

September 17, 2010

Kunal Sheth
KunalSheth@PLIndia.com
+91-22-6632 2257

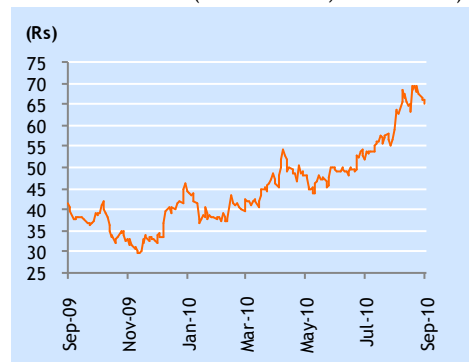
Rating	BUY
Price	Rs65
Target Price	Rs82
Implied Upside	24.4%
Sensex	19,417

(Prices as on September 16, 2010)

Trading Data

Market Cap. (Rs bn)	5.9
Shares o/s (m)	89.9
Free Float	33.91%
3M Avg. Daily Vol ('000)	612.4
3M Avg. Daily Value (Rs m)	37.1

Price Performance (RIC: ACEL.BO, BB: ACCE IN)



Source: Bloomberg

- **Favourable industry dynamics to fuel volume growth:** Demand for Material Handling and Construction Equipment is directly correlated to Infrastructure, Construction, Ports, Pipelines, Roads, Steel, Cement, Power Projects, Hydel Projects, Engineering Industry, Mining, Building, SEZ's etc. Action Construction Equipment (ACE) has started seeing visible signs of pick-up in volumes from most of the user segment, mainly led by the power sector. Growing mechanization in construction and manufacturing sectors and ease of availability of finance for material handling & construction equipment has also contributed to recovery in volume growth for ACE.

- **Better capacity utilization and in-house manufacturing to drive margins:** ACE is currently working on capacity utilization of ~50-55% for most of its product ranges in FY10. With an uptick in volume, we expect utilization to improve and help improve margins. The company is currently importing clawer cranes from China. However, it has put up a facility to manufacture clawer cranes in India. In-house manufacturing of crawler cranes will also help aid margins.

- **New product offerings:** ACE has started selling 'Motor graders' from the last quarter. It will also introduce a new product, 'Mobile telehandlers' by December 2010. Current market size of this product in India is about 70-80 units per annum. However, if approved by defence for their specific requirement, the market could be ~1000 units per annum from defence itself. Wide spectrum of industry as client's base also gives ready platform and customer base for new products. Company is targeting about 70-80% of the existing customers, who would be users for new products offered by ACE.

- **Attractive Valuation:** On the back of a substantial improvement in liquidity situation, both with NBFCs and Banks, coupled with an improving demand scenario, ACE is in a sweet spot. Volume growth will drive margin and RoE expansion. We expect the stock to deliver 41% and 57% CAGR on top-line and bottom-line, respectively over FY10-12E. At the CMP of Rs65, the stock trades at 12.5x FY11E and 8.8x FY12E earnings, respectively. We maintain 'BUY' on the stock.



Income Statement

Y/e March, (Rs m)	FY09	FY10	FY11E	FY12E
Net Revenue	4,400	4,297	6,502	8,579
Raw Material Consumed	3,659	3,444	5,202	6,864
Gross Profit	742	853	1,300	1,716
Employee Cost	174	209	325	386
Other Expenses	248	280	312	395
EBITDA	320	364	663	935
Depr. & Amortization	57	53	76	84
Interest Exp	33	26	35	44
Other Income	71.9	69	75	83
Profit before Tax	302	354	628	890
Total Tax	74	83	154	219
Profit after Tax	227	271	473	671
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	227	271	473	671
Avg. Shares O/S (m)	89.9	89.9	89.9	89.9
EPS (Rs.)	2.5	3.0	5.3	7.5

Cash Flow Abstract

Y/e March, (Rs m)	FY09	FY10	FY11E	FY12E
C/F from Operations	126	341	(56)	182
C/F from Investing	(37)	(69)	(300)	(150)
C/F from Financing	(119)	(141)	(31)	(45)
Inc. / Dec. in Cash	(30)	131	(387)	(13)
Opening Cash	208	178	324	168
Closing Cash	178	324	168	142

Operating Metrics

Y/e March (Units)	FY09	FY10	FY11E	FY12E
Mobile Cr./Pick & Carry	2,610	2,700	3,800	4,600
Backhoe Loaders	275	288	380	480
Mobile Tower Cranes	155	130	200	270

Key Financial Metrics

Y/e March	FY09	FY10	FY11E	FY12E
Growth				
Revenue (%)	8.5	(2.4)	51.3	32.0
EPS (%)	(37.3)	19.1	74.7	41.8
Profitability				
EBITDA Margin (%)	7.3	8.5	10.2	10.9
PAT Margin (%)	5.2	6.3	7.3	7.8
RoCE (%)	14.1	14.0	21.2	24.0
RoE (%)	15.4	16.1	23.7	27.0
Balance Sheet				
Net Debt : Equity	0.1	(0.0)	0.1	0.1
Net Wrkg Cap. (days)	116.1	115.0	115.0	115.0
Valuation				
PER (x)	25.8	21.7	12.4	8.7
P / B (x)	3.7	3.3	2.7	2.1
EV / EBITDA (x)	17.9	15.4	8.2	5.6
EV / Sales (x)	1.3	1.3	0.8	0.6

Balance Sheet Abstract

Y/e March, (Rs m)	FY09	FY10	FY11E	FY12E
Shareholders Funds	1,569	1,800	2,202	2,772
Total Debt	391	316	391	491
Deferred Tax Liability	-	-	-	-
Total Liabilities	1,969	2,124	2,601	3,271
Gross Fixed Assets	805	885	1,185	1,335
Net Fixed Assets	691	719	943	1,009
Investments	11	-	-	-
Net Current Assets	1,265	1,420	1,904	2,496
<i>Receivables</i>	526	589	855	1,156
<i>Cash & Cash Equivalents</i>	178	324	168	142
<i>Current Liabilities</i>	863	807	961	1,270
Other Assets	1,425	1,314	1,842	2,468
Total Assets	1,969	2,124	2,601	3,271

Quarterly Financials

Y/e March, (Rs m)	Sep-09	Dec-09	Mar-10	Jun-10
Net Revenue	980	1,069	1,438	1,292
EBITDA	82	93	134	109
% of revenue	8.4	8.7	9.3	8.4
Depr. & Amortization	13	14	18	13
Net Interest	7	12	12	7
Profit before Tax	72	79	132	108
Total Tax	18	20	35	28
Profit after Tax	54	59	97	80
Ex-Od items / Min. Int.	-	-	-	-
Adj. PAT	54	59	97	80

Major Shareholders (%)

	Sep-09	Dec-09	Mar-10	Jun-10
Promoters	65.69	65.69	65.69	66.09
Foreign	5.88	6.10	5.24	5.05
Domestic Inst.	11.15	10.89	11.21	11.94
Public & Others	17.28	17.32	17.86	16.92

Stock Performance

(%)	1M	3M	6M	12M
Absolute	19.7	35.1	69.9	75.0
Relative	16.4	24.0	59.7	57.9

Company Description

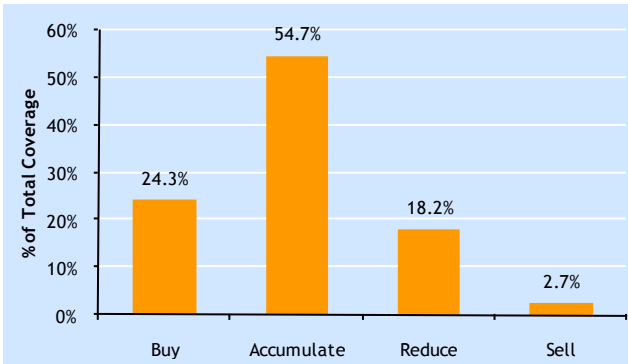
ACE is the leading mobile crane manufacturing company in India which has progressed all along to become a professionally managed ISO 9001 certified company. ACE product range includes Hydraulic Mobile pick-n-move cranes, Forklift trucks, loaders, Tower cranes, Aerial Work Platforms, Mast climbing platforms and lorry loaders. ACE range of cranes can be adapted to satisfy a vast range of possible applications due to their versatility. It has a consolidated presence in its sector.

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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