March 28, 2024

# Jupiter Life Line Hospitals Limited: Ratings upgraded to [ICRA]A+ (Stable)/ [ICRA]A1

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Long-term – Fund-based – Term Loan** | 301.93 | 0.00 | - |
| **Short-term – Fund-based – Overdraft** | 35.00 | 35.00 | [ICRA]A1; Upgraded from [ICRA]A2+ |
| **Long-term – Non-fund Based Limits** | 2.50 | 5.10 | [ICRA]A+ (Stable); Upgraded from [ICRA]A (Stable) |
| **Long-term/ Short-term – Unallocated Limits** | 0.57 | 0.00 | - |
| **Short-term – Non-fund Based – Bank Guarantee^** | 0.00 | (2.50) | [ICRA]A1; Upgraded from [ICRA]A2+ |
| **Short-term – Non-fund Based – Letter of Credit^** | 0.00 | (3.00) | [ICRA]A1; Upgraded from [ICRA]A2+ |
| **Total** | **340.00** | **40.10** | |

**Instrument details are provided in Annexure-I; ^Sublimit*

## Rationale

The upgrade in the ratings of the company considers the significant improvement in Jupiter Life Line Hospitals Limited's (JLHL/the company) operational metrics and financial profile in FY2023 and 9M FY2024, and ICRA's expectation that the same will sustain, going forward. The company witnessed healthy revenue growth and margin expansion in FY2023 and 9M FY2024 supported by improvement in ARPOB, occupancy and case mix in addition to reduction in losses from its Indore hospital. Further, ICRA notes the significant improvement in JLHL's debt metrics supported by equity infusion of ~Rs. 542 crore through an Initial Public Offering (IPO) in September 2023. The company prepaid term loans of ~Rs. 510 crore through the IPO proceeds, leading to significant improvement in its debt metrics. Further, ICRA notes the improvement in the company's liquidity position to ~Rs. 335 crore as on September 30, 2023, from ~Rs. 153 crore as on March 31, 2023, and ~Rs. 110 crore as on March 31, 2022. The rating also factors in the established market position and the promoter's extensive experience of over 15 years in the healthcare industry. Further, JLHL operates three multi-speciality hospitals and offers diverse tertiary care services with no major revenue concentration from a single speciality.

The rating considers the company's strong revenue growth of 21.7% in FY2023 supported by improvement in occupancy to 63% in FY2023 from 53% in FY2022, while its ARPOB witnessed YoY growth of 4.7% in FY2023. Further, JLHL witnessed 19.8% revenue growth in 9M FY2024, backed by healthy ramp-up in operations at its Pune and Indore hospitals (which commenced operations from June 2017 and November 2020, respectively) and stable performance of its Thane facility. The Indore hospital became OPBIDTA positive in H1 FY2024, within three years of its operations as the unit is becoming established in the community, leading to higher patient footfalls. The operating profit margin (OPM) improved to 22.6% in FY2023 and 9M FY2024 from 20.9% in FY2022 aided by the improved operational performance. Going forward, with further ramp up of operations in the Indore and Pune hospitals, along with steady revenues from the Thane hospital and operating leverage benefits, the OPM is expected to remain healthy.

The rating, however, considers the sizeable capex plan of ~Rs. 300 crore each in FY2025 and FY2026, which will be incurred towards the ongoing construction of two greenfield facilities at Dombivli and Pune. ICRA notes that the capex will be funded through available cash balances and internal accruals, which is expected to result in steady decline in liquidity levels over the next few years. Going forward, timely commencement of operations and ramp-up at these new facilities along with their impact on the overall financial profile of the company will remain key monitorables. The ratings also consider the geographical concentration of revenues in the existing hospitals at Thane and Pune to the extent of 85% in H1 FY2024; however, the ramp-up of operations at the Indore hospital is likely to mitigate the risk to a certain extent. JLHL, in line with other industry players, is exposed to stiff competition from other organised players and regulatory risks pertaining to any restrictive pricing regulations imposed by India's Central and state governments.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company will continue to benefit from the extensive experience of its promoters and its strong financial profile. Further, the outlook underlines ICRA's expectations of stabilisation of JLHL's operations at its new hospitals and its strong debt coverage metrics following the IPO.

## Key rating drivers and their description

### Credit strengths

**Established brand position with experienced promoters –** JLHL operates three multi-speciality hospitals, one each in Thane (commenced in July 2008), Pune (June 2017) and Indore (acquired in November 2020). The promoters have a track record of over 15 years in successfully managing hospital operations in the region. The Group has successfully ramped up the Pune hospital after commencement of its operations in FY2018. Further, during H1 FY2024, the Indore hospital broke even at the operating level supported by improvement in patient footfalls and healthy operating metrics.

**Improvement in operational metrics across units –** JLHL witnessed improvement in operational metrices across hospitals in FY2023. Overall, the company witnessed occupancy of 63% in FY2023 over 53% in FY2022 supported by increased patient footfall across hospitals and improved performance of the Pune and Indore facilities. Along with the occupancy, ARPOB level across all three units also improved. Overall ARPOB increased to ~Rs. 51,000 in FY2023 over ~Rs. 48,700 in FY2022. Further, during 9M FY2024, the company's overall occupancy remained at 63% and ARPOB increased to ~Rs. 53,585. JLHL added more beds in Thane during 9M FY2024 and in Pune during Q4 FY2023, which led to largely flattish occupancy levels in 9M FY2024. During 9M FY2024, the overall ARPOB level improved, backed by a rate revision contract signed with insurance companies, price increases by the company and improvement in case mix at the Pune and Indore facilities.

**Robust financial profile –** The company showed continuous growth in operating profits over the last five years, except FY2021, which was impacted by Covid-led restrictions. Further, with improvement in the performance of the Thane and Pune hospitals and stable profitability at its Thane hospital, the company's operating margins improved in FY2023 and 9M FY2024. The company's debt metrics improved significantly in 9M FY2024 as the company repaid all its outstanding debt through IPO proceeds. In addition, it had strong cash and liquid investments of ~Rs. 335 crore, as on September 30, 2023, with negative net debt of ~Rs. 318 crore. The financial profile is expected to remain healthy in the near term with strong revenue growth and debt metrics even as the company incurs capex towards construction of its new units.

**Strong long-term demand outlook for the healthcare industry –** While footfalls in FY2021 were impacted by the pandemic, the same witnessed strong revival thereafter. Over the longer term, increasing incidence of lifestyle diseases in India, coupled with factors such as better affordability, widening medical insurance coverage, growing awareness and under-penetration of healthcare services, are expected to benefit the company and the industry at large.

### Credit challenges

**Sizeable capex plan towards new facilities; expected to result in steady decline in liquidity levels over the next 2-3 years –** JLHL has a planned capital outlay of ~Rs. 300 crore each in FY2025 and FY2026 towards two greenfield, multi-speciality facilities at Dombivli and Pune. No incremental debt is expected to be availed for the same. The capex will be funded through existing cash balances and internal accruals. Given the sizeable capex for these two facilities, the liquidity is expected to decline over the next two to three years. Going forward, timely commencement of operations and the trajectory of ramp-up at these new facilities, along with their impact on the overall financial profile of the company will remain key monitorables.

**Geographical concentration risk –** The Group faces high geographic concentration for its existing hospitals at Thane and Pune, which generated ~85% of its revenues in H1 FY2024. Further ramp-up of operations in the Indore hospital is expected to reduce the concentration risk to a certain extent.

**Stiff competition from other established players in the vicinity –** The hospital industry is highly competitive with many established organised chains. The hospitals face stiff competition from existing regional players and local multi-speciality clinics. However, the Group's established brand position coupled with a strong infrastructure is likely to mitigate competition to a certain extent.

**Exposed to regulatory risks inherent in the sector –** Going forward, regulatory risks pertaining to restrictive pricing regulations levied by the Central and state governments and stricter compliance norms could constrain the Group's profit margins.

## Liquidity position: Strong

JLHL's liquidity profile is strong, characterised by cash and liquid investments of ~Rs. 335 crore as on September 30, 2023, and sparingly used working capital limits of Rs. 35 crore. The company has no repayment obligation as it has repaid its entire debt through IPO proceeds in H1 FY2024. JLHL's capex is expected to be ~Rs. 300 crore per annum for FY2025 and FY2026. The same is expected to be funded through internal accruals and available cash balances. Overall, ICRA expects JLHL to be able to service its capital commitments from available cash and liquid investments, and internal cash accruals.

## Rating sensitivities

**Positive factors –** The ratings could be upgraded if there is a sizeable increase in the scale of operations and RoCE while maintaining healthy margins and comfortable debt coverage metrics on a sustained basis.

**Negative factors –** Pressure could arise due to a deterioration in the margins or an increase in the leverage. A specific trigger for a rating downgrade could be ND/OPBDITA of more than 1.5 times on a sustained basis.

## Environmental and social risks

**Environmental considerations:** JLHL does not face any major climate risk. However, the company needs to comply with environmental laws and regulations pertaining to handling and disposal of bio-medical specimens, wastewater, infectious and hazardous waste. Further, energy consumption by large medical equipment with emissions could pose environment risk. To mitigate this, the company focuses on building energy efficient projects; and to this end, it has purchased wind turbines to reduce its carbon footprint and energy costs.

**Social considerations:** Exposure to social risk is moderate for the company. Social risks include litigation exposure and standard compliance requirements, given the importance of the service being provided. Further, regulatory interventions such as price control measures, imposition of restrictions, if any, specifically levied, could impact the earnings of the company.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for Hospitals |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has taken a consolidated financial statement of JLHL, which includes its subsidiary, JHPPL. |

## About the company

JLHL, incorporated in 2002, operates three hospitals at Thane, Pune and Indore. The company owns and operates multi-speciality tertiary care hospitals. All three hospitals function on an 'all-hub-no spoke' model with each being a full-service facility, operating independently and serving the healthcare needs of patients, from diagnostics to surgery and rehabilitation. All three hospitals are located on land owned by the company, on a freehold basis, which ensures operational control and allows consistency in quality care, resulting in long-term operational and financial efficiencies.

JLHL has built a hotel with over 22 rooms and a convention centre adjacent to the Thane hospital, which commenced operations from April 1, 2010. The operations and maintenance of the hotel are handled by Fortune Park Hotels (FPH), a wholly owned subsidiary of ITC Ltd.

### Key financial indicators (audited)

| JLHL Consolidated | FY2022 | FY2023 | H1 FY2024* | 9M FY2024* |
|---|---|---|---|---|
| **Operating income** | 733.1 | 892.5 | 506.4 | 779.0 |
| **PAT** | 51.1 | 72.9 | 87.7 | 131.3 |
| **OPBDIT/OI** | 20.9% | 22.6% | 22.5% | 22.6% |
| **PAT/OI** | 7.0% | 8.2% | 17.3% | 16.9% |
| **Total outside liabilities/Tangible net worth (times)** | 2.2 | 1.7 | 0.1 | - |
| **Total debt/OPBDIT (times)** | 3.2 | 2.3 | 0.0 | - |
| **Interest coverage (times)** | 3.5 | 4.8 | 4.7 | 6.9 |

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. Crore; 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 (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as of Sept 30, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Mar 28, 2024 | Feb 03, 2023 | - | - |
| 1 | Fund based - Term Loan | Long-term | 0.00 | - | - | [ICRA]A (Stable) | - | - |
| 2 | Fund based – Overdraft | Short-term | 35.00 | 3.1 | [ICRA]A1 | [ICRA]A2+ | - | - |
| 3 | Non-fund-based limits | Long term | 5.10 | - | [ICRA]A+ (Stable) | [ICRA]A (Stable) | - | - |
| 4 | Unallocated limits | Long term/ Short-term | 0.00 | - | - | [ICRA]A (Stable)/ [ICRA]A2+ | - | - |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 5 | **Non-Fund Based – Bank Guarantee*** | Short-term | (2.50) | - | **[ICRA]A1** | - | - | - |
| 6 | **Non-Fund Based – Letter of Credit*** | Short-term | (3.00) | - | **[ICRA]A1** | - | - | - |

**: Sublimit*

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Short Term – Fund based – Overdraft | Simple |
| Long term - non-fund-based limits | Very Simple |
| Short term – Non-Fund Based – Bank Guarantee | Very Simple |
| Short term – Non-Fund Based – Letter of Credit | Very 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 analysing 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 are available on ICRA's website: Click Here

### Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | **Short Term – Fund based – Overdraft** | NA | NA | NA | 35.00 | [ICRA]A1 |
| **NA** | **Long term - non-fund-based limits** | NA | NA | NA | 5.10 | [ICRA]A+ (Stable) |
| **NA** | **Short term – Non-Fund Based – Bank Guarantee*** | NA | NA | NA | (2.50) | [ICRA]A1 |
| **NA** | **Short term – Non-Fund Based – Letter of Credit*** | NA | NA | NA | (3.00) | [ICRA]A1 |

*Source: Company; *- Sublimit*

*Please click here to view details of lender-wise facilities rated by ICRA*

### Annexure II: List of entities considered for consolidated analysis

| Company Name | JLHL equity ownership | Consolidation Approach |
|---|---|---|
| **Jupiter Hospital Projects Private Limited** | 96.56% | Full Consolidation |
| **Medulla Healthcare Private Limited** | 100.00% | Full Consolidation |

*Source: company annual report FY2023*

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