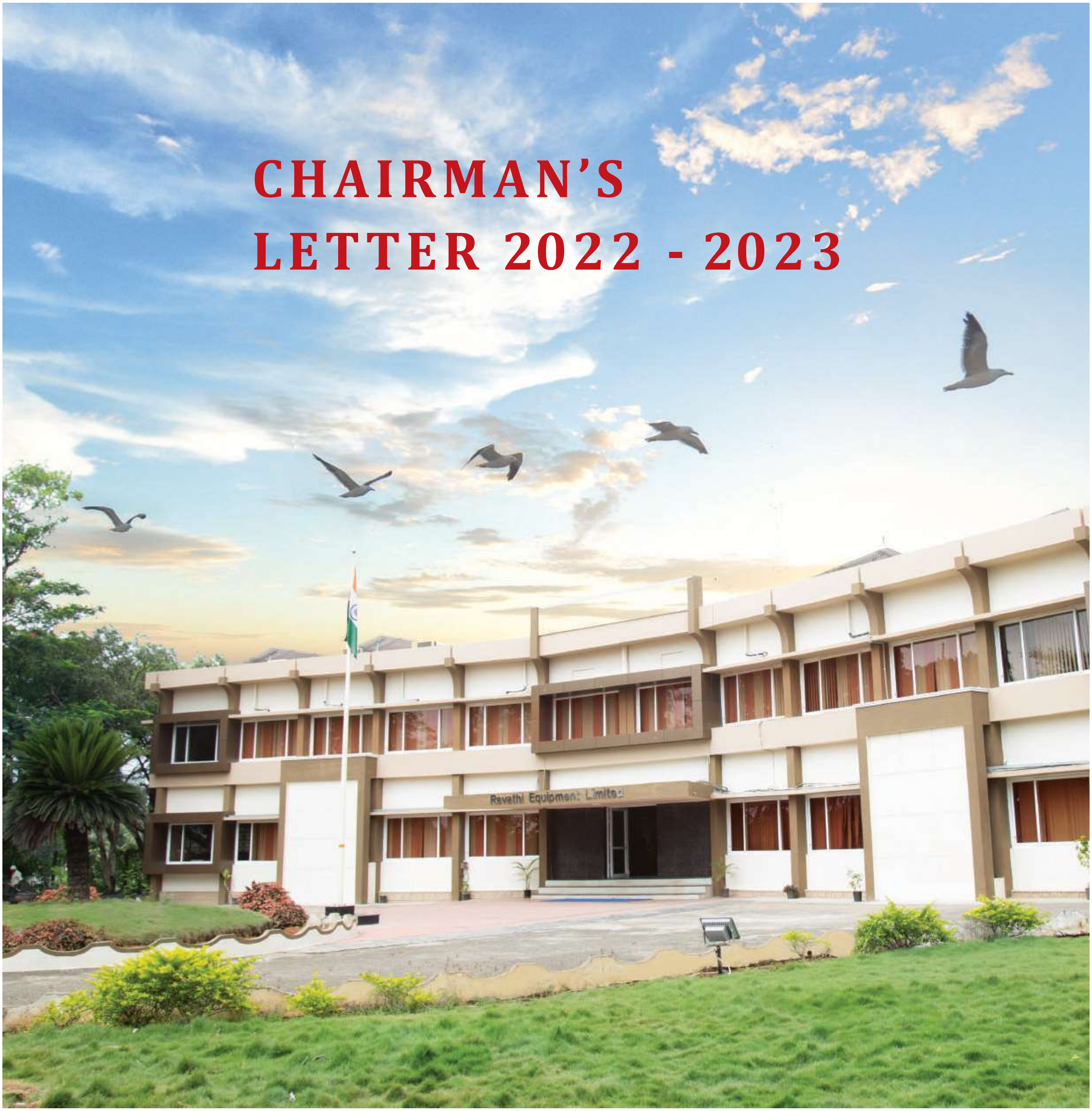
CHAIRMAN'S LETTER 2022 - 2023



During the year, our consolidated net worth increased by Rs.318 million, which increased the per share book value by 17%. Over the last twenty one years (that is, since the present owners took over) per share book value, has grown from Rs.151 to Rs.741 (Rs.819 after ignoring the effect of goodwill write-offs), which, after factoring in dividend paid during this period, works out to a rate of 11.3% (12%) compounded annually.

Over the years, I have been sharing annual updates with my business partners, the shareholders of Revathi Equipment. Generally, these updates have been about the performance of the various businesses during the course of that year. I think it is helpful, from time-to-time, to be able to zoom out from the day-to-day and look at the bigger picture. Last year's commentary had some perspectives on how the Revathi and Semac stories have unfolded over a couple of decades. This year, I intend to share some thoughts on how I think about both businesses, going forwardUnless there is a problem with corporate governance, shareholder value is driven primarily by two variables, i.e., year-on-year growth in earnings (profit after tax, not EBIDTA) and efficiency in capital utilization (as measured by return on capital employed, ideally unlevered, i.e., without use of much debt). Nature likes optimal utilization of its resources. Which is why, nothing is ever wasted in the natural environment. Business is also a natural system in a way. Hence, the same principles apply here as well. The more efficiently a business uses capital, the more valuable the business becomes. Generally speaking, due to the competitive forces a business faces, it is very hard to consistently deliver high returns on capital. Michael Porter's book, "Competitive Strategy: Techniques for Analyzing Industries and Competitors", first published in 2004 is a great read to understand why this is so. Therefore, it is rare to find businesses that consistently deliver high returns on capital despite growing profitability over long periods of time. Such businesses are valued very richly by investors. Rightly so.

Over the years, we have been iterating the various moving parts of both the businesses to try and find a method to deliver on the above two metrics consistently. Historically, we have failed miserably and I take full responsibility for that. However, this year (FY23), we have reached a point where all the hard work put in over the last five years has come to fruition. Of course, it is always a journey and the iterations will continue as we go along to keep refining the business model. This journey of iterating is usually filled with missteps, wrong turns, accidents, etc. Plus, the external environment (market, customers, competitors, suppliers, etc.) keeps changing. Which is why, one must expect metrics to bounce up and down. Ultimately, as the quality of management improves, the amplitude (of variability of the key metrics defined above) must go down.

This year was the first year when several things finally clicked in place to deliver the performance that the teams have delivered. Over the last ten years (FY13 to FY22), we were delivering a consolidated profit after tax of about Rs. 7-8 crores, which on a net worth of Rs.131 crores (FY13) would work out to a return on capital employed of about six percent. This climbed to an average profit after tax of Rs.10-12 crores over the last four years (FY19 to FY22), which on a net worth of Rs.161 crores would translate to a return on capital of seven percent. Rs.32 crores of profit after tax in FY23, on an average capital employed of Rs.222 crores translates to a return on capital of fourteen percent. Things are certainly looking up.

By the look of things, FY23 doesn't look like a one-off year like FY16. In other words, I expect some consistency in the profitability of the businesses going forward. Which means, we will aim to grow our year-on-year profit after tax by fifteen percent. It is entirely possible that some years may be way better (higher rate of growth) and some years may be worse. But if one takes a five-year view, one should be able to assume a rate of earnings compounding of about fifteen percent and a return on average capital employed of at least fifteen percent.
Let's now have a look at the Drilling Solutions business.

Old timers would know that our Drilling Solutions business has been a steady cash cow. It has consistently delivered a certain amount of revenue and profitability. However, it has not grown to even keep pace with inflation. Hence, we have needed to find other avenues to grow our business. Up until FY18, when professional CEOs were running the business, we did not make much progress in this direction.

Starting FY19, we started investing our energies into executing on the above strategy. This meant not only finding new markets for our products, but also upgrading product quality to make it acceptable to a more discerning global customer. The travel bans due to covid delayed our execution, but we have been steadfast in pursuing the opportunity. The old-world values of sincere effort, commitment, patience, being steadfast, etc., ultimately pay off.

FY23 was our best year in terms of order booking. Our historical batting average for order booking was in the Rs.80 crores to Rs.100 crores range. There was an outlier year (FY15) when we did a touch less than Rs.150 crores (Rs.148 crores). In FY23, we crossed the Rs.200 crore mark. However, our revenues were only about twenty percent better than the average revenues booked in recent years. This obviously means we have a big opening order book and the next financial year promises to be the best year in Revathi's history, not only from the perspective of sales but also profitability.

Improvement is a never-ending journey. While we have definitely come a long way in the last five years, our improvement journey has just begun and we have miles to go before I feel we have achieved something solid. Over the last five years, our primary focus has been to upgrade our team (get the right people on the bus), upgrade our product quality to levels acceptable to international customers and get the exports engine started. We have made some progress on all these dimensions.

The focus over the coming years will continue to be on upgrading product quality to attain global standards and cranking up our exports. Given we probably have a low single digit market share of the global market, if that, there is plenty of head room for growth. For starters, we have chosen a few geographies which are proximate to us. Once we start to reach a certain market share in our chosen markets, we will initiate coverage of other markets, of which there are plenty, around the world.

We are working on a couple of other new initiatives to fuel future growth, in addition to exports. It is a bit premature to talk about those, at the moment. Once we make substantive progress on these, I will update you in future letters.

I had mentioned that we are in the process of getting Semac listed independently. That process is almost complete, and we are finishing the final steps. I expect listing to happen within the second quarter of FY24. It has taken longer than we had anticipated. Thankfully, we are now towards the end of that journey.

I expect this listing to bring greater visibility in the quality of the two businesses and for the market to evaluate them independently of each other. I am hopeful that this step will help better price discovery and consequent unlocking of shareholder value.

The teams in both businesses have worked sincerely and diligently to deliver the above results in our seventy fifth year after Independence to launch us into Amrit Kaal. I feel happy with the progress made so far and am excited to see how the future unfolds. While there will be surprises, overall, I expect the journey to be much happier than the past decade. All this will only be possible if we have the right team, which is aligned and motivated to achieve ever higher goals. I have my job cut out for the next five years.

MR. ABHISHEK DALMIA
Chairman and Managing Director
DIN: 00011958

ACQUISITION CRITERIA

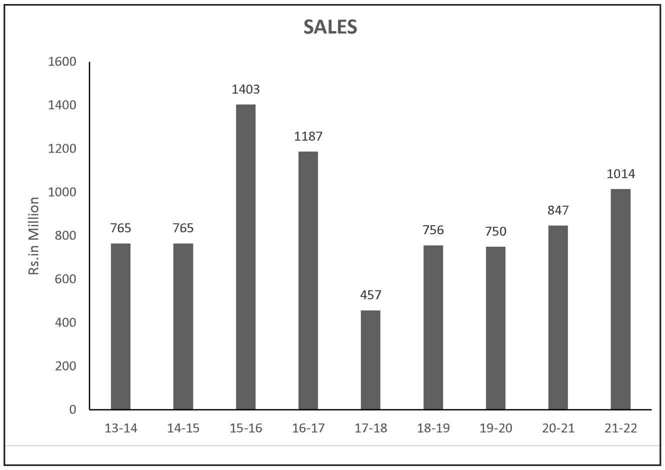
We use this space to communicate with potential sellers and their representatives, what we look for in a potential acquisition. If you, the reader, have no personal connection with a business that might be of interest to us but have a friend who does, perhaps you could pass this message on to him.

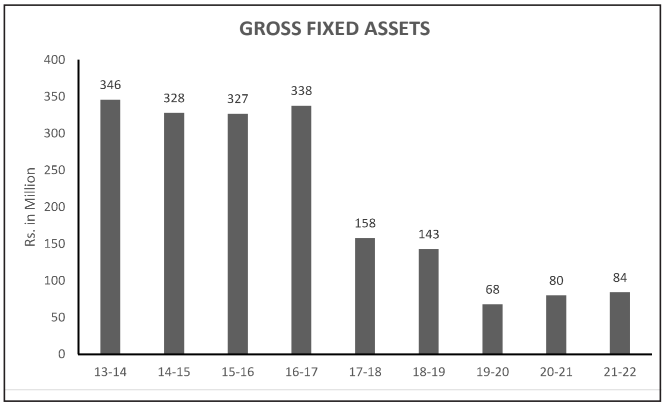
Here's the sort of business we are looking for:

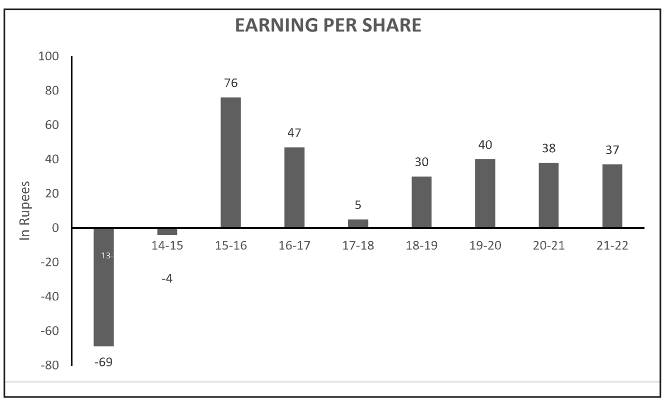
1. Enterprise value in the region of ₹ 100 crores (₹ 1 billion),
2. Demonstrated consistent earning power (future projections are of little interest to us, nor are "turnaround" situations),
3. Businesses earning good returns on equity while employing of no dept
4. Management in place,
5. Simple businesses,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

We will not engage in unfriendly takeovers. We can promise complete confidentiality and a very fast 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 favorite 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


SALES
Rs.in Million
1600
1400
1200
1000
800
600
400
200
0
765
765
1403
1187
457
756
750
847
1014
13-14
14-15
15-16
16-17
17-18
18-19
19-20
20-21
21-22


GROSS FIXED ASSETS
Rs. in Million
400
350
300
250
200
150
100
50
0
346
328
327
338
158
143
68
80
84
13-14
14-15
15-16
16-17
17-18
18-19
19-20
20-21
21-22


EARNING PER SHARE
In Rupees
100
80
60
40
20
0
-20
-40
-60
-80
-69
-4
76
47
5
30
40
38
37
14-15
15-16
16-17
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18-19
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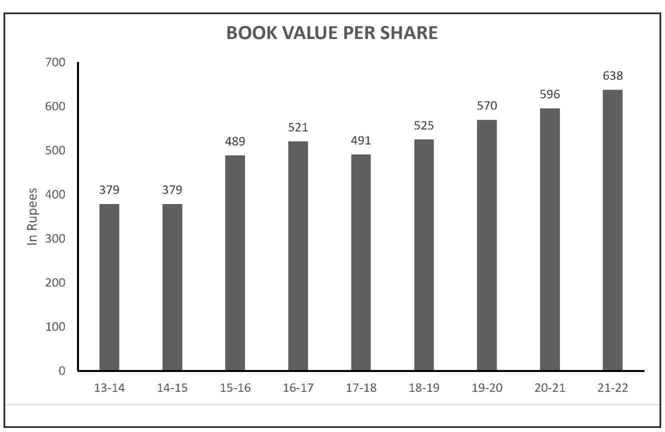
20-21
21-22


BOOK VALUE PER SHARE
In Rupees
700
600
500
400
300
200
100
0
379
379
489
521
491
525
570
596
638
13-14
14-15
15-16
16-17
17-18
18-19
19-20
20-21
21-22