

February 06, 2017

Metro Hospital and Cancer Research Centre

Instrument*	Rated Amount (in crore)	Rating Action
Long-term fund-based term loan	3.00	Reaffirmed at [ICRA]BB+ with “Stable” outlook
Total	3.00	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has reaffirmed the long-term rating of [ICRA]BB+ (pronounced as ICRA double B plus)¹ on the Rs. 3.00-crore fund-based (term loan) bank facility of Metro Hospital and Cancer Research Centre (MHCRC). The outlook on the long-term rating is ‘Stable’.

Detailed Rationale

ICRA’s rating reaffirmation continues to factor in the high occupancy of the hospital along with an improvement in the average revenue per bed, supported by healthy flow of revenue from the cardiac unit. Furthermore, the rating continues to factor in the extensive experience of the management in the healthcare industry and the tie-ups with various governmental and non-governmental organisations (TPAs) such as CGHS, ESIC, CSMA, SBI and ICICI Lombard, which ensures high occupancies both in the OPD and the IPD division.

However, the rating is constrained by the fall in the operating profit margins in the FY2016, owing to increase in the various overheads such as fees to outside consultants and salary of in-house doctors. Furthermore, competition with other hospitals situated in the vicinity and ability to attract and retain reputed doctors, especially who are willing to render services for a charitable cause remains a challenge, although the current team of doctors have been associated with the hospital for a long time.

Key Rating Drivers

Credit Strengths

- Long standing experience of the promoters and the society in the field of healthcare
- High occupancy levels, although revenue per bed per day remains low on account of charitable nature of the hospital
- Healthy financial profile with favourable capital structure and comfortable working capital intensity, though margins declined in FY2016
- Income tax exemption due to charitable nature of the society supports the cash flows

Credit Weaknesses

- Regular capex for upgrading the infrastructure, any large project in future may change the financial profile as the scale of operations is small
- Intense competition with other multispecialty and general hospitals located in the periphery of Jabalpur, Madhya Pradesh
- Small scale of current operations; future revenue growth contingent on the addition of new capacities
- Attracting and retaining reputed doctors in view of heightened competition, especially who are willing to render services for a charitable cause remains a challenge, although the current team of doctors have been associated with the hospital for a long time

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Description of Key Rating Drivers Highlighted Above:

The key rating drivers includes experienced management of the MHCRC and their tie-ups with various governmental and non-governmental organisations (TPAs) such as CGHS, ESIC, CSMA, SBI and ICICI Lombard, which ensures high occupancies both in the OPD and the IPD divisions. The rating also drives comfort from the improvement in the average revenue per occupied bed (RevPob) in the IPD division, which stood at around Rs. 6,500/- per day in FY2016, although it remained on the lower side due to the charitable nature of the hospital. ICRA favourably factors in the healthy capital structure of the hospital, with gearing of 0.58 times as on March 31, 2016 (provisional figures), which coupled with moderate profitability resulted in comfortable coverage indicators.

ICRA's rating is constrained by the intense competition from other hospitals situated in the radius of 5-10 kms, which may result into some moderation in the RevPob in the near to medium term. Also, attracting and retaining reputed doctors against the backdrop of high competition, especially who are willing to render services for a charitable cause remains a challenge, although the current team of doctors has been associated with the hospital for a long time. MHCRC is also offering financial support to its parent trust i.e. Satya Sai Cancer Society for undertaking a project in the higher education segment and paid Rs. 1.01 crore during the FY2016. These annual cash outflow would keep the networth base at low levels.

Furthermore, MHCRC's ability to maintain a healthy RevPob coupled with high occupancy, sustained profit margins and efficient working capital management will be the key rating sensitivities. Any large debt funded capital expenditure will be a monitorable.

Analytical approach: Standalone financials

Links to applicable Criteria

Rating Methodology for Hospitals

<http://www.icra.in/Files/Articles/Hospitals-%20May%202016.pdf>

About the Company:

Metro Hospital & Cancer Research Centre (Hospital) is multispecialty hospital located in Jabalpur, Madhya Pradesh. The hospital is a unit of Satya Sai Cancer Society (the society) which commenced operations in 2007 to create awareness about the cancer disease. The society also operates a medical institute known as Balashree Institute of Paramedical Sciences. Mr. Saurabh Baderia and his brother Mr. Rajiv Baderia manage the society. The hospital is situated in the Jabalpur, Madhya Pradesh and spread in an area of 50,000 sq.ft. The hospital specializes in oncology and cardiology. The hospital has 130 bedded capacities with over 95% occupancies in the past couple of years. The hospital is empanelled with CGHS, CSMA, ESI, and other PSUs. The hospital also has tie-ups with insurance companies such as Bajaj Allianz, Aviva Life Insurance, Apollo Munich Health Insurance, ICICI Lombard etc.

On provisional basis, MHCRC has registered an operating income (OI) of Rs. 36.69 crore with a profit before tax (PBT) of Rs. 1.43 crore in FY2016 compared to an OI of Rs. 26.96 crore and PBT of Rs. 1.62 crore during the corresponding previous year.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: The audit of the annual financial accounts of MHCRC is underway for the FY2016. So, our rating is based on the provisional financials provided by the management for FY2016.

Rating History for last three years:
Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				February 2017	August 2015	Not rated	Not rated
1	Term Loans	Long Term	3.00	[ICRA] BB+ (Stable); Reaffirmed	[ICRA] BB+ (Stable); Assigned		

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

**Annexure-1
Details of Instrument**

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)*	Current Rating and Outlook
Term Loan 1	2014	11.50% p.a.	March 2018	3.00	[ICRA]BB+ (Stable)

Source: Metro Hospital and Cancer Research Centre

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