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CARE/HRO/RR/2017-18/1370

Mr. Rajesh Tripathi,  
Chairman and Managing Director,  
Dredging Corporation of India Limited (DCI)  
"Dredge House", Port Area,  
Visakhapatnam - 530035,  
Andhra Pradesh

December 08, 2017

Dear Sir,

**Credit rating for Public Issue of Tax Free Bonds in the nature of Secured, Redeemable, Non-Convertible Debentures**

Please refer to our letter dated December 01, 2017 on the above subject.

2. The rationale for the rating is attached as an **Annexure**. Kindly note that the rationale would be published in the forthcoming issue of our monthly journal, 'CAREVIEW'
3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our clients and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. In any case, if we do not hear from you by December 11, 2017, we will proceed on the basis that you have no comments to offer.

If you have any further clarifications, you are welcome to approach us.

Thanking you,

Yours faithfully,



[Vidhyasagar L]  
Associate Director  
Vidhya.sagar@careratings.com  
Encl.: As above

## Annexure - I

### Rating Rationale

#### Dredging Corporation of India Limited (DCI)

#### Rating

Instrument	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Tax Free, Secured, Redeemable Non-Convertible Debentures	58.88	<b>CARE A+; Negative (A Plus; Outlook: Negative)</b>	Revised from CARE AA-; Negative (Double A Minus; Outlook: Negative)
<b>Total</b>	<b>58.88 (Rupees Fifty Eight crore and Eighty Eight lakh only)</b>		

#### Rating Rationale

The revision in the rating takes into consideration subdued revenue and profitability during FY17 (refers to the period from April 1 to March 31), high receivable days with continued outstanding from Sethusamudram Shipping Canal Project (SSCP) and reduction in market share in the maintenance dredging segment across ports in India. The rating continues to derive strength from the shareholding of 73.47% of the Government of India (GoI) in the company, strong administrative control of the GoI, DCI's established presence of over 35 years in providing dredging services at major and non-major ports in India and overseas, continued leadership position in the maintenance dredging segment in India albeit reduction in the same and positive outlook for the port sector in the long term. The rating continues to be constrained by high collection period, high dependence on Kolkata Port Trust (KoPT), competition from private and foreign dredging companies and vulnerability of the operations to foreign exchange fluctuation. 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, minimize the impact of foreign exchange fluctuation and recover outstanding dues from SSCP are the key rating sensitivities.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### ***Outlook: Negative***

The negative outlook on rating reflects the expected moderation in total operating income and continued stretched receivables position. The rating may be revised downwards if there is a worsening of key financial indicators of the company going forward on account of these factors.

### **Background**

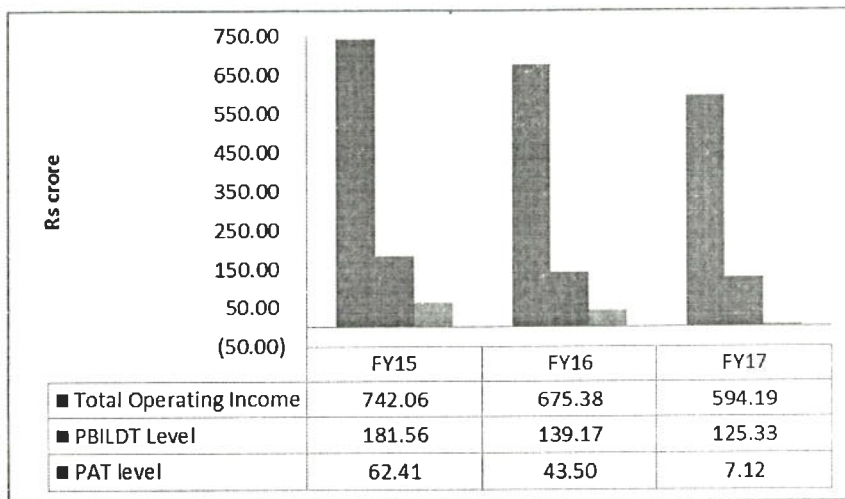
DCI, a Government of India (GoI) undertaking under the Ministry of Shipping, was established in the year 1976 to provide integrated dredging services to major and non-major ports, Indian Navy and other maritime organizations in India. In November 1999, DCI was declared as Mini Ratna – Category-I Public Sector Enterprise. The GoI held 73.47% of the paid-up capital of DCI as on September 30, 2017.

DCI is engaged in maintenance dredging, capital dredging, beach nourishment, reclamation and environmental protection services. In terms of fleet as on March 31, 2017, DCI owns 12 trailer suction hopper dredgers (TSHD) with aggregate hopper capacity of 66,970Cu.m, four Cutter Suction Dredgers (CSD) with aggregate pumping capacity of 5,500 Cu.m/hr, one Back-Hoe Dredger (BHD) with pumping capacity of 370 Cu.M/ hr and one inland cutter suction dredger. The inland cutter suction dredger named as DCI GANGA was inducted into the fleet on December 6, 2016.

### **Credit Risk Assessment**

#### ***Subdued revenue and profitability in FY17 albeit moderate improvement in H1FY18***

DCI has been witnessing continued decline in revenue over the last three years due to ageing dredgers and prolonged layups of dredgers leading to rise in dry docking expenses and loss of revenue. Dredgers over 20 years cannot be operated for more than 200 to 250 days a year. However, during FY17, the revenue dropped by 15.9% to Rs 558.17 crore mainly due to reduction in scope at the Haldia port and termination of the project in Goa which was not adequately compensated by other projects. In line with drop in revenue, the PBILDT level also reduced by 9.95% to Rs 125.33 crore in FY17 from Rs.139.17 crore in FY16. However, the PBILDT margin continues to be healthy due to lower repair and maintenance and provisioning towards for bad and doubtful debts during FY17. The total PAT during the year reduced by 84% to Rs 7.12 crore as compared to Rs 43.50 crore.



During H1FY18, the financial performance of DCI improved moderately with profit after tax of Rs 22.56 crore as compared to a net loss of Rs 10.37 crore in H1FY17. DCI generated total revenue of Rs 321.03 crore during H1FY18, which includes an insurance claim amount of Rs 10.75 crore pertaining to earlier year.

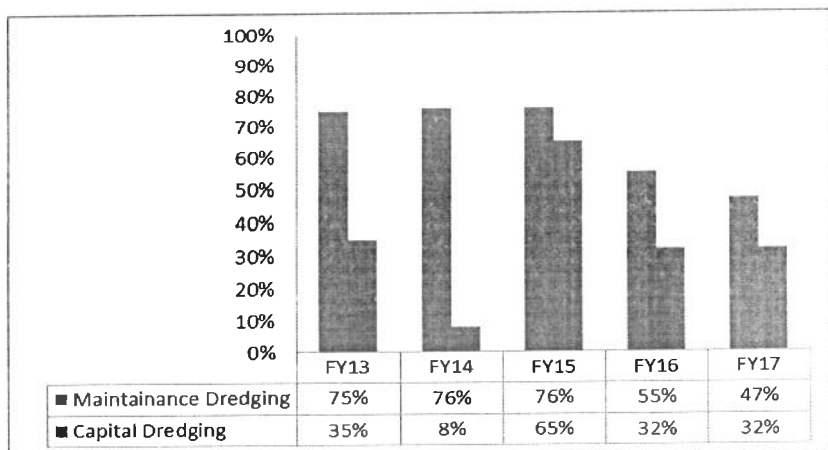
#### **High receivables days**

The average collection period in FY17 increased to 202 days from 194 days in FY16 with delay in receivables from SSCP and major customers such as KoPT, Mormugao Port Trust, Kandla port and Paradeep port among others. The receivables as on March 31, 2017, include receivables from SSCP, work on which was suspended from July 2009 due to various political reasons. Consequently, the receivables pertaining to same have been long outstanding at Rs.130.91 crore as on March 31, 2017 and March 31, 2016. As on October 24, 2017, the company has realized only 27% (i.e. Rs.102.44 crore) of the receivables outstanding as on March 31, 2017. Thus, a large amount remains to be realized.

#### **Competition from foreign players and decline in market share of DCI**

DCI's market share has dropped over the years primarily due to liberalization and ports moving away from a nomination basis to competitive bidding. With the entry of global players either directly or through their Indian arms competing to get contracts at competitive rates, it has constrained DCI to quote competitively. Also, the high attrition of experienced and trained technical/floating personnel due to competition has also affected DCI adversely. DCI's market share for maintenance dredging at Major Ports declined from around 75% in FY13 to 47% in FY17. Also, high attrition of experienced and trained

technical/ floating personnel due to competition has also affected DCI adversely. In terms of capital dredging, DCI's share has come down from 35% in FY13 to 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.



#### ***Long track record of providing dredging services***

DCI has over 35 years of presence in the dredging sector and provides dredging services in the shipping channels of major, non-major ports, naval establishments, fishing harbors, power plants, state governments, private organization, shipyards and other maritime organizations. DCI has been providing capital dredging for new harbors, deepening of the existing harbors or maintenance dredging for the upkeep of the required draft at various ports along the 7,500 kms coastline of India. DCI had a market share of around 47% in the maintenance dredging segment in India across major ports during FY17. It has been catering to the dredging requirements of KoPT (Haldia) for over 30 years. Also, it has undertaken capital dredging projects overseas in countries such as Bahrain, Taiwan and Sri Lanka. During FY17, DCI has secured the dredging contract for Mongla Port in Bangladesh. The dredger has been placed at the port and pre-dredge survey has been completed. The dredging works is expected to commence from December 2017 onwards. Also, the inland cutter suction dredger named as DCI GANGA has been inducted into the fleet on 6th December, 2016. The vessel has been put into operation at the dredging project being carried out at Puducherry. This is the first of Inland fleet being inducted into the fleet in recent times by DCI. This would facilitate the Company to take up inland dredging works.

***Moderate order book albeit high dependence on KoPT***

The order book of DCI stood at Rs.601.47 crore as on April 1, 2017 as compared to Rs 669.31 crore as on April 01, 2016. The order book is concentrated on orders from KoPT which accounted for 37% of the order book as on April 1, 2017 (as against 23% as April 1, 2016). DCI has been historically deriving over 50% of its revenues from KoPT. During FY17, KoPT accounted for 39% of the revenue from dredging operations (FY16: 49%) due to reduction in scope of works in KoPT project with a reduction in dredging requirement for KoPT.

Further, DCI has further received an extension of its contract from KoPT for a period of 5 years, i.e. from January 2017 to January 2022. The tendered value of the contract for KoPT for next five years is about Rs.1,119 crore. The said contract has been received on tender basis and for an approximate value of Rs.224 crore on a yearly basis.

***Comfortable capital structure***

The capital structure of the company continues to be comfortable. As on March 31, 2017, the overall gearing has improved to 0.54x as on March 31, 2017 as compared to 0.67x as on March 31, 2016. The total debt reduced from Rs.1,013.28 crore as on March 31, 2016 to Rs.817.78 crore as on March 31, 2017 with no new addition to borrowings. However, total debt to GCA deteriorated from 7.49x as on March 31, 2016 to 7.64x as on March 31, 2017 due to subdued revenue and profitability during FY17.

***Exposure to forex risk***

DCI is exposed to forex risk on account of euro loans to fund dredgers and dependence on imports for components and spare parts. As part of managing the forex risk, the company has approved and implemented forex risk management policy on July 25, 2014. Also, going forward, the company is planning to execute more international projects to generate income in foreign currency which would act as a natural hedge.

***Favorable prospects for the port sector***

In the 12th Five Year Plan, the GoI has proposed to invest Rs.73,794 crore for the development of various projects in port sector to augment the major-port capacity, modernise the ports by deepening the channels, upgrade port equipment, and improve port connectivity and backup facilities. The Government is looking at an investment of over Rs.183,000 crore in ports in the 12th Five Year Plan, most of which will come from the private sector. The capacity of Indian ports at the end of fiscal 2011-12

stood at 1,247 million tonnes (MT), which is likely to go up to 2,686 MT by 2017, by the end of current Five Year Plan. This is expected to increase the demand for both maintenance and capital dredging. Maintaining assured depths has become critical for ports due to siltation on both the coasts. Hence, maintenance-dredging is the key for increasing and maintaining the depths to receive large vessels and maintaining the economies of scale. 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. A National Perspective Plan has been developed under this programme, paving the way for 150 projects with investments of about Rs 400,000 crore in the next 10 years. These projects have been identified across areas of port modernisation & new port development, port connectivity enhancement, port-led industrial development and coastal community development. The said initiatives translate into large scale dredging requirements and huge growth opportunity for dredging operators.

#### **Prospects**

DCI's prospects would be driven by its ability to improve its revenue and profitability levels, capitalize on expected demand from major capacity expansion of ports in India and recover outstanding dues from SSCP.

**Financial Performance**

(Rs. Cr)

For the period ended / as at March 31,	2015	2016	2017
	(12m, A)	(12m, A)	(12m, A)
<b>Working Results</b>			
Total Operating income	742.06	675.38	594.19
PBILDT	181.56	139.17	125.33
Interest	26.37	17.61	18.94
Depreciation	92.14	93.31	99.60
PBT	65.37	46.74	11.99
PAT (after deferred tax)	62.41	43.50	7.12
Gross Cash Accruals	154.55	135.23	107.01
<b>Financial Position</b>			
Equity Capital	28.00	28.00	28.00
Networth	1474.32	1501.83	1520.62
Total capital employed	2512.98	1013.28	817.78
<b>Key Ratios</b>			
<b>Growth</b>			
Growth in Total income (%)	-3.99	-8.99	-12.02
Growth in PAT (after D.Tax) (%)	66.22	-30.30	-83.63
<b>Profitability</b>			
PBILDT/Total Op. income (%)	24.47	20.61	21.09
PAT (after deferred tax)/ Total income (%)	8.41	6.44	1.20
ROCE (%)	3.56	2.50	1.29
<b>Solvency</b>			
Long-term Debt Equity ratio (times)	0.70	0.67	0.54
Overall gearing (times)	0.70	0.67	0.54
PBILDT/Interest (times)	6.89	7.90	6.62
PBIT/Interest (times)	3.39	2.60	1.36
Term debt/Gross cash accruals (years)	6.72	7.49	7.64
Total debt/Gross cash accruals (years)	6.72	7.49	7.64
<b>Liquidity</b>			
Current ratio (times)	2.11	1.97	1.79
Quick ratio (times)	1.83	1.66	1.38
<b>Turnover</b>			
Average collection period (days)	183	194	202
Average creditors (days)	36	43	107
Average inventory (days)	81	88	127
Operating cycle (days)	228	239	222

A: Audited



**Disclaimer**

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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
Tax Free Bonds - Secured, Redeemable, Non-Convertible Debentures (NCD)	March 28, 2013	6.97% p.a. (Additional 0.50% p.a. for Retail Individual Investors)	28 Mar 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Tax Free Bonds - Secured, Redeemable, Non-Convertible Debentures (NCD)	LT	58.88	CARE A+; Negative	-	1)CARE AA-; Negative (30-Nov-16)	1)CARE AA (08-Oct-15)	1)CARE AA (23-Sep-14)