RATING RATIONALE **17 Aug 2021**

Heritage Hospitals Limited

Brickwork Ratings Reaffirms the ratings for the Bank Loan Facilities of Rs. 172.25 Crs. of Heritage Hospitals Ltd.

Particulars

Facilities**	Amount (Rs.Crs.)		Tenure	Rating#	
	Previous	Present		Previous (09 March 2020)	Present
Fund Based	169.06	**162.25**	**Long Term**	BWR BBB- Stable Upgrade	**BWR BBB- Stable Reaffirmation**
Non Fund Based	19.25	**10.00**	**Short Term**	BWR A3 Upgrade	**BWR A3 Reaffirmation**
Grand Total	188.31	**172.25**	**(Rupees One Hundred Seventy Two Crores and Twenty Five Lakh Only)**		

#Please refer to BWR website www.brickworkratings.com (https://www.brickworkratings.com) for definition of the ratings **Details of Bank Loan facilities,consolidation or instruments are provided in Annexure

RATING ACTION / OUTLOOK

Brickwork Ratings (BWR) reaffirms the long-term rating of BWR BBB- (Stable) and short-term rating of BWR A3 respectively for the bank loan facilities of Heritage Hospital Limited (HHL or the company).

The rating reaffirmation factors in the company's experienced promoters, high enrollment ratio, growing scale of operations with comfortable cash accruals and moderate gearing & debt protection metrics. The rating however, is constrained by high government regulations in the industry.

The rating remains Stable with the view of expected growth in the total operating income on account of additional seats for MD/MS courses and full operations of dialysis units.

BWR has principally relied upon the standalone audited financial results 31st March 2020, FY21 management certified provisionals and projected financials for FY22 and FY23 and clarifications provided by the company's management.

KEY RATING DRIVERS

Credit Strengths-:

Experienced promoters and professional team

HHL is promoted by Dr Siddharth Rai (MBBS) and Mr Anshuman Rai (brother of Dr Siddharth Rai) who have an experience of more than two decades in running a hospital. Dr Siddharth Rai looks after the day-to-day operation and has extensive experience of more than 20 years in hospital management. Existing hospital has been in operation since 1994 and is one of the prime hospitals in Varanasi.

Strong catchment area

The existing hospital has a wide catchment area and receives patients not only from neighbouring cities but also from adjacent states of Bihar, Madhya Pradesh and Jharkhand on account of lack of good healthcare infrastructure in those States.

100% enrollment in medical college

During the last three year, the enrollment ratio is 100%. Heritage Institute of Medical Science (HIMS) Benefits on account of demand-supply gap Of medical colleges. Company will also benefit on account of government tie-ups under Public Private Partnership (PPP) as it has received tenders from the government to execute various projects in the Health-Care field.

Comfortable financial risk profile

During FY21 (Provisional), company's financial risk profile is marked by healthy profitability margins such as operating margin of 34.70% (FY20:32.53%) and PAT margin of 14.34% (FY20: 13.45%), and healthy coverage indicators such as ISCR of 3.82x(FY20: 3.83x) and DSCR of 2.14x(FY20:1.52x) and low gearing ratio of 0.90x (FY20: 1.10x).

Credit Risks-:

Highly competitive and regulated Industry:

The company is exposed to intense competition from other Hospitals in Varanasi and it is exposed to risks related to unfavourable changes in government policies from time to time. The company has limited control over fee hike and admission intake which limits the scale of expansion.

Geographical concentration

The hospital caters to patients from Varanasi and adjoining areas only. There is geographical concentration of revenue.

ANALYTICAL APPROACH - Standalone

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

RATING SENSITIVITIES

Upward : BWR may revise the ratings upward in the case of a sustained and substantial improvement in the revenues and operations, alongwith improvement in credit metrics.

Downward : BWR may revise the rating downward in the case of a deterioration in scale of operations, liquidity profile and credit metrics.

LIQUIDITY INDICATORS - Adequate

Fund based limit utilization for the last six months ended June 2021 remains at 51.82% which shows cushion available in the limits. Further advance fee received also supports liquidity of the company. Further during FY21 the company had cash and cash equivalents of Rs 42.51 Crs against the fixed repayment obligations of Rs 11.45 Crs . BWR expects cash accruals to be sufficient to meet its fixed repayment obligations for FY22. In addition, the company had a free cash balance of Rs 24.51 Crs. As on 31.03.2021 current ratio stood at 1.37x which shows HHLs ability to meet its short term obligations.

ABOUT THE ENTITY

Heritage Hospitals Limited was incorporated on 22th Oct, 1991 by Dr Siddhartha Rai and Mr Anshuman Rai (Brother of Dr Siddhartha Rai), the promoters of the company. Initially, the company established a 150 bed hospital in the Lanka Region in Varanasi. The hospital came into operation in 1994. Later, the company expanded in the education sector (Medical College) in a phased manner. The Company completed and created a facility of 266 bed super speciality hospital, a 300 bed hospital and partly developed medical college at Bhadwar region in Varanasi. The facility was created in the year 2015.The company has also completed the development of a medical college with 750 seats. The company has also proposed to construct 64 bedded private wards in the hospital and has also proposed certain new equipment for its existing 750 bed hospital at Bhadwar in Varanasi. The project cost for proposed expansion (Phase III) at Bhadwar is Rs 75.18 Crs. The project is proposed to be funded by a term loan of Rs 49.89 Crs and internal accruals. The facility was proposed to be made operational by Oct 2020 but due to covid, the plan was postponed. Now again the company has taken up the plan and made a proposal to the bank for the loan of Rs 50 Crs.

KEY FINANCIAL INDICATORS (Standalone)

Key Parameters	Units	FY 19-20 (Audited)	FY 18-19 (Audited)
Operating Revenue	Rs.Crs.	191.55	175.22
EBITDA	Rs.Crs.	62.30	54.44
PAT	Rs.Crs.	25.76	18.55
Tangible Net Worth	Rs.Crs.	124.60	98.84
Total Debt/Tangible Net Worth	Times	1.10	1.54
Current Ratio	Times	1.26	0.89

KEY COVENANTS OF THE FACILITY RATED

NA

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY

As per press release dated 8th Sept 2020 CARE has maintained the rating as issuer not cooperating .

ANY OTHER INFORMATION

NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

Facilities	Current Rating (2021)			2020	2019	2018	2017
Type	Tenure	Amount (Rs.Crs.)	Rating	Rating	Rating	Rating	Rating
Fund Based	LT	162.25	BWR BBB-/Stable (Reaffirmation)	BWR BBB-Stable Upgrade	Rating Not Reviewed (09 April, 2019) BWR BB -Stable Issuer Not Cooperating Downgrade (17 May, 2019)	BWR BBB-Stable	NA
Non Fund Based	ST	10.00	BWR A3 (Reaffirmation)	BWR A3 Upgrade	Rating Not Reviewed (09 April, 2019) BWR A4 Issuer Not Cooperating downgrade (17May, 2019)	BWR A3	NA
Grand Total		172.25	(Rupees One Hundred Seventy Two crores and Twenty Five Lakh Only)				

COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at

https://www.brickworkratings.com/download/ComplexityLevels.pdf

Investors queries can be sent to info@brickworkratings.com (mailto:info@brickworkratings.com).

Hyperlink/Reference to applicable Criteria

General Criteria (https://www.brickworkratings.com/download/Criteria-GeneralCriteria.pdf)

Approach to Financial Ratios

https://www.brickworkratings.com/download/Criteria-FinancialRatios.pdf

Short Term Debt https://www.brickworkratings.com/download/Criteria-ShortTermDebt.pdf

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Heritage Hospitals Ltd
ANNEXURE-I
Details of Bank Facilities rated by BWR

S No	Bank Name	Type of Facility	Long term (Rs Cr)	Short Term(Rs. Cr)	Total
1	Bank of Baroda	Term Loan	44.20	-	44.20
		Cash Credit	8.5	-	8.50
		Bank Guarantee	-	10	10
2	Union Bank of India (Erstwhile Corporation Bank)	Term Loan	59.55	-	59.55
3	Proposed	Term Loan	49.98	-	50
Total					172.25

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