

January 17, 2024

Dempo Shipbuilding and Engineering Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term fund-based: Cash credit	8.00	8.00	[ICRA]B(Stable); reaffirmed
Long term: Unallocated	10.00	10.00	[ICRA]B(Stable); reaffirmed
Total	18.00	18.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation takes into account the extensive experience of the promoters of Dempo Shipbuilding and Engineering Private Limited's (DSEPL/the company) in the shipbuilding industry and the company's linkages to the Dempo Group. ICRA notes that the financial performance of the standalone entity is expected to improve marginally, given the recently received order, although the overall financial risk profile will remain weak. The performance of the subsidiary - Modest Infrastructure Private Limited (MIPL) - has also remained subdued although it has been able generate higher revenues owing to a steady order inflow over the last couple of years. ICRA also notes that the consolidated entity continues to get financial support from the parent company, V S Dempo Holdings Private Limited (VSDHPL), and the company has maintained timely debt servicing despite losses.

The rating continues to be tempered by the weak financial risk profile of the company, characterised by losses in the last few years, volatility in order flows and the susceptibility to fluctuations in raw material prices, given the fixed price nature of its sales contracts.

The Stable outlook on the [ICRA]B rating reflects ICRA's opinion that the company's credit profile will be supported by the expected liquidity support from its parent company and a modest growth in consolidated revenues and profitability.

Key rating drivers and their description

Credit strengths

Extensive experience of the promoters in shipbuilding industry – DSEPL, incorporated in 1963, is involved in the construction and repair of barges, utility vessels and pontoons. DSEPL is a wholly-owned subsidiary of VSDHPL, which is an investment company of the Dempo Group. The company has two shipbuilding yards—one at old Goa on the banks of the Mandovi river and the other at Undir (Ponda, Goa) on the banks of the Zuari river. DSEPL has the capacity to undertake new construction of 10-12 vessels of up to 4,000 deadweight tonnage (DWT) per annum and carry out repairs of up to 1,000 tonnes per annum.

Part of Dempo Group – DSEPL is a part of the Goa-based Dempo Group, which has interests across mining, shipbuilding, media, food and beverages, travel and sports. The parent company, VSDHPL, continues to provide financial assistance, as and when required, to support the operations of the company. DSEPL, in turn, extends support to its subsidiary company, MIPL.

Credit challenges

Weak financial risk profile characterised by continued losses and depressed coverage indicators – DSEPL's consolidated financial risk profile has been historically characterised by consistent losses at the operating and net levels. On a consolidated basis, the company reported operating profits in FY2022 and minute operating loss in FY2023. DSEPL's capital structure has improved post the conversion of CCDs into equities in FY2023; however, the coverage indicators continue to be depressed. On a consolidated basis, the overall debt level was Rs. 114.4 crore as on March 31, 2023 against Rs. 94.8 crore as on March 31, 2022. The borrowings mainly consisted of unsecured loans from VSDHPL and related parties as on March 31, 2023.

Volatility in orders flow – DSEPL's order book remains volatile on a standalone basis. At the consolidated level, the order book remains healthy with orders for both ship repairs and ship building in hand. After executing a major shipbuilding order in FY2021, the company currently does not have any orders in hand for its shipbuilding division till FY2024. In FY2024, it has received a shipbuilding order, subcontracted from MIPL. In addition, DSEPL has some repair orders from its existing clients.

Exposure to raw material price risk – The company's margins remain exposed to fluctuations in input prices, given the fixed-price nature of the usual contracts it receives. The current contract received by the company involves job work as the raw material is supplied by the customer, protecting the company from input price risks.

Liquidity position: Stretched

The liquidity of the company remains stretched due to its loss-making operations. Consequently, DSEPL largely depends on the support from its parent group to fund its losses and working capital requirements. While ICRA notes that the company's debt servicing has been regular since August 2020 because of the support from the parent VSDHPL, its ability to continue the same remains a key rating sensitivity.

Rating sensitivities

Positive factors – The rating may be upgraded in case of a significant improvement in the order book position of the consolidated entity, leading to a substantial increase in its consolidated revenues and profitability on a sustained basis that would improve the liquidity profile.

Negative factors – Pressure on the rating could arise in case of a substantial decline in the revenues and profitability of the consolidated entity on a sustained basis, and/or a further elongation in the working capital cycle, leading to a deterioration in the liquidity profile. Further, any weakening of linkages or deterioration in the credit profile of the parent, VSDHPL, may also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent Company: V S Dempo Holdings Private Limited (VSDHPL). ICRA expects DSEPL's parent company to be willing to extend financial support to it, should there be a need, given the high strategic importance that DSEPL holds for VSDHPL.
Consolidation/Standalone	ICRA has taken a consolidated view of the rated entity and its subsidiary, MIPL.

About the company

Dempo Shipbuilding & Engineering Private Limited, incorporated in 1963, is a wholly-owned subsidiary of V S Dempo Holdings Private Limited (VSDHPL), which is an investment company of the Dempo Group. The company has two shipbuilding yards: one at Old Goa on the banks of the Mandovi river and the other at Undir on the banks of the Zuari river. DSEPL has the capacity

to undertake new construction of 10-12 vessels per annum of up to 4,000 deadweight tonnage (DWT) and carry out repair work of around 36 vessels of 350-2,000 DWT. In July 2012, DSEPL had received approval from the Gujarat Maritime Board for the acquisition of a majority stake in Modest Infrastructure Private Limited, and consequently, MIPL became a subsidiary of DSEPL. MIPL is a ship-building and repairing company, which undertakes projects of building small to medium-sized product tankers, bulk carriers and offshore survey vessels in addition to executing ship-repairing activities from its shipyard facility at Ramsar in Bhavnagar (Gujarat).

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	42.1	32.4
PAT	9.7	(8.5)
OPBDIT/OI	23.4%	-0.4%
PAT/OI	23.0%	-26.3%
Total outside liabilities/Tangible net worth (times)	14.5	NM
Total debt/OPBDIT (times)	9.6	NM
Interest coverage (times)	1.2	NM

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Jan 17, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 17, 2024	Mar 24, 2023	Dec 31, 2021	Sep 18, 2020
1 Fund based	Long term	8.00	-	[ICRA]B(Stable)	[ICRA]B(Stable)	[ICRA]B(Stable)	[ICRA]C
2 Unallocated	Long term	10.00	-	[ICRA]B(Stable)	[ICRA]B(Stable)	[ICRA]B(Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term fund-based - Cash credit	Simple
Long term - Unallocated	Not Applicable

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: [Click Here](https://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 - Fund based	NA	NA	NA	8.00	[ICRA]B(Stable)
NA	Long term - Unallocated	NA	NA	NA	10.00	[ICRA]B(Stable)

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	DSEPL Ownership	Consolidation Approach
Dempo Shipbuilding and Engineering Private Limited	100% (rated entity)	Full Consolidation
Modest Infrastructure Private Limited	92%	Full Consolidation

Source: DSEPL annual report

ANALYST CONTACTS

Girishkumar Kadam

+91 22 6114 3441

girishkumar@icraindia.com

Prashant Vasisht

+91 124 4545 322

prashant.vasisht@icraindia.com

Varun Gogia

+91 98 7115 6542

varun.gogia1@icraindia.com

Adarsh Sule

+91 881 889 4310

adarsh.sule@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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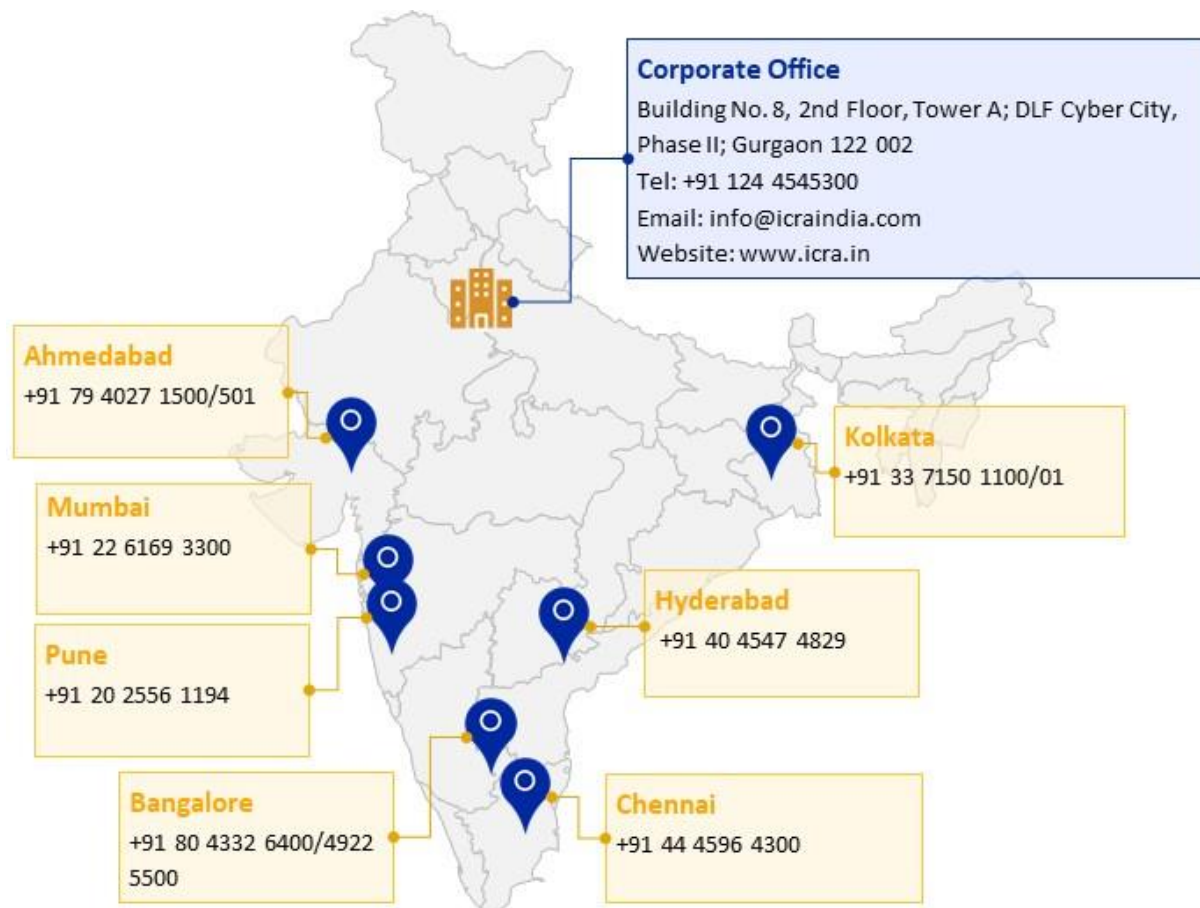
Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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