

RATING MIX

Rating	: BUY @ INR42
Target	: INR 65
Target Period	: 15-18 Months
Potential Upside	: 54.6 percent

KEY DATA

Bloomberg Code	: ACCE.IN
Reuters Code	: ACEL.NS
Avg Volume (3M)	: 1,354,331
52 Week High/Low	: 51/31
Mkt Cap (Full/Free Float in INR Million)	: 4,140/1320

Shareholding	Jun - 16	Mar - 16	Dec - 15
Promoters	68.10	68.09	68.09
Public	31.90	31.91	31.91
Others	--	--	--
TOTAL	100.00	100.00	100.00

Right Horizons Score Matrix®

Quantitative Score	1.36	BELOW PAR
Qualitative Score	1.37	EXCELLENT
Overall Score	2.73	SATISFACTORY

For detailed ScoreMatrix report, write to us at Right Horizons

FINANCIALS	FY16	FY17(E)	FY18(E)
Revenue	6,373	7,329	8,795
Growth (YoY)		15.0%	20.0%
EBIT	196	385	510
EBIT Margin	3.1%	5.2%	5.8%
Net Profit	88	211	305
Net Margin	1.4%	2.9%	3.5%
Basic EPS	0.8	1.8	2.6
P/E Ratio	55.94	23.30	16.17

All the figures are in INR Million and Price multiples are based on TTM calculations

RESEARCH ANALYST

Tushar Pendharkar
Equity Strategist
tushar.p@righthorizons.com
+91-022-41002018

ACTION CONSTRUCTION EQUIPMENT LTD

Bottomed Up! A strong turnaround is expected...

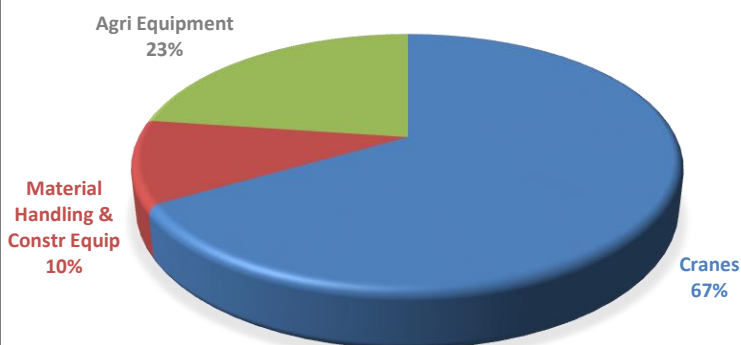
Action Construction Equipment Ltd (ACE) reported YoY revenue growth of 11.9% to INR1.54 billion during Q1-FY17 over corresponding period previous year; while EBITDA grew at a YoY rate of 36.2% during the similar period. The revenue was mainly driven by 'Crane' and 'Material Handling & Construction Equipment' (MH&CE) segments, which reported YoY revenue growth of 25.6% and 26.5% respectively during the quarter. However, 'Agri Equipment' segment declined YoY by 26.0% due to impact over sales volume in key markets (UP & Haryana) of ACE. Stellar performance in Cranes business improved its revenue contribution from 61.1% in Q1FY16 to 68.8% in Q1FY17, while MH&CE business improved contribution from 11.3% to 12.9% during the similar period.

At standalone level, Operating Profit (EBIT) of the company reported strong YoY growth of 49.7% to INR62 million during Q1-FY17 over Q1-FY16 and significantly outpaced the revenue performance. Profitability improved due to slower growth reported by 'Material Cost', which accounted 76.3% of revenue in Q1FY17, against 77.5% reported during Q1FY16. As a result, both EBITDA and EBIT margins reported improvement of 109bps and 102bps respectively during the quarter. In addition, decline of 1.2% YoY in 'Finance Cost' and significant YoY decline in tax rate from 42.5% in Q1FY16 to 25.1% in Q1FY17 aided bottom-line. Resultantly, net profit reported YoY growth of 175.2% to INR30 million, while net margin improved by 116bps during the quarter.

- ACE is India's leading material handling & construction equipment manufacturing company with over 50% market share in mobile & tower crane segment. Company has also entered in agri, defence and road construction equipment manufacturing. Though the contribution in total revenue from these new segments is very minimal; however, with above normal monsoon and thrust of current government over infra could provide strong growth opportunity in long run.
- ACE caters to a large clientele base which includes major Indian as well as International players such as Reliance, L&T, BHEL, Coal India, Indian Railways, KEC International, Airport Authority of India, Ministry of Defence, NTPC, ABB, etc. In addition, company has export network in over 25 countries.
- ACE has been reporting double digit revenue growth with strong margin improvement since past couple of quarter. Earlier the growth was subdued due to sluggish Engineering & Construction (E&C) segment in India. Management has given guidance of 15-20% overall revenue upside in FY17 and Crane segment would be the driver with growth potential of 25-30%.
- ACE reported TTM EBITDA and net margin of 5.1% and 1.6% respectively. Profit margins expanded during past couple of quarters with improving capacity utilization. ACE management has also given guidance of 7.5-8.0% EBITDA margin and around 4.0% of PBT margin in FY17. Better profitability improved TTM Interest Coverage ratio from 0.9x to 1.5x during past 12 months. Company reported Total Debt to Equity of 0.32 and Total Asset Turnover of 1.00x (as reported at the end of March 31st 2016)

KEY METRICS & OPERATING PERFORMANCE

TTM REVENUE CONTRIBUTION

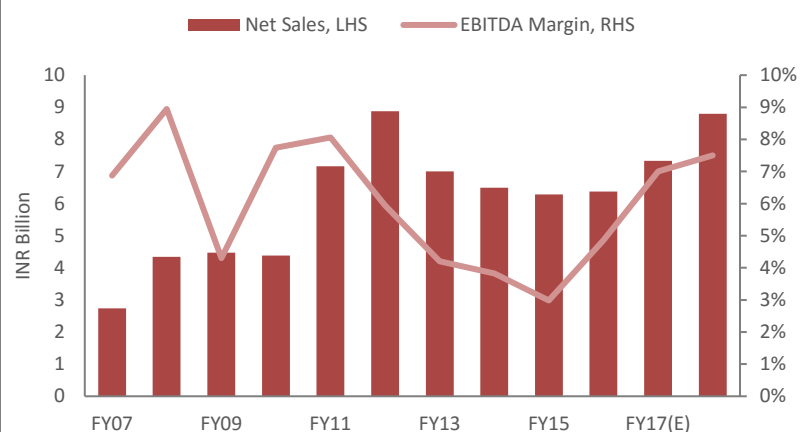


ACE is the largest players in domestic mobile crane manufacturing segment with over 50% market share

Company is planning to capitalize the upcoming growth opportunity in various sub sectors under E&C; thus diversifying its product mix in Agri, Defence and highway road segments, which could be margin accretive in long run

Better monsoon could trigger Agri segment revenue in coming quarters, while demand from road sector to expand Material Handling revenue base. 'Make in India' in defence could create chance for ACE long run

Margins to improve with better utilization

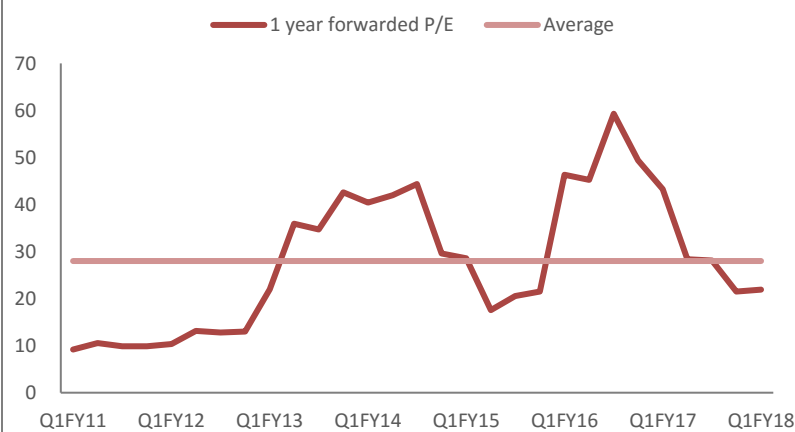


Moderate debt and improving 'Interest Coverage' could provide strong financial flexibility in future. Management is expecting significant margin expansion on higher capacity utilization

NHAI is expected to sustain good run in FY17 and could award 6500-7000 kms of roads vs 4400 kms awarded in FY16. In addition, Smart City projects to provide significant opportunity for market leaders like ACE.

We are expecting near to 8.0% EBITDA margins in FY18 and mid to high teen revenue growth on better product mix and higher orders

Business uptick to trigger fundamentals



ACE is trading at P/BV of 1.46x at BV of FY16, which we believe is not expensive. Though TTM P/E looks expensive due to significant fall in margins during past several years.

Expected revenue and operating performance in coming years to normalize price multiples, especially P/E in long run, according to us

Healthy balance sheet, better growth prospects, chances of higher margins and leading position in segment could assure healthy upside for the stock in next couple of years.

VALUATION: Budgetary allocation towards E&C to trigger business performance

ACE is currently trading at TTM P/E of 46x and FY18 forwarded P/E of 16.2x (FY18 expected Basic EPS of INR2.6). During past few years, ACE reported sluggish revenue on the back of subdued infrastructure activities and slower growth in core sectors of economy; however, we believe that the company has successfully managed to sustain in a weak macroeconomic conditions and the worst things have already been bottomed up. We have modeled 15% (as per the management guidance of 15-20%) and 20% revenue growth for FY17 and FY18 respectively in the expectation that the current government will 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 ACE at FY18 P/E of 25x at INR65 and recommend BUY at current market price.

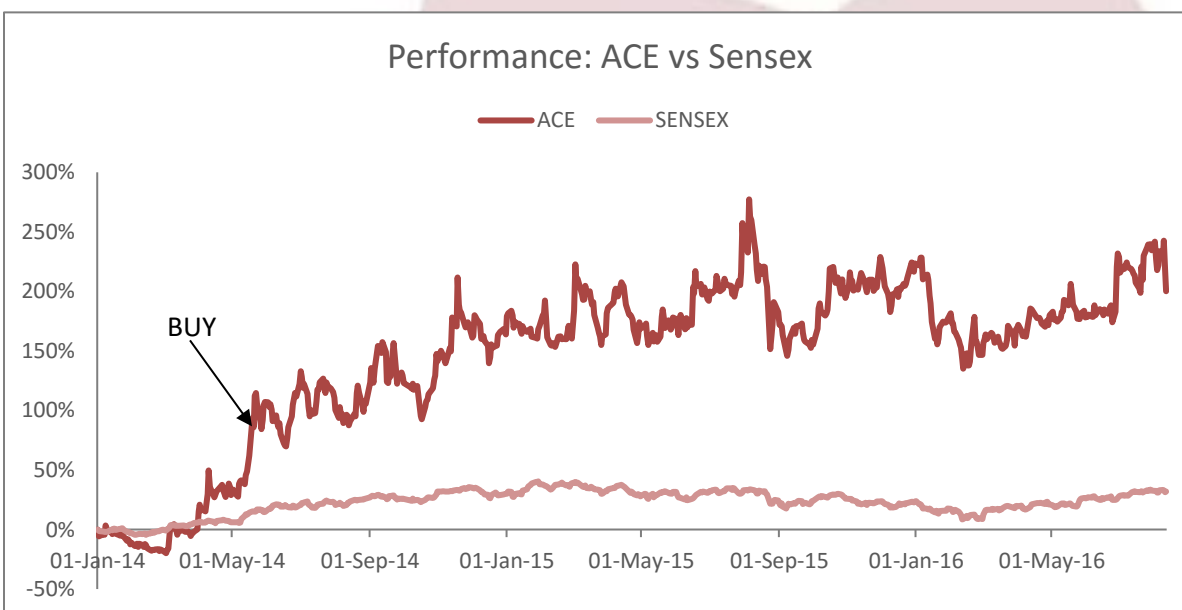
FINANCIAL STATEMENTS, Standalone, figures are in INR Million

INCOME STATEMENT	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
Net Sales & Other Operating Income	1,716	1,318	1,513	1,471	1,675	1,376	1,534	1,570	1,893	1,539
Growth (QoQ)		-23.2%	14.8%	-2.8%	13.9%	-17.8%	11.5%	2.3%	20.5%	-18.7%
Growth (YoY)					-2.4%	4.4%	1.4%	6.7%	13.0%	11.9%
Total Expenditure	1,658	1,258	1,447	1,460	1,602	1,309	1,476	1,516	1,762	1,447
Expenditure to Sales	96.6%	95.5%	95.6%	99.3%	95.6%	95.1%	96.2%	96.6%	93.1%	94.0%
TTM Expenditure to Sales				96.8%	96.5%	96.4%	96.5%	95.9%	95.1%	94.9%
Growth (YoY)					-3.4%	4.0%	2.0%	3.9%	10.0%	10.6%
PBIDT (Excl OI)	59	59	66	11	73	68	58	54	131	92
Margin	3.4%	4.5%	4.4%	0.7%	4.4%	4.9%	3.8%	3.4%	6.9%	6.0%
TTM Margin				3.2%	3.5%	3.6%	3.5%	4.1%	4.9%	5.1%
Margin Performance (YoY)					96 bps	39 bps	-60 bps	269 bps	253 bps	109 bps
Depreciation	39	26	23	23	24	26	26	27	34	30
Depreciation to Sales	2.30%	1.94%	1.53%	1.59%	1.41%	1.90%	1.69%	1.72%	1.82%	1.97%
TTM Depreciation to Sales				1.85%	1.60%	1.59%	1.64%	1.67%	1.78%	1.80%
PBIT	19	34	43	(13)	50	41	32	27	96	62
Margin	1.1%	2.6%	2.8%	-0.9%	3.0%	3.0%	2.1%	1.7%	5.1%	4.0%
TTM Margin				1.4%	1.9%	2.0%	1.8%	2.4%	3.1%	3.3%
Margin Performance (YoY)					184 bps	44 bps	-76 bps	255 bps	212 bps	102 bps
Other Income	32	11	11	76	14	9	26	36	24	9
Interest	32	30	34	35	31	31	35	38	36	31
TTM Interest Coverage Ratio				0.6	0.9	0.9	0.8	1.1	1.4	1.5
PBT	19	15	20	28	32	19	22	25	84	40
Margin	1.1%	1.2%	1.4%	1.9%	1.9%	1.4%	1.5%	1.6%	4.5%	2.6%
TTM Margin				1.4%	1.6%	1.6%	1.7%	1.6%	2.4%	2.6%
Margin Performance (YoY)					80 bps	22 bps	11 bps	-29 bps	253 bps	123 bps
Tax	3	6	7	2	13	8	6	8	41	10
Tax Rate	14.0%	40.8%	35.2%	6.2%	40.4%	42.5%	24.7%	32.6%	48.4%	25.1%
TTM Tax Rate				21.6%	29.5%	30.2%	28.0%	35.3%	41.5%	37.6%
Profit After Tax	17	9	13	26	19	11	17	17	43	30
Margin	1.0%	0.7%	0.9%	1.8%	1.1%	0.8%	1.1%	1.1%	2.3%	2.0%
TTM Margin				1.1%	1.1%	1.1%	1.2%	1.0%	1.4%	1.6%
Margin Performance (YoY)					18 bps	10 bps	22 bps	-69 bps	115 bps	116 bps

BALANCE SHEET	Mar-14	Sep-14	Mar-15	Sep-15	Mar-16
Shareholder's Funds	3080	3102	3129	3157	3364
Long Term Borrowings	395	374	317	314	240
Deferred Tax Liability	45	51	86	103	119
Other Long Term Liabilities	32	35	40	46	44
Long Term Provisions	12	11	13	11	15
Short Term Borrowings	1020	1136	858	1236	824
Trade Payables	1141	1057	1147	1050	1109
Other Current Liabilities	472	593	617	673	610
Provisions	22	7	73	50	86
TOTAL LIABILITIES	6219	6367	6281	6641	6411
Total Net block	2703	2762	2797	2862	3069
Non-Current Investments	58	41	40	201	176
Long Term Loans & Advances	644	672	735	708	744
Other Non-Current Assets	11	4	25	27	30
Current Investments	88	134	140	0	32
Inventories	1605	1533	1412	1592	1233
Sundry Debtors	683	683	806	885	813
Cash and Bank	137	182	113	117	105
Loans and Advances	290	356	213	249	209
TOTAL ASSETS	6219	6367	6281	6641	6411

STOCK PERFORMANCE & OUR RECOMMENDATION

PUBLISHED ON	NATURE OF REPORT	PUBLICATION DATE PRICE	RECOMMENDATION	TARGETED PRICE
21 – May – 14	Earnings Report	31	BUY	50
12 – May – 16	Earnings Report	42	BUY	65



Rating Rationales

Right Horizons Investment Advisory Services Pvt Ltd (RHIASPL) assigns ratings to its stocks according to their notional target price compared to their current market price and then categories them as Strong Buy, Buy, Accumulate, Hold and Sell. The performance horizon could be different, which we mention separately and notional target price is defined as the analysts' valuation for stocks.

RECOMMENDATION	POTENTIAL UPSIDE
Strong Buy	>30% upside with very high conviction
Buy	>20-30% upside
Accumulate	>10-20% upside
Hold	>5-10% upside
Sell	<0%; Downside risk

Right Horizons ScoreMatrix®

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 2/3rd 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 RHIASPL to the respective analyst.

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

Analyst Certification

Name : Tushar Pendharkar
Qualification : PGDBM (Finance) & NCFM/NISM Research Analyst certification
Designation : Equity Strategist

Disclaimer

I hereby certify that all of the views expressed in this document accurately reflect my personal views about the subject company/companies and its or their securities. I further certify that no part of my compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

This document has been prepared by RHIASPL (Right Horizons Investment Advisory Services). This document is meant for the use of the intended recipient only. Though dissemination to all intended recipients is simultaneous, not all intended recipients may receive this document at the same time. This document is neither an offer nor solicitation for an offer to buy and/or sell any securities mentioned herein and/or official confirmation of any transaction. This document is provided for assistance only and is not intended to be, and must not be taken as, the sole basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as he deems necessary to arrive at an independent evaluation, including the merits and risks involved, for investment in the securities referred to in this document and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. This document has been prepared on the basis of information obtained from publicly available, accessible resources. RHIASPL has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to accuracy, completeness or fairness of the information and opinion contained in this document. The information given in this document is as of the date of this document and there can be no assurance that future results or events will be consistent with this information. Though RHIASPL endeavors to update the information contained herein on reasonable basis, RHIASPL, its associate companies, their directors, employees, agents or representatives ("RHIASPL and its affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent us from doing so. RHIASPL and its affiliates expressly disclaim any and all liabilities that may arise from information, error or omission in this connection. RHIASPL and its affiliates shall not be liable for any damages whether direct, indirect, special or consequential, including lost revenue or lost profits, which may arise from or in connection with the use of this document. This document is strictly confidential and is being furnished to you solely for your information. This document and/or any portion thereof may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of RHIASPL. This document is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of the United States or Canada or is located in any other locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law or regulation or which would subject RHIASPL and its affiliates to any registration or licensing requirements within such jurisdiction. Persons in whose possession this document comes should inform themselves about and observe any such restrictions. RHIASPL and its associate companies may be performing or seeking to perform investment banking and other services for any company referred to in this document. Affiliates of RHIASPL may have issued other reports that are inconsistent with and reach a different conclusion from the information presented in this document. RHIASPL generally prohibits its analysts and persons reporting to analysts from maintaining a financial interest in the securities or derivatives of any company that the analysts cover. RHIASPL and its affiliates may have interest/positions, financial or otherwise, in the companies mentioned in this document. In order to provide complete transparency to our clients, we have incorporated a 'Disclosure of Interest Statement' in this document. This should, however, not be treated as an endorsement of the view expressed in the document. RHIASPL is committed to providing high-quality, objective and unbiased research to our investors. To this end, we have policies in place to identify, consider and manage potential conflicts of interest and protect the integrity of our relationships with investing and corporate clients. Employee compliance with these policies is mandatory. Any comment or statement made herein are solely those of the analyst and do not necessarily reflect those of RHIASPL.

Action Construction Equipment Ltd.	Analyst ownership of the stock	RHIASPL ownership of the stock	Covered person ownership of the stock
	NO	NO	NO

GROUP NETWORK - Head Office & Branches

Head Office

Right Horizons Financial Services Pvt. Ltd

#6, Arekere, Opp. British Biologicals Bannerghatta Road, Bangalore-560069

Contact No : 080-32718679/ 41209582

Branch Network

1. Bangalore

No. 79, M.M Road, Frazer Town, Bangalore - 560005

Contact No.: 080 - 41252179

2. Chennai

Old No 166, New No 14, First Floor, Eldams Road, Teynampet, Chennai - 600 018.

Contact No : +91 044 - 42112717/ 18/ 19

3. Hyderabad

201, 2nd Floor, Sufi Chambers, Road #1, Banjara Hills, Hyderabad.

Contact No : +91 040- 66415455/57/56

4. Mumbai

4B 21, Highland Corporate Center, Next to Lake City Mall, Kapurbavdi Junction, Majhiwade, Thane (W) -

400607

Contact No : +91 41002018