



Press Release
SARV OTTA M HEALTHCARE PRIVATE LIMITED
November 14, 2023
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	-	-

Rating Rationale

Acuite has reaffirmed 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 rating reaffirmation

The rating takes into account the stable operating performance albeit slight moderation in EBITDA margin and comfortable financial profile of SHPL. The operating income is stable since the last two years from FY2023. The Company's revenue stood at Rs.70.30 Cr in FY2023 as against Rs. 67.49 Cr in FY2022. The operating margins stood at 19.85 percent in FY2023 as against 21.63 percent in FY2022. The financial risk profile of the company continues to be comfortable with comfortable debt protection metrics and low gearing. The overall gearing of the Company stood at 0.70 times as on March 31, 2023 as against 0.94 times as on March 31, 2022. The interest coverage ratio stood at 6.69 times in FY2023 as against 5.58 times in FY2022.

The rating is however constrained by moderate working capital operations, high competition; retention of good consultants remains a key challenge.

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

Unsupported Rating

Not Applicable

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 multispecialty 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 superspecialty hospitals under the brand name of 'Trust Hospitals'. Acuité believes that SHPL will continue to benefit from the promoters' experience in the healthcare industry.

- **Stable performance marked by modest growth in scale of operations**

The company has reported moderate growth with YOY growth of 4.16 percent in FY2023 as compared to FY2022. Revenues stood at Rs.70.30 Cr in FY2023 as against Rs.67.49 Cr in FY2022. Of the total revenue generated, ~55.26 percent were from In-Patient Services (IPD), ~17.99 percent were from OutPatient Services (OPD) and ~26.74 percent were from sale of Pharmacy products. The margins during FY2023 stood at 19.85 percent against 21.63 percent in FY2022. Acuité believes that margins are expected to be healthy at 20-21 percent supported by sustained scale of operations.

- **Comfortable financial risk profile**

The company's financial risk profile is comfortable marked by a moderate net worth, low gearing and comfortable debt protection metrics. The net worth of the company stood at Rs.31.27 Cr and Rs.27.14 Cr as on March 31, 2023 and 2022 respectively. The improvement in net worth is due to accretion of reserves. The gearing of the company stood at 0.70 times as on March 31, 2023 against 0.94 times as on March 31, 2022. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 6.69 times and 1.65 times as on March 31, 2023 respectively as against 5.58 times and 2.01 times as on March 31, 2022 respectively. TOL/TNW (Total outside liabilities/Total net worth) stood at 1.05 times and 1.34 times as on March 31, 2023 and 2022 respectively. The debt to EBITDA of the company stood at 1.55 times as on March 31, 2023 as against 1.73 times as on March 31, 2022. 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 management**

SHPL's gross current Asset (GCA) stood at 86 days as on March 31, 2023 as against 69 days as on March 31, 2022. The GCA days are impacted mainly on account of elongation in debtors' collection period (Delay in reimbursement from the Government and other schemes Arogyasri, Arogyaraksha among others). Inventory days stood at 11 days as on March 31, 2023 as against 13 days as on March 31, 2022. Debtor day stood at

63 days as on March 31, 2023 as against 43 days as on March 31, 2022. Subsequently, the payable period stood at 72 days on March 31, 2023 as against 84 days as on March 31, 2022 respectively. 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

Rating Sensitivities

- significant and sustainable improvement in the company's scale and profitability
- significant increase in debt levels impacting its liquidity or debt metrics.

All Covenants

None

Liquidity Position: Adequate

SHPL has adequate liquidity marked by adequate net cash accruals as against which the company's repayment obligations. The company has generated cash accruals in the range of Rs.10.43 Cr in FY2023, while its maturing debt obligations were Rs. 5.47Cr during the same period. Going forward the company is expected to generate net cash accruals of Rs. 12- 14 Cr in FY 2024-25 against Rs.5.01-5.62 Cr debt obligations. The current ratio stood at 1.19 times as on March 31, 2023.

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

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	70.30	67.49
PAT	Rs. Cr.	4.13	3.62
PAT Margin	(%)	5.88	5.37
Total Debt/Tangible Net Worth	Times	0.70	0.94
PBDIT/Interest	Times	6.69	5.58

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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Aug 2022	Term Loan	Long Term	2.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.68	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	1.75	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	13.42	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	2.18	ACUITE BBB- Stable (Reaffirmed)
	Proposed Term Loan	Long Term	3.47	ACUITE BBB- Stable (Reaffirmed)
25 May 2021	Term Loan	Long Term	3.40	ACUITE BBB- Stable (Assigned)
	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)
25 Feb 2020	Term Loan	Long Term	17.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Term Loan	Long Term	8.50	ACUITE BBB- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	9.42	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.44	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.86	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.99	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.22	ACUITE BBB- Stable Reaffirmed
Small Industries Development Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.57	ACUITE BBB- Stable Reaffirmed

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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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