

February 03, 2023

Jupiter Hospital Projects Private Limited: Long-term rating upgraded, and short-term rating reaffirmed; rated amount enhanced

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|-------------------------------------|--------------------------------------|-------------------------------------|--|
| Long term – Fund based - Term Loan | 160.00 | 170.00 | [ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)/assigned |
| Short Term – Fund based - Overdraft | 10.00 | 15.00 | [ICRA]A2+; Reaffirmed/assigned |
| Total | 170.00 | 185.00 | |

*Instrument details are provided in Annexure I

Rationale

To arrive at the ratings, ICRA has taken a consolidated view of Jupiter Group, which includes Jupiter Hospital Projects Private Limited (JHPPL) and Jupiter Lifeline Hospitals Limited (JLHL), hereinafter referred to as the Group, given the common management and significant operational and financial linkages. The long-term rating upgrade factors in the improvement in the Group's financial risk profile, aided by healthy revenue growth and profitability in 9M FY2023, and ICRA's expectation that the same will sustain going forward. Further, ICRA notes the improvement in company's liquidity to ~Rs. 162 crore as at December 31, 2022 from ~Rs. 110 crore as at March 31, 2022, on the back of cash accruals from the business operations along with equity infusion of Rs. 34 crore by the promoters during December 2022. The liquidity position is expected to remain adequate, in absence of any significant expansion plans of the company.

The ratings favourably factor in the strong revenue growth of 50.8% during FY2022 given the lower base in FY2021 (impacted by lockdowns), Covid-led hospitalisations in Pune and Indore and steady improvement in occupancy levels across hospitals. Further, the Group witnessed 17% YoY revenue growth in 9M FY2023, backed by healthy ramp-up in operations in Pune and Indore hospitals (which commenced operations from June 2017 and November 2020, respectively). The operating profit margin (OPM) increased to 20.9% in FY2022 from 13.8% in FY2021 aided by the improved operational performance. Supported by further ramp up of operations in Indore and Pune hospitals, along with steady revenues from Thane hospital and operating leverage benefits, the OPM improved to 23.3% in 9M FY2023. Going forward, the operating margin is expected to remain healthy, on the back of increase in scale of operations. The rating also factors in the established market position and the promoter's extensive experience of over 15 years in the healthcare industry. Further, the Group operates three multi-specialty hospitals and offers diverse tertiary care services with no major revenue concentration from a single specialty.

The ratings, however, consider the moderate debt profile of the company due to its debt-funded acquisition of the Indore hospital in FY2021. However, ICRA notes that the Group's Net Debt (ND)/OPBDITA improved to 1.5x as on December 31, 2022, from 6.1x as on March 31, 2021, on the back of improved profitability. The debt metrics are expected to improve further, backed by healthy OPM levels, going forward. The ratings also factor in the nascent stage of operations of the Indore hospital wherein the operational breakeven is yet to be achieved. While the Indore hospital witnessed operating profits during H1 FY2022 backed by increased revenues from Covid 2.0 hospitalisations, operating loss of Rs. 5.5 crore and Rs. 0.9 crore was incurred in FY2022 and 9M FY2023, respectively. ICRA notes that the Indore hospital is expected to witness operational breakeven in the near term. The ratings also consider the geographical concentration of revenues in existing hospitals at Thane and Pune to the extent of 89% in 9M FY2023; however, the ramp-up of operations at the Indore hospital is likely to mitigate the risk to a certain extent. The Group, in line with other industry players, is exposed to stiff competition from other organised players and regulatory risks pertaining to any restrictive pricing regulations imposed by India's Central and state governments.

The Group has undertaken debt-funded expansions (both organic and inorganic) in the past. Any significant debt-funded expansion plans, impacting the Group's credit metrics or liquidity position, shall remain an event risk and would be evaluated on a case-by-case basis.

The Stable outlook on the long-term rating reflects ICRA's expectation that the Group will continue to benefit from the extensive experience of its promoters, coupled with the stabilisation of operations at its new hospital, and the improvement in its debt coverage metrics on the back of the steady scale-up of its revenues and margins.

Key rating drivers and their description

Credit strengths

Established brand position with experienced promoters – The Group operates three multi-speciality hospitals, one each in Thane (commenced in July 2008), Pune (commenced in June 2017) and Indore (acquired in November 2020). The promoters have a track record of over 15 years in successfully managing hospital operations in the said region. The Group has successfully ramped up the Pune hospital post commencement of its operations in FY2018. Further, during 9M FY2023, the Indore hospital has incurred marginal operating losses and is expected to turnaround in the near term.

Healthy revenue growth and profitability – While the Group's performance was impacted in FY2021 by Covid-led restrictions, pent-up demand for deferred procedures and increased Covid hospitalisations (both in Pune and Indore) supported strong revenue growth of 50.8% in FY2022. The operating margins also witnessed expansion in margins by 710 bps, backed by improved scale of operations. Further, in 9M FY2023, the Group witnessed healthy revenue growth and OPM (23.3%), supported by improving consolidated ARPOB (~Rs. 41,000 in H1 FY2023 from ~Rs. 38,000 in FY2022) and occupancy levels (~59% in H1 FY2023 from ~53% in FY2022). Steady ramp up in operations of Indore hospital and increasing revenues from existing hospital are expected to drive near term growth.

Stable long-term demand outlook – While footfalls in FY2021 were impacted by the pandemic, the same witnessed strong revival during FY2022 and 9M FY2023. Over the longer term, increasing incidence of lifestyle diseases in India, coupled with factors such as better affordability, widening medical insurance coverage, growing awareness and under-penetration of healthcare services, is expected to benefit the company and the industry at large.

Credit challenges

Moderate debt profile – The Group's debt metrics deteriorated in FY2021 due to incremental debt and decline in operating profitability in FY2021. However, backed by healthy OPM and scale of operations, the debt metrics showed substantial improvement in FY2022. Net Debt/OPBDITA improved to 2.6x as of March 31, 2022, from 6.1x as of March 31, 2021. Further, with expansion in OPM in 9M FY2023, net debt/OPBDITA improved to 1.5x as of December 31, 2022. Going forward, the debt profile of the group is expected to gradually improve backed by healthy margins. However, the sustainability of profit margins in line with 9M FY2023 levels remains a monitorable. Any significant debt-funded expansion which could impact the company's debt metrics remains a key monitorable.

Geographical concentration risk – The Group has high geographic concentration in existing hospitals at Thane and Pune that contributed 89% of its revenues in 9M FY2023. Further ramp-up in operations in the Indore hospital is expected to reduce the concentration risk to a certain extent.

Stiff competition from other established players in the vicinity – The hospital industry is highly competitive with many established organised chains. The hospitals face stiff competition from existing regional players and local multi-speciality clinics. However, the Group's established brand position coupled with a strong infrastructure is likely to mitigate competition to a certain extent.

Exposed to regulatory risks inherent in the sector – Going forward, regulatory risks pertaining to restrictive pricing regulations levied by the Central and state governments and stricter compliance norms could constrain the Group's profit margins.

Liquidity position: Adequate

The Group's consolidated liquidity profile is adequate, characterised by cash and bank balances of ~Rs. 162 crore, and undrawn overdraft limits of Rs. 45 crore as on December 31, 2022. The Group's consolidated repayment obligations are Rs. 6.1 crore, Rs. 11.3 crore and Rs. 25.5 crore in H2 FY2023, FY2024 and FY2025, respectively. The average working utilisation remained nil during the 12 months ending December 2022.

The Group's maintenance and equipment capex is expected to be ~Rs. 30-45 crore per annum for the next two to three years. The same is expected to be funded through internal cash accruals and available cash balances. Overall, ICRA expects the Group to be able to service its repayment obligations and capital commitments from the available liquidity buffer and internal cash accruals.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a sizeable increase in the scale of operations, RoCE and improvement in the debt coverage metrics on a sustained basis.

Negative factors – Pressure could arise due to a deterioration in the margins or an increase in the leverage. A specific trigger for a rating downgrade could be ND/OPBDITA of more than 2.5 times on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology ICRA's Rating methodology for Hospitals Rating Approach - Consolidation |
| Parent/Group Support | NA |
| Consolidation/Standalone | For arriving at the ratings, ICRA has taken consolidated view of Jupiter Group, which includes JHPPL and JLHL. |

About the company

Jupiter Hospital Projects Private Limited is a 76% subsidiary of JLHL. JHPPL, incorporated in 2011, acquired a multi-speciality hospital at Indore with a capacity of 200 beds through a slump sale from Vishesh Diagnostics Private Limited, w.e.f. November 15, 2020. The remaining 24% equity stake is held by the erstwhile promoters, Dr Rajesh Kasliwal and Mrs Alka Kasliwal. The Indore hospital began operations from November 2019.

JLHL, incorporated in 2004 operates two hospitals in Thane and Pune, apart from the recently acquired Indore hospital. JLHL has built a hotel with over 34 rooms and a convention centre adjacent to the Thane hospital, which commenced operations from April 1, 2010. The operations and maintenance of the hotel are handled by Fortune Park Hotels (FPH), a wholly-owned subsidiary of ITC Ltd.

Key financial indicators

| JLHL Consolidated | FY2021 | FY2022 |
|--|--------|--------|
| Operating income (Rs. crore) | 486.2 | 733.1 |
| PAT (Rs. crore) | (2.3) | 51.1 |
| OPBDITA/OI (%) | 13.8% | 20.9% |
| PAT/OI (%) | (0.5%) | 7.0% |
| Total outside liabilities/Tangible net worth (times) | 2.3 | 2.2 |
| Total debt/OPBDITA (times) | 6.5 | 3.2 |
| Net debt/OPBDITA (times) | 6.1 | 2.6 |
| Interest coverage (times) | 1.7 | 3.5 |

PAT: Profit after Tax; OPBDITA: 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 | Type | Current rating (FY2023) | | Chronology of rating history for the past 3 years | | | |
|--------------------------|------------|--------------------------|---|---|-------------------------|-------------------------|-------------------------|
| | | Amount Rated (Rs. crore) | Amount outstanding as of Sep 30, 2022 (Rs. crore) | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | Feb 03, 2023 | Dec 8, 2021 | - | - |
| 1 Fund based - Term Loan | Long-term | 170.00 | 170.00 | [ICRA]A (Stable) | [ICRA]A- (Stable) | - | - |
| 2 Fund based – Overdraft | Short-term | 15.00 | - | [ICRA]A2+ | [ICRA]A2+ | - | - |

Amount in Rs. Crore

Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|-------------------------------------|----------------------|
| Long term – Fund based - Term Loan | Simple |
| Short Term – Fund based – Overdraft | Simple |

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 No | Instrument Name | Date of Issuance | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-------------------------------------|------------------|-------------|---------------|--------------------------|----------------------------|
| NA | Long term – Fund based - Term Loan | FY2021 | ~9.7% | FY2033 | 170.00 | [ICRA]A (Stable) |
| NA | Short Term – Fund based – Overdraft | NA | NA | NA | 15.00 | [ICRA]A2+ |

Source: Company; Note: Amounts in Rs. crore

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

| Company Name | JLHL equity Ownership | Consolidation Approach |
|---|-----------------------|------------------------|
| Jupiter Hospital Projects Private Limited | 76.00% | Full Consolidation |

Source: JLHL [annual report FY2022](#)

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Branches



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