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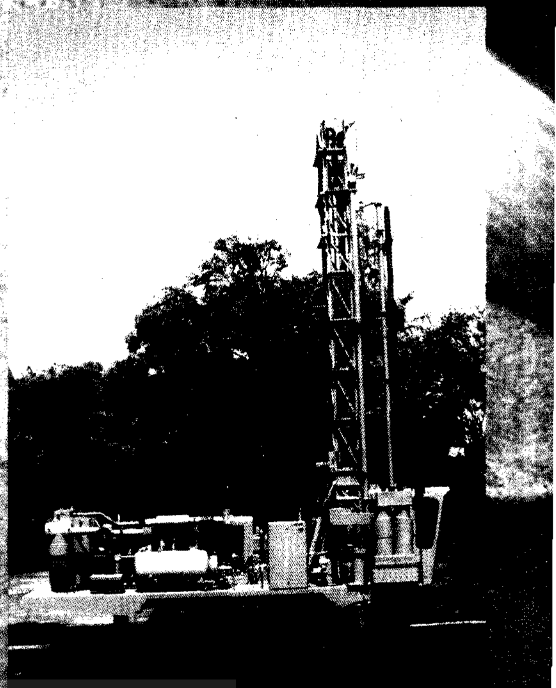
Revathi

Annual Report

-2004



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REVATHI EQUIPMENT LIMITED

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Acquisition Criteria

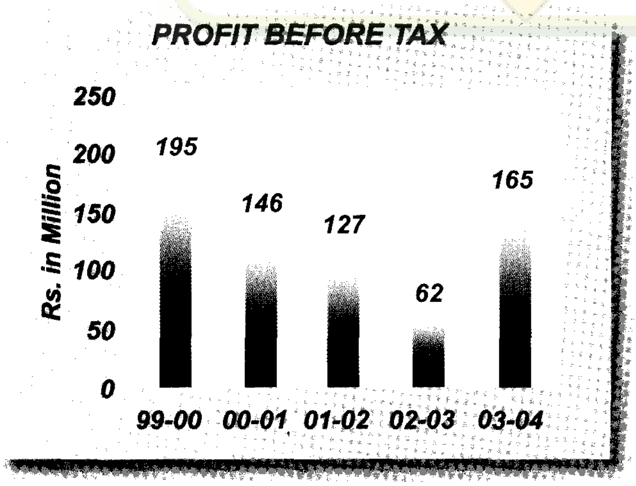
We use this space to communicate with potential sellers and their representatives, what we look for in a potential acquisition. If you the reader have no personal connection with a business that might be of interest to us but have a friend who does, perhaps you could pass this message on to him.
Here's the sort of business we are looking for:

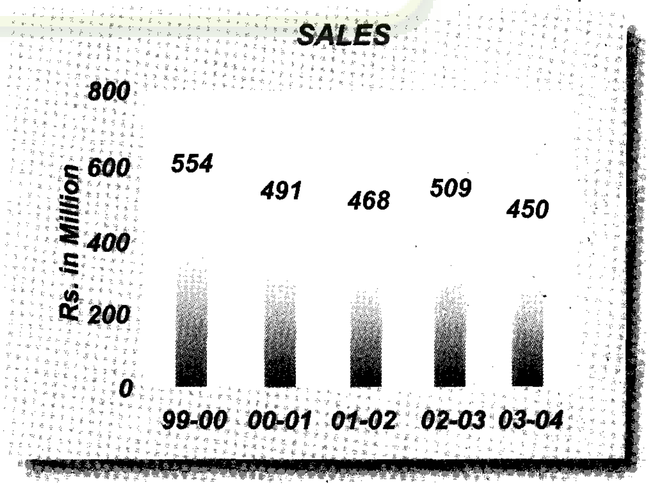
1. Enterprise value in the region of Rs.100 crores (Rs.1 billion),
2. Demonstrated consistent earning power (future projections are of little interest to us, nor are "turnaround" situations),
3. Businesses earning good returns on equity while employing little or no debt,
4. Management in place,
5. Simple businesses,
6. An offering price.

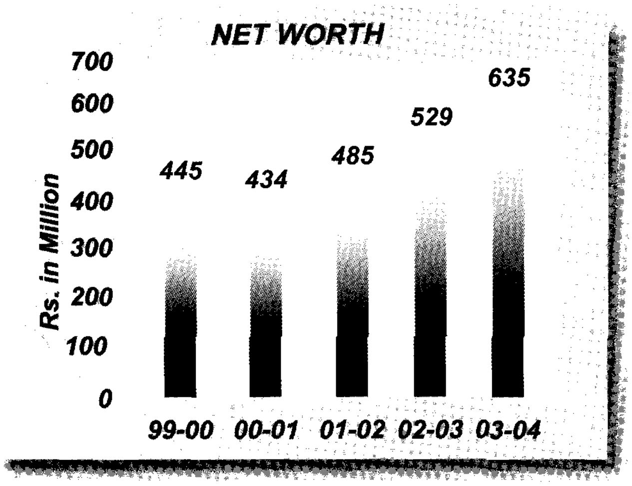
We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer as to whether we are interested. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

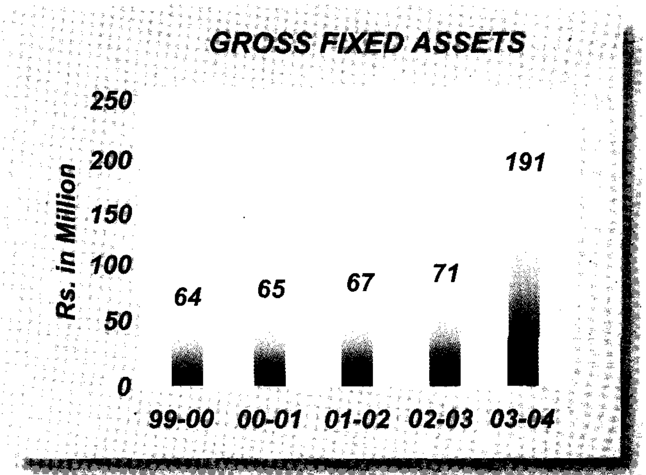
Our favourite form of purchase is one where the company's owner-managers generate significant amounts of cash, sometimes for themselves, but often for their families or inactive shareholders. At the same time, these managers wish to remain significant owners who continue to run their companies just as they have in the past. We think we offer a particularly good fit for owners with such objectives. We invite potential sellers to check us out by contacting people with whom we have done business in the past.

Renaissance Group
New Delhi, India









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Revathi

27th

Annual Report 2003 - 2004

Revathi Equipment Limited

CORPORATE DATA

BOARD OF DIRECTORS

ABHISHEK DALMIA
Executive Chairman

P.M.RAJANARAYANAN
Managing Director

CHAITANYA DALMIA

RAVINDER KUMAR GILANI

S.C. KATYAL

V.S. RAJAN

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LEGAL ADVISERS

KING & PARTRIDGE, CHENNAI.

SHARE TRANSFER AGENTS

S.K.D.C. CONSULTANTS LTD.,
P.B. No. 2979,
No. 11, STREET No. 1,
S.N. LAYOUT, TATABAD,
COIMBATORE - 641 012.

REGISTERED OFFICE

POLLACHI ROAD,
MALUMACHAMPATTI POST,
COIMBATORE - 641 021.

COMPANY SECRETARY

M.N. SRINIVASAN

BANKERS

STATE BANK OF INDIA
CANARA BANK
DENA BANK
STATE BANK OF BIKANER & JAIPUR

AUDITORS

LODHA & CO.,
KOLKATA

MANAGEMENT TEAM

K.V. RAMASUBRAMANIAN
Senior Vice - President (Operations)

S. HARIHARAN
Vice - President (Finance)

A. RAJALINGAM
General Manager (Engineering)

S. RAMAKRISHNAN
General Manager (Marketing)

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Revathi's corporate performance vs. the Nifty

Year	Annual percentage change in		Relative results
	Per share book value of Revathi (1)	Nifty 50 with dividend Included (2)	(1)-(2)
2002-03	15.6%	-11.7%	27.3%
2003-04	19.9%	86.3%	-66.4%
Average Annual gain (FY03-FY04)	17.2%	28.2%	-11.0%
Overall gain (FY03-FY04)	37.3%	64.4%	-27.1%

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Notes:

1. All data is for financial years and includes dividends paid, if any.

2. The Nifty-50 numbers are pre-tax and assume that dividends were reinvested, whereas the numbers for Revathi are after tax.

3. We think our investors should measure our performance against their general experience in the equity markets. While the Nifty-50 is not perfect (nor is anything else) as a measure of performance, it has the advantage of being widely known and reflects with reasonable accuracy the experience of investors generally with the market.

4. The reason we have used the "growth in book value" as against stock price is, that over time, we intend measuring our performance by checking if a rupee retained has created a rupee worth of market value.

5. If you expect, as we do, that owning a representative stock index would produce reasonably satisfactory results over a period of time, it follows that, for long-term investors, gaining small advantages over that index must prove rewarding.

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DIRECTORS' REPORT

For the year ended March 31st, 2004

Your Directors have pleasure in presenting the Twenty Seventh Annual Report together with the audited accounts of your Company for the year ended March 31, 2004.

Financial Results

All figures in Rs. Millions

Particulars	FY04	FY03
Total Income	480	536
Total Expenditure excluding extraordinary items	316	374
Profit before tax and before extra-ordinary items	164	162
Extraordinary items	-	100
Profit before tax	164	62
Less: Provision for tax	49	18
Profit after tax	115	44
Appropriation made as under		
Transfer to General Reserve	12	15
Dividend	9	-
Surplus carried to Balance Sheet	167	73

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Dividend

We continue to scan the environment for worthwhile investment opportunities and if we find enough avenues, we believe our shareholders would be better served by our so deploying their money rather than returning it to them either in the form of dividends or share buybacks.

However, over the past two annual general meetings, we have been meeting with some of our shareholders. Our interactions with them have led us to believe that dividend income was an important decision driver for many of them to buy the stock. Therefore, for the moment, we would continue to pay dividends, albeit at significantly lower levels than has historically been the case. For FY04, we propose a dividend of 25%. We see this as suboptimal from the point of view of long-term value creation, but are willing to be flexible to accommodate the present shareholders of the company.

Management Discussion and Analysis

Business environment

Industry Overview, Risks and Concerns

External environment

Revathi is engaged in manufacture and sale of Blast Hole Drilling Rigs which are used in open cast mining. Revathi also caters to Water Well Drilling market and construction industry. As India continues to be a coal-fired economy, substantial portion of the energy needs are met by thermal power. We expect the demand for coal to continue. It is heartening to note that government is taking concrete steps to improve the financial position of the State Electricity Boards.

Internal environment

Your company has been examining many growth opportunities. We have invested Rs.116 million in Wind Energy. We have also participated financially in a Natural Gas based Power Project in Tamil Nadu which is expected to be commissioned in the third quarter of FY 05. Your company has also identified a few products in the infrastructure sector, which is expected to be a growth industry in the years to come.

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Business Operations

Sales revenue during the year decreased by 10% to Rs.450 million.

Until last year, Coal India used to make equipment purchases for all its subsidiaries centrally. However, during the year equipment purchases have been decentralised whereby individual subsidiaries will make its own purchases. The delay in decision on purchase by subsidiaries has impacted net sales during the year. However, the shortfall is expected to be made up in the upcoming year.

PBT for the year is marginally higher than last year (before extraordinary expenses) at Rs.164 million (Rs.162 million previous year).

During the year, the company has commissioned 4 Wind turbines at Jaisalmer, Rajasthan at an investment of Rs.116 million. Accordingly, the company has now two reportable segments viz.,Drilling Equipment and Power.

Board constitution

In accordance with the Articles of Association of the company, Mr. Chaitanya Dalmia and Ravinder Kumar Gilani retire by rotation and being eligible, seek re-appointment.

Internal Control

The company is committed to maintaining an effective internal control environment and a system of accounting and control that provides assurance on the efficiency of operations, existence of internal controls and safeguarding of its assets and management of risks. The system of accounting and controls are modified and improved from time to time, in line with changes in business conditions and recommendations of internal auditors.

During the financial year under review, the Audit Committee met three times to examine the reports on internal control/audit systems, financial disclosures and monitoring the implementation of internal audit recommendations.

Conservation of Energy

As regards conservation of energy, company continued its efforts by elimination of waste, improvement in power factor and by good maintenance of various equipments. No capital investment was made during the year in this regard. As the cost of energy in the total cost is insignificant and considering the nature of our industry, measurement of savings in energy could not be undertaken.

Technology Absorption

Particulars with regard to technology absorption as required under Companies (Disclosure of particulars in the report of Board of Directors) Rules, 1988 are furnished in the annexure A and the same forms part of this report.

Foreign exchange earnings and outgo

The Company earned foreign exchange of Rs.12.59 million and the foreign exchange outgo during the year amounts to Rs.81.76 million.

Personnel/Industrial relations

Industrial relations were satisfactory during the year. The particulars, as required under section 217(2A) of the Companies Act, 1956 and the rules framed thereunder are furnished in the annexure B.

Directors' responsibility statement

The Board of Directors confirm that:

(i) in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;

(ii) the directors had selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period ;

(iii) the directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act,1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;

(iv) the directors had prepared the annual accounts on a going concern basis

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Appreciation

The Directors also wish to thank the financial institutions, banks and customers for their continued support and co-operation.

COIMBATORE
April 14, 2004

For and on behalf of the
Board of Directors

Abhishek Dalmia
Executive Chairman

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ANNEXURE - A

Form for disclosure of particulars with respect to technology absorption.

Research and Development (R & D)

1. Specific areas in which R & D carried out by the Company	: 1.Development of Diesel engine driven 250mm class crawler mounted Blast hole drill. 2.Design of 311 mm class crawler mounted Blast hole drill.
2. Benefits derived as a result of the above R&D	: New product development.
3. Future plan of action	: Development of 1.Light hydraulic track drill. 2.Universal drill for under ground mines.
4 Expenditure on R&D	:
(a) Capital	: Rs. NIL
(b) Recurring	: Rs 8.79 million
(c) Total	: Rs.8.79 million
(d) Total R&D expenditure as a percentage of total turnover	: 1.95 %

Technology absorption, adaptation and innovation

1. Efforts, in brief, made towards technology absorption, adaptation and innovation	: Development of manual rod loader for track drill.
2. Benefit derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution, etc.	: Product improvement
3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished	
(a) Technology Imported	: Not applicable
(b) Year of Import	: Not applicable.
(c) Has technology been fully absorbed ?	: Not applicable
(d) If not fully absorbed , areas where this has not taken place , reasons therefor, and future plans of action	: Not applicable

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ANNEXURE - B

STATEMENT OF PARTICULARS OF EMPLOYEES PURSUANT TO SECTION 217 (2A) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 FORMING PART OF THE DIRECTOR'S REPORT FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2004.

NAME	*AGE*	*DESIGNATION/ NATURE OF EMPLOYMENT*	*REMUNERATION in Rs.*	*QUALIFICATION / EXPERIENCE*	*DATE OF EMPLOYMENT*	*PREVIOUS EMPLOYMENT / DESIGNATION / NAME OF EMPLOYER*
Mr. Abhishek Dalmia	35	Executive Chairman Contractual	4,539,725	FCA,AICWA B.Com. (H) 12 Years	01.04.2003	Managing Director / Utkal Investments Ltd.
Mr.Rajanarayanan P.M.	55	Managing Director Contractual	3,616,000	B.E. (Mech.) 32 Years	20.10.1982	Area Sales Manager/ Greaves Cotton & Co.Ltd.

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NOTE:

1. Remuneration shown above has been computed under the provisions of Section 198 of the Companies Act, 1956.
2. Mr. Abhishek Dalmia was appointed as Executive Chairman with effect from April 1, 2003 and he is related to Mr. Chaitanya Dalmia.
3. Mr. P.M. Rajanarayanan is not related to any of the Directors of the Company.

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Chairman's report

Our gain in net worth during FY04 was Rs.116 million, which increased the per share book value by 22%. Over the last two years (that is, since the present owners took over) per share book value, has grown from Rs.151 to Rs.202, which, after factoring in dividend paid during FY03, works out to a rate of 18.1% compounded annually. Despite its shortcomings, I think the book value calculation is useful as a slightly understated gauge for measuring the long-term rate of increase in our intrinsic value.

On a comparative basis, though it might appear that this year we were taken to the cleaners, I fully expected this result. For such large gains in the equity markets over the course of one financial year are about as rare as the *Mahakumbh* its occurrence during the average human life span is in the low single digit. Further, as noted in last year's report, we do expect to achieve "... average or perhaps poorer-than-average performance in rising markets".

We continue to measure our performance in comparison to the performance of the broader markets and unless we achieve gains in per share intrinsic value that outdo the Nifty's performance, we would be adding nothing to what you can accomplish on your own by purchasing an index fund. Even though historically, many Indian fund managers have been able to outperform the broader indices, I think as patient money coming into the equity markets increases, this statistic would start moving towards the developed world averages of one in seven. Therefore, if we are able to do better than the broad markets over the long term, we would have served our shareholders well.

****

This is the first full year under the new ownership and at this juncture, I would like to share with you some of the principles we follow at Revathi and of which I think you should be aware. Although our form is corporate, our attitude is partnership. I think of our shareholders as owner-partners and of myself as the managing partner. Just as an investor would not check the market value of his house often, we believe intelligent stock investors should do likewise. Indeed, if we have good long-term expectations, short-term price changes are meaningless except to the extent they offer us an opportunity to increase our ownership at an attractive price.

As the managing partner, I think it is appropriate that I be as candid in my reporting to you as I would expect you to be, if our positions were reversed. Accordingly, through this letter to our shareholders, I will try to give as much value-defining information as can be conveyed in a document kept to reasonable length. The objective would be to tell you how the business is doing, with both positive and negative developments, so that you can make an informed assessment of what the business should be worth.

To more fully understand our overall guiding philosophy, I would urge all shareholders to read the Owners Manual which was written in 1996 by the Chairman of Berkshire Hathaway, Mr. Warren Buffett for his shareholders. It is available at http://www.berkshirehathaway.com.

****

We have just completed another year in the history of Revathi. To the untrained eye, it might appear to be just another year, when sales dropped but mysteriously, the bottom-line grew. Observers, who examine the numbers a bit more closely, might realize that had it not been for the non-compete fee paid last year, the bottom-line would have stayed at last year's level. Therefore, they might conclude that another lackluster year comes to an end at a boring company.

From our perspective, both these observations are improper as FY04 has been the year when Revathi achieved adolescence. It is not yet an adult, but no longer is it a child. During FY04, the first steps were taken towards growing Revathi's hitherto stagnant topline. However, new business development is like pregnancy - you know there is a lot to be happy about, but you have nothing to show for it during the early stages. We are a bit like the superstitious 'mother-to-be', who doesn't want to talk about her condition until she absolutely must. Bear with me a bit longer and I will be ready to share with you more information about developments at your Company.

Meanwhile, I would like to explain another principle that guides our thinking and action at Revathi. I feel that telling outstanding CEOs, how to run their companies would be the height of stupidity. Most of our people wouldn't work for us if they got a lot of backseat driving. Besides, they are the Sachin Tendulkars of the business world and need no advice from us as to how to hold the bat or when to swing.

Nevertheless, Renaissance Group's ownership may make even the best of managers more effective for we eliminate all of the nonproductive activities that normally go with the job of CEO. Our people are totally in charge of their personal schedules. We give them a simple mission: Just run your business as if you own 100% of it; it is the only asset that you and your family will ever have; and you can't sell it during your lifetime. As a corollary, we tell them they should not let any of their decisions be affected even slightly by accounting considerations. We want our managers to think about what counts, not how it will be counted.

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