Revathi Equipment Limited

January 08, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Rating1**	**Rating Action**
Long-term Bank Facilities	35.00	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned**
Long-term / Short-term Bank Facilities	39.50	**CARE BBB+;Stable/CARE A2 (Triple B Plus; Outlook: Stable/ A Two)**	**Reaffirmed and removed from Credit watch with Developing Implications; Stable outlook assigned**
Total 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) has been removed from credit watch with developing implications on account of the withdrawal of the proposed scheme of arrangement involving REL, Renaissance Advanced Consultancy Limited (RACL), Renaissance Stocks Limited (RSL) and Semac Consultants private limited.

The ratings continue to derive strength from 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 with nil term debt and diversified revenue stream with income from drilling equipment business and architectural design and construction business.

The ratings, however, are constrained by volatile nature of income and profitability, working capital intensive nature of operations and client concentration risk in the drilling equipment division.

Rating Sensitivities

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

- Improvement in PBILDT margin to above 15% on a sustained basis
- Steady growth in revenue along with reduction in volatility of profits & revenue

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

- Sustained drop in income from drilling equipment division which has relatively high margin
- Significant increase in leverage levels

Detailed description of the key rating drivers

Key rating strengths

Long operational track record and experienced management team

REL was founded in 1977 and is in the business of designing and manufacturing drilling rigs (drilling equipment) for mining activities, water well, exploration, etc. for over four decades. REL has manufactured and sold over 1000 drilling rigs in the last four decades. The company has significant experience in providing customized designs against customer specific requirements, robust engineering, well developed vendor base and after sales support. This helps the company in securing repeated orders from the existing customers.

Semac is one of the oldest Architectural and Engineering Design firms set up in 1969 in Bangalore and was acquired by REL in 2008. 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.

Established market position of drilling equipment division in the domestic market

REL has been supplying drilling rigs and spares to Coal India Limited (CIL) and its subsidiaries for over three decades now. Currently there are 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.

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

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. For FY20, around 47% of consolidated revenue was contributed by DED and 53% from Architectural design and construction.

Under DED, the company generates revenue from supplying drilling equipment to CIL and other customers. The company also provides after sales service and spares for the existing drilling equipment. REL also supplies spares through dealers. REL has around eight dealers across India for supplying spares to the existing customers. Though supply of spares depends on utilization of equipment by customers, revenue from spares remained stable in the range of Rs.40- 45 crore for past six years ended March 2020.

The company also generates income from architectural design and construction. Semac mainly focus on Industrial clients for architectural design and construction. The company executes the construction projects on sub contract basis.

Comfortable capital structure with nil term debt

The capital structure of the company remains comfortable with the overall gearing at 0.12x as on March 31, 2020. Total debt outstanding as on March 31, 2020 stood at Rs.19 crore which includes working capital borrowings of Rs.17 crore and lease liability of Rs.2 crore. For FY20, the debt coverage indicators also remained comfortable with interest coverage at 14.07x (PY: 7.05x). In the absence of any major debt funded capex going forward, capital structure is expected to remain comfortable. It is to be noted that during FY20, REL acquired 49% stake in Semac Construction Technologies India LLP (SCTI) for a sale consideration of Rs.25 crore which became its associate company w.e.f March 31, 2020. Investments in SCTI accounts for 17% of the total networth of REL as on March 31, 2020. SCTI is engaged in the business of architectural design & construction and project management consultancy service -. SCTI reported total income of Rs.50 crore and PAT of Rs.2.5crore in FY19.

Improvement in profitability during FY20 notwithstanding drop in income

On consolidated basis, the company reported total operating income of Rs. 162 crore during FY20 as against Rs.214 crore in FY19. The moderation in income was on account of drop in income from Semac Consultants Private Limited (Semac). However, PBILDT margin on consolidated basis improved to 13.73% in FY20 (PY: 8.62%) with improvement in profitability on both DED and Semac.

During H1FY21, on consolidated basis REL reported total operating income of Rs.53 crore as against Rs.73 crore in H1FY20 due to drop in income from Semac. However, PAT during H1FY21 improved and stood at Rs.3.3 crore from Rs.2.6 crore in H1FY20.

Drilling equipment division: During FY20, total operating income remained stable at Rs.75 crore as against Rs.76 crore in FY19. However, PBILDT margin improved to 22.55% during FY20 from 15.78% in FY19 due to i) Favourable product mix and ii) Reduction in other expenses. DED reported PAT of Rs.12 crore in FY20 as against Rs.9 crore in FY19.

During H1FY21, DED reported total operating income of Rs.32 crore (PY: Rs.29 crore) of which income from exports accounted for 34% of total income as against 0.4% of the total income during FY20 due to increased focus on exports by the company. PAT during H1FY21 stood at Rs.5 crore as against Rs.3 crore during H1FY20.

Semac Consultants Private Limited (Semac): Semac reported total operating income of Rs.87 crore in FY20 as against Rs.138 crore in FY19. Moderation in income during FY20 was on account drop in income from design and build business on account of unfavourable industry scenario. However, PBILDT margin improved to 6.72% in FY20 from 4.85% in FY19.

Key rating weakness

Volatile nature of income and profitability

The income and profitability remained volatile for the company due to volatility in both drilling equipment business and architectural design business in the past. The volatility has continued in FY20 also.

The income in Drilling Equipment Division is volatile mainly due to the volatility in orders by public sector undertaking clients (PSU's). While the income from spares & service has been relatively stable, higher volatility in sales of drilling rigs due to volatile nature of purchase orders by the customers has contributed to volatility in the drilling rigs division. In respect of Semac, while total income witnessed steady growth in FY18 & FY19, the same has witnessed moderation during FY20.

Working capital-intensive operations

The Drilling equipment industry is working capital intensive due to high levels of inventory and high receivables. 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. Receivable days stood high mainly due to stretched receivable by public sector undertaking clients. However, the counterparty risk is limited as all the clients are big reputed clients (Coal India Limited, Tata Steel etc.). As on March 31, 2020 for drilling equipment division receivable days stood at 163 days while for Semac receivables stood at 174 days.

On consolidated basis, working capital cycle stood at 159 days mainly due to high inventory and receivable days.

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 FY20, CIL has contributed around 23% to the total revenue in drilling equipment supplies. Apart from direct equipment supplies to the CIL, REL also sells spares to CIL through dealers. However going forward, the company's focus on exports, other domestic private players and spare supplies would help to reduce dependency on CIL.

Impact of COVID-19

The operations of DED were stopped from March 24, 2020 and restarted from May 08, 2020. Furthermore manufactured equipment and spares could not be transported due to non-movement of transport vehicles during the period April to May 2020. However, REL ramped up the operations from Q2FY21 as lockdown was lifted. In respect of Semac, execution of projects witnessed slowdown during Q1FY21 on account of lockdown. However, project execution gradually picked up pace from Q2FY21.

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. Coal production by CIL has grown at a CAGR of 4.1% over the last 8 years. As per the annual report of CIL (FY20), CIL has planned to achieve a coal production of 1000 million tonnes by end of FY24. It is to be noted that coal production of CIL has to grow at CAGR of 13.5% to meet the target of 1000 million tonnes envisaged in FY24. In order to achieve the same, CIL has identified various coal mining projects across India. As on March 31, 2020 around 123 coal projects are in various stages of implementation and the total capex planned by CIL during FY20 was Rs.10,000 crore.

This apart, Govt has recently announced privatisation of commercial coal mining, the same is expected to provide an impetus for the driving demand for MCE. Privatisation of commercial mining activity is done to substitute import of thermal coal. However, it is to be noted that this sector is exposed to environmental risk in the long run given the government's ambitious plan to move towards non fossil fuels to meet the country's energy needs. Going forward, REL is likely to benefit in the long term with stable orders from CIL.

Liquidity: Adequate

Liquidity is adequate with significant cash accruals (GCA of Rs.22 crore in FY20) against absence of long term debt. On consolidated basis the company has cash and cash equivalents of Rs.27 crore as on Sep 30, 2020. Average working capital utilization stood at around 38% for the twelve months ending November 2020. The current ratio as on consolidated basis stood at 2.57x as on March 31, 2020. It is to be noted that REL has not availed any moratorium for its debt obligations as part of COVID-19 relief package announced by RBI

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 79.23% in Semac. Also as on March 31, 2020, 55% of REL's net-worth is invested in Semac. For FY20, Semac consultants private limited contributed around 53% of consolidated REL's revenue.

Applicable Criteria

CARE's Criteria on rating outlook and credit watch
Rating Methodology-Manufacturing Companies
CARE's methodology for Short-term Instruments
Financial ratios – Non-Financial Sector
CARE's Policy on Default Recognition
Liquidity analysis for Non-Financial sector entities

About the Company

Revathi equipment Limited (REL) was incorporated in 1977 as Revathi Cp Equipment limited with financial and technical collaboration of Chicago Pneumatic of USA to provide drilling solutions for various applications like mining, construction, and water well, exploration, etc. The company was under the umbrella of Swedish multinational Atlas Copco for almost fifteen years, till the year 2002. 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 manufactures and markets Blast Hole Drills (Rotary and Drill to Hole(DTH), Diesel / Electric driven) for mining applications, Water Well Drills, Exploratory Drills etc. REL had a construction equipment division which discontinued operations in fiscal 2015 due to poor business prospects. 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 (79% 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)	FY19 (A)	FY20 (A)
Total operating income	214	162
PBILDT	18	22
PAT	13	16
Overall gearing (times)	0.00	0.12
Interest coverage (times)	7.05	14.07

A: Audited

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: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4
Annexure-1: Details of Instrument / Facilities

Name of the Instrument / Bank Facilities	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

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)	Ratings	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	35.00	CARE BBB+; Stable	1)CARE BBB+ (Under Credit watch with Developing Implications) (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+ / CARE A2 (Under Credit watch with Developing Implications) (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+ / CARE A2 (Under Credit watch with Developing Implications) (03-Sep-20)	1)CARE BBB+; Stable / CARE A2 (03-Feb-20)	-	-

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

Name of Instrument	Detailed Explanation
Promoters shares in the borrowing entity should not be pledged to any bank/NBFC/Institution outside the consortium/multiple banking arrangement without prior consent	-

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

Sr. No.	Name of the 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

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

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