

Action Construction Equipment (ACE)

BSE Code: 532762

CMP : ₹122.80

Face Value : ₹2

Target price: ₹195

HP* : Two years

About the company

Our Pearl Pick for the month of July is Action Construction Equipment (ACE). The company is a leading material handling and construction equipment manufacturer. The company's 60 per cent business comes from infrastructures and 40 per cent from manufacturing & others. Its FY18 revenue mix comprises of cranes (69 per cent), material handling equipment (7 per cent), construction equipment (7 per cent) and agriculture equipment (17 per cent).

Why to invest

Cranes segment to uplift growth : The company's cranes segment grew by 51 per cent, which was in line with the overall market growth in FY18 with total production of 5,225 units. It has witnessed strong demand traction, which led to 45 per cent growth in the overall volumes.

Its Crawler cranes division ranks no.1 in India and currently operating at 20 per cent utilisation. The demand for the same is likely to gain traction with revival in the infrastructure and construction sectors.

The Tower cranes division (60 per cent market share), which are used in construction of multi-storeyed buildings and infrastructure projects, is likely to grow further led by increasing construction of multi-storeyed buildings. Going ahead, the company is planning to expand the overall cranes capacity by ~50 per cent in FY19 to meet the rising demand. As overall crane segment contributes ~82 per cent to the overall EBIT, the expansion would improve overall profitability in coming years.

Material handling and construction equipment on growth trajectory

The overall material handling segment grew by 53 per cent in FY18. Under this segment, in the forklifts division, the company is ranked no. 3 player in the market having 18 per cent market share. Going ahead, increase in logistics and warehousing activities are likely to drive the sales for this segment.

The construction equipment business grew nearly 47 per cent in FY18 and the company is aiming to increase the growth to around 70 per cent in the next 3-5 years supported by pick-up in construction and infra activities.

Gaining traction in agri-equipments business

ACE is the small player in the agri equipment market due to limited geographical presence. URSUS S.A has recently tied up ACE for sourcing Tractors and sub-assemblies from ACE and export to other parts of the world. ACE-URSUS brand Tractors based on their technology will also be promoted and sold by ACE in the local market and the Indian sub-continent. With this, it is planning to add 4000-5000 tractors by FY20E, out of which 50 per cent would be exported. The company has already expanded its footprints and started exports to Egypt, Afghanistan, Bangladesh and Nepal. Going ahead, the scarcity of labour, higher MSP for key crops and rising trend towards mechanisation would drive the agriculture equipment growth. In FY18, the agri-equipment business grew by 21 per cent and it is targeting ~30 per cent growth in FY19E.

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* HP : Holding Period

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DSJJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsjj.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142

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Management outlook

The management is aiming at topline growth of 30-35 per cent with expansion in PBT and net profit by 8-9 per cent and 6 per cent, respectively. Also, it expects ROCE and ROE to be 28-29 per cent and 20 per cent in FY19. On the order front, it is expecting to increase by nearly 40-50 per cent in the coming years. Also, the company is planning to become debt-free by FY19E which will lend financial stability.

Industry development

The Indian construction equipment market has the potential to grow to USD 5 billion by FY20 from USD 3 billion in FY16. Also, the infrastructure spend will be about 9 per cent of GDP by FY20 from 7.20 per cent in FY17. Further, the government's focus on infrastructure, railways, roads, metro, defence, housing and Smart Cities and growing mechanisation in the construction, agriculture and manufacturing sectors would drive the growth.

Investing in the stock

The company has a share capital of Rs. 23.46 crore, with promoters holding 68.95 per cent stake. Therefore, the available free float comes to 3.64 crore shares. The two-week average traded quantity comes to around 56,000 shares. We urge our investors to enter the stock in a staggered manner and accumulate as per the table given below.

Price	Accumulation
120	30 per cent
128	30 per cent
135	40 per cent

Financial performance

During Q4FY18, the standalone revenue came in at Rs 367 crore, registering a significant jump of 59.7 per cent YoY. Its EBITDA for the quarter rose by 199.2 per cent YoY to Rs. 38.3 crore with a corresponding margin expansion of 486 bps. The EBITDA margin for the quarter stood at 10.4 per cent. The PAT for the quarter came in at Rs. 21.46 crore, a jump of 191.2 per cent YoY. Looking at FY18 numbers, the revenue increased by 38 per cent to reach Rs 1098.64 crore, while the EBITDA rose by 131 per cent to Rs 92.13 crore. It reported net profit of Rs.52.64 crore, up 264 per cent YoY.

Valuation and outlook

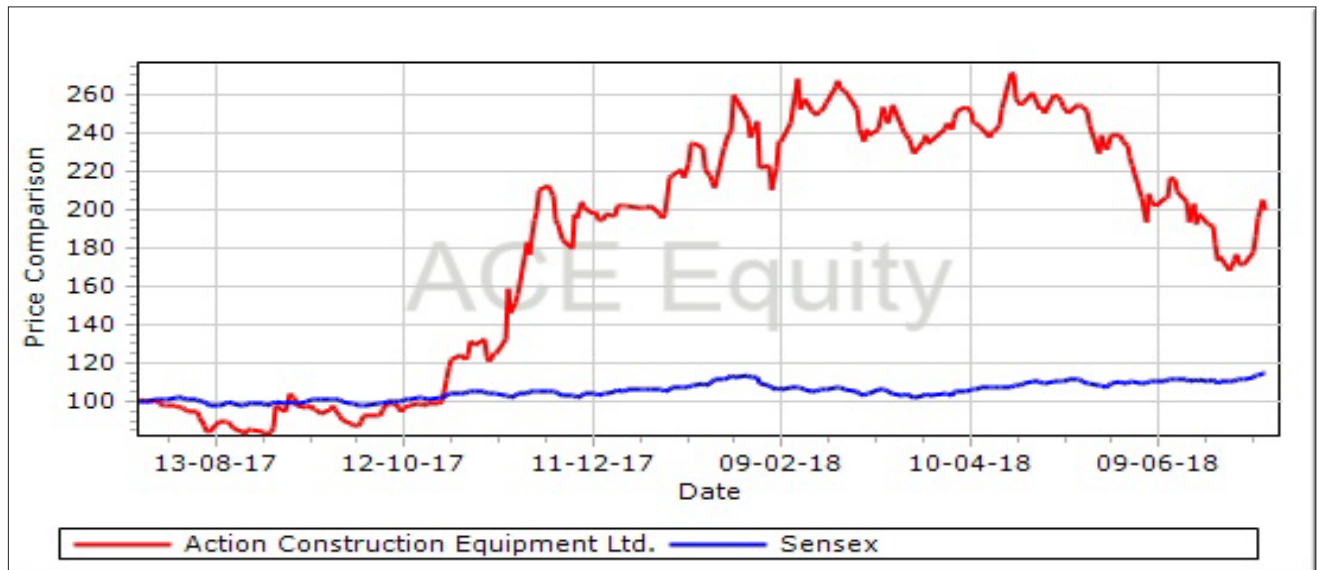
The company is trading at a TTM P/E of 28.7x with TTM EPS of Rs.4.49. Going ahead, rising construction and infrastructure activities coupled with planned capacity expansion would augur well for the company. Also, its foray into the agri-equipment business would further drive growth, supported by government's various favorable initiatives. Also, managements efforts to make it debt free should provide strength to balance sheet. Considering all the aspects, we see an upside of 50 per cent with a target price of Rs.195 over the next two years.

Inc/Exp Statement(Standalone) (Rs in Crore)					
Description	201803	201703	201603	201503	201403
Net Sales	1098.64	751.23	637.30	597.65	614.93
Total Income	1106.58	757.69	646.77	608.85	621.59
Total Expenditure	1006.51	707.51	606.34	576.70	590.79
PBIDT	100.08	50.18	40.43	32.15	30.80
PAT	52.64	19.64	8.81	6.75	4.02
Dividend %	25.00	15.00	10.00	10.00	5.00
Adj. EPS(Rs)	4.49	1.47	0.74	0.68	0.41

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Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201803	201712	Q on Q Var%	201703	Y on Y Var%
Net Sales	367.46	279.08	31.67	244.79	50.11
Total Expenditure	329.15	251.99	30.62	235.82	39.58
PBIDT (Excl OI)	38.30	27.08	41.42	8.97	327.24
PAT	21.46	16.41	30.73	2.10	919.77
PBIDTM% (Excl OI)	10.42	9.70	7.42	3.66	184.70
PBIDTM%	11.09	10.30	7.67	4.66	137.98
PATM%	5.84	5.88	-0.68	0.86	579.07
Adj. EPS(Rs)	1.83	1.40	30.71	0.18	916.67



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