July 31, 2023

The Calcutta Medical Research Institute: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Working Capital Facilities	50.00	50.00	[ICRA]A+ (Stable), reaffirmed
Short-term Non-Fund based – Working Capital Facilities	15.00	15.00	[ICRA]A1, reaffirmed
Short-term Non-Fund based – Interchangeable#	(15.00)	(20.00)	[ICRA]A1, reaffirmed
Long-term/ Short-term – Unallocated Limits	35.00	35.00	[ICRA]A+ (Stable)/ [ICRA]A1, reaffirmed
Total	**100.00**	**100.00**	

** Instrument details are provided in Annexure – I*

 # Sub-limit of the fund-based/ non-fund based working capital limits

Rationale

The reaffirmation of the ratings considers the promoters' extensive track record of more than five decades in the healthcare industry, reputation of the Calcutta Medical Research Institute's (CMRI/trust) hospitals in Kolkata, and an advanced medical infrastructure, which results in comfortable occupancy levels, healthy average revenue per occupied bed day (ARPOBD) and payer mix, strengthening its operating profile. The ratings also factor in the established track record of the trust as a quality healthcare provider in eastern India, backed by good reputation of its hospitals and an experienced team of consultants/ doctors. ICRA notes that the overall turnover and the profits of the trust witnessed a steady improvement over the past two years, primarily due to a sharp increase in the occupancy across all its hospitals, supported by a rise in ARPOBD, after a dismal performance in FY2021 due to the pandemic-related disruption. The financial profile of the trust continues to remain comfortable, as depicted by healthy profitability, a conservative capital structure and strong debt protection metrices, apart from adequate liquidity in the form of unutilised working capital limits and sizeable cash/ bank balance. The performance of the trust is also supported by an increasing demand for quality healthcare services and better affordability on the back of increasing awareness and deeper penetration level of health insurance in India.

The ratings, however, continue to be constrained by the moderate scale of current operations and high geographical concentration risk as the major portion of the trust's revenue is derived from CMRI Hospital and BM Birla Heart Research Centre (BMBHRC), located in Kolkata. The ratings are also impacted by intense competition from other players operating in the catchment area, restricting pricing flexibility, which exerts pressure on the entity's profitability. Further, the ratings consider the high reliance on its flagship establishment, CMRI Hospital, for revenue and earnings, depicting high asset concentration risk. The segmental revenue concentration has remained moderate, with the top two specialties accounting for around 50% of the in-patient department (IPD) revenues over the past two years. The ratings remain exposed to the regulatory risks in terms of restrictive pricing norms by the Central and the State Governments, which could constrain the margins. In addition, recruitment and retention of quality doctors/ consultants remain key challenges for the entity, given the stiff competition in the healthcare industry.

The Stable outlook on the long-term rating considers the established track record of the trust as a quality healthcare service provider for over five decades. A healthy occupancy level and ARPOBD are expected to support its business position and the profitability level, going forward.

Key rating drivers and their description

Credit strengths

Established presence for more than five decades in healthcare sector; long track record of the trust as a quality healthcare service provider – The trust currently operates three hospitals under it, namely, CMRI Hospital, BMBHRC and Rukmani Birla Hospital (RBH). Operational since 1969, CMRI Hospital is a 440-bedded multi-specialty tertiary care hospital in Kolkata. The trust has another 210-bedded super-specialty hospital, BMBHRC, specialising in cardiac care, in Kolkata, which is operational since 1989. In August 2016, the trust had set up RBH, a 190-bedded tertiary care hospital, in Jaipur. The trust is a part of the C K Birla Group. Vast experience of the promoters along with presence of reputed doctors and consultants on the panel strengthen the operating profiles of the hospitals.

Comfortable occupancy levels; healthy ARPOBD and payer mix strengthen its operating profile – The trust offers multi-specialty treatment and IPD continues to remain the highest revenue contributor, accounting for around 84% of the total revenues in FY2023 (provisional [P]). After the impact of the pandemic waned, the occupancy of all the hospitals witnessed a gradual improvement over the past two years. In FY2023 (P), the average occupancy of CMRI Hospital, BMBHRC and RBH stood at around 76%, 69% and 67%, respectively. The ARPOBD of all the hospital taken together registered a steady improvement over past few years and stood at a healthy level of around Rs. 27,689 in FY2023 (P). The payer mix of the hospitals remained fairly distributed among cash transaction, insurance tie-up and institutional tie-up. The insurance tie-up was the top payer category and contributed around 38% to the IPD revenue of the trust in FY2023 (P).

Comfortable financial profile depicted by healthy profitability and strong debt protection metrices – The operating profit margin (OPM) of the trust stood at a healthy level of around 15% over the past two years. Despite high depreciation, the net margin of the trust also stood at a healthy level of around 10% in the last two fiscals. The RoCE of the trust continued to remain at a comfortable level. In view of increasing employee costs including doctors' salary/ consultant fees and other overheads, the margins of the trust are likely to be moderated to some extent in the current fiscal compared to FY2023. Nevertheless, the same would continue to remain at a healthy level. The cash accruals from business would also continue to remain healthy, going forward, as witnessed in the past. The RoCE of the trust is likely to moderate to around 15% in FY2024 on the back of large capital expenditure (capex) plan. The capital structure of the trust has remained conservative over the past years owing to a healthy net worth and low reliance on external debt. The entity remained debt free as on March 31, 2023 (provisional). The total outside liabilities relative to the tangible net worth stood at 0.3 times as on March 31, 2023 (P), which is likely to remain low going forward, in the absence of any debt-funded capex programme. The coverage indicators stood at a healthy level because of low gearing and healthy profits as well as cash accruals from its business. ICRA does not foresee any major deterioration in the capital structure and coverage indicators of the trust, going forward.

Healthy demand outlook for healthcare services, supported by increasing population and per-capita income in India – The long-term demand outlook of the healthcare industry remains favourable on the back of a significant demand-supply gap in the country's healthcare service sector and an increasing trend of medical tourism in India besides penetration of health insurance in the country.

Credit challenges

Moderate scale of current operations, however, top line growth likely to continue – The trust's scale of operations continues to remain at a moderate level. However, ICRA notes that the operating income of CMRI has increased to around Rs. 611 crore in FY2023 (P) from around Rs. 397 crore in FY2018, primarily supported by a healthy growth in revenue from CMRI Hospital and RBH. The business operations of the hospital/ healthcare sector were severely impacted in H1 FY2021 due to low footfall amid the Covid-19 pandemic. Accordingly, the operating income of the trust fell by around 20% in FY2021 compared to the previous fiscal. However, the operations of the hospitals started ramping up from H2 FY2021. With an increase in the overall footfall and resumption of surgeries, the operating income of the trust witnessed around 38% growth to around Rs. 536 crore in FY2022 from Rs. 388 crore in FY2021. The same further rose to around Rs. 611 crore in FY2023 (P), primarily supported by an increase in the occupancy level of all the hospitals. The revenue of BMBHRC registered a growth (YoY) of around 24%,

followed by CMRI Hospital (17%) and RBH (14%) in FY2023 (P). With a likely increase in the occupancy level of the hospitals along with a marginal improvement in ARPOBD, ICRA expects the overall top line of the trust to register a growth of 10-12% in FY2024 compared to the previous fiscal.

Geographical concentration risk along with increased competition from other established hospitals – CMRI remains exposed to the geographical concentration risk as the major portion of its revenues is derived from CMRI Hospital and BMBHRC, located in Kolkata. Moreover, intense competition from other players in the industry restricts pricing flexibility, which also exerts pressure on its profitability. RBH would continue to face intense competition from established hospitals in Jaipur, where it is a relatively new entrant with limited brand recognition.

High dependence on CMRI Hospital for revenue and profitability – Historically, the trust has derived a significant portion of its total revenue from its flagship establishment, CMRI Hospital. It generated 47% of the total revenue and 86% of the net profit of the trust in FY2023 (P). Despite stabilisation of operations, the overall performance of RBH remained subpar due to intense competition in Jaipur from big hospital chains. Thus, RBH continued to incur losses at the net level in FY2023 (P) as well.

High dependence on consultants/ doctors for driving patient inflow; attrition risk remains high – The trust has a diversified revenue stream due to the presence of two multi-specialty hospitals and one super specialty hospital, with revenue distribution among various fields like medicine, pulmonology, orthopaedic, cardiology, neurology etc. However, the segmental revenue concentration has remained at a moderate level over the years as cardiology and medicine department contributed around 50% to the IPD revenue of the trust in FY2023 (P). ICRA notes that loss of key doctors can lead to loss of patients, which in turn impacts the overall revenue and profitability of any hospital. BMBHRC faced a similar situation in the past. CMRI is likely to face challenges in recruiting and retaining good doctors, which would remain important to attract patients.

Exposed to regulatory risk – The hospital business is exposed to the regulatory risks in terms of restrictive pricing regulations levied by Central and State Governments, which could constrain the profit margins of the healthcare industry and consequently, CMRI, going forward.

Liquidity position: Adequate

The trust generated positive cash flow from operations over the past years which had shown a gradual increasing trend. Free cash flows also remained positive since FY2019. The average utilisation of the working capital limits stood at a low level during the last 12 months, leaving enough buffer for future working capital requirement, if any. CMRI also had a sizeable free cash/bank balance of around Rs. 119 crore as on March 31, 2023. The trust has a few planned capital expenditures in terms of increasing the bed capacity of the hospitals, infrastructural development, acquisition of medical equipment etc. over the next 2-3 years, adding up to around Rs. 222 crore, which is proposed to be funded through internal accruals only. ICRA expects CMRI to generate sizeable cash flow from operations, going forward. This, along with unutilised working capital limits, surplus cash/ bank balance and the absence of long-term debt service obligations are likely to result in adequate liquidity position for CMRI, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade CMRI's ratings if the entity demonstrates a substantial increase in its scale of operations along with an improvement in the profitability, leading to an RoCE of more than 20% on a sustained basis.

Negative factors – ICRA may downgrade the ratings of CMRI if there is a significant deterioration in the entity's profitability and/or an unanticipated large debt-funded capital expenditure, adversely impacting its credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Hospitals
Parent/ Group support	Not applicable
Consolidation/ Standalone	The ratings are based on the standalone financial statements of the entity

About the company

The Calcutta Medical Research Institute (CMRI) was established in 1961 for delivering quality medical care through research and education. The trust is a part of the CK Birla Group. Currently, the trust operates three hospitals viz., CMRI Hospital, BM Birla Heart Research Centre (BMBHRC) and Rukmani Birla Hospital (RBH). Operational since 1969, CMRI Hospital is a 440-bedded multi-specialty hospital in Kolkata. The trust has another 210-bedded super-specialty hospital, BMBHRC, specialising in cardiac care in Kolkata, which is operational since 1989. In August 2016, the trust had set up RBH, a 190-bedded tertiary care hospital, in Jaipur. Besides, the trust operates one nursing school and a college.

Key financial indicators

CMRI, Standalone	FY2022 (Audited)	FY2023 (Provisional)
Operating income	535.6	610.7
PAT	53.2	61.3
OPBDIT/OI	14.9%	15.0%
PAT/OI	9.9%	10.0%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	258.6	857.6

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

Source: The Calcutta Medical Research Institute

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 on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jul 31, 2023	May 27, 2022	-	Feb 26, 2021
1	**Fund-based working capital facilities**	Long Term	50.00	Nil	**[ICRA]A+ (Stable)**	[ICRA]A+ (Stable)	-	[ICRA]A+ (Stable)
2	**Term Loan**	Long Term	-	-	**-**	-	-	[ICRA]A+ (Stable)
3	**Non-fund based working capital facilities**	Short Term	15.00	-	**[ICRA]A1**	[ICRA]A1	-	[ICRA]A1
4	**Non-fund based interchangeable**	Short Term	(20.00)	-	**[ICRA]A1**	[ICRA]A1	-	[ICRA]A1
5	**Unallocated Limits**	Long Term/ Short Term	35.00	NA	**[ICRA]A+ (Stable)/ [ICRA]A1**	[ICRA]A+ (Stable)/ [ICRA]A1	-	[ICRA]A+ (Stable)/ [ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Working Capital	Simple
Short-term non-fund based – Working Capital	Very Simple
Short-term non-fund based – Interchangeable	Very Simple
Long-term/ Short-term – Unallocated Limits	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	**Cash Credit/ WCDL 1***	-	-	-	25.00	[ICRA]A+ (Stable)
-	**Cash Credit/ WCDL 2***	-	-	-	25.00	[ICRA]A+ (Stable)
-	**Letter of Credit 1**	-	-	-	5.00	[ICRA]A1
-	**Bank Guarantee 1**	-	-	-	5.00	[ICRA]A1
-	**Interchangeable – Letter of Credit 2#**	-	-	-	(5.00)	[ICRA]A1
-	**Interchangeable – Letter of Credit 3$**	-	-	-	(5.00)	[ICRA]A1
-	**Interchangeable – Bank Guarantee 2@**	-	-	-	(5.00)	[ICRA]A1
-	**Bank Guarantee 3**	-	-	-	5.00	[ICRA]A1
-	**Interchangeable – Letter of Credit 4&**				(5.00)	[ICRA]A1
-	**Unallocated Limits**	-	-	-	35.00	[ICRA]A+ (Stable)/ [ICRA]A1

Source: The Calcutta Medical Research Institute

** WCDL is the sub-limit of the Cash Credit facility.*

 # Letter of Credit 2 is the sub-limit of the Bank Guarantee 1 facility.

$ Letter of Credit 3 is the sub-limit of the Cash Credit 1 facility.

@ Bank Guarantee 2 is the sub-limit of the Cash Credit 2 facility.

& Letter of Credit 4 is the sub-limit of the Bank Guarantee 3 facility.

Annexure II: List of entities considered for consolidated analysis

Not applicable

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