

# 33<sup>rd</sup> Annual Report



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REVATHI EQUIPMENT LIMITED

2009-10

## Acquisition Criteria

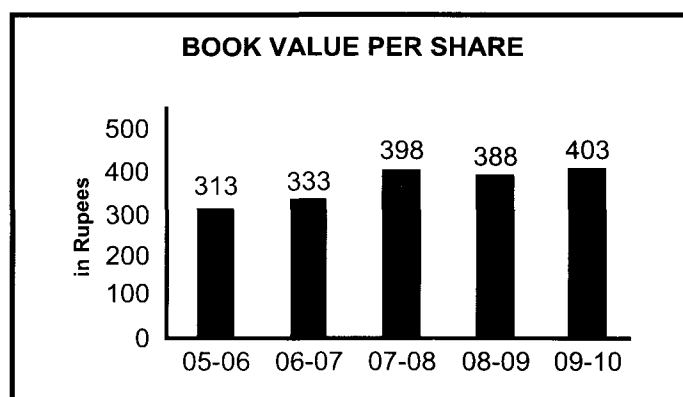
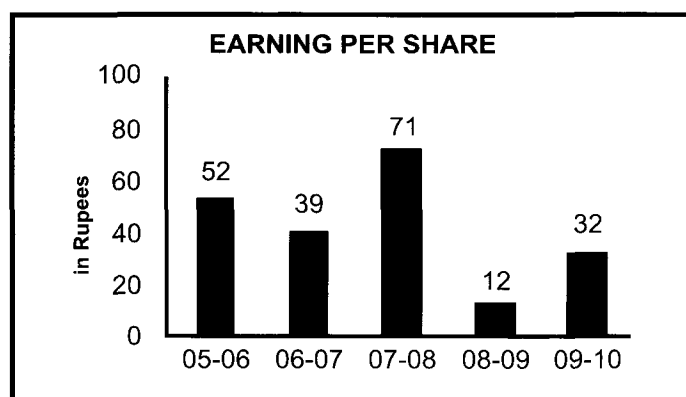
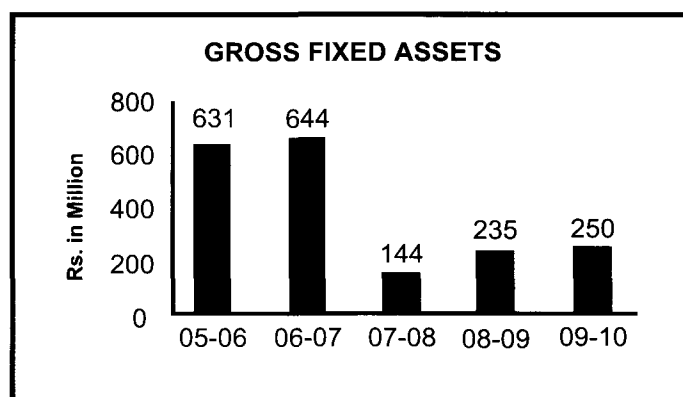
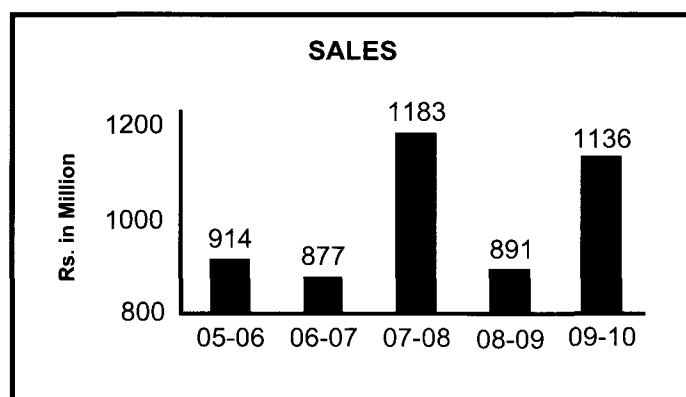
We use this space to communicate with potential sellers and their representatives, what we look for in a potential acquisition. If you, the reader, have no personal connection with a business that might be of interest to us but have a friend who does, perhaps you could pass this message on to him.

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.



## **Revathi Equipment Limited**

### **CORPORATE DATA**

#### **BOARD OF DIRECTORS**

**ABHISHEK DALMIA**

Executive Chairman

**K. SUNIL KUMAR**

Managing Director & CEO

**CHAITANYA DALMIA**

**S.C. KATYAL**

**AJAY KUMAR DHAGAT** (Upto 2.8.2010)

**B.D. NARANG**

**B.V. RAMANAN** (From 10.1.2010)

#### **SHARE TRANSFER AGENTS**

**S.K.D.C. CONSULTANTS LTD.,**  
**KANAPATHY TOWERS**

3rd FLOOR, 1391/A-1, SATHY ROAD  
GANAPATHY, COIMBATORE 641 006.

#### **COMPANY SECRETARY**

**M.N. SRINIVASAN**

#### **BANKERS**

**AXIS BANK LIMITED**

**CANARA BANK**

**DENA BANK**

**HDFC BANK LIMITED**

**ICICI BANK LIMITED**

**STATE BANK OF BIKANER & JAIPUR**

**STATE BANK OF INDIA**

**IDBI BANK LIMITED**

#### **REGISTERED OFFICE**

**POLLACHI ROAD,**  
**MALUMACHAMPATTI POST**  
**COIMBATORE - 641 021.**

Website : <http://www.revathi.co.in>

#### **AUDITORS**

**LODHA & Co.,**  
**KOLKATA**

#### **MANAGEMENT TEAM**

**L.S. SHASHI PRAKASHA**

Vice - President

Business Unit Head - Drilling Equipment Division

**S. HARIHARAN**

Vice - President (Finance)

**RAMAKRISHNAN SANJEEVI**

Vice-President

Business Unit Head - Construction Equipment Division

### Revathi's Corporate performance vs the Nifty

Year	Annual percentage change in		Relative results (1) - (2)
	Per share book value of Revathi (1)	Nifty 50 with dividend included (2)	
2002-03	9.0%	-11.7%	20.7%
2003-04	21.6%	86.3%	-64.7%
2004-05	41.3%	17.3%	24.0%
2005-06	19.1%	70.0%	-50.9%
2006-07	11.6%	13.8%	-2.2%
2007-08	16.6%	25.7%	-9.1%
2008-09	-2.5%	-35.4%	32.9%
2009-10	3.6%	75.3%	-71.7%
Average Annual Gain (FY03 - FY10)	13.9%	23.2%	-9.3%
Overall gain (FY 03 - FY 10)	184.0%	430.7%	-246.7%

**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 owing 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.



REVATHI EQUIPMENT LIMITED

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2009 - 10

## CHAIRMAN'S LETTER

Our gain in consolidated net worth during FY10 was ₹43 million, which increased the per share book value by 3.6%. Over the last seven years (that is, since the present owners took over) per share book value, has grown from ₹151 to ₹403, which, after factoring in dividend paid during this period, works out to a rate of 13.9% compounded annually.

Our core business of Drills improved significantly over FY09 and even outperformed our internal expectations. However, the overall result was dragged down by everything else in our portfolio, which is a play on the infrastructure and real estate industries. The infrastructure industry started to increase the utilization of its huge population of equipment, built up during the go-go years leading up to FY08, leading to subdued fresh equipment sales for most of the construction equipment industry. Though the real estate industry started recovering during the year, as mentioned in last year's report, much of it was fuelled by sale of existing inventory and project restarts. Unfortunately, design activity for newly conceived projects continued to stay staid. If India has truly decoupled from the global economy, as is apparent in recent months, then the worst is behind us and I expect strong performance in all our businesses. However, we will only find out the truth if the West goes into a double dip, which has become a growing fear among astute observers. This statement by a member of European Parliament succinctly summarises the expectations from the global economy at this point: "You cannot spend your way out of a recession or borrow your way out of debt."

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After that gloomy paragraph, I would like to share my optimism about the future, which arises out of the work we have done in bringing in several people across various levels at Revathi.

Last year, our Managing Director and the Head of our Drilling business retired. Their contribution to the company over the two plus decades they were with us cannot be overstated. However, there comes a time when people give in to the demands of their families and hang up their boots. We were able to find capable people to take up the mantle from these old hands. From my interactions with our new leadership over many months, I feel confident about the decision I, with active participation of our Board members, made. Though a lot of work needs to be done to build an exciting future, I think the business is in good hands.

Similarly, in the Construction Equipment business, we parted ways with a key executive. When the environment is tough, people tend to become jittery about the future. Some work with the business to make it better. Others find greener pastures and decide to move on. Our Marketing Head chose the latter path. I am happy to report that the people we have brought in to build the business have significant industry experience and an enviable track record. The new team has demonstrated that experience in building a national sales and service network in a matter of a few months after the close of FY10.

Changes at senior levels are always stressful. The bad news is that we had to undergo that stress at the worst possible time from the business perspective – when the business environment was most challenging. The good news is that both, the external and internal environments, have changed for the better. I do expect that our new team will bring fresh ideas and new energy into the business, which will translate into stronger financial results in the coming years.

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As briefly indicated above, our core Drilling business performed very well this year with a fifty percent jump in equipment volumes over last year. Fuelled by this surge, the EBIDTA grew fifty eight percent. Unfortunately, much of the good work done in the Drilling business was neutralized by the poor performance of the Construction Equipment business. Overall, our performance, though significantly better than last year, was still a touch below our performance in the years preceding FY09. I do expect this track record to show significant improvement in the years following FY10.

I would like to comment on two other developments that are imminent in our Drilling business. As the size of the industry in India grows, more competitors will want a piece of the action. That will obviously impact the market share of the two existing players. Also, our agreement with Bucyrus for global marketing is coming to an end in October 2010. Prima facie both these developments put together sound quite unsettling. However, we have put in motion an action plan to not only counter the effects of these developments but to improve our results despite them.

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This year was the most challenging year in Potential's two-decade history. For majority of the year, market slowdown continued and it severely hit the Indian construction industry. Potential was faced with many stalled projects, some cancelled orders, and very few new projects. This was further compounded with significant changes in the leadership of

the Company, when all the founders retired. Again, while this was known, the timing could not have been worse. All these effects caused revenues to shrink to less than half their previous peak. To ensure the Company paid salaries on time, which it did, it was forced to make savage cost cuts, primarily by reducing headcount and scaling back compensation. The bad news did not end there. In continuation of significant bad debt write offs last year, we had an even bigger write-off this year. Put together the total write offs over two years add up to ₹9 crores. Keep in mind that the highest profit ever earned by this company was ₹ 8 crores.

Thankfully, the year ended with a gradual turnaround of the market. To capitalize on the new opportunities, Potential has built a national Business Development team. This team, supported with more local design offices is our best bet in ensuring we get geographical diversification, the lack of which nearly killed us over the past eighteen months.

As the market picks up and more work starts coming through the door, retaining good people and bringing in talented people will be an important variable to keep our eyes on. Of course we are not the only ones thinking this way and with more work, competition too would be looking to hire smart people. This would lead to higher staff costs as the demand supply balance shifts in their favor.

Semac, our other company in the engineering design space, once again fared much better, relatively speaking, though even here revenues and profits fell from last year's levels while still remaining in positive territory.

On a combined basis, Potential + Semac probably had its toughest year. The headcount went down from its highest point of 803 attained in October 2008 to 578 by the close of this year, eighty per cent of the drop being accounted for by Potential. In a people driven business, this single statistic says a lot about the health of the business. The good news is that after the close of the year, we have started hiring again, at every single office.

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Monarch, the catalyst company, did admirably in a continuing tough environment. In this business, the selling price is linked to the raw material cost and hence Sales is a misleading number for examining financial health. I focus instead on the operating gross profit. Consider that while volumes picked up by about fifty percent, Sales was up only seventeen percent and operating gross profit climbed thirty two percent. Part of the volume jump came as a result of aggressive pricing to enter new markets, which is the reason the growth in operating gross profit did not move in step with rise in volumes. Expenses stayed more or less at last year's levels as a result of which, profit before extraordinary write-offs and taxes, climbed from ₹96 lacs to ₹623 lacs.

The team leading Monarch is dynamic and have done a remarkable job in producing such results in a tough environment. More importantly, while dealing with the present set of challenges, they have also prepared a blueprint for capturing the opportunities that lie ahead. The plan includes capacity debottlenecking, bringing in key people to help with new product development, opening up new markets to attain higher volumes, etc. All in all a praiseworthy turnaround after last year's dire results.

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Turning now to our real estate investment in Mumbai. After deferring construction activity for about a year, we finally moved ahead with our plans. If we decide to rent the office space, based on present market rent per square foot, we are looking at an eighteen percent pre-tax rent yield. If however, we choose to sell out towards the end of next financial year, at current market prices, we would have compounded our capital at a mid-twenties rate over the three years the capital stayed invested. Life is full of tough choices!

**Abhishek Dalmia**  
Chairman of the Board

**REPORT OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS REPORT.**

**For the year ended 31st March 2010**

Your Directors have pleasure in presenting the Thirty third Annual Report together with the audited accounts of your Company for the year ended March 31, 2010

**Financial Results**

All figures in Rs. Million

Particulars	FY 10	FY 09
Total Income	1206	947
Total Expenditure	1071	905
Profit before tax	135	42
Less: Provision for tax	36	6
Profit after tax	99	36
Appropriation made as under:		
Transfer to General Reserve	—	30
Surplus carried to Balance Sheet	99	6

**Dividend**

No dividend has been declared considering the need to preserve cash for development in the financial year under review.

**Performance Review**

Sales of your company increased by 27.4 % to Rs. 1136 Million from Rs. 891 Million.

Profit before tax increased by 219 % to Rs. 135 Million from Rs. 42 Million due to higher sales volume and better product mix.

**Overview of the Economy**

Indian economy is expected to grow at 8.4 per cent in the current fiscal (2010-11) and 8.5 per cent in the next fiscal (2011-12) as per the forecast released by the Reserve Bank of India.

Government's thrust on development of infrastructure sector continues. Industries engaged in construction, mining and power sector are likely to do well.

Inflation continues to be a cause of concern.

**Business Environment & Prospects for FY 2010-11**

The company's products are catering to the needs of mining and infrastructure industries. The blast hole drilling equipments are predominantly used by coal companies for the production of coal, lignite etc.

The demand for coal is increasing steadily due to economic growth . The proposed addition to power capacity in India will accelerate the demand for coal, as coal is the main fuel for energy. Coal India Ltd has targeted to produce 435 metric tons of coal in FY 11 and committed to produce 520 MT of coal in FY 12. Indian Government has given green signal to private sector to enter the coal mining sector in a big way to accelerate coal production . Besides Coal India, companies engaged in steel, power are contemplating to own mining assets in India and abroad to meet their captive needs. Export market development and improvement in market share in private mining will be the key driver for growth.

The demand for construction equipments has started showing signs of improvement. The thrust by Government for development of roads, rail, airport, sea port likely to result in increased demand for company's products.

The manufacturing facility established at SIPCOT Industrial estate at Gummidipoondy near Chennai commenced its commercial production in April 2010.

**Strategic Investments:**

Monarch Catalyst P.Ltd.

Your company has strategic investments ( 26% ) in Monarch Catalyst Private Ltd. (Monarch) Mumbai.

Monarch sales increased from Rs. 773 Million in FY 09 to Rs. 902 Million in FY 10 registering an increase of 16.5 % and posted impressive profit before tax of Rs 62 Million in FY10 against loss of Rs. 75 Million in FY 09. The turnaround was achieved due to multi pronged action and measures taken by Monarch.

**Subsidiary Companies**

In the past, your company had made investment of Rs 341 Million (57.6% in the capital of ) in Potential Service Consultants P.Ltd and another investment of Rs 463 Million ( 72.6% in the capital of ) in Semac Ltd., both of which are providing engineering design solutions for realty sector – viz. in Industrial and commercial segment.

With effect from April 01,2009, Semac Ltd. merged with Potential Service Consultants P.Ltd (PSCPL) as per the scheme of amalgamation as sanctioned by the Honorable High Court of Karnataka vide their Order dated July 8, 2010, keeping in mind the synergy in operations of these two companies. Consequently your company's holding in the merged entity of PSCPL has become 65.84% in their paid up capital.

Total income of the merged entity of PSCPL was Rs 463 Million in FY 10 as against Rs 351 Million registering an increase of 31.7% in total income. The loss of the combined entity was Rs 55 Million which was mainly due to write off of bad debts of Rs 74 Million against a profit of Rs 21 Million in FY 09.

FY10 was a challenging year for PSCPL (merged entity) due to industry slow down.

Revenue enhancement initiatives as well as cost saving efforts came with their lag effect and could not realize the full benefit in FY10. Then gradual market turnaround coupled with new initiatives should result in better financial results for FY11.

Revathi Drilling and Mining Ltd., wholly owned subsidiary, has not commenced its operations.

**Consolidated Financial Statements**

The accounts of Revathi Equipment Ltd., Revathi Drilling and Mining Ltd. (wholly owned subsidiary company), Potential Service Consultants P.Ltd. (subsidiary company) have been consolidated under Accounting Standard 21 of the Institute of Chartered Accountants of India, and accounts of Monarch Catalyst P.Ltd. in terms of Accounting Standard 27 of the Institute of Chartered Accountants of India.

On consolidation basis, the total income was Rs 1989 Million and profit before tax (before amortization of goodwill ) was Rs 116 Million. Amortization of goodwill was Rs. 71 Million.

**Human Resources**

Your company realizes that it has to re-orient its organization as dynamics of business are changing fast. The company is taking steps to retain its talent pool, enhance skill of existing people and recruit the most suited talent to spearhead its growth initiatives. Your company's business has been divisionalised and business unit heads are in place. Organizational development is our key priority.

**Risks and Concerns:**

Slow down of global economy and delay in domestic investments in infrastructure projects may impact business.

Inflation continues to be a cause for worry.

**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. Your company continue to focus on risk management and also evaluate the internal control systems continuously so as to minimize and mitigate risks and improve control systems.

**Board constitution**

Board acknowledges the outstanding contribution of Mr. P.M. Rajanarayanan who was the Managing Director of the Company for the past 7 years, and who retired on March 31, 2010.

Board appreciates the contribution of Mr. Ajay Kumar Dhagat during his tenure as Director of the Company.

The board had appointed Mr. K. Sunil Kumar as Managing Director and CEO, with effect from April 01, 2010. A proposal for his appointment as Managing Director & CEO is being placed before the members for approval at the Annual General Meeting.



In accordance with the Articles of Association of the company, Mr. Chaitanya Dalmia and Mr.S.C.Katyal 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. 167 Million and the foreign exchange outgo during the year amounts to Rs 176 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 there under 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.

#### **Appreciation**

The Directors express their sincere appreciation of dedicated efforts put in by our people and their commitment to make the company a high performance Company. The Directors also place on record their appreciation of the continued support and recognition provided by our esteemed customers.

For and on behalf of the Board of Directors

New Delhi  
August 23, 2010

**Abhishek Dalmia**  
Executive Chairman

**K. Sunil Kumar**  
Managing Director & CEO



## ANNEXURE – A

Form for disclosure of particulars with respect to Absorption

### Research and Development (R&D)

- |   |   |
|---|---|
| 1. Specific areas in which R&D carried out by the company     | : 1. High pressure large volume Compressor system for 6" Diesel DTH Blasthole drills.<br>2. 10" class diesel Rotary blast hole drills.<br>3. 6" class Diesel Rotary blast hole drills for Private customers.<br>4. Design of Universal drilling machine for underground mines.<br>5. Concrete pump THP 45D developed successfully and launched in market.<br>6. Transit Mixer 8 CBM developed successfully. |
| 2. Benefits derived as a result of the above R&D              | : Penetration into new market segments  |
| 3. Future Plan of action                                      | : Development of<br>1. 6" DTH heavy duty hydraulic track drill.<br>2. 6" Diesel Rotary Blast hole drills for export.<br>3. Exploratory drills for export<br>4. Transit Mixer of 9 Cu M.<br>5. Boom Pump of 28/32 M.<br>6. Transit Mixer 7C version(Bolted design)<br>7. Transit Mixer 7 CBM with PTO Drive.<br>8. Concrete Pump THP 45 E (Electric Version)   |
| 4. Expenditure on R&D :                                       |   |
| (a) Capital   | : Rs. - Million   |
| (b) Recurring   | : Rs. 13.9 Million  |
| (c) Total   | : Rs. 13.9 Million  |
| (d) Total R & D expenditure as a percentage of total turnover | : 1.3 %   |

### Technology absorption, adaptation and Innovation

- |   |  |
|---|--|
| 1. Efforts, in brief, made towards technology absorption, adaptation and innovation   | : 1. Progressive indigenisation of Transit Mixers, Batching Plant and concrete pump.<br>2. 6" DTH heavyduty hydraulic track drill.<br>3. 6" Diesel Rotary Blasthole drills for export.<br>4. Exploratory drills for export |
| 2. Benefit derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution, etc.                        | : Import substitution and cost reduction.<br>Improved drill performance & customer satisfaction.   |
| 3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), the following information may be furnished. |  |
| a) Technology imported  | : Technical know-how for manufacture of Batching Plant, Transit Mixers, Concrete Pump and Boom Pump  |
| b) Year of import   | : FY 2005-06/ FY 2006-07   |
| c) Has Technology been fully absorbed?  | : Yes  |
| d) if not fully absorbed, areas where this has not taken place, reasons therefore, and future plans of action   | : Not applicable   |