

Press Release

Utkal Healthcare Private Limited

September 04, 2020

Rating

Instrument / Facility	Amount (Rs. Crore)	Current Rating	Previous Ratings	Rating Action
Long Term Fund Based Bank Facilities-Term loan	45.00	IVR BB+/Positive Outlook (IVR Double B Plus with positive Outlook)	IVR BB+/Positive Outlook (IVR Double B Plus with positive Outlook)	Reaffirmed
Long Term Fund Based Bank Facilities- Cash credit	3.00 (Enhanced from Rs. 0.00 crore)	IVR BB+/Positive Outlook (IVR Double B Plus with positive Outlook)	-	Assigned
Total	48.00			

Details of Facilities are in Annexure 1

Detailed Rationales

- The reaffirmation of the rating to the bank facilities of Utkal Healthcare Private Limited (UHPL) has continued to derive comfort from its experienced promoters, locational advantage, satisfactory occupancy rate, comfortable financial risk profile, and fund infusion by the promoters. The rating strengths are partially offset by short track record of operation of hospital coupled with small scale of operation, high vulnerability to reputation risks, fiercely competitive healthcare industry limiting the ability to attract and retain high-quality consultants, and capital-intensive nature of industry.

Upward Factors



Press Release

- Significant growth in scale of business with improvement in profitability metrics thereby leading to overall improvement in cash accruals which is significantly higher than Infomerics expectation could lead to a positive rating action.

- **Downward Factors**

- Dip in operating income and/or profitability impacting the debt coverage indicators or liquidity, subdued industry scenario could lead to a negative rating action.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters and management

UHPL is promoted by Dr. Aditya Samal and Dr. Kalyan Rath. Dr. Aditya Samal holds the degree of DM in cardiology, he has worked in USA for more than 15 years. He is also a member of American College of Cardiology and recipient of fellowship in Cardiology from prestigious Ochsner Clinic, USA. Dr. Kalyan Rath has completed his specialization into paediatrics from St Luke's Roosevelt Hospital of Columbia University in New York. He is a member of American Academy of Paediatrics. UHPL is guided by experienced management, having minimum experience of 20 years in the respective domains. Further, Dubai based KBBO group's CFO Mr. Jagannath Rout has taken a stake of 12% in the company, he has vast experience and also acts as CEO/Director in the various companies in which group has exposure through its 100% owned subsidiary.

Locational advantage

The hospital is located in Bhubaneswar, Odisha which lacks robust supply chains and world class super specialty healthcare amenities. Further, the hospital is located close to the international airport of the city and is easily accessible and is well connected by the city roads

Press Release

and easily available public transports. UHPL hospital is a one-off state-of-the-art facility in the vicinity of Bhubaneswar, indicating potential business growth for the entity.

Satisfactory occupancy rate

The hospital occupancy has remained satisfactory even in its initial stage of operation. In FY20 the occupancy remained around 70% to 100% across different departments. Higher occupancy of hospital is primarily led by the overwhelming response received for the hospital unit.

Comfortable financial risk profile

The financial risk profile of the company remained comfortable marked by its comfortable gearing ratio and healthy debt protection metrics. The debt profile of the company mainly comprised of term loans and working capital borrowings. Moreover, the debt profile includes unsecured loans from the directors with no repayment schedule. The overall gearing ratio stood comfortable at 1.13x as on March 31, 2019. Further, total indebtedness of the company as reflected by TOL/TNW stood high at 1.48x as on March 31, 2019 (improved from 1.99x as on March 31, 2018).

Fund infusion by the promoters

The promoters has infused funds to support the operations of the company on a regular basis. Regular infusion of the funds in the business has led to improvement in long term debt equity ratio from 1.74x as on March 31, 2018 to 1.13x as on March 31, 2019. Further, total indebtedness of the company as reflected by the TOL/TNW also remain comfortable at 1.48x as on March 31, 2019. The gearing ratios are expected to improve in the near term with further profitable operations. The interest coverage ratio for UHPL was remained satisfactory at 5.76x in FY19.

Key Rating Weaknesses

Short track record of operation of hospital



Press Release

The hospital operations commenced from September, 2018 hence it is in its nascent stage of operations. However, despite its initial stage of operations the hospital attained a decent occupancy level and earned cash profit.

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 organized 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.

Capital intensive nature of industry

The hospital segment is capital intensive industry with a long gestation period. Generally, the payback period (PBP) for a new hospital is in the range of 5-6 years. Further, the maintenance capex required for the hospital industry also remains high owing to regular replacement of equipment to remain updated with the latest technology.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Healthcare sector

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Press Release

The liquidity position of the company is adequate marked by the sufficient gross cash accruals expected to meet the debt obligations. UHPL has infused the funds of around Rs. 13.46 crore in FY20 indicating promoter's intent to support the business as and when required. UHPL has reported the working capital utilization at around 62% for past 7 months reflecting sufficient cushion to meet incremental requirements. Further, inherent cash generation nature of the hospital operations impart comfort towards the liquidity to meet near term requirements. All the above factors indicate the adequate liquidity of the company.

About the Company

Incorporated in 2006, by Dr. Aditya Samal and Dr. Kalyan Rath, Utkal Healthcare Private Limited (UHPL) established Utkal Institute of Medical Sciences & Hospital located in Niladri Vihar, Bhubaneswar. The company-initiated operations with a nuclear medicine diagnostic centre by installing Gamma Camera Unit in 2008. Later in 2014, UHPL installed a Positron Emission Tomography (PET) scan unit. Thereafter the company started commissioning a full-fledged 150-bed multi-speciality hospital in Bhubaneswar for which company commenced the operations from September, 2018.

Financials (Standalone):

(Rs. crore)

For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	6.01	11.40
EBITDA	1.17	1.32
PAT	0.27	0.19
Total Debt	41.45	47.47
Tangible Net worth	23.81	42.02
EBITDA Margin (%)	19.44	11.59
PAT Margin (%)	3.60	1.64
Overall Gearing Ratio (x)	1.74	1.13

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Press Release

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	45.00	IVR BB+ / Positive	IVR BB+ / Positive (January 31, 2020)	-	-
2.	Cash credit	Long Term	3.00	IVR BB+ / Positive	-	-	-

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:

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Press Release

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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	-	-	July, 2026	45.00	IVR BB+/Positive Outlook (IVR Double B Plus with positive Outlook)
Long Term Bank Facilities- Cash Credit	-	-	-	3.00	IVR BB+/Positive Outlook (IVR Double B Plus with positive Outlook)