DREDGING CORPORATION OF INDIA LIMITED
CIN No. L29222DL1976GOI008129 GST NO. 37AAACD6021B1ZB

Head Office : "DREDGE HOUSE", Port Area, Visakhapatnam–530001
Phone : 0891 2523250, Fax : 0891 2560581/ 2565920,
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ISO 14001 : 2015
ISO 9001 : 2015
APPROVED BY IRQS

DCI/CS/E.1/2019/ 16/04/19

The Secretary, The Stock Exchange, Mumbai 1st Floor, New Trading Ring, Rotunda Building, Phiroze, Jeejeebhoy Towers Dalal Street, Fort, Mumbai -400001	Code : 523618	022 – 2272 2041, 2037, 3719, 2039, 2061/2272 1072
The Secretary The National Stock Exchange of India Ltd. 5th Floor, Exchange Plaza, Bandra (E) Mumbai – 400051	Symbol : DREDGECORP	022 – 26598237 / 38
The Secretary The Calcutta Stock Exchange Assn. Ltd. 7, Lyons Range, Kolkata – 700001		033 – 22104492/ 22104500

Dear Sir,

Sub : Credit rating for public issue of Tax free Bonds in the nature of Secured, Redeemable, Non-convertible Debentures.

The Credit Rating for public issue of Tax free Bonds in the nature of Secured, Redeemable, Non-convertible Debentures issued by the Credit Rating Agency – M/s CARE Ratings is enclosed as Annexure – I.

2. This may please be treated as information submitted to Stock Exchanges as per Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking You
Yours faithfully

For Dredging Corporation of India Limited

Kadiyala Aswini Sreekanth
Digitally signed by Kadiyala Aswini Sreekanth
Date: 2019.04.16 17:15:25 +05'30'

(K.Aswini Sreekanth)
Company Secretary

ANNEXURE - I

Rating Rationale

Dredging Corporation of India Limited

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

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 Vishakhapatnam 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, minimize the impact of foreign exchange fluctuation are the key rating sensitivities.

Detailed description of the key rating drivers

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 Vishakhapatnam Port Trust (VPT), Paradip Port Trust (PPT), Jawaharlal Nehru Port Trust (JNPT) and Deendayal

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

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 under the direct administrative control of the Ministry of Shipping (MoS).

Shareholding details	Before transaction		After transaction	
Government of India	2,05,72,013	73.47%	0	-
Vishakhapatnam Port Trust	0	-	54,51,710	19.47%
Paradeep Port Trust	0	-	50,40,101	18.00%
Jawaharlal Nehru Port Trust	0	-	50,40,101	18.00%
Deendayal Port Trust	0	-	50,40,101	18.00%
Total	2,05,72,013	73.47%	2,05,72,013	73.47%

Long track record of providing dredging services and continuous leadership position in maintenance dredging segment: DCI has over three decades of presence in the dredging sector and provides dredging services at shipping channels of major, non-major ports, naval establishments, fishing harbors, power plants, state governments, private organization, shipyards and other maritime organizations. DCI has beencatering to the dredging requirements of the Haldia/Kolkata port almost for the past 30 years. The company has been able to maintain its leadership position in maintenance dredging segment in India. DCI's market share in 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, however, write of bad debts resulting in net loss in 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 for the company comprises of one time income from sale of DCI Dredge VII and DCI Dredge IX vessels during the year FY18 amounting to Rs.8.83 crore. 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).

In Q2FY19, DCI had written off bad debt pending for more than 5 years 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.

Healthy order book albeit high dependence on Kolkata Port Trust, Haldia: Order book of DCI as on January 21, 2019 stood at Rs.767.58 crore (as against Rs.601.47 crore as on April 01, 2017) which translates to 1.29x the TOI for FY18 thereby providing medium term revenue visibility. . In FY18, DCI derived ~45% of revenue from Kolkata Port Trust (KoPT), Haldia which had increased from 39% in FY17. Historically, the revenue from KoPT has been contributing around 50% towards DCI's topline. However, there was reduction in scope of work during FY17 resulting in lower dependence. Despite reduction in revenue concentration considering past trend, the same continues to remain on a higher side. Thisapart, revenue from Cochin Port was around 24% of TOI for FY18. As a result of the same, DCI derived around 69% of its revenues from two ports indicating revenue concentration risk.

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. Networth of the company was Rs.1544.10 crore as on March 31, 2018 vis-à-vis Rs.1520.62 crore as on March 31, 2017. 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.

Improved operating cycle and liquidity position: The average collection period as on March 31, 2018 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. The outstanding receivables from SSCP is at Rs.114.33 crore as on March 31, 2017. Of the said amount, DCI has written-off for doubtful debts to the extent of Rs.30.19 crore in FY17. Further, in Q2FY19, DCI had written off balance amount of Rs.84.14 crore. The same is expected to result in further decrease in receivable days going forward. 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). In addition to this, DCI has restricted cash amounting to Rs.36.41 crore as on March 31, 2018 held as debenture redemption reserve deposits.

Vulnerability of the operations to foreign exchange fluctuation: DCI is exposed to forex risk due to euro loans availed to fund its dredgers and also heavy dependence on imported components and spare parts with nearly 90.60% of the spares and components being imported in FY18. Presently, the company does not have any hedging mechanism in place. However, 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). Despite reduction in market share, DCI continues to be market leader in maintenance dredging segment. 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.

Stable industry outlook: India has a total of 12 major ports and 187 non-major ports spread across the nine maritime states. About 95% of India's overseas cargo by volume and 75% by value are carried by sea. Major ports thus play a key role in facilitating external trade. 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 modernization & 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: Going forward, prospects of the company depends on its ability to garner orders to increase its total operating income, sustain its profitability margins and manage its receivable days.

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.

Financial Performance:

(Rs. crore)

For the period ended / as at March 31,	***2016 (12m, A)***	***2017 (12m, A)***	***2018 (12m, A)***
Working Results			
Net Sales	663.66	558.17	549.57
Total Operating income	675.38	594.19	596.34
PBILDT	**139.17**	**125.33**	**139.40**
Interest	17.61	18.94	20.23
Depreciation	93.31	99.60	113.18
PBT	**34.05**	**12.28**	**21.77**
PAT (after deferred tax)	**43.50**	**7.41**	**17.14**
Gross Cash Accruals	**135.23**	**107.01**	**130.32**
Financial Position			
Equity Capital	28.00	28.00	28.00
Networth	**1501.83**	**1520.62**	**1544.10**
Total capital employed	**2515.11**	**2338.40**	**2353.58**
Key Ratios			
Growth			
Growth in Total income (%)	-8.99	-12.02	0.36
Growth in PAT (after deferred tax) (%)	-30.30	-82.97	131.45
Profitability			
PBILDT/Total Op. income (%)	20.61	21.09	23.38
PAT (after deferred tax)/ Total income (%)	6.44	1.25	2.87
ROCE (%)	2.50	1.27	1.77
Solvency			
Debt Equity ratio (times)	0.67	0.54	0.52
Overall gearing ratio(times)	0.67	0.54	0.52
Interest coverage(times)	7.90	6.62	6.89
Term debt/Gross cash accruals (years)	7.49	7.64	6.21
Total debt/Gross cash accruals (years)	7.49	7.64	6.21
Liquidity			
Current ratio (times)	1.90	1.70	1.77
Quick ratio (times)	1.59	1.29	1.30
Turnover			
Average collection period (days)	218	231	204
Average inventory (days)	88	127	154
Average creditors (days)	43	107	154
Operating cycle (days)	263	251	204

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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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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+; Negative (07-Dec-17)	1)CARE AA-; Negative (30-Nov-16)	1)CARE AA (08-Oct-15)