

June 13, 2022

Gem Hospital & Research Centre Private Limited: [ICRA]BBB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Proposed Term Loans	50.00	[ICRA]BBB(Stable); assigned
Total	50.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned rating favourably factors in established presence of Gem Hospital & Research Centre Private Limited (Gem Hospitals/ the company) in Coimbatore, especially in the field of gastroenterology, reputed profile of promoter, doctors and consultants, whose established track record in the medical field supports footfalls in the hospitals and strengthens its business prospects. The rating also factors in the improving scale of operations with the ramping-up of operations in its Chennai Hospital, Gem Hospitals' strong financial profile, as reflected 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. 133.9 crore in 11M FY2022. Nevertheless, the ramp-up of the Chennai hospital, which has an occupancy of 25-35% would be important to drive the company's revenue growth. The occupancy at its flagship hospital in Coimbatore is high at 65-75%. The ratings also consider high therapeutic segment concentration as gastroenterology accounts for most of its revenues and high reliance on its Coimbatore Hospital, which contributed 61% to the operating income in 9M FY2022. 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 Gem Hospitals will continue to benefit from its established presence in Coimbatore 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 – Gem Hospital & Research Centre Private Limited operates four super-speciality hospitals under the brand name of 'Gem Hospitals', which has an established presence in Coimbatore and surrounding regions. Gem Hospitals is promoted by Dr. C. Palanivelu who has a significant experience in the healthcare industry.

Comfortable financial profile – The company's financial profile is comfortable, as indicated by a comfortable capital structure with a gearing of 0.8 times as on February 28, 2022 (provisional financials). Gem Hospitals' debt coverage remain strong as reflected in an interest coverage of 11.5 times, DSCR of 2.1 times and NCA/total debt of 61.9% as on February 28, 2022 (provisional financials). Also, the company's operating margins have improved from 26.0% in FY2021 to 32.7% in 11M FY2022 on the back of significant increase in scale of operations leading to better operating leverage and better case-mix (higher proportion of complex procedures). Ramping-up of operations in the Chennai Hospital is expected to help in sustaining revenues levels in FY2023, in the likely absence of covid-19 admissions.

Stable long-term demand outlook - While revenues in FY2021 were impacted by the pandemic, the same has improved since Q2 FY2021. Over the medium to long term, demand is expected to be stable supported by better affordability, widening medical insurance coverage, growing awareness and under-penetration of healthcare services is expected to benefit the company and the broader industry.

Credit challenges

Moderate scale of operations – The company has a moderate scale of operations with an operating income of Rs. 133.9 crore in 11M FY2022, despite the strong growth witnessed during the year. The company nearly doubled its operating capacity with the inception of the hospital in Chennai. This facility added 200 beds to the existing capacity of 220 beds (consolidated basis) from FY2020 onwards. The company is incurring capex for installing a radiotherapy unit in the basement of its Chennai Hospital. The Chennai hospital has also established several specialities such as cardiology, radiation oncology, to name a few, in FY2022, that is expected to help in ramping-up its operations, going forward. These actions are expected to help in sustaining revenues levels in FY2023, in the likely absence of covid-19 admissions. Margins are expected to be healthy at 25-30% supported by sustained scale of operations.

Concentration related risks – The company has high reliance on Coimbatore market, which contributed around 61% to the operating income in 9M FY2022. Further, gastroenterology accounts for most of the company's revenues. While Gem Hospitals is a super speciality tertiary hospital chain and offers several specialised services in the field of gastroenterology, its ability to diversify its service offerings and geographical spread is a key monitorable.

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 gastroenterology helps it stand out among the competition. Moreover, the company's hospitals abide by the regulations of various government agencies.

Liquidity position: Adequate

The liquidity position of the company is adequate as indicated by Rs. 20.1 crore of cash and liquid investments as on March 31, 2022 and estimated annual retained cash flows of ~Rs. 20 crore as against the debt repayment obligation of ~Rs. 15 crore per annum in FY2023 and FY2024.

Rating sensitivities

Positive factors – ICRA may upgrade Gem Hospitals' rating if there is a significant increase in its scale of operations and earnings while maintaining comfortable debt metrics, supported by ramp-up of operations in the Chennai Hospital and diversification of its revenue profile.

Negative factors – The rating may witness a downward pressure if there is a large debt-funded capex or if there is a material decline in operational performance resulting in Total Debt/OBITDA > 2.5x 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

Gem Hospital & Research Centre Private Limited (Gem Hospitals/the company) was initially started as Coimbatore Institute of Gastrointestinal Endo-Surgery (CIGES) in the year 1991. Gem Hospitals, Coimbatore was established in the year 2001 and currently has an operating track record of over two decades. Gem Hospitals established smaller hospitals in Tirupur and Erode in 2013 and 2015, respectively. Both these hospitals have an operating capacity of 30 beds. The company nearly doubled its operating capacity with the inception of the hospital in Chennai. This facility added 200 beds to the existing capacity of 220 beds (consolidated basis) from FY2020 onwards. The company is completely held by Dr. C. Palanivelu (Founder and Promoter) and his family.

During 11M FY2022, on a provisional basis, the company reported a net profit of Rs. 24.9 crore on an operating income of Rs. 133.9 crore as against the net profit of Rs. 7.9 crore on an operating income of Rs. 93.2 crore, during FY2021.

Key financial indicators (audited)

	FY2020	FY2021	11M FY2022*
Operating Income (Rs. crore)	91.1	93.2	133.9
PAT (Rs. crore)	-7.5	7.9	24.9
OPBDIT/OI (%)	11.5%	26.0%	32.7%
PAT/OI (%)	-8.2%	8.5%	18.6%
Total Outside Liabilities/Tangible Net Worth (times)	3.0	2.5	1.2
Total Debt/OPBDIT (times)	7.9	3.3	1.2
Interest Coverage (times)	1.8	4.5	11.5

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *provisional financials

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2022 (Rs. crore)	Date & Rating	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 13, 2022	-	-	-
1	Proposed Term Loans	Long Term	50.00	-	[ICRA]BBB(Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Proposed Term Loans	Not Applicable

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: 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	Proposed Term Loans	NA	NA	NA	50.00	[ICRA]BBB(Stable)

Source: Company

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

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NA	NA	NA

Source: Company

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