity Share Capital	18	18	19	19	19	
Preference Share Capital	0	0	0	0	0	
Reserves & Surplus	125	141	198	228	271	
<b>Shareholders' Funds</b>	<b>143</b>	<b>159</b>	<b>216</b>	<b>246</b>	<b>290</b>	
Minority Interest	0	0	0	0	0	
Total Debt	39	30	30	30	30	
Net deferred tax	1	1	1	1	1	
<b>Liabilities</b>	<b>183</b>	<b>190</b>	<b>247</b>	<b>278</b>	<b>321</b>	
<b>Net Block</b>	<b>74</b>	<b>79</b>	<b>102</b>	<b>124</b>	<b>144</b>	
Capital WIP	1	3	3	3	3	
<b>Current Assets</b>	<b>201</b>	<b>234</b>	<b>312</b>	<b>358</b>	<b>414</b>	
Inventories	55	60	88	116	142	
Sundry Debtors	52	51	75	103	124	
Cash and Bank Balances	19	20	45	36	44	
Loans and Advances	76	104	104	104	104	
Current Liabilities & Provisions	94	126	171	207	241	
<b>Net Current Assets</b>	<b>108</b>	<b>108</b>	<b>141</b>	<b>151</b>	<b>173</b>	
<b>Total Assets</b>	<b>183</b>	<b>190</b>	<b>247</b>	<b>278</b>	<b>320</b>	

CASH FLOW STATEMENT						(₹CRORE)
Y/E MARCH	FY09A	FY10A	FY11E	FY12E	FY13E	
PBT before EO items	19	31	54	71	86	
Add : Depreciation	6	5	7	8	10	
Interest	1	4	4	5	6	
(Inc)/Dec in WC	-18	-3	-17	-20	-14	
Others	-13	-10	-17	-21	-25	
<b>CF from Operating activities</b>	<b>-5</b>	<b>26</b>	<b>30</b>	<b>43</b>	<b>63</b>	
(Inc)/Dec in Fixed assets	-10	-12	-30	-30	-30	
Others	3	2	0	0	0	
<b>CF from Investing activities</b>	<b>-8</b>	<b>-10</b>	<b>-30</b>	<b>-30</b>	<b>-30</b>	
Issue of equity	0	0	20	0	1	
Inc/(Dec) in debt	17	-9	0	0	0	
Dividend paid	-4	-4	-9	-18	-19	
Less: Interest paid	-3	-4	-4	-5	-6	
Others	0	0	0	0	0	
<b>CF from financing activities</b>	<b>9</b>	<b>-16</b>	<b>25</b>	<b>-23</b>	<b>-25</b>	
<b>Inc/(Dec) in cash</b>	<b>-3</b>	<b>1</b>	<b>26</b>	<b>-10</b>	<b>9</b>	
Add: Beginning balance	21	19	20	45	36	
<b>Closing Balance</b>	<b>19</b>	<b>20</b>	<b>45</b>	<b>36</b>	<b>44</b>	



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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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