Dredging Corporation of India Limited

February 12, 2021

Ratings

Instrument	Amount (Rs. Crore)	Rating[1]	Rating Action
Long Term Instrument	58.88	**CARE A; Stable (Single A; Outlook: Stable)**	Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)
Total Facilities	**58.88 (Rs. Fifty-Eight Crore and Eighty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bond issue of Dredging Corporation of India Ltd (DCI) takes into account the impact of operations during H1FY21 (refers to April 01 to Sep 30) due to covid-19 pandemic, decline in the profitability margins due to lower realization from contracts on account of increased competition from other domestic and global players, increase in subcontracting expense due to frequent breakdown of dredgers and increased maintenance expenses on account of ageing fleet.

The rating also derives strength from established presence of around four decades in providing dredging services at major and non-major ports in India and overseas, strong promoters, continued leadership position in the maintenance dredging segment in India, healthy order book position, increased operating income during FY20 (refers to April 01 to Mar 31), comfortable capital structure, favorable resolution of committee chaired by Additional Secretary and Financial Advisor & Ministry of Shipping directing the Sethusamudram Corporation Limited (SCL) to pay long pending debtors and its part realization of the same during FY20 (refers to the period April 01 to Mar 31), satisfactory working capital cycle and stable outlook for the port sector

The rating, however, is constrained by vulnerability of the operations to foreign exchange fluctuation despite company executing projects in international markets, stretched liquidity, ongoing legal litigations, higher dependence on Kolkata Port Trust (KoPT) for orders albeit declined and increased competition from private and foreign dredging companies.

Rating Sensitivities:

Positive Factors- *Factors that could lead to positive rating action/upgrade:*

- Average fleet age should be less than 15 years.
- Reduction in the concentration of revenue from maintenance of dredging services i.e. minimum of 60%

Negative Factors- *Factors that could lead to negative rating action/downgrade:*

- Further deterioration of profitability by more than 25%
- Elongation of operating cycle to 180 days (excluding receivables from SCL)
- Capital structure marked with overall gearing above 1.5x

Detailed description of the key rating drivers

Key Rating Strengths

Long track record of providing dredging services and continuous leadership position in maintenance dredging segment

DCI has around four decades of presence in the dredging sector and provides dredging services in shipping channels of major, non-major ports, naval establishments, Fishing Harbors, power plants, state governments, private organization, shipyards and other maritime organizations. DCI is catering to the dredging requirements of the Haldia/Kolkata Port almost for the past 30 years. During FY20, the market shares of DCI in major ports for maintenance dredging is 74% (PY: 52%) and for capital dredging is 100%. Maintenance dredging of Indian market constitutes about 147-157 Million Cubic Meter and DCI constitutes about 62%-58% in FY20 as against 53%-50% in FY19.

Stable improvement in the operating income during FY20 coupled with weak performance for H1FY21

Total income in FY20 witnessed improvement by 8% from Rs.699.34 crore in FY19 to Rs.756.33 crore in FY20 led by increase in revenue from port operations. Further, during FY20, the company has generated revenue of Rs 77.01 crore from Mongla Port, Bangladesh. During H1FY21, the company has reported total operating income of Rs.294.45 crore as against Rs.323.48 crore during H1FY20 due to impact of covid-19 pandemic. The Company's normal operations have been impacted in a number of ways including delay in conducting surveys, regimented deployment of manpower leading to shortages at the work site and yards, inordinate delays in import of emergency spares which are required to carry out the scheduled dry docks, closure of workshops, lack of OEM support and logistic constraints.

Healthy order book albeit decline in share of orders from promoters

Order book of DCI as on December 15, 2020 stood at Rs.827.19 crore (as against Rs.686.10 crore as on November 22, 2019) providing medium term revenue visibility considering repeat business. However, the promoters' share of orders in the total

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

order book of DCI have come down from 46.86% in FY19 to 29.33% in FY20. Going forward Govt. proposes to manage the operations of major ports through PPP as announced in budget 2021-22 will further affect prospects of orders received through nomination basis for DCIL.

Strong Promoters

As part of strategic divestment initiative taken by Government of India (GoI), on March 08, 2019, GoI had executed Share Purchase Agreement (SPA) with consortium of four ports (namely Vishakhapatnam Port Trust (VPT), Paradip Port Trust (PPT), Jawaharlal Nehru Port Trust (JNPT) and Deendayal Port Trust (DPT)) pursuant to which 2,05,72,103 equity shares of DCI representing 73.47% of the total paid up share capital of DCI held by GoI have been transferred along with transfer control to the consortium of four ports resulting in change in promoters. Currently Visakhapatnam Port Trust holds 19.47% with other three ports holding 18% each in DCI. All the four ports are governed by Major Port Trust Act, 1963. GoI holds 100% stake in all the four ports and the trust is under direct administrative control of Ministry of Shipping (MoS).

Comfortable capital structure and debt coverage indicators

The capital structure of the company continues to be comfortable. As on March 31, 2020, the overall gearing has improved to 0.38x as compared to 0.41x as on March 31, 2019 at back of repayment of foreign currency term loans and accretion of profits to net worth. The debt coverage indicator total debt/GCA deteriorated marginally declined from 4.32x in FY19 to 4.83x in FY20 due to decline in the profitability.

Satisfactorily working capital cycle excluding outstanding debtor realization from SCL

The operating cycle of the company has deteriorated from 193 days in FY19 to 216 days in FY20 on account of high collection and inventory days due to impact of covid during Q4FY20. The average collection period as on March 31, 2020 remained at 167 days as against 165 days as on March 31, 2019. The company has received Rs.39 crore during FY20 from M/s Sethusamudram Corporation Ltd (SCL), and balance amount of Rs.97.72 crore is expected to be received in due course. Excluding SCL dues of Rs.97.72 crore as on March 31, 2020, the collection days for FY20 works out to 143 days.

Key Rating Weaknesses

Impact of COVID-19

Despite the ports falling under essential services division, the Company’s regular operations have been impacted in a numerous ways as lockdown impeded conducting surveys. It also imposed unusual delays in both Dry-docking / running repairs in yards, impeded conducting surveys and resulted in postponement of securing new work orders. Some of the vessels were either non-operational or operating at suboptimal efficiencies in FY 2019-20 as well as in H1FY21. However, the company resumed operations from May 2020 and is presently operating at 85% capacity.

Decline in the profitability due to lower realization

The realization has come down by 7% to Rs 11.84 crore per Mn. Cu.m in FY20 from Rs 12.69 crore per Mn.Cu.m in FY19 due to increased competition from other domestic and global players. As per guidelines issued by Ministry of Shipping; all major ports to follow open/competitive bids for undertaking capital or maintenance dredging. Further award of works on nomination basis can be done only in emergency situation. Hence the participation of other domestic players and global players either directly or through their Indian arms competing to get the contracts at competitive rates has constrained DCIL to quote competitively resulting in lower realization from contracts.

PBILDT margin has declined from 24.97% in FY19 to 19.82% in FY20 due to lower realization from contracts on account of increased competition, higher reliance on subcontracting works due to frequent break-down of dredgers and increased overhead expenses on account of aged dredgers. In line with decrease in PBILDT albeit reduction in interest expense PAT margin was declined to 0.73% in FY20 as against 5.44% in FY19.

Ageing Fleet with efforts to improve fleet capability

The dredging fleet of DCI has an average age of more than 20 years. Some of the equipment of the old vessels have already crossed their useful life. These equipment need extensive refurbishment which has resulted in lower performance of vessels and increased breakdown days.

Higher dependence for orders on Kolkata Port Trust albeit declined

DCI derived around 29% of revenue from KoPT in FY20 and around 28% in H1FY21. The company started executing works in various port locations during H1FY21 thereby reducing the revenue concentration risk.

Vulnerability of the operations to foreign exchange fluctuation

DCI is exposed to forex risk due to euro loans to fund dredgers and also heavy dependence on imported components and spare parts with nearly 84.87% (PY:90.14%) of the spares and components being imported in FY20. However, the company’s cash flow is susceptible to fluctuation in foreign exchange variations. Since, the hedging mechanism adopted is in place for the repayments scheduled for the current year and it does not cover entire debt outstanding and repayments for the tenor of the loan.

Liquidity: Stretched

The Stretched liquidity position of the company is marked by gross cash accrual generation of Rs.24.67 crore during H1FY21 as against the repayment obligation of Rs.68.90 crore for H1FY21 coupled with absence of working capital limits. However, the short-fall in repayment obligations was met from realization of receivables & other current assets and balance from free

cash & bank balance. The company has not availed moratorium under Covid relief for the facilities from their lenders. However, they have availed overdraft of Rs 63 crore to address the mismatch in cash flows due to impact of covid.
The debt obligation for H2FY21 is about Rs.71.74 crore. However, as on September 30, 2020 the company has outstanding free cash and bank balances of Rs.49 crore (excluding restricted cash balance of Rs 27 Crore for debenture reserve). Further, the company has enough headroom to raise funds if required to address any temporary cash flow mismatch due to impact of Covid-19 as the overall gearing stands at 0.38x as on March 31, 2020.

Analytical approach: Standalone
Applicable criteria:
Criteria on assigning 'Outlook' and Credit watch to credit ratings
CARE's Policy on Default Recognition
Financial Ratios – Non-Financial Sector
Liquidity analysis of Non-financial sector entities
Rating methodology- Infrastructure Sector Ratings (ISR)

About the company
Dredging Corporation of India Limited (DCI), a Government of India (GoI) undertaking under the Ministry of Shipping, was established in the year 1976 to provide integrated dredging services to major and non-major ports, Indian Navy and other maritime organizations in India. In November 1999, DCI was declared as Mini Ratna – Category-I Public Sector Enterprise. DCI is engaged in maintenance dredging, capital dredging, beach nourishment, reclamation and environmental protection services. However, the majority of the revenues are from maintenance dredging of 95% in FY20 (FY19: 97%) with a capacity utilization of 91.89% (63.30 Mn Cu.M) for FY20 as against 85.30% (54.51 Mn. Cu.M).
As part of strategic divestment initiative by GoI, on March 08, 2019, as per the Share Purchase Agreement executed by GoI with consortium of four ports namely (Visakhapatnam Port Trust (VPT), Paradip Port Trust (PPT), Jawaharlal Nehru Port Trust (JNPT) and Deendayal Port Trust (DPT)), sold its entire stake and currently Visakhapatnam Port Trust holds 19.47% with other three ports holding 18% each in DCI.

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Total operating income	699.34	756.33
PBILDT	178.79	149.87
PAT	44.59	5.51
Overall gearing (times)	0.43	0.38
Interest coverage (times)	9.69	8.72

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not applicable

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

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds	INE506A07015	March 28, 2013	6.97%	March 28, 2023	58.88	CARE A; Stable

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.	Bonds	LT	58.88	CARE A; Stable	1)CARE A+; Negative (11-Aug-20)	1)CARE A+; Stable (17-Feb-20)	1)CARE A+; Stable (15-Mar-19) 2)CARE A+; Stable (07-Mar-19)	1)CARE A+; Negative (07-Dec-17)

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

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Bonds	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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