

April 17, 2017

Shiva & Shiva Orthopaedic Hospital Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Long Term-Cash Credit	10.00 (enhanced from 3.00)	[ICRA]BBB- (Stable); revised from [ICRA]BBB (Stable)
Long Term-Term Loan	57.45 (reduced from 67.33)	[ICRA]BBB- (Stable); revised from [ICRA]BBB (Stable)
Short Term- Non-Fund Based Limit	1.00	[ICRA]A3; revised from [ICRA]A2
Total	68.45	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has revised the long-term rating from [ICRA]BBB (pronounced ICRA triple B) to [ICRA]BBB- (pronounced ICRA triple B minus) assigned to the Rs. 56.47 crore (reduced from Rs. 67.33 crore) term loans and the Rs. 10.00 (enhanced from Rs. 3.00 crore) crore long-term fund based facilities of Shiva & Shiva Orthopaedic Hospital Private Limited (“SSOHPL” / “the Company”)¹. ICRA has also revised the short-term rating from [ICRA]A2 (pronounced ICRA A two) to [ICRA]A3 (pronounced ICRA A three) assigned to the Rs.1.00 crore short-term non-fund based facilities of the Company. ICRA has revised the ratings to [ICRA]BBB- and [ICRA]A2 assigned to the Rs. 3.86 crore unallocated limit of the company. The outlook assigned on the long-term rating is ‘Stable’.

Rationale

The revision in the ratings factor in the modest occupancy level at the Company’s Unit II in Infantry Road and slower than the anticipated ramp up at the newly established multi-specialty hospital in Yeshwanthpur i.e. Unit IV. Despite jump in SSOHPL’s top line during FY2016 with the commencement of Unit IV during the year, its operating margin shrank to 7.57% on account of higher employee expenses pertaining to on-boarding of doctors towards Unit IV as well as under absorption of other fixed costs. The company reported significant net loss in FY2016 leading to the erosion of the net worth. The ratings revision also takes into account the deterioration in the capital structure and debt protection metrics on account of the debt funded capex towards establishing the Unit IV, also resulting in high debt repayment obligations over near to medium term. The ratings continue to factor high competitive intensity in the healthcare industry in Bangalore with presence of other multi-speciality and orthopaedic hospitals in turn restricting the Company’s growth to some extent.

The ratings, however, favourably takes into account the Company’s long track record in the healthcare industry, strong brand presence of “Sparsh” Hospitals in the orthopaedic field supporting future business growth and the extensive experience and reputation of the promoters in the orthopaedic field. Diversification into multispecialty hospital and the expected ramp up at Unit II on account of the tie-up with the renowned neurosurgeon, Dr N K Venkataramana is likely to support the long-term revenue growth. Notwithstanding the dip in the operating margin in FY 2016, the same has improved during nine months of FY 2017 with the growth in top line; although at net level the company continue to incur loss owing to the high depreciation and interest charges pertaining to the new unit. Nevertheless, the company is expected to report sufficient cash accruals to service the debt obligations in a timely manner, also

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

witnessed by the prepayments made by the company in the past positive. Further, positive growth outlook for the industry with improving awareness and demand for quality healthcare is expected to drive business growth for the Company. Going forward, SSOHPL's ability to improve occupancy levels across hospitals and revive its margins and hence, the capital structure and debt protection indicators would remain key rating sensitivities.

Key rating drivers

Credit Strengths

- Established reputation of promoters and strong brand presence of the hospitals in the orthopaedic field
- Diversification into multispecialty hospital and expected ramp up in Unit II and Unit IV likely to support long-term revenue growth
- Notwithstanding the dip in 2015-16, operating margins remained comfortable over the years with orthopaedics being among relatively more remunerative medical specialties
- Moderate working capital intensity
- Healthy demand outlook likely for healthcare services supported by increasing population and per capita income

Credit Weakness

- Relatively moderate scale of operations, largely concentrated in Karnataka
- Modest occupancy levels at the Unit II and nascent stage of operations at the fourth unit affected overall profitability of the company as reflected during FY 2016; however, with ramp up in Unit IV and tractions in volumes and realizations in Unit II, the company reported improved profitability and cash accruals during the current fiscal
- High level of competitive intensity with presence of other large, established multi-specialty hospital chains and orthopaedic hospitals in Bangalore
- Weakened capital structure and coverage metrics following the largely debt-funded capital expenditure; however, with no major capex plans and improvement in occupancies, the same is expected to improve over medium term

Description of key rating drivers highlighted above:

With an operating income of Rs. 73.17 crore in FY 2016, SSOHPL remains a relatively moderate sized player in the healthcare services industry, with a focus on orthopaedics specialty. The company presently operates four hospitals in Karnataka, with the first three being orthopaedic hospitals and the latest being a multi-specialty hospital. The company's hospitals specialize in orthopaedics—primarily total joint replacement (TJR) surgeries—trauma care, plastic and maxillo facial surgeries. With the high goodwill of the promoters among the medical fraternity and patient community, over the years, SSOHPL has created a strong branding for Sparsh Hospitals in the orthopaedic segment. Consequently, it enjoyed reasonable occupancy of around 57% at its Unit I during FY 2016. The performance of SSOHPL's Unit II continued to remain weak in 2015-16 with the hospital's occupancy levels remaining low at about 15%, mainly impacted by competition from hospitals in the vicinity and its focus on planned surgeries, where demand has continued to remain subdued. In a bid to uplift the performance of Unit II, the company has tied up with a renowned neurosurgeon, Dr N K Venkataramana and his team, on a revenue sharing model to set up a neurology department at the Infantry road Unit which would help in increasing volumes. The company's Unit III registered a marginal revenue growth of 4% during 2015-16; mainly driven by higher realization per in-patient. During June 2015, SSOHPL inaugurated Unit IV (multi-specialty hospital at Yeshwanthpur in Bangalore), which led to significant jump in the top line during FY 2016. The new hospital offers medical services under critical specialties, such as cardiology, neurology, gynaecology, urology and endocrinology. The company has recruited specialists/consultants from hospitals across Bangalore, which is expected to aid in attracting more patients. The revenue share from Unit I has declined over last two years with the ramp up in Unit IV which has higher capacity, contributing to 35%

of the total revenue during 9M FY 2017. However, given the nascent stage of operations, the capacity at Unit IV (18% occupancy in FY 2016) remains sub optimally utilized which along with modest occupancy in Unit II affected overall profitability of the company as reflected by operating margin of 7.57% FY 2016. Nevertheless, traction in volumes in Unit IV and revival in occupancy in Unit II is likely to support the operating profitability during the current fiscal, although, at net level the company is expected to incur losses. Due to significant debt funded capital expenditure for the establishment of Unit IV, together with erosion in net-worth, the gearing level increased to 9.38 times as on March 31, 2016. Furthermore, coverage indicators have also weakened with the dual impact of higher debt and lower profits. Over the years, the healthcare services industry has grown highly competitive with the increasing footprint of large corporate hospital chains—such as Columbia Asia, Fortis, and Apollo Hospitals to name a few—and other reputed standalone hospitals, such as Hosmat Hospital, which also specializes in orthopaedic care. Going forward, the company’s revenue growth is expected to be driven by the improved occupancies in Unit II and Unit IV (19% and 22% respectively in 11MFY 2017) as well as price revisions undertaken which is likely to aid the operating profitability. The capital structure is expected to improve over the medium term with the repayment of the term loan and accretion to net worth with improvement in the profitability.

Analytical Approach: To arrive at the ratings, ICRA has performed a detailed evaluation of the issuer’s business and financial risks.

Links to applicable Criteria

[Corporate Credit Rating –A Note on Methodology](#)
[Rating Methodology for Hospitals](#)

About the Company:

Incorporated in October 2003, Shiva & Shiva Orthopaedic Hospital Private Limited currently operates three orthopaedic and one multi-speciality hospital in Karnataka – three in Bangalore and one at Davangere. The first and the flagship hospital of the company is located at Narayana Health City, Bangalore with a capacity of 108-beds while the second hospital is situated at Infantry Road, Bangalore with a capacity of 80 beds. While the first hospital is owned and operated by the company, the second hospital is housed in a leased premise. During 2012-13 and 2014-15, the company also took up operational and management (O&M) contract for existing hospitals at Davangere and Bellur in Karnataka and in 2015-16, has set up a mutli-specialty hospital in Yeshwanthpur, Bangalore. However, the Bellur unit was closed down in 2015-16 as the progress was not as per expectations As a result, SSOHPL presently has a total capacity of 315 beds catering to the orthopaedic speciality (including accidents/trauma, joint replacement and other orthopaedic treatments and plastic and maxillofacial surgeries) and about 250 beds catering to mutli-specialty treatments (spanning gynecology, neurology/neurosurgery, cardiology/cardiovascular and thoracic surgery, nephrology and urology among others).

The Company’s first hospital is accredited by National Accreditation Board for Hospitals & Healthcare Providers (NABH) while the same is under process for the second and fourth unit. SSOHPL has been promoted by Dr. Sharan S Patil who is a reputed orthopaedic surgeon specializing in Joint Replacements, Paediatric Orthopaedics and Arthroscopies with over 15 years of medical experience.

Based on provisional numbers for nine months of FY 2017, the company reported a net loss of Rs. 3.38 crore on an operating income of Rs. 77.98 crore. For FY 2016, the company reported a net loss of Rs. 12.31 crore on an operating income of Rs. 72.61 crore as against a net profit of Rs. 1.97 crore on an operating income of Rs. 50.16 crore for FY 2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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 FY2018	Month- year & Rating in FY2017	Month- year & Rating in FY2016	Month- year & Rating in FY2015
				April 2017	June 2016	January 2016	March 2015
1	Cash Credit	Long Term	10.00	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Term Loan	Long Term	57.45	[ICRA]BBB-(Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Non-Fund Based	Short Term	1.00	[ICRA]A3	[ICRA]A2	[ICRA]A2	[ICRA]A2

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 Instruments

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based - Cash Credit	-	-	-	10.00	[ICRA]BBB- (Stable)
Fund Based-Term loan-1	-	-	FY 2022	9.20	[ICRA]BBB- (Stable)
Fund Based-Term Loan 2	FY 2015	-	FY 2024	48.25	[ICRA]BBB- (Stable)
Non-Fund Based- Bank Guarantee	-	-	-	1.00	[ICRA]A3

Source: SSOHPL

Name and Contact Details of the Rating Analyst(s):

K Ravichandran

+91 44 4596 4301

ravichandran@icraindia.com

R Srinivasan

+91 44 45964315

r.srinivasan@icraindia.com

Ritika Mundhra

+91 080 49225562

riika.mundhra@icraindia.com

Shikha Goyal

+91 080 49225555

shikha.goyal@icraindia.com

Name and Contact Details of Relationship Contacts:

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

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.

For more information, visit www.icra.in

© Copyright, 2017, ICRA Limited. All Rights Reserved

Contents may be used freely with due acknowledgement to ICRA

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500