February 07, 2025

Sagar Services & Resources 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	98.50	98.50	[ICRA]BBB+ (CE)(Stable); reaffirmed
Long term – Fund based – Working capital limits – Cash credit	11.00	11.00	[ICRA]BBB+ (CE)(Stable); reaffirmed
Total	**109.50**	**109.50**	

Rating Without Explicit Credit Enhancement	[ICRA]BB+

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]BBB+(CE)(Stable) rating

The rating is based on the strength of the corporate guarantee and the addendum to the corporate guarantee (CG) provided by Sagar Manufacturers Private Limited (SMPL), the parent, for the rated term loan programme. The rating draws comfort from Sagar Services & Resources Private Limited's (SSRPL) strong parentage, as it is a subsidiary of SMPL with ratings outstanding of [ICRA]A- (Stable)/[ICRA]A2+ as on February 7, 2025. The Stable outlook on this rating reflects ICRA's outlook on the rating of the guarantor, SMPL.

The rating notes that the company has achieved project closure well before the deadline and without any cost or time overrun. The company made a soft launch in October 2023 and commenced full-fledged operations in January 2024. Besides, the company has achieved breakeven at the EBITDA level in FY2024, despite being the first year of operations. The company is expected to break even in the medium-to-long term.

Adequacy of credit enhancement

The rating of the instrument is based on the explicit credit enhancement approach. The guarantee, along with the addendum, is legally enforceable, irrevocable and unconditional, covers the entire amount and tenure of the rated instrument and has a well-defined invocation and payment mechanism. Given these attributes, the guarantee provided by SMPL is adequately strong enough to result in an enhancement in the rating of the said instrument to [ICRA]BBB+ (CE) against the rating of [ICRA]BB+ without the explicit credit enhancement. If the ratings of the guarantor change in the future, the same would be reflected in the rating of the aforesaid instrument as well. The rating of this instrument may also change if, in ICRA's assessment, there is a change in the strength of the business or financial linkages between the guarantor and the rated entity, or a change in the reputation sensitivity of the guarantor to a default by the rated entity, or even a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

- Company to explore 50% cash sweep over and above the cash accruals required for DSCR of 1.50 times for early repayment of term loan.
- Company shall keep the bank informed of the happening of any event likely to have a substantial effect on the profit or business
- Effect any change in the borrower's capital structure where the shareholding of the existing promoter(s) gets diluted below current level or leads to dilution in controlling stake for any reason (whichever is lower), post permission from the Bank

Key rating drivers and their description

Credit strengths

Strong parentage as a subsidiary of SMPL – The company is a subsidiary of SMPL, which is an established company involved in cotton and polycotton yarn spinning and knitting. Besides equity infusion for the hospital construction, SMPL is expected to extend financial support to SSRPL, if required.

Favourable location expected to support occupancies – The proposed hospital will be set up at an advantageous location and in proximity to the Bhopal railway station and city bus stand, which will support its occupancy rates.

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

Nascent stage of operations – ICRA notes the early stage of operations of SSRPL, which started in January 2024. Despite being operational for three months in FY2024, it reported revenues of Rs. 12.7 crore in FY2024 with an operating profit of ~Rs. 1 crore. While the company is expected to report a healthy YoY growth in revenues in the medium term, the profitability indicators are expected to remain muted till the company achieves economies of scale.

High debt levels – The company's debt levels are high, characterised by term loans of Rs. 98.0 crore, which was utilised for construction of the hospital and working capital borrowing of Rs. 3.8 crore as on March 31, 2024. Further, SMPL provided a support of Rs. 2 crore to meet the working capital requirements of the hospital. With steady scale-up of operations and timely debt repayment, the debt levels are likely to decrease, which would improve the debt coverage indicators in the medium-to-long term. This will remain a key monitorable.

Single asset concentration risk, recent venture in the healthcare industry – The company is dependent on the performance of a single hospital, leading to a significant asset concentration risk. Further, the promoter's lack of experience in the healthcare and hospital business exposes the company to operational risks.

Liquidity position: Adequate

For SMPL: Adequate

SMPL's liquidity position is **adequate** supported by healthy cash flow from operations and operationalisation of the hospital. Besides, the liquidity position is supported by long residual tenure of loans of seven years. SMPL's average utilisation of the sanctioned Rs. 260-crore working capital limits stood at 79% during August 2023 to November 2024. The company's sanctioned working capital limits have increased to Rs. 289 crore in January 2025 to meet the incremental working capital requirements with adequate buffer. The company plans to incur capex of ~Rs. 240 crore towards setting up finished fabrics unit in FY2025 and FY2026. The company has incurred Rs. 15 crore till December 2024 towards the capex. These projects would be funded by debt of ~Rs. 171 crore and the balance via internal accruals and equity contribution from the promoters. The cash generation from the business is likely to remain sufficient against debt repayments of Rs. 59.3 crore in FY2025 and Rs. 69.5 crore in FY2026. No further sizable capex is expected to be incurred towards hospital in the near-to-medium term.

For SSRPL: Stretched

The company commenced full-fledged commercial operations in January 2024. SSRPL's liquidity position is stretched, as reflected by its low cash and bank balances of Rs. 0.1 crore as on March 31, 2024. Against this, the company has a repayment obligation of Rs. 1.8-2 crore in FY2025. While the company does not have plans to incur any sizeable capex in the near-to-medium term, its modest scale of operations, near full utilisation of working capital limits and debt repayment obligations of Rs. 11-12 crore in FY2026 and FY2027 each are likely to put pressure on the liquidity position. ICRA, however, draws comfort from the need-based funding supported expected to be provided by SMPL.

Rating sensitivities

Positive factors: ICRA could upgrade the rating if there is an improvement in the overall credit profile of the guarantor, SMPL. Further, SSRPL's rating (without explicit credit enhancement) could be upgraded if there is a steady scale-up and sustained improvement in earnings, resulting in healthy credit metrics and liquidity position.

Negative factors: Weakening of the credit profile of the guarantor, SMPL, or weakening of financial linkages with the guarantor could lead to a rating downgrade. Also, pressure on SSRPL's rating (without explicit credit enhancement) could arise in case of delayed scale-up in operations, leading to a deterioration in credit metrics and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology of Hospitals
Parent/Group Support	The ratings are based on both explicit and implicit support (financial) from SMPL (parent)
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of SSRPL

About the company

Sagar Services & Resources Private Limited (SSRPL), a subsidiary of Sagar Manufacturing Pvt Ltd (SMPL), has set up a 300-bed super multi-specialty hospital on Hoshangabad Road in Bhopal. The hospital has started full-fledged operations in January 2024 and currently has 167 operational beds .

Key financial indicators (audited)

SSRPL Standalone	FY2023	FY2024
Operating income	-	12.7
PAT	-	-5.3
OPBDIT/OI	-	8.7%
PAT/OI	-	-41.8%
Total outside liabilities/Tangible net worth (times)	0.8	2.7
Total debt/OPBDIT (times)	-	94.3
Interest coverage (times)	-	0.3

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

Current rating (FY2025)				Chronology of rating history for the past 3 years					
				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Feb 07, 2025	Date	Rating	Date	Rating	Date	Rating
Term loan	Long-term	98.5	[ICRA]BBB+(CE) (Stable)	Dec-07-23	[ICRA]BBB+(CE) (Stable)	Jul-01-22	Provisional [ICRA]BBB+(CE) (Stable)	-	-
				Jan-29-24	[ICRA]BBB+(CE) (Stable)	Oct-07-22	[ICRA]BBB+(CE) (Stable)	-	-
Working capital	Long-term	11.0	[ICRA]BBB+(CE) (Stable)	Jan-29-24	[ICRA]BBB+(CE) (Stable)	-	-	-	-
Working capital	Long-term/ Short-term	-	-	-	-	Jul-01-22	Provisional [ICRA]BBB+(CE) (Stable)/ Provisional [ICRA]A2+(CE)	-	-
						Oct-07-22	Provisional [ICRA]BBB+(CE) (Stable)/ Provisional [ICRA]A2+(CE); withdrawn	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long term – Fund based – Working capital limits – Cash credit	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 analyzing 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, is available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**Term loan**	FY2023	8.5%	FY2033	98.50	[ICRA]BBB+(CE)(Stable)
NA	**Cash credit**	FY2024	10.45%	NA	11.00	[ICRA]BBB+(CE)(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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