

August 12, 2022

Unimed Health Care Pvt. Ltd.: 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	7.50	7.50	[ICRA]A-(Stable) reaffirmed
Long-term Fund-based – Cash credit	2.00	2.00	[ICRA]A-(Stable) reaffirmed
Short term Fund-based	12.00	12.00	[ICRA]A2+ reaffirmed
Long term – unallocated	8.50	8.50	[ICRA]A-(Stable) reaffirmed
Total	30.00	30.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings consider the long track record of Unimed Health Care Pvt. Ltd. (UHCPL) in the healthcare industry, the reputed brand of 'Star Hospital' (UHCPL's hospitals' brand name) in Hyderabad, especially in the cardiac sciences segment, and a healthy growth in revenues from other segments including nephrology, nephrology, and pulmonology, etc., over the past few years. The hospital's occupancy, which was significantly impacted by the Covid-19 pandemic in FY2021, recovered to 50% in FY2022 as elective surgeries picked from Q2 FY2022. The company's average revenue per occupied bed day (ARPOB) continues to remain healthy after witnessing strong growth in FY2021 with favourable patient and procedure mix. Improved occupancy and healthy ARPOB resulted in strong revenue growth of 34.5% in FY2022. ICRA expects the company to record healthy occupancy at the existing hospital, supporting revenue growth in FY2023. The financial profile of Unimed Health Care Pvt. Ltd. (UHCPL) remained strong with comfortable coverage metrics owing to healthy operating margins and low debt levels. While UHCPL's debt metrics are expected to moderate to an extent in FY2023 given the debt-funded capex, they are expected to remain comfortable. The ratings continue to derive strength from UHCPL's experienced promoters, reputed doctors and consultants, whose established track record in the medical field strengthens its business prospects.

The ratings, however, remain constrained by the company's moderate scale with bed capacity of 310 and consolidated operating income of Rs. 343.4 crore in FY2022. Nevertheless, UHCPL is adding a new 400-bed hospital in Hyderabad at an estimated capex of ~Rs. 250 crore, which would support its revenue growth over the medium term. The hospital is expected to start operations from Q4 FY2023 and would be fully operational by Q1 FY2024. The capex would be funded through existing cash balances and debt. Timely completion of the capex within the budgeted cost and successful ramp-up of operations would be key monitorable. The ratings consider UHCPL's high geographical concentration in Hyderabad, and intense competition in the region from several reputed hospitals. The company operates a 67-bed hospital in Vishakhapatnam through its subsidiary, Star Pinnacle Health Centre Private Limited (SPHCPL). SPHCPL incurred operating losses in FY2021 and net losses in FY2022 as the pandemic impacted bed occupancy levels; however, its performance is expected to improve in FY2023.

The Stable outlook on the [ICRA]A- rating reflects ICRA's opinion that the company's financial profile will remain comfortable with healthy occupancy and ARPOB at the existing hospital and gradual ramp up in operations at its new hospital from FY2024.

Key rating drivers and their description

Credit strengths

Reputed brand and experience of promoters in healthcare industry – UHCPL operates a 310-bed multi-speciality hospital under the brand, Star Hospital, which has an established presence in Hyderabad. UHCPL is promoted by a group of doctors and entrepreneurs, led by Dr. Gopichand Mannam, with a significant experience in the healthcare industry. The company also operates a 67-bed hospital in Visakhapatnam (Andhra Pradesh) through its subsidiary, Star Pinnacle Health Centre Private Limited (SPHCPL).

Consistent year-on-year increase in scale of operations and improved financial profile – The company's revenue grew by CAGR of 9.3% in the last five years to Rs.343.4 crore in FY2022 from Rs. 220.1 crore in FY2018. Along with improvement in revenue, the profitability also improved leading to healthy accretion to reserves. This improved the capital structure as well, as indicated with a gearing of 0.1 time as on March 31, 2022. With higher margins, the coverage indicators were also healthy as indicated by Total debt/ OPBITDA of 0.2 time (against 0.3 time in FY2021) and an interest coverage of 38.8 times (against 23.8 times in FY2021) in FY2022.

Credit challenges

Moderate scale of operations – The company has a moderate scale with a 310-bed hospital in Hyderabad and a 67-bed heart centre in Visakhapatnam, leading to a consolidated operating income of Rs. 343.1 crore in FY2022. However, the scale of operations is expected to improve significantly over the medium term as the company commences its new 400-bed hospital in Hyderabad.

Sizeable debt-funded capex plans over next 12 months; timely and successful ramp-up of new hospital critical - The addition of the new hospital in Hyderabad will increase the company's overall bed capacity to 710 from 310. The new hospital is expected to commence operations from FY2023 in a phased manner and will be fully operational from Q1 FY2024. The total estimated cost of the capex is Rs. 250 crore, to be funded by debt of ~Rs. 150-170 crore and existing cash balance (Rs. 104.2 crore as on March 31, 2022). ICRA expects the company's margins to moderate over the next two years on account of losses incurred by the new hospital during the initial stages of operations. Lower margins and higher debt may moderate the capital structure and coverage indicators from FY2022 levels. However, debt metrics are still likely to remain comfortable and improve gradually. Timely completion of the capex within the budgeted cost and successful ramp-up of operations would be key monitorable.

High geographical concentration risk and intense competition in the region – The company faces high geographical concentration risk in Hyderabad and intense competition from several reputed hospitals in the region. UHCPL's ability to retain key consultants and doctors and improve its operating metrics, considering the intense competition, is critical. However, several key consultants are shareholders in UHCPL, mitigating the attrition risk to an extent. Its subsidiary, SPHCPL, incurred operating losses in FY2021 and net losses in FY2022 owing to the pandemic impact. However, the company's performance is expected to improve in FY2023.

Liquidity position: Adequate

The company's liquidity position is **adequate** with free cash and liquid investments of ~Rs. 94.2 crore as on May 31, 2022, and undrawn working capital limits of ~Rs. 14 crores as on May 31, 2022, against repayment obligations of Rs. 1.5 crore in the next 12 months. Moreover, the company's retained cash flows are expected to be healthy at Rs. 25-30 crore. The company would undertake capex of about Rs. 240-250 crore in FY2023 to be funded by its liquid cash and external debt. Debt towards the capex is yet to be tied-up.

Rating sensitivities

Positive factors – ICRA could upgrade UHCPL's ratings if it improves its scale of operations while maintaining its profitability. Timely completion of the capex within the budgeted cost and successful ramp-up of operations would also be key monitorables.

Negative factors – Pressure on the ratings could arise if any material decline in revenues or margins impact UHCPL's financial profile or if any stretch in receivables cycle weakens its liquidity position. Higher-than-expected capex or delay in the ramp-up of the new unit's operations, impacting the company's debt protection metrics, could also lead to a rating downgrade. Specific credit metrics that may lead to ratings downgrade include TD/OPBITDA of more than 2.0 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	For arriving at the ratings, ICRA has considered the consolidated financials of UHCPL and its subsidiary, SPHCPL.

About the company

Promoted by a group of doctors and entrepreneurs led by Dr. Gopichand Mannam, UHCPL owns and operates a 310-bed tertiary care hospital, Star Hospital, at Banjara Hills in Hyderabad. The hospital was launched with 130 beds in September 2008 and expanded its capacity in FY2015 and FY2016. The promoter, Dr. Gopichand Mannam, is a renowned cardiothoracic surgeon, who has been practising in Hyderabad since 1994. The promoter group also includes Dr. Nagarjuna Reddy Ponugoti, Dr. Ramesh Gudapati, and Mr. P. Jairaj Kumar.

UHCPL entered a 70:30 joint venture with Pinnacle Hospitals India Private Limited to incorporate Star Pinnacle Heart Centre Private Limited (SPHCPL). It offers cardiac services in Visakhapatnam and commenced operations with 67 beds from May 2016.

Key financial indicators

UHCPL Consolidated	FY2021	FY2022*
Operating income	255.1	343.1
PAT	36.5	55.0
OPBDIT/OI	23.3%	24.1%
PAT/OI	14.3%	16.0%
Total outside liabilities/Tangible net worth (times)	0.7	0.6
Total debt/OPBDIT (times)	0.3	0.2
Interest coverage (times)	23.8	38.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation.

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount o/s as of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	FY2022	FY2021	FY2020
				Aug 12, 2022	Jul 08, 2021	Jun 18, 2020	Apr 29, 2019
1 Term loans	Long term	7.5	1.6	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)
2 Cash credit	Long term	2.0	--	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)
3 Unallocated	Long term	8.5	--	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB(Stable)
4 Overdraft	Short term	12.0	--	[ICRA]A2+	[ICRA]A2+	[ICRA]A2	[ICRA]A2

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/Term Loan	Simple
Long-term – Fund-based/Cash credit	Simple
Short term – Fund based	Very simple

Long term – unallocated

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 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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	2017	NA	2025	7.5	[ICRA]A-(Stable)
NA	Cash credit	NA	NA	NA	2.0	[ICRA]A-(Stable)
NA	Unallocated	NA	NA	NA	8.5	[ICRA]A-(Stable)
NA	Fund based	NA	NA	NA	12.0	[ICRA]A2+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	UHCPL Ownership	Consolidation Approach
Unimed Health Care Pvt. Ltd.	100.00% (rated entity)	Full Consolidation
Star Pinnacle Heart Centre Private Limited	70%	Full Consolidation

Source: UHCPL annual report

Note: ICRA has taken a consolidated view of the parent (UHCPL) and its subsidiary

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