Action Construction Equipment Ltd

CASE STUDY

About the Company

ACE (Action Construction Equipment Limited), established in the year 1995, is a leading material handling and construction equipment manufacturing company with a major market share in the Mobile Cranes segment(63%) and in the Tower Cranes segment(60%).It has a dominating presence across the Indian construction, infrastructure, logistics and Industrial landscape. It also caters to international markets like South East Asia, Middle East Asia and African countries.

ACE has full-fledged state of the art production facilities equipped to produce around 12000 Construction Equipment and 9000 Tractors annually. It has a portfolio of more than 60 products and provides services to more than 15000 clients(all leading private and government sector companies).

Agri Equipment

Road Equipment

Material Handling Equipment

Cranes

GROWTH

Revenue

Revenue grew at a CAGR of 15.55% in the last five years. The nine month total revenue stands at Rs 1042.83 crore and is expected to surpass its total FY 18 revenues.

Segment wise revenue growth(YoY): Cranes-54%;Construction equipment-21.5%;Material Handling-24.5% and Agri-Equipment- 34.9%

Company continues to reap benefits from pick up in economic activities, government thrust on infrastructure and uptick in manufacturing activities

Thus a high degree of earning stability.

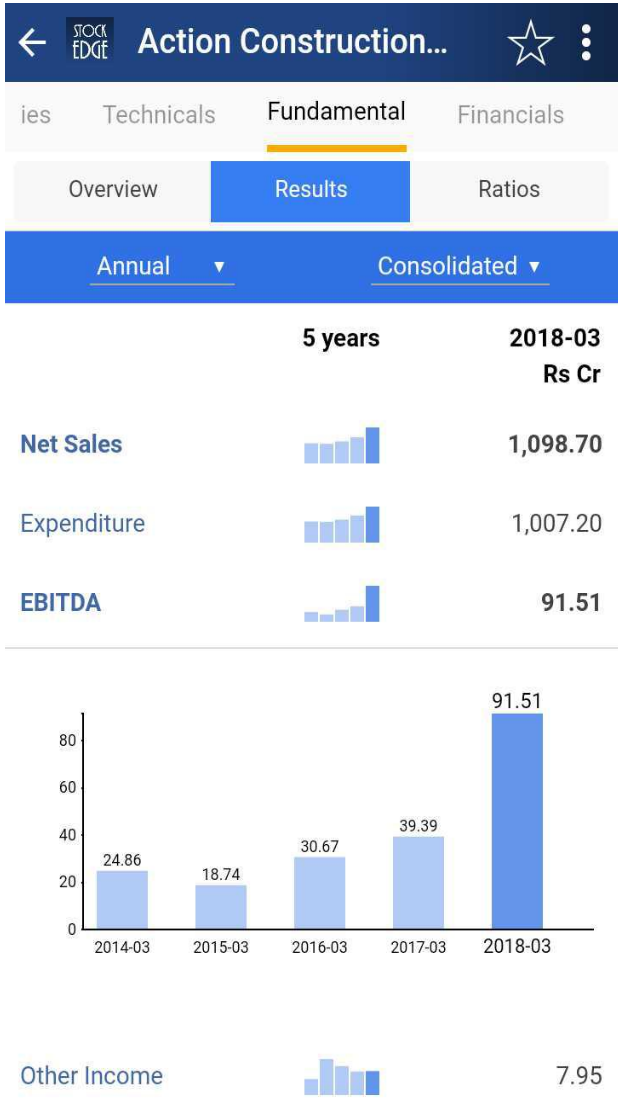
GROWTH

EBITDA Growth

EBITDA growth of the company is positive on a consistent basis since last five years and has increased at a CAGR of 38.51%.

The major objective of the company is to bring cost and operational efficiency to achieve profitable growth and competitive advantage.

Amalgamation of Frested Limited (a wholly owned subsidiary) will lead to overall reduction in administrative, managerial and other expenditure and operational rationalization, efficiency and optimal utilization of various resources.



GROWTH

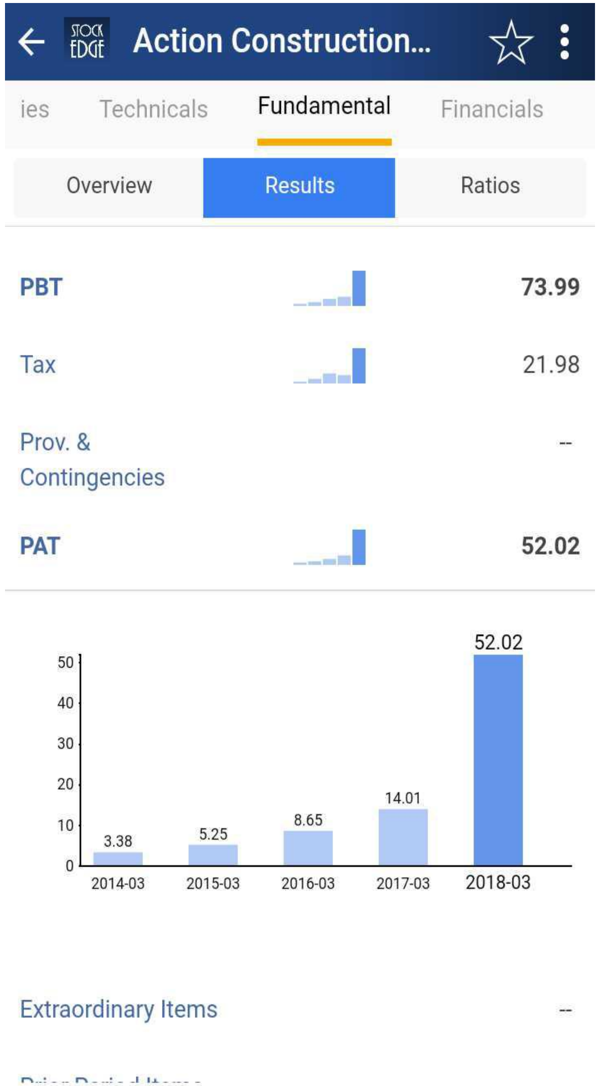
PAT

Net PAT of the company has shown remarkable growth of 98.06% CAGR.

Company intends to hike price of around 3%-3.5% in this quarter.

High demand and control on fixed cost will help in maintaining the consistent PAT growth levels.

The management expects the profit trajectory to remain strong for the ongoing fiscal and beyond on the back of increased infrastructure spending, policy reforms and uptick in manufacturing activity.



Growth EdgeMeter = 4

An EdgeMeter is relate to grading a certain aspects of a company within 1 to 5, 5 denotes the highest rating. Since judgement on equity is subjective because different people will have different expectation from their investments, it is better to study each aspect and give individual grading to arrive at the final evaluation of a stock.

EFFICIENCY

Cash from Operations

Cash from operations has been increasing on consistent basis for the last five years and going forward it is expected to perform in similar lines to achieve profitable growth.

The order book of the company is strong and sustainable as they are coming from all segments. Going forward, the company expects near about 50% growth in the order book.

This quarter, for the first time, the company saw demand of cranes from Jammu &Kashmir and north-east region.

EFFICIENCY

Working Capital Cycle

The company has efficiently reduced its working capital cycle from 58.80 days in FY14 to 15.74 days in FY18 which is a good sign

This shows company's efficiency in managing its inventory and working capital cycle to generate cash flow.

The company will continue to focus on reducing the working capital levels by emphasizing on speedy customer collections and reducing inventory levels.

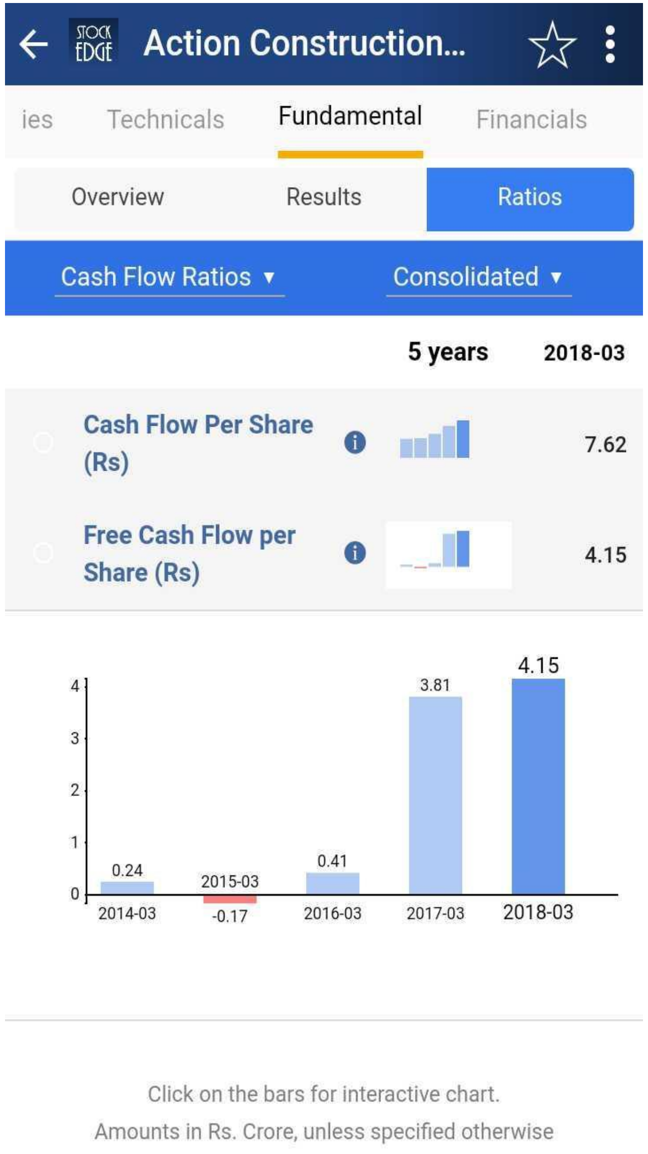
EFFICIENCY

Free Cash Flow

Free cash flow has shown improvement for the last three years.

The company is efficiently managing its operations and capital expenditures, thus finding it easy to fund its non-asset related growth.

Low share price and rise in free cash flow indicates that the earnings and the share price may rise.



EFFICIENCY

Asset Turnover Ratio

The company's asset turnover ratio is 1.47% and has been increasing since last five years which means company is utilizing its assets very efficiently.

Compare:

TIL Limited has Asset Turnover ratio of 0.61%

Efficiency EdgeMeter = 4

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PROFITABILITY

EBITDA Margin

EBITDA Margins is increasing year on year which is a good sign showing the operational efficiency of the company.

EBITDA margin has grown at a CAGR of 18.17 over a period of five years.

It is expected that EBITDA margin could be muted due to increase in prices of steel, crude oil and commodity leading to inflationary risk and also due to upcoming general elections.

PROFITABILITY

PAT Margin

PAT Margin has shown significant improvement in FY18. Over the period of 5 years it has grown at a CAGR of 73.66%.

The management is constantly focusing on bringing cost & operational efficiencies to achieve profitable growth in the present competitive business environment.

PROFITABILITY

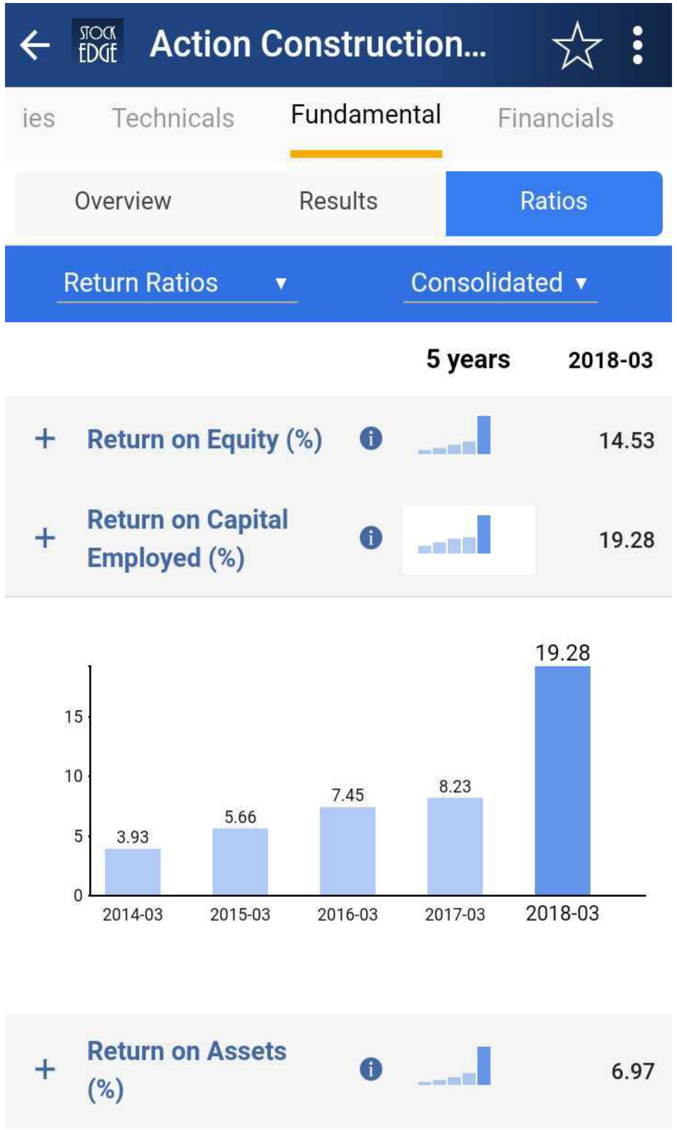
ROCE

ROCE has shown constant improvement.

This ratio measures the company's profitability and efficiency with which its capital is employed.

Compare:

TIL Limited has ROCE ratio of 7.61%



PROFITABILITY

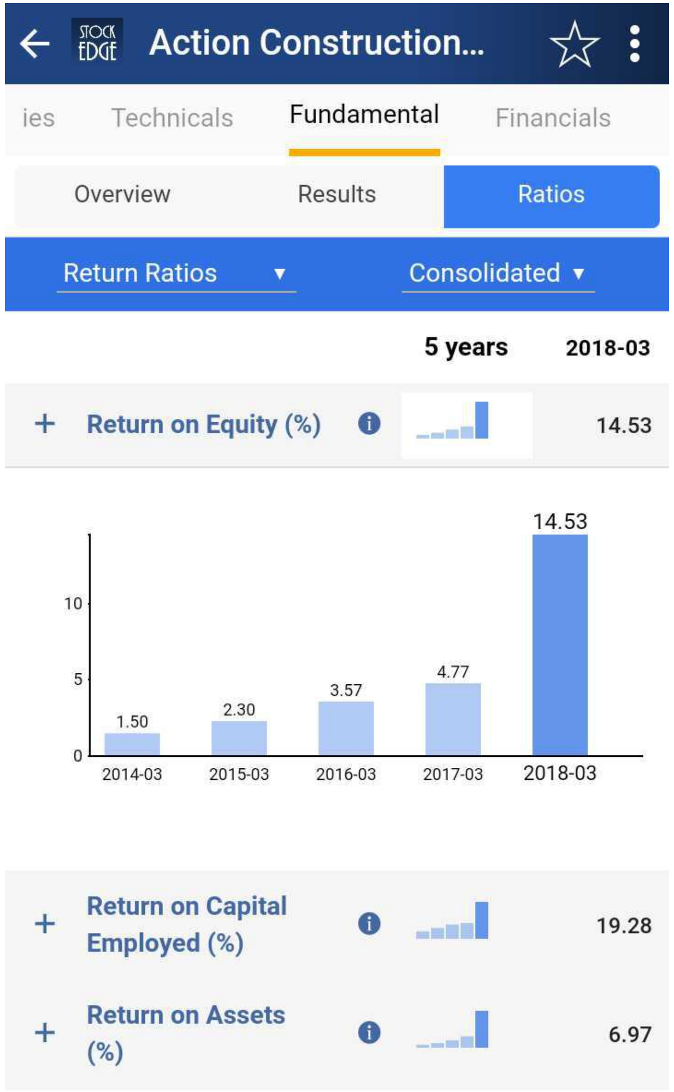
ROE

ROE of the company is constantly rising with a sharp rise of 14.53% in FY19.

This indicates that the company is efficiently utilizing its equity base to generate to generate return for investors.

Compare:

TIL Limited has ROE ratio of 2.52%



Profitability EdgeMeter = 3

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SOLVENCY

Debt To Equity Ratio

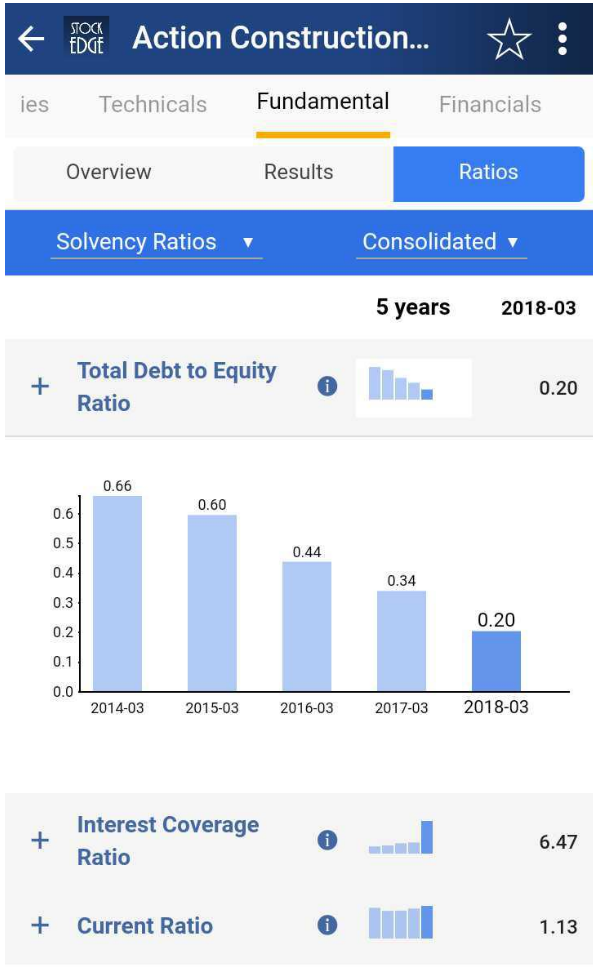
Company debt to equity ratio is 0.20 which measures the degree to which a company is financing its operations through debt versus wholly owned fund.

As on 31st March, 2018 company's debt was Rs 78.30 cr.

Overall the company's debt to equity ratio is less than one which indicates a financially strong company.

Compare:

TIL Limited has debt to equity ratio of 0.58



SOLVENCY

Interest Coverage Ratio

Interest coverage ratio of the company is increasing which indicates that the company can easily pay the interest on its outstanding long term debt.

Compare:

TIL Limited has debt to equity ratio of 1.55

SOLVENCY

Current Ratio

Current ratio of the company is increasing YoY which means company's assets are greater than its liabilities and indicate that the company is in a comfortable position to pay off its debt obligations.

Compare:

TIL Limited has current ratio of 1.27

Solvency EdgeMeter =4

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VALUATION/ PRICE

PE Ratio

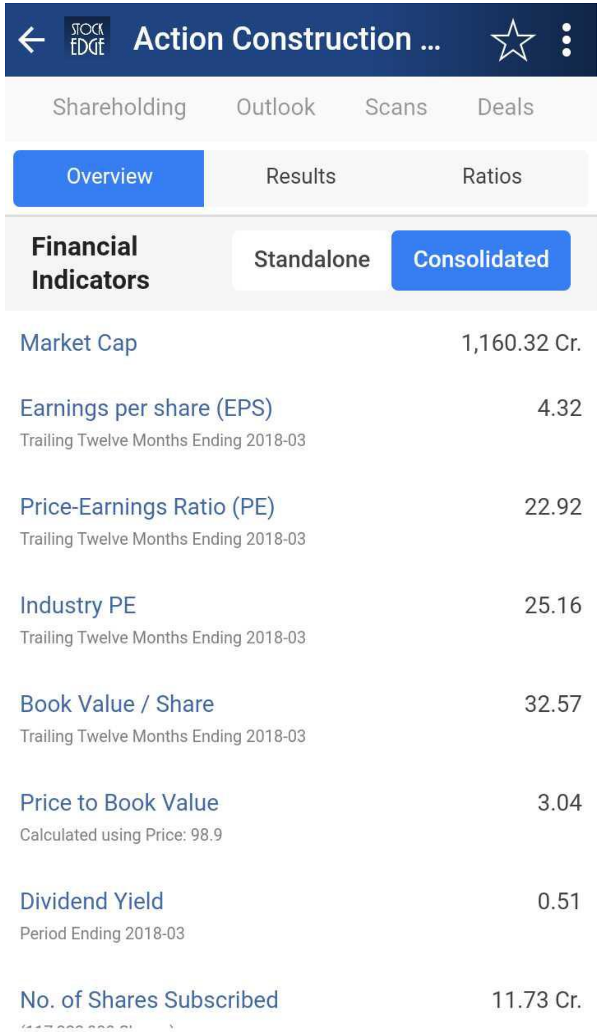
PE Ratio means current market price / earning per share.

Current P/E ratio of the company is lower than its Industry P/E of 25.16

The low P/E indicates that the company is either undervalued or it is doing well relative to its past trends.

Compare:

TIL Limited has P/E of 34.92



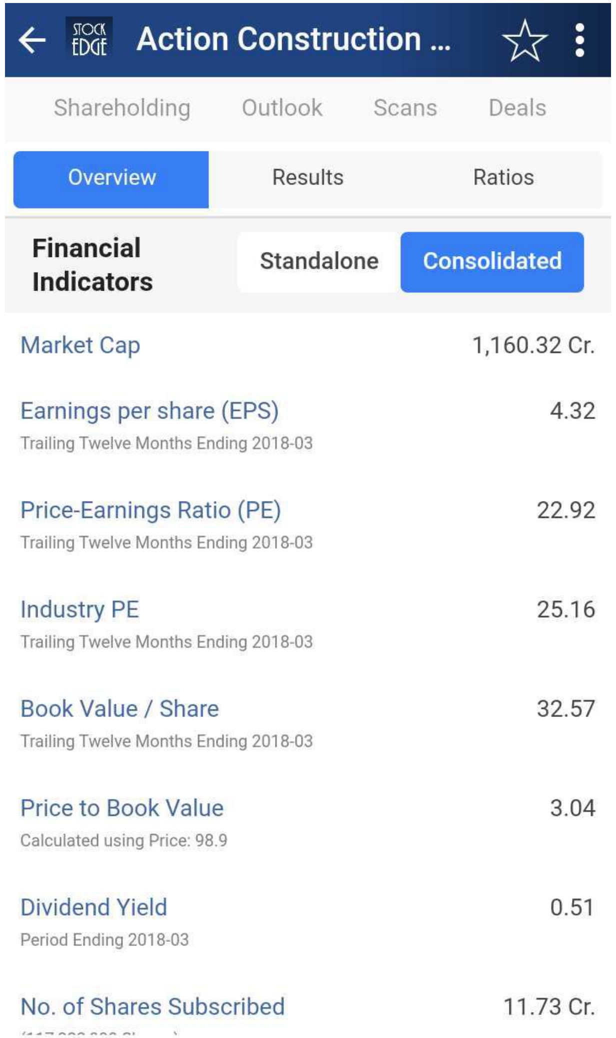
VALUATION/ PRICE

Dividend Yield

Dividend yield of the company is 0.51

Compare:

TIL Limited has dividend yield of 1.33



Price EdgeMeter =3

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QUALITY

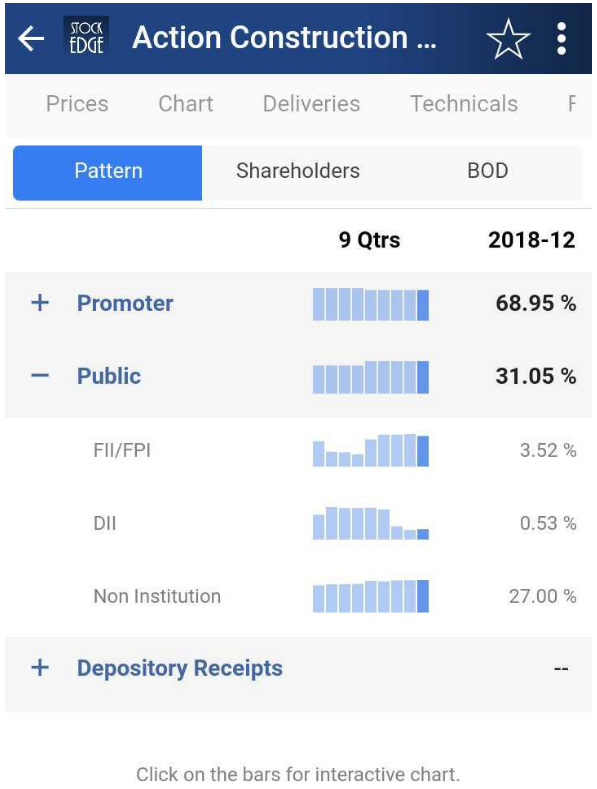
Shareholding Pattern

Promoter holding is stagnant since the beginning of FY19.

FII have decreased their stake from 3.73% to 3.52% in last quarter and DII have increased their stake from 0.49% to 0.53% in last quarter.

Top public shareholding

GMO Emerging Domestic Opportunities Fund 1.14%



QUALITY

Sector Potential

The company is one of the leading material handling and construction equipment manufacturing company and is the market leader in crane segment.

Government's increased focus on infrastructure has put the sector as well as the company in best place in terms of volume and growth.

The outcome of the 2019 General Elections will have an impact on the sector's growth plans if there are any marked deviations from the existing policies.

- The fast paced growth of Indian economy over the last decade has placed immense pressure on the existing infrastructure of the nation making it imperative for the government to increase infrastructural spending.
- The boost to the infrastructure sector will positively impact the construction equipment manufacturers, rental companies and the resale market for these machines.
- The Indian Construction Equipment sector has been in an upswing. It grew by 24% and crossed 90,000 units sales in FY2017-18.
- The Government's thrust on infrastructure, development in agricultural sector, recovery in industrial production along with broad based macro economic factors have lead to a strong increase in demand for construction equipments.
- Highway construction(roads)has been one of the major growth driver for industry. The government is the largest end customer accounting for nearly two-thirds of the demand of the sector.
- The Indian economy is expected to be one of the fastest growing economy and the outlook for the infra and construction sectors looks promising.This is likely to lead to sustained growth in the construction equipment industry for the next few years.

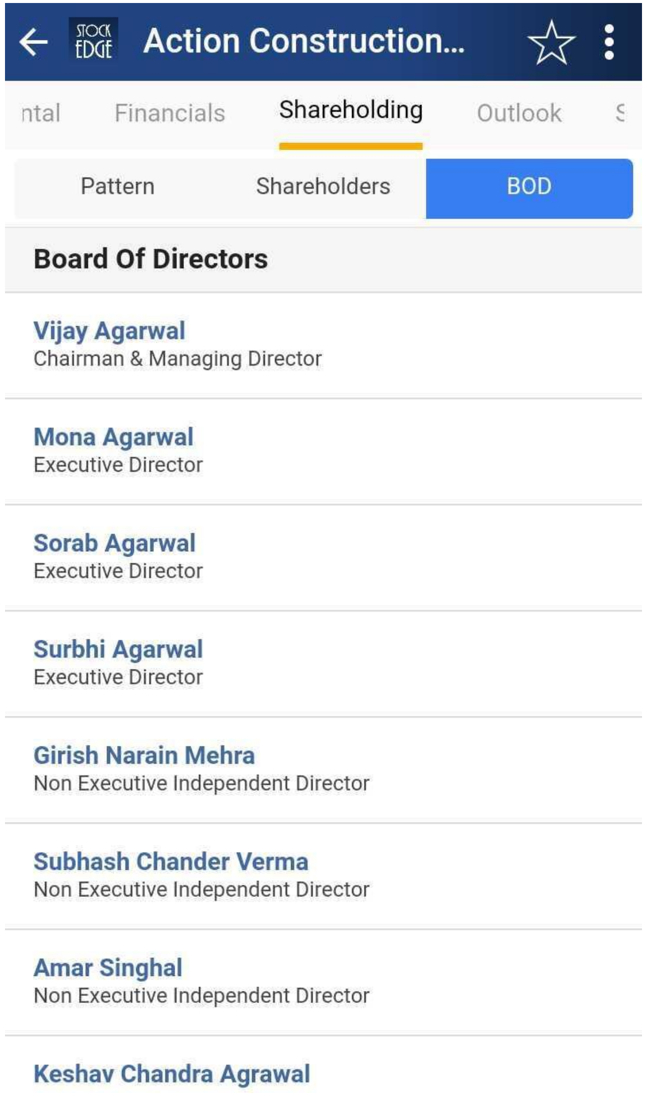
QUALITY

Management

The management is focusing on strong customer relationship, cost effective and extensive product offerings along with strong product innovation.

Thrust on developing next generation cranes and strengthening its export arm has given the company a significant competitive edge as compared to its competitors.

The management is optimistic about the long-term prospects of the company on the back of sustained macro recovery and increased industrial and construction related activity.



QUALITY

Future Outlook

The company is focussing to achieve 25%-30% growth.

Rental business which was stagnant for last full year is going to increase 6-7 times in the next one to two years.

Constant focus is on cost efficiency measures, price discipline and optimization of working capital requirements while maintaining quality.

The outlook for the ongoing fiscal year FY 2018-19 and beyond remains optimistic on the back of increased infrastructural spending, policy reforms and uptick in manufacturing activity.

The company is looking to utilize about 60%-70% of its capacities to reach a turnover of around Rs 1500- Rs1600 crore.

Sharp increase in the price of raw materials is expected to be offset by 2.5% to 3.5% price hike. With demand being high, price increase will not be difficult for the company.

The company is planning to foray into the track excavator segment where companies like Hyundai, Hitachi, Kobelco or Komatsu are present.

Rising trade protectionism, geo political risks and increase in prices of steel, crude oil and commodity leading to inflationary risk and the outcome of the 2019 General Elections are the headwinds that can have an impact on the company's growth plans.

Clientele includes:

Quality Edge Meter =4

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Final EdgeMeter Matrix

Aspects	Grade
Growth EdgeMeter	4
Efficiency EdgeMeter	4
Profitability EdgeMeter	3
Solvency EdgeMeter	4
Price EdgeMeter	3
Quality EdgeMeter	4
Total	22

The maximum Grade for a company could be 30. Any company above grade 20 is worth considering. Any company below 15 is poor and can be avoided.

This document and the process of identifying the potential of a company has been produced for only learning purpose. Since equity involves individual judgements, this analysis should be used for only learning enhancements and cannot be considered to be a recommendation on any stock or sector. Our knowledge team has limited understanding and we all are learning the art and science behind this.

Thank you

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