Press Release

IQ City Foundation (IQF)

September 28, 2023

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	198.32 (enhanced from 197.93)	IVR BB+; Stable (IVR Double B Plus with Stable Outlook)	Revised and removed from IVR B+; Issuer Not Cooperating (IVR Single B Plus; Issuer Not Cooperating)	Simple
Total	**198.32 (Rupees one hundred and ninety-eight crore and thirty-two lakh only)**			

Details of Facilities are in Annexure 1

Detailed Rationale

Infomerics has removed the ratings assigned to the bank facilities of IQ City Foundation (IQF) from Issuer Not Cooperating category based on adequate information received from the client for review of its ratings.

The revision in the ratings assigned to the bank facilities of IQ City Foundation (IQF) considers improvement in IQF's business performance in FY23 marked by improvement in its scale of operations and profitability. Further, the ratings also consider its experienced management, satisfactory infrastructure with association of experienced faculties and reputed doctors, locational advantages and corporate tie-ups and tie-ups with various medical insurance companies. However, these rating strengths continues to remain constrained due to its constitution as society, leveraged capital structure with moderate debt protection metrics, exposure to high competition, susceptibility to regulatory risks, reputational risks and project implementation risks.

Key Rating Sensitivities:

- **Upward Factors**
  - Improvement in scale of operations resulting from better percentage of intake of students leading to rise in gross cash accruals on a sustained basis

- Improvement in the capital structure with further improvement in debt protection metrics with rise in interest coverage to above 4x and overall gearing to below 3x

- **Downward Factors**

- Decline in scale of operations and/or moderation profitability impacting the debt protection metrics leading to moderation in interest coverage ratio to below 2x
- Withdrawal of subordinated unsecured loans or any unplanned capex leading to deterioration in the capital structure with further deterioration in overall gearing to over 5x
- Moderation in liquidity position

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management**

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.

- **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 business performance in FY23**

The total operating income of the society grew at a CAGR of 28.55% with y-o-y growth of ~20% in FY22 and ~38% respectively in FY23. The revenue growth has been driven by increase in fees from MBBS course and increase in fees in PG (Clinical) course. The EBITDA margin of the entity though remained satisfactory witnessed an erratic trend over the last three years. Further driven by rise in EBITDA and dip in finance charges, PAT margin also improved from 0.13% in FY22 to 17.26% in FY23. Infomerics expects further improvement in IQCF's profitability in the near term. In Q1FY24, the entity has achieved a revenue of ~Rs.66 with a PBT of ~Rs.13 crore.

- **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. 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 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.

B. 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 with moderate debt protection metrics**

The capital structure of the society is leveraged marked by its high leverage ratios. After considering unsecured loans from related parties aggregating to Rs.25.59 crore as quasi equity, overall gearing ratio stood high at 6.21x as on March 31, 2023. Total indebtedness of the society as on March 31, 2023 is also high marked by TOL/TNW including Quasi Equity at 10.48x. Debt protection metrics of the society as reflected by interest coverage in FY23 improved to 2.83x as compared to 1.42x in FY22 on the back of decline in financial charges and higher absolute EBITDA. Total Debt/ GCA improved and stood moderate as on March 31, 2023 at 3.53 years as compared to 18.05 years as on March 31, 2022.

- **Exposure to 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 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.

- **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.

- **Project implementation risk**

The society is planning to do expansion by having girls and boys hostel and have expansion in MBBS seat, nursing college, cancer unit and maintenance at a total envisaged cost of Rs.210.00 crore, to be funded by a term loan of Rs.55.00 crore and remaining through internal accruals and infusion of unsecured loans. The trust expects to complete this expansion by March 2026 and till August 31, 2023, the trust had incurred cost of Rs. 65.00 crore through its internal accrual. Financial tie up for the debt has not been done yet.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of assigning rating outlook

Liquidity – Adequate

The liquidity profile of the society is expected to remain adequate marked by sufficient cash accruals of Rs.57.02 crore achieved in FY2023 vis-à-vis its debt repayment obligation of Rs.33.22 crore in FY2024, Rs.36.85 crore in FY2025 and Rs.38.89 crore in FY2026 respectively. The liquidity of the entity is expected to remain adequate in the near term marked by adequate collection from fees from students. However, the entity has limited gearing headroom due to its leveraged capital structure.

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 Mouza Sovapur in Durgapur, West Bengal on 100 acres parcel of land allotted to it by Govt. of West Bengal.

Financials - Standalone

(Rs. crore)

For the year ended* / As on	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	169.91	233.75
EBITDA	51.70	83.46
PAT	0.22	40.86
Total Debt	292.45	201.12
Tangible Net worth	-47.54	32.41
EBITDA Margin (%)	30.43	35.71
PAT Margin (%)	0.13	17.26
Overall Gearing Ratio (x)	-6.15	6.21

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (November 24, 2022)	Date(s) & Rating(s) assigned in 2021-22 (August 28, 2021	Date(s) & Rating(s) assigned in 2020-21 (June 01, 2020)
2.	Term Loan	Long Term	198.32	IVR BB+; Stable Outlook	IVR B+; Issuer Not Cooperating	IVR BB-; Issuer Not Cooperating	IVR BB+; Stable Outlook

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI). Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks. Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations. Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.
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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 Facility – Term Loan	-	-	July 2029	198.32	IVR BB+; Stable Outlook

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

Annexure 3: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-IQ-sep23.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.