December 18, 2024

Hindustan Construction Company Limited: Rating reaffirmed

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); reaffirmed
Total	**823.9**	**823.9**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Hindustan Construction Company Limited's (HCC) adequate order book position of Rs. 9,773 crore (order book to construction income ratio of 2.1 times) as on September 30, 2024[1], providing near-term revenue visibility and diversified order book across segments, geographies and clientele. The rating derives comfort from the improvement in operating margin from the core engineering, procurement and construction (EPC) business in FY2024 and H1 FY2025. HCC's operating margin from the EPC business improved to 8.6% in FY2024 (12.5% in H1 FY2025) from 4.0% in FY2023. Improved operating leverage, presence of price escalation clauses in most of the contracts, along with lower sub-contracting dependence supported margin expansion in FY2024 and H1 FY2025. ICRA expects the company to ramp-up its gross billing from the core EPC business with inflow of new orders, while maintaining adequate operating margins. ICRA has factored in the likely support to the liquidity profile from the planned fund infusion through Qualified Institutional Placement (QIP), which is expected to be completed by the end of December 2024. The rating favourably notes 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 5.1 times as on September 30, 2024 (FY2024: 7.2 times). The same is likely to improve over the medium term but will 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 an 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. HCC is in the process of monetising some of its non-core investments as a part of its resolution plan. HCC realised Rs. 395 crore in FY2024 from awards and non-core assets sale, which was utilised for debt repayment and towards working capital requirement. ICRA notes that the realisation from claims and awards has remained slower than the earlier expected levels. HCC raised Rs. 350 crore through rights issue in April 2024 and is expecting to realise Rs. 1,137 crore through QIP and award proceeds over the next three months. Timely realisation of these funds remains critical for debt repayments in March 2025. Going forward, timely monetisation of non-core assets and realisation of awards remains crucial to materially improve its liquidity position. In absence of sanctioned fund-based working capital lines, the company is maintaining over Rs. 200 crore of liquidity on a sustained basis. 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 FY2024, the lenders have permitted HCC to utilise ~Rs. 163 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.

[1] Has further received orders worth Rs.1,032 crore in October 2024 and been declared L1 for projects worth Rs.3,860 crore.

HCC has provided a corporate guarantee (CG) for the entire debt (including interest) at Prolific Resolution Private Limited (PRPL). Hence, any crystallisation of those guarantees will impact HCC's credit profile. Recently, HCC has received in-principle approval from the lead bank - ICICI Bank and State Bank of India for reducing the CG extended to PRPL, from 100% of the debt at carveout, to 20% of that value, limiting HCC's exposure to PRPL debt to Rs. 571 crore. These two lenders constitute 26.5% in value of the total PRPL debt. Approvals from the remaining lenders are awaited. The condition stipulated by lenders against this approval is that HCC has to give Rs. 400 crore to PRPL over the next three years. Accordingly, HCC plans to infuse Rs. 200 crore in PRPL in Q4 FY2025 from the part proceeds of the QIP, planned in December 2024. PRPL plans to use Rs. 200 crore of likely infusion from the HCC and Rs. 170 crore expected claim settlement in Q4 FY2025, towards prepayment of debt due in September 2026 during the current fiscal year itself. Further, PRPL has cash and bank balance of Rs. 42.4 crore as on September 30, 2024, and the debt repayments would commence from September 2026 providing satisfactory pay-in and pay-out gap between the 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 12% of the order book as on March 31, 2024, 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 post RP implementation (December 2022). With improved operating performance, the company is able to ramp-up execution in various ongoing projects, which has led to a reduction in the number of stuck projects, which mitigates the BG invocation risk to an extent.

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

Key rating drivers and their description

Credit strengths

Adequate and diversified order book position provides healthy near-term revenue visibility – The company had an adequate order book position of Rs. 9,773 crore (order book to construction Income ratio of 2.1 times) as on September 30, 2024[2], providing near-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 47% of the unexecuted order book as on March 31, 2024. The order book is fairly diversified in terms of projects and clients, with top three clients contributing to 50% and the top five orders constituting 61% of the unexecuted order book as on March 31, 2024.

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 the 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 a high leverage as reflected in high TOL/TNW, which stood at 5.1 times as on September 30, 2024 (FY2024: 7.2 times). The same is expected to improve over the medium term but 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 an

[2] Has further received orders worth Rs. 1,032 crore in October 2024 and been declared L1 for projects worth Rs.3,860 crore.

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. HCC is in the process of monetising some of its non-core investments as a part of its resolution plan. HCC realised Rs. 395 crore in FY2024 from awards and non-core assets sale, which was utilised for debt repayment and towards working capital requirement. ICRA notes that the realisation from claims and awards has remained slower than the earlier expected levels. HCC raised Rs. 350 crore through rights issue in April 2024 and is expecting to realise Rs. 1,137 crore through QIP and award proceeds over the next three months. Timely realisation of these funds remains critical, for debt repayments in March 2025. Going forward, timely monetisation of non-core assets, subscription of QIP and realisation of awards remains crucial to materially improve its liquidity position. 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 FY2024, the lenders have permitted HCC to utilise ~Rs. 163 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 a corporate guarantee (CG) for the entire debt (including interest) at Prolific Resolution Private Limited (PRPL). Hence, any crystallisation of those guarantees will impact HCC's credit profile. Recently, HCC has received in-principle approval from the lead bank - ICICI Bank and State Bank of India for reducing the CG extended to PRPL, from 100% of the debt at carveout, to 20% of that value, limiting HCC's exposure to PRPL's debt to Rs. 571 crore. These two lenders constitute 26.5% in value of the total PRPL's debt. Approvals from the remaining lenders are awaited. The condition stipulated by lenders against this approval is that HCC has to give Rs. 400 crore to PRPL over the next three years. Accordingly, HCC plans to infuse Rs. 200 crore in PRPL in Q4 FY2025 from part proceeds of the QIP, planned in December 2024. PRPL plans to use Rs. 200 crore of likely infusion from HCC and Rs. 170 crore expected claim settlement in Q4 FY2025, towards prepayment of debt due in September 2026 during the current fiscal year itself. Further, PRPL has cash and bank balance of Rs. 42.4 crore as on September 30, 2024, and the debt repayments would commence from September 2026 providing satisfactory pay-in and pay-out gap between the 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 12% of the order book as on March 31, 2024, 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 post RP implementation (December 2022). With improved operating performance, the company has ramped up execution in various ongoing projects, leading to a reduction in the number of stuck projects, which mitigates the BG invocation risk.

Heightened competition, input costs spike 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. It had unencumbered cash and bank balance of Rs. 512.1 crore as on September 30, 2024. It is expected to maintain cash and liquid investment of over Rs. 200 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. 530 crore as of March 2025), timely realisation of claims, asset monetisation, and fund raise will remain crucial for the company to improve its liquidity.

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 material improvement in liquidity and coverage metrics.

Negative factors – Negative pressure on HCC's rating could arise if there is a 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	Corporate Credit Rating Methodology Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidation

About the company

Incorporated in 1926, 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)

HCC -Standalone	FY2023	FY2024	H1 FY2025*
Operating income (Rs. crore)	5,200.6	5,015.7	2468.7
PAT (Rs. crore)	216.8	143.5	72.9
OPBDIT/OI (%)	12.6%	12.5%	15.1%
PAT/OI (%)	4.2%	2.9%	3.0%
Total outside liabilities/Tangible net worth (times)	9.6	7.2	5.1
Total debt/OPBDIT (times)	3.0	2.8	2.3
Interest coverage (times)	1.0	1.2	1.4

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations;*

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th></th><th colspan="3">Current (FY2025)</th><th colspan="6">Chronology of rating history for the past 3 years</th></tr>
<tr><th></th><th></th><th></th><th></th><th colspan="2">FY2024</th><th colspan="2">FY2023</th><th colspan="2">FY2022</th></tr>
<tr><th>Instrument</th><th>Type</th><th>Amount Rated (Rs. crore)</th><th>Dec 18, 2024</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th><th>Date</th><th>Rating</th></tr>
<tr><td rowspan="2">Non-convertible debenture</td><td rowspan="2">Long term</td><td rowspan="2">823.9</td><td rowspan="2">[ICRA]BB (Stable)</td><td>Dec 19, 2023</td><td>[ICRA]BB (Stable)</td><td>Dec 20, 2022</td><td>[ICRA]B (Stable)</td><td>-</td><td>-</td></tr>
<tr><td>Aug 22, 2023</td><td>[ICRA]B (Stable)</td><td>Aug 12, 2022</td><td>Provisional [ICRA]B (Stable)</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Optionally convertible debentures*</td><td rowspan="2">Long term</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">Aug 22, 2023</td><td rowspan="2">Provisional [ICRA]B (Stable); withdrawn</td><td>Dec 20, 2022</td><td>Provisional [ICRA]B (Stable)</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>Aug 12, 2022</td><td>Provisional [ICRA]B (Stable)</td></tr>
<tr><td rowspan="2">Non-convertible debenture*</td><td rowspan="2">Long-term</td><td rowspan="2">-</td><td rowspan="2">-</td><td rowspan="2">Aug 22, 2023</td><td rowspan="2">Provisional [ICRA]B (Stable); withdrawn</td><td>Dec 20, 2022</td><td>Provisional [ICRA]B (Stable)</td><td rowspan="2">-</td><td rowspan="2">-</td></tr>
<tr><td>Aug 12, 2022</td><td>Provisional [ICRA]B (Stable)</td></tr>
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**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**	26-Sep-2022	0.01%	31-Mar-29	101.3	[ICRA]BB(Stable)
INE549A07213	**Non-convertible debenture**	26-Sep-2022	0.01%	30-Jun-29	267.0	[ICRA]BB(Stable)
INE549A07239	**Non-convertible debenture**	26-Sep-2022	0.01%	31-Mar-26	1.7	[ICRA]BB(Stable)
INE549A08963	**Non-convertible debenture**	26-Sep-2022	0.01%	31-Mar-29	248.0	[ICRA]BB(Stable)
INE549A08971	**Non-convertible debenture**	26-Sep-2022	0.01%	30-Jun-31	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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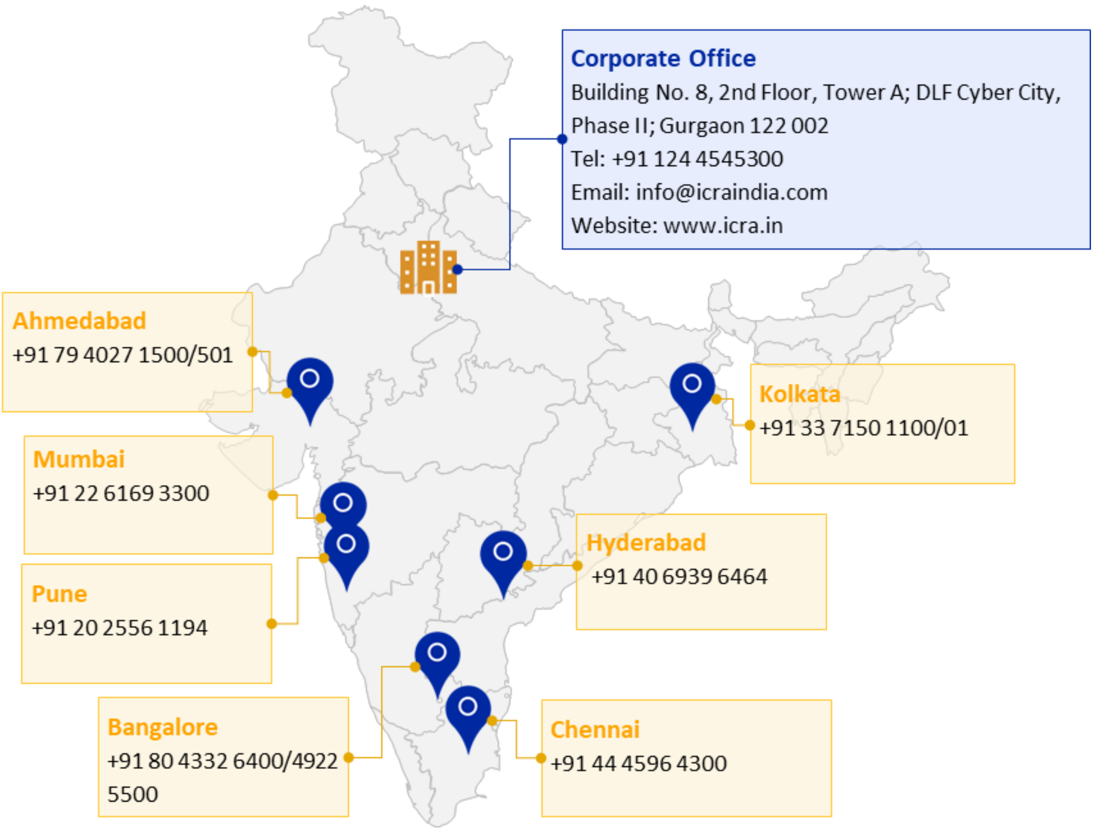

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