January 22, 2024

Hyderabad Institute of Oncology Private Limited: Placed on rating watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	25.90	25.90	[ICRA]A-; Placed on Rating Watch with Developing Implications
Long-term Fund-based – Cash Credit	15.00	15.00	[ICRA]A-; Placed on Rating Watch with Developing Implications
Long-term – Unallocated	26.8	26.8	[ICRA]A-; Placed on Rating Watch with Developing Implications
Total	**67.70**	**67.70**	

**Instrument details are provided in Annexure-I*

Rationale

The rating outstanding on the bank lines of Hyderabad Institute of Oncology Private Limited (HIOPL) has been placed on watch with developing implications. The rating action follows a proposal to merge one of its related entities, Haragovind Enterprises Private Limited (HEPL), with itself. HEPL is as an investment company and holds stakes in multiple entities, including eight operating hospitals in Andhra Pradesh. While ICRA understands from HIOPL's management that the proposal will be evaluated and decided in FY2025, the current rating action reflects limited clarity on the merger and its impact on HIOPL's credit profile. The rating outstanding remains supported by HIOPL's established track record as a healthcare provider for oncology-related ailments, strong brand equity and favourable demand prospects. The rating also considers HIOPL's stable financial profile marked by stable growth in revenues, earnings and comfortable debt protection metrics.

The rating is, however, constrained by the company's geographic concentration as it generates most of its revenues from two hospitals in Hyderabad; of which 90% is generated from the oncology segment. The company also faces stiff competition from other established hospitals in the region. Hence, its ability to retain key consultants and doctors is critical to support patient footfalls. The working capital intensity remained high at 29.6% in FY2023, despite some moderation from 44.4% in FY2022, on account of high receivables. ICRA notes that intense competition in the healthcare sector and restrictive pricing regulations by the Central and state governments could constrain the profit margins.

HIOPL commenced a new, 450-bed oncology focused hospital in Gachibowli, Hyderabad, in December 2022, on leased premises, at an estimated total cost of Rs. 130-180 crore. It is being funded by debt of Rs. 90-100 crore and the rest through internal accruals. The company has also leased a 250-bed oncology hospital in Jabalpur, Madhya Pradesh. HIOPL's bed capacity is expected to increase to 875 by the end of FY2024 from 261 in FY2022 on the back of recent expansions. Timely and successful ramp-up of the new bed capacity remains a key monitorable. HIOPL is expected to record a healthy revenue growth of 30-35% in FY2024 and ~24-28% in FY2025 supported by bed additions over the past 12 months.

The company's margins, which were impacted in the past two years, are expected to improve by 300-400 bps going forward on the back of material decline in disallowances as it has already made provisions for past doubtful receivables and supported by change in revenue recognition policy. The company's debt increased to Rs. 126.9 crore as on March 31, 2023 from Rs. 17.6 crore as on March 31, 2022, owing to the debt-funded capex. While the debt metrics are expected to moderate marginally in FY2024 given the debt-funded capex, they are expected to improve with estimated Total Debt / OPBITDA of less than 2 times and DSCR of over 3 times for FY2025 on the back of ramp-up of the new bed capacity and improved margins. The impact of the proposed merger on the consolidated metrics is currently unascertainable in the absence of financial details of investee companies. ICRA will continue to monitor the developments pertaining to the merger and assess its impact on HIOPL's credit profile to resolve the watch.

Key rating drivers and their description

Credit strengths

Established brand name of Omega Hospitals – HIOPL started operating its hospital under the Omega brand in Hyderabad from 2011, and established itself as a quality healthcare provider for oncology-related cases. The hospitals use the latest equipment like PET CT, CyberKnife, VMAT and RapidArc linear accelerators and digital mammography for early diagnosis of breast cancer. The company is promoted by Dr. Mohan Vamsy, a reputed doctor in Andhra Pradesh and Telangana for oncology with more than 20 years of experience in the field.

Comfortable capital structure and coverage metrics despite some moderation – HIOPL's occupancy moderated to 72% in FY2023 from 79% in FY2022 on account of bed additions, while Average revenue per operating bed declined marginally by 6%. However, the company recorded revenue growth of 6.3% in FY2023 on the back of bed additions with commencement of a new hospital in December 2022 and higher inpatient admissions. The company is expected to record healthy revenue growth (~30-35% in FY2024 and ~24-28% in FY2025), going forward, on the back of expected ramp-up of new bed additions. HIOPL's margins, which were impacted in the past two years, are expected to improve by 300-400 bps, going forward, on the back of material decline in disallowances as it has already made provisions for past doubtful receivables, supported by change in revenue recognition policy. HIOPL's debt metrics are expected to remain comfortable in the medium term despite moderation in FY2023 and FY2024 owing to sizeable increase in debt levels. In FY2023 and FY2024, the company is estimated to incur capex of Rs. 130-180 crore, funded by ~Rs. 90-100 crore debt, leading to moderation in debt metrics such as Total debt/OPBITDA and DSCR. However, debt metrics are expected to improve in FY2025 on the back of scale-up of operations and improved margins along with scheduled repayment of debt obligations.

Credit challenges

Sizeable debt-funded capacity expansion; timely and successful ramp-up of the same remains crucial – The company is expected to increase its bed capacity to 875 by March 2024 from 261 in March 2022, with the addition of new hospitals in Hyderabad and Jabalpur. Given the sizeable bed addition, timely and successful ramp-up of operations in the new hospitals remains crucial. However, ICRA notes that established brand name of Omega Hospitals in the Hyderabad market would support the scale up of operations.

Geographical concentration and intense competition in the region – HIOPL faces geographic and asset concentration risks as most of its revenues and earnings are derived from two hospitals in Hyderabad. Moreover, speciality concentration also remains high as oncology accounts for more than 90% of its revenues. The company faces intense competition from other established hospitals in the region as well. Consequently, the company's ability to retain key consultants and doctors is critical to support patient footfalls.

High working capital intensity – The working capital intensity continued to remain high at 29.6% in FY2023, despite some moderation from 44.4% in FY2022 on account of high receivables. Moreover, the company had sizeable debtors due for more than 180 days, impacting its liquidity position.

Exposed to regulatory risks – Regulatory risks in terms of restrictive pricing levied by Central and state government organisations could constrain the profit margins of the healthcare industry and, consequently, the company, going forward.

Liquidity position: Adequate

The liquidity of HIOPL is adequate. The company had free cash balances of about Rs.49.4 crore as on March 31, 2023, and a buffer of ~Rs. 5.0 crore in working capital limits. The company has repayment obligations of Rs. 17.0–18.0 crore in FY2024 and ~Rs. 6.0–7.0 crore in FY2025, apart from the repayment of inter-corporate deposits, which would be paid off through receipt of loans extended to group entities. In addition, it has to pay Rs. 25.0-27.0 crore to equipment suppliers for purchases on the deferred payment model. The company has also availed Rs. 30 crore loan from Bajaj Finserv to fund the same.

Rating sensitivities

Positive factors – Rating watch on the long-term rating would be resolved once better clarity emerges on the merger of its group entity, HEPL, with HIOPL, and the impact of the same on HIOPL's credit profile and liquidity position. ICRA could upgrade HIOPL's rating if there is a material recovery in the profit margins and a sustained growth in scale of operations. Also, reduction in receivables, improving the overall liquidity profile, would remain critical.

Negative factors – Rating watch on the long-term rating would be resolved once better clarity emerges on the merger of its group entity, HEPL, with HIOPL, and the impact of the same on HIOPL's credit profile and liquidity position. The rating may witness pressure if decline in margins or a sustained weak operational performance impact HIOPL's financial health, or if advances to related entities impact its liquidity profile. The rating may also be impacted if any restrictive pricing regulation instated by the Central and/or state governments materially impacts the company's profitability. Specific credit metrics that could lead to a downgrade is a DSCR of less than 1.8 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Hospital
Parent/Group support	NA
Consolidation/Standalone	Standalone

About the company

Hyderabad Institute of Oncology Private Limited, promoted by Dr. Mohana Vamsy, has been operating a super-speciality oncology hospital called, 'Omega Hospitals', in Banjara Hills, Hyderabad, since FY2011. The company started another 450-bed hospital in Gachibowli, Hyderabad, in December 2022. HIOPL has been increasing its capacity at this hospital gradually and it will be operating with 450 beds by end of FY2024. In October 2023, the company also took a 250-bed, operational hospital on lease for 25 years. HIOPL would have a total bed capacity of 875 by the end of March 2024. The hospitals are empaneled with the Central Government Health Scheme (CGHS), Ex Servicemen Contributory Health Scheme (ECHS), the Employee State Insurance (ESI), and other Central and state government institutions.

Key financial indicators (audited)

HIOPL Standalone	FY2022	FY2023
Operating income	239.1	254.3
PAT	12.7	12.7
OPBDIT/OI	10.4%	9.9%
PAT/OI	5.3%	5.0%
Total outside liabilities/Tangible net worth (times)	0.3	1.2
Total debt/OPBDIT (times)	0.7	5.0
Interest coverage (times)	9.4	4.4

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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					January 22, 2024	Oct 28,2022	Jul 12,2021	-
1	**Term loan**	Long term	25.90	17.47	[ICRA]A-; Rating Watch with Developing Implications	[ICRA]A-(Stable)	[ICRA]A (Stable)	-
2	**Cash Credit**	Long term	15.00	-	[ICRA]A-; Rating Watch with Developing Implications	[ICRA]A-(Stable)	[ICRA]A (Stable)	-
3	**Unallocated**	Long term	26.80	-	[ICRA]A-; Rating Watch with Developing Implications	[ICRA]A-(Stable)	[ICRA]A (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund based – Cash Credit	Simple
Long-term- Unallocated	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
NA	**Term Loan**	FY2019	NA	FY2027	25.90	[ICRA]A-; Rating Watch with Developing Implications
NA	**Cash Credit**	NA	NA	NA	15.00	[ICRA]A-; Rating Watch with Developing Implications
NA	**Unallocated**	NA	NA	NA	26.8	[ICRA]A-; Rating Watch with Developing Implications

Source: Company

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

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.

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