

## International Seaport Dredging Private Limited

October 15, 2018

### Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term / Short-term, fund-based and non-fund based facilities	100.00	100.00	[ICRA]BBB-(Stable)/[ICRA]A3; reaffirmed
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB- (pronounced as ICRA triple B minus) and the short-term rating of [ICRA]A3 (pronounced ICRA A three) outstanding on the Rs. 100.0- crore<sup>1</sup> long-term/short-term fund-based and non-fund based facilities of International Seaport Dredging Private Limited (ISDPL or the company)<sup>2</sup>.

### Rationale

The ratings continue to derive comfort from the operational, technical and financial support extended by the parent company Dredging, Environmental & Marine Engineering (DEME). ICRA notes that the company's financial performance remains susceptible to the lumpy order flows, stringent contractual provisions and unpredictable seabed conditions, leading to underperformance compared to contractual provisions. ISDPL's margins are exposed to intense competition from domestic as well as major global dredging players. The above mentioned factors had impacted company's profit margins during FY2018, with net losses of 91.0 crore, which include Rs. 65.5 crore of provision for future contract losses.

Nonetheless, the strong orders in hand (including the orders awarded to a joint venture (JV)) are expected to support the revenue growth over the next two years. Further, 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 the healthy capital structure and negligible use of fund-based limits. The company plans to keep its fleet strength low to benefit from the low depreciation costs and leverage the extensive fleet available with the Group by leasing vessels as required.

ICRA also notes the substantial reduction in the contingent liabilities on the back of favourable outcome on disputes related to service tax.

### Outlook: Stable

ICRA expects the company to continue to benefit from financial and operational support from DEME Group and healthy revenue growth in near future on the back of strong orders in hand. The outlook will be revised to Positive if there is a substantial revenue growth and improvement in profitability. The outlook will be revised to a Negative if the financial performance gets adversely impacted, or if losses from contracts result in lower-than-expected cash accruals, which would further weaken the financial profile.

<sup>1</sup>100 lakh = 1 crore = 10 million

<sup>2</sup>For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

## Key rating drivers

### Credit strengths

**Strong parentage** – ISDPL is promoted by the Belgium-based DEME Group and Larsen & Toubro (L&T). DEME is a 150-year old Antwerp-based dredging and hydraulic engineering Group and is one of the major global players in this segment. It provides operational, technical and financial support to ISDPL. The company also enjoys a flexible credit period from the Group companies while making payments for technical services, and vessel and charter hire. Moreover, since FY2015, the company 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 also provides counter guarantees for obtaining the bank guarantees for the large orders received by ISDPL.

**Healthy order book position** – As on March 31, 2018, the company's strong order book position was Rs. 1,455 crore, which includes a new large capital dredging contract from the Indian Navy (awarded to a JV). The order book should thus aid in healthy revenue growth over the next two years, although the financial performance remains susceptible to risks associated with dredging projects.

**Healthy 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 ports 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.

**Comfortable liquidity position** – In FY2018, the company witnessed high losses and also incurred capex related to vessel dry docking, which led to a moderation in cash reserves. Nonetheless, the capital structure remained healthy with only moderate use of the fund-based facilities and the liquidity position remains comfortable, supported by undrawn working capital facilities, modest capex requirements in the medium term and flexibility with regards to the charter-hire payments to Group entities.

**Reduction in contingent liabilities** – The company witnessed an increase in its contingent liabilities in FY2016 and FY2017 related to service tax demands. However, in FY2018, the company received a favourable ruling with regards to several tax disputes, leading to a moderation in the contingent liabilities.

### Credit weaknesses

**Revenue and profitability vulnerable to lumpy order flow and risks associated with dredging projects** – The dredging sector remains exposed to lumpy order flows, and uncertainty related to seabed behavior and fixed-price nature of contracts, leading to cost and time overruns. Due to same reasons, ISDPL has also witnessed volatility in financial performance in last few years. In FY2018, the company witnessed Rs. 91.0 crore loss (including provision of Rs. 65.5 crore for future contract losses). This was on account of delays in project execution on the back of issues with getting timely approvals, unavailability of site and soil related issues led to the suboptimal usage of mobilised resources. The profitability was further affected by the company's limited ability to pass on the fuel price escalation.

**Intense competition from domestic and international players** – The company faces aggressive competition from the domestic players, who can avail right of first refusal (ROFR), and from the major global dredging players, putting pressure on its margins. The competitive situation is aggravated by the weak global demand conditions and surplus capacity.

## About the company

International Seaport Dredging Private Limited (erstwhile International Seaport Dredging Limited), incorporated in March 2004, is a JV between the DEME Group and L&T, with current shareholding at 86.02% and 9.85%, respectively. The DEME Group is a 150-year old Antwerp-based dredging and hydraulic engineering Group and is one of the global dredging majors.

ISDPL undertakes capital and maintenance dredging, and reclamation jobs for various port projects. It has executed various dredging projects in Dhamra, Ennore, Gangavaram, Karwar, Mundra, Hazira, Salaya, Kakinada, Mormugao ports, the Jawahar Lal Nehru Port Trust (JNPT, Mumbai) and the Middle Eastern (chartered operations) ports. The major projects currently underway are the naval projects in the Karnataka and Andhra Pradesh states, and the capital dredging project at Gopalpur port.

In FY2018, the company reported a loss of Rs. 91.0 crore on an operating income (OI) of Rs. 412.9 crore, compared to a net profit of Rs. 11.4 crore on an OI of Rs. 323.6 crore in the previous year.

## Key financial indicators

	FY2017	FY2018*
Operating Income (Rs. crore)	323.6	412.9
PAT (Rs. crore)	11.4	-91.0
OPBDIT/OI (%)	5.1%	-13.8%
RoCE (%)	3.3%	-58.4%
Total Debt/TNW (times)	0.0	0.0
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	18.4	-23.0

Source: Financial report, ISDPL; \*Provisional Financial

## 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	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2015
				Oct 2018	July 2017	Apr 2016	Aug 2014
1 Fund-based/Non-fund Based	Long Term/Short Term	100.00	100.00	[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 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](http://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
	Fund-based / Non-fund Based Facilities*	-	-	-	100.00	[ICRA]BBB-(Stable)/ [ICRA]A3

\*The company has availed several fund based/non fund based facilities, all of which are interchangeable with maximum utilisation limits of Rs. 100.0 crore  
 ISDPL Source:

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