HCC

Press Release

HCC Lenders initiate Rs.2,100 cr debt/asset carve-out

Mumbai, January 10, 2020: Lenders of Hindustan Construction Co. Ltd. (HCC) today initiated a carve-out of about Rs.2,100 crore of debt to a third-party-controlled SPV along with certain Arbitration Awards and Claims in a move that will significantly deleverage the Company and address its asset-liability mismatch.

The debt – along with receivables comprising approximately an Award cover of 1.0x and Claims under Arbitration of 1.5x – will move to an SPV controlled by a new investor. The tenure of the debt at the SPV will be up to 10 years and repayments from the proceeds of the Awards will yield an IRR higher than current yields offered by HCC.

The debt/asset carve-out, which will be in the nature of a slump sale, is subject to lenders' final approvals. Lenders aim to seek their internal approvals and target to close the transaction prior to March 31st, 2020. The Company will also seek the requisite corporate approvals for the transaction.

Stakeholders including lenders have increasingly derived comfort from the strengthening of India's Arbitration framework over the last four years towards international standards. Parliament kicked off the process of reform in 2015 with far-reaching amendments to the Arbitration & Conciliation Act, 1996, which have also been upheld by the Judiciary and supported by the Executive by way of policy actions from time to time. Most recently the Executive amended the 2016 CCEA circular on Arbitration Awards such that any challenge to an Award in Court by Central Agencies / PSUs will first have to be referred to the Law Ministry for opinion. The erstwhile mechanical challenges of Awards can reasonably be expected to reduce substantially as a result and therefore Award monies can be expected to fructify in a shorter time span than historically. In addition to measures to improve the Arbitration framework, the Executive has also set up dashboards to track payments due to EPC Contractors and has removed the requirement of interest top-up Bank Guarantees on Awards collected via the CCEA mechanism, all of which will provide a further liquidity boost to the industry.

On March 26, 2019, the Company's Board of Directors had approved the monetization of certain awards and claims through an SPV controlled by investors led by BlackRock, which was notified to the exchanges. Subsequently, shareholders' approval was taken to transfer awards and claims amounting to Rs.2,082 crore in exchange for a cash consideration of Rs.1,750 crore. The extent of deleveraging is far greater in the case of the carve-out transaction than in the case of the monetization transaction. The Company is still engaged in discussions with investors and a curtailed monetization transaction with an investor-led consortium, subject to lenders' approvals, may also be pursued at a later stage. As a result of the above developments, there may be a write-back, subject to statutory audit, of the provision taken in 4Q FY19 on signing of terms of the monetization transaction.

Pursuant to the debt carve-out, HCC's balance sheet will stand significantly deleveraged with no debt servicing obligations expected for the next 33 months. HCC will continue to work to realize its underlying assets to further improve its credit profile, allowing it to more substantively participate in India’s infrastructure roll-out program.

About HCC:

HCC is a business group of global scale developing and building responsible infrastructure through next practices. With an engineering heritage of nearly 100 years, HCC has executed a majority of India's landmark infrastructure projects, having constructed 29% of India's Hydro Power generation and 65% of India's Nuclear Power generation capacities, over 3,800 lane km of Expressways and Highways, more than 337 km of complex Tunneling and 375 Bridges. Today, HCC Ltd. serves the infrastructure sectors of Transportation, Power and Water. The HCC Group, with a group turnover of Rs.10,322 crore, comprises of HCC Ltd., HCC Infrastructure Co. Ltd., and Steiner AG in Switzerland.