

Press Release

Sarvottam Healthcare Private Limited

October 03, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+** (read as ACUITE double B plus) to the Rs. 18.00 crore bank facilities of Sarvottam Healthcare Private Limited (SHPL). The outlook is '**Stable**'.

SHPL was established in 2010 by a team ten Doctors with specialization in various domains. The company runs a 100-bed multi-specialty hospital located in Kakinada (Andhra Pradesh) under the name of 'Trust Hospital'. The hospital offers a range of healthcare services in the fields of Ortho care, Nephrology, Gastroenterology, Cardiology and Cardiothoracic surgeries.

Key Rating Drivers

Strengths

- **Experienced team of Doctors**

SHPL is promoted by Dr. H. D Shenoy and Dr. Kalyana Chakravarthy Yeluri with around three decades of experience in the healthcare industry. Dr. H. D Shenoy specializes in Trauma care, Anesthesia and Dr. Kalyana Chakravarthy Yeluri is an Anaesthetist. The company was incorporated in December 2010 along with eight other doctors, and runs a 100 bed multi-specialty hospital located in Kakinada. With the offering of multi-specialty services and the demand for the medical services in and around the region, SHPL's facility is highly occupied at more than 100 percent and stagnancy in the revenues over the past two years at about Rs.38.0 crore. Of its revenues, about 62, 29 and 9 percent comes from in-patient, pharmacy and out-patient revenues respectively in FY2018.

Keeping the demand in view, the management has taken up a capital expenditure plan for setting up of a new hospital building with about 183 beds in Kakinada. The new facility is expected to be operational around Q4FY2020. Acuité believes that the business risk profile is expected to be at similar levels supported by the experienced professional team; though constrained by bed capacity and till the new facility is operational.

- **Moderate financial risk profile**

SHPL's financial risk profile is marked by healthy gearing (debt-to-equity) and healthy debt protection metrics. The gearing is healthy at 0.65 times as on March, 2018 due to less reliance on debt. Net worth has remained moderate at Rs.11.13 crore due to accretion to reserves. The moderate net cash accruals (NCA) and low debt has led to healthy NCA/TD and interest coverage ratio of 0.36 times and 14.20 times in FY2018. SHPL is currently implementing a moderate debt-funded capex for construction of a 183-bed hospital; with a project outlay of Rs.25.00 crore funded via term loan of Rs.18.00 crore and rest via promoters' funds. Though the entire project is available for operations by Q4FY2020; however, with the expected availability of facilities in a phased manner, the cash flows are expected to be moderate. The expected cash flows from the current facilities are moderate at about Rs.2.50 - 3.00 crore which are adequate against its repayment obligations of below Rs.0.50 crore.

Though the debt-funded capex is more than two-times of its net worth of about Rs.11.0 crore in FY2018, however, conservative debt policy of the management in the past and moderate cash accruals are expected to limit the gearing levels to highest levels of about 1.5 times before improving to about 1.0 times over the medium term.

Weaknesses

- **Moderate working capital operations**

SHPL has moderate working capital operations as evident from its Gross Current Assets (GCA) of 101 days as on March 31, 2018 as against 67 days as on March 31, 2017. Moderate GCA days were mainly due to low inventory and moderate debtor levels. The inventory days are low at 9 in FY2018, since the company maintains the inventory only for consumables and medicines. The company's debtor days oscillate around 40-60 days; as it derives about 25 percent revenue from 'Aarogyasri card' where receivables are slight delayed from Government of Andhra Pradesh.

Acuité believes that the working capital operations of the company will remain moderate as evident from moderate collection mechanism in the business.

- **Stagnant revenues constrained by operating beds**

SHPL's revenue profile is constrained by high bed occupancy at about 100 percent, and stagnant revenues at about Rs.39 crore in FY2017 and FY2018. Further, the stagnancy in the revenues have a bearing on the profitability in terms of increasing variable operating costs. The operating margins have declined to about 8.5 percent in FY2018 from more than 12 percent in the past.

Acuité believes that the margin pressure will be there till the new facility is available fully / partly to absorb the fixed overheads efficiently.

- **Stringent regulatory framework, reputational intensive healthcaresector**

Despite the increasing trend of privatization 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, all the healthcare providers need to monitor each case diligently and maintain standard of 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.

Analytical Approach

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

Outlook: Stable

Acuité believes that SHPL will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant growth in its profitability while sustaining the revenues. Conversely, the outlook may be revised to 'Negative' in case of any cost or time over run in completion of the capex, or any stretch in its working capital management leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	38.59	38.59	33.90
EBITDA	Rs. Cr.	3.29	4.76	4.65
PAT	Rs. Cr.	1.31	1.52	1.36
EBITDA Margin (%)		8.54	12.32	13.72
PAT Margin (%)		3.39	3.94	4.00
ROCE (%)		13.45	24.89	53.20
Total Debt/Tangible Net Worth	Times	0.65	0.22	0.36
PBDIT/Interest	Times	14.20	15.22	15.90
Total Debt/PBDIT	Times	2.15	0.46	0.49
Gross Current Assets (Days)	Days	101	67	68

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>
- Entities In Services Sector - <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)

Not Applicable

***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 loans	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BB+ / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB+ / Stable

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About Acuité Ratings & Research:

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