Dredging Corporation of India Limited

February 17, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Tax Free Bonds - Secured, Redeemable, Non-Convertible Debentures	58.88 (Rupees Fifty Eight Crore and Eighty Eight lakh only)	**CARE A+; Stable (Single A Plus); Outlook: Stable**	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of rating assigned to the bond issue of Dredging Corporation of India Limited (DCI) takes into account DCI's established presence of over three and a half decades in providing dredging services at major and non-major ports in India and overseas, continued leadership position in the maintenance dredging segment in India, healthy order book position, comfortable capital structure, adequate liquidity position and stable outlook for the port sector.

The ratings also factor in successful execution of share purchase agreement by Government of India with consortium of four ports (Visakhapatnam Port Trust (19.47%), Paradip Port Trust (18%), Jawaharlal Nehru Port Trust (18%) and Deendayal Port Trust (18%) which is 73.74% of total paid up share capital, favorable resolution of committee chaired by AS&FA, Ministry of Shipping directing the Sethusamudram Corporation Limited to pay long pending debtors and its part realization of the same during Q1FY20 (refers to the period April 01 to June 30) and increased operating income with improved profitability margins in FY19 (refers to the period April 01 to March 31) & 9MFY20 (refers to the period April 01 to December 31).

The rating, however, is constrained by ageing fleet, high dependence on Kolkata Port Trust (KoPT), vulnerability of the operations to foreign exchange fluctuation, decline in the market share during FY19, competition from private and foreign dredging companies and moderate operating cycle although improved.

<u>Rating Sensitivities</u>

Positive Factors:

- Average fleet age should be less than 15 years
- Reduction in the concentration of revenue from maintenance of dredging services i.e. 98% to minimum of 60%

Negative Factors:

- Further deterioration of operating cycle to 180 days (excluding receivables from SCL)
- Overall gearing above 1.5x

Detailed description of the key rating drivers

Key Rating Strengths

Change in the promotors:

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 2,05,72,103 equity shares of DCI representing 73.47% of the total paid up share capital of DCI held by GoI have been transferred along with transfer control to the consortium of four ports resulting in change in promoters. Currently Visakhapatnam Port Trust holds 19.47% with other three ports holding 18% each in DCI. All the four ports are governed by Major Port Trust Act, 1963. GoI holds 100% stake in all the four ports and the trust is under direct administrative control of Ministry of Shipping (MoS).

Long track record of providing dredging services and continuous leadership position in maintenance dredging segment

DCI has over 35 years 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. DCI is catering to the dredging requirements of the Haldia/Kolkata Port almost for the past 30 years. DCI's market share for maintenance dredging at Major Ports in India stood at 53% in FY19 as against 54% in FY18.

Increase in total operating income with improved profitability margins in FY19

Total income in FY19 witnessed improvement by 17% to Rs.699.34 crore (as against Rs.597.21 crore in FY18) led by increase in revenue from port operations. During FY19, DCI executed dredging works in Mongla Port (Bangladesh) from which the income stood at Rs.41.73 crore (FY18: Nil). Further, PBILDT margin continues to be healthy and improved by 208 bps to 25.57% (Rs 178.79 crore) in FY19 from 23.49% (Rs 140.27 crore) in FY18. In line with increase in PBILDT and reduction in interest expense, PAT also increased significantly by 160% to Rs.44.59 crore (as against Rs.17.14 crore in FY18).

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

During H1FY20, the company has reported total operating income of Rs.323.48 crore as against Rs.290.79 crore during H1FY19 led by increase in the revenue from core dredging services. During 9MFY20 the company has reported total operating income of Rs.527.06 crore and has generated gross cash accruals of Rs.110.9 crore.

Healthy order book with dependence on Kolkata Port trust
The order book as on November 22, 2019 stood at Rs.686.10 crore (as against Rs.767.58 crore as on January 21, 2019) which provides medium term revenue visibility. DCI derived around 42% of revenue from Kolkata Port Trust in FY19 and the around 34% in H1FY20.

Comfortable capital structure and debt coverage indicators
The capital structure of the company continues to be comfortable. As on March 31, 2019, the overall gearing has improved to 0.41x as compared to 0.52x as on March 31, 2018 at back of repayment of term loans and accretion of profits to net worth. The total debt reduced from Rs.809.48 crore as on March 31, 2018 to Rs.652.02 crore as on March 31, 2019. Other debt coverage indicators also improved during FY19.

Moderate operating cycle although improved
The operating cycle of the company has improved marginally from 204 days in FY18 to 194 days in FY19 on account of improved collection and inventory period. The Company and Sethusamudram Corporation Limited (SCL) has accepted the recommendation of committee chaired by AS & FA, Ministry of Shipping in directing the SCL to pay Rs 136.27 core dues to the company. During Q1FY20, an amount up to Rs 21 crore has been realized from SCL long pending dues.

Stable industry outlook
The Government of India has envisioned the Sagarmala Programme, which aims to exploit India’s 7500 km coastline and 14500 km of potentially navigable waterways. It promotes port-led development in the country by harnessing strategic locations on key international maritime trade routes.

Key Rating Weaknesses
High dependence on Kolkata Port Trust although reduced
DCI’s dependence on revenue from Kolkata Port Trust (KoPT), Haldia continues to remain on a higher side. In FY19, DCI derived ~42% of revenue from KoPT which had decreased marginally from 45% in FY18. Historically, the revenue from KoPT contributed around 50%. Despite reduction in revenue concentration considering past trend, the same continues to remain on a higher side.

Vulnerability of the operations to foreign exchange fluctuation
DCI is exposed to forex risk due to euro loans to fund dredgers and also heavy dependence on imported components and spare parts with nearly 90.14% of the spares and components being imported in FY19. Going forward, the company is planning to execute international projects to generate income in foreign currency which will act as a natural hedge.

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.

Competition from private and foreign dredging 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. However, post takeover by the four port trusts, the company has started receiving orders from the promotors on nomination basis. DCI’s market share for maintenance dredging at Major Ports declined from around 75% in FY13 to 53% in FY19 (54% in FY18). This decline in market share was due to competition from other private and foreign players, apart from stoppage of capital dredging work at the SSCP, which was sanctioned on June 1, 2005 to DCI.

Liquidity: Adequate
The adequate liquidity position of the company is marked by healthy generation of cash accruals of Rs.166.66 crore as against the scheduled repayment of Rs.131.76 crore for FY19. Further, as on September 30, 2019 Company has an outstanding free cash and bank balances of Rs.53.83 crore (Rs.47.49 crore as on March 2019). This apart, DCI has restricted cash amounting to Rs.36.83 crore as on March 31, 2019 held as debenture redemption reserve deposits.

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
Rating Methodology: Consolidation and Factoring Linkages in Rating

About the company
Dredging Corporation of India Limited (DCI), a Government of India (GoI) undertaking under the Ministry of Shipping, was established in the year 1976 to provide integrated dredging services to major and non-major ports, Indian Navy and other maritime organizations in India. In November 1999, DCI was declared as Mini Ratna – Category-I Public Sector Enterprise.
As part of strategic divestment initiative by GoI, on March 08, 2019, as per the Share Purchase Agreement executed by GoI with consortium of four ports namely (Visakhapatnam Port Trust (VPT), Paradip Port Trust (PPT), Jawaharlal Nehru Port Trust (JNPT) and Deendayal Port Trust (DPT)), sold its entire stake and currently Visakhapatnam Port Trust holds 19.47% with other three ports holding 18% each in DCI.

DCI is engaged in maintenance dredging, capital dredging, beach nourishment, reclamation and environmental protection services. However, the majority of the revenues are from maintenance dredging of 97% in FY19 (FY18: 93%) with a capacity utilization of 85.30% (54.51 Mn Cu.M). In terms of fleet as on March 31, 2019, DCI owns 11 Trailer Suction Hopper Dredgers (TSHD) with aggregate hopper capacity of 62,470 Cu.M, 2 Cutter Suction Dredgers (CSD), one Back-Hoe Dredger (BHD) with pumping capacity of 370 Cu.M/ hr and one inland cutter suction dredger.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18(A)	FY19(A)
Total operating income	597.21	699.34
PBILDT	140.27	178.79
PAT	17.14	44.59
Overall gearing (times)	0.52	0.43
Interest coverage (times)	6.93	9.69

A: Audited
Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

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 A+; Stable

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds	LT	58.88	CARE A+; Stable	-	1)CARE A+; Stable (15-Mar-19) 2)CARE A+; Stable (07-Mar-19)	1)CARE A+; Negative (07-Dec-17)	1)CARE AA-; Negative (30-Nov-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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