

CHAIRMAN'S LETTER

Our increase in consolidated net worth during FY16 was ₹339 million, which increased the per share book value by 29.1%. Over the last fourteen years (that is, since the present owners took over) per share book value, has grown from ₹151 to ₹489 (₹ 573 after ignoring the effect of goodwill write-offs), which, after factoring in dividend paid during this period, works out to a rate of 8.8% (10%) compounded annually.

Over the past couple of years, the Indian coal sector has seen some strong policy action, which have yielded results. Some of the highlights include auctioning of coal blocks, rise in coal production at a compound annual growth rate of eight per cent. As a result of this, India produced almost a hundred million tons of coal more in FY16 than we did in FY14, on a base production of about five hundred and seventy million tons in FY14. The plans announced by the Government of India for the coal sector coupled with the results produced over the past two years give us confidence that we are in a new era for coal mining in the country.

Though the environment decidedly turned more supportive, our results were not the outcome of the change in the environment. Instead it was the result of the work put in by our people in winning some large orders in the previous year, which I wrote about in last year's letter.

Some of you might be surprised to read the previous sentence. Its true. The sales cycle in our business typically lasts six to nine months for routine orders and few years for all other kinds of enquiries. It takes a lot of patience and perseverance to conclude such orders. As such, this is a very different kind of business compared with today's hyperactive e-commerce world where business planning is done for a year at the most. And even within that time period, sometimes trends change, causing a review of business strategy.

After four years of reporting losses, we came back strongly this year. FY16 was our best ever year in terms of Revenues and operating profit (on a consolidated basis, it was the best year ever, bar none). This helped us almost entirely make up for the losses over these years and restore our net worth to the almost the same level as five years ago. For small companies, mistakes can be costly. And if not corrected quickly, they can become a burden, too heavy to bear.

The performance would have been even stronger had the debt levels not been as high as they have been since FY09. Over the past few years, we have taken various steps to bring down our debt. These include shifting the Construction Equipment business from Chennai back to Coimbatore, selling off a part of our stake in the Mumbai real estate project, improve our operational performance and finding a buyer for the Chennai land. We have achieved success in all these areas except the last one, where a sale transaction remains elusive. Despite releasing money from these areas, the debt levels have remained stubbornly high this year as a result of increase in activity levels, which soaked up funds. The good news is that our performance this year will help in bringing down debt levels as well as cost of debt next year.

During the year, there was an important change in top management. Mr. Sunil Puri, who has worked with leading multinationals in our industry joined us as CEO in March this year. The fact that he worked with us for a few years as Marketing Head makes for a quick transition from our previous CEO.

I would like to share what led to these errors that cost us many lost years in building the business. Back in 2007, we were approached by a multinational competitor, who had expressed an interest in acquiring the Drilling Solutions business. Though we had never gone out looking for a buyer and probably never will, the price being offered made us seriously think about the offer on the table. After many months of discussions, we got up from the meeting where the proposed documentation for the sale was finalized. The Buyer was to sign the final set of documents and send them to us for our signing. This was around September 2008. Then the Lehmann episode happened and the buyer got cold feet and backed off.

In the meanwhile, knowing fully well that the asset side of our balance sheet will have lots of cash in a few quarters, we took on debt to acquire two new businesses - Potential Service Consultants, which we acquired in March 2007 and Semac Consultants, which we acquired in May 2008. We now had significant debt and the sale of the Drill business fell through.

So what are the key lessons learnt from this entire episode? No deal is done until its done, even if it seems like it's a done deal. If you are conscientious, the distance between corporate debt and corporate death is very small. Taking on debt is like eating - you better know how much you can digest. Infant mortality in new ventures is very high, whether they are spawned in an existing company or as a new venture. As such, diversification initiatives usually fail. This is especially true for smaller companies with limited resources - both managerial and financial.

Semac was historically run as a collection of mini-Semacs. Each office was run by a Head who was responsible for the P&L of that office. The biggest advantage of that model was that each Head had the excitement of running a business independently. The biggest drawback was that we were not able to grow the business beyond a certain size. Also, we were not really leveraging the fact that we had a national presence. There was very little collaboration across offices, whether on client management or operations. Rarely, offices were also competing with each other for the same project.

Last year, we started transitioning from that structure to a unified structure. Under this, we have a CEO supported by a team for all Corporate functions. In an organization that has been run in a certain way for over four decades, this was a fairly disruptive change. Though I would have liked to do it sooner, it was a tough call to tinker with something that was producing results.

After much introspection, we decided to go ahead with this concept, knowing fully well that there will be disruptions. After all, this is a people business and when you start redrawing lines on the organization chart, people get very edgy about their future. The outcome at Semac was as expected, though not as hoped for. Some of the senior-most people at Semac moved on, resulting in discontinuous shift at office as well as with clients. Post that shift, things have settled down, though a lot of work needs to be done to bring the fruits of the reorganization.

The net outcome of all the above was that though we grew Revenues grew, profits shrank. There is still some pain left before positive results start flowing out of this initiative.

I would also like to thank our bankers who supported us as best as they could during our tough times and our shareholders for being patient through the pain we have been through over the past few years. Your trust and confidence bore fruit this year and we were able to produce our best ever results in the history of the company. I look forward to sharing more good news in the coming years.