

Q4FY18 Result Update
Accumulate

Industry	Construction Equipments
Close Price (Rs)	171
FY20E Price Target (Rs)	215
52 Week H/L (Rs)	204.2/57.4
Volume (NSE+BSE)*	~862,000
Shares O/S (mn)	117.3
Market Cap (Rs bn)	16.9
Free Float (%)	31.1
Bloomberg	ACCE IN
Reuters	ACEL.BO
*Three month daily average	

Share Holding Pattern as on March 31, 2018

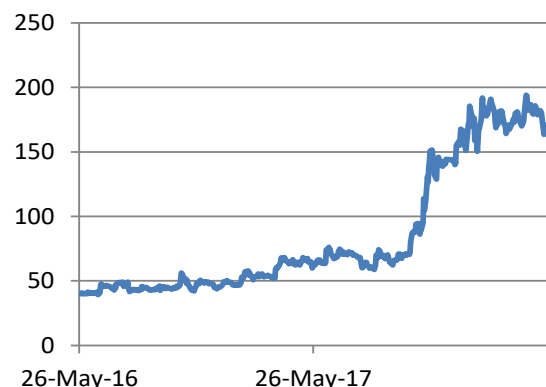
Particulars	Shares (mn)	Holding
Promoters	80.8	68.9%
Indian Institutions	1.8	1.5%
FPIs	4.3	3.7%
Public & Others	30.4	25.9%
Total	117.3	100.0%

Source: BSE

Standalone Financial Highlights

(Rs mn)	FY18	FY19E	FY20E
Revenues	10,865	14,057	17,242
EBITDA	940	1,504	1,966
EBITDA Margin	8.6%	10.7%	11.4%
PAT	526	935	1,263
EPS (Rs)*	4.5	8.0	10.8
P/E (x)	38.1	21.5	15.9
EV/EBITDA (x)	18.3	11.3	8.3
RoCE	12.2%	18.1%	20.7%
RoE	13.8%	20.9%	23.2%

Source: Company's Earnings Releases

Daily Closing Price Chart


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Standalone Result Review

ACE reported a stupendous growth in topline in Q4FY18, higher than our expectation. Revenue growth was driven by stupendous growth across all the segments. Profitability jumped Y-o-Y across all the segments, with the Construction equipments segment, though it was flat Q-o-Q, almost in line with our estimate. Net profit reported 10 fold Y-o-Y jump during the quarter, exactly in-line with our estimate.

Key Highlights:

1. Robust growth across all the verticals led to a jump of 55.7% Y-o-Y in the sales volumes to 3,353 units in Q4FY18, compared to our estimates of 2,981 units. This was because significant pick-up in the Tractors sales, which grew by 59.8% Y-o-Y to 1005 units, higher than our estimate of 805 units.
2. Higher sales of Graders, Fixed Tower Cranes and Harvesters led to a 3.7% Y-o-Y improvement in the average realization during the quarter.

Segmental Sales Volumes

Sales Volumes (Units)	Q4FY18	Q4FY17	Variance (Y-o-Y)	Q3FY18	Variance (Q-o-Q)
Cranes	1,858	1,170	58.8%	1,269	46.4%
Construction Equipments	107	86	24.4%	87	23.0%
Materials Handling	244	158	54.4%	215	13.5%
Agri-Machineries	1,144	740	54.6%	1,168	-2.1%

Source: ACE management, QS Research

3. ACE's revenues grew by 59.9% Y-o-Y to Rs 3,675mn, higher than our estimate of Rs 3,045mn.
4. The Cranes, Construction Equipments, Materials Handling and Agri-Machineries segments grew by 62.3%, 40.5%, 61.1% and 57.9% Y-o-Y to Rs 2,626mn, Rs 248mn, Rs 228mn and Rs 573mn respectively.
5. 661bps Y-o-Y and 749bps Y-o-Y jump in the EBIT margin of the Cranes and the Construction Equipments segments led to a significant jump in the overall profitability during the Quarter. EBITDA margin during the quarter improved by 652bps Y-o-Y (flat sequentially) to 10.4% in Q4FY18, almost in-line our estimate of 10.5%.
6. EBITDA during the quarter grew over four-fold Y-o-Y to Rs 383mn, compared to our estimate of Rs 320mn.
7. Further, net profit during the quarter jumped about ten times to Rs 215mn, exactly in-line with our estimate.
8. Capacity utilizations stood at 75%, 30%, 50% and 50% in the Cranes, Construction Equipments, Materials Handling and Agri-Machineries divisions respectively in FY18.

Outlook and Valuations

Domestic demand for Construction Equipments continued to show a sustained pick-up, better than our expectations. The management expects 30-35% growth in the revenues and an EBITDA margin of ~11% in FY19E. Also, the company is planning to repay its entire debt over the next two years. Our revenue estimates for FY19E and FY20E stand at Rs 14.1bn and Rs 17.2bn, compared to our previous estimates of Rs 12.7bn and Rs 14.8bn respectively. Our EPS estimates for FY18E and FY19E are at Rs 8.0 and Rs 10.8, compared to our previous estimates of Rs 7.4 and Rs 9.3 respectively.

At a current price of Rs 171, ACE trades at a P/E of 21.5x FY19E and 15.9x FY20E earnings. On the back significant in the return ratios and expected repayment of debt, we assign a P/E multiple of 20x FY20E and arrive at a FY20E price target of Rs 215, giving an annualized return of 14% from the current levels. The recent price correction has made its valuations attractive. We now rate **Action Construction Equipments Ltd** as an '**Accumulate**', compared to our previous 'Hold' rating.

Standalone Quarterly Financials

Particulars (Rs mn)	Q4FY18	Q4FY17	Variance (Y-o-Y)	Q3FY18	Variance (Q-o-Q)	FY18	FY17	Variance (Y-o-Y)
Net Sales	3614	2239	61.4%	2735	32.1%	10,632	7296	45.7%
Other Operating Income	60	60	1.0%	56	8.0%	234	215	8.9%
Income from Operations	3675	2299	59.9%	2791	31.6%	10,865	7,510	44.7%
Raw Materials	2,833	1869	51.5%	2157	31.4%	8,483	5,892	44.0%
Staff Costs	178	153	16.2%	171	3.9%	676	590	14.5%
Other Expenses	281	186	50.5%	174	61.4%	766	629	21.9%
Total Expenditure	3,292	2,209	49.0%	2,502	31.6%	9,925	7,111	39.6%
EBITDA	383	90	327.2%	290	32.3%	940	399	135.6%
EBITDA Margin	10.4%	3.9%	652 bps	10.4%	5 bps	8.7%	5.3%	334 bps
Depreciation	29	30	-5.9%	30	-6.3%	119	123	-3.1%
EBIT	354	59	497.2%	259	36.8%	821	276	197.6%
Other Income	25	24	1.1%	17	48.6%	79	67	19.4%
Interest	34	45	-24.0%	33	4.9%	135	148	-8.3%
Provision for Doubtful Loans	0	0	N.A.	-18	N.A.	-18	0	N.A.
PBT	345	38	799.6%	225	53.4%	747	195	283.5%
Taxes	130	17	653.2%	60	116.9%	220	51	332.9%
Net Profit	215	21	919.7%	165	30.3%	527	144	266.1%
Net Profit Excl. Exceptional	215	21	919.7%	183	17.4%	545	144	278.7%
Net Profit Margin	5.8%	0.9%	492 bps	5.9%	-6 bps	4.8%	1.9%	293 bps
Fully Diluted EPS (Rs)	1.8	0.2	919.7%	1.4	30.3%	4.5	1.2	266.1%

Quarterly Segmental Performance

Particulars (Rs mn)	Q4FY18	Q4FY17	Variance (Y-o-Y)	Q3FY18	Variance (Q-o-Q)	FY18	FY17	Variance (Y-o-Y)
Cranes	2,626	1,618	62.3%	1,851	41.9%	7,490	4,962	50.9%
Construction Equipments	248	176	40.5%	216	14.5%	719	489	47.2%
Materials' Handling	228	141	61.1%	195	16.5%	808	529	52.7%
Tractors/Agri-Machineries	573	363	57.9%	528	8.6%	1,848	1,531	20.8%
Income from Operations	3,675	2,299	59.9%	2,791	31.6%	10,865	7,510	44.7%
EBIT Margins								
Cranes	12.7%	6.1%	661 bps	11.7%	97 bps	11.0%	8.0%	300 bps
Construction Equipments	8.4%	0.9%	749 bps	8.1%	32 bps	4.8%	1.4%	347 bps
Materials' Handling	12.0%	8.5%	356 bps	11.7%	33 bps	12.1%	10.6%	146 bps
Tractors/Agri-Machineries	6.2%	3.0%	318 bps	5.8%	42 bps	2.5%	1.3%	122 bps

Quarterly Sales Volumes

Sales Volumes (Units)	Q4FY18	Q4FY17	Variance (Y-o-Y)	Q3FY18	Variance (Q-o-Q)	FY18	FY17	Variance (Y-o-Y)
Pick and Carry Cranes	1,762	1,099	60.3%	1,191	47.9%	4,998	3,368	48.4%
Mobile Tower Cranes	20	20	0.0%	25	-20.0%	78	80	-2.5%
Fixed Tower Cranes	53	34	55.9%	39	35.9%	147	126	16.7%
Back Hoe Loaders	60	62	-3.2%	55	9.1%	204	182	12.1%
Forklifts	244	158	54.4%	215	13.5%	934	602	55.1%
Tractors	1,005	629	59.8%	1,024	-1.9%	3,520	2,951	19.3%
Crawler Cranes	3	6	-50.0%	6	-50.0%	14	8	75.0%
Compactors/Rollers	22	14	57.1%	20	10.0%	78	40	95.0%
Graders	25	10	150.0%	12	108.3%	47	22	113.6%
Other Cranes	20	11	81.8%	8	150.0%	40	17	135.3%
Other Agri-Equipments	139	111	25.2%	144	-3.5%	506	509	-0.6%
Total Sales Volumes	3,353	2,154	55.7%	2,739	22.4%	10,566	7,905	33.7%

Source: ACE Management, QS Research

Standalone Income Statement

Y/E March (Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	6,149	5,977	6,373	7,510	10,865	14,057	17,242
<i>Net Sales Growth</i>	-7.9%	-2.8%	6.6%	17.8%	44.7%	29.4%	22.7%
Expenditures:							
Raw Materials	4,922	4,801	4,942	5,892	8,483	10,754	13,190
Personnel Expenses	465	471	555	590	676	1,195	1,466
Other Expenses	521	465	544	629	766	604	621
Total Expenses	5,908	5,737	6,041	7,111	9,925	12,553	15,276
EBITDA	241	240	332	399	940	1,504	1,966
EBITDA Margin	3.9%	4.0%	5.2%	5.3%	8.6%	10.7%	11.4%
Depreciation	153	96	113	123	119	137	143
EBIT	89	144	219	276	820	1,367	1,823
Other Income	67	112	95	67	79	83	88
Interest	104	130	140	148	135	134	131
Foreign Exchange (Loss)/Gain	0	-30	-23	0	-18	0	0
PBT	51	96	151	195	746	1,317	1,779
Taxes	11	28	63	51	220	382	516
PAT	40	67	88	144	526	935	1,263
Net Profit Margin	0.7%	1.1%	1.4%	1.9%	4.8%	6.7%	7.3%

Standalone Balance Sheet

Y/E March (Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Sources of Funds:							
Equity Capital	198	198	235	235	235	235	235
Reserves & Surplus	2,882	2,931	3,129	3,337	3,821	4,654	5,781
Total Shareholders' Fund	3,080	3,129	3,364	3,572	4,056	4,889	6,016
Total Loans	1,415	1,176	1,064	927	834	751	676
Deferred Tax Liabilities	45	86	119	41	87	87	87
Total Capital	4,540	4,391	4,547	4,540	4,977	5,727	6,779
Applications of Funds:							
Net Block	2,682	2,739	3,063	3,372	3,296	3,340	3,397
Capital Work-in-Progress	21	58	7	60	40	60	60
Investments	146	179	207	337	496	496	496
Current Assets:							
Inventories	1,605	1,412	1,233	1,132	1,439	2,118	2,598
Sundry Debtors	683	806	813	1,039	1,698	1,926	2,362
Cash and Bank	137	113	105	126	108	107	764
Loans and Advances	934	948	952	270	230	242	254
Total Current Assets	3,370	3,305	3,134	3,207	4,550	5,489	7,096
Current Liabilities & Provisions	1,678	1,890	1,864	2,436	3,405	3,658	4,270
Net Current Assets	1,691	1,415	1,270	771	1,145	1,831	2,826
Capital Employed	4,540	4,391	4,547	4,540	4,977	5,727	6,779

Standalone Cash Flow Statement

Y/E March (Rs mn)	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
CASH FLOW FROM OPERATING ACTIVITIES							
PBT Before Extraordinary Items	40	67	88	144	526	935	1263
Adjustments for:							
Depreciation	153	96	113	123	119	137	143
Interest Expenses	104	130	140	148	135	134	131
Other Adjustments	-67	-82	-72	-67	-61	-83	-88
Operating Profit before WC Changes	231	211	269	348	720	1122	1450
Change in Working Capital	88	267	142	1131	42	-666	-316
Cash Generated from Operations	318	479	412	1479	762	456	1134
Direct Taxes (Net)	-11	-28	-63	-51	-220	-382	-516
Net Cash from Operating Activities	307	451	349	1428	542	75	618
CASH FLOW FROM INVESTING ACTIVITIES							
Net Purchase of Fixed Assets	-239	-189	-386	-485	-25	-200	-200
Net Purchase of Investments	17	-33	-28	-130	-158	0	0
Interest Received	45	48	50	53	55	58	61
Net Cash used in Investing Activities	-176	-175	-364	-563	-128	-142	-139
CASH FLOW FROM FINANCING ACTIVITIES							
Share Capital	0	0	0	0	0	0	0
Net Borrowings	-79	-239	-112	-137	-93	-83	-75
Interest Paid	-104	-130	-140	-148	-135	-134	-131
Dividend and Dividend Tax Paid	-12	-23	-27	-41	-68	-102	-136
Net Cash from Financing Activities	-195	-392	23	-326	-296	-319	-342
Net Change in Cash & Equivalents	-63	-117	8	540	118	-387	136
Cash & Equivalents as at the beginning	166	137	113	105	126	108	107
Cash & Equivalents as at the end	137	113	105	126	108	107	764

Key Standalone Financial Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Liquidity Ratios							
Current Ratio	2.0	1.7	1.7	1.3	1.3	1.5	1.7
Quick Ratio	1.1	1.0	1.0	0.9	0.9	0.9	1.1
Leverage Ratios							
Total Debt/Networth	0.5	0.4	0.3	0.3	0.2	0.2	0.1
Interest Coverage Ratio	0.9	1.1	1.6	1.9	6.1	10.2	13.9
Working Capital/Sales	0.3	0.2	0.2	0.1	0.1	0.1	0.2
Activity Ratios							
Inventory (Days)	95	86	71	55	55	55	55
Debtors (Days)	41	49	47	50	50	50	50
Creditors (Days)	70	73	67	76	75	75	75
Profitability Ratios							
Operating Profit Margin	3.9%	4.0%	5.2%	5.3%	8.6%	10.7%	11.4%
Net Profit Margin	0.7%	1.1%	1.4%	1.9%	4.8%	6.7%	7.3%
Return on Capital Employed	1.5%	2.3%	2.9%	4.5%	12.2%	18.1%	20.7%
Return on Equity	1.3%	2.2%	2.7%	4.2%	13.8%	20.9%	23.2%
Valuation Ratios							
No. of Shares (mn)	98.9	98.9	98.9	117.3	117.3	117.3	117.3
Book Value (Rs)	33.2	33.7	36.2	38.5	43.7	52.6	64.8
Fully Diluted EPS (Rs)	0.3	0.6	0.8	1.2	4.5	8.0	10.8
Dividend Payout	24.6%	29.3%	33.7%	24.5%	11.1%	9.4%	9.3%
Dividend Yield	0.1%	0.1%	0.2%	0.2%	0.3%	0.4%	0.6%
P/E	498.7	297.2	227.7	139.4	38.1	21.5	15.9
P/BV	5.2	5.1	4.7	4.4	3.9	3.2	2.6
M Cap/Sales	2.8	2.8	2.7	2.3	1.6	1.2	1.0
EV/Sales	3.0	3.0	2.8	2.4	1.6	1.2	1.0
EV/EBITDA	74.8	74.3	53.2	43.6	18.3	11.3	8.3

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