Dredging Corporation of India Limited

March 15, 2019

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 continued 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, satisfactory liquidity position and stable outlook for the port sector. The rating also factors in recent stake sale by GoI (seller) to consortium of four ports (purchasers) namely Visakhapatnam Port Trust, Paradip Port Trust, Jawaharlal Nehru Port Trust and Deendayal Port Trust, stable operating income with improved profitability margins in FY18 (refers to the period April 01 to March 31) & 9MFY19 (refers to the period April 01 to December 31). The rating, however, is constrained by high collection period albeit improvement, high dependence on Kolkata Port Trust (KoPT) which contributed close to half of the company's turnover during FY18, vulnerability of the operations to foreign exchange fluctuation and competition from private and foreign dredging companies. The rating also takes into account DCI providing for bad debts pertaining to long pending receivables from Sethusamudram Shipping Canal Project (SSCP) during Q2FY19 which has resulted in net loss for the period 9MFY19; however the same is expected to result in improved collection period going forward.

Going forward, the ability of the company to sustain growth and profitability margins, capitalize on expected demand from major capacity expansion of ports in India, realize its debtors and minimize the impact of foreign exchange fluctuation are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Stake sale by Government of India (seller) to consortium of four ports (purchasers): On March 08, 2019, Government of India (GoI) had executed Share Purchase Agreement (SPA) with consortium of four ports (namely Visakhapatnam 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.

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 54% in FY18 which increased from 47% in FY17.

Stable total operating income with improved profitability margins in FY18 and 9MFY19: Total income in FY18 remained stable with marginal improvement to Rs.596.34 crore (as against Rs.594.19 crore in FY17). Other income comprises of one time income from sale of assets during the year FY18 amounting to Rs.8.83 crore. DCI disposed two vessels DCI Dredge VII and DCI Dredge IX. With addition of new dredgers resulting in higher efficiency and low cost associated with downtime and maintenance of dredgers, PBILDT and PAT margins improved by 229 bps (23.38%) and 162 bps (2.87%) respectively in FY18.

Further, for 9MFY19, DCI achieved total income of Rs.460.13 crore registering a growth of 3.65% over 9MFY18. With better operational efficiency, PBILDT margin also improved and stood at 25.25% (adjusted for provision for bad debts amounting to Rs.84.14 crore made towards Sethusamudram Canal Project).

Healthy order book: The order book of DCI as on January 21, 2019 was Rs.767.58 crore as against Rs.601.47 crore as on April 1, 2017 which provides medium term revenue visibility. DCI is executing international order amounting to Rs.100.50 crore (~13% of total order book) for Mongla Port Authority, Bangladesh.

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

Comfortable capital structure and debt coverage indicators: The capital structure of the company continues to be comfortable. As on March 31, 2018, the overall gearing has improved marginally to 0.52x as compared to 0.54x as on March 31, 2017. The total debt reduced from Rs.817.78 crore as on March 31, 2017 to Rs.809.48 crore as on March 31, 2018. Other debt coverage indicators, interest coverage and total debt/GCA also continue to remain satisfactory at 6.89x and 6.21x respectively in FY18 as against 6.62x and 7.64x in FY17.

Satisfactory liquidity position: The liquidity position of the company as on March 31, 2018 also improved with outstanding free cash and bank balances of Rs.40.67 crore (increased from Rs.28.10 crore as on March 31, 2017). This apart, DCI has restricted cash amounting to Rs.36.41 crore as on March 31, 2018 held as debenture redemption reserve deposits.

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 Collection period albeit improvement: The average collection period as on March 31, 2018 remained high although improved to 204 days from 231 days as on March 31, 2017. Total receivables include pending dues from SSCP amounting to Rs.84.14 crore which is pending for more than 5 years. Excluding the same, receivable days stood at 149 days as on March 31, 2018, which has improved from 176 days as on March 31, 2017.

High dependence on Kolkata Port Trust: DCI's dependence on revenue from Kolkata Port Trust (KoPT), Haldia continues to remain on a higher side. In FY18, DCI derived ~45% of revenue from KoPT which had increased from 39% in FY17. 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.

Write off of bad debts resulting in loss for the period 9MFY19: In Q2FY19, DCI had written off bad debt amounting to Rs.84.14 crore pertaining to Sethusamudram Canal Project (SSCP) resulting in company incurring net loss for the period 9MFY19. DCI reported loss of Rs.66.51 crore (as against net profit of Rs.1.65 crore in 9MFY18). However, the same is expected to result in improvement in operating cycle going forward led by further improvement in collection period.

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 90.60% of the spares and components being imported in FY18. Going forward, the company is planning to execute international projects to generate income in foreign currency which will act as a natural hedge.

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. DCI's market share for maintenance dredging at Major Ports declined from around 75% in FY13 to 54% in FY18 (47% in FY17). In terms of capital dredging, DCI's share has come down from 84% in FY08 to 4% in FY18 (32% in FY17). 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.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Financial Ratios – Non-Financial Sector]

About the Company
Dredging Corporation of India Limited (DCI) 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. The GoI held 73.47% of the paid-up capital of DCI as on December 31, 2018. 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 capital dredging, maintenance dredging, beach nourishment, reclamation and environmental protection services. In terms of fleet as on March 31, 2018, DCI owns 11 Trailer Suction Hopper Dredgers (TSHD) with aggregate hopper capacity of 66,970 Cu.M, 2 Cutter Suction Dredgers (CSD) with aggregate pumping capacity of 4,500 Cu.M/hr, one Back-Hoe Dredger (BHD) with pumping capacity of 370 Cu.M/hr and one inland cutter suction dredger.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)

Total operating income	594.19	596.34
PBILDT	125.33	139.40
PAT	7.41	17.14
Overall gearing (times)	0.54	0.52
Interest coverage (times)	6.62	6.89

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

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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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds	LT	58.88	CARE A+; Stable	1)CARE A+; Stable (07-Mar-19)	1)CARE A+; Negative (07-Dec-17)	1)CARE AA-; Negative (30-Nov-16)	1)CARE AA (08-Oct-15)

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