September 13, 2021

NU Hospitals Pvt Ltd: Ratings assigned

Summary of rating action

Instrument	Current Rated Amount (Rs. crore)	Rating Action
Long-term-Fund-based-Cash Credit	6.00	[ICRA]BBB (Stable); assigned
Long-term-Fund-based-Term Loan	25.06	[ICRA]BBB (Stable); assigned
Short-term- Non-Fund-based- Sublimit	(5.00)	[ICRA]A3+; assigned
Total	**31.06**	

**Instrument details are provided in Annexure-1*

Rationale

The assigned ratings favourably factor in NU Hospitals Pvt Ltd's (NHPL) established presence in Bangalore, especially in the nephrology and urology segments. The company has reputed doctors and consultants, whose established track record in the medical field strengthens its business prospects. The ratings also factor in the company's diverse patient revenue mix as 26-30% of its revenues are derived from the international operations and it also caters to the international patients in its Bangalore hospitals. Further, the ratings consider NHPL's strong financial profile, as indicated by healthy margins, comfortable capital structure and healthy debt protection metrics.

However, the ratings are constrained by the company's moderate scale of operations with revenues of Rs. 100.4 crore in FY2021. The ramp-up of the recently commenced hospitals, which witnessed low occupancy of less than 20% in FY2021 would remain important to drive the company's revenue growth. The occupancy at older hospitals has also been lower than the industry standards at 40-45%. However, the company gets significant outpatient revenues from the single days procedures such as dialysis limit the occupancy of NHPL to an extent. The ratings also consider high reliance on its Bangalore facilities, which contributed 62.3% to the operating income in FY2021. Further, ICRA notes that retention of doctors remains a key challenge considering an intense competition in the healthcare sector**.** ICRA also notes the regulatory risks for the sector wherein restrictive pricing regulations could constrain the profit margins.

The Stable outlook on the rating reflects ICRA's opinion that NHPL will continue to benefit from its established presence in Bangalore and will maintain a healthy financial profile and a comfortable liquidity position.

Key rating drivers and their description

Credit strengths

Reputed brand name and experience of promoters in healthcare industry – NHPL operates four super-speciality hospitals under the brand name of NU Hospital, which has an established presence in Bangalore. NHPL is promoted by a group of doctors, led by Dr. Prasanna Venkatesh, having a significant experience in the healthcare industry.

Diversified patient mix – The company has a diverse patient revenue mix as it derives 26-30% of its revenues from international operations and also it also caters to the international patients in its Banaglore hospitals, supporting the company's profitability. While the international footfalls in Bangalore hospitals have been impacted by the pandemic in FY2021, revenues from international operations continued to remain healthy.

Healthy financial profile – The company's financial profile is healthy, as indicated by a comfortable capital structure with a gearing of 0.6 times as on March 31, 2021, despite an increase in the total debt. NHPL's debt coverage metrics stood strong as reflected in an interest coverage of 6.3 times, DSCR of 2.9 times and NCA/total debt of 51.5% as on March 31, 2021. Also, the company's operating margins have been healthy in the range of 18.0%-22.0% in FY2017-FY2021. The operating margins are expected to remain healthy.

Credit challenges

Moderate scale of operations – The company has a moderate scale of operations with an operating income of Rs. 100.4 crore in FY2021. The company's occupancy declined to 28.0% in FY2021 from 38.0% in FY2020 because of lower international footfalls and deferment of elective procedures due to the Covid-19 pandemic. Moreover, ramp-up of recently commenced hospitals, which witnessed low occupancy of less than 20% in FY2021 would remain critical to drive the company's revenue growth. The occupancy at older hospitals has also been lower than the industry standards at 40-45%. However, the company gets significant outpatient revenues from the single days procedures such as dialysis limit the occupancy of NHPL to an extent. Despite a decline in occupancy in FY2021, the company's top line has remained stable, because of higher ARPOB and stable ALOS. With an expected improvement in occupancy with stablisation of the two newly commenced hospitals, a healthy revenue growth is expected in FY2022.

High exposure to the Bangalore facilities – The company has high reliance on its Bangalore facilities, which contributed 62.3% to the operating income in FY2021. Further, the top two specialties - nephrology (46.3% of FY2021 revenues) and urology (38.7%) – accounted for 85.0% of revenues in FY2021. However, NHPL is a super speciality tertiary hospital chain and offers several specialised services in these two specialities.

Retention of doctors to remain a key challenge – The company competes with various super-speciality and multi-speciality hospitals. Retention of doctors remains a key challenge due to intense competition. However, the niche position of the company's hospitals in nephrology and urology helps it stand out among the competition. Moreover, the company's hospitals abide by the regulations of various government agencies.

Liquidity position: Adequate

The company's liquidity position is adequate with a retained cash flow of ~Rs. 14.0-16.0 crore, cash and bank balances of Rs. 4.0-5.0 crore and unutilised working capital limits of ~Rs. 4.0 crore against term loan repayment obligation of Rs. 6.0 crore. The company does not have any major capex plans in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade NHPL's ratings if its scale improves with ramp up of the new hospitals while it maintains healthy margins and comfortable debt metrics.

Negative factors – Pressure on NHPL's ratings may arise if larger-than-anticipated debt-funded capex or a significant weakening of operational performance adversely impacts its accruals, debt metrics or liquidity profile. Specific credit metrics include DSCR below 1.6 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Not Applicable
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

NHPL, incorporated in 2006, operates four hospitals in India (Karnataka and Tamil Nadu) with total operational bed capacity of 159. It also offers services in the nephrology, urology and oncology departments in an international hospital. NU Hospitals has accreditations of NABH, NABL, NABH Nursing Excellence Accredited, FEQH and ISAR.

Key financial indicators

Standalone	FY2020	FY2021
Operating Income (Rs. crore)	102.0	100.4
PAT (Rs. crore)	11.4	3.7
OPBDIT/OI (%)	21.9%	18.0%
PAT/OI (%)	11.2%	3.7%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.5
Total Debt/OPBDIT (times)	0.8	1.4
Interest Coverage (times)	12.6	6.3

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company; FY2021 financials are provisional

Status of non-cooperation with previous CRA: Brickwork Ratings, in its rationale published on NU Hospitals Pvt Ltd dated August 30, 2021, revised the ratings to BWR BBB-/Stable and migrated to Issuer not cooperating category based on best available information.

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of August 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					September 13, 2021	-	-	-
1	Fund based-Cash Credit	Long Term	6.00	-	[ICRA]BBB (Stable)	-	-	-
2	Fund based- Term Loan	Long Term	25.06	18.38	[ICRA]BBB (Stable)	-	-	-
3	Non-Fund based-Sublimit	Short-Term	(5.00)	-	[ICRA]A3+	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long-term- Cash Credit	Simple
Long-term -Term Loan	Simple
Short-term- Sub limit	Very 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	6.00	[ICRA]BBB (Stable)
NA	Term Loan	April 2016	-	November 2024	25.06	[ICRA]BBB (Stable)
NA	Non-fund-based facility – Sub-limit	-	-	-	(5.00)	[ICRA]A3+

Source: *Company*

Annexure-2: 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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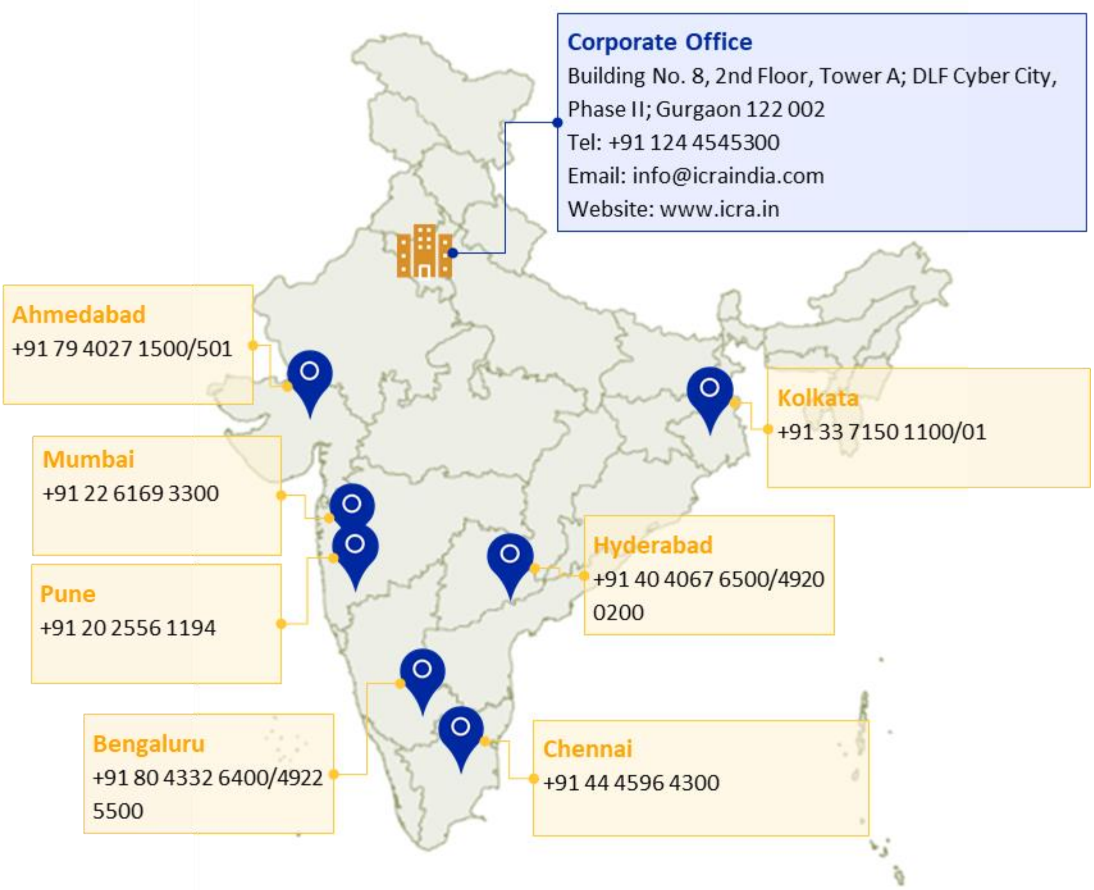

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