

CHAIRMAN'S LETTER

Our decrease in consolidated net worth during FY15 was Rs.1.1 million, which decreased the per share book value by 0.1%. Over the last thirteen years (that is, since the present owners took over) per share book value, has grown from Rs.151 to Rs.379 (Rs.463 after ignoring the effect of goodwill write-offs), which, after factoring in dividend paid during this period, works out to a rate of 7.9% (9.4%) compounded annually.

Last year I had written that the worst is probably behind us, and that the combined factors of decisive leadership at the Center and a turn in the business cycle should kickstart the overall economy starting FY15. Both views have generally come true. Compared to where we were a year ago, some bright spots have started to emerge in the economy. From macro parameters like meeting the stiff fiscal deficit target and the formation of the Niti Aayog to promote true federalism, to structural reforms like aligning the power and coal sectors. Of course it is early days, the work has only just begun and a lot still needs to be done to compensate for a lost half decade. But if I look at the big picture, I see a strong resurgent nation emerging from the shadows. And that can only be good news.

Turning around companies takes a lot of effort and a lot of things need to be done right to make an impact. It takes a few years, depending on the size of the business, to make sustainable improvement possible. Given how complex our country is, expecting a quick turn around would be naïve. The new government has taken a lot of good decisions but it takes time for their impact to be felt on the ground. But if the broad market is any indicator, we are well on our way to an economic revival.

I would like to share a bit of perspective. Coal India's production grew at an annualized rate of 2.7% between FY09 and FY14. This is in contrast to the long-term average growth rate of about five per cent. This anemic growth was compensated by booming coal imports, which grew at over twenty per cent per annum over the past ten years. Things finally turned brighter for the coal sector when the government found increasing production as a way to reduce imports and bring the fiscal deficit under control. As a result, coal production grew by 6.8% in FY15.

As a result of the above, the Drilling Solutions business was able to turn around after three tough years (FY12 through FY14). Though the full year results do not show a profit, but the Drill business turned around in the fourth quarter.

When the business environment is tough, it takes more than just foresight to expand your business. It also takes resources, both management and financial. For smaller companies, these resources are usually in short supply and even more so when the business climate is soft. As a result, we had to put on hold our export plans as well as slow down our new product development plans.

Given that there was not much we could do to change the external environment, we focused inwards to tighten things up. We reduced material cost and overheads. We also discontinued unprofitable maintenance contracts, which though led to shrinkage in our Revenues, also gave us better profitability. I have repeatedly seen that the adage "doing more by doing less" works. With limited resources of time and money, focus makes a big difference to results.

The outcome of the above was that we were able to post an operating profit of Rs.11 million as opposed to Rs.141 million operating loss last year, a swing of Rs.152 million for a similar level of activity. Some of these savings were temporary in nature and will go away as activity levels pick up. However, some of these savings are permanent in nature and cuts in these have made our business healthier.

On the business development side also, we made some progress in some areas, which had been stubbornly stuck for years. These include the closure of the order from Africa, marking our entry into that market. Though we do not plan to spend significant resources on that market in the near future, our drills on the ground will certainly help spread the word about our quality and performance. Over the next few years, as we build a local track record, this should help us in winning more business in the years ahead. We were also able to re-enter the water well market after a gap of nine years. This market is neither a big market, nor a consistent market, year-to-year. But as and when orders come, they tend to be large orders.

Going forward, it will be our effort to try and find more such pockets, which might yield business every few years. This would mean that every year, we would try to win some business of this kind, which though not consistent by itself, would lead to additional orders over our core business of coal mining.

Over the past year, there has been a lot of noise about ambitious targets for coal production in the country. The government is targeting doubling coal production to reach a billion tons by 2020. On top of that, it is also planning an additional coal production by the private sector of about 500 million tons over the next five years. These numbers seem unbelievable when seen through the prism of the past. In our view, the growth could be high single digits. Whatever reality turns out to be, it should be significantly better than the past five years.

In last year's letter I had mentioned that the force of better governance and a turn in the business cycle should help us post better performance in the years ahead. The last quarter of the year was the start of that period and things can only get better from here on.

We continue to shrink our Concreting Solutions business as another initiative to return our business back to health. We now operate out of our Coimbatore facility and as a result have been able to significantly reduce our overheads. Additionally, the cleaning up of Receivables pertaining to the tough years has gradually been done over the years. Accordingly, this year's results do not carry substantially, the burden of fixed costs pertaining to this Division as also the bad debt provisioning that had become a permanent feature of the last few years.

In last year's letter I had mentioned that we had started restructuring our balance sheet. As a part of that, we liquidated some more of our holding in Panch Tatva Realty, but given how tough the real estate market in Mumbai has been, we could not liquidate nearly as much as we wanted to. We ran into a similar tepid response for our Gummidipondi facility. Hopefully, as sentiment improves, we should be able to achieve our debt reduction goals in the next financial year.

Semac posted another year of strong performance in a still soft capex world. It is said, Sales is vanity, Profit is sanity and Cash is reality. If I were to look at one metric in this business, it would be cash in the bank. After four decades of being in business, our cash balance was Nil around the end of 2012. Since then, we have gradually focused more closely on this metric and have gradually been squirrelling away cash every year. As a result, our cash pile grew by about fifty per cent over last year to about Rs.20 crores. This treasury has been invested mostly in low risk avenues, awaiting deployment in the business.

This has given us the ability to start investing in the future growth of the business. We kicked off a change management initiative, which saw us hiring a new senior management team to run various Corporate functions like HR, Finance, IT, etc.

This initiative will see us expand into new geographies and new verticals. However, before results of these initiatives start coming through, there will be a period of time when we will add extra costs to the system. Also, any change management process typically brings with it changes, which some people are unable to adapt to. That means some disruption in the usual ways of working. This can be a short-term shock to a people-driven business. The net result of this is likely to be negative in the short-term, which will hopefully not exceed a year. Hopefully, the net outcome of all this will be very worthwhile for all stakeholders.

The real estate project in Mumbai has been stuck in the approval process. I recently spoke to someone from a leading real estate developer. He was saying that for years we cursed the government for delaying our approvals. Much later we realized that it is because of all those delays that we were able to realize much greater value out of our projects, since prices continued to grow with time. I am hoping these delays will ultimately be a blessing in disguise for us.

I would like to thank our bankers for being very understanding and standing by our side during these tough times. I know it has been anxious moments for them over the past few years, but we stand by our commitment to honor every commitment we have made to them.

I would also like to thank our shareholders for being patient through the pain that all of us have been through over the past few years. We have been working hard to make up for lost time. I hope that you continue to repose your confidence in us.