April 05, 2024

Unimed Health Care Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term- Fund based- Term Loan	217.5	150.0	[ICRA]A-(Stable); reaffirmed
Long Term - Fund based- Cash Credit	2.0	2.0	[ICRA]A-(Stable); reaffirmed
Long Term – Unallocated	8.5	61.0	[ICRA]A-(Stable); reaffirmed
Short Term – Fund based	12.0	27.0	[ICRA]A2+; reaffirmed
Total	**240.0**	**240.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider Unimed Health Care Pvt. Ltd.'s (UHCPL) long track record in the healthcare industry, the reputed brand of Star Hospital (UHCPL's hospitals' brand name) in Hyderabad, particularly in the cardiac sciences segment, as well as steady revenue growth from other segments, including nephrology, orthopaedics, and pulmonology, among others, over the past few years. The company commenced a new hospital in Nanakramguda, Hyderabad, with a potential bed capacity of 300 in March 2023, the hospital had 196 operational beds as on December 31, 2023.

The occupancy rate for the established hospital (Banjara) remained stable at ~52-54% in FY2023 and 10M FY2024. Meanwhile, the company has been gradually increasing the number of operational beds at the new hospital, which recorded an average occupancy of 38% in 10M FY2024. Average revenue per occupied bed day (ARPOB) at the new and existing hospitals has been healthy, exceeding Rs. 40,000. The company is expected to record revenue growth of 35-40% in FY2024 and healthy double-digit growth in FY2025, driven by the ramping up of operations at its new hospital, along with the growth in patient footfalls in the established hospital.

However, the company's margins are expected to moderate significantly to 1-3% in FY2024 from 16.7% in FY2023 owing to losses incurred by the new hospital during its initial operational phase. Nevertheless, revenues at the new hospital have gradually increased over the past 12 months, leading to its breakeven at the OPBITDA level in Q4 FY2024. ICRA expects the company's margins to recover in FY2025 due to the ramp-up of the new unit, while maintaining healthy profitability at the matured hospital. UHCPL's capital structure and coverage metrics are expected to moderate materially in FY2024, owing to lower margins and increased debt levels availed for the capacity expansion.

However, ICRA expects an improvement in the company's capital structure and debt metrics in FY2025, with net debt/ OPBITDA at 1-2.0 times, supported by margin recovery and the scheduled repayment of term loans. The ratings continue to derive strength from UHCPL's experienced promoters, reputed doctors and consultants, whose established track record in the medical field strengthens its business prospects.

The ratings, however, remain constrained by the company's moderate scale, with a capacity of 610 beds and operating income of Rs. 315.8 crore in FY2023 and Rs.305.2 crore in 9M FY2024. The 300-bed new hospital at Nanakramguda would support its revenue growth over the medium term. Further, the ratings consider UHCPL's geographical concentration in Hyderabad and the intense competition in the region from several reputed hospitals. The ratings also consider regulatory risks inherent to the healthcare industry.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company's financial profile will improve going forward, with the healthy ramp-up of the new hospital leading to improved revenues and earnings.

Key rating drivers and their description

Credit strengths

Reputed brand and experience of promoters in healthcare industry – UHCPL operates two hospitals with a total bed capacity of 600 under the brand, Star Hospital, which has an established presence in Hyderabad. It is promoted by a group of doctors and entrepreneurs, led by Dr. Gopichand Mannam, with a significant experience in the healthcare industry.

Comfortable capital structure and debt coverage metrics despite temporary moderation owing to debt-funded capex – The company had low debt levels and comfortable capital structure and coverage metrics as of March 2023. However, material moderation in margins in FY2024 owing to losses incurred by the new hospital and term loans availed to fund the capex towards the new hospital has resulted in moderation in the company's capital structure and coverage metrics in FY2024 with estimated Net debt / OPBITDA of 10-12.0times and DSCR of 1.5-2.5 times. Nevertheless, given the expected recovery in margins, the company's debt metrics are expected to improve in FY2025 as indicated by expected net debt/OPBITDA of 1- 2.0 times and DSCR of 2.5-3.5 times.

Credit challenges

Moderate scale of operations; margins impacted by losses in the new unit - UHCPL's scale of operations remained modest, with an operating income of Rs. 315.8 crore in FY2023 and Rs.305.2 crore in 9M FY2024. The company operates two hospitals in Hyderabad with a total bed capacity of 600 beds. ICRA expects the company to achieve revenue growth of 30-40% in FY2024 and healthy double-digit growth in FY2025, driven, by stable revenue growth at its existing hospital and a healthy ramp-up of operations of its new hospital. The losses incurred by the new hospital impacted the company's margins in March 2023 and 9M FY2024. However, the extent of losses in the new unit is expected to come down sequentially. The new unit has achieved break even at OPBIDTA level in Q4 FY2024. Timely and sustained ramp-up of operations of the new hospital leading to improved margins remains critical. ICRA expects the company's margin to decline sharply to 1-3% in FY2024 from 16.7% in FY2023. However, the margins are expected to recover materially to 9-12% in FY2025.

High geographical concentration risk and exposure to regulatory risk - The company encounters geographical concentration risk as its entire bed capacity is in Hyderabad, coupled with intense competition from several reputed hospitals in the region. Considering the intense competition, UHCPL's ability to retain key consultants and doctors and improve its operating metrics is critical. ICRA also notes the regulatory risks, including restrictive pricing regulations, stricter compliance norms, among others, which are inherent to the healthcare industry.

Liquidity position: Adequate

The company's liquidity position is adequate with free cash and liquid investments of ~Rs.42.4 crore and undrawn working capital limits of ~Rs. 29 crores as on December 31, 2023, against repayment obligations of Rs. 9-11.0 crore in the next 12 months. Moreover, the company is expected to generate retained cash flows of Rs. 50-60.0 crore in FY2025.

Rating sensitivities

Positive factors – ICRA could upgrade UHCPL's ratings if it enhances its scale of operations while improving its profitability. The timely ramp-up of the new facility remains a key monitorable.

Negative factors – Pressure on the ratings could arise if any material decline in revenues or absence of material improvement in margins impacts its financial profile or if the stretched receivables cycle weakens its liquidity position. Higher-than-expected capex or sizeable outflow towards any acquisition could also downgrade the ratings. Specific credit metrics that may lead to a ratings downgrade include net debt/OPBITDA of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology –Hospitals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA considered the standalone financials of UHCPL

About the company

Promoted by a group of doctors and entrepreneurs led by Dr. Gopichand Mannam, Unimed Health Care Private Limited (UHCPL) owns and operates a 310-bedded (capacity expanded from 130 during FY2015 and FY2016) tertiary care hospital—Star Hospital—in the Banjara Hills area of Hyderabad. The hospital was launched with 130 operational beds in September 2008. The promoter, Dr. Gopichand Mannam, is a renowned cardiothoracic surgeon, who has been practicing in Hyderabad since 1994. The promoter group also includes Dr. Nagarjuna Reddy Ponugoti and Mr. P. Jairaj Kumar. The company has added another hospital in Nanakramguda, Financial district in Hyderabad in FY2023, with an additional bed capacity of 300.

Key financial indicators (audited)

UHCPL Standalone	FY2022	FY2023
Operating income	317.1	315.8
PAT	55.4	35.4
OPBDIT/OI	26.1%	16.7%
PAT/OI	17.5%	11.2%
Total outside liabilities/Tangible net worth (times)	0.4	1.2
Total debt/OPBDIT (times)	0.2	1.3
Interest coverage (times)	50.3	18.1

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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 (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					April 05, 2024	Apr 06, 2023	Aug 12, 2022	Jul 08, 2021
1	Term loans	Long term	150.0	-	**[ICRA]A-(Stable)**	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Cash credit	Long term	2.0	-	**[ICRA]A-(Stable)**	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
3	Unallocated	Long term	61.0	-	**[ICRA]A-(Stable)**	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
4	Fund based	Short term	27.0	-	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based-Term Loan	Simple
Long-term – Fund-based-Cash credit	Simple
Short term – Fund based	Very 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 – 1	2023	NA	2031	90.0	[ICRA]A-(Stable)
NA	Term loan – 2	2023	NA	2032	30.0	[ICRA]A-(Stable)
NA	Term loan – 3	2023	NA	2032	30.0	[ICRA]A-(Stable)
NA	Cash credit	NA	NA	NA	2.0	[ICRA]A-(Stable)
NA	Unallocated	NA	NA	NA	61.0	[ICRA]A-(Stable)
NA	Fund based	NA	NA	NA	27.0	[ICRA]A2+

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

ANALYST CONTACTS

Shamsher Dewan
+91 12 4454 5300
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Nithya Debbadi
+91 40 6939 6416
Nithya.Debbadi@icraindia.com

Etikala Ravi Teja
+91 40 6939 6418
etikala.teja@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches