

January 21, 2022

HLL Infra Tech Services Limited: Ratings upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-Term Fund-Based – Cash Credit	25.65	25.65	Upgraded to [ICRA]A-(CE)(Stable) from [ICRA]BBB+(CE)(Stable)
Short- Term, Non-fund Based	21.00	21.00	Upgraded to [ICRA]A2+(CE) from [ICRA]A2(CE)
Total	46.65	46.65	

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 HLL Infra Tech Services Limited (HITES), 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]A-(CE)/[ICRA]A2+(CE) against the rating of [ICRA]BBB/[ICRA]A3+ 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 borrower shall not without the Bank's prior permission in writing

- » Formulate any scheme of amalgamation or reconstruction or merger or de-merger
- » Invest by way of share capital or lend or advance funds to or place deposits with any other concern (including group companies).
- » Issue any guarantee or letter of comfort in the nature of guarantee on behalf of any other company (including group companies).

Key rating drivers and their description

Credit strengths

Corporate guarantee (unconditional and irrevocable) from GoI-owned HLL – HITES 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 HITES are backed by an unconditional and irrevocable corporate guarantee furnished by HLL.

Status of the company as the executing agency for Ministry of Health and Family Welfare (MoHFW) provides preference in award of central and state government contracts – HITES was designated as an executing agency for MoHFW in November 2015. Being an executing agency for MoHFW, the company is able to get a number of contracts from GoI on nomination basis. Additionally, the company also gets preference in tenders floated by MoHFW, owing to its status as an executing agency for the ministry. It is also designated as a National Procurement Support Agency (NPSA). At present more than 90% business of the company is from Central and various State Governments.

Healthy order book position providing revenue visibility in the near to medium term – The company has healthy order book position which provides revenue visibility in the near to medium term. The order book includes orders for setting up of new All India Institute of Medical Sciences (AIIMS), improvement of healthcare system in Republic of Guinea, construction of various facilities at Jawaharlal Institute of Postgraduate Medical Education & Research (JIPMER), etc.

Diversified sales mix across several verticals and diversified customer base – HITES has primarily four verticals- health infrastructure services (HIS), medical device procurement services (MDPS), facility management services (FMS) and bio medical engineering services (BMES). The revenues of the company are well diversified across different business verticals.

Healthy financial risk profile characterised by healthy profitability and low gearing – Company's revenue was flat at Rs. 270.0 crore in FY2021 (Rs. 273.2 crore in FY2020). Impacted by second wave lockdown, revenues remained flat at Rs. 124.7 crore in H1 FY2022. However, revenues are expected to improve sharply in H2 FY2022 on the back of faster execution of projects and healthy order book. PBT margin remained healthy at 6.0% in H1 FY2022. However, it declined from 15.4% in FY2020 on account of an increase in employee expenses. Gearing metrics remain very healthy on account of low debt utilization.

Credit challenges

GoI's intention to divest 100% stake in HLL - Earlier in FY2018, the GoI 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.

High competitive intensity in the health infrastructure services segments, facility management services and biomedical engineering services - In the HIS segment, the company faces competition from public sector companies such as NBCC, EPIL, EIL and HSCC etc. In FMS and BMES segments the company faces competition from public as well private players such as Kirloskar, Trimod and AMB etc. In MDPS segment, the company is the market leader for the procurement by Central Government and State Government backed institutions.

Liquidity position: Adequate

For the support provider (HLL Lifecare Limited): 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.

For detailed rationale of HLL, click [here](#)

For the rated entity (HITES): Adequate

Liquidity is adequate. HITES had cash and cash equivalents of Rs. 18.9 crore as on March 31, 2021. It has unutilized working capital limits of Rs. 24.8 crore as on November 30, 2021. It also has unutilized O/D balance of Rs. 12.5 crore. It is expected to record retained cash flows of Rs.10-15 crore in FY2022. It has low capex and interest obligations.

Rating sensitivities

Positive factors – Improvement in credit profile of HLL Lifecare Limited and/or substantial improvement in scale of operations and cash accruals

Negative factors – Deterioration in credit profile of HLL Lifecare Limited or weakening of linkages with HLL Lifecare Limited and/or significant deterioration in the revenue, operating profits and debt protection metrics of the company

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 HITES.
Consolidation/Standalone	The ratings are based on the standalone financial statements of HITES.

About the company

HLL Infra Tech Services Limited (HITES) was incorporated in April 2014 as a wholly owned subsidiary of HLL Lifecare Limited. HITES provides services in design, engineering and execution of construction projects. HITES provides procurement and consultancy services to Government of India, State Governments and other institutions for procuring a range of healthcare and hospital products, equipment and devices. It is designated as a National Procurement Support Agency (NPSA).

About the guarantor

HLL Lifecare Limited (HLL / 'the company'), a 100% GoI 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 operating income to Rs. 5,081.3 crore in FY2021 from Rs. 1,677.7 crore in FY2020. The GoI has identified HLL as one of the PSUs from which it would disinvest through a 100% strategic stake sale. DIPAM has also selected the asset valuer following the earlier appointment of a transaction adviser for the disinvestment. However, the process is likely to entail a significant amount of lead time.

Key financial indicators (audited): HITES

	FY2020	FY2021
Operating Income (Rs. crore)	273.2	270.0
PAT (Rs. crore)	31.6	10.9
OPBDIT/OI (%)	15.1%	5.6%
PAT/OI (%)	11.6%	4.0%
Total Outside Liabilities/Tangible Net Worth (times)	9.4	11.1
Total Debt/OPBDIT (times)	0.0	0.7
Interest Coverage (times)	41,312.2	39.4

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 November 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019		
				Jan 21, 2022	Oct 09, 2020	Feb 03, 2020	Aug 30, 2019	Sep 28, 2018	Sep 06, 2018	Apr 27, 2018
1 Fund-based – Cash Credit	Long-term	25.65	0.9	[ICRA]A-(CE) (Stable)	[ICRA]BBB+(CE)(Stable)	[ICRA]BBB+(CE)(Stable)	[ICRA]BBB+(SO) (Stable)	[ICRA]BBB+(SO) (Negative)	[ICRA]A(SO)(Negative)	[ICRA]A(SO) (Negative)
2 Non-fund Based	Short-term	21.00	-	[ICRA]A2+(CE)	[ICRA]A2(CE)	[ICRA]A2(CE)	[ICRA]A2(SO)	[ICRA]A2(SO)	[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	-	25.65	[ICRA]A-(CE)(Stable)
NA	Short Term – Non-Fund Based	-	NA	-	21.00	[ICRA]A2+(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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