

Press Release

Spanv Medisearch Lifesciences Private Limited

December 17, 2019

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit (Proposed)	10.00	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Long Term Bank Facilities – Term Loan (Proposed)	140.00	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Total	150.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the proposed bank facilities of Spanv Medisearch Lifesciences Private Limited (SMLPL) derives comfort from its resourceful promoters, experienced management, locational advantage, state of art hospital and appointment of reputed consultants to guide the project implementation. The ratings also factor in proposed presence of DSRA and defined escrow mechanism against loans proposed to be availed, commencement of operations even before achieving financial closure and increasing thrust of Government in the healthcare sector. However, the rating strengths are partially offset by reputation risk, capital intensive nature of industry and intense competition.

Key Rating Sensitivities:

Upward factors

- Stabilization of operations
- Profitable operations on a sustained basis
- Continuation of promoters and group support

Downward factors

- Loss making operations affecting the liquidity profile
- Any further increase in debt

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Resourceful promoters with longstanding business experience

SMLPL is a joint venture between Sancheti family of Nagpur and other renowned doctors. 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.

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 Prahlad Khetan (Managing Director). Dr. Khetan 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.

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. 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.

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

SMLPL has set up a 306 bedded tertiary care multi-speciality hospital in the name of 'Kingsway Hospital'. The hospital is proposed to extend medical services in various specialised segments like Neurology, Neurosurgery, Orthopaedics, along with other disciplines. The hospital will also provide latest technology and equipment for the treatment of its patients.

Proposed presence of DSRA and defined escrow mechanism against loans proposed to be availed

The company has proposed to maintain a debt service reserve account (DSRA) equivalent to three months of interest and principal along with the escrow structure to provide additional comfort to the lenders. Further, the DSRA replenishment is to be guaranteed by SMS Limited through an undertaking till SMLPL achieves breakeven.

Commencement of operations although financial closure yet to be achieved

The hospital commenced its operations from December 4, 2019. The project is completed through promoter's contribution in the form of unsecured loans even before the achievement of financial closure. The proposed loans will only replace the unsecured loans availed from the promoter. Commencement of operations even before financial tie up imparts comfort. However, achieving financial closure is critical from credit perspective.

Increasing Government thrust to the healthcare segment

The government thrust towards the healthcare sector including steps proposed in the last Union Budget is expected to benefit the players in this industry. SMLPL may benefit from these steps which may improve its performance going forward.

Key Rating Weaknesses

High vulnerability to reputation risks

Healthcare is a highly sensitive sector where any mishandling of a case or negligence on the part of any doctor and/or staff of the unit can lead to adverse publicity and affect operation.

Capital intensive nature of industry

The hospital segment is a capital-intensive industry with a long gestation period. Generally, the payback period (PBP) for a new hospital is high due to lower occupancy rate in the initial phase of operation. 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. Hence, going forward, any debt funded capex plans for expansion at a large scale is critical from credit perspective.

Fiercely competitive healthcare industry

The healthcare industry is very competitive with a large number of established organised players and their growing network of hospitals catering to middle/high income group. The healthcare and specialty hospitals sector mainly comprises large national level players, organized regional players, government hospitals, charitable trusts and a large number of nursing homes and multi-specialty clinics making it highly competitive. The competition is expected to intensify with the expected entry of Public Private Partnerships in this segment.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity -

SMLPL's liquidity position is likely to remain adequate in its initial years of operation driven by expected support from its resourceful promoters.

About the Company

Incorporated in January 2018, Spanv Medisearch Lifesciences Private Limited (SMLPL) is a special purpose vehicle formed by a group of expert Doctors (40%) and promoters of Nagpur based SMS group (60%) to set up a 306 bedded Tertiary Care Multi Speciality Hospital in the name of 'Kingsway Hospital' at Nagpur, Maharashtra. SMLPL is the first venture of the Sancheti family in the healthcare sector in collaboration with the renowned doctors of Nagpur who are specialised in various disciplines of medicine. The total cost of the project is Rs.300 crores which is to be funded by a debt equity ratio of 1.00x.

SMLPL is yet to achieve financial closure and is still in negotiation with various banks for the financial closure and the same is expected to be achieved by March, 2020. However, the entire hospital is ready which was funded by promoter's contribution and unsecured loans from promoters and related parties.

Financials (Standalone):

Since the company has started operations from December 04, 2019, the past financial numbers are not meaningful.

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits – Cash Credit (Proposed)	Long Term	10.00	IVR BBB-/ Stable Outlook	-	-	-

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
2.	Long Term Fund Based Limits – Term Loan (Proposed)	Long Term	140.00	IVR BBB-/ Stable Outlook	-	-	-

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Didwania Tel: (033) 46022266 Email: hdidwania@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com
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About Infomerics:

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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 Facilities – Cash Credit (Proposed)	-	-	-	10.00	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Term Loan (Proposed)	-	-	-	140.00	IVR BBB- / Stable Outlook