

Press Release

Sarvottam Healthcare Private Limited

September 27, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BBB- /Stable (Upgraded from ACUITE BB+)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.18.00 crore bank facilities of SARVOTTAM HEALTHCARE PRIVATE LIMITED (SHPL). The outlook is '**Stable**'.

The rating upgrade factors in improving business risk profile marked by higher than expected growth in its revenues and profitability, significant bed capacity addition, which is expected to further improve the market position. The rating also factors in comfortable financial risk profile marked by healthy gearing and debt protection metrics. However, the rating also considered project risk in completion of its on-going project, stabilisation of operations and modest scale of operations besides presence in stringent regulatory framework.

Sarvottam Healthcare Private Limited (SHPL) was established in 2010 with ten doctors that includes Super specialists, and currently stood at 15. The company runs a 100 bed multi-specialty hospital located in Kakinada under the name 'Trust Hospital'. The hospital offers a range of healthcare facilities in the fields of Ortho care, Nephrology, Gastroenterology, Cardiology and Cardiothoracic segments.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of SHPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experience of promoters and long track record of operations

SHPL is promoted by Dr. H. D Shenoy and Dr. Kalyana Chakravarthy Yeluri, who have 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 resulting in increase in revenue at Rs.44.67 crore in FY2019 (Prov). Of its revenues, about 60, 11 and 29 per cent comes from inpatient, out-patient and pharmacy revenues, respectively, in FY2019 (Prov). Keeping the demand in view, the management has taken up a capital expenditure plan for construction of 183 bed multi-specialty hospital near to the existing leasehold buildings with 100 bed capacity in Kakinada. The new facility is expected to be operational by around Q4FY2020, while leaving the current premises. Acuité believes that the market position of SHPL is expected to improve once the entire capacity is available and highly occupied leading to improvement in its business risk profile.

• Comfortable financial risk profile

SHPL has a comfortable financial risk profile marked by healthy capital structure and debt protection metrics, though constrained by moderate networth. The gearing (debt-to-equity) is healthy at 0.56 times as on 31 March, 2019 (Prov) compared to 0.65 times in 31 March, 2018. SHPL is implementing large debt-funded capex of about Rs.24.0 crore, funded out of term loan of Rs.18 crore; despite the same, the gearing is expected to be below 1 time. Its net worth is moderate at Rs.15.90 crore as on 31 March, 2019 (Prov) compared to Rs.11.13 crore as on 31 March, 2018. SHPL's debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are healthy marked by ICR at 38.92 times in FY2019 (Prov) compared to 14.20 times in FY2018. The DSCR stood at 8.61 times in FY2019 (Prov) compared to 2.81 times in FY2018. The total debt of Rs.8.88 crore consists entirely of long term debt.

Further, the NCA/TD ratio stood at 0.60 times in FY2019 (Prov) as against 0.36 times in the previous year. SHPL reported net cash accruals of Rs.5.34 crore as on FY2019 (Prov). Its cash accruals are expected in the range of Rs.5.50 – 8.50 crores against repayment obligations of Rs.1.20-2.50 crores. Acuite believes that with comfortable accruals to obligations, on-going capex and time to stabilize operations, SHPL's financial risk profile continues to remain at this level over the medium term.

Weaknesses

- **Modest scale of operations, though improving; project and stabilisation risk**

SHPL's operations are modest with revenues of about Rs. 44.67 crore in FY2019 (provisional), though improved from Rs. 38.59 crore in FY2017 and 2018; majorly owing to limited bed capacity of 100 and high occupancy. To overcome, the management has undertaken large capex to build 183 bed multi-specialty hospitals; the on-going project is SHPL's owned vis-à-vis current hospital from leased premises. The project cost Rs. 24 crore started in FY2017; it has incurred about Rs.13 crore as of August 2019 out of term debt of Rs. 8 to 9 crores (out of Rs.18 crores) and rest out of internal accruals. SHPL is expecting the facility shall be operational by around Q4FY2020. On commercialization, the revenues are expected to be in the range of Rs. 50 – 70 crores over the medium term. Though the capacity is expected to double, however, stabilisation of the operations at new facility, while increasing the occupancy rate and managing the operations and finances, are key rating sensitivity factors over the medium term.

- **Moderate working capital operations**

Working capital management is moderate marked by gross current assets (GCA) at 120 days in FY2019 (Prov) deteriorated from 101 days in FY2018. Moderate GCA days is on account of stretched debtors, which stood at 80 days in FY2019 (Prov) as against 42 days in FY2018. This is mainly due to the Arogyasri and Arogyaraksha schemes, where the reimbursement from the Government takes time. However, the payments are received within 6 months' time. Inventory days stood at 11 days in FY2019 (Prov) as against 9 days in FY2018. Acuite believes that the working capital management would be moderate for the medium term.

- **Stringent regulatory framework, reputational intensive healthcare sector**

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 the 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.

Rating Sensitivity Factor

- Growth in revenues, with improving profitability and stabilized operations
- Time and cost overrun in the completion of capital expenditure
- Stretch in working capital management leading to deterioration of its financial risk profile and liquidity

Material Covenants

None

Liquidity

Liquidity of the company is adequate marked by adequate cash accruals to support its repayment obligations while meeting the capex. The company reported net cash accruals of Rs.4.26 crore for FY2019 (Prov); however, its cash accruals are expected to improve to Rs.5.50 to 9.50 crores against its repayment obligations of Rs.1.20-2.50 crores over the medium term. It is implementing large debt-funded capex of Rs.24 crore, funded out of term loan of Rs.18 crore and rest out of internal accruals. It has about Rs.3.25 crore as on FY2019 (Provisional) in cash and cash equivalents and unencumbered. Acuite believes that SHPL's liquidity is expected to improve and remain at adequate levels over the medium term.

Outlook: Stable

Acuite 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 revenues, while improving its profitability and stabilizing its operations. Conversely, the outlook may be revised to 'Negative' in case of any cost or time over run in completion of the capex leading to less-than expected accruals, 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	FY19 (Prov)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	44.67	38.59	38.59
EBITDA	Rs. Cr.	5.41	3.29	4.76
PAT	Rs. Cr.	3.14	1.31	1.52
EBITDA Margin	(%)	12.11	8.54	12.32
PAT Margin	(%)	7.03	3.39	3.94
ROCE	(%)	20.67	13.45	24.89
Total Debt/Tangible Net Worth	Times	0.60	0.65	0.22
PBDIT/Interest	Times	32.69	14.20	15.22
Total Debt/PBDIT	Times	1.61	2.15	0.46
Gross Current Assets (Days)	Days	85	101	67

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

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
03-Oct-2018	Term Loan	Long Term	17.00	ACUITE BB+/Stable (Assigned)
	Proposed Term Loan	Long Term	1.00	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 Loans	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB-/Stable (Upgraded from BB+/Stable)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-/Stable (Upgraded from BB+/Stable)

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About Acuité Ratings & Research:

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