



Press Release

IQ City Foundation

June 01, 2020

| Sl. No. | Instrument/Facility | Amount (Rs. Crore) | Rating | Rating Action |
|---------|--------------------------------------|--------------------|---|---------------|
| 1 | Long Term Bank Facilities- Term Loan | 197.925 | IVR BB+ /Stable (IVR Double B Plus with Stable Outlook) | Assigned |

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of IQ City Foundation (IQCF) draws comfort from its experienced management and its established promoter group, its satisfactory infrastructure with association of experienced faculties, approval from MCI and reputed doctors along with technical & management tie-up with Narayana Health. The rating also considers high student enrolment ratio for medical college, moderate occupancy rate for hospital, locational advantage and corporate tie-ups. However, the rating strengths are partially offset by its constitution as a 'Society', leveraged capital structure, high Competition, susceptibility to regulatory risks and reputational risk.

IQCF has applied for moratorium on payments from its lenders as part of the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020. Infomerics has not recognized this instance as a Default, as the same is permitted by the RBI as part of the relief measures announced recently. Non-recognition of default in this case is as per the guidance provided by the SEBI circular SEBI/ HO/ MIRSD/ CRADT/ CIR/ P/ 2020/ 53 dated March 30, 2020.

Key Rating Sensitivities

Upward Factors

- Improvement in enrolment ratio for newly introduced post graduate courses and maintaining satisfactory occupancy rate in the hospital
- Improvement in profitability and debt protection metrics
- Improvement in the capital structure

Downward Factors

- Dip in operating income and/or profitability impacting the debt protection metrics
- Non-renewal of letter of permission from Medical Council of India (MCI) for admission



Press Release

- Moderation in the capital structure

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management and group**

IQCF is a society formed by two business groups of Eastern India, Mani group & Synergy group. The Kolkata based Mani Group, which has been promoted by Mr. Sanjay Jhunjhunwala, is engaged in the development of healthcare, education, hospitality and real estate projects and has added more than 5 million sq. ft. of properties (primarily in Kolkata) in the last three decades. Synergy Group, promoted by Antony family of Kolkata, is a diversified business house having exposure in areas comprising education, bio-technology, solar power, food and infrastructure. While Mani Group has committed to provide financial support to the project undertaken by IQCF, the operational aspect of the same is being taken care of by the Synergy Group, who have been successfully running two NSHM Knowledge Campuses in Kolkata and Durgapur offering professional degree courses including management, engineering, hotel management, media & design and pharmaceutical technology related undergraduate & postgraduate courses.

- **Technical & management tie-up with Narayana Health, an entity of NarayanaHrudalaya Group**

IQCF in February 2012, has entered into a 29 year agreement with NarayanaHrudalaya (P) Ltd. (NHPL), Bangalore wherein the operations and management of the hospital will be entrusted to NHPL. NHPL, founded by renowned cardiothoracic surgeon, Padma Bhushan awardee Dr. Devi Shetty, is running an established hospital chain in India.

- **Satisfactory infrastructure with association of experienced faculties and reputed doctors**

IQCF has the privilege of having a number of experienced faculty members, which is essential in building a strong brand name and attracting quality students. Further, all the institutes under IQCF have modern infrastructure including furnished hostels for boys and girls, transport & canteen facilities and latest tools & technologies. Further, IQCF Hospitals have qualified and reputed doctors, research laboratories and well trained staff.

- **Improvement in scale of operation coupled with higher operating profit**



Press Release

The total operating income of IQCF grew at a CAGR of 4.80% during last three years FY17-FY19; it improved at a y-o-y growth rate of 7.28% in FY19 and stood at Rs.118.56 crore vis-à-vis Rs.110.51 crore in FY18. The same is attributed to increase in the revenue from hospital on account of improved occupancy with bed-capacity addition and increase in fees from the students pertaining to the increase in the number of batches for medical and nursing courses. PBILDT level increased on an absolute basis from Rs.24.73 crore in FY18 to Rs.26.58 crore in FY19 in line with the increase in total revenue, PBILDT margin improved from 22.38% in FY18 to 22.42% in FY19 on account of decline in operating expenses vis-à-vis total operating income. Owing to the increase in depreciation, the quantum of net losses has increased from Rs.20.78 crore in FY18 to Rs.24.83 crore in FY19. However, there was no cash loss and the trust has earned a cash profit of Rs.1.99 crore in FY19.

- **High student enrolment ratio for medical college & moderate occupancy rate for hospital**

Student enrolment ratio for medical college stood at 100%. The hospital occupancy in Inpatient Department has remained satisfactory over the years since the inception of its operations. The same stood at 69% in FY17. It improved to 75% in FY18 and FY19. In addition to the Inpatient department, number of outpatients in the Out Patient Department has also increased over the years (301,079 units in FY17, 301,500 units in FY18, 332,100 units in FY19). IQCF's hospital commenced commercial operations in July 2012 and the first batch of its Medical College started in September 2013. At present, five batches with 150 students in each batch (which is the maximum capacity) are going on.

- **Approval from MCI**

The society has obtained long pending approval from the Medical Council of India (MCI) for running medical college for next five years. However, MCI has been dissolved for now and Board of Governors- Medical Council of India (BoG- MCI) is presently looking after all the proceedings of MCI and most probably by July 2020, National Medical Commission (NMC) will come into force. As per NMC, no further approval will be required for next five years.

- **Locational advantage**

The hospital is in Durgapur, West Bengal, which has developed into a self-sustained township over the years, and currently is one of the fastest growing cities of West Bengal. Further, with increase in urbanisation and growing income level, the perception of patients as consumers has also changed leading to an increase in demand for quality care hospitals.



Press Release

Furthermore, the site is easily accessible as it is located closed to both airport (Kolkata & Andal Domestic Airport) and Railway Station (12 km) and is connected by the town roads and public transport including bus and auto rickshaws. The Foundation has also constructed a road for direct access to the site from JL Nehru Road at Durgapur which has shortened the distance from NH-2; thus, improving greater accessibility.

- **Corporate tie-ups and tie-ups with various medical insurance companies**

IQ City Narayana Multi-Speciality Hospital has tie-ups with many corporates and medical insurance companies for the treatment/health check-ups of their employees. Such tie-ups provide a stable source of revenue. Furthermore, the entity also has tie-ups with leading health insurance companies to ensure smooth insurance claim for ensuring smooth and hassle free insurance claims for its patient

Key Rating Weaknesses

- **Constitution as a 'Society'**

IQCF is a society, registered under West Bengal Societies Registration Act, 1961 and has obtained registration under section 12AA of the Income Tax Act, 1961 and is accordingly, subjected to lesser level of regulations.

- **Leveraged capital structure**

Overall gearing deteriorated to 4.19x as on March 31, 2019 from 2.91x as on March 31, 2018 on account of erosion of net worth marked by higher loss incurred by the trust at net level (unsecured loans from promoters which are subordinated to the Term Loan have not been considered as a part of Total debt while calculating the debt ratios and is treated as quasi equity).

- **High Competition**

The other major hospitals operating in Durgapur are Durgapur Steel Plant Hospital, The Mission Hospital and Vivekananda Hospital. Despite competition from such hospitals which are in operation for a longer tenure than that of IQ City Narayana Multi-Speciality Hospital, the hospital has been able to generate a recall value amongst the catchment area of the Durgapur city; thus, resulting into gradual increase in its occupancy rates.



Press Release

- **Susceptibility to regulatory risks**

The medical education sector is highly regulated and compliance with specific operational and infrastructure norms set by regulatory bodies are important. Thus, regular investment in the workforce and infrastructure is needed to conduct the operations efficiently.

- **Reputational risk**

All the healthcare providers need to monitor each case diligently and maintain high operating standard to avoid the occurrence of any unforeseen incident which can damage the reputation of the hospital to a large extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

IQCF's liquidity position is expected to be adequate as per the size of operations. The trust is highly reliant on corpus fund. Corpus Fund as on March 31, 2019 was Rs.43.48 crore. As and when the required approval from competent authority is obtained, the capex requirements will be met from internal cash accruals, which will come from medical fees of students. Further, the trust has maintained an increasing trend in its turnover over the past years.

About the Society

IQ City Foundation (IQCF), set up in February 2006 and erstwhile known as SPS Synergy Foundation was initially jointly promoted by the SPS, Mani and Synergy group of Kolkata. However, with the exit of the SPS group from the promoter's consortium, the society was subsequently renamed in April 2014. IQCF is a registered society under the West Bengal Societies Registration Act, 1961 and has been formed for the purpose of establishing and operating hospital and educational institutions. IQCF, a part of Mani Group, has set up a Medical College and a Teaching cum multi-speciality Hospital (under the name IQ City Foundation) at MouzaSovapur in Durgapur, West Bengal on a 100 acres parcel of land allotted to it by Govt. of West Bengal.



Press Release

Financials (Standalone)

(Rs. crore)

| For the year ended* / As On | 31-03-2018 | 31-03-2019 |
|--|----------------|----------------|
| | Audited | Audited |
| Total Operating Income | 110.51 | 118.56 |
| EBITDA | 24.73 | 26.58 |
| PAT | -20.78 | -24.83 |
| Total Debt [#] | 216.15 | 207.51 |
| Tangible Net worth [#] | 74.31 | 49.48 |
| EBITDA Margin (%) | 22.38 | 22.42 |
| PAT Margin (%) | -18.48 | -20.83 |
| Overall Gearing Ratio (x) [#] | 2.91 | 4.19 |

[#]Considering subordinated USL from promoters as quasi equity and excluding it from total debt.

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

| Sr. No. | Name of Instrument/Facilities | Current Rating (Year 2020-21) | | | Rating History for the past 3 years | | |
|---------|-------------------------------|-------------------------------|--------------------------------|----------------------------|---|---|---|
| | | Type | Amount outstanding (Rs. Crore) | Ratings | Date(s) & Rating(s) assigned in 2019-20 | Date(s) & Rating(s) assigned in 2018-19 | Date(s) & Rating(s) assigned in 2017-18 |
| 1. | Term Loan | Long Term | 197.925 | IVR BB+/ Stable Outlook | - | - | - |

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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Press Release

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

| Name of Facility | Date of Issuance | Coupon Rate/ IRR | Maturity Date | Size of Facility (Rs. Crore) | Rating Assigned/ Outlook |
|--------------------------------------|------------------|------------------|---------------|------------------------------|--------------------------|
| Long Term Bank Facilities- Term Loan | - | - | Q4FY28* | 197.925 | IVR BB+/ Stable Outlook |
| Total | | | | 197.925 | |

*excluding moratorium availed by the society