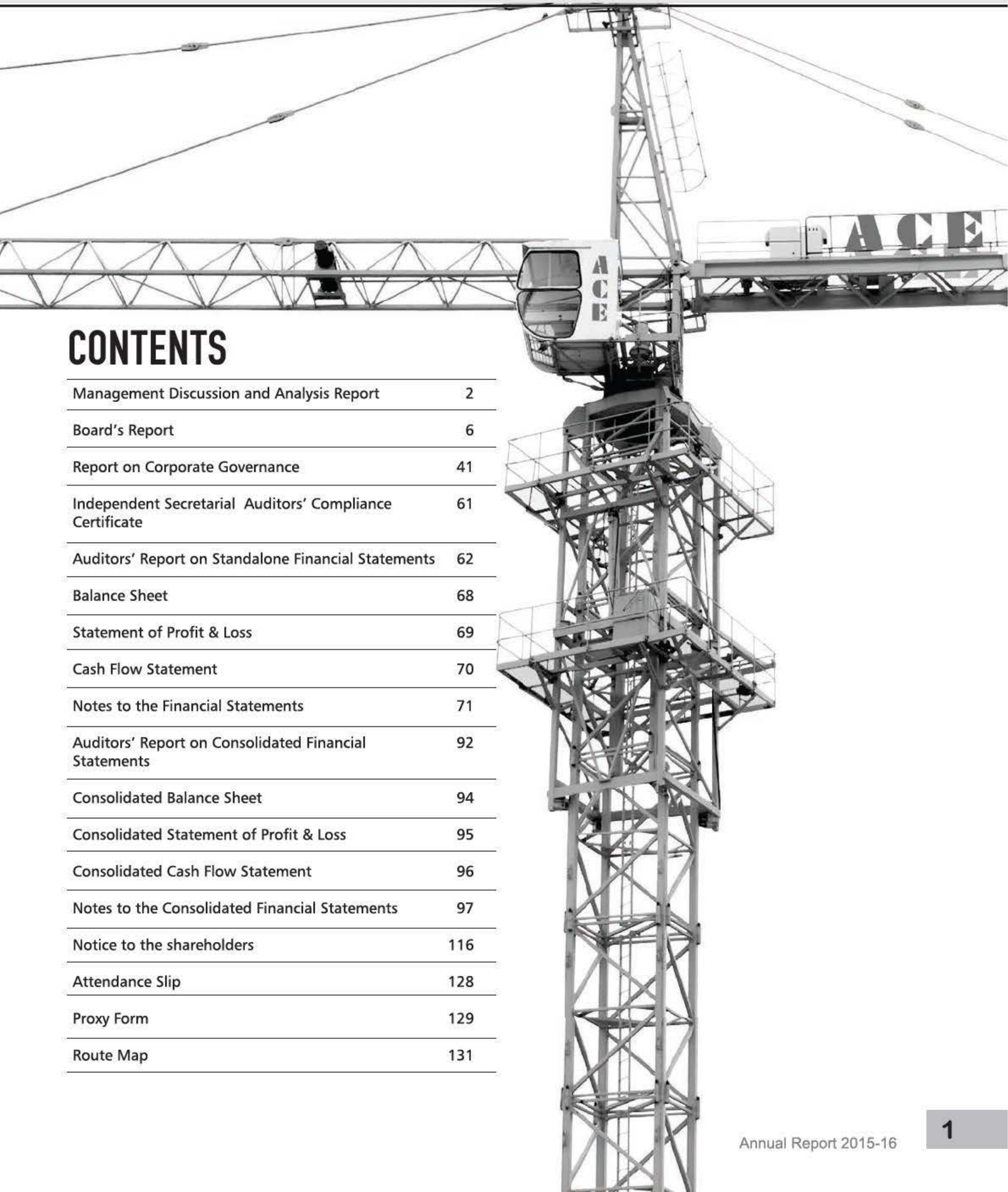
ACE

22nd Annual Report
2015-16

LIFTING INDIA'S INFRASTRUCTURE GROWTH

Action Construction Equipment Ltd.


Mobile Cranes (3 - 50 Tons)
Stiff Boom Cranes
Tractors
Crawler Cranes
Mobile Tower Cranes
Forklifts
Vibratory Rollers
Backhoe Loader
Wheeled Loaders
Tower Cranes
Motor Grader
PTR
Nothing beats an ACE



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Management Discussion and Analysis

❖ **INDUSTRY STRUCTURES AND DEVELOPMENTS**

India became the fastest growing large economy overtaking China in 2015. The GDP growth was 2014-15 was 7.20 % (based on revised base to 2011-12) and in 2015-16 it was 7.60 %. In addition to this, the overall macro-economic health of the economy showed marked improvement with fiscal and current account deficits curtailed due to Government initiatives and helped by oil price decline. Further reforms and policy initiatives of the Government are likely to ensure uptick in growth for the Indian economy.

Additionally, India's other macroeconomic parameters like inflation, fiscal deficit and current account balance have exhibited signs of improvement. Wholesale price inflation has been in negative territory for more than a year and consumers price inflation has declined to nearly half of what it was a few years ago. With inflation under control, the Reserve Bank of India has somewhat eased monetary policy and reduced the benchmark repo rate. Consequently lending rates have reduced marginally. Having said so, the interest rate levels still need to come down further to really kick start investments.

The Indian Construction industry forms an integral part of the economy and a conduit for a substantial part of its development investment and is poised for growth on account of industrialization, urbanization, economic development and people rising expectation for improved quality of living. Construction constitutes 40 to 50 % of India's capital expenditure on projects in various sectors such as highways, roads, railways, energy, airports, irrigation etc. and the second largest industry in India after agriculture. It accounts for nearly 10 to 11 % of the GDP.

The need for boosting infrastructure development has been core to the present Government or India's policies. There have been reforms to boost sectors like roads, railways, power distribution and rural and urban developments.

The union Budget for 2016-17 has allocated a record Rs 2.21 lakhs crore for infrastructure. The road sector alone has been allocated Rs. 97,000 crores as the government plans to award 10,000 kms of new road projects in 2016-17 including Rs 19,000 crore earmarked for rural roads.

Today, however not much of these measures have actually translated into major development work on the ground.

In India, while clearly more rapid demand warrants stronger construction activity, it has not yet happened. However the long term prospects of the industry are huge and an opportunity area for us for times to come.

Despite the focus on industrialisation, agriculture remains a dominant sector of the Indian economy both in terms of contribution to gross domestic product (GDP) as well as a source of employment to millions across the country. Agriculture plays a vital role in the Indian economy. Over 70 percent of the rural households depend on agriculture as their principal means of livelihood.

There are multiple factors that have predominantly worked in tandem leading to the growth of the Indian agriculture sector in recent years. These include growth in income and consumption, growth in food processing sector and increase in agricultural exports.

Recognizing the importance of Agriculture Sector, the Government took a number of steps for sustainable development of Agriculture. These steps include enhanced institutional credit to farmers besides other steps. The Indian agriculture sector is expected to grow with better momentum in the next few years owing to increase in investment in agricultural infrastructure such as irrigation facilities, warehousing and cold storage. Factors such as reduced transaction costs, time and fiscal incentives will also contribute to this upward trend.

With the projected forecast of good monsoons after a gap of two years, the demand for tractors, harvestors should revive and will help your Company as it will result in robust growth in tractor volumes as well as new products like track harvesters, wheel harvesters, rotavators launched in the recent past.

As far as the growth of equipment manufacturers (cranes, construction, material handling and agri equipments) is concerned; it is linked with growth of infrastructure, real estate, agricultural and indirectly with the growth of Indian economy. It requires expertise, in terms of technology, design and providing customer satisfaction. It potential and market is huge; however only companies who would be able to provide good quality products at most competitive price will survive. The Company's ACE brand has emerged as brand for reliability and has been able to win the customer loyalty in all these years. ACE will continue its successful stint in the industry, through providing good quality products at most reasonable prices and complete customer satisfaction by its strong distribution and service network.

❖ OPPORTUNITIES

ACE continues to focus on various strategies and initiatives to overcome challenges. These include consolidation of new generation cranes in the targeted market segments. ACE maintained its market leadership position and is well positioned to achieve growth in terms of volumes and market share through better service levels and by providing the best of technology at an affordable price.

We believe that our proactive steps in providing best solutions to our customers and implementation of our strategies have prepared us for growth as demand picks up once the consumer sentiments improve with the expected revival of the infrastructure industry.

In the Agri segment, Company is looking at significant product expansions and improving its market share. We have increased our presence in most of the states. We are consequently, focusing on providing customers a complete range of crop solutions. To implement this, Company has also started production of Harvesters, rotavators etc.

❖ THREATS

- Economic downturn or slowdown can lead to decreased volumes and capacity utilization.
- Continued threat of raw material price volatility translating into pressure on margins during a rapid increase in raw material prices.
- Week currency resulting in pressure on margins.
- Any change in the government policy or its budgetary allocation to the infrastructure sector will have a major impact on Company's business.
- Increasing competition from National and International players.
- Unforeseen business losses.

❖ SEGMENT WISE OR PRODUCT WISE PERFORMANCE

Company operates mainly in three segments i.e. Cranes,

Material Handling/Construction Equipment and Tractors. The Company has a balanced approach to the Cranes, Material Handling/Construction Equipment and Tractor, which helps us in capitalizing on our strengths in all three segments and to respond to market fluctuations and customer strategies.

During the financial year 2015-16, Cranes revenues increased by 10.40%, whereas material handling / construction equipment division revenues were lower by 5.50% as compared to previous year. Agri Equipment division revenues were down by 4.90 % in 2016 as compared to 2015 levels as tractor industry was down by more than 15 % due to poor monsoons, tightening of credit norms by banks / NBFC due to increase in NPA and delay in payment to farmers by the sugar cane industry.

Cranes division profits increased by 32% because of various cost initiatives taken by the Company.

Material handling / Construction equipment division resulted in losses due to lower volumes and non-absorption of fixed overheads due to reduction in revenues in 2016 as compared to 2015 levels.

Agri Equipment Division profits were reduced by 72.00 % mainly due to lower volumes and increase in costs due to opening of new territories.

❖ RISKS AND CONCERN

The Company's ability to foresee and manage business risks is crucial in achieving favorable results. The Company operates in an environment which is affected by various risks, some of which are identifiable and controllable. Some others are unexpected and cannot be controlled. Under these conditions, proper identification and management of risks is very

important in determining the ability of the organization to sustain value creations for its stakeholders.

The impact of the key risks which are listed below has been identified through a formal process by the management. However, the Company has been taking appropriate measures to mitigate these risks on a continuous basis. Some of the risks that are potentially significant in nature and need careful monitoring are listed hereunder:

- **Raw material prices volatility :**

Steel and other commodities are subject to price volatility and our profitability and cost effectiveness may be affected due to any increase /decrease in the prices of raw materials and other inputs.

- **Ability to pass on increasing cost:**

Ability to pass on increasing cost in a timely manner depends upon the demand supply situation and competitive activities and there has been a general reluctance as seen in the past, to make significant price hikes.

- **Continued Economic Growth :**

Demand of our equipments / machines is dependent on economic growth and / or infrastructure development. Any slowdown in the economic growth affects our growth.

- **Market Risks :**

Even as the Indian economy slowly recovers from the prolonged downturn, infrastructure spends will take time to kick in. Consequently, demand for construction equipments remains muted. Whereever there is demand, one find stiff competition from other players trying to secure these orders at such prices as may put unsustainable pressure on margins.

- **Foreign Currency Risks:**

Exchange rate fluctuations may have an adverse impact on the Company.

- **Cyclical nature of the Industry:**

The Company's growth is linked to those of the crane Industry, which is cyclical in nature. The demand for crane has a significant impact on the demand and prices of the products manufactured by the Company. A fall in the demand and / or prices would adversely impact the financial performance of the Company.

Agriculture Industry growth is dependent upon normal monsoons and availability of finance from public sector banks and NBFC. The Indian met department is predicting above normal monsoon in the current fiscal. Tractor sales run the risk of demand drop in case of significant variations in the monsoons.

❖ **OUTLOOK**

The entire construction industry is going through a phase of consolidation and needs to overcome financial situations and challenges related to debt. There are green shoots in the infrastructure sector like development in highways, waterways, energy distribution which offers various opportunities for us.

The growth is back in India and government financed infrastructure outlays have started, especially in highways. The restrictive regulations are being eased or removed, industry sentiments are improving and given the focus on infrastructure that the current Government has, we expect to see improvements on the ground for the infrastructure development sectors.

One believes that worst is behind for infrastructure in India. With signs of lowering interest rates, the construction and infrastructure sector is expected to pick up shortly.

However, most markets will remain competitive but ACE due to its good customer relationship will penetrate the market and will gain market share.

Your Company recognizes the tough times and have already initiated significant cost reduction efforts, optimization of working capital requirements in order to minimize financing costs. These, coupled with other operational executions will enable the Company to register better performance in the coming years. The efforts on cost optimization and process improvement will continue.

The Management anticipates improvement in the economy and is confident that when the revival happens, with right focus and proactive approach your Company will be able to capitalize on the future opportunities.

FY 2017 will be a year for reviving the business with process improvement initiatives which should see better performance of the Company.

❖ INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Company has a proper and adequate system of internal controls, commensurate with its size and business operations to ensure the following:

- Timely and accurate financial reporting in accordance with applicable accounting standards;
- Optimum utilization and safety of assets;
- Compliance with applicable laws, regulations, listing applications and management policies; and
- An effective management information system and reviews of other systems.

❖ RISK MANAGEMENT AND GOVERNANCE

ACE is committed for global benchmarking in good corporate governance, which promotes the long-term interests of all stakeholders, creates self- accountability across its management and helps built trust in the Company. A robust internal financial control system forms the backbone of our risk management and governance. In line with our commitment to provide sustainable returns to our stakeholders, ACE has formalized clearly defined systems and policies for timely addressing key business challenges and opportunities.

❖ FINANCIAL PERFORMANCE REVIEW

The key highlights of financial performance of standalone business are as under:

- Total Revenue for the FY 2015-16 was Rs 646.77 Crores compared to Rs 608.85 Crores in the previous year, a growth of 6.23%.
- Earnings before interest, depreciation, tax and amortization (EBITA) for the FY 2015-16 rose to Rs 40.43 Crores from Rs 32.15 Crores in the previous year, a growth of 25.75%.
- Profit before tax for the FY 2015-16 increased to Rs. 15.07 Crores from Rs. 9.57 Crores in the previous year, a growth of 57.47%.

During the year, Company has paid an interim dividend of Rs .0.20/- per equity share of Rs 2/- each.

The second half of the financial year witnessed early signs of recovery and thus revenue growth remained modest during the year. Despite challenging economic conditions, we were able to mobilise internal resources effectively and focused on reducing net working capital requirement and total debts of the Company. Our focus on cost efficiency throughout the product portfolio enabled us to improve margins.

In pursuance of the Scheme of amalgamation ("the Scheme") sanctioned by the Hon'ble High Court of Punjab and Haryana vide its order dated 17th Nov, 2015, 1,83,83,000 equity shares and 3,02,19,380 preference shares of the Company was issued on 15th March, 2016 to the shareholders of ACE TC Rentals Private Limited in ratio of 1168 fully paid up equity shares of Rs. 2/- each of the ACE for every 100 fully paid up equity shares of Rs.10/- each of ACE TC Rentals Private Limited (the Transferor Company) held by the Members whose names appear in the Register of Members of the transferor company such that the equity shareholding of the Members in the ACE is increased only upto five percent of the post issue paid-up equity share capital of the ACE. As a result of this, the issued, subscribed and paid up capital of the Company has increased from Rs 1978.80 lacs in FY 2014-15 to Rs 5368.40 lacs in FY 2015-16. The Authorised share capital of the Company has also increased from Rs. 2450 lacs in FY 2014-15 to Rs. 5525.00 lacs in FY 2015-16.

The entire business, assets, liabilities, duties and obligations of ACE TC Rentals Pvt. Limited were transferred to and vested in the Company with effect from the appointed date i.e. April 1, 2014.

❖ MATERIAL DEVELOPMENTS IN HUMAN RELATIONS/ INDUSTRIAL RELATIONS

ACE has always maintained that human capital is one of the critical factors towards achieving success. Human resource strategy takes into cognizance the key aspects of people development and progressive industrial relations. The endeavor is to build and strengthen organizational capabilities thereby enabling the Organization to sustain attractive growth in a dynamic business environment. We ensure that there is full adherence to the code of ethics and fair business practices.

Industrial relations were cordial throughout the year.

❖ CAUTIONARY STATEMENT

Management Discussion and Analysis detailing the Company's objectives, outlook and expectations have "forward looking statement" within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied depending upon global and Indian demand-supply conditions, changes in Government regulations, tax regimes and economic developments within India and overseas.

BOARD'S REPORT

The Directors are pleased to present the 22nd Annual report and Audited Statement of Accounts for the financial year ended 31st March, 2016.

(Rs. in lacs)

FINANCIAL RESULTS	2015-16	2014-15
Gross Turnover	**65,005**	**61,681**
Excise Duty	3,616	2,885
Net Turnover	**61,389**	**58,796**
Operating and Other Income	3,288	2,089
Total Income	**64,677**	**60,885**
Profit before Depreciation, Interest and Tax	**4043**	**3,215**
Less:		
Depreciation	1135	957
Interest	1401	1,301
Provision for Taxation	626	282
Net Profit after Tax	**881**	**675**
Profit brought forward	4,894	4657
Balance of Amalgamating Company	918	-
Profit available for Appropriation	**6,693**	**5,332**
Appropriations:		
Dividend	209	198
Corporate Tax on Dividend	43	40
Amount transferred to General Reserve	200	200
Profit carried to Balance Sheet	**6,241**	**4,894**

FINANCIAL PERFORMANCE

During the financial year under review, on a standalone basis, Your Company's achieved gross turnover of Rs. 65,005 lacs as compared to Rs. 61,681 lacs in the previous year, thereby registering a growth of 5.39 %. The profit before depreciation, interest and tax stood at Rs 4043 lacs in the year 2015-16, as against Rs. 3,215 lacs in the year 2014-15, representing a growth of 25.75 %.

The profit after tax is Rs. 881 lacs in the year 2015-16 as against Rs, 675 lacs in the previous year i.e. an increase of 30.51 %.

The Company could achieve such a growth and performance due to tighter operating controls, prudent raw material sourcing, new customer addition and controlled overheads.

Your company has taken several steps to reduce cost and increase its market share in all products.

STATE OF COMPANY'S AFFAIRS

The financial year 2015-16 embarked upon visible improvement in operating margins due to focused cost efficiency measures, price discipline and low commodity prices.

During the year, we launched new products like skid loaders, wheel based harvesters and introduced smart features in our existing product range that not only helped us to increase our market share but also adhere to our core philosophy of providing customised solutions to our customers. ACE realigned its focus on domestic markets and growth. ACE sustained its investment in brand and manpower to prepare for next growth phase. The Company continues to invest in future technology, products and people. The Company is ready for next phase of growth.

We were awarded best seller in mobile cranes category by Equipment India at 3rd Equipment Award, 2016.

RESERVES

Your Company proposes to carry Rs 200 lacs to the general reserve and retain Rs. 880.89 lacs in the profit and loss account.

DIVIDEND

At the meeting of Board of Directors held on 15th March, 2016, the Directors approved the payment of Interim Dividend of 10 % on the equity share capital for FY 2015-16, resulting in an outflow of Rs 237.44 lacs (Including Corporate Dividend Tax of Rs. 39.56 lacs). Since the Company has paid interim dividend to the equity shareholders for the financial year 2015-16 and in order to conserve the resources of the Company and to build up reserves, the Directors has not recommended any final dividend on Equity Shares Capital of the Company.

Directors have recommended dividend of 8% on Preference Share Capital of the Company on the pro data basis from the allotment date till March 31, 2016, which will result in an outflow of Rs. 14.24 lacs (including Corporate Dividend Tax of Rs. 3.01Lacs).

The payment of dividend is subject to the approval of the shareholders at the ensuing annual general meeting of the Company.

MATERIAL CHANGES AND COMMITMENTS, IF ANY

No material changes and commitments affecting the financial position of the Company occurred between the end of the financial year to which this financial statement relate and the date of this report.

ISSUE OF SECURTIES

In pursuance of the Scheme of amalgamation ("the Scheme") sanctioned by the Hon'ble High Court of Punjab and Haryana vide its order dated 17th Nov, 2015, 1,83,83,000 equity shares and 3,02,19,380 preference shares of the Company were issued on 15th March, 2016 to the shareholders of ACE TC Rentals Private Limited in ratio of 1168 fully paid up equity shares of Rs. 2/- each of the ACE for every 100 fully paid up equity shares of Rs.10/- each of ACE TC Rentals Private Limited (the Transferor Company) held by the Members whose names appear in the Register of Members of the transferor company such that the equity shareholding of the Members in the ACE is increased only upto five percent of the post issue paid-up equity share capital of the ACE. As a result of this, the issued, subscribed and paid up share capital of the Company has increased from Rs. 1978.80 lacs in FY 2014-15 to Rs. 5368.40 lacs in FY 2015-16. The Authorised share capital of the Company has also increased from Rs. 2450.00 lacs in FY 2014-15 to Rs. 5525.00 lacs in FY 2015-16.

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SUBSIDIARY COMPANIES AND CONSOLIDATED FINANCIAL STATEMENTS

Your Company has a Wholly Owned Subsidiary and a Fellow Subsidiary, at the end of the current financial year ended on 31st March, 2016, namely:

1. Frested Limited, Cyprus- Wholly Owned Subsidiary

2. SC Forma SA, Romania - Fellow Subsidiary

There has been no material change in the nature of the business of the subsidiaries.

In accordance with section 129(3) of the Companies Act, 2013 and Accounting Standard (AS) – 21 on Consolidated Financial Statements, the Company has prepared consolidated financial statements of the Company and all its subsidiaries, which form part of this Annual Report.

A report on the performance and financial performance of the Subsidiary and associate Companies as per Companies Act, 2013 is provided in the prescribed form AOC -1 as Annexure-I to this report.

The Policy for determining material subsidiaries may be accessed on the Company's website viz www.ace-cranes.com.

BOARD OF DIRECTORS

Pursuant to the provisions of section 149 of the Companies Act, 2013, Mr. Girish Narain Mehra (DIN: 00059311), Mr. Subhash Chander Verma (Din: 00098019), Mr. Keshav Chander Agrawal (Din: 00098143) and Dr. Amar Singal (Din: 00035903) were appointed as independent directors at annual general meeting of the Company held on September 25, 2015.

The Independent Directors of the Company have given declarations that they meet the criteria of independence as laid down under Section 149(6) of the Act and there has been no change in the circumstances which may affect their status as independent director during the year.

In accordance with Article 88(1) of the Articles of Association of the Company, Mrs. Surbhi Garg retires by rotation in ensuing Annual General Meeting and being eligible offer herself for re-appointment at the forthcoming AGM.

During the year, the non-executive directors of the Company had no pecuniary relationship or transactions with the Company, other than sitting fees for the purpose of attending meetings of the Company.

None of the Directors of your Company is disqualified as per provisions of the Companies Act, 2013.

ATTRIBUTES, QUALIFICATIONS, INDEPENDENCE AND REMUNERATION OF DIRECTORS AND THEIR APPOINTMENT

The criteria for determining qualifications, positive attributes and independence in terms of Act and the Rules thereunder, both in respect of independent and the other Directors as applicable has been approved by the Nomination and Remuneration Committee. The Board is well diversified and have balance of skills, experience and diversity of perspectives appropriates to the Company.

Directors are appointed / re-appointed with the approval of the Members for a period of three to five years or a shorter duration. All directors, other than independent directors and Managing Director, are liable to retire by rotation, unless approved by the members. One-third of the Directors who are liable to retire by rotation, retire every year and are eligible for re-election.

The Company's policy relating to remuneration of Directors, key managerial personnel and other employee is displayed on the website of the Company at www.ace-cranes.com and is provided as Annexure -II to this Report.

KEY MANAGERIAL PERSONNELS

Pursuant to the Provisions of Section 203 of the Companies Act, 2013, Mr. Vijay Agarwal, Chairman & Managing Director, Mrs. Mona Agrawal , Mr. Sorab Agarwal & Mrs. Surbhi Garg , Whole Time Director, Mr. Rajan Luthra, CFO and Mrs. Yashika Kansal, Company Secretary are designated as Key Managerial Personnel of the Company.

Further, Mr. R.S. Jhanwer, Head – Corporate Affairs & Company Secretary resigned w.e.f. 11th January, 2016 and Mrs. Yashika has been appointed as Company Secretary & Compliance Officer w.e.f. 06th February, 2016.