

July 29, 2022

International Seaport Dredging Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term Bank Facilities/ Short Term Bank Facilities, Fund/Non Fund-based Limits	100.00	225.00	[ICRA]BBB- (Stable)/[ICRA]A3; reaffirmed/assigned
Total	100.00	225.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation continues to derive comfort from the operational, technical and financial support extended to International Seaport Dredging Private Limited (ISDPL) by the Belgium-based Dredging, Environmental & Marine Engineering (DEME) Group through its subsidiary Dredging International N.V. ICRA notes that the company's financial performance remains susceptible to lumpy order flows, stringent contractual provisions, unpredictable seabed conditions, receipt of timely approvals, timely chartering of ships and site availability. Its margins are exposed to intense competition from domestic and major global dredging players. The above factors had impacted ISDPL's margins in the previous years till FY2021. However, in FY2022, ISDPL witnessed a spurt in profitability as it used its own vessels and there were no charter hire expenses. Moreover, it executed viable projects and received a one-time claim compensation. The net worth turned positive in FY2022 due to the sizeable accretion to reserves.

The ratings also derive comfort from the continued financial support by the parent in the form of flexible credit periods from Group companies for payment of vessel charges and other services. In FY2020, the promoter Group infused Rs. 225-crore equity and is committed to support ISDPL, operationally and financially. While the current order book position remains moderate, ISDPL is bidding for a few projects which if awarded will boost the top line. The healthy growth prospects of the Indian port infrastructure are expected to aid demand for support industries such as dredging companies.

ICRA also notes the company's asset-light model with low fixed costs as well as negligible use of fund-based limits. ISDPL plans to keep its fleet strength small to benefit from the low depreciation costs and leverage the extensive fleet available with the Group by leasing vessels as required. ICRA also notes that the company has a few arbitration cases with customers, where it has raised claims and the development on these cases will be monitored. Further, it has contingent liabilities arising from disputes related to service tax and any adverse ruling on the same is a rating sensitivity factor.

The Stable outlook on the [ICRA]BBB-rating reflects ICRA's opinion that the company will continue to benefit from the financial and operational support from the DEME Group and the favourable long-term growth outlook for the dredging industry.

Key rating drivers and their description

Credit strengths

Strong parentage and track record of operational and financial support – ISDPL is promoted by the Belgium-based DEME Group through its subsidiary Dredging International N.V. and Larsen & Toubro (L&T). DEME is a 150-year-old Antwerp-based dredging and hydraulic engineering Group and is a major global player in this segment. It provides operational, technical, and financial support to ISDPL. The company enjoys a flexible credit period from the Group companies while making payments for

technical services, vessels and charter hires. Moreover, since FY2015, it has been maintaining an asset-light model with a single-owned vessel. It mainly charters vessels from the large pool of the DEME Group. This provides flexibility in deploying the vessels based on requirement and reduces the fixed costs.

The Group provides counter guarantees for obtaining bank guarantees for the large orders received by ISDPL. Due to the significant net worth erosion faced by the company on account of the large losses, the promoter Group infused an equity of Rs. 225 crore in FY2020 and has committed to support the company financially, should the need arise.

Favourable long-term demand outlook – The Indian port infrastructure is expected to grow in the long term, thereby spurring support industries such as dredging companies. However, the Indian port sector is plagued by delays, inadequate risk assessment of soil, limited escalation clauses and weak financial position. The shortage of dredgers in the Indian market provides opportunities for ISDPL to in-charter dredgers from DEME to be deployed in India.

Credit challenges

Revenue and profitability vulnerable to lumpy order flow and risks associated with dredging projects – The dredging sector remains exposed to lumpy order flows, and the uncertainty related to seabed behaviour and the fixed-price nature of the contracts, leading to cost and time overruns. Due to these reasons, ISDPL had witnessed volatility in its financial performance over the years and incurred losses in the last few fiscals. However, in FY2022, ISDPL's margins improved on account of using its own vessel with no charter hire expenses. It also executed viable projects and received a one-time claim compensation that supported the margins. The order execution was on a better track and ISDPL is bidding for various capital dredging and maintenance dredging projects which has improved the revenue visibility. ISDPL's financial performance had moderated owing to modest new order inflow in FY2020 and FY2021 and delay in project execution on the back of issues with getting timely approvals, unavailability of site, soil-related issues and pandemic-related restrictions, which led to suboptimal usage of mobilised resources.

High competition from domestic and foreign dredging players - The company faces aggressive competition from domestic players who can avail right of first refusal (ROFR) as well as from major global dredging players, putting pressure on its margins. The competitive situation is aggravated by the weak global demand conditions and surplus capacity. However, the risk is partly mitigated by ISDPL's strong parentage, as the parent Group is a major player in the dredging industry.

Liquidity position: Adequate

ISDPL's liquidity position is expected to remain adequate, supported by nil long-term repayment obligations, availability of unutilised working capital facilities, flexibility in payment of payables to Group entities and no major capex plan in the near term. Nonetheless, any additional losses from the orders being executed could put pressure on liquidity and may necessitate additional support from the parent Group.

Rating sensitivities

Positive factors – The ratings could witness upward revision if there is a sustained improvement in profitability, while order flows continue to remain healthy on sustained basis.

Negative factors – Negative pressure on the ratings could arise if there is any moderation in the credit profile of the parent DEME Group or weakening of financial linkage of ISDPL with the parent or further sustained deterioration in the profitability of ISDPL.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent/Group Company: DEME Group Part of a strong parent group with track record of operational and financial support extended by parent group. ICRA expects the Group to provide additional financial support to ISDPL, should the need arise
Consolidation/Standalone	The ratings are based on the standalone financial statements of the rated entity

About the company

International Seaport Dredging Private Limited was incorporated in March 2004 as a joint venture between Larsen & Toubro Limited (L&T) and Dredging International N.V. (DI; Subsidiary of the Dredging, Environmental and Marine Engineering NV (DEME) Group of Belgium). DI is the largest shareholder of ISDPL with an 89.9% stake at present, followed by L&T's minority shareholding of 4.1%. ISDPL undertakes dredging and reclamation jobs (capital dredging for new port development or expansion of the existing ports as well as maintenance dredging). While ISDPL acquired its first dredger in October 2004 and its second dredger in November 2006, it sold its vessels subsequently and has been following an asset-light model since May 2014. However, with changes in Government policies with regard to preference to Indian flag vessels, the company acquired the vessel, TSHD Antigoon, in June 2015. It also charters vessels from the DEME Group as and when required. ISDPL has executed various dredging projects at the Dhamra, Ennore, Gangavaram, Mundra, Hazira, JNPT, Karwar and West Asian (chartered operations) ports. The major projects currently underway are at Dhamra. In FY2015, the corporate structure was converted from a non-listed limited company to a private limited company.

Key financial indicators

ISDPL	FY2021	FY2022*
Operating income	335.1	372.1
PAT	-88.5	234.9
OPBDIT/OI	-38.4%	61.0%
PAT/OI	-26.4%	63.1%
Total outside liabilities/Tangible net worth (times)	-5.3	4.1
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	-60.5	90.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; *Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history			
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2020	Date & rating in FY2019
				July 29, 2022	April 30, 2021	Jan 06, 2020	Oct 15, 2018
1 Long Term / Short Term Bank Facilities- Fund/Non Fund-based Limits	Long Term and Short Term	225.00		[ICRA] BBB-(Stable)/[ICRA]A3	[ICRA] BBB-(Stable)/[ICRA]A3	[ICRA] BBB-(Stable)/[ICRA]A3	[ICRA] BBB-(Stable)/[ICRA]A3

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term / Short Term Bank Facilities - Fund/Non Fund-based Limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term / Short Term Bank Facilities- Fund/Non Fund-based Limits*	NA	NA	NA	225.00	[ICRA] BBB-(Stable)/[ICRA]A3

Source: Company * The company has availed several fund based/non fund based facilities, all of which are interchangeable with maximum utilisation limits of Rs. 225.00

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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