



Press Release

Spanv Medisearch Lifesciences Private Limited

July 08, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Proposed long term bank facilities – Term Loan	190.00	Provisional IVR A (CE) /Stable (Provisional IVR Single A [Credit Enhancement] with Stable Outlook) *	Assigned
2	Proposed long term bank facilities – Cash Credit	15.00	Provisional IVR A (CE) /Stable (Provisional IVR Single A [Credit Enhancement] with Stable Outlook) *	Assigned
	Total	205.00		

**Based on provisional shortfall undertaking from Ayodhya Gorakhpur SMS Tolls Private Limited*

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the proposed bank facilities of SpanvMedisearch Lifesciences Private Limited (SMLPL) derives comfort from its experienced and resourceful promoters coupled with shortfall undertaking from Ayodhya Gorakhpur SMS Tolls Private Limited (AGSTPL, rated IVR A+/Stable on March 12, 2021) which is a group company of SMLPL having a strong credit profile. This shortfall undertaking results in credit enhancement in the rating of the said proposed bank facilities to **Provisional IVR A (CE)/Stable Outlook (IVR Single A [Credit Enhancement] with Stable Outlook)** against the unsupported rating of **IVR BBB-/Credit Watch with Developing Implications (IVR Triple B Minusunder Credit Watch with Developing Implications)**. The rating also positively factors in its locational advantage, strong infrastructure, satisfactory occupancy rate and tie ups with reputed organizations. However, these rating strengths are partially offset by nascent stage of operation of the hospital and elongated payback period. The rating also considers fragmented nature of the industry, scarcely available qualified medical professionals along with exposure to regulatory and reputational risks.

The unsupported ratings have been placed under credit watch with developing implications amid possible impact of prolonged second wave of COVID-19 pandemic leading to uncertainty in the performance since the hospital is at its very nascent stage of operations and just started to earn profits during Q1FY22. In FY21 due to the COVID induced lockdown and subsequent travelling restrictions, the patient flow from Madhya Pradesh and



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Chhattisgarh was hit, which has impacted the revenue of the hospital. Infomerics will continue to monitor the developments in this regard and will take a view on the rating once the exact implications of the above on the credit risk profile of the company is clear.

The rating assigned is “Provisional” and the conversion of provisional rating into final rating will be confirmed once the client fulfils the conditions mentioned below to the satisfaction of Infomerics:

- i. **Sanctioning of the proposed bank facilities**
- ii. **Submission of shortfall undertaking deed for the bank facilities**

Validity period: The provisional rating shall be converted into a final rating within 90 days from the date of issuance of the debt instrument. In case the required documents/compliances are not completed within the validity period (max 180 days) and/or they are not in line with Infomerics’s expectations, Infomerics reviews the provisional rating as per its policy.

Key Rating Sensitivities

Upward factors

- Substantial and sustained growth in operating income and improvement in profitability
- Improvement in the capital structure with the overall gearing below 1x and improvement in debt protection metrics
- Continuation of Group support
- Achievement of financial closure
- Improvement in the credit profile of AGSTPL

Downward factors

- Continuous loss from operations with lack of promoter support on a sustained basis could lead to a negative rating action
- Any further increase in debt more than envisaged
- Drop in occupancy level to below 50% on a sustained basis
- Deterioration in the credit profile of AGSTPL

List of Key Rating Drivers with detailed description

Key Rating Strengths

Resourceful promoters with long standing business experience



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SMLPL is a joint venture between Sancheti family of Nagpur and few other renowned doctors of Nagpur. The Sancheti family is the founder of well-known SMS group based in Nagpur with over three decades of experience. The group has diversified business interest in various industries like infrastructure, toll collection, waste management etc. through various companies under its fold. The SMS group has a strong financial profile with SMS Limited being the flagship company. SMLPL, having been the first foray of the promoters in the healthcare sector is expected to receive support from the Sancheti family. Moreover, the co-promoters are also renowned and resourceful doctors of Nagpur region. The promoters have already infused about of Rs. 149.94 crore till March 31, 2021. Further, the proposed bank facilities of the company will be backed by shortfall undertaking from Ayodhya Gorakhpur SMS Tolls Private Limited (AGSTPL, rated IVR A+/Stable on March 12, 2021) which is a group company of SMLPL having a strong credit profile.

Experienced management

The hospital project is the first venture of SMS Group in the healthcare sector. However, the Sancheti family have collaborated with renowned doctors of Nagpur who are specialised in various disciplines of medicine. The operations of the hospital are looked after by the members of the Sancheti family along with the expert Doctors as promoters. They are also supported by a team of experienced and qualified professionals. The operations and the administrative work of the hospital is headed by Dr. Prakash PrahaldKhetan (Managing Director). Dr. Khaitan is a well-known Nephrologist in Nagpur. The other directors are also renowned practitioners in Nagpur and have relevant experience in the field of medicine.

Strong credit profile of AGSTPL

AGSTPL has a strong credit profile marked by its satisfactory capital structure with healthy cash accruals leading to strong debt protection parameters.

Locational advantage

Kingsway Hospital is prominently located in the heart of the city of Nagpur and very well connected with the other parts of the city. Due to good connectivity, the city has become a major trade and transportation center in the region. It also allows access to the people coming from adjoining cities, towns, villages and states. The hospital is well connected by road and railway. The Nagpur railway station is just 0.5 km away from the hospital site and the Nagpur airport is just 6 km from the hospital site.



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State-of-the-art-hospital catering to niche segment

SMLPL has set up a 304 bedded tertiary care multi-speciality hospital in the name of 'Kingsway Hospital' with the objective to extend medical services in various specialised segments like Neurology, Neurosurgery, Orthopaedics, along with other disciplines. The hospital also provides latest technology and equipment for the treatment of its patients. The hospital commenced operations in a phased manner from December 04, 2019 and at present is operational across all departments with entire 304 beds.

Multi-specialty hospital coupled with satisfactory occupancy and average revenue per occupied bed (ARPOB)

Kingsway hospital provides secondary and tertiary healthcare services in various fields (Cardiology, Gastroenterology, Neurology, Orthopedics, Physiotherapy etc.) with specialists available round the clock exclusively for the hospital. It is equipped with state-of-the-art equipment's and provides latest technology and equipment for the treatment of its patients. In spite of being in a very nascent stage of operations with FY21 being the first full year of operations, the occupancy rate stood at 57% in FY21 fiscal with satisfactory ARPOB.

Corporate tie-ups with reputed organizations

The hospital is empanelled with renowned Corporate and Government organizations like Airport Authority of India (AAI), Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, India Oil Corporation Limited, Bharat Heavy Electricals Limited, Indian Railways, etc. for providing health care services. Besides, it has tie-ups with leading insurance companies and third-party administrators. These empanelment and tie-ups facilitate the hospital in attracting patients as patients mostly prefer facilities like cash less treatment and ease in claim settlement through insurance companies, which in turn leads to higher occupancy rate.

Key Weaknesses

Nascent stage of operations

The hospital commenced operations in a phased manner from December 04, 2019, onwards with FY21 fiscal being the first full year of operations and thus, is relatively at a very nascent stage and will take time to stabilise given the capital-intensive nature of the industry. Also, the hospital was operational with limited capacity in FY21 and had to incur huge administrative and fixed overheads being the initial year of operation. Hence, the company suffered book loss of Rs.30.76 crore on a TOI of Rs.109.15 crore in FY21 (Prov.).



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Fragmented nature of the industry

The hospitality sector is highly fragmented with very few players in the organized sector leading to very high level of competition in the business. Going forward, the prospects of the company will be primarily driven by its ability to enhance occupancy level, improve its profitability and sustenance of its capital structure.

High gestation period, high cost of medical equipment – all resulting in elongated payback period

The hospital segment is capital intensive with a long gestation period usually. Generally, the payback period for a new hospital is about 7-8 years. Further, the maintenance capex required for the hospital segment also remains high owing to regular replacement of equipment to remain updated with the latest technology. On the other hand, with technology evolving day by day, the need for training of existing manpower to handle highly sophisticated deliverance of care becomes important. With limited resources and high attrition rates in the healthcare sector, training and development becomes tough, which can in turn impact the desire to offer quality services to the patient.

Impact of regulatory restrictions on revenues

The pricing of multiple medical inputs is controlled by government regulatory agencies, more specifically by NPPA (National Pharmaceutical Pricing Authority) in India with the motive of bringing transparency and rationale in the billing process and to maintain a viable ceiling on the prices of medical inputs. The hospitals are also mandated to treat certain patients belonging to the economically weaker section of the society at a subsidized cost. This poses a huge financial burden on the hospitals, due to the rising equipment and operating costs and in some cases, it is even difficult for the hospitals to identify if the beneficiary of any subsidized scheme is bonafide or not, which inadvertently affects their top-line. Additionally, the National Accreditation Board for Hospitals and Healthcare providers, under the purview of the Ministry of Commerce (under GoI) provides guidelines for running hospitals emphasizing on protocols and internal control mechanisms.

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:



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Credit Enhancement (CE) rating: Assessment of the credit profile of AGSTPL, provider of shortfall undertaking to SMLPL.

Unsupported rating: Standalone

Applicable Criteria

Rating Methodology for Service Sector Companies

Rating Methodology for Structure Debt Transaction (Non-Securitisation Transaction)

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

SMLPL's liquidity position is likely to remain adequate in its initial years of operation driven by expected support from its resourceful promoters and renowned doctors of Nagpur. Also, the company has modest free cash and cash equivalents of Rs.5.83 crore as on May 18, 2021 which provides comfort to an extent.

About the Company

Incorporated in January 2018, SpanvMedisearch Lifesciences Private Limited (SMLPL) is a special purpose vehicle formed by a group of expert Doctors (37.26%) and promoters of Nagpur based SMS group (62.74%) to set up a 300+ bedded Tertiary Care Multi Speciality Hospital in the name of 'Kingsway Hospital' at Nagpur, Maharashtra.

The Hospital is situated in the Central Business District of Nagpur city, near railway station, Kasturchand Park, Sadar. The project involves the state-of-the-art hospital building divided into seven floors and two basement floors accommodating the entire medical and support facilities required for the tertiary care multi-speciality hospital having constructed area of more than 3,12,000 sq. ft. The hospital has commenced operations in a phased manner with effect from December 04, 2019.

Financials: Standalone

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	14.15	109.15
Total Income	14.55	109.30
EBITDA	1.16	3.55
PAT	-0.47	-30.76
Adjusted Tangible Net worth	70.08	124.26
EBITDA Margin (%)	8.18	3.25
PAT Margin (%)	-3.22	-28.14
Overall Gearing Ratio (x)	2.17	1.37



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**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 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Term Loan (Proposed)	Long Term	190.00	Provisional IVR A (CE) /Stable *	Withdrawn (January 21, 2021)	IVR BBB- / Stable (December 17, 2019)	-
2.	Cash Credit (Proposed)	Long Term	15.00	Provisional IVR A (CE) /Stable *	Withdrawn (January 21, 2021)	IVR BBB- / Stable (December 17, 2019)	

**Based on provisional shortfall undertaking from Ayodhya Gorakhpur SMS Tolls Private Limited*

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. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any



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point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital 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
Proposed Term Loan	-	-	-	190.00	Provisional IVR A (CE) /Stable *
Proposed Cash Credit	-	-	-	15.00	Provisional IVR A (CE) /Stable *

**Based on provisional shortfall undertaking from Ayodhya Gorakhpur SMS Tolls Private Limited*

Annexure 2: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/Lenders-SMLPL-08-07-21.pdf>