



Press Release
Sparsh Hospitals And Critical Care Private Limited
September 06, 2023
Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	7.25	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	12.00	ACUITE BBB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	19.25	-	-

Rating Rationale

Acuité has upgraded its long-term rating to **'ACUITE BBB-'** (read as **ACUITE Triple B minus**) from **'ACUITE BB+'** (read as **ACUITE double B plus**) on the Rs.12.00 Cr bank facilities of Sparsh Hospitals and Critical Care Private Limited (SHCCPL). The outlook remains **'Stable'**. The ratings were downgraded vide our rationale dated June 16, 2023 based on information risk.

Further, Acuité has assigned its long-term rating of **'ACUITE BBB-'** (read as **ACUITE Triple B minus**) on the Rs.7.25 Cr bank facilities of Sparsh Hospitals and Critical Care Private Limited (SHCCPL). The outlook is **'Stable'**.

Rationale for the rating upgrade

The rating upgrade is driven by the company's growing scale of operations coupled with improvement in the profitability margins. The company has achieved revenues of Rs. 78.56 Cr in FY2023 (Provisional) as compared to revenues of Rs. 72.77 Cr backed by higher increase in ARPOB (Average revenue per bed) and a diversified revenue stream across various specialties. The rating also draws comfort from the promoters' well-established reputation as a high-quality healthcare provider in eastern India, supported by a skilled and experienced group of experts and physicians. The rating further factors in the above average financial risk profile of the company with low gearing, modest network and adequate liquidity in the form of surplus cash accruals.

These strengths are, however, offset by the working capital intensive nature of operations and competition risk coupled with regulatory risk associated with healthcare industry.

About the Company

Incorporated in 2007, Sparsh Hospitals and Critical Care Private Limited (SHCCPL) is based in Bhubaneswar, Odisha and is promoted by Dr. Priyabrata Dhir. Sparsh Hospitals is an ISO 9001:2015 multi-specialty hospital with cuttingedge technology. The hospital provides medical treatments in a variety of specialties, including neurology, neurosurgery, orthopaedics, and oncology, among others. The hospital is affiliated with a number of reputable professional doctors who provide medical services to patients from Odisha and nearby states.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SHCCPL to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management and reputed customer base

SHCCPL is based in Bhubaneswar, Odisha and was founded in 2007 by Dr. Priyabrata Dhir, who earned his medical degree from Kathmandu University's College of Medical Science in 2002. He is the hospital's Chairman and Managing Director and has an expertise of over a decade in the healthcare field and is a surgical oncology and treatment specialist. The director is further assisted by Dr. Ghanshyam Biswas (MBBS, MD, DM. Oncologist), who has over 20 years of expertise in the medical field, along with the support from other directors who are equally experienced and skilled experts.

The vintage of the promoters has enabled the company to maintain healthy relations with reputed client like Airport Authority of India (AIA), Food Corporation of India (FCI), National Aluminum Company Ltd. (NALCO), Reserve Bank of India and National Thermal Power Corporation Limited (NTPC), among others.

Acuité believes that the established track record of operations along with the expertise of the management will continue to benefit the company going forward.

Steady business risk profile

The company has achieved revenues of Rs. 78.56 Cr in FY2023 (Provisional) as compared to revenues of Rs. 72.77 Cr in FY2022 and Rs. 50.66 Cr in FY2021, thereby, registering a CAGR of 24.46 per cent over the two years. Moreover, SHCCPL has achieved revenues of Rs. 20.71 Cr in Q1 of FY2024 (Provisional). The steady growth in the operating income is on account of increase in the operating beds, ALOS (average length of stay) and ARPOB (Average revenue per bed). Number of operating beds increased to 200 beds in FY2023 from 100 beds in FY2022. Further, the revenue mix is fairly diversified between cashpayment, TPA/Insurance patients and Government/ other panel patients.

Further, the operating margin of the company increased to 15.84 per cent in FY2023 (Provisional) against 14.70 per cent in FY2022. The PAT margin also rose to 7.15 per cent in FY2023 (Provisional) against 6.78 per cent in FY2022. The improvement in profitability margins has translated into comfortable RoCE levels for the company of about 13.41 per cent in FY2023 (Provisional).

Acuité believes that the ramp up of operations will continue to support the growth plans of the company going forward.

Above average financial risk profile

The financial risk profile of the company remains above average marked by moderate networth base, low gearing and comfortable debt protection metrics. The tangible networth stood at Rs. 56.59 Cr as on 31st March, 2023 (Provisional) as compared to Rs. 49.07 Cr in the previous year. The gearing of the company stood low at 0.29 times in FY2023 (Provisional) as compared to 0.32 times over the previous year. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.61 times as on March 31, 2023 (Provisional) as against 0.93 times as on March 31, 2022. The debt protection matrices remained comfortable marked by healthy Interest coverage ratio (ICR) of 7.19 times in FY2023 (Provisional) and moderate Debt Service Coverage Ratio (DSCR) of 1.99 times for the same period respectively. The Net Cash Accruals to Total Debt (NCA/TD) stood at 0.53 times in FY2023 (Provisional).

Acuité believes that, going forward, the financial risk profile of the company will remain above average backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital management of the company is intensive in nature marked by high Gross Current Assets (GCA) of 253 days as on March 31, 2023 (Provisional) as against 285 days as on March 31, 2022. The high GCA days are on account of the debtor period which improved but stood high at 90 days as on March 31, 2023 (Provisional) as compared to 119 days as on 31st

March 2022. The debtors are primarily high due to the inherent nature of the business. However, the inventory period stood comfortable at 9 days in FY2023 (Provisional) and in FY2022.

Going forward, Acuité believes that the working capital cycle of the company will remain around similar levels as evident from the high debtor level.

Fiercely competitive healthcare industry limiting the ability to attract and retain high quality consultants

The healthcare industry is very competitive with a large number of established organised players and their growing network of hospitals catering to middle/high income group which has affected the pricing flexibility of the company, in addition to restricting occupancies to a certain extent. Further, improvement of the occupancy levels is highly dependent on the hospital's ability to retain and add reputed consultants which will be a challenge in light of heightened competition in the healthcare sector.

Rating Sensitivities

- Growing scale of operations
- Improvement in the financial risk profile
- Elongation of working capital cycle

All Covenants

None

Liquidity Position: Adequate

The company's liquidity position is adequate marked by net cash accruals of Rs. 8.77 Cr as on March 31, 2023 (Provisional) as against long term debt repayment of only Rs. 1.96 Cr over the same period. The cash and bank balances of the company stood at Rs. 0.61 Cr as on March 31, 2023 (Provisional) as compared to Rs. 0.23 Cr as on March 31, 2022. The current ratio stood at 1.82 times as on March 31, 2023 (Provisional). However, the fund based limit utilisation stood high at 94 per cent over the six months ended June, 2023 owing to working capital intensive nature of operations of the company marked by Gross Current Assets (GCA) of 253 days as on March 31, 2023 (Provisional) as against 285 days as on March 31, 2022.

Acuité believes that going forward the company's liquidity position will remain adequate due to steady accruals.

Outlook: Stable

Acuité believes that SHCCPL will maintain a stable outlook over the medium term on account of experienced management, steady revenue growth and above average financial risk profile. The outlook may be revised to 'Positive' in case the company achieves higher than expected improvement in its operating income and profitability while improving its capital structure and working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of substantial reduction in its operating income, sharp decline in its operating margins, deterioration in the financial risk profile and further stretch in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	78.56	72.77
PAT	Rs. Cr.	5.62	4.93
PAT Margin	(%)	7.15	6.78
Total Debt/Tangible Net Worth	Times	0.29	0.32
PBDIT/Interest	Times	7.19	7.19

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

Infomerics, vide its press release dated April 27, 2023 had denoted the rating of Sparsh Hospitals & Critical Care Private Limited as 'IVR BB-; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

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>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Jun 2023	Term Loan	Long Term	5.65	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Working Capital Term Loan	Long Term	6.35	ACUITE BB+ (Downgraded and Issuer not co-operating*)
24 Mar 2022	Term Loan	Long Term	5.65	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	6.35	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.75	ACUITE BBB- Stable Upgraded
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	7.25	ACUITE BBB- Stable Assigned
Indian Bank	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.19	ACUITE BBB- Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.68	ACUITE BBB- Stable Upgraded
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	6.38	ACUITE BBB- Stable Upgraded

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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.

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