Rating Rationale

Rajagiri Healthcare & Education Trust

09 Sep 2019

Brickwork Ratings reaffirms BWR BBB+/A2 for the Bank Loan Facilities of Rs. 480.13 Crs of Rajagiri Healthcare & Education Trust (RHET or 'the trust')

Particulars

Facility#	Amount(Rs. Crs)		Tenure	Rating*	
	Previous	Present		Previous	Present
Fund Based			Long Term	BWR BBB+ *(Pronounced as BWR Triple B Plus)* Outlook: Stable	**BWR BBB+** *(Pronounced as BWR Triple B Plus)* **Outlook: Stable** **Reaffirmed**
Overdraft	15.00	15.00			
Term Loan I	195.10	188.35			
Term Loan II	273.78	273.78			
Non Fund Based			Short Term	**BWR A2** *(Pronounced as BWR A Two)*	**BWR A2** *(Pronounced as BWR A Two)* **Reaffirmed**
Bank Guarantee	3.00	3.00			
Letter of Credit (Sublimit of TL)	(100.00)	(50.00)			
Bank Guarantee (Sublimit of TL)	--	(7.00)			
Total	**488.92**	**480.13**	**Rupees Four Hundred Eighty Crores and Thirteen Lakhs Only**		

*Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings
Annexure I shows the bank-wise facilities

Rationale/Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial results of the trust upto FY18, provisional financials of FY19, projected financials upto FY20, publicly available information and information/clarifications provided by the management.

The ratings continue to draw comfort from the dedicated and resourceful management, well-established parent - Kerala based Rajagiri (C.M.I) Congregation, qualified and experienced doctors, quality of infrastructure and improved operational and financial performance. The ratings also reflect the track record of the multi-specialty hospital with accreditations from NABH (National Accreditation Board for Hospitals & Healthcare Providers), (JCI) Joint Commission International etc., reasonable occupancy level and continued financial support from the Rajagiri Healthcare & Educational Trust. However, the ratings remain constrained by the modest scale of operations, geographic concentration of business, capital-intensive operations, relatively longer gestation periods, net losses pending stabilization of operations, competition from nearby hospitals and dependency on the trustees to infuse funds.

Going forward, the hospital's ability to complete its expansion as planned, increase its occupancy level, improve operating metrics and price realisations in a competitive scenario, retain key consultants and doctors, effectively manage regulatory risks, ensure continued financial support from the Trust and strengthen its credit profile would be the key rating sensitivities.

Rating Outlook: Stable

BWR believes **Rajagiri Healthcare & Education Trust**'s business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The outlook may be revised to Positive if there is substantial growth in revenues and profitability, supported by increase in average revenue per operating bed(ARPOB) and occupancy levels and break-even achievement. The outlook may be revised to Negative if the operating metrics weaken or the promoter support is inadequate, resulting in weak liquidity or if larger-than-anticipated debt-funded capex leads to deterioration in the financial risk profile of the Trust.

Analytical approach

BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

Key rating drivers

Credit Strengths:

Strong parentage & experienced management - The trust is under the Carmelites of Mary Immaculate (C.M.I) group of institutions, which is the first Catholic religious congregation founded in India, headquartered in Kerala. The C.M.I congregation runs a number of institutions in various disciplines, which includes Christ University Bangalore, Rajagiri Group of Institutions, Kochi, Amala Medical College Thrissur, SH College Kochi, etc. Rajagiri (C.M.I) Group of Institutions currently manages a number of educational institutions viz. Rajagiri Centre of Business Studies, Rajagiri College of Social Sciences, Rajagiri Public School, Rajagiri School of Engineering & Technology etc. The trust is supported by an experienced management team and experienced and qualified doctors.

Diversification across various specialties & good infrastructure: The Hospital is spread across a 40-acre campus in Chunangamvely, Aluva, a suburb of Kochi, Kerala. The main Hospital Building is seven storied, with an inpatient capacity of 550 beds and 24 hours emergency and trauma care. Currently, the hospital is operating with 240 doctors (150 consultants/surgeons and 90 MBBS), 725 nurses, 220 paramedical staff and 600 administrative staff. The hospital also employs staff on contractual basis. The core facilities include General Medicine, General Surgery & Trauma Care, Cardiology, Bariatric and Metabolic surgeries, Clinical Haematology, Oncology, Pulmonology, Neurology, Urology, Orthopaedics, Ophthalmology, Paediatrics, Gastroenterology, Neonatology, Endocrinology, Radiology, Spinal Surgery, Pancreatic (Gl) Surgery, dermatology, plastics-microvascular and cosmetic surgery, pathology etc.

Operating performance: The trust reported operating revenue of ~Rs.231 Crs in FY19, on a provisional basis, against operating revenue of Rs.179.52 Crs in FY18. RHET' net revenue has shown a CAGR of around 54% since FY16. This is driven by both an improvement in occupancy (~75%) and marginally increased average charges for the out-patients. Average revenue per outpatient is estimated around Rs.1500 and average revenue per inpatient is estimated around Rs.70,000. Average length of stay is around 4 days and average revenue per bed is around Rs. 20,000.

Credit concerns

Geographic concentration of business: RHET faces geographic concentration of business given that all its facilities are limited to Chunangamvely Aluva, Kerala. However, the trust has started Rajagiri Hospital, Oman operations in FY18 and an exclusive floor for international patients is set up in the main hospital building at Aluva. This is expected to improve the inflow of foreign patients.

Capital intensive nature of operations. Healthcare business is capital intensive in nature with the requirement of high capex for continuous improvement/ development of infrastructure. In addition to term loans, there is demonstrated funding support from the parent organisation towards expansion/infrastructure development**.**

Moderate financial risk profile: Scale of operations and net-worth are relatively moderate. On provisional basis, during FY19, the Trust recorded a yoy improvement in revenue and turned around from operating losses. Revenue and profitability are susceptible to competitive pressure. The hospital operations are expected to break even in around 2 years. Net losses are due to relatively high interest cost and depreciation charges. With significant debt-funded capex, the interest cost and the depreciation charges remained high, leading to net losses. Thus, the dependence on the parent organisation for timely support has been visible in the past and would be required going forward.

Ability to attract talent remains critical amid intense competition from larger players : While the hospital caters to a specific catchment area and has created its own brand in this space, it faces competition from larger players in the nearby towns/cities, especially for critical care treatment. Thus, the hospital's ability to retain the key medical talent to attract patients will be crucial in the long term.

Liquidity - Stretched: Current ratio was 1.12 times and Cash Equivalents were ~Rs. 18.64 cr as on 31 Mar 2019 (provisional). Current utilization of working capital limits is 90-95%. Projected Cash Accruals are ~Rs. 11cr as against term loan repayment obligation of ~Rs. 17 cr for FY20. Liquidity position is supported by funding from the trustees , which aids in cash flow management and timely debt repayments. However, during FY21, cash accruals of ~Rs. 35 cr are projected against the repayment obligations of ~Rs. 6 cr.

About the Trust

Rajagiri Healthcare & Educational Trust is an initiative by the Kerala based Rajagiri (C.M.I) Group of Institutions. Rajagiri Hospital is a multispecialty hospital, established in Nov 2014 at Chunangamvely, Aluva, Kerala. The hospital's main catchment area is Ernakulam, Idukki and Thrissur districts along with patients from across India. The Hospital also caters to international patients (~5% currently). The hospital currently has tie-ups with more than 20 TPA insurance Companies. The Trust has embarked on an expansion (Phase II) involving the establishment of 150 beds in a new building adjacent to the existing hospital with comprehensive facilities for cancer treatment, nursing quarters, auditorium and treatment facility for international patients, which is expected to be completed by December 2019. RHET is managed by the CMI group.

Financial Performance

		31 Mar 2017 (Audited)	31 Mar 2018 (Audited)
Operating Income	Rs. Crs	130.62	179.52
EBIDTA	Rs. Crs	(3.67)	(0.77)
PAT	Rs. Crs	(54.46)	(43.60)
Corpus	Rs. Crs	128.83	139.73
Total Debt/ Corpus	Times	2.38	2.49
Current Ratio	Times	0.69	0.69

Rating History for the last three years:

<table>
<tr><th>Facility</th><th colspan="3">Current Rating (Sep 2019)</th><th colspan="3">Rating History</th></tr>
<tr><td></td><td>Amount (Rs. Crs)</td><td>Type</td><td>Rating</td><td>12 Oct 2018***</td><td>13 Jul 2018**</td><td>11 Jul 2017*</td></tr>
<tr><td><u>Fund Based</u>
Over Draft

Term Loan I

Term Loan II</td><td>15.00

188.35

273.78</td><td>Long Term</td><td>BWR BBB+
(Pronounced as BWR Triple B Plus)
(Stable)
(Reaffirmed)</td><td>BWR BBB+
(Pronounced as BWR Triple B Plus)
(Stable)
(Reaffirmed)</td><td>BWR BBB+
(Pronounced as BWR Triple B Plus)
(Stable)
(Reaffirmed)</td><td>BWR BBB+
(Pronounced as BWR Triple B Plus)
(Stable)
(Assigned)</td></tr>
<tr><td><u>Non-Fund Based</u>
Bank Guarantee

Letter of Credit (Sublimit of TL)

Bank Guarantee (Sublimit of TL)</td><td>3.00

(50.00)

(7.00)</td><td>Short Term</td><td>BWR A2
(Pronounced as BWR A Two)
(Reaffirmed)</td><td>BWR A2
(Pronounced as BWR A Two)
(Reaffirmed)</td><td>BWR A2
(Pronounced as BWR A Two)
(Reaffirmed)</td><td>BWR A2
(Pronounced as BWR A Two)
(Assigned)</td></tr>
<tr><td>Total</td><td>480.13</td><td colspan="5">Rupees Four Hundred and Eighty Crores and Thirteen Lakhs Only</td></tr>
</table>

* Rated Amount was Rs.498.08 Crs; ** Rated Amount was Rs.488.92 Crs; ***Rated Amount was Rs.486.88 Crs

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Services Sector**
- **Approach to Financial Ratios**
- **Short Term Debt**

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Annexure I:Bank Loan Facilities

Bank	Facility	Amount Rated (Rs. Crs)
South Indian Bank	Overdraft	15.00
	Term Loan I	188.35
	Term Loan II	273.78
	Bank Guarantee	3.00
	LC (Sublimit of TL)	(50.00)
	Bank Guarantee (Sublimit of TL)	(7.00)
TOTAL		**480.13**

For print and digital media

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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