

December 19, 2023

## Hindustan Construction Company Limited: Rating upgraded to [ICRA]BB(Stable) from [ICRA]B(Stable)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible debenture (NCD)	823.9	823.9	[ICRA]BB(Stable); upgraded from [ICRA]B(Stable)
<b>Total</b>	<b>823.9</b>	<b>823.9</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating upgrade positively factors in Hindustan Construction Company Limited's (HCC) significant ramp-up in gross billing and operating margins from the core engineering, procurement and construction (EPC) business in FY2023. HCC's construction income grew by 22% year-on-year (YoY) to Rs. 4,736.3 crore in FY2023 (7% YoY growth in H1 FY2024). Its operating margin from the EPC business improved to 11.6% in FY2023 (12.4% in H1 FY2024) from 4.4% in FY2022. Improved operating leverage, presence of price escalation clauses in most of the contracts, along with lower sub-contracting dependence supported margin expansion in FY2023. ICRA expects the company to sustain its revenue growth momentum, while maintaining healthy operating margins. ICRA has also factored in the likely improvement in the liquidity position from the planned equity infusion of Rs. 300 crore through rights issue, which is expected to be completed by the end of FY2024.

The rating continues to take comfort from HCC's adequate order book (OB) position (OB/OI ratio of 2.6 times as on September 30, 2023), which provides medium-term revenue visibility and diversified order book across segments, geographies and clientele. The rating favourably factors in HCC's long track record of operations of over nine decades, supported by an experienced management and demonstrated capabilities in executing relatively complex tunnelling and hydro projects.

The rating, however, is constrained by HCC's high TOL/TNW, which stood at 9.6 times as on March 31, 2023 (FY2022: 215 times) and is expected to remain elevated in the near term. HCC's receivables and work in progress remain elevated due to ongoing arbitration/claims pending with the clients. It has been able to manage the working capital requirements, partly by availing extended credit period from suppliers/sub-contractors and mobilisation advances from clients. Going forward, any material deterioration in the working capital intensity from the anticipated levels can impact its liquidity position and will be a key rating sensitivity. With implementation of resolution plan (RP) in September 2022 (wherein part debt of HCC was carved out and transferred to Prolific Resolution Private Limited or PRPL), the debt repayment schedule was elongated with modest near-term obligations and a ballooning repayment structure. In the backdrop of improved operating performance and limited repayment obligations, the debt coverage metrics are satisfactory in the near term. HCC is in the process of monetising some of its non-core investments. In the last one year, the company realised Rs. 325 crore, which was utilised for debt repayment as well as towards operational cash flow mismatches. ICRA notes that realisation from claims and awards has remained slower than the earlier expected levels. It is expecting realisation of about Rs. 288 crore from awards and claims over the next 18 months. Timely realisation of these funds remain critical, given the step up in repayments starting from FY2025. Going forward, timely monetisation of non-core assets and realisation of awards remains remain crucial to materially improve its liquidity position. In absence of sanctioned fund-based working capital lines, the company is maintaining over Rs. 300 crore of liquidity on a sustained basis. It is in discussions for enhancement in fund-based working capital limits, timely sanctioning of which would be a key monitorable. ICRA draws comfort from the cushion available in the form of unutilised arbitration/court BGs that could be used to realise some of the awards pending in the higher courts, in case of funding shortfall. In the last one year, lenders have permitted HCC to utilise ~Rs. 65 crore of court BGs to avail the arbitration money, which was used to prepay the fund-based credit facilities of the respective lenders whosoever have sanctioned such BGs.

HCC has provided guarantees for the entire debt (Rs. 2,854 crore) that got transferred to PRPL, as a part of RP plan. Hence, any crystallisation of those guarantees will impact its credit profile. However, PRPL has realised awards of ~Rs. 51 crore in 8M FY2024 and the debt repayments would commence from FY2027 providing satisfactory pay-in and pay-out gap between realisation of award proceeds and debt obligations. The rating considers the company's exposure to sizeable contingent liabilities in the form of BGs, mainly for contractual performance, mobilisation advance and security deposits. The rating is constrained by moderate execution risks as about 16% of the order book as on September 30, 2023 is in preliminary/early stage of execution with less than 25% progress. Notwithstanding HCC's strong execution capabilities, any sizeable invocation of performance guarantees would affect the company's liquidity and financial risk profile. In this regard, ICRA takes comfort from the non-invocation of BG in last twelve months ending November 2023. With improved operating performance, the company is able to ramp-up execution in various ongoing projects, which has led to reduction in the number of stuck projects, which mitigates the BG invocation risk.

The Stable outlook reflects ICRA's opinion that the company will continue to sustain its improved operating performance and benefit from its adequate order book position and strong execution capabilities.

## Key rating drivers and their description

### Credit strengths

**Adequate and diversified order book position provides healthy medium-term revenue visibility** – The company had an order book position of Rs. 12,344 crore as on September 30, 2023. The OB/OI ratio remained adequate at 2.6 times of the construction income of FY2023, providing healthy medium-term revenue visibility. Timely commencement and execution of these orders are critical to sustain revenue visibility going forward. HCC's current outstanding order book is well-diversified in terms of geography with pan-India presence, along with international operations in Bhutan, across multiple segments such as transportation, hydro power, water, and nuclear projects. The transportation segment accounted for 49% of the unexecuted order book as on September 30, 2023. The order book is fairly diversified in terms of projects and clients, with top three clients contributing 47% and the top five orders constituting 55% of the unexecuted order book as on September 30, 2023.

**Established track record and extensive experience of management team in civil construction sector** – HCC has an established track record of operations of over nine decades, supported by experienced management and demonstrated capabilities in executing relatively complex hydro and tunnelling projects at geographically diverse locations. It has proven its execution capabilities by constructing large value and technologically complex long-duration projects. The company has a fleet of well-maintained specialised equipment in its portfolio, a qualified and experienced senior management, and technical collaborations, boosting its project execution capabilities.

### Credit challenges

**High leverage; stretched liquidity position and dependence on asset monetisation** – HCC has high leverage as reflected in high TOL/TNW, which stood at 9.6 times as on March 31, 2023 (FY2022: 21.5 times). It is expected to remain at elevated levels in the near term. Its receivables and work-in-progress remain elevated due to ongoing arbitration/claims pending with the clients. The company has been able to manage the working capital requirements, partly by availing extended credit period from suppliers/sub-contractors and mobilisation advances from clients. Going forward, any material deterioration in the working capital intensity from the anticipated levels can impact HCC's liquidity position and will be a key rating sensitivity. With implementation of the RP in September 2022 (wherein part debt of HCC was carved out and transferred to PRPL), the debt repayment schedule was extended with modest near-term obligations and a ballooning repayment structure. In the backdrop of improved operating performance and modest repayment obligations, the debt coverage metrics are satisfactory in the near term. HCC is in the process of monetising some of its non-core investments. In the last one year, the company realised Rs. 325 crore, which was utilised for debt repayment as well as towards operational cash flow mismatches. ICRA notes that realisation from claims and awards has remained slower than the earlier expected levels. The company is expecting realisation of about Rs. 288 crore from awards and claims in the next 18 months. Timely realisation of these funds remains critical, given the step

up in repayments starting FY2025. Going forward, timely monetisation of non-core assets and realisation of awards remains remain crucial to materially improve its liquidity position. Company is also planning to realize awards worth Rs.220 crore under Vivad se Vishwas II, which if materialize, should help in improving its liquidity position. In absence of sanctioned fund-based working capital lines, it is maintaining over Rs. 300 crore of liquidity on a sustained basis. The company is in discussions for enhancement in fund-based working capital limits, timely sanctioning of which would be a key monitorable. ICRA draws comfort from the cushion available in the form of unutilised arbitration/court BGs that could be used to realise some of the awards pending in the higher courts, in case of funding shortfall. In the last one year, lenders have permitted HCC to utilise ~Rs. 65 crore of court BGs to avail the arbitration money, which was used to prepay the fund-based credit facilities of the respective lenders, whosoever have sanctioned such BGs.

**Moderate execution risk; sizeable contingent liabilities and risk of BG invocation** – HCC has provided guarantees for the entire debt (Rs. 2,854 crore) that got transferred to PRPL, as a part of RP plan. Hence, any crystallisation of those guarantees will impact its credit profile. However, PRPL has realised awards of ~Rs. 51 crore in 8M FY2024 and the debt repayments would commence from FY2027 providing satisfactory pay-in and pay-out gap between realisation of award proceeds and debt obligations. The rating considers the company's exposure to sizeable contingent liabilities in the form of BGs, mainly for contractual performance, mobilisation advance and security deposits. The rating is also constrained by moderate execution risks as about 16% of the order book as on September 30, 2023 is in the preliminary/early stage of execution with less than 25% progress. Notwithstanding HCC's strong execution capabilities, any sizeable invocation of performance guarantees would affect the company's liquidity and financial risk profile. In this regard, ICRA takes comfort from the non-invocation of BG in last twelve months ending November 2023. With improved operating performance, the company is able to ramp-up execution in various ongoing projects, which has led to reduction in the number of stuck projects, which mitigates the BG invocation risk.

**Heightened competition, input costs pike could exert pressure on profitability** – The domestic civil construction industry is fragmented and highly competitive, evident from the moderate bid to success ratios. Garnering adequate number of projects and ensuring their movement remains the key for optimal use of resources and ultimately profitability. The competition has increased because of the relaxation in the bidding criteria. This, coupled with the rise in input cost, could exert pressure on HCC's profitability. ICRA notes that there is a built-in price escalation clause in most of the contracts, which protects the operating margin from raw material price fluctuation risk to some extent.

## Environment and Social Consideration

HCC operates at multiple project sites at any point of time. Therefore, the risk of business disruptions on account of physical climate risks is low. Given that construction activity generates air pollution, entities in this sector remain exposed to the risk of temporary bans on operations in cities that are more sensitive to deteriorating air quality. Construction entities could also face social risks stemming from the health and safety concerns of workers, which could invite regulatory or legal action, besides reputational harm. HCC has a track record of maintaining healthy relationships with its workers/employees, including contractual labour with no material incidents of a slowdown in execution because of workforce management issues.

## Liquidity position: Stretched

In absence of sanctioned fund-based working capital lines, HCC relies on on-balance sheet liquidity and elongated credit support from its creditors to support its working capital cycle. HCC had unencumbered cash and bank balance of Rs. 317.1 crore as on September 30, 2023. It is expected to maintain cash and liquid investment of over Rs. 300 crore, on a sustained basis, to support its working capital and other operational requirements. Nonetheless, given the increasing scale of operations and consequent working capital requirement, along with sizeable debt repayment obligations (~Rs. 950 crore till March 2025) in the next 12-18 months, timely realisation of claims, asset monetisation, and improvement in the working capital intensity will remain crucial for the company to improve its liquidity. Company is also planning to realize awards worth Rs.220 crore under Vivad se Vishwas II, which if materialize, should help in improving its liquidity position.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating in case of a sustained improvement in construction revenue while maintaining its margins, and realisation from non-core assets sale/awards resulting in improved liquidity and coverage metrics.

**Negative factors** – Negative pressure on HCC's rating could arise if there is slowdown in execution or sustained pressure in earnings. Moreover, any delay in realisation of awards/non-core asset sale or worsening in working capital cycle, impacting the liquidity position will be a credit negative.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Construction Entities Methodology</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidation

## About the company

Incorporated in 1926, Hindustan Construction Company Limited (HCC) is the flagship company of Hindustan Construction Company Group (HCC Group) and is involved in engineering and construction of infrastructure projects such as dams, tunnels, bridges, hydro, nuclear and thermal power plants, expressways and roads, marine works, water supply, irrigation systems and industrial buildings across the country. The HCC Group's principal business areas can be classified into four broad verticals: 1) engineering and construction (E&C), 2) infrastructure development, 3) real estate and 4) urban development and management. While the E&C vertical is undertaken by HCC, the rest of the activities are carried out through separate subsidiary companies. It is one of the oldest infrastructure development companies in India, founded by Mr. Seth Walchand Hirachand.

## Key financial indicators (Audited)

Standalone	FY2022	FY2023	H1 FY2024*
Operating income (Rs. crore)	4667.5	5234.4	2369.6
PAT (Rs. crore)	(153.1)	253.4	71.3
OPBDIT/OI (%)	16.9%	13.8%	13.4%
PAT/OI (%)	-3.3%	4.8%	3.0%
Total outside liabilities/Tangible net worth (times)	21.5	9.6	8.6
Total debt/OPBDIT (times)	6.1	2.7	3.0
Interest coverage (times)	0.8	1.1	1.2

Source: Company data, ICRA Research; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; \* Results

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current rating (FY2024)		Chronology of rating history for the past 3 years				
			Amount outstanding as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Dec 19, 2023	Aug 22, 2023	Dec 20, 2022	Aug 12, 2022	-	-
1 Non-convertible debenture	Long-term	823.9	788.1	[ICRA]BB (Stable)	[ICRA]B (Stable)	[ICRA]B (Stable)	Provisional [ICRA]B (Stable)	-	-
2 Optionally convertible debentures*	Long term	-	-	-	Provisional [ICRA]B (Stable); withdrawn	Provisional [ICRA]B (Stable)	Provisional [ICRA]B (Stable)	-	-
3 Non-convertible debenture*	Long-term	-	-	-	Provisional [ICRA]B (Stable); withdrawn	Provisional [ICRA]B (Stable)	Provisional [ICRA]B (Stable)	-	-

\*Withdrawn

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible debenture	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#).

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE549A07221	Non-convertible debenture	September 2022	0.01%	March 2029	101.3	[ICRA]BB(Stable)
INE549A07213	Non-convertible debenture	September 2022	0.01%	June 2029	267.0	[ICRA]BB(Stable)
INE549A07239	Non-convertible debenture	September 2022	0.01%	March 2026	1.7	[ICRA]BB(Stable)
INE549A08963	Non-convertible debenture	September 2022	0.01%	March 2029	248.0	[ICRA]BB(Stable)
INE549A08971	Non-convertible debenture	September 2022	0.01%	June 2031	205.9	[ICRA]BB(Stable)

Source: Company

**Annexure II: List of entities considered for consolidated analysis**

Company Name	Ownership	Consolidation Approach
Prolific Resolution Private Limited	49.00%	Full Consolidation; HCC has provided guarantees for the entire debt at PRPL

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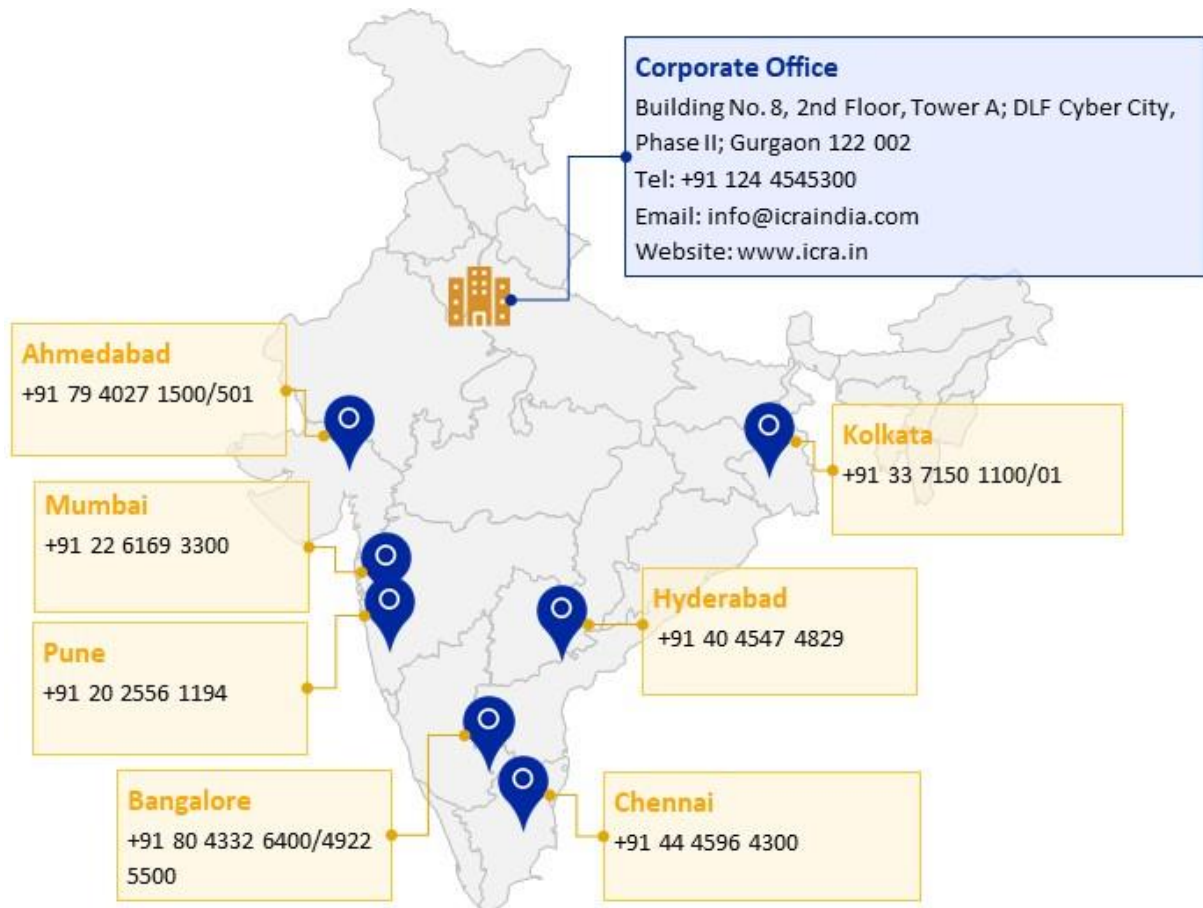
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### Branches



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