February 22, 2024

HLL Lifecare Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	312.00	312.00	[ICRA]A-(Stable); reaffirmed
Non-fund Based Facilities	300.00	300.00	[ICRA]A2+; reaffirmed
Long-term/ Short-term Proposed Facilities	148.96	148.96	[ICRA]A-(Stable)/[ICRA]A2+; reaffirmed
Total	**760.96**	**760.96**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings factor in ICRA's expectations that HLL Lifecare Limited (HLL) will record a healthy growth in revenues and earnings driven by improved performance of healthcare services (diagnostics) and pharma retail segments, with gradual recovery in demand for contraceptives segments, leading to improvement in debt metrics. HLL is expected to record 45-55% YoY growth on non-Covid-19 revenues in FY2024, on the back of 110-130% growth in healthcare services, supported by addition of new labs, along with 30-40% growth in its pharma retail division on the back of 43 store additions. Revenue growth is expected to moderate to 5-10% in FY2025.

The company's operating margins improved to ~8% in 9M FY2024 from ~2% in FY2023 (OPM was 3.5% on non-Covid-19 segments in FY2023) on the back on reduced losses in contraceptives, improved margins in healthcare services and pharma trading, supported by revision in prices in healthcare services division and compensation received for previous years in healthcare services division. HLL's operating margin is expected to moderate to 4-5% in FY2025. The ratings consider HLL's established track record as the largest condom supplier to the Government of India (GoI), and its captive status for condoms and oral contraceptive pills (OCPs), which mitigate potential demand risks. The ratings also consider the healthy pan-India presence of HLL's Moods brand through its distribution network. HLL's ratings also derive comfort from its diversified business segments and product portfolio; the company operates in contraceptives, retail pharmacy chain, healthcare services, healthcare products and trading, consultancy and contract segments.

HLL's ratings are, however, constrained by continued losses in manufacturing divisions—for contraceptive and healthcare products—limiting the improvement in earnings. The ratings are also constrained by HLL's stretched receivables cycle owing to often-delayed and lumpy-nature of settling dues by the GoI leading to working capital-intensive operations. ICRA also notes the GoI's planned strategic stake divestment of HLL, whereby it is looking at divesting its entire stake in HLL.

The Stable outlook on the rating reflects ICRA's opinion that HLL will continue to benefit from healthy demand for healthcare services and pharmacy trading segments, which would support improvement in scale of operations, margins and debt profile.

Key rating drivers and their description

Credit strengths

GoI owned enterprise – HLL is a 100% GoI-owned enterprise. It has an experienced management and a considerable track record of nearly five decades in the contraceptives space with operations since 1969. HLL is the largest contraceptive supplier and captive unit to the GoI for distribution under the free distribution and social marketing schemes of the National Family Welfare Programme (NFWP). After lower offtake during the Covid-19 pandemic, demand for contraceptives from the Government has been improving. ICRA expects the company to record healthy revenue growth of 10-20% from this segment in FY2024 on the back of healthy orders. Prices offered in the current year are better than the prices in the past two years. The company has submitted claims for Rs. 25.0 crore price revision compensation for contraceptives supplied in FY2020. ICRA expects the company to record healthy growth in FY2025 as well, given the healthy demand for exports from African and West Asian markets, along with healthy demand from the Government.

Diversified business segment and product portfolio – HLL has diversified revenue streams as it operates in contraceptives, pharmacy retail, healthcare services, healthcare products, consultancy and contract segments. It has witnessed healthy sales from its retail pharmacy chain, wherein it is expanding its network. HLL is also focusing on healthcare services where it operates diagnostic labs. While the contraceptives and healthcare products divisions are loss making, the retail pharma, healthcare services, and consultancy and contract divisions are relatively margin accretive for HLL and are, therefore, expected to contribute higher revenues, going forward.

Established brand and healthy market share in commercial contraceptives segment – HLL's Moods brand is one of the largest players in the domestic commercial male contraceptives segment and enjoys a good brand recall, benefitting from a pan-India presence through an extensive distribution network.

Credit challenges

Stretched receivables cycle leading to working capital intensive operations – HLL's operations remain working capital intensive as often-delayed and lumpy nature of settling dues by the GoI results in high debtors. The receivables increased to ~Rs. 1,300.0 crore as on December 31, 2023, from ~Rs. 900.0 crore as on March 31, 2023, owing to delays in payments from the Government, mainly for pharma retail and healthcare services. However, it enjoys a high credit period from suppliers, supporting the cash flows to some extent. Improvement in receivables cycle would remain a key monitorable.

Subdued earnings from a few business segments – Manufacturing divisions, such as contraceptives and healthcare products, have been incurring losses over the past few years owing to lower scale and high input costs, which could not be passed on to customers. Revenues declined in the past three years owing to lower offtake from the Government as resources were mainly deployed towards Covid-19. However, the demand for these segments is witnessing a gradual improvement. Moreover, improved realisations for a few services / products has reduced the extent of losses in 9M FY2024. High competition is expected to keep margins under check for these segments.

Liquidity position: Adequate

The company had cash and bank balances of ~Rs. 650.0 crore with buffer of Rs. 30-40.0 crore against sanctioned limits as on December 31, 2023. Against this, HLL has nil debt repayment obligations and capex plans of ~Rs. 80-100 crore in the next 12 months, to be funded through internal accruals.

Rating sensitivities

Positive factors – ICRA could upgrade HLL's rating if there is a sustained improvement in revenue and profitability supported by favourable pricing policy, and efficient working capital management leading to healthy improvement in capital structure and coverage indicators, on a sustained basis.

Negative factors – Pressure on HLL's rating could emerge if significant moderation in revenues or earnings impacts its financial profile or if a stretch in its working capital cycle impacts its liquidity position. Significant weakening of linkages with the Government of India, or any larger capex plans impacting the liquidity profile, could also exert pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for FMCG companies Rating methodology for diagnostic service providers
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company's consolidated financial profile.

About the company

HLL Lifecare Limited is a Miniratna [Category-I] Enterprise, fully owned by the GoI under the administrative control of Ministry of Health and Family Welfare. Established in 1966, HLL has a rich legacy of over 50 years and currently operates through a network of 21 offices and eight state-of-the-art manufacturing facilities, servicing public and private markets across over 85 countries.

HLL, through its subsidiaries, associates, and joint venture (JV), is involved in manufacturing and marketing of a range of contraceptives, women's healthcare products, hospital supplies as well as other pharmaceutical products. The company is also engaged in providing healthcare and diagnostic services, consultancy and contract services for healthcare infrastructure projects and consultancy services for procurement of medical equipment and devices.

HLL, through its subsidiaries, associates, and JV, has a strong domestic distribution network covering about 1.5 lakh retail outlets across major cities and over 1 lakh remote villages. Internationally, HLL's products are exported to over 85 countries and are also provided to global public health programmes managed by international agencies such as World Health Organisation, United Nations Populations Fund , Populations Services International, etc. As on date, HLL has two subsidiary companies and one JV.

Key financial indicators (audited)

HLL Consolidated	FY2022	FY2023
Operating income	36083.6	4115.6
PAT	401.4	50.0
OPBDIT/OI	1.7%	1.9%
PAT/OI	1.1%	1.2%
Total outside liabilities/Tangible net worth (times)	8.4	4.2
Total debt/OPBDIT (times)	0.3	5.4
Interest coverage (times)	23.6	3.8

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Feb 22, 2024	January 19, 2023	Dec 23, 2021	Dec 24, 2020
1	Cash Credit	Long-term	312.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Non-Fund Based	Short-term	300.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2
3	Term Loan	Long-term	-	-	-	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
4	Unallocated Limits	Long term/ Short term	148.96	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/[ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Short Term Non-Fund Based	Very Simple
Long Term/Short Term - Unallocated	Not applicable

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 No	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**Cash Credit**	-	-	-	312.00	[ICRA]A-(Stable)
NA	**Non-fund based limits**	-	-	-	300.00	[ICRA]A2+
NA	**Short-term/Long-term Unallocated Limits**	-	-	-	148.96	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Goa Antibiotics and Pharmaceuticals Limited	74%	Full Consolidation
HLL Infratech Services Limited (HITES)	100%	Full Consolidation
Life Springs Hospitals Pvt Ltd	50%	Equity Method

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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