# Hindustan Construction Company Ltd — 30 Aug 2024 Credit Rating Summary

| Section | Details |
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| **Agency** | CARE Ratings Ltd. |
| **Rating Change** | **CARE BB → CARE BB+** (Upgraded 1 notch) |
| **Outlook** | **Stable → Positive** |
| **Key Drivers of Change** | 1. **Profitability Surge:** PBILDT margin doubled from 5.05% (FY23) to 10.16% (FY24) and 12.6% (Q1FY25) due to high-margin project execution and ₹100 Cr reduction in legal costs.<br>2. **Capital Infusion:** Successful ₹350 Cr Rights Issue (April 2024) and proposed ₹600 Cr QIP (Q2FY25) to bridge liquidity gaps.<br>3. **Asset Monetization:** Recovery of arbitration claims and non-core asset sales supporting debt servicing.<br>4. **Operational Recovery:** Post-Resolution Plan (RP) stability with stable revenue of ₹4,888 Cr. |
| **Rated Instruments** | • **Bank Guarantees (Non-fund):** ₹7,313.28 Cr (CARE BB+; Positive / A4+)<br>• **OCDs:** ₹863.88 Cr (CARE BB+; Positive)<br>• **NCDs:** ₹753.00 Cr (CARE BB+; Positive)<br>• **LT External Borrowings:** ₹121.12 Cr (CARE BB+; Positive) |
| **Key Observations** | • **Revenue Visibility:** Order book of ₹10,475 Cr (2.1x FY24 Revenue) plus L1 status in ₹4,600 Cr projects.<br>• **Leverage Stress:** High TOL/TNW of 8.13x and Overall Gearing of 4.98x (FY24); net worth remains eroded by past losses.<br>• **Working Capital Trap:** Stretched receivable days at 337; operating cycle at 200 days due to disputed arbitration claims.<br>• **Debt Structure:** "Ballooning" repayment schedule where cash flow from operations is insufficient; heavily dependent on external fundraising.<br>• **Contingent Risk:** Corporate Guarantee provided for ₹2,854 Cr debt transferred to PRPL; repayments start Sept 2026.<br>• **Lack of Credit Lines:** No fund-based working capital limits; company relies entirely on customer advances and equity. |
| **Investor Impact** | • **Margins:** Structural shift to >10% margins is positive for EPS, but interest costs remain a heavy drag.<br>• **Dilution Risk:** Ongoing equity dilution (Rights Issue + QIP) is necessary to fund growth in the absence of bank limits.<br>• **Growth:** Execution speed is capped by liquidity; QIP success is the primary catalyst for short-term scaling. |
| **Agency / Cross Analysis** | **Same Agency:** CARE upgraded the rating and moved the outlook to Positive vs. the 2023 review.<br>**Drivers:** Shift from "recovery/restructuring" to "execution/capital raising." CARE now credits the company for margin sustainability and successful equity mobilization.<br>**Conclusion: Improvement.** The rating reflects a transition from "Default Risk" toward "Highly Leveraged Growth." |
| **Final Inference** | **Real Operational Turnaround vs. Financial Fragility.** While HCC has fixed its operational engine (margins) and order intake, the balance sheet remains "in ICU," surviving on equity infusions and arbitration wins. The "Positive" outlook signals a potential move to the 'BBB' (Investment Grade) category if the QIP succeeds and leverage drops. |