Revathi Equipment Limited

September 03, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	41.00	**CARE BBB+; Credit watch with developing implications (Triple B Plus; Credit watch with developing implications)**	**Placed on Credit watch with developing implications**
Long term/ Short term Bank Facilities	39.50	**CARE BBB+/CARE A2; Credit watch with developing implications (Triple B Plus/ A Two; Credit watch with developing implications)**	**Placed on Credit watch with developing implications**
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) have been placed under 'credit watch with developing implications' in view of the proposed Scheme of Arrangement (SOA) and the possible impact of the same on the credit profile of REL. The proposed SOA is subject to various statutory and regulatory approvals including Stock Exchanges, Securities and Exchange Board of India, the National Company Law Tribunal and shareholders as may be required or applicable involved in the scheme. CARE will take a view on the ratings once more clarity emerges on the implications of the above development on the credit profile of REL.

The Scheme includes Renaissance Advanced Consultancy Limited (RACL) and Renaissance Stocks Limited (RSL), holding companies of REL, with 57.68% and 14.90% held respectively and Semac Consultants private limited subsidiary company of REL. With the proposed scheme of arrangement, the trading business of RACL will be demerged into the separate entity i.e Renaissance Consultancy Services Limited ("RCSL"). Subsequently after demerger of trading business, RACL and RSL (holding companies of REL) will be merged into REL. Simultaneously, SCPL (Subsidiary company of REL engaged in Architectural Design and Build Services) will also be merged with REL. Subsequently REL will demerge its Architectural Design and Build Services business into a separate entity Renaissance Corporate Consultants Limited ("RCCL"). Pursuant to the Scheme, the equity shares of RCCL will be listed on NSE and BSE. Subsequently shareholders of REL will receive shares of RCCL on proportionate basis. For the said scheme of arrangement, only shares will be exchanged on proportionate basis.

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.

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

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. In FY20, around 47% of consolidated revenue was contributed by Drilling equipment division 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 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.

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.

With nil long term debt, the overall gearing stood at 0.11x as on March 31, 2020.

Improved financial performance in FY19; though income declined in FY20 profitability witnessed good improvement

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. The company reported PAT of Rs.13.1 crore in FY19. During FY20, total consolidated income declined to Rs.165.2 crore. However, with improvement in profitability, company reported PAT of Rs.16.1 crore for FY20.

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.

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 as on March 31, 2019 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 as per abridged financials, the company has cash and bank balances of Rs.29 crore as on March 31, 2020. The current ratio on consolidated basis stood at 2.63x as on March 31, 2020. Average working capital utilization stood at around 21.3% for the twelve months ending June 2020.

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 85% in Semac. Also as on March 31, 2020, 52% of REL's net-worth is invested in Semac. For FY20, Semac Consultants private limited contributed around 55% 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+ (Under Credit watch with Developing Implications)
Fund-based - LT/ ST-Working Capital Limits	-	-	-	2.00	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)
Non-fund-based - LT/ ST-BG/LC	-	-	-	37.50	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)

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 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	41.00	CARE BBB+ (Under Credit watch with Developing Implications)	-	1)CARE BBB+; Stable (03-Feb-20)	-	-
2.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	2.00	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)	-	1)CARE BBB+; Stable / CARE A2 (03-Feb-20)	-	-
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	37.50	CARE BBB+ / CARE A2 (Under Credit watch with Developing Implications)	-	1)CARE BBB+; Stable / CARE A2 (03-Feb-20)	-	-

Annexure 3: 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. 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.*

Contact us

Media Contact
Mradul Mishra
Contact no: +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact:
Name: Mr P Sudhakar
Contact no: 044-28501000
Email: p.sudhakar@careratings.com

Relationship Contact
Name: Mr. V Pradeep Kumar
Contact no: 044-28501000
Email ID: pradeep.kumar@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**