Press Release

S.R.Trust

April 21, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 81.56 Cr.
Long Term Rating	SMERA A- / Outlook: Stable

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA A-**' **(read as SMERA A minus)** on the Rs. 81.56 crore bank facilities of S.R.Trust. The outlook is **'Stable'**.

Established in 1985, S. R. Trust (SRT) runs a multispecialty hospital in Madurai, Tamil Nadu by the name Meenakshi Mission Hospital and Research Centre. The hospital specialises in 43 clinical and ancillary healthcare services including cardiology, nephrology, neuro surgery, oncology and others.

Key Rating Drivers

Strengths

- **Experienced and qualified management**
  The Tamil Nadu-based Meenakshi Mission Hospital and Research Centre (MMHRC) commenced operations in 1989. Founded by Dr. N. Sethuraman (Urologist and social activist), the day-to-day operations are led by Dr. S. Gurushankar (S/o Dr. Sethuraman) who possesses extensive experience in the healthcare sector.

- **Steady revenue growth**
  The revenue has been growing steadily. The trust registered operating income of Rs.269.70 cr in FY2016 as compared to Rs.232.84 cr in FY2014. The CAGR stood at 7.62 percent during FY2014 -16 owing to increase in the number of beds, inpatient and outpatient volumes. In FY2016, the hospital had 806 beds with an average occupancy of around 64 percent. The inpatient volumes in FY2016 stood at 37,885 (as compared to 37,448 in FY2015) and outpatient volumes were 2,95,295 in FY2016 (as compared to 2,75,968 in FY2015). The average length of stay increased to 4.91 days in FY2016 from 4.80 days in FY2014. Also, the revenue has been around Rs.147 cr (provisional) till September 2016 and is expected to be around Rs.290 cr in FY2017.

- **Strong financial risk profile**
  The strong financial risk profile is marked by comfortable gearing, healthy corpus and above average debt protection metrics. The gearing levels have been between 0.60 times to 1.00 times in the past three years ended FY2016. The debt mainly comprises term loans from banks for purchase and replacement of equipments. The corpus stood at a healthy Rs. 177.5 cr as on March 31,2016 as against Rs.153.86 cr in the previous year. The consistent increase in corpus has been driven by steady accretion to reserves. The interest coverage ratio and debt service coverage indicators stood at 3.80 times (against 2.77 times in FY2015) and 1.29 times in FY2016 (as against 1.13 times in FY2015) respectively. The financial risk profile of the trust is expected to remain at strong levels over the medium term backed by steady increase in scale of operations and absence of debt funded capex plans.

- **Steady improvement in margins and accruals**
  The healthy margins are marked by EBITDA of 18.56 percent and 17.75 cr in FY2016 and FY2015

respectively. The PAT margins stood at 8.58 percent in FY2016 and 6.09 percent in FY2015. This is because of higher growth of revenues as compared to the increase in cost of raw materials which majorly comprises medicines. The PAT margins have also improved due to decreasing interest costs during the period with external debts being repaid. The healthy accruals are reflected by NCA/TD of 0.32 times in FY2016 as compared to 0.23 times in FY2015. Also, the NCA stood at Rs.36.89 cr against CPLTD of Rs.32.37 cr in FY2016.

Weaknesses

- **Geographical concentration risk**
  With operations confined to only one hospital in Madurai, Tamil Nadu, the hospital is exposed to geographical concentration risk. Being a tertiary care unit, it gets its patients mainly through referrals from doctors operating in and around the region. Besides, the flow is also influenced by the change in demographic profile and increase in population in the area.

- **Intense competition**
  The hospital faces intense competition from several hospitals and clinics providing tertiary, primary and secondary healthcare services like Fortis, Apollo in the region.

- **Highly regulated industry**
  The healthcare sector is highly regulated by the government and the hospital is exposed to unfavourable changes in government policies from time to time.

Analytical Approach
SMERA has taken a standalone view of the business and financial risk profiles of the trust.

Outlook: Stable
SMERA believes that SRT will maintain a stable outlook in the medium term while benefitting from its experienced and qualified management and strong financial risk profile. The outlook may be revised to 'Positive' if SRT scales up operations while sustaining improvement in profitability and the financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the trust registers lower-than-expected growth in revenue and profitability or if the working capital cycle elongates.

About the Rated Entity - Key Financials
For FY2016, SRT reported surplus of Rs.23.14 cr on total operating income of Rs.269.70 cr, as compared with surplus of Rs.15.30 cr on total operating income of Rs.251.18 cr in FY2015. The corpus stands at Rs.177.47 cr in FY2016 as compared to Rs.153.86 cr in FY2015.

Status of non-cooperation with previous CRA (if applicable)
None

Any other information
None

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Entities In Services Sector - https://www.smera.in/criteria-services.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument
https://www.smera.in/criteria-complexity-levels.htm

Rating History (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	31-Aug-2023	81.56	SMERA A- / Stable

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Nikhil Tantia Analyst - Rating Operations Tel: 033-66201206 nikhil.tantia@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in

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