April 06, 2023

Unimed Health Care Pvt. Ltd.: Ratings 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 Loans	7.50	217.50	[ICRA]A-(Stable) reaffirmed/assigned
Long-term – Fund-based – Cash credit	2.00	02.00	[ICRA]A-(Stable) reaffirmed
Short term – Fund-based	12.00	12.00	[ICRA]A2+ reaffirmed
Long term – unallocated	8.50	08.50	[ICRA]A-(Stable) reaffirmed
Total	**30.00**	**240.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings consider the long track record of Unimed Health Care Pvt. Ltd. (UHCPL) in the healthcare industry, the reputed brand of 'Star Hospital' (UHCPL's hospitals' brand name) in Hyderabad, especially in the cardiac sciences segment, and a steady growth in revenues from other segments, including nephrology, orthopaedics, and pulmonology, etc., over the past few years. The hospital's occupancy remained healthy at 52% in 11M FY2023 with increasing elective surgeries compared to last two years, given the improvement in mobility. The company's average revenue per occupied bed day (ARPOB) moderated marginally compared to FY2022 levels in the absence of Covid-19 vaccination revenues; however, it continues to remain healthy with favourable patient and procedure mix. The company is expected to record flat revenue growth in FY2023 in the absence of Covid-19 revenues. However, ramp-up in the operations in its new 300-bed hospital in Hyderabad, which commenced operations in March 2023, and growth in patient footfalls in the matured hospital is expected to support 10-15% revenue growth in FY2024. The company's margins are expected to moderate by 600-700 bps in FY2023 on account of the medical staff hired for the new hospital and higher consultant pay-outs.

The company's margins are expected to be impacted over the next two years owing to the nascent stages of operations of its new hospital. UHCPL's financial profile has been strong with comfortable coverage metrics owing to its healthy operating margins and low debt levels. UHCPL's debt metrics are expected to moderate to an extent in FY2024 given the debt-funded capex. It has incurred ~Rs. 160 crore on the new hospital till February 2023 and is expected to incur ~Rs. 130-140 crore in FY2024, which is being funded through Rs. 210.0 crore of additional term loans. However, strong net worth position and healthy cash flows from its matured hospital would support the company's financial profile and debt metrics. The ratings continue to derive strength from UHCPL's experienced promoters, reputed doctors and consultants, whose established track record in the medical field strengthens its business prospects.

The ratings, however, remain constrained by the company's moderate scale with bed capacity of 610 and operating income of Rs. 317.1 crore in FY2022 and Rs.284.5 crore in 11M FY2023. Nevertheless, UHCPL is adding a new 300-bed hospital in Hyderabad at an estimated capex of ~Rs. 290-300 crore, which would support its revenue growth over the medium term. The hospital started its operations in Q4 FY2023 and is expected to be fully operational by the end of Q1 FY2024. Timely completion of the capex within the budgeted cost and successful ramp-up of operations would be a key monitorable. The ratings consider UHCPL's geographical concentration in Hyderabad, and intense competition in the region from several reputed hospitals.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the company's financial profile will remain comfortable with healthy occupancy and ARPOB at the existing hospital and gradual ramp up in operations at its new hospital from FY2024.

Key rating drivers and their description

Credit strengths

Reputed brand and experience of promoters in healthcare industry – UHCPL operates a 310-bed multi-speciality hospital under the brand, Star Hospital, which has an established presence in Hyderabad. The company is adding a new 300-bed capacity hospital in Hyderabad, which is expected to be fully operational by the end of Q1 FY2024. UHCPL is promoted by a group of doctors and entrepreneurs, led by Dr. Gopichand Mannam, with a significant experience in the healthcare industry.

Comfortable capital structure and debt coverage metrics despite the expected moderation – The company's revenue remained flat in 9M FY2023 at Rs. Rs.235.4 crore against Rs. 317.1 crore in FY2022 with marginal increase in occupancy levels. The capital structure remained healthy with gearing of 0.1 times as on December 31, 2022 and March 31, 2022, however, it is expected to moderate in the near term as the company availed substantial debt to fund its capex requirements. The coverage indicators too remained strong in 9M FY2023 with interest cover of 44.8 times and Total debt/OPBITDA of 0.3 times, however, these are also expected to moderate to an extent in the near future.

Credit challenges

Moderate scale of operations, expected to improve over medium term – UHCPL's scale of operations remained modest with an operating income of Rs. 317.1 crore in FY2022 and Rs.235.4 crore in 9M FY2023. The company operates two hospitals in Hyderabad with a total bed capacity of 610 beds, which are expected to be fully operational by the end of Q1 FY2024. However, the scale of operations is expected to improve significantly over the medium term as the company ramps up operations of its new hospital.

Sizeable debt-funded capex for new hospital; timely and successful ramp-up of new hospital critical - The addition of the new hospital in Hyderabad will increase the company's overall bed capacity to 610 from 310. The new hospital commenced operations in Q4 FY2023 and will scale-up operations in a phased manner; it is expected to be fully operational by the end of Q1 FY2024. The total estimated cost of the capex is Rs. 290-300 crore, to be funded by a debt of Rs. 210 crore and existing cash and liquid investments, for which the company has already incurred a capex of about Rs.150-165 crore in FY2023 and the remaining will be incurred in FY2024. ICRA expects the company's margins to moderate over the next two years from FY2022 levels on account of losses incurred by the new hospital during the initial stages of operations. Lower margins and higher debt are expected to moderate the capital structure and coverage indicators from FY2022 levels. However, debt metrics are still likely to remain comfortable and improve gradually. Timely completion of the capex within the budgeted cost and successful ramp-up of operations would be a key monitorable. In addition, the company has exited its joint venture with Pinnacle Healthcare in March 2023 where the profitability was significantly lower than the Hyderabad hospital.

High geographical concentration risk and intense competition in the region – The company faces geographical concentration risk in Hyderabad and intense competition from several reputed hospitals in the region. UHCPL's ability to retain key consultants and doctors and improve its operating metrics, considering the intense competition, is critical. However, several key consultants are shareholders in UHCPL, mitigating the attrition risk to an extent.

Liquidity position: Adequate

The company's liquidity position is **adequate** with free cash and liquid investments of ~Rs.35.4 crore as on February 28, 2023, and undrawn working capital limits of ~Rs. 13.9 crores as on January 31, 2023, against repayment obligations of Rs. 0.5 crore for FY2024. Moreover, the company's retained cash flows are expected to be healthy at Rs. 25-30 crore per annum. The company is undertaking a capex of about Rs. 290-300 crore; it is expected to incur residual capex of Rs. 130-140 crore in FY2024, which is expected to be funded through term loans of Rs. 210.0 crore and internal accruals. UHCPL has tied up debt for the planned capex. In addition, the company's working capital limits are expected to be enhanced to Rs.22.0 crore from Rs.14.0 crore by the end of Q1 FY2024 which will support the liquidity further.

Rating sensitivities

Positive factors – ICRA could upgrade UHCPL's ratings if it improves its scale of operations while improving its profitability. Timely ramp-up of new facility remains a key monitorable factor.

Negative factors – Pressure on the ratings could arise if any material decline in revenues or margins impacts its financial profile or if its stretched receivables cycle weakens its liquidity position. Higher-than-expected capex or sizeable outflow towards any acquisition could also lead to a ratings downgrade. Specific credit metrics that may lead to a ratings downgrade include Net Debt/OPBITDA of more than 2.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA considered the standalone financials of UHCPL

About the company

Promoted by a group of doctors and entrepreneurs led by Dr. Gopichand Mannam, UHCPL owns and operates a 310-bed tertiary care hospital, Star Hospital, at Banjara Hills in Hyderabad. The hospital was launched with 130 beds in September 2008 and expanded its capacity in FY2015 and FY2016. The promoter, Dr. Gopichand Mannam, is a renowned cardiothoracic surgeon, who has been practising in Hyderabad since 1994. The promoter group also includes Dr. Nagarjuna Reddy Ponugoti, Dr. Ramesh Gudapati, and Mr. P. Jairaj Kumar. The company is adding another hospital in Nanakramguda in Hyderabad with additional 300 beds and is expected to begin operations by the end of Q1 FY2024.

Key financial indicators

	FY2021	FY2022	9M FY2023*
Operating income	236.9	317.1	235.4
PAT	39.0	55.4	34.6
OPBDIT/OI	26.0%	26.1%	20.7%
PAT/OI	16.5%	17.5%	14.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	0.4
Total debt/OPBDIT (times)	0.2	0.2	0.3
Interest coverage (times)	32.7	50.3	44.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

*Source: Company, ICRA Research; * Provisionals for 9M FY2023; All ratios as per ICRA's calculations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount o/s as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2024	FY2023	FY2022	FY2021
					Apr 06, 2023	Aug 12, 2022	Jul 08, 2021	Jun 18, 2020
1	**Term loans**	Long term	217.5	16.1	**[ICRA]A-(Stable)**	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)
2	**Cash credit**	Long term	2.0	--	**[ICRA]A-(Stable)**	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)
3	**Unallocated**	Long term	8.5	--	**[ICRA]A-(Stable)**	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)
4	**Fund based**	Short term	12.0	--	**[ICRA]A2+**	[ICRA]A2+	[ICRA]A2+	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/Term Loan	Simple
Long-term – Fund-based/Cash credit	Simple
Short term – Fund based	Very 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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	2017	NA	2025	7.5	[ICRA]A-(Stable)
NA	Term loan – 1	2023	NA	2031	105.0	[ICRA]A-(Stable)
NA	Term loan – 2	2023	NA	2032	55.0	[ICRA]A-(Stable)
NA	Term loan – 3	2023	NA	2032	50.0	[ICRA]A-(Stable)
NA	Cash credit	NA	NA	NA	2.0	[ICRA]A-(Stable)
NA	Unallocated	NA	NA	NA	8.5	[ICRA]A-(Stable)
NA	Fund based	NA	NA	NA	12.0	[ICRA]A2+

Source: Company

Please click here to view lender wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

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