October 28, 2022

# Hyderabad Institute of Oncology Private Limited: Long-term rating downgraded to [ICRA]A-(Stable) from [ICRA]A(Stable)

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term – Fund-based/Term loans** | 09.40 | 25.90 | Long term rating downgraded to [ICRA]A-(Stable) from [ICRA]A(Stable) |
| **Long-term – Fund-based/Cash credit** | 15.00 | 15.00 | Long term rating downgraded to [ICRA]A-(Stable) from [ICRA]A(Stable) |
| **Long-term – unallocated** | 43.30 | 26.80 | Long term rating downgraded to [ICRA]A-(Stable) from [ICRA]A(Stable) |
| **Total** | **67.70** | **67.70** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating downgrade factors in sustained weakening in the cost structure of the Hyderabad Institute of Oncology Private Limited (HIOPL) as it started outsourcing the investigation (or diagnosis) process, which was done in-house earlier; this is expected to keep the company's operating margins low at 7-8% against 18-20% recorded previously. The company's margins declined to 7.8% in FY2022 from 19.4% in FY2020 owing to a significant increase in investigation expenses and higher disallowances and discounts; the margins are expected to remain low, going forward as well. The rating favourably factors in the established track record of the company as a quality healthcare provider for oncology-related cases. The rating considers the technological competency of the hospital with installed equipment like CyberKnife, VMAT and RapidArc linear accelerators used in radiation oncology, and digital mammography for early diagnosis of breast cancer. While the company's financial profile is expected to moderate in FY2023 (compared to FY2022) as it availed additional long-term debt of Rs. 18.3 crore and moderation in its margins, capital structure and debt coverage metrics are expected to remain comfortable.

The rating is, however, constrained by the operational risks inherent to a single location and single speciality hospital and the company's ability to retain leading consultants as patient footfalls are linked to retaining key doctors. The rating is also constrained by high working capital intensity, which increased to 42.9% in FY2022 from 29.0% in FY2020, owing to pending receivables from the Government departments. ICRA notes that intense competition in the healthcare sector and restrictive pricing regulations by the Central and state governments could constrain the profit margins.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the company would benefit from its established presence in Hyderabad and will maintain healthy debt coverage metrics and liquidity position.

## 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 in 2011 and established itself as a quality healthcare provider for oncology-related cases with the latest equipment like PET CT, CyberKnife, VMAT and RapidArc linear accelerators and digital mammography for early diagnosis of breast cancer. The hospital is promoted by Dr. Mohan Vamsy, a reputed doctor in Andhra Pradesh and Telangana for oncology and has more than 20 years of experience in the field.

**Comfortable capital structure and coverage metrics –** Despite the decline in margins in the past two years, the company's financial profile has remained healthy, as indicated by a comfortable capital structure with a gearing of 0.1 times as on March 31, 2022 owing to the healthy net worth position. HIOPL's coverage indicators were healthy with an interest coverage at 7.0 times, Total Debt/OPBDITA of 1.0 times and Net Cash Accruals/Total Debt of 100.0% in FY2022. The company's financial profile is expected to moderate in FY2023 with the addition of Rs. 18.3 crore long-term debt and low operating margins; however, ICRA expects the company's debt metrics to remain comfortable with a TD/ OPBITDA of 1.0-1.5 times and an interest coverage of 6.0-8.0 times for FY2023.

### Credit challenges

**Steep moderation in margins –** Despite a substantial improvement in ARPOB in the past two years, the operating margins declined to 7.8% in FY2022 from 19.4% in FY2020 on account of higher discounts and write-offs and high investigation expenses. The company's margins are expected to remain low at 7-9%, going forward, as it started outsourcing the investigation process, which was done in-house earlier. The sustained moderation in the company's earnings is expected to affect its financial profile to an extent.

**High working capital intensity –** The working capital intensity increased to 42.9% in FY2022 from 29.0% in FY2020 owing to increased receivables. The receivable days increased to 123 in FY2022 from 93 in FY2020 on account of the delay in payments by certain state and Central Government organisations. However, receivable days are expected to normalise to FY2020 levels by the end of FY2023 as the patient mix has been improving in FY2023 with higher revenues from the cash segment.

**Geographical concentration and intense competition in the region –** HIOPL faces geographical concentration being exposed to operational risks inherent to a single-location and a single specialty hospital. Moreover, the company faces intense competition from other established hospitals in the region. Given this, the company's ability to retain key consultants and doctors is critical to support patient footfalls.

**Exposed to regulatory risks –** Regulatory risks in terms of restrictive pricing levied by the 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 expected to remain **adequate** with free cash balances of about Rs.6.0 crore and a buffer of Rs.2-3 crore in working capital limits against repayment obligations of about Rs.6.0 crore over the next 12 months. Moreover, the company is expected to generate retained cash flows of about Rs.12-15 crore in FY2023, which would be sufficient to meet the current requirements. The company is expected to incur a capex of about Rs.18-20 crore in FY2023 towards purchase of machinery for which it has availed term loans of about Rs.18.3 crore and the rest will be from internal accruals.

## Rating sensitivities

**Positive factors –** ICRA could upgrade HIOPL's rating if there is a material recovery in the profit margins and there is a sustained growth in scale of operations. Also, reduction in receivables, further improving the overall liquidity profile, would remain critical.

**Negative factors –** The rating may witness pressure if a further 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 the state government 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<br>Rating Methodology for Hospitals |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered standalone financials of HIOPL |

## About the company

HIOPL is a super specialty oncology hospital promoted by Dr. Mohana Vamsy. The hospital had commenced operations in FY2011 and operates under the name, Omega Hospitals, in Banjara Hills, Hyderabad. The hospital has 261 beds (230 operational) as of September 2022 and provides tertiary care in surgical, clinical and radiation oncology departments. The hospital received the National Accreditation Board for Hospitals and Health Care Providers' (NABH) accreditation in February 2012. Further, it is empanelled with the Central Government Health Scheme (CGHS), the Ex-servicemen Contributory Health Scheme (ECHS) and the Employee State Insurance (ESI), along with other Central and state government institutions.

### Key financial indicators

| | FY2021 | FY2022* |
|---|---|---|
| **Operating income** | 228.6 | 236.0 |
| **PAT** | 18.4 | 6.8 |
| **OPBDIT/OI** | 14.2% | 7.8% |
| **PAT/OI** | 8.0% | 2.9% |
| **Total outside liabilities/Tangible net worth (times)** | 0.3 | 0.3 |
| **Total debt/OPBDIT (times)** | 0.7 | 1.0 |
| **Interest coverage (times)** | 11.8 | 7.0 |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; Provisionals for FY2022**
*Note: All calculations are as per ICRA Research*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2023) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Aug 31, 2022 (Rs. crore) | Date & rating in FY2023 | FY2022 | FY2021 | FY2020 |
| | | | | | Oct 28, 2022 | Jul 12, 2021 | - | Jan 02, 2020 |
| 1 | **Term loans** | Long term | 25.90 | 21.20 | **[ICRA]A-(Stable)** | [ICRA]A(Stable) | - | [ICRA]A(Stable) |
| 2 | **Cash credit** | Long term | 15.00 | - | **[ICRA]A-(Stable)** | [ICRA]A(Stable) | - | [ICRA]A(Stable) |
| 3 | **Unallocated** | Long term | 26.80 | - | **[ICRA]A-(Stable)** | [ICRA]A(Stable) | - | [ICRA]A(Stable) |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term – fund-based / Term Loans | 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: www.icra.in

## Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Term Loans** | FY2019 | NA | FY2027 | 25.90 | [ICRA]A-(Stable) |
| **NA** | **Cash credit** | NA | NA | NA | 15.00 | [ICRA]A-(Stable) |
| **NA** | **Unallocated** | NA | NA | NA | 26.80 | [ICRA]A-(Stable) |

*Source: Company*

## Annexure II: List of entities considered for consolidated analysis: NA

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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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## ICRA Limited

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