

Revathi Equipment Limited

February 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long term Bank Facilities	41.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Long term/ Short term Bank Facilities	39.50	CARE BBB+; Stable/CARE A2 (Triple B Plus; Outlook: Stable/ A Two)	Assigned
Total Facilities	80.50 (Rupees Eighty 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) derives 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

- Steady growth in revenue while maintaining relatively stable profitability on sustained basis

Negative Factors

- Sustained drop in 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 now. 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 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.

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 FY19, around 36% of consolidated revenue was contributed by Drilling equipment division and 64% 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 supplies spares for the existing drilling equipment. 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 five years ended March 2019.

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

Apart from revenue from DED, the company 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 0.02x as on March 31, 2019 (PY: 0.21x). As on March 31, 2019 the company had 0.2 crore of term debt outstanding for solar panel for factory, however the same has been repaid and the company has nil debt as on September 30, 2019. For FY19, the debt coverage indicators also remained comfortable with interest coverage at 7.05x (PY: 0.67x). In the absence of any major debt funded capex going forward, capital structure is expected to remain comfortable.

Improved financial performance in FY19

On consolidated basis, the company reported total operating income of Rs. 210.3 crore (PY: Rs.161.4 crore) mainly due to growth in both Drilling equipment division and Semac for FY19. REL reported total operating income of Rs.76.1 crore, growth of 64.7% on y-o-y basis, due to strong orders placed from CIL in FY19 and on low base in FY18 while Semac reported total operating income of Rs.137.9 crore, growth of 16% Y-o-Y mainly due to the growth in Design Build division. On consolidated basis, the company reported PAT of Rs.19.6 crore in FY19 (PY: 0.4 crore). For H1FY20, the company has reported PAT of Rs.2.6 crore on total operating income of Rs.73.2 crore.

Key Rating Weaknesses**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 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 exhibited volatility during the period from FY15-FY17, same has witnessed steady growth in FY18 and FY19.

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, 2019 for drilling equipment division receivable days stood at 153 days while for Semac receivables stood at 104 days.

On consolidated basis, working capital cycle stood at 119 days mainly due to high inventory and receivable days in drilling equipment division

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 FY19, CIL has contributed around 43% 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.

Liquidity: Adequate

Liquidity is marked by adequate accruals against absence of long term debt. On consolidated basis the company has free cash and cash equivalents of Rs.18 crore as on March 31, 2019 and Rs.26 cr as on Sep 30, 2019. Average working capital utilization stood at around 5.7% for the twelve months ending December 2019. The current ratio as on consolidated basis stood at 3.21x as on March 31, 2019.

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 77% in Semac. Also as on March 31, 2019, 55% of REL's net-worth is invested in Semac. For FY19, Semac consultants private limited contributed around 65% 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](#)
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. The company has one manufacturing facility located in Coimbatore with installed capacity is 100 drilling rigs p.a.

REL has a subsidiary (77% 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)-Consolidated	FY18 (A)	FY19 (A)
Total operating income	164.4	213.7
PBILDT	2.9	18.4
PAT	(9.3)	13.1
Overall gearing (times)	0.21	0.02
Interest coverage (times)	0.67	7.05

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	41.00	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)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	41.00	CARE BBB+; Stable	-	-	-	-
2.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	2.00	CARE BBB+; Stable / CARE A2	-	-	-	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	37.50	CARE BBB+; Stable / CARE A2	-	-	-	-

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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