



Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Utkal Healthcare Private Limited

January 31, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned
1	Bank Facilities- Long Term	45.00	IVR BB+/Positive Outlook (IVR Double B Plus with positive Outlook)
	Total	45.00	

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Utkal Healthcare Private Limited (UHPL) derives comfort from its experienced promoters and management, locational advantage with satisfactory occupancy rate and healthy growth prospects for Indian healthcare industry. The rating also positively factor in presence of moratorium period till December 2020 with existence of debt service reserve account (DSRA), fund infusion by the promoters and UHPL's comfortable debt metrics. The rating strengths are partially offset by short track record of operation of hospital, small scale of operations with moderation in profit margin, high vulnerability to reputation risks, and capital intensive & fiercely competitive nature of the healthcare industry limiting the ability to attract and retain high-quality consultants.

Key Rating Sensitivities

Upward factors

Sharp growth in scale of operations with improvement in profit margins on a sustained basis
Improvement in debt metrics on a sustained basis

Downward factors

Moderation in scale of operation or profit margin on a sustained basis
Deterioration in the overall gearing to more than 2x



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List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management

UHPL is promoted by Dr. Aditya Samal and Dr. Kalyan Rath. Dr. Aditya Samal holds the degree of DM in cardiology, he has worked in USA for more than 15 years. UHPL is guided by experienced management, having minimum experience of 20 years in the respective domains.

Locational advantage

The hospital is located in Bhubaneswar, Odisha which is the state capital and close to the international airport of the city. Further, the hospital is easily accessible and is well connected by the city roads and easily available public transports.

Moratorium period with existence of debt service reserve account (DSRA)

The company is having a long moratorium period and has no repayment of loan till December, 2020. Further, it has created a DSRA with two quarters of principal repayments and interest cost with the bank for servicing of its debt obligations. Moreover, the company has prepaid its interest to be due for the period starting from November 2019 to March 2020 which strengthen the credit risk profile of the company.

Satisfactory occupancy rate

The hospital occupancy has remained satisfactory even in its initial stage of operation. In Q2FY19, the occupancy remained around 17% on 50 beds. It further increased to 53% on 70 beds till Q2FY20 leading to increase in revenue and overall profitability of the company.

Fund infusion by the promoters and comfortable debt metrics

The promoters are infusing funds to support the operations of the company on a regular basis. In FY19, the promoters have infused Rs.18 crore. Moreover, the promoters have committed to infuse further capital aggregating to Rs.12.00 crore during FY20 and out of which has infused Rs.10.38 crore till November 15, 2019. With capital infusion by the promoters the debt



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equity ratio of the company improved from 1.74x as on March 31, 2018 to 1.13x as on March 31, 2019. Further, total indebtedness of the company as reflected by the TOL/TNW also remain comfortable at 1.48X as on March 31, 2019. The gearing ratios are expected to improve in the near term with further equity infusion and profitable operations. The interest coverage ratio for UHPL was remained satisfactory at 2.91x in FY17, which gradually increased to 4.51x in FY18 and further increased to 5.76x in FY19.

Healthy growth prospects for Indian healthcare industry

Factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare, under-penetration of healthcare services, technological improvements in early diagnosis and treatment and higher incidence of lifestyle diseases support the industry prospects. Further, the government thrust towards the healthcare sector including steps proposed in the last Union Budget is expected to benefit the players in this industry.

Key Weaknesses

Short track record of operation of hospital

The hospital operations commenced from September, 2018 hence it is in its nascent stage of operations.

Small scale of operations with moderation in profit margin

The scale of operation of the company remained small with total operating income of Rs.11.35 crore in FY19. Prior to commencement of hospital operations the company was mainly into diagnostic services. However, with commencement of hospital operations since September, 2018 the total operating income of the company witnessed a step rise of ~89% in FY19 though the scale of operations continued to remain small. Small scale of operations restricts the financial flexibility of the company. Further, the company has witnessed moderation in its profit margins due to higher operating expenses in hospital in its initial stage. Till November 2019, the company has earned a total revenue of Rs.17.3 crore.

High vulnerability to reputation risks



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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 adverse publicity and affect operation.

Capital intensive nature of industry

The hospital segment is capital intensive industry with a long gestation period. Generally, the payback period (PBP) for a new hospital is in the range of 5-6 years. Further, the maintenance capex required for the hospital industry also remains high owing to regular replacement of equipment to remain updated with the latest technology. However, despite its initial stage of operations the hospital attained a decent occupancy level and earned cash profit.

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 organized 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.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity of UHPL appears to be adequate. UHPL has the adequate capacity to serve its interest and debt obligations. UHPL has reported interest coverage ratio at very comfortable level of 4.51x and 5.76x in FY18 and FY19 respectively. UHPL has reported low current and quick ratio at 0.36x and 0.33x in FY19 respectively due to high amount of credit financing for



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completion of hospital project. However, the creditors are paid off as on September 30, 2019 which has led to current and quick ratio at comfortable level of 1.44x as on September 30, 2019. Further, the company has prepaid its interest to be due for the period starting from November 2019 to March 2020.

About the Company

Incorporated in 2006, by Dr. Aditya Samal and Dr. Kalyan Rath, Utkal Healthcare Private Limited (UHPL) established Utkal Institute of Medical Sciences & Hospital located in Niladri Vihar, Bhubaneswar. The company initiated operations with a nuclear medicine diagnostic centre by installing Gamma Camera Unit in 2008. Later in 2014, UHPL installed a Positron Emission Tomography (PET) scan unit. Thereafter the company started commissioning a full-fledged 150-bed multi-speciality hospital in Bhubaneswar for which company commenced the operations from September, 2018.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	6.00	11.35
EBITDA	1.17	1.32
PAT	0.27	0.19
Total Debt	41.45	47.47
Tangible Net worth	23.81	42.02
EBITDA Margin (%)	19.44	11.59
PAT Margin (%)	3.60	1.64
Overall Gearing Ratio (x)	1.74	1.13

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Issuer not cooperating by CRISIL and India Ratings vide press release dated February 27, 2019 and August 01, 2019 respectively due to non-availability of information.

Any other information: Nil



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Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Term Loan	Long Term	45.00	IVR BB+/Positive	-	-	-

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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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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deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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	-	-	July, 2026	45.00	IVR BB+/Positive