

December 31, 2021 ^{Revised}

Dempo Shipbuilding and Engineering Private Limited: Ratings upgraded to [ICRA]B (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund based	3.00	3.00	[ICRA]B(Stable); upgraded from [ICRA]C
Long-term: Non-Fund based	15.00	-	-
Long-term: Unallocated	-	15.00	[ICRA]B(Stable); upgraded from [ICRA]C
Total	18.00	18.00	

*Instrument details are provided in Annexure-1

Rationale

The rating revision considers the improvement in Dempo Shipbuilding and Engineering Private Limited's (DSEPL's) consolidated financial performance with revenue growth and OPM improvement in FY2021; although the consolidated entity still reported losses at net level. ICRA notes the improvement in the order book profile of DSEPL's subsidiary and although the standalone company had low orders in hand, there are several potential orders, which if awarded should result in improved order book profile of the consolidated entity. ICRA also notes that the consolidated entity continues to get financial support from the parent company, V S Dempo Holdings Private Limited (VSDHPL), and despite losses the company has maintained timely debt servicing. Further, the experience of the promoters in the shipbuilding sector has also been considered. The ratings also take note of the improved capital structure of the consolidated entity post conversion of CCDs extended to VSDHPL by DSEPL into equity; although it remains weak due to the consolidated net worth remaining negative as on March 31, 2021 because of losses in the last few years.

However, the rating continues to remain tempered by the weak financial risk profile of the company, characterised by losses in the last few years, volatility in order flows with low orders in hand for DSEPL (standalone) and 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 growth in consolidated revenues and profitability as well as liquidity support from its parent company.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in the shipbuilding industry – Incorporated in 1963, DSEPL 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 Udir (*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 1000 tonnes per annum.

Status of DSEPL as part of the 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, has extended support of Rs. 313.7 crore in the form of equity, Rs. 60.2 crore in the form of CCDs, and Rs. 19.8 crore in the form of unsecured loans as on March 31, 2021, to support the operations of the company. DSEPL, in turn, has extended support to its subsidiary company, Modest Infrastructure Private Limited, with Rs. 343.1 crore in the form of equity, and Rs. 7.19 crore in the form of unsecured loans as on March 31, 2021.

Credit challenges

Weak financial risk profile characterised by continued losses and depressed coverage indicators – DSEPL's consolidated financial risk profile is historically characterised by consistent losses at the operating and net levels. However, on consolidated basis, the company has reported operating profits in FY2021. DSEPL's capital structure has improved post the conversion of CCDs into equities; however, the coverage indicators continue to remain depressed. On a consolidated basis, the overall debt level increased to Rs. 156.3 crore as on March 31, 2021 from Rs. 150.2 crore as on March 31, 2020. The borrowings mainly consist of working capital facilities of Rs. 44.5 crore, term loan of Rs 3.4 crore and the rest as unsecured loan from VSDHPL and related parties, as on March 31, 2021.

Volatility in orders flow – DSEPL's order book remains volatile on a standalone basis; but on a consolidated basis, the order book remains healthy, driven by high-margin ship repair orders of Rs. 32.31 crore and a shipbuilding order of Rs. 25.45 crore. After executing a major shipbuilding order in FY2021, the company currently does not have any orders in hand for its shipbuilding division. However, it is in talks with some prospective customers for the construction of vessels. In addition, DSEPL has some repair orders in hand 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 its sales contracts.

Liquidity position: Stretched

The liquidity of the company remains stretched due to its loss-making operations because of the persistent slowdown in the shipbuilding industry. Consequently, DSEPL largely depends on the support from its parent to fund its losses and working capital requirements. While ICRA notes that the company's debt servicing has been regular since August 2020, 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.

Negative factors – Pressure on the ratings could arise in case of a substantial decline in revenues and profitability of the consolidated entity, 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 Consolidated and Rating Approach
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	The Rating is based on the consolidated financials of the rated entity and its subsidiary, MIPL.

About the company

Incorporated in 1963, Dempo Shipbuilding & Engineering Private Limited is a wholly-owned subsidiary of V S Dempo Holdings Private Limited, 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 DWT per annum and carry out repairs of up to 1000 tonnes per annum. In July 2012, DSEPL had received approval from the Gujarat Maritime Board for acquisition of a majority stake in Modest Infrastructure Private Limited. Consequently, MIPL became a subsidiary of DSEPL. MIPL is a shipbuilding and repairing company, which undertakes building projects for small to medium-sized product tankers, bulk carriers and offshore survey vessels in addition to executing ship repairs from its shipyard facility at Ramsar in Bhavnagar (Gujarat).

On a consolidated basis, DSEPL reported an OPBITD of Rs. 3.0 crore on an OI of Rs. 45.0 crore in FY2021 compared to an OPBITD of -Rs. 4.5 crore on an OI of Rs. 32.9 crore in FY2020.

Key financial indicators (audited)

Consolidated*	FY2020 (A)	FY2021 (A)
Operating Income (Rs. crore)	32.9	45.0
PAT (Rs. crore)	-18.9	-8.6
OPBDIT/OI (%)	-13.8%	6.7%
PAT/OI (%)	-57.5%	-19.1%
Total Outside Liabilities/Tangible Net Worth (times)	-1.5	-3.9
Total Debt/OPBDIT (times)	-87.6	52.2
Interest Coverage (times)	-0.4	0.3

Note: A – Audited; P – Provisional; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Consolidation is done by ICRA in absence of consolidated financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 20201 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in
					Dec 31, 2021	Sep 18, 2020	Sep 19, 2019	Aug 03, 2018
1	Overdraft	Long-term	3.00	-	[ICRA]B(Stable)	[ICRA]C	[ICRA]D	[ICRA]D
2	Non-Fund based limits	Long-term	-	-	-	[ICRA]C	[ICRA]D	[ICRA]D
3	Unallocated	Long-term	15.00	-	[ICRA]B(Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term: Fund based	Simple
Long Term: Unallocated	NA

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/Bank name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NKGSB Bank	Overdraft	NA	NA	NA	3.00	[ICRA]B(Stable)
NA	Unallocated	NA	NA	NA	15.00	[ICRA]B(Stable)

Source: DSEPL

Annexure-2: 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

Corrigendum

Document dated December 31, 2021 has been corrected with revisions as detailed below:

- *Consolidation/Standalone section in Analytical approach on page no. 2: Language modified to consolidated financials instead of consolidated view.*

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