November 05, 2020

Columbia Asia Hospitals Pvt Ltd: Ratings upgraded to [ICRA]BBB+; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based- Term Loan	508.00	508.00	[ICRA]BBB+; Upgraded from [ICRA]BBB; outlook revised to Stable from Positive
Fund-based- Overdraft	35.00	35.00	
Total	**543.00**	**543.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the rating outlook factors in the continued expansion in profit margins in various hospitals of the company, as evidenced by 199% growth in adjusted OPBDITA[1] in FY2020 (operating profit margin of 14.3%) as compared to FY2019 (operating profit margin of 8.0%). With improvement in profitability and cash accruals, the company's financial metrics have improved sharply over FY2019 and FY2020. The leverage (as measured by Secured Debt / Adjusted OPBITDA) has moderated to 2.4 times as on March 2020 from 4.4 times as on March 2019, resulting in comfortable debt coverage metrics. The rating continues to take into account the long operational track record and established brand equity of CAHPL in the tertiary healthcare segment. Further, the company's diversified presence across North (Gurgaon, Patiala and Ghaziabad), West (Pune), East (Kolkata) and South India (Bangalore and Mysore) mitigates concentration risks arising out of dependence on any geography.

The rating considers the adverse impact of Covid-19 pandemic on the operations of the company in FY2021 and resultant moderation expected in the company's financial metrics during the full year of FY2021. After reporting operating losses in the initial months of FY2021 on account of lockdown related restrictions, the company's operations have ramped up and are generating adequate cash flows to meet all funding requirements for the year. With some impact of Covid-19 expected to continue into the coming quarters, recovery in revenues and margins to earlier levels would be a key monitorable.

The company is also undertaking significant capital expenditure for setting up a new hospital in Baner, Pune, which will result in further increase in debt levels going forward. Timely commencement of the proposed hospital within budgeted costs and ramp up in operations post commissioning would be critical for sustaining the improvement in profitability of the company. Additionally, the company is also exposed to regulatory risks in terms of any restrictive pricing regulations instated by central and state governments and competition from other hospital chains.

[1] Adjusted OPBDITA refers to OPBDITA figures before implementation of IndAS 116 accounting standards.

ICRA notes that the promoters of CAHPL are discussions with certain investors to sell their stake in CAHPL; developments on this front, including the profile of new shareholders and changes in organisational structure, in case of conclusion of the sale, will also be a key rating monitorable.

The stable outlook represents ICRA's expectation that CAHPL's established track record and diversified portfolio will support its ability to show adequate recovery in operations in line with the industry trends and revert to the pre-Covid level of revenues and profitability.

Key rating drivers and their description

Credit strengths

Track record of the group and diversified presence across specialties and geographies – CAHPL was incorporated in 2003 and has been in existence for more than 17 years. The company's diversified presence across North (Gurgaon, Patiala and Ghaziabad), West (Pune), East (Kolkata) and South India (Bangalore and Mysore) mitigates concentration risks. The company is also diversified across specialties like orthopaedics, cardiology, general surgery, neurosurgery, nephrology, neurology, internal medicine, obstetrics and gynaecology. With improving maturity profile of the hospitals, the case mix is gradually changing in favour of complex, high margin procedures in orthpopaedics, cardiac sciences, urology, etc.

Improvement in profitability metrics in FY2019 and FY2020 - Various hospitals of the company in growth and early growth phases have been on a turnaround path since FY2018 and have reported further improvement in operating metrics in FY2019 and FY2020. Moreover, due to the cost rationalisation exercise undertaken and improvement in revenue mix in stabilized units, there has been significant margin expansion in the mature hospitals also. The Adjusted OPBDITA of the company increased to Rs 143.6 crore in FY2020 (operating profit margin of 14.3%) from Rs 71.9 crore in FY2019 (operating profit margin of 8.0%).

Sharp reduction in leverage - With improvement in profitability and cash accruals, the company's financial metrics have improved sharply over FY2019 and FY2020. The leverage (as measured by Secured Debt / Adjusted OPBITDA) has moderated to 2.4 times as on March 2020 from 4.4 times as on March 2019, resulting in comfortable debt coverage metrics. Till FY2018, the company had been dependent on equity infusion from the sponsors to meet funding shortfalls; however, with the turnaround in profitability and leverage metrics, the company has not required any additional equity funds.

Credit challenges

Adverse impact of Covid pandemic – The ongoing Covid-19 pandemic has adversely impacted the company's operations, particularly in Q1FY2021, largely due to deferment of elective procedures and drop in outpatient consultations, amidst fears surrounding the pandemic. In recent months the company has witnessed recovery in its operations and is expected to generate adequate internal accruals in FY2021, in order to comfortably meet all its funding requirements. Nevertheless, with some impact of Covid-19 expected to continue into the coming quarters, recovery in revenues and margins to earlier levels would be a key monitorable.

Intense competition and exposure to industry risks – The company remains exposed to stiff competition from other hospital chains and regulatory risks arising out of any restrictive pricing regulations instated by the central and state governments.

Exposure to project risks in upcoming hospital in Pune- The company is also undertaking significant capital expenditure for setting up a new hospital in Baner, Pune, which will result in further increase in debt levels going forward. Timely commencement of the new hospital in Baner, Pune, within budgeted costs and ramp up post commencement would be a key monitorable. The initial losses incurred during the ramp up stage are expected to negate the improvement in profitability reported in the other hospitals to some extent.

Liquidity position: Adequate

The company's liquidity is adequate. The company's cash from operations is expected to moderate in FY2021 on account of the Covid-19 pandemic impact; nonetheless, it is expected to be comfortable in relation to the debt servicing obligations. The company has availed the benefit of the moratorium on bank loan payments as per the RBI Covid regulatory package. The capital expenditure plans of the company remain supported by presence of sufficient undrawn construction debt limits. ICRA expects the company's internal accruals to remain adequate towards meeting the balance equity requirements for the under-construction Pune project. The liquidity profile of the company is further supported by presence of unutilised working capital limits of Rs. 35.0 crore and unencumbered cash and bank balances of Rs. 73.0 crore as on March 31, 2020.

Rating sensitivities

Positive triggers – ICRA could upgrade the company's rating in case of continued improvement in overall scale and profitability, resulting in further reduction in leverage.

Negative triggers – Negative pressure on the company's ratings could arise in case any large debt funded capex or sustained weakening of profitability results in higher leverage. Secured debt/adjusted OPBITDA greater than 3.0 times on a sustained basis could be a trigger for rating downgrade.

Analytical approach

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

About the company

CAHPL was incorporated in 2003 and is a 100% subsidiary of International Columbia 2004, Mauritius (ICM), which is wholly owned by ICU—a limited liability corporation incorporated in Cayman Islands with over 200 investor-owners. The company is promoted by Mr. Daniel. R. Baty and family, who currently hold 26.14% equity shareholding in ICU which is at par with the 26.09% shareholding of Mitsui & Co., Ltd. At present, the parent is in talks with certain investors to sell its entire shareholding in CAHPL.

At present, CAHPL owns and operates eleven hospitals across various locations in India. CAHPL has a total capacity of 1189 beds, with 59% of total beds more than 10 years old, 25% of the beds between 5 and 10 years old and balance 16% less than 5 years old. All these units, except Doddaballapur, provide multi-disciplinary healthcare services. The company is also in the process of commissioning a new 212 bed hospital in Baner (Pune) at a total project cost of Rs 270 crore. It is expected to be commissioned by Q3 FY2022.

Key financial indicators (audited)

	FY2019	FY2020
Operating Income (Rs. crore)	897.5	1,007.3
PAT (Rs. crore)	-9.6	-20.0
OPBDIT/OI (%)	8.8%	18.8%
PAT/OI (%)	-1.1%	-2.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.7	2.4
Total Debt/OPBDIT (times)	5.5	3.8
Interest Coverage (times)	1.1	2.1

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding*	Rating Nov-05-2020	FY2020 Oct-18-2019	FY2019 Dec-05-2018	FY2018 Oct-23-2017
1	Fund Based-Overdraft	Long Term	35.00	-	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)
2	Fund Based-Term Loan	Long Term	508.00	361.40	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Negative)

Amount in Rs. Crore; As on August 31, 2020.

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	Instrument Name	Date of Issuance/ Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-Based Overdraft	-	-	-	35.00	[ICRA]BBB+(Stable)
NA	Fund-Based Term Loan	Jan-19	-	FY2029	508.00	[ICRA]BBB+(Stable)

Source: Columbia Asia Hospitals Pvt Ltd

Annexure-2: List of entities considered for consolidated analysis: Not Applicable

Analyst Contacts

Shubham Jain
+91 124 4545 306
shubhamj@icraindia.com

Mathew Kurian Eranat
+91 80 4332 6415
mathew.eranat@icraindia.com

Ishan Luthra
+91 80 4332 6426
ishan.luthra@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:

+91-9354738909 (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