



Farsight

MORNING FARSIGHT

Monday, August 27, 2018

ACTION CONSTRUCTION

CMP:RS 135

TRGT:RS 158

TIME HORIZON: 1 YEAR

Action Construction Equipments, manufacturing hydraulic mobile cranes, mobile and fixed tower cranes, lorry loader cranes, crawler cranes, back hoe and wheeled loaders, forklift trucks, tractors, combined harvesters, and rotavators etc., across 4 manufacturing facilities and market leadership position of over 60% market share across mobile cranes, crawler cranes (below 75 tonnes) and tower cranes, is looking a good buy, with robust earnings growth, announcement of new capacity expansion and excellent demand environment backed from domestic Infrastructure in a pre-election year (direct government demand viz., roads, railways, etc comprises —60% of the overall cranes business). For Q1 FY19, ACE reported a solid 78% YoY growth in revenues to Rs 336 cr, while EBITDA margin improved 300 bps YoY to 8%, largely due to benefits of operating leverage, due to higher capacity utilisation across segments, resulting in absolute EBITDA growth of 185% YoY to Rs 26.8 cr. PAT over 4.4x to Rs 16.7 cr, leading to an EPS of Rs 1.42 for Q1FY19. Segment wise, Cranes segment recorded revenue of Rs246 cr growing at 78.5% YoY driven by —79% increase in volume sold of —1,700 units. Material handling, construction equipment segment grew 41%, 68% YoY, respectively. EBIT margins expanded —120 bps YoY to 16% for material handling segment, while Construction equipment reported a margin of 0.6% compared to a loss in previous year. With utilisation levels in FY18 at —70% and citing future demand, the company plans to enhance its capacity by 50% by FY19 for Cranes Segment Further, around 51% of material handling and construction equipment capacities are unutilized and with fillip in sales for backhoe loaders & forklifts, ACE is aiming at sustained profitability in both these segments with rising utilization levels. On the agri front, ACE entered into an MoU with URSUS SA, a company involved in tractors, agricultural machinery, electric buses, Europe for localization of its range of tractors The company plans to export these tractors in the near future. In addition, it has plans to sell these tractors in the Indian market and across neighboring countries. A demand uptick across the infrastructure and construction value chain directly percolates into increased demand for ACE's products, and demand environment has always remained strong for company's products in a pre-election year. Balance sheet is also quite healthy, as moderate capex of Rs 15-20 crs planned during FY19, cash and equivalents of Rs 42 cr as on FY18 and declining debt levels Rs 64 cr, which places ACE in a sweet spot On an estimated EPS of Rs 7 for FY19 and Rs 8.5 for FY20, stock is trading at PE of 19x and 15.7x respectively, which are seen bit lower with its historical valuations. Share ruling at Rs 135 can move to Rs 158 in 1 year

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Disclosure of interest statement – • Analyst interest of the stock / Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.