July 31, 2024

TMI Healthcare Private Limited: Long-term rating downgraded; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan	17.70	25.00	[ICRA]B+(Stable) downgraded from [ICRA]BB-(Stable)
Short-term fund based	32.30	25.00	[ICRA]A4; reaffirmed
Total	**50.00**	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

The long-term rating revision considers the moderation in the credit profile of TMI Healthcare Private Limited (TMI/ the company) following contraction in its profit margins and a deterioration in its debt metrics. Moreover, ICRA expects the same to sustain, going forward. Although the company witnessed a revenue growth of ~11% in FY2024, the same remained weaker than expected on account of higher doctor turnover, resulting in lower stability for the existing as well as the newly opened medical specialties, in turn leading to a decline in the occupancy level to ~34% in FY2024 from ~44% in FY2023. Despite improvement in the average revenue per occupied bed (ARPOB) to Rs.30,118 in FY2024 from Rs.21,978 in FY2023, the operating profit margin (OPM) declined by 230 bps to -3.0% in FY2024 against -0.7% in FY2023 due to an increase in revenue contribution from healthcare service aggregators, which generally have lower margins, higher marketing expenses and higher number of doctors hired under retainer basis, resulting in increased fixed costs. TMI's total debt increased to Rs. 69.5 crore (including Compulsory Convertible Preference Shares [CCPS] of Rs. 25 crore and Optionally Convertible Redeemable Preference Shares [OCRPS] of Rs.10 crore) as on March 31, 2024, against Rs.65.0 crore as on March 31, 2023. Relatively higher debt combined with reduction in profitability resulted in a significant deterioration in TMI's credit metrics in FY2024. Although OCRPS of Rs. 10 crore was converted into equity in Q1 FY2025, the credit metrics continue to remain weak. Additionally, the company has planned for debt-funded capex of ~Rs. 100 crore between FY2025 and FY2026 and the same is expected to moderate the debt metrics further.

The ratings continue to favourably factor in the promoters' extensive experience in the healthcare industry. ICRA also notes the financial support received from its investor, Prathithi Investment Trust, in the form of CCPS and OCRPS in the past.

The ratings, however, remain constrained by the modest scale of operations, weak profit margins and debt metrics over the last few years. While some improvement was witnessed in the operating margins in FY2023 on the back of increasing scale of operations, the same declined again in FY2024 on account of the said reasons and recovery in the same remains to be seen. TMI also faces stiff competition from other established multi-speciality hospitals in the region. The ratings also consider the high geographical concentration risk with all the hospitals located in Bangalore. ICRA also notes that TMI had delayed payment of statutory dues in the past.

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 proven track record of the hospital.

Key rating drivers and their description

Credit strengths

Extensive promoter experience – TMI operates a multi-speciality hospital in Bangalore, promoted jointly by Dr. Jothi and Dr. Upendra, who have vast experience in the healthcare sector. TMI operates four hospitals with a total of 275 operational beds and offers services across various specialities.

Sizeable fund infusion from investors in the recent past – The company received sizeable fund worth Rs. 25 crore in the form of CCPS in FY2022 and Rs.10 crore in FY2023 in the form of OCRPS from Prathithi Investment Trust. The company utilised a part of the proceeds to pare down its bank debt as well as sharpen its focus on new specialists, such as neurosurgery, to support its growth prospects. In line with the past trends, financial support from the promoters and investors remains crucial, going forward.

Credit challenges

Moderate scale of operations and weak financial profile – TMI's scale of operations remains moderate with 275 operational beds and an OI of Rs. 108.9 crore in FY2024. Given the moderate scale of operations and relatively lower occupancy levels, the company has continued to incur cash losses over last four years. While its ARPOB improved to Rs.30,118 in FY2024 from Rs.21,978 in FY2023, the occupancy level declined to ~34% in FY2024 from ~44% in FY2023, impacting the operating margin. Although the company has witnessed stabilisation of operations to some extent in the current fiscal with occupancy of ~48% and operating revenue of ~Rs.26 crore in Q1 FY2025 with an OPM of 5.4%, sustenance of the same remains to be seen. TMI's total debt increased to Rs. 69.5 crore (including CCPS of Rs.25 crore and OCRPS of Rs.10 crore) as on March 31, 2024, from Rs. 65.0 crore as on March 31, 2023. Relatively higher debt combined with reduction in profitability resulted in a significant deterioration in TMI's credit metrics in FY2024. Further, the company has planned debt funded capex of ~Rs.100 between FY2025 and FY2026 for addition of beds or starting a cancer care hospital, which is likely to moderate the debt metrics further. Thus, going forward, a healthy growth in the scale and a significant improvement in the operating margins remain crucial for improvement in the company's debt metrics.

Limited geographical presence – The hospital is exposed to geographical concentration risk as all the four hospitals operated by the company are located in Bangalore. The risk is accentuated further by competition from other hospitals in the nearby areas.

Competition from other players in the market – The company faces stiff competition from other multi-speciality hospitals in the region. Further, it remains exposed to regulatory risks and challenges, as prevalent in the sector.

Liquidity position: Stretched

TMI's liquidity position is stretched, as reflected by its low free cash and bank balances of Rs. 0.1 crore as on June 30, 2024. The company has a sanctioned working capital limit of Rs. 22.3 crore and the average utilisation of the same stood at 97.2% for the 12-month period ended in May 2024. Thus, the buffer in the form of undrawn working capital limits also continues to be limited. The company has yearly repayment obligation of ~Rs. 2.8 crore during FY2025 to FY2027 for its existing debt. The company has planned capex of ~Rs.100 crore between FY2025 and FY2026, which is likely to be funded partly through debt. ICRA expects the company to remain dependent on its shareholders and investors to meet its repayment obligation in the near term.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is sizeable improvement in the company's scale of operations along with the improvement in profit margins and debt protection metrics on a sustained basis. Specific metric that could lead to a rating upgrade includes DSCR of more than 1.2 times on a sustained basis.

Negative factors – Negative pressure on the ratings could arise on account of the company's inability to improve its operational profitability in turn leading to continued deterioration of debt metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Hospitals
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the standalone financials of TMI.

About the company

Incorporated in June 2011 and based in Bengaluru, TMI Healthcare Private Limited operates multi-specialty hospitals under the name, People Tree Hospitals. The first People Tree Hospital was inaugurated in Yeshwanthpur in 2013-2014. At present, the company operates four hospitals in Bengaluru located at Yeshwanthpur, Dasarahalli, Yelahanka and Hanumanthnagar with 275 operational beds. People Tree Hospitals have NABH certifications.

Key financial indicators (audited)

TMI Standalone	FY2023	FY2024*
Operating income	98.1	108.9
PAT	-3.7	-10.4
OPBDIT/OI	-0.7%	-3.0%
PAT/OI	-3.8%	-9.5%
Total outside liabilities/Tangible net worth (times)	-7.4	-4.1
Total debt/OPBDIT (times)	-90.1	-21.0
Interest coverage (times)	-0.3	-0.8

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Provisional*

Status of non-cooperation with previous CRA:

CRA	Rating	Release Date
CRISIL	CRISIL B+ (Stable) (ISSUER NOT COOPERATING)	June 24, 2024
BWR	BWR B/Stable (Continues to be in ISSUER NOT COOPERATING category/Downgraded)	March 19, 2024

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 31, 2024	April 19, 2023	-	-
1	**Long-term term loan**	Long-term	25.00	**[ICRA]B+ (Stable)**	**[ICRA]BB- (Stable)**	-	-
2	**Short-term fund based**	Short-term	25.00	**[ICRA]A4**	**[ICRA]A4**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term term loan	Simple
Short-term fund based	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	**Long-term term loan**	NA	NA	NA	25.00	**[ICRA]B+ (Stable)**
NA	**Short-term fund based**	NA	NA	NA	25.00	**[ICRA]A4**

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.

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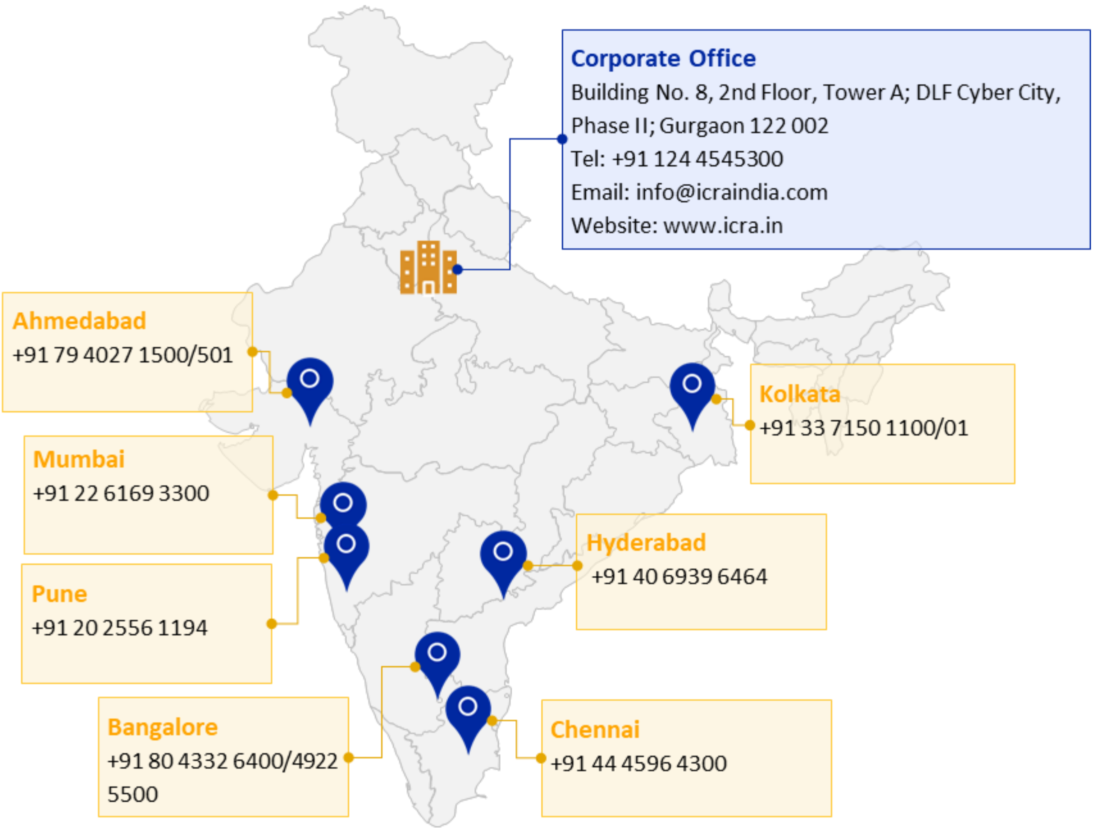

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