

Press Release

PN Memorial Neuro Centre And Research Institute Limited



D-U-N-S® Number: 91-592-8456

January 14, 2019

Rating Assigned

Total Bank Facilities Rated*	Rs. 208.00 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE A-**' (**read as ACUITE A minus**) to the Rs. 208.00 crore bank facilities of PN Memorial Neuro Centre And Research Institute Limited (PNIL). The outlook is '**Stable**'.

Incorporated in 2000, PNIL started operation from 2009 and is promoted by Mr. Sajal Dutta. The company runs two multi-specialty hospital under the brand 'Desun' in Kolkata and Siliguri (West Bengal). The unit in Kolkata operates through 250-beds and the other unit in Siliguri which started operation from July 2017 operates through 102 beds. Both the unit provides medical care in 28 departments such as cardiology, neurology, gastroenterology, psychiatry, orthopedics, pediatrics, urology, dental and nephrology, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and established market position**

PNIL started operations from 2009 and has a long track record of nearly a decade in the industry. Over the years, under the leadership of Mr. Sajal Dutta, the hospital has established itself among the reputed brands in Eastern India by providing quality medical services under the 'Desun' brand name. PNIL has an established market position in Eastern India which is backed by the corporate tie up of over 150 corporates. In addition, the company has tie up with the Government of Bengal, Jharkhand, Mizoram and Bihar.

- Sound operating metrics**

PNIL has healthy operating efficiency marked by high occupancy levels especially in the Kolkata unit with shorter average length of stay (ALOS) resulting in healthy average revenue per occupied bed per day (ARPOB). In 2018, occupancy level in Kolkata unit has marginally increased to around 87 percent as against 83 percent in fiscal 2017. The average length of stay remained ~ 5 days. The improved occupancy levels and shorter ALOS resulted in improvement in ARPOB to Rs. 22,222 in FY 2018 as compared to Rs. 18,323 in FY 2017. The healthy operating efficiency of the Kolkata unit has resulted in improving the operating profitability which stood at 22.8 percent in fiscal 2018 as compared to 17.22 per cent in fiscal 2017.

Though the occupancy level in Siliguri unit remained low at around 35 percent since inception, going forward Acuité expects the same to improve due to an usual gestation period of 2 to 3 years in a hospital. Going forward, improvement in the occupancy levels of the Siliguri unit with sustenance of overall profitability level will be a key rating sensitivity factor.

- Consistent improvement in revenue**

PNIL showed consistent improvement in revenue during the period under review (FY 2016-FY 2018). The revenue increased to Rs.179.46 crore in FY2018 from Rs.123.66 crore in FY2016. The improvement is on account of improvement in the occupancy rate in the Kolkata unit which improved to 87 percent

in FY 2018 from 75 percent in FY 2016. Further, the Siliguri unit has become operational from April 2017 and during FY 2017-18, the company has earned revenue of Rs.8.91 crore from the Siliguri unit contributing to ~5 percent of the total revenue. During the current year, revenue contribution from the Siliguri unit has increased to around 10 percent with operating income of around Rs.9.71 crore till 30 September, 2018 (Provisional). Going forward, the revenue from Siliguri is expected to improve due to the tie up with Ex-servicemen Contributory Health Scheme (ECHS) and local tea gardens.

• **Healthy financial risk profile**

The robust financial risk profile is marked by healthy net worth, comfortable gearing and healthy debt protection measures. The net worth stood at around Rs.131.50 crore as on 31 March, 2018 as against Rs.114.50 crore in the previous year. The gearing (debt-equity) stood at 0.45 times as on 31 March, 2018 compared to 0.49 times in the previous year. The interest coverage ratio stood healthy at 5.64 times in FY2018 as against 15.18 times in FY2017. The DSCR stood comfortable at 3.08 times in FY2018 compared to 9.07 times in FY2017. Moreover, the NCA/TD stood at 0.48 times in FY2018.

Going forward, Acuité expects the financial risk profile to remain comfortable despite the large capex being undertaken for implementation of the 2nd phase adjacent to the Kolkata unit comprising of 300 beds super specialty cardiac division and 100 beds cancer ward at a total cost of Rs 194 crore to be funded from term loan of Rs 140 crore (already sanctioned) and balance from internal accruals. The schedule completion is March'2022 with repayment obligation to commence from April'2023. Further, the repayment schedule remains comfortable as the current repayment obligation of the Siliguri unit will be over by 2022 thereby maintaining a satisfactory liquidity profile.

Weaknesses

• **Exposure to regulatory risk**

The healthcare sector is highly regulated by the government and the hospital is exposed to unfavourable changes in government policies from time to time. Any restrictions on pricing levied by central and state government organisations could constrain the profitability margins going forward.

• **Exposure to intense competition**

The 'Desun' brand name has an established presence in Kolkata, however faces intense competition persistent from established and other eastern region players such as Fortis Healthcare Limited, Apollo Hospitals, Medica Superspeciality Hospitals and AMRI.

Outlook: Stable

Acuité believes that PNIL will maintain a 'Stable' outlook on the back of the management's extensive experience in the health care industry and its established position in Eastern India. The outlook may be revised to 'Positive' in case of sustained increase in revenues and profit margins while scaling up operations in the Siliguri Unit. Conversely, the outlook may be revised to 'Negative' in case of dip in revenue and profitability or any higher than expected capex undertaken 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.	179.46	140.19	123.66
EBITDA	Rs. Cr.	40.94	24.14	21.67
PAT	Rs. Cr.	16.65	11.91	9.55
EBITDA Margin	(%)	22.81	17.22	17.52
PAT Margin	(%)	9.28	8.49	7.72
ROCE	(%)	16.66	11.43	21.61
Total Debt/Tangible Net Worth	Times	0.45	0.49	0.41
PBDIT/Interest	Times	5.64	15.18	15.60
Total Debt/PBDIT	Times	1.42	2.29	1.92
Gross Current Assets (Days)	Days	116	126	186

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 I	Not Applicable	Not Applicable	Not Applicable	55.00	ACUITE A- / Stable (Assigned)
Term loans II	Not Applicable	Not Applicable	Not Applicable	140.00	ACUITE A- / Stable (Assigned)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A- / Stable (Assigned)

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About Acuité Ratings & Research:

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