

August 12, 2022

## Prolific Resolution Private Limited: Provisional [ICRA]B (Stable) assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Non-Convertible Debenture	3,500.0	Provisional [ICRA]B (Stable); Assigned
<b>Total</b>	<b>3,500.0</b>	

Rating in the absence of pending actions/documents

Not Applicable, No rating would have been assigned as it would not be meaningful

*\*Instrument details are provided in Annexure I*

### Rationale

The assigned rating to the proposed NCD of Prolific Resolution Private Limited's (PRPL) factors in the long tenured debt with four-year moratorium providing reasonable time for realisation of claim/award proceeds before debt servicing obligations commence. The rating takes into account the cover of over 2.24 times provided through transfer of ~Rs. 6,508 crore of awards and claims against the debt of ~Rs. 2,852 crore to PRPL from Hindustan Construction Company Ltd (HCC) as a part of the latter's debt restructuring plan. HCC, the parent company of PRPL, has a track record for realisation of awards and claims, with an average claim to awards ratio of ~58% in the past.

However, the rating remains constrained by the timelines and uncertainty associated with realisations of awards and claims. As on March 31, 2022, the company had total claims worth Rs. 4,010 crore and awards worth Rs. 2,498 crore, which are at various stages. Of the total outstanding claims, about 65% of the claims are pending with clients, while the balance 35% are undergoing arbitration process. Similarly, out of the total outstanding awards which has been contested by clients, about 9% are at the Supreme Court, ~86% are at the High Courts, while the balance 5% are at various District Courts. Realisation of awards and claims remains critical for timely debt servicing.

ICRA notes that as of March 2022, there is no debt in PRPL and the proposed rated debt will be as per the approved restructuring plan of HCC. HCC will provide corporate guarantee (CG) for the entire debt that is being transferred to PRPL and the CG will remain valid at all times during the tenure of the loan. ICRA notes that legal expenses for the arbitration and litigation for the awards and claims will be borne by HCC till material realisation of cash flows. Post realisation of awards, PRPL will have funds available to carry out further expenses, after repaying the debt.

The Stable outlook reflects ICRA's belief that the long moratorium period of around four years provides reasonable time to PRPL to make progress and realise part of the claims/awards commensurate to the debt servicing obligations over the medium term.

### Key rating drivers and their description

#### Credit strengths

**Long tenured debt with adequate cover and Group's track record of realisation of awards and claims** – As per the resolution plan (RP) being implemented for HCC, ~Rs. 6,508 crore of awards and claims will be transferred to PRPL along with the debt of ~Rs. 2,852 crore, providing a cover of 2.24 times. HCC has an established track record in realisation of awards and claims with average claims to award ratio of 58% in the past. In this backdrop, the cover of 2.24 times is reasonable. Further, the long

tenure of the debt with four-year moratorium (principal repayment along with interest to begin from September 2026) provides satisfactory pay-in and pay-out gap between realisation of award proceeds and debt obligations.

## Credit challenges

**Dependence on realisation of awards and claims for timely debt servicing** – The timelines as well as adequacy of claims and awards realisation would remain important for timely debt servicing. As on March 31, 2022, the company had total claims worth Rs. 4,010 crore and awards worth Rs. 2,498 crore. Of the total outstanding claims, about 65% of the claims are pending with clients, while the balance 35% are undergoing arbitration process. Similarly, out of the total outstanding awards, about 86% are at the High Court stage, while the balance 5% and 9% are at the District and Supreme Court stages, respectively.

## Liquidity position: Stretched

While PRPL does not have any debt repayment obligation in the medium term, it will be incurring expenditure towards process for claim realisation and would be dependent on its sponsor for the same till the realisation of claims/awards. The company does not have any material cash and bank balance as on June 30, 2022. Timely realisation of claims will remain crucial to improve its liquidity.

## Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if the company realises claims and awards earlier than estimated, which leads to significant improvement in liquidity.

**Negative factors** – Negative pressure on the rating could arise if there is substantial delay in realisation of estimated claims and awards that increase the risk of liquidity mismatch.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">ICRA's Policy on Assigning Provisional Ratings</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

## Pending actions/documents required to be completed for conversion of provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Finalisation/signing of the term sheet/documentation by all the lenders for the restructured loan (NCD).

## Validity of the provisional rating

In case the debt instrument/borrowing facility for which a provisional rating has been assigned is subsequently issued, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of issuance of the debt instrument. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending

actions/documents over the near term. Under no circumstances shall the validity period be extended beyond 180 days from the date of issuance. For further details, refer to ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

If neither the pending actions/documents nor the issuance is completed after one year of the assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

### Risks associated with the provisional rating

In case the issuance is completed, but the pending actions/documents are not completed by the entity within 90 days (validity period) from the date of issuance, the provisional rating will be converted into final upon the review of the required actions/documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at [www.icra.in](http://www.icra.in).

### About the company

As HCC was undergoing a restructuring, a RP was proposed, wherein part awards and claims would be carved out in a new entity, along with part debt. This debt will be repaid from the realisation of awards and claims. Accordingly, in FY2021, Prolific Resolution Private Limited was incorporated with 100% shareholding by HCC. Post implementation of the RP in HCC, awards and claims worth Rs. 6,508 crore will be transferred to PRPL with debt of ~Rs. 2,852 crore.

### Key financial indicators (audited)

Prolific Resolution Private Limited is a newly incorporate entity so KFI table is not applicable.

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

### Any other information: None

### Rating history for past three years

Instrument	Type	Current Rating (FY2023)		Chronology of Rating History for the Past 3 Years			
		Amount Rated (Rs. crore)	Amount Outstanding as on July 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				August 12, 2022			
1 Non-Convertible Debenture	Long-term	3,500.0	-	Provisional [ICRA]B (Stable)	-	-	-

### Complexity level of the rated instrument

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: [www.icra.in](http://www.icra.in)

#### Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA*	Non-Convertible Debenture	-	-	-	3,500.0	Provisional [ICRA]B (Stable)

Source: Company

\*not yet placed/issued

#### Annexure-II: List of entities considered for consolidated analysis – Not Applicable

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For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



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### Branches



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