July 23, 2024

Asian Institute of Oncology Pvt. Ltd.: [ICRA]B+ (Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	77.00	[ICRA]B+ (Stable); assigned
Total	**77.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned to Asian Institute of Oncology Pvt Ltd (AIOPL/the company) favourably factors in its promoters' extensive experience in the healthcare industry. The company's business is supported by the increasing demand for healthcare services and better affordability on the back of increasing awareness and penetration level of health insurance in India.

However, the rating is constrained by the modest scale of operations, continued losses and weak debt metrics over the last few years. While the company's average revenue per occupied bed (ARPOB) levels are healthy, the occupancy remains low at 35% and 30% in FY2023 and FY2024, respectively. While ICRA expects some improvement in the entity's operating performance of its key hospital in the medium term, the successful ramp-up of operations at the new hospitals remains to be seen. AIOPL also faces stiff competition from the other established oncology hospitals, limiting its pricing flexibility. Further, the rating adversely factors in AIOPL's anticipated large debt-funded capex for expansion in the near to medium term, which is expected to weaken its capital structure and debt protection metrics. The resultant sizeable repayment obligation is likely to impinge on the debt servicing capacity in the long term. The company's ability to generate commensurate returns at the expected level from the mentioned capex will remain a key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to benefit from the extensive experience of its promoters and the proven track record of the hospital.

Key rating drivers and their description

Credit strengths

Strong management body comprising oncology experts - AIOPL is promoted by a group of 25 doctors, specialising in oncology with significant experience in the healthcare sector. The attrition risk of high-ranking doctors at the hospital is low as most of the doctors are also key shareholders in the company. Further, the majority of the doctors/consultants have worked in renowned hospitals in Mumbai and neighbouring areas and enjoy a good reputation in the region. The vast experience of the promoters, along with reputed doctors and consultants on the panel, strengthens the growth prospects of the hospital.

Healthy demand outlook for healthcare services, supported by increasing population and per capita income - India remains an under-invested and under-penetrated market, with the private sector hospitals occupying over 70% of the market share. On the supply side, India has a significant hospital bed shortage and Government investments in the same are limited. This provides private-sector players the opportunity to consolidate their positions. The demand outlook for healthcare services is stable, given the underlying fundamentals, including an ageing population, increasing health insurance penetration, rising incidence of lifestyle diseases, higher disposable income, increasing healthcare awareness and robust growth in medical tourism.

Credit challenges

Moderate scale of operations and weak financial profile - AIOPL's scale of operations remains moderate, with revenue of Rs. 40 crore in FY2024 (as per provisional financials). Given the moderate scale of operations and relatively lower occupancy, the company incurred cash losses in the past. Further, it has soft-launched its hospitals in Indore and Navi Mumbai in FY2024. However, the revenue generated from these hospitals remained negligible. Additionally, the company acquired a hospital in Bhubaneshwar through the Insolvency and Bankruptcy Code (IBC) route. While ICRA expects some improvement in the entity's operating performance of its key hospital in Mumbai in the medium term, the successful ramp-up of operations at the new hospitals remains to be seen. AIOPL's anticipated large debt-funded capex for expansion in the near to medium term is expected to weaken its capital structure and debt protection metrics. Going forward, healthy growth in scale and improvement in operating margins remain crucial for the improvement of the company's debt metrics.

Sizeable debt-funded capex expected to be incurred in the near term - The company plans to incur a sizeable capex of at least Rs. 100 crore for the setting up of hospitals at Bhubaneshwar, Srinagar, Virar and Pune, which is likely to be partially funded through external debt. Going forward, AIOPL's ability to commence operations of the new hospitals within the budgeted time and costs and its impact on the company's debt metrics will remain a key monitorable from the credit perspective.

Stiff competition due to presence of other cancer-specialty hospitals - The company encounters stiff competition from other multi-speciality hospitals in the region. Further, it also remains exposed to regulatory risks and challenges, as prevalent in the sector.

Liquidity position: Stretched

AIOPL's liquidity position is stretched, as reflected by its low cash and bank balances of Rs. 1.1 crore as on March 31, 2024. Against this, the company has a repayment obligation of ~Rs. 2-3 crore on existing debt in FY2025. Further, the company plans to incur a sizeable capex of at least Rs. 100 crore towards updated machinery for the company's brownfield projects in the near to medium term. AIOPL is expected to remain dependent on additional debt to partially fund the same.

Rating sensitivities

Positive factors – The rating may be upgraded if there is sizeable improvement in the company's scale of operations along with the improvement in profit margins, liquidity position and debt protection metrics on a sustained basis.

Negative factors – The rating could witness a downward revision in case of any adverse impact on the revenue/ profitability of the company leading to deterioration in debt protection metrics. Any unanticipated debt funded capex which impacts the debt protection metrics on a sustained basis would also be a downward rating trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hospitals
Parent/Group support	NA
Consolidation/Standalone	Standalone

About the company

AIOPL was incorporated in 2002 by an association of 25 doctors (including Dr. S.H. Advani. Dr. R. K. Deshpande, Dr. Deepak Parikh and others), who specialise in the field of oncology. The company commenced its operations in the Wellspring Clinic Piramal Complex (Mumbai) in collaboration with the S.L. Raheja Hospital (associated with Fortis Healthcare Limited) before shifting the base of operations to Somaiya Ayurvihar in FY2013. Subsequently, the company ceased its operations from Somaiya Ayurvihar in FY2020 and is currently operating out of a leased facility at Cumballa Hill Hospital, its key operating hospital (in South Mumbai), equipped with ~50 beds under the name of "ACI Cumballa Hill Hospital". AIOPL currently offers only surgical and medical treatments (such as chemotherapy), which exclude radiotherapy. Further, it has soft launched its hospitals located at Indore and Navi Mumbai in FY2024; however, the revenue generated from these hospitals have remained negligible. Additionally, the company has acquired an hospital at Bhubaneshwar through IBC route.

Key financial indicators (audited)

AIOPL	FY2022	FY2023	FY2024*
Operating income	50.6	46.2	40.7
PAT	0.0	-5.8	-15.2
OPBDIT/OI	1.2%	-1.2%	-21.5%
PAT/OI	0.1%	-12.5%	-37.2%
Total outside liabilities/Tangible net worth (times)	9.5	24.1	10.6
Total debt/OPBDIT (times)	140.8	-194.6	-8.3
Interest coverage (times)	0.6	-0.1	-2.2

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*

PAT: Profit after tax; OPBDIT: 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		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 23, 2024	-	-	Jun 30, 2021
1	**Term loans**	Long term	77.00	**[ICRA]B+ (Stable)**	-	-	**[ICRA]B+ (Stable)/ [ICRA]A4; withdrawn**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	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 1**	FY2022	NA	FY2030	40.00	[ICRA]B+ (Stable)
NA	**Term Loan 2**	FY2024	NA	FY2034	37.00	[ICRA]B+ (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:

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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