

Press Release

Peerless Hospitex Hospital And Research Center Limited

July 26, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BBB+ Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	20.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB+**' (read as **ACUITE Triple B plus**) to Rs. 20.00 Cr bank facilities of Peerless Hospitex Hospital and Research Center Limited (PHHRCL). The outlook is '**Stable**'.

The rating takes into account the company's business risk profile's sustainable growth in FY22., as revenues grew by more than 37 per cent in the year driven by improvement in the healthcare segment following higher increase in ARPOB, better occupancy level and a diversified revenue stream across various specialties. The ratings also take into account 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 company has a healthy financial profile, characterized by a conservative capital structure and strong coverage indicators, apart from adequate liquidity in the form of surplus cash accruals. The business is also supported by steady demand for healthcare services and better affordability on the back of increasing awareness and penetration level of health insurance in India. These strengths are however, partly offset by the intense competition from other players operating in the catchment area, restricting the pricing flexibility which could constrain the profit margins. Further, recruitment and retention of doctors/ consultants remain key challenges for the entity, given the stiff competition in the healthcare industry.

About the Company

Peerless Hospitex Hospital and Research Center Limited (PHHRCL) was incorporated in May 1989 for delivering quality medical care through research and education. It is a 400-bed, Kolkata-based, multi-specialty hospital, which has been operational since 1993. It is a subsidiary of Peerless General Finance & Investment Company Limited and accredited by National Accreditation Board of Hospitals. PHHRCL offers medical services in cardiology, neurology, gastroenterology, psychiatry, orthopaedics, paediatrics, urology, dental, nephrology etc. Furthermore, the hospital is affiliated with a number of reputable professional doctors and it owns a fleet of ambulances including ICU ambulances for transportation of critically ill patients. At present it runs courses offering Masters in Emergency Management in association with the George Washington University; Master of Hospital Administration; DNB and BPT.

Analytical Approach

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

Key Rating Drivers

Strengths

Long track record of operations and experienced management coupled with strong support from the parent

Incorporated in 1989, Peerless Hospitex Hospital and Research Center Limited (PHHRCL) has a long operational track record of more than three decades. As a wholly-owned subsidiary of Peerless Group, it receives strong operational, financial and managerial support from the parent. The long standing experience of the promoters and long track record of operations has helped them to establish a strong brand image and corporate ties-ups. Acuité derives comfort from the vast experience of the promoters along with presence of reputed doctors and consultants on the panel which would further strengthen the growth prospects of the hospital.

Healthy financial risk profile

The company's healthy financial risk profile is marked by healthy networth base, low gearing and strong debt protection metrics. The tangible net worth of the group improved to Rs.101.04 crore as on March 31, 2022 (Provisional) from Rs.84.50 crore as on March 31, 2021 due to accretion of reserves. Gearing of the company also improved to 0.19 as on March 31, 2022 (Provisional) as compared to 0.29 as on March 31, 2021, on account of redemption of debentures. However, the 7 per cent Redeemable Non-Cumulative Preference Share Capital were subsequently restructured on March 2022, and the redemption dates were extended for another five years. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.53 times as on March 31, 2022 (Provisional) as against 0.69 times as on March 31, 2021. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 18.73 times as on March 31, 2022 (Provisional) and Debt Service Coverage Ratio at 15.19 times as on March 31, 2022 (Provisional). The surge in earnings in FY2022 supported by higher footfalls and enhanced accruals led to further improvement in the credit metrics. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.30 times as on March 31, 2022 (Provisional). Acuité believes that going forward, despite having debt funded capex plans, the financial risk profile of the company will remain healthy backed by steady accruals.

The company has undertaken a brownfield project to set up a Superspecialty Cancer Wing at the existing hospital site to meet the growing demand of oncology treatment, by increasing the total patient bed capacity to 700. The total cost of the project is Rs.460 Cr of which Rs.50 Cr would be funded through term loan, NCDs would be raised for Rs.250 Cr and balance from promoters' sources. In this project, up to May 2022, the company has incurred Rs.20.00 Cr which has been funded by internal accruals. The promoters are resourceful and will infuse any incremental funding requirement if the situation arises. The scheduled time for completion of the project is December 2025. The financial closure for the term loan is yet to be achieved.

Sound Business risk profile aided by improved ARPOB

The operations of the hospital ramped up since Q2 FY2022, after the second covid wave, supporting the top line as the company earned Rs. 252.31 Cr in FY22 (provisional). The hospital business has seen headwinds over the last one year, as revenue declined in FY2021 to Rs. 183.26 crore from Rs. 217.87 crore in FY2020 owing to a drop in patient footfalls, lower ARPOB due to COVID business, deferment of non-critical surgeries. A significant decline in the top line coupled with high operating fixed cost resulted in an operating loss for the company in FY2021. Nevertheless, FY22 saw a strong revival with rising patient footfalls and normalization of surgeries in FY2022. However, both the profitability margins of the company have improved with operating margin of 11.75 per cent and PAT margin at 6.71 per cent in FY22 (provisional). This improvement in margins have translated into healthy RoCE levels for the company of

about 20.84 per cent in FY2022 (provisional). Over the last one year, PHHRCL's Average Revenue per Occupied Bed (ARPOB) has been under pressure, however FY2022 has seen a strong rebound in ARPOB, mainly on account of pent-up demand for high-cost surgeries. In addition, the company has reported a steady increase in bed occupancy. The bed occupancy stood at 85 per cent in FY 2022 as against 72 per cent in FY 2021. Acuité believes ramping-up of operations is expected to help in sustaining revenues levels in FY2023, in the likely absence of covid-19 admissions.

Weaknesses

Increased competition from other established hospitals

PHHRCL remains exposed to the geographical concentration risk as its operations are mostly confined to Kolkata, West Bengal. Moreover, intense competition from other players in the industry restricts pricing flexibility, which also exerts pressure on its profitability.

Retaining 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

- Improvement in the scale of operation while sustaining its profitability margin
- Delay in project execution if any, leading to cost overruns
- Elongation in working capital cycle

Material covenants

None

Liquidity Position: Strong

The company's liquidity is strong marked by steady net cash accruals of Rs.24.48 Cr as on March 31, 2022 (provisional) as against no long term debt repayment over the same period. The current ratio stood comfortable at 2.62 times as on March 31, 2022 (provisional) as compared to 2.48 times as on March 31, 2021. The cash and bank balances of the company stood at Rs.1.24 Cr as on March 31, 2022 (provisional) as compared to Rs.1.63 Cr as on March 31, 2021 and also free FD of Rs. 34.00 crore as on March 31, 2022 (Provisional), which lower requirement of funds in business. Further, the working capital management is efficient marked by Gross Current Assets (GCA) of 40 days in 31st March 2022 (provisional) as compared to 56 days in 31st March 2021. Acuité believes that going forward the group will maintain adequate liquidity position due to steady accruals, further supporting the capex undertaken.

Outlook: Stable

Acuité believes that the outlook on PHHRCL will remain 'Stable' over the medium term on account of the experience of the promoters, long track record of operations and healthy business risk profile. The outlook may be revised to 'Positive' in case the company witnesses a material improvement in its working capital management while increasing its scale of operations. Conversely, the outlook may be revised to 'Negative' in case of any significant elongation in its working capital management leading to deterioration of its gearing and liquidity position.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	252.31	183.26
PAT	Rs. Cr.	16.92	(5.38)
PAT Margin	(%)	6.71	(2.94)
Total Debt/Tangible Net Worth	Times	0.19	0.29
PBDIT/Interest	Times	18.73	1.61

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

Not Applicable

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

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+ Stable Assigned

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About Acuité Ratings & Research

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