Dredging Corporation of India Limited (Revised)
August 11, 2020

Ratings

Instrument	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+; Negative (Single A Plus); Outlook:Negative**	Revised from CARE A+; Stable (Single A Plus); Outlook: Stable

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bond issue of Dredging Corporation of India Limited (DCI) continues to derive strength from established presence of around four decades in providing dredging services at major and non-major ports in India and overseas, change in the ownership of the company, continued leadership position in the maintenance dredging segment in India, healthy order book position, comfortable capital structure and stable outlook for the port sector. The rating also factors in increased operating income and favorable resolution of committee chaired by Additional Secretary and Financial Advisor & Ministry of Shipping directing the Sethusamudram Corporation Limited (SCL) to pay long pending debtors and its part realization of the same during FY20 (refers to the period April 01 to Mar 31).

The rating, however, is constrained by stretched liquidity, decline in the profitability during FY20 (April 01 to Mar 31), ageing fleet, high dependence on Kolkata Port Trust (KoPT), vulnerability of the operations to foreign exchange fluctuation, impact of Covid-19 pandemic on the operations, competition from private and foreign dredging companies and moderate operating cycle.

Rating Sensitives:

Positive Factors:

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

Negative Factors:

- Further deterioration of profitability by more than 25%
- Elongation of operating cycle to 180 days (excluding receivables from SCL)
- Capital structure marked with overall gearing above 1.5x

Outlook: Negative

The negative outlook on rating reflects the weakening of DCI's credit metrics during FY20. CARE believes that the financial profile may further weaken in near term on account of disruption of operations due to outbreak of COVID-19 despite DCI falling under essential service division. The outlook may be revised to stable if the company is able to demonstrate improvement in the credit profile, while maintaining its capital structure.

Detailed description of the key rating drivers

Key Rating Strengths

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

DCI has around 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. DCI is catering to the dredging requirements of

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

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.

Change in the promoters
As part of strategic divestment initiative taken by Government of India (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). The transfer of ownership to four ports, all under the control of GOI, is expected to provide preferential work allotment to DCI, thereby improving its operations

Improvement in the operating income during FY20
Total income in FY20 witnessed improvement by 8% to Rs.755.29 crore (as against Rs.699.34 crore in FY19 increase in revenue from core dredging services.

Healthy order book with ample share from promoters
The order book as on June 30, 2020 stood at Rs.778.92 crore (as against Rs.686.10 crore as on November 22, 2018) which provides medium term revenue visibility translating to 1.04x. DCI continues to derive majority of revenue from Kolkata Port Trust. With change in promoters, the DCI benefits to receive work orders from the promoters majorly through nomination basis, around 28% of the outstanding orders are from promoters

Comfortable capital structure and debt coverage indicators
The capital structure of the company continues to be comfortable. As on March 31, 2020, the overall gearing has improved to 0.35x as compared to 0.43x as on March 31, 2019 at back of repayment of term loans and accretion of profits to net worth. Other debt coverage indicators also remained comfortable during FY20.

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

Impact of COVID-19
Despite the ports falling under essential services division, the Company's regular operations have been impacted in a numerous ways as lockdown impeded conducting surveys. It also imposed unusual delays in both Dry-docking / running repairs in yards, impeded conducting surveys and resulted in postponement of securing new work orders. Some of the vessels were either non-operational or operating at suboptimal efficiencies in FY 2019-20 as well as in Q1FY21. However, the company resumed operations from May 2020 and is presently operating at 85% capacity.

Decline in the profitability
The PBILDT levels of the company has declined significantly by 19% from Rs.178.79 crore in FY19 to Rs.144.45 crore in FY20 on account of increase in reliance on subcontracting resulting higher subcontracting expenses than envisaged.

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.

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 FY19, DCI derived ~42% of revenue from KoPT which had decreased marginally from 45% in FY18. Historically, the revenue from KoPT contributed around 50%.

Vulnerability of the operations to foreign exchange fluctuation
DCI is exposed to forex risk due to availment of 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.

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 promoters 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: Stretched
The Stretched liquidity position of the company is marked by gross cash accrual generation of Rs.122.64 crore during FY20 as against the repayment obligation of Rs.131.72 crore for FY21 coupled with absence of working capital limits. However, the short-fall in repayment obligations was met from available free cash & bank balance. The company has not availed moratorium under Covid relief for the facilities from their lenders.
As on July 31, 2020 the company has outstanding free cash and bank balances of Rs.18 crore (excluding restricted cash balance of Rs 27 Crore for debenture reserve). The company has enough headroom to raise funds if required to address any cash flow mismatch due to impact of Covid-19 as the overall gearing stands at 0.35x as on March 31, 2020.

Analytical Approach: Standalone

Applicable criteria
Criteria on assigning 'Outlook' and Credit watch to credit ratings
CARE's Policy on Default Recognition
Liquidity analysis of Non-financial sector entities
Rating methodology- Infrastructure sector ratings
Financial Ratios – Non-Financial Sector

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. DCI is engaged in maintenance dredging, capital dredging, beach nourishment, reclamation and environmental protection services.

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.

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

Brief Financials (Rs. crore)	FY19(A)	FY20 (A)
Total operating income	699.34	755.29
PBILDT	178.79	144.45
PAT	44.59	5.51
Overall gearing (times)	0.43	0.35
Interest coverage (times)	9.69	10.38

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+; 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds	LT	58.88	CARE A+; Negative	-	1)CARE A+; Stable (17-Feb-20)	1)CARE A+; Stable (15-Mar-19) 2)CARE A+; Stable (07-Mar-19)	1)CARE A+; Negative (07-Dec-17)

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

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

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

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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