

## Press Release

### Premium Medical and Healthcare Providers Private Limited

September 02, 2021

#### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 345.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+ / Outlook: Negative (Reaffirmed; Outlook Revised)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 345.00 Cr bank facilities of Premium Medical and Healthcare Providers Private Limited. The outlook has been revised to '**Negative**' from '**Stable**'.

The rating reaffirmation is basis the continuous losses incurred by the company which continues to impact the financial risk profile of the company. The company continues to incur operating as well as net losses in FY2021 (Prov) despite modest improvement in the turnover. The losses incurred was majorly on account of nascent stage of operations of the hospital which was further impacted in FY2021 due to onset of covid-19 pandemic. Further, the financial risk profile of the company continues to remain weak and was below Acuite estimates in FY2021 coupled with continued stretch in liquidity position which is expected to remain a constraining factor given the increasing payment obligations in the near to medium term. The rating draws comfort from long and extensive experience of promoters in the aforementioned business and support from the promoters in the form of USL and ECB to maintain the operational funding shortages in the business. Further, the outlook has now been revised to negative owing to the continued weak operating performance vis-à-vis improvement in occupancy levels coupled with strained overall financial risk profile.

#### About the Company

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

Acuite 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. Acuite 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.

- **State-of-the-art medical services offered**

PMPL 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. Acuite 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 ECB agreements 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 Mn 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 Mn from KEF Healthcare Services Pte and the remaining amount is 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. Further, the company has entered into another ECB agreement with KEF Healthcare Services Pte Limited on July, 2021 to borrow additional USD 10.00 Mn at 4.70 percent per annum. This ECB shall be drawn for 20 months starting from August, 2021 till March, 2023 and is repayable over a period of 14 years in 8 equal installments from 2028 to 2035. The new ECB funds shall be utilized for the purposes of meeting the working capital requirements and general corporate purposes. Acuite expects that the agreements adds a certain degree of financial comfort to PMPL for funding its day-to-day requirements and meeting its debt repayment obligations.

## **Weaknesses**

- **Continuing weak financial risk profile**

Financial risk profile of the company continues to remain 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 further deteriorated and stood at 7.36 times and 8.70 times as on March 31, 2021 (Prov) as against 3.00 and 3.50 times as on March 31, 2020 due to accumulated losses carried forward thus eroding the networth. The net worth positions further deteriorated and stood at Rs.42.31 Cr as on March, 2021 (Prov) compared to Rs.87.9 Cr as on March, 2020. 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 FY2022. Further, the networth is expected to remain in the range of Rs.95.00 Cr to Rs.100.00 Cr considering the infusion of funds by way of the ECB agreement and through unsecured loans by promoters. PMPL completed the first phase of the hospital with capex of Rs.452.00 Cr funded out of term loan of Rs.310 Cr with a disbursement of Rs.252 Cr, and balance out of equity infusion. Its debt protection metrics are weak due to the nascent stage of operations and expected stabilization of operations and net losses. The interest coverage ratio and net cash accruals to total debt stood at (0.44) times and (0.17) times in FY2021 (Prov). However, with growth in the occupancy levels, the revenues are expected to grow and add comfort to the financial risk profile. Acuite believes that stabilization of operations and improvement in the financial risk profile shall remain a 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
- Prolonged operational losses leading to deterioration of its financial risk profile and liquidity

### Liquidity: Stretched

PMPL's liquidity continues to remain stretched marked by negative cash accruals albeit financially aided by the parent company through a mutually agreed external commercial borrowings agreement. Rs.52.5 Cr. Due to prolonged impact of the pandemic, the company failed to achieve breakeven at the expected time which has furthered down the profitability levels coupled with high interest cost burden. The repayment obligations begin from FY2022 in a ballooning structure with Rs.0.64 Cr to be paid in FY2022. The repayments are expected to maintain an increasing trend given the ballooning repayment structure and repayments of the emergency credit loans and FITL against which the cash accruals shall continue to remain negative for the near term. Further, 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 up to Jan, 2020 of which the company has availed \$6m till now and remaining \$4mn is yet to be utilised. Acuite believes that improvement of bed occupancy and cash flows are critical factors, though it enjoys the financial flexibility from the parent company.

### Outlook: Negative

Acuite believes that the outlook on PMPL is likely to remain 'Negative' over the medium term owing to the continued weak operating performance vis-à-vis improving occupancy levels coupled with continuing strain in the overall financial risk profile. The rating maybe further downgraded if the company is unable to generate adequate cashflows commensurate to the debt obligations and further delay in attaining operational breakeven leading to stretched liquidity position. Conversely the outlook maybe revised to 'Stable' if the company demonstrates improvement in operational performance and is able to generate adequate operational profits vis-à-vis the debt obligations.

### About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	136.33	124.58
PAT	Rs. Cr.	(63.91)	(62.31)
PAT Margin	(%)	(46.88)	(50.02)
Total Debt/Tangible Net Worth	Times	7.36	3.00
PBDIT/Interest	Times	(0.44)	(0.29)

### Status of non-cooperation with previous CRA (if applicable)

None

### Any other information

None

### Any Material Covenants

- 100% cashflows to be routed through escrow with bank
- Debt and shortfall undertaking by personal guarantors
- EBITDA: Positive
- Adjusted DSCR >1
- Total Debt/EBITDA: Positive

### 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/view-rating-criteria-55.htm>

### Rating History (up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
04-Aug-2021	Overdraft	Long Term	10.00	ACUITE BB+/Stable (Downgraded)
	Term Loan	Long Term	310.00	ACUITE BB+/Stable (Downgraded)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Downgraded)
	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Downgraded)
08-Jan-2020	Overdraft	Long Term	10.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	310.00	ACUITE BBB-/Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Assigned)

### \*Annexure – Details of instruments rated

Lender Name	Name of Facility (ies)	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Yes Bank Ltd	Overdraft	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BB+/Negative (Reaffirmed; Outlook Revised)
	Term Loan	Oct, 2019	10.65%	Oct, 2034	310.00	ACUITE BB+/Negative (Reaffirmed; Outlook Revised)
	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4+ (Reaffirmed)

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### About Acuité Ratings & Research:

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