

November 3, 2008

Rating	Reduce
Price	Rs23
Target Price	Rs25
Implied Upside	10.1%
Sensex	10,338

(Prices as on November 3, 2008)

Trading Data

Market Cap. (Rs bn)	2.0
Shares o/s (m)	89.9
Free Float	34.8%
3M Avg. Daily Vol ('000)	35.1
3M Avg. Daily Value (Rs m)	2.3

Major Shareholders

Promoters	65.2%
Foreign	7.1%
Domestic Inst.	14.1%
Public & Others	13.6%

Stock Performance

(%)	1M	6M	12M
Absolute	(49.4)	(75.4)	(74.5)
Relative	(32.0)	(34.1)	(26.3)

Price Performance (RIC: ACEL.BO, BB: ACCE IN)



Source: Bloomberg

Action Construction Equipment

Gloomy outlook in the near future

- Results:** ACE reported a topline of Rs1.4bn; a 59% increase YoY (includes trading income). EBITDA margin decreased by 261bps YoY to 9%, this is due to higher raw material cost and higher other costs which include a forex loss of Rs15mn. Although Raw material cost would decrease going ahead due to lower commodity price, EBITDA margins are expected to be lower than 9% (especially Q3FY09) due to pressure on realisation and further forex loss pertaining to payables. PAT decreased by 5% YoY to Rs88mn from Rs93mn in Q2FY08.
- Volume show stable growth:** Fixed tower cranes, Backhoe loaders and forklifts showed stable growth of 27%, 25% and 28% YoY, in spite of good volumes in Q2FY09, we do not expect volumes to continue this trend in FY09. The management expects H2FY09 to be flat due to the slow down in real-estate and more so due to the credit crunch faced by NBFCs (85% of ACEs equipments are financed). The management expects demand to pick up especially from the infrastructure segment (60-65% of sales) once the credit crunch faced by NBFCs is eased. Contribution from crawler cranes, backhoe loaders and tandem rollers is expected to pick up in FY10.
- Valuation:** Due to the uncertainty regarding the financing of equipment and lack of clarity on the demand of these equipments in the next 6-8 months we have revised our numbers downwards and downgraded our rating to **REDUCE** on strength. At the CMP of Rs23, the stock trades at 5.7x FY09E and 4.9x FY10E earnings of Rs4.0 and Rs4.6 respectively.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	2,453	4,056	4,908	5,439
Growth (%)	48.0	65.4	21.0	10.8
EBITDA (Rs m)	260	439	462	528
PAT (Rs m)	199	363	357	414
EPS (Rs)	2.2	4.0	4.0	4.6
Growth (%)	16.9	82.1	(1.8)	16.1
Net DPS (Rs)	0.6	0.8	1.2	1.3

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	10.6	10.8	9.4	9.7
RoE (%)	18.0	26.2	22.4	22.6
RoCE (%)	25.1	27.7	23.1	23.6
EV / sales (x)	(0.2)	(0.1)	(0.1)	(0.1)
EV / EBITDA (x)	(1.6)	(0.9)	(1.1)	(1.4)
PE (x)	10.2	5.6	5.7	4.9
P / BV (x)	1.8	1.5	1.3	1.1
Net dividend yield (%)	2.6	3.5	5.3	5.7

Source: Company Data; PL Research

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Q2FY09 Result Overview

(Rs m)

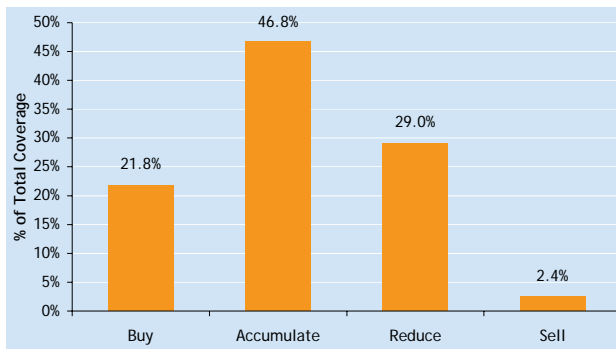
Y/e March	Q2FY09	Q2FY08	YoY gr. (%)	Q1FY09	H1FY09	H1FY08	YoY gr. (%)
Net Sales	1,451	913	58.8	1,415	2,866	1,744	64.3
Expenditure							
Raw Material	1,208	737	63.9	1,092	2,300	1,368	68.1
<i>% of Net Sales</i>	<i>83.2</i>	<i>80.6</i>		<i>77.2</i>	<i>80.2</i>	<i>78.5</i>	
Personnel Cost	52	27	91.2	45	96	48	101.0
<i>% of Net Sales</i>	<i>3.6</i>	<i>3.0</i>		<i>3.1</i>	<i>3.4</i>	<i>2.7</i>	
Others	61	44	39.7	117	178	126	42.1
<i>% of Net Sales</i>	<i>4.2</i>	<i>4.8</i>		<i>8.3</i>	<i>6.2</i>	<i>7.2</i>	
Total Expenditure	1,321	808	63.5	1,254	2,574	1,542	67.0
EBITDA	130	106	23.0	161	292	202	44.3
<i>Margin (%)</i>	<i>9.0</i>	<i>11.6</i>		<i>11.4</i>	<i>10.2</i>	<i>11.6</i>	
Other income	9	17	(45.0)	9	18	23	(21.8)
Depreciation	13	7	94.9	12	25	13	96.9
EBIT	126	116	9.2	158	285	212	34.1
Interest	7	3	118.9	2	8	4	111.4
PBT	120	113	6.2	156	276	208	32.6
Total Taxes	32	20	58.5	34	65	40	64.5
<i>ETR (%)</i>	<i>26.4</i>	<i>17.7</i>		<i>21.6</i>	<i>23.7</i>	<i>19.1</i>	
PAT	88	93	(5.0)	123	211	169	25.1

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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