100% Swadeshi

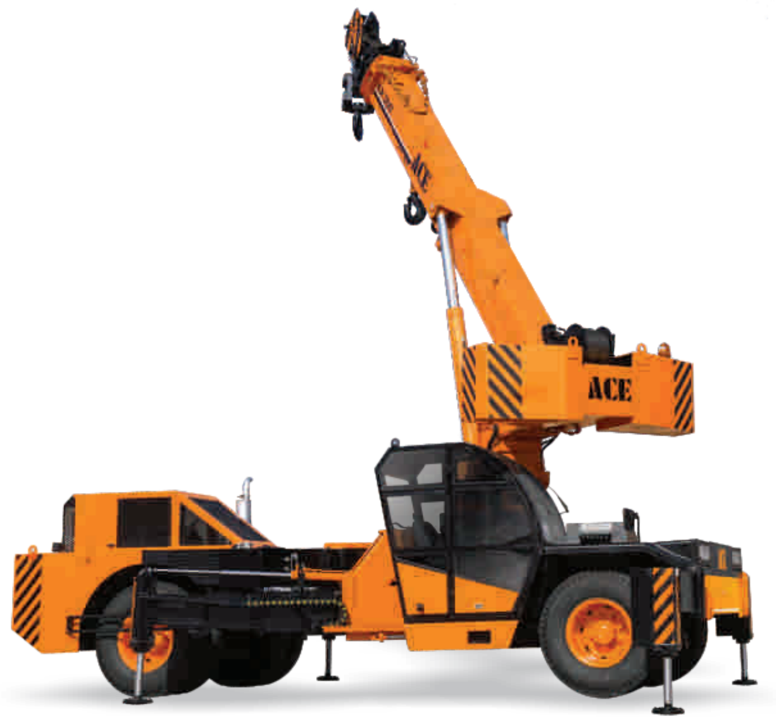
ACE

26th Annual Report

2019-20

ACE
25
Years
Lifting India's Growth

Emerged | Empowered | Energized

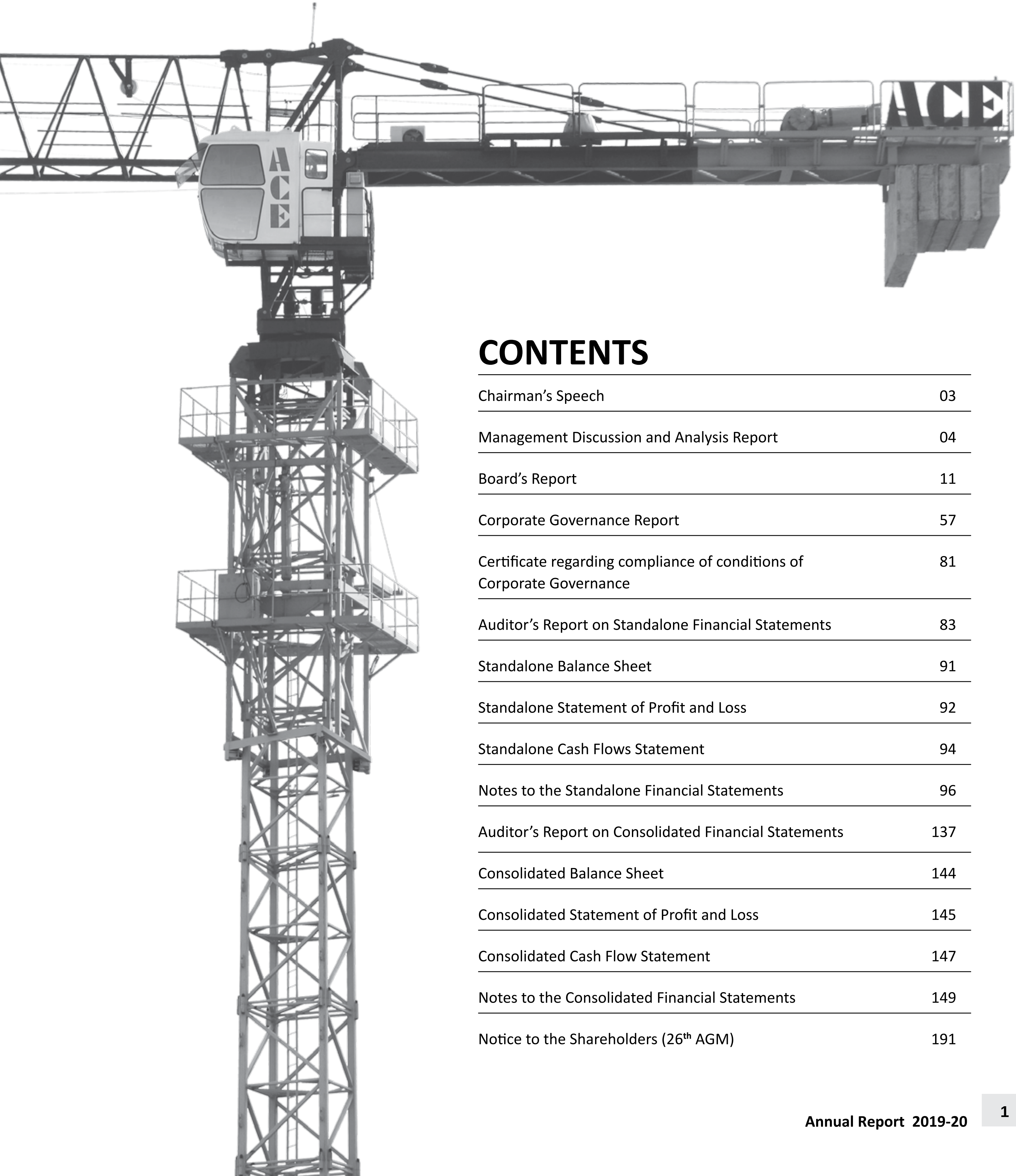


Road Equipment

Agri Equipment

Material Handling Equipment

Cranes



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Chairman's Speech

Dear Members,

I am writing you at a time when the nation is grappling with a global pandemic. While simultaneously gearing itself for a phased reopening of the economy and preparing for life beyond Covid-19. Further, simmering tensions along northern borders has precipitated an anti-China sentiment within the country. I believe this is a great opportunity for the Indian Industry to minimize our external dependencies and enhance self-reliance.

Global Economy

It has been several months since the pandemic engulfed the world and there is a lot of uncertainty with respect to the extent of economic contraction due to this crisis and the subsequent pace of recovery. As the world emerges from the current crisis, the next few years are likely to be marked by lack of buoyancy in growth, subdued inflation, a cautious trend in project investments, heightened risks of de-globalisation and political uncertainty.

Indian Economy

COVID-19 struck India, at a time when the underlying economic conditions were subdued on account of heightened global uncertainty and stress in the domestic financial system. COVID-19 and the associated lockdowns across countries has triggered a once-in-a-century crisis for the society and the economy in 2020. This is a defining period in human and business history: one that will test the resilience of individuals, corporations and nations.

Against this backdrop, a stringent national lockdown to slow the spread of the pandemic started in the last week of March 20 and remained active to varying degrees in different geographies through most of Q1 of FY21. Approx. 80 % of the India's GDP originates from the districts which were classified as red and orange zones during the lockdown, where economic activity remained severely constrained. India's GDP is likely to contract in FY21 and the contraction will be more severe in Q1.

Responding to this challenge, both the Reserve Bank of India and Government of India announced several policy measures to provide relief to the affected sections of the economy, to reduce the possibility of business failures and to support the process of recovery.

In these turbulent and dynamic times, ACE near term focus is to see through the turbulence – by conservation of cash, maintaining it's leadership position in the Crane business, safety of its team and assets and strengthening its business relationship.

Performance 2019-2020

After witnessing a healthy revenue growth of 23% in FY19, we exhibited a decline in revenue in this financial year. The demand was sluggish during H1FY20 and was further exacerbated by the general economic slowdown. The second half of the fiscal witnessed extended monsoons, low capital expenditure on infrastructure and road activities, along with financial stress in the NBFC and housing sectors. The improving demand since December 2019 could not be sustained due to the outbreak of COVID-19.

Despite de-growth across all the four sectors we operate in, we at ACE were able to increase our EBITA and PAT margins with strategic focus and optimized resources.

Tough times can be overwhelming. There are some who gets intimated and wait for storms to subside. Yet there are others who resolve to fight despite the odds. They continue to seek challenges. They keep pushing harder and remain persistent. This is what we, at ACE did in FY20. The nature of disruption was such that even the most robust players felt the heat. Starting from the liquidity crisis to slowing macro economy, weak economic sentiments, tough real estate scenario, and finally the outbreak of COVID-19 pandemic. The going only got tougher.

At ACE, we stood our ground. We persistently handled the pressure of short-term without losing sight of the long-term. We strengthened our market position while undertaking initiatives for the betterment of all stakeholders.

Outlook

Covid 19 pandemic and its fallout make it difficult to forecast the future with degree of certainty. While we are hopeful that 2nd half of FY 2020-21 will have better economic and business activity in terms of good liquidity, revival of construction activities, return of migrant labours and restoration of supply chain, it would be premature to predict the Company's business outcomes for FY 2020-21. We are putting enormous efforts to mitigate the impact of the pandemic and remain positive.

Given the fog of uncertainty all around, it is hard to predict the outcome. In these conditions Companies with quality leadership, sound business fundamentals and a track record of winning in turbulent times, will emerge as champions.

Given your Company's inherent strengths and financial stability, I am confident that ACE will emerge stronger from this global crisis.

We all are passing through a crisis of unprecedented magnitude, and I would like to thank the ACE team, our customers, vendors and other stakeholders for the confidence and trust they have reposed on us. I also thank my fellow board members for the invaluable support in guiding the Company.

With best wishes,
Sincerely,

Vijay Agarwal
Chairman and Managing Director

MANAGEMENT DISCUSSION AND ANALYSIS

❖ INDUSTRY STRUCTURE AND DEVELOPMENTS

The Indian Economy has been exhibiting lackluster growth in the face of global volatility amidst weak manufacturing domestic demand and global trade bottoming out and a broad-based shift towards accommodative monetary policy. Real GDP has slowed down from 6.10 % in FY 2018-19 to 4.20% in FY 2019-20 due to slow down in private consumption, lower tax collections and a sharp slowdown in credit growth.

To overcome the slowdown, various reforms were announced by the Government in FY 2019-20 viz reduction in corporate tax rates, a scheme to provide one time partial credit guarantee to public sector banks for purchase of pooled assets of financially sound non-banking financial companies (NBFC), re-capitalisation of public sector banks, relaxation of external commercial guidelines for affordable housing, setting up of a Realty Fund for stalled housing projects, merger of public sector banks and revised priority sector lending norms for exports.

Private sector investments continued to be muted in the area of industrial capex and building infrastructure. The Government announced National Infrastructure Pipeline (NIP) of projects worth Rs 100 lakh crs plus up to FY 25, with a focus on energy, road, railways, and urban infrastructure and irrigation projects to provide a much needed productivity boost to the Indian economy and fulfill India's aspiration to become a USD 5 trillion economy by 2025. The NIP, coupled with other pro-business policy initiatives, is expected to lead to a rebound of domestic demand in the medium and long term.

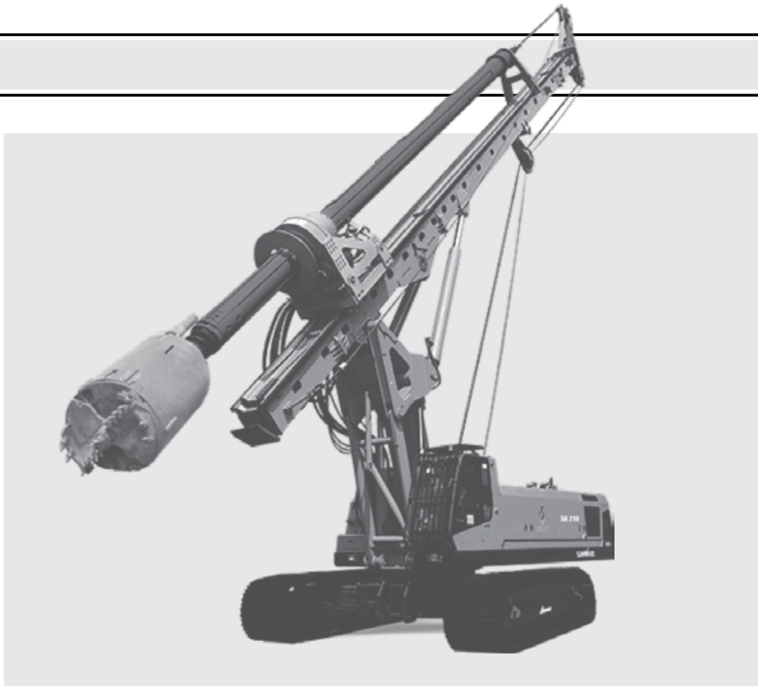
However, the last quarter of FY 2019-20 was marked by an unprecedented global crisis-the rapid spread of the novel coronavirus disease of 2019 (COVID-19) across continents, millions infected, and lockdowns in most of the affected nations-that struck a severe blow even to the strongest economies. The impact of the crisis, which has both health and economic aspects, could mean a sharp contraction in the global economy. The IMF has projected a global growth rate of -3% for 2020. However, if the pandemic fully recedes in the second half of 2020, the global economy is projected to grow by 5.8% in 2021, supported by fiscal stimulus in several nations.

However, the COVID-19 outbreak has posed fresh challenges to the growth projections and its future impact cannot be ascertained with certainty.

COVID-19 OUTBREAK AND UPDATE

The pandemic and the nationwide lockdown that it triggered have given both demand and supply shocks to the economy with wide ramifications on revenue collections and economic growth. It is likely to take quite some time for the consequent stress in the economy to be relieved and for growth to revive.

The crisis has prompted the Government to announce a series of monetary and fiscal relief packages designed to inject liquidity into the system and provide relief to stressed sectors. While these stimulus measures will provide relief to the affected people and some industries, the slowdown in economic activity is expected to significantly lower India's GDP growth in FY 2020-21.



Global supply chains have also been threatened by the pandemic. Governments around the world have been quick to respond to the crisis by implementing meaningful stimulus measures through a combination of fiscal and monetary easing, increased health spending and direct support to cover losses in incomes and revenues. Sustained efforts from Governments, focused on these measures could soften the economic impact of the Corona virus. Against this backdrop, the Company has undertaken a series of measures to mitigate the crisis, which includes securing the safety and livelihood of its staff, curtailing and reducing overheads at all operating levels, enhancing liquidity on its Balance Sheet by controlling working capital requirements through a mix of judicious cash flow planning and measured project execution.

COVID-19 has impacted our operations and the industry as a whole and it will take some time to regain normalcy. We remain fully committed to uphold our social responsibility towards helping prevent the infection spread further, while ensuring business continuity.

❖ OUTLOOK

The mid to long term outlook for the Indian construction equipment industry is positive. India construction equipment market is projected to cross $ 4.7 billion by 2025, on account of anticipated growth in construction industry, increasing foreign investments, and rising number of smart city projects in the country. However, the COVID-19 pandemic and the ensuing lockdown, has brought the entire economy to a standstill. With a large portion of cities under a lockdown and uncertainties around full resumption of economic activities the impact on GDP is expected to be significant negative growth for FY2021, an all-time low in many years. As restrictions slowly ease, and the economy at large, adapts to operating and living in a post-COVID era, it is expected that there will be some recovery in the second fiscal half, albeit slow, and not to pre-COVID levels.

The global construction equipment market size was estimated at USD 124.7 billion in 2019 and it is anticipated to expand at a CAGR of 4.3% from 2020 to 2027. Increasing investments by governments across the world for developing public infrastructure has been one of the prime factors driving the market demand for construction equipments. Furthermore, the growing population in emerging economies such as India has resulted in increased residential and commercial construction activities. Thus, the market is anticipated to grow steadily in the near future.

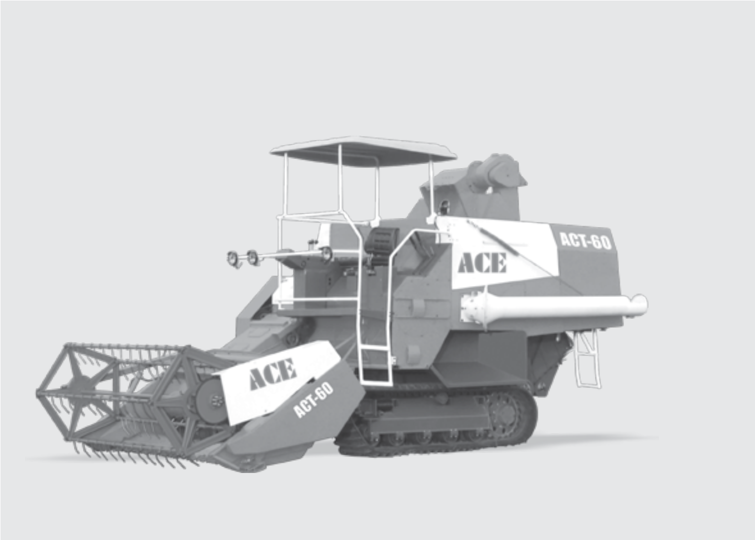
Some of the Growth drivers for construction in India which are positive for the Construction Equipment (CE) industry are:

- Infrastructure development needs;
- Government impetus on affordable housing, smart cities and regional connectivity;
- Rapid pace of urbanization and industrialization;
- Rise in Public Private Partnerships (PPP);
- Sustained foreign investment.

With the Indian government proposing significant spend on infrastructure, there are multiple opportunities for the construction equipment industry on the horizon. ACE will continue to pursue a three-pronged approach to increase profitability: quality and cost excellence; exhaustive product range; and after-sales customer support and digitalization. The Company will expand its network of distributors, dealers and stockiest. It will concentrate on maximizing value in its existing geographies leveraging high-end cranes; and enhance its export.

On the agri side, the Company expects a relatively quicker recovery on account of good rainfall season, steady rabi and pre-monsoon kharif sowing. Farm loan waivers, direct cash transfers scheme and increased budgetary allocation and important reforms in the Agri Sector announced by Government focused on improving the state of agriculture in India in the mid to long term.

The Covid-19 pandemic and its fallout makes it difficult to forecast the future with any degree of certainty. While we are hopeful that the 2nd half of FY 2020-21 will herald better economic and business activity in terms of tendering, good liquidity and revival of labour and supply chains, it would be premature to predict the Company's business outcomes for FY 2020-21. The company



is putting in enormous efforts to mitigate the impact of the pandemic, and register enhanced performance in FY 2021-22.

❖ OPPORTUNITIES

- Infrastructure sector is a key driver for the Indian economy. The sector is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country and ACE is optimistic about capturing the upcoming opportunities.
- National Infrastructure project pipeline of ₹ 111 lakh crore over a period of six year which will lead to public spends in the area of metro rail networks, power transmission distributions and urban infrastructure would also provide the necessary boost to the demand for construction equipment industry in the years to come.
- 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.
- India being the world's largest tractor market with a growing rural economy, presents a good opportunity for players in farm mechanization space. Hence going forward, the competitive intensity in the farm mechanization space is expected to increase, leading to new product launches and product offerings at high value points. Also, the customer expectations of performance, quality and technology are increasing with time. Staying ahead of competition by

offering products with modern technology and features will be the focus of your company.

- Indian agriculture is characterized by high degree of manual work and low productivity. At the same time, demand for farm labour is cyclic and there is shortage of farm labour in the peak season. In this scenario, the key to raising farm productivity is to increase the level of mechanization and improve farming practices. This scenario, coupled with Government focus on improving the state of agriculture, is generating multiple opportunities in the space of farm mechanization, dissipation of agri know how and crop solutions.
- 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.

❖ **THREATS**

- High-end construction equipment is facing challenges, in terms of imports from low-cost countries that are expanding their distribution centers and after-sales network in India. Foreign players are expected to drive competition against Indian construction equipment exports in the developed markets. Although these multi-national imports have been considered to be a threat, quality consciousness among Indian consumers will curb large-scale imports.
- 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.

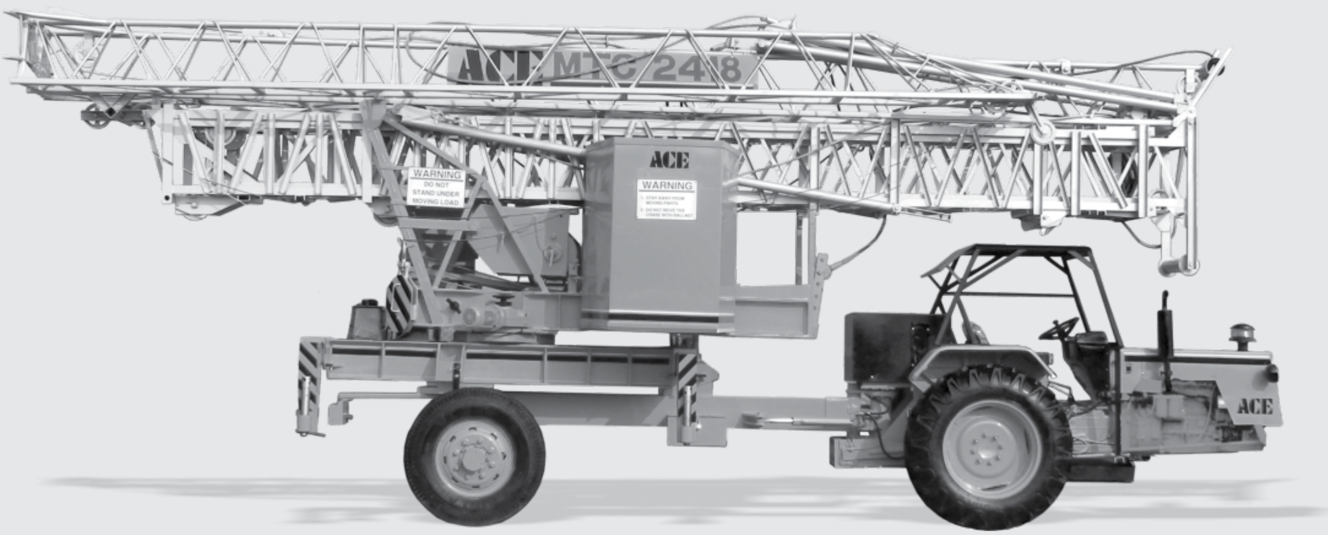
- Owing to trade tensions and a general air of protectionism globally are likely to lead to possible slowdown in global trade and can curb the economic momentum.
- Any outbreak of pandemic resulting into lockdowns and disruption in the supply chain.
- Unforeseen business losses.

❖ **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:

- **Inefficient cost structure :** The risk associated with the Company's exposure to fluctuations in price of key commodities, including electricity, oil and steel.
- **Impact on business continuity due to extraordinary events:** Inability to recover from and continue uninterrupted operations due to extraordinary events in the operating environment, such as outbreak of an epidemic/pandemic or contagious disease (like COVID-19), other natural calamities, fire, etc.
- **Confidential information and IT systems :** Failure of information systems to adequately protect the critical data and infrastructure from theft, corruption, unauthorized usage, viruses or sabotage.
- **Impact of monsoons & other external factors :** Impact on the Company's performance due to inadequate monsoons, decline in soil fertility and other external factors, such as economic slowdown, adverse government policies, etc.
- **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.
- **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.
- **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.

❖ 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

Financial statements have been prepared in accordance with Ind AS as per the Companies (Indian Accounting Standards) Rules, 2015 as amended and notified Section 133 of the Companies Act, 2013 ("the Act") and other relevant provisions of the Act.

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

- Total revenue from operations decreased to ₹ 1,156.20 crores as against ₹ 1,342.49 crores in the previous year - a decline of 13.88%.
- Profit before Interest, Depreciation, Amortization, Exceptional Items & Tax for the current year is ₹ 95.87 crores against ₹ 107.62 crores in the previous year-a decline of 10.92%.
- Profit before Tax (PBT) and Profit After Tax (PAT) for the current year are ₹ 68.20 crores and ₹ 52.64 crores respectively against ₹ 84.34 crores and ₹ 56.16 crores in the previous year - a decline of 19.14% and 6.27% respectively.
- Earnings per share is ₹ 4.58 for the year under review.

❖ 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 decreased by 14.06% to ₹ 828.69 crores in the year ended March 31, 2020 as against ₹ 964.29 crores in the year ended March 31, 2019. EBIT increased by 4.16% to ₹ 92.95 crores in the year ended March 31, 2020 as against ₹ 89.24 crores in year ended March 31, 2019.
- Construction Equipment division revenues increased by 25.51% to ₹ 100.65 crores in the year ended March 31, 2020 as against ₹ 80.19 crores in the year ended March 31, 2019. EBIT decreased by 99.00% to ₹ 0.02 crores in the year ended March 31, 2020 as against ₹ 2.00 crores in the year ended March 31, 2019.
- Material Handling revenues decreased by 11.44% to ₹ 83.58 crores in the year ended March 31, 2020 as against ₹ 94.38 crores in the year ended March 31, 2019. EBIT decreased by 29.04% to ₹ 8.16 crores in the year ended March 31, 2020 as against ₹ 11.50 crores in the year ended March 31, 2019.
- Agri Equipment revenues decreased by 29.64% to ₹ 143.28 crores in the year ended March 31, 2020 as against ₹ 203.63 crores in the year ended March 31, 2019. EBIT decreased by 160.44% to ₹ (4.11) crores in the year ended March 31, 2020 as against ₹ 6.80 crores in year ended March 31, 2019.

❖ MATERIAL DEVELOPMENTS IN HUMAN RELATIONS / INDUSTRIAL RELATIONS

Our human capital comprises the passion, commitment and winning attitude of our people, which is reflected in our transformational growth and which will take us to the next orbit of growth and our vision is to create a values-driven organization by providing an aspirational environment to deliver exceptional performance to our stakeholders through agility, innovation and excellence.

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, 2020 are 1115.

The year under review witnessed a very positive Industrial Relations scenario across all manufacturing locations for the Construction Equipment and Agri Equipment Sectors. The Company's focus continues towards propagating proactive and employee centric practices. The sustained efforts towards building a transformational work culture resulted in zero production loss in the FY2019-20 and helped create a collaborative, healthy and productive work environment.

❖ DETAILS OF SIGNIFICANT CHANGES IN KEY FINANCIAL RATIOS

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

S.No.	Particulars	FY 2020	FY 2019	% Change
1.	Debtors Turnover	39	37	5%
2.	Inventory Turnover	124	79	57%
3.	Interest Coverage Ratio	5.65	8.32	32%
4.	Current Ratio	1.05	1.14	8%
5.	Debt Equity Ratio	0.18	0.10	80%
6.	Operating Profit Margin (%)	5.90%	6.28%	6%
7.	Net Profit Margin (%)	4.55%	4.18%	9%
8.	Return on Net worth (%)	11.97%	13.30%	10%