

October 21, 2014

Facilities	Amount (Rs. Crore)	Rating
Term Loan I	3.50	SMERA B+/Stable (Assigned)
Term Loan II	0.75	SMERA B+/Stable (Assigned)
Term Loan III	0.75	SMERA B+/Stable (Assigned)

SMERA has assigned a rating of '**SMERA B+**' (**read as SMERA single B plus**) to the abovementioned bank facilities of Dr. Sengaliappan Nursing Home (DSNH). The outlook is '**Stable**'. The rating is constrained by the firm's small scale of operations and concentrated service profile in an intensely competitive segment of the healthcare sector. The rating is also constrained by the deterioration in the firm's leverage (debt-to-capital ratio). However, the rating draws comfort from the firm's established track record of operations, experienced management and comfortable coverage indicators. The rating also draws comfort from the high occupancy rate registered by the firm.

DSNH, established in 1950, is a Coimbatore-based partnership firm engaged in running a 100-bed hospital offering specialized health care facilities in obstetrics and gynecology. DSNH has small-scale operations with revenues of Rs.2.41 crore (provisional) in FY2013-14 (refers to financial year, April 01 to March 31). The firm faces intense competition from several players in the healthcare sector. DSNH's leverage deteriorated from 0.68 times as on March 31, 2013 to 1.84 times (provisional) as on March 31, 2014 on account of increase in long-term debt (term loan of Rs.5.00 crore) availed for construction of a new hospital building.

DSNH benefits from its experienced management. Dr. Sampathkumar, partner of DSNH, has around two decades of experience in the healthcare sector. The firm's comfortable coverage indicators are reflected in interest coverage ratio (ICR) of 23.19 times (provisional) and debt service coverage ratio (DSCR) of 22.85 times (provisional) in FY2013-14; however, SMERA believes DSNH's coverage indicators may deteriorate over the medium term on account of substantial debt servicing obligation.

DSNH has registered healthy occupancy levels which stood at ~95 per cent (prior to capacity expansion) over the last three years and ~80 per cent (post capacity expansion from 60 beds to 100 beds) in the current year.

Outlook: Stable

SMERA believes DSNH will maintain a stable business risk profile over the medium term. The firm will continue to benefit from its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the firm registers strong growth in revenues and profitability while achieving improvement in capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected revenues and profitability, or in case of deterioration in firm's debt protection metrics.

About the firm

DSNH, established in 1950, is a Coimbatore-based partnership firm founded by Dr. Sengaliappan. The overall operations of the firm are currently managed by Dr. Sampathkumar (son of Dr. K. Shanmugasundaram) and Dr. Nalini Sampathkumar (wife of Dr. Sampathkumar).

DSNH runs a 100-bed hospital offering specialized health care facilities in obstetrics and gynaecology. The hospital also provides general surgery services.

For FY2013-14 (as per provisional financial statements), DSNH reported profit after tax (PAT) of Rs.0.46 crore on operating income of Rs.2.41 crore, as compared with PAT of Rs.0.35 crore on operating income of Rs.2.19 crore in FY2012-13. The firm's net worth stood at Rs.2.86 crore (provisional) as on March 31, 2014, as compared with Rs.2.54 crore a year earlier.

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