

August 30, 2021

Hindustan Latex Family Planning Promotion Trust: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-Based – Cash Credit	10.0	10.0	[ICRA]BBB(CE)(Stable); Reaffirmed
Short- Term, Non-fund Based	4.0	4.0	[ICRA]A3+(CE); Reaffirmed
Total	14.00	14.00	

Rating Without Explicit Credit Enhancement	[ICRA]BBB-/ [ICRA]A3
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*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The above ratings are based on the strength of the corporate guarantee provided by HLL Lifecare Limited (HLL), the sponsor of Hindustan Latex Family Promotion Trust (HLFPPT), for the rated bank lines. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, HLL.

Adequacy of credit enhancement

For assigning the ratings, ICRA has assessed the attributes of the guarantee issued by HLL in favour of the said instrument. The guarantee is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument and does not have a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by HLL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]BBB(CE) against the rating of [ICRA]BBB- without explicit credit enhancement. In case the guarantor's rating undergoes a change in future, the same would reflect in the rating of the aforesaid instrument. The rating of this facility may also undergo a change if, in ICRA's assessment, there is a change in the strength of the business links between the guarantor and the rated entity, or there is a change in the reputation sensitivity or a change in strategic importance of the rated entity of the guarantor.

Salient covenants of the rated facility

During the currency of the Bank's credit facilities, the unit/guarantor shall not without the Bank's prior permission in writing

- » Effect any change in the company's capital structure
- » Formulate any scheme of amalgamation or reconstruction
- » Invest by way of share capital in or lend or advance funds to or place deposits with any other concern (including group companies).
- » Undertake any guarantee obligation on the behalf of any other company.

Key rating drivers and their description

Credit strengths

Corporate guarantee (unconditional and irrevocable) from GoI-owned HLL – HLPPT is sponsored by HLL, which is a 100% Government of India (GoI) owned enterprise with an experienced management and a track record of nearly five decades in production and distribution of contraceptives, healthcare and pharma products, contract and consultancy, as well as healthcare services. The bank lines of HLPPT are backed by an unconditional and irrevocable corporate guarantee furnished by HLL.

Established track record in primary health care services, promotion of social marketing products, and skill development – HLPPT is a charitable trust and registered under the Travancore Cochin Charitable Trust Act in 1992. It is involved in primary health care services, awareness of preventive health, family planning, promotion of social marketing products, social franchising, HIV-Tuberculosis prevention, Elderly care & support, Child health, Skill development, Research and knowledge management, etc. It has a long track record of operations and employs about 2,500 personnel.

Diversified revenue mix and reputed customer base comprising mostly Government entities – HLPPT's revenues are diversified across several verticals such as social marketing, social franchising, skill development, technical assistance, healthcare service delivery, research and knowledge management, public health clinics, etc. Also, more than 90% of projects of the trust are from Central and state governments and Government-owned entities. Going forward, projects from the Government entities are expected to continue to dominate its order book.

Healthy order book position providing revenue visibility – At present, the trust has an order book of nearly Rs. 143 crore to be executed in FY2022, which provides near-to-medium-term revenue visibility. Going forward, skill development, family planning, and healthcare projects are expected to be the key growth drivers.

Strong financial risk profile characterised by healthy profitability and low gearing – In FY2021, the company's operating income (OI) de-grew by ~25% to Rs. 24.8 crore from Rs. 32.6 crore in FY2020 on account of the delay in execution of educational training (skill development) projects due to the Covid-19 pandemic. However, these projects have only been deferred but not scrapped. Its operating margins increased to 20.1% in FY2021 from 18.0% in FY2020. The company had zero long-term debt and a working capital debt of Rs.3.3 crore in FY2021. This has led to strong coverage and capital structure metrics with interest coverage ratio of 11.5 times and gearing of 0.1 times in FY2021.

Credit challenges

GoI intends to divest 100% stake in HLL; may affect order inflow from Government entities – The GoI has identified HLL (holding company) as one of the PSUs from which it would disinvest through a 100% strategic stake sale. In case of divestment by the GoI, the order inflows from the Central and State governments and Government-owned entities may be impacted.

Delays in grants from Government entities might result in temporary cash flow mismatches – Majority of the projects of the trust are from Government entities and receivables from the latter are stretched at times. HLPPT receives these payments on a reimbursement basis.

Intense competition results in aggressive bidding for contracts and minimal profit margins – HLPPT faces stiff competition from various local NGOs such as Public Health Foundation of India (PFHI), PSI, Sir Agha Khan Trust, etc, which has led to a decline in margins in some of its segments over the years. Nevertheless, being a GoI entity, its long track record aids in securing new orders.

Liquidity position: Adequate

For the support provider (HLL Lifecare Limited): Adequate

HLL's liquidity position is expected to be **adequate** backed by sufficient cash flows to meet requirements.

For the rated entity (HLPPT): Adequate

HLPPT's liquidity is **adequate** with cash and cash equivalents of Rs.10.0 crore as on March 31, 2021 and buffer in working capital limits of Rs. 6.7 crore. The company does not have any repayment obligations or any major capex plans and retained cash flows are expected to remain healthy.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if there is an improvement in HLL's credit profile and/or substantial improvement in its scale of operations and cash accruals.

Negative factors – Negative pressure on the ratings could arise if there is a deterioration in HLL's credit profile and/or significant deterioration in the revenue, operating profits and debt protection metrics of the trust.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent/Group Company: HLL Lifecare Limited The ratings are based on a corporate guarantee furnished by the parent HLL backing the bank lines of HLPPT.
Consolidation/Standalone	The ratings are based on the standalone financial statements of HLPPT.

About the company

HLPPT is a charitable trust registered in 1992 under the Travancore Cochin Charitable Trust Act. It is promoted by HLL Life Care Limited, a Government of India enterprise, for implementation of public health programmes. It has been actively involved in primary health care services, awareness of preventive health, family planning, promotion of social marketing products, social franchising, HIV-Tuberculosis prevention, Elderly care & support, Child health, Skill development, Research and knowledge management, etc. The trust has pan-India operations. In addition to projects from GoI entities like Ministry of Health and Family Welfare, National Rural Health Ministry, National AIDS Control Organisation, etc, the trust has undertaken several programmes/projects funded by international agencies such as Bill & Melinda Gates Foundation, UNICEF, UNFPA, USAID, etc.

About the guarantor

HLL Lifecare Limited is a 100% GoI owned entity and was incorporated in 1966 for the production of male contraceptive sheaths and commenced operations in 1969. Traditionally, HLL has been involved in manufacture of condoms, steroidal and non-steroidal oral contraceptive pills (OCPs), etc. Since 1992, it started a process of diversification by manufacturing other products such as blood bags, hydrocephalus shunts, sutures, rapid test kits, etc.

While condoms continue to be the largest product category, HLL's current product portfolio can be broadly segmented into – (1) contraceptive products, (2) healthcare Products (3) pharma and other traded products, (4) contract and consultancy and (5) healthcare services.

The company also has a few subsidiaries. These include Goa Antibiotics and Pharmaceuticals, which is involved in marketing of life saving drugs catering to major Central/state government Institutions across the country; HLL Infra Tech Services Limited (HITES) providing services in design, engineering and execution of construction projects, consultancy and procurement primarily for the GoI entities, and HLL Mother and Child Care Hospitals Limited.

HLL Biotech Limited and HLL Medipark Limited have been demerged from HLL Lifecare Limited as per MCA orders in March 2021 w.e.f. April 01, 2019.

Key financial indicators (audited): HLPPT

	FY2020	FY2021 (Prov)
Operating Income (Rs. crore)	32.6	24.8
PAT (Rs. crore)	5.3	4.7
OPBDIT/OI (%)	18.0%	20.1%
PAT/OI (%)	16.2%	19.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.1
Total Debt/OPBDIT (times)	1.2	0.7
Interest Coverage (times)	8.5	11.5

Source: Company

Key financial indicators (audited): HLL Lifecare Limited (Consolidated)

	FY2020	FY2021
Operating Income (Rs. crore)	1980.5	5375.3
PAT (Rs. crore)	111.1	101.6
OPBDIT/OI (%)	9.4%	3.2%
PAT/OI (%)	5.6%	1.9%
Total Outside Liabilities/Tangible Net Worth (times)	5.1	9.0
Total Debt/OPBDIT (times)	2.3	2.1
Interest Coverage (times)	5.3	6.7

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Aug 30, 2021	-	Feb 25, 2020	Aug 30, 2019	Sep 28, 2018
1	Fund-based – Cash Credit	Long-term	10.0	3.3	[ICRA]BBB(CE) (Stable)	-	[ICRA]BBB(CE) (Stable)	[ICRA]BBB+(SO) (Stable)	[ICRA]BBB+(SO) (Negative)
2	Non-fund Based	Short-term	4.0	-	[ICRA]A3+(CE)	-	[ICRA]A3+(CE)	[ICRA]A2(SO)	[ICRA]A2(SO)

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Short – Term Non-Fund Based	Very 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	NA	-	10.00	[ICRA]BBB(CE)(Stable)
NA	Short Term – Non-Fund Based	-	NA	-	4.00	[ICRA]A3+(CE)

Source: Company

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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