Revathi Equipment India Limited

August 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / short-term bank facilities	60.74	CARE BBB+; Positive / CARE A2	Assigned
Short-term bank facilities	45.54	CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Revathi Equipment India Limited (REIL) factor in long track record of operations and experienced management team, REIL's established domestic market position in drilling equipment business and its growing presence in the export market, healthy financial risk profile marked by low overall gearing, and strong profitability margins. Ratings also consider healthy growth in scale of operations in FY24 (refers to April 01 to March 31) aided by increase in orders from the export customers.

However, ratings are constrained by moderate scale of operations, concentrated customer base in the domestic market, and working capital intensive operations resulting in elongated operating cycle.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growing scale of operations above ₹250 crore while maintaining profit before interest, lease rentals, depreciation, and taxation (PBILDT) margins more than 18%.

Negative factors

- Declining revenue and profitability resulting in total debt to PBILDT (TD/ PBILDT) above 3x.
- Large debt-funded capex negatively impacting capital structure with overall gearing deteriorating beyond 1.0x in the future.

Analytical approach: Standalone

Outlook: Positive

The outlook is positive on the expectations of sustenance of improvement in the scale of operations at present levels supported by expectations of higher export income, resulting in healthy business and a financial risk profile. The outlook may be revised to 'Stable' in case of lower-than-envisaged sales revenue, resulting in a drop in scale of operations impacting its financial risk profile.

Detailed description of key rating drivers:

Key strengths

Long operational track record and experienced management team

REIL is into designing and manufacturing drilling rigs (drilling equipment) for mining activities, water well, and exploration, among others and has been operational for over four decades (erstwhile was operating under Revathi Equipment Limited). The company has significant experience in providing customised designs for customer-specific requirements supported by robust engineering capabilities, well-developed vendor base and after sales support team. Historically, REIL has been a primary supplier of drilling rigs and spares to Coal India Limited (CIL) and its subsidiaries for over three decades and gets repeat orders. In the last few years, the company diversified its customer base and started supplying to more private players from domestic and export markets, which helped it scale up operations. REIL is managed by Abhisek Dalmia, Executive Chairman, and a team of senior experienced professionals, who have more than 15 years of experience in related fields. Experienced promoters and established operations of the company are likely to help sustain its business risk profile in the medium term.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications.

Healthy Improvement in operational performance in FY24
The company has reported strong year-on-year (y-o-y) growth of 94% in total operating income (TOI), which stood at ₹212.46 crore in FY24 as against ₹109.83 crore in FY23. Improvement has primarily been considering increased volumes and higher wallet share from the export business, which the company is increasingly focusing on. In FY24, drilling rig volumes increased by 144% y-o-y and revenue contribution from export sales stood improved to 36% from 12% in FY23. Apart from sale of drilling rigs, the company generated stable income from the sale of spare parts and service. The absolute profit before interest, lease, taxation, depreciation, and amortization (PBILDT) grew 84% y-o-y and PBILDT margin remained healthy at 18.25% in FY24 (FY23:19.19%). The company has set up a dedicated sales team for the export market which has aided in higher export orders.

Healthy capital structure and debt coverage metrics
The company's capital structure remains comfortable with overall gearing of 0.29x as on March 31, 2024 (PY: 0.44x). Debt coverage indicators also improved significantly with interest coverage at 7.01x (PY: 5.17x) in FY24, TD to gross cash accruals (TD/GCA) at 0.96x as on March 31, 2024 (PY: 2.25x) and TD/PBILDT at 0.80x as on March 31, 2024 (PY:1.57x). In the absence of major debt-funded capex going forward, the capital structure is expected to remain comfortable.

Key weaknesses
Working capital-intensive operations
The company's operations are working capital intensive owing to higher lead time required for production, which inherently keeps inventory levels high. To reduce lead time to cater to private players, the company keeps extra inventory in form of semi-finished and finished goods. The company's inventory days stood high at 248 in FY24 and working capital cycle in FY24 stood at 161 days. Receivable days stood at 41 in FY24. The company receives its payment from public sector undertaking clients within 45-50 days. Counterparty risk is limited as domestic clients are big, reputed clients (Coal India Limited, and Tata Steel, among others) and export orders payments are received in advance while some are covered by letter of credit (LC).

Client concentration risk
The company's major exposure lies in supplying drilling equipment for the Coal Mining Industry, where industry size is limited. In FY24, Coal India Limited (CIL) contributed around 39% (PY: 23%) to total revenue in equipment supplies. Apart from direct equipment supplies to the CIL, REIL also sells spares to CIL. To reduce dependence on CIL and reduce concentration in the coal sector, REIL is focusing on supplying drilling equipment to the export-based customers and other domestic private players (limestone and iron ore mining, cement mining, gold, and Diamond mining). Going forward, the company's focus on exports and other domestic private players is expected to help reduce dependence on CIL.

High dependence on third party suppliers
The company's operations majorly involve assembling parts received from its vendors and sub-contractors. The company has a Vendor Management team, which is engaged in constantly monitoring performance and financial position of such vendors. For some parts and components, the company relies on imports, which has inherent risks applicable such as currency and regulatory risks, and timeliness of receipt of products. REIL further depends on third parties for their critical parts and short of in-house technology to manufacture critical parts such as motors and jacks. This exposes the company to business risks that may arise considering downward revision in business profile of its suppliers.

Liquidity: Strong
The company's liquidity is strong with expected accruals in the range of ₹30-35 crore in FY25 against very low repayment obligations. Average working capital utilisation for the last 12 months remained in the range of 60-70% and the unutilised limits are sufficient for the incremental working capital needs for the next one year. Overall gearing remains comfortable at 0.29x as on March 31, 2024. The current ratio of REL stood comfortable at 1.72x (PY 1.78x) as on March 31, 2024. The company had cash and liquid investments of ₹67 crore as on March 31, 2024.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial manufacturing	Industrial products

REIL was incorporated in 2020 and manufactures mining equipment primarily blast hole drills ranging from 63 mm (2 ½") to 349 mm (13 ¾") in size and caters to domestic and export market. Till FY22, REIL was under named Revathi Equipment Limited (REL), which also housed a design and construction business. In June 2023, through an NCLT approved scheme of arrangement, the drilling business was demerged into the present separate entity (REIL). The remaining design and construction business continues to be under REL, which has been renamed Semac Consultants Limited (SCL – rated CARE BBB; Negative). Drilling business under REL first commenced operations in 1977 as Revathi Cp Equipment Limited with financial and technical collaboration of Chicago Pneumatic of USA to provide drilling solutions for applications such as mining, construction, water well, exploration, among others. The company was taken over from Atlas Copco (international industrial Group with its head office in Stockholm, Sweden) in 2002 by its current promoter Abhishek Dalmia.

Brief Financials (₹ crore)	FY22(A)	FY23(A)	FY24(A)
Total operating income	101.5	109.83	212.46
PBILDT	19.38	21.07	38.78
PAT	11.31	13.38	31.05
Overall gearing (times)	0.45	0.44	0.29
Interest coverage (times)	3.73	5.17	7.01

A: Audited; Note: FY24 financials are abridged audited financials and FY22 financials are restated.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based-LT/ST		-	-	-	60.74	CARE BBB+; Positive / CARE A2
Non-fund-based - ST-BG/LC		-	-	-	45.50	CARE A2
Non-fund-based - ST-Forward Contract		-	-	-	0.04	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 (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-LT/ST	LT/ST	60.74	CARE BBB+; Positive / CARE A2				
2	Non-fund-based - ST-BG/LC	ST	45.50	CARE A2				
3	Non-fund-based - ST-Forward Contract	ST	0.04	CARE A2				

LT/ST: Long term / Short term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based-LT/ST	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here]

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
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