Sahrudaya Health Care Pvt. Ltd.

October 11, 2018

Summary of rated instruments

Instrument	Amount Rated (Rs. crore)	Rating Action
Fund Based: Cash Credit	10.00	[ICRA]BBB- (Stable); assigned
Fund Based: Term Loan	39.50	[ICRA]BBB- (Stable); assigned
Unallocated Limits	20.50	[ICRA]BBB- (Stable); assigned
Total	**70.00**	

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) to the Rs. 10.00 crore fund-based cash credit facilities, Rs. 39.50 crore term loan facilities and Rs. 20.50 crore unallocated limits of Sahrudaya Health Care Pvt. Ltd. (SHPL). The outlook on the long-term rating is Stable.

Rationale

For arriving at ratings, ICRA has consolidated the financials of Sahrudaya group consisting of SHPL and its subsidiaries namely Sahrudaya Health care (Karimnagar) Private Limited, Abhayanjaneya Healthcare Private Limited, Sahrudaya Healthcare (Kurnool) Private Limited, Niharika Hospitals Private Limited and Suyosha Healthcare Private Limited as all the entities form a part of the same group and operate in similar lines of business – hospitals.

The assigned rating favourably factors in strong growth in Sahrudaya group revenues from Rs. 102.0 crore in FY2015 to Rs. 442.13 crore in FY2018 on the back of improvement in occupancy levels coupled with increased bed strength from 320 beds in FY2015 to 1620 beds in FY2018. The rating also factors in fresh equity infusion of Rs. 130.36 crore till August 30, 2018 by Medicover AB (Publ)[1] to support group expansion plans and working capital requirements; and refinancing of term loans with 2 years moratorium and ballooning repayment structure to support the cash flows. SHPL operates under "Maxcure", "Mycure" and "Simhapuri Hospitals" brands in the tertiary healthcare segment with over 10 operational hospitals in 6 different cities with 1620 beds as on March 31, 2018; diversified revenue profile with top three specialities, cardiology (33% of FY2018 revenues), neurology (14%) and orthopaedics (14%) – accounting for 61% of the total revenues; and positive demand outlook for healthcare services in the country due to factors such as better affordability through increasing per capita income, widening medical insurance coverage, growing awareness for healthcare and under-penetration of healthcare services.

The rating, however, is constrained by high revenue dependence of the Sahrudaya group on SHPL accounting for 57% of revenues in FY2018; limited track record of the hospitals with three hospitals in the group requiring funding support which reduced from 7 hospitals reporting operating losses in FY2017 to due to nascent stage of operations; and large expansion plans of the group to increase the bed strength to adversely impact the financial risk profile in the medium term despite funding commitment from Medicover. Although the operational loss-making hospitals reduced, the extent of improvement in operating margins over the next 12-18 months will be a key rating monitorable. With intensifying competition in the healthcare market, ability to sustain the occupancy levels and growth in revenues would be

[1]Medicover is an international healthcare and diagnostic services provider in Poland set up in 1995. Medicover provided commitment to infuse Rs. 320.0 crore in SHPL over a three-year horizon to acquire 51% stake. They have infused Rs. 130.36 crore through primary infusion, Rs. 85.0 crore through secondary infusion totalling to Rs. 215.0 crore translating to ~39.15% shareholding as of August 2018.

dependent on retaining its lead consultants given the high brand association with lead consultants. These apart, the company is also exposed to regulatory risks including restrictive pricing regulations, which could constrain the profit margins going forward; and tight liquidity position due to increased contribution of revenues from Arogyasri segment (which constitutes ~30.6% of FY2018 revenues) wherein the payments are delayed. SHPL has set up 300-bed hospital, at an estimated capex of Rs. 40.00 crore (funded by equity of Rs 10.00 crore and debt of Rs 30.00 crore) in Nashik under a revenue sharing arrangement with Ashoka Buildcon Limited. ICRA also takes note of the ability of the new facility to generate meaningful returns and the short-term liquidity to be supported by SHPL.

Going forward, the company's ability to ramp up operation at recently setup hospitals and achieve operational breakeven along with managing working capital requirements will be the key rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA expectation that operational performance of the Sahrudaya group hospitals will improve with improvement in occupancies and ARPOB levels. The outlook may be revised to positive in case of better than expected operating parameters for existing hospitals and significant ramp up of newly commissioned hospitals resulting in improved operating profits and coverage indicators. The outlook may be revised to negative in case of deterioration in operational performance resulting in lower than anticipated coverage indicators or in case of any large debt funded capex undertaken by Sahrudaya group.

Key rating drivers

Credit strengths

Healthy growth in revenues over the past three years - Sahrudaya group revenues increased from Rs. 102.0 crore in FY2015 to Rs. 442.13 crore in FY2018 on the back of improvement in occupancy levels and increased bed strength from 320 beds in FY2015 to 1620 beds in FY2018. SHPL has expanded the bed capacity by acquiring stake in hospitals which are about to start commercial operations rather than setting up a green field hospital which also enables faster ramp-up of operations.

Diversified revenue profile: SHPL operates under various brand names like "Maxcure", "Mycure, and "Simhapuri Hospitals" in Telangana and Andhra Pradesh markets. Further, well identified lead consultants in the field of cardiology and gynaecology respectively have enabled to attract a large patient base despite recent establishment. The company has a diversified revenue profile with cardiology (accounting to ~35.7% of FY2018 revenues), neurology (~13.7%) and orthopaedics (~14.1%). SHPL has been routing its efforts to diversify its revenue profile towards other specialities as against its earlier focus on cardiology segment.

Strong financial support from Medicover and debt refinancing lends financial flexibility – Medicover, a leading healthcare and diagnostics provider in Sweden, has committed an investment of Rs 320 crore in August 2017; of this, Rs 130.36 crore is infused as fresh equity till August 2018 in SHPL and has purchased secondary stake for Rs. 85.0 crore. Further, the funds are being infused in SHPL term to support group expansion plans and working capital requirements. As of August 2018, Medicover owns 39.15% of shareholding of SHPL and has plans to increase the stake to 51% over the medium term. Further, SHPL has refinanced its entire term debt with an extended moratorium, attractive interest rates and ballooning repayments providing cash flow support.

Positive industry outlook: The outlook for healthcare services in the country is favourable due to factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare, under-penetration of healthcare services, technological improvements in early diagnosis and treatment, and higher incidence of lifestyle diseases.

Credit Challenges

High reliance on standalone operations: Sahrudaya group operates 10 hospitals as of March 2018 and 7 of them reported operational losses in FY2017 owing to nascent stage of hospital operations. Although the loss-making hospitals reduced to one in FY2018 owing to better ramp up of operations, the subsidiaries are dependent on SHPL for funding cash losses, timely debt servicing and working capital requirements.

Tight liquidity position marked by high Arogyashri receivables – SHPL earned 30.6% of its FY2018 revenues (Rs. 77.2 crore) through the Arogyashri scheme wherein receivables are delayed upto ~9 months from the government. The same has increased from 21% (Rs. 44.6 crore) in FY2017. This has led to tight liquidity position as reflected by high average utilisation of sanctioned limits during the period between May 2017 and August 2018. Also, the group has received Rs. 25.0 crore of funding from Medicover in May 2018 to support their working capital requirements.

Retention of doctors likely to remain a key challenge: With intensifying competition in the healthcare market, ability to sustain the occupancy levels and growth in revenues would be dependent on retaining its lead consultants given the high brand association with lead consultants. However, SHPL's strategy to acquire controlling stake on its subsidiaries and retain the rest with local promoter doctors provides for better management of subsidiary hospitals.

Regulatory pressure on operating margins: The cardiology segment accounts for ~35.7% of its overall revenues in FY2018 which has decreased from 48% in FY2017. Regulatory risks in terms of restrictive pricing regulations levied by the central government could constrain the improvement in profit margins.

Analytical approach: For arriving at ratings, ICRA has consolidated the financials of Sahrudaya group consisting of SHPL and its subsidiaries namely Sahrudaya Health care (Karimnagar) Private Limited, Abhayanjaneya Healthcare Private Limited, Sahrudaya Healthcare (Kurnool) Private Limited, Niharika Hospitals Private Limited and Suyosha Healthcare Private Limited as all the entities form a part of the same group and operate in similar lines of business – hospitals.

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Hospitals

About the company:

Sahrudaya Health Care Pvt. Ltd. (SHPL), incorporated in January 25, 2011, is engaged in providing tertiary healthcare services across various specialties, with primary focus on – Cardiology, Orthopedics, Neurology, Gynecology. The Sahrudaya group focusses in Telangana and Andhra markets with 3 hospitals in Hyderabad - Madhapur (320 beds), Medicity (250 beds), Suyosha (75 beds) and 5 other hospitals including - Vizag (200 beds), Nellore (250 beds), Karimnagar (150 beds), Kurnool (200 beds), Nizamabad (100 beds), Sangareddy (100 beds) (four of ten hospitals being NABH accredited) providing tertiary care facilities through its 1620 beds spread across Telangana and Andhra regions as on March 31, 2018.

Medicover is an international healthcare and diagnostic services provider in Poland set up in 1995. Medicover provided commitment to infuse Rs. 320.0 crore in SHPL over a three-year horizon to acquire 51% stake in SHPL.

Key financial indicators

	Standalone		Consolidated	
	FY2017	FY2018*	FY2017	FY2018*
Operating Income (Rs. crore)	213.39	254.12	270.35	442.13
PAT (Rs. crore)	-16.94	-3.54	-27.18	5.31
OPBDIT/ OI (%)	0.40%	8.29%	-0.99%	12.96%
RoCE (%)	-5.43%	4.52%	-8.08%	11.18%
Total Debt/ TNW (times)	0.79	0.26	1.54	0.64
Total Debt/ OPBDIT (times)	90.87	2.48	-52.76	2.33
Interest Coverage (times)	0.09	1.62	-0.21	2.02

*Source: SHPL and ICRA research; *- Provisional; Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); NWC: Net Working Capital*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs crore)	Date & Rating Oct 2018	Date & Rating FY2018	Date & Rating FY2017	Date & Rating FY2016
1	Cash Credit	Long Term	10.00	10.00	[ICRA]BBB- (Stable); assigned	-	-	-
2	Term Loan	Long Term	39.50	39.50	[ICRA]BBB- (Stable); assigned	-	-	-
3	Unallocated	Long Term	20.50	20.50	[ICRA]BBB- (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: 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	Oct 2017	-	-	10.00	[ICRA]BBB- (Stable)
NA	Term Loan	Oct 2017	9.0%	Dec 2024	39.50	[ICRA]BBB- (Stable)
NA	Unallocated	Oct 2017	-	-	20.50	[ICRA]BBB- (Stable)

Source: SHPL

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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

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