Shiva & Shiva Orthopaedic Hospital Private Limited

October 24, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term Loans	57.45	57.45	[ICRA]BBB upgraded from [ICRA]BBB-; outlook revised from ‘Positive’ to ‘Stable’
Fund-based – Cash Credit	10.00	10.00	[ICRA]BBB upgraded from [ICRA]BBB-; outlook revised from ‘Positive’ to ‘Stable’
Non Fund-based	1.00	1.00	[ICRA]A3+; upgraded from [ICRA]A3
Total	**68.45**	**68.45**	

Rating action

ICRA has upgraded 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”) from [ICRA]BBB- (pronounced ICRA triple B minus) to [ICRA]BBB (pronounced ICRA triple B). ICRA has also upgraded the short-term rating assigned to the Rs.1.00 crore short-term non fund-based facilities of the Company from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A3+ (pronounced ICRA A three plus). The outlook on the long-term rating has been revised from ‘Positive’ to ‘Stable’.

Rationale

The ratings upgrade takes into consideration the improvement in SSOHPL’s revenue, profits and debt coverage metrics during FY2018 on account of the improved occupancy levels at newly established multi-specialty hospital at Yeshwantpur, Bangalore (Unit IV) and its existing hospital at Infantry Road, Bangalore (Unit II) and the price increase undertaken across various units. With the healthy ramp-up of operations since its commencement, Unit IV has generated positive OPBITDA in FY 2018 i.e. third year of operations. The increase in in-patient admissions at Unit II is majorly driven by the neurology and neurosurgery department set-up in FY2017 in tie-up with Dr N K Venkataramana, a renowned neurosurgeon. With improved profits and prepayment of a term loan, the debt coverage metrics have witnessed significant improvement in FY2018 as reflected by interest coverage of 3.9 times, Total Debt/OPBITDA of 2.3 times and Net Cash Accruals/Total Debt of 31%. The ratings continue to take comfort from the company’s long track record in the healthcare industry, the strong brand presence of “Sparsh” Hospitals in the field of orthopaedic, neuro surgery and trauma, recent diversification into multispecialty and the extensive experience and reputation of the promoters supporting future business growth. 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 moderate capital structure on account of the significant debt-funded capital expenditure in the past towards establishing the Unit IV. Given the debt-funded capital expenditure plan towards the setting up of a 250 bed multi-specialty hospital at Yelahanka, Bangalore, the debt levels are expected to continue at elevated levels. The ratings are constrained by the overall moderate occupancy level at the company’s Infantry Road and Yeshwantpur units, notwithstanding the improvement witnessed in FY2018 and current fiscal. The ratings continue to 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. SSOHPL’s ability to attract and retain reputed doctors also remains critical.

Outlook: Stable

The Stable outlook reflects ICRA's expectations that SSOHPL will continue to benefit from the extensive experience of the promoters in the field of healthcare. Going forward the revenues are expected to increase with improvement in occupancy and average revenue per bed at the existing units and steady ramp up of operations at the new hospitals of the company. The outlook may be revised to Positive, if there is substantial growth in revenue and profitability through increased occupancy levels resulting in adequate cash generation. The outlook may be revised to Negative, if the cash accruals are lower than expected or if, any higher-than-anticipated capital expenditure further impacts the liquidity.

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- 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, neurosurgery, nephrology, neurology, organ transplant and obstetrics among others. In addition, the company is planning to commence advance surgeries under other specialties i.e. gastroenterology, cardiology, oncology and organ transplant at Infantry Road unit. Further, the company is setting up another multi-specialty hospital at Yelahanka, Bangalore. A broader service offering could aid the hospital to attract more patients and recruit and retain specialist consultants.

Healthy ramp-up at Infantry Road and Yeshwantpur hospitals to support long-term revenue growth – With the establishment of the neurology and neurosurgery 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. Since its commencement in FY2016, Unit IV is witnessing healthy y-o-y growth in its in-patient admissions resulting in positive operating profit in FY2018 i.e. third year of its operation.

Improvement in financial risk profile in FY2018 - 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 ~34% in FY2018 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 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

Moderate capital structure –Owing to debt-funded capital expenditure in the past for the Unit IV, the capital structure of the company remined moderate as reflected by gearing of 5.1 times as on March 31, 2018. Although the same has improved from 15.0 times as on March 31, 2017 due to the healthy accretion to reserves.

Sizeable capital expenditure plan – The company is planning to set up a 250 multi-specialty hospital in Yelahanka, Bangalore and the total project cost is estimated to be Rs. 80.00 crore to be funded by a mix of debt and internal accruals, resulting in huge debt repayment obligations over the medium term. Although gearing is expected to decline going forward on account of the healthy accretion to reserves from the existing profitable units.

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 Health City, Bommasandra, 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 FY2013, the company also took up operational and management (O&M) contract for existing hospital at Davangere in Karnataka and in FY2016, it set up a mutli-specialty hospital in Yeshwanthpur, Bangalore. 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). In FY2018, SSOHPL has acquired a 150 bed multi-specialty hospital in Hassan (Karnataka) on operating lease from a trust and is planning to set-up a 250 bed multi-specialty hospital in Yelahanka, Bangalore

The Health city unit of SSOHPL 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 20 years of medical experience.

In FY2018, the company reported a net profit of Rs. 8.0 crore on an operating income of Rs. 142.0 crore, as compared to a net loss of Rs. 2.7 crore on an operating income of Rs. 105.9 crore in the previous year. Based on the provisional numbers for six months of FY2019, the company reported a profit after tax of Rs. 6.1 crore on an operating income of Rs. 88.0 crore.

Key Financial Indicators (Audited)

	FY 2017	FY 2018
Operating Income (Rs. crore)	105.9	142.0
PAT (Rs. crore)	-2.7	8.0
OPBDIT/ OI (%)	15.9%	20.6%
RoCE (%)	5.8%	22.3%
Total Debt/ TNW (times)	15.0	5.1
Total Debt/ OPBDIT (times)	4.5	2.3
Interest coverage (times)	2.3	3.9

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
			Amount Rated (Rs. crore)	Amount Outstanding as on Mar 31, 2018 (Rs Crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017
	Instrument	Type			Oct 2018	Dec 2017	April 2017	Jun 2016
1	Term Loans	Long Term	57.45	43.85	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)
2	Cash Credit	Long Term	10.00	-	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)
3	Non fund-based	Short Term	1.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[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	Term Loans	FY015	-	FY2025	57.45	[ICRA]BBB (Stable)
NA	Cash Credit	-	-	-	10.00	[ICRA]BBB (Stable)
NA	Non Fund-based	-	-	-	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.

For more information, visit www.icra.in

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