Press Release

Sparsh Hospitals & Critical Care Private Limited

November 05, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Term Loan	5.12 *	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised from IVR BB / Stable Outlook (IVR Double B with Stable Outlook)
Long Term Bank Facilities – Cash Credit	6.35	IVR BB+ / Stable Outlook (IVR Double B Plus with Stable Outlook)	Revised from IVR BB / Stable Outlook (IVR Double B with Stable Outlook)
Total	**11.47**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Sparsh Hospitals & Critical Care Private Limited (SHCCPL) factors in improvement in its financial performance in FY20 (Provisional) and H1FY21 coupled with comfortable capital structure and improvement in debt protection metrics in FY20 (Provisional). The ratings continue to derive comfort from its experienced promoters with satisfactory track record, locational advantage, empanelment with various Government schemes/corporates, satisfactory occupancy rate and healthy growth prospects for Indian healthcare industry. However, these rating strengths are partially offset by its modest scale of operations, reputation risk, intense competition and elongated receivables period.

Key Rating Sensitivities:

Upward factors

- Sustenance of overall gearing ratio at 0.50 times or below with improvement in its scale of operations
- Improvement in profitability with improvement in gross cash accruals
- Improvement in operating cycle

Downward factors

- Moderation in scale of operations and/or moderation in profitability

- Moderation in the capital structure and/or sharp deterioration in debt protection metrics
- Further elongation of the working capital cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

SHCCPL was founded by Dr. Priyabrata Dhir based out of Bhubaneswar, Odisha who is also the Chairman cum Managing Director of the hospital. Dr. Priyabrata Dhir is a general physician by profession and has completed his MBBS from College of Medical Science, Kathmandu University, Nepal in 2002. He has an experience of over a decade in the healthcare industry and is a specialist in surgical oncology & treatment. He looks after the day to day operations of the hospital and is well supported by Dr. Ghanshyam Biswas (MBBS, MD, DM. Oncologist) having an experience of about 20 years in the medical industry along with other directors who are also experienced and qualified professionals.

Satisfactory track record with state-of-the-art-hospital catering to niche segments

Sparsh Hospitals commenced operations from 2007 and has a satisfactory track record of more than a decade. Presently, it is a 100 Bedded multi-speciality state-of-the-art Hospital located in Bhubaneswar, Odisha. The hospital extends medical services in various specialised segments like Neurology, Neurosurgery, Orthopaedics, Oncology along with other disciplines. Further, several reputed professional doctors are also associated with the hospital who provides medical services to patients from Odisha and neighboring states. The hospital also provides latest technology and equipment for the treatment of its patients.

Locational advantage

The hospital is located in the heart of the city on a plot of land measuring approximately 30,000 square feet and is very close to the international airport of Bhubaneswar. Further, the site is easily accessible and is well connected by the city roads and easily available public transports.

Empanelment with various Government schemes/Corporate and tie-ups with insurance companies

The hospital is empaneled with renowned Corporate and Government organizations like Airport Authority of India (AIA), Food Corporation of India (FCI), National Aluminum Company Ltd. (NALCO), Reserve Bank of India, etc. for providing health care services to their employees. Besides, it has tie-ups with leading insurance companies and Third Party Administrators (TPAs) like Religare, Paramount Health Services, Genins India, TTK Healthcare Services, Heritage Healthcare Services, etc. Moreover, the hospital is empaneled in various central and state government schemes. 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.

Satisfactory occupancy rate

The hospital occupancy has remained satisfactory over the years since the inception of its operations. The same improved from 69% in FY17 to 75% in FY19 and 80% in FY20 thereby leading to increase in revenue and overall profitability of the company.

Improvement in financial performance in FY20 (Provisional)

The financial performance of the company witnessed gradual improvement over the years. Total Operating Income recorded a growth at a CAGR of ~9% during FY17-20 with a y-o-y growth of ~6% in FY20 (Prov.) over FY19 on account of increase in occupancy rate. During FY20, few of the doctors and consultants who were initially in payroll have been converted to FFS (Fee For Service) which resulted in savings for the company. Further, with increase in occupancy, EBITDA margin improved marginally from 19.74% in FY19 to 21.21% in FY20 (Prov.). Consequently, the PBT and PAT margin also improved from 11.37% and 8.21% respectively in FY19 to 13.67% and 9.87% respectively in FY20 (Prov.). During H1FY21, the company achieved a PBT of Rs.4.48 crore on a total operating income of Rs.27.51 crore.

Comfortable capital structure with satisfactory debt protection metrics

Long term debt-equity and overall gearing ratio continued to remain comfortable and improved from 0.34x and 0.51x respectively as on March 31, 2019 to 0.28x and 0.42x respectively as on March 31, 2020 (Prov.). The debt protection metrics also witnessed improvement marked by improvement in the interest coverage ratio and total debt to GCA from 3.78x and 3.62x respectively in FY19 to 4.24x and 2.77x respectively in FY20 (Prov.). driven by increased profit levels and rise in gross cash accruals. Total indebtedness as reflected by TOL/TNW remained comfortable at 0.69x as on March 31,2020 (Prov.).

Healthy growth prospects for Indian healthcare industry

Factors such as better affordability through increasing per capita income and widening medical insurance coverage, growing awareness for healthcare, under-penetration of healthcare services, technological improvements in early diagnosis and treatment and higher incidence of lifestyle diseases support the industry prospects.

Key Rating Weaknesses

Modest scale of operations

SHCCPL has witnessed growth in its scale of operations at a CAGR of ~9% during FY17-20 with a y-o-y growth of ~6% in FY20 (Prov.) over FY19. The growth in scale of operations is guided by increased reputation leading to satisfactory occupancy rate and improved realisations. However, the scale of operation continues to be modest with revenue of Rs.51.18 crore and PAT of Rs.5.05 crore in FY20 (Prov.). During H1Fy21, the company has achieved a total operating income of ~Rs.28 crore.

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.

Fiercely competitive healthcare industry limiting the ability to attract and retain high-quality consultants

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 which has affected the pricing flexibility of the company, in addition to restricting occupancies to a certain extent. Further, improvement of the occupancy levels is highly dependent on the hospital's ability to retain and add reputed consultants which will be a challenge in light of heightened competition in the healthcare sector.

Elongated receivable period

The hospital has tie-ups with various government departments/organisations and PSUs (like NALCO, Coal India Limited, Paradeep Phosphates Limited, etc.) and empanelled with central and state government health schemes. Around 40-45% of the hospital's revenue are from these tie ups. However, payments from government departments are realised within five to seven months and consequently the hospital has elongated receivable period over the years. Delay in payment realisation entail pressure on working capital requirement. The average working capital limit utilisation also remained high at 90.28% for the past twelve months ended September, 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Service Sector Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The company is expected to have an adequate liquidity position marked by its expected sufficient cushion in accruals vis-à-vis repayment obligations of Rs.2.64 crore in FY21 and Rs.3.06 crore in FY22. The company has modest cash balance of 2.00 crore as on September 30, 2020. The current ratio of the company also remained comfortable at 1.88x as on March 31, 2020 (Prov.). However, the bank limit utilisation of the company remained high at around 90% during the past 12 months ended on September, 2020 indicating a limited cushion. However, the overall gearing remained comfortable at 0.42x as on March 31, 2020 (Prov.) indicating a sufficient gearing headroom.

About the Company

Incorporated in May, 2007 by Dr. Priyabrata Dhir, Sparsh Hospitals and Critical Care Private Limited (SHCCPL) is engaged in providing healthcare service with its 100-bed hospital (Sparsh Hospital & Critical care) in Bhubaneswar, Odisha. Sparsh Hospitals is an ISO 9001:2015 certified multi-specialty hospitals and is equipped with state-of-the-art technology and well qualified & experienced doctors/surgeons.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	48.28	51.18
EBITDA	9.53	10.86
PAT	3.96	5.05
Total Debt	18.83	17.59
Tangible Net worth	37.00	42.09
EBITDA Margin (%)	19.74	21.21
PAT Margin (%)	8.21	9.87
Overall Gearing Ratio (x)	0.51	0.42

**As per Infomerics' Standard*

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 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	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	5.12 *	IVR BB+ / Stable Outlook	IVR BB / Stable Outlook (November 11, 2019)	-	-
2.	Cash Credit	Long Term	6.35	IVR BB+ / Stable Outlook	IVR BB / Stable Outlook (November 11, 2019)	-	-

**Outstanding as on September 30, 2020*

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	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: hdidwania@infomerics.com	Email: apodder@infomerics.com

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 – Term Loan	-	-	-	5.12 *	IVR BB+ / Stable Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	6.35	IVR BB+ / Stable Outlook

**outstanding as on September 30, 2020*