## RATING RATIONALE

**3 May 2021**

**Asclepius Hospitals and Healthcare Pvt. Ltd.**

**Brickwork Ratings Upgrades/Assigns the long term ratings, and upgrades the short term ratings for the Bank Loan Facilities aggregating Rs.80.75crs (enhanced from Rs.74.94Crs.) of Asclepius Hospitals and Healthcare Pvt. Ltd.("AHHPL" or "The Hospital").**

| Facilities* | Amount (Rs.Crs) | | Tenure | Rating# | |
|---|---|---|---|---|---|
| | Previous | Present | | Previous (Jan., 2021) | Present |
| **Fund based** Cash Credit | 5.90 | **5.90** | **Long Term** | BWR BB, Stable Reaffirmed, Issuer Not Cooperating** | **Removed from Issuer Not Cooperating** Category, BWR BB+, Stable Upgraded** |
| Term Loan | 69.04 | **63.46** | | | |
| GECL | 0.00 | **11.39** | | Not Rated | **BWR BB+, Stable Assigned** |
| **Non Fund Based** ILC/FLC/BG/ILG /FLG (Sublimit of Fund based limits) | (14.00) | **(14.00)** | **Short Term** | BWR A4, Reaffirmed, Issuer Not Cooperating** | **Removed from Issuer Not Cooperating** Category, BWR A4+, Upgraded** |
| **Total** | 74.94 | **80.75** | **(Rs.Eighty Crores and Seventy Five Lakhs Only)** | | |

# Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
* Details of Bank facilities are provided in Annexures- I
** Issuer did not cooperate, based on best available information.

## RATING ACTION / OUTLOOK

Brickwork Ratings has **removed** the ratings of the bank loan facilities of Asclepius Hospitals and Healthcare Pvt. Ltd. for an aggregate amount of Rs.74.94 crores (long term bank loan facilities of Rs.74.94 crores, and short term bank loan facilities of Rs.14.00 crores being sublimit of long term fund based limits) from the "Issuer Not Cooperating" category, and has **Upgraded/Assigned** the ratings from BWR BB, Stable/BWR A4 **to BWR BB+, Stable/BWR A4+ for their enhanced bank loan facilities of Rs.80.75crores**.

BWR has principally relied upon the Hospital's audited financials upto FY20, Provisional brief financials of FY21, projections of FY22 and FY23, publicly available information and information/clarification provided by the management as well as the Hospital's bankers.

The rating upgrade is based on the improved operational as well as financial performance of the Hospital in FY20 as against FY19, which was sustained in FY21 (Provisional) despite the adverse effects of the COVID 19 pandemic as evidenced by the consistent increase in the hospital's scale of operations, improved bed occupancy levels with larger patient inflow, increase in Operating Margins in FY20 and FY21 (Provisional) as compared to FY19, as well as the receipt of capital subsidy of Rs.7.10crs from the state government for setting of Hospital in Guwahati, adding to its annual cash flows in FY21. The ratings also continue to draw strength from the moderate but acceptable debt protection metrics, the experienced promoters and need based infusions of funds by the Directors to meet liquidity requirements, reputed doctors on board, the multi specialty nature of its operations, and the Hospital's association with the financially sound Kayal Group. The ratings are however constrained by the continued net losses since FY19 due to high fixed costs, a significantly leveraged balance sheet, a stretched working capital cycle and competition from the established hospitals in the region.

BWR notes that AHHPL had availed relief under the RBI's Covid moratorium package for April to August 2020 for the principal payment of term loans with SBI and had deferred scheduled payments for the period, in line with the RBI guidelines. The Hospital has been regular in debt obligation payments in the post-moratorium period, as confirmed by its banker. The Hospital has also not opted for loan restructuring under the RBI Resolution Framework for Covid-19-related stress.
The "Stable" Outlook indicates a low likelihood of rating change over the near to medium term. Brickwork Ratings believes that the business profile of AHHPL will be maintained over the medium term. The rating outlook could be revised to "Positive" on the hospital achieving breakeven with increase in bed occupancy and enhanced revenues. The rating outlook may be Downgraded to "negative" on a decline in bed occupancy, and the hospital not being able to achieve the projected financials, or any additional borrowing that will lead to deterioration in the gearing and debt protection metrics.

## KEY RATING DRIVERS

### Credit Strengths:

- **Increasing Scale of Operations and Bed Occupancy :** The Hospital's scale of operations has been increasing since FY19. Revenue from operations has grown substantially by 32.45% in the FY20 with increase in bed occupancy to 44% in FY20 from 36% in FY19. Despite operations being impacted by COVID19, the Hospital managed to sustain its topline and reported total operating income of Rs.84.58crs in FY21(Provisional) on bed occupancy of 45%. Average Revenue Per Bed has improved to Rs.30,000 in FY20 from Rs.26,830 in FY19. In FY21 (Provisional) Average Revenue Per Bed was sustained at a level similar to that of FY20. The Hospital is better prepared to manage the second wave of COVID19 - hence there is less likelihood of operations being impacted as seen in FY21.

- **Improved Operating Profitability:** EBIDTA improved to Rs.11.77crs in FY20 from Rs.3crs in FY19 helped by increase in surgeries. Number of surgeries performed increased from 1304 in FY19 to 1673 in FY20. As of Dec. 2020, the hospital reported 834 surgeries. During November 2020, the Hospital added full time CTVS Doctors which pulled up the number of surgeries performed during the year. EBIDTA is likely to improve going forward with further increase in critical surgeries with the Hospital now having the required manpower. Extensive manpower planning and re-negotiated terms with the Doctors helped the Hospital reduce its Doctors' Cost by 14% and Employment Cost by 10% during FY 2020-21 as compared to FY 2019-20. This prevented a major dip in FY21 EBIDTA despite operations being impacted by the pandemic.

- **Receipt of Capital Subsidy and Improved net worth:** The Hospital has received Rs.7.10crs of capital subsidy from the State government for setting up of Hospital in Guwahati. This has improved total net worth from Rs.13.47crs as on March 31, 2020 to Rs.14.65crs as of March 31, 2021. The Hospital expects the balance subsidy of Rs.19crs to be received in May 2021. The funds will ease liquidity pressures going forward.

- **Debt Protection Metrics :** Although DSCR and ISCR are moderate at 1.11x in FY20 (FY19:0.40x) and 1.48x in FY20 (FY19:0.38x), respectively, it is adequate to meet its debt obligations. ISCR further moderated to 1.18x in FY21 (Provisional), however, it is at an acceptable level. DSCR was at below 1.0x in FY21 (Provisional) but the Hospital managed to pay its debt obligations regularly with the help of infusion of funds by the Directors, GECL loans, as well as capital subsidy.
- **Experienced Management :** The Promoter Directors include four doctors, namely Dr. Neil Bordoloi, Dr. Prakritish Bora, Dr. R.P. Soni and Dr. Manash Pratim Baruah and also experienced management graduates. These promoters have a decade's experience in running a health care unit. The other Promoter Directors are from the 'Kayal Group' and have diversified business experience with sound financial backgrounds.

**Credit Risks:**

- **Continuous Net Losses :** The Hospital is reporting net losses since FY19 due to high fixed costs as it is in its initial stage of operations. It is expected to break even in FY22 reporting net profitability - although marginally - with increase in revenues on the back of improved occupancy and patient turnover.

- **Leveraged Balance Sheet:** The Hospital's balance sheet is significantly leveraged owing to the debt led CAPEX. It availed COVID loans in FY21 further adding to the total debt in FY21. Net worth is depleted due to continuous net losses. Gearing is however supported by infusion of funds from the Directors in the form of unsecured loans (considered as quasi equity) and Capital subsidies received in FY21 that added to net worth. Total adjusted Gearing remained at around 2.0x in FY20 and FY21(Provisional).The expected subsidies in FY22 will improve Net Worth and reduce gearing levels to below 2.0x. Higher net worth will also improve the TOL/TNW ratio which is at over 6.0x presently. Higher creditors have resulted in high Total Outside liabilities, however it is likely to reduce as the Hospital has partially paid off its outside liabilities at the year end.

- **Low Current ratio and a Negative Working capital cycle:** The Hospital's current ratio is below 1.0x owing to high creditors and current maturities of long term debts as on March 31, 2021. The working capital cycle is at -162days in FY21 (Provisional) due to stretched creditors period. However, the management is estimating to reduce its total outside liabilities with the help of additional funds of Rs.19crs expected in FY22 in the form of capital subsidies from the State Government. The ability of the Hospital to infuse additional funds through unsecured loans/equity in case the expected subsidy is not received, will be crucial to their operations.

**ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

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

**RATING SENSITIVITIES**

**Positive:**Increase in scale of operations with increase in bed occupancy to a minimum of ~60%, and improved debt protection metrics to acceptable levels with increase in profitability will trigger a positive rating action.

**Negative:** Stagnation or any decline in scale of operations due to lower bed occupancy, or deterioration in the debt protection metrics with any decline in profitability will trigger a negative rating action.

**LIQUIDITY POSITION:Stretched**

The liquidity of the Hospital is Stretched with cash accruals falling short of repayment obligations in FY21(Provisional) and adequately utilised working capital limits. The Hospital is in its initial stage of operations and is yet to achieve breakeven. Bed occupancy is below 50%. The Hospital had availed moratorium under the RBI COVID relief package from April 2020 to August 2020. It has also availed GECL loans in FY21 to meet liquidity requirements. Repayment of term loan in FY21 was met partially from cash accruals, infusion of funds from Directors and Capital subsidies received during the year. The Hospital has maintained a DSRA (three months of principal installments) with one of its lenders which as confirmed by the lender has never been utilised. The Hospital is also likely to receive Rs.19crs of Capital subsidies in May 2021 which will ease out liquidity pressures. Going forward liquidity is likely to improve with higher bed occupancy levels.

**COMPANY's PROFILE**

Incorporated in 2005, AHHPL is a Multi-Specialty Hospital in Paschim Boragaon, Guwahati.The registered office is at Ulubari, Guwahati. The Hospital started full fledged operations in April 2018 with 178 beds, 5 Operation Theatres, 4 Surgical suites, 2 Casualty rooms, 20 OPD Rooms and 1 Cathlab. It has specialties across Cardiology, General Medicine, General Surgery, Orthopaedics, Gynecology & Obstetrics, Pediatrics, Dental, ENT Clinic, Neurology, Ophthalmology, Physiotherapy, Dermatology, Emergency Care and others.

The total number of doctors hired till date is 72 and the number of total supporting Staff is 543. Half of the members of the promoter group of the hospital are professionally qualified Doctors and have more than a decade's experience each in running a day care unit in Ulubari, Guwahati. The other half of the promoters of the Hospital are associated with the Kayal Group. The group is into the manufacturing of cement, corrugated box, asbestos sheet, DG set assembling, dealership from TVS and many more.

**KEY FINANCIAL INDICATORS**

| Key Financial Indicators | Units | FY19 | FY20 | FY21 |
|---|---|---|---|---|
| **Result Type** | | **Audited** | **Audited** | **Provisional** |
| Net Sales/Revenues | ₹ Cr | 65.42 | 86.65 | 84.58 |
| EBIDTA | ₹ Cr | 3.07 | 11.77 | 8.70 |
| PAT | ₹ Cr | (11.18) | (3.11) | (5.92) |
| Tangible Net Worth | ₹ Cr | 16.58 | 13.47 | 14.65 |
| Tangible Net Worth (Adjusted)# | ₹ Cr | 35.03 | 34.08 | 40.19 |
| Total Debt:TNW | Times | 5.76 | 6.95 | 5.50 |
| Total Debt:TNW (Adjusted)# | Times | 2.20 | 2.14 | 2.01 |
| Current Ratio | Times | 0.38 | 0.42 | -- |

***#Adjusted for long term and short term funds infused by the Directors considered as quasi equity.***

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED:Standard Covenants**

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY:** NA

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

| S. I | Name of Instrument (NCD/Bank Loan /Non-Fund Based facilitates/ Commercial Paper etc.) | Current Rating (2021) Type (Long Term/Short Term) | Amount Outstanding ( Rs. Crores) | Rating | Chronology of Rating History for the past 3 years (Rating Assigned and Press Release date) along with outlook/ Watch, if applicable: Date(s)& Rating(S) assigned in year 2021 | Date(s) & Rating(s) assigned in Year 2020 | Date(s) & Rating(s) assigned in Year 2019^ | Dates(s) & Rating(s) assigned in Year 2018^ |
|---|---|---|---|---|---|---|---|---|
| 1. | **Fund Based** | Long Term | 69.36 | Removed from Issuer Not Cooperating, BWR BB+, Stable Upgraded | 05.01.2021<br>FB \| 74.94 \| BWR BB, Stable, Reaffirmed Issuer Not Cooperating*<br>NFB \| (14.00) \| BWR A4, Reaffirmed Issuer Not Cooperating* | Not Rated | 14.10.2019<br>FB \| 74.94 \| BWR BB, Stable, Reaffirmed<br>NFB \| (14.00) \| BWR A4, Reaffirmed | 02.07.2018<br>FB \| 72.90 \| BWR B Stable, Upgrade<br>NFB \| (27.00) \| BWR A Reaffirmed |
| 2. | **Fund Based** | Long Term | 11.39 | BWR BB+, Stable Assigned | | | | |
| 3. | **Non Fund based** | Short Term | (14.00) | Removed from Issuer Not Cooperating<br><br>BWR A4+, Upgraded | | | | |
| | **Total** | | **80.75** | **Rs. Eighty Crores and Seventy Five Lakhs Only** | | | | |

*Issuer Did Not Cooperate; Based on best available information
^Moved to "Rating Not Reviewed" category on October 15, 2020
The Initial Rating assigned was BWR BB-,Stable/BWR A4 on July 28th, 2015

## COMPLEXITY LEVELS OF THE INSTRUMENTS

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

**Hyperlink/Reference to applicable Criteria**

- [General Criteria]
- [Approach to Financial Ratios]
- [Service Sector]
- [Short Term Debt]

**For any other criteria obtain hyperlinks from website**

| Analytical Contacts | |
|---|---|
| **Madhu Sonthalia S**<br>**Senior Ratings Analyst**<br>**D : +91 90739 18942**<br>**B :+91 80 4040 9940**<br>**madhusonthalia@brickworkratings.com** | **Anuradha Gupta**<br>**Director - Ratings**<br>**D: +91 90739 18943**<br>**anuradha.g@brickworkratings.com** |
| **1-860-425-2742 I media@brickworkratings.com** | |

**Asclepius Hospitals and Healthcare Pvt. Ltd.**

**ANNEXURE I**

**Details of Bank Loan 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.** | Bank 1 | **Fund Based**<br>Term Loan | **42.65** | **0.00** | **42.65** |
| | | GECL | 9.47 | 0.00 | 9.47 |
| | | Cash Credit | 3.00 | 0.00 | 3.00 |
| 2. | Bank 2 | Term Loan | 6.34 | 0.00 | 6.34 |
| | | **Non Fund Based**<br>ILC/FLC/BG | 0.00 | (8.00) | (8.00) |

| | | | | | |
|---|---|---|---|---|---|
| | | (Sublimit of fund based limits) | | | |
| 3. | Bank 3 | **Fund Based**<br>Term Loan | 6.34 | 0.00 | 6.34 |
| | | Cash Credit | 2.90 | 0.00 | 2.90 |
| | | GECL | 1.92 | 0.00 | 1.92 |
| 4. | Bank 4 | **Fund Based**<br>Term loan | 8.13 | 0.00 | 8.13 |
| | | **Non Fund Based**<br>ILC/FLC/BG<br>(Sublimit of fund based limits) | 0.00 | (6.00) | (6.00) |
| **Total Rupees Eighty Crores and Seventy Five Lakhs only** | | | | | 80.75 |



**About Brickwork Ratings** : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters 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.

BWR wishes to inform all persons who may come across Rating Rationales and Rating Reports provided by BWR that the ratings assigned by BWR are based on information obtained from the issuer of the instrument and other reliable sources, which in BWR's best judgement are considered reliable. The Rating Rationale / Rating Report & other rating communications are intended for the jurisdiction of India only. The reports should not be the sole or primary basis for any investment decision within the meaning of any law or regulation (including the laws and regulations applicable in Europe and also the USA).

BWR also wishes to inform that access or use of the said documents does not create a client relationship between the user and BWR.

The ratings assigned by BWR are only an expression of BWR's opinion on the entity / instrument and should not in any manner be construed as being a recommendation to either, purchase, hold or sell the instrument.

BWR also wishes to abundantly clarify that these ratings are not to be considered as an investment advice in any jurisdiction nor are they to be used as a basis for or as an alternative to independent financial advice and judgement obtained from the user's financial advisors. BWR shall not be liable to any losses incurred by the users of these Rating Rationales, Rating Reports or its contents. BWR reserves the right to vary, modify, suspend or withdraw the ratings at any time without assigning reasons for the same.

BWR's ratings reflect BWR's opinion on the day the ratings are published and are not reflective of factual circumstances that may have arisen on a later date. BWR is not obliged to update its opinion based on any public notification, in any form or format although BWR may disseminate its opinion and analysis when deemed fit.

Neither BWR nor its affiliates, third party providers, as well as the directors, officers, shareholders, employees or agents (collectively, "**BWR Party**") guarantee the accuracy, completeness or adequacy of the Ratings, and no BWR Party shall have any liability for any errors, omissions, or interruptions therein, regardless of the cause, or for the results obtained from the use of any part of the Rating Rationales or Rating Reports. Each BWR Party disclaims all express or implied warranties, including, but not limited to, any warranties of merchantability, suitability or fitness for a particular purpose or use. In no event shall any BWR Party be liable to any one for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of any part of the Rating Rationales and/or Rating Reports even if advised of the possibility of such damages. However, BWR or its associates may have other commercial transactions with the company/entity. BWR and its affiliates do not act as a fiduciary.

BWR keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of the respective activity. As a result, certain business units of BWR may have information that is not available to other BWR business units. BWR has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

BWR clarifies that it may have been paid a fee by the issuers or underwriters of the instruments, facilities, securities etc., or from obligors. BWR's public ratings and analysis are made available on its web site, www.brickworkratings.com. More detailed information may be provided for a fee. BWR's rating criteria are also generally made available without charge on BWR's website.

This disclaimer forms an integral part of the Ratings Rationales / Rating Reports or other press releases, advisories, communications issued by BWR and circulation of the ratings without this disclaimer is prohibited.

BWR is bound by the Code of Conduct for Credit Rating Agencies issued by the Securities and Exchange Board of India and is governed by the applicable regulations issued by the Securities and Exchange Board of India as amended from time to time.