Dredging Corporation of India Limited (Revised)

November 22, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Instruments	58.88	CARE BBB+; Negative (Triple B Plus; Outlook: Negative)	Revised from CARE A; Stable (Single A; Outlook: Stable)
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 Limited (DCI) takes into account subdued financial performance of the company during FY21 (FY refers to period April 01 to March 31) which continued during H1FY22 with de-growth in revenue and operating and cash loss reported during the said period. FY21 has been largely impacted due to covid pandemic related issues with delays in import of emergency spare parts, higher sub-contracting expenses and shortage in manpower at worksites and yards. The resurgence of covid 2 along with cyclones YASH and TAUKTE severely impacted the operations during Q1FY22. However, there has not been notable improvement in performance during Q2FY22 which has resulted in stressed debt coverage indicators and weakened the liquidity profile. Along with weakened performance, the financial metrics have also been adversely impacted due to provisions towards bad debts and difference in physical verification of stores as per the advice of the Government auditors.

The rating continues to be constrained by higher dependence on Kolkata Port Trust for orders albeit declining over years, ageing fleet resulting in frequent breakdown of dredgers and increased maintenance expenses, increased competition from domestic and global private players, vulnerability to foreign exchange risk due to Euro debt and ongoing legal litigations.

The rating 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, moderate order book position providing revenue visibility for medium term, comfortable capital structure and improving debtors position.

Rating Sensitivities

Positive Factors:

- Growth in total operating income by more than 10% while maintaining PBILDT margin at more than 25%
- Realization of pending debtors from Sethusamudram Corporation Limited and Mormugao Port Trust.
- Improved fleet age with average fleet age less than 15 years
- Reduction in the concentration of revenue from maintenance dredging to 60%.

Negative Factors:

- Subdued financial performance with continued revenue reduction & profitability
- Elongation of creditors period and collection period beyond 150 days and 180 days respectively.
- Overall gearing above 1.5x
- Materialization of liability towards Mercator Lines Limited (MLL) impacting the cashflow position

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

Outlook – Negative

The company has a moderate order book position which provides revenue visibility of around a year. However, there has been execution challenges resulting out of the lockdowns imposed, labour availability and cyclones which along with various provisions provided has impacted the profitability & liquidity during FY21 and H1FY22. Continued subdued performance in the medium term can result in further deterioration of the financial metrics and liquidity position of the company. In light of the above circumstances, CARE has revised the outlook on the ratings to negative. Improved order book position and better than envisaged performance may result in revision in outlook to Stable.

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 DCI held by GoI have been transferred along with transfer control to the consortium of four ports resulting in change in promoters. As on June 30, 2021, Visakhapatnam Port Trust holds 19.47% with other three ports holding 18% each in DCI. All the four ports are under the direct administrative control of the Ministry of Shipping (MoS). With change in promoters, DCI expects to derive benefit by virtue of receipt of orders on nomination basis.

Long track record of providing dredging services:

DCI 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 DCI 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 with reducing dependence on Kolkata Port Trust (KoPT):

Order book of DCI as on July 31, 2021 stood at Rs.731.40 crore (as against Rs.827.19 crore as on December 15, 2020) providing medium term revenue visibility. Post change in promoters, the company has been receiving orders from JNPT, PPT and VPT on nomination basis. However, still the order book remains at moderate level. The top 5 orders constitute 81% of the order book resulting in client concentration risk for the company. During FY21, DCI derived around 26% of revenue from JNPT followed by KoPT (~24%) and PPT (~14%). Although the contribution of revenue from KoPT has been reducing y-o-y, the same continues to be significant. The company started executing works in various port locations during FY21 thereby reducing the revenue concentration risk.

Low debt level:

DCI has an established track record of presence in the industry and has a strong net worth base. The debt levels of the company have been at low level with overall gearing ratio at 0.31x as on Mar 31, 2021 (prov.). The low debt level has enabled the company to manage its requirement at times of business downturn. Any aggressive debt funded capex with consequent impact on financial position/debt coverage metrics would be a key monitorable.

Key Rating Weaknesses

Subdued financial performance during FY21 (Prov.) and H1FY22:

The total operating income of the company remained stable at Rs.765.00 crore during FY21 (Prov.). However, the company reported operating loss of Rs.23.81 crore during FY21 (Prov.) due to adverse impact on the business on account of various issues erupting due to covid 19 pandemic. The company faced shortage of manpower 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, etc. The same led to higher reliance on sub-contracting expenses due to limited availability of equipment/dredgers. Further, various provisions have been provided which has further reduced the profit. Consequently, the company reported operating loss and cash loss.

The moderation in performance continued during Q1FY22 and Q2FY22 with resurgence of covid 2 and various cyclones impacting operations. While Q2FY22 witnessed reduced loss over Q1FY21, the continued loss has further weakened the debt coverage metrics and liquidity profile.

Stretched working capital cycle:

The operating cycle of the company continues to remain stretched although improved from 216 days during FY20 to 155 days during FY21 (Prov.) primarily on account of lower inventory levels, debtors write off and higher creditors period. During FY21, the company could not import few spares required for the maintenance and repair of dredgers due to Covid resulting in lower inventory levels. Further, the company has stretched the payments to its creditors and provided provision for debtors during FY21.

The company had long pending debtors from Sethusamudram Corporation Limited which has been reducing as per the recommendation of the Ministry of Shipping.

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 with the new ones and the same is expected to materialize once the cash flow position eases.

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. In order to mitigate the forex risk, the board of DCI has approved the forex risk management (FRM) policy which includes monitoring mechanisms, usage of plain vanilla derivative mechanisms, stop loss etc. The same has been implemented by the company and is fully operational.

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.

<u>Liquidity: Stretched</u>

The stretched liquidity position of the company is marked by tightly matched accruals to the debt servicing with net loss reported during FY21 and H1FY22. The company has been resorting to available liquid funds, stretching creditors and available working capital limits for meeting the business requirement/debt servicing. The company has liquid cash balance of Rs.28 crore as on September 30, 2021. Apart from the same, the company has parked Rs.16.00 crore for repayment of bonds due in FY23. Also, DCI availed Rs.100.00 crore of fund based working capital limits out of which Rs.60 crore is unutilized as on September 2021.

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 (Rs. crore)	FY20 (A)	FY21 (Prov.)	H1FY22 (Published)
Total operating income	756.33	765.00	271.09
PBILDT	149.87	(23.81)	37.13
PAT	5.51	(172.41)	(26.70)
Overall gearing (times)	0.38	0.31	-
Interest coverage (times)	8.72	NM	6.81

A- Audited; NM- Not Meaningful

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 instruments/facilities: Detailed explanation of covenants of rated instruments/facilities is given in Annexure 3

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 BBB+; Negative

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Bonds	LT	58.88	CARE BBB+; Negative	-	1)CARE A; Stable (12-Feb-21) 2)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)

Annexure 3- Detailed explanation of covenants of the rated facilities: NA

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: Not Applicable

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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