

July 31, 2023^(Revised)

Sahrudaya Health Care Pvt. Ltd: Ratings downgraded to [ICRA]BBB(Stable)/[ICRA]A3+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term-Interchangeable	(30.00)	(30.00)	[ICRA]BBB(Stable); downgraded from [ICRA]BBB+(Stable)
Long-term-Unallocated	40.00	30.00	[ICRA]BBB(Stable); downgraded from [ICRA]BBB+(Stable)
Short-term-Fund-based – Overdraft	110.00	120.00	[ICRA]A3+; downgraded from [ICRA]A2
Total	150.00	150.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action factors in Sahrudaya Health Care Pvt. Ltd.'s (SHPL/ the company) weaker than expected performance in FY2023, marked by net losses and increase in overall debt levels on account of additions of hospitals. SHPL added six new hospitals (with 990 beds) in FY2023 following the addition of five hospitals (with 1,500 beds) in FY2022; which incurred losses given its initial stages of operations. SHPL's total debt (largely comprising lease liabilities, ECBs from parent and working capital loans) increased to Rs. 1,606.6 crore as on March 31, 2023 from Rs. 1,250.8 crore as on March 31, 2022. SHPL is part of the Swedish hospital group, Medicover, where ABC Medicover Holding B.V. (ABC Medicover) is the direct parent while Medicover AB, Sweden, is the ultimate parent supporting SHPL. ABC Medicover has infused equity and loans for expansion and other operational needs. The contraction in earnings was primarily due to the slower ramp-up of operations of the hospitals, which commenced in the last two years, thus necessitating funding needs from the parent company for operational purposes and liquidity requirements. ICRA also notes the moderation in the parent's credit profile in CY2022 as part of its operations was impacted by the Russia-Ukraine conflict, resulting in impairment charges, inflationary environment in its core markets and increased medical costs, lower contribution from Covid-19 services and incipient stage of some of its hospitals in key markets.

The ratings, however, continue to consider the support from the parent, who infused equity of Rs. 217.3 crore in the last two years and extended long-tenor loans for capacity expansion (Rs. 270.0 crore loans in the last two years). Moreover, SHPL has refinanced all its term loans from banks and unsecured loans through ECBs from Medicover in FY2020. The rating also factors in a diversified revenue profile with its top three specialities—cardiology, neurology, and orthopaedics—accounting for 40-45% of its total revenues. The rating further considers healthy scale-up of operations and favourable long-term demand outlook for healthcare services, given the underlying fundamentals, including a growing population, increasing life expectancy, rising noncommunicable lifestyle diseases, growing per-capita spend, increase in penetration of health insurance, and rise in medical tourism. The rating also considers the inherent competition in the industry from organised and unorganised players across the cities. However, ICRA notes that the company has been able to retain key consultants and key managerial personnel over the years, supporting its growth.

The Stable outlook on the [ICRA]BBB rating reflects ICRA's opinion that SHPL will witness healthy growth in revenue and earnings with ramp-up of newly launched hospitals leading to improvement in debt coverage metrics. ICRA also expects that the company will continue to be supported by its parent.

Key rating drivers and their description

Credit strengths

Strong support from Medicovert – SHPL has received regular financial support from its parent, the Medicovert Group, who infused Rs. 217.3 crore equity in FY2022 and FY2023 and increased its stake in SHPL to 64.2% as on March 31, 2023 from 56.0% as on March 31, 2021. The Medicovert Group has also supported SHPL through regular support in the form of long-term loans (Rs. 270.0 crore infused in the last two years), which supported its capex plans. ICRA also notes the operational synergies between SHPL and its parent group, given the same line of business and strategic importance of India to the Group's long-term growth plans. All hospitals under SHPL were rebranded to Medicovert in FY2020. SHPL operates 24 hospitals in Telangana, Andhra Pradesh and Maharashtra with a total operational bed capacity of 4,378 as on June 30, 2023. It is planning to open three new hospitals to increase its presence in other states and further diversify its speciality mix.

Scale up of operations with diversification of geographic base – SHPL's revenues increased to Rs. 1,353.8 crore in FY2023 from Rs. 1,163.9 crore in FY2021 and Rs. 731.4 crore in FY2021 with an improvement in operational beds coupled with moderate occupancy levels. The company's operational beds increased to 4,378 as on June 30, 2023, from 2,585 as on December 31, 2021, with six new hospitals launched in FY2023 in Telangana, Maharashtra and Andhra Pradesh. The company diversified its geographic presence in the past few years; from being a Hyderabad focussed player, it diversified to other districts of Telangana and expanded into Andhra Pradesh and Maharashtra.

Diversified revenue profile – The top two specialities of cardiology and orthopaedics accounted for 31% of SHPL's in-patient revenues in FY2023 and FY2022, respectively. SHPL generated about 25% of its revenue from Covid-19 related care and treatment in FY2022, which reduced significantly in FY2023; however, the revenue was supported by increase in share from other specialities. The company plans to further diversify its speciality mix by adding new departments like oncology to its existing and new hospitals. Further, SHPL's reputed consultants in cardiology and neurology attract a large patient base despite the recent establishment of the hospitals.

Credit challenges

Aggressive expansion plans could impact profitability and strain cash flows – SHPL has been aggressive in expanding its presence over the past three years across Telangana, Andhra Pradesh, and Maharashtra, which impacted its profitability. Ramp-up of its hospitals launched in the past 18 months remains critical to improving its profitability and debt protection metrics. It also plans to launch three new hospitals over the next 18 months; though a favourable funding mix and timely ramp-up of their operations remain monitorable.

Moderate financial risk profile – The financial profile of SHPL is moderate with high gearing and moderate coverage indicators owing to losses incurred by the hospitals launched in the past two years. However, ICRA notes that SHPL has refinanced its entire long-term debt from banks and NBFCs through loans from its parent group. These are longer tenure loans (10-year loans) with principal payments falling due only after 2030. However, SHPL services interest on a quarterly basis. ICRA also notes the moderation in the parent's credit profile in CY2022, since part of its operations was impacted by the Russia-Ukraine conflict resulting in impairment charge, inflationary environment in its core markets and increased medical costs, lower contribution from Covid-19 services, and the incipient stage of some of its hospitals in key markets.

Inherent competitive intensity in the industry – The company faces competition from other hospital chains and standalone hospitals in existing geographies and the recently entered geographies. The company's ability to attract footfalls would also depend on its ability to retain and attract reputed consultants, which is a key challenge for healthcare sector. However, ICRA notes that the company has been able to retain key consultants and key managerial personnel over the years, supporting its growth.

Liquidity position: Adequate

SHPL's liquidity position is adequate with a buffer of Rs. 8.2 crore available in working capital limits as on June 30, 2023 along with cash and liquid investments of about Rs. 16.0 crore. The company does not have any repayment obligations towards loans from the parent entity in the next three years. However, it has lease obligations to be met from its cash flows. The company is expected to generate positive retained cash flows in FY2024, which will support servicing its lease obligations. The company has capex plans, which would be funded through internal accruals. SHPL is also expected to receive timely support from its parent, as and when required.

Rating sensitivities

Positive factors – ICRA may upgrade the company's ratings if it demonstrates a continued ramp-up in operations, resulting in healthy cash accruals on a sustained basis. Improving profitability and healthy coverage metrics will also support the ratings.

Negative factors – Pressure on SHPL's ratings may arise in case of slower-than-anticipated ramp-up in operations, resulting in lower-than-projected cash accruals. Any debt-funded capex impacting its liquidity or debt metrics materially could also trigger negative pressure on the ratings. Also, weakening of the credit profile of Medcover and linkages with Medcover may also result in a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology – Hospitals
Parent/Group support	The ratings consider support from its parent company, Medcover AB, which is part of the Swedish group, Medcover*.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of SHPL and its subsidiaries (enclosed in Annexure-II).

Note: Support is from ultimate parent (Medcover AB) although shareholding is through a subsidiary (ABC Medcover Holdings BV). There are common board members and Medcover AB is, thus, directly involved.*

About the company

Incorporated on January 25, 2011, SHPL provides tertiary healthcare services across various specialities, with primary focus on cardiology, orthopaedics, neurology, gynaecology and paediatrics, among others. It operates 24 hospitals across Telangana, Andhra Pradesh and Maharashtra with an operational bed capacity of 4,378 as on June 30, 2023. Medcover AB is a Swedish public limited liability company with its Class B shares traded on NASDAQ, Stockholm. The Group started its operations in 1995 by providing healthcare facilities in Poland and expanded its presence to Central and Eastern Europe. In FY2017, it started investing in India. In FY2018, the company acquired minority stake of 34.2% in SHPL, which owned and operated hospitals under the brand name, MaxCure, in Hyderabad. The Medcover Group increased its stake in SHPL over the years to 64.2% as on March 31, 2023. Hospitals under SHPL were rebranded as 'Medcover' in FY2019.

Key financial indicators

SHPL (Consolidated)	FY2022	FY2023*
Operating income (Rs. crore)	1163.9	1353.8
PAT (Rs. crore)	(10.6)	(103.5)
OPBDIT/OI	15.3%	11.5%
PAT/OI	(0.9%)	(7.6%)
Total outside liabilities/Tangible net worth (times)	5.9	11.9
Total debt/OPBDIT (times)	7.0	10.3
Interest coverage (times)	1.9	1.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; Source: SHPL data, ICRA research; Provisionals for FY2023*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount o/s as on Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	FY2023	FY2022	FY2021
				July 31, 2023	April 18, 2022	-	Mar 22, 2021
1 Overdraft	Short term	120.00	--	[ICRA]A3+	[ICRA]A2	-	-
2 Interchangeable	Long term	(30.00)	--	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	-	-
3 Unallocated limits	Long term	30.00	--	[ICRA]BBB (Stable)	[ICRA]BBB+ (Stable)	-	-
4 Term loans	Long term	-	NA	-	-	-	[ICRA]BBB-(Stable)*
5 Cash credit	Long term	-	NA	-	-	-	[ICRA]BBB-(Stable)*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Interchangeable	Very simple
Long Term – Unallocated	Not applicable
Short Term - Fund Based – Overdraft	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 are 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	Overdraft	NA	NA	NA	120.00	[ICRA]A3+
NA	Interchangeable	NA	NA	NA	(30.00)	[ICRA]BBB(Stable)
NA	Unallocated	NA	NA	NA	30.00	[ICRA]BBB(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company name	Shareholding	Consolidation approach
Sahrudaya Health Care Pvt. Ltd.	100.0% (Rated Entity)	Full consolidation
Abhayanjaneya Healthcare Private Limited	84.9%	Full consolidation
Sahrudaya Health Care Karimnagar Private Limited	100.0%	Full consolidation
Sahrudaya Health Care Kurnool Private Limited	51.1%	Full consolidation
Niharika Hospitals Private Limited	100.0%	Full consolidation
Sahrudaya Healthcare (Mumbai) Private Limited	100.0%	Full consolidation
MOI Healthcare Private Limited	60.0%	Full consolidation
Sahrudaya Balaji Healthcare (Sangareddy) Private Limited	51.0%	Full consolidation
Sahrudaya Healthcare (Srikakulam) Private Limited	60.0%	Full consolidation
Suyosha Healthcare Private Limited	51.3%	Full consolidation

Source: SHPL

Corrigendum

Document dated July 31, 2023, has been corrected with revisions as detailed below:

Revisions: - Page 4 – Typographical error in the complexity indicator table on page 4 has been corrected

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Srikumar Krishnamurthy

+91 44 45964318

ksrikumar@icraindia.com

Nithya Debbadi

+91 40 45474829

nithya.debbadi@icraindia.com

Akshay Dangi

+91 40 45474829

akshay.dangi@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



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