November 28, 2022

Sanco Foundation: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term – Term Loan	249.22	290.00	Reaffirmed at [ICRA]BB+(Stable)
Long Term – Unallocated	50.78	10.00	Reaffirmed at [ICRA]BB+(Stable)
Total	**300.00**	**300.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on the bank lines of Sanco Foundation (Sanco) considers the strong promoter commitment, favourable location of the hospital (Naruvi) at Vellore, Tamil Nadu, and healthy long-term demand for healthcare industry. The hospital commenced its operations in March 2021 and was expected to scale up its operations post Covid-19 pandemic given the strong demand pull in Vellore market. There has been a slower than expected ramp-up in its operations due to delayed pick-up of elective surgeries leading to cash losses in FY2022. However, the cash losses and debt servicing needs has been met by timely infusion of funds by the promoter and ECLGS loans from banks. ICRA expects the promoter support to continue going forward until the hospital generates optimal occupancy rates and achieves cash break-even. The rating remains supported by favourable demand outlook for healthcare services amidst factors like improving affordability through increasing per capita income, widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services. The trust also benefits from the operational and technical tie-up with M/s. Henry Ford Health System (HFHS), which offers brand equity for the hospital.

Given the slow scale up, the occupancy rates were sub-optimal till July 2022, although the same is seen improving in the recent months. The hospital is targeted at patients from both within and outside states for elective surgeries. The pandemic resulted in deferment of procedures with consequent impact on the occupancy scale up and lower-than-expected revenue growth; however, the footfalls are expected to pick-up pace with the easing of travel restrictions. Lower revenues coupled with high fixed costs (salaries, interest, etc) resulted in operational losses and stretched liquidity position in FY2022. While occupancy levels have improved over the last few months, the trust's ability to further scale up and improve its earnings and cash flows are a key credit monitorable. The rating also considers the single asset concentration risk with revenues dependent on a single hospital. The hospital is also exposed to competition risk from established hospitals like Christian Medical College (CMC), Vellore, though the same is mitigated by capacity constraints amid high demand for beds in Vellore.

The Stable outlook on the rating reflects ICRA's expectation that the credit profile will be supported by occupancy and profitability scale up driven by the well-connected location, strong infrastructure, and healthy demand.

Key rating drivers and their description

Credit strengths

Favourable location of hospital and healthy prospects for healthcare industry to support demand growth - The hospital is located in Vellore, which is one of the medical hotspots of South India. Vellore is situated between Chennai and Bengaluru. It is well-connected to both these cities by road and rail. The hospital proposes to capitalise on the high waiting times at CMC, Vellore, which is located ~3 kms away to scale up its occupancy levels. ICRA notes the favourable long-term demand outlook for healthcare services due to factors such as improving affordability through increasing per capita income, widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services.

Operational and technical support from HFHS - The trust has executed a memorandum of understanding (MoU) with HFHS, USA, a hospital chain in the US for providing technical support, as well as guidance for operations of the hospital. Under this extensive agreement, the hospital enjoys all the best practices relating to clinical and operational processes. This also establishes strong brand equity for the hospital.

Funding support by the promoter -The rating draws support from the favourable mix of 1:1 debt to promoter funding ratio. Incrementally, the promoter has infused funds in a timely manner to support the operational and debt servicing requirements of the trust. Total funds infused in the form of corpus and promoter debts amounted to ~Rs. 380 crore as on September 30, 2022. Further funding of ~Rs. 27 crore is anticipated in H2 FY2023. ICRA expects the promoter to continue to support the operations of the trust going forward until the hospital achieves cash break-even.

Credit challenges

Low occupancy in the nascent stage of operations impacting the company's profitability – Sanco generated revenue of Rs. 99.4 crore in FY2022 at an OPBITDA loss of Rs. 36 crore. The hospital is targeted at patients looking to perform elective surgeries. However, the pandemic resulted in many of these prospective patients deferring these procedures which impacted occupancy scale up. This resulted in lower-than-expected revenue growth which combined with high fixed costs (salaries, interest, etc) led to operational losses and stretched liquidity position in FY2022. While occupancy levels have improved over the last few months, the trust's ability to further scale up and improve its earnings and cash flows are a key monitorable.

Single asset concentration risk – The trust's entire revenues remain dependent on a single hospital, exposing its earnings and cash flows to concentration risks.

Stiff competition from hospitals in the vicinity – The hospital faces intense competition risk from established hospitals like CMC, Vellore. However, this is mitigated by capacity constraints amid high demand for beds in Vellore.

Liquidity position: Stretched

Trust has repayments due of Rs. 17 crore from November 2022-March 2023 and Rs. 41.4 crore in FY2024, with minimal capex plans. With retained cash flows expected to be negative in FY2023, trust is reliant on significant funding from promoters to meet its interest and principal repayments.

Rating sensitivities

Positive factors – The rating could be upgraded if there is steady ramp-up of operations (improvement in occupancy rates), leading to an expansion in scale. Additionally, DSCR higher than 1.2 times, on a sustained basis, may trigger a rating upgrade.

Negative factors – The rating could be downgraded if subdued demand results in low occupancy rates on a sustained basis leading to low profitability and weak debt metrics. Further, ratings could be downgraded if promoter does not infuse funds as required in a timely manner impacting the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on the trust's standalone financial profile

About the company

Sanco Foundation has developed 416-bedded (350 operational beds) multi-speciality hospital at Vellore, Tamil Nadu under the brand Naruvi Hospitals at project cost of Rs. 488 crore with a funding mix of Rs. 249 crore from term loans and Rs. 239 crore from the promoter.

Key financial indicators (audited)

Sanco (Standalone)	FY2021	FY2022 Prov
Operating income	8.1	99.4
PAT	-40.7	-77.1
OPBDIT/OI	-512.8%	-36.6%
PAT/OI	-500.2%	-77.5%
Total outside liabilities/Tangible net worth (times)	1.3	2.3
Adjusted debt/OPBDIT (times)	-5.6	-9.5
Interest coverage (times)	NM	-0.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; ratios based on ICRA calculations; NM: Not meaningful

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 Oct 31, 2022 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020
					Nov 28, 2022	Sep 16, 2021	30-Oct-2020	17-Jul-2019
1	Term Loan	Long-term	290.00	290.00	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)
2	Unallocated	Long-term	10.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Long term unallocated	NA

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: Click Here

Annexure I: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan 1	FY2022	NA	FY2034	240.00	[ICRA]BB+(Stable)
NA	Term Loan 2	FY2022	NA	FY2030	50.00	[ICRA]BB+(Stable)
NA	Long – Term Unallocated	NA	NA	NA	10.00	[ICRA]BB+(Stable)

Source: *Company*

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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About ICRA Limited:

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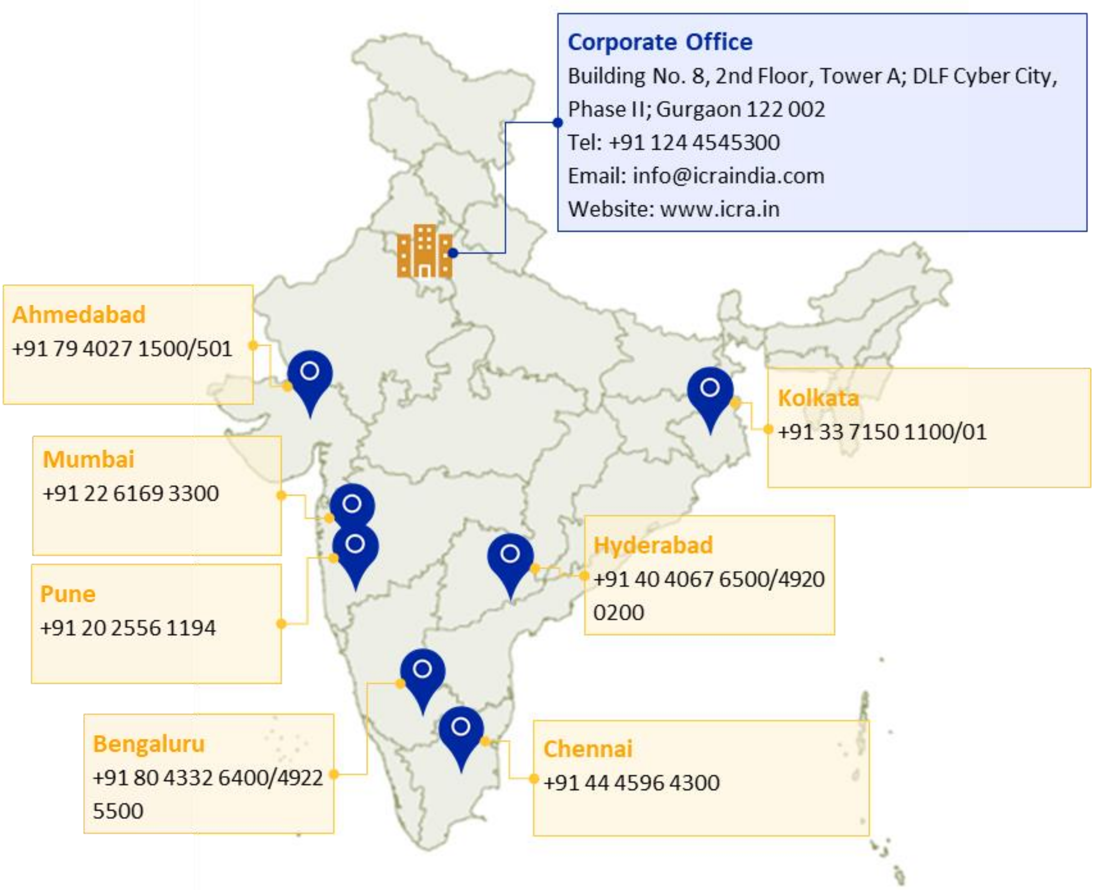

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