

Action Construction Equipment Rs 222

Hold

7th Nov 2006

SCRIP DETAILS

Market Cap (Rs crores)	399.6
P/E (x) - FY07 (E)	20.7
Market Cap/Sales (x) - FY07 (E)	1.6
EV / EBIDTA (x) - FY07 (E)	12.9
Dividend (Rs)/ Yield (%)	-/-

Equity Capital (Rs crores)	17.98
Face Value (Rs)	10.0
52 Week High/Low (Rs)	247.9/ 185.5

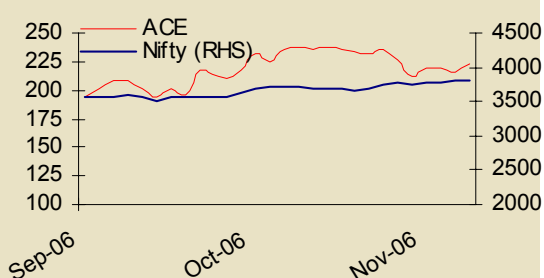
 Website: www.ace-cranes.com

NSE Code	ACE
Sensex	13,187
Nifty	3,809

(as on 30th September 2006)

Promoters	65.2
FII's	6.3
Mutual Funds/ Banks/ FIs	11.7
Public	11.9
Others	4.9

COMPARATIVE PRICE MOVEMENT


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Action Construction Equipment (ACE), an established manufacturer of Hydraulic Mobile Cranes, Mobile Tower Cranes and Construction Equipment, has declared its results for Q2FY07.

Subdued Performance

Net sales for Q2FY07 were up by 23%, to Rs 52.0 crores from Rs 42.3 crores in Q2FY06. PAT for the quarter was marginally up by 7.7%, at Rs 4.2 crores from Rs 3.9 crores. For H1FY07, the results are comparatively better, with net sales up 30.6%, at Rs 101.2 crores and with net profits up 28%, from Rs 6.4 crores in H1FY06 to Rs 8.2 crores in H1FY07. EPS jumped to Rs 4.6 from Rs 3.6 in H1FY07. However, the Company is expected to deliver better numbers for the second half of the fiscal as majority of the revenues of the Company (almost 60% of the total turnover) would be recognised during that period.

Margins under pressure, following rise in raw material cost & other expenditure

For Q1FY07, operating margins were down by 130 bps, from 14.2% to 12.9%, led by rise in raw material costs, which were up 70 bps, and increase in other expenditure by 100 bps. Net margins were also down, from 9.3% to 8.2%.

Capacity expansion & foray into new products to be major growth drivers

The Company is building a new facility in Faridabad, which would manufacture 50 back-hoe loaders per month and five fixed-tower cranes. The first phase of the project is currently under process and is scheduled to be complete by January 2007, and would start contributing to revenue in Q4FY07. The second phase of expansion would be put in place by July 2007, wherein the capacity of backhoe loaders would be increased to 100 units.

Inorganic growth to supplement organic growth

The Company is exploring a possibility of forming a 60:40 Joint Venture with Tigieffe SRL, Italy to manufacture Aerial Platforms in India. Further, ACE is currently evaluating prospects of companies in Italy and China. The acquisition is likely to be complete by December 2007.

Thrust on infrastructure development creates favourable outlook

The demand for material handling and construction equipment is correlated with the growth of other sectors like infrastructure, construction, steel, cement, power projects, engineering industry and mining, as such equipment finds primary use in these sectors. As per recent estimates, Rs 2,20,000 crores and Rs 2,62,000 crores are to be invested in the power and steel sectors alone, between 2006 and 2015. Of this, Rs 42,500 crores would be required for material handling equipments (MHE). Coal and ports are also the sectors that are likely to provide an additional Rs 5,000-crore business to MHEs, over 2006-15. This opens up a huge addressable market for MHE companies like ACE, which cater to such industries.

Elite customer base

The Company has a wide customer base, which includes leading companies like Reliance, L&T, NTPC, BHEL, Punj Lloyd, Essar, Nagarjuna Construction, Gammon India, Gujarat Ambuja, ACC and Unitech. Due to better quality and strong after-sales service, the Company has received a lot of repeat orders from its clients. The growth in the customer base shows the wide acceptance of the Company's products by the customers.

Financials

(YE March 31)	Q2FY07	Q2FY06	Chg (%)	H1FY07	H1FY06	Chg (%)	FY07(E)	Chg (%)
Net Sales	52.0	42.3	23.1	101.2	77.5	30.6	216.3	30.6
Raw Mat. consumed	39.4	31.7	24.2	76.6	59.5	28.8	160.8	29.9
Other expenses	4.6	3.3	38.5	9.3	5.8	60.7	19.4	16.8
Personnel	1.3	1.2	9.2	2.5	2.4	3.4	5.0	2.9
Total expenditure	45.3	36.3	25.0	88.3	67.6	30.7	185.2	27.5
Operating Profit	6.7	6.0	11.7	12.8	9.9	30.1	31.1	52.4
Other Income	0.1	0.1	-27.6	0.3	0.1	137.8	0.5	61.3
Interest	0.1	0.0	95.3	0.2	0.1	186.9	0.3	114.3
Gross Profit	6.7	6.1	10.5	13.0	9.9	30.5	31.3	52.1
Depreciation	0.3	0.2	83.0	0.5	0.3	89.5	2.0	177.8
PBT	6.4	5.9	8.6	12.4	9.7	28.8	29.3	47.5
Prov. for tax- Current	2.2	2.0	10.2	4.2	3.3	30.3	10.0	43.9
PAT	4.2	3.9	7.7	8.2	6.4	28.0	19.3	48.6
Equity Share capital	17.98	17.98		17.98	17.98		17.98	
EPS (Rs)	2.4	2.2	7.7	4.6	3.6	28.0	10.8	48.6
CEPS (Rs)	2.5	2.3	10.6	4.9	3.7	30.6	11.9	56.2
OPM (%)	12.9	14.2		12.7	12.7		14.4	
PBT (%)	12.4	14.0		12.3	12.5		13.5	
PAT (%)	8.2	9.3		8.1	8.3		8.9	

Valuation and Conclusion

ACE being an established player, stands to benefit from the current boom in the infrastructure sector. Also, with the Company's foray into new products, together with its expansion plans, the Company would see expansions in margins and profitability. At the CMP of Rs 222, the stock is trading at 20.7x its FY07(E) EPS of Rs 10.8 and 12.7x its FY07(E) EV/EBIDTA. Though the stock looks fairly valued, one can **HOLD**, with a long-term perspective, as the Company has the potential to perform well in the future, considering the prevailing boom in infrastructure.

WAY2WEALTH Research

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