



Rating Rationale

25 August 2022

DREDGING CORPORATION OF INDIA LIMITED

Brickwork Ratings downgrades the rating with revision in outlook for the outstanding Tax Free Bond issue of Rs. 58.88 Crs. of Dredging Corporation of India Limited

Particulars

Instrument*	Amount (Rs. Crs.)		Tenure	Rating^	
	Previous	Present		Previous (06 August 2021)	Present
Tax Free Bonds*	58.88	58.88	Long Term	BWR AA-/Stable	BWR A+/Negative Downgrade with Revision in Outlook
Total	58.88	58.88	Rupees Fifty Eight Crores Eighty Eight Lakhs Only		

^Please refer to BWR website www.brickworkratings.com/ for definition of the ratings;

*Details of bonds are provided in Annexure-I

Rating Action/Outlook

The downward revision of rating of Dredging Corporation of India Limited (DCIL or the company) by Brickwork Ratings (BWR) factors in continued subdued margins with frequent losses in past three fiscals, less than envisaged improvement in profitability during last 2 years and frequent short term liquidity constraints due to inability of the company to generate sufficient cash flow through operations to cover its operating expenses in a timely manner. BWR takes note of the corporate governance concerns via the recent disclosures on suspension of the company's key management personnel including MD & CEO and the Compliance Officer in quick succession and the lack of clarity on the steps taken to prevent its recurrence.

However, the rating is supported by the long track record of more than four decades, continued substantial market share in the dredging operations in India, stable operating revenues over the years, moderate order book position, strong capital structure, and stable industry outlook. The rating continues to be constrained by the competition from foreign players, working-capital-intensive nature of operations, client/segment concentration risks, vulnerability of operations to foreign exchange fluctuations and volatility in fuel prices and uncertainty about the outcome of the ongoing litigations.

Revision in outlook from 'Stable' to 'Negative' factors the continuing intermittent liquidity constraints being faced by the company, operational constraints and execution risk emanating from the ageing fleet along with stable yet moderate order book providing short term revenue visibility. BWR expects that the company's profitability is likely to remain subdued and shall continue to impact its financial and liquidity profile. The outlook may be revised to Stable if a sustained increase in the scale of operations along with improved margins, an improved client/segment-wise diversification, healthy fresh order accretion, timely realisation of receivables results in improved liquidity and a stronger financial risk profile. Ability of the



company to replace the ageing fleet, maintaining the flow of new orders and outcome of the ongoing litigations and corporate governance issues would be key monitorable.

Key rating drivers

Credit Strengths:

- **Experienced management:** The company has a competent management team with experienced and well-qualified professionals along with independent directors on the board of directors. The chairmen of the owner ports, appointed by the Government of India (GoI) through the Ministry of Shipping (MoS), are also directors on the board of DCIL. Although the company, after the stake sale, no longer enjoys the status of a government company, DCIL continues to be under the indirect control of the government.
- **Established track record with dominant market share:** DCIL was incorporated in 1976, under the MoS, the GoI, and has over 4 decades of experience in integrated dredging services for the major and non-major ports, Indian Navy and other maritime organisations in India. DCIL continues to be the largest player in the domestic dredging market and maritime development. DCIL's market share in maintenance dredging and capital dredging in India in FY22 was ~81% (FY21: ~80%) and ~72% (FY21: ~100%), respectively.
- **Long-term relations with reputed clientele:** The company provides dredging services in the shipping channels of the major and non-major ports in India. Key clients include Kolkata Port Trust, Visakhapatnam Port Trust, Paradip Port Trust, Deendayal Port Trust, Jawaharlal Nehru Port Trust, Cochin Port Trust and Chennai Port Trust, which are under the administrative control of the MoS. DCIL has been catering to the dredging requirements of key clients for more than 30 years. Being owned by the port trusts, the company enjoys a preferential position in terms of work orders, which has resulted in stable contracts/orders from the four promoter port trusts on nomination basis.
- **Moderate order book position and established marketing network:** The company had orders worth ~Rs. 815 Crs. as on 16 Aug 2022, with ~90% to be executed in FY23 providing adequate revenue visibility in the near term. Also, BWR notes the stability in the order book position which has been around Rs.700 Crs. for the past 12 months and the trend is expected to continue in the short to medium term. The company is also likely to receive further orders. Orders from Jawaharlal Nehru Port Trust, followed by Paradip Port Trust and Cochin Port Trust, constitute the major portion of the order book. A substantial portion of the order book continues to account for maintenance dredging.
- **Moderate financial risk profile:** The company's financial risk profile remains moderate, as reflected by the stable revenue, strong net worth, subdued debt protection metrics and comfortable gearing. During FY22, revenue has improved marginally to Rs. 799.09 Crs. against Rs. 763.76 Crs. for FY21. The company turned profitable in FY22 compared to loss in FY21. During FY22, the company booked an EBITDA of Rs. 117.62 Crs. against an EBITDA loss of Rs. 34.37 Crs. for the previous fiscal. The company booked a net profit of Rs. 3.42 Crs. in FY22 against the net loss of Rs. 172.41 Crs in FY21. DCIL's capital structure continues to be strong, marked by a healthy tangible net worth of Rs. 1400.35 Crs. and a comfortable gearing of 0.10 time as on 31 March 2022. The company's demonstrated



ability to honour its debt commitments is reflected in a decline of total debt from Rs.545.51 Crs as on 31 Mar 2020 to Rs.293.90 Crs as on 31 Mar 2021 and Rs. 135.05 Crs. as on 31 Mar 2022, despite the intermittent losses. The company reported revenue, EBITDA and net loss of Rs. 217.53 Crs., Rs. 25.26 Crs. and Rs. 15.71 Crs., respectively as on 30 Jun 2022 (unaudited).

Credit Concerns:

- **Operational efficiency impacted by ageing fleet:** The company's fleet included 10 Trailer Suction Hopper Dredgers (TSHD), 2 Cutter Suction Dredgers (CSD), 1 Backhoe Dredger (BH-I) and 5 other vessels, as on 31 March 2022. The average fleet age stood at around ~23-24 years, against the industry standard of 25 years, which is likely to impact the company's ability to compete against international dredging companies. Some of the vessels are past their useful life which exposes the company to increase break down days, increased maintenance costs and reliance on sub contracts to ensure timely project execution. BWR notes that DCIL has already initiated several steps to improve operational capabilities by replacing/refurbishing the machinery/equipment, including the purchase of a higher capacity vessel. The company has received approval from the Shipping Ministry for procurement of three dredgers. It has entered into an agreement with Cochin Shipyard Limited (CSL) for construction of 12,000 CUM capacity trailer suction hopper dredger (TSDH) for contract value of Rs. 765.33 Crs. as on 31Mar2022 and is expected to be commissioned in 34 months.
- **Working capital intensive operations:** The company's operations remain working-capital-intensive on account of elongated receivables and high inventory due to the nature of operations and customers. The unpaid portion of the receivables for the work executed for Sethusamudram Corporation Limited (a GoI entity) also adds to the debtors holding period significantly. However, the company has started receiving the balance payment as per the settlement by the MoS, which is expected to improve the operating cycle, going forward.
- **Customer and segment concentration risk:** DCIL derives a significant portion of its revenue from Kolkata Port Trust and Jawaharlal Nehru Port Trust which constitute ~47% of the current order book. The ownership change has helped the company get orders from promoter ports on a nomination basis, which is expected to reduce client-wise concentration, going forward. DCIL's operations continue to be skewed towards maintenance dredging, with more than 98% revenue contribution p.a., on average. However, with the government's focus on newer ports, BWR expects the company to be a beneficiary of such capital dredging orders by virtue of its leadership position.
- **Intense competition:** The company continues to face intense competition from foreign players and lose market share due to liberalisation and competitive bidding. Earlier, the port trusts awarded contracts to DCIL on a nomination basis at mutually negotiated rates. However, as per the current regulations, all port trusts are required to go for competitive bids for dredging activities. Thus, the industry started witnessing competition from private players, which led to decline in DCIL's market share to around 52% in FY19 from over

75% in FY14, thus impacting revenue. However, the change in the ownership helped the company to reverse the trend and get orders from promoter ports on a nomination basis. This improved DCIL's market share to ~74% in FY20, ~80% in FY21 and ~81% in FY22, in maintenance dredging. The company lost market share in capital dredging from ~100% in FY21 to ~72% in FY22. However, the established market position with a long track record in the dredging business and its longstanding relations with the major ports mitigate competition-induced risks to a large extent.

- **Susceptibility of margins to fuel prices and forex fluctuations:** Profitability margins continue to remain sensitive to volatility in fuel prices and forex fluctuations. DCIL is exposed to forex risk as its borrowings are in euros and it imports ~90% of spares and components. The intense competition impacts the pricing flexibility, which in turn affects the company's profitability. The company plans to execute international projects to earn in foreign currency, thereby naturally hedging the forex risk.
- **Ongoing litigations:** The company is susceptible to litigation risk on account of the ongoing litigations with its suppliers/subcontractors. However, BWR notes, that the total litigation amount of ~Rs. 125 Crs from the claims raised against DCIL is expected to be offset by receivables in the form of balance payment of ~Rs. 66 Crs. (total - Rs. 136.72 Crs.) from Sethusamudram Corporation Limited (SCL) as per the settlement by the Ministry of Shipping. Nonetheless, the company is exposed to the timing of such claim settlements.

Analytical Approach and Applicable Rating Criteria

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). The company does not have subsidiaries.

Rating sensitivities:

The timely execution of the order book is contingent upon supply of key spares/components, timely approvals/ inspections of the work done and government policies from time to time.

Upward

- Substantial growth in revenue and profitability, strengthening the financial risk profile in a sustained manner.
- Reduction in fleet age with addition of new dredgers/vessels
- Improved client/segment wise diversification of revenue profile.

Downward

- Sustained deterioration in key credit metrics owing to pressure on operating profits due to competition and continued reliance on subcontracting, a further stretch in the working capital cycle or fresh debt-funded capex
- The outcome of ongoing litigations, which may adversely affect the credit risk profile.



Liquidity - Stretched: Liquidity position is considered stretched due to inability of the company to generate sufficient cash flow from operations to cover its operating expenses in a timely manner. High operating expenses due to the ageing fleet of dredgers and subcontracting cost often lead to operating and net losses. BWR also notes the cash liquidity infusion from the promoter ports to cover its short term operating expenses. The company's ability to achieve the envisaged net cash accruals to honour its debt obligations to the tune of ~Rs. 118 Crs. in next six months remains a key rating monitorable. The shortfall is expected to be covered with the cash infusion from promoter ports. As on 30Jun2022, the cash & cash equivalents was at ~Rs. 52 Crs. and an amount of Rs.26 Crs. was available against the scheduled maturity in Mar'23 of Rs. 58.88 Crs. of tax free bonds and balance will be paid out of the receivable/realization from ports.

About the company

Dredging Corporation of India Limited (DCIL) was incorporated in 1976 under the Ministry of Shipping, Government of India (GoI), with the registered and corporate offices at Visakhapatnam, Andhra Pradesh. In 1999, DCIL was recognised as a Mini Ratna - Category-I, Public Sector Enterprise. DCIL is listed on the BSE and NSE. Pursuant to the GoI's strategic divestment, the consortium of four ports (Visakhapatnam Port, Paradip Port Trust, Jawaharlal Nehru Port Trust and Deendayal Port Trust) is the main promoter of the company. DCIL is engaged in integrated dredging services for the major and non-major ports, Indian Navy and other maritime organisations in India, and it is one of the leading players in dredging and maritime development. DCIL is engaged in capital dredging, maintenance dredging, beach nourishment, reclamation, environmental protection services and similar activities.

Mr. K Rama Mohana Rao is the Chairman and Director and Capt. S Divakar is the interim Managing Director and CEO of the company.

Key Financial Indicators

Key Parameters	Units	31 Mar 2022	31 Mar 2021
Result Type		Audited	Audited
Operating Revenue	Rs. Crs.	799.09	763.76
EBITDA	Rs. Crs.	117.62	(34.37)
PAT	Rs. Crs.	3.42	(172.41)
Tangible Net worth	Rs. Crs.	1400.35	1402.12
Total Debt/Tangible Net worth	Times	0.10	0.21
Current Ratio	Times	0.94	1.18

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the previous three years [including withdrawal and suspended] :

Sl. No.	Instrument	Current Rating (August 2022)			Rating History		
		Type	Amount (Rs. Crs.)	Rating	2021 06Aug2021	2020 07Aug2020	2019
1	Tax Free Bonds	Long Term	58.88	BWR AA-/ Stable	BWR AA-/ Stable	BWR AA-/ Stable	<u>03 Jul 2019</u> BWR AA+ (SO)/ Stable <u>30 Dec 2019^</u> BWR AA+ (CE)/ Stable
Total			58.88	Rupees Fifty Eight Crores Eighty Eight Lakhs Only			

Note: BWR had initially rated proposed tax free bonds of Rs. 500.00 Crs. on 17 Jan 2013 at BWR AA+(SO)/Stable and reaffirmed the rating for the raised amount of Rs. 58.88 Crs. on 09 May 2016 and 29 May 2017.

Complexity Levels of the Instruments: Simple

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

• General Criteria	• Approach to Financial Ratios
• Infrastructure Companies	• Services Sector

Analytical Contacts	
Swarn Saurabh Senior Rating Analyst Board: +91 80 4040 9940 swarn.s@brickworkratings.com	Saakshi Kanwar Senior Manager Ratings Board: +91 80 4040 9940 saakshi.k@brickworkratings.com
1-860-425-2742	media@brickworkratings.com



DREDGING CORPORATION OF INDIA LIMITED

ANNEXURE- I : INSTRUMENT DETAILS

Instrument	ISIN	Date of Issue	Amount (Rs. Crs)	Coupon#	Maturity Date
Tax Free Bonds	INE506A07015	28-03-2013	58.88	6.97%	28-03-2023
Total			58.88	Rupees Fifty Eight Crores Eighty Eight Lakhs Only	

#Payable Annually on 28/03; Listed on BSE.

For print and digital media : The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

About Brickwork Ratings : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Nonconvertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 12,000 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER : Brickwork Ratings India Pvt. Ltd. (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by the Reserve Bank of India [RBI], offers credit ratings of Bank Loan facilities, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. [hereafter referred to as "Instruments"]. BWR also rates NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement



obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "BWR Party") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.