Action Construction Equipment

Early signs of turnaround visible....

BUY

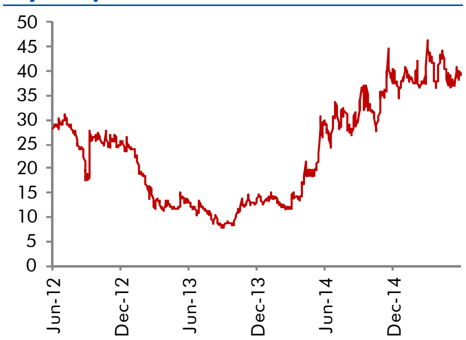
CMP	₹39
Target Price	₹54
Investment Period	12 months

Stock Info	
Sector	Capital Goods
Market Cap (₹ cr)	390
Net debt (₹ cr)	106
Beta	1.4
52 Week High / Low	49/24
Avg. Daily Volume	112,668
Face Value (₹)	2
BSE Sensex	27,188
Nifty	8,236
Reuters Code	ACEL.BO
Bloomberg Code	ACCE@IN

Shareholding Pattern (%)	
Promoters	68.3
MF / Banks / Indian FIs	2.1
FII / NRIs / OCBs	0.8
Indian Public / Others	28.9

Abs. (%)	3m	1yr	3yr
Sensex	(4.6)	9.4	70.0
ACE	(6.6)	33.8	39.0

3 year price chart



Source: Company, Angel Research

Quarterly Data (Standalone)

(₹ cr)	4QFY15	4QFY14	% chg (yoy)	3QFY15	% chg (qoq)
Revenues	164	170	*(3.2)*	145	*13.4*
EBITDA	7	6	*25.5*	1	*578.7*
EBITDA margin (%)	*4.5*	*3.5*	*103bp*	*0.7*	*373bp*
Reported PAT	2	2	*17.4*	3	*(25.2)*

Source: Company, Angel Research

Action Construction Equipment (ACE) reported lower than expected revenues for 4QFY2015, mainly owing to lower than expected revenue from the Cranes segment. Reported revenues were down 3.2% yoy, but were up 13.4% sequentially to ₹164cr. Despite revenue disappointment, ACE impressed us by reporting a good set of EBITDA and PAT margins. The EBITDA margin expanded from 3.5% in 4QFY2014 to 4.5% in 4QFY2015, reflecting (1) 4.6% decline in raw material expenses (to ₹136cr), and (2) 5.0% decline in employee expenses (to ₹12cr). The PAT margin improved 21bp yoy to 1.2% for the quarter. This is despite 57.9% yoy decline in other income (to ₹1cr), and sharp increase in effective tax rate to 40.1% (vs 14.0% in 4QFY2014).

Key Positives: Turnaround in the Material Handling & Construction Equip (MH-CE) segment, Margin expansion ahead of our estimates.

Key Negatives: Miss on the Cranes segment sales.

Outlook and Valuation: At the current market price of ₹39/share, ACE is trading at FY2016E and FY2017E P/E multiple of 37.7x and 10.1x, respectively. We are optimistic that ACE would be able to maintain its numero uno position in the domestic Pick and Carry cranes business. This, when coupled with a wide range of product offerings, wide pan-India distribution network, along with their recent cost cutting initiatives, comforts us. We estimate ACE to report an 18.4% and 138.1% top-line and bottom-line CAGR, respectively, during FY2015-17E. Accordingly, we expect the RoE to improve from 1.3% in FY2014 to 11.3% in FY2017E. At the backdrop of sharp growth in profitability and RoE expansion, we assign 14.0x P/E multiple to our FY2017E EPS estimate of ₹3.9/share to arrive at a price target of ₹54. **Given the 38.4% upside in the stock from the current levels, we recommend a Buy rating on the stock.**

Key Financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015P	FY2016E	FY2017E
Net Sales	**615**	**598**	**660**	**839**
% chg	*(7.9)*	*(2.8)*	*10.4*	*27.1*
Adj. PAT	**4**	**7**	**10**	**38**
% chg	*(37.6)*	*67.8*	*51.9*	*273.2*
EBITDA (%)	3.9	3.5	4.7	8.2
EPS (₹)	**0.4**	**0.7**	**1.0**	**3.9**
P/E (x)	96.2	57.3	37.7	10.1
P/BV (x)	1.3	1.2	1.2	1.1
RoE (%)	1.3	2.2	3.2	11.3
RoCE (%)	3.4	5.1	5.4	12.6
EV/Sales (x)	0.8	0.8	0.8	0.6
EV/EBITDA (x)	20.7	22.7	16.1	7.3

Source: Company, Angel Research; Note: CMP as of Jun 2, 2015

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Exhibit 1: Quarterly Performance

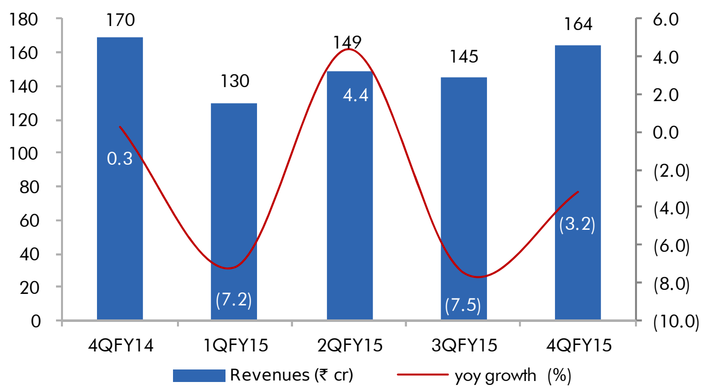
Particulars (₹ cr)	4QFY15	3QFY15	% chg (qoq)	4QFY14	% chg (yoy)	FY15	FY14	% chg
Net Sales	164	145	13.4	170	(3.2)	588	609	(3.4)
Operating Income	3	2	44.2	2	59.3	10	6	60.2
Total Expenditure	160	146	9.7	166	(3.4)	577	591	(2.4)
Raw Material Expenses	136	118	15.9	143	(4.6)	480	492	(2.5)
Employee benefits Expense	12	12	(4.0)	13	(5.0)	47	46	1.5
Other Expenses	12	16	(25.6)	10	14.5	49	52	(5.1)
EBITDA	7	1	578.7	6	25.5	21	24	(13.2)
EBIDTA %	4.5	0.7		3.5		3.6	4.0	
Depreciation	2	2	1.5	4	(39.9)	10	15	(37.3)
EBIT	5	(1)	nmf	2	160.4	11	9	28.2
Interest and Financial Charges	3	4	(12.1)	3	(3.5)	13	10	24.9
Other Income	1	8	(82.0)	3	(57.9)	11	7	68.1
PBT before Exceptional Items	3	3	17.0	2	68.6	10	5	87.0
Exceptional Items	0	0		0		0	0	
PBT after Exceptional Items	3	3	17.0	2	68.6	10	5	87.0
Tax	1	0	656.7	0	382.7	3	1	157.6
% of PBT	40.1	6.2		14.0		29.5	21.4	
PAT	2	3	(25.2)	2	17.4	7	4	67.8
PAT %	1.2	1.8		1.0		1.1	0.7	
Dil. EPS (after extra-ord. Items)	0.20	0.26	(25.2)	0.17	15.6	0.68	0.41	67.8

Source: Company, Angel Research; Note: nmf- Not meaningful

Revenues de-grow 3.2% yoy

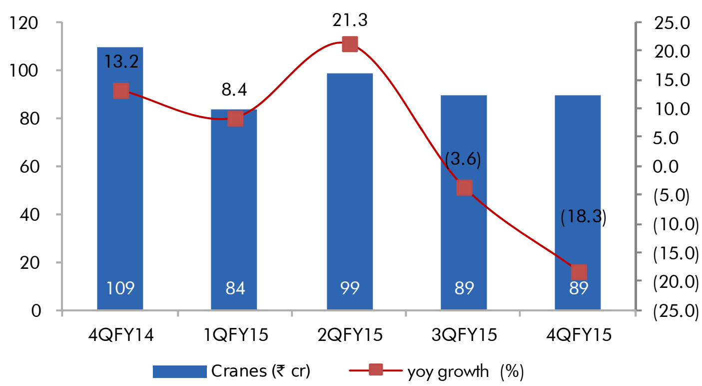
ACE reported lower than expected revenues in 4QFY2015 led by lower than expected revenue from the Cranes segment. Reported revenues were down 3.2% yoy, but were up 13.4% sequentially to ₹164cr.

Exhibit 2: Revenue & yoy growth



Source: Company, Angel Research

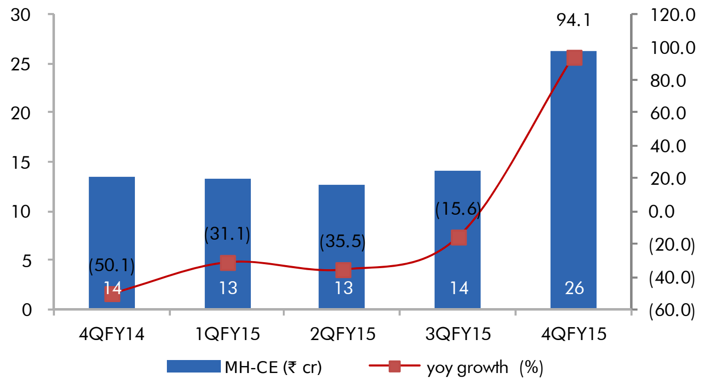
Exhibit 3: Crane Segment sales



Source: Company, Angel Research

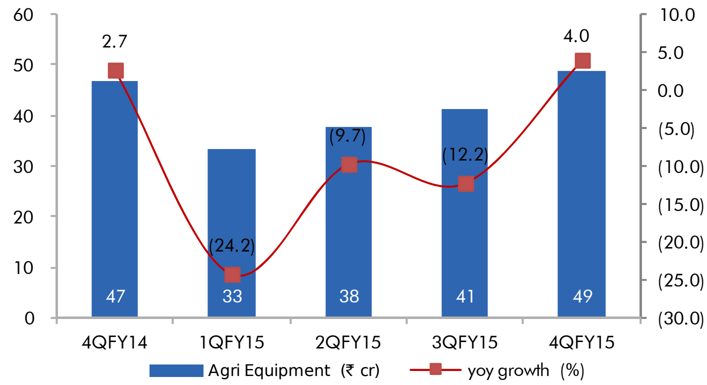
Revenue de-growth on a yoy basis was mainly on account of 18.3% yoy decline in Crane segment revenues (54.4% of 4QFY2015 sales) to ₹89cr. Muted demand scenario impacted the Cranes segment sales during the quarter. Revenue numbers for the quarter benefitted from a sharp 94.1% yoy increase in MH-CE segment sales to ₹26cr. Completion of a Defense order (to supply 105 forklifts) in Mar-2015 helped the company report strong MH-CE segment sales (did sale volume of 610 units in FY2015). The Agri Equipment division (29.6% of 4QFY2015 sales) reported a 4.0% yoy revenue growth (better than the industry), reflecting (1) tractor sale volume growth and (2) increase in yoy harvester sales.

Exhibit 4: MH-CE Segment sales



Source: Company, Angel Research

Exhibit 5: Agri-Equipment Segment sales

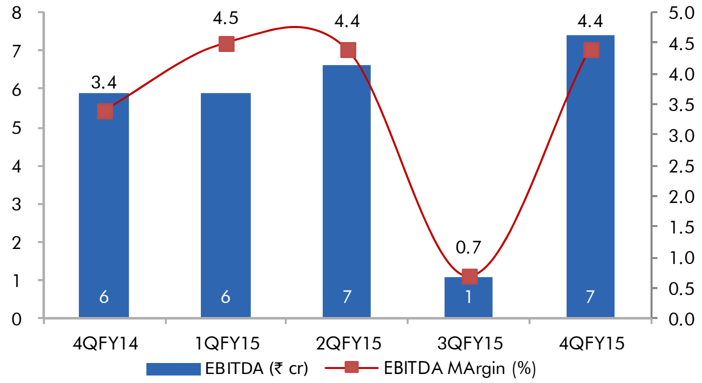


Source: Company, Angel Research

EBITDA & PAT Margins expand

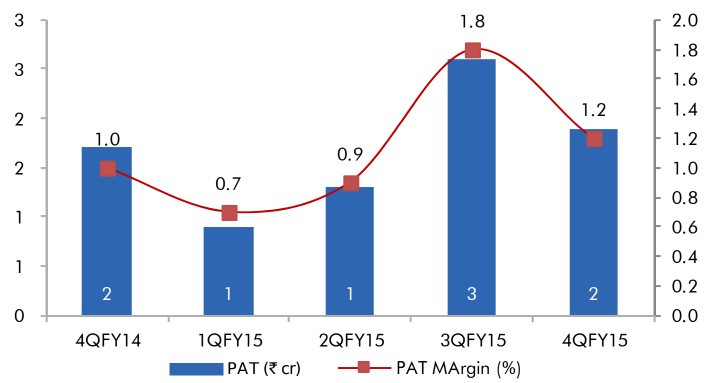
Despite revenue disappointment, ACE impressed us by reporting a good set of EBITDA and PAT margins. ACE reported 25.5% yoy increase in its EBITDA to ₹7cr. On the same lines, EBITDA margins of the company expanded from 3.5% in 4QFY2014 to 4.5% in 4QFY2015. Improvement in the yoy EBITDA margins is on account of (1) 4.6% decline in raw material expenses (to ₹136cr), and (2) 5.0% decline in employee expenses (to ₹12cr). Despite yoy increase in purchase of stock-in-trade to ₹27cr (towards trading of Agri-equipment items, such as Rotavators, Power Tillers), correction in the Mild Steel prices helped the company report yoy decline in raw material expenses. EBITDA margin expansion on a yoy basis was restricted on account of 14.5% yoy increase in other expenses. Increase in other expenses was mainly on account of one-time provision of ₹1cr towards doubtful loans and advances.

Exhibit 6: EBITDA & EBITDA Margins



Source: Company, Angel Research

Exhibit 7: PAT (in ₹ cr) & PAT Margins (%)



Source: Company, Angel Research

In line with yoy EBITDA growth, ACE reported strong PAT growth. The company reported a PAT of ₹2cr in 4QFY2015, up 17.4% on a yoy basis. PAT margins of the company improved by 21bp yoy to 1.2% in 4QFY2015. The quarter's PAT numbers were impacted on account of (1) 57.9% yoy decline in other income (to ₹1cr), and (2) sharp increase in effective tax rate (to 40.1% vs 14.0% in 4QFY2014). Increase in effective tax rate for the quarter is on account of one-time impact of deferred tax expenses, resulting from changes in the company's depreciation policy.

If we look at details of the segment-wise EBIT, then the MH-CE segment reported a turnaround. Higher indigenization across the Forklifts manufacturing (earlier ~90% of Forklift manufacturing was done using imported inputs; the same has now been brought down to ~40%) coupled with cost cutting initiatives at Backhoe Loader and other Road Construction Equipments helped the company report EBIT level turnaround. The MH-CE segment reported an EBIT margin of 6.5% for 4QFY2015 vs negative margin of 3.9% in 4QFY2014.

Exhibit 8: Segmental Revenue split (in ₹ cr)

Particulars (₹ cr)	4QFY15	3QFY15	% chg (qoq)	4QFY14	% chg (yoy)	FY15	FY14	% chg
Cranes	89	89	0.0	109	(18.3)	361	360	0.1
Material Handling & Const. Equip.	26	14	85.1	14	94.1	66	69	(4.2)
Agri Equipment	49	41	17.7	47	4.0	161	179	(10.3)
Less: Inter-segment Revenues	0	0		0		0	0	
Net Segmental Revenues	164	145	13.4	170	(3.2)	588	609	(3.4)

Source: Company, Angel Research

Exhibit 9: Segmental Unadj. EBIT split (in ₹ cr)

Particulars (₹ cr)	4QFY15	3QFY15	% chg (qoq)	4QFY14	% chg (yoy)	FY15	FY14	% chg
Cranes	6	9	(28.5)	7	(12.7)	30	25	20.3
EBIT Margin (%)	7.1	9.9		6.6		8.2	6.8	
Material Handling & Const. Equip.	2	-0	nmf	-1	nmf	1	(5)	nmf
EBIT Margin (%)	6.5	(1.2)		(3.9)		1.8	(6.6)	
Agri Equipment	2	1	151.4	1	11.9	3	8	(66.5)
EBIT Margin (%)	3.3	1.5		3.0		1.7	4.5	
Less: Interest	3	4	(12.1)	3	(3.5)	13	10	24.9
Less: Other Unallocable Exp.	3	3	10.2	3	10.3	11	13	(12.5)
Net EBT	3	3	16.0	2	67.1	10	5	87.0

Source: Company, Angel Research

Further, the remaining 2 segments reported yoy EBIT margin expansion. Cranes segment and Agri-Equipments division reported 46bps and 23bps yoy EBIT margin expansion to 7.1% and 3.3%, respectively.

Investment Rationale

Business set to turnaround: Recent industry level developments strengthen our view that Cranes, MH-CE business segments are up for revival. Considering ACE's strong market positioning, wide pan-India dealership network, long-standing relationship with customers who give repeat business, and wide range of product portfolio, we expect segment volumes and blended realization to catch-up from here-on. We expect ACE to post an18.4% top-line CAGR during FY2015-17E to ₹839cr. Demand recovery, coupled with cost cutting initiatives at the floor level, higher localization initiatives, focus on lowering imports, and expected decline in Mild Steel (forms biggest raw material component) prices, strengthen our view that ACE is well positioned to absorb fixed costs and post margin expansion. Accordingly, the EBITDA margin of the company would expand from 3.5% in FY2015 to 8.2% in FY2017E. Since its last round of capex in FY2011-12, with the onset of infra capex down-cycle, poor demand led Cranes, CE and MH division plants to run at sub-50% capacity utilization levels. ACE's Management highlighted that there is no need for the company to pursue any major capex, until their revenues cross ₹1,200cr. In the absence of any major capex, we expect entire benefits of EBITDA margin expansion to trickle down to PAT level (PAT margins to expand from 1.1% in FY2015 to 4.6% in FY2017E). In-line with strong growth in profitability, RoEs would improve from 2.2% in FY2015 to 11.3% in FY2017E.

Risks to Our Estimates

Any delay in recovery in the infra capex cycle from here-on could be a big risk to our estimates.

Loss of market share vs. our assumption of the company holding market share could be a risk to our assumptions.

Any sharp appreciation in the Rupee (INR) could make CE imports lucrative, thereby increasing competition, which again could be a threat to our estimates.

Any increase in raw material prices from here on would be a risk to our margin expansion assumption and our estimates.

Valuation

At the current market price of ₹39/share, ACE is trading at FY2016E and FY2017E P/E multiple of 37.7x and 10.1x, respectively. Historically, since the time of listing (January-2007), ACE's stock has traded at a 1-year forward P/E multiple of 21.4x. The earnings growth of the company has been volatile and the street has always built higher earnings growth expectation from ACE. This has led ACE's stock to trade at higher valuations. Also Cap-Good stocks like ACE tend to trade at higher end of the valuation at the beginning of the capex recovery cycle. We are optimistic that ACE would be able to maintain its numero uno position in the domestic Pick and Carry cranes business. This, when coupled with a wide range of product offerings, wide pan-India distribution network, along with their recent cost cutting initiatives, comforts us. We estimate ACE to report an 18.4% and 138.1% top-line and bottom-line CAGR, respectively, during FY2015-17E. Accordingly, we expect the RoE to improve from 1.3% in FY2014 to 11.3% in FY2017E. At the backdrop of sharp growth in profitability and RoE expansion, we assign 14.0x P/E multiple to our FY2017E EPS estimate of ₹3.9/share to arrive at a price target of ₹54. **Given the 38.4% upside in the stock from the current levels, we recommend a Buy rating on the stock.**

Profit & Loss Statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Net Sales	668	615	598	660	839
% Chg	*(21.9)*	*(7.9)*	*(2.8)*	*10.4*	*27.1*
Total Expenditure	639	591	577	629	770
Cost of Raw Materials Consumed	530	491	476	522	656
Purchase of Stock-in-trade	5	1	4	2	3
Employee benefits Expense	49	46	47	52	58
Other Expenses	56	52	49	53	53
EBITDA	**29**	**24**	**21**	**31**	**69**
% Chg	*(43.9)*	*(16.6)*	*(13.2)*	*47.3*	*122.6*
EBIDTA %	*4.3*	*3.9*	*3.5*	*4.7*	*8.2*
Depreciation	14	15	10	13	15
EBIT	**15**	**9**	**11**	**17**	**54**
% Chg	*(61.9)*	*(42.2)*	*28.2*	*52.9*	*210.1*
Interest and Financial Charges	10	10	13	10	9
Other Income	5	7	11	6	5
PBT	10	5	10	13	50
Tax	4	1	3	3	11
% of PBT	*37.3*	*21.4*	*29.5*	*23.0*	*23.0*
PAT before Exceptional item	6	4	7	10	38
Exceptional item	0	0	0	0	0
PAT	**6**	**4**	**7**	**10**	**38**
% Chg	*(76.6)*	*(37.6)*	*67.8*	*51.9*	*273.2*
PAT %	*1.0*	*0.7*	*1.1*	*1.6*	*4.6*
Basic EPS	0.7	0.4	0.7	1.0	3.9
Diluted EPS	0.7	0.4	0.7	1.0	3.9
% Chg	(76.6)	(37.6)	67.8	51.9	273.2

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Sources of Funds					
Equity Capital	20	20	20	20	20
Reserves Total	284	288	293	301	336
Networth	**303**	**308**	**313**	**321**	**356**
Total Debt	149	141	118	130	129
Other Long-term Liabilities	4	4	5	5	5
Deferred Tax Liability	5	5	9	9	9
Total Liabilities	**461**	**458**	**444**	**464**	**499**
Application of Funds					
Gross Block	297	333	351	371	393
Accumulated Depreciation	46	65	75	88	103
Net Block	**251**	**268**	**276**	**283**	**290**
Capital WIP	10	2	4	0	0
Investments	**16**	**15**	**18**	**7**	**1**
Current Assets					
Inventories	143	161	141	161	200
Sundry Debtors		83	68	81	69
Cash and Bank Balance	17	14	11	13	14
Loans, Advances & Deposits	29	29	21	36	46
Current Liabilities	160	163	184	178	209
Net Current Assets	**112**	**108**	**71**	**101**	**135**
Other Assets	72	65	76	74	74
Total Assets	**461**	**458**	**444**	**464**	**499**

Cash Flow Statement (Standalone)

Y/E March (₹ cr)	FY2013	FY2014	FY2015P	FY2016E	FY2017E
Profit before tax	11	5	10	13	50
Depreciation	14	15	10	13	15
Change in Working Capital	12	7	24	(30)	(34)
Interest & Financial Charges	10	10	13	10	9
Direct taxes paid	(5)	(1)	(3)	(3)	(11)
Cash Flow from Operations	42	37	54	5	28
(Inc)/ Dec in Fixed Assets	(42)	(25)	(19)	(17)	(22)
(Inc)/ Dec in Invest. & Int. rec.	(3)	5	1	14	8
Cash Flow from Investing	(45)	(20)	(18)	(3)	(13)
Issue/ (Buy Back) of Equity	0	0	0	0	0
Inc./ (Dec.) in Loans	11	(7)	(24)	12	(1)
Dividend Paid (Incl. Tax)	(2)	(2)	(2)	(3)	(3)
Interest Expenses	(10)	(10)	(13)	(10)	(9)
Cash Flow from Financing	(2)	(19)	(39)	(0)	(13)
Inc./(Dec.) in Cash	(4)	(2)	(3)	1	1
Opening Cash balances	**21**	**17**	**15**	**11**	**13**
Closing Cash balances	**17**	**15**	**11**	**13**	**14**

Key Ratios (Standalone)

Y/E March	FY2013	FY2014	FY2015P	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	60.0	96.2	57.3	37.7	10.1
P/CEPS	19.3	20.1	23.7	16.3	7.3
Dividend yield (%)	0.6	0.3	0.5	0.7	0.7
EV/Sales	0.8	0.8	0.8	0.8	0.6
EV/EBITDA	17.4	20.7	22.7	16.1	7.3
EV / Total Assets	1.1	1.1	1.1	1.1	1.0
Per Share Data (`)					
EPS (Basic)	0.7	0.4	0.7	1.0	3.9
EPS (fully diluted)	0.7	0.4	0.7	1.0	3.9
Cash EPS	2.0	1.9	1.6	2.4	5.4
DPS	0.2	0.1	0.2	0.3	0.3
Book Value	31	31	32	32	36
Returns (%)					
RoCE (Pre-tax)	4.7	3.4	5.1	5.4	12.6
Angel RoIC (Pre-tax)	4.6	3.5	5.2	5.2	12.1
RoE	2.1	1.3	2.2	3.2	11.3
Turnover ratios (x)					
Asset Turnover (Gross Block) (x)	2.4	1.9	1.7	1.8	2.2
Inventory / Sales (days)	76	90	92	84	79
Receivables (days)	46	45	45	41	33
Payables (days)	50	66	72	67	61
WC days	73	69	65	58	51
Leverage Ratios (x)					
D/E ratio (x)	0.5	0.5	0.4	0.4	0.4
Interest Coverage Ratio (x)	2.0	1.5	1.7	2.3	6.5

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Disclosure of Interest Statement	**Action Construction Equipment**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
		Reduce (-5% to -15%)	*Sell (< -15)*