

FEBRUARY 18, 2016

CARE REAFFIRMS THE RATINGS ASSIGNED TO THE BANK FACILITIES AND INSTRUMENTS
OF HINDUSTAN CONSTRUCTION COMPANY LIMITED
Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities (Term loans)	2,594.86	CARE D [Single D]	Reaffirmed
Long-term Bank Facilities (Fund-based limits)	1,500.00	CARE D [Single D]	Reaffirmed
Long/Short-term Bank Facilities (Non-fund-based Limits)	5,300.00	CARE C/CARE A4 [Single C/A Four]	Reaffirmed
Total Facilities	9,394.86 (Rupees Nine Thousand Three Hundred Ninety Four crore and Eighty Six lakh only)		
Non-Convertible Debenture - I	89.00 (Rupees Eighty Nine crore only)	CARE D [Single D]	Reaffirmed
Non-Convertible Debenture – II	106.80 (Rupees One Hundred Six crore and Eighty lakh only)	CARE D [Single D]	Reaffirmed

Rating Rationale

The reaffirmation of the ratings assigned to the bank facilities and instruments of Hindustan Construction Company Limited (HCC) continues to take into account continuing delays in servicing of debt obligations. The liquidity position of the company is constrained owing to stretched recoveries from customers, pending receipt of claim amounts from customers, high finance cost and limited profits earned by the company thereby leading to stress on the debt service indicators and weak capital structure. However, the ratings continue to factor strong order book position indicating medium term revenue visibility, inflow of funds from the qualified institutional placement in April 2015 which supported the working capital position and debt servicing, and marginal improvement in scalability of operations leading to operational efficiency in the company as reflected in profits earned during FY15 (refers to the period April 1 to March 31).

HCC's ability to improve profitability margins, efficiently manage working capital cycle amidst delays in recoveries from customers, receipt of claim amounts awarded and timely servicing of debt obligations are the key rating sensitivities.

Background

HCC was promoted by the late Mr Walchand Hirachand in 1926 and is presently spearheaded by Mr Ajit Gulabchand, Chairman and Managing Director. As on December 31, 2015, the promoter group holds 36.07% equity stake in the company; being reduced from 43.51% as on March 31, 2015, after qualified institutional placement of Rs.400 crore in April 2015.

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

HCC is one of the prominent construction companies in India, engaged in construction activities which include roads, bridges, ports, power stations, water supply and irrigation projects. The company's construction capabilities include solutions for construction of projects in various complex industries including hydel power, water solution systems, nuclear power and process plants and transportation.

HCC group of companies comprises mainly of HCC Infrastructure Company Limited (HICL), HCC Real Estate Limited (HREL), Lavasa Corporation Limited (LCL; rated 'CARE D' for bank facilities and instruments), Steiner AG, Zurich (SAG), and Highbar Technologies Limited (HTL; rated 'CARE B+' for bank facilities). HICL is engaged in the construction and management of assets in the areas of transportation. HREL develops and executes high-value real estate projects including integrated urban development and management, information technology (IT) parks and commercial offices, township development and urban renewal projects. LCL is India's first planned hill city which includes integrated development of five self-sustaining towns. SAG specializes in turnkey development of new buildings and refurbishments and offers services in all facets of real estate development and construction. HTL provides IT solutions to the infrastructure industry.

Credit Risk Assessment

Elongated working capital cycle and deteriorated capital structure

The working capital cycle of the company continues to be elongated during FY15 owing to stretched recoveries from customers, pending receipt of claim amounts and high amount of inventory held due to delays in commencement of projects. Hence, the liquidity position of the company is constrained and there are delays in servicing of debt obligations. The stretched working capital cycle is reflected in further elongation of receivables days to 179 days in FY15 as against 135 days in FY14 and inventory days continues to be high at 386 days in FY15. Consequently, payments to creditors were stretched in FY15 at 156 days in FY15 along with working capital bank limits being fully utilised with instances of overdrawals due to month end interest.

Owing to the above, the overall gearing of the company remained high at 4.00 times as on March 31, 2015. In view of the above, in April 2015, the company raised around Rs.400 crore through qualified institutional placement. The amount raised was utilised for meeting working capital requirements and servicing of debt obligations in the company.

Long track record and efficient project execution capabilities demonstrated in the past

HCC has a long track record in the construction industry spanning over eight decades. HCC has contributed immensely to the country's infrastructure by executing large number of projects in the hydro power and nuclear power generation, roads and expressways and complex tunnelling in addition to the hundreds of bridges, dams and barrages. Few of the landmark projects executed by the company include the Bandra-Worli Sea link project in Mumbai, Delhi-Faridabad Elevated Expressway, parts of the Mumbai-Pune Expressway and the Kolkata Metro Railway project among others.

Improved scale of operations and operating profitability margins albeit high interest costs

The operational efficiency of the company is improving on account of increase in income from operations backed by faster order execution, which was earlier slow due to non-availability of adequate finance and environment related policy logjams. Also, owing to improved scale of operations, reduction of other expenses

and improvement in absorption of fixed expenses along with receipt of claim amounts, the operating margins are improving and the company's profit after tax (PAT) stood at Rs.79 crore in FY15. Also, the PBILDT margin improved to 21.45% in FY15 as compared with 17.99% in FY14. However, owing to high interest and finance cost, PAT margins declined to 1.84% in FY15 from 1.92% in FY14.

Strong order book position

The company's outstanding order book position is strong at Rs.16,290 crore as on December 31, 2015, which is 3.95 times of FY15 net sales.

Financial Performance

(Rs. Cr)

<i>For the period ended / as on March 31,</i>	<i>2013 (12m, A)</i>	<i>2014 (12m, A)</i>	<i>2015 (12m, A)</i>
<u>Working Results</u>			
Net Sales	3,832	4,038	4,127
Total Operating income	3,939	4,189	4,285
PBILDT	477	754	919
Interest	530	608	651
Depreciation	170	145	150
PBT	(194)	90	125
PAT (after deferred tax)	(138)	81	79
Gross Cash Accruals	(23)	235	278
<u>Financial Position</u>			
Equity Capital	61	61	65
Networth	1,159	1,261	1,387
Total capital employed	6,386	6,559	7,001
<u>Key Ratios</u>			
<i>Growth</i>			
Growth in Total income (%)	-ve	6.34	2.30
Growth in PAT (after D.Tax) (%)	-ve	-ve	-ve
<i>Profitability</i>			
PBILDT/Total Operating income (%)	12.11	17.99	21.45
PAT (after deferred tax)/ Total income (%)	-ve	1.92	1.84
ROCE (%)	5.21	10.81	11.48
Average cost of borrowing (%)	10.22	11.60	12.04
<i>Solvency</i>			
Long-term Debt Equity ratio (times)	3.36	2.96	2.59
Overall gearing ratio (times)	4.50	4.18	4.00
Interest coverage (times)	0.90	1.24	1.41
Term debt/Gross cash accruals (years)	-ve	15.92	12.93
<i>Liquidity</i>			
Current ratio (times)	1.45	1.23	1.06
Quick ratio (times)	0.40	0.32	0.34
<i>Turnover</i>			
Average collection period (days)	122	135	179

<i>For the period ended / as on March 31,</i>	<i>2013 (12m, A)</i>	<i>2014 (12m, A)</i>	<i>2015 (12m, A)</i>
Average creditors (days)	140	144	156
Average inventory (days)	395	390	386
Operating cycle (days)	378	381	409

Note: Financials are classified as per CARE Standards

During 9MFY16 (unaudited; refers to the period April 1 to March 31), HCC reported net profit of Rs.66 crore on a total operating income of Rs.3,019 crore vis-à-vis net profit of Rs.61 crore on a total operating income of Rs.3,114 crore in 9MFY15 (unaudited).

Details of Rated Facilities

1. Long-term facilities

Term loans outstanding as on December 31, 2015

Sr. No.	Lender	Rated Amount (Rs. Crore)
1	Export-Import Bank of India	445.50
2	Canara Bank	322.91
3	United Bank of India	266.45
4	IDBI Bank Limited	239.45
5	Axis Bank Limited	186.90
6	Syndicate Bank	178.00
7	Industrial Finance Corporation of India Limited	133.50
8	SREI Infrastructure Finance Limited	102.80
9	State Bank of Mysore	88.72
10	Indian Overseas Bank	85.10
11	Standard Chartered Bank Plc	81.48
12	Central Bank of India	65.23
13	DBS Bank Limited	61.07
14	Toronto Dominion (Texas) LLC	49.09
15	National Bank for Agriculture and Rural Development	44.50
16	Punjab National Bank	44.50
17	Union Bank of India	44.50
18	State Bank of Hyderabad	42.42
19	Bank of Maharashtra	27.80
20	Bank of Baroda	27.71
21	Federal Bank	22.25
22	Oriental Bank of Commerce	21.63
23	State Bank of Travancore	13.35
	Total Facility	2,594.86

1.B. Fund-based limits

(Rs. Crore)

Sr. No.	Name of lender	Fund-based limits		
		Cash credit	Others	Total fund-based limits
1	Punjab National Bank	300.00	-	300.00
2	State Bank of India	225.00	-	225.00
3	IDBI Bank Limited	187.50	-	187.50
4	ICICI Bank Limited	135.00	-	135.00
5	State Bank of Patiala	105.00	-	105.00
6	The Jammu & Kashmir Bank Limited	97.50	-	97.50

Sr. No.	Name of lender	Fund-based limits		
		Cash credit	Others	Total fund-based limits
7	Bank Of Baroda	75.00	-	75.00
8	Vijaya Bank	75.00	-	75.00
9	Standard Chartered Bank	75.00	-	75.00
10	Union Bank Of India	60.00	-	60.00
11	Indian Bank	37.50	-	37.50
12	Federal Bank	37.50	-	37.50
13	DBS Bank Limited	37.50	-	37.50
14	Canara Bank	30.00	-	30.00
15	Oriental Bank of Commerce	22.50	-	22.50
	Total	1,500.00	-	1,500.00

1.C. Non-fund-based limits

(Rs. Crore)

Sr. No.	Name of lender	Non-fund-based limits [^]		
		LCs/ BGs*	Others	Total
1	ICICI Bank Limited	1,454.42	-	1,454.42
2	Punjab National Bank	912.09	-	912.09
3	State Bank of India	795.00	-	795.00
4	Oriental Bank of Commerce	431.40	-	431.40
5	IDBI Bank Limited	462.21	-	462.21
6	Indian Bank	425.23	-	425.23
7	Canara Bank	314.30	-	314.30
8	The Jammu & Kashmir Bank Limited	129.42	-	129.42
9	Union Bank Of India	92.44	-	92.44
10	Bank of Baroda	61.63	-	61.63
11	Vijaya Bank	61.63	-	61.63
12	DBS Bank Limited	67.79	-	67.79
13	State Bank of Patiala	61.63	-	61.63
14	Federal Bank	30.81	-	30.81
	Total	5,300.00	-	5,300.00

*LC: Letter of credit; BG: Bank guarantee

[^]Interchangeable with fund-based limits subject to maximum 10% of non-fund based limits available to the company, as per the master restructuring agreement (MRA) executed under corporate debt restructuring (CDR) as the company has availed the interchangeability facility from the working capital lenders.

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