

## Press Release

USM Healthcare

August 18, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.92	ACUITE BB   Stable   Upgraded	-
Total Outstanding Quantum (Rs. Cr)	8.92	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs. 8.92 Cr bank facilities of USM Healthcare (USM). The outlook is 'Stable'.

### Rationale for rating upgrade

The rating upgrade takes into account the improvement in aggregate revenue from Rs. 36 Cr in FY2021 to Rs. 40.99 Cr in FY2022 (Provisional). The increase is attributable to the increased in-patient and out-patient volumes, increase in average revenue per occupying bed day by 50 percent since FY2020. The rating also factors the experienced team of doctor and the overall adequate liquidity of the firm marked by bank limit utilization of 86%, unencumbered cash and bank balance of 3.23 Cr as on March 31, 2022 (Provisional) and a negative working capital cycle.

However, the rating remains constrained due to modest scale of operations, average financial risk profile marked by low net worth due to increased draws by partners and high dependence on Government companies and departments to generate revenues. Also the rating earlier was downgraded on account of information risk. However, the information has now been received.

### About the Company

The Bhopal based, USM Healthcare was established in 2014 as a partnership firm by Dr. Subodh Varshney, Mr. Upmanyu Trivedi and Mr. Rajiv Gupta. The firm is engaged in running hospital i.e. Siddhanta Red Cross Hospital with 52 beds. The Hospital specializes in providing surgical facilities in the area of Gastro, Cardiac and Urology. In addition the hospital provides Neurology, Oncology and critical care facilities.

### Analytical Approach

Acuite has taken a standalone view of the financial and business risk profile of USM to arrive at the rating.

## Key Rating Drivers

### Strengths

- **Experience of promoters and strong team of doctors:**

The Promoters, Dr. Subodh Varshney, Mr. Upmanyu Trivedi and Mr. Rajiv Gupta possess experience of more than two decades in managing businesses. Further, The hospital specializes in Gastro Surgeries headed by Subodh Varshney, Cardiac Surgeries headed by Sumit Bhatnagar and Uro Surgeries headed by Nivesh Sehra. Dr. Subodh Varshney and Dr. Nivesh Sehra have been a part of Bhopal memorial and have an experience of over 20 years.

Acuité believes that promoters' business experience and experienced team of doctors will enable the hospital strengthen its business profile.

- **Improvement in revenue albeit declining margins:**

USM's revenue witnessed a CAGR of 9% through FY2020-22. The revenue increased to Rs. 40.99 Cr in FY2022 (Provisional) against Rs. 31.26 Cr in FY2021. The growth is due to increase in in-patient and out-patient volumes and average revenue per occupying bed day (ARPOBD). The in-patient volumes increased from 5986 in FY2020 to 6483 in FY2022 (Provisional) along with ARPOBD increasing from Rs. 9,689 in FY2020 to Rs. 14,461 in FY2022 (Provisional). Further, the outpatient volumes increased from 23000 in FY2020 to 25,000 in FY2022 (Provisional), out-patient revenue accounts for 7-8 percent of the aggregate revenue.

However, operating margins of the firm declined from 18.84 percent in FY2020 to 15.16 in FY2022 (Provisional) due to the pandemic. The increase in prices of hospital supplies coupled with an acute shortage, besides, the Government capped the per patient charges during the pandemic led to overall reduction in the profits. The firm earns substantial portion of its revenue through Government departments and companies including Bharat Heavy Electricals Limited, Madhya Pradesh Police, Central Government health scheme, Ex-service contributory health scheme and Ayushman Bharat Yojana.

- **Comfortable financial risk profile albeit lower financial risk profile:**

USM's financial risk profile remains stable with low gearing and comfortable coverage indicators. However, the net worth still remains low. The net worth of the firm stood at Rs. 8.46 Cr as on March 31, 2022 (Provisional) against Rs. 8.32 Cr as on March 31, 2021. Despite earning a PAT of Rs. 4.70 Cr in FY2022 (Provisional) the low accretion to reserves is attributable to increased promoter drawings from Rs. 4.41 Cr in FY2021 to Rs. 5.64 Cr in FY2022 (Provisional).

Further, the debt of the firm increased to Rs. 9.13 Cr as on March 31, 2022 (Provisional) against Rs. 4.59 Cr in the previous year. The increase in debt is due to availing overdraft facility of ~Rs. 8.00 as the GCA days of the firm increased from 79 in FY2021 to 94 in FY2022 (Provisional) also, the partner's remuneration increased from 0.36 Cr in FY2021 to Rs. 1.08 Cr in FY2022 (Provisional). However, the aggregate term loan of USM reduced by Rs. 3.46 Cr to Rs. 1.13 Cr as on March 31, 2022 (Provisional) since the loan was prepaid in Feb 2022. Nonetheless, the firm follows conservative leverage policy marked by average gearing of 0.72 times through FY2020-22 with peak gearing of 1.08 times as on March 31, 2022 (Provisional).

### Weaknesses

#### **Inherent risk of capital withdrawal in a partnership firm**

The firm is susceptible to the inherent risk of capital withdrawal given its constitution. Any significant withdrawal of the partner's capital will have a negative bearing on the financial risk profile of the firm. There have been instances of withdrawals by way of partner remuneration and drawings. The partner's remuneration in FY2022 (Provisional) increased to Rs. 1.08 Cr from 0.36 Cr in FY2021. In addition the aggregate drawings in FY2022 (Provisional) increased to Rs. 5.64 Cr against Rs. 4.41 Cr in FY2021 and Rs. 2.58 Cr in FY2020.

### • **Competitive Industry:**

The hospital faces intense competition from several players in the vicinity including JK Hospital, Citi Hospital, Akshaya Heart and Multi Speciality hospital among others.

### **Rating Sensitivities**

- Sustained improvement in revenue while maintaining profitability.
- Increased withdrawals of retained earnings by partners through remuneration or drawings, thereby adversely impacting the financial and liquidity profile of the firm.

### **Material covenants**

None.

### **Liquidity Position: Adequate**

The overall liquidity of the firm has remained adequate. USM has net cash accruals (NCA) of Rs. 5.47-5.80 Cr through FY2020-22 against repayment obligation of Rs. 0.56-0.42. Going forward, the NCA is expected to be in the range of Rs.6.90-7.59 Cr in FY2023 and FY2024 against repayments of 0.47 and 0.11.

Further, the firm has a negative working capital cycle. However, the increased in GCA days, reduction in credit days and increased partner remuneration and drawings has led the firm to avail short term bank facility of Rs. 8.00 Cr. The bank limit utilization for the 7 month ended July 2022 stood at 86 percent.

However, the firm has unencumbered cash and bank balance of Rs. 3.23 Cr as on March 31, 2022 (Provisional). The current ratio of the firm declined to 0.94 times in FY2022 (Provisional) against 1.75 times in FY2021.

### **Outlook: Stable**

Acuité believes that the outlook on the rated facilities of USM will remain 'Stable' over the medium term on account of its experienced management, stable profitability margins and adequate liquidity. The outlook may be revised to 'Positive' if the hospital achieves higher than expected growth in revenues and improved financial risk profile marked by low dependence on short term borrowings. Conversely, the outlook maybe revised to 'Negative' in case of decline in profitability or deterioration in the financial risk profile.

### **Key Financials**

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	40.99	36.09
PAT	Rs. Cr.	4.70	4.52
PAT Margin	(%)	11.48	12.51
Total Debt/Tangible Net Worth	Times	1.08	0.55
PBDIT/Interest	Times	13.39	12.91

### **Status of non-cooperation with previous CRA (if applicable)**

CRISIL vide its press release dated 25 August 2021, has classified USM as 'Issuer Not Cooperating' and rated 'CRISIL B+/Stable'.

### **Any other information**

None.

### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>

- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 May 2021	Term Loan	Long Term	2.27	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	6.65	ACUITE B+ (Downgraded and Issuer not co-operating*)
25 Feb 2020	Term Loan	Long Term	6.65	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	2.27	ACUITE BB- (Downgraded and Issuer not co-operating*)
06 Dec 2018	Term Loan	Long Term	6.65	ACUITE BB   Stable (Upgraded from ACUITE B)
	Term Loan	Long Term	2.27	ACUITE BB   Stable (Upgraded from ACUITE B)
10 Feb 2018	Term Loan	Long Term	8.92	ACUITE B (Issuer not co-operating*)
20 Jun 2017	Term Loan	Long Term	8.92	ACUITE B   Stable (Reaffirmed)
20 Aug 2015	Term Loan	Long Term	8.92	ACUITE B   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB   Stable   Upgraded ( from ACUITE B+ )
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.01	ACUITE BB   Stable   Upgraded ( from ACUITE B+ )
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.14	ACUITE BB   Stable   Upgraded ( from ACUITE B+ )
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.77	ACUITE BB   Stable   Upgraded ( from ACUITE B+ )

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### About Acuité Ratings & Research

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