

September 11, 2024

Udayam Medical Centre (Trichy) Private Limited: Ratings Reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/term loan	2.01	2.01	[ICRA]BB- (Stable); reaffirmed
Long-term/Short-term- Unallocated	2.99	2.99	[ICRA]BB- (Stable)/[ICRA]A4; reaffirmed
Total	5.00	5.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for Udayam Medical Centre (Trichy) Private Limited (UMC) factors in the company's long-term lease agreement with Sri Kauvery Medical Care (SKMC) with a lock-in period for the entire tenure of the contract of 10 years ending in 2028. UMC has a long-term association with SKMC with both the entities sharing common promoters and directors. UMC has leased its property to SKMC for more than 16 years as of March 2024. The long-term lease provides healthy cash flow visibility, and the lease agreement has a rent escalation of 15% once in three years, with recent escalation done in April 2024. UMC's debt coverage metrics are estimated to be adequate. The ratings note the established presence and operational track record of the lessee (SKMC).

The ratings, however, remain constrained by the company's modest scale of operations, high tenant and asset concentration risks. Though the property remains fully occupied, it remains dependent on a single asset and tenant for its revenue. This makes UMC vulnerable to any probable delays in rent remittance or changes in the business plans of the tenant. However, the lock-in period in the lease agreement protects the company from this risk to an extent.

The Stable outlook on [ICRA]BB- rating reflects ICRA's expectations that UMC's debt coverage metrics and liquidity will remain adequate.

Key rating drivers and their description

Credit strengths

Stable rental income from long-term lease agreement – The company owns a single building in Tennur, Trichy, which is leased out to SKMC for running a multi-speciality hospital. The lease contract with SKMC has been effective for more than 15 years (the first lease agreement was signed in 2008 till 2018 and got renewed for an additional term of 10 years till 2028). The long-term lease provides healthy cash flow visibility. The lease agreement has a rent escalation of 15% once in three years, with recent escalation in April 2024. The debt coverage metrics are estimated to be adequate with five year average DSCR of 2.5-3.0 times during FY2025–FY2029.

Long association with SKMC – UMC has a long-term association with SKMC with both the entities sharing common promoters and directors. The company has leased its building to SKMC for running a 150-bed hospital for more than 14 years and the lessee (SKMC) primarily offers medical and healthcare services. It runs a chain of leading multi-speciality hospitals, with a 1,172-bed capacity across eight hospitals in Tamil Nadu, providing healthcare services under the Kauvery Group of hospitals.

Credit challenges

Modest scale of operations – The company has modest scale of operations as reflected in the revenue of Rs. 1 crore in FY2024, which is estimated to be Rs. 1.15 crore in FY2025 due to rent escalation of 15% in April 2024.

High tenant and asset concentration risks – The company's only property is leased to SKMC. Though the property remains fully occupied, it is exposed to high tenant concentration risk and remains dependent on a single asset and tenant for its revenue. This makes UMC vulnerable to any probable delays in rent remittance or changes in the business plans of the tenant. However, the lock-in period in the lease agreement protects the company from this risk to an extent.

Liquidity position: Adequate

The company has adequate liquidity, with unencumbered cash and bank balance of Rs. 0.4 crore as of March 2024. It has no capex plans and has debt repayment obligation of Rs. 0.3 crore per year in FY2025 and FY2026 which is estimated to be met through its cash flows from operations.

Rating sensitivities

Positive factors – ICRA could upgrade UMC's ratings, if there is an improvement in the revenues and earnings leading to an increase in the debt coverage metrics and liquidity position.

Negative factors – UMC's ratings could be downgraded, if the company faces a delay in receipt of rentals or high debt-funded capex, or delay in fund infusion from promoters, impacts its liquidity.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Realty - Lease Rental Discounting
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

The company was incorporated in 1997 with the objective of owning, managing, and administering diagnostic centres, nursing homes, clinics, dispensaries, hospitals, child welfare and family planning centres, clinical pathological testing laboratories, X-ray and ECG clinics in India and abroad. However, SKMC, a related entity with the same promoters, was established to run and manage multi-speciality hospitals. UMC owns a building (with built-up area of 20,500 sq. ft in G+4 floors) in Tennur, Trichy, which has been leased out to SKMC for running a hospital in its premises.

Key financial indicators (audited)

UMC	FY2023	FY2024
Operating income	1.0	1.0
PAT	0.2	0.7
OPBDIT/OI	90.8%	86.7%
PAT/OI	21.2%	69.5%
Total outside liabilities/Tangible net worth (times)	2.1	1.6
Total debt/OPBDIT (times)	4.3	4.2
Interest coverage (times)	4.6	5.0

Source: Company; ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;

Amounts 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 (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Sep 11, 2024	22-Sep-23	28-Jun-22	-
1 Fund-based/ term loan	Long-term	2.01	[ICRA] BB-(Stable)	[ICRA] BB-(Stable)	[ICRA] BB-(Stable)	-
2 Unallocated limits	Long- term/short- term	2.99	[ICRA] BB- (Stable)/[ICRA] A4	[ICRA] BB- (Stable)/[ICRA] A4	[ICRA] BB- (Stable)/[ICRA] A4	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loans	Simple
Unallocated Limits	NA

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	May 2017	11%	Sep 2023	0.35	[ICRA] BB- (Stable)
NA	Term loan-2	Nov 2019	10%	Aug 2030	0.94	[ICRA] BB- (Stable)
NA	Term loan-3	Nov 2021	10%	Nov 2028	0.72	[ICRA] BB- (Stable)
NA	Unallocated limits	-	-	-	2.99	[ICRA] BB- (Stable)/[ICRA] A4

Source: Company

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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