Sooriya Hospital

March 7, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	205.66 (enhanced from Rs. 129.85 crore)	IVR BBB-/ Stable (IVR triple B minus with Stable outlook)	Reaffirmed	Simple
Total	**205.66 (INR Two hundred five crore and sixty six lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the ratings assigned to the bank facilities of Sooriya Hospital (SH) considers Steady growth in scale of operations with continuous improvement in profitability in FY22 and 9MFY23. Further, the ratings continue to derive strength from extensive experience and established track record of its promoters in healthcare industry, multispecialty facilities with satisfactory occupancy and corporate tie-ups with reputed organizations. The rating also notes SH's moderate debt protection metrics and leveraged capital structure. The rating further derive comfort from healthy growth prospects for Indian healthcare industry. However, these rating strengths remain constrained due to its moderate scale of operations and risks in partnership constitution. The rating also consider susceptibility to regulatory risks, intense competition, and reputational risk.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in operating income and improvement in profitability
- Improvement in the capital structure and improvement in debt protection metrics
- Successful commissioning of the planned expansion plan without cost or time overrun

Downward Factors

- Moderation in operating income and/or cash accrual or deterioration in operating margin
- Any unplanned capex leading to deterioration in the capital structure, liquidity and/or debt protection metrics

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Extensive experience and established track record of the promoters in healthcare industry**

Sooriya Hospital was established by Dr. C.P. Sreekumar who has more than three decades of experience in the healthcare industry. Besides, the hospital has an established panel of doctors/surgeons across multiple specialties with adequate medical infrastructure, which helped it to achieve a steady revenue growth over the years. Infomerics believes longstanding experience of the promoters will continue to support the business risk profile of the firm.

- **Multispecialty facilities with satisfactory occupancy**

The hospital offers multispecialty treatments and has the necessary infrastructure and equipment's for proper functioning of most of its departments including Gynaecology, IVF, Cardiology, Orthopaedics, Paediatrics, Nephrology, etc. Having expertise in multiple streams and association with reputed medical professional helps the firm to diversify its revenue and supports the business risk profile to a large extent. Further, the hospital witnessed a steady improvement in its occupancy and the occupancy rate is 90% in the FY22.

- **Corporate tie-ups with reputed organizations**

The hospital is empanelled with renowned Corporate and Government organizations like Airport Authority of India (AAI), Chennai Metro Rail Limited, Hindustan Petroleum, Carborandum Universal, Consulate General of United States of America, Larsen & Toubro, MRF, Mahindra and Mahindra Limited 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.

- **Steady growth in scale of operations with continuous improvement in profitability**

Sooriya Hospital has reported steady growth in its operating income with y-o-y growth of ~21% to Rs.78.57 crore in FY22 from Rs.65.36 crore in FY21. The growth is driven by gradual increase in occupancy and PD income coupled with increase in income from sales of power. The firm commissioned a 2.4 mw solar power plant on December 5, 2018 at Tuticorin and contributed Rs.1.83 crore in FY22 against 1.55 crore in FY21. The growth is supported by its healthy occupancy level at ~90% along with an increase in average revenue per occupied bed (ARPOB) and improvement in pharmacy sales. Also, 1.4 MW solar power plant has been installed in April 2023 for captive power plant, that is expected to reduce the power cost.

The EBIDTA of the firm increased to Rs.25.42 crore in FY22 with y-o-y growth of 42% mainly driven by improvement in ARPOB. PAT improved to Rs.11.85 crore in FY22 from Rs.7.22 crore in FY21. The profitability margins also witnessed healthy growth and stood at 32.35% in FY22 with increase from 27.40 crore in FY21. PAT margin increased to 14.73% in FY22 from 10.89% in FY21.

- **Leveraged capital structure with moderate debt protection metrics**

The overall gearing ratio moderated to 2.49x as on March 31, 2022 from 1.93x as on March 31, 2021 due to availment of Term loan for the increase in the capacity of the hospital. Further, Total indebtedness of the firm as reflected by TOL/TNW stood at 2.62x as on March 31, 2022 and moderated from 2.00x as on March 31, 2021.

The debt protection metrics as indicated by interest coverage ratio and Total debt/GCA stood moderate at 2.39x and 12.25 years respectively in FY22 and improved from 2.07x and 12.35 years. The current ratio of the company remained adequate as on the past three closing dates.

- **Healthy growth prospects for Indian healthcare industry**

The demand outlook for healthcare services is favourable on the back of rising population, better affordability through increasing per capita income, widening medical insurance coverage, growing awareness for healthcare, and higher incidence of lifestyle diseases. The Covid-19 global pandemic has led to increase in awareness and the need for health insurance. Further, Infomerics expects that the Government's Ayushman Bharat scheme which aims to provide free health coverage at the secondary and tertiary level to its bottom 40% poor and vulnerable population will increase the demand for quality healthcare going forward.

Key Rating Weaknesses

- **Risks in partnership constitution**

Being a partnership firm, it is vulnerable to capital withdrawals by the partners.

- **Moderate scale of operation**

Though, the firm has recorded considerable growth in scale of operations over the past three years the scale of operation continues to be moderate at ~Rs.79 crore in FY22.

- **Intense competition and susceptibility to regulatory risks**

Sooriya Hospital is exposed to stiff competition from other established hospital in Chennai. The competition also affects the pricing flexibility of the hospital. Further, the healthcare 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 Entities

Financial Ratios & Interpretation (Non- Financial Sector)

Criteria for assigning rating outlook

Liquidity – Adequate

The liquidity position of the firm is expected to remain adequate in the near to medium term marked by its expected sufficient accruals vis-à-vis its debt repayment obligations. The firm has earned a gross cash accrual of Rs.14.19 crore as against its debt repayment obligation of Rs.6.23 crore in FY22. Further, the firm is expected to earn gross cash accruals in the range of ~Rs.20-Rs.32 crore as against its debt repayment obligations of Rs.18-23 crore during the projected year FY23-25. The fund based utilisation remains at 74% during the last 12 months ended January 2023 indicating adequate liquidity buffer.

About the Company

Sooriya Hospitals (SH) is a Chennai based multi-specialty hospital with 135 beds. The hospital was established in 1991 by Dr. Sreekumar as a Partnership concern. The hospital presently offers treatments across a large number of specialties including Paediatric, Gynaecology, Neonatal intensive care, Pulmonology, Cardiology, Orthopaedic, Gastroenterology etc. Sooriya Hospital is NABH pre-accredited and ISO 9001:2008 certified hospital.

Financials (Standalone):

(Rs. crore)

For the year ended* / As on	31.03.2021	31.03.2022
	Audited	Audited
Total Operating Income	65.36	78.57
EBIDTA	17.91	25.42
PAT	7.22	11.85
Total Debt	108.61	173.82
Tangible Net Worth	59.83	69.74
Adjusted Tangible Net Worth	59.83	69.74
EBDITA Margin (%)	27.40	32.35
PAT Margin (%)	10.89	14.73
Overall Gearing Ratio (x)	1.82	2.49

**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 Ratings (Year 2022-23)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (January 04, 2022)	Date(s) & Rating(s) assigned in 2020-21 (October 5, 2020)	Date(s) & Rating(s) assigned in 2019-20
1.	Term Loan	Long Term	188.41	IVR BBB-/ Stable	IVR BBB-/ Stable	IVR BBB-/ Stable	-
2.	Secured Overdraft	Long Term	15.75	IVR BBB-/ Stable	-	-	-
3.	SBB Merchant Loan	Long Term	1.50	IVR BBB-/ Stable	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

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Press Release

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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
Term Loan I	Long Term	-	August 2031	34.50	IVR BBB-/ Stable
Term Loan II	Long Term	-	July 2031	2.98	IVR BBB-/ Stable
Term Loan III	Long Term	-	July 2031	0.78	IVR BBB-/ Stable
Term Loan IV	Long Term	-	September 2025	0.80	IVR BBB-/ Stable
Term Loan V	Long Term	-	April 2023	0.16	IVR BBB-/ Stable
Term Loan VII	Long Term	-	June 2025	2.40	IVR BBB-/ Stable
Term Loan VIII	Long Term	-	May 2028	13.30	IVR BBB-/ Stable
Term Loan IX	Long Term	-	May 2028	4.95	IVR BBB-/ Stable
Term Loan X	Long Term	-	November 2024	6.27	IVR BBB-/ Stable
GECLS 2.0	Long Term	-	May 2026	13.72	IVR BBB-/ Stable
GECLS 3.0	Long Term	-	August 2027	16.40	IVR BBB-/ Stable

Term Loan XI IND Sanjeevini GECLS	Long Term	-	December 2026	1.81	IVR BBB-/ Stable
Term Loan XII	Long Term	-	February 2033	90.00	IVR BBB-/ Stable
Equipment Loan	Long Term	-	August 2023	0.34	IVR BBB-/ Stable
Secured Overdraft	Long Term	-	-	15.75	IVR BBB-/ Stable
SBB Merchant Loan	Long Term	-	-	1.50	IVR BBB-/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details https://www.infomerics.com/admin/prfiles/Len-Sooriya-7032023.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.