



Press Release

Sooriya Hospital

October 5, 2020

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating	Rating Action
1	Long Term Bank Facilities	85.18	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
	Total	85.18 (Rupee Eighty Five crore and eighteen Lakh only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of Sooriya Hospital (SH) derives 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 steady growth in its scale of operations with continuous improvement in profitability, moderate debt protection metrics and moderate capital structure with gradual improvement in leverage ratios. 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

Downward Factors:

- Moderation in operating income and/or cash accrual or deterioration in operating margin



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- 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 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 over the past three years from ~78% in FY17 to ~90% in FY20.

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

The hospital is empaneled 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**



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Sooriya Hospital has reported steady growth in its operating income with a CAGR of ~7% during FY17-FY20. The growth was driven by gradual increase in occupancy and OPD income coupled with increase in income from sales of power. The firm commissioned a 2 mw solar power plant in December 2018 at Tuticorin and generated revenue of Rs.0.34 crore in FY19 and Rs.1.49 crore in FY20. During FY20 (Provisional), the firm generated a revenue of Rs.62.99 crore against a revenue of Rs.56.21 crore in FY19 supported by its healthy occupancy level at ~90% along with an increase in average revenue per occupied bed (ARPOB) and improvement in pharmacy sales. The EBIDTA of the firm witnessed gradual improvement over the past three fiscals (FY18-FY20) with healthy EBITDA margin, which witnessed continuous improvement over the aforesaid period with a y-o-y improvement by 194 bps to 28.53% in FY20 mainly driven by improvement in ARPOB. Improvement in EBITDA lead to improvement in PAT from Rs.3.13 crore in FY17 to Rs.7.17 crore in FY20 (Prov.). Infomerics expects the growth will continue in near to medium term driven by healthy prospect in healthcare sector.

- **Moderate capital structure with gradual improvement in leverage ratios and moderate debt protection metrics**

The capital structure of the firm remained moderate as on the past three account closing dates with gradual improvement driven by scheduled repayment of debts and accretion of profit to net worth coupled with infusion of further capital by the partners in regular intervals. The overall gearing ratio improved from 2.43x as on March 31, 2018 to 1.52x as on March 31, 2020. Further, Total indebtedness of the firm as reflected by TOL/ATNW stood at 2.65x as on March 31, 2020. The debt protection metrics as indicated by interest coverage ratio and Total debt/GCA stood moderate at 2.09x and 9.43 years respectively in FY20 (Provisional)

- **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



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40% poor and vulnerable population will increase the demand for quality healthcare going forward.

Key Rating Weakness:

- **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.63 crore in FY20 (Provisional).

- **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 Sector Entities

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: 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.8.85 crore as against its debt repayment obligation of Rs.5.50 crore in FY20 (Provisional). Further, the firm is expected to earn gross cash accruals in the range of ~Rs.10-Rs.16.70 crore as against its debt repayment obligations of



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Rs.7.55-9.51 crore during FY21-23. Further, the firm does not have any major capex plan in the projected tenure which imparts comfort.

About the Firm

Sooriya Hospitals (SH) is a Chennai based multi-specialty hospital with 200 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	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	56.21	62.99
EBITDA	14.95	17.97
PAT	5.62	7.17
Total Debt	90.14	83.51
Tangible Net worth	45.03	54.81
EBITDA Margin (%)	26.59	28.53
PAT Margin (%)	9.69	11.29
Overall Gearing Ratio (x)	2.00	1.52

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Acuite Ratings & Research has moved the rating of Sooriya Hospital into the Issuer Non-Cooperating category as the entity did not cooperate in the rating procedure despite repeated follow ups vide its Press Release dated April 20, 2020.

Any other information: Nil

Rating History for last three years:

Sr. No	Name of Instrument/Facilitie	Current Rating (Year 2020-21)	Rating History for the past 3 years
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.	s	Type	Amount outstanding (Rs. Crore)	Rating s	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	73.93	IVR BBB-/ Stable	-	-	-
2.	Overdraft	Long Term	9.75	IVR BBB-/ Stable	-	-	-
3.	Proposed OD	Long Term	1.50	IVR BBB-/ Stable	-	-	-

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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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 / Outlook
Long Term Bank Facilities - Term Loans	-	-	Oct 2022- Feb 2031	73.93	IVR BBB-/ Stable
Long Term Bank Facilities- Overdraft	-	-	-	9.75	IVR BBB-/ Stable
Long Term Bank Facilities – Proposed OD	-	-	-	1.50	IVR BBB-/ Stable
Total				85.18	

Annexure 2: Facility wise lender details (Hyperlink to be added)

<https://www.infomerics.com/admin/prfiles/Lender-Sooriya-Hospital-05-oct-20-.pdf>