

December 23, 2021

## HLL Lifecare Limited: Ratings upgraded

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	63.45	42.39	Ratings upgraded to [ICRA]A-(Stable) from [ICRA]BBB+(Stable)
Cash Credit	312.00	312.00	Ratings upgraded to [ICRA]A-(Stable) from [ICRA]BBB+(Stable)
Non Fund-Based Facilities	300.00	300.00	Ratings upgraded to [ICRA]A2+ from [ICRA]A2
Long-term/Short-term Proposed Facilities	85.51	106.57	Ratings upgraded to [ICRA]A-(Stable)/[ICRA]A2+ from [ICRA]BBB+(Stable)/[ICRA]A2
<b>Total</b>	<b>760.96</b>	<b>760.96</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The ratings upgrade factors in the improved credit profile of HLL Lifecare Limited (HLL/The company) on the back of healthy demand prospects for its diversified revenue steam, supporting significant revenue growth and leading to improvement in debt metrics. HLL has been designated as the nodal agency for procurement of vaccines, personal protective kits (PPE), and other Covid 19 related equipment leading to significant improvement in scale. The company's margins moderated partially because of lower gross margins on Covid-19 supplies; however, its debt levels have remained stable despite significant increase in scale as the working capital requirements pertaining to Covid-19 supplies have been funded by advances from customers. Company's margins from its Non-Covid segments declined to 3.4% in FY2021 from 7.2% in FY2020 impacted by the increase in latex prices as well as higher provisioning. Decline in margins continued into H1 FY2022 impacted by lower realizations on account of the second wave of the pandemic as well as continued increase in raw material prices. However, margins are expected to improve from H2 FY2022 with improvement in demand conditions. The ratings upgrade also considers divestment of the company's stake in HLL Biotech Limited (HBL) and HLL Medipark Limited (HML) which are loss making entities with high levels of leverage. HLL is not expected to fund these entities, going forward. Lower debt (post divestment) and increased scale has resulted in improved debt metrics, despite moderation in margins, as indicated by standalone adjusted debt / OPBITDA of 2.0 times in FY2021 (as against 2.5 times in FY2020) and interest coverage of 6.9 times in FY2021 (as against 4.4 times in FY2020). While ICRA notes that the revenues from Covid-19 supplies are expected to taper down over the next 12-18 months, the company is expected to maintain healthy debt metrics with rebound in revenues from other segments and improved margins.

The ratings also consider HLL's established track record as the largest condom supplier to the Government of India (GoI), and its captive status for condoms, oral contraceptives pills (OCPs) and vaccines, which mitigate potential demand risks. The ratings also consider the healthy pan-India presence of its 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 constrained by the working capital-intensive operations as the often-delayed and lumpy-nature of settling dues by the GoI has resulted in high debtors. While the company benefits from financing its Covid-19 business through advances received from the government and supplier credit, working capital requirements remain high for its Non-Covid segments. ICRA also notes that the GoI's planned strategic stake divestment of HLL, whereby it is looking at divesting its entire stake in HLL. Though the process has witnessed considerable delays since initiation in FY2019, the ongoing developments

related to the divestment will be a key credit concern and monitorable since ICRA draws comfort from HLL being a 100%-Gol entity and its associated benefits (such as captive orders and funding access).

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that HLL will continue to benefit from being a 100% Gol-owned enterprise, its healthy market position and strategic importance to the Government of India as reflected in it being appointed as the nodal agency for procurement of Covid-19 supplies.

## Key rating drivers and their description

### Credit strengths

#### **Gol-owned enterprise with captive unit status; appointed as nodal agency for Covid-19 equipment/vaccine procurement –**

HLL is a 100% Gol-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's strategic importance to the Government of India is reflected in it being appointed as the nodal agency for procurement of Covid 19 supplies. This has resulted in significant growth in operating income of the company to Rs. 5,893.9 crore in H1 FY2022 from Rs. 5,081.3 crore in FY2021 and Rs. 1,677.7 crore in FY2020. HLL is also the largest contraceptive supplier to the Gol for distribution under the free distribution and social marketing schemes of the National Family Welfare Programme (NFWP). HLL enjoys captive status for such supplies, which ensures a minimum offtake of 75% of the production or the Gol's requirement in a given year, thereby mitigating demand and marketability risks to an extent. Further, HLL has hived off HBL and HML which are highly leveraged and loss-making entities which has resulted in improvement in its debt profile.

#### **Diversified business segment and product portfolio –**

HLL has significantly diversified its business and at present operates in contraceptives, retail pharmacy chain, healthcare services, healthcare products and trading, consultancy and contract segments. It has witnessed healthy sales from its retail pharmacy chain segment, wherein the network is still being expanded. HLL is also focusing on healthcare services and won tenders to provide pathology and imaging services in Maharashtra, Assam and Uttar Pradesh under the PPP model. While company's OPBITDA margins in Non-Covid segments declined in FY2021 and H1 FY2022 on raw material price increase and lower realizations due to reduced demand on account of the Covid-19 pandemic, they are expected to improve from H2 FY2022.

#### **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

#### **Gol's intention to divest 100% stake in HLL -**

Earlier in FY2018, the Gol had identified HLL as one of the PSUs from which it would disinvest through a 100% strategic stake sale. However, the process has witnessed significant delays because of the Covid-19 pandemic. Though its captive status provides some comfort, ongoing developments related to the divestment will be a key credit concern, since ICRA draws comfort from HLL being a 100%-Gol entity and the associated benefits (such as captive orders and funding access) it is entitled to.

#### **Working capital intensive operations because of high receivables and inventory position -**

HLL's operations remain working capital intensive as often-delayed and lumpy-nature of settling dues by the Gol results in high debtors. Furthermore, it maintains high inventory for meeting the ageing requirements of latex and increasing the retail pharmacy operations. While the company benefits from financing its Covid-19 business through advances received from the government and supplier credit, working capital requirements remain high for its non-Covid segments. However, it enjoys a high credit period from suppliers (even for non-Covid segments), mitigating the intensity to some extent.

## Liquidity position: Adequate

The company's liquidity is adequate given the cash and cash equivalents of Rs. 64 crore as on March 31, 2021, and unutilized fund-based working capital limits of over Rs. 100 crore as on October 31, 2021 as against repayment obligations of Rs. 9.1 crore due in H2 FY2022 and capex plans of Rs. 50-55 crore.

## Rating sensitivities

**Positive factors** – ICRA could upgrade HLL's rating if there is sustained improvement in revenue and profitability, favourable pricing policy for contraceptive products and better working capital management leading to healthy improvement in capital structure and coverage indicators. Specific credit metrics that could lead to an upgrade is adjusted debt/OPBDITA of less than 1.2 times on a sustained basis.

**Negative factors** – Negative pressure on HLL's rating could emerge if significant moderation in revenue and profitability or stretch in working capital intensity on a sustained basis deteriorates the financial risk profile. Besides these, divestment from the Gol, and significantly higher-than-expected debt-funded capex could also exert negative pressure on the company's ratings.

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group Support	The Government of India
Consolidation/Standalone	Consolidated

## About the company

HLL, a 100% Gol owned entity and a Mini Ratna Enterprise, was incorporated in 1966 for the production of male contraceptive sheaths and commenced operations in 1969. Traditionally, HLL has been engaged in manufacture of condoms, steroidal and non-steroidal oral contraceptive pills (OCPs), etc. Since 1992, HLL started a process of diversification by manufacturing other products such as blood bags, hydrocephalus shunts, sutures, Rapid Test Kits, etc. HLL's current product portfolio can be broadly segmented into – (1) Contraceptive products, (2) Healthcare Products (3) Pharma/Other Traded Products and (4) Healthcare Services. HLL Lifecare has 3 subsidiaries and one JV with Acumen fund (US based social venture capital fund).

HLL Lifecare Limited (HLL) has been appointed as the nodal agency for procuring essential Covid 19 supplies as well as vaccines. This has resulted in an increase in standalone operating income to Rs. 5,081.3 crore in FY2021 from Rs. 1,677.7 crore in FY2020.

## Key financial indicators (audited)

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

Source: Company, ICRA Research; 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

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on October 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Dec 23, 2021	Dec 24, 2020	Jul 15, 2019	Sep 24, 2018	
1	Cash Credit	Long-term	312.00	180.50	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
2	Non-Fund Based	Short-term	300.00	-	[ICRA]A2+	[ICRA]A2	[ICRA]A2	[ICRA]A2
3	Term Loan	Long-term	42.39	-	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Negative)
4	Unallocated Limits	Long term/ Short term	106.57	-	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Stable)/ [ICRA]A2	[ICRA]BBB+ (Negative)/ [ICRA]A2

Amount in Rs. Crore;

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based-Term Loan	Simple
Fund based- Cash Credit	Simple
Non-fund based-Working Capital Facilities	Very Simple
Long-term/Short-term Proposed Facilities	-

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 analyzing 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](http://www.icra.in)

### Annexure-1: Instrument details

ISIN No/Banker Name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	312.00	[ICRA]A-(Stable)
NA	Term Loan	FY2017	8.45%	FY2027	42.39	[ICRA]A-(Stable)
NA	Non-Fund Based Facilities	NA	NA	NA	300.00	[ICRA]A2+
NA	Short-term/Long-term Unallocated Limits	NA	NA	-	106.57	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company

### Annexure-2: 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%	Full Consolidation
HLL Mother & Child Care Hospitals Limited	100%	Full Consolidation

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