

Press Release

Sarvottam Healthcare Private Limited

August 18, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	25.50	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	25.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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'.

The rating reaffirmed favourably factors in established presence of Trust Hospital in Kakinada, Andhra Pradesh supported by reputed profile of promoter, doctors and consultants, whose established track record in the medical field supports footfalls in the hospitals and strengthens its business prospects. The rating also factors in the improving scale of operations with the ramping-up of operations and comfortable financial profile, as reflected by healthy margins, comfortable capital structure and healthy debt protection metrics. Further, the favourable outlook for healthcare sector over the medium term will support the business profile over the medium term. However, the ratings are constrained by the high competition; retention of good consultants remains a key challenge and also notes the regulatory risks for the sector wherein restrictive pricing regulations could constrain the profit margins.

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

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

Key Rating Drivers

Strengths

Established brand name and experience of promoters in healthcare industry

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 multispecialty services in the field of Orthocare, Nephrology, Gastroenterology, Cardiology and Cardiothoracic segments to name a few. SHPL has recruited specialists/ consultants across various disciplines to attract patients and also caters to patients from the nearby districts. SHPL operates 2 super-speciality hospitals under the brand name of 'Trust Hospitals'. Acuité believes that SHPL will continue to benefit from the promoters' experience in the healthcare industry.

Moderate scale up of operations and profitability in FY2022

The company has a moderate scale of operations with an operating income of Rs. 67.55 Cr in FY2022, despite the strong growth ~36 witnessed during the year. Of the total revenue generated, ~53 percent were from In-Patient Services (IPD), ~17 percent were from Out-Patient Services (OPD) and ~30 percent were from sale of Pharmacy products. The company had tripled its operating capacity with the inception of the hospital. This facility added 183 beds to the existing capacity of 80 beds from FY2022 onwards. The trust hospital has also established several specialities like 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 that is expected to help in ramping-up its operations, going forward. These actions are expected to help in sustaining revenues levels in FY2023, in the likely absence of covid-19 admissions. Acuité believes that margins are expected to be healthy at 18-21% supported by sustained scale of operations.

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.27.26 Cr. as on March 31, 2022 (Provisional) as against Rs.23.51 Cr. as on March 31, 2021 on account of accretion of profits to reserves. The Gearing (Debt to Equity) stood comfortable at 0.93 times as on March 31, 2022 (Provisional) as against 1.08 times as on March 31, 2021. The TOL/TNW (Total outside Liabilities to Tangible Net Worth) stood at 1.36 times as on March 31, 2022 (Provisional) as against 1.63 times as on March 31, 2021. The Debt-EBITDA stood at 1.75 times as on March 31, 2022 (Provisional) as against 3.38 times as on March 31, 2021. The coverage indicators though moderating on a Y-O-Y basis have remained comfortable, as reflected in the Interest Coverage Ratio (ICR) of 5.54 times in FY2022 (Provisional) as against 13.30 times in FY2021, and Debt-Service Coverage Ratio (DSCR) of 2.03 times in FY2022 (Provisional) as against 3.96 times in FY2021. The NCA/TD (Net Cash Accrual to Total Debt) remained in the range at 0.42 times in FY2022 (Provisional) as against 0.19 times in FY2021. Acuité believes that SHPL's financial risk profile continues to remain at same level over the medium term.

Favourable outlook for healthcare sector over the medium term

India remains an under-invested and under-penetrated market with private sector hospitals occupying over 70% market share. On the supply side, India currently faces a significant shortage of beds and the investments by the Government for hospital bed addition are limited. This provides the private sector players with the scope to consolidate their position. The demand outlook for healthcare services is stable, given the underlying fundamentals, including ageing population, increasing health insurance penetration, rising incidence of lifestyle diseases, higher disposable incomes, increasing healthcare awareness and robust growth in medical tourism. Acuité believes that over the medium to long term, demand is expected to be stable supported by better affordability, widening medical insurance coverage, growing awareness and under-penetration of healthcare services is expected to benefit the company and the broader industry.

Weaknesses

Working capital intensive nature of operations

SHPL's working capital management remained moderated on account of elongation in debtors' collection period, creditors' payment period. The requirements nonetheless remain moderate marked by Gross Current Assets (GCA) of 67 days in FY2022 (Provisional) as against 70 days in FY2021. While GCA has reduced on YOY basis, on account of improved debtors collection period of 43 days in FY2022 (Provisional) as against 47 days in FY2021, on account of improvement reimbursement time from the Government and other schemes Arogyasri, Arogyaraksha among others. Inventory holding period stands at 12 days in FY2022 (Provisional) as against 11 days in FY2021. Creditors payment period stood at 108 days in FY2022 (Provisional) as against 226 days in FY2021. Acuité believes that the working capital management would remain moderate for the medium term.

High competition; retention of good consultants remains a key challenge

Given the growing demand for healthcare services in India, the sector has been witnessing rising interest from domestic and foreign players. Improvement in operational profile is highly dependent on the hospital's ability to retain and attract reputed consultants, which will be a challenge in the light of increased competition in the healthcare sector from various private healthcare chains as well as Government hospitals. SHPL enjoys good brand equity and track record, which lends it some competitive advantage. Furthermore, because any restrictions on treatment costs or pharmaceutical sales would have an adverse effect on the company's margins.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- significant and sustainable improvement in the company's scale and profitability
- significant increase in debt levels impacting its liquidity or debt metrics.
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile

Material covenants

None

Liquidity Position: Adequate

SHPL's liquidity is adequate marked by comfortable cash accruals to its debt obligations. It reported cash accruals of Rs.10.75 Cr in FY2022 (Provisional) against its repayment obligations of Rs.3.96 Cr during the same period. Its accruals are expected in the range of Rs.10-14 Cr in FY2023-25 against its repayment obligations of Rs.3.50-4.00 Cr during the same period. The operations are moderate working capital intensive as reflected by its Gross Current Asset (GCA) days of 67 in FY 2022. The current ratio of the company stands 0.98 times and cash and bank balances stood at Rs.1.30 Cr as on March 31, 2022 (Prov). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term.

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.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	67.55	49.67
PAT	Rs. Cr.	3.74	3.48
PAT Margin	(%)	5.54	7.01
Total Debt/Tangible Net Worth	Times	0.93	1.08
PBDIT/Interest	Times	5.54	13.30

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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 May 2021	Proposed Term Loan	Long Term	1.50	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.60	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	17.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	3.40	ACUITE BBB- Stable (Assigned)
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 from ACUITE BB+ Stable)
	Proposed Term Loan	Long Term	1.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	3.47	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	2.68	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.75	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	2.00	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	13.42	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	2.18	ACUITE BBB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Bhavani sankar Oruganti Assistant Manager-Rating Operations Tel: 022-49294065 bhavanisankar.oruganti@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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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