

Press Release

Rajyalakshmi Healthcare Private Limited

August 23, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 58.60 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB+**' (read as **ACUITE triple B 'plus'**) on the Rs.58.60 crore bank facilities of Rajyalakshmi Healthcare Private Limited (RHPL). The outlook is '**Stable**'.

About the Company

Incorporated in 2014 and based in Gachibowli, Hyderabad (Telangana), Rajyalakshmi Healthcare Private Limited (RHPL) is a 100 percent wholly owned subsidiary of Sarvejana Healthcare Private Limited (SHPL). RHPL operates a 250 bed, multi speciality hospital with 100 percent operational beds and is operating on a 1,70,000 sq ft of long term leased premises. SHPL, the holding company, is promoted by Dr. Venkata Gurava Reddy Annapareddy and his family members.

About the Group

Incorporated in 2008 and based in Secunderabad (Telangana), Sarvejana Healthcare Private Limited (SHPL) is promoted by Dr. Venkata Gurava Reddy Annapareddy and his family members. SHPL operates a 320 bedded, multi-speciality flagship hospital located in Secunderabad, in the centre of Hyderabad. The present operating bed capacity is 290 (Census) and 30 being non-census (day care and dialysis). It operates on 2,50,000 sq ft of long term leased premises. SHPL is positioned as centre of excellence for Orthopedics with dedicated surgeons for niche sub- specialties like spine & shoulders. SHPL has two 100 percent wholly-owned subsidiaries - Suryateja Healthcare Private Limited (STHPL) and Rajyalakshmi Healthcare Private Limited (RHPL). In 2014, the promoter group incorporated Suryateja Healthcare Private Limited (STHPL), a 75 bedded multi-speciality hospital located in Karimnagar, Telangana. The present operating bed capacity is 45 (census) and 35 being non-census (day care and dialysis). It is operating on a 26,000 sq ft of long term leased premises. Later in 2015, the group started Rajyalakshmi Healthcare Private Limited (RHPL) in Gachibowli, Hyderabad, Telangana. The types of multi-speciality services these hospitals offer are Anaesthesiology, Bariatric Surgery, Cardiology, Dentistry, Dermatology, ENT, Gastroenterology, Internal Medicine and Diabetology, Nephrology, Neurosciences, Obstetrics and Gynaecology, Ophthalmology, Orthopaedics, Paediatrics, Physiotherapy, Psychiatry, Radiology, Respiratory, Rheumatology, Spine Care, Urology and many others.

Analytical Approach

For arriving at this rating, Acuite has consolidated the business and financial risk profiles of Sarvejana Healthcare Private Limited (SHPL), Suryateja Healthcare Private Limited (STHPL) and Rajyalakshmi Healthcare Private Limited (RHPL) together referred to as the 'Sunshine Hospitals Group (SSHG)'. The consolidation is in the view of common management, similar line of business, strong operational and financial linkages between the entities. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- Promoters' extensive experience in healthcare industry; Established regional player aided by strong chain pedigree in Telangana and Andhra Pradesh**

Started by a renowned 'orthopedics' surgeon Dr. A. V. Gurava Reddy in 2008, Sunshine Hospitals Group (SSHG) is one of the reputed and well-known healthcare groups in Andhra Pradesh and Telangana. As of FY2021, SSHG operates 3 multi-specialty hospitals with a total bed capacity of 645, including over 585 operational beds (census beds excluding day care and dialysis) and offers a comprehensive range of healthcare services across 20+ specialties and super specialties. These include orthopedics, cardiac sciences, Pulmonology and mother & child care. The group has a strategic focus in the states of Telangana and Andhra Pradesh healthcare market where there exist significant and growing need for quality and affordable healthcare services and has gained strong understanding of regional nuances, customer culture and the

mindset of medical professionals. Dr. A. V. Gurava Reddy (Managing Director) is the Chief Joint Replacement Surgeon at SSHG and has 25 years of experience in the field of orthopaedics with specialization in joint replacement surgeries. Out of 25 years of experience, Dr. Reddy has spent 10 years performing surgeries in United Kingdom from 1989 to 1999 and further has acquired MCh from Liverpool and holds triple FRCS degrees from Glasgow, Edinburgh & London. Dr. Reddy performs over 4000 Joint Replacements (Hip, Knee and Shoulder, both Primary and Revision) in a year, which is the second highest in South Asia and is supported by an experienced team of 100+ doctors and paramedical staff. With promoter's extensive industry experience and established existence, SSHG has been able to establish a longstanding relationship with its key suppliers. Acuite believes that the promoter's extensive industry experience, diversified offerings via various specialties treatment and established relationships with its suppliers will aid group's business risk profile over the medium term.

• **Closure of loss making unit - Bhubaneswar hospital in FY2021; improvement expected in profitability over the medium term**

SSHG under the company name Sarvejana Healthcare Private Limited (SHPL), started a hospital in the year 2015 in Bhubaneswar as there were fewer multi-speciality hospital in the same region. Moreover, the flagship hospital located at Hyderabad was witnessing high catchment (IP Patients) from Bhubaneswar region for Orthopaedics and Cardiology treatments. Hence, given the regional demand, Sunshine group forayed in the eastern region to cater the untapped demand. The hospital at Bhubaneswar ran successfully for initial years of operation (around 4 years) but later on account of intense competition from both national and regional players, the financial profile started to deteriorate. This was further accompanied by Cyclone 'Fani' in April 2019, when the depletion was more visible. This resulted in gradual losses since FY2019 followed by widening of losses on account of Covid-19 in FY2020 and FY2021. SSHG closed the Bhubaneswar hospital's operations in June, 2020 and sold the hospital to a group of doctors in January 2021 through Business Transfer Agreement (BTA). The sale proceeds from the hospital amounts to Rs.17.50 Cr and is structured to be received in 3 tranches – Rs.10.83 Cr by May'2021, Rs.3.33 Cr each by November'2021 and May'2022. The absolute EBITDA for the group excluding the Bhubaneswar hospital improves to Rs.88.99 Cr against Rs.79.39 Cr and EBITDA margin improves to 11 per cent against 9 percent as on March 31, 2021 (Prov). Acuite believes that group's decision to completely hive off Bhubaneswar hospital will ensure improvement in profitability position in the near to medium term.

• **Diversified revenue mix; multiple offerings in various specialties; change in revenue proportion on account of Covid-19 pandemic**

SSHG operates 3 multi-speciality hospitals offering services in Anaesthesiology, Bariatric Surgery, Cardiology, Dentistry, Dermatology, ENT, Gastroenterology, Internal Medicine and Diabetology, Nephrology, Neurosciences, Obstetrics and Gynaecology, Ophthalmology, Orthopaedics, Paediatrics, Physiotherapy, Psychiatry, Radiology, Respiratory, Rheumatology, Spine Care, Urology and many others. The top speciality treatment in terms of revenue contribution has been Orthopaedic, Cardiology and Internal medicine for SHPL and STHPL. Whereas, for RHPL, Orthopaedic, Neurosurgery and Internal medicine are the top speciality. However, in FY2020 and FY2021, the revenue proportion (IP counts) from specialties decreased and internal medicine increased on account of deferment of pre-planned surgeries and increasing internal medicine revenue portion due to treatment of Covid-19 patients on account of government's instructions for priority over the Covid-19 patients. Acuite expects the revenue proportion to gradually return back to pre-covid levels on account of group's measure to focus on its core area of Orthopaedics along with increased focus on Cardiology and pulmonology. Further, Acuite believes that SSHG's diversified service offering ensure low concentration on revenue mix and will ensure strong business profile over the medium to long term.

• **SSHG's ability to retain high quality doctors, consultants, medical support staff**

SSHG maintains standards of high quality healthcare by consistently employing a diverse pool of talented doctors, nurses and paramedical professionals. Its multi-disciplinary approach, combined with affordable cost for treatment, a high-volume tertiary care model, and focus on teaching and research, has helped attract and retain high quality doctors and other healthcare professionals. Many of its specialists, physicians and surgeons have been trained in premier medical institutions across the world and have received accolades and awards. Since inception in 2008, the group has retained over 90-95 percent of doctors. SSHG doctors have been involved in the growth of the group's hospitals by actively participating in the equity ownership in the company and its subsidiaries. Acuite believes that management's approach towards retaining the qualified healthcare professionals over the years has contributed towards the group's growth and further will ensure sustainable operations and expertise in speciality treatments over the medium to long term.

• **Disciplined approach to expansions resulting in successful organic growth; Capital expenditure underway for capacity expansion; growth drivers for the medium term**

SSHG has a successful track record of sourcing, executing and integrating new units. The company has a disciplined, low-leverage approach to expansions at strategic locations that has enabled to maintain affordable pricing model. Since inception, hospital network expanded primarily through organic mode. SSHG generally takes the entire premises including land and building on lease basis. It has also encouraged doctors at acquired hospitals to stay with SSHG, participate in the equity ownership of the hospital and contribute to the hospital's future growth. In February, 2020, the group has incurred capex of nearly Rs.12.00 Cr for the purchase of Stryker's Mako Robotic Arm Interactive Orthopaedic (RIO) system. The system integrates tactile robotic arm technology with intelligent surgical instruments and hi-definition patient specific visualization system to pre-plan and treat each patient uniquely with reproducible precision. The system enhances the efficiency in performing surgeries, helps doing a very precise job of cutting and placing the implant for knee replacement. The system will add 100 plus surgeries per month for the group. SSHG is planning to set up another cardiology team in Gachibowli hospital unit in near term period and aims to use the Robotic Arm to full extent which was not achieved in FY2020 and FY2021 due to the pandemic. Further, the group has a plan of adding 100 beds capacity in Secunderabad and 50 beds in Gachibowli in the next 2 years despite operating at 50-55 percent occupancy rates. This is because the group foresees higher and prolonged occupancies under cardiology and pulmonology to treat patients with post-covid complications. The group has adequate upgraded equipments and facilities to support the above expansion and is planning to fund this capex of approx. Rs.5-6.00 Cr through their internal accruals. Acuite believes that group's financial risk profile will improve on account of increased scale of operations and will ensure improvement in profitability and liquidity position of the group.

• **Improving scale of operations and profitability aiding business risk profile; Impact of Covid-19 pandemic**

The group's revenue has increased from Rs.361.59 Cr in FY2020 to Rs.409.62 Cr in FY2021 (Prov.) on account of increase in the occupancy rate, Average Revenue Per Occupied bed (ARPOB) and Average revenue per patient (ARPP). For SHPL, the occupancy rate increased from 49 per cent to 50 per cent in FY2021 and for RHPL it increased from 27 per cent to 37 per cent in FY2021. ARPOB for SHPL increased from Rs.36k to 47k and for RHPL increased from 31k to 38k in FY2021. Further, due to Covid-19, the revenue from general medicine department has increased for FY2021. Whereas, for STHPL the occupancy rate decreased from 38 per cent to 31 per cent in FY2021, ARPOB increased from Rs.13k to 16k due to continuous treatment of multi-specialties. The occupancy rate in STHPL was decreased due to covid-19 impact. The group's EBITDA margin has grown by 122.2 percent in FY2021 against FY2020, majorly on account of increase revenue from internal medicine due to covid-19 treatment cases. Acuite has uncertainty over sustainability of the margins in medium to long term and expects the consolidated EBITDA margin to gradually decrease to the range of 14.5-18.5 percent over the upcoming financial years with Covid-19 cases subsiding in the near to medium term. However, the EBITDA margins will remain strong in comparison with the historical performance prior Covid-19 pandemic on account of improved business risk profile of the group.

• **Healthy debt protection metrics and capital structure**

SSHG's financial risk profile is healthy, marked by a healthy network, improving gearing and healthy debt protection metrics. The EBITDA margins of the group improved to 19.38 per cent in FY2021 (Prov) against 8.72 in FY2020. The improvement is attributable to increase in the occupancy rate, Average Revenue Per Occupied bed (ARPOB) and Average revenue per patient (ARPP) during the period. The healthy profitability levels vis-à-vis reduction in the finance cost has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 7.67 times and 4.01 times respectively in FY2021 (Prov) as against 3.79 and 1.73 times respectively in the previous year.

The net worth of the group stood at Rs.113.05 Cr as on 31 March, 2021 (Prov) as against Rs.77.07 Cr as on 31 March, 2020. This improvement is on the account of healthy accretion to reserves. The net profit of the group improved to Rs.36.03 Cr in FY2021 against negative net profit of Rs.(6.02) Cr in the previous year. The gearing level (debt-equity) stands average at 0.75 times as on 31 March, 2021 (Prov) as against 1.21 times as on 31 March, 2020, the improvement is on the significant increase in net worth by Rs.36.03 Cr and further decrease in total debt to Rs.84.66 Cr in FY2021(Prov) against Rs.93.51 Cr in previous year. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands at 1.58 times as on 31 March, 2021 (Prov) against 2.73 times in previous year.

The total debt of Rs.84.66 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.57.50 Cr, short term debt of Rs.18.33 Cr and maturing portion of long term borrowings of Rs.8.83 Cr. NCA/TD (Net cash accruals to total debt) stands moderate at 0.79 times in FY2021 as against 0.33 times in FY2020. Acuite expects the financial risk profile to remain healthy over the medium to long term period on account of healthy capital structure and stable operations of the group.

- **Improving Receivables cycle supported through favourable payer mix**

SSGH's Secunderabad hospital unit and Karimnagar hospital unit accepts through Cash, Insurance, Corporate, Government schemes and PSU. On other hand, Gachibowli hospital unit only accepts Cash and Insurance payments with corporates and Government schemes, being less than 3 percent in payer mix. The group usually receives payment within 45 days related to Third-Party Administrator (TPA); whereas 1 to 3 months for Employees Health Scheme (EHS). TPA, EHS, government schemes such as Arogya sri depends on the government budget allocation and wherein there are occasional chances of payment delays. SSHG have faced delays in year FY2019 due to political events such as elections and post discussions with the government, payments of Rs.100 Cr was released in FY20. Further, in FY2020, due to Covid-19 pandemic, the receivables from government were delayed and was later released in May 2021 of amount Rs.10 Cr. The group has allocated 25 per cent of the general ward beds to Government schemes. However, it is also at sole discretion of the group for beds allocation to these schemes. Acuite believes that as the exposure of the group's revenue to government schemes is approx. 5 per cent and moreover, on average 50-60 per cent of the total revenue is realised on cash basis which exposes the group to lower collection risk.

Weaknesses

- **Working capital operations marked by moderate GCA days**

SSHG's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 84-116 days over the last 3 years ending March 31, 2021 (Prov). The elevated GCA days as on March 31, 2021 (Provisional) is on account of high cash and bank balance amounting to nearly Rs.42.72 Cr and receivables pertaining to sale of Bhubaneshwar hospital unit. The inventory days and debtor days were at 7 days and 49 days, respectively, as on March 31, 2021 (Provisional) against 8 days and 63 days, respectively, as on March 31, 2020. The group usually receives payment within 45 days related to Third-Party Administrator (TPA); whereas 1-3 months for Employees Health Scheme (EHS). The inventory and debtors days are partially offset by moderate creditor days at 249 days as on March 31, 2021 (provisional). For stents and implants, the group makes the payment in 60 days. For pharmacy, it is segregated as In-Patient and Out-Patient. The payment is done for OP in nearly 30 days and for IP in 60-90 days. The moderate GCA cycle has led to average utilization of 67.08 percent of working capital requirement bank lines of Rs.28.00 Cr over the past 12 months ending May, 2021. The working capital requirements for both the subsidiaries i.e. STHPL and RHPL are managed through internal sources of finance and are not dependent upon any short term working capital facilities from banking institutions. Acuite believes that the operations of the group will remain moderately working capital intensive on account of nature of the healthcare sector and presence of receivables pertaining to the TPA and EHS.

- **Presence of geographical concentration risk on revenue profile**

SSHG's revenue profile is subjected to high risk in terms of geographical concentration. It can be observed that a significant percentage of SSHG patients were served by its hospitals in Hyderabad region (Telangana) with SSHG (Secunderabad) catering to 67 percent and SSHG (Gachibowli) catering to 32 percent of total patients respectively in FY2021 (Prov) against 74 percent and 23 percent, respectively in previous year. Acuite believes that any material impact on revenues from the group's hospitals at Secunderabad and Gachibowli in Telangana or from such specialties, including by reason of reduction in patient footfall, reputational harm, liabilities on account of medical negligence or natural calamities and increased competition, could have a material adverse effect on business, financial condition, results of operations and cash flows.

- **Exposure to intense competition in the healthcare industry**

The Indian healthcare sector is subjected to intense competition on account of presence of several organized as well unorganized players in the industry ranging from hospitals, clinics, diagnostic chains and dispensaries of varying sizes with different specialties. The group faces intense competition from Apollo Hospitals, Care Hospitals and Yashoda Hospitals etc. in the southern region of the country. Existing or new competitors could try to compete for patients by exerting pricing pressures on some or all of SSHG's services by pricing their services at a significant discount to the group's offering services with greater convenience or better quality. Acuite believes in case SSHG is unable to compete effectively with competitors, market share, business, financial condition, results of operations and cash flows could be materially and adversely affected in medium to long term.

- **Stringent regulatory framework, reputational intensive healthcare sector**

Despite the increasing trend of privatization of healthcare sector in India, the group continues to operate under stringent regulatory control. 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 the part of any doctor and/or staff of the unit can lead to distrust among the masses. Thus, all the healthcare providers need to monitor each case diligently and maintain standard of services in order to avoid the occurrence of any unforeseen

incident. They also need to maintain high vigilance to avoid any malpractice at any pocket.

Liquidity Position: Adequate

SSHG's liquidity is adequate marked by healthy generation of net cash accruals in FY2021 to its maturing debt obligations and strong level of unencumbered cash and bank balance. The group has generated cash accruals in the range of Rs.(3.36)-66.73 Cr during last three years ending FY2021 (Prov) as against its long term debt obligations of Rs.8.43-12.95 Cr for the same period. The group's working capital is moderate as evident from Gross Current Asset (GCA) of 116 days as on March, 2021 (Prov) as compared to 84 days as on March, 2020. The current ratio stood at 1.32 times as on 31 March 31 2021 (Prov) against 0.77 in previous year and the consolidated fund based limit remains utilized at 67.08 percent over the 12 months ended May, 2021. The group maintained unencumbered cash and bank balances of Rs.42.72 Cr as on March 31 2021 (Prov) against Rs.5.09 Cr in previous year. In addition to this, the group has an unencumbered fixed deposit worth Rs.7.35 Cr as on March 31, 2021. Acuite believes that the liquidity of the group to remain healthy on account of stable scale of operations and healthy capital structure. The group is expected to generate NCA in range of Rs.62.03-69.73 Cr against maturing debt obligations in range of Rs.11.43-11.51 Cr over the medium term.

Rating Sensitivities

Positive

- Higher-than-expected Improvement in the scale of operations and profitability as envisaged
- Sustainable improvement in Leverage and Solvency position of the group.
- Sustainable improvement in Gross current assets (GCA) days.

Negative

- Any deterioration in working capital cycle and liquidity profile of the group.
- Any deterioration in Revenue profile and leverage position of the group.
- Any weakening of financial risk profile of the group.

Outlook: Stable

Acuite believes that SSHG will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry and regional leadership driven clinical excellence and affordable healthcare. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations, occupancy rate, ARPOB and ARPP, leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case SSHG registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt- funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Consolidated)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	409.62	361.59
PAT	Rs. Cr.	36.03	(6.02)
PAT Margin	(%)	8.80	(1.66)
Total Debt/Tangible Net Worth	Times	0.75	1.21
PBDIT/Interest	Times	7.67	3.79

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

None

Any other information

None

Material Covenants

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>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Consolidation Of Companies- <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
HDFC Bank	Term Loan	23-Aug-2016	8.50%	23-Nov-2028	31.43	ACUITE BBB+/Stable (Assigned)
HDFC Bank	Term Loan	23-Aug-2016	8.50%	23-Nov-2028	13.12	ACUITE BBB+/Stable (Assigned)
HDFC Bank	Term Loan	31-Dec-2019	8.50%	30-Apr-2025	3.11	ACUITE BBB+/Stable (Assigned)
HDFC Bank	Working Capital Term Loan	07-Dec-2020	8.00%	07-Dec-2026	10.06	ACUITE BBB+/Stable (Assigned)
Siemens Financial Services	Term Loan	28-Sep-2017	10.00%	28-Sep-2022	0.85	ACUITE BBB+/Stable (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.03	ACUITE BBB+/Stable (Assigned)

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About Acuité Ratings & Research:

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