

Action Construction Equipment

Performance Highlights

Quarterly Data (Standalone)

(₹ cr)	1QFY16	1QFY15	% chg (yoy)	4QFY15	% chg (qoq)
Revenues	134	130	2.7	164	(18.6)
EBITDA	7	6	13.6	7	(8.2)
EBITDA margin (%)	5.1	4.6	48bp	4.5	57bp
Reported PAT	1	1	20.2	2	(43.8)
PAT margin (%)	0.8	0.7	12bp	1.2	(37)bp

Source: Company, Angel Research

Action Construction Equipment (ACE) reported mixed set of 1QFY2016 numbers, with revenues slightly lower than expected; and PAT ahead of our estimates, led by better-than-expected EBITDA margin. Reported revenues were up 2.7% yoy, and down 18.6% sequentially to ₹134cr. Despite revenue disappointment, ACE impressed us by reporting good set of EBITDA and PAT margins. EBITDA margin expanded from 4.6% in 1QFY2015 to 5.1% in 1QFY2016. PAT margin improved by 12bp yoy to 0.8% for the quarter. This is despite 25.8% yoy decline in other income and increase in effective tax rate to 42.5% (vs 40.8% in 1QFY2015).

Key Positives: Strong yoy growth seen across Material Handling & Construction Equip (MH-CE) and Agri segments; Margin expansion ahead of our estimate.

Key Negatives: Unfavorable terms for minority shareholders in the ongoing amalgamation with the promoter backed entity; miss on Cranes segment sales.

Valuation:

At current market price of ₹52/share, ACE is trading at FY2016E and FY2017E P/E multiple of 50.0x and 13.4x, respectively. Despite expected improvement in business fundamentals, due to concerns over potential unfavorable terms of the proposed amalgamation with the promoter entity, **we are downgrading our rating on the stock to NEUTRAL.**

Key Financials (Standalone)

Y/E March (₹ cr)	FY2014	FY2015	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	52.4	272.0
EBITDA (%)	3.9	3.5	4.7	8.2
EPS (₹)	0.4	0.7	1.0	3.9
P/E (x)	127.9	76.2	50.0	13.4
P/BV (x)	1.7	1.6	1.6	1.4
RoE (%)	1.3	2.2	3.2	11.3
RoCE (%)	3.4	5.1	5.4	12.6
EV/Sales (x)	1.0	1.0	0.9	0.7
EV/EBITDA (x)	26.0	28.8	20.2	9.2

Source: Company, Angel Research; Note: CMP as of August 7, 2015

NEUTRAL

CMP	₹52
Target Price	-

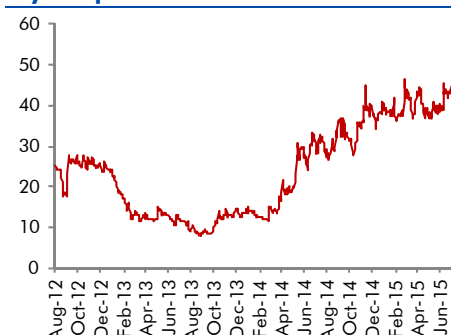
Investment Period	-
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Stock Info	
Sector	Capital Goods
Market Cap (₹ cr)	512
Net debt (₹ cr)	106
Beta	1.4
52 Week High / Low	56/26
Avg. Daily Volume	119,634
Face Value (₹)	2
BSE Sensex	28,236
Nifty	8,565
Reuters Code	ACEL.BO
Bloomberg Code	ACCE@IN

Shareholding Pattern (%)	
Promoters	68.3
MF / Banks / Indian Fls	1.5
FII / NRIs / OCBs	0.5
Indian Public / Others	29.8

Abs. (%)	3m	1yr	3yr
Sensex	4.2	11.5	60.4
ACE	38.9	89.9	106.2

3 year price chart



Source: Company, Angel Research

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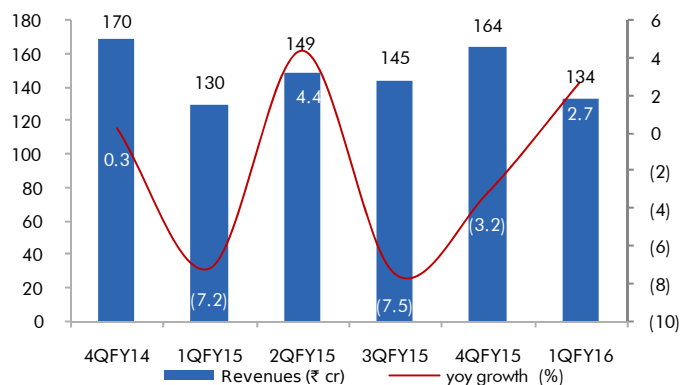
Exhibit 1: Quarterly Performance

Particulars (₹ cr)	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)
Net Sales	134	164	(18.6)	130	2.7
Operating Income	4	3	18.7	2	138.0
Total Expenditure	131	160	(18.3)	126	4.0
Raw Material Expenses	107	136	(21.7)	105	1.2
Employee benefits Expense	12	12	(1.8)	11	10.8
Other Expenses	12	12	4.6	10	26.7
EBITDA	7	7	(8.2)	6	13.6
EBITDA %	5.1	4.5		4.6	
Depreciation	3	2	10.3	3	2.1
EBIT	4	5	(17.0)	3	22.2
Interest and Financial Charges	3	3	(0.3)	3	3.1
Other Income	1	1	(37.2)	1	(25.8)
PBT before Exceptional Items	2	3	(41.4)	2	23.7
Exceptional Items	0	0		0	
PBT after Exceptional Items	2	3	(41.4)	2	23.7
Tax	1	1	(37.9)	1	28.9
% of PBT	42.5	40.1		40.8	
PAT	1	2	(43.8)	1	20.2
PAT %	0.8	1.2		0.7	
Dil. EPS (after extra-ord. Items)	0.11	0.20	(43.8)	0.09	22.6

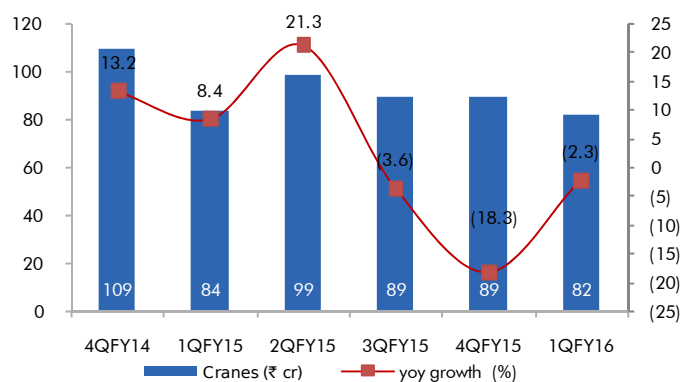
Source: Company, Angel Research;

Revenues grow 2.7% yoy

ACE reported slightly lower-than-expected revenues in 1QFY2016, owing to lower-than-expected revenue growth from the Cranes business. Reported revenues were up 2.7% yoy, and down 18.6% sequentially to ₹134cr.

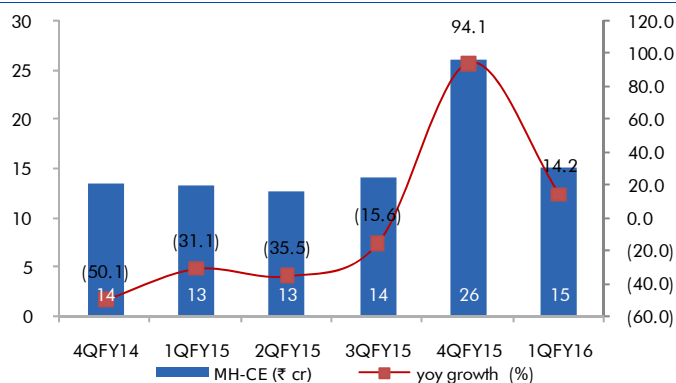
Exhibit 2: Revenue & yoy growth


Source: Company, Angel Research

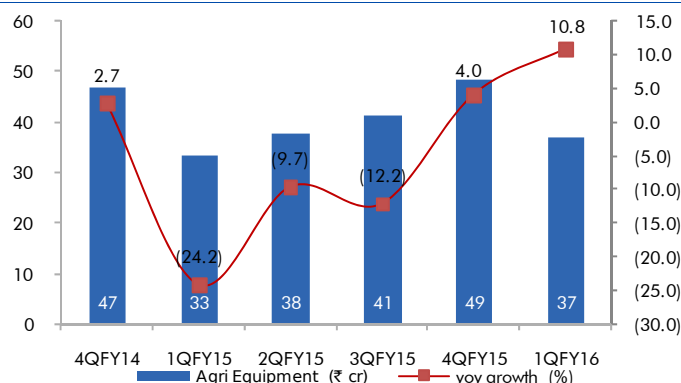
Exhibit 3: Crane Segment sales


Source: Company, Angel Research

Revenue decline on yoy basis is mainly on account of 2.3% yoy decline in Crane segment revenues (61.1% of 1QFY2016 sales) to ₹82cr, reflecting muted demand scenario. Revenue numbers for the quarter benefitted from a sharp 14.2% yoy increase in MH-CE segment sales to ₹15cr. Agri Equipment division (27.5% of 1QFY2016 sales) reported 10.8% yoy revenue growth (better than the industry), reflecting higher harvester sale volumes.

Exhibit 4: MH-CE Segment sales


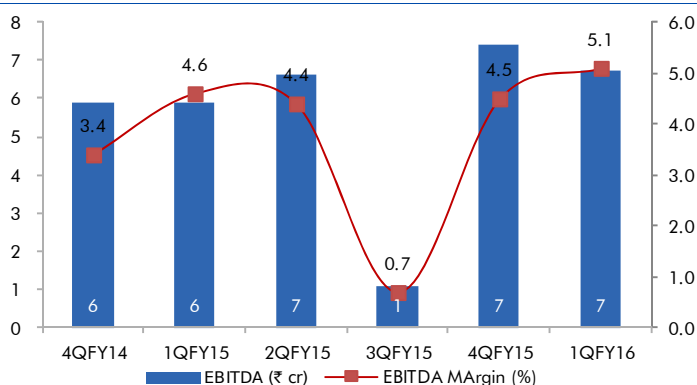
Source: Company, Angel Research

Exhibit 5: Agri-Equipment Segment sales


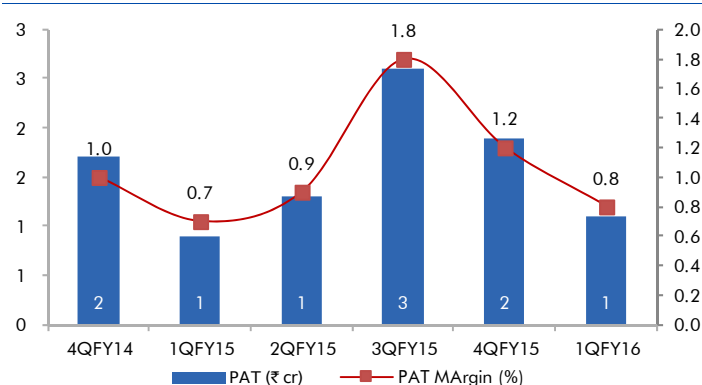
Source: Company, Angel Research

EBITDA & PAT Margins continue to expand

Despite revenue disappointment, ACE impressed us by reporting good set of EBITDA and PAT margins. ACE reported a 13.6% yoy increase in its EBITDA to ₹7cr. On the same lines, EBITDA margins expanded from 4.6% in 1QFY2015 to 5.1% in 1QFY2016. Improvement in yoy EBITDA margins is mainly on account of just an 1.2% increase in raw material expenses (to ₹107cr; 79.8% of 1QFY2016 sales).

Exhibit 6: EBITDA Margin continues to improve


Source: Company, Angel Research

Exhibit 7: PAT Margins see marginal improvement


Source: Company, Angel Research

Correction in Mild Steel prices helped the company report yoy decline in raw material expenses, despite yoy increase in purchase of stock-in-trade to ₹0.6cr (incurred towards trading of Agri-equipment items). EBITDA margin expansion on a yoy basis was restricted on account of 26.7% yoy increase in other expenses.

In line with yoy EBITDA growth, ACE reported a strong PAT growth. The company reported a PAT of ₹1.1cr in 1QFY2016, up 20.2% on a yoy basis. PAT margins of

the company improved 12bp yoy to 0.8% in 1QFY2016. Quarter's PAT numbers on a yoy basis were impacted on account of (1) 25.8% decline in other income (to ₹0.9cr), and (2) increase in effective tax rate to 42.5% (vs 40.8% in 1QFY2015).

If we look at segment-wise EBIT details, then the MH-CE segment continued with its previous quarter's turnaround trend. Higher indigenization of Forklifts (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 maintain the EBIT level turnaround. The MH-CE segment reported an EBIT margin of 0.4% for 1QFY2016 vs negative margin in 1QFY2015.

Exhibit 8: Segmental Revenue split (in ₹ cr)

Particulars (₹ cr)	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)
Cranes	82	89	(8.6)	84	(2.3)
Material Handling & Const. Equip.	15	26	(42.4)	13	14.2
Agri Equipment	37	49	(24.3)	33	10.8
Less: Inter-segment Revenues	0	0		0	
Net Segmental Revenues	134	164	(18.6)	130	2.7

Source: Company, Angel Research

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

Particulars (₹ cr)	1QFY16	4QFY15	% chg (qoq)	1QFY15	% chg (yoy)
Cranes	7	6	15.7	6	14.1
EBIT Margin (%)	9.0	7.1		7.7	
Material Handling & Const. Equip.	0	2	nmf	(0)	nmf
EBIT Margin (%)	0.4	6.5		(0.0)	
Agri Equipment	1	2	(63.8)	0	159.1
EBIT Margin (%)	1.6	3.3		0.7	
Less: Interest	3	3	(0.3)	3	3.1
Less: Other Unallocable Exp.	3	3	(10.1)	2	41.3
Net EBT	2	3	(40.9)	2	23.7

Source: Company, Angel Research

Further remaining 2 segments too, reported yoy EBIT margin expansion. Cranes segment and Agri-Equipments division reported 129bp and 89bp yoy EBIT margin expansion to 9.0% and 1.6%, respectively.

Update on the Amalgamation

Currently, ACE (the listed entity) is pursuing amalgamation with promoter backed entity, ACE TC Rentals Pvt. Ltd (ATRPL). ATRPL is in the business of renting and leasing all types of Construction and Material Handling Equipments. Following tables below highlight ATRPL's financials:

Exhibit 10: ATRPL Income Statement

(₹ in cr)	FY2014
Revenues	16.3
EBITDA	10.8
EBITDA Margins (%)	66.4%
PAT	2.3
PAT Margins (%)	14.2%

Source: Company, Angel Research

Exhibit 11: ATRPL Balance Sheet

(₹ in cr)	FY2014
Shareholders' Equity	11.6
Borrowings	4.8
Total Liabilities	16.4
Net Fixed Assets	15.5
NWC	0.9
Total Assets	16.4

Source: Company, Angel Research

The ongoing amalgamation process is in its concluding stages, with court approval pending.

On successful completion of this transaction, ACE's promoters' stake would increase in the listed entity from 68.25% to 73.2%. Also promoter group of ATRPL would be entitled to yearly preference shares dividend of ₹2.4cr (8% 3,02,19,380 Cumulative Non-participating Redeemable Preference shares are proposed to be issued).

A quick view on the ongoing transaction indicates that PAT contribution from ATRPL (on FY2014 numbers) would entirely be used to service dividend for the promoter backed entity's shareholders. In addition, the promoter, at the cost of minority shareholder's, is increasing his stake in the company to 73.2% levels.

On a whole, we are concerned over the unfavorable terms that the minority shareholders would be subjected to on conclusion of the proposed amalgamation with the promoter entity.

Currently, we are not modeling any change in our estimates resulting from the transaction.

Investment Rationale

Business set to turnaround: Recent industry level developments strengthen our view that the Cranes and 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 an 18.4% 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 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

We initiated coverage on ACE in March 2015 at the then market price of ₹42, with price target of ₹54. Our price target was attained on August 5, 2015, when the stock touched new highs of ₹55.5, thereby generating 32% absolute returns.

At the current market price of ₹52/share, ACE is trading at FY2016E and FY2017E P/E multiple of 50.0x and 13.4x, 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. This is mainly owing to volatility in the earnings growth of the company.

We remain 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.

Despite expected improvement in the business fundamentals, due to concerns over the potential unfavorable terms of the proposed amalgamation with promoter entity, **we are downgrading our rating on the stock to NEUTRAL.**

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)	47.5	122.3
EBITDA %	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	53.3	209.3
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	52.4	272.0
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	52.4	272.0

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	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	79.8	127.9	76.2	50.0	13.4
P/CEPS	25.6	26.7	31.5	21.7	9.7
Dividend yield (%)	0.4	0.2	0.4	0.5	0.5
EV/Sales	0.9	1.0	1.0	0.9	0.7
EV/EBITDA	21.8	26.0	28.8	20.2	9.2
EV / Total Assets	1.4	1.4	1.4	1.3	1.3
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	5.3	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%) Reduce (-5% to -15%)	Neutral (-5 to 5%) Sell (< -15)
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