Hindustan Construction Company Limited (Revised)

August 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	121.12 (Reduced from 144.50)	CARE BB+; Positive	Revised from CARE BB; Stable
Long Term / Short Term Bank Facilities	7,313.28	CARE BB+; Positive / CARE A4+	Revised from CARE BB; Stable / CARE A4
Non Convertible Debentures	753.00 (Reduced from 823.90)	CARE BB+; Positive	Revised from CARE BB; Stable
Optionally Fully Convertible Debenture	863.88 (Reduced from 1,188.92)	CARE BB+; Positive	Revised from CARE BB; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings assigned to the instruments and bank facilities of Hindustan Construction Company Limited (HCC) is on account of improvement in the financial performance of the company during FY24 (refers to period from April 01 to March 31) with the company reporting revenue of Rs.4,888 crore during FY24 with substantial improvement in the PBILDT margin during the year. PBILDT margin doubled from 5.05% during FY23 to 10.16% during FY24 due to execution of high margin projects, lower litigation expenses during the year and reduction in impact of legacy projects. The performance continued to remain satisfactory during Q1FY25 with revenue growth of 2.8% and PBILDT margin maintained at 12.60% during the quarter.

The rating also factors in satisfactory business growth prospects with order book position of Rs.10,475 crore as on Mar. 31, 2024, which provides revenue visibility for the next two years and also orders at L1 stage worth ~Rs.4,600 crore.

There has been marked improvement in the liquidity profile of the company led by fructification of fund raising plans via rights issue (of Rs.350 crore), monetization of assets as well as recovery of debtors under arbitration. The funds raised have supported the debt servicing obligations along with financing the working capital requirements. HCC has further proposed raising additional equity via Qualified Institutional Placement (QIP) by Q2FY25 which would support the business growth and augment the liquidity position.

The ratings continue to derive strength from the long-established track record, demonstrated project execution capabilities, experienced management and diversified order book position.

The ratings strengths, however, are tempered by stretched liquidity profile with extended working capital cycle on the account of high debtors under arbitration/claims, high debt level with ballooning debt repayment structure, absence of working capital lines to complement the growing scale of operation and presence in highly competitive and fragmented industry. With significant debt repayments, cashflow from operations would not be sufficient to service the debt and is dependent on fund raising, planned monetisation and resolution of arbitration claims and awards in a timely manner.

CARE Ratings Ltd (CARE Ratings) 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

- Growth in the order book position with scaling up of operation while maintaining profitability.
- Fructification of fund raising plans thereby augmenting the liquidity profile
- Improvement in the collection period with resolution of debtors under arbitration

Negative factors

- Slowdown in work execution with impact on profitability and liquidity.
- Elongation of operating cycle with collection days remaining above 320 days.

Analytical approach: Standalone

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

Outlook: Positive

The revision in the outlook from "Stable" to "Positive" factors in the expected improvement in liquidity profile with proposed fundraising plans via additional equity infusion which along with addition of new work orders is likely to support the long-term business growth.

Detailed description of the key rating drivers:

Key strengths

Satisfactory order book with geographical and segmental diversification

HCC's total order book position remained satisfactory at Rs.10,475 crore as on Mar. 31, 2024 (Rs.14,772 crore as on Mar. 31, 2023) which is about 2x the total operating income of FY24, thereby providing medium term revenue visibility in the company. Out of the total order book, 48% of orders pertain to Transportation Segment followed by Hydro (20%), Water works (26%) and Nuclear and Special segment (6%). Also, the order book is geographically well diversified with orders spread across more than 10 states, i.e., Uttarakhand (33%), Maharashtra (20%), Gujarat (16%), Tamil Nadu (13%), Manipur (9%), Rajasthan (3%), Jammu & Kashmir (2%) and others (4%).

While the order book provides revenue visibility for the next 2 years, there has not been meaningful addition to order book during the last one year. HCC has secured orders at L1 of ~Rs.4,600 crore as on June 30, 2024. Addition of new work orders, thereby providing long term revenue visibility is important from credit perspective.

Improvement in financial performance:

The total operating income (TOI) of the company has remained stable at Rs.4,888 crore during FY24 (Rs.4,788 crore during FY23) with y-o-y growth rate of ~2%. Post implementation of Resolution Plan in September 2022, the business performance of the company has gradually picked up with HCC reporting revenue of Rs.4,788 crore in FY23 and stable revenue reported for FY24 as well. On the profitability front, however, the company has reported substantial improvement with PBILDT margin doubling from 5.05% during FY23 to 10.16% during FY24. The growth is led by lower legal expenses (reduction of ~Rs.100 crore), completion of past legacy projects and execution of high margin projects.

During Q1FY25, the performance has remained stable with 2.84% growth in operating revenue from Rs.1,231 crore in Q1FY24 to Rs.1,266 crore in Q1FY25 while maintaining PBILDT margin at ~10%.

Improved liquidity position with fund raising and asset monetisation

The company has witnessed improved liquidity position with growth in business operations & profitability, satisfactory cashflow from operations as well as fructification of the fund raising plans, as articulated by the management. While the overall collection days remain on the higher side, excluding the disputed debtors which are on account of various arbitrations filed for completed projects, the collection days have improved from ~340 days in FY23 to ~240 days in FY24. Besides, liquidity has been supported via funds raised (~Rs.830 crore) through equity, asset monetisation and recovery of certain arbitration claims.

During April 2024, the company raised equity of Rs.350 crore through rights issue towards funding working capital requirements and general corporate purposes.

Further, management has articulated various fund raising plans going forward which include raising equity of Rs.600 crore through QIP, realization of awards and claims, monetization of non-core assets, and realization of awards through the issuance of court BGs. Fructification of the said plans is expected to improve the liquidity profile of the company and would be critical from rating perspective.

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 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.

Key weaknesses

High debt levels with dependence on non-core cash flow for debt repayment

HCC has high debt levels which along with losses in the past has eroded the networth resulting in leveraged capital structure and weak debt coverage metrics. TOL/TNW stood high at 8.13x as on Mar. 31, 2024

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 has thus given time for the company to mobilize funds by the end of the year preventing short term asset liability mismatches during the year. Also, as part of RP implementation, HCC has transferred Rs.2,854 crore of debt along with awards and claims of Rs.6,500 crore to Prolific Resolution Private Limited (PRPL). HCC has given corporate guarantee towards the debt transferred to PRPL, whose repayments would commence from September 2026.
The company has significant debt repayment obligations in the medium term with a ballooning repayment structure. The large debt repayments are planned to be funded through own cash flows along with funds recovered via resolution of arbitration claims and awards, equity raising and asset monetisations planned.

Stretched operating cycle:
HCC has been witnessing extended collection days mainly due to high unbilled revenue, disputed debtors under arbitration and retention proceeds. HCC has completed some of the complex marquee projects for which there have been unapproved cost escalations resulting in built up of debtors. While the normal debtors and retention recovery is faster, disputed debtors (cost portion without profit) and unbilled comprise the majority of debtors which largely are due to the ongoing arbitration claims with the clients. The operating cycle of the company has been extended at 200 days in FY24; although improved from 304 days in FY23. There has been some traction in resolution of disputed debtors with recovery of about Rs.139 crore in FY24; it remains nominal. Thus, the receivable days continue to remain on the higher side at 337 days during FY24 (336 days during FY23). With significant amount debtors stuck as disputed, the working capital cycle is expected to remain stretched. On the account of higher receivables days, GCA days have remained high at 362 days during FY24 although improved from 378 days during FY23. The company does not have fund based working capital limits and relies on advances from customers and creditor funding. The fund raising plans proposed would also support the working capital requirement in absence of tie up of fund based limits. Thus, timely fructification of said plans would be a key rating sensitivity.

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

HCC has high debt repayment obligations vis-à-vis the cash accruals generated with the gap bridged through funds raised via equity/asset monetisation and recovery of debtors under arbitration. Working capital requirement is funded via resorting to creditors and mobilisation advances in absence of tie up of fund based limits. As on June 30, 2024, HCC has cash balance of Rs.458 crore which is primarily supported by the equity raised in April 2024.

Assumptions/Covenants: Not applicable

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

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Infrastructure Sector Ratings
Short Term Instruments

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, 2023 (A)	March 31, 2024 (Abridged)	Q1FY25 (U/A)
Total operating income	4788	4888	1266
PBILDT	242	497	159
PAT	253	179	19
Overall gearing (times)	6.68	4.98	NA
Interest coverage (times)^	0.83	1.37	NA

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'
PBILDT calculation excludes arbitration income and expense.
^Adjusted for cash interest

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
Fund-based - LT-External Commercial Borrowings	-	-	-	December 31, 2030	121.12	CARE BB+; Positive
NCD	INE549A07213	26-Sep-2022	0.01	30-Jun-2029	266.90	CARE BB+; Positive
NCD	INE549A07221	26-Sep-2022	0.01	31-Mar-2029	80.70	CARE BB+; Positive
NCD	INE549A07239	26-Sep-2022	0.01	31-Mar-2026	1.60	CARE BB+; Positive
NCD	INE549A08963	26-Sep-2022	0.01	31-Mar-2029	198.40	CARE BB+; Positive
NCD	INE549A08971	26-Sep-2022	0.01	30-Jun-2031	205.40	CARE BB+; Positive
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	7313.28	CARE BB+; Positive / CARE A4+

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
OCD	INE549A07247	06-Jan-2017	0.01	31-Mar-2029	296.11	CARE BB+; Positive
OCD	INE549A07254	06-Jan-2017	0.01	31-Mar-2029	49.05	CARE BB+; Positive
OCD	INE549A07262	06-Jan-2017	0.01	31-Mar-2029	124.30	CARE BB+; Positive
OCD	INE549A07270	06-Jan-2017	0.01	31-Mar-2029	384.54	CARE BB+; Positive
OCD	INE549A07288	06-Jan-2017	0.01	31-Mar-2029	9.88	CARE BB+; Positive

ISIN INE549A07296 has been redeemed

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 2024-2025	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
1	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (30-Sep-22)	1)CARE D (01-Oct-21)
2	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Oct-22) 2)CARE D (30-Sep-22)	1)CARE D (01-Oct-21)
3	Term Loan-Long Term	LT	-	-	-	-	1)CARE B+; Stable (30-Dec-22) 2)Withdrawn (30-Dec-22)	1)CARE D (01-Oct-21)
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	7313.28	CARE BB+; Positive / 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)
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)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
6	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (07-Oct-22) 2)CARE D (30-Sep-22)	1)CARE D (01-Oct-21)
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)
8	Debentures-Non Convertible Debentures	LT	753.00	CARE BB+; Positive	-	1)CARE BB; Stable (06-Oct-23)	-	-
9	Debentures-Optionally Fully Convertible Debenture	LT	863.88	CARE BB+; Positive	-	1)CARE BB; Stable (06-Oct-23)	-	-
10	Fund-based - LT-External Commercial Borrowings	LT	121.12	CARE BB+; Positive	-	1)CARE BB; Stable (20-Sep-23)	-	-

LT: Long term; LT/ST: 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
3	Fund-based - LT-External Commercial Borrowings	Simple
4	Non-fund-based - LT/ ST-Bank Guarantee	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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.