

23rd Annual Report 2016-17



LIFTING
INDIA'S
INFRASTRUCTURE
GROWTH



Action Construction Equipment Limited

Mobile Cranes (3-50 Tonss)



Forklift Trucks



Mobile Tower Cranes



Lorry Loaders



Tractors



Vibratory Rollers



Backhoe Loaders



Motorgraders



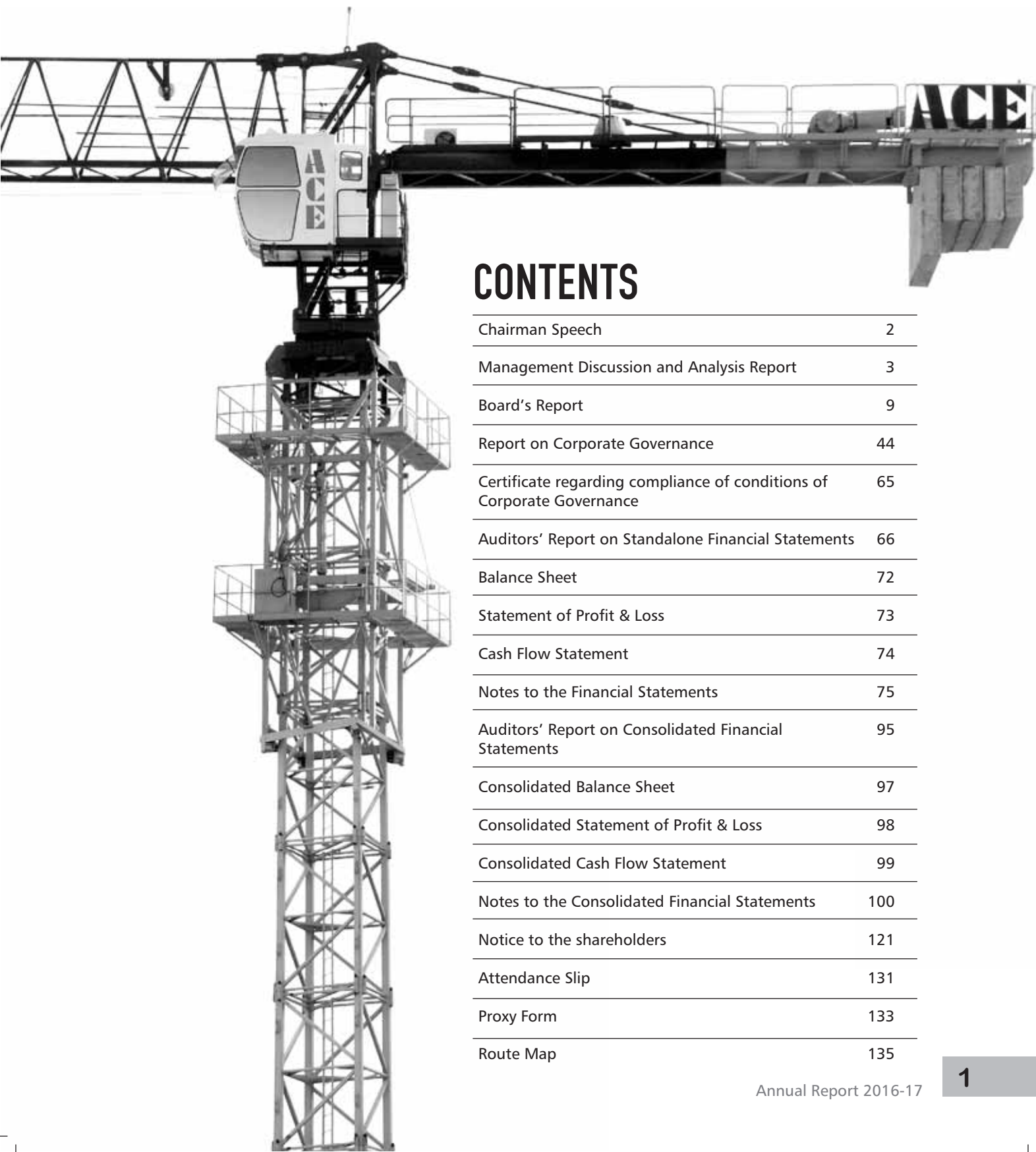
Crawler Cranes



Tower Cranes

Concerte Placing Booms





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Chairman's Speech



Dear Shareholders,

I am happy to report that our financial and operational performance in FY 2016-17 was commendable in a challenging business environment. Our focus on delivery and growth continued to yield results in what was a difficult year for the sector where we operate. Our Company generated PBDIT of Rs. 5018 lakh for the year. Our strong balance sheet and conservative financial profile is reflected through our strong credit rating.

It was yet another difficult year for the global economy, characterized by low growth and geopolitical uncertainties. In India, rural demand continued to be sluggish in the early part of the year. The overall market showed signs of recovery in the latter half of the year but faced a temporary slowdown in November due to demonetization. India is on the growth path.

I believe that the forthcoming year holds promise of improvement as far as investment momentum is concerned. The Government's focus on a slew of recent initiatives like, make in India, Smart cities, Railways, Irrigation, highway projects, water revitalization, rural and urban development, affordable housing projects, housing to all by 2022, focusing on improving rural infrastructure, aiming for a smooth flow of agriculture credit and funding under various irrigation schemes and other growth-stimulating infrastructure, places your company in a favorable position. We are future-ready to capitalize on the emerging opportunities.

The introduction of GST is a significant reform measure and will overtime help India in simplifying tax structure and compliance, aligning it with practices in developed countries.

By virtue of our engagement in the core sectors of the economy – agriculture, infrastructure and construction, our businesses make a unique contribution to the growth and development aspirations of the nation.

A sharp focus on marketing, our vibrant customer relationship, coupled with continuing investments in R&D is the mantra to ACE next level of growth. The Company believes in providing products suitable to the market requirements. R&D is providing the impetus to take forward this mindset. Our dedicated R&D Centers have sharpened our focus on various innovative product categories and helped us launch new products that are in tune with customer needs. We are alive to the realities of technological challenges. Our R&D teams are working on all these areas to ensure that ACE always remains the forefront of innovation and keep breaking new paths in customer satisfaction.

Our Social Responsibility and Sustainability efforts continue to win us laurels. We undertake these with same beliefs and conviction as we do our commercial activities. What makes us different from others is that we have made these efforts intrinsic to our commercial activity or strategy, and not something that we are forced to do by regulatory mandate.

We invested in creating capacities and expanding our manufacturing base, products, and product support network. This was done to be able to cater to demand as it picked up.

In the year 2017-18, we will continue to strive to set higher benchmarks of performance and strengthen our engagement with our stakeholders. Our strategy is in place to build stronger partnerships among our suppliers and dealers, broaden our distribution network and expand our coverage to maximize reach. We are working towards cost optimization, lean processes and proficient operations to enhance our profitability.

We are looking forward to continue on our mission of generating sustainable value for our stakeholders. I would like to place on record my sincere appreciation to the Board of Directors for their guidance. I would like to express my gratitude to all our stakeholders for their continuing faith in ACE.

With best wishes,

Sincerely,

Vijay Agarwal

Chairman and Managing Director



Management Discussion and Analysis

❖ INDUSTRY STRUCTURES AND DEVELOPMENTS

India's economy gained momentum in last fiscal, robust urban consumption and public investment have supported growth, despite dismal global conditions. Despite an expected decline in the growth rate owing to slowdown in manufacturing, decline in budgetary capital expenditure and demonetization, India is expected to continue as the fastest growing large economy.

The country's economic growth is facing challenges such as subdued manufacturing, lower exports of services, and lower private capital expenditure. However, due to favorable indicators such as moderate levels of inflation, reduced Current Account Deficit (CAD), fiscal consolidation and transitory impact of demonetization, the Government expects India's GDP to expand at a growth rate between 6.75–7.5 % during 2017-18. Cheap borrowing costs and fading impact of demonetization could increase the private consumption and thereby further drive economic growth.

India's construction equipment industry, which was down in the dumps during last four years, has shown signs of recovery from 2016, on the back of increased highway construction; improved government spending on water revitalization and building new cities across the India. Growing public & private infrastructure, FDI reforms for construction sector, highway

projects and growing economy has led to the overall surge of construction equipment market in India.

India's construction equipment market is projected to reach 131 thousand units by 2022. The market declined during 2012 to 2016 owing to factors such as delay in project clearance issues and land acquisition delays. However, in coming years, owing to several construction projects in pipeline, the market for construction equipment is expected to witness growth led by surge in construction vehicle segment, followed by earthmoving segment. The Indian construction equipment industry is projected to exhibit a cumulative annual growth rate of 19% during 2013-2018.

The need for boosting infrastructure development has been core to the present Government of India's policies. There have been reforms to boost sectors like roads, railways, power distribution and rural and urban developments. Further initiatives by the government to develop 100 new smart cities and setup industrial hubs in the country through "Make in India" campaign would boost the overall construction equipment market in the country. Construction vehicle segment is leading the revenue market share on account of wide deployment in mining and construction sector.

The recent progress in highway road building activity and coal mining auction augurs well for the future. There is cautious optimism that by 2018-19, the industry will get back to an output level of 70,000 units that was achieved in 2011-12.

The Union budget for FY 2018 has allocated for infrastructure development Rs.3,96,135 crore being 14% increase compared to last year. The Union Budget has proposed to assign infrastructure status to the affordable housing projects, which is aligned with the government's aim to provide "housing to all" by 2022. The proposed positive changes for affordable housing and overall for the entire Real Estate sector will have a positive multiplier effect on many other including ACE tower cranes.

The Indian Government has heavily invested in the development of roads, railway tracks, airports, and overall infrastructure development, which involves the use of excavators, loaders, and other such heavy machinery. The key market players design and develop smart, internet-enabled, fuel & energy-efficient machinery, thus accelerating the market growth.

The Earthmoving and Construction Equipment (ECE) industry is back on track. This growth in the ECE industry is primarily driven by the roads and highways sector. This growth in the sector needs to be sustained, and a lot depends on the execution of the projects that are being announced.

The implementation of Goods and Services Tax (GST) is expected to improve tax compliance and governance, and will provide an impetus to the investments and growth in the country.

Despite the focus on industrialization, 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% of the rural households depend on agriculture as their principal means of livelihood.

The Agriculture and Allied sector witnessed an improved rate of growth in FY 2017. This is largely on account of a normal monsoon throughout the country for the current fiscal, as against sub-par monsoon during in FY 2015 and FY 2016.

Focusing on improving rural infrastructure, the government has increased allocation on various schemes such as MNREGA, besides aiming for a smooth flow of agriculture credit and funding under various irrigation schemes.

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, harvesters will increase and will help your Company as it will result in robust growth in tractor volumes as well new products like track 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. Its 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

The end-users are demanding world-class technology for better fuel efficiency, higher productivity and profitability; ACE come up with innovative solutions to meet customer expectations.

Demand for construction equipment is likely to rise as a result of growth in traditional end-user industries, including construction and mining. Thus, the ACE in India can tap these markets. Growing urbanization is also set to positively impact the growth of ACE.

Government of India's Make in India campaign, 100 'Smart Cities' project and 'Housing for All' scheme covered in over



300 cities would also provide the necessary boost to the demand for construction equipment in the years to come.

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.

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.

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**

- Many new construction equipment players have emerged in the country and many more will hit the ground in the coming years. Thus, the construction equipment companies in India will have to face stiff competition.

- While construction equipment manufactures in India will continue to put in the market increasingly sophisticated machines in greater numbers, the industry might have to face an increasing shortage of trained manpower to operate and service these machines, thus impacting sales.
- Continued threat of raw material price volatility translating into pressure on margins during a rapid increase in raw material prices.
- Weak 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.
- Unforeseen business losses.

❖ **SEGMENT WISE OR PRODUCT WISE PERFORMANCE**

Company operates mainly in three segments i.e. Cranes, Material Handling/Construction Equipment and Agri Equipment. The Company has a balanced approach to the Cranes, Material Handling/Construction Equipment and Agri Equipment/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 2016-17, Cranes revenues increased by 19.46%, Material Handling/Construction Equipment division revenues increased by 62.13% as compared to previous year whereas Agri Equipment/Tractor division revenues were down by 0.52% in 2017 as compared to 2016.

Cranes division profits increased by 3% because of various cost initiatives taken by the Company.

Material handling / Construction equipment division profit increased by 695% because of increase in revenue and various cost initiative taken by the Company.

Agri Equipment Division profits increased by 173% mainly due cost initiative taken by the Company.

❖ **OUTLOOK**

The construction equipment industry is going to see a change in the coming years due to modifications in the infrastructure, construction and mining sectors in India. India's infrastructure industry has the biggest potential for growth and



opportunities for investment. We see the construction industry on the rise and foresee a positive trend in equipment purchase with more players entering into the aggregate industry. Some factors that are currently driving the demand for construction equipment in India include heavy investments in various infrastructural projects by public and private enterprises in areas like road construction and its maintenance, ports, power plants, telecommunication sector, urban infrastructural developments, smart cities, clean India and fast train projects etc.

The growth is back in India and government financed infrastructure outlays have started, especially in highways, housing, and railways. 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.

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 we 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 with improvement will continue.

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

FY 2018 will be a year for reviving the business with process improvement initiatives which should see better performance of the Company.

❖ 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 sustainability create value 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:

- **Resource Risks :** This risk refers to the timely availability of resources – particularly raw material, spare parts, fuel and labor. It also includes the risk that the raw material prices might move adversely, variations in prices of steel and other commodities. Rising material costs affect profitability and competitiveness. The major impediments today faced by the construction equipment industry in raising the levels of productivity are the acute shortage of skilled manpower, both at worker and supervisory levels, as well as the lack of experienced construction equipment engineers. The industry as a whole needs to do a lot more to address the lack of talent. Dearth of right talent could restrict the industry growth leading to rise in costs and the success of projects may be compromised.
- **Risks from Competition:** In recent years, India's liberalized regime has created opportunities and also increased competition in the construction equipment business, which has seen significant interest of foreign

players, mean overseas companies winning work at the expense of local players or partnering with them. New competitors entering the market and the current competitors pricing more aggressively intensifies the highly competitive condition that already exists.

- **Risks from Suppliers** : A construction equipment company relies on innumerable third parties for timely supply of specified raw materials, components, equipment and services. Some events could result in the complete or partial failure of supplies or in supplies not being delivered on time. Supply disruptions may also be the result of excessive dependence on a single supplier.
- **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.
- **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 normal monsoon in the current fiscal. Tractor sales run the risk of demand drop in case of significant variations in the monsoons.

❖ INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

The Management has laid down internal financial controls to be followed by the Company. We have adopted policies and procedures for ensuring the orderly and efficient conduct of the business, including adherence to the Company's policies,

the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial disclosures.

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.

❖ FINANCIAL PERFORMANCE REVIEW

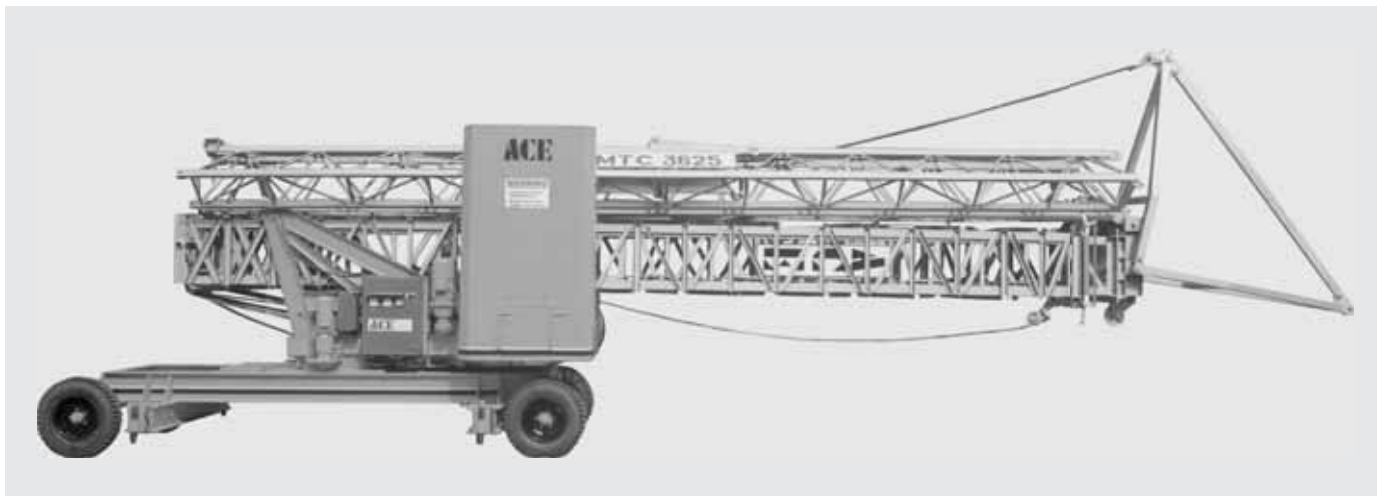
The key highlights of financial performance of standalone business are as under:

- Total Revenue for the FY 2016-17 was Rs 77,551 lakh compared to Rs. 65,005 lakh in the previous year, a growth of 19.30%.
- The profit before depreciation, interest and tax stood at Rs. 5,018 lakh in the year 2016-17, as against Rs. 4,043 lakh in the previous year, representing a growth of 24.12%.
- The profit after tax is Rs.1,964 lakh in the year 2016-17 as against Rs. 881 lakh in the previous year i.e. an increase of 123 %.

The Board has recommended dividend of Rs. 0.30 i.e (15%) per equity share of face value of Rs. 2 each, for the financial year ended March 31, 2017.

❖ MATERIAL DEVELOPMENTS IN HUMAN RELATIONS / INDUSTRIAL RELATIONS

The values and behaviors at ACE have inculcated a deeper sense of connect and engagement for its people. ACE fosters a culture that is performance oriented, promotes rewards for results and helps its people grow. ACE's workforce is one of the most critical resources for the Company and it is working tirelessly to foster a growth driven culture. Over the last couple of years the Company has brought about a major



transformation in its approach towards human resource management. The focus is on development of employees at professional and personal levels using a pioneering, integrated approach to all its employees. ACE is committed to building a system that encourages the development of future leaders from within the folds of the Company.

Industrial relations were cordial throughout the year.

❖ 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.

❖ 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.