

Press Release

Sarvottam Healthcare Private Limited

May 25, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.25.50 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed and assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs.25.50 Cr. bank facilities of Sarvottam Healthcare Private Limited (SHPL). The outlook is '**Stable**'.

Rationale for reaffirmation of ratings

The rating reaffirmation draws comfort from the stable business risk profile supported by stable revenues; albeit the impact of covid-19 in FY2021 (Provisional), significant bed capacity addition which is expected to further improve the market position. The rating also factors in comfortable financial risk profile marked by comfortable gearing and debt protection metrics. However, the rating remains constrained due to stabilisation of operations yet to be observed from the newly completed expansion project, moderation on working capital management and modest scale of operations besides presence in stringent regulatory framework.

About the Company

Kakinada based Sarvottam Healthcare Private Limited (SHPL) was established in 2010 with ten doctors including super-specialists. The company runs a 263 bed multi-specialty hospital located in Kakinada under the name 'Trust Hospital' offering a range of healthcare services in the field of Orthocare, Nephrology, Gastroenterology, Cardiology and Cardiothoracic segments to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experience of promoters and established 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 263 bed multi-specialty hospital located in Kakinada offering of multi-specialty services in the field of Orthocare, Nephrology, Gastroenterology, Cardiology and Cardiothoracic segments to name a few. This includes 183 bed expansion project that has started operating from May 01, 2021 based on the demand for the medical services in and around the region.

Acuité believes that SHPL will continue to benefit from the promoters' experience in the healthcare industry.

- **Modest Scale of operations supported by stable business risk profile and diversified specialties albeit the impact of Covid-19.**

SHPL's facilities remain occupied at moderately high levels with an average occupancy of ~75 percent during the FY2019-20, while sustaining the same in the FY2020-21 period on account of improvement in business conditions as patients chose to proceed with medical treatments as the 1st wave of Covid-19 came to an end and lockdowns were eased by the governments. Further, as on May 19, 2021 the Old facility has been 100 percent converted to cater the needs of coronavirus patients, while the recently built 183 bed facility has also been partially converted for similar use as per government directive.

SHPL has modest scale of operations marked by operating revenue of Rs.49.73 crore in FY2021 (Provisional)

as against Rs.50.52 crore in FY2020. Of the total revenue generated, ~55 percent were from In-Patient Services (IPD), ~15 percent were from Out-Patient Services (OPD) and ~30 percent were from sale of Pharmacy products.

Stability in revenues in FY2021 & FY2020 is further supported by stable ARPOB (Per day) of ~Rs.18,165 in FY2021 (Provisional), ~Rs.18,453 in FY2020 and ~Rs.16,299 in FY2019. Similarly, The ALOS (Average Length of Stay) stood stable for 4 days annually during the FY2019-21 period.

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.

- **Diversification of services post expansion**

Keeping in view the demand for speciality services, the management undertook capital expenditure and expansion exercise for construction of a new 183 bed multi-specialty facility in the same vicinity till FY2021 which would increase the total available capacity to 263 beds while rationalizing 20 beds during this exercise. The facility has started operating as on May 01, 2021 and is expected to support growth in revenues and scale of operations going forward. This expansion is expected to result in the revenue from operations of new multiple services such as Surgical Intensive Care Units, Neuro Intensive Care Units, Casualties, General Wards, Sharing Rooms, Single Rooms, Haemodialysis services, Precathlab services and Gastro Observation to name a few.

Acuité believes that the revenue is expected to be in the range of ~Rs.60.00 – Rs.70.00 crores in FY2022. Though the capacity has increased, 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.

- **Comfortable Financial risk profile**

SHPL has a comfortable financial risk profile supported by comfortable capital structure and debt protection metrics, though constrained its moderate net worth.

The tangible net worth of the company stood moderate at Rs.23.10 Cr. as on March 31, 2021 (Provisional) as against Rs.20.03 Cr. as on March 31, 2020 on account of accretion of profits to reserves, while the Gearing (Debt to Equity) stood comfortable at 0.93 times as on March 31, 2021 (Provisional) as against 0.85 times as on March 31, 2020, with debt profile consisting of long term debt obligations.

The TOL/TNW (Total Outside Liabilities to Tangible Net Worth) stood at 1.87 times as on March 31, 2021 (Provisional) as against 1.39 times as on March 31, 2020. The Debt-EBITDA stood at 3.19 times as on March 31, 2021 (Provisional) as against 2.68 times as on March 31, 2020.

The coverage indicators though moderating on a Y-O-Y basis have remained comfortable, as reflected in the Interest Coverage Ratio (ICR) of 20.84 times in FY2021 (Provisional) as against 46.78 times in FY2020, and Debt-Service Coverage Ratio (DSCR) of 4.32 times in FY2021 (Provisional) as against 17.38 times in FY2020. The NCA/TD (Net Cash Accrual to Total Debt) remained in the range at 0.21 times in FY2021 (Provisional) as against 0.29 times in FY2020.

Acuité believes that with comfortable accruals to obligations, recent debt funded capex and time required to stabilize operations, SHPL's financial risk profile continues to remain at same level over the medium term.

- **Diversity of Patient Pool**

SHPL witnesses' domestic out-of-pocket paying patients, insurance covered patients and patients covered under government healthcare schemes such as Aarogya Sri Scheme, Arogya Raksha, Arogya Sahayatha, Employees Health Scheme for state government employees and employees of Andhra Pradesh Eastern Power Distribution Company Limited. The diverse patient pool provides multiple levers to support revenues, enables maintaining a base occupancy level and helps mitigate concentration towards any particular segment, better pricing and collection cycles but these may or may not provide the requisite volumes to attain optimal occupancy.

On the other hand, institutional patients that are Government scheme-linked or institution-linked provide lower pricing and longer payment cycles (of 3 months in case of SHPL) and generate approximately 25 percent of the revenues, which provide a cushion in absorbing the high fixed costs of running a facility.

Weaknesses

- **Moderation in Working capital management**

SHPL's working capital management remained moderated on account of elongation in debtors' collection period, increased creditors' payment period and declining in C&B Balances. The requirements nonetheless

remain moderate marked by Gross Current Assets (GCA) of 116 days in FY2021 (Provisional) as against 129 days in FY2019. While GCA has reduced on YOY basis, this is primarily on account of decline in bank balances to Rs.0.73 Crore on March 31, 2021 (Provisional) as against Rs.3.19 crore as on March 31, 2020. Moderate GCA days is further on account of stretched debtors collection period of 86 days in FY2021 (Provisional) as against 56 days in FY2020, the deterioration can be attributed to the Arogyasri, Arogyaraksha and other schemes, where the reimbursement from the Government takes time. However, the payments are normally received within 3 months' time. Inventory holding period stands at 11 days in FY2021 (Provisional) as against 8 days in FY2020. Similarly, creditors payment period have increased as payments from government schemes delayed. Creditors payment period increased to 182 days in FY2021 (Provisional) as against 167 days in FY2020.

Acuité believes that the working capital management would remain moderate for the medium term.

- **Moderate scale within the industry, geographical concentration risk and intense competition**

SHCPL operates only one hospital (2 Buildings in the same premises) with 263 beds; the same are modest within the industry dominated by large players like Apollo Hospitals among others. Further, SHPL's entire revenues is skewed from a single location property. Any unforeseen eventuality will affect the entire business and financial risk profile of the company. In addition, continuous investment (on both working capital as well as medical equipment) is required on an on-going basis for venturing into new specialty services while maintaining the adequate cash flows to service its debt obligations. Operationalizing and benefitting from the new specialty services in a timely manner is a key rating sensitivity factor,

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

Despite the increasing trend of privatization of healthcare sector in India, the company continues to operate under stringent 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.

Liquidity position: Adequate

SHPL has adequate liquidity position marked by comfortable Net Cash Accruals (NCA) of Rs.4.55 crore vis-à-vis its maturing debt obligations of Rs.2.43 crore as on March 31, 2021 (Provisional), giving liquidity buffer. The Cash Accruals are expected to be comfortable in the range of Rs.5.00 – Rs.8.50 crores against repayment obligations of Rs.3.00-Rs.4.00 crores from the FY2021-24 period. The Cash and Bank balance stood at Rs.0.73 crore as on March 31, 2021 (Provisional). The current ratio stood at 0.86 times as on March 31, 2021 (Provisional) as against 1.67 times as on March 31, 2020.

Acuité believes that SHPL's liquidity is expected to improve and remain at adequate levels over the medium term.

Rating Sensitivities

- Significant improvement in scale of operations while sustaining its profitability margins and financial risk profile.
- Deterioration in the working capital cycle leading to stress in the debt protection metrics or the liquidity position of the firm.

Material Covenants

None

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 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 position.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	49.73	50.52
PAT	Rs. Cr.	3.06	3.64
PAT Margin	(%)	6.16	7.20
Total Debt/Tangible Net Worth	Times	0.93	0.85
PBDIT/Interest	Times	20.84	46.78

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-52.htm>
- Service Sector Entities - <https://www.acuite.in/view-rating-criteria-50.htm>
- 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 (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
25-Feb-2020	Term Loan	Long Term	17.00	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Term Loan	Long Term	8.50	ACUITE BBB- / Stable (Reaffirmed)
27-Sep-2019	Term Loan	Long Term	17.00	ACUITE BBB- / Stable (Upgraded)
	Proposed Term Loan	Long Term	1.00	ACUITE BBB- / Stable (Upgraded)
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 Loan – I	November, 2017	10.35%	December, 2023	17.00	ACUITE BBB- / Stable (Reaffirmed)
Term Loan – II (ECL)	June, 2020	8.25%	July, 2022	3.40	ACUITE BBB- / Stable (Assigned)
Term Loan – III	January, 2021	8.70%	February, 2029	3.60	ACUITE BBB- / Stable (Assigned)
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	1.50 (Revised from 8.50)	ACUITE BBB- / Stable (Reaffirmed)

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About Acuité Ratings & Research:

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