



Press Release
C Square Healthcare Private Limited
November 22, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	29.87	ACUITE B Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	29.87	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE B**' (read as **ACUITE B**) from '**ACUITE BB-**' (read as **ACUITE Double B minus**) on the Rs.29.87 crore bank facilities of C Square Healthcare Private Limited. The outlook remains '**Stable**'.

Rationale for Downgrade

The rating downgrade is on account of deterioration in the business and financial risk profile marked by declining revenue and profitability. The revenue stood at Rs.45.28 Cr in FY2023 as against Rs.49.90 Cr in FY2022. The EBITDA margin of the company also deteriorated to 6.88 percent in FY2023 as against 8.88 percent in FY2022. the EBITDA margin further deteriorated to 1.03 percent in 5MFY2024. This is majorly on account of increase in employee cost and other expenses. Further, the rating is also constrained on account of weak financial risk profile and stretched liquidity. The rating continues to derive support from the experienced management of doctors having an experience of more than two decades in the health services industry.

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, Dr. K.R Madhava and Dr. Somnath Chatterjee 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.

Unsupported Rating

Not Applicable

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, Dr.

K.R Madhava and Dr. Somnath Chatterjee. 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.

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.

Weaknesses

Deterioration in Operating Income and Profitability

CSHPL has a modest scale of operations with operating income of Rs. 45.28 crores in FY2023 as against Rs.49.90 crore in FY2022. Furthermore, the EBITDA margin of the company also deteriorated to 6.88 percent in FY2023 as against 8.88 percent in FY2022. Also, the EBITDA margin further deteriorated to 1.03 percent in 5MFY2024. This is majorly on account of increase in employee cost and other expenses in FY2023. The PAT margins stood at (56.16) percent in FY2023 as against (5.73) percent in FY2022. The sharp decline is on account of exceptional expense of finance lease recorded during the year as exceptional loss of Rs. 15.83 Cr. The adjust PAT (excluding the exceptional loss) also stood at (21.20) percent. The decline in net profitability is on account of high interest costs.

Moderately Intensive working capital management

The working capital management of the company is moderately intensive marked by GCA days of 59 days in FY2023 as against 71 days in FY2022. The debtor days stood at 9 days in FY2023 as against 33 days in FY2022. The major debtors are with respect to TPAs wherein realization take around 30-45 days. The creditor days stood at 382 days in FY2023 as against 210 days in FY2022. The average credit period allowed by suppliers is 90-120 days. However, the inventory days stood around 9 days in FY2023 as against 11 days in FY2022. Further, the average bank limit utilization for fund-based limits stood at ~80 % for the last 09 months ending September 2023.

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

Weak financial risk profile

The financial risk profile of the company stood weak marked by negative net worth, gearing and high debt protection metrics. The tangible net worth stood at Rs. (10.11) crore as on 31 March, 2023 as against Rs.15.02 crore as on 31 March, 2022. The total debt of the company stood at Rs.78.96 crore includes Rs.59.10 crore of long-term debt, Rs.5.71 crore of short term debt, Rs.8.15 crore of unsecured loans and Rs.5.99 crores of CPLTD as on 31 March, 2023. The gearing (debt-equity) stood at (7.81) times as on 31 March, 2023 as compared to 2.28 times as on 31 March, 2022. Interest Coverage Ratio stood at (1.25) times for FY2023 as against 1.42 times for FY2022. Debt Service Coverage Ratio (DSCR) stood at (0.57) times in FY2023 as against 0.48 times in FY2022. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at (9.20) times as on 31 March, 2023 as against 3.06 times on 31 March, 2022. Net Cash Accruals to Total Debt (NCA/TD) stood at (0.26) times for FY2023 as against 0.04 times for FY2022.

>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 increase in bed occupancy levels
- Any further deterioration in the financial risk profile and liquidity position

All Covenants

Not Available

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. (20.54) - Rs.1.27 Crore from FY 2021-2023 against its maturing debt obligation of Rs.5.99-8.20 crores during the same tenure. Going ahead, the company would remain same generating insufficient cash accrual against the maturing repayment obligations of around Rs.3.75-4.68 crore over the medium term. The company maintains unencumbered cash and bank balances of Rs.0.17 crore as on March 31, 2023. The current ratio stands at 0.46 times as on March 31, 2023, as against 0.60 times as on March 31, 2022. The average bank limit utilization for the past 09 months ending September 2023 for fund-based facility is approx.~ 80 percent.

Acuité believes that the liquidity of the company 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 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 improving 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 company's financial risk profile or significant elongation in the working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	45.28	49.90
PAT	Rs. Cr.	(25.43)	(2.86)
PAT Margin	(%)	(56.16)	(5.73)
Total Debt/Tangible Net Worth	Times	(7.81)	2.28
PBDIT/Interest	Times	(1.25)	1.42

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

Not Applicable

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Aug 2022	Working Capital Term Loan	Long Term	0.68	ACUITE BB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	2.58	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	8.98	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	0.21	ACUITE BB- Stable (Assigned)
	Working Capital Term Loan	Long Term	0.69	ACUITE BB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	2.95	ACUITE BB- Stable (Reaffirmed)
	Term Loan	Long Term	7.11	ACUITE BB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	4.58	ACUITE BB- Stable (Assigned)
	Cash Credit	Long Term	1.00	ACUITE BB- Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	0.09	ACUITE BB- Stable (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE BB- Stable (Reaffirmed)
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)
	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)
	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)
		Long		

14 Sep 2020	Term Loan	Term	18.00	ACUITE B (Issuer not co-operating*)
	Cash Credit	Long Term	2.00	ACUITE B (Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE B Stable Downgraded
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE B Stable Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.91	ACUITE B Stable Downgraded
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.21	ACUITE B Stable Downgraded
Bank of Maharashtra	Not Applicable	Term Loan	01 Jun 2017	12.00	01 Dec 2025	Simple	9.01	ACUITE B Stable Downgraded
Union Bank of India	Not Applicable	Term Loan	01 Jun 2017	11.70	01 Dec 2025	Simple	7.32	ACUITE B Stable Downgraded
Union Bank of India	Not Applicable	Working Capital Term Loan	01 Sep 2020	7.5	01 Sep 2024	Simple	0.99	ACUITE B Stable Downgraded
Bank of Maharashtra	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.07	ACUITE B Stable Downgraded
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	0.90	ACUITE B Stable Downgraded
Bank of Maharashtra	Not Applicable	Working Capital Term Loan	01 Jun 2020	7.5	01 Jun 2024	Simple	1.13	ACUITE B Stable Downgraded
Bank of Maharashtra	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.99	ACUITE B Stable Downgraded
Union Bank of India	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	Simple	1.34	ACUITE B Stable Downgraded

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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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