

Smt. Nandamuri Basava Taraka RamaRao Memorial Cancer Foundation

August 21, 2018

Summary of rated instruments

| Instrument | Amount rated (Rs. crore) | Rating Action |
|-----------------------------|-----------------------------|---------------------------------|
| LT: Fund based- Cash Credit | 10.00 | [ICRA]A- (Stable); assigned |
| LT: Term Loan | 26.30 | [ICRA]A- (Stable); assigned |
| LT/ST: Unallocated | 2.70 | [ICRA]A- (Stable)/A2+; assigned |
| ST: Non-Fund based | 1.00 | [ICRA]A2+; assigned |
| Total | 40.00 | |

Rating action

ICRA has assigned a long-term rating of [ICRA]A- (pronounced ICRA A minus) to the Rs. 10.00 crore¹ cash credit facilities and Rs. 26.30 crore term loan facilities of Smt. Nandamuri Basava Taraka RamaRao Memorial Cancer Foundation (NBTRCF/ trust)². ICRA has also assigned a short-term rating of [ICRA]A2+ (pronounced ICRA A two plus) to the Rs. 1.0 crore non-fund-based facilities of NBTRCF. Further, ICRA has also assigned a long-term/short-term rating of [ICRA]A-/A2+ to the unallocated limits of the trust. The outlook on the long-term rating is 'Stable'.

Rationale

The assigned ratings favourably factor in the established track record and reputation of NBTRCF's hospital namely Basavatarakam Indo American Cancer Hospital & Research Centre (BIACH) in cancer care for over two decades; the hospital with 550-beds is one of the largest exclusive cancer care facility in the states of Telangana and Andhra Pradesh equipped with sophisticated equipment which includes six linear accelerators (LINAC)³ and bone marrow transplant (BMT) facility. The hospital also has a strong consultant team of around 120 doctors many of whom have been working with NBTRCF for more than five years (attrition rate in last five years is less than 2%). The hospital witnessed healthy traction in revenues with a CAGR of 11.2% during FY2014-FY2018 supported by robust in-patient footfalls, steady occupancy levels at more than 90% and continuous additions to bed capacity from 400 beds in FY2014 to 550 beds in FY2018. The ratings draw comfort from the healthy financial profile of the trust characterised by conservative capital structure with gearing of 0.7 times as on March 31, 2018 and strong coverage metrics with TD/ OPBITDA of 1.0 times and interest cover of 8.0 times in FY2018.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

³ Out of which four are Intensity Modulated Radiation Therapy (IMRT) capable, Real Time Position Management and Active Breath Coordination facilities for Stereotactic Body Radiotherapy and Tomo-therapy.

The ratings, however, are constrained by the not-for-profit nature of operations of the trust which limits its pricing flexibility; the last price revision was undertaken by the board in FY2013. However, ICRA notes that the next tariff revision is currently due and is expected by end of FY2019. Despite variation between the rates fixed by government under Aarogyashri scheme (both AP and TS) and BIACH's tariff, the hospital accommodates patients under this scheme (~50% of in-patient admissions) leading to under-recoveries from this segment. During FY2018, the under-recovery (which is accounted in the form of discounts) is high at Rs. 45.6 crore (~19.4% of FY2018 revenues). The continuous need to upgrade/ add latest equipment for cancer care led to continuous capex for the trust. With intensifying competition in the healthcare sector, ability to retain its lead consultants remains a challenge. The ratings are also constrained by the proposed large debt-funded capex plan; NBTRCF intends to set up a 1000-bed facility in Amaravati, Andhra Pradesh over a 6-7 year period at an estimated cost of Rs. 600 crore to be completed in three phases with an initial outlay of Rs. 250 crore for the first phase which is expected to be funded by debt to the tune of Rs. 200 crore and remaining Rs. 50 crore by way of internal accruals. However, ICRA notes that the plans are in very nascent stages, the detailed project report has not been prepared yet. ICRA will assess the impact of the proposed capex on trust's credit profile as and when more clarity emerges on the same.

Going forward, the ability of the trust to sustain its profitability levels given the limited pricing flexibility, the quantum of capex and funding thereof remain key credit monitorables.

Outlook: Stable

The Stable outlook factors in the strong operational performance of BIACH owing to healthy occupancy levels, robust in-patient footfalls and steady average revenue per occupied bed (ARPOB) levels. The outlook may be revised to positive in case of better than expected operating parameters resulting in improved operating profits and coverage indicators. The outlook may be revised to negative in case of lower than anticipated cash accruals owing to delayed implementation of tariff revision or higher than anticipated debt funded capex towards setting up of new facility at Amaravati.

Key rating drivers

Credit strengths

Established track record and reputation of hospital together with renowned doctor profile – The hospital has association with Dr. Nori Dattatreya who is a renowned name in the field of oncology. The hospital also has a strong consultant team of around 120 doctors many of whom have been working with NBTRCF for more than five years (attrition rate in last five years is less than 2%).

Sophisticated infrastructure and facilities – The hospital is one of the largest exclusive cancer hospitals in AP and TS with over 550 beds and equipped with sophisticated equipment which includes six LINACs and BMT facility.

Strong operating metrics – Supported by its strong reputation, BIACH's footfalls remain robust at around 50,000 per annum resulting in strong occupancy levels of more than 90% for last six years. The ARPOB remained steady at around Rs. 12,500.

Comfortable financial profile – OI witnessed a CAGR of 11.2% during FY2014-FY2018 supported by continuous addition to bed capacity along with strong occupancy levels. The financial profile is healthy with conservative capital structure as reflected by low gearing of 0.7x as on March 31, 2018 and strong coverage indicators remain healthy with TD/ OPBITDA of 1.0 and NCA/ TD of 86.1% in FY2018.

Credit Challenges

Limited pricing flexibility could adversely affect the profitability: Not for profit nature of the operations limits the pricing flexibility of BIACH; the last price revision was undertaken by the board in FY2013. However, ICRA notes that the next tariff revision is currently due and is expected by end of FY2019.

Lower tariffs under Arogyasri segment resulting in under recoveries: Despite variation between the rates fixed by the government under Arogyasri scheme (both AP and TS) and BIACH's tariff, the hospital accommodates patients under this scheme (~50% of in-patient admissions) leading to under-recoveries from this segment. During FY2018, the under-recovery (which is accounted in the form of discounts) is high at Rs. 45.6 crore (~19.4% of FY2018 revenues).

Ability to retain lead consultants remains a challenge – The healthcare sector is highly fragmented with a few large players in the organized sector leading to high level of competition in the business. With the onset of several specialty care hospitals in the region, ability to retain consultants remains a challenge.

Large debt funded capex – The trust plans to set up a 1000-bed facility in Amaravati at an estimated cost of Rs.600.0 crore over a 6-7 year period. The project completion would be undertaken in three phases with an initial outlay of Rs. 250 crore of which Rs. 200 crore would be in the form of debt and remaining through internal accruals. However, the plan is in very nascent stages, DPR has not been prepared yet.

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 trust:

Smt. Nandamuri Basava Taraka Rama Rao Memorial Cancer Foundation & Research Centre (NBTRCF) is a charitable trust established in the year 1988 by Late Mr. N.T. Rama Rao (Ex – Chief Minister of Andhra Pradesh). The trust under the aegis of Indo American Cancer Organization (IACO), USA (fund raising organisation formed by practitioners and philanthropists) established the cancer hospital in the name of “Basavatarakam Indo American Cancer Hospital and Research Centre” in Hyderabad (BIACH) and inaugurated in June 2000.

About the hospital:

BIACH is a 550-bedded cancer hospital providing cancer treatment in the fields of Surgical Oncology, Medical Oncology and Radiation Oncology. Apart from hospital, it also runs Indo American Nursing School, established in 2003, which aims at delivering top quality nursing and midwifery training. The hospital holds National Accreditation Board for Hospitals & Health Care (NABH), National Accreditation Board for Testing and Calibration Laboratories (NACL) and Standard for Occupational Health and Safety Management Systems (OHSAS) certifications.

Key financial indicators

| | FY2016 | FY2017 | FY2018* |
|------------------------------|--------|--------|---------|
| Operating Income (Rs. crore) | 195.9 | 206.5 | 235.5 |
| PAT (Rs. crore) | 23.1 | 11.4 | 5.8 |
| OPBDIT/ OI (%) | 20.4% | 15.3% | 14.9% |
| RoCE (%) | 41.1% | 20.9% | 13.5% |
| Total Debt/ TNW (times) | 1.4 | 0.7 | 0.7 |
| Total Debt/ OPBDIT (times) | 1.1 | 0.9 | 1.0 |
| Interest Coverage (times) | 7.6 | 7.6 | 8.0 |
| NWC/ OI (%) | 9.7% | 8.4% | 8.8% |

Source: Trust; *-Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

| | | | | | Chronology of Rating History for the past 3 years | | |
|------------------|-----------------|--------------------------|-------------------------------|----------------------------|---|---------------|---------------|
| | | Current Rating (FY2019) | | | | | |
| | | Amount Rated (Rs. crore) | Amount Outstanding (Rs crore) | Date & Rating | Date & Rating | Date & Rating | Date & Rating |
| Instrument | Type | | | Aug 2018 | FY2018 | FY2017 | FY2016 |
| 1 Cash Credit | Long Term | 10.00 | 10.00 | [ICRA]A-(Stable) | - | - | - |
| 2 Term Loan | Long Term | 26.30 | 26.30 | [ICRA]A-(Stable) | - | - | - |
| 3 Unallocated | Long/Short Term | 2.70 | 2.70 | [ICRA]A-(Stable)/[ICRA]A2+ | - | - | - |
| 4 Non-Fund-based | Short Term | 1.00 | 1.00 | [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: Instrument Details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---------|-----------------|-----------------------------|-------------|---------------|--------------------------|---------------------------------|
| NA | Cash Credit | Feb 2018 | 11.0% | - | 10.00 | [ICRA]A- (Stable) |
| NA | Term Loan | Feb 2018 | 11.0% | Mar 2022 | 26.30 | [ICRA]A- (Stable) |
| NA | Unallocated | Feb 2018 | - | - | 2.70 | [ICRA]A- (Stable)/ [ICRA]A2+ |
| NA | Non-Fund-based | - | - | - | 1.00 | [ICRA]A2+ |

Source: Trust

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