

Dempo Shipbuilding and Engineering Private Limited Revised

August 03, 2018

Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|------------------------------|--------------------------------------|-------------------------------------|---|
| Long Term - Fund Based/ CC | 8.00 | 8.00 | [ICRA]D; downgraded from [ICRA]B (Stable) |
| Long Term - Non Fund Based | 50.00 | 50.00 | [ICRA]D; downgraded from [ICRA]B (Stable) |
| Short Term - Interchangeable | (50.00)* | (50.00)* | [ICRA]D; downgraded from [ICRA]A4 |
| Total | 58.00 | 58.00 | |

*Rs. 50.00 crore short-term fund based / non-fund based facility is a sublimit of Rs. 50.00 crore long-term non-fund based facility

*Instrument details are provided in Annexure-1

Rating action

ICRA has downgraded the long-term rating from [ICRA]B (pronounced ICRA B) to [ICRA]D (pronounced ICRA D) to the Rs. 8.00 crore¹ fund-based facility and Rs. 50.00 crore non-fund based facility of Dempo Shipbuilding and Engineering Private Limited (DSEPL)². ICRA has also downgraded the short-term rating from [ICRA]A4 (pronounced ICRA A four) to [ICRA]D to the Rs. 50.00 crore fund-based/non-fund based facility of DESPL. The short-term fund based/non-fund based facility of Rs. 50.00 crore is a sub-limit of long-term non-fund based facility of Rs. 50.00 crore.

Rationale

The ratings revision takes into consideration the excess drawing of working capital facility by DSEPL owing to stretched liquidity. ICRA also notes that the company is affected by the downturn in the shipbuilding industry and it remains vulnerable to input price variations owing to the fixed-price nature of its contracts.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Extensive experience of promoters in the shipbuilding industry – Incorporated in 1974, DSEPL is involved in the construction and repair of barges, utility vessels and pontoons. The company has two shipbuilding yards: one at Old Goa on the banks of Mandovi river and the other at Undir on the banks of the Zuari river.

Status of DSEPL as a part of the Dempo Group in Goa, which continues to provide significant financial support -DSEPL is promoted by the Dempo Group through VS Dempo Holdings Private Limited, which holds a 100% stake in DSEPL. In view of the downturn in shipbuilding industry and deteriorating financial position of DSEPL, the parent company VSDHPL has supported the operations of DSEPL by way of interest-free unsecured loans in the last few years.

Credit challenges

Weakened financial position of the company resulting in excess drawing in working capital facility – Due to prolonged weakness in the shipbuilding industry, the operating performance of the company has deteriorated during the past three fiscals with company reporting operating and net losses. This resulted in excess drawing of working capital facility.

Large investments and advances extended to its subsidiary –DSEPL has invested Rs. 93.68 crore and extended advances of Rs. 190.35 crore to its subsidiary, Modest Infrastructure Private Limited (MIPL) as on March 31, 2018. MIPL remains a loss-making entity with a negative net worth, which adversely impacts the consolidated financial risk profile of DSEPL.

Exposure to raw material price risk - The company's margins are exposed to fluctuations in input material price given the fixed-price nature of contracts.

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:

Incorporated in 1974, Dempo Shipbuilding & Engineering Private Limited (DSEPL) 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 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 the repair work of around 36 vessels of 350-2,000 DWT. In July, 2012, DSEPL had received approval from the Gujarat Maritime Board for 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

| | FY2017A | FY2018P |
|------------------------------|---------|---------|
| Operating Income (Rs. crore) | 15.2 | 11.9 |
| PAT (Rs. crore) | -4.8 | -6.1 |
| OPBDIT/OI (%) | -20.6% | -26.6% |
| RoCE (%) | -2.0% | -2.9% |
| Total Debt/TNW (times) | 4.1 | 4.6 |
| Total Debt/OPBDIT (times) | -81.2 | -40.9 |
| Interest coverage (times) | -1.2 | -2.0 |

A – Audited; P – Provisional; Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; RoCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work -in Progress); NWC: Net Working-Capital; Source: DSEPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| | | Current Rating (FY2019) | | | Chronology of Rating History for the Past 3 Years | | |
|-----------------------------------|-----------------------|--------------------------|--------------------------------|---------------------------|---|-------------------------|-------------------------|
| Instrument | Type | Amount Rated (Rs. crore) | Amount Outstanding (Rs. crore) | Date & Rating August 2018 | Date & Rating in FY2018 | Date & Rating in FY2017 | Date & Rating in FY2016 |
| | | | | | Oct 2017 | Sep 2016 | Jul 2015 |
| 1 Cash Credit | Long Term | 8.00 | 8.00 | [ICRA]D | [ICRA]B (Stable) | [ICRA]B (Stable) | [ICRA]B+ (Stable) |
| 2 Letter of Credit/Bank Guarantee | Long Term | 50.00 | 50.00 | [ICRA]D | [ICRA]B (Stable) | [ICRA]B (Stable) | [ICRA]B+ (Stable) |
| 3 Fund based / non-fund based | Long Term/ Short Term | (50.00)* | (50.00)* | [ICRA]D | [ICRA]A4 | [ICRA]A4 | [ICRA]A4 |

*Rs. 50.00 crore short-term fund based / non-fund based facility is a sublimit of Rs. 50.00 crore long-term non-fund based facility

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 Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|------------------------------------|--------------------------------|-------------|------------------|--------------------------------|-------------------------------|
| NA | Cash Credit | NA | NA | NA | 8.00 | [ICRA]D |
| NA | Letter of Credit/Bank Guarantee | NA | NA | NA | 50.00 | [ICRA]D |
| NA | Fund based / non-fund based | NA | NA | NA | (50.00)* | [ICRA]D |

**Rs. 50.00 crore short-term fund based / non-fund based facility is a sublimit of Rs. 50.00 crore long-term non-fund based facility*

Source: DSEPL

Corrigendum

Document dated August 03, 2018 has been corrected with revisions as detailed below:

- Revision made under section titled 'Rating history for last three years' on page number 3.
- Replaced the period 'Aug 2016' with 'Sep 2016'

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