

Press Release
C Square Healthcare Private Limited

February 05, 2021



Rating Upgraded & Assigned

Total Bank Facilities Rated*	Rs.22.50 crore. (Enhanced from Rs.20.00 crore)
Long Term Rating	ACUITE BB-/ Outlook: Stable (Upgraded from ACUITE B/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE B**' (**read as ACUITE B**) on the Rs.18.22 crore bank facilities and has assigned the long term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.4.28 crore bank facilities of C Square Healthcare Private Limited (CSHPL). The outlook is '**Stable**'.

Rationale for rating upgrade

The rating upgrade is on account of the gradual improvement of business operations in FY20 and FY21YTD (till November, 20) majorly on account of increase demand of medical services of the newly set up 'Prakriya Hospitals'. The company recorded revenue of Rs.15.28 crore in FY20 compared to Rs.1.19 crore in FY19 on back of improve in business operations. In the current financial year from April, 20 to November, 20; the operations of the hospital has been significant improvement on account of increase in demand of medical services due to covid-19 pandemic led to significant growth in revenues which stood at Rs30.78 crore during the same period. Further, the rating is also supported by experienced management of doctors having an experience of more than two decades in the health services industry. However; the rating is partly constrained by modest scale of operations owing to modest bed occupancy and moderate financial risk profile of the company.

About the company

Incorporated in 2014, C Square Healthcare Private Limited (CSHPL) is a Bangalore; Karnataka based private limited company engaged in providing healthcare services. The promoters of CSHPL, namely Dr. Prakash Ramchandra, Dr. M.C Uthappa, Dr. Srinivas and Dr. K.R Madhava are well trained doctors and hold experience of more than two decades in healthcare services industry. The company set up a new hospital named "Prakriya Hospitals" in Jan, 2019 which is a 200 beds multispecialty hospital focusing initially on key departments like Oncology, GI and Hepatobiliary services, Orthopedic and Neurosciences, Gynecology, Pediatrics, Nephrology and other departments.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of CSHPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management led by a team of qualified doctors

Incorporated in 2014, CSHPL is promoted and managed by a group of highly qualified group of professional doctors, namely 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 the healthcare services. The current managing director Dr. Prakash specialises in medical Oncology and Dr. M C Uthappa is a renowned Radiologist. The company setup a 200-bed multispecialty hospital located at Bengaluru and commenced multi-specialty services from January, 2019. The management has plans to further expand the hospital bed capacity going forward. However; the same is likely by way of second phase, once the operations of the hospital stabilises.

Acuité believes that the business risk profile is expected to improve supported by the experienced professional team of doctors and the improving demand for healthcare services.

- **Improvement in business operations**

The company commenced its operations from January, 2019 and reported revenues of Rs.1.19 crore in FY19. During FY20, the company reported revenues of Rs.15.28 crore majorly on account of commencement of operations of the newly set up hospital and growth in Inpatient and Outpatient numbers. Further, during the current financial year the revenues from operations improved significantly and stood at Rs.30.78 crore from April, 2020 to November, 2020 majorly on account high demand of medical services due to covid-19 disruptions. The company incurred EBITDA and PAT loss of Rs.2.77 crore and Rs.9.75 crore on account of negative operating leverage in FY20. However, as per the financials provided by the management from April, 2020 to Nov, 2020, the company reported positive EBITDA and PAT of Rs.9.17 crore and Rs.1.99 crore on account of higher growth in revenues.

Acuité believes that the revenue from operations of the company will improve going forward on account of higher demand and increase in operational beds.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of the company is healthy moderate marked by low net worth, moderate gearing and weak debt protection metrics. The tangible net worth of the company stood Rs.16.34 crore as on 31 March, 2020 as against Rs.19.18 crore in the previous year. Despite infusion of capital by the promoters to the tune of Rs.0.52 crore, the net worth of the company decline on account of losses incurred during the same period. The group follows a slightly aggressive policy marked by increase in gearing to 1.83 times as on 31 March, 2020 compared to 1.52 times same period last year. The interest coverage ratio of the company stood at (0.85) times for FY20 as against (3.03) times for FY19. The total liabilities to tangible net worth (TOL/TNW) stood low at 2.30 times as on 31 March, 2020 as against 1.77 times in the previous year.

Acuité believes that the financial risk of the company is expected to be remain on the similar levels over the medium term owing to moderate accretion to reserves and absence on any significant debt-funded capex term.

- **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 service 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: Stretched

The liquidity of the company is stretched market by low cash accruals against debt obligations. The company reported negative cash accruals of Rs.6.39 crore against debt obligations of Rs.3.13 crores in FY20. However, the company's cash accruals are expected to be positive from FY21 -23 period in the range of Rs.5.23 crore – Rs.11.42 crore against repayments of Rs.3.78 crore – Rs.4.53 crore in the same period. Further, the promoters had infused funds of around Rs.1.21 crore as unsecured loan in current financial year FY21 (till November, 20) to meet any liquidity mis-match for the same period. The working capital requirement of the company is funded through bank lines which stood at an average of 70 percent in last six months ended December, 2020. The current ratio of the company remains low at 0.25 times as on 31 March, 2020. Acuité believes that the liquidity of the group is likely to remain stretch over the medium term on account of moderate cash accruals to its maturing debt obligation.

Rating Sensitivities

- Improvement in scale of operations backed by healthy demand of healthcare services and increase in bed occupancy levels
- Any further deterioration in the financial risk profile and liquidity position have a negative bias on the rating

Material Covenants

None

Outlook: Stable

Acuité believes that the company will maintain a 'Stable' outlook over the medium term on the back of growth in revenues and experienced management led by highly qualified doctors. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in the working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	15.28	1.19
PAT	Rs. Cr.	(9.75)	(7.15)
PAT Margin	(%)	(63.80)	(599.71)
Total Debt/Tangible Net Worth	Times	1.83	1.52
PBDIT/Interest	Times	(0.85)	(3.03)

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

None

Any other information

None

Applicable Criteria

- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Sep-2020	Term Loan	Long Term	18.00	ACUITE B (Indicative)
	Cash Credit	Long Term	2.00	ACUITE B (Indicative)
24-June-2019	Term Loan	Long Term	18.00	ACUITE B/Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE B/Stable (Reaffirmed)
24-April-2018	Term Loan	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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB-/Stable (Upgraded from B/Stable)
Term Loan	June, 2017	12.00%	Dec, 2025	9.11	ACUITE BB-/Stable (Upgraded from B/Stable)
WCTL	June, 2020	7.50%	June, 2024	2.18	ACUITE BB-/Stable (Assigned)

Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB-/Stable (Upgraded from B/Stable)
Term Loan	June, 2017	11.70%	Dec, 2025	7.11	ACUITE BB-/Stable (Upgraded from B/Stable)
WCTL	Sep, 2020	7.50%	Sep, 2024	1.80	ACUITE BB-/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BB-/Stable (Assigned)

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About Acuité Ratings & Research:

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