

## RESULT UPDATE

### SMALL CAP

#### Share Data

Reuters code	REVA.BO
Bloomberg code	RCP IN
Market cap. (US\$ mn)	44
6M avg. daily turnover (US\$ mn)	0.1
Issued shares (mn)	3.1
Target price (Rs)	600

#### Performance (%) 1M 3M 12M

Absolute	13	(3)	49
Relative	8	(5)	(22)

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	31.5	40.0
+/- (%)	167.5	26.8
PER (x)	20.7	16.3
PBV (x)	1.8	1.8
Dividend/Yield (%)	4.1	4.1
EV/Sales (x)	2.2	2.0
EV/EBITDA (x)	12.6	10.1

#### Major shareholders (%)

Promoters	66
MFs	3
Public & Others	31

#### Financial highlights

(Rs mn)	3QFY09	3QFY10	YoY (%)	9MFY09	9MFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net sales	183	303	66.1	689	725	5.2	893	974	9.0	1,071	10.0
EBITDA	23	28	26.1	78	129	65.7	107	172	60.0	214	24.6
EBITDA margin (%)	12.4	9.4	-	11.3	17.8	-	12.0	17.6	-	20.0	-
Other income	14	10	(28.4)	46	55	19.8	54	70	29.6	76	8.6
Depreciation	5	5	(10.0)	11	13	14.3	17	17	(1.2)	20	17.6
Interest	21	17	(21.1)	75	62	(16.6)	102	85	(16.5)	97.75	15.0
PBT	11	18	63.0	38	109	187.8	42	140	230.7	172	23.3
Tax	(1)	5	(622.2)	3	29	752.9	6	43	597.8	50	15.6
Net profit	12	13	10.3	34	80	132.0	36	96	167.5	122	26.8
Ext. Items	0	0	-	0	11	-	0	11	-	0	-
Reported PAT	12	13	10.3	44	69	56.6	36	85	136.4	122	43.5
EPS (Rs)	3.8	4.2	10.3	11.1	25.7	132.0	11.6	31.1	167.5	40.0	28.6

## Revathi Equipment

Maintain Underperformer

Price: Rs 651

BSE Index: 17,474

21 January 2010

### 3QFY10 Result – Mixed set of results

#### Highlights

- Net sales grew by 66% YoY to Rs 303.3 mn led by increase in sales from some of the long delay orders for its Drill business. Currently, exports are also picking up for this segment with enquiries from MENA, South America and CIS.
- EBITDA margins declined 300 bps YoY to 9.4%. This is primarily on account of sales mix and raw material cost. Raw material cost increased by 1,320 bps YoY during this quarter. Hydraulic and electronic components, gear/chain assemblies and pipe and valves etc. are the key raw materials for the company.
- Net profit margin declined by 220 bps YoY to 4.3% following the sharp decline in EBITDA margins. The company's manufacturing facility near Chennai is ready for over a year but waiting to start its commercial production as demand has dried up.

#### Outlook

The company which is into manufacturing of drilling and construction equipments has witnessed slowdown in the recent times. This was due to continuous delay in finalisation of tenders and release of orders for drills of larger values. Slowdown in construction and real estate sectors has further deteriorated its construction equipments division performance.

South, which is the major market for the company, was particularly hit due to its dependence on the IT industry. Slow and steady revival in construction, mining and other infrastructural projects will drive growth in FY11E. Delay in finalisation of drills/construction orders and Coal India (one of the key client) procuring equipments from the foreign players like Atlas Copco, Caterpillar, etc. is the current scenario which poses threat in the near term. At the current market price of Rs 651, the stock is trading at 21x FY10E and 16x FY11E. We maintain our Underperformer rating with a target price of Rs 600 (15x FY11E EPS of Rs 40).

**Income Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net Sales</b>	<b>1,183</b>	<b>893</b>	<b>974</b>	<b>1,071</b>
<i>Growth (%)</i>	<i>35.0</i>	<i>(24.0)</i>	<i>9.0</i>	<i>10.0</i>
Operating Expenses	(985)	(786)	(802)	(857)
Operating Profit	198	107	172	214
<b>EBITDA</b>	<b>198</b>	<b>107</b>	<b>172</b>	<b>214</b>
<i>Growth (%)</i>	<i>(8.5)</i>	<i>(45.9)</i>	<i>60.0</i>	<i>24.6</i>
Depreciation	(56)	(17)	(17)	(20)
Other Income	102	54	70	76
<b>EBIT</b>	<b>244</b>	<b>144</b>	<b>225</b>	<b>270</b>
Interest Paid	(59)	(102)	(85)	(98)
Pre-tax profit	185	42	140	172
(before non-recurring items)				
Non-recurring items	98	0	0	0
Pre-tax profit	283	42	140	172
(after non recurring items)				
Tax (current + deferred)	(81)	(6)	(43)	(50)
<b>Net Profit</b>	<b>202</b>	<b>36</b>	<b>96</b>	<b>122</b>
Prior period adjustments	18	0	(11)	0
Reported PAT	219	36	85	122
<b>Adjusted net profit</b>	<b>104</b>	<b>36</b>	<b>96</b>	<b>122</b>
<i>Growth (%)</i>	<i>(17.2)</i>	<i>(65.3)</i>	<i>167.5</i>	<i>26.8</i>

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	1,204	1,291	1,336	1,304
Cash & marketable securities	241	517	555	577
Other current assets	963	774	781	727
Investments	638	641	661	661
Net fixed assets	139	109	123	132
Other non-current assets	3	0	0	0
<b>Total assets</b>	<b>1,984</b>	<b>2,041</b>	<b>2,121</b>	<b>2,098</b>
Current liabilities	276	281	362	366
Total debt	525	590	590	590
Other non-current liabilities	(1)	40	40	40
<b>Total liabilities</b>	<b>801</b>	<b>911</b>	<b>992</b>	<b>996</b>
Share capital	31	31	31	31
Reserves & surplus	1,150	1,095	1,099	1,071
Less: Misc. expenditure	3	4	0	0
<b>Shareholder's funds</b>	<b>1,184</b>	<b>1,129</b>	<b>1,129</b>	<b>1,102</b>
<b>Total equity &amp; liabilities</b>	<b>1,984</b>	<b>2,041</b>	<b>2,121</b>	<b>2,098</b>
<b>Capital employed</b>	<b>1,708</b>	<b>1,759</b>	<b>1,759</b>	<b>1,732</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	283	42	140	172
Depreciation	(56)	(17)	(17)	(20)
Chg in working capital	(252)	133	34	51
Total tax paid	(175)	44	(6)	(43)
<b>Cash flow from oper. (a)</b>	<b>(89)</b>	<b>237</b>	<b>185</b>	<b>199</b>
Capital expenditure	427	4	(45)	(46)
Chg in investments	59	(3)	(20)	0
Others	(178)	10	10	17
<b>Cash flow from inv. (b)</b>	<b>308</b>	<b>11</b>	<b>(55)</b>	<b>(29)</b>
<b>Free cash flow (a+b)</b>	<b>219</b>	<b>247</b>	<b>130</b>	<b>170</b>
Equity raised/(repaid)	(1)	0	0	0
Debt raised/(repaid)	(24)	65	0	0
Dividend (incl tax.)	(37)	(37)	(91)	(92)
<b>Cash flow from fin. (c)</b>	<b>(159)</b>	<b>28</b>	<b>(91)</b>	<b>(92)</b>
<b>Net chg in cash (a+b+c)</b>	<b>60</b>	<b>276</b>	<b>38</b>	<b>78</b>

**Key Ratios**

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	33.9	11.8	31.5	40.0
Growth	(13.3)	(65.3)	167.5	26.8
Book NAV/Share (Rs)	386.2	368.5	368.5	359.5
Dividend/Share (Rs)	10.0	26.2	26.5	26.8
Dividend payout ratio	35.5	253.3	95.9	76.6
Tax	28.7	14.7	31.0	29.1
EBITDA margin	16.7	12.0	17.6	20.0
EBIT margin	20.6	16.1	23.1	25.2
RoCE	14.4	8.3	12.8	15.5
Net debt/Equity	24.0	6.5	3.1	1.2

**Valuations**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	19.2	55.2	20.7	16.3
PCE	12.4	37.4	17.6	14.0
Price/Book	1.7	1.8	1.8	1.8
Yield (%)	1.5	4.0	4.1	4.1
EV/Net sales	1.8	2.4	2.2	2.0
EV/EBITDA	10.5	20.1	12.6	10.1

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	8.8	4.0	9.9	11.4
Asset turnover	0.6	0.4	0.5	0.5
Leverage factor	1.8	1.7	1.8	1.9
Return on equity (%)	9.3	3.1	8.5	10.9

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**Analyst Declaration:** I, Tejo Naresh Nammina, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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