Press Release

Premium Medical And Healthcare Providers Private Limited

January 08, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs.345.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

** Refer Annexure for details*

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-' (read as ACUITE triple B minus)** and short-term rating of **'ACUITE A3' (read as ACUITE A three)** to the Rs.345.00 crore bank facilities of PREMIUM MEDICAL AND HEALTHCARE PROVIDERS PRIVATE LIMITED. The outlook is '**Stable**'.

Premium Medical & Healthcare Providers Private Limited (PMPL), based out of Coimbatore, Tamil Nadu was incorporated in September, 2013 and commenced commercial operations in September, 2017. The Company runs a multi-specialty hospital under the name "Meitra" located in Calicut, Kerala. The total built up area of the hospital at present is nearly 400,000 sq. ft. with capacity of 270 beds of which it is operating with 220 beds for in-patients. The company is promoted by KEF Healthcare Services Pte Limited, which in-turn is promoted by Dr. Ali Faizal and the promoters of Peekay Group i.e. Mr. K.E Shanavaz, Mr. K.E Moidu and Mr. P.K. Ahammed.

KEF Healthcare Services Pte Limited is a subsidiary of KEF Holdings Pte Limited which is incorporated in Singapore & headquartered in Dubai and is led by Mr. Faizal E. Kottikollon, who has a diversified experience of more than two decades across various industries.

About Peekay Group

Peekay Group was established in the year 1942 by Haji P. K. Moidu. Currently, under the leadership of his son, Mr. P. K. Ahammed, the group has become one of the major Indian family business houses with an annual turnover exceeding USD 120 million. The Group has a predominant presence in value added engineering, food industry, healthcare sector and real estate industry.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of PMPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of the promoters**

  PMPL is promoted by KEF Healthcare Services Pte Limited, and Peekay Group. KEF Healthcare Pte Limited, is into managing a chain of hospitals and provide consultancy and management services and is a wholly owned subsidiary of KEF Holdings engaged into infrastructure, healthcare and investments across India and UAE. KEF Holdings incorporated in Singapore & headquartered in Dubai specializes in offsite manufacturing technology in industries, including healthcare, education, sports and agriculture led by Mr. Faizal E. Kottikollon, an industrialist who has a diversified experience of more than a decade across various industries. Mr. Faizal Kottikollon founded Emirates Techno Casting in Sharjah back in 1997. In 2012, Emirates Techno Casting was sold to Tyco International for over $400m. This capital was then used to create KEF Holdings. Dr. Ali Faisal is an experienced cardiologist in North Kerala with special interest in non-coronary and peripheral vascular intervention for more than 20 years. The promoters of Peekay group through its group companies are present across various sectors such as steel, flour mills, real estate, construction, plantations, education, healthcare, charitable institution etc. Acuité believes that with the vision and business prudence of the promoters, PMPL's market position is expected to grow further improving its business risk profile over the medium term.

- **Growth in operational performance and state-of-the-art medical services**

  PMPL over the years has recorded improvement in its in-patient revenues, which is reflective of increasing acceptability as a preferred choice for healthcare in Calicut. There has been an improvement in the number of in-patients and out patients from FY2018 to FY2019. The number of inpatients in FY2018 was 2,196 which rose to 5,792 in FY2019 and further for 7MFY2020 the number stood at 4,535. Further the occupancy rate has increased to about 60 percent during 7MFY2022 as compared to 54 percent during FY2019. The number of footfalls of outpatients during FY2018 to 7MFY2020 has increased from 35,571 to 70,029. The hospital provides a wide range of medical healthcare services such as cardiac Sciences, neurosciences, orthopedics and other medical and surgical specialties. The hospital has 7 State-of-the-art operation theatres. All operation theatres are well equipped with latest equipment's for performing critical surgeries. The hospital has two Cath lab one of which is India's first Robotic Hybrid Cath Lab to perform difficult and complex surgeries. The hospital is ably supported by a team of 114 well qualified and experienced doctors/consultants. One of the major reasons for increasing number of patient consultation in the hospital is because of the well qualified doctors who have an experience in handling critical cases. Acuité believes that with a highly technologically driven hospital and skilled and experienced set of doctors the number of inpatients and outpatients are expected to grow thereby improving the operational performance of the hospital in the medium term.

- **Financial support through an ECB agreement to ease the repayment obligations**
  The Company has entered into an agreement for External Commercial Borrowings (ECB) with KEF Healthcare Services Pte Limited on February 28, 2019 to borrow USD 10.00 Million at the interest rate of 7.15 percent per annum. As per the agreement, ECB proceeds will be utilized for PMPL's working capital requirements, funding operational losses and for meeting its debt obligations. During April 2019 to September 2019, PMHPL has received in total USD 6.00 million from KEF Healthcare Services Pte and the remaining amount is expected to be availed based on requirement of the hospital. The repayment of the ECB shall be made in 8 equal annual installments commencing from March 31, 2026. As on quarter three of FY2019, the company had a shortfall of Rs.8.50 crore which was met with the ECB arrangement of Rs.8.70 crore. Acuité expects that the agreement adds adequate financial comfort to PMPL for funding its day-to-day requirements and meeting its debt repayment obligations.

Weaknesses

- **Weak financial risk profile**
  Financial risk profile of the company is weak marked by high gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), also constrained by weak debt protection metrics. The gearing and TOL/TNW stood weak at 2.20 times and 2.50 times as on 31 March, 2019 as against 1.19 and 1.43 times as on 31 March, 2018. The net worth stood moderate at Rs.112.76 crore as on March, 2019 compared to Rs.174.89 crore as on March, 2018. The net-worth has eroded due to operational and net level losses considering the nascent stage of operations. The company is expected to breakeven from FY2021. Further, the networth is expected to remain in the range of Rs.95.00 crore to Rs.110.00 crore considering the infusion of funds by way of the ECB agreement. PMPL completed the first phase of the hospital with capex of Rs.452.00 crore funded out of term loan of Rs.310 crore with a disbursement of Rs.252 crore, and balance out of equity infusion. Its debt protection metrics are weak due to nascent stage of operations and net losses. The interest coverage ratio and net cash accruals to total debt stood at (0.86) times and (0.22) times in FY2019. However, with growth in the occupancy levels, the revenues are expected to grow and add comfort to the financial risk profile. Acuité believes that stabilisation of operations and improvement in the bed occupancy is the key rating sensitivity factor.

- **Stringent regulatory framework in the healthcare sector**
  Despite the increasing trend of privatization of healthcare sector in India, the company continues to operate under stringent regulatory environment. 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. Thus, the healthcare providers need to monitor each case diligently and maintain standard in services in order to avoid the occurrence of any unforeseen incident. They also need to maintain high vigilance to avoid any malpractice in any pocket.

Rating Sensitivities

- Improvement in operations and occupancy levels with sustainable improvement in revenues and expected operational break-even
- Timely infusion of funds from the external commercial borrowings agreement to aid the financial requirement of the hospital
- Stretch in working capital management and prolonged operational losses leading to deterioration of its financial risk profile and liquidity

Material Covenants
None

Liquidity: Stretched
PMPL's liquidity is stretched marked by negative cash accruals albeit financially aided by the parent company through a mutually agreed external commercial borrowings agreement. It has reported negative cash accruals of Rs.54.57 crore; however, its cash accruals are expected to improve over the medium term with the company attaining break even at net level. The repayment obligations begin from FY2022 in a ballooning structure with Rs.0.73 crore to be paid in FY2022. The agreement states that the parent company, i.e. KEF Healthcare Services Pte Limited would infuse $2m in every quarter in the form of unsecured loans to support the working capital requirements and repayment obligations. Acuité believes that improvement of bed occupancy and cash flows are critical factors, though it enjoys the financial flexibility from the parent company.

Outlook: Stable
Acuité believes that PMPL will maintain a 'Stable' outlook over the medium term from its promoter's extensive industry experience funding comfort from parent company. The outlook may be revised to 'Positive' in case of significant growth in its revenues along with improvement in the bed occupancy and improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected occupancy and failure to obtain timely operational break even leading to stretch in its cash flows and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	87.52	31.40
PAT	Rs. Cr.	(68.97)	(77.62)
PAT Margin	(%)	(78.80)	(247.19)
Total Debt/Tangible Net Worth	Times	2.20	1.19
PBDIT/Interest	Times	(0.86)	(1.17)

Status of non-cooperation with previous CRA (if applicable)
None
Any other information
None

Applicable Criteria
- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Service Entities – https://www.acuite.in/view-rating-criteria-50.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable
Term Loan	Not Applicable	Not Applicable	Not Applicable	310.00	ACUITE BBB-/Stable
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3

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About Acuité Ratings & Research:
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