Press Release

RMC Medical Services Private Limited

December 19, 2022

Ratings

Instrument / Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	5.82	IVR BB+/ Stable (IVR double B plus with Stable outlook)	Revised from IVR BB/ Stable (IVR double B with Stable outlook)	Simple
Short Term Bank Facilities	-	-	-	-
Total	**5.82 (INR Five crore eighty-two lakhs)**			

Details of Facilities are in Annexure 1

Detailed Rationale

The revision of the rating assigned to the bank loan facilities of RMC Medical Services Private Limited (RMSPL) factors in the addition of lease rentals in the Company's revenue stream from November 2022 onwards on account of leasing of medical equipment to the flagship company of the group, Royalcare Super Speciality Hospital This is expected to improve the Company's scale of operations and profits FY23 onwards. The ratings continue to derive comfort from the long experience of the promoters, operational support from the Group and the favourable outlook of the healthcare industry. The ratings, however, are constrained by the relatively small scale of current operations, fragmented industry structure characterised by intense competition, and customer concentration risk.

Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Marked improvement in capital structure with TOL/ TNW below 3.5 times along with debt coverage indicators.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Delay in receipt of lease rentals, which may adversely impact the liquidity position of the company.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Significant improvement expected in the profits from FY2023 onwards**
  There has been an addition of lease rentals in the Company's revenue stream from FY22 onwards on account of a new business of leasing equipment to the flagship company of the group, Royalcare Super Speciality Hospital This has improved the Company's scale of operations in FY22 and H1FY23. Moreover, the company has leased out new medical equipment from November 2022 onwards, which is expected to further improve the Company's scale of operations and profits FY23 onwardsHowever, since the equipment were purchased through borrowings, the debt burden of the Company has increased in FY23, which would impact the credit metrics of the Company unfavourably in that year, however, beginning FY24 the positive impact of lease rental inclusion would be felt for the full year, which would improve the debt protection parameters compared to FY23.
- **Experienced promoters:**
  The company is promoted by Dr. K. Madeswaran and Dr. K. Chockalingam. Dr K. Madeswaran is one of the leading and renowned neurosurgeons of Coimbatore and has more than two decades of experience. Dr. K. Chockalingam is another promoter and is an eminent cardiologist who has almost three decades of experience. The company is expected to benefit from its promoter's good reputation in the region, strong understanding of the local market dynamics and healthy relationships with various authorities.

- **Operational support from the Group:**
  RMSPL gets support from forward integration with its associate entities – Royalcare Super Specialty Hospital Ltd. (RSSH) and MC Medical Services Pvt. Ltd. (MCMSPL) both of which are MultiCare Hospitals in Coimbatore. RSSH, MCMSPL, and RMSPL share

common promoters. Since its inception in 2017 the company has been majorly supplying surgical items, pharmacy equipment/items, and lab consumables to both these hospital companies. Since August 2021 the company has started leasing out medical equipment to RSSH. With the leasing out of medical equipment in FY2022, the operating income and margins are expected to expand as pointed earlier.

- **Favourable outlook for healthcare industry:**
  The Indian market for hospital supplies remains strong driven by factors such as the rising burden of chronic diseases and various initiatives by Government in the healthcare space The country is witnessing a gradual increase in its hospital bed density. However, there remains a demand-supply gap for hospital supplies, like sterilization and disinfectant equipment and patient examination devices. A growing healthcare infrastructure and support from government to enhance and expand health care facilities are driving the demand for hospital supplies, which is expected to boost the market in India and thus benefit the company.

Key Rating Weaknesses

- **Relatively small scale of current operations:**
  The company's scale of operations continues to remain relatively small, notwithstanding an increase to Rs. 48.64 crore in FY2022 from Rs. 33.76 crore in FY2021, which results in low profits and cash accruals on an absolute basis.
- **Fragmented industry structure characterised by intense competition:**
  The medical equipment and devices sector is fragmented with multiple domestic and international players, exposing RMSPL to intense competition. However, RMSPL remains competitive because of its established collaboration with RSSH and MCSPL.
- **Customer concentration risk:**
  At present, the company derives its entire revenues by selling to its associated entities RSSH and MCMSPL, both of which are hospitals, thereby exposing the company to high concentration risk.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Trading companies

Financial Ratios & Interpretation (Non-Financial Sector)

Criteria of Rating Outlook

Liquidity –Adequate

The company's liquidity is likely to remain adequate with the expected cash accruals between FY23-25 comfortably covering the debt repayments for those years. The average working capital utilisation for the 4 months ended November 2022 remained negligible. The current ratio remained comfortable at 2.14x in FY22 and it is expected to be in the range of 1.70x - 2.02x between FY23 and FY25. The Operating Cycle was low at around 4 days in FY22.

About the Company

Incorporated in 2017, by Dr. K. Madeswaran, and Dr. K. Chockalingam, RMC Medical Services Private Limited is involved in the supply of pharmaceuticals, surgical items, lab consumables etc to its associated entities - RSSH and MCSPL, both of which are multi-care hospitals located in Coimbatore. Both the doctors are also promoters of these hospital entities. In FY22 the company has started leasing out medical equipment to RSSH.

Financials (Standalone)

For the year ended* / As On	31-03-2021	31-03-2022
	Audited	Audited
Total Income	33.77	48.80
EBITDA	1.28	3.69
PAT	0.90	1.90
Total Debt	0.00	5.95
Tangible Net worth	1.94	3.35
EBITDA Margin (%)	3.78	7.58
PAT Margin (%)	2.67	3.89
Overall Gearing Ratio (x)	0.00	1.78

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information:

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 27, 2022	**Date(s) & Rating(s) assigned in 2020-21**	**Date(s) & Rating(s) assigned in 2019-20**
1.	Term Loan	Long-Term	5.32	IVR BB+/ Stable	IVR BB/ Stable	-	-
2.	Overdraft	Long-Term	0.50	IVR BB+/ Stable	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Shahid Shah Tel: (033) 46022266 Email: shahid.shah@infomerics.com	Name: Sandeep Khaitan Tel: (033) 46022266 Email: sandeep.khaitan@infomerics.com

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.

For more information visit www.infomerics.com

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 - 1	-	-	November 2026	1.78	IVR BB+/ Stable
Term Loan - 2	-	-	December 2026	3.54	IVR BB+/ Stable
Overdraft	-	-	-	0.50	IVR BB+/ 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-RMCMedical-dec22.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.