

January 29, 2024

Sagar Services & Resources Private Limited: Ratings reaffirmed and assigned for enhanced limits

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund based – Term loan	98.50	98.50	[ICRA]BBB+ (CE)(Stable); Reaffirmed
Long term – Fund based – Working capital limits – Cash credit	-	11.00	[ICRA]BBB+ (CE)(Stable); Assigned
Total	98.50	109.50	

Rating Without Explicit Credit Enhancement

[ICRA]BB+

*Instrument details are provided in Annexure-1

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The rating is based on the strength of the corporate guarantee and the addendum to the corporate guarantee (CG) provided by Sagar Manufacturers Private Limited (SMPL), the parent, for the rated term loan programme. The rating draws comfort from Sagar Services & Resources Private Limited's (SSRPL/ the company) strong parentage, as it is a subsidiary of SMPL with ratings outstanding [ICRA]A- (Stable)/[ICRA]A2+ as on November 27, 2023. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, SMPL.

The ratings consider that the company has achieved closure of the project well before the deadline and without any cost or time overruns. The commercial operations date has been rescheduled from April 2024 to January 2024. The company had a soft launch in October 2023 and commenced full-fledged operations in January 2024.

Adequacy of credit enhancement

The rating of the instrument is based on the explicit credit enhancement approach. The guarantee, along with the addendum, is legally enforceable, irrevocable and unconditional, covers the entire amount and tenor of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by SMPL is adequately strong enough to result in an enhancement in the rating of the said instrument to [ICRA]BBB+ (CE) against the rating of [ICRA]BB+ without the explicit credit enhancement. In case the rating of the guarantor changed in future, the same would be reflected in the rating of the aforesaid instrument as well. The rating of this instrument may also undergo a change in a scenario whereby, in ICRA's assessment, there is a change in the strength of the business or financial linkages between the guarantor and the rated entity, or a change in the reputation sensitivity of the guarantor to a default by the rated entity, or even a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- Company to ensure that construction is done as per approved plan. Any change from approved plan to be approved by municipal corporation/ appropriate authority prior to disbursement

- LIE to be appointed to monitor the project
- Entire exposure to be covered under earnings credit rate (ECR) within 90 days of sanction
- Company to bring 50% upfront equity. Debt-to-equity ratio to be maintained at every disbursement of term loan
- Company to explore 50% cash sweep over and above the cash accruals required for DSCR of 1.50 times for early repayment of term loan

Key rating drivers and their description

Credit strengths

Strong parentage as a subsidiary of SMPL – The company is a subsidiary of SMPL, which is an established company involved in cotton yarn spinning. Besides equity infusion for the hospital construction, SMPL is expected to extend financial support to SSRPL if required.

Favourable location expected to support occupancies – The proposed hospital is at an advantageous location and in close proximity to the Bhopal railway station and city bus stand, which will support its occupancy rates.

Strong long-term industry outlook – A strong demand outlook is projected for healthcare services in the country due to factors such as better affordability, with an increasing per capita income and widening of 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.

Credit challenges

Significant debt-funded capex to set up facility – The total cost of the project is estimated to be Rs. 156 crore, which is being funded through a term loan of Rs. 98.5 crore and equity infusion from the promoters. The company has incurred a capex of Rs. 140.61 crore as of mid-January 2024, which has been funded by Rs. 46.4 crore of equity and Rs. 94.21 crore of the term loan. Going forward, the pace of improvement in revenues and earnings, in addition to the impact of the same on the credit profile of the company, will be key monitorable.

Single asset concentration risk and lack of promoter experience in the healthcare industry – The company will be dependent on the performance of a single hospital, leading to a significant asset concentration risk. Further, the promoter's lack of experience in the healthcare and hospital business exposes the company to operational risks.

Liquidity position: Stretched

For SMPL: Adequate

SMPL's liquidity position is adequate, supported by healthy cash flow from operations. Notwithstanding the decline in gross contribution levels in the current fiscal, SMPL's cash flows are expected to remain healthy, supported by increased yarn production and additional export benefits. Besides, the liquidity position is supported by long residual tenure of loans of 10 years. SMPL's average utilisation of the sanctioned Rs. 260 crore working capital limits stood at 57% during the period between August 2022 and July 2023. The company's sanctioned working capital limits have increased to Rs. 260 crore in December to meet the incremental working capital requirements with adequate buffer. The company incurred a capex of ~Rs. 135 crore towards the hospital project and ~Rs. 219.7 crore towards Phase-6 expansion project in FY2023 and H1 FY2024. The remaining capex towards the hospital project of about Rs. 18 crore was incurred in October 2023. These projects have been funded by a debt of ~Rs. 258 crore and the balance via internal accruals and equity contribution from the promoters. The cash generation from the business is likely to remain sufficient against debt repayments of Rs. 63.2 crore in FY2024 and Rs. 57.0 crore in FY2025.

For SSRPL: Stretched

The company commenced full-fledged commercial operations in January 2024. In FY2024, total of Rs. 105.35 crore of capex is expected to be incurred and the same is being funded through a Rs. 79 crore term loan and Rs. 24.48 crore of equity infusion from the shareholders while the balance would be through credit from suppliers. Until the company achieves cash breakeven, it is expected to be dependent on working capital borrowings and infusion from its shareholders to fund the losses.

Rating sensitivities

Positive factors: ICRA could upgrade the rating if there is an improvement in the overall credit profile of the guarantor, SMPL. Further, SSRPL's rating (without explicit credit enhancement) could be upgraded if there is a steady scale-up and sustained improvement in earnings, resulting in healthy credit metrics and liquidity position.

Negative factors: Weakening of the credit profile of the guarantor, SMPL, or weakening of financial linkages with the guarantor could lead to a rating downgrade. Also, pressure on SSRPL's rating (without explicit credit enhancement) could arise in case of delayed scale-up in operations, leading to a deterioration in credit metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology of Hospitals
Parent/Group Support	The ratings are based on both explicit and implicit support (financial) from SMPL (parent).
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SSRPL.

About the company

Sagar Services & Resources Private Limited (SSRPL/the company), a subsidiary of Sagar Manufacturing Pvt Ltd (SMPL), is in the process of setting up a 300-bed super multi-specialty hospital at Hoshangabad Road in Bhopal with a total investment of around Rs. 156 crore. As of January 2024, the hospital has started full-fledged operations in January 2024.

Key financial indicators (audited)

LTHL Consolidated	FY2022	FY2023
Operating income (Rs. crore)	-	-
PAT (Rs. crore)	-	-
OPBDIT/OI (%)	-	-
PAT/OI (%)	-	-
Total outside liabilities/Tangible net worth (times)	0.0	0.8
Total debt/OPBDIT (times)	-	-
Interest coverage (times)	-	-

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	Type	Current Rating (FY2024)			Chronology of Rating History for the past 3 years				
		Amount Rated (Rs. crore)	Amount Outstanding as of Jan 16, 2024 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023		Date & Rating in FY2022	Date & Rating in FY2021
				29-Jan-24	7-Dec-23	7-Oct-22	1-Jul-22	-	-
1 Term loan	Long-term	98.5	94.21	[ICRA]BBB+ (CE) (Stable)	[ICRA]BBB+ (CE) (Stable)	[ICRA]BBB+ (CE)(Stable)	Provisional [ICRA]BBB+ (CE)(Stable)	-	-
2 Working capital	Long-term	11	2.32	-	-	-	-	-	-
3 Working capital	Long-term/ Short-term	-	-	-	-	Provisional [ICRA]BBB+(CE) (Stable)/ Provisional [ICRA]A2+(CE); withdrawn	Provisional [ICRA]BBB+(CE) (Stable)/ Provisional [ICRA]A2+(CE)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long term – Fund based – Working capital limits – 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, is available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2023	8.5%	FY2033	98.50	[ICRA]BBB+(CE)(Stable)
	Cash credit	FY2024	10.45%	NA	11.00	[ICRA]BBB+(CE)(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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