Dredging Corporation of India Limited
November 21, 2022

Rating

Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Instrument-Bonds	58.88	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Reaffirmed
Total Long Term Instruments	**58.88 (₹ Fifty-Eight Crore and Eighty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The rating assigned to the bond issue of Dredging Corporation of India Limited (DCIL) continues to derive 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, comfortable capital structure and improving receivable position. The rating also factors in improvement in financial performance of the company during FY22 (refers to period April 01 to March 31) and H1FY23 marked by improved revenue and cash accruals.

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 rating also factors in the modest debt coverage metrics with relatively high debt obligation in FY23. Hence need based support from promoter entities and effective working capital management would be important from credit perspective. Any lower than envisaged performance, non-receipt of timely support from promoter entities and/or extension in receivable may result in stress on cashflow position. In view of same, the outlook on rating continues to be negative. Improvement in the operating cashflows and liquidity position may lead to revision in the outlook to stable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Achievement of envisaged scale of operation while maintaining the PBILDT margin at more than 25%
- Recovery of pending debtors with improvement in collection days to 120 days
- Average fleet age should be less than 15 years
- Reduction in the concentration of revenue from maintenance dredging to 60%.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Increased working capital intensity with extension in collection days.
- Overall gearing above 1.5x
- Materialization of liability towards Mercator Lines Limited (MLL) impacting the cashflow position.

Detailed description of the key rating drivers

Key rating strengths

Strong promoters:

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 transfer control to the consortium of four ports resulting in change in promoters. As on September 30, 2022, 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.

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

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:
Order book of DCIL as on October 14, 2022 stood at Rs.891 crore (as against Rs.731 crore as on July 31, 2021) providing medium term revenue visibility. The company has most of the work order from 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 39% of revenue in FY22 vis-à-vis 29% in FY20). However, the client concentration risk continues to remain high with top 5 clients contributing 85% of the order book.

Improvement in financial performance during FY22 and H1FY23
The financial performance of the company started improving from H2FY22 onwards post slowdown due to Covid related issues, cyclones and resultant repairs and maintenance during H1FY22. The company reported revenue of Rs.531 crore during H2FY22 (as against Rs.271 crore in H1FY22) which compensated for the moderation in H1 and on overall basis, DCIL reported revenue growth of 4% in FY22 over FY21. As against operating loss in FY21, company reported EBITDA of Rs.103 crore in FY22. The company reported profit of Rs.17 crore from sale of dredger during FY22 which also enabled it to report net profit of Rs.5 crore. At GCA level, it returned to pre-covid level of FY20.
During H1FY23, the performance of the company has been satisfactory marked by y-o-y growth in TOI by 69%. The fuel prices have remained stable during the period and with the significant improvement in TOI, PBILDT and PAT margin during the period improved to 19.39% and 2.82% respectively (H1FY22: TOI: Rs.271 crore, PBILDT Margin: 13.72% and net loss)

Comfortable leverage:
The overall gearing of the company has remained comfortable below unity at 0.27x as on March 31, 2022. During FY22, the company relied on working capital bank borrowings to make payments to creditors from dry docking works resulting in increased utilization of fund based working capital limits from Rs.9.15 crore as on March 31, 2021 to Rs.97.33 crore as on March 31, 2022. The current foreign currency loans are scheduled to be entirely repaid in FY24; however, the company has proposed additional debt of Rs.573 crore to fund purchase of a new dredger. The debt has been tied up and drawdown has also commenced. With full drawdown by 2025, the overall gearing ratio is likely to moderate going forward.

Key Rating Weaknesses:

High working capital intensity and modest coverage metrics
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 86% 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 elongation in the creditor days from 95 days during FY21 to 176 days during FY22. With improvement in the cash accrual during H1FY23, the company has repaid a part of the creditors.
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 given large debt repayment obligation due in FY23. The promoter ports have demonstrated support by way of work advances which is expected to continue. Any delay in receipt of such support thereby impacting the cashflow position would be important from credit perspective.

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. 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 Rs.765 crore. The same is proposed to be funded through bank debt of Rs.415 crore for which debt has been tied up. Promoter ports would fund Rs.192 crore and the contractor, Cochin Shipyard Limited has also committed to subscribe the NCD of Rs.158 crore for funding the dredger.

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 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 support from promoters in form of work advances. The company had received work advances of ~90 crore during H1FY23 which along with cash balance of ~Rs.93 crore as on March 31, 2022 and GCA of ~Rs.79 crore were used to meet operational expenses and repay debt obligations during the period. The company had cash balance of approx. Rs.40 crore as on September 30, 2022 (including Rs.16.00 crore parked with Canara Bank as deposit for repayment of bonds due in FY23). Also, DCI availed Rs.100.00 crore of fund based working capital limits with an average utilization of 86% during past 12 months ending October 31, 2022.

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]

About the company

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 Sept. 30, 2021, 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, 2021 (A)	March 31, 2022 (A)	H1FY23 (U/A)
Total operating income	753	784	458
PBILDT	(45)	103	89
PAT	(172)	3	13
Overall gearing (times)	0.31	0.27	NA
Interest coverage (times)	NM	8.62	9.38

A: Audited; NA: Not Available; NM: Not Meaningful

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (₹ crore)	Rating Assigned along with Rating Outlook
Bonds	INE506A07015	28-03-2013	6.97	28-03-2023	58.88	CARE BBB+; Negative

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds	LT*	58.88	CARE BBB+; Negative	-	1)CARE BBB+; Negative (22-Nov-21)	1)CARE A; Stable (12-Feb-21) 2)CARE A+; Negative (11-Aug-20)	1)CARE A+; Stable (17-Feb-20)

*Long term

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

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

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

Annexure-5: Bank lender details for this company

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

Note on 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.

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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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