January 23, 2023

HLL Infra Tech Services Limited: [ICRA]A-(CE)(Stable)/[ICRA]A2+(CE) ratings withdrawn; and fresh rating of [ICRA]BBB(Stable)/[ICRA]A3+ assigned

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Long Term – Fund Based – Cash Credit	25.65	25.65	[ICRA]A-(CE)(Stable) withdrawn; [ICRA]BBB(Stable) assigned simultaneously
Short Term Non- Fund Based	21.00	21.00	[ICRA]A2+(CE) withdrawn; [ICRA]A3+ assigned simultaneously
Total	**46.65**	**46.65**	

**Instrument details are provided in Annexure-I*

Rationale

ICRA has withdrawn its rating of [ICRA]A-(CE) (Stable)/[ICRA]A2+ (CE) for the bank facilities of HLL Infra Tech Services Limited (HITES) and has simultaneously assigned a fresh rating of [ICRA]BBB(Stable)/[ICRA]A3+ for these facilities. The rating action follows the Guidance Note and the FAQ document issued by the Reserve Bank of India (RBI) to the credit rating agencies on April 22, 2022, and July 26, 2022, respectively, guiding that the benefit of a corporate guarantee that does not meet the evaluation mechanism/ criteria defined by the RBI is not to be considered while assigning the credit enhanced (CE) ratings[1].

Among other considerations, the [ICRA]A-(CE)(Stable)/[ICRA]A2+(CE) rating drew comfort from the presence of a corporate guarantee extended by HITES's parent to the lenders of the rated bank facilities. For assigning the rating, ICRA had assessed the attributes of the guarantee issued by HLL Lifecare Limited (HLL) in favour of the rated facility. While the guarantee was legally enforceable, irrevocable, unconditional, covered the entire amount and tenor of the rated facility, and met the other attributes of a strong guarantee, it did not have a well-defined invocation and payment mechanism.

Taking this into consideration, ICRA had assigned a rating of [ICRA]A-(CE) (Stable)/[ICRA]A2+(CE) to the said facility against the unsupported rating of [ICRA]BBB/ICRA]A3+ and in relation to the guarantor's rating of [ICRA]A- (Stable)/[ICRA]A2+.

These facilities would be falling due for a renewal shortly and ICRA has taken the aforesaid rating action to align itself with the RBI guidance, whereby the benefit of a guarantee, that lacks an invocation and payment mechanism, is not considered in the credit assessment of these facilities. This is notwithstanding the fact that such a support represents a relatively stronger expression of commitment on the part of the support provider for the supported facilities in comparison with support that is only implicit in nature. Accordingly, ICRA has assigned the rating of [ICRA]BBB (Stable)/[ICRA]A3+ to the above working capital facilities of HITES, while withdrawing the [ICRA]A-(CE)(Stable)/[ICRA]A2+ rating.

ICRA notes that HITES and its parent HLL Lifecare Limited (HLL, rated [ICRA]A-(Stable)/[ICRA]A2+] have close business linkages and HITES is of strategic importance to its parent. Therefore, ICRA expects HLL to be willing to extend timely financial support to HITES, as and when needed. As earlier, the rating for the working capital facilities factors-in the above strengths, arising from a parent having a relatively stronger credit profile. Now, the benefit of the guarantee extended by the parent for these facilities has been ignored.

The ratings continue to consider HITES' status as the national procurement support agency for the Ministry of Health and Family Welfare (MoHFW) which enables healthy order inflow for healthcare projects from the Ministry and diversified sales mix across different verticals. The ratings consider the company's healthy order book (adjusted for the company's revenue share) which

[1] The RBI has permitted the existing (CE) ratings to continue until the residual tenor of the loan. However, for the (CE) ratings outstanding on working capital facilities that are renewed periodically (like cash credit facilities that fall due for renewal at an annual frequency), the RBI has separately guided that the residual tenor of these facilities is to be considered as the time remaining until the next due date of renewal, or six months from the date of the FAQ document, whichever is later.

translates to ~1.3 times FY2022 revenues, providing revenue visibility in near to medium term. The ratings also consider HITES' healthy financial profile characterized by low gearing and healthy coverage metrics.

The ratings remain constrained by the high competitive intensity in the infrastructure development, facility management services and biomedical engineering services, where it faces competition with customers like NBCC (India) Limited, Engineering Projects (India) Limited, Engineers India Limited, HSCC (India) Limited etc. Company's moderate sale of operations and high receivables days also constrain the ratings.

The stable outlook reflects ICRA's expectation of sustained healthy profitability and debt protection metrics on the back of healthy order book.

Key rating drivers and their description

Credit strengths

Status of the company as the procurement support agency for Ministry of Health and Family Welfare (MoHFW) provides preference in award of central and state government contracts – HITES was designated as the national procurement support agency for MoHFW. This enabled the company in receiving several 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. At present more than 90% business of the company is from the Central and various State Governments.

Healthy order book position and diversified sales mix across several verticals – HITES has primarily four verticals- health infrastructure services (ID), medical device procurement services (PCD), facility management services (FMS) and bio medical engineering services (BMES). The revenues of the company are well diversified across different business verticals. Further, the company's healthy order book (adjusted for the company's revenue share) which translates to ~1.3 times FY2022 revenues, providing revenue visibility in near to medium term.

Healthy financial profile – HITES's revenue declined by 5% (annualized) to Rs. 216.8 crore in 9M FY2023 at a PBT margin of 2.5% (PBT margin of 7.8% in FY2022). However, FY2023 revenue is expected to be 7-10% higher than FY2022 revenue of Rs. 303.1 crore with PBT margins expected at 7-8%. This is because revenues for the PCD and ID divisions are booked stage-wise based on completion of milestones. A major portion of the stage-wise commissions for the PCD and ID divisions are expected to be received in Q4 FY2023 post completion of contracts which is expected to uplift revenues and margins significantly; especially since the major expense for these divisions, employee cost, is recognized uniformly across the year. Gearing and interest coverage ratios were healthy at 0.3 and 70.9 times respectively and are expected to remain healthy going forward as well.

Credit challenges

High competitive intensity in the health infrastructure services, facility management services and biomedical engineering services divisions – In the ID segment, the company faces competition from public sector companies such as NBCC (India) Limited, Engineering Projects (India) Limited, Engineers India Limited, HSCC (India) Limited etc. In FMS and BMES segments the company faces competition from public as well private players such as Kirloskar Group. However, in the PCD division, the company is the market leader for the procurement for Central Government and State Government backed institutions supported by its status as the national procurement support agency.

Moderate scale of operations and working capital cycle characterized by high receivables days – The company's scale of operations remains moderate with expected revenue of Rs. 320-340 crore in FY2023. The receivables days are typically high at over 200 days as payments from government customers are typically delayed. However, the company has back-to-back contracts with its vendors / suppliers, reducing its working capital requirements to a large extent. Moreover, most of the receivables are from government owned entities; mitigating the counter-party risk to an extent.

Liquidity position: Adequate

HITES' liquidity position is adequate as indicated by its cash balance of Rs. 15.7 crore and buffer in working capital limits of ~Rs. 25 crore as on December 31, 2022. Against this, company has minimal capex and nil debt repayment obligations. Liquidity is adequate to meet operational requirements.

Rating sensitivities

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

Negative factors – Deterioration in credit profile of HLL or weakening of linkages with HLL and/or significant deterioration in the earnings or debt protection metrices of HITES.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy on withdrawal of credit ratings
Parent/Group support	Parent Company: HLL Lifecare Limited: The ratings assigned to HITES factors in the likelihood of support from its parent.
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

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).

Key financial indicators (audited)

HITES	FY2021	FY2022
Operating income	270.0	303.1
PAT	10.9	17.6
OPBDIT/OI	5.6%	7.9%
PAT/OI	4.0%	5.8%
Total outside liabilities/Tangible net worth (times)	11.1	7.7
Total debt/OPBDIT (times)	0.7	0.4
Interest coverage (times)	39.4	70.9

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 (FY2023)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					January 23, 2023	Jan 21, 2022	Oct 09, 2020	Feb 03, 2020	Aug 30, 2019
1	Cash Credit	Long-term	25.65		[ICRA]A-(CE) (Stable) withdrawn; [ICRA]BBB(Stable) assigned simultaneously	[ICRA]A-(CE) (Stable)	[ICRA]BBB+(CE) (Stable)	[ICRA]BBB+(CE) (Stable)	[ICRA]BBB+ (SO) (Stable)
2	Non-Fund Based	Short-term	21.00		[ICRA]A2+(CE) withdrawn; [ICRA]A3+ assigned simultaneously	[ICRA]A2+(CE)	[ICRA]A2(CE)	[ICRA]A2 (CE)	[ICRA]A2 (SO)

Complexity level of the rated instruments

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 are available on ICRA's website: Click Here

Annexure I: 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) withdrawn; [ICRA]BBB(Stable) assigned simultaneously
NA	Short Term – Non-Fund Based	-	NA	-	21.00	[ICRA]A2+(CE) withdrawn; [ICRA]A3+ assigned simultaneously

Source: *Company*

Annexure II: List of entities considered for consolidated analysis: Not applicable

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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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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