Revathi Equipment Limited

November 01, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	35.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	39.50	CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Reaffirmed
Total Bank Facilities	**74.50 (Rs. Seventy four crore and fifty lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Revathi Equipment Limited (REL) continue to factor in the long operational track record of the company and experienced management team, REL's established domestic market position in the drilling equipment division, comfortable capital structure and diversified revenue stream with income from drilling equipment business and architectural design and construction business.

The ratings are, however, constrained by volatile nature of income and profitability from architectural design and construction (AD&C) business, elongated operating cycle, intense competition in AD&C business and client concentration risk in the drilling equipment division.

Rating Sensitivities

Positive Factors- ***Factors that could lead to positive rating action/upgrade:***

- Consistent growth in the scale of operations through scaling up of exports and subsidiary business.
- Improvement in PBILDT margins above 15% on a sustained basis with turnaround in profitability of subsidiary and contribution from export income.

Negative Factors- ***Factors that could lead to negative rating action/downgrade:***

- Sustained drop in revenue leading to decline in profit margins below 8%.
- Deterioration in capital structure with increase in leverage levels above 0.50x.

Detailed description of the key rating drivers

Key Rating Strengths

Detailed description of key rating drivers

Long operational track record and experienced management team

REL was founded in 1977 and is in the designing and manufacturing drilling rigs (drilling equipment) for mining activities, water well, exploration, etc. for over four decades. REL has manufactured and sold over 2000 drilling rigs in the last four decades. The company has significant experience in providing customized designs against customer specific requirements supported by robust engineering capabilities, well developed vendor base and after sales support. Further, in 2008, REL acquired Semac Consultants Pvt Ltd which is one of the oldest Architectural and Engineering Design firms set up in 1969 in Bangalore.

REL is managed by Mr. Abhisek Dalmia, Executive Chairman along with the team of senior experienced professionals who have more than 15 years of experience in this field.

Diversified revenue stream with income from drilling equipment business and architectural design and construction business

On consolidated basis, the company generates revenue from drilling equipment division (DED) and architectural design & construction (AD&C). In FY21, around 64% of consolidated revenue was contributed by DED and remaining 36% by AD&C.

The company also generates income from architectural design and construction from its subsidiaries "Semac consultants private limited" and "Semac and Partners LLC". Semac mainly focus on Industrial clients for architectural design and construction. The company executes the construction projects on subcontract basis and provides one stop solution towards Architectural design, design build and PMC services.

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Established domestic market position of drilling equipment division

REL has established presence in the domestic market and has been supplying drilling rigs and spares to Coal India Limited (CIL) and its subsidiaries for over three decades now. Currently there are only two major players (REL and Epiroc Mining India Ltd) catering to CIL for drilling rigs. CIL floats tender for drilling rigs requirement based on its business plan/projects. Depending on the specific requirements and bidding, CIL allocates orders between the bidders in the proportion of 50-60%. This has resulted in assured revenue to the company, and limits price-based competition, helping to sustain market position. The company also provides after sales service and spares for its sold equipment adding stability to the revenue base.

Moderation in revenue and profitability in FY21, mainly impacted by the AD&C division

During FY21, the overall consolidated revenue moderated to Rs. 136.76 crore (PY: Rs. 161.93 crore) primarily on account of subdued performance in the AD&C division. Overall revenue from the DED division improved by 13% in FY21 to Rs.84.7 crore with stable operating margins from this division due to favourable product mix and improved realizations. In the AD&C division, however, income levels dropped significantly in the past two years due to slow down in the capital expenditure in the wake of covid-19 resulting in fall in orderbook position. In FY21, this division witnessed a decline of 46% in revenue to Rs. 25.42 cr from Rs. 47.49 cr in FY20. Further, the division reported a net loss of Rs. 9.78 crore in FY21 (PY Rs. 3.92 crore). However, AD&C division witnessed improvement and recorded a revenue of Rs 25.42 crore in Q1FY22 (against Rs. 11.02 crore recorded in the corresponding quarter of preceding year).

Comfortable capital structure with nil term debt

The capital structure of the company on consolidated basis remains comfortable with the overall gearing at 0.24x as on March 31, 2021 (PY: 0.12). The debt coverage indicators also remained comfortable with interest coverage at 3.24x (PY:14.03x) in FY21. In the absence of any major debt funded capex going forward, capital structure is expected to remain comfortable.

Key Rating Weaknesses

The company's operations are working capital intensive due to high levels of inventory and elongated receivables from public sector clients, primarily in the DED division. The inventory (mainly raw materials) remains high in order to quickly turnaround order execution in the absence of fixed schedule from client and also high inventory of spares parts to meet after sales obligations. Further, export orders have very less turnaround time which requires the company to keep inventory in the form of semi-finished and finished goods. Receivable days also stood high mainly due to stretched receivable by public sector undertaking clients as well as high credit period on export sales. However, the counterparty risk is limited as all the clients are big, reputed clients (Coal India Limited, Tata Steel etc) as well as all the export orders are covered by LC.

Client concentration risk in the drilling equipment division:

The company's major exposure lies in supplying drilling equipment for Coal Mining Industry where industry size is limited. In FY21, CIL has contributed around 30% to the total revenue in equipment supplies. Apart from direct equipment supplies to the CIL, REL also sells spares to CIL through dealers. To reduce dependency on CIL and reduce concentration in coal sector REL has started focussing on supplying drilling equipment to Exports and other domestic private player (limestone and iron ore mining, cement mining, gold and Diamond mining). Going forward, the company's focus on exports, other domestic private players and spare supplies would help to reduce dependency on CIL.

Intense competition in the AD&C segment

The AD&C division faces intense competition from boutique Architectural and Engineering Design firms and other mid segment construction players in the industry, which offer aggressive pricing to vie a share in construction business. However, the Construction solutions from design, design build and Project management consultancy (PMC) are all catered to by Semac under a single umbrella thus distinguishing it from the competition.

Industry and Outlook

REL is into the manufacturing of Drilling Rigs for Mining applications which are used in the mines such as coal, iron ore, limestone etc. The company is majorly into drilling equipment for coal mining industry where CIL is the single largest client in drilling equipment business. Large players like CIL, SCCL, NMDC have set at least 15% increase in their production along with operationalizing new mines, all of which are expected to bode well in terms of requirements for drilling equipment.

Liquidity: Adequate
The liquidity of the company is adequate with sufficient cushion in accruals against nil term debt. On a consolidated basis, the operating cycle of the company stood high at 205 days during FY21 (PY: 159 days) mainly on account high inventory in form of WIP and FG owing to export orders which requires the company to ship the goods on a short notice as turnaround time for such orders is very less. The company keeps a certain number of machines readily available and dispatches the same as soon as order is received from overseas client. This has led to build-up in inventory levels. Current ratio of REL stood comfortable at 1.64 (PY 2.32) as on March 31, 2021. The average working capital utilization of Fund based Limits stood at 44% for the past 12 months ended August 21. The company had unencumbered cash and bank balance of Rs 8.24 Crores and liquid investments of Rs. 9.26 crores as on March 31, 2021.

Analytical Approach: Consolidated
Consolidated financials of Revathi Equipment Limited (REL) along with its subsidiary Semac Consultants private limited (Semac) is considered. Consolidated approach is taken as REL holds 95% in Semac. Also as on March 31, 2021, 61% of REL's net-worth is invested in Semac.

Applicable criteria
CARE's methodology for manufacturing companies
Criteria on assigning Outlook and credit watch to Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the company
Revathi equipment Limited (REL) was incorporated in 1977 and manufactures blast-hole drills (rotary and down-the-hole, diesel/electric driven) for mining applications, jack less-drills, water well drills, hydro-fracturing units, and exploratory drills. In 2002, Indian based Renaissance group (current promoters), an Investment firm headed by Mr. Abhishek Dalmia, acquired the company. Mr. Abhishek Dalmia is also executive chairman for REL. REL's drilling rigs are used extensively in mines such as coal, iron, zinc, limestone etc. REL also supplies spares along with after sales support for Drilling Rigs to the customers. The company has one manufacturing facility located in Coimbatore with installed capacity is 100 drilling rigs p.a. REL has a subsidiary (95% holding) namely Semac Consultants private limited (Semac) acquired in 2008. Semac is an Architectural and Engineering Design firms set up in 1969 in Bangalore. Semac was acquired by REL in 2008. Currently, Semac has two divisions- Design (Architectural design) and Design-Build (where along with the Architectural design and engineering, the company also executes construction projects through sub-contracting).

Brief Financials (Rs. crore)	**FY20 (A)**	**FY21 (A)**	**Q1FY22 (U)**
Total operating income	161.93	136.76	33.71
PBILDT	22.18	10.93	2.17
PAT	16.12	2.61	0.45
Overall gearing (times)	0.12	0.24	NA
Interest coverage (times)	14.03	3.24	1.97

A-Audited; U- Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument/ facility: Not Applicable

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	35.00	CARE BBB+; Stable
Fund-based - LT/ ST-Working Capital Limits		-	-	-	2.00	CARE BBB+; Stable / CARE A2
Non-fund-based - LT/ ST-BG/LC		-	-	-	37.50	CARE BBB+; Stable / CARE A2

LT- Long term ; ST- Short term

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (08-Jan-21)2)CARE BBB+ (CWD) (03-Sep-20)	1)CARE BBB+; Stable (03-Feb-20)	-
2	Fund-based - LT/ ST-Working Capital Limits	LT/ST*	2.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (08-Jan-21)2)CARE BBB+ / CARE A2 (CWD) (03-Sep-20)	1)CARE BBB+; Stable / CARE A2 (03-Feb-20)	-
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	37.50	CARE BBB+; Stable / CARE A2	-	1)CARE BBB+; Stable / CARE A2 (08-Jan-21)2)CARE BBB+ / CARE A2 (CWD) (03-Sep-20)	1)CARE BBB+; Stable / CARE A2 (03-Feb-20)	-

LT- Long term ; ST- Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT/ ST-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure 5: Bank Lender Details: NA

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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