Dredging Corporation of India Limited

September 22, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	50.00	CARE BBB+; Stable	Assigned
Long Term Bank Facilities	100.00	CARE BBB+; Stable	Reaffirmed; Outlook revised from Negative
Long Term / Short Term Bank Facilities	50.00	CARE BBB+; Stable / CARE A3+	Revised from CARE A3+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Dredging Corporation of India Limited (DCIL) derives strength from established presence of the company for more than four decades in providing dredging services at major and non-major ports in India and overseas, strong promoters and support extended by way of receipt of work advances, moderate order book position providing revenue visibility for medium term and a comfortable capital structure. The rating also factors in improvement in financial performance of the company during FY23 (refers to period April 01 to March 31) marked by improved revenue, profitability margins, and cash accruals. With completion of large sized debt repayment obligation in FY23; the debt coverage and liquidity profile is expected to improve further going forward. The liquidity profile has also been supported by improving receivable days with overall collection days improving from 114 days in FY22 to 85 days in FY23.

The rating strengths are however tempered by the ageing fleet of dredgers resulting in high maintenance expenses, vulnerability to foreign exchange risk with unhedged foreign currency debt, working capital intensity in the business with large part of requirement funded through creditors, increased competition from domestic and global private players and ongoing legal litigations.

The ratings also factor in the debt funded capex undertaken to add new dredger to its fleet post approval from Ministry of Shipping. While debt level is expected to elevate over the next three years, the repayment for new debt is expected to commence from end of FY26. Thus, comfort is derived from low repayment obligations for the existing debt which would thereby support the cashflow position.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors:

- Growth in scale of operation and profitability on a continuing basis
- Improvement in the GCA days to below 200 days

Negative Factors:

- Increased working capital intensity with extension in collection days.
- Overall gearing above 1.5x on a sustained basis
- Materialization of liability towards MLL impacting the cashflow position

Analytical approach: Standalone

Outlook: Stable

The rating outlook has been revised from 'Negative' to 'Stable' with improvement in the financial performance and liquidity profile of the company. DCIL has reported improved performance in FY23 which along with continued support from promoter entities by way of work advances and improved receivable position have supported the overall cashflow position.

The stable outlook reflects moderate order book position providing yearly revenue visibility along with likely maintenance of satisfactory profitability and liquidity position.

Detailed description of the key rating drivers:

Key strengths

Strong promoters:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

As part of strategic divestment initiative taken by 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 73.47% of the equity stake of DCIL held by GoI have been transferred along with management control to the consortium of four ports resulting in change in promoters. As on Aug 31, 2023, Visakhapatnam Port Trust holds 19.47% with other three ports holding 18% each in DCIL. All the four ports are under the direct administrative control of the Ministry of Shipping (MoS). With change in promoters, DCIL expects to derive benefit by virtue of receipt of orders on nomination basis. Also, the promoter ports have demonstrated support by way of work advances which is expected to continue.

Further, as per new guidelines issued by The Ministry of Ports, Shipping and Waterways, the major Ports having management control of ports owned dredging company may award the dredging works of the respective ports to the company on nomination basis on approval of Board of Trustees/ Directors of the Port. This is thus expected to enable DCIL to procure orders directly from the promoter ports.

Long track record of providing dredging services:

DCIL has over 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 which gives DCIL the experience of dredging at locations with varying soil characteristics. It has been providing capital dredging for creation of new harbors, deepening of existing harbors or maintenance dredging for the upkeep of the required draft at various ports along the 7,500 kms coastline of India.

Moderate order book position of the company:

As on June 30, 2023, the company had an order book of Rs.900 crore thereby providing revenue visibility of close to a year. The work order is majorly from the promoter ports. The company handles dredging for most of the reputed ports which is renewed every year and maintenance dredging accounts for more than 90% of overall order book composition.

Earlier, DCIL had large dependence on work from Kolkata Port Trust with revenue contribution of 40-50%. However, post change in shareholding, there has been new orders from JNPT and Paradip Port Trust (together contributing 48.5% of order book on June 30, 2023, vis-à-vis 39% in October 2022). However, the client concentration risk continues to remain high with top 5 clients contributing 87% of the order book.

Improvement in financial performance and liquidity during FY23 and Q1FY24

The financial performance of the company improved in FY23 after witnessing subdued performance in FY21/FY22 due to covid/impact of cyclones. DCIL reported revenue growth of 47% in FY23 over FY22 backed by inflow of work orders from the promoter entities. In line with revenue growth and lower fixed cost expenses, PBILDT also registered growth of 63% in FY23 over FY22.

For Q1FY24 as well, the performance improvement continued, and the company reported revenue of Rs. 204 crore (marginal decline of 6% on a y-o-y basis). However, PBILDT margin improved to 27% vis-à-vis 12% in Q1FY23 due to lower expense on account of consumables/spares.

Apart from revenue and profitability, the receivable position also witnessed traction and collection period improved to 85 days in FY23 as against 114 days during FY22. The collections associated with the new work orders have been better thereby supporting the liquidity profile.

Comfortable leverage:

The overall gearing of the company has remained comfortable below unity at 0.27x as on March 31, 2023. DCIL has a strong net worth base which has supported the financial profile. The debt/EBITDA has also been satisfactory at 2.23x for FY23. DCIL had large debt repayment obligation in FY23 which has resulted in reduction in external debt by almost Rs.100 crore during the year. However, it is in the process of availing additional debt for financing new dredger which is likely to result in moderation of overall gearing, although the same is likely to remain below unity. While term debt obligations have reduced, DCIL dependence on working capital lines have been high resulting in full utilization of existing limits.

Key weaknesses

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 equipments need extensive refurbishment which has resulted in lower performance of vessels and increased breakdown days. Further, some of the contracts limit the age of equipment to be deployed in the project as their pre-qualification criteria. Old ageing dredgers also result in lower productivity levels due to which there is high fuel consumption.

DCI has already taken steps to scrap some of its assets which have outlived their useful life. The company is taking steps for replacement of old dredgers.
The company has entered into an agreement with Cochin Shipyard Limited (CSL; CARE AAA; Stable/CARE A1+) for construction of new Trailing Suction Hopper Dredger (TSHD) with capacity of 12,000 cubic meter for an amount of 89.39 million euros. Financial closure has been achieved and The Euro component of the contract value (49.9 mn euros) is proposed to be funded through ECB Loan availed from Deutsche Bank. The balance cost would be funded by promoter ports as well as NCD subscription by CSL. The new dredger is expected to be onboarded in 3 years (end of FY26) which is likely to support scaling up of operation.

Vulnerability of operations to foreign exchange risk:
DCI is exposed to forex risk due to euro loans to fund dredgers and also heavy dependence on imported components and spare parts with majority of the spares and components being imported from various countries. Large portion of term loan which is proposed to be availed for new dredger is also denominated in foreign currency. As the forex exposure is not hedged, the company is exposed to fluctuations in foreign currency and depreciation of Indian Rupee can negatively impact the profitability of the company going forward.

High working capital intensity
The working capital requirement has been elevated over the past two years due to funds blocked in debtors and lower cash accrual generation. Consequently, the reliance on bank borrowings has increased with close to 100% utilization of fund-based limits. Further, the company has been funding a large part of its working capital requirement through creditors (dry docking charges as well as purchase of fuel) resulting in elongated creditor days (176 days and 143 days in FY22 and FY23 respectively). There has been traction in collection period with recovery of some of past pending debtors including realization from Sethusamudram Corporation Limited (SCL). However, overall working capital intensity continues to remain high and dependence upon creditor funding is likely to continue.

Competition from foreign players:
DCI's market share has dropped over the years primarily due to liberalization and ports moving away from a nomination basis to a competitive bidding basis. Since the opening of the Indian dredging industry to foreign competition by the GoI in fiscal 1993, a number of international and domestic dredging companies have entered the Indian dredging market. As a result, the Indian dredging market has become more competitive. While DCI continues to offer capital dredging services in the Indian market, it primarily has focused on maintenance dredging which is price sensitive. However, post takeover by the four port trusts, the company has started receiving orders from the promoters on nomination basis.

Liquidity: Adequate
The liquidity position of the company is adequate with improvement in cash accruals, recovery of pending debtors and low repayment obligations over the next three years. DCI has availed Rs.100.00 crore of overdraft limit with an average utilization of 92% during past 12 months ending July 31, 2023. Besides, working capital requirement is being met through working capital demand loan/general corporate loan availed from banks.

Assumptions/Covenants: Not Applicable

Environment, social, and governance (ESG) risks:

The company is exposed to the environmental risk emanating from the disruption of economic resources while dredging activities are under progress. The risk factors are mitigated by presence of framework which encompasses occupational health and safety, energy consumption, carbon emission, etc.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Service Sector Companies
Infrastructure Sector Ratings
Policy on Withdrawal of Ratings

About the company and industry

Dredging Corporation of India Limited (DCI) was established in the year 1976 to provide integrated dredging services such as dredging & reclamation, marine services & construction, shallow water/inland dredging and under water mining to major and non-major ports, Indian Navy and other maritime organizations in India.
Until December 31, 2018, GOI held 73.47% stake in DCI. However, as part of strategic divestment initiative by GoI, the shareholding of DCI was sold to consortium of four ports namely, Visakhapatnam Port Trust, Paradip Port Trust, Jawaharlal Nehru Port Trust and Deendayal Port Trust. As on August 31, 2023, Visakhapatnam Port Trust holds 19.47% with other three ports holding 18% each in DCI.
All the four ports are amongst the 13 major ports governed by the Major Port Trust Act, 1963. GoI holds 100% stake in all the ports and the Trust is under the direct administrative control of the Ministry of Shipping (MoS).

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Services	Transport Related Services

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	788	1,160	204
PBILDT	105	171	56
PAT	4	13	16
Overall gearing (times)	0.26	0.27	-
Interest coverage (times)	8.65	5.97	8.57

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: NA

Any other information: NA

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	100.00	CARE BBB+; Stable
Fund-based - LT-Term Loan		-	-	June 30, 2025	50.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	50.00	CARE BBB+; Stable / CARE A3+

CareEdge RATINGS

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds	LT	-	-	1)Withdrawn (05-Apr-23)	1)CARE BBB+; Negative (21-Nov-22)	1)CARE BBB+; Negative (22-Nov-21)	1)CARE A; Stable (12-Feb-21) 2)CARE A+; Negative (11-Aug-20)
2	Fund-based - LT-Bank Overdraft	LT	100.00	CARE BBB+; Stable	1)CARE BBB+; Negative / CARE A3+ (05-Apr-23)	-	-	-
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	50.00	CARE BBB+; Stable / CARE A3+	1)CARE A3+ (05-Apr-23)	-	-	-
4	Fund-based - LT-Term Loan	LT	50.00	CARE BBB+; Stable				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

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

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Ramesh Bob A Director **CARE Ratings Limited** Phone: +91 90520 00521 E-mail: ramesh.bob@careedge.in	Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in Puja Jalan Associate Director **CARE Ratings Limited** Phone: 040-40102030 E-mail: puja.jalan@careedge.in Chirag Ronak Das Rating Analyst **CARE Ratings Limited** E-mail: Chirag.Das@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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