

May 07, 2015

Facilities	Amount (Rs. Crore)	Ratings
Term Loan	13.00	SMERA BBB-/Stable (Assigned)
Cash Credit	1.00	SMERA BBB-/Stable (Assigned)
Term Loan (proposed)	0.80	SMERA BBB-/Stable (Assigned)
Letter of Credit	0.20	SMERA A3 (Assigned)

SMERA has assigned a long-term rating of '**SMERA BBB-**' (read as SMERA triple B minus) and a short-term rating of '**SMERA A3**' (read as SMERA A three) to the abovementioned bank facilities of Moulana Hospital (MH). The outlook is 'Stable'. The ratings are supported by the firm's established operations, diversified service profile and healthy revenue growth. The ratings also derive comfort from the firm's healthy operating efficiency and strong financial risk profile. However, the ratings are constrained by the firm's exposure to intense competitive pressures and geographical concentration risk. The ratings note that the firm plans to make significant investment towards replacement of fixed assets in the medium term.

MH, established in 1989, is a Kerala-based partnership firm engaged in running a 450-bed multispecialty hospital in Perintalmanna. The hospital offers treatments across various specialities such as cardiology, neurology, neurosurgery, gynaecology, paediatrics, gastroenterology and orthopaedics. MH's average revenue per occupied bed (ARPOB) increased at a healthy rate of ~27 per cent (compound annual growth rate) during FY2011-12 to FY2013-14. Direct billings account for ~95 per cent of the hospital's total billings in the in-patient department. The hospital's healthy operating efficiency is reflected in overall occupancy rate of 81 per cent and return on capital employed (RoCE) of 46.28 per cent in FY2013-14. MH's comfortable working capital management is evidenced by negative working cycle in FY2013-14. The firm's strong debt protection metrics are reflected in gearing (debt-to-capital ratio) of 0.43 times as on March 31, 2014 and debt service coverage ratio (DSCR) of 12.28 times in FY2013-14.

MH's business is concentrated in Kerala. The firm plans to make significant investments in fixed assets, given the replacement needs and technological advancements. MH faces intense competition from several hospitals and medical institutes in Perintalmanna.

#### Rating sensitivity factors:

- Lower-than-expected occupancy levels and profitability
- Higher-than-expected debt-funded capex

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**Outlook: Stable**

SMERA believes MH will maintain a stable business risk profile over the medium term. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected earnings (on the back of increase in occupancy levels) while maintaining healthy operating profit margin. The outlook may be revised to 'Negative' in case of deterioration in the firm's capital structure, or in case the firm registers lower-than-expected net cash accruals.

**About the firm**

MH, established in 1989, is a Kerala-based partnership firm promoted by Mr. Abdul Rasheed and Mr. Mohammad Ali. MH runs a 450-bed multispecialty hospital in Perinthalmanna, Kerala. The hospital offers treatments across various specialities such as cardiology, neurology, neurosurgery, gynaecology, paediatrics, gastroenterology and orthopaedics.

For FY2013–14, MH reported profit after tax (PAT) of Rs.2.20 crore on revenue of Rs.61.35, as compared with PAT of Rs.5.24 crore on revenue of Rs.81.74 crore in the previous year. The firm's net worth stood at Rs.13.87 crore as on March 31, 2014 as against Rs.9.45 crore a year earlier. MH has registered revenue of ~Rs.75 crore (provisional) for the period April 2014 to January 2015.

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