



THINK DIFFERENT PROFIT MORE

Company Name	: Revathi Equipment
BSE Code	: 505368
Time Duration	: 2 year
CMP	: ₹820 (as on 02 MArch, 2017)
Target Price	: ₹1200

Our Upstream Pick for the month of March,17 is Revathi Equipment Ltd. (REL). REL is a leading manufacturer of blast hole drills and water well drills for various applications like mining, construction, water well, exploration etc. REL's drilling rigs are used extensively in mines such as coal, copper, gold, iron, zinc, phosphate, bauxite, lignite, limestone etc. Coal India is on top in the client list of REL, followed by Jaypee Group, NALCO, cement players such as Ambuja Cement, Orient Cement, Rajashree Cement, Vasavadatta Cement, Zuari Cement etc., steel manufacturers like SAIL and Tata Steel and many more. The expected rise in coal production led by rising demand for coal as the cheapest source of energy and also pick up in infrastructure development can drive the growth of the company. The management of the company intends to reduce debt going forward, which can uplift bottomline of the company and make it a turnaround story. Strong clientele and domestic-export network would benefit the company in the long run.

Key Drivers

Promising Industry Outlook

For the company, the growing demand for coal from Coal India Ltd (CIL) and CIL's growth is a major precursor of REL's growth drivers. We believe the shift to opencast mining from underground mining is also positive for the company. The government's plan to increase production level of CIL to 1 billion tonnes by 2020 from FY16 production of 504 million MT means a significant need to overhaul the equipments and to achieve its output target per man-shift of 5.54 tonnes as against 4.92 tonnes. This will require high capacity equipments and improved technology for underground mines. Also, to achieve this target, the government also needs to increase its spending in exploring more mines which should be positive for the company.

Management's intent to reduce debt

The company has seen a turnaround in FY16 due to positive environment and also better execution of orders. This has led to positive net profit, but the high debt level has led to high interest cost of Rs 9.7cr on PBIT of Rs26.6 core in FY16. The company has taken various measures to reduce the debt. These include shifting the construction equipment business from Chennai back to Coimbatore, selling off a part of its stake in the Mumbai real estate project and bringing in operational efficiencies. The company management is also looking to sell the land parcel in Chennai.

Due to these efforts, we see that interest cost for nine months FY17 has slightly come down to Rs4.9cr. as against Rs6.7 cr during the same period last year.

Reorganisation Of JVs and subsidiaries

The company has two subsidiaries - Semac Consultants Pvt Ltd and Semac & Partners, LLC. It also has a JV with Panchtatva Realty, which is an Association of Persons (AOP) in which the company is a member. These companies were running with little collaboration among themselves, which resulted in in-house peer competition, which led to shrinkage in profits. Over the last one year, the company is reorganising and transiting from SBU structure to centralized structure across regions which is expected to yield benefits in FY18.

Diversified Product Portfolio

REL is a leading manufacturer of blast hole drills and water well drills for various applications like mining, construction, water well, exploration, ready to mine favourable coal cycle, etc. It offers a range of drill rigs, such as C850, C750 and C2532 for mining applications. The rigs are used to drill blast holes of diameters ranging from 102 mm to 349 mm. The drills are crawler-mounted, diesel engine/electric motor-driven, hydraulically operated and rotary/down-the-hole (DTH). The company offers jack-less drill rigs,

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including C625H, HHTD and LHTD for construction activity, such as road, dam, irrigation canal and quarrying, among others. The company offers a range of hydraulic topdrive and tabledrive rigs for borehole drilling. The company is positioned well to cater to different industrial needs due to its diversified portfolio.

Financial performance

The sales in FY16 increased by a whopping 83.4% to Rs140.2 crores due to orders from Coal India and Central Ground Water Board. The PBT before exceptional item for FY 16 was at Rs. 16.8cr as against Rs. 1.10cr. in the previous year. This was mainly due to better volumes and product mix.

We see the government's move to reduce dependence on coal imports has led to better demand for manufacturing equipments. We see that manufacturing sales increased by ~10% in last nine months as compared to the same period last year. Due to better volumes, we see margins for this segment jumping by 810 bps during the same period. However, in engineering design, we see margin pressure with sales declining by 7% and margins contracting by 480bps. The product mix shift has positively impacted ROA for manufacturing design segment, which improved to 19.9% as against 11.8% during the nine months of the previous year.

Valuation and Outlook

The company trading at TTM P/E of 12.83x and TTM EPS of Rs 63.81, which is attractive as compares to peer Emico Elecon (TTM P/E- 15.97x, EPS- 29.58). REL also improved ROCE and ROE to 22.34%/22.08% in FY16. Considering attractive valuation and expected turnaround led by industry tailwind, we recommend investors to BUY this scrip in small tranches on dips due to less liquidity in the stock.

Sales	9 mths FY17	9 mths FY16
Manuf Equip	7951	7251
Engg. Design	7351	7876
	15302	15127
Segment profit	9 mths FY17	9 mths FY16
Manuf Equip	1586	855.9
Engg. Design	192.8	586.5
	1778.8	1442.4
Profit %	9 mths FY17	9 mths FY16
Manuf Equip	19.9%	11.8%
Engg. Design	2.6%	7.4%
Capital employed	9 mths FY17	9 mths FY16
Manuf Equip	13456	13904
Engg. Design	10196	9180
ROA	9 mths FY17	9 mths FY16
Manuf Equip	11.8%	6.2%
Engg. Design	1.9%	6.4%

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	245.47	163.12	175.77	219.92	198.88
Total Income e	249.09	168.73	180.81	224.58	202.39
Total Expenditure	209.54	142.53	162.00	194.35	188.13
PBIDT	39.55	26.20	18.81	30.23	14.26
PAT	30.03	6.81	-9.22	6.91	-3.02
Adj. EPS(Rs)	88.85	12.77	-41.09	11.42	-12.51

