



Rating Rationale

23 April 2020

Alamelu Charitable Foundation

Brickwork Ratings reaffirms the ratings for the bank loan facilities of Rs.450.00 Crs of Alamelu Charitable Foundation

Particulars:

Facility	Amount (Rs Crs)		Tenure	Ratings	
	Previous	Present		Previous (23 April 2019)	Present
Fund Based					
Term Loan	200.00	154.00	Long Term	BWR AA/ Stable	BWR AA / Stable Reaffirmed
Term (Proposed)	230.00	276.00			
Non Fund Based					
Bank Guarantee	10.00	10.00	Short Term	BWR A1+	BWR A1+ Reaffirmed
Loan Equivalent Risk	10.00	10.00			
Total	450.00	450.00	Rupees Four Hundred Fifty Crores Only		

Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; Details of Bank facilities are provided in Annexure-I

Rating Action/Outlook

The reaffirmation of ratings continues to reflect the strategic, management, operational and financial support from Tata Trusts and the dedicated, resourceful management committed to offering affordable, accessible and high-quality healthcare delivery services. The ratings favourably factor in the extensive experience and knowledge of Tata Trusts in the healthcare sector and the significant initiatives undertaken to provide a universal healthcare model through Alamelu Charitable Foundation (ACF or the company) to provide innovative solutions to mitigate the challenges faced in rural healthcare delivery. Brickwork Ratings (BWR) takes note of the substantial grants committed to ACF by Tata Trusts towards implementing the state-of-the-art cancer healthcare facilities across India. Furthermore, BWR also notes the ongoing handing-over process with respect to the four completed projects as per envisaged timelines. However, the ratings remain constrained by a high dependence on grants and donations from the Tata Trusts and Tata Group entities, exposure to the risks of the termination of grants in the event of unsatisfactory progress of projects/breach of the terms of grants commitment, vulnerability to volatility in income with uncertainty in cash flows and the need for continuous funds for the consistent delivery of services. BWR believes that the company's ongoing projects are likely to face time overrun by approximately 4-5 months due to Covid-19-related disruptions .

BWR believes **Alamelu Charitable Foundation's** operations risk profile will be maintained over the medium term. The Stable outlook indicates a low likelihood of a rating change over the medium term, and BWR's belief is that ACF will continue to benefit from the strong brand as part of the Tata Trusts, which in turn derives financial strength from their ~66% holding in Tata Sons. The rating outlook may be revised to Negative if there is significant decline in grants or due to the termination of any of the grants in the event of the conditions of grant being breached or on account of unsatisfactory progress, adversely impacting the operational performance and leading to significant volatility in revenue receipts.

Key rating drivers

Credit Strengths:

- **Strategic, management and operational support from Tata Trusts:**

ACF has been incorporated to fulfil one of the visions of Tata Trusts - 'Transform Cancer Care in India' and is a special purpose implementation vehicle for the Cancer Care Programme of Tata Trusts through setting-up necessary oncology infrastructure across India over the next 5 years through the Build & Operate and Build & Transfer models approach, with the support provided by Tata Trusts by way of grants. ACF has the implicit support of Tata Trusts. ACF's shares are closely held by senior executives of Tata Trusts and persons recommended by Tata Trusts. The board of directors of ACF comprises one of the vice chairman of Tata Trusts, two senior executives and a senior advisor of Tata Trusts. Additionally, the majority of the executive team members are senior employees of Tata Trusts.

- **Tata Trusts:**

Tata Trusts are among India's oldest, non-sectarian philanthropic organisations. The Trusts own two-thirds of the shareholding of Tata Sons, the apex company of the Tata group of companies, and derive financial strength from this. The wealth that is accrued from this asset supports an assortment of causes, institutions and individuals in a wide variety of areas. These funds have been deployed towards a whole range of community development programmes across the country, for over a 100 years now. Through grant-making, direct implementation and co-partnership strategies, the Trusts support and drive innovation in the areas of healthcare and nutrition, water and sanitation, energy, education, rural livelihoods, natural resource management, urban poverty alleviation, enhancing civil society and governance, media, arts, crafts and culture, and diversified employment. The Trusts engage with competent individuals and government bodies, international agencies and like-minded private sector organisations to nurture a self-sustaining ecosystem that collectively works across all these areas.

- **Financial Support:**

ACF has received commitments of grants to the tune of ~ Rs.800 crs (PY Rs. 570 crs) from Tata Trusts till FY20, which includes fresh commitments of ~Rs.230 crs spread across four projects. Furthermore, the company has received funds to the tune of ~Rs.300 crs in FY20 from Tata Trusts and other Tata entities. The operations of ACF are funded by Tata Trusts majorly and to some extent by donations received from other sources (mainly from Tata Group entities and some from other corporates) and by short-term bank loan facilities.

- **Project execution capabilities:**

ACF has completed four projects, which are in the process of handover. The projects include Mahamana Pandit Madan Mohan Malviya Cancer Centre [*Build & Transfer model*], set-up at BHU, the facility at Indian Railways Cancer Institute and Research Centre (IRCRC) [*Build & Transfer model*], the upgradation of Meherbai Tata Memorial Trust [*Build & Transfer model*] and Centre of Excellence, Histopathology [*Build & Operate model*]. As ACF operates under the aegis of the Tata Trusts, it is supported by the extensive experience of Tata Group in its activities.

- **Healthcare Facilities under implementation:**

ACF is setting-up cancer care facilities at Tirupati [new cancer research facility in association with Tirumala Tirupati Devasthanams (TTD) [*Build & Operate model*]]; Ranchi Cancer Hospital [*Build & Operate model*] at Ranchi, Bihar; Kamla Nehru Memorial Hospital [*Build & Transfer model*] at Allahabad, UP; ACF Yenepoya Cancer Hospital [*Build & Transfer model*] at Mangalore and Cachar Cancer Hospital and Research Center [*Build & Transfer model*] at Cachar, Assam, through the grants received. The cancer care centre at Tirupati, i.e., Sri Venkateswara Institute of Cancer Care and Advanced Research, is likely to be completed by January 2021 and the facility at Ranchi by February 2021; and the Kamla Nehru Memorial Hospital project is under implementation, the Yenepoya cancer center is likely to be completed by October 2020, and Cachar Nuclear Medicine And Radiation Unit, Silchar, is expected to be operational from November 2020. Other activities carried out by ACF with the support of Tata Trusts and as per the stated objectives are under four healthcare model categories, namely, Swastha Kutumbam Telemedicine, Inclusive Cancer Care Programme, Digital Nerve Centre and Non-communicable Disease Screening.

Credit Challenges

- **Continued vulnerability to volatility in grants with uncertain cash flows:**

The inflows to ACF by way of grants (at least in the initial phases till stable cash flows accrue from the owned hospitals) is subject to the availability of funds with the Trust. As such, ACF is exposed to variability in grants receipts.

- **Need for continuous funds for delivery of services:**

In view of the grants variability, ACF may have to access funds from other sources, namely, banks, to ensure the smooth implementation of the projects. ACF avails short-term loans from banks (18 months tenure), mainly as bridge financing. However, since the last rating, the company has availed only Rs.96.00 crs from banks in February 2019, which was prepaid in April 2019 itself. In addition, the grant letters also state that cost overruns in the projects should be borne by ACF, necessitating funding from other sources. However, cost overruns, if any, are being supported by other Tata entities, namely, Tata Sons and others in the form of additional grants or CSR earmarked funds. Additionally, with respect to time overrun in any of its projects, prior approval from Tata Trusts is to be sought.

- **Continued exposure to risks of termination of grants:**

The company's primary source of income is through grants from Tata Trusts. Furthermore, Tata Trusts reserves the right to terminate the grants/call back the unspent and uncommitted funds in the event of the breach of terms and conditions of the grant and /or unsatisfactory progress in the projects. While such a scenario may be unlikely, the company continues to be exposed to associated risks.

- **Impact of COVID-19:**

BWR believes the lockdown on account of COVID-19 is likely to lead to time overruns of approximately 4-5 months with restrictions on mobility and labour shortage. An extension of the lockdown may lead to considerable time and cost overruns.

Rating sensitivities:

The company's ability to develop a sustained mechanism for the mobilisation of funds for growth, ensure the scalability of operations and the generation of stable receipts from its "Build & Operate" business model for hospitals/ facilities, ensure the timely implementation of projects and effectively manage its institutions for continued growth would be key rating sensitivities.

Positive

BWR is unlikely to upgrade ACF's rating in the near term unless there is a significant improvement in the company's operating and financial profile.

Negative

- Significant decline in grants/termination of any of the grants in the event of a breach of the conditions of the grant or on account of unsatisfactory progress, adversely impacting the operational performance
- Tata Trusts withdrawing its support to ACF

Liquidity - Adequate:

Since primary funding support is by way of grants from Tata Trusts, bank loans are availed and utilised sporadically by ACF. The company availed a short-term loan (STL) of Rs.96.00 crs in February 2019 from a sanctioned STL limit of Rs.200 crs from Axis Bank Limited. The same was repaid in April 2019. The company has an unavailed short-term loan limit of Rs.104 crs from Axis Bank and Rs.50.00 crs from Kotak Mahindra Bank. It has approached other banks for the sanction of the proposed facilities also, mainly to ensure access to sanctioned facilities and derive comfort of ready access to funds for operations. ACF is reliant on the grants for servicing and repaying its debt obligations. Grants are received in tranches, and the unutilised portions of the grants are placed in bank deposits to earn income, and adequate cash for a month's requirement is always maintained in the bank account (as per grant terms). As per the terms of the present sanctioned loan, while interest will be serviced on a monthly basis, the repayment is done as a bullet repayment at the end of the tenure of the loan. ACF services its monthly interest obligations from the cash maintained in its bank account. ACF's cash and cash equivalents were around ~Rs.52 crs as on 31 March 2020.

Analytical approach and Applicable Rating Criteria:

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

About the Company

Alamelu Charitable Foundation was established on 22 May 2017 as a Section 8 Not-For-Profit entity at Vijayawada, Krishna district, Andhra Pradesh. ACF is supported by Tata Trusts and is a special purpose implementation vehicle for the Cancer Care programme of Tata Trusts through setting-up necessary oncology infrastructure across India over the next 5 years through Build & Operate and Build & Transfer models approach, with the support provided by Tata Trusts by way of grants. ACF has the implicit support of Tata Trusts#. ACF's objective is to develop infrastructure, technology, awareness and human resources in the healthcare sector to ensure affordable, accessible and high-quality healthcare to millions of Indians at their doorstep. ACF has partnered with Tata Trusts# to set-up a model that promises to transform healthcare delivery in India by ensuring the availability of healthcare at every level.

The board of directors of ACF comprises one of the vice chairman of Tata Trusts, two senior executives and a senior advisor of Tata Trusts.

Tata Trusts refers to Sir Dorabji Tata Trust, Sir Ratan Tata Trust, Tata Education and Development Trust and allied Trusts

Key Financial Indicators :

Parameters		31 March 2018 Audited	31 March 2019 Audited
Income	Rs. Crs	64.58	456.96
EBIDTA	Rs. Crs	0.01	4.93
Net Profit	Rs. Crs	0.00	0.00
Tangible Net Worth (TNW)	Rs. Crs	11.47	14.66
Total Debt/TNW	Times	0.00	6.55
Current Ratio	Times	1.24	1.07

On an unaudited basis, the company has reported income of ~Rs.314 Crs for FY20.

Key covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the last three years:

Facility	Current Rating (Apr 2020)			Rating History		
	Amount (Rs Crs)	Tenure	Rating	2019 23 April 2019 [^]	2018	2017
Fund Based						
Term Loan	154.00	Long Term	BWR AA/ Stable	BWR AA/ Stable	-	-
Term (Proposed)	276.00					
Non Fund Based						
Bank Guarantee	10.00	Short Term	BWR A1+	BWR A1+	-	-
Loan Equivalent Risk	10.00					
Total	450.00	Rupees Four Hundred Fifty crores Only				

[^] Amount rated was Rs.450.00 crs inclusive of proposed limits of Rs.230.00 crs.

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

General Criteria	Services Sector
Approach to Financial Ratios	Short Term Debt

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Annexure I:

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1	Axis Bank Limited	Short Term Loan (STL)	104.00	-	104.00
2		Bank Guarantee	-	10.00	10.00
3		Loan Equivalent Risk		10.00	10.00
4	Kotak Mahindra Bank Limited (KMB)	STL/ OD	50.00	-	50.00
5	Proposed	Short Term Loan	276.00	-	276.00
Total			430.00	20.00	450.00

Note: ILC/FLC of Rs.100.00 crs is a sublimit of STL in respect of Axis Bank facilities.

KMB has sanctioned composite limit of Rs.50.00 crs with sub limit of : OD- Rs.10.00 crs, ILC/FLC of Rs.50.00 crs. In addition, the company has been sanctioned a forward contract limit of Rs.2.00 crs that has not been rated by BWR.



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