

Press Release

C Square Healthcare Private Limited

August 24, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	22.50	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	7.37	ACUITE BB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	29.87	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB-' (read as ACUITE Double B minus)**' on the Rs.22.50 crore bank facilities of C Square Healthcare Private Limited. The outlook remains '**Stable**'.

Also, Acuite has assigned its long-term rating of '**ACUITE BB-' (read as ACUITE Double B minus)**' on the Rs.7.37 crore bank facilities of C Square Healthcare Private Limited. The outlook is '**Stable**'.

Rationale for Rating

The rating reaffirmation draw its comfort from gradual improvement of business operations is FY2022 majorly on account of increase in medical services of the hospital. The company recorded revenue of Rs.49.78 crore in FY22 as against Rs.40.24 crore in FY21. Further, the rating is also supported by experienced doctors having an experience of more than two decades in the health services industry. However, the rating is constrained by modest scale of operations owing to modest bed occupancy, intensive working capital management of the company and intense competition in the healthcare sector.

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

Acuite 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.49.78 crore in FY2022 as against Rs.40.24 crore in FY2021 on account of growth in Inpatient and Outpatient numbers. However, the company reported positive EBITDA of Rs.4.08 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

>Intensive working capital management

The working capital management of the company is intensive marked by GCA days of 82 days in FY2022 (Prov) as against 54 days in FY2021 and 61 days in FY2020. Also, the debtor days stood at 39 days in FY2022 (Prov) as against 30 days in FY2021 and 18 days in FY2020. The major debtors are with respect to TPAs wherein realization take around 30-45 days. The creditor days stood at 341 days in FY2022 (Prov) as against 243 days in FY2021 and 486 days in FY2020. However, the inventory days stood around 7-8 days in FY 2022 (Prov), FY 2021 and FY2020.

Acuité expects the working capital management to remain intensive over the medium term considering the nature of business.

>Moderate financial risk profile

The financial risk profile of the company stood moderate marked by moderate net worth, gearing and debt protection metrics. The tangible net worth stood at Rs.17.94 crore as on 31 March, 2022 (Prov) as against Rs.15.57 crore as on 31 March, 2021 and Rs.16.34 crore as on 31 March, 2020. The total debt of the company stood at Rs.34.08 crore includes Rs.20.44 crore of long term debt, Rs.1.43 crore of short term debt, Rs.6.91 crore of unsecured loans and Rs.5.30 crores of CPLTD as on 31 March, 2022 (Prov). The gearing (debt-equity) stood at 1.90 times as on 31 March, 2022 (Prov) as compared to 2.11 times as on 31 March, 2021 and 1.83 times as on 31 March, 2020. Interest Coverage Ratio stood at 1.06 times for FY2022 (Prov) as against 1.19 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 0.41 times in FY2022 (Prov) as against 0.60 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 2.56 times as on 31 March, 2022 as against 2.70 times on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.01 times for FY2022 (Prov).

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.

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.

Liquidity Position: Stretched

The company's liquidity position is stretched marked by insufficient net cash accruals. The company has insufficient net cash accruals in the range of Rs.0.16 - Rs.0.28 Crore from FY 2020-2022 against its maturing debt obligation of Rs.3.13 – Rs.7.10 crores during the same tenure. However, going ahead, the company would remain same generating insufficient cash accrual in the range of Rs.1.03-Rs.1.43 crores against the maturing repayment obligations of around Rs Rs.4.98-Rs.5.15 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 82 days in FY2022 (Prov) as against 54 days in FY2021 and 61 days in FY2020. The company maintains unencumbered cash and bank balances of Rs.2.52 crore as on March 31, 2022 (Prov). The current ratio stands at 0.84 times as on March 31, 2022 (Prov). The average bank limit utilization for the past 06 months ending March 2022 for fund-based facility is approx.~ 51 percent.

Acuité believes that the liquidity of the group is likely to remain stretch over the medium term on account of insufficient cash accruals to its maturing debt obligation.

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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	49.78	40.24
PAT	Rs. Cr.	(3.18)	(2.58)
PAT Margin	(%)	(6.39)	(6.40)
Total Debt/Tangible Net Worth	Times	2.35	2.11
PBDIT/Interest	Times	1.06	1.19

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

Not Available.

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
27 Apr 2022	Term Loan	Long Term	7.11	ACUITE BB- (Issuer not co-operating*)
	Working Capital Term Loan	Long Term	0.32	ACUITE BB- (Issuer not co-operating*)
	Cash Credit	Long Term	1.00	ACUITE BB- (Issuer not co-operating*)
	Term Loan	Long Term	9.11	ACUITE BB- (Issuer not co-operating*)
	Cash Credit	Long Term	1.00	ACUITE BB- (Issuer not co-operating*)
	Working Capital Term Loan	Long Term	2.18	ACUITE BB- (Issuer not co-operating*)
	Proposed Bank Facility	Long Term	0.30	ACUITE BB- (Issuer not co-operating*)
	Working Capital Term Loan	Long Term	1.48	ACUITE BB- (Issuer not co-operating*)
05 Feb 2021	Proposed Bank Facility	Long Term	0.30	ACUITE BB- Stable (Assigned)
	Working Capital Term Loan	Long Term	1.80	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	9.11	ACUITE BB- Stable (Upgraded from ACUITE B)
	Cash Credit	Long Term	1.00	ACUITE BB- Stable (Upgraded from ACUITE B)
	Term Loan	Long Term	7.11	ACUITE BB- Stable (Upgraded from ACUITE B)
	Cash Credit	Long Term	1.00	ACUITE BB- Stable (Upgraded from ACUITE B)
	Working Capital Term Loan	Long Term	2.18	ACUITE BB- Stable (Assigned)
14 Sep 2020	Term Loan	Long Term	18.00	ACUITE B (Issuer not co-operating*)
	Cash Credit	Long Term	2.00	ACUITE B (Issuer not co-operating*)
24 Jun 2019	Term Loan	Long Term	18.00	ACUITE B Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE B Stable (Reaffirmed)
24 Apr 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	4.58	ACUITE BB- Stable Assigned
Bank of Maharashtra	Not Applicable	Term Loan	01-06-2017	12.00	01-12-2025	8.98	ACUITE BB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	01-06-2017	11.70	01-12-2025	7.11	ACUITE BB- Stable Reaffirmed
Union Bank of India	Not Applicable	Term Loan	01-06-2017	11.70	01-12-2025	0.21	ACUITE BB- Stable Assigned
Union Bank of India	Not Applicable	Working Capital Term Loan	01-09-2020	7.5	01-09-2024	0.68	ACUITE BB- Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.95	ACUITE BB- Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.09	ACUITE BB- Stable Reaffirmed
Bank of Maharashtra	Not Applicable	Working Capital Term Loan	01-06-2020	7.5	01-06-2024	0.69	ACUITE BB- Stable Reaffirmed
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	2.58	ACUITE BB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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