

28th
Annual Report 2004 - 05

REVATHI EQUIPMENT LIMITED



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.

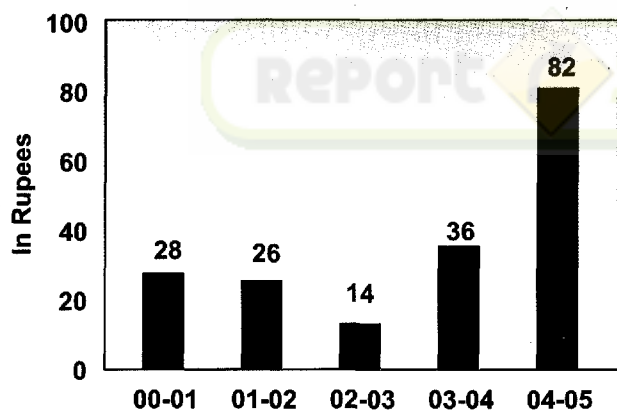
Here's the sort of business we are looking for :

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.

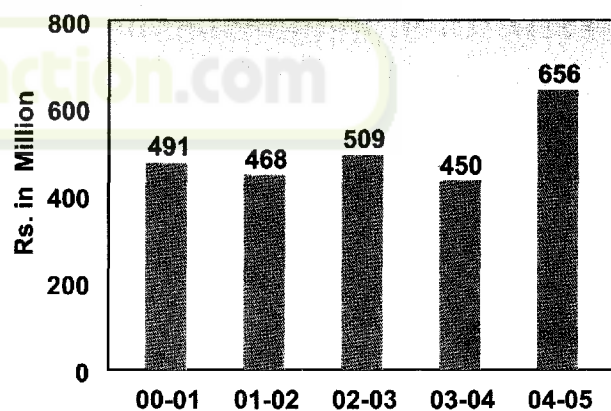
We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer as to whether we are interested. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

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.

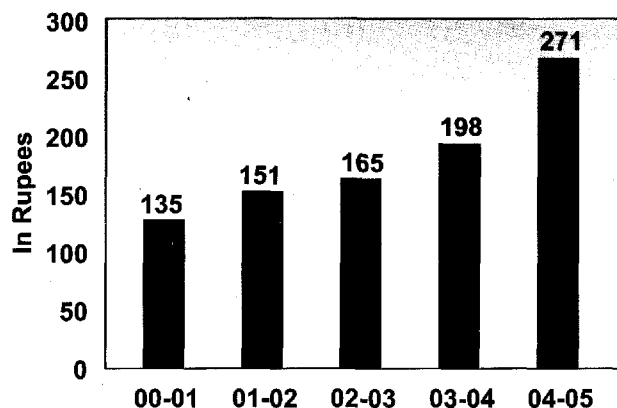
EARNING PER SHARE



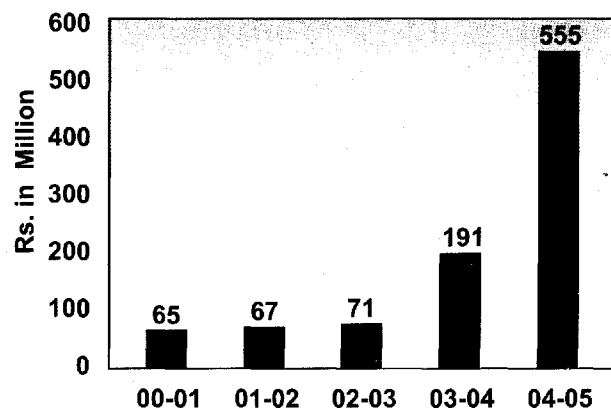
SALES



BOOK VALUE PER SHARE



GROSS FIXED ASSETS





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

Report Junction

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.

COMPANY SECRETARY

M.N. SRINIVASAN

REGISTERED OFFICE

POLLACHI ROAD,
MALUMACHAMPATTI POST,
COIMBATORE - 641 021.

BANKERS

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

MANAGEMENT TEAM

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

S. HARIHARAN
Vice - President (Finance)

A. RAJALINGAM
General Manager (Engineering)

S. RAMAKRISHNAN
General Manager (Marketing)

AUDITORS

LODHA & Co.,
KOLKATA


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)	
2002-03	15.6%	-11.7%	27.3%
2003-04	19.9%	86.3%	-66.4%
2004-05	38.4%	17.3%	21.1%
Average Annual Gain (FY03 - FY05)	23.3%	24.5%	-1.2%
Overall gain (FY 03 - FY 05)	72%	92.8%	-20.8%

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.



CHAIRMAN'S LETTER

Our gain in net worth during FY05 was Rs.236 million, which increased the per share book value by 37%. Over the last two years (that is, since the present owners took over) per share book value, has grown from Rs.151 to Rs.271, which, after factoring in dividend paid during this period, works out to a rate of 23.3% compounded annually.

Some of you might have wondered why I compare rate of change of book value with market indices. After all stock prices are way more unpredictable in the short run as compared to changes in book value. It is our belief that over longer time durations, a rupee of retained earnings should produce at least a rupee in market capitalization. Hence, if the management works diligently and if the investor stays invested for a reasonable length of time, then the rate of gain in stock price should reflect the rate of gain in book value. Unless we outperform the market index, our effort would be tantamount to the *kolhu ka bail* (the ox that grinds oil) that, though industrious, ends up where he started, every evening.

Just as last year's comparison was an aberration, this year's is too. Try as hard as we might, we are not going to have many years where a potential competitor pays us a fee for entering into competition with us. While the fee received was fully justified on economic considerations, it was a one-off event, unlikely to be repeated again. There were a few other factors which significantly boosted this year's performance, which I will discuss elsewhere in this communiqué.

FY05 saw inflation climbing to over 7% (before receding to more tolerable levels), oil prices breaching the psychological \$50 barrier (with many commentators now forecasting a likely \$70 a barrel and Goldman Sachs even suggesting a possible \$105 by 2007), raging fiscal deficit fires and a slowing global economy. When such adverse macro economic winds are blowing, the prudent investor should evaluate how each of these factors is going to affect the investee company's performance-positively, negatively or no impact at all. Barring inflation (and its consequent impact on interest rates), the other factors have no impact on Revathi. Sometimes, there are benefits to being concentrated into one customer-Coal India. Coal is an important energy alternative to oil and coal producing economies like the USA and Australia have not signed the Kyoto protocol exactly because of this reason. A school of thought has started emerging in these countries, that diverting spending from securing global oil assets (especially in the Middle East) to finding ways to burning coal more cleanly, might go a long way in reducing dependence on oil. I think it is a matter of time (and economics) before this thought gets translated into action.

The most significant event of the year, as far as the shareholders are concerned, would have to be the near quadrupling of the stock price. Does that mean that intrinsically, the company was four times more valuable at the end of the year than at the beginning? Obviously not. But this demonstrates, in graphic detail, the way the market functions. Having chosen a strategic direction, good management tries to build incremental value every single day. However, it takes some kind of a trigger to have the markets take notice of all the work being done inside the company.

Charlie Munger, Vice Chairman of Berkshire Hathaway, advocates that a year in which you have not destroyed at least one of your most cherished ideas is a wasted year. I decided to heed his advice and destroyed my long cherished belief that a promoter should not interfere in the stock price discovery process. I still strongly believe that a majority owner should not participate in the markets to make money off his minority shareholders. But I have come to believe that it is good to talk up the stock price when the markets fail to take notice of the work being done by the company. While doing so, the intent must be to get a fair valuation so that any shareholder looking to get on or get off the bus should get a fair entry/exit price. With this objective, I think the management ought to talk up or talk down the stock price, when market price widely varies from management's perception of reality. To achieve this goal, I held my first ever analyst meet on October 14, 2004. It was well attended and despite the fact that we were given the last slot, late that evening, I tried to put my best foot forward. I am reminded by a comment made by someone in the insurance industry: if you offer a great price (when writing insurance), buyers will find you in the middle of the ocean, in the dead of the night. Touché!

Having come on to the radar of investors, big and small, it is natural to feel pressure to live up to their expectations. However, we feel no pressure to meet quarterly, or for that matter even annual numbers. For we have not, and will not, give what is popularly known as 'earnings guidance' to the investing community. We will try and take the most sensible decision every day, but if that does not translate to a secular growth in profits, on a year-to-year basis, then so be it. We think it is better to be candid about reality than to try to retrofit it to meet expectations of short-term investors. For those investors (and I hope there aren't many such, holding our stock) who constantly look for news flow from their investee company, I would like to remind them of Eddie Cantor's observation: "It takes twenty years to make an overnight success." All the great businesses of today, toiled hard for many, many years before they were able to produce the results we see today. Like most things in life, in running a business too, there are trade offs between the short-run and the long-run. You could produce whatever numbers you like in the short run, if you were planning to dress the bride to find a suitor. Indeed that's what some do while planning an IPO. But that's not the game we are playing. We plan to be here in the long run and are going to try to create long term value, without worrying ourselves sick about quarterly results.

On the subject of matrimonial bliss, Mr. Buffett once remarked, you don't want a beautiful wife, you want a wife with low expectations. Taking my cue from him, I would like to mention that this past year was a year with strong tailwinds, causing a surge in annual performance. This is not to take away from the hard work put in by the terrific team we have, but to caution investors about toning down their expectations several notches, going forward. I am going to tell it to you like it is. So prepare yourself...



The stellar performance produced during FY05 was a function of two key factors. One, equipment orders picked up, after a rather lackluster FY04, and got back to historic levels. In other words, the small base effect on equipment sales combined with a par performance for the rest of the business produced the surge in topline. Two, our wind energy investments, in addition to improving the return profile on our treasury, also helped significantly in reducing our tax outgo. Once we effectively get back to the maximum marginal tax rate status, we would need to earn about twenty five percent more in profit before taxes just to maintain our post-tax profitability at current levels. Be sure that the policy of your company is going to be to try to maximize gains, not minimize taxes. Having said that, we will do our level best to create the maximum revenue for the country - at the lowest rates the rules will allow.

While discussing growth initiatives, I had mentioned about our being in the initial stages of pregnancy in last year's letter. I think the time is now appropriate to dwell upon some of the initiatives that have been put in place since we acquired control of the company in August 2002. But before that it would be worthwhile to give you a brief idea on where we were when control passed to us. Historically, the company had focused on manufacturing and marketing drilling rigs of a certain size. The annual market for those rigs was about Rs. 125 crores, growing at 4-5% per annum. A huge majority of these drills were sold to the coal mining industry, which itself had grown at about 4% compounded, since 1961-2. Given the future plans of the Indian coal industry, it was quite clear that growth in that sector is not going to be much stronger than 7%-8% over the next decade. This was the backdrop two years ago. Clearly, staying within coal mining would not lead us to wealth creation nirvana. While focusing on the skills that we, as an organisation had, we had to find new engines of future growth.

Challenging as it was, the team rose to the occasion. They knew we can't change the environment in which we operate, but we can choose an attitude to work as victors, not victims. With this attitude, the team prepared a strategic plan within the first six months of our takeover. It focused on two simple concepts. Find new markets for existing products and expand the product range to address existing market needs. Solutions to most problems, howsoever complex, sound simple and intuitive, *in retrospect*.

It would have been easy for us (as the new, savvy owners) to have the team prepare detailed business plans to justify each such idea. Instead, we relied on old fashioned trust. If we trusted the management enough to buy a controlling stake in the company, we might as well trust their judgment on possible growth opportunities too. In my experience, business plans are normally prepared to justify decisions, which have already been taken by the decision-maker. I think most business decisions are judgment calls, which cannot be justified, to any degree of precision, on paper. Anything can be made to look good (or ugly) on paper. Very few decisions which are so justified are even vetted against the original projections, once the project gets funded. Why waste precious time in reverse engineering numbers to support a decision? To some of you, this might sound absurd, even scary. You would be justified in your reaction. But if computers could crunch numbers to reach decisions, who would need to hire expensive executives to run businesses?

This is not to say that we do not evaluate the plan at all. We do, but after the initial thinking put in by the team, our evaluation process consists of nodding our head, on cue from our team. Generally, as people move towards the top of an organisation, they tend to develop a tongue and lose their ears. We have found that our interests are better served if we practice the Ganeshji model - have two big ears with a smallish mouth. We do not believe in second guessing competent people, who understand their business like the back of their hand. In business, as in investing, we try to take the easy decisions. We attempt avoiding dragons, instead of trying to slay them. If the decision sounds intuitively correct and has a worthwhile upside-downside ratio, we just go for it. My friend, Mohnish Pabrai calls it the "heads I win, tails I don't lose much" approach. To the doubters of this approach, I have only this to say: There is a very fine line between a maverick and a genius. It's called success. And only time will tell which category we belong to.

Taking the discussion on the new initiatives forward, we have developed three new categories of drills, two smaller and one larger than our historic range (of two drills). The two smaller size drills will allow us to tap into the limestone and iron ore mining segments, which together add to up a market, which is about as big as the open cast coal mining business. One of them will also help us address the water well drilling segment, which, I must mention, is a market dependent on a failed monsoon. These smaller drills are proposed to be marketed by forging alliances with companies that have a strong presence in these markets. The bigger drill weighs 120 tons, almost twice its next largest cousin, which indicates the complexity of this new monster. The caveat here is that while it is an expensive machine, its demand occurs only once every other year. All these drills have been fully developed in-house. This reinforces our original belief that we have a competent team, which has not needed any exogenous support after the initial technology input from Chicago Pneumatic in the late 1970s.

On the new markets side, we have set in motion a concrete plan to get into one of the largest mining markets in the world. During FY05, we received our first order from this market, which we expect to execute in the early part of FY06. New market development is a laborious, time consuming process. Competing with multinationals, who have established a strong presence, and for whom this would be a strategic market, makes the bid for market share even more difficult. However, with perseverance and customer sensitivity, we hope to make our presence felt in times to come. As with most of our initiatives, this one too will take a few years at least, to start showing up in the results of the company. No, there are no short cuts to success and no, we are not clear about how big the success could be or over what period of time. Importantly, this entire episode throws light on the confidence level of the team in their product and capability to service customer needs, in one of the toughest markets in the world. I am keeping my fingers crossed, and if you plan to stick around (which I sure hope you do), you should too.

The third iron we put in the coal is construction equipment. India's leaders realize that if India has to give China a run for its money in manufacturing, India will have to do something quickly to build infrastructure. With time, this activity should only accelerate (tipping point anyone?) owing to the investment drought of the past decade. This combined with cheap housing credit and growing per capita incomes leads us to believe that housing and infrastructure creation should lead to a surge in construction activity. The stock prices of housing finance companies, construction companies and cement and steel companies too reflect this optimism. A question arises about intensity of competition in this sector of construction equipment. While in any open economy, no sector is free from competition, we believe given the size of the opportunity, there is enough space for everyone.



Since this is not strictly core to what we have been doing over the last three decades, a question arises about technology. While the technology is not the same as drilling technology, our team understands it intuitively. Gaps in our understanding have been filled by acquiring technology from leading global players at a cost, which I consider bargain basement (which is also the reason I do not intend making a mention of it in this letter). In some cases, the technology has been acquired outright and in others, we need to pay a royalty for a five year period. We intend to start with launching three types of equipment, all of which are under development or testing stages. If all goes well, we should be launching all three during FY06.

That completes the list of initiatives, which are on the ground, on the operations side and brings me to the treasury side, for which, your promoters are responsible. We have taken three key initiatives here. Given our exposure to coal, two of these initiatives pertain to diversifying our energy basket away from coal. We have now made significant investments in wind energy assets, the extent of which can be discerned from the Fixed Assets schedule. We have also enhanced our investment in the natural gas based captive power project, which started supplying power to its offtaker on schedule, in the second week of November. Lastly, we finally ventured into secondary market investments in equities. Given the core competence of your promoters, it was suboptimal to not profit from it just because the analyst community frowns upon the practice. While we do not intend making money by timing the markets, for what its worth, we made our first investment right after the market tanked on May 17th in reaction to the surprise general election results.

Here I would like to share a recent experience. I heard an investment manager say that Revathi investing in stocks would not be looked at favourably by the investing community, since the results therefrom are unpredictable. Imagine an investment professional telling another that you should not invest in equities because it produces lumpy returns! I do take his point, as the big bulk of equity returns are compressed in 10%-15% of the holding period, thereby bunching up many years of returns into a relatively short time period. Anyone who remembers last five years' stock market performance will understand what I am talking about. It might initially create problems for investors in assigning a price-earnings multiple, but I think over time, as a track record is created (good, bad or ugly), they will know what treatment to give to the 'Treasury Division' of Revathi, in assigning a valuation.

The jury is still out on the quality of our execution and the results we derive therefrom. The test of a good management is how many bad surprises you get. We have now spent two productive years sowing multiple seeds for future growth, each of which is in various stages of evolution. Importantly, we continue to sow new seeds, even as we anxiously await the results of the past seeds. For I believe, business resembles society if it fails to renew itself, it is a matter of time before decline will set in.

Before I end this section, I would like to share this interesting statistic with you. Until the end of FY05, FII's had invested about \$34 billion into Indian equities, cumulatively. While no official statistics are available, a rough calculation suggests that would have got them ownership of about 4% of the Indian equity markets. This implies that the worth of the entire listed universe is only US\$850 billion, which is 8% of the Fortune 500 market capitalisation. So much for feeling euphoric when FII limits are raised on a particular stock.

While I started the previous section with the objective of toning down expectations several notches, I get a queasy feeling that I have not been very good at my stated endeavor. Before I run out of time (and pages), I better make another attempt! Here are the dark clouds as I see them. I do not intend to comment on exogenous factors such as a global slowdown (due to slowdown in Chinese demand, implosion of the US economy or for any other reason), an oil shock, etc. No point worrying about things you cannot control. I think we would be better served by adjusting the sails of our boat to make the best of a given wind situation, rather than agonize about unknowable wind patterns.

The biggest drag on our performance in the near term (in terms of post tax profit) is probably going to come from a sunset clause in the Tax Code. This means that there is a high probability that we will be contributing more to the exchequer than we have in the recent past. It is a mixed feeling, if you know what I mean. I am caught between being a proud Indian and a wealth maximizing junkie!

The second threat to our year-to-year performance is going to be the pace at which we are able to roll out and scale some of the initiatives I mentioned in the previous section. The direction is right but I am unsure about the pace at which we are going to start seeing results. Trust me when I say I am impatient, but I am acutely aware of the fine line between positive stress and negative stress. I consciously try to generate positive stress but I must constantly gauge the mood to steer clear of negative stress.

The third threat is competition. While competition is a way of life in any open economy, the entry of new competition changes the industry dynamics for a while, as participants fine tune their competitive strategy. Once new players get settled and a new industry dynamic gets established, all participants are able to take that as a given and adjust their competitive strategy accordingly. Until that happens, there will be some degree of flux, which could be as much a threat as an opportunity.

Finally, I would like to comment on an exogenous risk. While our stated goal in allocating surplus capital of Revathi was to acquire other businesses, we have been unable to find any such opportunity so far. We did find a couple of opportunities to take strategic stakes though. We passed up on the first opportunity, despite the fact that mostly everything was right. Despite that, I did not get a good feeling in my gut and Revathi shareholders have paid the price of my rather whimsical approach to investing. The stock of the company has since climbed 100% (in other words, doubled) in the short space of eight months. We did conclude the second opportunity but the investment was routed through your holding company. Until the promoters have two investment vehicles, there will continue to be a conflict of interest inasmuch as choice of investment vehicle is concerned. The best I can do at this point is to disclose this 'conflict of interest'.



I would also like to briefly comment on the settlement reached by us during the year with Atlas Copco. In August 2002, Revathi had paid a non-compete/non-solicitation fee of Rs. 100 million to Atlas Copco as consideration to enter into two agreements restraining Atlas from hurting Revathi's economic interests after transferring control to Utkal Investments Ltd. Subsequently, in 2004, when Atlas decided to acquire Ingersoll Rand's drilling solutions business in India, Revathi filed a writ in the Honorable High Court of Mumbai to enforce its rights under the agreements it had executed with Atlas in 2002. To conclude the acquisition of Ingersoll Rand's business, Atlas sought the termination of the non-competition agreements by paying a consideration of Rs. 150 million to Revathi, which is being reflected under extraordinary income.

Given the small equity base and the 'huge' reserves, I have heard 'views' about how the company is a ripe candidate for a bonus or a stock split. At this time, I would like to point our shareholders to the section 'Stock splits and stock activity' in Mr. Buffett's 1983 letter to his shareholders. The treatise is a bit long and for those of you who want to avoid the joy of reading the whole thing, here is the crux: the key to a rational stock price is rational shareholders, both current and prospective, not floating stock. And the way to achieve rational shareholders is for the management to give them enough information about the business through its communications to allow them to make an informed judgement about its intrinsic value. The other benefit about having a 'low floating stock' is that it keeps the hot-money types away, which in my view helps (rather than hinders) in maintaining a rational stock price. For those of you who would like to read the definitive work on the subject, you can find the letter at <http://www.berkshirehathaway.com>.

John Major, the ex-British Prime Minister recently commented on the prevailing mood in India thus: "India is in the midst of an explosion of ambition." I echo similar thoughts about the team at Revathi. The thing that differentiates a strong company from the weak is the ability to execute its ambition. Remember the story of the three little pigs - the pig that took time and spent effort in building a brick and mortar house survived the wolf, while the others perished. We at Revathi are looking to build a similar fortress, brick by brick. It is going to take time and to be sure, a lot of effort, but at least we would be able to sleep better as compared to those who build homes with hay much faster but much less secure. The story of the three little pigs has another important lesson, for wannabe investors. No other book comes close in stressing the importance of margin of safety. If my "house" can survive the wolf, everything else is a breeze.

This report would be incomplete without a special mention of our team, who have only one speed: fast-forward. With our team of X-Men, each of whom have special abilities in their own areas of work, they quite resemble 'The Incredibles' family. FY06 is going to be a year of new product introductions and testing our acceptability in new markets. It should be year of consolidation after a 'leap' year, which should provide us with a strong foundation with which to enter FY07.

Abhishek Dalmia
 Chairman of the Board



DIRECTORS REPORT

For the year ended March 31, 2005

Your Directors have pleasure in presenting the Twenty Eighth Annual Report together with the audited accounts of your Company for the year ended March 31, 2005.

Financial Results

Particulars	All figures in Rs. Million	
	FY 05	FY 04
Total Income	704	480
Total Expenditure	497	316
Profit before tax and before exceptional income	207	164
Exceptional income	150	-
Profit before tax	357	165
Less: Current tax	30	35
Less: Deferred tax	64	15
Profit after tax	263	115

Appropriation made as under

Transfer to General Reserve	26	12
Dividend including tax thereon	27	9
Surplus carried to Balance Sheet	210	167

Business Operations

The sales during the year at Rs 656 million were the highest ever recorded, contributed by higher sale of equipments including the sale of a new large drill. PBT before exceptional income was Rs 207 million against Rs 164 million during the previous year. Profits did not grow in line with growth in sales due to product mix and higher product and market development charges. The benefits of such development expenses are expected to accrue after a time lag. Significant contributors to our profits this year were dividend income and profit on investments in equities.

The company received an extraordinary income of Rs 150 million. Your company had paid Rs 100 million to Atlas Copco India Ltd in 2002 for entering into non-compete/non-solicitation agreements for specified periods with Atlas Copco India Ltd and Chicago Pneumatic Tool Company, USA. Atlas Copco India Ltd. has paid this year a sum of Rs 150 million towards cancellation of non-compete/non-solicitation agreements as they wanted to acquire the drilling solutions business of Ingersoll Rand India Ltd as part of global sale/purchase between Ingersoll Rand, U.S.A and Atlas Copco, Sweden.

The installed capacity of wind power has now increased to 9.9 MW with additional investments of Rs 351.6 million made during the year.

Dividend

Your Directors propose a dividend of Rs.7.50 per share including special dividend of Rs.5.00 per share absorbing Rs 24 million which will be tax free in the hands of shareholders. The company will bear the dividend distribution tax of Rs.3.4 million.

Management Discussion and Analysis

Business environment

Industry Overview, Risks and Concerns

External environment

Revathi is engaged in manufacture and sale of Blast Hole Rigs and Water Well Rigs which are used in the Mining, Construction and Water Well Sectors. The Oil prices have scaled new heights and are presently around \$ 50 a barrel with chances of it going further up. This opens up opportunity for coal sector as coal is an important alternative source of energy. The government has placed renewed emphasis on increasing coal production which is now targeted to grow at 7 to 8% as against around 4% experienced over the past four decades. It is expected that demand for coal from power and steel sector will continue to outpace supplies. This will entail higher investment in coal sector and benefit should accrue to your company in due course.



Internal environment

Your company has been working on various growth initiatives. These include expanding the range of drills so as to cater to construction and mining sector more effectively and finding a global market for our products. The company is also taking steps to participate in the infrastructure sector and plans to introduce some categories of concrete equipments in FY06. Effective steps have been taken to manufacture these concrete equipments by acquiring technology from reputed global manufacturers. The benefit of these growth initiatives should accrue in future years.

We have invested Rs 351.6 million in Wind mills and additional investment of Rs.20 million in Gas based power project. These investments are expected to yield good rate of return and are made on the principle of effective allocation of capital.

Outlook for the year 2005-06

During the year, the primary focus would be to successfully introduce new range of drills and concrete equipments in the market and our existing products in select overseas markets. This should help your company develop a platform for future growth. The business prospects for current range of products seem to be reasonably good.

Barring unforeseen circumstances, the company expects to record improvements both in revenues and profits.

Cautionary Note

Certain statements in "management discussions and analysis" section may be forward looking and are stated as required by law and regulations. Many factors, both external and internal, may affect the actual results which could be different from what the Directors envisage in terms of performance and outlook.

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 four times to examine the reports on internal control/audit systems, financial disclosures and monitoring the implementation of internal audit recommendations.

Board constitution

In accordance with the Articles of Association of the company, Mr. S.C.Katyal and Mr.V.S.Rajan retire by rotation and being eligible, seek re-appointment.

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.11.65 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.