Press Release

Premium Medical and Healthcare Providers Private Limited

June 07, 2022

Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.00	-	ACUITE A4+ | Reaffirmed
Bank Loan Ratings	343.00	ACUITE BB+ | Negative | Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	345.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BB+' (read as ACUITE double B plus)** and short-term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs. 345.00 crore bank facilities of Premium Medical and Healthcare Providers Private Limited (PMPL). The outlook is 'Negative'.

Rationale for reaffirmation

The rating reaffirmation takes into account the weak financial risk profile and slower than expected scale up of operation and achievement of breakeven. It also takes into account stretched liquidity position in FY2022 which is expected to continue given the increasing payment obligations in the near to medium term and low profitability margins. Acuité however notes the improvement in PMPL's operating performance in FY2022 marked by revenue increase of 43 percent and operating profit margin of ~5 percent against negative margin in earlier years. However, PMPL has not been able to generate cash flow from operations commensurate with its repayment obligations and its ability to do so will continue to remain a key rating sensitivity. The rating continues to draw comfort from the, support from promoters in the form of unsecured loan (USL) and external commercial borrowings (ECB) to provide stability to the liquidity position.

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.

About the Group

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.

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 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.

- **Improving operating performance:**

PMPL's revenue has consistently improved from Rs. 124.58 Cr in FY2020 to Rs. 196.47 Cr in FY2022 (provisional) further, the operating margin of the company in FY2022 (provisional) stood at 5 percent against negative operating margins in earlier years. The increase in revenue can be attributed to increase in ARPOB from Rs. 32,704 in FY2020 to Rs. 38,492 Cr in FY2022 (provisional) along with increased average occupancy at 61 percent in FY2022 (provisional) from 45 percent in FY2021 and FY2020. Further, the number of doctors has increased from 118 in FY2020 to 152 in FY2022 (Provisional). PMPL provides a wide range of medical healthcare services such as cardiology, orthopedics, neurosciences, gastro sciences, renal sciences and other medical and surgical specialties. About 53 percent of the total revenue in FY2022 is equally derived from cardiology, orthopedics, neurosciences, thereby ensuring revenue diversification.
Acuité believes PMPL's ability to scale up its operations and generate cash flows commensurate with its repayment obligations.

- **Financial support through ECB agreements to ease the repayment obligations:**

The company has entered into ECB agreement with KEF Healthcare Services Pte Limited in July, 2021 to borrow USD 10 million (i.e ~Rs. 77.00 Cr) at 4.70 percent per annum repayable over a period of 14 years in 8 equal installments from 2028 to 2035. The ECB funds shall be utilized for the purposes of meeting the working capital requirements; debt obligations and general corporate purposes.As on March 31, 2022 the entire 10 million USD remain undrawn. Additionally, equity of ~Rs.6.00 was infused in January 2022 to fund routine capital expenditure. The unsecured loan from promoters including ECB as on March 31, 2022 (provisional) stood at ~Rs. 55.00 Cr.

Acuité believes the consistent support from promoters adds a certain degree of comfort to PMPL's financial risk profile and liquidity for 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 to 27.06 times and 33.15 times as on March 31, 2022 (provisional) as against 6.89 and 8.03 times as on March 31, 2021 due to accumulated losses on account of substantial delays in achieving operational break even and high debt levels. The net worth positions stood at Rs.12.38 Cr as on March, 2022 (provisional) compared to Rs.45.10 Cr as on March, 2021. Also, the break even is expected to be achieved in FY2024. Further, the total debt of the company increased to Rs. 334.68 Cr against Rs. 310.93 Cr. The increase in debt is on account of increased short term debt to Rs. 14.81 Cr as on March 31, 2022 (provisional) against Rs. 2.62 Cr in the previous year. The interest coverage ratio and debt coverage ratio stood at 0.25 times times and 0.23 times as on March 31, 2022 (provisional).

Acuité believes that promoter support until stabilization of operations through improvement in revenue and operating margins shall remain a key rating sensitivity.

• 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

- Substantial improvement in operating performance that enables the company to generate cash flows in line with its repayments obligations.
- Infusion of long-term funds, thereby reducing the overall interest cost and debt levels.

Material covenants

- Total outside liabilities/Adjusted total networth < 5 from FY2024
- Debt/Equity = 68/32
- DSCR>=1
- EBITDA >=17% from FY2022.

Liquidity Position: 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. The delays in achieving breakeven at the expected time and low

operating margin in FY2022 has adversely impacted the liquidity position. Going forward the repayment obligations are expected to be ~13.70 Cr in FY2023 and ~Rs. 17.30 Cr in FY2024. 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. However, PMPL due to ECB agreement with the parent company enjoys some financial flexibility. In addition, the creditor days of the company increased to 258 in FY2022 (provisional) against 153 in FY2021, however, the debtor and inventory days stood modest at 37 in FY2022 (provisional) against 29 in the previous year. The average bank limit utilization stood at 70 percent for the six month period ended March 2022 with current ratio of 0.36 times as on March 31, 2022 (provisional).
Acuite believes improvement in profitability margins that generate adequate net cash accruals considering the increasing repayment obligations will be a key rating sensitivity.

Outlook: Negative

Acuité believes that the outlook of PMPL is likely to remain 'Negative' over the medium term owing to the continued weak operating performance vis-à-vis repayment obligations and continued strain on the overall financial risk profile. The rating maybe further downgraded if the company is unable to generate adequate cash flows 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 that is able to generate adequate profits vis-à-vis the debt obligations.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	196.47	137.53
PAT	Rs. Cr.	(43.73)	(65.46)
PAT Margin	(%)	(22.26)	(47.59)
Total Debt/Tangible Net Worth	Times	27.04	6.89
PBDIT/Interest	Times	0.25	(0.36)

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
• Service Sector: https://www.acuite.in/view-rating-criteria-50.htm
• Application Of Financial Ratios And Adjustments: https://www.acuite.in/view-rating-criteria-53.htm
• Group And Parent Support: https://www.acuite.in/view-rating-criteria-47.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Sep 2021	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Secured Overdraft	Long Term	10.00	ACUITE BB+ | Negative (Reaffirmed)
	Term Loan	Long Term	310.00	ACUITE BB+ | Negative (Reaffirmed)
04 Aug 2021	Letter of Credit	Short Term	5.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Secured Overdraft	Long Term	10.00	ACUITE BB+ | Stable (Downgraded from ACUITE BBB- | Stable)
	Term Loan	Long Term	310.00	ACUITE BB+ | Stable (Downgraded from ACUITE BBB- | Stable)
	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Downgraded from ACUITE A3)
08 Jan 2020	Secured 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's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ | Reaffirmed
Federal Bank	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ | Negative | Reaffirmed
Yes Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BB+ | Negative | Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BB+ | Negative | Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	15.00	ACUITE BB+ | Negative | Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	49.50	ACUITE BB+ | Negative | Reaffirmed
Yes Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	157.00	ACUITE BB+ | Negative | Reaffirmed
Federal Bank	Not Applicable	Term Loan	Not available	8.60	Not available	100.00	ACUITE BB+ | Negative | Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.