

One-off lifts profitability

Dredging Corporation of India reported strong revenues for Q4FY19 led by improved fleet utilisation. Further adjusted EBITDA margins came at ~15% levels, led by higher other expenses to sales ratio. The exceptional item included gain from reversal of provision amounting to ₹ 114 crore, related to outstanding dues to be received from the Sethusamudram Corporation (SCI). The company received ₹ 21 crore in Q4FY19, of the total outstanding ₹ 137 crore from SCI. The management expects the cash inflow from SCI and its newer promoter structure to be beneficial for its working capital days.

Better fleet utilisation expected to continue in FY20

FY19 has been a moderate year for the company with FY19 revenues and EBITDA increasing (12%, 5% respectively) on a YoY basis. Dredging Corp garners highest revenues from a maintenance dredging contract at Kolkata Port Trust (~₹ 1120 crore for five years), followed by maintenance dredging contract at Cochin Shipyard (₹ 110 crore for five years) and a capital dredging contract (₹ 103 crore for 15 months). Overall, the company has commitments tied to over nine clients totalling over ₹ 1680 crore to be executed in a few months to years. Improved fleet utilisation is expected to provide impetus to revenue growth from FY20 onwards.

Governments' focus on waterways to benefit company

The dredging opportunity in India appears to be very large driven by a slew of inland and coastal shipping initiatives, which were announced over a two-year period. These include mandate to increase the port draft to a minimum of 18 metre, announcement of 106 additional national waterways (NW) and operationalising the same for inland shipping. Moreover, projects like Jal Marg Vikas, Clean Ganga were about to offer very large opportunities for dredging market. Sagar Mala, which envisaged 150 projects entailing an investment of ₹ 100000 crore, can result in an approximate dredging opportunity of ₹ 20000 crore.

Outlook & Valuation

Change of promoters of Dredging Corp is expected to provide a trigger to capture the huge growth opportunity presented by the planned projects and could also lead to nimbleness in decision making and upgrading/investing in existing fleet and acquisition of new fleet/equipment to cater to requirement of various projects. At the current market price, DCI is trading at ~15x FY21E EPS of ₹ 26.1 and 0.7x FY21E P/BV (book value). However, as concerns remain related to execution of ongoing projects and scaling up of the operations of the company by the consortium of the ports, we maintain **HOLD** on the stock, valuing it at ₹ 380 (15x FY21E EPS).



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,100.4
Total Debt (FY19P) (₹ Crore)	520.3
Cash (FY19P) (₹ Crore)	88.7
EV (₹ Crore)	1,531.9
52 week H/L	612/286
Equity Capital (₹ Crore)	28.0
Face Value (₹)	10.0

Key Highlights

- The management expects the cash inflow from SCI and its newer promoter structure to be beneficial for its working capital days
- Overall, the company has commitments tied to over nine clients totalling over ₹ 1680 crore to be executed going ahead
- We expect revenue, EBITDA, PAT CAGR of 10%, 22%, 28%, respectively, in FY19-21E
- Maintain HOLD

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Key Financial Summary

₹ crore	FY17	FY18	FY19E	FY20E	FY21E	CAGR (%)
Net Sales	585.9	591.9	661.6	727.7	800.5	8.1
EBITDA	117.0	134.9	141.0	178.3	208.1	15.5
EBITDA margin (%)	20.0	22.8	21.3	24.5	26.0	
PAT	7.4	17.1	44.6	51.9	70.4	75.5
P/E (x)	150.9	65.3	25.1	21.6	15.9	
P/B (x)	0.7	0.7	0.7	0.7	0.7	
RoCE (%)	1.1	1.5	1.4	3.4	4.3	
RoE (%)	0.4	1.1	1.5	3.5	4.8	

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	208.3	169.6	152.8	36.3	165.0	26.2	Revenues higher than estimates due to better fleet utilisation
Employee benefit expenses	30.3	23.7	19.8	53.0	23.8	27.3	
Other cost	146.3	102.0	94.0	55.7	102.7	42.5	
Total Expense	176.6	125.7	113.8	55.2	126.5	39.6	
EBITDA	31.7	43.9	39.0	-18.7	38.6	NA	
EBITDA Margin (%)	15.2	25.9	25.5	-40.4	23.4	NA	Margins lower due to higher other expenses to sales ratio
Depreciation	28.7	28.0	29.2	-1.6	27.8	3.2	
Interest	5.7	3.9	5.2	9.3	3.8	50.5	
Other Income	-0.1	4.0	15.4	-100.5	4.3	-101.9	
Exceptional Gain/Loss	114.3	0.0	0.0	NA	0.0	NA	
PBT	-2.7	16.0	20.1	NA	11.3	NA	
Total Tax	0.5	2.4	3.0	-83.9	1.5	-68.0	
PAT	111.1	13.6	17.1	549.4	9.8	NA	

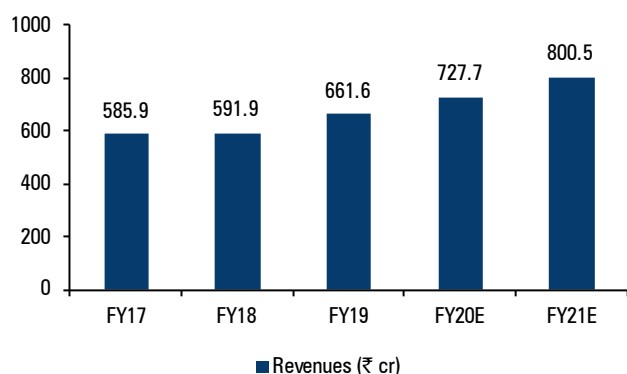
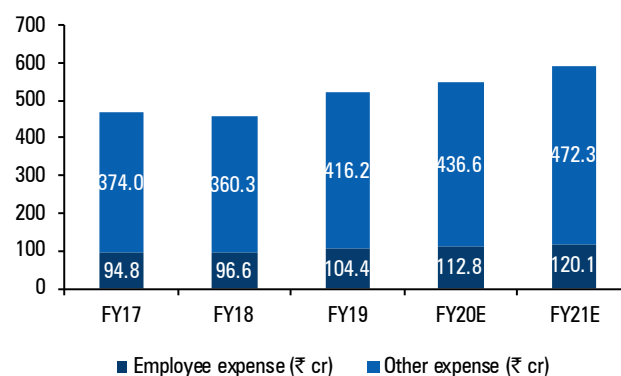
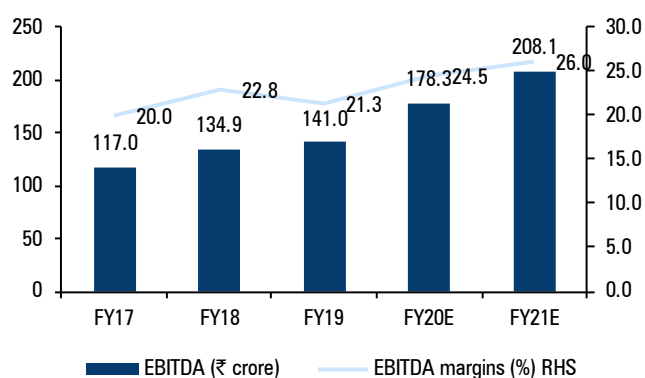
Source: ICICI Direct Research

Exhibit 2: Change in estimates

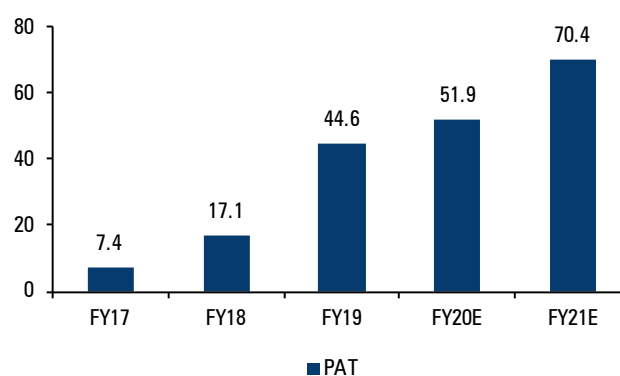
	FY20E					FY21E			
(₹ Crore)	FY18	FY19	Old	New	% Change	Old	New	% Change	
Revenue	591.9	661.6	676.7	727.7	7.5	749.7	800.5	6.8	Estimates revised upwards due to better fleet utilisation
EBITDA	134.9	141.0	165.8	178.3	7.5	194.9	208.1	6.8	
EBITDA Margin (%)	22.8	21.3	24.5	24.5	0 bps	26.0	26.0	0 bps	
PAT	21.8	17.3	43.4	51.9	19.6	64.8	70.4	8.6	
EPS (₹)	6.1	15.9	15.5	18.5	19.6	23.2	25.1	8.3	Short-term debt expected to be lowered due to lowering of receivables in FY19

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 3: Revenues to grow at CAGR of 10% over FY19-21E

Exhibit 4: Expense composition

Exhibit 5: EBITDA expected to grow at 22% CAGR FY19-21


Source: Company, ICICI Direct Research

Exhibit 6: PAT expected to grow at 28% CAGR FY19-21


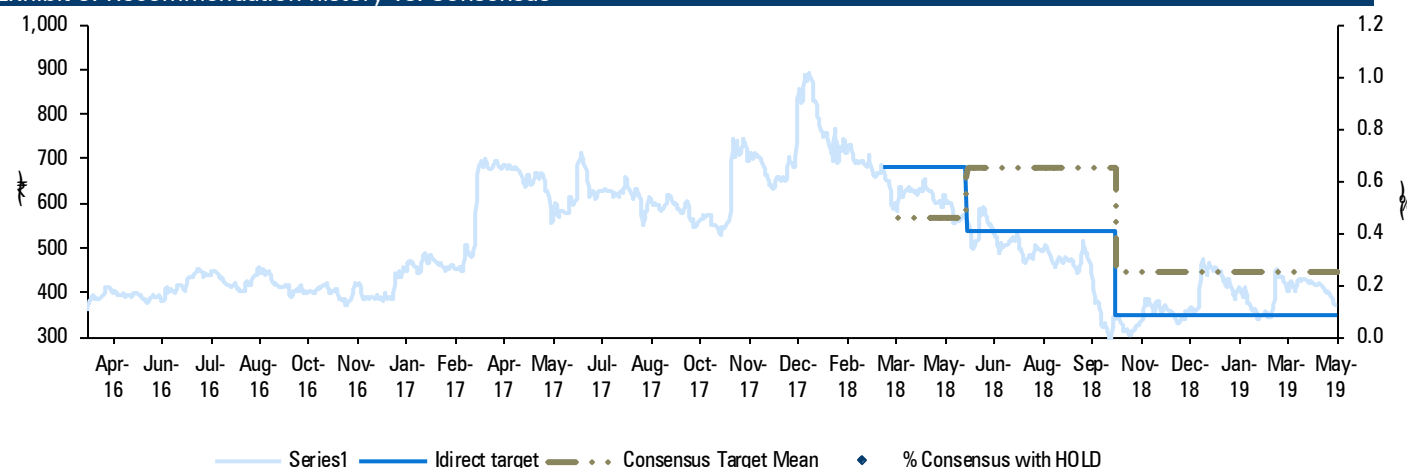
Source: Company, ICICI Direct Research

Exhibit 7: Valuation ratios

	Sales	Sales	EPS	EPS	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	Growth (%)	(₹)	Growth (%)	(x)	(x)	(%)	(%)
FY18	591.9	1.0	6.1	131.0	65.3	15.0	0.5	1.1
FY19P	661.6	11.8	15.9	160.2	25.1	12.7	1.1	1.5
FY20E	727.7	10.0	18.5	16.3	21.6	11.0	2.8	1.4
FY21E	800.5	10.0	25.1	35.6	15.9	7.8	3.2	3.4

Source: Company, ICICI Direct Research

Exhibit 8: Recommendation history vs. Consensus



Source: ICICI Direct Research; Reuters

Exhibit 9: Shareholders

Rank	Investor Name	Latest Filing Date	% O/S Position (m)	Change (m)
1	Diageo PLC	31-Dec-18	55%	398.1
2	USL Benefit Trust	31-Dec-18	2%	17.3
3	UB Group	31-Dec-18	2%	14.0
4	Motilal Oswal Asset Management Cor	31-Mar-19	2%	11.4
5	Carmignac Gestion	31-Dec-18	2%	11.3
6	The Vanguard Group, Inc.	31-Mar-19	2%	11.0
7	CLSA Capital Partners	31-Dec-18	1%	10.4
8	BlackRock Institutional Trust Company	31-Mar-19	1%	8.4
9	Matthews International Capital Manag	31-Dec-18	1%	7.6
10	Tata Asset Management Limited	31-Mar-19	1%	7.4

Source: ICICI Direct Research, Reuters, Company

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	56.8	56.8	56.8	56.8
FII	23.2	23.0	23.1	22.6
DII	5.3	4.2	4.7	5.1
Others	14.8	16.0	15.4	15.6

Source: ICICI Direct Research, Reuters, Company

Exhibit 11: Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
Norges Bank Investment Management (NBIM)	24.7	2.7	Carmignac Gestion	-70.1	-8.1
Baillie Gifford & Co.	18.7	2.0	Kotak Mahindra Asset Management Company Ltd.	-4.8	-0.6
Capital Research Global Investors	15.3	1.9	Goldman Sachs Asset Management International	-1.7	-0.2
Tata Asset Management Limited	7.3	0.9	JM Financial Asset Management Pvt. Ltd.	-1.7	-0.2
Indus Capital Partners, LLC	4.7	0.7	Reliance Nippon Life Asset Management Limited	-1.3	-0.2

Source: ICICI Direct Research, Reuters

Financial summary

Exhibit 12: Profit & Loss Statement

₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Revenue	591.9	661.6	727.7	800.5
Growth (%)	1.0	11.8	10.0	10.0
Employee Expense	96.6	104.4	112.8	120.1
Other Expenses	360.3	416.2	436.6	472.3
EBITDA	134.9	141.0	178.3	208.1
Growth (%)	15.3	4.5	26.4	16.7
Depreciation	113.2	112.9	115.0	121.6
EBIT	21.8	28.1	63.3	86.5
Interest	20.2	17.5	13.6	15.1
Other Income	20.3	6.8	16.0	17.6
PBT	21.8	17.3	65.7	89.1
Growth (%)	77.1	(20.3)	278.8	35.6
Tax	4.6	2.9	13.8	18.7
PAT before exceptional item	17.1	14.4	51.9	70.4
Exceptional Items	-	30.2	-	-
PAT after exceptional items	17.1	44.6	51.9	70.4
Growth (%)	131.0	160.2	16.3	35.6
EPS	6.1	15.9	18.5	25.1

Source: ICICI Direct Research

Exhibit 13: Cash flow Statement

₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	17.1	44.6	51.9	70.4
Less: Dividend Paid	9.8	9.8	9.8	9.8
Add: Depreciation	113.2	112.9	115.0	121.6
Cash Profit	120.5	147.7	157.0	182.1
Increase/(Decrease) in CL	(18.8)	(55.8)	112.6	92.5
(Increase)/Decrease in CA	4.5	86.0	110.9	(17.0)
CF from Operating Activities	136.2	205.3	404.1	282.6
(Add) / Dec in Fixed Assets	(138.3)	(5.5)	(216.5)	(200.0)
Goodwill	-	-	-	-
(Inc)/Dec in Investments	-	-	-	-
CF from Investing Activities	(138.3)	(5.5)	(216.5)	(200.0)
Inc/(Dec) in Loan Funds	(27.8)	(152.1)	(50.0)	50.0
Inc/(Dec) in Sh. Cap.	-	-	-	-
Change in Reserves & other	(3.5)	(17.1)	(19.7)	(19.7)
Others	60.7	(1.3)	9.8	9.8
Interest Paid	(20.2)	(17.5)	(13.6)	(15.1)
CF from financing activities	9.1	(188.1)	(73.5)	25.1
Change in cash Eq.	7.0	11.6	114.0	107.6
Op. Cash and cash Eq.	70.1	77.1	88.7	202.8
Cl. Cash and cash Eq.	77.2	88.8	202.8	310.4

Source: ICICI Direct Research

Exhibit 14: Balance Sheet

₹ crore

(Year-end March)	FY18	FY19P	FY20E	FY21E
Source of Funds				
Equity Capital	28.0	28.0	28.0	28.0
Reserves & Surplus	1,516.1	1,553.4	1,595.5	1,656.0
Shareholder's Fund	1,544.1	1,581.4	1,623.5	1,684.0
Secured Loan	672.4	520.3	470.3	520.3
Unsecured Loan	-	-	-	-
Total Loan Funds	672.4	520.3	470.3	520.3
Deferred Tax Liability	3.7	-	-	-
Source of Funds	2,222.7	2,105.1	2,097.2	2,207.7
Application of Funds				
Gross Block	3,269.2	3,284.1	3,484.1	3,684.1
Less: Acc. Depreciation	(1,452.6)	(1,565.5)	(1,680.5)	(1,802.1)
Net Block	1,816.6	1,718.6	1,803.6	1,882.1
Capital WIP	42.8	33.5	50.0	50.0
Total Fixed Assets	1,859.5	1,752.1	1,853.6	1,932.1
Goodwill	-	-	-	-
Investments & other financial	9.2	4.1	4.2	4.2
Inventories	192.7	191.1	219.3	241.2
Debtors	238.1	255.0	139.6	153.5
Cash	77.1	88.7	202.8	310.4
Loan & Advance, Other CA	219.7	118.3	94.6	75.7
Total Current assets	727.6	653.2	656.3	780.8
Creditors	180.1	126.3	179.4	197.4
Other Current Liabilities	228.2	220.7	275.9	344.8
Provisions	15.0	14.3	18.6	24.2
Total CL and Provisions	423.2	361.3	473.9	566.4
Net Working Capital	304.4	291.9	182.3	214.4
Deferred Tax Assets	49.6	57.0	57.0	57.0
Application of Funds	2,222.7	2,105.1	2,097.2	2,207.7

Source: ICICI Direct Research

Exhibit 15: Key Ratios

(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
Book Value	551.5	564.8	579.8	601.4
EPS	6.1	15.9	18.5	25.1
Cash EPS	46.5	56.3	59.6	68.6
DPS	3.0	3.0	3.0	3.0
Profitability & Operating Ratios				
EBITDA Margin (%)	22.8	21.3	24.5	26.0
PAT Margin (%)	2.9	6.7	7.1	8.8
Fixed Asset Turnover (x)	0.2	0.2	0.2	0.2
Inventory Turnover (Days)	118.8	105.5	110.0	110.0
Debtor (Days)	146.8	140.7	70.0	70.0
Creditor (Days)	111.0	69.7	90.0	90.0
Return Ratios (%)				
RoE	1.1	2.8	3.2	4.2
RoCE	1.5	1.4	3.4	4.3
RoIC	1.1	1.5	3.5	4.8
Valuation Ratios (x)				
PE	65.3	25.1	21.6	15.9
Price to Book Value	0.7	0.7	0.7	0.7
EV/EBITDA	12.7	11.0	7.8	6.4
EV/Sales	2.9	2.3	1.9	1.7
Leverage & Solvency Ratios				
Debt to equity (x)	0.4	0.3	0.3	0.3
Cash to Total Assets (x)	3.6	4.3	9.9	14.4
Debt to EBITDA (x)	5.0	3.7	2.6	2.5
Current Ratio	1.5	1.6	1.0	0.8
Quick ratio	1.1	1.0	0.5	0.4

Source: ICICI Direct Research

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Sell: <-15%



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