

August 21, 2017

Modest Infrastructure Limited

Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – CC	70.00	[ICRA]C+ ; Reaffirmed
Non-fund based Limits	35.00	[ICRA]C+ / [ICRA]A4; Reaffirmed
Proposed Limits	145.00	[ICRA]C+ / [ICRA]A4; Reaffirmed
Total	250.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]C+ (pronounced ICRA C plus) and the short-term rating of [ICRA]A4 (pronounced ICRA A four) outstanding on the Rs. 250.00-crore¹ bank facilities of Modest Infrastructure Limited (MIL / the company)².

Rationale

The rating reaffirmation takes into account the company's weak financial performance as reflected in its consistently loss-making operations (with losses at operating level since FY2014), which has completely eroded its net-worth; and also resulted in stretched liquidity position. Moreover, MIL's profitability remains vulnerable to input price variations owing to the fixed-price nature of its contracts. The company's revenue visibility is currently weak because of subdued demand scenario in the shipbuilding industry, resulting in a low order book position of Rs. 4.4 crore as on July 31, 2017, which largely consists of ship repair works. The company is in discussions with various customers for fresh orders and its ability to win large-size orders in the near term would lend revenue visibility and improve the financial profile— both critical from the credit perspective.

The rating, however, favorably takes into account the financial support extended by the Dempo Group in the form of unsecured loans (Rs. 185 crore as on March 31, 2017) to support MIL's cash flow position. The rating also factors in the experience of the promoters in the shipbuilding industry.

Key rating drivers

Credit Strengths

- **Financial support extended by holding company, Dempo Shipbuilding & Engineering Private Limited (DSEPL):** MIL was acquired by the Dempo Group in FY2012, which currently holds 74% stake in the company. MIL's parent company, DSEPL, along with the ultimate holding company, VS Dempo Holdings Private Limited (VDHPL), have been regularly infusing funds as unsecured loans to support the cash flow position of the company.

¹ 1 crore = 100 lakh = 10 million

² For a complete rating scale and definitions, please refer to ICRA's website (www.icra.in) or other ICRA rating publications.

- **Longstanding experience of promoters in shipbuilding industry:** The Dempo Group has about four decades of experience in the ship-building industry— a credit positive for MIL’s operations.

Credit Challenges

- **Weak financial profile:** MIL’s financial profile is characterized by consistent losses at operating level, along with high working capital requirements. The company’s net-worth has been completely eroded by net losses reported over the last five fiscals.
- **Stretched liquidity position:** The company’s liquidity profile is stretched primarily because of low cash accruals caused by the industry slowdown as well as the delay in execution of certain past orders that led to high inventory build-up.
- **Weak order-book position:** The company has an order book size of Rs. 4.40 crore as of July 31, 2017. The order book contains only repair orders and no new-build orders and hence the revenue visibility is weak.
- **Profitability exposed to input price variations owing to fixed-price nature of contracts:** Since the contract prices for the new build orders are fixed in nature, the company is exposed to raw material price risk, which could affect the profit levels.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company:

Modest Infrastructure Limited (MIL) is a ship-building and repairing company, which undertakes projects to build small-to-medium size product tankers, bulk carriers and offshore survey vessels, in addition to ship-repairing activities. The company was started as a shipping agency, ‘Modest Offshore Services Pvt. Ltd.’, by Mr. Kishore Gambani. As an agency, it was involved in managing vessels, repairing, dry docking of ships and other ship-related services. In 2006, MIL ventured into the shipbuilding segment, and currently has a shipyard facility at Ramsar in Bhavnagar, Gujarat. In 2012, the Goa-based shipbuilding company, Dempo Shipbuilding & Engineering Private Limited, acquired 74% stake in MIL through share purchase/share subscription agreement.

Key Financial Indicators

	FY2016	FY2017P
Operating Income (Rs. crore)	31.7	34.8
PAT (Rs. crore)	-42.5	-25.7
OPBDIT/ OI (%)	-46.2%	-26.8%
RoCE (%)	-20.3%	
Total Debt/ TNW (times)	-1.6	-1.3
Total Debt/ OPBDIT (times)	-12.5	-26.9
Interest coverage (times)	-0.7	
NWC/ OI (%)	215%	

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital; FY2017 numbers are provisional in nature as provided y the company

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years:

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
				August 2017	July 2016	July 2015	December 2014	
1	Fund-based – CC	Long Term	70.00	[ICRA]C+	[ICRA]C+	[ICRA]C+	[ICRA]C+	
2	Non-fund based Limits	Long Term / Short Term	35.00	[ICRA]C+ / [ICRA]A4	[ICRA]C+ / [ICRA]A4	[ICRA]C+ / [ICRA]A4	[ICRA]C+ / [ICRA]A4	
3	Proposed Limits	Long Term / Short Term	145.00	[ICRA]C+ / [ICRA]A4	[ICRA]C+ / [ICRA]A4	[ICRA]C+ / [ICRA]A4	[ICRA]C+ / [ICRA]A4	

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1
Instrument Details**

ISIN No	Instrument	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based Limits – CC	-	-	-	70.00	[ICRA]C+
NA	Non-fund based Limits	-	-	-	35.00	[ICRA]C+ / [ICRA]A4
NA	Proposed Limits	-	-	-	145.00	[ICRA]C+ / [ICRA]A4

Source: MIL

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For more information, visit www.icra.in

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