# DREDGING CORPORATION OF INDIA LIMITED

CIN.No. : L29222DL1976PLC008129 GST NO. 37AAACD6021B1ZB
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ISO 14001 : 2015
ISO 9001 : 2015
Approved by IRQS

DCI/CS/E.1/SE/2024/ 01.05.2024

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| Listing Compliance<br>National Stock Exchange of India Limited<br>Exchange Plaza, C-1, Block G,<br>Bandra Kurla Complex, Bandra (E), Mumbai–400051<br>**Symbol: DREDGECORP** |
| Listing Compliance<br>Bombay Stock Exchange Limited<br>Floor 1, Phiroze Jeejeebhoy Towers, Fort, Mumbai-400001<br>**Scrip Code: 523618** |
| The Secretary<br>Calcutta Stock Exchange Assn. Ltd.<br>7, Lyons Range, Kolkata–700001<br>**Scrip Code: 14050** |

Dear Sir,

Sub: Press Release- Ratings by M/s. India Ratings & Research- Reg.

Please find enclosed a copy of the Press Release issued on 30/04/2024 by M/s. India Ratings & Research, A Fitch Group Company.

Yours faithfully,
For Dredging Corporation of India Limited

(P.Chandra Kalabhinetri)
Company Secretary

# India Ratings Revises Dredging Corporation of India’s Outlook to Positive; Affirms ‘IND BBB+’

Apr 30, 2024 | Dredging

India Ratings and Research (Ind-Ra) has revised the Outlook on Dredging Corporation of India Limited (DCI) to Positive from Negative while affirming the Long-Term Issuer Rating at IND BBB+. The detailed rating action is as follows:

## Details of Instruments

| Instrument Type | Date of issuance | Coupon Rate (%) | Maturity Date | Size of Issue (million) | Rating assigned along with Outlook/ Watch | Rating Action |
|---|---|---|---|---|---|---|
| Long-Term Issuer Rating | - | - | - | - | IND BBB+/Positive | Affirmed; Outlook revised to Positive from Negative |

## Analytical Approach

Ind-Ra continues to take a standalone view of DCI while arriving at the rating.

## Detailed Rationale of the Rating Action

The Positive Outlook reflects Ind-Ra’s expectation of a substantial improvement in the operating profitability in FY25, supported by a healthy order book and DCI’s dominant position in maintenance dredging in India. The improvement in its operating profitability would aid in enhancing DCI’s liquidity, which was impacted by elongated receivable days and payout towards the crystallisation of its contingent liabilities. The rating would be upgraded given the visibility on an execution of outstanding order book, an improvement in the working capital cycle, a resolution of the auditor’s observation in FY24 annual results and the sustained operating profitability.

## List of Key Rating Drivers

**Strengths**

- Strong operating performance in FY23 and 9MFY24
- Healthy order book albeit concentrated
- Strong market position
- Acquisition of new dredger to add capacity

**Weaknesses**

- Debt drawdown to deteriorate credit metrics
- Sub-optimal working capital cycle
- Increased competition
- Material contingent liabilities

## Detailed Description of Key Rating Drivers

**Strong Operating Performance in FY23 and 9MFY24:** DCI's revenue from operations increased 45% yoy in FY23 to INR11,648 million (FY22: INR8,010 million), on account of higher realisation per cubic metre of dredging. Given the substantial revenue growth, the company benefitted from operating leverage with increased absorption of fixed cost including employee expense, resulting in an increase in the EBITDA to INR1,750 million (INR1,170 million). During FY23, the company capitalised its dry dock expense incurred on over 25-year-old dredgers, leading to an increase of INR274.15million in its operating profit, as qualified by the auditor. The company's revenue, over the years, has remained volatile on account of volatility in the quantity dredged as well as the realisation.

Its EBITDA margin remains susceptible to the fuel cost and the inability to pass on such an increase in the fuel costs, especially for short-tenure contracts. In 9MFY24, the company reported revenue and EBITDA of INR6,672 million and INR1,822 million, respectively, with an EBITDA margin of 27.3% (FY23: 15.0%; FY22: 14.6%). In FY24, Ind-Ra expects the margins to have remained at the similar levels and sees strong revenue growth with an EBITDA margin of 15%-16% in FY25, with a mean reversion of operating expense including repairs and maintenance and subcontracting expenses, to its long-term average.

**Healthy Order Book albeit Concentrated:** As on 15 March 2024, DCI had a confirmed and anticipated order book of over INR10,887 million from various major ports and other entities, to be executed in the first nine months of FY25.The company's order book was supported by the renewal of dredging contracts from the ports, as maintenance dredging cannot be done away with, given that sea route is an important means of international trade. Thus, maintenance dredging adds stability to the company's revenue stream. Further, the management expects incremental orders of around INR27,500 million, which could lead to a strong revenue growth in the medium term. Given that the top five customer ports contributed around 80% to the current order book and the majority of the contracts have been awarded on a tender basis, a non-renewal of contracts with any of the port could materially impact the business profile of the company. However, the company's high customer concentration risk is partially offset by it being a leading and preferred dredging player in the country with long-standing relationships with the major port trusts. Moreover, Ind-Ra believes the financial support in terms of loans and work advances extended by those ports reflects their willingness to associate with DCI for the long term.

**Strong Market Position:** DCI is one of the largest companies in the domestic dredging market with over 80% market share in the maintenance dredging for major ports, and an established track record of over three decades of operations in the dredging business in India and international markets. The company remains the preferred partner for dredging and land reclamation activity for major and non-major ports, the Indian Navy and other maritime organisations, due to DCI's strong expertise and complex nature of the business. Apart from the maintenance dredging, the company also undertakes capital dredging business, despite its low revenue contribution.

**Acquisition of New Dredger to Add Capacity:** In March 2022, the company signed an agreement with Cochin Shipyard Limited ((debt rated at 'IND AAA'/Stable) to build a trailing suction hopper dredger with a capacity 12,000 cubic metre. The dredger would be built over 34 months, with a total landed cost of EUR89.39 million (approximately INR7,900 million assuming EUR at around INR88.5). The agreement comes under the ambit of 'Atmanirbhar Bharat' and therefore, it benefits from the ship building financial assistance, in terms of discount on the acquisition price. The acquisition would be fully funded by an external commercial borrowing (ECB) of EUR46.26 million (approximately INR4,100 million) from Deutsche Bank and remaining INR3,797 million would be funded using the proceeds from the equity infusion by the promoter ports and non-convertible debentures subscription by Cochin Shipyard. The company had already serviced four of the total 13 instalments. The addition of new dredger will improve the annual dredging capacity of DCI and thereby, resulting in higher revenue.

**Debt Drawdown to Deteriorate Credit Metrics:** DCI's gross debt increased to INR5,446 million in 9MFY24, (FY23: INR3,810 million; FY22: INR3,702 million), of which the promoters' debt was INR1,500 million (INR360 million; FY22: Nil). DCI's net leverage (gross debt less cash divided by EBITDA) improved to 2.09x in FY23 (FY22: 2.58x), supported by the increased EBITDA. The adjusted net leverage (gross debt less promoter debt less cash/ EBITDA) stood at 1.40x in 9MFY24 (FY23: 1.89x; FY22: 2.58x). The gross interest coverage ratio (EBITDA/ gross interest expense) deteriorated to 6.1x in FY23 (FY22: 9.7x) with an increase in finance cost due to interest accrual on work advances by ports and forex losses on account of the unhedged foreign currency borrowings. At end-9MFY24, the net leverage (calculated using annualised EBITDA) and gross interest coverage ratio stood at 2.02x and 8.32x, respectively.

Ind-Ra expects the net leverage and gross interest coverage ratio in FY24 to have remained in similar levels and to deteriorate in FY25, due to the drawdown of the ECB and promoter ports' loan to fund the remaining instalment of new dredger and increased utilisation of fund-based working limit. However, the agency takes comfort from the fact that the repayment of the ECB would start after the complete commissioning of the dredger, scheduled to occur in October 2025. Moreover, the promoter ports' debt would be serviced by adjusting payment obligations against the invoices to be raised by DCI for the dredging done at the respective ports.

**Sub-optimal Working Capital Cycle:** The company's working capital cycle was impacted by its elongated debtor days (including contact assets) of 137 in FY23 (FY22: 137) and inventory days (calculated on revenue) of 50 (84). The elongation in debtor days was partially due to the outstanding trade receivables of INR658.4 million towards the work executed in the past for Sethusamudram Corporation Limited (SCL) and the same remains unpaid currently. To manage working capital cycle, the company relies on delayed payment to sub-contractors and work advances from ports to fund the debtors and inventory. Going forward, the company intends to reduce its reliance on work advances and hence, has availed fund-based working capital limits of INR1,500 million and INR750 million from Union Bank of India ('IND AA+'/Positive) and ICICI Bank Limited. Any further elongation in the debtor and inventory days impacting the liquidity of the company, could lead to a negative rating action.

**Increased Competition:** The industry has witnessed increased competition from domestic and international dredging players, leading to a decline in market share of DCI with ports shifting to competitive bidding for its dredging activities. The operating profit may get impacted due to the price sensitive nature of the maintenance dredging business and ineligibility of aged fleet for dredging contracts limiting the age of dredger as their pre-qualification criteria. Although DCI faces competition, the same is partially mitigated by virtue of being an established player in the dredging business and its longstanding relationships with the major ports. Moreover, the current regulation allows contracts to be awarded on nomination basis following the principle of competitive price discovery and hence, assuring maintenance dredging contacts from the four promoter ports.

**Material Contingent Liabilities:** DCI has following contingent liabilities outstanding as on 31 March 2023:

1. DCI, over 2007-08, had chartered three dredgers under separate charter party agreements from Mercator Lines Limited for a single Sethusamudram Ship Canal Project. However, DCI terminated the agreement on the ground of underperformance of the dredgers taken from Mercator Lines. The arbitration is still pending and arbitral award of INR687.1 million had been recognised as contingent liability by DCI. Ind-Ra believes the payment of receivables from SCL of INR658.4 million, could essentially offset this contingent liability, if it crystallises.

2. In October 2005, DCI purchased a dredger for a total landed cost of INR2,737.4 million from Mazgaon Dock Limited (MDL), which was delivered in March 2010. Subsequently, in November 2013, the company had invoked performance bank guarantee of INR273.2 million on grounds of inordinate delay in delivery and poor performance of the dredger, which was contested by MDL before the National Company Law Tribunal and the Permanent Machinery of Arbitration for a maximum recovery of INR255.0 million. The case is still pending. As per the management articulation, the company is in advanced stage of discussion with MDL and expects a payout of around INR120 million– 150 million to resolve the dispute.

Additionally, the contingent liabilities of the company also include tax demands and unresolved disputes with sub-contractors and ports. Any material impact on company's liquidity due to crystallisation of the contingent liabilities would remain a key rating parameter.

## Liquidity

**Adequate:** Ind-Ra revises the liquidity to 'Adequate' from 'Stretched' considering the following: (a) unencumbered cash and bank balances of INR457.0 million, (b) improved profitability with EBITDA growth of 49.7% and 2.2% yoy in FY23 and 9MFY24 (c) the availability of unutilised fund-based working capital limit, and (d) continued promoter ports' support in form of work advances of INR2,880 million and unsecured loan of INR1,500 million as of 9MFY24. The company has a scheduled repayment of about INR268 million and INR388 million for FY25 and FY26, respectively, which could be serviced using the company's cash flow from operations. The capex for the acquisition of new dredger has already been funded and hence, would have minimal impact on ongoing liquidity of the company. The liquidity of the company impends upon working capital cycle and contingent liabilities. Any material payout because of crystallisation of contingent liabilities and/ or elongation of working capital cycle, will be detrimental to the liquidity of the company and could lead to a negative rating action.

## Rating Sensitivities

**Positive:** Developments that could, individually or collectively, lead to a positive rating action include:

- an improvement in revenue and profitability, leading to the net leverage (net debt excluding promoter loan/operating EBITDAR) remaining below 3.5x, on a sustained basis.
- a meaningful resolution of auditor observations in FY24 annual report
- a healthy improvement in the liquidity.

**Negative:** Developments that could, individually or collectively, lead to the Outlook being revised to Stable include:

- a decline in revenue or profitability or higher-than-expected debt-funded capex, leading to an increase in the net leverage (net debt excluding promoter loan/operating EBITDAR) remaining above 3.5x, on a sustained basis
- further deterioration in liquidity due to higher-than-Ind-Ra-expected payout caused by crystallisation of contingent liabilities and/or elongation of working capital cycle.

## About the Company

Incorporated in 1976, DCI carries out dredging activities including capital dredging, maintenance dredging as well as beach nourishment, land reclamation for Indian ports and Navy. The consortium of four port trusts – Jawaharlal Nehru Port Trust, Deendayal, Port Trust, Paradip Port Trust and Visakhapatnam Port Trust currently holds a 73.47% shareholding in the company, with remaining being held by the public.

**KEY FINANCIAL INDICATORS**

| **Particulars** | **9MFY24 (Provisional)** | **FY23** | **FY22** |
|---|---|---|---|
| Revenue (INR million) | 6,672.1 | 11,648 | 8,010 |
| EBIDTA (INR million) | 1,822 | 1,750 | 1,170 |
| EBIDTA margins (%) | 27.3 | 15.0 | 14.6 |
| Interest coverage (x) | 8.32 | 6.10 | 9.70 |
| Net leverage (x) | 2.02* | 2.09 | 2.58 |
| Net leverage without promoter debt(x) | 1.40 | 1.89 | 2.58 |

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|---|
| Source: DCI, Ind-Ra<br>*Calculated using annualised EBITDA |

## Status of Non-Cooperation with previous rating agency

Not applicable

## Rating History

| Instrument Type | Current Rating/Outlook | | | Historical Rating/Outlook | |
|---|---|---|---|---|---|
| | Rating Type | Rated Limits (million) | Rating | 1 February 2023 | 2 November 2021 |
| Issuer rating | Long-term | - | IND BBB+/Positive | IND BBB+/Negative | IND BBB+/Negative |

## Complexity Level of the Instruments

Not applicable

### APPLICABLE CRITERIA

**Evaluating Corporate Governance**

**Corporate Rating Methodology**

**The Rating Process**

## Contact

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