Mandovi Dry Docks

December 29, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	10.00	CARE BB; Negative (Double B; Outlook: Negative)	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	6.00	CARE A4 (A Four)	Reaffirmed
Total Facilities	**16.00 (Rs. Sixteen Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of Mandovi Dry Docks (MD) continues to be tempered by continuous decline in scale of operation albeit some improvement in 8MFY23, decline in profit margin, highly working capital intensive nature of operation due to elongation in inventory period resulting into stretched liquidity, regulatory risk and its proprietorship nature of constitution.
The rating however continues to derive strength derive strength from moderate track record of the firm with highly experienced promoters, comfortable capital structure and debt coverage indicators.

Outlook: **Negative**

CARE has revised outlook from Stable to Negative due to significant deterioration in operating cycle in FY22. Going forward, the outlook may be revised to stable if the firm is able to significantly improve its operating cycle.

Rating Sensitivities

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

- Increase in the scale of operations despite high competition with total operating income to exceeding Rs.100 crore on sustained basis.
- Improvement in operating profitability margins to around 15% or more
- Improvement in operating cycle to 120 days on sustained basis

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

- Decline in operating margins to below 8% on sustained basis
- Deterioration in capital structure with overall gearing remained above 1.5x on a sustained basis

Key Rating weakness

Fluctuating yet modest scale of operation: Being into tender driven nature of operations, the sales of the firm remained declining past four years ended as on March 31, 2022. The total operating income of the firm has declined by 19.45% from Rs. 57.63 crore in FY21 to Rs. 46.42 crore in FY22 owing to pandemic impact. Generally, it takes 1-2 years for ship building depending on the nature of orders. Thus, during FY21, COVID-19 pandemic has caused delays in shipyard projects such as new construction, maintenance, and conversion. Further other income consists of ship building financial assistance, Govt. contribution towards PF and unclaimed creditors etc. have declined from Rs. 11.89 crore in FY21 to Rs. 2.63 crore in FY22 since the Government grant depends on certain parameters like size, order etc of contract. However, in 8MFY23 (From April 2022 to Nov 2022) the firm has generated revenue of Rs. 56 crores since the pace in order execution seems to pick up; however the achievability of envisaged revenues is crucial from credit perspective.

Declining profit margin being exposed to raw material price volatility: The PBILDT margin of MD stood moderate in the range of 9.09% to 21.42% during FY19-FY22. The same has declined from 17.44% in FY21 to 9.09% in FY22 owing to increase in raw material cost i.e. Steel and aluminium. The cost of sales has increased from 82% in FY21 to 91% in FY22. PAT margins also declined for past four years ended March 31, 2022.

Elongated operating cycle: The operations of MD are working capital intensive in nature as majority of funds are being utilised in inventory and debtors. MD has to maintain raw inventory to avoid price fluctuation in steel and aluminium prices since it takes three to six months for execution of single order as well as products are being manufactured as per the customer's requirement. Further, the inventory holding period continues to increase in FY22 due slowdown in industry owing to pandemic thus the manufacturing activity happened at lower pace. MD deals with private as well as government entities and grants credit period of around 60-90 days due to intense competition. Also, the collection period also stretched from 122 days in FY21 to 175 days in FY22 due to slower realisation of debtors. Further it procures material from its fixed suppliers from whom it received credit period

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

of 40-50 days. The supplier credit period has shortened from 86 days in FY21 to 80 days in FY22 putting more pressure on liquidity as well as resulting into increase in working capital needs. Due to stretched inventory and collection' period working capital cycle of the firm remained stretched at 409 days in FY22 leading to average CC utilization of 85.75% for past twelve months ended as on November 30, 2022.

Constitution of the entity being as proprietorship: Being a proprietorship entity, MD has inherent risk of withdrawal of proprietor's capital at the time of personal contingency. Furthermore, it has restricted access to external borrowings where net worth as well as creditworthiness of the proprietor are the key factors affecting credit decision of the lenders. Hence, limited funding avenues along with limited financial flexibility have resulted in small scale of operations for the firm. Promoter has withdrawn capital amounting to Rs.3.56 crore from business in FY22. (vis-à-vis withdrawal of Rs. 5.05 crore in FY21).

Regulatory risk: Imposition of rules pertaining to emission norms, flags of convenience, labor laws etc. could adversely impact the business of shipping companies. International Maritime organization (IMO) has announced cap on Sulphur content in marine fuel at no more than 0.5% against the current limit of 3.5% beginning 2020. Alternatively, the ships could be fitted with an emission reducing system called scrubbers. Installation of scrubbers would require vessels to be docked for a long period which would lead to loss of revenue and there is a substantial cost involved.

Key rating Strengths

Long track record of entity along with experienced proprietor: MD is a proprietorship entity established in 1993 by Mr. Prabhakar N Sawant. He is qualified Mech. Engineer, has started his career as trainee with M/s. Chowgule Shipyard which was into construction of various vessels. In 1976, he joined M/s Goa Shipyard Ltd., as Senior Welding Engineer. He is a member of Confederation of Indian Industry as well as Goa Chamber of Commerce and Institute of Shipbuilding Technology. Vast experience of promoters in ship building and ship repairs industries for more than five decades have enable MD to bring sizeable revenue.

Comfortable capital structure and debt coverage indicators: The overall gearing has remained comfortable for the period of FY19-FY22 on account of moderate reliance on external debt and healthy net-worth base. Further, the same has marginally deteriorated and stood comfortable at 0.49x as on March 31, 2022(vis-à-vis 0.35x as on March 31, 2021) owing to additional term loan availed during the year and higher utilization of working capital bank borrowings to fund operations coupled with accretion of profits to reserves. The debt coverage indicators remained moderate with deterioration in total debt to GCA of 7.93x in FY22 (vis-à-vis 1.90x in FY21) due to reduction in cash accruals due to lesser subsidiary received from government. Interest coverage ratio also deteriorated to 2.70x in FY22 (as against 5.51 times during FY21).

Liquidity: Stretched

The liquidity position remained stretched marked by tightly matched accruals to repayment obligations owing to higher dependence on external debt. The average utilization of the working capital limits remained at ~85.75% during past 12 months ended November, 2022. The firm's free cash and bank balance stood modest. The current ratio and quick ratio stood relatively weak at 1.43x and 0.76x as on March 31, 2022 respectively (vis-a-vis 1.69x and 1.10x as on March 31, 2021 respectively). With the pick-up in pace of execution of order book, the firm is expected to improve its cash flows and realize the debtors. Any further delay in execution of order book may put further pressure on the liquidity parameters. Hence, the improvement in liquidity and performance remains to be seen.

Analytical approach: Standalone

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
Manufacturing Companies
Shipping

About the Company

Mandovi Drydocks (MD), ISO 9001:2000 certified proprietorship firm was established in 1993 by Mr. Prabhakar N Sawant. Initially MD is engaged in a repair and dry docking shipyard later it started design, construction & repairs of steel and aluminum ships & other floating structures. It generates majority of revenue from manufacturing business accounting for 75.74% of income in FY22 (vis-à-vis 70.74% in FY21) and 15.38% through repairs work in FY22. (vis-à-vis 8.62% in FY21).

It procures business through government tender as well as direct contract from private entities. It is one of the biggest drydocks in Goa's private sector with 84 meters long, 16 meters wide and a draft of 2.5 meters to accommodate and repair vessels upto 4000 DWT. MD with its facilities at Bicholim, North Goa on the banks of river Mandovi and at Rassaim, South Goa on the banks of river Zuari is a multi-purpose yard, providing integrated ship building, repairs, and other allied services. It is well equipped with in house for machining / manufacturing requirement for new constructions and ship repairs.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	8MFY23(UA)
Total operating income	57.63	46.42	56.34
PBILDT	10.05	4.22	6.52
PAT	7.35	1.79	3.50
Overall gearing (times)	0.35	0.49	0.32
Interest coverage (times)	5.51	2.70	NA

A: Audited, UA- Unaudited NA- not available

Status of non-cooperation with previous CRA: ACUITE B+ stable/A4 Issuer not cooperating as per PR dated May 20, 2022

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

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

Covenants of rated instrument / facility: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.00	CARE BB; Negative
Non-fund-based - ST-Bank Guarantee		-	-	-	6.00	CARE A4

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	Fund-based - LT-Cash Credit	LT	10.00	CARE BB; Negative	-	1)CARE BB; Stable (31-Dec-21)	1)CARE BB+; Stable (23-Feb-21)	1)CARE BB+; Stable (10-Jan-20)
2	Non-fund-based - ST-Bank Guarantee	ST	6.00	CARE A4	-	1)CARE A4 (31-Dec-21)	1)CARE A4+ (23-Feb-21)	1)CARE A4+ (10-Jan-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
i. Derivatives transaction	Company shall not undertake derivatives transaction without approval of the Bank. Company should obtain NOC from bank before entering into any derivative agreement with any other bank.
B. Non financial covenants	
I. Declaration to bank	Firm to declare to the bank: ▪ To provide to bank promptly information about all material and adverse changes in company's project, business, ownership, management, liquidity, financial position etc. ▪ Not to create or permit to subsists any mortgaged, charges, pledge, lien or other security interest on any of company's undertaking, properties or assets, without prior consent in writing.
Ii. Use of credit facilities	Credit facilities shall be utilised only for purpose for which same are granted and said facilities shall not be 'diverted' or 'siphoned off' or used for any other purpose.

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	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 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@careedge.in for any clarifications*

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About us:
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