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modefinance Corporate Credit Rating (Solicited) for

DRILLMEC S.P.A.: B2+ (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 B2+ (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 operates in the market for drilling rigs and equipment, both onshore (its core business) and offshore, and provides after-sales, maintenance, and rig refurbishment services. The Group operates a manufacturing facility in Hyderabad (India), which enables it to maintain a competitive cost structure in a highly challenging industry. Drillmec has a strong international footprint across India, the Middle East, Europe, and the Americas. Some of these regions are exposed to heightened geopolitical and economic instability, which may negatively affect business operations. For instance, the Russia–Ukraine conflict led to the ongoing divestment of the Group's two subsidiaries in Russia and Belarus, as well as to significant provisions for credit impairment in 2023, partially reversed by EUR 7.8 million in 2024 following agreements reached with the prospective buyer of Drillmec Russia. In line with its strategic focus on core activities, the Group also plans to divest Idrogena S.r.l. and Blu Vector S.r.l., which would require substantial investments to develop hydrogen plants based on renewable and decarbonized fossil sources. Since 2020, Drillmec S.p.A. has been under the control of Megha Engineering and Infrastructures Ltd (MEIL), owned by the Reddy family. MEIL is the second-largest Indian engineering, procurement, and construction (EPC) company, supported by a substantial order backlog that provides strong medium- to long-term revenue visibility.

Key Rating Assumption

Drillmec S.p.A. (hereinafter the "Parent Company" or the "Group") has an adequate capital structure. From a financial standpoint, the Group accessed bank financing, raising approximately EUR 9 million in new loans in 2024. This funding led to an increase in financial leverage from 0.18 to 0.29; however, financial leverage remains balanced, as external funding needs are limited thanks to the substantial support provided by the parent company MEIL Global Holdings BV (EUR 56.0 million as of December 2024). Despite the erosion of equity resulting from the net loss recorded in 2024, the leverage ratio remains at adequate levels (2.8x). The reduction in the Value of Production (VdP) to EUR 172.3 million in 2024 is primarily attributable to certain contracts of the Parent Company affected by operational issues, resulting in a 25% year-on-year decline in revenues. This trend continued throughout 2025, leading to higher-than-expected cash outflows. In response to the challenging market environment, Management implemented corrective actions aimed at strengthening legal risk management, normalizing working capital, and improving contract margins. These measures include increased contractual advance payments and rigorous monitoring of contract execution, supported by the go-live of the SAP ERP system in early 2025.

In 2025, a decline in revenues and operating margins is expected despite the corrective measures adopted by Management. This is primarily due to delays in the start-up of an offshore contract (with a contract value of approximately EUR 90 million, completion expected in 2027) and the lower profitability of a project launched in 2024. It should be noted that the Company is currently in advanced negotiations for the acquisition of a new and significant contract in Asia. The Agency believes that the recovery of economic performance in the medium term will depend on the Group's ability to secure an adequate backlog, ensure proper execution of contracts, and effectively implement Management actions. The financial backing from Megha Engineering and Infrastructures Ltd and MEIL Global Holdings BV, secured through December 2026, strengthens the Group's ability to manage limited execution delays and temporary financial stress.

Drillmec S.p.A. has a Board of Directors composed of three members, whose activities are subject to oversight by the Board of Statutory Auditors. The statutory audit of the financial statements is entrusted to a leading specialized firm. In line with the adoption of the Organizational, Management and Control Model pursuant to Legislative Decree 231/01, the Parent Company has implemented a Code of Ethics and appointed a collegiate Supervisory Body.

The Group has a solid scale, ranking among the largest companies in the sector by revenue (EUR 172.3 million in FY2024), largely generated in the Middle East and Asia. However, solvency indicators remain below the sector median, mainly due to leverage levels that, while still adequate, exceed peer averages. In terms of profitability, the Group recorded another net loss in 2024, resulting in negative profitability metrics. The reference peer group shows solid leverage and financial leverage ratios, with a slight improvement over the period under review. Liquidity indicators, including the current ratio, are also sound, confirming overall financial stability. Profitability, however, has weakened, with ROE remaining at only marginally sufficient levels.

According to a study by the International Energy Agency (IEA), the global oil and gas market is undergoing a phase of structural transformation, characterized by shifts in supply and demand dynamics and price volatility driven by macroeconomic factors and geopolitical tensions. Global oil demand is expected to increase to approximately 105.5 million barrels per day by 2030, supported by growth in natural gas liquids (NGLs) and petrochemical products. Supply growth is expected to be led by OPEC+ and the United States, with the Middle East, North Africa, and Latin America remaining key regions for upstream development. Oil price volatility has weighed on upstream investment, which is projected to decline by 4% in 2025 to around USD 565 billion, reflecting reduced oil-related spending and stronger investment in gas, amid a more cautious and selective approach by energy companies.

Global economic growth is expected to remain moderate, with expansion forecast at 2.6% in 2026 and 2.7% in 2027. Emerging market and developing economies (EMDEs) are projected to grow at a faster but uneven pace, easing from 4.2% in 2025 to 4.0% in 2026, before slightly recovering to 4.1% in 2027, supported by improved financial conditions and the stabilization of commodity prices. In the euro area, growth is expected to slow to 1.2% in 2026 before accelerating to 1.4% in 2027, driven by exports and a resilient labor market. These growth prospects remain highly uncertain due to risks related to escalating conflicts in the Middle East and ongoing trade uncertainties.

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 contracts, with positive impacts on revenues, EBITDA, and EBITDA margin • Improvement in net results and profitability indicators • A recovery in the oil & gas sector, supporting investments in new installations and maintenance of existing assets Should these conditions be met, the rating could be upgraded to B1-.
Downgrade	• Decline in revenues and margin levels relative to historical performance • Deterioration in solvency metrics due to reduced financial support from MEIL • Weak liquidity or irregular cash management • Escalation of geopolitical tensions, with adverse effects on supply chains and project execution Should these conditions be met, the rating could be downgraded to B2.

IMPORTANT

The present Corporate Credit rating is issued by modefinance under EU Regulation 1060/2009 and following amendments.

The present rating is solicited and is based on both private and public information. The rated entity and/or related third parties have provided all private information used. modefinance had access to some accounts and other relevant internal documents of the rated entity and/or related third parties. Solicited and unsolicited ratings issued by modefinance are of comparable quality, as the solicitation status has no effect on methodologies used. More comprehensive information on modefinance Corporate Credit Ratings are available at: http://cra.modefinance.com/en

The present Corporate Credit Rating is issued on MORE Methodology 2.0 and Rating Methodology 1.0. A comprehensive description of both methodologies, as well as information on modefinance Rating Scale and Mappings, is available at http://cra.modefinance.com/en/methodologies.

For information on historical default rates of modefinance Corporate Credit Ratings please refer to ESMA Central Repository: htttps://registers.esma.europa.eu/cerep-publication/ and ESMA European Rating Platform https://registers.esma.europa.eu/publication/searchRegister?core=esma_registers_radar.

modefinance refers to default as a company under bankruptcy, or under liquidation status, or under administration or for which missed payments on a financial obligation are officially recorded.

The quality of the information available on the rated entity and used to determine the present rating was judged by modefinance as satisfactory. Please note that modefinance does not perform any audit activity and is not in a position to guarantee the accuracy of any information used and/or reported in the present document. As such, modefinance can accept no liability whatsoever for actions taken based on any information that may subsequently prove to be incorrect.

The present credit rating was notified to the rated entity in order to identify potential factual errors, as prescribed by the CRA Regulation.

No amendments were applied after the notification process.

The rated entity is not a buyer of ancillary services provided by modefinance.

The rating action issued by modefinance was performed independently. The analysts, members of the rating team involved in the process, modefinance Srl and its members and shareholders do not have any conflicts of interest in relation to the Rated Entity and/or Related Third Parties. If in the future a potential conflict of interest is identified in relation to the persons reported above, modefinance Ratings will provide the appropriate information and if necessary the rating will be withdrawn.

The present Credit Rating is an opinion of the general creditworthiness that modefinance issues on the rated entity, and should be relied upon to a limited degree. The issued rating is subject to an ongoing monitoring until withdrawal.

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