

April 18, 2022

Sahrudaya Health Care Pvt. Ltd: [ICRA]BBB+(Stable)/[ICRA]A2 assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Short - term – Fund-based/Overdraft	110.0	[ICRA]A2 assigned;
Long - term – Non-fund based/(sublimit)	(30.0)	[ICRA]BBB+(Stable) assigned;
Long - term – Unallocated	40.0	[ICRA]BBB+(Stable) assigned;
Total	150.0	

*Instrument details are provided in Annexure-1

Rationale

The ratings consider the strong support from Sahrudaya Health Care Private Limited’s (SHPL) Swedish parent group, Medcover, who supported it through equity infusion and extending loans for capacity expansion. In FY2022, ABC Medcover Holding B.V. (ABC Medcover), SHPL’s direct parent, infused Rs. 107.2 crore equity and increased its stake in SHPL to 61.2% as on December 31, 2021 from 51.3% as on December 01, 2019. Moreover, SHPL has refinanced all its term loans from banks and unsecured loans through NCDs from Medcover AB, the ultimate holding company of the Medcover Group. SHPL has aggressive expansion plans and the capex is expected to be funded through loans from the parent group. The rating further factors in the significant improvement in operational performance of SHPL over the past two years with ramp-up in operations of expanded bed capacity. SHPL’s revenue increased to Rs. 731.4 crore in FY2021 and Rs. 894.4 crore in 9M FY2022 from Rs. 540.3 crore in FY2020 with an improvement in occupancy levels and average revenue per occupied bed (ARPOB). SHPL added 526 beds in 9M FY2022 and is expected to continue to expand its bed capacity, going forward, which would support its revenue growth. The rating also factors in a diversified revenue profile with its top three specialities—cardiology, neurology and orthopaedics—accounting for 35-40% of its total revenues. The rating further considers the favourable long-term demand outlook for healthcare services, given the underlying fundamentals, including a growing population, increasing life expectancy, rising non-communicable lifestyle diseases, growing per-capita spend, increase in penetration of health insurance and rise in medical tourism.

The rating is, however, constrained by SHPL’s moderate financial profile as debt-funded capital expansion has resulted in high gearing (3.6 times estimated as on March 2022) and moderate coverage indicators with estimated Total debt / OPBITDA of 6.1 times and interest coverage of 2.3 times for FY2022. ICRA notes that operational leverage benefit from revenue growth along with revenues from Covid-19 treatment supported improvement in SHPL’s margins to 12.5% in 9M FY2022 from 7.6% in FY2020. However, SHPL started 4-5 new hospitals in the last two quarters and has expansion plans going forward as well, which are expected to impact its margins in the near term. Timely ramp up of operations of the new capacities would be critical for improving the company’s profitability. The Group also faces stiff competition from organised and unorganised sectors across India’s cities and, thus, its ability to retain key consultants also remain monitorable.

The Stable outlook on the [ICRA]BBB+ rating reflects ICRA’s opinion that SHPL will witness healthy revenue growth, given the favourable outlook for healthcare industry, while its margins and debt metrics will improve with ramp up in operations of the new units.

Key rating drivers and their description

Credit strengths

Strong support from Medcover – SHPL has received regular financial support from its parent, ABC Medcover, who infused Rs. 107.2 crore equity in 9M FY2022 and increased its stake in SHPL in FY2022. The Medcover Group has also supported SHPL through regular support in the form of long-term loans, which supported its capex plans. ICRA also notes the operational synergies between SHPL and its parent group, given the same line of business and strategic importance of India to the Group’s long-term growth plans. All hospitals under SHPL were rebranded to Medcover in FY2020. SHPL operates 22 hospitals in

Telangana, Andhra Pradesh and Maharashtra with a total operational bed capacity of 2,585 as on December 31, 2021. It is planning to open two new hospitals in Mumbai to increase its market presence in Maharashtra.

Healthy scale up of operations in FY2021 and 9M FY2022 – SHPL’s revenues increased to Rs. 731.4 crore in FY2021 from Rs. 530.4 crore in FY2020 with an improvement in occupancy levels coupled with an increase in operational bed strength to 2,585 as on December 31, 2021 from 1,668 beds as on March 31, 2020. In 9M FY2022, the Group reported revenue of Rs. 894.4 crore. Further, the revenue growth is expected to remain healthy over the medium term with ramp-up in operations at existing hospitals, and addition of new hospitals.

Diversified revenue profile – The top three specialities of cardiology, neurology and orthopaedics accounted for 32% and 29% of SHPL’s total revenues in FY2021 and 9M FY2022, respectively. SHPL generated about 31% of its revenue from Covid-19 related care and treatment in 9M FY2022, while revenue from other specialities have seen healthy improvement since Q2 FY2022. Further, SHPL’s reputed consultants in cardiology and neurology attract a large patient base despite the recent establishment of the hospitals.

Credit challenges

Aggressive expansion plans could impact profitability and strain cash flows – SHPL has been aggressive in expanding its presence over the past two years across Telangana, Andhra Pradesh, and Maharashtra. They are planning to add two new hospitals in Maharashtra in the near term. Timely commencement of the proposed hospitals and ramp up of their operations would be important for improving SHPL’s profitability.

Moderate financial risk profile – The financial profile of SHPL is moderate with high gearing and moderate coverage indicators owing to regular addition of new bed capacity, which commands lower margins than matured hospitals. However, ICRA notes that SHPL has refinanced its entire long-term debt from banks and NBFCs through loans from its parent group. These are longer tenure loans (10-year loans) with principal payments falling due only after 2030. However, SHPL services interest on a quarterly basis. ICRA also notes that SHPL’s coverage metrics such as interest coverage and DSCR improved over the past two years with improvement in the operational performance and refinancing of its external loans through relatively lower cost and longer tenure debt from its parent group.

Ability to retain reputed consultants in a highly competitive industry – Improvement in operational profile is highly dependent on the hospital’s ability to retain and attract reputed consultants, which will be a challenge in the light of increased competition in the healthcare sector.

Liquidity position: Adequate

SHPL’s liquidity position is adequate with a buffer of Rs.92.3 crore available in working capital limits as on December 31, 2021 along with cash and liquid investments of about Rs.20.0 crore. The company does not have any repayment obligations towards loans from the parent entity in the next three years. However, it has lease obligations to be met from its cash flows. The company has sizeable capex plans; however, capex would be funded through loans from its parent group.

Rating sensitivities

Positive factors – ICRA may upgrade the company’s ratings if it demonstrates a continued ramp up in newly added capacities while maintaining healthy profitability and cash accruals, resulting in improved coverage metrics.

Negative factors – Pressure on SHPL’s ratings may arise in case of slower-than-anticipated ramp up in operations, resulting in materially lower margins or cash accruals. Any external debt-funded capex materially impacting its liquidity or debt metrics could also trigger negative pressure on the ratings. Also, weakening of the credit profile of Medicover or weakening of linkages with Medicover may result in a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Hospitals
Parent/Group Support	The ratings consider support from its parent company, ABC Medicover Holding B.V., which is part of the Swedish group, Medicover.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of SHPL and its subsidiaries (enclosed in Annexure-2).

About the company

Incorporated on January 25, 2011, SHPL provides tertiary healthcare services across various specialities, with primary focus on cardiology, orthopaedics, neurology, gynaecology and paediatrics, among others. It operates 22 hospitals across Telangana, Andhra Pradesh and Maharashtra with an operational bed capacity of 2,815 as on February 28, 2022.

Medicover AB (Publ) is a Swedish public limited liability company with its Class B shares traded on NASDAQ, Stockholm. The Group started its operations in 1995 by providing healthcare facilities in Poland and expanded its presence to Central and Eastern Europe. In 2017, it started investing in India. In FY2018, the company acquired minority stake of 34.2% in SHPL, which owned and operated hospitals under the brand name, MaxCure, in Hyderabad. The Medicover Group increased its stake in SHPL over the years to 61.2% as on December 31, 2021. Hospitals under SHPL were rebranded as 'Medicover' in FY2019.

Key financial indicators (audited)

SHPL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	540.3	731.4
PAT (Rs. crore)	-74.4	8.1
OPBDIT/OI (%)	7.6%	15.1%
PAT/OI (%)	-13.8%	1.1%
Total Outside Liabilities/Tangible Net Worth (times)	6.7	6.6
Total Debt/OPBDIT (times)	13.8	5.9
Interest Coverage (times)	0.7	2.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years		
	Type	Amount Rated	Amount o/s as of Dec 31, 2021	Date & Rating in Apr 18, 2022	FY2022	FY2021	FY2020
1 Overdraft	Short-term	110.0	NA	[ICRA]A2	-	-	-
2 Non fund based	Long-term	(30.0)	NA	[ICRA]BBB+ (Stable)	-	-	-
3 Unallocated limits	Long term	40.0	NA	[ICRA]BBB+ (Stable)	-	[ICRA]BBB-(Stable)*	[ICRA]BBB-(Stable)
4 Term loans	Long term	-	NA	-	-	[ICRA]BBB-(Stable)*	[ICRA]BBB-(Stable)
5 Cash credit	Long term	-	NA	-	-	[ICRA]BBB-(Stable)*	[ICRA]BBB-(Stable)

Amount in Rs. crore; Withdrawn in FY2021*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – unallocated	NA
Long term – Non fund based/Interchangeable sublimit	Very simple
Short term – fund based	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Unallocated limits	NA	NA	NA	40.0	[ICRA]BBB+(Stable)
NA	Overdraft	NA	NA	NA	110.0	[ICRA]A2
NA	Sublimit (Interchangeable)	NA	NA	NA	(30.0)	[ICRA]BBB+(Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis

Company name	SHPL ownership	Consolidation approach
Sahrudaya Health Care (Karimnagar) Private Limited	100.0%	Full consolidation
Abhayanjaneya Healthcare Private Limited	84.9%	Full consolidation
Sahrudaya Healthcare (Kurnool) Private Limited	51.1%	Full consolidation
Suyosha Healthcare Private Limited	51.3%	Full consolidation
Sahrudaya Balaji (Sangareddy) Private Limited	51.0%	Full consolidation
Sahrudaya Health Care (Srikakulam) Private Limited	60.0%	Full consolidation
MOI Health Care Private Limited	60.0%	Full consolidation
Sahrudaya Balaji Healthcare (Mumbai) Private Limited	100.0%	Full consolidation
Niharika Hospitals Private Limited	100.0%	Full consolidation

ANALYST CONTACTS

Shamsher Dewan

+91 124 4545328

shamsherd@icraindia.com

Nithya Debbadi

+91 40 4067 6515

nithya.debbadi@icraindia.com

Srikumar K

+91 44 4496 4318

ksrikumar@icraindia.com

Akshay Dangi

+91 40 4067 6528

akshay.dangi@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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