HCC

HCC/SEC/2023 January 02, 2023

BSE Limited The Corporate Relationship Dept, 1st Floor, Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai-400 001. Scrip Code – 500185, 974246, 974247, 974248, 974249, 974250	**National Stock Exchange of India Ltd.** Exchange Plaza, Bandra-Kurla Complex, Bandra (East), Mumbai-400 051. Scrip Code - HCC

Dear Sir,

Sub: Update on Credit Rating pursuant to Regulation 30 & 51 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 & 51 of the SEBI (Listing Obligations & Disclosures Requirements) Regulations, 2015, we would like to inform you that CARE Ratings Ltd. (the Credit Rating Agency) has revised the ratings of bank facilities from CARE D (Single D) to CARE B+; Stable (Single B Plus; Outlook: Stable).

We enclose herewith copy of the CARE Ratings Ltd. Press Release in this regard.

We request you to kindly take the above on your record.

Thanking you,

Yours faithfully,
For Hindustan Construction Company Ltd.

NITESH KUMAR JHA

Digitally signed by NITESH KUMAR JHA
DN: c=IN, o=Personal, title=1979, pseudonym=3e7a98e9d6a3bd35bfb251776bc23e0a58f412d194f019c44d25767e74c68f4d, postalCode=410210, st=Maharashtra, serialNumber=ea422f12d8f4e8778bf2857e9d6c0509df9788526f7246d5a89164fa23df53e6, cn=NITESH KUMAR JHA
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Nitesh Kumar Jha
Company Secretary

Encl: as above

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Hindustan Construction Company Limited
December 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	3,697.38 (Reduced from 6,367.37)	CARE B+; Stable / CARE A4 (Single B Plus; Outlook: Stable/ A Four)	Revised from CARE D / CARE D (Single D / Single D); Stable outlook assigned
Long Term Bank Facilities (II)	-	-	Revised to CARE B+; Stable (Single B Plus; Outlook: Stable) from CARE D (Single D); Stable outlook assigned and Withdrawn
Total Bank Facilities	**3,697.38 (₹ Three Thousand Six Hundred Ninety-Seven Crore and Thirty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

CARE has revised the ratings of bank facilities from CARE D (Single D) to CARE B+; Stable (Single B Plus; Outlook: Stable) and withdrawn the outstanding ratings assigned to the bank facilities (II – referred above) of Hindustan Construction Company Ltd. (HCC) with immediate effect. The above action has been taken at the request of HCC and 'No Objection Certificate' received from the consortium leader for the aforementioned facilities (II) rated by CARE.

The revision in ratings factor in successful implementation of debt resolution plan (RP) with subsequent regularization of debt servicing. CARE Ratings expect the liquidity position to improve with debt reduction in books of HCC as well as benefits accruing with extended repayment tenor for the Optionally Convertible Debentures (OCD) and Non-Convertible Debenture (NCD) which is likely to provide support to cashflows. The debt reduction and corresponding interest cost decrease is expected to improve the profitability. The company is also at advanced stage of asset monetization which would support the cashflows. Any deviation from the likely timelines would be a key monitorable.

The ratings also factor in satisfactory order book position which provides a long term revenue visibility and established track record of the company in the construction business.

The rating strengths are however tempered by the elongated working capital with extended collection days and working capital gap with absence of working capital lines thereby resulting in dependence upon mobilization advances and creditors funding. HCC continued to report cash loss in FY22 (refers to period April 01 to March 31) and H1FY23 and the past losses have been eroding the networth position resulting in weak solvency position. Also, HCC has extended corporate guarantee in favour of PRPL's lenders for the debt novated by it to the SPV (i.e., Prolific Resolution Private Limited, PRPL) and pledged its shares in the PRPL to secure the NCDs issued by later. While the repayment obligations of PRPL are deferred till FY27, any cashflow mismatch in the SPV in future periods and crystallization of such guarantee would be important from credit perspective.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in collection period with subsequent easing of liquidity pressure
- Growth in scale of operation and profitability along with improvement in debt coverage metrics

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant elongation of operating cycle with pressure on working capital position
- Non fructification of envisaged asset monetization plans impacting the liquidity position

Detailed description of the key rating drivers

Key rating strengths

Implementation of Debt Resolution Plan with regularization of debt servicing

The company has successfully implemented Debt Resolution Plan as on September 30, 2022 effective from July 01, 2022. As per the RP, HCC has novated debt of Rs.2,854.4 crore along with beneficial economic interest in arbitration and claims of Rs.6,508 crore to Prolific Resolution Private Limited, a wholly owned subsidiary of the company. HCC does not have debt repayments (including interest) till March 2023 while the debt repayments of PRPL will commence from September 2026. The

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

debt servicing has been regularized with debt restructuring. The RP implementation is expected to result in improvement in liquidity profile with reduction in debt level and extension of repayment terms which would provide buffer to the cashflows. The associated interest cost reduction would also aid the profitability metrics and the cash generation during the period is expected to provide the required working capital to scale up the business.
HCC has entered into binding agreement with Cube Highways and Infrastructure V Pte Ltd. for 100% sale of Baharampore Farakka Highways Limited with the transaction likely to get completed in early fiscal of FY24. The monetization would support the liquidity profile and is important for the ensuing debt servicing in March 2023. The ability to complete the monetization would be critical from credit perspective.

Satisfactory and diversified order book position
HCC had an order book of Rs.13,784 crore as on Sept 30, 2022 which is about 3.3x the total operating income of the company during FY22 thereby providing medium term revenue visibility. The company has presence across various segments with order book spread across Transportation segment (49%), Hydro (24%), Water works (18%) and Nuclear and Special segment (9%).

Key rating weaknesses
Weak financial performance with losses reported
The company continued to report losses during FY22 on account of high interest expenses, although the quantum of loss has reduced vis-à-vis previous year. The company reported total operating income of Rs.4,261 crore during FY22 having improved from Rs.2,359 crore during FY21 on account of higher execution of projects post slowdown due to covid related issues. The PBILDT margin improved from 2.21% during FY21 to 8.44% during FY22.
For H1FY23, although HCC reported PAT of Rs.162 crore, the same is largely due to non-operating income in the form of reduction in liabilities to lenders due to restructuring of debt resulting in gain of Rs.223 crore. However, it continued to report cash loss.

Subdued leverage and debt coverage metrics
The losses incurred in the past have resulted in networth erosion which along with high debt level has resulted in leveraged capital structure and weak coverage metrics. While the RP implementation has resulted in reduction in debt level, the capital structure is expected to remain leveraged.

Extended working capital cycle
The operating cycle of the company has been extended with large debtors built up. The collection days has been significantly stretched with large debtors under arbitration/pending with clients. The company also does not have working capital lines for funding the gross current assets and relies on advances from customers/creditors funding.

Liquidity: Stretched
The liquidity profile although expected to improve post implementation of RP continues to remain stretched with moderate cash accrual generation vis-à-vis the debt repayment obligation due in March 2023. Comfort is drawn from the existing cash balance (Rs.120 crore as on December 27, 2022) available to partly fund the debt servicing obligation. Post March 2023, the next repayment liability falls due in March 2024.

Analytical approach: Standalone

Applicable criteria
CARE's Policy on Default Recognition
Rating Outlook and Rating Watch
Rating Methodology-Construction
Rating Methodology - Infrastructure Sector Ratings
Policy on withdrawal of ratings
Financial ratios – Non-Financial Sector
Policy on curing period
Liquidity Analysis of Non-Financial Sector Entities

About the company

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, 2021 (A)	March 31, 2022 (A)	H1FY23 (U/A)
Total operating income	2359	4261	2252
PBILDT	52	360	360
PAT	-566	-153	162
Overall gearing (times)	9.32	11.39	NA
Interest coverage (times)	0.06	0.38	0.95

A: Audited; U/A: Un-audited; NA – Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	0.00	CARE B+; Stable and Withdrawn
Fund-based - LT-Term Loan	-	-	-	-	0.00	CARE B+; Stable and Withdrawn
Fund-based/Non-fund-based-LT/ST	-	-	-	-	3697.38	CARE B+; Stable / CARE A4
Term Loan-Long Term	-	-	-	-	0.00	CARE B+; Stable and Withdrawn

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (30-Sep-22)	1)CARE D (01-Oct-21)	1)CARE D (08-Oct-20)	1)CARE D (27-Mar-20) 2)CARE D (01-Apr-19)
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)	1)CARE D (27-Mar-20) 2)CARE D (01-Apr-19)
3	Term Loan-Long Term	LT	-	-	-	1)CARE D (01-Oct-21)	1)CARE D (08-Oct-20)	1)CARE D (27-Mar-20) 2)CARE D (01-Apr-19)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	3697.38	CARE B+; Stable / CARE A4	-	1)CARE D / CARE D (01-Oct-21)	1)CARE D / CARE D (08-Oct-20)	1)CARE D / CARE D (27-Mar-20) 2)CARE D / CARE D (01-Apr-19)
5	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE D (01-Oct-21)	1)CARE D (08-Oct-20)	1)CARE D (27-Mar-20) 2)CARE D (01-Apr-19)
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)	1)CARE D (27-Mar-20) 2)CARE D (01-Apr-19)
7	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE D (01-Oct-21)	1)CARE D (08-Oct-20)	1)CARE D (27-Mar-20) 2)CARE D (01-Apr-19)

*Long term/Short term.

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

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on 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.

For the detailed Rationale Report and subscription information, please visit www.careedge.in