

January 11, 2010

Rating	Accumulate
Price	Rs42
Target Price	Rs56
Implied Upside	31.1%
Sensex	17,540

(Prices as on January 8, 2010)

Trading Data

Market Cap. (Rs bn)	3.8
Shares o/s (m)	89.9
Free Float	34.3%
3M Avg. Daily Vol ('000)	308.0
3M Avg. Daily Value (Rs m)	11.0

Major Shareholders

Promoters	65.7%
Foreign	5.9%
Domestic Inst.	11.1%
Public & Others	17.3%

Stock Performance

(%)	1M	6M	12M
Absolute	24.6	70.1	141.3
Relative	22.8	42.7	58.4

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



Source: Bloomberg

Action Construction Equipment

Gathering momentum

- Ease of NBFC funding and Infra-led demand to improve volumes:** Demand for equipments related to infrastructure is expected to see a considerable pick-up on the back of NBFC funding being available now and the on-going infra-related spending. Products like Mobile cranes, Backhoe loaders, Crawler cranes and Tandem rollers are expected to see increased volumes. But at the same time demand from the real estate sector (for fixed tower cranes, mobile cranes) might have bottomed out but still hasn't gathered any momentum. Even on conservative volume estimates (15-25% lower than management guidance) for FY11 and FY12, we expect the company's revenue to grow at a CAGR of close to 30%.
- Tractor foray to gain pace:** Action Construction equipment (ACE) sells its tractors in the Northern states of Haryana, Rajasthan and Uttar Pradesh. The company is currently selling these tractors through its dealer network of over 200 dealers. The company has a capacity of 400-500 tractors per month which will be sufficient for the next year. Capex of Rs150-200m is expected to be undertaken in FY11 in order to increase this capacity to more than 700-800 per month.
- Margin improvement:** Overall volumes are expected to improve considerably in both H2FY10 and FY11. ACE, currently, has a capacity to generate revenue of close to Rs6-6.5bn. Hence, with increased volumes, we expect margins to improve incrementally, with FY10 and FY11 margins expected to be 8-8.3% and more than 10%, respectively.
- Valuation:** With the ease of funding availability from NBFC, to both regular and first equipment buyers, coupled with an improving demand scenario, ACE is well placed at this point in time to take advantage of this increasingly positive scenario. At the CMP of Rs42, the stock trades at 9.9x FY11E and 7.6x FY12E earnings of Rs4.3 and Rs5.5, respectively. We maintain 'Accumulate' on the stock.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	4,400	4,106	5,260	6,721
Growth (%)	8.5	(6.7)	28.1	27.8
EBITDA (Rs m)	320	333	547	712
PAT (Rs m)	227	229	383	500
EPS (Rs)	2.5	2.6	4.3	5.6
Growth (%)	(37.3)	0.8	67.1	30.4
Net DPS (Rs)	0.4	0.4	0.6	0.8

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	7.3	8.1	10.4	10.6
RoE (%)	15.4	13.8	19.9	21.7
RoCE (%)	14.1	12.7	18.2	19.6
EV / sales (x)	0.9	0.9	0.7	0.6
EV / EBITDA (x)	12.6	11.4	7.2	5.6
PE (x)	16.8	16.6	9.9	7.6
P / BV (x)	2.4	2.2	1.8	1.5
Net dividend yield (%)	0.9	0.9	1.5	2.0

Source: Company Data; PL Research

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Income Statement

(Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Net Revenue	1,658	2,461	4,056	4,400	4,106	5,260	6,721
Raw mat & manufacturing expenses	1,312	1,987	3,267	3,659	3,252	4,208	5,377
<i>% of Net Sales</i>	<i>79.2</i>	<i>80.7</i>	<i>80.6</i>	<i>83.1</i>	<i>79.2</i>	<i>80.0</i>	<i>80.0</i>
Employee Costs	49	63	137	174	218	263	336
<i>% of Net Sales</i>	<i>3.0</i>	<i>2.6</i>	<i>3.4</i>	<i>3.9</i>	<i>5.3</i>	<i>5.0</i>	<i>5.0</i>
Other Costs	92	143	213	248	304	242	296
<i>% of Net Sales</i>	<i>5.5</i>	<i>5.8</i>	<i>5.3</i>	<i>5.6</i>	<i>7.4</i>	<i>4.6</i>	<i>4.4</i>
Cost of Goods Sold	1,453	2,193	3,617	4,080	3,773	4,713	6,008
EBITDA	205	268	439	320	333	547	712
<i>Margin (%)</i>	<i>12.4</i>	<i>10.9</i>	<i>10.8</i>	<i>7.3</i>	<i>8.1</i>	<i>10.4</i>	<i>10.6</i>
Depreciation	7	13	32	57	62	73	83
Other Income	2	30	62	72	73	80	88
EBIT	200	285	469	335	344	554	717
Interest	1	4	12	33	38	43	51
PBT	199	281	457	302	306	511	666
Total tax	72	82	94	74	76	128	167
<i>Effective Tax rate (%)</i>	<i>36.1</i>	<i>29.1</i>	<i>20.6</i>	<i>24.6</i>	<i>25.0</i>	<i>25.0</i>	<i>25.0</i>
PAT	127	199	363	227	229	383	500

Source: Company Data, PL Research

Operating Metrics (Volume Nos)

Y/e March	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Mobile Cranes/Pick & Carry	-	2,250	3,200	2,610	2,600	3,100	3,550
Backhoe Loaders	-	70	250	275	288	475	575
Mobile Tower Cranes	-	160	200	155	130	170	195
Fixed Tower Cranes	-	36	100	115	33	50	65
Forklifts	-	60	310	380	335	400	490
Crawler Cranes	-	-	-	33	12	14	25
Tractors	-	-	70	700	2,500	3,400	5,500
Total	-	2,352	3,955	4,355	4,106	5,260	6,721



Balance Sheet

(Rs m)

Y/e March	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Share Capital	134	180	180	180	180	180	180
Reserves & Surplus	275	926	1,204	1,390	1,585	1,910	2,335
Total Shareholders Equity	409	1,105	1,384	1,569	1,764	2,090	2,515
Total Debt	15	81	214	391	316	391	466
Total Liabilities	424	1,189	1,608	1,969	2,088	2,489	2,989
Gross Block	152	320	698	805	905	1,105	1,255
Depreciation	27	39	67	114	176	249	332
Net Block	125	281	632	691	730	857	924
Investments	0	0	4	11	0	0	0
Current Assets							
Inventories	123	250	335	509	414	452	576
Debtors	211	393	527	526	562	692	906
Cash and Cash Equivalent	67	398	208	178	323	288	301
Loans and Advances	177	512	695	917	844	1,038	1,359
Total Current Assets	577	1,553	1,765	2,129	2,143	2,469	3,142
Current Liabilities							
Creditors	133	370	423	498	465	465	637
Advances from customers	42	46	99	50	52	52	71
Provisions	96	211	277	282	268	321	370
Total Current Liabilities	284	651	834	863	785	838	1,078
Net Current Assets	294	902	930	1,265	1,358	1,631	2,064
Total Assets	424	1,189	1,608	1,969	2,088	2,489	2,989

Source: Company Data, PL Research



Key Ratios

Y/e March	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
Asset Based Ratios (%)							
ROCE	45.9	25.1	26.7	14.1	12.7	18.2	19.6
ROE	49.2	26.3	29.1	15.4	13.8	19.9	21.7
Growth Ratios (%)							
Sales	88.8	48.5	64.8	8.5	(6.7)	28.1	27.8
EBITDA	180.1	30.9	63.6	(27.0)	3.9	64.5	30.2
PAT	212.8	57.0	82.0	(37.3)	0.8	67.1	30.4
EPS	(60.9)	16.9	82.0	(37.3)	0.8	67.1	30.4
Liquidity							
Current Ratio	2.0	2.4	2.1	2.5	2.7	2.9	2.9
Acid Test Ratio	1.6	2.0	1.7	1.9	2.2	2.4	2.4
Balance Sheet Ratios							
Gross Debt : Equity (x)	0.0	0.1	0.2	0.2	0.2	0.2	0.2
Net Debt : Equity (x)	(0.1)	(0.3)	0.0	0.1	(0.0)	0.0	0.1
Inventory Days	30.9	41.6	33.8	45.5	40.0	35.0	35.0
Debtor Days	85.4	134.1	110.0	119.6	125.0	120.0	123.0
Creditor Days	43.8	69.3	52.6	49.0	50.0	40.0	43.0
Net Working Capital Days	72.4	106.4	91.2	116.1	115.0	115.0	115.0
Per Share							
EPS	1.9	2.2	4.0	2.5	2.6	4.3	5.6
BV	6.1	12.3	15.4	17.5	19.6	23.3	28.0
CEPS	1.9	2.3	4.2	2.9	3.0	4.7	6.1
DPS	0.7	0.6	0.4	0.4	0.4	0.6	0.8
FCPS	(1.5)	(2.6)	(2.6)	(1.6)	2.7	(0.6)	0.1
Margins (%)							
EBITDA	12.4	10.9	10.8	7.3	8.1	10.4	10.6
PAT	7.7	8.1	8.9	5.2	5.6	7.3	7.4
Tax Rate	36.1	29.1	20.6	24.6	25.0	25.0	25.0
Valuations (x)							
P/E	22.3	19.1	10.5	16.8	16.6	9.9	7.6
P/BV	6.9	3.4	2.8	2.4	2.2	1.8	1.5
P/CEPS	22.1	18.7	10.2	14.6	14.3	8.9	6.9
EV/EBITDA	18.4	13.0	8.7	12.6	11.4	7.2	5.6
EV/Sales	2.3	1.4	0.9	0.9	0.9	0.7	0.6
Market Cap/Sales	2.3	1.5	0.9	0.9	0.9	0.7	0.6
Dividend Yield (%)	1.7	1.4	0.9	0.9	0.9	1.5	2.0

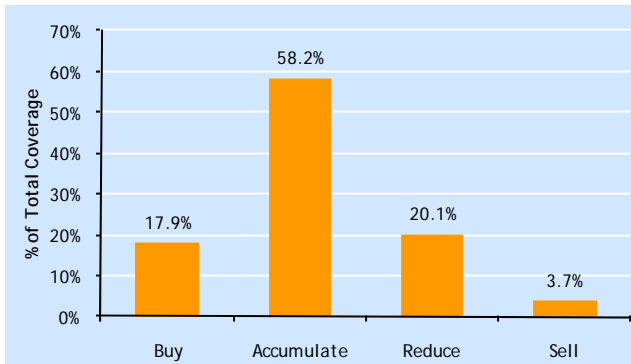
Source: Company Data, PL Research

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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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