



**Action Construction Equipment Limited**



**25<sup>th</sup>**  
**Annual Report**  
**2018-19**



**LIFTING**  
**INDIA'S**  
**GROWTH**



Road Equipment



Agri Equipment



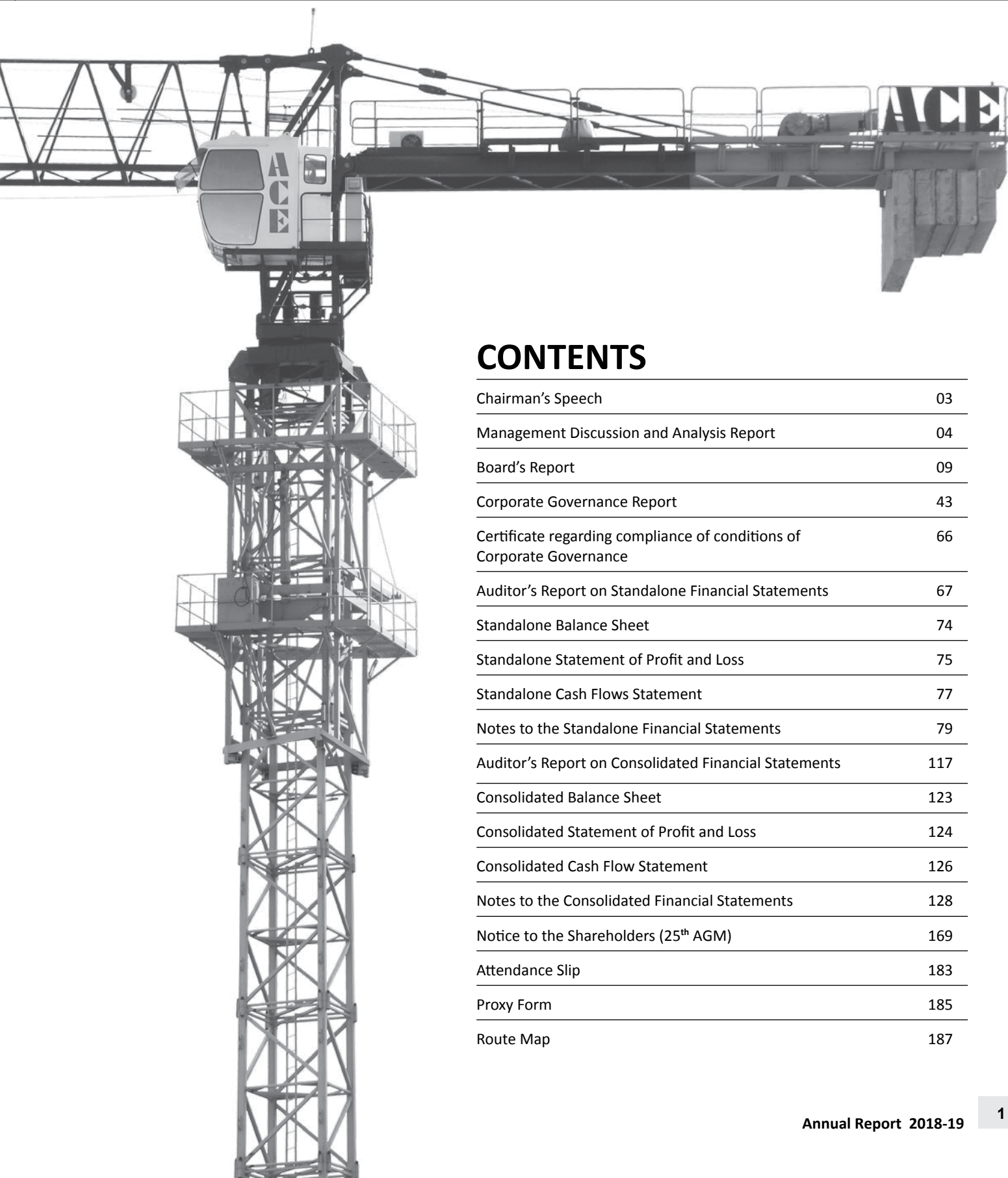
Material Handling Equipment



Cranes







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## Chairman's Speech



**Dear Shareholders,**

It gives me great pleasure to share with you the performance of our Company for the financial year 2018-19. Our revenue and profit numbers have grown steadily, strengthening our position as India's No. 1 Crane Brand.

The global economy recorded a healthy growth in the first half of calendar year 2018. During the second half of the year, however, the global economy lost some momentum, mainly on account of increased trade frictions between US and China, and the tightening of financial conditions. This had a spiraling effect on economies around the world.

India was no exception to the rule and the economy exhibited mixed record in the just concluded fiscal. GDP growth slowed from 7.2% in FY18 to 6.8% in FY19. Sub-par rainfall in 2018, tight financial conditions faced by non-banking financial sector and moderation of external demand were the key challenges faced by the economy.

As I look back at the last two years, it is noteworthy to highlight our Company's performance improved despite various macro-economic challenges, commodity price fluctuations and disruption around the world. Your company has delivered strong financial performance, worked closely with end users and communities, and at the same time earned a fair return for our shareholders.

Despite the challenges in the second half of FY19, your Company put in an impressive performance clocking revenues of ₹ 1,342.50 Crore, up 22.20% y-o-y and Profit Before Tax (PBT) of ₹ 84.34 Crore up 13.04% y-o-y. Our EPS continues to increase year after year. We have a capital allocation philosophy of providing regular and stable payout to investors keeping two important considerations in mind, firstly building long term stakeholder value and secondly making required investments for future growth. Consistent with this philosophy, the Board has recommended dividend @ 25% in FY 2019 and announced a share buyback of ₹ 34.25 Crore in May 2019. Your Company has

adequate liquidity and has a strong Balance Sheet. ACE enjoys AA- stable outlook, long term rating from ICRA as a result of our fiscal prudence and strong cash flows.

As the new Government takes office with a resounding mandate from the people of India, we are confident and optimistic that their proactive endeavors to create structural drivers of rapid growth will augur well for the economy. Structural reforms like the insolvency law, recapitalization of the banking sector, and non-performing asset management are likely to help the infrastructure sector to keep up the healthy pace of growth. ACE is well poised to benefit from the various structural policy reforms along with focused infrastructure spending by the Government.

We remain optimistic in our outlook for the construction equipment business and expect industry to grow in double digits in the long term. We have continued to reinforce our presence in all the product segments with greater customer engagements and technological innovations. Powered by our innovation spectrum and commitment to agile decision-making, we are geared to capitalize on the upcoming opportunities and are determined to innovate and grow.

It is our aspiration to be a leader in most of the business segments that we operate in and be acknowledged as a trusted provider of best-in-class products. Towards this, our relentless focus will be to speedily attain leadership in all the business segments while our diverse portfolio of businesses and competencies provide unique sources of competitive advantage. As we build scale, we remain deeply committed towards fiscal discipline and value creation. We have institutionalized best practices that have led to efficiency, safety, sustainability and stronger businesses.

I am excited with the speed and precision with which we are transforming ourselves to be future-focused while remaining steadfast to our time- tested values. We move into 2019, with the confidence that we have the right capabilities not just to seize, but pounce on every opportunity that comes our way.

Our Social Responsibility and Sustainability efforts continue to win us laurels, because we undertake these with pure beliefs and conviction like our commercial activities. The fact that our efforts are intrinsic to our commercial activity or strategy, and not something that we are forced to do by regulatory mandate is what makes us different from others.

I will look forward to your support and guidance, as always, to take ACE to greater heights.

**With best wishes,  
Sincerely,**

**Vijay Agarwal  
Chairman and Managing Director**

## MANAGEMENT DISCUSSION AND ANALYSIS

### ❖ INDUSTRY STRUCTURE AND DEVELOPMENTS

India's GDP in FY2019 is estimated to have grown by around 6.80%. While this is a laudable achievement in the global context, it falls marginally short of expectations due to an interplay of macro-economic and political factors. These include the uncertainties which invariably accompany our General Elections, volatility in crude prices and unpredictable currency fluctuations. The economy also had to grapple with a funding crunch for NBFCs precipitated by the IL&FS debt default, deceleration in the agriculture and mining sectors and widening of fiscal and current account deficits. On a positive note, the country has largely got back on track after the initial disruptive effects of twin reform measures, viz., Demonetization and GST. The longer-term benefits of both these measures are gradually being realized.

India continues to be one of the fastest growing major economies in the world. Initial half of FY 2018-19 grew at par with FY 2017-18 rates. India grew by 8 % in the first quarter and 7 % in the second before softening to 6.60 % in the third and 5.80 % in the fourth.

The Indian Construction Equipment market has been on a major upswing since 2015 with the sales of construction equipment growing by 24% and witnessing substantial growth on account of rapid infrastructural development activities and growing construction sector in the country.

The government's increased focus on infra and public sector has catapulted the industry as well as your company in a sweet spot in terms of volume growth. Barring real estate, most of the other segments like roads, mining, irrigation and ports have started doing well. As the positive impact of smart city projects and affordable housing concept begins to be visible at the ground level, construction equipment industry will witness its next leg of growth story.

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. Over 70% of the rural households depend on agriculture as their principal means of livelihood. The agricultural sector employs more than half of the nation's total workforce and contributes to 17-18% of the GDP.

The agriculture sector in India is expected to witness positive growth momentum due to a blend of adequate monsoon, greater incidence of mechanization, implementation of Minimum Support Price (MSP) for key crops, farm loan waivers, and subsidy support for tractor purchase in some states and easier availability of retail finance drive agriculture in India.

We are excited to cater to the growing national and international opportunities through our brand "ACE" and products which have been able to win the customer loyalty in all these years.



### ❖ OUTLOOK

The outlook for FY 2019-20 and beyond is linked to growth prospects in global economies which are projected to further moderate owing to winding down of fiscal stimulus in USA, geo-political uncertainties, trade tensions between major economies of the world, slowdown in China and weaker investor confidence world over.

The economic growth in India that we have been witnessing over the last couple of years has been primarily driven by increased public investment in infrastructure. While infrastructural development is a sovereign responsibility, public expenditure alone cannot drive growth in a sustainable manner in the absence of private investment.

To keep the growth momentum, the Government of India has embarked on a large initiative to accelerate infrastructure growth in the country. Spanning from roadways to airways, ports to airports, irrigation, dams, railways, power production capacity and smart cities are the thrust areas with more focus on development.

Indian Constructions and Equipment market has a robust potential for growth, having been supported by the government investments in improving infrastructure and housing demands. The industry is expected to continue to expand further driven by the government's efforts and large planned spends on housing, road, ports, water supply, and airport development.

Rapid pace of modernization and consistent government support underpin the long-term growth fundamentals of the farm sector.

As always, your company remains prepared to address these challenges and is sufficiently geared to capitalize on all relevant opportunities that will emerge in the near term and beyond. Though the rate of competitive intensity is expected to increase, your company remains confident of penetrating newer markets

and increases its market share owing to its world class product at a reasonable price and good customer relationship.

### ❖ OPPORTUNITIES

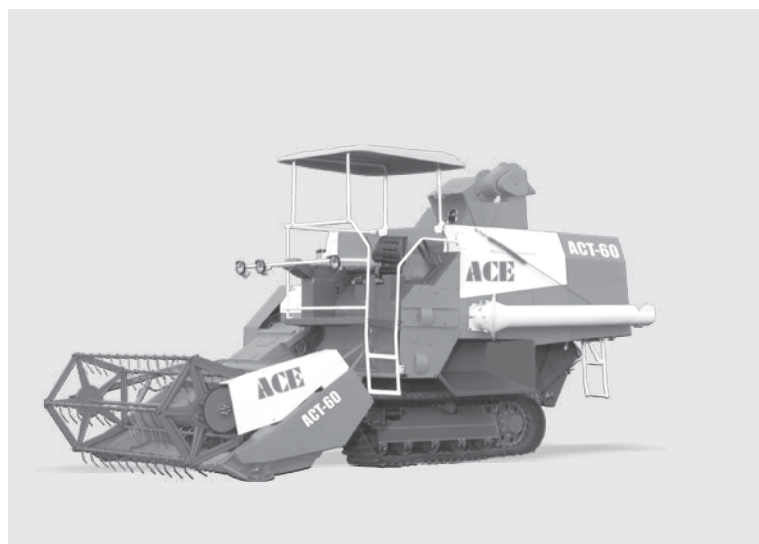
To improve the country's infrastructure which is crucial to a holistic economic recovery and to boost the economy, the Government will continue taking several steps and your company is optimistic about capturing the upcoming opportunities.

Some of the exciting opportunities that could be addressed include:

- The impressive pipeline of mega infrastructure projects – such as Bharatmala, Sagarmala, Chardham, Bullet trains, modernization of railways etc;
- Urban Infrastructure, which is the key focus of the Government, is likely to continue in future;
- Smart City Mission for developing smart cities across India;
- In the Agri segment, the Company is looking at significant product expansions and improving its market share including exploring new territories outside India. We have increased our presence in most of the states and are focusing on providing customers with a complete range of crop solutions;
- Export opportunities in the emerging economies look promising. Your company has set up a dedicated team to export our products to these countries as our products are cost competitive & therefore have a great demand in emerging markets of Asia & Africa;
- We believe that our proactive steps in providing innovative solutions to our customers and making strategic moves will keep us ahead of competition;
- Your company continues to focus on various strategies and initiatives to overcome the existing challenges. These include consolidation of new generation cranes in the targeted market segments. ACE continues to maintain 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;
- The Company is focused on bringing down cost & enhancing operational efficiencies to achieve profitable growth in the present competitive business environment. Our endeavor is to lower costs while maintaining superior quality;
- The Company will continue to focus on reducing the working capital levels by emphasis on speedy customer collections and reducing inventory levels.

### ❖ THREATS

- Any change in the government policy or its budgetary



allocation or sluggish pace of policy rollout and stringent regulatory measures towards the infrastructure sector, as these are largely dependent on public spending, will have a major impact on the Company's business;

- Increasing trade tensions and a general air of protectionism globally are likely to lead to possible slowdown in global trade and can curb the economic momentum;
- The emergence of foreign construction equipment manufacturers, including Chinese companies have intensified competition among key domestic and foreign players in the country which is set to increase further in the coming years. Chinese players with their predatory pricing and interest free usances offerings, remains a consistent threat;
- Significant increase in raw material prices mainly steel prices, hardening of fuel prices and weak currency will translate into pressure on margins;
- There is no consistency in the demand owing to the fluctuations in the market thereby making capacity planning challenging for the equipment suppliers.

### ❖ 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 creation for its stakeholders.

The impact of the key risks, which are potentially significant are listed below has been identified through a formal process by the management. Your Company recognizes that every business has



its inherent risks and the Company has been taking proactive approach to identify and mitigate them on a continuous basis. Some of the risks that are potentially significant in nature and need constant monitoring are listed below:

- **Risks from suppliers :** The Company relies on its vendors for timely supply of specified raw materials and components. These vendors have not increased their capacities, in line with the increase in demand, which could result in the complete or partial failure of supplies or in supplies not being delivered on time.
- **Inflation and cost :** The Company faces the risk of inflationary nature and market-driven cost of steel, since it accounts for nearly 70 % of our raw material cost, power and other fuel. Changes in their prices can significantly impact the production costs.
- **Economic environment and market demand :** Economic slowdown and subdued infrastructural development might lead to low demand of our equipment / machines.
- **Risks from competition :** Aggressive focus on infrastructural development has created opportunities and also increased competition in the construction equipment business, which has seen significant interest of foreign players.
- **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, as the industry is extremely price sensitive.
- **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.

- **Monsoons :** Monsoon is a major risk associated with the tractor industry as more than 50% of the agricultural lands are dependent on rainfall. On the other hand, construction equipment sales, to some extent, run the risk in case of above normal monsoon.

#### ❖ INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

Your Company has in place adequate internal control system and procedures commensurate with its size and nature of operations. Internal control systems comprising of policies and procedures are designed to ensure sound management of your Company's operations, provide a reasonable assurance over reliability in financial reporting, ensure appropriate authorization of transactions, safeguarding the assets of the Company and prevent misuse/ losses and legal compliances.

The internal control system includes a well-defined delegation of authority and a comprehensive Management Information System coupled with quarterly reviews of operational and financial performance, a well-structured budgeting process with regular monitoring of expenses and Internal audit.

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.

Systems and procedures are periodically reviewed to keep pace with the growing size and complexity of your Company's operations.

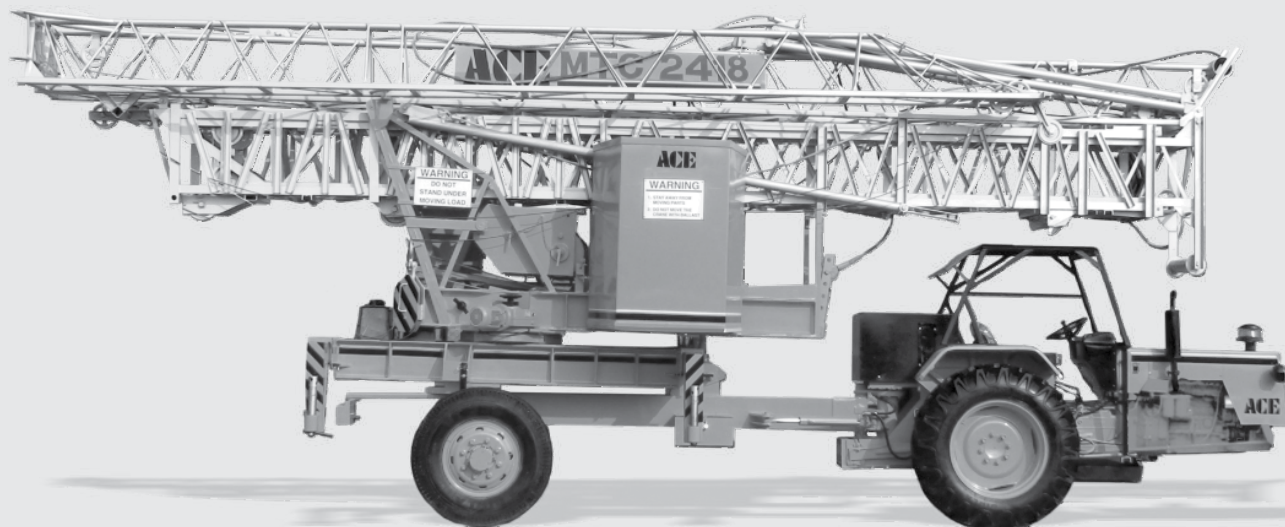
#### ❖ FINANCIAL PERFORMANCE REVIEW

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

- The Company scaled new heights by achieving total revenue from operation growth of 22.20% to ₹ 1,342.49 crores in the year ended March 31, 2019 as against ₹ 1,098.64 crores in the year ended March 31, 2018;
- The Earnings before interest, tax, depreciation and amortization (EBITA) went up by 7.54% to ₹ 107.62 crores in the year ended March 31, 2019 as against ₹ 100.07 crores in the year ended March 31, 2018;
- The Profit Before Tax (PBT) went up by 13.05% to ₹ 84.35 crores in the year ended March 31, 2019 as against ₹ 74.61 crores in the year ended March 31, 2018;







- The Profit After Tax (PAT) went up by 6.69% to ₹ 56.16 crores in the year ended March 31, 2019 as against ₹ 52.64 crores in the year ended March 31, 2018.

#### ❖ SEGMENT WISE OR PRODUCT WISE PERFORMANCE

Your Company operates mainly in four segments i.e. Cranes, Construction Equipment, Material Handling and Agri Equipment. The Company has a balanced approach to the Cranes, Construction Equipment, Material Handling and Agri Equipment, which helps us in capitalizing on our strengths in all four segments and to respond to market fluctuations and customer strategies.

- The Cranes division revenues increased by 28.74% to ₹964.29 crores in the year ended March 31, 2019 as against ₹ 749.00 crores in the year ended March 31, 2018. EBIT increased by 7.93% to ₹ 89.24 crores in the year ended March 31, 2019 as against ₹ 82.68 crores in year ended March 31, 2018.
- Construction equipment division revenues increased by 11.53% to ₹ 80.19 crores in the year ended March 31, 2019 as against ₹ 71.90 crores in the year ended March 31, 2018. EBIT decreased by 42.36% to ₹ 2.00 crores in the year ended March 31, 2019 as against ₹ 3.47 crores in the year ended March 31, 2018.
- Material Handling revenues increased by 16.88% to ₹ 94.38 crores in the year ended March 31, 2019 as against ₹ 80.75 crores in the year ended March 31, 2018. EBIT increased by 18.19% to ₹ 11.50 crores in the year ended March 31, 2019 as against ₹ 9.73 crores in the year ended March 31, 2018.
- Agri Equipment revenues increased by 10.17% to ₹ 203.63 crores in the year ended March 31,

2019 as against ₹ 184.83 crores in the year ended March 31, 2018. EBIT increased by 44.68% to ₹ 6.80 crores in the year ended March 31, 2019 as against ₹ 4.70 crores in year ended March 31, 2018.

#### ❖ MATERIAL DEVELOPMENTS IN HUMAN RELATIONS / INDUSTRIAL RELATIONS

ACE considers human resources to be its most valuable asset. The Company credits its growth and success to the dedication, loyalty and hard work of its skilled employees, at all levels. To continuously drive employee motivation, the Company offers a work environment that promotes creativity, teamwork, meritocracy, ambition and learning.

The company believes that its HR policies should be dynamic



and therefore takes adequate steps to review and realign them to ensure that they address changing workforce trends, best practices, and legislative requirements to help your organization achieve its evolving objectives. The company is focused on its people strategy to create a high performing work culture and fosters a culture that is performance oriented, promotes rewards for results and helps its people grow. Your company recognizes that the employees of the Company are the pillars of its success and growth. The focus is on development of employees at professional and personal levels using a pioneering, integrated approach to all its employees.

The number of permanent employees on the rolls of the Company as on March 31, 2019 are 1160.

Industrial relations were harmonious and cordial throughout the year.

#### ❖ DETAILS OF SIGNIFICANT CHANGES (i.e. CHANGE OF 25% OR MORE) IN KEY FINANCIAL RATIOS

Details of changes in key financial ratios are given herein below:

| S.No. | Particulars                 | FY 2019 | FY 2018 | % Change |
|-------|-----------------------------|---------|---------|----------|
| 1.    | Debtors Turnover            | 37      | 40      | -8%      |
| 2.    | Inventory Turnover          | 79      | 68      | 16%      |
| 3.    | Interest Coverage Ratio     | 6.52    | 8.32    | -22%     |
| 4.    | Current Ratio               | 1.14    | 1.13    | 1%       |
| 5.    | Debt Equity Ratio*          | 0.12    | 0.19    | -37%     |
| 6.    | Operating Profit Margin (%) | 6.28%   | 6.87%   | -9%      |
| 7.    | Net Profit Margin (%)       | 4.18%   | 4.84%   | -14%     |
| 8.    | Return on Net worth (%)     | 13.30%  | 13.80%  | -4%      |

#### ❖ RISK MANAGEMENT AND GOVERNANCE

Risk is an intergral and unavoidable component of business and your company is committed to managing risk in a proactive manner. Though risks cannot be completely eliminated; an effective risk management plan ensures that risks are reduced, avoided, retained or shared.

The company recognizes that effective risk management is crucial to its continued profitability and long-term sustainability of its business.

Given the challenging and dynamic environment of your Company's operations, strategies for mitigating the inherent risks in accomplishing the ambitious plans for your company is imperative. The Key business risks identified by your Company includes economic environment and market leadership, inflation and steel prices.

The risk horizon considered includes long term strategic risks, short to medium risks as well as single events. The risks are analysed considering likelihood and impact as a basis of determining their management.

The company is committed to adopt 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, your company has formalized clearly defined systems to manage its risks within acceptable limits by using risk mitigating techniques and have framed policies for timely addressing key business challenges and leveraging of business 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.

For and on behalf of the Board of  
**Action Construction Equipment Limited**

Sd/-  
**Vijay Agarwal**  
Chairman & Managing Director  
DIN: 00057634