

Hindustan Construction Company Limited

October 06, 2023

| Facilities/Instruments | Amount (₹ crore) | Rating ¹ | Rating Action |
|--|------------------|---------------------|---------------|
| Non Convertible Debentures | 823.90 | CARE BB; Stable | Assigned |
| Optionally Fully Convertible Debenture | 1,188.92 | CARE BB; Stable | Assigned |

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the instruments of Hindustan Construction Company Limited (HCC) derives strength from improvement in the performance of the company during FY23 (refers to period from April 01 to March 31) and Q1FY24 marked by improvement in the total operating income and profitability margins. With improved work execution and generation of revenue from core business operation, the profit from operations have improved to ~10-11% during FY23-Q1FY24. CARE Ratings Ltd. (CARE Ratings) expect the margins to remain around 9-10% going forward. The scale of operation is expected to continue register growth over the next three years backed by a healthy order book position aggregating Rs.14,772 crore as on March 31, 2023.

The ratings also factors in liquidity cushion available to the company post implementation of Debt Resolution Plan (RP) in October 2022 (w.e.f. July 01, 2022). The debt of HCC is structured such that the principal amount including interest will be repaid annually in the month of March, thereby providing cushion for the company while preventing short term asset liability mismatches during the year.

The ratings strengths, however, are tempered by stretched liquidity profile with extended working capital cycle, high debt level with large debt repayment obligations, absence of working capital lines to complement the growing scale of operation and presence in highly competitive and fragmented industry.

HCC has planned various alternatives to improve its liquidity profile and support the business requirement; which include monetization of land parcel, fund raising via equity issuance, settlement of some of the arbitration claims and stake sale proceeds from one project. etc. Fructification of the planned fund raising is likely to enable debt reduction/augment liquidity and is considered as credit positive.

CARE also notes that the HCC has extended corporate guarantee towards the debt transferred to PRPL as part of implementation of RP although the transferred debt has satisfactory moratorium period to realize the awards and claims before the debt repayments commences in September 2026.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in liquidity profile with recovery of debtors/receipt of arbitration claim proceeds.
- Meaningful fructification of various plans leading to receipt of exceptional cash flows.
- Tie up of working capital funds to support the pace of work execution.
- Growth in scale of operations and cash accruals while improving liquidity.

Negative factors

- Slowdown in work execution with impact on profitability and liquidity.
- Further elongation of operating cycle with pressure on working capital position.
- Inordinate delay in fructification of funds raising plans.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects satisfactory order book position and established track record of execution which thereby supporting the growth in scale and profitability.

Detailed description of the key rating drivers:

Key strengths

Improvement in financial performance during FY23 and Q1FY24:

The performance of the company improved significantly during FY23 marked by growth in the total operating income and PBILDT by 11% and 40% respectively. The profit from operations improved to 10.64% during FY23 (8.44% during FY22) backed by healthy work execution. The performance was impacted earlier due to slow moving projects, write off and provisioning on Lavasa Corporation Ltd. (Lavasa asset). Traction in order book movement has supported the growth in scale. Also, pursuant to initiation

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

of Corporate Insolvency Resolution Process (CIRP), under Insolvency and Bankruptcy Code, 2016, HCC has no control over Lavasa and its subsidiaries. With the implementation of RP, the interest expenses have reduced thereby supporting the PAT margin. The company reported PAT margin of 5.36% during FY23 (net losses during FY22).

Performance remained satisfactory in Q1FY24 with revenue growth of 25%. The PBILDT margin improved to 12.6% while PAT margin stood at 1.54% during Q1FY24.

Tie-up of fund based limits and completion of slow moving existing projects while bidding for new projects at comfortable margins is key for scaling up of operations and improvement of profitability levels going forward.

Restructured debt with repayment once in a year

Post implementation of RP, the debt of HCC is restructured such that the principal amount including interest will be repaid annually in the month of March. The same is thus expected to give time for the company to mobilize funds by the end of the year preventing short term asset liability mismatches during the year.

As part of RP implementation, HCC has transferred Rs.2,854 crore of debt along with awards and claims of Rs.6,500 crore providing asset cover of 3x. HCC has given corporate guarantee towards the debt transferred to the SPV, Prolific Resolution Private Limited (PRPL). However, the transferred debt has a comfortable moratorium period with repayments commencing from September 2026 providing cushion to realize the awards and claims before the commencement of debt repayments.

Healthy order book with geographical and segmental diversification

HCC's total order book position as on March 31, 2023 stood at Rs.14,772 crore (Rs.13,784 crore as on June 30, 2022) which is 3x the total operating income of FY23 to be executed over a period of next 24-36 months, thereby providing medium-long term revenue visibility in the company. However, majority of projects are on Joint Venture impacting the operating margin.

Out of the total order book, 51% of orders pertain to Transportation Segment (Rs.7,522 crore) followed by Hydro (26%; Rs.3,819 crore), Water works (16%; Rs.2,432 crore) and Nuclear and Special segment (7%; Rs.999 crore).

Also, the order book is geographically well diversified with orders spread across more than 10 states, i.e., Uttarakhand (31%), Maharashtra (16%), Gujarat (15%), Tamil Nadu (13%), Jammu & Kashmir (8%), Manipur (7%), Rajasthan (4%), Delhi (1%), Assam (1%) etc.

Extensive experience in the construction industry

HCC was founded by Seth Walchand Hirachand in 1926 and is one of the oldest infrastructure development companies in the country. The company is spearheaded by Mr. Ajit Gulabchand, Chairman and Managing Director who has extensive experience in the infrastructure industry and demonstrated capabilities in executing relatively complex projects in civil, hydro and transportation segments. Mr. Arjun Dhawan, Vice Chairman of HCC is an active member of World Economic Forum and has experience of working as investment banker with Leveraged Finance Groups of Donaldson, Lufkin & Jenrette and Credit Suisse First Boston.

The management is supported by a team of experienced and qualified professionals.

Government initiative on settlement of pending arbitration claims

Government of India has implemented one time settlement scheme called "Vivad se Vishwas II (Contractual Disputes)" to effectively settle pending arbitration disputes. The scheme seeks to address the liquidity issue of the contractors by providing resolution to the contractual disputes under arbitration with the Government bodies. HCC has awards and claims of Rs.5,012 crore outstanding as on March 31, 2023; out of which it has favorable awards to the tune of Rs.1,379 crore. The company seeks to use the platform to settle some of the arbitration claims with the proceeds to be utilised for debt reduction. While successful implementation of the scheme remains to be seen; once operationalised, it is expected to benefit HCC in augmenting the liquidity which is seen as credit positive.

Key weaknesses

High debt level with weak debt coverage metrics

The company has a leveraged capital structure with high debt level and erosion of networth due to losses reported in the past. The term debt has been high due to debt funded investment undertaken which has not yielded returns for the company. Further, term debt comprises invoked corporate guarantee portion of Lavasa asset. HCC has also guaranteed debt obligation of PRPL (Rs.2854 crore) for which repayments commence from September 2026.

Debt-equity is weak at 4.87x as on Mar 31, 2023. While the core business operation has witnessed improvement, the high debt repayment obligation results in tightly matched cashflows and stretched coverage metrics with debt/PBILDT close to 9.5x for FY23. The debt/EBITDA is expected to improve in the medium term upon fructification of various funds raising plans. Going forward, materialization of fund raising plans within timebound manner is extremely critical.

Extended collection period with stretched liquidity profile

The operating cycle of the company has been extended at around ~290 days in FY23; although reduced from ~430 days in FY22. The receivable position has been stretched with large debtors built up comprising unbilled revenue, disputed debtors under arbitration and retention proceeds. Post transfer of awards to PRPL, the disputed debtors of HCC has reduced from Rs.2,958 crore as on March 31, 2022 to Rs.1,383 crore as on March 31, 2023. With slow moving work orders and delays in achievement of milestone billing, the unbilled revenue has been on the higher side. However, there is traction in old projects which might enable release of the pending receivable. The company does not have working capital lines and relies on advances from customers as well as creditors funding.

HCC has liquidity augmentation plans including which include monetization of land parcel, fund raising via equity issuance, settlement of some of the arbitration claims through Vivaad Se Vishwaas scheme/issuance of bank guarantee etc. Fructification of the planned fund raising with subsequent improvement in leverage and liquidity is key rating monitorable.

Presence in a highly fragmented and competitive construction industry:

HCC operates in the intensely competitive construction industry wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The high competition in the construction industry is due to the presence of large number of small and medium players resulting in aggressive bidding which exerts pressure on the margins. However, HCC has rich experience in handling complex projects with national importance, long standing track record in the construction industry and cordial relations with its clients which fares well against the peers in the industry.

Liquidity: Stretched

Liquidity is marked by tightly matched accruals vis-à-vis repayment obligations, absence of fund based working capital limits and modest cash balance.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Construction](#)

[Infrastructure Sector Ratings](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

| Macro Economic Indicator | Sector | Industry | Basic Industry |
|--------------------------|--------------|--------------|--------------------|
| Industrials | Construction | Construction | Civil Construction |

HCC was promoted by late Mr. Walchand Hirachand in 1926 and is presently spearheaded by Mr. Ajit Gulabchand, Chairman and Managing Director. HCC is one of the largest 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.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | Q1FY24 (U/A) |
|----------------------------|--------------------|--------------------|--------------|
| Total operating income | 4261 | 4,726 | 1216 |
| PBILDT | 360 | 503 | 154 |
| PAT | -153 | 253 | 19 |
| Overall gearing (times) | 17.21 | 6.68 | NA |
| Interest coverage (times) | 0.38 | 0.76 | 1.22 |

A: Audited U/A: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'

PBILDT calculation excludes arbitration income and expense.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|--------------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| Debentures-Non Convertible Debentures | INE549A07213 | 26-09-2022 | 0.01 | 30-06-2029 | 823.90 | CARE BB; Stable |
| | INE549A08963 | | | 31-03-2029 | | |
| | INE549A08971 | | | 30-06-2031 | | |
| | INE549A07221 | | | 31-03-2029 | | |
| | INE549A07239 | | | 31-03-2026 | | |
| Debentures-Optionally Fully Convertible Debenture | INE549A07247 | 06-01-2017 | 0.01 | 31-03-2029 | 1188.92 | CARE BB; Stable |
| | INE549A07254 | | | | | |
| | INE549A07262 | | | | | |
| | INE549A07270 | | | | | |
| | INE549A07288 | | | | | |
| INE549A07296 | | | | | | |

Annexure-2: Rating history for the last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|--|-----------------|------------------------------|--------|---|--|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1 | Debentures-Non Convertible Debentures | LT | - | - | - | 1)Withdrawn (30-Sep-22) | 1)CARE D (01-Oct-21) | 1)CARE D (08-Oct-20) |
| 2 | Debentures-Non Convertible Debentures | LT | - | - | - | 1)Withdrawn (07-Oct-22) 2)CARE D (30-Sep-22) | 1)CARE D (01-Oct-21) | 1)CARE D (08-Oct-20) |
| 3 | Term Loan-Long Term | LT | - | - | - | 1)Withdrawn (30-Dec-22) 2)CARE B+; Stable (30-Dec-22) | 1)CARE D (01-Oct-21) | 1)CARE D (08-Oct-20) |

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---------|---|-----------------|------------------------------|---------------------------|---|--|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 4 | Non-fund-based - LT/ ST-Bank Guarantee | LT/ST* | 7313.28 | CARE BB; Stable / CARE A4 | 1)CARE BB; Stable / CARE A4 (20-Sep-23) | 1)CARE B+; Stable / CARE A4 (30-Dec-22) | 1)CARE D / CARE D (01-Oct-21) | 1)CARE D / CARE D (08-Oct-20) |
| 5 | Fund-based - LT-Cash Credit | LT | - | - | - | 1)CARE B+; Stable (30-Dec-22) 2)Withdrawn (30-Dec-22) | 1)CARE D (01-Oct-21) | 1)CARE D (08-Oct-20) |
| 6 | Debentures-Non Convertible Debentures | LT | - | - | - | 1)Withdrawn (07-Oct-22) 2)CARE D (30-Sep-22) | 1)CARE D (01-Oct-21) | 1)CARE D (08-Oct-20) |
| 7 | Fund-based - LT-Term Loan | LT | - | - | - | 1)CARE B+; Stable (30-Dec-22) 2)Withdrawn (30-Dec-22) | 1)CARE D (01-Oct-21) | 1)CARE D (08-Oct-20) |
| 8 | Debentures-Non Convertible Debentures | LT | 823.90 | CARE BB; Stable | | | | |
| 9 | Debentures-Optionally Fully Convertible Debenture | LT | 1188.92 | CARE BB; Stable | | | | |
| 10 | Fund-based - LT-External Commercial Borrowings | LT | 144.50 | CARE BB; Stable | 1)CARE BB; Stable (20-Sep-23) | - | - | - |

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---------|---|------------------|
| 1 | Debentures-Non Convertible Debentures | Simple |
| 2 | Debentures-Optionally Fully Convertible Debenture | Simple |

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

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