

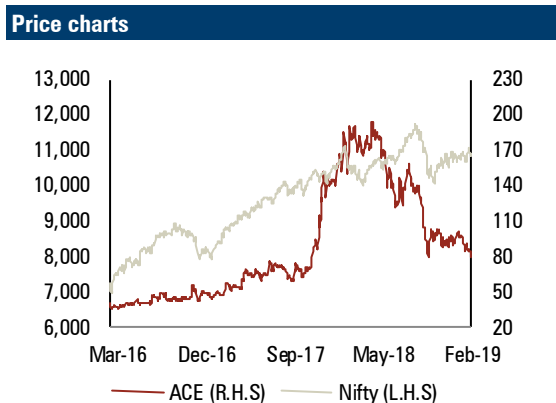
Rating matrix	
Rating	: Buy
Target	: ₹ 105
Target Period	: 12-15 months
Potential Upside	: 36%

What's changed?	
Target	Changed from ₹ 135 to ₹ 105
EPS FY19E	Changed from ₹ 5.6 to ₹ 5.4
EPS FY20E	Changed from ₹ 7.5 to ₹ 7.2
Rating	Unchanged

Key financials				
₹ crore	FY17	FY18	FY19E	FY20E
Net Sales	751.0	1,086.5	1,411.9	1,609.0
EBITDA	39.4	91.5	105.9	136.8
Net Profit	15.3	53.4	63.3	85.0
EPS (₹/share)	1.3	4.6	5.4	7.2

Stock data	
Particular	Amount
Market Capitalisation	₹ 903 crore
Debt (FY18)	₹ 64 crore
Cash & equivalents (FY18)	₹ 42 crore
EV	₹ 926 crore
52 week H/L	204 / 74
Equity capital	₹ 23.5 crore
Face value	₹ 2

Shareholding Pattern	
Particular	December 2018 (%)
Promoter Holding	69.0
DII	0.5
FII	3.5
Public	27.0



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## Action Construction (ACTCON)

₹ 77

### Cost pressures impact performance...

- Action Construction Equipment (ACE) reported a weak Q3FY19 performance wherein revenues grew ~30% YoY to ₹ 362.6 crore mainly driven by robust growth in cranes & tractors i.e. agri-equipment segment
- EBITDA margin fell ~250 bps YoY to 7.2% largely due to impact of higher steel prices (COGS, up ~460 bps YoY), offset by operational efficiencies due to incremental demand growth. EBITDA was at ₹ 26 crore, down 4.1% YoY. PAT de-grew 9.4% YoY to ₹ 14.9 crore
- Cranes segment recorded revenue of ₹ 249.2 crore growing 34.6% YoY driven by 36% increase in volume sold to 1,745 units. EBIT margins declined 395 bps YoY to 7.8% for the cranes segment. Demand remained strong for forklifts (302 units) while sales of backhoe loaders were sluggish (70 units) in Q3FY19

#### Elevated steel prices continue to play spoilsport, profitability hit!

Over 9MFY19, revenues grew at a robust pace of 45% YoY. However, raw material costs increased ~250 bps YoY. Sustained increase in steel prices through the past year has adversely impacted ACE's operational performance. As per management, steel prices have softened over past two months. It has also taken 3-4% additional price hikes in product prices during January 2019, in addition to ~5% price hike carried out over 9MFY19. These measures are expected to ease cost pressures and help margins expand, going ahead. We think, further volatility in steel prices could put pressure on margins as the company would find it difficult to unilaterally increase prices further and risk losing its market share.

#### Robust sales of 'pick and carry' cranes & newer products to drive ACE

In 9MFY19, cranes formed ~71% of ACE's topline and 76% of overall EBIT indicating its dominant contribution & profitability. Volume growth remained robust with ~48% YoY increase in number of cranes sold to 5,073 units. For future growth, the company has launched value-added multi-activity cranes (NX360, NXT & NXP). It also has plans to enter the 'high tonnage truck cranes' (> 50 tonne category, average realisation ₹ 1.2 crore/unit). Both these initiatives will help cater to future growth supporting higher blended realisation profile. Overall, we estimate volume growth for cranes at 20% CAGR in FY18-20E to 7,540 units while revenue increase at 22% CAGR to ₹ 1,113 crore during the same period.

#### Robust tractor sales, improved margins, positive signs for agri-equipment

On domestic front, North and East India are predominantly strong markets for ACE's tractors. The company also has a steady rate of exports. In 9MFY19, agri-equipment grew 34.9% YoY to ₹ 172.1 crore, selling ~3,270 tractor units; profitability (EBIT) rose 9x to ₹ 10.4 crore. We estimate volume growth of 25% YoY in FY19E & 15% YoY in FY20E.

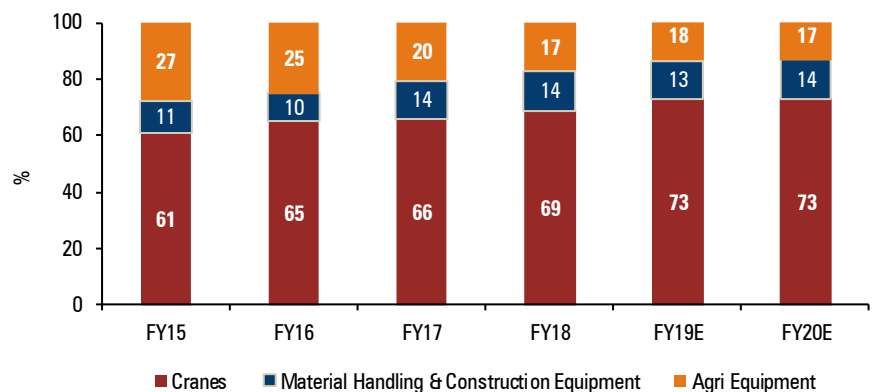
#### Maintain BUY amid cost pressure, near-medium term demand robust

ACE, market leader in the 'pick & carry' cranes segment (>60% market share) currently enjoys a demand tailwind. Introduction of newer value-added products is expected to boost topline while increasing utilisation levels will provide operating leverage benefits to aid ACE's bottomline. However, **volatile steel prices continue to remain a key threat for profitability, going forward.** Accounting for the same, we estimate 21.7% growth in topline, with 22.2% growth in EBITDA and 26.1% growth in PAT in FY18-20E. At an estimated EBITDA of ₹ 11.7/share in FY20E, we value ACE at 9x EV/EBITDA. Hence, we arrive at a revised target price of ₹ 105. We maintain **BUY** recommendation on the stock.

## Company Analysis

Action Construction Equipment (ACE) is an equipment manufacturer that caters to construction, infrastructure and agri sector by providing equipment under brand name, 'ACE'. The company manufactures a wide range of product profile such as cranes, back hoe loaders, forklift, tractors and other construction equipment. Primarily, the company operates under three main segments – cranes, material handling & construction equipment and agriculture equipment. ACE derived ~69% of its revenues from the cranes segment in FY18. It enjoys market leadership with ~60% share in mobile cranes and tower cranes in India. Further, the company is a leader providing crawler cranes in the <75 tonnes category.

**Exhibit 1: Revenue breakdown by segment**



Source: Company, ICICI Direct Research

ACE primarily sells 'pick and carry' cranes & tower cranes. Over 9MFY19, aggregated mobile & tower cranes sold were 187 units while 21 units of crawler cranes were sold. On the other hand, ~4865 of pick and carry cranes were sold.

**Exhibit 2: Dominant cranes segment leads profitability**

Key segment performance	FY15	FY16	FY17	FY18	Q1FY19	Q2FY19	Q3FY19
Cranes (₹ crore)	360.7	398.2	496.2	749.0	245.7	246.4	249.2
Revenue contribution (%)	61.2	64.9	66.1	68.9	73.1	71.6	68.7
EBIT margins (%)	8.2	9.9	8.0	11.0	9.7	8.1	7.8
EBIT contribution (%)	92.5	100.2	82.8	82.2	81.5	78.8	67.1

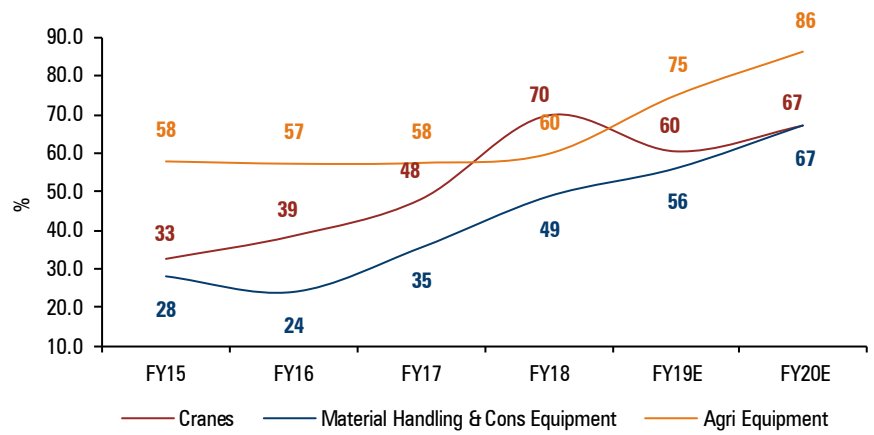
Source: Company, ICICI Direct Research

We believe the traction in the cranes segment will continue and result in volume growth of 20% CAGR in FY18-20E while overall revenue from the cranes segment is expected to grow at 22% CAGR i.e. from ₹ 749 crore to ₹ 1,113 crore during the same period.

### Incremental capacity utilisation, operating leverage benefits offset by rising raw material prices

A demand uptick across the infrastructure and construction value chain directly percolates into increased demand for ACE's products. According to the company's estimates, the Indian construction equipment industry is estimated to grow to \$5 billion by FY20E. We anticipate blended volume growth of 17% CAGR in the material handling and construction equipment segment over FY18-20E to translate into revenue growth of 20% CAGR i.e. from ₹ 153 crore to ₹ 219 crore during the same period. Utilisation levels for these segments are expected to reach 67% by FY20E aiding profitability.

**Exhibit 3: Capacity utilisation by segment**

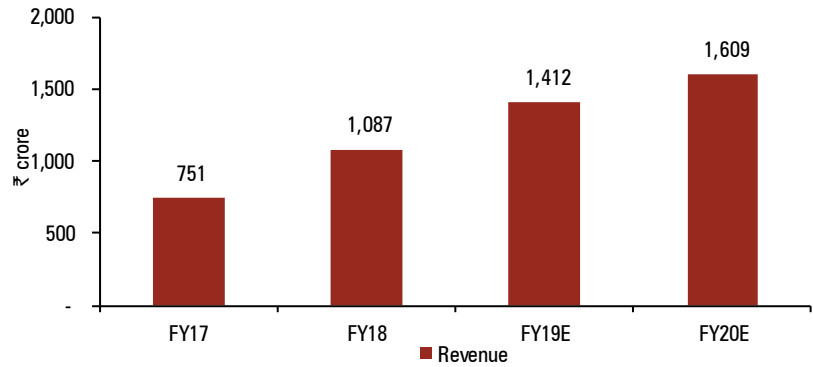


Source: Company, ICICI Direct Research

In addition, exports are expected to contribute ~6-7% of revenues for FY19E. We expect utilisation of incremental capacity to result in operation leverage and, thus, aid in higher margins (**albeit stable raw material prices**), with consequent higher profit growth.

### Story in Charts: Financials

**Exhibit 4: Net sales trend**

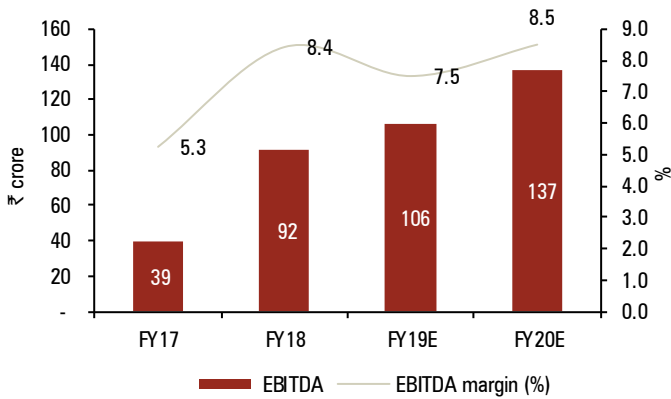


Source: Company, ICICI Direct Research

We expect ACE to record net sales of ₹ 1609 crore in FY20E growing at ~21.7% CAGR over FY18-20E

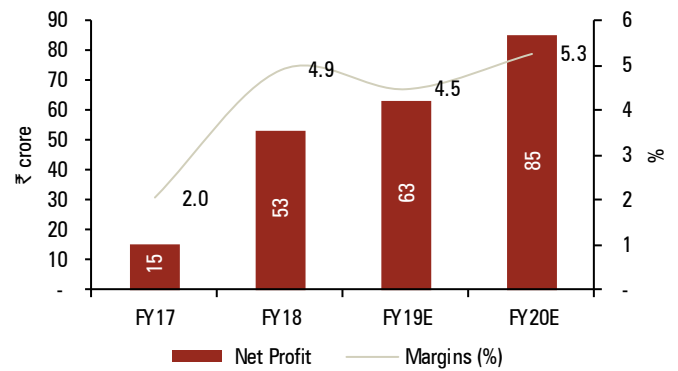
EBITDA margins are likely to slightly improve from 8.4% in FY18 to 8.5% by FY20E

**Exhibit 5: EBITDA & EBITDA margins trend**



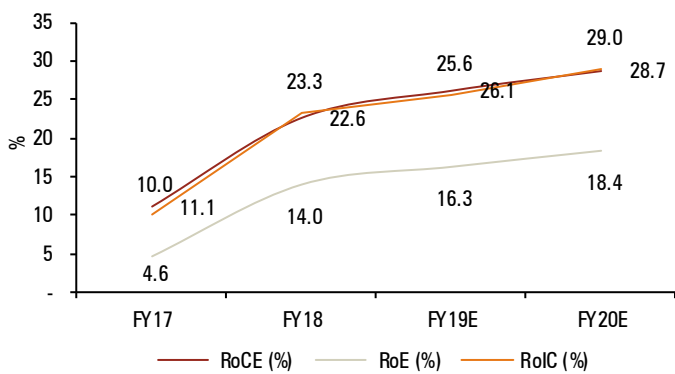
Source: Company, ICICI Direct Research

**Exhibit 6: PAT & PAT margins trend**



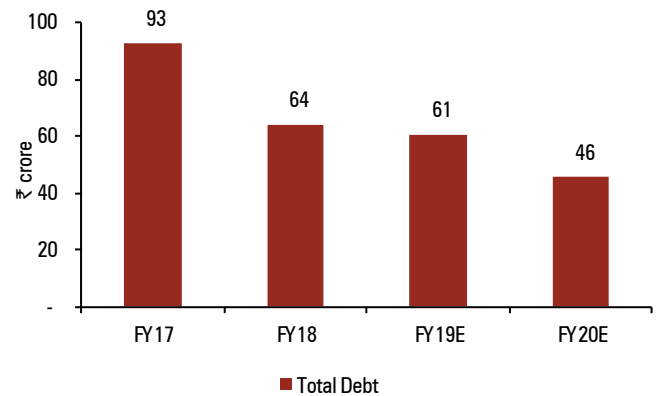
Source: Company, ICICI Direct Research

**Exhibit 7: Return ratios profile**



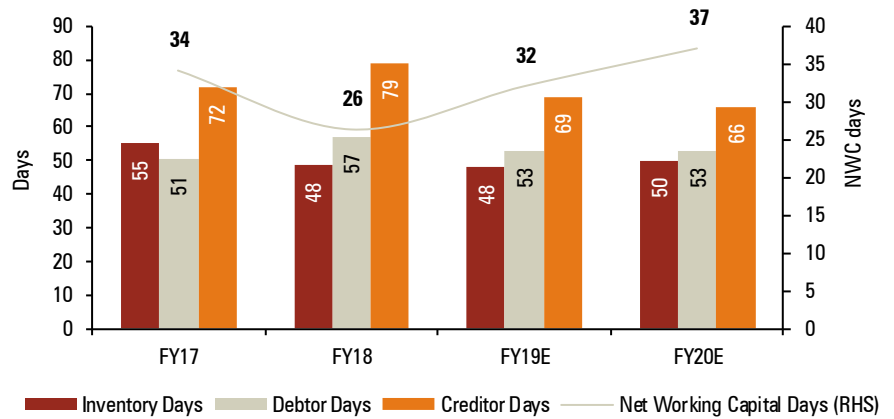
Source: Company, ICICI Direct Research

**Exhibit 8: Declining debt profile**



Source: Company, ICICI Direct Research

**Exhibit 9: Working capital trend**



Source: Company, ICICI Direct Research

## Outlook and valuation

ACE, market leader in the ‘pick & carry’ cranes segment (>60% market share) currently enjoys a demand tailwind. Introduction of newer value-added products is expected to boost topline while increasing utilisation levels will provide operating leverage benefits to aid ACE’s bottomline. However, **volatile steel prices continue to remain a key threat for profitability, going forward.** Accounting for the same, we estimate 21.7% growth in topline, with 22.2% growth in EBIDTA and 26.1% growth in PAT in FY18-20E. At an estimated EBITDA of ₹ 11.7/share in FY20E, we value ACE at 9x EV/EBIDTA. Hence, we arrive at a revised target price of ₹ 105. We maintain our **BUY** recommendation on the stock.

## Financial summary

Profit and loss statement		₹ Crore			
(Year-ended-March)	FY17	FY18	FY19E	FY20E	
Revenue	751.3	1086.5	1411.9	1609.0	
Total Raw Material Costs	589.2	848.3	1140.9	1292.0	
Employee Expenses	59.1	67.7	74.8	77.2	
Other expenses	63.3	79.1	90.4	103.0	
Total Operating Expenditure	711.6	995.0	1306.0	1472.2	
Operating Profit (EBITDA)	39.6	91.4	105.9	136.8	
% Growth	28.4	132.1	15.7	29.1	
Other Income	7.8	8.0	9.9	8.8	
Interest	16.0	13.5	8.5	5.5	
PBDT	31.5	85.9	107.3	140.1	
Depreciation	12.1	11.9	12.8	13.7	
PBT before Exceptional Items	19.2	74.0	94.5	126.4	
Total Tax	5.2	22.0	31.2	41.5	
PAT before MI	14.0	52.0	63.3	85.0	
Minority Interest	-1.3	-1.4	0.0	0.0	
PAT	15.3	53.4	63.3	85.0	
% Growth	53.2	248.3	18.6	34.1	
EPS	1.3	4.6	5.4	7.2	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-ended-March)	FY17	FY18	FY19E	FY20E	
Equity Capital	23.5	23.5	23.5	23.5	
Reserve and Surplus	310.5	358.7	365.5	438.7	
Total Shareholders funds	334.0	382.1	388.9	462.2	
Minority Interest	0.3	0.3	0.3	0.3	
Other Non Current Liabilities	11.8	20.3	20.3	20.3	
Total Debt	92.7	64.2	60.6	45.6	
Sources of Funds	438.8	467.0	470.1	528.3	
Gross Block	449.6	490.3	530.4	565.6	
Acc: Depreciation	103.3	115.2	128.0	141.7	
Net Block	346.3	337.3	358.2	379.5	
Capital WIP	7.1	5.2	5.2	5.2	
Total Fixed Assets	353.4	342.5	363.4	384.7	
Non Current Assets	51.0	78.7	78.7	78.7	
Inventory	113.6	144.3	185.7	220.4	
Debtors	103.9	169.9	205.0	233.6	
Loans and Advances	0.0	0.0	0.0	0.0	
Other Current Assets	24.0	39.3	56.5	64.4	
Cash & Investments	30.7	42.0	24.2	30.6	
Total Current Assets	272.3	395.6	471.4	549.0	
Current Liabilities	237.9	349.8	443.4	484.0	
Net Current Assets	34.4	45.7	28.0	64.9	
Application of Funds	438.8	467.0	470.1	528.3	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-ended-March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	15	53	63	85	
Add: Depreciation	13	12	13	14	
Interest	11	14	8	5	
(Inc)/decrease in CA	-44	-112	-94	-71	
(Inc)/decrease in CL and prov	49	116	94	41	
Net CF from Operating activities	58	80	65	77	
(Inc)/decrease in Fixed Assets	-23	-39	-40	-35	
Others	12	7	10	9	
Net CF from Investing activities	-11	-32	-30	-26	
Issue/(Buy back) of Equity	0	0	0	0	
Inc/(dec) in loan funds	-41	-28	-4	-15	
Dividend paid & dividend tax	0	-6	-7	-9	
Others	-13	-14	-23	-20	
Net CF from Financing Activities	-54	-48	-34	-45	
Net Cash flow	-7	1	1	6	
Opening Cash/Cash Equivalent	13	6	7	7	
Closing Cash/ Cash Equivalent	6	7	7	14	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per Share Data					
EPS	1.3	4.6	5.4	7.2	
BV	28.5	32.6	33.2	39.4	
Dividend per share	0.3	0.5	0.6	0.8	
Dividend payout ratio	23.0	11.0	11.0	11.0	
Operating Ratios					
EBITDA Margin	5.3	8.4	7.5	8.5	
PAT Margin	2.0	4.9	4.5	5.3	
Return Ratios					
RoE	4.6	14.0	16.3	18.4	
RoCE	11.1	22.6	26.1	28.7	
RoC	10.0	23.3	25.6	29.0	
Valuation Ratios					
EV / EBITDA	24.5	10.1	8.9	6.7	
P/E	58.9	16.9	14.3	10.6	
EV / Net Sales	1.3	0.9	0.7	0.6	
Market Cap / Sales	1.2	0.8	0.6	0.6	
Price to Book Value	2.7	2.4	2.3	2.0	
Turnover Ratios					
Asset turnover	1.9	2.6	3.3	3.3	
Debtors Turnover Ratio	7.2	6.4	6.9	6.9	
Creditors Turnover Ratio	5.1	4.6	5.3	5.5	
Solvency Ratios					
Debt / Equity	0.3	0.2	0.2	0.1	
Current Ratio	1.0	1.0	1.0	1.0	
Quick Ratio	0.5	0.6	0.6	0.6	

Source: Company, ICICI Direct Research

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