

January 25, 2008

Rating	Outperformer
Price	Rs462
Target Price	Rs642
Implied Upside	38.9%
Sensex	18,362

(Prices as on January 25, 2008)

Trading Data

Market Cap. (Rs bn)	8.3
Shares o/s (m)	18.0
Free Float	34.9%
Avg. Daily Vol ('000)	23.7
Avg. Daily Value (Rs m)	11.4

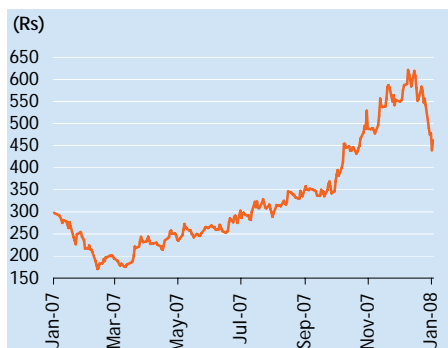
Major Shareholders

Promoters	65.2%
Foreign	5.8%
Domestic Inst.	22.2%
Public & Others	6.8%

Stock Performance

(%)	1M	6M	12M
Absolute	(15.9)	56.2	55.9
Relative	(8.4)	39.3	27.3

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



Source: Bloomberg

Action Construction Equipment

Results in line

- **Results:** Action Construction Equipment (ACE) reported its Q3FY08 results in line with our estimates. Net revenue was up 75.4% YoY to Rs1,063m. EBITDA margin increased by 160bps YoY to 10.7% and was flat compared to last quarter. PAT was at Rs95m, up 102.6% YoY.
- **Volumes move up with stable realisations:** Mobile crane volumes witnessed robust growth of 19% QoQ to 870 units along with a significant pick up in sales of Backhoe loaders and forklifts. Realisations during the quarter continued to be stable across all product segments.
- **New product launches on the anvil:** ACE plans to launch new products such as concrete pumps, piling rigs and crawler cranes during Q4FY08. ACE would be initially importing these products from Zoomlion, China and then eventually will look at assembling the knocked down kits in India. These products are expected to generate higher margins of about 150-250bps for the company.
- **Valuation:** At the ruling market price of Rs462, the stock trades at 16.3x FY09E and 11.5x FY10E earnings of Rs28.4 and Rs40.1 respectively. With demand for construction equipment growing at a fast pace and with new high margin products to be launched soon, we expect ACE to report revenue CAGR of 39.7% and earnings CAGR of 53.5% during FY07-10E. We maintain Outperformer rating on the stock with a target price of Rs642, implying an upside of 38.9%.

Key financials (Y/e March)	FY07	FY08E	FY09E	FY10E
Revenue (Rs m)	2,453	3,614	4,979	6,682
Growth (%)	48.0	47.3	37.8	34.2
EBITDA (Rs m)	260	391	581	838
PAT (Rs m)	199	347	510	721
EPS (Rs)	11.1	19.3	28.4	40.1
Growth (%)	14.0	74.3	46.9	41.4
Net DPS (Rs)	1.5	3.0	4.0	5.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	10.6	10.8	11.7	12.5
RoE (%)	18.8	25.8	32.0	36.4
RoCE (%)	25.5	27.4	33.3	38.9
EV / sales (x)	3.1	2.1	1.5	1.2
EV / EBITDA (x)	29.2	19.4	12.8	9.2
PE (x)	41.7	23.9	16.3	11.5
P / BV (x)	7.8	6.2	5.2	4.2
Net dividend yield (%)	0.3	0.6	0.9	1.1

Source: Company Data; PL Research

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Volumes and realisation

Product	Q1FY08		Q2FY08		Q3FY08	
	Units (Nos)	Avg realisation (Rs m)	Units (Nos)	Avg realisation (Rs m)	Units (Nos)	Avg realisation (Rs m)
Mobile cranes	710	0.8	733	0.8	870.0	0.8
Mobile tower cranes	46	1.4	50	1.4	48.0	1.4
Fixed tower cranes	16	4.5	30	5.0	21.0	5.0
Backhoe loaders	30	1.3	40	1.3	60.0	1.2
Forklifts	60	0.7	70	0.7	75.0	0.7

Source: Company Data, PL Research

Q3FY08 result overview

(Rs m)

Y/e March	Q3FY08	Q3FY07	YoY gr. (%)	Q2FY08	9MFY08	9MFY07	YoY gr. (%)
Net sales	1,063	606	75.4	904	2,789	1,618	72.4
Expenditure							
Raw material	862	499	72.7	737	2,230	1,184	88.4
<i>% of net sales</i>	<i>81.1</i>	<i>82.3</i>		<i>81.5</i>	<i>80.0</i>	<i>73.2</i>	
Personnel cost	35	17	100.0	27	83	42	97.2
<i>% of net sales</i>	<i>3.3</i>	<i>2.9</i>		<i>3.0</i>	<i>3.0</i>	<i>2.6</i>	
Others	52	34	52.6	44	177	208	(14.8)
<i>% of net sales</i>	<i>4.9</i>	<i>5.6</i>		<i>4.8</i>	<i>6.4</i>	<i>12.9</i>	
Total expenditure	949	551	72.3	807	2,490	1,434	73.7
EBITDA	114	55	105.7	97	299	184	62.3
<i>Margin (%)</i>	<i>10.7</i>	<i>9.1</i>		<i>10.7</i>	<i>10.7</i>	<i>11.4</i>	
Other income	23	14	63.6	26	63	15	329.5
Depreciation	8	3	153.3	7	22	9	148.0
EBIT	128	66	94.5	115	340	190	
Interest	5	1	447.7	3	8	2	394.5
PBT	123	65	89.8	113	332	188	76.2
Total taxes	28	18	56.5	20	67	40	68.8
<i>ETR (%)</i>	<i>22.8</i>	<i>27.6</i>		<i>17.4</i>	<i>20.3</i>	<i>21.2</i>	
PAT	95	47	102.5	93	264	148	78.2



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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