August 22, 2022 (Revised)

Trustwell Hospitals Private Limited: Ratings of [ICRA]BBB- (Stable)/[ICRA]A3 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term Loan	8.00	[ICRA]BBB- (Stable); Assigned
Short-term – Fund-based Overdraft	2.00	[ICRA]A3; Assigned
Total	**10.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating favourably factors in Trustwell Hospitals Private Limited's (THPL/ the company) promoters' extensive experience in the healthcare industry supporting patient footfalls and business prospects. ICRA notes that the company's multi-disciplinary surgical team performed the highest number of mucormycosis surgeries in Karnataka during the second wave of the pandemic. The rating also factors in the relatively faster breakeven of operations on the back of the company's asset-light model of operations, despite commencing operation at its hospital only from October 2019. The non-Covid ARPOB (Average Revenue Per Operating Bed) of the company continues to be higher than most other multi-speciality hospitals given the primarily surgical nature of its work. The ratings also factor in the company's strong financial profile, as reflected by healthy margins, comfortable capital structure and coverage indicators with interest cover of 12.5 times and DSCR of 6.3 times as on March 31, 2022.

However, the ratings are constrained by the company's modest scale of operations. While its revenues stood at Rs. 78.7 crore in FY2022, the same is expected to reduce to a certain extent in FY2023 given the lower Covid-19 patients in the current fiscal over the last. The rating also considers the company having a single hospital in Bangalore, exposing it to geographical concentration risk. THPL also faces stiff competition from existing players. However, the hospital had broken even in its first full fiscal of operations (FY2021) supported by its asset-light business model and highly specialised nature of work, resulting in higher ARPOB supporting its overall performance. ICRA also notes the regulatory risks for the sector wherein restrictive pricing regulations could constrain profit margins.

The Stable outlook on the rating reflects ICRA's opinion that THPL will continue to benefit from its reputed consultant/ promoter base, maintaining a healthy financial profile and comfortable liquidity position in the absence of any major capital expenditure (capex) plans.

Key rating drivers and their description

Credit strengths

Promoters have extensive experience in the healthcare sector; primarily surgical nature of work drives strong ARPOB – THPL operates a multi-speciality hospital in Bangalore, which is promoted by a team of super-specialist doctors. The hospital's footfalls are primarily driven by word-of-mouth marketing and the reputation of Dr. Deepak Haldipur, Dr. H.V.Madhusudhan and Dr. S.K.Raghunath who have multiple years of surgical experience in their respective fields. The company's ARPOB for 2M FY2023 stood at more than Rs. 45,000, reflecting the company's focus on complicated, specialised surgeries.

Asset-light model of operations result in faster breakeven of operations – The company has leased its hospital premises. It has also tied up with Medall Healthcare Private Limited, a diagnostic chain, to deploy the hospital's radiology equipment. This has resulted in minimal debt on the company's balance sheet, in turn reducing the interest burden and supporting faster breakeven of operations. Overall, the company has spent ~Rs. 34-35 crore to set up its Operation Theatre (O.T) And Intensive Care Unit (I.C.U) equipment in addition to spends on furniture, fixtures and microscopes.

Comfortable financial profile with healthy margins, robust capital structure and coverage indicators – The company's revenue witnessed YoY growth of 57% in FY2022, largely driven by the increase in Covid hospitalisations. Consequently, on the back of improved operating leverage, its operating profit margins improved to 18.3% in FY2022 from 13.1% in FY2021. This resulted in healthy debt metrics with gearing of 0.3x and Total Debt/OPBDITA of 0.6x as on March 31, 2022 and interest coverage of 12.5x in FY2022. The company's margin profile, debt metrics and liquidity profile are expected to remain healthy going forward as well.

Credit challenges

Modest scale of operations - The ratings are constrained by the modest scale of operations of the company. While its revenues stood at Rs. 78.7 crore in FY2022, the same is expected to reduce to a certain extent in FY2023 given the lower Covid-19 patients in the current fiscal over the last. Since THPL derives most of its revenues from surgeries, the hospital's bed occupancy rate continues to remain moderate.

Geographical and revenue concentration risks – The company currently operates only one hospital in Bangalore with 120 operational beds. Hence, it is exposed to geographical concentration risk.

Exposed to regulatory risks akin to other players in the healthcare sector – Going forward, regulatory risks pertaining to restrictive pricing regulations levied by the Central and state governments as well as stricter compliance norms could constrain the company's profit margins.

Liquidity position: Adequate

THPL's liquidity is adequate, with an overdraft facility of Rs. 2.0 crore that has remained utilised over the last two years. Further to healthy accruals in FY2022, the company had cash balances of Rs. 14 crore as on March 31, 2022, which it has largely deployed in fixed deposits (Rs. 11 crore) while the rest is maintained in current accounts (~Rs. 3 crore). In the absence of any major capex plans, THPL's liquidity position is expected to remain healthy going forward as well.

Rating sensitivities

Positive Factors: The ratings may be upgraded if there is sizeable improvement in the company's scale of operations while maintaining its profitability and debt protection metrics on a sustained basis.

Negative Factors: Negative pressure on the ratings could arise if there is any material deterioration in margins and/or debt-funded capex or acquisitions leading to deterioration in the company's credit profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [Rating methodology for Hospitals](#)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

THPL is a multi-speciality hospital based in Bangalore. It was incorporated in April 2018 and commenced operations from October 2019. The hospital is equipped with 120 beds, six OT, a 12-bed emergency department, 40-bed ICU. It is a surgical hospital mainly involved in ENT, neurology and urology surgeries and has an integrated pharmacy outlet. THPL is a hospital promoted by doctors across various domains, with Dr. Madhusudan and Dr. Haldipur being the key promoters.

Key financial indicators

Trustwell Hospitals Private limited	FY2020	FY2021	FY2022 (Prov)
Operating income (Rs. crore)	12.6	50.1	78.7
PAT (Rs. crore)	-1.8	1.9	7.6
OPBDIT/OI (%)	12.1%	13.1%	18.3%
PAT/OI (%)	-13.9%	3.8%	9.7%
Total outside liabilities/Tangible net worth (times)	1.0	1.1	0.6
Total debt/OPBDIT (times)	8.8	2.0	0.6
Interest coverage (times)	1.5	4.5	12.5

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		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2022 (Rs. crore)	Date & Rating	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					22-Aug-22	-	-	-
1	**Term loans**	Long term	8.00	7.45	**[ICRA]BBB- (Stable)**	-	-	-
2	**Fund-based overdraft facility**	Short term	2.00	2.00	**[ICRA]A3**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Short -term fund-based Overdraft	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 1: Instrument details

ISIN/Banker name	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term Loan**	Sept 2020	9.4%	FY2027	8.00	[ICRA]BBB- (Stable)
NA	**Overdraft limit**	Sept 2020	9.4%	-	2.00	[ICRA]A3

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure 2: List of entities considered for consolidated analysis – Not applicable

Corrigendum

Document dated August 22, 2022 has been corrected with revision as detailed below:

The revised version discloses the added link to the rating methodology on 'Hospitals'.

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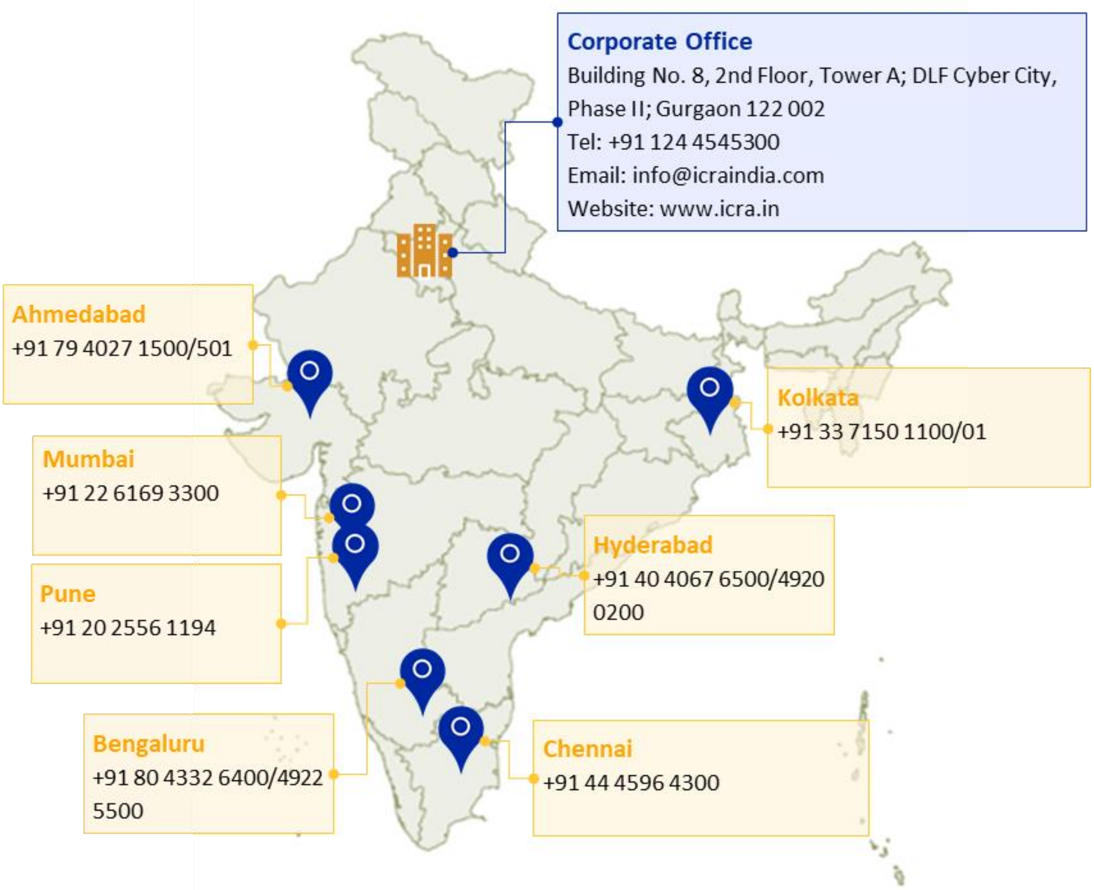

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