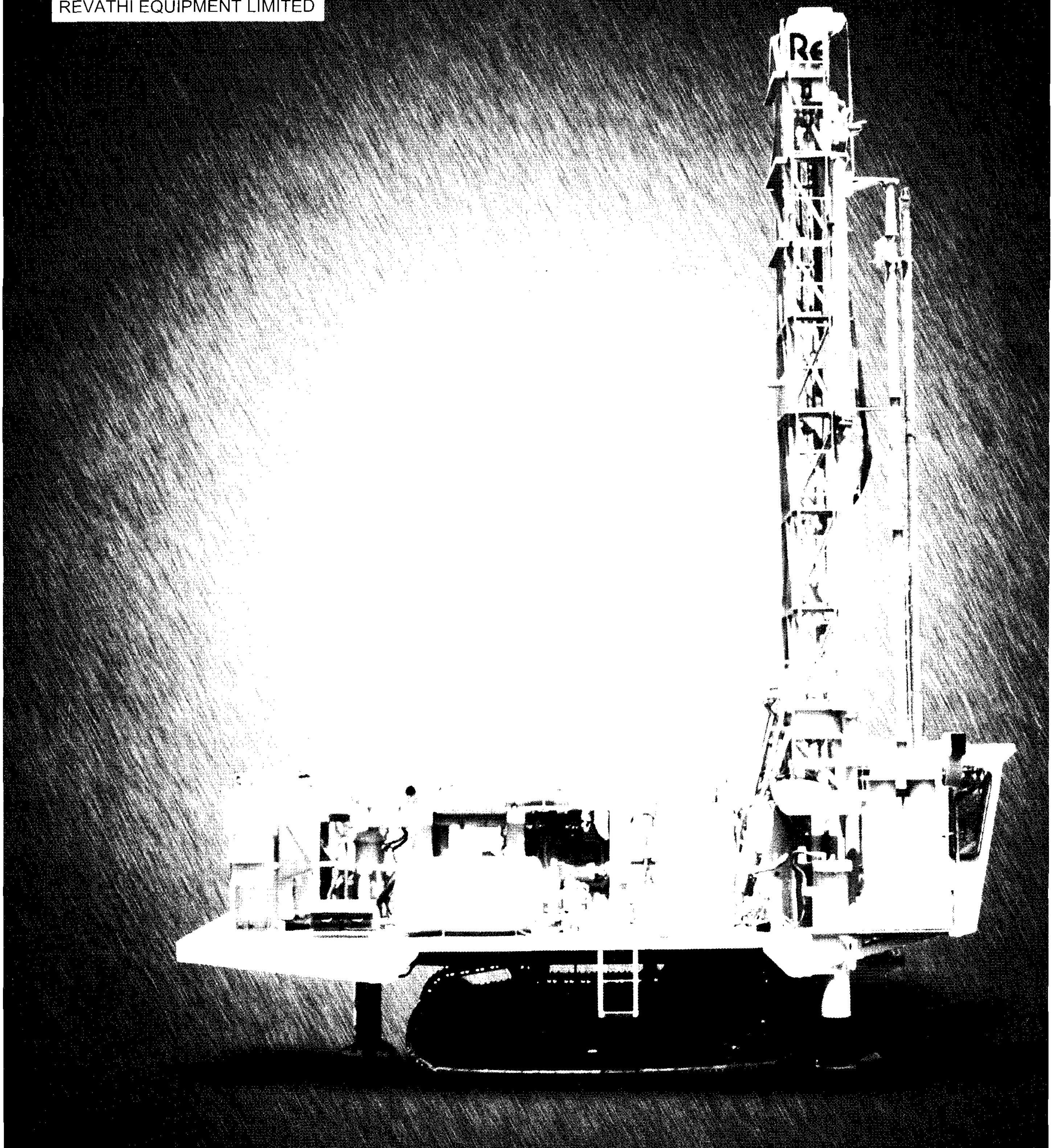
REVATHI EQUIPMENT LIMITED



35th Annual Report 2011-12

Acquisition Criteria

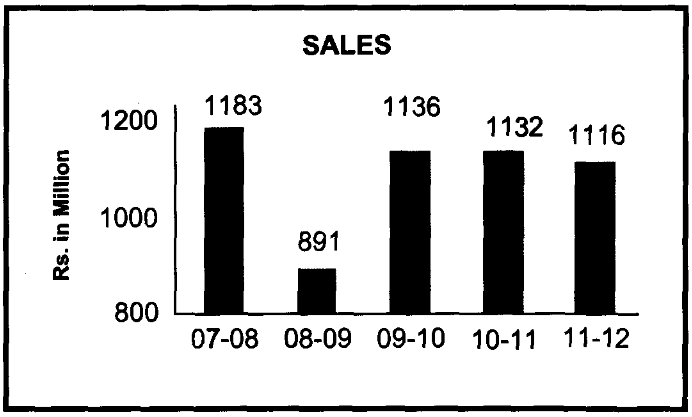
We use this space to communicate with potential sellers and their representatives, what we look for in a potential acquisition. If you, the reader, have no personal connection with a business that might be of interest to us but have a friend who does, perhaps you could pass this message on to him.

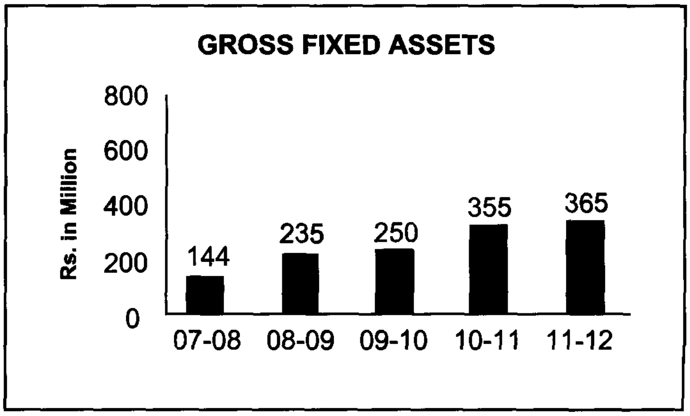
Here's the sort of business we are looking for:

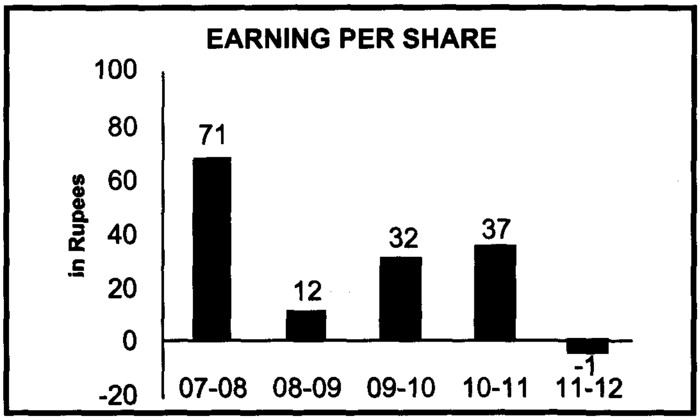
1. Enterprise value in the region of Rs. 100 crores (Rs. 1 billion),
2. Demonstrated consistent earning power (future projections are of little interest to us, nor are "turnaround" situations),
3. Businesses earning good returns on equity while employing little or no debt,
4. Management in place,
5.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

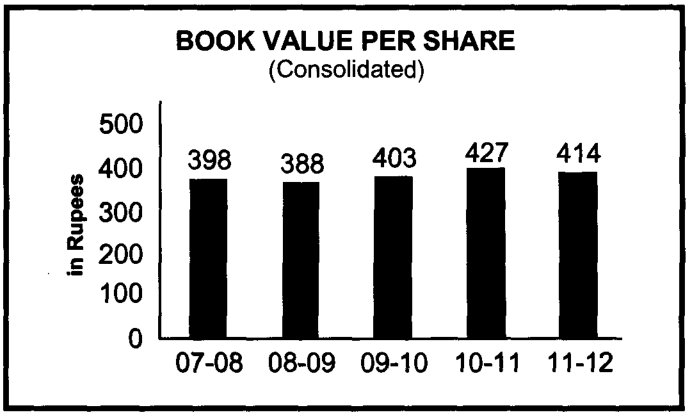
We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast answer as to whether we are interested. We prefer to buy for cash, but will consider issuing stock when we receive as much in intrinsic business value as we give.

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 (upto July 11, 2012)

S. HARIHARAN
Wholetime Director (From August 01, 2012)

CHAITANYA DALMIA

S.C. KATYAL

B.D. NARANG

B.V. RAMANAN

P.M. RAJANARAYANAN (From May 08, 2012)

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

REGISTERED OFFICE

POLLACHI ROAD,
MALUMACHAMPATTI POST
COIMBATORE - 641 050.
Website : http://www.revathi.co.in

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
BANK OF INDIA

MANAGEMENT TEAM

L.S. SHASHI PRAKASHA
Vice - President
Business Unit Head - Drilling Equipment Division

T. MANOHAR
Vice - President
Business Unit Head - Construction Equipment Division

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)	(1) - (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%
2010-2011	6.0%	12.4%	-6.4%
2011-2012	-2.9%	-8.2%	5.3%
Average Annual Gain (FY03 - FY12)	11.3%	18.6%	-7.3%
Overall gain (FY 03 - FY 12)	191.3%	447.5%	-256.2%

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 ratained 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.

CHAIRMAN'S LETTER

The reduction in consolidated net worth during FY12 was `38 million (`20 million ignoring goodwill write-off as explained in my letter last year), which decreased the per share book value by 2.9% (1.3%). Over the last ten years (that is, since the present owners took over) per share book value, has grown from `151 to `414 (`498), which, after factoring in dividend paid during this period, works out to a rate of 11.3% (13.1%) compounded annually.

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Many years ago, when I was still in college, I was having a chat with one of my uncles about business prospects in a tough economy. He quite matter-of-factly said a difficult environment hurts almost all businesses. Some more, some less. The experience of the last few years has been a grim reminder of the truth of those words.

It is true that quality of management can make a difference to the fortunes of a business, which brings me to the next element that has had an important influence on our results. Some of our older shareholders will remember that our previous management team retired in FY10 and we brought in new people to run two of our businesses. Though they are both pedigreed, they produced their best results when the macro economic environment was much more supportive. With all the headwinds in both our businesses, perfectly decent people have been made to look inept. Some of the pain, of course, was self-inflicted. More on that later.

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The Drilling Solutions business saw two important developments during the year.

The older an organization, the greater the chances that a fresh set of eyes will find areas where significant improvement is possible. This is especially true for organisations that have been lulled into complacency due to their success. Success usually leads people to believe they can do no wrong and that is the starting point of things going awry.

Many years ago, we used to initiate action to manufacture a machine after we got an order. In those days, capital was a constraint and necessity led us to postpone procurement action until the last possible moment. Gradually, as the business prospered, enough capital was retained in the business. In company after company I have found that for better or for worse, the operating team finds good reason to put that capital to work. Our team was no different and in our wisdom, we deemed it fit that we should plan ahead of time and build machines in anticipation of orders. The logic was sound - that having been in the business for long, we should be able to forecast what orders we might get and so plan in advance in order to deliver quickly after we get an order. So far, so good.

However, what happens when the environment changes? For instance, as a result of a major scam in some other industry, there are changes in the overall environment, which lead to a breakdown in the typical procurement program, et al. Initially you assume, this is a temporary blip and we will soon be back to business as usual. But after enduring prolonged pain you realize that the change is systemic and that the old methods need to be reviewed with fresh eyes. This is what led us to appoint an execution consultant to study our order fulfillment process and propose a new approach. They worked with our team for about nine months. Their mandate was to help us implement a reactive order fulfillment process which would help reduce cycle time by sixty per cent, thereby enhancing our production capacity, as well as reducing inventory by about twenty five per cent.

Given that we have lived with a different approach for many years, it will take some time to realize the full benefits but I am confident that gradually we will get there. If any of you face tenuous issues in your own organisations, I would highly recommend you talk to Ganga at Levers for Change. They are one of the nicest people I have interacted with, not to mention highly competent at what they do. The fact that a significant part of their fee is linked to achieving pre-defined targets is the icing on the cake.

The other important development was on the Marketing side. After the arrangement with Bucyrus came to an end, we decided to go directly to target geographies with a view to expanding our customer base beyond India. Last year I had mentioned that we had taken the first steps in this journey. I am happy to note that the hard work put in by the team resulted in us bagging orders for four machines from a geography we had never done business in. Any new market brings with it certain challenges and learning curve. It is no different in this case. However, I am confident that the team will put their heads together and resolve whatever issues come up in these initial years.

We have also started work on a few other markets and hope to share some more positive news next year.

Some additional overhead was built in anticipation of a better market than we had last year.

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The Concreting Solutions business has remained tough due to a combination of high interest rates and all kinds of policy issues, which have deterred businesses from investing money into new projects. A slowdown in construction activity has led to contraction in total demand for concreting equipment. Slowing demand in a fragmented industry has led to price wars that have led to a diminishing profit pool.

In a tough market, it is survival of the fittest. Either become the lowest cost producer or find a niche strategy. It is times like these that force businesses to become efficient. It is nature's way of forcing people to utilize its scarce resources well. People who become efficient, survive. Nature eliminates the rest. At Revathi, we reviewed our cost structure to optimize it for our current level of operation. Though the short term will remain tough, our expectation is that as mechanization of construction activity increases and as we progress on Bharat nirman, India will need a humongous amount of concreting equipment.

It is this anticipation that has brought some of the largest global players to India. We have the Germans: Schwing Stetter, Putzmeister, Liebherr; the Chinese: Sany and XCMG and of course the Indians: Greaves, Aquarius, etc. The good news is that the consolidation process has started with first Sany acquiring Putzmeister globally and then XCMG acquiring Schwing Stetter. As a result, we now have six major players vying for the `14 billion market.

At the moment, net margins are low in single digit, after you reach critical mass. Neither the industry size is such nor are the capital turns so high that such margins become worthwhile. Clearly this is not sustainable. Something's got to give. Sooner or later, there will have to be an improvement in price realisations to make this business worthwhile. It could happen through more industry consolidation or it could happen as a result of improved demand and resulting higher capacity utilization of the industry.

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Potential Semac continues to be in the growth mode and the published results mask the underlying story. While the market is down, we continue to invest in the future. As part of our growth plans, we invested in new offices in Navi Mumbai and Chennai, which are still young and therefore need investment before they start producing a return. We also started project management consultancy (PMC) services, and Engineering Procurement Construction management (EPCm) contracts. Finally, we brought in senior leadership at some of our Middle East offices.

The new verticals we launched (PMC and EPCm) are in effect, forward integration of what we already do. These services will help us capture a bigger part of the value chain and also help us build deeper relationships with our clients. Since the job sizes are completely different as is the risk profile, these activities have been started in a hundred per cent subsidiary of Revathi, Renaissance Construction Technologies.

PMC provides owners with the management tools for a project. The project manager acts as the interface between the client and the main contractor. We were fortunate to win the prestigious Ford plant project in our very first year. We also won a project from IIM, Bangalore.

In EPC, the company provides engineering, procurement and construction services. Here the Owner has to manage the contractor to get the project executed on schedule. EPCm is an integrated approach that delivers design and construction services under one contract with a single point of responsibility. Owners select design-build to achieve best value while meeting schedule, cost and quality goals. The service provider acts as the Owner's in-house project team and takes on the responsibility for executing the project on time and on budget. The difference between PMC and EPCm is that PMC is more akin to consulting and EPCm is getting your hands dirty during project execution. We won a few EPCm jobs during the year.

After the FIFA World Cup 2022 was awarded to Qatar, there has been a flurry of activity in that country for building infrastructure, housing complexes, etc. To capitalize on that opportunity, we brought in a senior leader. Opening up Navi Mumbai and Chennai offices are aimed at winning business in those micro-markets. One might ask as to why open so many offices. Why not have an "offshore delivery model" like they have in IT. Based on my experience, offshoring is possible when the industry reaches a certain maturity. Until then, clients want to deal with a local service provider. That way, they feel more in control of their project. These are some examples of how we are investing in the business today in the expectation that when the economy turns, we will be ready to capitalize on it.

The other important reason why the results have dropped significantly from last year is that the economy got worse and project execution slowed to a crawl. As a result billing on existing projects got delayed. To add to our misery, new project wins also slowed down. In a people's business, a big part of your cost structure is people's cost. While it is completely variable in some sense, it is totally fixed if you want to send the right signals to your time. Fire them and the best talent figures that the company does not really care about them. Keep them and you have fixed costs, which are not necessarily linked to Revenues.

After years of hurtling from crisis to crisis, we believe the pressure on government to address the real issues in the economy are growing to a point where, like 1991, some action will need to be taken.

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People familiar with Mumbai's real estate market would be aware that until 2011, the prevailing rules allowed the authorities a lot of leeway in sanctioning how much space could be built on a parcel of land. Though some rules existed, enough areas were left to the discretion of the sanctioning officer. Mr. Subodh Kumar, erstwhile Municipal Commissioner of Brihanmumbai Municipal Corporation was brought in January last year to clean up the rules and give the players in the Mumbai real estate industry a level playing field. The process of studying the issues involved and coming up with the new Development Control Rules took almost a year, during which time, no approvals were granted for any project. As a result, according to data compiled by Knight Frank, in 2011, a mere 19,470 residential units were launched in Mumbai, a drop of 65% compared to 2010.

We had acquired the slum land neighboring the land we had originally acquired. As a result, it had become a slum rehabilitation project, requiring fresh set of approvals. As a result, there was almost no progress to our project during the year. That's the bad news. The good news is that in real estate, if the location is decent, time delays are usually compensated by higher land values. So to some extent, delays affect cash flows but not profitability.

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While we are all hopeful that the macro environment wiii get better, it is unlikely to happen in a hurry. Until then, we have to work hard and hope for the best.

Abhishek Dalmia
Chairman of the Board

REPORT OF DIRECTORS & MANAGEMENT DISCUSSION AND ANALYSIS REPORT

For the year ended 31st March 2012

Your Directors have pleasure in presenting the Thirty fifth Annual Report together with the audited accounts of your Company for the year ended March 31, 2012

Financial Results

All figures in Rs. Million

Particulars	FY 12	FY 11
Total Income	**1283**	1283
Total Expenditure	**1285**	1159
Profit before tax	**(2)**	124
Less: Tax expense	**(2)**	12
Profit / (Loss) after tax	**(4)**	112
Appropriation made as under:		
Transfer to General Reserve	–	–
Surplus / deficit carried to Balance Sheet	**(4)**	112

Dividend

No dividend has been declared in the financial year under review having regard to results of the year and need to conserve resources

Performance Review

Net sales of your company in FY 12 was at Rs 1262 million which was higher by Rs 129 Million (11%) over last year net sales of Rs. 1133 Million.

The company reported a net loss of Rs 2.4 Million against profit before tax of Rs 124 Million last year. The business environment was sluggish for infrastructure sector. While the drill division reported better operational performance, there was substantial shortfall in sales growth of construction equipments leading to losses which were offset by Drill Division results. While inflationary conditions prevailed in all sectors of the economy resulting in all round cost increases, the scope of offsetting the inflation effect through selling prices or resource compression was extremely limited. Higher working capital and consequential higher borrowings coupled with increase in interest rates, pushed up interest costs. Further, investments did not generate any positive cash flows.

Overview of the Economy

During FY 12, our country witnessed lowest GDP growth of 6.5% since FY 03. The slow down was mainly due to RBI's tight monetary policy and rising interest rates to contain inflation, weak global sentiments and environmental issues in mining sector. Government policies and governance issues have added to industry's woes.

While mining sector output turned negative in FY 12 against 5% growth in the previous year, heavy slow down was witnessed in construction and construction related sectors.

Business Environment & Prospects for FY 2012-13

Everyone in Government at the highest level as well the economic advisers recognize the immediate need to increase coal production to provide the much needed power to sustain growth. While not much has happened on the ground, we expect that things are now going to change for the better.

It is expected that the Prime Minister with Finance portfolio under his charge is going to initiate reforms to improve the business sentiment and take immediate steps to remove bottlenecks in power and hence coal and other infrastructure sectors are likely to grow better. We do expect the Company's performance to be better in the current year based on indications visible today and things are likely to happen in near future.

Subsidiary Companies

Potential Semac Consultants P.Ltd (P+S)

Potential Semac Consultants P.Ltd (P+S) is providing Engineering Design solutions for realty sector catering to industrial and commercial segments

Total revenue of P+S was at Rs 566 million in FY 12 as against Rs 637 million in FY 11 registering a decrease of 11%. The subsidiary incurred a loss of Rs. 16 million in FY 12 against the profit of Rs 121 million in FY 11. The general economy slowed down significantly during the year owing to a virtually stalled approval process and high cost of capital. This led to a significant slowdown in closure of new projects and stalling of projects under execution. This led to lower revenues and resultant margins particularly because of adverse impact of fixed costs.

Renaissance Construction Technologies India Ltd.

Renaissance Construction Technologies India Ltd., wholly owned subsidiary, has commenced its operations in FY 12 by undertaking design and build projects . Revenue from operations was Rs 56 Million and loss incurred was Rs 7.30 Million in FY 12.

Consolidated Financial Statements

Your directors have pleasure in attaching the consolidated financial statements by consolidating accounts of Revathi Equipment Ltd., Renaissance Construction Technologies India Ltd. (wholly owned subsidiary company), Potential Semac Consultants P.Ltd. (subsidiary company) and Satellier Holdings Inc. USA under applicable accounting Standards of the Institute of Chartered Accountants of India.

On consolidation basis, the total revenue for FY 2012 was Rs 2023 Million (FY 2011 - Rs 2238 Million) and loss (before amortization of goodwill) was Rs 8.5 million (FY 2011 Rs 152.3 Million). Amortization of goodwill was Rs. 18.4 Million (FY 2011 Rs 75.7 Million). The reduction in total revenue in FY 12 was mainly due to sale of stake in Monarch Catalyst P.Ltd.(a 26% JV) at the end of FY 11 and lower sale revenue in a subsidiary.

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

Lower than expected GDP growth in infrastructure sector, particularly in coal and construction segment may impact your company's prospects.

Inflation and rising interest costs continue to cause 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

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

Mr.P.M.Rajanarayanan has been appointed as additional director on the board on 08.05.2012. The brief particulars relating to directors who are being appointed/reappointed have been annexed along with notice convening annual general meeting.

Managing Director and CEO Mr. K. Sunil Kumar resigned from the board and his resignation was accepted from 11.07.2012. Board wishes to place on record its appreciation for the contribution made by him during his tenure.

Mr. S. Hariharan has been heading finance function in the company over two decades. In recognition of his services rendered by him, he has been elevated to the Board and appointed him as Wholetime Director with effect from 01.08.2012. A proposal for his appointment as Wholetime Director is being placed before members at the ensuing Annual General Meeting.

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 and the same forms part of this report.

Foreign exchange earnings and outgo

The Company earned foreign exchange of Rs. 60.2 million and the foreign exchange outgo during the year amounts to Rs 120.7 million.

Personnel/Industrial relations

Industrial relations were satisfactory during the year.

In terms of Sub- section (2A) of Section 217 of the Companies Act 1956, the company has no employee drawing salary exceeding Rs.60.00 lakhs per annum or Rs.5.00 lakhs per month during the year under review.

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

Place : Chennai
Date : July 31, 2012

Abhishek Dalmia
Executive Chairman