Shiva & Shiva Orthopaedic Hospital Private Limited

December 27, 2017

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Fund Based (Overdraft)	10.00	10.00	[ICRA]BBB- reaffirmed; outlook revised from 'Stable' to 'Positive'
Long Term – Term Loans	57.45	57.45	[ICRA]BBB- reaffirmed; outlook revised from 'Stable' to 'Positive'
Short Term – Non Fund Based	1.00	1.00	[ICRA]A3 reaffirmed
Total	**68.45**	**68.45**	

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs. 57.45 crore term loans and the Rs. 10.00 crore long-term fund-based facilities of Shiva & Shiva Orthopaedic Hospital Private Limited ("SSOHPL" / "the company")[1] at [ICRA]BBB- (pronounced ICRA triple B minus). ICRA has also reaffirmed the short-term rating assigned to the Rs.1.00 crore short-term non fund-based facilities of the Company at [ICRA]A3 (pronounced ICRA A three). The outlook on the long-term rating has been revised from 'Stable' to 'Positive'.

Rationale

The reaffirmation of the ratings factor in the company's long track record in the healthcare industry, the strong brand presence of "Sparsh" Hospitals in the orthopaedic field and the extensive experience and reputation of the promoters supporting future business growth. The ratings also positively factor in the ramp up of patient inflow at the newly established multi-specialty hospital at Yeshwantpur, Bangalore, as well as its existing hospital at Infantry Road, Bangalore. The occupancy at Infantry Road unit was aided by the commencement of the neurology department in tie-up with Dr N K Venkataramana, a renowned neurosurgeon. The ratings take into account the improvement in the operating margins in the first seven months of FY2018 with the growth in top line leading to better absorption of fixed costs and improvement in ARPOB (average revenue per occupied bed). Further, a positive growth outlook for the industry, with improving awareness and demand for quality healthcare, is expected to drive business growth for the company over the long term.

The ratings are, however, constrained by the stretched capital structure on account of the significant debt-funded capital expenditure towards establishing the Yeshwantpur unit, also resulting in high debt repayment obligations over the near to medium term. Net losses reported in FY2016 and FY2017 had led to the erosion of the net worth of the company resulting in a high gearing level as on March 31, 2017. However, the company is expected to report healthy profitability and cash accruals in the current fiscal and prepay some of its debt obligations as also witnessed in the past resulting in moderation of the gearing level and improvement in its coverage indicators. The ratings are also constrained by the overall moderate occupancy level at the company's Unit II in Infantry Road and the multi-specialty hospital in Yeshwanthpur i.e. Unit IV, notwithstanding the improvement witnessed in the current fiscal. The ratings continue to

[1] *For complete rating scale and definitions, please refer ICRA's website (www.icra.in) or other ICRA Rating Publications*

factor in the high competitive intensity in the healthcare industry in Bangalore with presence of other multi-speciality and orthopaedic hospitals, in turn restricting the Company's growth to some extent.

Going forward, the company's capital expenditure plan, financing mix and the impact of the same on the capital structure will be a key rating sensitivity. SSOHPL's ability to attract and retain reputed doctors also remains critical.

Outlook: Positive

Backed by improved occupancy and revenue per occupied bed during FY2018, the company's profitability and cash accruals are expected to witness a significant increase during the period. ICRA's positive outlook on the ratings is driven by the expectation of the company being able to reduce the debt levels significantly in the near term, thereby easing the debt servicing obligations and also resulting in improvement in the debt-protection metrics. The ratings may be upgraded going forward if the company is able to demonstrate the same. Conversely, the outlook may be revised to stable in case the company is unable to effect a meaningful reduction in the debt levels owing to weaker than expected accruals or higher than expected capital expenditure.

Credit strengths

Established reputation of the hospital – Incorporated in October 2003, Shiva & Shiva Orthopaedic Hospital Private Limited currently operates three hospitals specialising in orthopaedics and one multi-speciality hospital in Karnataka. The company has a long track record in the healthcare industry and a strong brand presence of "Sparsh" Hospitals in the orthopaedic field. Moreover, extensive experience and reputation of the promoters and in-house consultants supports the business prospects for the company.

Diversification into multispecialty and ramp up at Infantry Road and Yeshwantpur hospitals to support long-term revenue growth – Although SSOHPL had historically specialised in orthopaedics (including trauma, plastic and spine surgeries), with the commencement of its Yeshwantpur hospital, it has a diversified mix of revenues across specialties that include cardiology, gastroenterology, general surgery, nephrology, neurology, internal medicine, obstetrics and genealogy, urology, among others. A broader service offering could aid the hospital to attract more patients and recruit and retain specialist consultants. Moreover, with the establishment of the neurology department at Infantry Road in November-2016, the company is witnessing improved occupancy levels and higher realization due to the highly complex surgeries being performed.

Improvement in financial risk profile in the current fiscal - With improvement in occupancies, primarily in Infantry Road and Yeshwantpur units, and price revision undertaken across all units, the revenues of the company witnessed a growth of ~46% in FY2017 and is expected to witness significant growth in the current fiscal as well. The profitability and in turn the coverage indicators have improved considerably in the first 7 months of FY2018, with growth in top line leading to better absorption of fixed costs and increase in ARPOB, also supported by orthopaedics being among relatively more remunerative medical specialties.

Positive industry outlook - Factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare, under-penetration of healthcare services, technological improvements in early diagnosis and treatment, and higher incidence of lifestyle diseases support the industry prospects.

Credit weaknesses

Weak capital structure following the largely debt-funded capital expenditure - A steep increase in debt owing to debt-funded capital expenditure for the Yeshwantpur hospital, together with erosion of the net worth because of losses during FY2016 and FY2017, led to a weakened capital structure as of March 31, 2017. With dual impact of higher debt and lower profitability, the coverage indicators had also remained weak till FY2017. However, with improvement in profitability in the current fiscal and no major capex plans, the company's capitalization and debt protection metrics are expected to improve, as witnessed in the first seven months of FY2018.

High level of competitive intensity with presence of other large, established multi-specialty hospital chains and orthopaedic hospitals in Bangalore - SSOHPL continues to face high competition from other hospitals in Bangalore which has affected the pricing flexibility of the company, in addition to restricting occupancies to a certain extent. Over the years, the healthcare services industry has grown highly competitive with the increasing footprint of large corporate hospital chains—such as Columbia Asia, Fortis, and Apollo Hospitals to name a few—and other reputed standalone hospitals, such as Hosmat Hospital, which also specializes in orthopaedic care.

Ability to attract and retain high-quality consultants: Improvement of the occupancy levels is highly dependent on the hospital's ability to retain and add reputed consultants which will be a challenge in light of heightened competition in the healthcare sector.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

Rating Methodology for Hospitals
Corporate Credit Rating Methodology

About the company:

Incorporated in October 2003, Shiva & Shiva Orthopaedic Hospital Private Limited currently operates three orthopaedic and one multi-speciality hospital in Karnataka – three in Bangalore and one at Davangere. The oldest hospital of the company is located at Narayana Health City, Bangalore with a capacity of 71-beds while the second hospital is situated at Infantry Road, Bangalore with a capacity of 84 beds. While the first hospital is owned and operated by the company, the second hospital is housed in a leased premise. During 2012-13 and 2014-15, the company also took up operational and management (O&M) contract for existing hospitals at Davangere and Bellur in Karnataka and in 2015-16, it set up a mutli-specialty hospital in Yeshwanthpur, Bangalore. The Bellur unit was closed down in 2015-16 as the progress was not as per expectations As a result, SSOHPL presently has a total capacity of 275 beds catering to the orthopaedic speciality (including accidents/trauma, joint replacement and other orthopaedic treatments and plastic and maxillofacial surgeries) and about 250 beds catering to mutli-specialty treatments (spanning gynecology, neurology/neurosurgery, cardiology/cardiovascular and thoracic surgery, nephrology and urology among others).

The Narayana Health city hospital is accredited by National Accreditation Board for Hospitals & Healthcare Providers (NABH) while the same is under process at other locations. SSOHPL was promoted by Dr. Sharan S Patil, a orthopaedic surgeon specializing in Joint Replacements, Paediatric Orthopaedics and Arthroscopies with over 15 years of medical experience.

In FY2017, the company reported a net loss of Rs. 2.7 crore on an operating income of Rs. 105.9 crore, as compared to a net loss of Rs. 12.3 crore on an operating income of Rs. 72.6 crore in the previous year. Based on the provisional numbers for seven months of FY2018, the company reported a profit before tax of Rs. 7.2 crore on an operating income of Rs. 82.0 crore.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	72.6	105.9
PAT (Rs. crore)	-12.3	-2.7
OPBDIT/ OI (%)	7.6%	15.9%
RoCE (%)	-11.7%	5.8%
Total Debt/ TNW (times)	9.8	15.0
Total Debt/ OPBDIT (times)	13.8	4.5
Interest coverage (times)	0.9	2.3
NWC/ OI (%)	5.1%	6.7%

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2018)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2017 (Rs Crore)	Date & Rating Dec 2017	Date & Rating in FY2018 April 2017	Date & Rating in FY2017 June 2016	Date & Rating in FY2016 Jan 2016
1	Fund Based - Overdraft	Long Term	10.00		[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loans	Long Term	57.45	51.81	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non Fund Based	Short Term	1.00		[ICRA]A3	[ICRA]A3	[ICRA]A2	[ICRA]A2

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

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	Overdraft	NA	NA	NA	10.00	[ICRA]BBB- (Positive)
NA	Term Loan 1	FY2012	NA	FY2022	9.20	[ICRA]BBB- (Positive)
	Term Loan 2	FY2015	NA	FY2024	48.25	[ICRA]BBB- (Positive)
NA	Non Fund Based	NA	NA	NA	1.00	[ICRA]A3

Source: SSOHPL

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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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