April 19, 2023

TMI Healthcare Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term term loan	17.70	[ICRA]BB-(Stable); assigned
Short-term fund based	32.30	[ICRA]A4; assigned
Total	**50.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings assigned to TMI Healthcare Private Limited (TMI/ the company) favourably factor in its promoters' extensive experience in the healthcare industry. ICRA notes the equity infusion of Rs. 25 crore received by the company in FY2022 from Prathithi Investment Trust and the resultant improvement in net worth position of the company. TMI is expected to post healthy revenue growth of 25-30% in FY2023 with sequentially lower cash losses over FY2022.

However, the ratings are constrained by the modest scale of operations, weak profitability margins and debt metrics over the last few years. While some improvement has been witnessed in operating margins in the recent past on the back of increasing scale of operations, in addition to increasing focus on complex specialities and surgical procedures, sustenance of the same remains to be seen. TMI also faces stiff competition from the other established multi-speciality hospitals in the region. The rating also considers the high geographic concentration risk with all the hospitals being in Bangalore. ICRA also notes that TMI had delayed payment of statutory dues in the past.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to benefit from the extensive experience of its promoters, and proven track record of the hospital.

Key rating drivers and their description

Credit strengths

Extensive promoter experience – TMI operates a multi-speciality hospital in Bangalore, promoted jointly by Dr. Upendra and Dr. Jothi who have vast experience in the healthcare sector. TMI currently operates four hospitals with a total of 275 operational beds and offers services across various specialities.

Sizeable equity infusion in FY2022 – The company received sizeable equity infusion of Rs. 25 crore from Prathithi Investment Trust in FY2022. This resulted in improved net worth position for the company. Further, the company also utilised part of the proceeds to pare down its debt as well as towards increasing its focus on new specialists, such as neurosurgery, to support its growth prospects. This has resulted in improvement in TMI's operating margins to a certain extent in the recent months. Going forward, sustenance of improved margins will be a key monitorable for the company.

Credit challenges

Moderate scale of operations and weak financial profile – TMI's scale of operations remains moderate with ~275 operational beds and an OI of Rs. 72.9 crore in FY2022 and 25-30% revenue growth expected in FY2023. Given the moderate scale of operations and relatively low occupancy and ARPOB levels, the company has incurred cash losses in the past. While some improvement in occupancy, ARPOB and operating profit margins have been witnessed in 9M FY2023, sustenance of the same remains to be seen. That said, cash and net losses are expected to continue in FY2023. Despite equity infusion in FY2022, the company's debt metrics continue to remain constrained given the weak profitability metrics. Going forward, healthy growth in scale and further improvement in operating margins remains crucial for improvement in the company's debt metrics.

Limited Geographical presence – The hospital is exposed to geographical concentration risk as all the four hospitals operated by the company are located in Bengaluru. The risk is accentuated further by competition from other hospitals in the nearby areas.

Competitive pressure from other players in the market – The company faces stiff competition from other multi-speciality hospitals in the region. Further, it also remains exposed to regulatory risks and challenges, as prevalent in the sector.

Liquidity position: Stretched

TMI's liquidity position is stretched as reflected by its low cash and bank balances of Rs. 0.6 crore as on September 30, 2022. Further, the company is expected to incur cash and net losses in FY2023. The buffer in the form of undrawn working capital limits also continues to be limited. While the company has incurred ~Rs. 11 crore of capex in FY2023, the capex expected to be incurred in FY2024 is upwards of Rs. 20 crore and TMI is expected to remain dependent on additional debt to partially fund the same.

Rating sensitivities

Positive factors – The ratings may be upgraded if there is sizeable improvement in the company's scale of operations along with the improvement in profit margins and debt protection metrics on a sustained basis. Specific metric that could lead to a rating upgrade includes DSCR of more than 1.2 times on a sustained basis.

Negative factors – Negative pressure on the ratings could arise if there is any deterioration in margins and/or debt-funded capex or acquisitions leading to deterioration in the company's debt metrics or liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology ICRA's Rating Methodology for Hospitals
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are based on the consolidated financials of TMI.

About the company

Incorporated in June 2011, TMI Healthcare Private Limited operates four hospitals under the name, 'People Tree Hospitals', in Bangalore. Currently, the company operates a total of 275 beds. TMI has received NABH accreditation.

Key financial indicators (audited)

TMI Consolidated	FY2021	FY2022	H1 FY2023
Operating income	70.3	72.9	43.4
PAT	-8.3	-10.2	-2.3
OPBDIT/OI	-7.1%	-11.5%	0.3%
PAT/OI	-11.8%	-14.0%	-5.3%
Total outside liabilities/Tangible net worth (times)	12.9	1.7	2.5
Total debt/OPBDIT (times)	-8.3	-2.9	117.3
Interest coverage (times)	-1.2	-2.5	0.1

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Mar 31, 2023 (Rs. crore) *	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					April 19, 2023	-	-	-
1	**Long-term term loan**	Long-term	17.70	-	**[ICRA]BB- (Stable)**	-	-	-
2	**Short-term fund based**	Short-term	32.30	-	**[ICRA]A4**	-	-	-

**No outstanding amount as on Mar 31, 2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term term loan	Simple
Short-term fund based	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long-term term loan**	Dec 29,2021	NA	Oct 10,2029	17.70	**[ICRA]BB-(Stable)**
NA	**Short-term fund based**	NA	NA	NA	32.30	**[ICRA]A4**

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

Annexure II: 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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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