

April 01, 2021

## Economic And Entrepreneurship Development Foundation: Rating reaffirmed

### Summary of rating action

Instrument#	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	14.00	8.50	[ICRA]BBB+ (Stable); Reaffirmed
Untied Limits	10.00	15.50	[ICRA]BBB+ (Stable); Reaffirmed
<b>Total</b>	<b>24.00</b>	<b>24.00</b>	

*#Instrument details are provided in Annexure-1*

### Rationale

The reaffirmation of the rating takes into consideration the established track record and experience of the promoters in the healthcare industry, and reputation of the hospital for offering services at an affordable price. ICRA notes that EEDF's consistent growth in revenue during the last few years is primarily because of an increase in revenue from the in-patient department, supported by rising demand for affordable healthcare services and growing penetration of health insurance in India. The rating also factors in the high occupancy level for the hospital over the years (82% occupancy in FY2020) and a healthy diversified revenue stream from pathological and pharmacy divisions. Further, a conservative capital structure of the company with low reliance on debt has kept the coverage indicators healthy till FY2020. However, the same will be impacted in FY2021 with a significant decline in top line and losses at the net level due to low occupancy in H1 FY2021 following the Covid-19 pandemic. The rating also favourably factors in the financial flexibility derived from the large cash and bank balance as of March 31, 2020.

The rating is, however, constrained by the intense competition from other established multi-specialty hospitals in Kolkata, the modest scale of operations of the hospital and its exposure to geographical concentration risk for being a single-location hospital. Moreover, retention of medical consultants/doctors may pose a challenge in the light of intense competition in Kolkata. ICRA notes that the company has suffered losses till 9M FY2021 due to a significant decline in revenue and high fixed operating cost because of low footfalls. The rating is also tempered by the moderately large size of the project, compared to the current operations, which exposes the company to project execution risks. The ability of the company to execute the project in a timely manner and successfully ramp up operations of the proposed diagnostic centre, thereby improving margins and return indicators, would be crucial factors for the rating, going forward.

The Stable outlook on the [ICRA]BBB+ rating takes into consideration the established track record of EEDF as a quality healthcare services provider for over four decades, which is expected to support its business position while sustaining its profitability level in the long run.

### Key rating drivers and their description

#### Credit strengths

**Experience of promoters in the healthcare industry; reputation of the hospital for offering quality services at affordable price** – Incorporated in 1971, EEDF belongs to the DC Group of Companies, based out of Kolkata. The company operates a 155-bed hospital named Sri Aurobindo Seva Kendra in Kolkata, certified by Bureau Veritas & ISO 9001:2015. It also has an NABL-accredited (National Accreditation Board for Testing and Calibration Laboratories) pathology section. The hospital provides indoor, outdoor, pharmacy, diagnostic and other healthcare services at an affordable price. EEDF also has a general nursing and midwifery training school called Sri Aurobindo Seva Kendra-School of Nursing, which started in FY2011.

**Comfortable occupancy levels; revenue stream supported by pharmacy and pathology departments** – The company offers multi-specialty treatment and the in-patient department (IPD) continues to remain the highest revenue contributor, accounting for around 35% of the total revenues in FY2020 followed by the pathology department with 26% and the pharmacy department with 22% of the total revenue. The occupancy level of the hospital has remained healthy over the years with 82%

occupancy in FY2020. The capital structure of EEDF continues to remain conservative because of low external debt. The total outside liabilities relative to the tangible net worth stood at 0.35 times as on March 31, 2020, which is likely to remain low going forward. The coverage indicators stood at a healthy level because of low gearing and healthy cash accruals from business till FY2020. Due to the Covid-19 pandemic, the business operations of the hospitals were severely impacted with 33% occupancy in H1 FY2021 compared to 79% in H1 FY2020, however, gradual recovery was witnessed in the second half of the current fiscal.

**Favourable growth drivers with increasing demand for healthcare services and better affordability, led by rising penetration of health insurance in India** – The healthcare services in the country have a favourable outlook due to factors such as better affordability through increasing per-capita income and widening of medical insurance coverage, growing awareness for healthcare, under-penetration of healthcare services, technological improvements in early diagnosis and treatment, and higher instances of lifestyle diseases. Further, significant demand-supply gap in the country's healthcare service sector and limited investments by the Government for hospital bed addition provide private sector players an opportunity to step in to fill the gap.

### Credit challenges

**Significant impact on revenue and profitability in FY2021 due to the Covid-19 pandemic** – In H1 FY2021, the business operations of all the players in the hospital sector were impacted, including EEDF. Due to low footfalls in the hospitals because of the Covid-19 pandemic, the top line of the company significantly declined in H1 FY2021 to Rs. 13.89 crore from Rs. 33.92 crore in H1 FY2020. A significant decline in the top line coupled with high operating fixed costs resulted in an operating loss for the trust in H1 FY2021. However, the operations of the hospital ramped up in H2 FY2021, supporting the top line. Besides, reduction in the variable portion of doctors' salary and no incentives payout in FY2021 supported the operating margin of the company to an extent. The top line and cash accruals of the company are expected to decline in FY2021 over the previous fiscal and the trust is likely to incur losses at net level in FY2021.

**Exposure to project execution risk due to planned capital expenditure, which is substantial compared to current operations** – EEDF is undertaking a capex amounting to around Rs. 25 crore for construction of a separate diagnostic and healthcare centre, equipped with an OPD, pathology and radiology in Salt Lake, Kolkata. The capex will be funded by a term loan of Rs. 8.50 crore, while the balance will be funded by internal accruals. Till February 2021, the company has incurred around Rs. 17.00 crore for development of the project. In view of delay in the execution due to the Covid-19 pandemic, the proposed diagnostic centre is rescheduled to become operational from July 2021 (revised from September 2020 earlier). Any further delay in the completion of the project would result in additional pressure on the cash flows from operations as the repayment for the term loan has commenced in November 2020.

**Exposure to high geographical concentration risks and intense competition from other hospitals** – EEDF's operations are geographically concentrated as its current operations are limited to a single hospital in Kolkata. Moreover, the company faces intense competition from other established multi-specialty hospitals in the city, including some pan-India hospital chains. The company's ability to retain key consultants and doctors and improve its operating metrics, considering the intense competition, are critical determinants of its credit profile.

### Liquidity position: Adequate

The company has generated positive fund flow from operations in the past few years, aided by low working capital intensity of operations and healthy cash accruals from business. The company is expected to report losses at the net level in FY2021, which would impact its liquidity position in the short term. However, large cash and bank balance of around Rs. 20 crore as on March 31, 2020 would continue to support the liquidity position of the company. Moreover, the company has also availed an overdraft facility of Rs. 5.00 crore in FY2021 against FDs which would provide additional comfort to its liquidity position in the near term, at least.

## Rating sensitivities

**Positive factors** – ICRA may upgrade EEDF’s rating if there is a substantial increase in the scale of operations and margins.

**Negative factors** – Pressure on the rating may arise if there is a significant delay in completion of the diagnostic centre project with major cost overrun, adversely impacting the liquidity position of the company.

## Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Hospitals</a>
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the entity.

## About the company

Economic And Entrepreneurship Development Foundation (EEDF), incorporated in December 1971, was founded by Late Dr. S. C. Dutt, the founder Chairman & Managing Director of DC Group of Companies. EEDF is a non-profit company, registered under Section 8 of the Companies Act, 2013. EEDF provides healthcare facilities and operates a hospital named Sri Aurobindo Seva Kendra in Kolkata. The hospital provides indoor, outdoor, pharmacy, diagnostic and other healthcare services. EEDF also has a general nursing and mid-wifery training school in Kolkata. Further, the company is setting up a diagnostic centre in Salt Lake, Kolkata.

## Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	64.31	64.59
PAT (Rs. crore)	3.16	2.55
OPBDIT/OI (%)	6.97%	5.19%
PAT/OI (%)	4.92%	3.95%
Total Outside Liabilities/Tangible Net Worth (times)	0.22	0.35
Total Debt/OPBDIT (times)	0.00	1.74
Interest Coverage (times)	63.35	1222.49

*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 Mar 31, 2020 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Apr 1, 2021	Jan 31, 2020	July 27, 2018	-
1	Term Loan	Long-term	8.50	5.82	[ICRA]BBB+ (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+ (Stable)	-
2	Untied Limits	Long term	15.50	NA	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-

Source: EEDF

## Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://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	Term loan	Jan 2019	-	Sep 2025	8.50	[ICRA]BBB+ (Stable)
NA	Untied limits	-	-	-	15.50	[ICRA]BBB+ (Stable)

Source: EEDF

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

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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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