

Press Release

PN Memorial Neuro Center and Research Institute Limited

January 08, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.210.00 Cr.
Long Term Rating	ACUITE A-/Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE A-**' (read as **ACUITE A minus**) to Rs.210 crores bank facilities of PN Memorial Neuro Center and Research Institute Limited (PNM). The outlook is '**Stable**'.

Incorporated in 2000, PN Memorial Neuro Center and Research Institute Limited started operation from 2009 and is promoted by Mr. Sajal Dutta. The company runs two multi-specialty hospitals 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 taken a standalone view of the business and financial risk profile of PNM to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and Long track record of operations**

PNIL started operations from 2009 and has a long track record of nearly a decade in the industry. The promoter Mr. Sajal Dutta, who is also the founder promoter of Ruby General Hospital Limited, is having more than two decades of experience 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. Acuité believes that the long track record of operations will benefit the company going forward resulting in steady growth in the scale of operations.

- Established presence in market**

PNM has an established market position in Eastern India which is backed by corporate tie ups with over 150 corporates. The tie up is spread across more than 17 sectors. In addition, the company has tie ups with the Government of Bengal, Jharkhand, Mizoram, Bihar. Acuité believes that the company has established relation with corporates which will help them in maintaining their business risk profile over the medium term.

- Healthy financial risk profile**

The company's financial risk profile is marked by healthy network, comfortable gearing and healthy debt protection metrics. The tangible net worth of the company improved to Rs.148.84 crores as on FY2019 from Rs.131.15 crores as on FY2018 due to accretion of profits. The company has comfortable gearing at 0.48 times as on FY2019 as against 0.45 times as on FY2018. The debt comprises of Rs.72.16 crore consists of long term debt of Rs.52.48 crore and working capital of Rs.6.65 crore and current obligations of term loan of Rs.13.03 crore as on March 31, 2019. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood comfortable at 0.94 times as on FY2019 as against 0.89 times as on FY2018. The comfortable debt protection metrics of the company is marked by Interest Coverage

Ratio at 7.27 times as on FY2019 as against 5.64 times as on FY2018 and the Debt Service coverage ratio at 2.34 times as on FY2019 as against 3.08 times as on FY2018. The NCA/TD stood at 0.41 times as on FY2019 as against 0.48 times as on FY2018. Acuite believes that going forward the financial risk profile of the company will remain comfortable backed by steady accruals and moderate debt funded capex plans.

Weakness

- **Working capital intensive nature of operations**

The working capital intensive nature of operations is marked by high Gross Current Assets (GCA) of 152 days in FY2019 as compared to 116 days in FY2018. The GCA days are high due to high debtors at 109 days in FY2019 as compared to 91 days as on FY2018. These high debtor days are mainly due to delay in realization of debtors from government agencies. The inventory period is comfortable at 7 days in FY2019 as compared to 23 days in FY2018. Going forward, Acuite believes that the operations would remain working capital intensive mainly due to high debtors' level.

- **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.

Rating Sensitivity

- Improvement in the scale of operation while maintaining profitability margin
- Working capital management in operations
- Delay in project execution

Material Covenant

None

Liquidity Profile

The company's liquidity is strong marked by net cash accruals of Rs.29.67 crores in FY2019 as against long term debt repayment obligation of Rs.13.03 crore over the same period. The current ratio stood at 1.70 times as on March 31, 2019 as compared to 1.33 times in the preceding year. The fund based limit remains utilised at 15 percent over the twelve months ended October, 2019. The cash and bank balances of the company stood at Rs.16.09 crores as on March 31, 2019 as compared to Rs.0.94 as on in the previous year. However, the company's operations are working capital intensive as reflected by high Gross Current Assets (GCA) of 236 days in FY2019 as against 220 days in FY2018. Acuite believes that going forward the company will maintain strong liquidity position due to steady accruals and healthy network base.

Outlook: Stable

Acuite 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	198.04	179.46
PAT	Rs. Cr.	17.69	16.65
PAT Margin	(%)	8.93	9.28
Total Debt/Tangible Net Worth	Times	0.48	0.45
PBDIT/Interest	Times	7.27	5.64

Status of non-cooperation with previous CRA

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition- <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Jan-2019	Cash Credit	Long Term	13.00	ACUITE A-/Stable (Reaffirmed)
	Term Loan	Long Term	195.00	ACUITE A-/Stable (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	197.00 (Enhanced from Rs.195 crore)	ACUITE A-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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