

Press Release

C Square Healthcare Private Limited

June 24, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE B / Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B**' (**read as ACUITE B**) to the Rs.20.00 crore bank facilities of C Square Healthcare Private Limited (CSPL). The outlook is '**Stable**'.

The rating reaffirmation is based on the commencement of operations though delayed, extensive experience of the promoters and the financial flexibility; however, it is partly constrained by modest scale of operations owing to low bed occupancy and nascent stage of operations. As per the original plan, the commercial operations were estimated to commence during April 2018; however, delay in construction activity and delay in the disbursement of loan lead to a delay of about six months from April 2018 to October 2018 for commencement of operations. However, the mismatch in the cash flow due to delay in operations was partly met by infusion of funds by way of equity and unsecured loans by the promoters. Further, it is supported by extension of the moratorium by the Bank.

C Square Healthcare Private Limited (CSPL), incorporated in 2014, is a Bangalore-based private limited company engaged in providing health care services. It is promoted by a reputed team of twelve doctors who have experience of over two decades in the industry. The company has set up a new hospital under the name of 'Prakriya Hospitals' which is a 250-bed multispecialty hospital focusing mainly on departments such as Oncology, Hepatobiliary services, Orthopedic and Neurosciences, Gynecology, Pediatrics, Nephrology and others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Extensively experienced team of doctors**

CSPL is promoted and managed by Dr. Prakash Ramchandra, Dr. M.C Uthappa, Dr. Srinivas and Dr. K.R Madhava. The Directors of the company have an experience of more than two decades in healthcare services. Dr. Prakash specialises in medical Oncology and Dr. M C Uthappa is a renowned Radiologist. The company was incorporated in the year 2014 along with ten other doctors, and setup a 250-bed multi-specialty hospital located at Bengaluru and commenced multi-specialty services during October 2018. The company is operationalising the beds in phased manner, and it is likely to break even by FY2021. Major portion of the revenues of about 80 per cent are from in-patient, rest from out-patient and pharmacy revenues. The management has plans to further expand the hospital bed capacity; however, the same is likely by way of second phase, once the first phase stabilises and break-even. Acuité believes that the business risk profile is expected to improve supported by the experienced professional team and the improving demand for healthcare services.

- **Moderate financial risk profile**

Financial risk profile of the company is moderate marked by comfortable gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), though constrained by weak debt protection metrics. Gearing and TOL/TNW are comfortable at 1.18 and 1.32 times as on 31 March, 2019 (Provisional) as against 0.76 and 0.84 times as on 31 March, 2018. CSPL completed first phase with capex of Rs.74.00 crore funded out of term loan of Rs.18 crore, and balance out of equity and unsecured loans. Further, it has availed Rs.5.00 crore NBFC loan for acquiring medical equipment. Its debt protection metrics are weak due to nascent stage of operations and net losses. However, with expected

improvement in revenues and profitability margins, the financial risk profile is expected to improve over the medium term.

Weaknesses

- **Nascent stage of operations and modest scale of operations**

CSPL just commenced its operations during October 2018; though it has built about 200-bed capacity, however the occupancy levels are low at about 22 beds, leading to revenues at about Rs.1.18 crore in FY2019 (Provisional). Further, the hospital being in nascent stage has a bearing on the profitability and its cash flows. The company is expected to breakeven from FY2021. Acuité believes that stabilisation of operations and improvement in the bed occupancy is the key rating sensitivity factors for the revenue profile and cash flows.

- **Stringent regulatory framework and intensive healthcare sector**

Despite the increasing trend of privatisation of healthcare sector in India, the company continues to operate under string regulatory control. Accordingly, regulatory challenges continue to pose a significant risk to private healthcare institutions as they are highly susceptible to changes in regulatory framework. Healthcare is a highly sensitive sector where any mishandling of a case or negligence on part of any doctor and/or staff of the unit can lead to distrust among the masses. Thus, the healthcare providers need to monitor each case diligently and maintain standard in services in order to avoid the occurrence of any unforeseen incident. They also need to maintain high vigilance to avoid any malpractice at any pocket.

Liquidity Position:

CSPL's liquidity is stretched marked by negative cash accruals though supported by the promoters. It has reported negative cash accruals of Rs.2.52 crore; however, its cash accruals are expected to improve in the range of Rs.1.50-5.00 crore over the medium term against which its repayment obligations are about Rs.2-3 crore. The promoters have infused about Rs.30.00 crore in the form of equity and unsecured loan of Rs.5.34 crore in FY2019 (Provisional) to support the construction activity and to meet repayment obligations which started in January 2019 (Provisional). Due to extension in the DCCO, the moratorium period had been extended to January 2019 (Provisional) from July 2018, which supported the financial flexibility. Acuité believes that improvement of bed occupancy and cash flows are critical factors, though it enjoys the financial flexibility from the promoters.

Outlook: Stable

Acuité believes that CSPL will maintain a 'Stable' outlook over the medium term from its promoters' extensive industry experience and recognition. The outlook may be revised to 'Positive' in case of significant growth in its revenues along with improvement in the bed occupancy and improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected occupancy leading to stretch in its cash flows and liquidity.

About the Rated Entity - Key financials

	Unit	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	1.18	-	-
EBITDA	Rs. Cr.	(3.80)	(2.61)	(0.11)
PAT	Rs. Cr.	(6.29)	(2.53)	(0.00)
EBITDA Margin	(%)	(322.10)	-	-
PAT Margin	(%)	(533.09)	-	-
ROCE	(%)	(8.44)	(9.09)	0.31
Total Debt/Tangible Net Worth	Times	1.18	0.76	0.05
PBDIT/Interest	Times	(1.45)	(734.83)	20.34
Total Debt/PBDIT	Times	(7.89)	(5.99)	14.11
Gross Current Assets (Days)	Days	1051	-	-

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities in service sector- <https://www.acuite.in/criteria-services.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
24-April-2018	Term Loans	Long Term	18.00	ACUITE B/Stable (Assigned)
	Cash Credit	Long Term	2.00	ACUITE B/Stable (Assigned)

*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 Loan	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE B/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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