

Vikram Hospital (Bengaluru) Private Limited

December 19, 2017

Summary of rated instruments

Instrument*		Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Programme	Debenture	30.0	30.0	[ICRA]B (Stable); Upgraded from [ICRA]B-
Total		30.0	30.00	

Rating action

ICRA has upgraded the long-term rating assigned to the Rs. 30.0-crore non convertible debenture (NCD) programme of Vikram Hospital (Bengaluru) Private Limited (VHBPL) from [ICRA]B- (pronounced ICRA B minus) to [ICRA]B (pronounced ICRA B) . The outlook on the long-term rating is 'Stable'.

Rationale

The rating upgrade takes into account the improvement in VHBPL's operational profile marked by better occupancy on account of higher in-patient admission, increase in the number of procedures/surgeries performed and increase in the number of out-patient registrations during H1FY2018. The rating also factors in the reduction in coupon rate of the rated NCDs from 12% to 6% with effect from April, 2017, resulting in improvement in interest coverage. The rating is also supported by the reputation of VHBPL in the market, its strong parentage for being entirely held by private equity investor, Multiples Alternate Asset Management Private Limited, the presence of experienced consultants among the panel of doctors and its favourable location, which provides easy accessibility from the remaining part of the city.

The rating, however, continues to remain constrained by the company's stretched financial profile characterised by net losses which has eroded the net worth and inadequate coverage metrics coupled with the bullet NCD repayment burden in December, 2018. Timely funding support from the promoter remains critical in the absence of inadequate cash accruals to meet the repayment obligations. The rating also remains constrained by the exposure to concentration risks inherent in single-asset companies. Further, the rating also takes into account the high competitive intensity with the presence of other well established tertiary-care specialty hospitals in Bengaluru.

Going forward, VHBPL's ability to scale up its operations and increase the occupancy levels of the hospital through better utilisation of its existing facilities and achieve healthy profitability levels would be key rating factors. VHBPL's ability to attract and retain reputed doctors also remains critical.

Outlook: Stable

ICRA believes VHBPL will continue to benefit over the medium term with the presence of experienced management and consultants and the brand strength of the hospital in the market. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profitability, resulting in improvement in business and financial risk profile. Conversely, the outlook may be revised to 'Negative' if VHBPL's financial risk profile weakens further because of inadequate cash accruals or in case of delays in timely support from the promoters.

Key rating drivers

Credit strengths

Strong parentage of Multiples, private equity (PE) fund partners: VHBPL's promoter, Multiples Alternate Asset Management Private Limited (Multiples) is a reputed PE fund with over \$1.0 billion under management. The promoters during FY2016 had infused additional equity and subscribed NCDs to retire VHBPL's old debt.

Improvement in interest cover with reduction in interest expense – The financial profile of the company has witnessed improvement due to decrease in quarterly debt-service obligation on account of reduction in coupon rates of the rated NCDs which led to an increase in interest cover to 2.5 times during H1FY2018 from 0.2 times in FY2017.

Strong medical infrastructure and backing of prominent doctors: The hospital offers medical services across 38 specialties which includes cardiology, neurology, orthopaedic, gastroenterology, oncology, ENT, cosmetology, dermatology, spine surgery, pediatrics etc. The company has ~70 doctors on roll, allied medical staff of 700 people and ~20-25 visiting doctors. Being in operation for almost six years now, it has established reputation as a multi-specialty hospital in Bengaluru with experienced consultants and latest technology equipment.

Credit challenges

Modest scale of operations - The company has a moderate scale of operations and the operating income stood at Rs. 110.1 crore in FY2017 against Rs. 107.9 crore in FY2016, translating into a modest YoY growth of 2.1%.

Financial profile characterised by net losses and weak debt-coverage indicators - The financial profile of the company continues to remain stretched, characterised by losses at the net level since the commencement of operations in 2011, which has significantly eroded the company's net worth, leading to deterioration of the debt coverage indicators. Improvement in profit margins has led to marginal improvements in coverage indicators in H1FY2018 but they still remain weak as evidenced by Total Debt/OPITDA of 6.4 times and NCA/TD of 8.6% during the period.

Exposure to refinancing risk exists due to weak accruals – The company has a bullet repayment of the rated NCDs falling due in December, 2018. However, exposure to refinancing risk remains if the company is not able to generate adequate cash flow to meet the repayment and may necessitate fund support from promoters.

Improved occupancy in the current year but it still remains below optimum levels: The occupancy at the hospital has improved from 40% in FY2017 to around 54% in H1FY2018, however, it still remains at sub-par level. The increase in occupancy levels can be attributed to improved brand image, aided by the profile of the consultants, and increase in number of procedures compared to previous years.

Ability to attract and retain high-quality consultants: Improvement of the occupancy levels is highly dependent on the hospital's ability to retain and add reputed consultants which will be a challenge in the light of heightened competition in the healthcare sector.

Highly competitive scenario with presence of other established tertiary-care and multi-specialty hospitals in Bangalore- VHPL continues to face high competitive intensity from other hospitals in Bangalore. Over the years, the healthcare services industry has grown highly competitive with the increasing footprint of large corporate hospital chains and other reputed standalone hospitals. Consequently, the competitive intensity in Bangalore has affected the pricing flexibility of the company, in addition to restricting occupancies to a certain extent.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Hospitals](#)

About the company

Vikram Hospital (Bengaluru) Private Limited (VHBPL) was incorporated on February 27, 2009. In 2013, Multiples Alternate Asset Management Private Limited (Multiples) acquired a 95.56% stake in VHBPL along with fresh equity infusion of Rs. 75.41 crore in FY2014. VHBPL has as a 225-bedded multispecialty hospital with 24-hour human, medical and infrastructural facility to render specialised service. The hospital has nine Medical Intensive Care Units (MICU), nine Surgical Intense Care Units (SICU), nine Intensive Cardiac Care Units, 12 Dialysis beds, 10 operation theatres, two cathlabs and a pharmacy.

In FY2017, the company reported a net loss of Rs. 11.0 crore on an operating income of Rs. 110.1 crore compared to a net loss of Rs. 10.8 crore on an operating income of Rs. 107.9 crore in the previous year.

Key Financial Indicators (Audited)

	FY 2016	FY 2017
Operating Income (Rs. crore)	107.9	110.1
PAT (Rs. crore)	-10.8	-11.0
OPBDIT/ OI (%)	1.2%	0.7%
RoCE (%)	-8.7%	-6.3%
Total Debt/ TNW (times)	0.7	0.7
Total Debt/ OPBDIT (times)	33.6	52.0
Interest coverage (times)	0.7	0.2
NWC/ OI (%)	5.3%	0.8%

Status of non-cooperation with previous CRA

The rating of Brickwork B- assigned to VHBPL in November, 2015 was moved to Issuer Not-Co-operating Category based on best available information as the issuer did not co-operate in November, 2016.

Any other information: None

Rating history for last three years:

Current Rating (FY2018)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Dec 2017	Date & Rating in FY2017 Nov 2016	Date & Rating in FY2016	Date & Rating in FY2015
1 NCD	Long Term	30.0	30.0	[ICRA]B(Stable)	[ICRA]B-	-	-

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: Instrument Details

ISIN No	Instrument Name	Date of Issuance	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE910007010	NCD	20-Nov-2015	6.0%	19-Dec-2018	30.0	[ICRA]B (Stable)

Source: VHBPL

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