

Subcontracting revenues contract margins

Dredging Corporation of India reported strong revenues for Q1FY20 led by higher revenues from dredging contract in Bangladesh. Further EBITDA margins came at ~16% levels, led by higher other expenses to sales ratio, mainly due to lower margins from the Bangladesh contract (due to subcontracting). Subsequently, the absolute EBITDA and PAT de-grew 5% and 71% respectively due to the lower operational performance and higher depreciation expenses. Going forward, the management expects the cash inflow from SCI in Q4FY19 and its newer promoter structure to be beneficial for its working capital days going ahead.

New initiatives to garner higher revenue growth

During FY19, the company utilised 77% of the number of days (2501 days against a target of 3228 days) and it dredged 54.5 cu.m. against 63.9 cu.m. (85% utilisation). It has won 16 new contracts and completed 16 important contracts during FY19. 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 in FY20

Ports capacity creation, Sagarmala plan triggers ahead

Government's impetus to improve maritime sector and lower logistics costs, results in dredging industry to be a direct beneficiary. Ports capacity improvement to accommodate larger ships includes channel deepening, coupled with shallow water dredging demand in development of national waterways, provides opportunity for both capital and maintenance dredging. 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. The company has 15 dredgers apart from other ancillary crafts.

Outlook & Valuation

The port capacity expansion plan of the government is expected to provide a trigger to capture the huge growth opportunity presented by the planned projects. Also the new promoters (PSU ports) can aid in upgrading/investing in existing fleet and acquisition of new fleet/equipment with enhanced order flow from the parent PSU ports. At the current market price, DCI is trading at ~15x FY21E EPS of ₹ 23.7 and 0.6x 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 ₹ 360 (15x FY21E EPS).

Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR (%)
Net Sales	585.9	591.9	661.6	793.9	873.2	10.5
EBITDA	117.0	134.9	141.0	154.8	200.8	14.5
EBITDA margin (%)	20.0	22.8	21.3	19.5	23.0	
PAT	7.4	17.1	44.6	34.9	66.3	72.9
P/E (x)	124.5	53.9	20.7	26.5	13.9	
P/B (x)	0.6	0.6	0.6	0.6	0.6	
RoCE (%)	1.1	1.5	1.4	2.4	4.1	
RoE (%)	0.4	1.1	1.5	2.2	4.4	



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	924.0
Total Debt (FY19P) (₹ Crore)	520.3
Cash (FY19P) (₹ Crore)	88.8
EV (₹ Crore)	1,355.5
52 week H/L	525/286
Equity Capital (₹ Crore)	28.0
Face Value (₹)	10.0

Key Highlights

- The management expects the cash inflow from Sethusamudran Corporation 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

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Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	196.5	153.8	139.9	40.5	208.3	-5.7	Revenues higher than estimates due to higher inflow from the dredging contract in Bangladesh
Employee benefit expenses	22.1	27.7	25.2	-12.1	30.3	-26.8	
Other cost	143.3	90.0	82.1	74.6	146.3	-2.1	
Total Expense	165.4	117.7	107.3	54.2	176.6	-6.3	
EBITDA	31.1	36.1	32.6	-4.7	31.7	NA	
EBITDA Margin (%)	15.8	23.5	23.3	679	15.2	1,039	Margins lower due to higher other expenses to sales ratio primarily led by sub-contracting expenses from the Bangladesh contract
Depreciation	29.1	26.0	26.5	9.8	28.7	1.4	
Interest	3.7	4.2	4.2	-12.8	5.7	-35.0	
Other Income	3.2	2.3	1.5	112.8	-0.1	-4,062.5	
Exceptional Gain/Loss	0.0	0.0	0.0	NA	114.3	NA	
PBT	1.5	8.2	3.4	-55.9	-2.7	-154.6	
Total Tax	0.7	0.8	0.5	24.5	0.5	37.5	
PAT	0.8	7.4	2.9	-70.9	111.1	NA	

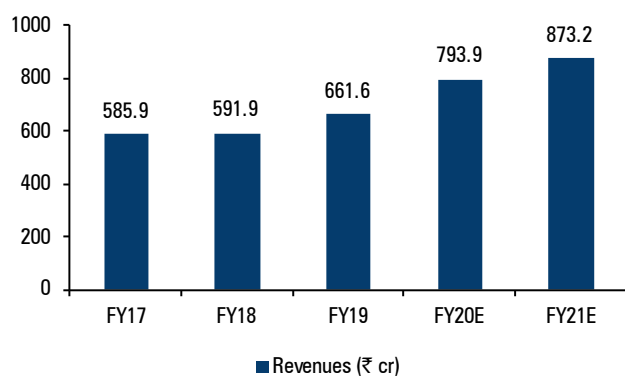
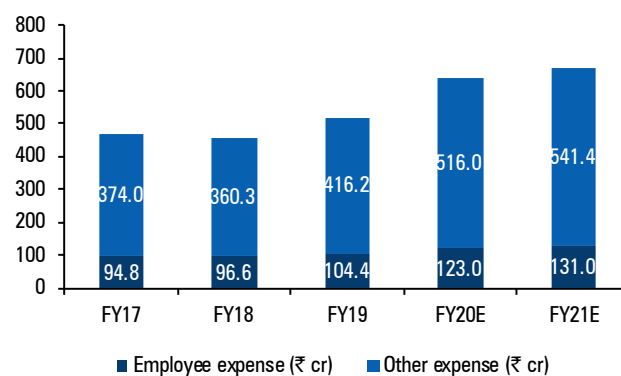
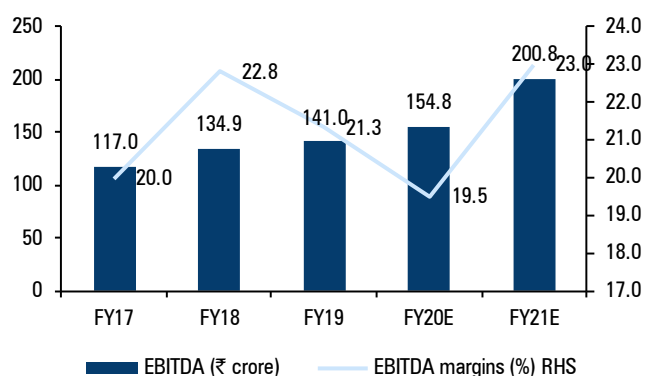
Source: ICICI Direct Research

Exhibit 2: Change in estimates

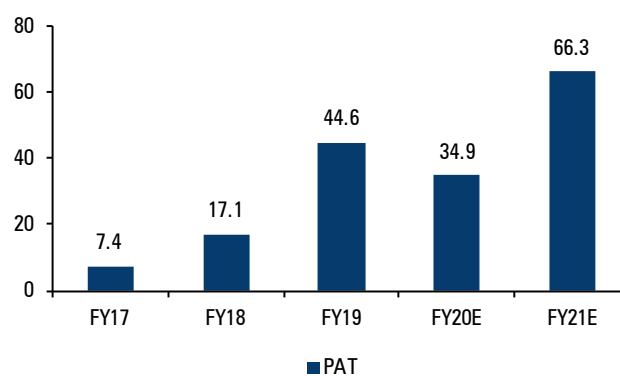
	FY20E					FY21E			
(₹ Crore)	FY18	FY19	Old	New	% Change	Old	New	% Change	
Revenue	591.9	661.6	727.7	793.9	9.1	800.5	873.2	9.1	Estimates revised upwards due to significantly higher revenues in Q1FY20
EBITDA	134.9	141.0	178.3	154.8	-13.2	208.1	200.8	-3.5	
EBITDA Margin (%)	22.8	21.3	24.5	19.5	-500 bps	26.0	23.0	-300 bps	Margins estimates revised downwards due to higher revenues from sub-contracting
PAT	21.8	17.3	51.9	34.9	-32.8	70.4	66.3	-5.8	
EPS (₹)	6.1	15.9	18.5	12.5	-32.6	25.1	23.7	-5.7	

Source: Company, ICICI Direct Research

Key Metrics

Exhibit 3: Revenues to grow at CAGR of 15% over FY19-21E

Exhibit 4: Expense composition

Exhibit 5: EBITDA expected to grow at 19% CAGR FY19-21


Source: Company, ICICI Direct Research

Exhibit 6: PAT expected to grow at 22% 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	53.9	13.3	0.5	1.1
FY19	661.6	11.8	15.9	160.2	20.7	11.3	1.1	1.5
FY20E	793.9	20.0	12.5	-21.8	26.5	9.6	2.8	1.4
FY21E	873.2	10.0	23.7	90.0	13.9	7.9	2.2	2.4

Source: Company, ICICI Direct Research

Exhibit 8: Recommendation history vs. Consensus



Source: ICICI Direct Research; Reuters

Exhibit 9: Shareholders

No	Investor Name	Latest Filing Date	% O/S	Position	Change(m)
1	Vishakapatnam Port Trust	30-Jun-19	19.5	5.5	0.0
2	Deendayal Port Trust	30-Jun-19	18.0	5.0	0.0
3	Jawaharlal Nehru Port trust	30-Jun-19	18.0	5.0	0.0
4	Paradip Port Trust	30-Jun-19	18.0	5.0	0.0
5	Life Insurance Corporation of India	30-Jun-19	4.4	1.2	0.0
6	General Insurance Corporation of India	30-Jun-19	1.8	0.5	0.0
7	LIC Mutual Fund Asset Management Con	30-Jun-19	1.3	0.4	0.0
8	Van Eck Associates Corporation	30-Jun-19	0.1	0.0	0.0
9	Dimensional Fund Advisors, Ltd.	31-Jan-19	0.0	0.0	0.0

Source: ICICI Direct Research, Reuters, Company

Exhibit 10: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	73.5	73.5	73.5	73.5
FII	0.8	0.8	0.2	0.9
DII	6.7	6.7	6.7	6.7
Others	19.0	19.1	19.6	18.9

Source: ICICI Direct Research, Reuters, Company

Exhibit 11: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Dimensional Fund Advisors, Ltd.	2.2	0.4	Government of India	-126.7	-20.6
			Dimensional Fund Advisors, L.P.	-0.3	-0.1
			Van Eck Associates Corporation	0.0	0.0

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	793.9	873.2
Growth (%)	1.0	11.8	20.0	10.0
Employee Expense	96.6	104.4	123.0	131.0
Other Expenses	360.3	416.2	516.0	541.4
EBITDA	134.9	141.0	154.8	200.8
Growth (%)	15.3	4.5	9.8	29.7
Depreciation	113.2	112.9	114.5	121.1
EBIT	21.8	28.1	40.3	79.8
Interest	20.2	17.5	13.6	15.1
Other Income	20.3	6.8	17.5	19.2
PBT	21.8	17.3	44.2	83.9
Growth (%)	77.1	(20.3)	154.7	90.0
Tax	4.6	2.9	9.3	17.6
PAT before exceptional iten	17.1	14.4	34.9	66.3
Exceptional Items	-	30.2	-	-
PAT after exceptional items	17.1	44.6	34.9	66.3
Growth (%)	131.0	160.2	(21.8)	90.0
EPS	6.1	15.9	12.5	23.7

Source: ICICI Direct Research
Exhibit 13: Cash flow Statement
₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	17.1	44.6	34.9	66.3
Less: Dividend Paid	9.8	9.8	9.8	9.8
Add: Depreciation	113.2	112.9	114.5	121.1
Cash Profit	120.5	147.7	139.5	177.5
Increase/(Decrease) in CL	(18.8)	(55.8)	128.9	94.1
(Increase)/Decrease in CA	4.5	86.0	78.3	(20.2)
CF from Operating Activities	136.2	205.3	370.2	276.3
(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	11.7	80.2	101.4
Op. Cash and cash Eq.	70.1	77.1	88.8	169.0
Cl. Cash and cash Eq.	77.2	88.8	169.0	270.4

Source: ICICI Direct Research
Exhibit 14: Balance Sheet
₹ crore

(Year-end March)	FY18	FY19	FY20E	FY21E
Source of Funds				
Equity Capital	28.0	28.0	28.0	28.0
Reserves & Surplus	1,516.1	1,553.4	1,578.5	1,634.9
Shareholder's Fund	1,544.1	1,581.4	1,606.5	1,662.9
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	2,080.2	2,186.6
Application of Funds				
Gross Block	3,269.2	3,268.4	3,468.4	3,668.4
Less: Acc. Depreciation	(1,452.6)	(1,549.9)	(1,664.3)	(1,785.4)
Net Block	1,816.6	1,718.6	1,804.1	1,883.0
Capital WIP	42.8	33.5	50.0	50.0
Total Fixed Assets	1,859.5	1,752.0	1,854.1	1,933.0
Goodwill	-	-	-	-
Investments & other financi	9.2	4.1	4.2	4.2
Inventories	192.7	191.1	239.2	263.2
Debtors	238.1	255.0	152.2	167.5
Cash	77.1	88.8	169.0	270.4
Loan & Advance, Other CA	219.7	118.3	94.6	75.7
Total Current assets	727.6	653.2	655.1	776.7
Creditors	180.1	126.3	195.7	215.3
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	490.2	584.4
Net Working Capital	304.4	291.9	164.9	192.4
Deferred Tax Assets	49.6	57.0	57.0	57.0
Application of Funds	2,222.7	2,105.1	2,080.2	2,186.6

Source: ICICI Direct Research
Exhibit 15: Key Ratios

(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
Book Value	551.5	564.8	573.7	593.9
EPS	6.1	15.9	12.5	23.7
Cash EPS	46.5	56.3	53.3	66.9
DPS	3.0	3.0	3.0	3.0
Profitability & Operating Ratios				
EBITDA Margin (%)	22.8	21.3	19.5	23.0
PAT Margin (%)	2.9	6.7	4.4	7.6
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	2.2	4.0
RoCE	1.5	1.4	2.4	4.1
RoIC	1.1	1.5	2.2	4.4
Valuation Ratios (x)				
PE	53.9	20.7	26.5	13.9
Price to Book Value	0.6	0.6	0.6	0.6
EV/EBITDA	11.3	9.6	7.9	5.8
EV/Sales	2.6	2.0	1.5	1.3
Leverage & Solvency Ratios				
Debt to equity (x)	0.4	0.3	0.3	0.3
Cash to Total Assets (x)	3.6	4.3	8.4	12.7
Debt to EBITDA (x)	5.0	3.7	3.0	2.6
Current Ratio	1.5	1.6	1.0	0.9
Quick ratio	1.1	1.0	0.5	0.4

Source: ICICI Direct Research

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