December 28, 2023

Arunodaya Hospitals Private Limited: [ICRA]BBB (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loans	60.00	[ICRA]BBB (Stable); assigned
Long-term Fund-based – Cash Credit	5.00	[ICRA]BBB (Stable); assigned
Total	**65.00**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating factors in the support enjoyed by Arunodaya Hospitals Private Limited (AHPL) from its parent, Krishna Institute of Medical Sciences Limited (KIMS), which has a strong credit profile and established track record in the healthcare industry. KIMS held ~67% in AHPL in FY2023, while the rest was held by the doctors and founders of AHPL. KIMS is expected to support AHPL in funding its capital expenditure (capex), working capital, and debt servicing, if required, and has provided a shortfall undertaking to AHPL's lenders to this effect. The rating also considers the established presence of AHPL in the healthcare industry and its healthy occupancy levels.

The rating is, however, constrained by AHPL's small scale of operations with one hospital in Srikakulam district of Andhra Pradesh, exposing it to the risks of high geographic and asset concentration risks. Moreover, the company derives ~65% of its revenues from Andhra Pradesh and Odisha state government healthcare schemes, which limits growth in average revenue per occupied bed day (ARPOB) and margins, and results in high working capital cycle owing to stretched receivable days. AHPL plans to expand its operational bed capacity from 150 to 280 beds at an estimated capex of Rs. 75 crore, which would be funded by Rs. 60-crore term debt, and Rs. 15 crore of internal accruals and funds from KIMS. Timely completion of expansion within budgeted cost and successful ramp-up of the new capacity remains critical. The rating also factors the intense competition in the healthcare industry and exposure to regulatory risks.

The Stable outlook on the rating reflects ICRA's opinion that the company's credit profile will remain favourable and will receive need-based support from its parent, KIMS, in a timely manner.

Key rating drivers and their description

Credit strengths

Long track record of operations in the healthcare industry with healthy presence in Srikakulam – The hospital has over a decade of operational track record in Srikakulam, Andhra Pradesh and has been operating at a healthy occupancy, which improved further over the past two years (85% in FY2023 and 95% in 8M FY2024). The hospital started its operations in 2009 while KIMS acquired majority stake in 2012. It is a multi-speciality hospital with the top two segments accounting for 37% of the company's revenues.

Support from KIMS – AHPL's parent, KIMS, has a strong track record in the healthcare sector and currently operates 12 hospitals in Telangana, Andhra Pradesh, and Maharashtra with a total bed capacity of 3,975 beds. KHBPL would benefit from KIMS' expertise in setting up and ramping up operations of new hospitals successfully. Moreover, AHPL benefits from the financial support from its parent. KIMS is expected to support AHPL in meeting its capex funding, working capital requirement or debt obligations, if required, and has provided shortfall undertaking to AHPL's lenders stating the same.

Credit challenges

Small scale of operations with high asset and geographic concentration risks – The hospital has relatively smaller scale of operations with around 150 operational beds and around Rs. 36 crore revenues in FY2023. While it is in the process of expanding its capacity by 130 beds, timely completion of the new block and successful ramp-up of operations will be a key monitorable. The company has only one hospital operational in Srikakulam, which is relatively of smaller scale, exposing it to the risks of asset and geographic concentration.

High exposure to Government schemes resulting in stretched working capital cycle – Hospital derives most of its revenues from patient footfalls under various schemes—Arogyasri (50.2% in 8M FY2024) and Biju Swathya Kalyan Yojana (BSKY) (13.9% in 8M FY2024). Reimbursements from state governments are relatively delayed, which leads to stretched working capital cycle. The company's receivable days increased to 121 days as on March 31, 2023, from 49 days as on March 31, 2022, owing to delays in the payments towards Arogyasri. Moreover, the company's ARPOBs are also lower owing to higher skew of payer-mix towards Government schemes, where the prices are lower, limiting the company's margins.

Exposed to intense competition and regulatory risks in the healthcare industry – The company faces competition from other hospitals in the region. Further, it remains exposed to regulatory risks and challenges, as prevalent in the healthcare sector. The company is funding ~80% of the project through debt. While repayments would commence from August 2025, timely commencement and successful ramp-up of operations remain critical.

Liquidity position: Stretched

AHPL's liquidity position is stretched. It is expected to incur capex of ~Rs. 75 crore in FY2024 and FY2025, which would be funded by Rs. 60 crore debt, which has been already tied-up, and Rs. 15 crore of internal accruals and support from parent. The company would need support from its parent to meet the equity part of capex funding, given the low cash flow generation. The company is expected to generate retained cash flows of Rs. 3-6 crore per annum. It has a buffer of Rs. 3-5 crore in its working capital limits and does not have any repayment obligations till August 2025.

Rating sensitivities

Positive factors – ICRA could upgrade AHPL's rating if the company completes the project construction in a timely manner without any material time or cost overruns, and if there is a healthy ramp-up in operations. Improvement in the parent's credit profile could also trigger a rating upgrade.

Negative factors – Negative pressure on AHPL's rating could arise if any significant delays in project completion or any major cost overruns impact the company's liquidity position or its debt metrics. Any moderation in the parent's credit profile or weakening of linkages with the parent could also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Hospital
Parent/Group support	Implicit support from its parent, Krishna Institute of Medical Sciences Limited
Consolidation/Standalone	Standalone

About the company

Arunodaya Hospitals Private Limited was incorporated as a private firm in March 2008. It operates a 150-bed multi-speciality hospital in Srikakulam, Andhra Pradesh. Krishna Institute of Medical Sciences Limited acquired majority stake in the hospital in 2012 and increased its shareholding to 66.7% as on March 2023. AHPL is in the process of expanding its operational bed capacity by 130 beds at an estimated cost of Rs. 75 crore. The new bed capacity is expected to be operational from Q1 FY2026.

Key financial indicators (audited)

AHPL Standalone	FY2022	FY2023
Operating income	30.1	36.3
PAT	-2.8	4.1
OPBDIT/OI	-5.9%	11.4%
PAT/OI	-9.3%	11.2%
Total outside liabilities/Tangible net worth (times)	0.3	0.3
Total debt/OPBDIT (times)	0.0	-
Interest coverage (times)	0.3	0.3

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

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 outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					December 28, 2023	-	-	-
1	**Term loan***	Long term	60.00	-	[ICRA]BBB (Stable)	-	-	-
2	**Cash Credit**	Long term	5.00	-	[ICRA]BBB (Stable)	-	-	-

**Outstanding amount is nil for term loans*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Fund based – Cash Credit	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	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	FY2024	-	FY2033	60.00	[ICRA]BBB (Stable)
NA	**Cash Credit**	-	-	-	5.00	[ICRA]BBB (Stable)

Source: Company

Please click here to view details of 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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