

Press Release

Surya Global Hospitals Private Limited

November 26, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) to the Rs. 10.00 crore bank facilities of Surya Global Hospitals Private Limited (SGHPL). The outlook is '**Stable**'.

SGHPL is a Kakinada (Andhra Pradesh) based hospital established in 2010 and promoted by Dr. Bhupatiraju Karuna and Dr. Bhupatiraju Pitchayya Sri Veerraju. The company runs a 250-bed multi-specialty hospital located in Kakinada. The hospital offers a range of healthcare facilities in the fields of Cardio Thoracic & Vascular Surgery, Surgical & Radiation Oncology, Orthopedic, Neuro & Spine Surgery, General Medicine, Critical Care, Obstetrics and gynecology, Nephrology, Urology, Ent Surgery segments among others.

Analytical Approach

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

Key Rating Drivers

Strengths

• Moderate financial risk profile

Financial risk profile of the company is moderate marked by healthy gearing (debt to equity ratio) and total outside liabilities to total net worth (TOL/TNW) though partly constrained by modest net worth, healthy debt protection metrics and debt service coverage ratio (DSCR). Gearing is healthy at 0.52 times as on 31 March, 2018 as against 0.80 times as on 31 March, 2017. TOL/TNW is healthy at 0.87 times as on 31 March, 2018 as against 1.21 times as on 31 March, 2017. However, its net worth is modest at Rs.21.70 crore as on March 31, 2018 (unadjusted to provision for taxes of about Rs.5.27 crore, though the same is paid and unadjusted in the form of advances, taxes and TDS).

Debt protection metrics of interest coverage ratio and net cash accruals to total debt are robust at 9.76 times and 0.93 times respectively for FY2018. DSCR is comfortable at 9.76 times in FY2018 as against 7.39 times in FY2017. SGHPL reported cash accruals of Rs.10.41 crore in FY2018 and are likely to be in the range of Rs.11.00 - 14.00 crore over the medium term; against which its repayment obligations are around Rs.1.85 crore per annum. Acuite believes that SGHPL's cash accruals are expected to be healthy to maintain the financial risk profile at similar levels over the medium term.

• Experienced team of Doctors

SGHPL is promoted by Dr. Bhupatiraju Pitchayya Sri Veerraju and his wife, Dr. Bhupatiraju Karuna with nearly two decades of experience in the healthcare industry. Dr. Bhupatiraju Pitchayya Sri Veerraju specialises in Oncology care and Dr. Karuna is in Obstetrics & gynaecology. The company was incorporated in December 2011 and runs a 250-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, SGHPL's facility is highly occupied at more than 85 percent and the revenues over the past three years stood at about Rs.34.80 crore with compound annual growth rate (CAGR) of 10 percent. Acuite believes that the business risk profile of SGHPL is expected to improve further supported by their new unit offering dedicated services for Mother and Child, improving demand for medical services and vintage team of Doctors.

Weaknesses

• Stringent regulatory framework, Reputational intensive healthcare sector

Despite the increasing trend of privatisation of healthcare sector in India, they continue to operate under stringent regulatory controls. 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 and disruption of the operations which is a key rating sensitivity factor.

• Moderate working capital operations

SGHPL has moderate working capital operations as evident from its Gross Current Assets (GCA) of 171 days as on March 31, 2018 as against 170 days as on March 31, 2017. Moderate GCA days were mainly due to receivables and advances. Its inventory days are low at 18 days in FY2018; debtor days oscillate around 30-60 days over past three years; as it derives about 25 percent revenue from 'Aarogyasri card' where receivables are slightly delayed from Government of Andhra Pradesh. Acuite believes that the working capital operations of the company will remain moderate as evident from moderate collection mechanism in the business.

Outlook: Stable

Acuite believes that SGHPL 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 sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any larger-than-expected debt-funded capex or any stretch in its working capital cycle 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.	34.80	31.08	26.14
EBITDA	Rs. Cr.	11.60	8.63	6.25
PAT	Rs. Cr.	7.03	5.36	3.48
EBITDA Margin	(%)	33.33	27.78	23.91
PAT Margin	(%)	20.19	17.25	13.32
ROCE	(%)	27.62	32.31	56.68
Total Debt/Tangible Net Worth	Times	0.52	0.80	0.50
PBDIT/Interest	Times	9.76	7.39	16.69
Total Debt/PBDIT	Times	0.97	1.36	0.74
Gross Current Assets (Days)	Days	171	171	43

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	10.00	ACUITE BB+ / Stable (Assigned)

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About Acuité Ratings & Research:

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