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Revathi

# 30th Annual Report

## 2006 - 07

# REVATHI EQUIPMENT LIMITED

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## Acquisition Criteria

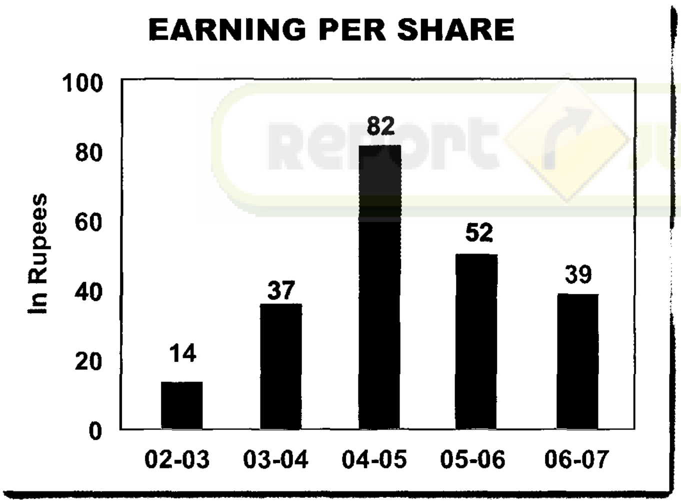
We use this space to communicate with potential sellers and their representatives, what we look for in a potential acquisition. If you, the reader, have no personal connection with a business that might be of interest to us but have a friend who does, perhaps you could pass this message on to him.

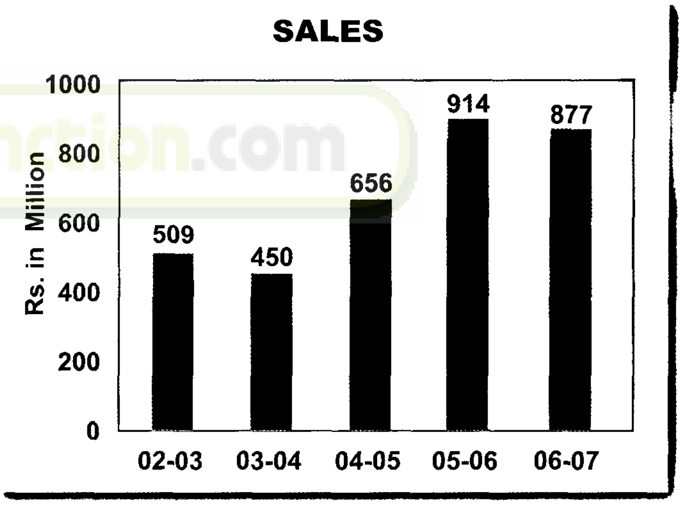
Here's the sort of business we are looking for :

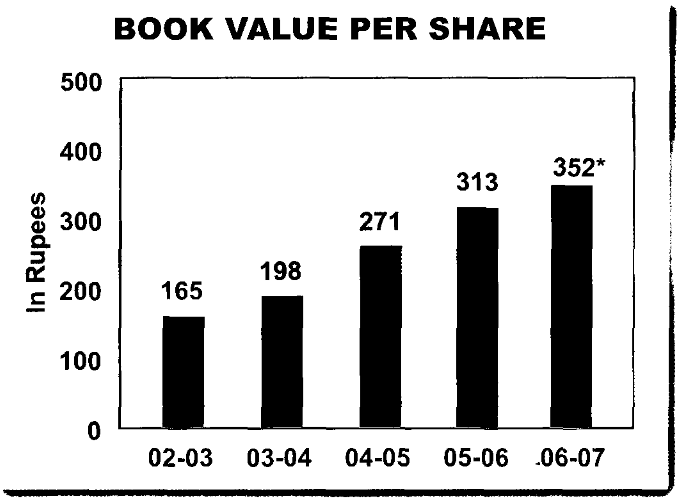
1. Enterprise value in the region of Rs. 100 crores (Rs. 1 billion),
2. Demonstrated consistent earning power (future projections are of little interest to us, nor are "turnaround" situations),
3. Businesses earning good returns on equity while employing little or no debt,
4. Management in place,
5.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

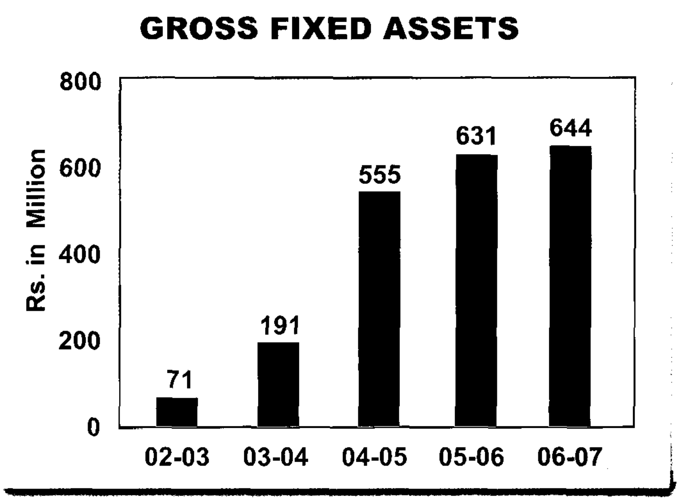
We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer as to whether we are interested. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

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.




* Consolidated

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## NOTICE TO MEMBERS

NOTICE is hereby given that the thirtieth annual general meeting of the members of Revathi Equipment Limited will be held at the Indian Chamber of Commerce and Industry, Chamber Towers, 8/732, Avanashi Road, Coimbatore - 641 018 on July 25,2007 at 10.00 A.M. to transact the following business :

## ORDINARY BUSINESS :

1. To receive, consider and adopt the directors' report and the audited balance sheet as at March 31, 2007 and the profit and loss account for the financial year ended March 31, 2007.
2. To declare a dividend on equity shares.
3. To appoint a director in the place of Mr.V.S.Rajan, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a director in the place of Mr.S.C.Katyal, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint auditors to hold office from the conclusion of this annual general meeting until the conclusion of the next annual general meeting and to fix their remuneration.

## SPECIAL BUSINESS :

6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a SPECIAL RESOLUTION.

   "Resolved that subject to the provisions of the applicable laws, guidelines, rules and regulations including the Companies Act, 1956, the Securities Contracts (Regulation) Act, 1956, Listing Agreement with the Stock Exchanges, Securities and Exchange Board of India (Delisting of Securities) guidelines, 2003 dated 17th February, 2003 and the Rules framed there under in this regard and subject to such other approvals, as may be required from the Stock Exchange with which the equity shares of the Company are listed and/ or any other relevant authority, consent of the Company be and is hereby accorded to the Board of Directors of the Company to seek voluntary delisting of its equity shares from M/s. Coimbatore Stock Exchange Limited, Coimbatore where the Company's equity shares are presently listed without giving an exit option to the shareholders of the region where the aforesaid Stock Exchange is situated."

   "RESOLVED FUTHER THAT the Board of Directors of the Company be and is hereby authorised to do and perform all such acts, deeds, matters and things, as it may in its absolute discretion deem necessary, desirable or appropriate and make all such applications and execute deeds, agreements, documents and writings as it may consider necessary, usual, requisite or proper for giving effect to this resolution."

7. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a SPECIAL RESOLUTION.

   "RESOLVED that in accordance with Schedule XIII read with sections 198, 269, 309 and other applicable provisions of the Companies Act, 1956, the consent of the company be and is hereby given to the appointment of Mr.P.M.Rajanarayanan as Managing Director of the company and payment of remuneration for a period of three years with effect from April 01, 2007 as per the terms and conditions set out in the agreement duly approved by the board on May 18, 2007 and by the Remuneration Committee on May 18, 2007."

   Resolved further that the agreements entered into with Mr.P.M.Rajanarayanan on February 11, 2003 and June 09, 2003 be and are hereby rescinded.

Coimbatore
May 18,2007

By Order of the Board

**M.N.SRINIVASAN**
COMPANY SECRETARY



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NOTES :

a) A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING MAY APPOINT A PROXY TO ATTEND AND VOTE ON HIS BEHALF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.

b) The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 concerning special business are annexed hereto.

c) Pursuant to Section 154 of the Companies Act,1956, the Register of Members and the Share Transfer Books of the Company will remain closed from July 01, 2007 to July 25,2007 (both days inclusive).

d) Members holding shares in physical form are requested to intimate to M/s. S.K.D.C. Consultants Limited, S.N. Layout, Tatabad, Coimbatore-641012 changes, if any, in their registered address along with the pincode numbers and to mention their registered folio No. invariably in all correspondence. Members holding shares in dematerialised form are requested to notify such changes to their depository participants.

e) Queries on accounts and operations of the company, if any, may please be sent to the company ten days in advance of the meeting so that answers may be made available at the meeting.

f) The Company's equity shares are listed in the following stock exchanges:

Coimbatore Stock Exchange Limited,
" Stock Exchange Building ",
No : 683 / 686, Trichy Road,
Singanallur,
Coimbatore - 641 005.

Bombay Stock Exchange Limited,
Floor 25, Phiroze Jee Jee Bhoy Towers,
Dalal Street,
Mumbai - 400 001.

National Stock Exchange of India Limited,
Exchange Plaza,
Bandra-Kurla Complex,
Mumbai 400 051

Annual listing fees for the period 2007-2008 in respect of Bombay Stock Exchange Limited and National Stock Exchange of India Limited have been paid. Arrangements are being made to make the payment of annual listing fees to Coimbatore Stock Exchange Limited.

Unclaimed final dividend for the year 1999 - 2000 will be transferred to Investor Education and Protection Fund on or before July 9, 2007. Members who have not claimed the dividends can claim the same early.

**EXPLANATORY STATEMENT UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.**

**ITEM NO. 6**

The Securities and Exchange Board of India (Delisting of Securities) Guidelines, 2003 provides for delisting of securities of a body corporate voluntarily.

At present, the equity shares of the company are listed on the following three Stock Exchanges.

Bombay Stock Exchange Ltd.,(BSE)
National Stock Exchange of India Limited.(NSE)
Coimbatore Stock Exchange Limited.(CSX)

The company's equity Shares are one of the scrips which the Securities and Exchange Board of India has specified for settlement only in dematerialized form by all investors.

With the extensive networking of BSE/NSE to other cities as well, investors have access to on-line trading in equity shares of the company across the country. The bulk trading in the company's equity shares takes place on the BSE/NSE.

Accordingly, it is proposed to delist the company's equity shares at an appropriate time in future, from Coimbatore Stock Exchange Limited (CSX), Coimbatore.



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As per the Delisting Guidelines, the company can delist its shares from CSX with the approval of members by passing a special resolution, without providing an exit opportunity, provided that the shares will continue to be listed on a stock exchange having nationwide trading terminals. The Resolution at item No.6 is of an enabling nature. The consent of the members is being sought by a special resolution to authorize the Board to delist the company's equity shares from the above stock exchange at such time as the Board may consider appropriate and on such terms and conditions as may be stipulated or agreed to in the best interests of the company.

The proposed delisting of the company's equity shares from the said stock exchange, as and when takes place, will not affect the investors adversely. The Company's equity shares will continue to be listed on Bombay Stock Exchange Ltd., Mumbai and National Stock Exchange of India Limited, Mumbai. The delisting will take effect after all approvals, permissions and sanctions are received from the appropriate authorities. The exact date from which the delisting will take effect will suitably be notified at the appropriate time.

Your directors recommend the Special Resolution for your approval.

**ITEM NO.7**

The Board of Directors of the Company at their meeting held on May 18, 2007 appointed Mr. P.M. Rajanarayanan as Managing Director with effect from April 01, 2007 for a period of three years pre-closing the earlier agreements entered into with him on February 11, 2003 and on June 09, 2003 with remuneration and other terms and conditions as given below:

SALARY:

Rs.1,60,000/- (Rupees One lakh sixty thousand only) per month with effect from April 01, 2007 with such annual increments but not exceeding 20%, as the board at its sole discretion may decide.

ALLOWANCES/PERQUISITES:

In addition to the above salary, the Managing Director shall be entitled to the following by way of perquisites and allowances in such form and in such manner as the directors of the company may decide.

Rent free accommodation or house rent allowance (HRA) upto 30% of salary in lieu thereof including expenditure on gas, electricity and water.

Personal allowance upto 20% of salary to meet expenses with regard to Leave travel expenses, medical reimbursement for self, spouse, dependent children and parents, club fees and other perquisites in accordance with the rules of the company as may be claimed by the Managing Director, provided that such allowance/ perquisite shall be limited to such percentage of annual salary in case the HRA is availed of, so that the total value of perquisites and allowances are limited to 50% of annual salary and in the event HRA is not availed or claimed, total perquisite value inclusive of rent free accommodation shall not exceed 50% of annual salary.

Perquisites will be valued as per Income Tax Rules wherever applicable and in the absence of such rules at actual costs.

In addition to the above, the Managing Director shall be paid medical insurance premium of Rs.10,000/- per annum. He is also entitled to maintenance of residential accommodation including furnishing and upkeep thereof at actuals and expenditure in this regard shall not exceed the sum of Rs.50,000/- per annum.

COMMISSION:

1% of the net profits of the company in each year computed in accordance with section 349 of the Companies Act, 1956 ('the Act') subject to such limit as may be decided by the Board in accordance with such performance parameters as may be given to the Managing Director by the Board.

OTHER BENEFITS:

Contribution to Provident Fund and Superannuation Fund as applicable to other managers of the company.

He shall be entitled for Gratuity at the rate of one month salary for each completed year of service effective from the date of his appointment as Managing Director.

Provision of car for use on Company's business and telephone at residence, including long distance calls shall not be considered as perquisites.

The Managing Director shall be entitled to reimbursement of travelling expenses and entertainment expenses actually incurred in the course of the Company's business.

One month leave per year on full pay (salary plus perquisites) with liberty to accumulate such leave upto 50% of entitlement and encashment of unavailed leave at the end of tenure. In addition the Managing Director shall be entitled to such casual leave and sick leave as is applicable to other managers of the company. He shall also be entitled for personal accident insurance premium of Rs. 10,000 per annum.



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Salary, perquisites and commission shall be subject to the overall ceiling under sections 198, 309 and schedule (XIII) of the Act.

*The Managing Director shall not be entitled to any sitting fees for attending the meetings of the Board or a committee thereof.*

In the event of absence or inadequacy of profits in any financial year during the tenure of the Managing Director the remuneration would be paid as above subject to Central Government's approval, if required, or subject to the ceiling under paragraph 1 of Section II of Part II of Schedule XIII of the Act.

Remuneration Committee has also approved the payment of his remuneration.

A copy of the agreement containing the terms and conditions of appointment dated May 19, 2007 of Mr.P.M.Rajanarayanan is available for inspection at the registered office of the company during business hours.

None of the Directors are in any way concerned or interested in this resolution except Mr.P.M.Rajanarayanan as recipient.

By order of the Board
**M.N.SRINIVASAN**
Company Secretary

Coimbatore
May 18, 2007

Particulars about the directors proposed for reappointment

| S. No. | Name | Qualifications | Experience / Expertise | Directorship | Committee Membership |
|---|---|---|---|---|---|
| 1 | Mr. V.S. Rajan | B.Tech. (Hons) | Marketing strategist. He has wide and varied experience in the field of operations and marketing in reputed companies like Ashok Leyland and Escorts. | - | - |
| 2 | Mr. S.C. Katyal | B.A. (Economics), ACS, AICWA and ACIS | He has had wide and varied experience in finance, operations, marketing and overall management of companies and has held senior positions of Executive Director, Joint Managing Director and Managing Director of companies and has experience in structuring / restructuring of operations, investments as well as closure of plants / undertakings / companies as also sale of assets and companies. | 1. Coromandel Electric Company Ltd.<br>2. Monarch Catalyst Private Ltd.<br>3. Shogun Chemicals Private Ltd. | - |



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Revathi A

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# 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

### 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
HDFC BANK LIMITED
CANARA BANK
DENA BANK

### MANAGEMENT TEAM

K.V. RAMASUBRAMANIAN
Senior Vice - President
Business Unit Head - Drilling Equipment Division

S. HARIHARAN
Vice - President (Finance)

RAMAKRISHNAN SANJEEVI
Vice-President
Business Unit Head - Construction Equipment Division

### AUDITORS

LODHA & Co.,
KOLKATA

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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% |
| 2004-05 | 38.4% | 17.3% | 21.1% |
| 2005-06 | 18.1% | 70.0% | -51.9% |
| 2006-07 | 13.7% | 13.80% | -0.1% |
| Average Annual Gain (FY03 - FY07) | 19.9% | 30.1% | -10.2% |
| Overall gain ( FY 03 - FY 07) | 148.0% | 273.0% | -125.0% |

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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**CHAIRMAN'S LETTER**

Our gain in net worth during FY07 was Rs.101 million, which increased the per share book value by 13.7%. Over the last four years (that is, since the present owners took over) per share book value, has grown from Rs.151 to Rs.352, which, after factoring in dividend paid during this period, works out to a rate of 19.9% compounded annually.

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The financial results look terrible, especially in an environment where year-on-year profit growth at something like twenty five percent (or better) seems to have become the norm for the Indian corporate sector. And they are. What's more, this period of pain may continue a while longer than I had originally anticipated. While the reasons are many, there is no hiding the fact that I miscalculated the pace at which some of our initiatives might progress. At these times, it is easy to get philosophical, and quote from books such as Fooled By Randomness or Why Most Things Fail, on what did us in. And while I do believe in the messages contained in those very interesting books, I also believe that some of the errors I made were avoidable. The bad news is that these are, in my view, systemic issues, which may take some time to address satisfactorily. While one gets to read about it, only experience makes the truth sink in, sometimes painfully. Just as earthly objects must attain escape velocity to overcome Earth's gravitational forces and launch into orbit, small organisations I find, need to work on multiple preparatory steps to break the size barrier and go on to the next level. So while the mid-course correction has begun, the results are not likely to be immediately apparent.

Every day, in countless ways, the competitive position of our business grows either weaker or stronger. If we are delighting customers, eliminating unnecessary costs and improving our products, we gain strength. But if we treat customers with indifference or tolerate bloat, our business will wither. On a daily basis, the effects of our actions are imperceptible. Cumulatively though, their consequences are enormous. When our long-term competitive position improves as a result of these unnoticeable actions, we describe the phenomenon as 'widening the moat'. Doing that is essential if we are to have the kind of business we want in a decade or two from now. We always hope to earn more money in the short-term. But when the short-term and long-term conflict, in my book, widening the moat must take precedence. Said more bluntly, this means Revathi continues to be at a stage where it needs to make significant investments of time (but not so significant investments of capital) to build the foundation that can support the growth that lies ahead. More on this a bit later.

After summarizing my thoughts on the state of the core construction and mining business, I now turn to the two strategic investments made by us this year.

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I have stated in the past that we would attempt to use the free cashflow generated by the core mining business to acquire meaningful (even control) positions in, what we believe to be well run businesses with strong market positions and a sustainable competitive advantage. During the go-go years immediately past, when private equity players of all hues were announcing a deal a week, holding cash was uncomfortable, but not as uncomfortable as doing something that might make us look stupid in the long run. I have heard of a syndrome popularly known as the bladder problem: the more cash one holds, the greater the pressure to piss it away. To be honest, it takes a lot of holding yourself back to not fall into the trap of parking money into the first opportunity that comes your way. Or the tenth. Like in test cricket, a few maiden years do not count. What ultimately counts is whether we have the patience to not be bowled out twice over in the space of five days. To finish first, we have to first finish.

I have also been influenced by the writings of Michael Mauboussin, chief investment strategist at Legg Mason Capital Management who, in his book, More Than You Know: Finding Financial Wisdom in Unconventional Places, writes, "The frequency of correctness does not matter; it is the magnitude of correctness that matters". So we bided our time. Until now. Hopefully, these businesses will serve us well in the long run.

This year marked the beginning of that journey, which, if things go as per plan, should metamorphose Revathi from a company manufacturing capital goods for the construction and mining industries to a kind of holding company with meaningful investments in diverse businesses.

We started our journey by taking a twenty six percent stake in Monarch Catalyst. Govind and I were introduced by a common friend over a breakfast meeting at Café Fontana on a cold December morning in 2005. I was initially skeptical about the opportunity, owing to the size of the firm and the age of the promoters. However, as our discussions progressed, I realized the truth behind the age-old wisdom, "looks can be deceptive". I have judged too soon in the past and was glad that I learnt my lesson well enough to probe deeper into this gem.

Monarch is India's largest producer (third largest globally), of catalysts for hydrogenating oils and fatty acids for the edible oil, personal care and cosmetics industries. They also produce process catalysts that reduce the time it takes for a chemical reaction to take place in industries such as pharmaceuticals and fine chemicals. The company was set up by two technocrats including Shanti bhai Vadalia, in 1973, who were joined by K. Ganesh shortly after. These four built a strong base, which was inherited by the next generation of the founding families. Since 1998, these two young and dynamic professionals, Hitesh Vadalia and Govind Krishnan Muthukumar have put Monarch on a different platform. Together, they have the energy and vision to put Monarch on the global map.

The biggest problem for catalyst users is disposing the chemical waste that arises at the end of the process. In classic entrepreneurial fashion, the boys converted this problem into an opportunity, wherein they offered to buy back the waste from their customers, thereby making catalyst waste a key raw material source. This is a typical example of a win-win mindset, which when applied to the right business, can create significant shareholder value. Another example of a customer first attitude is reflected in Monarch leveraging its significant technical strength and integrated manufacturing facilities to offer customised solutions to global customers. A reasonably consolidated industry structure ensures that a typical contract provides for passing on price risk arising out of fluctuations in raw material prices on to customers. This business model, combined with ever-increasing economies of scale, has yielded a return on equity exceeding thirty percent in all but three years since the boys took charge.



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A confluence of all things positive led to a dream performance in our very first year of courtship. Monarch more than doubled its sales over the previous year and profits grew at a blistering 257%. All this was achieved, while simultaneously achieving a return on equity unmatched since FY00. While the company's business has been built on strong foundations, I would regard such a performance as a black swan event, unlikely to be matched in its magnitude.

Before I move on, a word of appreciation for Hitesh and Govind. Despite the fact that I have known them for just under eighteen months, I get a good feeling about having chosen them as business partners. They have the personal and professional qualities that one admires in a business associate and cherishes in a close friend.

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Our second investment was a forty percent stake in Potential Service Consultants, with an obligation to buy at a pre-agreed valuation, an additional eleven percent, thirty months after the date of the initial purchase. The connection here was to be made by the same common friend, who introduced us to Monarch, but after discussing a possible meeting for almost twelve months through this friend, we finally got introduced through another investment banking friend. We had last worked together almost five years ago. Over time, they spoke to us about multiple opportunities, but unfortunately we never found one that got us really excited. As a result of these misadventures, they perhaps concluded that we are too finicky an investor to waste time on. Gradually I stopped getting their calls, though we kept in touch socially. Then, in August last year, I got a call from Jacob about investing in an engineering design firm. I had been looking to invest in that space and had had a look at a few other opportunities, without success. When I heard his story, my interest was piqued.

Potential is one of the largest integrated engineering design firms in India servicing the construction industry. The company had been set up over two decades ago by three professionals, TS Gururaj, BRV Murthy and BSA Narayan, each a recognised authority in his field of specialisation. At the first meeting itself, the partners laid down their preconditions for selecting a new partner. It was a short list, which included that the firm name be preserved and that the people be looked after just as they had before the sale. After the deal was done, I learnt that they had chosen us over stronger contenders, for fear of having their pre-conditions diluted. For us though, it was a no-brainer. For in a people-intensive business, what matters most are the people. And for a company, which has attained a special status in the eyes of its customers, through painstaking hard work over twenty long years, the brand certainly is not inconsequential. Now Infosys today, by any other name may sound as sweet, but I am not sure if that would be the case when they were 1/300th their present size!

Here is what Potential does. It is typically recruited by an architectural firm to prepare detailed engineering drawings for a project. The combined specialisations of the three promoters cover engineering designs for civil, structures, electrical, public health and engineering, air-conditioning, fire-fighting and IT systems, among others. What distinguishes Potential from most of its competitors is that very few offer a comprehensive solution under one roof. Using these skills, Potential receives conceptual architectural drawings from architects and produces 'ready for construction' drawings which are handed over to a construction management company for translating into the actual building. Over the years, their work has spanned designing buildings for use as residential complexes, offices, malls, hotels and hospitals.

Potential is a live example of the tipping point principle. It took them eleven years to reach the Rs. Ten million billing and seventeen years to reach the strength of a hundred people. They were still south of Rs. thirty million in FY03, but since then, sales have grown at a compounded annual rate of eighty percent. The interesting part is that this has been achieved by increasing team size at a compounded rate of about thirty four percent. In effect, the revenue per employee has gone from Rs. 350,000 to Rs.1.4 million during this time period. This clearly is quite a significant change in such a short time period, especially for a company of this size.

And therein lies the rub. While the company is sitting on a two-year plus order book, every incremental improvement from here on will need important management inputs. There is no question that the team is technically robust, but the business is going to need strong management systems and processes to leverage those innate skills to reach its full promise. For contrast, it is instructive to note that world-beating tier I Indian IT companies, with all their scale and management competence have been able to attain a per employee revenue of about Rupees Twenty lacs. While Potential would aspire to reach those standards, it is clear that in the immediate term, any growth would have to come out of adding more people to the team. While hiring people in an intensely competitive market brings its own challenges, as the team grows, the complexity of managing it will increase in geometric progression. The good news is that the team is very alive to these challenges and is taking suitable steps to address these issues.

Before I end this section, a brief look at the financial side of this business is in order. On many of the critical metrics, such as return on equity, employee cost to sales, capital turnover ratio, net margins, etc., this business approximates numbers achieved in the IT/ITES business. I would like to add one caveat however. Potential has so far been run much like Revathi had been on maintenance mode. The investments needed in people and systems to manage growing complexity have not been made in the past. As these investments get committed, they will temporarily depress the financial performance. But if the factors driving the real estate industry remain stable, over a three year timescale, then I think this business should be able to achieve robust growth mirroring growth rates in the real estate industry.

Both these businesses are fairly small at the time of our investment, but small doors sometimes open up into large rooms. However, there is one crucial distinction between the two businesses. Whereas Potential is in a high growth industry, Monarch's growth will have to necessarily come out of winning market share over global competitors. The good news is the global players increasingly seem to find this sub-segment of catalysts as too small, with mediocre growth prospects. They seem to prefer focusing on environment catalysts (including catalytic converters used in automobiles) and it is not inconceivable that over time they may gradually vacate spaces in the market place for a player like Monarch to enter.

A question is bound to arise in the investors' mind - Why make passive investments when we can never get our hands on that money? Here is my thinking on the subject. Until these businesses are in a position to utilize their free cashflow to grow their core business, they would continue to invest internal accruals to fund such growth. This could be organic or inorganic. When they transform from being growth businesses to being cash cows, we would dividend out all the spare cash, which we then find new homes for. In essence, as long as we can ensure that the capital allocation is done by these businesses in a way that focuses on maximizing long-term shareholder value, we would be served well.



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