

July 26, 2024

## Economic And Entrepreneurship Development Foundation: Rating downgraded to [ICRA]BBB; outlook revised to Stable from Negative

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits – Term Loan	50.97	35.00	[ICRA]BBB, downgraded from [ICRA]BBB+; outlook revised to Stable from Negative
Long-term – Unallocated Limits	0.03	16.00	[ICRA]BBB, downgraded from [ICRA]BBB+; outlook revised to Stable from Negative
<b>Total</b>	<b>51.00</b>	<b>51.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating downgrade of Economic And Entrepreneurship Development Foundation (EEDF) primarily considers the delay in commissioning of the project for setting up a new hospital, adversely impacting its credit profile. ICRA notes that the ongoing capital expenditure (capex) is quite large compared to its current balance sheet size and the capital structure and coverage indicators of the entity are likely to worsen further, going forward. Considering the long gestation period for the stabilisation of a hospital unit, improvement in the credit profile of the entity might take a longer time.

Meanwhile, the rating takes into account the established track record and experience of the promoters in the healthcare industry and reputation of the hospital for offering quality services at an affordable price. The rating also factors in the comfortable occupancy level of the hospital, although the same declined to around 71% in FY2024 (provisional [P]) over the previous fiscal. EEDF has a diversified revenue stream consisting of in-patient division (IPD), out-patient division (OPD), pathological and pharmacy divisions. The rating further favourably considers the financial flexibility derived from the sizeable cash and bank balance as on March 31, 2024 (P). The performance of the entity is also supported by increasing demand for healthcare services and better affordability on the back of increasing awareness and penetration level of health insurance in India.

The rating is, however, constrained by intense competition from other established hospitals in Kolkata, relatively smaller scale of its current operations and its exposure to geographical concentration risk for being a single-location hospital. Moreover, retention of medical consultants/doctors may pose a challenge owing to intense competition in Kolkata in the medical field. The rating is also impacted by the ongoing large debt-funded project for setting up a new hospital, which exposes the company to project execution risks. The ability of the company to complete the project without further delay and successfully ramp up its operations profitably within an optimum timeframe would be crucial factors for the rating, going forward.

The Stable outlook on the long-term rating reflects ICRA's opinion that the established track record of EEDF as a quality healthcare services provider for over four decades is likely to support its business position while sustaining its operating margin in the long run.

### Key rating drivers and their description

#### Credit strengths

**Experience of promoters in the healthcare industry; reputation of the hospital for offering quality services at affordable price** – EEDF is a part of the Development Consultant (DC) Group of Companies, based out of Kolkata. The company operates a 155-bedded hospital named Sri Aurobindo Seva Kendra in Kolkata, certified by Bureau Veritas & ISO 9001:2015 and National

Accreditation Board for Hospitals & Healthcare Providers (NABH). It also has a pathology section, accredited by the National Accreditation Board for Testing and Calibration Laboratories (NABL). The hospital provides indoor, outdoor, pharmacy, diagnostic and other healthcare services at an affordable price. EEDF also has a general nursing and midwifery training school called Sri Aurobindo Seva Kendra-School of Nursing. Vast experience of the promoters along with presence of reputed doctors and consultants on the panel strengthen the operating profile of the hospital.

**Comfortable occupancy level; revenue stream supported by pharmacy and pathology departments** – The hospital offers multi-specialty treatment and the IPD continues to remain the highest revenue contributor, accounting for around 35% of the total revenues in FY2024 (P), followed by pathology/ diagnostic and pharmacy divisions, contributing around 26% and 22%, respectively, to the total revenue. ICRA notes that significant competition from large hospital chains in the city adversely impacted the patient inflow, primarily in general medicines, which led to a decline in the occupancy of the hospital to around 71% in FY2024 (P) from 76% in FY2023. Nevertheless, the occupancy level of the hospital has remained healthy over the past years.

**Favourable growth drivers with increasing demand for healthcare services and better affordability** – The healthcare services in the country have a favourable outlook due to factors such as better affordability through increasing per-capita income, widening of medical insurance coverage, growing awareness about healthcare, under-penetration of healthcare services, technological improvements in early diagnosis and treatment, and higher instances of lifestyle diseases. Further, significant demand-supply gap in the country's healthcare service sector and limited investments by the Government for hospital bed addition provide private sector players an opportunity to fill the gap.

### Credit challenges

**Delay in commissioning of the project adversely impacting the credit profile** – EEDF is in the process of setting up a 235-bedded multi-specialty hospital at Salt Lake, Kolkata. The estimated capital outlay would be around Rs. 80 crore, proposed to be funded by a mix of debt and equity. Earlier, the project was proposed to become operational in a phased manner, commencing in April 2024. However, the progress of the project delayed due to lag in construction activity and as per the revised plan, the pharmacy, OPD and diagnostic centre are likely to become operational in H2 FY2025, while commencement of the IPD/ hospital has been deferred by one/ two years. The company has also reduced its term loan exposure to Rs. 35 crore from Rs. 51 crore, in view of utilisation of its own fund for the project and deferment of the IPD unit. In the interim period, the entity would face significant project-related risks, including commissioning of the project within the budgeted cost and time, stabilising the operations, and achieving desired process parameters and cost efficiencies. ICRA notes that the ongoing capex is quite large compared to its current balance sheet size and the capital structure and coverage indicators of the entity are likely to worsen further, going forward. Considering the long gestation period needed for stabilisation of a hospital unit, improvement in the credit profile of the entity might take a longer time.

**Relatively smaller scale of current operations** – Historically, the scale of the company's operations remained small. The top line of the company fell by around 3% to around Rs. 70 crore in FY2024 (provisional), owing to a decline in the occupancy level of the hospital, thereby adversely impacting the overall profitability. Owing to a marginal improvement in the average revenue per occupied bed day (ARPOBD) along with the likely revenue generation from the proposed new facilities, ICRA expects the overall top line of EEDF to register a YoY growth of around 12% in FY2025. The operating margin of the company is likely to remain at 6-7% in the current fiscal. The net profit margin is estimated to decline to an extent in FY2025 on account of increased depreciation and interest expenses.

**High geographical concentration risk along with increased competition from other established hospitals** – EEDF remains exposed to the high geographical concentration risk as the entire revenue is derived from one hospital, located in Kolkata. Moreover, the entity faces intense competition from other established hospitals in the city, including some pan-India hospital chains.

**High dependence on consultants/ doctors for driving patient inflow; attrition risk remains high** – The trust has a diversified revenue stream, with revenue distribution among various fields like gynaecology, orthopaedic, urology, medicine, neurology etc. However, the segmental revenue concentration has remained at a moderate level over the years as the top two

specialities, viz. gynaecology and orthopaedic contributed around 50% to its revenue over the past two years. ICRA notes that loss of key doctors can lead to loss of patients, which in turn may impact the overall revenue and profitability of any hospital. EEDF is likely to face challenges in recruiting and retaining good doctors, which would remain important to attract patients.

**Exposed to regulatory risks** – The hospital business is exposed to the regulatory risks in terms of restrictive pricing regulations levied by Central and State Governments, which could constrain the profit margins of the healthcare industry and consequently, EEDF, going forward.

### Liquidity position: Adequate

The entity generated positive cash flow from operations over the past two years, supported by low working capital intensity of operations, which is likely to continue in the current fiscal as well. The company had an unencumbered cash/ bank balance of around Rs. 23 crore as on March 31, 2024 (P). However, ICRA expects some pressure on its cash flows, going forward, given a large portion of its surplus cash/ bank balance and cash inflow from business would be used to part-fund the ongoing project. Nevertheless, in view of positive cash flow from operations to be generated from the business, elongated debt repayment schedule and surplus cash/ bank balance, ICRA expects the liquidity position of EEDF to remain adequate, going forward.

### Rating sensitivities

**Positive factors** – ICRA may upgrade the rating if the entity demonstrates a substantial increase in its scale of operations along with an improvement in its profitability and coverage metrics.

**Negative factors** – ICRA may downgrade the rating if there is a significant deterioration in the entity’s profitability and/or if there is a further delay in completion of the project with major cost overrun, and/or inadequate ramping up of operations, post commissioning, adversely impacting its credit profile. Specific credit metrics that may lead to a rating downgrade include DSCR less than 1.4 times on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology Hospitals</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the entity

### About the company

Economic And Entrepreneurship Development Foundation (EEDF), incorporated in December 1971, was founded by Late Dr. S. C. Dutt, the founder Chairman & Managing Director of DC Group of Companies. EEDF is a non-profit company, registered under Section 8 of the Companies Act, 2013. The company provides healthcare facilities and operates a 155-bedded multi-specialty hospital named Sri Aurobindo Seva Kendra in Kolkata. The hospital provides indoor, outdoor, pharmacy, diagnostic and other healthcare services. EEDF also has a general nursing and midwifery training school in Kolkata. Further, the company is in the process of setting up a 235-bedded multi-specialty hospital along with diagnostic and day-care centre in Salt Lake, Kolkata.

### Key financial indicators (audited)

EEDF, Standalone	FY2022	FY2023	FY2024*
Operating income	53.7	72.4	70.2
PAT	-1.6	7.2	3.8
OPBDIT/OI	-0.7%	11.7%	6.4%
PAT/OI	-3.0%	9.9%	5.4%
Total outside liabilities/Tangible net worth (times)	0.6	0.6	0.6
Total debt/OPBDIT (times)	-38.2	1.7	4.3
Interest coverage (times)	-0.7	18.5	13.4

Source: Economic And Entrepreneurship Development Foundation, 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	Type	Amount rated (Rs. crore)	Current rating (FY2025)	Chronology of rating history for the past 3 years		
			Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 26, 2024	Aug 3, 2023	Jul 7, 2022	Apr 1, 2021
1 Term Loan	Long Term	35.00	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)
2 Unallocated Limits	Long Term	16.00	[ICRA]BBB (Stable)	[ICRA]BBB+ (Negative)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term – Unallocated Limits	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	FY2021	-	FY2033	35.00	[ICRA]BBB (Stable)
NA	Unallocated Limits	-	-	-	16.00	[ICRA]BBB (Stable)

Source: Economic And Entrepreneurship Development Foundation

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

#### Annexure II: List of entities considered for consolidated analysis

Not applicable

## ANALYST CONTACTS

**Mr. Shamsher Dewan**  
+91 124 4545 328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Ms. Kinjal Shah**  
+91 22 6114 3400  
[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

**Mr. Sujoy Saha**  
+91 33 7150 1184  
[sujoy.saha@icraindia.com](mailto:sujoy.saha@icraindia.com)

**Mr. Sandipan Kumar Das**  
+91 33 7150 1190  
[sandipan.das@icraindia.com](mailto:sandipan.das@icraindia.com)

## RELATIONSHIP CONTACT

**Mr. L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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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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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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