Press Release

Harshitha Hospitals Private Limited

April 20, 2023

Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BB- | Stable | Assigned	-
Total Outstanding Quantum (Rs. Cr)	40.00	-	-

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BB-' (read as ACUITE double B minus)**' to the Rs. 40 Cr bank facilities of Harshitha Hospitals Private Limited (HHPL). The Outlook is '**Stable**'.

Rationale for rating
The rating assigned reflects the established market position with the strong pedigree in Madurai city along with diversification across various speciality. Further, the rating also factors in the increased occupancy at 66% in 10M FY 2023 against 61% and 56% in FY 2022 and FY 2021 respectively. However, rating is constrained by below average financial risk profile, working capital intensive operations reflected by high dependence on short term borrowings with an average utilization of 93.5% for 10 months ending January 2023. and competition from other hospitals and exposure to regulatory risk.

About the Company

Harshitha Hospitals Private Limited(HHPL) is based out of Madurai, Tamil Nadu. Established in the year 2009 and commenced operations in 2011, HHPL offers clinical excellence through experienced doctors, high-end infrastructure and transparent patient care. Hospital's facility is a NABH-accredited advanced tertiary care facility with 100-beds and state-of-the-art infrastructure. The hospital is owned by the Harshitha Hospitals Private Limited which worked both as a COVID Centre and Hospital.

Analytical Approach
Acuite has considered standalone business and financial risk profile of Harshitha Hospital Private Limited(HHPL).

Key Rating Drivers

Strengths

Established regional player aided by strong pedigree in Madurai region
Started by Dr. C.N Ilanakumar in 2009, Harshitha Hospital Private Limited(HHPL) is well known hospital chain in Madurai city. Initially HHPL started its operations at East marret street in

Madurai city, later in 2017 HHPL shifted its premises to Avaniyapuram which is at close proximity to Madurai airport. Currently HHPL operates 100 beds hospitals at Avaniyapuram. It offers a comprehensive range of healthcare services in various fields s cardiology, Neurology, Orthopaedic, nephrology, gastroenterology, Gynaecology & Obstetrics, Paediatric, and others. It offers a comprehensive range of healthcare services across 10+ specialties and super specialties. The occupancy has improved over the years and stood at 66% in 10M FY 2023 against 61% and 56% in FY 2022 and FY 2021 respectively. The revenue of company improved from Rs.28.40 Cr in FY2021 to RS.35.79 Cr in FY2022 on account of increase in patient volumes and occupancy rate. The revenue stood at Rs 34.45 Cr till February 2023. Further, the revenue mix is fairly diversified between cash-payment, TPA/Insurance patients and Govt/ other panel patients.

Weaknesses

Below average financial risk profile

The financial risk profile of the company remained below average marked by average capital structure, high gearing and comfortable debt protection metrics. The networth of the company stood at Rs. 4.39 Cr as on March 31st 2022 as against Rs.2.47 Cr as on March 31st 2021. The increase in networth is majorly due to accretion of profits in reserves. The HHPL follow a aggressive financial policy reflected through its peak gearing of 26.74 times in FY 2020. The gearing ratio of the company stood at 9.18 times as on March 31st 2022 as against 15.45 times as on March 31st 2021 and 26.74 times as on March 31, 2020, high gearing ratio is primarily due to debt laden capex for construction of new hospital premises. TOL/TNW(total outside liability to tangible net worth) stood at 9.85 times as on March 31st 2022 as against 16.26 times as on March 31st 2021.Debt protection metrics remained comfortable with interest coverage ratio and debt service coverage ratio standing at 2.45 times and 2.36 times as on March 31st 2022 as against 2.15 times and 2.09 times as on March 31st 2021.
Acuite believes that financial risk profile of the company may continue to remain below average in medium term with moderate cash accruals.

Working capital intensive operations

Company's operations are working capital intensive as evident by Gross current asset days(GCA days) of 158 days in FY2022 as against 128 days in FY2021. GCA days are mainly dominated by debtors' days of 81 days in FY2022 as against 23 days in FY2021. The debtor days are high as payment receipts from TPA takes 45 days wherein from EHS it takes 1-3 months. Creditor days increased from 74 days in FY2021 to 84 days in FY2022. Further company's average bank utilisation stood high at 93.5 percent for 10 months ending January 2023.
Acuite believes that operations of the company will continue to remain working capital intensive considering the nature of business and high realisation time from TPA and EHS.

Exposure to regulatory risk and competition from other hospital chains

The company remains exposed to competition from other hospital chains. Furthermore, the company operates in a regulated industry that has witnessed continuous regulatory intervention during the past couple of years. Regulations such as restrictive pricing regulations instated by the central and state governments and stricter compliance norms can have adverse impact on the margins of the company.

Rating Sensitivities

- Ability of the hospital to scale up operations with sustaining operating margins
- Ability to increase the occupancy level.
- Elongation of working capital cycle leading to streched liquidity

Material covenants

None

Liquidity Position

Stretched

Liquidity profile of HHPL is stretched as reflected by higher reliance on short term borrowings with an average bank utilisation stood at 93.59 percent during the last 10 months ending January 2023. However, HHPL has generated moderate cash accruals of Rs. 5.56 Cr in FY2022 as against repayment obligations of Rs.3.60 Cr during the same tenure. The company maintained cash and bank balance of Rs. 0.18 Cr as on March 31st 2022. Current ratio of company remained at 2.49 times for the FY2022 as against 1.89 times for FY2021. Company's GCA days stood high at 158 days making it dependent on bank borrowings for working capital.

Outlook: Stable

Acuité believes that HHPL will maintain a 'Stable' outlook in near to medium term on account of its experienced management and improving operating performance. The outlook may be revised to 'Positive' if the company is able to achieve higher than expected growth in revenue while improving its working capital management. Conversely, the outlook may be revised to negative in case of further stretch in liquidity profile and its profitability margins, and deterioration in debt protection indicators.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	35.79	28.40
PAT	Rs. Cr.	1.92	1.14
PAT Margin	(%)	5.37	4.02
Total Debt/Tangible Net Worth	Times	9.18	15.45
PBDIT/Interest	Times	2.45	2.15

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
- Rating Process and Timeline: https://www.acuite.in/view-rating-criteria-67.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, Acuité 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 :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.33	ACUITE BB- | Stable | Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	31.67	ACUITE BB- | Stable | Assigned

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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.