October 28, 2024

Sahrudaya Health Care Pvt. Ltd: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term -Interchangeable (sublimit)	(30.00)	(30.00)	[ICRA]BBB (Stable); reaffirmed
Short-term – Fund-based overdraft	120.00	203.00	[ICRA]A3+; reaffirmed and assigned for enhanced limits
Long-term unallocated limits	30.00	17.00	[ICRA]BBB (Stable); reaffirmed
Total	**150.00**	**220.00**	

Instrument details are provided in Annexure-I

Rationale

The ratings on the bank lines of Sahrudaya Health Care Pvt. Ltd. (SHPL) remain supported by its strong parentage of Medicover AB, a Sweden-based public limited liability company, which has extended periodical funds in the form of equity and long-tenor loans (external commercial borrowings (ECBs)). The Medicover Group increased its stake to 65.3% as of July 31, 2024, from 39.1% as of March 31, 2019, through equity infusion of ~Rs. 290.0 crore. This apart, the Group has extended ~Rs. 450-crore ECBs in the past five years to fund the expansion of bed capacity to 5,457 as of March 31, 2024, from 1,387 as of March 31, 2019. The principal repayments are due in CY2030 while the interest obligations on the ECBs are currently deferred till March 31, 2025. ICRA expects the parent group to continue to support SHPL towards funding its capacity expansions, meet its working capital requirements and other obligations. The ratings also factor in the company's diversified revenue profile with its top three specialities—cardiology, neurology, and orthopaedics—accounting for 40-45% of its total revenues, its healthy scale-up of operations and favourable long-term demand outlook for healthcare services, given the underlying fundamentals, including a growing population, increasing life expectancy, rising non-communicable lifestyle diseases, growing per-capita spend, increase in penetration of health insurance, and rise in medical tourism.

SHPL clocked a healthy revenue growth of 18.2% in FY2024, driven by increase in occupancy to 58% in FY2024 from 55% in FY2023 and bed addition. The company's bed capacity is expected to increase to 5,957 by end of FY2025 from 5,457 in FY2024 with addition of three new hospitals. Bed additions, coupled with expected improvement in occupancy, likely to increase revenue by 10-15% in FY2025. SHPL's operating margin improved to 12.6% in FY2024 from 11.5% of FY2023 owing to ramp-up of hospitals launched in the past two years. Expected improvement in the occupancy of existing hospitals is likely to support the company's margins in FY2025, despite the planned bed additions.

However, the ratings are constrained by the continued net losses and increase in debt levels, on account of incipient stage of operations of the newer hospitals amidst the sizeable capacity expansions in recent years, which impacted SHPL's net worth and resulted in modest debt protection metrics. SHPL's total debt (comprising lease liabilities, ECBs from parent and working capital loans) increased to Rs. 1,830.1 crore as of March 31, 2024, from Rs. 895.7 crore as of March 31, 2023. Timely ramp-up of operations of new units remains critical for improvement in the company's credit profile. The ratings also consider the inherent competition in the industry from organised and unorganised players across the cities. However, ICRA notes that the company has been able to retain key consultants and managerial personnel over the years, supporting its growth.

The Stable outlook on the rating reflects ICRA's opinion that SHPL will witness healthy growth in revenue and earnings with ramp-up of newly launched hospitals leading to improvement in debt coverage metrics. ICRA also expects that the company will continue to be supported by its parent.

Key rating drivers and their description

Credit strengths

Strong support from Medicover – SHPL has received regular financial support from its parent, the Medicover Group, who infused ~Rs. 290.0 crore in the last five and half years (Rs. 80 crore in H1 FY2025) and increased its stake in SHPL to 65.3% as of July 31, 2024, from 39.15% as of March 31, 2019. The Medicover Group has also supported SHPL through regular support in the form of long-term loans (Rs. 448.8 crore infused in the last five years), which supported its capex funding. ICRA also notes the operational synergies between SHPL and its parent group, given the same line of business and strategic importance of India to the Group's long-term growth plans. All hospitals under SHPL were rebranded to Medicover in FY2020. SHPL operates 23 hospitals in Telangana, Andhra Pradesh and Maharashtra with a total operational bed capacity of 5,457 as of March 31, 2024. The company has added two new hospitals in H1 FY2025 and planning to open another two new hospitals in Hyderabad in FY2026.

Scale-up of operations with diversification of geographic base – SHPL's revenues grew by 18.2% on a consolidated level, on the back of bed addition and improved occupancy. The company's operational beds increased to 5,457 as of March 31, 2024, from 4,378 as of June 30, 2023. The company diversified its geographic presence in the past few years from being a Hyderabad-focussed player it diversified to other districts of Telangana and expanded to Andhra Pradesh, Karnataka and Maharashtra.

Diversified revenue profile – The top two specialities of cardiology and neurology accounted for 34% of SHPL's in-patient revenues in FY2024. The company plans to further diversify its speciality mix by adding new departments like oncology to its existing and new hospitals.

Credit challenges

Expansion plans could impact profitability and strain cash flows – SHPL has been expanding over the past three years across Telangana, Andhra Pradesh, and Maharashtra, which impacted its profitability. Ramp-up of its hospitals launched in H1 FY2025, and performance in the past three years remain critical to improving its profitability and debt protection metrics. It also plans to launch four new hospitals in FY2025 and two new hospitals in FY2026, through a favourable funding mix and timely ramp-up of their operations remains monitorable.

Moderate financial risk profile – The financial profile of SHPL is moderate with high gearing, modest net worth and moderate coverage indicators owing to losses incurred by the hospitals launched in the past three years. However, ICRA notes that SHPL has refinanced its entire long-term debt from banks and NBFCs through loans from its parent group. These are longer tenure loans (10-year loans) with principal payments falling due only after 2030. Moreover, given the rapid expansion in the last two years and losses incurred by the newly launched hospitals during the initial phase, the company has entered into agreements with its parent to defer the quarterly interest payment on ECBs till March 2025. ICRA expects the parent group to support SHPL in meeting its debt obligations and funding expansion plans going forward as well.

Inherent competitive intensity in the industry – The company faces competition from other hospital chains and standalone hospitals in the existing and recently entered geographies. Footfalls at its hospitals would depend on the company's ability to attract and retain reputed consultants, which is a key challenge for the healthcare sector. However, ICRA notes that the company has been able to retain key consultants and managerial personnel over the years, supporting its growth.

Liquidity position: Adequate

SHPL's liquidity position is adequate with a buffer of ~Rs. 60 crore available in working capital limits as of March 31, 2024, along with cash and liquid investments of about Rs. 27.5 crore. The company does not have any repayment obligations towards loans from the parent entity in the next three years. However, it has lease obligations to be met from its cash flows. The company is expected to generate sufficient retained cash flows, which will support its lease obligations. It also has payments due towards deferred interest on ECBs from the parent group; however, ICRA expects support from the parent group in meeting the same. The company has capex plans, which would be funded through mix of term loans from parent and internal accruals. SHPL is expected to receive timely support from its parent, as and when required.

Rating sensitivities

Positive factors – ICRA may upgrade the company's ratings, if it demonstrates a continued ramp-up in operations, leading to healthy cash accruals on a sustained basis. Improving profitability and healthy coverage metrics will also support the ratings.

Negative factors – Pressure on SHPL's ratings may arise, if the scale-up of operations is materially lower, resulting in lower-than expected earnings and cash accruals. Any debt-funded capex impacting its liquidity or debt metrics materially could also trigger pressure on the ratings. Also, weakening of the credit profile/linkages of Medicover may result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Hospitals
Parent/Group support	The ratings consider support from its parent company, Medicover AB, which is part of the Swedish group, Medicover*.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of SHPL and its subsidiaries

Note: Support is from ultimate parent (Medicover AB) although shareholding is through a subsidiary (ABC Medicover Holdings BV). There are common board members and Medicover AB is, thus, directly involved*

About the company

SHPL, incorporated on January 25, 2011, provides tertiary healthcare services across various specialities, with primary focus on cardiology, orthopaedics, neurology, gynaecology and paediatrics, among others. It operates 23 hospitals across Telangana, Andhra Pradesh, Karnataka and Maharashtra with an operational bed capacity of 5,457 as of March 31, 2024. Medicover AB is a Swedish public limited liability company with its Class-B shares traded on NASDAQ, Stockholm. The Group started its operations in 1995 by providing healthcare facilities in Poland and expanded its presence to central and eastern Europe. In FY2017, it started investing in India. In FY2018, the company acquired minority stake of 34.2% in SHPL, which owned and operated hospitals under the brand name, MaxCure, in Hyderabad. The Medicover Group increased its stake in SHPL over the years to 65.3% as of July 31, 2024. Hospitals under SHPL were rebranded as 'Medicover' in FY2019.

Key financial indicators (audited)

SHPL (Consolidated)	FY2023	FY2024
Operating income	1354.2	1600.3
PAT	-104.1	-123.8
OPBDIT/OI	11.5%	12.6%
PAT/OI	-7.7%	-7.7%
Total outside liabilities/Tangible net worth (times)	11.9	2000.7
Total debt/OPBDIT (times)	10.2	9.1
Interest coverage (times)	1.1	1.1

Source: Company, ICRA Research; 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)	Oct 28, 2024	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					July 31, 2023	April 18, 2022	-
1	Overdraft	Short term	203.00	[ICRA]A3+	[ICRA]A3+	[ICRA]A2	-
2	Interchangeable	Long term	(30.00)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	-
3	Unallocated limits	Long term	17.00	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Interchangeable	Simple
Long Term – Unallocated	Not applicable
Short Term - Fund Based – Overdraft	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	**Overdraft**	NA	NA	NA	203.00	[ICRA]A3+
NA	**Interchangeable**	NA	NA	NA	(30.00)	[ICRA]BBB(Stable)
NA	**Unallocated**	NA	NA	NA	17.00	[ICRA]BBB(Stable)

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company name	Shareholding	Consolidation approach
Sahrudaya Health Care Pvt. Ltd.	100.0% (Rated Entity)	Full consolidation
Abhayanjaneya Healthcare Private Limited	84.9%	Full consolidation
Sahrudaya Health Care Karimnagar Private Limited	100.0%	Full consolidation
Sahrudaya Health Care Kurnool Private Limited	100.0%	Full consolidation
Niharika Hospitals Private Limited	100.0%	Full consolidation
Sahrudaya Healthcare (Mumbai) Private Limited	100.0%	Full consolidation
MOI Healthcare Private Limited	60.0%	Full consolidation
Sahrudaya Healthcare (Srikakulam) Private Limited	60.0%	Full consolidation
Suyosha Healthcare Private Limited	100.0%	Full consolidation

Source: SHPL

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About ICRA Limited:

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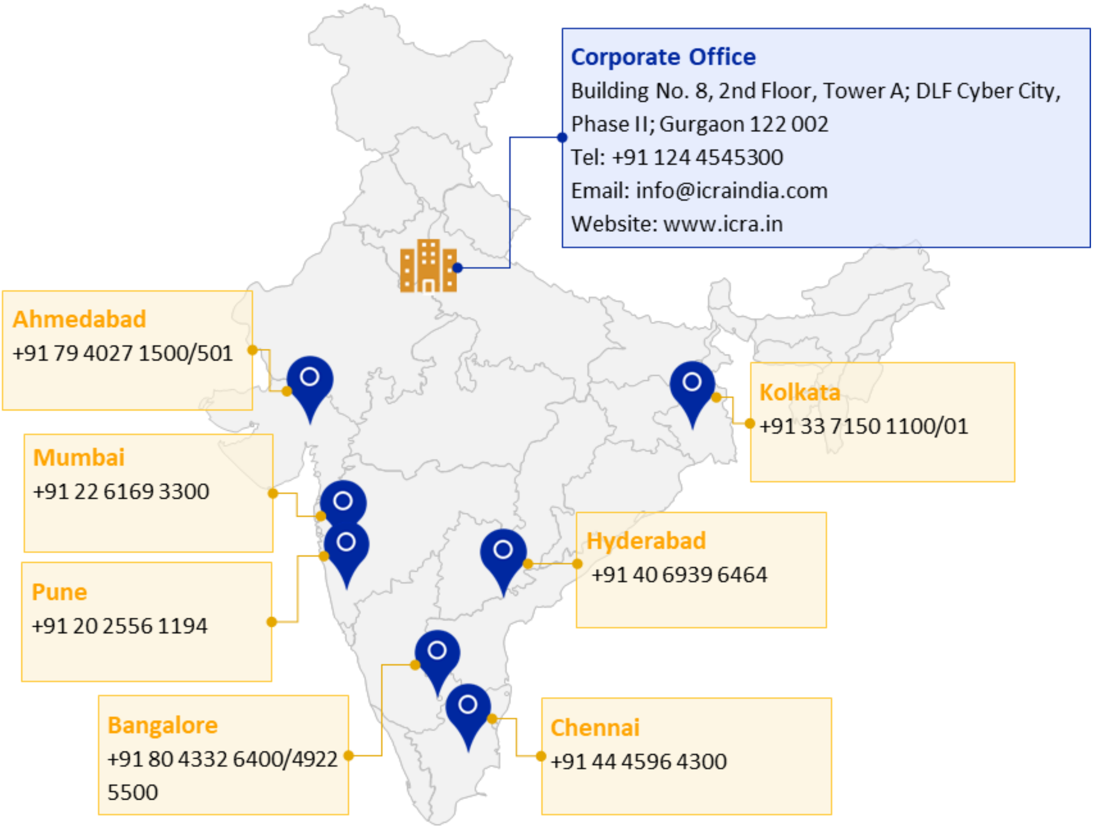

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