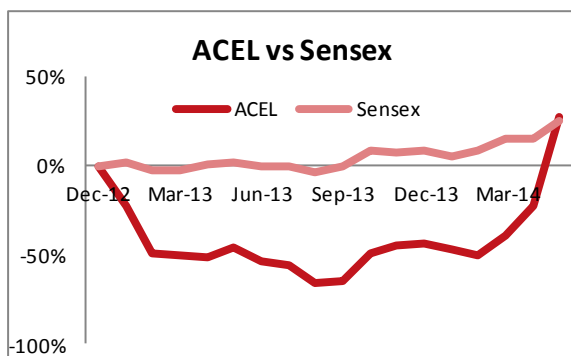


**BUY**

**Target Price INR 50**

Last Price	INR 31
Bloomberg Code	ACCE.IN
Reuters Code	ACEL.NS
Avg. Vol. (3m)	3,785,416
52 -wk High/Low INR	31.5/7.9
M cap Full/Free float (INR mn)	3,020/1,060



Right Horizons Score Matrix®		
Quantitative Score	1.64	SATISFACTORY
Qualitative Score	1.15	GOOD
Overall Score	2.79	SATISFACTORY
For detailed Score Matrix report, write to us at Right Horizons		

(in %age)	Mar —13	Dec —13	Sep—13
Promoter	68.24	68.11	68.10
FII	0.00	0.00	0.00
DII	0.64	0.41	0.18
Others	31.12	31.48	31.72

Key Performance	2013	2014	2015 (E)
Revenue (INR mn)	6,616	6,103	9,154
Growth (in %)		-7.8%	50.0%
EBIT (INR mn)	158	96	284
EBIT Margin (%)	2.4%	1.6%	3.1%
PAT (INR mn)	61	34	197
PAT Margin (%)	0.9%	0.6%	2.2%
Basic EPS	0.61	0.34	1.99
P/E Ratio	49.62	89.33	15.31

## Action Construction Equipments Ltd.

**Bottomed Up! A strong turnaround is expected in FY15**

Action Construction Equipments Ltd (ACCE) reported a top-line improvement of 0.3% to INR1.7 billion during Q4-FY14 over corresponding period previous year on the back of respectable growth reported in Crane business, which grew at a YoY rate of 13.2% to INR 1.09 billion. Crane business constitutes over 60% of the total revenue. Other segments such as Material Handling & Construction Equipments reported YoY decline of 50.1%, while Agri Equipments grew at a YoY rate of 2.7%.

EBIT of the company recorded a significant decline of 60.2% to INR19.1 million during Q4-FY14 y/y and significantly outpaced by the revenue growth due to unexpected rise in material cost, which constitutes over 85% of the total expenses. As a result, EBITDA and EBIT margin reported a deterioration of 156bps and 172bps during Q4-FY14 y/y respectively. However, the company managed to control employee cost and administration & other expenses, which declined at a YoY rate of 6.8% and 14.2% respectively during the quarter. Tax expenses declined at a YoY rate of 84.9% and reduced the operating level impact on PAT up to certain extent. PAT reported a YoY decline of 46.8%; while PAT margin deteriorated by 86bps during the quarter.

- ACCE has witnessed an improvement in top-line after a sluggish period of several quarters due to subdued market of engineering & construction (E&C) segment. ACCE is operating at the TTM EBITDA and net margin of 4.0% and 0.7% respectively. TTM operating profitability has deteriorated by over 40bps in past 7 quarters due to declining order book in E&C space.
- ACCE has moderate debt at its balance sheet and its current debt to equity is at around 0.49. Company is currently operating at TTM interest coverage ratio of 0.9, which could be a matter of concern for mid-term.
- ACCE is India's leading material handling & construction equipments manufacturing company with over 50% market share in mobile crane segment. We believe that with the improvement in E&C space, ACCE would be able to grab better set of deals, which could further aid profitability at operating level and provide strength to basic EPS.
- Pressure over profitability impacted key metrics: ROE and ROIC are at 1.4% and 2.1% respectively; while total asset and capital turnover ratios are at 1.01 and 1.42 respectively. Macroeconomic headwinds dragged top-line performance in past several quarters and that impacted Free Cash Flow to Firm (FCFF), which further raised concern over liquidity—Current ratio is at 1.05 and cash ratio is at 0.08.

ACCE is trading at P/E of 75x (TTM) and FY15 P/E of 15.3x (FY15 estimated earnings of INR197 million). Though the ACCE has reported YoY decline in revenue in past several quarters; however, we believe that the company has successfully managed to sustain in a sluggish macroeconomic conditions and the worst things have already been bottomed up. We have modeled 50% revenue growth during FY15 in the expectation that the new government would sanction pending E&C projects and would also plan for new ones based on power and road construction, which is already in their agenda. We would value ACCE at FY15 P/E of 25x at INR50.

## Managed revenue growth with control over material cost

Cost & Expenses Analysis	Q4-FY13	Q3-FY14	Q4-FY14	QoQ Gr	YoY Gr
(Figures are in INR Million)					
Net Operating Revenue	1,691	1,564	1,695	8.4%	0.3%
Raw Material Consumed	1,368	1,254	1,428	13.9%	4.4%
Employee Expenses	135	122	126	3.6%	-6.8%
Administration & Other Expenses	121	134	103	-22.9%	-14.2%
Total Expenses	1,624	1,510	1,658	9.8%	2.1%
Contribution to Total Expenses					
Raw Material Consumed	84.2%	83.0%	86.1%	3.10%	1.91%
Employee Expenses	8.3%	8.1%	7.6%	-0.46%	-0.72%
Administration & Other Expenses	7.4%	8.9%	6.2%	-2.65%	-1.19%
As the % of Total Sales					
Raw Material Consumed	80.9%	80.2%	84.3%	4.08%	3.33%
Employee Expenses	8.0%	7.8%	7.4%	-0.35%	-0.56%
Administration & Other Expenses	7.1%	8.6%	6.1%	-2.48%	-1.03%
Total Expenses	96.1%	96.6%	97.8%	1.26%	1.74%

Performance Analysis	Mar-13	Sep-13	Mar-14
Return on Investment			
Return on Equity	2.5%	2.0%	1.4%
Return on Invested Cap	3.7%	2.9%	2.1%
Return on Cap Employed	2.3%	1.8%	1.2%
Return on Total Assets	1.2%	1.0%	0.7%
Activity Ratios			
Total Asset Turnover	1.09	0.99	1.01
Fixed Asset Turnover	2.46	2.38	2.19
Capital Turnover	1.52	1.36	1.42
Debtors Turnover	7.92	9.86	8.89
Working Cap Turnover	(138.54)	(131.77)	43.13
Valuation Ratios			
Price to Book Value	0.41	0.27	1.05
EV to EBITDA	8.10	7.45	17.48
EV to EBIT	14.95	15.59	47.54

ACCE is the India's leading material handling and construction equipment manufacturing company with over 50% market share in mobile crane segment.

ACCE caters to a large clientele base which includes major Indian as well as international players such as Reliance, L&T, BSES, BHEL, Punj Lloyd, Essar, Gammon, NCC, Gujarat Ambuja, IISCO, Simplex, Coal India, BSNL, Gannon Dunkerley, Bhushan, PSL, Oswal, ISPAT, IVRCL, Indian Railways, ABB, Adani, NTPC, IOCL, Shapoorji Pallonji, Alstom, NHPC, UB, ACC, Tata, Kalpataru, KEC, Krupp, Airport Authority of India, Ministry of Defence, HPCL, IPCL, Unitech, Welspun, Jindal, AV Birla Group, Areva, etc.

In addition, Company has presence and a strong export network of 26 countries

INCOME STATEMENT (INR Million)	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	YoY Gr
Net Sales Turnover	1,693.3	1,690.6	1,401.4	1,428.3	1,564.0	1,695.0	0.3%
Growth QoQ	6.8%	-0.2%	-17.1%	1.9%	9.5%	8.4%	
Growth YoY	-15.0%	-21.9%	-14.6%	-9.9%	-7.6%	0.3%	
Total Expenses	(1,612.9)	(1,605.7)	(1,342.7)	(1,373.5)	(1,494.5)	(1,636.4)	1.9%
EBITDA	80.4	84.9	58.7	54.8	69.5	58.6	-31.0%
Margin	4.7%	5.0%	4.2%	3.8%	4.4%	3.5%	
Depreciation	(34.7)	(36.8)	(36.3)	(37.8)	(39.2)	(39.5)	7.2%
EBIT (Operating Profit)	45.7	48.1	22.4	17.0	30.3	19.1	-60.2%
Margin	2.7%	2.8%	1.6%	1.2%	1.9%	1.1%	
Other Income	10.1	27.3	11.1	10.9	12.3	32.3	18.1%
Interest Expenses	(29.1)	(26.5)	(20.3)	(20.0)	(31.7)	(32.2)	21.3%
PBT	26.7	48.9	13.2	7.9	10.9	19.2	-60.6%
Margin	1.6%	2.9%	0.9%	0.6%	0.7%	1.1%	
Reported Tax	(12.2)	(17.8)	(2.7)	(2.6)	(3.0)	(2.7)	-84.9%
Tax Rate (in percentage)	45.7%	36.4%	20.5%	32.9%	27.5%	14.0%	
PAT	14.5	31.1	10.5	5.3	7.9	16.6	-46.8%
Margin	0.9%	1.8%	0.7%	0.4%	0.5%	1.0%	

TTM Performance Analysis	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14
Basic EPS (TTM)	0.79	0.73	0.73	0.62	0.55	0.41
Price to Earnings (TTM)	30.4	16.2	15.2	13.4	24.2	35.4
PEG Ratio (TTM)	(0.4)	(1.0)	5.1	(0.2)	(0.5)	(0.8)
Revenue Per Share (TTM)	71.62	66.82	64.39	62.80	61.49	61.54
Price to Sales (TTM)	0.3	0.2	0.2	0.1	0.2	0.2
Net Operating Revenue (TTM)	7,085.6	6,610.8	6,371.0	6,213.6	6,084.3	6,088.7
TTM Quarterly Growth	-4.0%	-6.7%	-3.6%	-2.5%	-2.1%	0.1%
EBITDA Margin (TTM)	3.9%	4.5%	4.6%	4.5%	4.4%	4.0%
Net Profit Margin (TTM)	1.1%	1.1%	1.1%	1.0%	0.9%	0.7%
Degree of Leverages (TTM)						
Degree of Operating Leverages	6.41	(1.14)	0.96	5.80	5.56	(337.17)
Degree of Financial Leverages	1.32	(0.99)	(0.12)	1.08	0.92	1.07
Degree of Total Leverages	8.49	1.13	(0.11)	6.26	5.10	(362.33)

## RIGHT HORIZONS SCOREMATRIX®

Quantitative Performance		65%
BUSINESS MATRIX	Net Operating Revenue	7%
	Profitability Ratio	
	EBITDA Margin	5%
	Net Profit Margin	3%
OPERATING MATRIX	Return on Investments	
	Return on Equity	3%
	Return on Invested Capital	3%
	Return on Capital Employed	3%
	Return on Total Assets	3%
	Activity Ratios	
	Total Asset Turnover	3%
	Fixed Asset Turnover	3%
	Capital Turnover	3%
	Debtors Turnover	3%
	Working Cap Turnover	3%
	Solvency Ratios	
	Debt to Equity	3%
	Interest Coverage Ratio	2%
	Liquidity Ratios	
	Current Ratio	2%
	Cash Ratio	2%
	Cash Conversion	2%
	VALUATION MATRIX	Valuation Parameters
PEG		4%
Price to Book Value		4%
EV to EBITDA		4%

Qualitative Performance		35%
SHAREHOLDING PATTERN & CORPORATE ACTIONS	Shareholding Pattern	
	Promoters' Holding	5%
	Institutional Holding	
	Mutual Funds / UTI	2%
	Financial Institutions / Banks	1%
	Central / State Government	1%
	Insurance Companies	1%
	Foreign Institutional Investors	1%
	Qualified Foreign Investor	1%
	Public Holdings	
More than 1%	3%	
More than 5%	2%	
OTHER PARAMETERS	Market Volume	
	Average Trading Volume	3%
	Delivery Volume Percentage	3%
	Independent Director / Investor	
	Any Prominent Name	3%
	Pledging	
	Promoters' Share Pledging	3%
	Auditors	
Name of Auditor	3%	
Qualification of Auditor	3%	

*RH ScoreMatrix® is a proprietary tool to measure total risk of the business on two broad parameters. The unique ScoreMatrix® builds on the difficult to measure qualitative metrics which are extremely important to gauge total business risk at any given point.*

*The rating system has been developed on the businesses analyzed over the long period performance (7 years annual and past 10 quarters). Rating scale of 1 to 5, with 1 indicating highest risk and 5 indicating least risk. Each weight indicates relative dispensation of the parameter. Quantitative performance holds 65% (or 2/3<sup>rd</sup> weight) and the balance on Qualitative indicators. This composite rating thus developed is a fair indication of the overall risk to the business and outlook on the company over the medium term. For individual & detailed ScoreMatrix® on companies under review; please reach us at Right Horizons to the respective analyst.*

SCALE	Rating
OUTSTANDING	>=4.00
EXCELLENT	>=3.50
GOOD	>=3.00
SATISFACTORY	>=2.50
BELOWPAR	<2.50

## Disclosure & Disclaimers

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### *Disclosure of Interest Statement (May 21, 2014)*

Action Construction Equipments Ltd.	Analyst ownership of the stock	Right Horizons ownership of the stock	Covered person ownership of the stock
	NO	NO	NO

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