

Hyderabad Institute of Oncology Private Limited

February 04, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Fund Based – Cash Credit	9.00	9.00	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Fund Based – Term Loans	24.10	6.64	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Unallocated Limits	34.60	52.06	[ICRA]A(Stable); upgraded from [ICRA]A-(Stable)
Total	67.70	67.70	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade factors in consistent growth in operating income of the company from Rs 161.86 crore in FY2016 to Rs 193.54 crore in FY2018 and further to Rs 145.09 crore in 8MFY2019 owing to improved occupancy, growth in pharmacy sales and OP consultation revenues along with reduction in debt levels with repayment of term loans. The occupancy has increased from 82.6% in FY2017 to 84.0% in FY2018 and further to 91.2% in 8MFY2019 owing to established brand name of 'Omega Hospitals¹' as a quality health care provider for Oncology related cases. Further, strong operating metrics have resulted in healthy operating margins and robust cash accruals for the company in the last few years. The rating also considers healthy financial risk profile of the company with gearing of 0.13 times as on November 30, 2018 and strong coverage metrics with TD/ OPBITDA of 0.27 times and interest cover of 17 times in 8MFY2019. The rating also factors in; technological competency of the hospital with installed equipment like CyberKnife, VMAT and RapidArc linear accelerators used in Radiation oncology, and Digital Mammography for early diagnosis of breast cancer; and absence of any major capex plans in the medium term which would further improve the capital structure and coverage indicators.

The rating is however constrained by operational risks inherent to a single location and single speciality hospital; high dependence on Dr. Mohana Vamsy whose reputation has helped the hospital generate strong operational metrics; and ability to retain the lead consultants as patient footfalls are highly linked to key doctors. The rating is also constrained by increased working capital intensity of 16% and 20% in FY2018 and 8MFY2019 respectively owing to receivables from government departments; intensifying competition in the healthcare sector; and regulatory risks in terms of restrictive pricing regulations by central and state governments could constrain the profit margins. The rating also considers absence of any support to related group entities.

Outlook: Stable

The Stable outlook reflects ICRA belief that HIOPL will continue to benefit from its established Omega brand in the oncology segment in Andhra Pradesh and Telangana States. The outlook may be revised to 'Positive' if there is substantial growth in revenues and profitability with reduction in receivables improving the overall liquidity profile. The outlook may be revised to 'Negative' if cash accruals are lower than expected, operational performance is weaker than expected, or any support is extended to related entities impacting the liquidity position.

¹ HIOPL operates its hospitals under the brand name 'Omega Hospitals'

Key rating drivers

Credit strengths

Established brand name with technical competency and renowned doctor profile: HIOPL operates 247 bed oncology hospital under the brand name of '*Omega Hospitals*' in Hyderabad. The hospital has built reputation for quality healthcare provider for oncology-related cases in Telangana and Andhra Pradesh on the back of installed equipment like PET CT, CyberKnife, VMAT and RapidArc linear accelerators used in Radiation Oncology and Digital Mammography for early diagnosis of breast cancer and reputation of Dr. Mohan Vamsy.

Strong operating metrics: The occupancy levels are healthy at above 80% levels in the last three years owing to established brand name of the hospital despite the company increasing the bed strength over the years. The average revenue per occupied bed day (ARPOB) remained steady at around Rs. 20,000-24,000 levels in the last four years.

Consistent increase in operating income and health operating margins: The operating income of the company has witnessed consistent growth from Rs 161.86 crore in FY2016 to Rs 193.54 crore in FY2018 and further to Rs 145.09 crore in 8MFY2019 owing to improved occupancy, growth in pharmacy sales and OP consultation revenues. Further, the operating margins are healthy at 22% and 25% for FY2018 and 8MFY2019 respectively owing to healthy occupancy levels along with high ARPOB.

Comfortable capital structure and coverage metrics: The gearing of the company is low at 0.13 times as on November 30, 2018 on account of low debt levels. The debt level reduced from 30.96 crore as on March 31, 2017 to Rs 14.87 crore as on November 30, 2018 owing to repayment of term loans. The coverage indicators are healthy with interest coverage of 16.91 times, Total Debt/OPBDITA of 0.27 times and Net Cash Accruals/Total Debt of 268% for 8MFY2019.

Credit weaknesses

Increased working capital intensity: The working capital intensity increased to 16% and 20% for FY2018 and 8MFY2019 respectively on account of increased receivables. The receivable days increased from 63 days in FY2017 to 71 days in FY2018 and further to 93 days in 8MFY2019 mainly on the account of delay in payments by certain State and Central Government organizations.

Single location and single specialty hospital: The company is exposed to operational risks inherent to single-location and single specialty hospital. Further, the hospital has high dependence on Dr. Mohana Vamsy, whose reputation has helped the hospital generate strong occupancy levels over the years.

Significant competition and retention of key doctors: The hospital faces high competition from other established hospitals in Hyderabad including some pan-India hospital chains which have started operations in the last 2-3 years. However, the impact is limited on HIOPL as reflected from increasing occupancy levels. Also, the retention of the doctors remains a key challenge for the company, given the stiff competition in the healthcare industry.

Exposed to regulatory risks: The hospital business is exposed to regulatory risks in terms of restrictive pricing regulations levied by central and state government organizations which could constrain the profit margins of the healthcare industry and consequently, the company going forward.

Liquidity Position:

The liquidity is expected to be comfortable with robust cash accruals, low repayment obligations and absence of capex plans. The receivables are expected to reduce by March 2019 with realization of receivables from government departments in the year end. The average utilization of working capital limits is moderate at 64% in the past 14 months ending December 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	Not Applicable
Consolidation / Standalone	The ratings are based on standalone financial profile of the company

About the company:

Hyderabad Institute of Oncology Private Limited (HIOPL) is a super specialty oncology hospital promoted by Dr. Mohana Vamsy. The hospital operates by name 'Omega Hospitals' in Banjara Hills, Hyderabad and had commenced operations in FY2011. The hospital has 247 beds as on December 2018 and provides tertiary care in Surgical, Clinical and Radiation Oncology departments. The hospital received NABH (National Accreditation Board for Hospitals and Health Care Providers) accreditation in February 2012. Further, the hospital is empaneled with Central Government Health Scheme (CGHS), Ex Servicemen Contributory Health Scheme (ECHS) and Employee State Insurance (ESI) and other central and state government institutions.

In FY2018, the company reported a net profit of Rs. 18.18 crore on an operating income of Rs. 193.54 crore, as compared to a net profit of Rs. 16.60 crore on an operating income of Rs. 182.78 crore in FY2017. In 8MFY2019, the company has reported net profit of Rs 19.08 crore on an operating income of Rs 145.09 crore.

Key Financial Indicators (audited)

	FY2017	FY2018	8MFY2019*
Operating Income (Rs. crore)	182.78	193.54	145.09
PAT (Rs. crore)	16.60	18.18	19.08
OPBDIT/ OI (%)	22.78%	21.51%	25.14%
RoCE (%)	32.63%	29.23%	38.63%
Total Debt/ TNW (times)	0.42	0.27	0.13
Total Debt/ OPBDIT (times)	0.74	0.59	0.27
Interest coverage (times)	12.53	13.73	16.91

Source: Annual Reports and ICRA Research; * Provisional

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 February 2019	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 September 2016	Date & Rating in FY2016 October 2015
1	Fund Based – Cash Credit Limits	Long Term	9.00	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
2	Fund Based-Term Loan Limits	Long Term	6.64	6.02	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)
3	Unallocated Limits	Long Term	52.06	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+ (Stable)

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				9.00	[ICRA]A(Stable)
NA	Term Loan 1	Sep-2018		July-2023	4.84	[ICRA]A(Stable)
NA	Term Loan 2	Sep-2018		Jan-2021	1.80	[ICRA]A(Stable)
NA	Unallocated Limits				52.06	[ICRA]A(Stable)

Source: Hyderabad Institute of Oncology Private Limited

ANALYST CONTACTS

K. Ravichandran

+91 44 4596 4301

subrata@icraindia.com

R Srinivasan

+91 44 4596 4315

r.srinivasan@icraindia.com

Vinay Kumar G

+91 40 4067 6533

vinay.g@icraindia.com

Kushal Kumar B

+91 40 4067 6521

kushal.kumar@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@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

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2019 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