

January 11, 2017

Abhi S.K. Hospital Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Long term: Fund Based Limits – Term Loan	6.32 (revised from 10.67)	Upgraded from [ICRA]B to [ICRA]B+ (Stable)
Long term: Unallocated	4.93 (enhanced from 0.58)	Upgraded from [ICRA]B to [ICRA]B+ (Stable)
Total	11.25	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has upgraded the long-term rating for the Rs. 6.32[^] crore term loans and the Rs. 4.93 crore unallocated long-term facilities of Abhi S.K. Hospital Private Limited (“ASKHPL”/ “the Company”) from [ICRA]B (pronounced ICRA B) to [ICRA]B+ (pronounced ICRA B plus). The outlook of the long-term rating is ‘Stable’.

Rationale

The rating revision takes into account the improved financial flexibility with improved gearing and debt-protection indicators aided by consistent debt repayment over the last two years. The rating further takes into consideration the robust increase in revenue over last two fiscals, following stabilisation of operations and regular in-patients admissions (IPD), and higher pharmacy income. The ratings continue to draw comfort from the considerable experience of the promoters of over four decades in healthcare business; their established reputation in Gobichettipalayam and Erode regions of Tamil Nadu. ICRA also takes cognisance of the limited availability of alternative multi-specialty healthcare infrastructure in the region and the strong technical capabilities backed by state-of-the-art equipments of the Hospital.

The ratings are however constrained by ASKHPL’s small scale of operations and vulnerability of profit margins to fluctuations in employee costs driven by higher variable component. The ratings continue to be constrained by the high revenue concentration risks inherent to a single location hospital. This apart, the company is exposed to inherent regulatory risk in healthcare industry as it is subjected to interventions by State & Central government and other regulatory councils. Going forward, the ability of the Company to enhance its scale without leveraging the capital structure and to maintain profitability will remain the key rating sensitivities

Key rating drivers

Credit Strengths

- Experience of the promoters in healthcare business and established reputation in Gobi –Erode region.
- Strong growth in operating income in the last two years due to healthy bed occupancy levels, IP admissions, and OP consultations
- Moderate financial profile characterised by improvement in coverage indicators and gearing levels due to positive accretion to reserves
- Superior technical capabilities backed by state-of-the-art equipment and experienced consultants
- The limited availability of alternative multi-specialty healthcare infrastructure in the region

[^] 100 lakh = 1 crore = 10 million

Credit Weakness

- Small scale of current operations although the business has witnessed consistent growth over the past few years
- High revenue concentration risks inherent to a single location hospital
- Volatile margins on account of fluctuating employee costs
- Inherent regulatory risk in healthcare industry as it is subjected to interventions by State & Central government and other relevant regulatory councils

Description of key rating drivers highlighted above:

ASKHPL's high reputation in the Erode region as an established healthcare provider coupled with robust growth in operations supported by higher in-patients admissions (IPD), and the associated pharmacy revenues generated over the last two years has resulted in healthy revenue growth. The reputation of the hospital and the superior technical capabilities of the doctors/ consultants backed by state-of-the-art equipment has further supported the growth of the company.

The healthy accretion to reserves over the past two fiscals aided in the improvement in the capital structure indicated by moderate gearing and debt-protection indicators. ICRA expects the revenues of ASKHPL to witness stable growth over the near to medium term, driven by the consistent increase in higher in-patients admissions and revenue per bed day.

The operating income of the company stood at Rs. 14.7 crore in FY2016 as against Rs. 12.2 crore in FY2015. ASKHPL generates around 36% of its revenues from the In-patients division, 36% from Pharmacy division and the remaining from Out-patient division and Lab division.

Links to applicable Criteria

Corporate Credit Rating –A Note on Methodology

<http://www.icra.in/Files/Articles/2009-October-Rating-Corp-Rating-Methodology.pdf>

Rating Methodology for Hospitals

<http://www.icra.in/Files/Articles/Hospitals-%20May%202016.pdf>

About the Company:

ASKHPL was promoted in December 2010 by Dr. Senthilnathan and his wife Dr. Suseela. The Company currently operates a 110 bed multi-specialty hospital. The hospital offers specialized treatment in Gynecology, Neurosurgery, Plastic surgery, Trauma care, Obstetrics, Neonatology, and General medicine, among others. The hospital has a 25-bed intensive care unit, including an 8 bed newborn intensive care unit, and 5 operation theatres. The hospital is well equipped with a digital X-ray unit, 3D ultrasound and Color Doppler Echo, fully automated computerized laboratory, and CT-scan. The Company has tie-ups with corporate, major insurance Companies, third party administrators (TPAs) and State and Central government agencies to offer cashless treatment.

ASKHPL reported a net profit of Rs.3.1 crore on an operating income of Rs. 14.7 crore in FY2016 as against a net profit of Rs. 12.2 crore on an operating income of Rs. 12.2 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 2 years	
		Type	Rated amount (Rs. crore)	Month-year & Rating FY2017	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				January 2017	November 2014	September 2013
1	Term Loans	Long Term	6.32	[ICRA]B+ (stable)	[ICRA]B	[ICRA]B
2	Unallocated	Long Term	4.93	[ICRA]B+ (Stable)	[ICRA]B	[ICRA]B

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Term Loan	FY2014	-	-	6.32	[ICRA]B+ (stable)
Unallocated	-	-	-	4.93	[ICRA]B+ (stable)

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