Press Release

Healthway Hospitals Private Limited

September 05, 2019

Rating Upgraded and Reaffirmed

Total Bank Facilities Rated*	Rs.45.00 Cr.
Long Term Rating	ACUITE BB+/Stable (Upgraded from ACUITE BB-/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** from **'ACUITE BB-' (read as ACUITE double B minus)** and reaffirmed the short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.45.00 crore bank facilities of HEALTHWAY HOSPITALS PRIVATE LIMITED (HHPL). The outlook is **'Stable'**.

The rating upgrade factors in significant improvement in its financial flexibility, while maintaining the revenue growth and sustaining the profitability; HHPL has moved its bank facilities to EDC Limited (a Government of Goa Undertaking) with a longer repayment schedule, relaxed payment terms in ballooning model and expected savings in interest cost of nearly 300 basis points from the earlier rate of interest. Further, the promoters have undertaken to infuse / retain about Rs.3.00 crore as quasi equity. HHPL to improve its profitability is diversifying into new specialty services of neuro and cardiac among others. The rating also factors in comfortable financial risk profile and strong team of doctors. However, the ratings are constrained by modest scale of operations with low profitability and competitive nature of industry warranting continuous investment.

HHPL was incorporated in April 2013, as a 99.94 per cent subsidiary of Goa Doctors Alliance Private Limited (GDAPL). HHPL is a multi-specialty, tertiary care hospital in Goa. GDAPL is an investment arm promoted by 33 doctors (now 52) with equal shareholding. 45 of the 52 doctors holding shares in GDAPL are currently practicing at HHPL. The hospital is currently headed by Mr. Virendra Sadanand Gaonkar, Mr. Sandeep Ratnakar Pawar, Mr. Nilesh Balwant Talwadkar, Mr. Sanjeev Janardan Juwarkar and Mr. Amit Subhash Kalangutkar.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Healthway Hospitals Private Limited to arrive at this rating.

Key Rating Drivers:

Strengths

- **Highly experienced management**

  Incorporated in 2013, HHPL is offering advanced healthcare services as a multi-tier multi-specialty hospital. GDAPL, the holding company of HHPL, is a company operated by 52 doctors. 45 of those 52 doctors are currently practicing in HHPL, with each of them holding up to two to three decades of experience in the medical field; this supported in improving its revenues at a compound annual growth rate of about 30 per cent over the past three years through FY2019 (provisional) at about Rs.37.10 crore. HHPL is operationalizing its bed capacity gradually with occupancy rate of about 55 per cent in FY2019. Further to scale up its operations and improve its profitability, HHPL is diversifying into critical care services which requires investment on human capital till they break-even; which is expected to yield higher margins going forward. Acuite believes that HHPL continues to benefit from its promoters both on operational front and financially, to improve its business risk profile over the medium term.

- **Expected improvement in cash flows and efficient working capital management**
  During March 2019, HHPL moved its loan facility to EDC Limited with finer sanction terms of relaxed payment tenure of 32 quarters (including 2 quarters of moratorium) against original residual repayment period of about 15 quarters as of March 31, 2019; new terms also offer interest benefit of upto 300 basis points, which is likely to result in interest cost saving of about Rs.2.00 crore. The principal repayment was structured in a ballooning model with initial repayment terms of about Rs.0.40 crore per quarter for 10 quarters against earlier quarterly principal repayment obligation of about Rs.1.16 – 1.64 crore – this supports in huge savings in its cash flow of about Rs.2.80 crore– Rs. 5.00 crore per annum. Further to support the working capital operations, promoter doctors have retained their earnings from the hospital in the form of consultancy fee to the tune of about Rs.3.00 crore in the system as of March 2019. Its operations are efficiently managed with gross current asset (GCA) days of about 56 in FY2019 against 81 days in FY2018, and its working capital limits are utilised at about 90 per cent for past 06 months through July, 2019. To support its operations further for its new specialty services and others, HHPL is proposing to go for additional working capital limits to the tune of about Rs.5.00 crore from the current levels of Rs.2.30 crore which is also expected to support in improving its financial flexibility as well as to leverage its infrastructure further to improve its revenues and profitability.

- **Moderate Financial Risk Profile**
  HHPL has a moderate financial risk profile marked by healthy gearing (debt-to-equity), comfortable total outside liabilities to tangible networth (TOL/TNW) though partly constrained by debt protection metrics. It's gearing and TOL/TNW stood at 0.69 and 0.81times as on 31 March, 2019 (Prov) as against 0.67 times and 0.80 times in 31 March, 2018, respectively. Its networth is moderate at Rs.46.59 crore as on 31 March, 2019 (Prov) compared to Rs. 48.54 crore as on 31 March, 2018. Its debt protection metrics of interest coverage and net cash accruals to total debt are average at 1.19 and 0.02 times in FY2019, though improved from 0.81 and 0.00 times in FY2018. Its net cash accruals in FY2019 are at Rs.0.74 crore; they are expected to improve to Rs.2.00 crore– Rs. 5.00 crore over the medium term against repayment obligations of 1.20 – 1.60 crore. It's planning to do moderate capital expenditure of about Rs. 4.00 crore – Rs. 6.00 crore over the medium term for addition of medical equipment which is majorly expected to be debt-funded. Acuite believes that with expected improvement in revenues and accruals, the debt protection metrics are expected to improve while sustaining the capital structure.

Weaknesses

- **Modest Scale of Operations with low profitability**
  HHPL's revenues are at modest levels with revenues of about Rs.37.00 crore in FY2019 (provisional) within the healthcare industry. Though revenues are improved at a CAGR of about 30 per cent over the past three years through FY2019, however the same is on a lower base and operations for about five years. Its operational bed capacity has improved to about 125, though with lower occupancy rate at about 55 per cent; against about 77 beds with occupancy rate of about 65 per cent in FY2018. Single location hospital also constrained the scale of operations at modest level. Further, its profitability margins are low at 13 per cent in FY2019 due to high fixed costs and low revenue base. HHPL expects to earn higher revenues owing to the fact that it is in the process of foraying into new specialty services, which are currently not available in northern Goa. Improving its revenues and profitability from the scaling up of its operations and new services is a key rating sensitivity factor over the medium term.

- **Competitive industry**
  The hospital faces intense competition from several players in the city from small players apart from large players such as Manipal Hospitals - Goa. Also, continuous investment (both on working capital as well as medical equipment) is required on an on-going basis for venturing into new specialty services while maintaining the cash flows to service its loan obligations. Operationalizing and benefitting from the new specialty services is a key rating sensitivity factor.

Liquidity Position:

Liquidity of the company is adequate marked by moderate cash accruals to its maturing debt obligations. The company reported net cash accruals of Rs.0.74 crore for FY2019 (Prov); its accruals are expected in the range of Rs.2.00 crore – Rs. 5.00 crore against its repayment obligations of about Rs.1.60 crore over the medium term. Its operations are efficiently managed with gross current assets (GCA) days of 56 in FY2019 (Prov) against 81 days in FY2018, and its working capital limits are utilised at about 90 per cent for past 06 months through July, 2019. HHPL is proposing to go for working capital limits of Rs.5.00 crore from its current limits of Rs.2.30 crore is expected to support its incremental working capital requirement and growth in its revenues. Acuite believes that with comfortable cash accruals to repayment obligations, the liquidity profile is expected be maintained at adequate levels.

Outlook: Stable

Acuité believes that HHPL will maintain a 'Stable' outlook and benefit over the medium term from its experienced team of doctors. The outlook may be revised to 'Positive' in case of significant growth in its revenues while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of sub-optimal utilization of the capacity or lower than expected revenue realization leading to stretch on its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	37.12	32.00	21.92
EBITDA	Rs. Cr.	5.03	2.87	3.00
PAT	Rs. Cr.	(2.75)	(2.97)	0.34
EBITDA Margin	(%)	13.54	8.96	13.67
PAT Margin	(%)	(7.39)	(9.28)	1.53
ROCE	(%)	2.00	0.01	2.23
Total Debt/Tangible Net Worth	Times	0.69	0.67	0.82
PBDIT/Interest	Times	1.19	0.81	3.60
Total Debt/PBDIT	Times	6.31	11.09	10.98
Gross Current Assets (Days)	Days	56	81	139

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
- Service Entities - https://www.acuite.in/view-rating-criteria-8.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-20.htm

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-July-2019	Over Draft	Long Term	2.73	ACUITE BB- Issuer Not Co-operating*
	Term loan	Long Term	27.08	ACUITE BB- Issuer Not Co-operating*
	Bank Guarantee	Short Term	0.49	ACUITE A4+ Issuer Not Co-operating*
	Proposed Fund based Facility	Long Term	14.70	ACUITE BB- Issuer Not Co-operating*
02-May-2018	Over Draft	Long Term	2.73	ACUITE BB-/Stable (Assigned)
	Term loan	Long Term	27.08	ACUITE BB-/Stable (Assigned)
	Bank Guarantee	Short Term	0.49	ACUITE A4+ (Assigned)
	Proposed Fund Based Facility	Long Term	14.70	ACUITE BB-/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	25.00	ACUITE BB+/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+/Stable (Upgraded)
Overdraft	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BB+/Stable (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	17.10	ACUITE BB+/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.60	ACUITE A4+ (Reaffirmation)

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About Acuité Ratings & Research:
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