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modefinance Corporate Credit Rating (Solicited) for

DRILLMEC S.P.A.: B1- (downgrade)

modefinance published the Solicited Corporate Credit Rating of DRILLMEC S.P.A. on the website (http://cra.modefinance.com/en) and the rating assigned to the entity is B1- (downgrade). The analysis revealed it is an adequate company with average capability of repaying financial obligations and it is little affected by adverse economic scenarios.

Drillmec is a long-standing global *player* in the Oil & Gas sector, dealing with the construction of drilling equipment and rigs in the *onshore* (*core business*) and *offshore* industries and offering aftersales, maintenance, and rehabilitation services. Since 2020, the Company has come under the control of Megha Engineering and Infrastructures Ltd (MEIL), a group that boasts a strong position in the EPC sector in India thanks to a *track record* in the *execution* of complex turnkey projects. Moreover, MEIL has a good financial risk profile and an order *backlog* that guarantees revenue visibility in the medium term.

Key Rating Assumption

Drillmec S.p.A.'s consolidated financial position was characterized by a balanced equity/liabilities ratio, limited debt to third parties, thanks to significant financial support from the direct parent company MEIL Global Holding BV, and adequate management of credit lines. On the economic front, 2023 closed with a loss due to significant write-downs of receivables towards the former consolidated company Drillmec Russia, as well as penalties related to delays in the delivery of some drilling rigs. As a result, profitability indicators turned to negative and insufficient values, while the leverage indicator was adequate, although higher than the sector median.
The company's sales revenues improved by 31% compared to the previous year due to the expansion in the Americas, Middle East, and Asia. This resulted in a good dimensional positioning within the reference peer group, which presents satisfactory solvency, liquidity, and profitability indicators.

The governance and control system is well structured and includes a Board of Directors and a Board of Statutory Auditors, supported by a specialized company in charge of auditing the financial statements as well as by a collegial Supervisory Board.

The Oil & Gas sector is affected by geopolitical tensions impacting prices and trade routes. The energy transition brings about challenges and opportunities for the future of this sector, leading to a concentration of investments (around USD 500 billion) on new exploration, Liquified Natural Gas export capacity, and development of low-carbon technologies such as carbon capture and green hydrogen. Drillmec S.p.a. has been investing in clean technologies through the start-ups Idrogena S.r.l. and Blu Vector S.r.l. set up in 2022.

Despite the slowdown in the manufacturing sector and a still restrictive monetary policy, world growth showed resilience in the second quarter of 2024 (+0.7%, a provisional figure that is slightly lower than the trend recorded in the first half of the year) and it should remain stable in the third quarter. Real-world GDP growth is estimated at 3.4 % in 2024 and 2025 while 3.3 % in 2026, showing a slight slowdown compared to the increase of 3.5 % recorded in 2023.

Sensitivity Analysis

In the following table, the addressing factors, actions or events that could lead to an upgrade or a downgrade are summarized:

Action	Description of the addressing factors, actions or events
Upgrade	• Effective execution of orders, impacting on turnover, EBITDA and EBITDA margin • Improvement of the net result of the year and profitability indicators • Oil & Gas recovery drives investment in both new plants and maintenance of existing ones. Should these conditions be met, the rating could be upgraded to B1.
Downgrade	• Contraction in turnover and margin levels compared to historical *track record* • Reduction in solvency indicators due to a lower financial support from MEIL • Decline in liquidity or irregularities in management of credit lines • Escalation of geopolitical tensions with impacts on procurement costs and project execution timetables. Should these conditions occur, the rating could be downgraded to B2+.

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