January 07, 2020

Shiva & Shiva Orthopaedic Hospital Private Limited: Ratings reaffirmed; outlook revised from Stable to Positive

Summary of rating action

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

** Instrument details are provided in Annexure-1.*

Rationale

The ratings continue to factor in the company's extensive track record in the healthcare industry, the strong brand presence of Sparsh Hospitals in the orthopaedic field as well as the extensive experience and reputation of the promoters supporting future business growth. The ratings positively factor in the ramp up of patient inflow at the newly established multi-speciality hospital at Hassan, as well as its existing hospital at Yeshwanthpur, Bangalore. The ratings note the growth in top line, aided by improvement in average revenue per occupied bed (ARPOB) and healthy increase in outpatients across its units. Further, a positive growth outlook for the industry, with improving awareness and demand for quality healthcare, is likely to drive its long-term business growth.

The ratings, however, remain constrained by the modest scale of operations and moderate occupancy levels given a few of its units were launched in the last couple of years. The ratings are constrained by the moderate capital structure on account of significant debt-funded capital expenditure in the past towards establishing Unit IV and Unit V in FY2019. The ratings continue to factor in the intense competition in the healthcare industry in Bangalore with presence of other multi-speciality and orthopaedic hospitals, restricting the company's growth to some extent. Shiva & Shiva Orthopaedic Hospital Private Limited's (SSOHPL) ability to attract and retain reputed doctors remains important.

The Positive outlook on the [ICRA]BBB ratings reflect ICRA's opinion that SSOHPL will benefit from the reduction in the debt levels as well as the diversification of the units into multi-speciality, which would improve the occupancy of the hospitals. ICRA notes that the company would continue to benefit from the extensive experience of its promoters.

Key rating drivers and their description

Credit strengths

Established presence of hospitals – Incorporated in October 2003, SSOHPL operates five hospitals, two specialising in orthopaedics and three multi-speciality hospitals in Karnataka. The Infantry Road unit has been converted into a multi-speciality unit in FY2019. The company has a vast track record in the healthcare industry and Sparsh Hospitals has a strong brand presence in the orthopaedic field. Moreover, extensive experience and reputation of the promoters and experienced consulting doctors support its business prospects.

Diversification into multi-speciality hospitals – Although SSOHPL had historically specialised in orthopaedics (including trauma, plastic and spine surgeries), with the commencement of its Hassan hospital and the re-launch of the Infantry Road hospital as a multi-speciality unit, 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 specialities i.e. gastroenterology, cardiology, oncology and organ transplant at the Infantry Road and Yeshwanthpur units. 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 Yeshwanthpur hospitals to support long-term revenue growth – With the establishment of the surgical gastrology and sportho departments on the Infantry Road, the company is witnessing improved occupancy levels and higher realisation due to the highly complex surgeries being performed. Since its commencement in FY2016, the Unit IV in Yeshwanthpur is witnessing a healthy YoY growth in its in-patient admissions. The occupancy levels in Unit IV in Yeshwanthpur unit improved in FY2020 owing to the introduction of the transplant, surgical oncology, cardiothoracic and other departments in the hospital.

Improvement in financial risk profile in FY2019 – With a marginal improvement in occupancies in FY2019 and price revision undertaken across all units, the company's revenues witnessed a growth of ~28% in FY2019 and is expected to witness a significant growth in the current fiscal. Despite a decrease in the operating profitability, the coverage indicators improved in FY2019 due to a reduction in the overall debt levels. The growth in top line was on account of an increase in ARPOB, supported by orthopaedics, which is a relatively more remunerative medical speciality.

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's prospects.

Credit challenges

Moderate capital structure – Owing to debt-funded capital expenditure in the past for the Unit IV, the company's capital structure remained moderate, as reflected by a gearing of 2.6 times as on March 31, 2019. However, the same has improved from 5.1 times as on March 31, 2018 due to the prepayment of the debt.

Intense competition from other large, established multi-speciality hospital chains and orthopaedic hospitals in Bangalore – SSOHPL continues to face intense competition from other hospitals in Bangalore. 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, etc, and other reputed standalone hospitals such as Hosmat Hospital, which specialises 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 the light of increased competition in the healthcare sector.

Liquidity position: Adequate

SSOHPL's liquidity position is adequate with average working capital utilisation of 67% during September 2018 to November 2019. Moreover, it had cash and liquid investments of Rs. 1.53 crore as on March 31, 2019. It has repayment obligations of ~Rs. 7.24 per annum each in FY2020, FY2021 and FY2022, and its accruals would be comfortable to meet its repayment obligations.

Rating sensitivities

Positive triggers – ICRA could upgrade the company's rating if it demonstrates a continued ramp up in operations of the hospitals resulting in improved occupancy rates, while improving its profitability levels. Specific credit metrics that could lead to upgrade in ratings are DSCR of more than 2 times with a current ratio greater than 1.2 times on a sustained basis.

Negative triggers – Downgrade pressure on ratings could arise if there is a decline in occupancy rates in its hospitals resulting in reduction in scale of operations and decline in profitability. Additionally, any increase in debt-funded capital expenditure leading to increase in gearing could result in a downgrade. Specific credit metrics that could lead to a downgrade in ratings are DSCR of less than 1.5 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company

Incorporated in October 2003, at present, Shiva & Shiva Orthopaedic Hospital Private Limited operates two orthopaedic and three multi-speciality hospitals in Karnataka across Bangalore (three), Davangere (one) and Hassan (one). The company's oldest hospital is located in Health City, Bommasandra, Bangalore with a capacity of 71 beds, while the second hospital is situated on Infantry Road, Bangalore with a capacity of 84 beds. The first hospital is owned and operated by the company, but the second hospital is housed in a leased premise. In FY2013, the company took up operational and management (O&M) contract for the existing hospital at Davangere in Karnataka and in FY2016, it had set up a multi-speciality hospital in Yeshwanthpur, Bangalore. In FY2019, SSOHPL acquired a 150-bed multi-speciality hospital in Hassan (Karnataka). SSOHPL has a total capacity of 190 beds catering to the orthopaedic speciality (including accidents/trauma, joint replacement and other orthopaedic treatments, along with plastic and maxillofacial surgeries) and about 485 beds catering to multiple specialities (spanning gynaecology, neurology/neurosurgery, cardiology/cardiovascular and thoracic surgery, nephrology and urology, among others).

The Health City and Yeshwanthpur units of SSOHPL are accredited by the National Accreditation Board for Hospitals & Healthcare Providers (NABH), while the same is under process for its other units. SSOHPL was promoted by Dr. Sharan S. Patil, an orthopaedic surgeon specialising in joint replacements, paediatric orthopaedics and arthroscopies with over 20 years of medical experience.

In FY2019, the company reported a net profit of Rs. 10.0 crore on an operating income (OI) of Rs. 181.1 crore compared to a net profit of Rs. 8.0 crore on an OI of Rs. 142.0 crore in the previous year. Based on the provisional numbers for 7M FY2020, it reported an operating profit of Rs. 20.29 crore on an OI of Rs. 120.5 crore.

Key financial indicators

	FY2018(Audited)	FY2019 (Audited)
Operating Income (Rs. crore)	142.0	181.1
PAT (Rs. crore)	8.0	10.0
OPBDIT/ OI (%)	20.6	16.7%
RoCE (%)	22.3	23.5%
Total outside liabilities/ Tangible Net Worth (times)	6.7	3.8
Total Debt/ OPBDIT (times)	2.3	2.0
Interest coverage (times)	3.9	5.1
DSCR	1.8	1.6

Source: SSHOPL

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding as on Mar 31, 2019 (Rs. crore)	Rating	FY19	FY18	FY17
					07-Jan-2020	24-Oct 2018	27-Dec 2017	17-April 2017
1	Term Loan	Long Term	57.45	46.14	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)
2	Cash Credit	Long Term	10.00	-	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA]BBB- (Stable)
3	Non-fund-based	Short Term	1.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3	[ICRA]A3

Source: SSOHPL

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	FY2015	-	FY2025	57.45	[ICRA]BBB (Positive)
NA	Cash Credit	-	-	-	10.00	[ICRA]BBB (Positive)
NA	Non-Fund-based	-	-	-	1.00	[ICRA]A3+

Source: SSOHPL

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