Dredging Corporation of India Limited (Revised)

November 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	201.00 (Enhanced from 150.00)	CARE BBB+; Positive	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities	175.00 (Enhanced from 50.00)	CARE BBB+; Positive / CARE A3+	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	25.00	CARE A3+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Dredging Corporation of India Limited (DCIL) continue to derive strength from established presence of the company for more than four decades in providing dredging services both in India and overseas, strong parentage with funding support received from the promotors and growing order book providing medium revenue visibility. The promoters have been extending support by way of work advances and infusion of unsecured loans to fund purchase of new dredger as well as pay off old liabilities. During FY23-H1FY25, the promoters have been supporting by providing unsecured loans and as on September 30, 2024, the unsecured loans from promoters stood at Rs.350 crore.

The rating also factors in the improvement in receivables position over the last two years ending FY24. Net debtors as a percentage of gross revenue have reduced to 18% in FY24 from 46% in FY22. The rating takes note of the strong financial performance of the company during FY24 (refers to period from April 01 to March 31). Though there is reduction in revenue during FY24 due to the delay in receipt of orders, the operating margin has seen strong improvement from 15.40% during FY23 to 24.77% during FY24. The improvement in margins can be mainly attributed to improvement in operational efficiencies and lower fuel expenses. DCIL experienced moderation in financial performance during Q1FY25 on the account of dry dock/emergency repair of a few dredgers. However, the same is expected to improve in the next three quarters backed by the strong order book and redeployment of the dredgers.

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, volatility in margins on the account fluctuation in fuel prices, increasing financial leverage, and increased competition from both domestic and global private players. CARE takes note of acquisition of the new dredger with a cost of Rs.827 crore which is being majorly funded out of debt. The debt funded capex along with the promoter loans is likely to increase the financial leverage in the medium term. The addition of the new dredger will improve both capacity and the revenue profile.

The ratings also take cognizance of restatement of financials for FY23 wherein DCIL has recognised provisions and bad debts of about Rs.200 crore which primarily comprise of debtors/litigations outstanding for more than 5 years. With the company recognising the provisions, most of the legacy debtors/receivables which were pending for a long tenure have been provided for.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors:

- Growth in scale of operations to above Rs.1,000 crore and maintaining PBILDT margins of 18% on sustained basis
- Improvement in the GCA days to below 200 days

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

Negative Factors:

- Increased working capital intensity with extension in collection days.
- Overall gearing above 1.5x on a sustained basis

Analytical approach: Standalone

Outlook: Positive

The positive outlook is primarily due to the expected improvement in the credit profile, supported by a strong order book and improved profitability led by favourable business prospects and provisions for legacy issues accounted for in the books. The addition of the new dredger is likely to improve earnings capacity and the overall credit profile. Inability of the company to improve the profitability and improve the earnings as envisaged may result in revision in outlook to 'Stable'.

Detailed description of key rating drivers:

Key strengths

Strong promoters with demonstrated support

DCIL is promoted by consortium of four ports [namely Vishakhapatnam Port Trust (VPT), Paradip Port Trust (PPT), Jawaharlal Nehru Port Trust (JNPT), and Deendayal Port Trust (DPT)]. The 73.47% equity stake in DCIL, previously held by (GoI), has been transferred to this consortium along with management control, resulting in the change of promoters. All the four ports are under the direct administrative control of the Ministry of Shipping (MoS). With change in promoters, DCIL has been deriving benefit by virtue of receipt of orders on nomination basis.

The promotors have infused an aggregate of Rs. 350 crore between FY23 and H1FY25 towards acquisition of the new dredger and clearing aged trade payables. CARE Ratings Ltd (CARE Ratings) expect continued support from the promoters which have enabled growth in business and supported the overall liquidity profile.

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 and non-major ports, naval establishments, fishing harbors, power plants, state governments, private organizations, 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.

Strong order book position

As on August 14, 2024, the company had an order book of Rs.1,005 crore (Rs. 900 crore as on June 30, 2023) thereby providing strong revenue visibility. This provides revenue visibility over a period of one year. The company handles dredging for most of the reputed ports which is renewed every year. The top five orders constitute 74% of outstanding order book as on August 14, 2024. The same has reduced from 87% on June 30, 2023. The reliance on promoter ports has also reduced as only 20% of the order book is from the promoters (reduced from 51% on June 30, 2023). The commissioning of India's largest dredger – DCI Dredge Godavari, a Trailing Suction Hopper Dredger, which is expected in September 2025, is expected to bring in both maintenance and capital dredging orders for DCIL.

Satisfactory financial performance during FY24, expected to continue during FY25

DCIL has shown satisfactory financial performance in FY24, despite moderation in revenue to Rs. 945 crore (Rs. 1,160 crore in FY23). The PBIDLT margin has improved from 15.40% (adjusted for provisions and write offs) during FY23 to 24.77% during FY24.

The company restated its financials for FY23 providing for its legacy litigations with regards to debtors and contingent liabilities worth about Rs. 195 crore. Consequently, DCIL reported an operating loss of Rs. 24 crore, compared to an operating profit of Rs. 171 crore (with a margin of 15.40%) in the previous review. The restatement is post discussion with auditors and with this all old litigations have been provided for in the books, some of which were pending for more than 10 years.

DCIL reported lower revenue in Q1FY25 compared to Q1FY24 due to emergency repairs and dry docking of 5-6 dredgers. However, with all but one dredger redeployed by August 2024, the overall revenue and profitability are expected to improve in FY25.

Previously, the company had high working capital intensity; however, promoters provided unsecured loans of Rs. 200 crore in Q2FY25 to reduce aged creditors. As a result, the operating cycle has improved, with creditors decreasing from Rs. 265 crore on March 31, 2024, to approximately Rs. 80 crore as of September 30, 2024.

Comfortable leverage:

The overall gearing of the company has remained comfortable below unity at 0.44x as on March 31, 2024. DCIL's robust net worth base has bolstered its financial profile, even after incurring a hit of approximately Rs. 200 crore due to the restatement of the FY23 financials. The debt/EBITDA has also been satisfactory at 2.74x for FY24. However, with debt being drawn for the new dredger, infusion of additional loans from promotors for repayment to creditors, and working capital requirements, overall gearing is expected to moderate to close to unity in near term.

Key weaknesses

Ageing fleet with efforts to improve fleet capability:

The dredging fleet of DCI has an average age of close to 25 years. Some of the equipment on the old vessels has already exceeded its useful life. This equipment needs extensive refurbishment, which has resulted in lower performance of the vessels and increased breakdown days. Old, aging dredgers also result in lower productivity levels, leading to high fuel consumption.

DCI has already taken steps to scrap some of its assets that have outlived their useful life. The company is also taking steps to replace old dredgers.

The company has entered into an agreement with Cochin Shipyard Limited (CSL; CARE AAA; Stable/CARE A1+) for the construction of a new Trailing Suction Hopper Dredger (TSHD) with a capacity of 12,000 cubic meters for an amount of 89.39 million euros. Financial closure has been achieved, and the Euro component of the contract value (49.9 million euros) is proposed to be funded through an ECB loan availed from Deutsche Bank. The balance cost will be funded by promoter ports as well as NCD subscription by CSL. The new dredger is expected to be onboarded by September 2025, which is likely to support the scaling up of operations through both maintenance and capital dredging.

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.

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 on nomination basis and the operations have scaled up substantially post COVID, despite slight moderation in FY24.

Liquidity: Adequate

The liquidity position of the company is adequate with improvement in cash accruals, low repayment obligations and improved working capital position. DCI has availed fund-based working capital limits of Rs. 226 crore with an average utilization of 91% during past 12 months ending September 30, 2024.

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

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Service Sector Companies
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport Services	Transport Related Services

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 September 30, 2024, 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).

Brief Financials (₹ crore)	March 31, 2023 (A)*	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	1,160.35	944.56	151.65
PBILDT	-23.78	203.37	13.11
PAT	-196.20	35.68	-31.40
Overall gearing (times)	0.31	0.44	NA
Interest coverage (times)	-0.81	7.14	1.86

*Restated A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not Available

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	151.00	CARE BBB+; Positive
Fund-based - LT-Term Loan		-	-	June 30, 2025	50.00	CARE BBB+; Positive
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	175.00	CARE BBB+; Positive / CARE A3+
Non-fund-based - ST-Letter of credit		-	-	-	25.00	CARE A3+

Annexure-2: Rating history for 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 2024-2025	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
1	Bonds	LT	-	-	-	1)Withdrawn (05-Apr-23)	1)CARE BBB+; Negative (21-Nov-22)	1)CARE BBB+; Negative (22-Nov-21)
2	Fund-based - LT-Bank Overdraft	LT	151.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (22-Sep-23) 2)CARE BBB+; Negative / CARE A3+ (05-Apr-23)	-	-
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	175.00	CARE BBB+; Positive / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (22-Sep-23) 2)CARE A3+	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
						(05-Apr-23)		
4	Fund-based - LT-Term Loan	LT	50.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (22-Sep-23)	-	-
5	Non-fund-based - ST-Letter of credit	ST	25.00	CARE A3+	1)CARE A3+ (08-Nov-24)	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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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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